

RIETI BBL Seminar Handout

“Stronger growth remains elusive:
Urgent policy response is needed”

February 29, 2016

Speaker: Catherine L. Mann

<http://www.rieti.go.jp/jp/index.html>



RIETI Seminar, Tokyo

*Stronger growth remains elusive:
Urgent policy response is needed*

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Catherine L. Mann
OECD Chief Economist

www.oecd.org/economy/economicoutlook.htm
ECOSCOPE blog: oecdoscope.wordpress.com/



Key messages

Stronger global growth remains elusive

- Weak trade, investment, and commodity prices
- Disappointing incoming data on demand conditions
- Low inflation and poor wage growth

Financial instability risks are substantial

- Steep declines in global equity markets
- Volatile capital flows and high debt exposures in EMEs

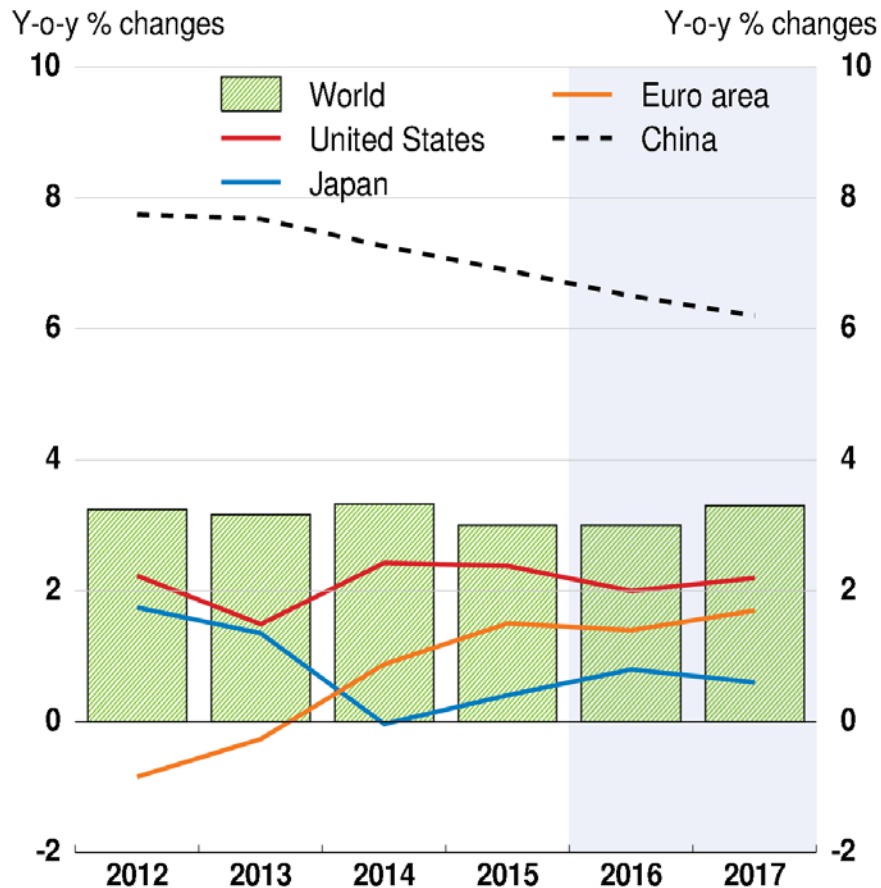
Collective policy action is urgent

- Maintain accommodative monetary policy
- Focus supportive fiscal policies on investment-led spending
- Revive pace of productivity- and growth-enhancing structural reforms

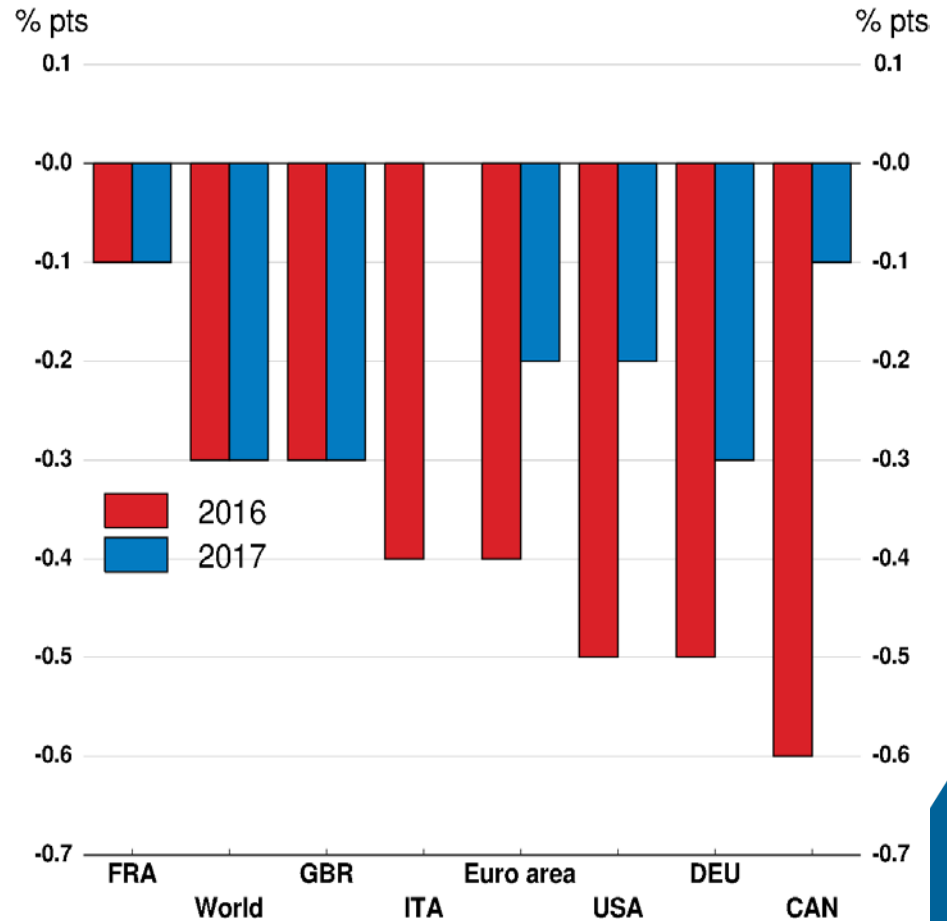


Global growth forecasts: Revised Down

GDP forecasts



Forecast downgrades since November





Interim Economic Outlook Forecasts

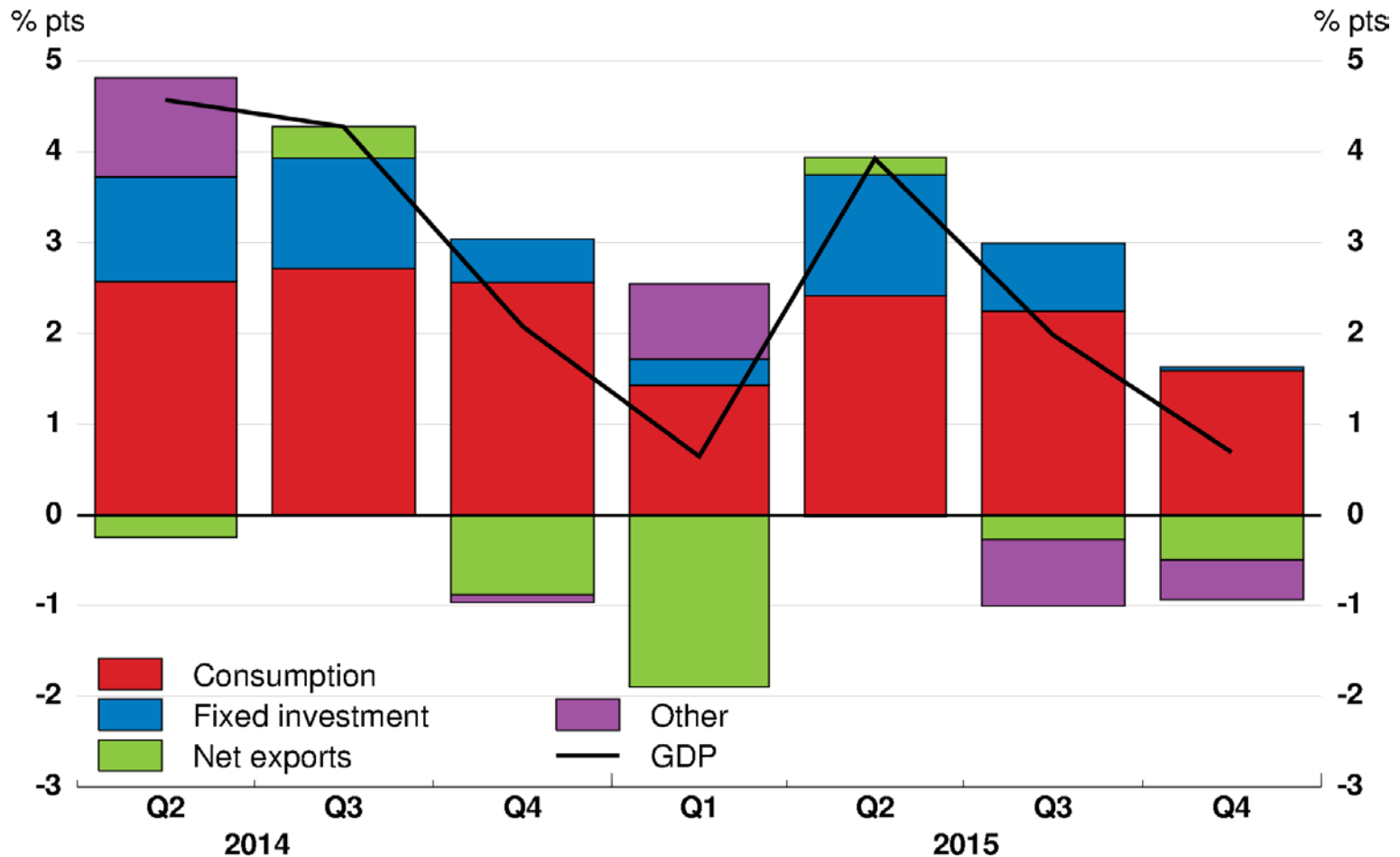
Real GDP growth (%)

