



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

The CEE enjoys strong tail winds as a nuanced picture emerges across other regions

Key findings bullet points:

- Our measure of total demand suggests growth momentum remains positive across the Belt and Road (B&R) with particular strength in CEE
- External demand momentum is strong across all countries but domestic demand indicates a more nuanced picture
- While consumer lending continues to rise from a low base across the B&R, the CEE is the only region also enjoying concurrent positive momentum in business lending

Strong Growth momentum led by CEE

Our bespoke model of total demand suggests that growth momentum remains robust across the B&R: 71% of countries and all regions registered faster growth than their 1 year average in the latest readings. The CEE experienced the strongest momentum followed by the CIS, meanwhile MENA suffered owing to a collapse in Qatar. Montenegro was the only country in the CEE not to exhibit positive momentum while Hungary was the outstanding performer. The CIS was a more of a mixed bag but particularly strong showings from Russia, Belarus and Armenia supported regional growth momentum performance. Nevertheless, the recent bailout of Otkritie, potentially symptomatic of more general vulnerabilities in the Russian financial sector presents some downside risks going forward. In absolute terms, total demand growth is near long term trend in East Asia, slightly above in South Asia and almost half a standard deviation higher in the CEE. In contrast, MENA and the CIS are both hovering some distance away from their long term trend (Fig 1).

Fig 1: Total demand by B&R Region

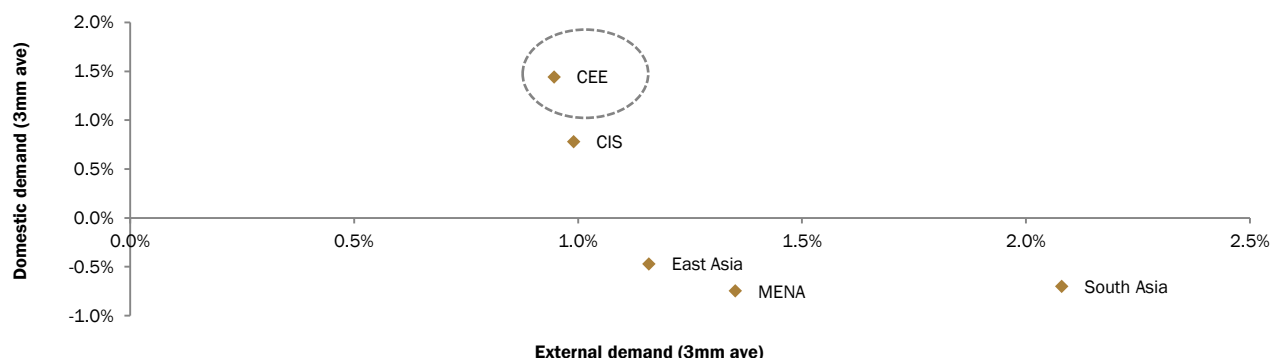
	Last	1yr Average	Long Term Average
B&R	4.1%	3.2%	4.3%
MENA	2.0%	1.5%	4.3%
East Asia	5.6%	5.0%	5.6%
South Asia	5.7%	5.1%	5.5%
CIS	3.2%	2.2%	4.9%
CEE	4.5%	3.3%	2.3%

Source: Oxford Economics

External demand underpins positive outlook but domestic demand suggests a more varied picture

All B&R countries are experiencing high levels of external demand growth and momentum. On the flipside, domestic demand shows more variation with just 54% of countries displaying positive momentum. The CEE is the only region with domestic demand growing above the long term trend. Of the laggards, the CIS is the only region with positive momentum (Fig 2). On the country level, it is noteworthy that the larger economies of the CEE – namely Poland, Czech and Hungary - are recording strong domestic demand momentum. In a harbinger for South Asia, domestic demand in India struggles.

Figure 2: Demand momentum by B&R Region (1yr ave – latest)

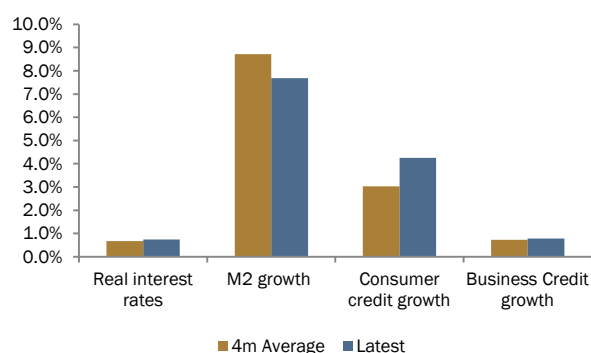


Source: Oxford Economics

B&R consumer lending continues to rise off a low base but only the CEE enjoys a concurrent rise in business lending

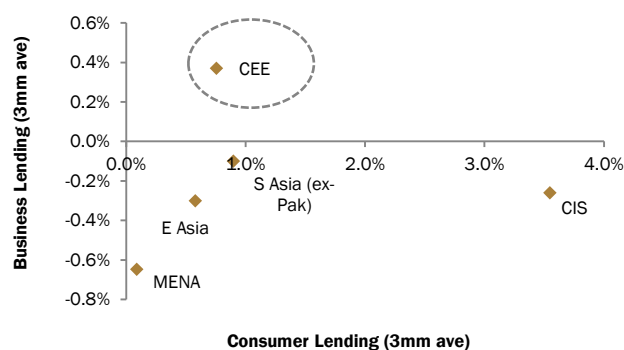
Monetary conditions across B&R countries experienced marginal tightening as monetary growth and business lending remains weak. However, consumer lending continues to rise from a low base with all regions witnessing positive momentum (Fig 3). The CEE is the only region with concurrent positive momentum in business lending (Fig 4). It should, however be noted that it is also the only region with negative real rates.

Figure 3: Aggregate monetary condition categories across B&R



Source: Oxford Economics

Figure 4: Credit Momentum by B&R Region (4m Ave – latest)



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