



Climate-KIC



Climate-KIC is supported by the EIT, a body of the European Union

A “Friendly” Dialogue between  
Investors and Economists on  
***Risks*** and ***Opportunities***  
in Global Economy

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Co-Chair, UN Sustainable Development Solutions Network





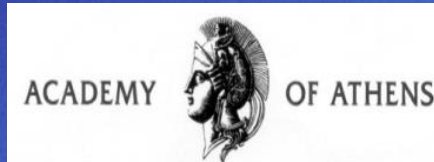
Climate-KIC

Hub Greece



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# Transforming innovation into climate action



**HELLENIC REPUBLIC  
MINISTRY OF ENVIRONMENT AND ENERGY  
GREEN FUND**

## THEMATIC PRIORITIES

- Sustainable Shipping and Marine Resources Management
- Sustainable Energy (WEF) and Energy Security
- Sustainable Tourism and Biodiversity
- Education and Training Courses in Sustainable Development

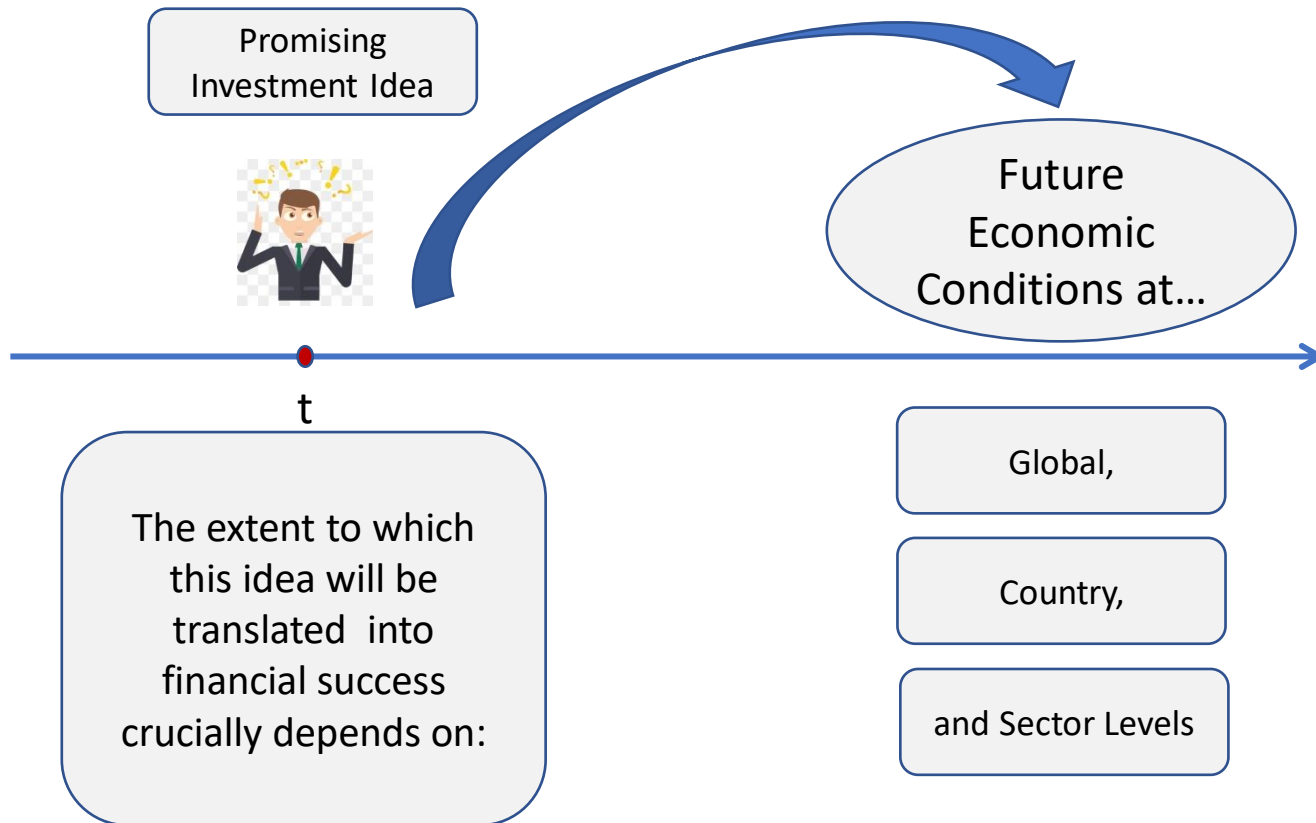
# UN SDSN Greece Projects



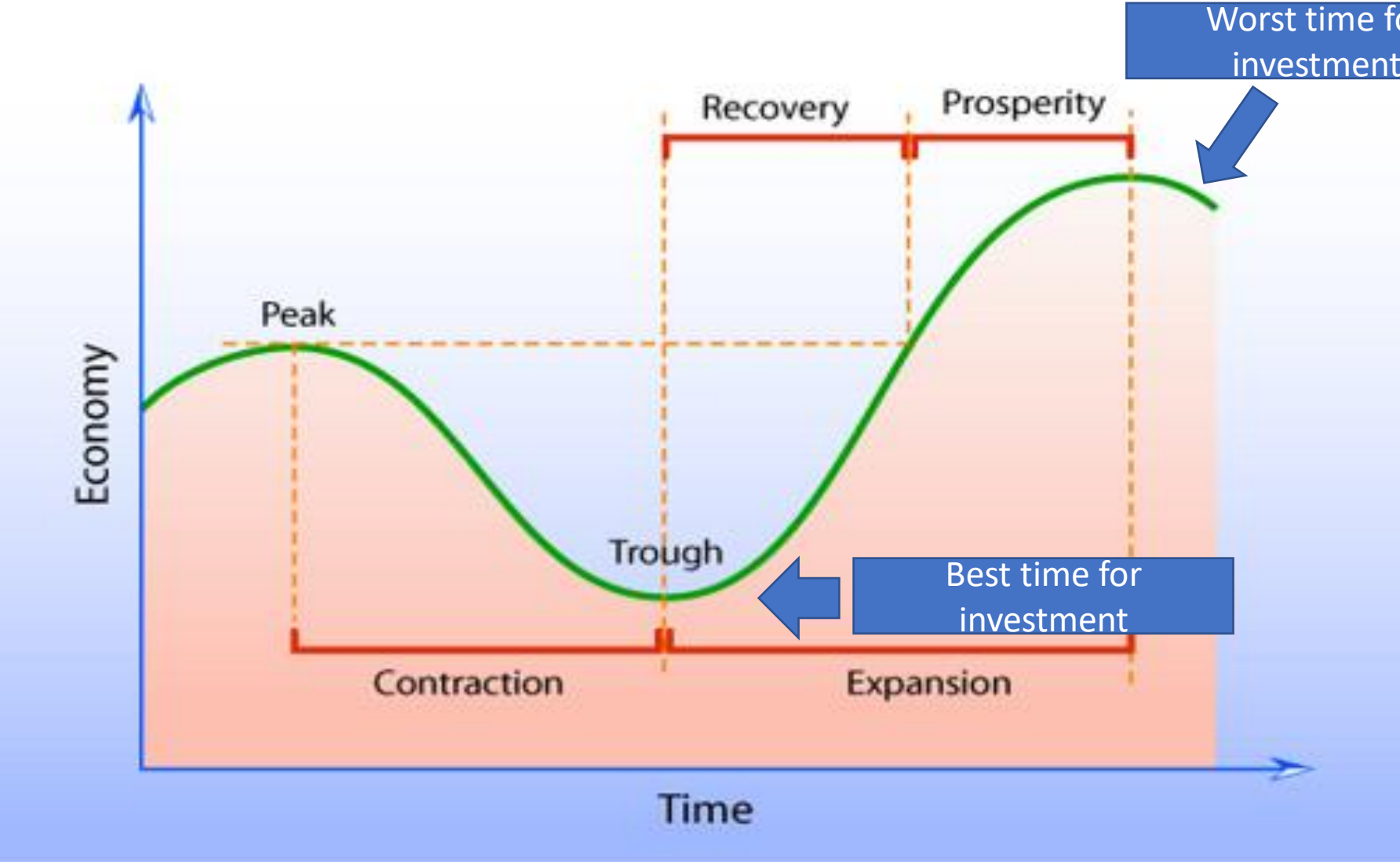
•€100+ million of research funding from: European Commission (DG RTD, DG MARE, DG ENV, DG ENER, DG REGIO), International Organizations (World Bank, OECD, EBRD, WHO, FAO, UN), Governments in all 5 continents, etc.

•1000+ peer-reviewed research papers & books

# A Good Investment Idea is hardly Sufficient...



Future Economic Conditions depend on the Point of the Business Cycle that the Economy Currently is...



# The Biggest Risk for Any Investor...

**Bad Timing and No Hedging!!!**

Investor's View  
at the time of  
Investment:



