

The crisis is over, up to the next one?

Macroeconomic Perspectives on the Global Economy

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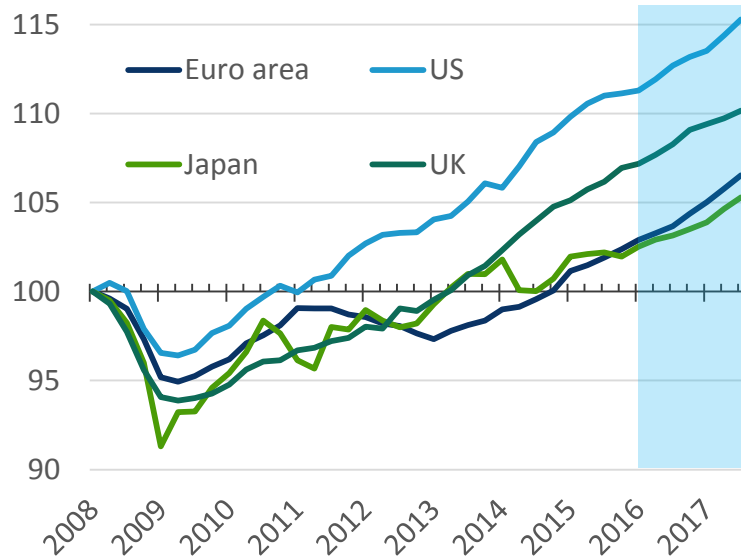
Professor of International Economics, University of Leuven

FundsEvent 2018

Luxembourg, 8 February 2018

From Recovery to Expansion

Real GDP Growth
(1q2008 = 100)



Global recovery moved into clear expansion with Europe leading the dance after the US.

- ✓ US cycle continuing for longer
- ✓ Euro area taking the lead
- 👉 US further in the cycle than Euro area
- 👉 Differences in potential growth rates
- ✓ UK suffers from Brexit pains
- ✓ Japan exiting from the lost decennia

