

T-A-C

**RiskMonitor**

A Country Risk Assessment Service provided by TAC

# The TIE question

## Timing, Intensity and Engines of the world recovery in 2009-2010

Presentation to IE Singapore  
Singapore, June 18, 2009



T - A - C

Applied Economic & Financial Research

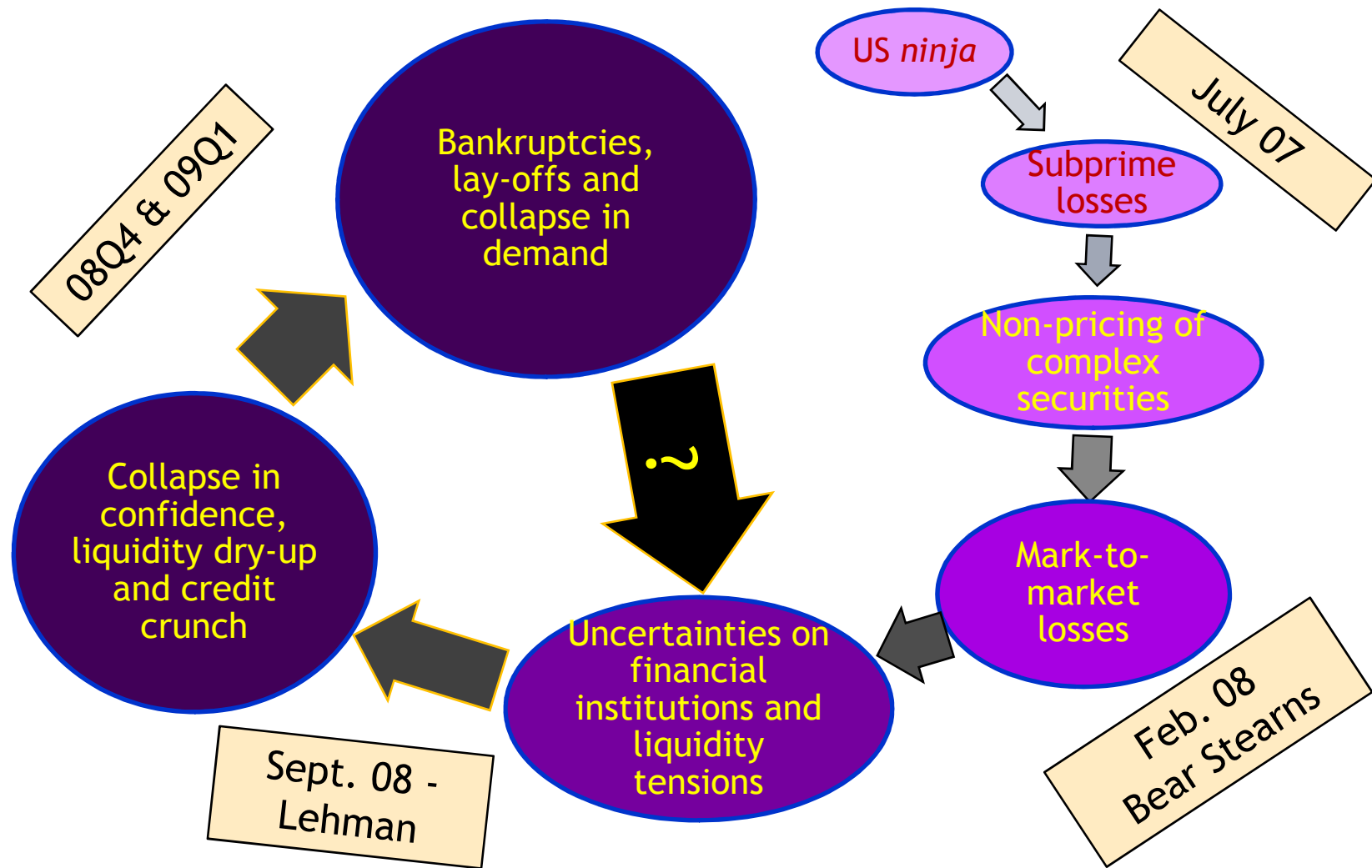


# Introduction

Doom and gloom appear to move out of fashion as “green shoots” multiply... but the road to full recovery will remain treacherous

1. Persistent risk of double-dip in the current bottoming-out
  - Remaining uncertainties in financial sector
  - The “crisis thermometers” suggest a progressive stabilization
  - International trade coming to a modest cyclical reversal
2. Key changes in engines of growth in the next cyclical phase
  - Emerging markets and developing countries less affected
  - Domestic demand and regional integration
3. Where are the major risks in the outlook
  - Risks of protectionism (trade, financial, investment), and inflation over the medium-term
  - Emerging markets : Economic & Financial risks on a 3-year horizon, and hot spots for political risks

# Introduction

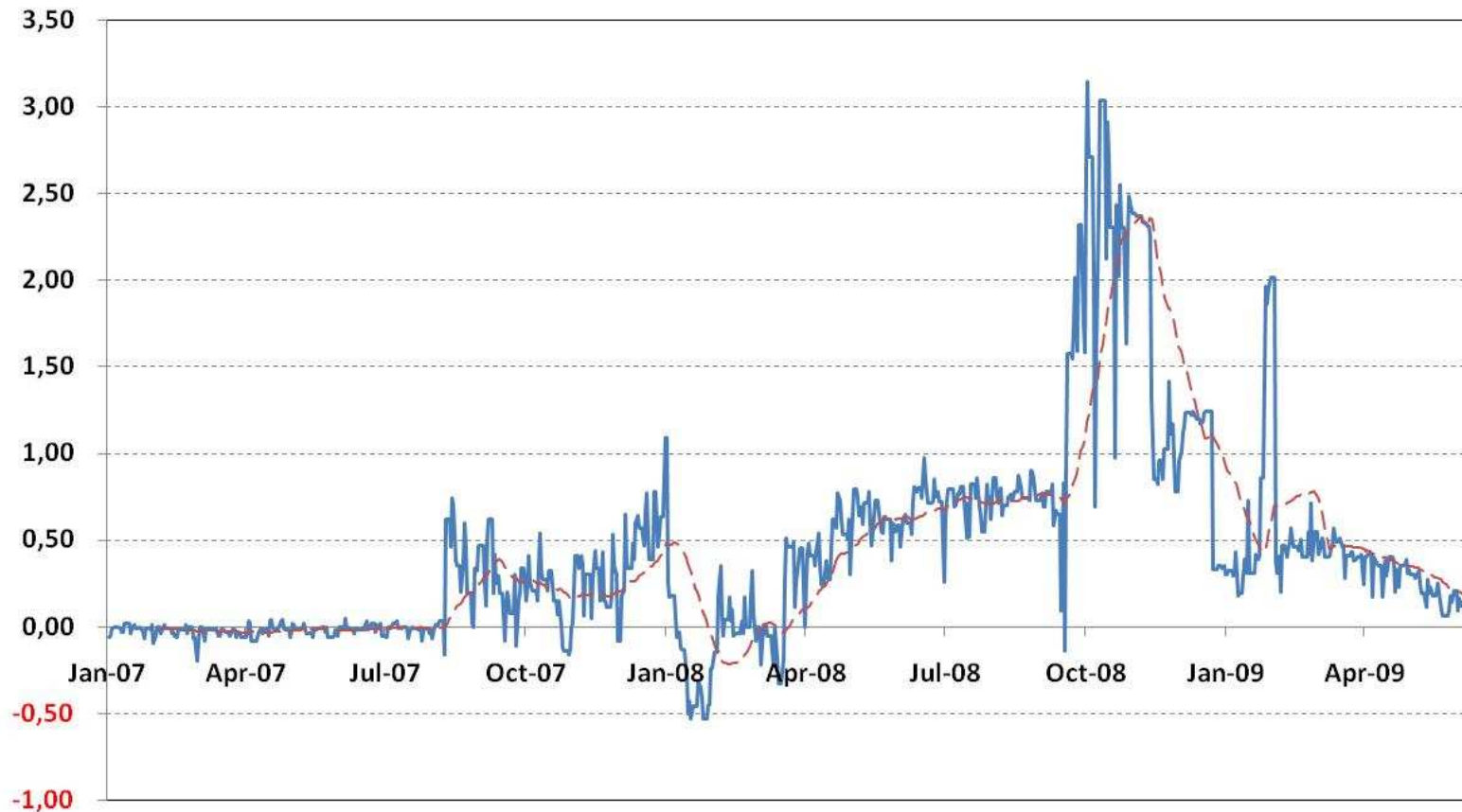


# World bottoming-out, but risk of double-dip

- ❑ Violence and magnitude of the recessionary forces unleashed since September 2008
- ❑ Geographic synchronization and multi-channel transmission
- ❑ Unprecedented policy reactions
- Critical elements in the current assessment:
  - ❑ Return to normality in wholesale liquidity markets and interruption of the credit crunch
  - ❑ Improvement in consumer and business confidence to ensure the efficiency of the policy reactions

