# The Present World Economic Quagmire

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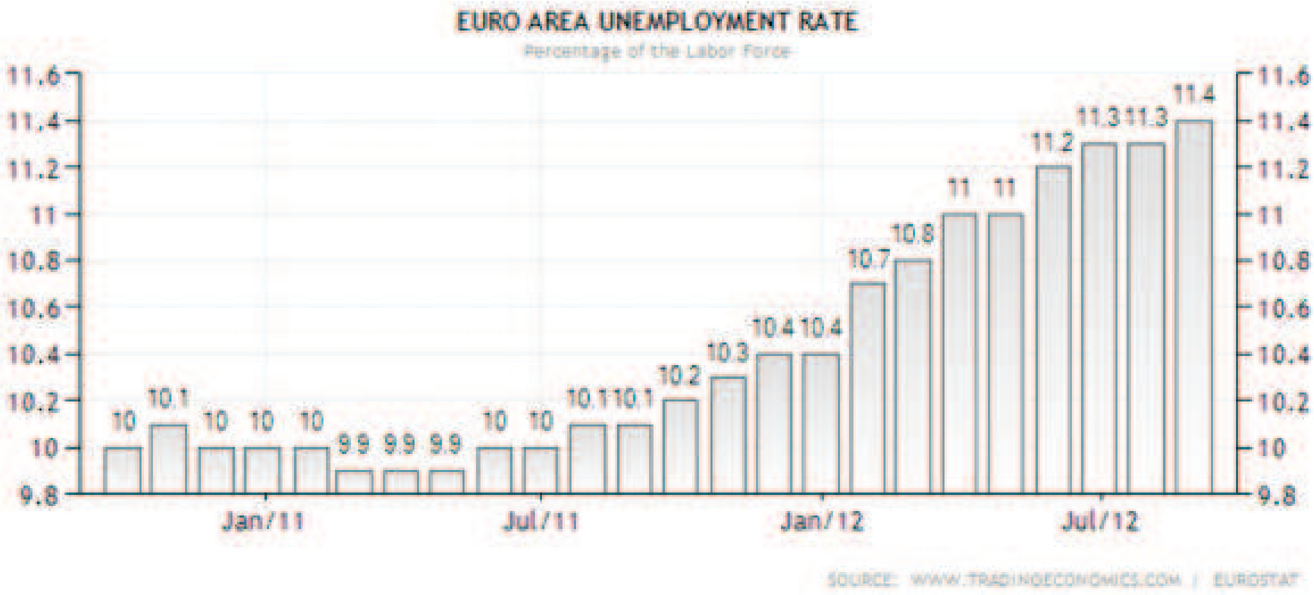
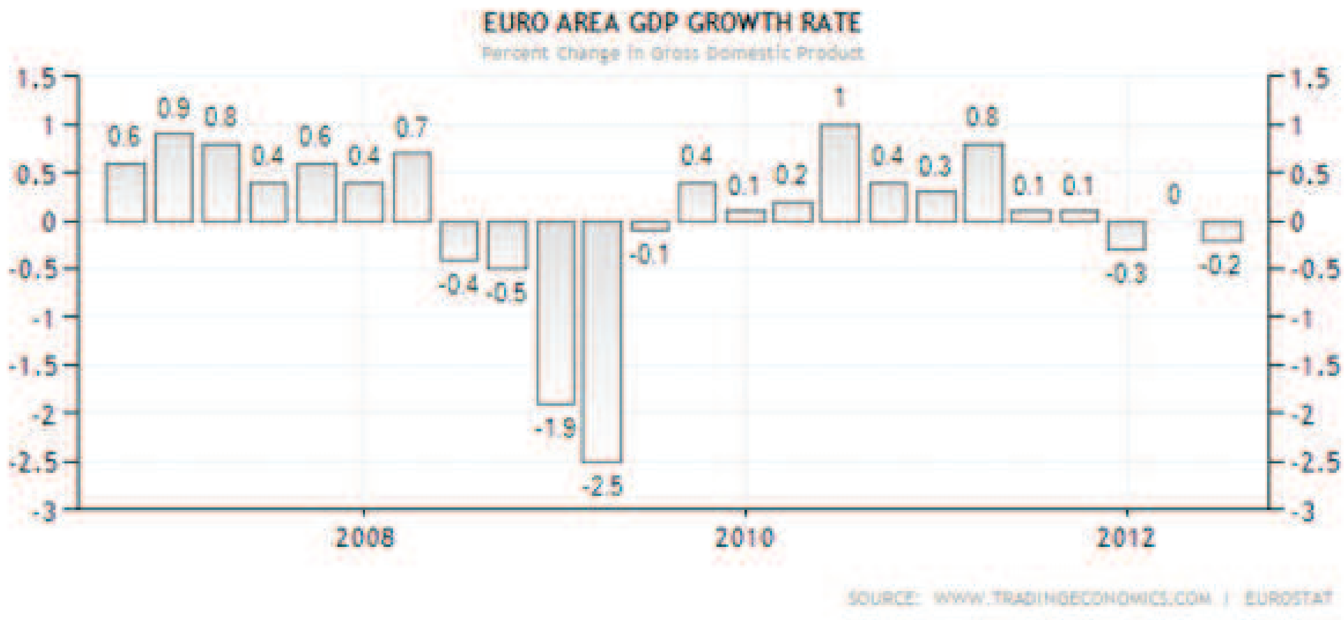
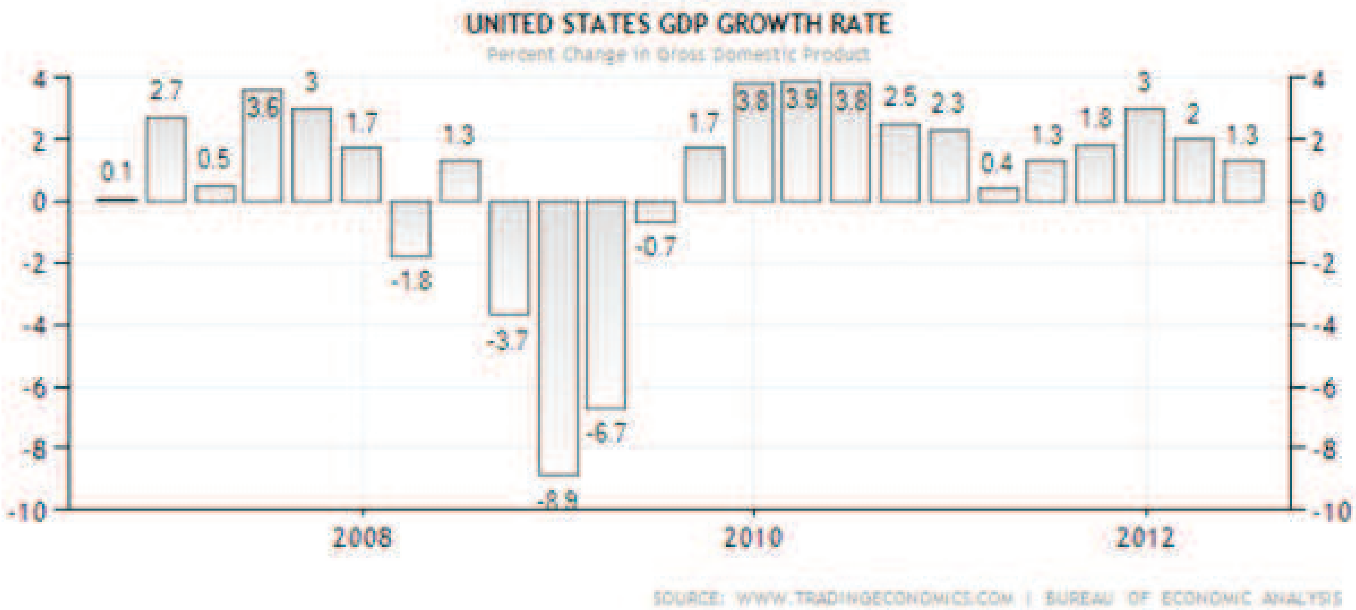
The world is going through a real bad phase! With central banks in most nations cutting their key rates to boost their economy and government finding it difficult to achieve fiscal consolidation in the present scenario, the world is reeling under tremendous pressure.

