



THE DIRECTION OF GLOBAL COMPETITION

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Harvard Business School
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MARKETS HAVE BECOME GLOBAL

Globalization, underway for more than half a century, is a process of economic integration and cultural homogenization across national borders. Fostered by advances in transportation and communication technologies after World War II and eight rounds of trade negotiations under GATT, trade has grown at twice the rate of world GDP. Floating exchange rates, sovereign lending and the liberalization of capital accounts have accelerated this process.

Today, more than 82,000 multinational corporations manage more than 808,000 multinational subsidiaries.

Monti Seeks Mediator Role in Europe

Goldman Hoards Italy's Debt

In Haiti, Ex-Troop Leader Pushes for New Army



Greece's Leftists Lift Hopes for Coalition

Next Revolution

India

Deadly



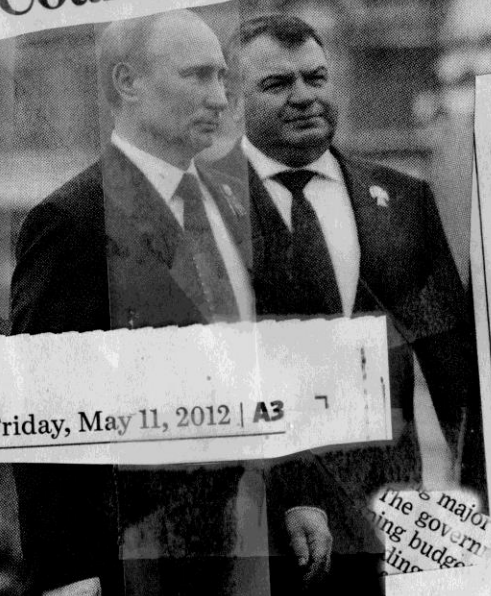
U.N. Fund Scrutinized For Afghan Corruption



Syria Blame

Deutsche Bank

Defends No



China Seeks Audit

Merkel Slams Conditions In Country and Belarus

to Lead Egypt

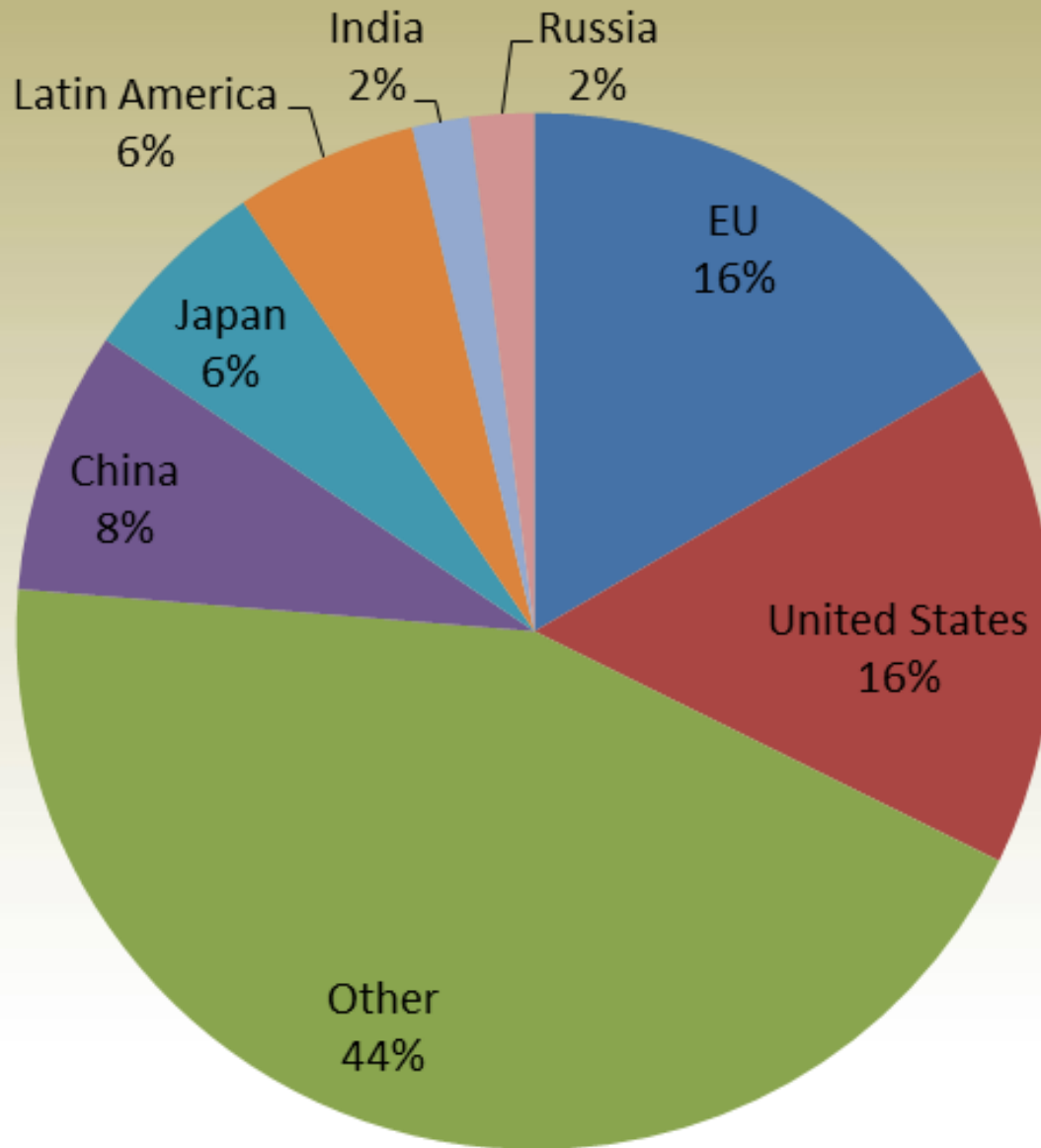
\$202 M Slagging Rupee

EGYPT Authorities Seize Weapons Near Border With Libya

Friday, May 11, 2012 | A3

Hitachi's President Pushes Compromise Ministers Quit

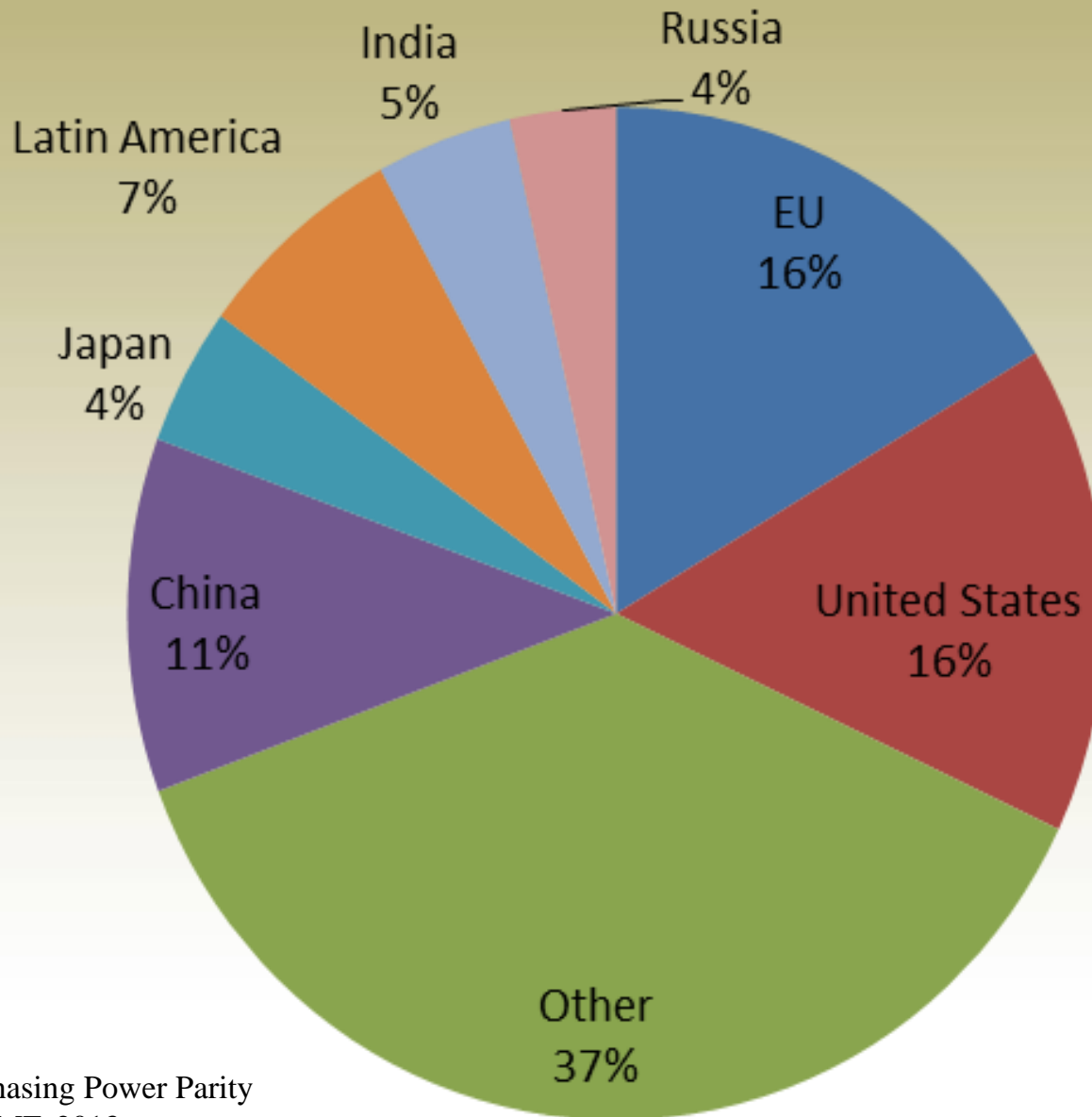
SHARE OF THE WORLD GDP 2012



\$71.7 trillion

SHARE OF THE WORLD GDP 2012

Purchasing power parity adjusted



\$81 trillion

* Adjusted for Purchasing Power Parity
Source: IMF, 2013



COUNTRIES COMPETE

- Within this global market place, **countries compete** for exports, for foreign direct investment and other capital resources, for technology and managerial know-how, and for access to natural resources.
- The purpose of this competition is growth and development.



“Preparing our nation to compete is a goal that all of us can share... In a dynamic world economy, we are seeing new competitors, like China and India, and this creates uncertainty.”

President George W. Bush
State of the Union Message, 2006



NATIONAL DEVELOPMENT STRATEGY

Nations have ***development strategies*** (either explicit or implicit) and ***organization structures*** that (hopefully) match...

But when there is a mismatch, or the context changes abruptly....nation states can run into serious difficulties.



THE ROLE OF GOVERNMENT IS *CRUCIAL*

- Mediates the strategy;
- Determines the organizational structure;
- Shapes the context by building and regulating the **institutions** that shape the market



ESSENTIAL ROLE OF STATE

- Provide security – domestic and international;
- Enforce contracts, property rights, and laws;
- Back risk – incorporation, bankruptcy, unemployment insurance, pensions, nuclear facilities;
- Provide money;
- Manage macro-economy;
- Implement industrial policy (explicit or implicit)



DEVELOPMENTAL STRATEGY OF GOVERNMENT

- Fiscal policy
 - Revenue sources
 - Expenditure choices
 - Deficit/Debt management
- Monetary policy
 - Control money/inflation
 - Regulate banking
 - Control exchange rates
- Incomes policy
 - Wages, prices, work rules, distribution of income
- Trade policy
 - Tariffs, taxes, non-tariff barriers
- Foreign direct investment controls
- Nationalization/privatization
- Economic regulation
 - Externalities (environment) and market failures (telecom, banking, infrastructure, and competition)
- Provision of subsidies



GOVERNMENT MANAGEMENT OF INSTITUTIONS

- Corporations, partnerships, proprietorships
- Infrastructural resources
 - (water, power, roads, rails, air traffic, telecom)
- Human resources
 - (schools, colleges/universities, healthcare)
- Technological resources
 - (patents, defense, and public-science research)
- Capital resources
 - (banking, securities, insurance)



Trajectories of Future Development

- ✓ Asian high growth
- ✓ Post-Soviet restructuring of Russia and East Europe
- ✓ Latin American recovery from debt crises
- ✓ Islamic resurgence
- ✓ African renaissance
- ✓ European integration
- ✓ Deficits and debt in Japan and the United States

World Economic Outlook

	Year over Year			
	2011	2012	Projections	
			2013	2014
World Output¹	4.0	3.2	3.3	4.0
Advanced Economies	1.6	1.2	1.2	2.2
United States	1.8	2.2	1.9	3.0
Euro Area	1.4	-0.6	-0.5	1.1
Germany	3.1	0.9	0.6	1.5
France	1.7	0.0	-0.1	0.9
Italy	0.4	-2.4	-1.5	0.5
Spain	0.4	-1.4	-1.6	0.7
Japan	-0.6	2.0	1.6	1.4
United Kingdom	0.9	0.2	0.7	1.5
Canada	2.6	1.8	1.5	2.4
Other Advanced Economies ²	3.3	1.8	2.5	3.4
Emerging Market and Developing Economies³	6.4	5.1	5.3	5.7
Central and Eastern Europe	5.2	1.6	2.2	2.8
Commonwealth of Independent States	4.8	3.4	3.4	4.0
Russia	4.3	3.4	3.4	3.8
Excluding Russia	6.1	3.3	3.5	4.6
Developing Asia	8.1	6.6	7.1	7.3
China	9.3	7.8	8.0	8.2
India	7.7	4.0	5.7	6.2
ASEAN-5 ⁴	4.5	6.1	5.9	5.5
Latin America and the Caribbean	4.6	3.0	3.4	3.9
Brazil	2.7	0.9	3.0	4.0
Mexico	3.9	3.9	3.4	3.4
Middle East, North Africa, Afghanistan, and Pakistan	3.9	4.7	3.1	3.7
Sub-Saharan Africa ⁵	5.3	4.8	5.6	6.1
South Africa	3.5	2.5	2.8	3.3
<i>Memorandum</i>				
European Union	1.6	-0.2	0.0	1.3
Middle East and North Africa	4.0	4.8	3.1	3.7
World Growth Based on Market Exchange Rates	2.9	2.5	2.6	3.4



CHINA'S CHALLENGE IN 1978

- \$200 per capita
- Closed, Communist economy
- Inefficient collective agriculture
- State-owned enterprise
- 987 million people
- “Cultural Revolution”



DENG'S PRAGMATIC LIBERALIZATION

- One-child policy
- Agriculture – household responsibility system
- TVEs – Township & village enterprises
- SEZs – Special economic zones
- SOEs – management responsibility system; then privatization
- Gradual price decontrol
- Tax reform (1994)
- Currency reform (1994)
- WTO - 2001

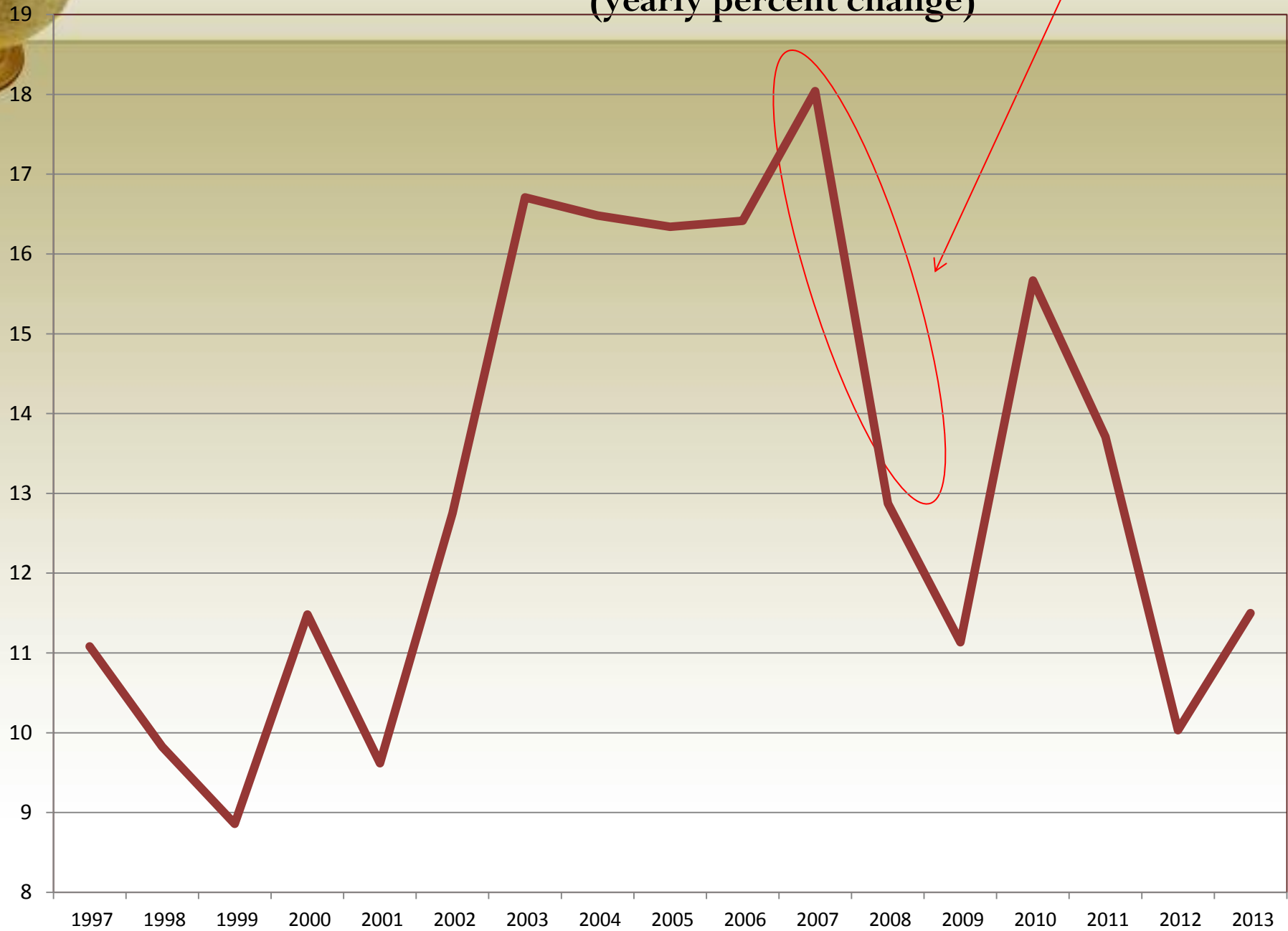


CHINA - RESULTS

- 9.4% real GDP growth → 7.8%
- Investment 44%; Savings 50%
- Consumption down to 35%
- Exports 3% → 35%
- Imports 3% → 28%
- Inflation 3.5 → 5.5 → 4.0%
- Unemployment – 9+%
- Balance of trade \$241 bil; current account \$171 bil
- Cumulative FDI – \$1,225 bil

CHINA INDUSTRIAL PRODUCTION: FINANCIAL CRISIS

(yearly percent change)



Source: Compiled with data from the *Economist Intelligence Unit*.

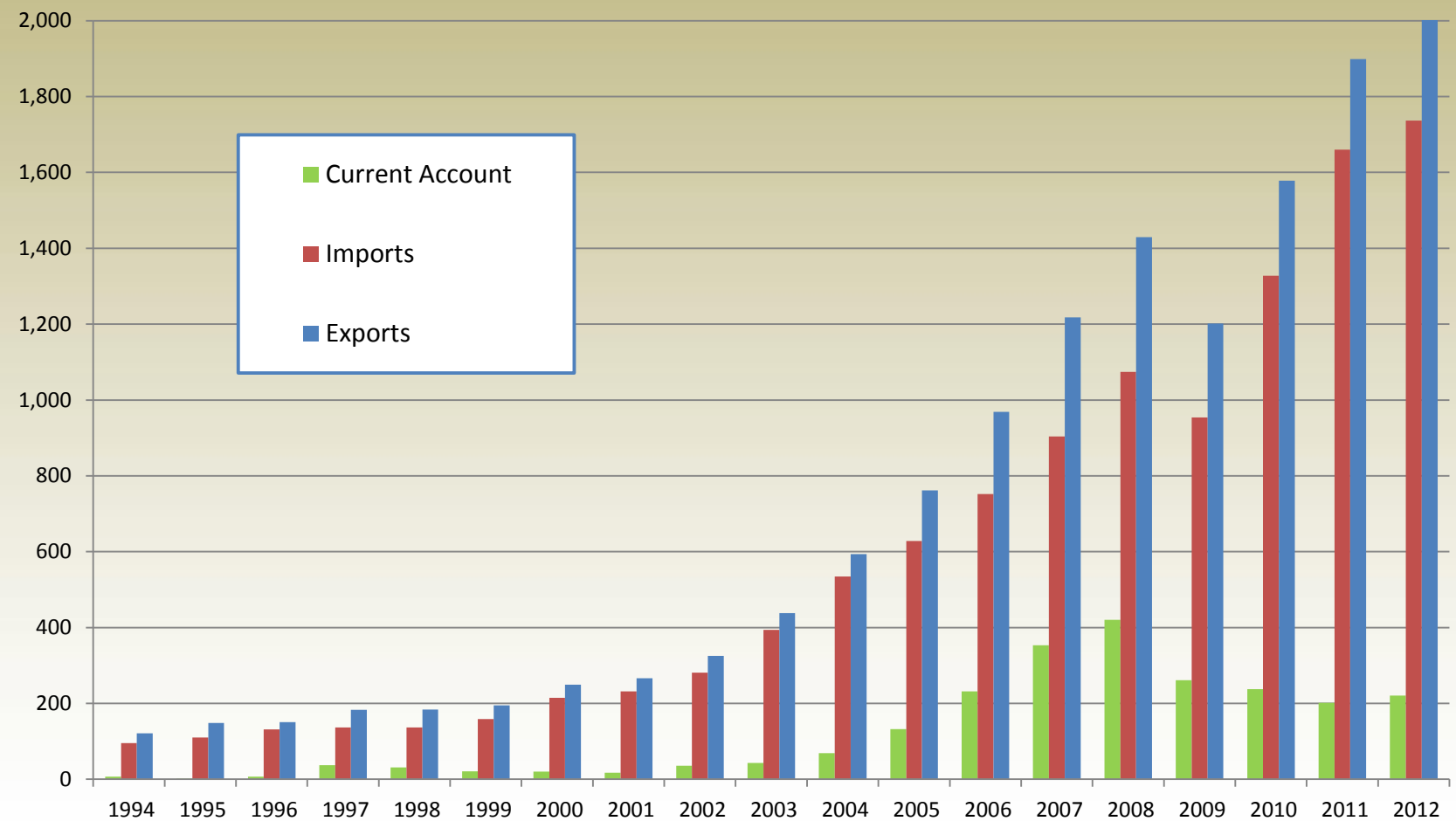
NOVEMBER 9TH STIMULUS PLAN – Rmb 4 trn (\$586 billion)

- Public housing projects—notably on low-rent residential units, re-development of slumps and renovating deteriorated rural housing.
- Rural infrastructure investment—including water supply and conservation, including expediting the North South water diversion project; irrigation; rural roads; and the power grid.
- Transport infrastructure—with a focus on railways, both passenger and coal transport lines, but also highways, airports, and the urban power grid.
- Health and education—including improving the local clinic service systems; renovating schools in inland provinces.
- The environment—including enhancing urban water and sewage treatment projects, pollution treatment of key water ways, reforestation, and energy efficiency projects.
- Innovation and restructuring—facilitating structural change and R&D, and supporting the development of high tech and service industries.
- Post-earthquake reconstruction.
- Household income—including increasing grain procurement prices and farm subsidies and increasing payments under the minimum living allowance system.
- Rolling out the VAT reform nationwide in 2009, allowing capital spending to be deducted from the VAT in line with international practice, reducing the corporate tax burden by about RMB 120 billion (0.4 percent of GDP) in the government's estimate.¹⁰
- Increasing bank lending to support growth, with priority being given to key projects, rural investment, SMEs, R&D, M&A, and consumer loans.



China's Trade

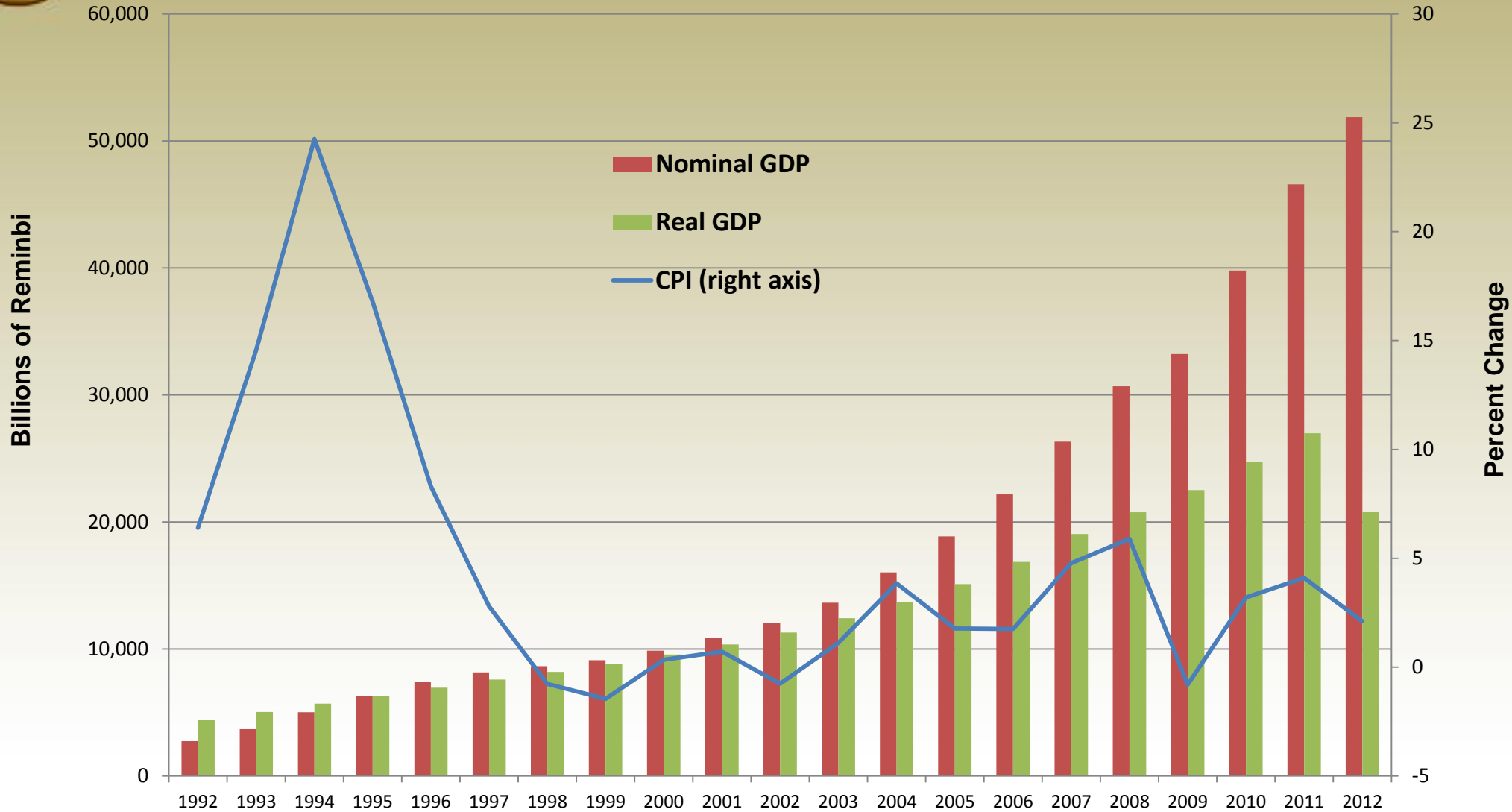
Exports, Imports, Current Account (billions \$\$)





CHINA'S GROWTH

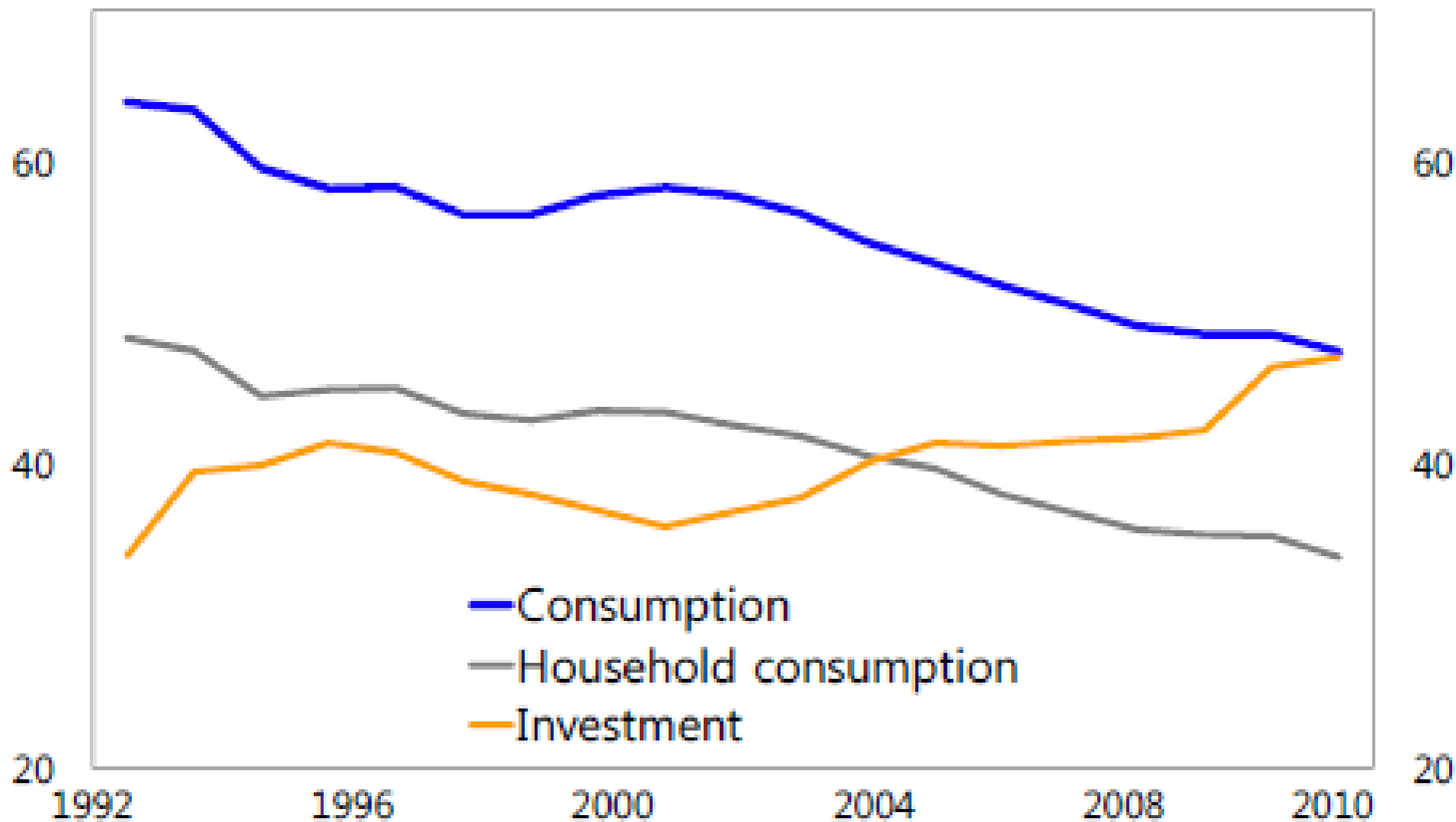
Nominal GDP, Real GDP, CPI



Source: Compiled with data from the *Economist Intelligence Unit*.

Domestic Demand

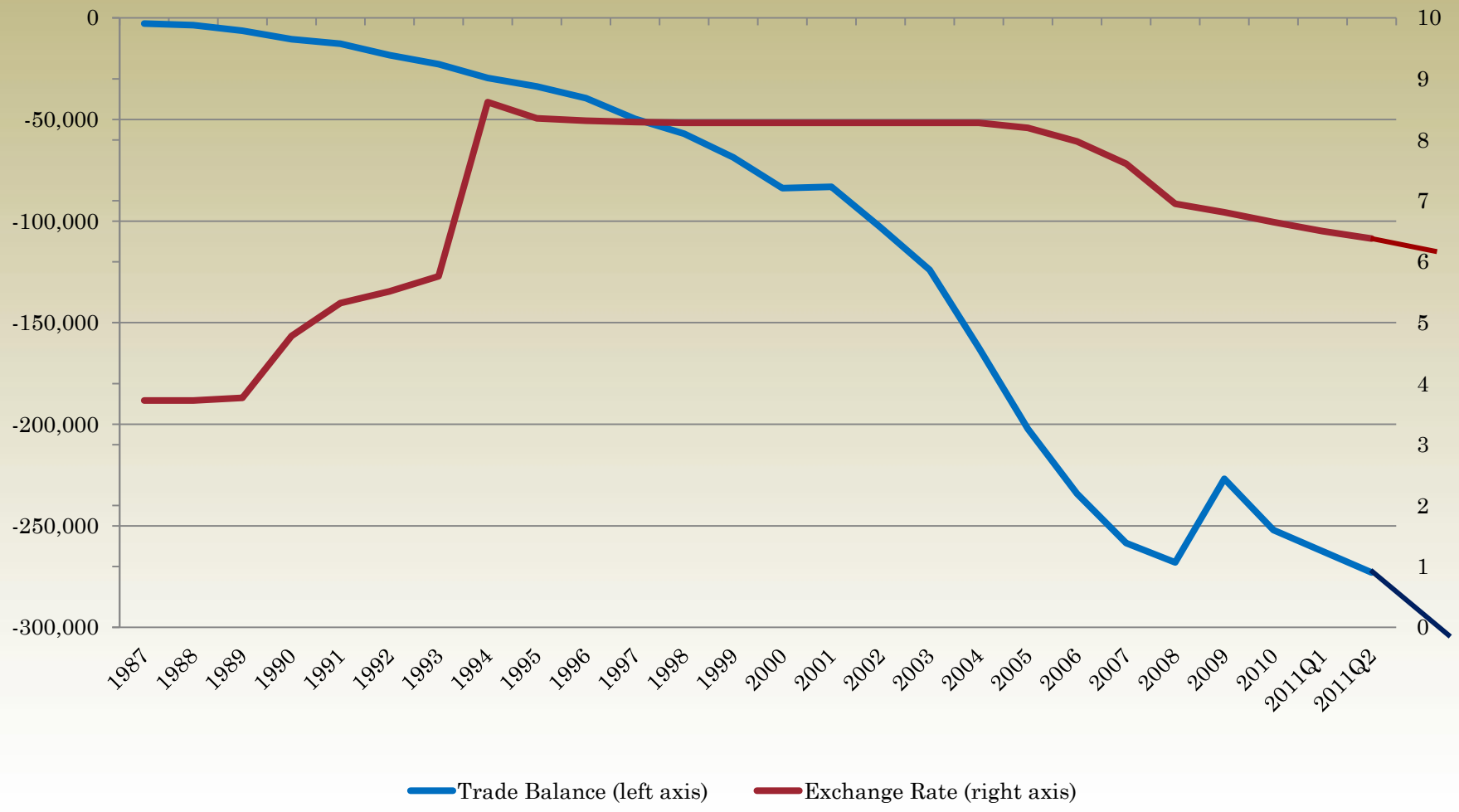
(In percent of GDP)



Sources: CEIC; and IMF staff calculations.



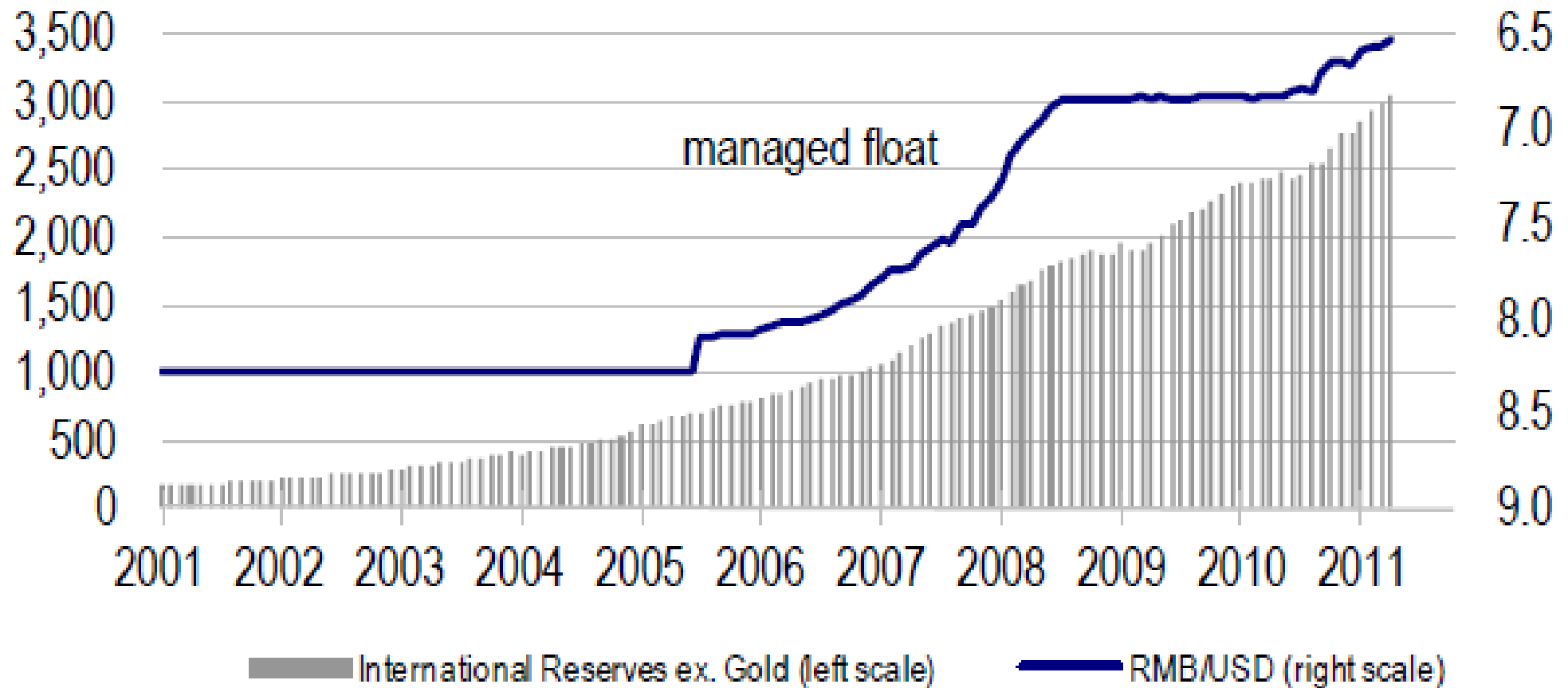
RENMINBI/DOLLAR EXCHANGE RATE AND U.S. MERCHANDISE TRADE BALANCE WITH CHINA (INVERTED SCALE, MILLIONS \$\$)



Source: Compiled with data from *Economist Intelligence Unit Country Reports*, (various years), http://countryanalysis.eiu.com/country_reports, accessed October 2011.

China's FX and Foreign Reserves

(in billions of US dollars and renminbi)



Source: Bloomberg



CHINA'S RISKS....

- Corruption-induced, political instability;
- Real estate bubble bursts;
- Income distribution & land confiscation – rural unrest;
- Sudden change in oil and/or agricultural commodities;
- Global warming – catastrophic effects;
- New strategy of “Balanced growth” fails, USA
Europe impose tariffs.
- Island dispute with Japan leads to military conflict.



5-year Forecast for China (barring risks)

Real GDP growth/yr.	8.1%	→	5%
Unemployment	7%	→	5.5%
Inflation	2.6%	→	5.0%
Fiscal balance	-2%	→	-1.3%
Trade balance	\$300 bn	→	\$200 bn
Current account	\$220 bn	→	\$50 bn
Exchange rate	6.2 R/\$	→	6.0 R/\$
FX Reserves	\$3.3 tr	→	\$3.7 tr



INDIA – FAILED IMPORT SUBSTITUTION

- Hindu rate of growth – 3.5% per year (with population growing 2.5% per year);
- 50% of output owned by public sector;
- 100% of banks and insurance firms;
- Highest tariffs, capacity licensing, imports allocated and price controls;
- “Sick units” protected;
- Widespread corruption.