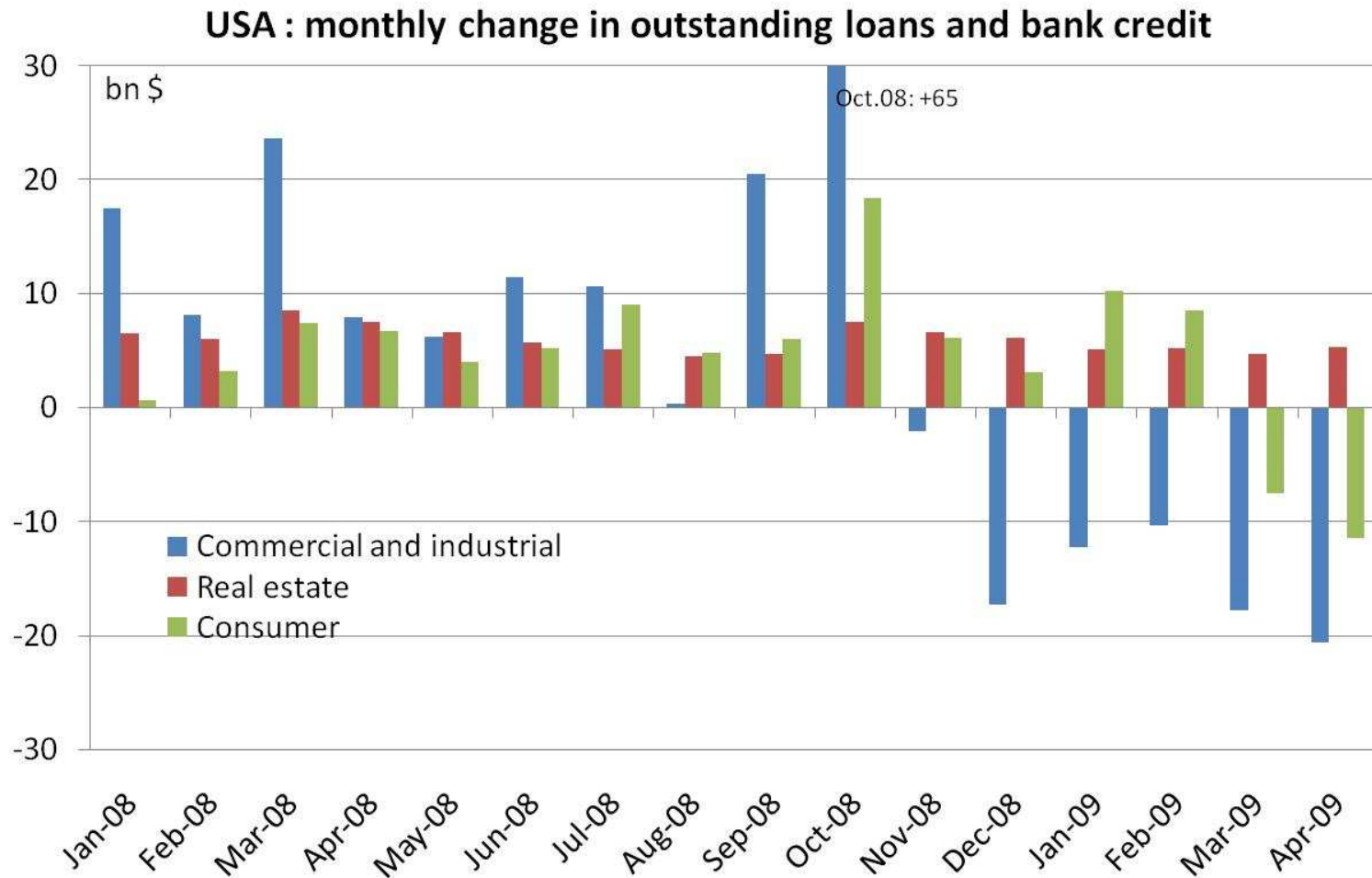
# World bottoming-out, but risk of double-dip

USA: AA Financial Commercial Paper 90 days - FED Funds Effective Rate  
(Last obs: June 9, 2009)



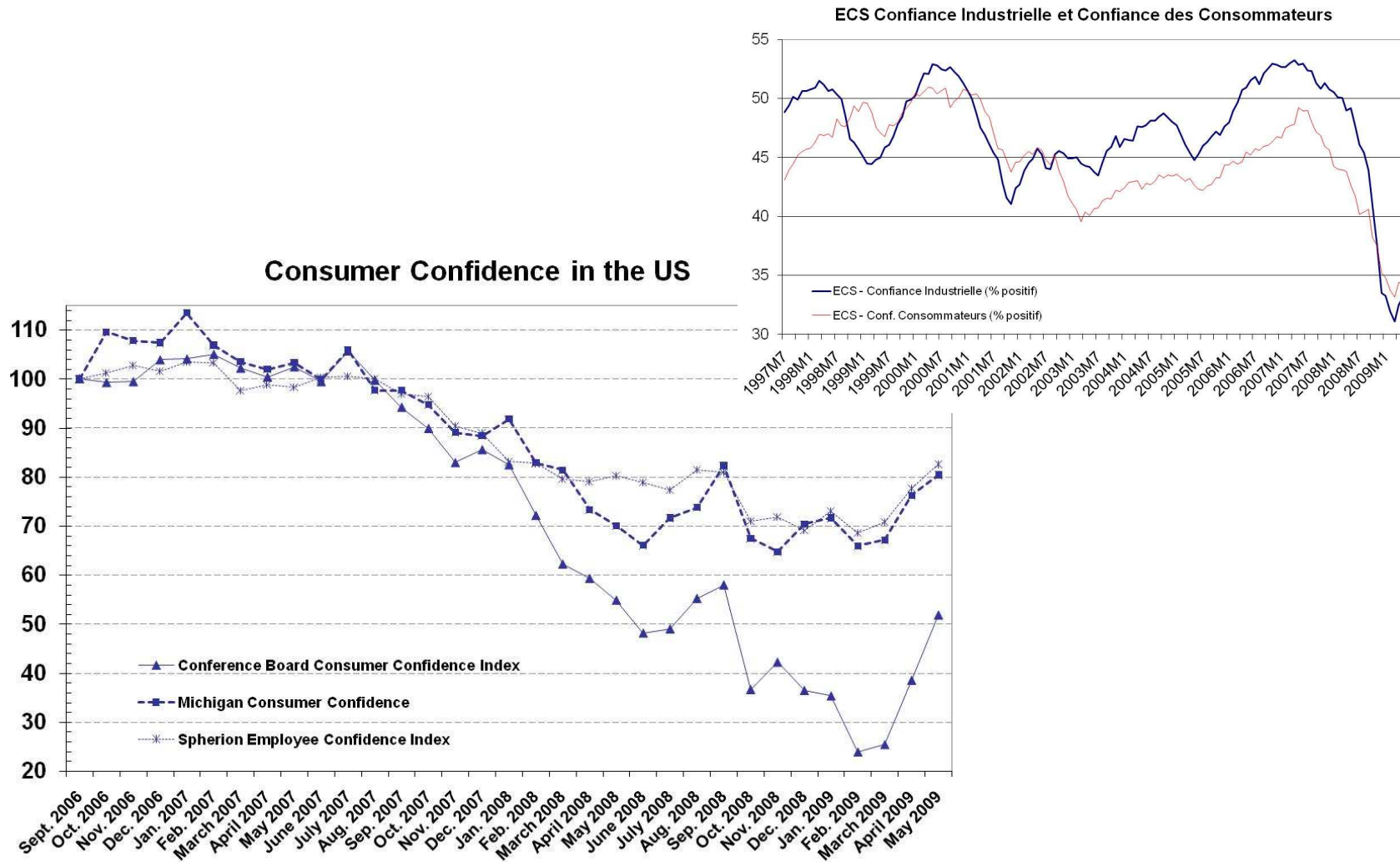
source: FED, TAC

# World bottoming-out, but risk of double-dip



Source : Fed

# World bottoming-out, but risk of double-dip

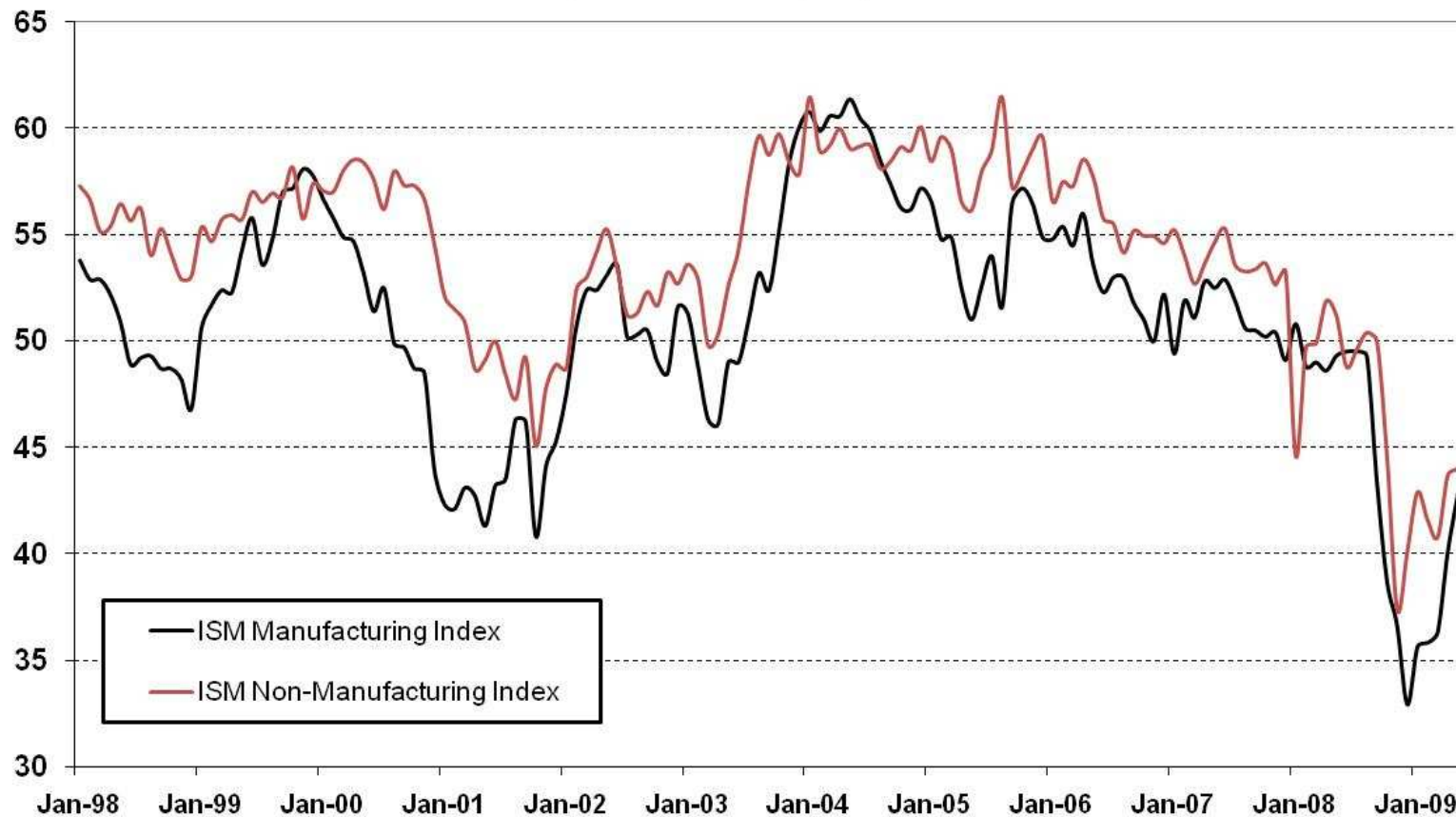


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# World bottoming-out, but risk of double-dip

