

8 August 2012

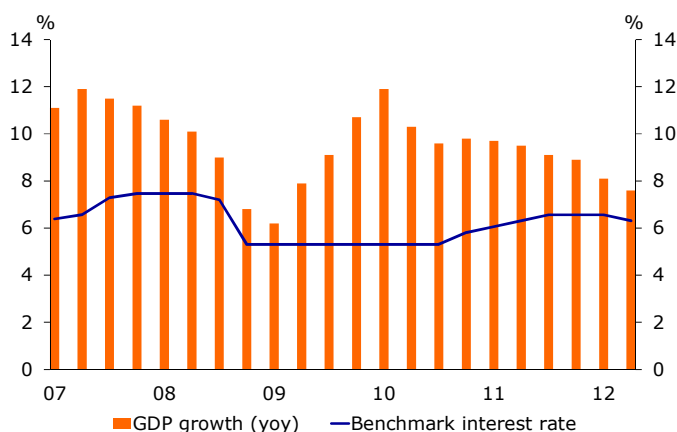
Growth concerns triggers global interest rate cuts

	GDP growth			Inflation			Current account		
	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

- China has shown its weakest growth rate in three years and cut interest rates again
- Central banks in Brazil, South Korea and South Africa have also cut interest rates
- The Turkish central bank however, decided to keep interest rates unchanged
- Meanwhile in Vietnam, inflation slowed markedly due to macro-economic tightening policies in 2011
- In Poland, the low savings rate does not bode well for the future

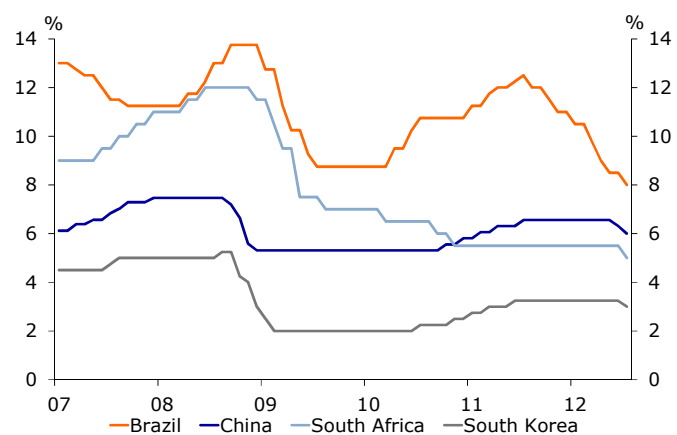
China – Weakest economic growth in three years



Source: Bloomberg

As expected, China's growth rate fell from 8.1% yoy in 1Q12 to 7.6% in 2Q12, the lowest rate in three years. Domestic weakness, especially in the real estate sector, and weak external demand were the main culprits. Looking ahead, there are positive signs, as industrial production and retail sales grew at a steady pace in June. Also, investment growth surprised to the upside, which could be a sign that the government's stimulus effort is starting to have an effect. The Chinese central bank lowered the benchmark interest rates again by 31bps to 6% and the one-year deposit rate was lowered by 25bps to 3%. With the government now in full stimulus mode, we expect growth to strengthen again in 2H12, with FY 2012 growth slightly above 8%.

Policy interest rates – Lowered across the globe



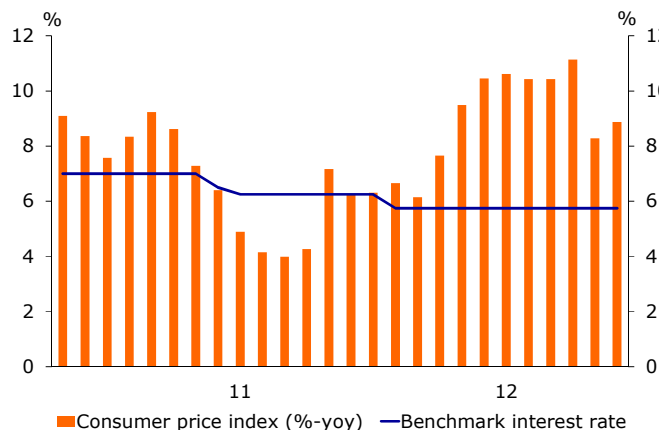
Source: Bloomberg

In Brazil, the central bank (CB) cut policy rates aggressively with 50bps to a record low of 8%. The CB has signaled it will continue to cut rates, but the effectiveness of the rate cuts has been limited thus far. Despite eight consecutive cuts in a year, economic activity has remained rather weak. In South Korea, the CB unexpectedly cut the policy rate to 3% to boost growth, and we expect further rate cuts given slow economic growth. The CB of South Africa also surprised with a rate cut to 5% in order to boost growth. Although the weak global environment will continue to impact the domestic economy, low business confidence and depressed investment sentiment due to policy uncertainty are also important reasons behind the weak growth.

