Standard Chartered

press release

Divided, disconnected but growing: The year ahead 2013

London, 29th November 2012 – Standard Chartered's 'Year Ahead – 2013' predicts that the world economy will grow by 2.8% next year. That is a pick-up after two years of deceleration, when growth slipped from a post-crisis high of 4.4% in 2010 to 3% in 2011 and to an estimated 2.6% this year. The main area of weakness is Europe, where Standard Chartered expects the recession to continue into 2013.

The US could provide further upside to global growth estimates if Congress reaches an agreement over the coming weeks that helps delay automatic tax increases and spending cuts in the New Year. The so-called `fiscal cliff' is one of the biggest risks to our forecasts, and the Bank expects a resolution to smooth the tax impact over successive years, which would help revive consumer sentiment and drive investment spending, especially in the second half of 2013.

Emerging markets will continue to be the biggest driver of global growth, reflecting the shift in the balance of power from the West to the East, according to the report. This is resulting in a growing middle class across the emerging world, which is driving domestic consumption and helping to offset ongoing deleveraging in the West. Meanwhile, rising new trade corridors, with increased trade between Asia, Africa, the Middle East and Latin America, and increased investment, innovation and infrastructure spending, are adding new sources of growth in the emerging world.

This emerging market-driven growth is getting further impetus from monetary easing in the developed and emerging economies, as well as improving business and market confidence as fears recede over Europe and a potential hard landing in China.

The euro remains fundamentally flawed and the crisis in the region is not over, but it has become chronic rather than acute, with a floor put under it by the actions of the European Central Bank. Standard Chartered anticipates a very weak European economic recovery later in 2013.

Standard Chartered's Global Research team explores the following key areas in more detail in the report:

China will see a gradual acceleration in activity as project spending rises and housing construction picks up. As a result, GDP growth is likely to rise to 7.8% from 7.7% in 2012, though these numbers conceal a marked acceleration compared with recent quarterly growth numbers.
India will also see a gradual pick-up in activity as lower inflationary pressures allow the Reserve Bank of India to cut interest rates and modest reforms improve business confidence. But, even more than in China, reforms are urgently needed to restore faster growth.

Elsewhere in Asia, the Bank's economists are particularly optimistic about Indonesia, Malaysia, the Philippines and Taiwan, where growth is accelerating to above 10-year average rates. The Philippines is likely to be a star performer in 2013, growing 5.8%, supported by the peace dividend, a surging business services sector and FX inflows in anticipation of a ratings upgrade.
In Africa, higher commodity prices should support growth in many countries. And despite concerns about the external environment, our forecast for growth for the region is 5%. South Africa's sluggish performance holds down the average; elsewhere in the region, we forecast no less than nine countries whose 2013 growth rates above 7% will put them in our "7% Club". Economies growing at a 7% annual rate double in size over the course of a decade.

For the Middle East, oil prices are expected to remain well supported, pointing to continued strong growth in oil-exporting countries. For others, some facing political transitions, the outlook is more complex and depends on maintaining political stability and reinforcing business confidence.
Marios Maratheftis, Global Head of Macro Research, commented: "While we foresee progress in the global economy in 2013, there are clearly still bumps in the road. The West continues to struggle with its debt overhang and in the near term, a failure to resolve the US fiscal cliff satisfactorily would bring a new US recession, impacting the whole world, while the European crisis could once again come to a head.

"However, we also reiterate the view we took a few years ago; that economic power continues to move from West to East and despite much discussion of, for example, a China slowdown, Asian economies are growing at rates that can only be dreamt of in the West. For Asia, monetary easing is over for most central banks, and capital inflows and higher inflation will reemerge as a key concern by the latter half of 2013. Asian central banks may have to put their inflation-fighting hats on in the second half.”

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For further information, please contact:

Shaun Gamble
Senior Manager, External Communications
Tel.: +44 20 7885 5934
Mobile: +44 7766 443662
Email: shaun.gamble@sc.com

Marios Maratheftis
Global Head of Macro Research
Tel: +971 4508 3311
Email: marios.maratheftis@sc.com

Note to Editors:

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