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# Bank of Finland Bulletin 4/2015

Situation and outlook for the global economy  
Press conference 24 September 2015





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## Monetary policy and the global economy

- **Main article**
    - *Signs of life in the euro area economy*
  - **Theme boxes providing background on the main article**
    - *Increased uncertainty in the global economy*
    - *Structural reforms to provide boost during lean years in the global economy*
    - *China develops, growth slows*
- \*\*\*
- **Two theme articles**
    - *‘How can we simultaneously maintain both price stability and financial stability in the euro area?’ Hanna Freystätter*
    - *‘Protracted period of low interest rates places further demands on macroprudential supervision’ Katja Taipalus – Jouni Timonen*



# Themes of the presentation

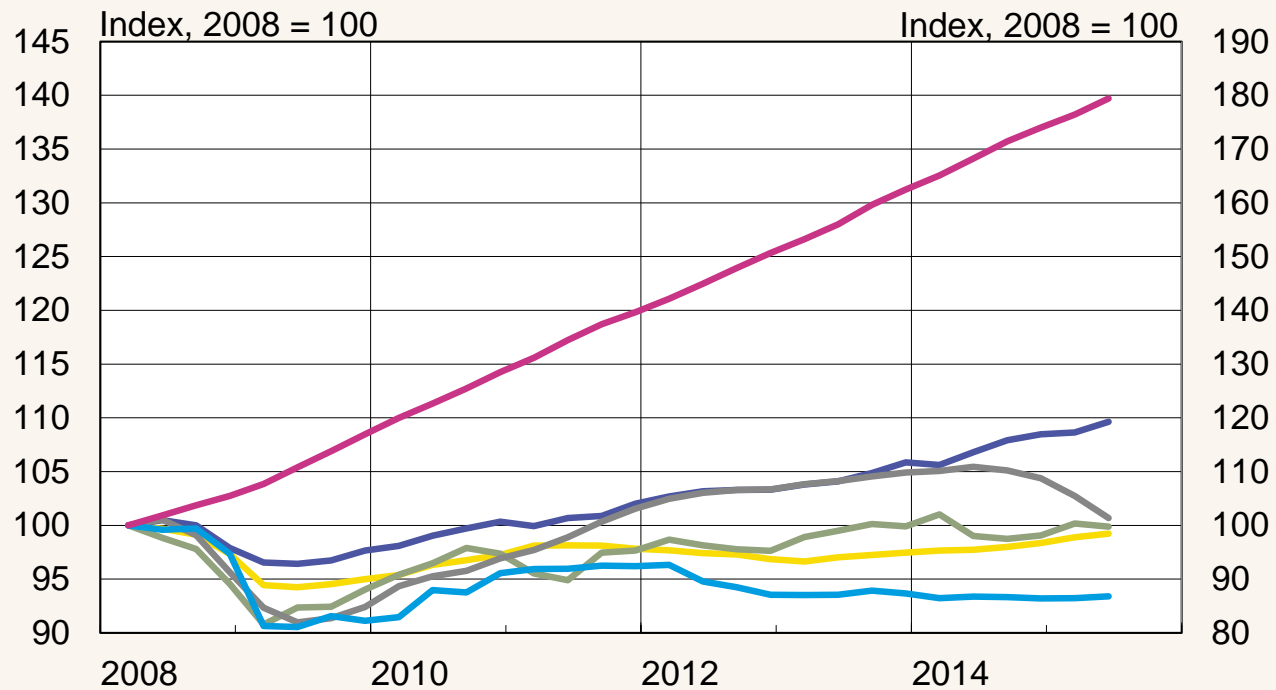
- ***Seven lean years for the global economy***
  - *Three stories of slowing growth*
  
- ***Current situation and outlook for the global economy***
  - *Factors shaping the business cycle*
  - *China and world trade changing more permanently*
  
- ***Bank of Finland forecast for the global economy***
  - *Forecast summary*
  - *Risks*



# Seven lean years for the global economy

## Effects of the recession on output

- Euro area
- United States
- Japan
- Russia
- Finland
- China (right-hand scale)



Sources: National statistical authorities, Macrobond and calculations by the Bank of Finland.



