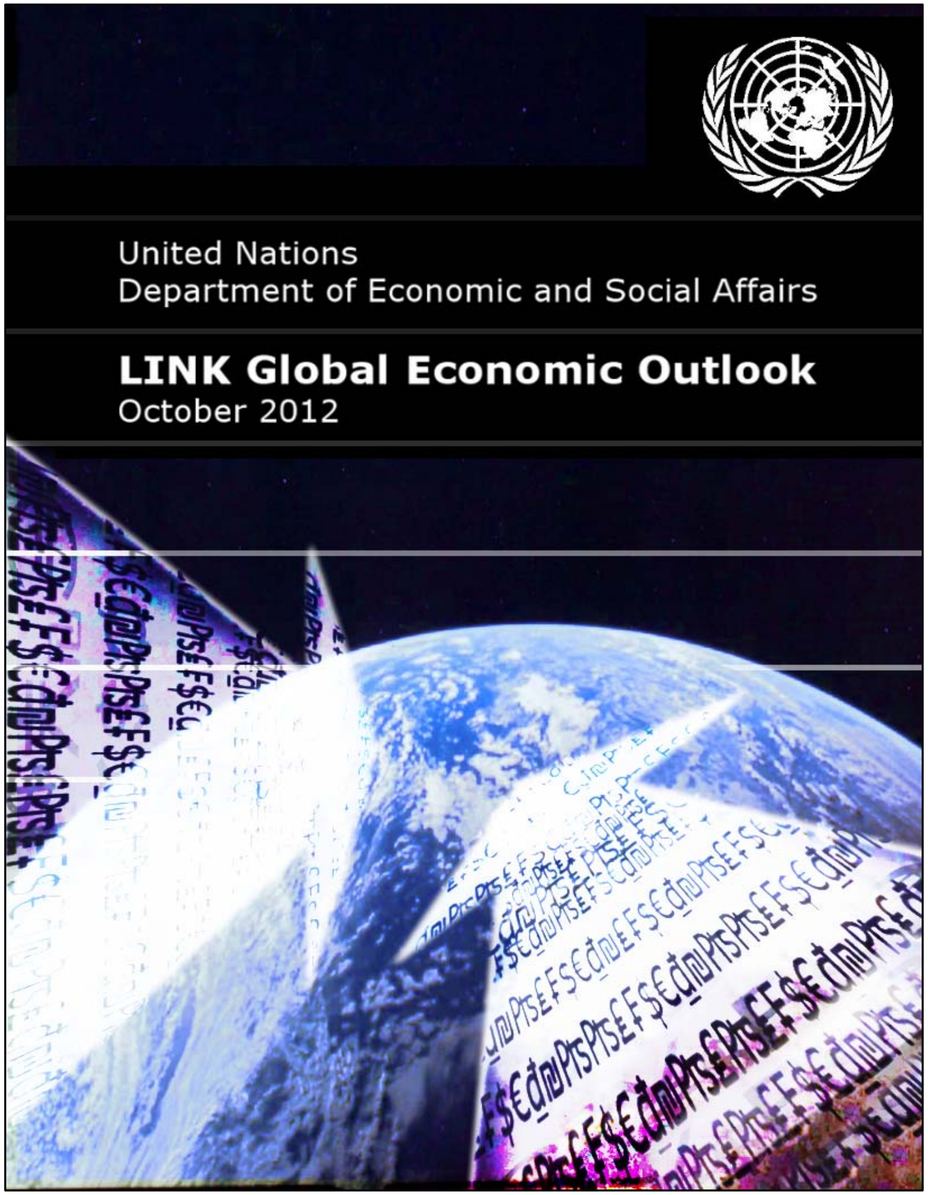


LINK Global Economic Outlook 2012-2014

October 22, 2012 New York
Project LINK Meeting

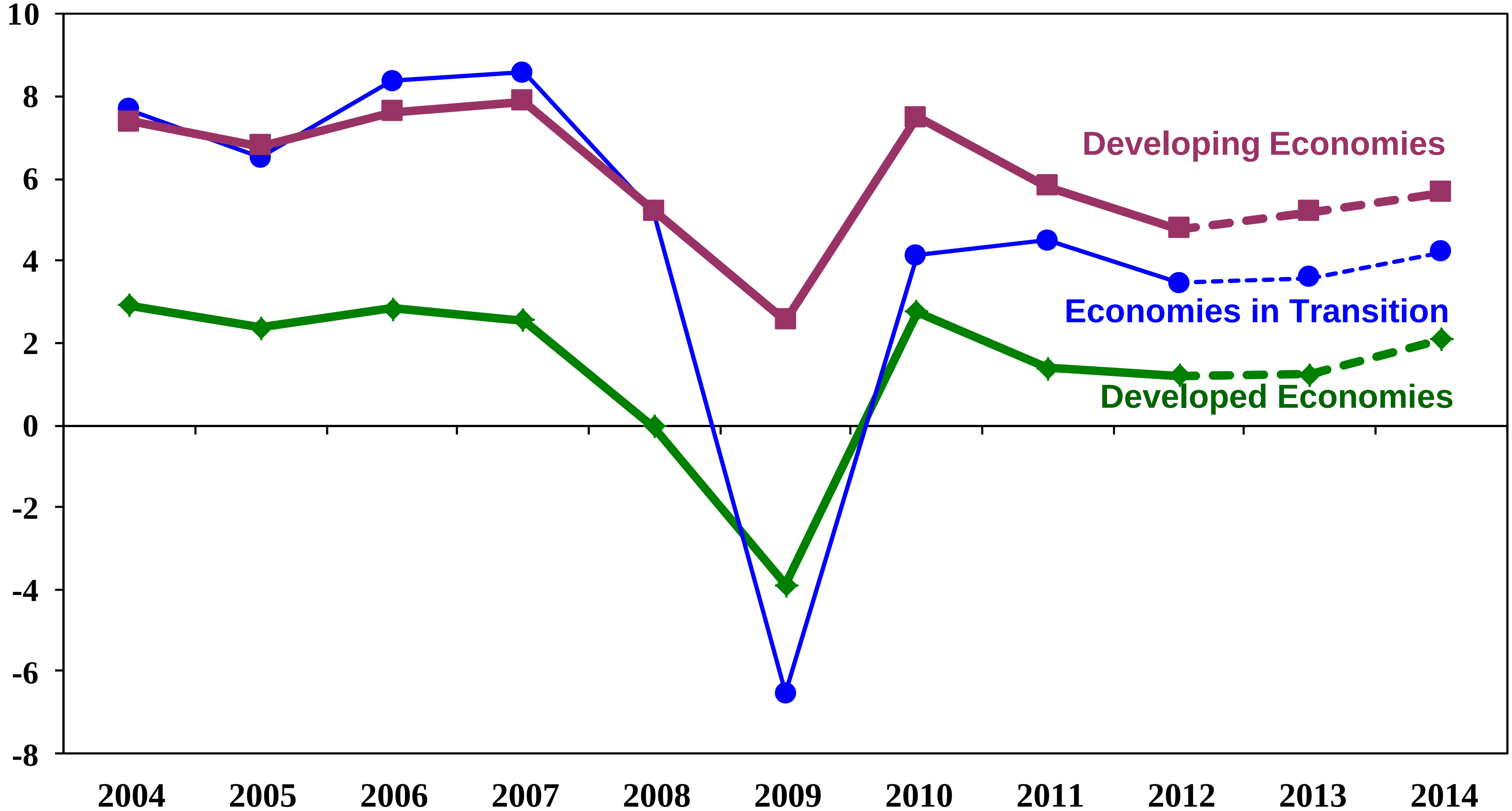
Rob Vos
United Nations

www.un.org/esa/policy

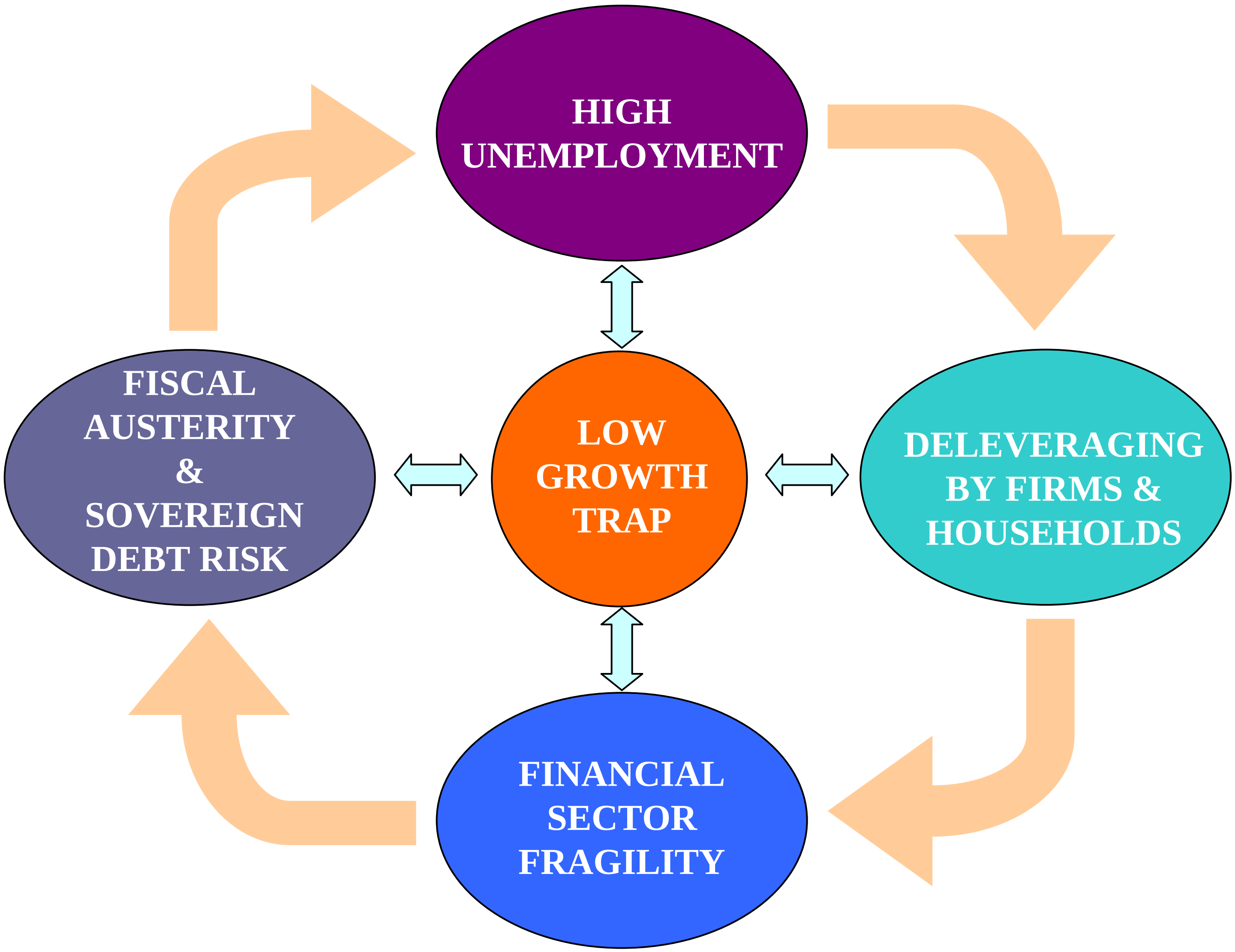
Main messages

1. **Renewed global economic slowdown**
    - Much of Europe is mired in recession and trapped in a vicious circle of debt, low growth and high unemployment
    - Considerable slowdown worldwide (incl. emerging economies)
    - Jobs crisis continues
2. **High risk of downward spiral into new global recession**
    - Escalation of euro area crisis
    - Fiscal cliff in the United States
    - Hard landing in China & other emerging economies
3. **Breaking out of the vicious cycle**
    - Shift away from self-defeating fiscal austerity
    - Redesign fiscal policies to support job creation & green growth
    - Coordinate monetary policy & accelerate financial sector reforms
    - Enhance development financing

