

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:

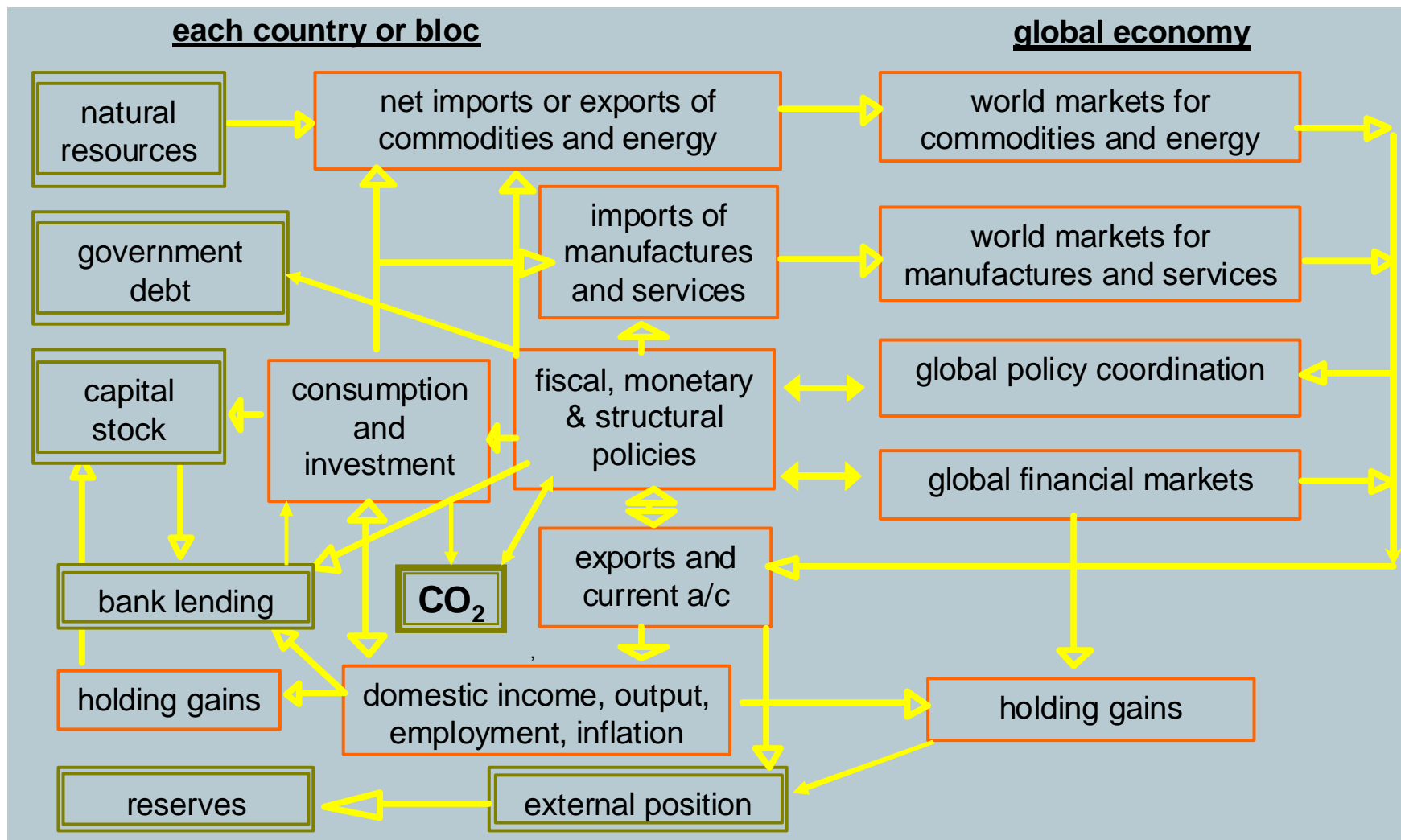
- ✓ *GDP growth*
- ✓ *employment*
- ✓ *financial position of the public sector*

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

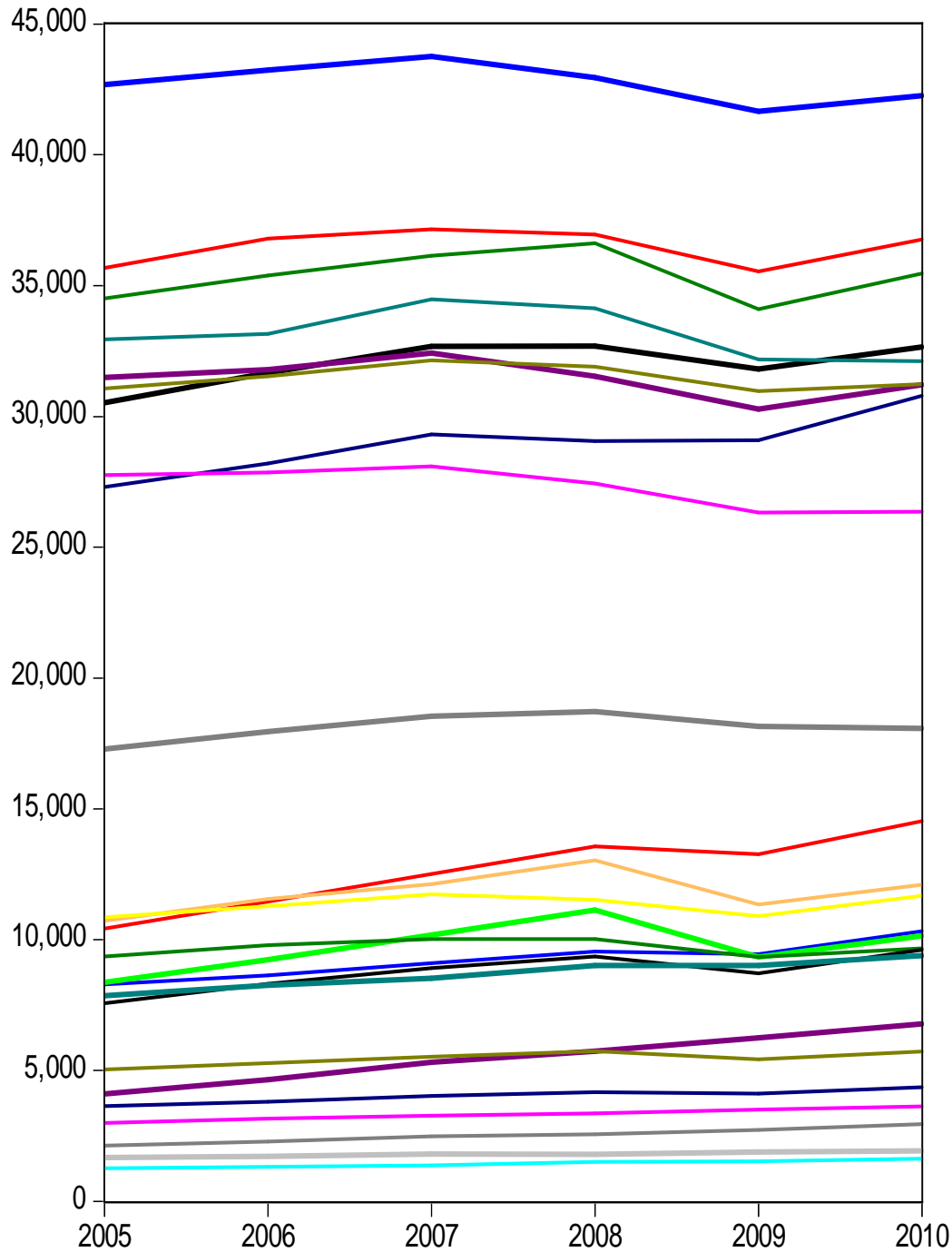
- ✓ *Policy-driven econometric model of the global economy, including: the real side; finance; trade in manufacturing, commodities, energy and services; capital flows and reserves; real and nominal exchange rates; fiscal, monetary and trade policy*