## ISM Manufacturing and Non-Manufacturing Index

(Last data : may 09)



# World bottoming-out, but risk of double-dip

<i>Commodity prices</i> <i>June 2, 2009 - %</i>	Change / 1 month	Change / 1 year
Food	+4.9	-17.5
Non-food agriculturals	+0.6	-35.1
Metals	+7.6	-37.4
Oil	+18.9	-46.9
Overall index \$	+5.1	-25.6

# World bottoming-out, but risk of double-dip

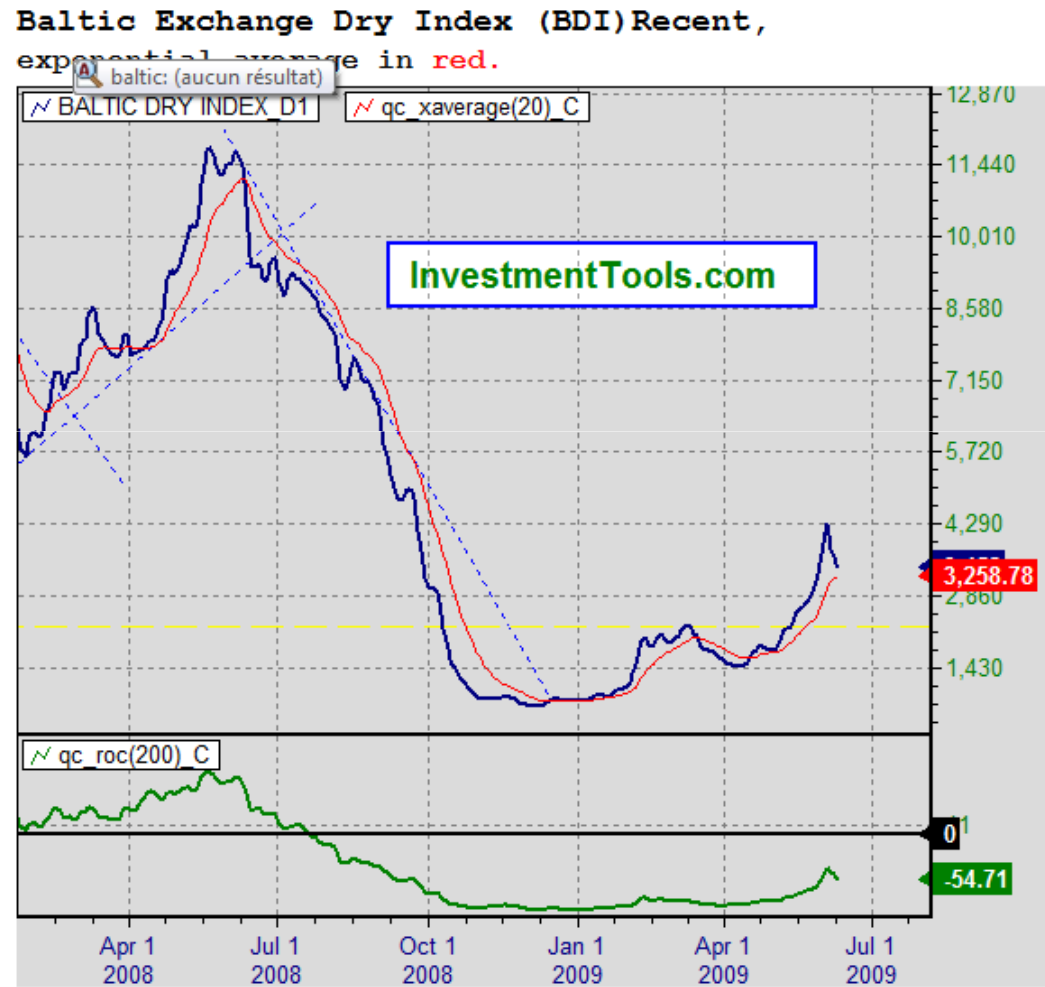


Chart created with NeoTicker EOD © 1998-2007 TickQuest Inc.

# World bottoming-out, but risk of double-dip

## 3 major conclusions for 2009-2010 and beyond:

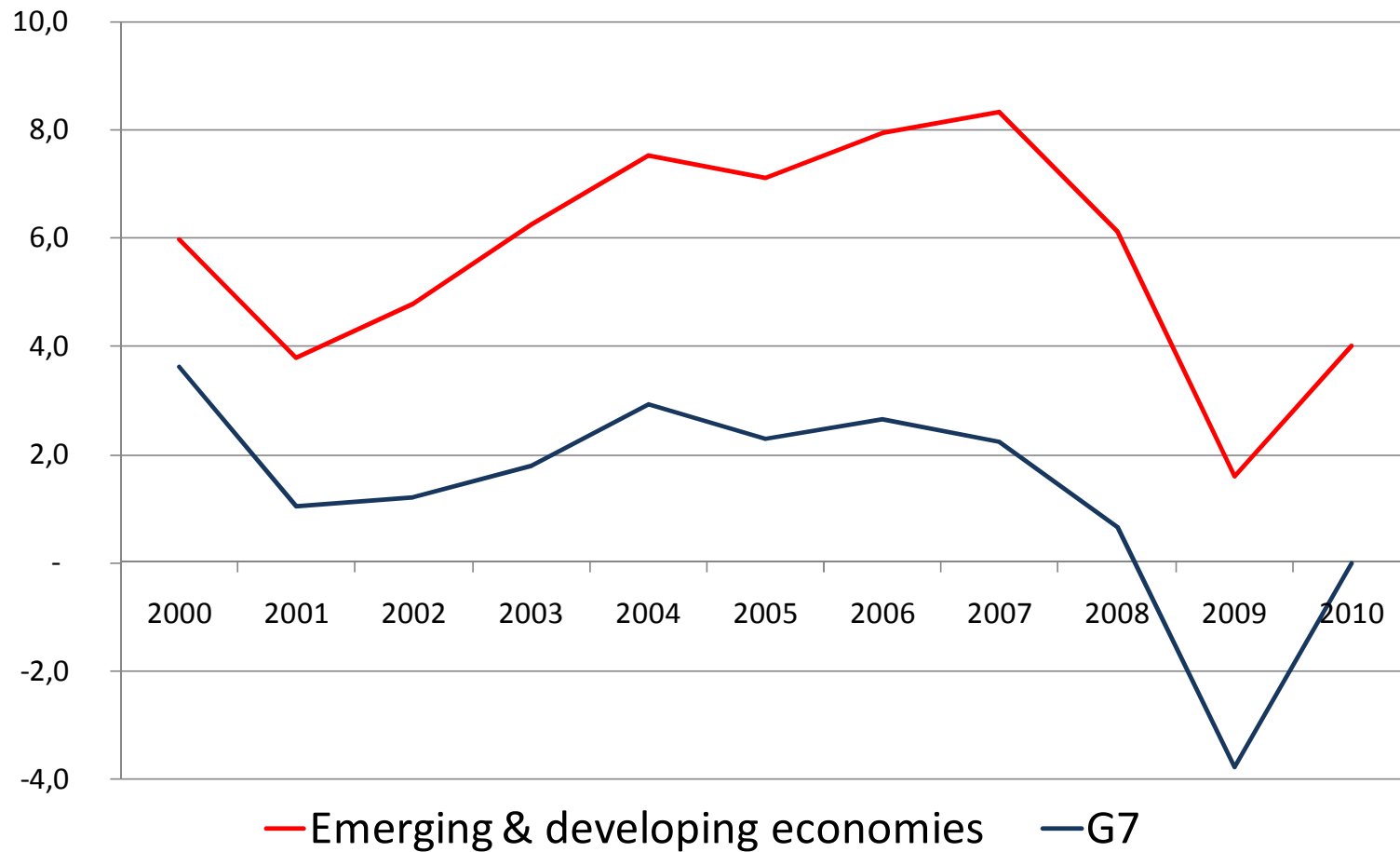
- ✓ Stabilization and a very modest, tepid and lengthy recovery is starting, now in the US, later in 2009 or early 2010 in the EU and Japan;
- ✓ Growth in industrialized countries will remain sub-potential for a long time, with possible social / political turbulences
- ✓ Steeper yield curves, “volatile” stabilization of the USD/EUR rate (1.35 to 1.40), and persistent restrictions in large banks’ international lending

# Engines for growth in the next cyclical phase

- ✓ The US consumer will continue to deleverage and save, EU and Japan still looking for very low growth rates cost → *competition and differentiation*
- ✓ Emerging economies will continue to offer more rapid expansion → *internationalization strategies*
- ✓ But many weak points in emerging markets and higher volatility (demand, prices, finance) → *permanent risk analysis*

