

**Economic prospects for the World, Europe and  
Italy** **Martin Wolf, Associate Editor & Chief  
Economics Commentator, *Financial Times***

Il Salone di Risparmio

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MiCo - Milano Congressi

# Prospects for the World, Europe and Italy

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- World
- Eurozone
- Italy
- Prospects
- Conclusions

# 1. World

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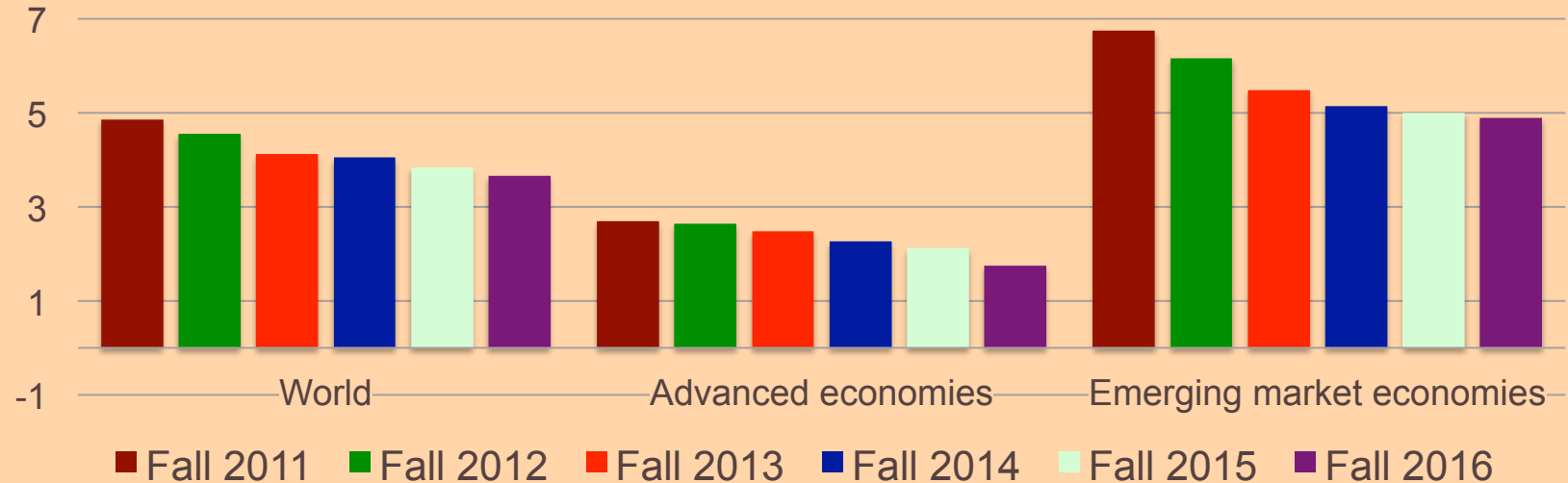
- Disappointments past
- Is this a regime change?
  - Populism and the crisis of democracy
  - Trump and the end of US hegemony
  - Brexit and the diminution of the EU
  - Xi and the restoration of the communist party
- What next?

# 1. World: disappointment

## EXPECTATIONS WORSEN YEAR BY YEAR

### MEDIUM-TERM GROWTH FORECASTS

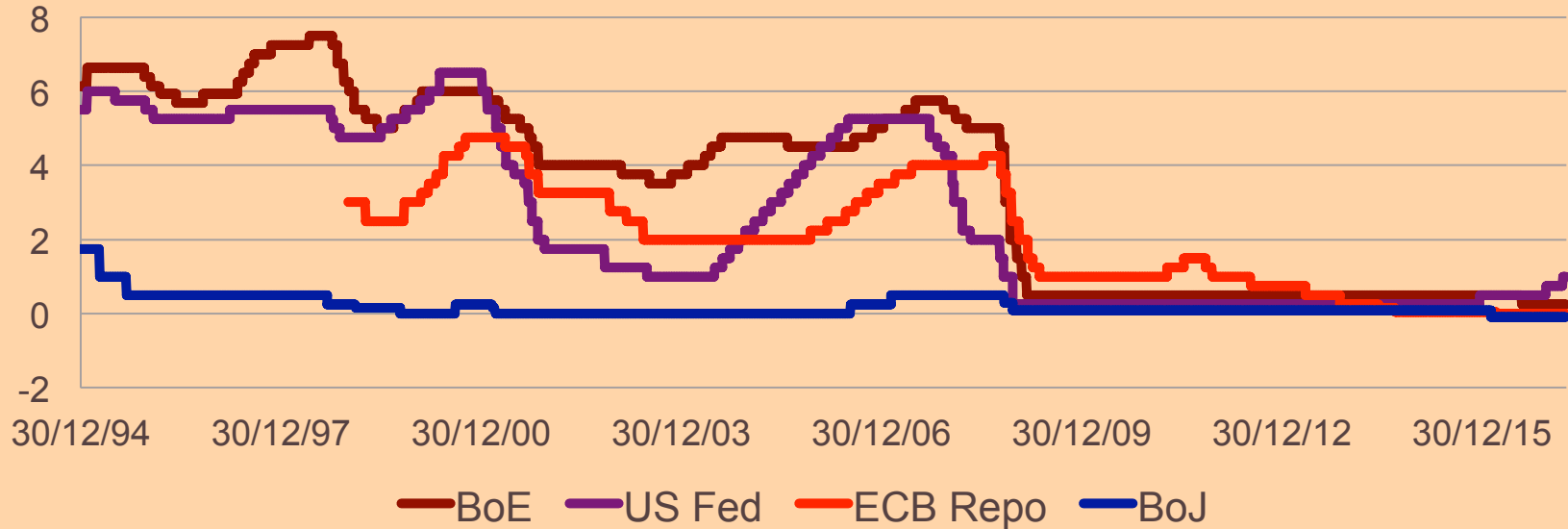
(five years ahead) (Source: IMF)