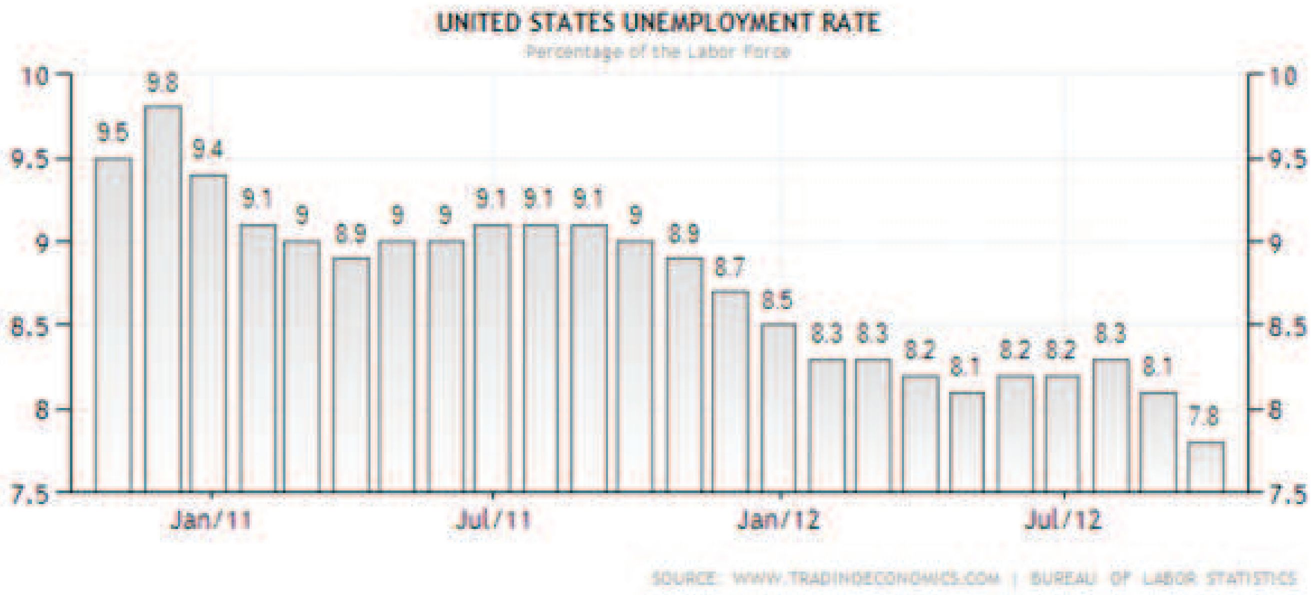



In Euro Zone, growth has become a farfetched dream. The unemployment levels are way high and hovering around 11-12% with some nations like Greece and Spain experiencing a heavy unemployment rate of 22-23%. It is almost like 1 in every 4 Individuals doesn't have a Job. This scenario, coupled with low Business and Investor sentiments, growth can't happen as the consumer demand is almost negligible. Euro-zone recorded negative growth of -0.3% for the last 12 months and is expected to grow at 0.5% in 2013. Thus help can only come from the nations outside such as US, Asia etc in the form of exports but a downturn in these economies would be a serious blow to the euro-zone. ECB will have a strong role to play here. The recent announcement of purchasing unlimited bonds in a sterilised manner will help contain sovereign debt crisis in nations. ESM (European Stability Mechanism), which finally has come into effect from 8th of October, will send a positive message outside, as Germany recently gave it a positive nod along with other Euro-zone nations. ESM will be a body that will provide euro-zone, financial assistance in times of need. Post this EFSF (European Financial Stability Facility) will be responsible for giving Bailouts to 3 nations only - Ireland, Portugal and Greece. The Inflation rate in euro-zone is around 1.8-2.2%, which is not a good

