

*The International Economy and
the situation of Emerging Markets*



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Contents

- A globalised, interdependent world.
- The global economy: where is it and where is it going?
- The economic situation in emerging markets.
- Economic perspectives for emerging markets.
- Some suggested issues for discussion.

A globalised, interdependent world

- Difficult times.
- Relative sizes of advanced and developing economies.

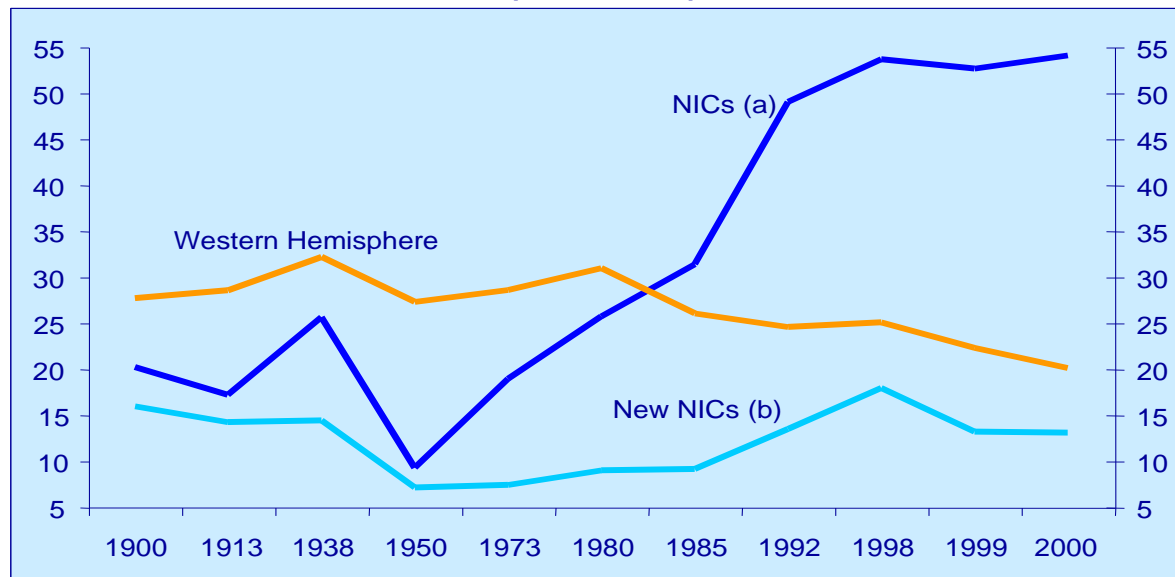
Aggregate Shares in World GDP

	<u>Percent of World GDP</u>
Advanced economies	55.7
of which:	
United States	21.1
Euro area	15.7
Japan	7.1
Other advanced economies	11.8
Developing countries	44.3
of which	
Africa	3.2
Developing Asia	22.9
Middle East and Europe	4.0
Western Hemisphere	7.9
Countries in transition	6.3

Developing Asia is the biggest area by far. The smaller share of the Western Hemisphere is not new and to some extent it is the outcome of a long downward trend in per capita income.

Graph 2

**DEVELOPING ECONOMIES: GDP PER CAPITA IN PPP
(USA = 100)**



Source: IMF (april 2000), Maddison (1995), and own calculations.

(a) South Korea and Taiwan up to 1992, adding Hong Kong and Singapore from 1992 onwards.

(b) Indonesia, Philippines and Thailand up to 1992, adding Malaysia from 1992 onwards.

A global, interdependent world

- Links between advanced economies and emerging markets.

two ways

- Link among emerging markets (contagion).

The global economy.



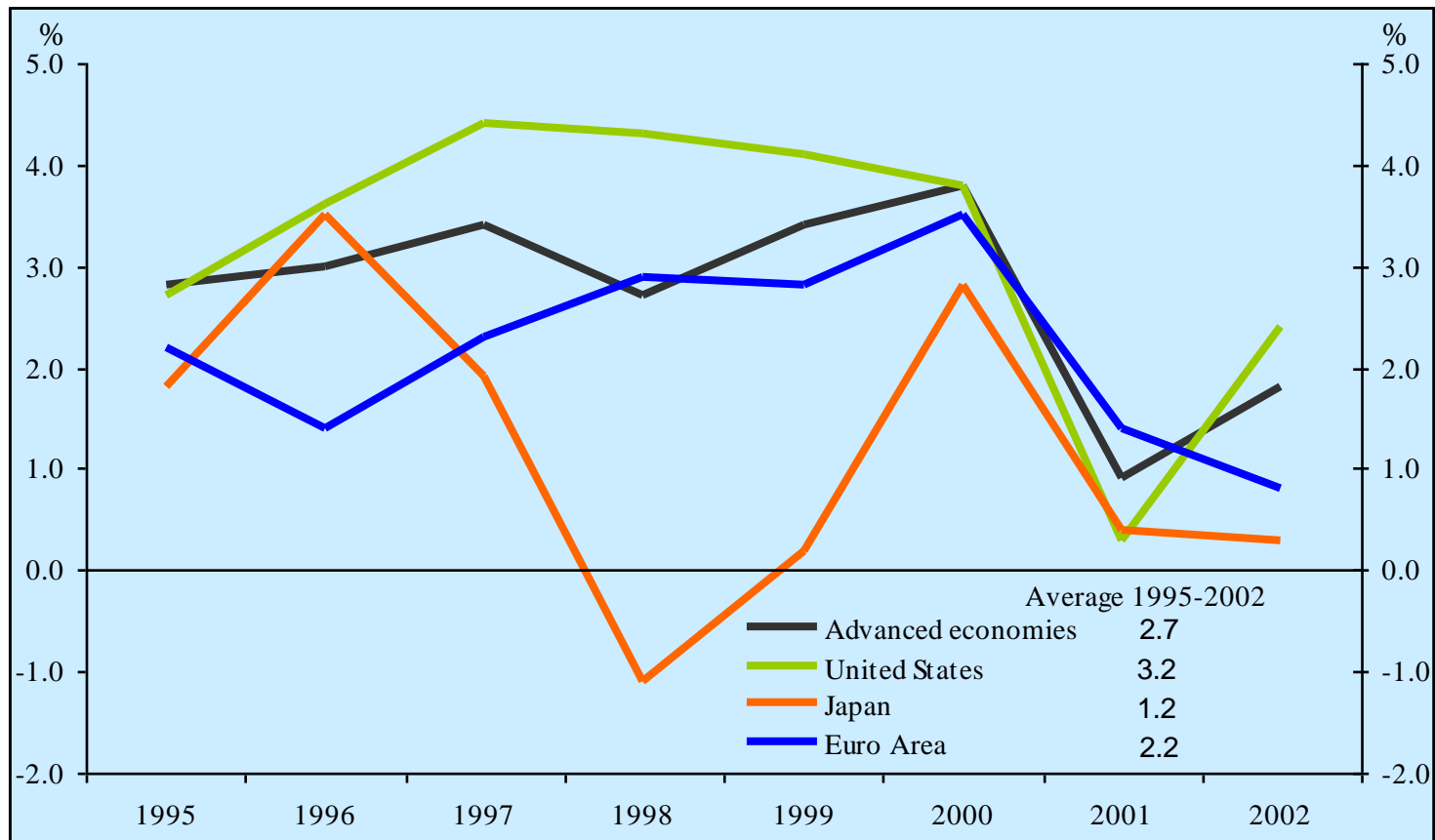
The global economy: Where is it now?

- The current recovery exhibits the following features:
 - modesty
 - shocks to confidence
 - asymmetry
 - weak basis
 - expansionary policies
 - global imbalances
 - higher oil prices
 - depressed financial markets