	2015	2016		2017	
		February 2016 Interim Projections	difference from November Economic Outlook	February 2016 Interim Projections	difference from November Economic Outlook
World	3.0	3.0	-0.3	3.3	-0.3
United States	2.4	2.0	-0.5	2.2	-0.2
Euro area	1.5	1.4	-0.4	1.7	-0.2
Germany	1.4	1.3	-0.5	1.7	-0.3
France	1.1	1.2	-0.1	1.5	-0.1
Italy	0.6	1.0	-0.4	1.4	0.0
Japan	0.4	0.8	-0.2	0.6	0.1
Canada	1.2	1.4	-0.6	2.2	-0.1
United Kingdom	2.2	2.1	-0.3	2.0	-0.3
China	6.9	6.5	0.0	6.2	0.0
India	7.4	7.4	0.1	7.3	-0.1
Brazil	-3.8	-4.0	-2.8	0.0	-1.8
Rest of the World	2.1	2.5	-0.3	3.1	-0.2



Global demand cannot be sustained solely by the US recovery

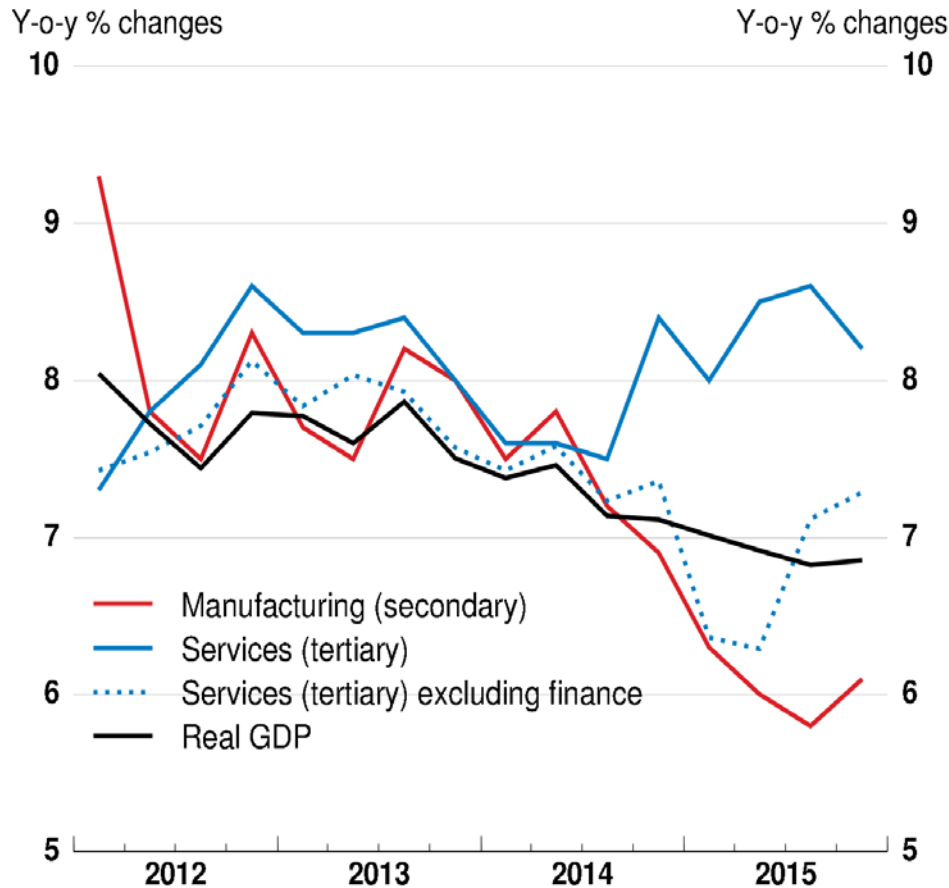
Contributions to quarterly US GDP growth