Real GDP growth
2017

2,3%

2,5%

1,8%

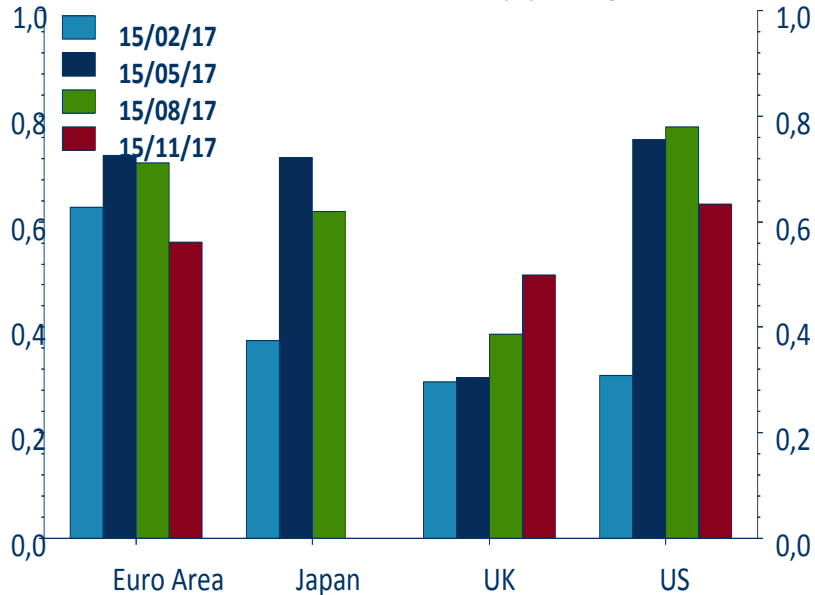
1,5%

Source: Eurostat, BEA, CaO & ONS

Emerging markets joining the global upward trend

G4 real GDP

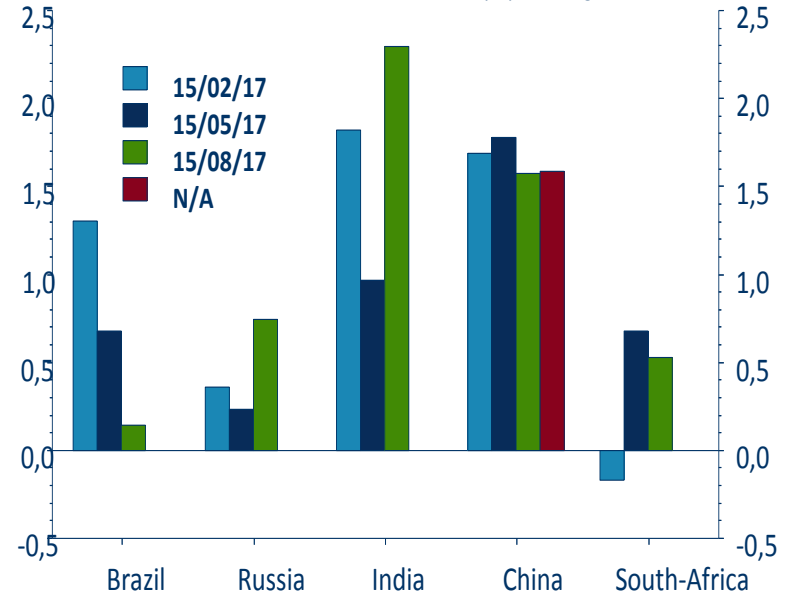
National sources, qoq % change



Bron: Thomson Reuters Datastream

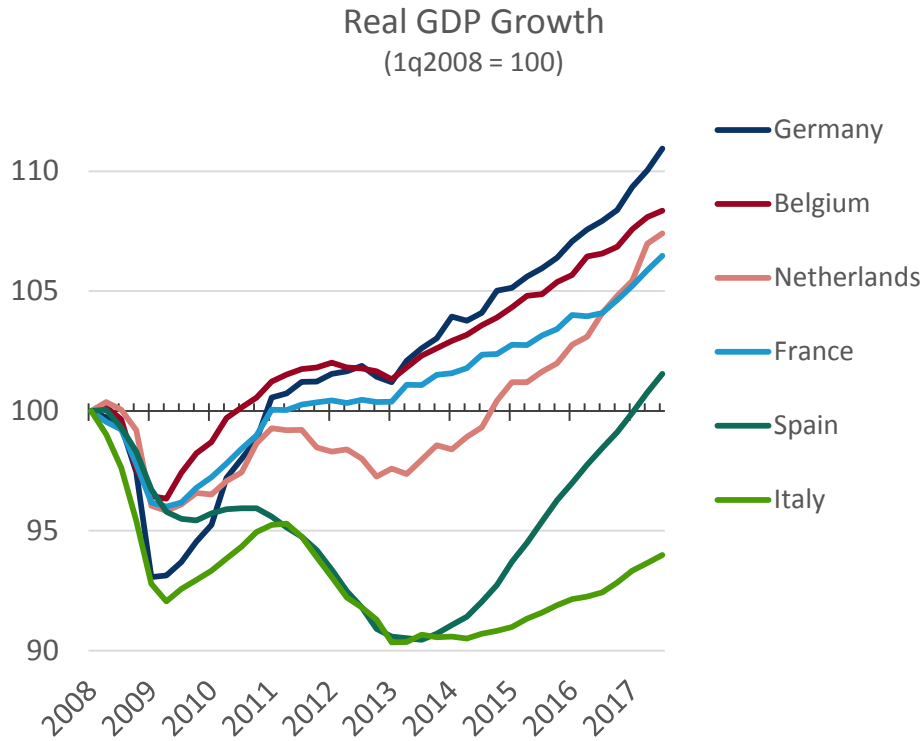
BRICS real GDP growth

National sources, qoq % change



Bron: Thomson Reuters Datastream

Asymmetric post-crisis evolutions within the euro area



- Strong German leadership thanks to industrial export growth
- Belgium relaxing its top position
- Netherlands and France catching up
- Strong recovery after deep crisis in Spain
- Sluggish recovery in Italy

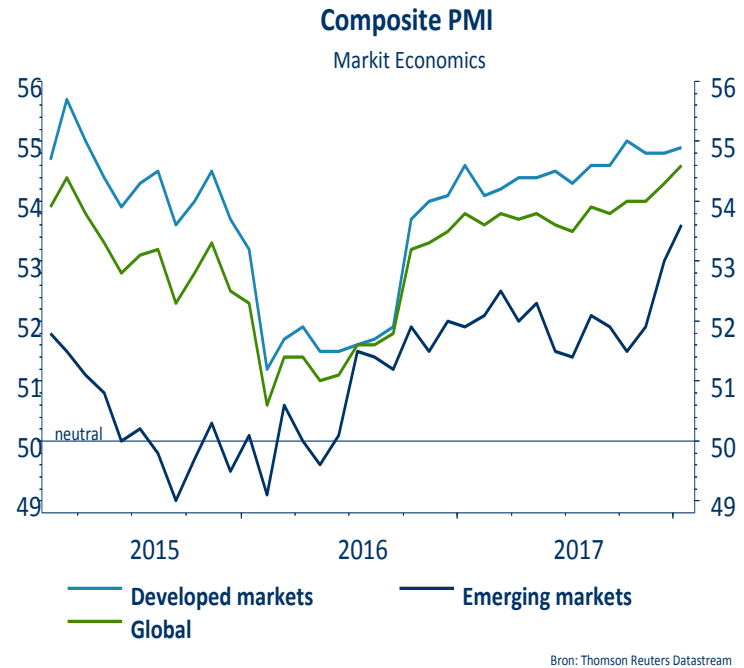
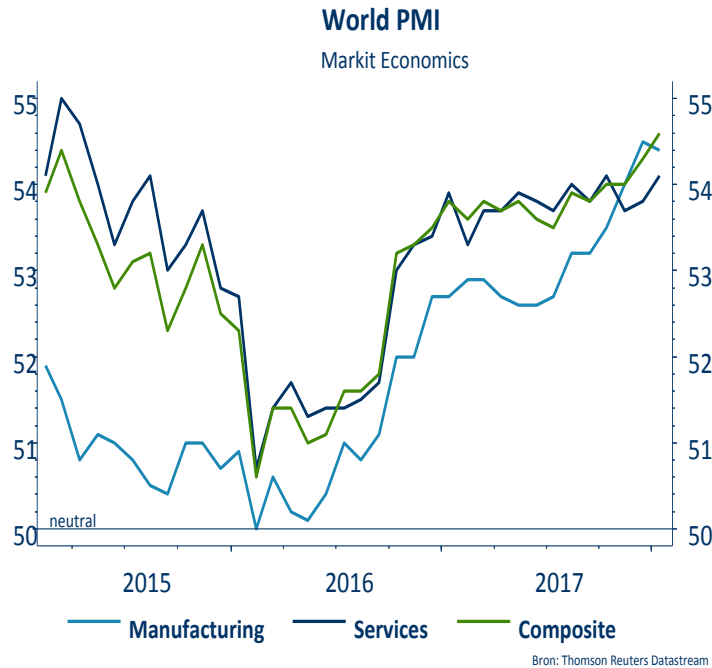
Source: Eurostat

