



LINK Global Economic Outlook 2014-2015

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Project LINK Meeting
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Pingfan Hong
United Nations/DESA/DPAD
www.un.org/esa/policy

Outline



- **Global macroeconomic trends**

 - growth prospects

 - inflation and employment

 - international trade and finance

- **Uncertainties and risks**

 - QE exit, vulnerability in EM

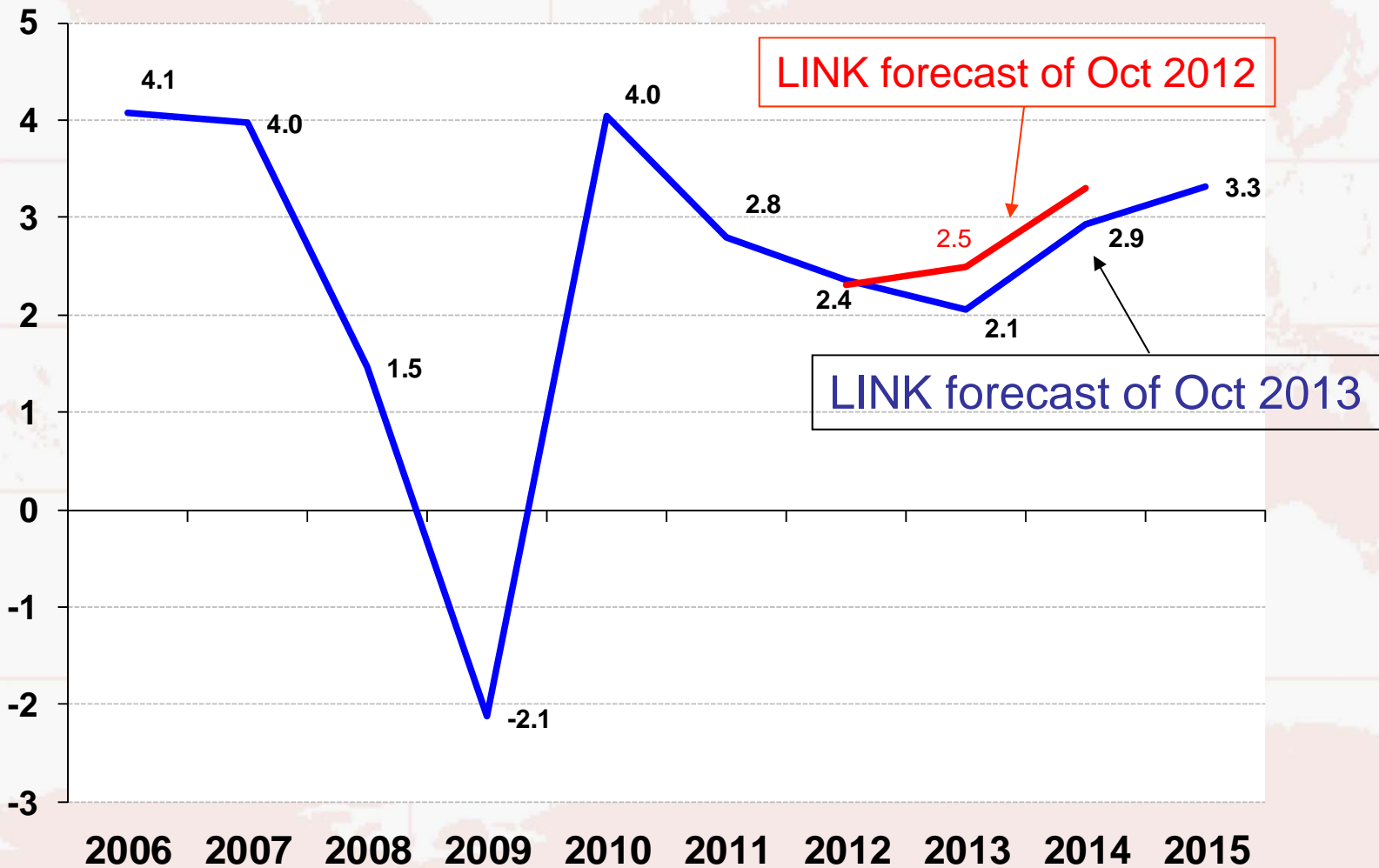
 - Remaining risks in euro area

- **Policy issues**

 - fiscal and monetary policy stance

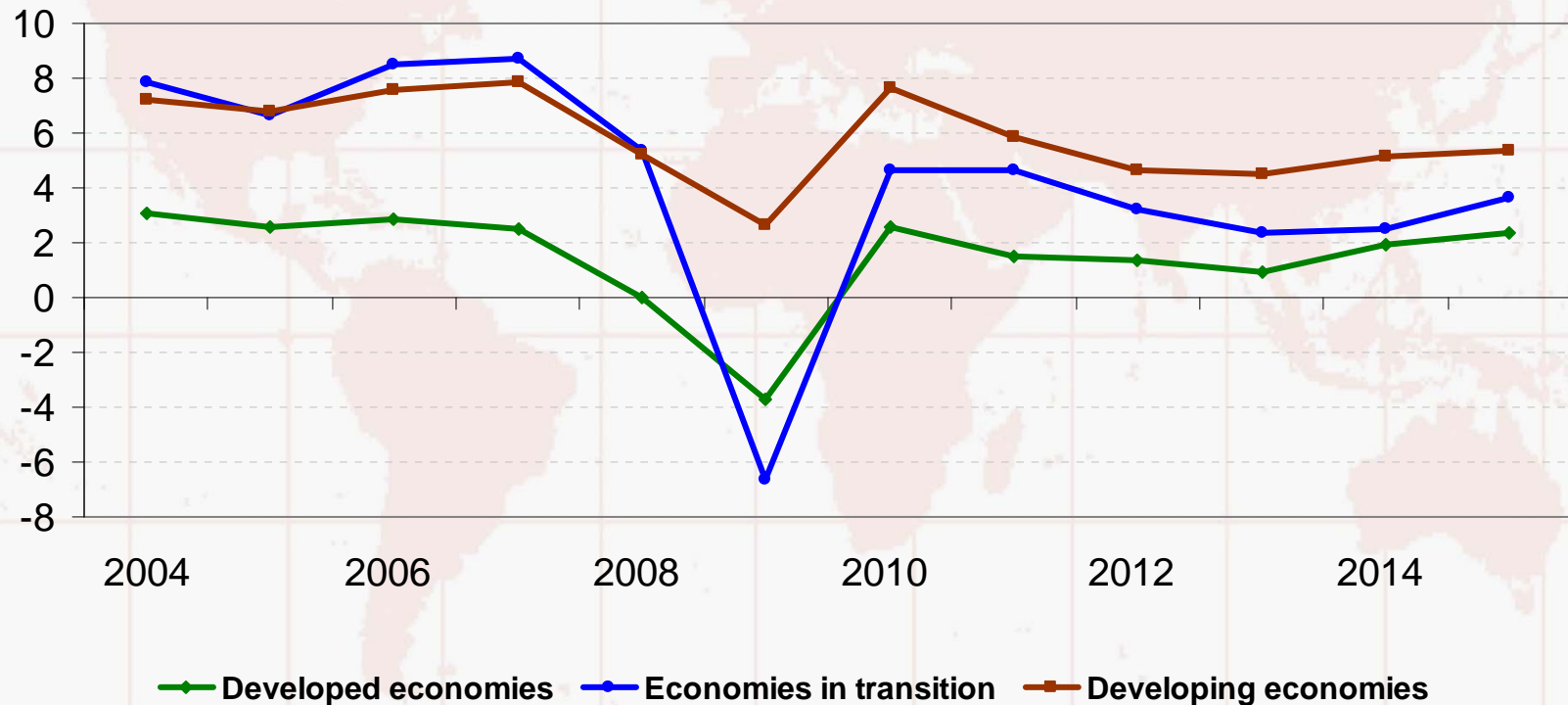
 - international policy coordination

Global economy still on a slow and bumpy recovery





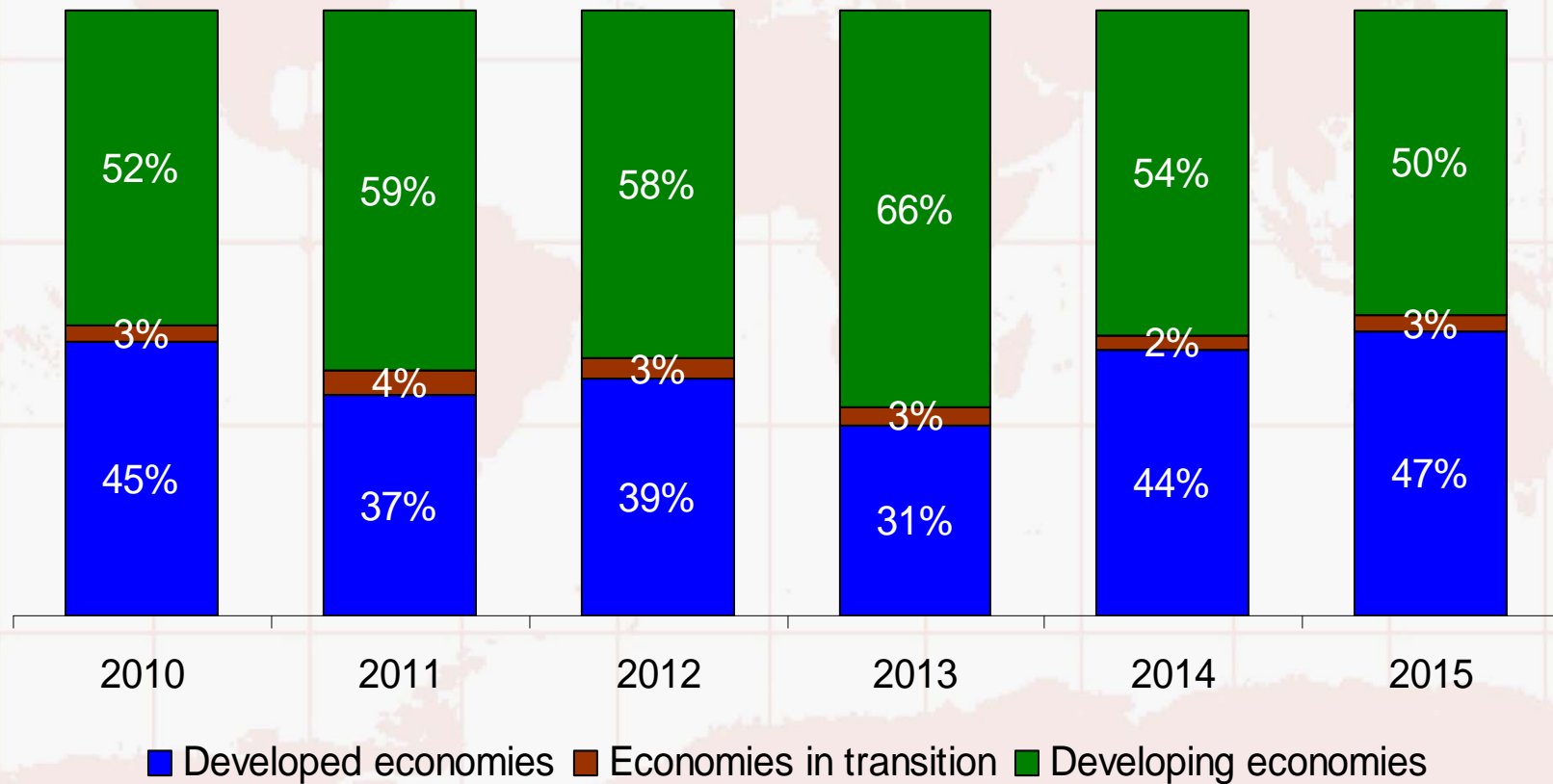
De-coupling or re-coupling



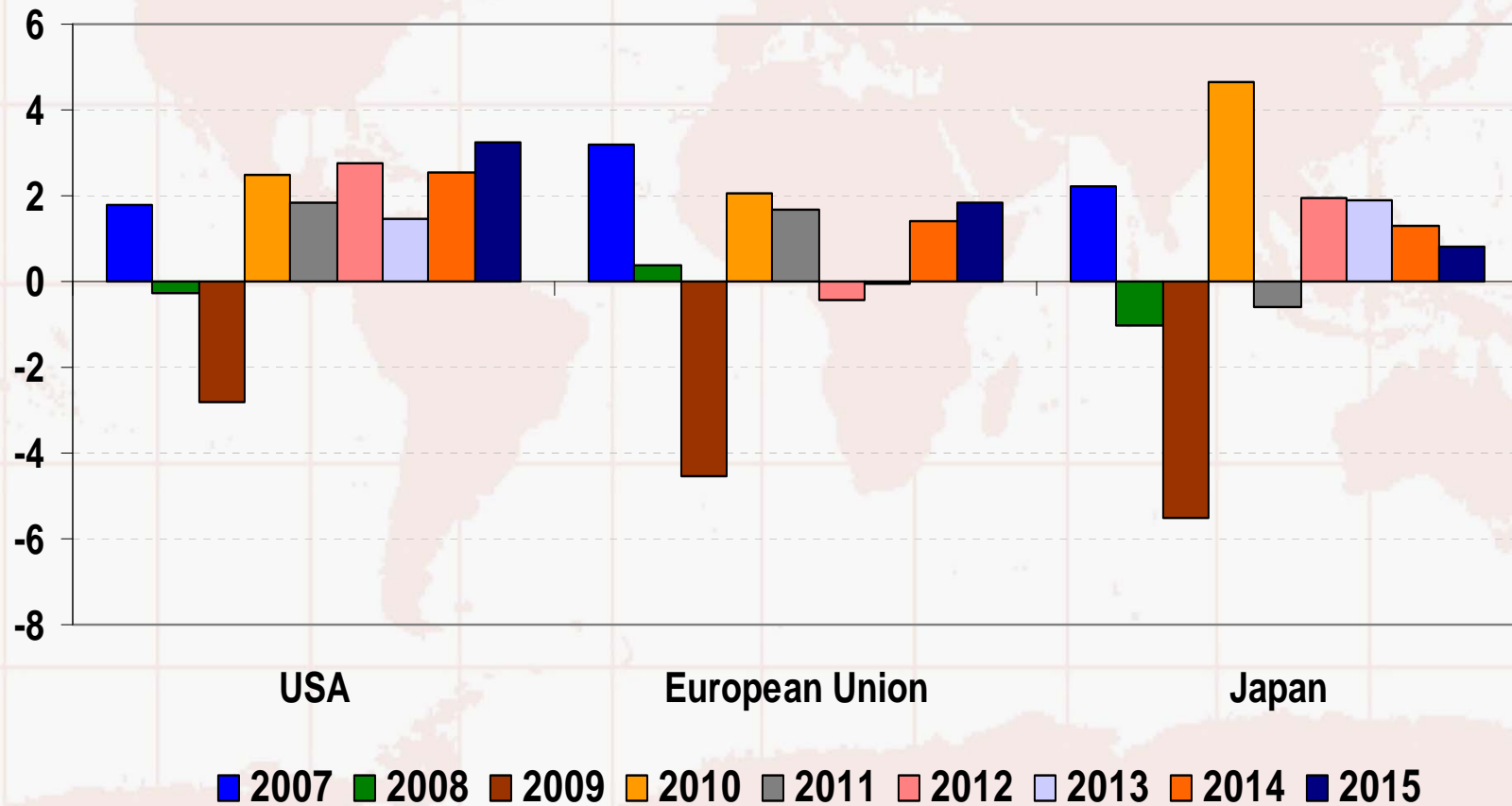


A shift in growth contribution?

