

2013

World Economic Situation  
and Prospects



United Nations

# World Economic Situation and Prospects 2013

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Washington DC**

# Outline

## 1. World Economic Outlook

- Global and regional growth prospects
- Trends in international trade and finance

## 2. Downside Risks and Uncertainties

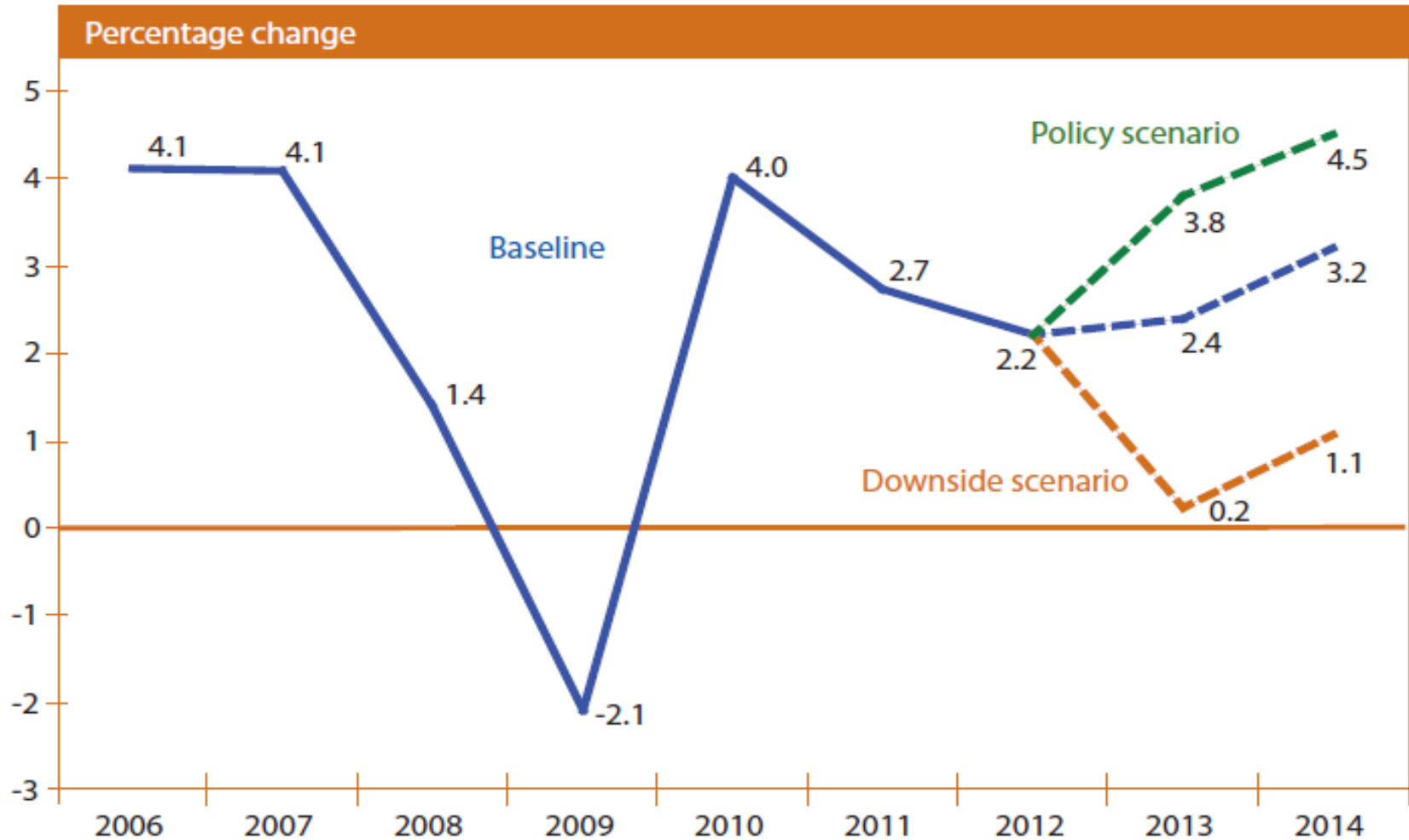
- Euro area crisis
- US fiscal uncertainty
- Hard landing in major developing countries

## 3. Key Policy Issues

- Macroeconomic policy stance
- International policy coordination

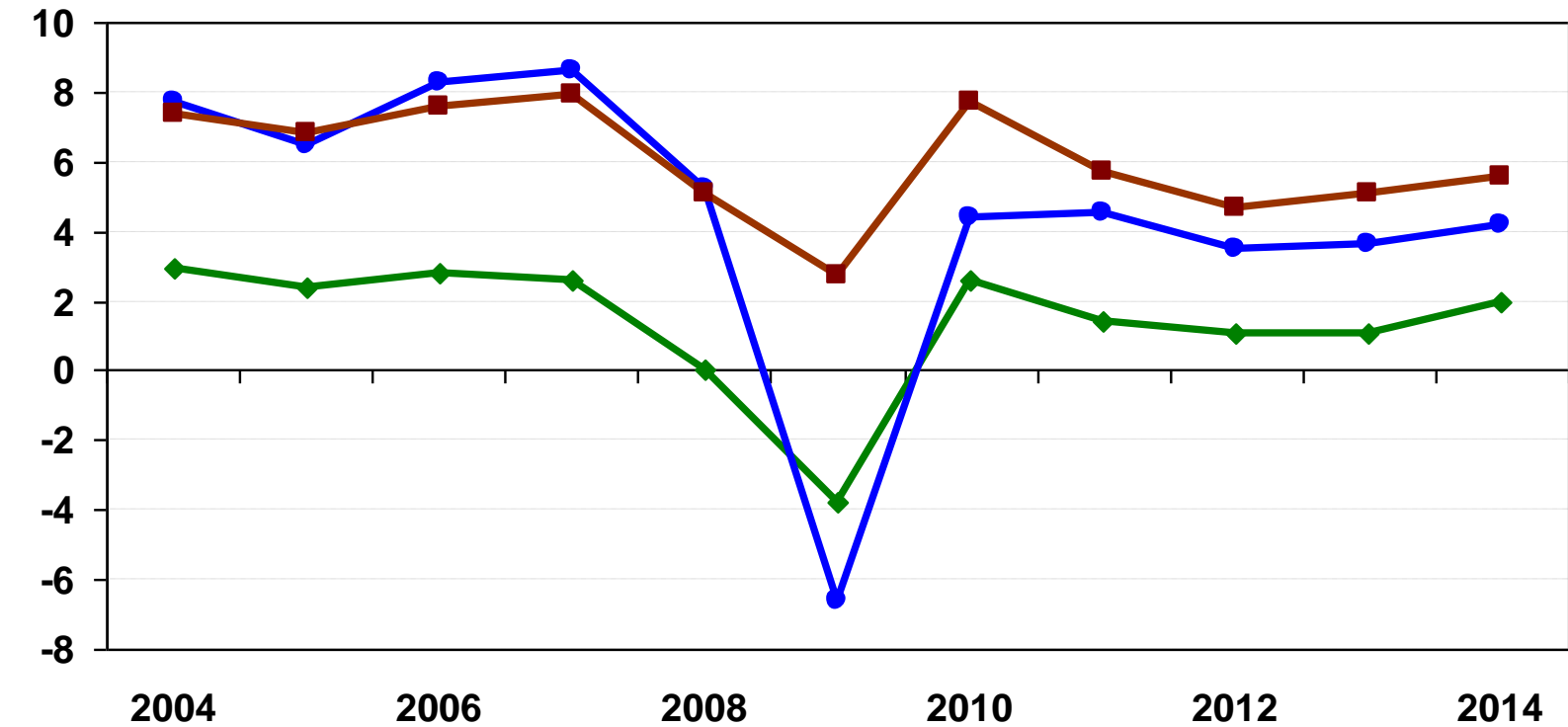
# Global growth projected to pick up slightly – downside risks remain

Growth of world gross product, 2006-2014<sup>a</sup>



# Synchronized world economies

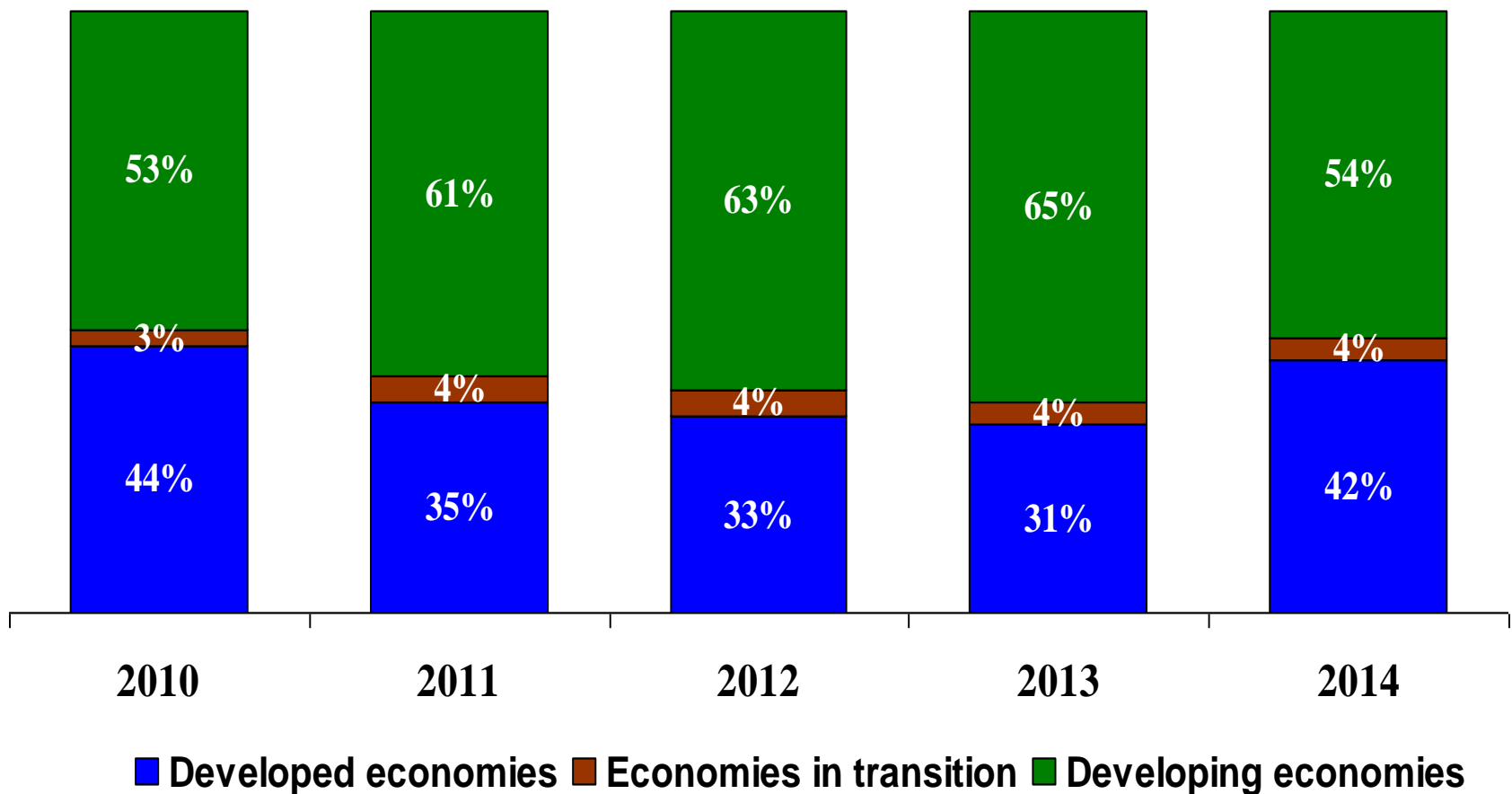
Annual GDP growth (%)



◆ Developed economies    ● Economies in transition    ■ Developing economies

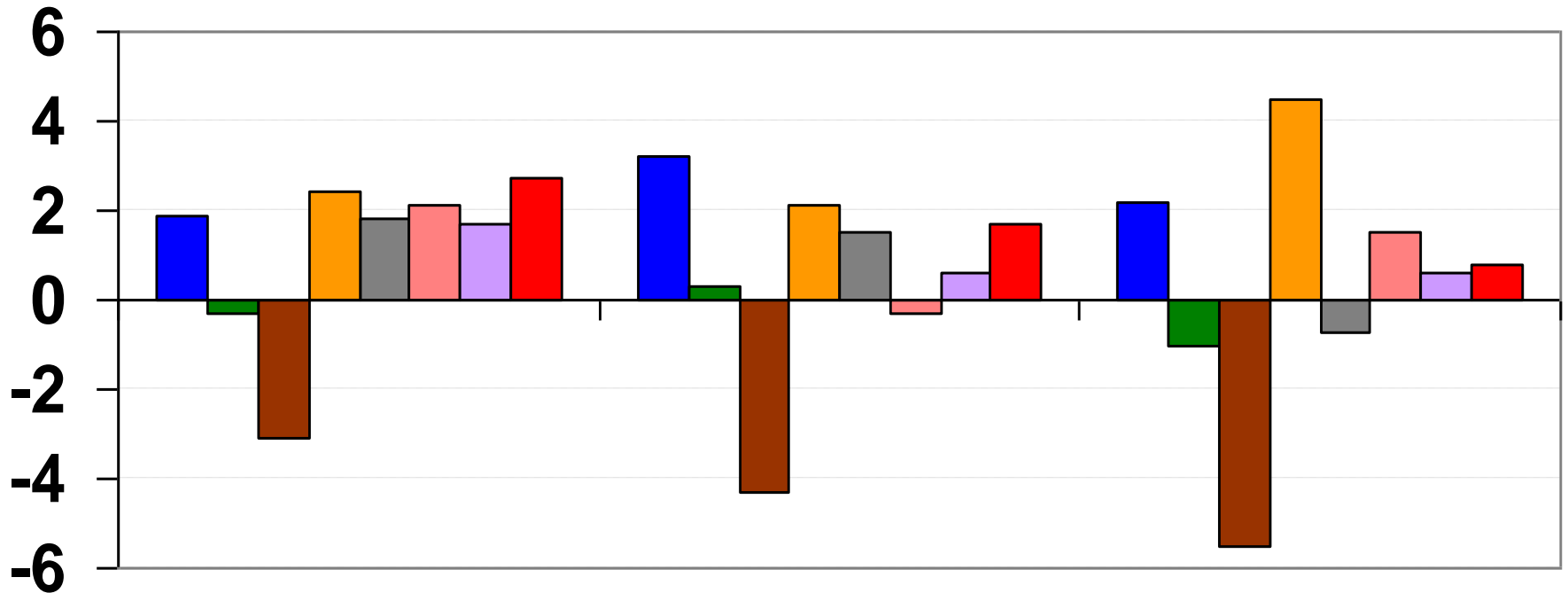
# Developing economies drive global growth