(www.un.org/en/development/policy/publications/un_gpm.shtml)

Scope: key markets and policy domains



Income per capita of countries or groups
[US \$ ppp-adjusted, constant prices 2005]



Construction of scenarios

25 countries or country groups:

- ✓ 20 countries or groups represented at the G20
- ✓ 5 groups not in the G20

Targets

&

Instruments

- ✓ Employment rates
- ✓ Growth convergence
- ✓ Curr. account ceilings
- ✓ Govt deficit ceilings
- ✓ Energy
- ✓ Export diversification in developing countries

labour market & demand policy
public & private sectors stimuli
real exchange rate & prices/distribution
tax policy (aided by growth)
Energy saving & technology
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 *not* in the G20

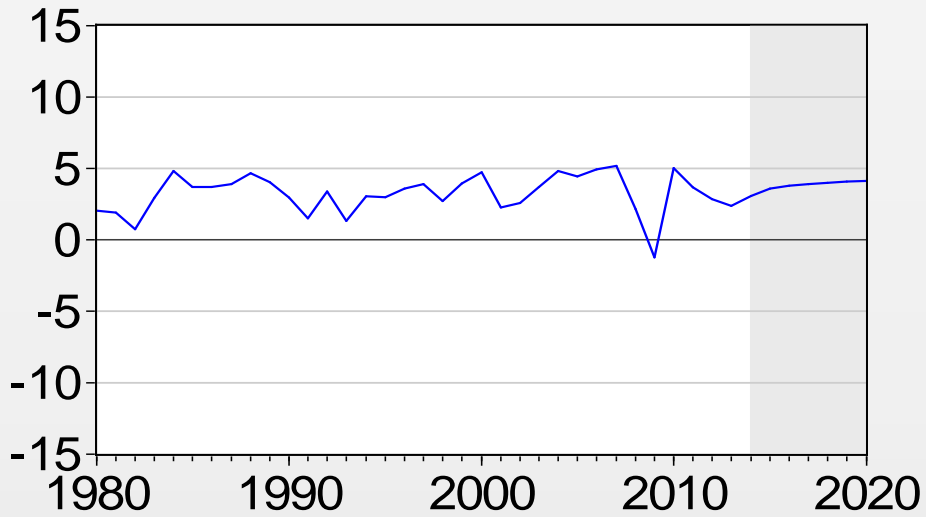
- ✓ ***Growth is weaker:***
 - 0.6 % points (accum. to -5.3 % points by 2020)
 - Employment gaps increase slightly (poor data...)
 - Unemploy. rate increases + 0.2 (avg) (poor data)
- ✓ **Tangible deterioration on the current account:**
 - worsening of initial deficits by 0.25 % points of GDP towards 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)**