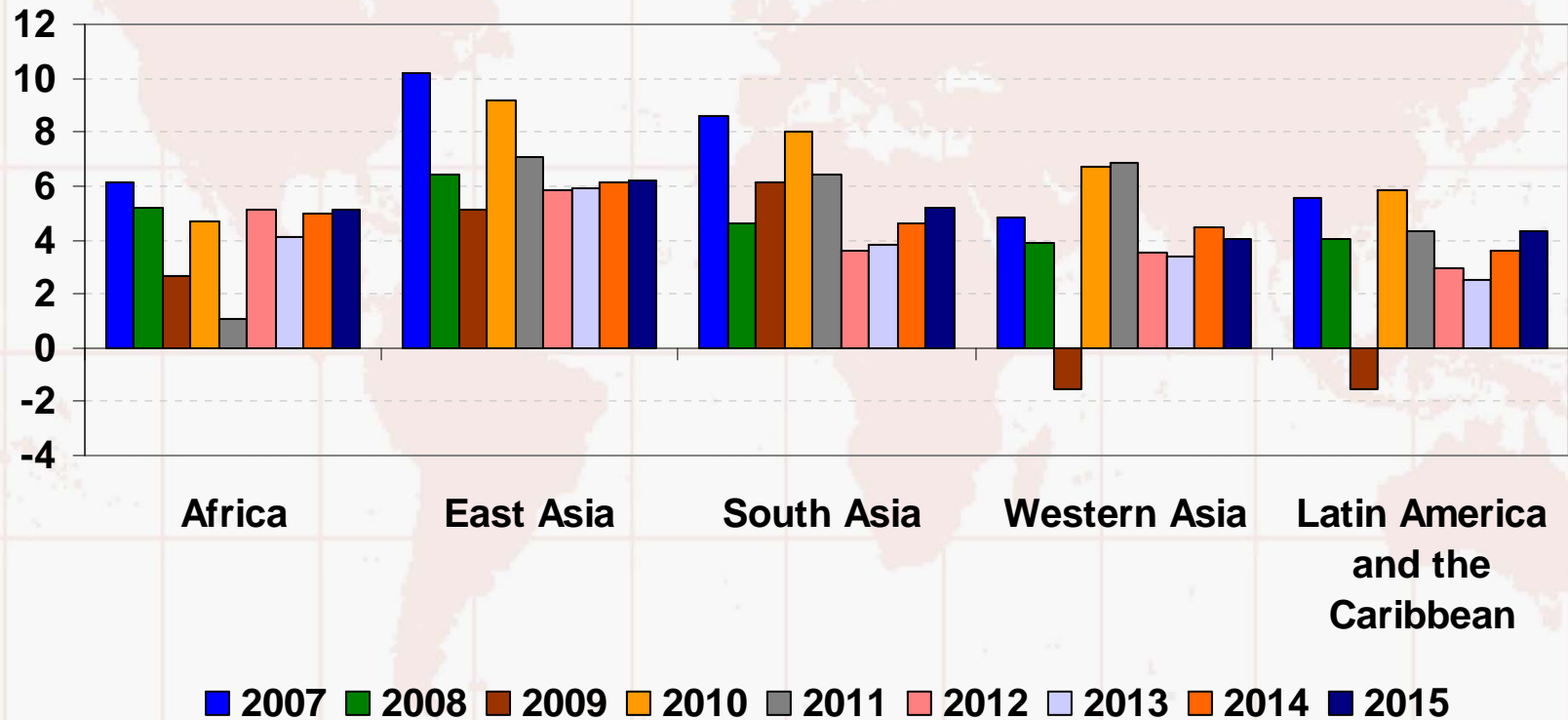
Share of contribution to global growth



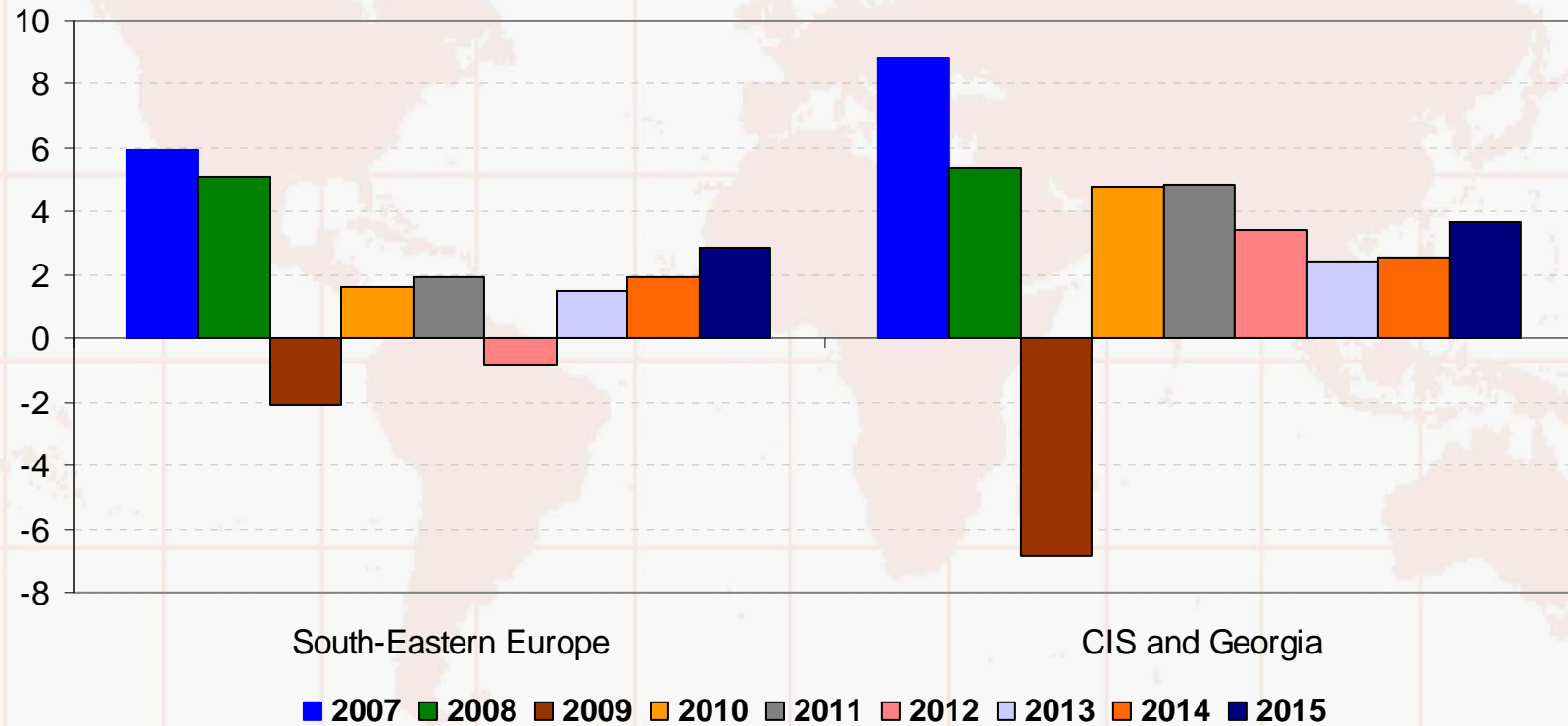
Developed economies: healing slowly in the aftermath of the financial crisis



