

Emerging markets make up 80% of global growth

Written by Johan Nylander

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Sweden's fourth biggest bank, Swedbank, warned in a report Tuesday that the global economy is "living dangerously" and that emerging countries now account for nearly 80 percent of global growth. Highlights:

- During the second quarter the global economy slowed. Confidence variables and leading indicators suggest that the third quarter will also be weak. There aren't any economic policies that can reverse this trend, since monetary policy isn't having an effect and there is little support for expansive, debt-financed fiscal policy, despite that lending costs in several countries are low. The problem is that politicians aren't addressing medium-term challenges (US, Japan) or lack the courage to stimulate their economies short-term before tightening their belts in the longer term (UK, Germany). □
- The fragmentation of Euro area financial markets has worsened and this is worrying. The ECB wants to link purchases of government bonds to support within the EFSF/ESM funds and is shifting more toward quantitative easing. It's only reasonable that responsibility is placed on politicians, but it will take time for Spain and Italy to apply for support, which is risky and could mean continued high financing costs. While the decline in two-year bond yields from these countries provides a glimmer of hope, there is a risk that it will be short-lived and will lead to increased risk-taking in their financing by way of shorter maturities. □
- Emerging countries account for nearly 80% of global growth. Much of the responsibility for avoiding a global recession rests with them, and considering that their potential growth is likely to shrink as investors' risk aversion rises, there will be an increased need for structural reforms in these countries as well.