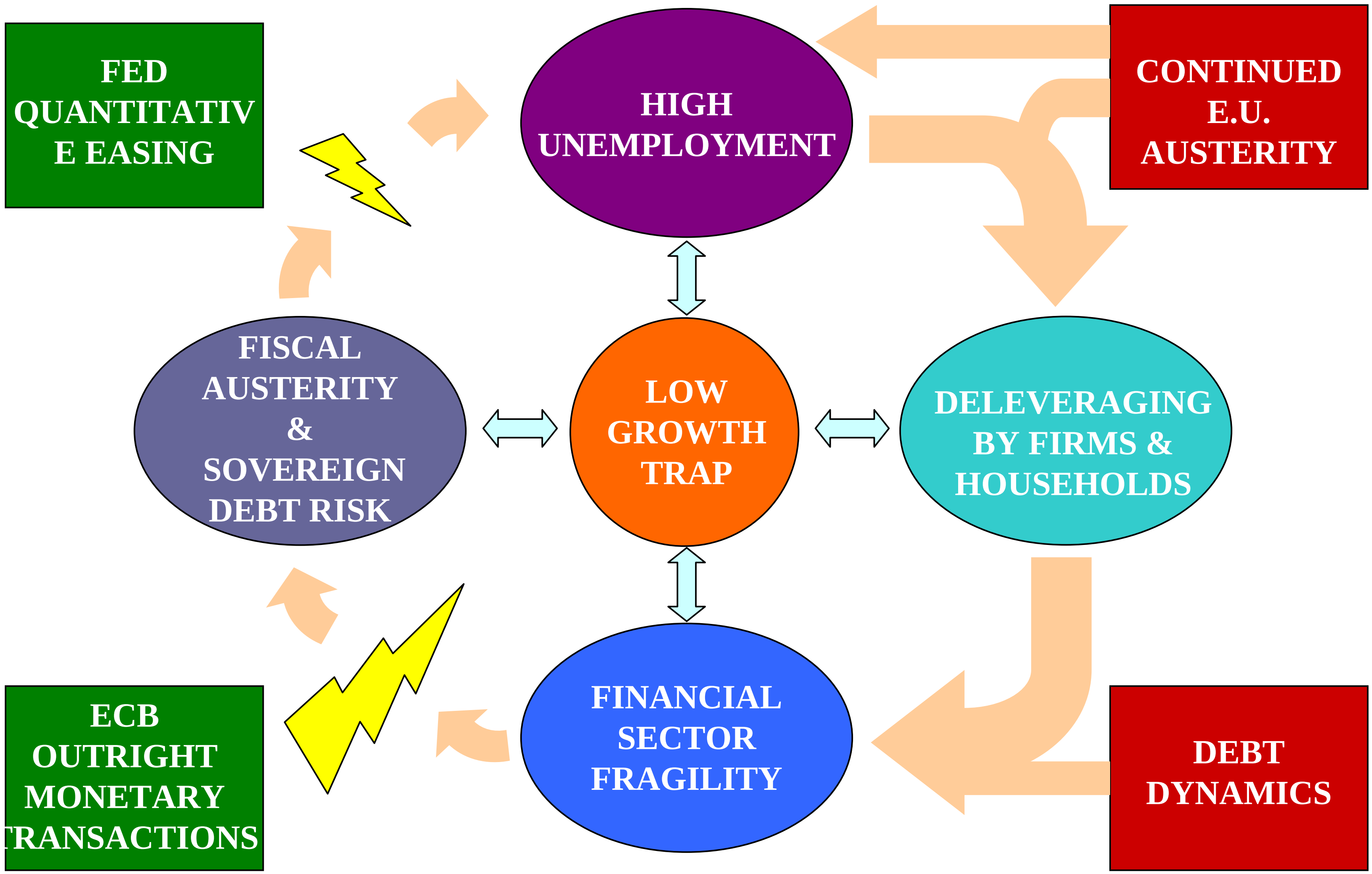
A synchronized global slowdown…



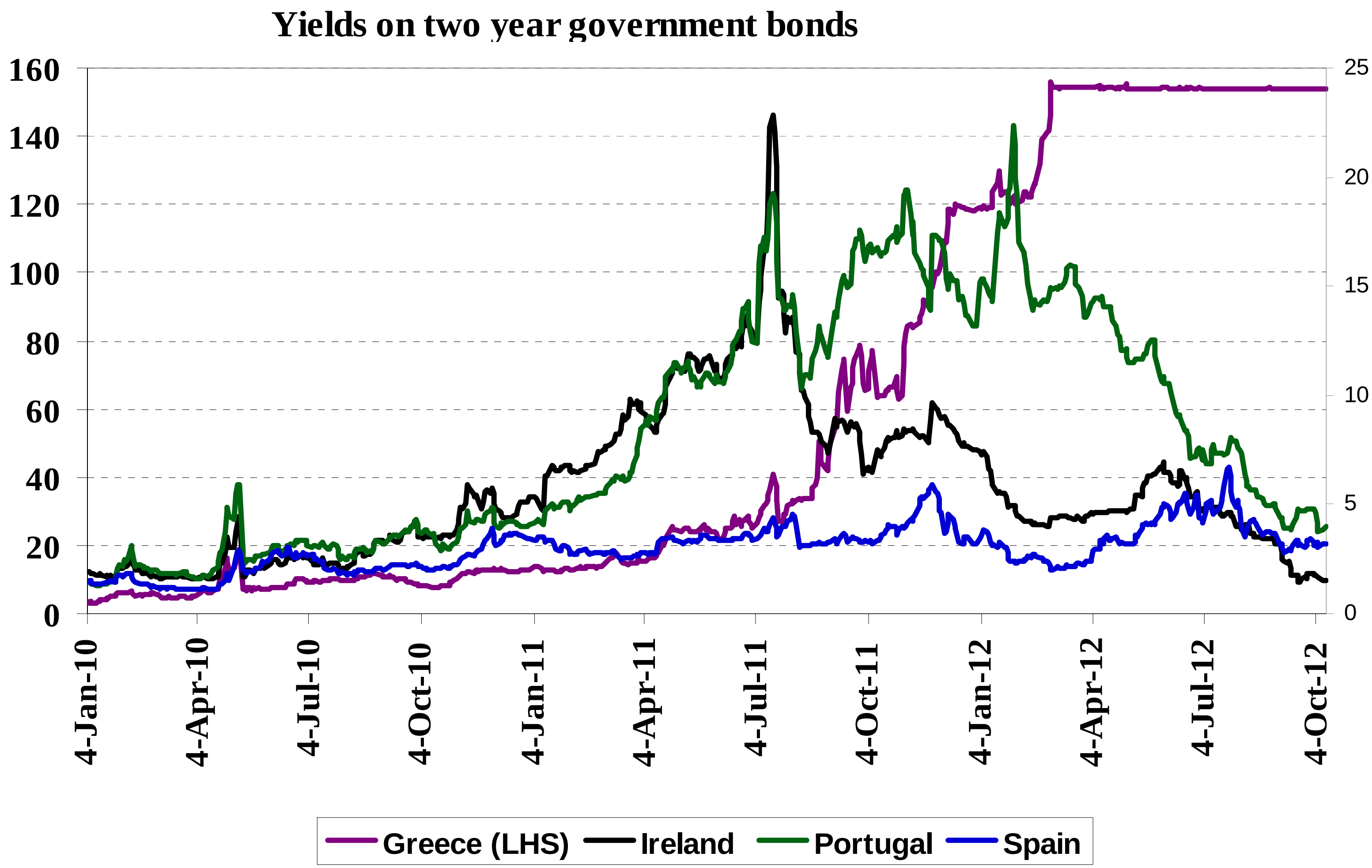
Developed Economy Vicious Cycle



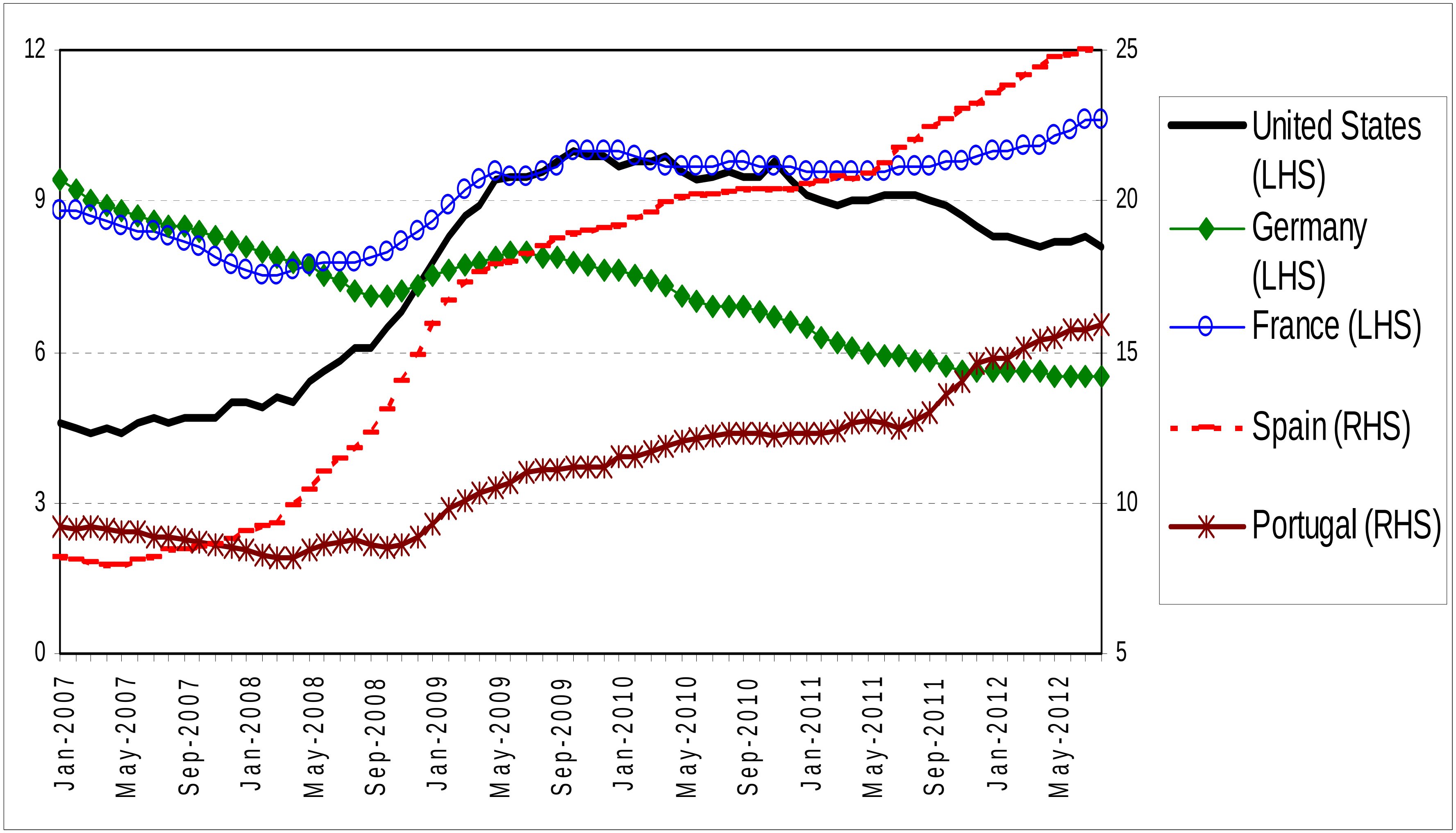
Feeble policy efforts to break out of Vicious Cycle



