

# Overview of Global Macroeconomy

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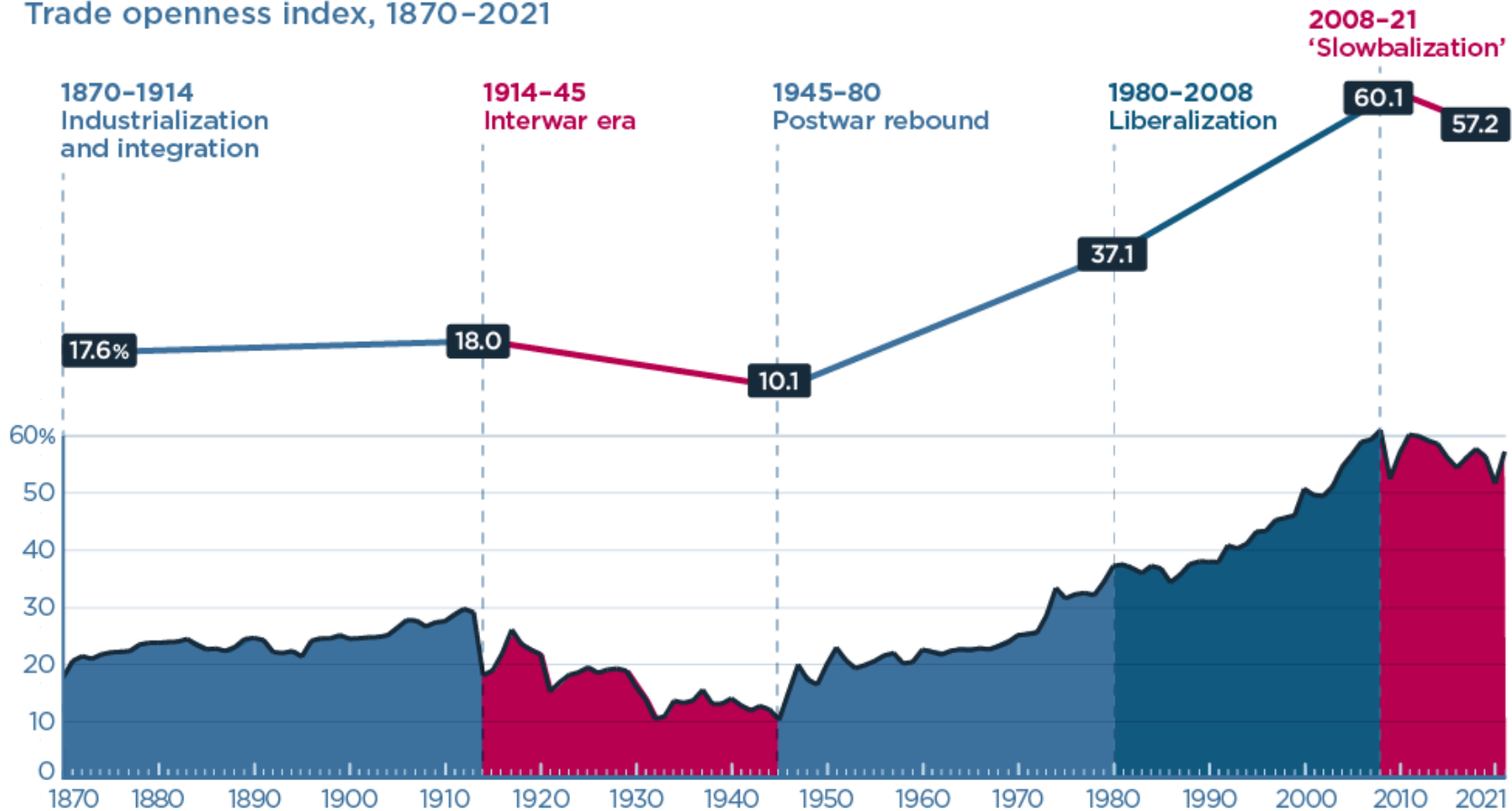
Kelas Ekonomi Keuangan International

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# Globalization is in retreat for the first time since the Second World War

Trade openness index, 1870-2021



Globalization  
in the past  
six decades

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**Note:** The trade openness index is defined as the sum of world exports and imports divided by world GDP. 1870 to 1949 data are from Klasing and Millionis (2014); 1950 to 1969 data are from Penn World Tables (10.0). 1970 to 2021 data are from the World Bank.

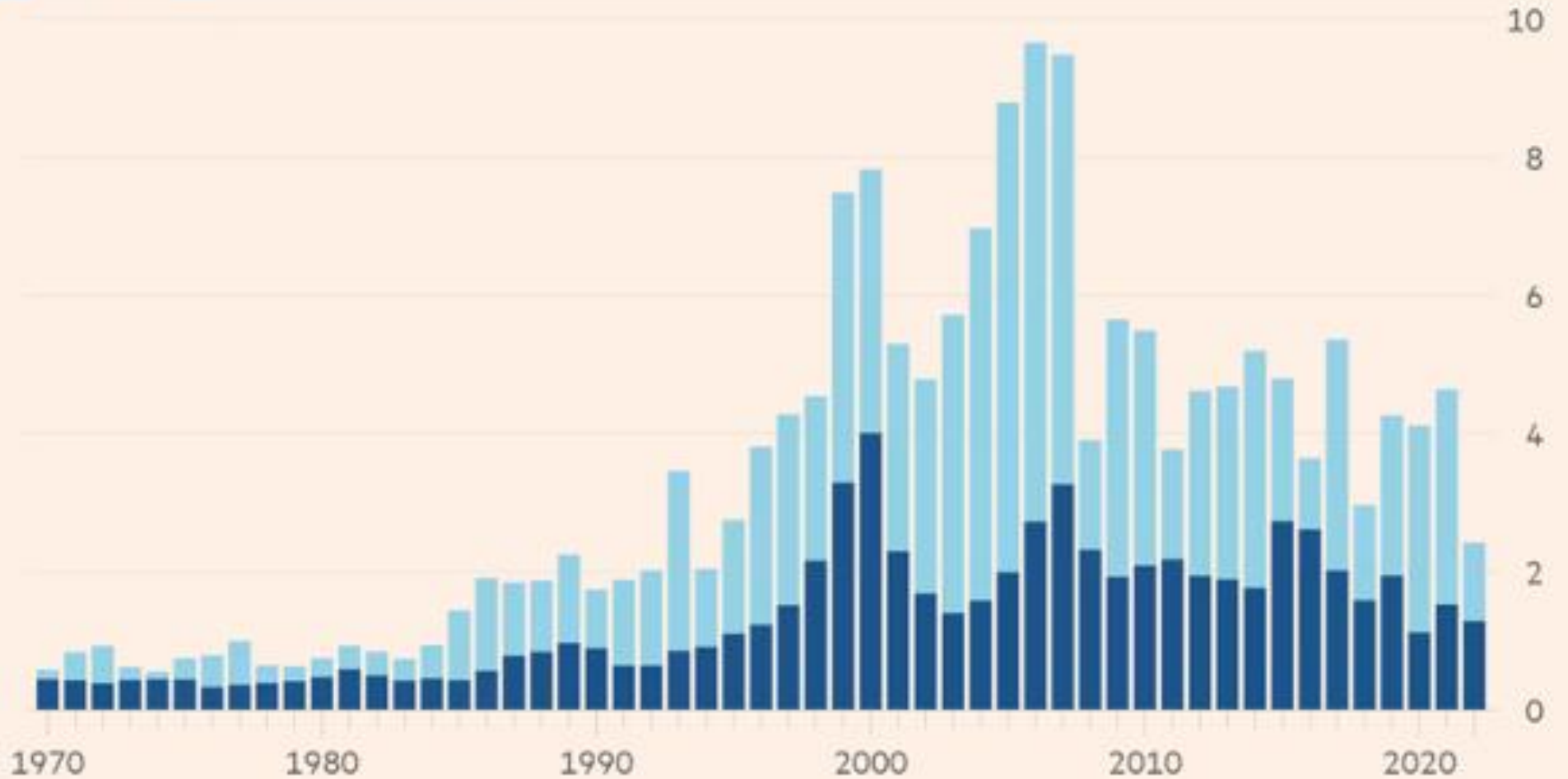
**Sources:** Our World in Data; World Bank, World Development Indicators; and author's calculations for 2021.

# Global Capital Flows

## Financial globalisation peaked just before the 2008 financial crisis

Global gross financial flows (inward flows, as a % of global GDP)

■ FDI    ■ Portfolio Investment



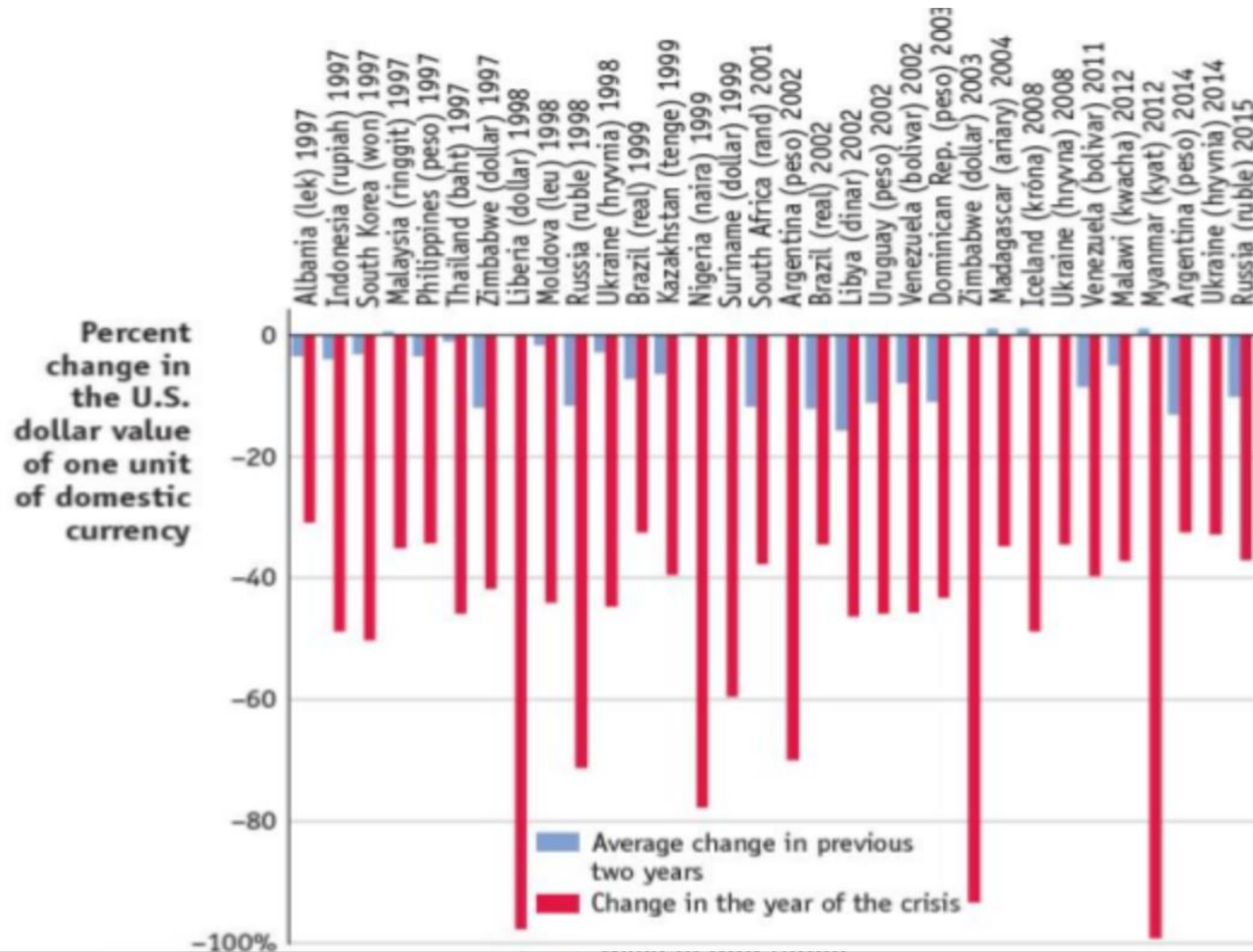
Source: Subramanian, Kessler, & Properzi (Peterson Institute, 2023)

