Euler Hermes Economic Research

Weekly Export Risk Outlook

9 October 2013

FIGURE OF THE WEEK

17

October date when US debt ceiling will be reached

In the headlines

US: Debt ceiling approaches

The government shutdown entered its second week as politicians held their positions and economists estimated a loss of -0.1% of GDP per week. The shutdown is becoming entangled with negotiations over raising the debt ceiling, which will be reached on 17 October. Republicans are demanding spending cuts in exchange for an increase in the debt ceiling and are still attempting changes to Obamacare. If agreement to raise the ceiling is not reached a technical default on debt payments could result, but this outcome is unlikely. Nevertheless, the resulting uncertainty caused the Bloomberg Consumer Comfort Index (week ending 29 September) to fall for the first time in four weeks, while the Small Business Optimism Index was down marginally in September. The ISM services index fell from 58.6 to 54.4 in September, while the manufacturing index was up slightly, to 56.2. The four-week average of weekly jobless claims fell for the fifth consecutive week to a recovery low of 305,000.

Portugal: Positive conclusions from Troika mission

The Troika (European Commission, ECB and IMF) mission ended on 3 October, with positive initial conclusions as the adjustment programme is judged on track. GDP forecasts have been revised upwards to -1.8% in 2013 and +0.8% in 2014 (EH expects -1.9% and +0.4%, respectively) while fiscal deficit targets remain unchanged at -5.5% of GDP in 2013 and -4% in 2014. While achievement of the 2013 fiscal deficit target is likely, according to the Troika (EH expects it to reach -5.8% of GDP), further fiscal consolidation measures are needed for next year, mostly through reductions in public expenditure. Progress has also been made on the implementation of structural reforms (including labour market, judiciary, network industries and regulated professions). Further, the government is committed to reductions in barriers to doing business and is implementing measures to foster competitiveness and job creation. Eurozone Member States reaffirmed their commitment of support until full market access is regained (scheduled for 2015). The main challenge could come next year when the country needs to fund around 70% of its financing needs (EUR22 billion, equivalent to 14% of GDP) in the markets. The next programme review is scheduled for November 2013.

World economy: Downward revision in global forecasts

This week, the IMF cut its global growth forecasts (exchange rate weighted) by -0.2pps to +2.3% for 2013 and by -0.2pps to +3% for 2014, mainly reflecting projections of a slowdown among some key emerging markets. In particular, the Fund cut its forecasts for China, by -0.2pps to +7.6% in 2013 and by -0.4pps to +7.3% in 2014. For Brazil, the IMF left its GDP growth forecast for 2013 unchanged at +2.5% but it reduced by- 0.7pps to +2.5% growth in 2014. The latest IMF forecasts leave unchanged the GDP growth forecasts for the advanced economies, at +1.2% in 2013 and +2% in 2014. Within that group, prospects for the eurozone have improved but growth will remain weak at -0.4% in 2013 (+0.1pps) and unchanged at +1% in 2014. US growth is expected to reach +1.6% in 2013 and +2.6% in 2014 (-0.1pps and -0.2pps, respectively, compared with July's assessments). Two downside risks are identified: the pace of QE tapering (particularly if the Fed withdraws its stimulus too quickly) and economic growth in China (which could slow more-than-anticipated in the medium-term). EH expects global GDP growth to reach +2.2% in 2013 and +3% in 2014.

India: Monetary policy eased, for now

This week's announcement by the RBI (central bank) of a cut in the interest rate on its Marginal Standing Facility (MSF, overnight borrowing rate) by 50bps to 9% is a further loosening in monetary policy. It follows a 75bps cut in the MSF in mid-September and so is the second under the new RBI governor, Raghuram Rajan. Until recently, the key policy interest rate was the repo (currently 7.5%) but since July the RBI has limited the amount it is willing to lend through repo operations. As a result, the MSF is now the marginal source of bank financing and, as such, is effectively the new key policy rate in the short term. EH expects further cuts in the MSF but persistently high inflation and a weak INR suggest that the current easing will not reverse all the tightening that took place earlier in the year. Indeed, it is possible that in Q4 the RBI will cut the MSF but increase the repo if output and growth continue to disappoint and inflationary pressures do not abate.