Summary of World Output

Real GDP. Annual percent growth

Advanced economies

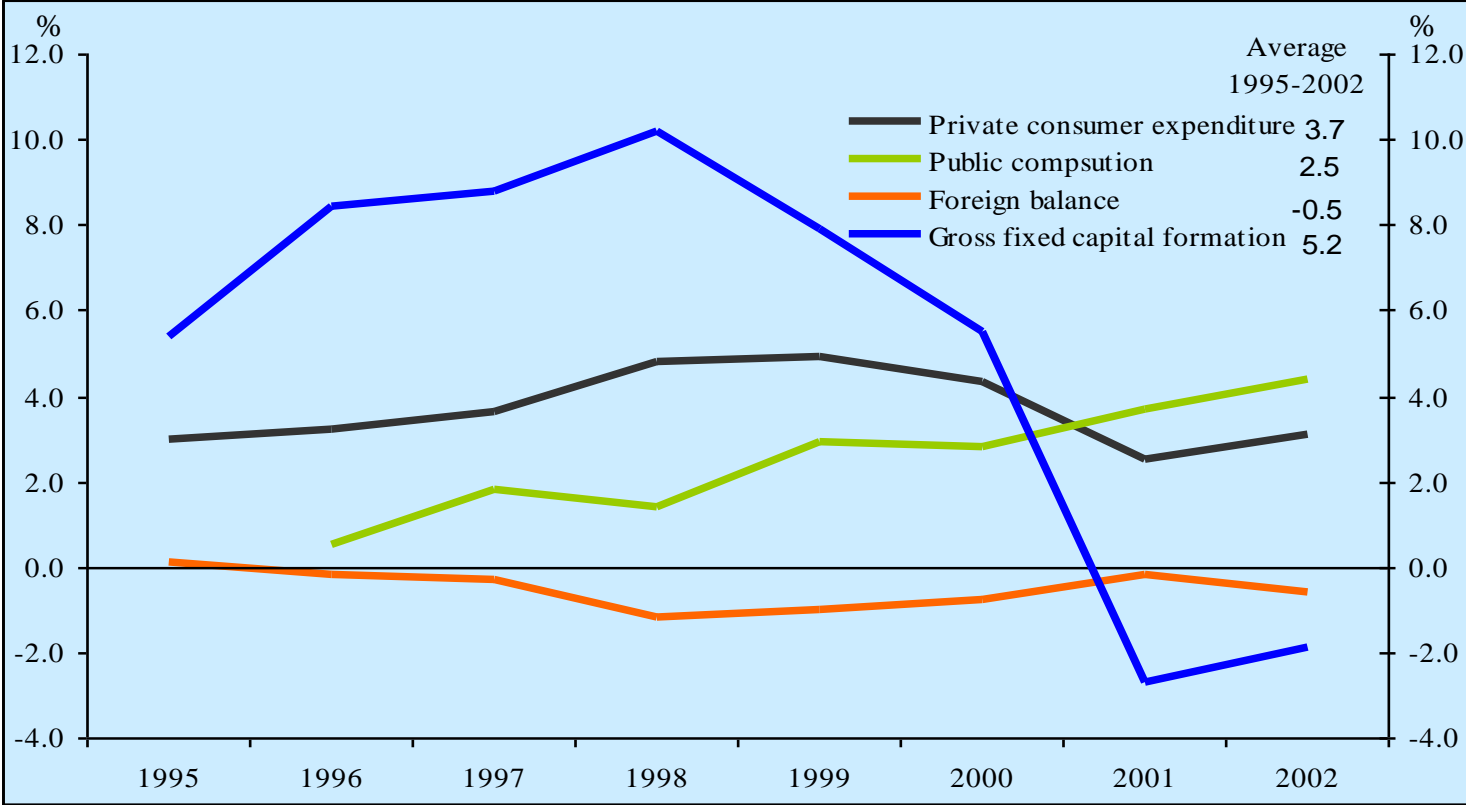


Source: IMF

United States

Components of Real GDP

Annual percent change



Source: IMF

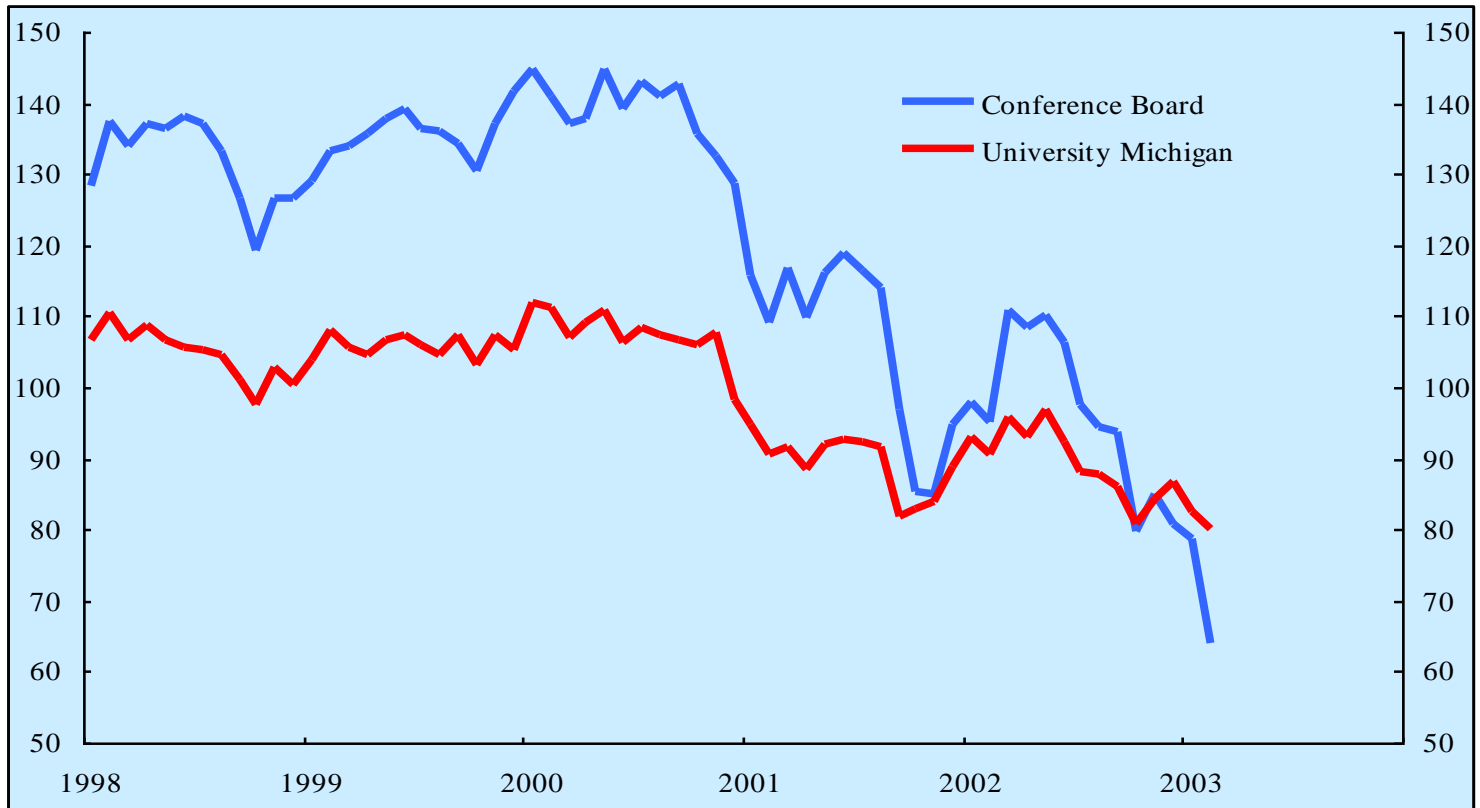
WORLD ECONOMIC GROWTH

	2001	2002
<u>World</u>	2,3	3,0
<u>Advanced Economies</u>	0,9	1,8
US	0,3	2,4
EURO Area	1,4	0,8
Japan	0,4	0,3
United Kingdom	2,0	1,7
Asian NICS	0,8	4,5
<u>Developing Economies</u>	3,9	4,6
Africa	3,6	3,2
China	7,3	8,0
ASEAN-4*	2,6	4,1
Latin-America	0,6	-0,1
Central & Eastern Europe	3,0	2,8