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# Key Features of International Finance and Macroeconomy

1. The world has many moneys and their own currencies.
  - Fixed and floating, volatility
  - Why exchange rate matters? A) Relative price of goods and services and relative price of assets. Depreciation of exchange rates make imports more expensive and exports cheaper: impact on consumers and producers, and B) value of assets in currency depreciated fall and appreciate rise.
  - Exchange rate crisis: reduce value drastically, economic contraction, default on external debt (value of domestically held foreign assets - \$1 debt service Rp. 25000 now Rp. 17,000 after 1998 crisis), banking and financial sector crisis as households, firms and government cannot pay debt --- call in IMF for supporting loan.

# Foreign Exchange Currency and Crises (Taylor)



The chart shows that exchange rate crises are common events. An exchange rate crisis is defined here as an event in which a currency loses more than 30% of its value in U.S. dollar terms over one year, having changed by less than 20% each of the previous two years.



# Key Features of International Finance and Macroeconomy

## 2. Countries are financially integrated: financial flows between countries

- Barriers to financial flows have declined over time (opening up of capital flows)
- Flows of goods, services, incomes, and capital interact in global macroeconomy – Balance of Payments. Current account deficit/surplus is when expenditures greater/less than income and the difference is borrowed abroad/loaned abroad. Global imbalances story. US current account deficit – foreigners purchase US assets, China Current Account Surplus- buys US Securities – lend to the US. Indonesia current account deficit – borrows abroad (government, non government)
- Wealth – with current account deficit/surplus borrows/lends: negative/positive external wealth
- If default or restructure on external debt – crisis, credit ratings, crisis

# Key Features of International Finance and Macroeconomy

3. Institutions and Economic Performance: quality of policies and government, institutions

Policies are made around

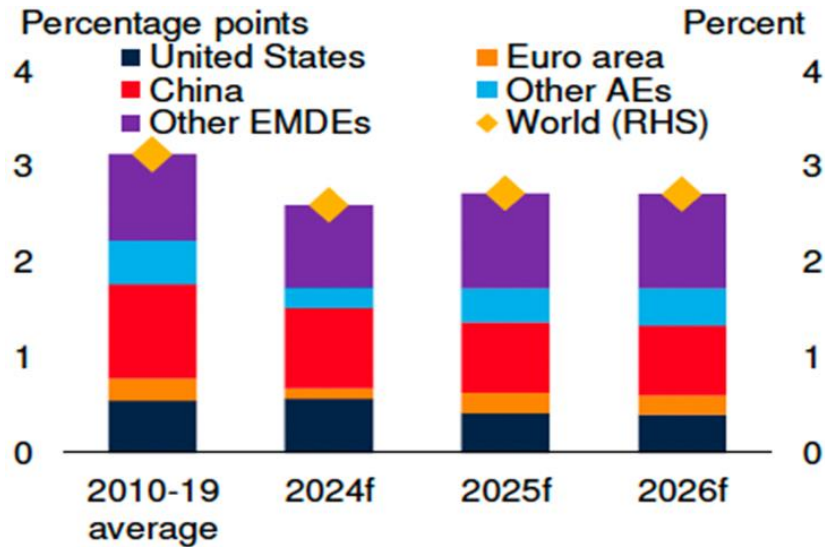
Macro policies and regime choices (3% Fiscal deficit, inflation targeting) – easing recession, keep inflation low and stabilize interest rates, exchange rates

3 features

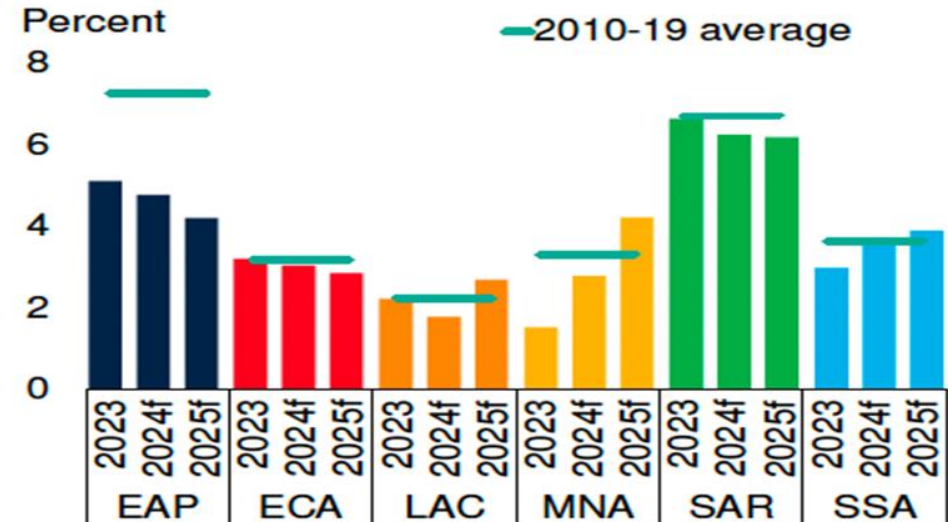
- Integration and regulations around international finance
- Independence and choice of exchange rate regime
- Role of institutions

# Global economy recovering: but slower growth (0.5%) compared to pre pandemic

Contributions to Global Growth



Growth in East Asia lower compared pre pandemic (China) and lower South Asia (India)

