Economic Update Emerging Markets

3 September 2012

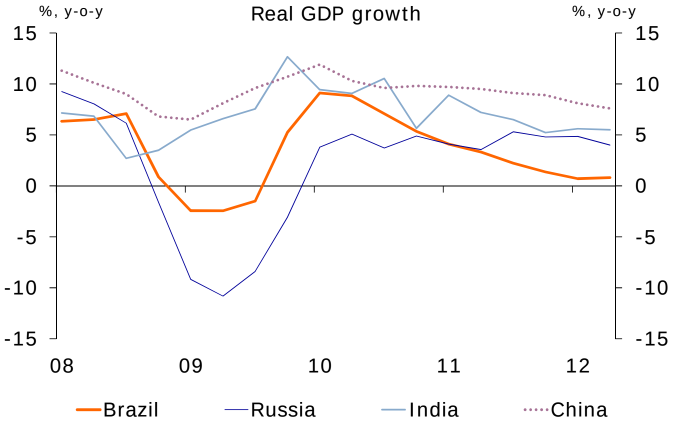
Some countries are more equal than others

	GDP growth			Inflation			Current account % of GDP		
	2011	*2012*	*2013*	*2011*	*2012*	*2013*	*2011*	*2012*	*2013*
Brazil	2.7	2.5	4.6	6.6	5.3	5.1	-2.1	-2.6	-3.1
China	9.2	8.0	8.5	5.4	3.7	5.1	2.8	2.3	1.9
India	7.1	6.1	6.5	8.6	7.7	7.4	-2.8	-3.1	-2.4
Indonesia	6.5	5.9	6.5	5.4	5.3	6.5	0.2	0.2	0.2
Mexico	3.9	3.9	3.6	3.4	3.7	3.7	-0.8	-1.3	-1.8
Poland	4.3	2.6	3.5	4.3	3.5	2.8	-4.3	-4.1	-3.6
Russia	4.3	4.0	3.9	8.4	4.8	5.8	5.5	3.9	1.9
South Africa	3.1	2.6	3.3	5.0	5.4	4.3	-3.3	-4.6	-4.1
South Korea	3.6	3.0	4.1	4.0	2.8	3.1	2.4	1.9	2.5
Turkey	8.5	3.5	4.0	6.5	9.5	7.6	-9.9	-8.8	-7.7

Source: IMF

- All emerging markets are being adversely affected by the global economic downturn
- Domestic demand in some countries keeps GDP growth afloat
- All that shines is not gold, though
- On the other hand, the clouds in countries with disappointing GDP growth have some silver linings

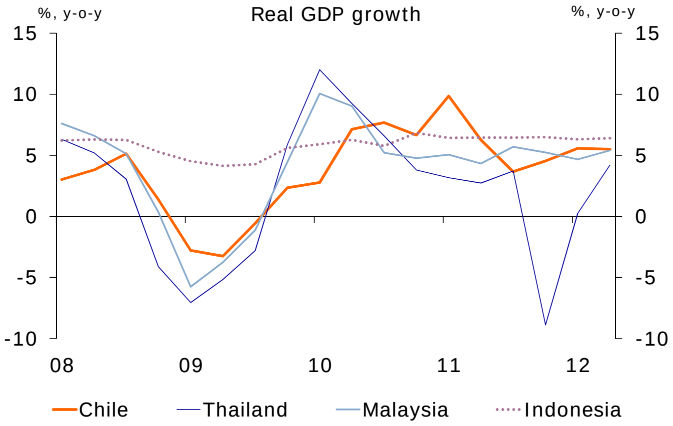
BRIC – Growth coming down



Source: Reuters EcoWin, Rabobank

The backdrop of the EM performances is clear, global economic fallout from the eurozone crisis, and lackluster economic performances in the US and China. The quarterly produced yoy growth data show that the BRIC countries are indeed slowing down. In Brazil, this has already caused not only aggressive monetary easing, but also some limited fiscal spending action. The big question is whether and when China's government will come into action, as growth continues to disappoint. We maintain that aggressive action by the Chinese is not expected for 2012, and that they will try and keep growth levels at 7.5-8%, largely through monetary relief. However, this bodes ill for further EM recovery efforts.

The positives – Domestic demand chipping in...



Source: Reuters EcoWin

A number of emerging markets seems to be beating the downward trend. In the past month, three Asian Tigers (Indonesia, Malaysia and Thailand) maintained respectable growth levels. In all three countries, domestic demand has been the major driver of growth, though for various reasons. Thailand had some catching up to do after last year's floods, and Malaysia's government is on a spending spree ahead of the 2013 elections. Only in Indonesia, there is no particular background for high domestic demand, except genuine confidence. The same holds, more or less, for Chile, although that country also profits from its fiscal rules that state that in times of economic hardship, the government may run a deficit to boost the economy.

