Peterson Institute for International Economics

News

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PETERSON INSTITUTE ECONOMISTS FORECAST MODEST GROWTH IN MAJOR ECONOMIES BUT IDENTIFY ONGOING RISKS TO FINANCIAL STABILITY LIMITING STIMULUS AND RECOVERY

WASHINGTON—Economists at the Peterson Institute for International Economics are forecasting a generally favorable outlook for the economic prospects of the United States, Western Europe, Japan, China and some but not all other emerging markets in presentations planned for the Institute's semiannual Global Economic Prospects meeting. But they also warn about a few key risks to global financial stability not widely recognized.

The Institute's outlook team, led by Senior Fellow David J. Stockton, will present their forecasts at 12:15 P.M. (EDT) on Wednesday, April 9. The live webcast and the experts' presentations will be available on the Peterson Institute's website.

Stockton forecasts that the US economy is improving but that there is room for greater growth, especially if household balance sheets continue to improve. US economic growth for 2013 (real Q4/Q4) has been revised up to 2.6 percent from a 1.9 percent forecast in October. In line with his October presentation, Stockton forecasts US growth to pick up modestly to 2.9 percent in 2014 and to 3.2 percent for 2015 and 2016.

US unemployment, which was 7.0 percent in the fourth quarter of last year, is projected to drop to 6.3 percent in 2014, 5.9 percent in 2015, and 5.6 percent in 2016.

Stockton forecasts that the euro area economies will achieve 1.1 percent growth in 2014, gradually improving to 1.5 percent in 2015, and 1.6 percent in 2016. Economic growth in the United Kingdom is projected to reach 3.0 percent in 2014, holding steady at 2.7 percent in 2015 and 2016. For Japan, Stockton expects that country's economic expansion to survive its consumption tax increase but contends that bold structural reforms are necessary to achieve further meaningful growth. He forecasts 1.5 percent growth in 2014, 1.3 percent in 2015, and 1.6 percent in 2016.

China, meanwhile, will continue to experience reasonably solid economic growth, with real GDP expected to expand 7.3 percent in 2014, 7.2 percent in 2015, and 7.0 percent in 2016. Despite the somewhat slower predicted pace of expansion, Nicholas R. Lardy, PIIE's noted Chinese economy expert, believes that China's recent rapid credit boom does not necessarily portend a financial crisis and that a period of more moderate credit growth to minimize financial risks does not necessarily imply that China's growth will slow sharply.

Ángel Ubide explores some of the broader financial stability risks in key areas of the global economy. For the United States, Ubide expresses some concern about the risks associated with the Federal Reserve's ability to deliver on its strong forward guidance about low interest rates. Ubide warns that with inflation already at low levels in Europe, there are vulnerabilities associated with any further downside surprises. And for emerging markets, Ubide argues that recent problems have not been financial instabilities caused by the Fed's tapering as much as weak fundamentals in some of the more vulnerable economies.

Finally, Nicolas Véron assesses the beginning of the European Central Bank's comprehensive assessment and repair of Europe's banks, a process widely referred to as asset quality review (AQR) or stress tests. This marks a milestone in Europe's banking union project to stabilize and better oversee the region's banking system. But he warns that the most difficult and politically-sensitive decisions lie ahead once the weakest institutions, or "problem banks," are identified. The potential for negative surprises beyond countries that have already received assistance could create tensions between the European Central Bank and national governments. Europe's medium-term growth prospects will depend on how these tensions are resolved.

This will be the 24th semiannual global economic prospects session at the Peterson Institute. Held the week prior to the IMF-World Bank Meetings in the fall and spring, these forecasts present the best thinking of the Institute's experts on the economic policy challenges facing the US and other major economies, and on where the market consensus and official sector seem to be going astray.

About the Forecasters

David J. Stockton, Peterson Institute senior fellow and senior adviser to Macroeconomic Advisers, was chief economist for the Federal Reserve Board in 2000–2011.

Nicholas R. Lardy, the Institute's Anthony M. Solomon Senior Fellow, has been called "everybody's guru on China" by the *National Journal*. He is the author of *Sustaining China's Economic Growth after the Global Financial Crisis* (2012).

Nicolas Véron, visiting fellow since October 2009, is a widely cited expert on European financial issues. He is also a senior fellow at Bruegel, the Brussels-based economic policy think tank he cofounded in 2002–04.

Ángel Ubide, Peterson Institute senior fellow and an expert on central banking, is a member of the steering committee of the Euro50 Group. He is also the codirector of global economics for the D. E. Shaw Group, a global investment and technology development firm.

About the Peterson Institute

The **Peterson Institute for International Economics** is a private, nonprofit institution for the rigorous, open, and intellectually honest study and discussion of international economic policy. Its purpose is to identify and analyze important issues to making globalization beneficial and sustainable for the people of the United States and the world and then to develop and communicate practical new approaches for dealing with them. The Institute is widely recognized as nonpartisan. It receives its funding from a wide range of corporations, foundations, and private individuals from the United States and around the world, as well as from income on its endowment.