

World Economic and Financial Surveys

World Economic Outlook

Spillovers and Cycles in the Global Economy

.....



APR 07

World Economic and Financial Surveys

WORLD ECONOMIC OUTLOOK
April 2007

Spillovers and Cycles in the Global Economy



International Monetary Fund

©2007 International Monetary Fund

Production: IMF Multimedia Services Division
Cover and Design: Luisa Menjivar and Jorge Salazar
Figures: Theodore F. Peters, Jr.
Typesetting: Choon Lee

World economic outlook (International Monetary Fund)

World economic outlook: a survey by the staff of the International Monetary Fund.—1980— Washington, D.C.: The Fund, 1980—

v.; 28 cm.—(1981–84: Occasional paper/International Monetary Fund ISSN 0251-6365)

Annual.

Has occasional updates, 1984—

ISSN 0258-7440 = World economic and financial surveys

ISSN 0256-6877 = World economic outlook (Washington)

I. Economic history—1971—Periodicals. I. International Monetary Fund. II. Series: Occasional paper (International Monetary Fund)

HC10.W7979 84-640155

338.5'443'09048—dc19

AACR 2 MARC-S

Library of Congress 8507

Published biannually.
ISBN 978-1-58906-626-7

Price: US\$57.00
(US\$54.00 to full-time faculty members and
students at universities and colleges)

Please send orders to:
International Monetary Fund, Publication Services
700 19th Street, N.W., Washington, D.C. 20431, U.S.A.
Tel.: (202) 623-7430 Telefax: (202) 623-7201
E-mail: publications@imf.org
Internet: <http://www.imf.org>

CONTENTS

Assumptions and Conventions	ix
Preface	xi
Foreword	xii
Executive Summary	xv
Chapter 1. Global Prospects and Policy Issues	1
Global Economic Environment	1
Outlook and Short-Term Risks	5
Cross-Country Spillovers: Can the Global Economy Decouple from a U.S. Slowdown?	15
Medium-Term Challenges: Can the Productivity Boom Be Sustained?	19
Policy Issues	27
Appendix 1.1. Recent Developments in Commodity Markets	34
References	46
Chapter 2. Country and Regional Perspectives	47
United States and Canada: How Much Will the U.S. Economy Slow?	47
Western Europe: Can Recent Vigor Be Sustained?	51
Industrial Asia: Japan's Expansion Remains on Track	56
Emerging Asia: How Resilient Is the Region to a U.S. Slowdown?	60
Latin America: Boosting Productivity Is the Key to Sustaining Growth	66
Emerging Europe: Integrating with the European Union	69
Commonwealth of Independent States: Strong Growth but More Economic Diversification Needed	72
Africa: Sustaining Recent Growth Momentum	73
Middle East: Expanding the Benefits of the Oil Boom	77
References	79
Chapter 3. Exchange Rates and the Adjustment of External Imbalances	81
Past Episodes of Large External Imbalances: An Event Analysis	82
How Responsive Are U.S. Trade Volumes to Exchange Rate Movements?	93
Implications for Global Imbalances	104
Conclusions	106
Appendix 3.1. Event Analysis: Methodology and Data	107
Appendix 3.2. Econometric Estimates of Trade Models	108
References	118
Chapter 4. Decoupling the Train? Spillovers and Cycles in the Global Economy	121
U.S. Economy and International Business Cycle Fluctuations	123
Identifying Common Elements in International Business Cycle Fluctuations	139

