

What kind of recovery in EM?

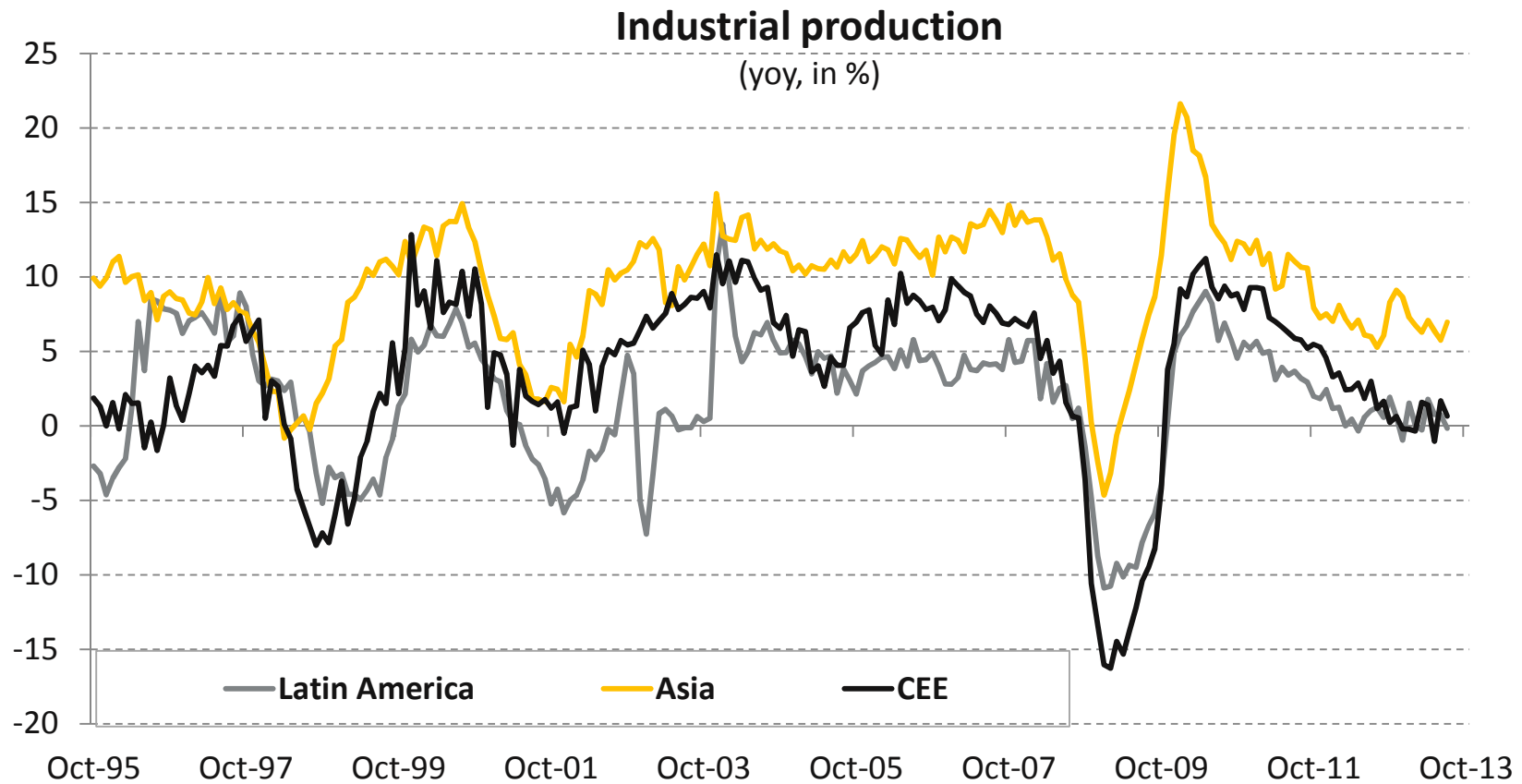


Better near-term prospects for EM

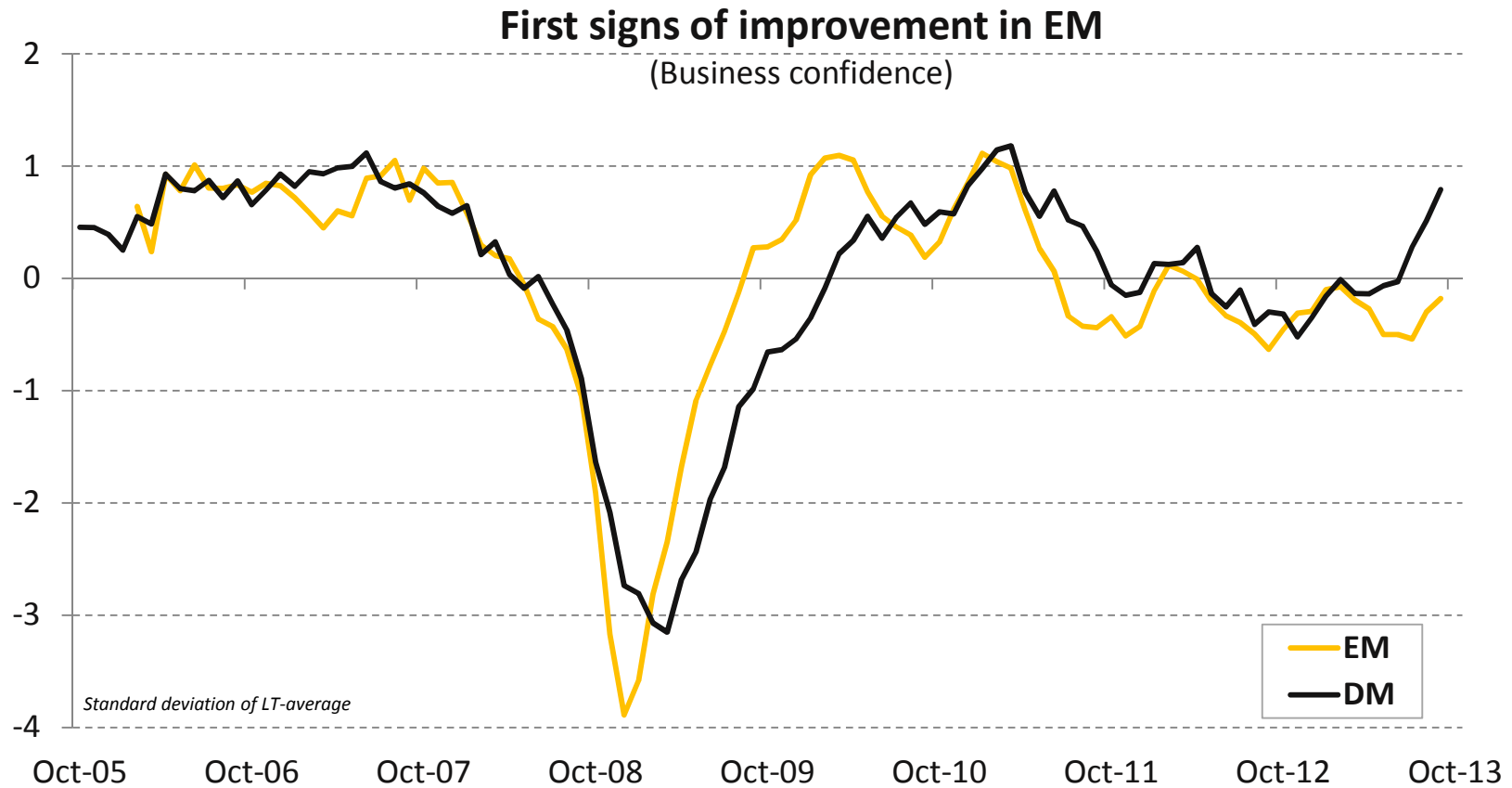
➔ Better prospects for EM:

- ▶ Economic activity in EM still lacklustre but latest leading indicators show first signs of improvement
- ▶ Improving economic activity in DM should lift EM exports
- ▶ Inflation set to stay largely under control
- ▶ Monetary policy set to remain relatively loose in general

