

# Challenges and threats in the world economy **Martin Wolf, Associate Editor & Chief Economics Commentator, *Financial Times***

77 Convención Bancaria, Hotel Princess Acapulco

4<sup>th</sup> April 2014

Acapulco

# Challenges and threats in the world economy

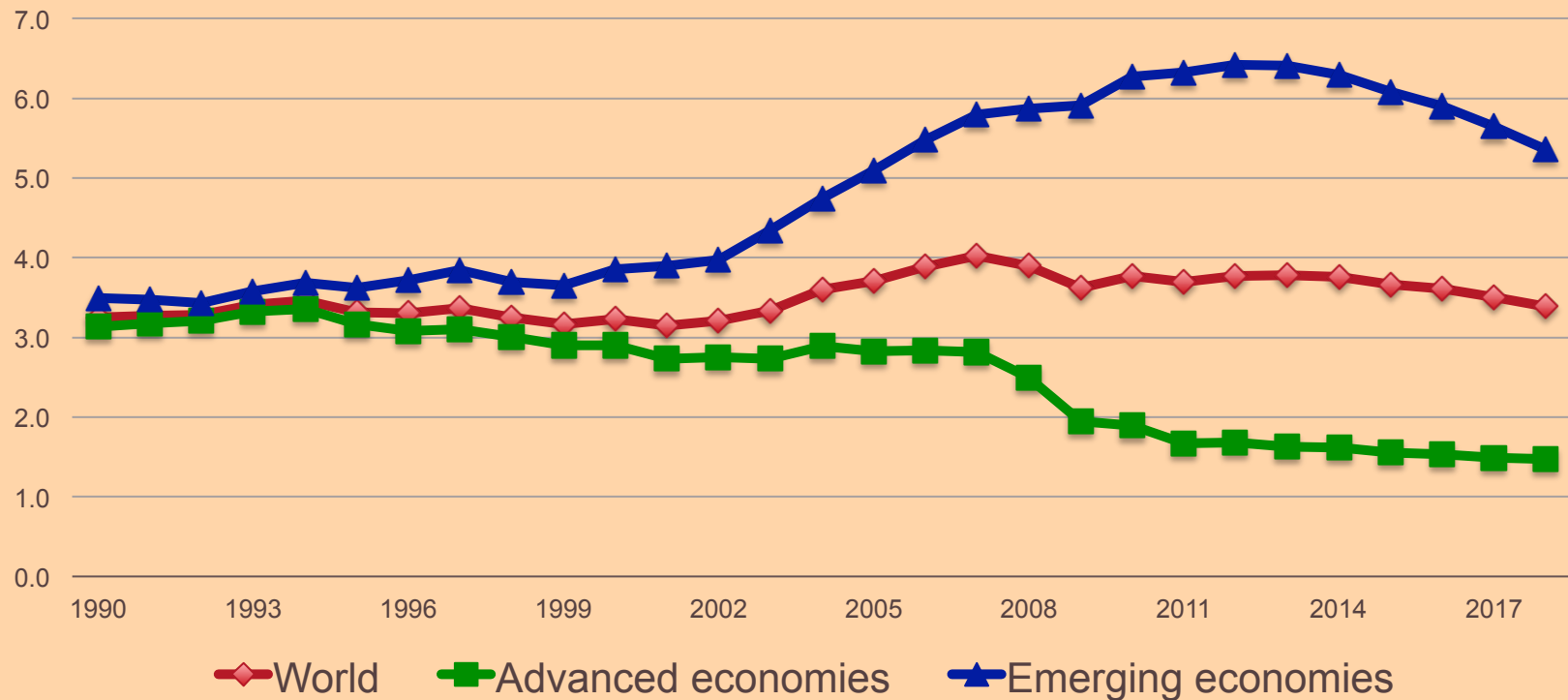
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- Great convergence
- “Secular stagnation”
- What might go right
- What might go wrong
- Conclusion

# 1. Great convergence

## CONVERGENCE MEANS DIVERGENT GROWTH

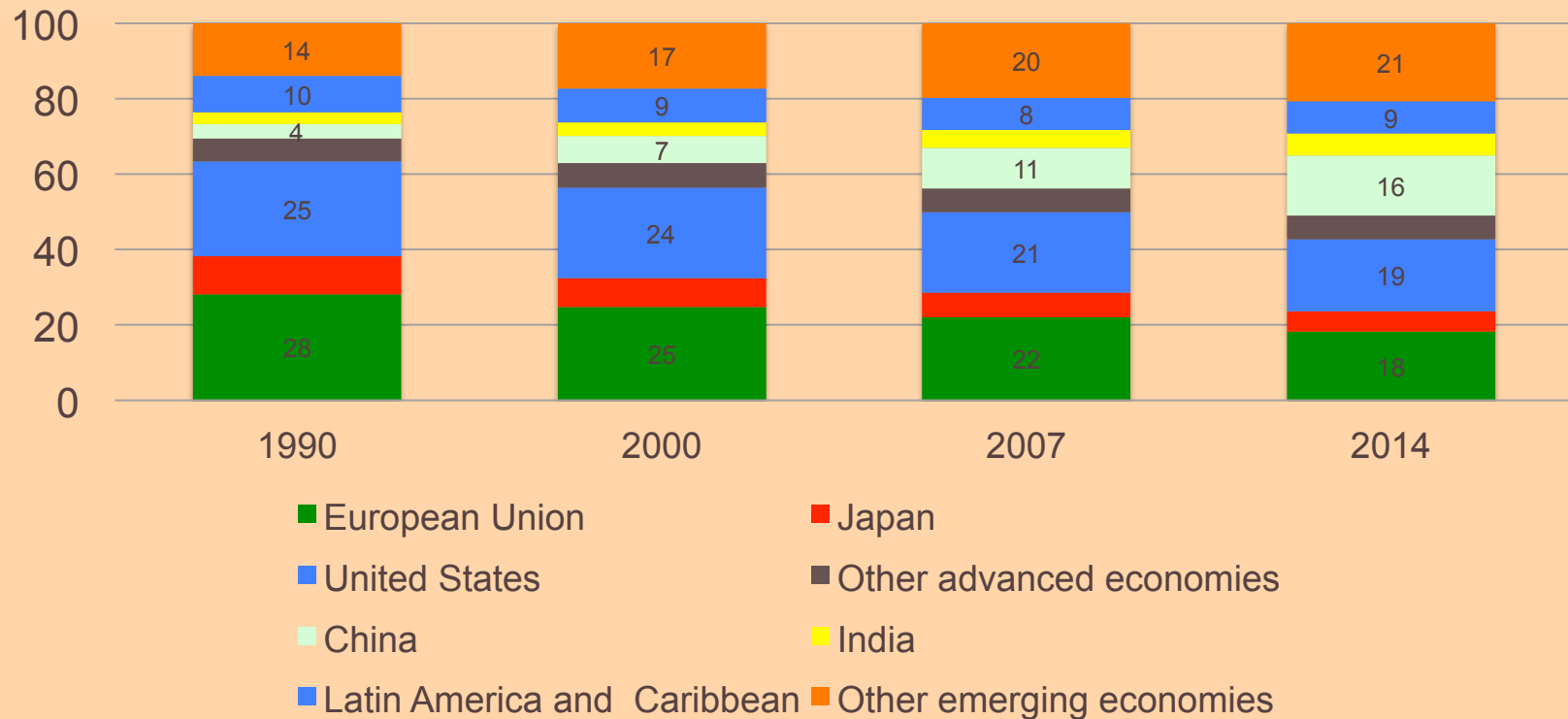
GROWTH IN THE WORLD ECONOMY  
(previous 11-years moving average) (Source: IMF)