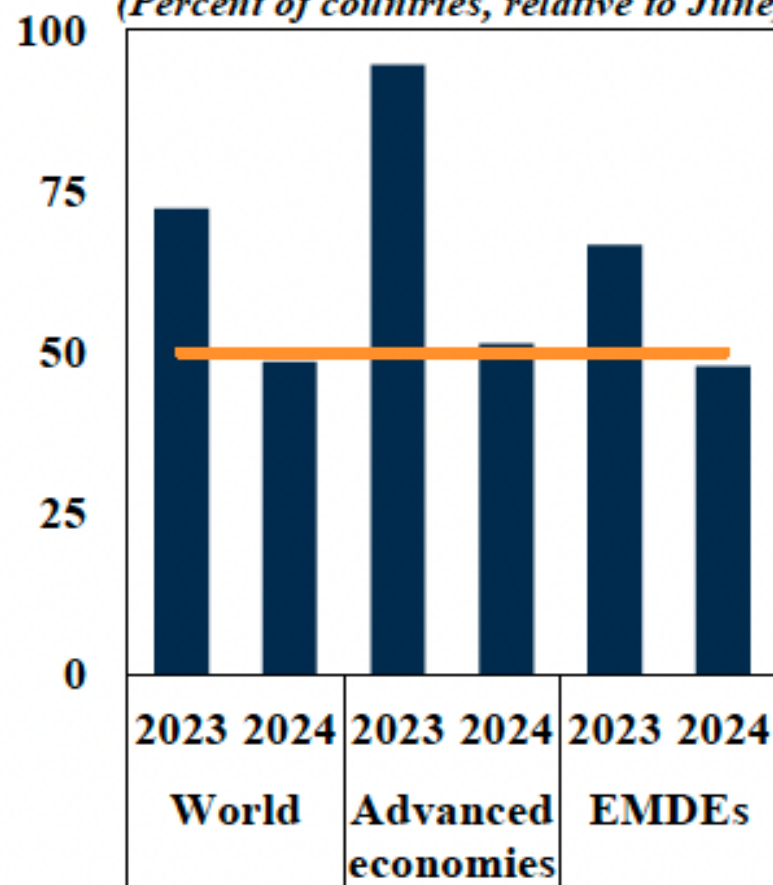




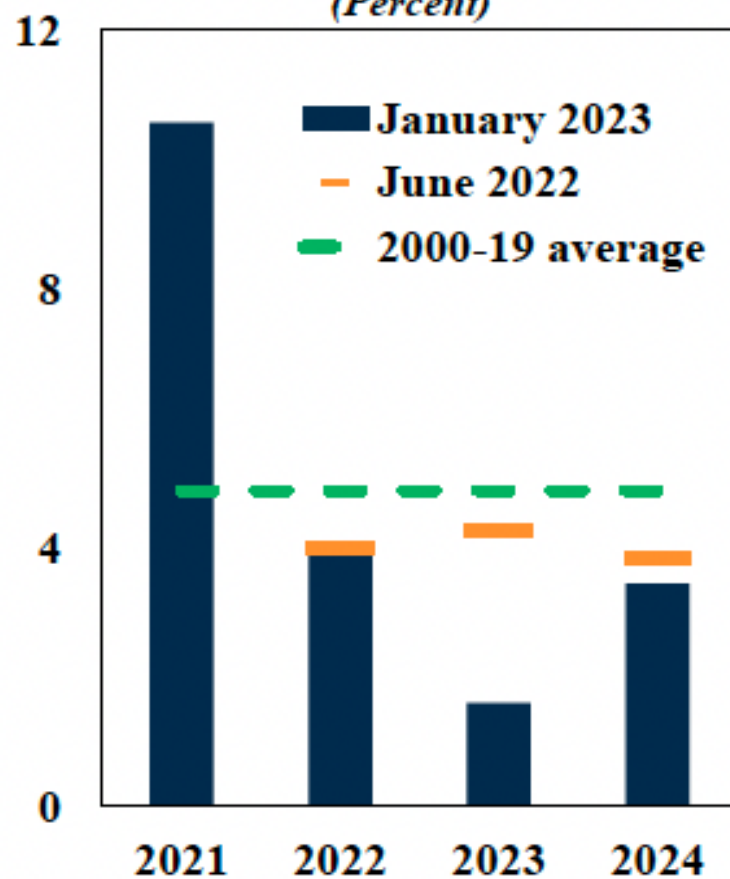
# Global Outlook

*Broad-based Growth Downgrades; Slower Trade; Weaker Confidence*

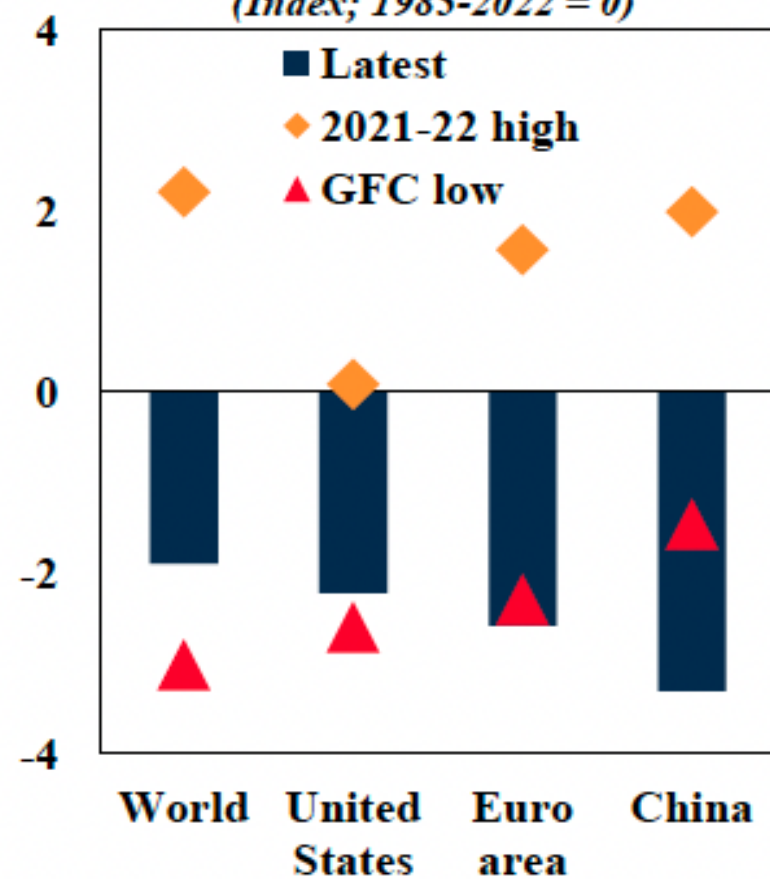
**Countries with forecast downgrades**  
(Percent of countries, relative to June)



**Global trade growth**  
(Percent)



**Consumer confidence**  
(Index; 1985-2022 = 0)

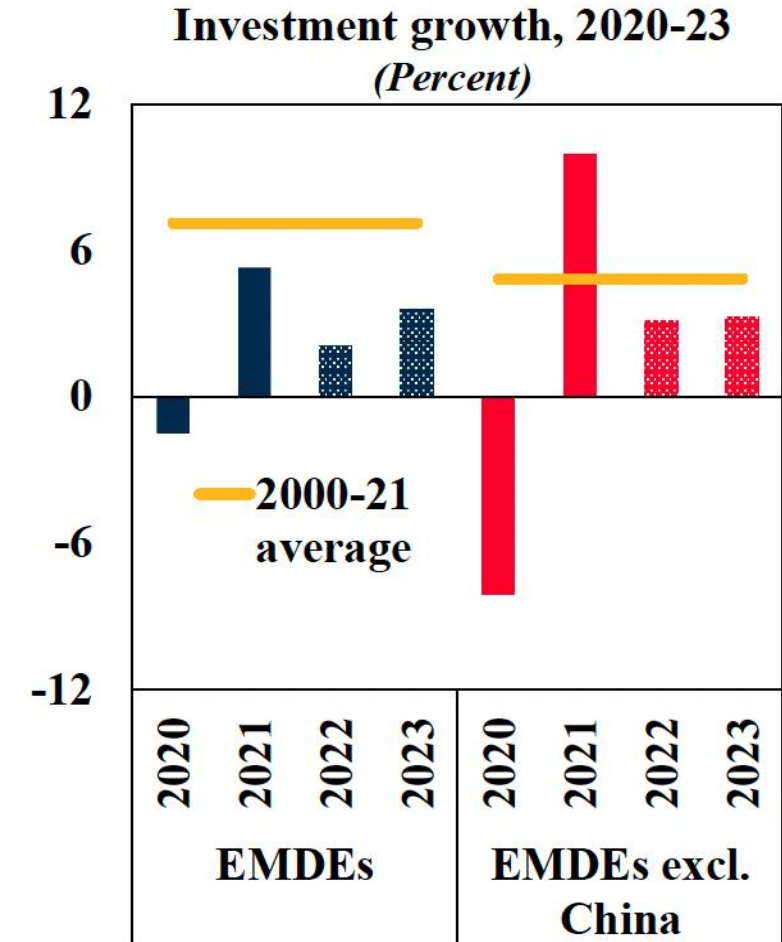
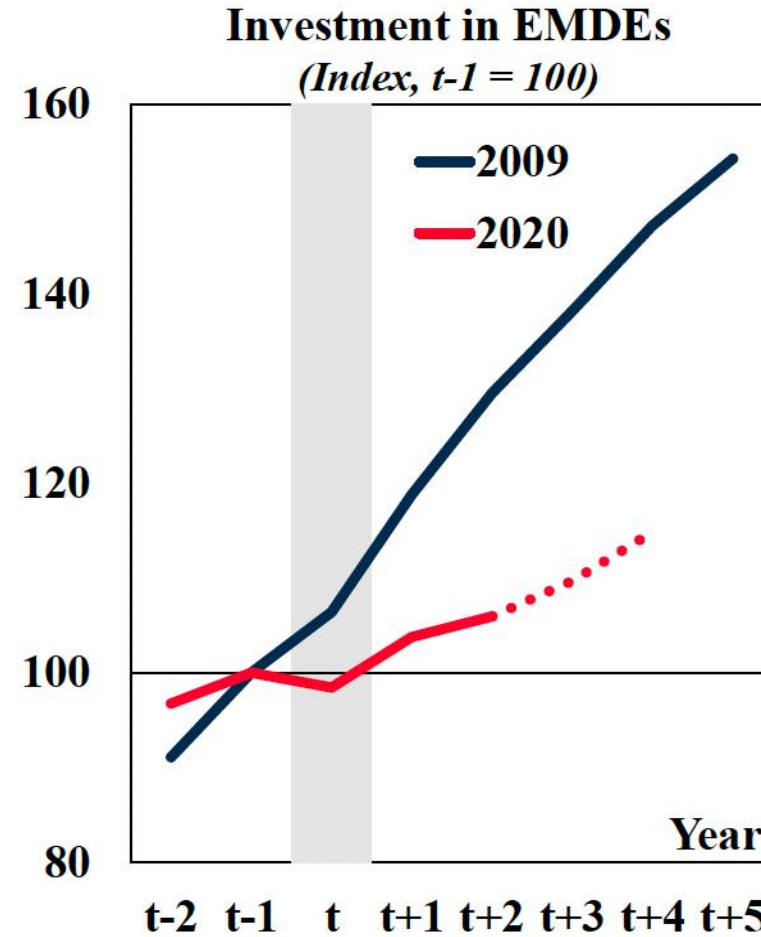
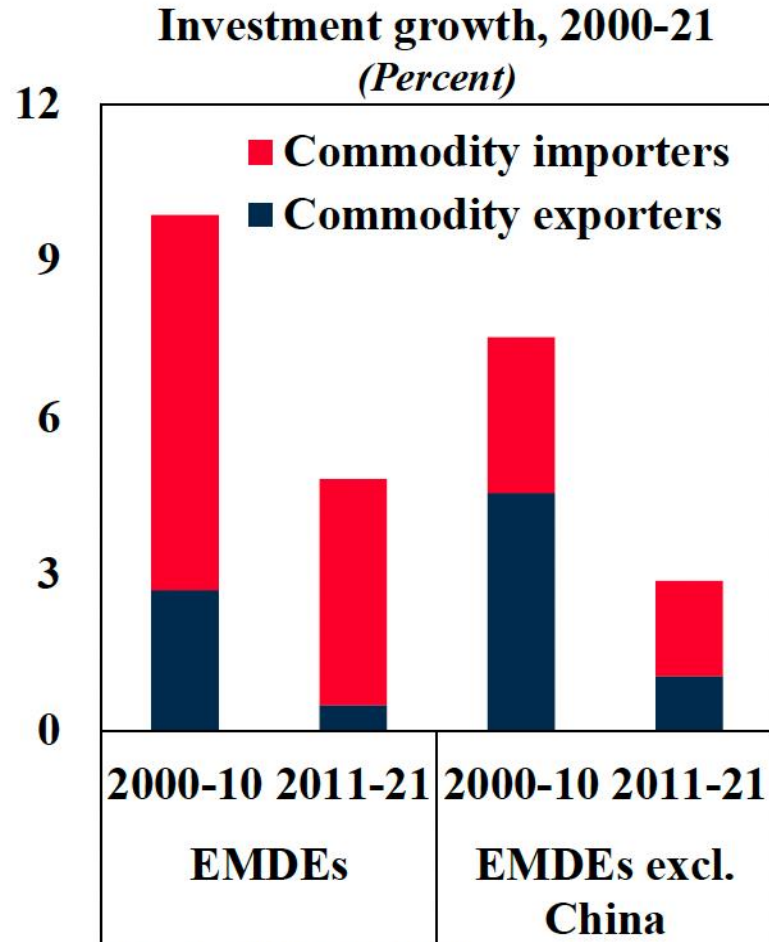


Sources: Haver Analytics; World Bank.

Left Panel. Figure shows the downgrades between June 2022 and January 2023 editions of the *Global Economic Prospects* report. Center Panel. Trade is measured as the average of export and import volumes. June 2022 refers to forecasts presented in the June 2022 edition of the *Global Economic Prospects* report. Right Panel. Figure shows z-scores. Last observation is November 2022 for the world and the euro area, October 2022 for the United States, and September 2022 for China.

