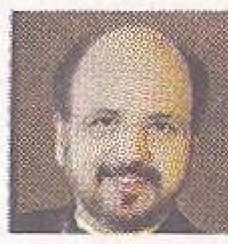

DOHA DATELINE
Dr R. Seetharaman

World economic recovery still facing downside risks

IMF sees global growth at 3.1% in 2013, forecast 3.8% for 2014

IMF'S WORLD ECONOMIC Outlook update, July 2013, forecasted that the global economy would grow by 3.1 per cent this year. The forecast on world economic growth for 2014 has also been brought down to 3.8 per cent. Growth has been revised marginally downwards in 2013 in developed economies such as US and eurozone. The recession in the euro area was deeper than expected, as low demand, depressed confidence and the impact of tight fiscal and financial conditions. Euro area is expected to contract by 0.6 per cent in 2013. Greece had secured $8.7 billion bailout funds this month, however, its reforms are moving slowly. Portugal bond yields rose more than seven per cent last week as political instability postponed talks with international lenders on releasing the next instalment of the bailout. The review of Portuguese economy by troika inspectors has been deferred to end of August 2013.

Jobseekers queue to enter an employment centre in Sintra. Portugal bond yields rose more than seven per cent last week as political instability postponed talks with international lenders on releasing the next instalment of the bailout. — *Bloomberg*

The US economy expanded at a weaker pace, as stronger fiscal contraction weighed on improving private demand. US economic growth has been brought down by IMF to 1.7 per cent for 2013. In the first quarter of 2013 US economy grew by 1.8 per cent over the previous quarter on account of moderate consumer spending, weak business sentiment and declining exports. US Retail sales increased 0.4 per cent in June, lifted by demand for automobiles and higher gasoline prices. Being a consumer driven economy any significant drop in retail can impact its economic growth.

However, growth has been revised up by IMF for Japan and UK to two per cent and 0.9 per cent respectively for 2013. The stronger forecast for Japan than previously projected reflects the effects of recent accommodative policies on confidence and private demand. Japanese exports in May 2013 have arisen by more than 10 per cent. Yen weakening and Nikkei rallies has happened on account of the monetary easing policy followed by Japan.

> **0.6%**
> contraction is likely in eurozone this year

Emerging economies growth has been brought down by IMF to five per cent from earlier forecast of 5.3 per cent for 2013, with growth brought down in all emerging economies. China's GDP for second quarter of 2013 slowed to 7.5 per cent year on year from 7.7 per cent in first quarter of 2013, however it was in line with the expectations. China's foreign trade growth rate has been on a downward trend in the first half year. It grew 13.5 per cent in the first quarter year on year and 4.3 per cent in the second quarter, but just 0.3 per cent in May 2013 and a two per cent fall in June 2013. China's foreign trade neared $2 trillion in the first half year, up 8.6 per cent year on year, with exports at $1.05 trillion, up 10.4 per cent, and imports at $944.87 billion and is up 6.7 per cent. China's Purchasing Managers' Index, an official gauge of manufacturing expanded was at 50.1 and expanded at the slowest pace in four months in June 2013. India's Industrial of Index Production (IIP) in May 2013 contracted by 1.6 per cent, lowest in the past 11 months, on account of poor show by the manufacturing and mining sectors.

The possibility of a longer growth slowdown in emerging market economies, especially given risks of lower potential growth, slowing credit, and possibly tighter financial conditions if the anticipated unwinding of monetary policy stimulus in the United States leads to sustained capital flow reversals. Major advanced economies should maintain a supportive macroeconomic policy, combined with credible plans for reaching medium-term debt sustainability and reforms to restore balance sheets and credit channels. Many emerging market and developing economies face a trade-off between macroeconomic policies to support weak activity and those to contain capital outflows. In the euro area policymakers should work toward a fuller banking union. The emerging economies slowdown and advanced economies struggle has resulted in slow global economic recovery.

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