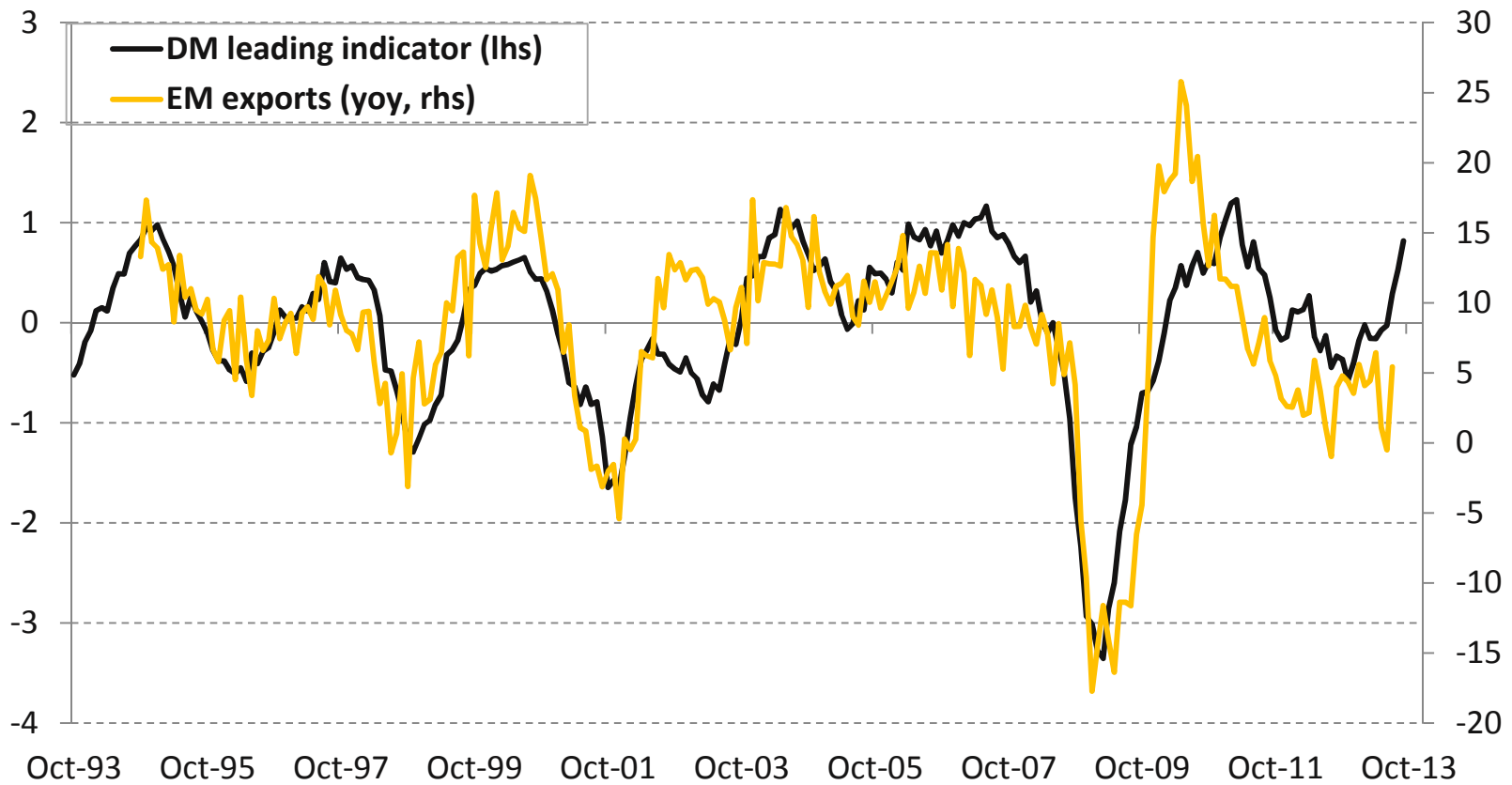
Economic growth in EM still lacklustre



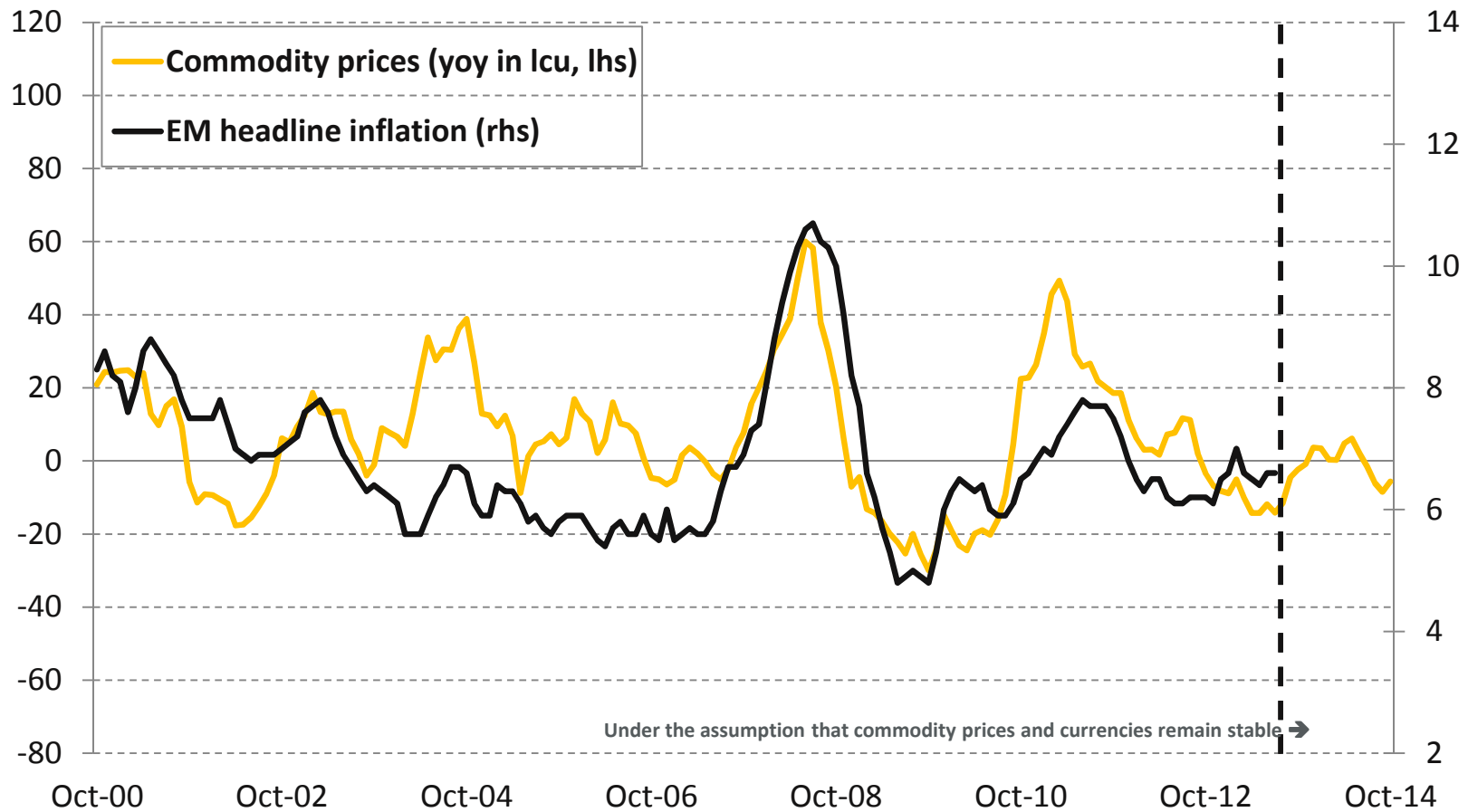
EM are lagging behind



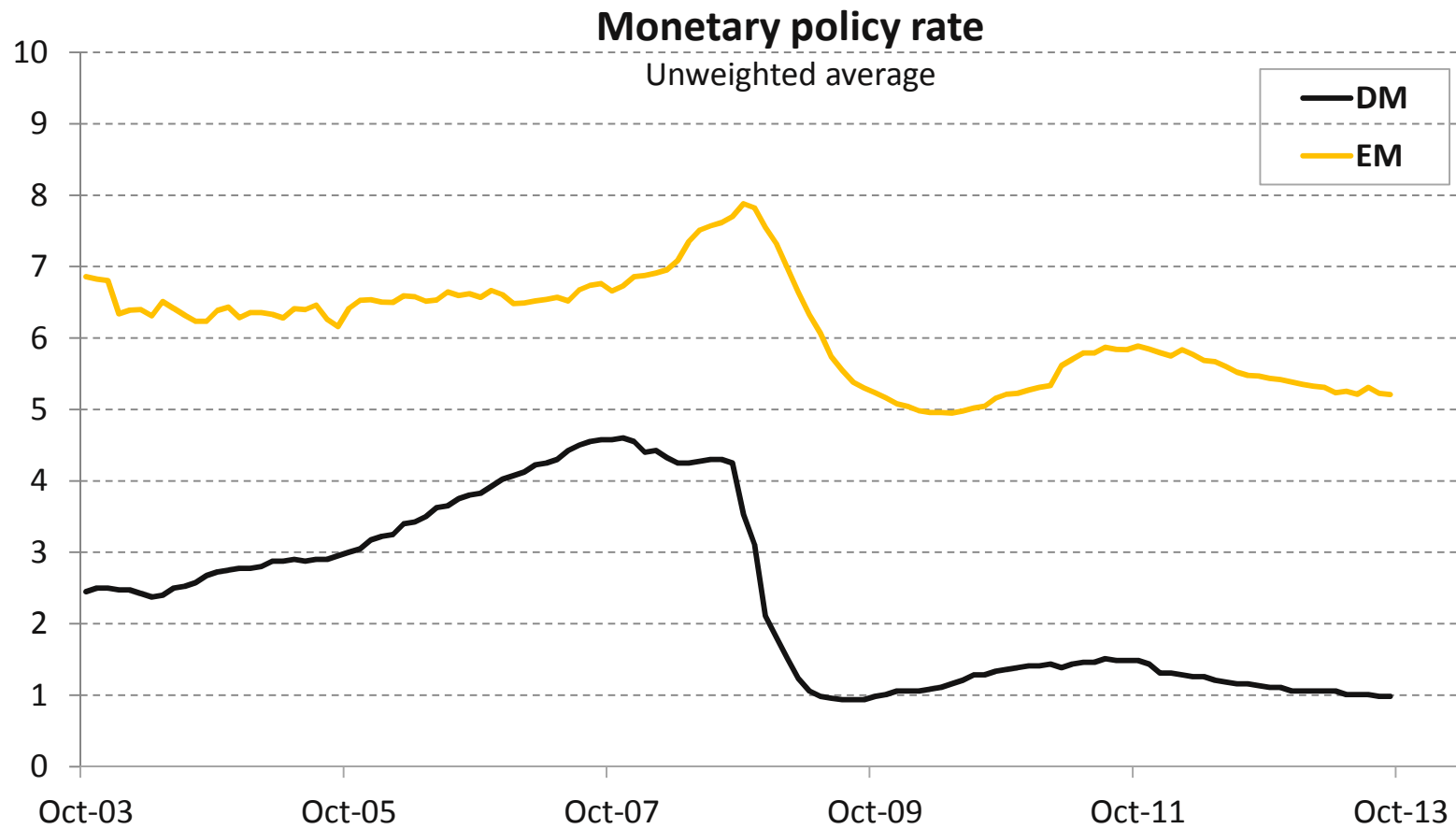
DM recovery should lift EM exports



EM wide inflation set to remain broadly under control



Monetary policy in EM stays loose in general



What kind of EM recovery?

➔ **The recovery in EM is likely to remain modest:**

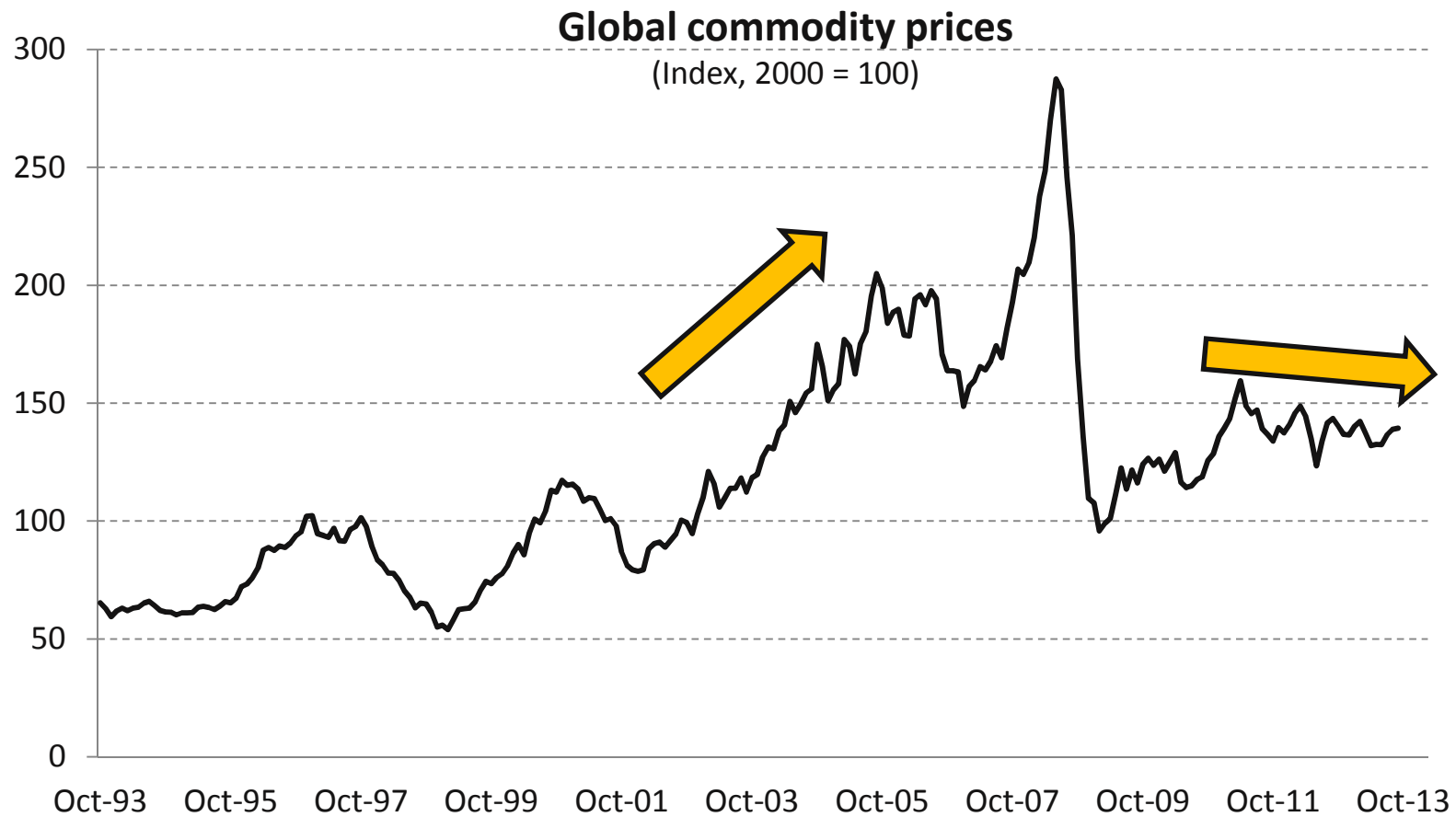
- ▶ Chinese growth likely to decrease further in coming years despite recent improvement in momentum
- ▶ A number of EM can no longer count on the pre-crisis commodity boom
- ▶ Structural problems in BRIC's remain
- ▶ 2014 elections in S. Africa, Indonesia, India and Brazil
- ▶ Credit growth is probably still too high in a number of countries and several countries have seen a significant CA deterioration
- ▶ EM interest rates likely to move gradually higher in line with the evolution in the US

Chinese growth set to decrease further in coming years

As the investment ratio comes down



Commodity super cycle has probably come to an end



Structural problems in the BRIC's did not disappear



- ▶ Pre-crisis growth based on debt-fueled consumer spending and rapidly rising commodity prices
- ▶ Challenge? Economic rebalancing away from consumption and towards investment
- ▶ How? Rise in domestic savings
- ▶ Difficulties? Politically unpopular decisions + 2014 upcoming elections



- ▶ Pre-crisis growth based on high oil prices and subsequent consumption boom
- ▶ Challenge? Economic rebalancing away from consumption and towards investment
- ▶ How? Drastic improvement in (foreign) investor climate
- ▶ Difficulties? Vested interests + corruption + lack of democracy + weak institutions



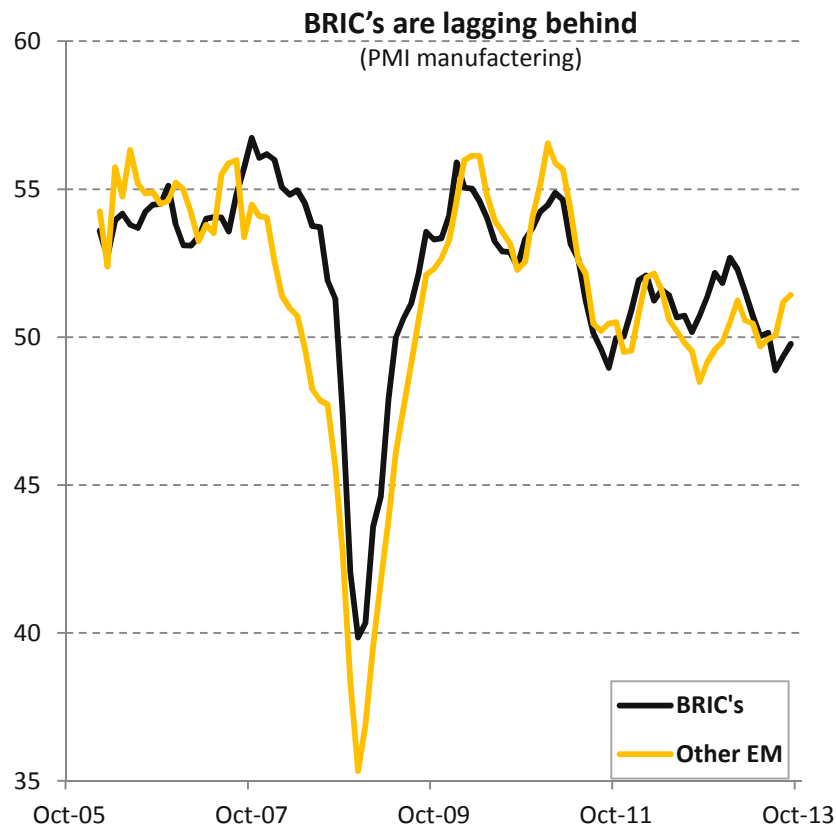
- ▶ Pre-crisis growth based on policy liberalisation reforms between 2000 and 2004 (which increased productivity)
- ▶ Challenge? Proceed with further reforms
- ▶ How? Liberalisation of labour market, increase of competition, reduction of bureaucratic inefficiency
- ▶ Difficulties? Vested interests + corruption + 2014 upcoming elections



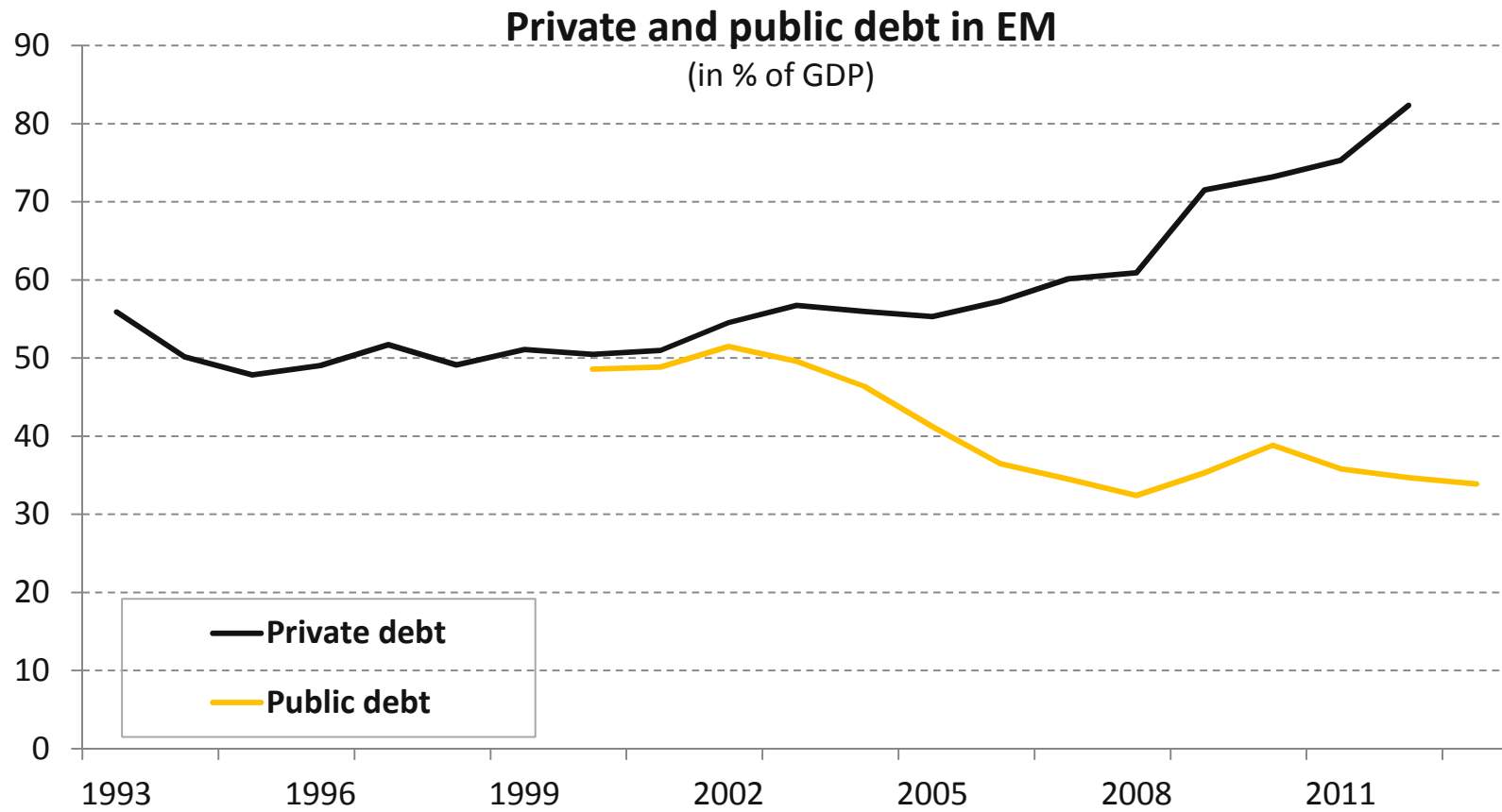
- ▶ Pre-crisis growth based on over-investment (this is still the case today)
- ▶ Challenge? Economic rebalancing away from investment and towards consumption (slower growth inevitable)
- ▶ How? Stronger safety nets (social security), interest rate liberalisation
- ▶ Difficulties? Vested interests (SOE's), democratic deficit