Developing countries: stabilizing the growth moderation

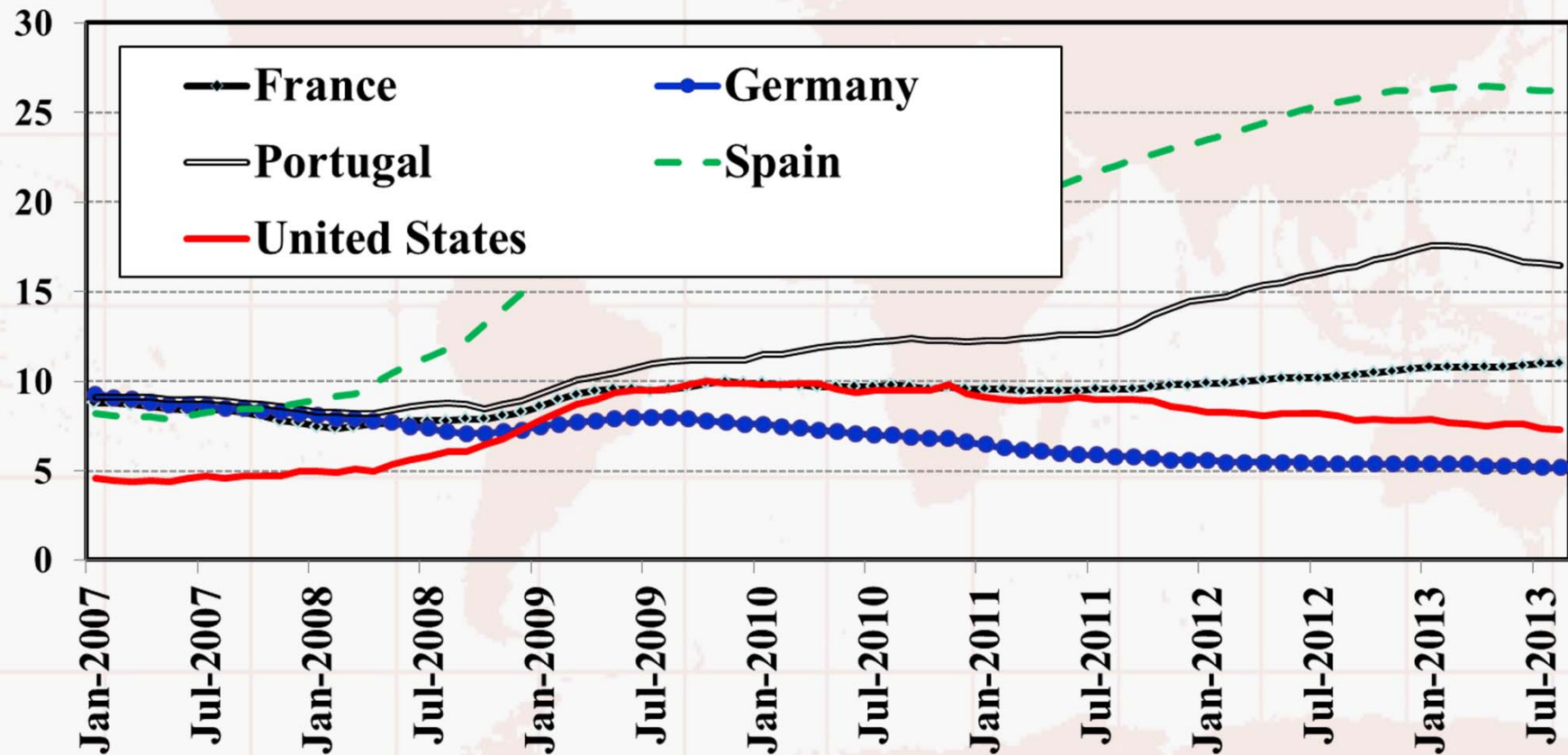


Economies in transition: some strengthening

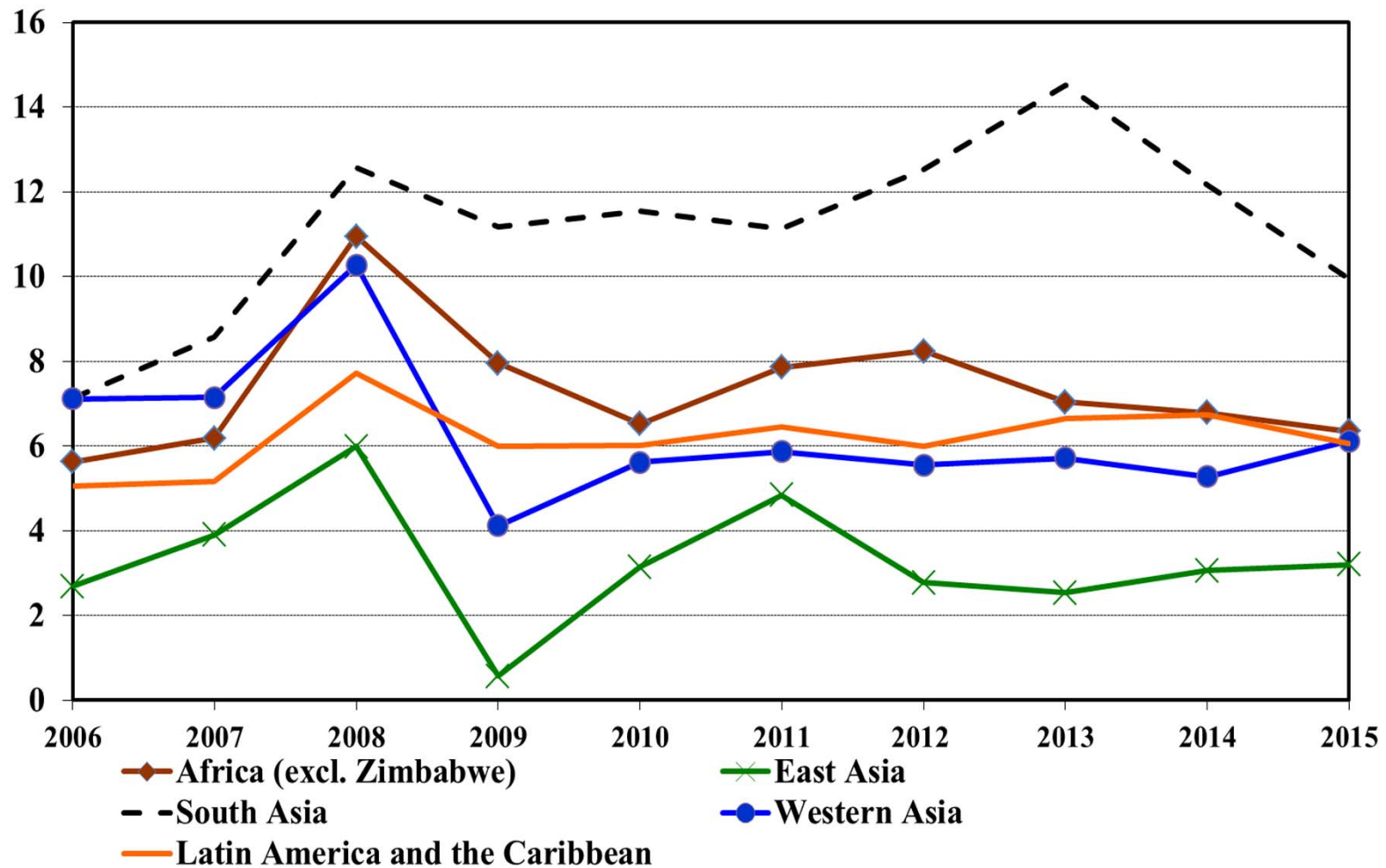




Unemployment rates elevated



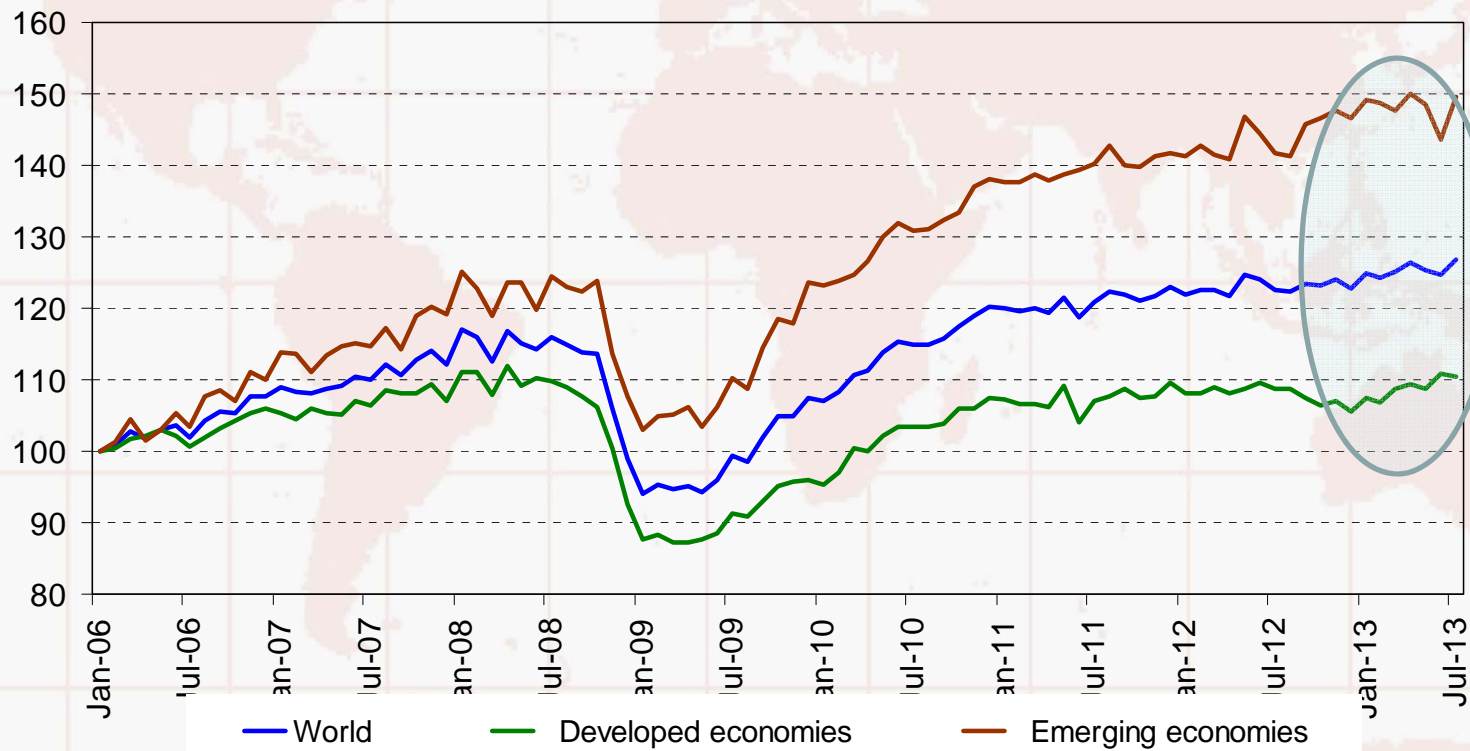
