



WORLD ECONOMIC OUTLOOK

October 2016

Global Prospects and Policies

Research Department, International Monetary Fund



Global activity remains sluggish, broad-based policy response needed

- **Global growth:** moderate and uneven
 - **Advanced Economies (AE):** sluggish performance amid weak investment
 - **Emerging Market and Developing Economies (EMDE):** activity in stressed economies bottoming out, heterogeneous performance among others
- **Potential for setbacks is high**
- **Policy priorities:** differ across individual economies, but action relying on all levers needed to head off further growth disappointments

Complex forces, realignments shaping the outlook

Advanced economies

- Varying degrees of post-crisis repair
- Subdued demand

overlaid on...

- Demographic headwinds
- Weak productivity growth

contributing to

- Low interest rates
- Low inflation, weak trade

Emerging market and developing economies

- Rebalancing in China
- Adjustment to lower commodity prices

- Demographic trends

- Slowing convergence
- Weak trade

Growth projections: Advanced economies

(percent change from a year earlier)



World



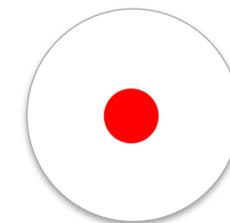
Advanced Economies



U.S.



U.K.



Japan



Euro Area



Germany



Canada



Other
Advanced
Asia

2015

3.2

2.1

2.6

2.2

0.5

2.0

1.5

1.1

2.1

2016

3.1

1.6

1.6

1.8

0.5

1.7

1.7

1.2

2.2

Revision
from Jul.
2016

0.0

-0.2

-0.6

0.1

0.2

0.1

0.1

-0.2

0.0

2017

3.4

1.8

2.2

1.1

0.6

1.5

1.4

1.9

2.5

Revision
from Jul.
2016

0.0

0.0

-0.3

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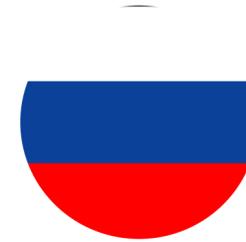
0.2

-0.2

-0.1

Growth projections: Emerging markets and LIDCs

(percent change from a year earlier)



