

Is the Crisis Over?

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Is it conceivable that the world economic crisis be over? That the creaky mechanism of world economy is to start up again? The iif (Institute of International Finance) takes the temperature of world economy, and gets a view of the coming year.

**Table one : GLOBAL OUTPUT GROWTH
(in percentages over previous year)**

	2010	2011	2012	2013
Mature economies	2.6	1.3	1.1	1.3
USA	2.4	1.8	2.1	1.8
Europe	2.0	1.5	-0.4	0.5
Japan	4.6	-0.7	2.1	0.8
Others	2.7	1.8	0.9	1.9
Emerging	7.2	6.0	4.8	5.4
Latin Amer	6.1	4.0	2.7	4.0
Europe	4.6	4.8	2.5	2.6
Asia Pacific	9.8	7.5	6.6	6.9
-China	10.4	9.3	7.6	7.8
-India	8.4	6.5	6.0	6.8
Africa Mid E	3.9	4.8	3.9	4.2
World	4.0	2.9	2.4	2.8

According to the iif estimates of Table 1 the world economic improving is still quite small. The US actually will grows less that 2012 . Europe and Japan, look to be somewhat improving , although not much. Japan, which has returned to positive, will grow in 2013 less than in 2012 . Europe's meagre results are due to the financial crisis, which has been translated into an economic depression by the "austerity" imposed to the European debtor countries. It seems obvious that the continuation of that strategy still menaces the possible pick-up of the European economic performance.

However, the iif shows some kind optimism, based on two elements. First, the US Federal Reserve is doing "large scale asset purchases " , and its positive effect is to be seen in the third quarter of the years 2012. The iif considers that the Fed strategy will be kept up for long time, because the Fed is trying to increase employment , an objective difficult to reach . Therefore, the Fed has no other way that to keep up its largess for longer that it thought, to the advantage of the Emerging Economies. The American unemployment is mainly due to structural reasons, and a good part of the money available will be invested outside the USA ; on the other hand, the availability of resources might possibly benefit the American Economy also. The second element is Draghi's promise "to do what ever it takes to preserve the Euro." However, although the need for such a bank might be

quite obvious , the position of the ECB is still a matter of disagreement of Germany and its followers , and the final result of this difference is not quite clear yet.

In any case, the iif has translated its forecasts in the estimates of the amount of capital moving from the Mature areas to the Emerging ones . (See table two)

**Table two : Capital Inflows to Emerging Markets and outflows
(In billion dollars (b\$))**

	2010	2011	2012	2013
Total Inflows	1182	1124	1047	1148
Private inflows	1110	1063	1026	1100
Equity Investment	606	529	582	628
-Direct Investment	461	526	513	536
-Portfolio	145	3	68	91
Private creditors	503	533	445	472
-Comm Banks	156	168	113	146
Non Bank	347	365	332	327
Capital Outflows	-1538	-1443	-1353	-1370
Private outflow	-627	-702	-817	-809
-Equity Inv Abroad	-273	-216	-276	-516
Resident lending	-273	-216	-276	-
Reserves -increase	-795	-663	-535	561

Table 2 presents the iif estimates of Private Capital Flows from the USA, Europe and Japan to the Emerging Countries of the world , including Easter European (with Russia); China and India and other oriental countries; Latin America; Africa and Middle East .

The capital flow to Emerging Countries has started to grow again , getting near the figures of 2010 .

Total Private Capital Flows reached its top level in 2010, at 1,110 billion dollars; it declined in 2011 to 1,124 billion, and fell again in 2012 to 1.026 billion dollars (b\$). The new forecast for 2013 (prepared in October 2012) is up to 1.100 b\$, a level very near to 2010 figure. The strategy of the Fed is clearly considered a serious incentive to export capital towards Emerging countries , which offer higher rate of interest , and good profits .

In 2013, the flow of Equity Investments is forecast to reach 628 billion dollars , +46b\$ compared with the year 2012 , a figure higher of that of the 2010. This figure is made up of Direct investments and Portfolio Investments. The first are estimated to increase to 536 b\$ (+23b\$ over 2012 and +75b\$ compared with the top year) . Portfolio investment , which had been quite low in 2011, will grow to 91b\$, with an increase of 23b\$.

Such a huge movement of money into the Emerging countries also produces a contrary flow.

Total outflow from Emerging countries is estimated by iif for 2013 at 1370 b\$ a flow quite higher than the inflow. The figure for Private outflows, 809 b\$, is less than the previous year by 8 b\$. Equity investment abroad by Emerging Countries has been estimated at 293 b\$, while Residents Lending is evaluated at 561 b\$. Interesting to note that Emerging Countries have increased their reserves by 561b\$, in order to make sure that such a bonanza won't reproduce the "Great Crisis " of the Far East.

Table 3 - Shares of inflow by areas, in percentages

	2010	2011	2012	2013
Asia	48.2	51.8	49.4	46.6
Emerging Europe	17.4	17.7	17.3	18.8
Latin America	24.8	25.0	27.5	26.7
Africa Mid East	9.6	5.5	5.8	7.8

Table 3 shows that the ties that have been established between the Mature Countries and the Asian Area are by now structural, a durable characteristic of to-day world economy. A good part of the goods sold in the mature markets is produced in Asia, and has a stable, actually increasing, market share. A similar connection is being created with some countries of Latin America, which is increasing its share and will soon reach 30% of the total flows.

Table 4 Main destination of the capital outflow from Emerging Countries (in billion \$)

	2010	2011	2012	2013
Total Outflow	1538	1443	1353	1370
-Investment and lending abroad	627	702	617	809
To Reserves	795	663	563	561
Errors omissions	116	78	-	-

The level of adding to reserves by Emerging Countries is quite relevant, specially in the Asian Countries probably as an effect of the great finance crisis of the twenty years ago, which has created an habit of prudence.