2015 GLOBAL CONJUNCTURE AND EXPECTATIONS

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„While the global recovery continues, it remains too weak and uneven--and falls short of our collective ambition for strong, sustainable and balanced growth. To confront this challenge, we need action now".

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Abstract

The year 2015 is bringing serious attention to the global economic model and some pertinent evolution which will lead to a repositioning of the economic powers, old and news. It is a sign that the old design of understanding the mighty locomotives of the further economic growth is changing and its perspectives should take care of the evolving in the new motivations which can add to the quality of future growth. We can thing about the change of the paradigm in the existing order and accept that economic thinking should adopt to the new realities.

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Globalization was seen, usually by the good things that can bring a mega internationalization of economic activities, this time through the beautiful metaphor of sharing the same values in common. We were talking a lot about the opportunities and challenges of globalization and the need to "capitalize" them, but weakness in structural reforms on which globalization imposed have always been postponed and the awakening out of it was marked by a financial crisis unmatched. With this crisis, we began to discern the dark face of globalization and its challenges have become rather risk that the narrowed way how to capitalize on its opportunities.

2015 Global Conjuncture, followed step by step through quarterly statistics, reveal that attempts in economic recovery, maybe some successful (US, UK), took place amid worsening perception of risks in sizes not comparable: the possibility of an imminent new financial crisis, the dismantling of the EU, a phenomenon of unprecedented migration, local frozen conflicts, the decline in crude oil prices, the inefficiency of governance of the euro zone, tensions between NATO and Russia, unknown ways out of non-standard instruments of conducting monetary policy, etc. Of course, all these have focused somewhere on final decisional processes at different levels, but not meeting the expectations. The decisions have become more complex but without delivering comprehensive solutions. Referring strictly to economic growth, its characterization "has enjoyed" by a whole range of possible ratings: fragile, uncertain, inconsistent, fractured, lacking continuity, flexible firmness etc. with a huge impact on the functioning of commodity, goods and services markets, on capital financial and monetary too.

It is interesting that this complexity to have a reason and a good understanding in order to determine its perspective, it needs to be viewed through the major axis of the global model becoming easier to analyze. 2015 brought yet return of the US in the position of the engine of global economic growth, the adjusting the economic growth of China to its real potential (equivalent to decelerating its traditional high rates) by changing the driving factors (from investment and exports to domestic consumption), the worsening in the rates of development in BRICS countries, loss of pace in most emerging countries, especially in Latin America, the affecting countries with economies based on income from exports of raw materials and the slowdown in international trade.

Discrepancies in details come to confirm, by geographical areas or by countries, the intensity of uncertainties and volatility that manifests itself in economic field, powered by a a lack of ability to keep the mix of policies in harmony with the speed with which changes in market perceptions

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(mainly of commodities and financial) by investors in general, and consumers particularly. In this fragile context, there is a dominant noted given by the IMF analysis, that, while emerging small peripheral tangible progresses, including in relative increases in standards of living (showing a better reactivity to external stress through better disciplinary measures in economic policies in developed countries), excessive budget deficits and external debt reached dangerous levels, which and marked, in their turn, the lack of consistency in dealing with endogenous factors.

Packages of economic measures meant to easy the intensity of crisis have had usually a more disruptive impact (see medium-term effects of the austerity programs in many countries of the European Union) or adverse effects on the expectations, endangering the economic recovery to a sustainable level trough the investments. The intensity of fiscal consolidation (via the implementation of new of taxes, frozen wages, reduced public expenditures) required in order to reduce the budget deficits or generate the resources for external debt payments, annihilated the aggregate demand with the expected impact on the functioning of the private sector (which decreased production and increased the level of unemployment). The worst thing of fiscal consolidation was the significantly reduced fiscal space that governments could have been used in order to give the necessary impetus to public investment, capable to cope with the reluctance of the private sector to accommodate itself to the narrowing of the domestic and foreign consumer markets.

