

PRESENTATION BY JACOB A. FRENKEL

AT THE FORUM:

**“INTELLIGENCE ON THE WORLD, EUROPE, AND ITALY”**

“Villa d'Este”, Cernobbio - September 7, 8 and 9, 2012

Working paper, September 2012.

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# Imbalances in The World Economic System

**Dr. Jacob A. Frenkel**

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The European House, Ambrosetti  
Cernobbio, Italy  
September 7-9, 2012

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## **Five Global Imbalances**

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- **Imbalances in Global Growth**
- **Imbalances in International Payments**
- **Imbalances in Macro Policies**
- **Imbalances in the Euro-System**
- **Long-term Demographic Imbalances**

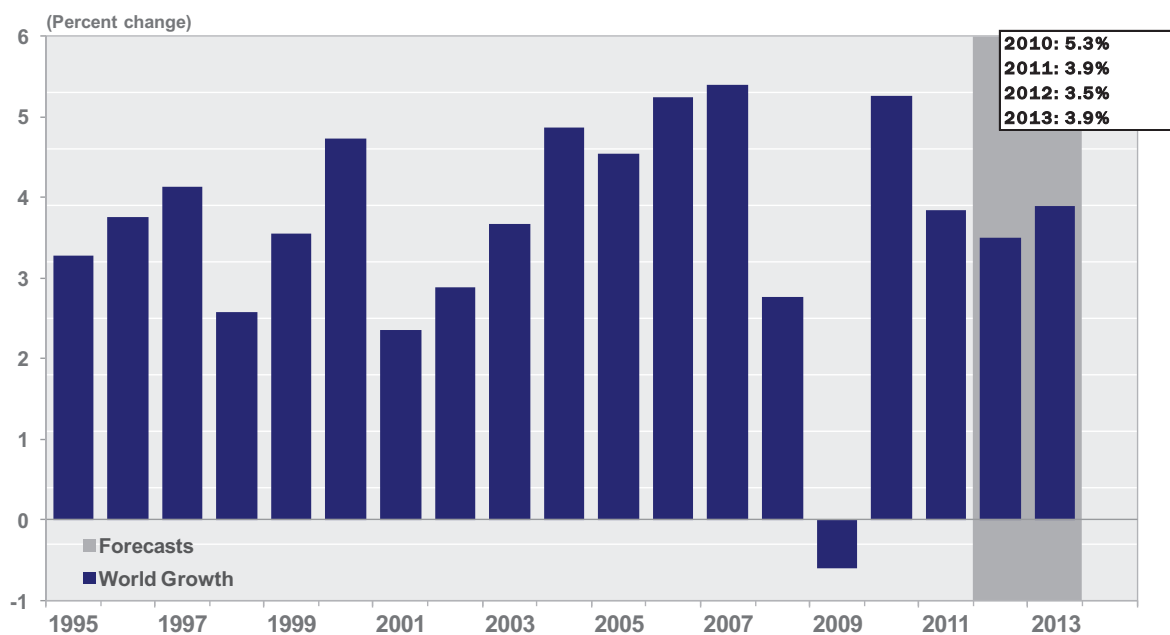
# Imbalances in Global Growth

- Global Growth Projections
- The Rise of Developing Countries

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3

## Global GDP Growth (%)



Source: IMF, last update Jul 20 2012, WEO (2012 & 2013 Forecast)

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4

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# Real GDP Growth (%) World Economy

GDP Growth (Avg Annual Growth Rate, Constant Prices)							
Country	2000	2005	2009	2010	2011	2012	2013
<b>World</b>	4.7	4.5	-0.6	5.3	3.9	3.5	3.9
<i>Industrial Countries</i>	4.1	2.6	-3.6	3.2	1.6	1.4	1.9
<i>Developing Countries</i>	5.8	7.3	2.8	7.5	6.2	5.6	5.9

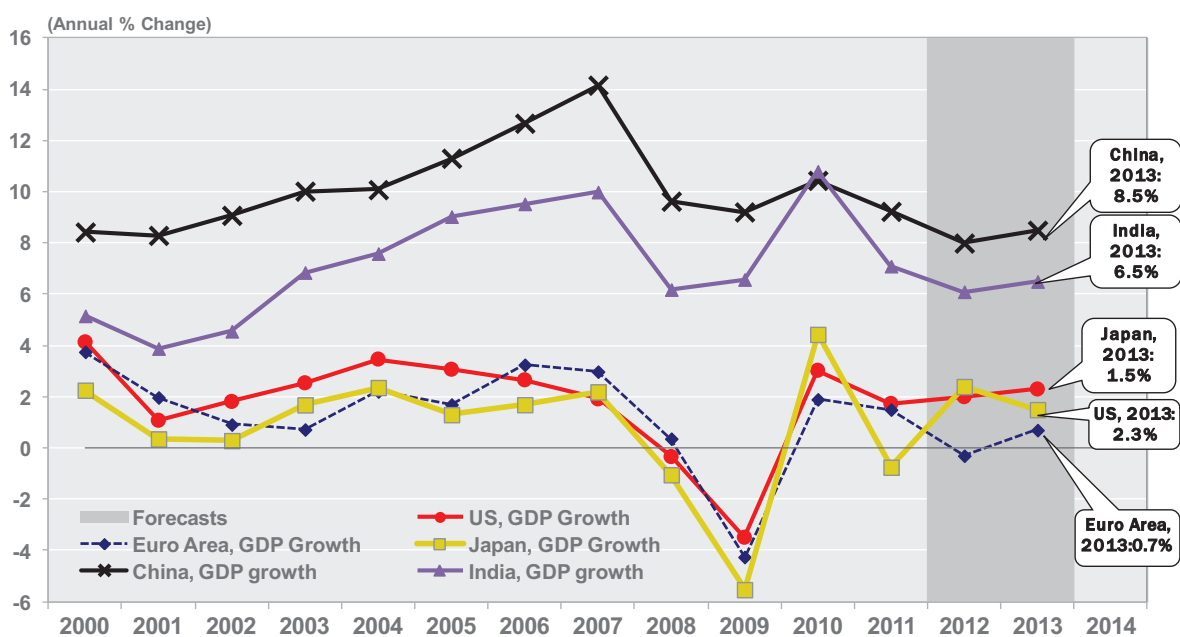
Source: IMF, last update Jul 20 2012, WEO (2011 & 2012 Forecast)

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5

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# Real GDP Growth (%), Select Countries



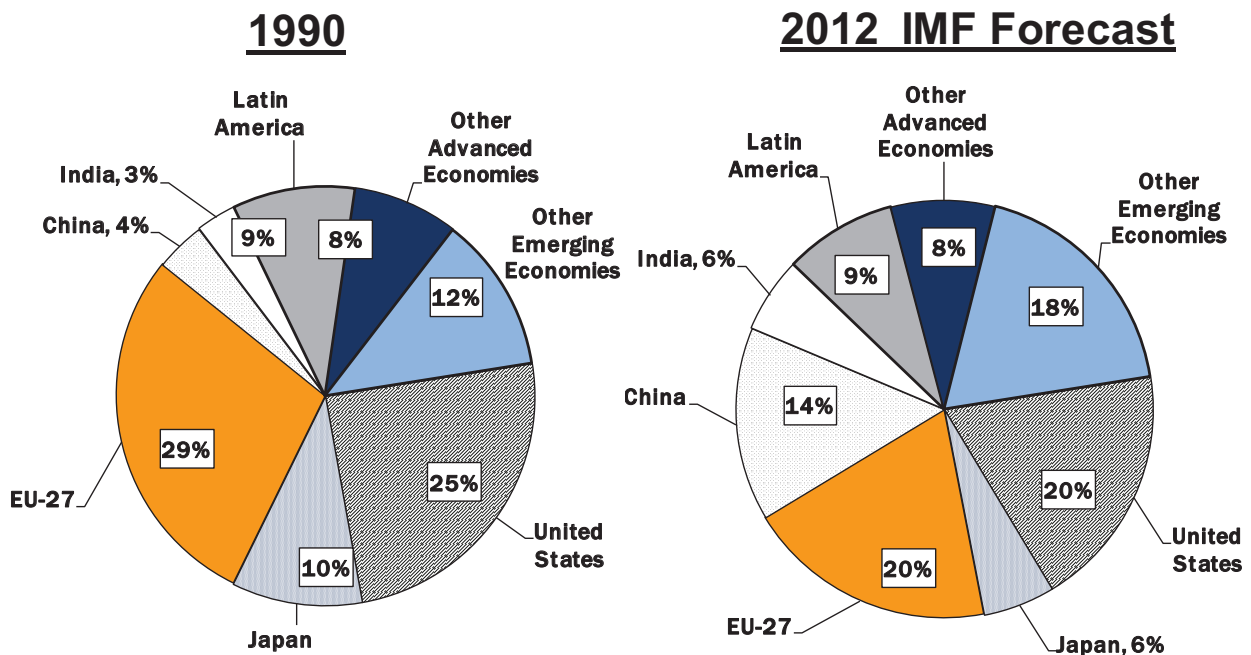
Source: IMF, last update Jul 20 2012, WEO (2012 & 2013 forecast)

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6

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# Global GDP Shares



Source: IMF, WEO Database, last update Apr 17 2012, WEO

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7

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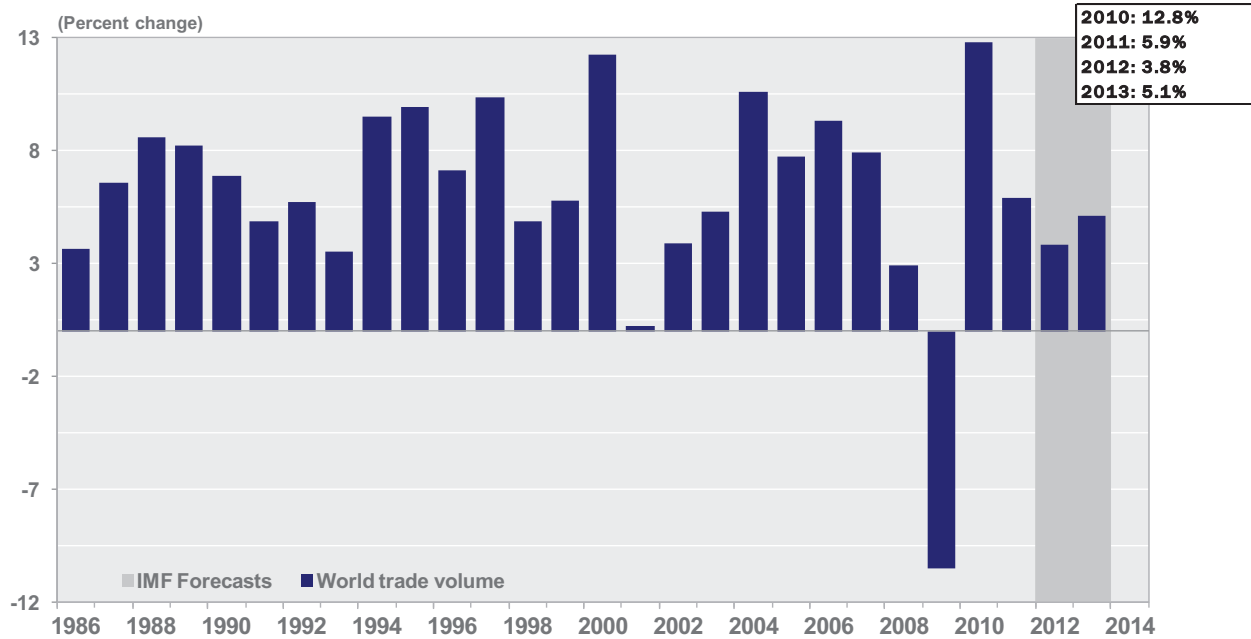
## Imbalances in International Payments

- The Volume of World Trade
- China and the Trading System
- The Destinations of Exports
- Current Account Imbalances
- Savings Imbalances

