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GLOBAL ECONOMIC GROWTH

The International Monetary Fund and others have recently revised down their forecasts for global growth – yet again. Little wonder: the world economy has few bright spots – and even those are dimming rapidly. Among advanced economies, the US has experienced two quarters of growth averaging 1%. Further monetary easing has boosted a cyclical recovery in the eurozone, though potential growth in most countries remains well below 1%. In Japan, so-called Abenomics is running out of steam, with the economy slowing since mid-2015 and edging close to recession. In the UK, uncertainty surrounding the June referendum on continued EU membership is leading firms to keep hiring and capital spending on hold. And other advanced economies – such as Canada, Australia and Norway – face headwinds from low commodity prices.

Things are not much better in most emerging economies. Among the five Brics countries, two (Brazil and Russia) are in recession, one (South Africa) is barely growing, another (China) is experiencing a sharp structural slowdown, and India is doing well only because – in the words of its central bank governor, Raghuram Rajan – in the kingdom of the blind, the one-eyed man is king. Many other emerging markets have slowed since 2013 as well, owing to weak external conditions, economic fragility (stemming from loose monetary, fiscal, and credit policies in the good years), and, often, a move away from market-oriented reforms and toward variants of state capitalism.

Worse, potential growth has also fallen in advanced and emerging economies. For starters, high levels of private and public debt are constraining spending – especially growth-enhancing capital spending, which fell (as a share of GDP) after the global financial crisis and has not recovered to pre-crisis levels. That decline in investment implies slower productivity growth, while ageing populations in developed countries – and in an increasing number of emerging markets (for example, China, Russia, and South Korea) – reduce the labour input in production.

The rise in income and wealth inequality exacerbates the global saving glut, which is the counterpart of the global investment slump. As income is redistributed from labour to capital, it flows from those who have a higher marginal propensity to spend (low- and middle-income households) to those who have a higher marginal propensity to save (high-income households and corporations).Moreover, a protracted cyclical slump can lead to lower-trend growth. Economists call this “hysteresis”: long-term unemployment erodes workers' skills and human capital; and, because innovation is embedded in new capital goods, low investment leads to permanently lower productivity growth.

Finally, with so many factors dragging down potential growth, structural changes are needed to boost potential growth. But such an overhaul is occurring at a suboptimal rate in advanced and emerging economies, because all of the costs and dislocations are front loaded, while the benefits occur over the medium and long term. This gives opponents of reform a political advantage.

Meanwhile, growth remains below the diminished potential. A painful de-leveraging process implies that private and public spending need to fall, and that savings must rise, to reduce high deficits and debts. This process started in the US after the housing bust, then spread to Europe, and is ongoing in emerging markets that spent the past decade on a borrowing binge. At the same time, the policy mix has not been ideal. With most advanced economies pivoting too quickly to fiscal retrenchment, the burden of reviving growth was placed almost entirely on unconventional monetary policies, which have diminishing returns (if not counterproductive effects).Asymmetric adjustment between debtor and creditor economies has also undermined growth. The former, having overspent and under-saved, had to spend less and save more when markets forced them to do so, whereas the latter were not forced to spend more and save less. This exacerbated the global savings glut and investment slump.

Finally, hysteresis further weakened actual growth. A cyclical slump reduced potential growth, and the reduction in potential growth prospects led to further cyclical weakness, as spending declines when expectations are revised downward.

US jobs growth falters in April

The US economy added 160,000 jobs in April - undershooting expectations and well below the 208,000 created in March, official figures show. March's figure was revised down from 215,000 and February's was also revised from 242,000 down to 233,000.The jobless rate remained at 5% and average hourly earnings rose 2.5%.April's report is being closely watched, as it could influence an upcoming interest rate decision by the US Federal Reserve. Fed policy makers hold a two-day meeting starting on 14 June and some thought they might decide to raise interest rates.

Aberdeen Asset Management, investment manager Luke Bartholomew, said: "Anyone wanting a June hike should probably look away now. The headline number is disappointing, while the household survey looks particularly ugly."If there's a bright spot then it's wages which were a bit better than expected. That's important. The lack of any meaningful increase in wages has caused much head scratching at the Fed. But there's probably not enough here to keep a June hike a clear and present danger."

However, Paul Ashworth, chief US economist at Capital Economics, thinks that a rate increase is still possible."Overall, there is nothing here to swing the Fed's June rate decision very far in either direction. We still think the Fed will hike next month, but it's shaping up to be a close call," he said. Mr Ashworth said the increases in average weekly hours worked and average hourly earnings were "reassuring".

In December, the Fed raised rates for the first time in ten years. That rise was seen as the first of a number of moves upwards and Fed officials have forecast two more rate rises for this year. But since then the economic news has been mixed. In April, official figures showed that US growth slowed to an annual pace of 0.5% during the first quarter of the year. There was also a marked increase in the number of people not in the labour force. That means people are not looking for work, which can sometimes mean they don't expect to find any.

