



## OCP Policy Center Seminar series

# The Global Outlook

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# MAIN POINTS

- World GDP growth in 2015 is likely to be in the 2.5-3% range, a modest outcome, with wide regional disparities
- Risks are weighted on the downside of that range, but a major global slowdown is unlikely
- In the medium term (2016-2020), prospects for world growth of 3% or a little above are good – provided policies are supportive

# Structure of The Presentation

1. The Bad News

2. The Good News

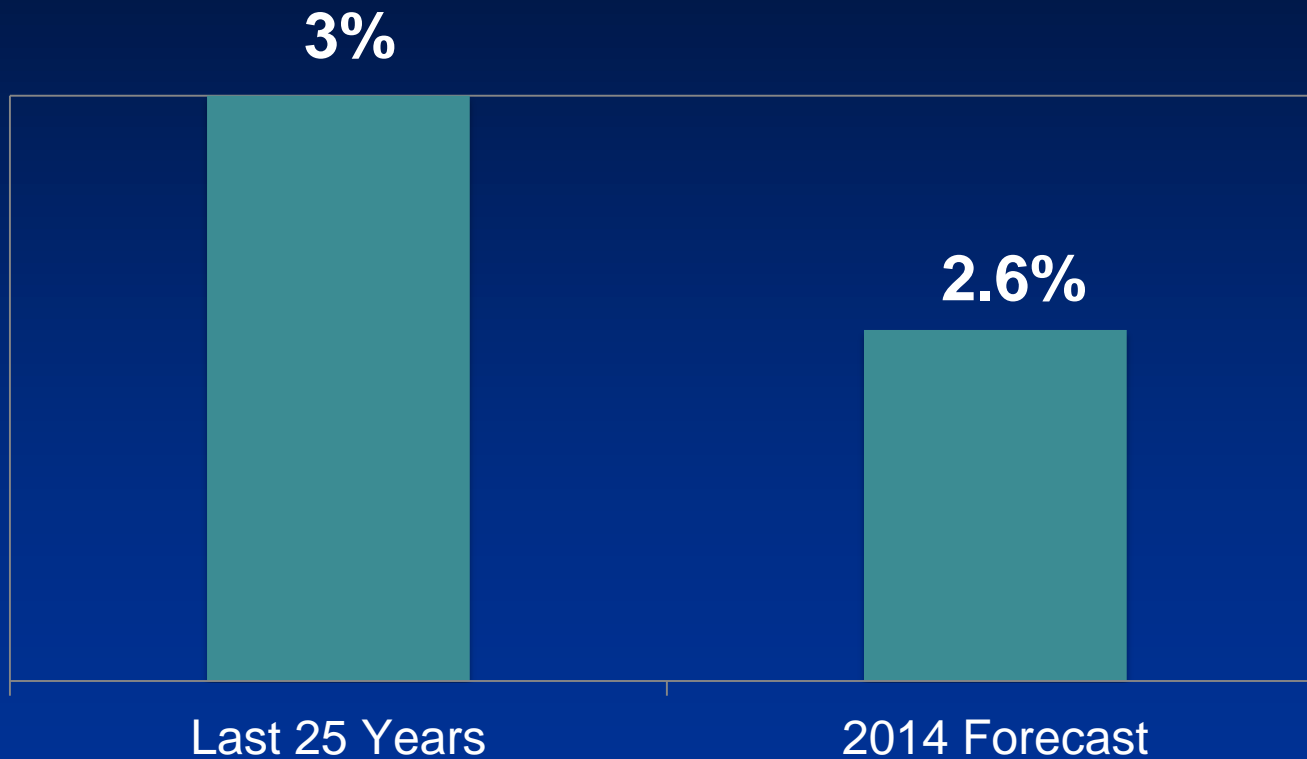
3. The 2015 Region Summary

4. The Medium Term

# 1. The Bad News

# Growth Now Below 25 Year Trend

World GDP Growth (MER)



# IMF 2014 GDP Forecast Downgrades

Latest vs Spring....

