The World Economic Recovery: Navigating between Positives and Pitfalls

Presentation at RIETI
Tokyo
October 20, 2009
About TAC

TAC is a fully independent European research group providing advisory services on emerging markets for financial investors and industrial companies, with a growing customer base in Asia.

TAC also provides policy advisory services through research funded by multilateral or bilateral donors / institutions.

TAC combines a very strong quantitative expertise with a customized approach to companies’ requirements. The track record in terms of early warning signals and operational recommendations is outstanding.
Recent economic indicators confirmed TAC’s scenario of a trough in 2009Q2; markets are pricing a V-shaped recovery but some are talking about a “double-dip”. What about the “decoupling” between developed and emerging economies and where are the risks in emerging markets?

1. Not so much a risk of double-dip than one of medium-term sub-potential growth in industrialized countries
   a. Sustainability of the recovery
   b. Constraints on medium-term growth
   c. World trade and financial developments

2. Is there a new “decoupling” between developed and emerging markets? Early birds and latecomers in the new cyclical phase
   a. Emerging countries remain more dynamic
   b. Country risk analysis
   c. Key vulnerabilities in emerging markets
1. Global view on the world economic outlook
1.a. Sustainability of recovery

Quarterly growth rate annualized by the GDP

USA
Zone Euro
UK
1.a. Sustainability of recovery
1.a. Sustainability of recovery

Cyclical indicators (zone Euro)

- **ECS - Consumer confidence (% positive)**
- **ECS - Employment (% positive)**
- **ECS - New Orders (% positive)**

Data points for the period from 2008M10 to 2009M09.
1.a. Sustainability of recovery

[Bar chart showing public deficit from 2007 to 2010 for the United States, Euro Zone, Japan, and a fourth category.]

Source: IMF WEO

T-A-C

Risk Monitor

October 09
1.a. Sustainability of recovery

Consumer Confidence in the US

- Conference Board Consumer Confidence Index
- Michigan Consumer Confidence
- Spherion Employee Confidence Index
1.b. Constraints on medium term growth

Source: IMF WEO

- Net debt
- Gross debt

United States
- Euro Zone
- Japan
1.b. Constraints on medium term growth

US - Total household debt and Consumption

Source: Fed & BEA
1.c. World trade and financial developments
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TAC EUR / USD Scenario for 2009-2010

Source: TAC
Global View: Conclusions

1. No double dip, but a weak and possibly “chaotic” recovery in industrialized countries

2. The US will recover earlier and register a higher growth than the Eurozone or Japan

3. Inflation is a real risk, with a likelihood of significant reversal for government bond markets

4. Commodities are now at or above their “neutral” valuation and may reverse temporarily, before picking up again in 2010-2011
2. Emerging Markets & Country Risk
2.a. Emerging markets remain more dynamic

![Graph showing the share of developed and developing countries in the world GDP from 2004 to 2010. The graph indicates that the share of developing countries has increased over the years, while the share of developed countries has decreased. The data is sourced from the IMF WEO.]
2.a. Emerging markets remain more dynamic

Exports of Developing Countries

- Rest of World: 14%
- European Union: 27%
- United States: 16%
- Japan: 7%
- Developing countries: 36%

Source: IMF DOTS
2.a. Emerging markets remain more dynamic
2.b. Early birds and latecomers

In the current environment the « positives » and « negatives » for emerging markets should be looked at through the following elements:

- Potential of domestic demand for sustaining economic growth
- Evidence or potential for further regional integration
2.b. Early birds and latecomers

![Graph showing real economic pressure and exports for various countries. The graph includes points for countries like IND, CHN, CHL, MYS, PHL, TUR, MEX, POL, IDN, BRA, ZAF, RUS, HUN, THA, CZE, ARG, ROM. The source of the data is TAC.](image-url)
### 2.b. Early birds and latecomers

#### Exports, 2008

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<th>Advanced Economies</th>
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2.c. Key vulnerabilities

Emerging markets remain highly sensitive to potential pressures on their economic recovery, exchange rate or payment positions, and the current environment of high uncertainty warrant a closer look at potential vulnerabilities:

- Liquidity and Exchange rate risks
- Banking system and Cyclical risks
- Political / risks versus Economic & Financial risks
- Results as a global “country risk premium”

All these measures are derived from a proprietary tool designed for monitoring country risk and enabling companies to strengthen their risk management policies.
2.c. Key vulnerabilities

Scores on fundamental balances: Liquidity versus Exchange

- Higher risk
  - Russia
  - Romania
  - Turkey
- Lower risk
  - China
  - India
  - Pakistan
  - Malaysia
  - Korea
  - Mexico
  - Thailand
  - Czech Rep.
  - Poland
  - Chile
  - Hungary
  - South Africa

Liquidity

Exchange

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2.c. Key vulnerabilities

Scores on fundamental balances: Cyclical versus Banking

Higher risk

Higher risk

Korea

Hungary

Chile

Romania

India

Malaysia

Poland

South Africa

Thailand

Czech Rep.

Brazil

Indonesia

Turkey

Russia

Philippines

Mexico

Argentina

Cyclical

Banking

Lower risk

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2.c. Key vulnerabilities

**Political / Governance Risks and Economic & Financial Risks**

- **Higher Risk**:
  - Romania
  - Hungary
  - Czech Rep.
  - Poland
  - South Africa
  - Turkey
  - Brazil
  - Russia

- **Lower Risk**:
  - China
  - Philippines
  - Thailand
  - Indonesia
  - India
  - Mexico
  - Malaysia
  - Argentina
  - Brazil

Source: TAC & World Bank

20 30 40 50 60 70

TAC Political & Governance Risk rating

20 30 40 50 60 70

TAC Economic & Financial Risk Rating

Higher risk

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2.c. Key vulnerabilities

Global "country risk premium" or Risk-Related Extra Cost of Capital

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Source: TAC
Emerging market & country risk: Conclusions

1. Asian countries will keep a higher growth momentum, and the process of regional integration to serve domestic demand in the region’s large markets will intensify.

2. Smaller countries (Laos, Cambodia) or those with limited policy space (Philippines or Vietnam) will remain vulnerable to exchange rate pressures and will register an increase in corporate difficulties in the short run.
Emerging market & country risk: Conclusions

3. Eastern Europe and CIS countries will continue to be the most affected part of the world and will continue to require extreme short-term caution.

4. Middle East progressively coming out of difficulties, but financial tensions / debt negotiations still likely.

5. Latin America (apart from Mexico) and most of Africa remain highly dependent on commodity prices; higher likelihood of volatility.

6. Whatever the region, “differentiation” remains the key word!
Thank you for your patient attention

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### ISO codes for countries

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