## Contributions to WGP growth by major groups



# Developed economies: trapped in low-growth?

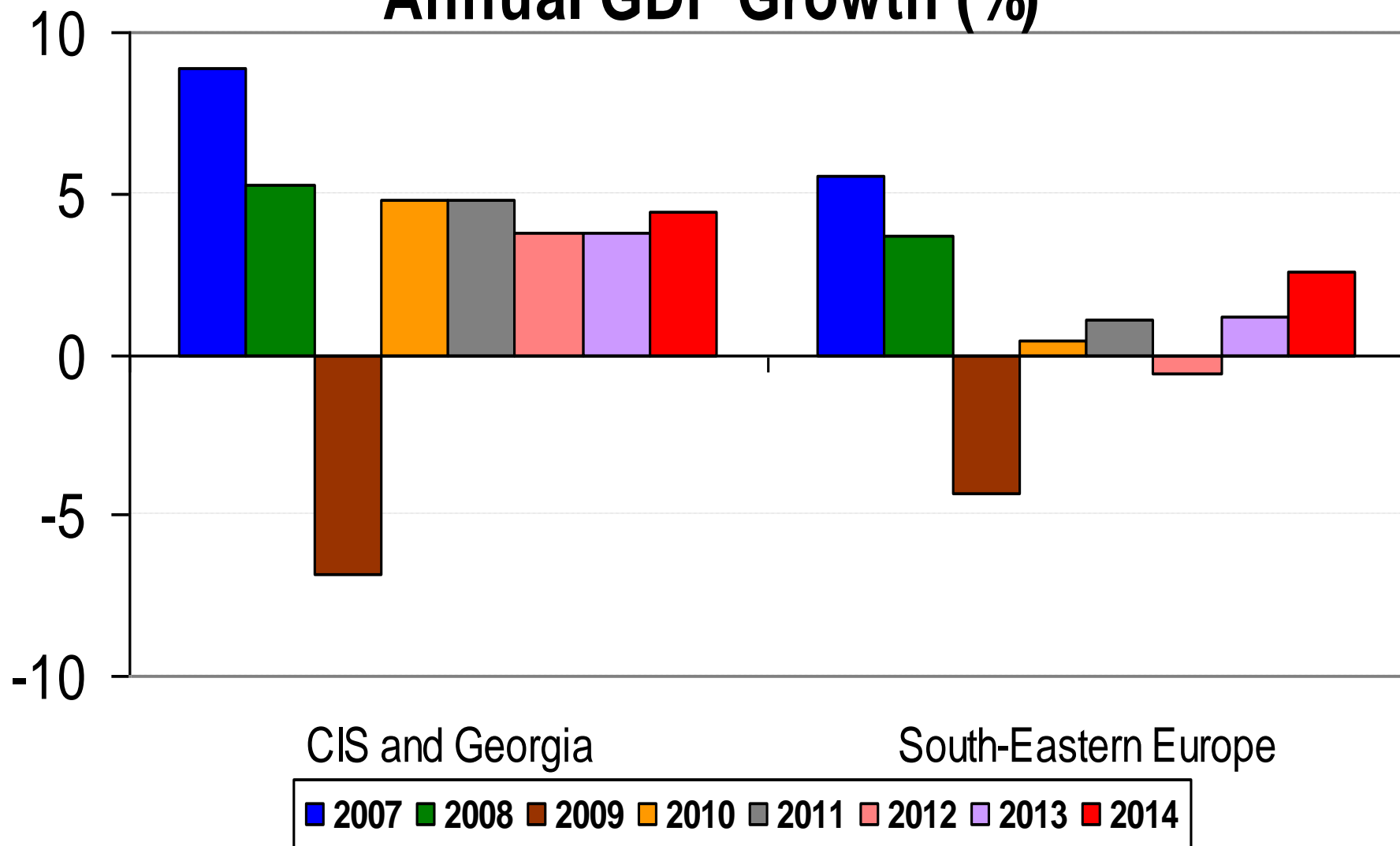
## Annual GDP Growth (%)



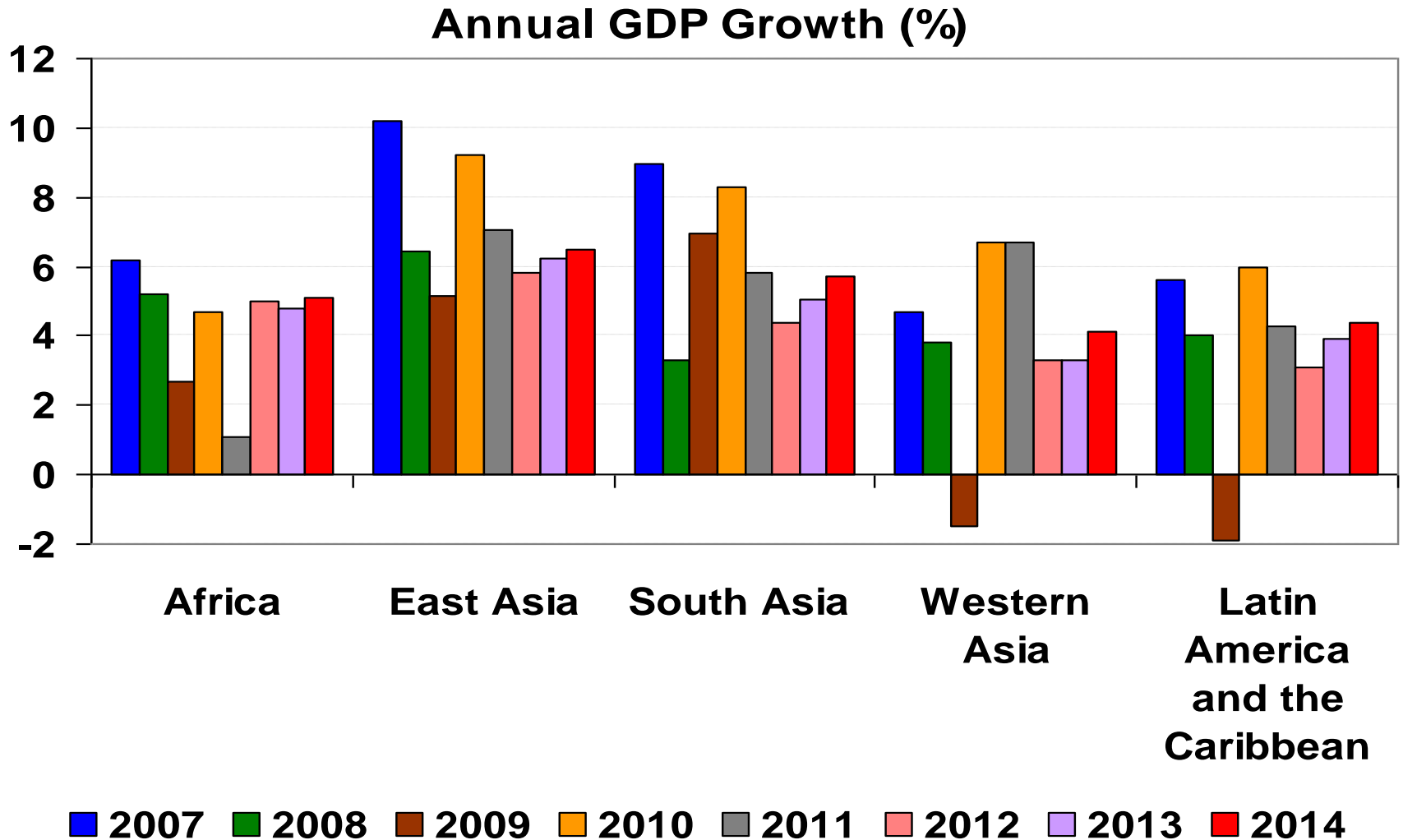
■ 2007 ■ 2008 ■ 2009 ■ 2010 ■ 2011 ■ 2012 ■ 2013 ■ 2014

# Economies in transition: moderate growth

## Annual GDP Growth (%)



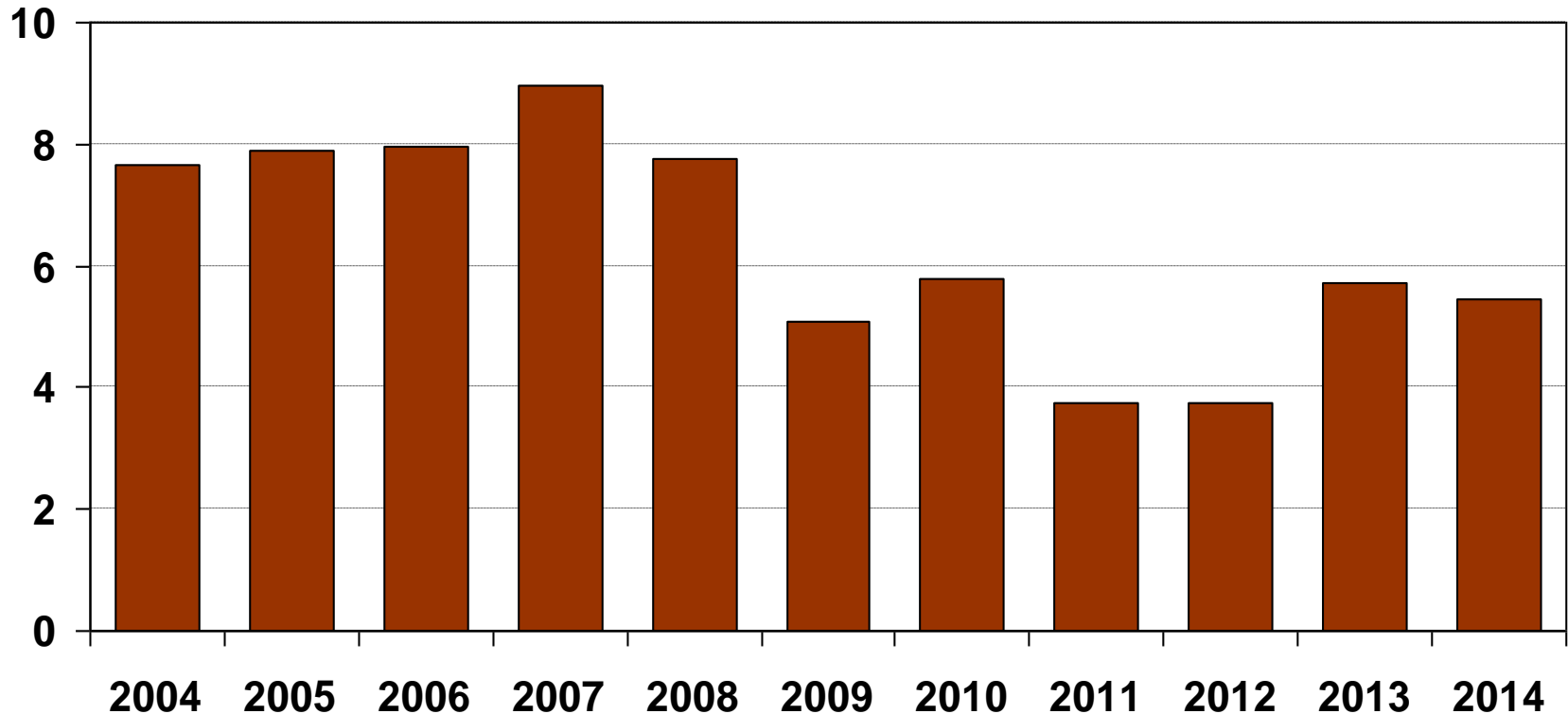
# Developing regions: Gradual pick-up in growth expected