# 1. World: secular stagnation

## CENTRAL BANKS STUCK ON ULTRA-LOW RATES

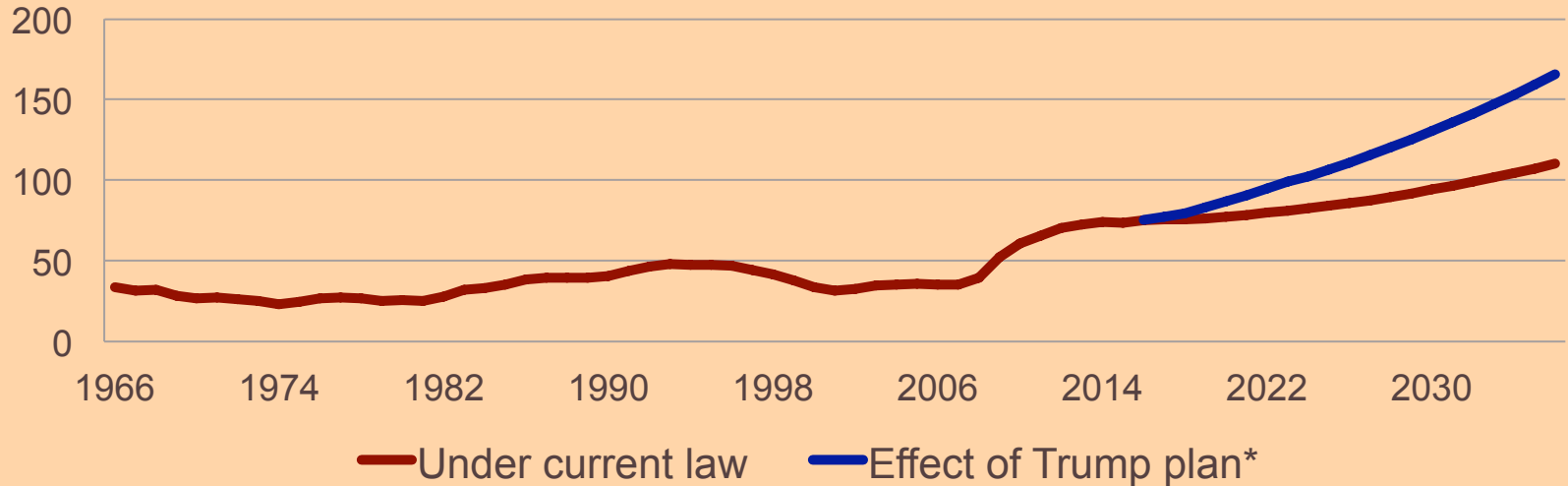
CENTRAL BANK INTERVENTION RATES



# 1. World: Trumponomics

## TRUMP'S BOOM AND BUST?

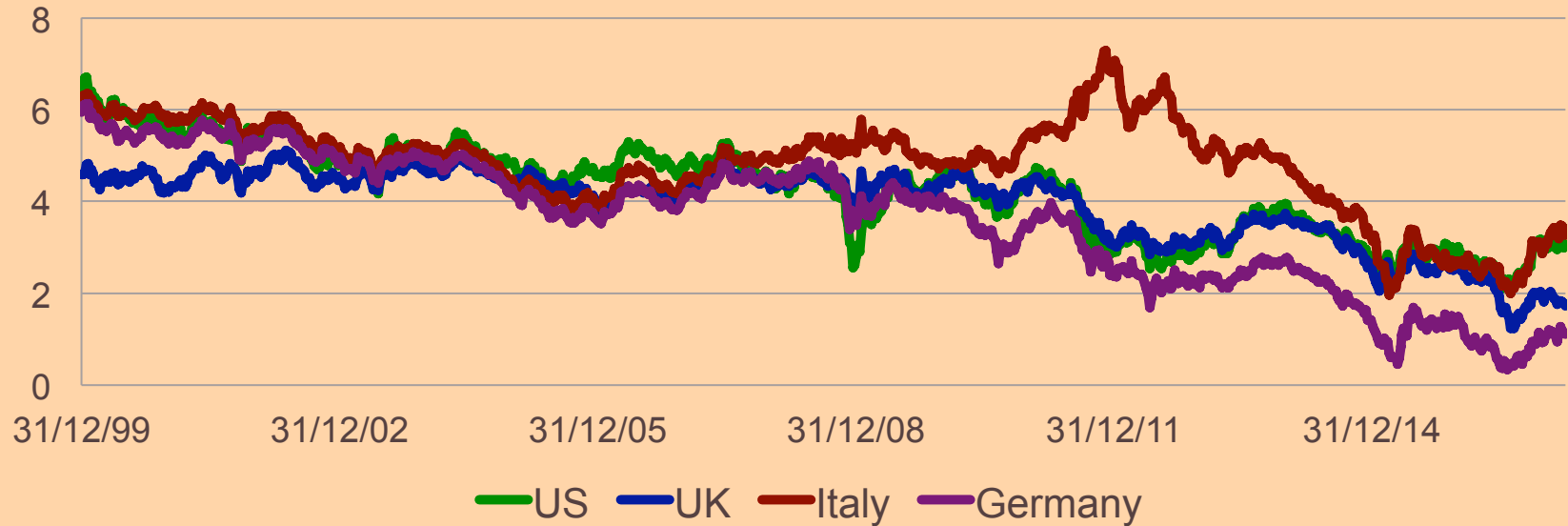
FISCAL POSSIBILITIES  
(Federal debt as a share of GDP)



# 1. World: A Trump “blip”?

## MODEST RECOVERY OF LONG-TERM YIELDS

YIELDS ON 30-YEAR GOVERNMENT BONDS



## 2. Eurozone

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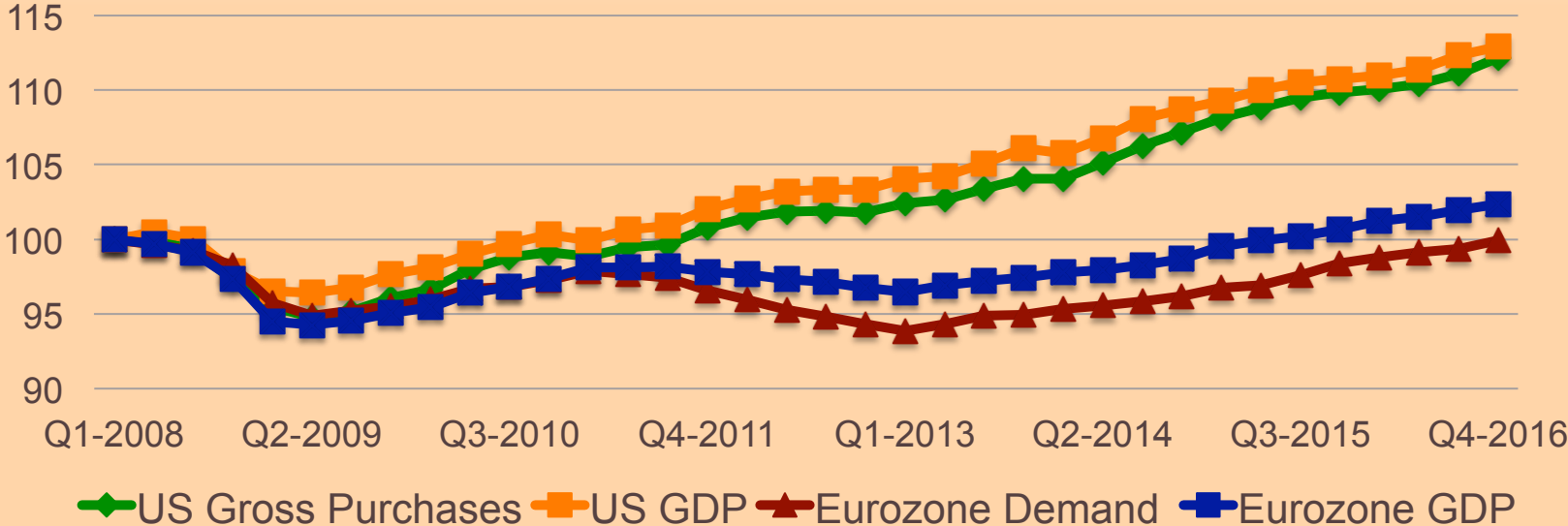
- It is too soon to hail a great recovery in Europe
- Aggregate demand has been startlingly weak
- This is a serious policy failure



