

# International Monetary Fund | October 2015

## EXECUTIVE SUMMARY

Global growth for 2015 is projected at 3.1 percent, 0.3 percentage point lower than in 2014, and 0.2 percentage point below the forecasts in the July 2015 World Economic Outlook (WEO) Update. Prospects across the main countries and regions remain uneven. Relative to last year, the recovery in advanced economies is expected to pick up slightly, while activity in emerging market and developing economies is projected to slow for the fifth year in a row, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries. In an environment of declining commodity prices, reduced capital flows to emerging markets and pressure on their currencies, and increasing financial market volatility, downside risks to the outlook have risen, particularly for emerging market and developing economies.

Global growth remains moderate—and once again more so than predicted a few months earlier. Although country-specific shocks and developments play a role, the persistently modest pace of recovery in advanced economies and the fifth consecutive year of growth declines in emerging markets suggest that medium-term and long-term common forces are also importantly at play. These include low productivity growth since the crisis, crisis legacies in some advanced economies (high public and private debt, financial sector weakness, low investment), demographic transitions, ongoing adjustment in many emerging markets following the post-crisis credit and investment boom, a growth realignment in China—with important cross-border repercussions—and a downturn in commodity prices triggered by weaker demand as well as higher production capacity. Chapter 2 of this WEO report and the Commodities Special Feature in Chapter 1 examine in detail causes and implications of the commodity price downturn, while the October 2015 Fiscal Monitor examines the role of fiscal policy and fiscal policy frameworks in managing commodity price volatility. Financial market volatility spiked in August, following the depreciation of the renminbi, with an increase in global risk aversion, weakening currencies for many emerging markets, and a sharp correction in equity prices worldwide. Temporary surges in volatility had

earlier been associated with events surrounding Greek debt negotiations and the sharp stock market decline in China and subsequent policy measures by the Chinese authorities in June–July. With the first increase in U.S. policy rates approaching and a worsening of the global outlook, financial conditions for emerging markets have tightened since the spring, especially in recent weeks: dollar bond spreads and long-term local-currency bond yields have increased by 50 to 60 basis points on average, and stock prices are weaker, while exchange rates have depreciated or come under pressure. Financial conditions in advanced economies continue in contrast to be easy, and real interest rates remain low even as the policy rate liftoff approaches in the United States and the United Kingdom. Commodity prices have weakened, particularly in recent weeks. After increasing in the spring from their January trough, oil prices have declined sharply, reflecting resilient supply, the prospects of higher future output following the nuclear deal with the Islamic Republic of Iran, and weaker global demand. Metal prices have also fallen on concerns about global demand, especially the slowdown in commodity intensive investment and manufacturing activity in China, but also owing to increases in supply following the past mining investment boom. For many commodity exporters with flexible exchange rate regimes, weakening commodity prices have triggered sizable currency depreciation. But emerging market currencies more generally have seen sharp depreciations since the spring, particularly in August, while exchange rate movements across major advanced economy currencies have been relatively modest in recent months

compared to the August 2014–March 2015 period. These realignments across floating-rate currencies have reflected to an important extent the evolution of underlying fundamentals— countries with weakening growth prospects and worsening terms of trade are facing currency depreciation pressures as part of global adjustment. As discussed in Chapter 3, countries experiencing sharp and persistent exchange rate movements will likely see notable changes in their net external demand.

#### WORLD ECONOMIC OUTLOOK: ADJUSTING TO LOWER COMMODITY PRICES

These global factors—and country-specific developments—point to a somewhat weaker recovery in 2015 and 2016 than previously envisaged, and to higher downside risks. Growth in advanced economies is projected to increase modestly this year and next year. This year’s developments reflect primarily a strengthening of the modest recovery in the euro area and a return to positive growth in Japan, supported by declining oil prices, accommodative monetary policy, and in some cases, currency depreciation. The pickup in advanced economies is tempered by lower growth in commodity exporters—particularly Canada and Norway—and in Asia outside of Japan (in particular, Korea and Taiwan Province of China). Unemployment is declining, but underlying productivity growth remains weak, including in the United States, where the recovery is more entrenched. This heightens concern about the medium-term outlook. Some pickup in growth is expected in 2016 (especially in North America), but medium-term prospects remain subdued, reflecting a combination of lower investment, unfavorable demographics, and weak productivity growth. The recent further decline in oil prices, as well as in prices of other commodities, should support demand in the majority of advanced economies that are net commodity importers, but the slowdown in emerging markets will imply weaker exports. The renewed declines in commodity prices will again put downward pressure on headline inflation in advanced economies in the coming months and could delay the expected pickup in core inflation as the recovery progresses. While core inflation has remained more stable, it generally is still much below central bank objectives. The outlook is for inflation to remain subdued, notwithstanding declining unemployment and weaker medium-term growth potential. Growth prospects in emerging markets are very different across countries and regions, but the outlook is generally weakening, with growth projected to decline for the fifth year in a row. This reflects a combination of factors: weaker growth in oil exporters; a slowdown in China with less reliance on import-intensive investment; adjustment in the aftermath of credit and investment booms; and a weaker outlook for exporters of other commodities, including in Latin America, following declines in other commodity prices, as well as geopolitical tensions and domestic strife in a number of countries.

