



CPB Netherlands Bureau for Economic
Policy Analysis

External environment

AIECE meeting Bologna
May 2016

Centraal Station / Rijnstraat

128 luxeuze
koopappartementen
• woonoppervlakte circa 85 m² - 185 m²
• parkeren in ondergrondse parkeergarage
• koopomvang van € 259.500,- v.o.n.



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Overview

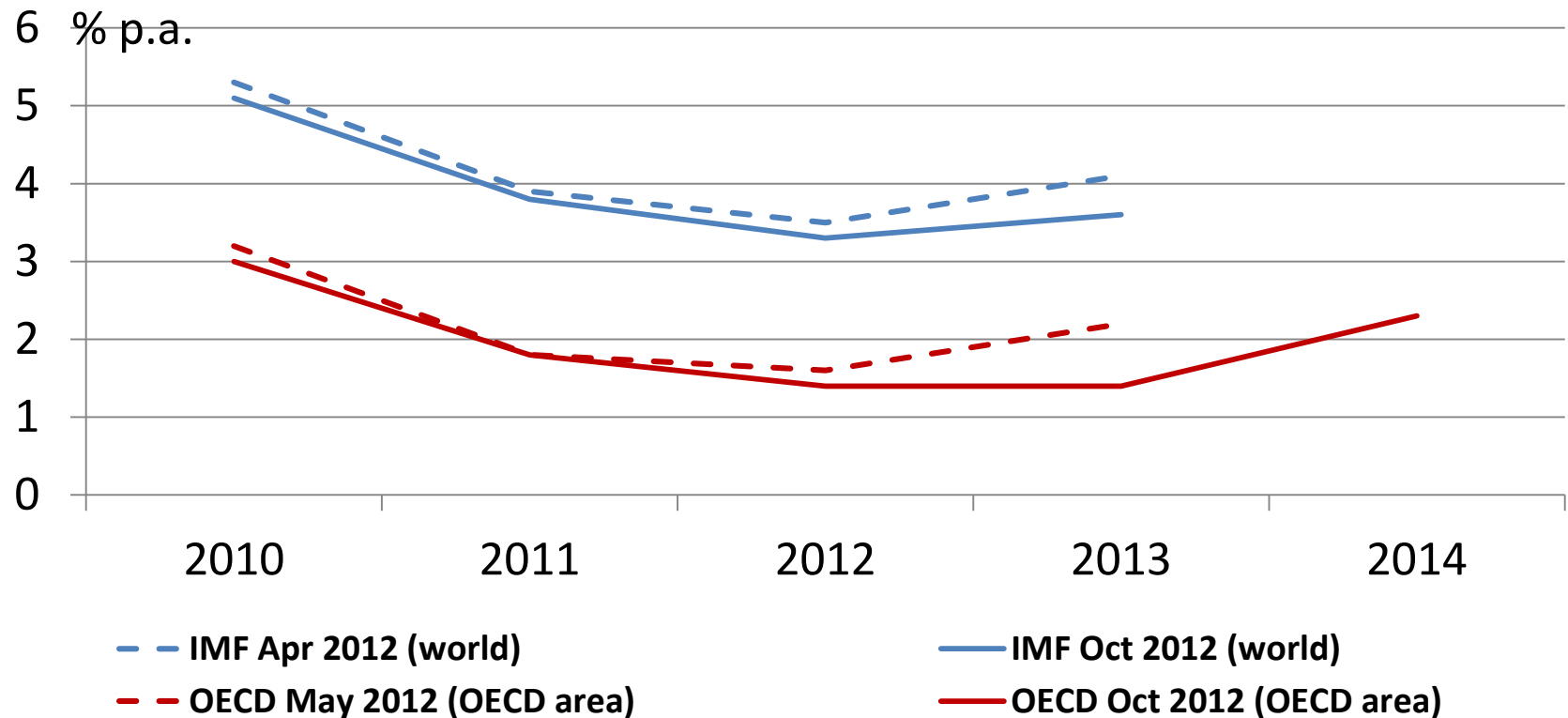
- Recent developments and issues in the world economy
- Focus: Global Trade Slowdown





Outlook: not getting better? (AIECE Nov 2012)

