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…

Developing Economies
Economies in Transition
Developed Economies
Developed Economy Vicious Cycle

- **HIGH UNEMPLOYMENT**
- **LOW GROWTH TRAP**
- **DELEVERAGING BY FIRMS & HOUSEHOLDS**
- **FINANCIAL SECTOR FRAGILITY**
- **FISCAL AUSTERITY & SOVEREIGN DEBT RISK**
Feeble policy efforts to break out of Vicious Cycle

- High unemployment
- Fiscal austerity & sovereign debt risk
- Low growth trap
- Deleveraging by firms & households
- Financial sector fragility
- Continued E.U. austerity
- FED quantitative easing
- ECB outright monetary transactions
- Debt dynamics
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

$ p/b
Spillover effects

…but new food price spikes
Spillover effects

...volatile capital flows to EMEs

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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www.un.org/esa/policy