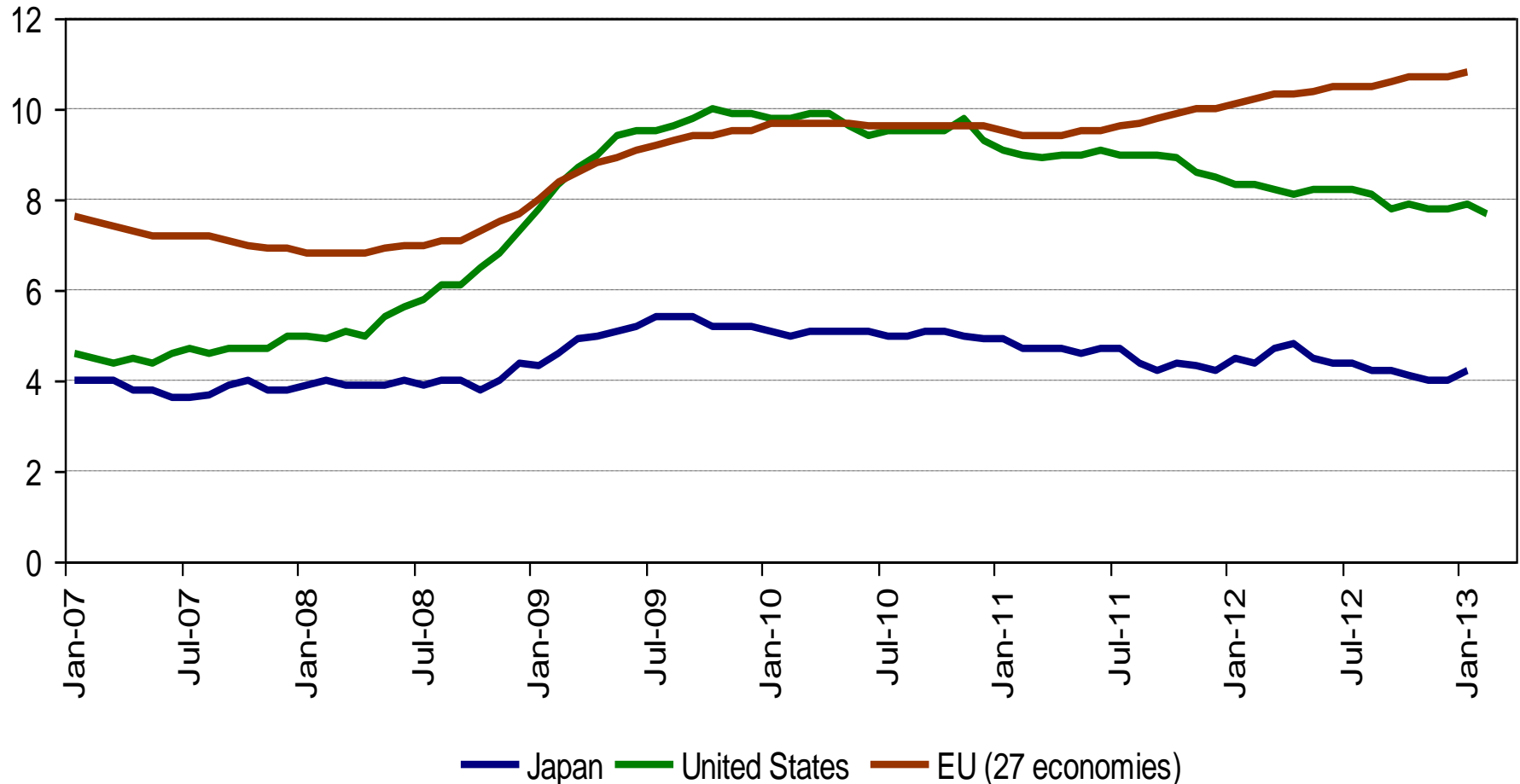
# Least developed countries: Recovery projected, growth below potential

Annual GDP growth (%)



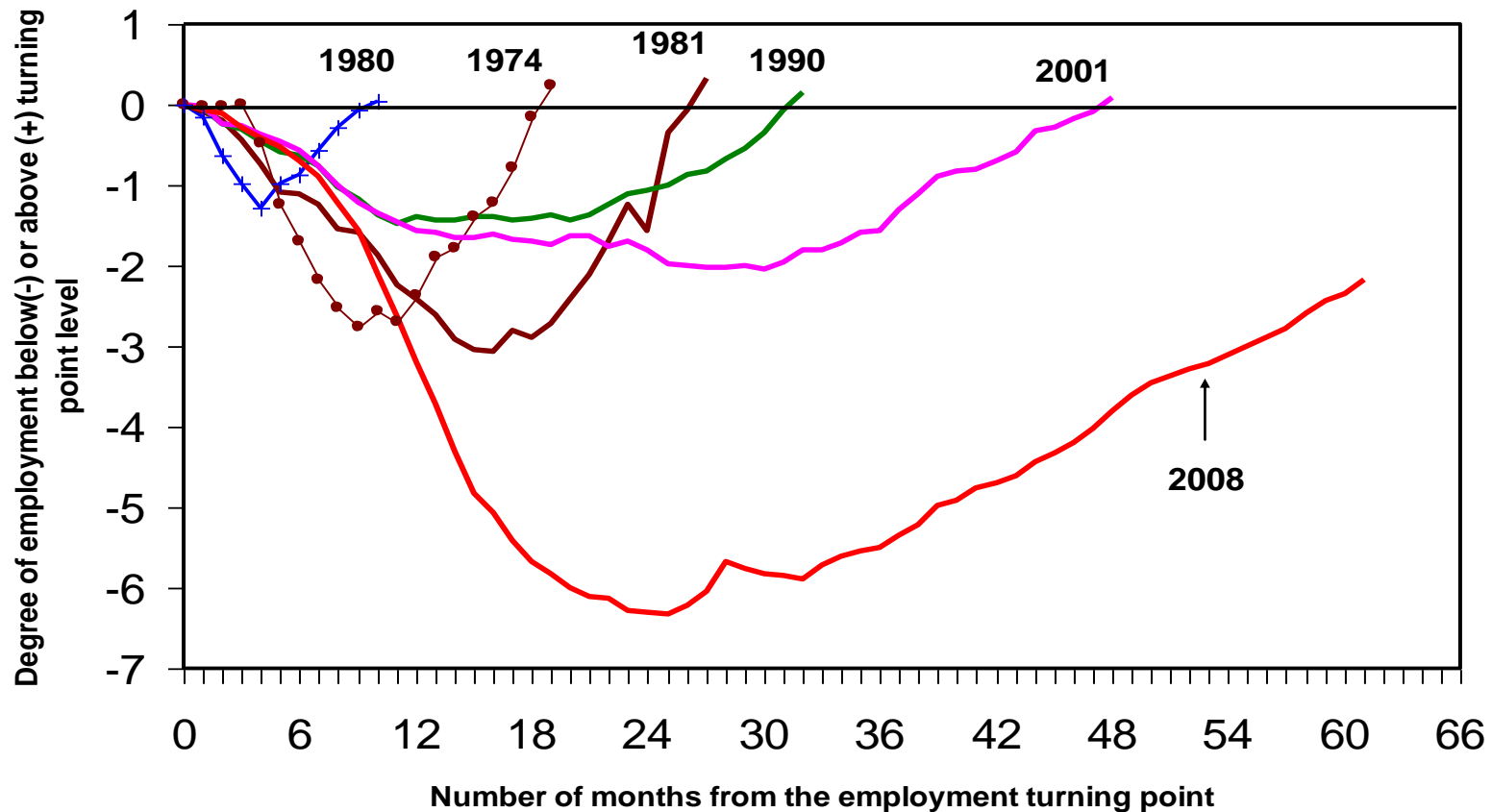
# Jobs crisis continues: Record unemployment in Europe

## Monthly unemployment rates (%), Jan 2007 - Feb 2013



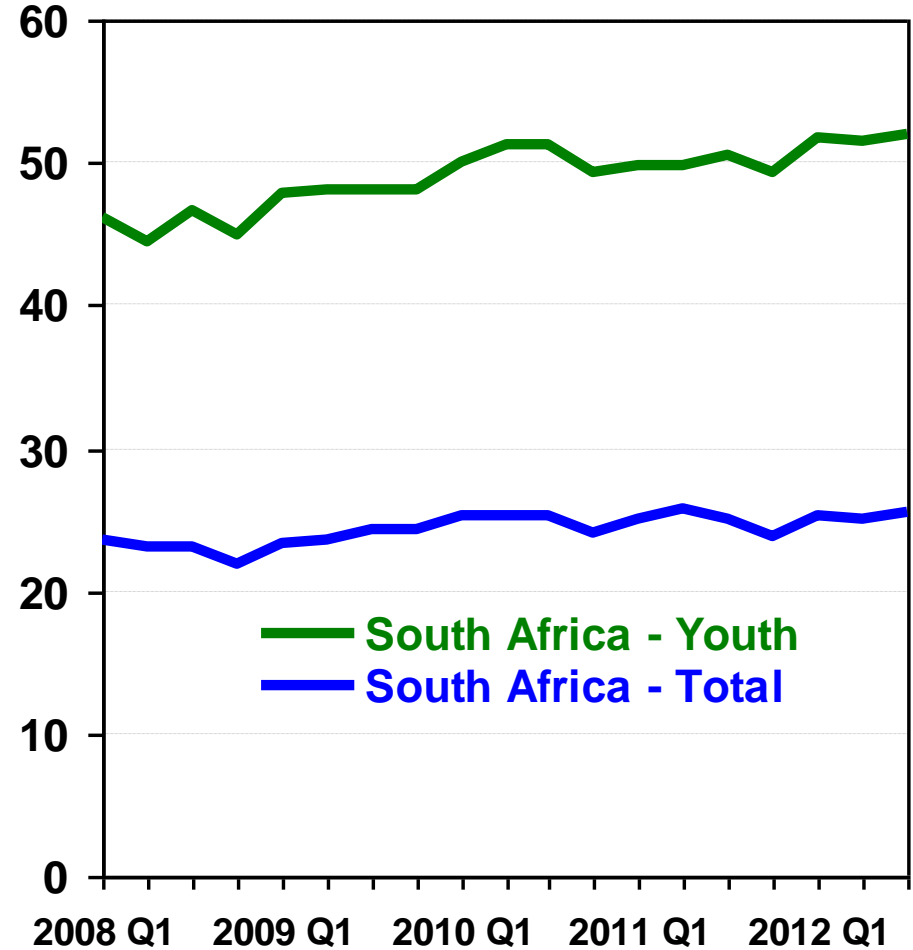
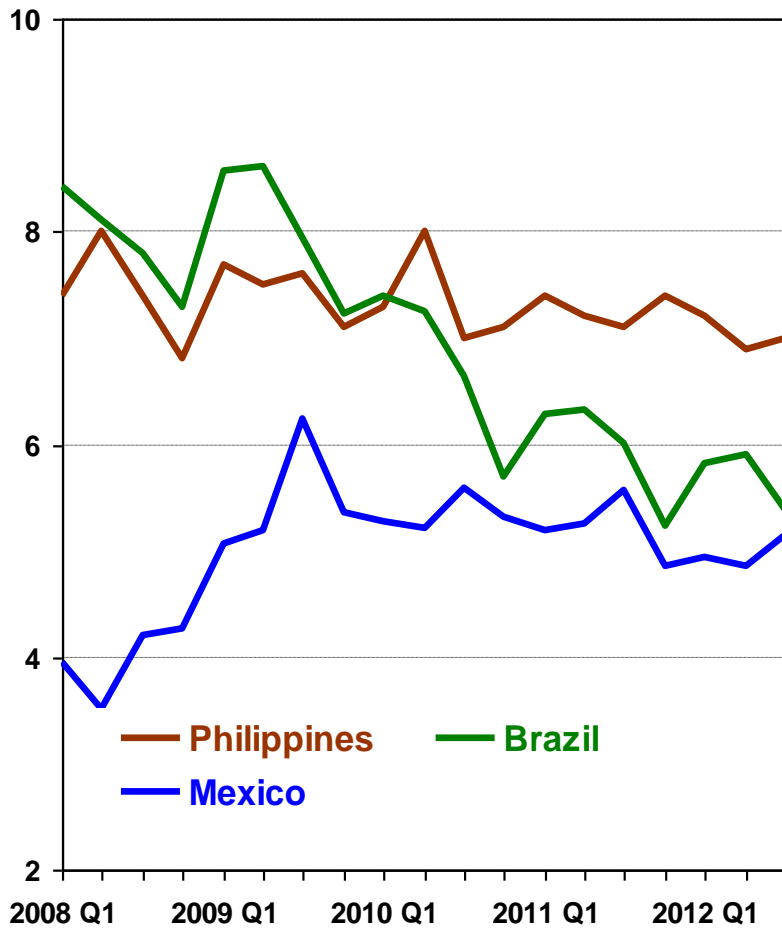
# Job losses after the financial crisis: cyclical or structural?

