



The world economy – challenges ahead

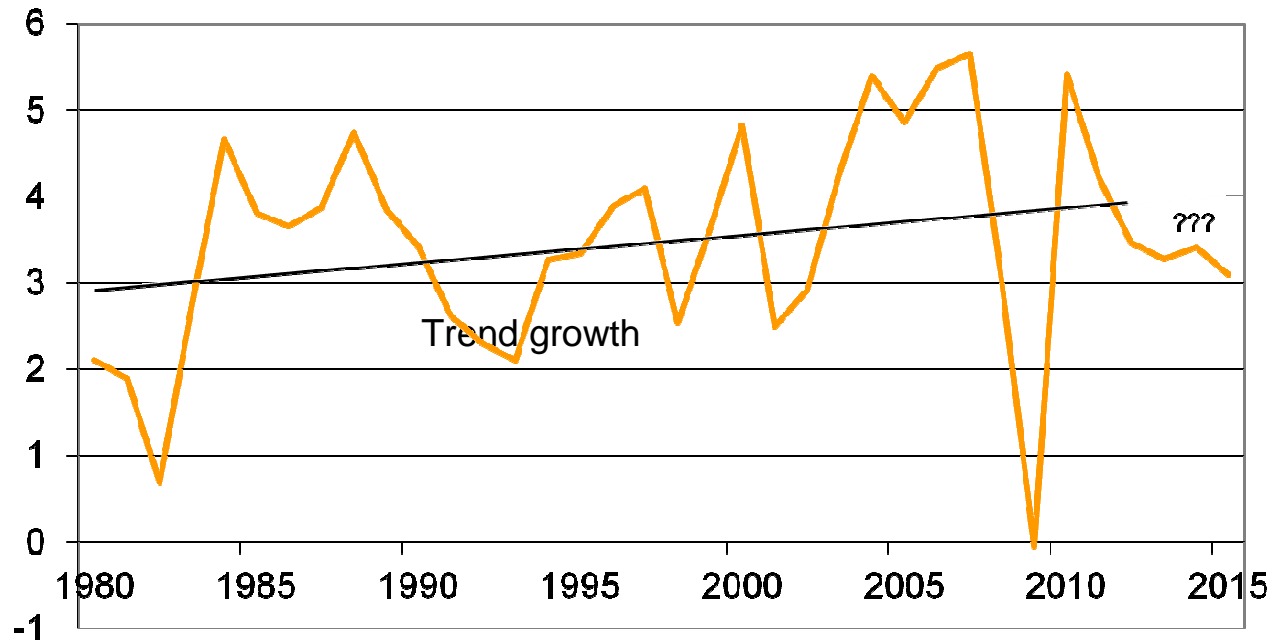
July 2016

Agenda: The world economy

- › Global overview: Sluggish outlook
- › Emerging and developing countries: Slowdown inevitable?
- › Industrial countries: US back to normal - but lower gear
- › Euro area: Economics improving, but politics deteriorating?
- › Conclusion

Sluggish world economy amid lots of uncertainties

World GDP growth (%)



Source: IMF.

Future of globalisation

China's new economic model / effects on commodities

Debt overhang in public and private sectors

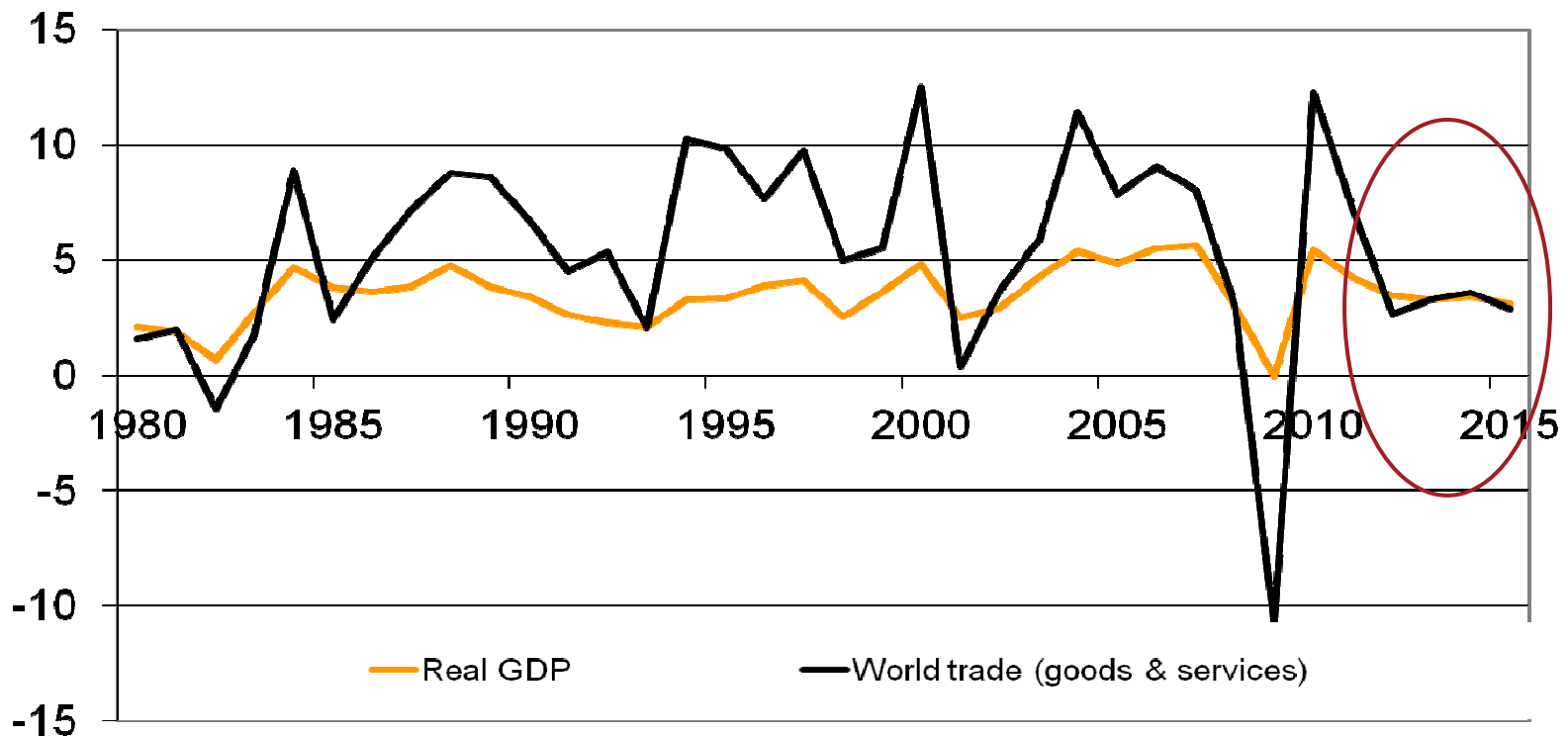
Exit out of ultra expansive monetary policy / search for yield and its consequences

Weak banking sectors faced with increasing regulation

Geopolitical tensions / terrorism

Lower elasticity between world GDP and world trade growth

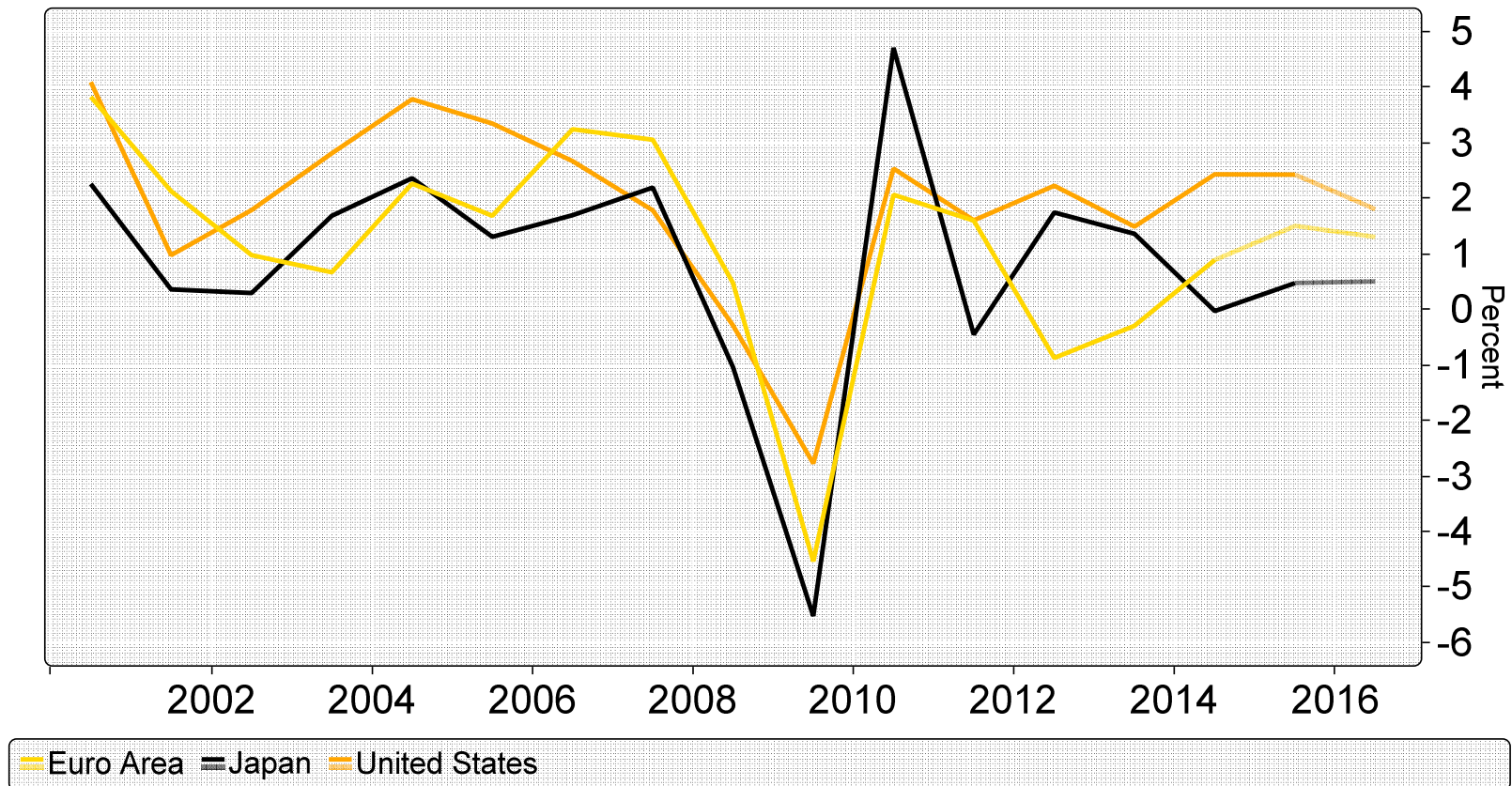
World GDP and trade growth (%)