(* Includes Indonesia, Malasya, Philippinnes and Thailand

United States

Consumer confidence indexes

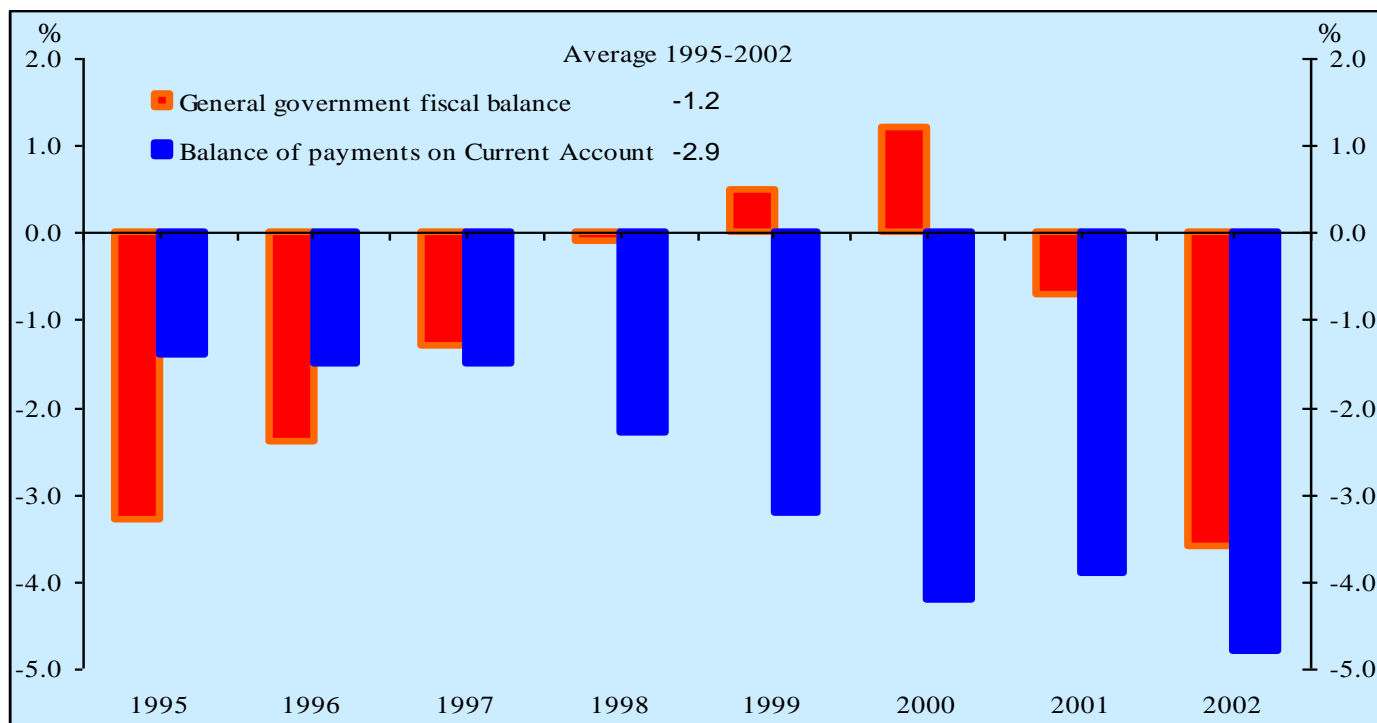


Source: WEFA

United States

General government and current account balance

Percent of GDP

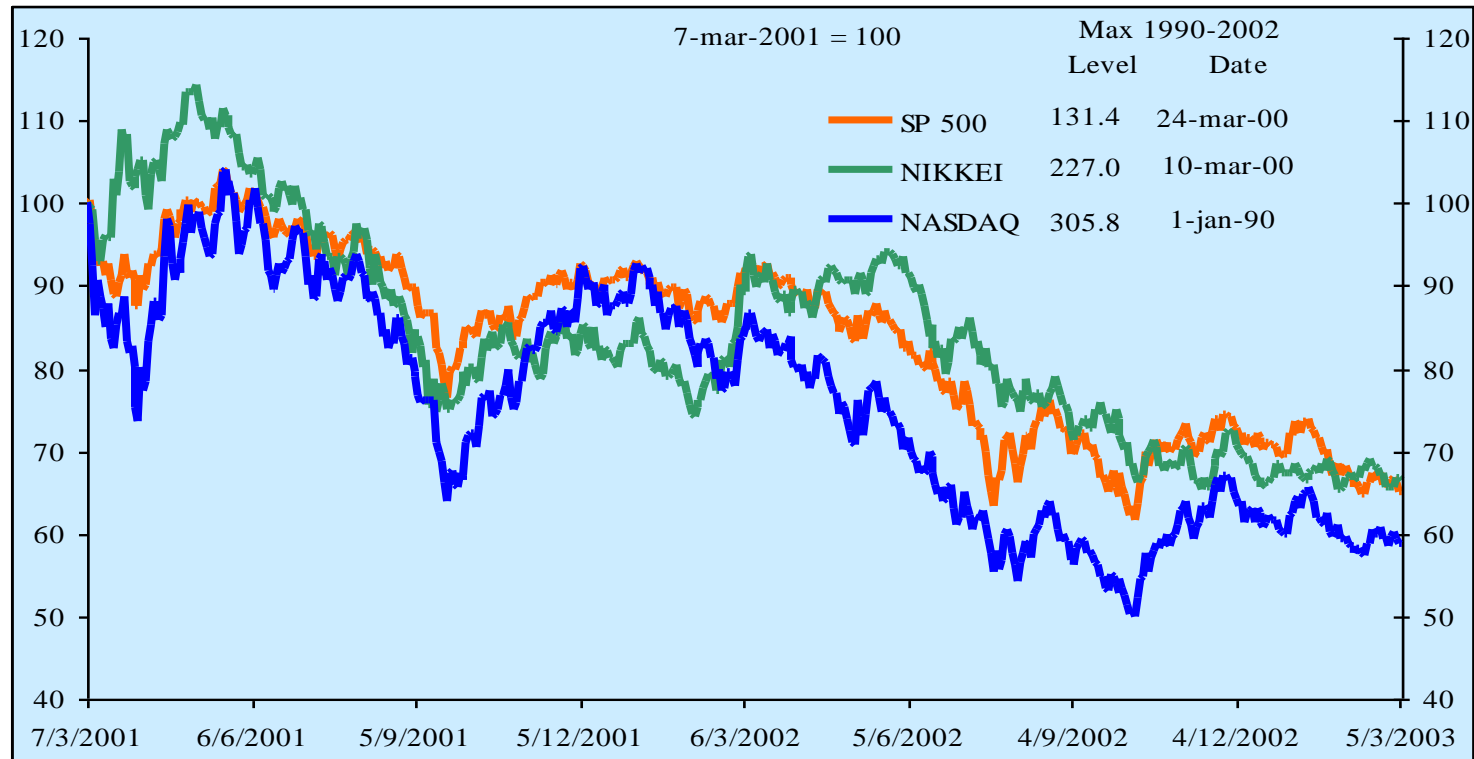


Source: IMF

Financial developments

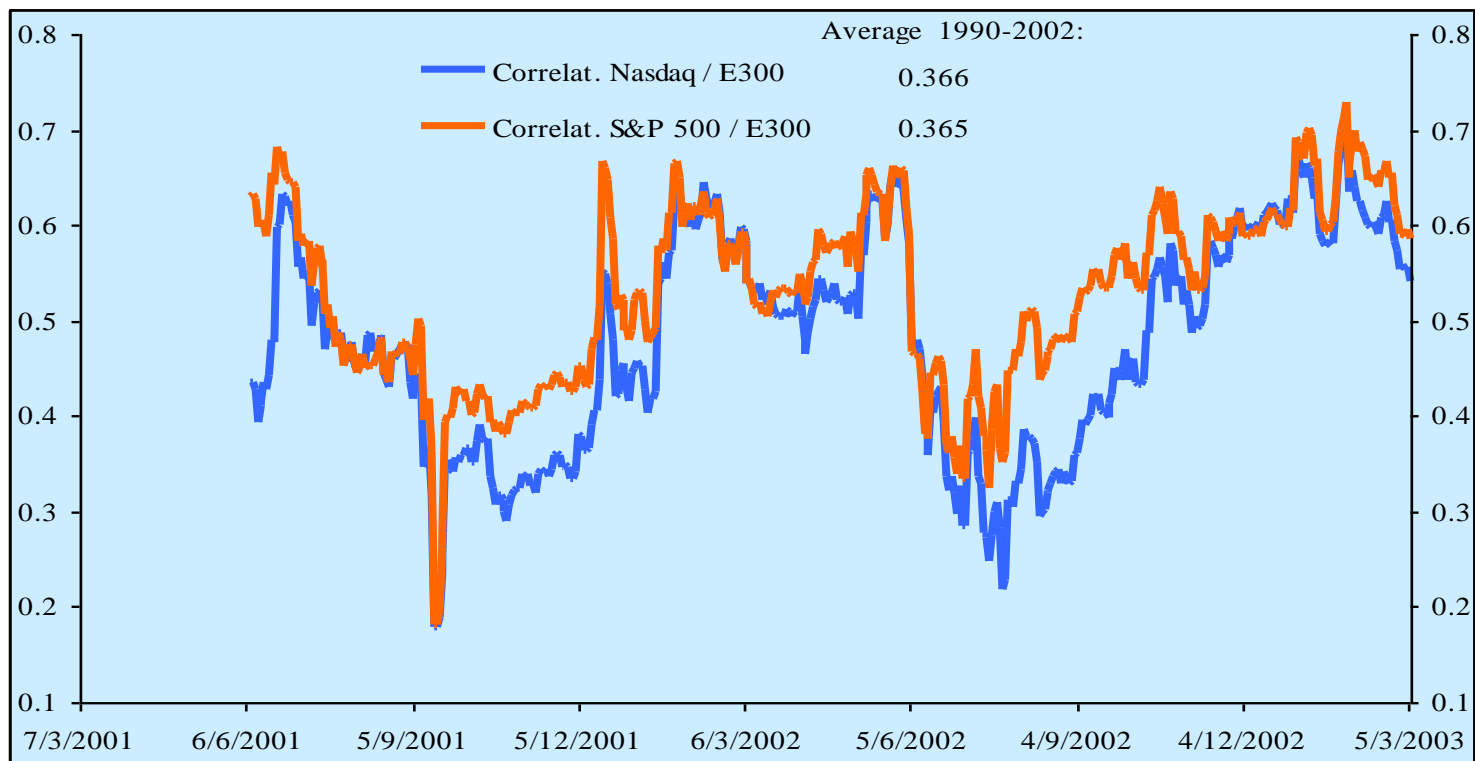
- Developments in financial markets, - after having corrected a previous over valuation, especially in equity markets -, are reflecting the postponement of the economic recovery and the prevailing high degree of uncertainty on the economy and on the geopolitical situation.
- 2002 has been the third consecutive year of strong losses in equity markets. The losses have been particularly significant in the technology and telecommunication sectors.
- Public debt prices keep improving, despite a deterioration in fundamentals (public deficits).

Main equity indexes



Source: Bloomberg

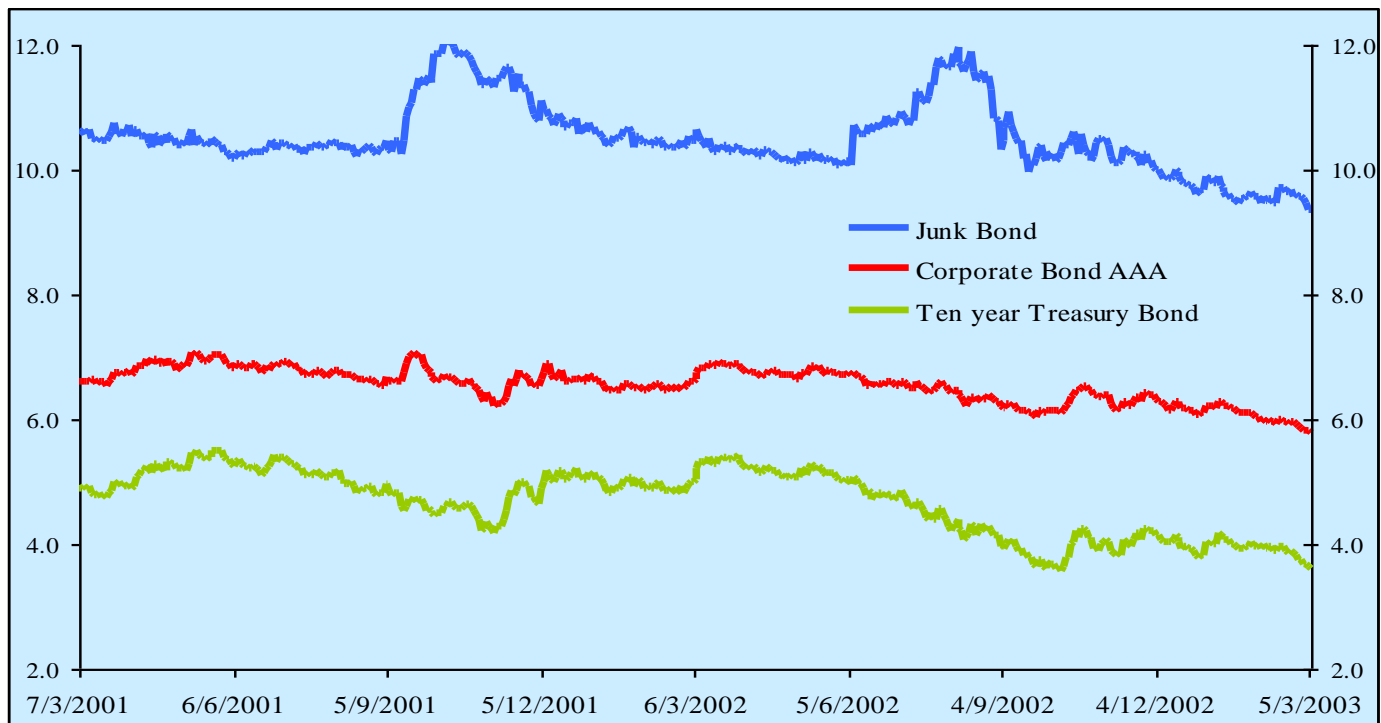
American and European equity indexes move together



