

**INSIGHT**

R. Seetharaman

## 2012: Year of technical recession, prevalence

**T**HE GLOBAL economy is expected to grow between 2.5 and three per cent in 2012. Real GDP in the advanced economies is projected to expand at an anaemic pace of 1.5 to two per cent in 2012. US economic outlook is expected to be two to 2.5 per cent; unemployment may decline but still remain above eight per cent. Housing activity will be better but not robust. Europe will be in recession in 2012 due to the crisis. Advanced economies will have imbalances due to stagflation. Japan is expected to grow between 1.5 and two per cent in 2012. Alignment through G-20 and Implementation of Basel III is necessary to promote global governance and financial stability. World will deleverage.

Emerging and developing companies are expected to grow between five and 5.5 per cent in 2012. Drop in first quarter of 2012 mainly due to effects of inflation and euro and from second half of 2012 expect some recovery. Europe can bring down global economy in first half and emerging economy can bring it up in the second half 2012. With some support from US economy, emerging economies, mainly India and China, will steer the world to economic growth.

India's growth is expected to be between six and seven per cent in 2012. Inflation, corporate governance, weakened rupee and fiscal deficit are areas of concern. We can expect India to continue its growth, though at a lesser pace. China's growth is expected to be between eight and nine per cent in 2012. China's inflation reached a 14th month low of 4.2 per cent recently. Being an export driven economy euro crisis and fall in property market are major risks for Chinese economy. Brazil's economic growth is expected to be between three and 3.5 per



between three and and per cent in 2012. Saudi economy expected to grow at four to five per cent in 2012. Qatar expected to grow at six per cent in 2012. GCC expected to run healthy fiscal and current surplus. The average breakeven price of oil is expected to be \$70 per barrel. Adverse shocks due to euro crisis can contribute to further downslide of the GCC economies.

Euro can even go below \$1.25 against in 2012 due to the current crisis. Pound can even go to level of \$1.5 against in 2012 on account of possible recession in UK economy. Dollar index can reach up to 82 in 2012 on account of strengthening of dollar and until US fiscal deficit, or downgrade issues doesn't arise, or US federation doesn't decide any further stimulus. \$1 = ¥81 in 2012 if dollar weakens after any adverse development due to euro crisis. Chinese Yuan and Japanese yen can also expect to remain weak in 2012 to stimulate their economies.

Asian bond markets are expected to be the major contributor in 2012. We have recently seen Indonesia getting upgraded. This will be followed by US bond market. Money will flow to US treasuries until the fear of downgrade arises. European bond market will witness significant strain in 2012. In the GCC region significant bonds are getting matured in

to be between three and 3.5 per cent in 2012. The inflation is easing in Brazil and better growth expected in 2012. Russia is expected to grow by three to 3.5 per cent in 2012. Euro crisis will have an impact on oil price and Russia's economic growth.

The key risks to global economy include fiscal consolidation in advanced economies, euro crisis and early indications of recession in UK and sustainability of US economic recovery. Huge debt in advanced economies, risk of downgrades and significant exposure of banks to sovereign debt will also impact global economic recovery.

The GCC real GDP is expected to grow between four and 4.5 per cent in 2012 due to reduced contribution from oil sectors. The UAE is expected to grow more than four per cent in 2012. Oman and Bahrain economy expected to grow three to 3.5 per cent in 2012. Kuwait is expected to grow

 **Real GDP in the advanced economies may expand at an anaemic pace of 1.5 per cent**

cant bonds are getting matured in 2012. However, this can be well handled by the region. Bonds and sukuk of about \$25 billion will mature in 2012, rising to about \$35 billion in 2014. Dubai's government-related entities (GREs) can pay down, or refinance nearly \$14 billion in debt maturing next year.

Average brent crude price in 2012 can be between \$90 and \$100. The global economic outlook, position of dollar and security concerns on oil supply, mainly from Iran, are certain critical factors, which will impact the oil price in 2012. Despite the euro crisis persists, the strength of the dollar prevents any further jump in gold currently. Gold can further fall down from current levels if euro crisis turns into Lehman scenario. Silver can also fall down if dollar strength persists. American capital markets will do well due to better corporate earnings. Indian and Chinese capital markets will fall due to withdrawal of hot money. European markets will also fall. Regional capital markets will remain at same levels until any further developments due to euro crisis or due to emerging market status.

---

*The author is group CEO, Doha Bank. Views expressed by the author are his own and do not reflect the newspaper's policy.*