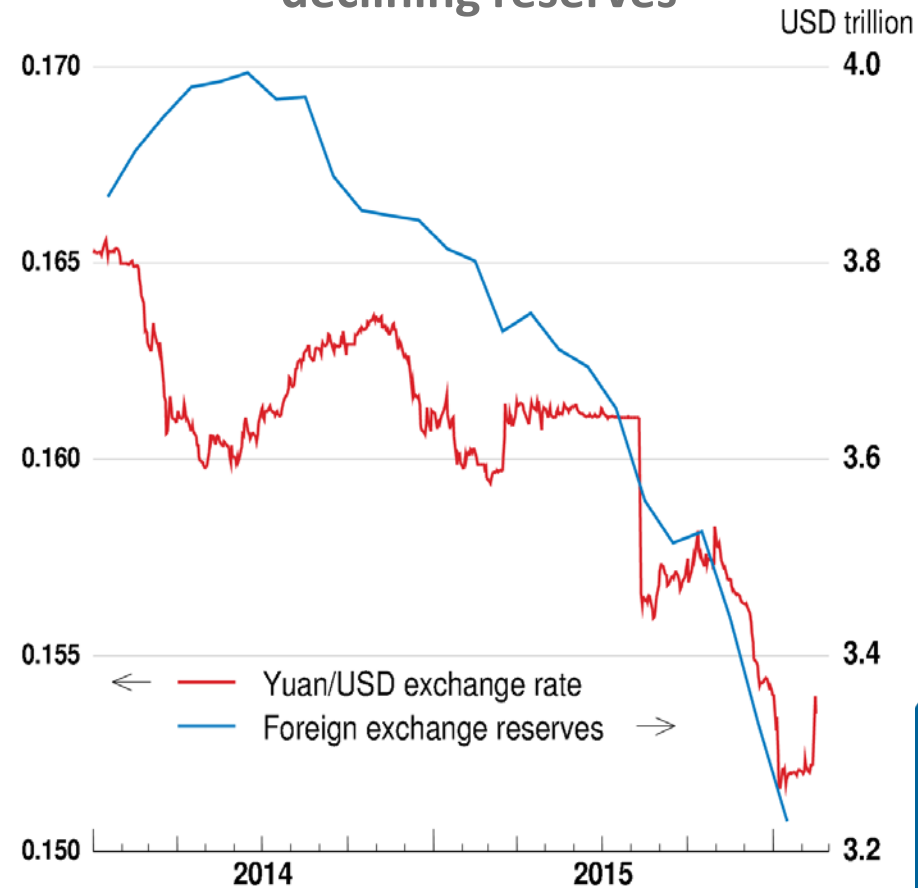


Rebalancing in China and financial volatility are dragging on global markets

Composition of growth in China



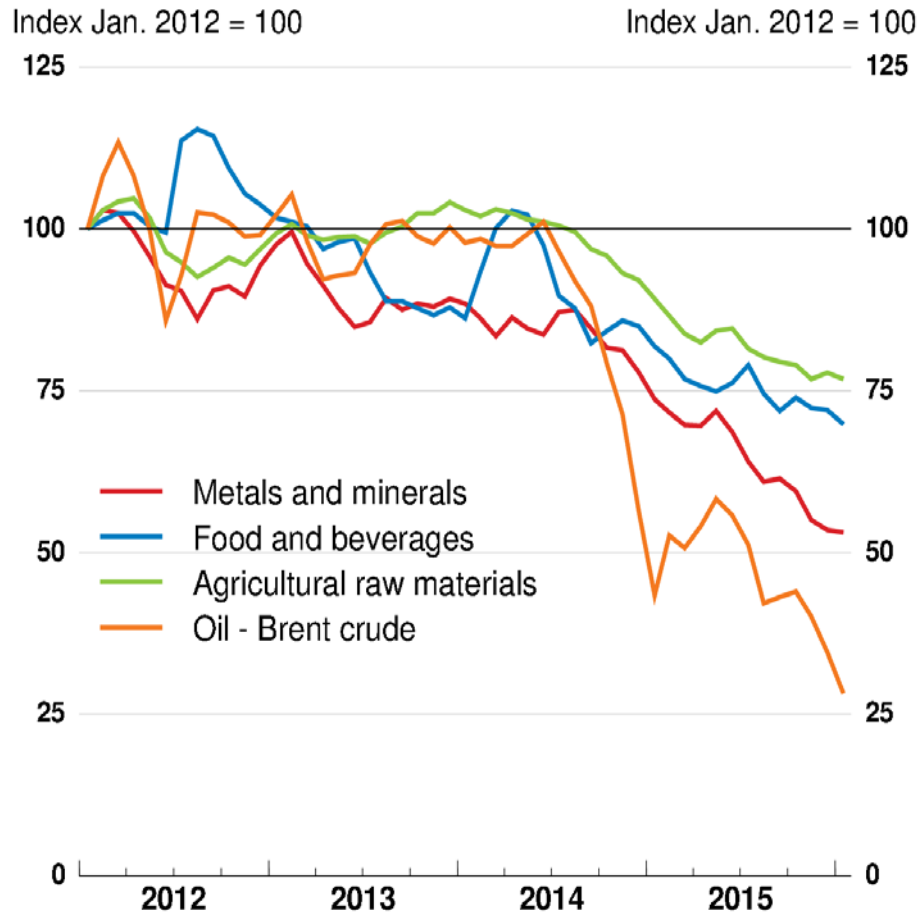
Currency depreciation and declining reserves



