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Falling oil prices will impact growth in emerging markets

A key strategy for most medical device companies in recent years has been expansion into emerging markets to take advantage of demand growth which has far out-stripped that of the developed world. Initially the focus was on Brazil, Russia, India and China (the "BRIC" economies), but latterly companies have been seeking to identify the next generation of emerging market opportunities.

Although the underlying demographic factors which have driven the often spectacular growth in medical devices in emerging markets have not changed, it is important not to forget the impact of economic factors. With oil prices having fallen to their lowest in 6 years in the space of a few months, and with no sign of the slide halting, let alone reversing, those emerging markets which rely heavily on oil exports are facing severe economic problems – but even for net oil importers the news may not be entirely good.

The immediate losers

The headlines have been full of the problems that falling oil prices have caused Russia, which has been forced to impose a massive increase in interest rates to support the rouble, and is now facing the prospect of recession and cuts in government spending. However, it is far from being the only country with problems.

Venezuela's economy was already in trouble, with inflation at over 60% by the end of 2014. Since oil accounts for around 95% of export revenue, there is strong pressure on the government to cut public spending, but this would be risky politically and could lead to social unrest. Other oil exporters with relatively weak economies, like Iran, Iraq, Nigeria and Angola are similarly at risk.

Those with more robust economies, such as Saudi Arabia and Kuwait, have sufficient financial reserves to cope with a short-term fall in revenue, but even they will begin to suffer if prices remain at current levels for too long, and the recent trend to more government investment in healthcare could be halted.

The possible winners?

The normal expectation is that when oil prices fall the economies of countries that are net oil importers – like China, India and much of South East Asia, will be stimulated and overall the global economy will grow. Other major oil importers who could be expected to benefit significantly include Chile, Turkey, South Africa and the Czech Republic.

However, for economies like China that depend heavily on exports to the Developed Markets, low oil prices may prove to be a mixed blessing.

The twin spectres of deflation and recession

Although the world has been moving out of recession, the economies of the Developed Markets are still far from robust, and some commentators fear that prolonged low oil prices could lead to deflation and a consequent decline in consumer spending, especially in Europe. This in turn could have a negative impact on countries like China and South Korea.

A sustained oil price fall also tends to lead to a decline in the prices of other commodities, and to weakness in the currencies of all commodity-exporting nations. The decline in the rouble hit the headlines – but it is far from the only currency to suffer in recent months. A weak currency in turn tends to reduce foreign investment and raise the cost of imported consumer goods, all of which can lead to recession. The Global economy is still far from secure.

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