# Investment in EMDEs

*Weaker Growth during the Past Decade; Slower Recovery Going Forward*

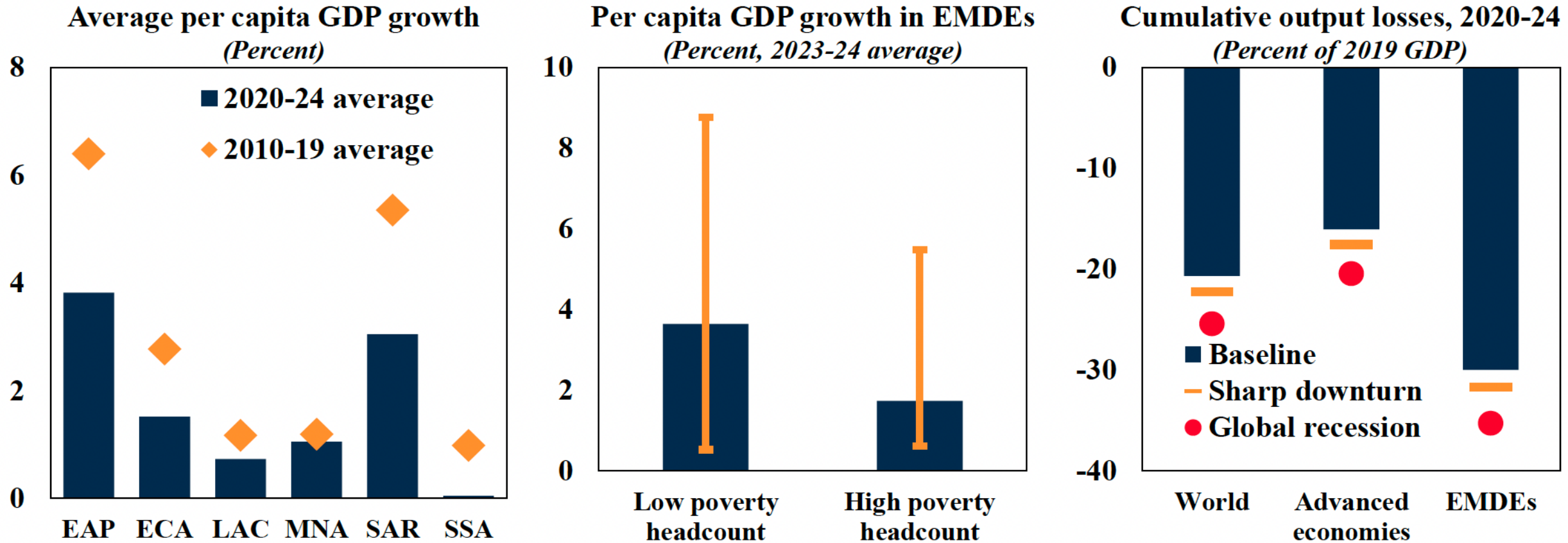


Sources: Haver Analytics; World Bank.

Note: Investment refers to gross fixed capital formation. Sample includes 69 EMDEs. Left Panel. Bars show the percentage point contribution of country groups to EMDE investment growth during the indicated years. Height of the bars is average EMDE investment growth during the indicated years. Center Panel. Year "t" on the horizontal axis refers to the year of global recessions in 2009 and 2020. Dotted portion of the line is a forecast. Right Panel. Aggregate investment growth is calculated with real annual investment in constant U.S. dollars as weights. Shaded bars refer to forecasts.

# Impact of Multiple Global Shocks

*Weaker Income Growth Especially for Poorest; Possibly Deeper Output Losses*



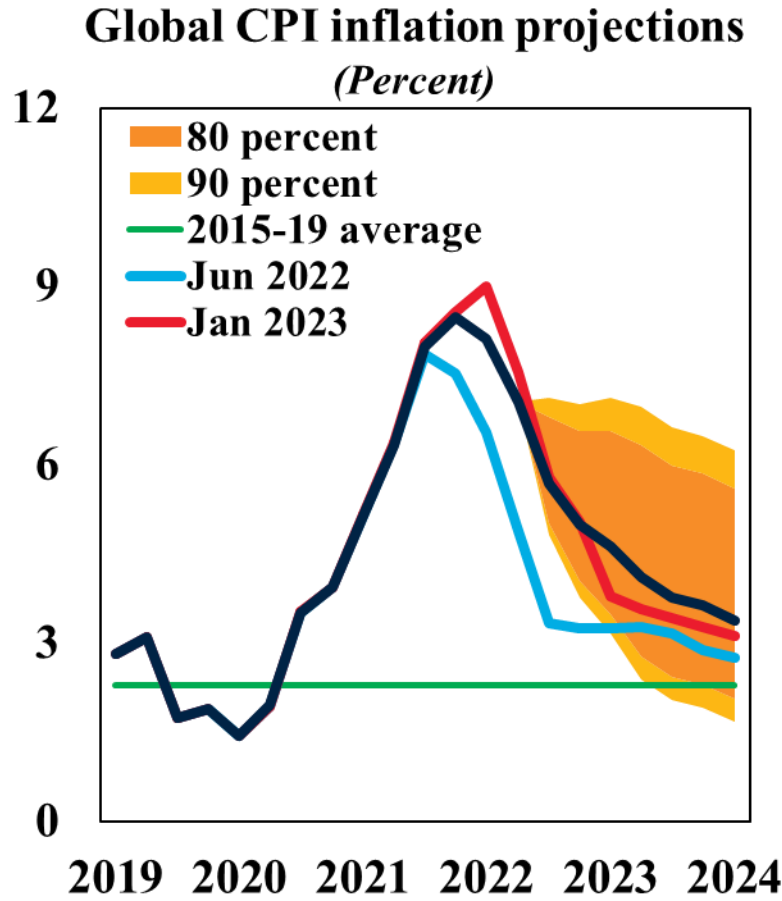
Sources: Consensus Economics; Guenette, Kose, and Sugawara (2022); Oxford Economics; World Bank.

Left Panel. Population projections from UN World Population Prospects 2022. Center Panel. “Low poverty headcount” are EMDEs with poverty headcount below the 25th percentile, and “high poverty headcount” are those above the 75th percentile. Bars show per capita GDP growth simple average for 2023-24 for 40 EMDEs and orange whiskers indicate the minimum-maximum range. Sample excludes the Russian Federation and Belarus. Poverty data are the poverty headcount ratios at \$2.15 a day (2017 PPP). Right Panel. Total output losses, relative to the pre-pandemic trend, over 2020-24, in percent of GDP in 2019. The pre-pandemic trend is based on growth forecasts in the January 2020 long-term consensus forecasts. The three scenarios are produced using the Oxford Economics Global Economic Model, in order to quantify the downside risks to growth of higher anticipated inflation, additional monetary tightening in response, and the potential resultant financial stress. Under the sharp downturn scenario, central banks tighten monetary policy more quickly and to a rate above the market expectations embedded in the baseline forecast in response to rising inflation expectations. Under the global recession scenario, not only are the major central banks policies even more restrictive, but tighter financial conditions are assumed to lead to widespread financing stress across EMDEs.

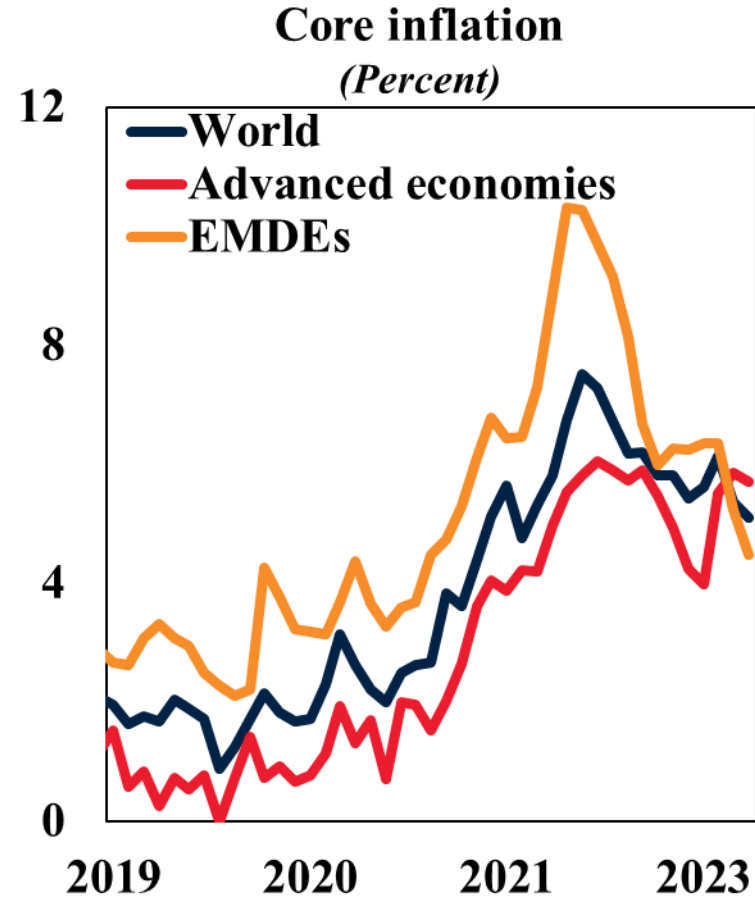


# Inflation and Monetary Policy

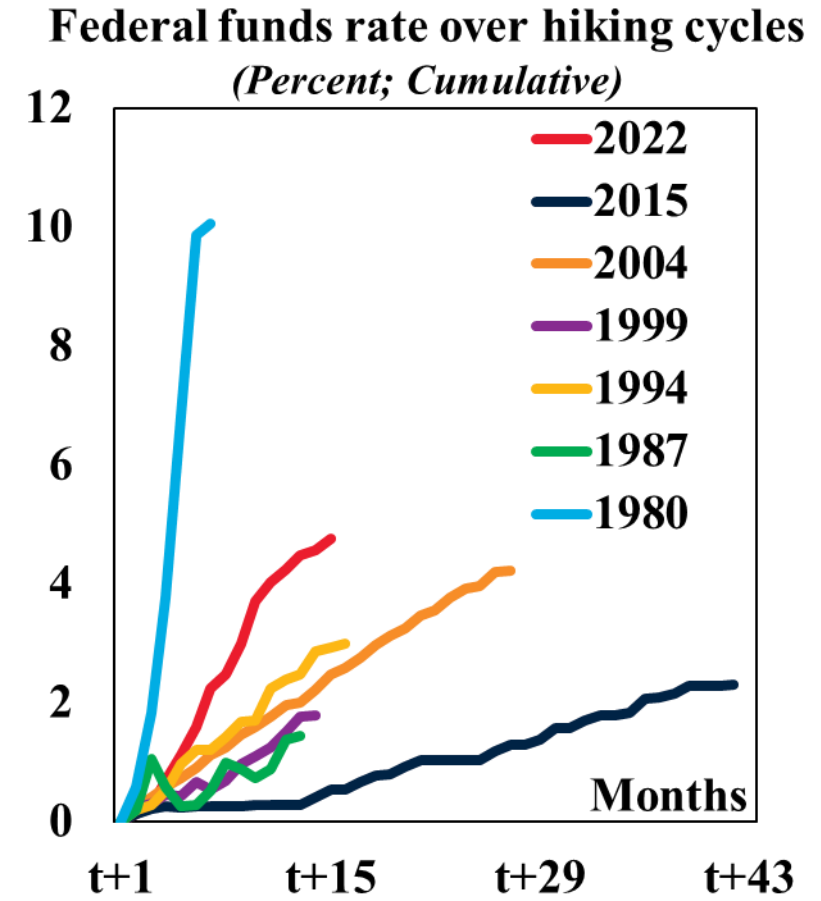
*Headline Higher for Longer; Core Persistent; Steep Interest Rate Increases*



Source: World Bank, *Global Economic Prospects*, June 2023.  
 Note: Figure 1.1.E (Figure 1.5.B) of *Global Economic Prospects*.  
 CPI = consumer price index. [www.worldbank.org/gep](http://www.worldbank.org/gep).