World

Emerging
Market and
Developing
Economies

China

India

Brazil

Russia

Commodity
Exporting
Economies

Low Income
Developing
Countries

2015

3.2

4.0

6.9

7.6

-3.8

-3.7

0.8

4.6

2016

3.1

4.2

6.6

7.6

-3.3

-0.8

0.9

3.7

Revision from
Jul. 2016

0.0

0.1

0.0

0.2

0.0

0.4

-0.6

-0.1

2017

3.4

4.6

6.2

7.6

0.5

1.1

2.5

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Revision from
Jul. 2016

0.0

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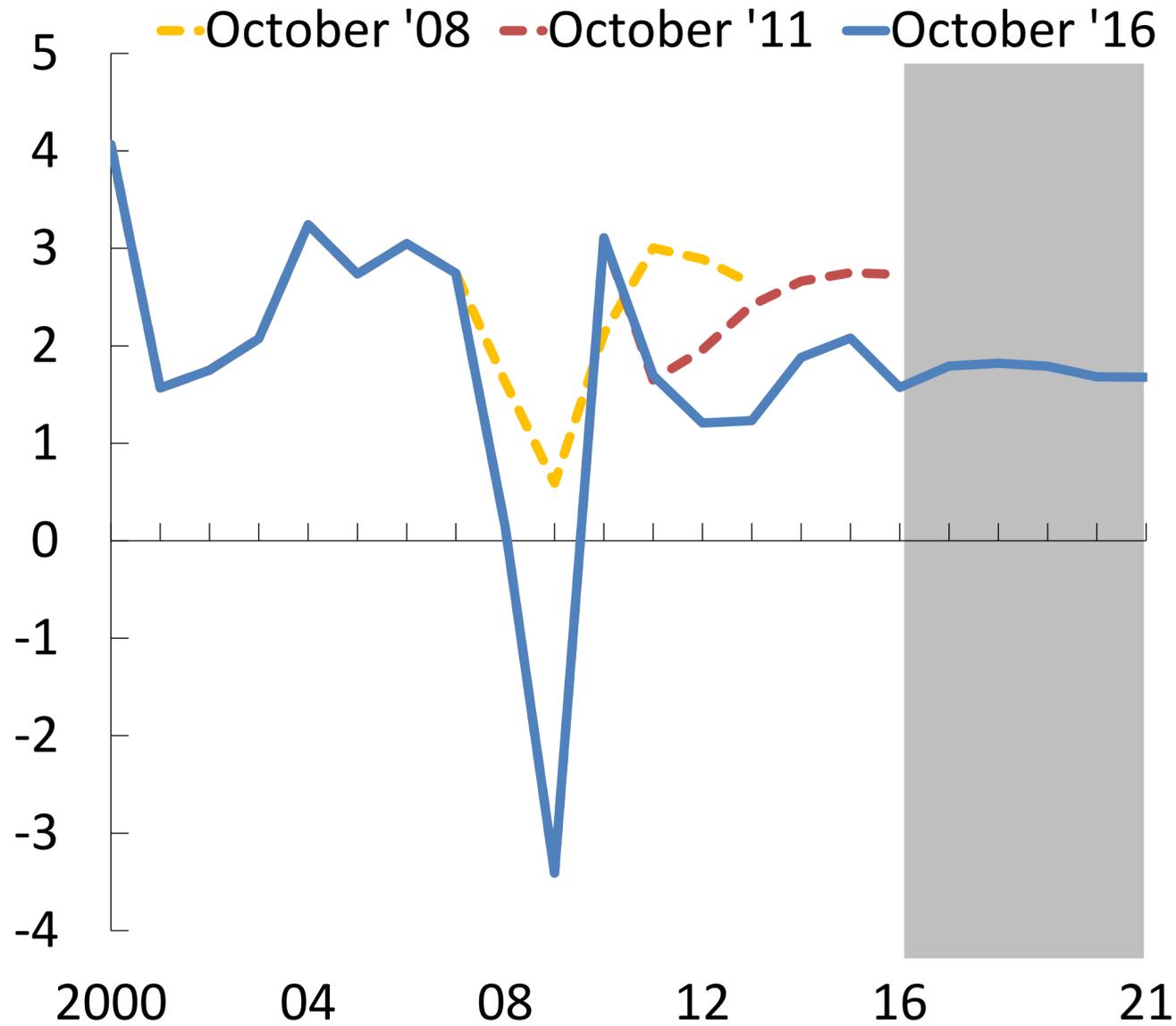
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Growth projections beyond 2017