CONTENTS

How the United States Affects the Global Economy—A Model-Based Simulation Analysis	144
Summary and Conclusions	147
Appendix 4.1. Econometric Methodology	149
Appendix 4.2. Common Elements in International Business Cycle Fluctuations: Description of the Dynamic Factor Models	152
References	157
Chapter 5. The Globalization of Labor	161
How Globalized Is Labor?	162
How Has the Globalization of Labor Affected Workers in Advanced Economies?	166
Summary and Policy Implications	180
Appendix 5.1. Data Sources and Methods	181
References	189
Annex: IMF Executive Board Discussion of the Outlook, March 2007	193
Statistical Appendix	199
Assumptions	199
What's New	199
Data and Conventions	202
Classification of Countries	205
General Features and Composition of Countries in the <i>World Economic Outlook</i> Classification	205
List of Tables	209
Output (Tables 1–6)	211
Inflation (Tables 7–11)	222
Financial Policies (Tables 12–19)	230
Foreign Trade (Tables 20–24)	239
Current Account Transactions (Tables 25–31)	247
Balance of Payments and External Financing (Tables 32–36)	262
External Debt and Debt Service (Tables 37–42)	272
Flow of Funds (Table 43)	281
Medium-Term Baseline Scenario (Tables 44–45)	285
<i>World Economic Outlook and Staff Studies for the World Economic Outlook, Selected Topics</i>	289
Boxes	
1.1 Understanding the Link Between Oil Prices and the World Economy	17
1.2 Ensuring Fiscal Sustainability in G-7 Countries	24
1.3 Oil Consumption Across Major Countries: Is the United States Different?	30
1.4 Hedging Against Oil Price Volatility	36
2.1 Housing Market Slowdowns	52
2.2 Lessons from Successful European Labor Market Reformers	58
2.3 Is China Investing Too Much?	63
3.1 External Sustainability and Financial Integration	84
3.2 Large and Persistent Current Account Imbalances	97

3.3 Exchange Rate Pass-Through to Trade Prices and External Adjustment	100
4.1 Financial Linkages and Spillovers	130
4.2 Macroeconomic Conditions in Industrial Countries and Financial Flows to Emerging Markets	133
4.3 Spillovers and International Business Cycle Synchronization: A Broader Perspective	142
5.1 Emigration and Trade: How Do They Affect Developing Countries?	175
A1 Economic Policy Assumptions Underlying the Projections for Selected Advanced Economies	200

Tables

1.1 Overview of the <i>World Economic Outlook</i> Projections	2
1.2 Emerging Market and Developing Countries: Net Capital Flows	8
1.3 Major Advanced Economies: General Government Fiscal Balances and Debt	29
1.4 Global Oil Demand by Region	41
1.5 Effects of Petroleum Products on Production of Selected Grains in the United States	44
2.1 Advanced Economies: Real GDP, Consumer Prices, and Unemployment	49
2.2 Advanced Economies: Current Account Positions	51
2.3 Selected Asian Countries: Real GDP, Consumer Prices, and Current Account Balance	61
2.4 Selected Western Hemisphere Countries: Real GDP, Consumer Prices, and Current Account Balance	66
2.5 Emerging Europe: Real GDP, Consumer Prices, and Current Account Balance	69
2.6 Commonwealth of Independent States: Real GDP, Consumer Prices, and Current Account Balance	72
2.7 Selected African Countries: Real GDP, Consumer Prices, and Current Account Balance	75
2.8 Selected Middle Eastern Countries: Real GDP, Consumer Prices, and Current Account Balance	77
3.1 Summary Statistics of Episodes of Reversals	88
3.2 Standard Trade Model: Estimates of U.S. Trade Elasticities	96
3.3 List of Reversal Episodes	109
3.4 List of Large and Persistent Episodes	111
3.5 Advanced Economies: Contractionary and Expansionary Deficit Reversals	112
3.6 Emerging Markets: Contractionary and Expansionary Surplus Reversals	112
3.7 Variable Definitions	113
3.8 Standard Empirical Trade Model: Long-Run U.S. Trade Elasticities	114
3.9 Long-Run U.S. Trade Elasticities and Aggregation Bias	115
3.10 Long-Run U.S. Import Elasticities and Vertical Integration	115
3.11 Nonlinearity Tests (p value) and Thresholds for Changes in Relative Import Prices	116
3.12 Error Correction Model for U.S. Imports, Sample 1973:Q1–2006:Q3	116
4.1 Role of Large Economies in the Global Economy	122
4.2 Export Orientation by Region	125
4.3 External Portfolio Assets and Liabilities by Region	126
4.4 U.S. Downturns and Global Growth	127
4.5 Growth and Spillovers (1)	136
4.6 Growth and Spillovers (2)	136

CONTENTS

4.7 Contributions to Output Fluctuations	140
4.8 Consumption	156
4.9 Investment	156
4.10 Contributions to Business Cycle Fluctuations in G-7 Countries	157
5.1 Classification of Sectors by Skill Intensity	182
5.2 Impact of Labor Globalization and Technological Change on Labor Shares	187
5.3 Impact of Labor Globalization and Technological Change on Skilled and Unskilled Labor Shares	188