Inflation remains benign in most part of the world



World trade growing at a sluggish pace



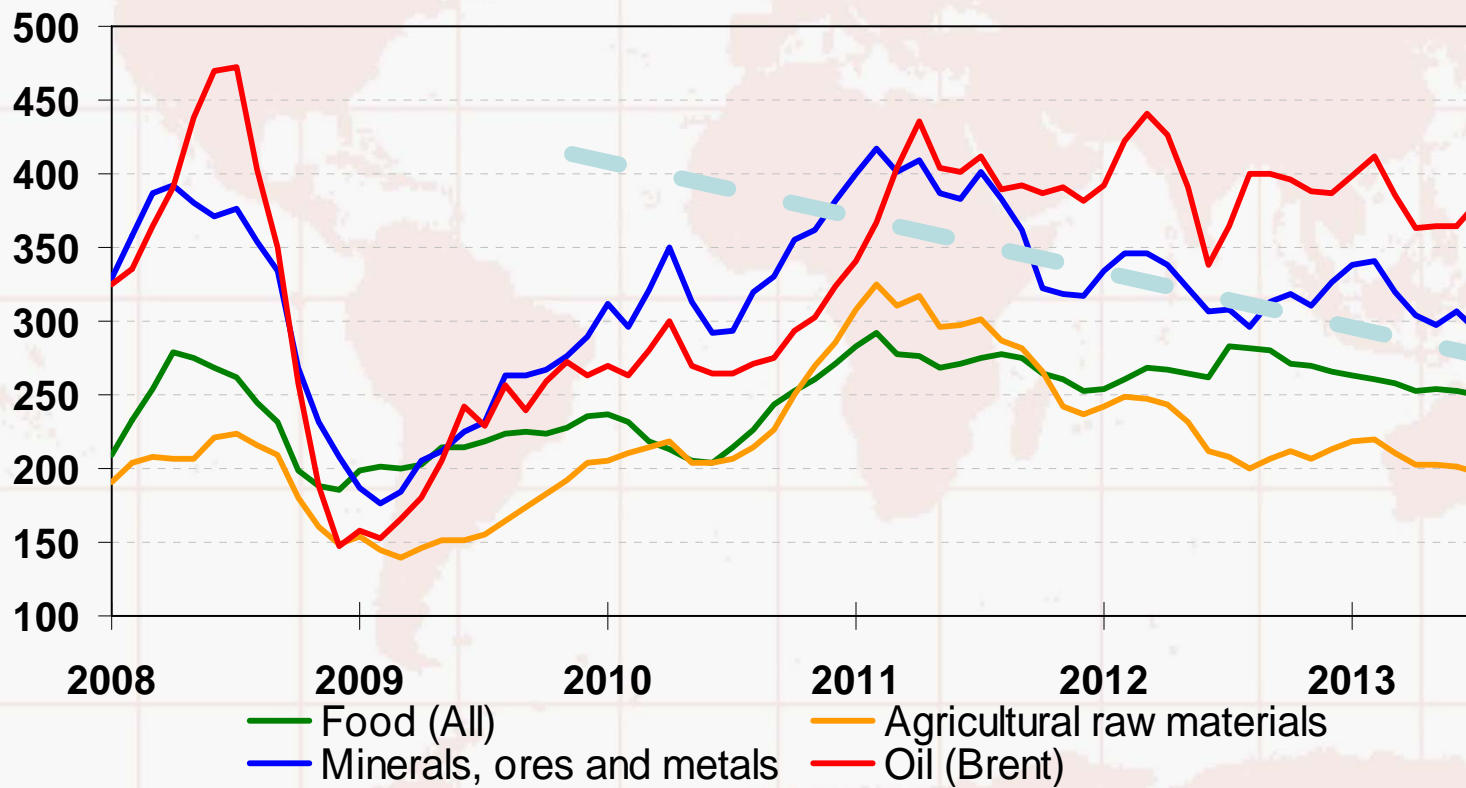
World exports, Jan 2006 - Jul 2013
(Jan 2006 =100)





Commodity prices on the downturn

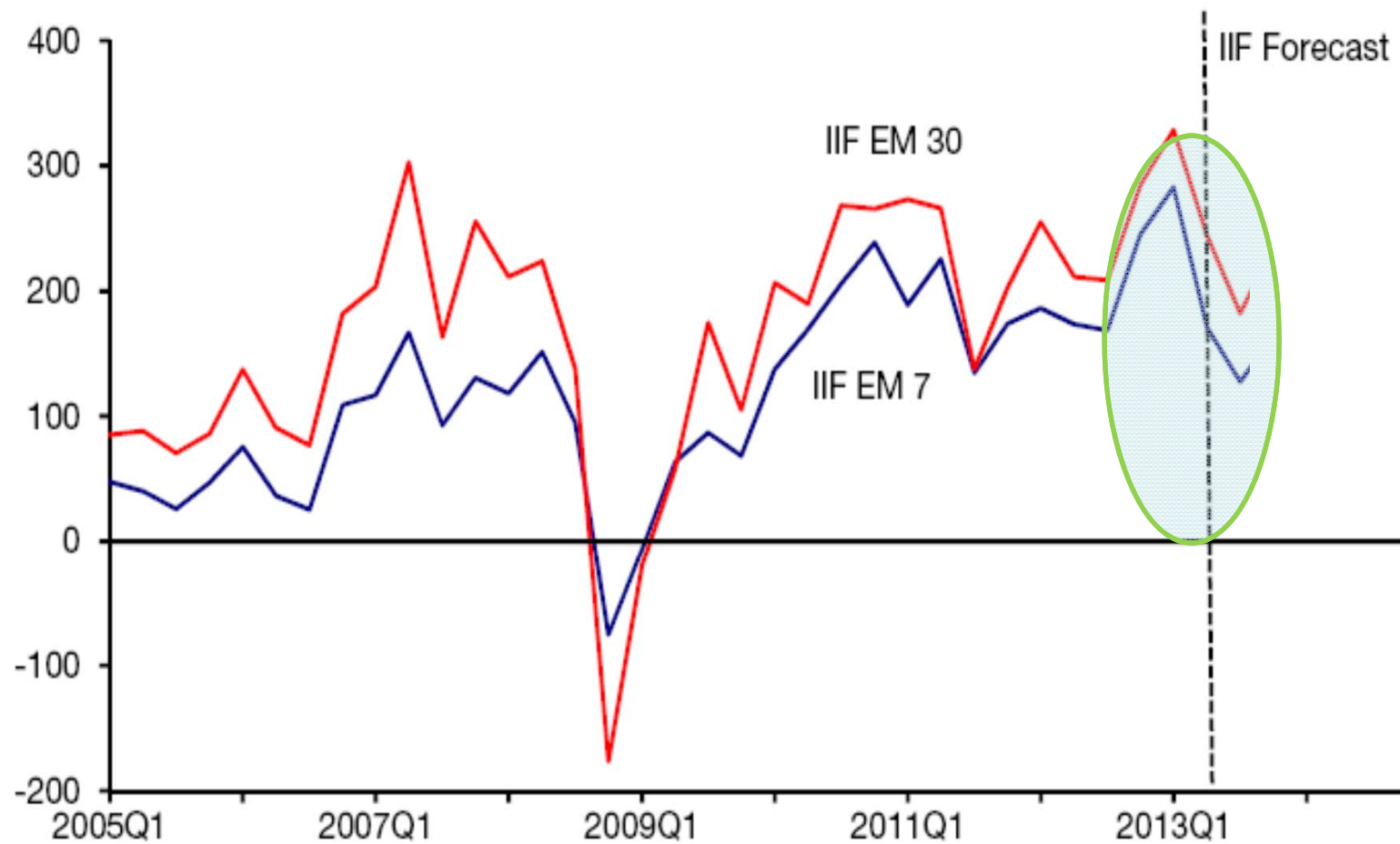
Commodity price index (2000=100)