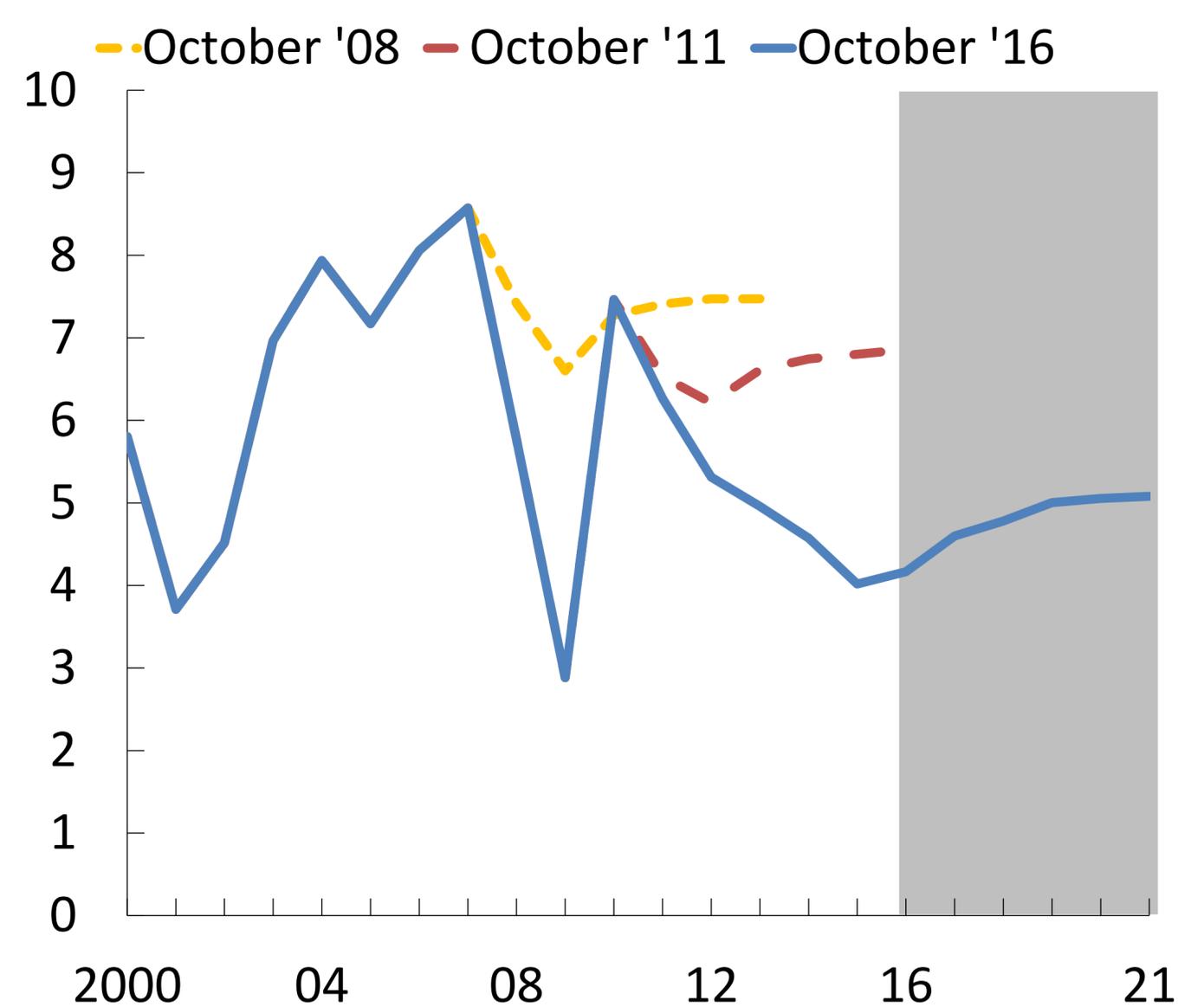
AEs: Real GDP Growth

(percent; various WEO forecast vintages)



