Market conditions and trends

Global economy

The growth rates of the major world economies in 2012 came as a disappointment which was not overshadowed even by the Olympic Games held in the European finance capital, London. According to the most recent report of the International Monetary Fund (of April 2013), the global economy grew last year at 3.2% y-o-y i.e. at a rate 0.3 p.p. lower than forecasted a year before. The main themes of 2012 included:
the liquidity risk in the Eurozone;
high unemployment in developed economies driving down the internal demand;
a turbulent macroeconomic environment;
the fiscal cliff in the United States;
a more reserved approach of US companies to funding investments;
a growing disparity between the economies of the United States and the European Union;
changes in the China's government; and
continuation of the expansive monetary policy in the richest economic areas.

The investors once again had to face new challenges on the financial markets. The past year did not bring resolution of the structural problems in countries which suffered losses and struggled against the potential insolvency. The unwelcome overall situation triggering insecurity and fears on the part of investors intensified at the end of the year with the weakening economic performance worldwide. The second half of the year was also a period of the fiscal cliff which American decision makers had to face. The turn of 2012 and 2013 was a threshold for the potential extension of the tax reliefs and other preferences and for implementation of the budget cuts. The aim was to slow down the growth of the huge budget deficit and the public debt in the United States (in 2012, the budget deficit stood at 8.5% of the GDP and the public debt at 101.6% of the GDP). Finally, the fiscal crisis was overcome only partially since the majority of the parliament members did not approve all budget cuts. The revenue side of the budget was one source of nervousness on the financial markets, however, tensions were also associated with the expenditure side which, in view of no parliamentary consensus, gave way to savings on the cost side. Such a situation had a bearing on the entire 2013, driving down the global GDP growth forecasts.

The unprecedented solutions in the monetary policy of central banks in the western countries, for instance, further quantitative easing, increased the inflow of funds to emerging markets in recent quarters. As a result of the situation combined with continued repurchase of the US government bonds by the Federal Reserve acting in the capacity of the central bank as part of the quantitative easing, the rates of return on government bonds of emerging countries went down to the lowest levels in history, followed by huge increases at some stock exchanges at the end of the year.

The search for investment value and the sovereign debt crisis confirmed by downgraded ratings of the major global economies (including the US and certain Eurozone countries) led to redefinition of investors' trust and increased interest in emerging markets.

The development of the situation over the year was also interesting in terms of the growing disparity between the US economy and the economies of the European countries. The differences in the changing employment trends and unemployment rates were significant, generally to the benefit of the United States where the unemployment rate last December amounted to 7.8%, (0.9 p.p. down from the previous year), while in the Eurozone unemployment stood at 11.8% and was 1.4 p.p. higher than in 2011. In terms of the economy strength, the United States prevailed again, with a real GDP growth of 2.2% y-o-y versus a decline by 0.6% y-o-y recorded in Europe (according to the IMF estimations).

2012 was also an important year for China where changes in the government authorities took place. The retiring leaders of the political scene, President Hi Jintao and Prime Minister Wen Jiabao, were substituted by Xi Jinping as the President and Li Keqiang, the new Prime Minister. The analysts of financial institutions agree that China faces a decade of numerous challenges and economic transformation which will reshape not only the Middle State, but will also set new directions to the global economy. In addition to integration and harmonisation of the Chinese society, the new authorities will need to ensure upholding of the high rate of economic growth and political stability. The two reforms which are currently in the focus of attention in China include the abolishment of the landmark one-child policy and privatisation of rural areas to support further development. Another major task is the continued implementation of the strategy of restructuring the Chinese economy, from the investment and production based model to a consumption-driven model, which will definitely have a huge bearing on the entire global economy.