Reversal in capital inflows to emerging economies

\$ billion, quarterly data; IIF EM 7 = BRIC, Turkey, Mexico and Indonesia, "IIF EM 30" = full IIF sample

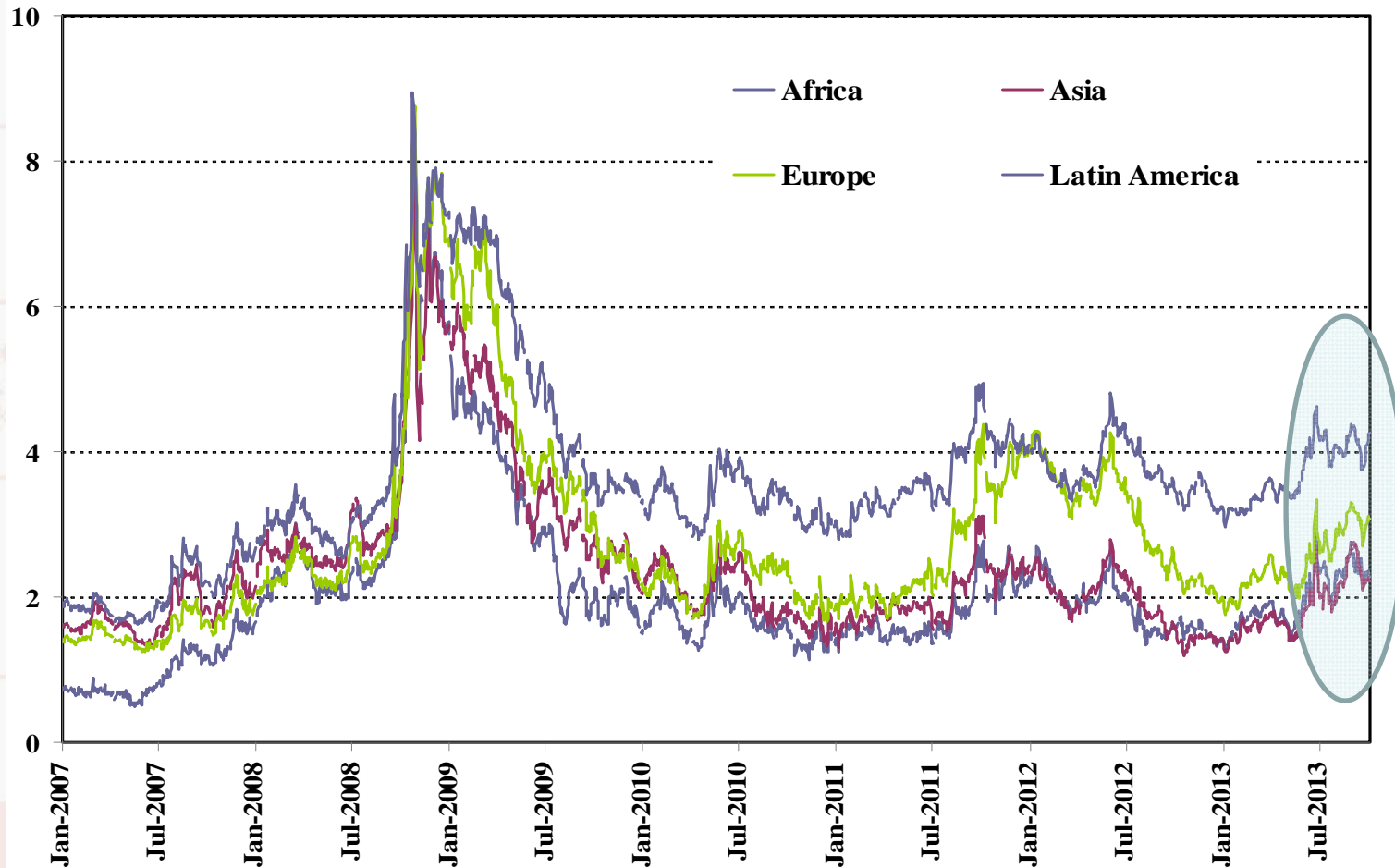


Source: IIF

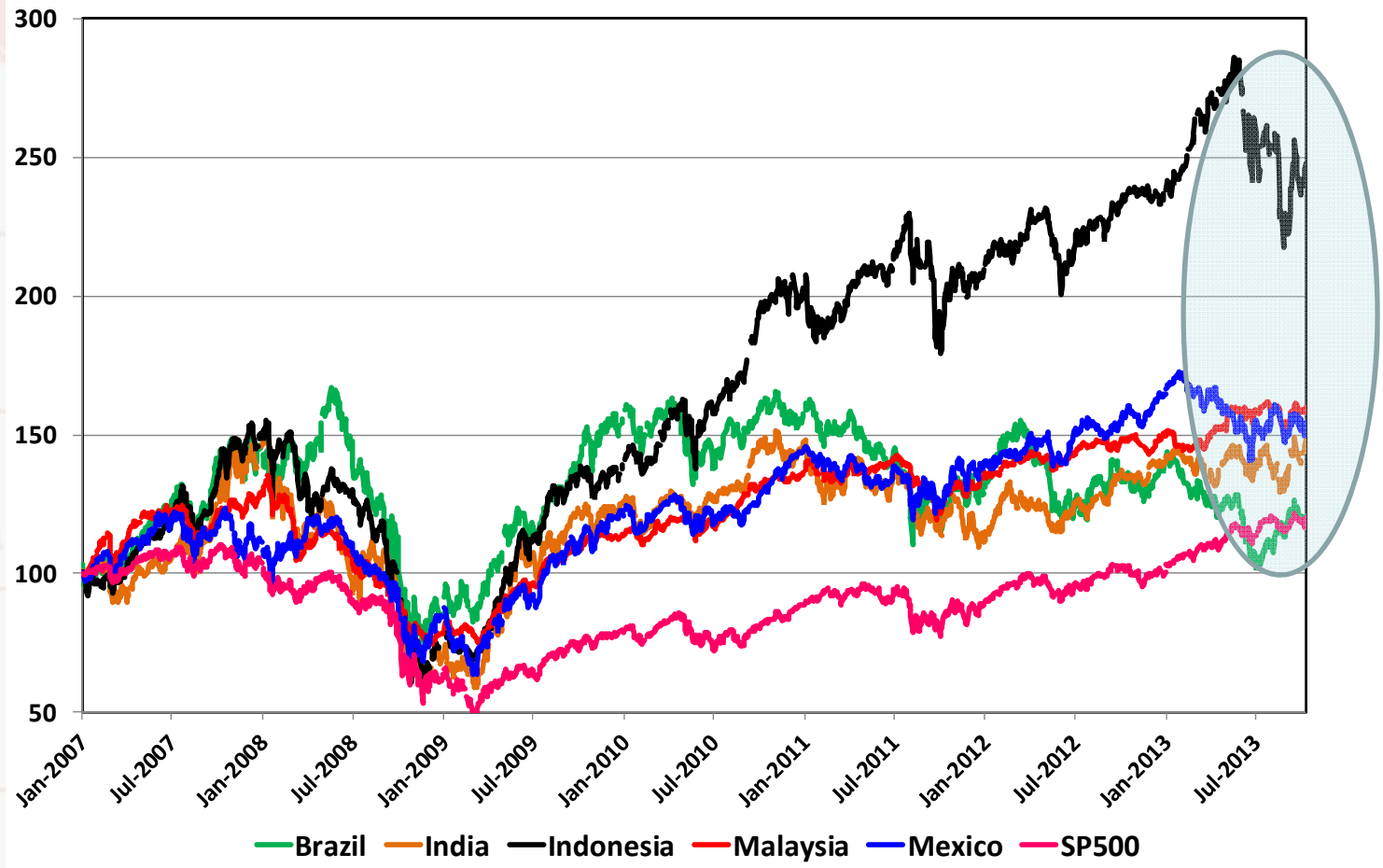
Increase in external financing costs for emerging markets