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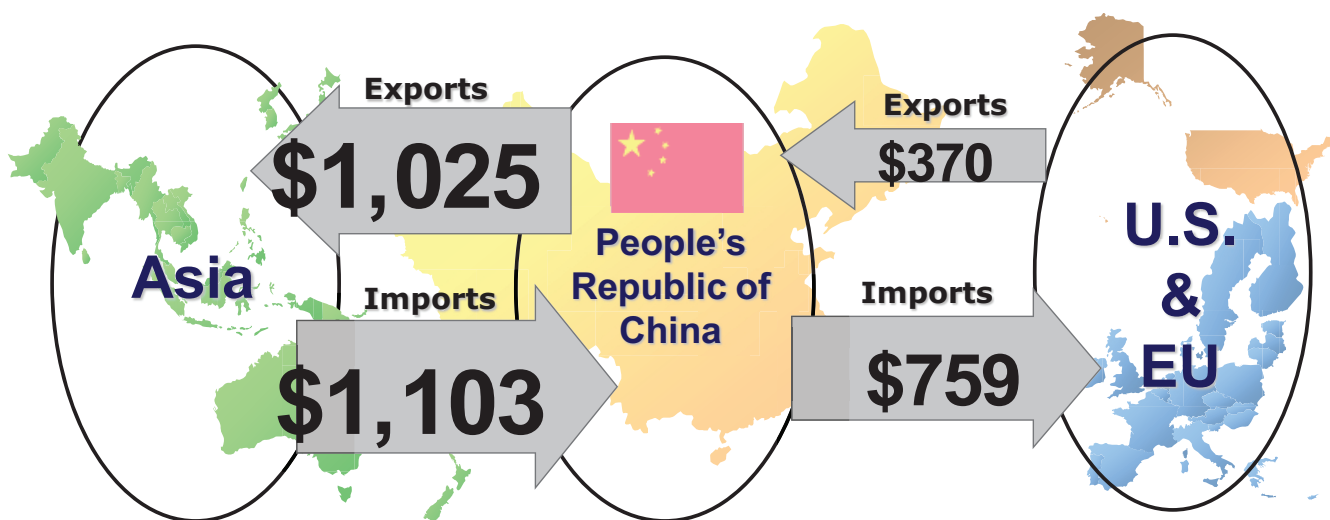
8

# World Trade Volume



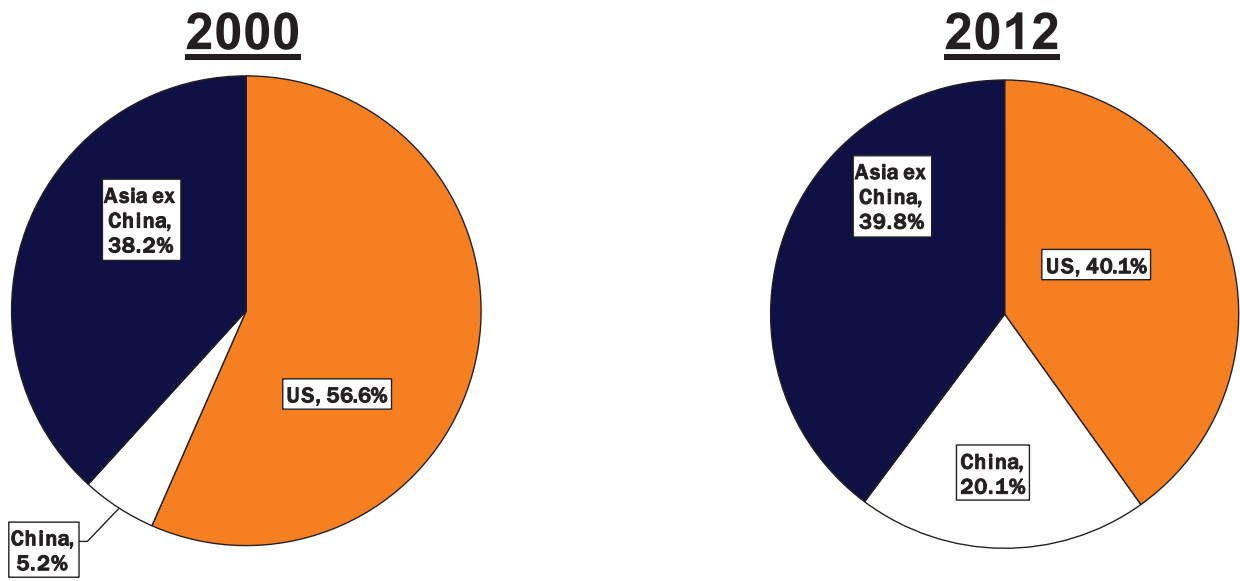
Source: IMF, av. Annual growth rates, last update Jul 20 2012, WEO (2012 & 2013 forecast).

# China's Role in Global Trade (bill. Usd)



Source: National Bureau of Statistics of China, 12-months through July 2012

# European Union Exports by Destination



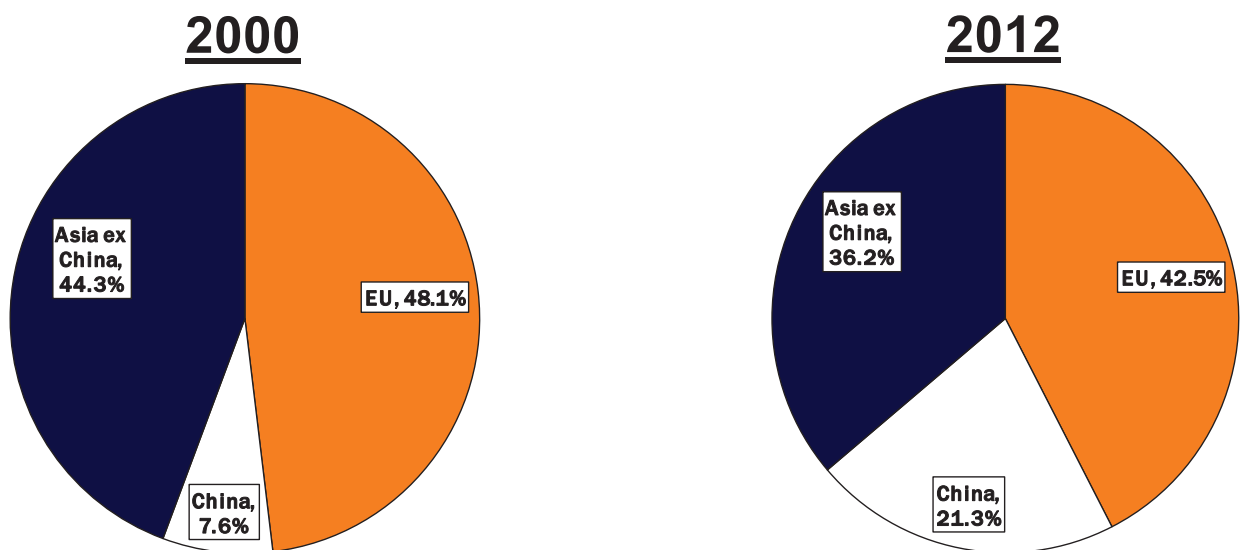
Source: Eurostat, Last Observation: Mar 2012

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11

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# U.S. Exports by Destination



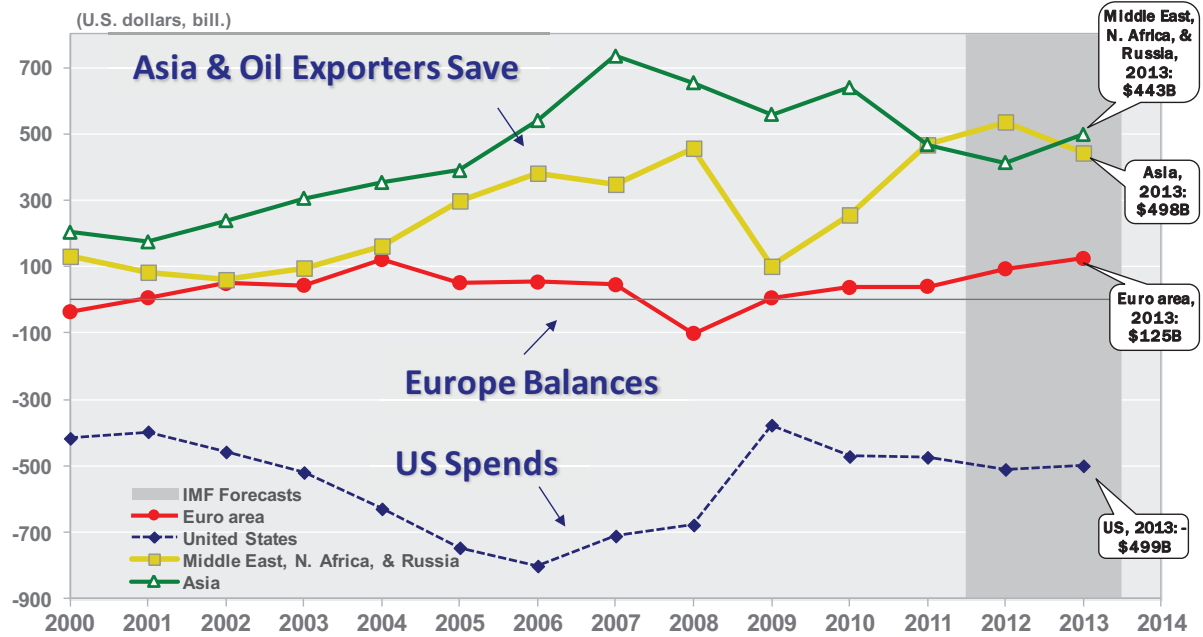
Source: US Department of Commerce, Last Observation: Jun 2012

9/5/2012

12

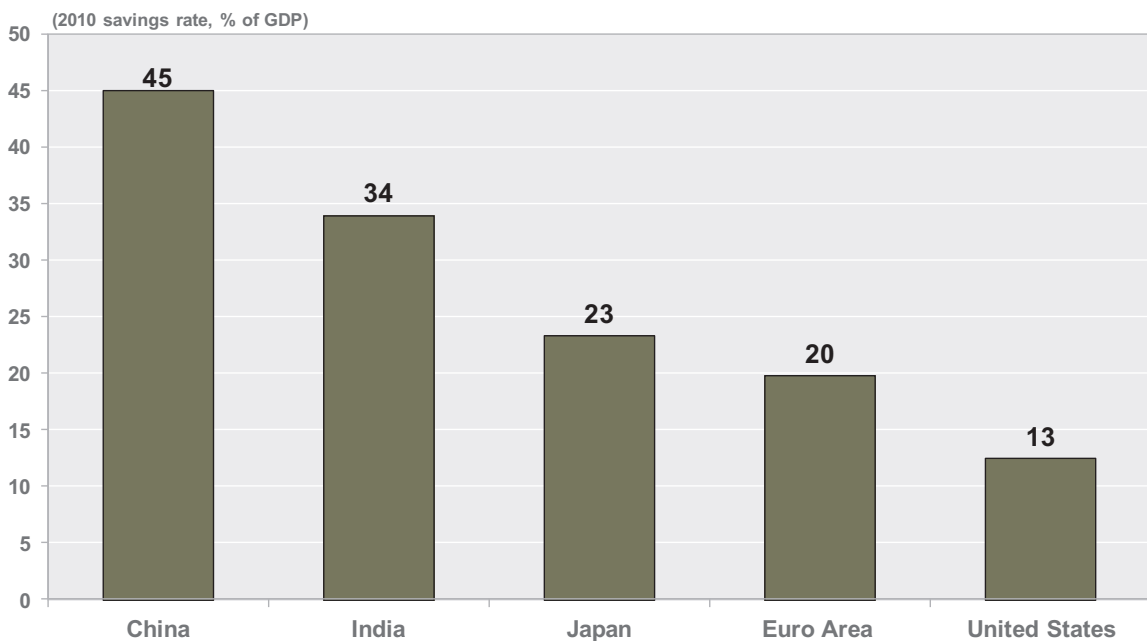
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# Current Account of Balance of Payments



Source: IMF, last update Apr 17 2012, WEO (2012 Forecast)

# Gross National Savings as a % of GDP



Source: IIF August 2011 (China, India); IMF WEO (Japan, Euro area, US; last Update: 4/17/2012)