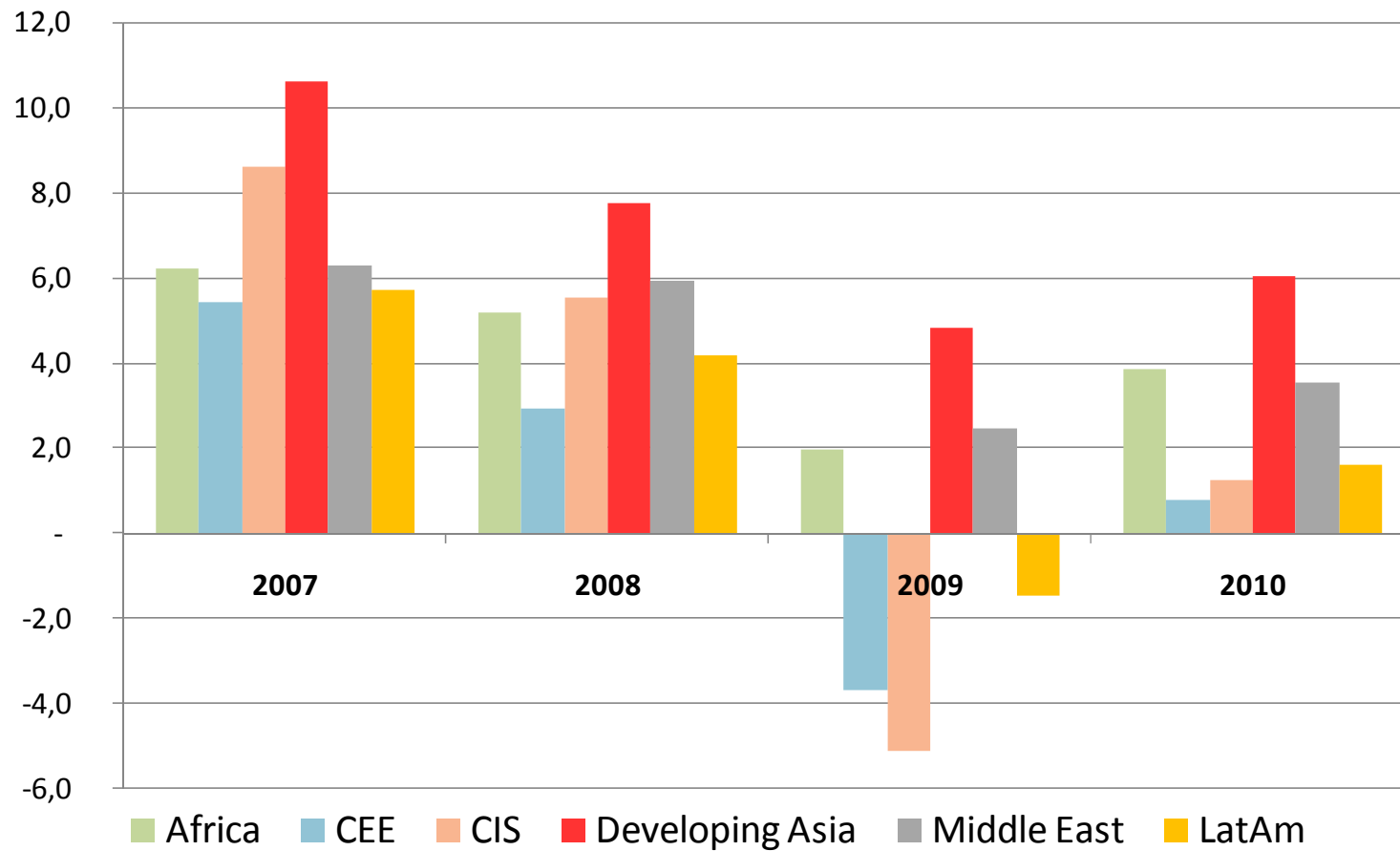
# Engines for growth in the next cyclical phase

**REAL GDP GROWTH - 2000 TO 2010** (source: IMF/WEO)



# Engines for growth in the next cyclical phase

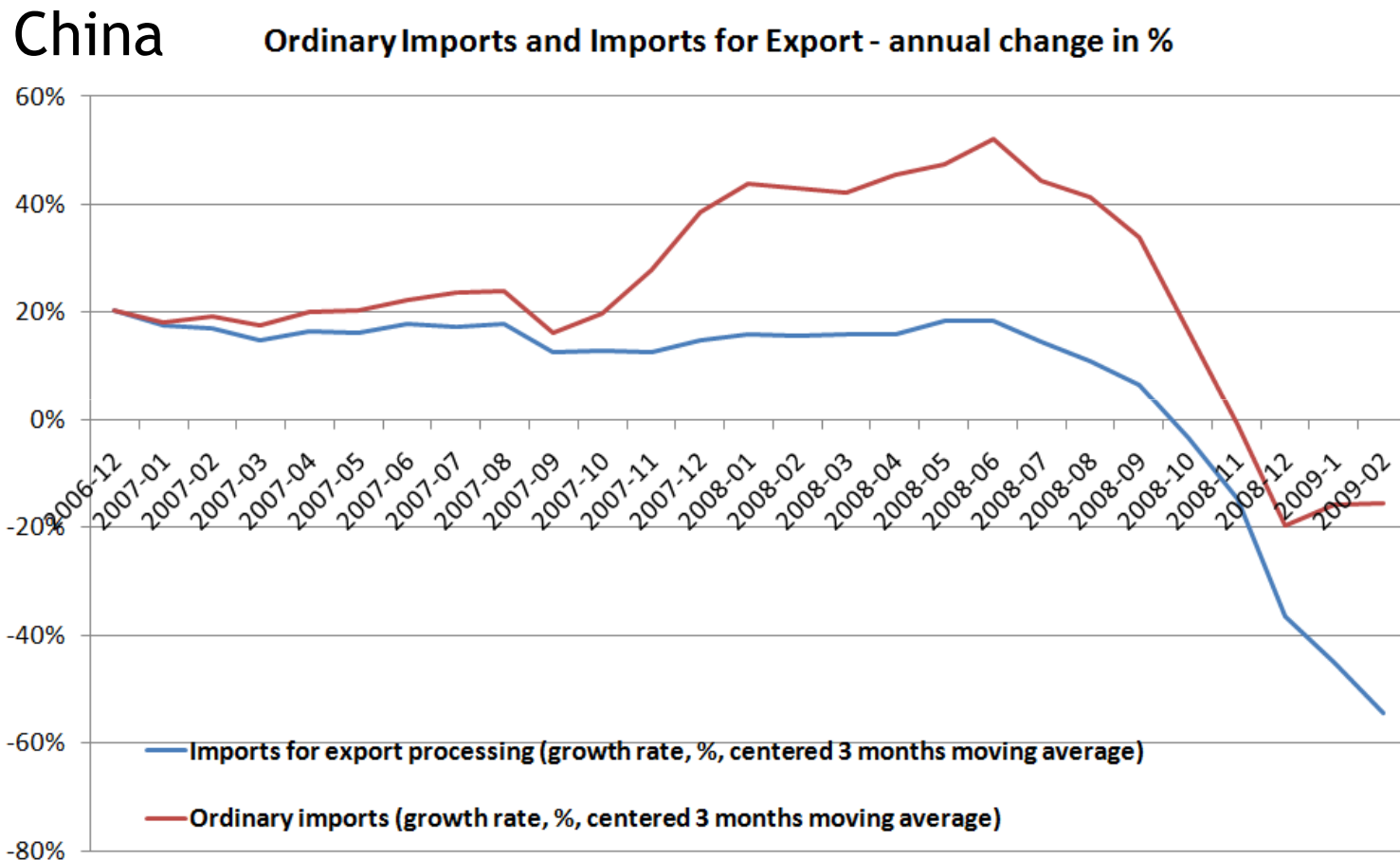
**REAL GDP GROWTH - 2007 TO 2010** (source: IMF/WEO)



# Engines for growth in the next cyclical phase

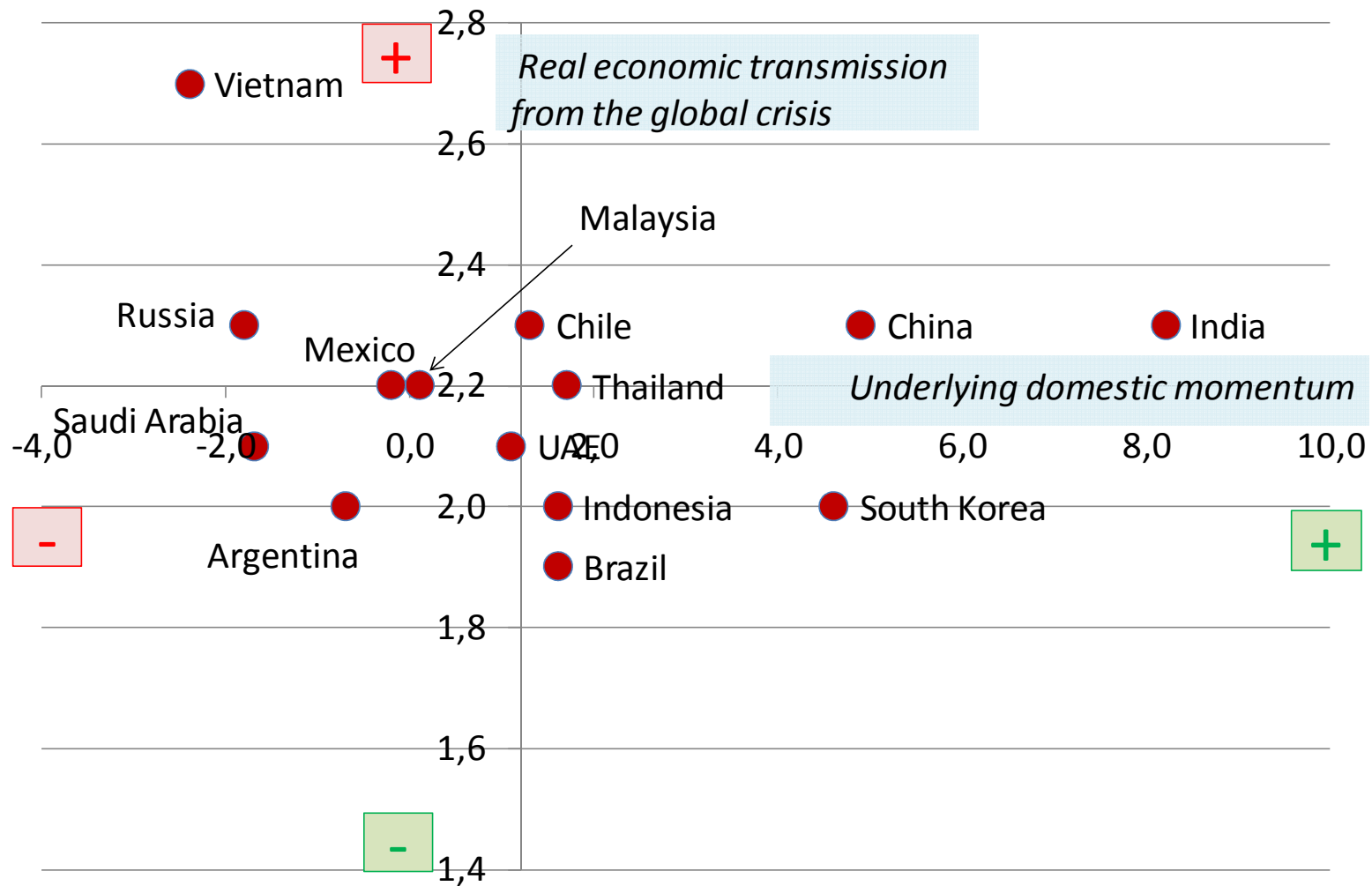
- ✓ In most emerging markets, the consumer is not yet the leading force of demand
  - Income distribution and the very progressive emergence of a middle class
  - Savings and investment as key long-term support factors, but with possible risks of excess capacities in the short run
- ✓ Importance of fiscal / budget measures, with significant infrastructure spending
- ✓ Changing nature of international trade - local content/ regional integration