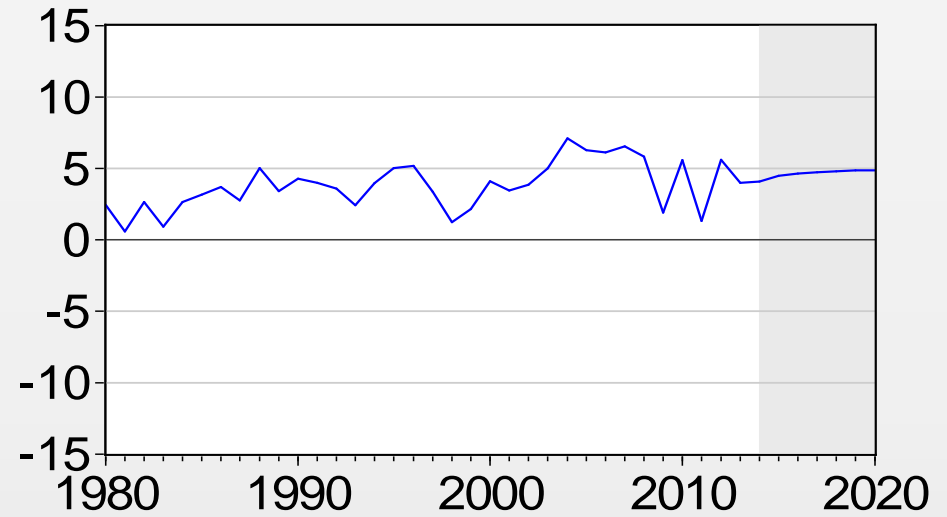
Growth rate of GDP

Baseline Units: % per year

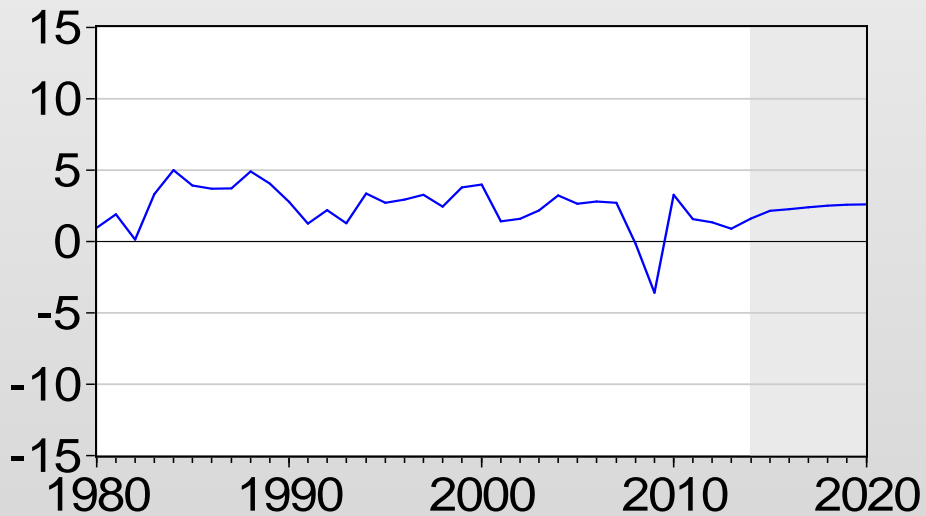
G20 incl. repr. groups



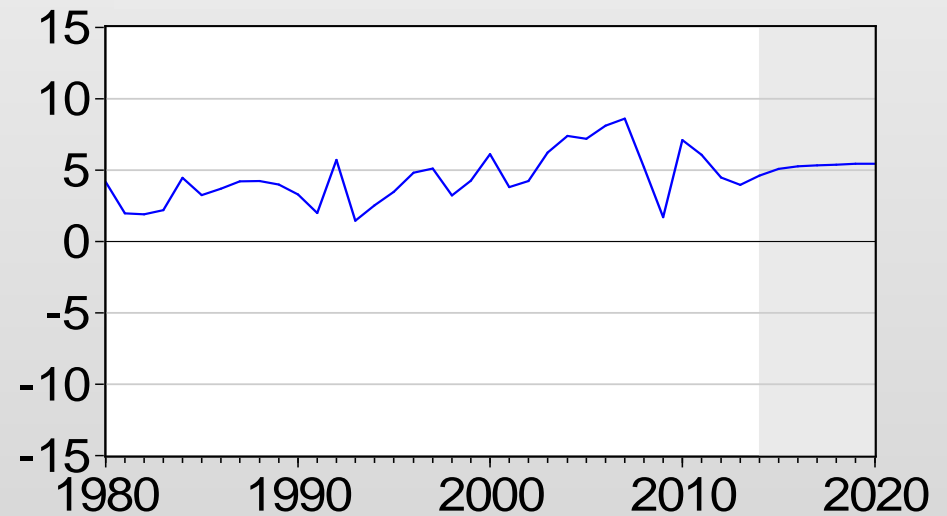
Countries not in G20



High-income G20 economies

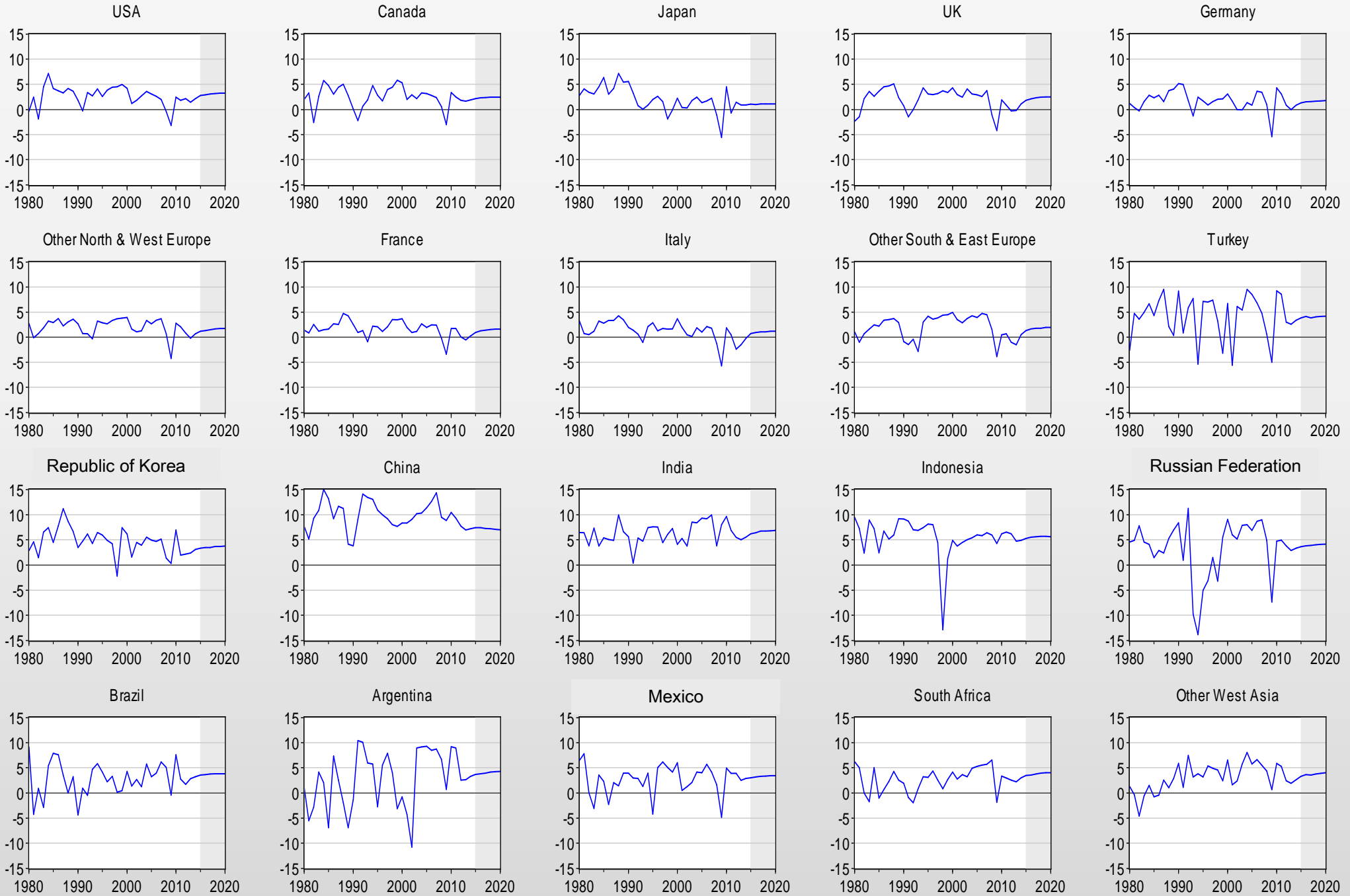


Middle-income G20 economies



Growth rate of GDP