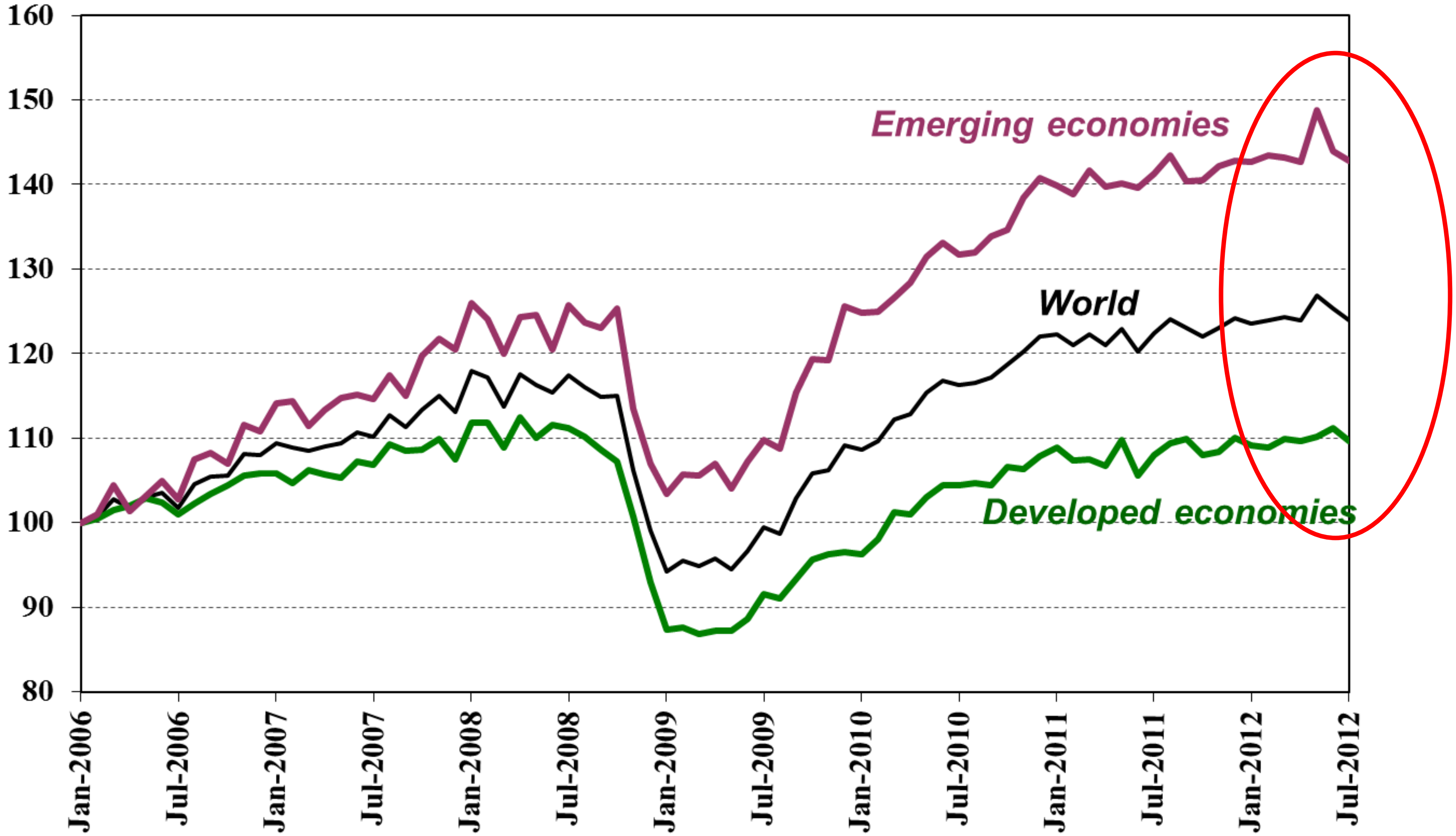
Bond yields in Euro Area have declined – but region is not out of the woods yet



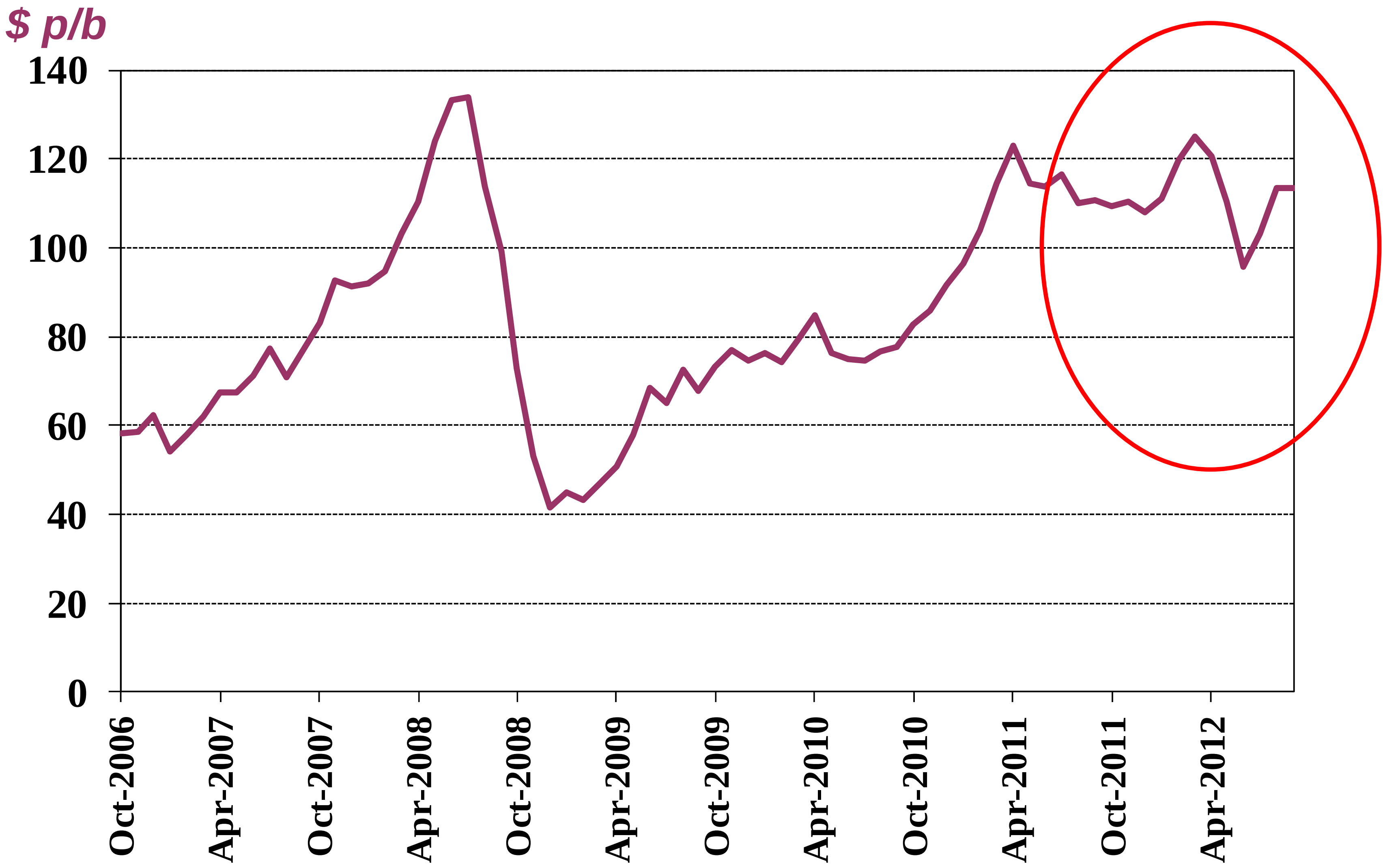
The jobs crisis continues – unemployment rising in euro area



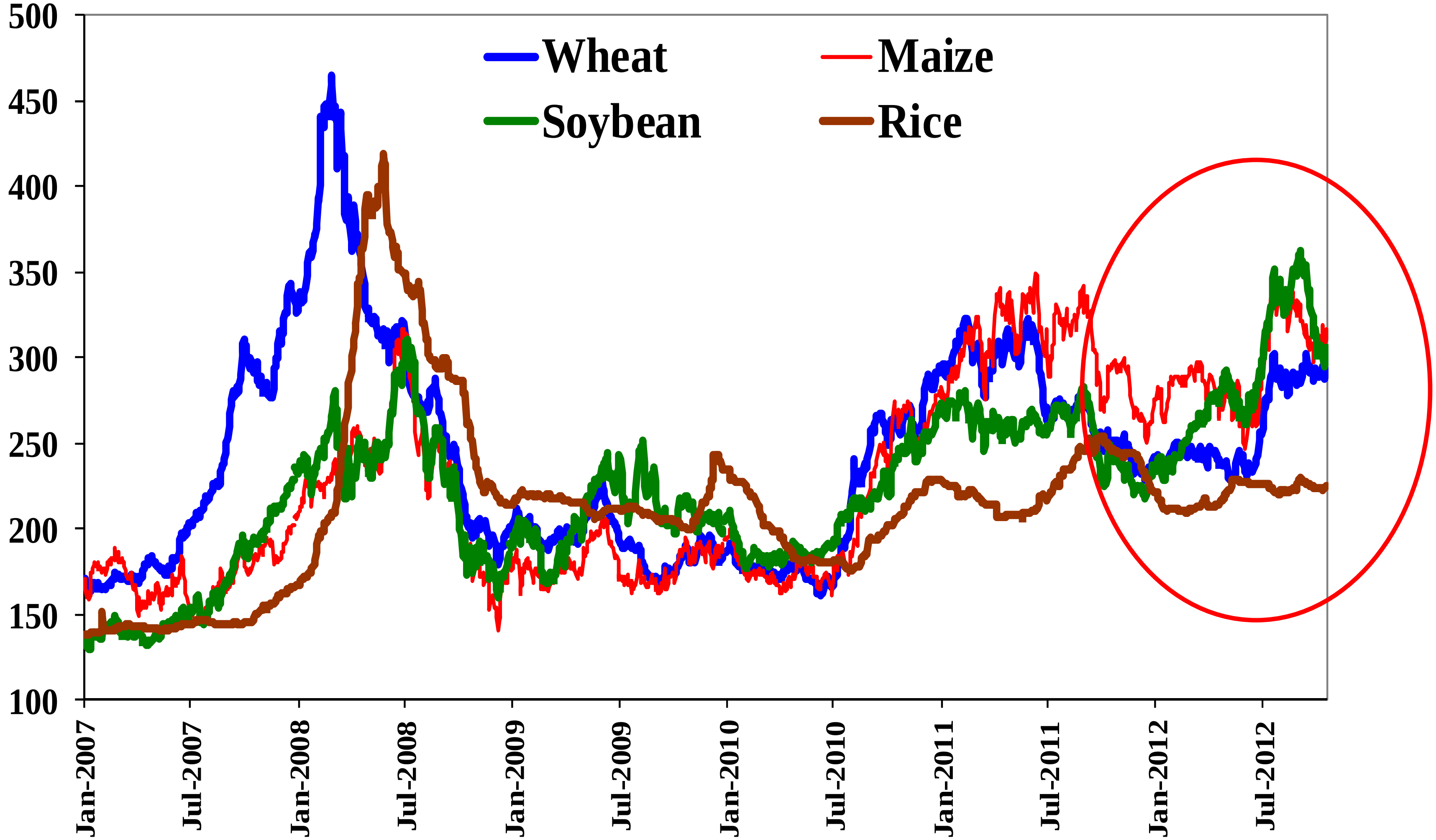
Spillover effects:
Global trade has slowed markedly…