Optimistic Economic Outlook

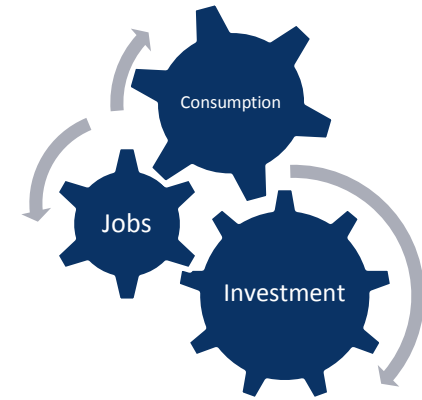
- Consumer as well as producer **confidence peaking**
- **Continued monetary stimulus**
- **Increasing investment**, supported by credit growth
- **Improving labour markets**
- **Risk-neutrality** in economic agents' behaviour

Optimism about the future

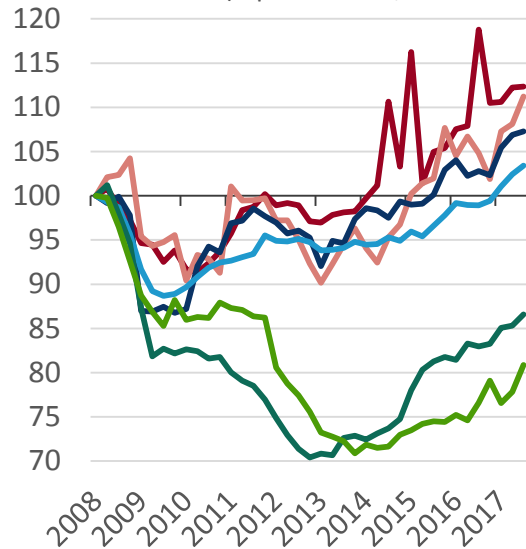
Services and emerging markets catching up.



Investments on the rise, supporting job creation

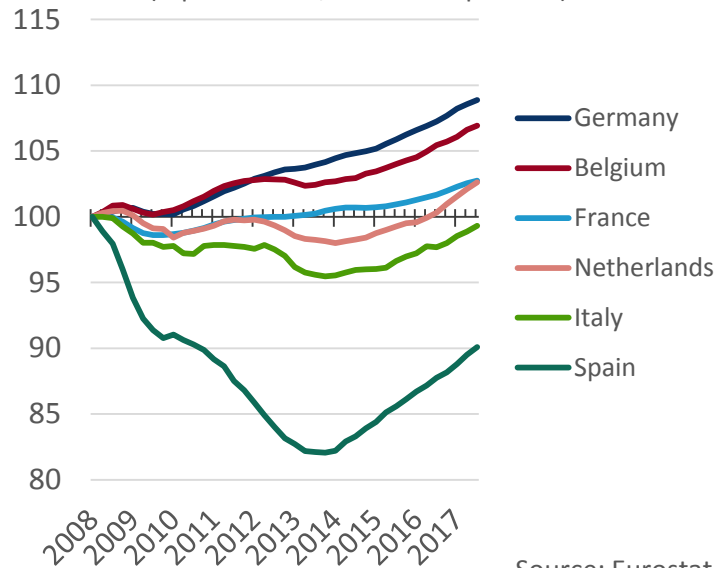


Investments, excl. dwellings
(1q2008 = 100, in volume)



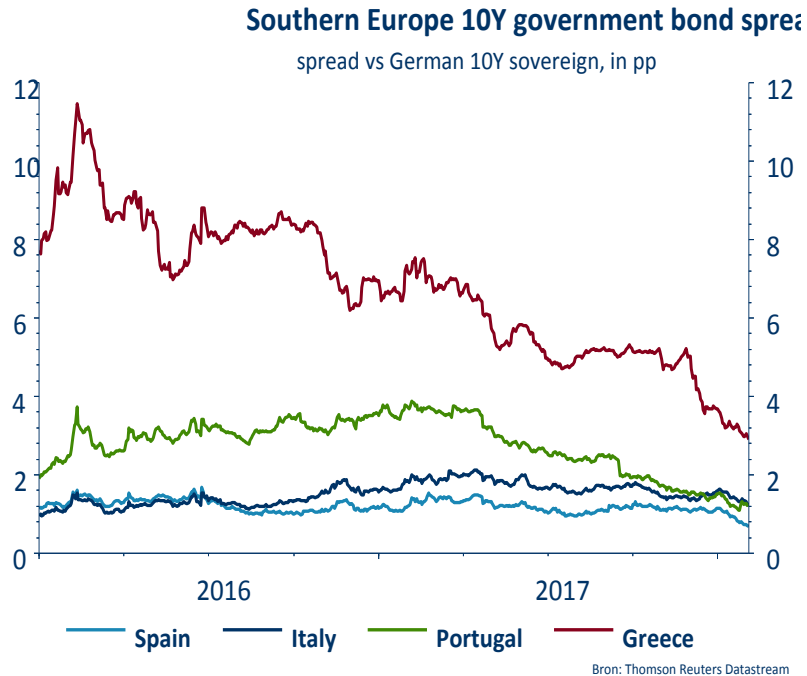
Source: Eurostat & NBB

Job Creation
(1q2008 = 100, number of persons)