Economic Update Emerging Markets

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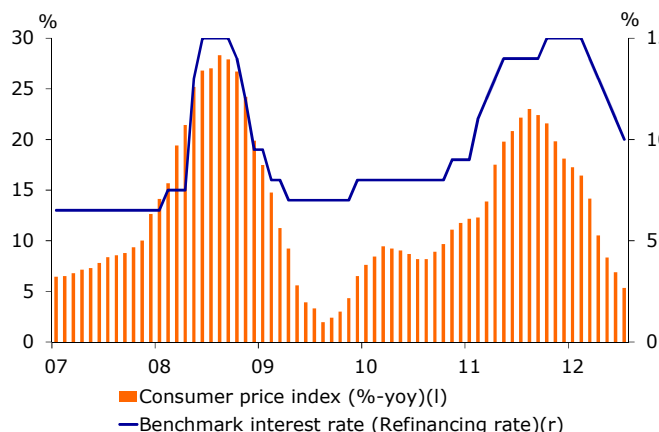
Turkey – Policy interest rates unchanged



In its monthly meeting, the Central Bank of the Republic Turkey (CBRT) kept the benchmark interest rate, the weekly repo-rate, unchanged at 5.75%. The overnight lending and borrowing rates remained the same as well. In light of slowing economic growth, falling inflation and a contracting budget deficit, many had expected the CBRT to lower rates. Instead, it chose to increase the amount of reserves banks can hold at the central bank in foreign currencies. This should help create the liquidity needed to boost the economy, while simultaneously increase FX reserves. In the medium term, we expect rates to be lowered. Not just to boost the economy, but also to fend off speculative capital flows.

Source: Bloomberg, Reuters EcoWin

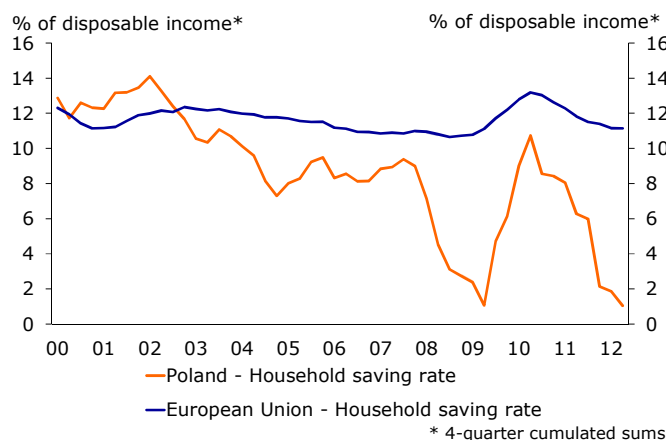
Vietnam – Tightening polices are paying off



New inflation data show the tightening of macroeconomic policies Vietnam implemented in 2011, is taking effect. Inflation, which was as high as 23% in August 2011, declined to 5.4% in July 2012. Investor confidence has increased and foreign reserves have increased significantly as well. The authorities adopted a stabilization package in February 2011 in response to increasing pressures on prices and the exchange rate. However, the package has had some adverse effects too, as GDP growth has slowed sharper than expected. As economic sentiment in many export markets seems to have weakened recently, growth may be weak in the coming months as well. GDP growth is expected at 5.4% for 2012.

Source: Bloomberg

Poland – Savings down. Consumption too?



In the first quarter of 2012, the savings rate of Polish households dropped to 1% of disposable income. This is well below the 8.5% long-run average. Household consumption remained strong in the past years, while the labor market was subdued and foreign currency loans ate into disposable income. This is now reflected in the lower savings rate. It remains to be seen whether the savings rate will decrease further (turning negative?) or rebound. The latter seems more likely, among others because credit conditions are tightening. As household consumption has been the pillar of Poland's above-EU average economic growth, the very low savings rate does not bode well going forward.

Source: Eurostat

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