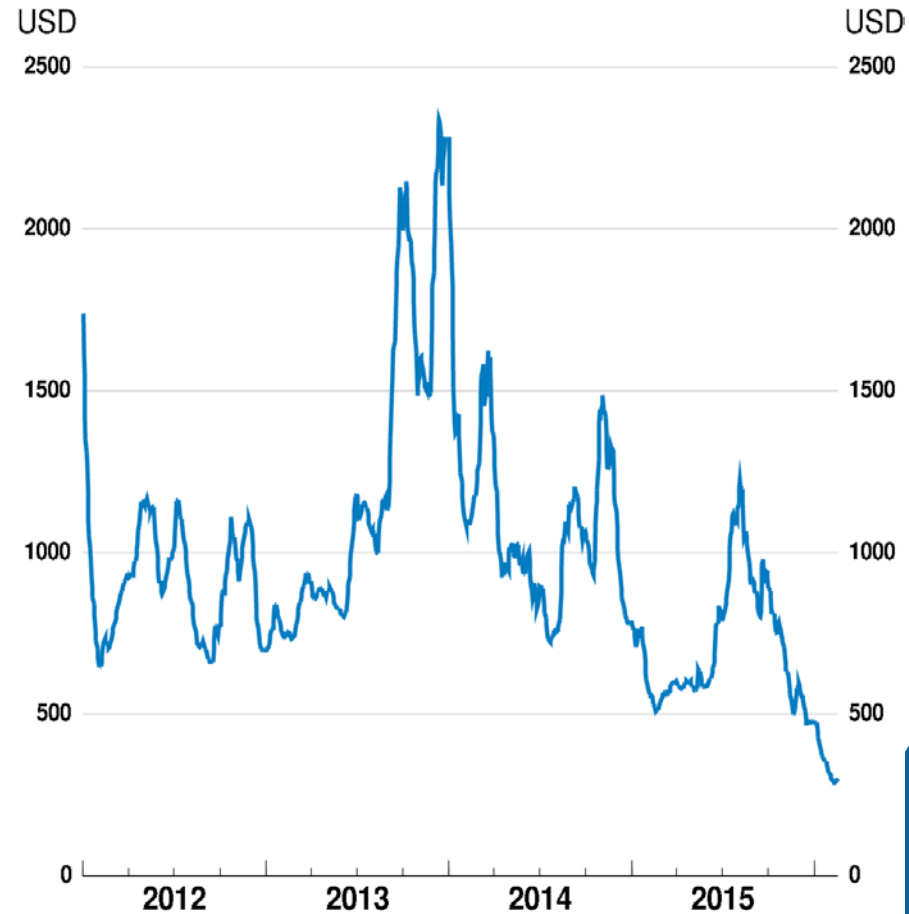


Commodity prices have been falling

Commodity prices



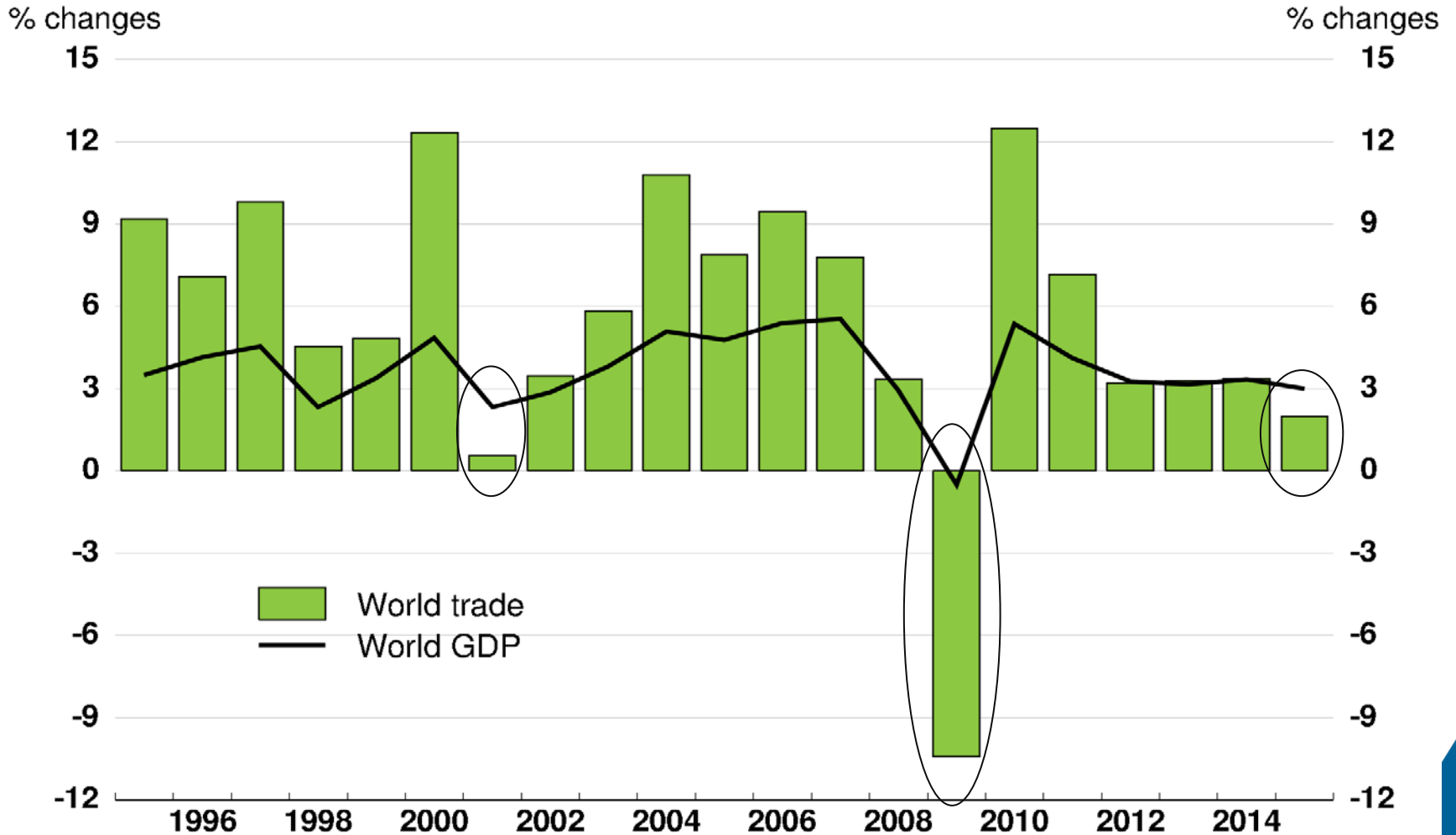
Baltic Dry Index





Significant slowdown in global trade growth

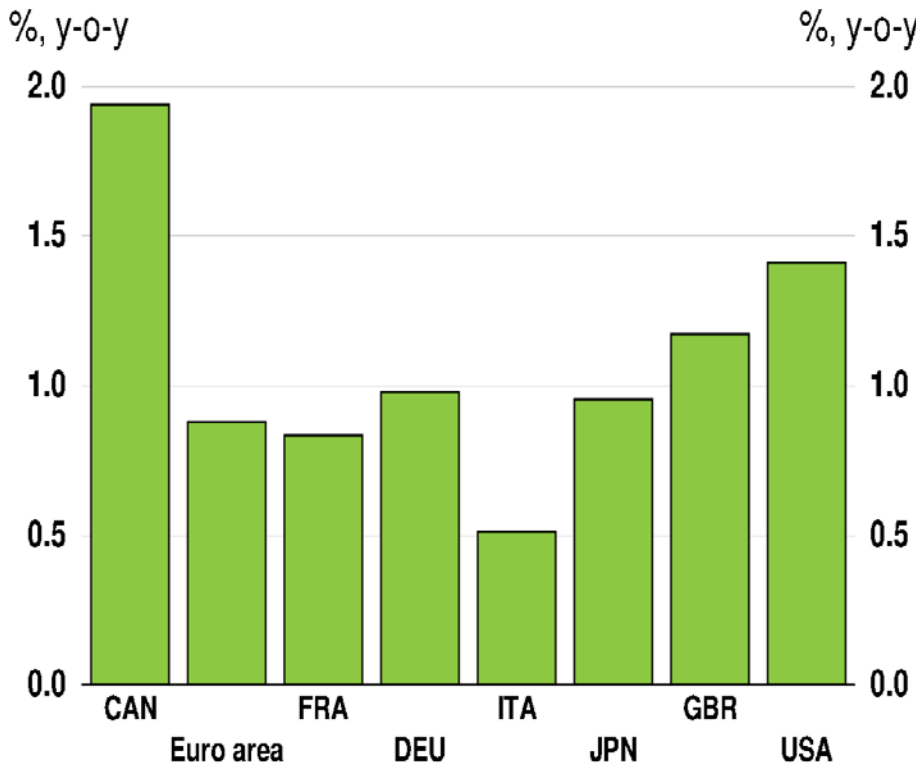
Global trade volumes and GDP



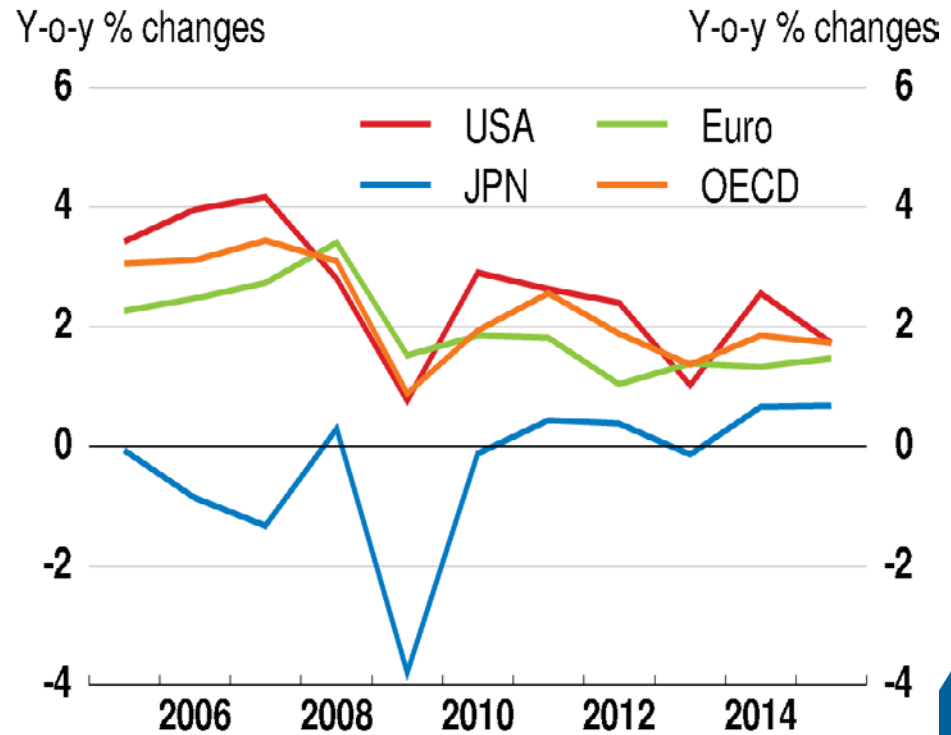


Sluggish demand leads to low inflation and weak wage growth

Core inflation



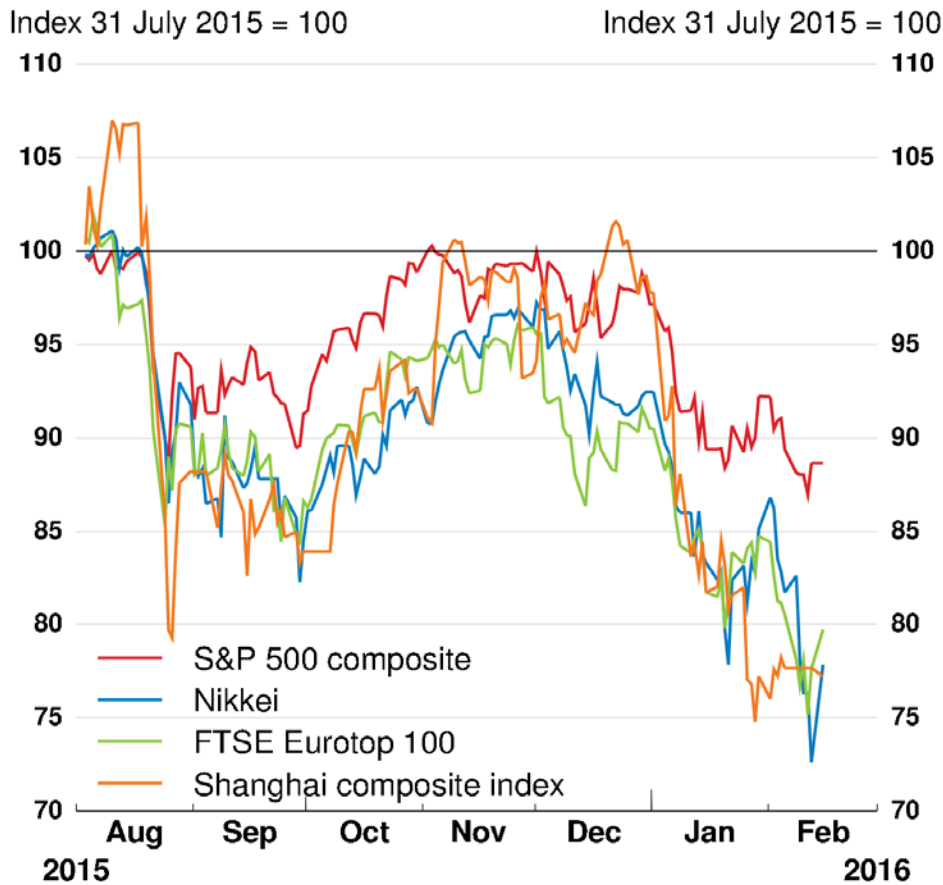
Compensation per employee





Financial markets are reassessing prospects, triggering lower and more volatile equity prices

Share prices in major markets



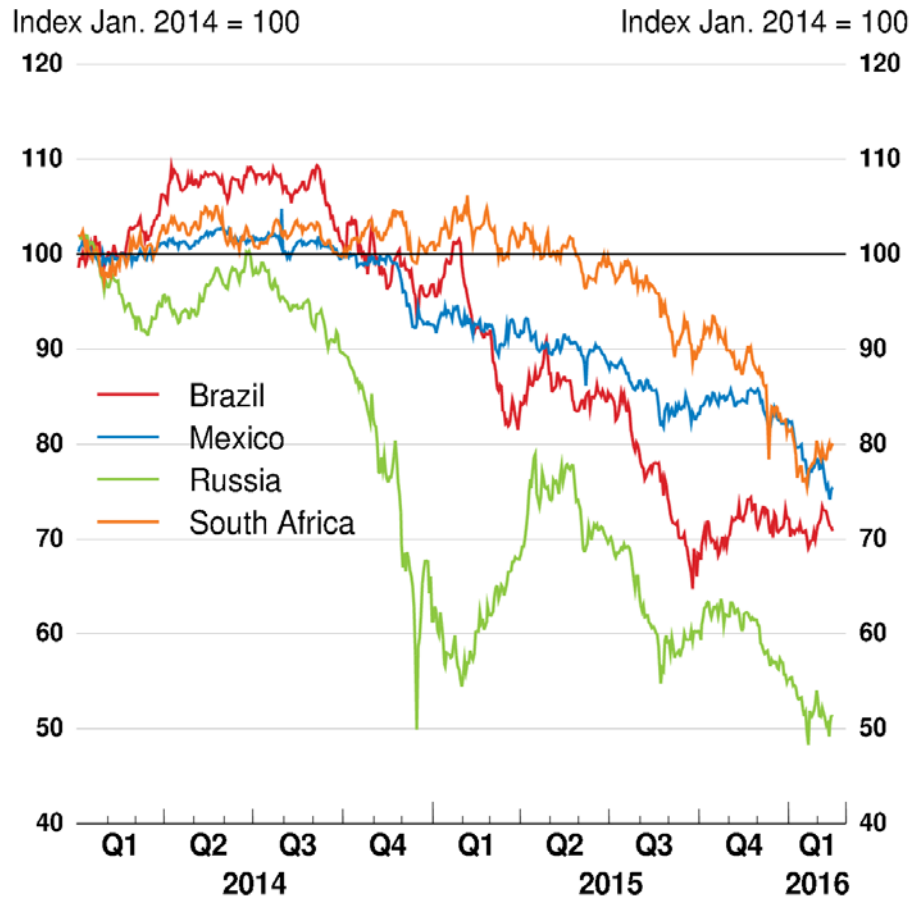
Volatility Index (VIX)