Spillover effects
Oil prices remain high and volatile

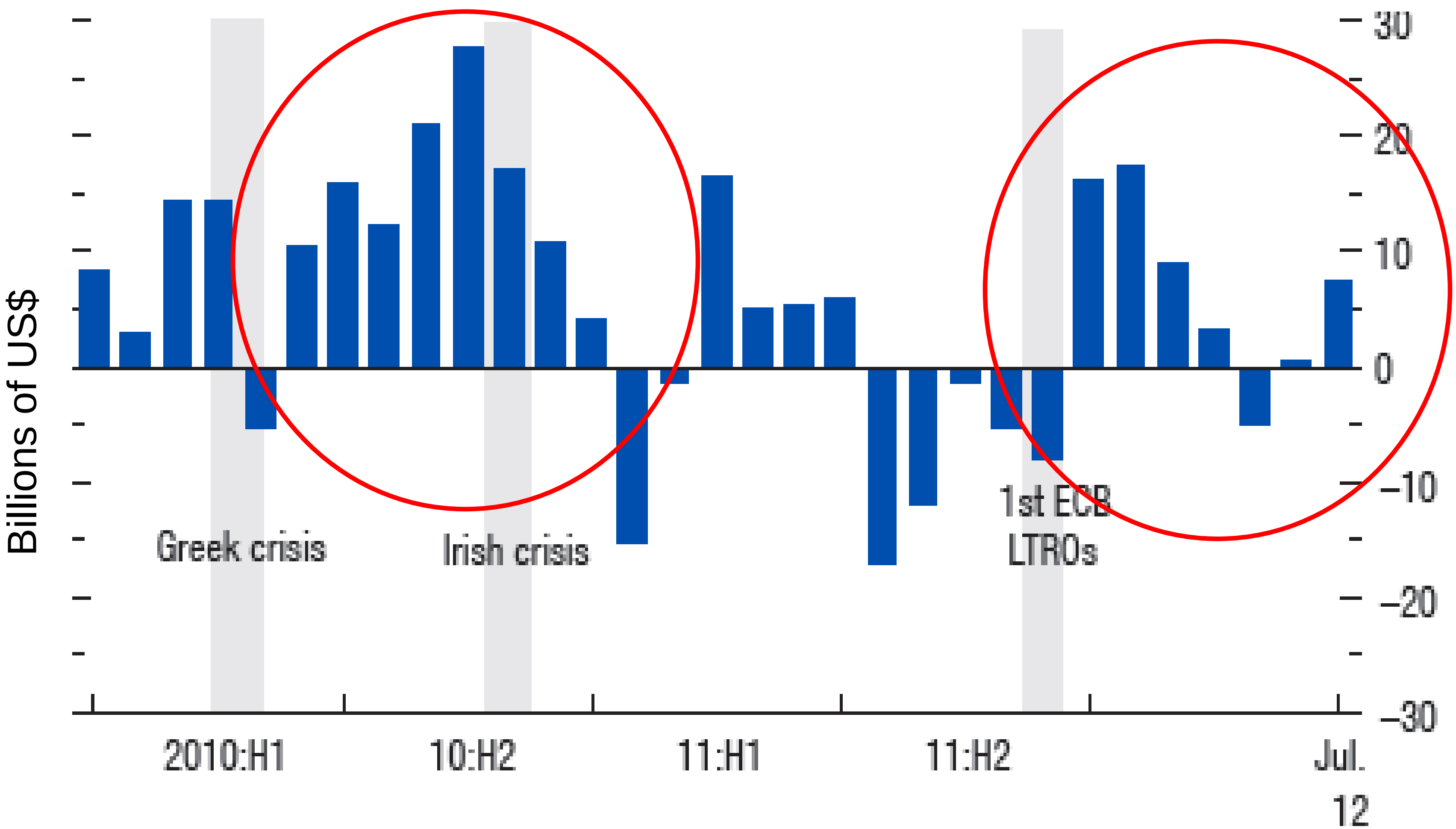


Spillover effects
…but new food price spikes



Spillover effects

…volatile capital flows to EMEs



Source: IMF, WEO, Oct. 2012

Spillover effects
Developing country slowdown

- Trade, commodity prices and capital flows
- …but also “home-grown” problems in major developing countries
  - Phasing out of stimulus measures and policy tightening in some
  - Overinvestment and structural problems (as in China)
- Slowdown in major developing economies feeds back through trade and commodity prices to low-income countries