BRIC's stay behind

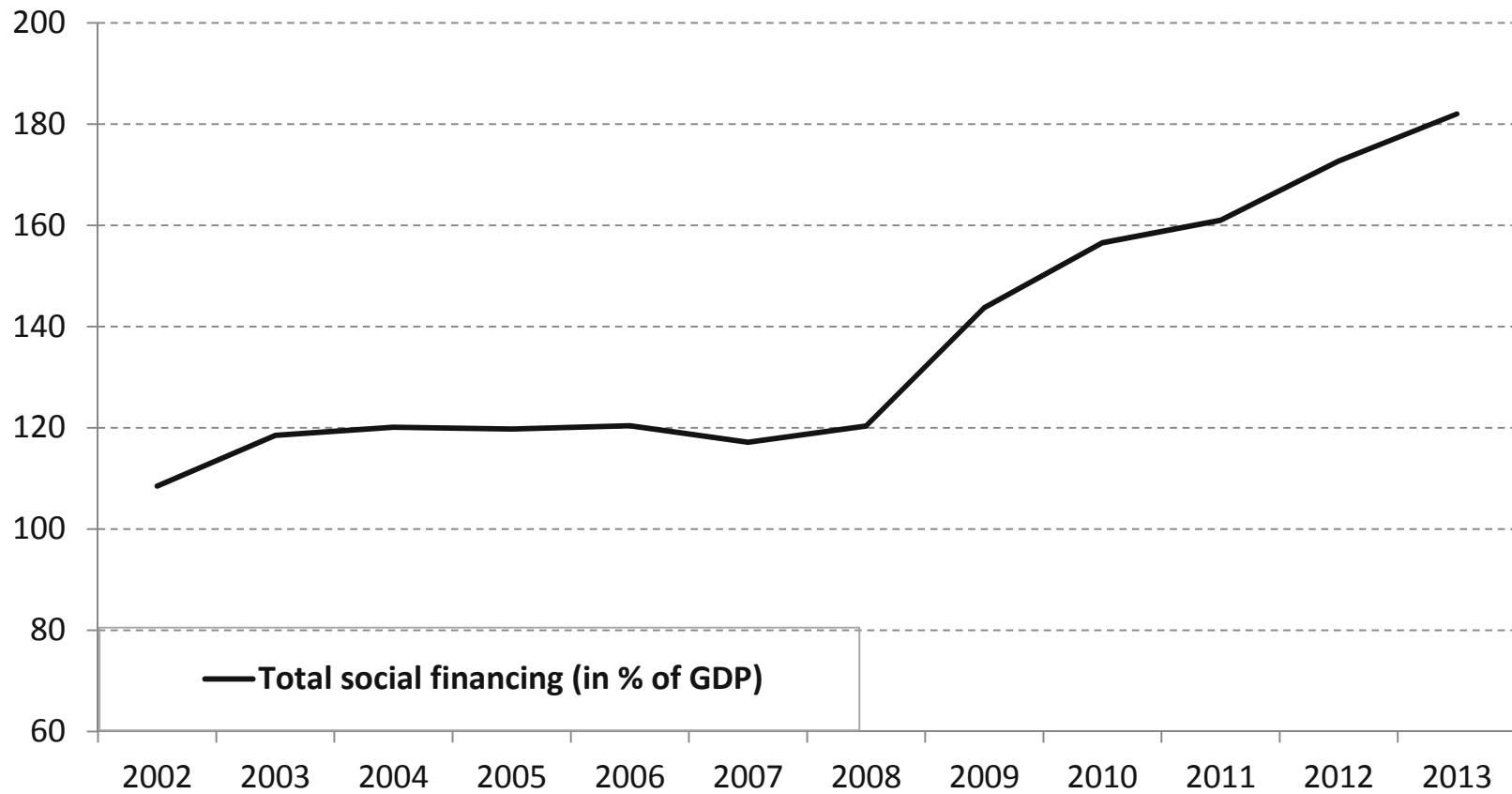
These 4 countries count for more than half of EM economic activity



Private credit growth hits the limit

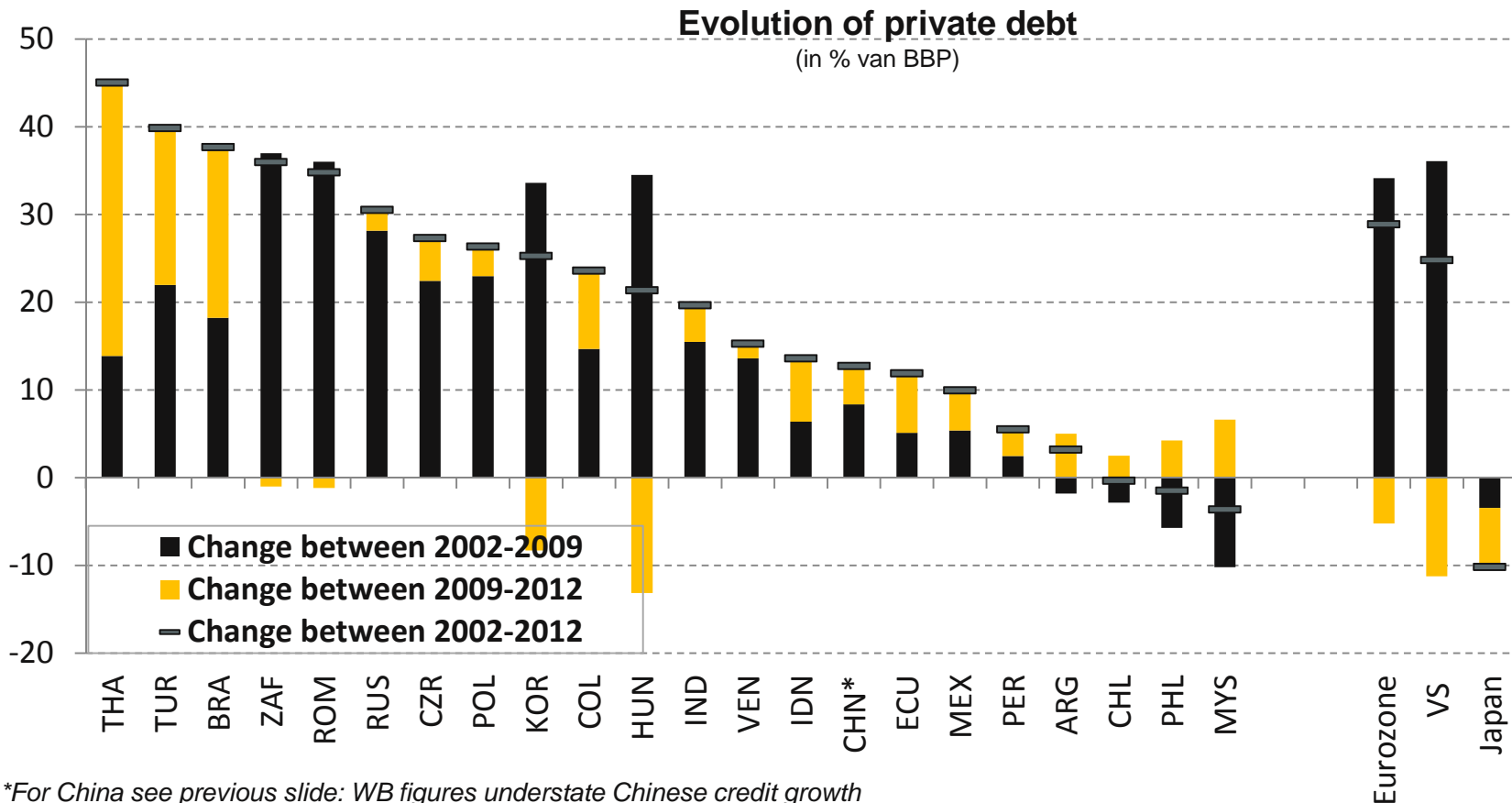


Chinese credit growth is unsustainable



Several EM have seen unsustainable credit growth in recent years

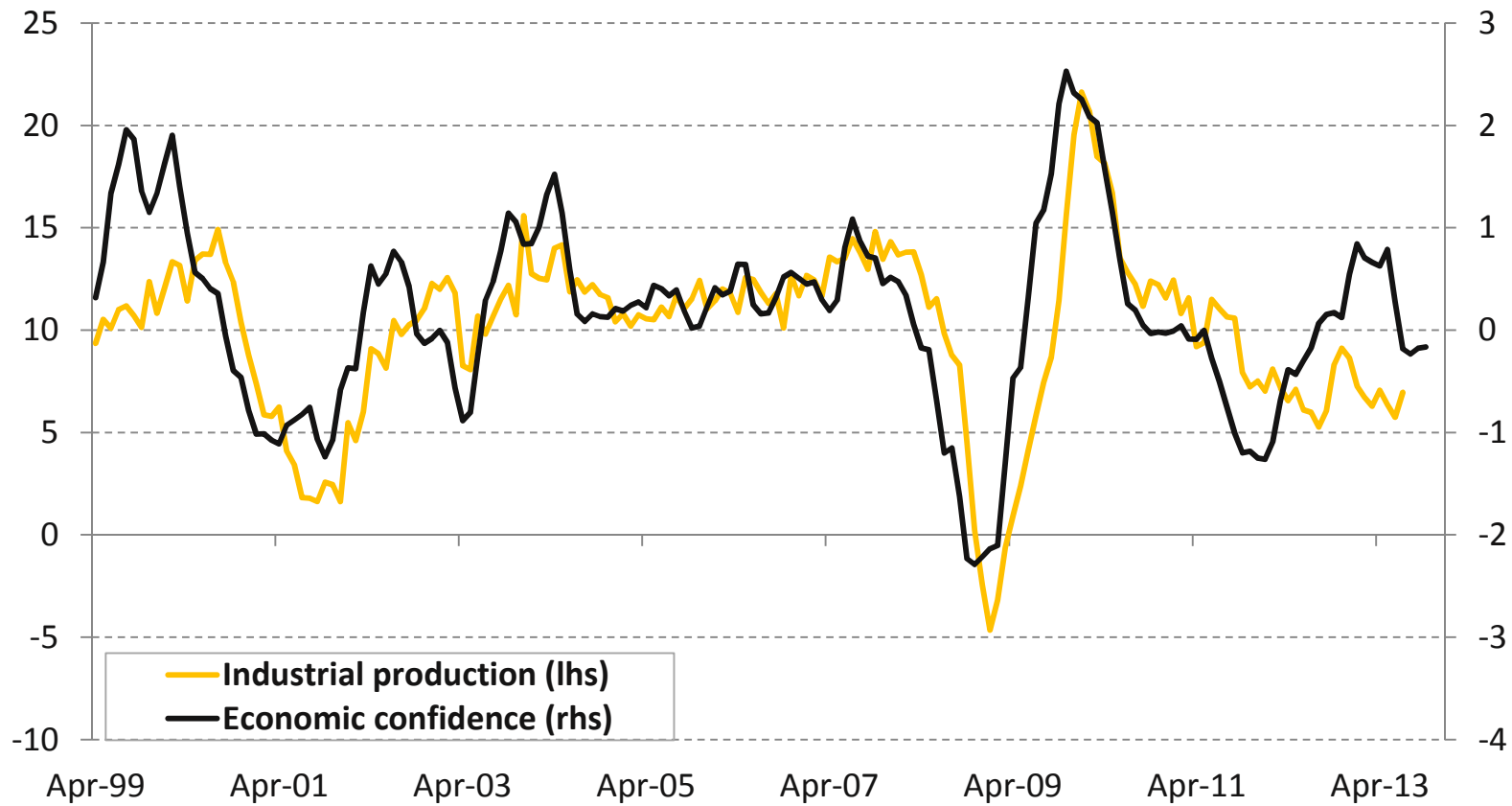
THA, TUR and BRA stand out in this respect



Emerging Asia

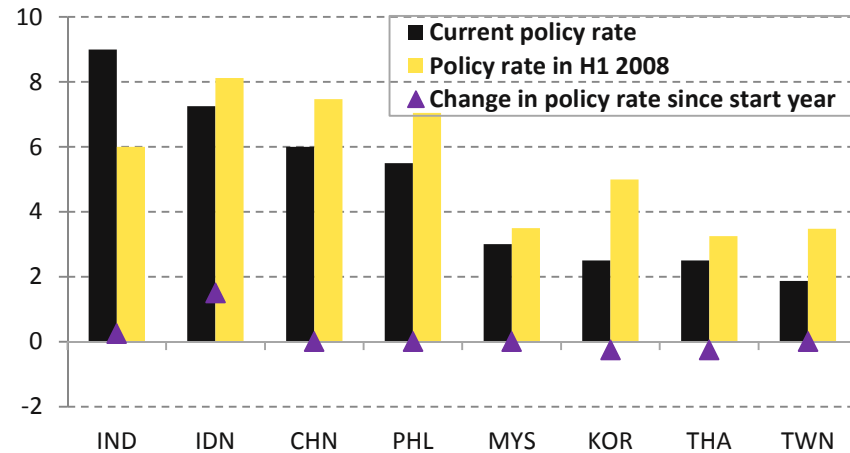
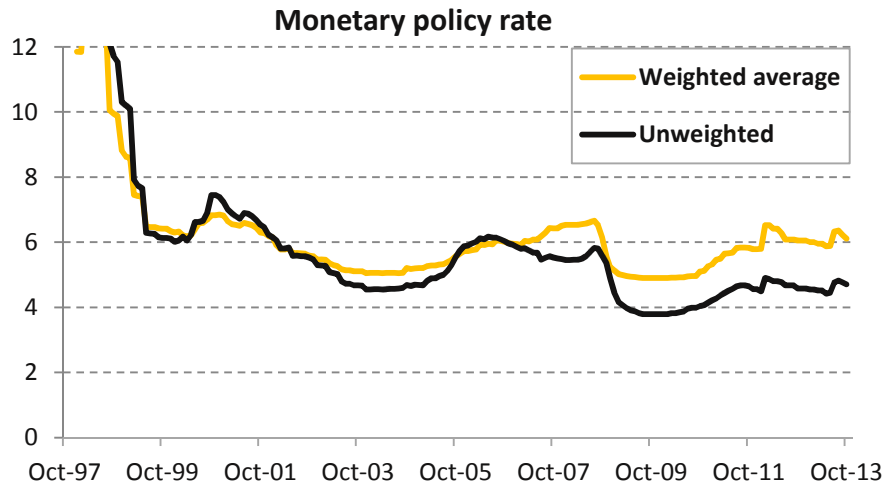
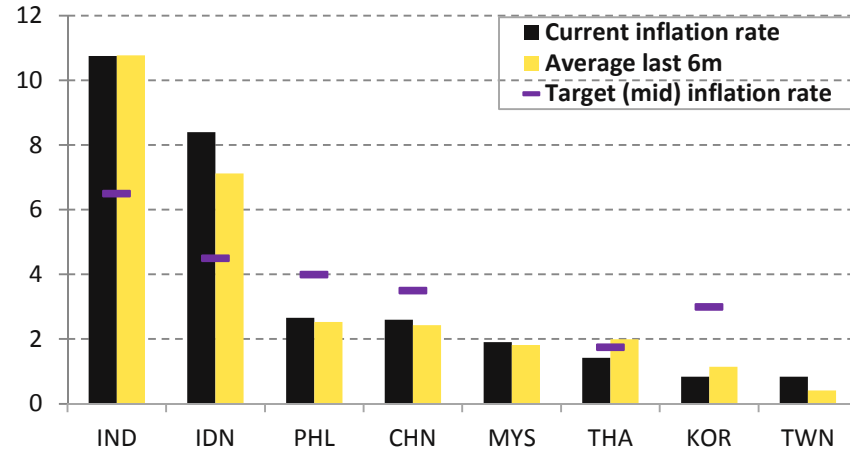
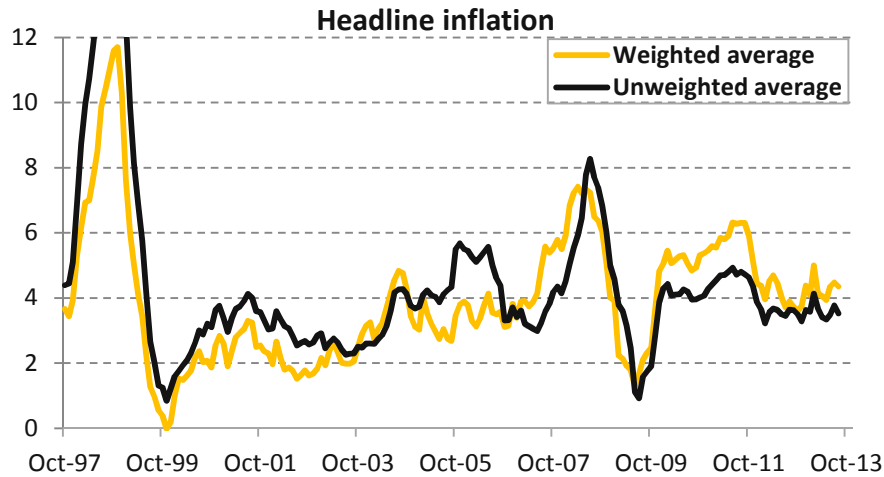