Source: Eurostat

Disappearance of risk premia

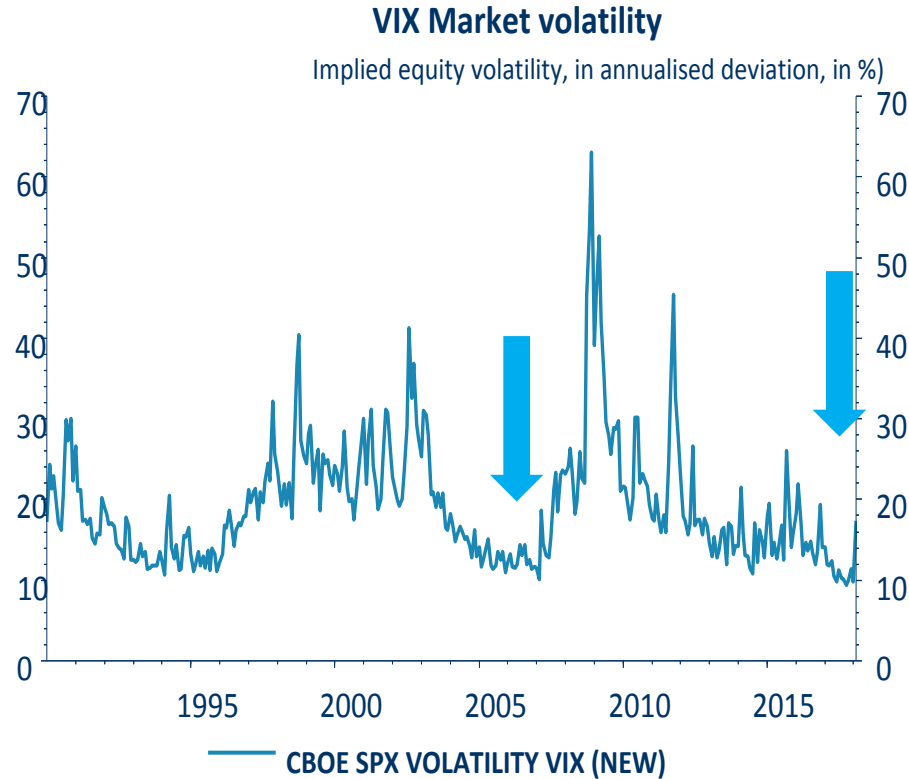


- Intra-EMU spreads should reflect the **real economic risk differences** across Euro Area economies.
- **Spread compression** due to ECB QE
- **End of QE may lead to volatility on markets**

The crisis is over!

- Economic fundamentals are strong and even improving.
- Global synchronization in business cycle

Calm before the storm?



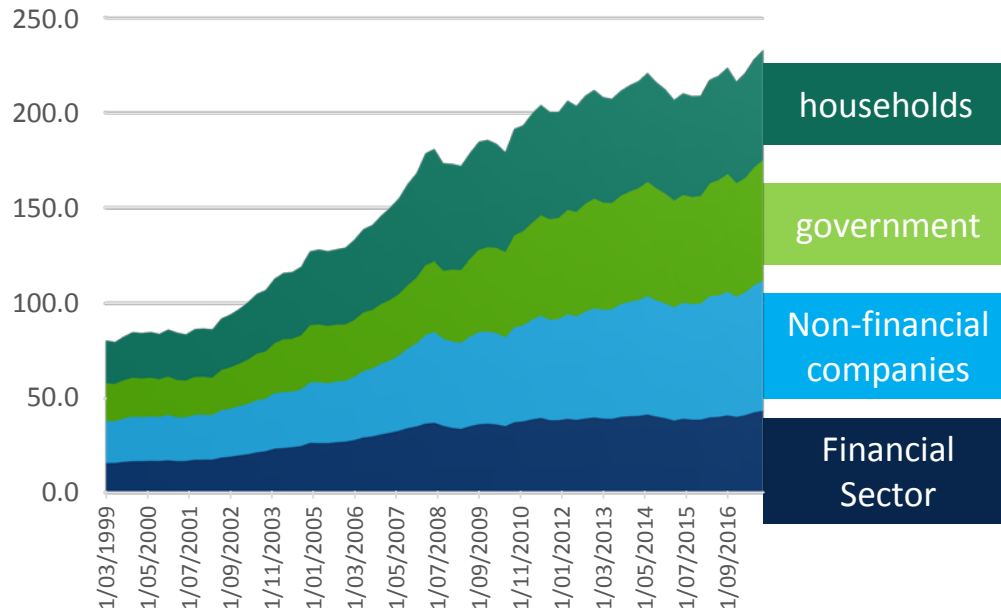
Bron: Thomson Reuters Datastream

Riders in the Dark

- Debt, debt, debt
- Reviving productivity growth
- Hard landing in the US economy
- Monetary normalization in Europe
- Strengthening our economic foundations

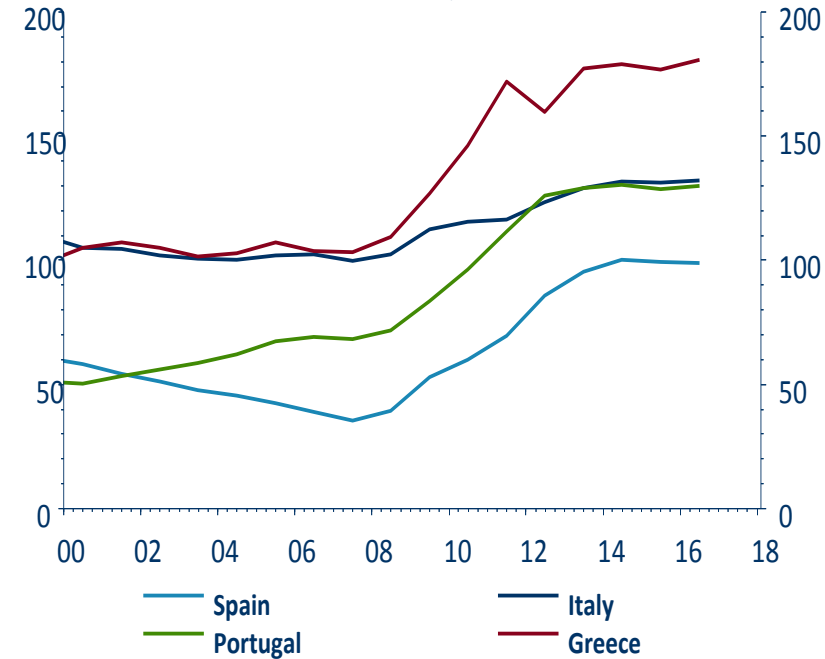
High debt levels = Damocles' sword

Evolution in Global Debt
(trillion USD)