It should be noted, in these circumstances, that in 2015, the development phenomenon, in general, and the only support for economic growth, in particular, were due to the polices conducted by central banks, mainly in providing to liquidity at very low cost, with the reference rate in the money market close zero and even negative. They succeeded to ensure, on the one hand, financing budget deficits through financial market and by buying private equity against governmental instruments, and, on the other hand, the restoring the dynamics in the recovery of lending, in a still low trust worth environment between creditors and potential borrowers.

How it was observed the changes in phenomenology in economic field, of what we refer as global juncture defined statistically, mainly, by market indicators (quotations for commodities, stock indices for the capital markets, exchange rate volatility on Forex) and what was the psychological perception about the business environment, they have produced many fears about the global economic outlook assessments made by notorious economists (Stiglitz, Roubini) and many other analysts. The features of such developments were difficult to explain using the known traditional paradigm of the Great Moderation, but there seemed enough, in their view, to announce new crises, perhaps even a new greater financial crisis. The complexity of the new assessments did not fail to take into consideration the ongoing geopolitical facts (Ukraine crisis, the Greek crisis, the crisis of refugees etc.) and even the necessity to reassess the fundamentals of the current capitalism (Piketty, IMF). We reached to live in an economic system generating larger global imbalances when it comes to relative poverty and wealth dispersion.

In this context, we can sublimate the global economy in 2015, in terms of its main factors of drivers, on four fundamental aspects: what is happening with US and China's economies, what about the monetary policy conducted by FED and the evolution of the oil price. All other events, in the rest of the other economies, are only practical inputs and impacts of these fundamental aspects, becoming essential for the "health" of the global economy – sustainability and durability - and the sense of its evolution. They are interrelated and raises questions such as **whether they can** (a)reinforce the US economy becoming the global economic locomotive, (b)initiate the expected cyclical and structural adjustments to some obsolete economic models (China, Russia, EU), (c)produce speculative capital outflows burdening debts and exchange rate volatility (FED exit from quantitative easing operations and starting a general increase in reference interest rates), (d)witness a new decline of investments in the energy sector because of the crude oil oversupply), (e)put at risk for the countries exporting raw materials especially to China, (f)force Russia to react in terms of its dependence on incomes from oil exports at low prices, perhaps in the long run.

The current challenges of the world economy are brand new as compared to the two oil shocks of the 70s and 80s, global agenda becoming more complex and urgent. Regardless of the state of the global economy, the old paradigm is still close-minded, with a global agenda including the need for solutions inside a much wider interdependencies, represented by demographic pressure, climate change, environmental degradation and excessive movements of large populations. Under this agenda we find also key areas of economic and social points to be addressed as global energy supply, new jobs creation (UE), fight against terrorism, trafficking in fissile materials and access to weapons of mass destruction (Iran, North Korea), failed states, endemic poverty etc. The urgency of the global agenda comes out from one of the most perverse effects of globalization that of "contamination evil", with great speed, as last financial crisis swept the globe in less then 24 hours. It is to be understood that without paving the way for genuine solutions to the global themes, we hardly can speak of a new stage of qualitative economic growth on the long term, where the business the cycles will manifest in less excessive limits without profound crises or unexpected bubbles in different areas of concerns.

World economic governance has succeeded in other periods of time to adopt the necessary measures - in reference to the two oil shocks, for examples - and passed easily through risks and uncertainties as in the time of the Great Moderates. The current problems is that the decision makers have changed a lot under the expansion of a lower political culture, they do not denote strong leadership both on domestic and foreign issues The exacerbation of many internal social and political problems prevented genuine global cooperation between them as required by the multitude of interdependencies we live with.

