

BANKING ON KNOWLEDGE



Will emerging economies reemerge?

By Dr R Seetharaman

China's economic growth slowed further in the three months to March this year, expanding 7% compared to a year earlier, its slowest pace since the global financial crisis in 2009. The rate was lower than the 7.3% posted for the three months to December 2014. Though the growth in the first quarter met the official target of around 7% for 2015, the slowdown in several areas, including industrial output and retail sales, has caused concern. The People's Bank of China (PBoC) lowered the reserve requirement ratio (RRR) for all banks by 100 basis points to 18.5%, effective from April 20. The size of the cut is going to release around a trillion Yuan at least. The IMF April 2015 outlook sees China's growth in 2015 at 6.8% and 6.3% in 2016 respectively. China's core inflation rate rose by 1.4% in March 2015. However consumer inflation is still far short of Beijing's official 3% target for 2015. Russia's GDP rose 0.6% in 2014, the slowest

pace since a contraction in 2009. The US and European penalties enacted over Russia's actions in neighbouring Ukraine slowed growth and limited access to international financial markets for borrowers and spurred outflows of capital. According to recent IMF outlook, Russia's economy expected to contract by 3.8% in 2015 and 1.1% in 2016 respectively. Consumer prices rose 16.9% from a year earlier in March 2015. Russian inflation accelerated in March to the fastest on an annual basis since 2002. In March 2015, the Russian central bank has lowered the key interest rate to 14% from 15%, which comes as some relief for business due to lower borrowing costs. The balance of risks has shifted toward a more significant cooling of the economy. Brazil's economic growth expanded at only 0.1% in 2014. The IMF April 2015 outlook lowered its 2015 forecast for Brazil's economic performance to a 1% contraction due to tighter fiscal and monetary policies and a drop in investment by state-run oil company



Petrobras. It expects 1% growth in 2016. Implementation of austerity measures is crucial for Brazil to regain the trust of investors so it can bolster growth. Faced with an imminent recession, Brazil has embarked on an aggressive drive to cut public spending and raise taxes to balance the government's overdrawn accounts. Brazil's February yearly inflation to

8.13% in March 2015. Brazil's inflation has accelerated mainly due to an increase in electric energy and food prices. Brazil's central bank has lifted interest rates in March 2015 to a six-year high of 12.75% to restrain inflation and further hikes expected. Indian economy grew by 7.5% in October - December 2014.

The IMF April 2015 outlook expects growth in India at 7.2% in 2014-15, and at 7.5% in 2015-16 respectively. India's consumer price inflation (CPI) rate was at 5.17% in March 2015. The monetary policy framework agreement with the RBI clearly states objective of keeping inflation below 6%. The current account deficit for FY 2015 is expected to be 1.3% of GDP and fall below 1% in the next fiscal on the back of easing of global commodity prices including petroleum products. The fiscal deficit target of 2014-15 is 4.1% of GDP. The fiscal deficit is expected at 3.9% of GDP in 2015-16 and 3.6% of GDP in 2016-17 respectively. Russia capital market up by close to 40% YTD till end of last week, it had collapsed in 2014 on fall

in oil prices however recovered this year on account of central Bank actions and surge in oil prices since last year end. China capital market up by above 35% YTD till end of last week, despite slowdown in Chinese growth, the easing measures contribute to rally of China capital market. India market YTD is flat, it is down recently on concerns of monsoon, 4th quarter results and worries of minimum alternate tax. Brazil capital market is up by more than 13% YTD, had recovered on hopes that spending cuts will be enough for Brazil to avoid a credit rating downgrade. The Indian rupee had closed by end of last week at 63.56 against the dollar and has weakened by less than 1% YTD. Brazil real had closed by end of last week at 2.95 against the dollar and has weakened by more than 11% due to concerns of slowdown in Brazil economy. Russian rouble had closed by end of last week at 50.87 against the dollar, had strengthened this year by more than 16% YTD after weakening last year. Chinese Yuan had closed by end of last

week at 6.19 against the dollar. India had bond issues more than \$15bn in 1st quarter of 2015 as against issues more than \$11bn in same quarter previous year.

China had bond issues more than \$211bn in 1st quarter 2015 as against issues more than \$165bn in same quarter previous year. Russia had bond issues more than \$10bn in 1st quarter 2015 as against issues more than \$4.7bn in same quarter previous year. Brazil had bond issues more than \$2.5bn in 1st quarter of 2015 as against bond issues more than \$3.5bn in same quarter previous year. The emerging economies which were the drivers of growth after global financial crisis struggle recently. Except India, other emerging economies growth forecasts has been brought down. All emerging economies are taking measures to revive/ accelerate their growth and it needs to be seen whether they can reemerge.

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