INDIA AFTER 1991

WASHINGTON CONSENSUS...GRADUALLY

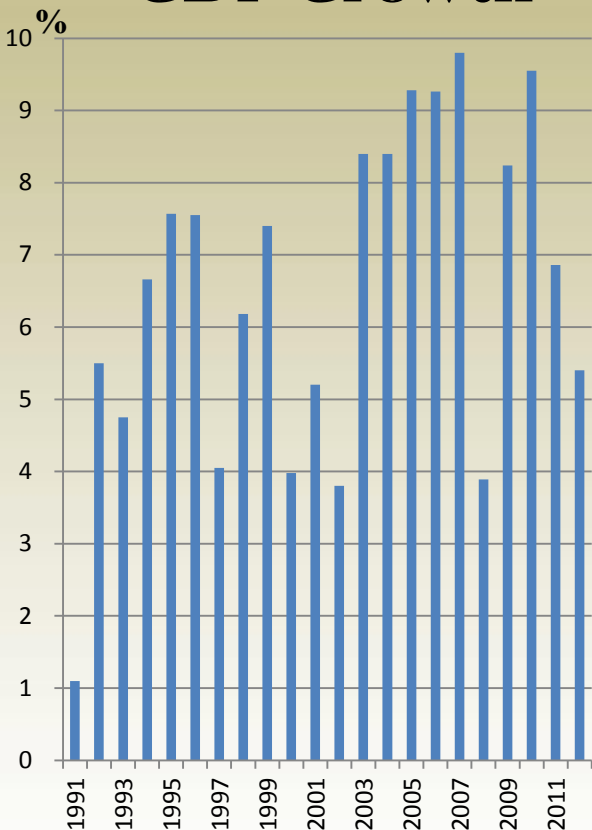
- Fiscal policy – deficit reduction;
- Monetary policy – tightened;
- Exchange rates – floated;
- Capacity licensing – removed;
- Price controls – removed;
- Tariffs – lowered;
- Privatization – begun;
- Foreign direct investment – allowed;
- Spending on infrastructure and education – increased.



INDIA'S RESULTS:

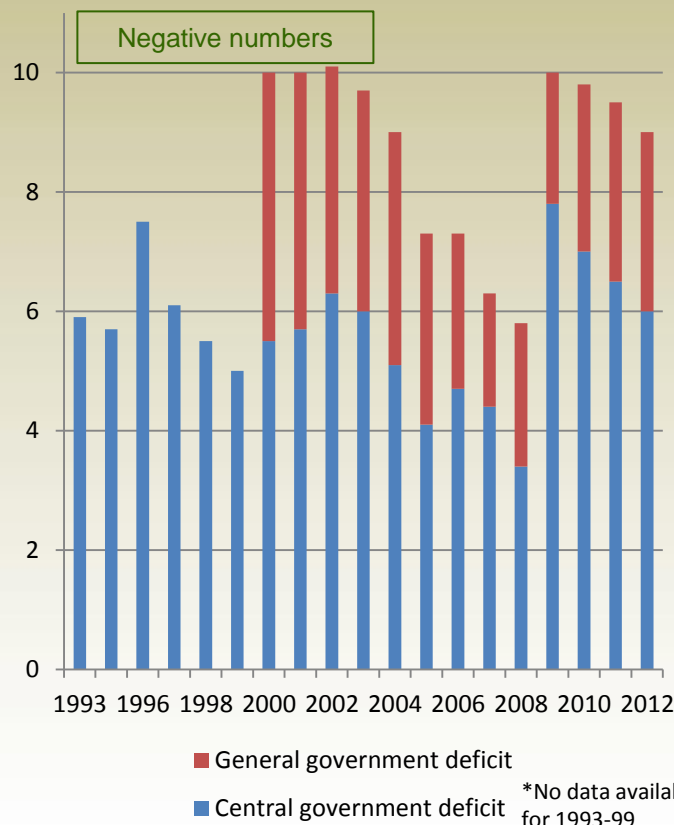
Year-to-year percentage growth in gross domestic product, and government deficit and current account deficit as percent of GDP; all figures for year ending March 31

GDP Growth



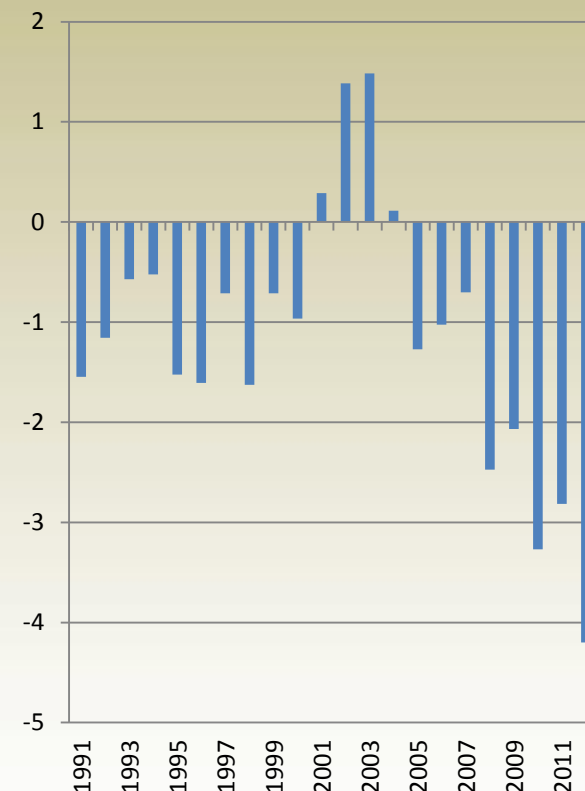
Government Deficit

%/GDP



Current Account Deficit

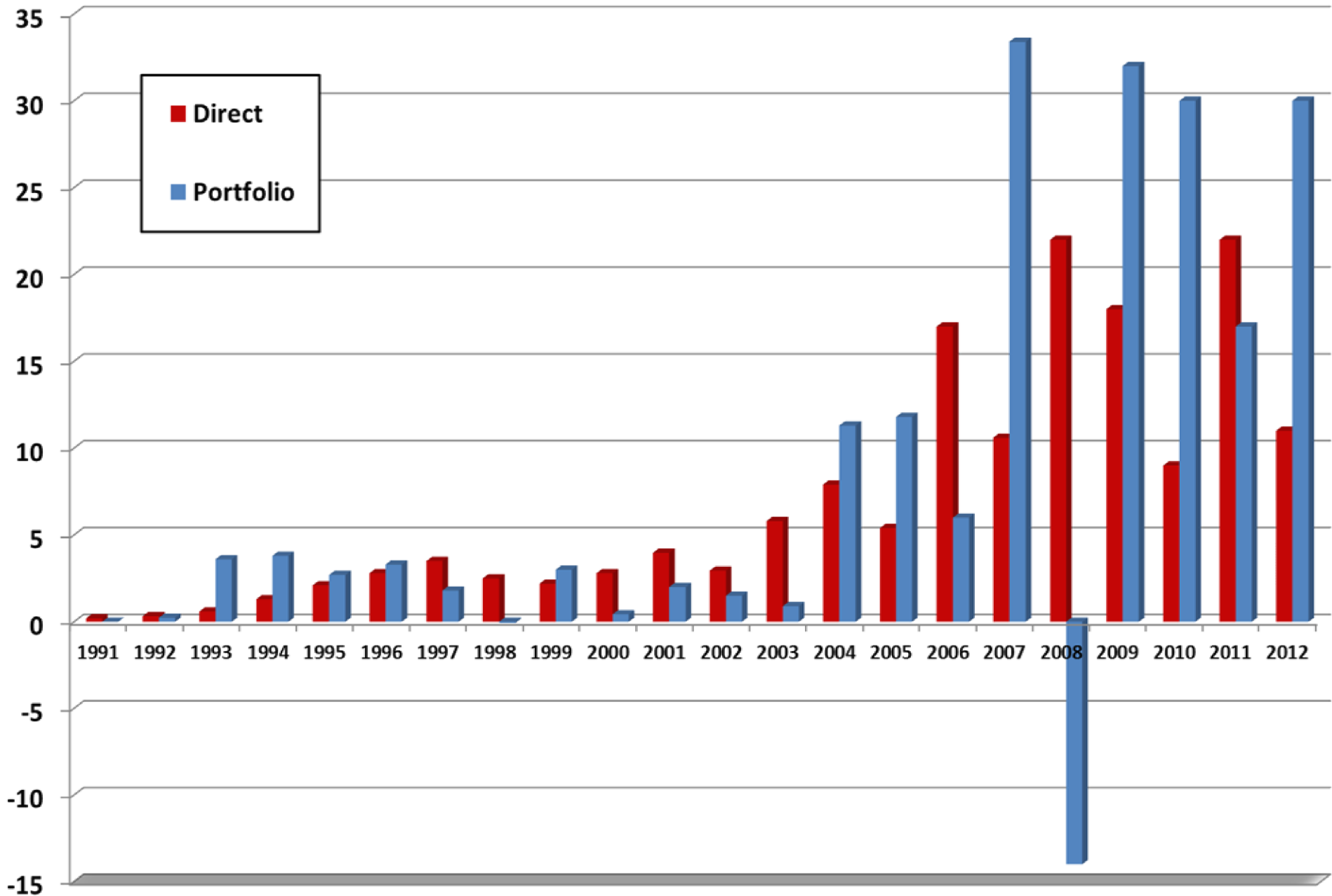
%/GDP



Note: Fiscal deficit is the difference between revenues and spending; current account balance is the broadest measure of goods, services, and money that crosses a country's border, with a deficit indicating more imports than exports.

Foreign Investment in India Since 1991

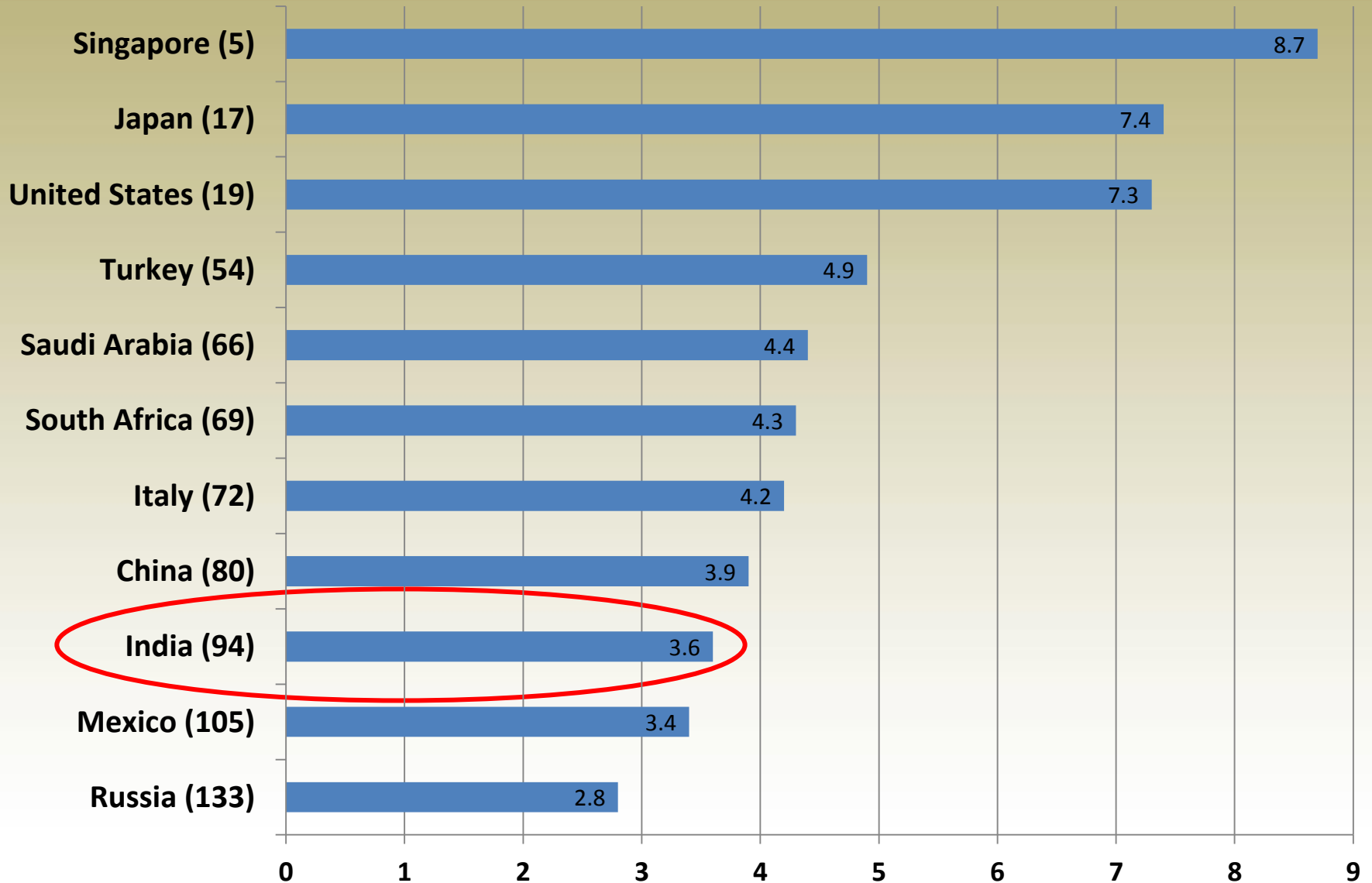
Billions of \$\$





CORRUPTION 2012

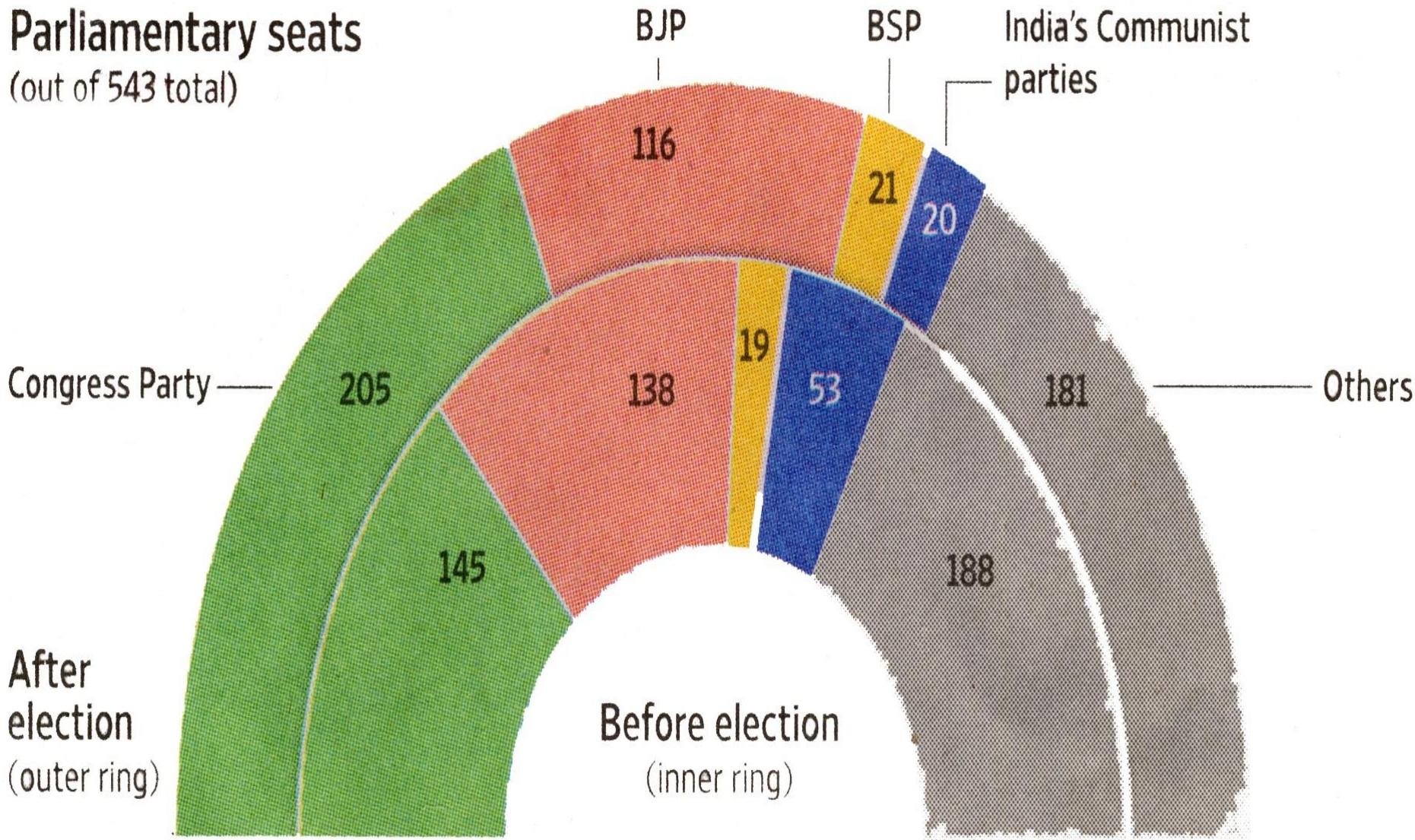
(0 = most corrupt 10 = least corrupt)



Note: rank among other countries is in parentheses

COALITION POLITICS IN INDIA – MAY 2009

Parliamentary seats
(out of 543 total)

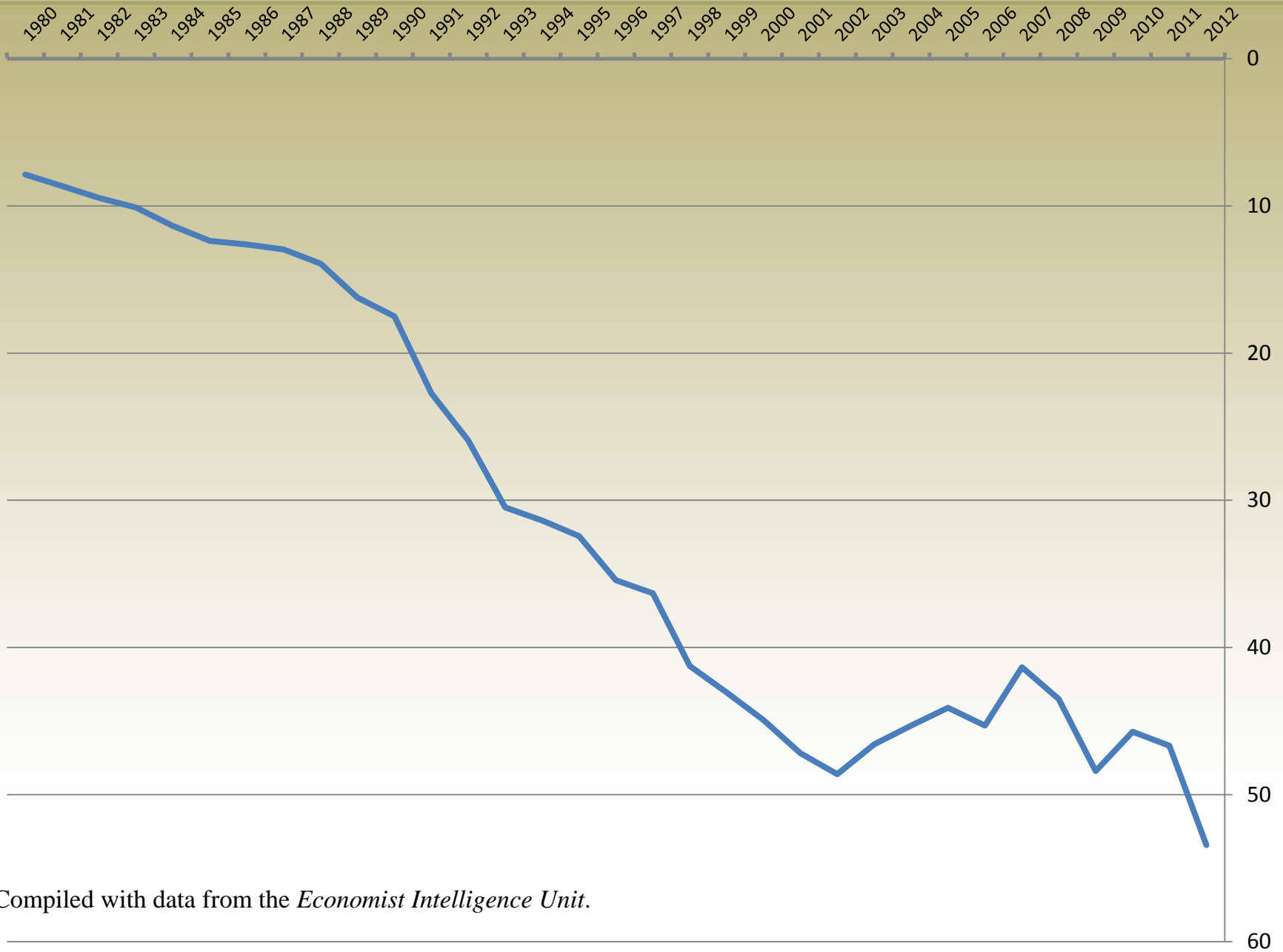


Note: Results are preliminary

Source: Election Commission of India

INDIA'S EXCHANGE RATE

(Indian Rupee / U.S. Dollar, inverted scale)



Source: Compiled with data from the *Economist Intelligence Unit*.



India's Risks...

- Corruption inducing Political Paralysis
- Oil and food price instability
- Inflation (especially food)
- Manufacturing lags, deepening trade deficits
- Unemployment – 9+
- Conflict with Pakistan erupts
- Conflict with Naxalites deepens



5-year Forecast for India

(barring risks)

Real GDP growth	5.4%	→	7.2%
Unemployment	9.9%	→	8.5%
Inflation	9.2%	→	7.0%
Fiscal balance	-6.1%	→	-4.3%
Trade balance	-\$196 bn	→	-\$288 bn
Current account	-\$86 bn	→	-\$101 bn
Exchange rate	54 R/\$	→	48 R/\$
FX Reserves	\$281 bn	→	\$315 bn



MEXICO AND LATIN AMERICA

(debt, structural adjustment, and micro-reform)

Old Strategy

- Import substitution strategies with resource-led growth
 - High tariffs, limited FDI, large public sectors, fiscal deficits, monetization, fixed exchange rates

Revised Strategy

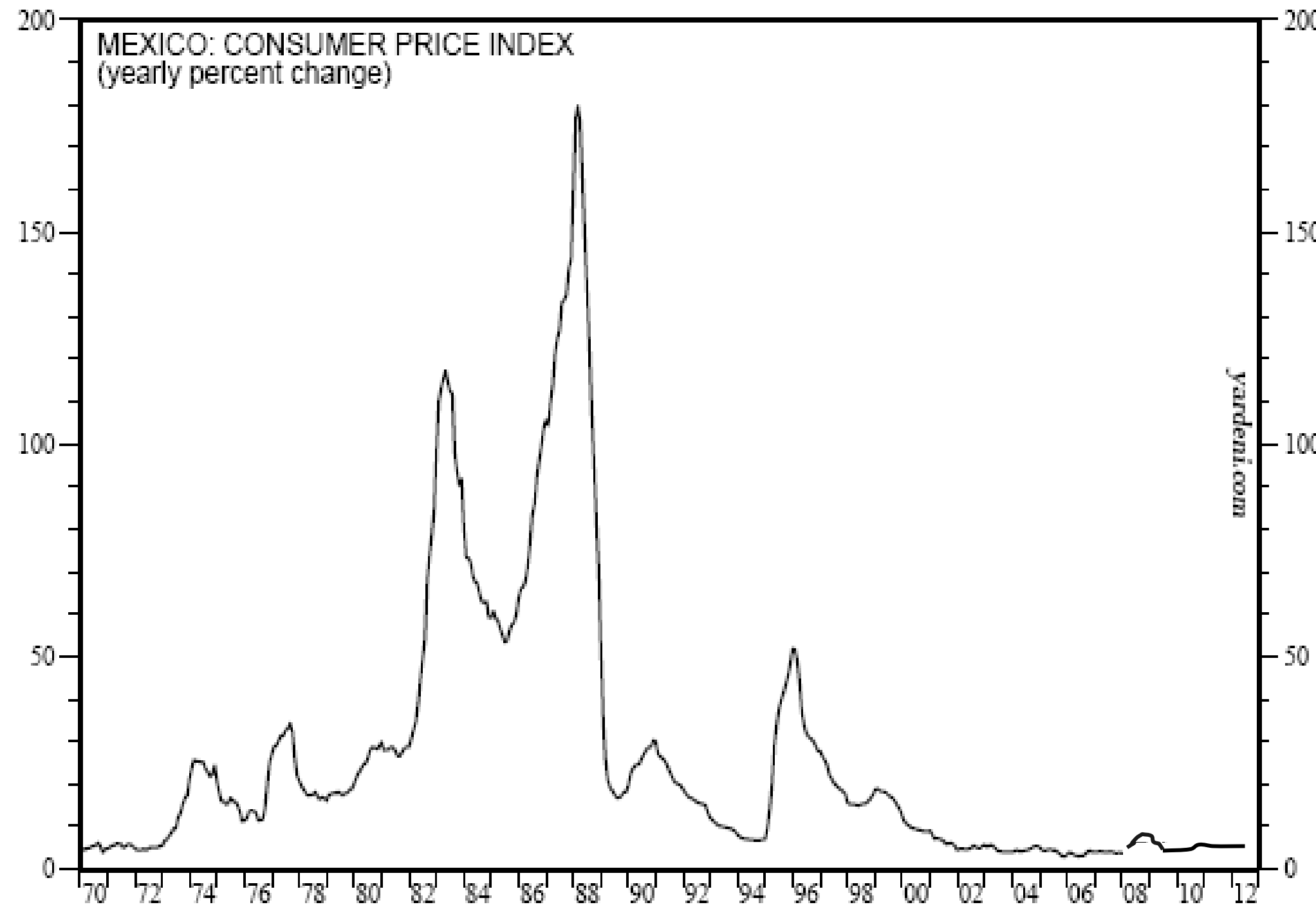
- Debt leveraged growth, 1974-1982;
- Debt crises & IMF bailouts



ECONOMIC LIBERALIZATION STRATEGY IN MEXICO, 1982-1996

- Devaluations
- Fiscal and monetary control
- Tariffs down → NAFTA
- Privatizations – domestic & foreign
- FDI – maquiladoras
- Wage controls
- Brady plan debt reductions
- *But*, overvaluation, current account deficits, and foreign debt up – second “tequila” crisis.

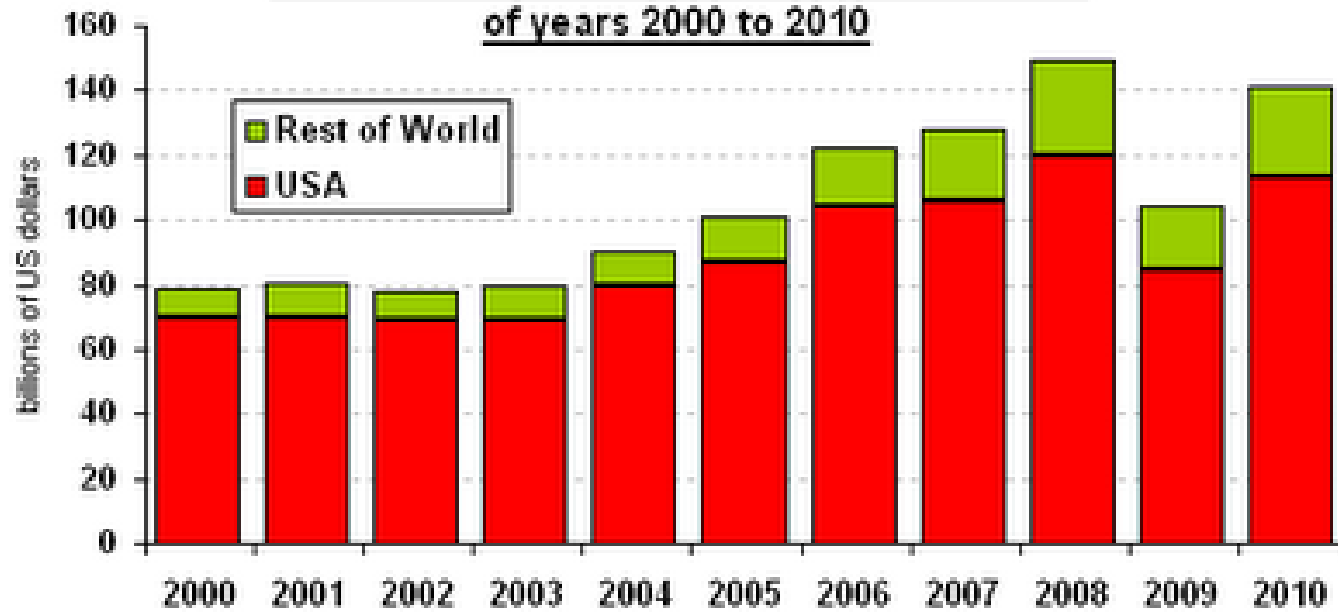
MEXICO: CONSUMER PRICE INDEX
(yearly percent change)



yardeni.com

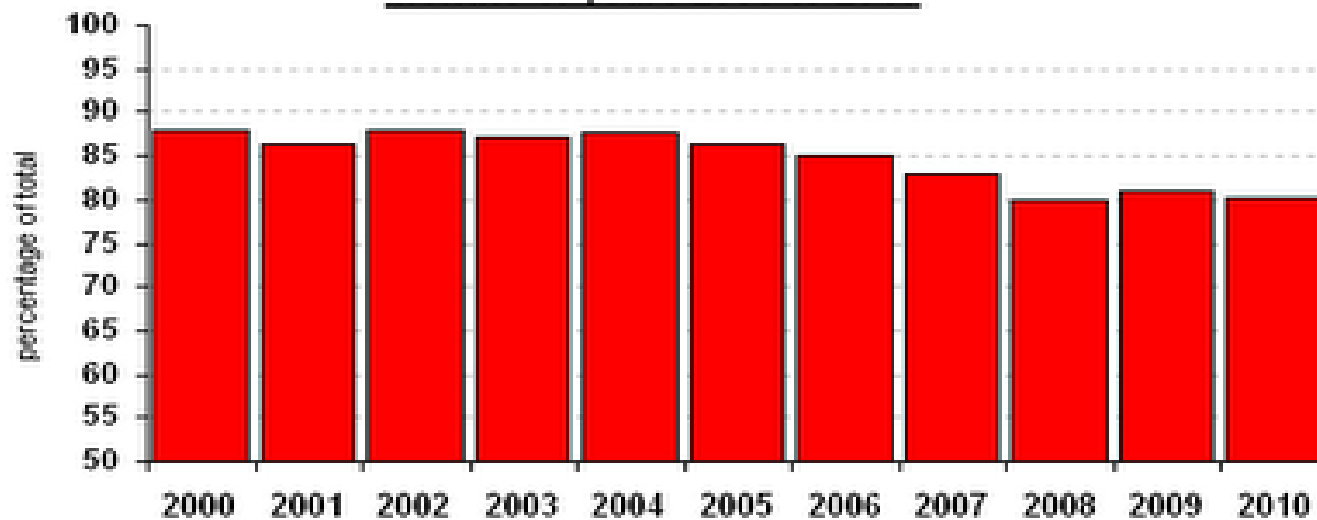


**Mexico Exports to World, in first six months
of years 2000 to 2010**



source: Mex FinMin

**Percentage of Mexican Exports Going to USA, in first six
months of years 2000 to 2010**



source: Mex FinMin



Vincente Fox (2000-2006) – ineffective liberalization

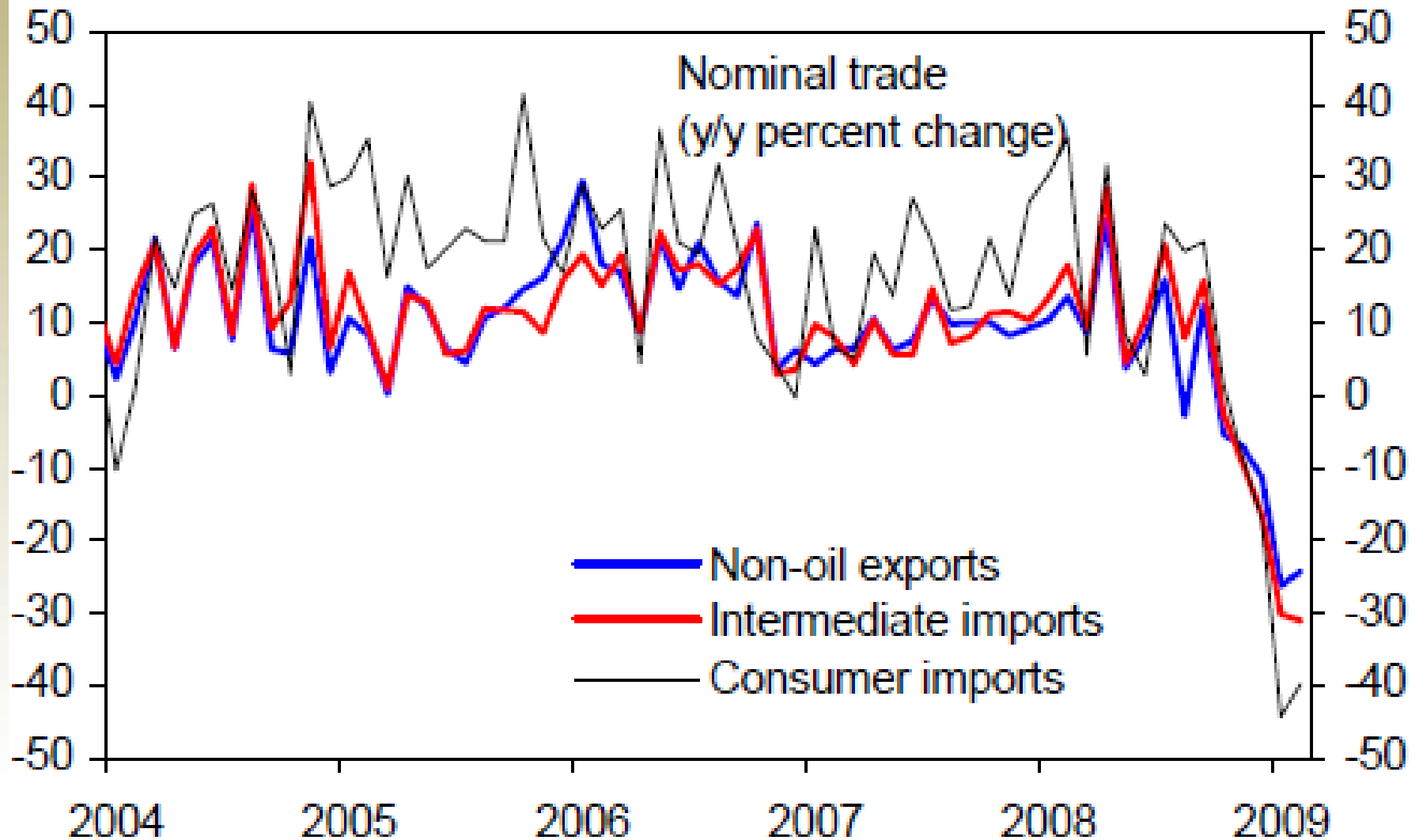
- Macro-economy stable – now microeconomic and institutional reform;
- Fix pensions; Poverty, education, income distribution, labor law, oil and gas sector, environment;
- Control crime and drugs
- China entering the WTO...
- But PAN a minority party...little accomplished...

Felipe Calderon (2006-2012) – more effective

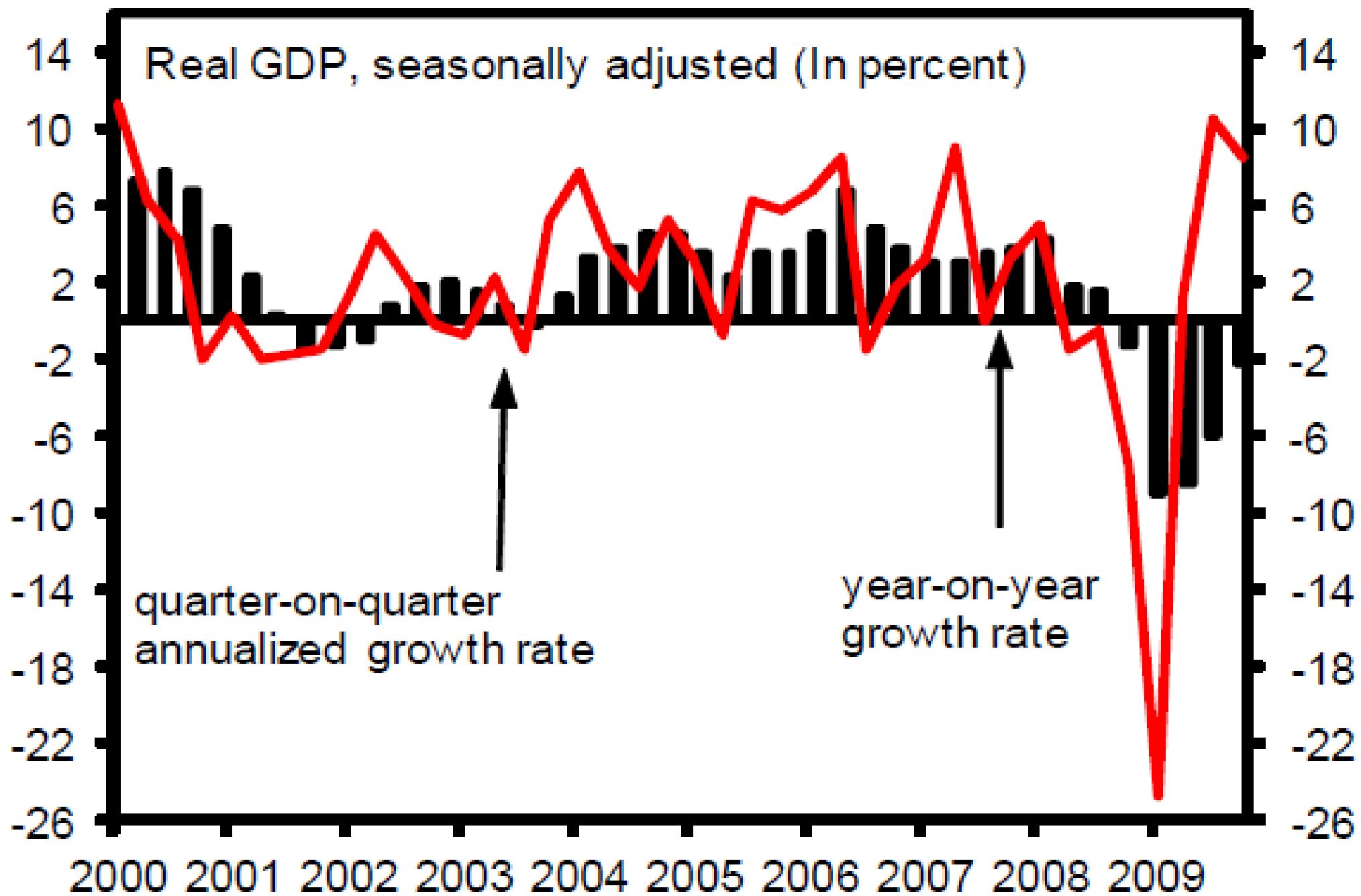
- Drug war – 10,000 arrested; 25 leaders; 35,000 dead
- Pension reform – retirement age up; defined benefits → defined contributions;
- Electoral reform – shorter campaigns, limit to media spending;
- Fiscal reform – corporate flat tax → revenue up 2%;
- Pemex – limited financial flexibility;
- Electoral reform – re-elections

BUT ...FINANCIAL CRISIS...

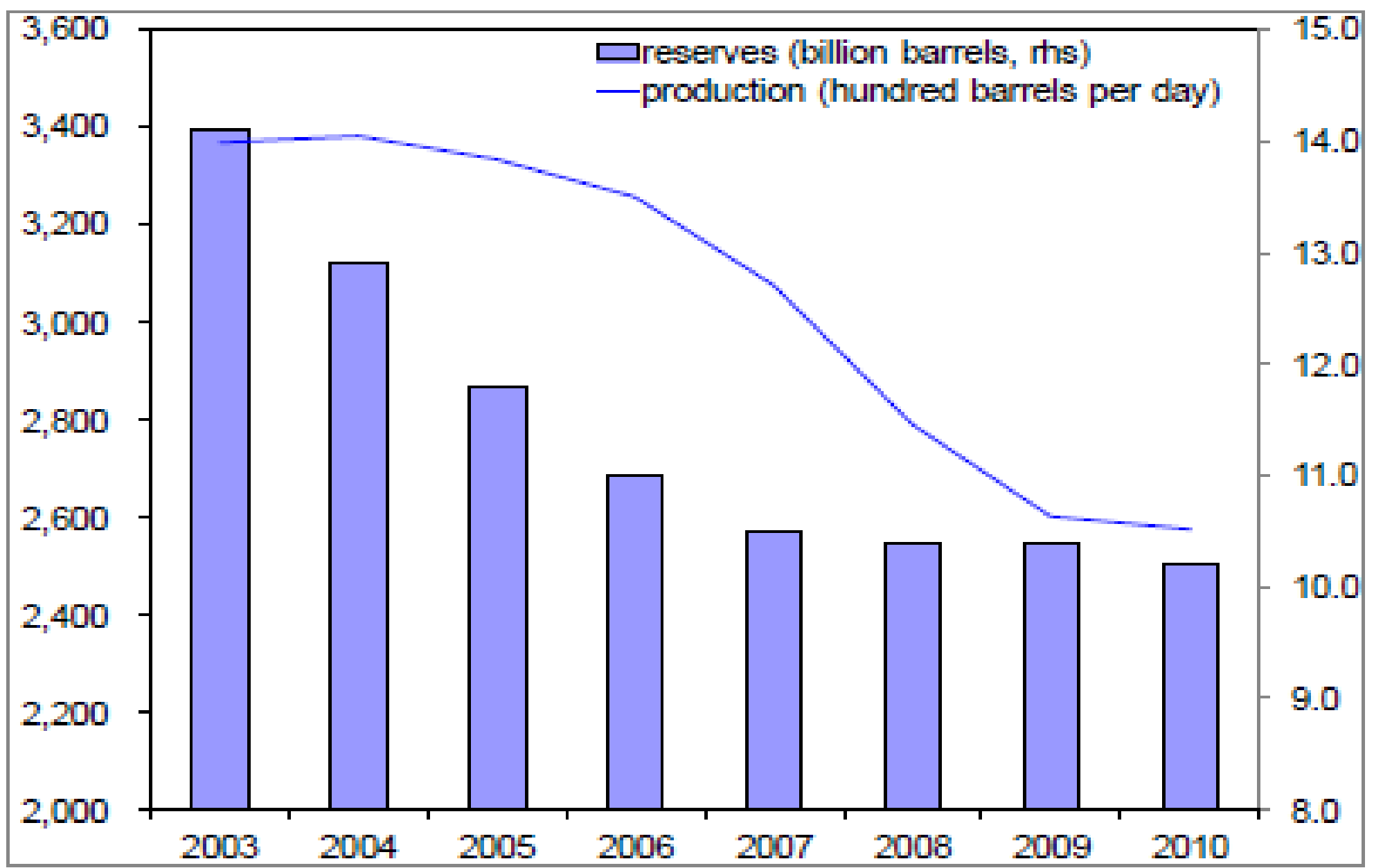
...with collapsing trade...



