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Global growth pains

Bank of Finland Bulletin 1/2016

Monetary policy and the global economy





Themes of the presentation

- ***Global growth in 2015 slowest since the financial crisis***
 - *2015 good for the advanced, difficult for the emerging economies*
 - *Zero inflation in euro area*

- ***Oil price experienced a double dip***
 - *Supply continues to exceed demand*
 - *Oil and financial markets, financial markets and oil*

- ***No strong improvement in growth prospects***
 - *USA, euro area and Japan: above potential*
 - *BRICS: will structures or growth adapt?*
 - *World trade on the brink of big changes*

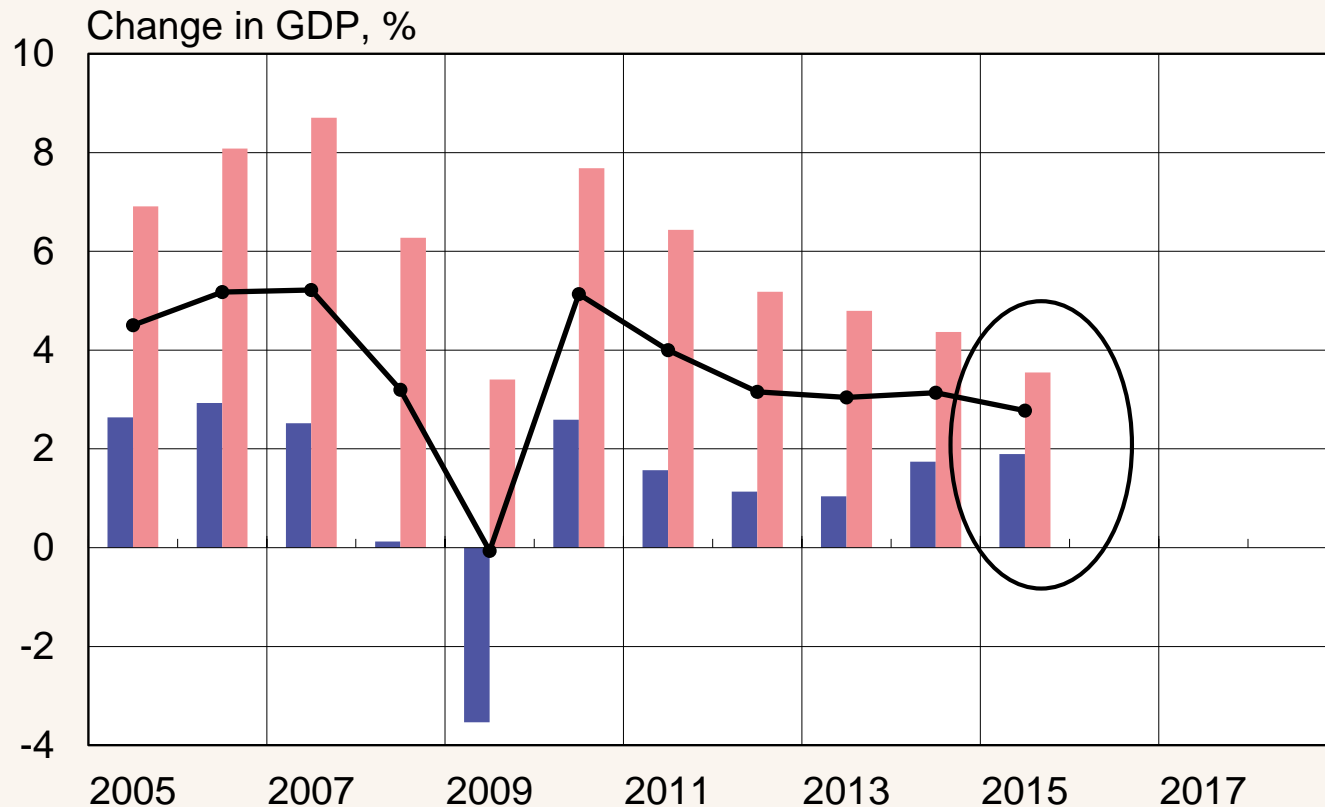


From the financial crisis to the present



Global growth in 2015 slowest since the financial crisis

■ Advanced economies ■ Emerging economies ● World



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

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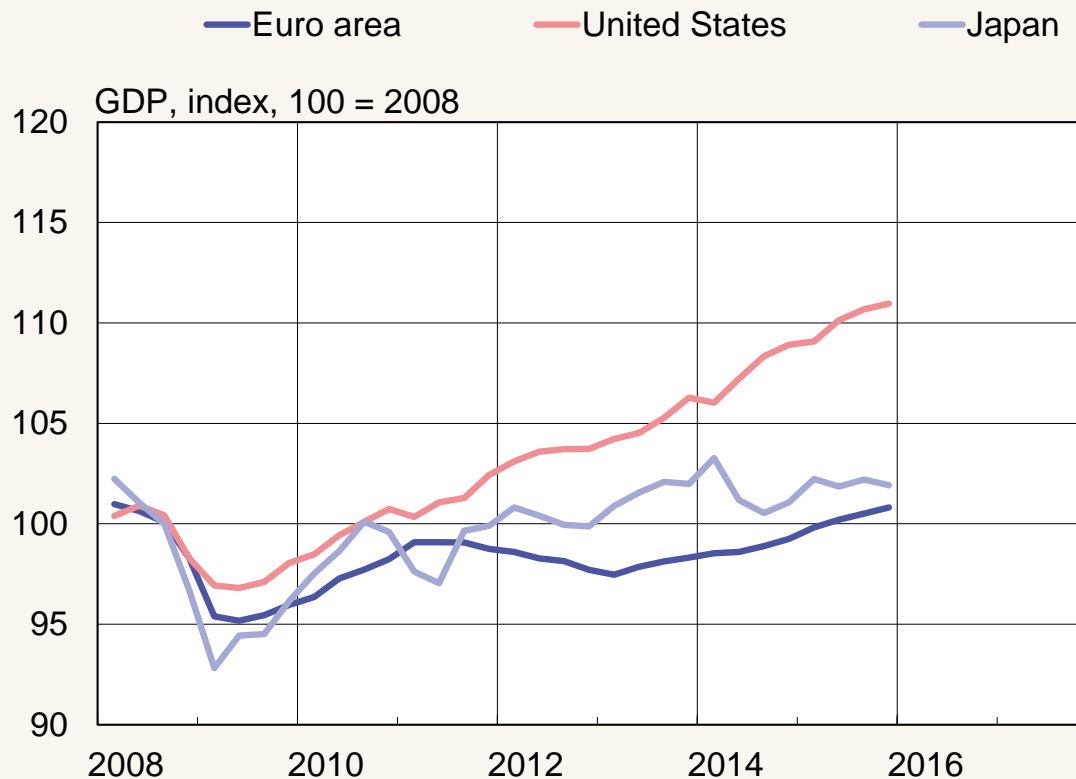


Driving forces of development have been

- ***Financial crisis and recovery***
 - *United States, euro area; Japan*
 - ***Increased role of BRICS countries***
 - *China, India, Russia, Brazil and South Africa*
 - ***Transformation of oil markets***
 - *Commodity markets more widely*
 - ***Globalisation***
 - *World trade*
- ***
- ***Economic policy***
 - *Monetary policy*