# 1. Great convergence

## THE CHINA STORY IS UNIQUE

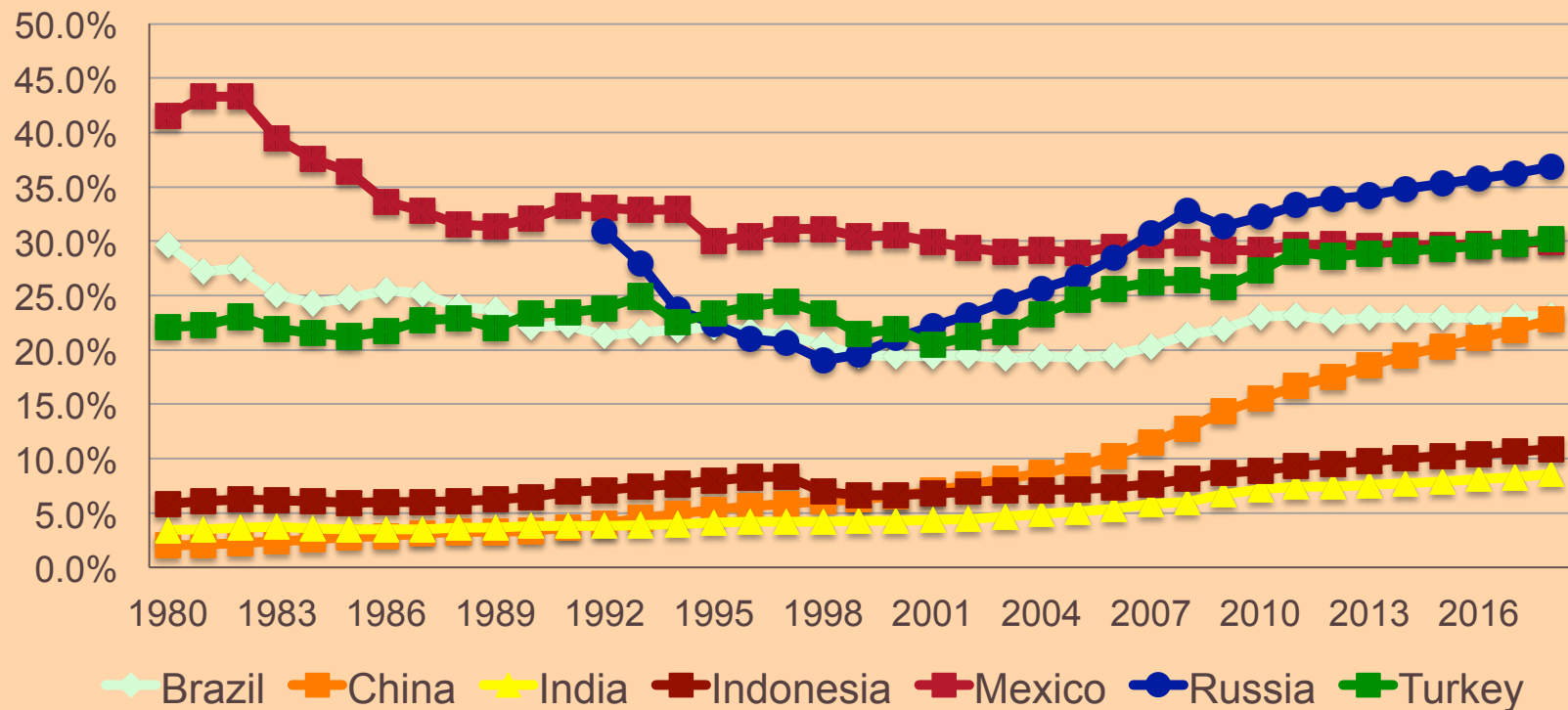
SHARES IN WORLD GDP (at PPP)  
(Source: IMF)



# 1. Great convergence

## THE CHINA STORY IS UNIQUE

GDP PER HEAD RELATIVE TO THE US  
(at purchasing power parity)



