The State of the World’s Macroeconomy

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Senior Director
Global Practice for Macroeconomics & Fiscal Management

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1. What’s Happening? Growing Concerns About Growth

2. What’s Coming? Old and New Risks

3. How to Deal with It? The Return of Structural Reforms

4. What Are The New Conceptual Issues?
1. What’s Happening? Growing Concerns About Growth
Rich Countries Are Barely Growing

Real GDP (annual growth; 2000-2015)

Source: World Bank using IMF WEO data
And Too Many LICs and MICs Are Slowing Down

Share of countries with decelerating growth (% of the group)

LICs

MICs

2010: 16% LICs, 16% MICs
2011: 41% LICs, 48% MICs
2012: 41% LICs, 66% MICs
2013: 50% LICs, 47% MICs
2014: 28% LICs, 53% MICs
2015: 34% LICs, 25% MICs

Source: IMF WEO data
Commodity Prices Are Falling

Index Jan 2010 =100

Source: World Bank DECPG
With Oil Prices Tumbling

Source: EIA
Volatility Is Not Getting Better

Basis points EMBI Sovereign Spreads
- Emerging Europe
- China
- Emerging Asia excluding China
- Latin America

Source: World Bank: Developing Trends
And Appetite for Developing-Country Portfolios is Weak

Portfolio flows to developing-country bond and equity funds
(6-week moving average, $billions)

Source: World Bank: Developing Trends
So Growth Forecasts for 2015 Are Being Trimmed

GDP Growth Projections (%)

- **July '14**
- **Oct '14**

Source: Find My Friends using the IMF World Economic Outlook
2.

What Is Coming?
Old and New Risks
The Global Risks We Know

1. US Raises Rates Too Fast - Capital Flow Reversals
2. Europe Back to Recession – No Action/Coordination
3. Japan Can’t Fire the “Third Arrow”
4. Hard Landing in China
5. Conflict Spreads (ISIS, Ukraine, Ebola, etc).
What They Mean For Developing Countries

External environment
- Low commodity prices
- Slower trade growth
- Volatility in capital flows

Smaller buffers
- Deterioration in current account balances
- Deterioration in fiscal balances
Buffer I: Worse Current Account Balances

### Averages 2005-07, 2009-13, Change

<table>
<thead>
<tr>
<th>Category</th>
<th>2005-07</th>
<th>2009-13</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced</td>
<td>-0.35</td>
<td>2</td>
<td>2.35</td>
</tr>
<tr>
<td>Emerging/Developing</td>
<td>-2.25</td>
<td>-5</td>
<td>-2.75</td>
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</table>

Source: Find My Friends using the IMF World Economic

![Graph showing current account balances with averages and change over time]
Buffer II: Worse Fiscal Balances

The graph shows the general government net lending/borrowing (% of GDP) for the years 2005-2007 and 2009-2013, categorized into Advanced and Emerging/Developing economies. The data is sourced from the IMF World Economic Outlook.

Averages

<table>
<thead>
<tr>
<th>Category</th>
<th>2005-07</th>
<th>2009-13</th>
<th>Change</th>
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<tbody>
<tr>
<td>Advanced</td>
<td>0.6</td>
<td>-2.8</td>
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<td>Emerging/Developing</td>
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<td>-1.7</td>
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Buffer III: Slightly Better Government Debt

Averages

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<th></th>
<th>2005-07</th>
<th>2009-13</th>
<th>Change</th>
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<tr>
<td>Advanced</td>
<td>52</td>
<td>74</td>
<td>22</td>
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<tr>
<td>Emerging /Developing (excluding HIPC)</td>
<td>46</td>
<td>44</td>
<td>-2</td>
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<tr>
<td>Emerging /Developing</td>
<td>57</td>
<td>44</td>
<td>-13</td>
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</tbody>
</table>

Source: Find My Friends using the IMF World Economic Outlook
Buffer III: But Total Debt Continues to Rise

Global debt-to-GDP ratio, 2001-13

Note: Global debt includes household debt, government debt and non-financial corporates.
Source: Geneva Report on the World Economy, International Center for Monetary and Banking Studies (ICMB) and Center for Economic Policy and Research (CEPR)
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3. How to Deal with It?  
The Return of Structural Reforms
Focus on Structural Reforms

- Remove labor market frictions and subsidies
- Boost public investments, but efficiently
- Deepen integration
- Improve the business environment
- Create fiscal space by targeting subsidies
How Expensive Is to Change Jobs?

![Bar chart showing labor mobility costs for different regions.](chart.png)

**Developing Country Average**

**Advanced Country Average**

Source: Artuc, Lederman, and Porto (2014)
Do We Work where We Are More Productive?

Contribution to GDP Growth (Percentage Points)

- Productivity Growth Within Sectors
- Reallocation of Resources Across Sectors

Source: IMF (2013)
How Well Do We Manage Public Investment?

Source: Dabla-Norris, Brumby, Kyobe, Mills and Papageorgiou (2011)
How Costly Are Energy Subsidies?

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of countries</th>
<th>Total fuel subsidies (US$ bn)</th>
<th>Percent of GDP</th>
<th>Percent of Revenue</th>
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</thead>
<tbody>
<tr>
<td>Developing Countries</td>
<td>55</td>
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<td>2.5</td>
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<tr>
<td>East Asia and the Pacific</td>
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<td>Indonesia</td>
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<td>14.5</td>
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<td>3.5</td>
<td>1.2</td>
<td>4.9</td>
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<td>Brunei Darussalam</td>
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<td>2.3</td>
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<td>Europe and Central Asia</td>
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<td>Kyrgyz Republic</td>
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<td>Latin America and the Caribbean</td>
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<td>Iraq</td>
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<td>6.2</td>
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<td>Bangladesh</td>
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<td>India</td>
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<td>Sri Lanka</td>
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<td>0.7</td>
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<tr>
<td>Sub-Saharan Africa</td>
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<td>Cameroon</td>
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<td>Nigeria</td>
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<td>1.4</td>
<td>4.8</td>
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<tr>
<td>Net oil trade balance</td>
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<tr>
<td>Exporter</td>
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<td>158</td>
<td>3.3</td>
<td>10.1</td>
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<td>Non-exporter</td>
<td>27</td>
<td>43.8</td>
<td>1.3</td>
<td>6.9</td>
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</table>

Source: IMF
Who Benefits from Energy Subsidies?
Integrate! Trade and FDI Go Together

Source: UNCTAD-Eora GVC Database, UNCTAD FDI Database, UNCTAD analysis.
Now Is the Time to Treat Investors Well

Ease of Doing Business

Starting a business

- East Asia and the Pacific
- Latin America and the Caribbean
- South Asia
- OECD high income

Enforcing contracts

- Europe and Central Asia
- Middle East and North Africa

Resolving insolvency

Source: World Bank
4.

New Conceptual Issues
New Conceptual Issues

1. Growth & Inclusion, Efficiency & Equity, Markets & People

2. Monetary Policy: Dealing with Divergence

3. The “Infrastructure Push”: Dreams and Realities

4. The Role of Emerging Markets in Dev. Countries’ Growth

5. The Elasticity of Trade to Global Growth

6. “Debut” Issues and Frontier Markets

7. Fiscal Federalism in Low-Income Countries
Summary, in a Tweet:

Slower Global Growth, With More Risks. Structural Reforms Are Back. #BeNiceToYourMacroeconomist
@Marcelo_WB