Better prospects for Emerging Asia

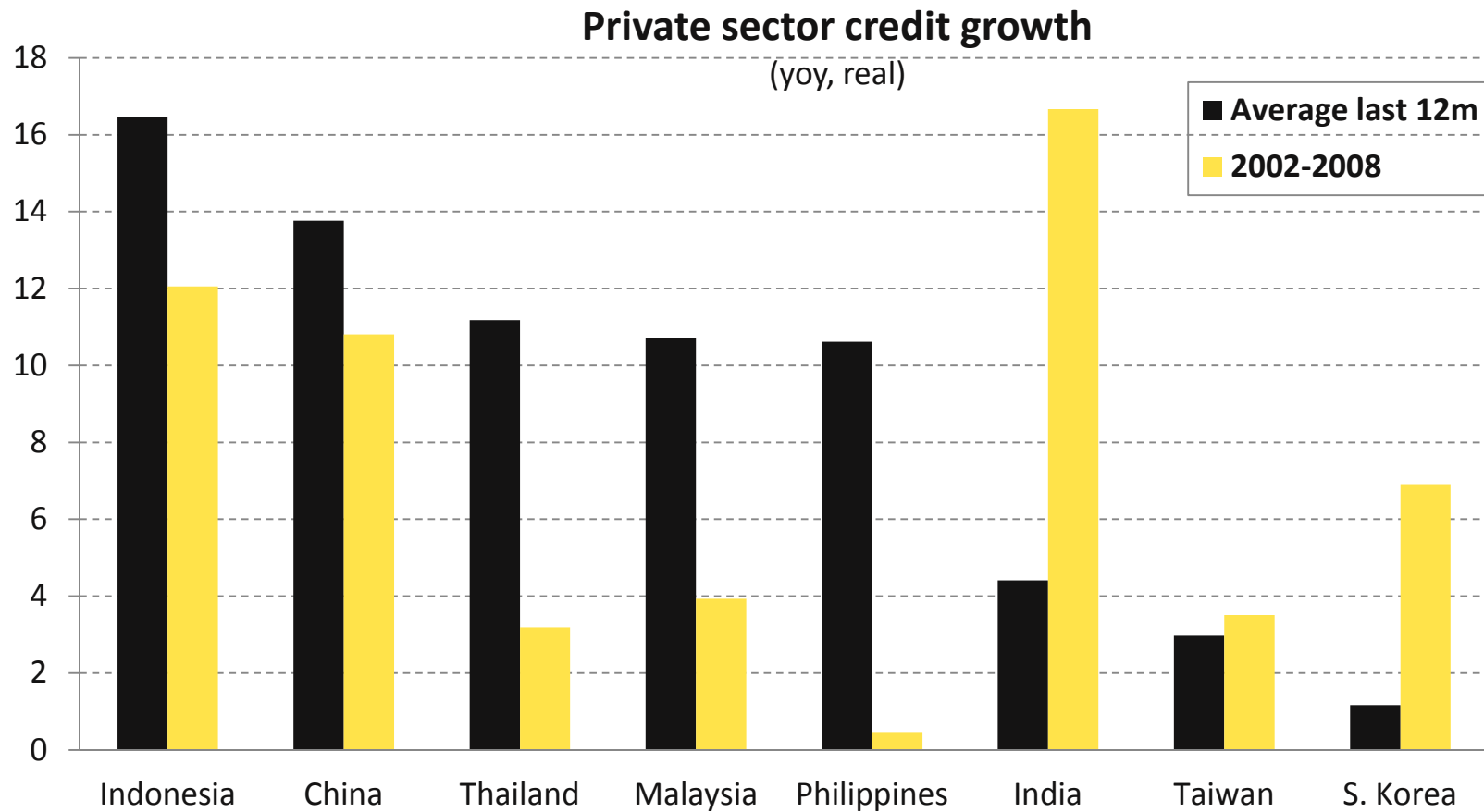


Inflation in Emerging Asia broadly under control

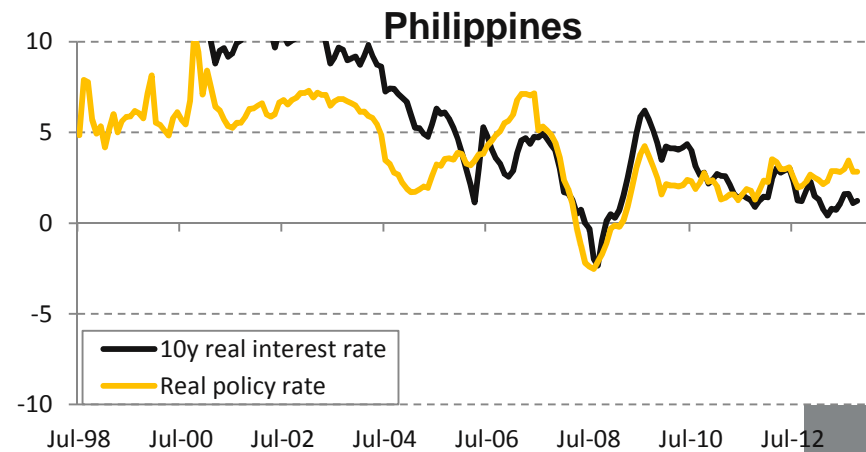
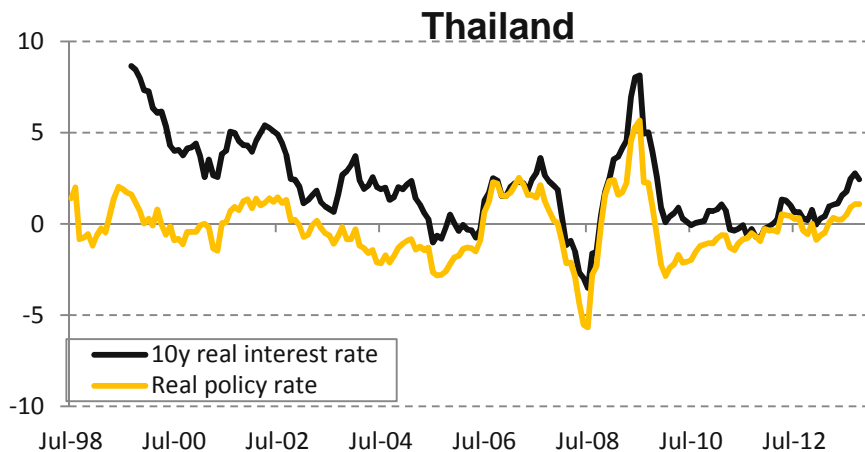
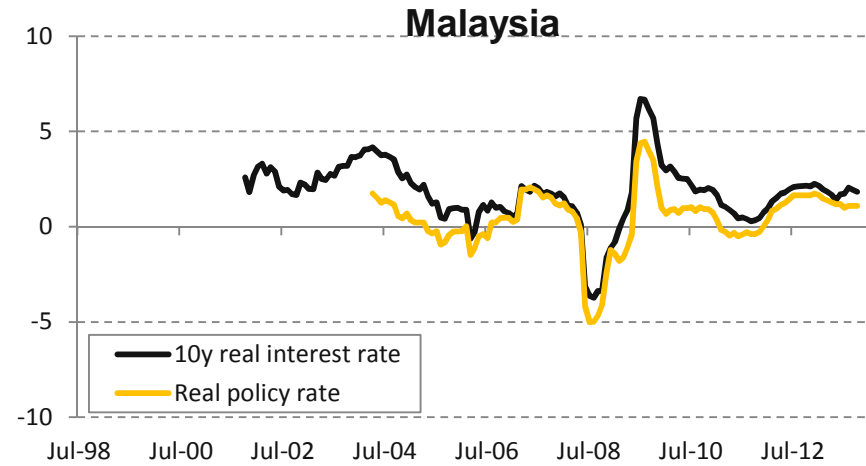
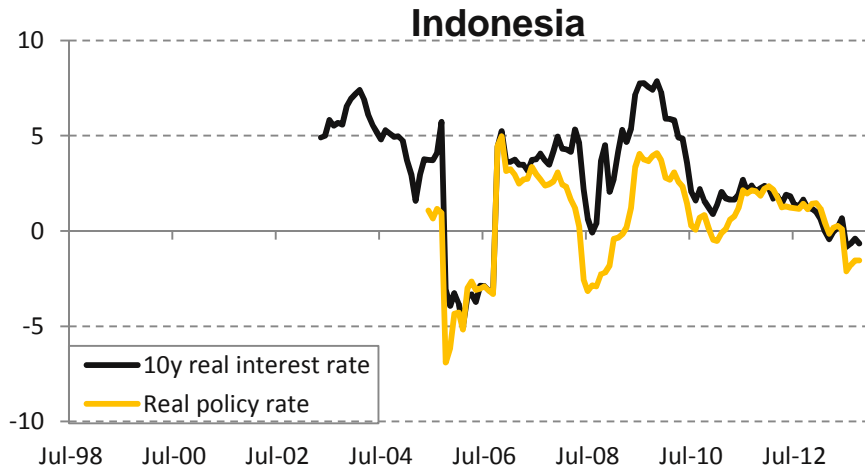
But high inflation in India and Indonesia



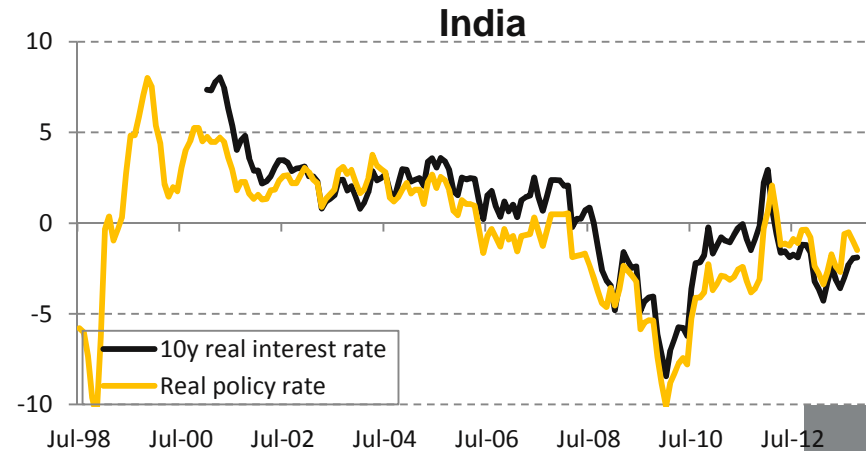
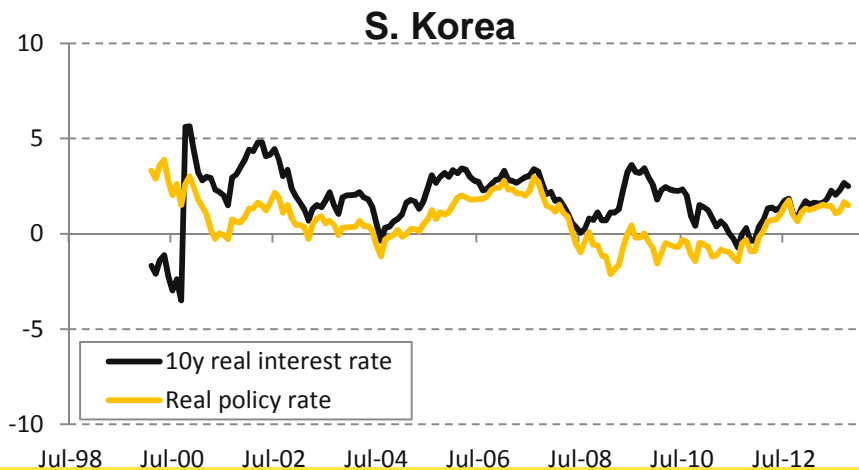
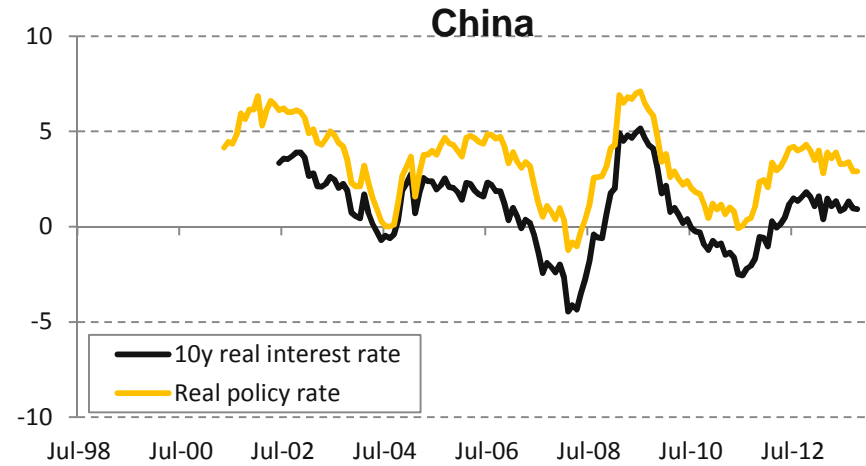
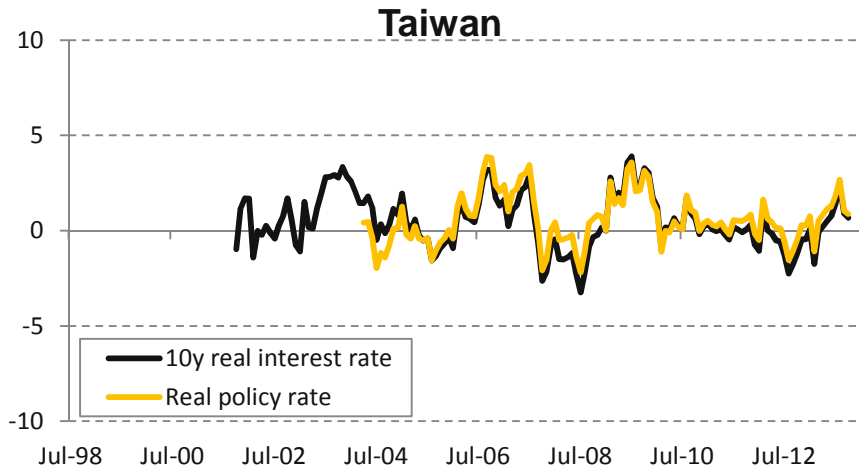
High credit growth in IDN, CHN, THA, MYS and PHL