Risks of financial instability are substantial, particularly from emerging markets

Nominal effective exchange rates



EMEs sovereign bond spreads

EMBI Composite, basis points

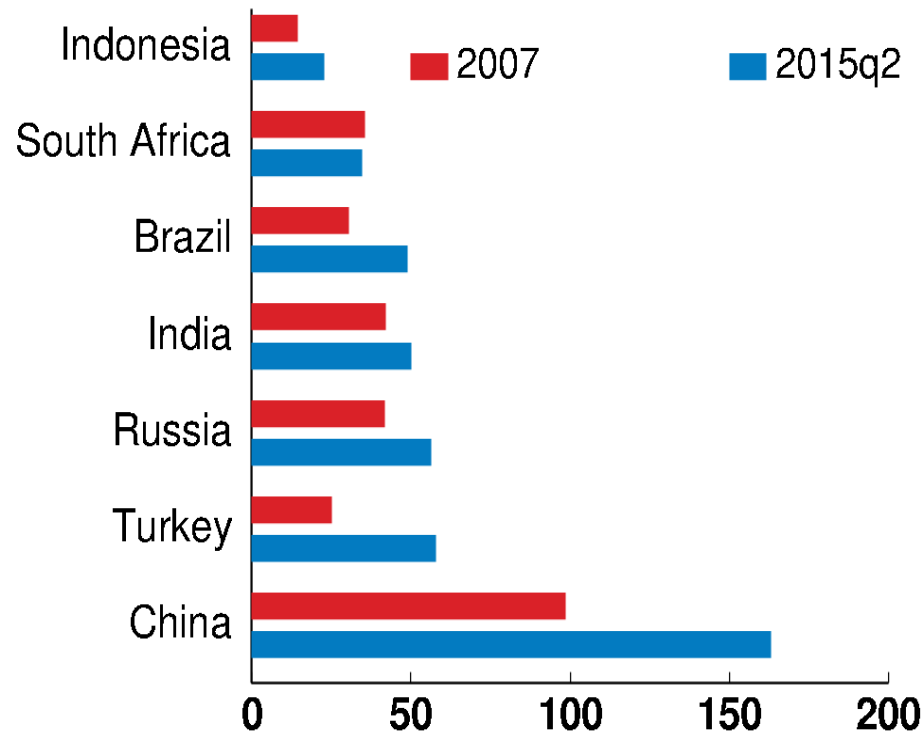




Some EMEs are vulnerable to exchange rate shocks and high domestic debt

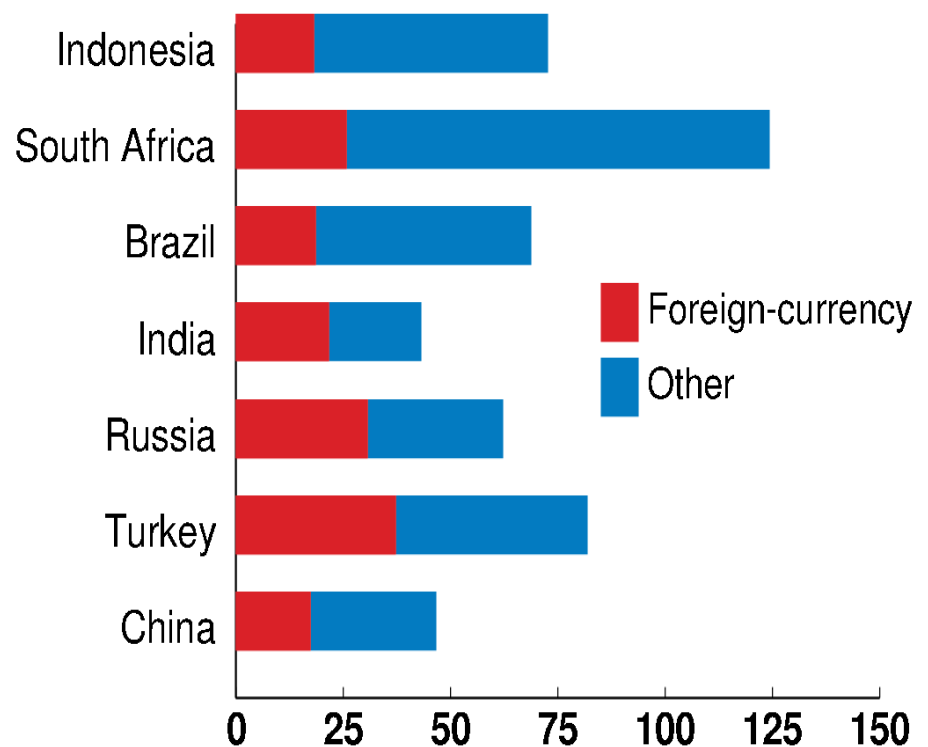
Credit to corporations has increased

Percent of GDP



External liabilities are significant

Percent of GDP, 2014 or latest available



