



## BANKING ON KNOWLEDGE

# Trade divergence could curtail emerging economies' growth impetus

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According to IMF in January 2018, the emerging and developing economies are expected to grow by 4.9% in 2018 and 5% in 2019 respectively.

China economy's growth was expected to expand 6.6% this year and slow to 6.4% in 2019 respectively. China's official consumer price index rose 2.9% year-on-year in February 2018. In March 2018, China's central bank raised its short-term rate – reserve repurchase agreements or reserve repos – by 5 basis points to 2.55% from 2.50%.

The move came after the Fed lifted short-term interest rates by a quarter-point. The Shanghai capital market was down 4% YTD in first quarter 2018. The China bond issues in 2018



was at \$272bn in first quarter of 2018 as against close to \$208bn in first quarter of 2017. The Chinese yuan was at 6.27 against the US dollar and

strengthened by close to 3.5% YTD this year.

Brazil economy's growth was expected to be 1.9% in 2018 and 2.1% in 2019 respectively. Consumer prices in Brazil increased 2.84% year-on-year in February of 2018. The Brazil capital market is up 12% YTD in first quarter 2018. The bond issues in Brazil was at \$7.07bn in first quarter of 2018 as against \$3.7bn in first quarter of 2017. The Brazil real was at 3.30 against the US dollar and is flat YTD.

Russian economy's growth was expected to be 1.7% in 2018 and 1.5% in 2019 respectively. Russia's consumer prices rose 2.2% year-on-year in February 2018. The Russia capital market is up by 9% YTD in 2018. The Russia bond issue is close to \$17.07bn in first quarter of 2018 and as against \$57bn in first quarter of 2017. The



Russian rouble was at 57.21 against the US dollar and is flat YTD.

South Africa growth is expected to be 0.9% in 2018 and 2019 respectively. The consumer price index in South Africa increased 4% year-on-year in February of 2018. The South Africa capital market is down by 7% YTD in first quarter 2018. The South Africa bond issues is close to \$2.8bn in first quarter of 2018 as against \$3.5bn in first quarter of 2017. The South African Rand was at 11.81 against the US dollar and had strengthened by close to 4.5% YTD.

India is projected to grow at 7.4% of

its gross domestic product (GDP) in 2018 and 7.8% in 2019 respectively. Consumer prices in India increased 4.44% year-on-year in February of 2018. The India capital market is down by 4% YTD in first quarter 2018. Indian bond market witnessed bond issues close to \$19.26bn in first quarter of this year as against close to \$34bn in first quarter dollar and is weakened by more than 2% YTD this year.

In March 2018 the US Federal Reserve said it had decided to raise the rate by 0.25% to a target range of 1.5% to 1.75%. Policymakers also signalled they would

increase rates twice more this year, while raising the forecast for rate hikes in 2019. Some of the Fed members also expressed concerns in global trade scenario as risks to their outlook. We now see the trade divergence getting wider with Chinese imposing tariffs on 128 US products in response to US actions last month. In March, the US applied steep tariffs on steel and aluminium imports. And in late March, the US took additional steps towards imposing tariffs on \$60bn in Chinese goods and limiting China's ability to invest in the US technology industry. The trade divergence developments could curtail emerging economies growth impetus and thereby impact global growth as well.

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