# 2. Eurozone: stagnation

## EUROZONE BECOMES JAPAN

### REAL GDP AND REAL DEMAND

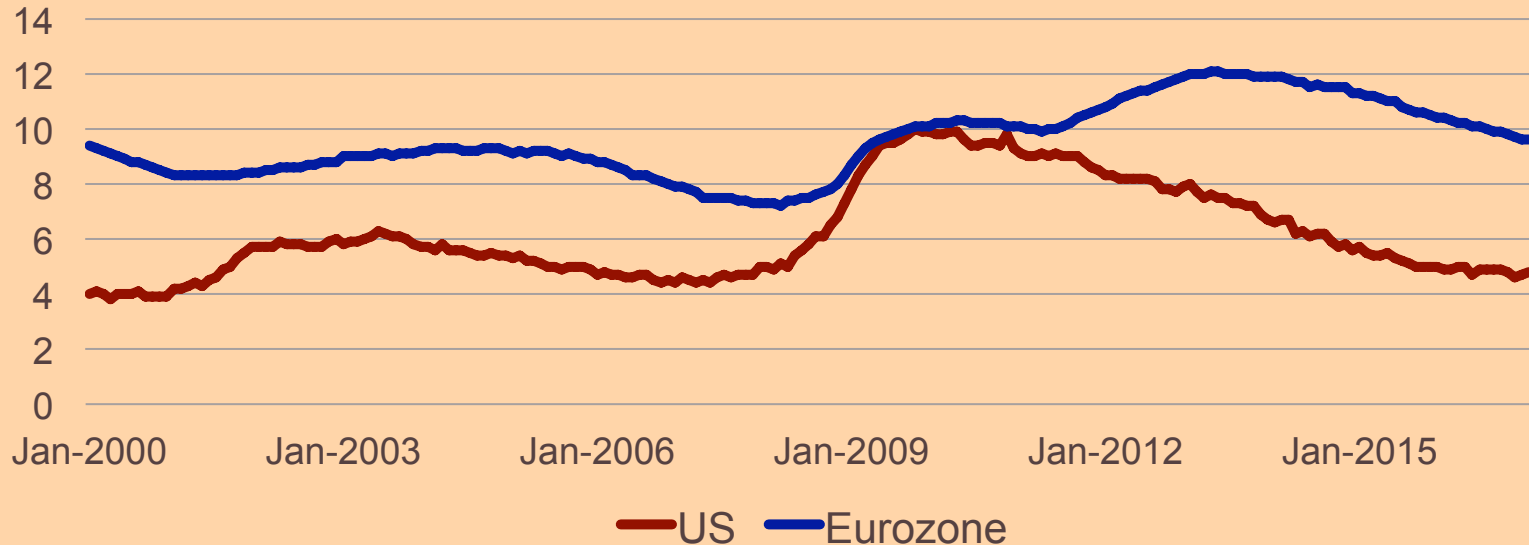


## 2. Eurozone: divergence

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### POST-CRISIS DIVERGENCE FROM THE US