Source: IMF.

Euro area recovering, US slightly weaker

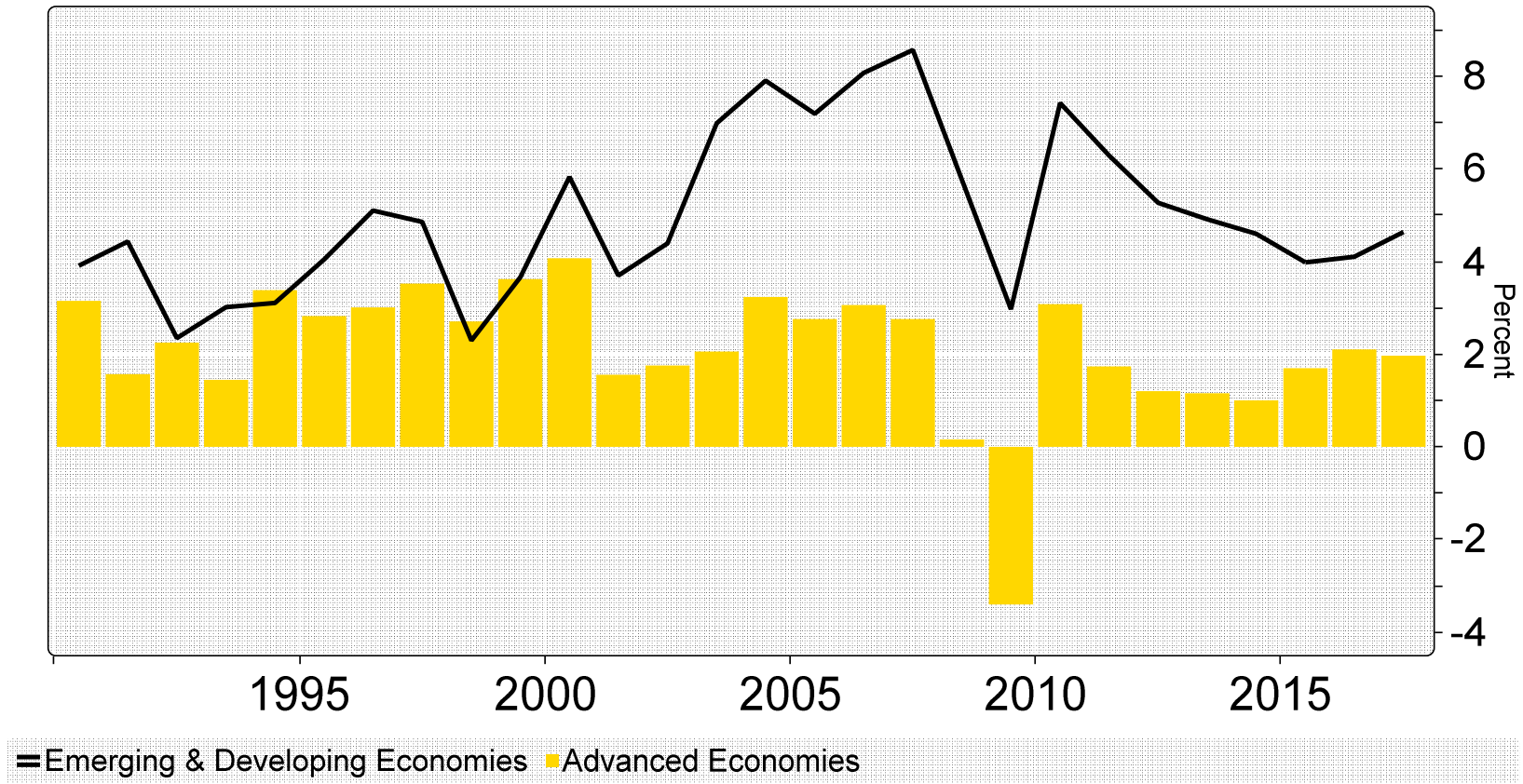
Real GDP growth, Change Y/Y



Source: IMF and own forecasts

Emerging markets less dynamic than before Lehman crisis

Real GDP growth



Source: IMF and own forecasts.

Outlook remains muted

Growth rates in main economic regions				
- GDP, real % change over previous year -				
	2015	2015 ¹⁾	2016 ¹⁾	2017 ¹⁾
Industrialized countries	1,5	1,8	1,4	1,7
Euro area	0,9	1,5	1,3	1,5
Germany	1,6	1,7	1,5	1,3
USA	2,4	2,4	1,8	2,2
Japan	0,0	0,5	0,5	0,5
Emerging markets	4,6	4,0	4,1	4,6
Asia	6,5	6,6	6,7	6,7
Latin America	1,3	-0,1	-0,5	1,5
Central and Eastern Europe	2,7	3,3	3,5	3,7
World	3,2	2,9	2,8	3,1
1) forecast.				



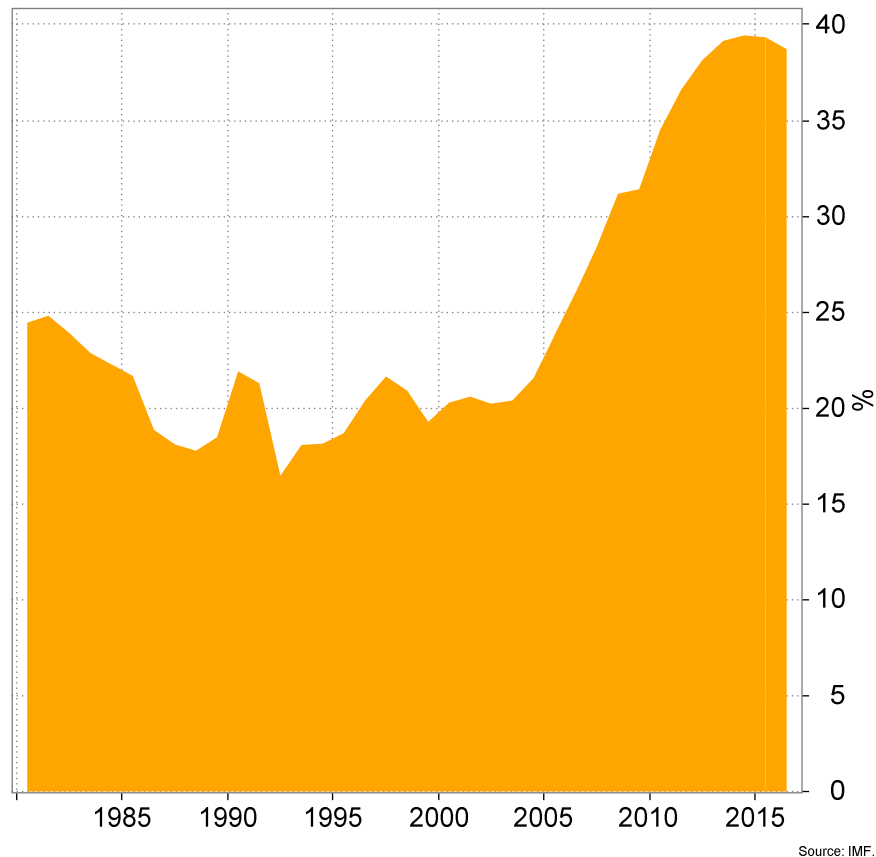
Source: Own and IMF forecasts.