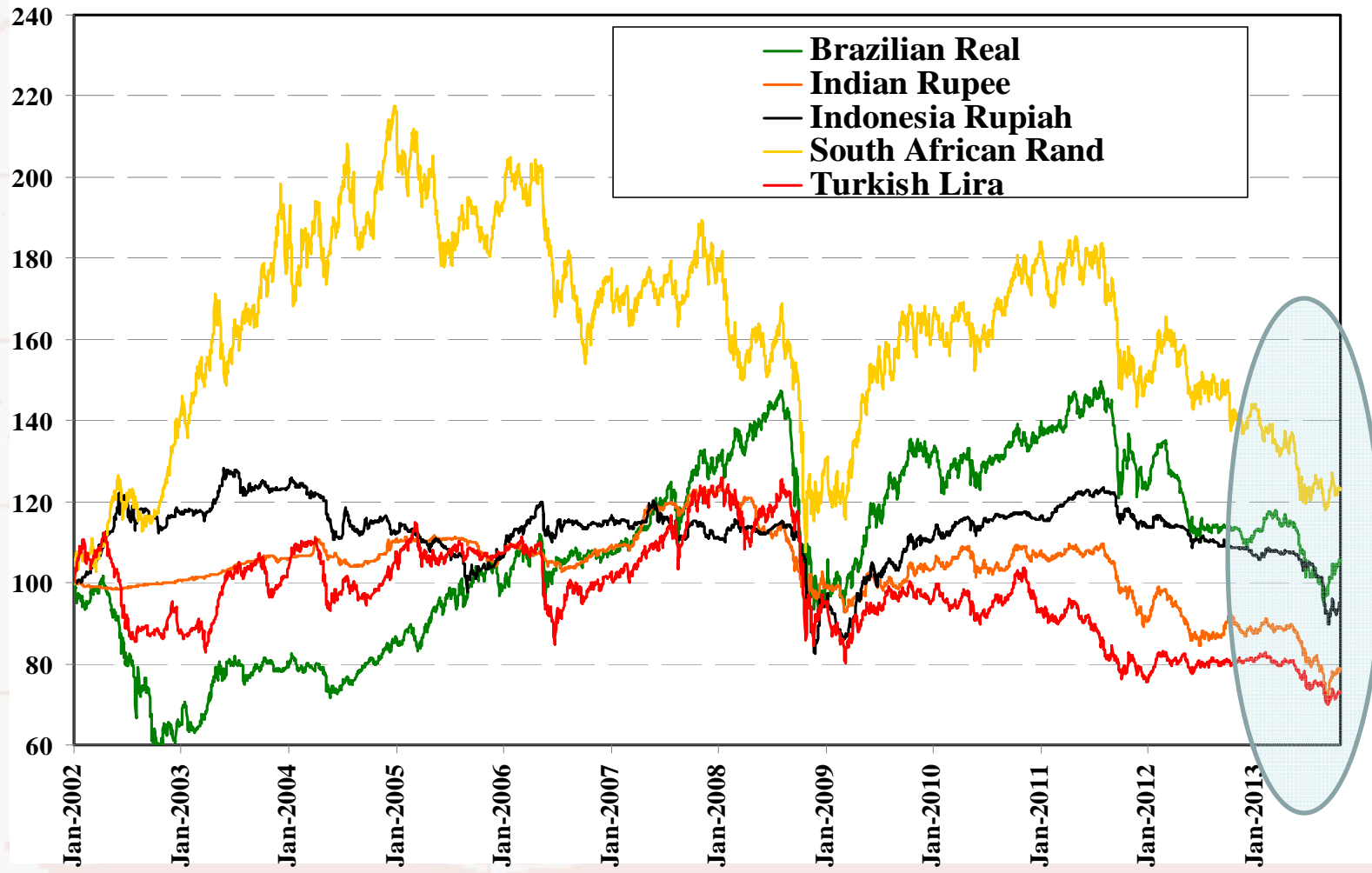
yield spreads on emerging economies bonds, 2007.01 -2013.10



Selling off in stock markets of emerging economies



Depreciation of currencies in emerging economies



Uncertainties and risks

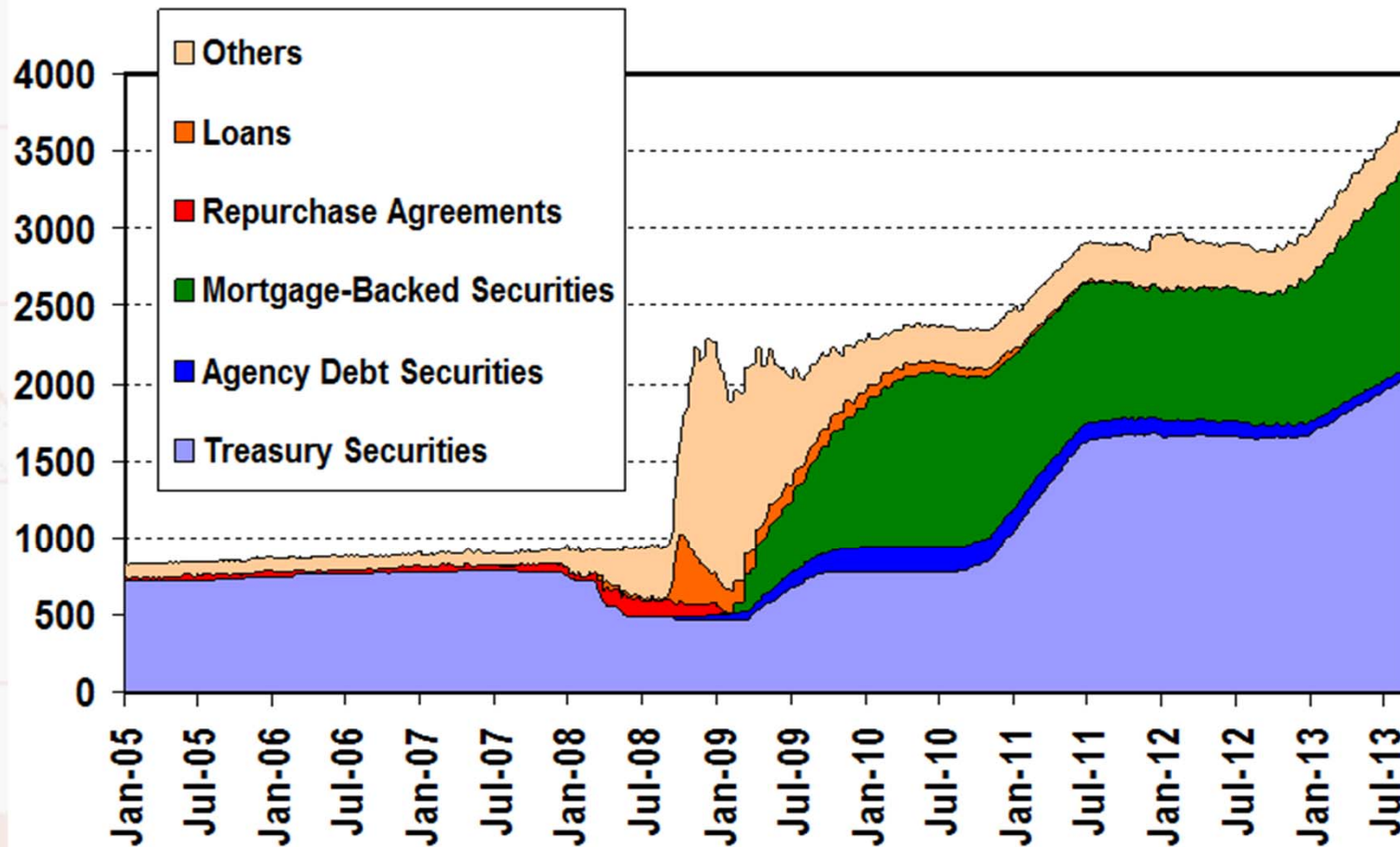


- **Unwinding of the QE**
- **A hard landing for emerging economies**
- **Remaining fragility in euro area**
- **Fiscal policy in the United States**
- **Geopolitical risks**
- **Environmental disasters**



QE expanded central bank's assets

Fed balance sheet: Assets, billion dollar



Effects of the QE



- **Positive: stabilizing financial markets, bailing-out banks, supporting economic recovery and jobs, good spill-overs to other economies;**
- **Negative: market distortion, repressing risk premium, moral hazard for banks, bad spill-overs to emerging economies.**

Risks associated with the QE exit



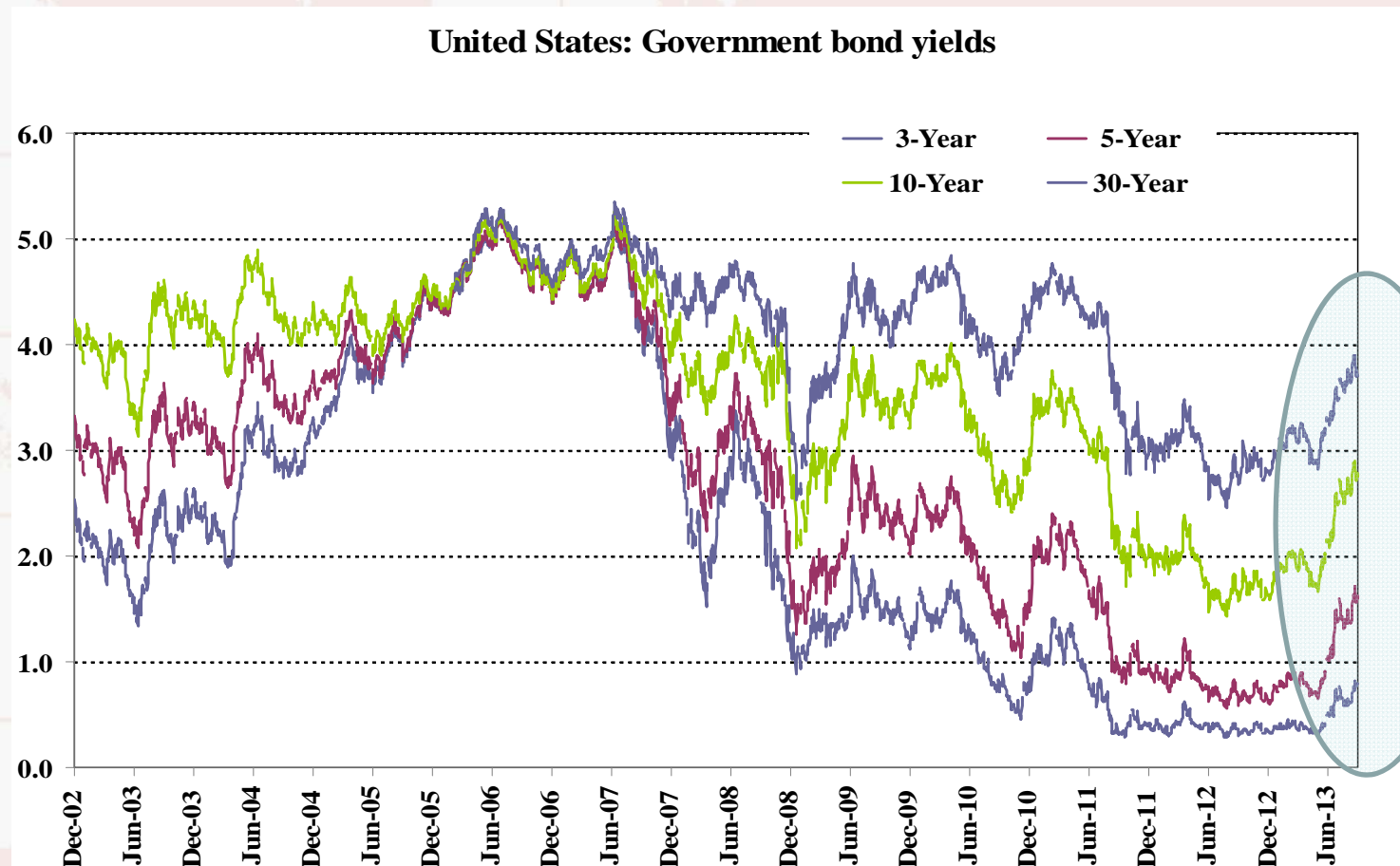
- **Premature and unsmooth exit will lead to:**

Overshooting of long-term interest rates, shocks to financial markets and real economy, reversing capital inflows to emerging economies, and increasing their external financing costs.

