

ECONOMIC UPDATE

GLOBAL & INDIAN

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Global activity has picked up, largely on account of advanced economies.

Growth firmed in 2013H2, driven largely by stronger outturns in advanced economies as final demand expanded broadly as expected. In many emerging markets, despite a boost to output from stronger exports, domestic demand has been weaker than expected, reflecting in part tighter financial conditions. While the pressures were relatively broad-based, emerging economies with relatively high inflation and high current account deficits saw the largest asset price declines initially. Markets are showing signs of stabilizing recently, although they are still fragile, on the back of actions by key emerging economies to shore up confidence and strengthen their policy commitments. This episode, however, underscores vulnerabilities and the challenging environment for many emerging economies. The rapid jump in global risk aversion had also driven down advanced economy equity price **India launches safeguard investigation on saturated fatty alcohols**

On 19 February 2014, India notified the WTO's Committee on Safeguards that it initiated on 13 February 2014 a safeguard investigation on saturated fatty alcohols.

What is a safeguard investigation?

A safeguard investigation seeks to determine whether increased imports of a product are causing, or is threatening to cause, serious injury to a domestic industry.

During a safeguard investigation, importers, exporters and other interested parties may present evidence and views and respond to the presentations of other parties.

A WTO member may take a safeguard action (i.e. restrict imports of a product temporarily) only if the increased imports of the product are found to be causing, or threatening to cause, serious injury.

IMF report on India

India has restored macroeconomic and financial stability, but structural impediments to growth and persistently high inflation remain key concerns, the IMF says in its annual report on the state of the Indian economy. Over recent months, India has taken substantive measures to narrow external and fiscal imbalances, tighten monetary policy, move forward on structural reforms, and address market volatility. This has reduced its vulnerability to shocks, says the recent IMF report.

Although spillovers from global financial market volatility continue to pose a significant risk, the Indian economy is now

better placed to handle financial shocks than it was last summer.

The current account deficit has contracted, the fiscal deficit target has been met, and investment project approvals are accelerating.

The report said that India has significant foreign exchange reserves to deploy in the event of external financing pressures. It also said that exchange rate flexibility, a tightening of liquidity conditions, and limited foreign exchange interventions had served India well in responding to the volatility of mid-2013.

Handling external pressures

The report stressed the need to foster an environment conducive to foreign direct investment to finance India's current account deficit. In the event of a resurgence of market volatility, the IMF stressed the importance of a well-communicated package of policy measures to minimize disruptive movements in the currency and bolster market confidence.

This would involve continued flexibility in the rupee, complemented by the judicious use of reserves, tightening of monetary conditions, additional fiscal consolidation efforts, and further easing of constraints on capital inflows.

Growth eases

India's growth, although among the highest in the world, has slowed in the last two years, the IMF said. Growth is projected at 4.6 percent in 2013/14, but with a modest pick up to 5.4 percent in 2014/15, helped by slightly stronger global growth, improving export competitiveness, a favorable monsoon, and a confidence boost from recent policy actions.

India's growth is expected to rise to its medium-term growth potential of about 6¾ percent once recently approved investment projects are implemented and as global growth improves.

"Several important policy decisions have been made that should help revive investment activities," said Paul Cashin, IMF mission chief for India. "We are confident that India can easily go back to an 8 percent growth trajectory if further structural reforms, particularly in the fields of energy, agriculture, the labor market, are implemented quickly," he added.

Impact of Ukraine crisis on world economy

Ukraine isn't the only fragile emerging market: Ukraine's instability comes at a difficult time for emerging markets worldwide, which are seeing growth slow as the Federal Reserve eases its economic stimulus. The situation in Ukraine could lead investors to reassess the risks of other emerging markets slowing economic growth. Troubles in Ukraine will also hurt Russian banks, which have leant heavily to Ukraine. The Russian ruble is down about 10% since the start of 2014.while the world watches the escalating crisis in , investors and world leaders are considering how the instability could roil the global economy.The political turmoil is rooted in the country's strategic economic position. It is an important conduit between Russia and major European markets, as well as a significant exporter of grain.