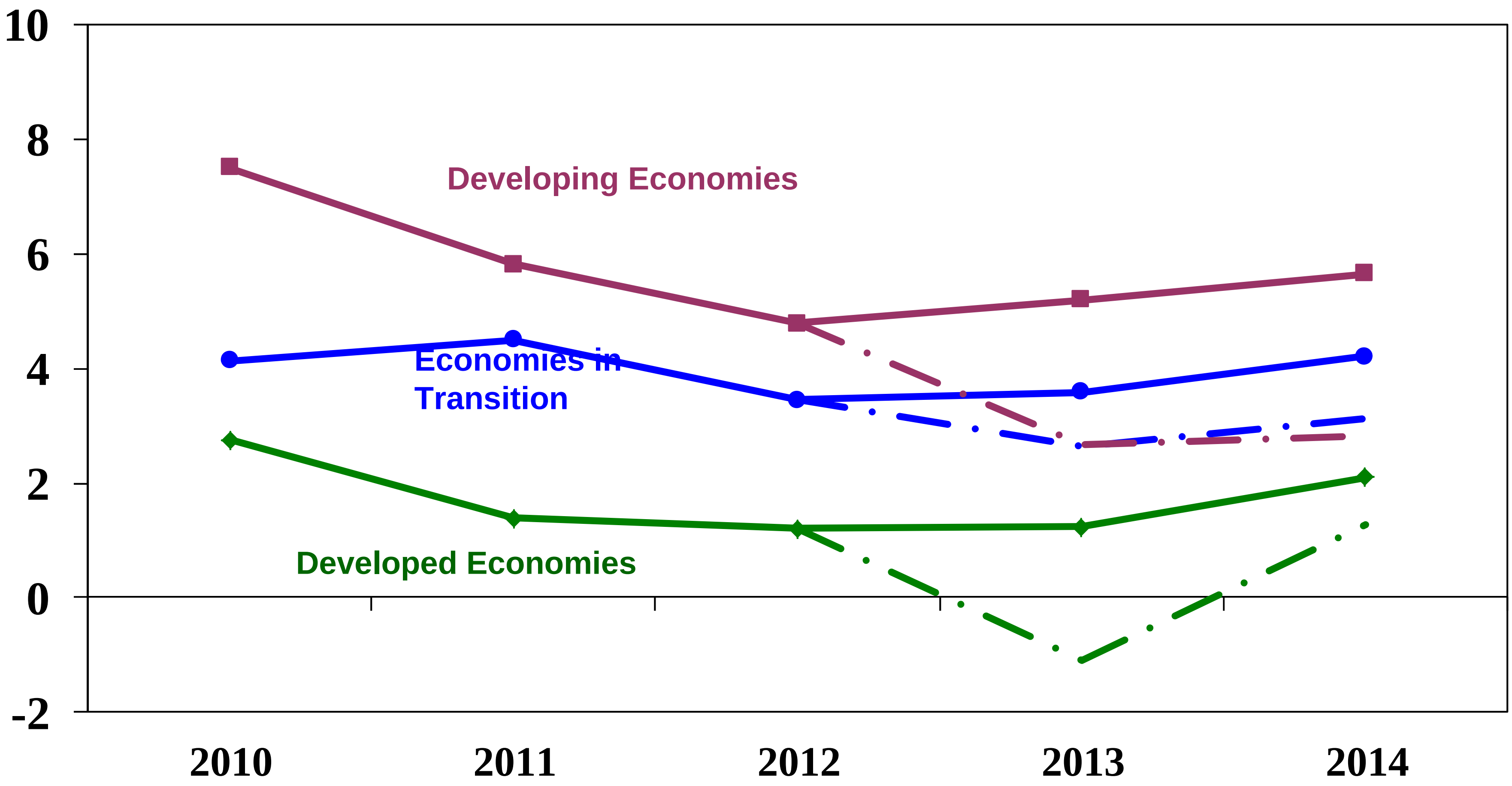
Downside Risks

1. **Further deepening of the euro area crisis**
    - Possible exit of some euro members
    - Larger detrimental effects of fiscal austerity
    - Delayed implementation of the OMT

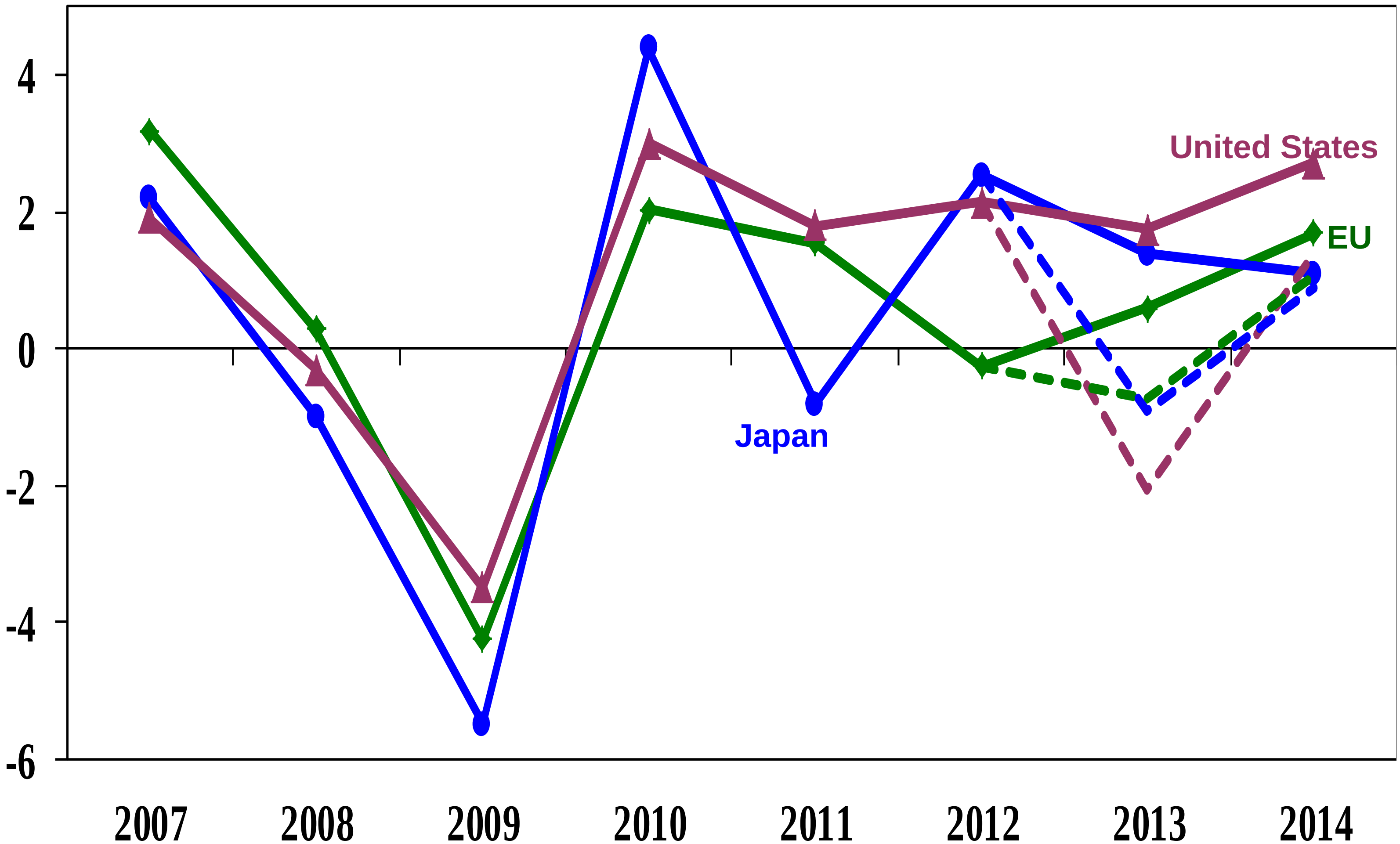
2. **The “fiscal cliff” in the U.S.**
    - Income and payroll taxes are raised
    - Emergency unemployment insurance discontinued
    - Automatic government spending cuts take effect

3. **Hard landing in major developing countries**
    - Continued deceleration in fixed investment
    - Greater weakness in external demand