- **Delayed exit will lead to:
asset bubbles and inflation**



Overshooting of long-term interest rates



Risks for a hard landing in emerging economies



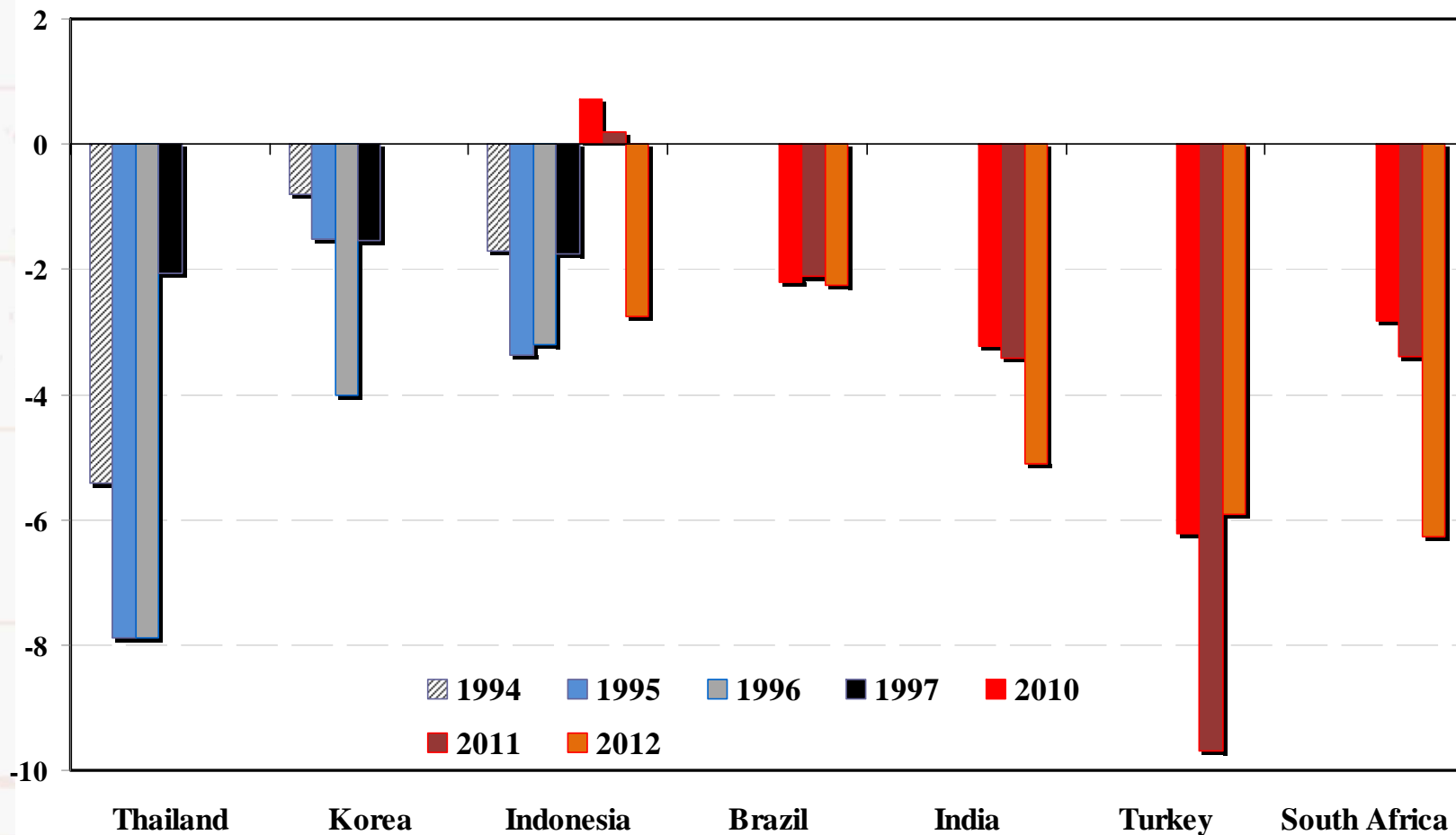
- **Vulnerability of emerging economies to external shocks**
- **Challenges to overcome structural bottlenecks in their domestic economy**

Vulnerability of emerging economies to external shocks

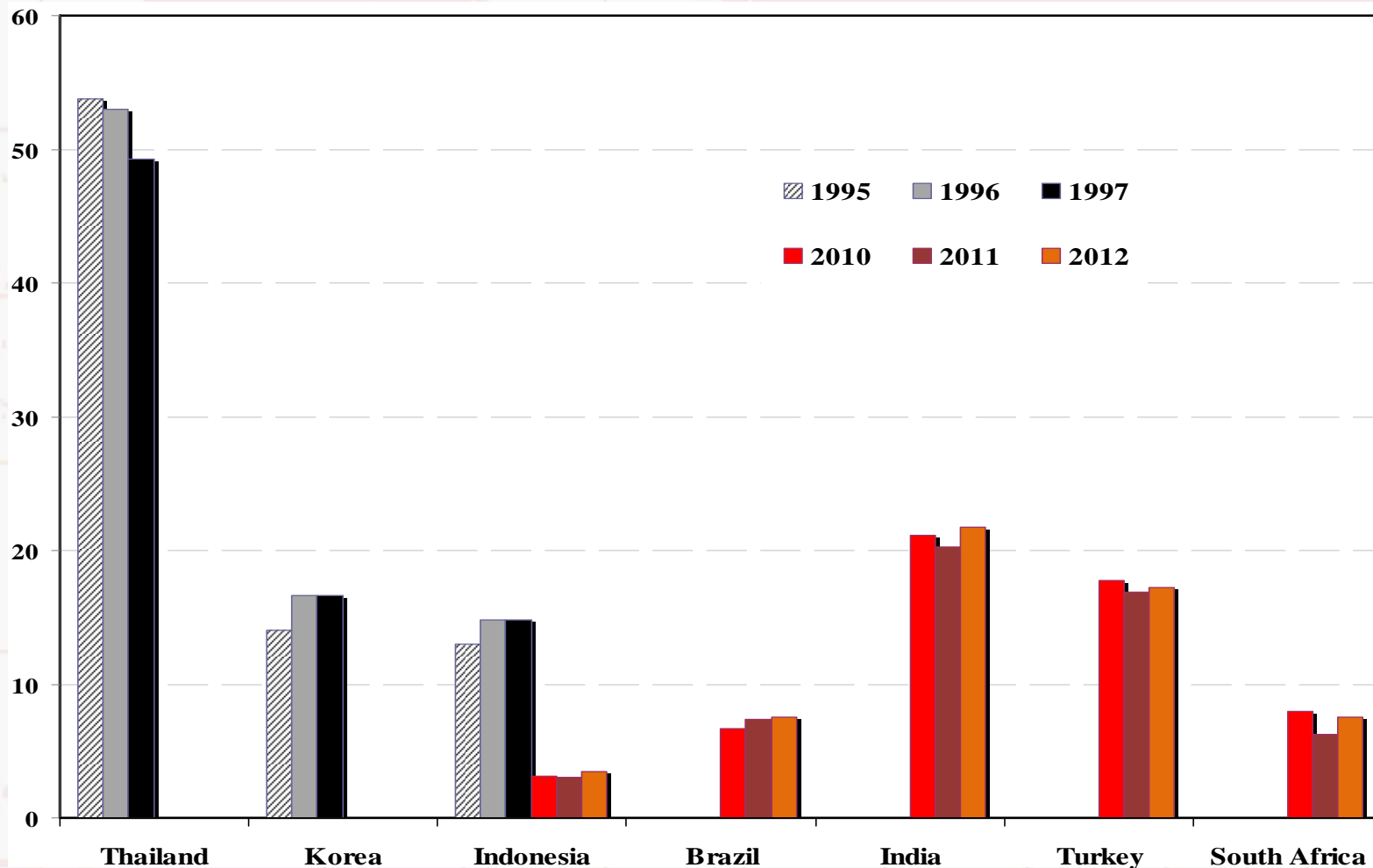


- **Reversal of capital inflows**
- **Current account balance**
- **External debt**
- **Foreign reserves**
- **Exchange rate regimes and macroeconomic policy space**