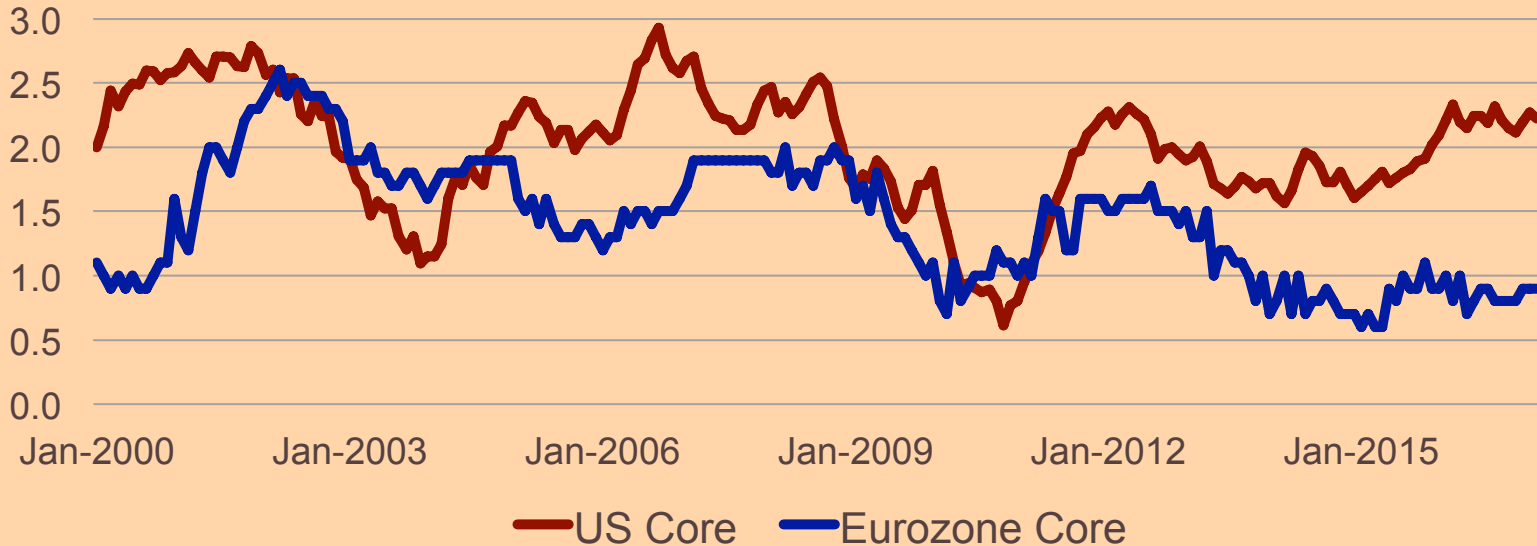
#### HARMONISED UNEMPLOYMENT RATES



## 2. Eurozone: inflation

### EUROZONE BECOMES JAPAN

#### CORE CONSUMER PRICE INFLATION



# 3. Italy

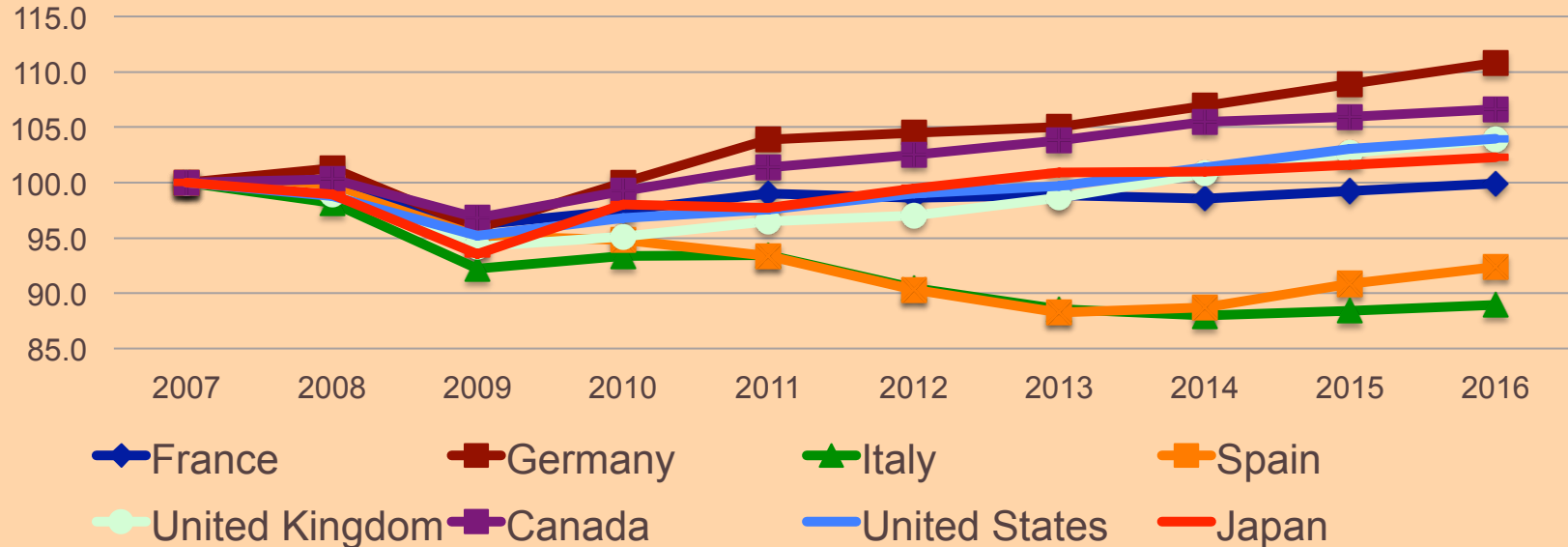
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- Internal imbalances within the eurozone large
- Thus, if aggregate demand were adequate, there would be too much demand in some countries and too little in others
- Banking problems also remain significant, partly because of the growth divergence
- These imbalances also reflect structural divergences