## 2. Secular stagnation

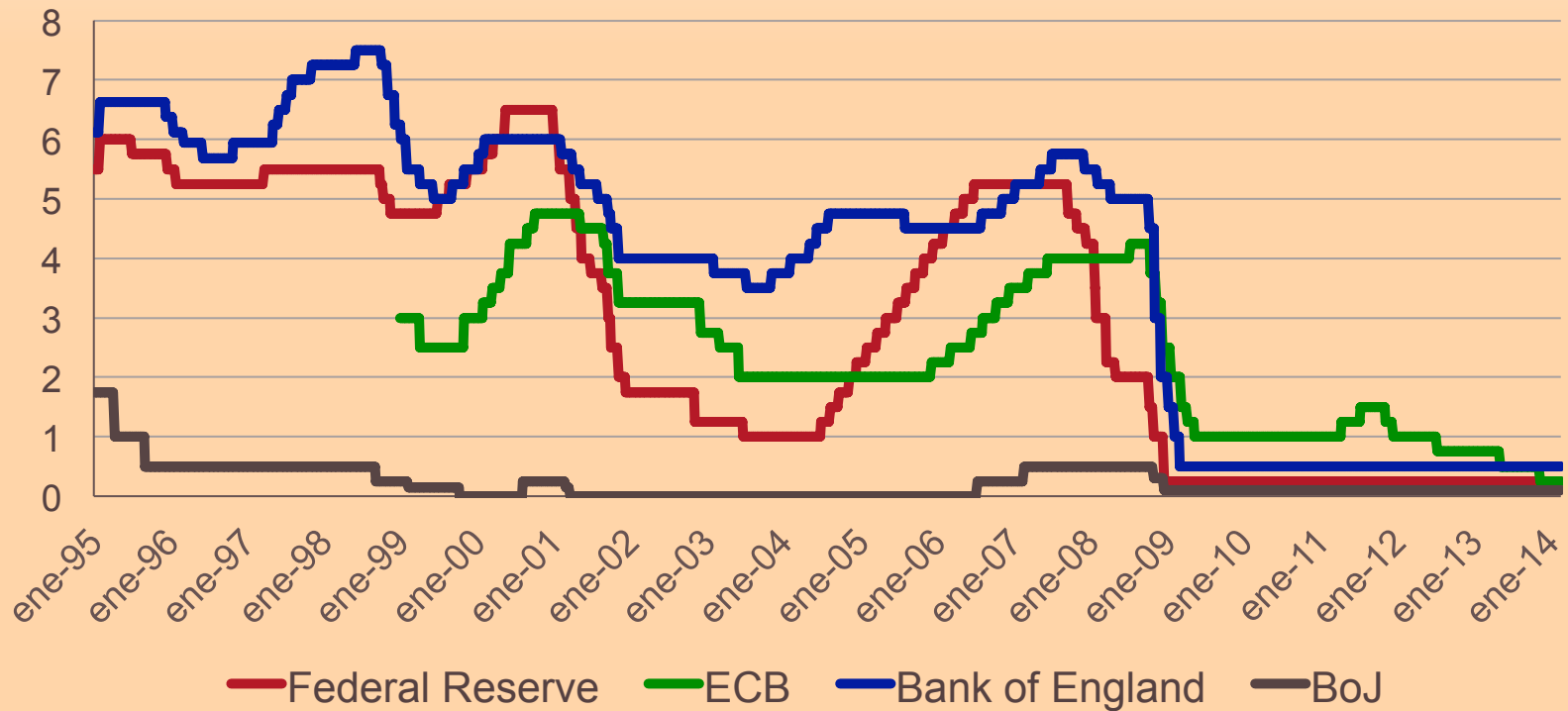
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- The financial crisis has waned. But.....
- Interest rates are very low
- Policy is ultra-expansionary and yet
- GDP is far below trend and
- GDP growth is not yet at trend