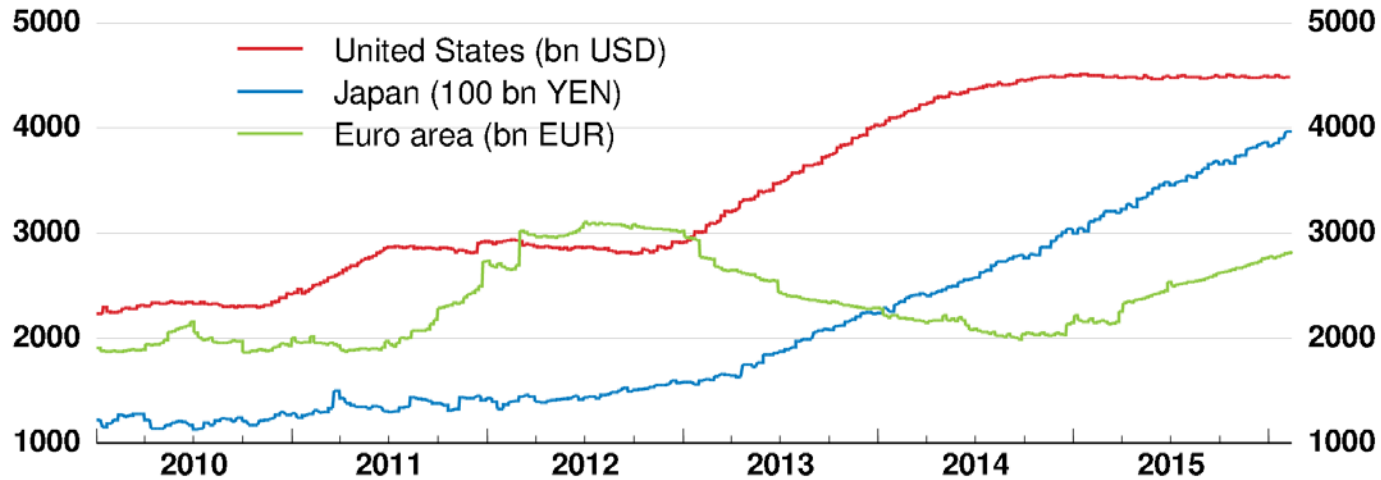


**A stronger collective policy
response is needed**

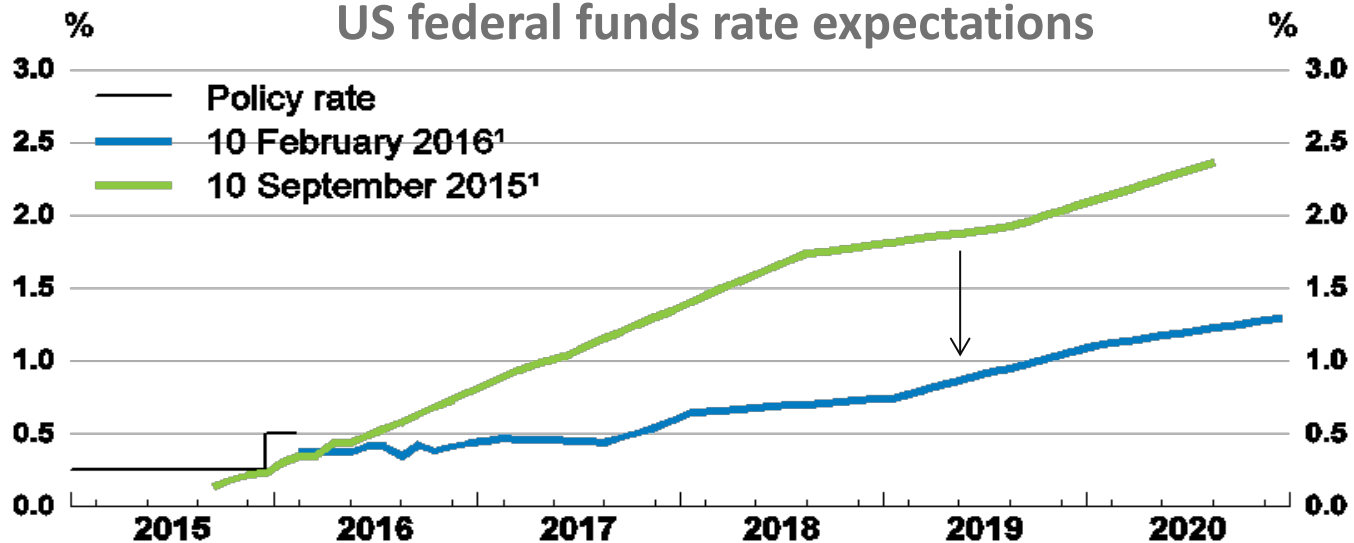


Monetary policy working alone is not sufficient to support global demand

Central bank balance sheets



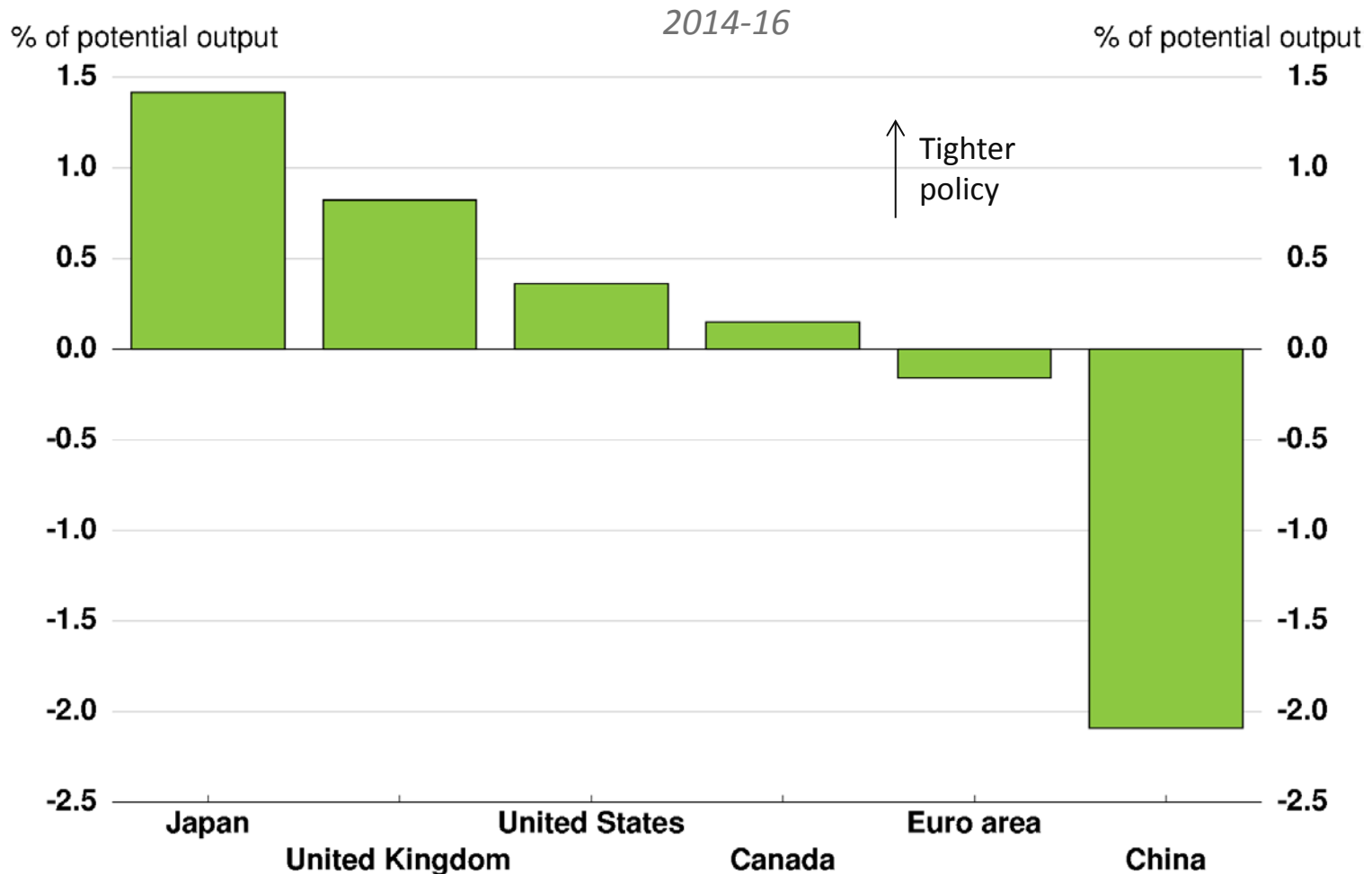
US federal funds rate expectations





Fiscal policy is contractionary in many major economies, although not in China

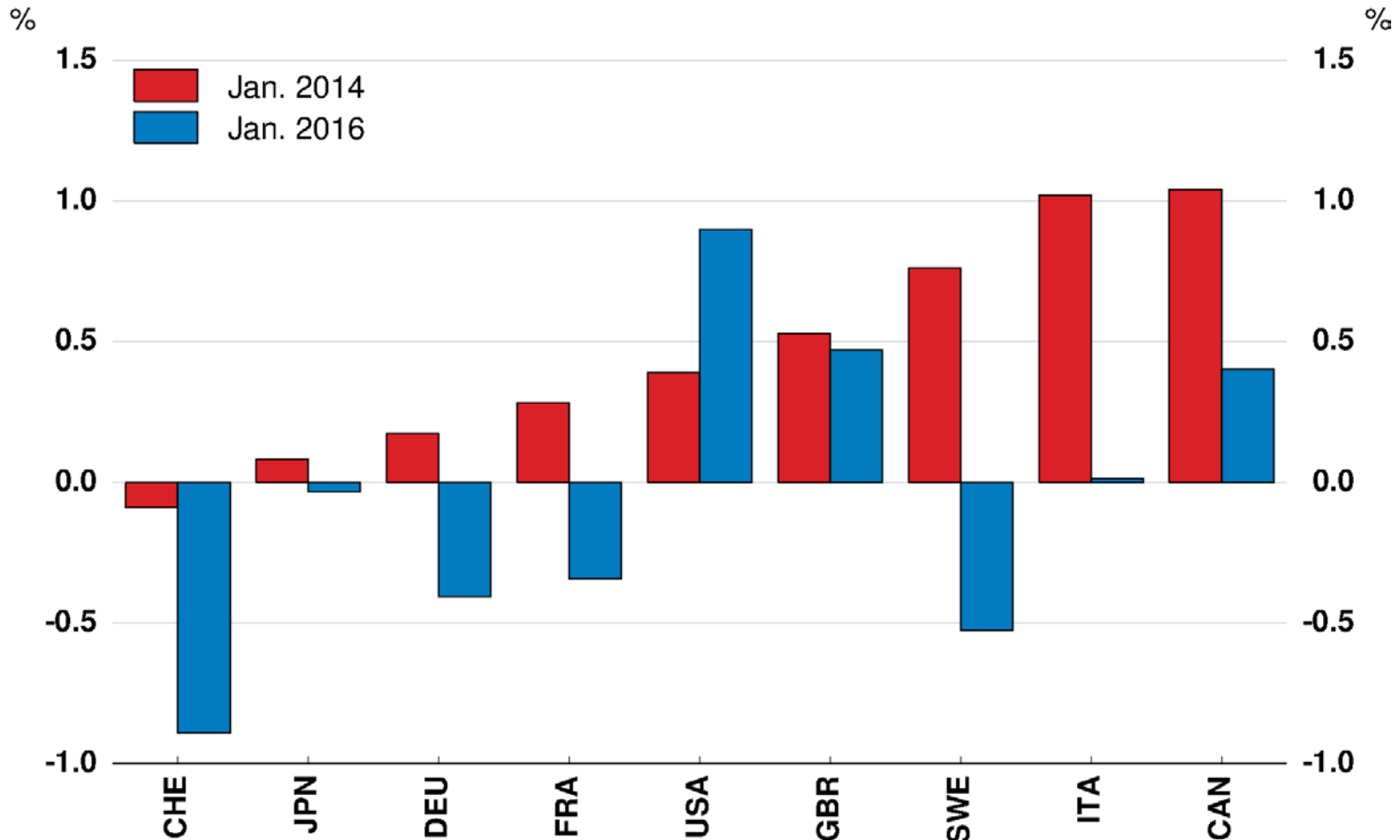
Change in the underlying primary balance