Source: Bloomberg

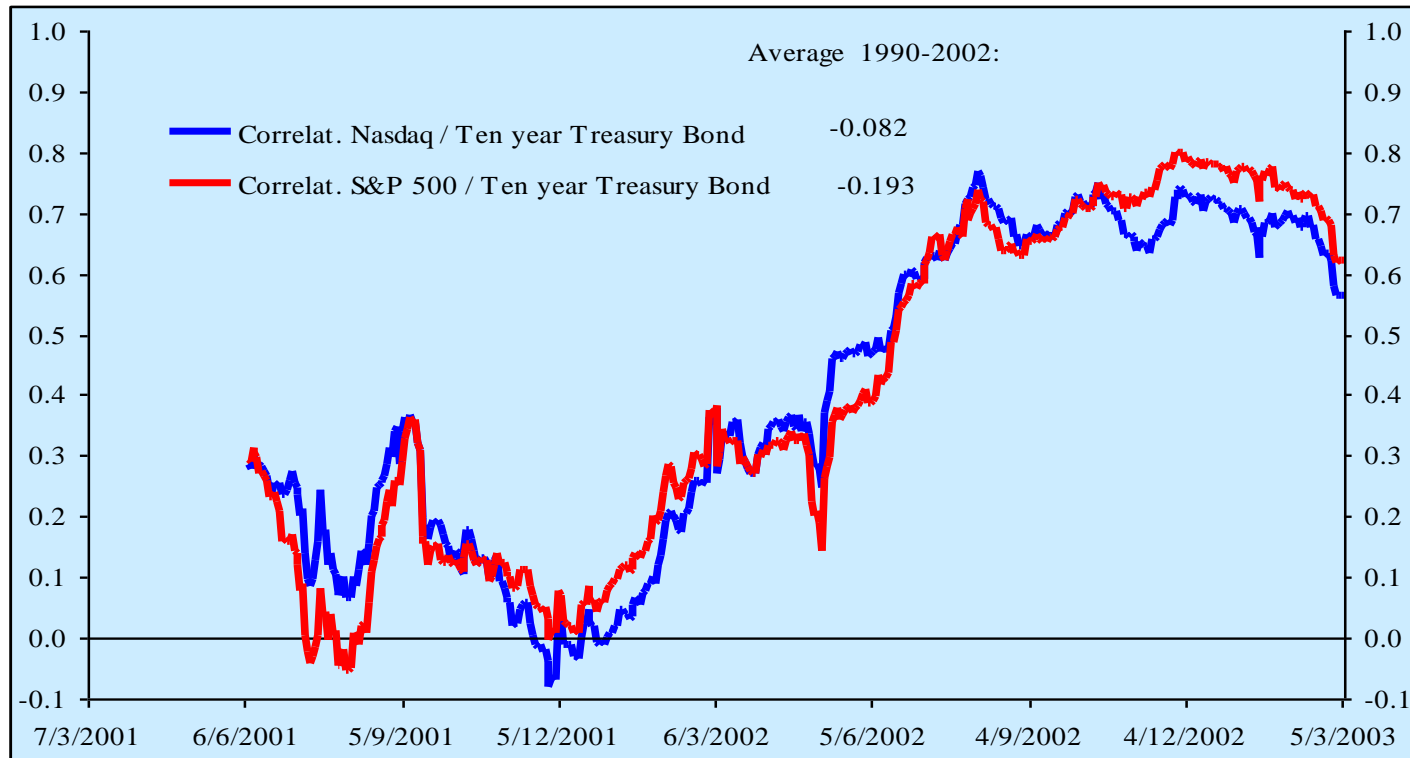
Public and Corporate Bond Markets.

Is the current trend of public debt sustainable?



Source: Bloomberg

Public debt markets benefiting from the deterioration in equities



Source: Bloomberg

The economic situation in emerging markets



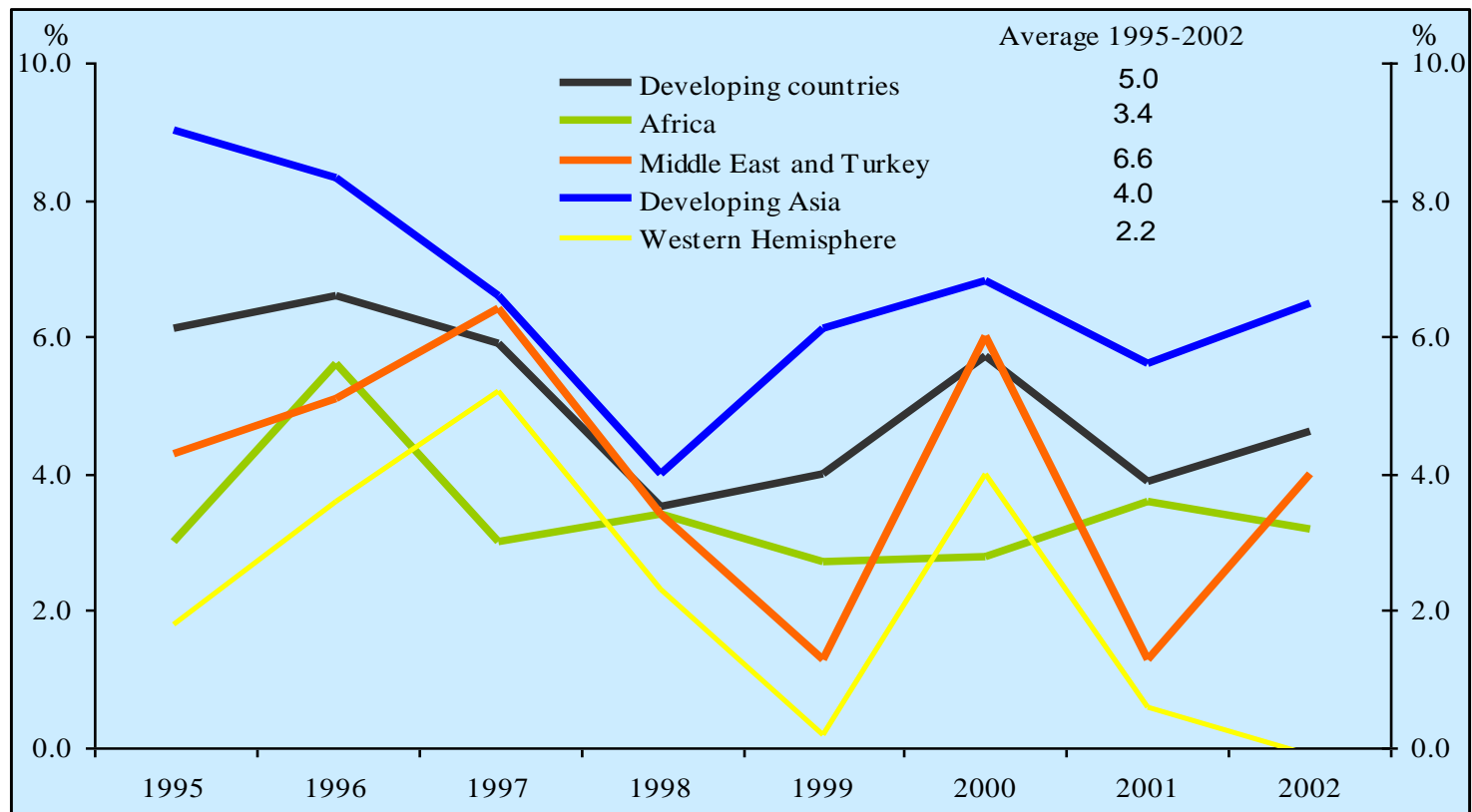
The global economy: where is it going in 2003?

- Central scenario: modest recovery, gradually picking-up pace in 2003, 2004.
- Balance of risks mainly downwards
 - Irak
 - Economic factors (US, stock-markets, the dollar)
 - Persistence of geopolitical uncertainty
 - Lower capacity to absorb/counter shocks
- Overall, vulnerability.

Summary of World Output

Real GDP. Annual percent change

Developing Countries



Source: IMF

The situation in emerging markets

- Economic growth in EMEs has been relatively lofty, though still below potential rates, resilient to the deterioration of the global context, but uneven across regions.
- Economic performance in the Western Hemisphere deteriorated in contrast to developing Asia, where growth is above potential rates.

Developments in non Japan Asia

- Strong growth of Asian economies resilient to the deterioration in the global economic context.
- Exports in the region rebounded in late 2001, amid growing global uncertainties.
- Exports are the main source of growth. Activity depends on developments in the main industrialized economies.
- Forecasts of growth have been revised downwards, but still point to the maintenance of high level of activity.
- China has an increasing accumulation of foreign reserves due to their current account surplus and to foreign direct investment flows.

