World Economic Outlook

Uneven Growth: Short- and Long-term Factors

International Monetary Fund

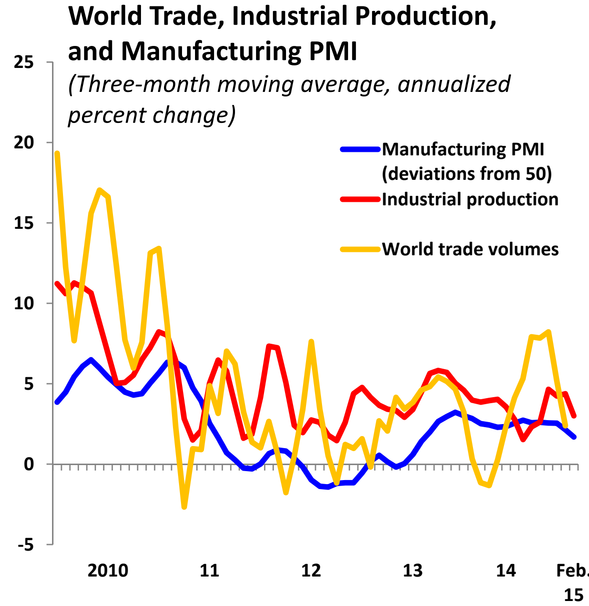
April 2015

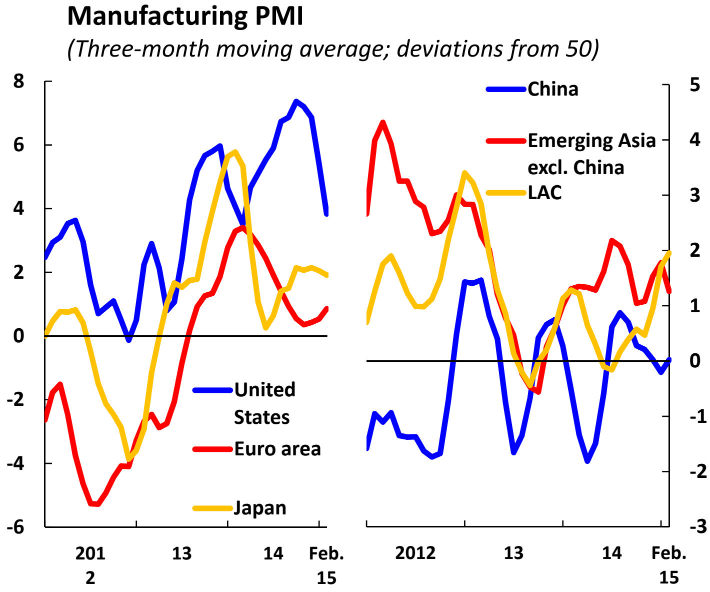
Global growth to remain moderate

- Broadly unchanged global growth in 2015 relative to previous year; small improvement expected in 2016
  - 2015 forecast: 3.5 percent (no change relative to January 2015 WEO)
  - 2016 forecast: 3.8 percent (no change relative to January 2015 WEO)

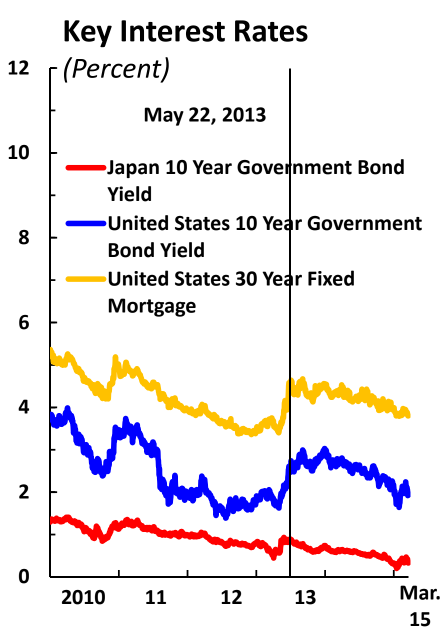
- Uneven prospects across the main countries and regions:
  - Improving prospects in advanced economies
  - Lower growth in emerging market and developing economies in 2015, mainly due to weaker prospects in some major EMs and oil exporters