Figures

1.1 Global Indicators	1
1.2 Current and Forward-Looking Indicators	3
1.3 Global Inflation	4
1.4 Developments in Mature Financial Markets	5
1.5 Mature Financial Market Indicators	6
1.6 Emerging Market Financial Conditions	7
1.7 External Developments in Major Advanced Economies	10
1.8 External Developments in Emerging Market Countries	11
1.9 Global Outlook	12
1.10 Risks to the Global Outlook	13
1.11 Productivity and Labor Cost Developments in Selected Advanced Economies	14
1.12 Measures of the Output Gap and Capacity Pressures	15
1.13 Current Account Balances and Net Foreign Assets	16
1.14 Global Productivity Performance	20
1.15 Global Saving, Investment, and Current Accounts	21
1.16 Saving and Investment in Emerging Market and Oil-Producing Economies	22
1.17 Average Petroleum Spot and Futures Prices, and Selected Energy Product Prices	35
1.18 Demand and Prices of Petroleum Products in Selected Developing and OECD Countries	40
1.19 Oil Supply, OECD Inventories, and OPEC Spare Capacity	41
1.20 Actual and Expected Semiannual World Consumption and Non-OPEC Production Growth, and Brent Crude Oil Prices	42
1.21 Commodity Price Indices and Selected Metals and Food Price Indices	43
1.22 Semiconductor Market	45
2.1 United States: How Much Will the U.S. Economy Slow?	48
2.2 United States: Developments in the Residential and Nonresidential Construction Sectors	50
2.3 Western Europe: Productivity Is Failing to Catch Up	54
2.4 Western Europe: Need to Do More to Raise Labor Utilization	55
2.5 Japan: Understanding Developments in Domestic Demand	57
2.6 Emerging Asia: Assessing the Resilience to a Global Slowdown	62
2.7 Latin America: Productivity Is Lagging	68
2.8 Emerging Europe: Convergence with the European Union	70
2.9 Commonwealth of Independent States (CIS): Further Reform Needed to Raise Investment Levels	74
2.10 Sub-Saharan Africa: Can Recent Growth Momentum Be Sustained?	76
2.11 Middle East: Investment in Non-Oil Sectors Key to Employment Growth	78

3.1 Episodes of Deficit Reversals and Large and Persistent Deficits	83
3.2 Advanced Economies: Key Indicators During Deficit Reversals	89
3.3 Deficit Reversals in Advanced Economies: Episode Characteristics by Average Change in GDP Growth	90
3.4 Advanced Economies: Total Change in Real Effective Exchange Rate and Average Change in GDP Growth During Deficit Reversals	91
3.5 Episodes of Surplus Reversals and Large and Persistent Surpluses	92
3.6 Key Indicators During Surplus Reversals	93
3.7 Surplus Reversals in Emerging Markets: Episode Characteristics by Average Change in GDP Growth	94
3.8 Oil Exporters: Surplus Reversals	95
3.9 Thresholds in Relative Trade Prices, Real Effective Exchange Rate, and Flexibility of Markets	104
3.10 United States: Trade Flows, Real Effective Exchange Rate (REER), and Growth Differential with Trading Partners	105
3.11 Required Exchange Rate Change for a 1 Percentage Point Reduction in the Ratio of U.S. Trade Deficit to GDP	106
3.12 Sectoral Price Elasticities of Trade	114
4.1 U.S. Recessions and Real GDP Growth by Region	121
4.2 Trade Orientation	124
4.3 United States: Real Imports, Real Effective Exchange Rate, Real Stock Returns, and Interest Rates During Recessions and Slowdowns	128
4.4 Output Gaps and Structural Characteristics During U.S. Recessions	129
4.5 Growth Declines and Spillovers: Regional Implications	137
4.6 Impact of Growth Declines in the United States and Japan	138
4.7 Global Factor	141
4.8 Global Implications of a Disturbance to U.S. Private Demand	145
4.9 Global Growth and Inflation with Correlated Disturbances and Delayed Monetary Policy Response	147
4.10 Limited In-Sample Persistence of U.S. Growth Shocks	150
4.11 Impact of U.S. Growth Declines on Growth in Latin America: Effects by Country	151
4.12 Impact of Euro Area Growth Declines on Growth in Latin America: Effects by Country	152
4.13 Impact of U.S. Growth Declines on Growth in Emerging Asia: Effects by Country	153
4.14 Impact of Japanese Growth Declines on Growth in Emerging Asia: Effects by Country	154
5.1 Alternative Measures of Global Labor Supply	162
5.2 Immigration and Trade	163
5.3 Share of Developing Countries in Trade	164
5.4 Developing Countries: Exports of Skilled Manufacturing Goods and Services	165
5.5 Offshoring by Advanced Economies	166
5.6 Advanced Economies: Offshoring by Category of Inputs	167
5.7 Advanced Economies: Labor Income Shares	168
5.8 Advanced Economies: Labor Compensation and Employment	170
5.9 Advanced Economies: Labor Compensation and Employment in Skilled and Unskilled Sectors	171
5.10 Catch-Up by Emerging Markets' Manufacturing Wages	172