Source: World Bank, *Global Economic Prospects*, June 2023.  
 Note: Figure 1.5.A of *Global Economic Prospects*. EMDEs = emerging market and developing economies.  
[www.worldbank.org/gep](http://www.worldbank.org/gep).

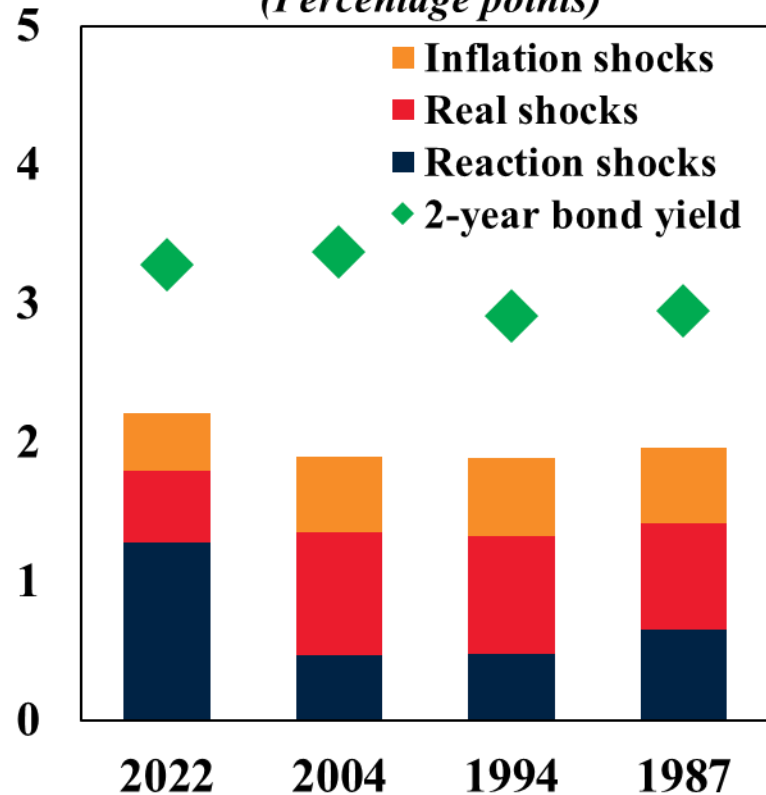


Source: World Bank, *Global Economic Prospects*, June 2023.  
 Note: Figure 3.1.A of *Global Economic Prospects*.  
[www.worldbank.org/gep](http://www.worldbank.org/gep).

# U.S. Interest Rate Increases

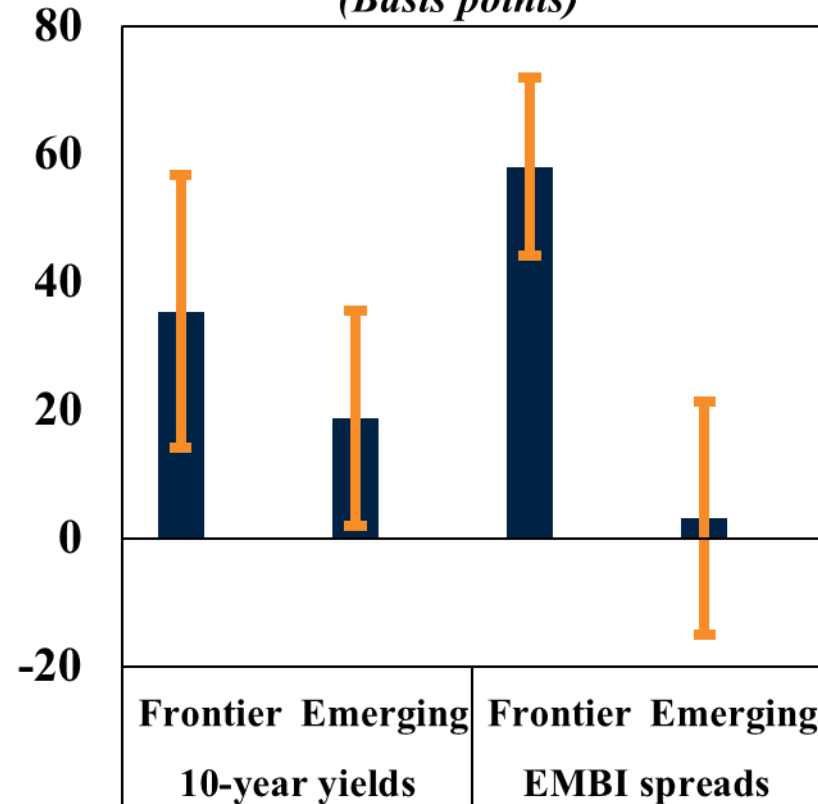
*More Hawkish Fed Reaction, More Adverse Impact on Vulnerable EMDEs*

**Drivers of interest rate changes**  
(Percentage points)



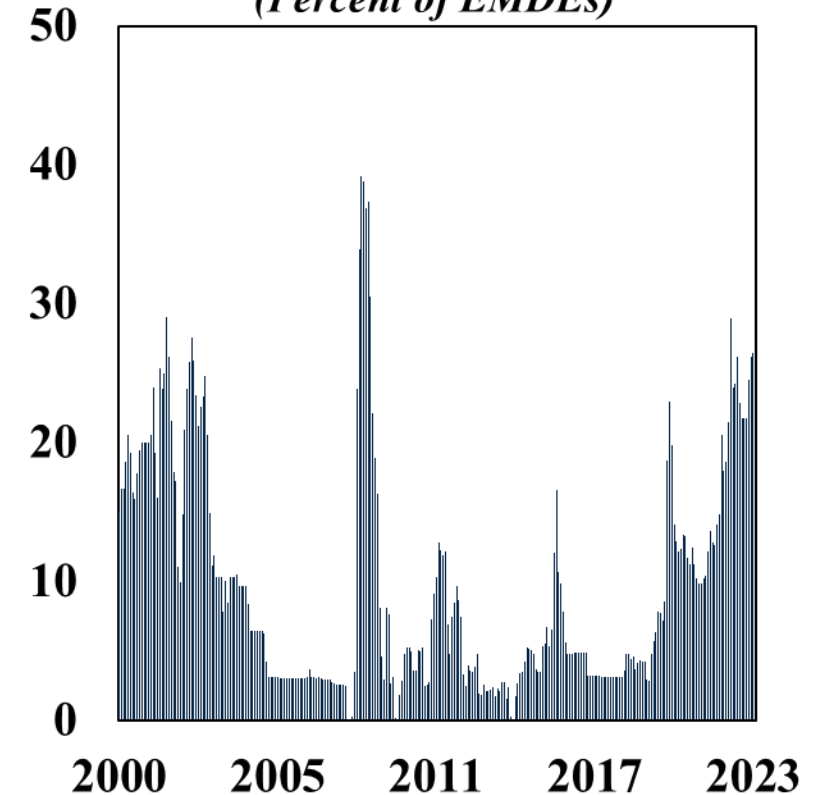
Source: World Bank, *Global Economic Prospects*, June 2023.  
Note: Figure 1.14.B (Figure 3.2.E) of *Global Economic Prospects*.  
[www.worldbank.org/gep](http://www.worldbank.org/gep).

**Impact of reaction shocks on EMDEs**  
(Basis points)



Source: World Bank, *Global Economic Prospects*, June 2023.  
Note: Figure 1.2.B (Figure 1.14.C; Figure 3.8.B) of *Global Economic Prospects*. EMDEs = emerging market and developing economies; EMBI = emerging market bond index. [www.worldbank.org/gep](http://www.worldbank.org/gep).

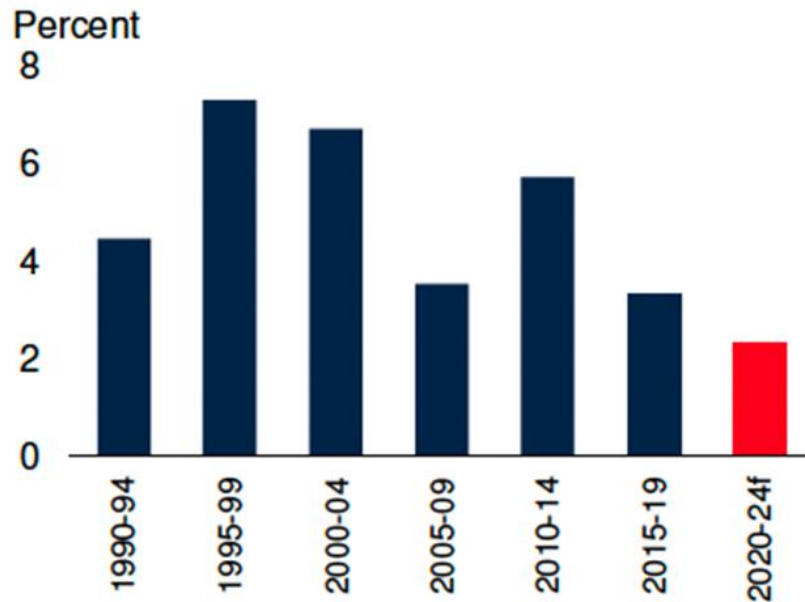
**EMDEs with large sovereign spreads**  
(Percent of EMDEs)



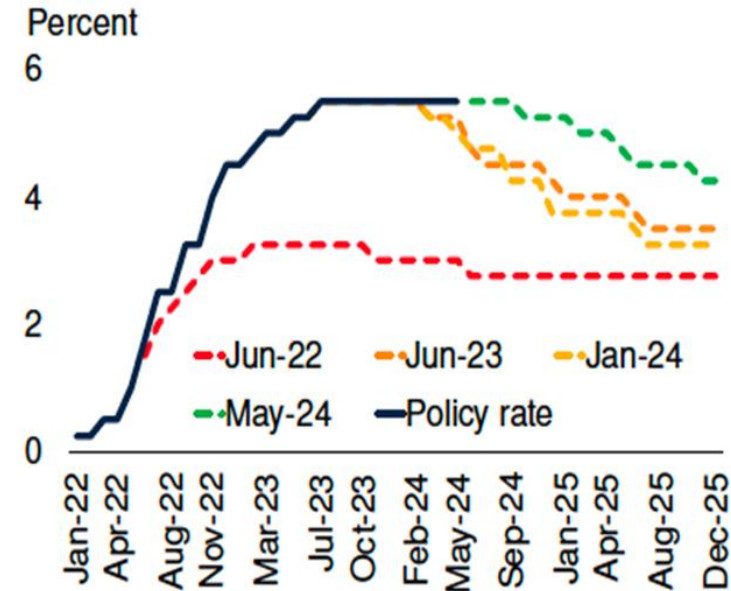
Source: World Bank, *Global Economic Prospects*, June 2023.  
Note: Figure 1.14.D (Figure 3.6.B) of *Global Economic Prospects*. EMDEs = emerging market and developing economies.  
[www.worldbank.org/gep](http://www.worldbank.org/gep).