High credit growth and negative real interest rates in IDN

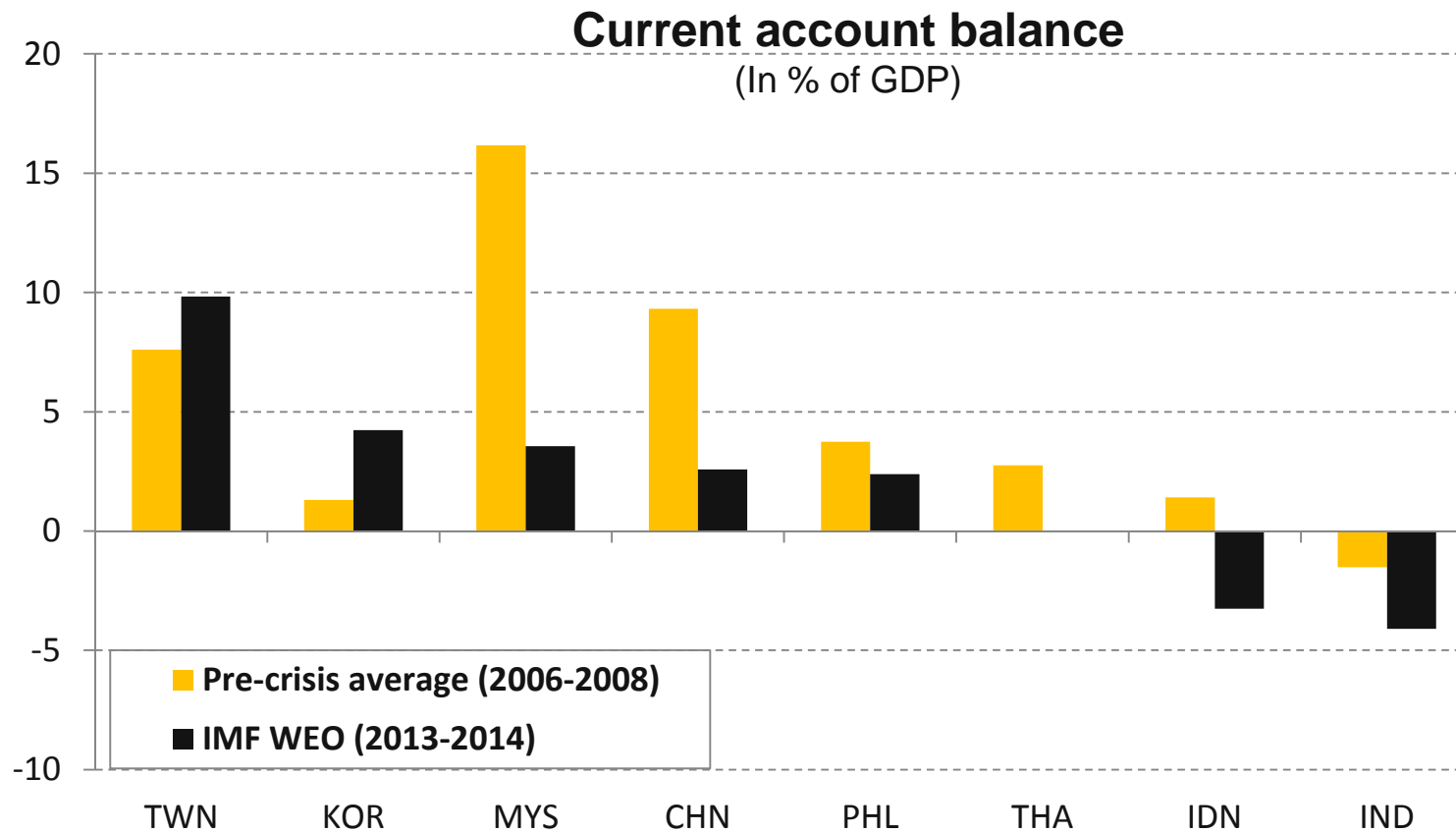


Low credit growth and negative real interest rates in IND



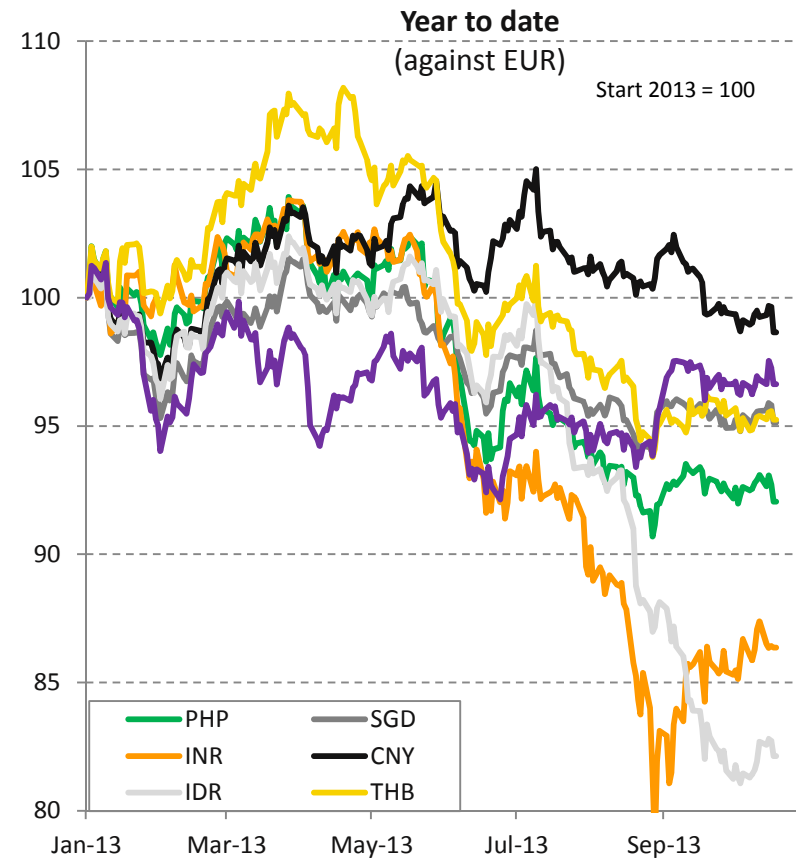
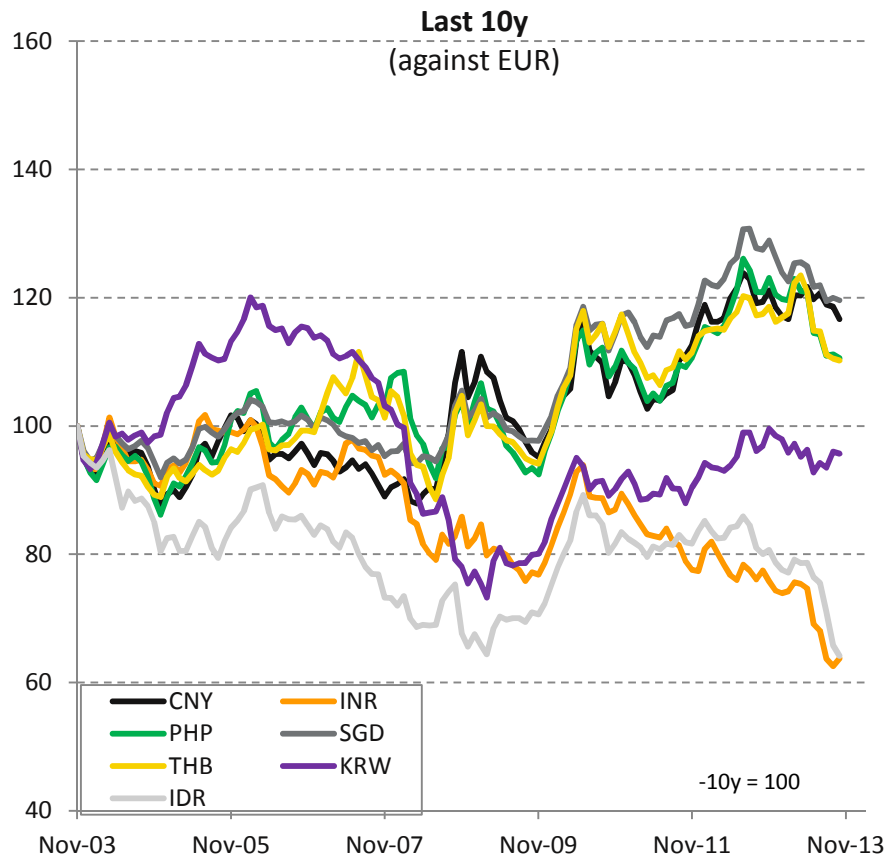
CA deterioration in MYS, CHN, THA, IND and IDN

India and Indonesia report sizeable CA deficits



Asian currencies

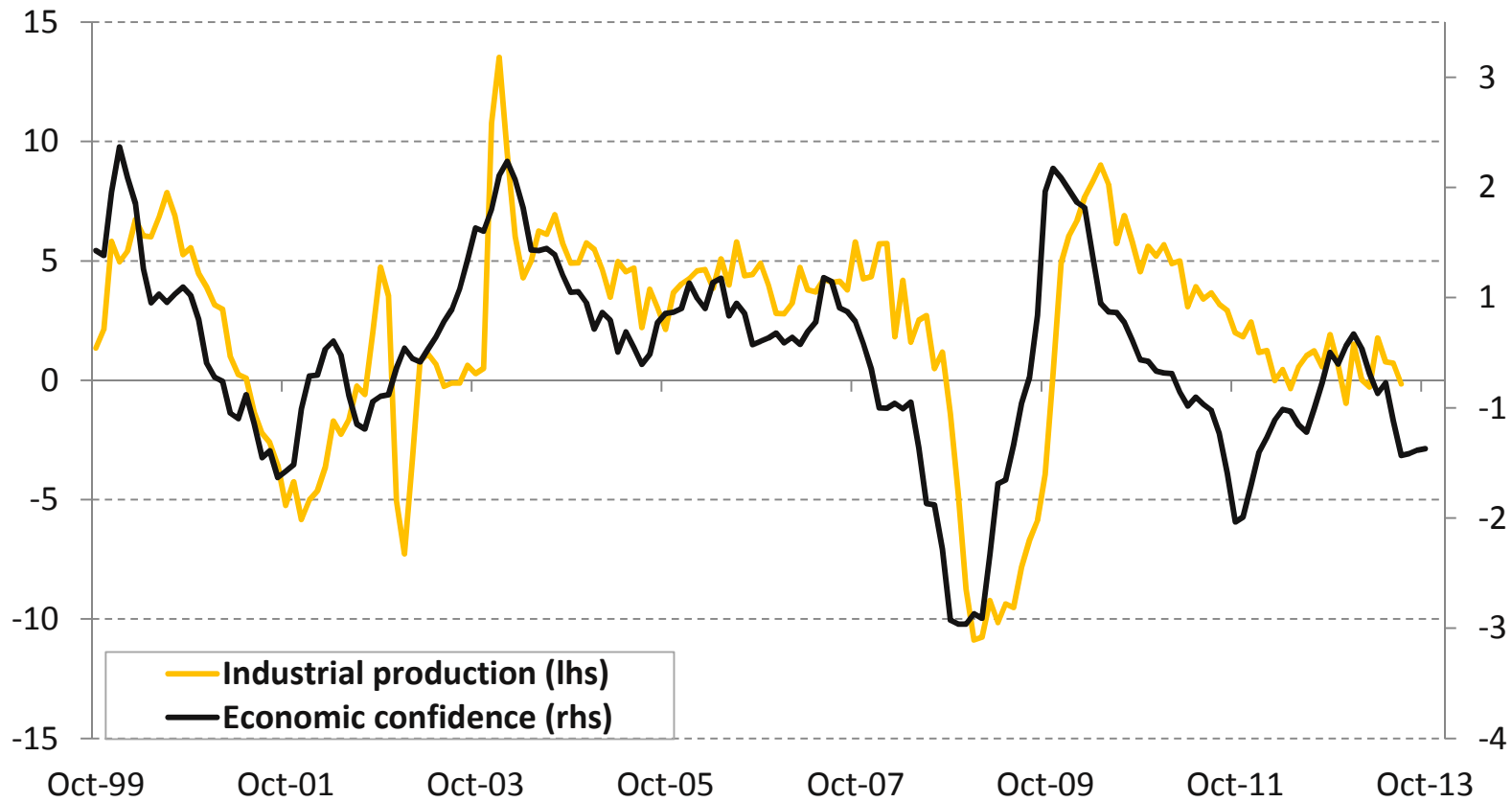
INR and IDR suffered the most



Latin America

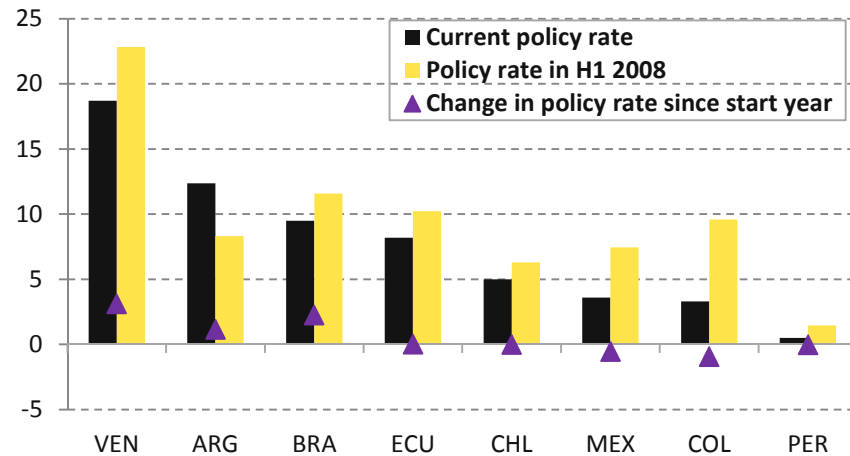
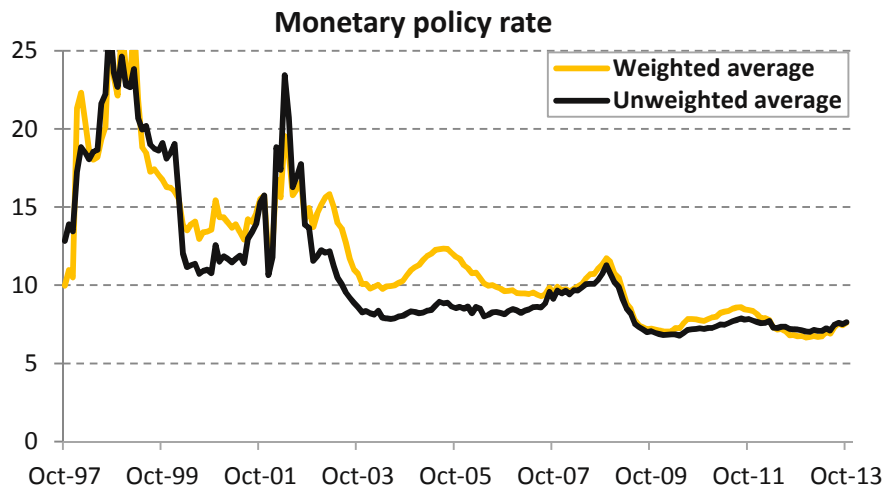
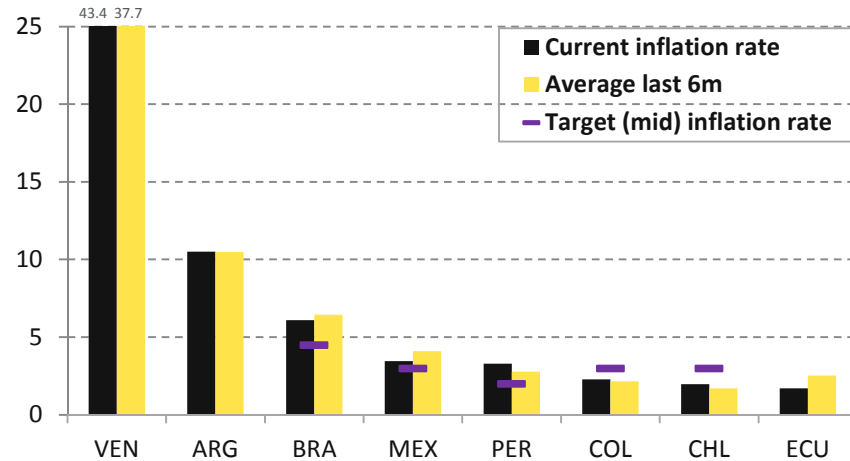
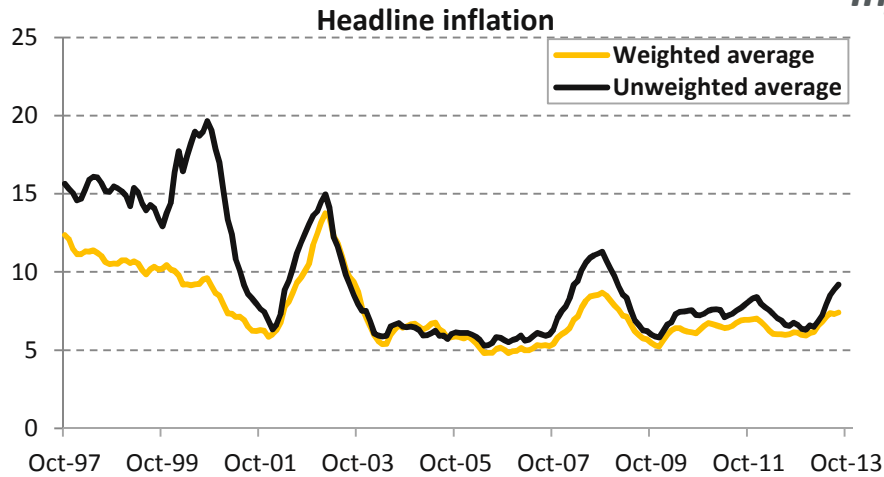


