INTERVIEW

US economist: rate hike hits Russia and Turkey

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The US economist Srinivas Thiruvadanthai is of the opinion that a rate hike by the US Federal Reserve - regardless of the time - a major economic crisis in the emerging markets will trigger. Especially countries with high budget deficits, such as Turkey and oil exporters such as Russia will make it hard. The emerging economies will have to cope with dramatic outflows and EU exports will plummet.

German economic news: *What do the central bankers in New York so that the "economic conditions had not yet been given"? What are the conditions we have currently?*

Srinivas Thiruvadanthai: There are several fragilities of the global economy. Particularly fragile are the emerging economies. The emerging countries are struggling with enormous pressure on their currencies and also suffer from drastic capital outflows. They also have higher "spreads", ie differences in the government and corporate bonds. A rate hike would increase the problems, since the dollar would gain with a large probability to bottom. Second, the US debt has risen in the corporate sector and is now higher than it was on the eve of the previous recession. In addition, the financing requirements for corporate bonds increases. The "spreads" for corporate bonds have risen and credit conditions worsen. Increase the late payments and there are at the credit evaluations of more downgrades than upgrades. An increase in interest rates would exacerbate the credit terms drastically. Third, the global asset prices are very high. A rate hike would trigger at this point a drastic decline in asset prices, which in turn would lead by a feedback through the wealth effect on spending cuts.

German Economic News: *But how do we know that the conditions for a rate hike in the coming year will be better? If the situation of the emerging economies then be more stable?*

Srinivas Thiruvadanthai: It is very unlikely that the situation will improve in the emerging markets.

The current situation in emerging markets is the result of long-term economic problems related to export declines in developed markets. This in turn is related to the weak growth in developed markets. As a result, the emerging economies are struggling with over-investment and over-capacity and high debt in the corporate sector. Raising domestic consumption is also a difficult practicable approach because the emerging markets of borrowing depend. While in the past currency crises, the economic problems in emerging markets had triggered, we currently have an economic problem that currency weakness and capital flight triggers. In short: a deceleration of capital flight will not lead to a recovery of the economic situation. The economic situation in the emerging markets will continue to deteriorate before it comes to a renewed recovery. The coming year is for emerging countries run much worse than the current year.

German Economic News: *Which countries is the rate hike most meet?*

Srinivas Thiruvadanthai: Emerging markets will suffer. Such as Turkey - - Amongst these countries with high current account deficits are and especially commodity exporters such as Brazil, South Africa, Colombia, Chile, Indonesia and Malaysia are particularly adversely affected. All of these countries are vulnerable to a rise in interest rates.

German Economic News: *How would you assess the impact of an interest rate increase on Russia?*

Srinivas Thiruvadanthai: Russia is essentially a commodity producer and exporter. Commodity prices, especially oil prices, are already under pressure. A rate hike would make things worse. The current account surplus of Russia will decline and capital outflows will increase. Russia puts already in a recession and this will deepen.

German Economic News: *What would trigger a rate hike by the Fed in the euro zone?*

Srinivas Thiruvadanthai: The euro zone would be fundamentally affected indirectly by a rate hike by the Fed. An exception is the euro, the value of which would be directly affected. The euro is likely to lose ground against the dollar. The fact that the situation in the emerging countries would drastically deteriorate, the euro zone would be affected with a delay due to their links with the emerging countries. For the euro area is still very dependent on exports and trade surpluses. We're unable to see that the EU exports decline steadily in emerging markets.

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Srinivas Thiruvadanthai is director of the research department at the Jerome Levy Forecasting Center in New York. He examined especially "wealth effect" on consumption behavior and their impact on corporate profits; the persistent and pervasive over-valuation of corporate profits; Vulnerability of the financial sector in the wake of a housing bubble; the development of Japanese balance sheets during the real estate bubble and its consequences and the financial development of the Asian economies. In addition, he worked for three years in the Indian credit institution ICICI Bank as a loan officer.