Here are five reasons the world's largest economies are watching what happens in Ukraine.

1. Ukraine is an important tie between Russia and the rest of Europe: Ukraine doesn't hold the economic power it once did, but it does retain its geography. Russia supplies about 25% of Europe's gas needs, and half of that is pumped via pipelines running through Ukraine.
2. European and world trade could be impacted: The impact could be felt beyond Europe if the world's supply of grain is impacted. Ukraine is one of the world's top exporters of corn and wheat, and prices could rise even on concern those exports could halt.
3. One prospect on the table would be the unusual circumstance of a top-10 global economy placing sanctions on another. But Secretary of State John Kerry said Sunday the U.S. is "absolutely" willing to consider sanctions against Russia. President Obama, he added, "is currently considering all options."
4. Ukraine's government is in debt and needs assistance: The situation arguably would not be so volatile if Ukrainian government coffers were more stable or the economy stronger. The country owes \$13 billion in debt this year and \$16 billion comes due before the end of 2015. Without help, the country appears to be headed for default.It's not clear who would supply the needed economic assistance, especially after the ouster of key Russian-aligned officials prompted Moscow to freeze a \$15 billion bailout and there is no comparable alternative in sight.The most likely source of support would be the International Monetary Fund. Managing Director Christine Lagarde said the IMF is consulting with other bodies that could help raise the \$35 billion Ukraine says it needs.
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Ukraine will also hurt Russian banks, which have leant heavily to Ukraine. The Russian ruble is down about 10% since the start of 2014.

American trade policy

IN JULY 2008 Barack Obama, then a candidate for the presidency, declared before an adoring crowd in Berlin that "true partnership and true progress [require] constant work and sustained sacrifice." So it is with free trade. If not championed by leaders who understand its broad benefits, it will constantly be eroded by narrow economic nationalism. Mr Obama now appears to be surrendering to protectionists within his own party. If he cannot drag Democrats back to their senses, the world will lose its best opportunity in two decades for a burst of liberalisation. It will also be a signal that America is giving up its role as defender of an open global economy in the same way that Mr Obama has retreated in foreign policy

North Korea facing food shortage

North Korea is likely to face a shortage of 340,000 tons of grain this year, a report showed Sunday, which would mean another year to its chronic food scarcity.The report contributed to the Korea Development Institute said Pyongyang is estimated to need some 5.37 million tons of grain this year.The estimate was based on assumptions that the population of the

communist country is 24.8 million and that each person consumed an annual average of 175 kilograms of grain in 2013.The UN Food and Agriculture Organization (FAO) and the World Food Program, who had visited the North for about two weeks in late September to survey food production, forecast the communist country's grain production at 5.03 million tons this year."While North Korea can cover a shortage of 300,000 tons with imports, it will have to rely on international aid for the remaining 40,000 tons," the report written by the Korea Rural Economic Institute said.The report noted that the country's grain production in the last few years falls far short of 6 million tons during the 1980s.

China looks inward for growth, signals reform

China sent its strongest signal yet that its days of chasing breakneck economic growth are over, promising to wage a "war" on pollution and reduce the pace of investment to the slowest in a decade as it pursues more sustainable expansion. In a State of the Union style address to an annual parliament meeting , Premier Li Keqiang said China aimed to expand its economy by 7.5 percent this year, the highest among the world's major powers, although he stressed that growth would not get in the way of reforms. In carefully crafted language that suggested Beijing had thought hard about leaving the forecast unchanged from last year, Li said the world's second-largest economy will pursue reforms stretching from finance to the environment, even as it seeks to create jobs and wealth.After 30 years of red-hot double-digit growth that has lifted millions out of poverty but also polluted the country's air and water and saddled the nation with ominous debt levels, China wants to change tack and rebalance its economy