# EDITORIAL



## DISPARITIES AND RESHUFFLING

**Growth in emerging countries held up quite well in H1 2023, thanks to countries in Asia, Brazil and Mexico. In Asia, inflation returned to very moderate levels in August or September (with the exception of India) and, compared to other areas, monetary tightening between mid-2021 and mid-2023 was on a much smaller scale. This helped offset the drop in exports. However, Central European countries did not benefit from this offset effect. Business and household surveys indicate that disparities between areas became more pronounced over the summer. These surveys also show that the heavyweights in Latin America (Brazil, Mexico) are better positioned within the major EM regions.**

Up until spring 2023, growth in emerging economies held up well overall, but disparities were significant. Measured year-on-year, real GDP growth in our sample of 26 countries accelerated sharply, reaching 5% in Q2 2023 after 3.3% in Q1 2023 and 2.6% in Q4 2022. Excluding China and Hong Kong, the acceleration is less marked (from 2.6% to 3.9%). On a sequential basis (i.e. quarter-on-quarter and annualised), economic growth, excluding China and Hong Kong, was stable at 4%. In Q2 2023, GDP fell for around a quarter of emerging economies (either y/y or q/q).

Outside China, economic growth in Asia surprised on the upside in H1 2023. Growth was maintained at around 2% on a sequential basis in industrialised countries (Korea, Singapore, Taiwan) and was firmly sustained at between 5% and 7% in India, Indonesia and Malaysia. Conversely, the main Central European economies experienced a recession or a stagnation, Hungary being the most affected with a drop in GDP over 4 consecutive quarters (-2.3% cumulative). Turkey is proving the exception in Europe, with growth boosted by accommodating monetary policy at the time. The situation varies most widely in Latin America with, on the one hand, Brazil, where growth has surprised on the upside, and Mexico, where growth has held, and, on the other hand, economies that are in recession (Argentina and, to a lesser extent, Chile and Peru) or experiencing a very significant slowdown (Colombia).

The disparities between areas can be explained by past levels of inflation and monetary tightening. In Asia, with the exception of India and the Philippines, inflation returned, in September or October, to moderate levels of between 1% and 4%, while the range is 7% to 12% for Central European countries and 4.5% to 11% for Latin American countries. Disinflation has supported household consumption in Asia more significantly than in other areas. Similarly, monetary tightening between mid-2021 and mid-2023 was, on average, much more moderate in Asia excluding India (+250 bps on average) than in other areas (700 bps in Central Europe and 900 bps in Latin America), which limited its negative impact on private investment spending.

Secondly, the disparities can be explained by a different exposure to the external environment and by specific situations: Mexico has benefited from the momentum of the American economy, Brazil from the strong upturn in agricultural production, still relatively high agricultural commodity prices and measures to support household income, Indonesia from the upturn in tourism and infrastructure investment, and India from increased public investment. Conversely, exports from industrialised countries in Asia have suffered from the reduced momentum of Chinese demand, while Central European economies have suffered from the slowdown in demand in the euro zone, particularly Germany.

Disparities by major areas can be found in business surveys in the manufacturing sector available until September (see chart).

BUSINESS CLIMATE IN MANUFACTURING SECTOR

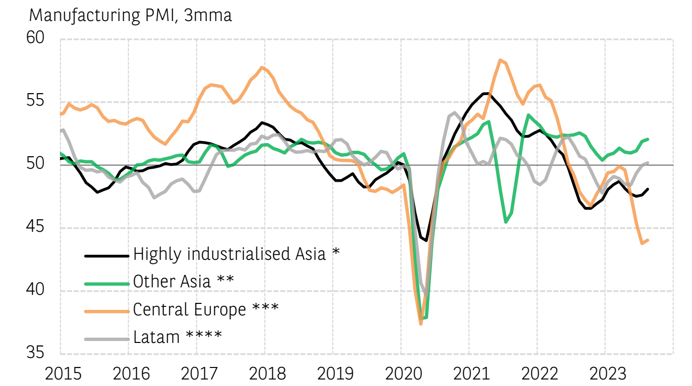


CHART 1

* SINGAPORE, S.KOREA, TAIWAN / ** INDIA, INDONESIA, MALAYSIA, VIETNAM / *** POLAND, HUNGARY, CZECH REP / **** BRAZIL, MEXICO

SOURCE: S&P GLOBAL, BNP PARIBAS

These disparities are especially pronounced between Central Europe and other areas. At the same time, the recovery in household confidence has been more marked in Brazil, Mexico and Indonesia than in other countries.

Furthermore, surveys confirm what growth estimates had suggested: Latin American heavyweights (Brazil and Mexico) are, just this once, better placed within major EM regions. This new pattern could continue if recent tensions over oil prices were to spread to all commodity prices against a backdrop of fragmented markets and growing geopolitical instability. Mexico is also already benefiting from the development of nearshoring.

**François Faure**
francois.faure@bnpparibas.com