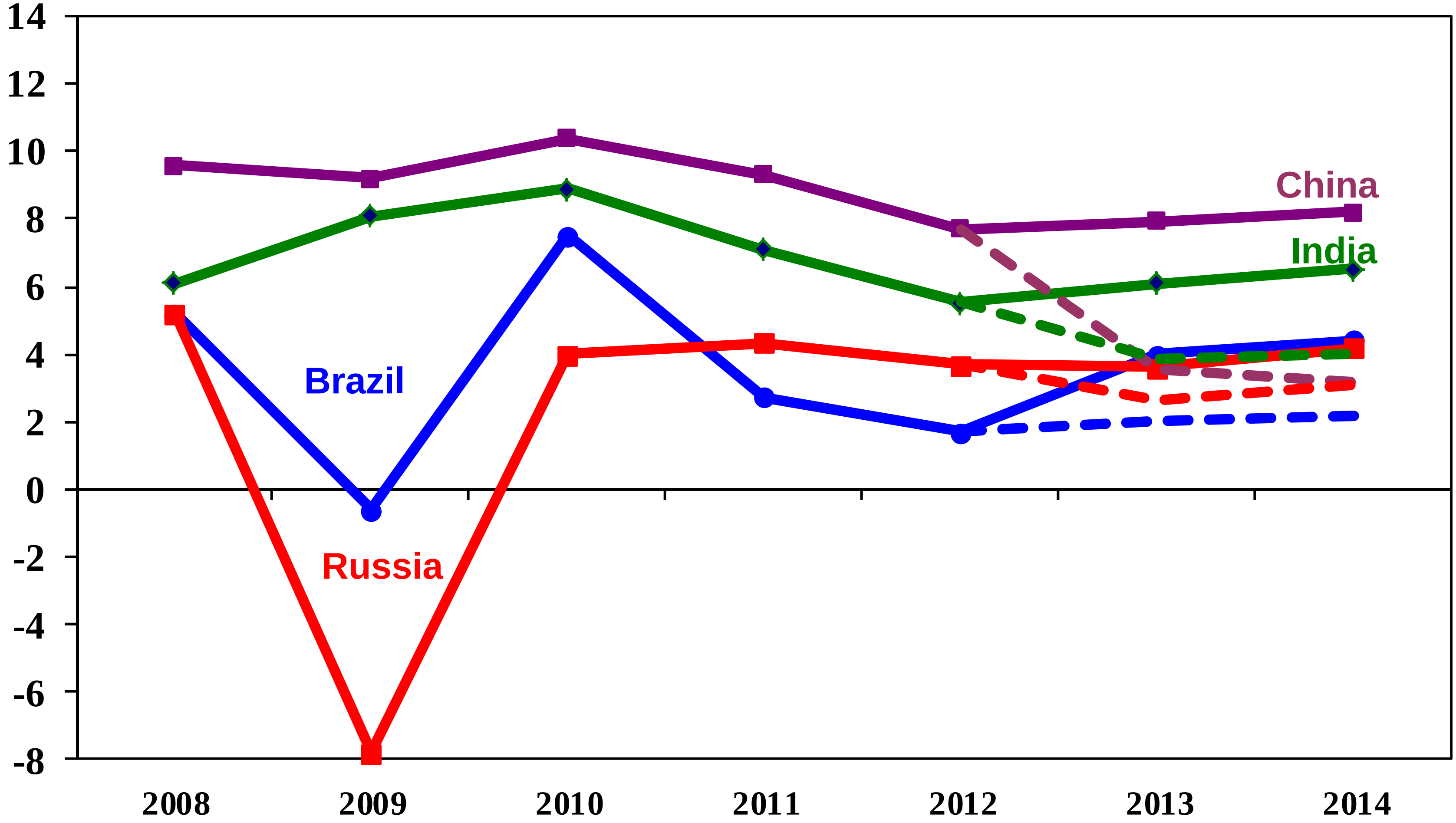
...with major downside risks



Subdued and fragile growth in developed economies



…and a considerable slowdown in BRICs



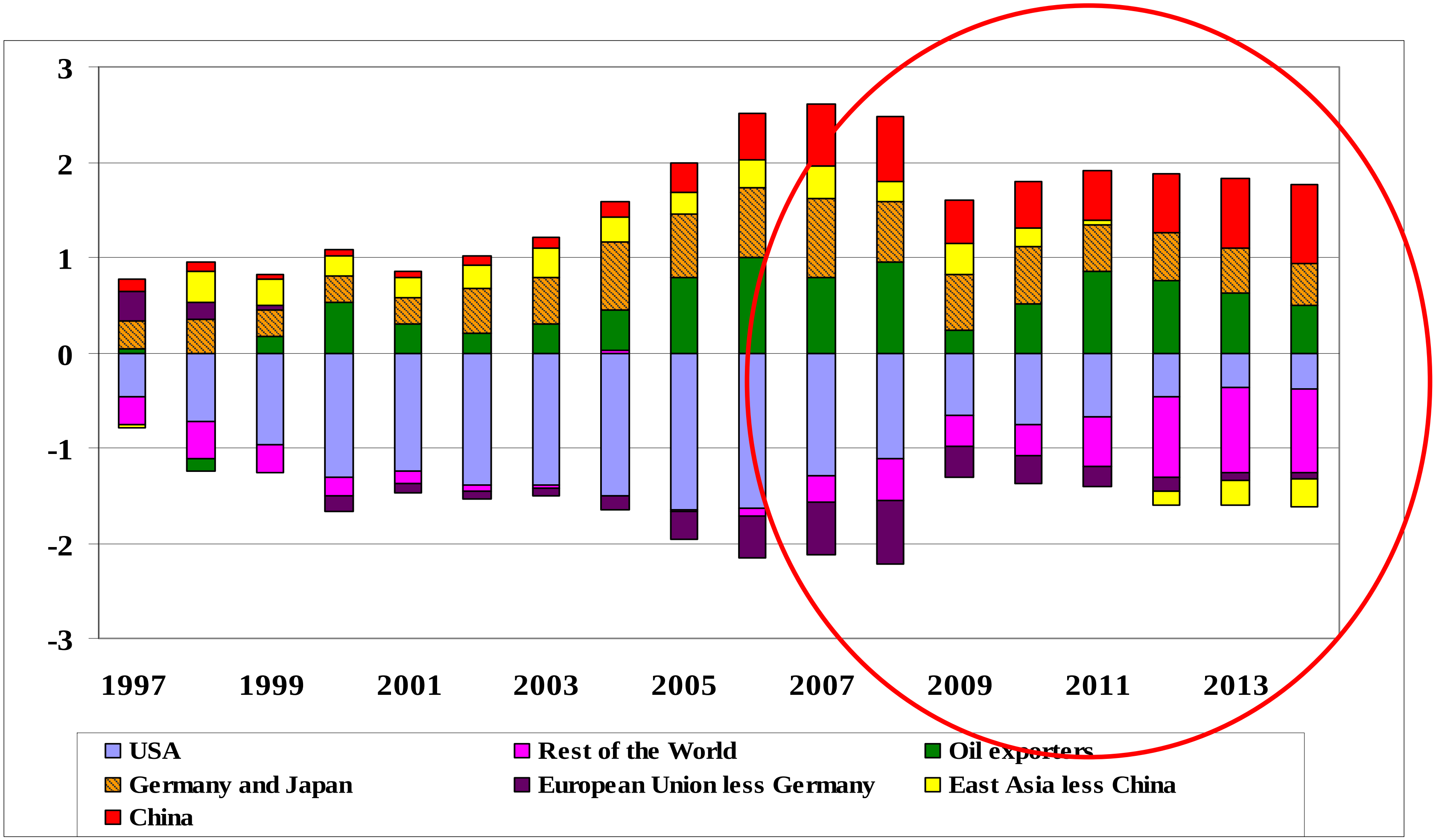
Downside Risks:

4. Global imbalances are narrowing and at present no immediate risk ….

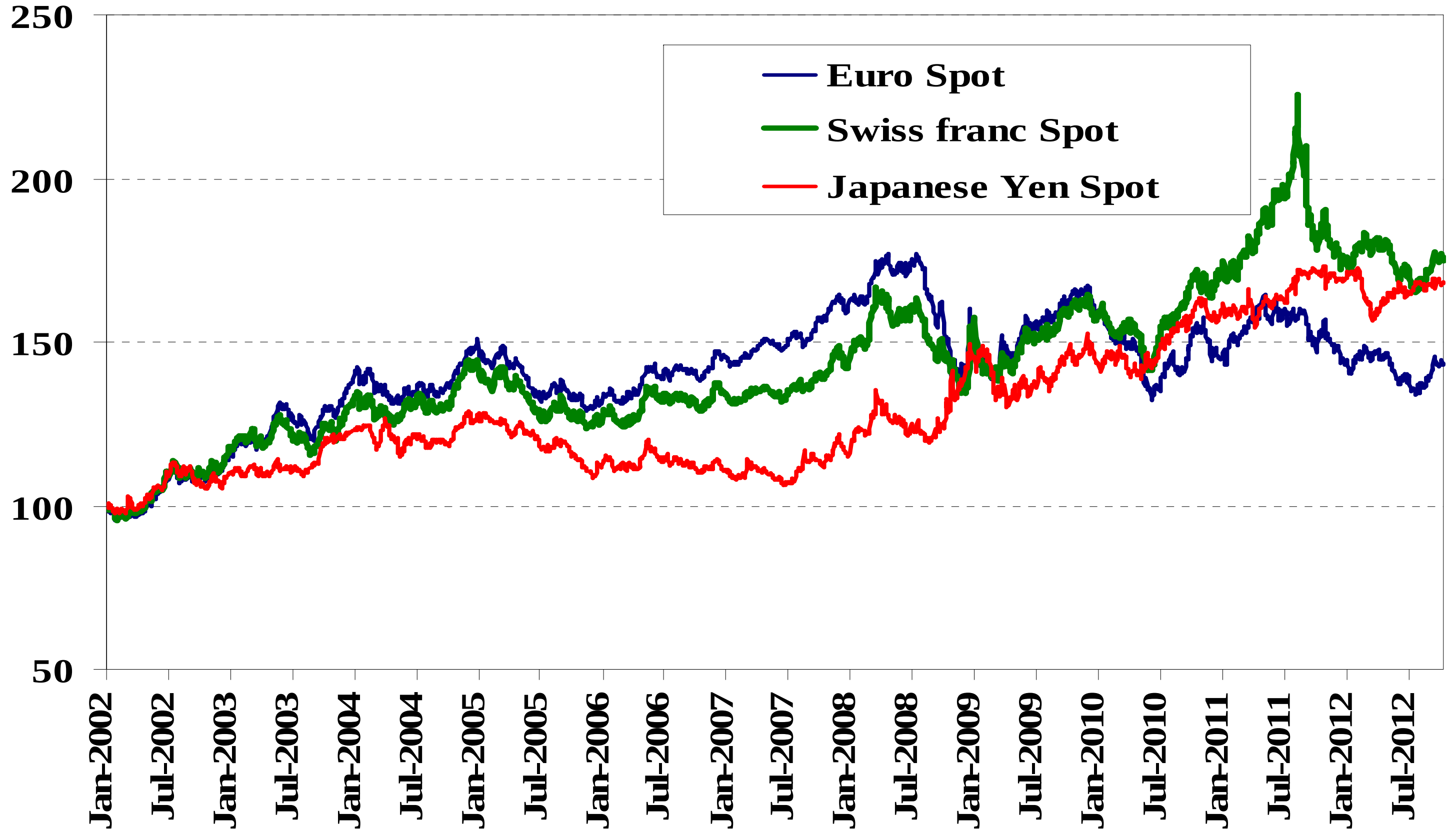
…but:

