

2 April 2013

Not that bad

Real GDP growth

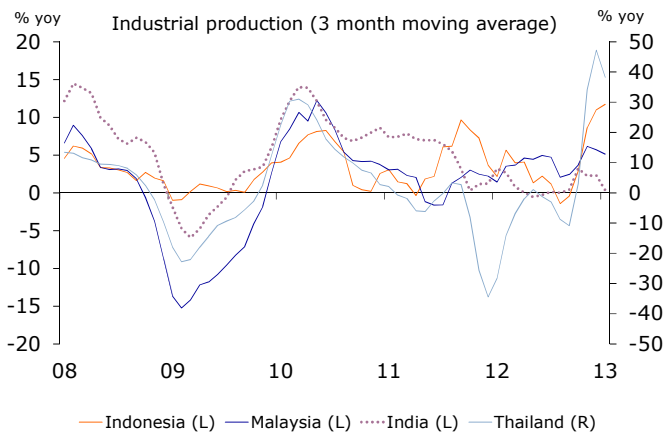
	'11	'12	'13
World	3.9	3.2	3.5
US	1.8	2.3	2.0
Euro area	1.4	-0.4	-0.2
CEE	5.3	1.8	2.4
CIS	4.9	3.6	3.8
Developing Asia	8.0	6.6	7.1
China	9.3	7.8	8.2
Latin America	4.5	3.0	3.6
MENA	3.5	5.2	3.4
SSA	5.3	4.8	5.8

Source: IMF January WEO update

The overall picture from Emerging Markets is not that bad this month. South (East) Asia's industrial production data were rather good in January and give cause for some cautious optimism. India participated in the trend, but here the outlook is a bit more mixed.

Consumption and investment in the final quarter of 2012 gained strength, but exports were weak. Growth in Brazil was only 0.9% in 2012, but in recent months some positive development became visible. We expect growth to increase to roughly 3% this year. Meanwhile, in both Poland and Mexico, the policy rate fell to a record low level after a 50 basis points rate cut was implemented in both countries.

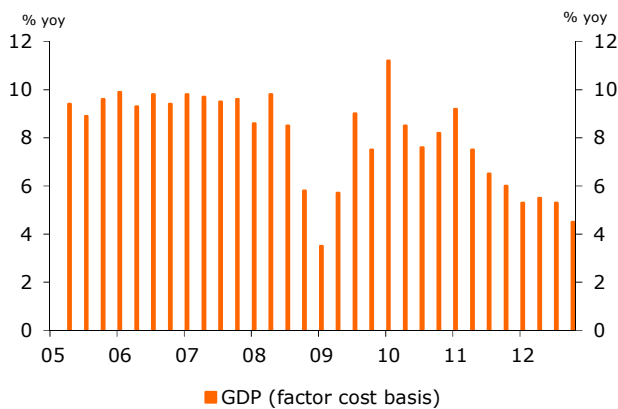
South (East) Asia – IP figures point upward



Source: EIU

January's industrial production (IP) figures from South (East) Asia paint a cautious positive picture for the region. Indonesia continues its economic boom with an IP growth of 11.5%, while at 4.5%, Malaysia's IP figure was 1ppt higher than last month (all data yoy). Thailand's industrial sector grew 9.0%, which looks like a major slowdown from the 25.6% in December, but that number was inflated due to flood-related base effects. In India, IP rose 2.4%, compared to -0.5% in December. However, we remain cautious for 2013. Not only are IP figures notoriously volatile, export demand is expected to remain lukewarm (key for exporters Thailand and Malaysia) and domestic problems are not fully solved in India.

India – Has the slowdown bottomed out?



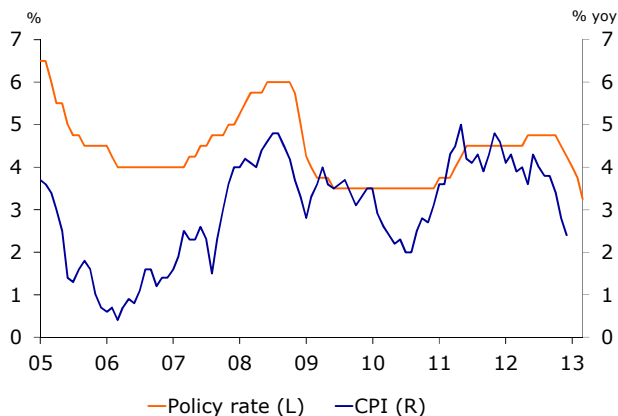
Source: Reuters EcoWin

India's economy grew 4.5% yoy in 3Q of FY 2012-13 (Oct-Dec 2012) at a factor-cost basis (supply side). Thus, 3Q was another disappointing quarter, after 5.3% and 5.5% growth in the previous two quarters. Demand-side trends confirm the sluggishness of Indian growth. Exports dropped, while the government cut spending aggressively to meet budget targets. However, there are also some tentative positive signs. Private consumption growth, the backbone of overall growth, rose from 2.7% to 4.1% and fixed investment growth posted a plus after being in the red two quarters. Has the economic slowdown now really bottomed out?

