The macroeconomic development of, and prospects for, the G20 countries

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Five years after the first signs of the global financial and economic crisis, it is clear that the post-crisis global economic recovery will be arduous and protracted. Historically speaking, the recovery after the 2009 recession has been the longest: global production has still not reached the pre-crisis level. However, it should be stated that while certain progress has been made, business is definitely recovering very slowly. Moreover, it is necessary to take into account that economic growth in the developing countries, which used to be a driving force of the global economy, on the contrary continues to slow, while the developed countries clearly show positive trends of growing consumer and investment demand. Yet, given the existing macroeconomic imbalances, it would be too early to state that the developed countries have overcome the crisis. The current risks are related to the high public and, in some cases, private debt, and high unemployment that greatly exceeds the pre-crisis level. In this regard, as admitted by the G20 leaders, the long-term stability of the global economy is not possible without a set of measures designed to ensure balanced growth in the countries that form ‘the pole of savings’ and ‘the pole of consumption’.

Modern macroeconomic trends reflect the persisting global economic risks associated with fiscal imbalances and excessive levels of government debt, increased volatility of financial flows and exchange rates, and too rapid growth of the stock market and real estate market. Despite the measures that have been implemented for several years now, including the budget cuts and fiscal consolidation, the average public debt in the developed countries by the end of 2012 was estimated at 108 per cent of GDP, which is 35 percentage points higher than the pre-crisis levels in 2007 (73 per cent of GDP). Yet this problem cannot be addressed quickly, as it is important to ensure that achieving fiscal balance does not impede stable economic recovery.

Fiscal consolidation can only be successful if positive economic growth rates are maintained. With that said, the St Petersbourg Action Plan not only assesses the economic situation, but also contains a set of measures that could help each G20 country achieve
quantitative benchmarks in terms of GDP dynamics, the level of budget deficit and public
debt.

The problem of fiscal imbalances becomes rather important for developing countries as well. During the pre-crisis years, in the exceptionally favourable external economic environment, growing export revenues and foreign loans allowed developing countries to mitigate structural weakness of the financial sector and the national economy as a whole. When the external situation changed dramatically, many developing countries faced lack of stability of both the budget and balance of payments. Despite relatively high commodity prices, the weak external demand and lower availability of external borrowings caused a significant economic slowdown in developing countries, which in the end requires structural reforms aimed at changing the growth model. However, to maintain fiscal stability in developing countries it is crucial to raise the efficiency of public expenditure and to search for alternative sources of income.

Major anti-crisis measures taken by both monetary and fiscal authorities made a positive impact on the current parameters of development, but only temporarily smoothed out the urgent problems. Moreover, concerns have been raised about the effects of the inevitable increase in key interest rates of the central banks and the phasing-down of the quantitative easing programs that have been implemented by the monetary authorities of many developed countries that entailed massive injections of cash liquidity. The rapid monetary expansion has led to fast growth in both world stock markets and real estate prices, with both now having reached pre-crisis levels. Any reduction of money supply is thus fraught with the potential for a collapse of the bubble forming in the stock market and real estate market, which resembles the pre-crisis trend of 2007–08. Beyond that, tighter monetary policy in developed countries and a corresponding increase in interest rates can cause a large-scale outflow of funds from the emerging markets, leading to a rapid depreciation of their national currencies. To maintain stability of such economies it is critical to further increase the flexibility of the exchange rate of the national currencies of developing countries, which helps mitigate external shocks.

As for the quantitative effects of tighter monetary policy in developed countries, investors’ concerns about a possible reduction of quantitative easing programs have caused massive depreciation of national currencies in the G20 developing countries for the past five years. The Indian rupee, the Indonesian rupiah and the Turkish lira have devalued the most. However, despite the fact that the relative volume of the external debt of the G20 developing countries is rather small, being in the range of 9–40 per cent of GDP (with the minimum in
China, 9 per cent of GDP, and the maximum in Turkey, 41 per cent of GDP), its largest part is denominated in foreign currency. Moreover, external borrowings continue to increase. At the same time, depreciation of national currencies increases the risk of inflation. Consumer goods become more expensive at a faster pace in Indonesia, Argentina, Brazil, India, China and South Africa.

In these circumstances, central banks of the developing countries, seeking to limit the outflow of capital, growing inflation and debt burden, repeatedly raised key interest rates, which will also inhibit economic growth. Given the emerging risks, the G20 leaders supported consistent measures by monetary authorities to reduce the quantitative easing programs, that provide for transparency of the applied mechanisms, and that provide support for the most vulnerable economic agents.

Another challenge faced by the G20 countries is an extremely high level of unemployment in many G20 countries, and in particular in the most developed ones. In the pre-crisis year of 2007, the relative number of unemployed in developed countries was 5.5 per cent, while in 2012 it exceeded 8 per cent. In such an environment, G20 leaders at the St Petersburg summit once again confirmed that lowering the unemployment rate is still one of the priorities of their respective governments. New jobs and employment of young people are critical for achieving stable and balanced growth of economies at the present stage, and in the medium term.

Eventually, problems relevant to both developed and developing countries determine the prospects of development of the G20 countries, which account for about 90 per cent of the world GDP. The macroeconomic risks that persist in developed countries and growth in developing countries formed the basis for updated assessments of the prospects of global economic growth prepared by the IMF in October. In 2013 the GDP of the developed countries will grow just by 1.2 per cent; in 2014, by 2 per cent, which corresponds to the July assessment. These estimates are based on the assumption that US budgetary problems will be successfully resolved through a quick compromise on the financial plan for the next fiscal year and the level of public debt.

The growth prospects of the Eurozone economy were improved. Previously, it was expected that the GDP of the Eurozone in 2013 would fall by 0.5 per cent; but given the positive trends in the economy, the forecast was improved by 0.1 percentage points: the decline will not exceed 0.4 per cent. We should note that despite the positive data on the GDP dynamics of the Eurozone, indicating the resumption of its growth (0.3 per cent year-over-
year), in the second quarter of 2013, after 1.5 years of decline, the current macroeconomic indicators continue to cause concern.

Yet, the substantial threats that prompted the IMF to once again lower the assessment of the prospects of global economic growth are related to the dynamics of developing countries. The GDP growth rate of developing countries in 2013 was reduced by 0.5 percentage points to 4.5 per cent; in 2014, by 0.4 percentage points to 5.1 per cent. But these growth rates are still much higher than in developed countries. In this regard, the issue of redistribution of quotas and votes in the IMF in favour of emerging economies is still rather urgent, since such redistribution will make it possible to reflect the structure of the global economy more accurately, thus raising the effectiveness of the international regulator. Therefore, at the G20 St Petersburg summit, and later at the meeting of G20 Finance Ministers in Washington, DC (11 October 2013), it was decided to complete by January 2014 the revision of quotas and the corresponding redistribution of votes in the IMF, taking into account the growing role of developing countries in the global economy.

In general, the goal of G20 leaders should be to eliminate the macroeconomic imbalances between major world economies that have the potential to cause global financial crises, as well as to revive the business activity, and increase the fiscal and financial stability, of individual countries and the world economy as a whole.

Notes

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