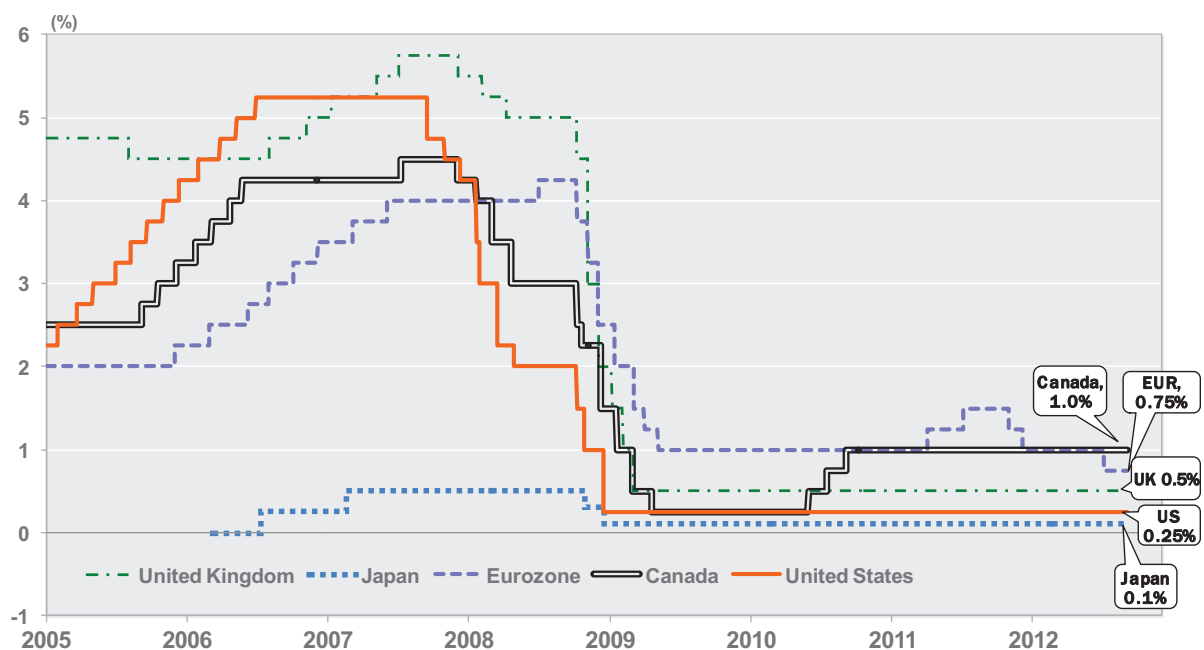
# Imbalances in Macro Policies

- Central Banks' Interest Rates
- Nominal and Real Interest Rates
- Central Banks' Balance Sheets
- Fiscal Deficits and Public Debt

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15

## Central Banks' Policy Interest Rates



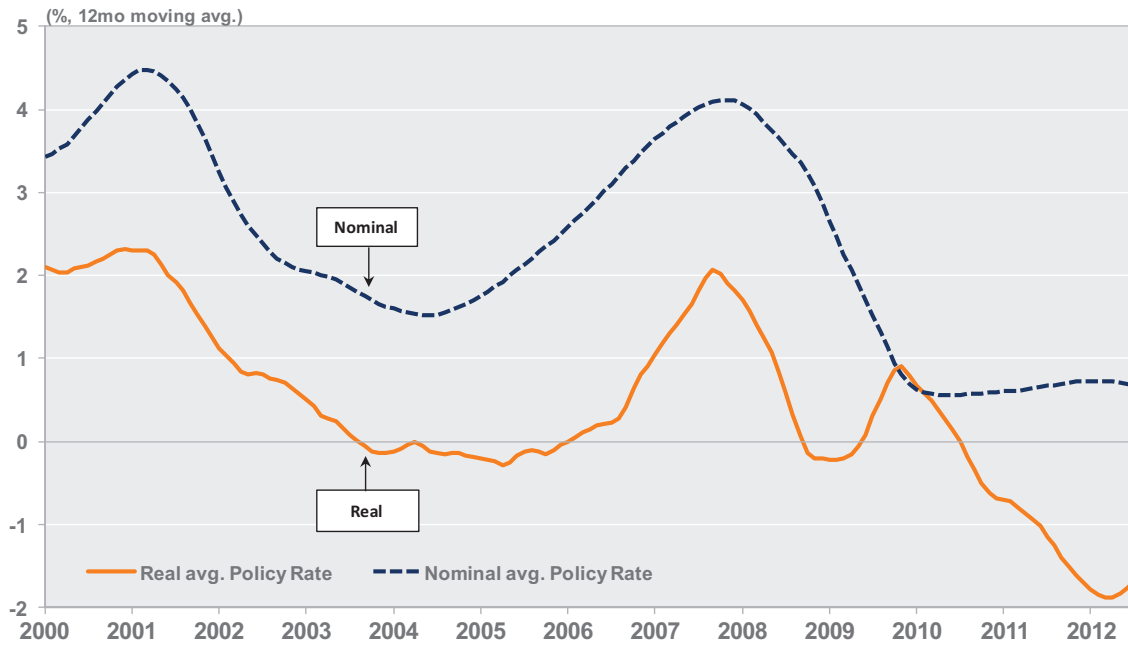
Source: Bloomberg Market Data, Last observation: 4 Sep, 2012

9/5/2012

16

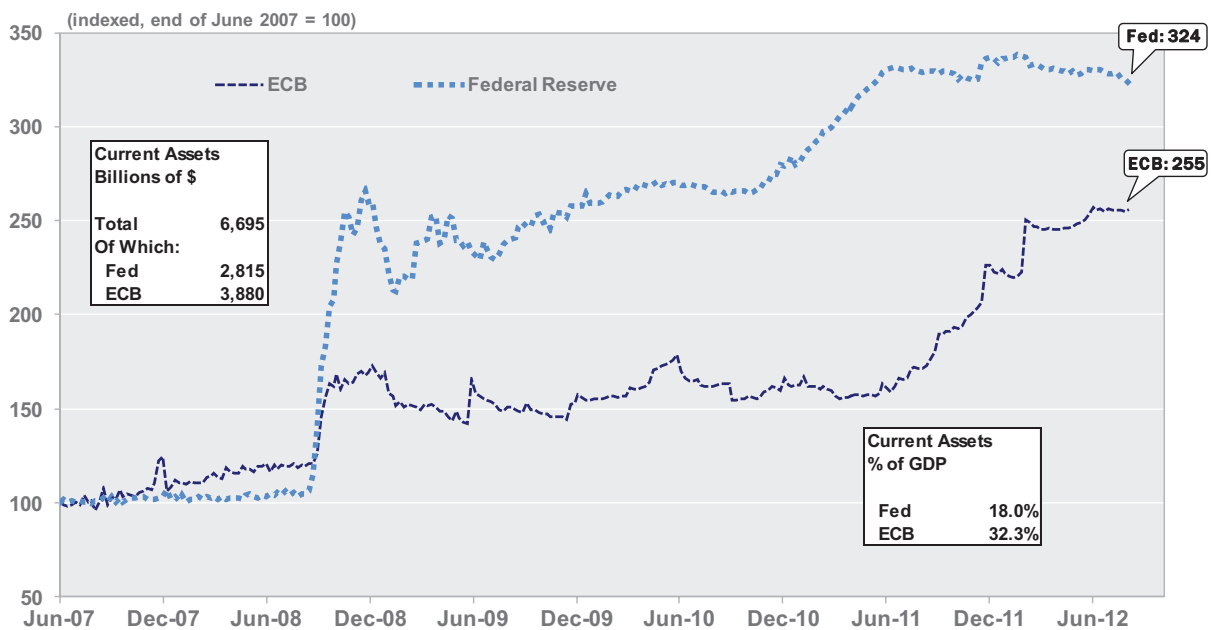
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# Nominal and Real Rates: Developed Markets



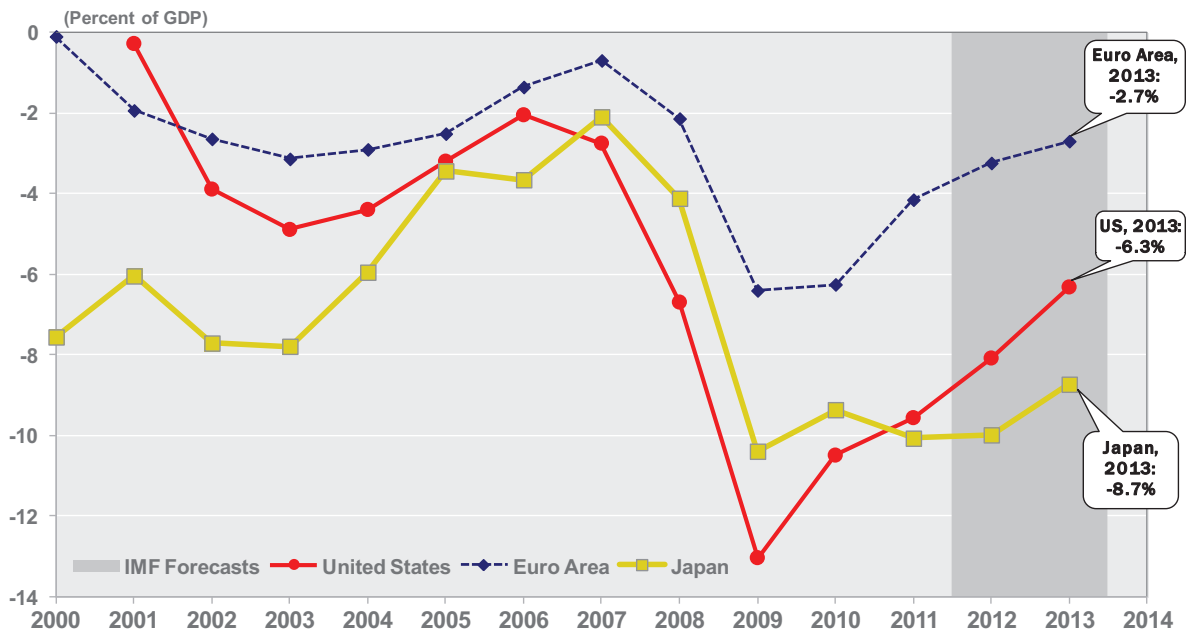
Source: JPMorgan Chase, National Statistical Institutest, Last Observation: Nominal - March 1997; Real - February 2007

# Total Assets of Key Central Banks (indexed levels)



Source: Bloomberg; Last Observation: ECB, Aug 31, 2012; Federal Reserve, Aug 29, 2012.

# Fiscal Positions: General Government Balance



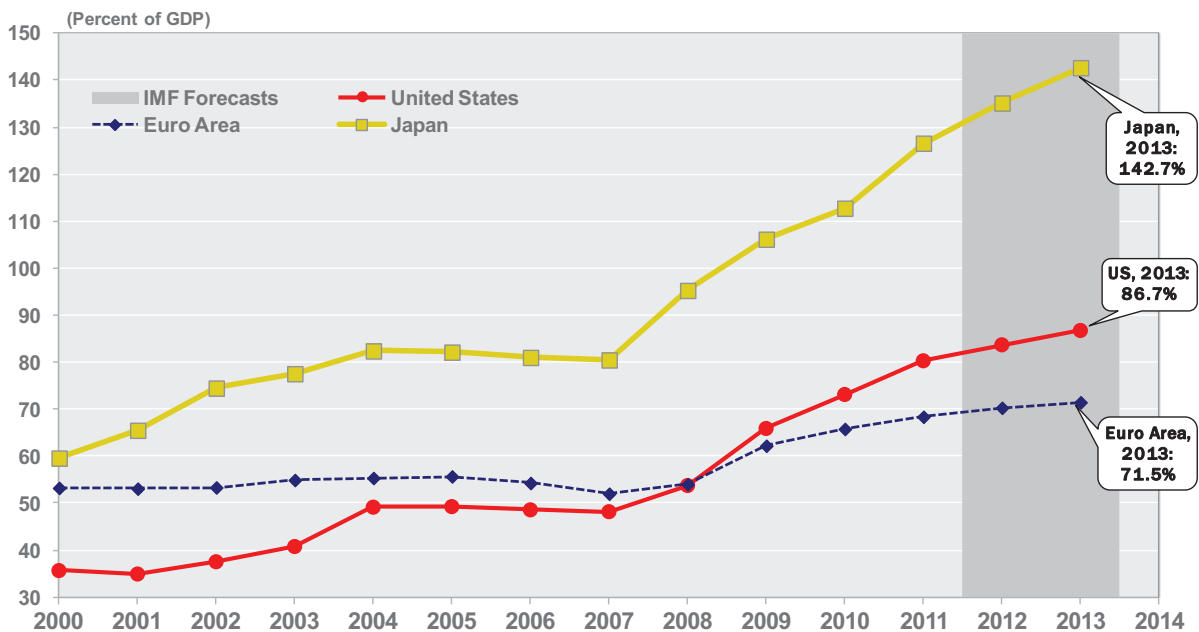
Source: IMF, WEO Database, last update Apr 17 2012, WEO (2012 & 2013 forecast)

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19

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# Fiscal Positions: Net Debt



Source: IMF, WEO Database, last update Apr 17 2012, WEO (2012 & 2013 forecast)

