World Economic Outlook and New Sources of Growth: Strategic Priorities for the G 20

New Delhi   10*.9.2014*

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* ***The views in this presentation do not reflect those of the Indian government***

Overview

- Global Growth: Long-term trends
- Financial Markets
- Obstacles to Sustainable Growth
- Bottom-line
- What the G 20 Should and Can Do

Global Growth

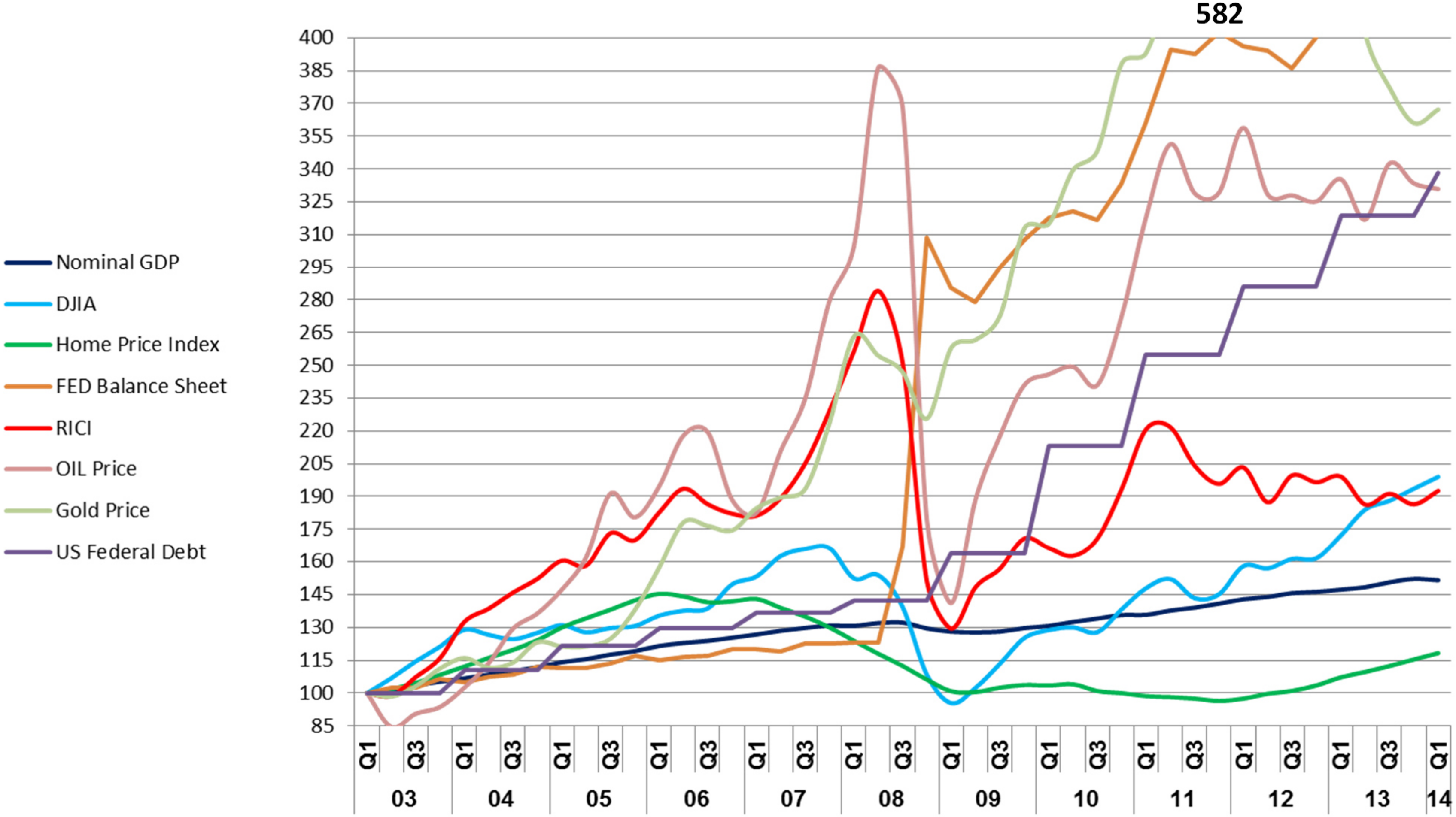
Period/Year	World	Adv Econs	EMDEs
1994-2003	3.4	2.8	4.4
2004	4.9	3.1	7.5
2005	4.6	2.6	7.3
2006	5.3	3	8.2
2007	5.4	2.8	8.7
2008	2.8	0.1	6.1
2009	-0.6	-3.5	2.7
2010	5.1	3	7.4
2011	3.9	1.7	6.2
2012	3.5	1.4	5.1
2013	3.2	1.3	4.7
2014	***3.4***	***1.8***	***4.6***
Av. 2004-07	5.1	2.9	7.9
Av. 2011-14	3.5	1.6	5.2

IMF: **World Economic Outlook**

The Economy

- IMF projects global growth in 2014 to be at the ***long-term pre-boom average***.
- ***EMDEs*** also projected to grow at this ***long-term term average.***
- ***AEs projected to grow at rates significantly lower*** than the long-term average.
- The 2004-07 ***boom was mostly an EMDE phenomenon.***
- Recent data show ***AEs stabilizing at lower growth rates,*** with near normal near term data in the US and UK.
- Growth ***decline in EMDEs still to bottom out***.

