European Press Conference for the Launch of the UN World Economic Situation and Prospects 2013

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WESP 2013
Global Outlook and Regional Prospects 2012-2014

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www.un.org/esa/policy
Main messages

1. Renewed global economic slowdown
   • Much of Europe mired in recession - trapped in 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
Slowdown in baseline with significant downside risks, but hopes for benign rebalancing with coordinated policies.
A synchronized global slowdown...
GDP Growth in Selected European Economies 2004-2014

source: UN-DESA/Project LINK

Germany Spain France United Kingdom Italy Netherlands
Unemployment Rates in Selected European Economies 2004-2014

Source: UN-DESA/Project Link

- Germany
- Spain
- France
- United Kingdom
- Italy
- Netherlands
Confidence in the Euro Area and Selected 10 Year Bond Yields

source: Eurorean Commission and JP Morgan
Feeble policy efforts to break out of Vicious Cycle

- Fed quantitative easing
- Fiscal austerity & sovereign debt risk
- ECB outright monetary transactions
- Financial sector fragility
- Deleveraging by firms & households
- Continued EU austerity

Low-growth trap
The jobs crisis continues: no employment recovery before 2017 at going trends.
Developed country weaknesses are spilling over

Global trade growth has slowed markedly

More capital flow volatility for developing countries
Commonwealth of Independent States

• Continued moderate GDP growth of 3.8% but below pre-crisis levels
  – Lower in Europe: Belarus, Moldova, Ukraine
  – Higher unemployment in central Asia

• Favorable labor market dynamics
  – Russia at historic full employment
  – Higher in Ukraine & migration reducing unemployment in many

• Moderate inflation despite poor crop yields
  – About 5% in Russia
  – Higher rates in central Asia, Belarus
Commonwealth of Independent States

- Sovereign wealth (oils) funds being rebuilt
- Private capital outflows reducing needed investment
- Remittances have recovered
- Exports highly concentrated on commodities
- Major vulnerability: deterioration of eurozone situation:
  - reduced exports
  - lower oil & gas prices
  - reduced access to external finance
- Region less vulnerable than in 2008
Box on Russian 2012 WTO Accession:

– **Provisions**: Reduced tariffs, opened services, reduced barriers to FDI, reduced government interventions

– **Objectives**: Diversify the economy, increase FDI inflows, increase productivity growth, more predictable business climate

– **Complementary domestic policies needed**: Improved safety net and training for displaced workers, improved governance
South-east Europe

- **Economic stagnation**
  - Real GDP below level in 2008
  - Negative in 2012 due to negative growth in Croatia & Serbia; Albania & The fYRM doing better
  - Low growth is forecast for 2013 & 2014

- **Unemployment exceedingly high**
  - Double-digit throughout region & above 20% in most

- **Inflation low at about 3%**

- **FDI inflows depressed at 50% of pre-crisis level**

- **Eurozone crisis is major vulnerability**

- **Little policy space for fiscal or monetary easing**
Down-side risks and desirable upside policy scenario

Growth of world gross product, 2006-2014

Percentage change

- Baseline
- Downside scenario
- Policy scenario
Impact of downside risks on world economy will be substantial
How to get the world economy back on track?

- Avoid the downside scenario
- Present policy stances insufficient and source of uncertainty

**Fundamental policy shift is required:**

- Coordination of fiscal policy → new growth impulses
- Redesign fiscal and structural policies → job creation & green growth
- Monetary policy coordination → less capital volatility
- Accelerate financial regulatory reform → reduce financial fragility
- Ensure adequate development finance → benign rebalancing and achieving MDGs
Coordinated strategy for growth and jobs can lift all boats

Global GDP increases almost 1.4% over baseline

Employment in Europe and US will recover by 2014 and 33 million more jobs per year in developing countries

Fully consistent with stabilizing debt in medium run and lowering it in the long run

Index: 2008=100   Employment Levels

Based upon projections from the UN Global Policy Model
Video of CIS forecast available at World Economic Situation and Prospects (WESP) 2013: CIS Economy – YouTube and South-east Europe at World Economic Situation and Prospects (WESP) 2013: Economic stagnation in South-Eastern Europe - YouTube