Countries in Focus

Americas

Latin America: No surprises in recent CPI data

In **Peru**, the consumer price index increased by 2.8% y/y in September, representing a moderate decrease from August (3.3%) but matching the average of the past six months. In **Costa Rica**, the rate of inflation remained stable in September at 5.4% y/y. In **Ecuador**, the rate of inflation decelerated to 1.7% y/y in September, after 2.3% in August, thereby confirming the downward trend initiated at the beginning of the year. In **Bolivia**, the consumer price index continued to show increasing inflationary pressures, reaching 7.1% y/y in September, compared with an average 5.1% over a six-month period. Finally in **Colombia**, the consumer price index remained stable in September, registering an increase of 2.3% y/y and in line with the six-month average. All in all, most data for Latin American economies suggest that the recent run on emerging market currencies is not showing up immediately as heightened imported inflationary pressures.

Europe

Romania: Monetary policy easing to support domestic demand

Last week, the National Bank of Romania (NBR, central bank) lowered its key policy interest rate by 25bps to 4.25%. This followed cuts of 50bps in August and 25bps in July. The NBR aims to prop up domestic demand while expecting the recent disinflation trend to continue. In August, headline consumer price inflation fell by 0.2% m/m and moderated to 3.7% y/y from 4.4% in July. Going forward, inflation is on course to fall within the NBR's 1.5-3.5% target range in the next few months, as the cut in the rate of VAT on bread and bakery products (from 24% to 9%) in September, in addition to a good harvest, should further ease inflationary pressures. The economic outlook has improved, although developments have been mixed. Real GDP growth picked up to +1.8% y/y in H1 from +0.7% in full year 2012, but this was entirely due to strong export growth (+10.7% in H1) while all domestic demand components contracted. EH expects +1.9% GDP growth in full year 2013.

Africa & Middle East

Sub-Saharan Africa: Pockets of strong growth

Regional growth is relatively subdued overall but continuing inflows of FDI and infrastructure, mining and energy projects are underpinning markedly stronger growth in some markets. In **Botswana,** Q2 GDP growth was +7.9% y/y and broad-based, although the mining sector (diamond output) was a key driver, recording expansion of +15.6%. In H1, Botswana's growth was +5.6% and EH expects overall growth of +4.5% in 2013 and +4.7% in 2014. In **Namibia,** severe drought in H1 restricted overall growth and EH expects GDP growth of +4% in both 2013 and 2014. Meanwhile, official data in **Tanzania** show that Q1 GDP expanded by +7.5% y/y, after +6.3% in the preceding quarter and +6.9% overall in 2012. Growth in Q1 was driven mainly by the services sector, with the contribution from agricultural output weakening. EH expects a rebound in agriculture and further expansion in regional trade, with overall GDP growth of +7% in 2013 and +7.2% in 2014.

Asia Pacific

Philippines: Improved fundamentals trigger upgrade to investment status

Last week, Moody's upgraded its sovereign rating from Ba1 to Baa3, the lowest investment grade, and assigned a positive outlook to the rating. The move followed similar actions by Fitch and S&P in March and May 2013, respectively. The main triggers for the upgrades to investment status are robust economic growth (average annual +5.2% during the past 10 years), steadily improving macro-economic fundamentals and increased political stability. Sound monetary policy has ensured moderate inflation in recent years and continued fiscal consolidation has brought public debt down to around 50% of GDP (from 75% in 2004). Strong, resilient remittance inflows (equivalent to 8% of GDP in 2012) have kept the current account in surplus since 2003 and boosted FX reserves to USD75 billion (covering 10 months of imports). Structural weaknesses remain, however, particularly in relation to the business environment.

What to watch

- October 10 – France August industrial production
- October 10 – UK BoE monetary policy decision
- October 11 – G20 meeting
- October 11 – Canada September unemployment
- October 11 – Germany & Hungary September CPI
- October 11 – France August current account
- October 11 – Germany September CPI and WPI
- October 11 – US September retail sales
- October 14 – Singapore Q3 GDP
- October 14 – Eurozone August industrial production
- October 14 – Norway 2014 budget
- October 15 – Ecofin meeting
- October 16 – Israel Q2 GDP

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