

8 May 2012

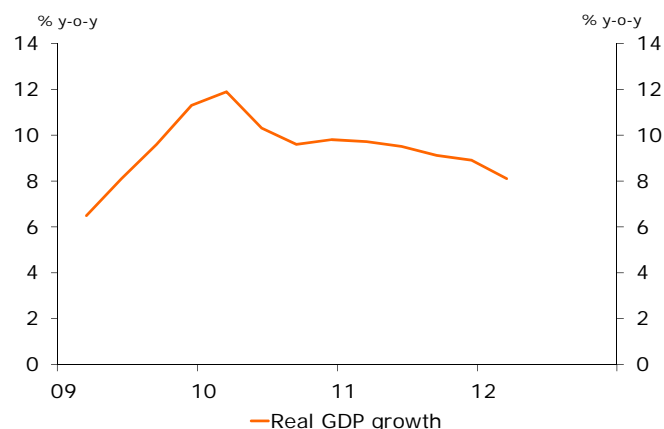
Weak growth data, but inflation risks remain

	GDP growth			Inflation			Current account		
	% of GDP								
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Brazil	2.7	3.0	4.2	6.6	5.2	5.0	-2.1	-3.2	-3.2
China	9.2	8.2	8.8	5.4	3.3	3.0	2.8	2.3	2.6
India	7.2	6.9	7.3	8.6	8.2	7.3	-2.8	-3.2	-2.9
Indonesia	6.5	6.1	6.6	5.4	6.2	6.0	0.2	-0.4	-0.9
Mexico	4.0	3.0	3.7	3.4	3.9	3.0	-0.8	-0.8	-0.9
Poland	4.3	2.0	3.2	4.3	3.8	2.7	-4.3	-4.5	-4.3
Russia	4.3	4.0	3.9	8.4	4.8	6.4	5.5	4.8	1.9
South Africa	3.1	2.7	3.4	5.0	5.7	5.3	-3.3	-4.8	-5.5
South Korea	3.6	3.5	4.0	4.0	3.4	3.2	2.4	1.9	1.5
Turkey	8.5	2.3	3.2	6.5	10.6	7.1	-9.9	-8.8	-8.2

- China's growth has reached its lowest level since the financial crisis.
- The Reserve Bank of India cut its policy rate by 50bps.
- Brazil's central bank also cut its policy rate. The policy rate is now approaching record low levels.
- However, Poland is an outlier, as the National Bank of Poland is talking about hiking its policy rate.
- Turkey's current account balance contracted more than anticipated, which is a welcome development.

Source: Reuters EcoWin

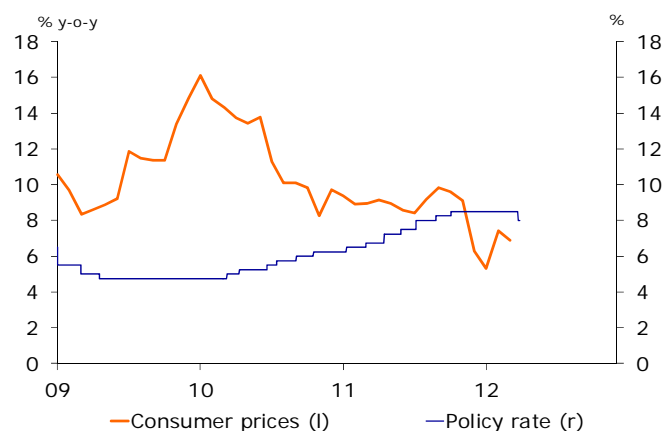
China – Lower growth, higher yuan trading band



China's 1Q2012 growth - at 8.1% yoy - was the slowest since the financial crisis. Main culprits were lower external demand and domestic investment growth. Continued consumption growth prevented a further slowdown. The figure is in line with a soft landing scenario. Signs that the economy is bottoming out are visible and the government indicated that policies will be relaxed to support growth if needed. We expect between 8% and 8.5% growth over full 2012. Meanwhile, China widened the trading band of the yuan to USD to 1% of the daily fixing rate, up from 0.5%. The move underlines a continued commitment to currency reform, but will likely have a limited impact in practice.

Source: EIU

India – Cutting its way out of slow growth?