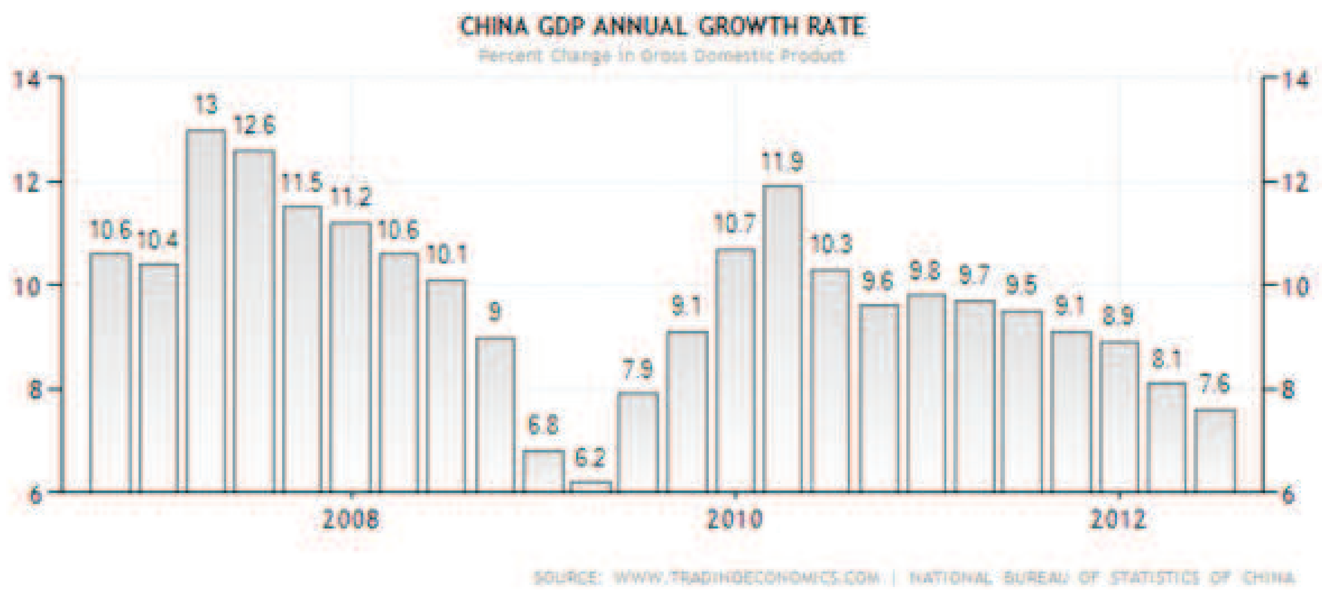



sign as growth is **below** the Inflationary numbers. What is it that is going on in the West? US today have a high unemployment rate of 7.8% (tradingeconomics.com) which is expected to come down to 7.5% in 2013 because of the recent QE (Quantitative easing). The Business sentiments are strong and consumers are increasing in numbers. The housing market is gaining numbers as people are able to find jobs now, which has resulted in lowered employment, decreased house inventories and increasing house prices. The growth however is a concern as US economy is expanding at the rate of 2-2.5% with Inflation rates at a comfortable 2%. The key interest rates are less than 1% which has led to more lending and better Business sentiments. Therefore it is unlikely that US will enter into recession. Things however can change post elections in November. On January 1 2013, two of the key acts are getting expired. These are **Tax Relief, Unemployment Insurance Authorization and Job**




**creation act, 2010 (extension to "Bush tax cuts of 2001 and 2003") and Budget Control Act**. If these two acts are not extended in 2013 then US may enter into a state called **"Fiscal Cliff"**. This term was coined by Ben Bernanke, Chairman, Fed Reserve in the deficit of the US govt. will rise again affecting future spending by the govt., including cuts in its defence spending. All in all, it will be really interesting to see how the world's largest economy handles this situation.