Economy will  
continue to  
perform at its  
current pace

Cash Flows will  
be much less  
than  
anticipated

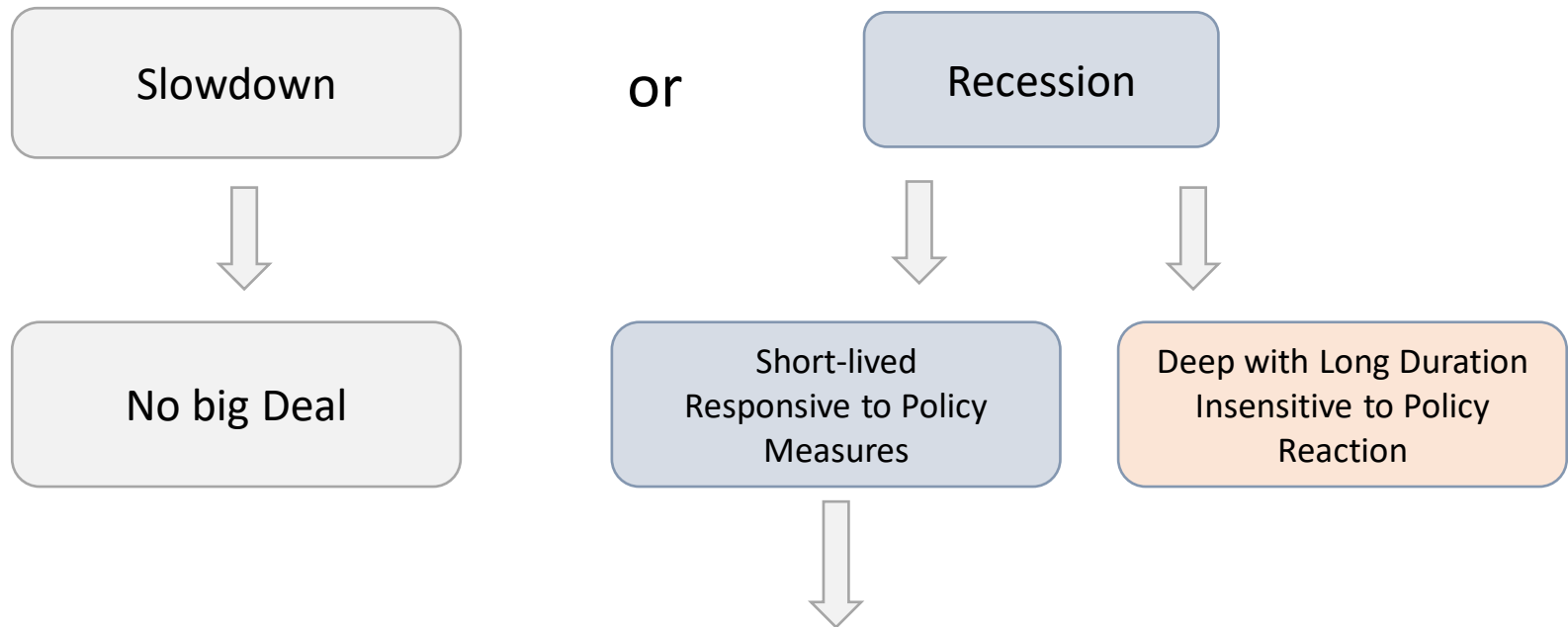
Reality



Economy is at  
the brink of a  
Recession

**The Risk of an Investment  
depends on the type of  
Recession**

# Mere Slowdown or Something Deeper?

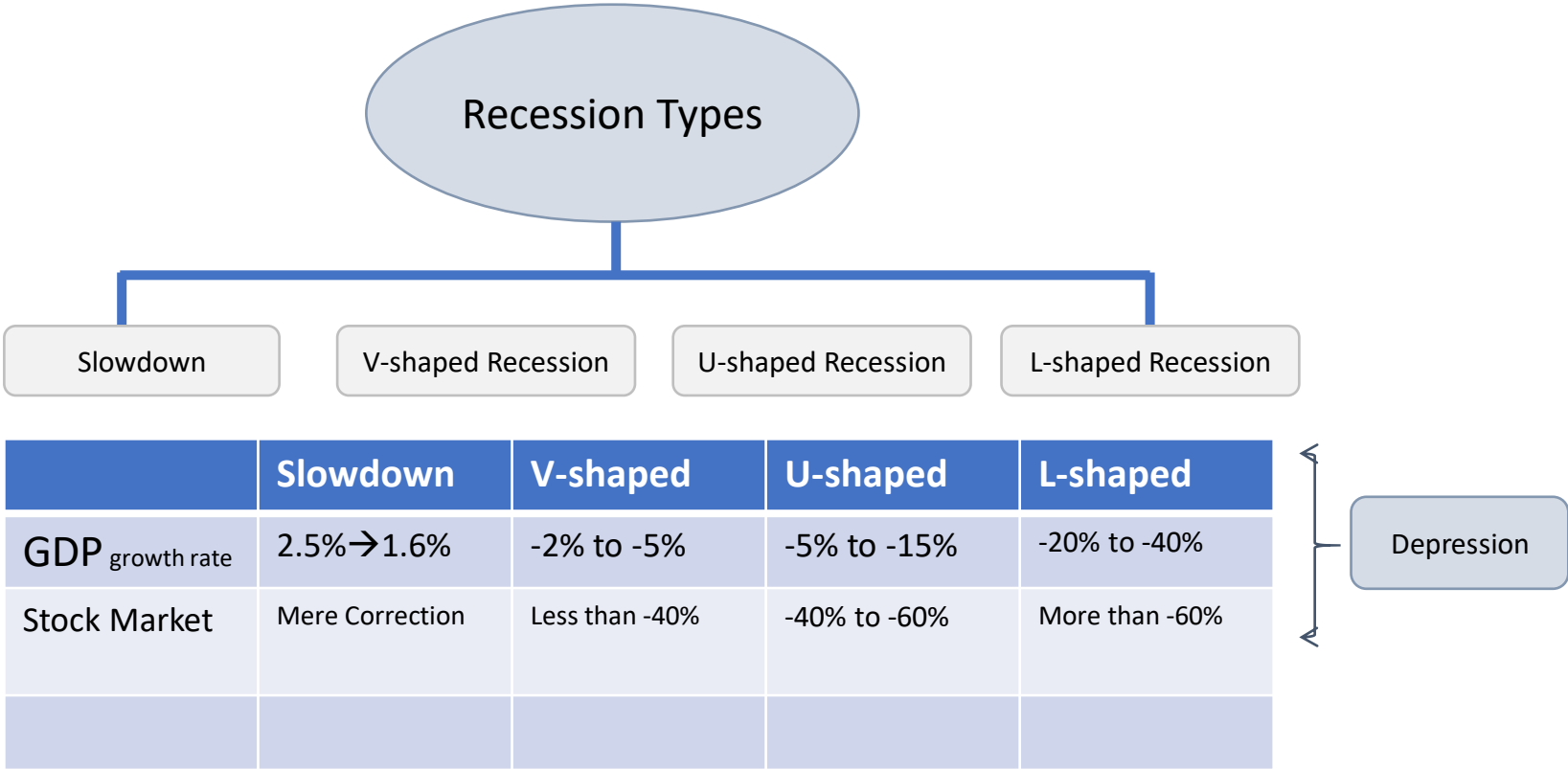


Expansionary monetary policy: expand the money supply and boost economic activity by keeping interest rates low to encourage borrowing by companies, individuals and banks.