## 2. Secular stagnation: free money

### IT IS STILL A WORLD OF FREE MONEY

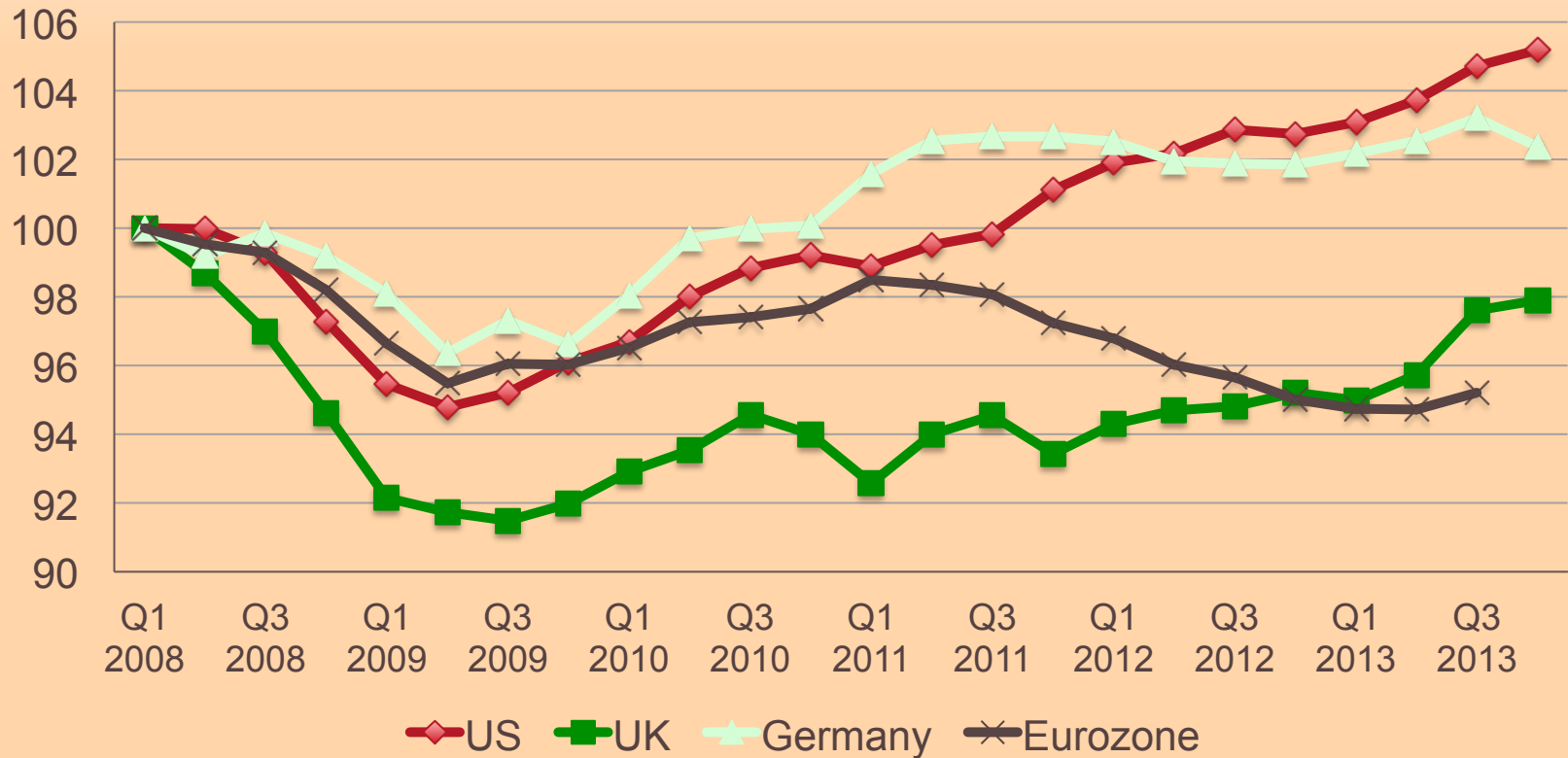
CENTRAL BANK SHORT-TERM POLICY RATES



## 2. Secular stagnation: demand

### YET DEMAND IS VERY WEAK

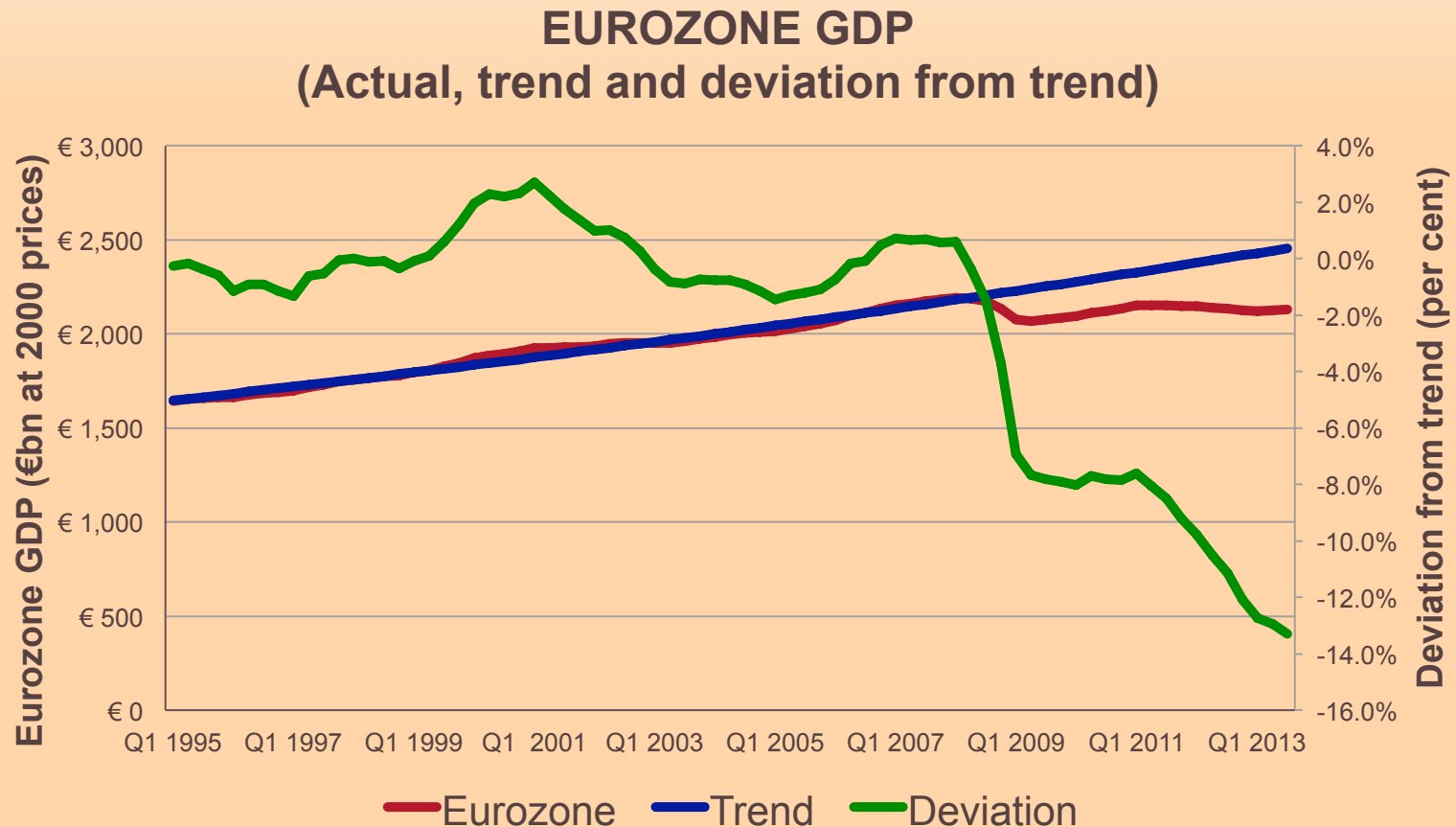
REAL DOMESTIC DEMAND IN THE CRISIS





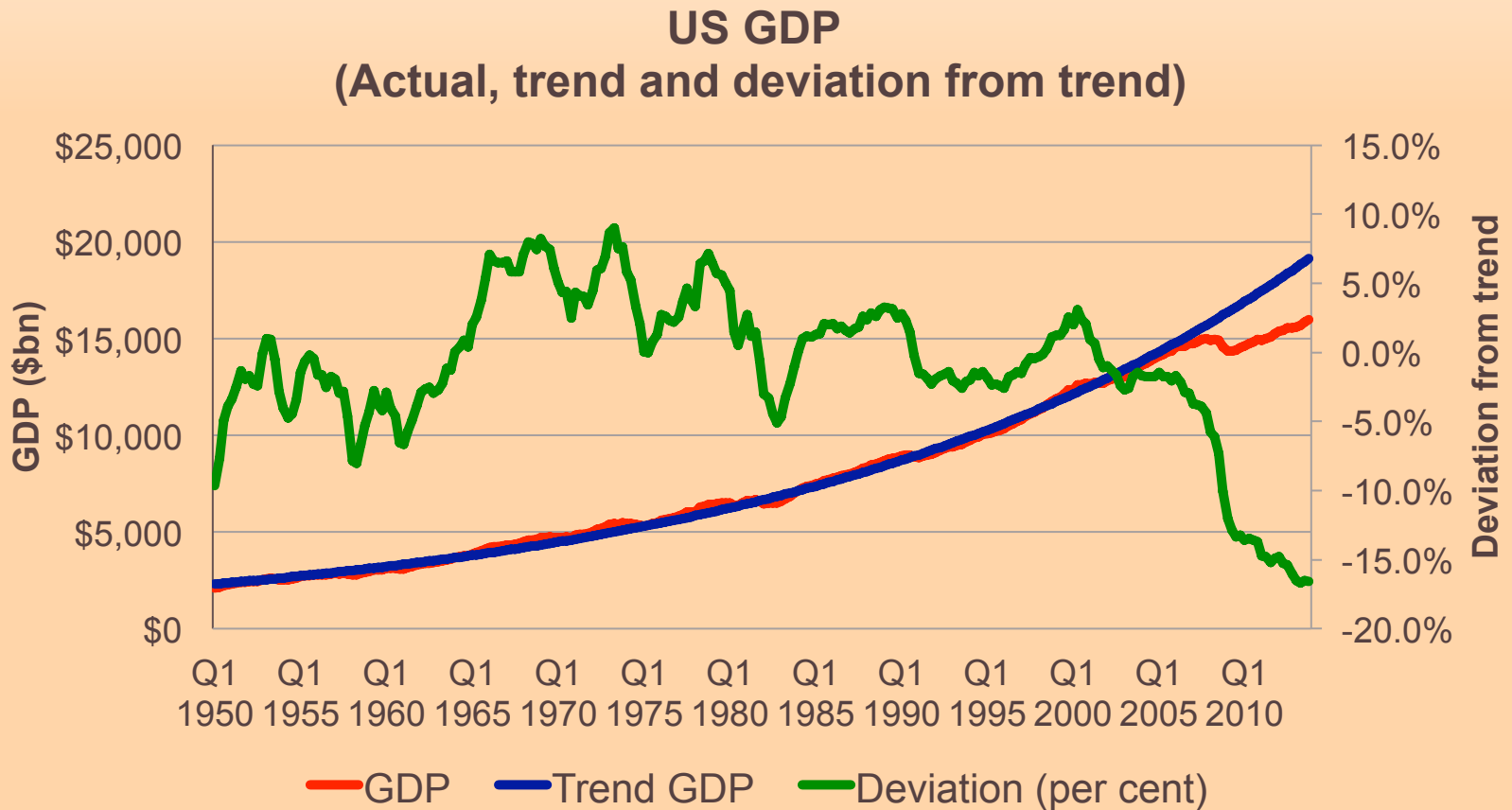