EMDEs: Real GDP Growth

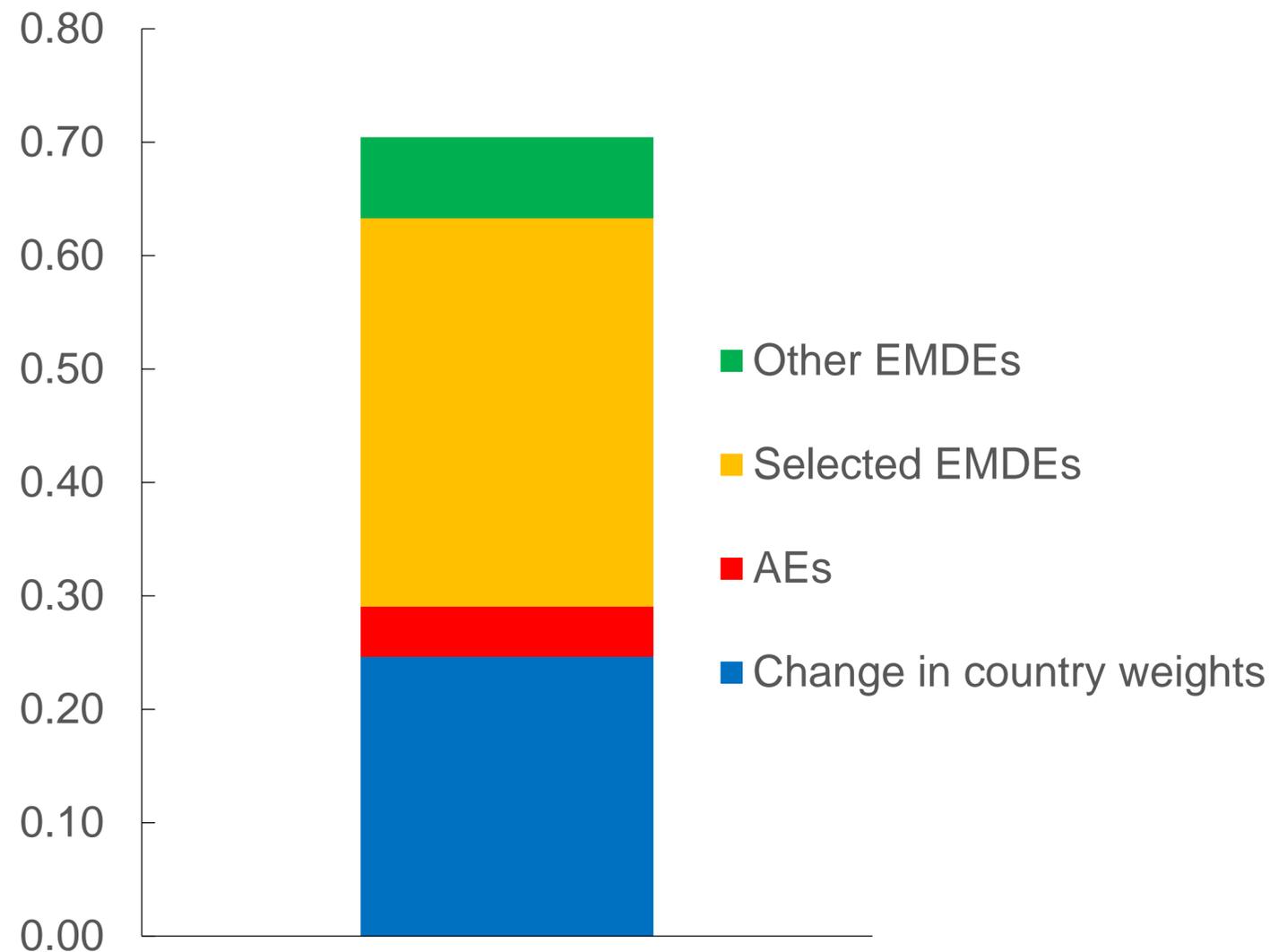
(percent; various WEO forecast vintages)



What explains the pick up in global growth between 2016 and 2021?

Increase in World Growth

(Percentage points)



- Shifting weights contribute one-third of the 0.70 percentage point increase
- Projected growth recoveries in six stressed EMs contribute slightly more (0.36 percentage point)
- Small increases in growth for other EMDEs and AEs explain the rest

Source: IMF staff calculations.

Note: Selected EMDEs: Argentina, Brazil, Nigeria, Russia, South Africa, Venezuela.

Baseline assumptions for the medium term

- A gradual return to growth in stressed economies, and in commodity exporters, albeit to modest rates
- A gradual slowdown and rebalancing of China's economy, with medium-term growth rates that (at about 6 percent) remain well above the average for other EMDEs
- Resilient growth in other EMDEs (e.g. India)

Downside risks continue to dominate the outlook

- *Protectionism*. Inward-looking policy approaches could harm trade and integration, leading firms to defer investment and hiring decisions.
- *Stagnation in AEs*. An extended period of weak demand could lead to persistently lower output and inflation in advanced economies. An unmooring of inflation expectations could raise real interest rates and weaken demand further.
- *China's transition*. China's rebalancing path could prove bumpier than expected. With continued reliance on credit and slow restructuring, the risk of an eventual disruptive adjustment is growing.
- *Financial threats to EMs*. Underlying vulnerabilities in some large EMs (high corporate debt, declining profitability, and weak balance sheets) together with the need to build policy buffers still leave EMDEs exposed to sudden shifts in investor confidence.
- *Non-economic shocks*. A range of factors could hurt sentiment, from the drought in East and Southern Africa; civil wars and domestic strife in the Middle East and Africa; the refugee situation in neighboring countries and in Europe; terrorism; and the spread of the Zika virus.
- *Upside potential*. Comprehensive policy action to repair balance sheets, enact structural reforms, and support near-term demand would foster a stronger path for global growth.