GDP growth fell sharply, but has since started to recover.

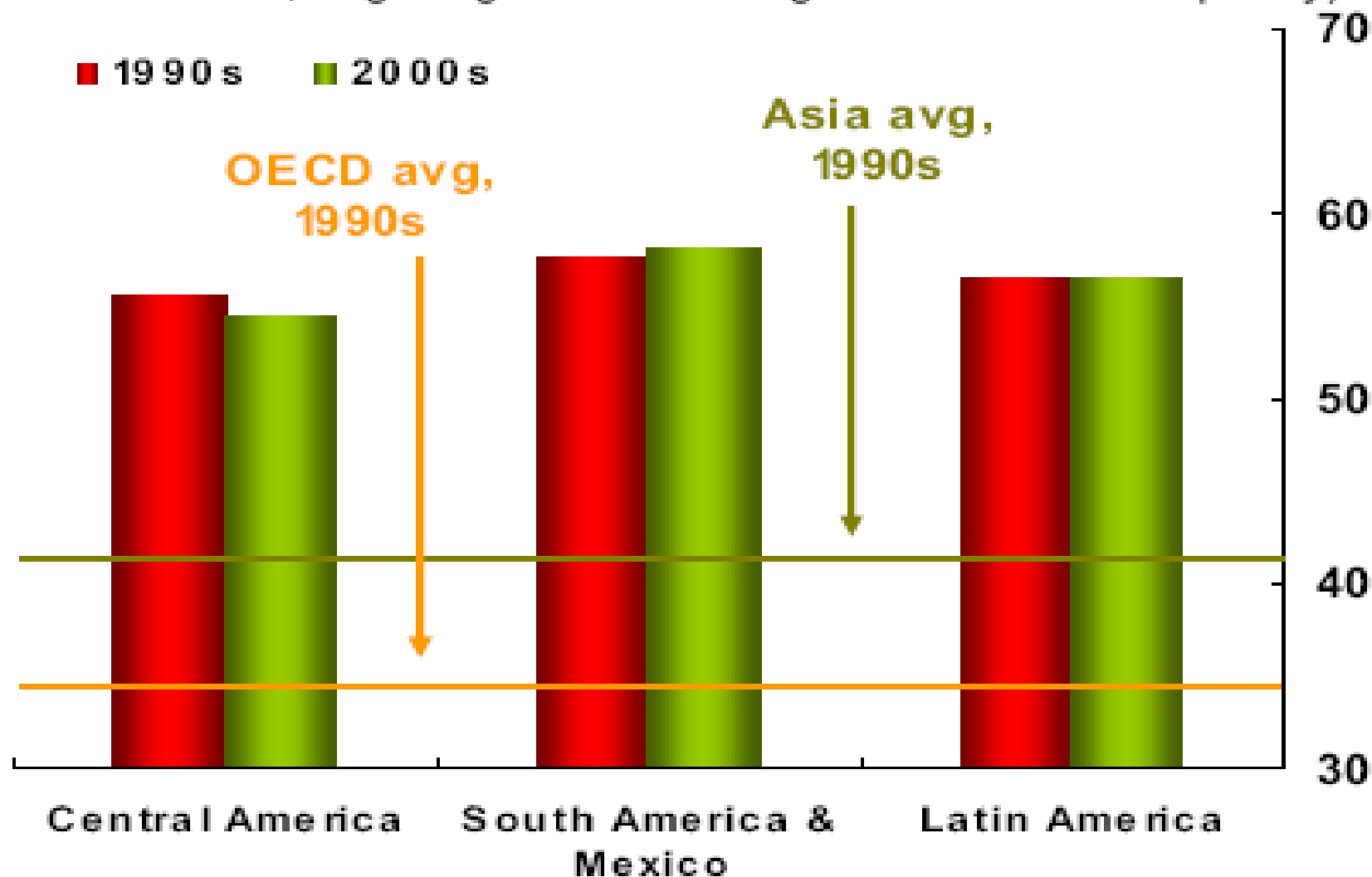


Oil Production



Income Inequality

(Gini coefficient; larger figures indicate greater income inequality) ^{1/}



Sources: ECLAC; and de Ferranti et al. (2004).

^{1/} For Latin American countries, 1990s = available observation closest to 1990; 2000s = most recent available observation.

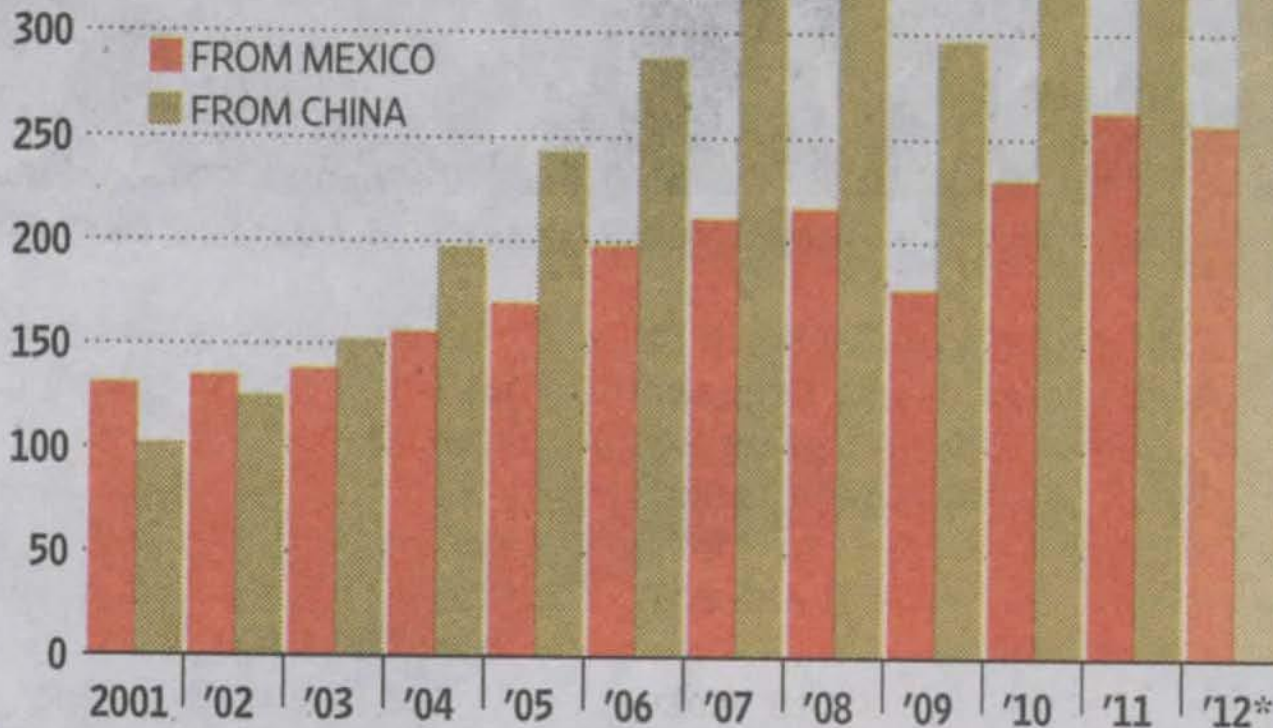
Rivals and Partners

WSJ 1-18-13

Mexico faces stiff competition from China in the U.S., and Chinese goods are far more popular in Mexico than the reverse.

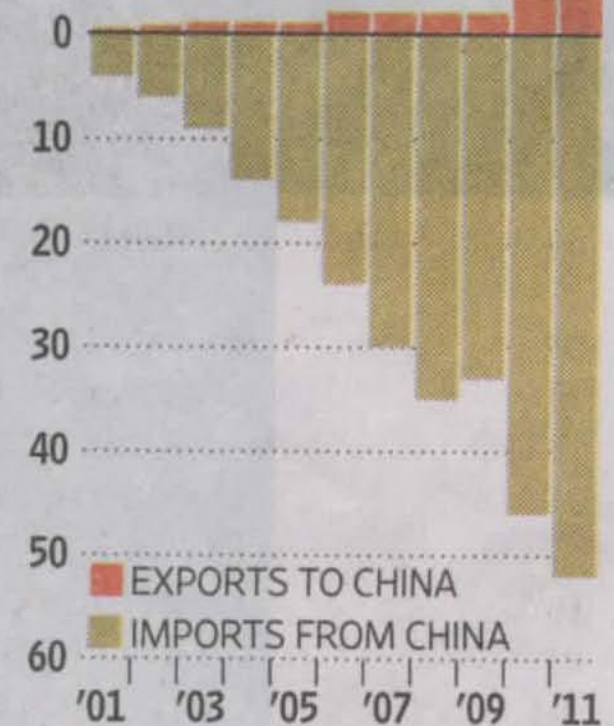
ANNUAL U.S. IMPORTS

\$350 billion



MEXICO'S TRADE WITH CHINA

\$10 billion



Note: For trade in goods; *Through November; Sources: U.S. Census Bureau; Mexican Economy Ministry

The Wall Street Journal



President Enrique Peña Nieto, 2012-2018

- “Pacto por Mexico”
 - Education reform (arrest Ms. Gordillo)
 - Eliminate *fuero* (immunity) law for Chamber
 - Telecommunications reform – eroding monopolies of Telmex and Televisa
 - “Zero” deficit for 2013 (except 1.8%/GDP for Pemex)
- Anticipated reforms
 - VAT increase?
 - Pemex reform – private-firm partnerships?
- ? Drug violence?



Mexico's Risks

- **Drug-related crime syndicates deepen domestically**
- **Monopolies persist (in telecom, energy, cement, bread, etc.)**
- **Rising unit labor costs make Mexico uncompetitive**
- **Peso appreciation makes Mexico uncompetitive**
- **Stuck-in-the-middle**
- **Offshore drilling delayed; Mexico a net oil importer**
- **Income distribution worsens....**



5-year Forecast for Mexico (barring risks)

Real GDP growth	4.0%	→	3.7%
Unemployment	4.5%	→	3.6%
Inflation (CPI)	3.8%	→	
Fiscal balance (%GDP)	-2.4%	→	0.9%
Trade balance	-\$2 bil	→	-\$30 bil
Current account	-\$8 bil	→	-\$34 bil
Exchange rate	13 P/\$	→	12.8 P/\$
Reserves	\$142 bn	→	

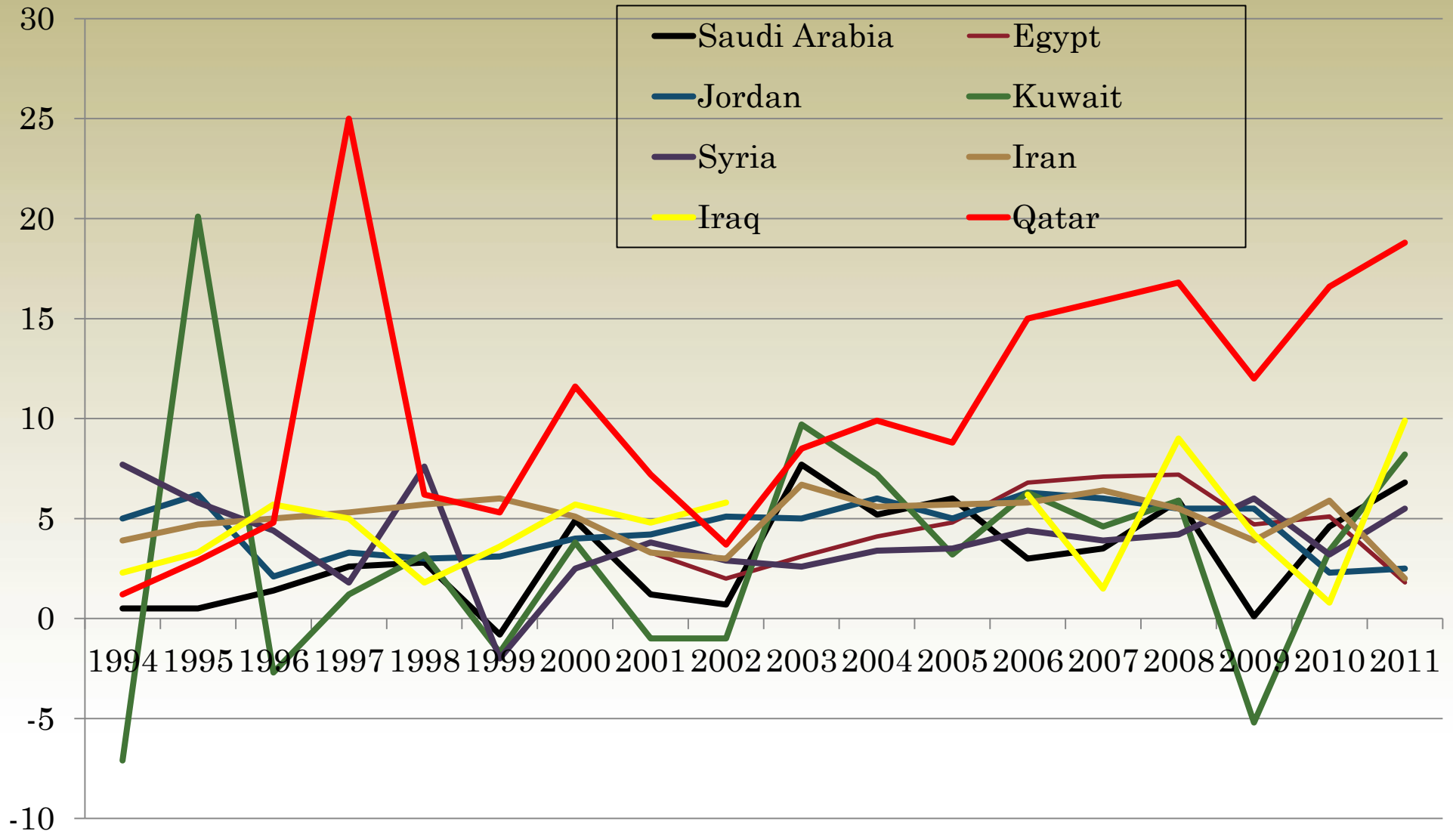
LATIN AMERICA?

- Argentina – stable government? Will Argentina inflate? Will it become competitive? Will default have lasting ill-effects?
- Brazil – Can institutional reform continue, with effective debt management, pension reform, income redistribution and exchange-rate pressure? Will Dilma manage responsibly and build Brazil's competitiveness?
- Columbia – Free Trade Agreement with USA? Ending FARC terrorism?
- Venezuela – will Chavez's replacement lead to a rebirth of democracy & capitalism?

	Growth of GDP			% Inflation			Cur acct (%/GDP)		
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Argentina	1.9	2.8	3.5	10.0	9.8	10.1	0.1	-0.1	-0.5
Brazil	0.9	3.0	4.0	5.4	6.1	4.7	-2.3	-2.4	-3.2
Chile	5.5	4.9	4.6	3.0	2.1	3.0	-3.5	-4.0	-3.5
Colombia	4.0	4.1	4.5	3.0	2.2	3.0	-3.4	-3.4	-2.9
Venezuela	5.5	0.1	2.3	21.1	27.3	27.5	2.9	6.2	7.7

ISLAMIC RESURGENCE/SAUDI ARABIA

ANNUAL GDP GROWTH





SAUDI ARABIA – ECONOMIC ISSUES UNTIL OIL PRICES ROSE

- Slow economic growth (1.8% per year), except for past three years – high oil prices;
- Low domestic investment – average 19-20%
- Government budgets – irregular deficits/debt;
- Defense, debt service, and education;
- Unemployment → 13+%;
- Low inflation;
- Huge Trade surpluses;
- Current account deficits (until 2000): large surpluses since.

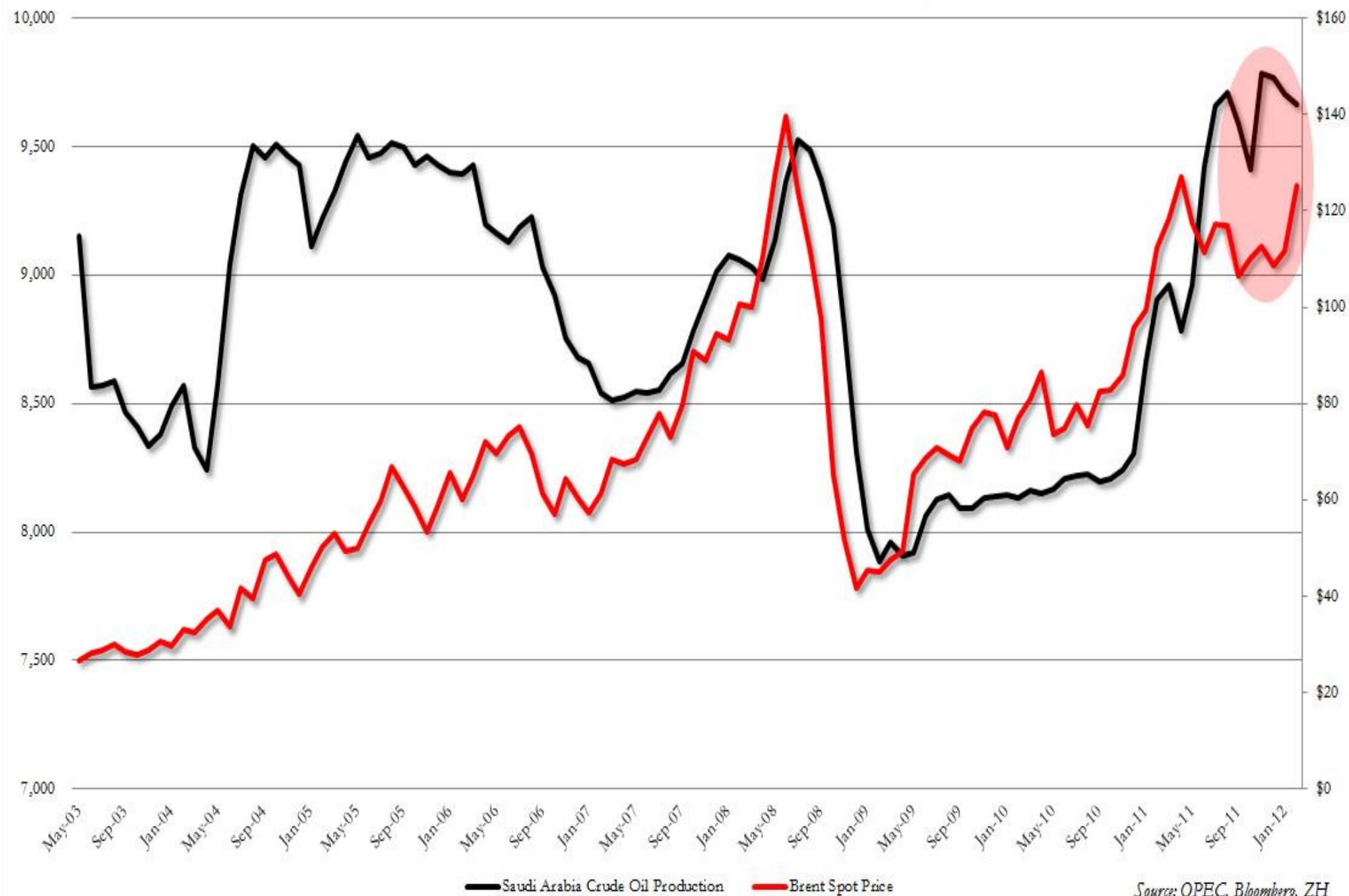


ABDULLAH'S DEVELOPMENT STRATEGY

- Reduce fiscal deficits
- Open up foreign investment
 - FDI law, gas initiative
- Build infrastructure
- Finance domestically
- Privatization
- Fund education
- Maintain low inflation
- Saudization
- Expand production capacity to 12.5 mmbd
- Produce enough oil (10 mil. bbls./day) to stabilize price
- Abdullah Plan – Middle East Peace



Saudi Arabia Crude Production tb/d And Brent Spot Price



Source: OPEC, Bloomberg, ZH

OPEC Crude Production

(million barrels per day)

	Dec 2012 Supply	Jan 2013 Supply	Feb 2013 Supply	Sustainable Production Capacity ¹	Spare Capacity vs Feb 2013 Supply	2012 Annual Production Average	Volume Chg 2012 vs 2011
Algeria	1.18	1.16	1.16	1.19	0.03	1.17	-0.02
Angola	1.79	1.77	1.72	1.82	0.10	1.78	0.19
Ecuador	0.50	0.50	0.50	0.51	0.01	0.50	0.00
Iran	2.70	2.65	2.72	3.01	0.29	3.00	-0.08
Iraq	2.97	2.97	3.14	3.28	0.14	2.95	0.29
Kuwait ²	2.78	2.82	2.79	2.86	0.06	2.74	0.16
Libya	1.40	1.38	1.40	1.58	0.18	1.39	0.01
Nigeria ³	2.10	2.00	2.02	2.49	0.47	2.10	-0.18
Qatar	0.70	0.74	0.74	0.75	0.01	0.74	0.05
Saudi Arabia ²	9.15	9.25	9.25	11.90	2.65	9.85	0.43
UAE	2.68	2.60	2.55	3.01	0.46	2.65	0.06
Venezuela ⁴	2.50	2.50	2.50	2.63	0.13	2.50	0.04
Total OPEC	30.45	30.34	30.49	35.01	4.53	31.37	0.94

(excluding Iraq, Nigeria, Libya and Iran)

3.59)

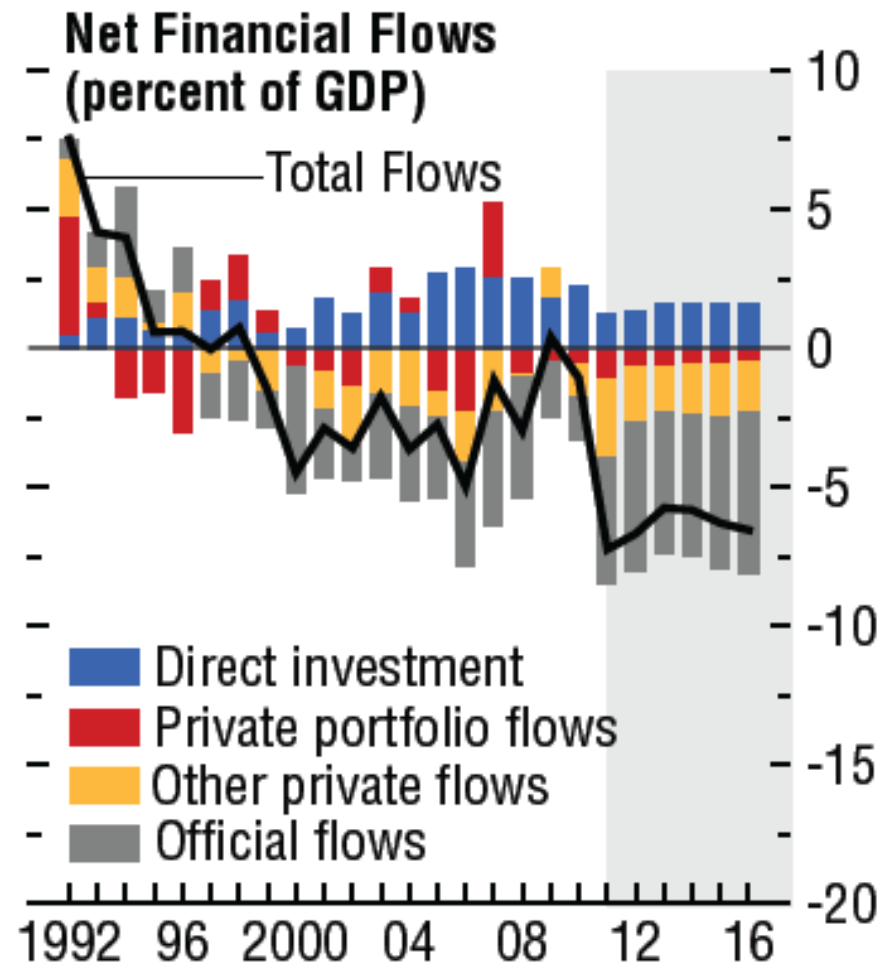
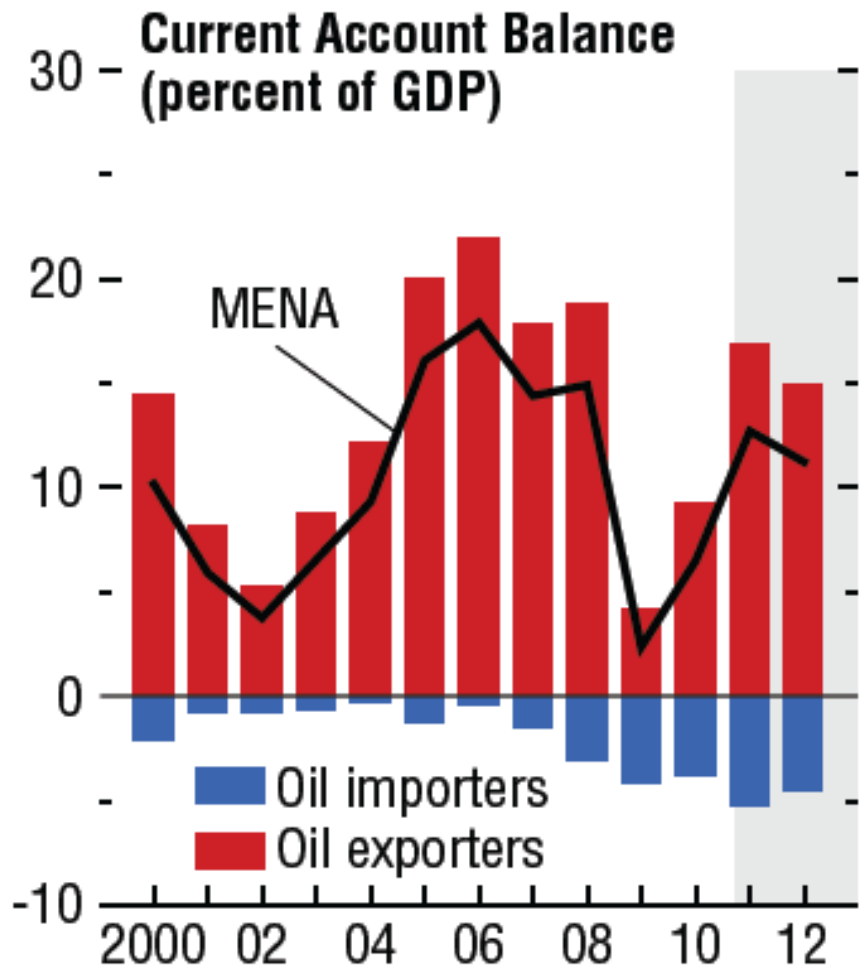
2.65/4.53 = 58% of spare capacity is Saudi Arabia



SAUDI ARABIA SINCE 2005

- Rapid economic growth (up to 7.0% per year)
- Huge government surpluses, debt down to 28%/GDP
- Defense, education, and infrastructure, including four new cities
- Unemployment → 10.2%
- Inflation up to 9%; back down to 5%
- Huge Trade surpluses
- Current account surplus - \$451 billion in Sovereign Wealth Reserves

BUILD-UP IN RESERVES; DRAW-DOWN IN CRISIS



Sources: Haver Analytics; International Labor Organization; IMF, Primary Commodity Price System; national sources; and IMF staff estimates.



Saudi Arabian Risks

- Oil prices slump (expanded production in Iraq and the USA)
- Surge of domestic terrorism
- Liberals (women & youth) pursue abrupt reform
- ***War breaks out between Israel and Iran***



5-year Saudi Arabian Forecast

(barring risks)

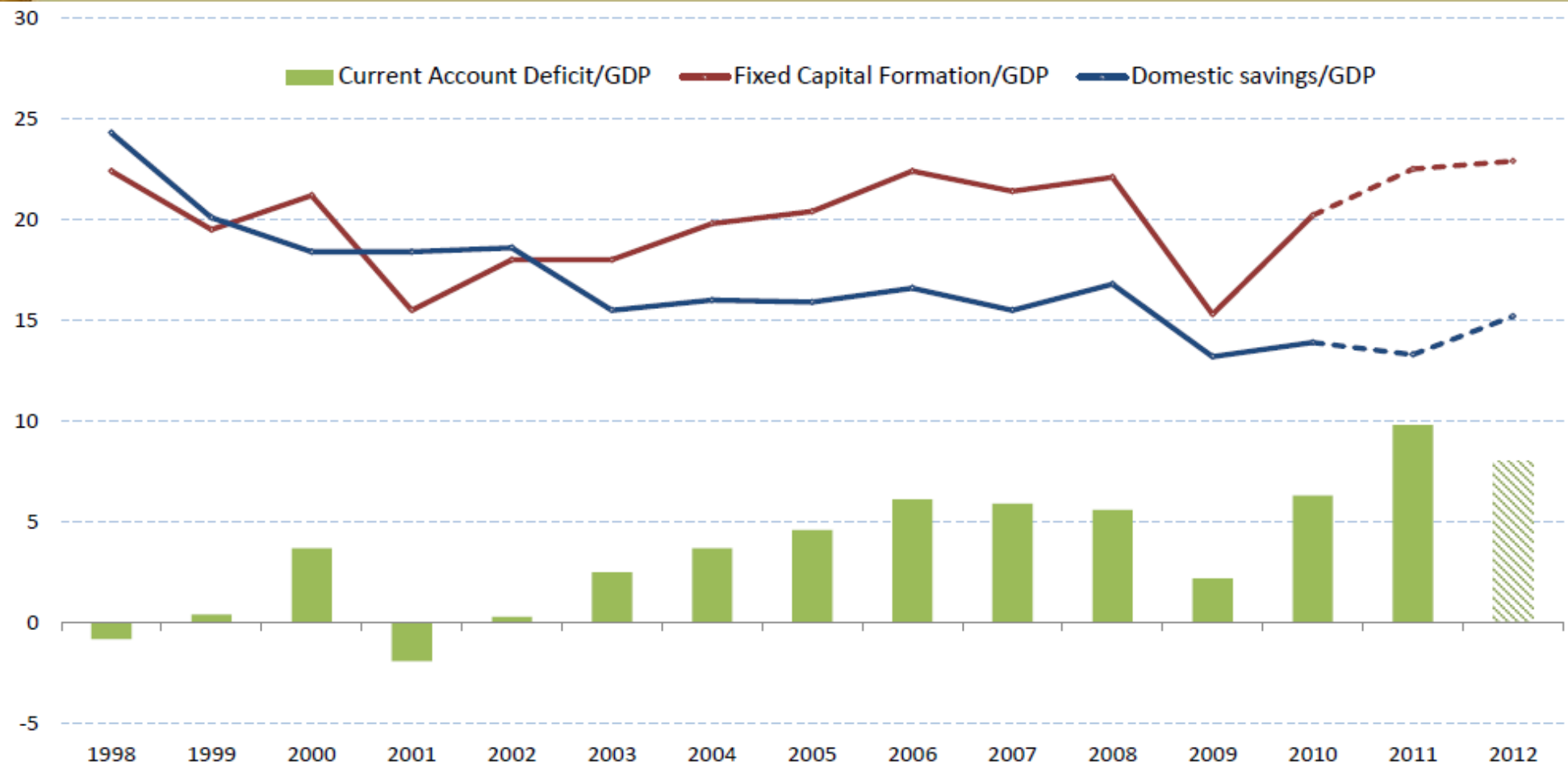
Real GDP growth	5.5%	→	4.7%
Unemployment	9.7%	→	8.6%
Inflation (CPI)	4.4%	→	4.8%
Fiscal balance	12%	→	-1.0%
Trade balance	\$250 bn	→	\$150 bn
Current account	\$155 bn	→	\$40 bn
Exchange rate	3.74 R/\$	→	
FX reserves	\$630 bn	→	\$700 bn

Turkey – A Work in Progress



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 ^a
Nominal GDP (TL bn)	238.7	348.1	453.9	558.1	648.1	757.0	843.0	950.6	951.5	1,097.9	1,293.9	1,419.1
Private consumption (% of GDP)	68.8	68.3	71.4	71.4	71.7	70.6	71.3	69.8	71.5	71.7	73.1	73.3
Government consumption (% of GDP)	12.2	12.6	12.1	11.8	11.7	12.3	12.8	12.8	14.7	14.3	14.0	14.9
Gross fixed investment (% of GDP)	16.0	16.7	17.0	20.4	21.1	22.3	21.5	19.9	16.9	18.9	21.9	21.8
Stockbuilding (% of GDP)	-0.9	1.0	0.6	-0.8	-1.0	-0.3	-0.4	1.9	-2.0	0.6	2.0	-2.0
Exports of G&S (% of GDP)	27.1	25.0	23.1	23.4	21.9	22.6	22.4	23.9	23.4	21.2	23.7	24.0
Imports of G&S (% of GDP)	23.2	23.5	24.1	26.2	25.4	27.5	27.5	28.3	24.4	26.7	32.7	32.0
Real GDP (LCU)	68,376	72,492	76,342	83,496	90,485	96,707	101,289	102,072	96,835	105,852	114,912	118,385
GDP (% real change pa)	-5.7	5.7	5.3	9.4	8.4	6.9	4.7	0.8	-5.1	9.3	8.6	3.0
GDP per head (US\$ at PPP)	7,650	8,310	8,860	9,790	10,710	11,690	12,473	12,717	12,070	13,218	14,517	15,067
Agriculture (% of GDP)	9.9	11.7	11.4	10.9	10.8	9.5	8.7	8.6	9.3	9.6	9.3	9.1
Industry (% of GDP)	30.2	28.7	28.6	28.5	28.5	28.7	28.3	27.7	25.9	27.0	28.1	28.4
Services (% of GDP)	59.8	59.6	60.0	60.6	60.7	61.8	63.1	63.7	64.7	63.4	62.6	62.6

Turkey's economic problem -



Source: Ministry of Development, CBRT.

*2011 - 2012 data for savings and investments is forecast. 2012 estimate for current account balance is taken from MTP.



Main Priorities of Medium Term Program

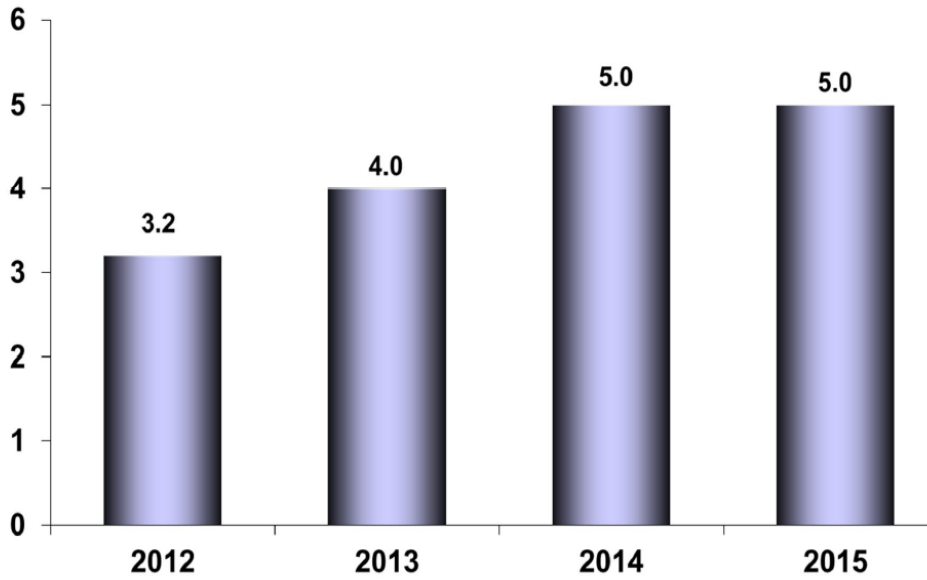
Turkey's Deputy Prime Minister, October 9, 2012

With the ultimate goal of boosting Turkey's welfare;

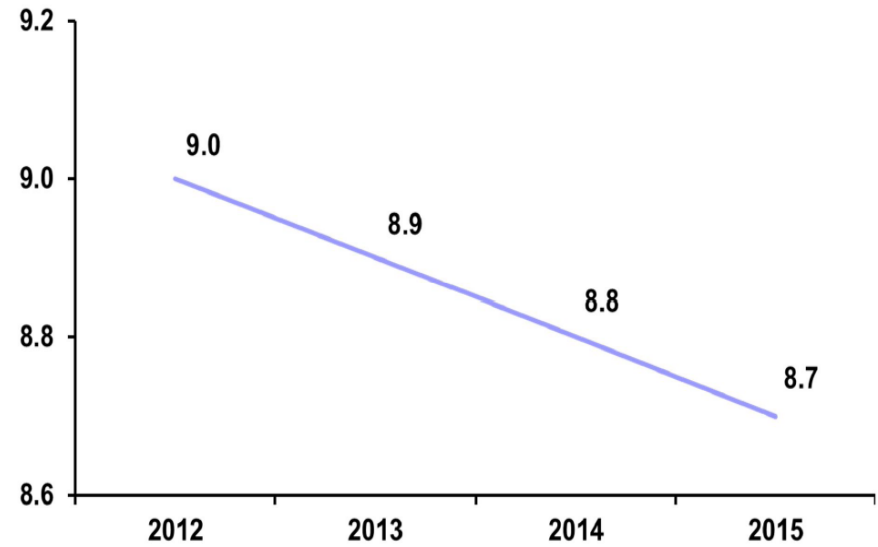
- Raising economic growth to its potential level,
- Increasing employment,
- Continuing to fight against inflation,
- Sustaining the downward trend in current account deficit,
- Increasing domestic savings

and, thus strengthening macroeconomic and financial stability.

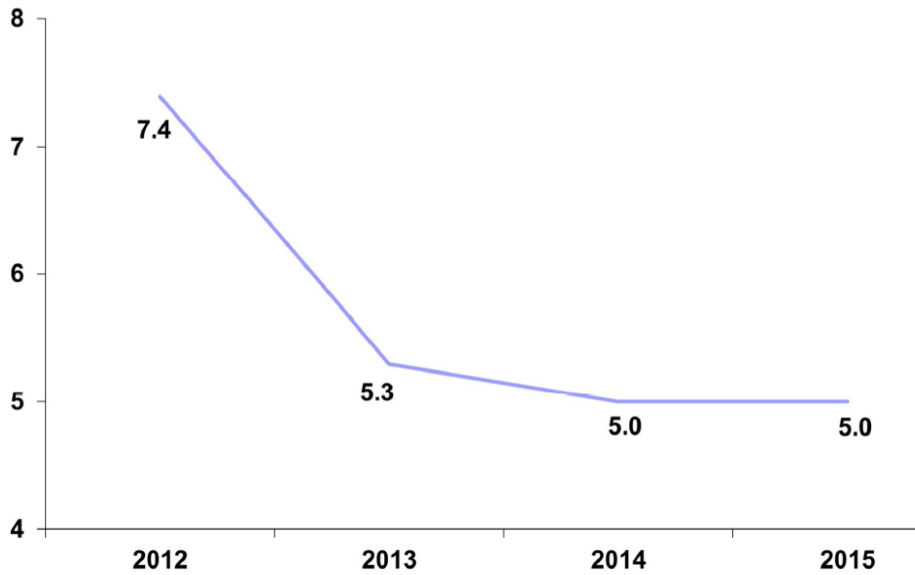
GDP Growth Rate (%)



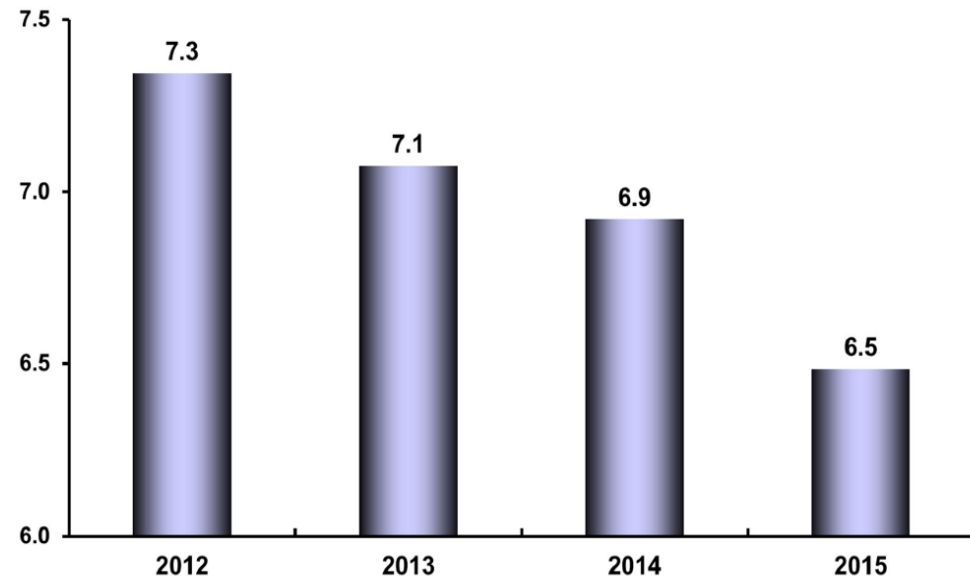
Unemployment Rate (%)



Inflation Rate (%)



Current Account Deficit / GDP (%)





Turkey's Risks

- Savings remains small, foreign borrowing grows;
- Current Account Crisis;
- Energy dependence worsens – crisis;
- Frictions with Iraq worsen;
- US/Israel war with Iran;
- Islamicization gets out of hand; military asserts itself.....