## 2. Secular stagnation: lost growth

**OUTPUT IS VASTLY BELOW THE PRE-CRISIS TREND**



## 2. Secular stagnation: lost growth

IN THE US IT IS LOOKING LIKE A NEW ERA



### 3. What might go right

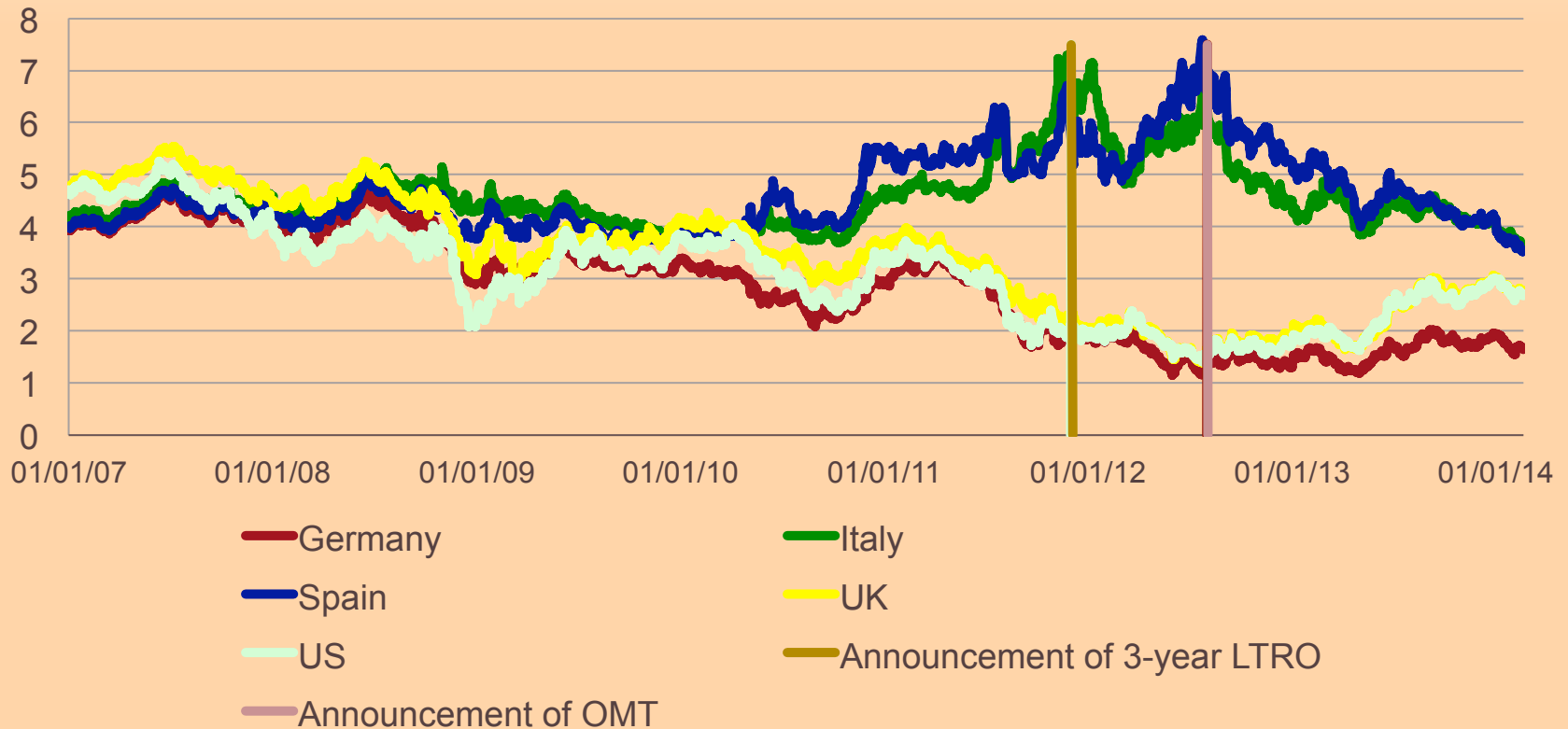
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- Post-crisis healing seems to be under way
- New technologies are unfolding.
- US energy revolution is under way.
- Emerging economies have catch-up potential.