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20

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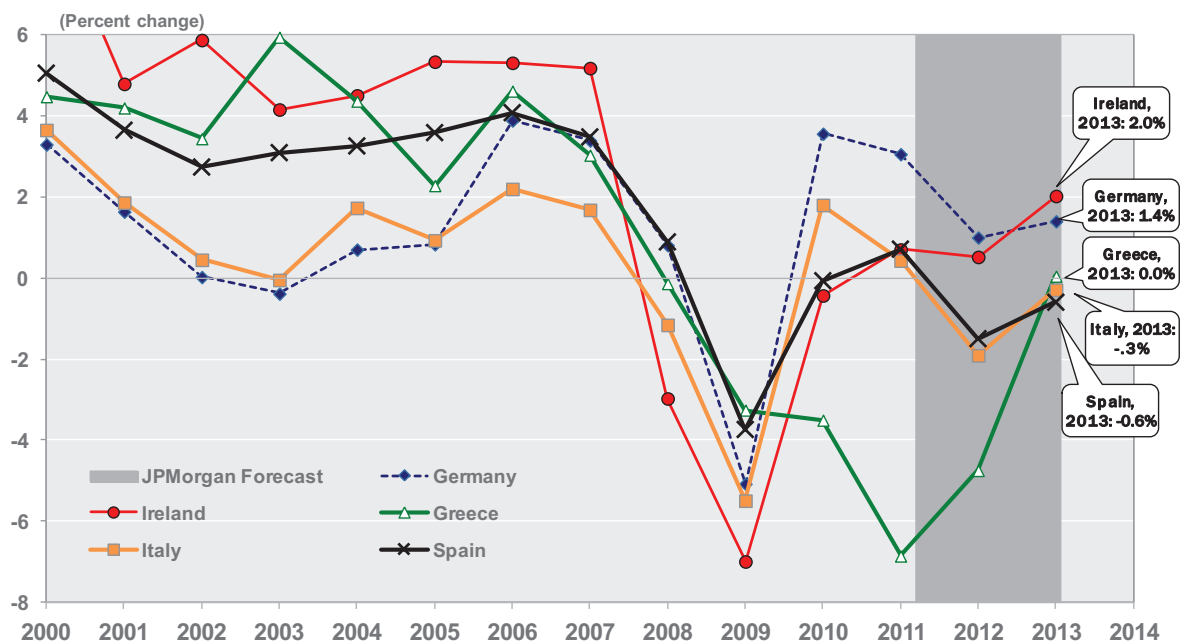
# Imbalances in the Euro-System

- Growth Rates Imbalances
- Unemployment & Productivity
- Budget Deficits and Public Debt
- Savings and Payments Imbalances
- Spreads, Yields, and CDS
- “Bad Zones”

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21

## Real GDP Growth (%), Select Euro area countries



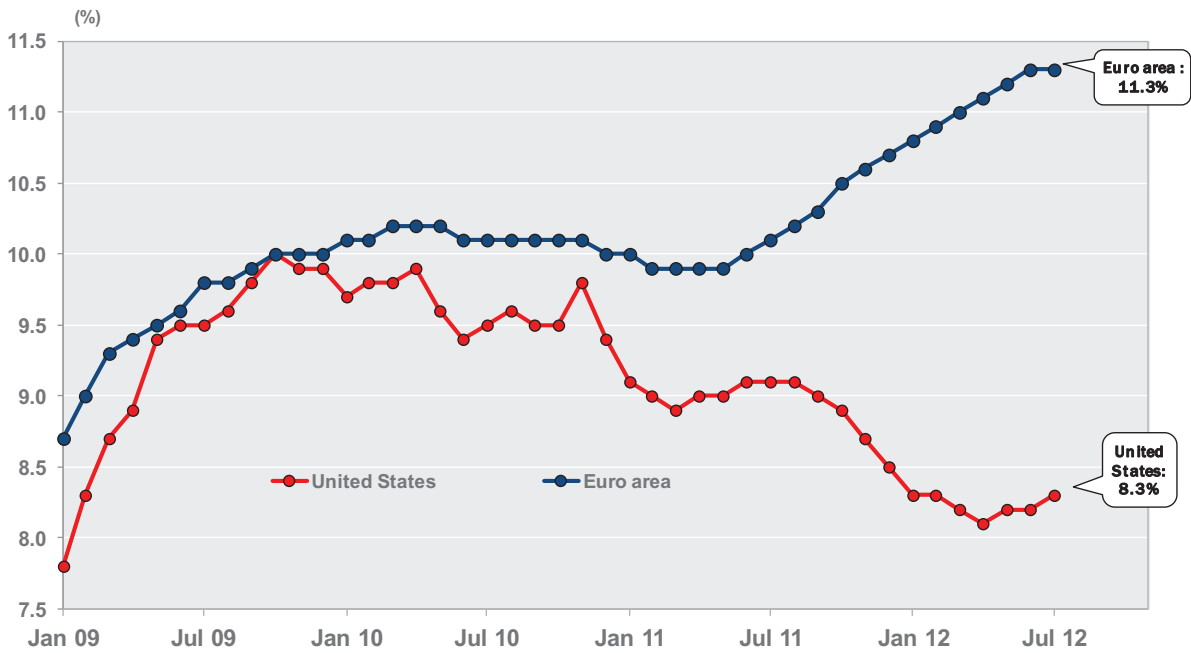
Source: IMF, last update Jul 20 2012, WEO (2012 & 2013 forecast)

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22

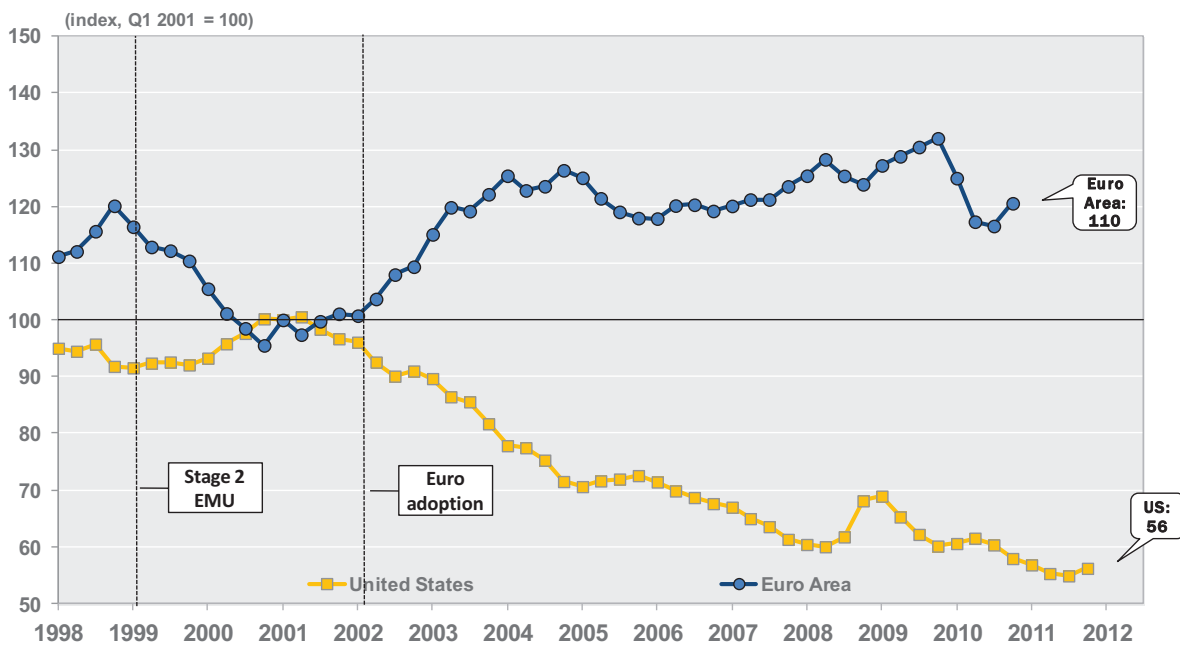
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# Unemployment Rate (%): US and Euro area



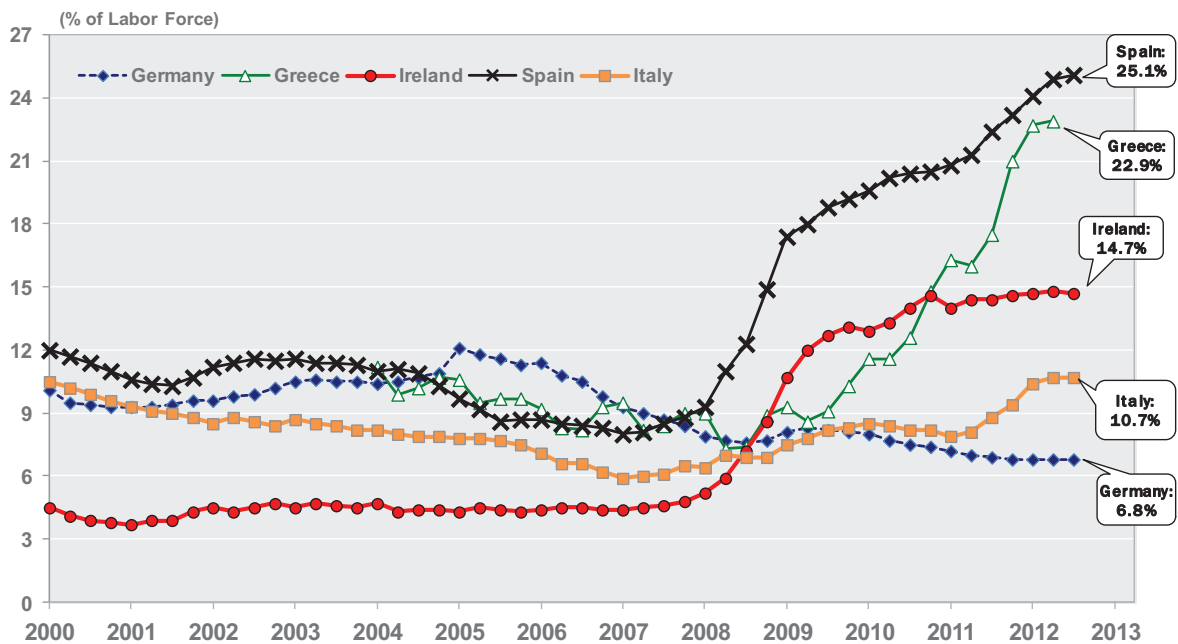
Source: Eurostat and BLS; Last observation for Euro area July 2012, For US, July 2012

# Relative Unit Labor Costs, Manufacturing Sector



Source: OECD, last observation Q4/2011

# Unemployment Rate (%): Select Euro Area Countries



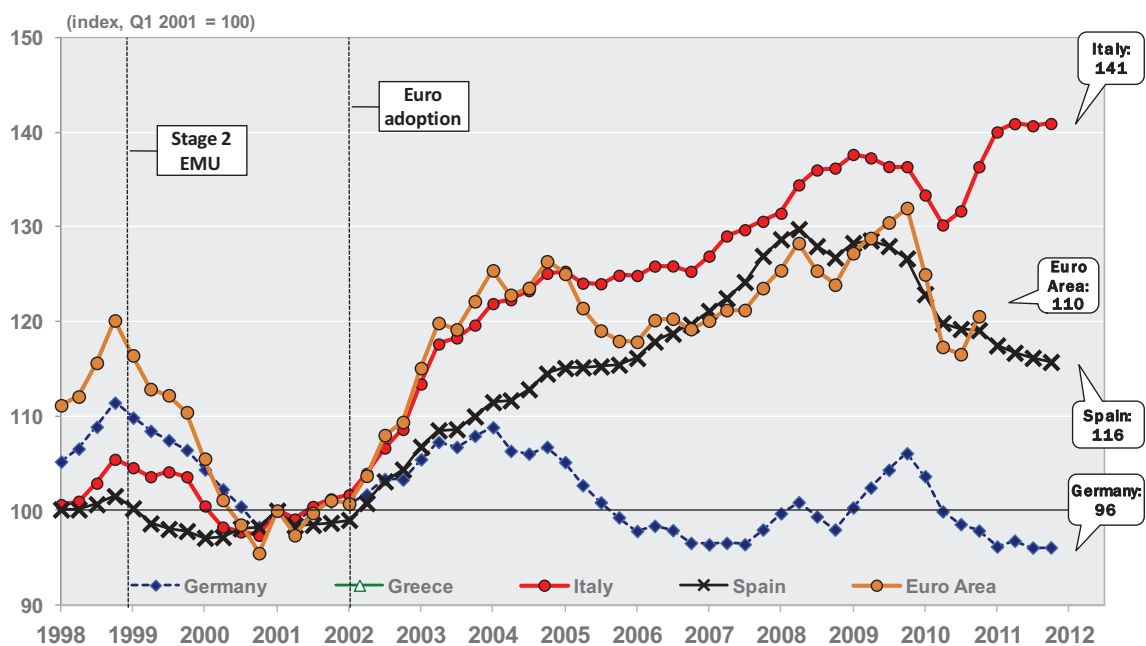
Source: Eurostat, Last Observation: Ireland, Germany (7/12); Italy, Spain (6/12); Greece (5/12)

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25

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# Relative Unit Labor Costs, Manufacturing Sector