5-year Turkey Forecast

(barring risks)

Real GDP growth	2.2%	→	5.0%
Unemployment	9.2%	→	6.3%
Inflation (CPI)	8.9%	→	4.4%
Fiscal balance	-2.0%	→	-2.2%
Trade balance	-\$65 bn	→	-\$110 bn
Current account	-\$48 bn	→	-\$91bn
Exchange rate	1.8 TL/\$	→	
FX reserves	\$73 bn	→	\$115 bn



AFRICA RECOVERY

	<u>1995 GDP(bil\$)</u>	<u>GDP Growth 90-95</u>	<u>GDP Growth 2010</u>
Kenya	9.1	1.4	5.0
Tanzania	3.6	3.2	6.5
Congo	14.4	1.8	7.2
Zambia	4.0	-0.2	7.6
Zimbabwe	6.5	1.0	9.0
Malawi	1.5	0.7	6.6
Uganda	5.6	6.6	5.2
Angola	0.5	-4.5	1.6
Botswana	0.2	4.2	8.6
Mozambique	0.4	7.1	7.0
Namibia	0.4	3.8	4.4
South Africa	136.0	0.6	2.8
Lesotho	1.0	7.5	2.4





GEAR – GROWTH, EQUALITY, AND REDISTRIBUTION

- Fiscal policy (deficit reduction)
- Monetary policy (constant real exchange rate)
- Privatization – now stopped
- Two-pronged industrial policy
- Lower tariffs - WTO
- Two-tier wage policy - failed
- Now Black Empowerment

ASGISA – ACCELERATED AND SHARED GROWTH INITIATIVE FOR SOUTH AFRICA

- AIDS
- Broad Based Black Economic Empowerment (2003)
- Mugabe (Zimbabwe)

New Growth Path

- Spending on infrastructure, education, green energy, tourism



SOUTH AFRICAN SOCIAL ISSUES

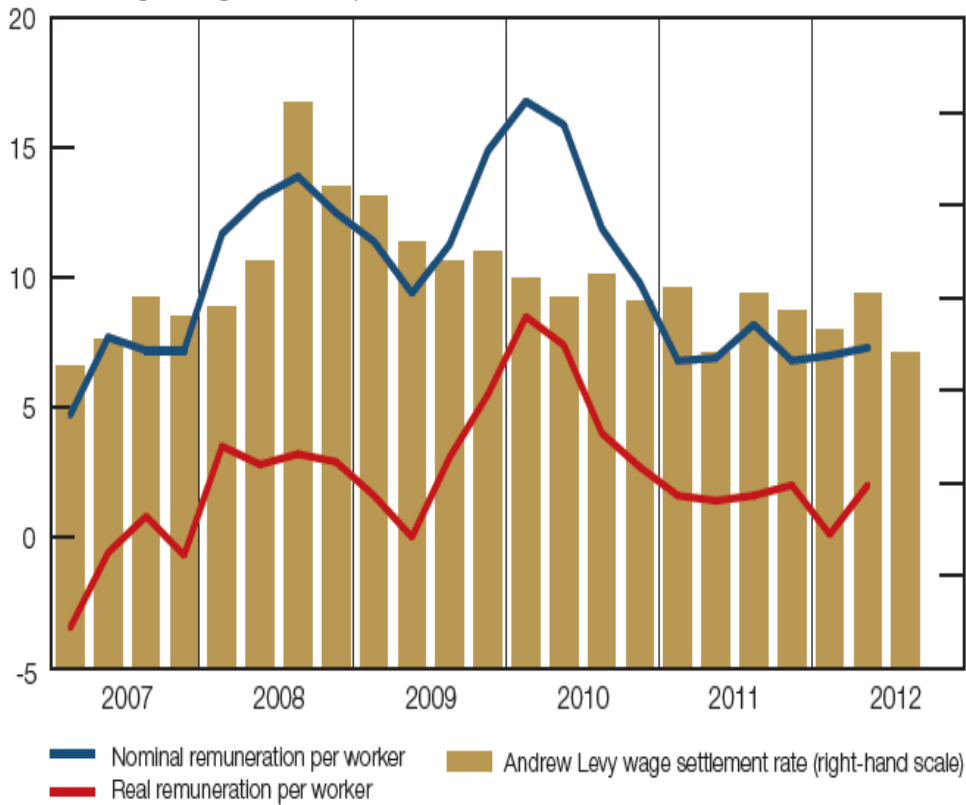
- Unemployment: 25%
- Infrastructure: electricity, plumbing, telephone, housing;
- Education: 32% illiterate
- Crime: 26,000 homicides; 1 felony/21 people
- HIV+: 19-20% of adult population



Remuneration per worker and wage settlement rates

Percentage change over four quarters

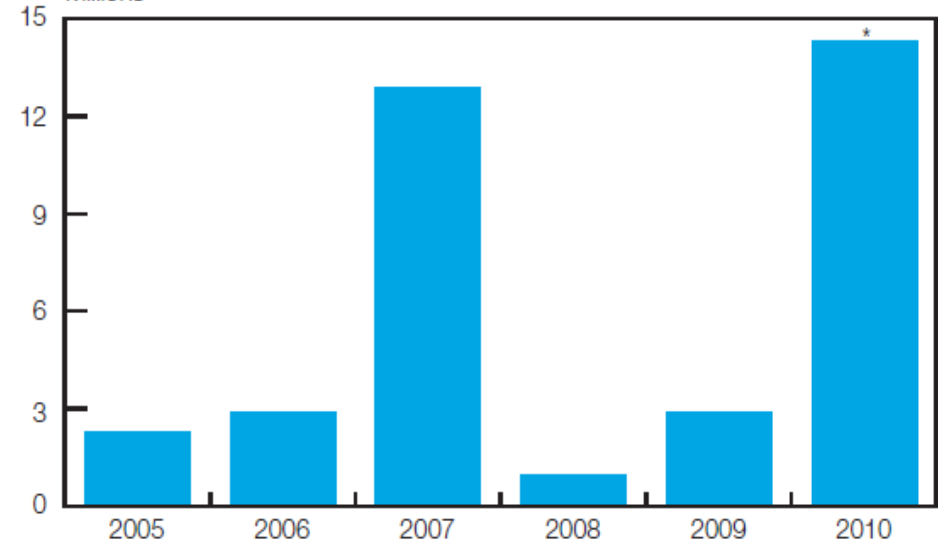
Per cent



Sources: Statistics South Africa and Andrew Levy Employment Publications

Working days lost due to strike action

Millions



* First nine months of 2010

Source: Andrew Levy Employment Publications

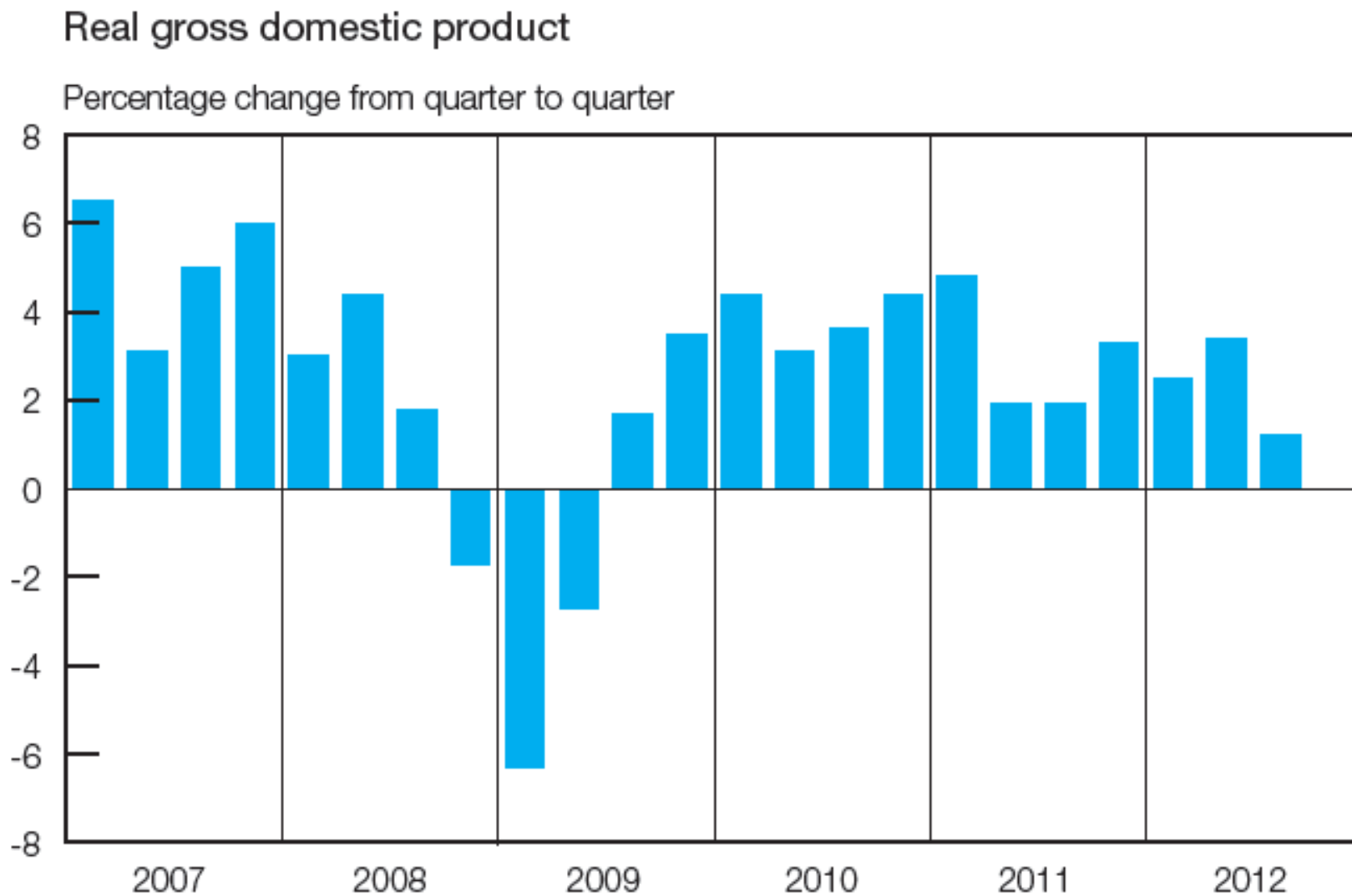
Labour productivity and unit labour cost in the formal non-agricultural sector

Percentage change over four quarters



Sources: Statistics South Africa and South African Reserve Bank calculations

SOUTH AFRICA

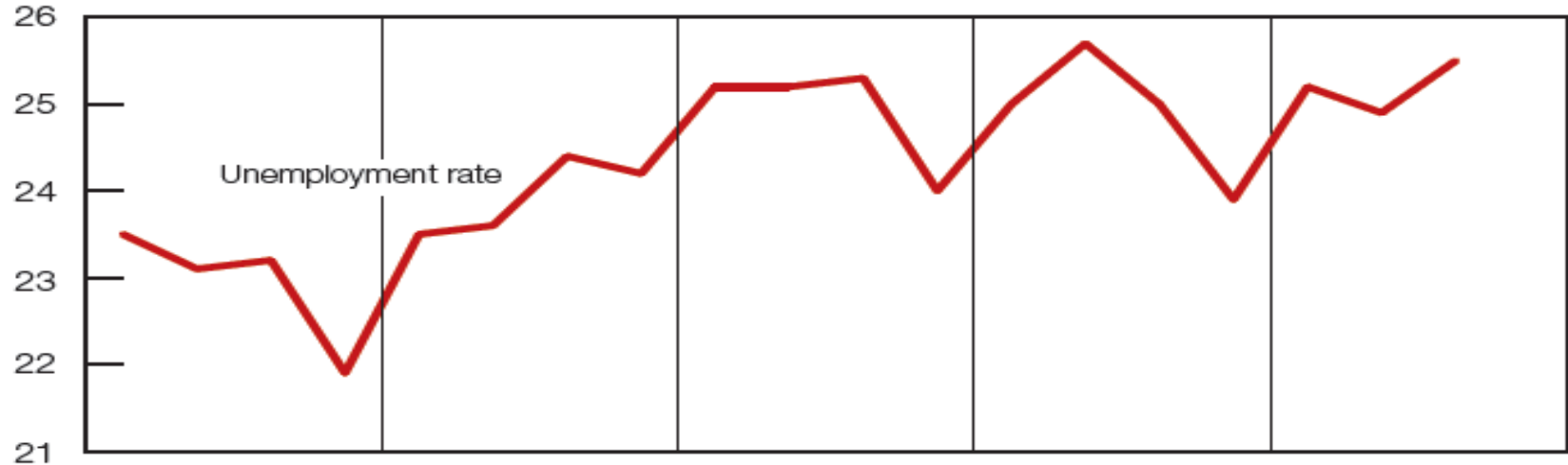


Seasonally adjusted annualised rates

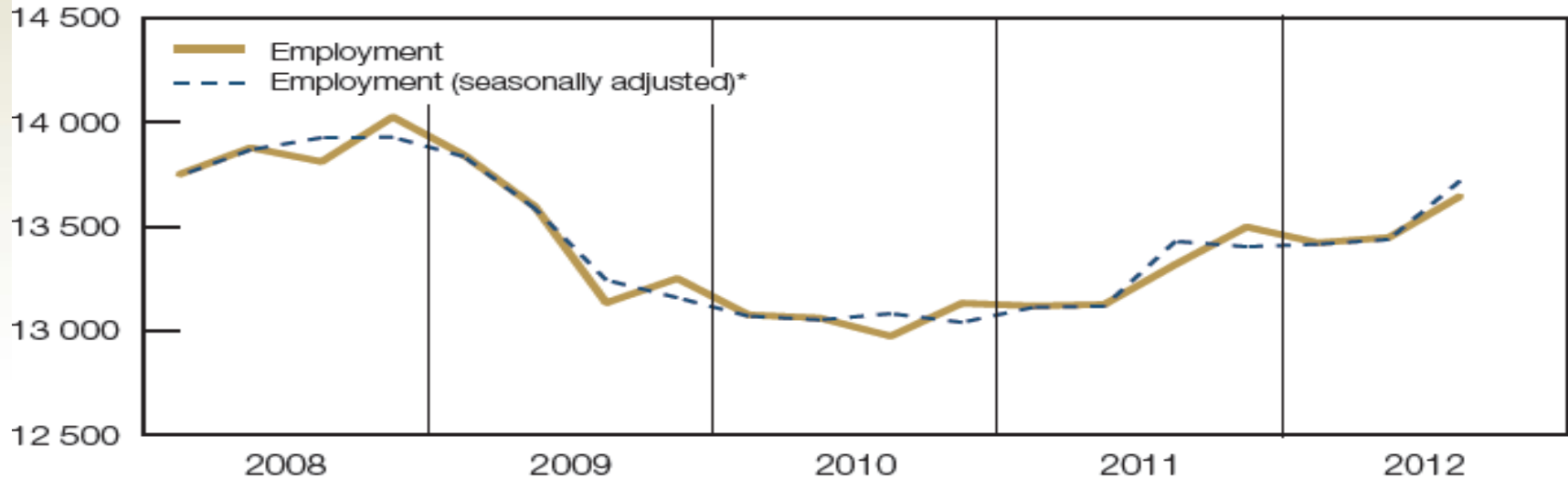
SOUTH AFRICAN UNEMPLOYMENT

Official unemployment rate and total employment

Per cent

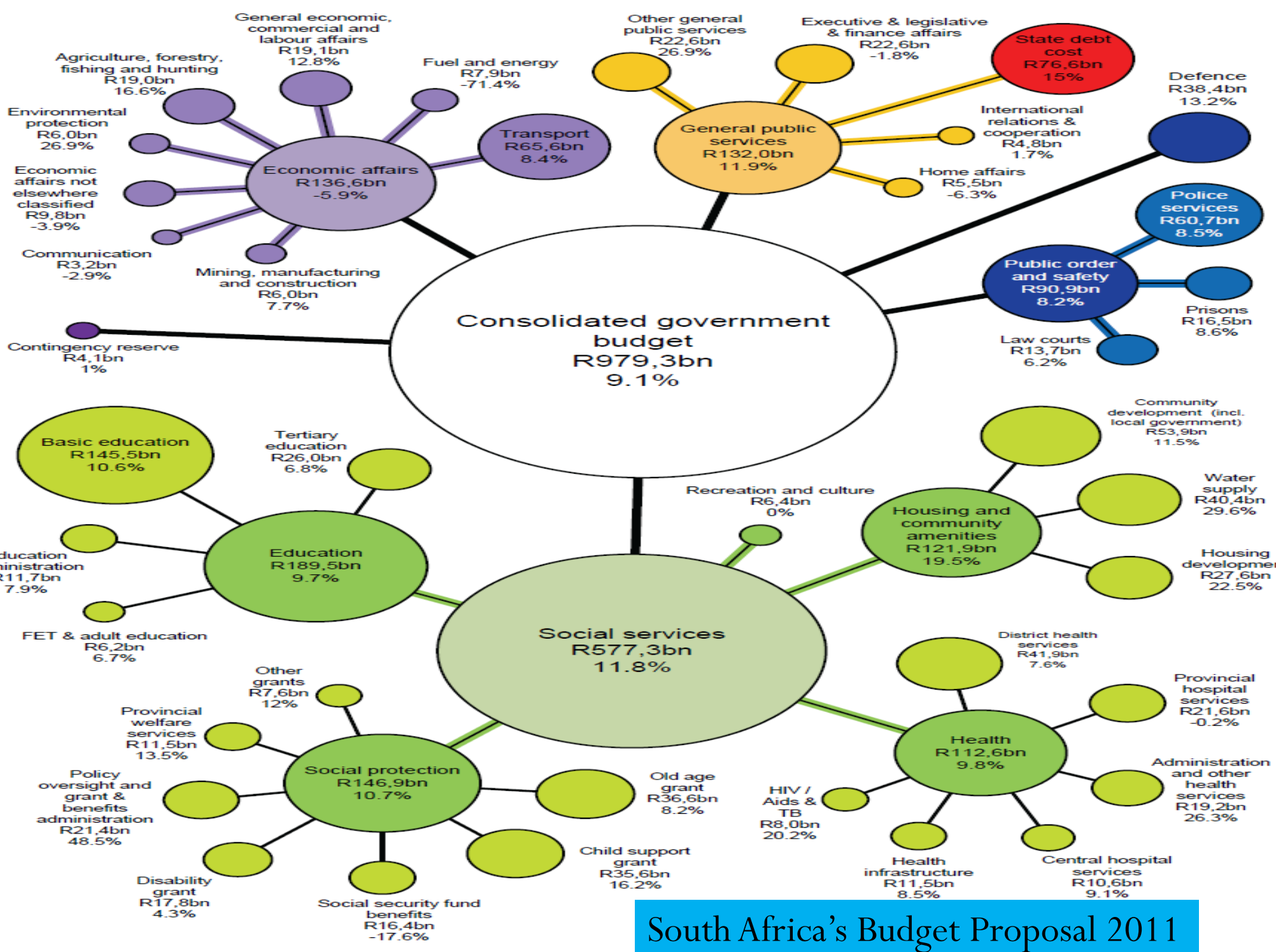


Thousands



* Seasonally adjusted by the South African Reserve Bank

Source: Statistics South Africa, *Quarterly Labour Force Survey*



South Africa's Budget Proposal 2011

Note: Consolidated government expenditure in R billion, percentages reflect growth relative to 2010/11 estimated outcome.



South African Risks

- Unemployment leads to more crime/violence
- Strikes undermine competitiveness
- Minerals prices collapse
- AIDS problem deepens
- Rand appreciates leaving SA uncompetitive
- Stuck-in-the-Middle



5-year Forecast for South Africa

(barring risks)

GDP growth	2.6%	→	5.1%
Unemployment	25%	→	21%
Inflation	5.1%	→	
Fiscal balance	-4.8%	→	-2.7%
Trade balance	-\$5 bn	→	-\$4 bn
Current account	-\$22 bn	→	-\$21 bn
Exchange rate	8.2 R/\$	→	9.4 R/\$
FX reserves	\$53 bn	→	\$54 bn



BRAZIL, ARGENTINA, CHILE, MEXICO, SOUTH AFRICA, MALAYSIA, AND TURKEY

- IF NOT...

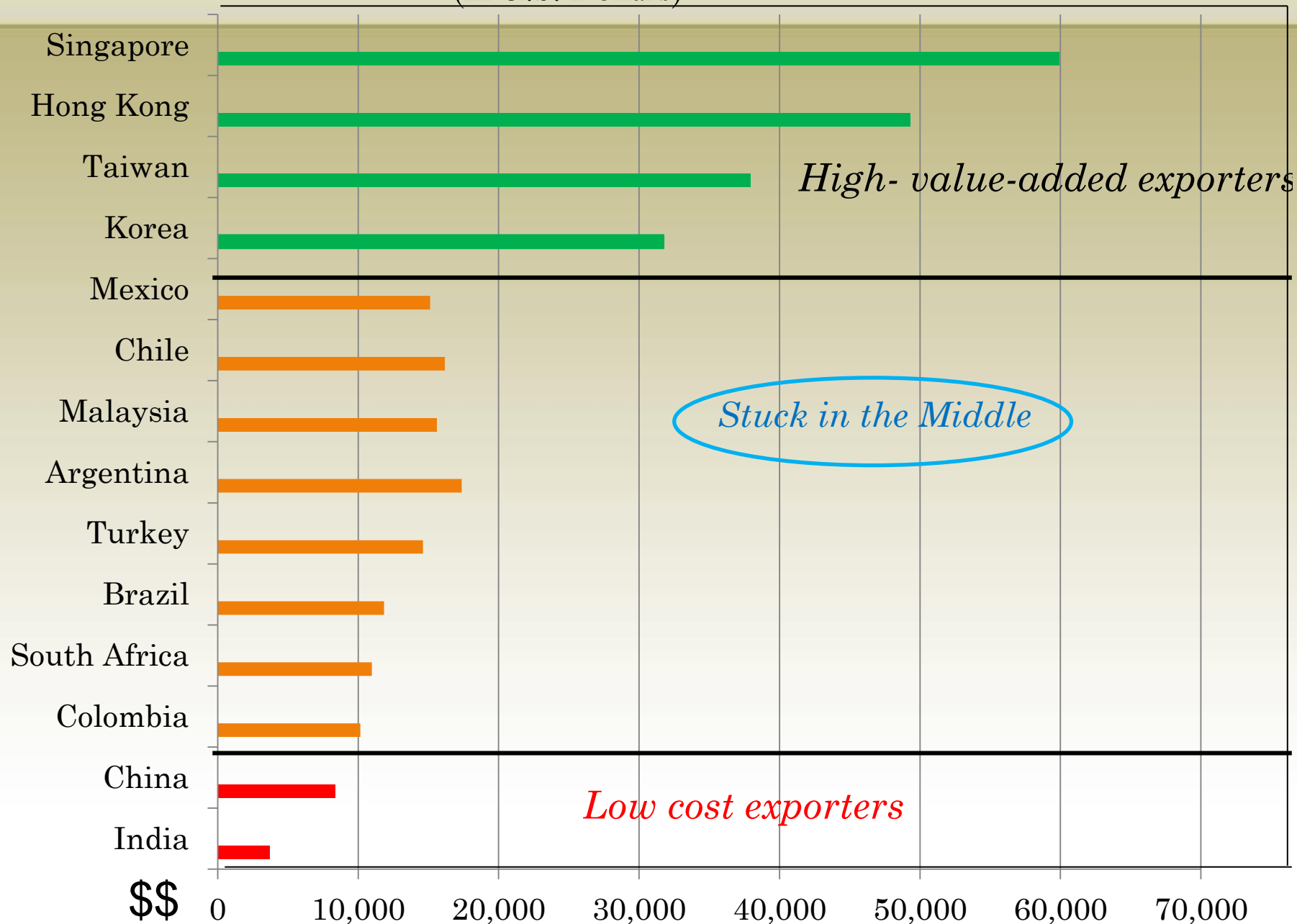
- low cost**
- differentiation**
- focus**

“STUCK IN THE MIDDLE”?

GROSS DOMESTIC PRODUCT PER CAPITA (PPP)

FOR EXPORTING COUNTRIES

(in U.S. Dollars)

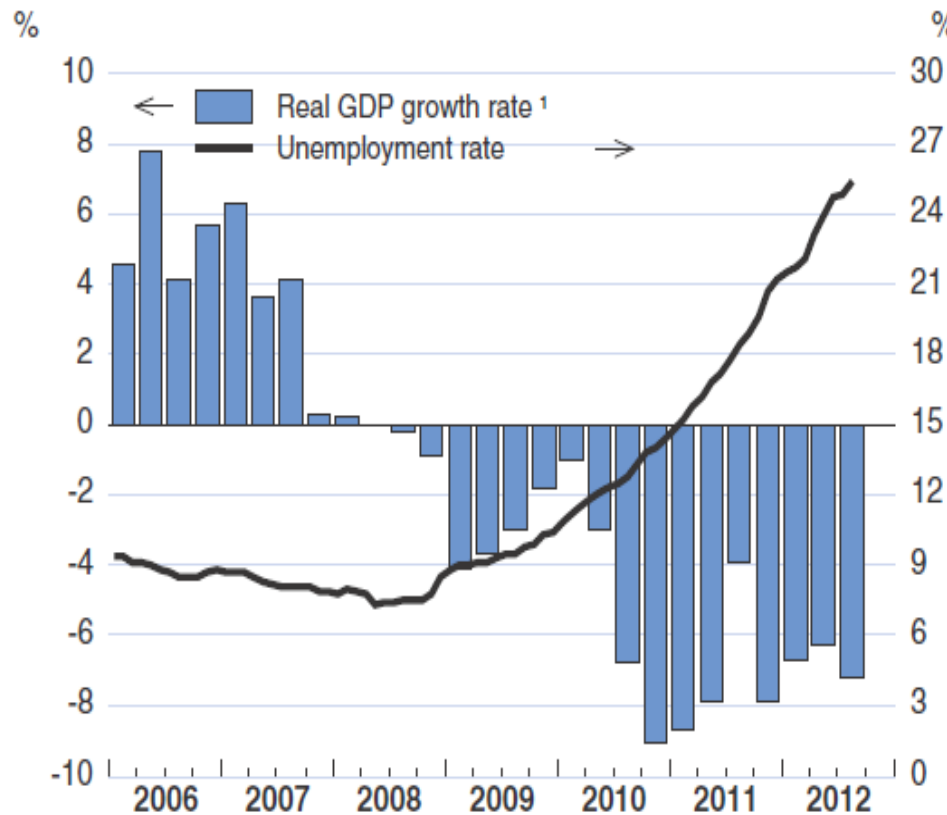


Source: IMF Database, 2011

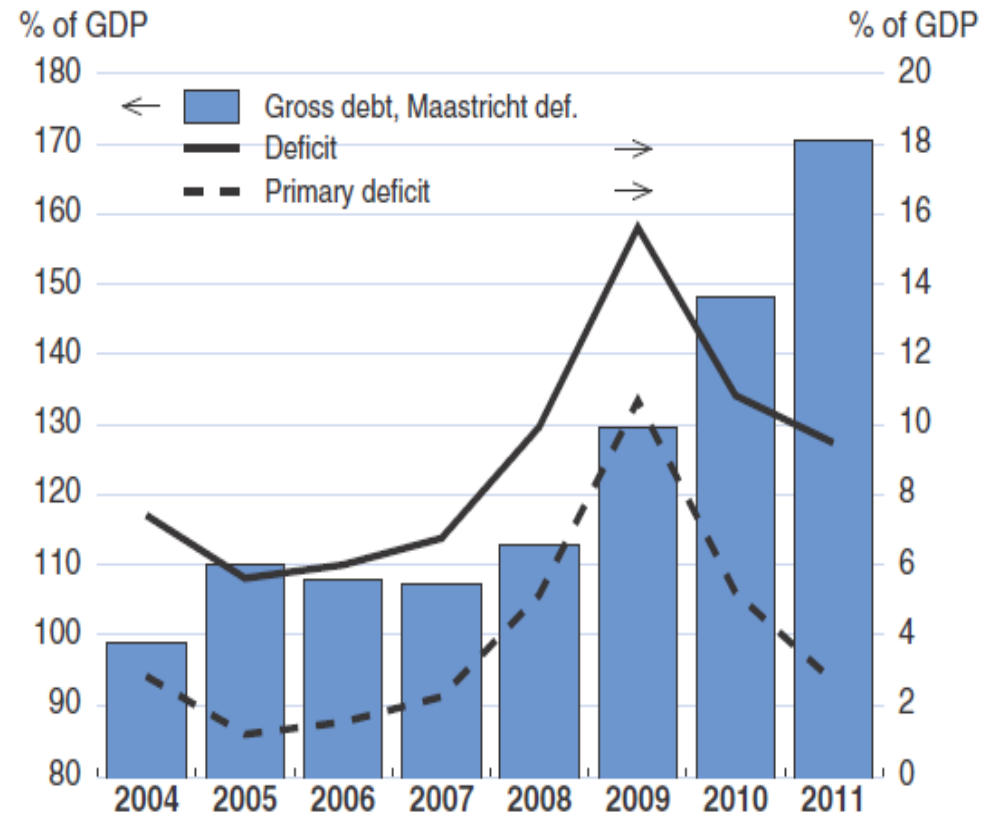
Europe in Crisis

Greece

The economy continues to contract



Fiscal imbalances are still large

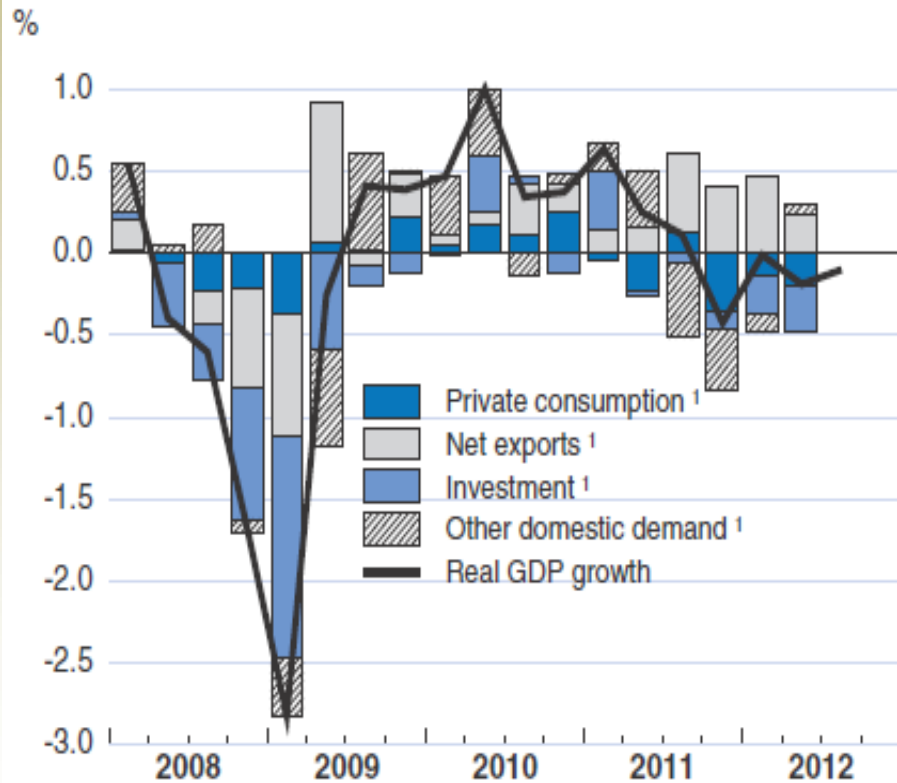


1. Year-on-year percentage change growth rate.

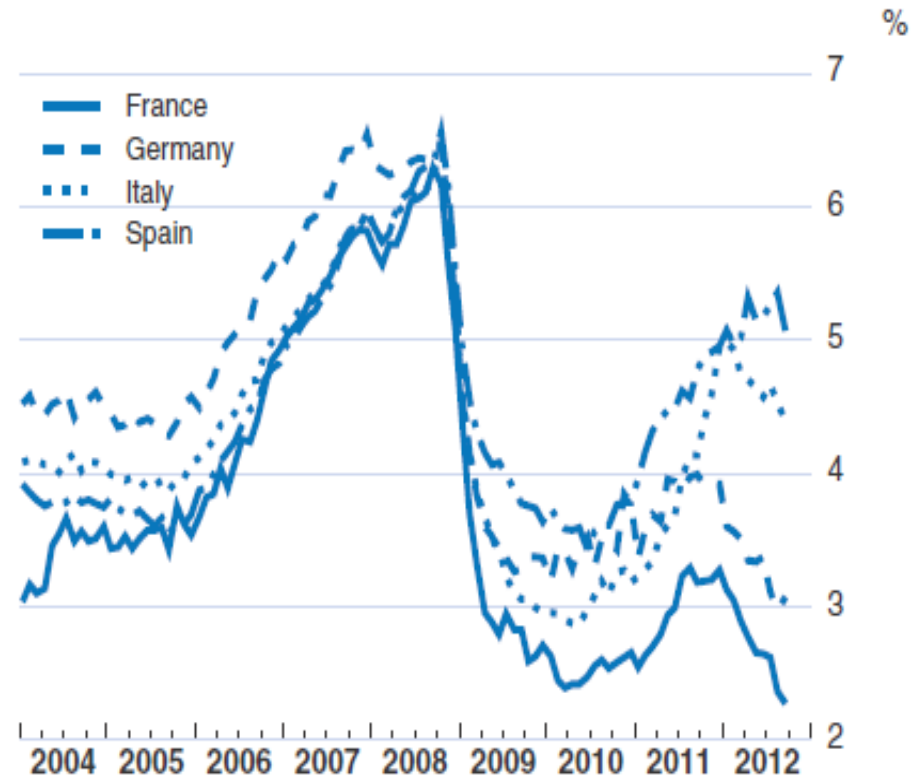
Source: Hellenic Statistical Authority and OECD Economic Outlook 92 database.

Euro area

The euro area is in recession
Quarter-on-quarter percentage change



Interest rate spreads are still wide
Loan interest rates²



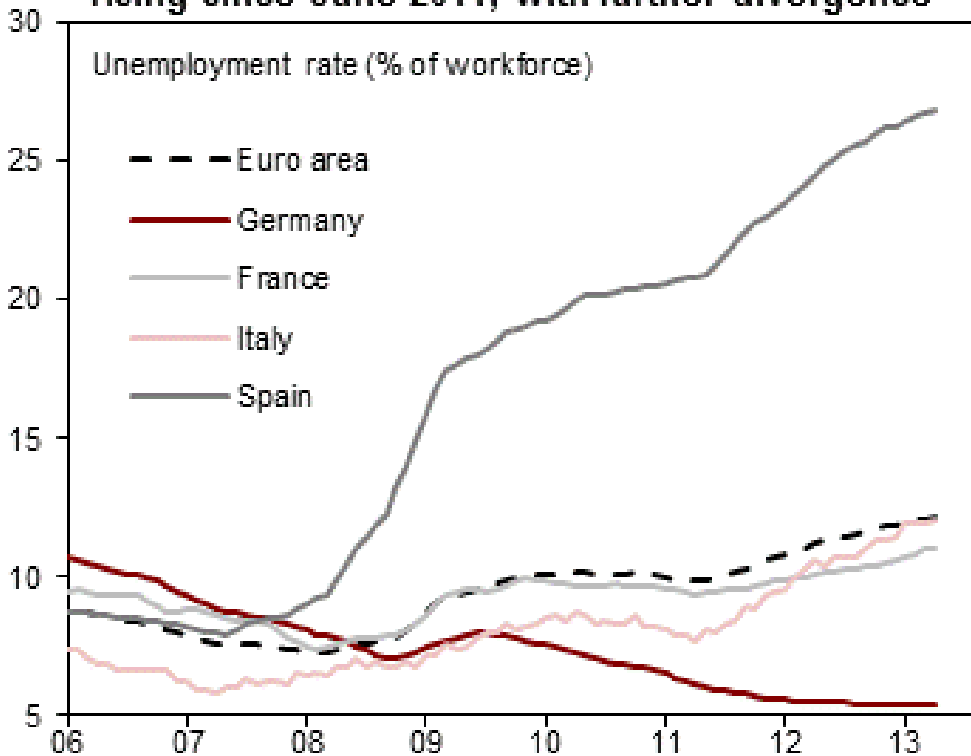
1. Contribution to the quarterly percentage change of the euro area GDP.

2. Interest rates on new loans up to EUR 1 million and for one year.

Source: Datastream and OECD Economic Outlook 92 database.