Agenda: The world economy

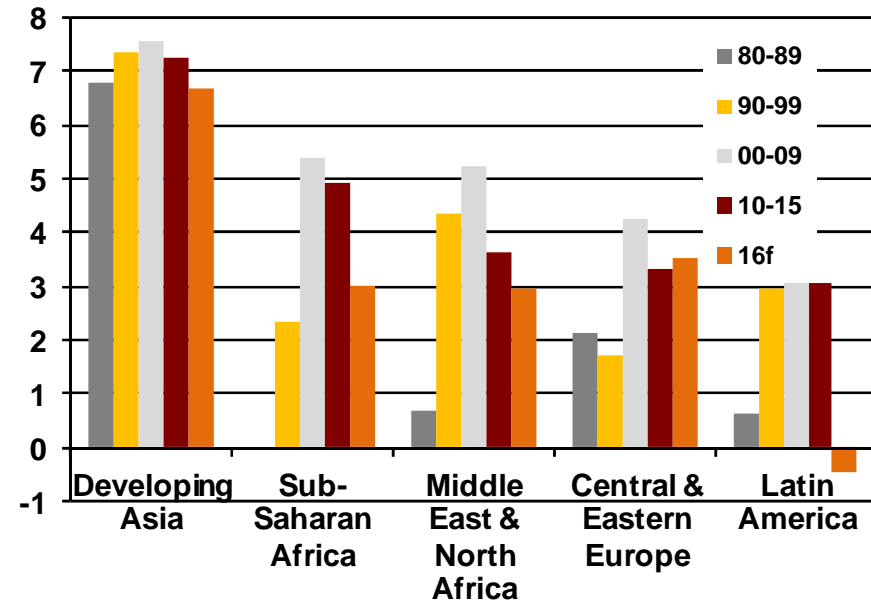
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Emerging markets: Race to catch up, but momentum has flattened

Emerging markets' share in world economy



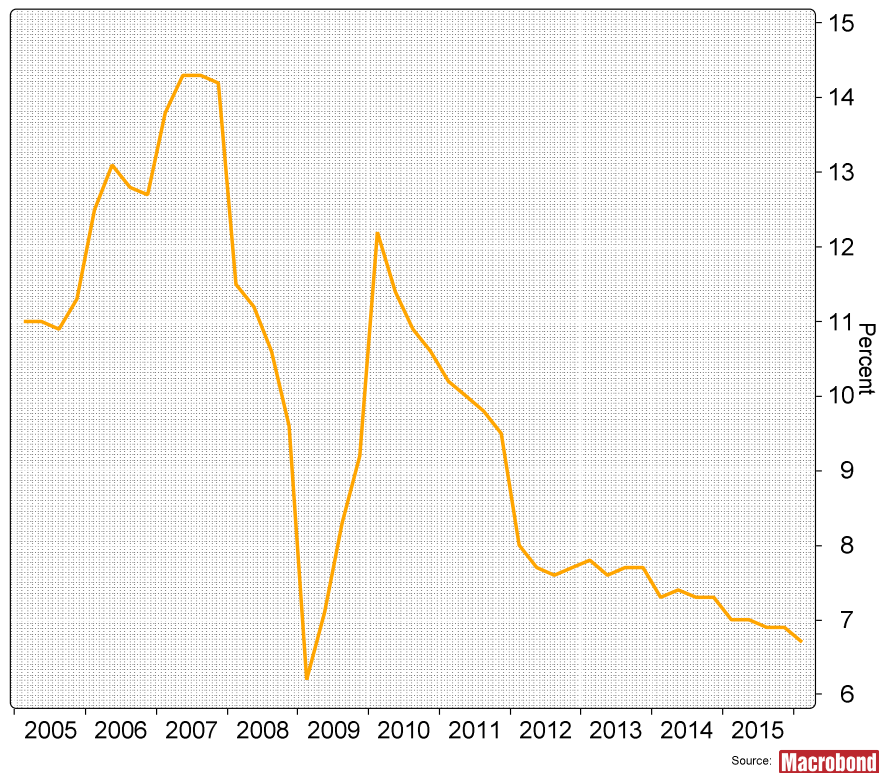
Asia still leading the crowd
(Real GDP in %)



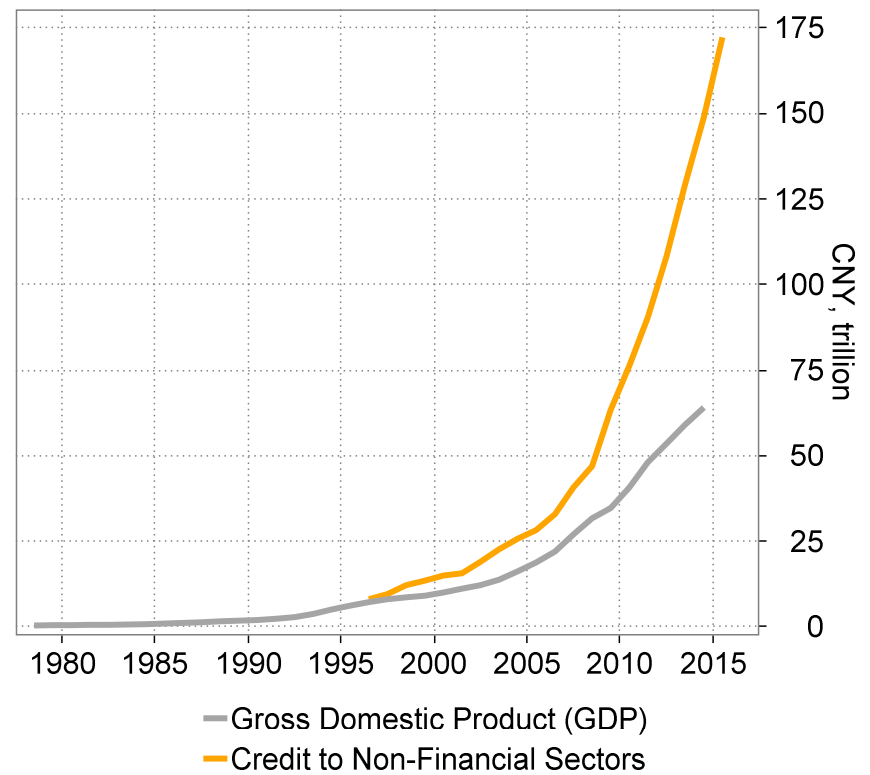
Source: Calculations based on IMF figures

China: On a bumpy road

Real GDP growth in China y-o-y



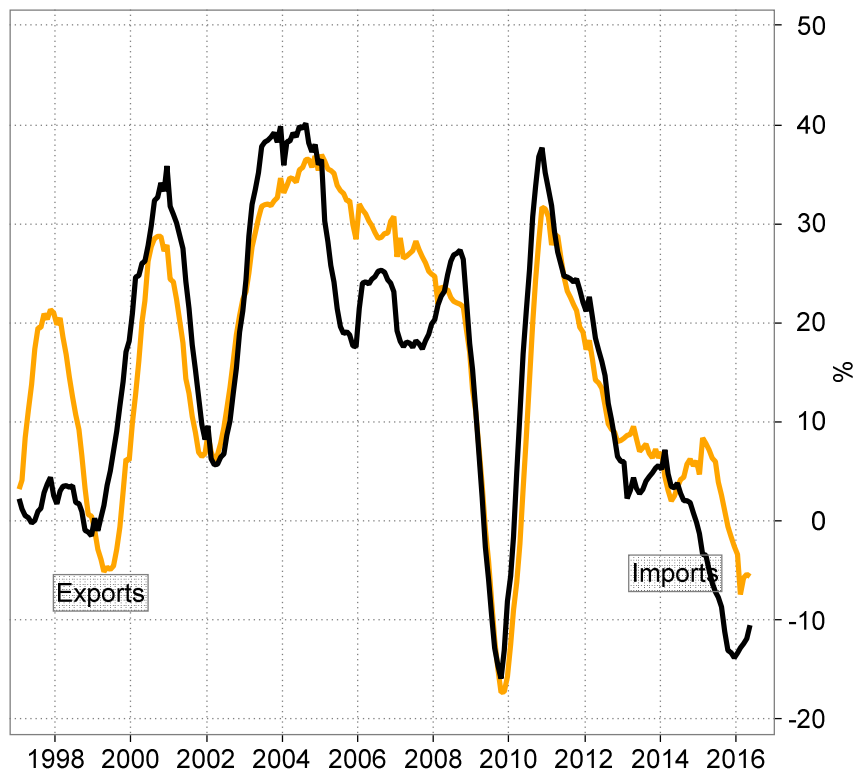
Credit and GDP (CNY trillion)



Source: Bloomberg.

