BANK OF ENGLAND

Press Office
Threadneedle Street
London EC2R 8AH
T 020 7601 4411
F 020 7601 5460
press@bankofengland.co.uk
www.bankofengland.co.uk

News release

16 October 2015

Growing Your Business in the Global Economy: Not all Doom and Gloom – a speech by Kristin Forbes

In a speech to the Brighton and Hove Chamber of Commerce external MPC member Professor Kristin Forbes sets out her view that that although "the risks and uncertainties in the global economy have increased", the current level of pessimism about the outlook for emerging markets "is overstated". Instead, she argues, UK businesses should consider the opportunities available from engaging with emerging markets in the longer term.

This argument is also used to support Kristin's view that though there is a risk of "a sharper slowdown" in emerging markets or a financial crisis from which "the UK economy is unlikely to be immune", the UK's relatively small exposures to these countries mean events thus far are "manageable". And, she adds, the UK's domestic-led expansion "shows all signs of continuing, even if at a more moderate pace than in the earlier stages of the recovery. As a result, despite the doom and gloom sentiment, the news on the international economy has not caused me to adjust my prior expectations that the next move in UK interest rates will be up and that it will occur sooner rather than later."

Kristin argues that recent events need "to be put in context of the historic swings in commodity cycles, albeit a cycle amplified by China's recent evolution." Despite earlier optimism that a 'great moderation' would bring "an end to the business cycle" all countries "will continue to experience periods of expansion and contraction when growth rates fluctuate around longer term trends" and emerging markets will continue to experience the greatest fluctuations.

"Some of the recent negative headlines merit a closer look, and after considering the actual data and differences across countries, the actual news for this group is much more balanced (albeit not all bright)." For example, those emerging markets that are net commodity importers will benefit from lower prices. Others used high commodity prices to pay down debt and make reforms to make them more resilient to global economic shifts. In fact overall, "the downgraded growth rate expected for emerging markets in 2015 that has garnered such negative headlines is still likely to be around twice as fast as in advanced economies."

Another important factor to consider is the relative size of these economies in the future. PwC analysis suggests that in 2050 India and China will be the two largest economies in the world with Indonesia, Mexico and Brazil in 4th, 5th and 6th place respectively. The UK, in contrast, “will be one of the remaining developed economies in the top-15, predicted to hold a respectable 11th place position.” Add to this the growing middle classes in these countries and many UK brands could see demand in these countries grow significantly.

Kristin’s analysis shows that if UK businesses increased exports to emerging economies to a similar proportion to that of the US, this increased exposure when combined with growth differentials (even under conservative assumptions), could increase UK exports by £23 billion in 2020 relative to that based on the UK’s current exposures. This could make a sizeable reduction in the UK’s trade deficit.

Kristin concludes that though risks in many emerging market economies have recently increased “much of the current gloomy discussion appears to be overblown. It is overshadowing important differences across countries and strengths in some economies as they make beneficial transitions toward more sustainable and balanced growth.”

ENDS