Expansionary fiscal policy: tax cuts and increased government spending to increase aggregate demand.



# Slowdown or Recession?



US financial markets have begun to price in the likelihood of a recession

# Duration and Responsiveness to Policy Measures

	Slowdown	V-shaped	U-shaped	L-shaped
Duration	Erratic	< 12 months	12 -24 months	> 36 months

## V-shaped

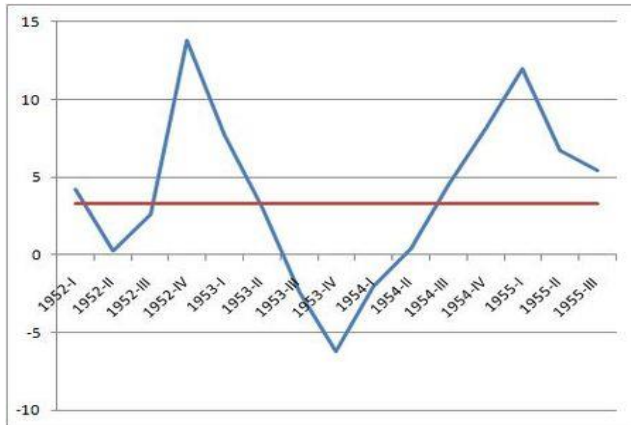
Normal recessions never make the transition to depression. They are cyclically responsive to traditional fiscal-monetary measures aimed at containment and generating recovery.

