

BANKING ON KNOWLEDGE

Emerging economies re-align their monetary actions to combat economic slowdown

By Dr R Seetharaman

The Chinese yuan was devalued thrice by the People's Bank of China (PBoC) last week, beginning on Tuesday by close to nearly 2%, on Wednesday by further 1.6% and again on Thursday by 1.1% against the dollar. The yuan, declined for three consecutive days after this action, however strengthened on Friday and ended at 6.3912 against the dollar by end of the week, following remarks from the PBoC that suggested the authorities are not planning any further devaluation.

China exports plunged 8.3% in July 2015 and the country's consumer inflation rate reached 1.6% in the same period, but is still well below the government target of about 3%. China's economy grew at an annual rate of 7% in the second quarter 2015. The concerns of slowing trade data which could impact growth and deflation risks prompted China to devalue its currency last week.



The unexpected interventions have nevertheless witnessed volatile moments in the global financial markets last week on concerns of slowdown in China and its impact on global economy, though global stocks stabilised by Thursday.

The Shanghai index is up by more than

3.5% YTD till end of last week and had witnessed a roller coaster ride in June-July on concerns of Chinese economy. In first half of 2015, the Chinese bond market witnessed issues worth close to \$540bn. However, in the same period previous year, it had bond issues worth exceeding \$450bn.

Indian economy grew in first quarter of 2015 by 7.5%. India's consumer price fell to multi-year low of 3.78% in July 2015 from 5.4% in June 2015. In first week of August 2015, the Reserve Bank of India (RBI) kept repo rate and Cash Reserve Ratio (CRR) unchanged at 7.25% and 4% respectively citing inflation concerns and expectation of transmission of rate cuts by banks.

The uncertainty on the factors influencing the monetary policy includes persistence of high inflation, monsoon as well as actions by the US Federal Reserve which is expected to shift to hiking rates.

However, recent fall in consumer price inflation will give some comfort to



the RBI as it watches the US Fed's action in September 2015. The Indian rupee had weakened last week after the PBoC action. However, it recovered a bit by the end of last week and closed at 65 against the dollar. India's stock market is close to 3% YTD by end of last week and had witnessed volatile moments. India's bond market witnessed issues worth more than \$40bn in the first half of 2015. However, during the same time previous year, it witnessed bond issues worth more than \$28bn.

The GDP of Russia contracted 2.20% in the first quarter of 2015 over the same quarter of the previous year. In end of July 2015, the annual consumer price growth rate rose to 15.8% from 15.3% in June 2015.

In the last week of July 2015, the Bank of Russia decided to reduce the key rate to 11.00% per annum, taking into account that the balance of risks shifts towards the considerable economy cooling despite a slight increase in inflation risks.

Russian Rouble was close to 65 against the dollar by the end of last week. The Russian rouble had fallen last week on account of fall in oil price and the PBoC action. The Russia capital market is above 12% YTD by end of last week. Russia's Bond market witnessed issues greater than \$17bn in the first half of 2015. However, in same period previous year, it was above \$16bn.

Brazil's gross domestic product shrank 1.6% in the quarter of 2015 from

the same period a year earlier year. Inflation in Brazil has hit a 12-year high of 9.56% in July 2015. The country's central bank targets an inflation rate of 4.5% and has raised interest rates to 14.25% to combat inflation. Brazil's real had weakened by more than 30% YTD and was at 3.4827 against the dollar by end of last week. Brazil capital market had weakened by more than 5% YTD till end of last week on concerns of slowdown in economy. Brazil bond issue was more than \$9bn in the first half of 2015 as against more than \$13bn in the same period of 2014.

The emerging economies have the challenge of accelerating their economic growth and also face deflation/inflation risks. The central banks of such economies continue to re-align their monetary policies to combat economic slowdown and fight deflation/inflation risks.

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