GLOBAL SPILLOVERS OF MACROECONOMIC POLICIES ONTO THE REAL ECONOMY

UNCTAD contribution to the G20 Framework Working Group (FWG)

•Session 8: Spillovers *

Paris, 10-11 April, 2013
Real spillovers: estimation method

Real spillovers are estimated by comparing global scenarios:

✓ "G20-led coordinated recovery"
✓ "Policy decoupling"

... and assessing the differences in terms of:

✓ GDP growth
✓ employment
✓ financial position of the public sector

Framework: Global Policy Model (UN-DESA + UNCTAD):

✓ Policy-driven econometric model of the global economy, including: the real side; finance; trade in manufacturing, commodities, energy and services; capital flows and reserves; real and nominal exchange rates; fiscal, monetary and trade policy
Scope: key markets and policy domains

- **each country or bloc**
  - natural resources
  - government debt
  - capital stock
  - bank lending
  - holding gains
  - reserves
  - consumption and investment
  - fiscal, monetary & structural policies
  - exports and current a/c
  - domestic income, output, employment, inflation
  - net imports or exports of commodities and energy
  - imports of manufactures and services

- **global economy**
  - world markets for commodities and energy
  - world markets for manufactures and services
  - global policy coordination
  - global financial markets
  - holding gains
  - holding gains
  - external position

- **CO2**

- **Natural resources**
  - Global economy
  - Each country or bloc

- **Government debt**
  - Global economy
  - Each country or bloc

- **Capital stock**
  - Global economy
  - Each country or bloc

- **Bank lending**
  - Global economy
  - Each country or bloc

- **Holding gains**
  - Global economy
  - Each country or bloc

- **Reserves**
  - Global economy
  - Each country or bloc

- **Consumption and investment**
  - Global economy
  - Each country or bloc

- **Fiscal, monetary & structural policies**
  - Global economy
  - Each country or bloc

- **Exports and current a/c**
  - Global economy
  - Each country or bloc

- **Domestic income, output, employment, inflation**
  - Global economy
  - Each country or bloc

- **Net imports or exports of commodities and energy**
  - Global economy
  - Each country or bloc

- **Imports of manufactures and services**
  - Global economy
  - Each country or bloc

- **External position**
  - Global economy
  - Each country or bloc

- **Holding gains**
  - Global economy
  - Each country or bloc

- **External position**
  - Global economy
  - Each country or bloc
Income per capita of countries or groups
[ US $ ppp-adjusted, constant prices 2005 ]
Construction of scenarios

25 countries or country groups:
✓ 20 countries of groups represented at the G20
✓ 5 groups not in the G20

Targets & Instruments
✓ Employment rates  labour market & demand policy
✓ Growth convergence  public & private sectors stimuli
✓ Curr. account ceilings  real exchange rate & prices/distribution
✓ Govt deficit ceilings  tax policy (aided by growth)
✓ Energy  Energy saving & technology
✓ Export diversification in developing countries  Market access
Differences of assumptions

✓ Both scenarios run on a preliminary baseline

✓ “G20-led coordinated recovery”: all targets are attempted by all countries (coordinated stimulus).

✓ “Policy de-coupling”: policy rules are removed for advanced G20 countries but are maintained by the rest (but with a degree of caution).
Main outcomes

G20-led coordinated recovery:
✓ All countries/groups approach targets, improving on growth, global rebalancing, fiscal positions, energy and price stabilization, and export diversification in low income countries
✓ Employment, despite improvements, remains a challenge

Policy decoupling scenario
✓ High-income G20 countries experience growth deceleration (US & Germany regain growth in the mid-term, but with greater fiscal fragility or by not having to comply with CA ceilings)
✓ Middle-income G20 economies achieve partial results (China remains closer to targets as it enjoys more policy space and partially benefits from lower energy prices due to global slowdown)
✓ Countries not in the G20 (some of which are low-income) are hit with lower growth, greater financial fragility of the public sectors and external vulnerability
Spillover effects

Spillovers within high-income G20 economies

✓ **Growth is weaker:**
  -1.75 percentage points (accumul. to -5 % points by 2020)

✓ Employment gaps increase (especially US, UK, FR):
  Unempl. rate increases + 1.5 on average

✓ No tangible spillovers on the CA, except DE and Other Northern E.