CONTENTS

5.11 Information and Communications Technology (ICT) Capital, Patents, and Labor Market Indicators	173
5.12 Contributions to the Annual Change in Labor Share	174
5.13 Advanced Economies: Contributions to the Annual Change in the Labor Share by Skill Level	178
5.14 Effects of Changes in Trade Prices on Labor Share, Output, and Labor Compensation	179
5.15 Advanced Economies' Labor Income Share, Labor Compensation, and Employment: Robustness to Alternative Skill Classification	182

ASSUMPTIONS AND CONVENTIONS

A number of assumptions have been adopted for the projections presented in the *World Economic Outlook*. It has been assumed that real effective exchange rates will remain constant at their average levels during January 26–February 23, 2007, except for the currencies participating in the European exchange rate mechanism II (ERM II), which are assumed to remain constant in nominal terms relative to the euro; that established policies of national authorities will be maintained (for specific assumptions about fiscal and monetary policies in industrial countries, see Box A1); that the average price of oil will be \$60.75 a barrel in 2007 and \$64.75 a barrel in 2008, and remain unchanged in real terms over the medium term; that the six-month London interbank offered rate (LIBOR) on U.S. dollar deposits will average 5.3 percent in 2007 and 5.1 percent in 2008; that the three-month euro deposits rate will average 3.8 percent in 2007 and 3.7 percent in 2008; and that the six-month Japanese yen deposit rate will yield an average of 0.9 percent in 2007 and of 1.2 percent in 2008. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would in any event be involved in the projections. The estimates and projections are based on statistical information available through end-March 2007.

The following conventions have been used throughout the *World Economic Outlook*:

- . . . to indicate that data are not available or not applicable;
- to indicate that the figure is zero or negligible;
- between years or months (for example, 2005–06 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years or months (for example, 2005/06) to indicate a fiscal or financial year.

“Billion” means a thousand million; “trillion” means a thousand billion.

“Basis points” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to $\frac{1}{4}$ of 1 percent point).

In figures and tables, shaded areas indicate IMF staff projections.

Minor discrepancies between sums of constituent figures and totals shown are due to rounding.

As used in this report, the term “country” does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

FURTHER INFORMATION AND DATA

This report on the *World Economic Outlook* is available in full on the IMF's Internet site, www.imf.org. Accompanying it on the website is a larger compilation of data from the WEO database than in the report itself, consisting of files containing the series most frequently requested by readers. These files may be downloaded for use in a variety of software packages.

Inquiries about the content of the *World Economic Outlook* and the WEO database should be sent by mail, electronic mail, or telefax (telephone inquiries cannot be accepted) to:

World Economic Studies Division
Research Department
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431, U.S.A.
E-mail: weo@imf.org Telefax: (202) 623-6343

PREFACE

The analysis and projections contained in the *World Economic Outlook* are integral elements of the IMF's surveillance of economic developments and policies in its member countries, of developments in international financial markets, and of the global economic system. The survey of prospects and policies is the product of a comprehensive interdepartmental review of world economic developments, which draws primarily on information the IMF staff gathers through its consultations with member countries. These consultations are carried out in particular by the IMF's area departments together with the Policy Development and Review Department, the Monetary and Capital Markets Department, and the Fiscal Affairs Department.

The analysis in this report has been coordinated in the Research Department. The project has been directed by Charles Collins, Deputy Director of the Research Department, and Tim Callen, Division Chief, Research Department.