Asset Prices



1.Board of Governors Federal Reserve System, US- http://www.federalreserve.gov
2. Bureau of Economic Analysis, US http://www.bea.gov/
3. Economic Research, Federal Reserve Bank of St. Louis, http://research.stlouisfed.org
4. http://www.rogersrawmaterials.com/
5. http://www.indexmundi.com/
6. http://www.cbo.gov/

Financial Markets

- ***Unusually buoyant*** considering the state of the real economy: macro-economic policy effect, both fiscal and monetary.
- ***Economy still on extraordinary life support***: real test of whether the recovery is sustainable is removal of this support.
- ***Sharp decline in money multiplier***: QE mostly funded by rising reserves (private deleveraging) – transmission channels of monetary policy still impaired?
- ***Big Spillovers on EMEs***: misaligned X rates, aggravating savings glut.
- Recovery based on wealth effect – ***Financial Bubble Mark II***?: French and Irish short-term bond yields in negative territory, Spanish 50 years bond yields 4% !
- ***Real recovery is based on robust income growth***: however wage and employment growth the weak spots of the recovery.
- ***Markets confused over the future stance of monetary policy:*** ECB, and possibly BOJ, easing even as the US FED exits extraordinary policies and contemplates 'pivoting' on interest rates. Possible market bloodbath as interest rates rise, dollar strengthens and capital exits EMEs.
- ***No ammunition left*** for countering another downturn.

Aggravation of Pre-Crisis Trends?

- Disconnect between ***asset and consumer prices***: now compounded by disconnect between economic growth and financial markets.
- ***Not clear that regulatory reform has made financial markets less risky*** – Basel III retains pro-cyclicality through mark-to-market; shadow banking has rebounded at the expense of the regulated component.
- ***Rising Inequality - Stagnant real wages and 'jobless growth'*** (falling labour participation rates) depressing demand: compounded by monetary policy rewarding asset owners over savers.
- ***Demographic Headwinds***: lower growth has compounded the emerging fiscal problem.
- ***High levels of leverage***: Accelerated public debt build up has countervailed private sector deleveraging.
- ***Global savings glut***: Compounded by very accommodative monetary policies which, as before, fuelling ***asset rather than investment boom***
- ***Structural Flaws in the European Monetary Union***: Latent flaw discovered by markets that can now be expected to revolt periodically.
- ***External rebalancing*** problem compounded by the need for internal rebalancing from public to private

Bottom-line: Not a Pretty Picture

- ***Japan***: Abenomics struggling because the third arrow has still to fire. (-7.1% growth in Q2 2014)
- ***Eurozone***: Major economic and financial fault lines because of an unstable monetary union – need institutional and structural changes to stabilize. (zero growth in Q2 2014: ECB QENTRY)
- ***AMEs:*** Current average growth at about 60% of the 10Y pre-boom average.
- ***EMEs***: Currently growing at slightly above pre-boom average, but growth decline still to bottom out, with FEDEXIT and pivot hanging like the proverbial sword of Damocles overhead. India excepted, major EMEs have demand side problems that need structural reforms. India needs structural reforms to fix supply side constraints.
- ***US and China***: both the relatively strong nodes of the global economy need major structural changes to rebalance their economies externally and domestically – US needs to save more and become more competitive, and China needs to expand domestic demand – for a sustainable recovery.

What can the G 20 do?

- Common theme running through impediments to growth in major areas is ***structural reforms***: so far countries have mostly let macro-economic policies (especially monetary) do the heavy lifting – but macro policies can only fix cyclical downturns and not structural impediments to growth.
- ***G 20 focusing on the right issues*** – Brisbane FWG Action Plan seeks to commit G 20 countries to structural reforms and investment that can boost employment, productivity and income growth and raise global GDP 2% above current projections.
- ***Some lack of clarity in the G 20 investment focus:*** need to link the public-private balance to revival of animal spirits, esp. in infrastructure.
- More ambitious role for MDBs to intermediate global savings for infrastructure investment, especially cross-border, in potentially fast growing EMEs.
- Despite being a forum for both Treasuries and Central Banks, ***G 20 co-ordination on monetary policy not as effective as on fiscal policy***.
- G 20 however suffers from a ***weak delivery syndrome***: national performance depends more on country specific domestic politics rather than on commitments to G 20.
- ***Move away from commitments and 'naming and shaming'*** that can make countries defensive and the internal debates less candid and open.
- ***G 20 consensus can nevertheless influence*** domestic policy debate and direction because of growing global interdependence.

Thank You