Global Economy Report

The Global Economy Report is prepared in cooperation by the Macroeconomic Research Division of Banca Aletti and the Global Governance Programme of the Robert Schuman Centre for Advanced Studies of the European University Institute.

The objective of the Report is to provide an analysis of the current and expected macroeconomic and financial conditions at the global level, with also a focus on key economic areas such as Europe, the USA and ASIA.

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Report closed on October 28, 2016
In the past two years, geopolitical risks have often dominated markets. Some of these have gradually lost their destructive potential, while others still pose uncertainty and volatility...
... In the next twelve months there will be other risks, more political and less devastating, but the consequences may produce damaging effects.
The macroeconomic context cannot take too many shocks without suffering ... this will be the fifth year in a row with global growth below long term average.
The risk of being trapped permanently in low growth exists. The IMF has produced a new report in October where it confirms slow global dynamics.
EXECUTIVE SUMMARY

According to the IMF, the risk would be curbed by governments if they could use fiscal policy in a more decisive and targeted way, working on infrastructure, finance, business and innovation. Monetary policies have done much, but their effectiveness is destined to decrease in the coming months...

IMF – MAJOR ECONOMIES

Average yearly changes - Economic Outlook - Oct. 2016

IMF – EMERGING ECONOMIES

Average yearly changes - Economic Outlook - Oct. 2016
Among single areas, systemic reforms must be carried out with greater determination. Globalisation for certain population groups (related to social position, type of job, ...) in different areas of the world has created negative effects that overshadow the positive effects.
International trade, limited so far by a persistent negative scenario and by protectionism, needs further development. Thus old and more recent tariffs must be abolished, to give globalisation a new impulse.

**IMF – GLOBAL ECONOMIC GROWTH**

Average yearly changes - World Economic Outlook - Oct. 2016

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The Economic Outlook for China and Japan
In the third quarter, the total product confirmed its yearly 6.7% growth rate. On an annualised quarterly basis, the system grew by 1.8%. These values are consistent with the Government’s 6.5-7% growth target. Public spending, real estate and consumption push the system but also inequalities are increasing.
Consumer price index returned to 1.9%, due to food prices’ rebound (3.2%). Production prices are decreasing and recovering leading indicators signal a probably favourable evolution in the coming months. Foreign trade keeps falling as a trend...
The difference in credit and income growth, the capacity to honour the debt service and the risk of increasing interest rates remain critical points, that according to the BIS could create very dangerous tensions in the financial system with a potential recession in three years.
The Japanese product has registered an increase in the second quarter of the year, growing by 0.7% in annualised quarterly terms. This represents a brusque slow down compared to the first quarter, a significant loss in impulse. The trend rate remains at 0.8%, confirming the system’s unsatisfactory condition.
JAPAN

The forecasts for the coming months are for increasing growth, although modest. Manufacturing indexes rebounded thanks to orders, but continue to signal frailty in the system, persisting in contraction area.

JAPAN – LEADING INDICATORS
Manufacturing sector surveys
Services’ sector is more favourable thanks to consumers’ conditions (real incomes, employment, imported prices...), that will benefit from prime minister Abe’s supplementary budget stimulus worth around 28 trillion yen (276 bn $).
Foreign trade still signals negative annualised quarterly rates: on an annual basis imports decreased by over 20%, while exports, traditionally a trigger for intense growth phases, are lower than last year by nearly 11%. Exports to Europe are growing (+10% volumes), bringing it to 9% of total exports, while traditional markets as China and USA are suffering (35% of total exports).
The yen has continuously appreciated since 2015, increasing its value by one fourth, according to the effective nominal rate. The appreciation against the dollar and the yuan renminbi has damaged the Japanese industries’ competitiveness.
The BoJ has confirmed the two targets previously established, i.e. a possibly negative interest rate and monetary mass growth rate at 80 K bn per year, but has established a new QQE, to control the earnings curve.
The acquisition of government securities will be done with two targets: to maintain the ten year yields around zero and to pilot the whole rate structure to favour those financial institutions whose accounts suffered due to negative rates.
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