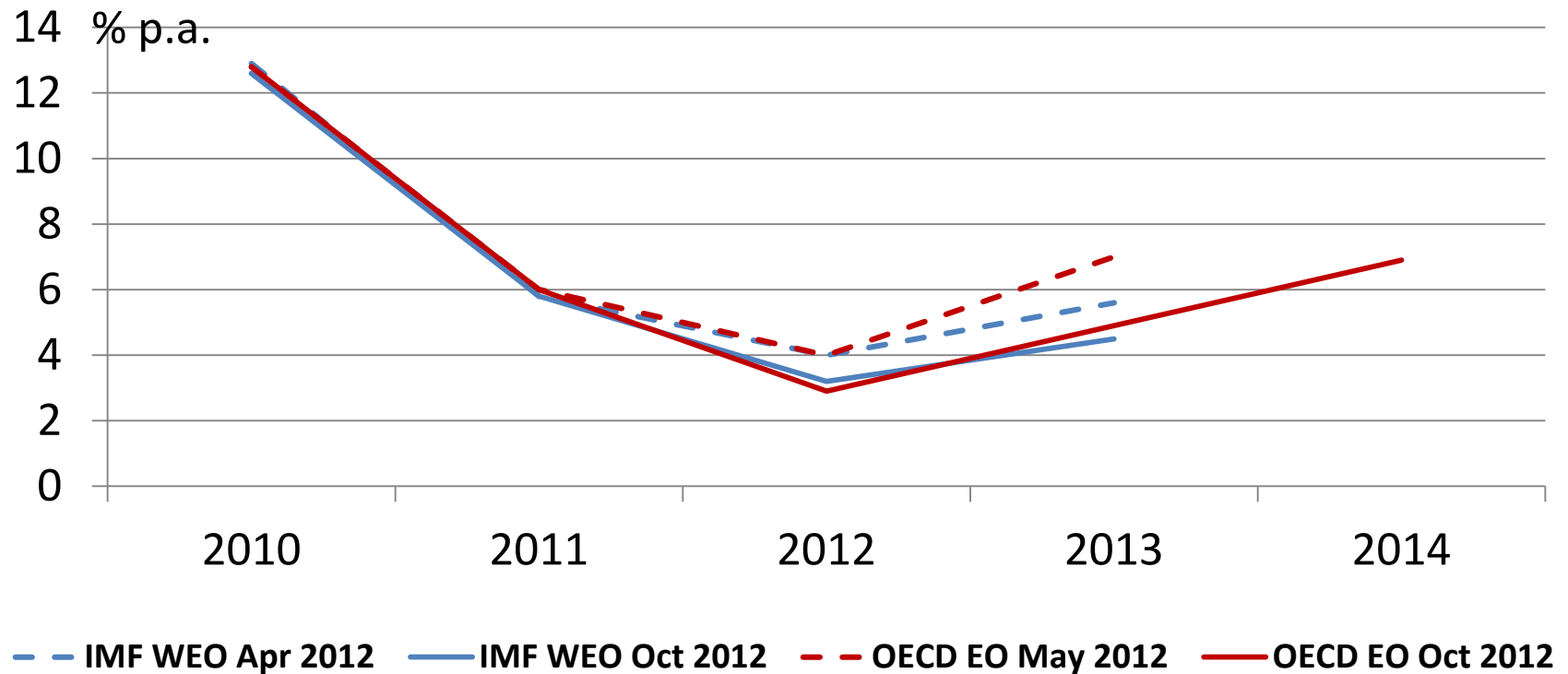
GDP volume





Outlook: not getting better? (AIECE Nov 2012)

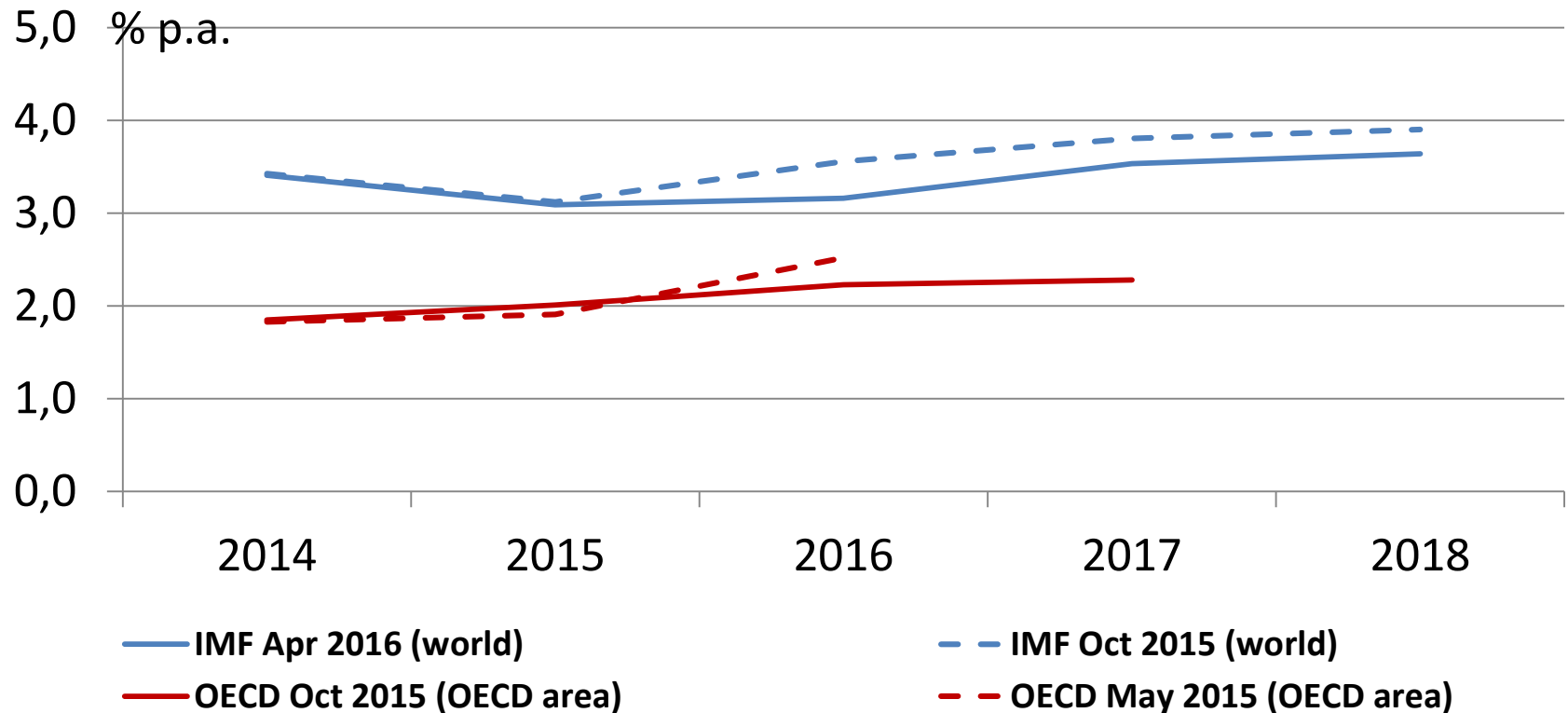
World trade volume





No, not really (getting better)