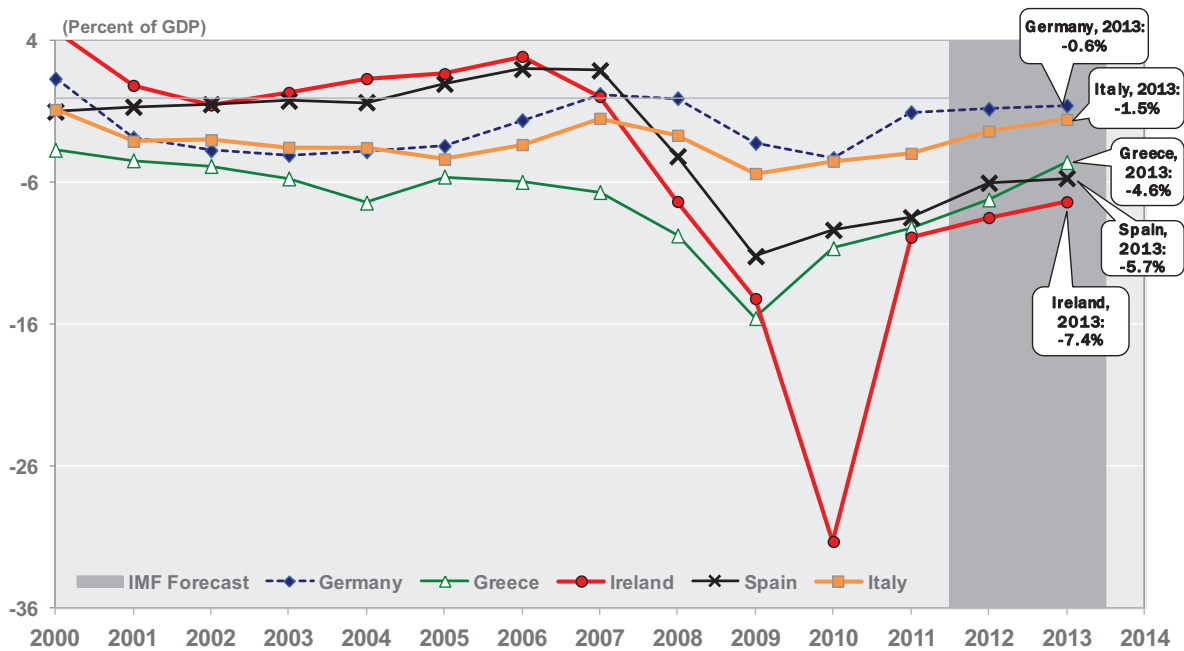
Source: OECD, Last observation: Q4/2011

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26

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# Fiscal Position: General Government Balance – Select Euro Area Economies



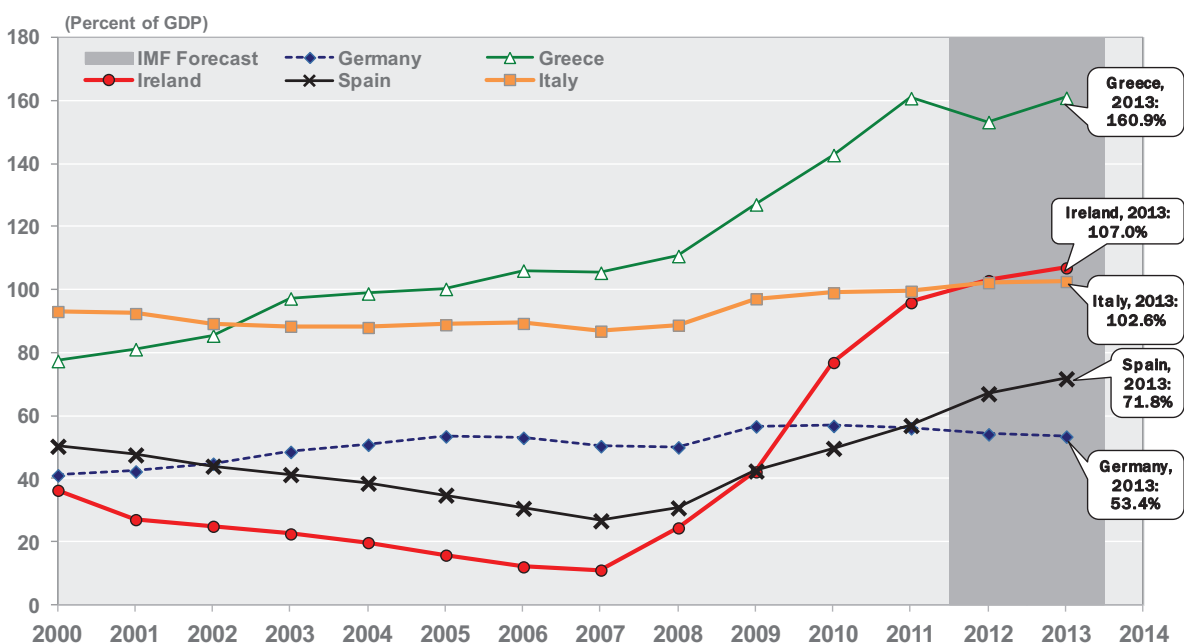
Source: IMF, WEO Database, last update Apr 17 2012, WEO (2012 & 2013 forecast)

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27

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# Fiscal Positions: Net Debt – Select Euro Area Economies



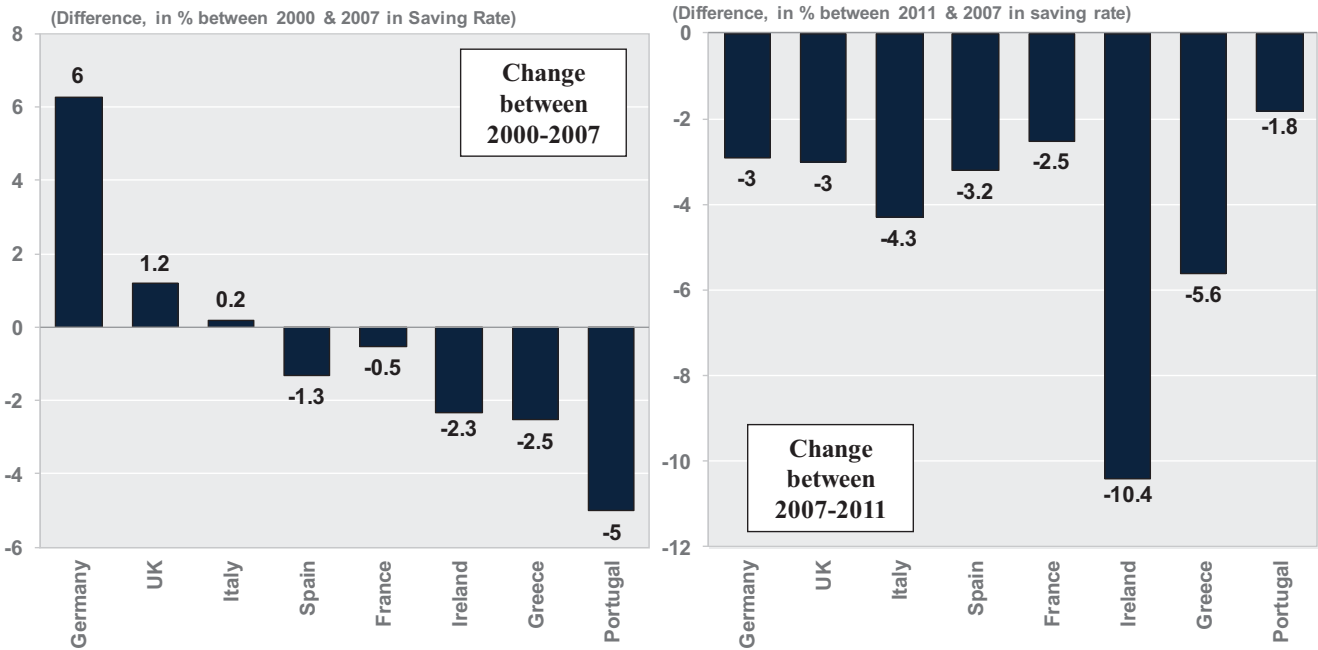
Source: IMF, WEO Database, last update Apr 17 2012, WEO (2012 & 2013 forecast)

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28

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# Change in Gross National Saving Rate: Select European Counties (2000 – 2011)



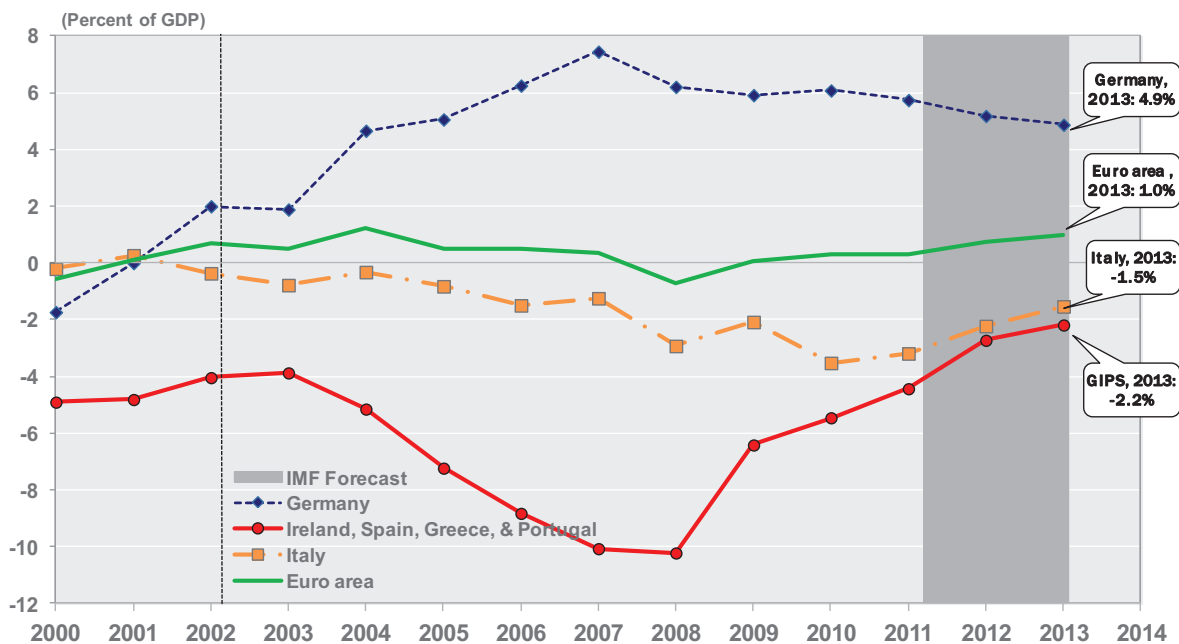
Source: Eurostat, Last Update: 2011

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29

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# Euro Area Current Account Balance (% of GDP)



Source: IMF, WEO Database, last update Apr 17 2012, WEO (2012 & 2013 forecast)

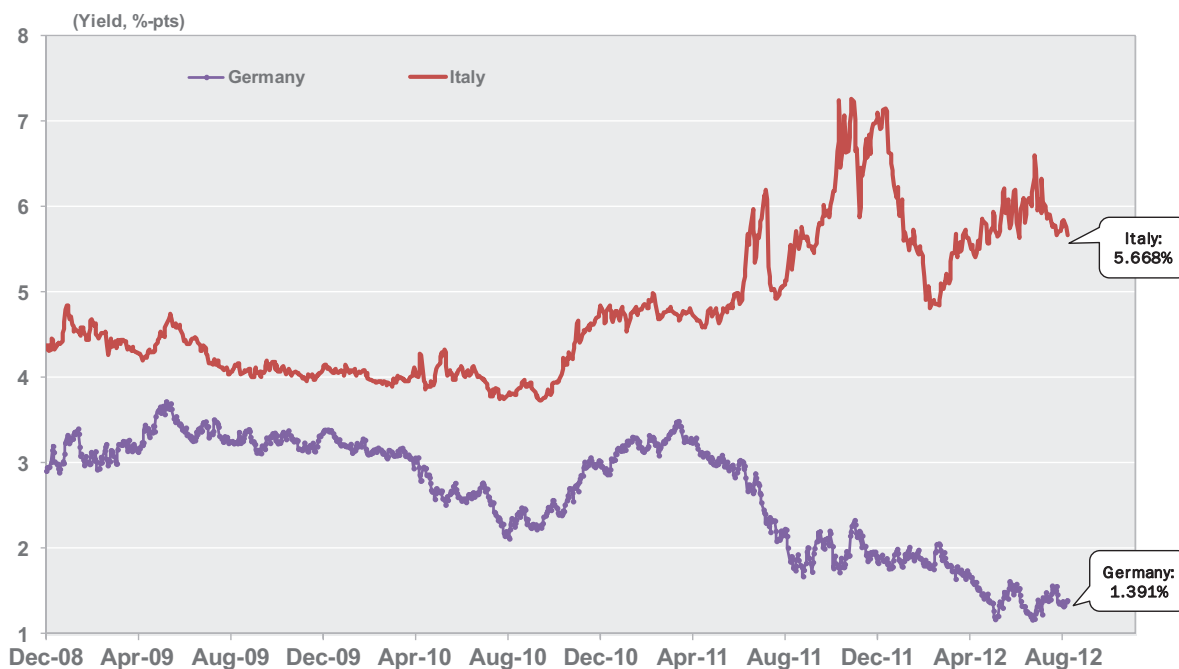
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30

