

Global economy: major challenges await in 2013

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Swedish bank Swedbank said in a report that the global economy closes the year on a down note and that major challenges await in 2013. Highlights:

- Forecasters continue to revise their global growth projections downward. On the positive side, the US recovery has become more robust and a turnaround in China is more clearly evident. But in large parts of Europe, Japan and other emerging markets conditions have deteriorated. □
- Among the most important events in 2012 has been the strengthening of the euro zone's institutional framework. Concerns about a euro collapse and so-called Grexit have eased and a muddling-through scenario is still holding. While this means that the euro zone's GDP will continue to shrink, interest rate spreads could still fall if the pace of reform is maintained. □
- In 2013 parliamentary elections are scheduled in Italy and Germany, among other countries. The focus will be on balancing credit and budget austerity with reforms that lead to stronger growth. In the US (if the fiscal cliff is avoided), UK and even Germany confidence in the financial market will make it possible to avoid austerity, but the crisis countries have no alternative due to a lack of financing. Instead, they have to continue their reform work, while fiscal policies will have to include targeted measures to stimulate growth and support society's most vulnerable groups. Without social cohesion and a focus on democracy, there is a risk that the pessimists will be proven right about a euro collapse – a fight that optimists have won to date.