# 3. Italy: lost decades

## POST-CRISIS DIVERGENCE

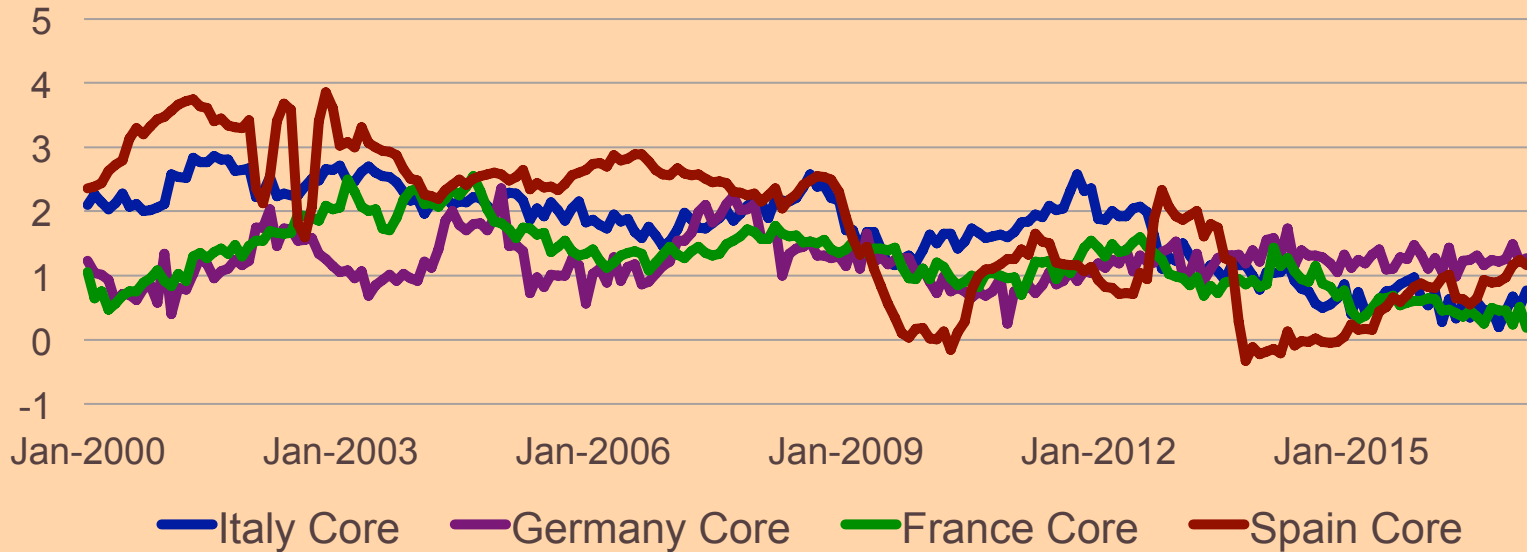
GDP PER HEAD AT PPP (TEDI database)