Post-recession employment recovery in the United States



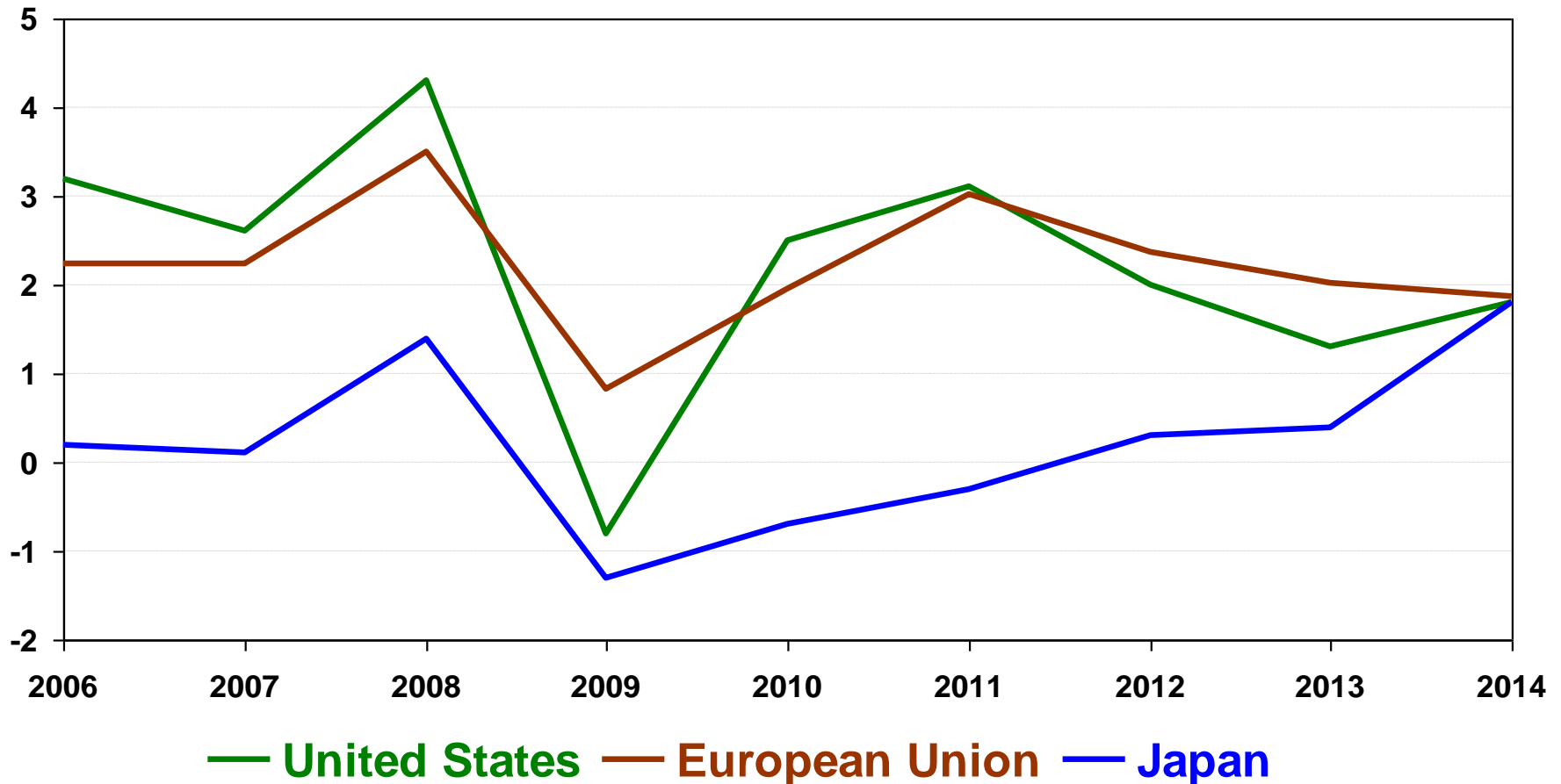
# Developing countries: Unemployment trends differ

Quarterly Unemployment Rates (%)



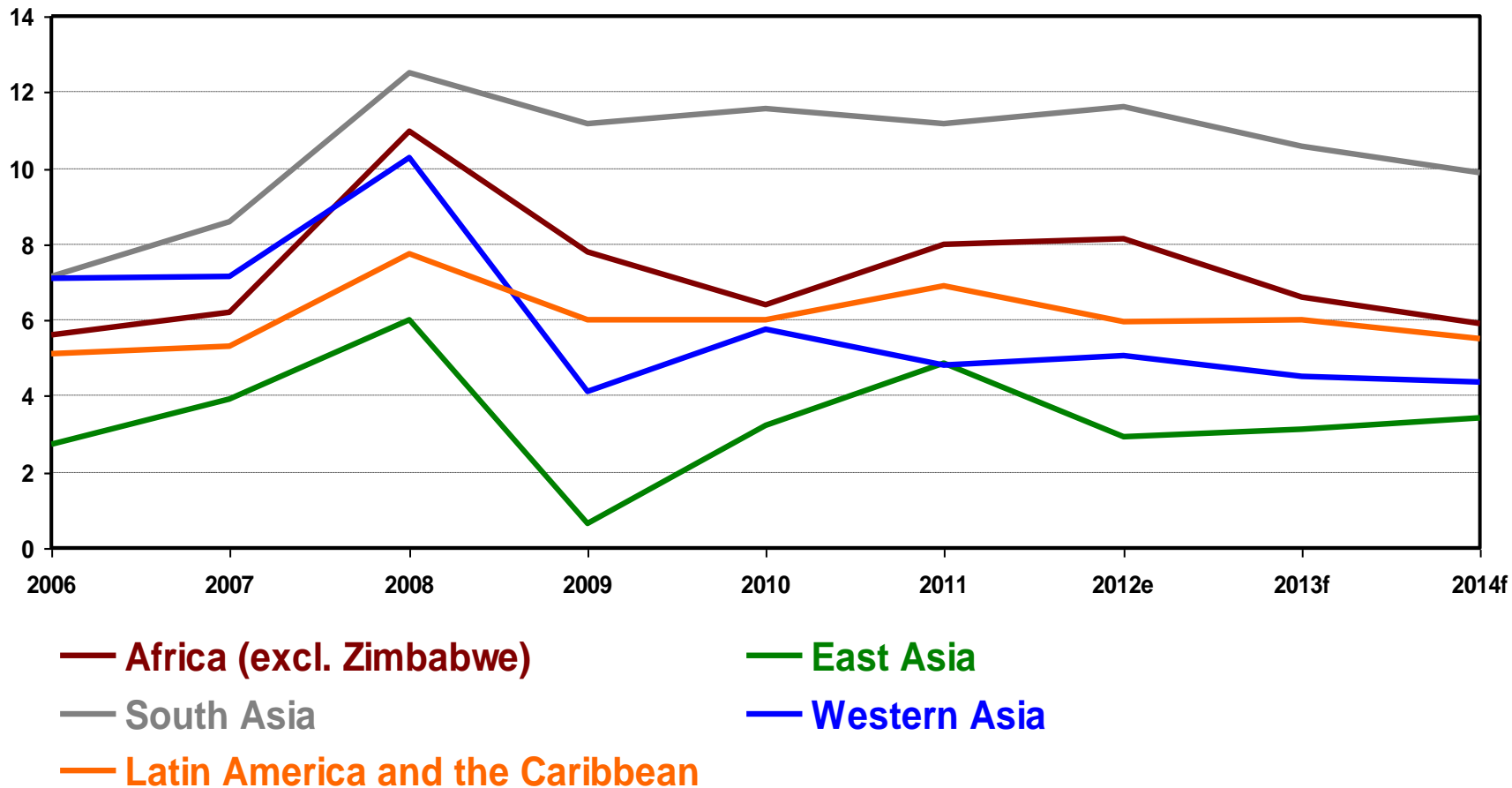
# Developed economies: Inflationary pressures remain low

Annual consumer price inflation rate (%)



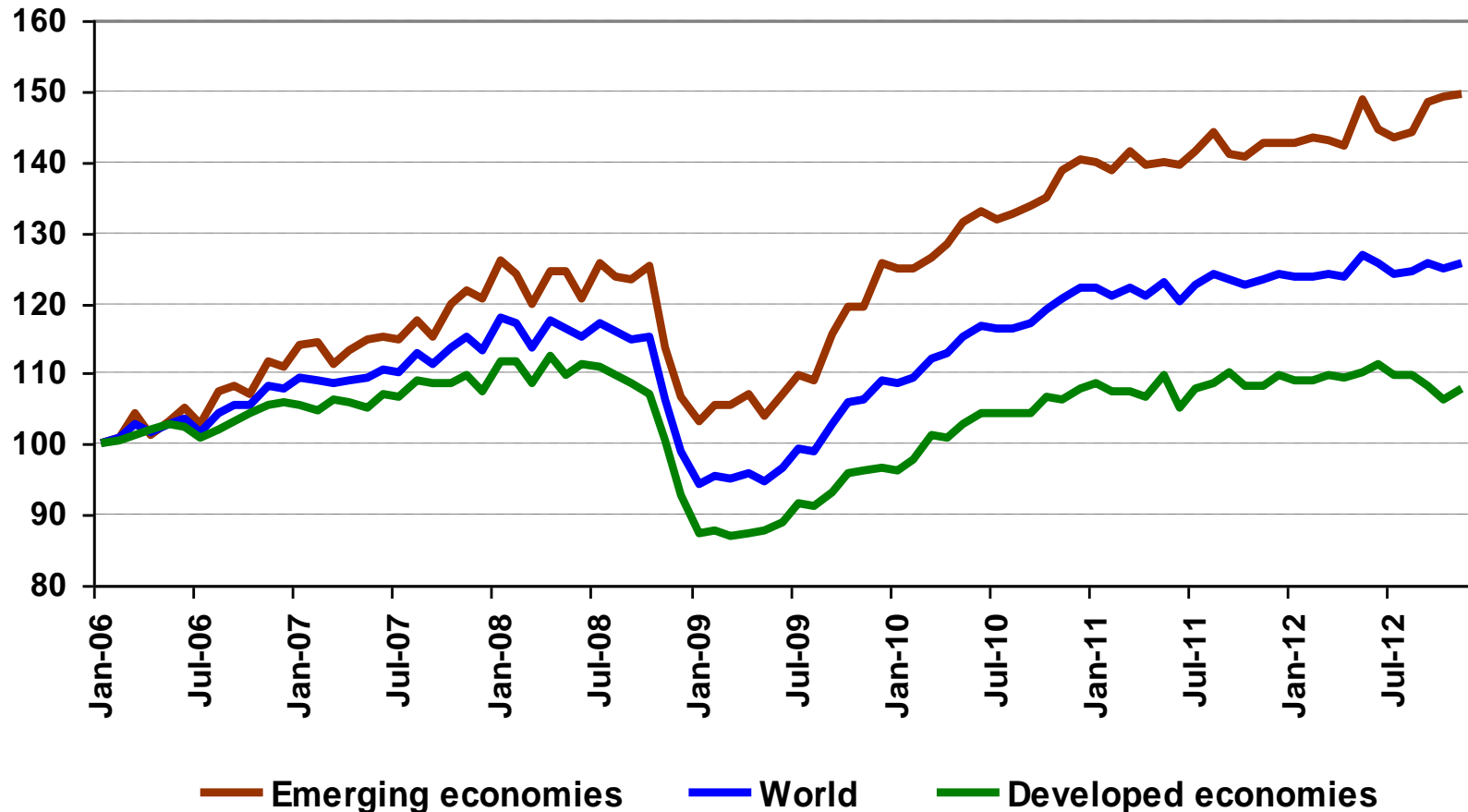
# Developing regions: Inflation projected to slow

Annual consumer price inflation rate (%)



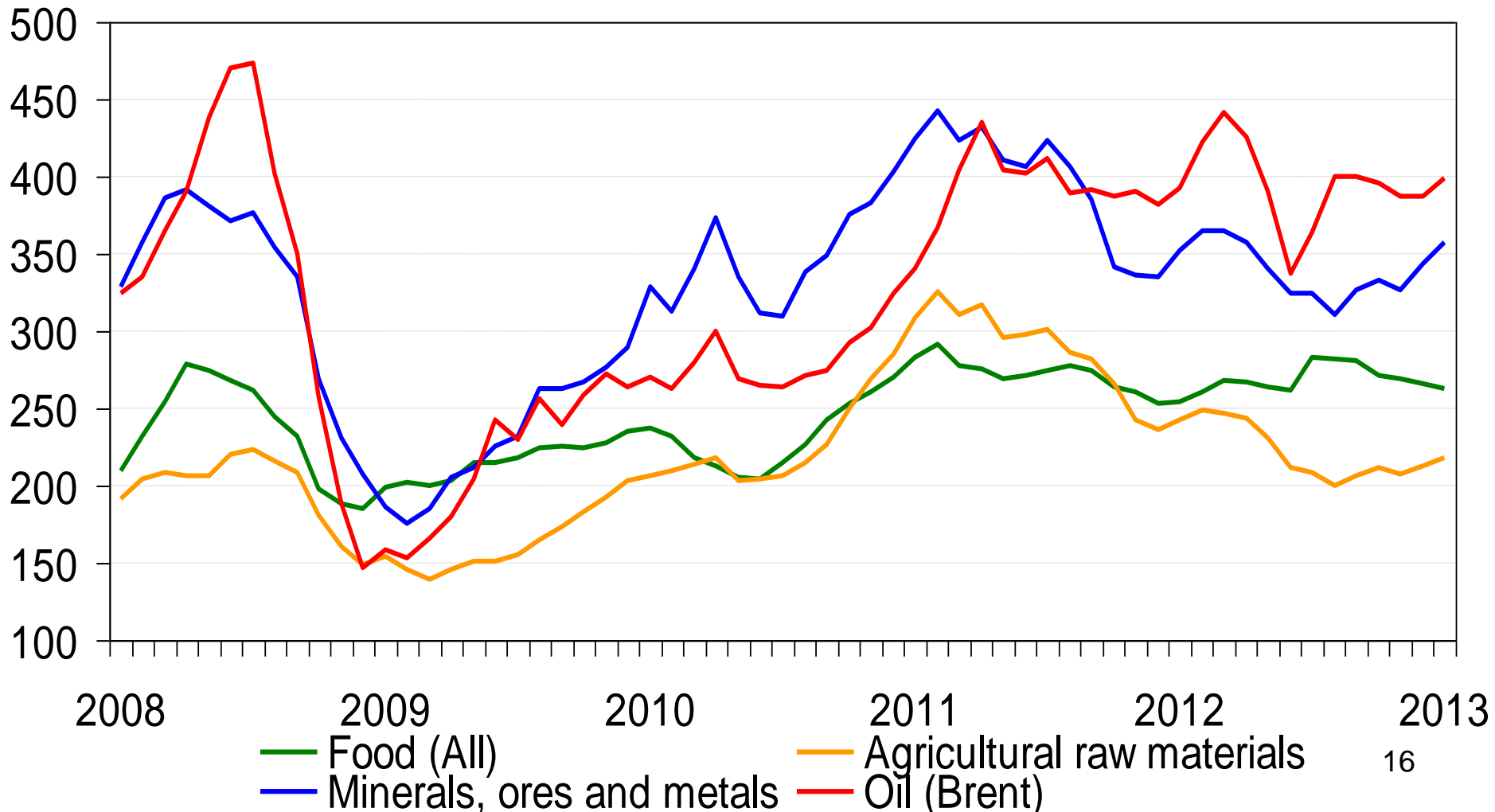
# Uneven recovery in international trade

