People walk under a G-20 summit welcome banner in Pulkovo airport outside Saint Petersburg. At the G-20 meeting the emerging economies agreed on a rescue fund of $100 billion to struggle against the depreciation of their currencies. — *Bloomberg*

Emerging economies need policies to handle tapering

IMF likely to revise down growth outlook for emerging nations

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The concerns of attack on Syria and possible tapering by the US Fed prevailed during the G-20 meeting this month at St Petersburg. In relation to the global economy, G-20 felt there was a need to increase the momentum of recovery and strengthen the foundations for long-term growth. Advanced G-20 countries agreed to maintain a flexible approach in implementing their fiscal strategies, while remaining committed to sustainable public finances. Monetary policy supported the global economic recovery in line with the mandate of central banks.

However, risks of extended monetary easing remain and sustained growth will be accompanied by an eventual transition towards the normalisation of monetary policies. Advanced economies have agreed to have credible specific medium-term fiscal strategies. These strategies will be implemented flexibly to take into account near-term economic conditions, so as to support economic growth and job creation, while putting debt as a share of GDP on a sustainable path.

A number of emerging market economies have also laid out key elements of their strategies to promote fiscal sustainability. Euro-area has committed to efforts to strengthen bank balance sheets, reduce financial fragmentation and moving ahead towards a banking union.

IMF had informed G-20 that it has dropped its view of emerging economies as the dynamic engine of the world economy, instead noting that "momentum is projected to come mainly from advanced economies, where output is expected to accelerate.

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Earlier IMF had warned that end of extraordinarily loose monetary policy in advanced economies might cause turmoil in financial markets and sharp depreciations in emerging economy exchange rates. The IMF said growth projections for emerging economies are being revised downward "with risks still to the downside".

The impulse to global growth is expected to come mainly from the United States in the near term. Emerging economies' policy responses should be tailored to the specific country.

At the upcoming IMF meeting at Washington next month the emerging economies growth may be revised down. The concerns on global financial stability on account of tapering of easing by US Fed may also be highlighted at the IMF meeting.

At the G-20 meeting the emerging economies have also agreed on a rescue fund dedicating $100 billion to struggle against the depreciation of their currencies. The commitment from China is at $41 billion. Brazil, India and Russia will contribute $18 billion each and South Africa will contribute $5 billion. It is not clear when this rescue fund would be operational. Except China all other emerging economies currencies had a steep fall recently on expectations of possible Fed tapering.

China has indicated that it will not deploy its reserves unless tough terms are imposed for the rescue fund. The excess volatility of financial flows and disorderly movements in exchange rates had adverse implications on the economic and financial stability of some emerging economies. With the easing of Syria tension a bit the oil prices had fallen and emerging market currencies strengthened. A surge in oil price had also contributed to inflation in emerging economies. Emerging economies had witnessed huge inflows since the beginning of the subprime crisis and it continued after easing measures were announced by the Fed and other major central banks in advanced economies in response to the global financial crisis.

Quantitative Easing (QE) is an unconventional monetary policy, which has prevailed mainly after the global financial crisis. With the recovery seen in the US economy the tapering of QE by the Fed can begin in the near term. Similar actions can also be followed by other central banks in advanced economies once recovery of their economies begins. Emerging economies should prepare themselves to manage the volatile financial flows and falling currencies. They may bring initial measures to withstand the shocks arising out of these volatile financial flows. However policy reorganisation is required both at the monetary and fiscal level, which will enable them to become more resilient to withstand the tapering and also prepare themselves for scenarios in which QE never exists.

The writer is Group CEO at Doha Bank Views expressed by the author are his own and do not reflect the newspaper's policy