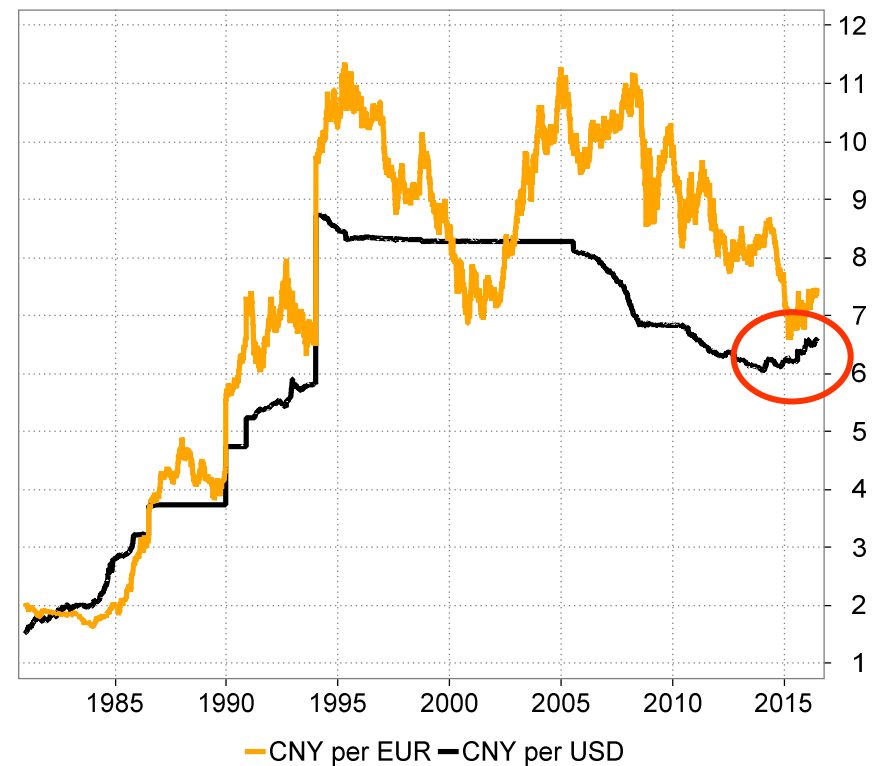
China: No world engine anymore

Foreign Trade
moving 12-m average, %, y-o-y



Source: **Macrobond**

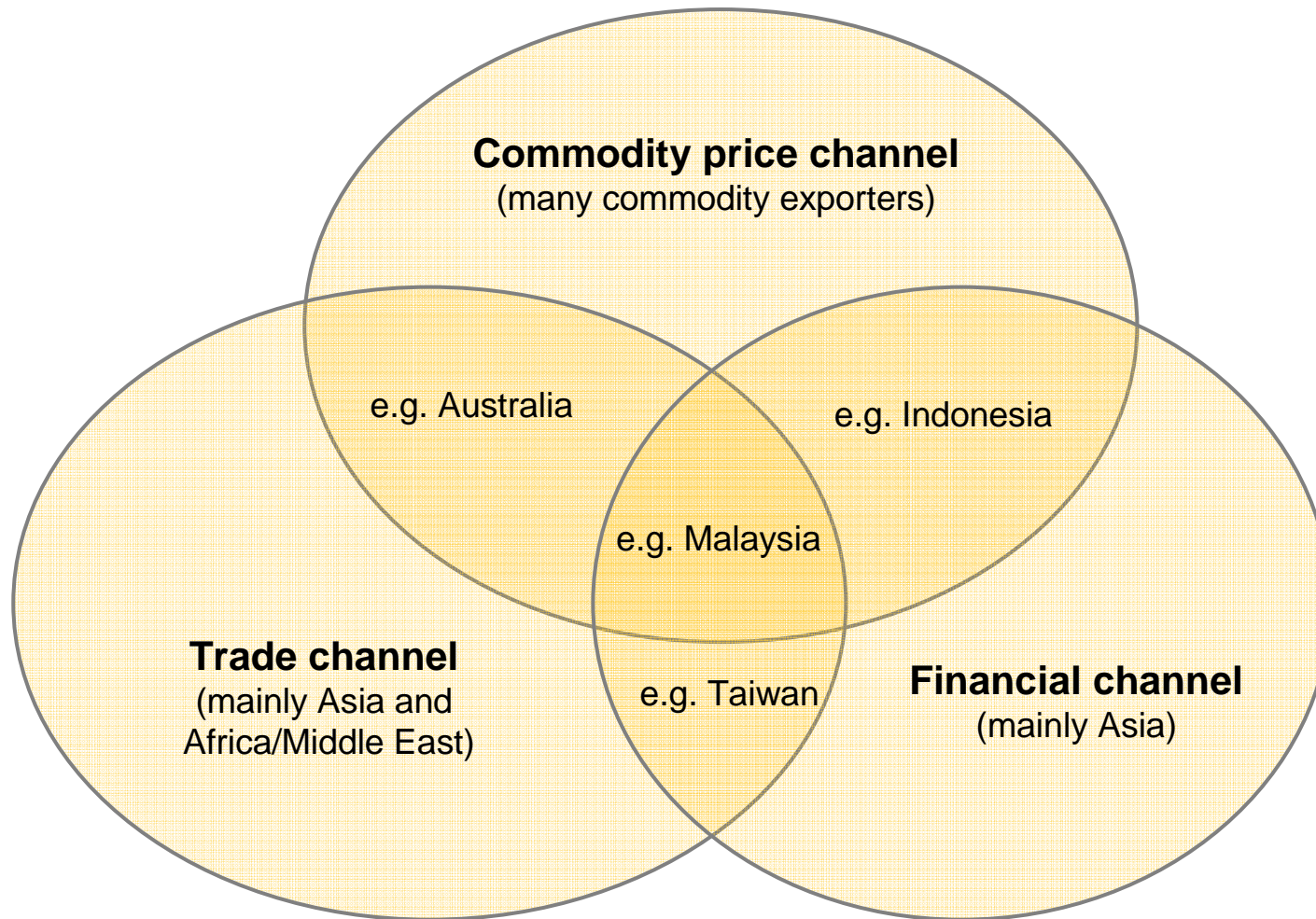
Renminbi exchange rates
Revaluation stopped!



Source: **Macrobond**

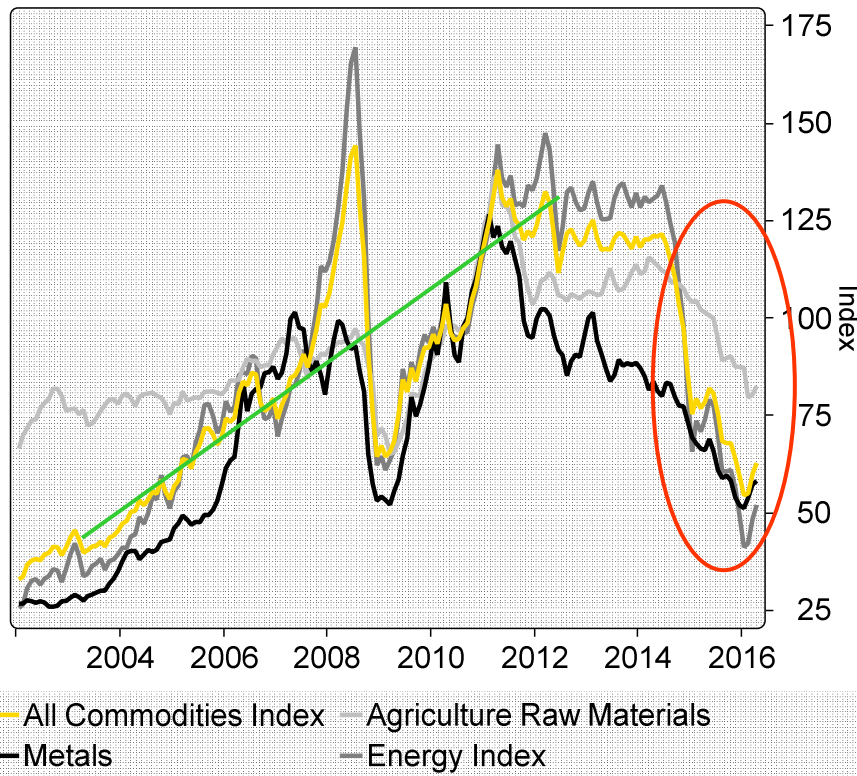
Source: National statistics, Macrobond

China's downturn: Who is/will be affected?