World exports, Jan 2006- Nov 2012  
(Jan 2006 = 100)



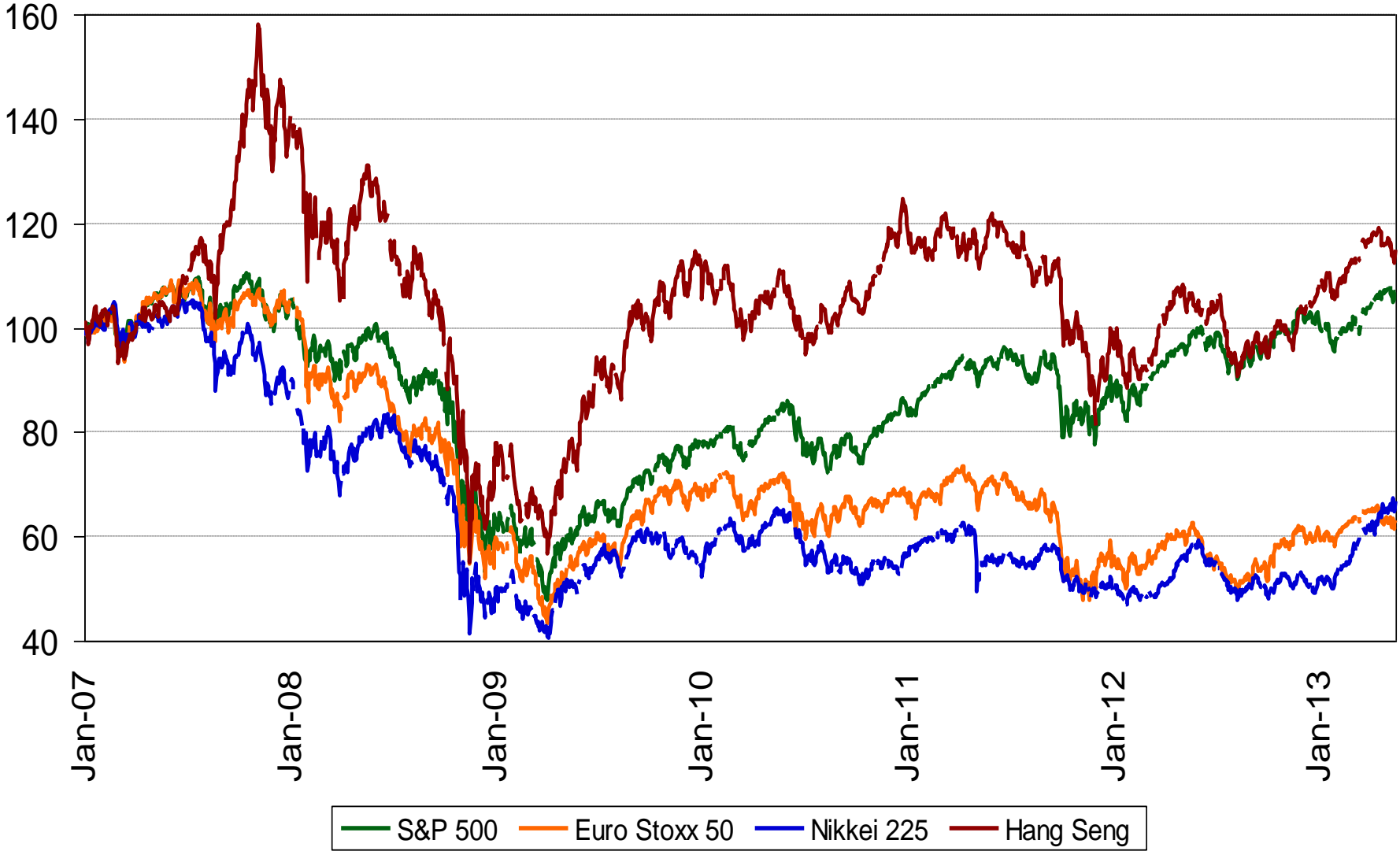
# International commodity prices: slight moderation

Commodity price (2000=100)



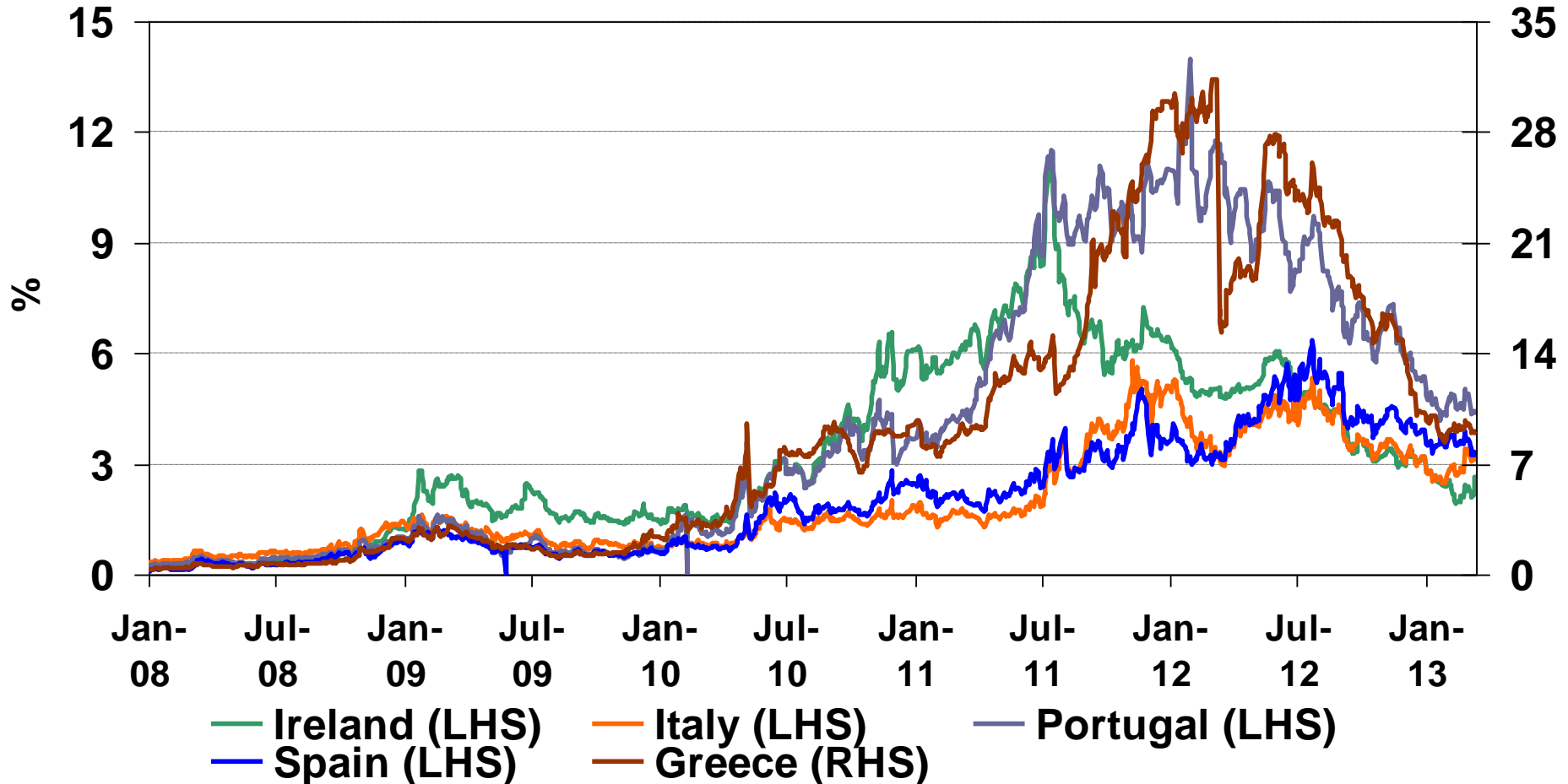


# Stock market indices have recently moved up



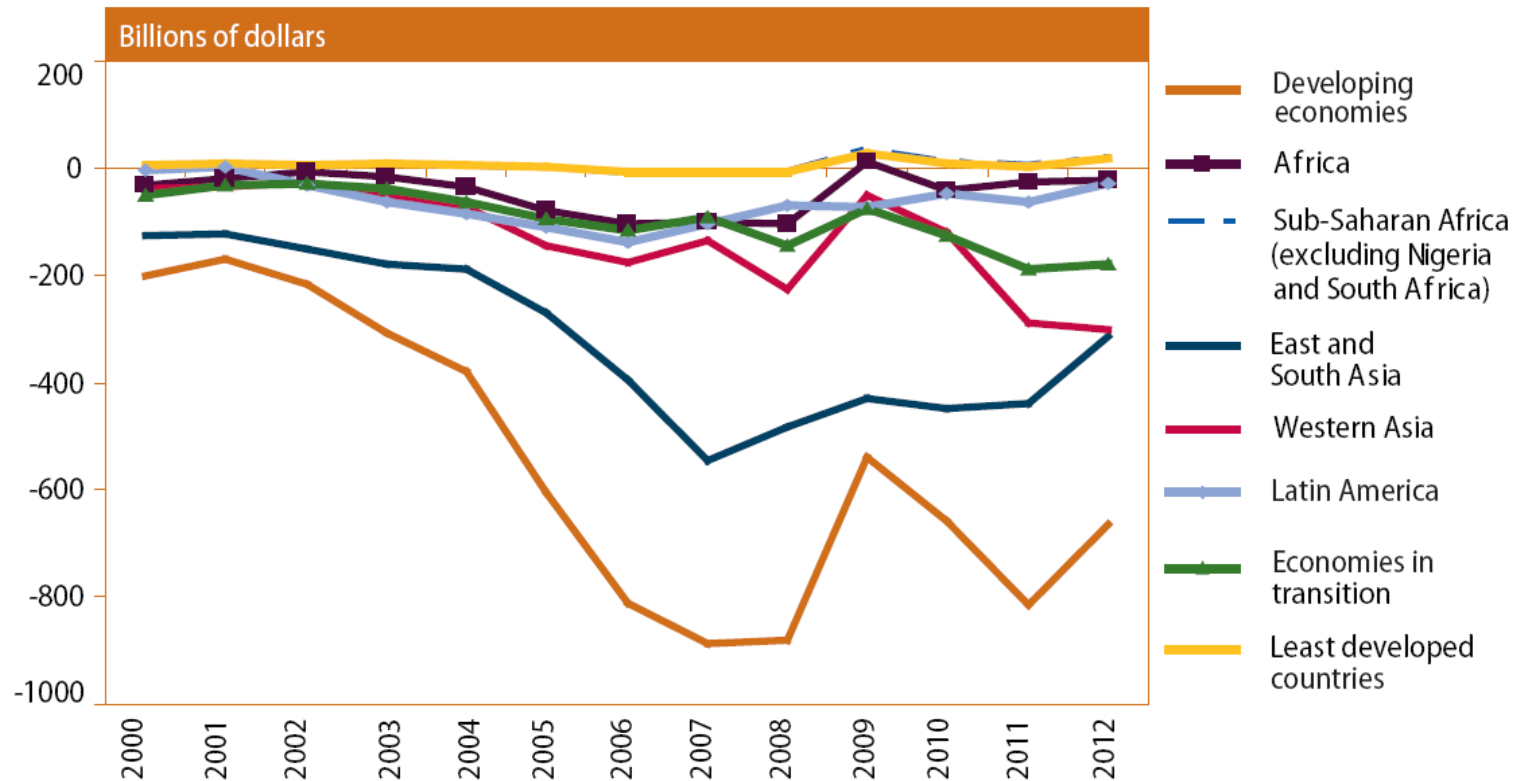
# Euro area crisis: spreads have come down