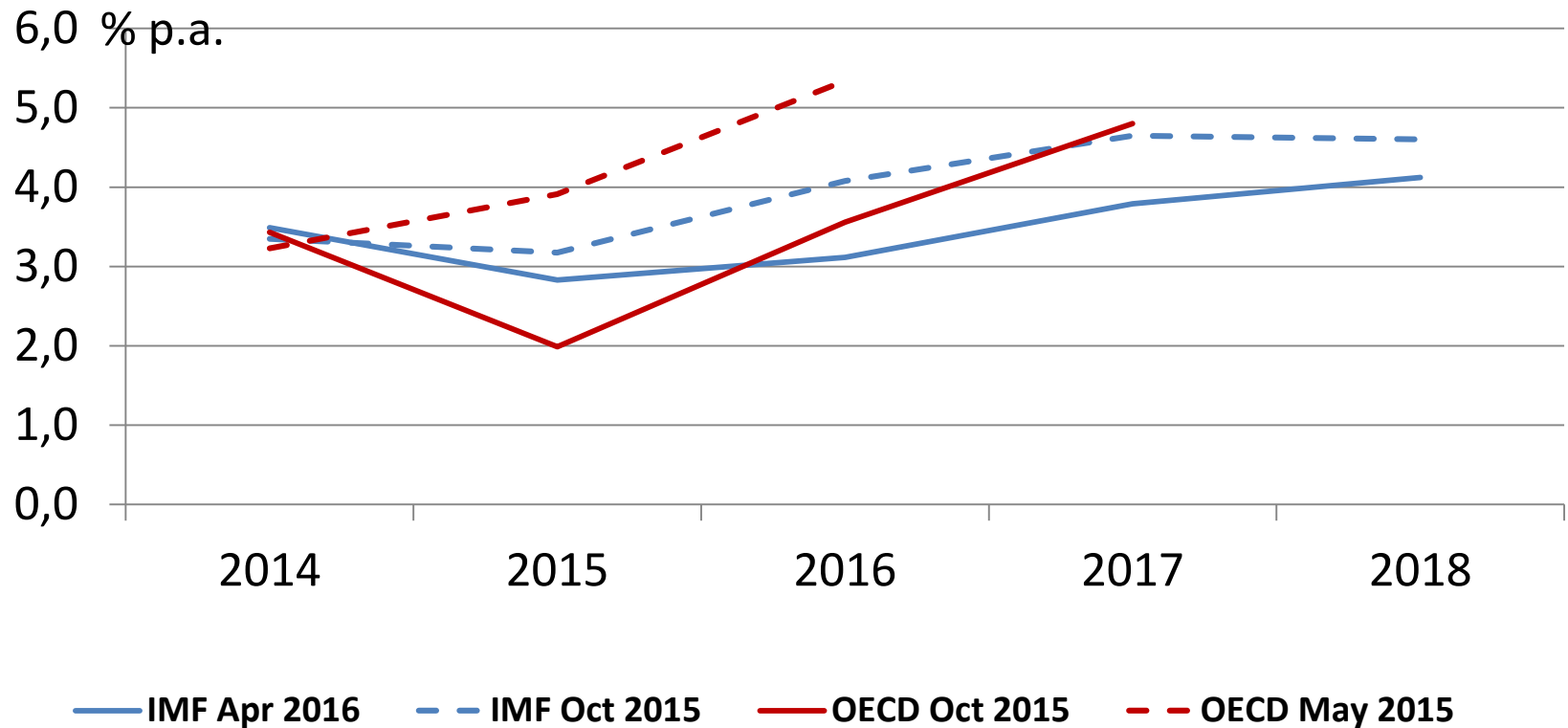
GDP VOLUME





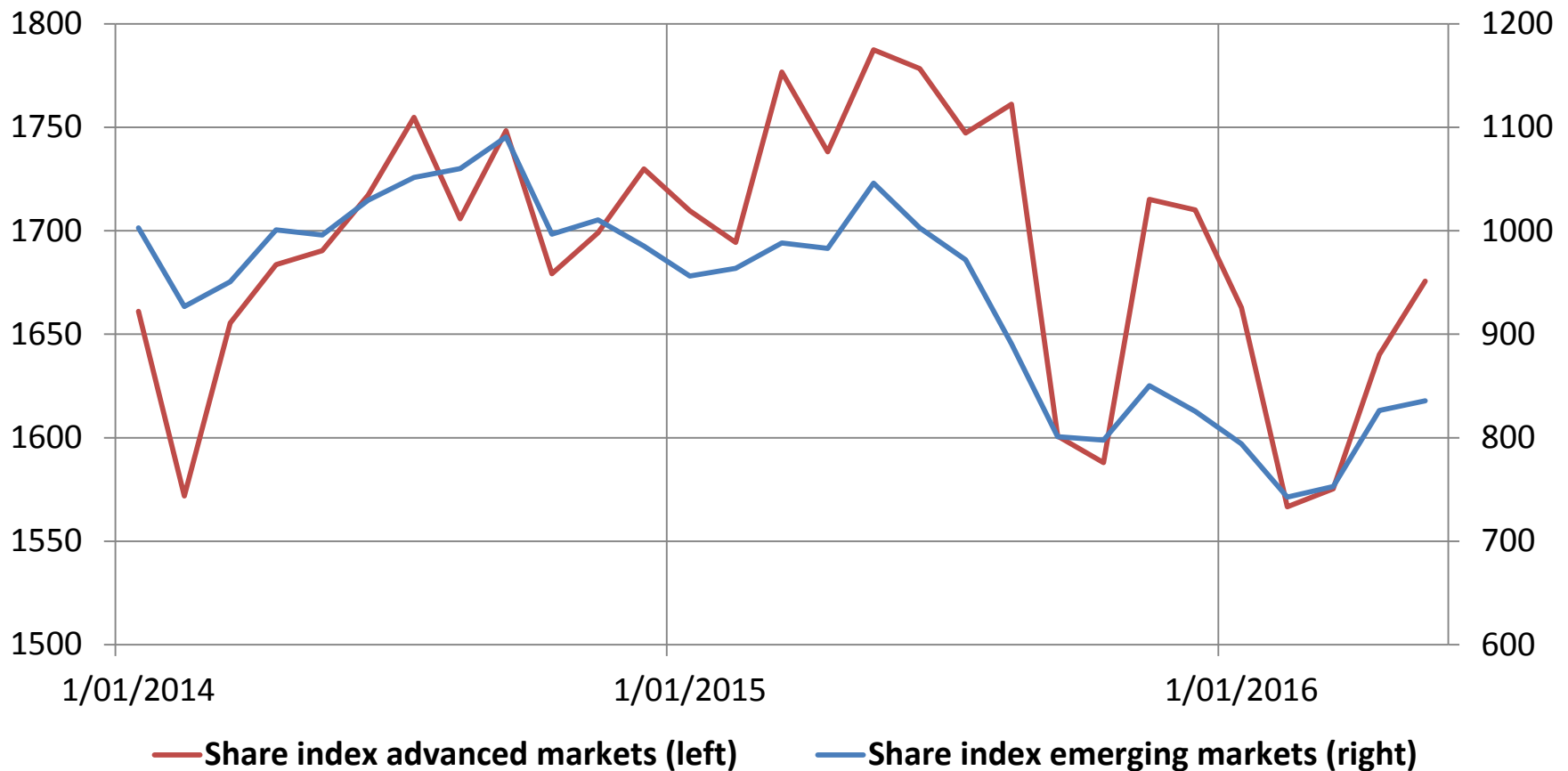
No, not really (getting better)