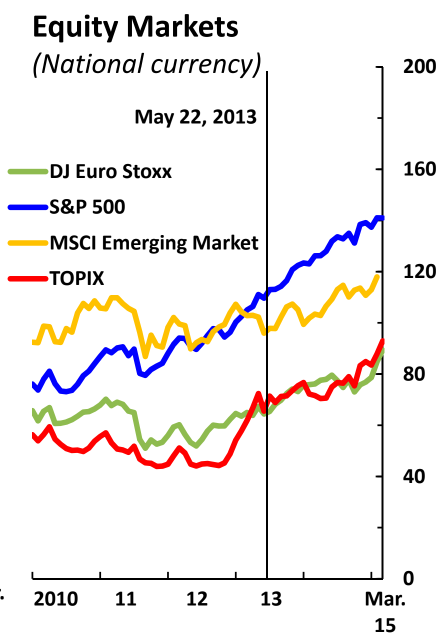
Some leading indicators suggest that activity will pick up, but unevenly across countries and still at a moderate pace.

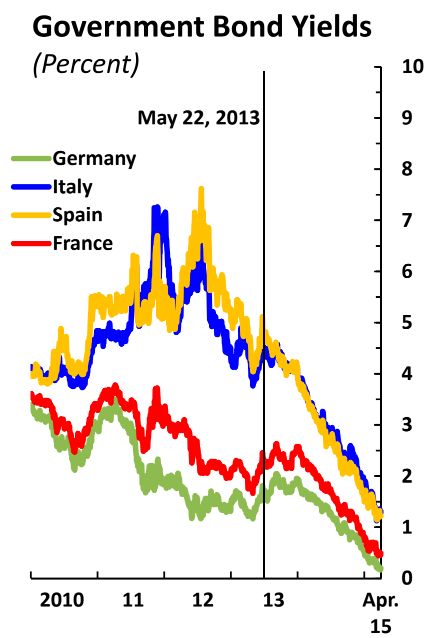




In both advanced and emerging market economies, financial conditions have eased since October 2014





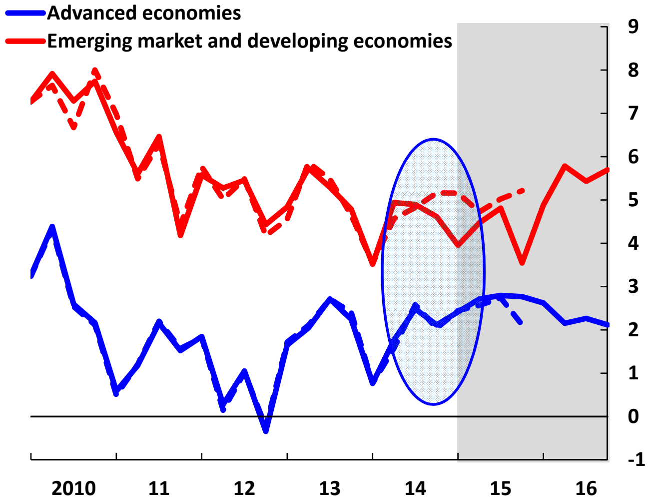


Key factors supporting higher growth

- **Advanced economies**
  - *Monetary policy very accommodative*
  - *Financial market conditions supportive*
  - *Moderate fiscal consolidation in 2014-15*
  - *Exchange rate realignment in some cases*
- **Emerging and developing economies**
  - *Higher external demand in AEs and still-favorable financial conditions*
  - *Gradual lifting of structural impediments to growth in some economies*
  - *Recovery in economies affected by geopolitical tensions or domestic strife*

GDP Growth

(Annualized quarterly percent change; dashed lines are from October 2014 WEO)



The outlook is for a continued recovery, but the pace is weak and uneven.