10-y government bond yield spread vis-à-vis Germany bund



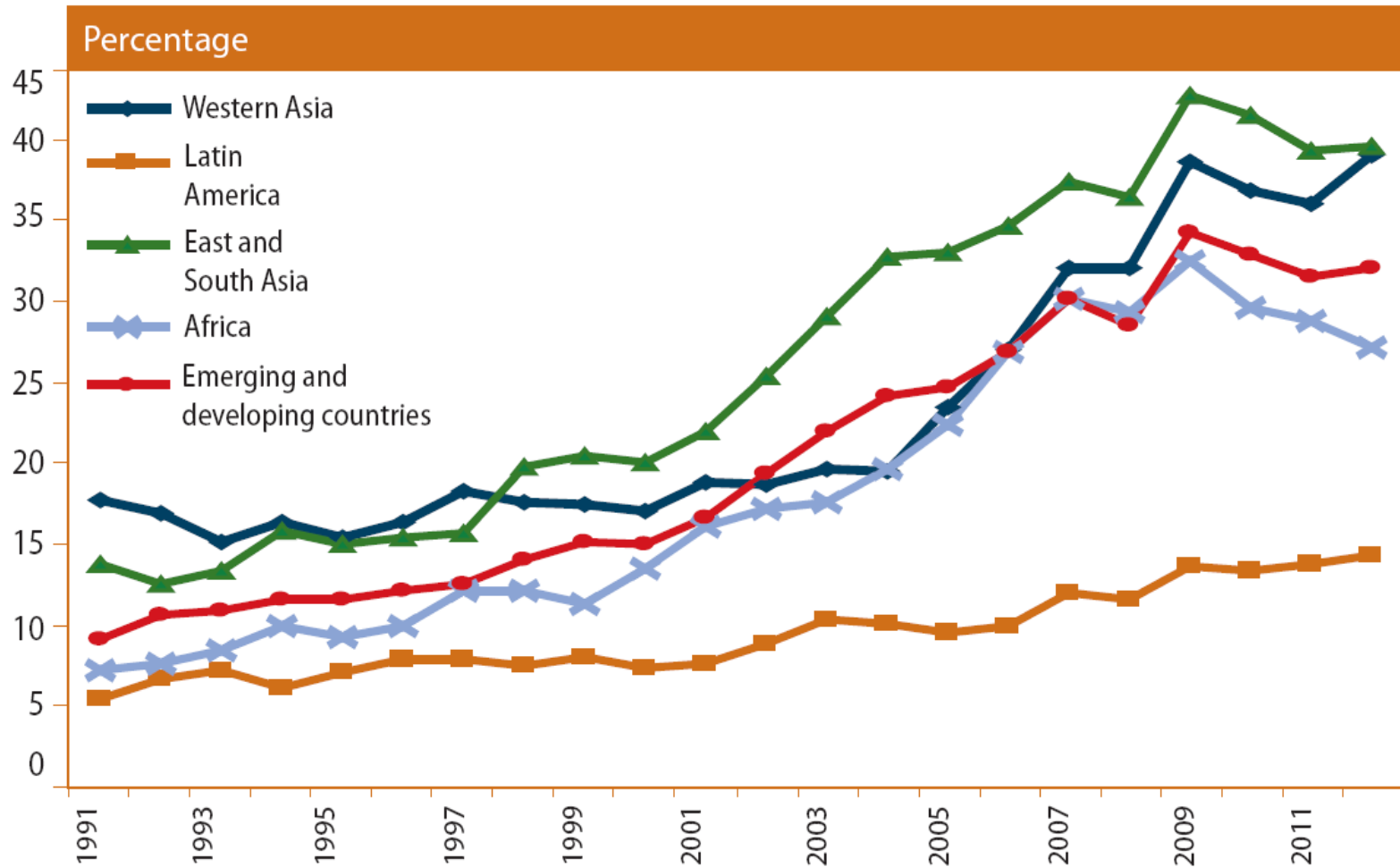
# Financial resources from the poor to the rich

Net transfers of financial resources to developing economies  
and economies in transition, 2000-2012



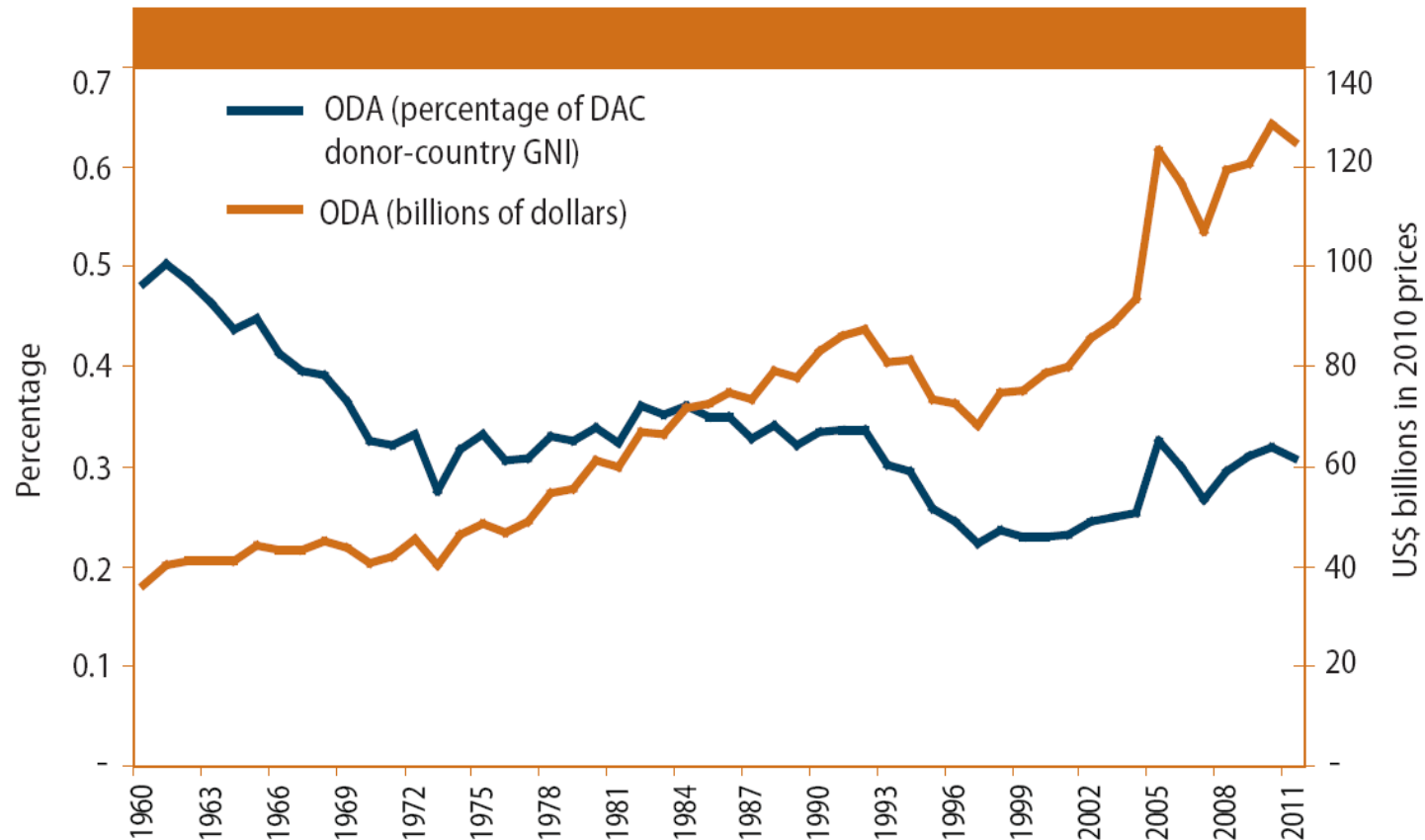
# Developing countries piling up foreign exchange reserves

Ratio of reserves to GDP, 1991-2012<sup>a</sup>



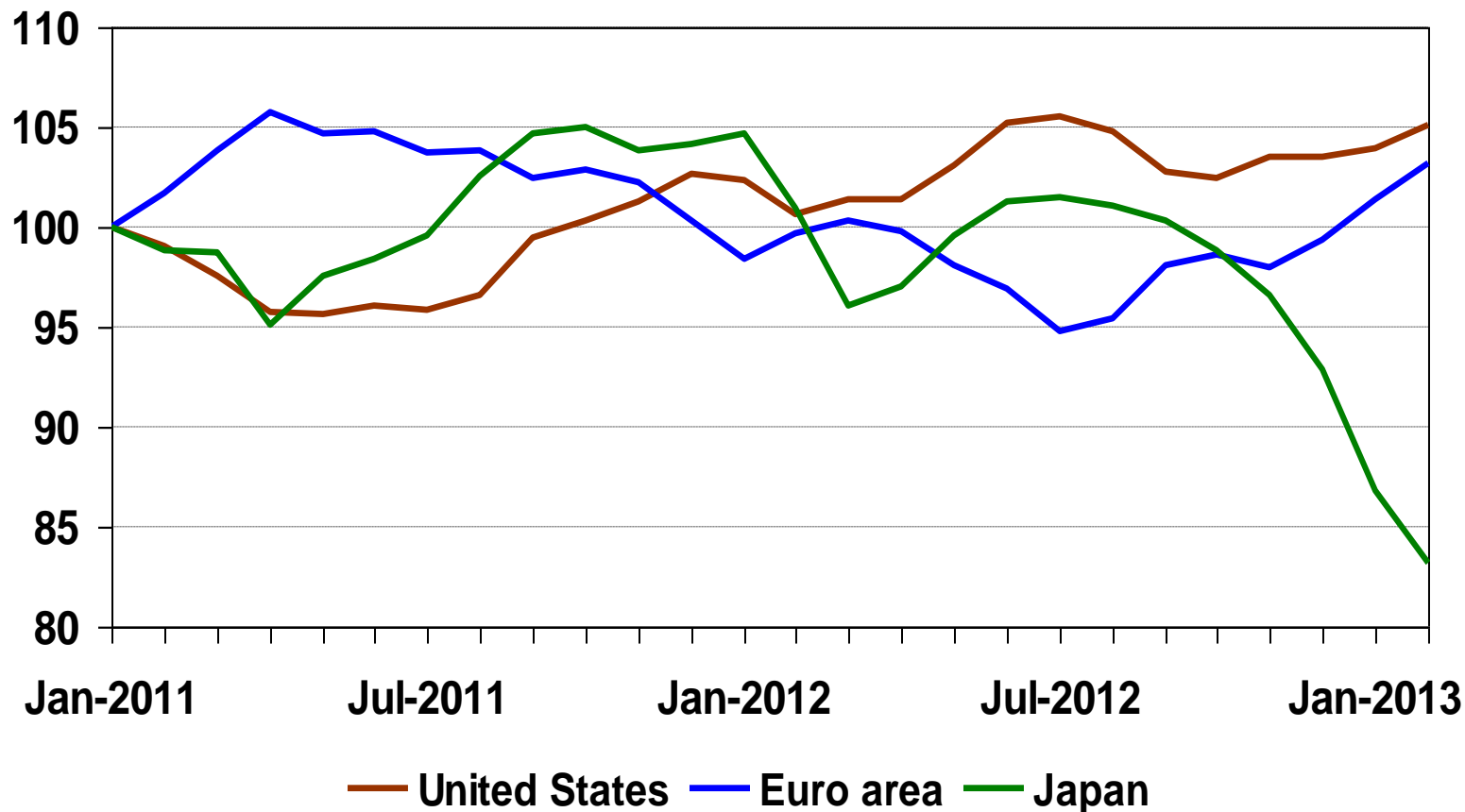
# ODA far below the target

ODA from Development Assistance Committee (DAC) countries as a percentage of donor-country gross national income and in United States dollars, 1960-2011



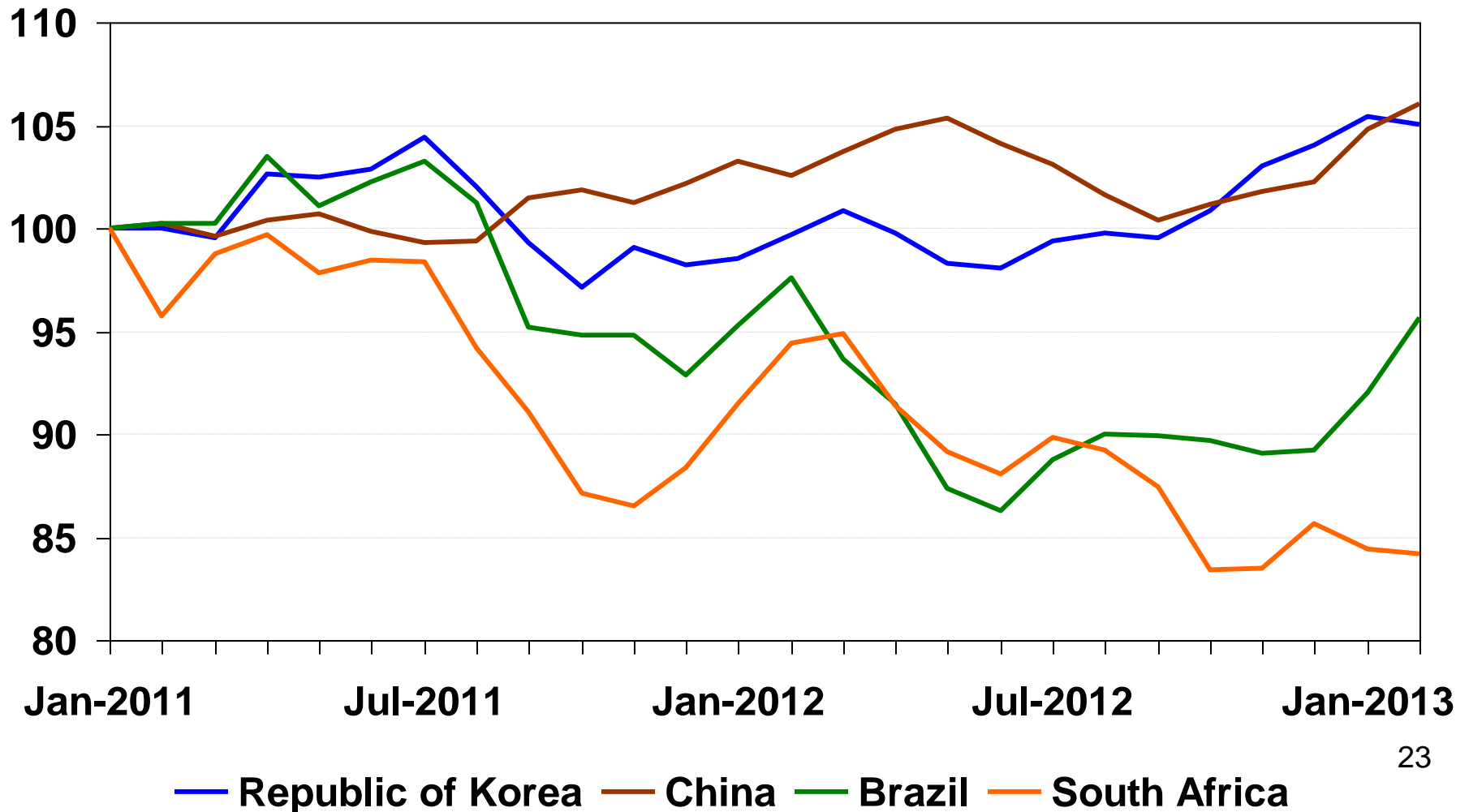
# Significant changes in real effective among major reserve currencies