Advanced main economic regions: Recovery divergent and laborious



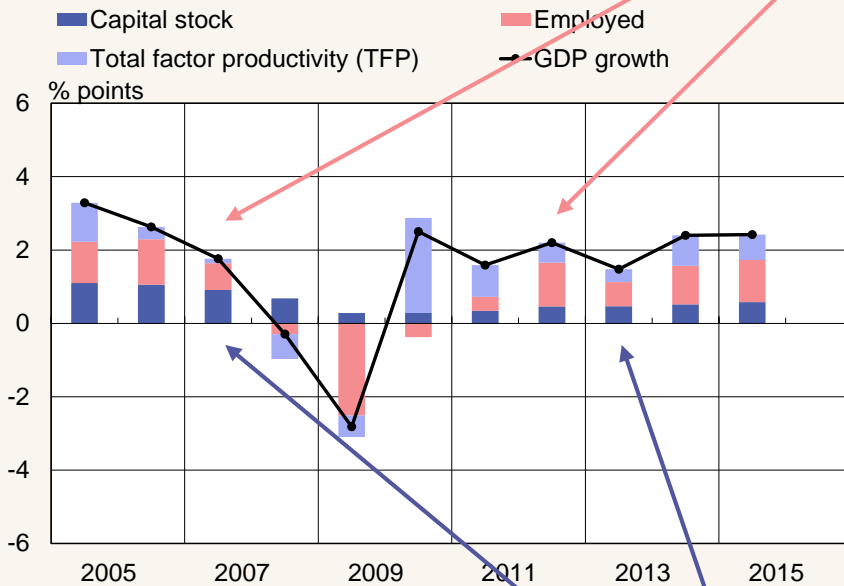
Sources: National statistical authorities and Macrobond.



United States and euro area: Growth structure pre- and post-crisis

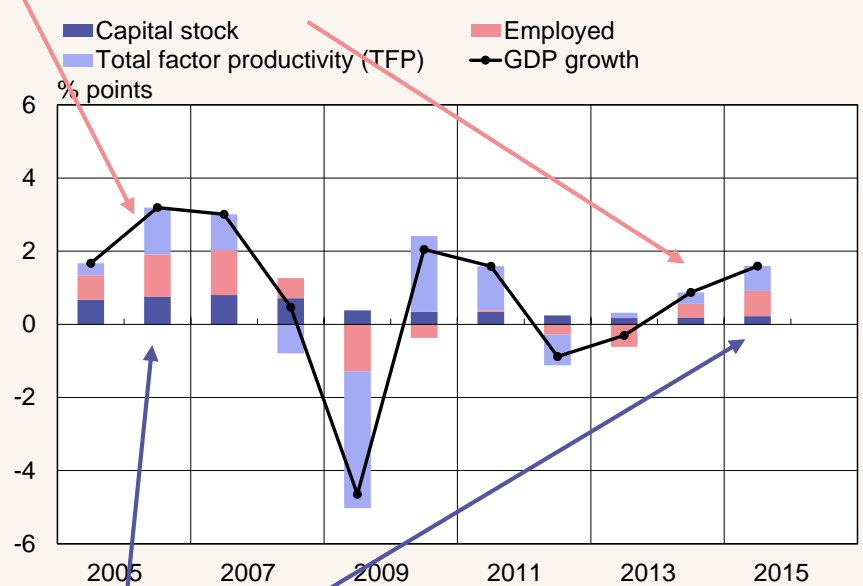
Employment

Contributors to US GDP growth



Sources: European Commission and Bank of Finland calculations.

Contributors to euro area GDP growth



Sources: European Commission and Bank of Finland calculations.