# Engines for growth in the next cyclical phase

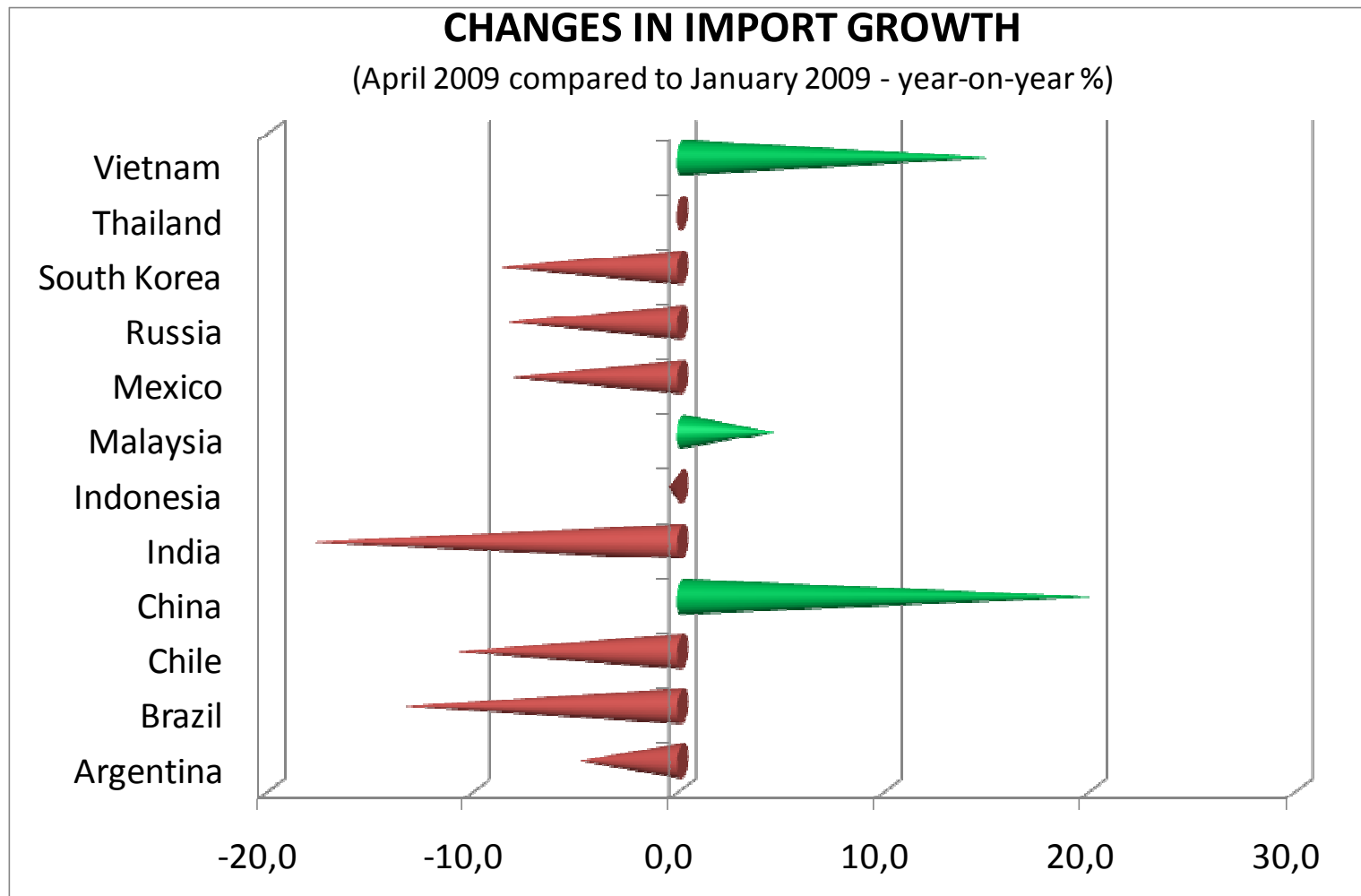


Source : China's Customs Statistics

# Engines for growth in the next cyclical phase



# Engines for growth in the next cyclical phase

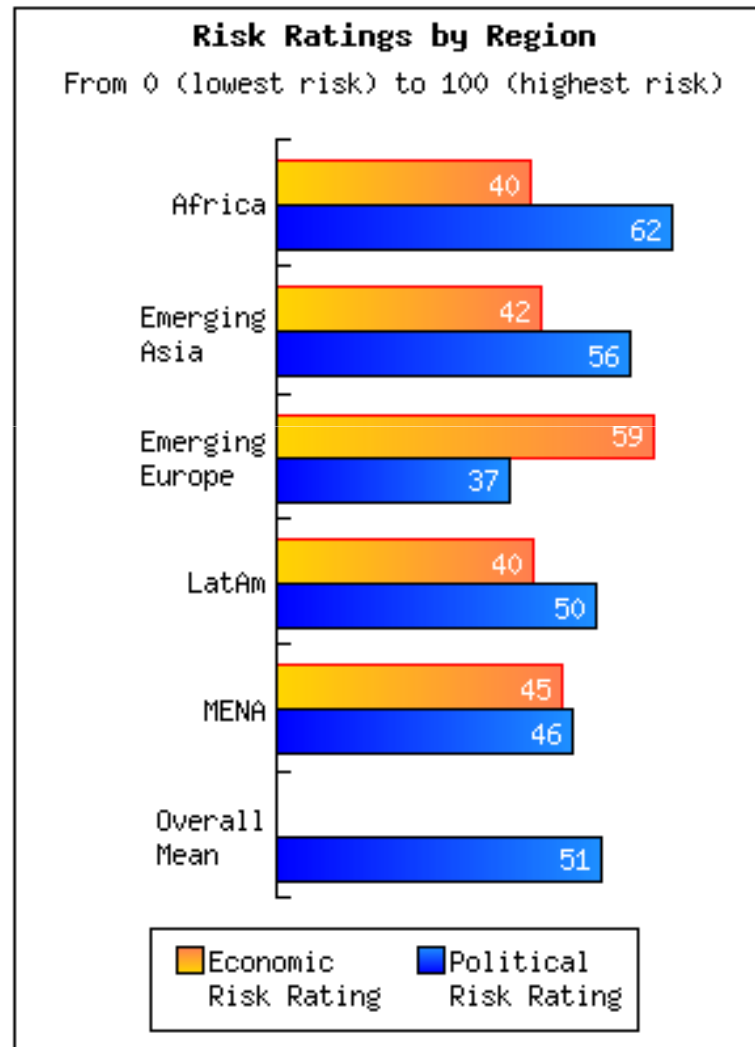


# Major risks - Global and Asian economies

- ✓ In industrialized countries:
  - Social tensions, populist reactions, political polarization
  - Protectionist temptations (NTBs, investment, financing)
  - Inflationary pressures, exchange rate volatility, sovereign ratings
- ✓ Among developing / emerging regions
  - Eastern and Central Europe remains highly vulnerable