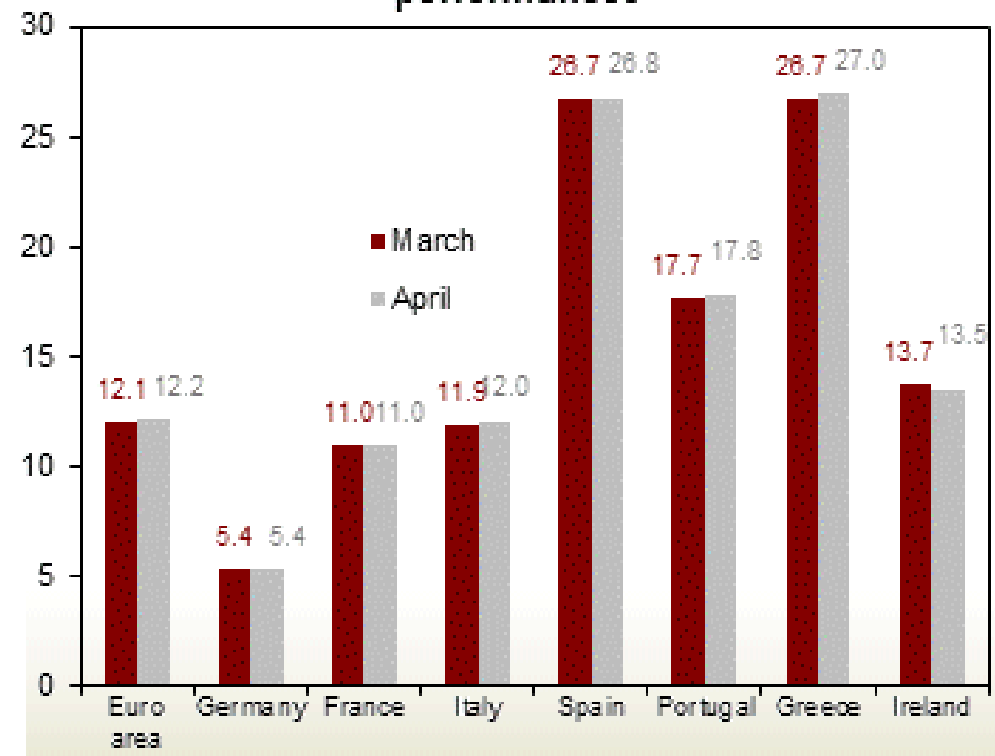
Unemployment in Europe – March 2013

Chart 1: The Euro area unemployment rate has been rising since June 2011, with further divergence



Source: Eurostat

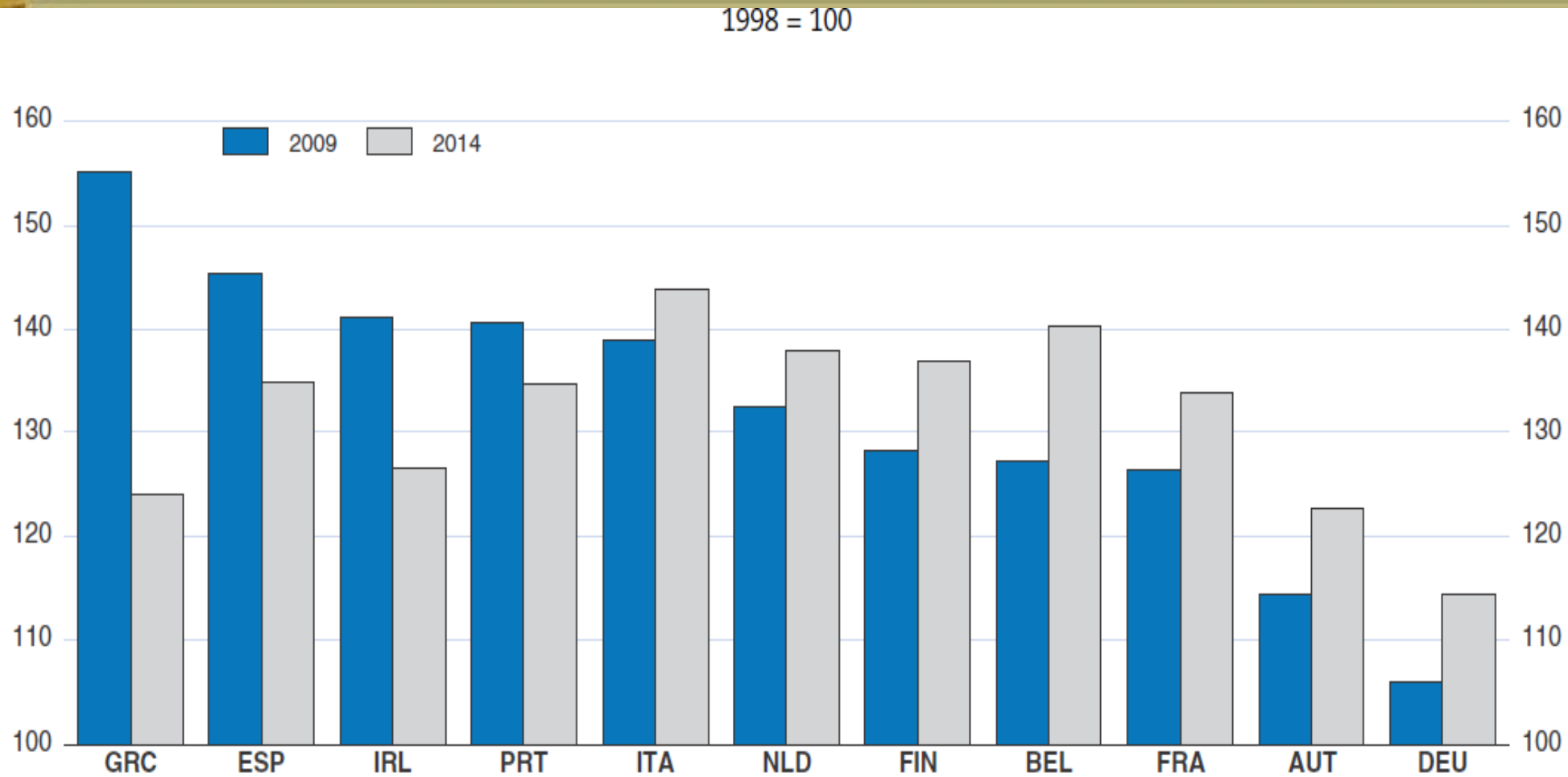
Chart 2: Large divergence in labor market performances



* Latest data available for Greece, January and February

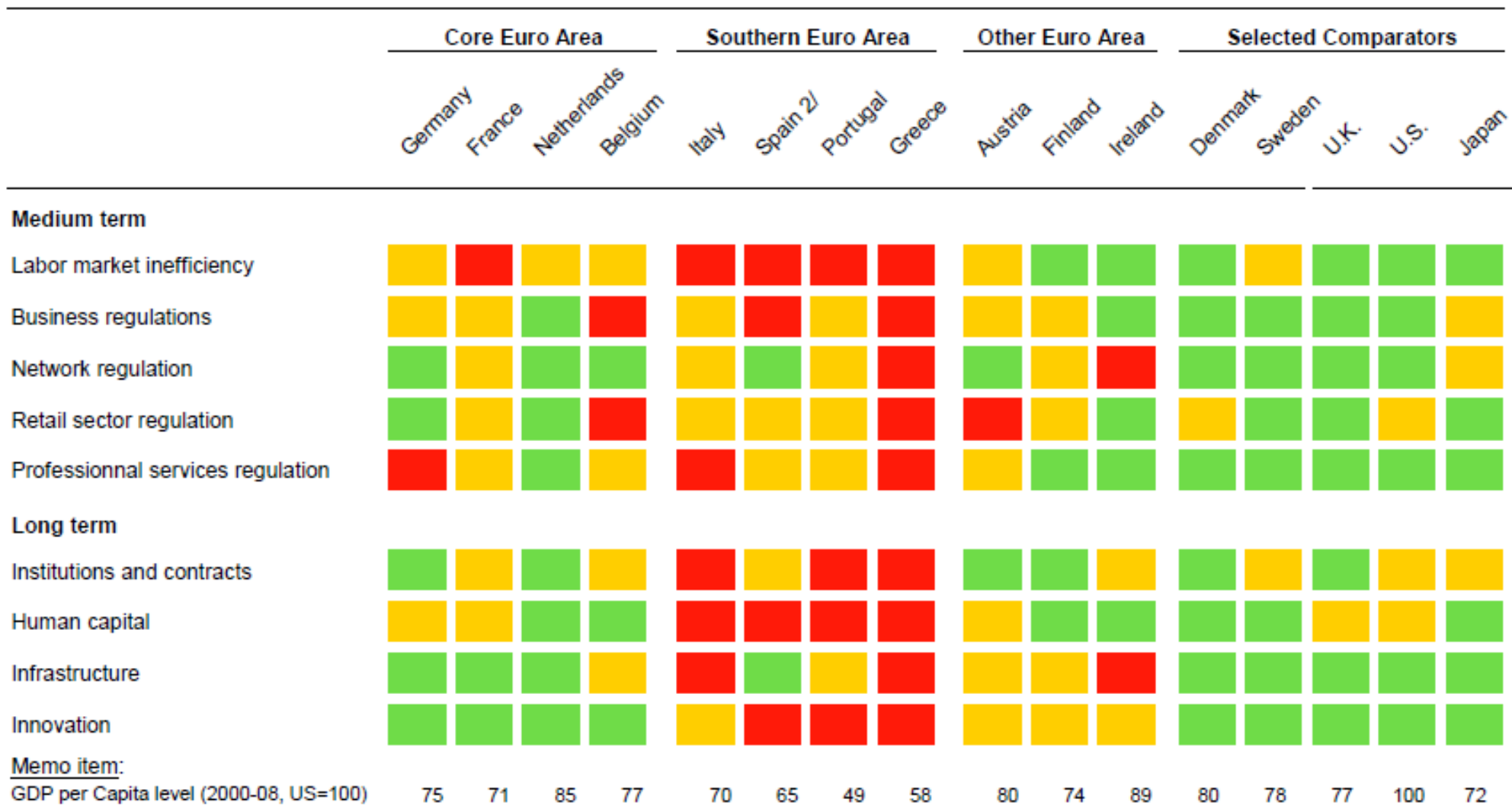
Source: Eurostat

Euro Area Unit Labor Costs and Projected Adjustments



Source: OECD *Economic Outlook*, November 2012. <http://dx.doi.org/10.1787/888932743007>

Structural Reforms Gaps in European Economies: A Heatmap 1/

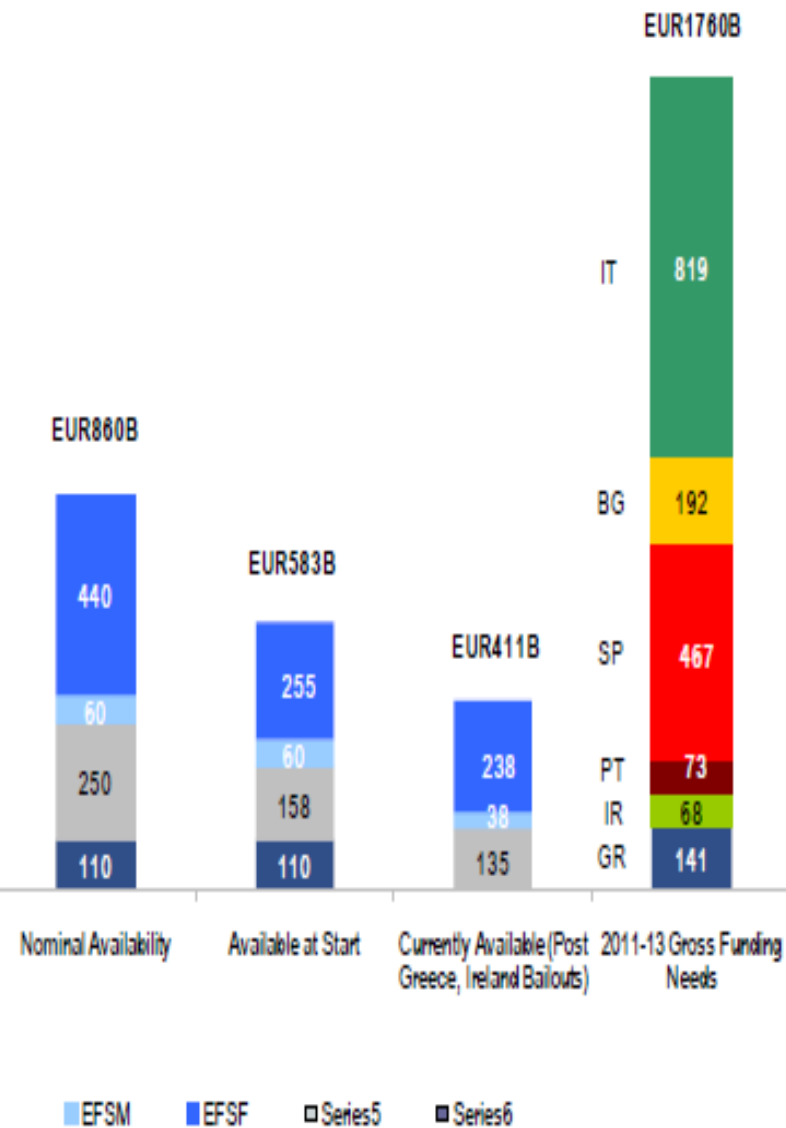


Sources: OECD; World Economic Forum; Fraser Institute; and IMF staff calculations.

1/ See IMF, 2010d for a description of the methodology, and of the detailed components of the labor market heatmap.

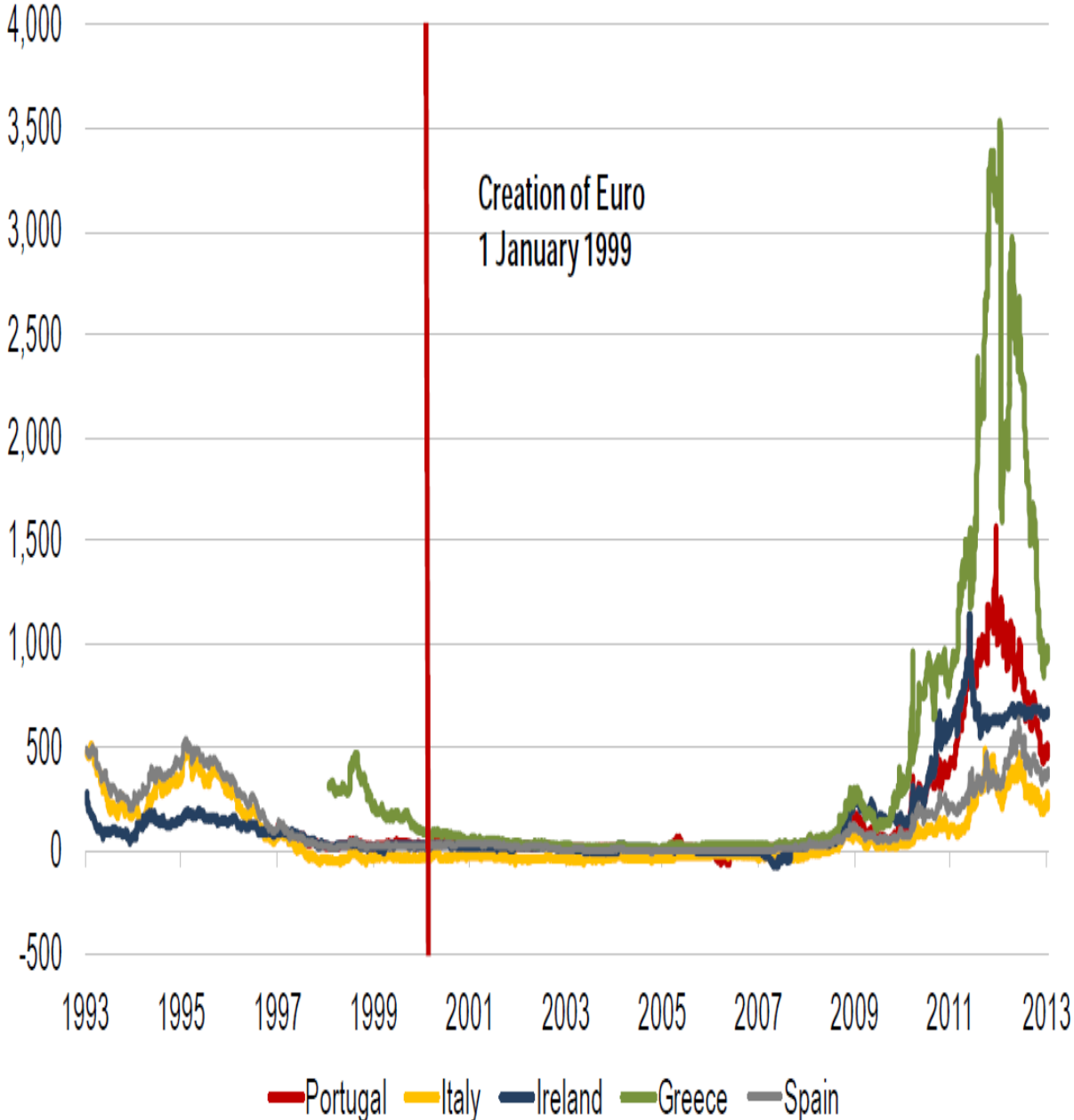
2/ The indicators do not incorporate the labor market reform implemented in Spain in 2010.

European Bailout Fund versus Funding Needs



Source: CIRA January 2011. Note: Ireland has received EUR63B
 EFSM=European Financial Stabilisation Mechanism; EFSF=European Financial Stability Facility

European 10-Year Bond Spreads to Bunds



Source: Bloomberg



GERMAN FINANCE MINISTER WOLFGANG SCHAUBLE:

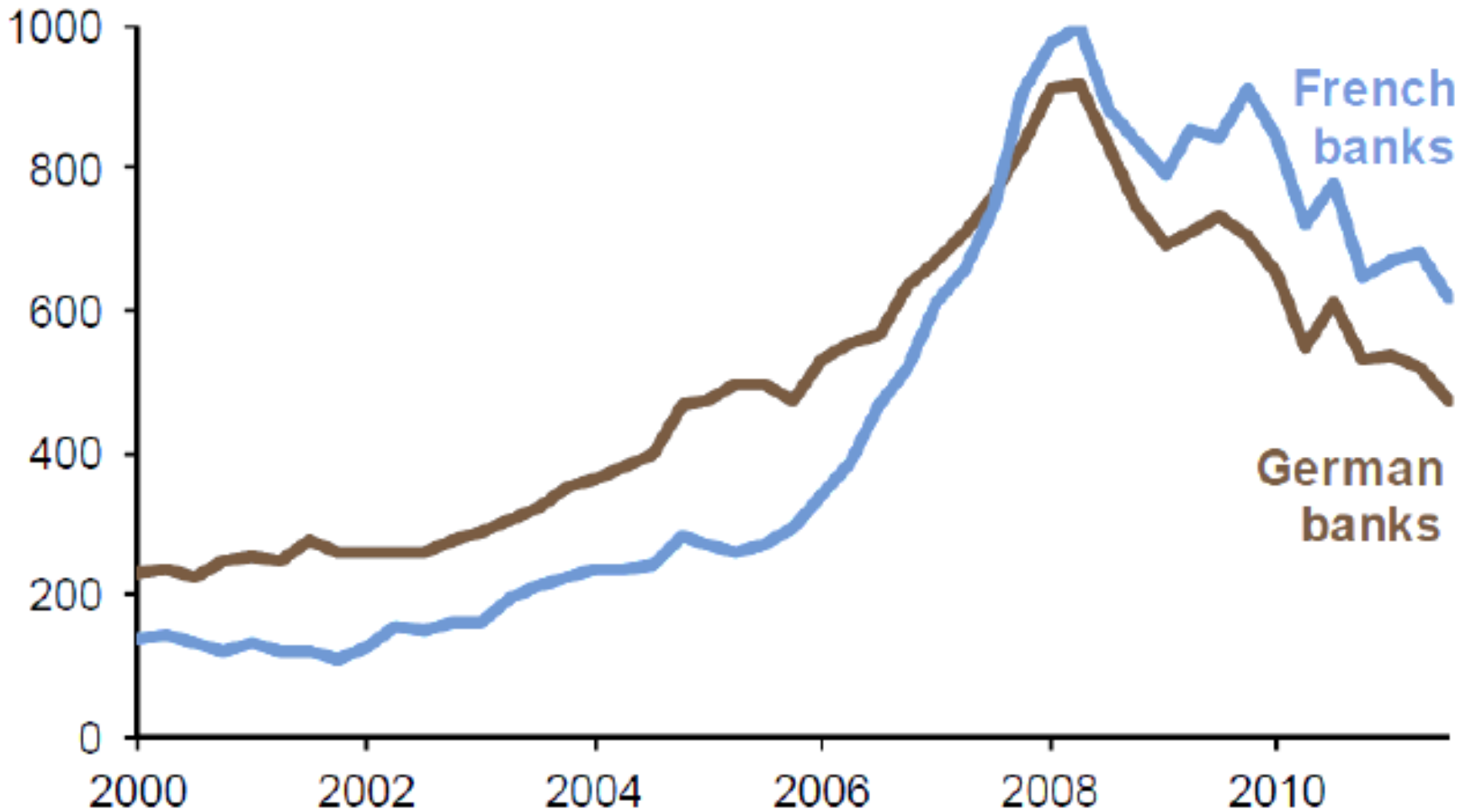
Perhaps we and our partners must look into ways to assist Greece...in an even closer manner....

Greece – 5th Plan, 2nd bailout... February 2012

- 53% Haircut for holders of Greek Debt
- Exchange bonds for new ones – 30 year, average interest rate lowered from 4.8-3.65%
- Debt written off \$142 billion – 74% net present value loss
- Greece refinance public sector - for \$172 billion
- New reforms, better enforcement

EUROPEAN BANKS OWN A LOT OF DEBT

Core bank claims on Portugal, Greece, Ireland, Spain, Italy
Billions, USD

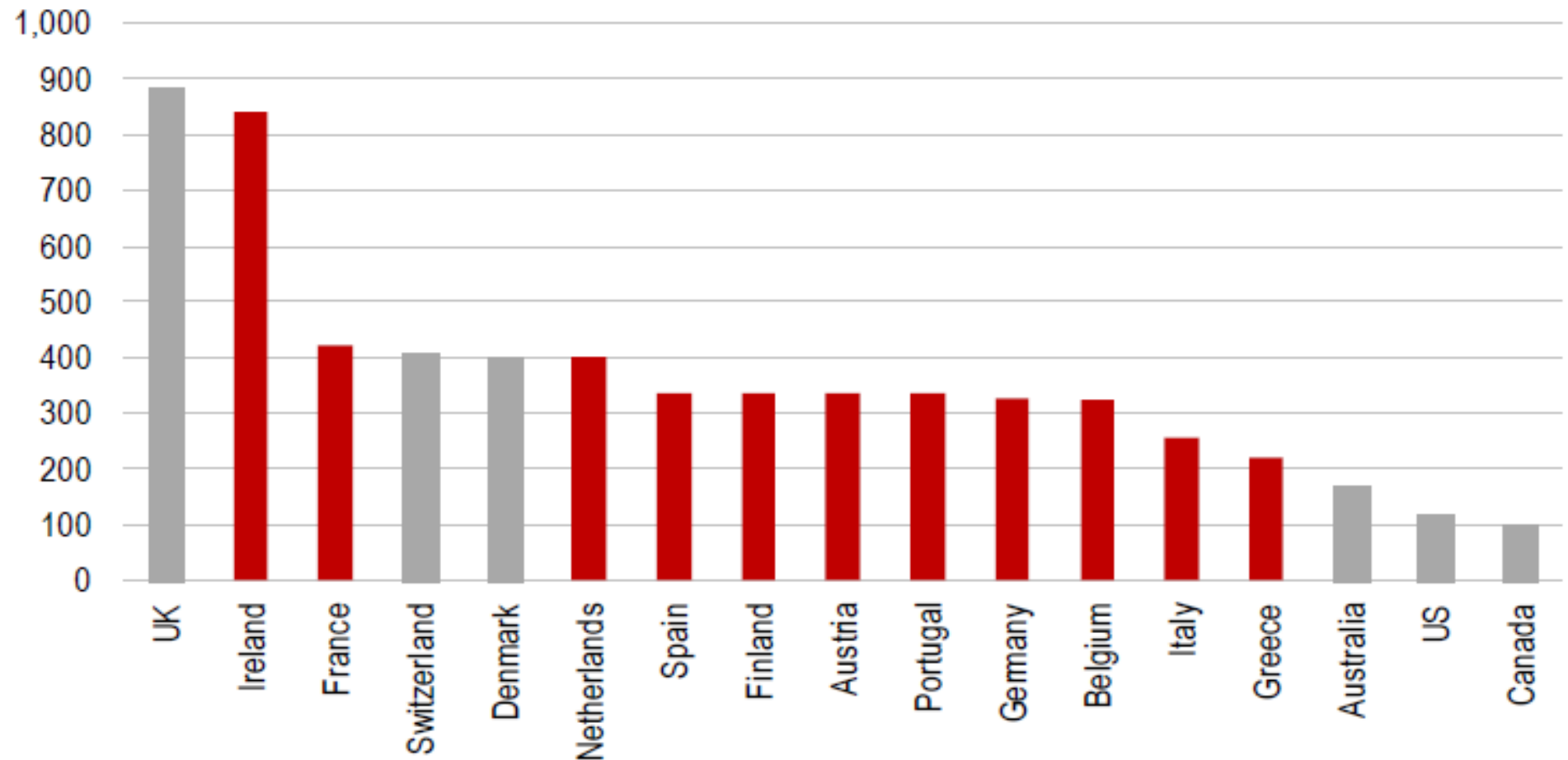


Source: Bank for International Settlements.

EU Crisis and Banking Riskiness

Little room for asset quality deterioration

Financial Institutions' Assets / GDP (% , 2011)



Source: Eurostat, 15 May 2012

Euro Nations Debt Level

(in millions of euros)

Maastricht (European Union) Treaty Details

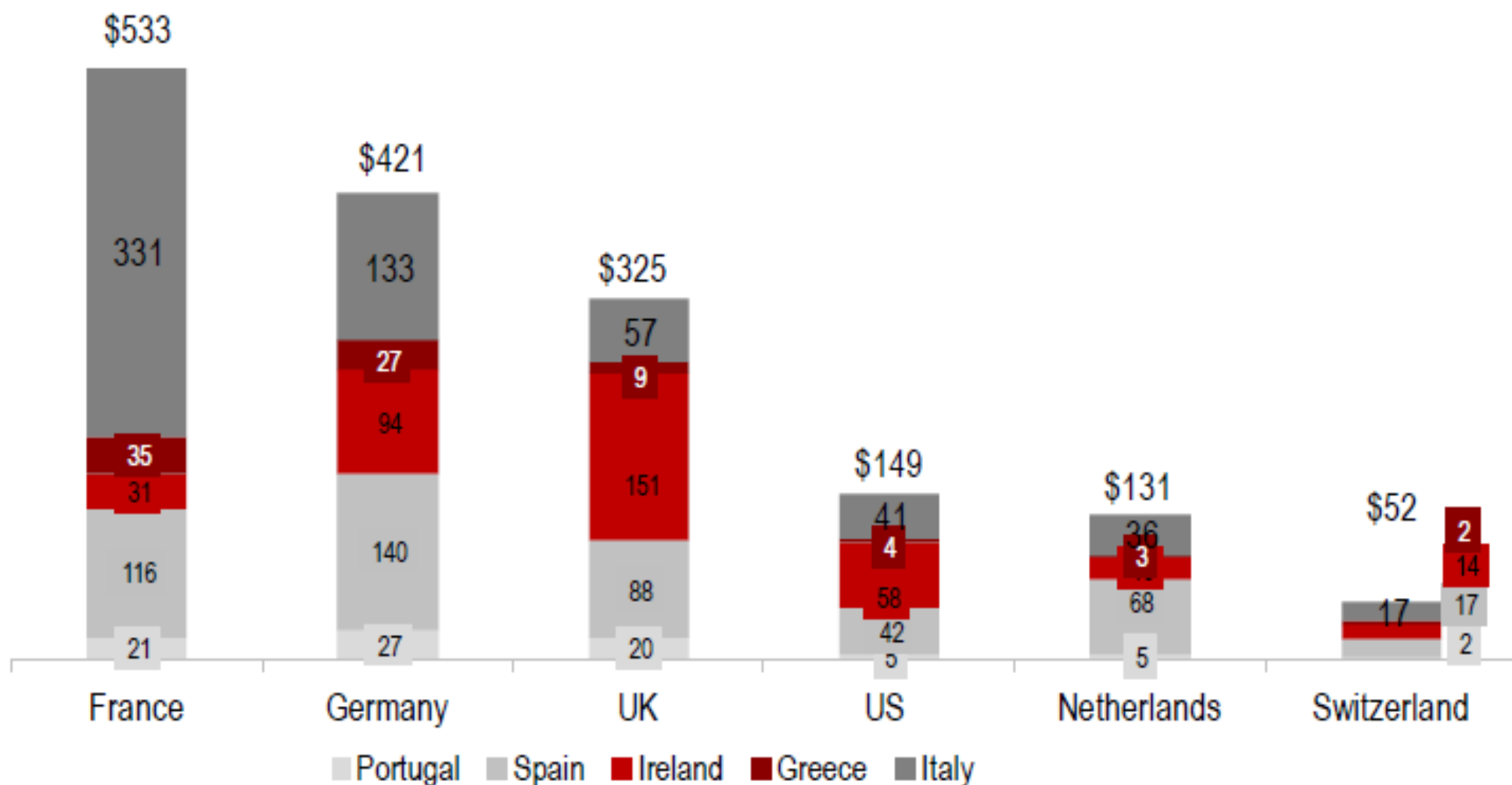
	GDP (EUR Millions)	Debt Outstanding as of 27 Feb '13 (EUR Millions)	Debt & Obligations as of 31 Dec '11 (EUR Millions)	Debt to GDP (in %)	Debt/GDP > 60% (EUR Millions)	10-Year Bond Yield (in %)
Estonia	15,951	171	975	6.1%	-	NA
Luxembourg	42,625	5,840	7,804	18.3%	-	NA
Slovakia	69,109	44,714	29,911	43.3%	-	2.26
Slovenia	36,173	22,253	16,954	46.9%	-	NA
Finland	189,368	100,770	92,849	49.0%	-	1.67
Netherlands	601,973	411,866	394,197	65.5%	33,013	1.73
Spain	1,063,355	949,645	736,468	69.3%	98,455	5.23
Cyprus	17,980	10,709	12,777	71.1%	1,989	NA
Malta	6,545	5,761	4,607	70.4%	680	NA
Austria	300,712	270,448	217,782	72.4%	37,354	1.82
Germany	2,592,600	1,364,862	2,087,998	80.5%	532,438	1.45
France	1,996,583	1,743,737	1,716,966	86.0%	519,016	2.17
Belgium	369,838	448,081	361,625	97.8%	139,723	2.36
Ireland	158,993	174,719	169,232	106.4%	73,836	NA
Portugal	171,040	208,252	184,699	108.0%	82,075	6.49
Italy	1,579,659	2,142,792	1,906,738	120.7%	958,943	4.81
Greece	208,531	286,613	355,658	170.6%	230,539	11.31
Eurozone Total	9,421,035	8,191,235	8,297,241	88.1%	2,708,062	

Source: Bloomberg (current data), EuroStat (yearend 2011 data). Note: Debt Outstanding (from Bloomberg) is debt instruments sold on public markets, loans made to governments and includes interest. Debt & Obligations (from Eurostat) is debt Outstanding plus other Maastricht Treaty liabilities.

Sovereign Credit Quality Deterioration

A Problem of Europe... and of the European Banking System

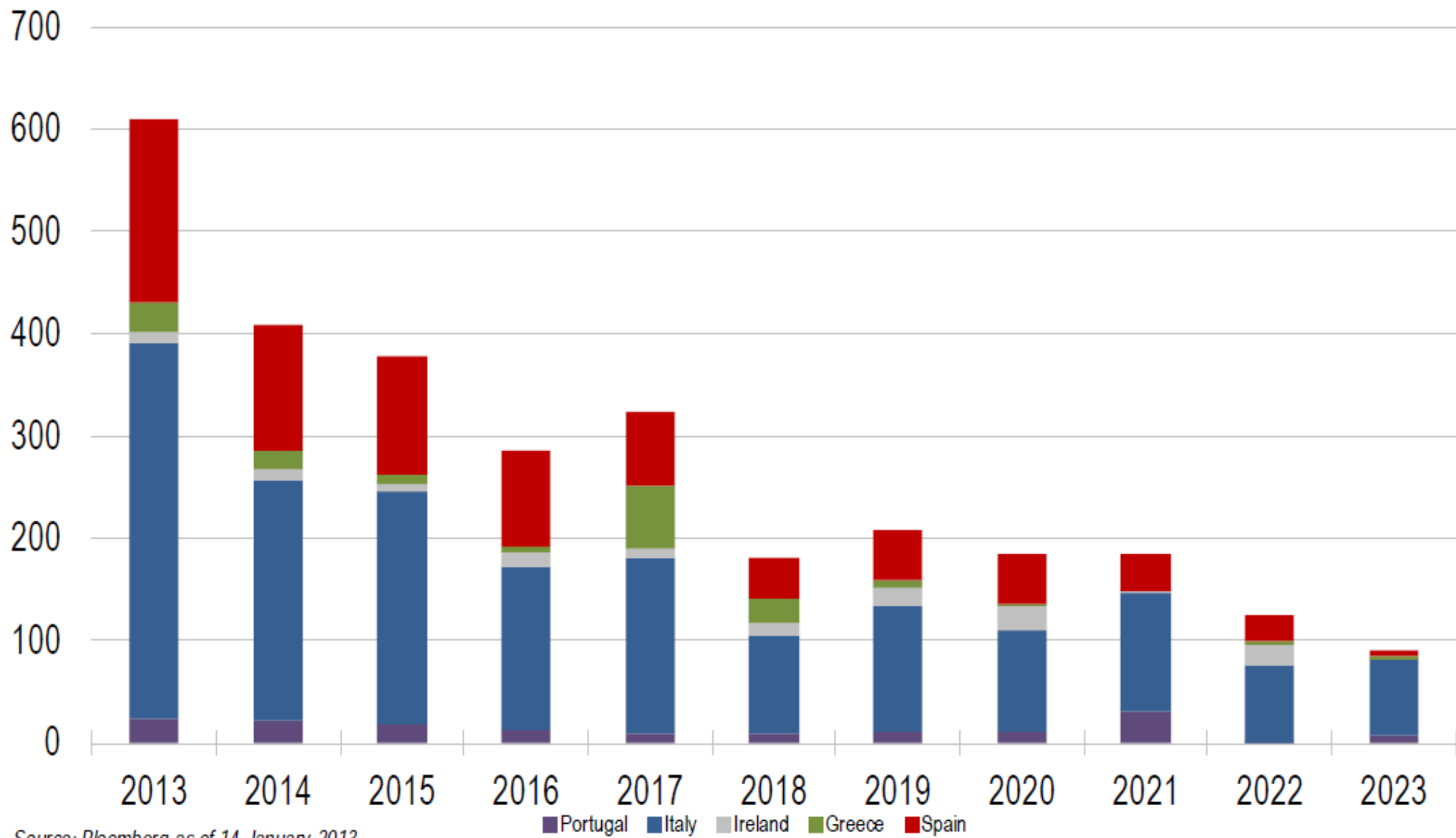
Sovereign Debt Position in Foreign Banks



Source: BIS Quarterly Review. The International Banking Market, September 2012.

Periphery Countries: Debt Maturities

(principal and interest, in EUR Bn)



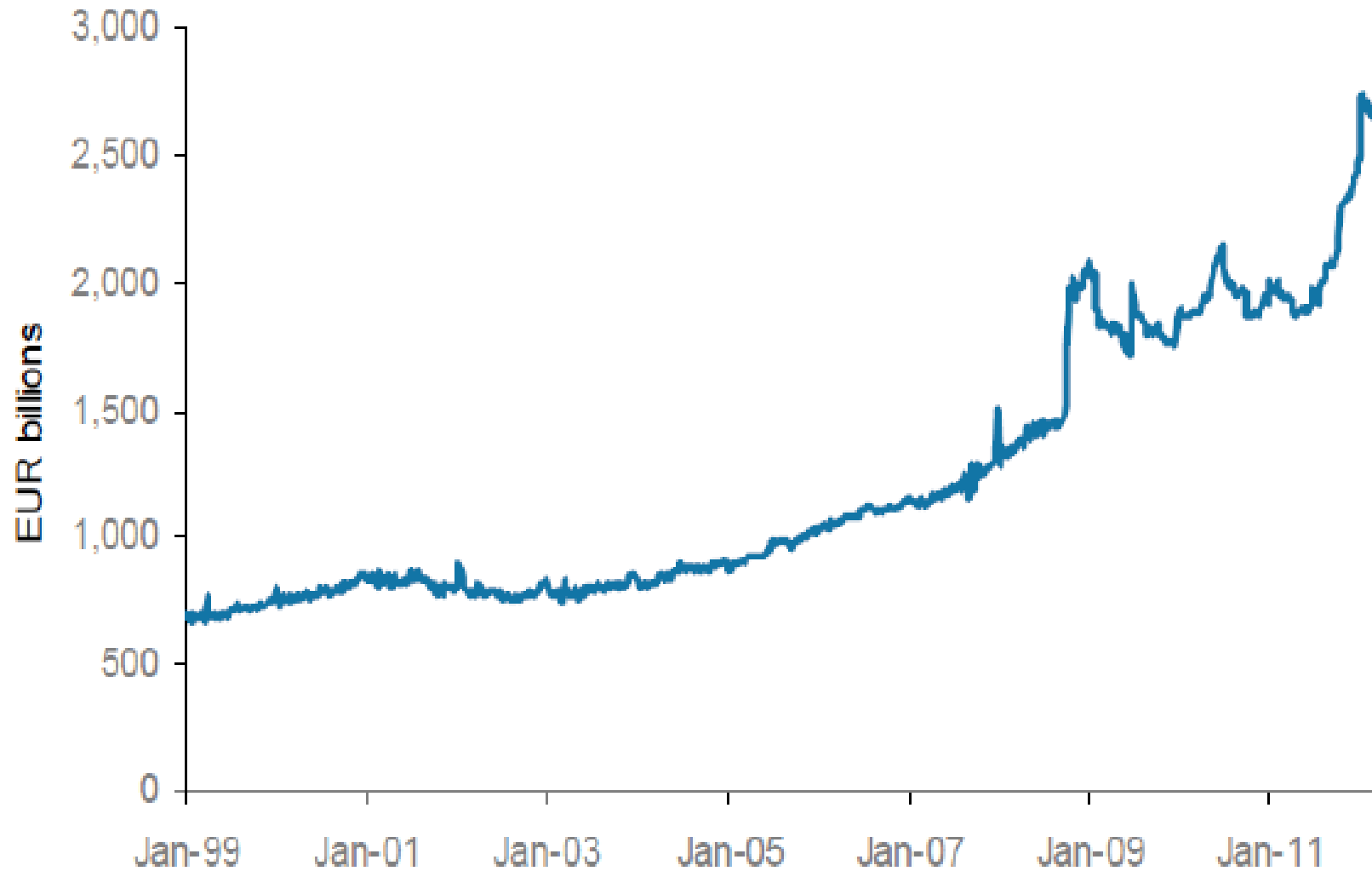
Source: Bloomberg as of 14 January 2013

ANYONE SEE A SOLUTION?



SO THE ECB BOUGHT DEBT...

Size of ECB Balance Sheet, bn Euro

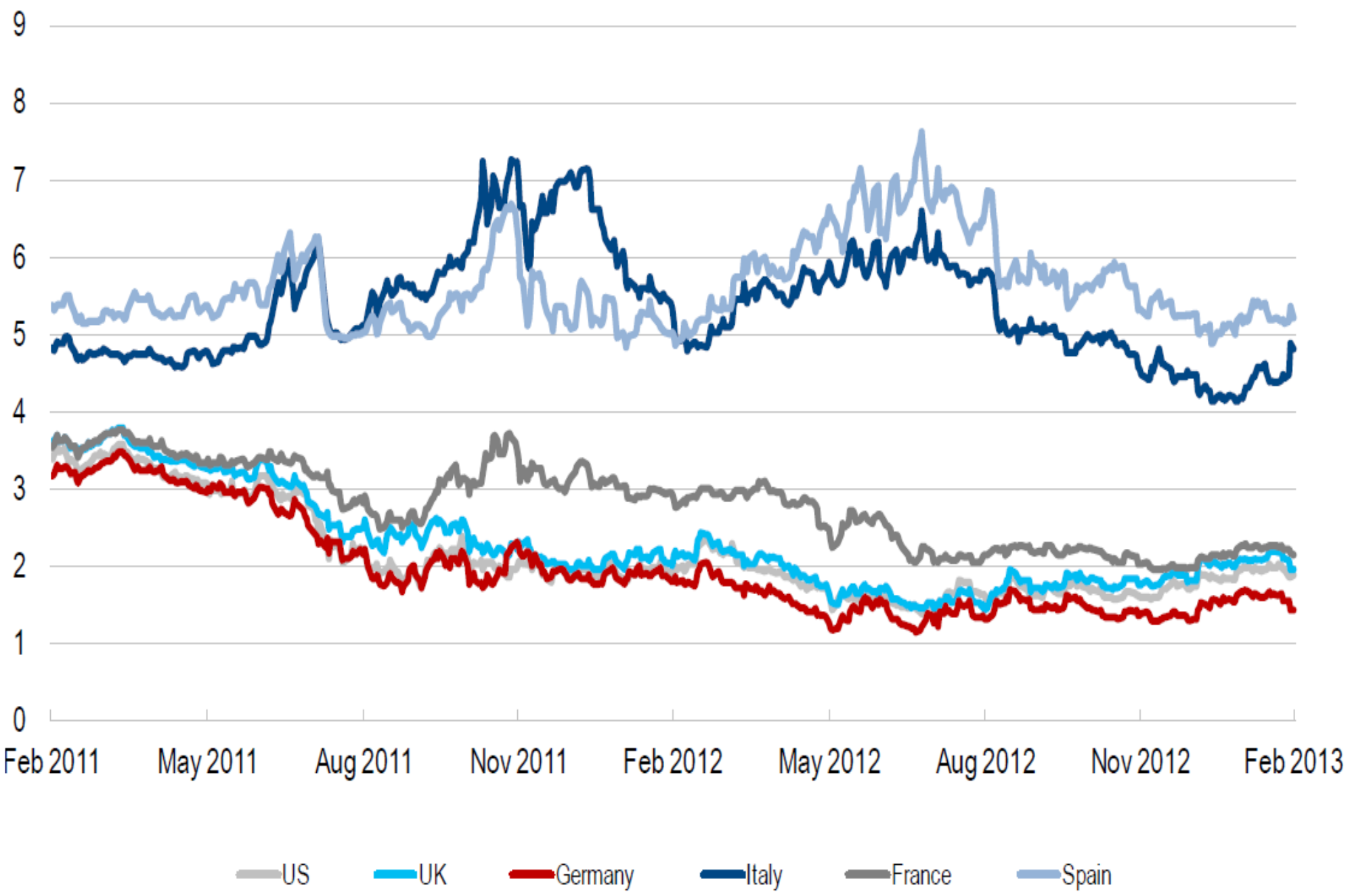


SO ENTER “MAY THE FORCE BE WITH YOU”

“Outright Monetary Transactions” (OMTs)

1. Purchasing sovereign bonds on the secondary market...
2. 1-3 year maturations
3. “Will sterilize” money created
4. For countries needing financial help *and* operating under “conditionality...”

Ten-Year Yields (in percent)



Source: Bloomberg.