# 3. Italy: inflation persistence

## THE FAILURE OF ADJUSTMENT

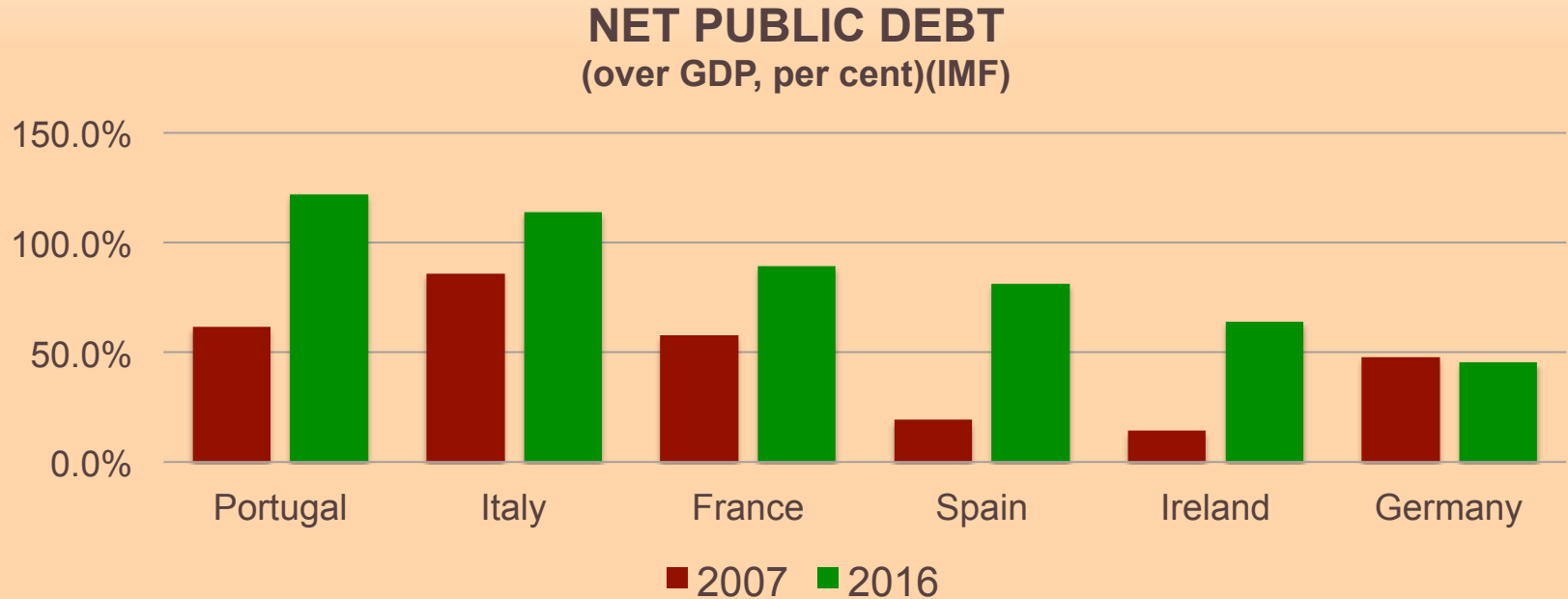
CORE CONSUMER PRICE INFLATION IN THE EUROZONE



### 3. Italy: public debt

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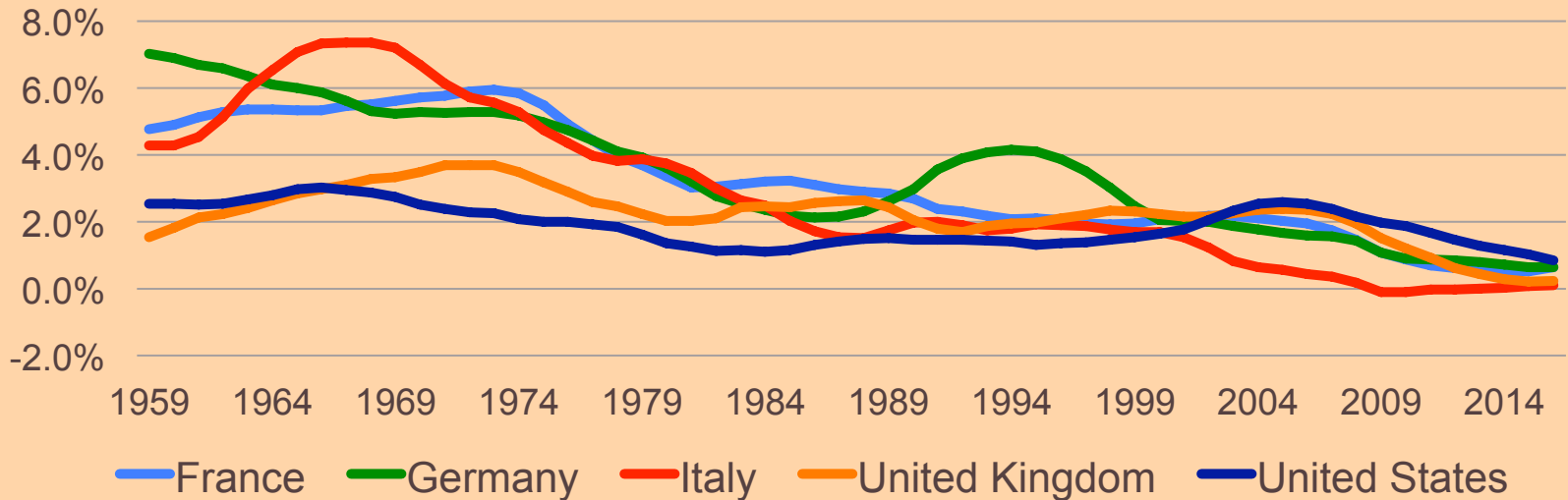
## CRISES MEAN SOARING PUBLIC DEBT



# 3. Italy: lagging productivity

## DECLINING PRODUCTIVITY GROWTH

GROWTH OF LABOUR PRODUCTIVITY PER HOUR  
(previous ten years, fitted trend)(source: Conference Board)