# Three stories of slowing growth

- ***The Great Recession***
  - *The financial crisis of 2008 led to a recession in the real economy.*
  - *Despite stimulus measures, output remains below potential.*
  
- ***Prolonged period of slow growth***
  - *Expected slowing of potential output is already dragging down investment (Secular Stagnation, Hansen 1938).*
  - *Differences of emphasis:*
    - *Larry Summers: low interest rates, prevention of path-dependency*
    - *Robert Gordon: emphasis on supply-side factors.*
  
- ***Opposing views:***
  - *Joel Mokyr: Technological tailwind is more like a tornado*
  - *Matti Pohjola: ICT utilisation is currently in the same phase as electricity utilisation in the 1930s.*



## Distribution of potential output for 2014–2031 (2031–2060)

	Potential output	Potential output per capita	Trend productivity excl. capital	Capital/output	Potential labour force
USA	2.4 (1.7)	1.6 (1.2)	1.7 (1.2)	0.2 (0)	-0.3 (0.1)
Euro area	1.7 (1.5)	1.5 (1.5)	1.5 (1.7)	0 (-0.1)	-0.1 (0)
China	5.0 (2.4)	4.7 (2.8)	4.4 (3.2)	0.7 (0)	-0.4 (-0.5)
India	5.8 (4.3)	4.8 (3.9)	3.4 (3.8)	0.5 (0)	0.8 (0.1)

Source: OECD Economic Outlook (May 2014).