Eurozone	- <b>0.3 %</b>
Japan	- <b>0.7 %</b>
CIS (excluding Russia)	- <b>0.4 %</b>
Brazil	- <b>1 %</b>
South Africa	- <b>0.3 %</b>
MENA	- <b>0.4 %</b>

# Eurozone Deflationary Pressures

- Germany showed almost no growth in Q3
- ...it runs a balanced budget and current account surplus (7% of GDP)
- France has chronic fiscal and competitiveness problems
- ....meanwhile Eurozone CPI is up just 0.7% on a year ago

# Growth Returns in European Periphery, but not in Italy

	<u>Q3, SAAR</u>
Italy	<b>-0.4</b>
Spain	<b>2.3</b>
Portugal	<b>0.8</b>
Ireland	<b>6.3</b>
Greece	<b>2.6</b>



# China Worries

- Reorientation towards domestic demand has advanced (sharp fall in CA surplus)
- ...but credit creation has been too rapid and some local authorities have become overextended
- ...housing sector needs to pause
- ...and rapid rise in wages is prompting restructuring
- ...yet, government balance sheet is sound as are growth fundamentals

# “Fragile Five” Still A Concern

Current Account Deficit as Share of GDP, Latest 12 Months

Brazil	-3.7%
India	-1.7%
Indonesia	-3.3%
South Africa	-5.8%
Turkey	-7.9%

## 2. The Good News

# Lots of Momentum

## 2014 GDP Growth Estimate

US 2.2% (accelerating)

UK 3.2%

China 7.4%

India 5.6%

Indonesia 5.2%

Nigeria 7.0%

Bangladesh 6.2%

Sub-Saharan Africa (ex. S. Africa) 5.8%

~56%  
of  
Global  
Popula  
tion!