Advanced Economies: Real GDP Growth Projections

(Percent change from a year earlier)

	World	AEs	U.S.	EA	Japan	U.K.	Germany	France	Italy	Spain
2015 (Apr 2015)	**3.5**	**2.4**	**3.1**	**1.5**	**1.0**	**2.7**	**1.6**	**1.2**	**0.5**	**2.5**
2015 (Jan 2015)	3.5	2.4	3.6	1.2	0.6	2.7	1.3	0.9	0.4	2.0
2016 (Apr 2015)	**3.8**	**2.4**	**3.1**	**1.6**	**1.2**	**2.3**	**1.7**	**1.5**	**1.1**	**2.0**
2016 (Jan 2015)	3.7	2.4	3.3	1.4	0.8	2.4	1.5	1.3	0.8	1.8

Source: IMF, World Economic Outlook.

The outlook is for a continued recovery, but the pace is weak and uneven.

Emerging Market and Developing Economies: Real GDP Growth Projections
(Percent change from a year earlier)

	EMDEs	China	India	Russia	LAC	Brazil	Mexico	LIDCs
2015 (Apr 2015)	**4.3**	**6.8**	**7.5**	**-3.8**	**0.9**	**-1.0**	**3.0**	**5.5**
2015 (Jan 2015)	4.3	6.8	6.3	-3.0	1.3	0.3	3.2	5.9
2016 (Apr 2015)	**4.7**	**6.3**	**7.5**	**-1.1**	**2.0**	**1.0**	**3.3**	**6.0**
2016 (Jan 2015)	4.7	6.3	6.5	-1.0	2.3	1.5	3.5	6.1

Source: IMF, World Economic Outlook.

Complex forces shaping the outlook:
Short-term factors

- Sharp fall in oil prices.
  - A net positive for oil importers and the global economy, but a negative shock for oil exporters.
- Exchange rate realignment (US$ appreciation; € and ¥ depreciation).
  - Helps recovery in the euro area and Japan.
  - Easier MP globally, boost to growth.
  - Risks: balance sheets; global rebalancing?

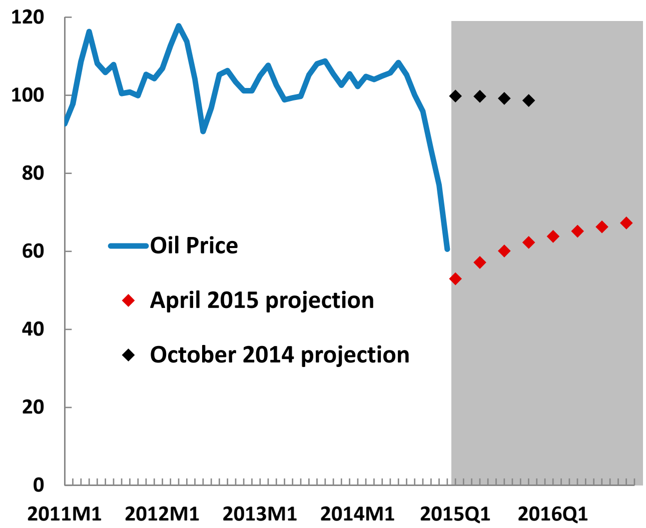
Complex forces shaping the outlook:
Longer-term factors

- Crisis legacies.
  - Weak banks.
  - High debt levels (public, corporate, households).

- Other long-term factors.
  - Lower potential growth in advanced and major emerging market economies, even as economies recover (demographics, convergence).
  - Serial slowdown in EMs since 2010, leading to a reassessment of prospects (including in China).

Sharp fall in oil prices

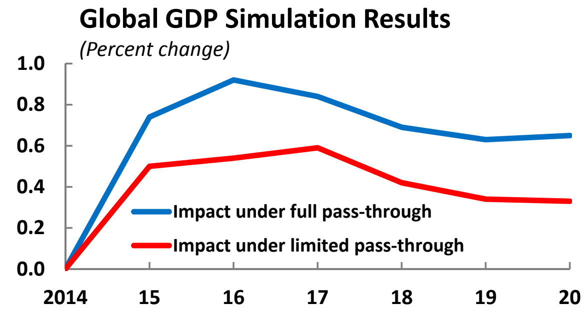
Oil Spot and Futures Prices
(IMF APSP, U.S. dollars per barrel)

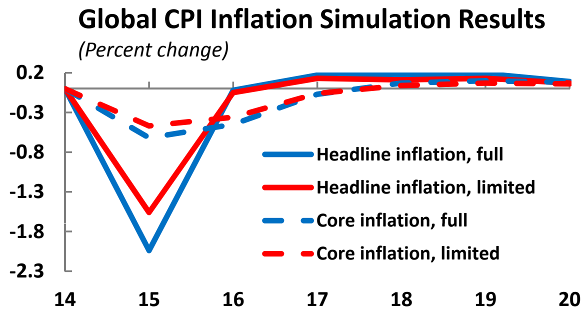


Sources: IMF, *GAS Live database*; International Energy Agency (IEA).