The primary contributors to this report are Thomas Helbling, Subir Lall, S. Hossein Samiei, Peter Berezin, Roberto Cardarelli, Kevin Cheng, Florence Jaumotte, Ayhan Kose, Toh Kuan, Michael Kumhof, Douglas Laxton, Valerie Mercer-Blackman, Jonathan Ostry, Alessandro Rebucci, Nikola Spatafora, and Irina Tytell. Olga Akcadag, To-Nhu Dao, Christian de Guzman, Stephanie Denis, Nese Erbil, Angela Espiritu, Patrick Hettinger, Bennett Sutton, and Ercument Tulun provided research assistance. Mahnaz Hemmati, Laurent Meister, and Emory Oakes managed the database and the computer systems. Sylvia Brescia, Celia Burns, and Jemille Colon were responsible for word processing. Other contributors include Anthony Annett, Andrew Benito, Selim Elekdag, Robert Feenstra, Caroline Freund, Jean Imbs, George Kapetanios, Jaewoo Lee, Daniel Leigh, Jaime Marquez, Gian Maria Milesi-Ferretti, Prachi Mishra, Susana Mursula, Christopher Otrok, Cedric Tille, Shang-Jin Wei, and Johannes Wiegand. Archana Kumar of the External Relations Department edited the manuscript and coordinated the production of the publication.

The analysis has benefited from input during the early stages by Raghuram Rajan, the former Economic Counsellor, and from comments and suggestions by staff from other IMF departments, as well as by Executive Directors following their discussion of the report on March 21 and 26, 2007. However, both projections and policy assessments are those of the IMF staff and should not be attributed to Executive Directors or to their national authorities.

FOREWORD

The *World Economic Outlook* team has again done an outstanding job of pulling together both the latest key global macroeconomic developments and the three analytical issues that are highly relevant for accurately reading the current economic environment. The team continues to be ably led by Charles Collyns and Tim Callen and the cornerstone is staff at all levels in the World Economic Studies Division. My predecessor as Economic Counsellor, Raghuram Rajan, contributed key insights during the early stages of preparation. I would also like to stress the importance of inputs both from other parts of the Research Department and—critically—from other departments at the IMF.

It may surprise readers to learn that this *World Economic Outlook* sees global economic risks as having *declined* since our last issue in September 2006. Certainly this is at odds with many recent newspaper headlines and commentary, which have focused on problems related to U.S. mortgages, the potential for “disorderly” unwinding of global imbalances, and worries about rising protectionist pressures.

Nevertheless, as discussed in Chapters 1 and 2, looking at the big picture, we actually see the continuation of strong global growth as the most likely scenario. The most immediate concern is bad news from the U.S. housing market, and an associated slowing of U.S. growth. However, these developments have been evident for some months and are largely reflected in market assessments of credit quality. These assessments remain positive for most types of credit. The spreads on lower-quality BBB-rated bonds backed by subprime mortgages have indeed widened substantially, but there has been little change in the yields of lower-rated corporate bonds, let alone those of investment-grade issues. The mainstream mortgage market remains open for business to people with good credit histories.

We should be careful not to underestimate the potential spillovers from the specific problems with high-risk mortgages in the United States but, compared with six months ago and based on the information available today, there is less reason to worry about the global economy. First of all, the overall U.S. economy is holding up well despite the sharp downturn in the housing sector. Investment has slowed somewhat, but consumption remains well supported by a strong labor market and healthy household balance sheets. Unemployment remains low and—in most parts of the U.S. economy—there are good prospects for sustained job growth. Even more important, the signs elsewhere are very encouraging. The euro area is experiencing its fastest growth in six years, Japan’s expansion has momentum, and emerging market and developing countries—led by China and India—continue to enjoy remarkable growth. Overall, taking the five-year period of 2003–07 as a whole, the global economy is achieving its fastest pace of sustained growth since the early 1970s.

These developments, however, do rightly focus our attention on the important issue of spillovers from the United States to the broader global economy. This is the timely focus of Chapter 4, which points out that major global growth slowdowns are generally not due to country-specific developments, even if the country in question is one of the world’s largest economies. Global growth typically declines sharply only when there are events that affect many countries at the same time. The chapter finds that rising trade and financial integration of the global economy does increase the potential impact of spillovers across economies, but even if the U.S. economy were to slow further, the scale of such spillovers should be manageable, especially recognizing the strengthening of macroeconomic policy management around the world over the past 20 years. Flexible exchange rates and forward-looking monetary policies reduce the output effects from all kinds of shocks.