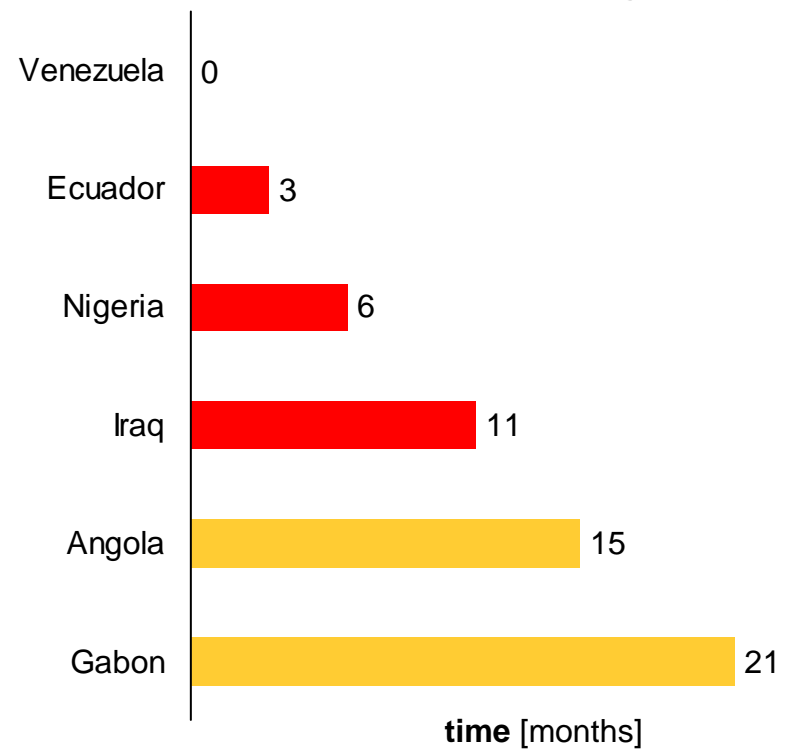
Emerging Markets: Steep fall in oil prices – Winners and losers

Commodity Indices



Source: IMF

Oil exporting EM countries with FX reserve coverage $\leq 2y^*$



* Countries with high SWFs are excluded, in particular: Azerbaijan, Bahrain, Oman and Kazakhstan.

Emerging markets: End of QE - who will be hit?

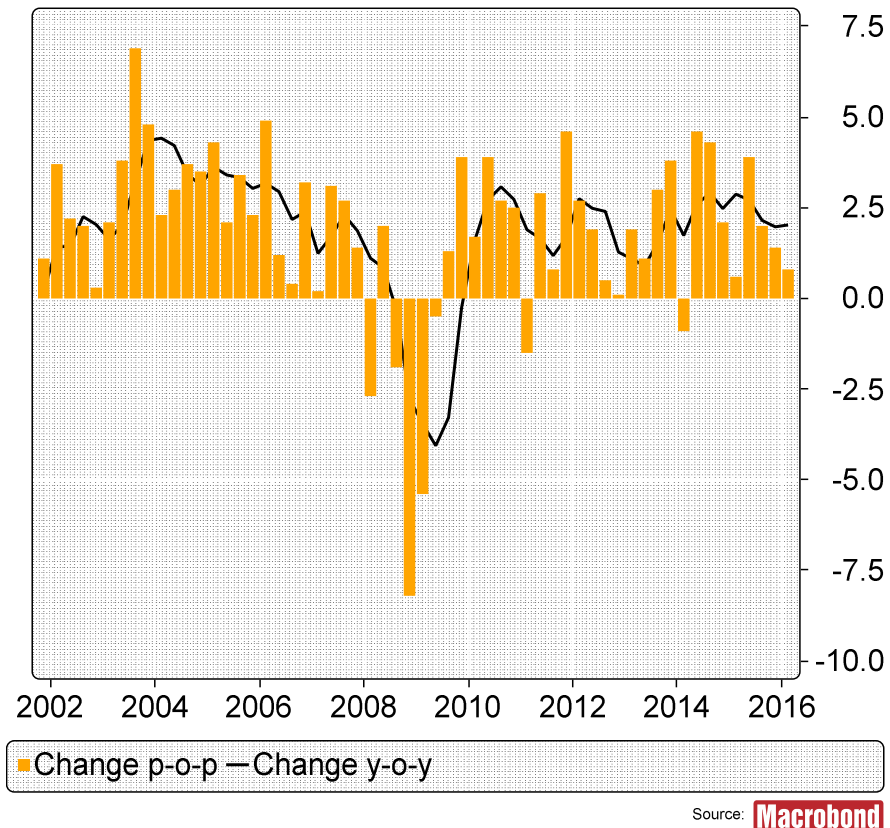
	High international reserves	Low international reserves
High dependency on international financial markets	Russia Brazil Mexico India	Turkey South Africa
Low dependency on international financial markets	Oil-producing gulf countries China	Less developed countries Sub-Saharan Africa

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USA: Back to normal – but lower gear

US Real GDP



› Mixed picture:

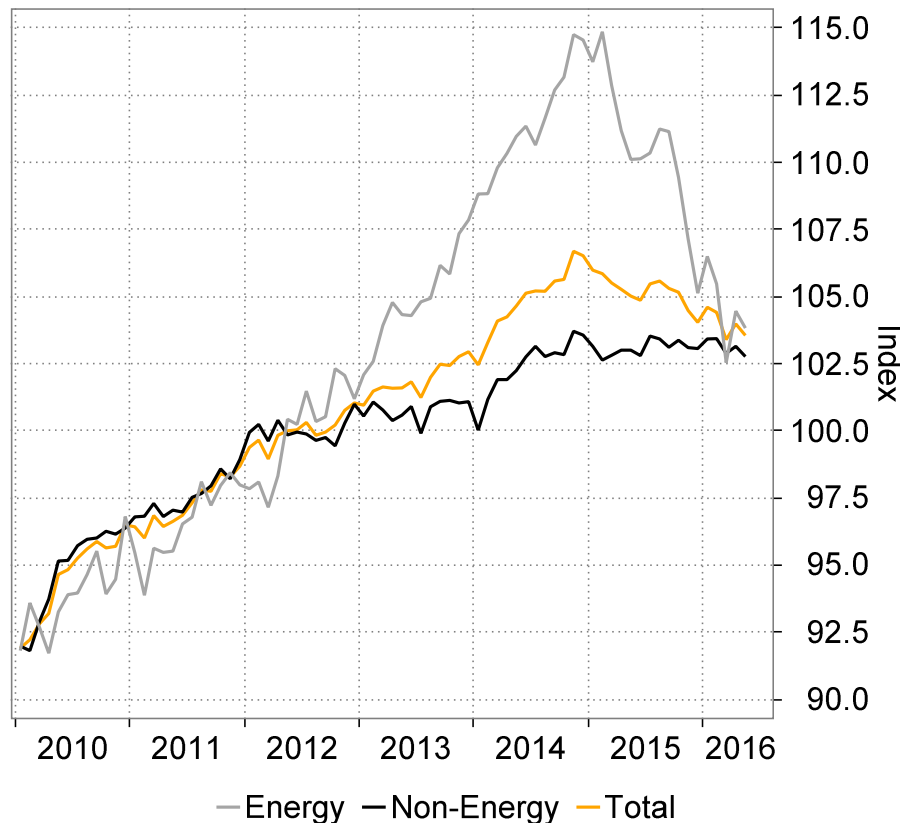
- + Housing investment on the rise
- + Strong labor market vs. low wage growth
- + Debt reduction of private households has ended, consumption picking up
- Business investment dampened due to commodity price slump
- Strong USD is weighing on exports and industrial production

› Fiscal policy: consolidation puts government finances on better footing

› Exit out of expansionary monetary policy not without risks

Energy revolution in the US – ambiguous effect of lower oil prices

US Industrial Production (sa)