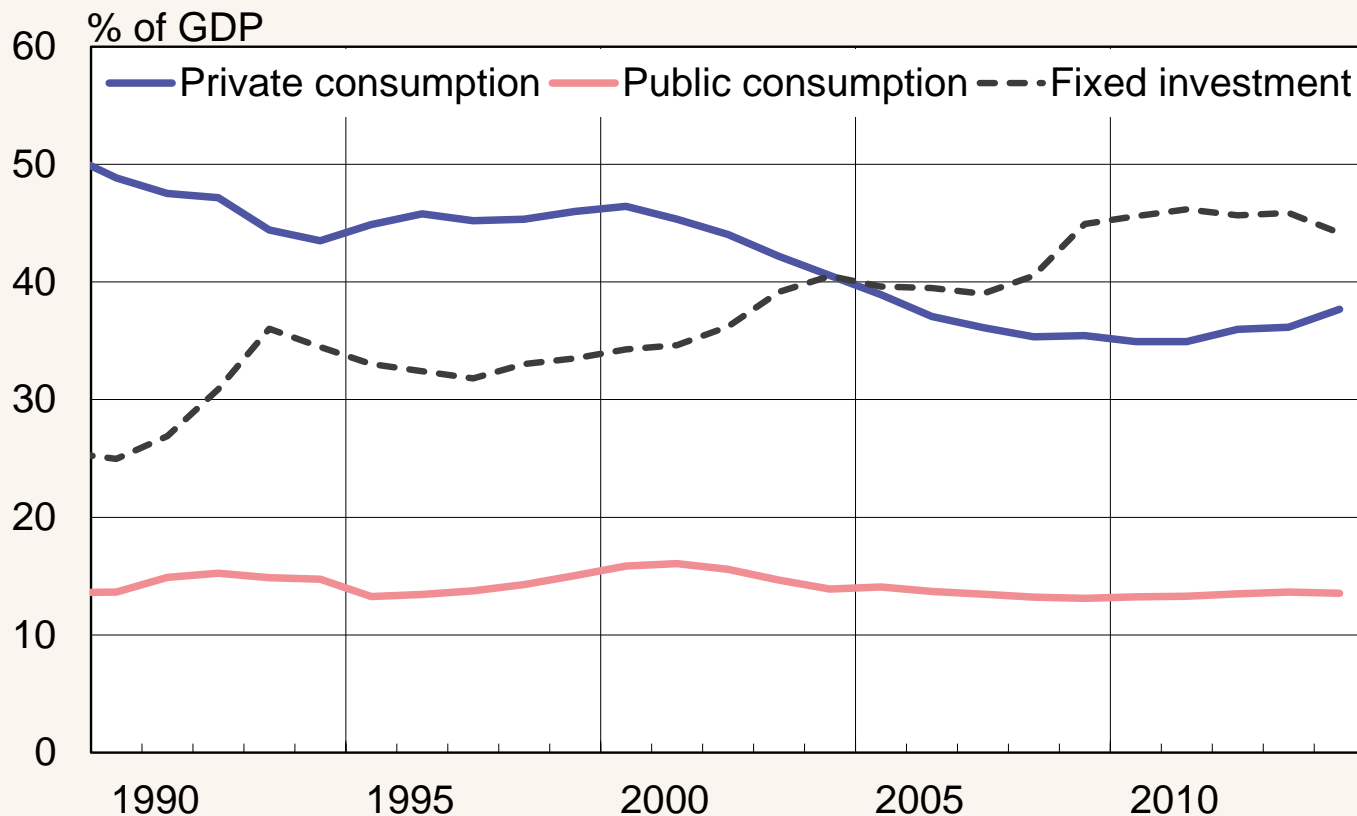


# Current situation and outlook for the global economy

- ***Near-term cyclical developments are shaped by:***
  - *Decline in oil and other commodity prices*
  - *Ample liquidity*
  - *Exchange rate changes*
  - *Deleveraging*
  
- ***Longer-term changes***
  - *China's growth will continue to slow*
  - *World trade growth has passed its peak*



## Changes in the structure of Chinese Growth



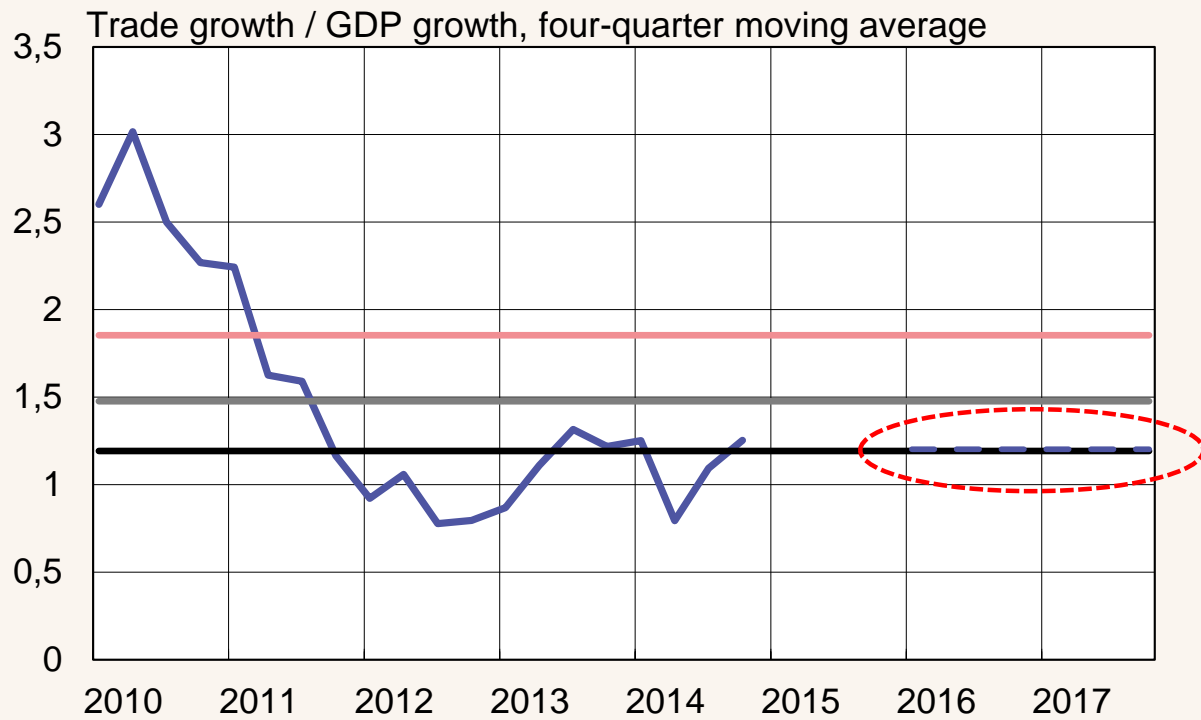
Sources: CEIC and Macrobond.