Turning to another risk highlighted in our September 2006 report, there has been definite progress in the right direction with regard to global imbalances. There are encouraging signs that the U.S. cur-

rent account deficit is now stabilizing, albeit at a high level, helped by a real depreciation of the U.S. dollar and recent strong export performance. Moreover, policy steps have been taken, which, while small, are significant and very real. This movement in the right direction—particularly with regard to actual and intended changes in fiscal policy—is exactly what is needed at this time. However, obviously there is more to be done as the existing configuration of major current accounts is not sustainable indefinitely.

Chapter 3 reassesses the evidence on the role of exchange rates in external adjustment. It confirms that market-led real appreciations and depreciations can support macroeconomic policy changes and private sector saving and investment decisions by facilitating the reallocation of resources across sectors, and help to reduce imbalances without large fluctuations in output. In particular, the chapter pours some cold water on the “exchange rate pessimism” story, in which exchange rates move but do not contribute to current account adjustment. There is also no reason to believe that elasticities or other relevant parameters have declined recently for key countries, such as the United States. If anything, standard models may underestimate how much U.S. trade volumes are likely to respond to changes in relative prices.

Exchange rate adjustment is certainly not a panacea, but it can definitely lower the output costs that would otherwise be involved in changing current account positions. At the same time, we should never lose sight of the need to increase domestic demand in surplus countries, as well as to boost private and government net savings in the United States.

Chapter 5 continues a series of analytical pieces from previous issues of the *World Economic Outlook* on the process and consequences of the globalization of the world economy, which has been the principal wellspring of recent strong global economic performance. It focuses on the remarkable development of a bigger, more integrated worldwide market for labor. This is one of the central changes of the past 25 years and, in all likelihood, the associated changes will continue to be influential for at least another generation. In part, this global market has developed through the opening up of China, India, and the former communist bloc to the global trading system, as well as through the development of new communications and transportation technologies. But, in equal part, it has been made possible by increasing cross-border movements of financial capital that has sought out attractive skill-wage combinations even in what initially seemed to be unlikely parts of the world.

While there are some legitimate concerns about the pace and composition of those flows, it is important to put them in their proper perspective. This is not a short-run or second-order phenomenon, but rather a major secular shift in where capital finds labor. Put differently, it is the flow of capital and closely associated talent (global management and global ideas) to places where strong complementary skills (including local management and local ideas) are available at attractive prices. This “flow” into emerging markets is really a mutually beneficial set of exchanges that has made possible the creation of a larger global market for labor at low, medium, and high wages. This, in turn, has had great benefits both for the countries using better access to finance to grow faster as well as for everyone who consumes the goods that these countries produce.

The globalization of labor also has had consequences for the distribution of income, and this should not be overlooked. The labor share of income has declined over time in the advanced economies, especially in Europe, and for workers in unskilled sectors. Many factors have contributed, and the findings in Chapter 5 suggest that technological advances rather than globalization of labor is the most important element. The costs of adjustment are not small and, for the people involved, they can be truly traumatic. In fact, it is exactly the loss of jobs in some regions of the United States—due to globalization of labor as well as to technology changes—that has created the most serious reason to worry about parts of the U.S. housing market. If you lose your job, this makes it much harder to service your mortgage, and the increase in distress sales and foreclosures puts downward pressure on house

prices. This makes it all the more important, from both a welfare and a macroeconomic perspective, to address the costs of adjustment, including through adequate labor market flexibility, good education and training, and safety nets that cushion but do not obstruct the process of change.

To be clear, the overall risks to global growth remain weighted to the downside, and any slow-down will further complicate people's lives. But as long as macroeconomic and structural policies are designed and implemented with these risks and real people in mind, a strong global economy should be maintained. And we need to take full advantage of the opportunity that this period provides to push ahead with deep, difficult reforms to ensure both that strong growth can be sustained despite challenges such as population aging and that the benefits of this growth can be shared across all segments of the population.

Simon Johnson

Economic Counsellor and Director, Research Department