Southern Europe gross public debt

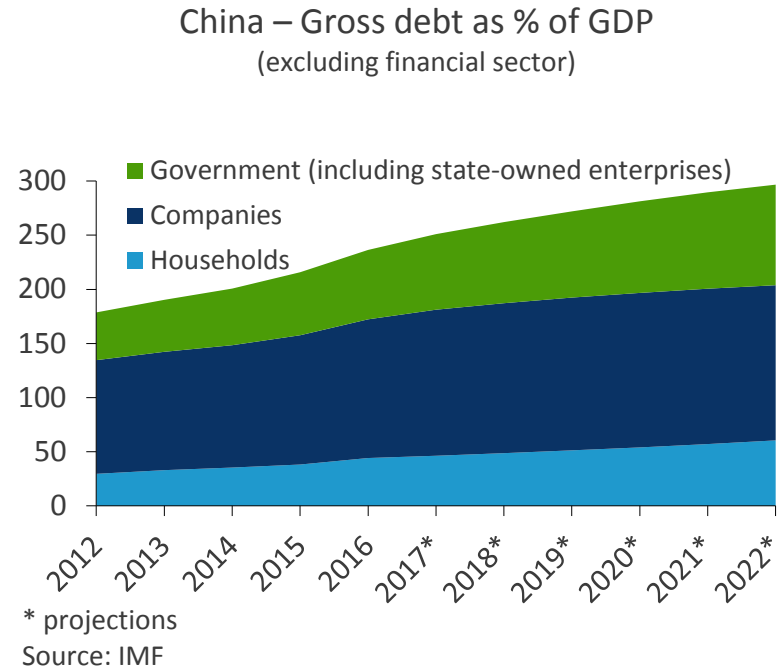
Eurostat, % of GDP



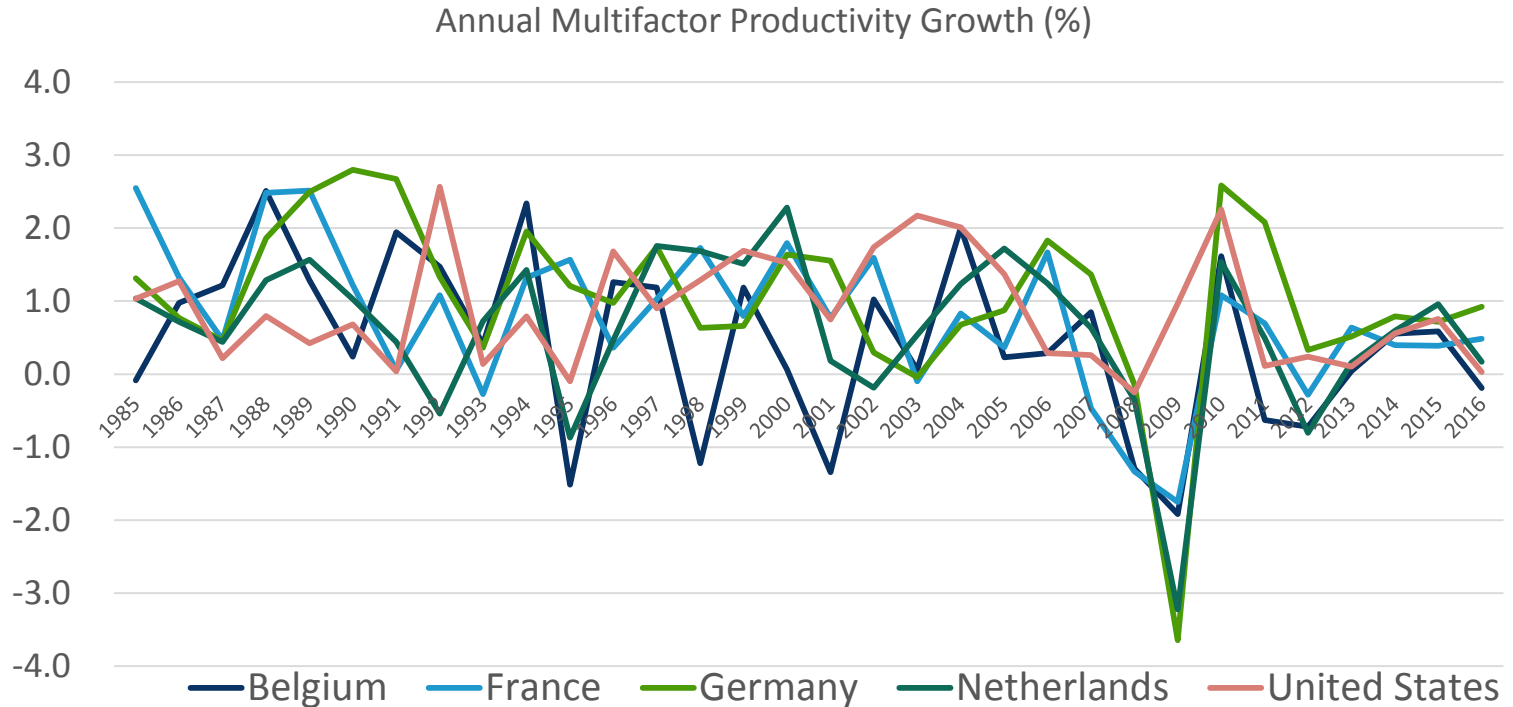
Bron: Thomson Reuters Datastream

Chinese Dragon surviving on debt

Chinese transition towards a domestically oriented services economy financed by debt accumulation.