## 4. Prospects: high-income economies

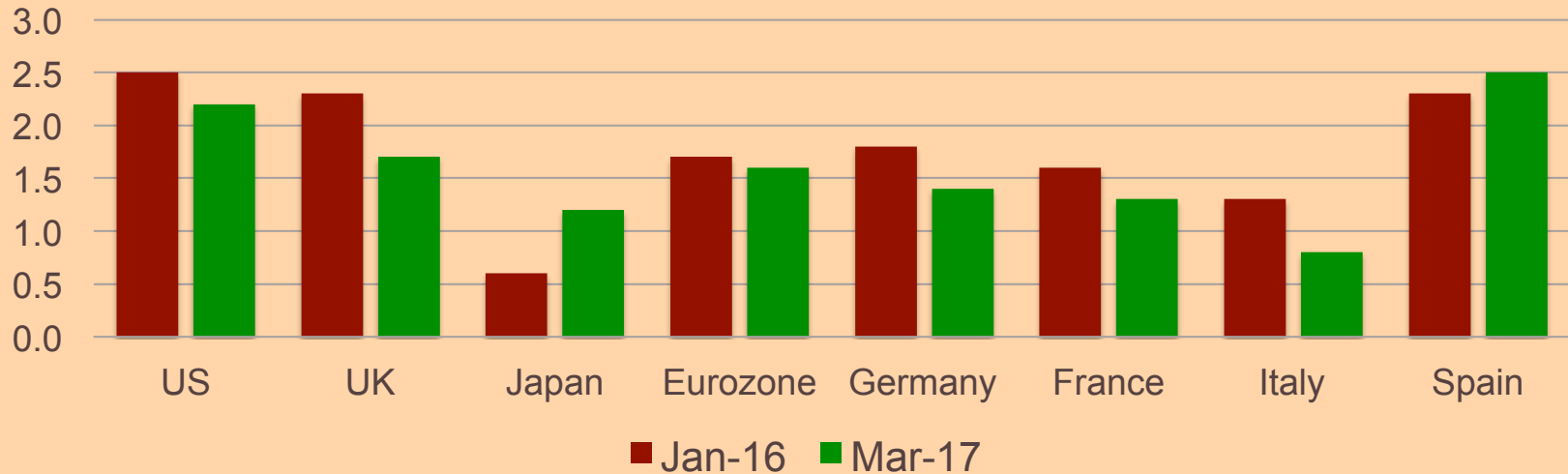
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- There is now a general recovery in the West, including in Europe
- But it is still quite weak, including in the US
- The view that the economies are going to break out into a boom still remains implausible
- But the fears created by the global and eurozone financial crises have at last faded away

