2013: Weak global economy is strong reality

BR RESEARCH (January 07, 2013) : While the renewed escalation of the Euro debt crisis left stern impacts on public sentiments and economic activity, the global economy touted a meager growth of three percent in 2012 as against 3.6 in 2011. With the depressing shocks of unresolved Euro debt crisis and US fiscal cliff being felt far beyond the borders, the global economy is yet to shudder. Albeit the world economy is gradually turning its gaze upwards, the sluggish trend is likely to persist, with economic activity expected to post a modest 3.25 percent growth in 2013, according to Rabobank. In 2012, weaknesses in the developed economies were at the heart of global economic woes. Thus, in 2013, the advanced economies are expected to depend on the emerging markets for garnering growth. However, the emerging markets are by no means invulnerable to the worsening economic condition in the former. The growth in Emerging Asia slowed in 2012, largely because of fragile export demand. However, in 2013, despite lackluster demand from US and Euro bloc, Emerging Asia is expected to pick up mildly by 6.3 percent as it is generally lessening their trade dependence on the US and Europe. Probing into the MENA and Africa backdrop, as a consequence of 2011 Arab spring, government spending for income support has increased which is an exception to the trend observed in the rest of the world. Nevertheless, two years after the start of the Arab Spring, the economic growth in MENA remains gloomy particularly in non-oil exporting countries with rising social spending, as tourism and FDI remain depressed amid lingering political volatility. Oil-exporting economies, on the flip side, will benefit from relatively stable oil prices next year. The outlook for Sub-Saharan Africa remains quite encouraging on the back of political stability, stable domestic demand and heightened exports. Economic growth for Russia and the CIS region is projected not to improve notably in 2013 as these countries largely depend on commodity exports with the largest export markets being the US, China and larger euro zone countries, which all face difficult economic situations. However, an upside risk to this forecast is the realisation of economic reform plans. The huge economy of US experienced the worst unemployment rates in 2012 amid fiscal uncertainties holding up business investments. In 2013, the risk emanating from fiscal cliff and spillover effects of a further intensification of the euro area crisis would trigger a drop in GDP growth to two percent. Europe, though has not entirely recovered from the economic slump, however it showed some tentative positive signs since mid 2012, as the European economies realized that the formation of a fiscal union is inevitable. Moreover, ECBs announcement to aid the peripheral economies via outright monetary transactions also proved to be a boon for the economy. To the readers surprise, unlike the rest of the world, the least developed economies (Angola, Guinea, Ethiopia etc) are expected to strengthen significantly in 2013 with the growth rate of 5.7 percent, up from 3.7 percent in 2012. Most of the rebound is expected to come on the back of improvements in economic conditions in Yemen and Sudan, following contractions of both economies in the rise of political instability during 2010 and 2011. In the face of looming uncertainties and downside risks, current policy stances seem to fall well short of what is needed to prevent the global economy from slipping into another recession. Thus, more vigorous and concerted actions should be considered such as moving towards countercyclical fiscal policies, support job creation, boosting consumer, investor and business confidence etc. Given the fact that growth is expected to come on the heels of developing world, sufficient resources should be made available to the developing countries to accelerate their progress towards the achievement of MDGs and for investments in sustainable growth.