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EMERGING MARKETS

Economic outlook 2013

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In 2012 the group of emerging markets recorded the second weakest economic growth of the past ten years. For next year we expect the economy to pick up, but the scale is likely to vary markedly from region to region. For eastern Europe, for instance, we expect momentum to pick up only slightly – against the backdrop of continued weakness in the eurozone.

In the year drawing to a close the emerging markets in Asia, Latin America and eastern Europe lost substantial momentum. Growth in 2012 as a whole amounted to an estimated 4.5%, the second worst performance of the past ten years behind the crisis year 2009. A host of reasons were to blame for what was only subdued growth by emerging market standards. For one thing, the emerging markets of course took a marked hit from the economic consequences of the eurozone sovereign debt crisis. Chinese exports to the EU, for instance, fell sharply in the course of the year. For another, high energy prices eroded the purchasing power of households and companies alike.

However, it would doubtless be a mistake to attribute the slowdown in growth in the emerging markets solely to exogenous factors. In a number of large economies such as Brazil, China and India in particular lower economic momentum had and has domestic causes as well. For instance, ongoing disappointing growth in India of late is also partly a result of the reform standstill in recent years. The slowdown in China was in principle intentional from an economic policy point of view, with the Chinese government having been endeavoring for some time now to counter overheating symptoms in a number of economic sectors. In addition, it is also keen to achieve more balanced economic growth in the future: the government aims to reduce the Chinese economy’s reliance on the export sector and strengthen domestic demand. None of this is compatible with the growth rates we used to see before the crisis.

Although the risks to global growth going forward are still high (think “fiscal cliff” in the USA, tensions in the Middle East and the related risk of a possible surge in the oil price, etc.), we expect growth in the emerging markets to accelerate in 2013. This assessment is based on the assumption that the “worst” of the eurozone debt crisis is now behind us. The progress made in tackling the crisis in recent months gives justified cause for hope.

Overall, we see the group of emerging markets growing by 5.3% next year after 4.5% this year. However, the scale of the acceleration is likely to vary appreciably from region to region, with eastern Europe probably faring the worst. Regional gross domestic product is likely to increase by 2.8% in 2013 after 2.4% this year. With growth in the eurozone, the most important export market for eastern European emerging markets, set to be very sudbued next year as well, recovery potential will be clearly limited. By contrast, the pickup in Asia is likely to be stronger, with evidence of somewhat higher momentum already evident in recent months – not only in China. All told, we are penciling in growth in emerging Asia of 6.8% in 2013 (2012: probably 6.1%). We see the biggest difference in growth rates between this year and next in Latin America, where we expect to see an increase of 3.9% in 2013 after 2.6% this year. Brazil, the largest country in the region, is likely to lead the way. Spurred by an appreciable pickup in investment activity, we see GDP growth of 4% following the disappointing increase of a mere 1% this year. Investment is likely to benefit from the steep drop in the interest rate level. In addition, we expect to see brisk public-sector infrastructure investment.

Growth in the emerging markets next year will again clearly outstrip that in the industrial countries, where we expect to see GDP growth of only 1.3% (2012:1.1%). This will further boost their importance for the world economy. This year their share in global output is already likely to have reached 38.5% (based on current exchange rates). Ten years ago the figure was not even quite 22%.

Economic growth in selected regions

- GDP, real % change over previous year -

	2008	2009	2010	2011	2012[1]	2013[2]
Industrial countries	-0.1	-3.8	2.6	1.3	1.1	1.3
Emerging markets	5.5	1.3	7.4	6.1	4.5	5.3
Asia	6.9	5.7	9.6	7.6	6.1	6.8
China	9.6	9.2	10.4	9.3	7.8	8.3
Latin America	4.2	-1.8	6.1	4.2	2.6	3.9
Brazil	5.2	-0.3	7.5	2.7	1.0	4.0
Eastern Europe	4.4	-6.2	3.4	3.9	2.4	2.8
Russia	5.2	-7.8	4.3	4.3	3.7	3.8
World	1.5	-2.2	4.1	2.9	2.3	2.7

[1] estimate [2] forecast

These assessments are, as always, subject to the disclaimer provided below.

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