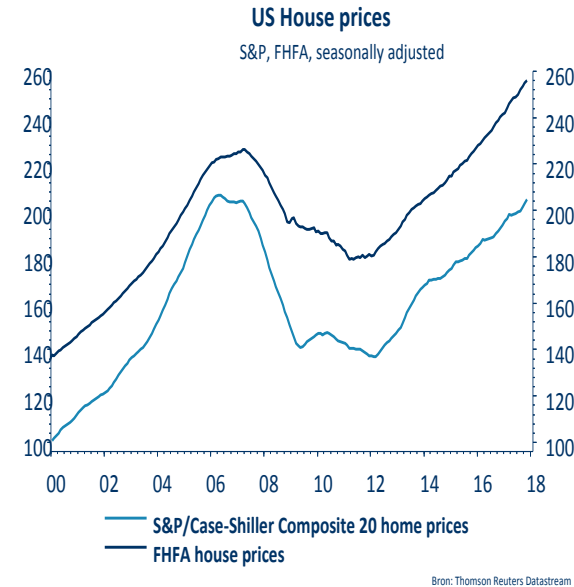
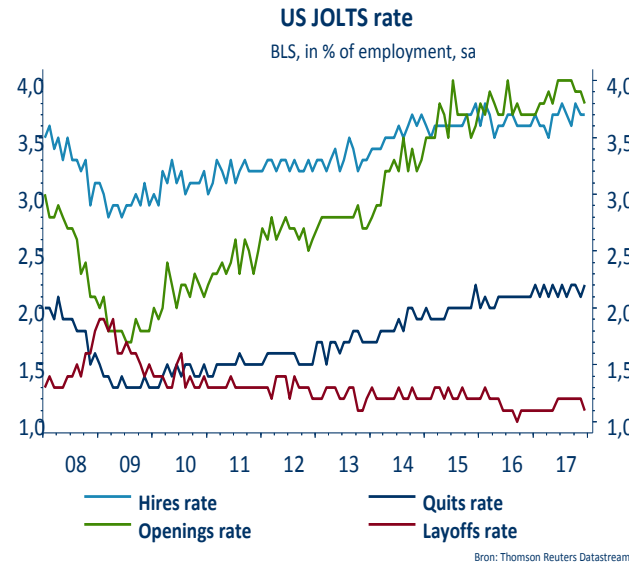
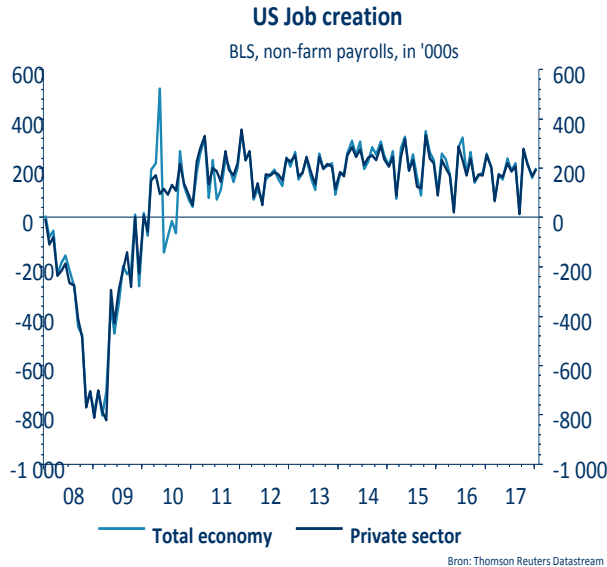