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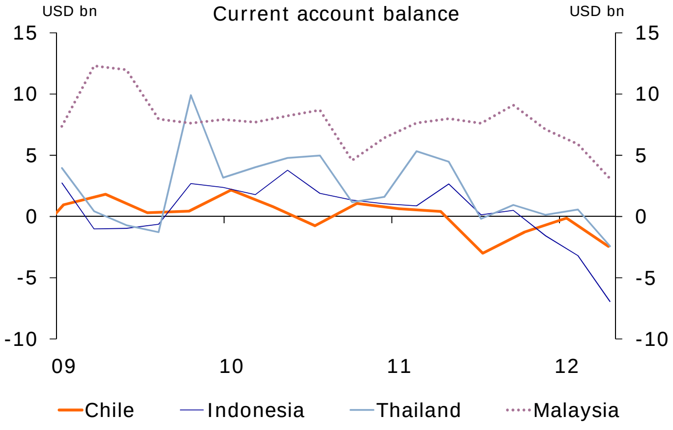
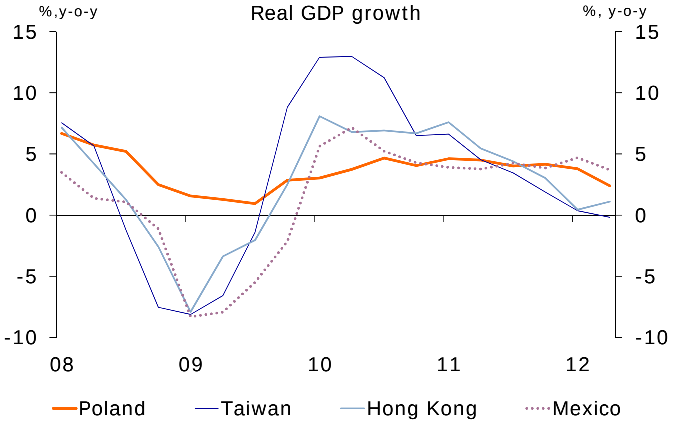
The positives – ...but clouds are forming



Source: Reuters EcoWin

Nevertheless, as though to show that no country is shielded from the international malaise, all three countries are showing deteriorating current account balances. This is not only due to falling export, but also due to the continuous growth in domestic demand. For Chile, its current account balance is more or less tied to copper. As long as China is cooling down, Chile is likely to keep running a deficit until domestic demand also falls. The more spectacular deteriorations in the current account can be seen in Malaysia (though it remains in the black) and Thailand. In these cases, their fiscal spending (either for electoral purposes or to reconstruct the country) is very much a cause for the current account deficit. It still poses a vulnerability.

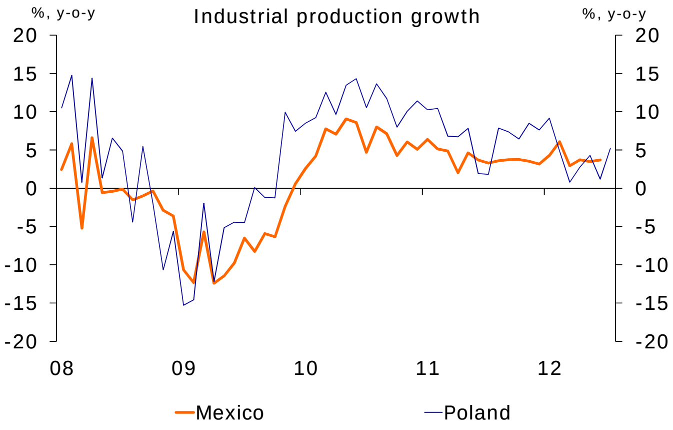
The negatives – Growth disappoints...



Source: EIU

Other 2Q12 data that came out was less impressive. Also in Asia, Hong Kong and Taiwan disappointed. These economies are of course closely linked to China's, which is cooling down. As can be clearly seen in the graph, there is a pronounced downward trend in these Asian countries since 1Q11. Taiwan's economic growth even went into the red, Perhaps more expected, but the economies of Mexico and Poland are also showing signs of a slowdown. These countries continue to post rather healthy figures, but were down on expectations, in what was seen as a clear sign of the linkage of these countries with their respective neighbours: the US and EU.

The negatives – ...but there are silver linings



Source: Reuters EcoWin

For both Mexico and Poland, there are small surprises on the upside. Growth in industrial production has held up pretty well, which is a good sign for these industry-dependent countries. Mexico, in spite of its issues with drug-related violence, continues to profit from its proximity to the US, but is increasingly capable of competing with China on wages. Especially the car industry remains on an upward path, also due to robust domestic demand. In Poland, being tied to the core-countries of the EU that are still performing, is cause of the continued growth in industrial production. Although it remains to be seen whether these countries will keep the momentum, maintaining the positive trend at least shows their competitiveness.

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