### 3. What might go right: end of panic

## END OF THE PANIC

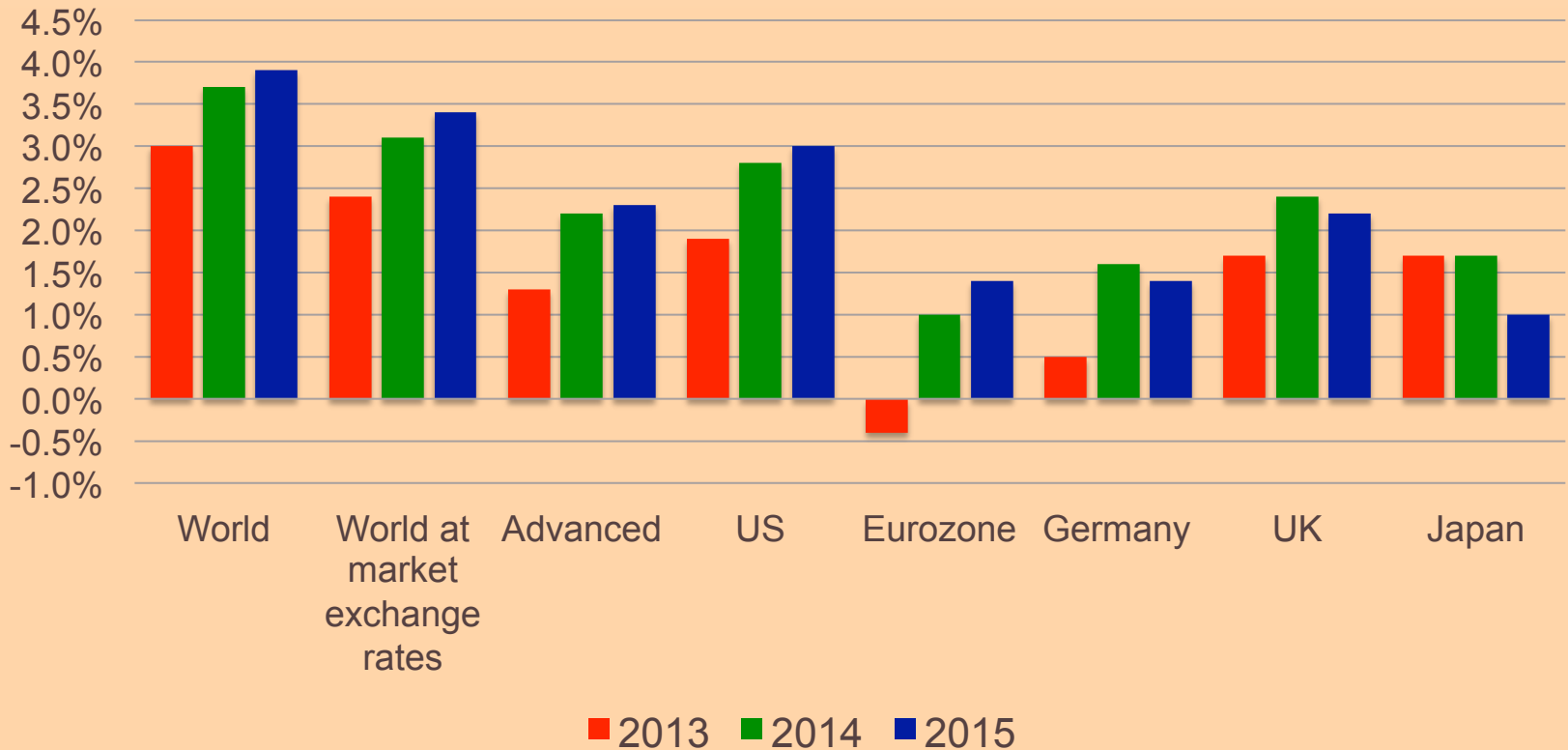
### 10-YEAR BOND YIELDS



### 3. What might go right: growth

## RECOVERY EXPECTED

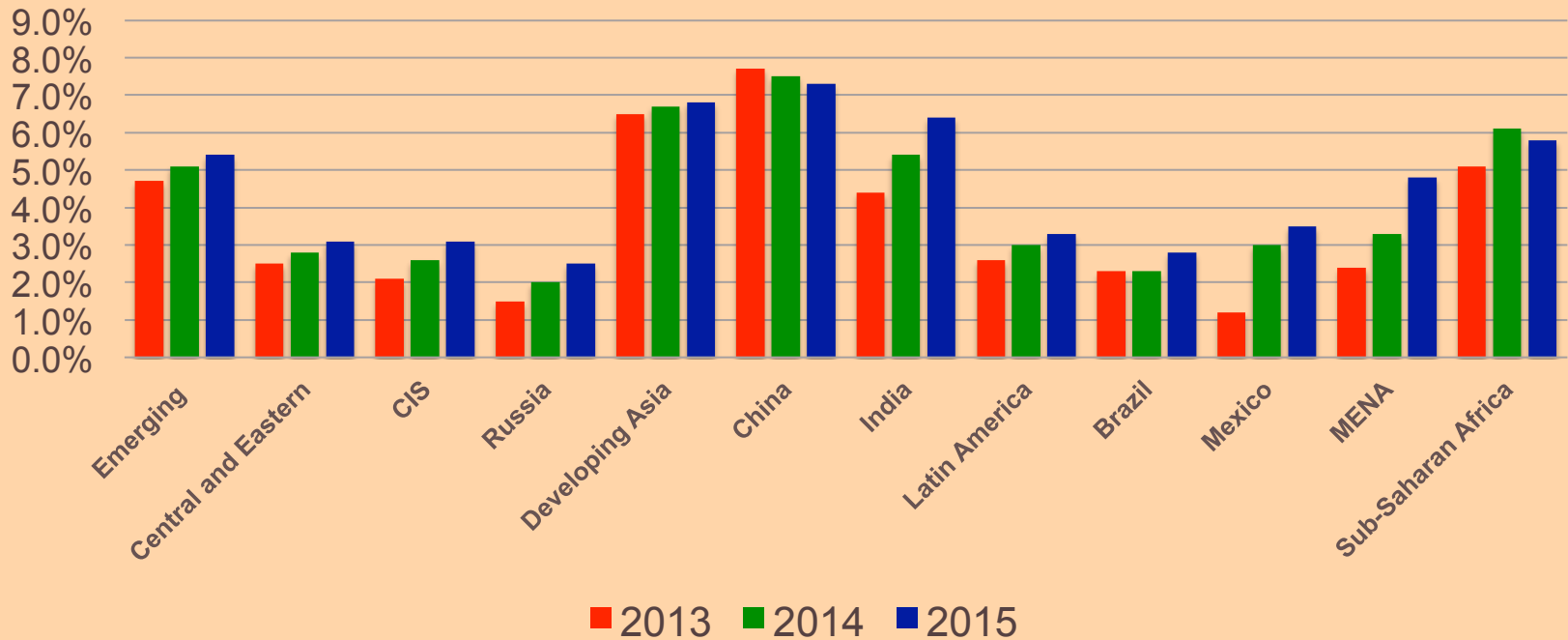
IMF FORECASTS (January 2014)



### 3. What might go right: growth

## RECOVERY EXPECTED

IMF FORECASTS FOR EMERGING AND DEVELOPING COUNTRIES  
(January 2014)