# Slower Trade Growth and Cautious Easing of Monetary Policy means continued higher interest rates (double that of 2000-19 average) **FR**

Global Trade Growth



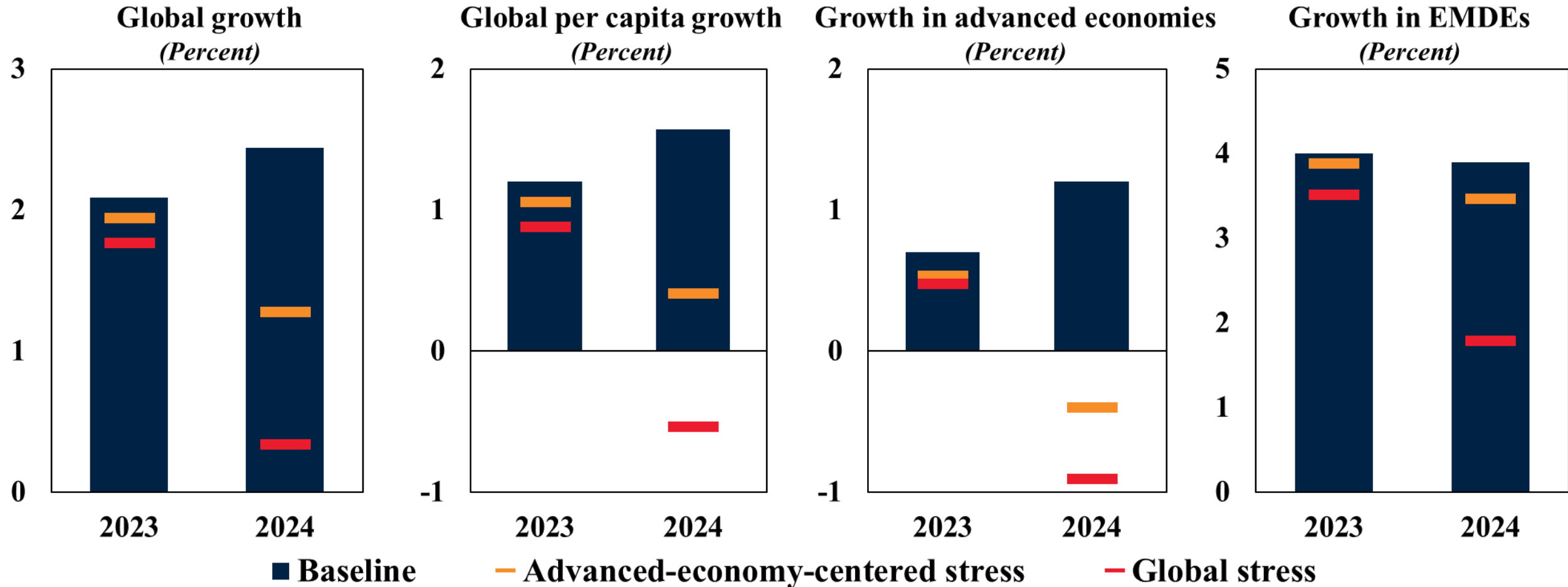
Market Expectations of US Policy Rates





# Growth Scenarios for 2023-24

## Global Financial Stress Accompanied with Weaker Growth

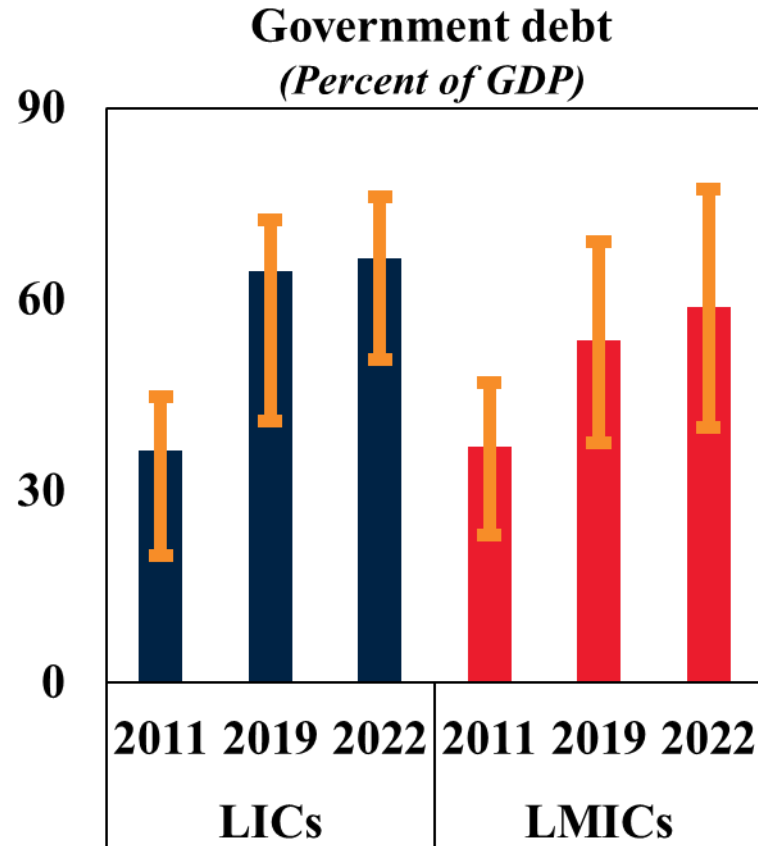


Source: World Bank, *Global Economic Prospects*, June 2023.

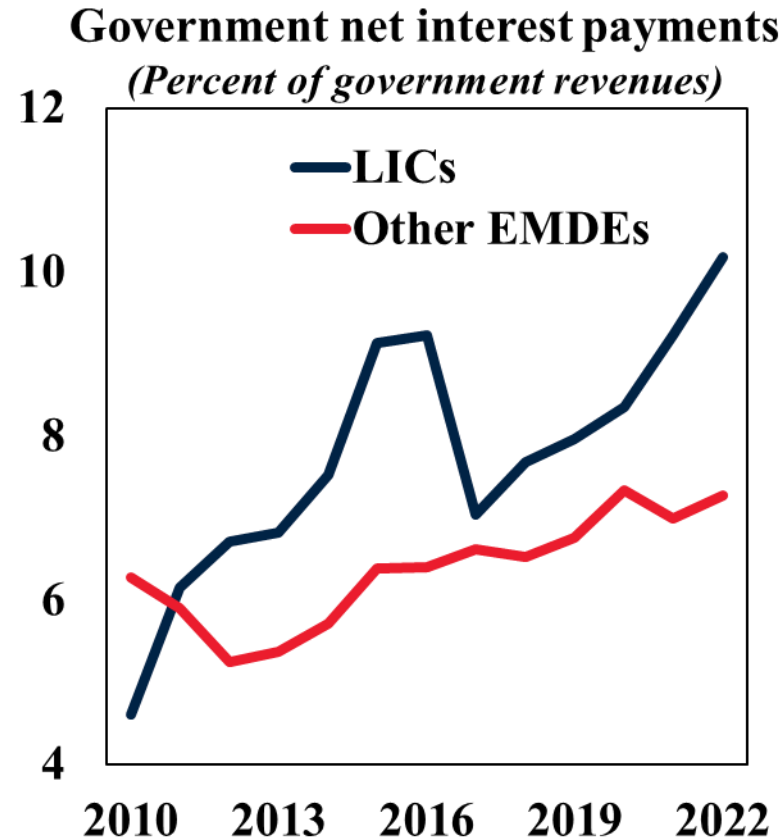
Note: Figure 1.2.A (Figure 1.13.B) of *Global Economic Prospects*. EMDEs = emerging market and developing economies. [www.worldbank.org/gep](http://www.worldbank.org/gep).

# Fiscal Challenges in LICs

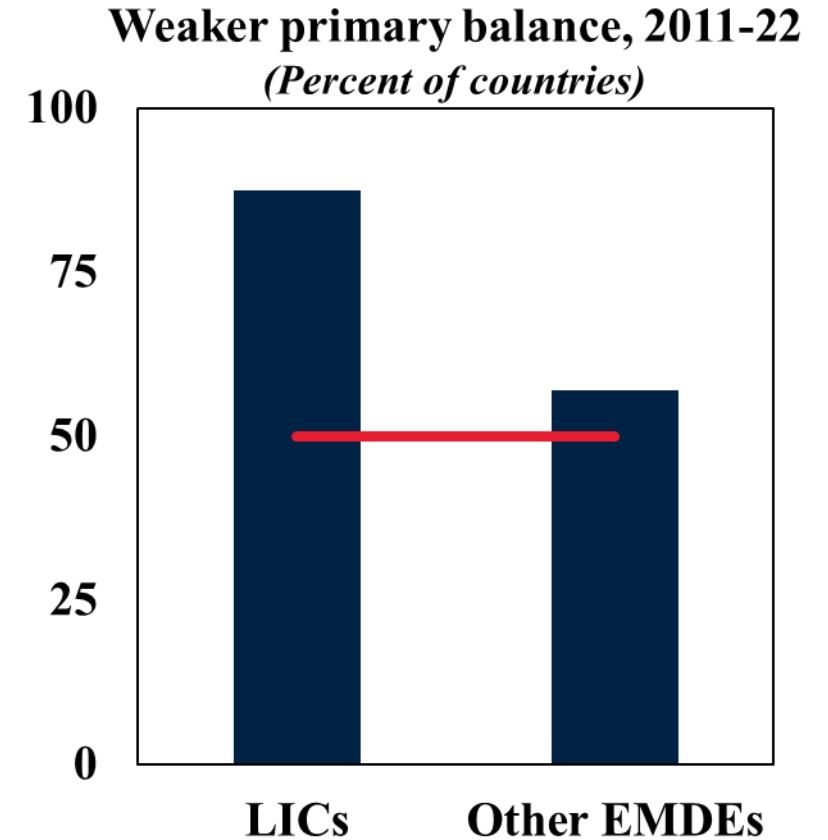
*Rising Debt; Increasing Interest Payments; Deteriorating Fiscal Balances*



Source: World Bank, *Global Economic Prospects*, June 2023.  
 Note: Figure 4.2.D of *Global Economic Prospects*. LICs = low-income countries; LMICs = lower-middle income countries.  
[www.worldbank.org/gep](http://www.worldbank.org/gep).