## U and L - shaped

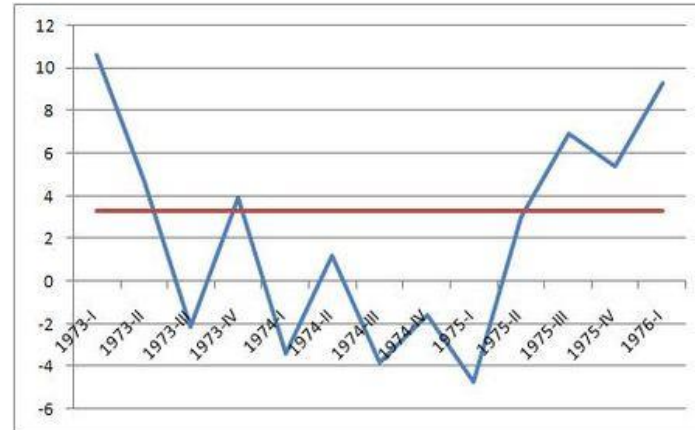
The economy is not able to generate a sustained recovery on its own. Normal government fiscal or monetary policies prove to be insufficient. Only extraordinary fiscal stimulus measures by government can succeed in controlling the downward momentum.

# Examples

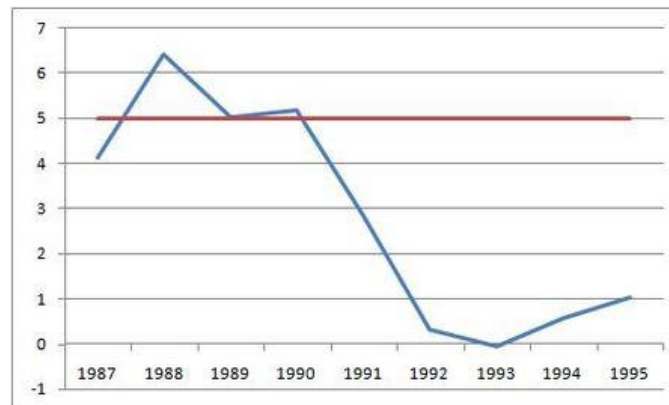
The Recession of 1953 in the United States is a classic V-shape.



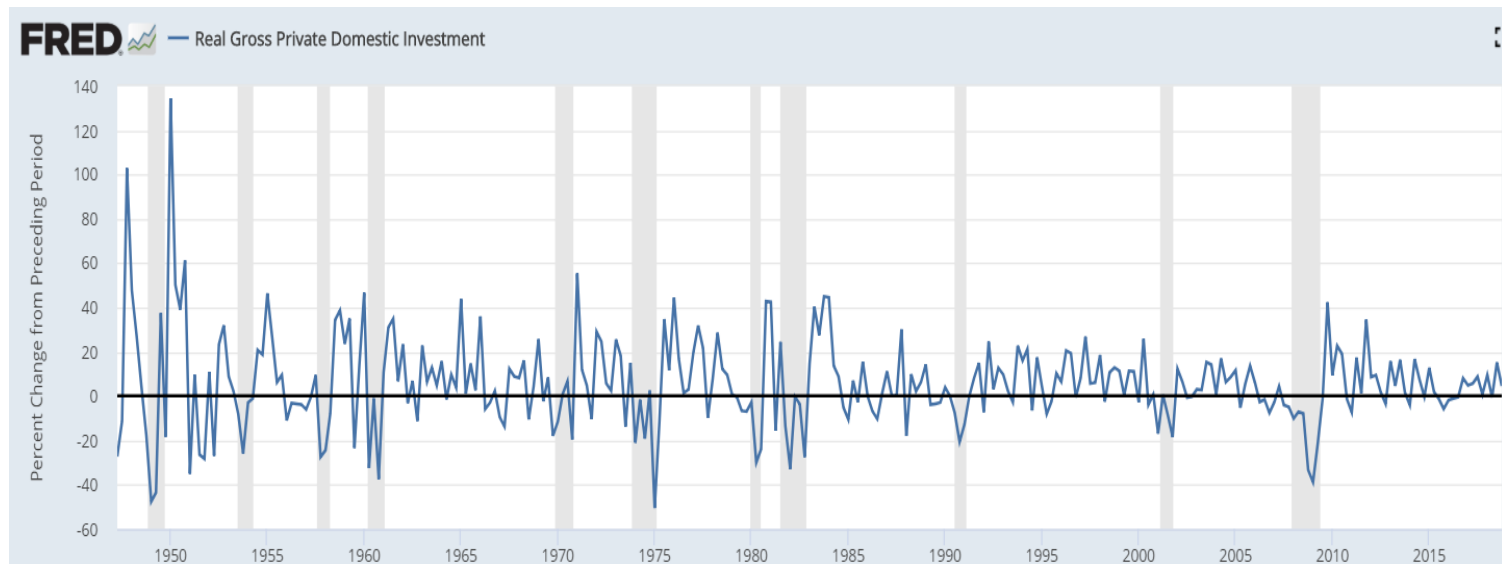
The Recession of 1973-75 in the United States is a U-shape.