WORLD TRADE VOLUME



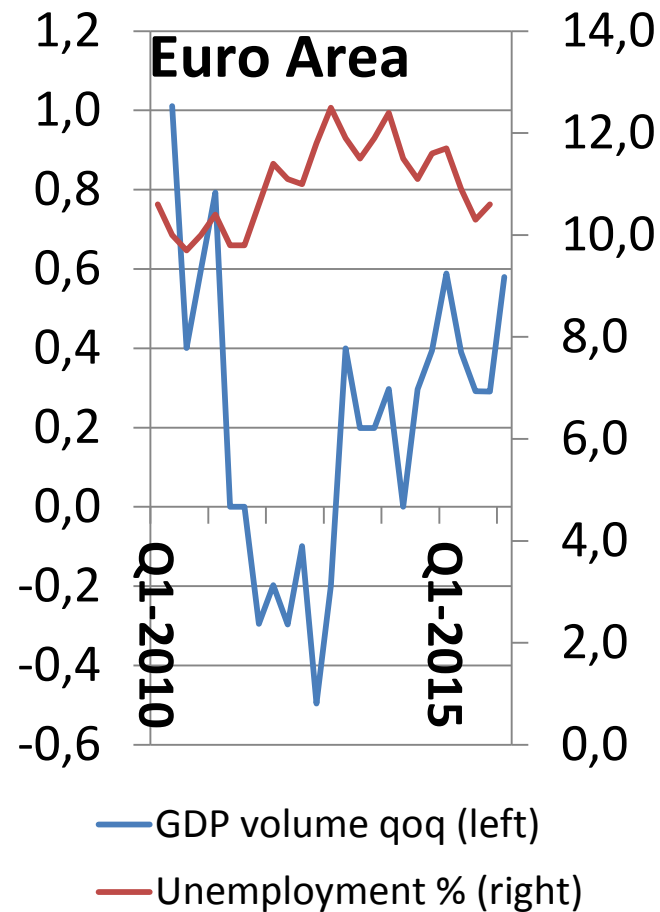


Financial markets shaky early this year