European Risks

- Greece defaults/withdraws from Euro
- Portugal defaults/withdraws from Euro
- Fiscal restraint induces longer recession
- European banks too leveraged on government debt -> banking crisis
- Spain – social revolution
- Italy – social revolution
- Germany stops subsidizing....
- Euro collapses

Selected European Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change unless noted otherwise)

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2012	Projections		2012	Projections		2012	Projections		2012	Projections	
		2013	2014		2013	2014		2013	2014		2013	2014
Europe	0.0	0.3	1.5	2.9	2.2	2.0	1.4	1.5	1.4	...	...	...
Advanced Europe	-0.3	0.0	1.2	2.4	1.8	1.7	2.0	2.2	2.2	10.3	11.0	11.0
Euro Area ^{4,5}	-0.6	-0.3	1.1	2.5	1.7	1.5	1.2	2.3	2.3	11.4	12.3	12.3
Germany	0.9	0.6	1.5	2.1	1.6	1.7	7.0	6.1	5.7	5.5	5.7	5.6
France	0.0	-0.1	0.9	2.0	1.6	1.5	-2.4	-1.3	-1.4	10.2	11.2	11.6
Italy	-2.4	-1.5	0.5	3.3	2.0	1.4	-0.5	0.3	0.3	10.6	12.0	12.4
Spain	-1.4	-1.6	0.7	2.4	1.9	1.5	-1.1	1.1	2.2	25.0	27.0	26.5
Netherlands	-0.9	-0.5	1.1	2.8	2.8	1.7	8.3	8.7	9.0	5.3	6.3	6.5
Belgium	-0.2	0.2	1.2	2.6	1.7	1.4	-0.5	-0.1	0.2	7.3	8.0	8.1
Austria	0.8	0.8	1.6	2.6	2.2	1.9	2.0	2.2	2.3	4.4	4.6	4.5
Greece	-6.4	-4.2	0.6	1.0	-0.8	-0.4	-2.9	-0.3	0.4	24.2	27.0	26.0
Portugal	-3.2	-2.3	0.6	2.8	0.7	1.0	-1.5	0.1	-0.1	15.7	18.2	18.5
Finland	-0.2	0.5	1.2	3.2	2.9	2.5	-1.7	-1.7	-1.8	7.7	8.1	8.1
Ireland	0.9	1.1	2.2	1.9	1.3	1.3	4.9	3.4	3.9	14.7	14.2	13.7
Slovak Republic	2.0	1.4	2.7	3.7	1.9	2.0	2.3	2.2	2.7	14.0	14.3	14.3
Slovenia	-2.3	-2.0	1.5	2.6	1.8	1.9	2.3	2.7	2.5	9.0	9.8	9.4
Luxembourg	0.1	0.1	1.3	2.9	1.9	1.9	6.0	6.6	6.8	6.0	6.3	6.4
Estonia	3.2	3.0	3.2	4.2	3.2	2.8	-1.2	0.0	0.1	9.8	7.8	6.2
Cyprus ⁶	-2.4	...	...	3.1	...	...	-4.9	...	...	12.1	...	...
Malta	0.8	1.3	1.8	3.2	2.4	2.0	0.3	0.5	0.8	6.3	6.4	6.3
United Kingdom ⁵	0.2	0.7	1.5	2.8	2.7	2.5	-3.5	-4.4	-4.3	8.0	7.8	7.8
Sweden	1.2	1.0	2.2	0.9	0.3	2.3	7.1	6.0	6.8	7.9	8.1	7.8
Switzerland	1.0	1.3	1.8	-0.7	-0.2	0.2	13.4	12.6	12.3	2.9	3.2	3.2
Czech Republic	-1.2	0.3	1.6	3.3	2.3	1.9	-2.7	-2.1	-1.8	7.0	8.1	8.4
Norway	3.0	2.5	2.2	0.7	1.5	1.5	14.2	11.7	10.9	3.2	3.1	3.3
Denmark	-0.6	0.8	1.3	2.4	2.0	2.0	5.3	4.7	4.7	7.6	7.6	7.2
Iceland	1.6	1.9	2.1	5.2	4.7	4.0	-4.9	-2.8	-1.7	5.8	5.0	4.6
San Marino	-4.0	-3.5	0.0	2.8	1.6	0.9	...	...	...	6.6	6.1	5.5
Emerging Europe⁷	1.6	2.2	2.8	5.8	4.4	3.6	-4.3	-4.7	-4.9	...	...	...
Turkey	2.6	3.4	3.7	8.9	6.6	5.3	-5.9	-6.8	-7.3	9.2	9.4	9.5
Poland	2.0	1.3	2.2	3.7	1.9	2.0	-3.6	-3.6	-3.5	10.3	11.0	11.0
Romania	0.3	1.6	2.0	3.3	4.6	2.9	-3.8	-4.2	-4.5	7.0	7.0	6.9
Hungary	-1.7	0.0	1.2	5.7	3.2	3.5	1.7	2.1	1.8	11.0	10.5	10.9
Bulgaria	0.8	1.2	2.3	2.4	2.1	1.9	-0.7	-1.9	-2.1	12.4	12.4	11.4
Serbia	-1.8	2.0	2.0	7.3	9.6	5.4	-10.9	-8.7	-8.6	23.1	23.0	22.9
Croatia	-2.0	-0.2	1.5	3.4	3.2	2.3	-0.1	0.0	-0.5	15.0	15.2	14.7
Lithuania	3.6	3.0	3.3	3.2	2.1	2.5	-0.9	-1.3	-1.7	13.2	12.0	11.0
Latvia	5.6	4.2	4.2	2.3	1.8	2.1	-1.7	-1.8	-1.9	14.9	13.3	12.0

Note: Data for some countries are based on fiscal years. Please refer to the country information section of the WEO online database on the IMF website (www.imf.org) for a complete listing of the reference periods for each country.



JAPAN – DEFICITS, DEBT AND DEFLATION

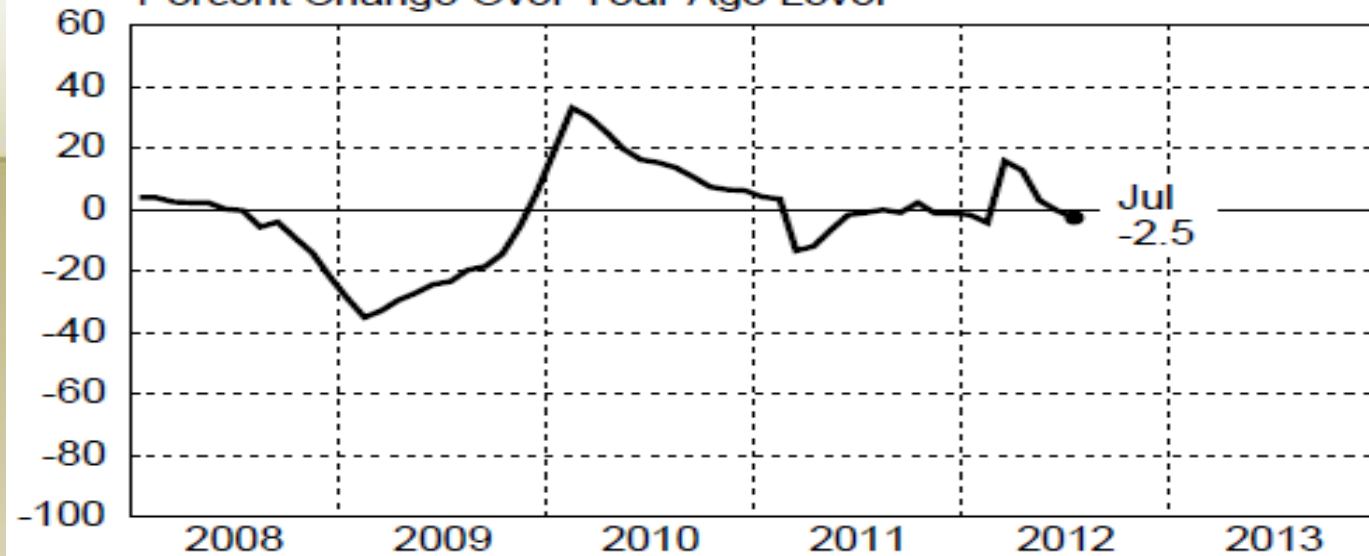
Performance Factors	<u>1979-85</u>	<u>1985-91</u>	<u>1991→12</u>
Real GDP Growth	3.9%	5.1%	1.0%/yr
of which consumption	60.7	57.8	56.8
government	10.0	9.9	17.9
investment	29.6	34.0	19.4
exports	12.1	14.2	16.0
Unemployment	2.8	2.1	5.2 → 4.3
Savings (household)	17.0	14.9	5.1 → 1.5
Productivity Growth	4.1	2.9	2.7
Budget Deficit (%/GDP)	6.1 → 4.2 →	1.1 →	8.3 → 8.8
Balance of trade (bil \$\$)	7 → 56 →	77 →	105 → -64
Current account (bil \$\$)	1 → 49 →	57 →	248 → 84



JAPAN

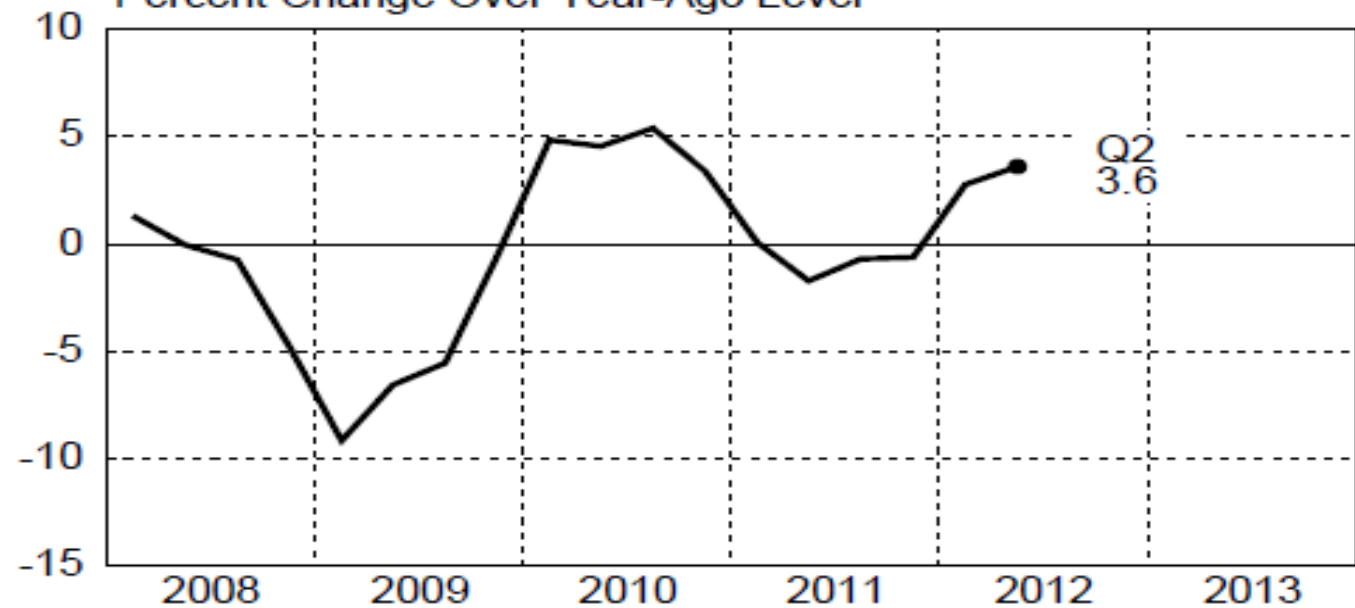
Industrial Production

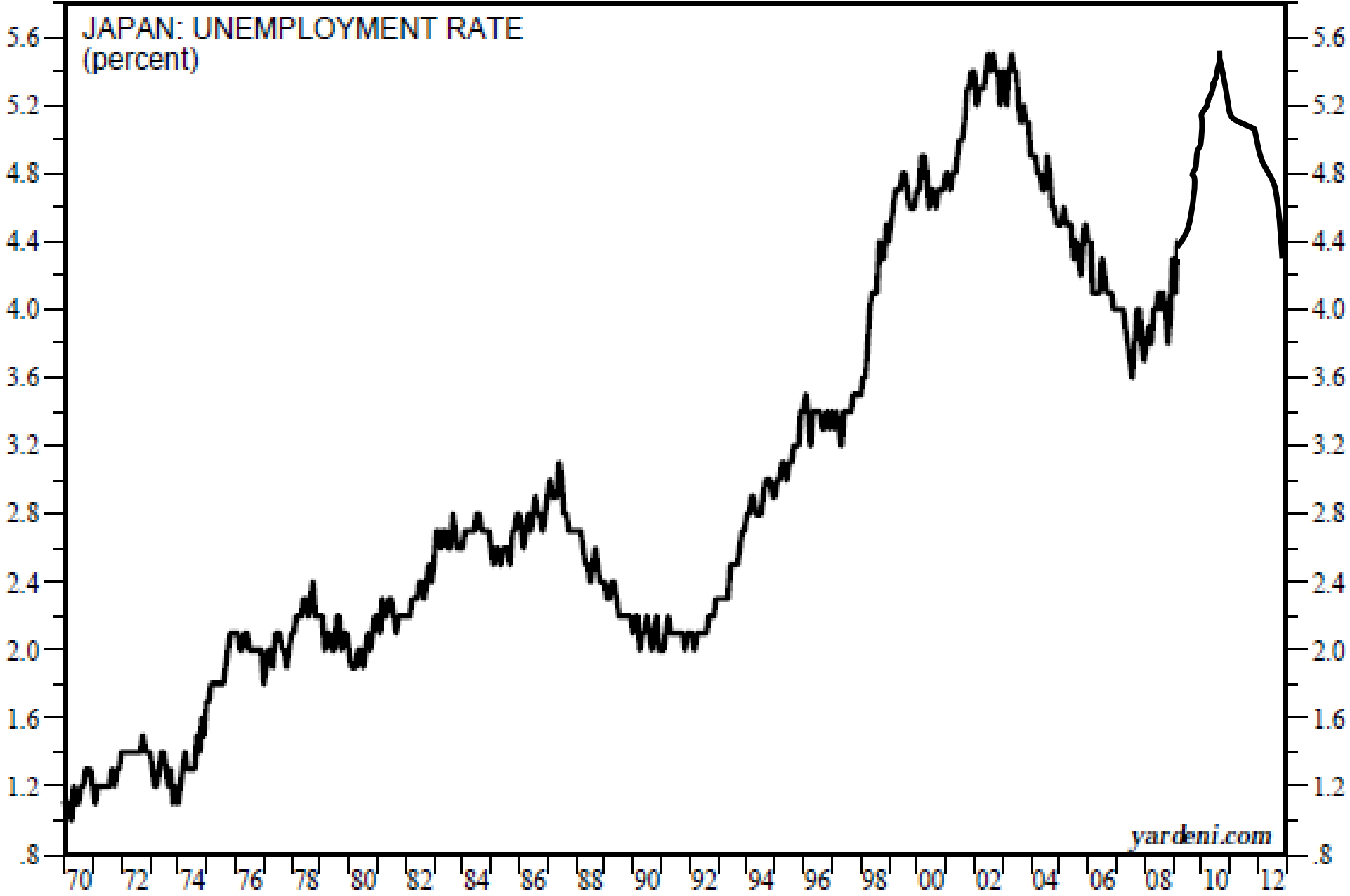
Percent Change Over Year-Ago Level



GDP Growth

Percent Change Over Year-Ago Level

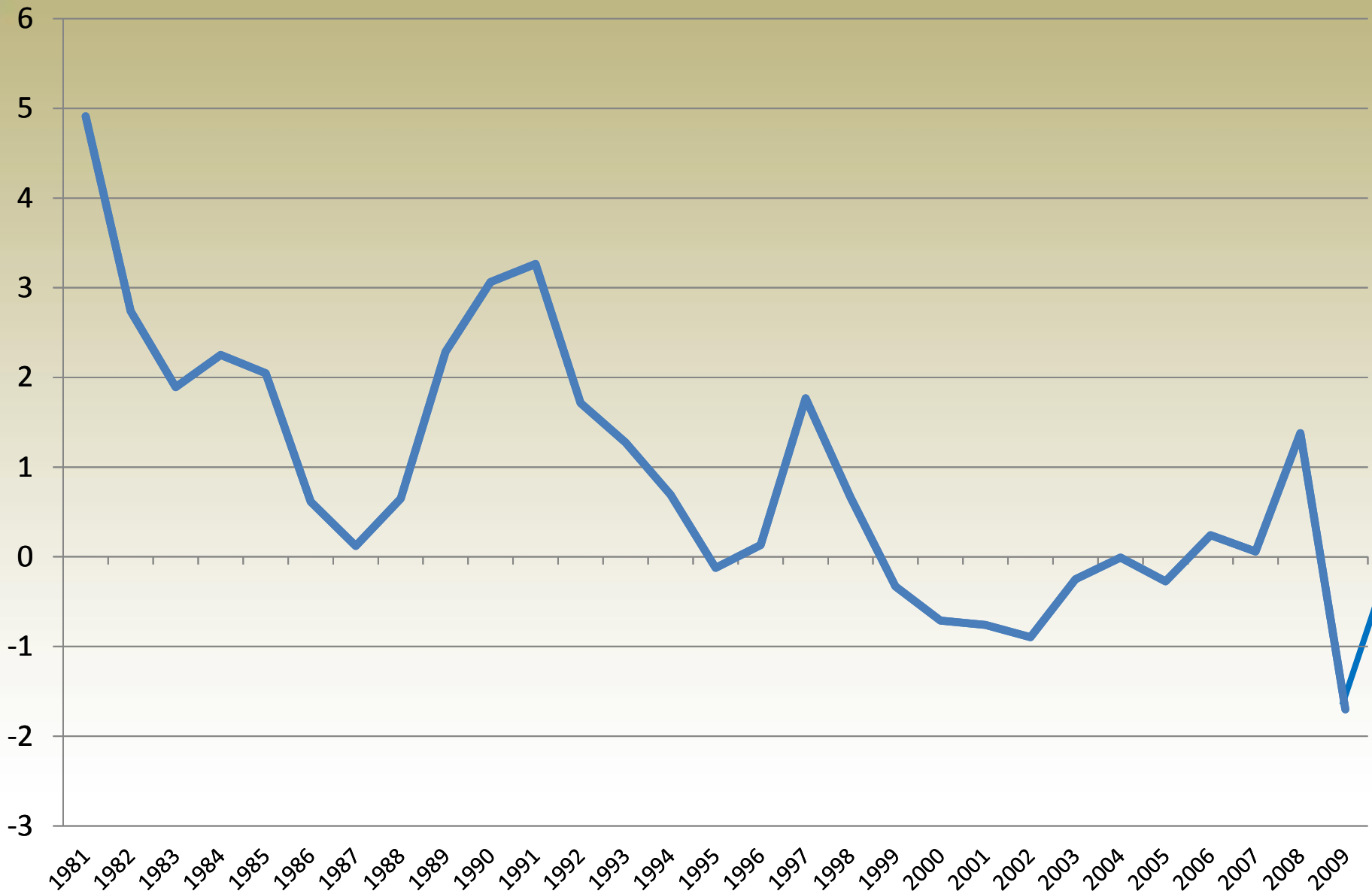




yardeni.com

JAPAN'S INFLATION

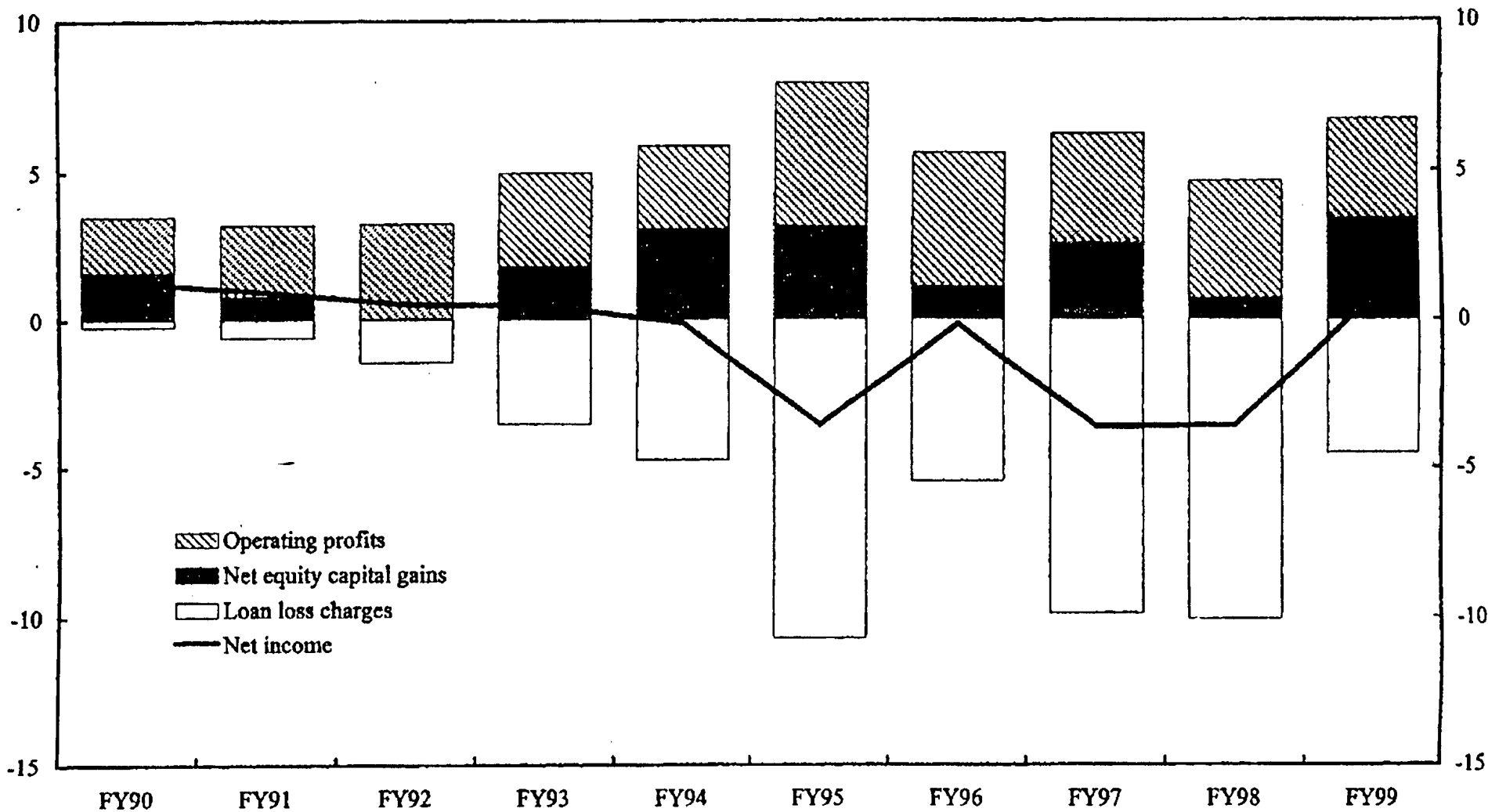
(percent change per year)



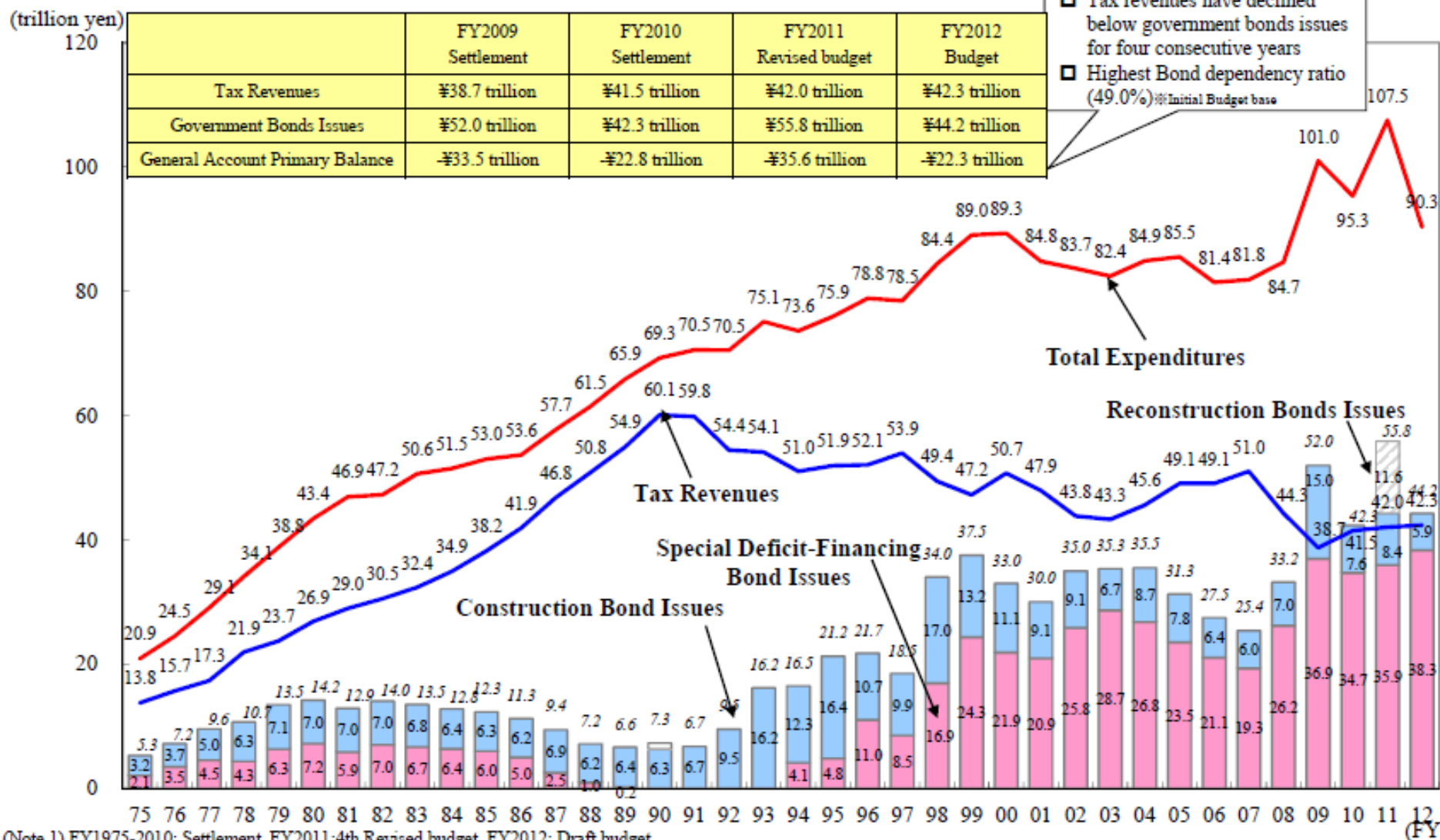
Source: Compiled with data from the *Economist Intelligence Unit*.

JAPAN: MAJOR BANK PROFITS, FY 90-99

(in trillions of yen)



Fiscal Discipline ~General Account Tax Revenues and Government Bond Issues~



(Note 1) FY1975-2010: Settlement, FY2011: 4th Revised budget, FY2012: Draft budget

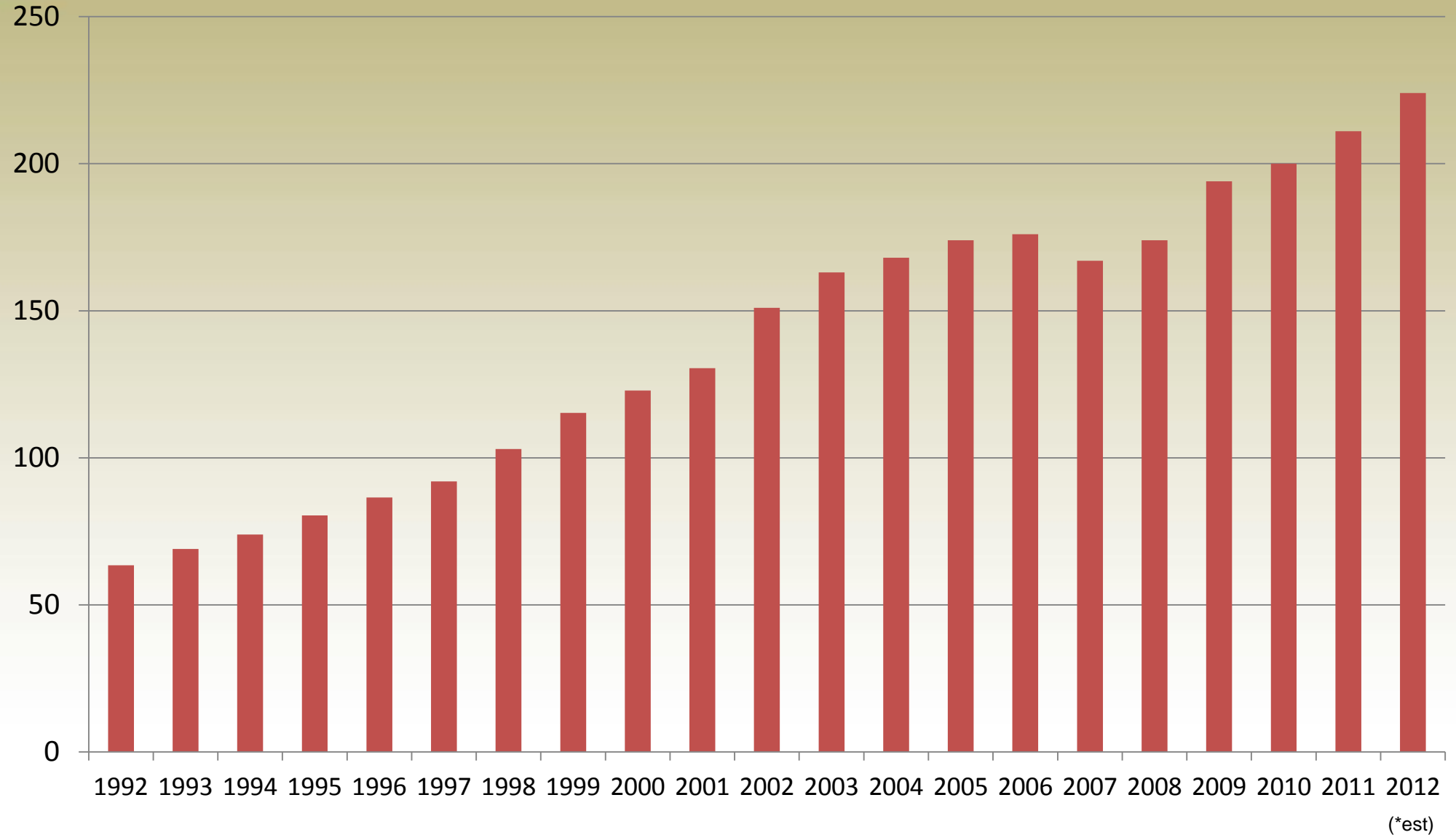
(Note 2) Ad-hoc deficit-financing bonds (approx. 1 trillion yen) were issued in FY1990 as a source of funds to support peace and reconstruction efforts in the Persian Gulf Region.

(Note 3) Reconstruction bonds (approx. 11.6 trillion yen) are issued in FY2011, which are used as a temporary means until when the financial resources are secured by the revenues including the special tax for reconstruction. Measures and projects for reconstruction from the Great East Japan Earthquake, expected to be implemented within the first five years (FY2011-FY2015), would be financed by reconstruction bonds issuance.

(Note 4) General Account Primary Balance is calculated based on the easy-to-use method of National Debt Service minus Government Bond Issues, and is different from the Central Government Primary Balance on an SNA basis.

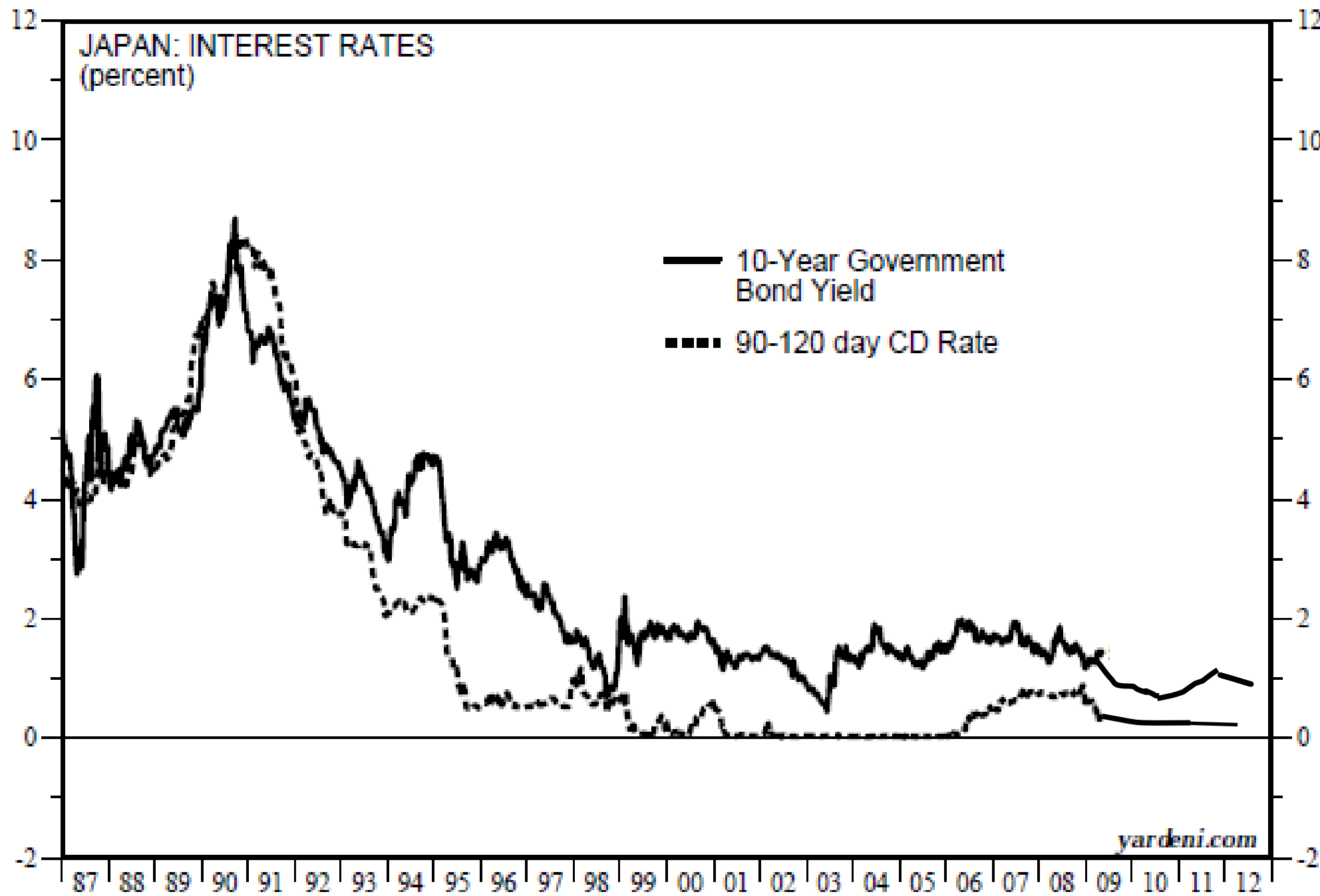
PUBLIC DEBT OF JAPAN

(as percent of GDP)



Source: Compiled with data from the *Economist Intelligence Unit*.

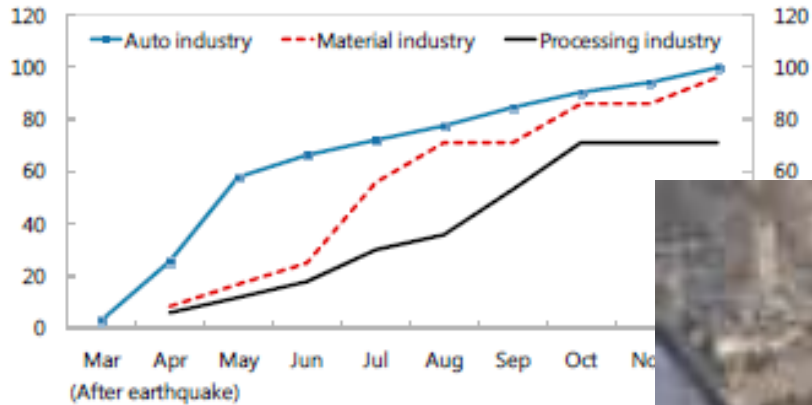
JAPAN: INTEREST RATES (percent)



JAPAN POST EARTHQUAKE

Restoration of Capacity in Different Sectors

(Percent of firms with restored capacity)



Source: METI and IHS Automotive.

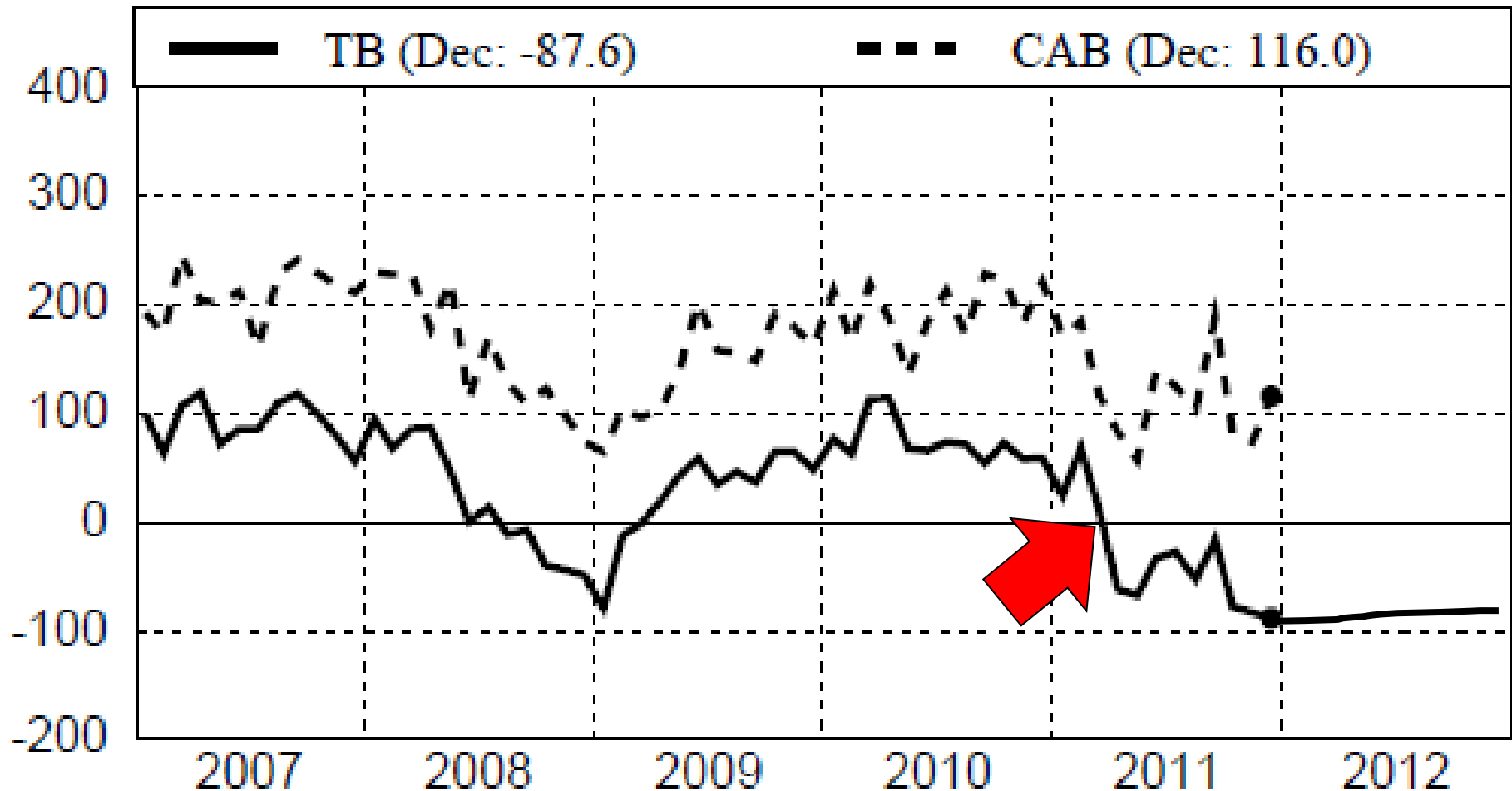
Note: The chart is from April and restoration plans have been made for 1-2 months, but no new comprehensive survey data are available.