Current account/GDP: Asian financial crisis V.S. today

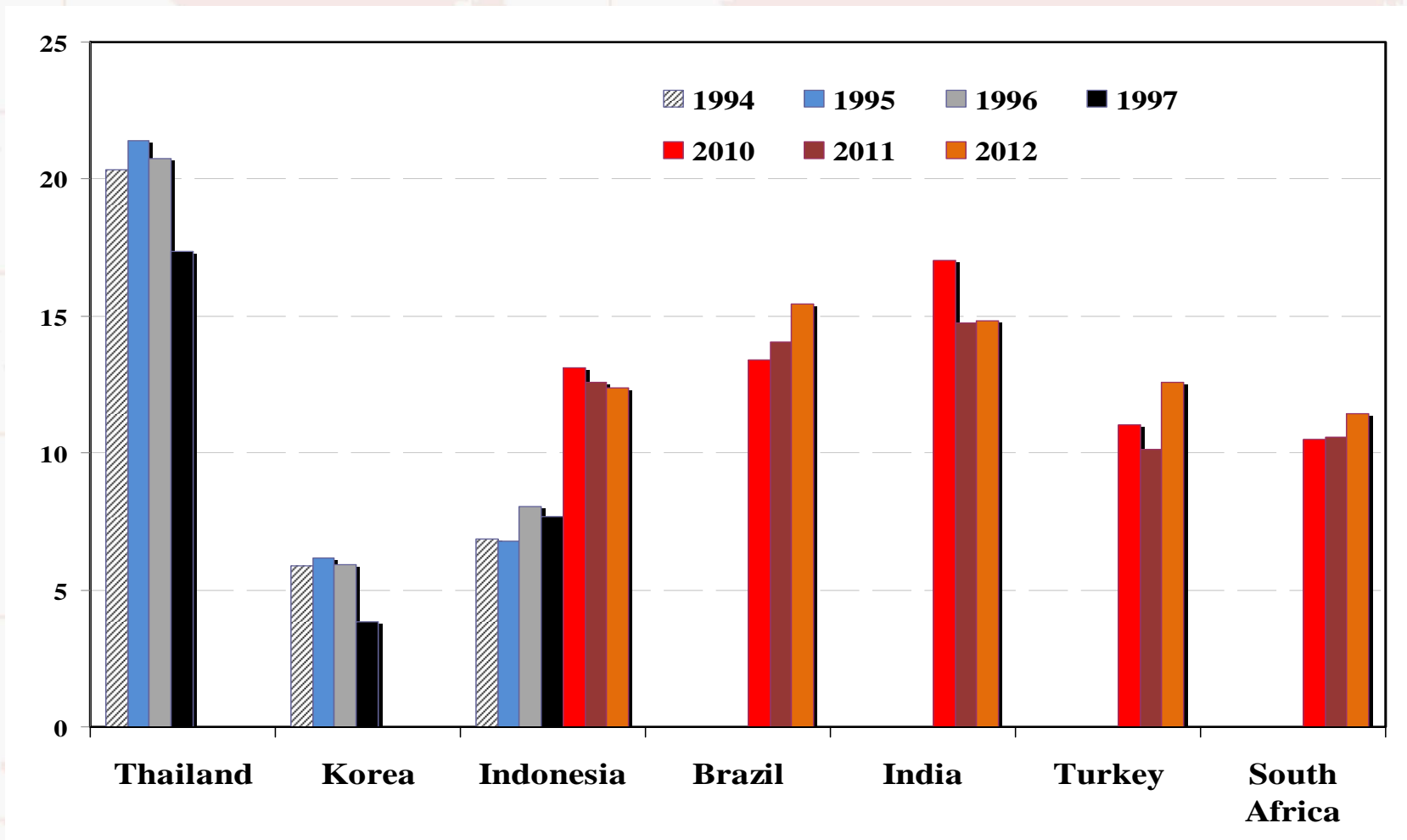


External Debt/GDP: Asian financial crisis V.S. today





Foreign reserves/GDP: Asian financial crisis V.S. today





Policy challenges (1)

- **Macroeconomic policy stance more diverse across countries**
- **Developed economies:**

A combination of fiscal tightening and monetary easing Current

Japan exception (expansionary fiscal and monetary)

Challenge: managing a smooth QE exit



Policy challenges (2)

- **Developing countries and economies in transition:**

Reducing vulnerability to a more challenging international economic condition

Meeting different needs in the domestic economy

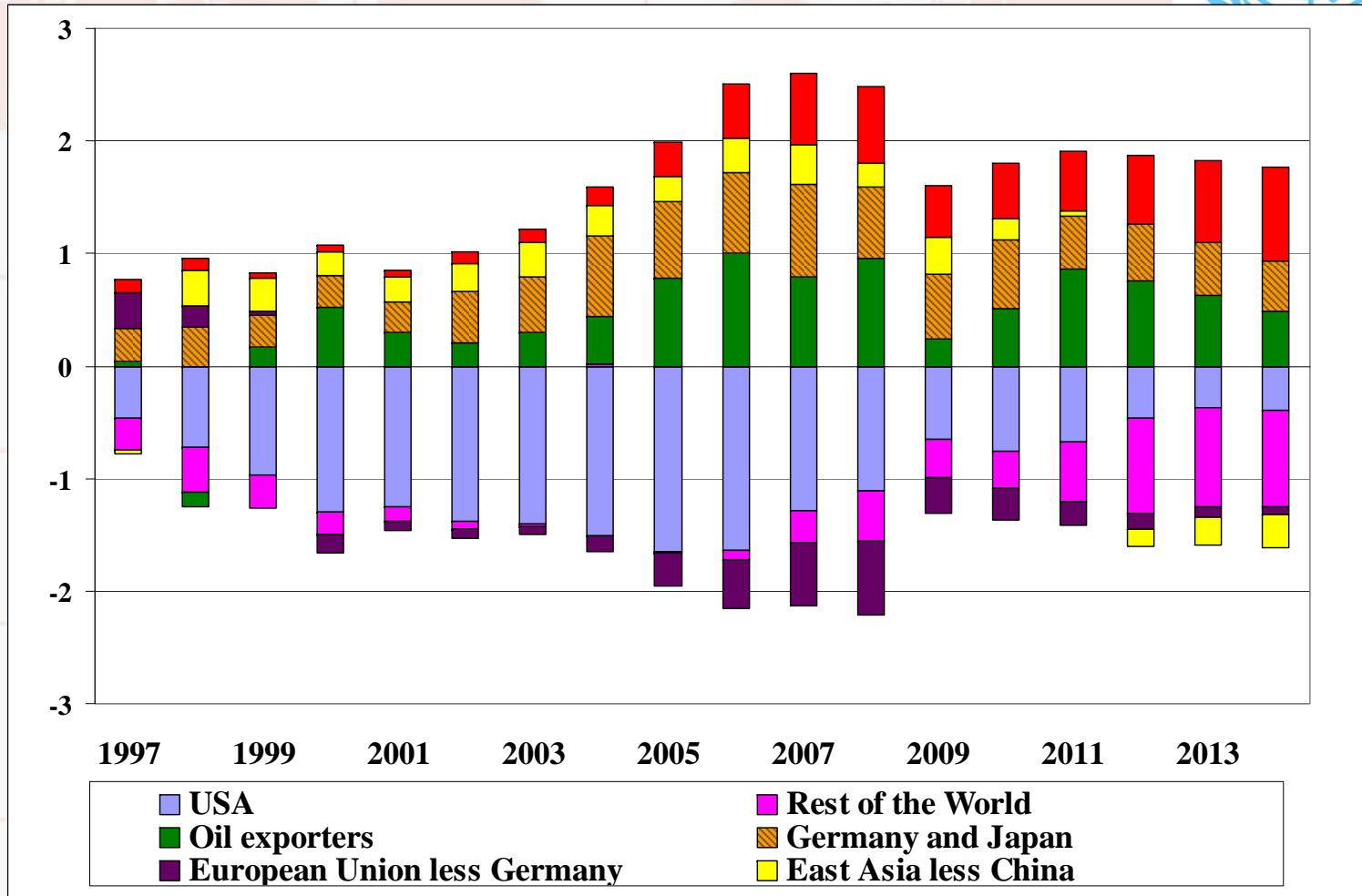
Reforms to deal with structural impediments



Policy challenges (3)

- **International policy coordination:**
 - Mitigate the spill-over effects of QE exit**
 - Manage global imbalances**
 - Ensure sufficient international resources to the LDCs to support the MDGs and post-2015 development agenda**

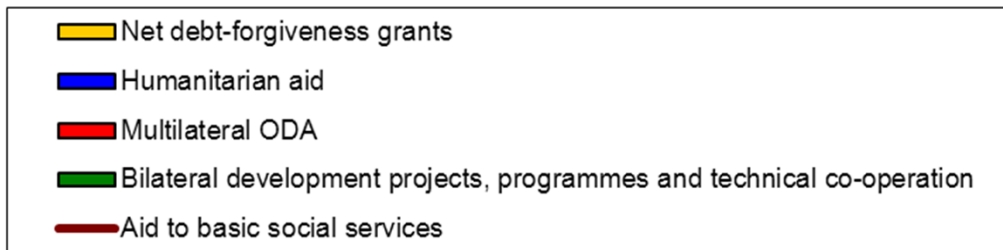
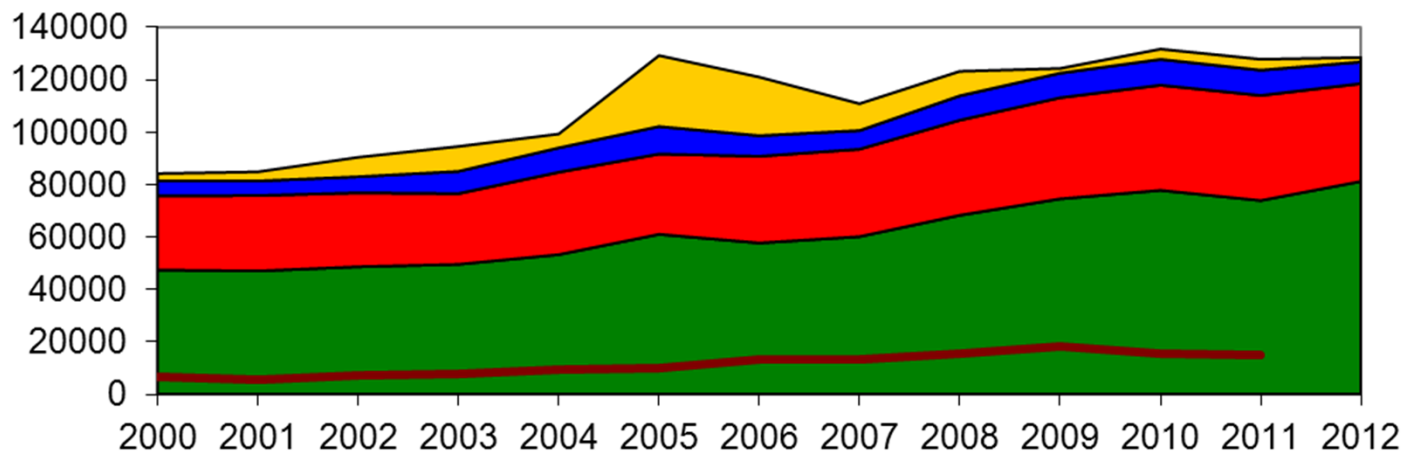
Global imbalances





ODA flows declined in past two years

Trends in main components of ODA from DAC members, 2000-2012 (millions of 2011 constant dollars)





Thank you