The Japanese Lost Decade



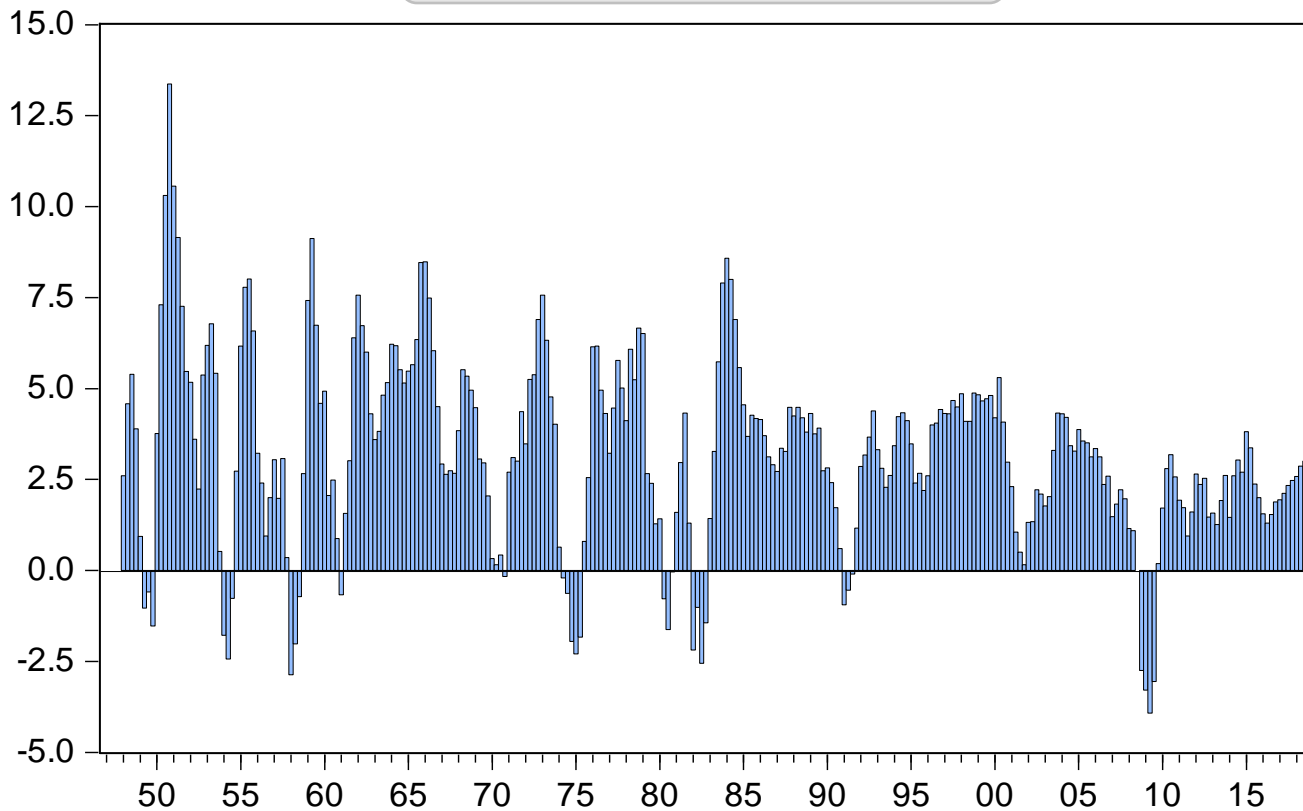
# Private Investment During Recessions



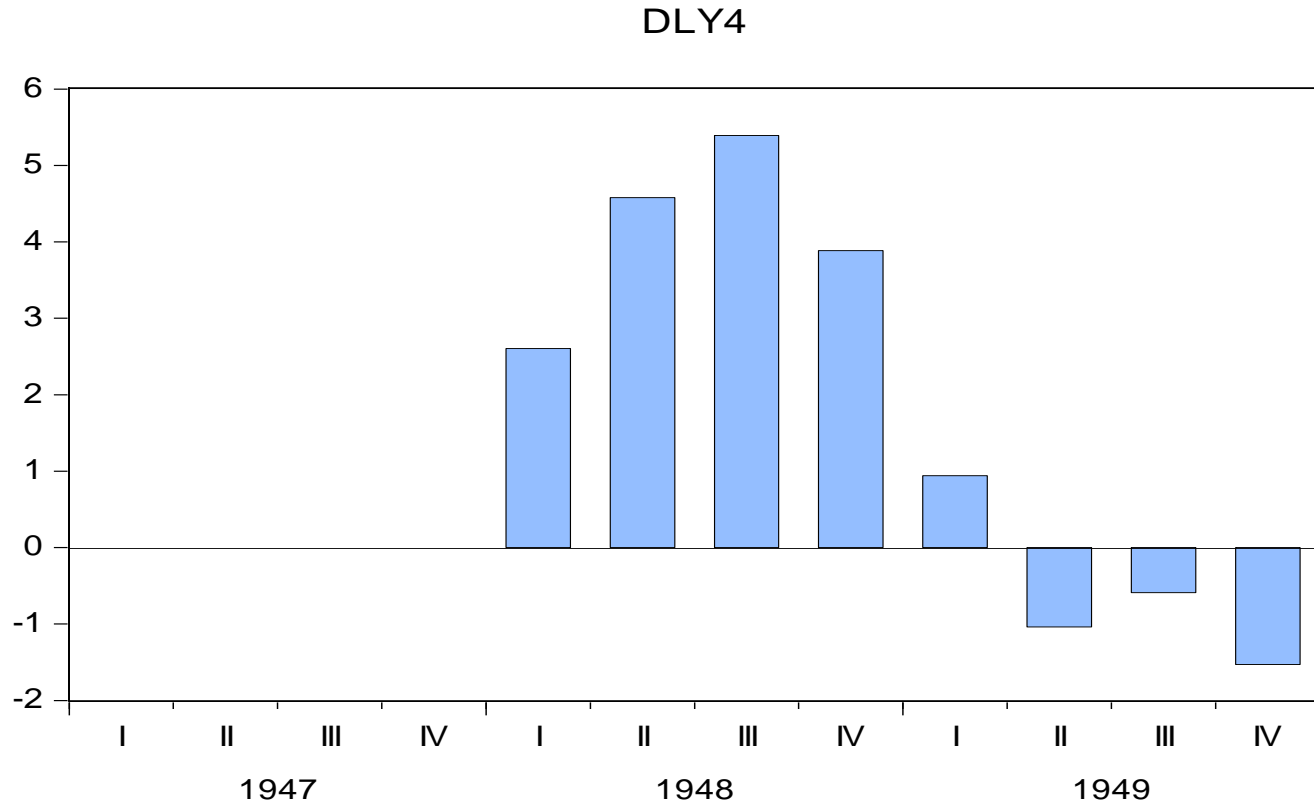
Many Investment Projects are Cancelled during Recessions