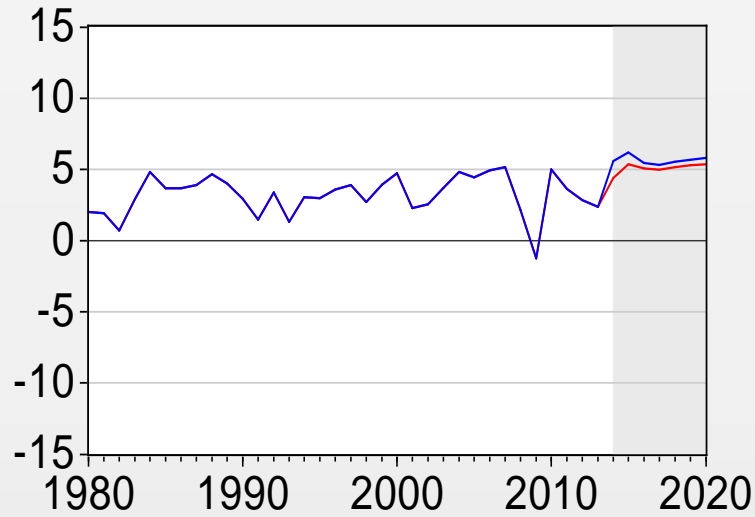
Baseline Units: % per year



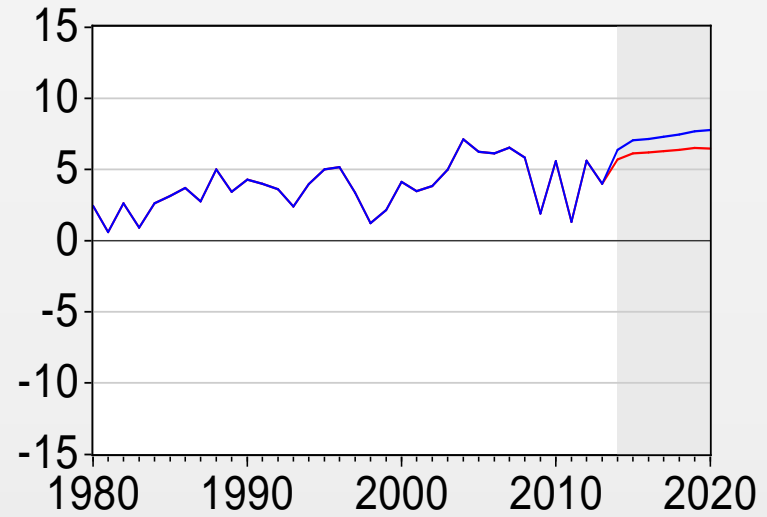
Growth rate of GDP

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

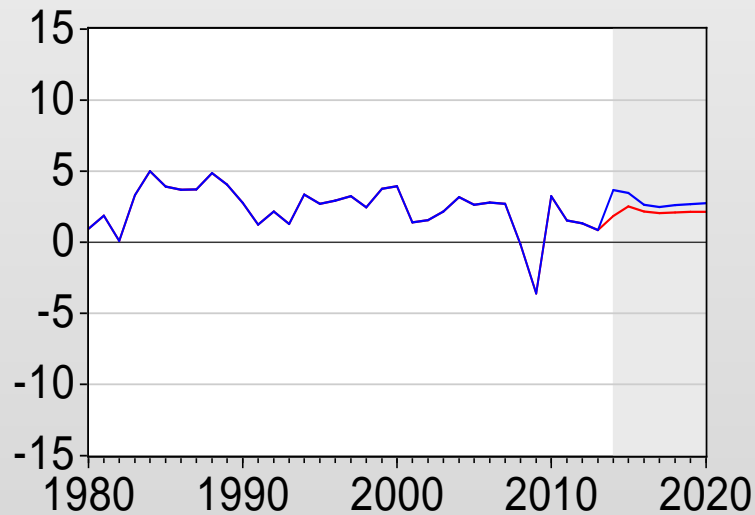
G20 incl. repr. groups



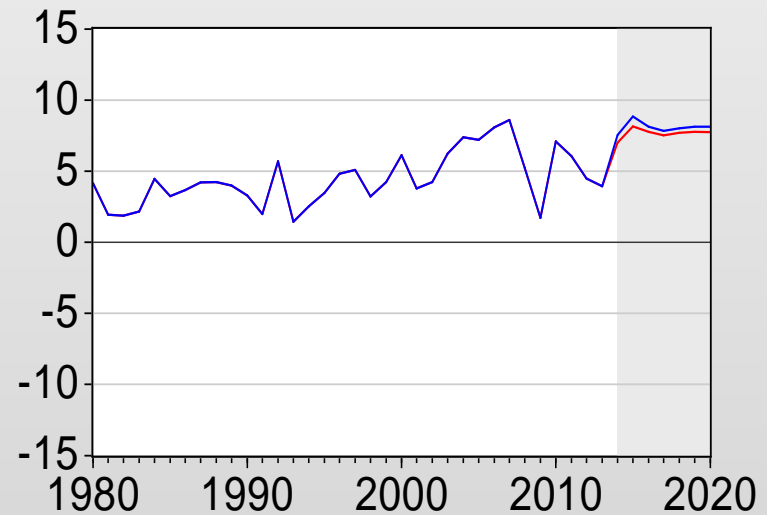
Countries not in G20



High-income G20 economies