# Major risks - Global and Asian economies

## TAC Risk Ratings (Economic & Financial, Political)



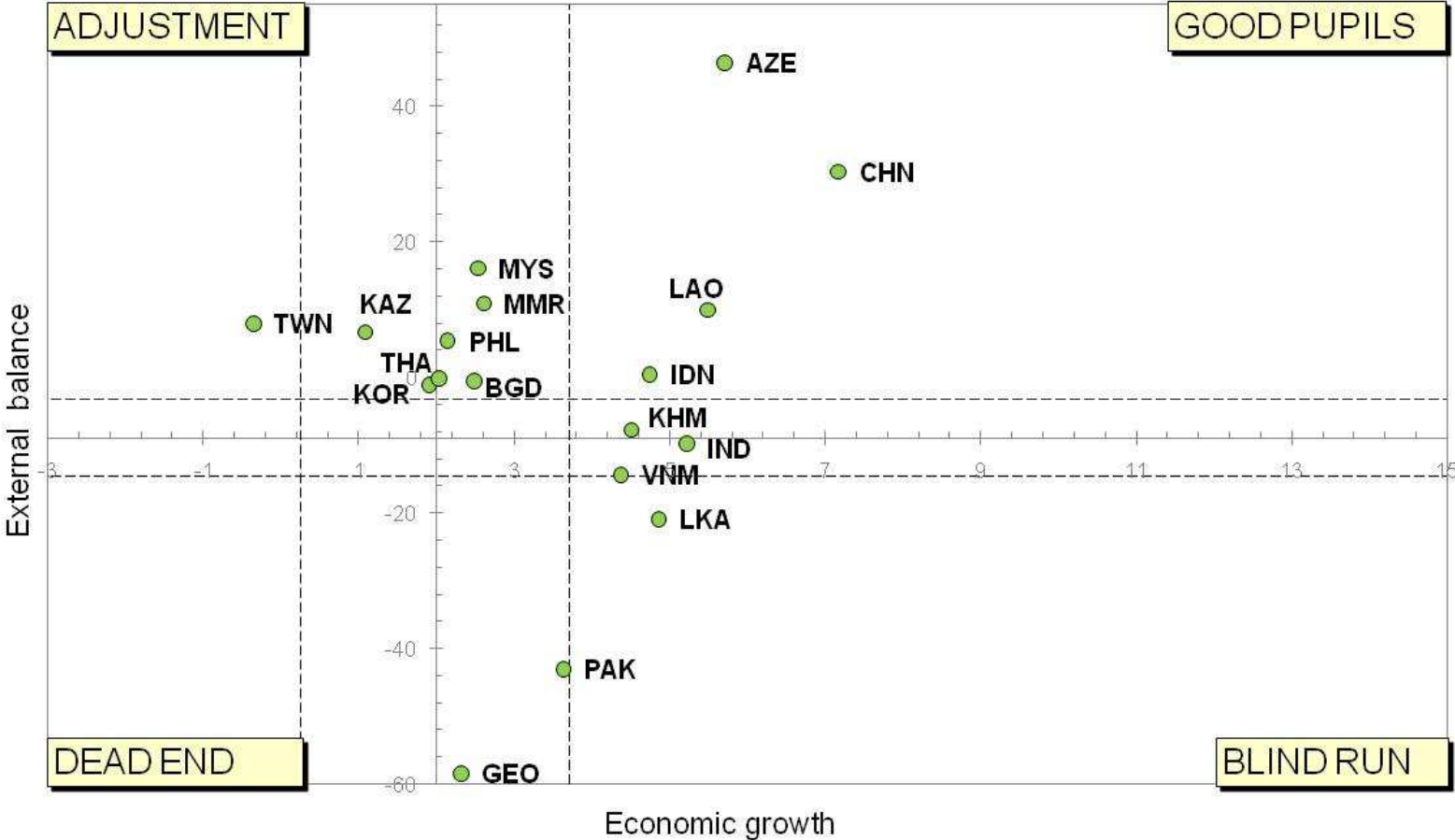
# Major risks - Global and Asian economies

A closer look at Asian countries through TAC's proprietary country risk assessment tool **RiskMonitor**

- ⇒ 6 Fundamental Economic and Financial Balances
- ⇒ Economic & Financial Risk Ratings (exchange rate, activity, cross-border payments)
- ⇒ Crisis Signals
- ⇒ Political Risk Ratings
- ⇒ The translation of these elements into a single “global country risk premium” expressed in basis points
- ⇒ A specific / ad hoc addition to incorporate the transmission of the “exogenous” shock (the global crisis) to emerging economies