Low productivity growth = Achilles' Heel

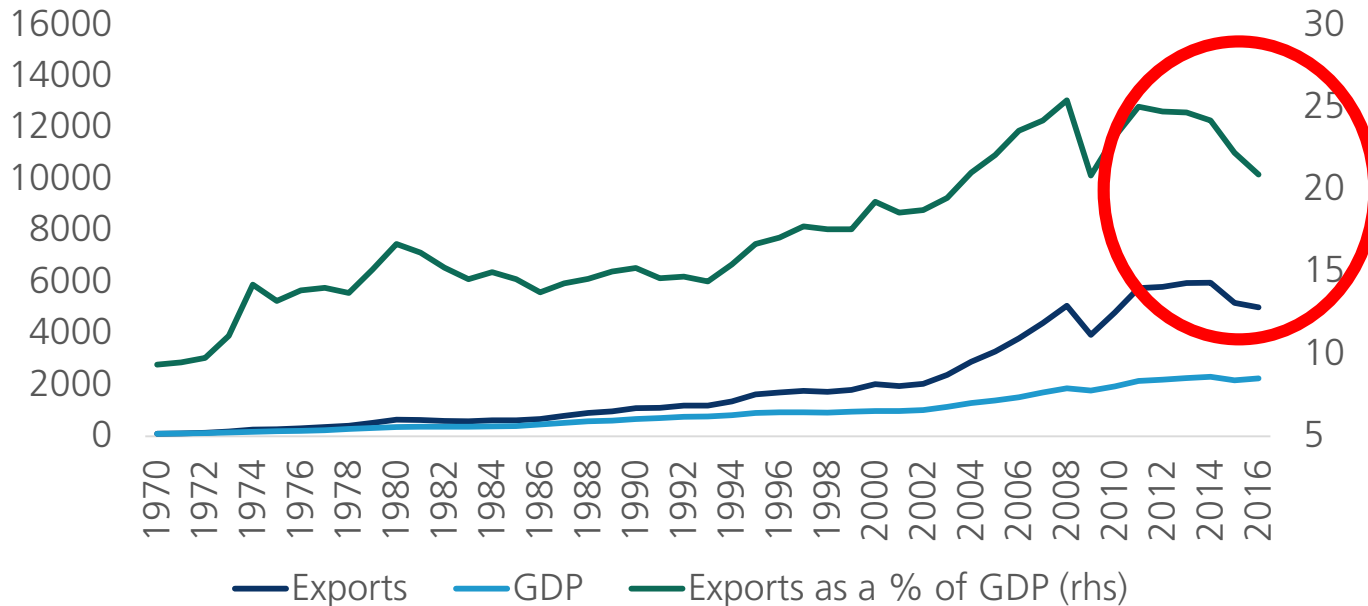


Hard landing in the US economy?

Trump's excessive stimulus increases the risks

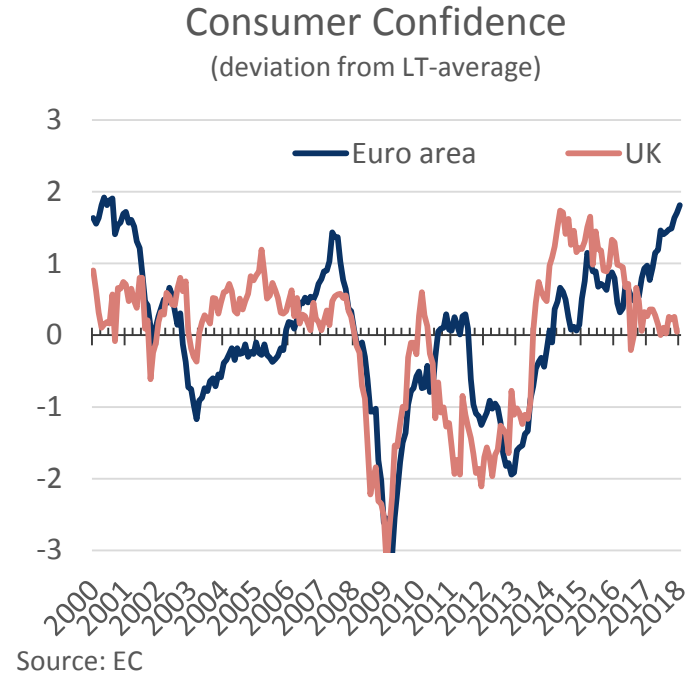
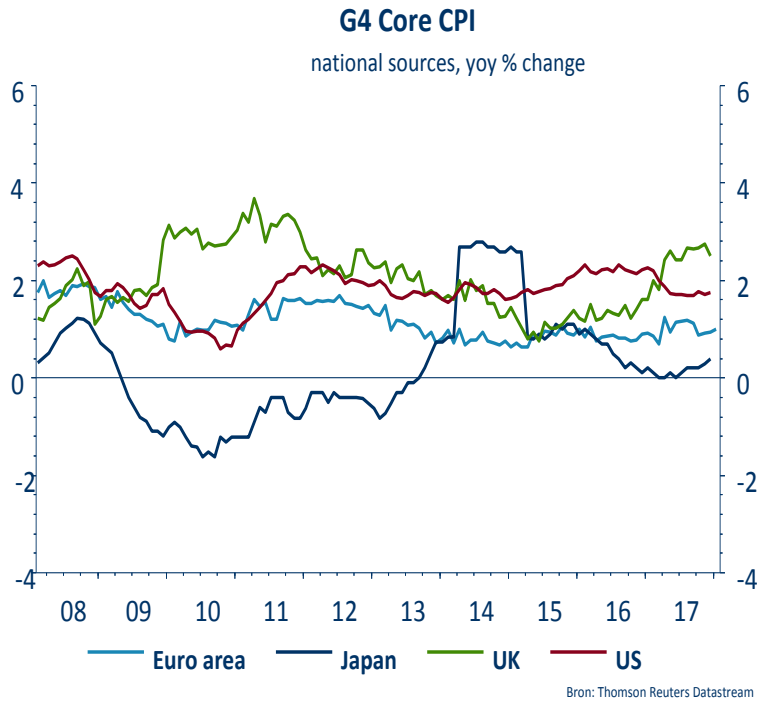


De-globalization: the new ideology?

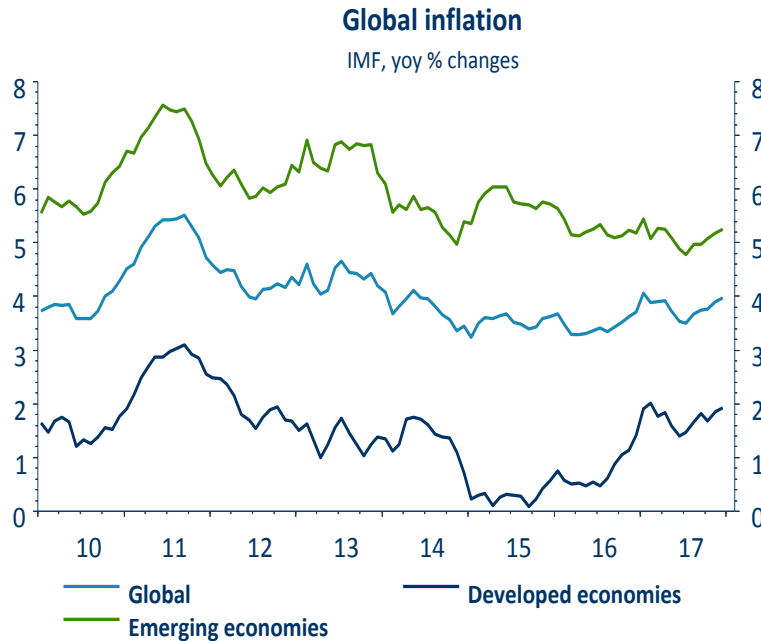


Source: KBC Economic Research based on UNCTAD (2018),
index 1970=100, current prices