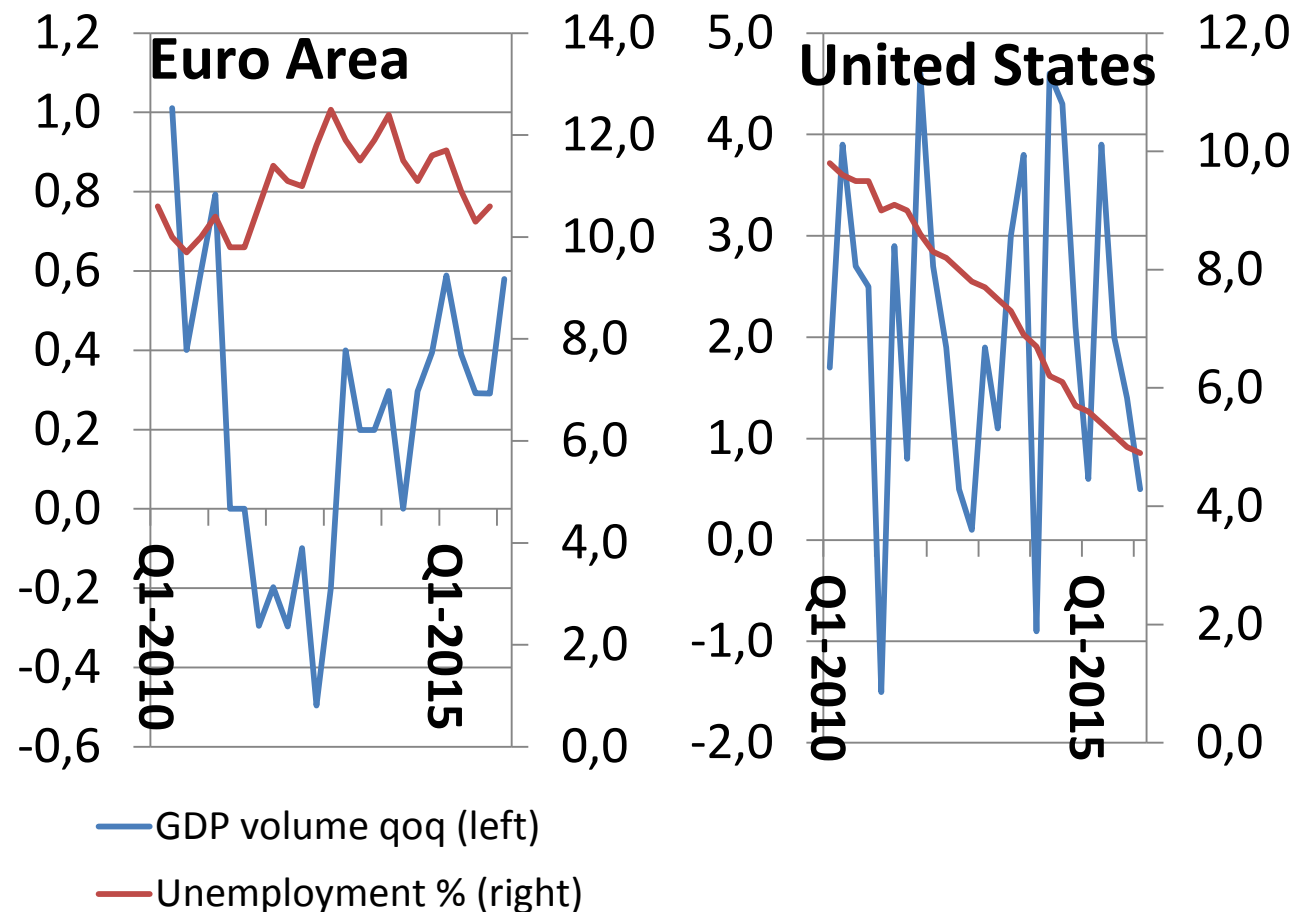


Advanced economies: an uneven recovery



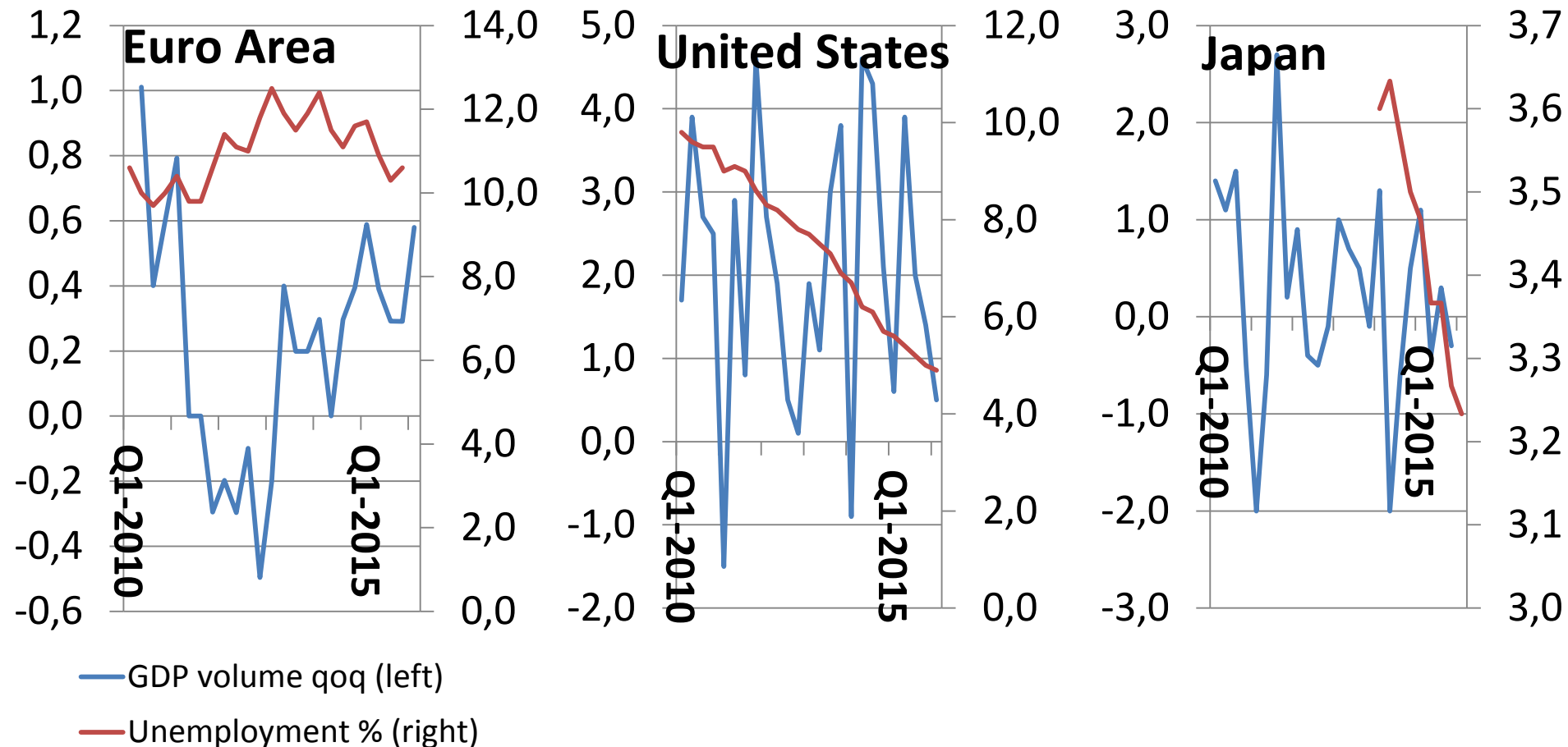


