LINK Global Economic Outlook
2014-2015

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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

[Diagram showing economic growth rates from 2006 to 2015 with forecasts for 2012 and 2013.]
De-coupling or re-coupling
A shift in growth contribution?

Share of contribution to global growth

Developed economies
Economies in transition
Developing economies

2010 2011 2012 2013 2014 2015

52% 59% 58% 66% 54% 50%
45% 37% 39% 31% 44% 47%
3% 4% 3% 3% 2% 3%

Developed economies | Economies in transition | Developing economies
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 exports, Jan 2006 - Jul 2013
(Jan 2006 =100)
Commodity prices on the downturn

Commodity price index (2000=100)

- Food (All)
- Agricultural raw materials
- Minerals, ores and metals
- 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

- Africa
- Asia
- Europe
- Latin America
Selling off in stock markets of emerging economies

![Graph showing stock market trends in emerging economies compared to SP500]
Depreciation of currencies in emerging economies

- Brazilian Real
- Indian Rupee
- Indonesian 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
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
ODA flows declined in past two years
Thank you