The good news was the slightly faster rise in average earnings. This has been a weak feature of the recovery after the financial crisis, so the acceleration, modest though it is, can be seen as encouraging. Still, this was just one month's worth of data. That can give some clues about the underlying state of the labour market, but it's no basis for drawing firm conclusions.

Panama Papers: Source breaks silence

The anonymous source behind the leak of the Panama Papers has spoken for the first time, offering to help law authorities make prosecutions in return for immunity. In a 1,800-word statement, "John Doe" reveals he has never worked for a spy agency or a government.

He starts the statement by citing "income equality" as a motive. The Panama Papers have shown how some wealthy people use offshore firms to evade tax and avoid sanctions. The papers belonged to the Mossack Fonseca law firm. It denies any wrongdoing and says it is the victim of a hack.

The papers were investigated by hundreds of investigative journalists, including from the BBC, who worked in secret with the International Consortium of Investigative Journalists (ICIJ) for months. The documents have revealed the hidden assets of hundreds of politicians, officials, current and former national leaders, celebrities and sports stars.

They list more than 200,000 shell companies, foundations and trusts set up in tax havens around the world. The John Doe statement came shortly before US President Barack Obama delivered an address on the economy, in which he cited the Panama Papers as highlighting the problem of corruption and tax evasion. He said the US would require banks to identify those behind shell corporations. Mr Obama said his administration's actions would allow it to do a better job of making sure people paid taxes.

Although the name John Doe is used, the gender of the source has not been revealed. In the statement, The Revolution will be Digitized, John Doe starts by saying: "Income equality is one of the defining issues of our time."He adds: "Banks, financial regulators and tax authorities have failed. Decisions have been made that have spared the wealthy while focusing instead on reining in middle- and low-income citizens."

He goes on to say: "Thousands of prosecutions could stem from the Panama Papers, if only law enforcement could access and evaluate the actual documents."ICIJ and its partner publications have rightly stated that they will not provide them to law enforcement agencies."I, however, would be willing to co-operate with law enforcement to the extent that I am able."But he adds: "Legitimate whistleblowers who expose unquestionable wrongdoing, whether insiders or outsiders, deserve immunity from government retribution."

Responding to speculation about his or her identity, John Doe's statement says: "For the record, I do not work for any government or intelligence agency, directly or as a contractor, and I never have."My viewpoint is entirely my own, as was my decision to share the documents with Suddeutsche Zeitung and the International Consortium of Investigative Journalists (ICIJ), not for any specific political purpose, but simply because I understood enough about their contents to realise the scale of the injustices they described."

John Doe says that global judicial systems have "utterly failed to address the metastasizing tax havens spotting Earth's surface". He says: "I decided to expose Mossack Fonseca because I thought its founders, employees and clients should have to answer for their roles in these crimes, only some of which have come to light thus far."It will take years, possibly decades, for the full extent of the firm's sordid acts to become known."

Panama-based Mossack Fonseca says it was hacked by servers based abroad and has filed a complaint with the Panamanian attorney general's office. It says it has not acted illegally and that information was being misrepresented.

Eleven million documents held by the Panama-based law firm Mossack Fonseca have been passed to German newspaper Sueddeutsche Zeitung, which then shared them with the International Consortium of Investigative Journalists. BBC Panorama and UK newspaper The Guardian are among 107 media organisations in 76 countries which have been analysing the documents. The BBC does not know the identity of the source They show how the company has helped clients launder money, dodge sanctions and evade tax. Mossack Fonseca says it has operated beyond reproach for 40 years and never been accused or charged with criminal wrong doing

Greece passes tax and pension reforms

Greece's parliament has passed a package of tax and pension reforms, ahead of a crucial meeting of Euro zone finance ministers on Monday. Controversial austerity measures could unlock more international bailout money for the country, allowing it to access a loan installment of €5bn (£4bn).Before the vote, protesters in Athens threw petrol bombs at police, who responded with tear gas. Trade unions say the country cannot bear another round of austerity.

Prime Minister Alexis Tsipras said the bill aimed for a "sustainable" system that would "have social justice as its core principle", as only 7.5% of pensioners would see a cut in the money they got. He said the finance ministers' meeting meant Monday would be "a very important day" as debt relief for Greece was on the agenda after "six long years" of austerity discussions.

The debate in Greece's parliament lasted two days as MPs debated whether or not to install the unpopular pension and tax reforms. They will reduce some pension payouts, merge several pension funds, increase social security contributions and raise taxes for those on medium and high incomes. Thousands of people demonstrated, mostly peacefully, in Athens and in the country's second-largest city, Thessaloniki. Three days of a general strike paralysed public transport and slowed the public sector and the media. Speaking before the vote, the leader of the Greek Communist Party, Dimitris Koutsoubas, said the Greek people would "not tolerate nor accept" the measures and would "show their true power" in the event of a yes vote. Fofi Gennimata, the leader of the centre-left Pasok party, said the bill represented the "total deconstruction of the pension system".