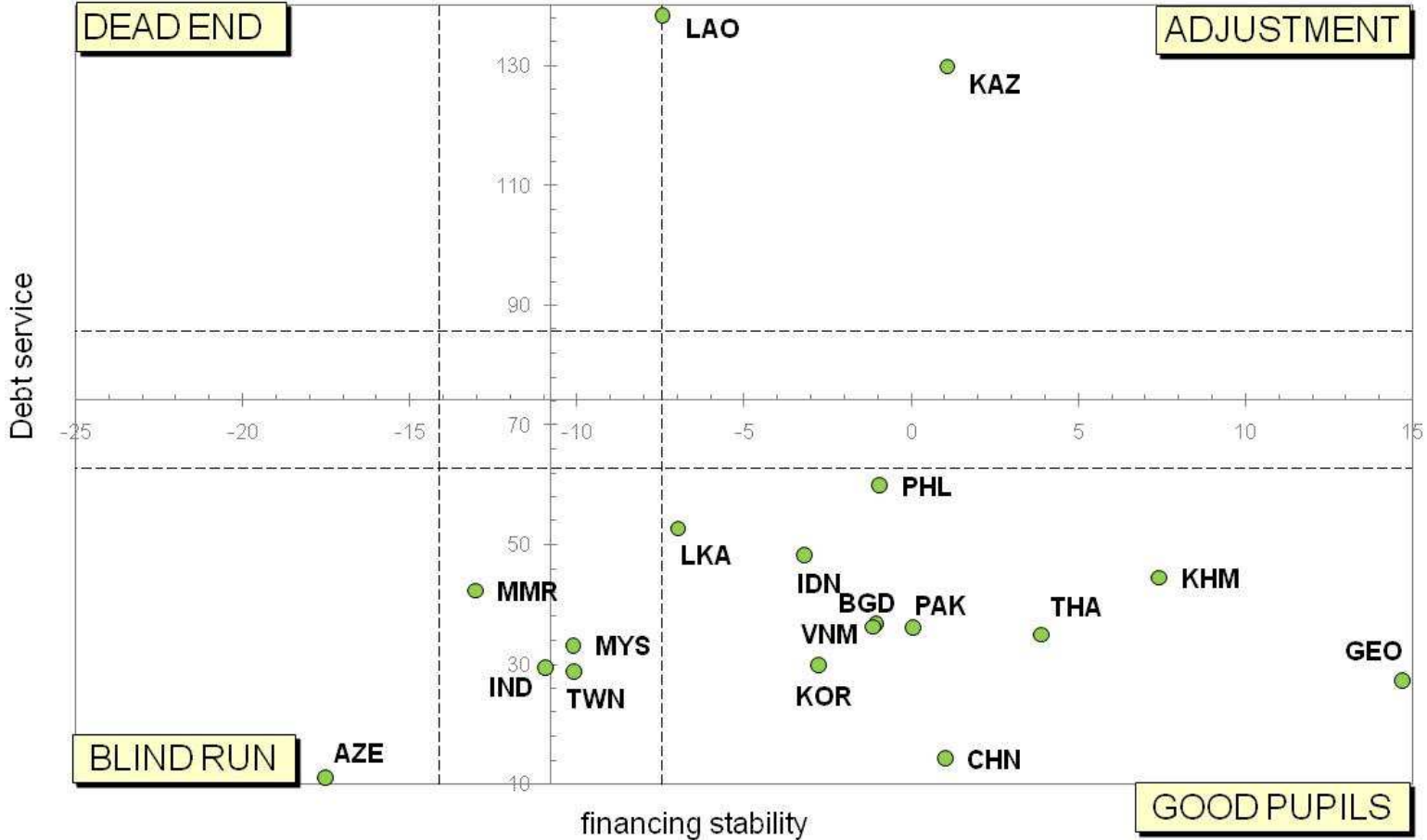
# Growth Balance

1 - Growth Balance



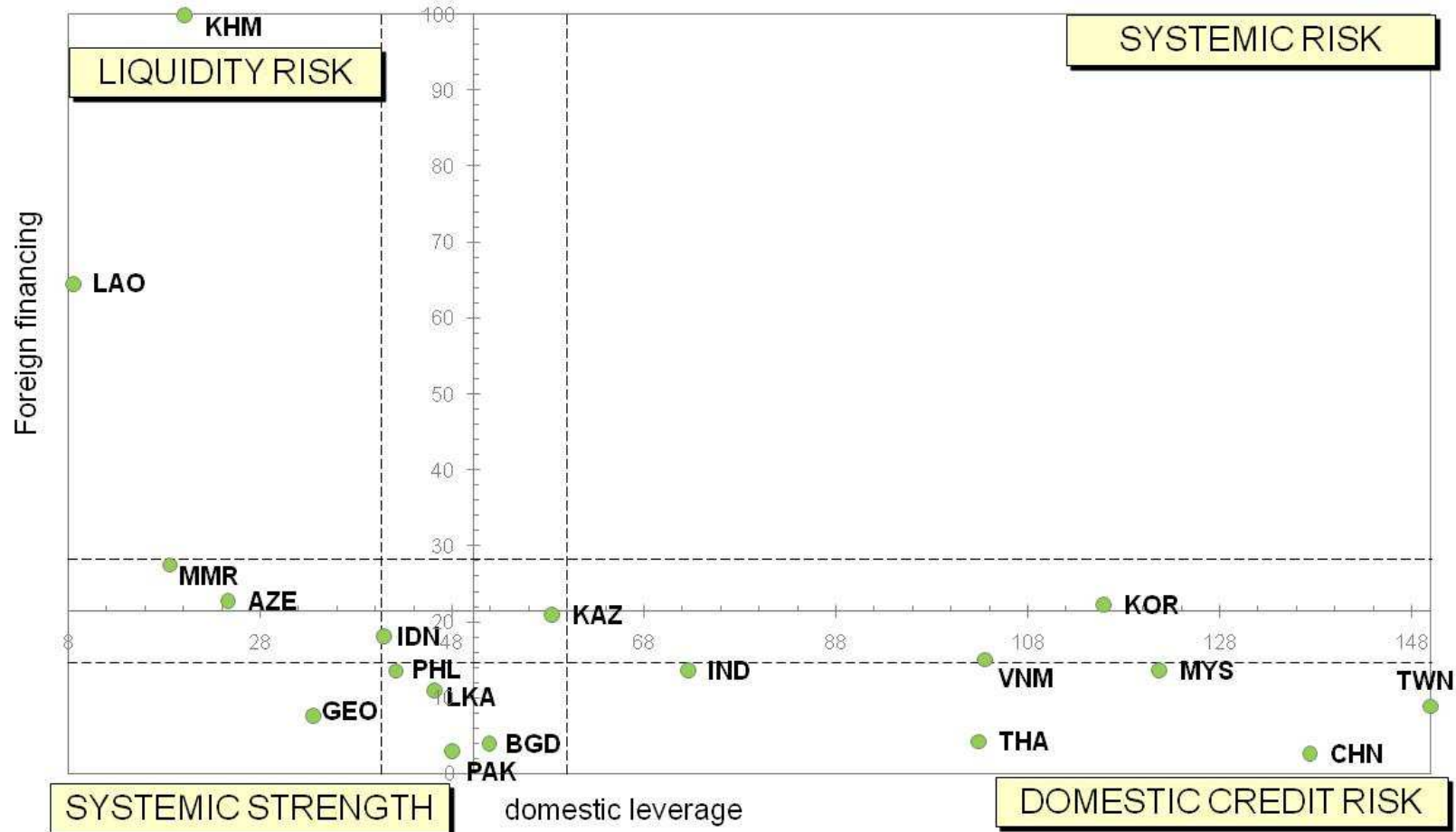
# Debt Balance

2 - Debt Balance

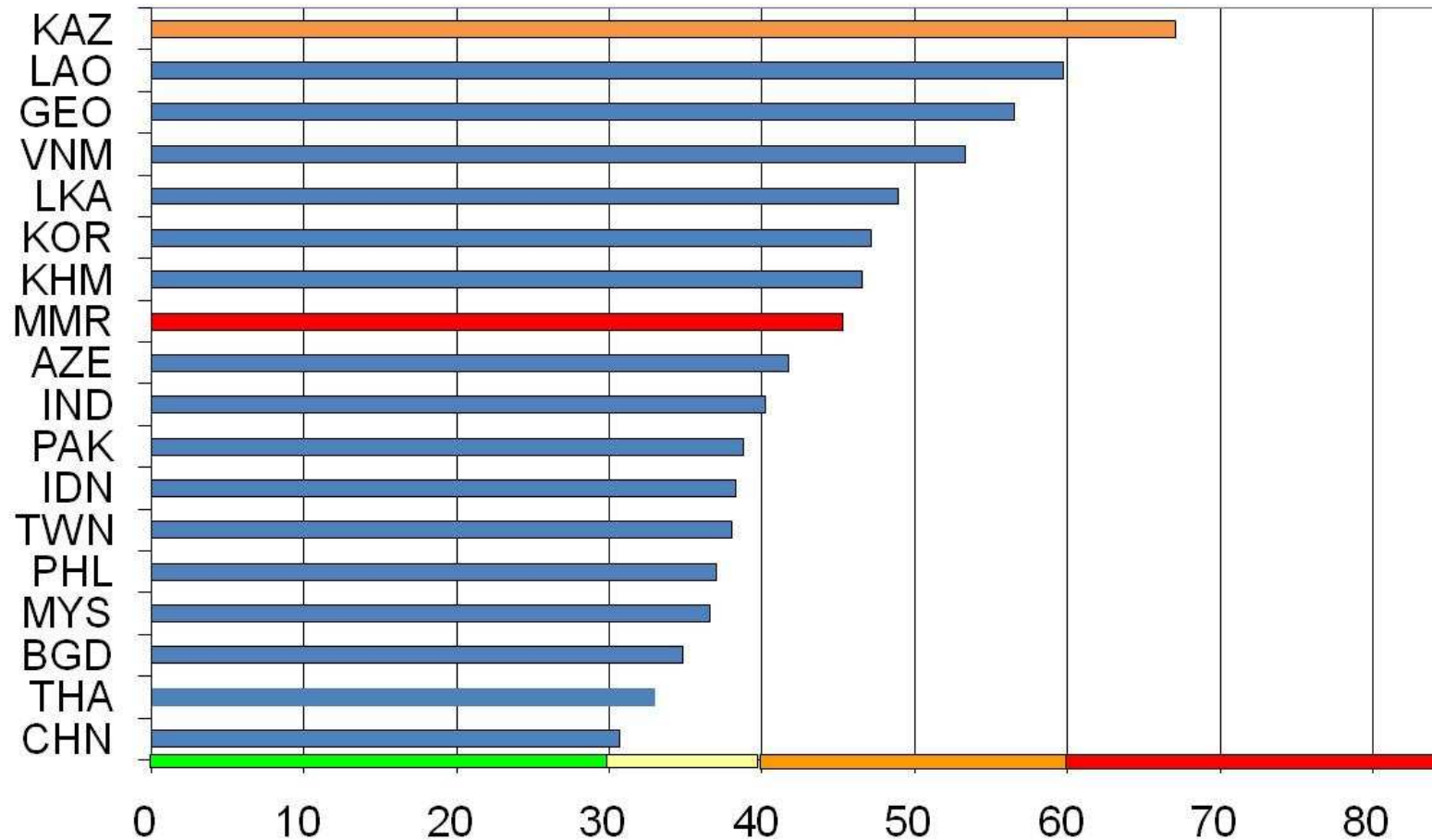


# Banking System Balance

6 - Banking System Balance



# Economic & Financial Risk Ratings

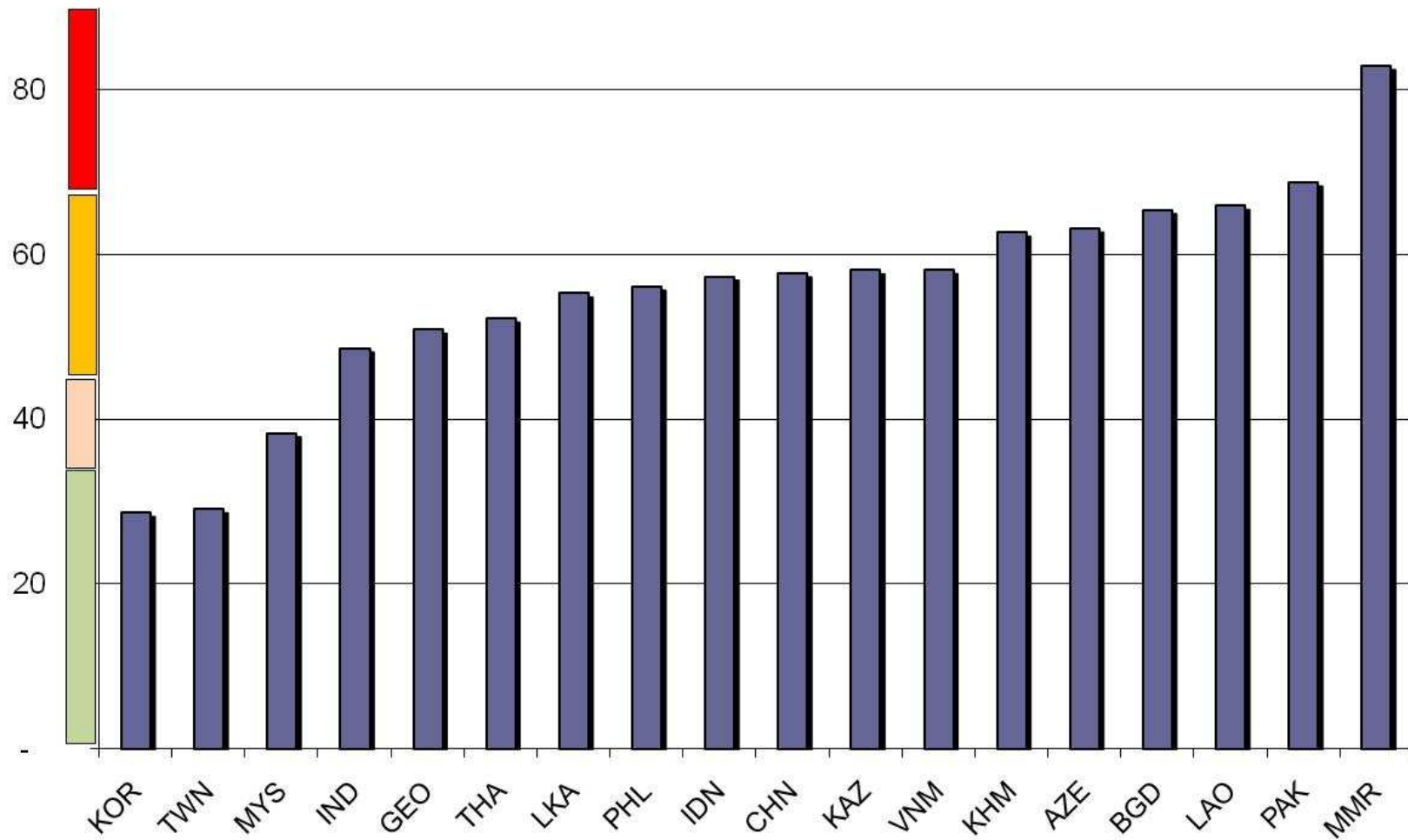


Red : Crisis signal, orange : Watch List indication

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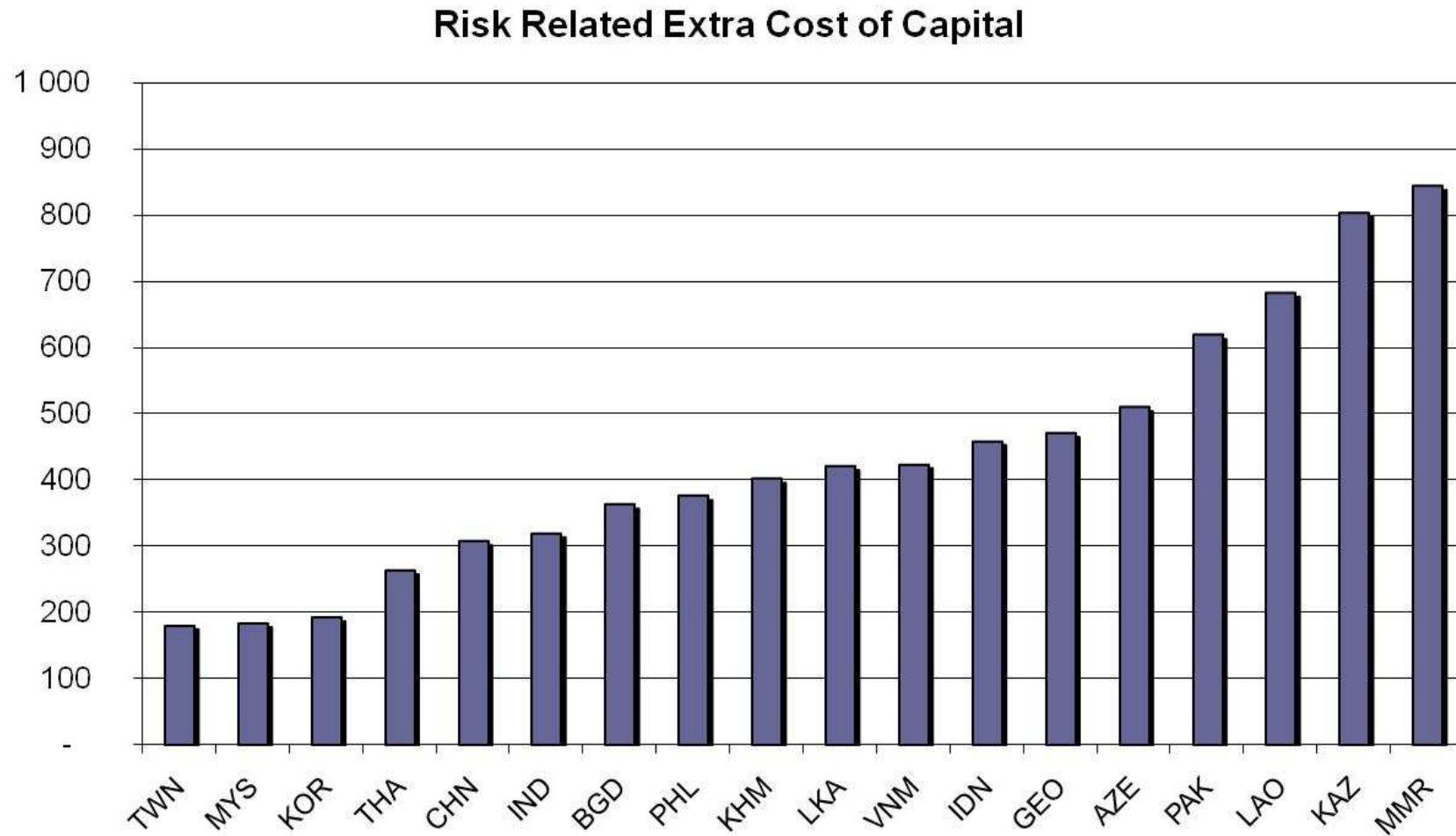
# Political Risk Ratings



# Country Risk in times of exogenous shock

	Real Economy	Banking	Asset Prices	Coverage of Fx borrowing	Transmission score
China	2,1	1,7	1,2	1,1	1,5
Philippines	1,9	1,8	1,5	1,3	1,6
Azerbaijan	2,5	1,8	1,6	1,0	1,6
Taiwan	2,0	2,1	1,6	1,2	1,7
Thailand	2,2	1,8	1,7	1,2	1,7
Malaysia	2,2	2,0	1,6	1,2	1,7
Myanmar	2,1	1,8	1,7	1,5	1,7
India	2,2	2,2	1,5	1,4	1,8
Indonesia	2,0	2,0	1,7	1,5	1,8
Bangladesh	2,3	1,8	1,7	1,4	1,8
Cambodia	2,1	2,3	1,8	1,3	1,8
Georgia	2,4	1,7	1,9	1,9	1,9
Sri Lanka	2,3	1,7	1,9	1,9	1,9