Developing Asia

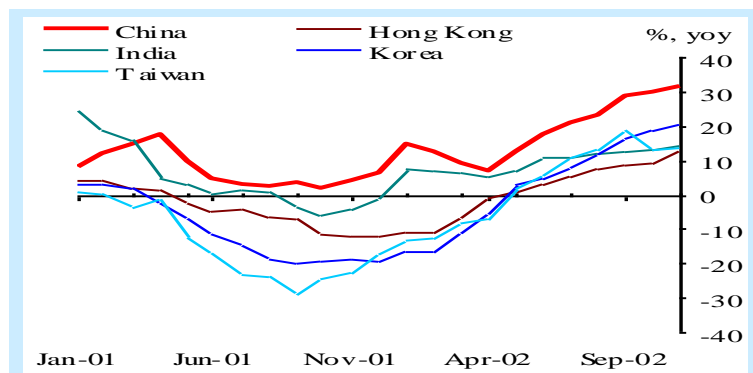
Real GDP growth (% change from preceding year)

	2000	2001	2002			2002 ^f		2003 ^f		Changes (pp)	
			Q1	Q2	Q3	IMF	Dec 02 Consen.	IMF	Jul 02 Consen.		Jan 03 Consen.
China	8.0	7.3	7.6	8.0	8.1	7.5	7.9	7.2	7.7	7.5	-0.2
Hong Kong	10.2	0.6	-0.5	0.8	3.3	1.5	1.9	3.4	3.7	2.9	-0.8
India	4.0	5.4	6.4	6.0	5.8	5.0	5.1	5.7	6.1	6.0	-0.1
Indonesia	4.9	3.3	2.4	3.8	3.9	3.5	3.4	4.5	4.3	3.6	-0.7
Korea	9.3	3.0	5.8	6.4	5.8	6.3	5.9	5.9	6.4	5.0	-1.4
Malaysia	8.3	0.5	1.1	3.9	5.6	3.5	4.1	5.3	5.8	4.7	-1.1
Philippines	4.4	3.2	3.7	4.8	3.8	4.0	3.9	3.8	4.1	3.9	-0.2
Singapore	10.3	-2.0	-1.5	3.8	3.9	3.6	2.6	4.2	5.8	3.8	-2.0
Taiwan	5.9	-2.2	1.2	4.0	4.8	3.3	3.3	4.0	4.1	3.2	-0.9
Thailand	4.6	1.9	3.9	5.1	5.8	3.5	4.6	3.5	4.2	4.1	-0.1

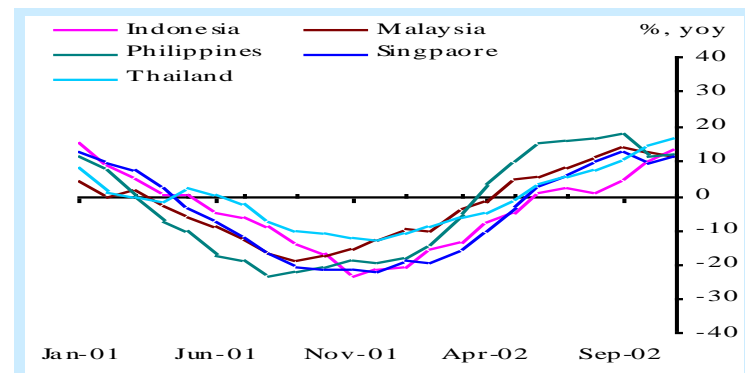
f: IMF WEO September 2002 and Consensus Economics Inc. July 2002 and January 2003.

Sources: IMF, Consensus Economics and national authorities.

(a) Northeast Asia and India



(b) Southeast Asia



Source: CEIC Data Ltd and ECB.

Trade dependencies of Non-Japan Asia (1)

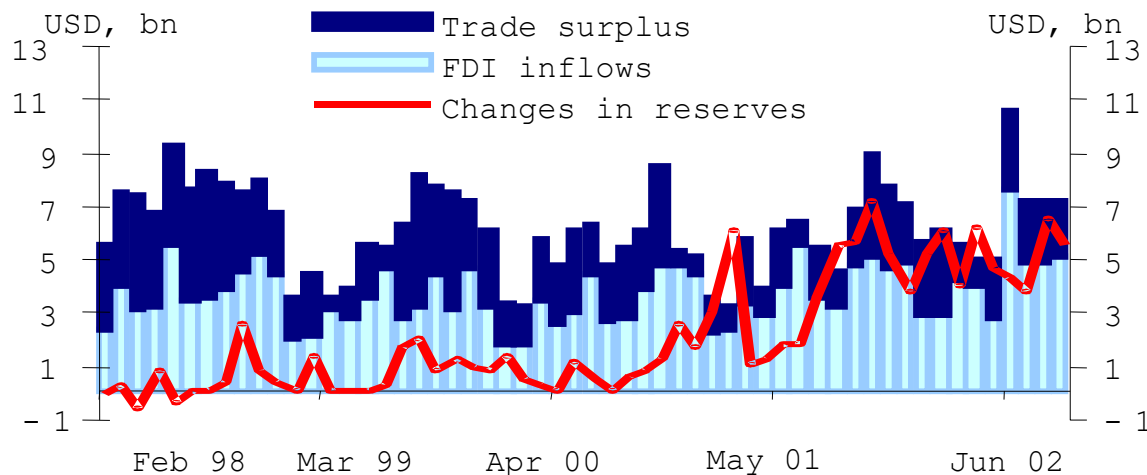
Percent	EU		US		Japan		Total		NJA ²⁾		o/w China	
	1996	2001	1996	2001	1996	2001	1996	2001	1996	2001	1996	2001
China	13.1	15.4	17.7	20.4	20.4	16.9	51.3	52.7	32.6	28.1	—	—
Hong Kong	14.9	14.5	21.3	22.3	6.6	5.9	42.7	42.7	42.4	44.0	36.9	34.3
Indonesia	15.5	13.8	13.6	15.3	25.8	20.9	54.9	49.9	28.4	30.8	5.4	4.1
Korea	11.2	13.1	16.0	20.9	11.5	11.0	38.6	45.1	29.9	28.0	12.1	8.3
Malaysia	13.7	13.6	18.2	20.2	13.4	13.3	45.4	47.1	38.7	36.2	4.3	2.4
Philippines	15.9	19.3	33.9	28.0	17.9	15.7	67.7	63.0	20.7	25.9	2.5	1.6
Singapore	13.0	13.4	18.4	15.4	8.2	7.7	39.6	36.5	42.7	44.5	4.4	2.7
Thailand	16.0	16.1	18.0	20.3	16.8	15.3	50.8	51.8	29.4	27.5	4.4	3.4

1) Defined as direct exports from country i to region j as proportion of total exports by i.

2) Includes only the eight economies listed in this table.

Source: IMF Direction of Trade Statistics.

China: Changes in balance of payments



Source: CEIC Data Ltd.

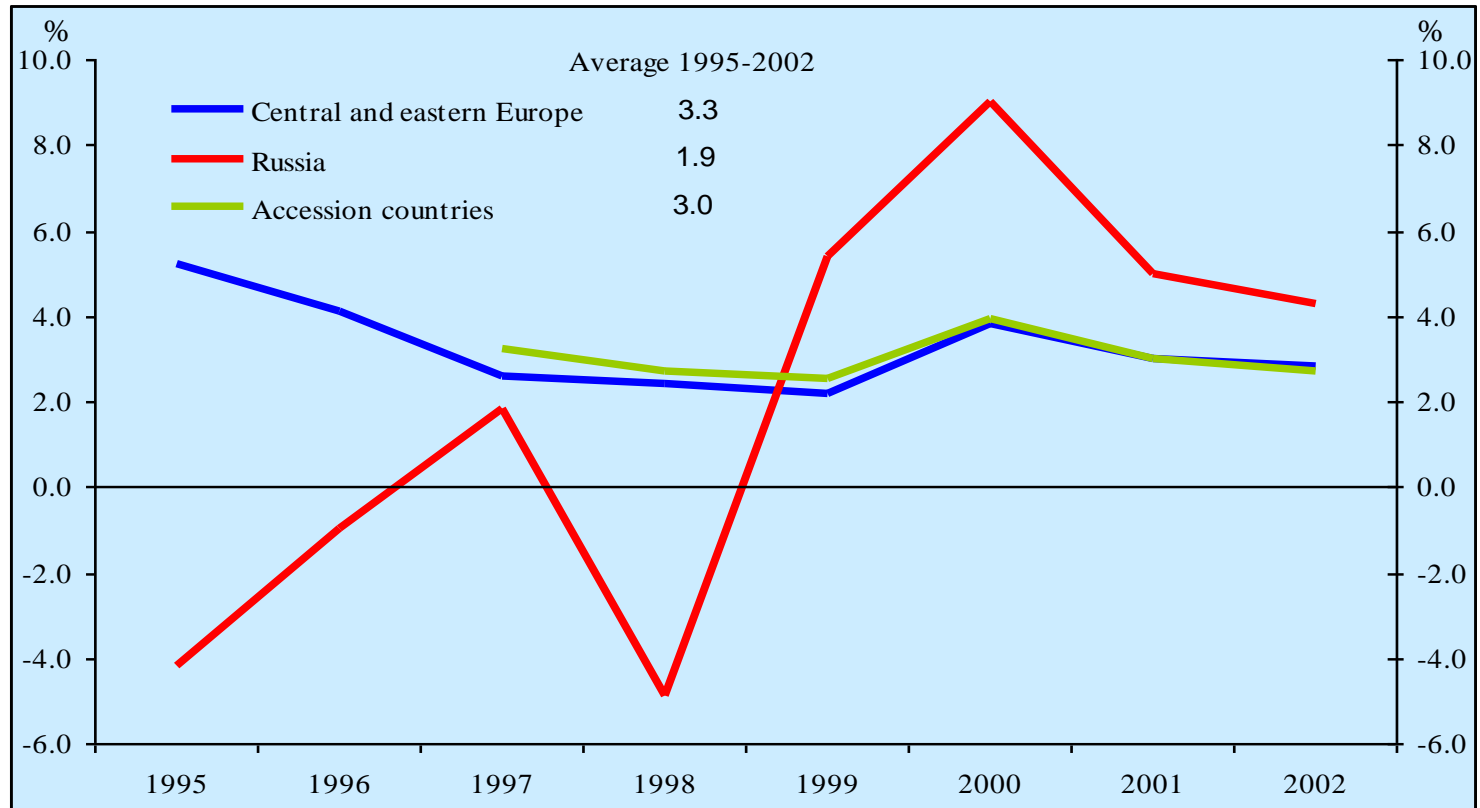
Developments in Central and Eastern European countries