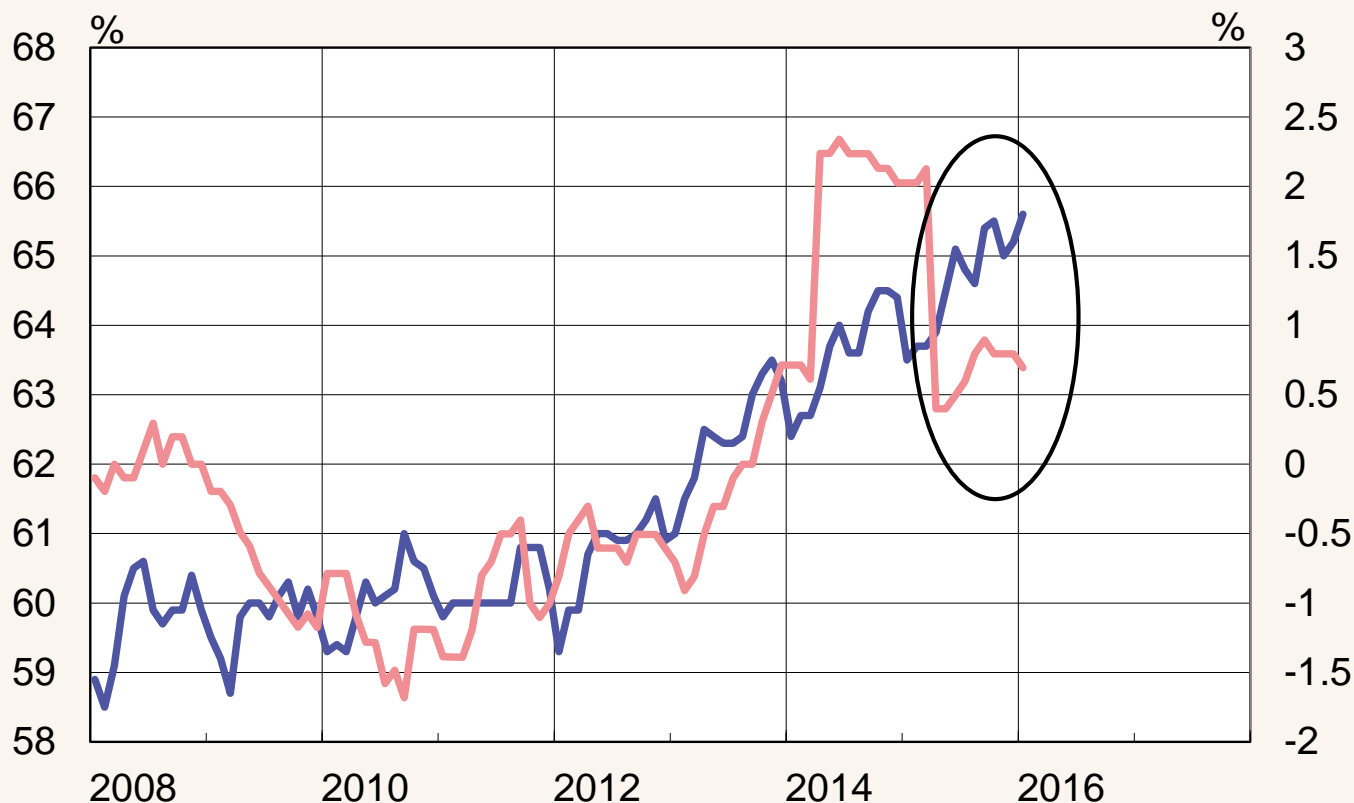
Capital stock

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Japan: Abenomics: three years – the big ship turns slowly

- Female labour force participation rate
- Core inflation (excl. food and energy), (right-hand scale)