## Slower growth in world trade

- Actual
- Average 1980-2014 (excl. 2009)
- Average 1994-2007
- Average 2011-2014
- - Forecast



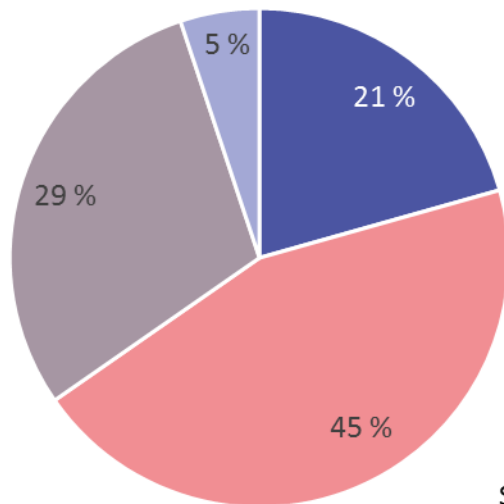
Sources: IMF, World Bank, OECD and Bank of Finland.



# Structure of euro area and Finnish exports

**Euro area exports, 2014**  
(extra-euro area)

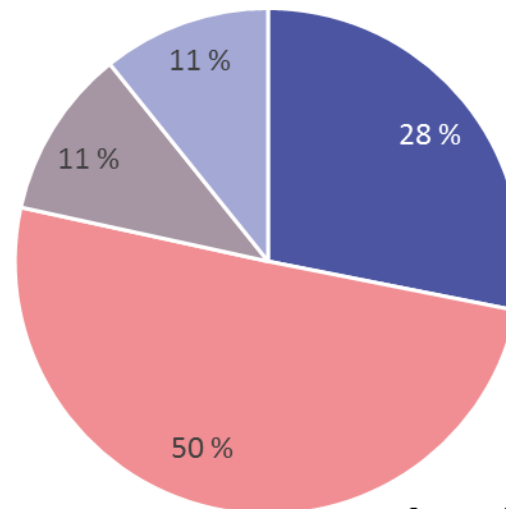
- Capital goods
- Intermediate goods
- Consumer goods
- Energy



Source: Eurostat.

**Finnish exports, 2014**

- Capital goods
- Intermediate goods
- Consumer goods
- Energy



Source: Finnish Customs.



## Summary of Bank of Finland forecast for the global economy

% change on the previous year (previous forecast below)				
<b>GDP</b>	<b>2014</b>	<b>2015f</b>	<b>2016f</b>	<b>2017f</b>
United States	2,4 <i>2,4</i>	2,6 <i>3,1</i>	3,0 <i>3,0</i>	2,8 <i>2,8</i>
EU22	1,3 <i>1,2</i>	1,7 <i>1,6</i>	1,8 <i>1,9</i>	1,9 <i>1,8</i>
Japan	-0,1 <i>-0,1</i>	0,6 <i>0,6</i>	1,1 <i>1,4</i>	1,0 <i>1,0</i>
China	7,4 <i>7,4</i>	7 <i>7</i>	6 <i>6</i>	6 <i>6</i>
Russia	0,6 <i>0,6</i>	-4 <i>-4,4</i>	-2 <i>-1,8</i>	1 <i>0,5</i>
<b>World</b>	<b>3,1</b> <i>3,1</i>	<b>3,0</b> <i>3,3</i>	<b>3,2</b> <i>3,5</i>	<b>3,5</b> <i>3,7</i>
World trade	3,4 <i>3,5</i>	1,8 <i>4,2</i>	3,7 <i>5,0</i>	4,5 <i>5,4</i>
f = forecast. EU22 = euro area, Sweden, Denmark and United Kingdom. Source: Bank of Finland.				



# Risks for the global economy

## ■ **External risks**

- *A sudden halt in Chinese growth is key external risk*
- *Increases in US interest rates may cause turbulence*
- *Situation in the Middle East and North Africa*

## ■ **Internal risks**

- *Permanent, even deepening divergence in the euro area*
- *Country-specific consequences may be both sudden and long-term*

## ■ **Longer-term risks**

- *Long shadow of the financial crisis and ageing population*
- *Weak risk resilience of public finances*