- Positive supply shocks contributed importantly to decline:
  - Unexpected decision to maintain OPEC supply in the face of steadily rising non-OPEC supply and weakening global demand.
- Supply shocks and higher energy efficiency mean that price decline is a net positive for global growth.
- But not all positive: lower than expected growth in some economies also contributed to price declines.
- Forecast assumptions: partial gradual reversal of oil price decline

Simulated impact of lower oil prices





Source: IMF staff projections

- Boost to real incomes in oil importers depends on the magnitude and duration of the positive supply shock and on extent of **pass-through.**

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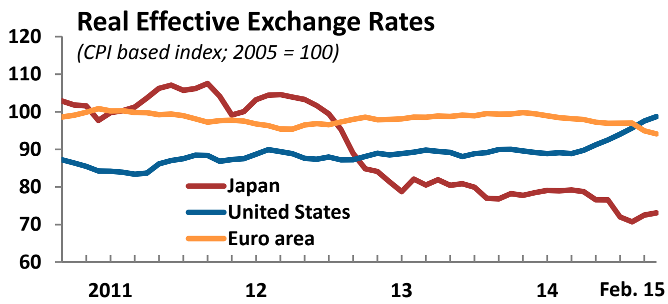
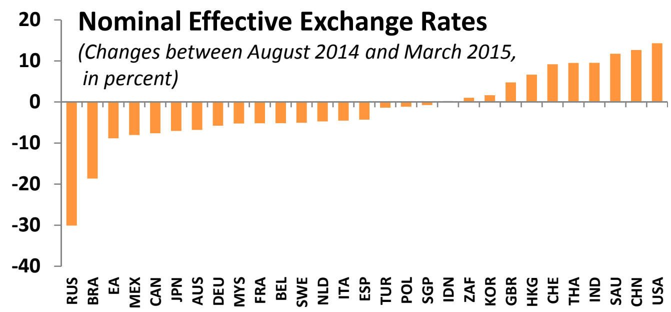
Exchange rate realignments





Sources: Global Insight; IMF, *International Financial Statistics database*

- Expected growth, monetary policy divergence, and oil prices have led to exchange rate realignments.
- U.S. dollar has appreciated by some 10 percent in real effective terms.
- The yen and the euro have depreciated.