# Recessions are Hard to Predict

US Annual Growth Rate

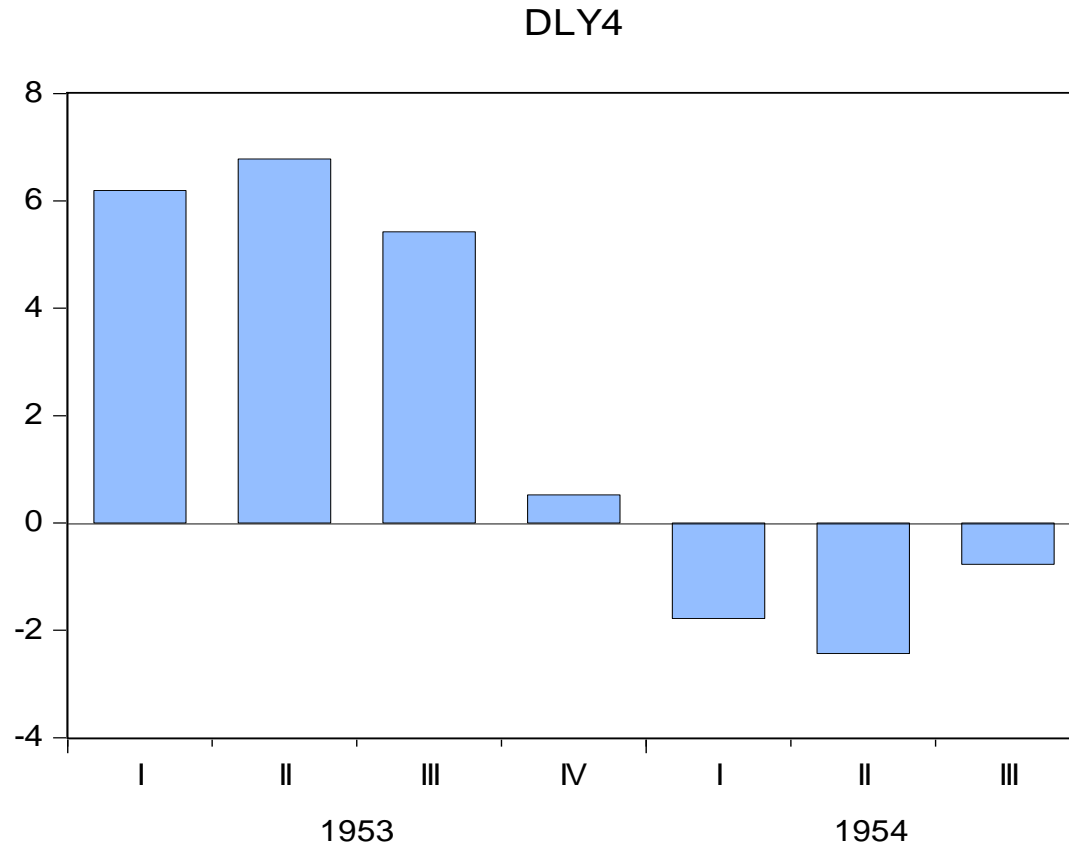


# First Episode



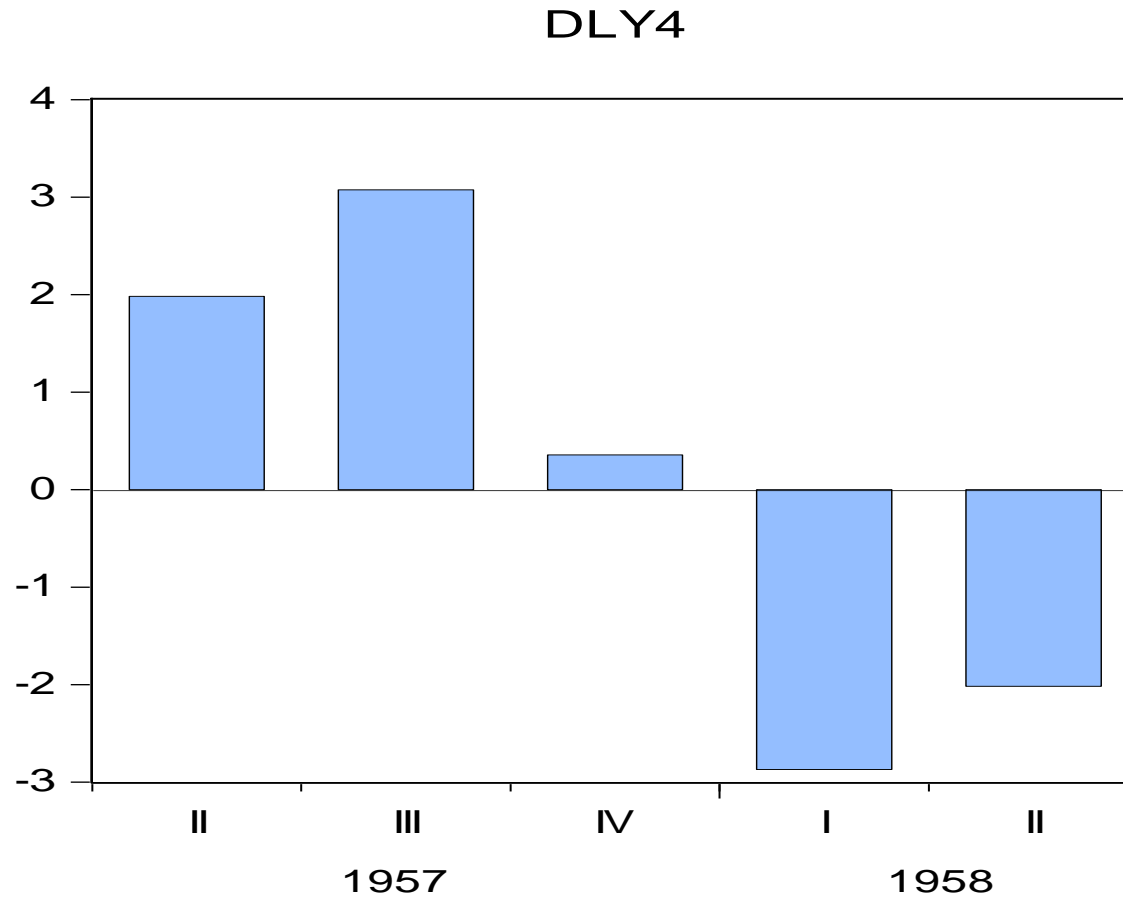
From 5.5% down to -1% in 2 quarters

# Second Episode



From 6% down to -2% in one quarter

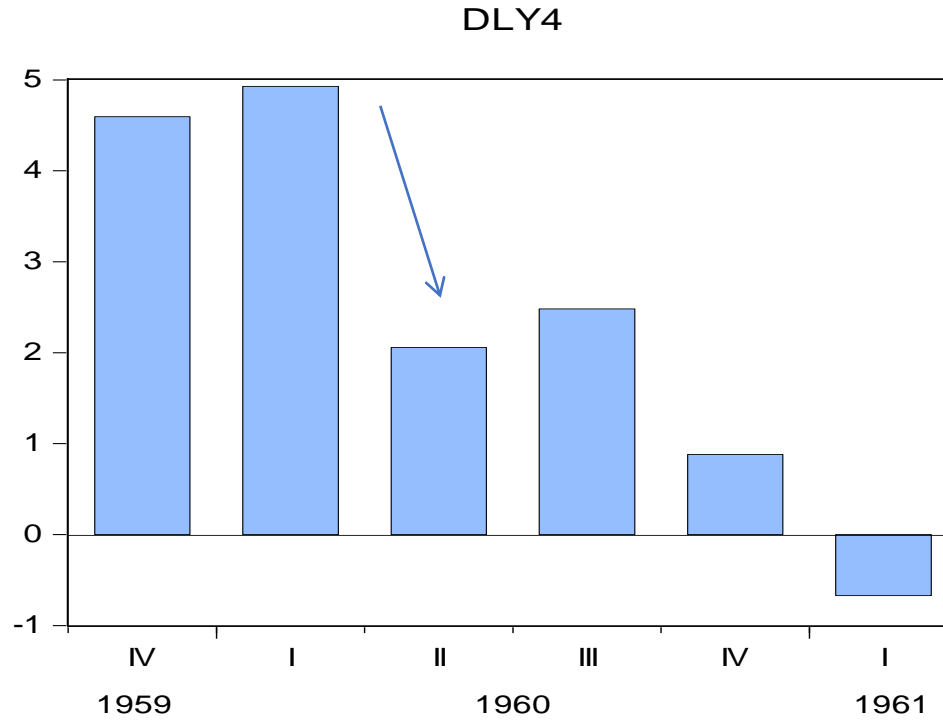
# Third Episode



From 3.2% down to -3% in one quarter

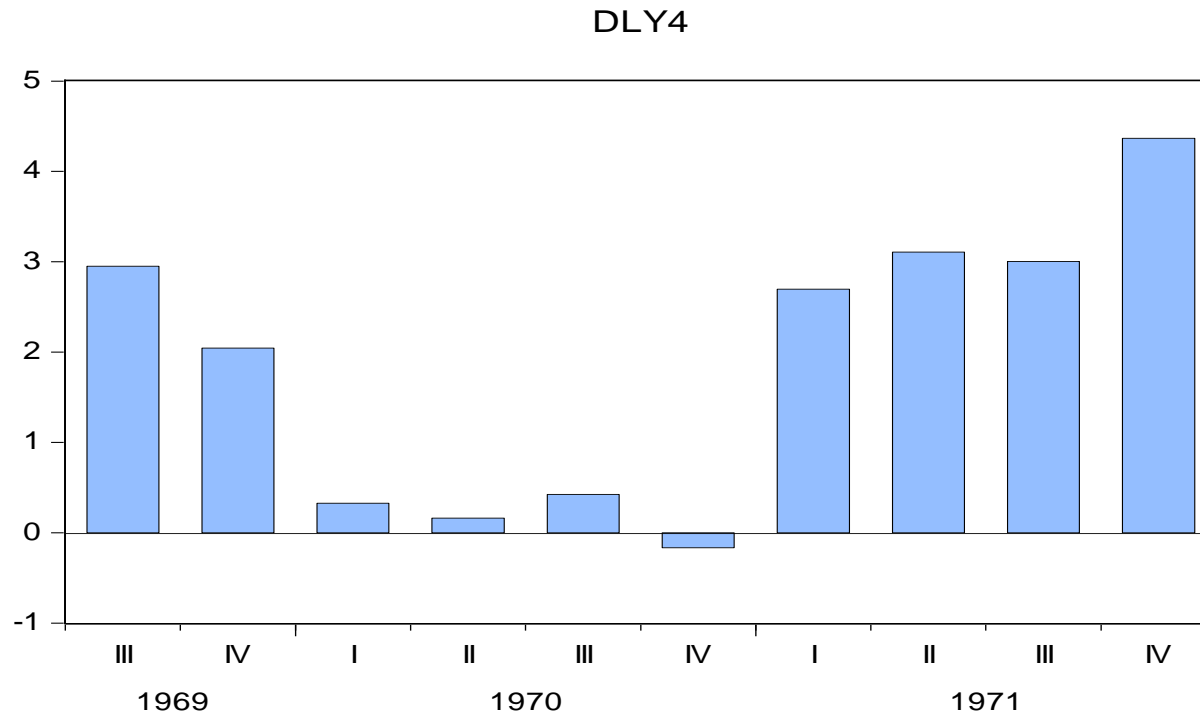


# Fourth Episode



From 5% to 2% in next quarter

# Fifth Episode



From 3% to almost zero in one quarter

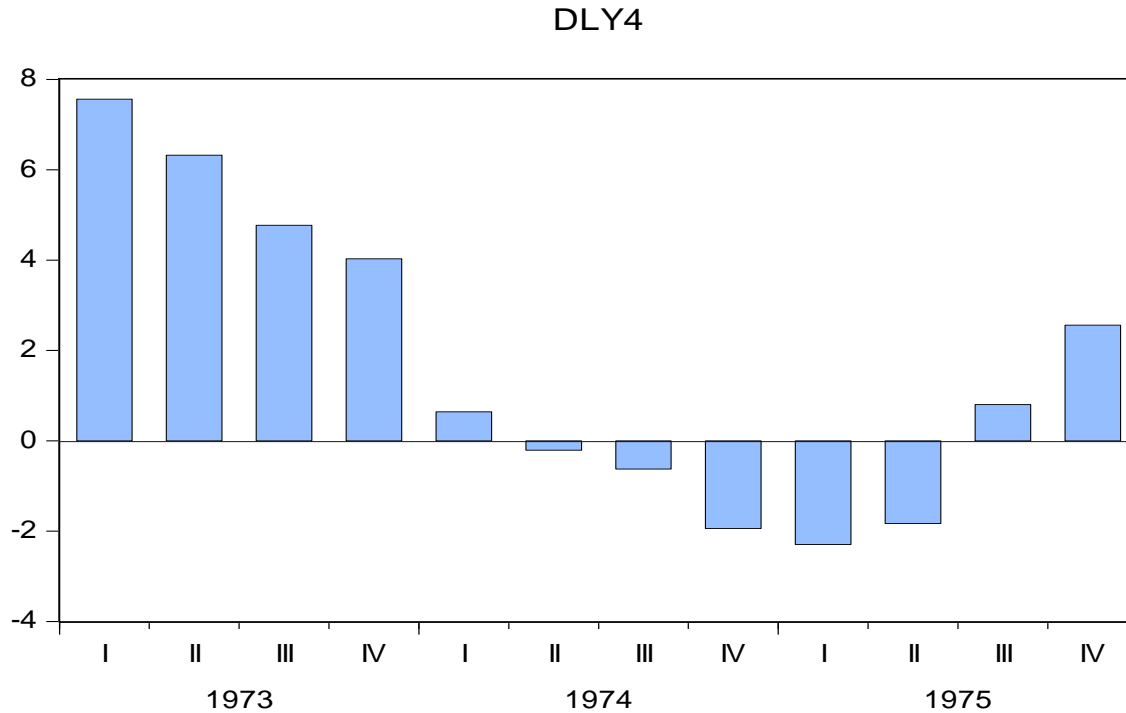
# Sixth Episode

## STOCKS OPEN YEAR WITH SHARP GAINS

Dow Up 11.66 to 1,031.68  
—Expectations of Robust  
Economy Spur Market

By **VARTANIG G. VARTAN**

Stock prices rose sharply yesterday to open the market's new year, with buying based on expectations of a robust economy in 1973 and renewed hopes for the Vietnam peace talks.



From almost 8% to zero in one year

