Emerging economies are facing rough weather

DOHA DATELINE
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INDIA'S GROSS DOMESTIC product (GDP) grew at 4.8 per cent from a year earlier in the first quarter. IMF's recent forecast indicates India's growth will be at 5.7 per cent for 2013. India's IIP (index of industrial production) data stood at two per cent in April 2013 and was lower than expected. Brazil's GDP expanded at 0.6 per cent in the first quarter of 2013. Agriculture was the main contributor to the first quarter growth. IMF recently expected Brazil's GDP growth at three per cent in 2013. Russia's GDP slowed to 1.6 per cent in the first quarter of 2013 and is the weakest since 2009 as the euro area's longest recession hurt demand for its energy exports. IMF recently expected Russia is expected to grow at 3.4 per cent in 2013. China's economic growth has slowed to 7.7 per cent in the first quarter. China's HSBC PMI slips to nine month low of 48.2 in June 2013. IMF recently expected China's economic growth to be 7.75 per cent this year. The emerging economies are facing rough weather.

India's current account deficit fell by around 3.6 per cent in first quarter of 2013 and overall 2012- 2013 GDP was at 4.8 per cent. The fiscal deficit for was at 4.89 per cent of GDP. The wholesale inflation in India was at 4.7 per cent in May 2013 as against 4.89 per cent in April. The main challenge for Indian economy is the falling currency, which can result in higher current account deficit and can prevent fall in inflation. RBI also may not be able to make action to bring down rates if currency volatility persists. Government has taken measures such as curtailing gold imports.

China's economic growth had fallen as its key markets such as the US and Europe has slowed, and its exports have weakened. Excess capacity is build up in industries such as steel, cement and aluminium.

In June 2013, People's Bank of China had refused to provide large amounts of additional cash to the credit market. China's interbank and money market rates had soared over and banks and other financial institutions were afraid of lending to one another. The People's Bank of China signalled in last week of June that liquidity support during the cash squeeze would be focused on banks that lend to help the economy.

Brazil inflation was at 6.50 per cent in May 2013. Brazil's central bank sees inflation up and GDP down. Brazil's central bank stepped up the pace of tightening with a 50-basis-point rate increase at its last meeting in May 2013. In Russia inflation rate was at 7.4 per cent in May 2013. Russia's economic growth is a concern due to structural factors that have caused trend growth to slow. The emerging economies bond markets witnessed significant activity in this year however the bond issues in second quarter of 2013 were slightly slower than the first quarter.

A vendor sells produce at a market in Mumbai. India's wholesale inflation was at 4.7 per cent in May 2013.— *Bloomberg*

In 2013 India had bond issues close to $24 billion, China had close to $335 billion, Brazil had close to $14 billion and Russia had close to $24 billion. The capital and currency markets in emerging economies faced difficult times. Indian Nifty was down by more than two per cent YTD and Brazil's index was down by more than 25 per cent YTD. The Shanghai composite index had fallen down by more than 12 per cent YTD and MSCI Russia had fallen by more than 15 per cent. The slowdown in economic growth, China credit Squeeze in June 2013 and the possibility of US fed withdrawing its stimulus had resulted in correction in the capital markets. However capital markets bounced back on hopes of Government measures and possible delay in withdrawal of US Fed stimulus.

> “Emerging market currencies except China fell against the dollar this year

Except China other emerging market currencies had depreciated against the dollar in 2013. Indian rupee had fallen close to 10 per cent in 2013. Brazilian real also weakened against the dollar by close to 10 per cent in 2013. Russian ruble had weakened against the dollar by close to nine per cent in 2013.

The author is the group chief executive officer at Doha Bank. Views expressed are his own and do not reflect the newspaper's policy