Economic growth in Latam disappoints

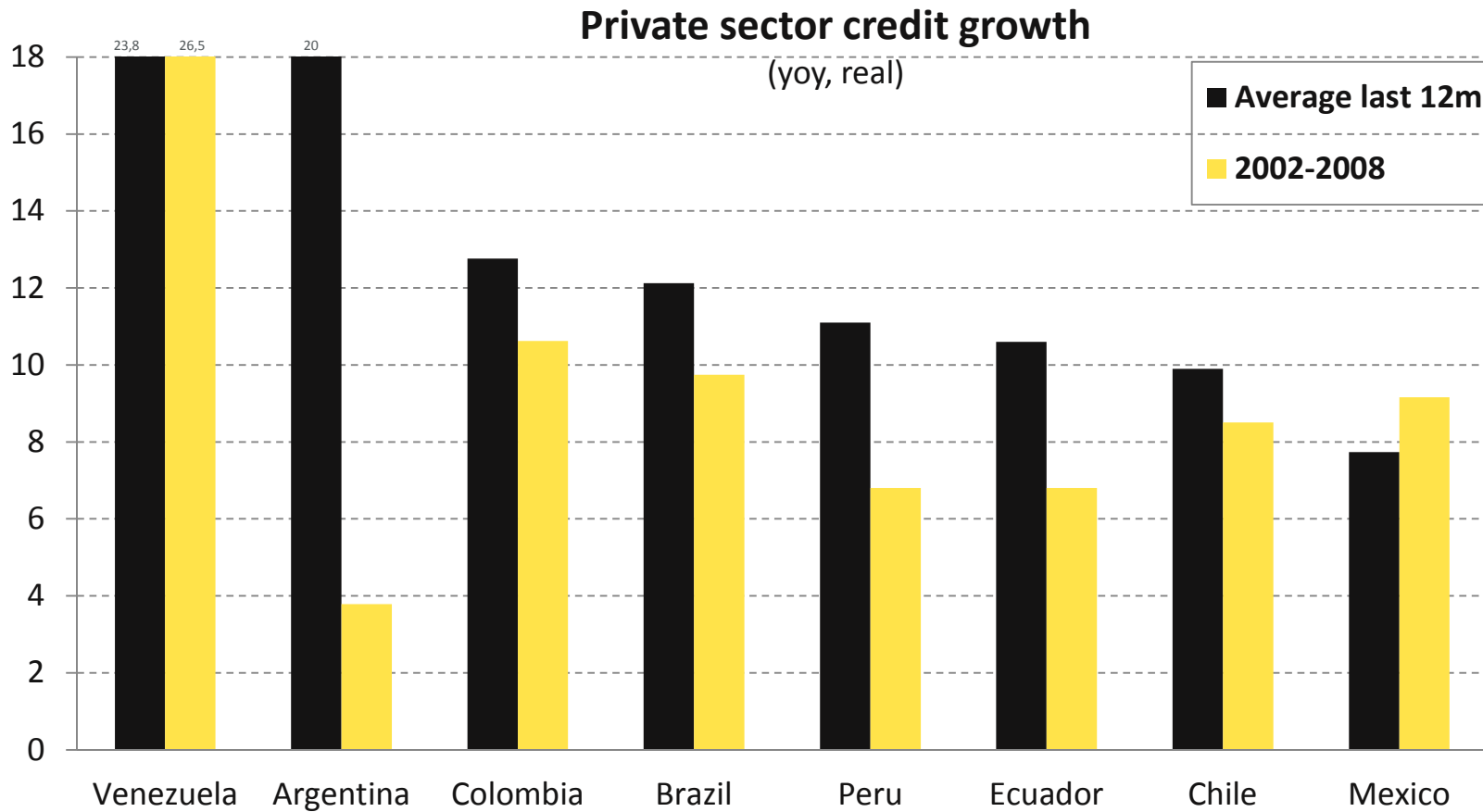


Latam inflation largely under control

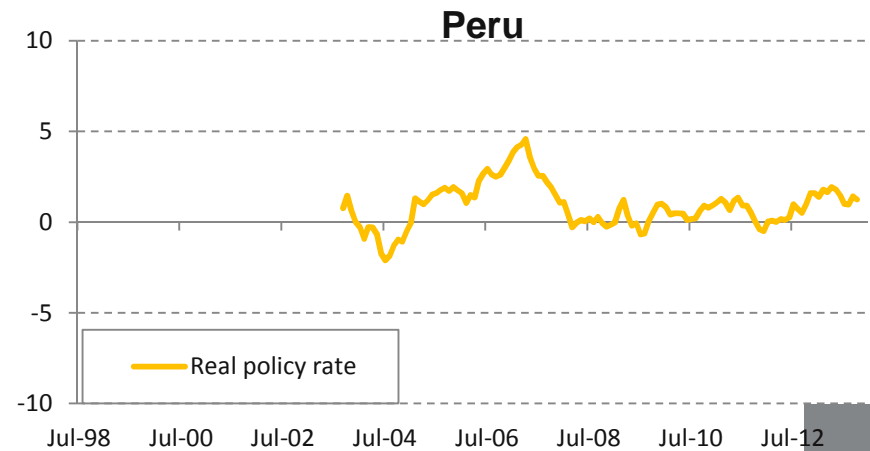
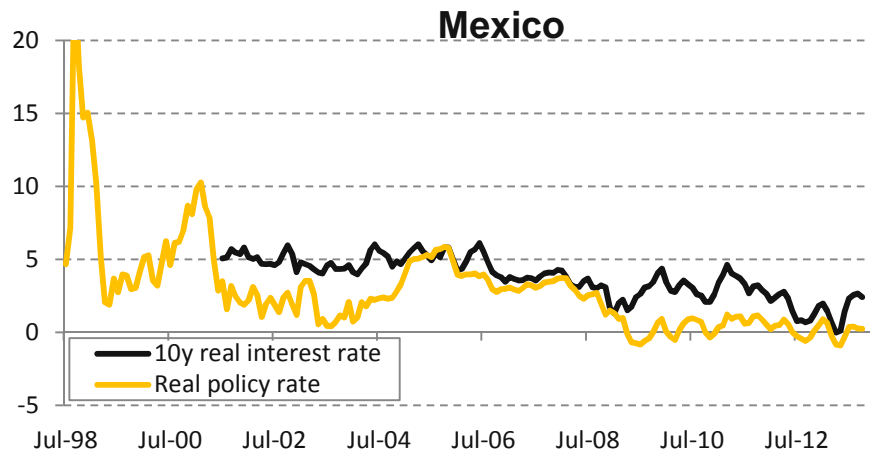
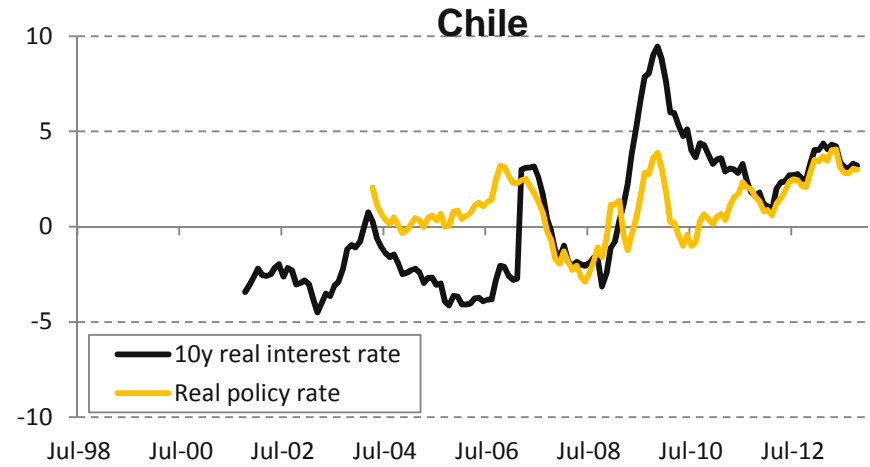
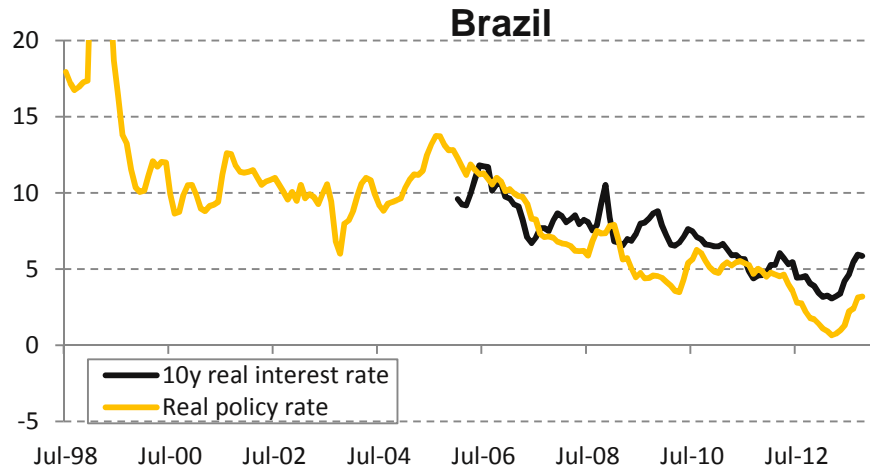
Inflation issues in Venezuela, Argentina and Brazil



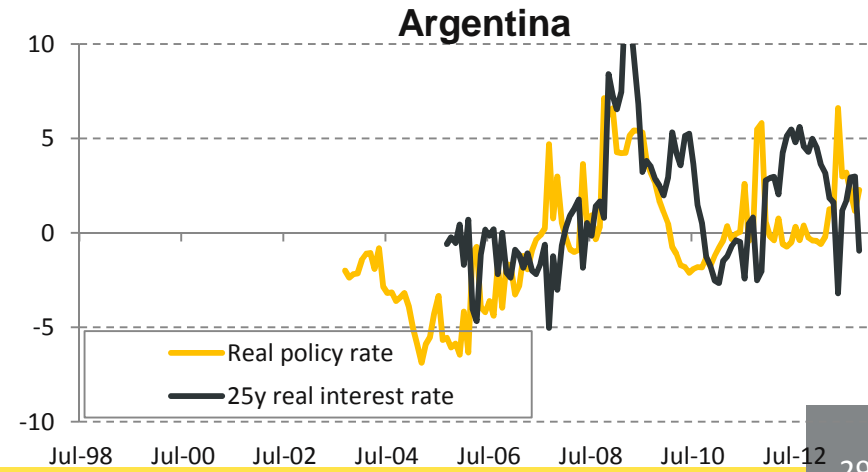
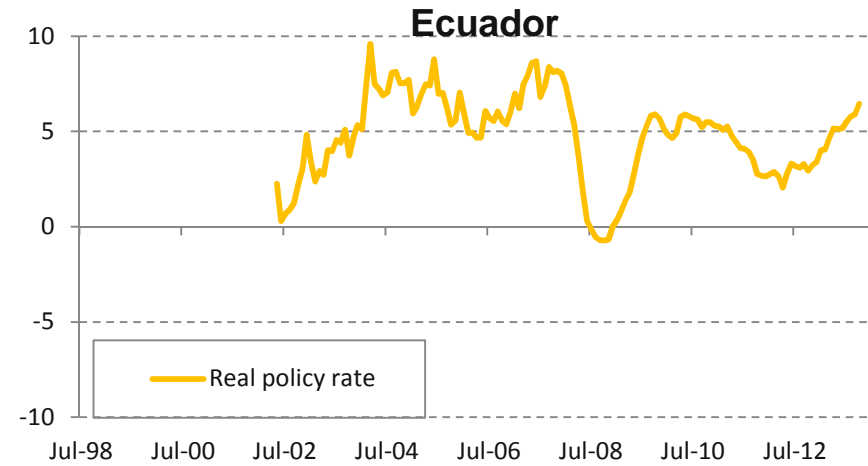
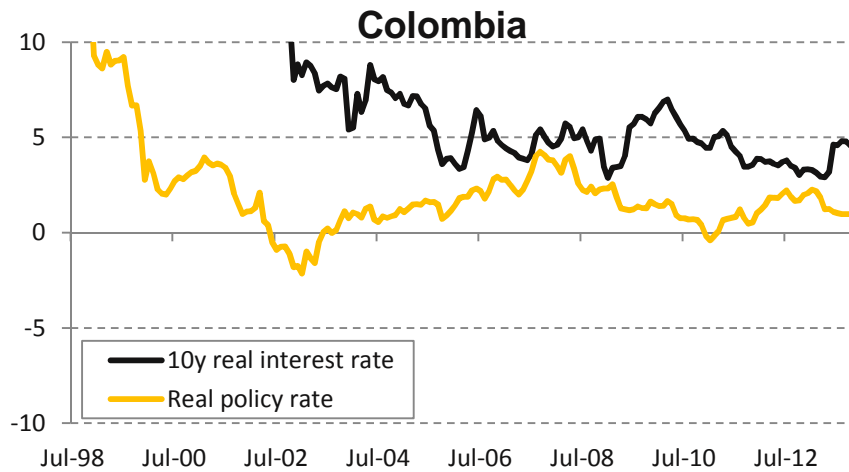
High credit growth across the board



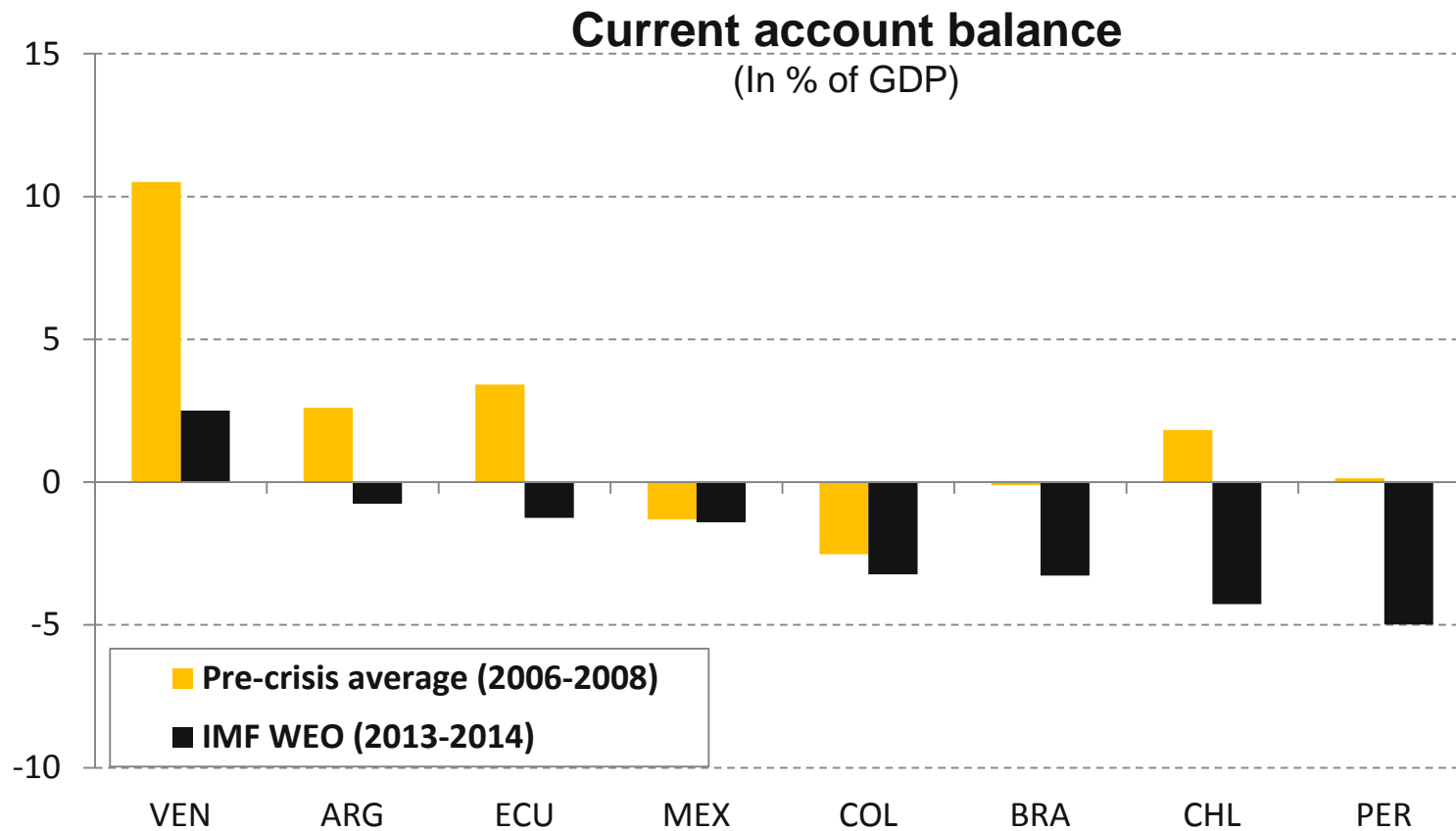
Rise of real interest rates in recent months should cool credit growth