Advanced economies: an uneven recovery



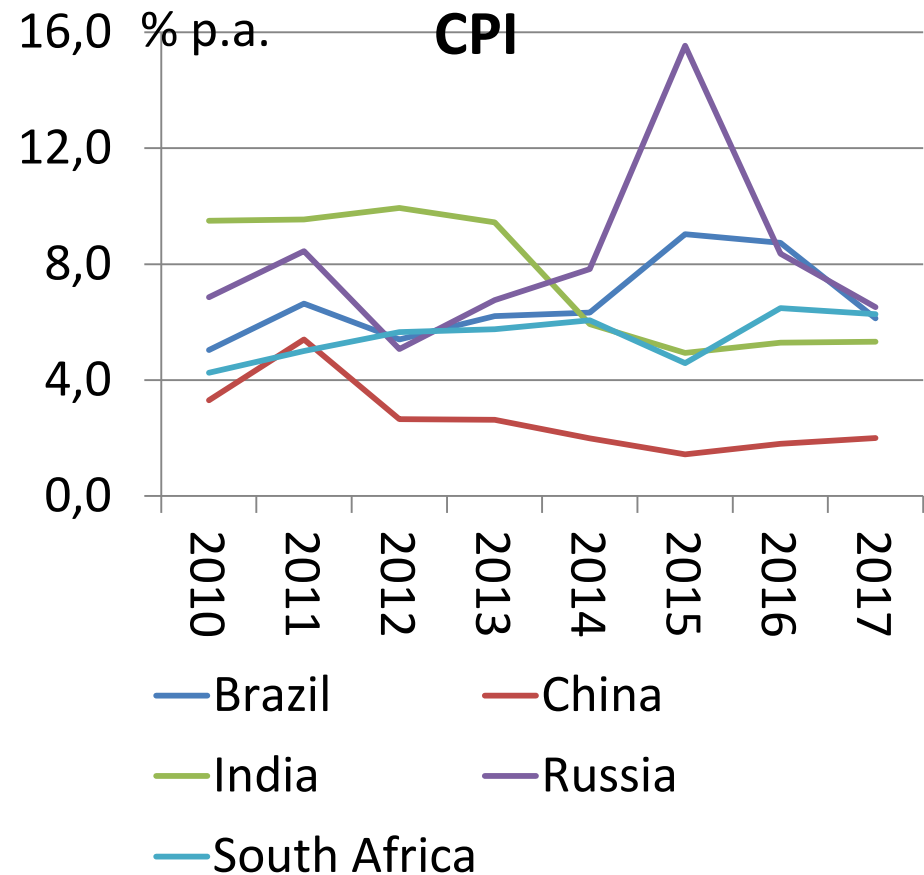
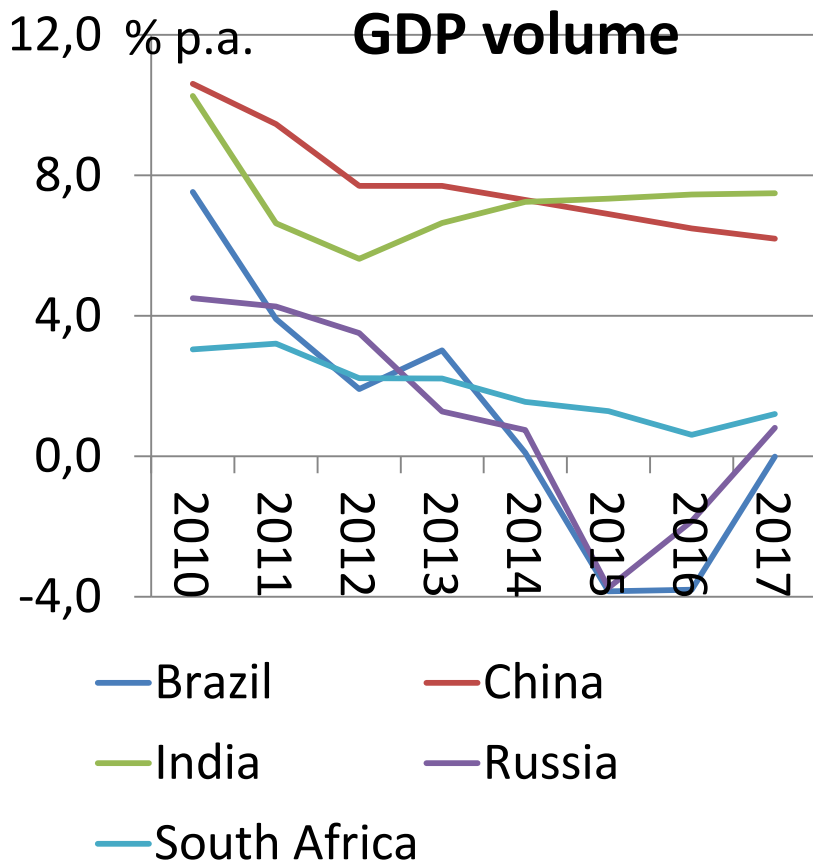