The monetary policy of the US and the needed (and always postponed) structural reforms towards new economic models, as China has to cope with but, at the same time, is shifting towards the integrated financial market, are affecting all the transmission channels as trade, capital, exchange rate, interest rate, confusing the momentum of any recovery in markets and economies. A big challenge is the departure of central banks monetary policy from unorthodox measures (FED, Bank of England, Bank of Japan, ECB) at a time when the governments of those countries and the euro area are not ready to solve their domestic and external debt burden. The idea of proactive economic policy prevails only as intent, while economic setbacks caused by the financial crisis cannot comply with fiscal consolidation measures or deflation, as consumers lack trust or have other expectations.

Stimulating demand in globalization can not ignore the wider role of the financial stability, plus the introducing new concepts like that of macro-prudentiality and macro-stability, which still seeks pragmatic resonances. Amid distrust, fuelled by many deviations from ethics and morality at business-level, corporations, financial institutions and governance, the structural reforms are confronted with social upheavals in a tense environment, amid restrictive economic policies taken in 2010-2012, whose effects have not yet been absorbed, and lately new dangerous challenges, as in Europe. Divergent positions between economic policies and actors to rule them explain largely the continuous amendments on global economic growth forecasts, by countries and geographical areas, in which UN, OECD, EU and IMF data testify. Short-term forecasts indicate variability unable anchoring credible policies and behaviours worth for business decisions. They are postponed or extended for new waiting periods, as there is no sign for a consolidated recovery required to open long term trends.

Referring to the expertise of the IMF, advanced solution in the present juncture conditions, overall 2015 was an **"upgrade" year in defining and implementation of sustainable economic policies** (here is another term that needs more study that would justify the its real content for us) that highlights different categories of countries. In advanced countries, except the US and Britain, it is still needed accommodative monetary policy, which emphasizes maintaining the role of central banks in providing liquidity support for commercial banks. In the euro area, the solving of bad loans, their stock rising to 900 billion euros (over 11% of global GDP) remains fundamental. Emerging countries need a better monitoring of the private sector exposure and more policies to increase the resilience of their banking systems (attention also to financial stability) against defaults o their debtors.

Globally, an agenda of updating the regulations and making quicker steps to ensure transparency and supervision of financial entities, mainly the shadow banking and hedge funds is needed. It is known that, in the post financial crisis, all the efforts of regulation and supervision were channelled again to commercial banks, field already over-regulated (see Basel III, creating Banking Union in the EU), but globally resolution mechanism including all the systemic financial institutions remains inadequate in the face of possible risks. The biggest risk which still remains is absolute possibility to split a banking crisis of external country's debt, the final closure guarantees of the depositors calling on budgetary resources, yet precarious due to fragile economic development.

On the fiscal policy side, it is recommended more flexibility and their return to a "friendly" nature for economic growth, and, where there is fiscal space, tax incentives should be introduced. Globally, it is required a new culture for advancement in the improvement of domestic economic structures and policies leading to reform the labour, educational, health and industrial services markets, strengthening economic jurisprudence for the benefit of business and trade.

On foreign debts, two aspects are reported that can create conditions for a new crisis. The first is the tendency of excessive funding (again) the real estate activities and private construction, with the bubbling effects on the market. In many countries it is noted that the debts are not reduced, but simply they move between the public and private sectors or from country to country. The second is the deflation phenomenon (characteristic of Japan in the last two decades) which is still an overall danger, looking to the commodities markets. The euro area just missed it, although it marked the difficulties to return major European economies from a slow and uncertain evolution to a firm growth. Towards the end of 2015, although the euro almost reached parity with the US dollar, it was not a significant factor in stimulating of exports outside the EU, as a lower level of labour productivity and a low external demand persisted.

IMF launched **AIM programme** (Agile, Integrated and Member Focused) for assistance and recommendations to its member states coping with problems of current account deficits. The acronym refers to **agility** with which states apprehend and prevent in due time the potential risks and effect of contamination, to their capability to better **integrate** the linkages between their macro-financial projections and risk assessment, to a better **member focused** IMF assistance with taking into consideration their specific and general difficulties and providing them with available recipes. Best practices in coping with financial and fiscal policies for all countries call for avoiding fragmentation of markets on account of differences in approaching same problems. Concrete example of Great Britain, becoming the "Brexit case" for a possible exit from EU, reveals the great difference in approaching the role of financial markets by City in London and the new continental European alignment rules required by Brussels to the detriment of British financial tradition and its performance.