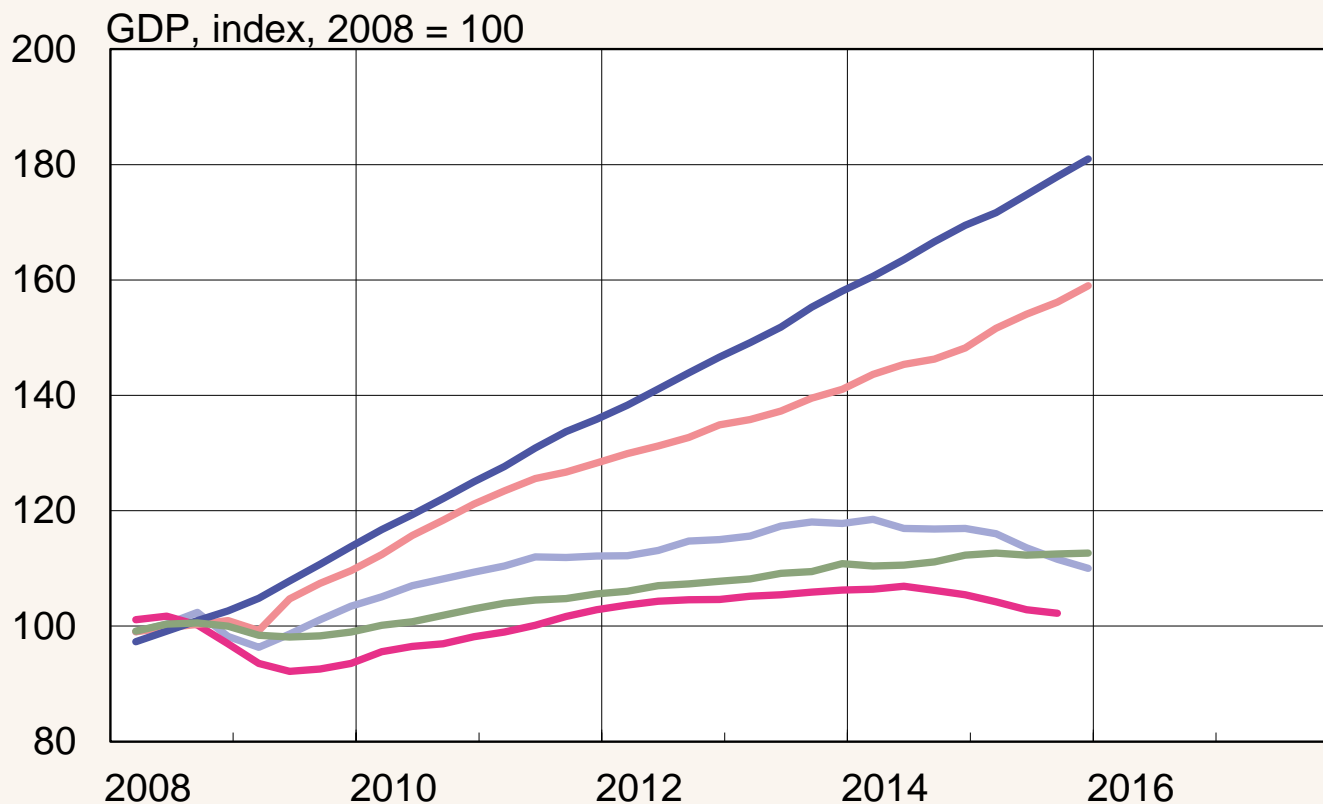


Source: Statistics Bureau of Japan.



Emerging economies: Difficulties weigh on global economy

— Brazil — Russia — India — China — South Africa



Sources: National statistical authorities, OECD and Macrobond.