Advanced economies: an uneven recovery



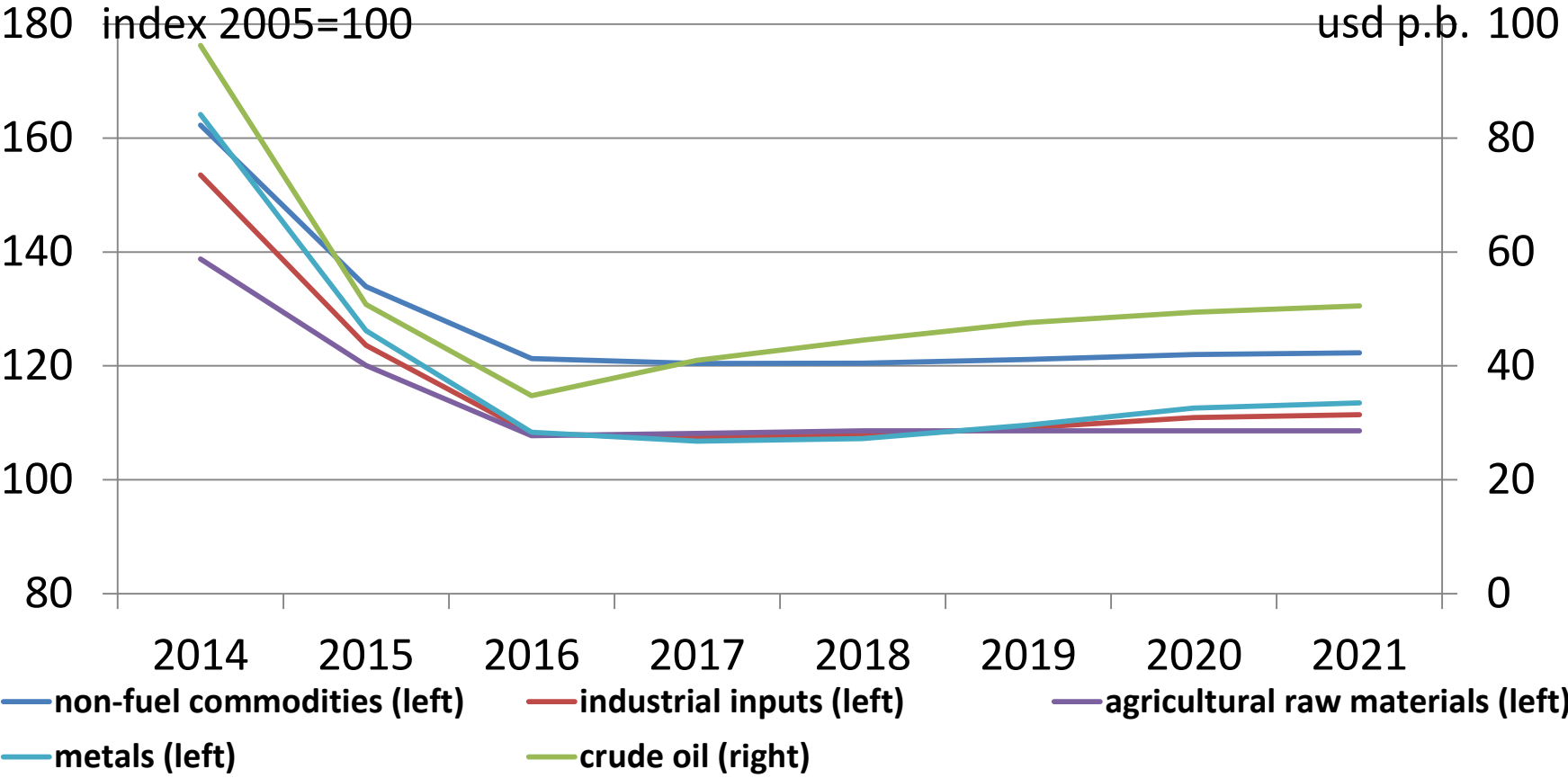


Growth slowing in emerging economies



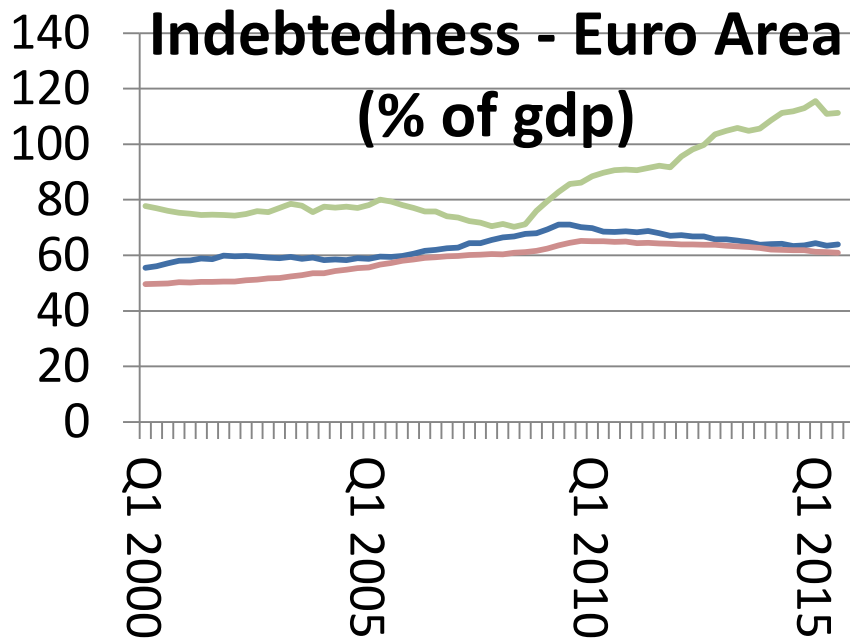


Commodity prices have collapsed

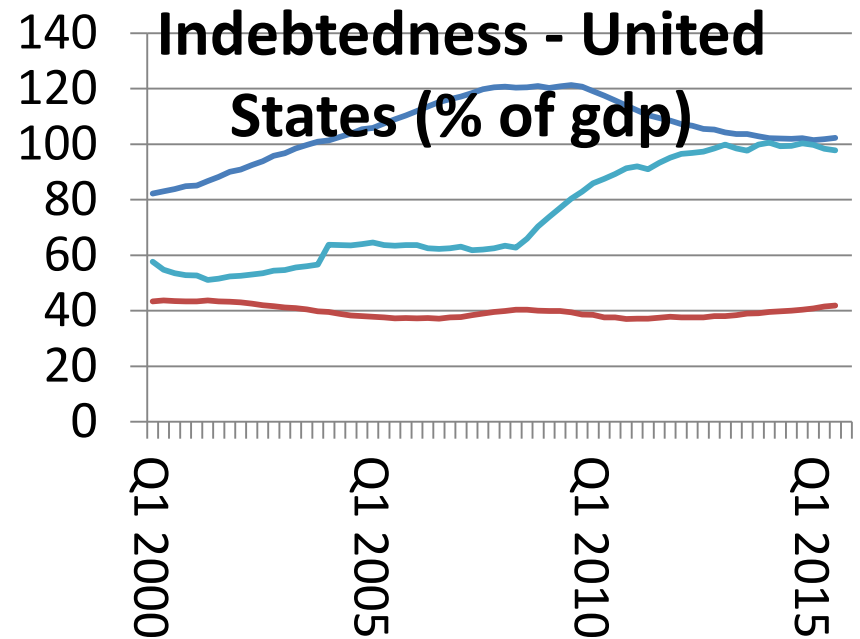




Debt overhang and deleveraging



- non-financial corporations
- households
- general government



- households
- non-financial corporations
- general government



A recovery that is constantly revised down

- Growth in advanced economies has disappointed many times
- Interest rates are exceptionally low
- Monetary policy is extremely loose
- Nonetheless, inflation and commodity prices remain weak
- Other policy tools are not considered, except for 'structural reform' (De Grauwe, Draghi: savings / CA surpluses are too high)
- Politics are not helping; populism is on the rise; trust in institutions eroding
- Growth in many emerging economies is slowing (weak commodity prices being one of a variety of factors)



Aftermath of a demand / balance sheet recession

- Overall picture: growth in advanced economies is low due to:
 - weak demand, both for consumption and capital goods
 - high savings, due to uncertainty and paying down debt
- Is secular stagnation looming?



