The Inaugural ISIS Praxis Seminar
‘Knowledge for Action in the Coming Year’

Is the world on the brink of currency war, Inflation or sovereign debt crisis? Understanding QE2, capital flows and real economy in 2011

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BROAD MACROECONOMIC INDICATORS FOR 23 COUNTRIES IN 2012

OUTPUT (% change)				
< 2%	2%~<4.0%	4.0%~<6.0%	6.0%~+<7.0%	7.0%>
FR, IT	AR, AU, CA, DE, GB, JP, TR, US, ZA	BR, KR, MX, **MY**, SA, SG, TH, PH, RU	ID, IN	CN
INFLATION (% change)				
< 0%	0%~-<2.0%	2%~+<4.0%	4.0%~<6.0%	6.0%>
JP	DE, FR, GB, IT, US	AU, CA, CN, KR, MX, **MY**, SG, TH	BR, ID, IN, PH, ZA	AR, RU, SA,TR
UNEMPLOYMENT (% labour force)				
10.0%>	7.5%~<10%	5.0%~<7.5%	2.5%~<5.0%	<2.5%
SA, ZA, TR	AR, BR, FR, ID, IT, US	AU, CA, DE, GB, IN, PH, RU	CN, JP, KR, MX, **MY**	SG, TH
FISCAL BALANCE (% GDP)				
-10%>	-10.0%~<-5.0%	5.0%~<2.5%	-2.5%~+<0%	+0%>
	FR, GB, IN, JP, **MY**, US	AR, AU, BR, CA ID, KR, PH, RU, SG, TH, TR, ZA	CN, DE, IT, MX	SA
PUBLIC DEBT (% GDP)*				
0%~25%	25%~50%	50%~75%	75%~100%	100%>
AU, CN, RU, SA	AR, KR, ID, MX, PH TH, TR, ZA	BR, DE, IN, **MY**	CA, FR, GB, SG	US, IT, JP

- Output growth is trending in a tight band and one that appears to be a little low for comfort. At these levels, the buffer is not very thick and there are risks that even moderately strong political and financial shocks can send economies spiraling into recession.
- Inflation forecasts are more dispersed and generally of a higher order of magnitude. This would seem to suggest an upward bias i.e. the risk that prices could take flight, especially if driven by even more cheap US money and substantial food and energy increases.

- Unemployment is also of concern. Of the three macro indicators, this would seem to be the most stubborn and hardest to dislodge. This would indicate that countries will have to contend with the politics of high potential unemployment into the medium-term (i.e. cheap money, labour protection, etc.).
- On fiscal policy, however, there would seem to be greater scope. Not all countries have been reckless in the past three years and most can accommodate some increase should the need arise. The pervasive mindsets about financial markets over fiscal spending, however, will need to be broken.

- On gross public sector debt, the wiggle room is less given that notional safe debt ceilings are lower (40%-60%). Major Western economies have already racked up very significant debt and may be close to “maxing out” their credit. East Asian economies (except Japan), however, still have some room for manoeuvre.

Thank You