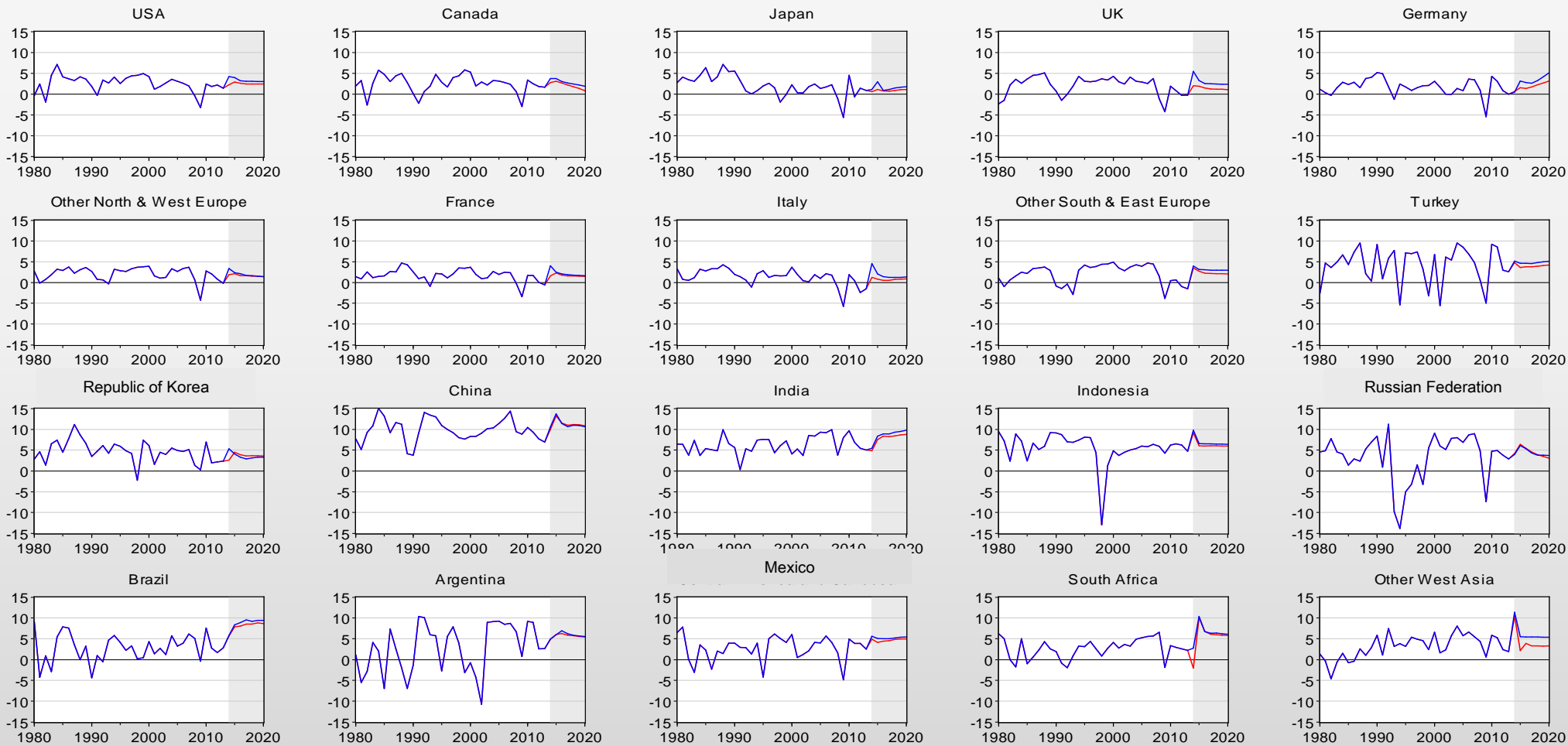


Middle-income G20 economies



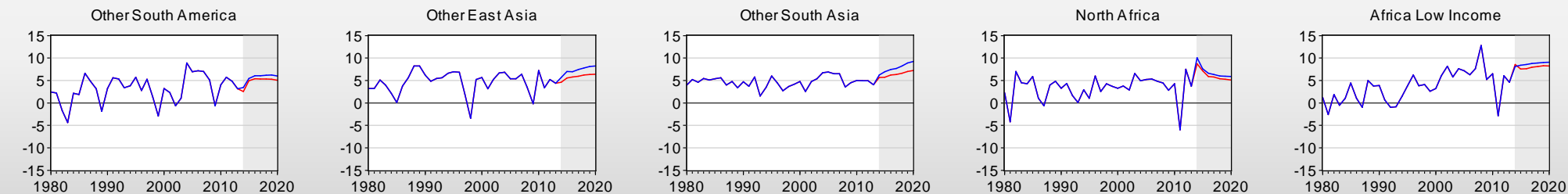
Growth rate of GDP

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



Growth rate of GDP

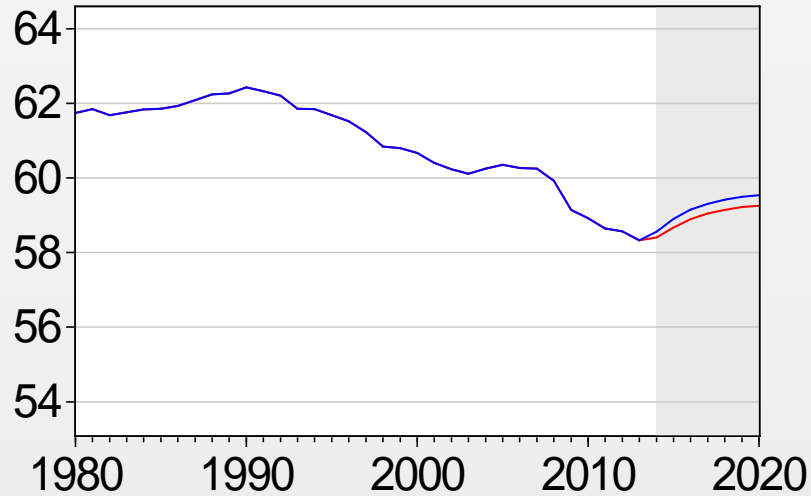
G20-led coordinated recovery (blue), Policy decoupling scenario (red) Units: % per year