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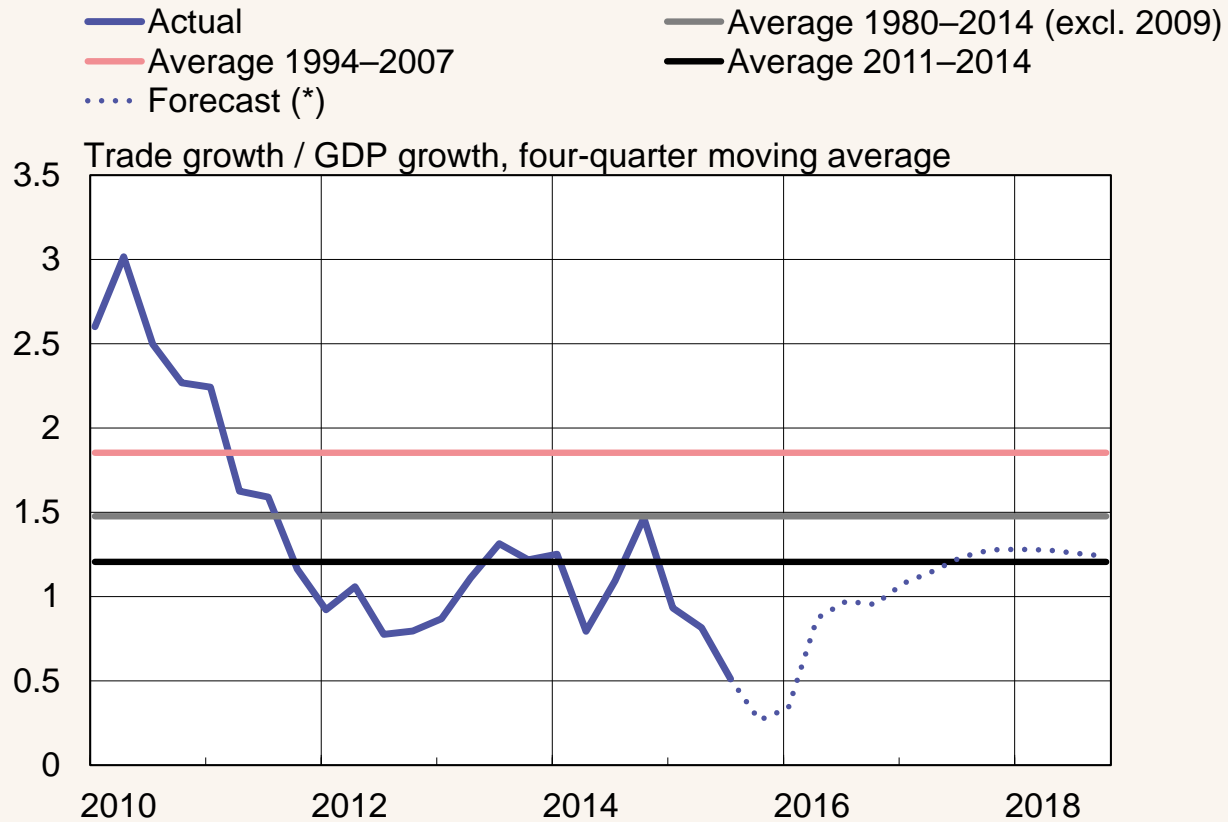
Commodity markets: Rules in the oil markets have changed