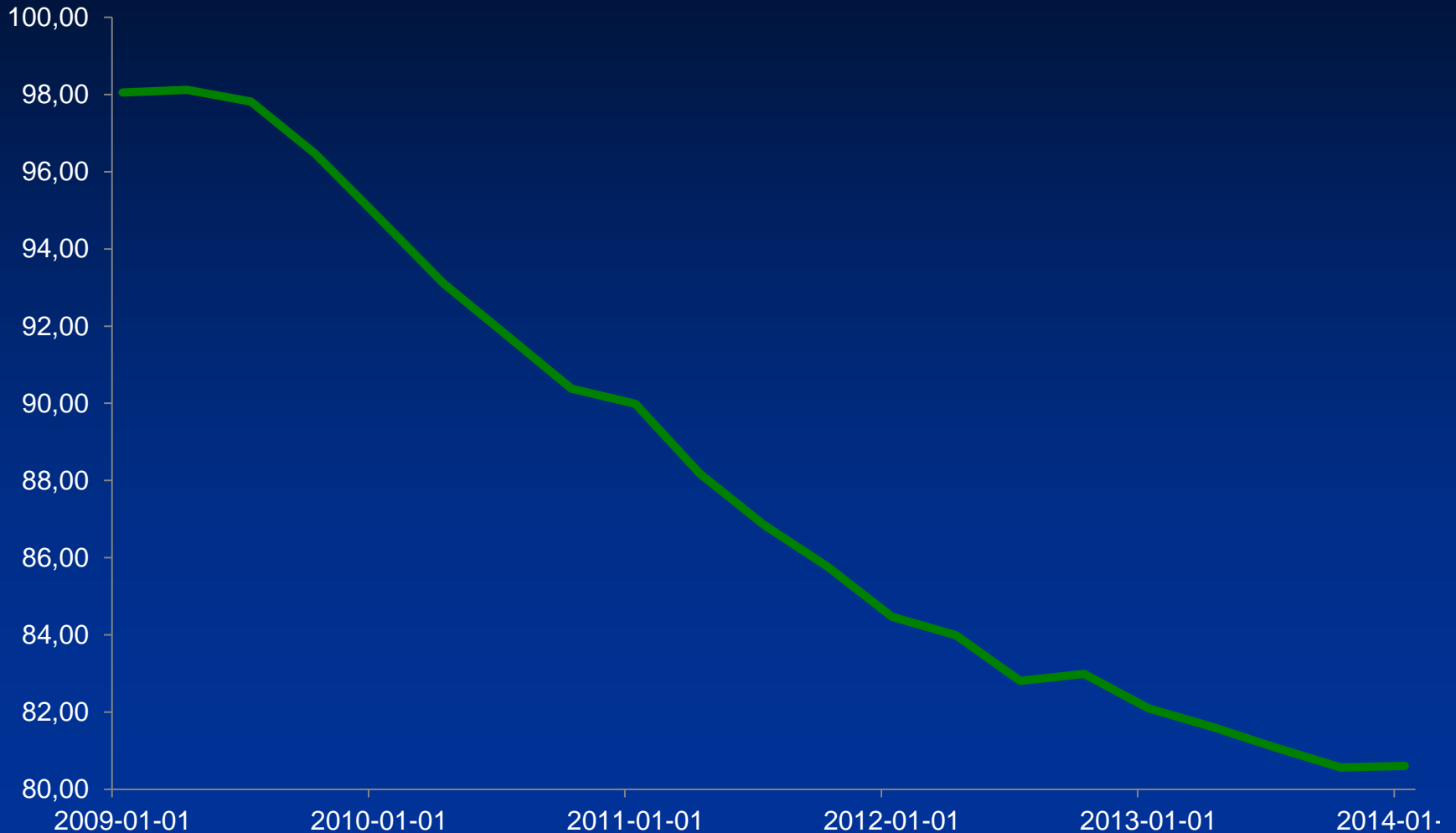
# Monetary Policy Remains Supportive

- Fed remains concerned about underemployment and hesitant recovery
- ECB has promised a 1 trillion Euro expansion in balance sheet
- Bank of Japan has promised to triple its balance sheet
- The PBC has cut the policy interest rate
- ...capital flows to DCs are holding up, and stock markets are buoyant

# Fiscal Policy Is Less Restrictive

- Governments in Advanced Countries are still cutting their deficits, but at a slower rate, subtracting about 0.5% of GDP less from demand in the US and EU
- Japan is an exception