Source: World Bank, *Global Economic Prospects*, June 2023.  
 Note: Figure 1.2.E (Figure 1.17.B) of *Global Economic Prospects*. LICs = low-income countries; EMDEs = emerging market and developing economies.  
[www.worldbank.org/gep](http://www.worldbank.org/gep).

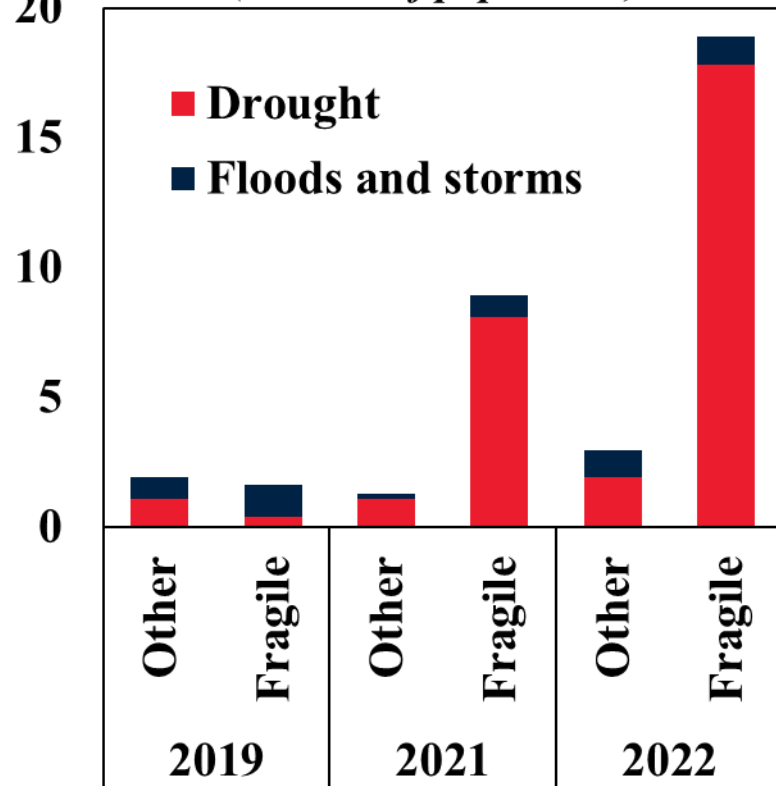


Source: World Bank, *Global Economic Prospects*, June 2023.  
 Note: Figure 4.6.B of *Global Economic Prospects*. LICs = low-income countries; EMDEs = emerging market and developing economies.  
[www.worldbank.org/gep](http://www.worldbank.org/gep).

# Global Challenges

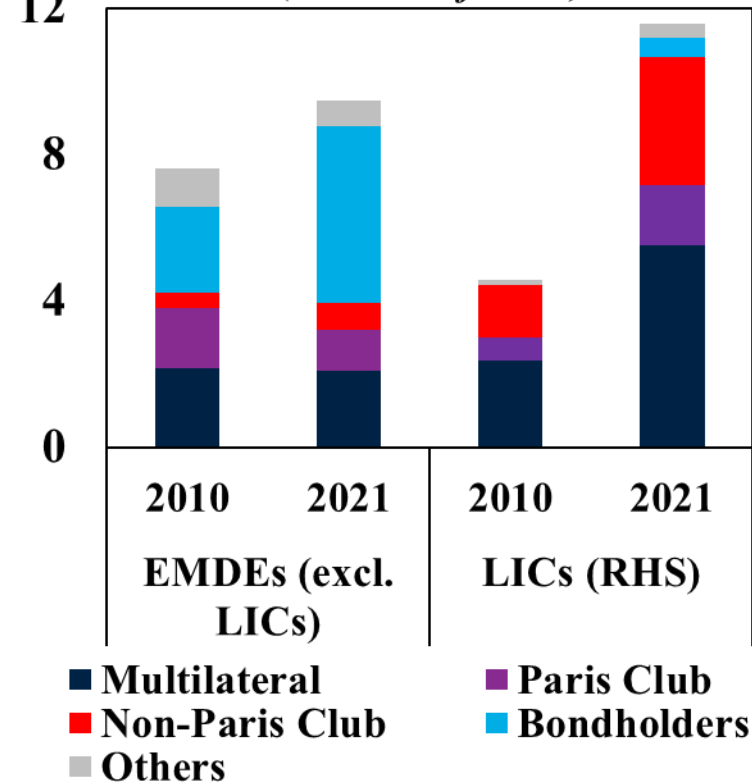
*Larger Impact of Climate Change; More Fragmented Creditor Space; More Barriers to Trade*

**People under natural disasters in LICs**  
(Percent of population)



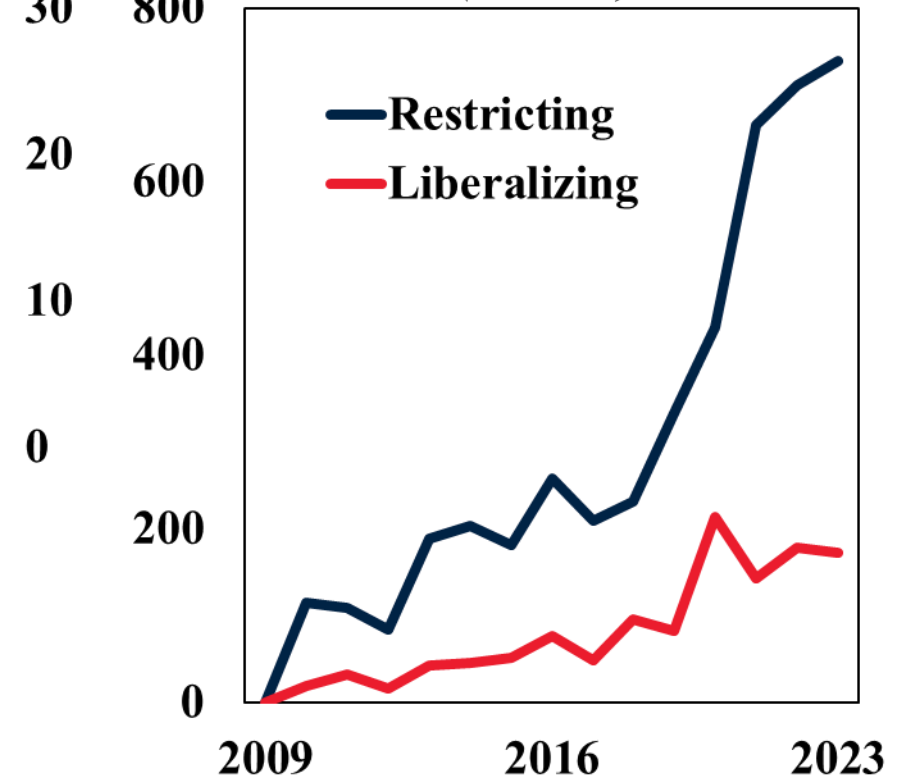
Source: World Bank, *Global Economic Prospects*, June 2023.  
Note: Figure B1.2.2.C of *Global Economic Prospects*. LICs = low-income countries. [www.worldbank.org/gep](http://www.worldbank.org/gep).

**External debt, by creditor**  
(Percent of GDP)



Source: World Bank, *Global Economic Prospects*, June 2023.  
Note: Figure 1.2.C (Figure 1.15.A) of *Global Economic Prospects*. EMDEs = emerging market and developing economies; LICs = low-income countries. [www.worldbank.org/gep](http://www.worldbank.org/gep).

**New trade measures**  
(Number)

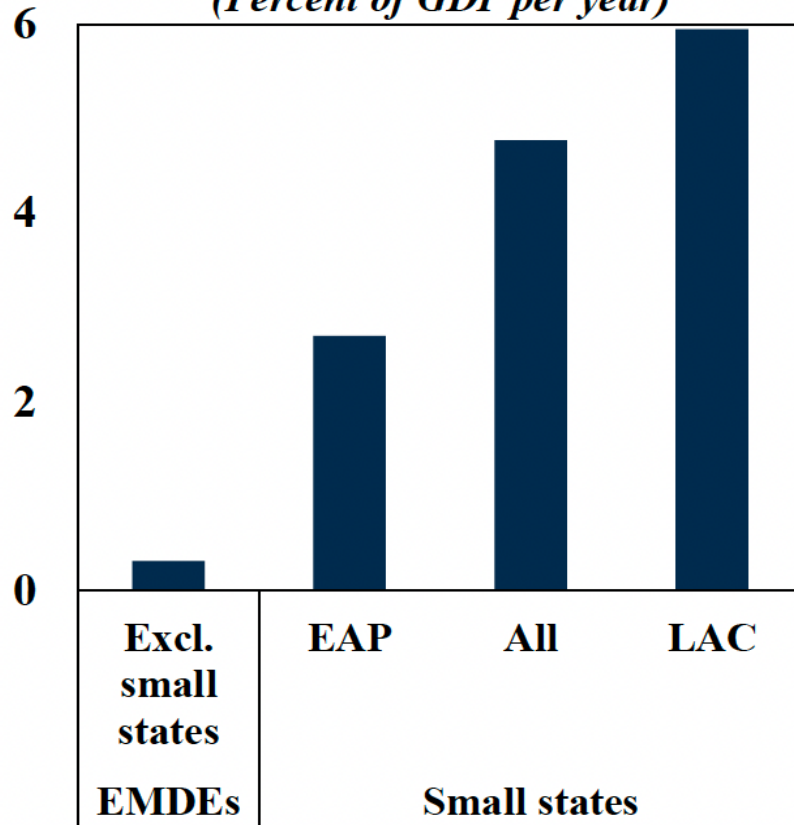


Source: World Bank, *Global Economic Prospects*, June 2023.  
Note: Figure 1.3.B of *Global Economic Prospects*. [www.worldbank.org/gep](http://www.worldbank.org/gep).