Source: Macrobond.



Why has world trade growth slowed?



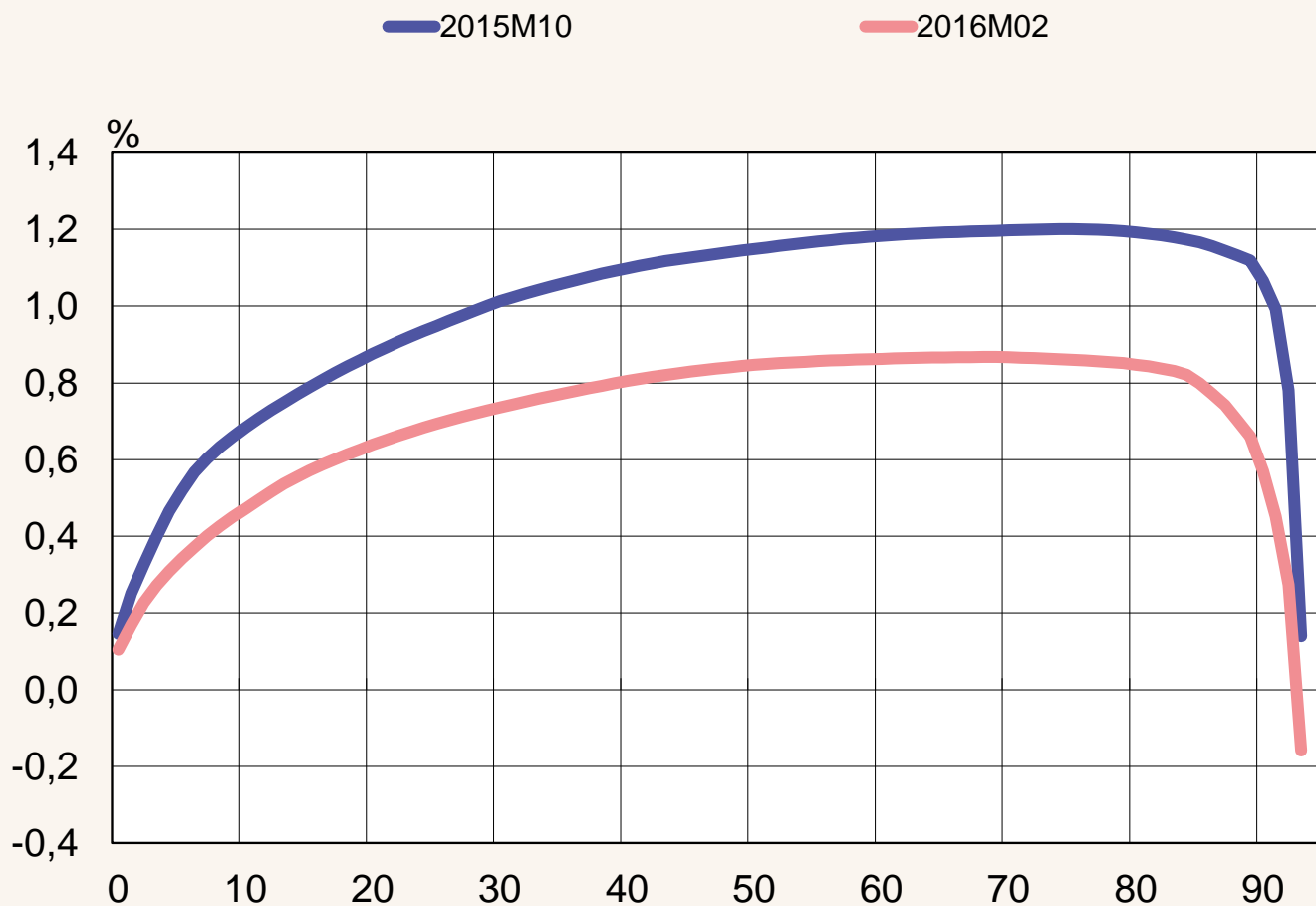
(*) Bank of Finland forecast, March 2016.

