

# Global Risk Watch Newsletter

## The World Economy is Frightened by The Policy Brake Which Might Further Harden Its Uphill Climbing, etc.

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### 1. Overview Macroeconomic and Financial Risks (Trends & Topics)

#### # The World Economy is Frightened by The Policy Brake Which Might Further Harden Its Uphill Climbing (Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

\*This article is written on 15 December 2015.

FRB's interest rate hike has finally entered the countdown phase, and the focus has now shifted to the pace in rate hikes during 2016. Meanwhile, the global financial markets saw volatilities rise once again from a temporary lull. This resurgence of market jittery interestingly coincides with some signs of strong matured economies despite the continued sluggishness of emerging economies. Namely, the US continues to show strong employment figures, which is recently accompanied by the initial positive outcome of Christmas sales. Europe continues to loom over the concerns of a major automaker scandal and terrorist attacks in Paris, yet its macro-economy maintained a steady growth. Regarding the Japanese economy, 3Q GDP growth rate was revised up to the positive territory, meanwhile

recent sluggish capital investment and production figures also finally started to show signs of improvement. Moreover, the decision to reduce corporate tax rate to less than 30% in fiscal 2016 would also cause positive cross-currents for corporate activities going forward.

Thus, while Chinese and various emerging economies remain in the middle of a major adjustment process, more robust signs of matured economies somehow underpinned the global growth. The question then is, what is the rationale behind the recent rising concerns in the global financial market. One reason might be that the robustness of matured economy itself increase the uncertainty of whether emerging as well as matured economies could climb the coming 'uphill'. This 'uphill' represents the downward kink of the potential growth rate of Chinese and emerging economies. Although the Chinese economy recently showed some signs of improvement in consumption, these improvements may only be temporary owing to the policy measures. Production and trade sectors in China continue to struggle with depressing figures and mounting pressures on capital stock adjustments will surely produce further deflationary pressure. Also, resources-rich countries such as Russia and Brazil continue to face predicaments as the price of crude oil further declines. This has left even OPEC countries questioning their fiscal sustainability. Under these circumstances, the US is about to put on the brakes to the accelerating domestic economy, and this brake push is supposed to be stronger if the growth speed looks faster. Hence more uncertainly in keeping the right speed in face of possibly steep uphill. What is worse, frequent terrorism and worsening migration problems in Europe, as well as stronger right-wing political sentiments in the US and Europe have entailed concerns for the policy maneuver in the mid-long term. The coming uphill could thus be not only very steep but also very long, and they are definitely the factors to be considered when braking.

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