Interest rates are very low, providing an opportunity to borrow and invest

2-year government bond yields

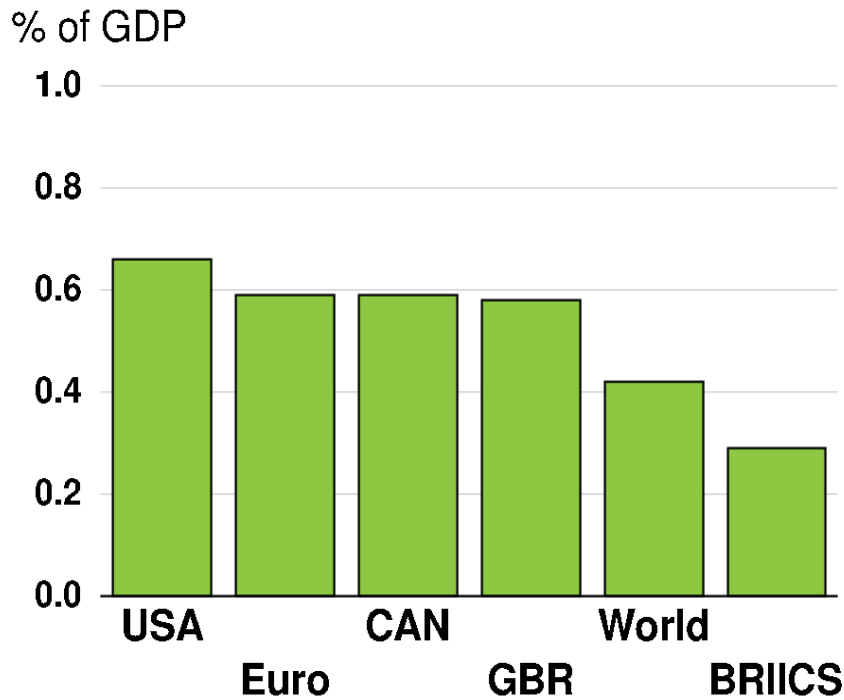




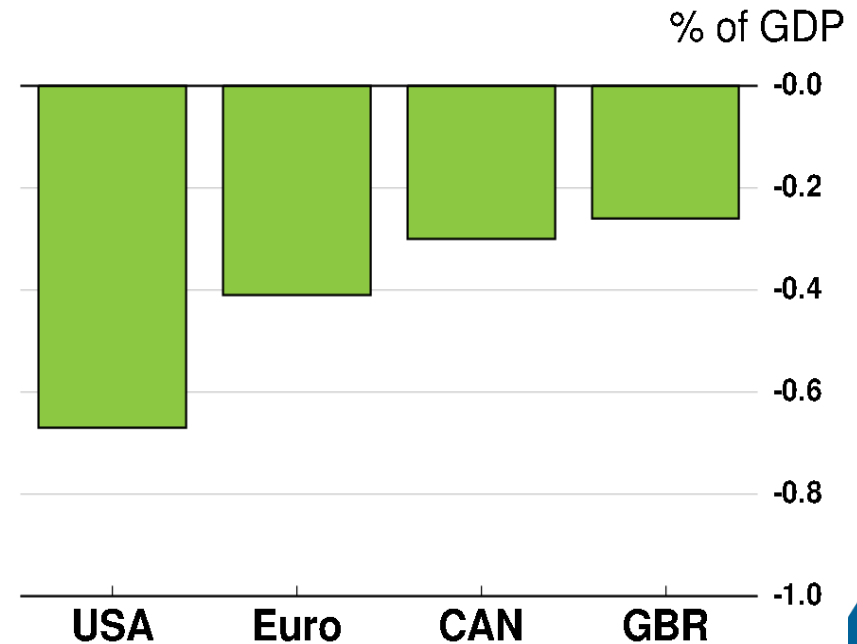
Collective fiscal action promotes growth and fiscal sustainability

1st year effects of a ½ per cent of GDP public investment stimulus by all OECD economies
Change from baseline

