ICBC Standard Bank

Belt & Road (B&R) Economic Health Index Update – August 2017

Growth conditions remain subdued as monetary conditions continue to tighten

Key findings bullet points:

- Current growth across the B&R slipped back in August but remains relatively buoyant by post-crisis standards.
- Headline monetary condition tightened for a second consecutive month. This is evident across most B&R regions, yet remains relatively loose compared to the post-crisis trend.
- Central banks in the MENA region continue to tighten rates in line with the FED. Others cautious as they track continued liquidity contraction as indicated in monetary and credit growth.

B&R growth falls back but remains buoyant by recent history

Our bespoke monitor of current growth across the B&R fell back in August but remained above-average by recent standards. The most recent slowdown was strongest in East Asia and the Middle East, while the CEE was the only region not to fall over the latest period. However, it should be noted that the regional slowdowns were all around or below their long-term average moves (Figure 1).

Aided in part by the pick-up in external demand from the rebound in the developed world, all regions have participated in relatively strong B&R growth over the last year. East Asia and MENA have, in particular, seen the largest change in growth over this period. It will thus be interesting to see whether these regions' latest slow down persists. MENA is still home to the lowest growth in the B&R and the recent geopolitical tension increases the risks on this score. According to our monitor, East and South Asia continue to vie for the fastest growing region with South Asia enjoying the current advantage driven by a rebound of the Indian economy.

Monetary conditions tighten again but still somewhat looser than trend

Monetary conditions in the B&R region tightened for the second month in succession, although inflationary pressures remain relatively subdued by historical standards. The latest tightening was evident across all regions except the CIS. The CEE saw its first tightening, albeit extremely modest, in over a year.

Real interest rates have been broadly stable since April and remain just below their post-crisis average. Liquidity conditions have continued to tighten with acceleration in the decline of monetary growth and a sustained period of weakness in business lending.

MENA policy cautious on the FED, others focus on tightening credit conditions

In MENA, monetary conditions have tightened for the past seventeen months consecutively – a trend that has been driven by a prolonged slowdown in credit growth, for both corporates and consumers, and a sustained decrease in monetary growth. This trend is largely a reflection of the weakness of the domestic economy which has sapped demand for credit. However, in recent months, policy has also taken a more active role with many of the region's central banks hiking rates, consistent with the actions of the Federal Reserve (FED) (Figure 3).

In contrast, other regions - with traditionally less USD linked currencies - have chosen to react more cautiously to the FED's actions. There, any recent tightening reflects a slowdown in the rate of monetary and credit growth. Interestingly, the last quarter has seen some rebalancing in China as consumer borrowing has risen while business lending has declined.

Figure 1: Total demand monitor for B&R region

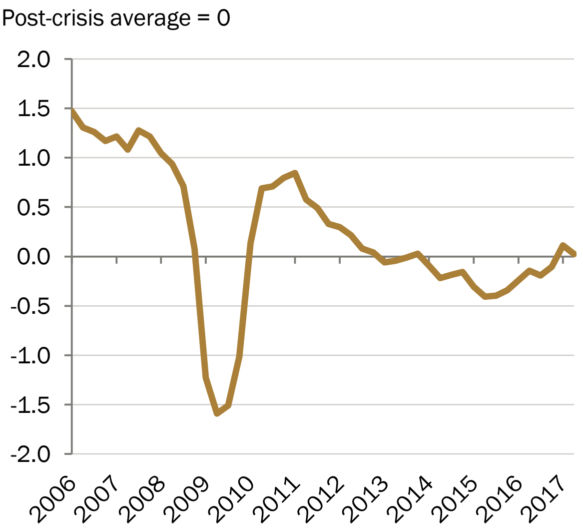


Figure 2: Inflation and monetary policy across the B&R region

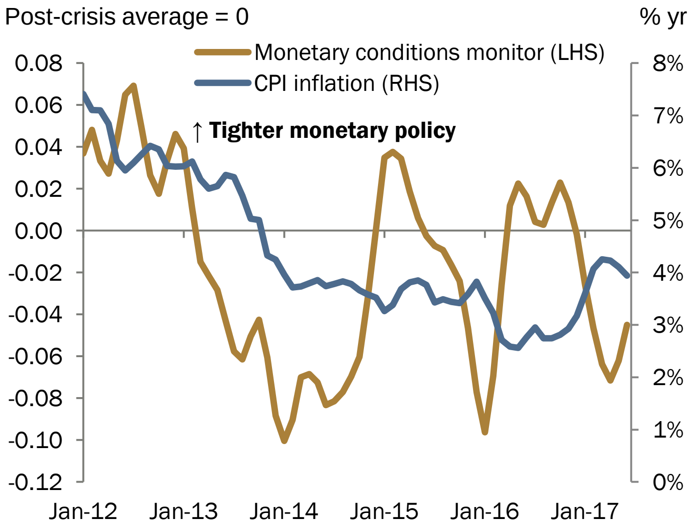
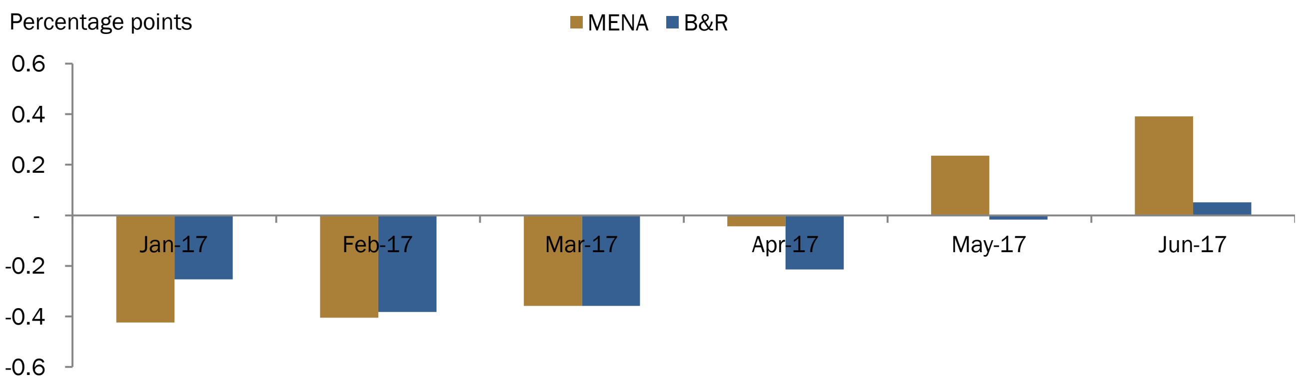


Figure 3. MoM real interest rates change: MENA vs B&R region



Source: Oxford Economics/Haver Analytics

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