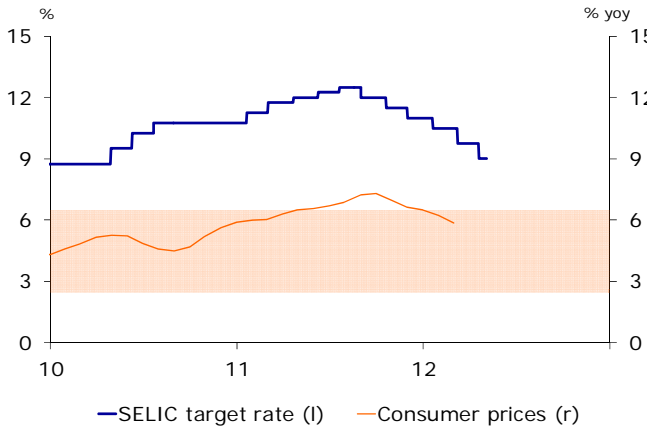
The Reserve Bank of India (RBI) has cut its policy rate by 50 bps to 8.0%. By reducing the cash reserve ratio in March, the RBI had already indicated the end to its hawkish stance. However, the rate cut was bolder than expected, as markets had factored in a 25bps cut. With economic growth at 6.1% yoy in 4Q11 and recent indicators suggesting a weak recovery, the RBI put growth high on its priority list. Stubbornly high inflation hindered this move so far, but recently inflation has fallen (although it is still high at 6.9% in March). Although RBI's decision will support growth, what India really needs is to get inflation under control structurally, end the policy paralysis and boost investor confidence.

Source: Reuters EcoWin

Economic Update Emerging Markets

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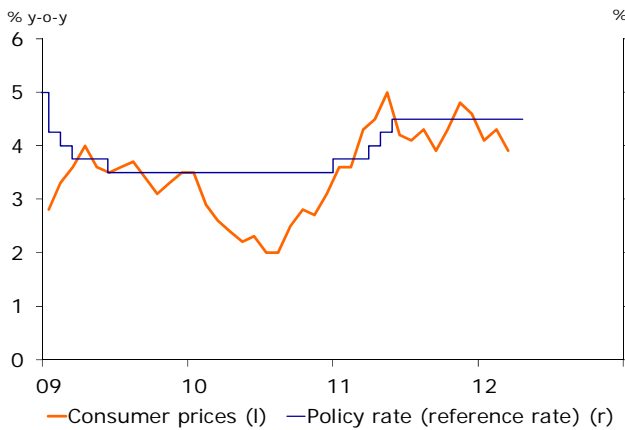
Brazil – Approaching record low levels



In mid-April, the in 2011 installed new central bank governor Tombini, cut the policy rate by 75 bp to 9%. Last year, the rate reached a peak of 12.5%, but the interest rate is now nearing the all-time low of 8.75%. Meanwhile, recent inflation figures came in higher than expected and it remains to be seen whether inflation will stay within the margins of the target range. Brazil was already above the target range during 9 months in 2011. After several months of contraction (in mom terms), the economy is now slowly recovering and the labor market is very tight, which implies that inflation could rise faster than anticipated. Thus, Tombini seems less of an inflation hawk than his predecessor.

Source:

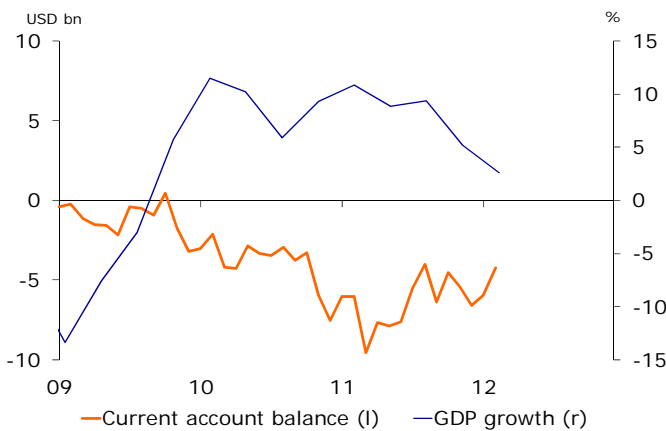
Poland – Talking about a rate hike



Poland's inflation in March came in at 3.9% yoy, slightly down from 4.3% yoy in February. Although inflation is declining, it is well above the 2.5% target of the National Bank of Poland (NBP). Food and fuel prices were the main drivers of inflation in the past months, even though the strengthening zloty took the sharpest edges off. Core inflation is within NBP's target range. Still, the NBP was rather hawkish in its latest statements and said a rate hike was an option. The March inflation data were seen as 'neutral' to a decision to hike the policy rate, but it might still be in the offing. It is an odd sound amid all news from the region about sluggish growth and ongoing eurozone issues.

Source: Reuters EcoWin

Turkey – Current account balance surprises



Turkey's current account deficit contracted more rapidly than previously anticipated. The latest data shows a deficit of USD 4.2bn in February 2012, from USD 5.9bn in January. The contraction is the result of slowing domestic demand and an increase in exports. Even though export demand in the eurozone, Turkey's main export market, decreased, Turkey was able to export more to other emerging markets and the US. Although the contraction of the current account deficit is a good sign, the deficit remains elevated at roughly 7% of GDP. Thus, until the deficit comes down further, Turkey will remain very vulnerable to changes in investor sentiment and external shocks.

Source: Reuters EcoWin

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