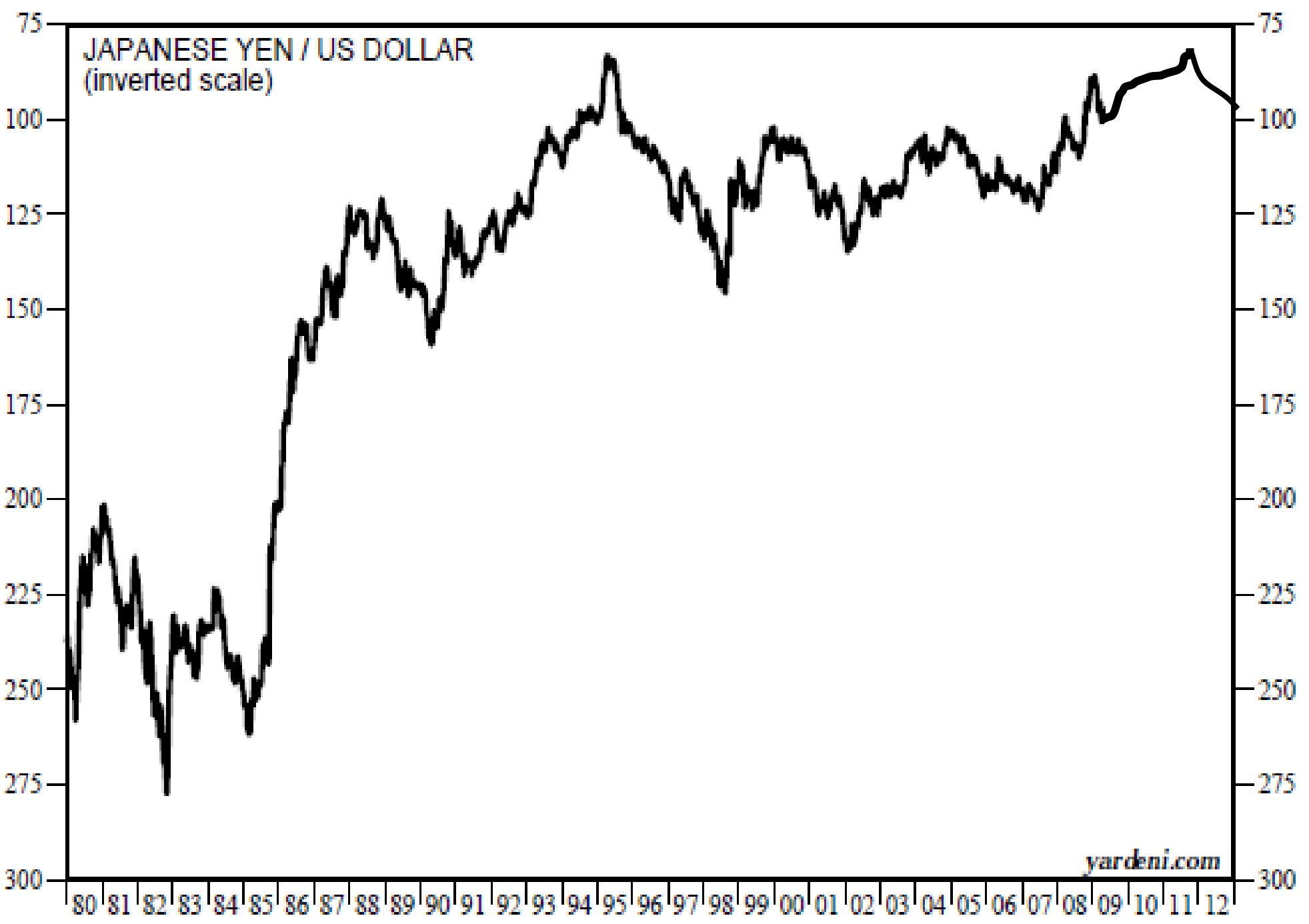


JAPAN'S

Three-month moving average (¥ trillion)

Trade and Current Account Balances In Billions of Dollars, SAAR







JAPAN RISKS

- Monetary policy fails – deflation
- Larger fiscal deficits lead to debt crisis
- Hot summer, high oil prices – power failures
- Export competitiveness declines – debt crisis
- Japan's island conflict with China erupts

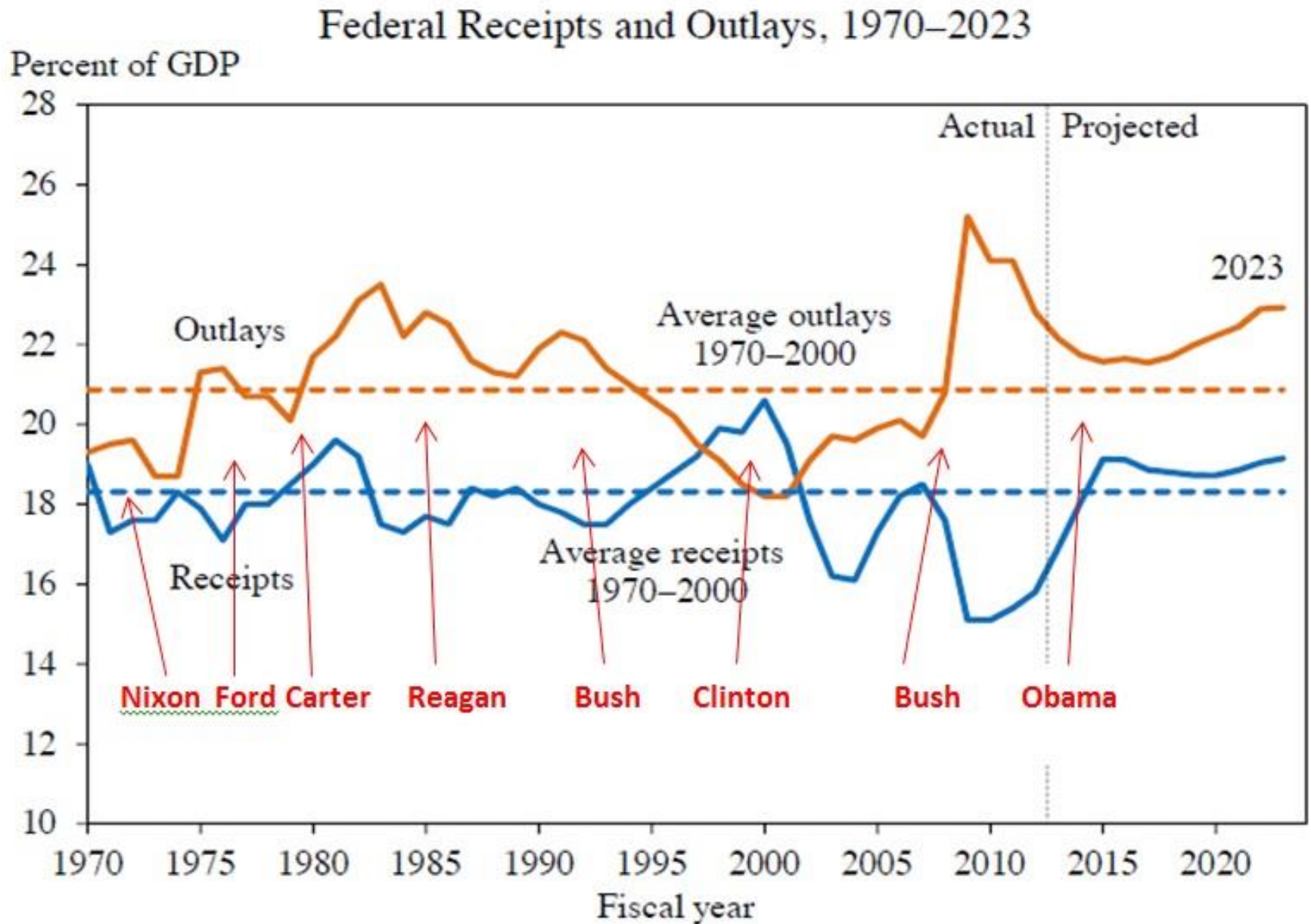


5-year Forecast for Japan

(barring risks)

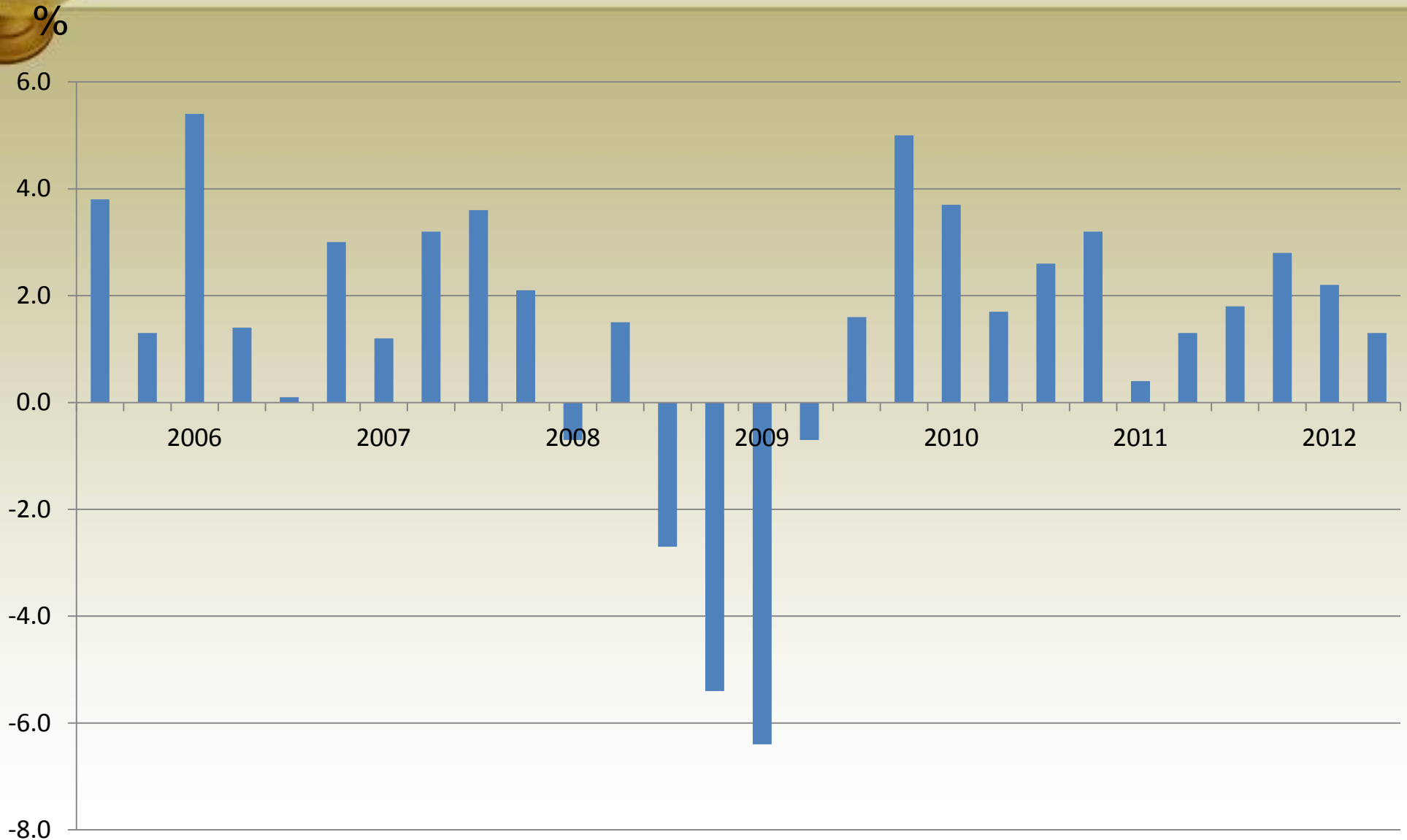
Real GDP growth	1.8%	→	1.0%
Unemployment	4.3%	→	4.0%
Inflation	0.0%	→	0.4%
Fiscal balance (%/GDP)	-9.8%	→	-7.0%
Trade balance	-\$75 bn	→	-\$110 bn
Current account	\$66 bn	→	\$20 bn
Exchange rate	87 ¥/\$	→	93 ¥/\$
FX reserves	\$1.35 tr	→	\$1.52 tr

USA Fiscal History

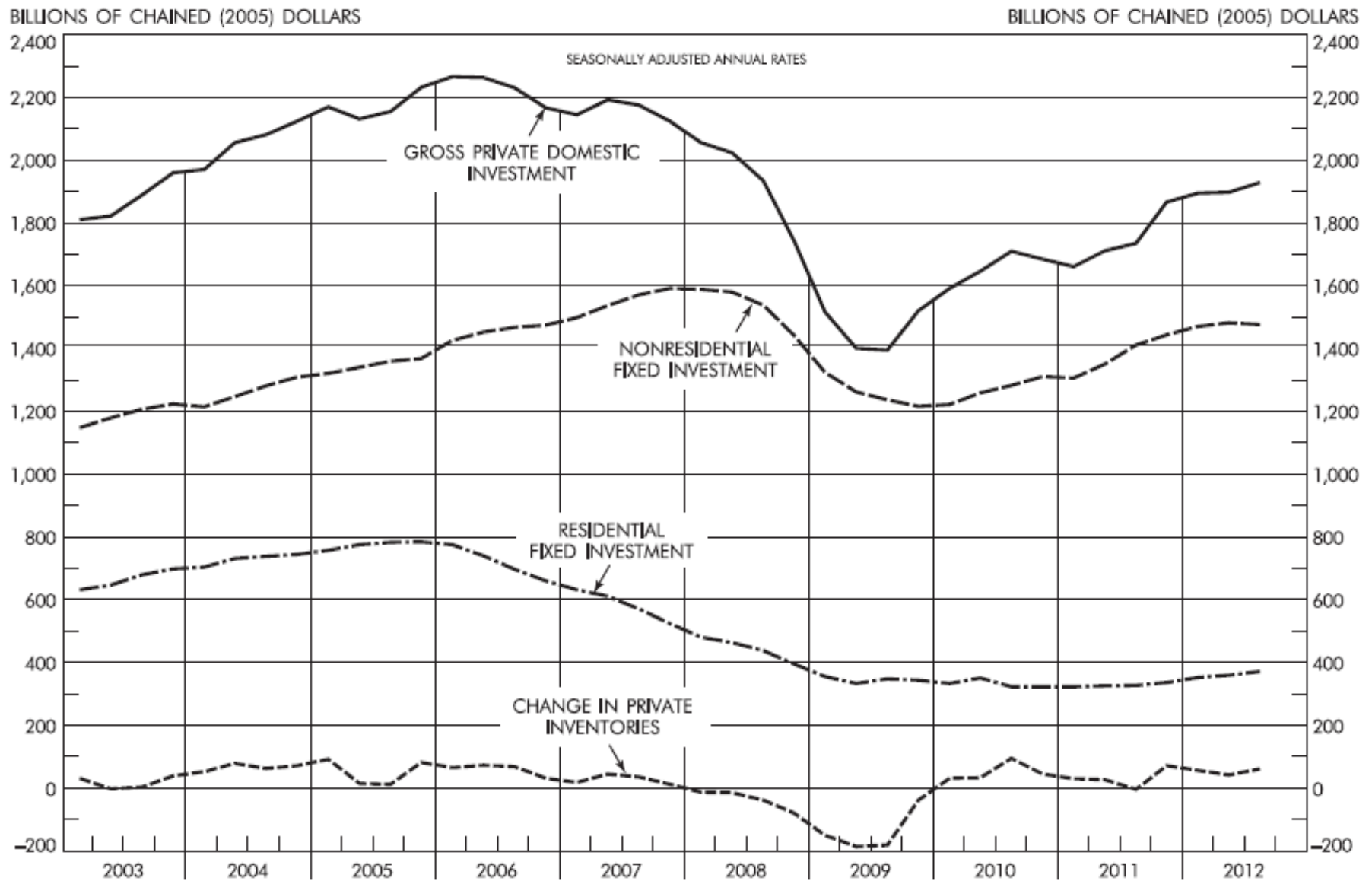


United States Real GDP, 2005-2012

(quarterly, billions of chained 2000 dollars)

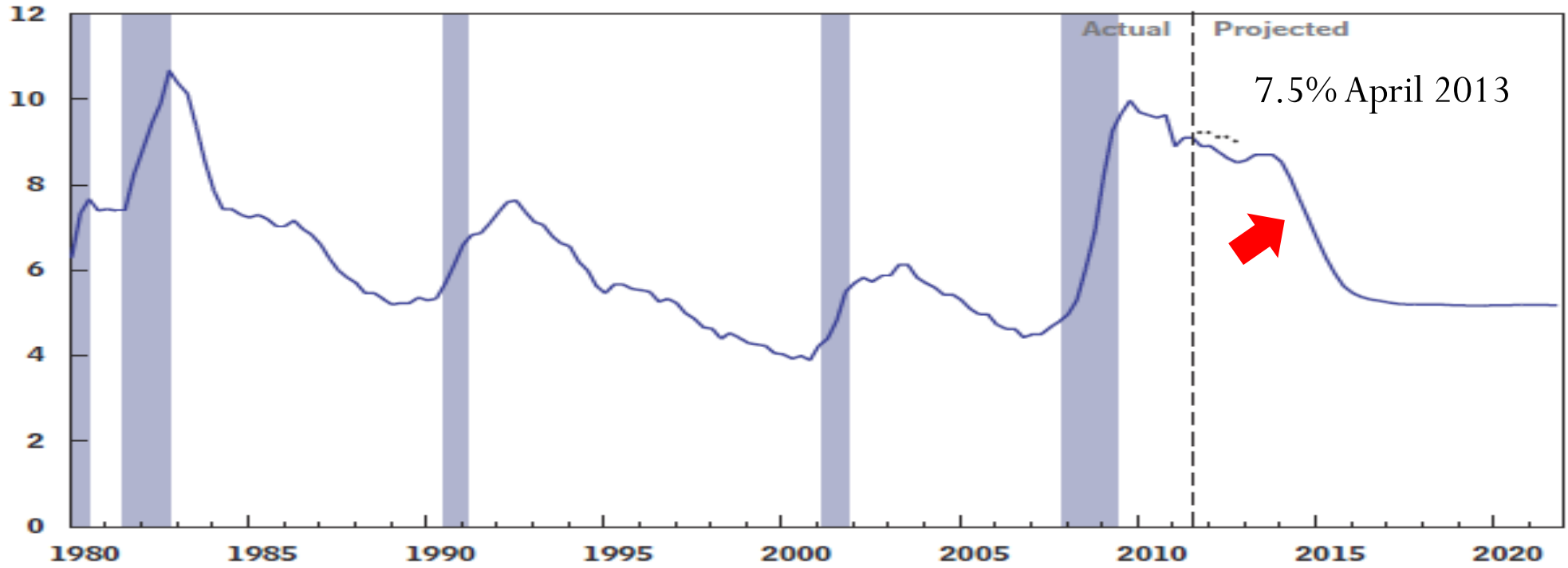


GROSS PRIVATE DOMESTIC INVESTMENT



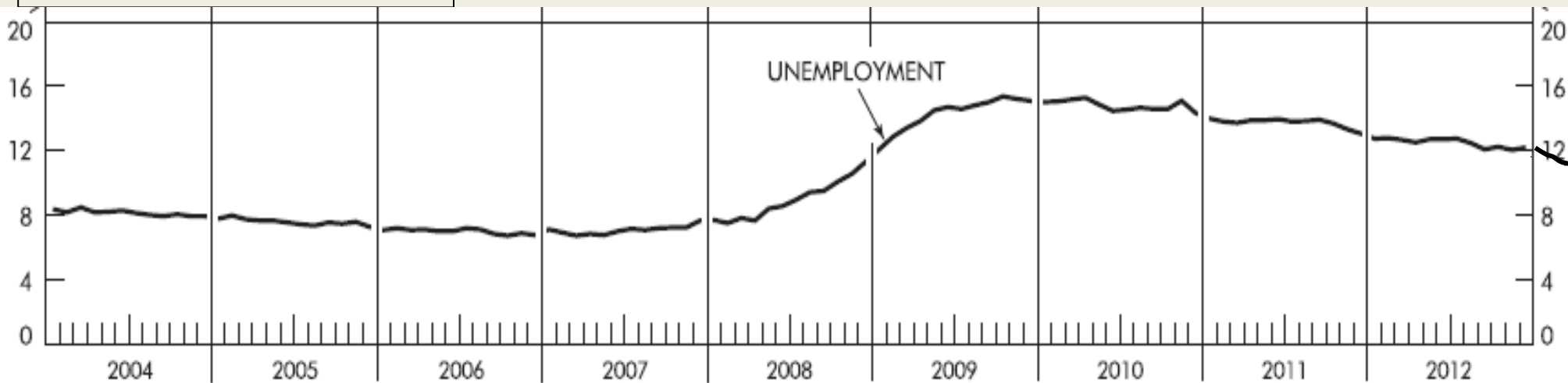
Unemployment Rate

(Percent)



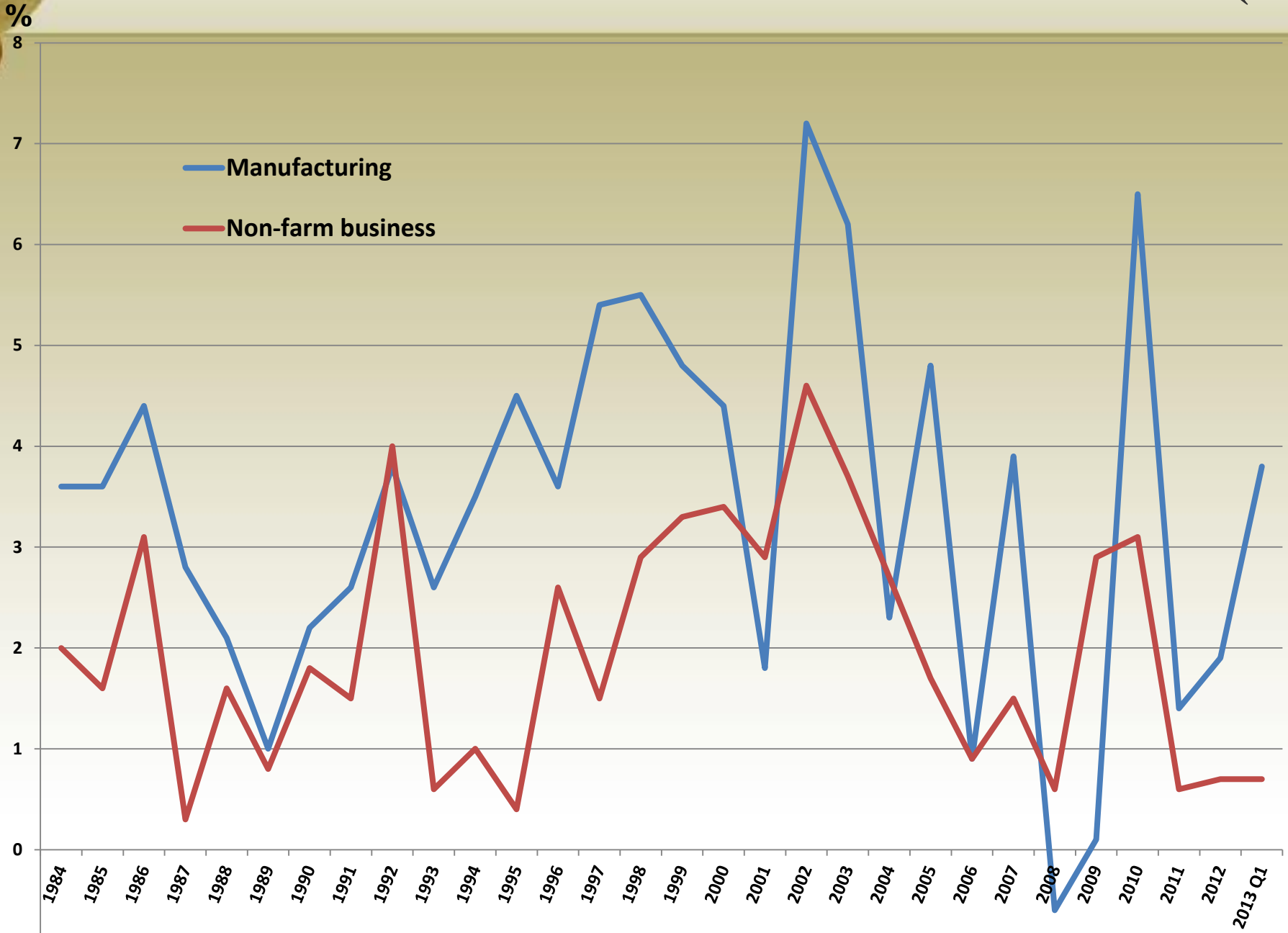
Sources: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics.

Numbers of People

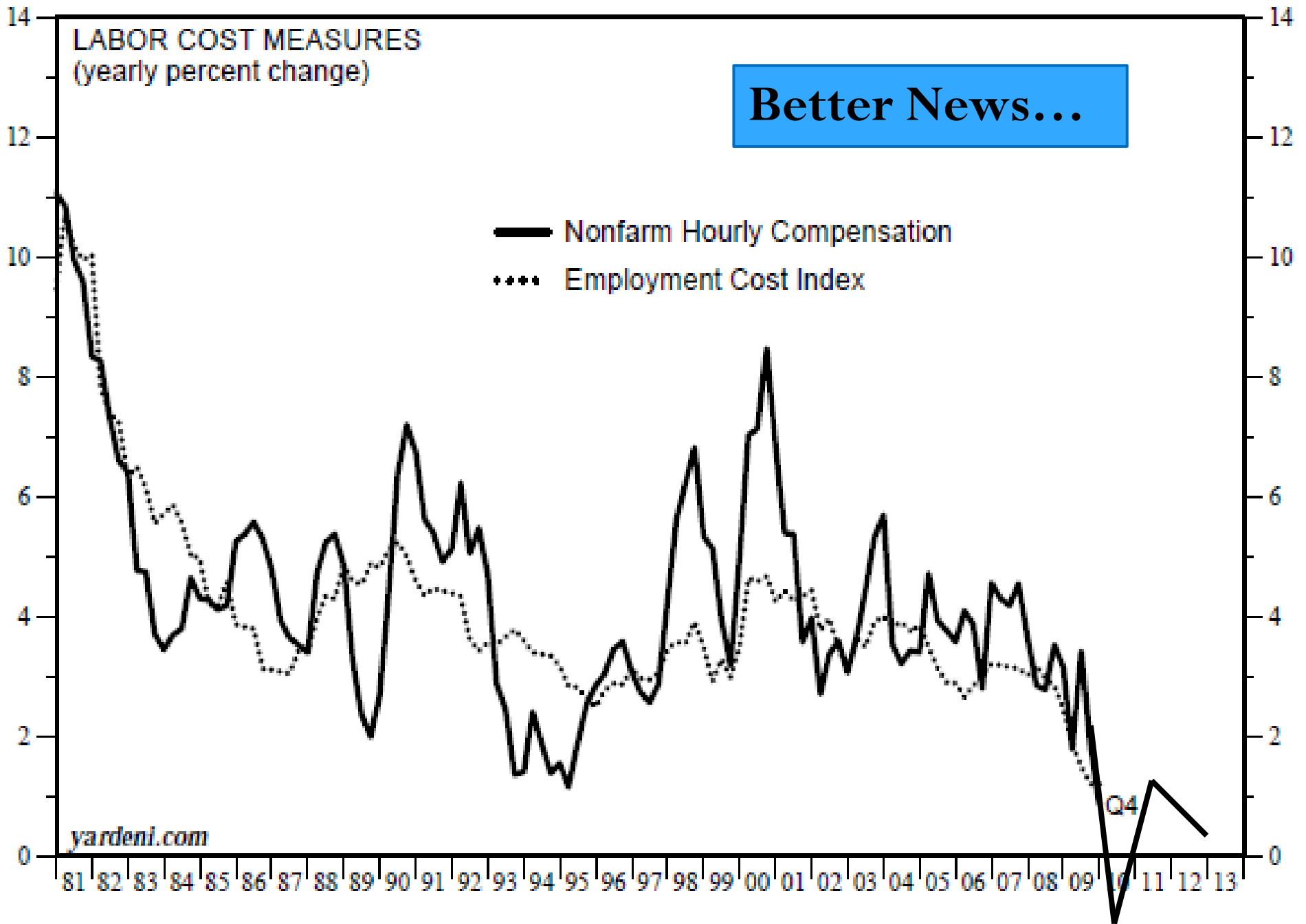




GOOD NEWS - US PRODUCTIVITY: 1984-2013(Q1)



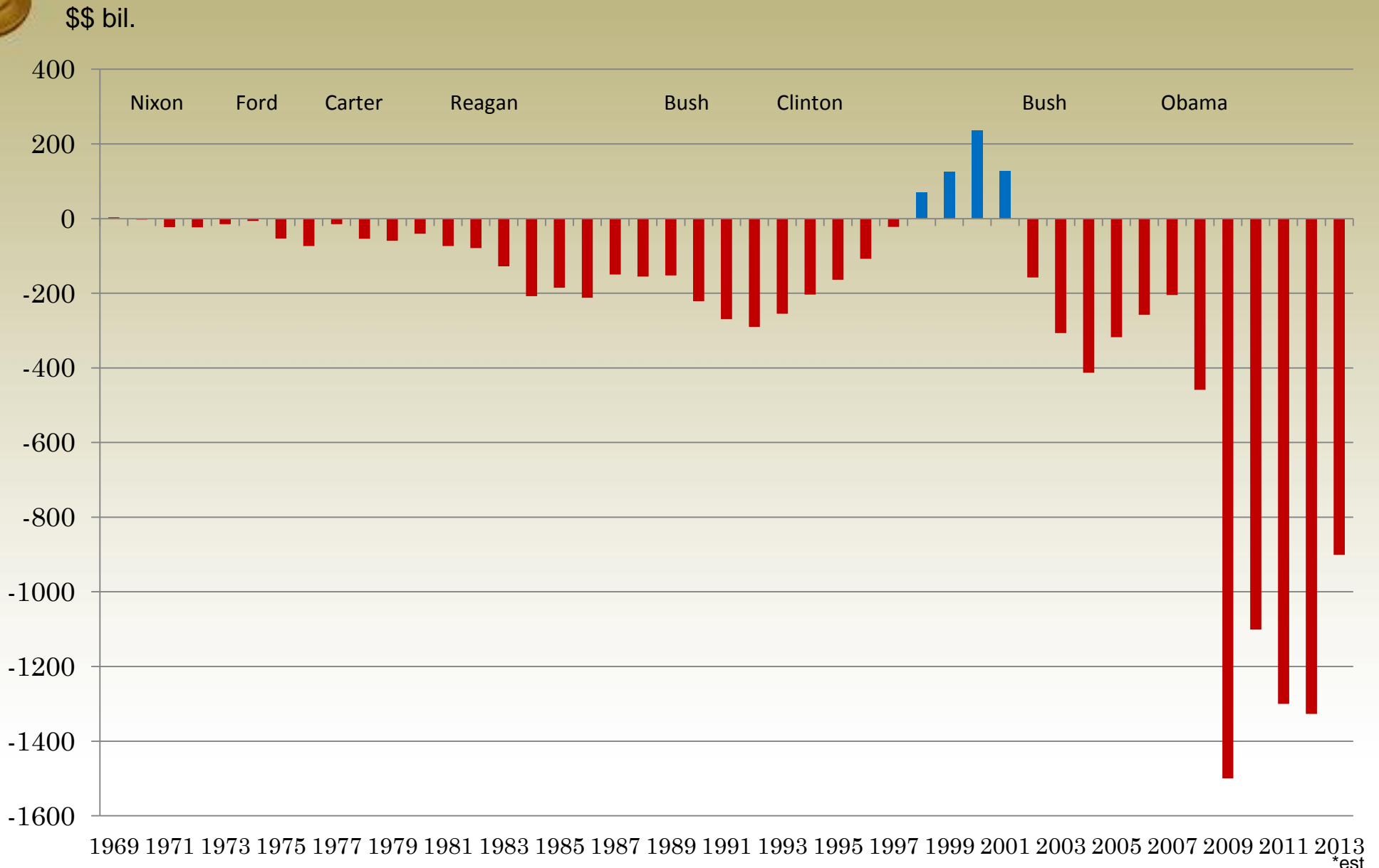
Source: Bureau of Labor Statistics, May 2013



Source: US Department of Labor, Bureau of Labor Statistics.



BAD NEWS – BUDGET DEFICITS



Source: Compiled from *Economic Report of the President 2012*; *CBO, Budget Outlook, May 2012*.

U.S. FEDERAL GOVERNMENT DEBT

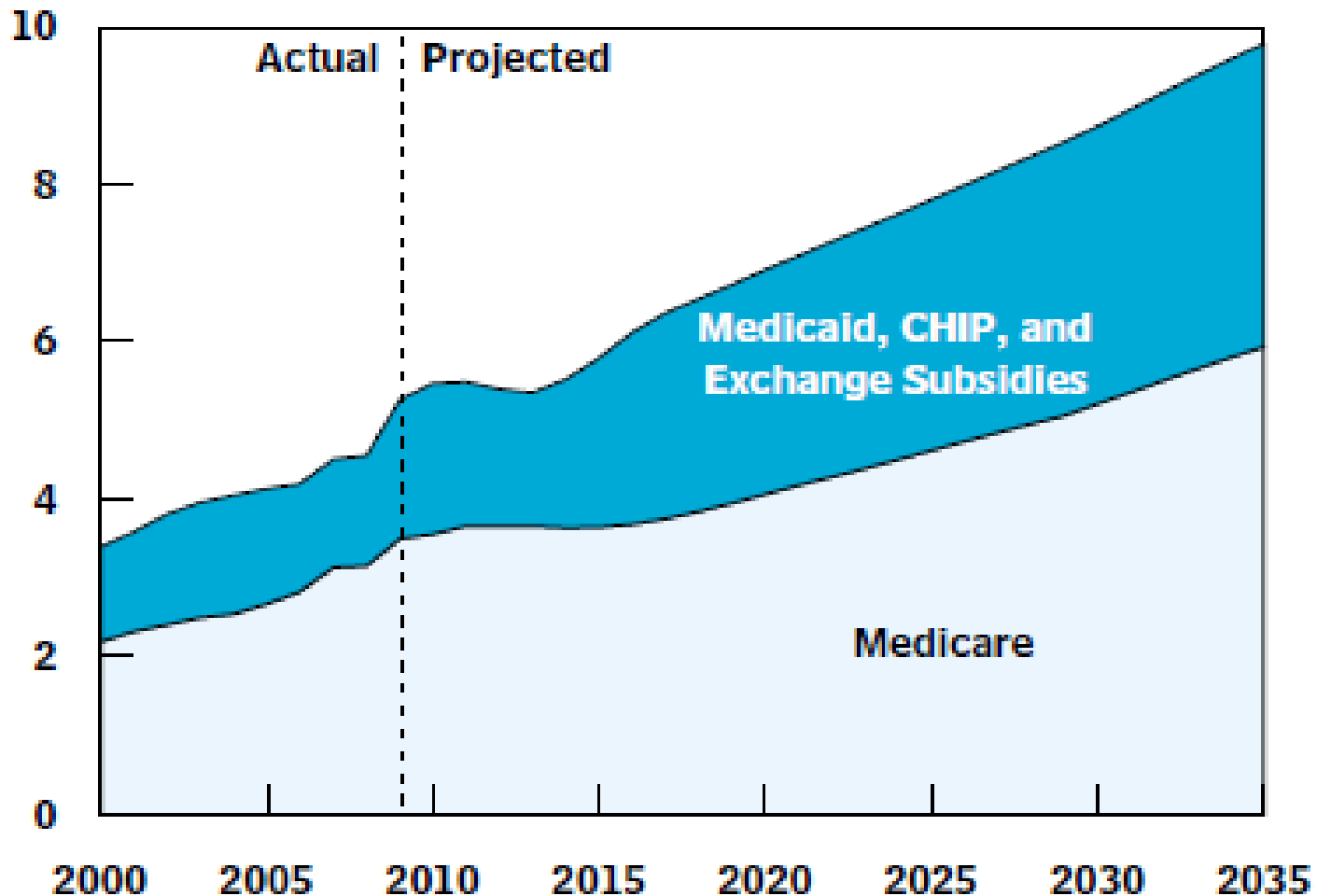
(Dollars amounts in billions)

	Actual	Estimate										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Debt Outstanding, End of Year:												
Gross Federal debt: ⁵												
Debt issued by Treasury	14,737	16,323	17,520	18,471	19,398	20,363	21,298	22,218	23,125	24,051	24,984	25,918
Debt issued by other agencies	27	28	28	29	29	28	28	27	27	26	24	22
Total, gross Federal debt	14,764	16,351	17,548	18,500	19,427	20,392	21,326	22,245	23,152	24,077	25,008	25,940
Held by:												
Debt held by Government accounts	4,636	4,773	4,911	5,055	5,229	5,411	5,613	5,841	6,015	6,180	6,330	6,454
Debt held by the public ⁶	10,128	11,578	12,637	13,445	14,198	14,980	15,713	16,404	17,137	17,897	18,678	19,486
As a percent of GDP	67.7%	74.2%	77.4%	78.4%	78.1%	77.8%	77.1%	76.5%	76.4%	76.5%	76.5%	76.5%

101% of GDP

MANDATORY FEDERAL SPENDING ON HEALTH CARE, BY CATEGORY

(Percentage of gross domestic product)



Source: Congressional Budget Office.

CHIP – Children's Health Insurance Program



BUDGET CONTROL ACT OF 2011

- August 2, 2011 – Congress compromised to raise debt crisis

Stage #1

- Imposed caps on new discretionary budget authority – designed to reduce expenditures by \$756 billion (plus \$134 billion in debt service savings), cumulatively;
- debt ceiling raised immediately \$400 billion, \$500 more when Congress votes;

Stage #2

- New Congressional committee (6×6) to cut additional \$1.2 trillion (\$1 trillion plus \$197 saved debt service), including entitlements, cumulatively;
- If Congress does not vote by December 23, automatic cuts of \$1.2 trillion, across the board...

The Budget Control Act of 2011

Effect of the Budget Control Act of 2011 on Projected Deficits in CBO's Baseline

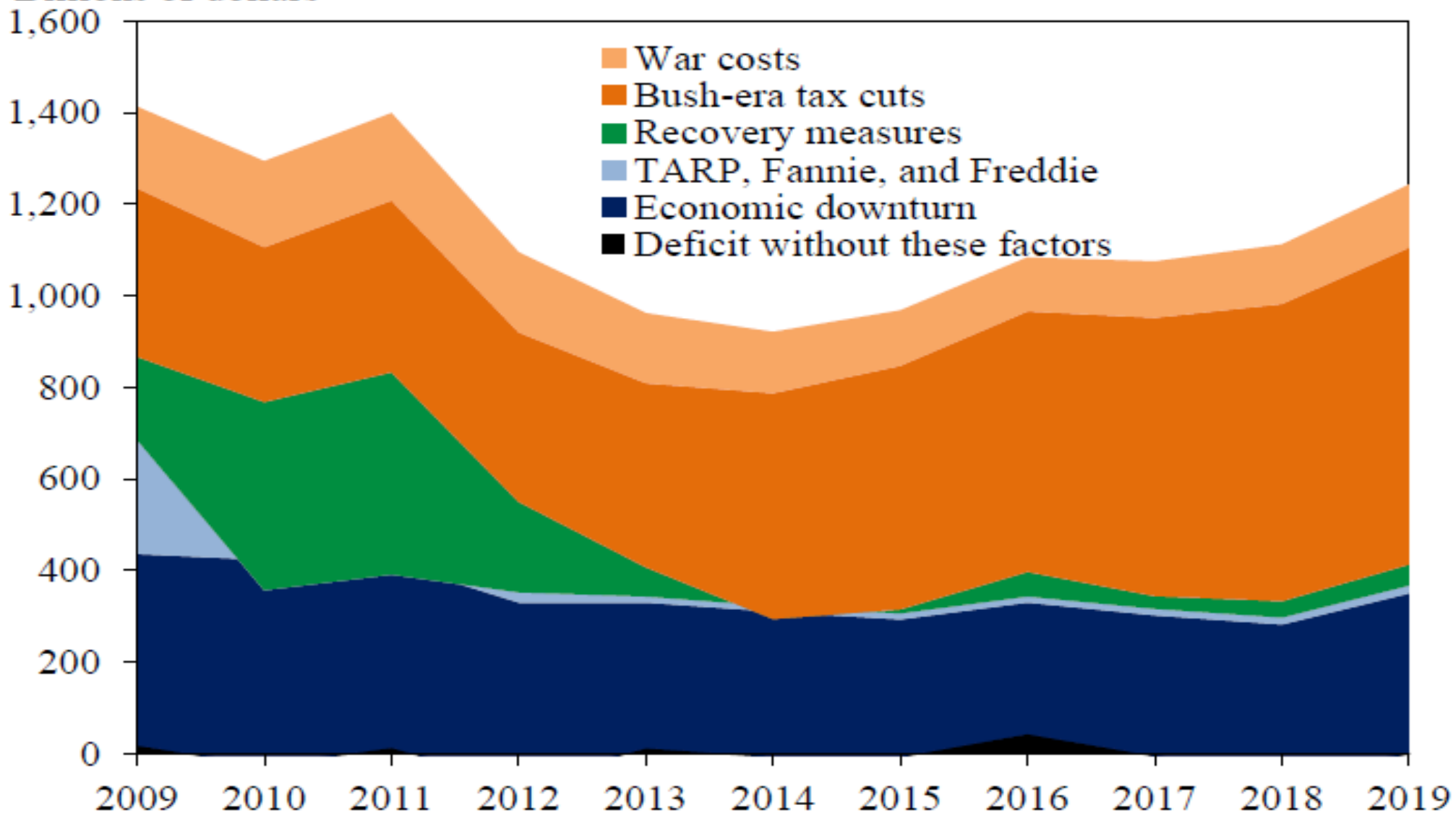
(Billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total, 2012-2021
Discretionary Caps	-25	-47	-59	-67	-74	-81	-89	-97	-104	-112	-756
Education Provisions	3	6	3	-2	-2	-2	-2	-2	-2	-3	-5
Debt Service ^a	*	-1	-2	-3	-7	-12	-18	-24	-30	-37	-134
Total Effect on the Deficit Excluding Provisions Related to the Joint Select Committee on Deficit Reduction	-22	-42	-58	-73	-84	-96	-109	-123	-137	-152	-895
Provisions Related to the Joint Select Committee on Deficit Reduction											
Policy changes ^b	n.a.	-111	-111	-111	-111	-111	-111	-111	-111	-111	-1,003
Debt service	n.a.	-1	-3	-6	-12	-20	-27	-35	-42	-50	-197
Total Effect on the Deficit	-22	-155	-173	-190	-208	-227	-248	-269	-290	-313	-2,095

Source: Congressional Budget Office.