# Why don't we Consult the Experts in trying to Predict a Recession?

IMF's World Economic Outlook

IMF's Global Financial Stability

World Bank's Global Economic Prospects

OECD's World Economic Outlook

Major Investment Banks' Economic Outlooks

....

Plenty of Academic Research both at the Global and the Country Levels

**PROBLEM**

All these Reports are Written in a Highly Technical Language

Hence, it is very difficult for an average investor to discern the Looming Risks for the Global Economy

The Problem of “Language” is not the only one.  
In fact it is not the most serious one.

The most important problem is that International Organizations, such as IMF, do not wish to turn a negative forecast into a self-fulfilling prophecy.

This produces a bias-towards-optimism!

# Forecasting Performance of Private and Public Institutions

SAMPLE: 63 Countries 29 AE and 34 EM: 1992 - 2014

		Forecasts one-year ahead		
		Non-recession	Recession	Total
Actual	Non-recession	1145	8	1153
	Recession	148	5	153
	Total	1293	13	1306

Success Rate of Recession Forecasting: 5/153 or 3.2%

Major Institutions  
Forecasts  
are Heavily  
Biased  
towards  
Optimism

"There is no incentive to forecast a recession, If you are wrong, you'll be fired. And if you're right, no one will thank you."

Or as Keynes put it: Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.

There is a clear need for someone to fill the Communication Gap

Research on Global Economy



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Investors

Presentation in  
Investor' friendly  
Language

Q&A Session

Risks

Opportunities



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Thank you



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EIT, a body of the European Union

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