For most emerging market economies, external conditions are becoming more difficult. While currency depreciation will help net exports, the “pull” from advanced economies will be somewhat more modest than previously forecast, given their weak recovery and moderate prospects for medium-term growth. Capital flows to emerging markets have slowed in recent quarters, and the liftoff of U.S. policy rates from the zero lower bound is likely to be associated with some tightening of external financial conditions. And while the growth slowdown in China is so far in line with forecasts, its cross-border repercussions appear greater than previously envisaged. This is reflected in weakening commodity prices (especially those for metals) and reduced exports to China (particularly in some east Asian economies). Growth in emerging market and developing economies is projected to rebound in 2016. This reflects mostly a less deep recession or a partial normalization of conditions in countries in economic distress in 2015 (including Brazil, Russia, and some countries in Latin America and in the Middle East), spillovers from the stronger pickup in activity in advanced economies, and the easing of sanctions on the Islamic Republic of Iran. China’s growth is projected to slow further, albeit gradually. The

weakness in commodity prices, slower-than expected global growth, and the prospect of tighter global financial conditions weigh on the outlook for low-income countries. Some have been running large current account deficits, benefiting from easy access to foreign savings and abundant foreign direct investment, especially in resource-rich countries, and they are hence particularly vulnerable to external financial shocks. The balance of risks is still tilted to the downside. Lower oil and other commodity prices could provide some upside to demand in commodity importers, but complicate the outlook for commodity exporters, some of which already face strained initial conditions. The Chinese authorities face difficult trade-offs in their objectives of achieving a transition to more consumption-driven growth without activity slowing too much, while also reducing financial vulnerabilities and implementing reforms to strengthen the role of market forces in the economy. Emerging markets remain vulnerable in the short term to further declines in commodity prices and sharp appreciation of the U.S. dollar, which could further strain corporate

balance sheets in some countries. Increased financial market volatility can pose financial stability challenges in advanced economies (for instance, if accompanied by a sudden decompression of risk premiums), with substantial spillovers onto emerging markets, including through tighter financial conditions and a reversal of capital flows. The main medium-term risk for advanced economies is a further decline of already-low growth into near stagnation, particularly if global demand falters further as prospects weaken for emerging market and developing economies. In this context, persistently below-target inflation could become more entrenched. In emerging markets, medium-term risks come from spillovers from a “hard landing” or much slower potential growth in China, or lower potential growth more generally. Raising both actual and potential output through a combination of demand support and structural reforms continues to be the economic policy priority. In advanced economies, accommodative monetary policy remains essential, alongside macroprudential policies to contain financial sector risks as needed. Countries with fiscal space and sizable output gaps or significant reliance on net external demand should ease their fiscal stance in the near term, especially through increased infrastructure investment. Indeed, to the extent that demand support is able to boost confidence and investment, which has been lagging in many advanced economies, this would also contribute to higher potential output. The structural reform agenda is country specific, but its main planks are measures to strengthen labor force participation and trend employment, facilitate labor market adjustment, tackle legacy debt overhang, and lower barriers to entry in product markets, especially in services. Emerging market and developing economies face a difficult trade-off between supporting demand amid slowing growth—actual and potential—and reducing vulnerabilities in a more difficult external environment. Many economies have eased macroeconomic policies in response. The scope for further easing varies considerably across countries, however, given differences in growth performance, macroeconomic conditions, and sensitivity to commodity price shocks, as well as external, financial, and fiscal vulnerabilities.

- In oil importers, lower oil prices have reduced price pressures and external vulnerabilities, which will ease the burden on monetary policy. These positive effects are, however, offset in oil importers that export other commodities by weaker export prices and the ensuing exchange rate depreciation.
- In oil exporters without fiscal space, lower oil revenues require a reduction in public spending. For those with space, it is appropriate to adjust the fiscal position gradually, but medium-term adjustment plans should be formulated and initiated to maintain policy credibility.

- In commodity-exporting countries with flexible exchange rate regimes, currency depreciation can help offset the demand impact of terms-of-trade losses, but sharp exchange rate changes can in some countries exacerbate vulnerabilities associated with high corporate leverage and foreign-currency exposure.
- Structural reforms to raise productivity and remove bottlenecks to production are urgently needed in many economies.