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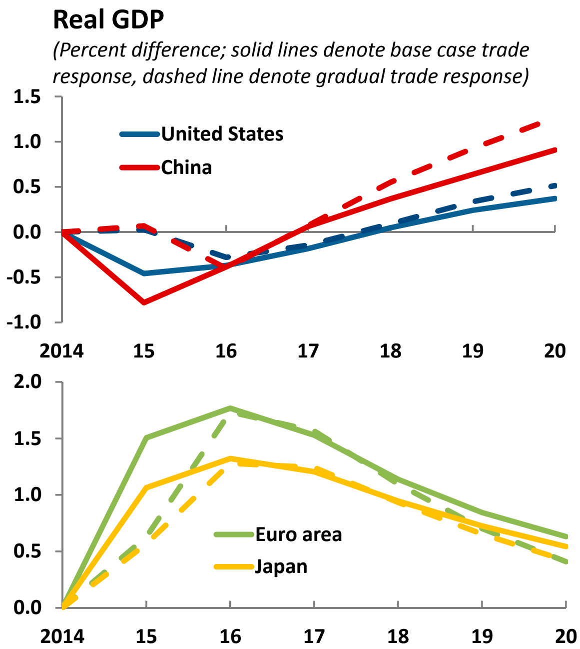
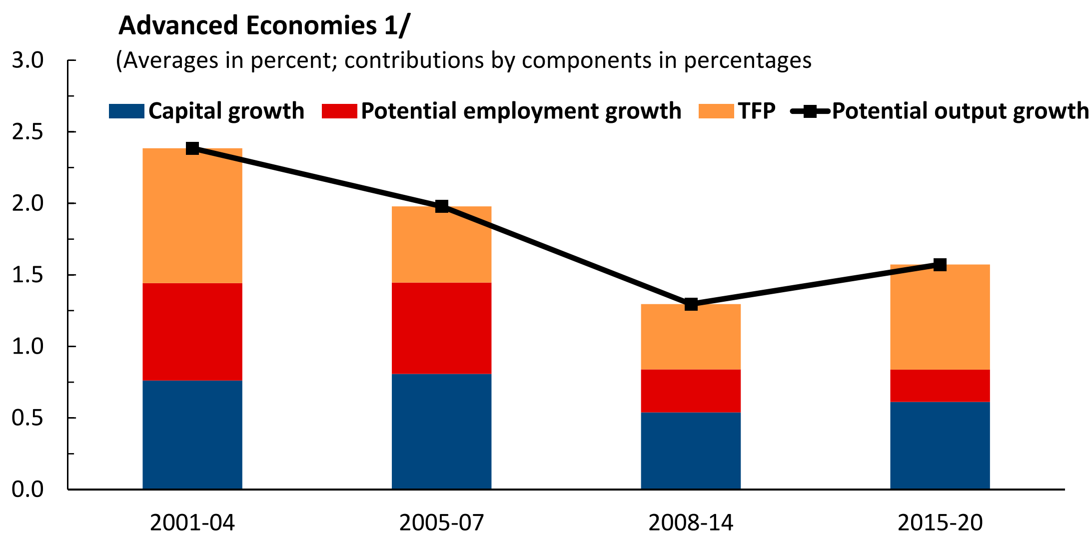
Exchange Rate Scenarios



Source: IMF staff projections.

- Recent exchange rate movements have been large and will affect the outlook of the major economies:
  - This should boost demand and help inflation in Japan and the euro area, but hold back U.S. and China.
  - Overall, boost to global demand: growth is redistributed to economies where monetary policy easing is restricted by the zero lower bound.
- How much of a growth boost, how fast?
  - Scenario analysis explores the global implications of gradual trade responses.
  - Japan's experience since Abenomics illustrates the relevance of long lags in the export response.

Only a modest recovery of potential output growth in AEs

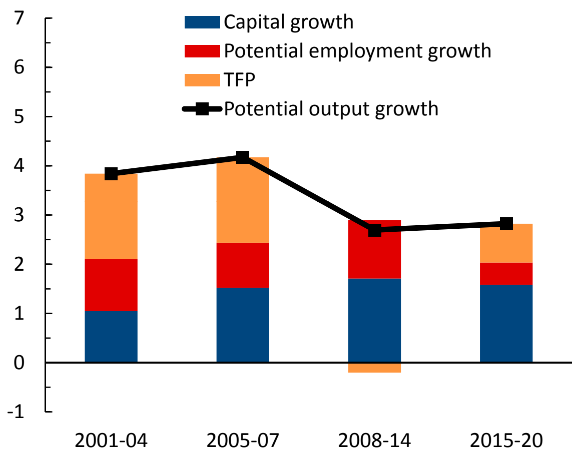


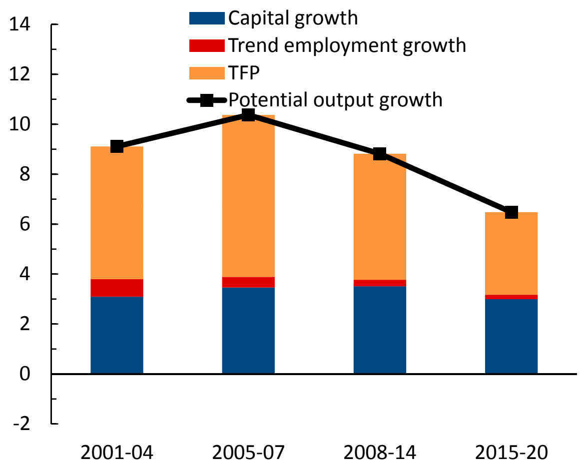
Source: IMF staff estimates.
1/ Consists of Australia, Canada, Germany, France, Italy, Japan, Korea, Spain, U.K., and U.S.

