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| Quarterly |

Global Economic Outlook

Janus-faced global debt



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1# JANUS FACED GLOBAL DEBT: When is debt sustainable? Using a traditional rule of thumb of 80-90% of GDP, several major economies are in the danger zone. Indeed, seven years after excessive debt first triggered the crisis, debt levels have not seen much decline. In most cases, they have merely been reshuffled. The major economies divide quite neatly into those looking towards sustainable debt dynamics and those where debt sustainability remains elusive.

2# A NEW “GLUT”, BUT BELIEVE THE DOTS: Pre-crisis, the term “savings glut” described the excess of savings primarily from emerging economies seeking out a home in safe US assets. A new glut appears to be taking shape. This time, however, Japan and the euro area are to the fore, seeking to export deflationary pressure through an expansionary monetary policy also targeting currency weakness. China should stay out of the currency race, preventing a disorderly dollar movement and keeping the Fed on track for a 2015 rate hike. Indeed, we continue to believe the dots.

3# ECB ALONE CANNOT DRIVE LOWFLATION EXIT: Monetary policy alone cannot secure the euro area's exit from lowflation. This requires determined action by governments, but so far this has been missing. For 2015, we forecast another year of lowflation as looming elections are likely to slow reforms even further.

4# VOTING ON ABENOMICS: Prime Minister Abe is seeking the support of the Japanese electorate in a snap election called for December 14. Our one concern is that progress on the third arrow of structural reform continues to lag. Should Prime Minister Abe secure a solid majority in the election, we expect this arrow finally to fly.

5# CHINA BUMPY LANDING (STILL!): We first introduced the China bumpy landing theme four years ago and it continues to play out to script. In 2015, the currency dimension is an important aspect. The good news as we enter 2015 is that we now see China hard landing risks reduced from 30% previously to 20%, as the government's policies bear fruit.

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