# 4. Prospects: high-income economies

## DISAPPOINTMENT FOR MOST COUNTRIES

### SUCCESSIVE CONSENSUS FORECASTS FOR GDP GROWTH IN 2017

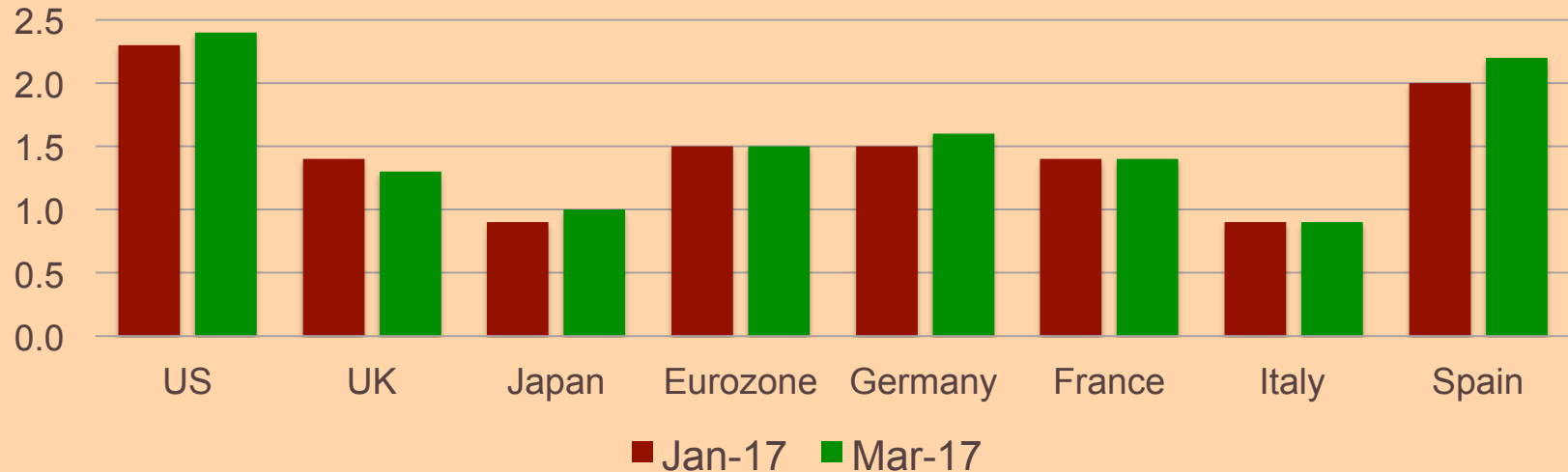


## 4. Prospects: high-income economies

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### **NOTHING MUCH TO WRITE HOME ABOUT**

#### **SUCCESSIVE CONSENSUS FORECASTS FOR GDP GROWTH IN 2018**



## 5. Conclusions: global

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- We are in a time of political instability. This is due to an outbreak of populism, which is driven by economic failure, cultural change and loss of trust in elites
- The implications of Donald Trump are unknown. But the risks of instability, protectionism and war are big.
- The condition of secular stagnation – the “saving glut”, in other words – is ongoing. It has not ended. Long-term yields will remain low, real and nominal.

## 5. Conclusions: the eurozone

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- The macroeconomic management of the eurozone has been a disaster.
- Demand has been far too weak and inflation allowed to stay far too low.
- If ECB monetary policy were successful, the German economy would be in a huge boom, with inflation above 2 per cent. But it is not. So ECB policy has failed. It is certainly not yet time to tighten.

## 5. Conclusions: Italy

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- Even if the eurozone were better managed, Italy would face huge economic challenges.
- Productivity growth is the lowest among the major high-income countries
- It has no credible demand-creating tools. A large fiscal expansion would lose ECB support and so could not work: it would create a crisis.