Selected Components of Deficit Projections: 2009–2019

Billions of dollars



Note: Based on CBO budget projections. CBO employs different economic assumptions and methodology than OMB. As a result, the projections presented in this figure may differ from those presented by OMB.

Source: Ruffing and Horney (2011).

Limits on Discretionary Budget Authority for Fiscal Years 2013 to 2021

(Millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Caps Set in the Budget Control Act ^a									
Defense	546,000	556,000	566,000	577,000	590,000	603,000	616,000	630,000	644,000
Nondefense	501,000	510,000	520,000	530,000	541,000	553,000	566,000	578,000	590,000
Total	1,047,000	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
Effect of Automatic Enforcement Procedures ^b									
Defense	n.a.	-54,649	-54,649	-54,650	-54,650	-54,651	-54,651	-54,651	-54,652
Nondefense	n.a.	-37,937	-37,321	-36,568	-36,218	-35,648	-34,672	-33,301	-32,910
Total	n.a.	-92,586	-91,970	-91,218	-90,869	-90,298	-89,323	-87,952	-87,562
Revised Caps									
Defense	546,000	501,351	511,351	522,350	535,350	548,349	561,349	575,349	589,348
Nondefense	501,000	472,063	482,679	493,432	504,782	517,352	531,328	544,699	557,090
Total	1,047,000	973,414	994,030	1,015,782	1,040,131	1,065,702	1,092,677	1,120,048	1,146,438

Source: Congressional Budget Office.

Change in the Budget Deficit Under Current Law Between Fiscal Years 2012 and 2013

		Billions of Dollars
		Total Deficit
Deficit in 2012		-1,171
Deficit in 2013		-612
Total Change		560
		Factors Contributing to the Change in the Deficit Without Effects of Economic Feedback
Changes in Specified Revenue Policies		
Expiration of certain income tax and estate and gift tax provisions scheduled to expire on December 31, 2012, and of indexing the alternative minimum tax for inflation ^a		221
Expiration of the reduction in the employee's portion of the payroll tax		95
Other expiring provisions ^a		65
Taxes included in the Affordable Care Act		18
Subtotal		399
Changes in Specified Spending Policies		
Effects of the automatic enforcement procedures specified in the Budget Control Act ^a		65
Expiration of eligibility to start receiving emergency unemployment benefits		26
Reduction in Medicare's payment rates for physicians ^a		11
Subtotal		103
Other Changes in Revenues and Spending ^b		105
Total Change in Deficit Without Effects of Economic Feedback		607
		Contribution of Economic Feedback to the Change in the Deficit
Change in Deficit Without Effects of Economic Feedback		607
Effects of Economic Feedback ^c		-47
Total Change		560
Memorandum:		
Contribution of Policies Altered in the Alternative Fiscal Scenario to the Change in the Deficit Without Effects of Economic Feedback		362

“The Fiscal Cliff”



Source: Congressional Budget Office.

Notes: Numbers may not add up to totals because of rounding.

Positive numbers indicate a decrease in the deficit.

- a. The policy is altered in CBO's alternative fiscal scenario. For details about the policies under that scenario, see Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012), pp. 3–4.
- b. Not linked to specific policies; mostly reflecting changes in revenues.
- c. Economic feedback occurs because the reduction in the deficit induced by tax and spending policies would lower taxable incomes, thereby reducing revenues, and would increase spending on certain programs, such as unemployment insurance.

Savings and Costs in the Fiscal Cliff Package

	Budgetary Impact	
	Current Law	Current Policy*
Extend Most 01/03/10 Income Tax Cuts Below \$400k/\$450k	-\$1.23 trillion	\$395 billion
Extend Current Treatment of Capital Gains and Dividends below \$400k/\$450k w/ 20% rate above	-\$290 billion	\$55 billion
Reinstate PEP and Pease above \$250k/300k	-\$10 billion	\$150 billion
Enact AMT Patch for Ten Years (Includes Interaction)	-\$1.82 trillion	\$0 billion
Increase Estate Tax Rate from 35% to 40%	-\$370 billion	\$20 billion
Extend Refundable Tax Credits for Five Years	-\$135 billion	\$0 billion ⁺
Gross Revenue Raised	-\$3.86 trillion	\$620 billion
Extend Expiring Tax Extenders and Bonus Depreciation	-\$75 billion	-\$75 billion
Revenue Net of Extenders	-\$3.93 trillion	\$545 billion
Delay Sequester for Two Months	-\$25 billion	\$0 billion
<i>Reduce Discretionary Caps for 2013 and 2014</i>	\$12 billion	\$12 billion
<i>Allow Conversion to Roth Retirement Plans</i>	\$12 billion [^]	\$12 billion [^]
Enact Doc Fix for One Year	-\$25 billion	\$0 billion
<i>Recoup certain hospital overpayments</i>	\$10 billion	\$10 billion
<i>Reduce bundled payment for End Stage Renal Disease</i>	\$5 billion	\$5 billion
<i>Rebase Medicaid DSH Payments in 2022</i>	\$5 billion	\$5 billion
<i>Enact Other Health Spending Changes</i>	\$5 billion	\$5 billion
Extend UI Benefits for One Year	-\$30 billion	-\$30 billion
Extend Farm Bill Temporarily	\$0 billion	\$0 billion
Total Spending Provisions	-\$30 billion	\$20 billion
Net Interest	-\$650 billion	\$85 billion
Total New Budgetary Impact	-\$4.6 trillion	\$650 billion

Note: Deficit reducing policies shown as positive numbers. Numbers rounded to nearest \$5 billion.

*Baseline assumes extension of 2001/2003/2010 income and estate tax cuts, permanent freeze in physician payments, and permanent AMT patch.

⁺Relative to some current policy baselines, including the most recent OMB baseline, this provision would add \$75 billion to the deficit. Note that credit is not given for "savings" from expiration of certain tax cuts in 2017.

Obama's Proposed Budget by Category, FY 2014

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Totals	
													2014-2018	2014-2023
Outlays:														
Appropriated ("discretionary") programs: ¹														
Defense	671	651	618	604	581	581	583	589	601	612	622	631	2,967	6,021
Non-defense	614	606	624	628	637	638	641	647	657	662	648	647	3,168	6,429
Subtotal, appropriated programs	1,285	1,258	1,242	1,232	1,218	1,219	1,224	1,236	1,258	1,274	1,270	1,278	6,135	12,451
Mandatory programs:														
Social Security	768	813	860	911	965	1,021	1,080	1,142	1,208	1,275	1,347	1,424	4,837	11,234
Medicare	466	504	524	537	578	587	607	665	709	758	837	867	2,832	6,668
Medicaid	251	267	304	328	351	371	391	414	438	465	493	523	1,743	4,076
Allowance for moving to the chained CPI ..	.....	.....	.....	-2	-5	-8	-11	-14	-18	-21	-24	-27	-26	-130
Other mandatory programs	548	620	621	642	676	675	688	728	753	786	821	822	3,301	7,211
Subtotal, mandatory programs	2,032	2,203	2,308	2,415	2,564	2,646	2,754	2,934	3,090	3,263	3,475	3,609	12,688	29,059
Net interest	220	223	223	254	300	373	461	543	609	663	715	763	1,611	4,905
Adjustments for disaster costs ² .....	.....	1	5	7	8	9	9	10	10	10	10	10	38	88
Total outlays	3,537	3,685	3,778	3,908	4,090	4,247	4,449	4,724	4,967	5,209	5,470	5,660	20,472	46,502
Receipts:														
Individual income taxes	1,132	1,234	1,383	1,552	1,700	1,844	1,977	2,105	2,241	2,380	2,517	2,684	8,456	20,382
Corporation income taxes	242	288	333	376	401	430	450	470	481	494	511	531	1,991	4,478
Social insurance and retirement receipts:														
Social Security payroll taxes	570	673	739	778	826	869	917	965	1,008	1,063	1,114	1,161	4,129	9,440
Medicare payroll taxes	201	208	224	238	254	268	284	299	313	330	347	362	1,268	2,919
Unemployment insurance	67	61	58	58	69	69	66	64	64	66	68	68	320	651
Other retirement	8	9	10	11	12	12	12	13	13	14	14	15	56	125
Excise taxes	79	85	105	114	115	118	125	138	142	149	156	166	577	1,327
Estate and gift taxes	14	13	13	14	15	17	18	31	33	36	38	41	78	257
Customs duties	30	34	39	42	46	49	53	55	58	61	65	68	228	537
Deposits of earnings, Federal Reserve System ..	82	83	92	79	51	12	.....	10	30	33	37	39	234	383
Other miscellaneous receipts	25	24	28	70	73	72	70	76	81	82	84	86	324	733
Total receipts	2,450	2,712	3,034	3,332	3,561	3,761	3,974	4,226	4,464	4,709	4,951	5,220	17,661	41,231
Deficit	1,087	973	744	576	528	487	475	498	503	501	519	439	2,811	5,271
Net interest	220	223	223	254	300	373	461	543	609	663	715	763	1,611	4,905
Primary deficit / surplus (-)	867	750	521	323	228	113	14	-45	-106	-162	-197	-323	1,200	366
On-budget deficit	1,149	1,006	768	584	525	478	460	474	459	451	450	345	2,814	4,993
Off-budget deficit / surplus (-)	-62	-33	-24	-7	4	9	16	24	44	50	69	94	-3	278

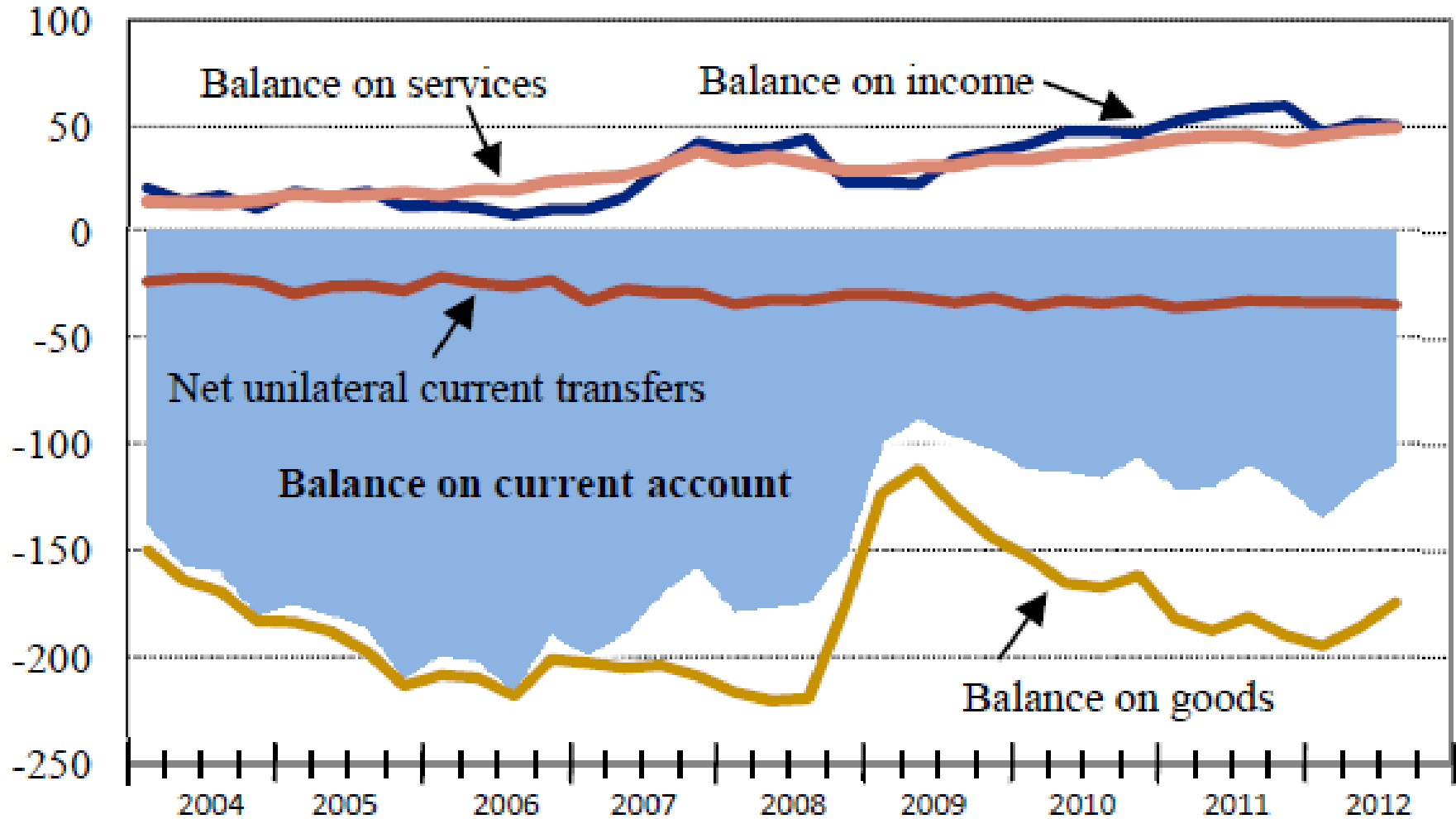
(Deficit increases (+) or decreases (-) in billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Totals	
												2014– 2018	2014– 2023
Projected deficits in the adjusted baseline¹	919	627	536	547	556	571	637	678	723	889	913	2,837	6,678
Percent of GDP	5.7%	3.7%	3.0%	2.9%	2.8%	2.7%	2.9%	3.0%	3.0%	3.6%	3.5%	3.0%	3.1%
Proposals in the 2014 Budget:²													
Proposals contained in the December Compromise Deficit Reduction Package:													
Discretionary program reductions					-5	-12	-19	-27	-35	-46	-58	-16	-202
Health savings		-6	-16	-21	-29	-35	-40	-49	-57	-68	-81	-107	-401
Other mandatory savings	*	-1	-12	-16	-19	-21	-23	-25	-26	-29	-28	-69	-201
Revenue proposals		-30	-42	-46	-52	-57	-62	-66	-71	-76	-81	-228	-583
Immediate investments in infrastructure		6	18	12	6	4	2	2	1	*	*	45	50
Programmatic effects of moving to the chained CPI			-3	-8	-14	-19	-24	-31	-37	-44	-50	-44	-230
Discretionary effects of program integrity cap adjustments		*	*	*	1	1	1	1	1	1	1	3	9
Debt service and accrual effects	*	1	1	-*	-3	-10	-18	-27	-37	-48	-61	-12	-202
Total, December Package proposals	*	-31	-53	-79	-117	-148	-183	-222	-261	-308	-357	-428	-1,760
Policy initiatives:													
Surface transportation initiatives		*	2	5	10	14	18	22	18	9	5	31	104
Job creation initiatives	2	31	11	9	4	1	1	1	1	1	1	55	62
Reductions in overseas contingency operations													
reserved for surface transportation and job creation	-1	-3	-19	-29	-32	-43	-41					-126	-167
Early childhood investments		*	1	3	6	8	10	11	12	12	12	19	77
Tobacco tax financing		-8	-10	-9	-9	-8	-8	-7	-7	-6	-6	-44	-78
Other mandatory proposals	9	25	20	12	1	-1	-5	-9	-11	-18	-17	57	-3
Reserve for revenue-neutral business tax reform													
Debt service	*	*	*	1	1	1	-*	-*	*	*	*	2	2
Total, policy initiatives	10	46	6	-9	-19	-28	-25	18	15	-*	-5	-5	-2
Additional changes to deficits:													
Remaining reductions in overseas contingency operations including amounts reserved for additional surface transportation transfers		-1	-19	-30	-34	-26	-30	-74	-77	-101	-115	-111	-508
Revenue proposals available to pay for extension of baseline tax items	*	5	3	-7	-9	-10	-23	-25	-26	-28	-29	-18	-149
Proposed BCA disaster relief cap adjustment	-*	2	2	1	-*	-*	-*	-*	*	-*	-*	5	5
Outlay effects of discretionary policy	-5	9	2	-2	-4	-4	-3	-1	-4	-4	-3	2	-13
Debt service and indirect interest effects	*	*	1	*	-1	-3	-6	-9	-14	-19	-25	-4	-76
Total, additional deficit reduction	-4	15	-12	-38	-48	-43	-63	-110	-121	-151	-171	-125	-741
Total proposals in the 2014 Budget	5	30	-59	-126	-184	-220	-271	-314	-367	-460	-533	-558	-2,503

U.S. Current-Account Balance and Its Components

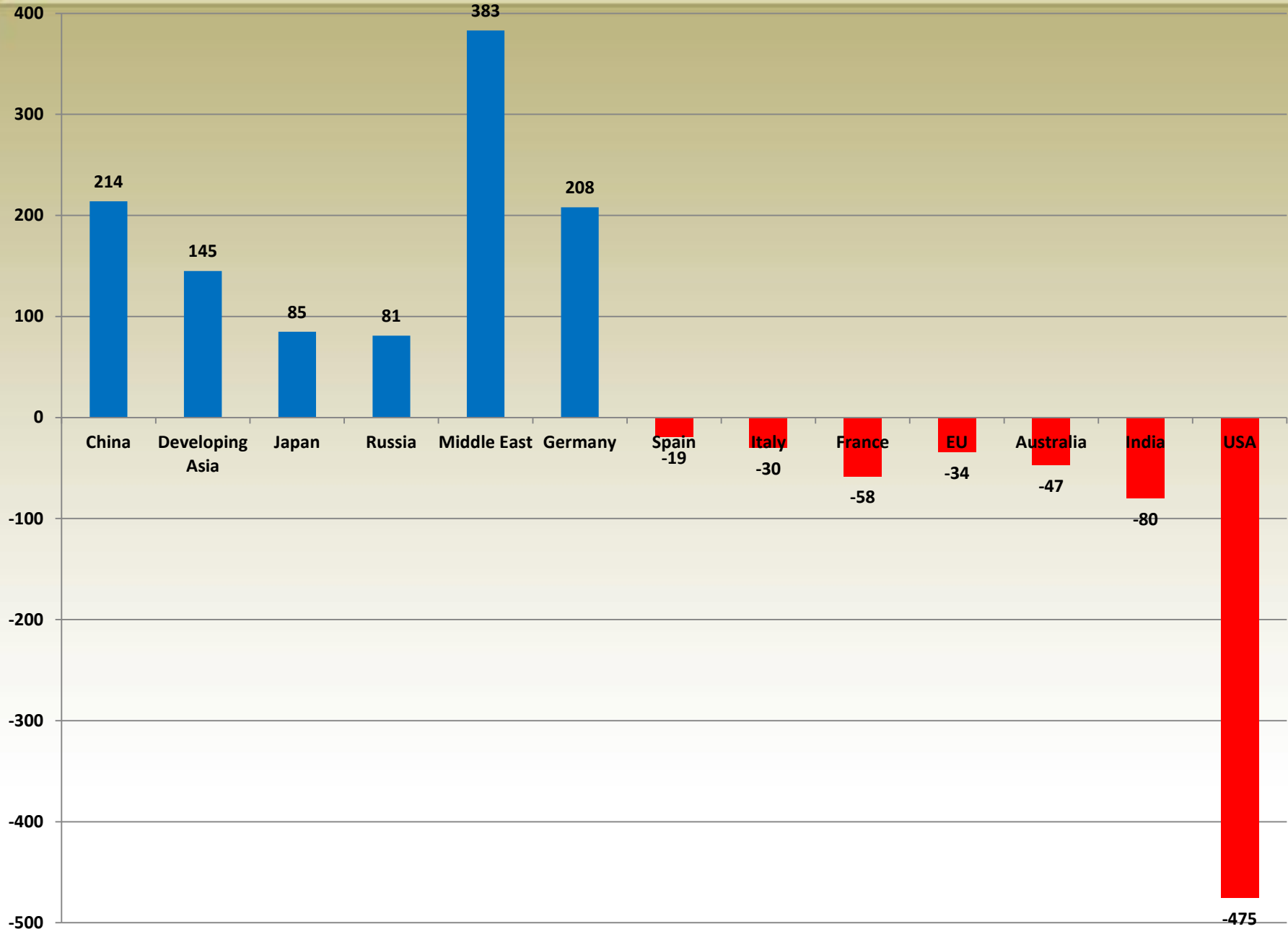
[Seasonally adjusted]

Billion \$



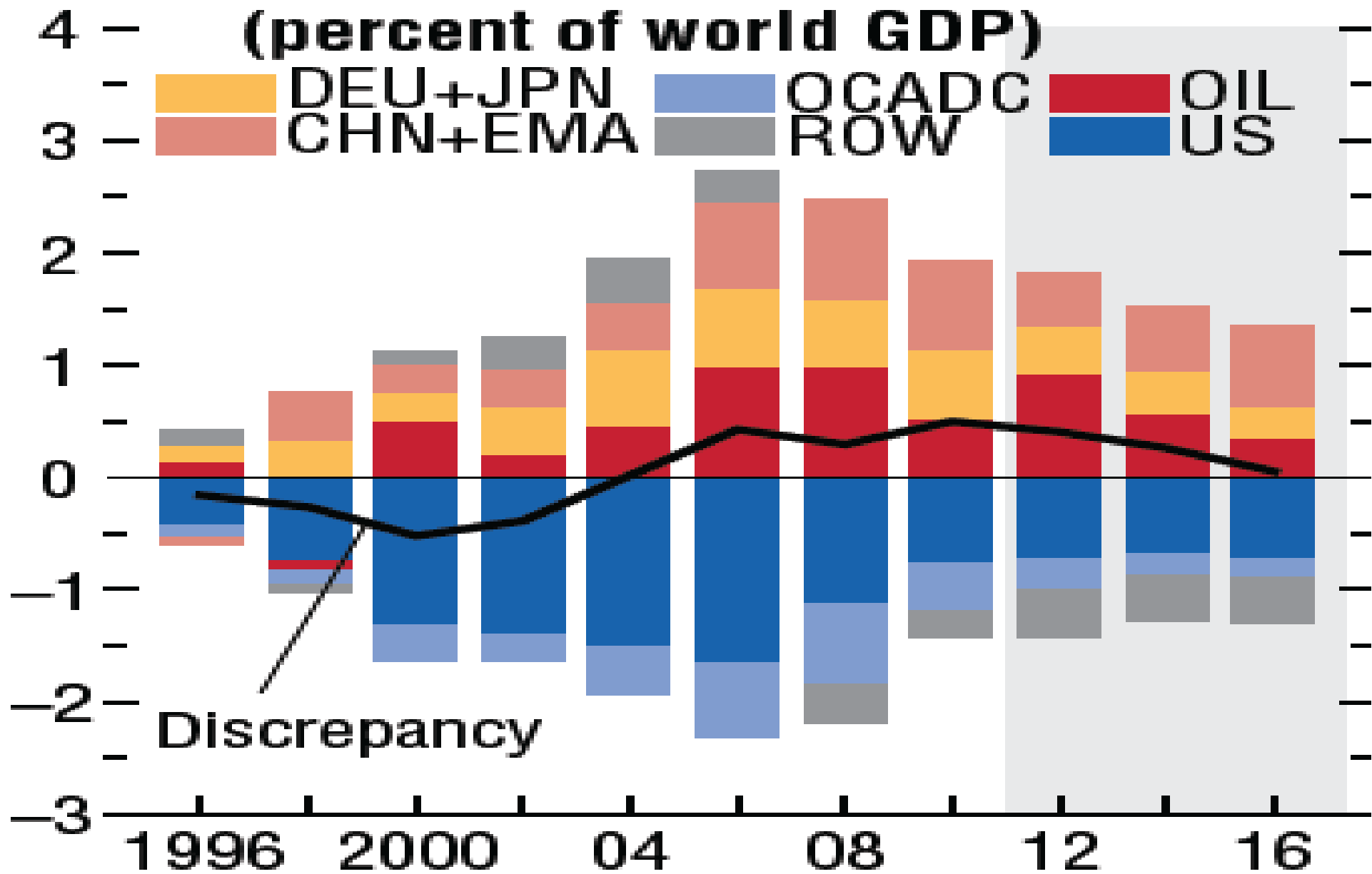
OVERALL GLOBAL CURRENT ACCOUNT BALANCES IN 2012

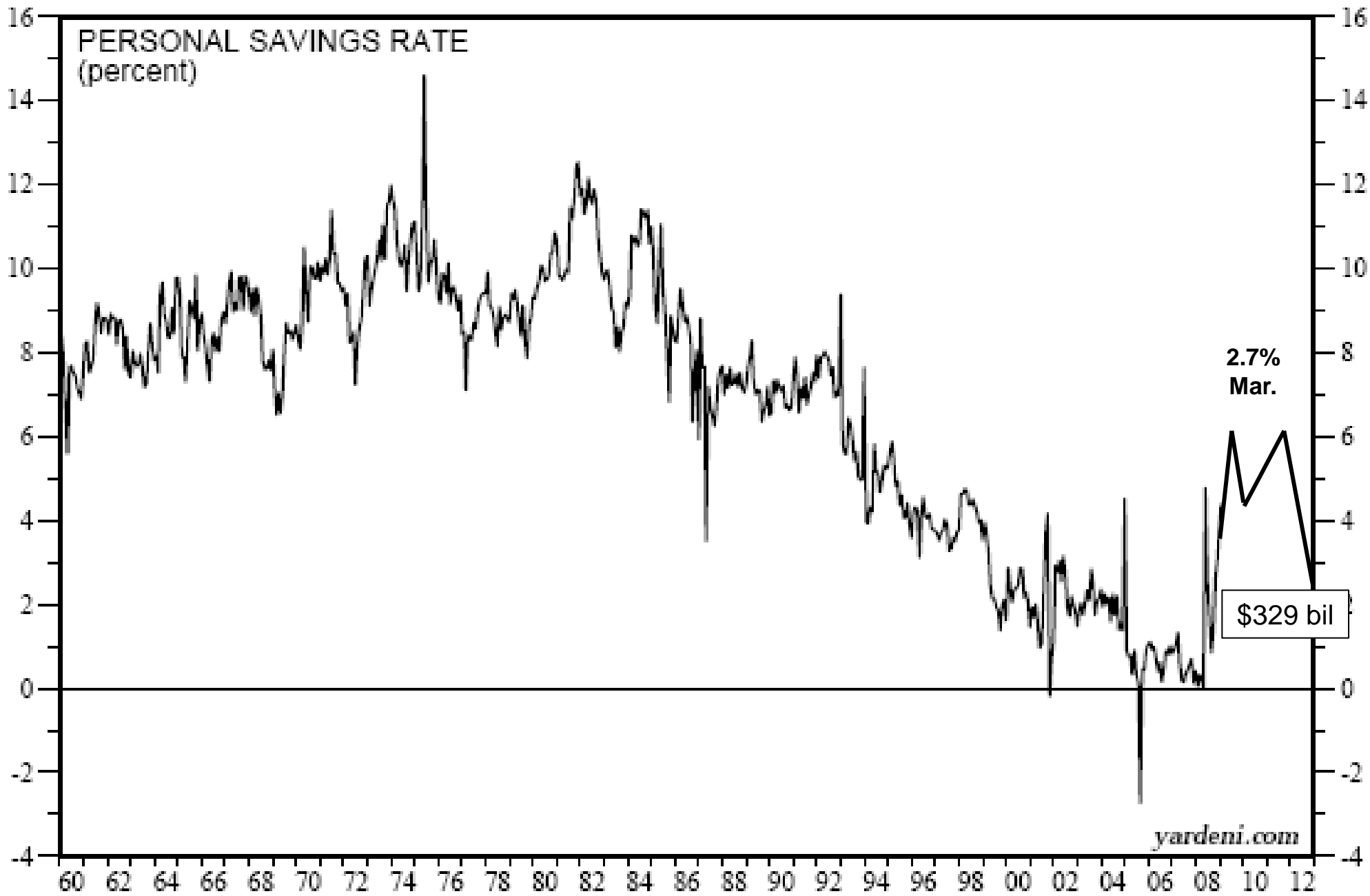
Billions \$\$



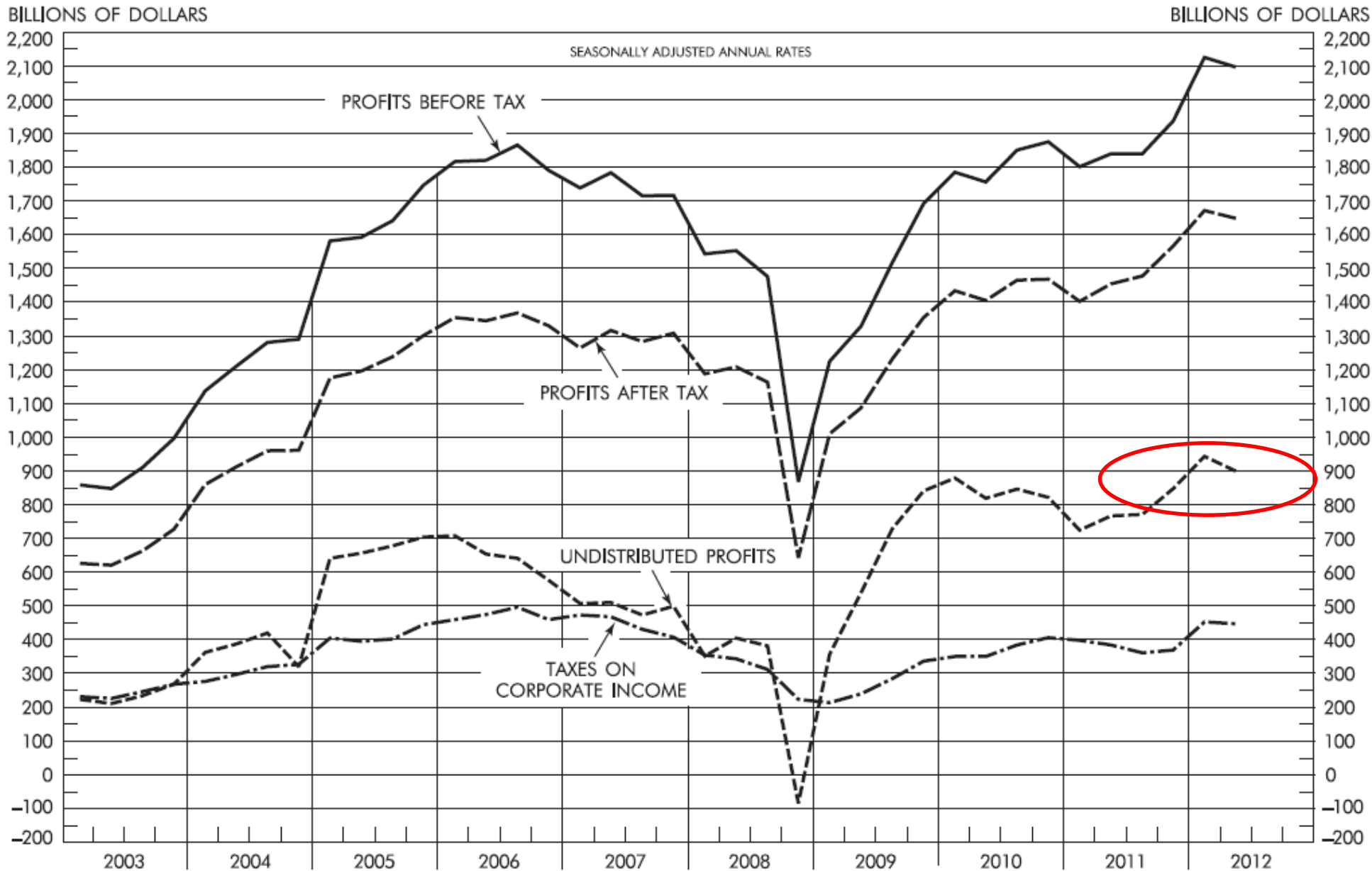
Global Imbalances

(percent of world GDP)





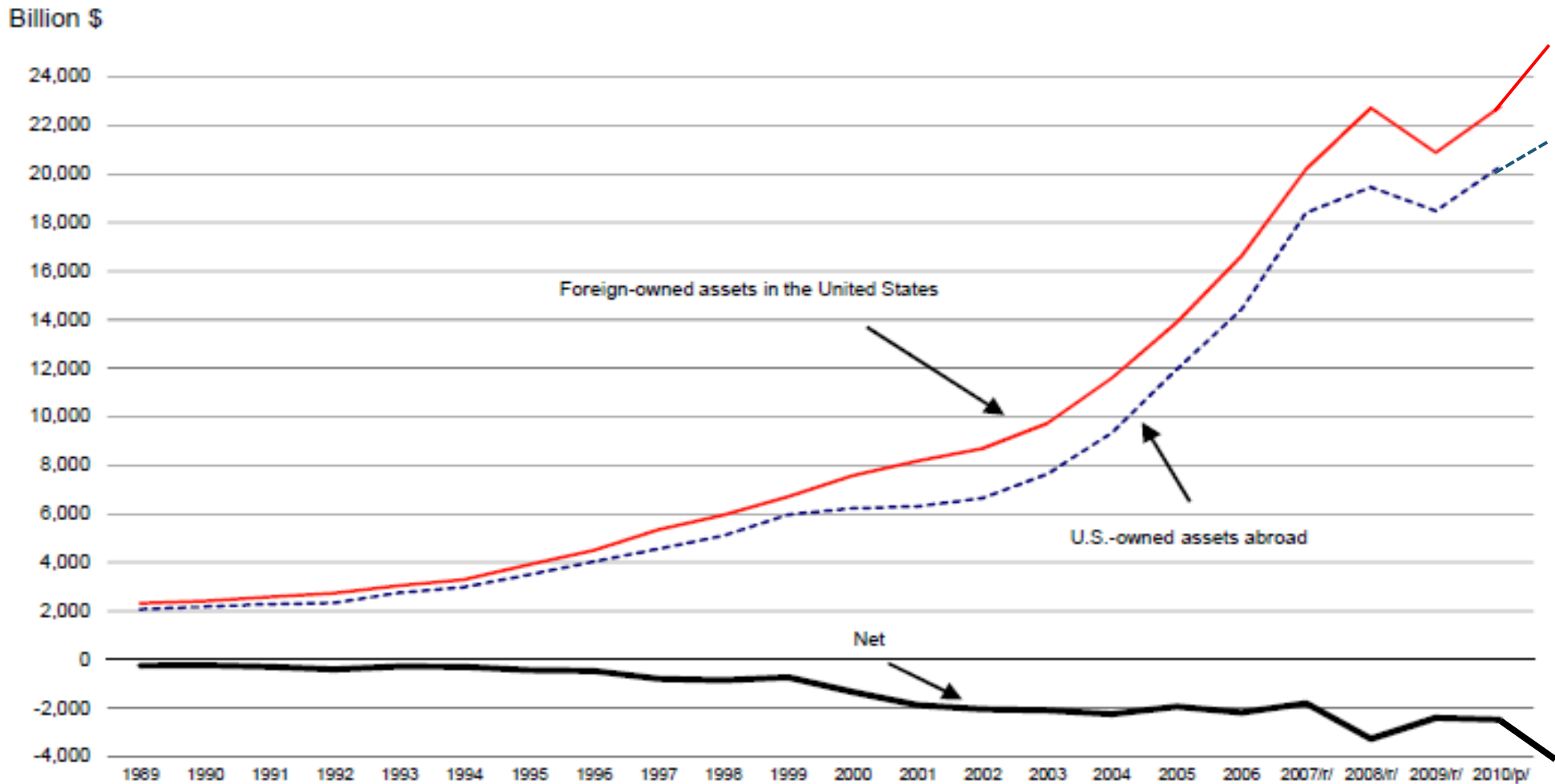
CORPORATE PROFITS





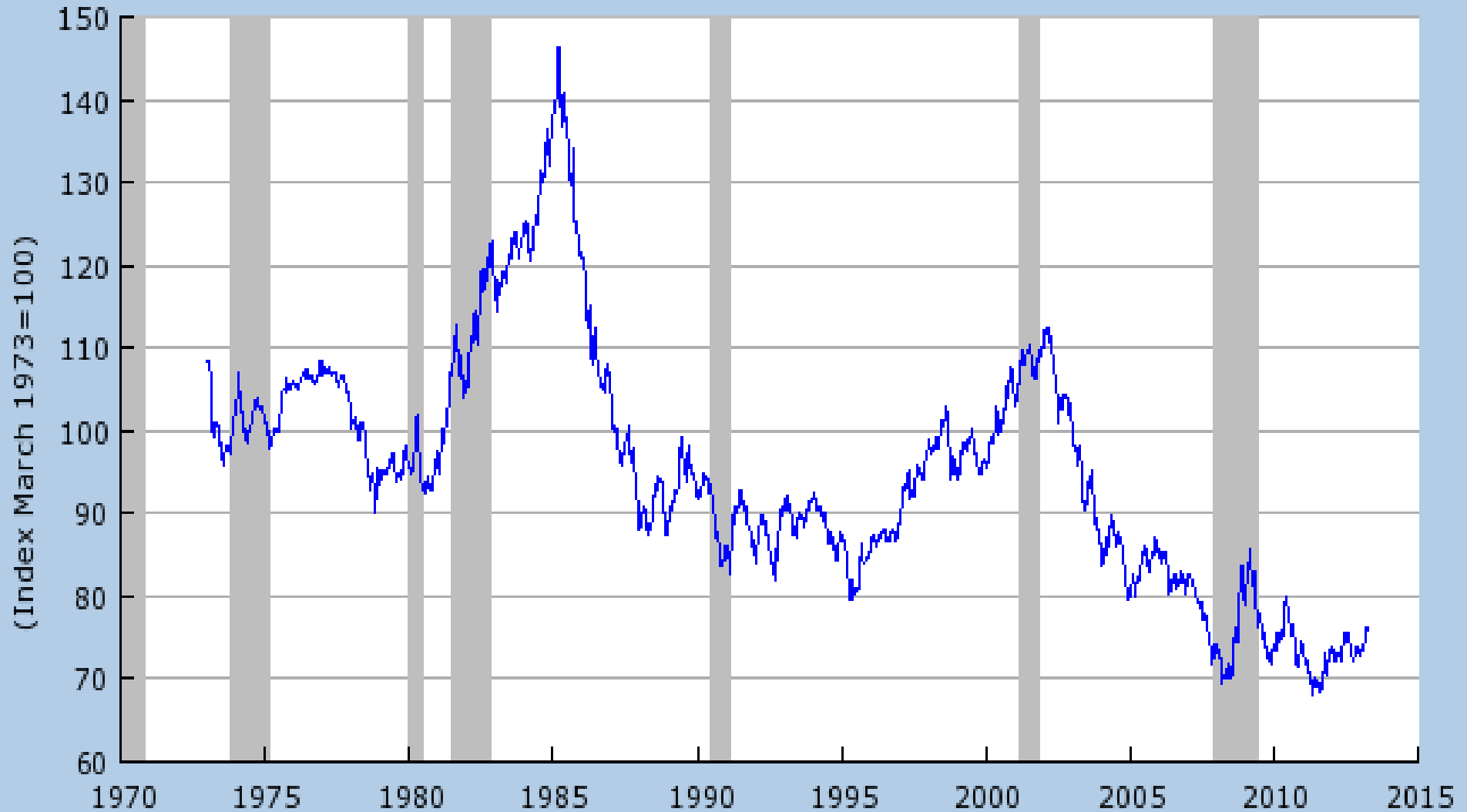
SAD NEWS FOR THE NEXT GENERATION

Net International Investment Position of the United States at Yearend, 1989 - 2010



Good news – U.S. dollar has weakened, some

Trade Weighted U.S. Dollar Index: Major Currencies (TWEXM)
Source: Board of Governors of the Federal Reserve System



Shaded areas indicate US recessions.
2013 research.stlouisfed.org



Risks facing the USA

- No debt solution by march – debt crisis
- No long-term deficit reduction – debt crisis
- Recession resumes
- Democrats & Republicans in Congress fail to compromise
- Climate change worsens significantly
- Oil price shock – sudden jump
- Income inequality widens – crime & unrest
- Education does not improve
- Competitiveness does not improve
- Demographic trap worsens
- US enters war with Iran



5-year Forecast for the USA

(barring risks)

Real GDP growth	2.2%	→	2.5%
Unemployment	7.8%	↘	6.1%
Inflation (cpi)	2.2%	→	2.3%
Fiscal balance (%/GDP)	7.0%	↘	3.2%
Trade balance	-\$737 bn	→	
Current account	-\$486 bn	↘	\$390 bn
Exchange rate		→	



Global Risks