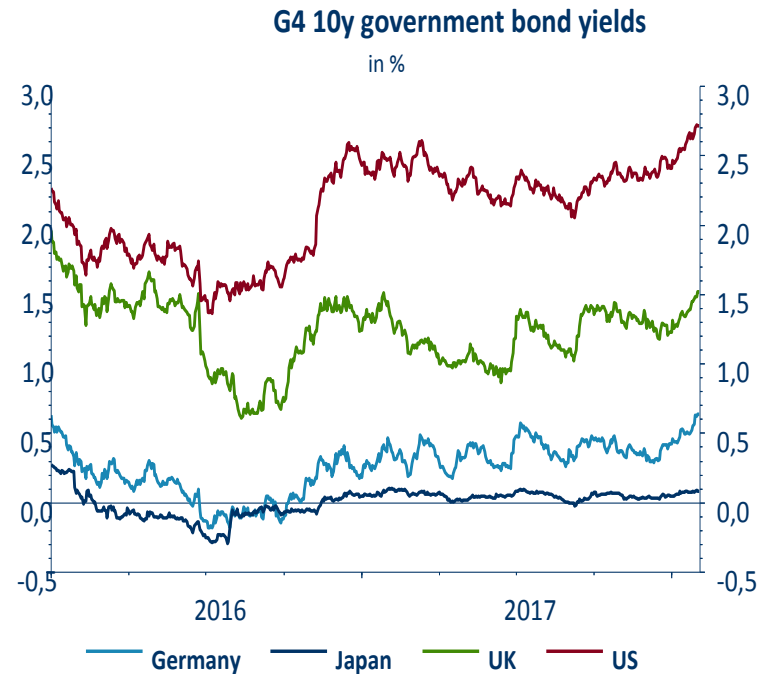
Economic disintegration - Brexit



Return of inflation triggers (expected) monetary normalization

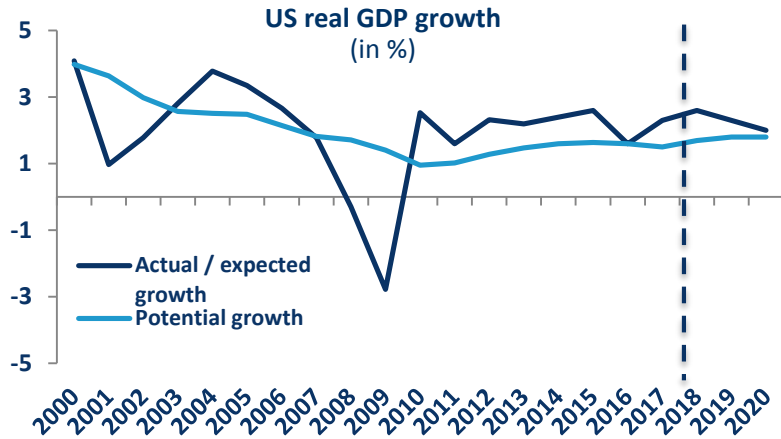


Bron: Thomson Reuters Datastream



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Growing beyond potential... not forever



Real GDP growth

US (in %)

	2015	2016	2017	2018	2019	2020
Actual / expected	2.6	1.6	2.2	2.6	2.3	2.0
Potential*	1.6	1.6	1.5	1.7	1.8	1.8

* Source: Federal Reserve Bank of St Louis

Real GDP growth

euro area (in %)

	2015	2016	2017	2018	2019	2020
Actual / expected	2.0	1.8	2.5	2.5	2.2	1.7
Potential*	1.2	1.1	1.2	1.2	1.2	1.2

* Source: Eurostat until 2018, from 2019 on KBC based on Eurostat

Fairy tale with a happy ending?

- **Global economic recovery** with strong foundations.
- Forward-looking indicators point to **continuation of the cycle**.
- Increasing number and severity of **global risks**.
- **Risk-neutral environment very sensitive to any shock**.
Small events may trigger a deep crisis.
- **Fertile soil for financial markets**, for now
 - but lack of risk-aversion triggers **speculation and excessive risk-taking**
 - **volatility is back on the agenda!**

KBC Forecasts

February 2018

Growth and inflation forecasts major economies (in %)

	Real GDP growth			Headline inflation		
	2017	2018	2019	2017	2018	2019
EMU	2.5	2.5	2.2	1.5	1.5	1.6
US	2.3	2.6	2.3	2.1	2.4	2.4

		Current (05/02/18)	+3M	+6M	End 2018	+12m	End 2019
US	Fed policy rate (middle of the target range)	1.375	1.625	1.875	2.125	2.125	2.375
	10y Bond yield	2.88	2.70	2.80	3.00	3.00	2.90
Eurozone	ECB refi-rate	0.00	0.00	0.00	0.00	0.00	0.25
	ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	0.00
Germany	10y Bond yield	0.77	0.80	0.90	1.30	1.30	1.75



Thank you for your attention!

Q&A

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