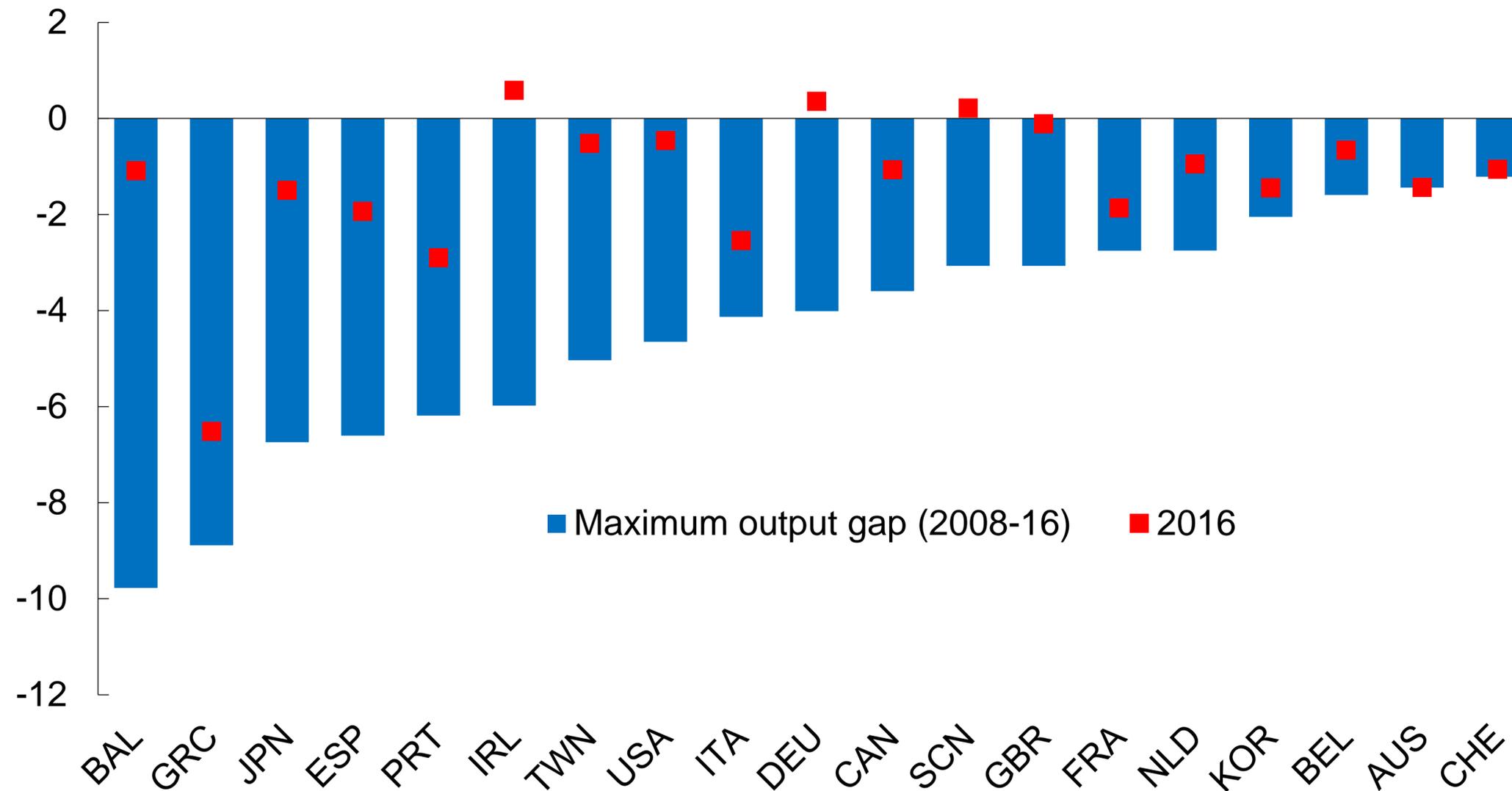


ADVANCED ECONOMY TRENDS
UNEVEN PROGRESS WITH RECOVERY