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# 10yr Government Bond Yields



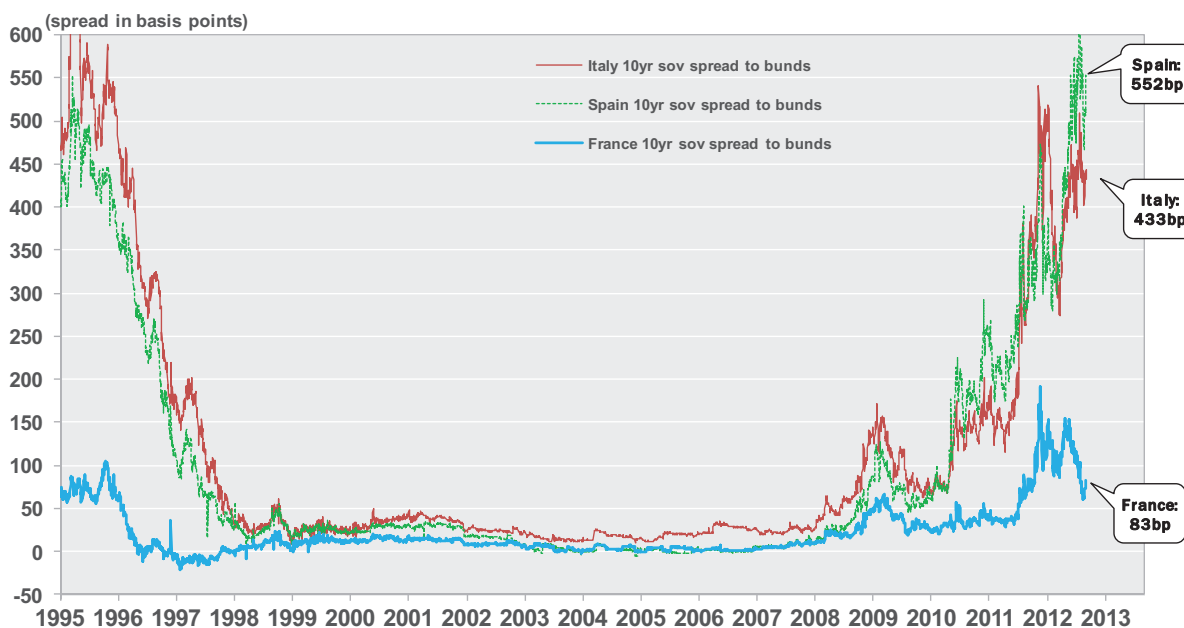
Source: Bloomberg Market Data, Last Observation: Sep 4, 2012

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31

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# 10yr Sovereign Bond Spreads



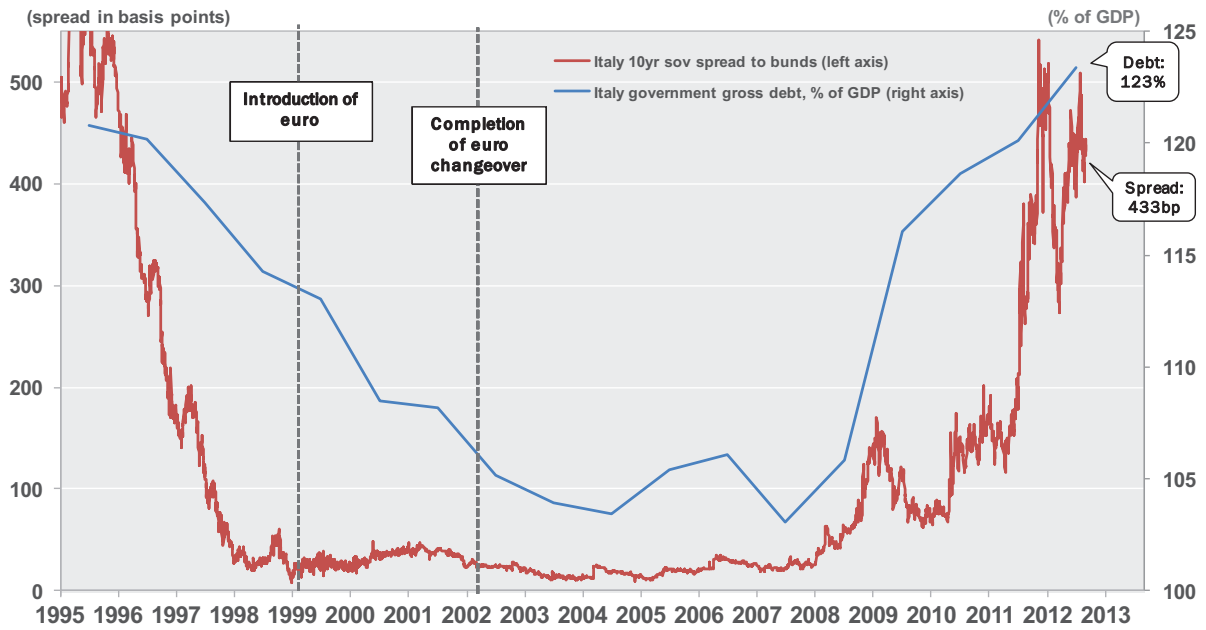
Source: Reuters, last update 03 Sep, 2012

9/5/2012

32

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# Italy 10yr Sovereign Spread and Gross Debt



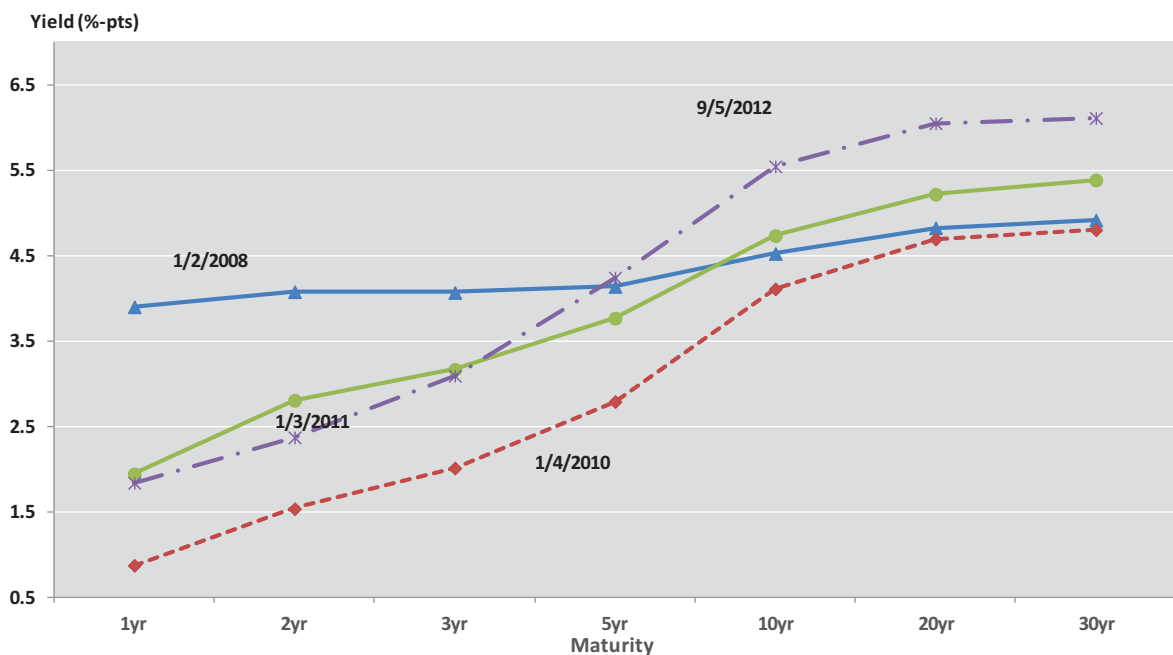
Source: For 10yr yields, Reuters, last update 03 Sep, 2012; for gross debt, IMF World Economic Outlook, last update 17 Apr 2012.

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33

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# Italian Sovereign Yield Curve



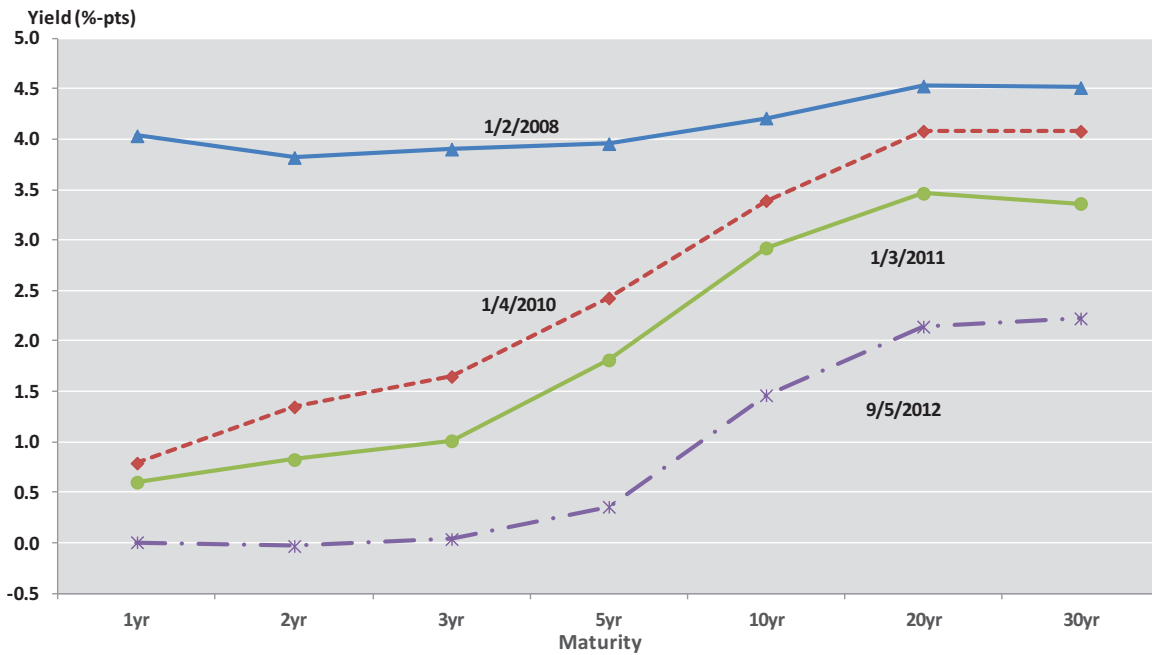
Source: Bloomberg Market Data, Last Observation: Sep 05, 2012

9/5/2012

34

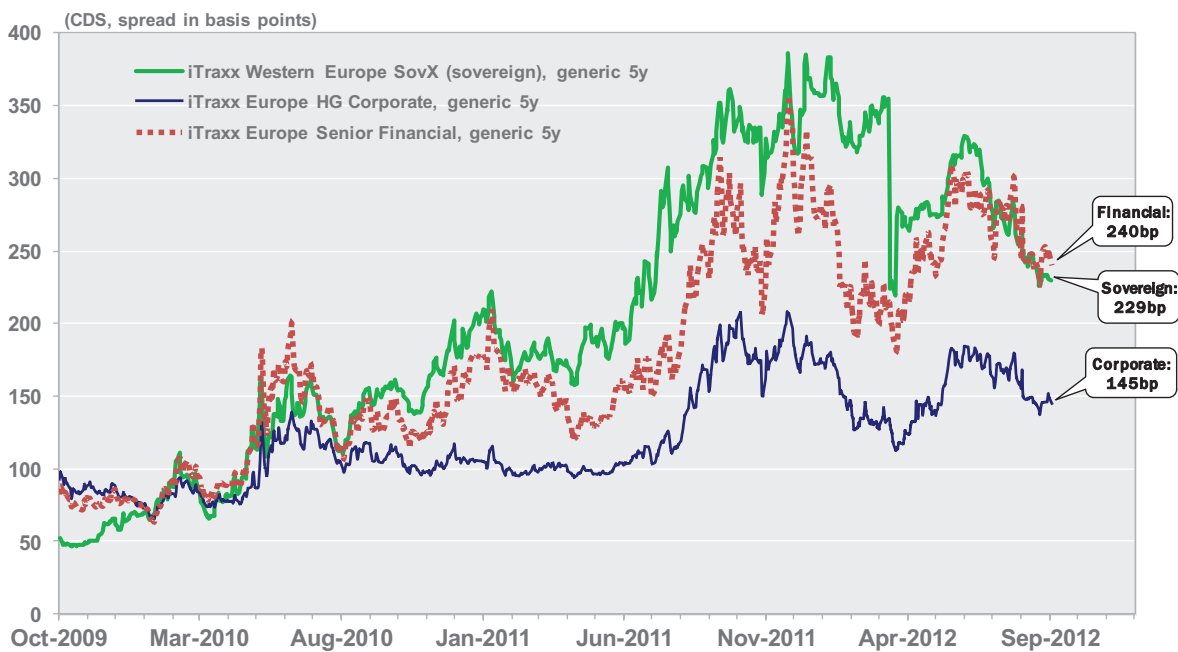
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# German Sovereign Yield Curve