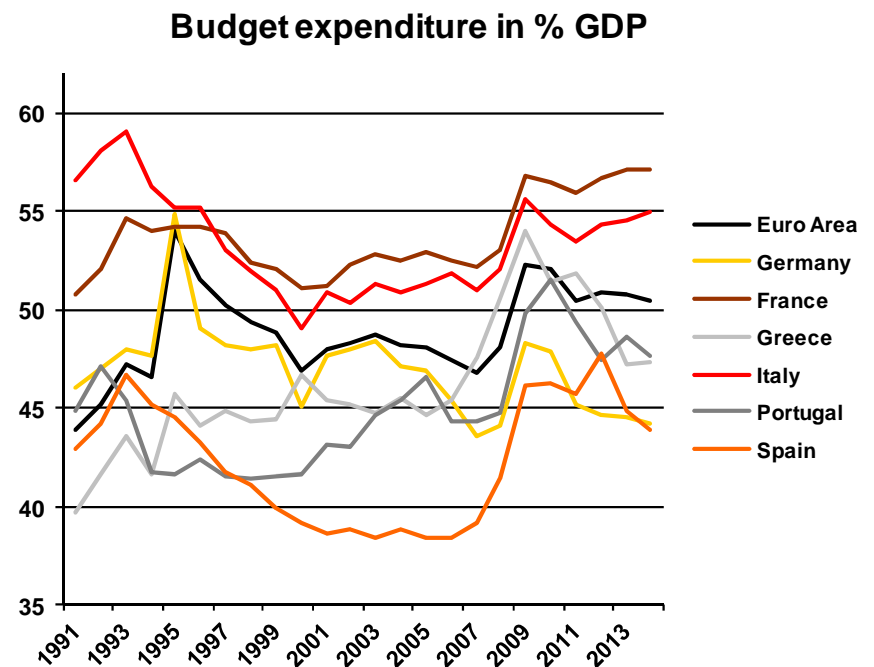
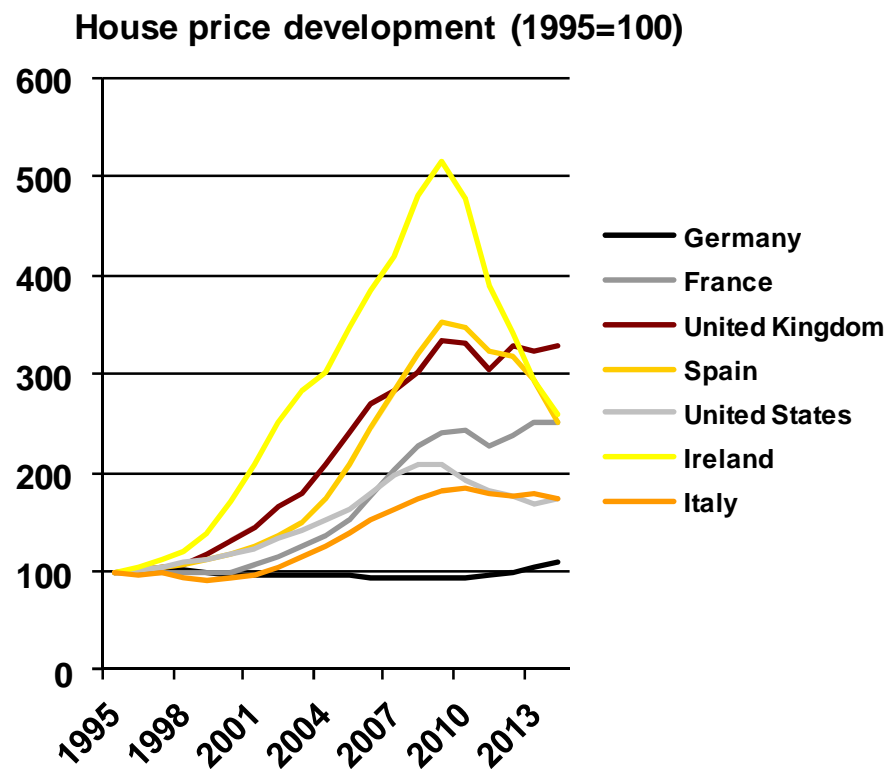
Source: **Macrobond**

- › New extraction methods have led to significantly higher production of oil and gas in the US; import dependency on oil has fallen from 60% to 40%
- › Despite low oil prices, production is holding up better than expected due to high productivity gains.
- › Investment in oil and gas extraction has halved (before it accounted for 1/8 of US business investment)
- › Low oil prices generally beneficial for consumers and industry

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Euro area: Domestic imbalances reduced

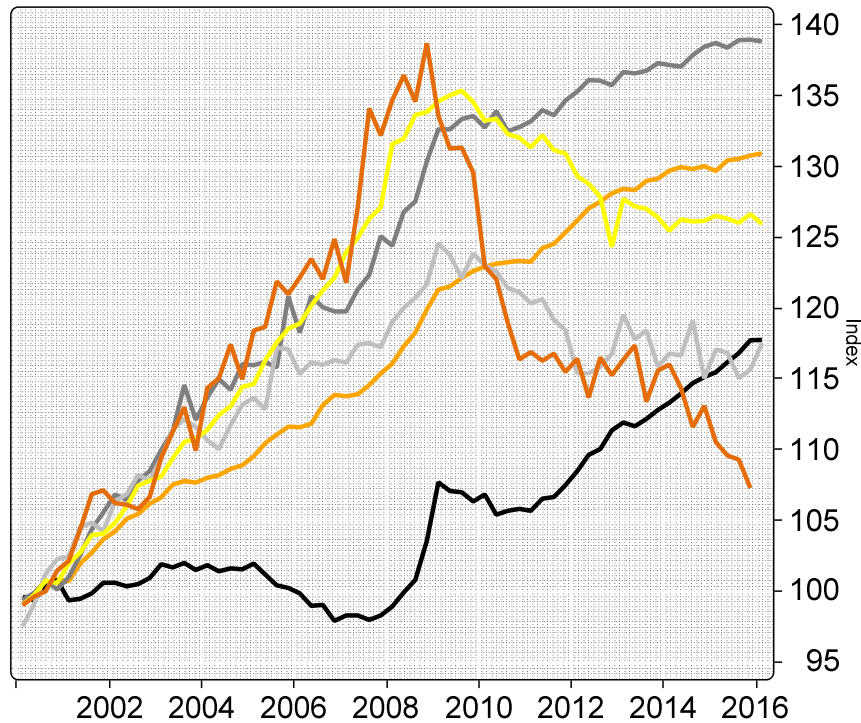


Source: OECD, National statistics.

*) in case of Spain and Ireland: Total credits outstanding against residents

Euro area: External imbalances removed

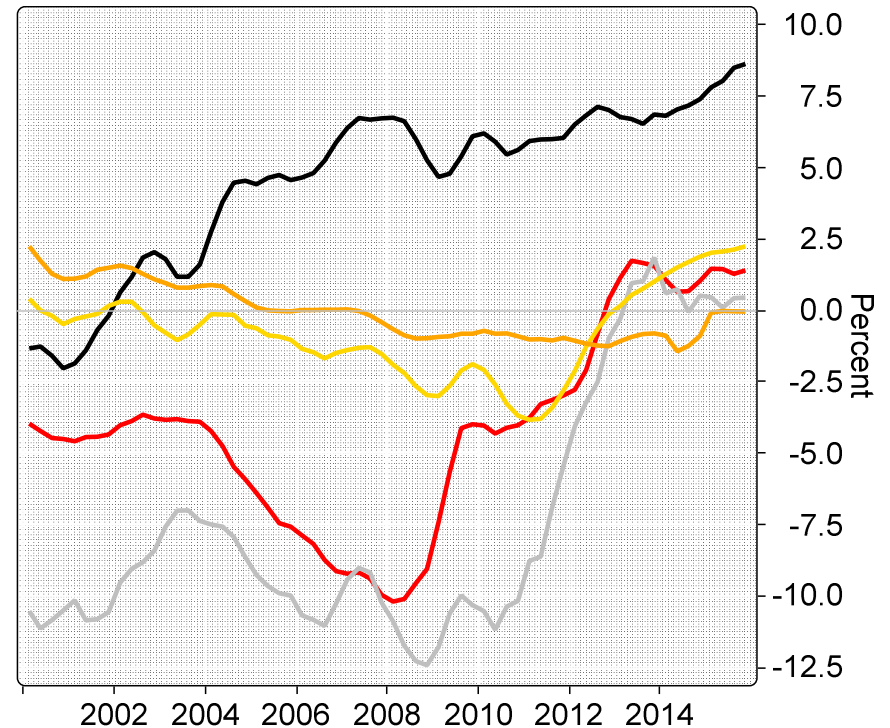
Unit Labour Costs, SA, 2000 = 100 (OECD)



— Ireland — Spain — Portugal — Italy — Germany — France

Source: **Macrobond**

Current Account Balance as % of GDP



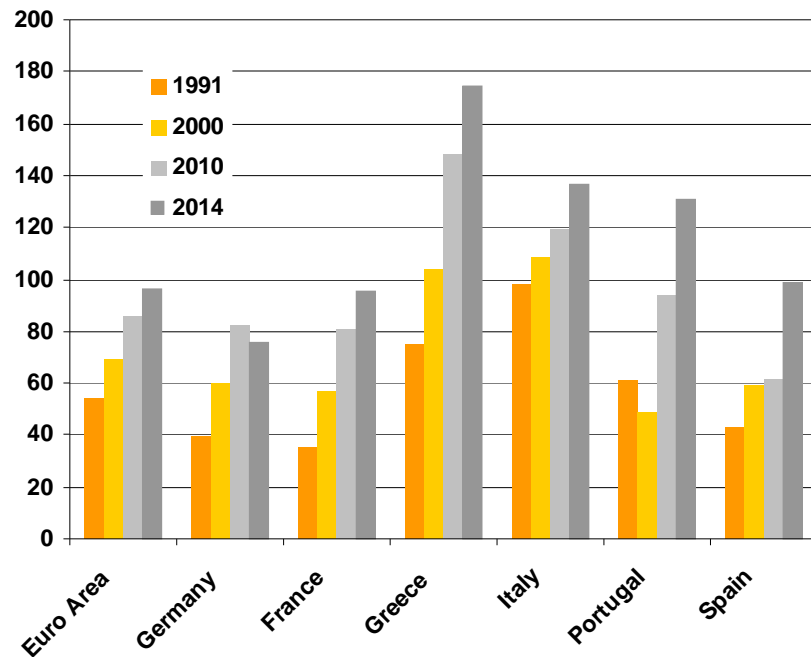
— France — Italy — Germany — Portugal — Spain