- Growth remains, to a great extent, resilient.
- The integration in the EU is playing a key role as umbrella to the international environment
- Nominal convergence already playing a role
- Real convergence proceeding more slowly
- Fiscal balances a cause for cautionness
- Current account deficits quite big
- Exchange rate developments, policies and risks
- The way ahead – the strategy fo follow

Summary of World Output

Real GDP. Annual percent change

Central and Eastern Europe and Russia



Source: IMF and European Commission

Central and Eastern Europe

Nominal convergence indicators

	Inflation (%)			Public deficit (% GDP)			Public debt (% GDP)			Long-term rates (a) (%)			Short-term rates (b) (%)		
	2000	2001	2002(e)	2000	2001	2002(e)	2000	2001	2002(e)	2000	2001	2002(e)	2000	2001	2002(e)
Cyprus	4.1	2.0	3.1	-3.1	-3.0	-2.6	54.8	54.6	56.0	...	6.5	5.1	...	3.8	3.9
Slovak Republic	12.0	7.4	3.5	-12.7	-5.4	-6.0	45.2	44.1	41.2	7.4	6.0	5.9	7.7	7.6	7.9
Slovenia	8.9	8.6	7.2	-3.2	-2.5	-1.8	27.6	27.5	28.6	...	5.6	5.0	...	...	...
Estonia	4.0	6.1	4.2	-0.3	0.5	0.7	5.0	4.8	4.5	...	...	...	5.6	3.8	3.2
Hungary	9.8	9.1	5.5	-3.0	-4.1	-6.9	55.4	53.1	54.2	8.0	7.1	6.9	12.0	9.7	9.9
Latvia	2.8	2.4	2.5	-2.7	-1.6	-1.8	13.9	15.9	16.8	7.6	7.1	5.5	5.5	6.4	4.0
Lithuania	1.0	1.5	1.6	-2.7	-1.9	-1.8	24.0	23.1	23.6	...	8.6	5.2	8.7	5.2	3.5
Malta	2.4	2.9	2.6	-7.0	-7.0	-6.2	60.7	65.7	60.0	...	6.1	6.0	4.9	4.9	4.1
Poland	10.1	5.6	2.3	-3.5	-3.9	-4.4	38.7	39.3	43.3	10.8	8.5	6.2	19.2	11.6	7.4
Czech Republic	3.9	4.9	2.3	-3.3	-5.2	-6.4	17.0	23.7	25.0	7.2	5.3	4.4	5.4	4.7	2.8
Average (1)	8.4	5.9	3.1	-3.8	-4.0	-4.8	36.5	37.5	39.7	...	...	...	...	...	...
Bulgaria	9.9	8.0	7.0	-0.7	0.4	-0.6	76.9	66.3	59.2	...	...	7.5	4.6	4.7	3.7
Romania	45.7	34.2	22.7	-4.5	-3.3	-2.9	24.0	23.3	24.6	...	...	...	59.4	39.5	23.2

Source: ECB and European Commission

Accession Countries.

Main indicators 2001

	Population (millions)	PIB pc based on PPP (% EU average)	Trade openness (% GDP) (1)
Cyprus	0.6	79,5	93.0
Slovak Republic	5.4	46,4	163.0
Slovenia	2.0	68,8	122.0
Estonia	1.4	42,3	197.0
Hungary	10.0	51,2	129.0
Latvia	2.4	33,2	111.0
Lithuania	3.7	37,6	97.0
Malta	0.4	58,0	217.0
Poland	38.6	39,7	51.0
Czech Republic	10.3	57,2	146.0
Total	105.6	45	94.9 (2)
Bulgary	8.5	28,1	96.0
Romania	22.4	25,2	64.0
EU	377.5	100	70.5

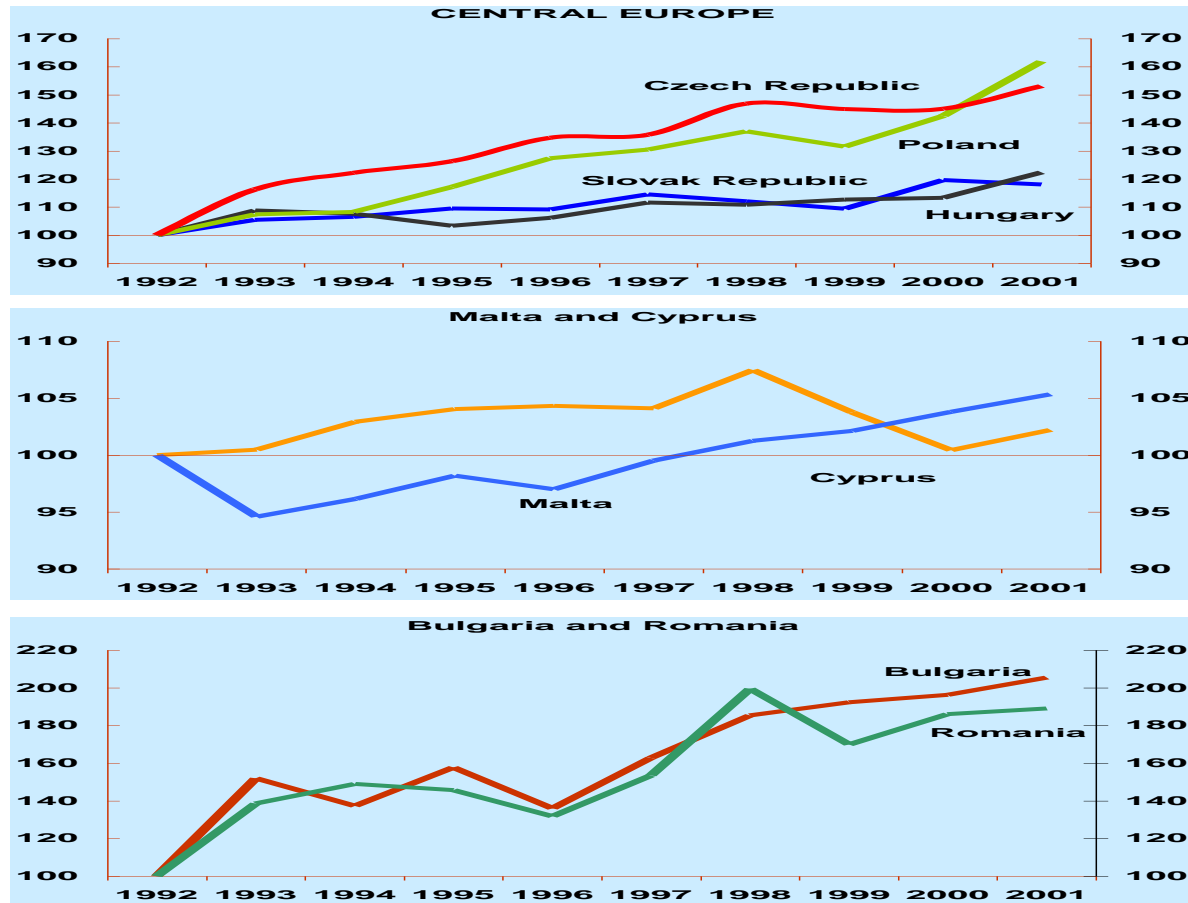
Source: Eurostat and European Commission

(1) Exports and imports in percent of GDP

(2) Average

Real effective exchange rates.

