Rabobank

Economic Update Emerging Markets

5 March 2013

Emerging Markets – Unconvincing

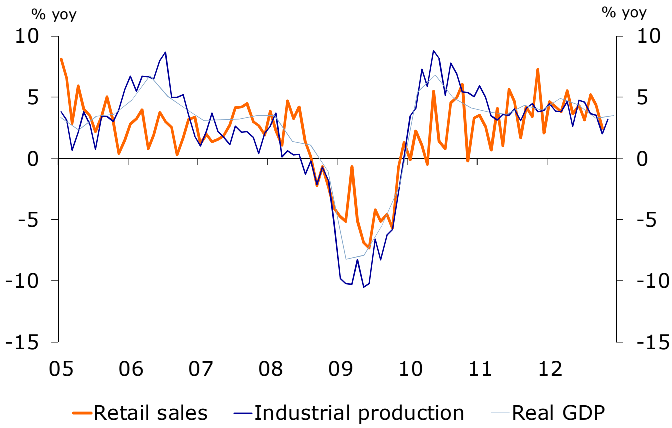
Real GDP growth

	'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 WEO update

The picture in emerging markets is one of moving forward, but not knowing at what pace or how many bumps there are in the road. We maintain the view that 2013 should be slightly better than 2012, but downside risks remain. One of the general themes seems to be that industrial production is on an upswing, while consumer confidence is declining. A mixed picture indeed. For the eurozone-dependent countries in Central and Eastern Europe, the outlook can even be called bleak, as the region is awaiting impetus from the west. In another highly dependent country – Mexico – the view seems rosier, as consumption plays an increasingly big part in generating GDP growth.

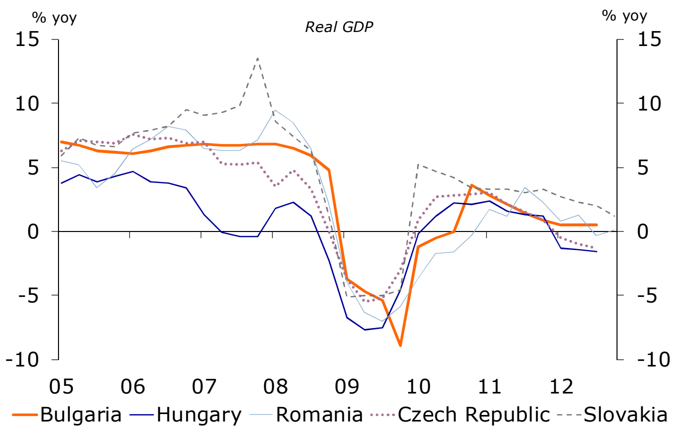
Mexico – 'Domesticated' growth



Source: EIU

Mexico showed 0.8% qoq seasonally adjusted growth in 4Q12, leading to 3.9% growth in 2012. Such rates are in line with 2011 and top the performance of Mexico in the first decade of 2000s. They confirm the fact that Mexico is growing strong after the recession in 2009. However, this time growth is domestically driven: while export driven industrial output contracted 0.2% qoq, agriculture grew 2.1 qoq and services (63% of GDP) increased 0.7% qoq. A 9 months appreciation of the peso reflects investors' enthusiasm given good macroeconomic fundamentals. Altogether the prospects for 2012 are bright for Mexico. Reform should however not be deferred too long.

Emerging Europe - Very fragile



Source: Eurostat

Data released in CEE this month confirm our fears that the hoped for economic recovery has yet to set in. Romania and Slovakia saw their economies grow in 4Q12 by a meager 0.2% qoq, Bulgaria even less at 0.1% qoq. Hungary (-0.9% qoq and -2.7% yoy) and the Czech Republic (-1.1% yoy) surprised on the downside. The eurozone crisis is partly to blame but domestic factors played a large role too. Hungary has a high household indebtedness, as well as damaging public policies and taxes. In the Czech Republic, the government's austerity measures affect growth. For 1H2013 we expect to see some recovery, as demand from the eurozone picks up. However, growth will remain modest.