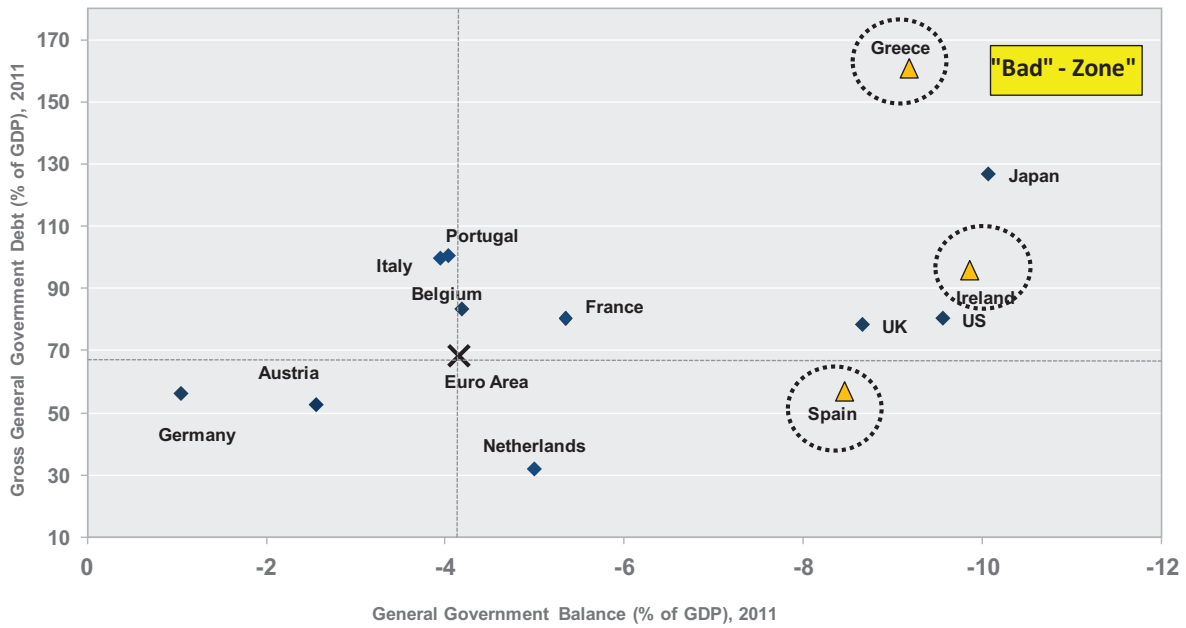
Source: Bloomberg Market Data, Last Observation: Sep 05, 2012

# European Sovereign and Corporate CDS Spreads



Source: Markit ITraxx data, Last Observation: Sep 3, 2012

# Gross Government Debt and Budget Deficit (% of GDP 2011)



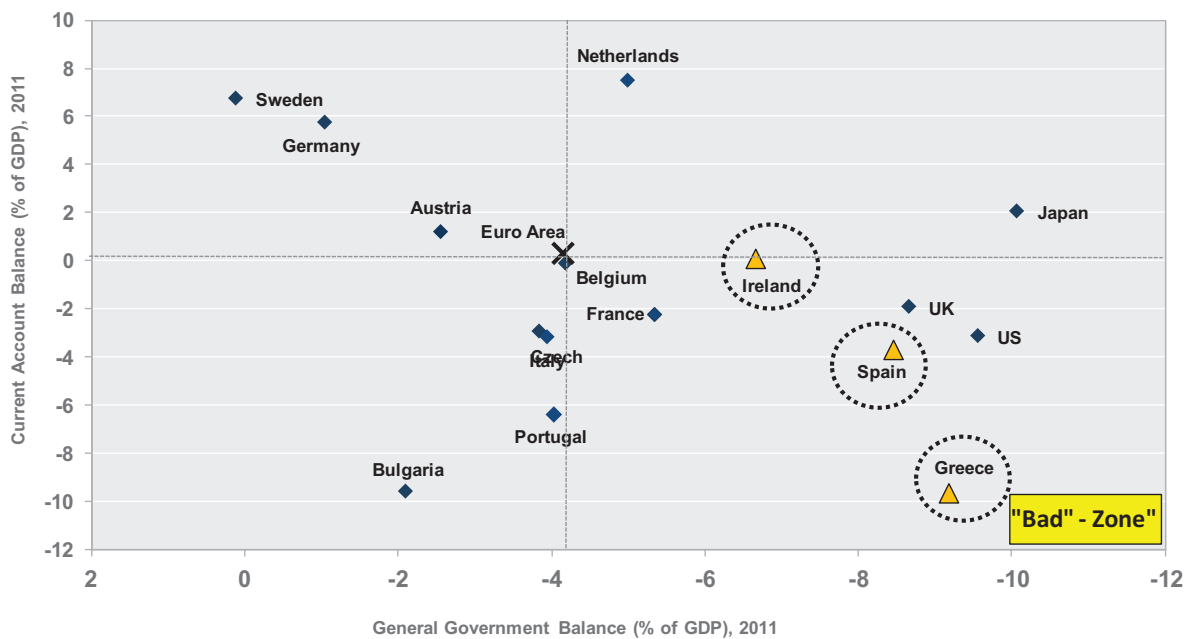
Source: IMF, last update Apr 17 2012, WEO (2011 estimate)

9/5/2012

37

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# Current Account Balance and Budget Deficit (% of GDP 2011)



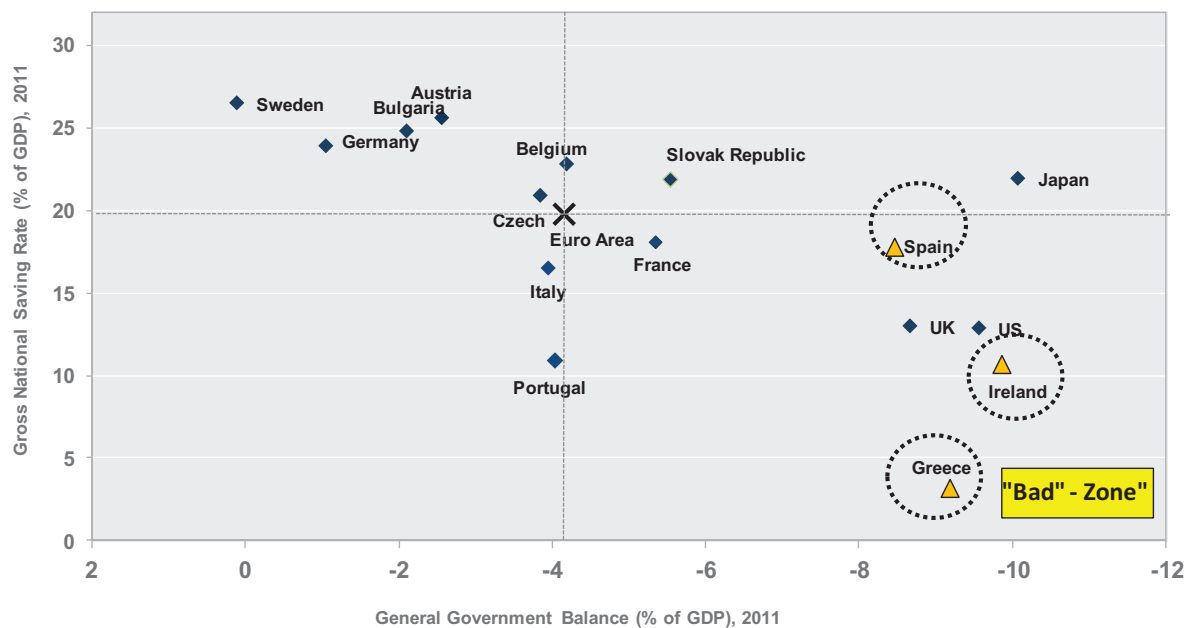
Source: IMF, last update Apr 17 2012, WEO (2011 estimate)

9/5/2012

38

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# Gross National Saving Rate and Budget Deficit (% of GDP 2011)



Source: IMF, last update Apr 17 2012, WEO (2011 estimate); Eurostat (2011 estimate, EA13)

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39

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## Long-Term Demographic Imbalances

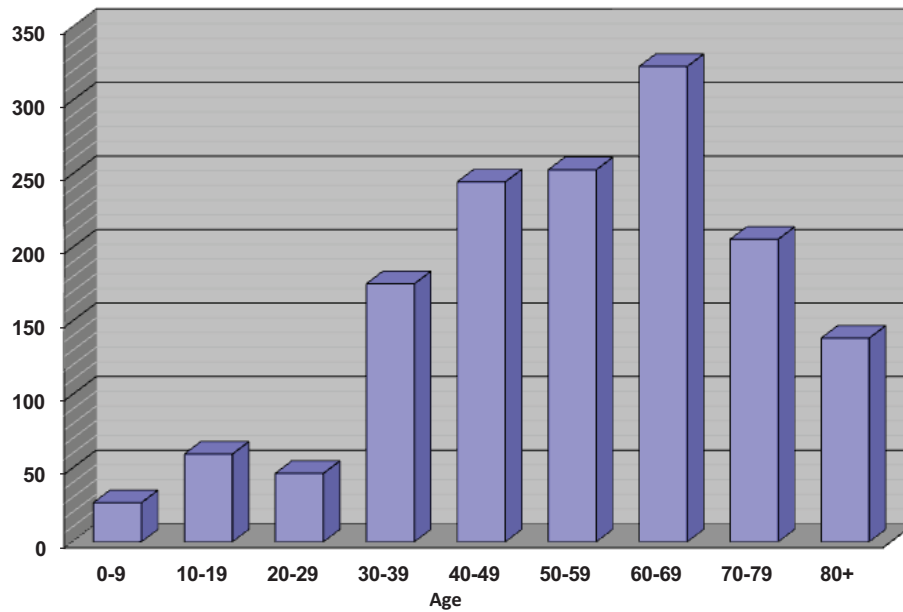
- The World
- Developing Countries
- Developed Countries
- Dependency Ratio

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40

# World Demographic Challenge

Change in population, 2010-2030 (millions)



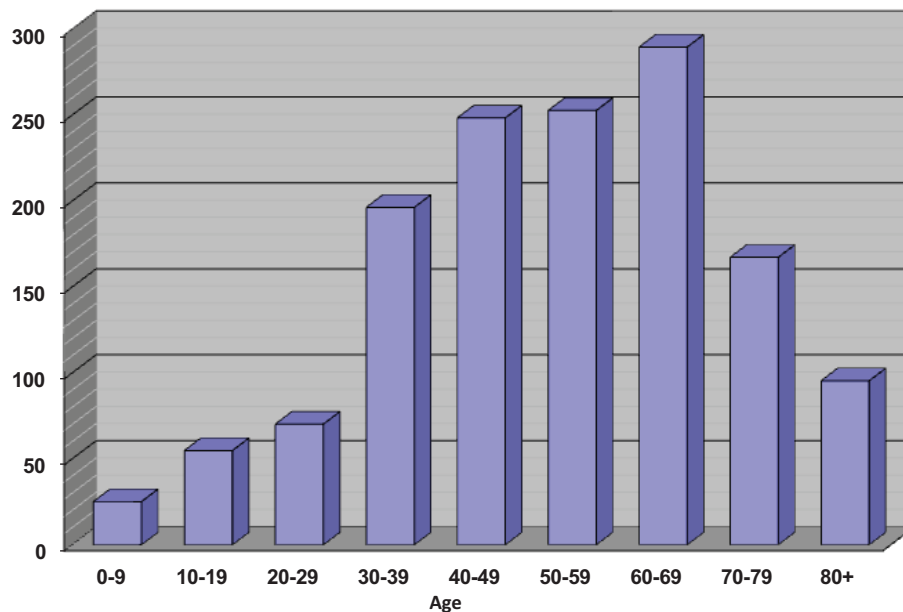
Source: UN Populations Division, last update 2010