Annual average 1992 = 100



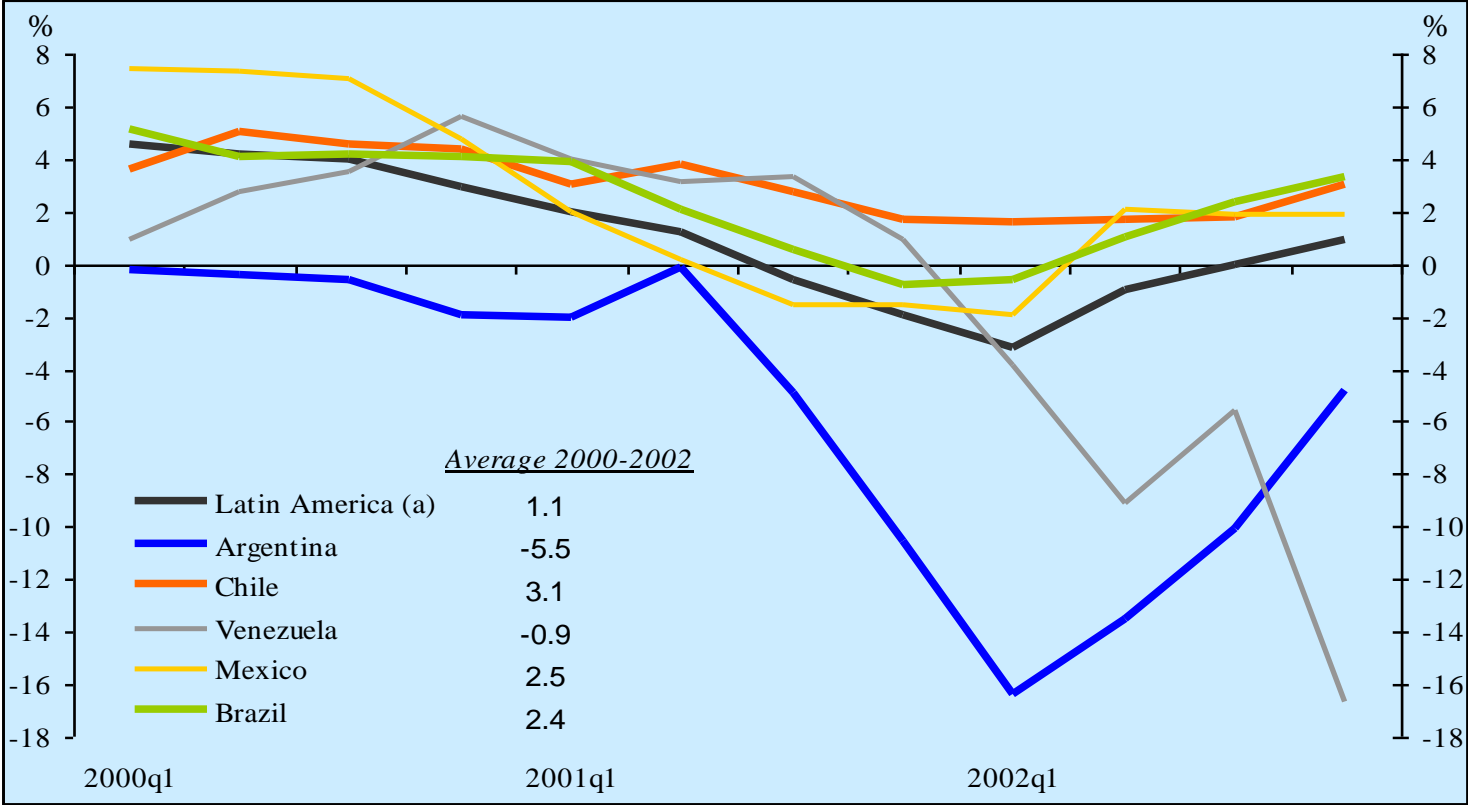
Developments in Latin America

- Latin America is facing particularly difficult economic circumstances.
- 3 problems in 2002: lower global appetite for risk; Argentinian regional shadow; various national problems
- The need for foreign capital makes the region vulnerable to adverse financial developments, especially in the case of public finances.
- Financial conditions improving in recent months despite global uncertainty.
- There is room for economic turnaround.

Summary of World Output

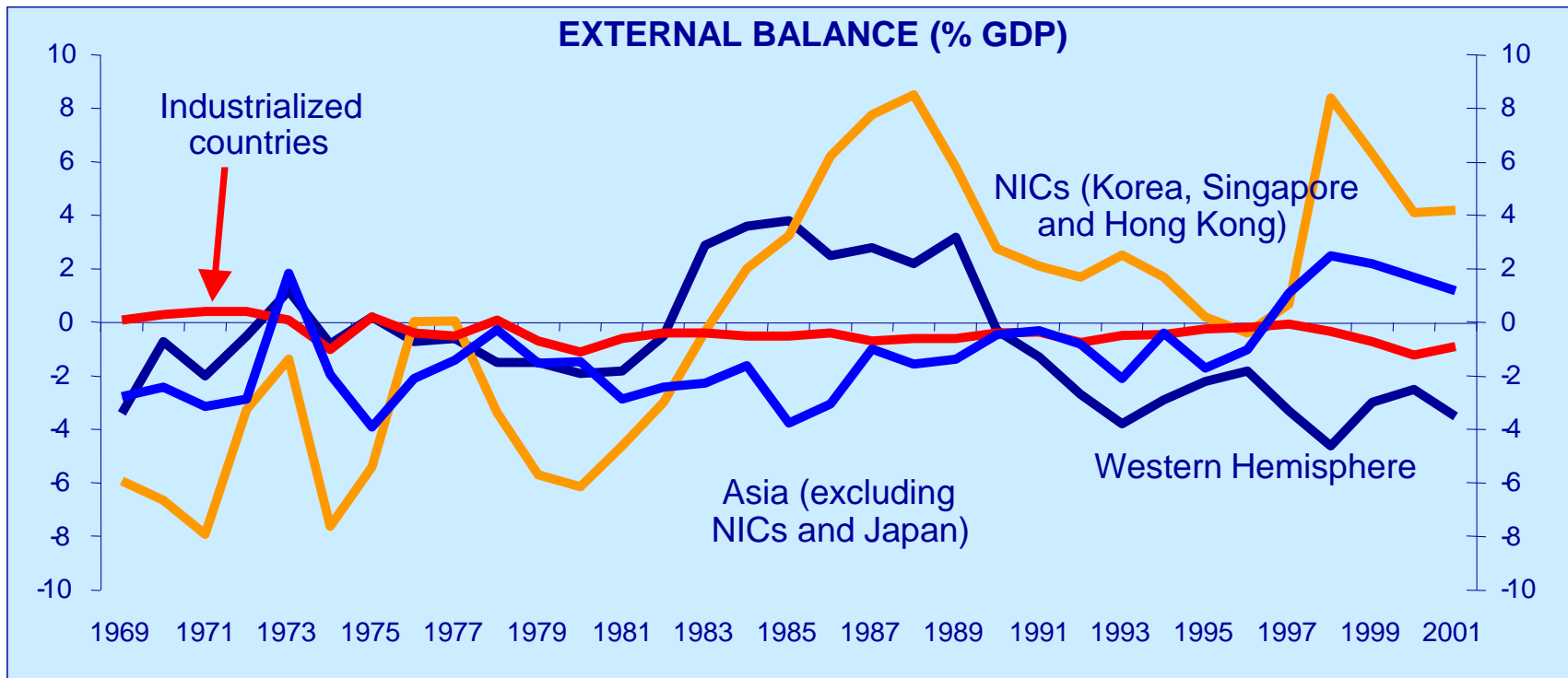
Real GDP. Annual percent change

Latin America



Source:WEFA

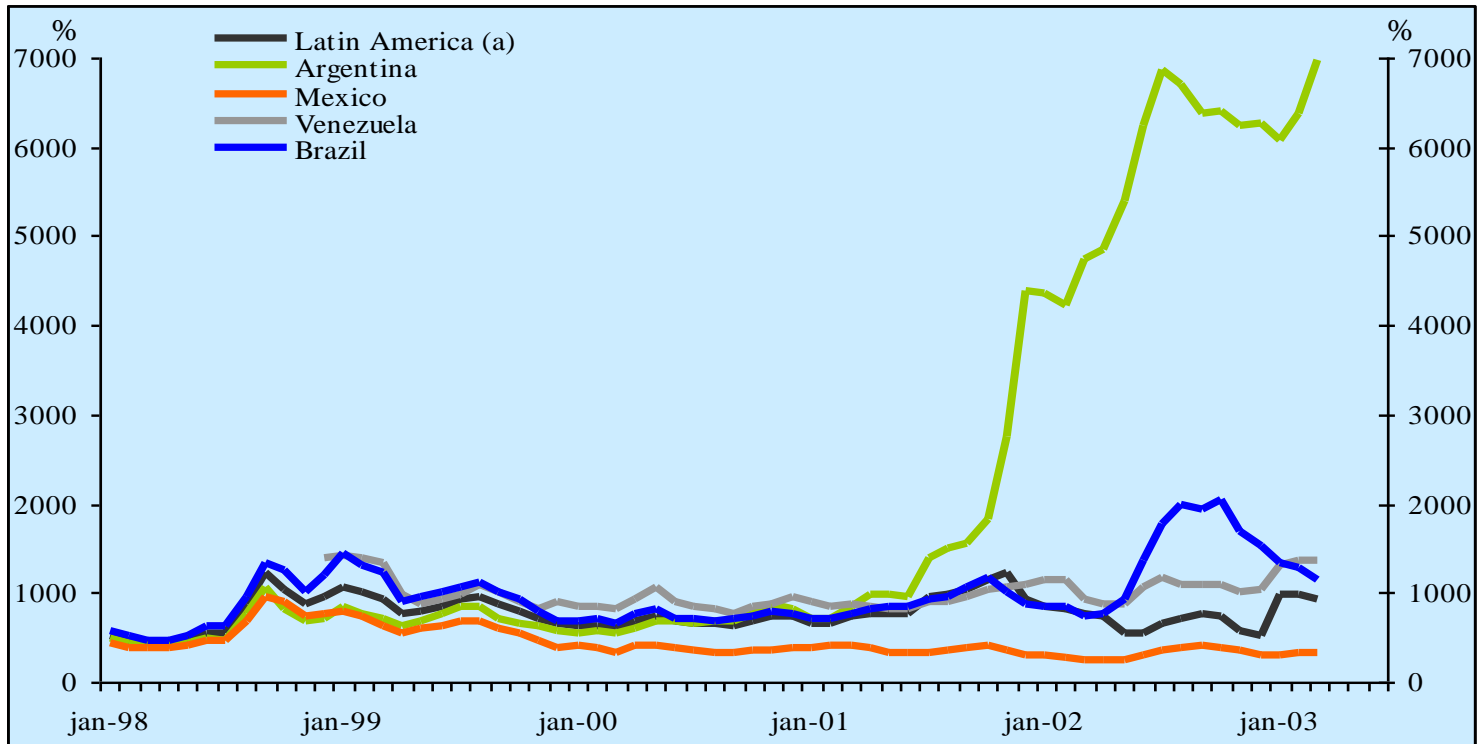
The need for foreign capital



Source: own calculations from IMF's data.