- lower deficits and surpluses because weaker global economy and trade
- large and still widening asset-liability imbalances exacerbate exchange rate volatility risks

Global imbalances have narrowed, but remain sizeable (% of WGP)

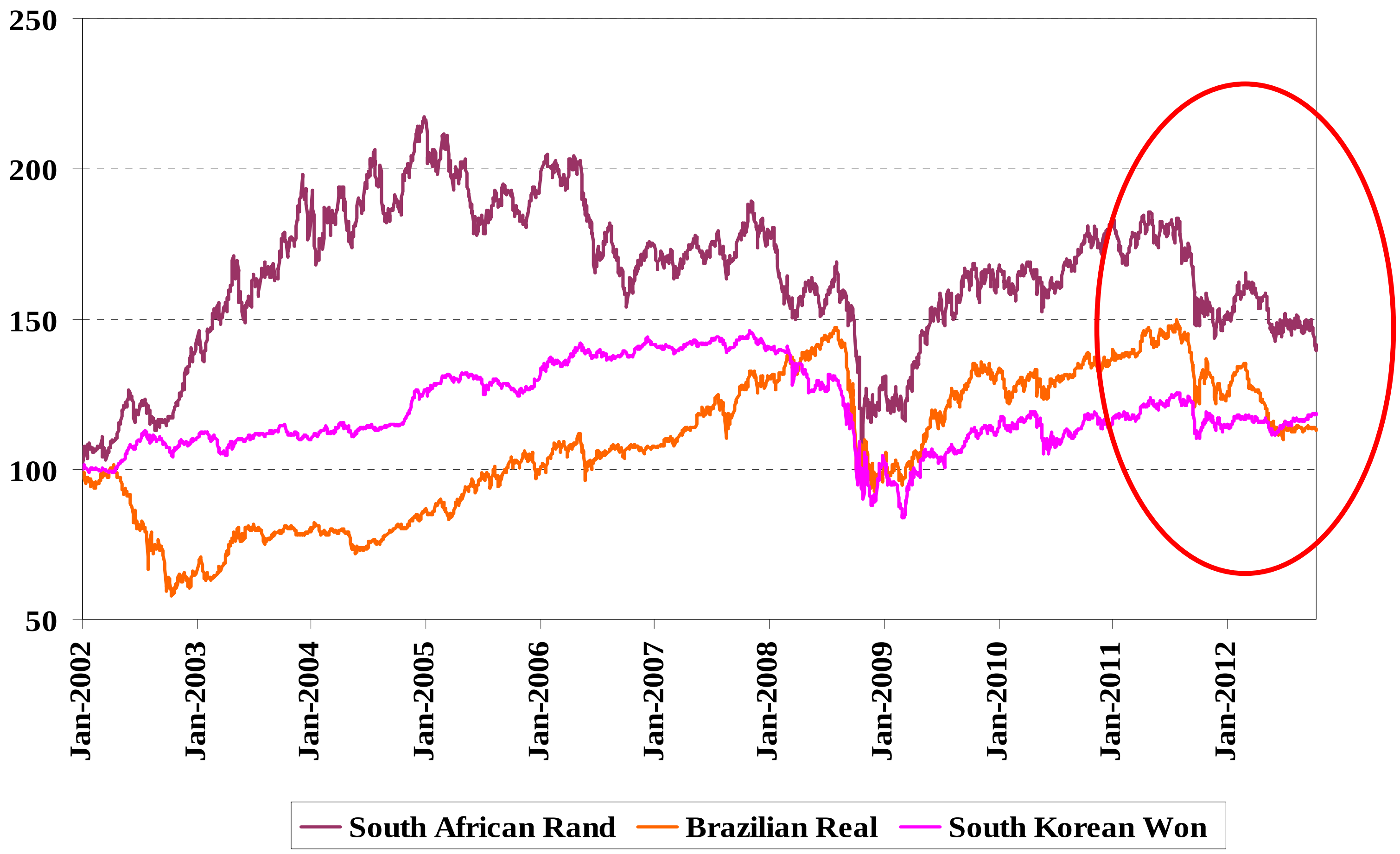


Ongoing volatility in developed economies' exchange rates…



Source: JPMorgan

… and emerging economies' exchange rates



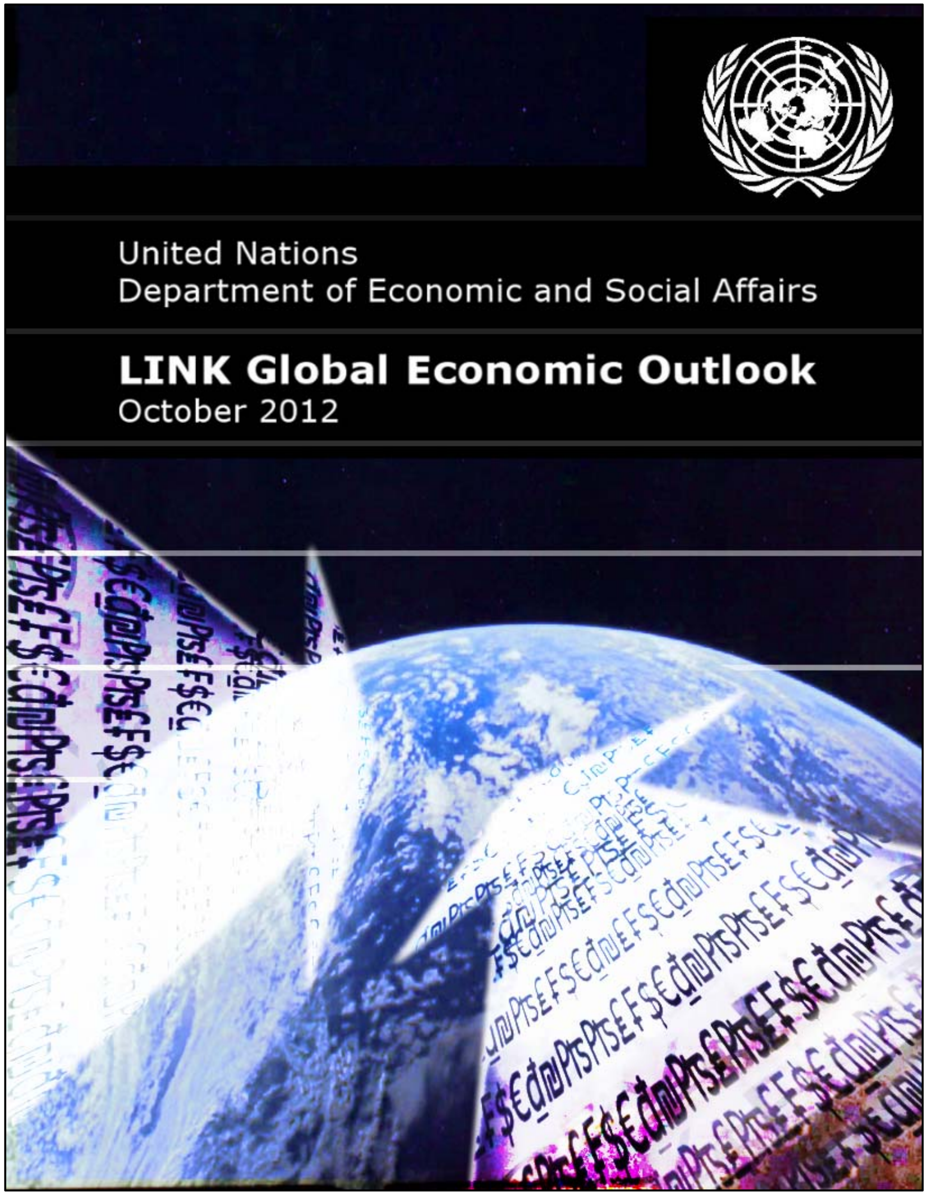
How to get the world economy back on track?

Fundamental policy shift required:

- Coordination of fiscal policy → new growth impulses
- Redesign of structural policies → jobs & green growth
- Monetary policy coordination → less capital volatility
- Accelerate financial regulatory reform

→ reduce financial fragility

- Ensure adequate development finance



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