Real interest rates

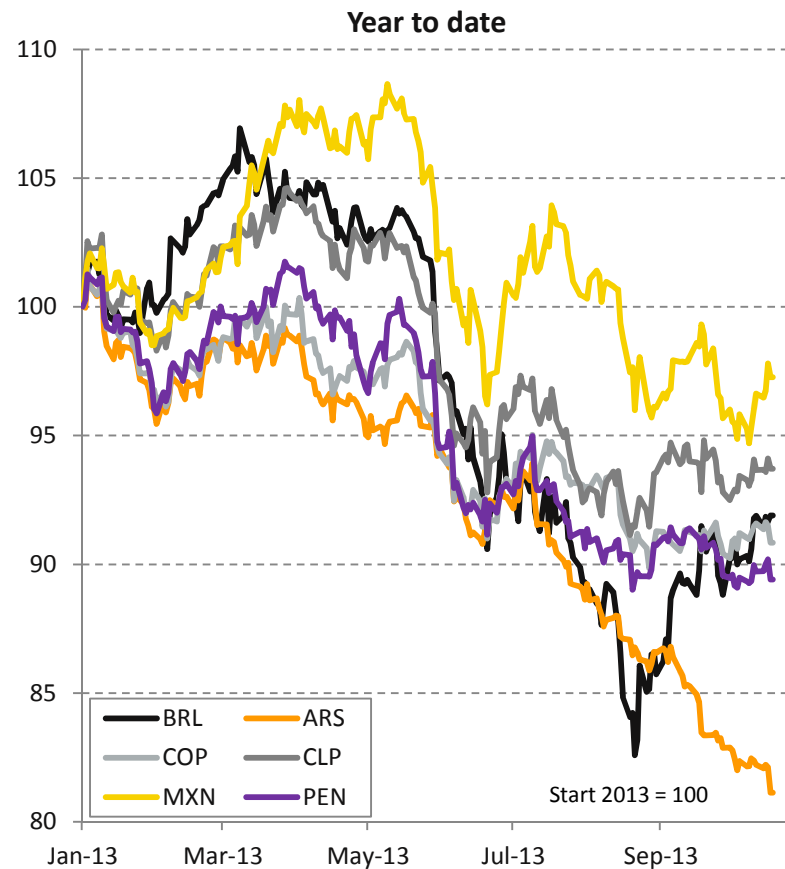
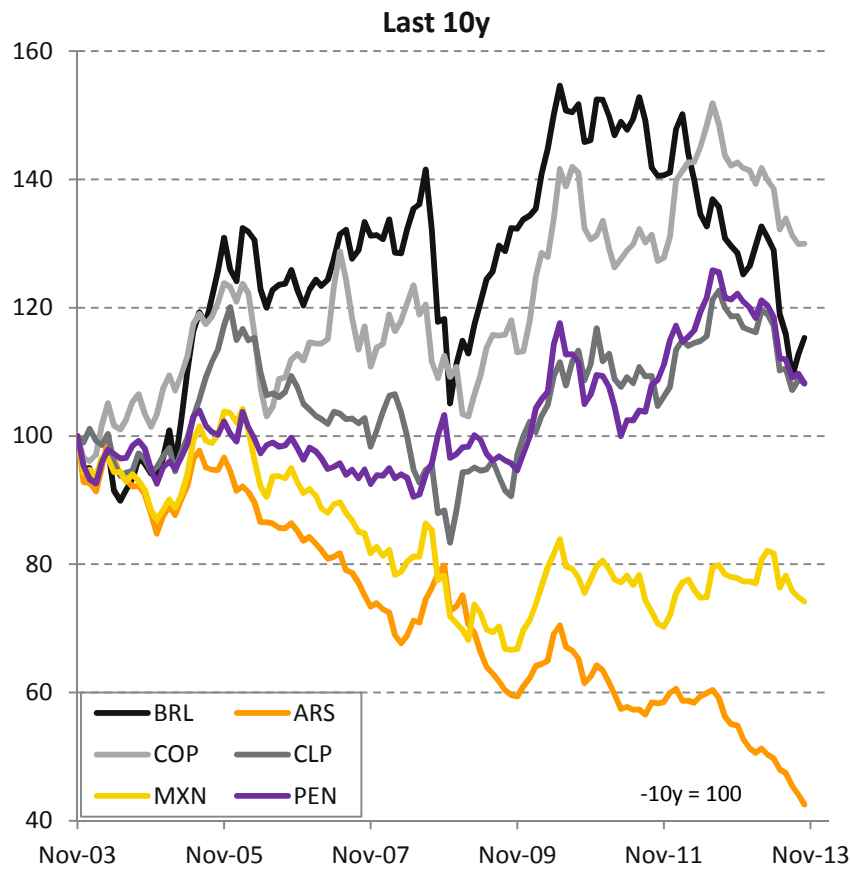


Significant CA deterioration in most Latam countries



Latam currencies

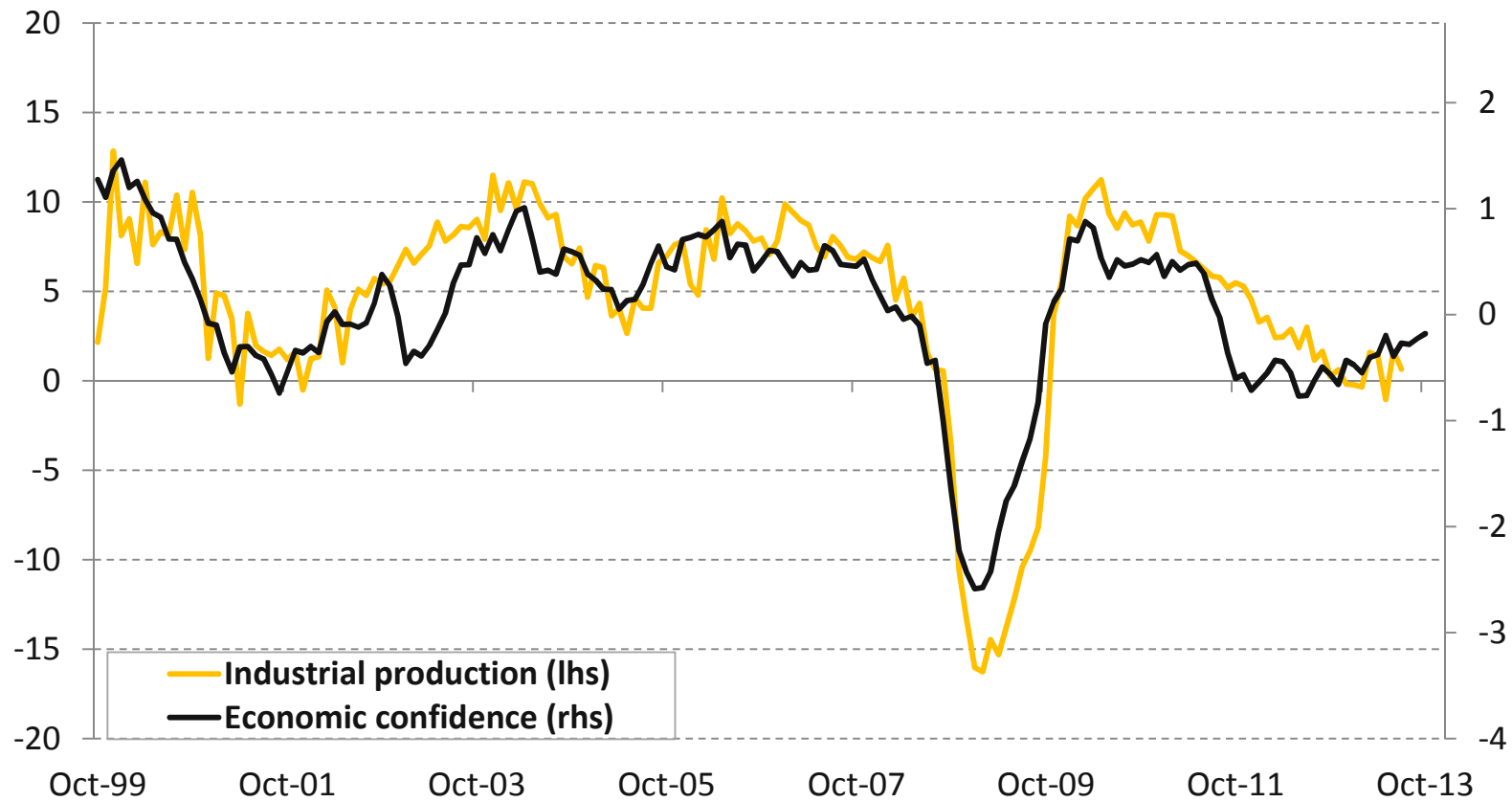
BRL recovering some of the lost ground



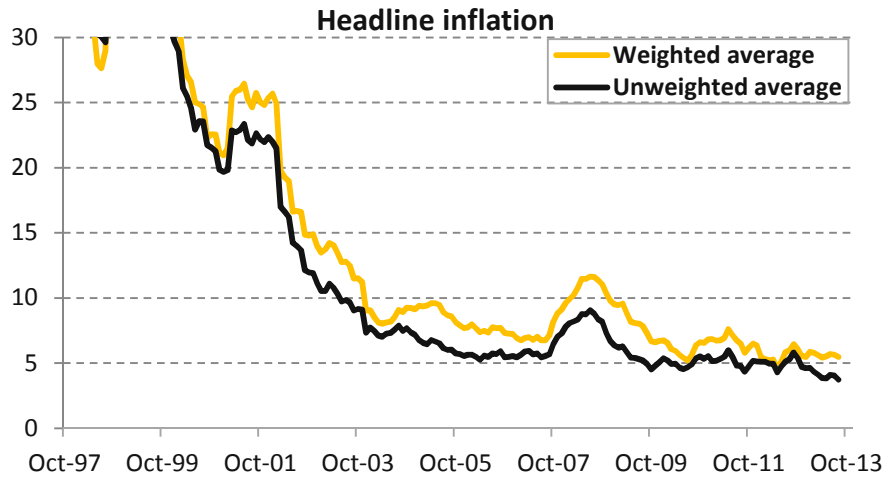


CEE economy improves

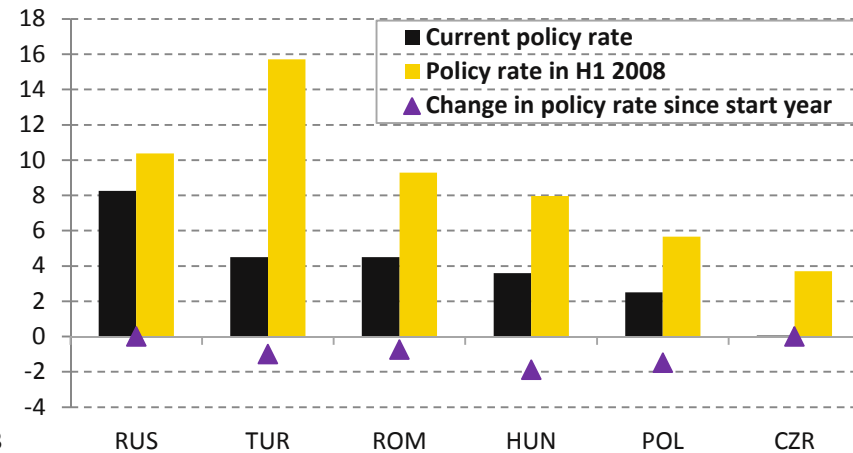
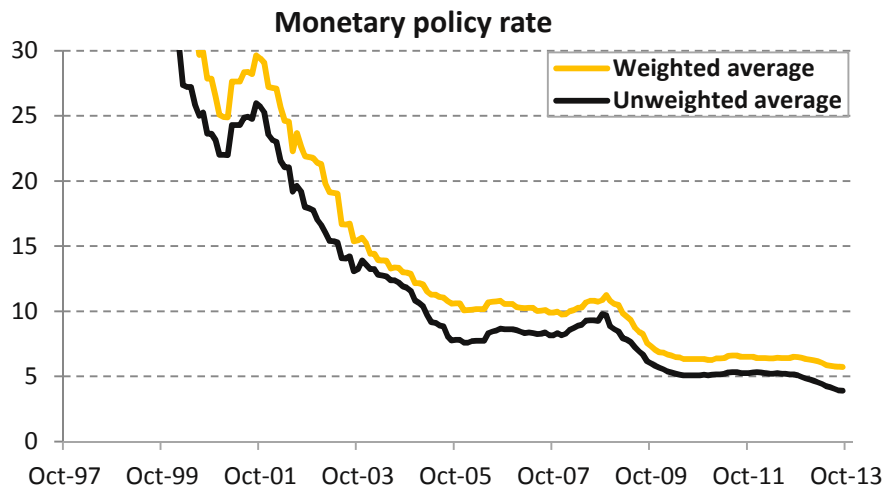
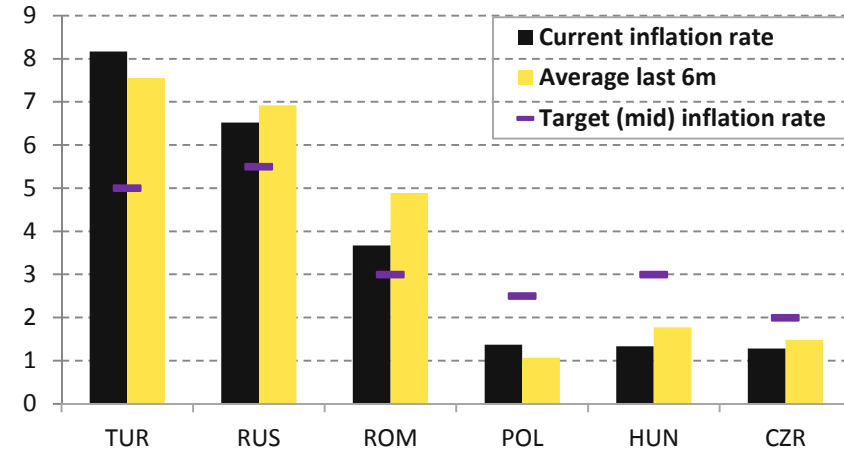
In line with Eurozone economic activity



