



**BANKING ON KNOWLEDGE**

# Emerging economies focus on growth acceleration

**By Dr R Seetharaman**

Chinese economy slowed in the fourth quarter of 2013 to 7.7% year-on-year (yoy) and in the first quarter of 2014 to 7.4% yoy. Its manufacturing preliminary purchasing managers' index (PMI), came in at 49.7 this month, well above the final reading of 48.1 in April 2014. In April 2014 China announced a series of measures to bolster growth, including tax breaks for small enterprises, targeted infrastructure outlays and incentives to encourage lending in rural areas. To finance the railway investment, the government will sell \$24.6bn worth of government bonds.

As further stimulus, Chinese authorities said they will also extend tax provisions granted to small businesses into 2016. The Chinese bond market witnessed issues exceeding \$315bn. However in the first half of 2013, it exceeded \$325bn. The Hangseng Index is down by more than 1% year-to-date (YTD).

The Chinese yuan fell below 6.25 against the dollar by beginning of this month. The yuan has been weakening in recent months and has fallen by more than 3% YTD. The recent drop indicates

that depreciation is a deliberate move by People Bank of China (PBOC) to target speculative funds betting on continued rises. Policymakers have pledged to move gradually towards full convertibility of the Yuan, allowing it to be freely bought and sold.

Russia's gross domestic product (GDP) advanced 0.9% in January-March 2014 from a year earlier after a 2% gain in the previous quarter. A heavy outflow of capital and plummeting investment in the wake of the March annexation of Ukraine's Crimea region has resulted in a slowdown in Russian economy. The Russian government has adopted a forecast of 0.5% economic growth for this year. In April 2014, S&P cut Russia's sovereign debt rating one notch to "BBB-", citing a sharp increase in capital outflows in the first quarter amid rising political tensions and as a result, external financing could see a steep drop. In April 2014, Russia's central bank raised its key in an effort to stem inflation as it begins to feel the impact of its policies in Ukraine. The Russian rouble is above 34 against the US dollar and has fallen by more than 4% YTD. The rouble, which fell this year, recovered a bit this month and rose to near a four-month high as Russia



pulled back troops from near Ukraine's border, signalling tension may ease before the country's presidential election this month.

The Russian capital market index is down by more than 8% YTD, however it recovered this month on account of easing of tensions. Bond issues in Russia in 2014 exceeded \$5.7bn, which is much lower than \$22.4bn in 1st half of 2013. Brazil's economic growth slowed in the first quarter as the highest interest rates in four years dragged on investment and consumer spending. GDP expanded 2% in the first quarter from the same period last year. The real has fallen by more than 6% this year against the dollar and is below 2.22 against the greenback. Brazil has concerns of high inflation and slowing growth.

Brazil bond market witnessed issues exceeding \$6.35bn in 2014 as against \$16.7bn in 1st half of 2013. The capital index saw some correction this month on account of the drop in iron prices and slowdown concerns in China. However it is still up by more than 1% YTD.

The inflows to Indian stock market continued its surge after the Bharatiya Janata Party-led coalition gained an absolute majority in the recent election. The Nifty index is more than 15% up YTD and the rupee has strengthened by more than 5% against the dollar this year and is below 59 against the dollar.

India's bond market witnessed issues exceeding \$12.1bn in 2014 compared with \$28bn in first half of 2013. GDP grew at 4.7% in October-December 2013. India's wholesale inflation eased in April helped by a moderation in food prices, but the threat of a below-average monsoon this summer can create price pressures again that will compound challenges for the new government. The consumer inflation hit a three-month high of 8.59% in April and industrial production posted a second straight contraction in March 2014.

India is facing prospects of poor rainfall this summer due to a possible El Nino weather event that affects wind patterns and can trigger both floods and drought. The expectations from the new government includes reviving economic growth, liberalisation of foreign direct investment/foreign institutional investment inflows, fiscal consolidation, tax reforms, removing investment bottlenecks and tackling inflation. The emerging economies have begun to focus on various measures to accelerate their economies.

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