"Global Growth, Development and Bretton Woods Economy"

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Opening panel remarks on global economic and financial issues.
By

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Thank you and good morning.

We have a huge topic – so many issues, so little time.

Framing our conversation is the reality that world economic growth – both in industrial and emerging markets - is slow and well below its potential. The U.S. first quarter GDP numbers are disappointing and many economists are now suggesting that our growth rate in 2015 may be only around 2.5% and yet the U.S. alongside the U.K. is growing at a significantly more rate than the eurozone and Japan.

Let me start with just five specific bullets:

1. The enormous amount of liquidity created by central banks together with exceptionally low interest rates have produced a reach for yield in most asset classes that is often giving rise to imprudent behavior. We need to be concerned about the risks to financial institutions and the financial system in general.

This is especially the case as there is no sign of a meaningful change in the easy money policies of most central banks any time soon, and even the Fed is unlikely to move on interest rates until at least September.

2. The Greek crisis can and should be solved. As I noted recently in a *Wall Street Journal* article, the Achilles Heel in Greece is the banking system. There are clearly limits to ECB support for the banks in Greece and the outflows of deposits from the Greek banks will not abate, unless there is serious policy action. There is a risk that Greece gets into a similar situation to the one we saw in Cyprus in 2012, where capital controls had to be introduced, restrictions were placed on individual withdrawals of savings from banks and major bank restructuring was required.

There are technical discussions between the Greeks and the EU Commission today in Brussels; the ECB Council will be discussing the situation on Wednesday; then the EU Summit leaders meet in Riga on Thursday and Friday. And, yet with all the public statements flowing daily from all parties, the prospect of a deal still seems distant.

Greece needs to unlock $7.2 billion of funding from Brussels, IMF and ECB. It needs to make euros 1.5 billion of payments to the IMF in June, starting with euros 300 million on June 5; while it also needs to make payments to other creditors.

Forging a serious solution requires an end to the big press conferences and public rhetoric. It calls for serious closed-door negotiations where all parties agree that compromises must be made. These have to include the important domestic reforms that have long been discussed – but the negotiations also need to include a long-term stretch out of debt maturities and long-term postponement of a good deal of the debt-servicing payments.

3. But the Greek crisis needs to be seen against the background of the eurozone's condition. Notwithstanding the fall in oil prices since last summer, the weakening of the Euro, and the start of quantitative easing: the eurozone economy as a whole remains fragile.

Some people may take comfort from the fact that seasonally adjusted GDP in the 19 countries of the eurozone rose by 0.4% in the last quarter over the previous three months. The first quarter advance amounted to just 1% compared to the first quarter of 2014. Looking more closely at the three biggest economies – we find that the first quarter gain over the previous three months was just 0.3% for Germany, 0.6% for France and 0.3% for Italy.

What I keep watching – because it has such political importance – is the unemployment data. The seasonally adjusted unemployment rate in the eurozone in March was the same as in February at 11.3%, which is only down from 11.7% a year ago. It is clearly very high indeed. In Greece latest data suggests it is around 27%; in Spain it is 23%; in France and in Italy respectively it is 10.6% and 13%. Youth unemployment in the eurozone is 22.7%; in both Spain and Greece it is over 50%; in France it is 24.4%; in Italy it is 43.1%.

Moreover, when looking for growth ahead in the eurozone the fact is that it is far from clear whether the transmission mechanism is working efficiently – the means by which ECB quantitative easing is seeing funds go through the banking system to increase consumer and investment spending. I believe the eurozone has to embrace a bold growth strategy and not just leave all the effort to monetary policy.

4. My fourth bullet – trade. We need to recognize that at least at the political level, efforts are being made to strengthen economic and political ties between Russia and China, while we are struggling to forge vital agreements across both the Pacific and the Atlantic.

Approval the Trans-Pacific Partnership (TPP) is essential for the United States position in Asia. We need to continue to work to ensure that global trade and investment is promoted. The alternative is protectionism, which is dangerous. The US Administration and the US Congress are placing the global trading system at risk by failing to make the strong case to the American people and failing to lead.

There also needs to be new impetus on the TransAtlantic Trade and Investment Partnership (T-TIP), which is no less important for the health of the global trading system and global economy.

5. My fifth bullet relates to China. In the short-term, China faces serious challenges. The official goal of 7% growth looks ambitious, the IMF forecasts 6.8% and many economists are less optimistic. In response, China is risking serious financial bubbles as it fails to curb the high propensity for debt on the part of municipalities, provincial governments and state owned enterprises. The property sector is a deep cause for concern today.

China is determined to have a larger role on the international financial and economic stage. Part of its strategy is important financial reform, including a series of actions such as: freeing up interest rates, introducing deposit insurance and the convertibility of the RMB. Then the government is also set on building new international institutions.

The Chinese are rightly concerned by the failure by the U.S. Administration and the US Congress to promote reforms that have been agreed internationally to provide China with a greater voice in the IMF. It is also a failure that we are not supporting the Asia Infrastructure Investment Bank AIIB), as are almost all of our allies. If our concerns about the AIIB relate to its governance, then we should join the increasing number of other countries and become a member so that we influence its course from the inside. We should not stand outside and we should note that both the World Bank and the Asia Development Bank have said they will look forward to working with this new institution.

Thank you.