Real effective exchange rates (Jan 2011 = 100)



# Developing countries: diverging trends in real effective exchange rates

Real effective exchange rate (Jan 2011=100)



# Downside Risks

## 1. Further deepening of the euro area crisis

- Vicious circle between sovereign risk and bank fragility
- Downward spiral between austerity and recession
- New policies promising, but uncertainties remain

## 2. From “fiscal cliff” to debt ceiling in the U.S.

- No increase in income tax rates for 99% families, but payroll tax holiday expired
- Automatic government spending cuts activated
- Debt ceiling pending

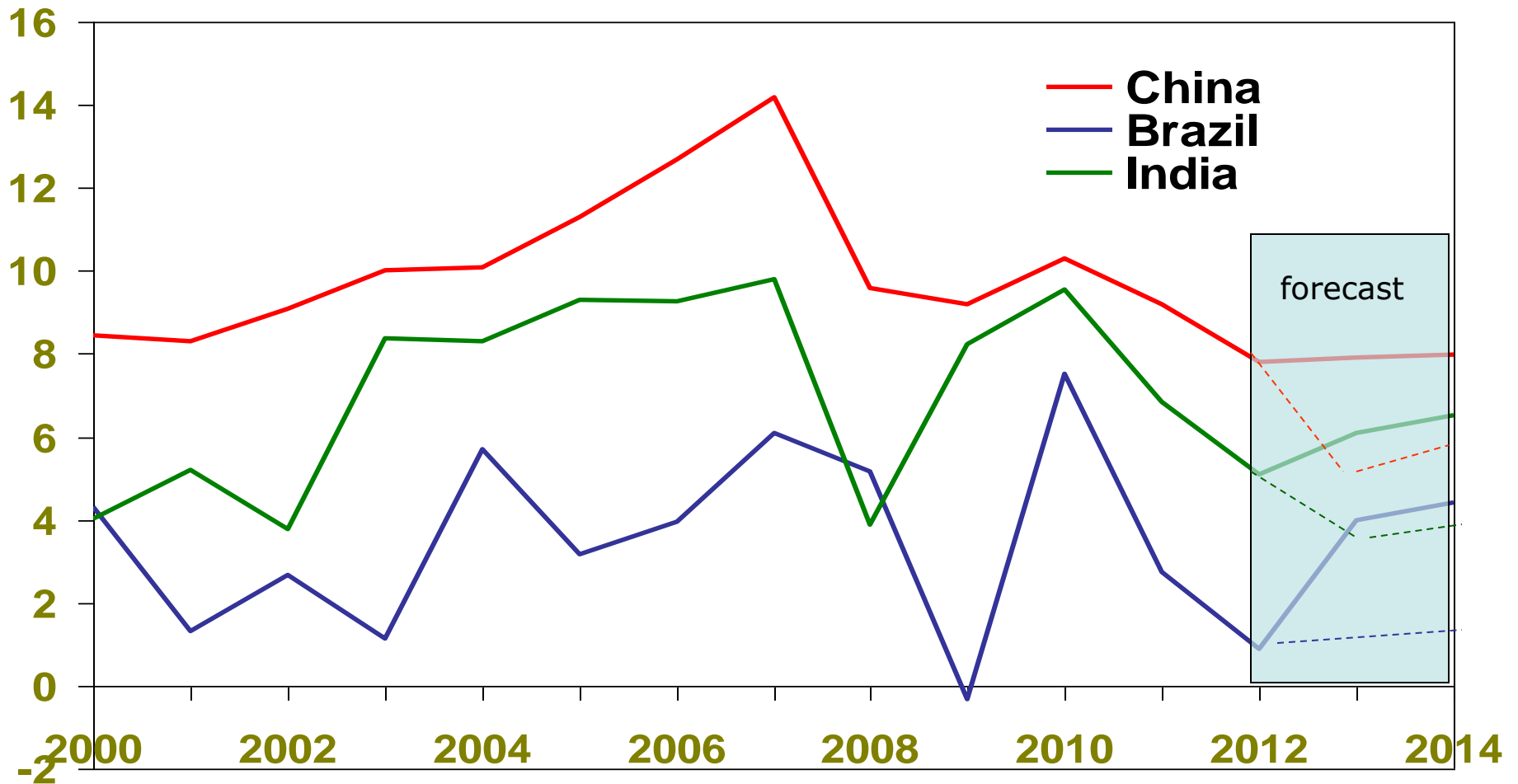
## 3. Hard landing in major developing countries

- Continued deceleration in fixed investment
- Greater weakness in external demand



# Soft landing or hard landing ?

GDP growth rate (%)



# Downside risks for Chinese economy

## Cyclical risks

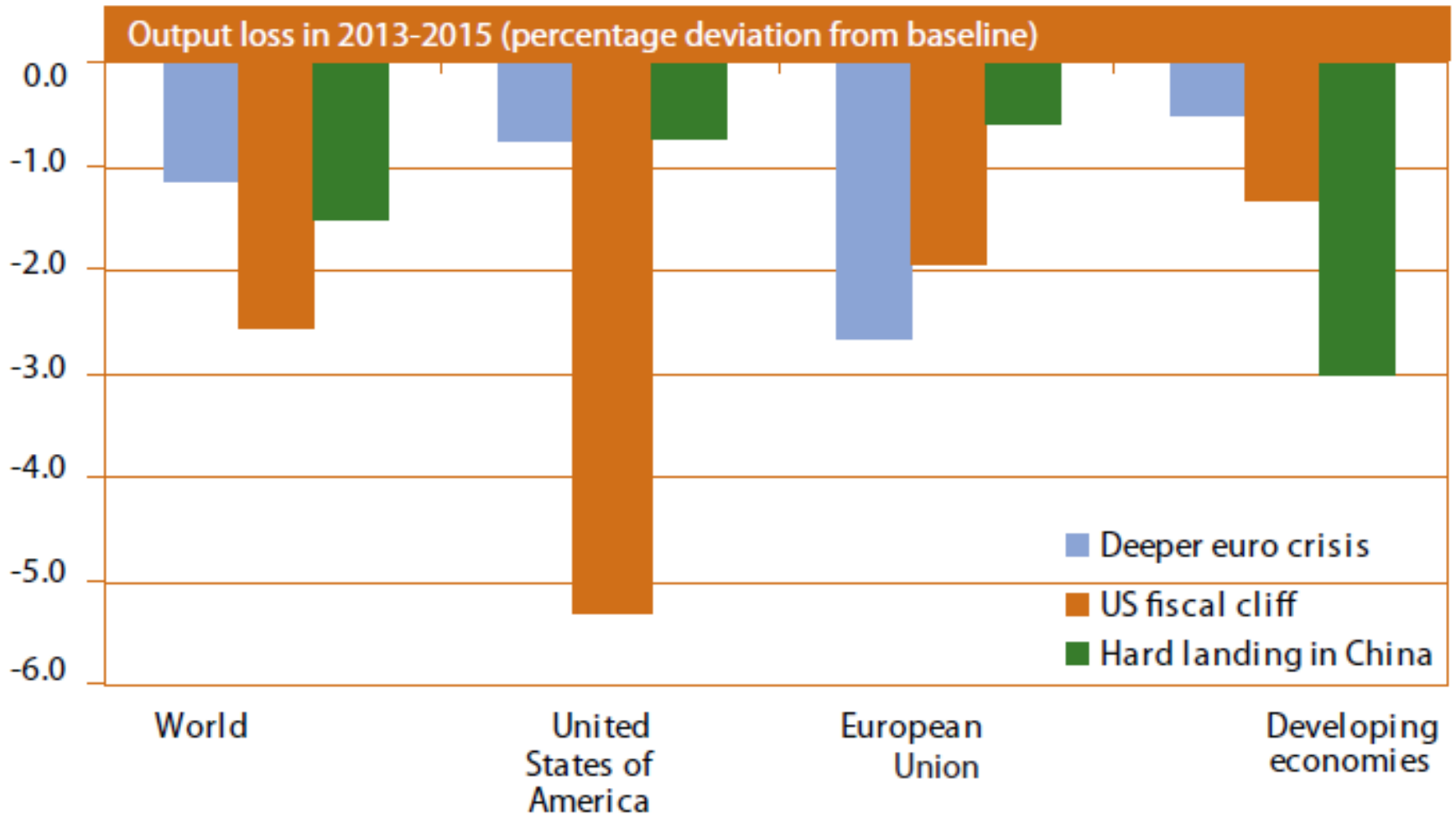
- Housing bubble
- Local government debt and investment vehicles
- Shadow banking

## Structural hurdles

- Unbalanced economic structure
- Rising costs of environmental degradation and natural resources depletion.
- Inequality, monopoly
- Turning points in both demographic dividend and Lewis curve

## Challenges for macroeconomic policy and reforms

# Impact of downside risks on world economy will be substantial



# Policy issues

## Macro policy stance in developed economies

- Continued fiscal tightening (Japan exception)
- Bold policy actions in Japan
- Open-ended strategy in monetary easing
- Targeting unemployment rate in the US

## Macro policy stance in major developing countries

- Mild expansionary fiscal combined with neutral monetary in China
- Neutral fiscal combined with expansionary monetary in L.A.
- Limited policy space in some developing countries