**Table 1.1. Overview of the *World Economic Outlook* Projections**  
(Percent change, unless noted otherwise)

	2014	Projections		Difference from July 2015 <i>WEO Update</i> <sup>1</sup>		Difference from April 2015 <i>WEO</i> <sup>1</sup>	
		2015	2016	2015	2016	2015	2016
<b>World Output</b>	<b>3.4</b>	<b>3.1</b>	<b>3.6</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.2</b>
<b>Advanced Economies</b>	<b>1.8</b>	<b>2.0</b>	<b>2.2</b>	<b>-0.1</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.2</b>
United States	2.4	2.6	2.8	0.1	-0.2	-0.5	-0.3
Euro Area	0.9	1.5	1.6	0.0	-0.1	0.0	0.0
Germany	1.6	1.5	1.6	-0.1	-0.1	-0.1	-0.1
France	0.2	1.2	1.5	0.0	0.0	0.0	0.0
Italy	-0.4	0.8	1.3	0.1	0.1	0.3	0.2
Spain	1.4	3.1	2.5	0.0	0.0	0.6	0.5
Japan	-0.1	0.6	1.0	-0.2	-0.2	-0.4	-0.2
United Kingdom	3.0	2.5	2.2	0.1	0.0	-0.2	-0.1
Canada	2.4	1.0	1.7	-0.5	-0.4	-1.2	-0.3
Other Advanced Economies <sup>2</sup>	2.8	2.3	2.7	-0.4	-0.4	-0.5	-0.4
<b>Emerging Market and Developing Economies</b>	<b>4.6</b>	<b>4.0</b>	<b>4.5</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.3</b>	<b>-0.2</b>
Commonwealth of Independent States	1.0	-2.7	0.5	-0.5	-0.7	-0.1	0.2
Russia	0.6	-3.8	-0.6	-0.4	-0.8	0.0	0.5
Excluding Russia	1.9	-0.1	2.8	-0.8	-0.5	-0.5	-0.4
Emerging and Developing Asia	6.8	6.5	6.4	-0.1	0.0	-0.1	0.0
China	7.3	6.8	6.3	0.0	0.0	0.0	0.0
India <sup>3</sup>	7.3	7.3	7.5	-0.2	0.0	-0.2	0.0
ASEAN-5 <sup>4</sup>	4.6	4.6	4.9	-0.1	-0.2	-0.6	-0.4
Emerging and Developing Europe	2.8	3.0	3.0	0.1	0.1	0.1	-0.2
Latin America and the Caribbean	1.3	-0.3	0.8	-0.8	-0.9	-1.2	-1.2
Brazil	0.1	-3.0	-1.0	-1.5	-1.7	-2.0	-2.0
Mexico	2.1	2.3	2.8	-0.1	-0.2	-0.7	-0.5
Middle East, North Africa, Afghanistan, and Pakistan	2.7	2.5	3.9	-0.1	0.1	-0.4	0.1
Saudi Arabia	3.5	3.4	2.2	0.6	-0.2	0.4	-0.5
Sub-Saharan Africa	5.0	3.8	4.3	-0.6	-0.8	-0.7	-0.8
Nigeria	6.3	4.0	4.3	-0.5	-0.7	-0.8	-0.7
South Africa	1.5	1.4	1.3	-0.6	-0.8	-0.6	-0.8
<b>Memorandum</b>							
European Union	1.5	1.9	1.9	0.0	-0.1	0.1	0.0
Low-Income Developing Countries	6.0	4.8	5.8	-0.3	-0.4	-0.7	-0.2
Middle East and North Africa	2.6	2.3	3.8	-0.1	0.1	-0.4	0.1
World Growth Based on Market Exchange Rates	2.7	2.5	3.0	-0.1	-0.2	-0.4	-0.2
<b>World Trade Volume (goods and services)</b>	<b>3.3</b>	<b>3.2</b>	<b>4.1</b>	<b>-0.9</b>	<b>-0.3</b>	<b>-0.5</b>	<b>-0.6</b>
Imports							
Advanced Economies	3.4	4.0	4.2	-0.5	-0.3	0.7	-0.1
Emerging Market and Developing Economies	3.6	1.3	4.4	-2.3	-0.3	-2.2	-1.1
Exports							
Advanced Economies	3.4	3.1	3.4	-0.5	-0.6	-0.1	-0.7
Emerging Market and Developing Economies	2.9	3.9	4.8	-1.1	0.1	-1.4	-0.9
<b>Commodity Prices (U.S. dollars)</b>							
Oil <sup>5</sup>	-7.5	-46.4	-2.4	-7.6	-11.5	-6.8	-15.3
Nonfuel (average based on world commodity export weights)	-4.0	-16.9	-5.1	-1.3	-3.4	-2.8	-4.1
<b>Consumer Prices</b>							
Advanced Economies	1.4	0.3	1.2	0.3	0.0	-0.1	-0.2
Emerging Market and Developing Economies	5.1	5.6	5.1	0.1	0.3	0.2	0.3
<b>London Interbank Offered Rate (percent)</b>							
On U.S. Dollar Deposits (six month)	0.3	0.4	1.2	0.0	0.0	-0.3	-0.7
On Euro Deposits (three month)	0.2	0.0	0.0	0.0	0.0	0.0	0.0
On Japanese Yen Deposits (six month)	0.2	0.1	0.1	0.0	0.0	0.0	-0.1

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during July 27–August 24, 2015. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. Data for Lithuania are included in the euro area aggregates but were excluded in the April 2015 *World Economic Outlook* (WEO).

<sup>1</sup>Difference based on rounded figures for both the current, July 2015 *WEO Update*, and April 2015 *World Economic Outlook* forecasts.

<sup>2</sup>Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

<sup>3</sup>For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY2011/12 as a base year.

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