Effect on GDP



Effect on public debt stock

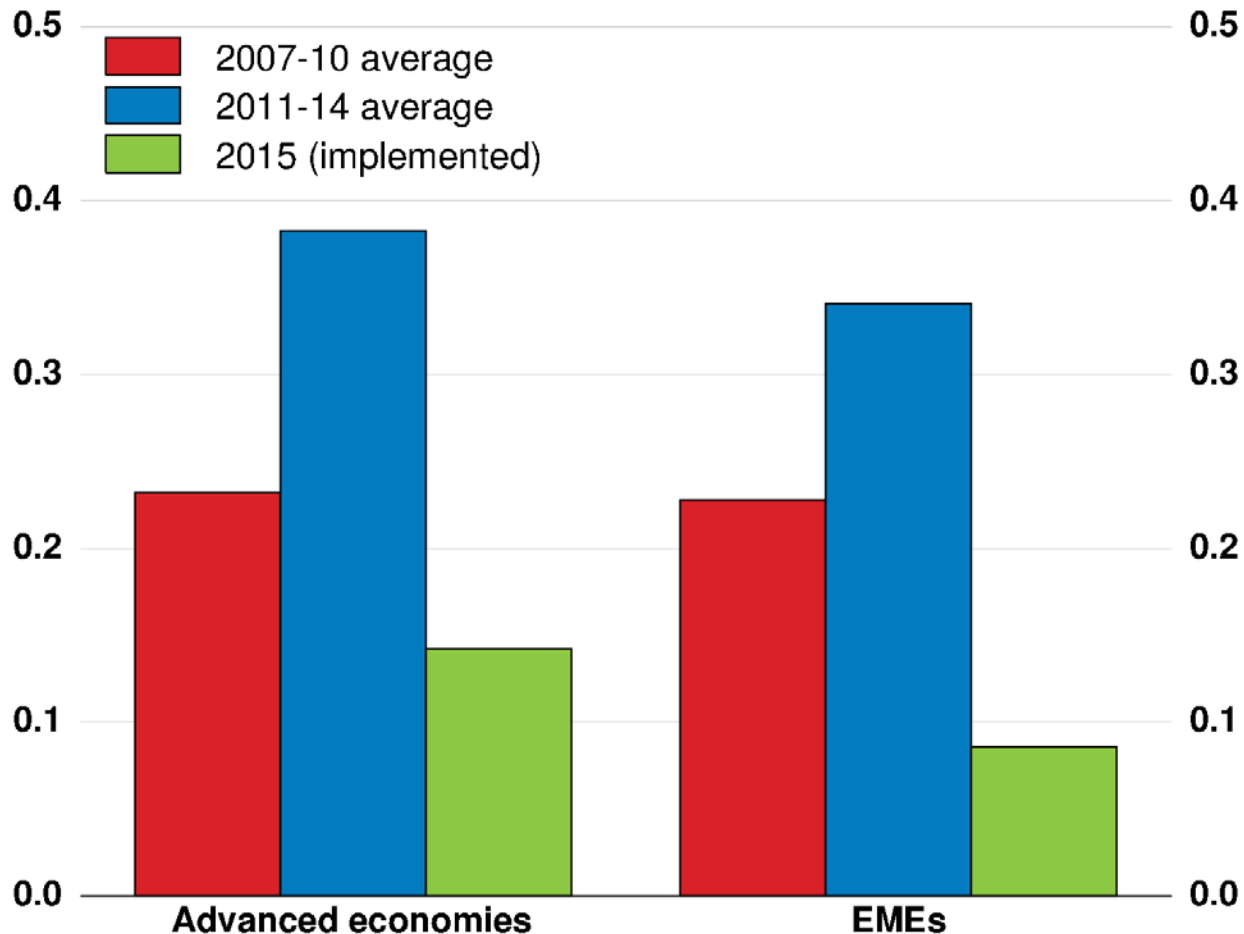




The pace of structural reforms shows insufficient ambition

Responsiveness to OECD Going for Growth recommendations

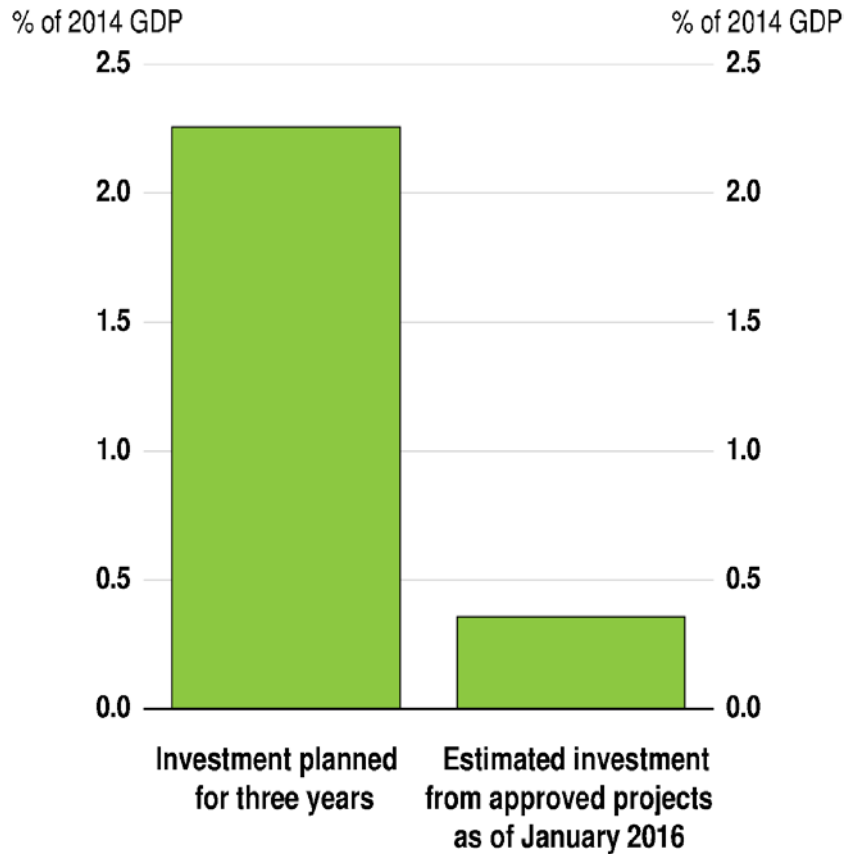
Share of recommendations implemented





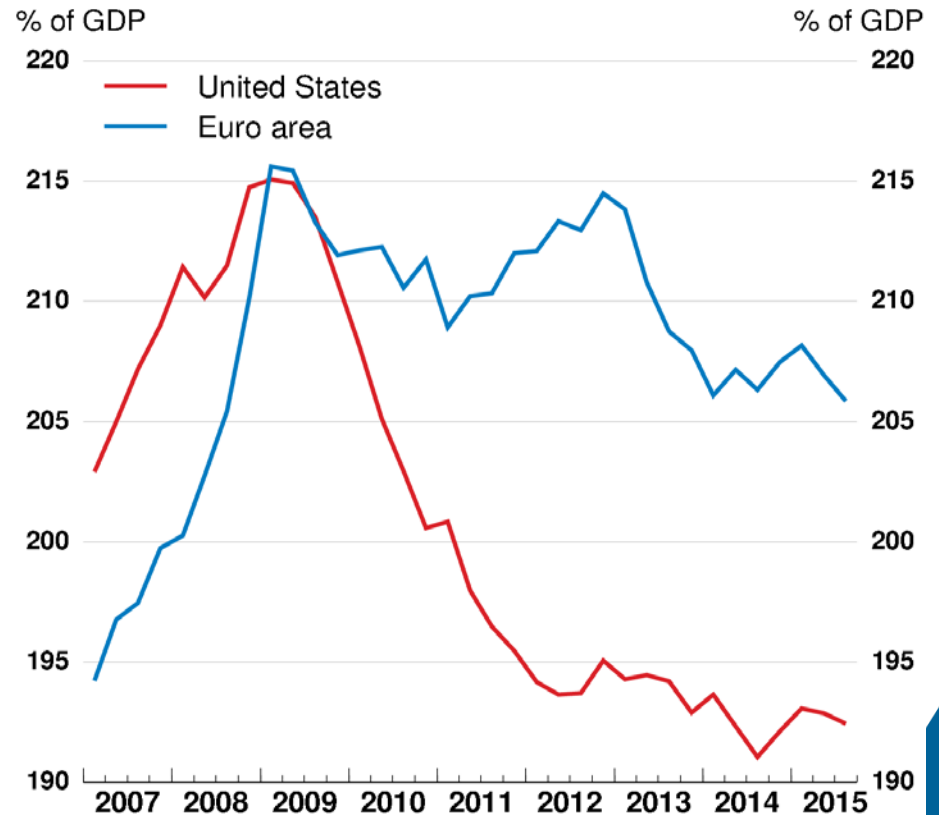
In the EU, much more progress is needed to boost investment and productivity

Juncker investment plan disappoints



Deleveraging is needed for financial health

Household and non-financial corporate debt

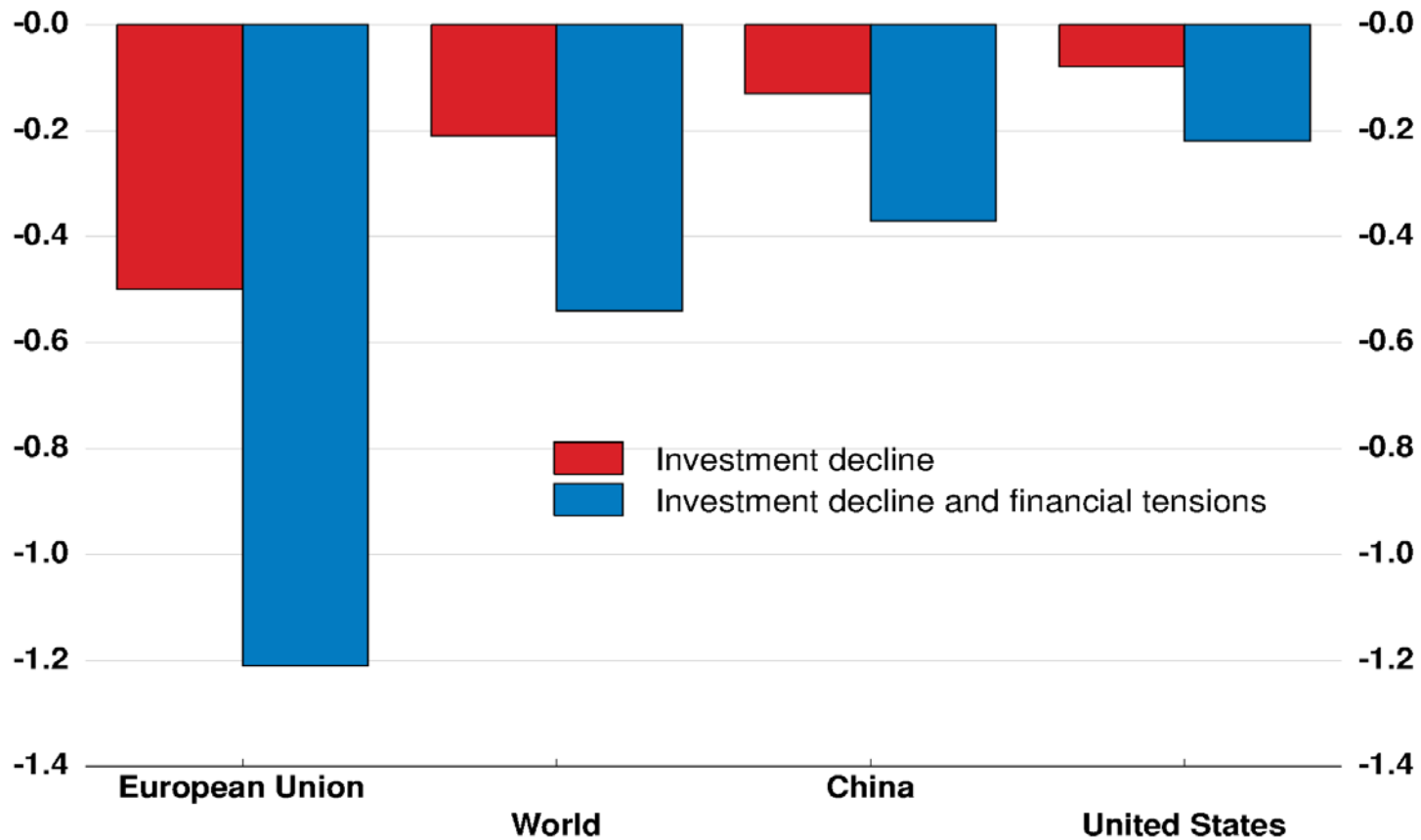




The GDP impact of uncertainties in Europe could be great

Change in GDP after two years

Per cent





Summary

Global growth flat-lined due to continued subdued global trade, investment and wage growth in advanced economies

Emerging market economies' growth models have been exposed by the slowdown in trade and falling commodity prices

Despite the boost from low oil prices and interest rates, the most likely scenario is weak global growth in 2016 and 2017

Substantial downside risks centre on financial market volatility and emerging market debt

Collective fiscal action and more ambition on structural policies would raise global growth and reduce financial risks