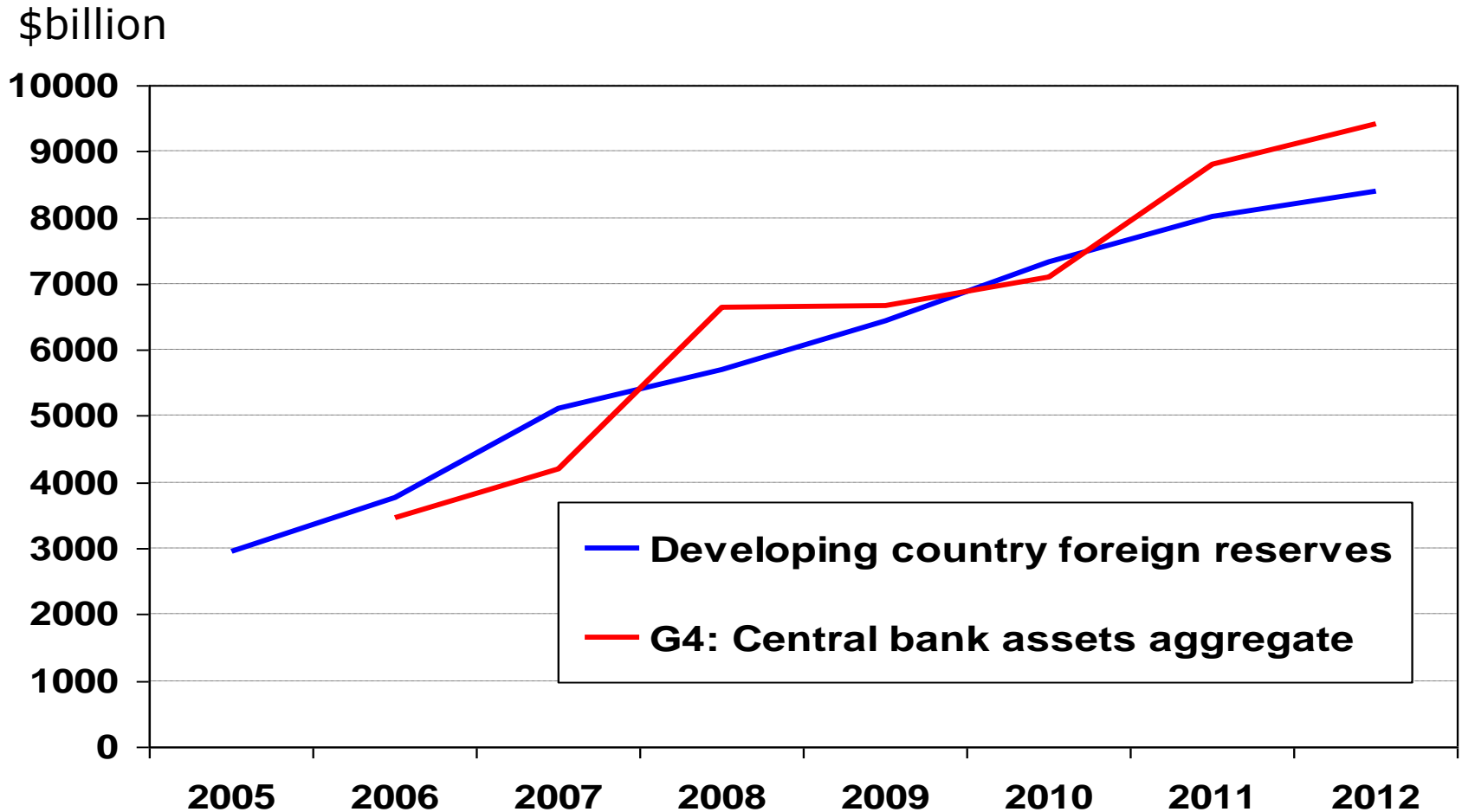
## Policy suggestions from WESP 2013

- More concerted policy actions
- Focus more on jobs creation

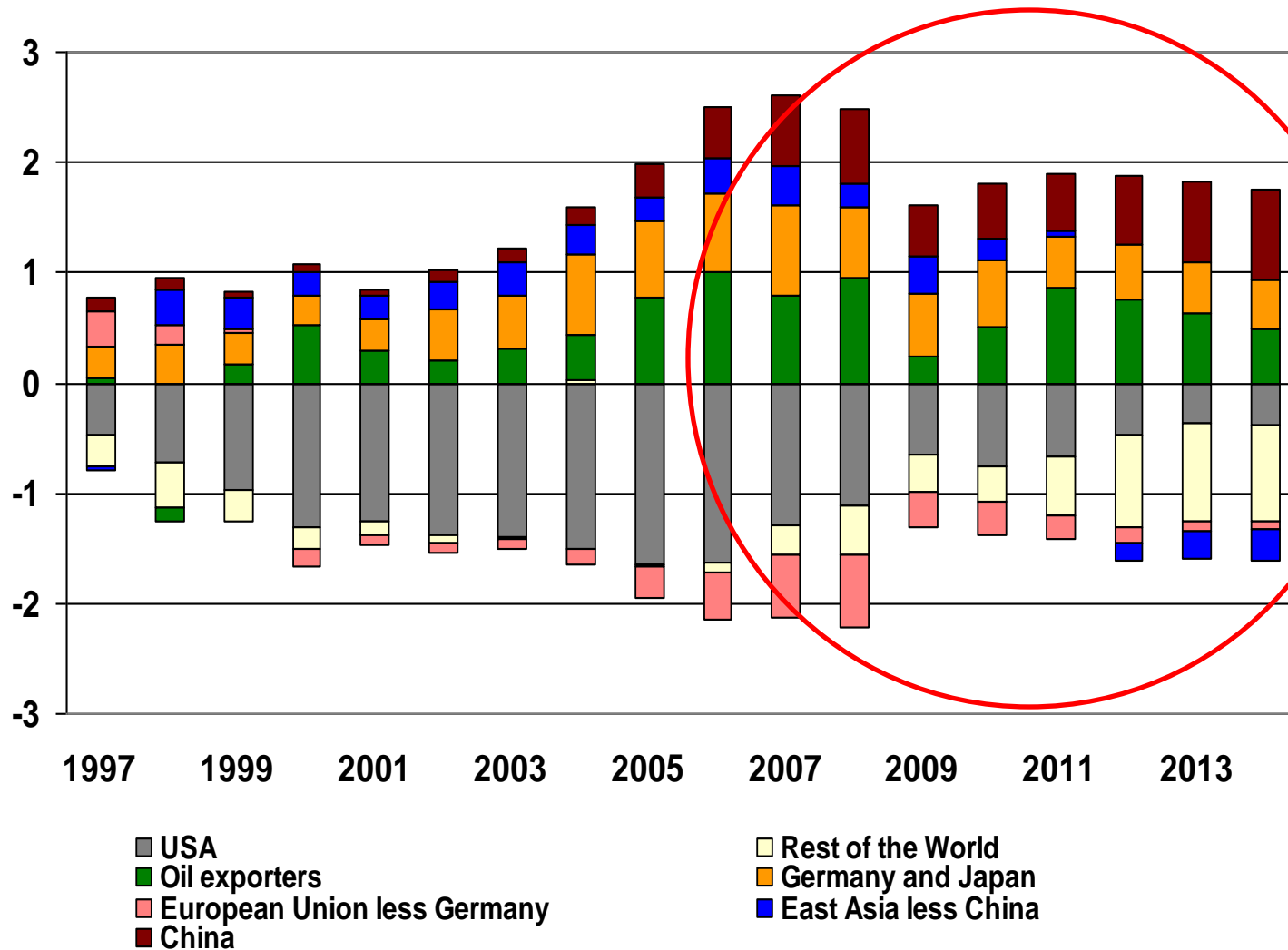
## International policy coordination

- Global imbalances

# Major developed countries collecting seigniorage from developing countries through quantitative easing



# Are global imbalances still a problem?



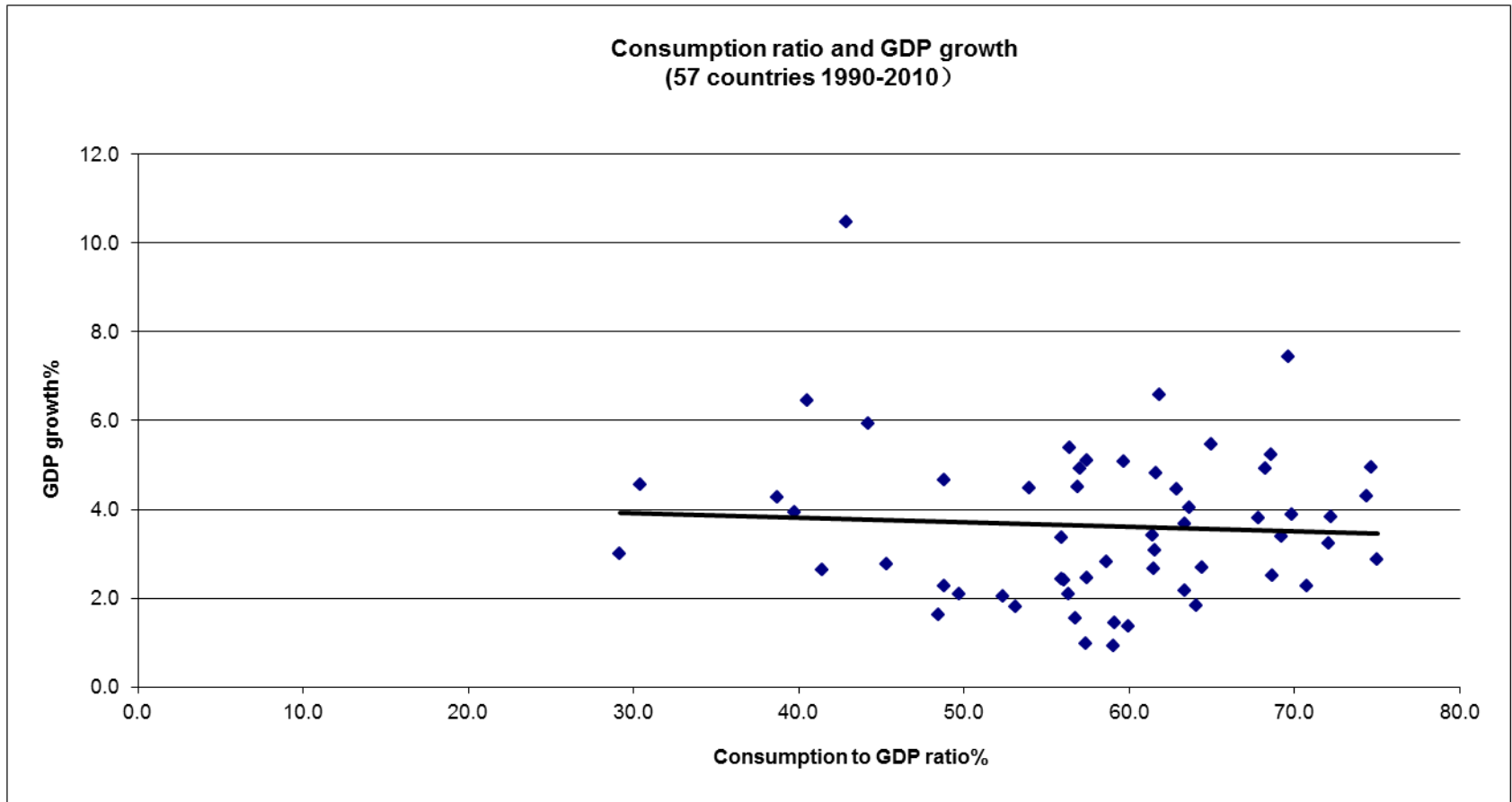
# Pitfalls in China's rebalancing

**Misconception in the popularly proposed rebalancing framework:**

**GDP = Consumption + Investment + Net Export**

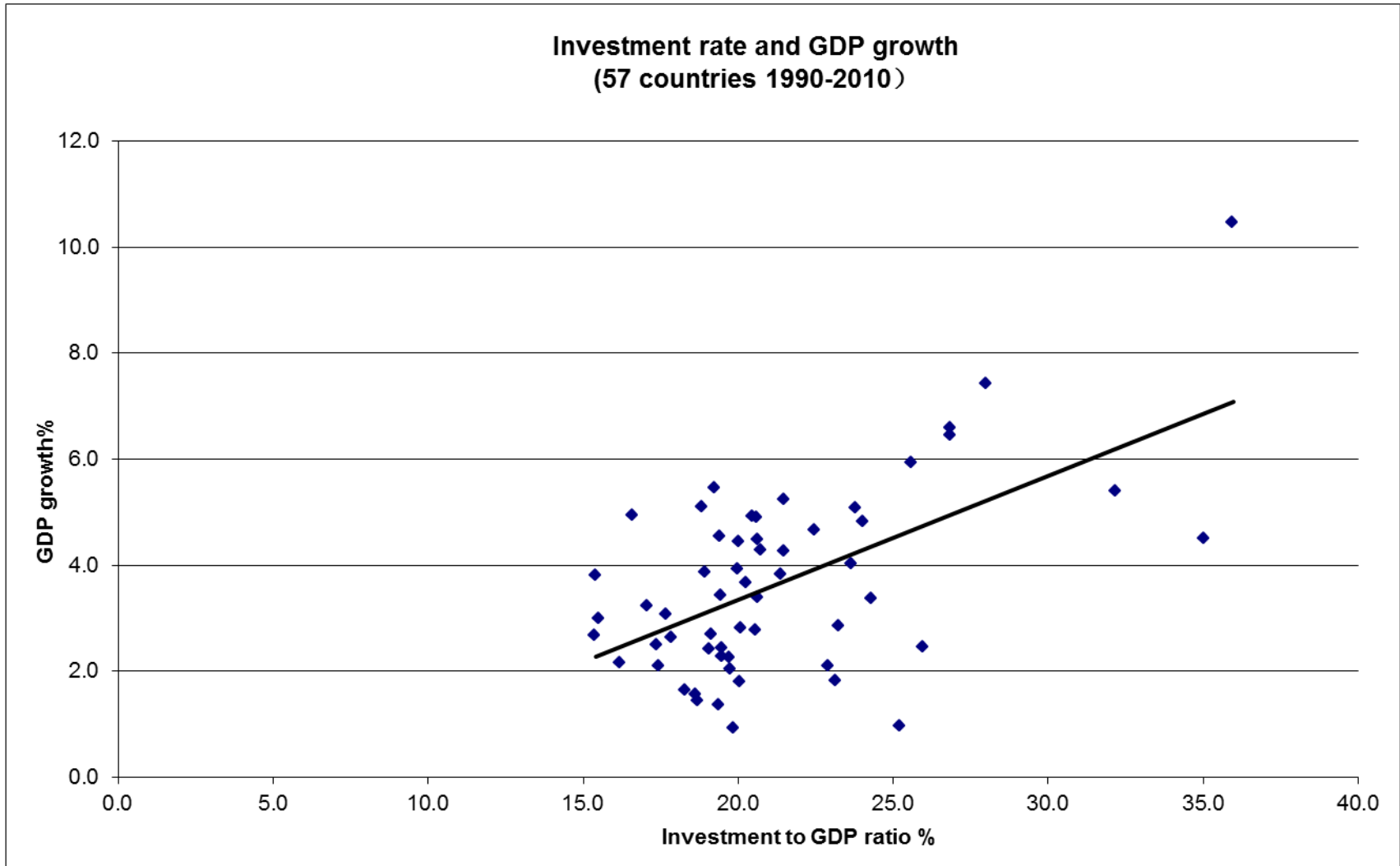
- This accounting identity does not define the causality
- The components are not independent variables
- Consumption cannot substitute for investment as the driver for long-term growth
- Tradeoff between current consumption and future consumption
- Increasing consumption to GDP ratio now will lead to lower GDP growth in the future

# Consumption is not a driver for GDP growth





# High investment rate is a necessary condition for robust GDP growth



Thank you!