Decreasing potential output growth in large EMs

Emerging Markets excluding China 1/ China

(Averages in percent; contributions by components in percentages points)





Source: IMF, World Economic Outlook.
1/ Consists of Brazil, India, Mexico, Russia, and Turkey.

Some idiosyncratic factors in emerging markets

- Russia (and CIS): geopolitical factors/sanctions/oil.
- Brazil: Drought, Petrobras, tighter macro stance.
- Role of China’s boom and slowdown in driving commodity price cycle, expansion in Asia.
- Oil shock in vulnerable exporters (e.g., Venezuela).
- Weaker commodity prices (e.g., Chile).

A more balanced distribution of risks to global growth

Upside
Greater global demand boost from lower oil prices
Boost to public investment
Better-than-expected growth effects from policy reforms in EMs

Downside
Financial market turmoil ❖ Risk of capital flow reversal in emerging market economies
Stagnation risks in the euro area and Japan
Lower potential growth ❖ Expectations of lower potential growth can slow investment today
Geopolitical risks remain high

Policy Priorities

Advanced Economies: Demand and Supply
Demand support to the recovery
Boost to public investment
Structural reform to boost potential output (country-specific)

Emerging and Developing Economies
Address vulnerabilities
Increase potential output (country-specific)
Oil exporters: • Use fiscal space for a gradual adjustment of public spending to lower oil prices. • Allowing substantial exchange rate depreciation will help cushion their economies.

All Economies: Lower oil prices are an opportunity to reform energy subsidies and taxes

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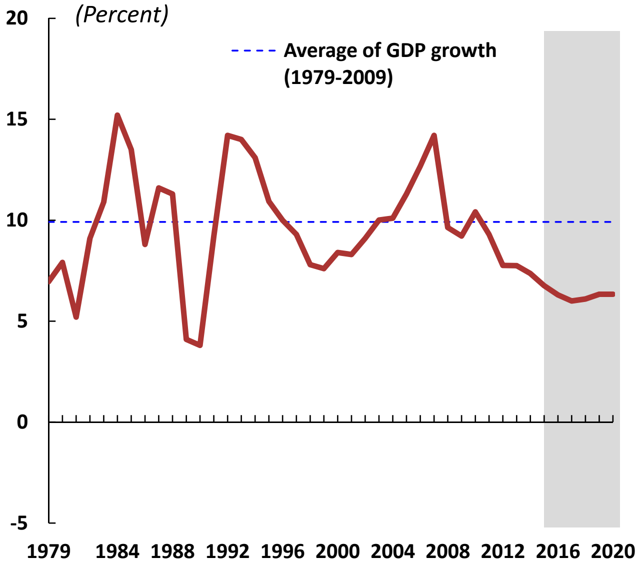
Growth in China expected to moderate. Risks of stronger real estate slowdown?

China GDP Growth

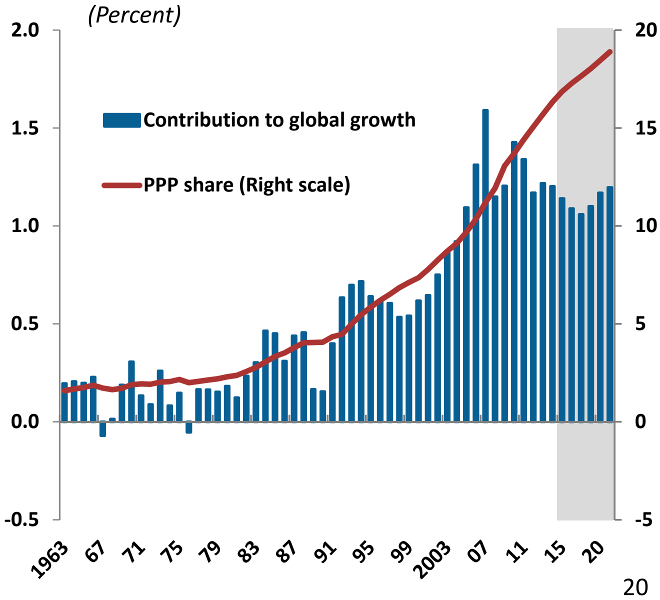
(Percent)