Output still below potential

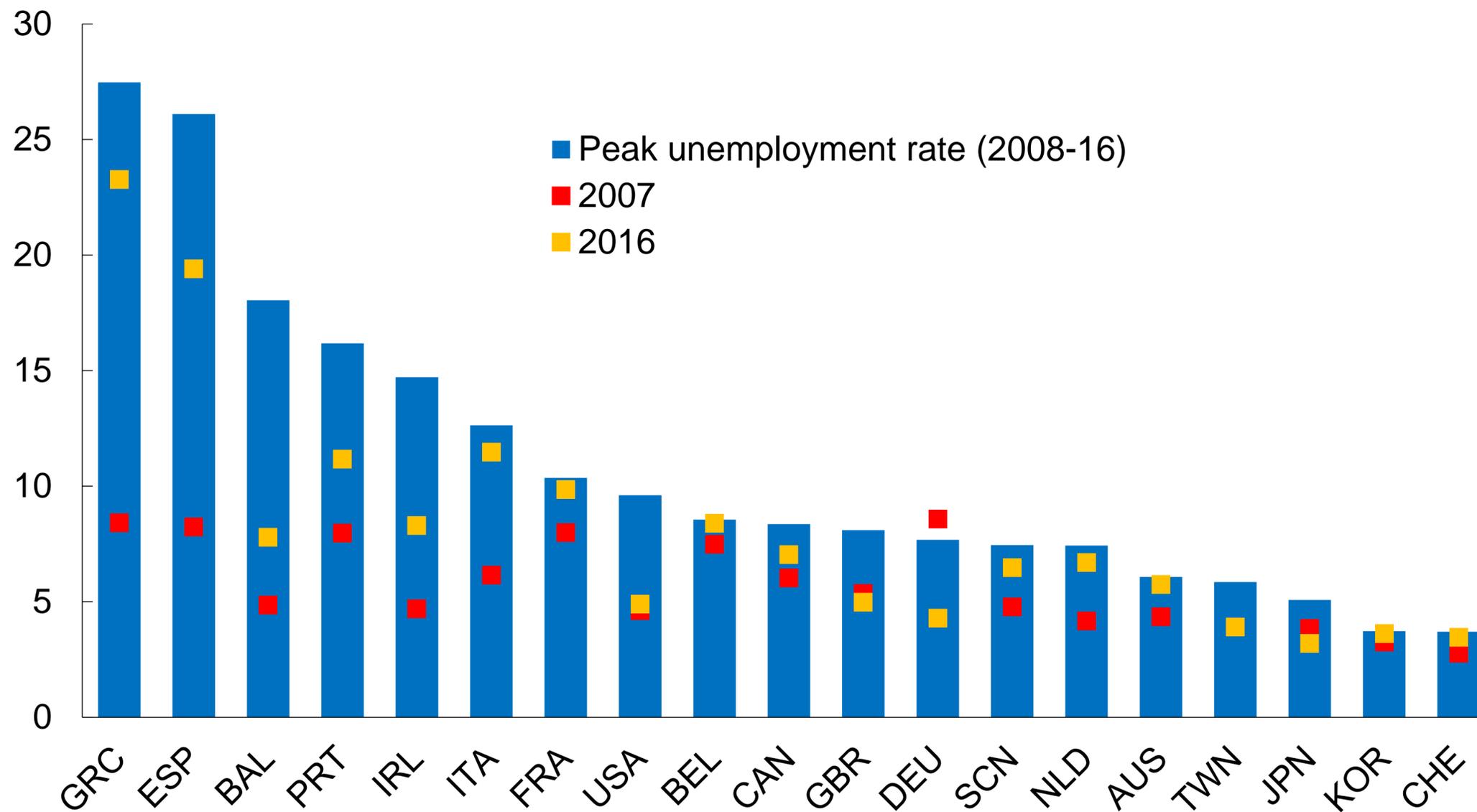
Output Gap

(Percent of Potential Output)