Monetary policy to stay loose on the back of very low inflation

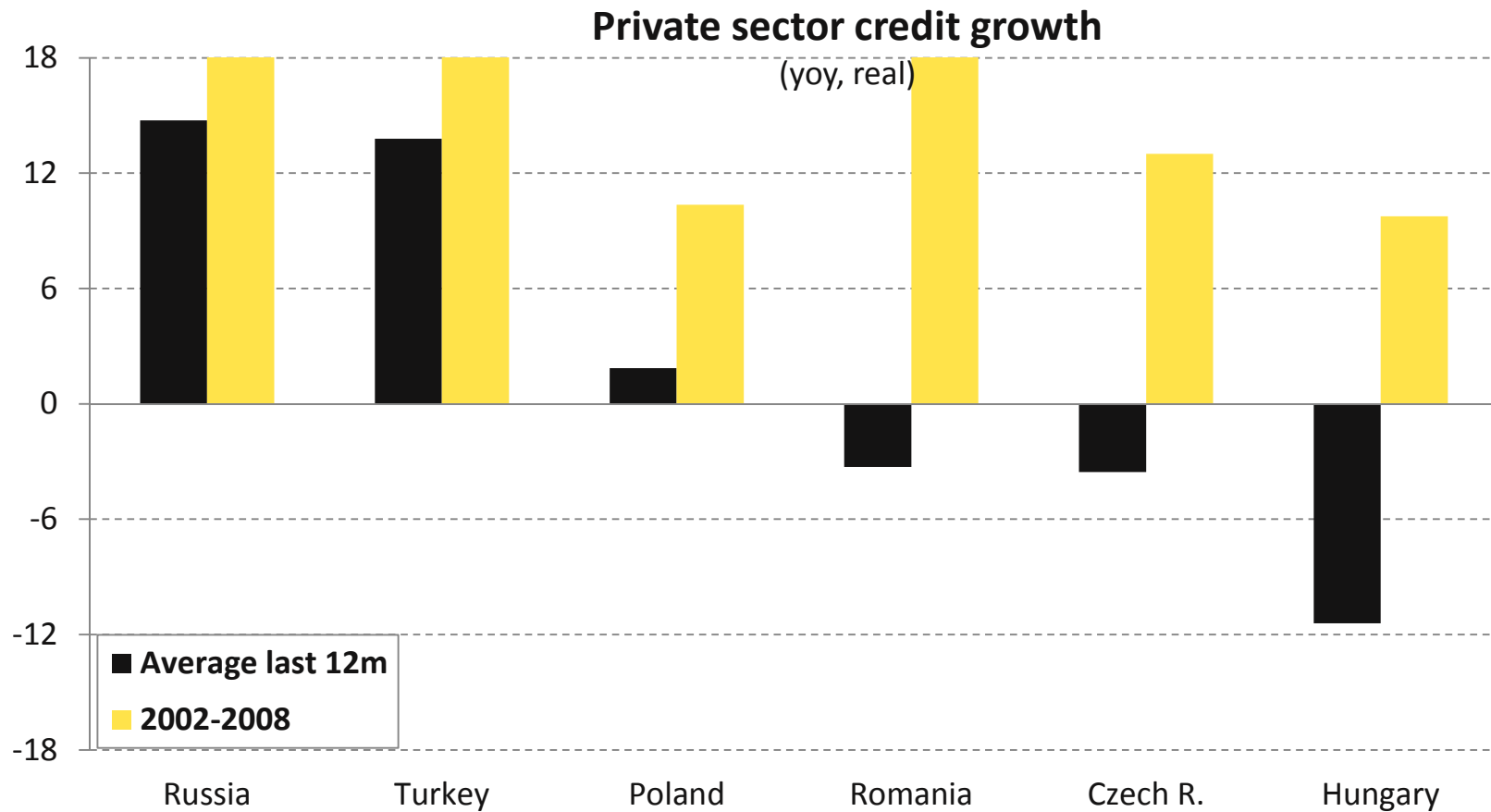


Turkey and Russia face above target inflation

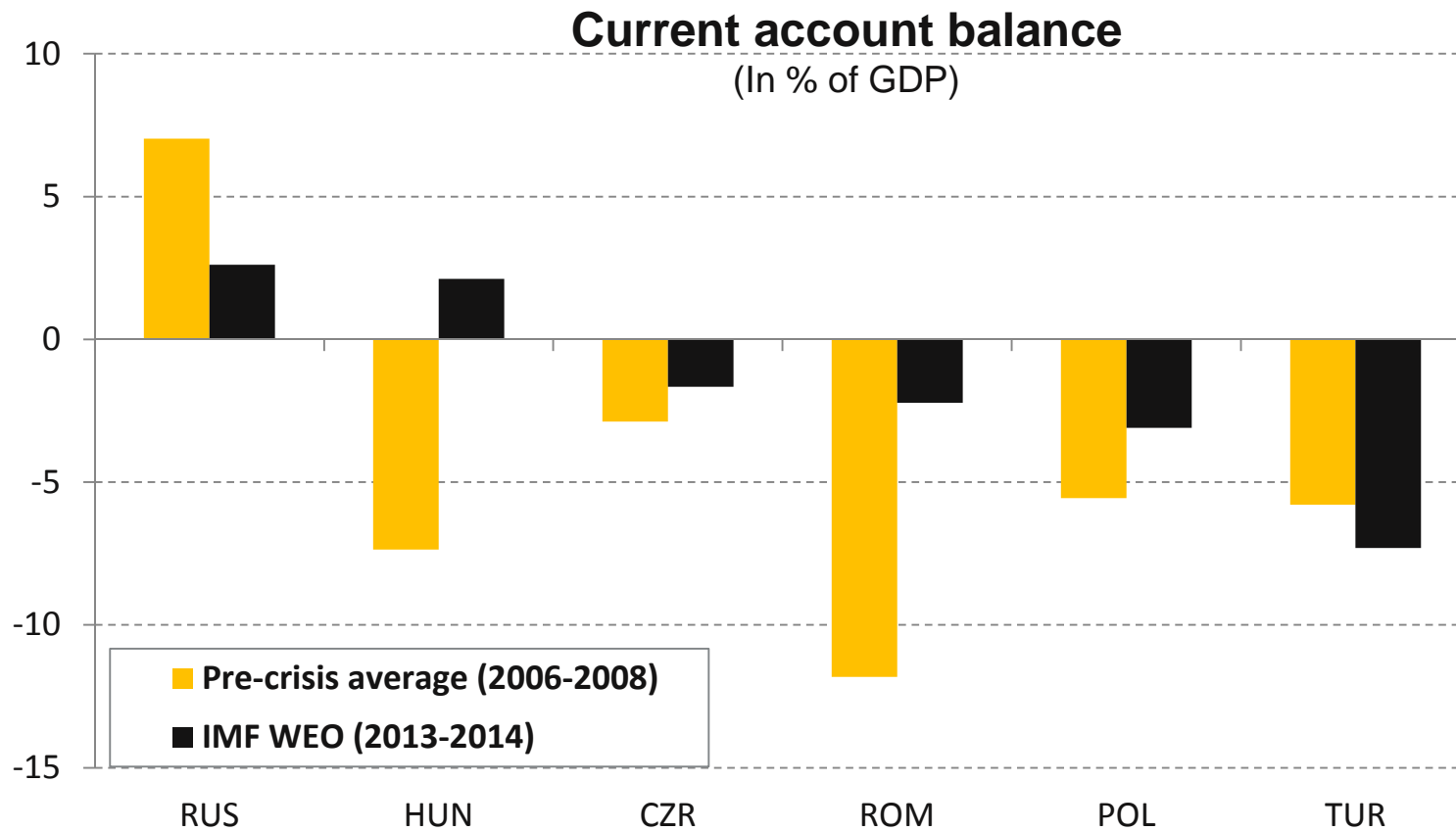


Credit growth has come down in CEE

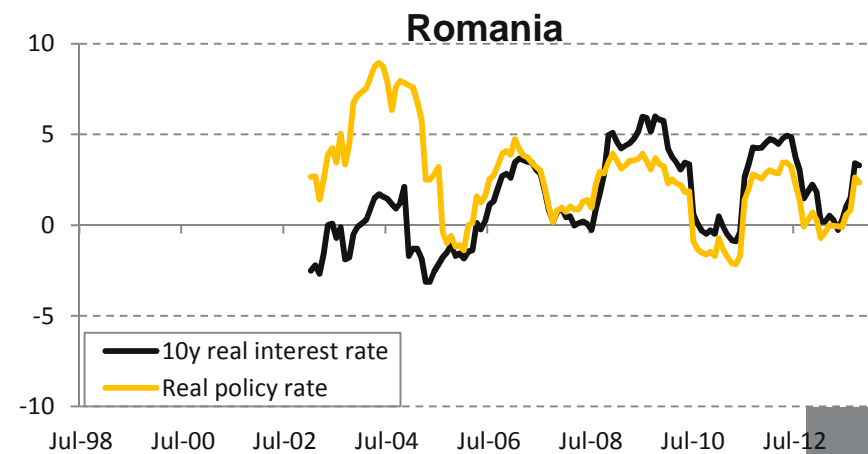
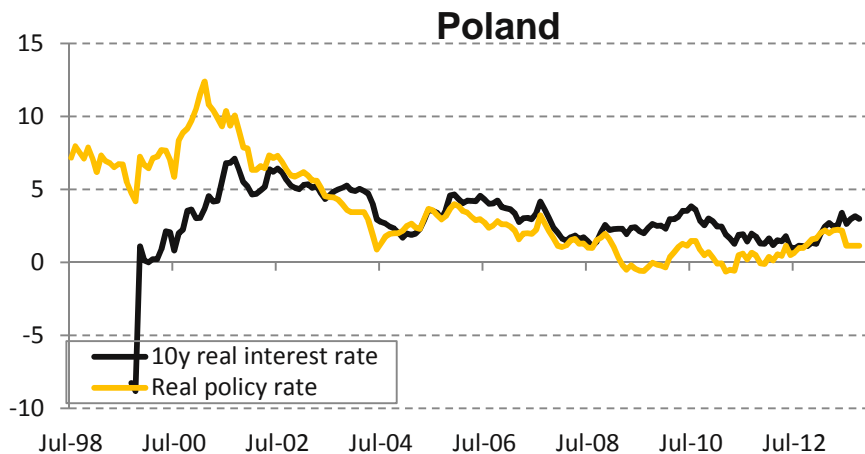
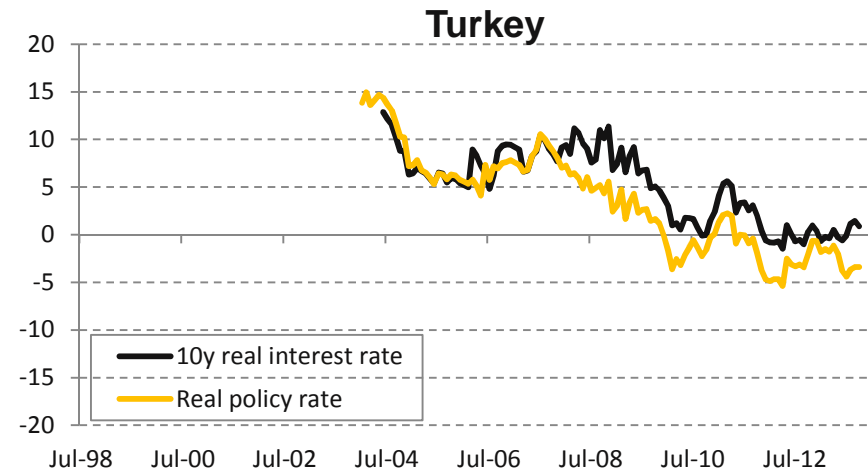
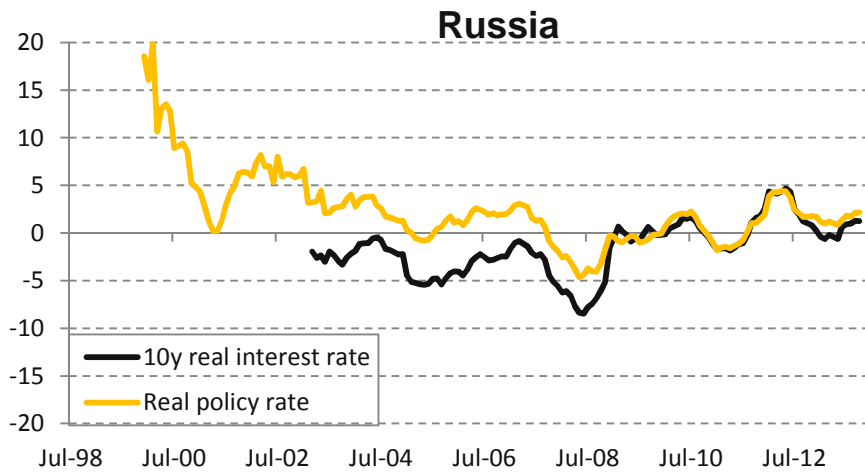
Credit growth still high in Russia and Turkey



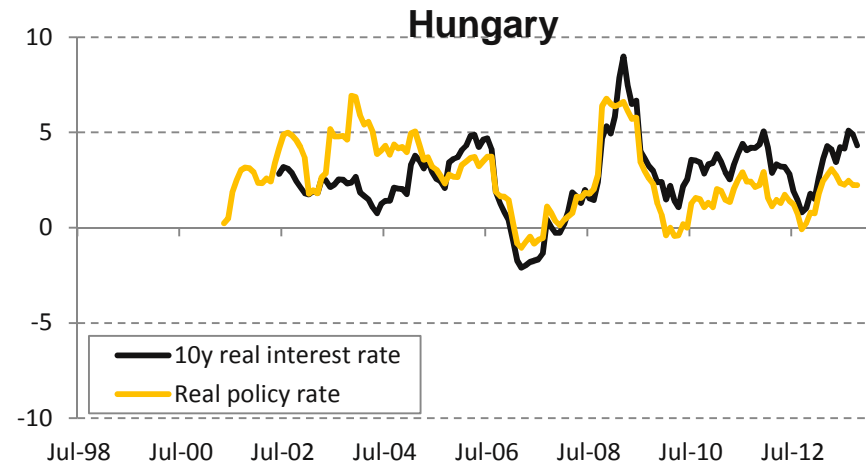
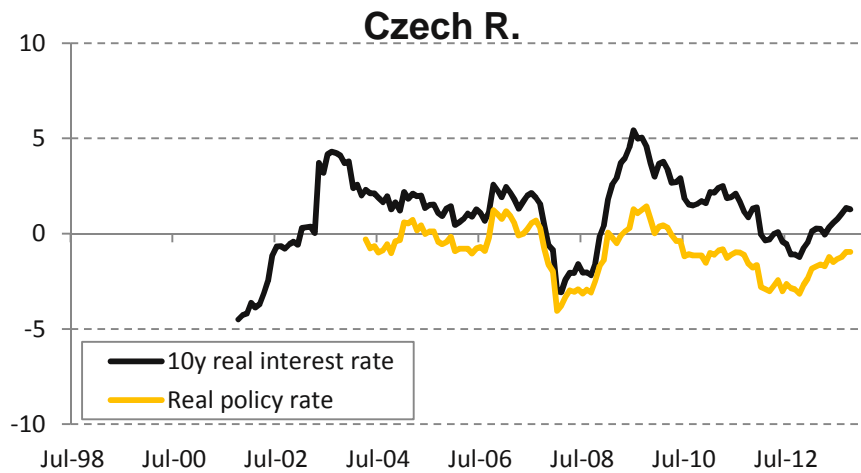
Turkey's high CA deficit is a concern



High inflation, high credit growth, big CA deficit and negative real yields in TUR

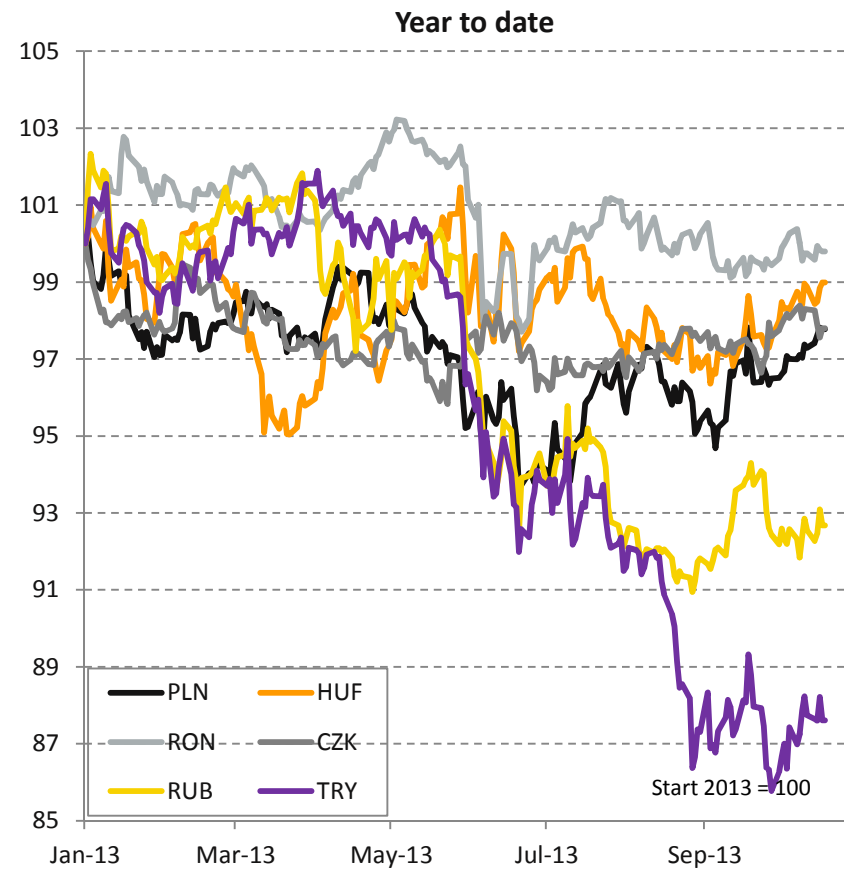
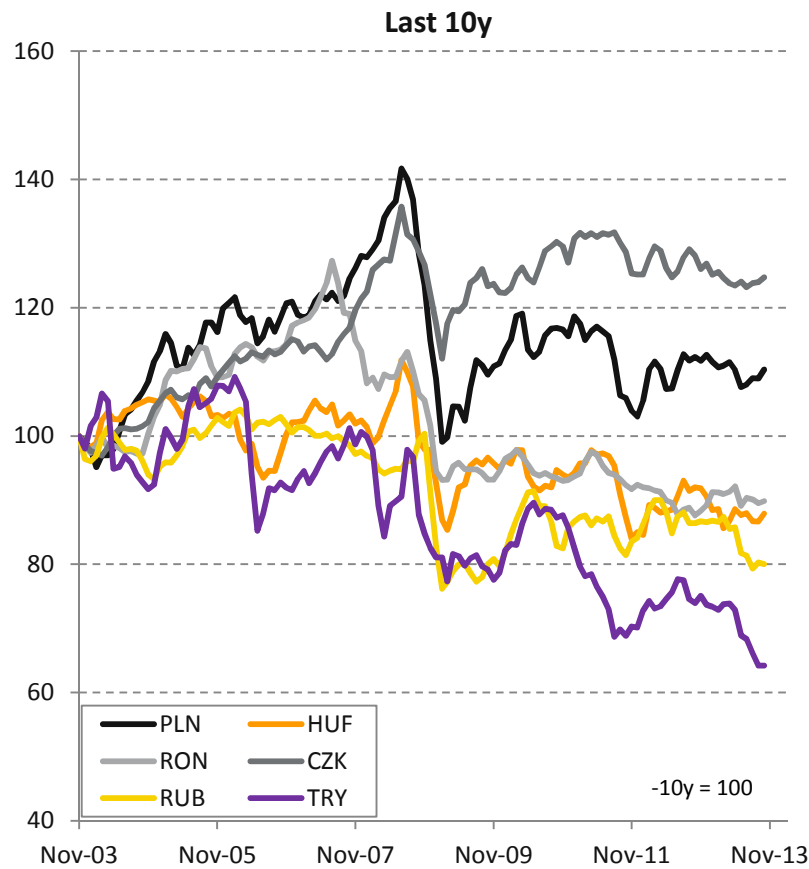


Real interest rates



CEE currencies

Against EUR





hans.bevers@petercam.be