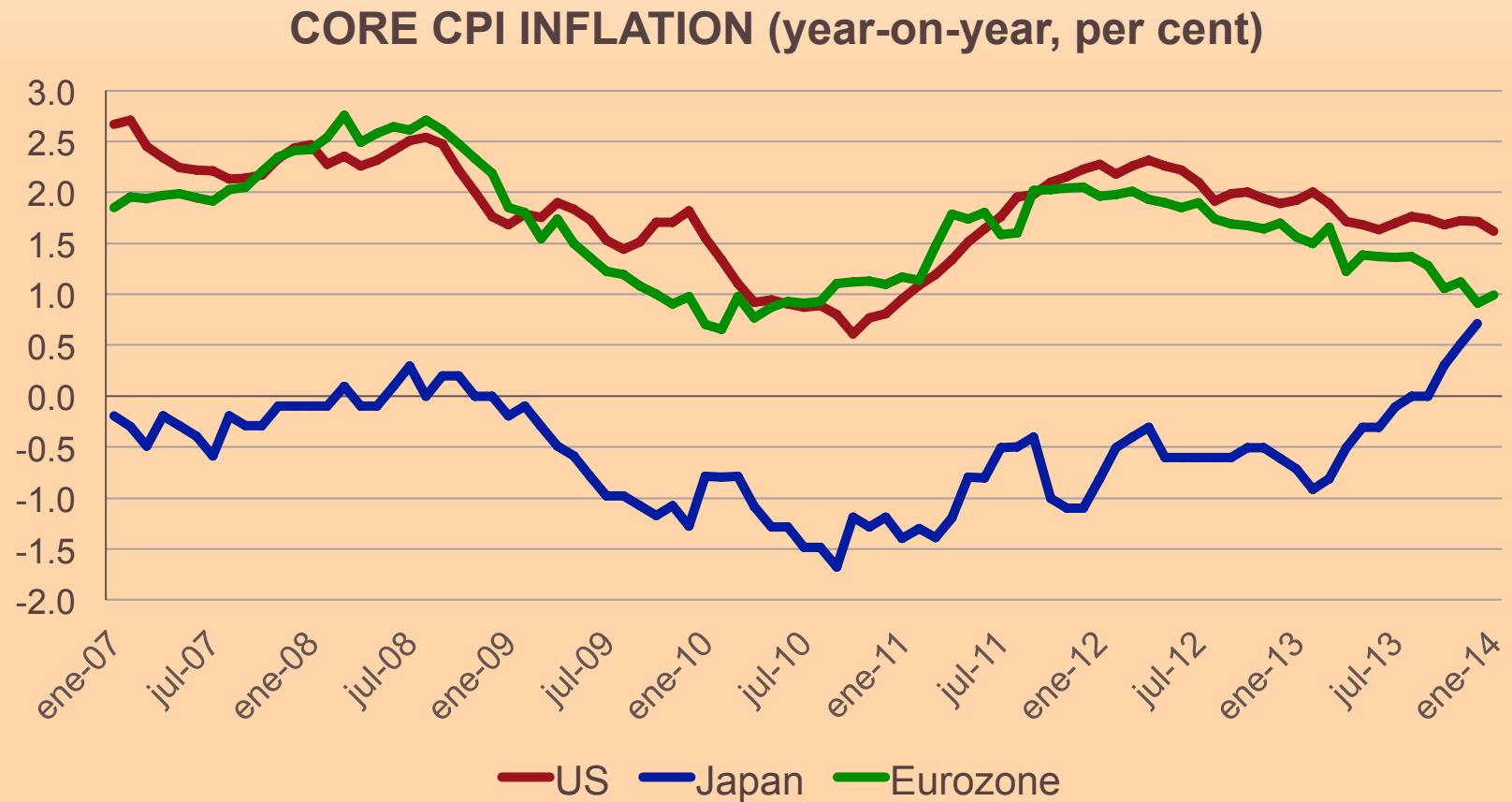
## 4. What might go wrong

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- Stagnation, particularly in the eurozone
- Normalisation shock
- China's growth collapses
- Commodity price collapse
- Geo-political risk

## 4. What might go wrong: deflation

### CORE INFLATION IS LOW AND FALLING





## 4. What might go wrong: normalisation

### CAN THE TAPER TANTRUM HAPPEN AGAIN?

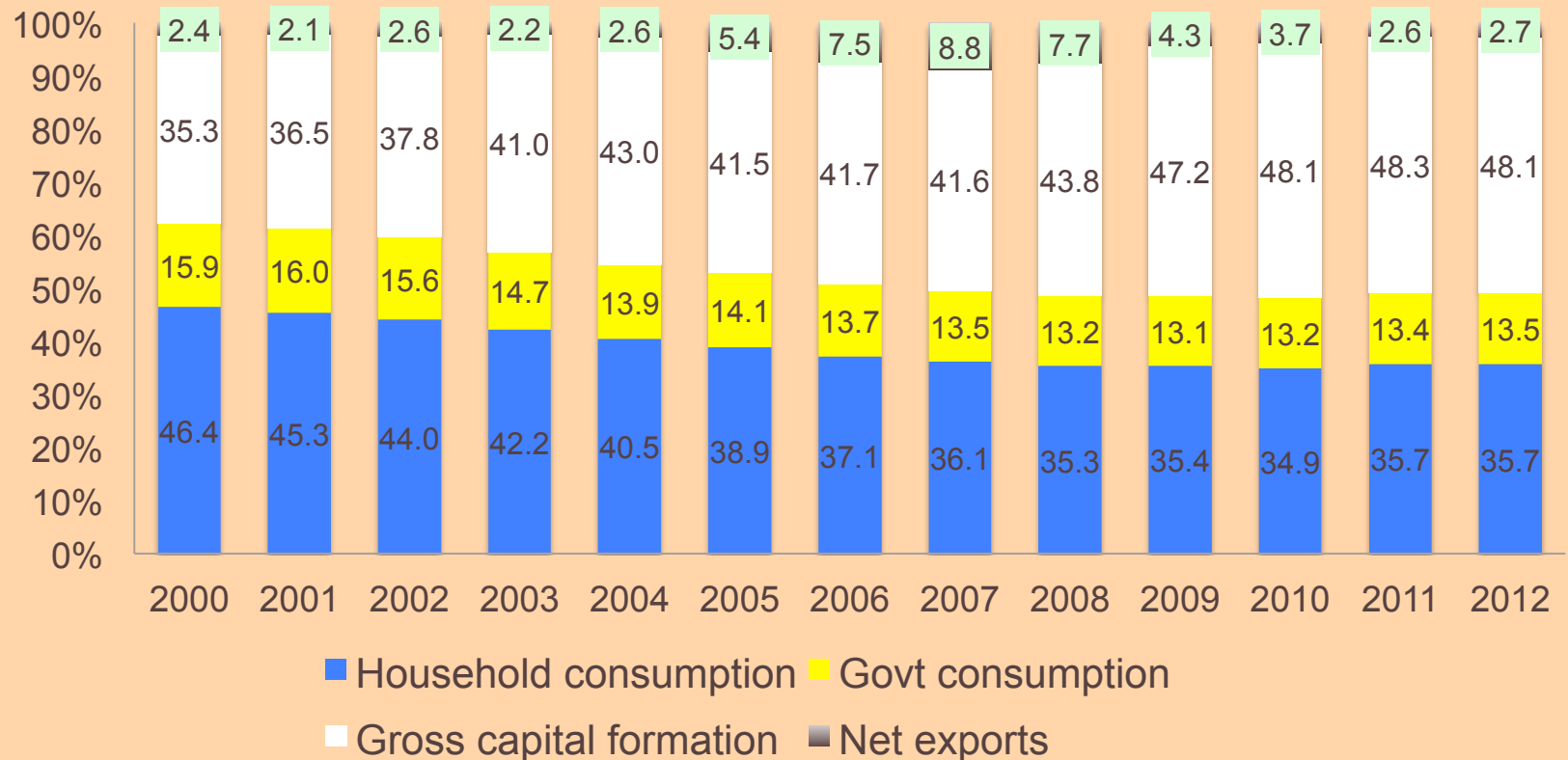
**CAPITAL FLOWS TO EMERGING ECONOMIES (\$bn)**  
(source: IMF World Economic Outlook database)