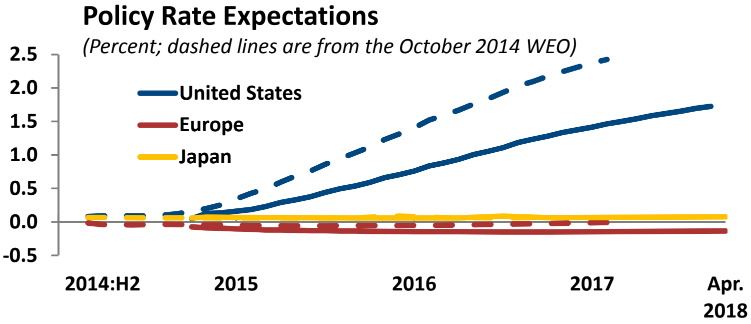
Source: IMF staff estimates

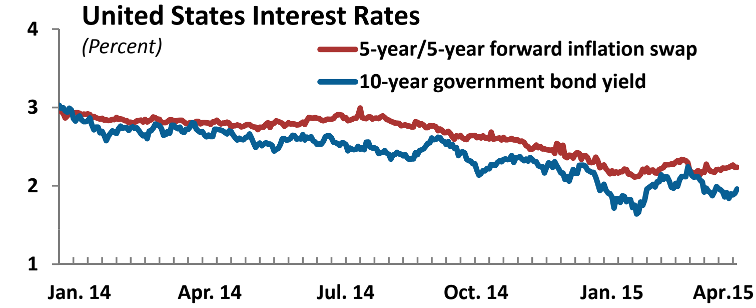
China Contribution to Global GDP Growth

(Percent)



Markets still expect the Fed to start tightening in mid-2015, but at a slower pace.

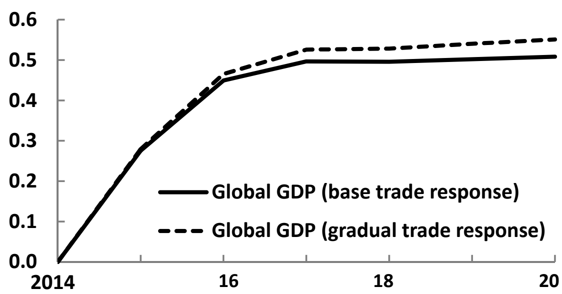


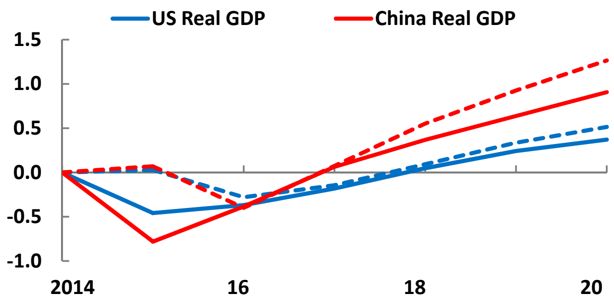


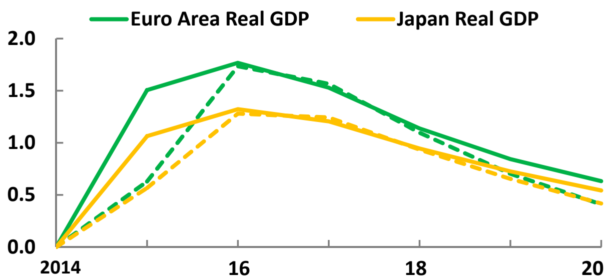
Source: Bloomberg, L.P.

- Domestic employment conditions likely to suggest tightening…
  - Robust growth rebound since 2014Q2.
  - Boost from lower oil prices.
  - Unemployment rate expected to reach the FOMC's mid-point NAIRU estimate in 2015.
- …but inflation and external conditions argue against urgency.
  - Dollar appreciation a drag on external demand.
  - Core inflation below target, further downdraft from oil price decline.
  - Declining MT inflation expectations.

Impact of Exchange Rate Shifts since August 2014







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