Labor market scars still visible

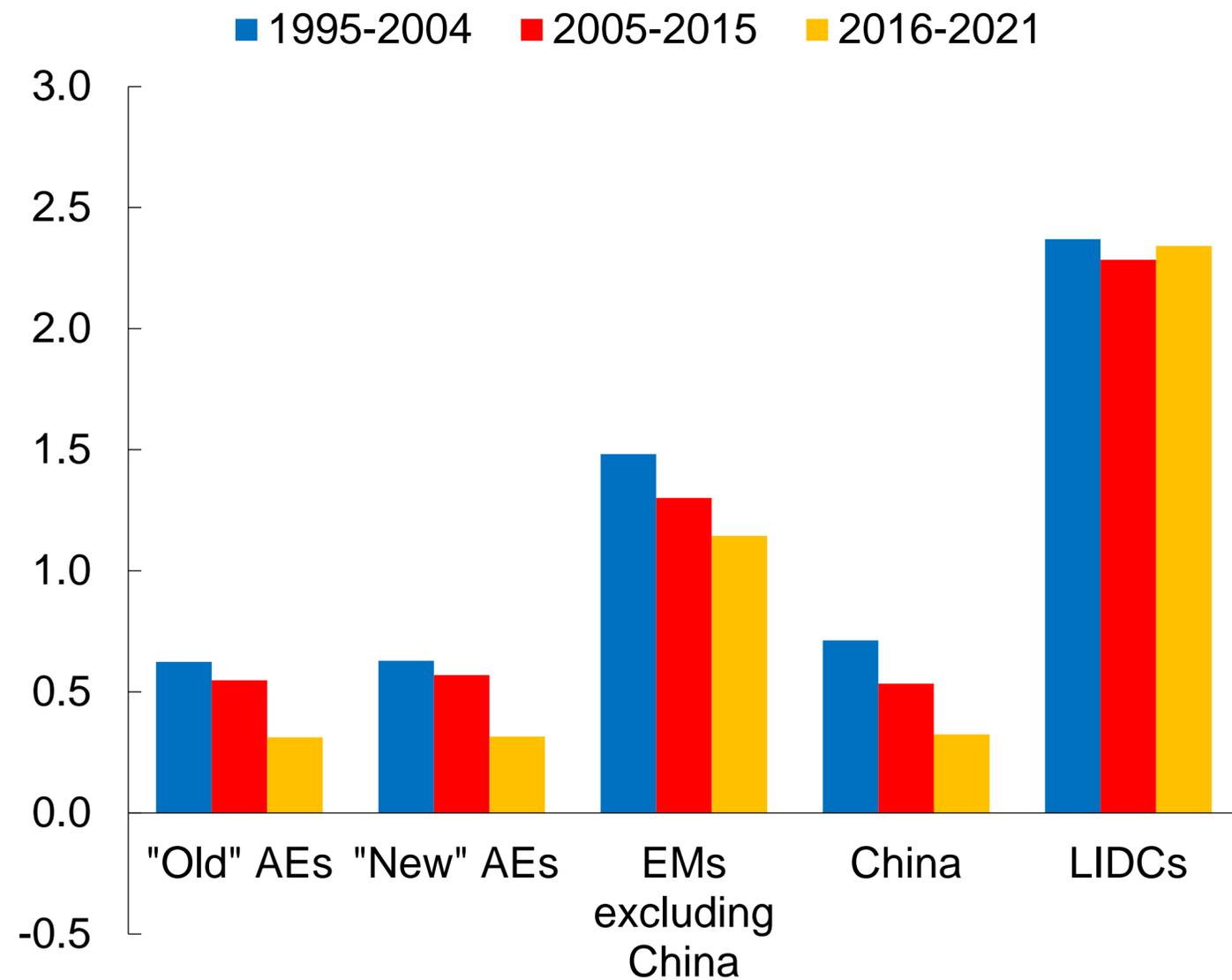
Unemployment Rate
(Percent of the Labor Force)