Source: **Macrobond**

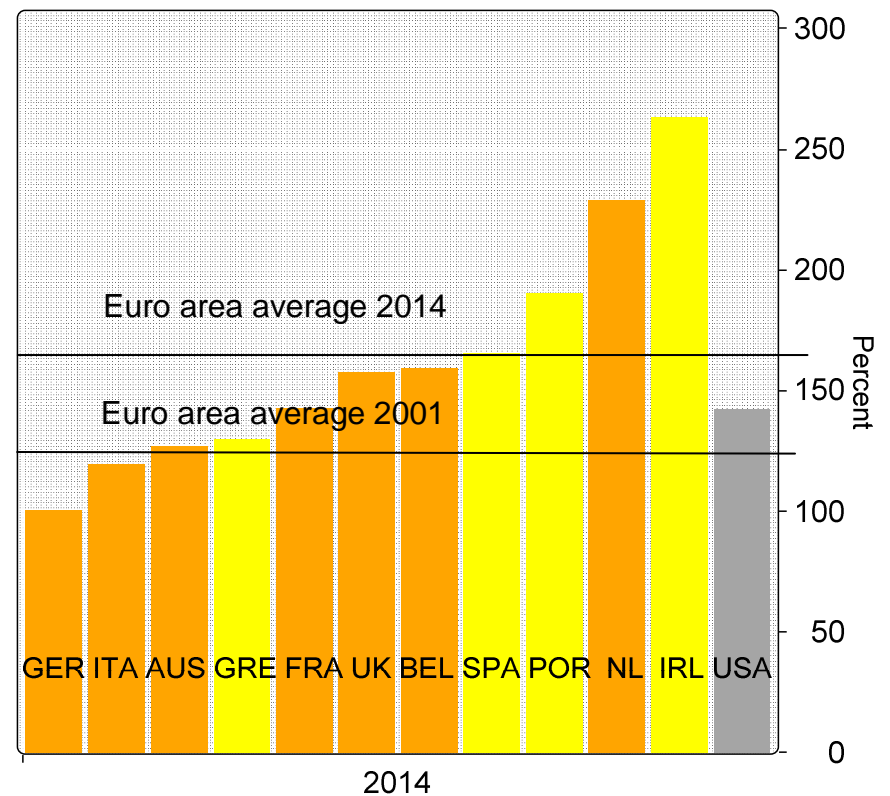
Source: OECD.

Euro area: Public and private debt overhang - deleveraging still needed

Government debt in % GDP



Private Debt in Percent of GDP

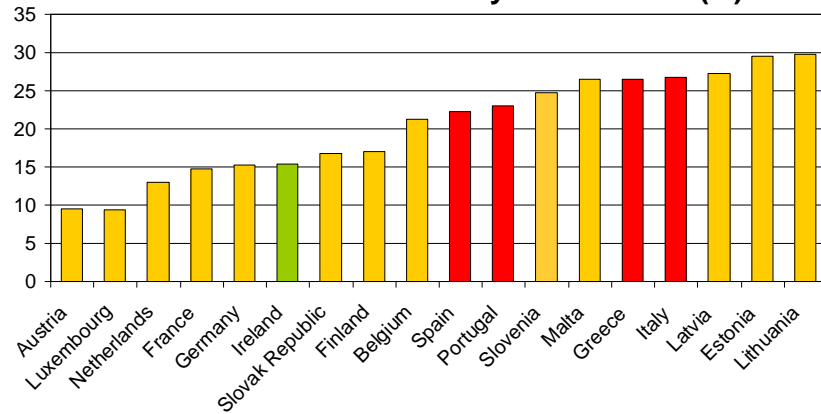


Source: **Macrobond**

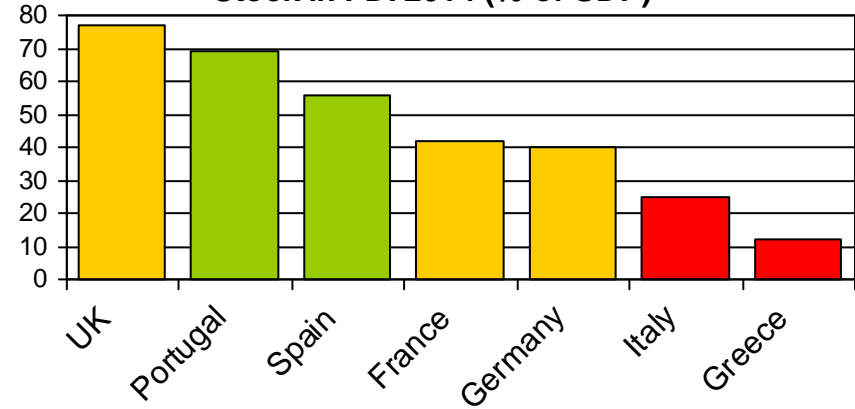
Source: IMF.

Urgent need for structural reforms

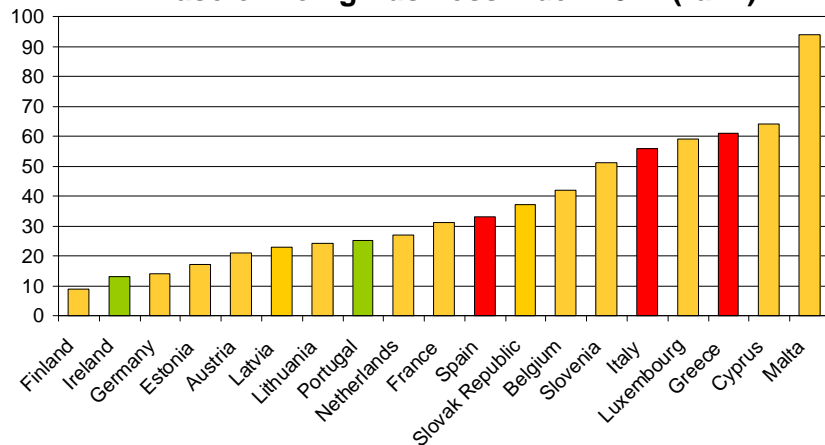
Share of informal economy in total GDP (%)



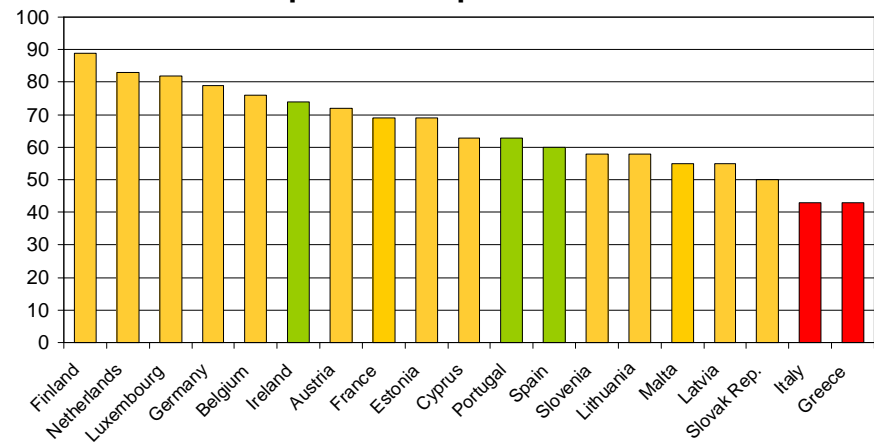
Stock in FDI 2014 (% of GDP)



Ease of Doing Business Index 2014 (rank)



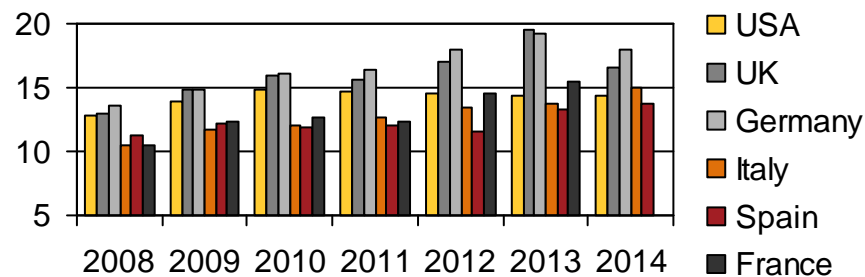
Corruption Perception Index 2014



Source: World Bank, IMF, Transparency International.

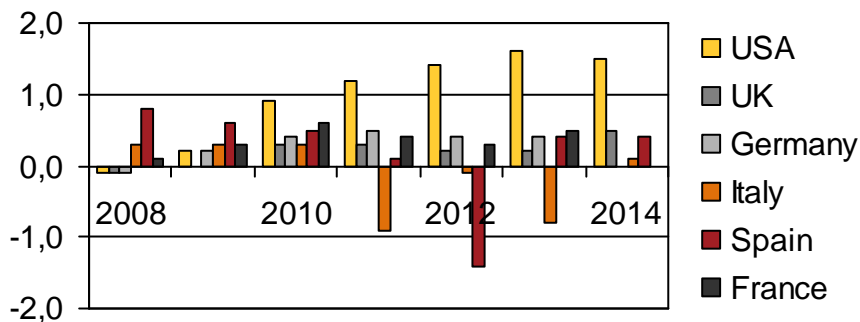
Euro area: ... amid a weak and constrained European banking sector

Bank regulatory capital to risk-weighted assets (%)

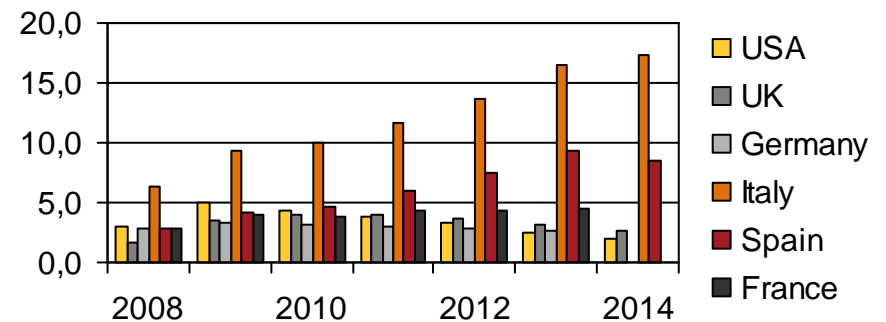


While capital ratios have risen, non-performing loans are still high and profits very weak; heavy regulation; Dependence on ECB still there

Bank return on assets (%)



Non-performing loans to total loans (%)



Source: IMF.