Korea	2,0	2,6	2,0	1,4	1,9
Laos	2,4	2,0	1,6	1,9	2,0
Vietnam	2,7	2,3	2,0	1,4	2,0
Pakistan	2,1	1,8	2,4	2,2	2,1
Kazakhstan	2,5	1,8	2,4	2,1	2,2

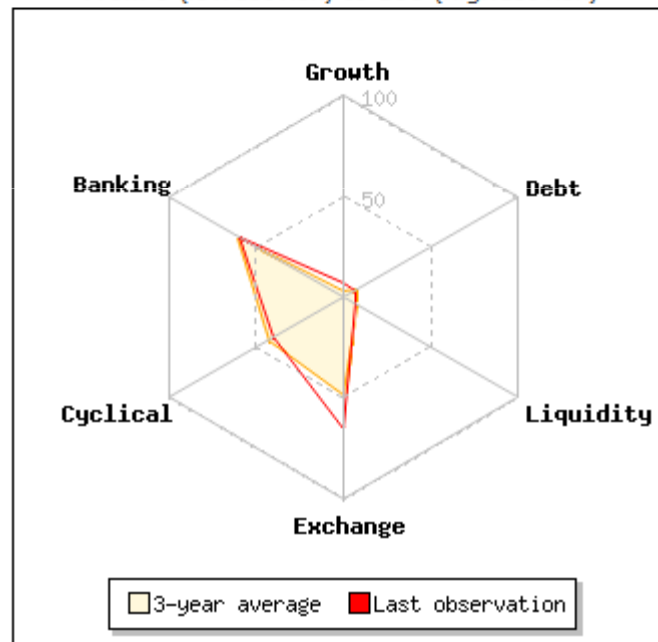
# Risk Related Extra Cost of Capital



# Snapshots on selected countries

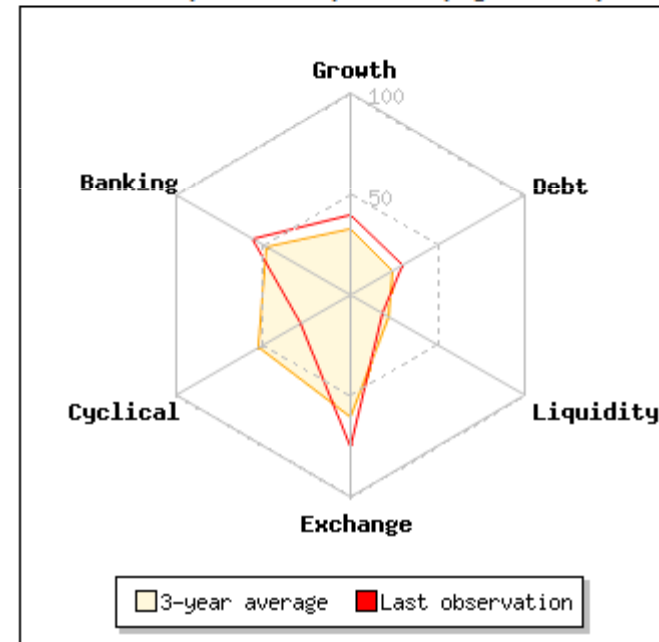
## China

Scores on Fundamental Balances  
From 0 (lowest risk) to 100 (highest risk)



## India

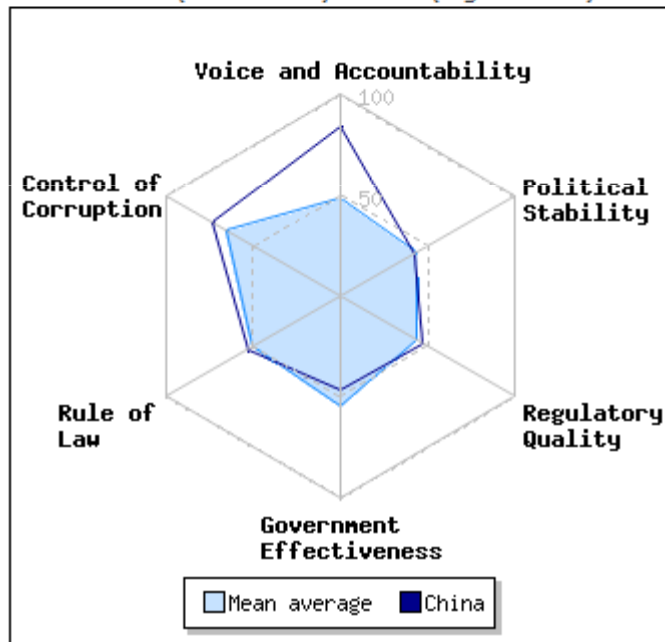
Scores on Fundamental Balances  
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# Snapshots on selected countries

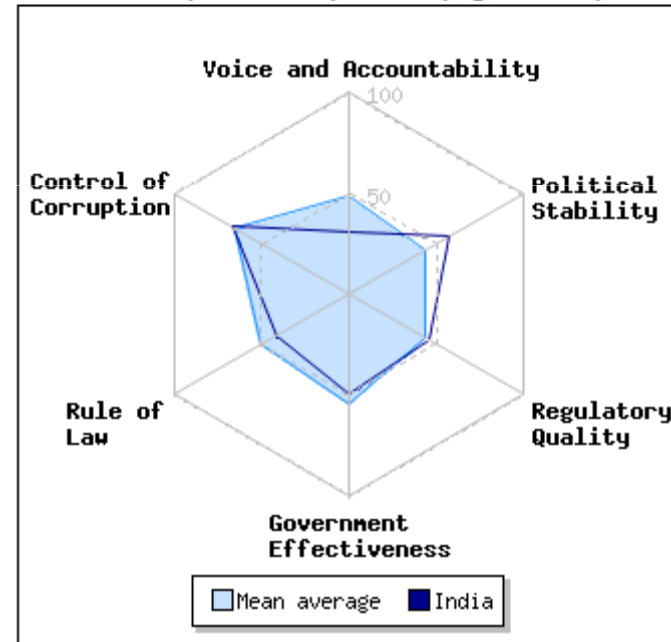
## China

**Political Scores**  
From 0 (lowest risk) to 100 (highest risk)



## India

**Political Scores**  
From 0 (lowest risk) to 100 (highest risk)



# Thank you for your patient attention

- ⇒ **RiskQuant *Diamond*** is a web-based portal providing all country risk results, with monthly updates and short comments
- ⇒ It is accessible through a secured web access at IE resource center / library, for Asian countries