Projected change in population from 2010 - 2030: **1516M**

2010: **7001M**  
2030: **8517M**

# Developing Countries Demographic Challenge

Change in population, 2010-2030 (millions)



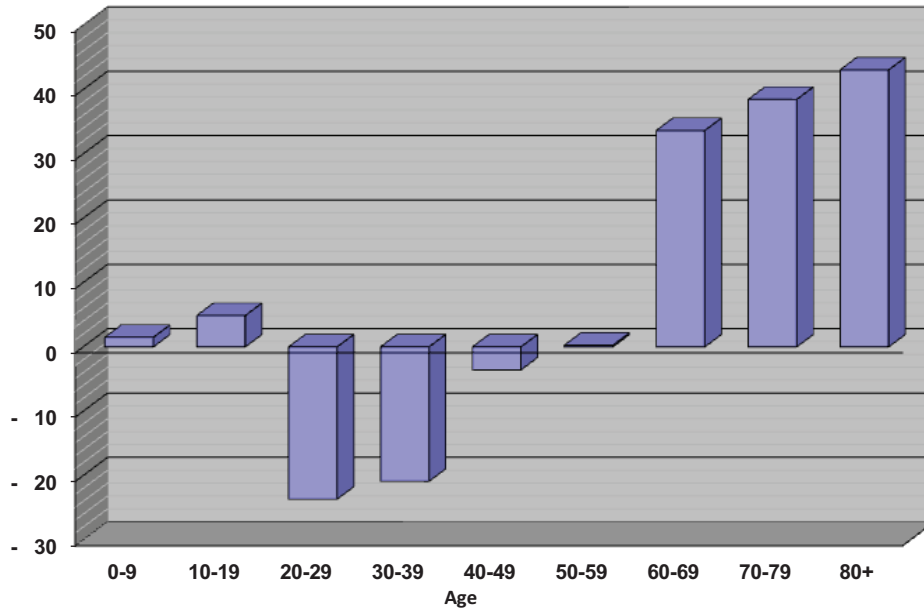
Source: UN Populations Division, last update 2010

Projected change in population from 2010 - 2030: **1426M**

2010: **5712M**  
2030: **7138M**

# Developed Countries Demographic Challenge

Change in population, 2010-2030 (millions)

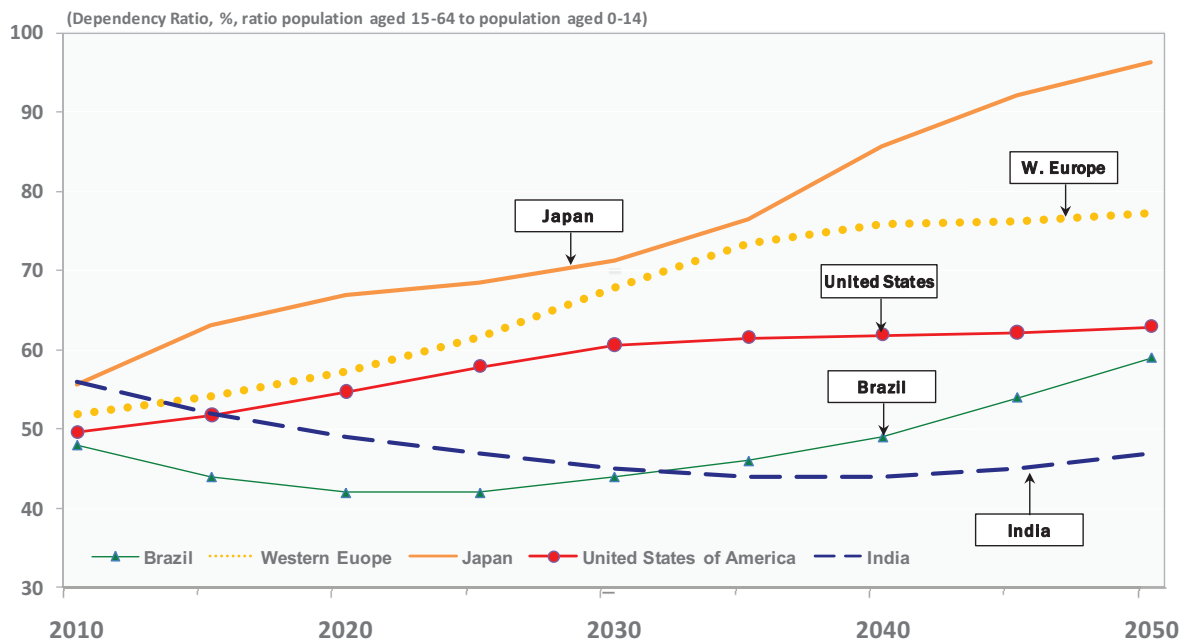


Source: UN Populations Division, last update 2010

Projected change in population from 2010 - 2030: **90M**

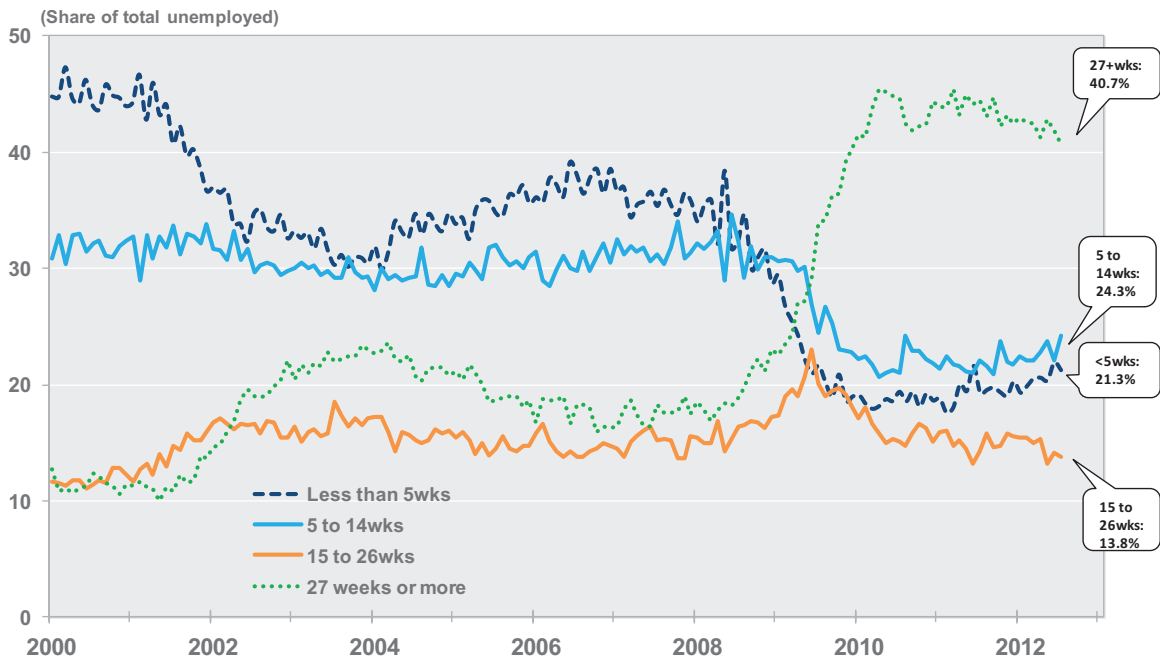
2010: **1289M**  
2030: **1379M**

# Dependency Ratio



Source: UN Population Division

# U.S. Unemployment, by Duration



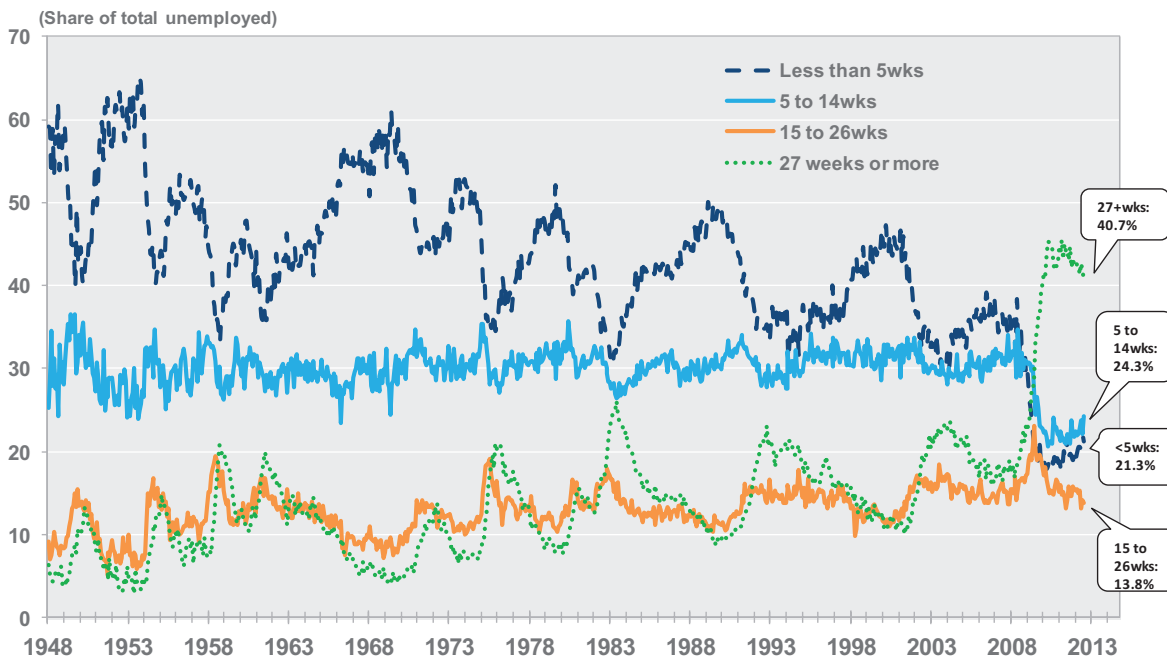
Source: Bureau of Labor Statistics, Last Observation: July 2012

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45

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# U.S. Unemployment, by Duration



Source: Bureau of Labor Statistics, Last Observation: July 2012

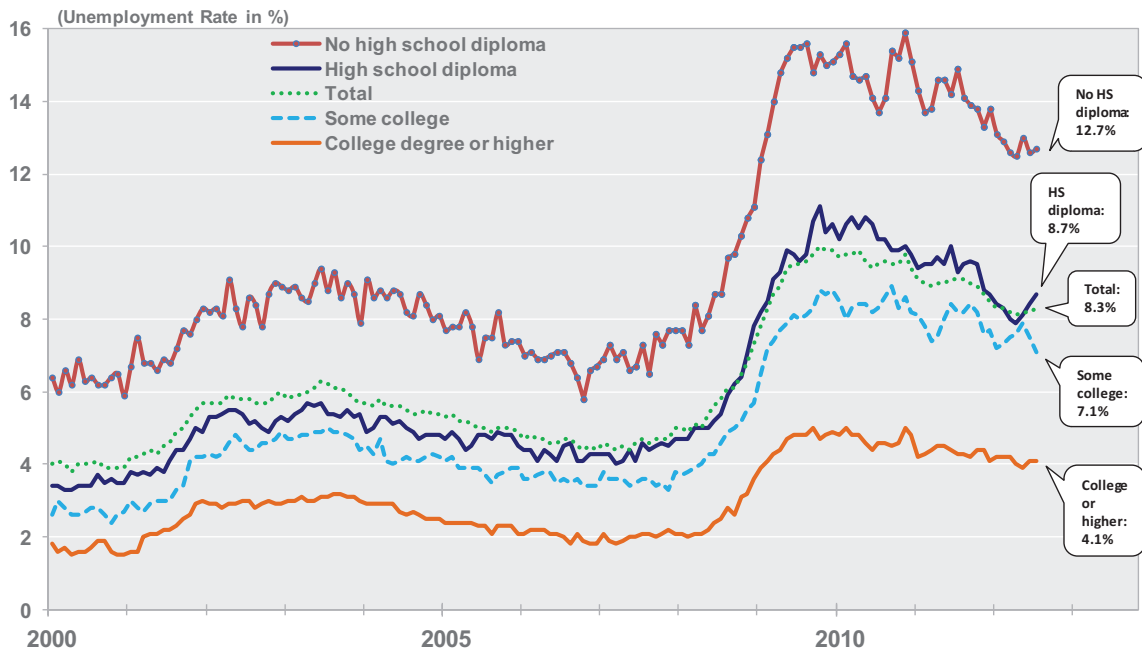
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46

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# U.S. Unemployment, by Level of Education



Source: Bureau of Labor Statistics, Last Observation: July 2012