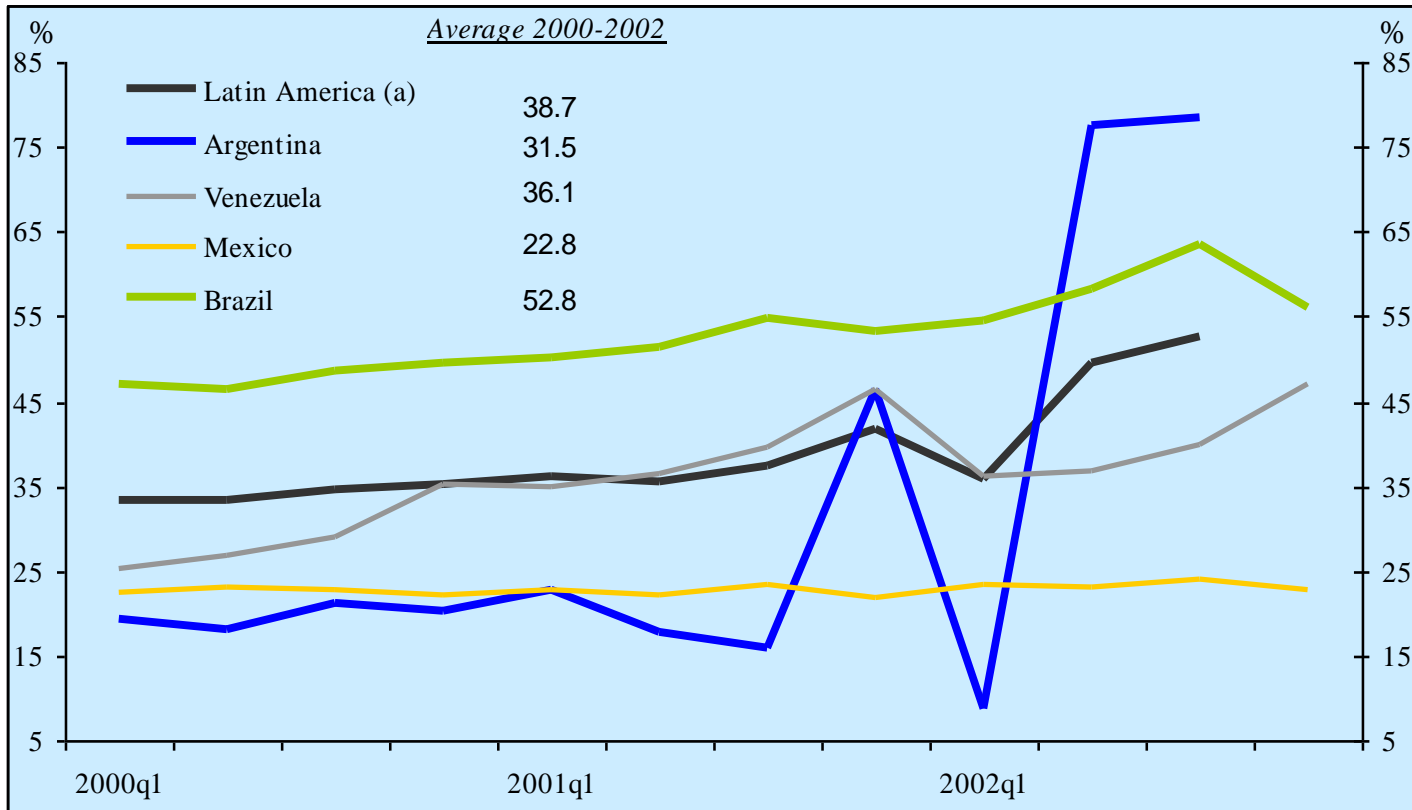
Sovereign spreads against US

Basic points



Source:WEFA

Public debt (% of GDP)

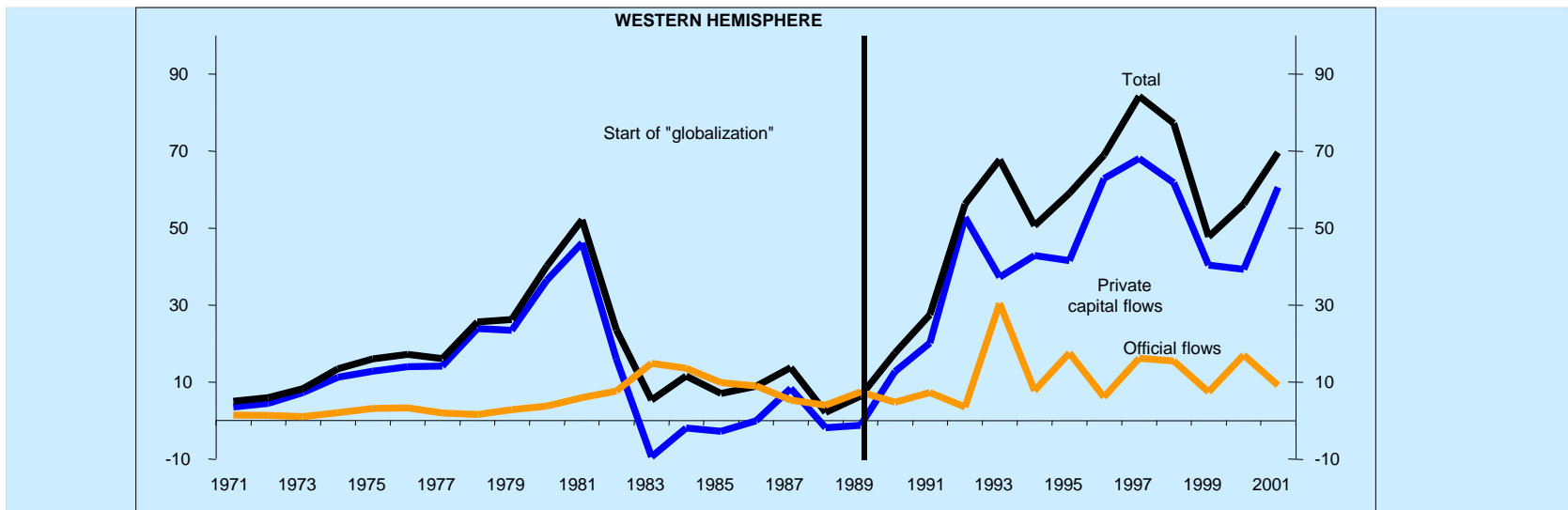
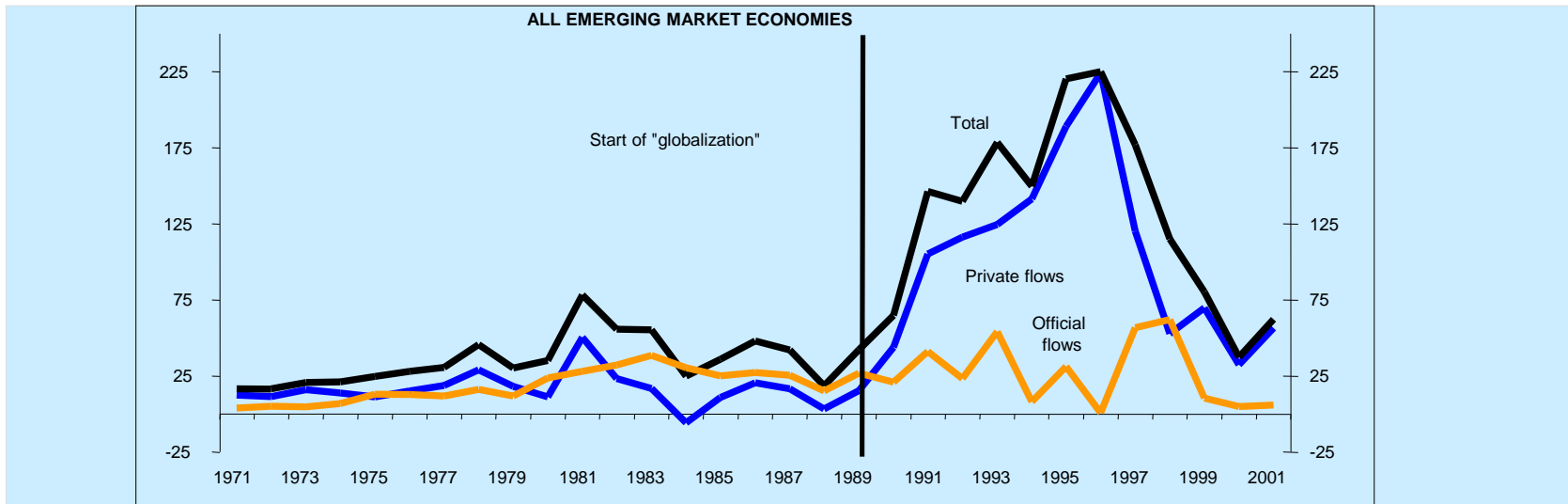


Source:WEFA

Capital flows to emerging markets



Net capital flows to emerging markets economies. Nominal values in billion of US dollars



Source: own calculations from IMF's data (

WEO database september 2001

Capital flows to emerging markets

- EMEs as a whole have been experiencing a **declining trend** in net capital inflows **from 1997 to 2000**, while a **slight rebound** has taken place **since 2001**. A moderate pickup is projected for 2002 and 2003.
- According to IMF-WEO data:
 - Net flows to 45 EMEs reached the USD 100 billion mark in 1992 and continued to rise through the mid-1990s, peaking at USD 220 billion in 1995 and 1996.
 - After the 1997 “break”, net flows have ranged between USD 50 and USD 100 billion.

Capital flows to emerging markets

Looking at the geographical composition:

- ***Non-Japan East Asia***: capital flows dropped in 1997-98 but picked up thereafter, increasing from -2% of GDP in 1998 to an expected share of almost 1% in 2002.
- ***Latin America***: a retrenchment started in 1999 and since then has worsened pace, with a decline from 3.6% of GDP in 1998 to 0.5% in 2002.
- ***EU accession countries***: net capital flows increased from 1.7% of GDP in 1997 to 7% in 2002. The process of integration with the EU can be viewed as the most important element explaining this upward trend.

Capital flows to emerging markets

By components:

- *Direct investment* remains a remarkably stable component of flows
- *Portfolio investment* has been erratic, turning strongly negative in 2001.
- Retrenchment in traditional *cross-border banking flows*: partial replacement of cross-border and foreign currency lending by international banks with domestic currency lending by their local affiliates

Economic perspectives for emerging markets in 2003

- Very dependant on the global economic outlook, although regional differentiation
- Geopolitical risks likely to have larger effects
- Regional differentiation:
 - Asia: how autonomous is the recovery?
 - Central and Eastern Europe: EU accesssion
 - Latin-America: capital flows crucial
 - global apetite for risk/confidence
 - domestic policies (economic and legal stability)
- Resilience not guaranteed if further adverse shocks

Some suggested issues for discussion

- A new vintage of crises?
- How much/little contagion? Why?
- How can vulnerabilities in emerging markets be reduced?
- Role of the IMF and of the private sector?