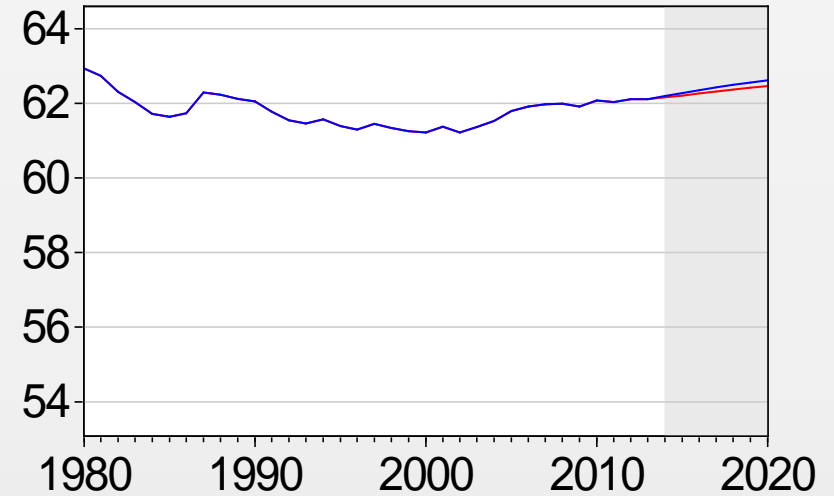
Employment rate

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

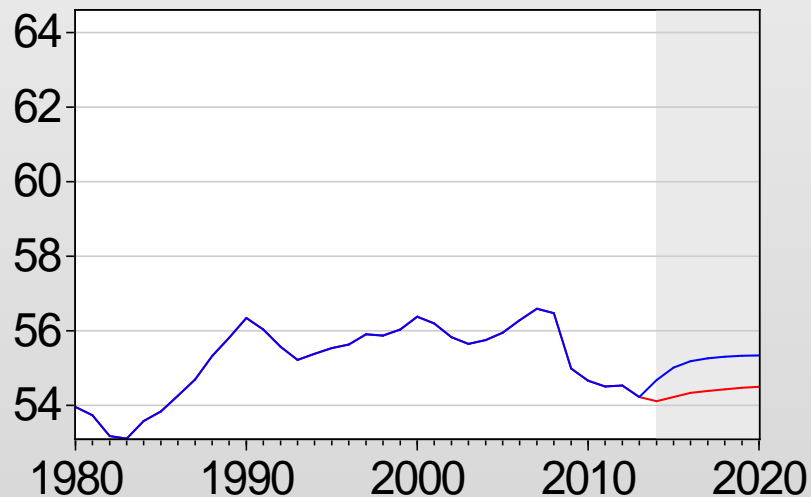
G20 incl. repr. groups



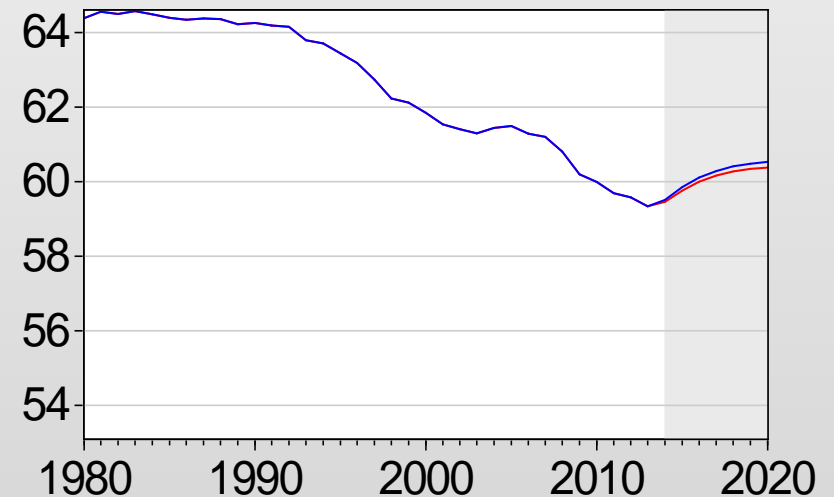
Countries not in G20



High-income G20 economies

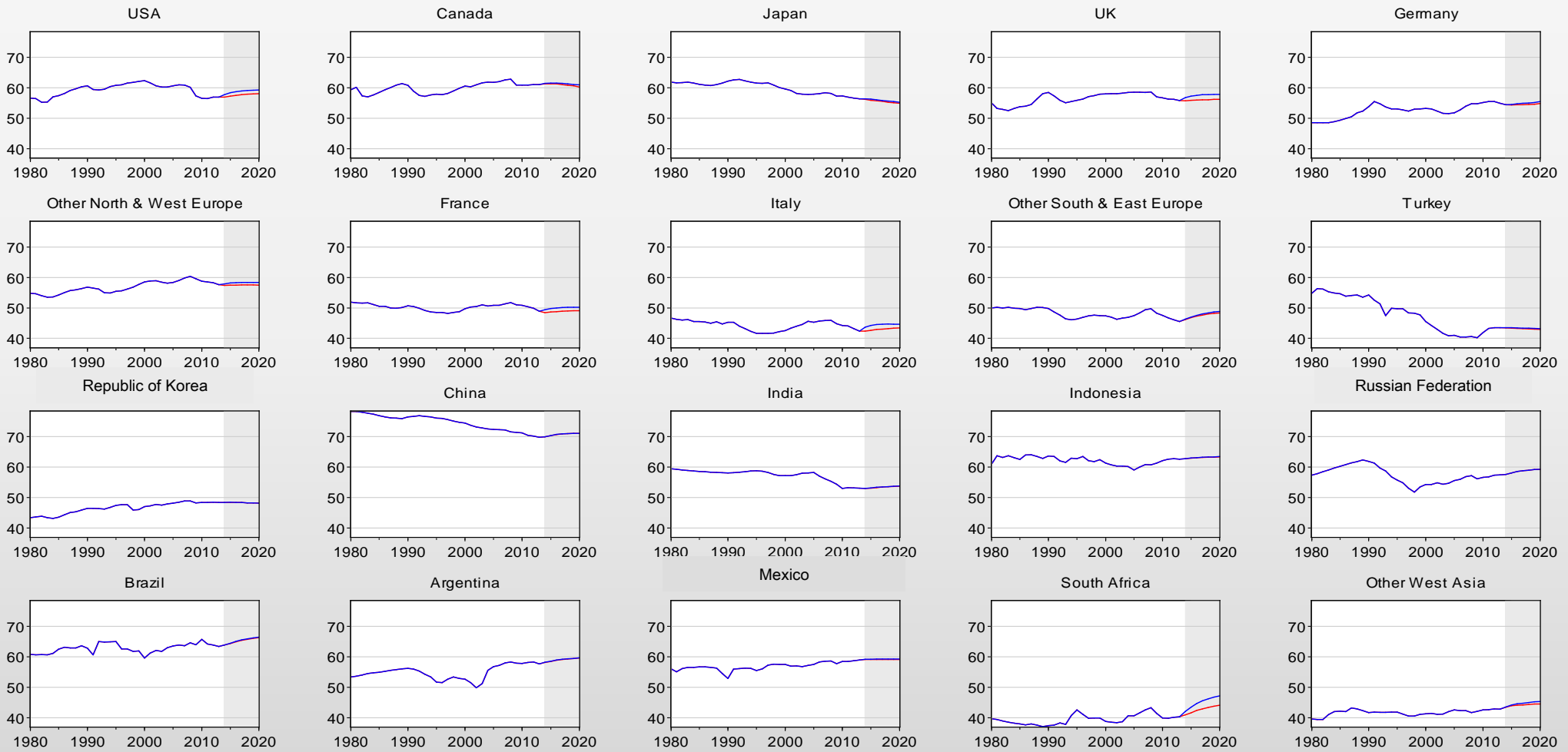


Middle-income G20 economies



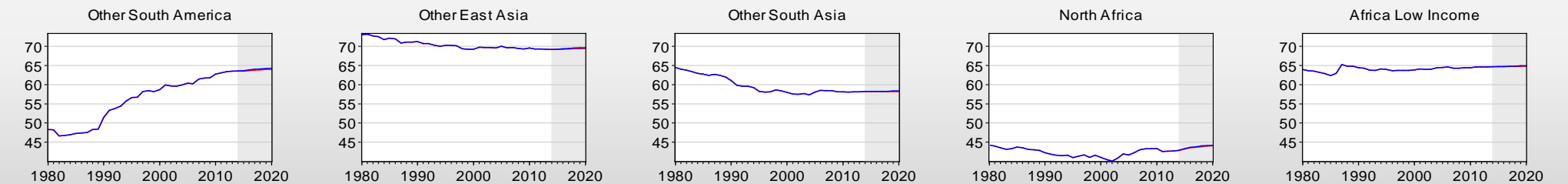
Employment rate

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



Employment rate

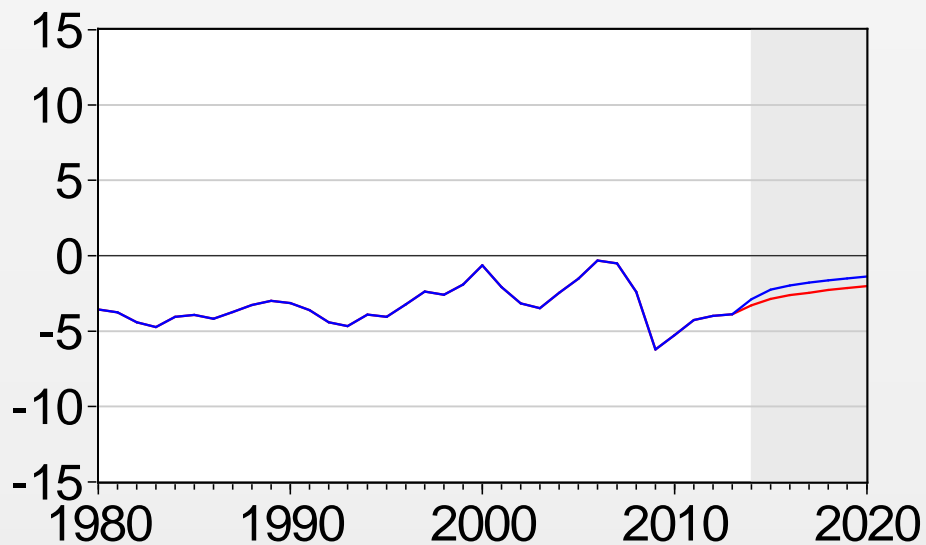
G20-led coordinated recovery (blue), Policy decoupling scenario (red) Units: %



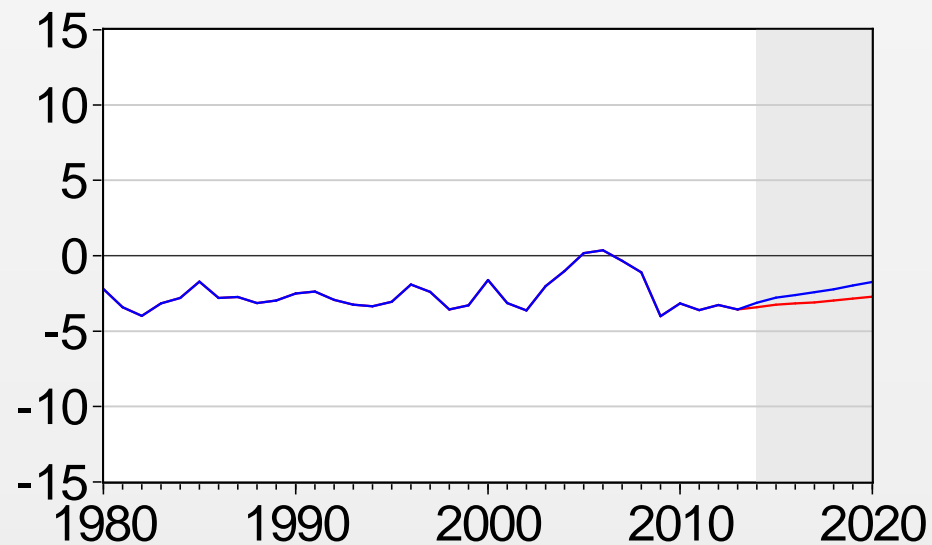
Government sector net lending as % of GDP