In conclusion, considering that there is a positive dynamic recovery, its pace remains below expectations, with weak effects of consolidation it in the medium term, many factors acting randomly against finding the proper ways of getting out of the many traps of the globalization. The combination of low economic growth and restrictions arising from the sovereign debt crisis, in general, and the state of the US and Japan economieis, in particular, impede sustainability efforts spend on solving the financial imbalances, domesticly and internationaly. Public debt and, in many cases, private sectors debts remain high and the decision between fiscal consolidation and economic stimulus remains a difficult choice.

The ongoing discussions focused on the international financial system architecture evolves nervously, but without an outcome configuring its future, a design which is very important for all of us. This uncertainty, which marks the very sense to understand, probably, a new International Economic Order (the old one being settled by the Bretton Woods agreements in 1944 and put into a kind of disolution with the end US dollar convertibility to glod in 1971) makes very difficult the path to go from continous measures to sanitize the financial system, in ordere to prevent new crises, to a stable global financial system. Such a situation will continue to influence the develoment of the global economy for many years from now on. It is the future which will need to put in a new balance the market forces and the governance capability to moderate the savage evolution of the market, the truth being that the lately are produced just becouse the governance is implementing wrong policies in wrong times.

The Evolution of the Growth Rate
of the World Economy and International Trade in the 2014-2016 Years
- annual changes, in real terms, in% -

	2014	2015 estimates	2016 forecasts
Global GDP, of which:	**3,4**	**3,1**	**3,6**
1. Developed countries, of which:	**1,8**	**2,0**	**2,2**
- USA	2,4	2,6	2,8
- Japan	-0,1	0,6	1,0
- Canada	2,4	1,0	1,7
- Euro zone - 19 countries, of which:	0,9	1,5	1,6
- Germany	1,6	1,5	1,6
- France	0,2	1,2	1,5
- Italy	-0,4	0,8	1,3
- Spain	1,4	3,1	2,5
- European Union – 28 countries, of which:	1,5	1,9	1,9
- Great Britain	3,0	2,5	2,2
2. Emerging and developing countries, of which:	**4,6**	**4,0**	**4,5**
- Asia, of which:	6,8	6,5	6,4
- China	7,3	6,8	6,3
- India	7,3	7,3	7,5
-Latin America, of which:	1,3	-0,3	0,8
- Brazil	0,1	-3,0	-1,0
- Mexic	2,1	2,3	2,8
-Middle East, North Africa and Pakistan	2,7	2,5	3,9
-Sub-Saharan Africa, of which:	5,0	3,8	4,3
-Republic of South Africa	1,5	1,4	1,3
-Nigeria	6,3	4,0	4,3
-Community of Independent States of which:	1,0	-2,7	0,5
-Russia	0,6	-3,8	-0,6
The volume of international trade (goods and services), of which:	**3,3**	**3,2**	**4,1**
--IMPORTS, of which:			
-Developed countries	3,4	4,0	4,2
-Emerging and developing countries	3,6	1,3	4,4
-EXPORTS, of which:			
-Developed countries	3,4	3,1	3,4
-Emerging and developing countries	2,9	3,9	4,8
Crude oil (prices expressed in US dollars)*	**-7,5**	**-46,4**	**-2,4**
Commodities - excluding fuels (simple average weighted place in world exports)	**-4,0**	**-16,9**	**-5,1**

**) Brent crude, simple average price (England), Dubai, W.T.I. (US). The average international price (USD / bbl) was in 2011 to 104.01 in 2012 to 105.01 in 2014 of 96.25. 2015 is estimated at 51.14, and 2016 is forecasted at 50.36*

Source: IMF - "World Economic Outlook", October 2015, Washington

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