Improvements in financial markets ...

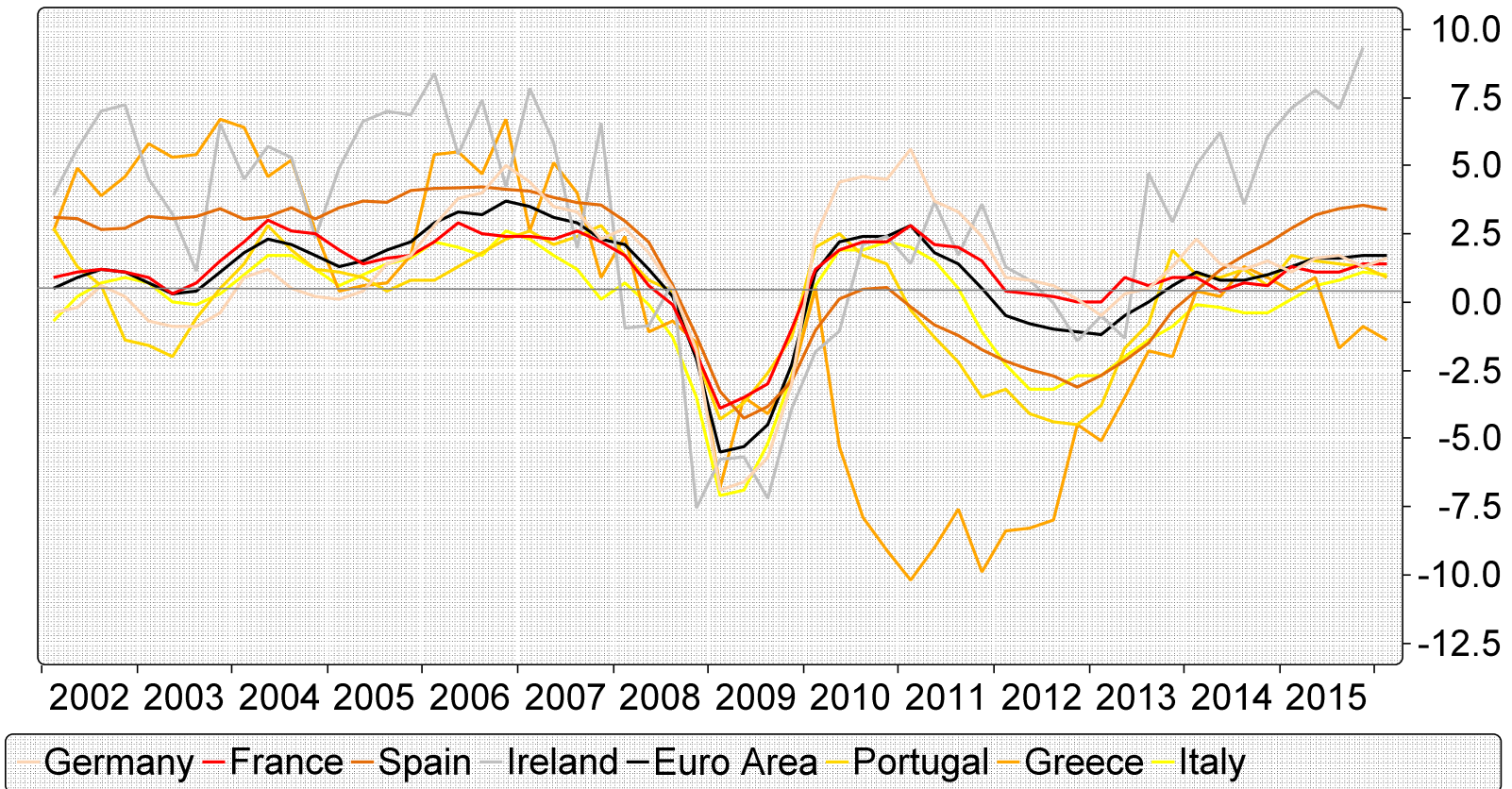
Government Spreads vs. Germany 10 y



Source: **Macrobond**

Euro area: ... and real GDP!

Change in real GDP (% , y-o-y)

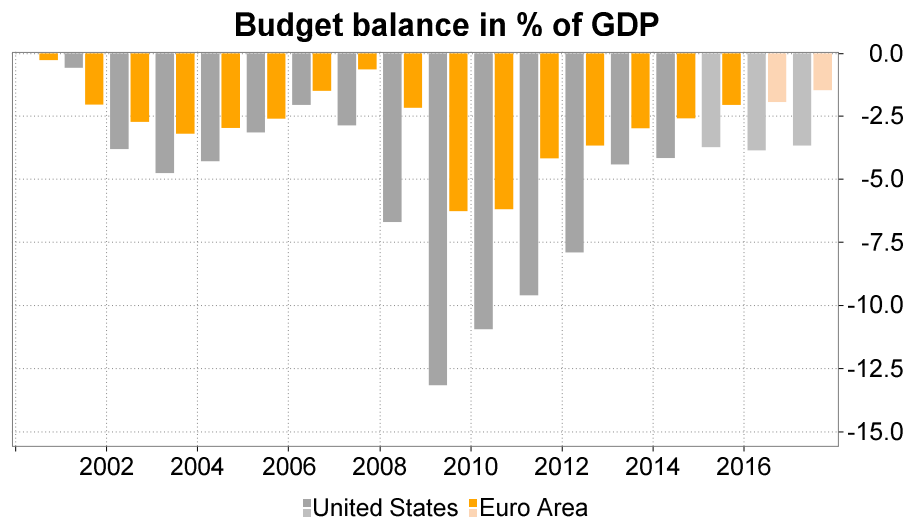


Source: **Macrobond**

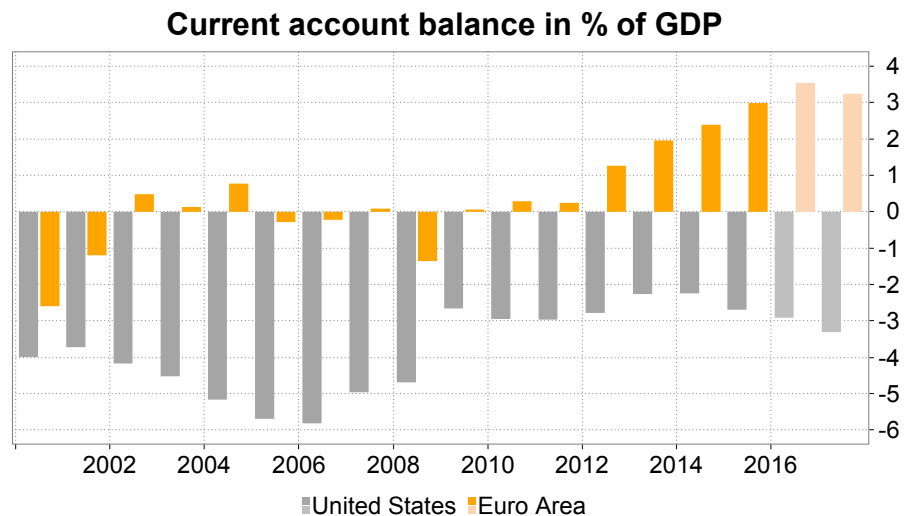
Problems: Yes, but ...

- › German position of „no money without control“ very often accepted internationally and practiced by the IMF since decades
- › Can Italy reform itself?
- › Does France follow Italy?
- › Do Germans love the euro?
- › How to deal with extreme parties on the left/right?
- › What will Brexit mean for the EU?

... others do have problems as well!



Source: **Macrobond**



Source: **Macrobond**

Conclusion

- › The global economy is still in a fragile state!
- › Emerging markets more stable than in earlier times, but slower pace of growth and higher impact.
- › Advanced economies still digesting Lehman crisis
 - Consolidation of debt overhang in private and public sector
 - Excess liquidity due to lax monetary policy – how does a world with rising interest rates look like?
- › Europe has to think anew about its common ground.

There is no need to panic, at least not right now – but be alert!



Thank you !

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