Uncertainties are everywhere

- EA: bank's balance sheets and profitability
- EA: refugees, terrorist attacks, Brexit, Grexit > appalling political climate
- Advanced economies: future direction and effectiveness of monetary policy:
 - Normalization in US
 - NIRP in EA, JP, SE
 - Is NIRP helping? (Unintended consequences: McDonalds borrows euros, households increase savings, MP is becoming politicized)
- Advanced economies: mid-term prospects for productivity growth
- BRICS: politics (BR, RU, ZA), sanctions (RU), structural adjustment, exchange rate policy (CN)

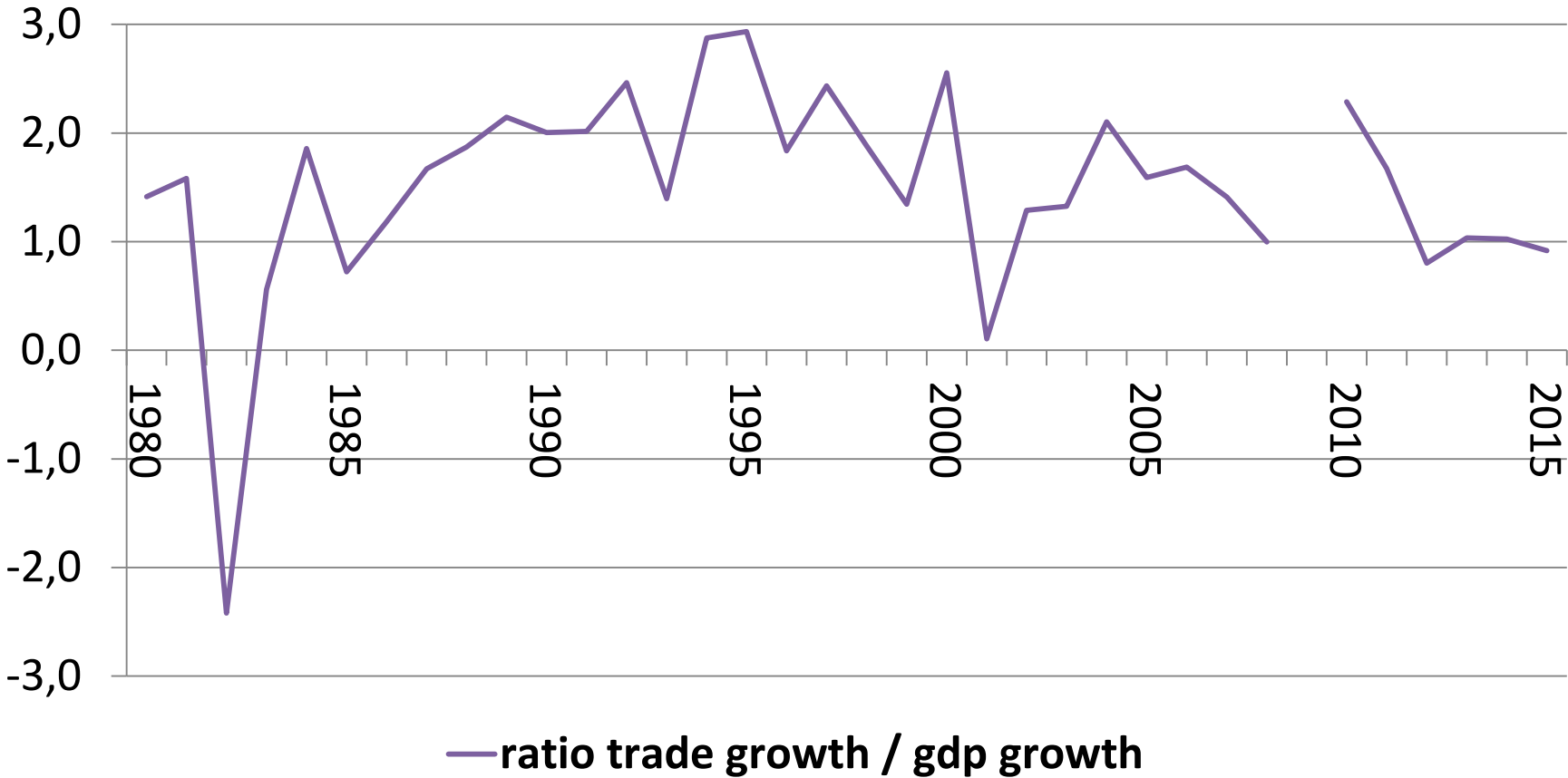


Global Trade Slowdown?





Global Trade Slowdown?





Global Trade Slowdown

- Structural or cyclical?
- Probably both (cyclical: weak demand for durable goods)
- Various structural explanations, from:
 - shifts in composition of trade, to
 - limits to ever deepening international integration ('fragmentation') of production, to
 - digital globalization



Global Trade Slowdown: structural explanations

- Slowdown reflects end of integration processes of China and CEE, so high trade growth was transitional (Hoekman)
- Potential of globalization of value chains is getting exhausted (what about Africa?)
- Change in the world long-run trade elasticity is driven by a few countries that have a large share in world trade and/or are growing faster relative to the rest of the world. China and the United States turn out to be particularly important as they account for 13 and 20 percent, respectively, of the change in the world trade elasticity in the long 1990s, and for 32 and 8 percent, respectively, in the 2000s. Elasticity of imports to their own GDP is significantly lower in the 2000s compared to the long 1990s (IMF: Constantinescu, Mattoo, and Ruta)
- ...



Global Trade Slowdown: structural explanations

- Similar argument: for the relationship between world trade and world GDP to be stable, it is necessary that either:
 - The trade elasticity (i.e. the ratio of average import growth to average GDP growth) is the same across countries
 - Or the contribution of different regions to global activity is constant over time

(BoE: Stratford)



Global Trade Slowdown in perspective

- No need to worry; technological change (the box, ICT) and trade liberalization combined to produce high elasticity; it's not a natural law; in fact, reshoring happens (Krugman)
- Going forward, a lot depends on emerging markets



HARTELIJK DANK (THANK YOU)