✓ Greater fiscal financial fragility:
  %Debt/GDP = +1.7 (2014) to +5% (2020)

Spillovers experienced by middle-income G20 economies

✓ **Growth is weaker:**
  -0.5 % points (accumulated to -2.75 % points by 2020)

✓ Employment gaps increase slightly:
  Unempl. rate increases + 0.25 on average (weak data CN & IN)

✓ No tangible spillovers on the CA, except CN

✓ Greater fiscal financial fragility:
  %Debt/GDP = +0.2 (2014) to +1.5% (2020)
  % def/GDP = + 0.6 percentage points on average
Spillover effects (1)

Spillovers within high-income G20 economies
✓ *Growth is weaker:*
  -1.75 percentage points (accumul. to -5% points by 2020)
  Employment gaps increase (especially US, UK, FR):
  Unemployment rate increases +1.5 on average
✓ No tangible spillovers on the CA, except DE and Oth. North. EU
✓ Greater fiscal financial fragility:
  %Debt/GDP = +1.7 (2014) to +5% (2020)
  % def/GDP = +0.5 percentage points on average

Spillovers experienced by middle-income G20 economies
✓ *Growth is weaker:*
  -0.5% points (accumulated to -2.75% points by 2020)
  Employment gaps increase slightly
  Unempl. rate increases +0.25 on average (poor data CN & IN)
✓ No tangible spillovers on the CA, except CN
✓ Greater fiscal financial fragility:
  %Debt/GDP = +0.2 (2014) to +1.5% (2020)
  % def/GDP = +0.6 percentage points on average
Spillover effects (2)

Spillovers experienced by middle- and low-income countries \textit{not} in the G20

✓ \textit{Growth is weaker:}
  -0.6 \% points (accum. to \textbf{-5.3 \% points by 2020})

Employment gaps increase slightly (poor data...)
Unemployment rate increases + 0.2 (avg) (poor data)

✓ Tangible deterioration on the current account:
worsening of initial deficits by 0.25 \% points of GDP
towards a greater worsening by 1.5 \% points in 2014

✓ Greater fiscal financial fragility:
\%Debt/GDP = +0.8 (2014) to +3.75 \% points (2020)
\% def/GDP = + 0.7 percentage points on average
worsening of initial deficits by 0.25 \% points of GDP

*Selected graphical results by large aggregates in next slides*
( results for single country in hidden slides)
Growth rate of GDP

Baseline Units: % per year

G20 incl. repr. groups

Countries not in G20

High-income G20 economies

Middle-income G20 economies
Growth rate of GDP

G20-led coordinated recovery (blue), Policy decoupling scenario (red)  Units: % per year

G20 incl. repr. groups

Countries not in G20

High-income G20 economies

Middle-income G20 economies
Growth rate of GDP

G20-led coordinated recovery (blue), Policy decoupling scenario (red)

Units: % per year

USA
Canada
Japan
UK
Germany
Other North & West Europe
France
Italy
Other South & East Europe
Turkey
Republic of Korea
China
India
Indonesia
Other South Asia
Brazil
Argentina
Mexico
South Africa
Other West Asia

Other South America
Other East Asia
Other South Asia
North Africa
Africa Low Income

Republic of Korea
Mexico
Russian Federation
Government sector net lending as % of GDP

G20-led coordinated recovery (blue), Policy decoupling scenario (red)  Units: %

G20 incl. repr. groups

Countries not in G20

High-income G20 economies

Middle-income G20 economies
Current account as % of GDP

G20-led coordinated recovery (blue), Policy decoupling scenario (red)  Units: %

G20 incl. repr. groups

Countries not in G20

High-income G20 economies

Middle-income G20 economies
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THANK YOU

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