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

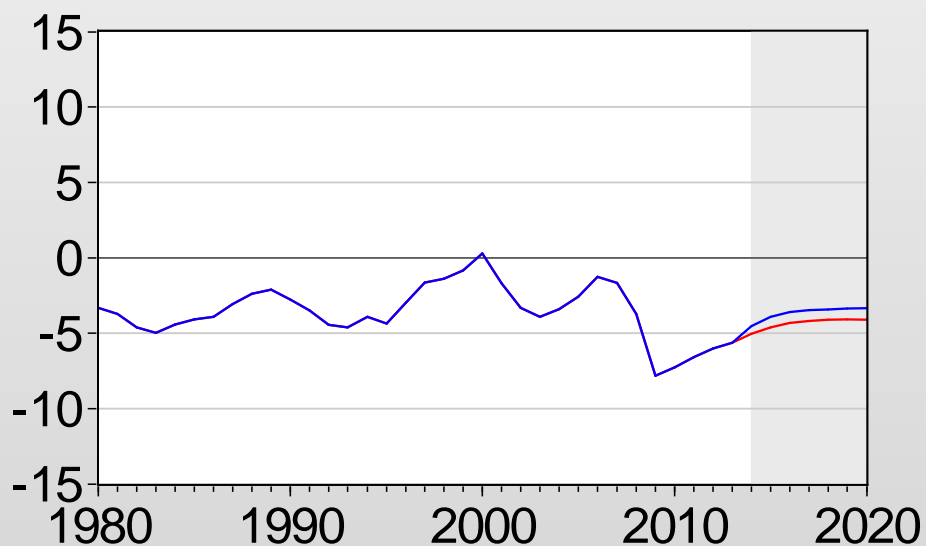
G20 incl. repr. groups



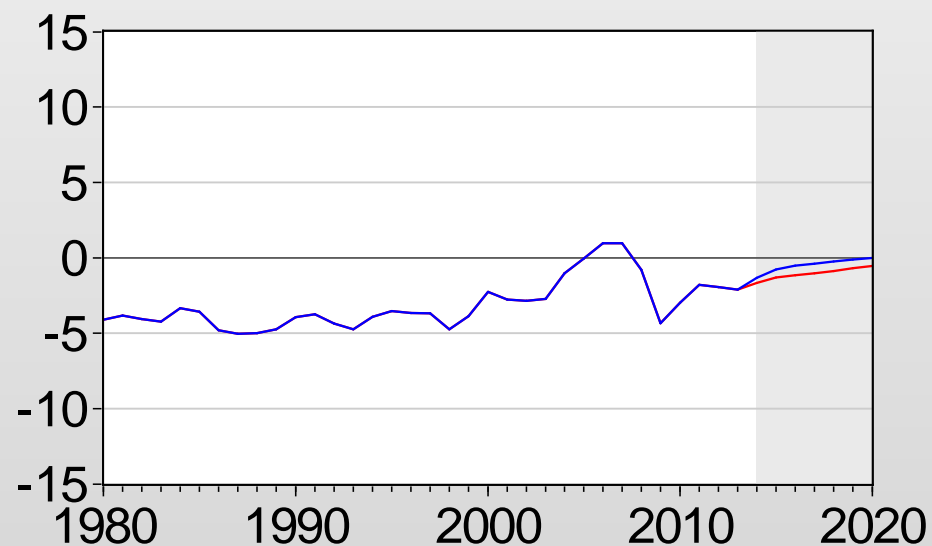
Countries not in G20



High-income G20 economies

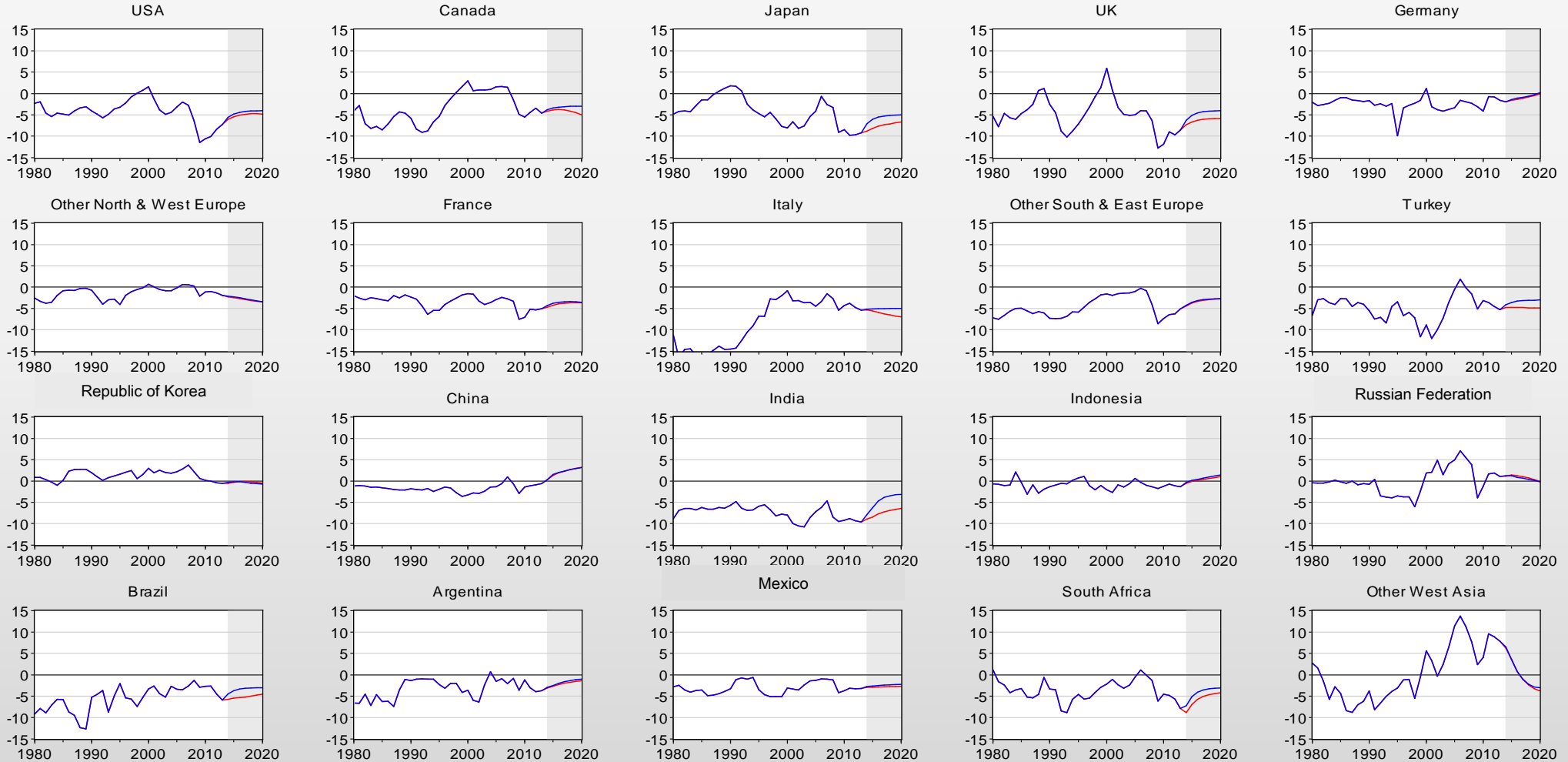


Middle-income G20 economies



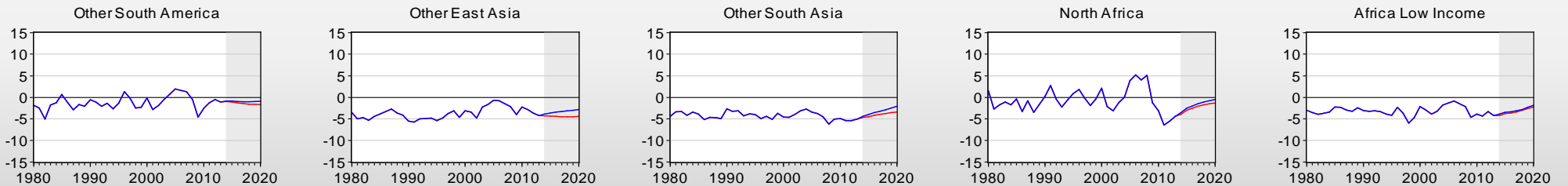
Government sector net lending as % of GDP

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



Government sector net lending as % of GDP

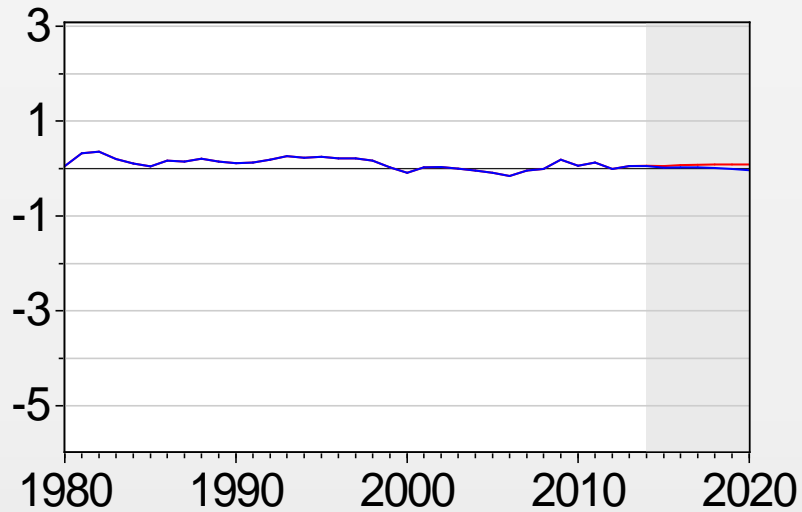
G20-led coordinated recovery (blue), Policy decoupling scenario (red) Units: %



