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

![Graph showing economic performance over time for different categories of economies]
A shift in growth contribution?

Share of contribution to global growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Developed economies</th>
<th>Economies in transition</th>
<th>Developing economies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>45% 3%</td>
<td></td>
<td>52%</td>
</tr>
<tr>
<td>2011</td>
<td>37% 4%</td>
<td></td>
<td>59%</td>
</tr>
<tr>
<td>2012</td>
<td>39% 3%</td>
<td></td>
<td>58%</td>
</tr>
<tr>
<td>2013</td>
<td>31% 3%</td>
<td></td>
<td>66%</td>
</tr>
<tr>
<td>2014</td>
<td>44% 2%</td>
<td></td>
<td>54%</td>
</tr>
<tr>
<td>2015</td>
<td>47% 3%</td>
<td></td>
<td>50%</td>
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</tbody>
</table>
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)

Food (All)
Minerals, ores and metals
Agricultural raw materials
Oil (Brent)
Reversal in capital inflows to emerging economies

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

- Brazilian Real
- Indian Rupee
- Indonesia Rupiah
- South African Rand
- Turkish Lira
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
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

United States: Government bond yields

- 3-Year
- 5-Year
- 10-Year
- 30-Year

Dec-02 to Jun-13
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

![Bar chart showing global imbalances from 1997 to 2013, with categories for USA, Oil exporters, Germany and Japan, European Union less Germany, Rest of the World, and East Asia less China.](chart.png)
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