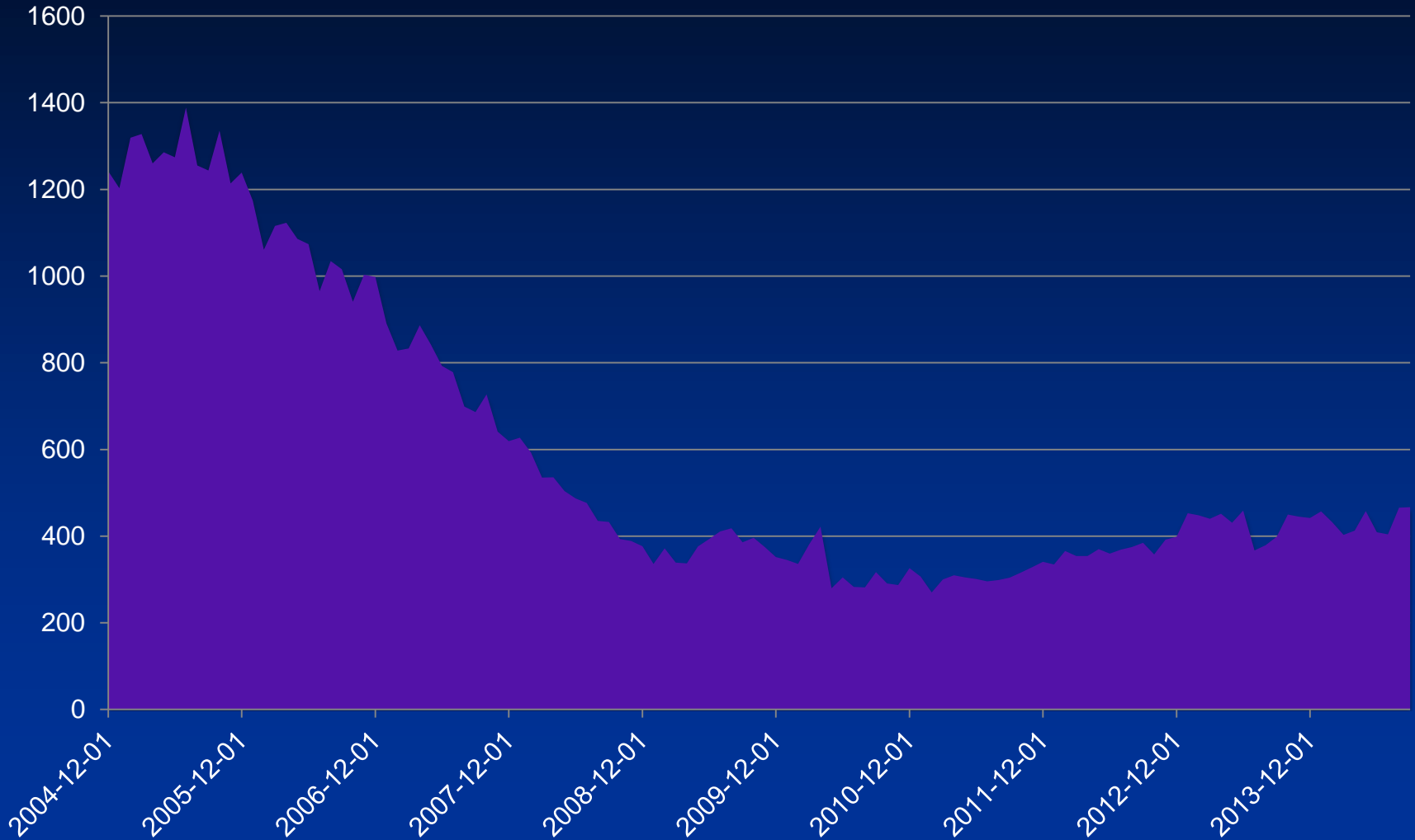
# Healing Process: US Household Debt to GDP



Source: Federal Reserve Economic Data

# US Housing Market Has a Ways to Run

## Family Homes Sold (1000's)



Source: Federal Reserve Economic Data



# Oil and the US Dollar

- Oil prices (Brent crude) are down 22% on a year ago in Dollar terms
- The USD is up 7.7% over a year ago on average, and against the Euro
- Among major currencies, Yuan, Rupee, Sterling have held their dollar parity
- Many developing currencies are down around 10%, as is the Yen; Ruble is down by over 30%