## 4. What might go wrong: China

### THE UNBALANCED ECONOMY

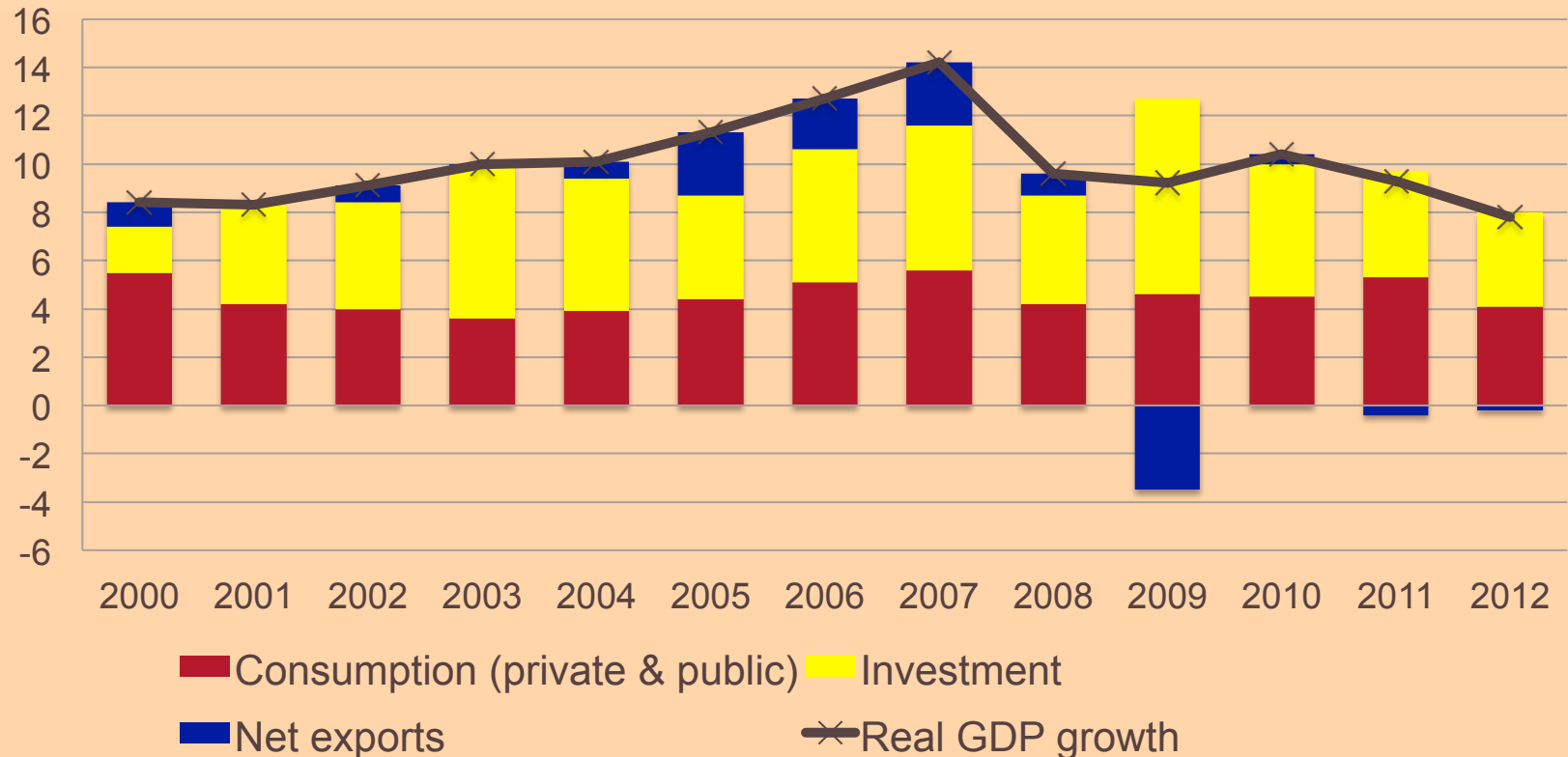
#### STRUCTURE OF CHINA'S DEMAND



## 4. What might go wrong: China

### THE UNBALANCED ECONOMY

#### DEMAND CONTRIBUTIONS TO CHINESE GDP GROWTH



## 4. What might go wrong: commodities

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### REAL COMMODITY PRICES

(deflated by unit value of exports of manufactures) (Source: Goldman Sachs)



## 4. What might go wrong: geopolitics

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- Here is a disturbing list:
  - Japan-China;
  - Iran;
  - Ukraine - Russia;
  - Middle East;
  - Terrorism.
  - Anything else

# 5. Conclusion

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- Room for hope:
  - The US might recover well;
  - The eurozone might heal;
  - China might continue to grow quickly;
  - Normalisation might work smoothly.
- But big uncertainties and risks exist:
  - Uncertainty over growth potential;
  - Risks over economics and politics.