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



Euro area inflation zero in 2015

Monthly inflation contributions: overall inflation



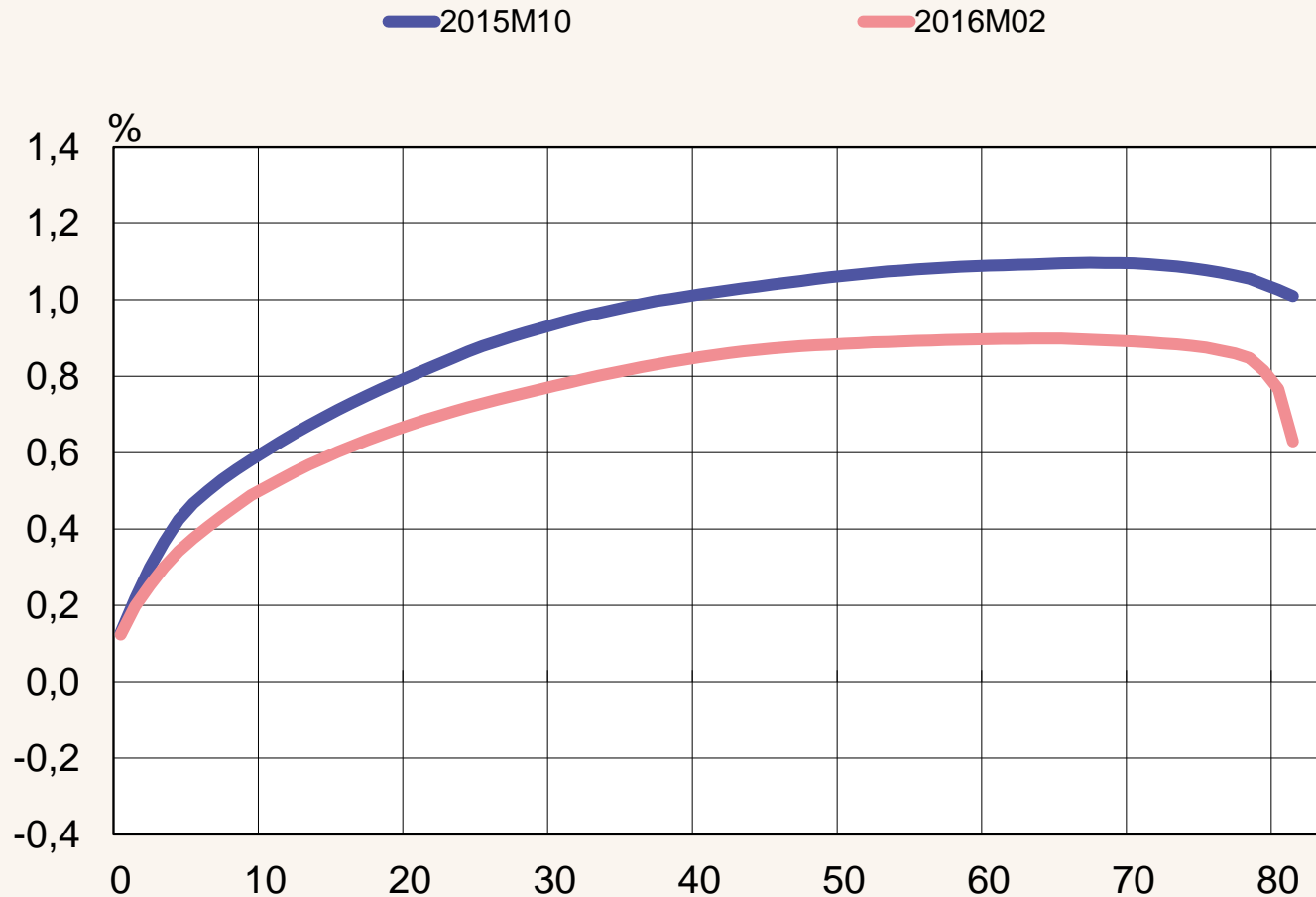
Sources: Eurostat and Bank of Finland calculations.