Economic Update Emerging Markets

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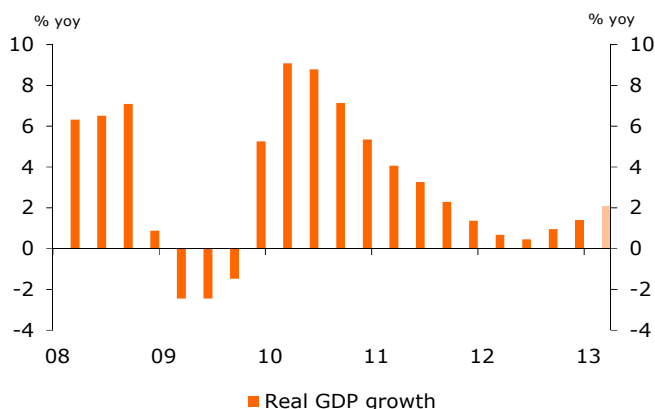
Poland – Surprise rate cut ends easing cycle



On 7 March, Poland's monetary policy council (MPC) cut all official interest rates by 50 basis points (bps), lowering the main policy rate to 3.25%, its lowest level ever. Market participants had expected a 25bps cut at most. The decision was mainly driven by recent inflation forecasts suggesting inflation is close to the lower end of the target range, as well as very weak domestic demand. Barring a major decline in economic growth, further rate cuts in the near future are unlikely, as central bank president Belka stressed that the MPC is now in a 'wait and see' mode. Following its rate cut, the central bank expects growth to come in between 0.6% and 2% this year.

Source: EIU, Reuters EcoWin

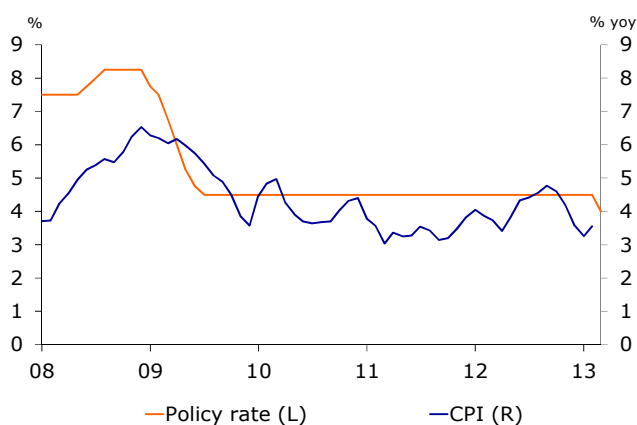
Brazil – Modest recovery after disappointing year



Data released last month confirm that 2012 has been a very disappointing year for the Brazilian economy. The economy grew by 0.6% qoq in the fourth quarter and 0.9% yoy in 2012 as a whole, after the low 2.7% growth of 2011 and the high 7.5% growth of 2010. With a 4% yoy contraction, investment was very weak in 2012. Although the recovery so far has been sluggish, we expect economic growth to move close to its 3%-3.5% trend rate in 2013. In recent months some positive developments became visible. For example, investment grew by 0.5% in the fourth quarter of 2012. Meanwhile, the PMI for manufacturing was above 50 points for the fifth month in a row in February 2013.

Source: EIU, Rabobank estimates

Mexico - Benchmark interest rate cut



Mexico's central bank (CB) cut its benchmark interest rate by 50 bps to 4.0% on 8 March. Main reason is that the CB is worried about the slowdown of growth in the US and the euro zone, which will hamper Mexico's exports. And although inflation is at the upper end of the target range now, it is expected to come down in the second half of 2013 amid weaker economic activity. This gave the CB some room to maneuver. Positive side effect of the rate cut is that it may take away some upward pressure on the peso, which is good news for exporters. Thanks to the move the policy rate has reached a new record low.

Source: IMF, Reuters EcoWin

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