She said the people responsible for the yes vote had "promised everything" to protesters in public squares five years ago, but were now "justifiably" frightened to leave their offices. The leftist Syriza party secured just enough votes to pass the measures, thanks to the ruling coalition's tiny majority. In a parliament of 300 seats, it has 153 lawmakers.

Mr Tsipras was elected as prime minister on an anti-austerity ticket but later signed up to Greece's third international bailout since 2010.Greece agreed to a third rescue package worth €86bn (£60bn) last year. The International Monetary Fund and other European partners are demanding that Greece implement further austerity measures to generate nearly €4bn (£3.1bn) in additional savings - contingency money in case Greece misses future budget targets. Finance ministers from countries which use the euro will assess "a comprehensive package of policy reforms as well as the sustainability of Greece's public debt" at their Monday meeting in Brussels, a statement says.

Greece's Finance Minister Euclid Tsakolotos will be at the meeting in the hope of securing a deal."We have done what we promised and hence the IMF and Germany must provide a solution that is feasible," he said "a solution for the debt that will open a clear horizon for investors."

Last summer, Greece's debt crisis peaked when Athens defaulted on its debt payments and raised the spectre of an exit from the euro zone. Greece is already looking to implement spending cuts that will amount to 3% of the country's gross domestic product or €5.4bn Euros by 2018.

Chinese economy: exports fall by 2% and imports by 11% in April

China's exports slumped nearly 2% in April compared with the same month last year, as imports fell almost 11%, officials said on Sunday, the latest sign of weakness in the world's second largest economy. The export sector has shown year-on-year declines in dollar terms for nine of the last 10 months as the country's economic growth has fallen to its slowest level in a quarter-century. April imports fell for the 18th consecutive month, suggesting domestic demand remains weak despite a pickup in infrastructure spending and record credit growth in the first quarter.“Both exports and imports came in weaker than expected, in line with the soft trade performance across Asia, pointing to another challenging year for emerging markets,” said Zhou Hao, senior emerging market economist at Commerzbank in Singapore.

China's exports to the United States – the country's biggest market - fell 9.3% in April from a year earlier, while shipments to the European Union – the second biggest market – rose 3.2%, customs data showed. China's cabinet has vowed to take steps to boost exports, including encouraging banks to boost lending, expanding export credit insurance and raise tax rebates for some firms.

The figures from the state statistics bureau suggest an unexpected March export increase may have been a blip, and that meeting ambitious economic growth targets will be a challenge. China exported about $173bn worth of goods in April, the bureau said, while importing products worth $127bn. As a result, the country's trade surplus rose to about $46bn.The bureau earlier gave figures in terms of China's Yuan currency, which showed a modest rise in exports in April. The dollar figure diverged as the Yuan has depreciated over the last year. Beijing is attempting a difficult transition away from reliance on cheap exports and infrastructure investment towards hi-tech industry and consumer spending as its three-decade long growth model shows signs of wearing out.

But it is still targeting growth of 6.5 to 7% this year, a figure some analysts say can only be reached through an unsustainable rise in bank lending. Concerns of a hard-landing in China had eased after stronger March data, but analysts have warned the rebound may be short-lived. Economists expect a slowdown in credit growth and industrial production in April although inflation could accelerate. Key data is expected over the next two weeks.“The market has to prepare a little bit for the downside risk in other Chinese data and some sort of market correction might be inevitable,” Zhou said. The trade data comes after a private survey indicated this week that Chinese factory activity weakened further in April. The Purchasing Managers' Index by Caixin, which tracks activity in the country's factories and workshops, fell for the 14th consecutive month. China's economy, a vital driver of global expansion, grew 6.9% last year. But its transition is proving bumpy and the growth slowdown has alarmed investors worldwide

At this year's National People's Congress, Chinese policymakers set a target range for GDP growth of between 6.5% and 7% for 2016 rather than a point specific target.

Setting a range makes things a little easier for policymakers as it provides some 'wriggle-room' in a country where the economy has shown signs of a gradual and, sometimes bumpy, slowdown in growth (see our October 2015 edition). But fears of a hard-landing were somewhat allayed by the official fourth quarter GDP figures which showed growth of 6.8% coupled with a clearer communication plan deployed by the People's Bank of China (PBoC). This has increased market stability with the renminbi exchange rate reaching its strongest value against the dollar since the start of the year.

In order to achieve this target, the government set out a number of initiatives to stimulate growth and embolden structural reform. These were headlined by the development target of creating at least ten million new urban jobs, tax cuts, and major investment packages of 800 billion Yuan in railway construction and a further 1.65 trillion Yuan in road construction, equivalent to around 3.3% of GDP. To fund some of these measures, the target budget deficit for 2016 has been expanded from 2.4% to 3% of GDP. The government also plans to streamline administrative approvals and encourage innovation and entrepreneurship. Based on government plans for 2016, it suggests the priority is to maintain growth. In line with this, China has adopted a pro-active fiscal policy and a “flexible and adequate” monetary policy to spur economic activities, while still pushing for structural reform and a transition to consumption and services-led growth.