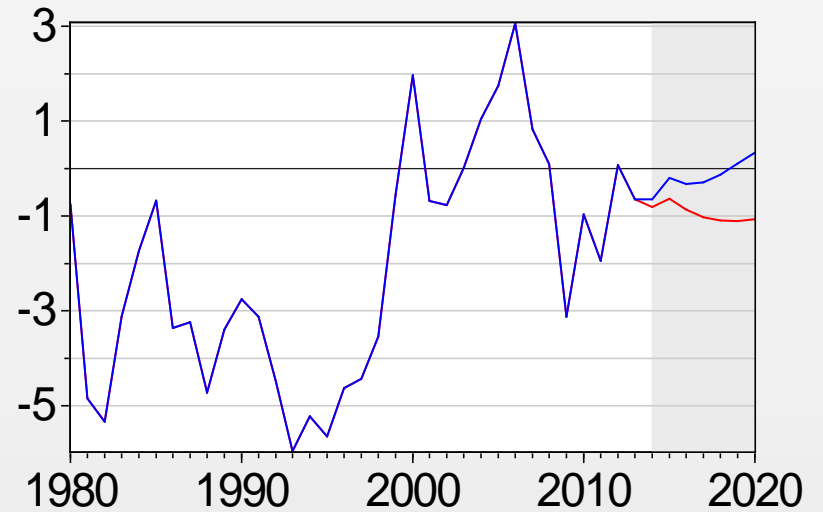
Current account as % of GDP

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

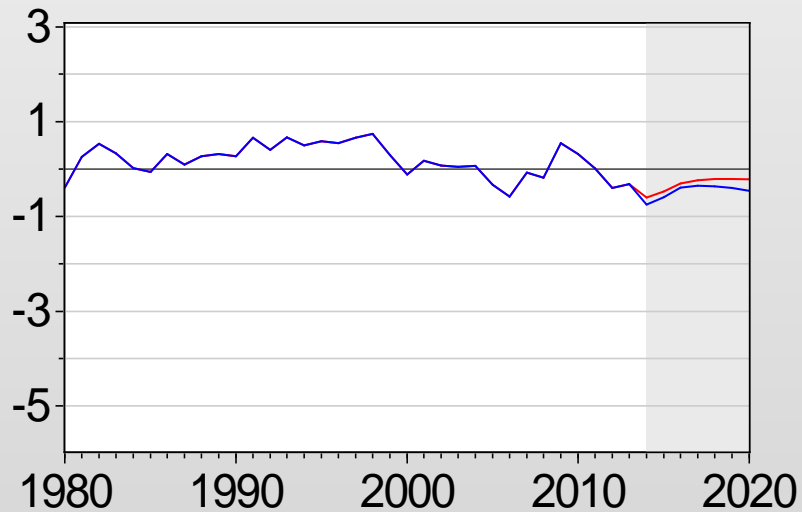
G20 incl. repr. groups



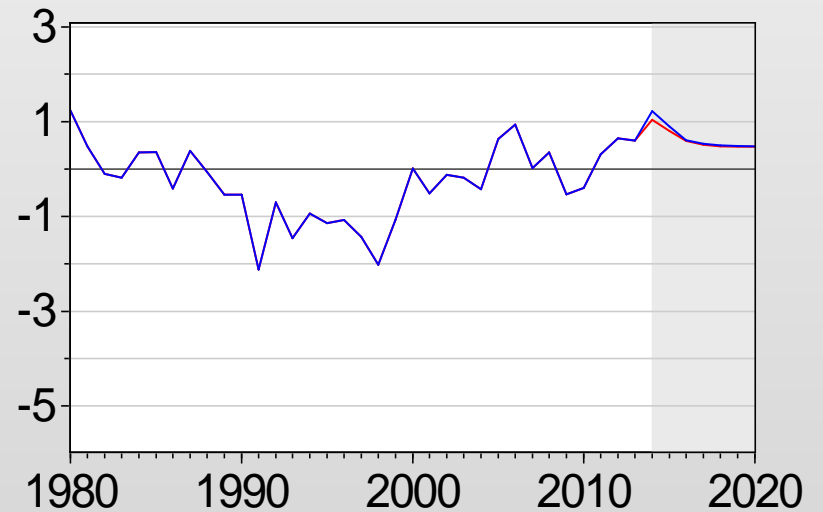
Countries not in G20



High-income G20 economies

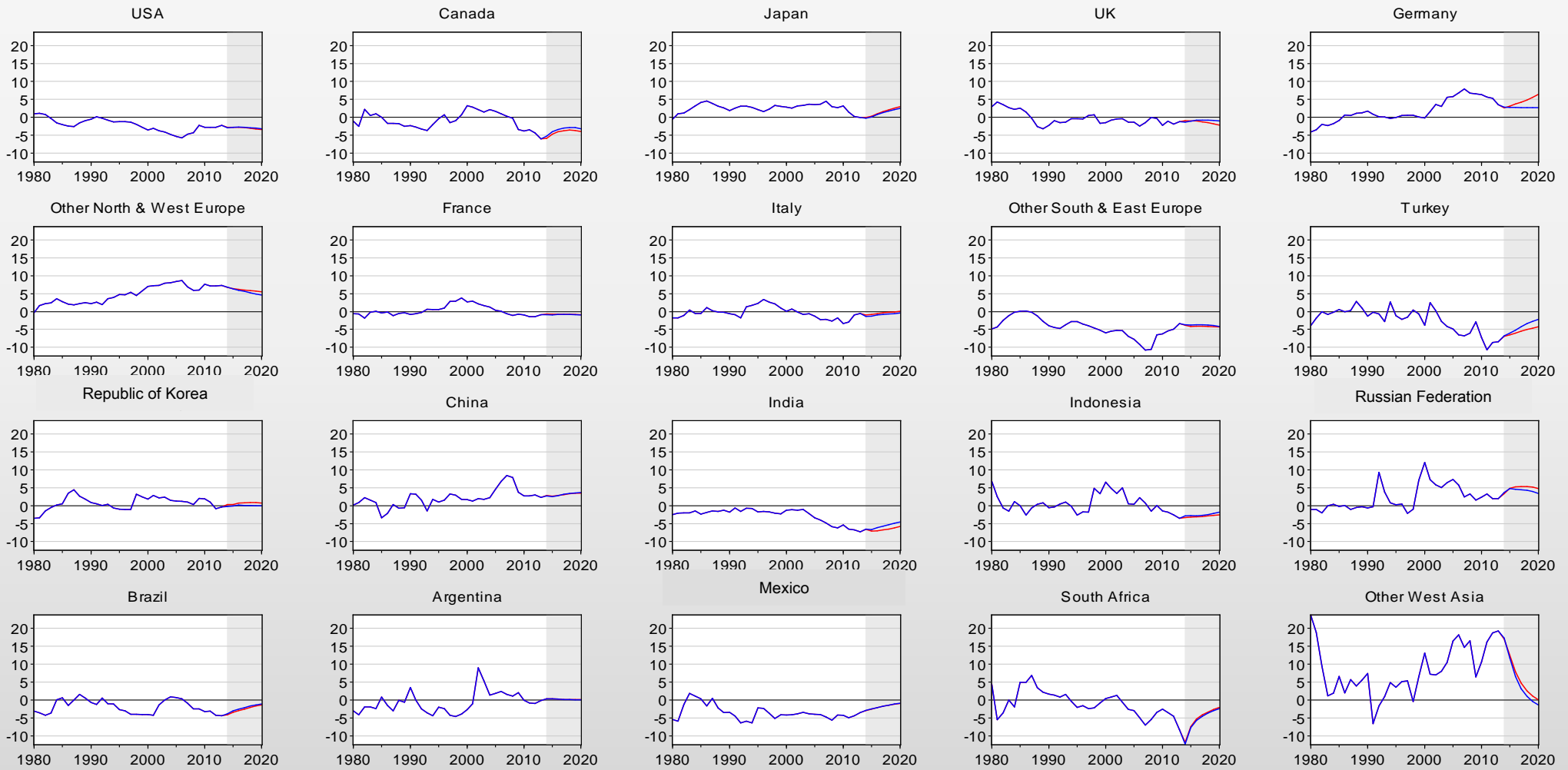


Middle-income G20 economies



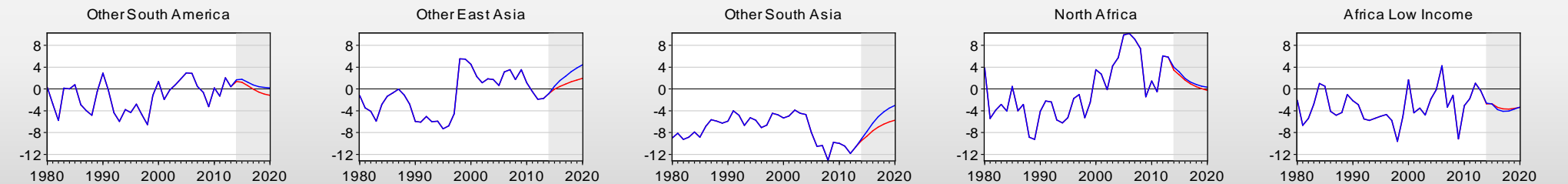
Current account as % of GDP

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



Current account as % of GDP

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



GLOBAL SPILLOVERS OF MACROECONOMIC POLICIES ONTO THE REAL ECONOMY

**UNCTAD contribution to the
G20 Framework Working Group (FWG)**



THANK YOU

g20-fwg@unctad.org

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT 21