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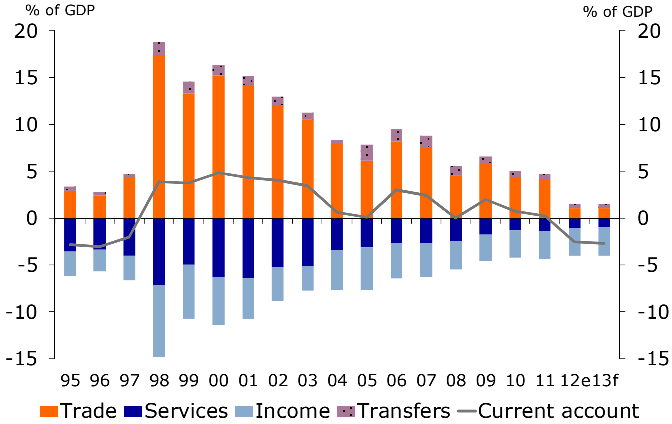
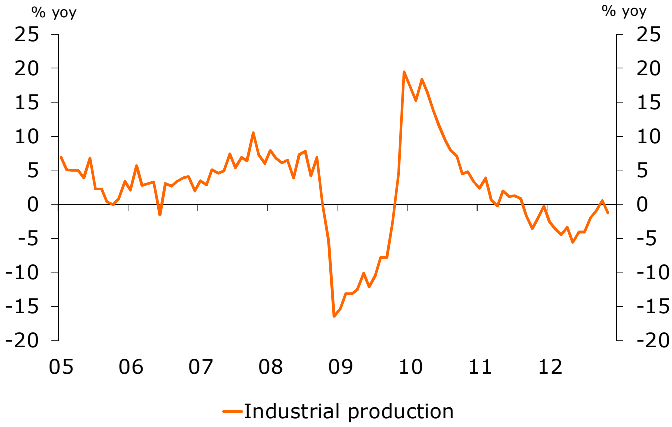
Indonesia – Current account deficit in 2012



Source: EIU

In 2012, for the first time since 1997, Indonesia posted a current account deficit. The deficit of USD 24.2bn was largely due to a weakening trade balance. While exports fell steeply due to declining global demand, imports increased enormously, driven by domestic demand. Before and during the Asian crisis (1980s up until 1997), Indonesia experienced several deficit years due to large inflows of foreign capital into the economy. This situation saw a dramatic change after 1998 when capital flows reversed resulting in net withdrawals of foreign investments. The good news is that the deficit in 2012 was almost equally matched by FDI inflows.

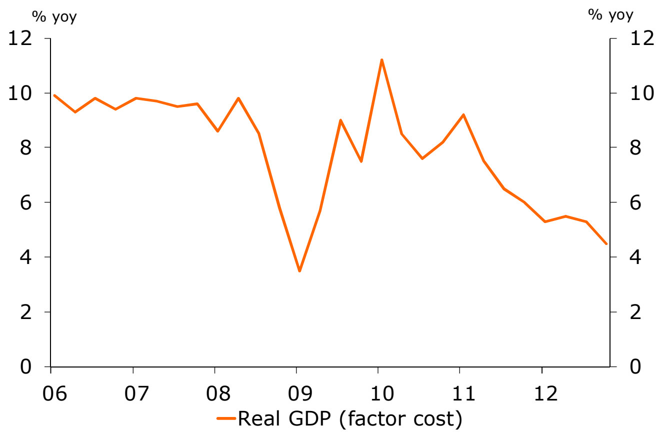
Brazil – Industry remains rather weak



Source: EIU

Industrial production in Brazil fell by 0.05% mom sa in December 2012. In the fourth quarter as a whole, industrial production fell 0.3% qoq sa. The industrial sector was thus unable to sustain the good performance of the third quarter, when production increased by 1.0% qoq sa. Subsectors that benefitted from direct fiscal stimulus have performed relatively well recently, while capital goods producers continued to struggle, which suggests that investment remains weak. Industry may recover moderately in 2013 thanks to fiscal stimulus and the depreciation of the *real* during 2012. However, the sector continues to struggle with high labor costs and a still rather strong exchange rate.

India – Mixed feelings



Source: Reuters EcoWin

The Indian Service Business Activity Index of HSBC posted 57.5 in January. This was above the vital 50-point threshold, up from December (55.6) and in fact the fastest acceleration in a year. However, the manufacturing sector performed slightly weaker. The HSBC Purchasing Managers' Index (PMI) was 53.2 in January, down from 54.7 in December. But it was still above 50 and thus indicating expansion, though at a slower pace. More gloomy news came from the statistics office, which put its advance estimate of economic growth at 5% for the current fiscal year (that runs until March). The verdict will come on 31 May, when the growth data will be published.

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