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Euro area inflation zero in 2015

Monthly inflation contributions: core inflation



Sources: Eurostat and Bank of Finland calculations.

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Bank of Finland forecast for the global economy



World growth held back by structural factors

**%change on previous year
(previous forecast)**

GDP	2015	2016f	2017f	2018f
EU22	1,5 (1,7)	1,4 (1,8)	1,7 (1,9)	1,7 (-)
United States	2,4 (2,6)	2,2 (3,0)	2,3 (2,8)	2,2 (-)
Japan	0,5 (0,6)	0,4 (1,1)	0,7 (1,0)	1,2 (-)
China	7 (7)	6 (6)	6 (6)	5 (-)
Russia	-4 (-4)	-3 (-2)	0 (1)	1 (-)
World	2,8 (3,0)	2,8 (3,2)	3,2 (3,5)	3,2 (-)
World trade	1,4 (1,8)	2,7 (3,7)	3,8 (4,5)	4,0 (-)

f = forecast

E22 = euro area, United Kingdom, Sweden and Denmark.



World growth held back by structural factors

**%change on previous year
(previous forecast)**

Inflation	2015	2016f	2017f	2018f
EU22	0 (0)	0,2 (1,1)	1,2 (1,7)	1,6 (-)
United States	0,1 (0,2)	1 (1,6)	2,3 (2,0)	2,2 (-)
Japan	0,8 (0,4)	0,2 (1,1)	1,5 (1,6)	1,4 (-)

f = forecast
E22 = euro area, United Kingdom, Sweden and Denmark.



Forecast risks

- ***Risks external to the euro area***
 - *A broad-based and strong slowdown in the global economy*
 - *E.g. a sudden halt in Chinese growth and decline in oil prices*
 - *Direct effects on demand*
 - *Balance sheet effects, dollar-denominated debt and exchange rates*

- ***Risks internal to the euro area***
 - *Euro area recovery still fragile*
 - *Long-term effects from the financial crisis*
 - *on individual euro area countries and banks*
 - *Political uncertainties*
 - *Brexit referendum on 23 June 2016*
 - *Handling of the refugee crisis*



Thank you!