# 3. The 2015 Region Summary

# GDP Growth Ranking, 2015

## Large Countries

- China 6-7
- US 3-3.5
- UK 3
- EZ 1
- JP 1
- Rus -2

## Emerging Regions

- Asia 6-7
- SSA 5-6
- ME 3-4
- Eeu 2-3
- Lac 2

- Src: Author's Forecast

# 4. The Medium Term

# Long Term GDP Growth

2009-2050

OECD	2%
US	2.7%
Eurozone	1.7%
Non-OECD	5%
China	5.6%
India	5.9%

Src: Juggernaut

# Diversification of World Trade

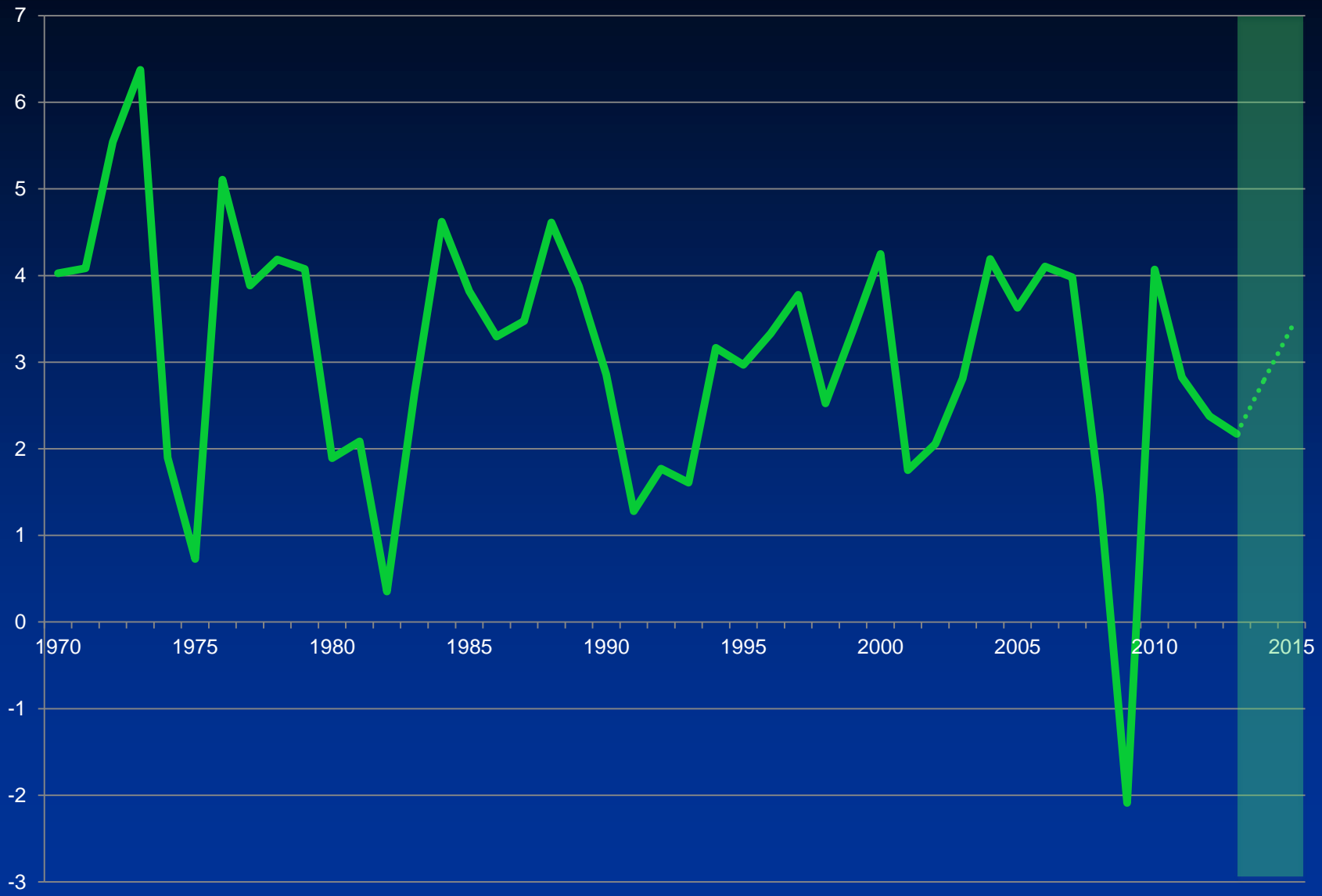
## Imports of Goods, 2013

- US, EU and China, each \$ 2-2.3 Trillion
- Japan, \$ .8 Trillion
- 10 Other Large Trading Nations (Hong Kong, South Korea, Canada, India, Brazil, etc.) , c. \$ 4 trillion
- Rest of World, c. \$ 2.5 trillion
- .....Total, c. \$ 14 trillion

# Resilience, up to a point...

- North-America, Europe and Japan are quite autonomous economic blocks
- Macroeconomic management has improved in developing countries
- Flexible exchange rates help absorb shocks
- ...but a financial crisis still knows no borders !

# Annual Percentage Growth in Real Global GDP



Source: World Bank, Global Economic Prospects 2014



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