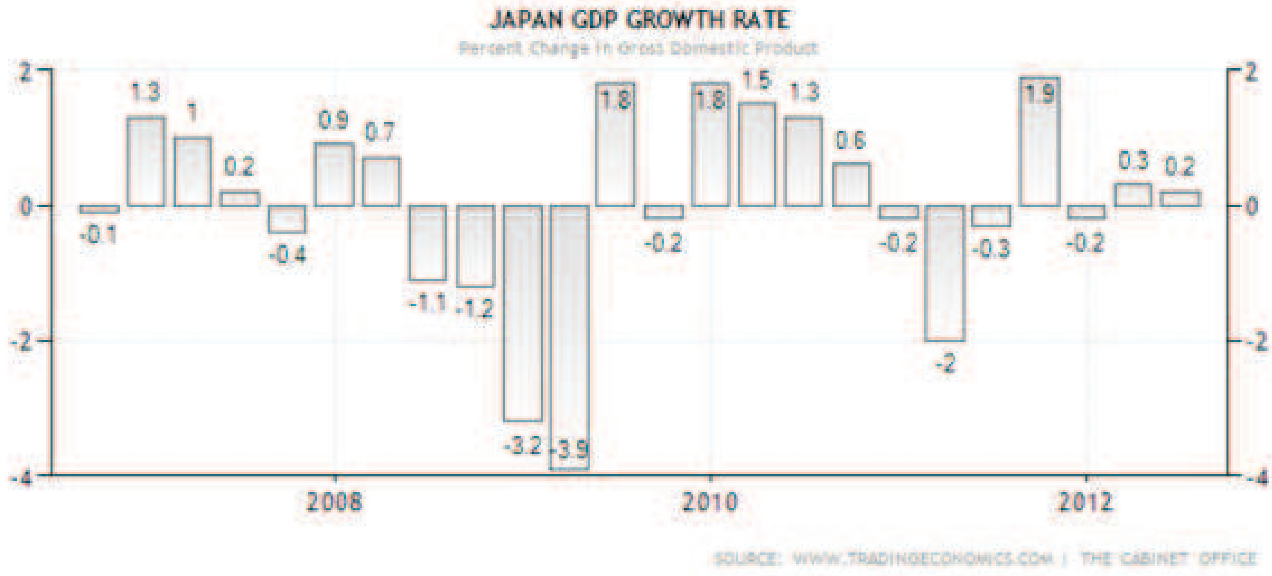



Feb 2012 and is a situation where the consumer and Business sentiments will be hurt and US might enter into a recessionary state along with Unemployment levels touching new heights, though the budget deficit will be reduced to a large extent.

In the other case, if these two laws are extended then

**What happens to the 3 Asian Big shots?? - China, Japan and India?**

China today is also getting affected by the global turmoil. Its growth has always been export-driven and not domestic-consumer driven. HSBC PMI (Purchasing Manager's Index) for last month was




47.8, thus showing that manufacturing activity has contracted due to decreased global demand for its products. Today, when demand from most European nations has waned coupled with low Business sentiments, growth is just not on the right track. Its economy is expanding at the rate of 7.5-8% with Inflationary rates at a mere 2.5% which is way below its target of 4% of 2012. China can thus play with its monetary policies as there is a room to cut key rates and boost lending, thereby boosting internal consumer demand to propel its growth. This will also improve its domestic housing market. There is enough room for fiscal easing as well to ensure less tightened regulations on various sectors which will further boost growth.Japan today is fighting with its extremely low growth (around 1%) and very high public debt. Even after the Govt. is not cutting on its spending and thinking on the lines of fiscal tightening in the fear that it will affect its internal consumers purchasing power, thus affecting its growth (considering exports are down post Tsunami clubbed with the impending world economic crisis).This, the Manufacturing activity is also down with PMI closing at 47 for the last month. The key interest rate is thus kept at almost zero by BoJ, with almost 3 cuts so far this year.

Finally, let us talk about India. Due to policy paralysis (affecting Business sentiments) and lowered manufacturing and exports, India is expected to grow at 5-6% in the current FY. Although we still have high inflation rate and fiscal deficits, fiscal consolidation seems almost impossible in the near future. However the recent reforms of allowing FDI's in Multi-Brand Retail, Aviation, Insurance, Pension funds gave some boost to India Inc and Foreign investors which marginally increased the growth forecast to 6-6.5% for FY2013.

Key lending rates are at almost stable levels and the recent CRR cut further gave a push to the economy. It is all upto the next Monsoons and exports to alter the current growth numbers, considering India is still an agrarian economy and a good monsoon drives the economic wheel. It will further improve the domestic consumer market and bring inflationary rates down.

With all the permutations and combinations of the economic situation across the globe, it would be interesting to see where the world goes from this quagmire!!