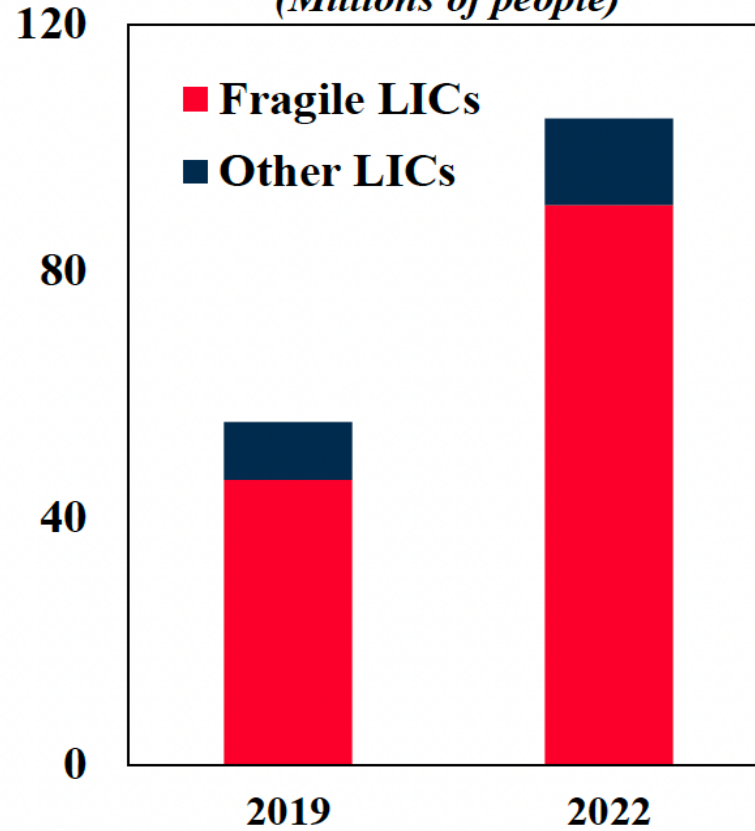
# Structural Challenges

*High Cost of Climate Change; Growing Food Insecurity; Larger Learning Losses*

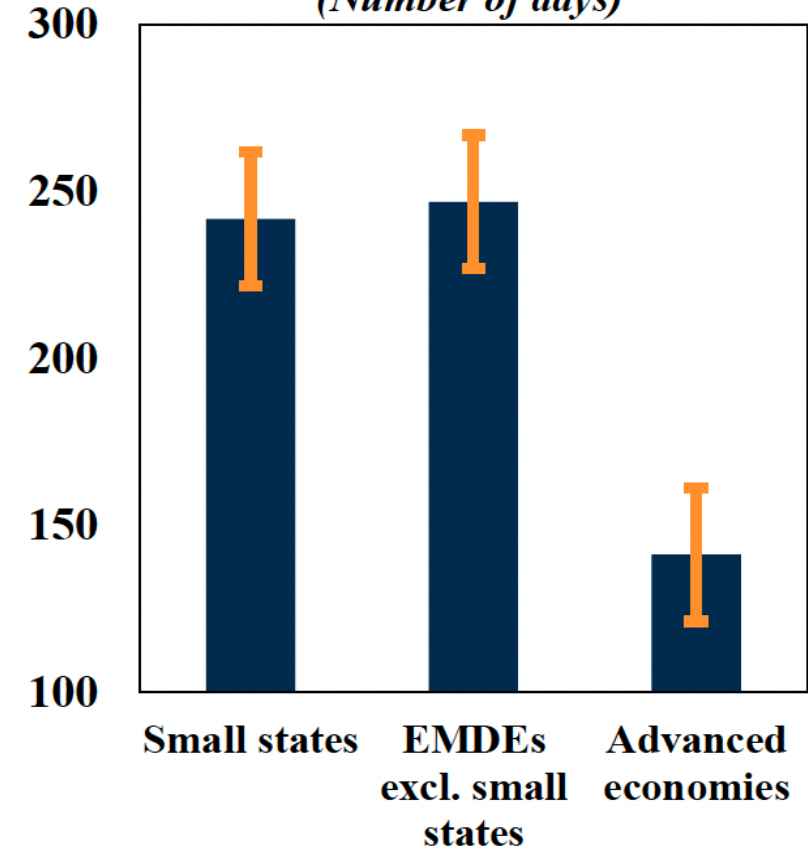
**Damages and losses from natural disasters**  
(Percent of GDP per year)



**Food insecurity in LICs**  
(Millions of people)



**Duration of school closures**  
(Number of days)



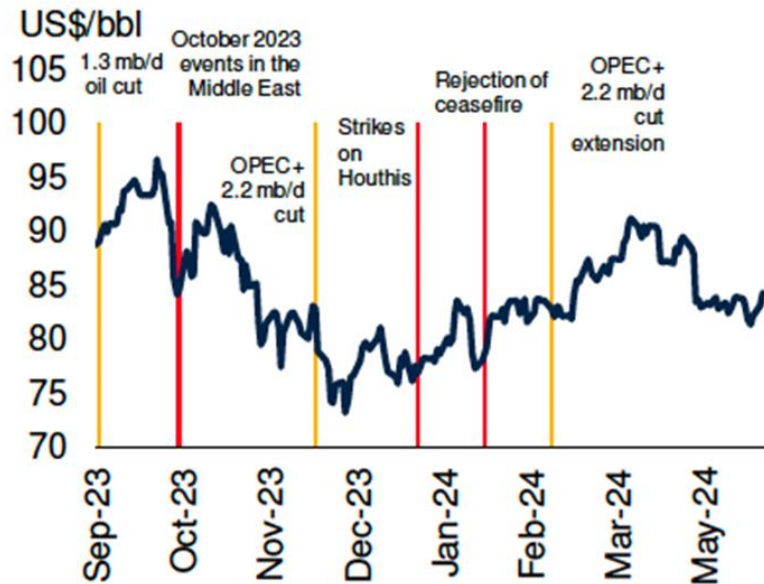
Sources: EM-DAT; Global Network Against Food Crises; Hale et al. (2021); World Bank.

Left Panel. Bars are calculated by summing the damages in each country in each year, dividing by nominal GDP, then weighting by nominal GDP. Center Panel. Fragile low-income countries (LICs) refer to LICs with fragile and conflict-affected situations. Bars show the number of people in food crisis as classified by the Integrated Food Security Phase Classification (IPC/CH) Phase 3, that is, in acute food insecurity crisis or worse. Data for 2022 are estimates as of September 2022. Right Panel. Simple averages. Orange whiskers show interquartile range within groups. Sample includes 37 advanced economies and 137 EMDEs, of which 23 are small states.

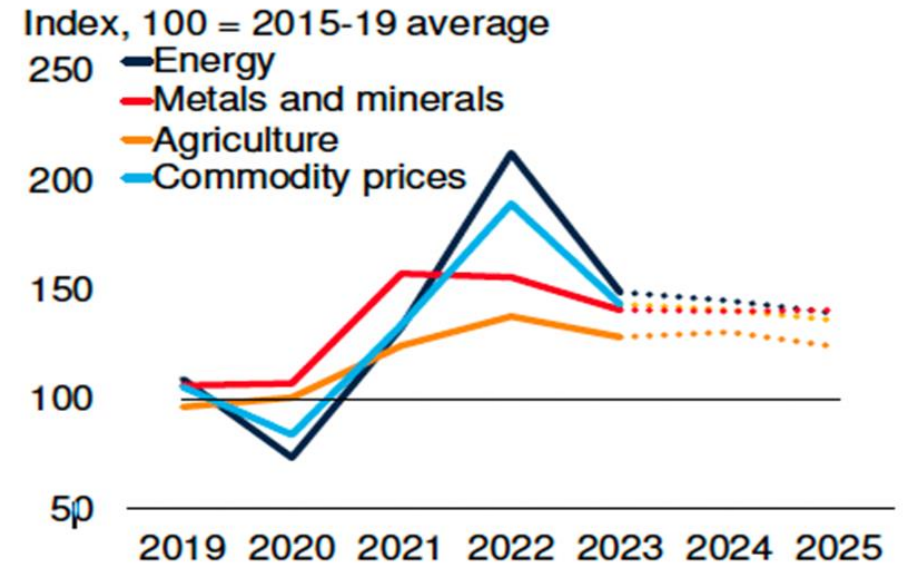
# Commodity prices coming down since the peak in 2022, but still subject to risks from geopolitical tensions and will remain higher to pre pandemic

FR

Oil Prices and Events



Commodity Price Projections





# Global Risks

## *Multiple Downside Risks*



**Financial stress**

**Geopolitical stress**

**Climate-related disasters**

**Further monetary  
tightening**

**Energy and food  
insecurity**

**Weaker long-term growth  
prospects**

**Persistent high inflation**

**Social tensions**

**Fragmentation of global  
economic networks**



# Policy Priorities - 1

## *Need for Global Cooperation and Macroeconomic Stability*

### ***Global policy challenges***

- Mitigate risk of global recession by implementing transparent, consistent and credible policies
- Address debt distress in EMDEs, especially frontier markets and LICs
- Bolster international cooperation to reduce food insecurity and avoid protectionist measures
- Set the foundations for GRID by tackling climate change and accelerating energy transition

### ***Monetary and financial policy challenges***

- Tighten policy to the extent needed to ensure inflation expectations well anchored
- Communicate policy actions clearly, leverage credible frameworks, and safeguard central bank independence
- Strengthen macroprudential policy to reduce vulnerability to capital outflows and currency pressures

### ***Fiscal policy challenges***

- Curtail inefficient spending, including by moving away from/repurposing expensive and regressive subsidies
- Enhance efficiency of critical productive spending while providing targeted support to vulnerable groups
- Improve revenue collection by broadening tax base and improving tax administration
- Strengthen fiscal frameworks and debt management

# Policy Priorities - 2

## *Implementing Policies to Boost Growth and Resilience*

### ***Boosting Investment***

- Strengthen investment to meet development and climate goals
- Improve public spending efficiency, reallocate spending towards priority investments
- Improve governance frameworks and business climates to foster private investment
- Streamline regulatory environment to encourage private investment
- Facilitate trade and global value chain integration and digitalization to attract private investment

### ***Strengthening resilience and inclusion***

- Establish flexible social protection systems to support vulnerable groups during major shocks
- Reduce food insecurity by avoiding market distortions and pursuing investments in agricultural R&D, diversification of food sources, and targeted interventions such as nutrition programs
- Increase female labor force participation and promote financial inclusion

### ***Improving growth and resilience in small states***

- Enable diversification through digitalization, reducing trade costs, and fostering new industries (e.g., eco-tourism)
- Invest in climate adaptation and domestic renewable energy sources
- Ensure disciplined financial management of state-owned enterprises
- Establish fiscal mechanisms (e.g., fiscal rules, disaster stabilization funds) to enhance disaster risk management