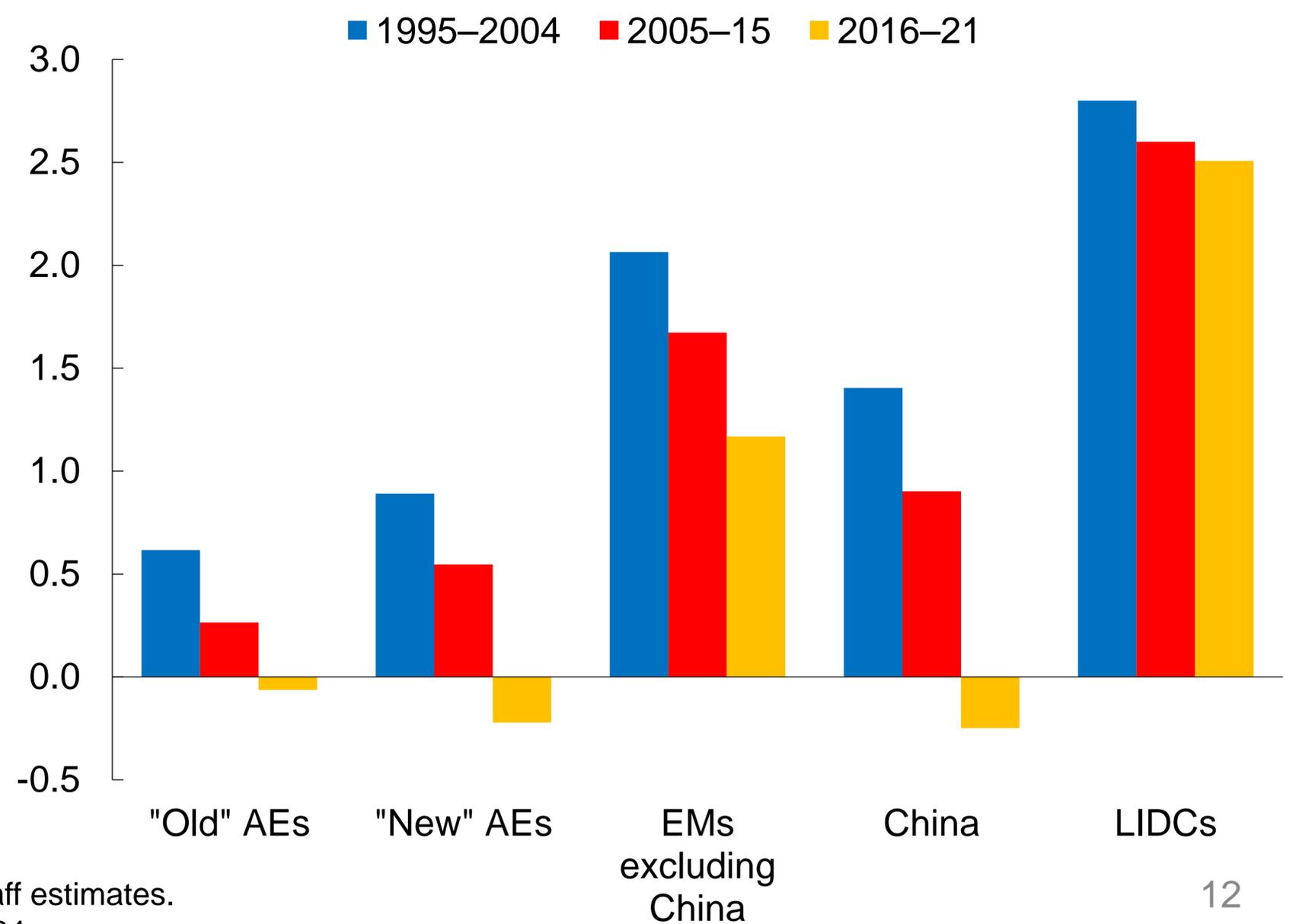
Sources: Organisation for Economic Co-operation and Development labor statistics; and IMF staff estimates.

AE workforce to shrink over the next 5 years

Population Growth
(Percent)



Working Age Population Growth
(Percent)

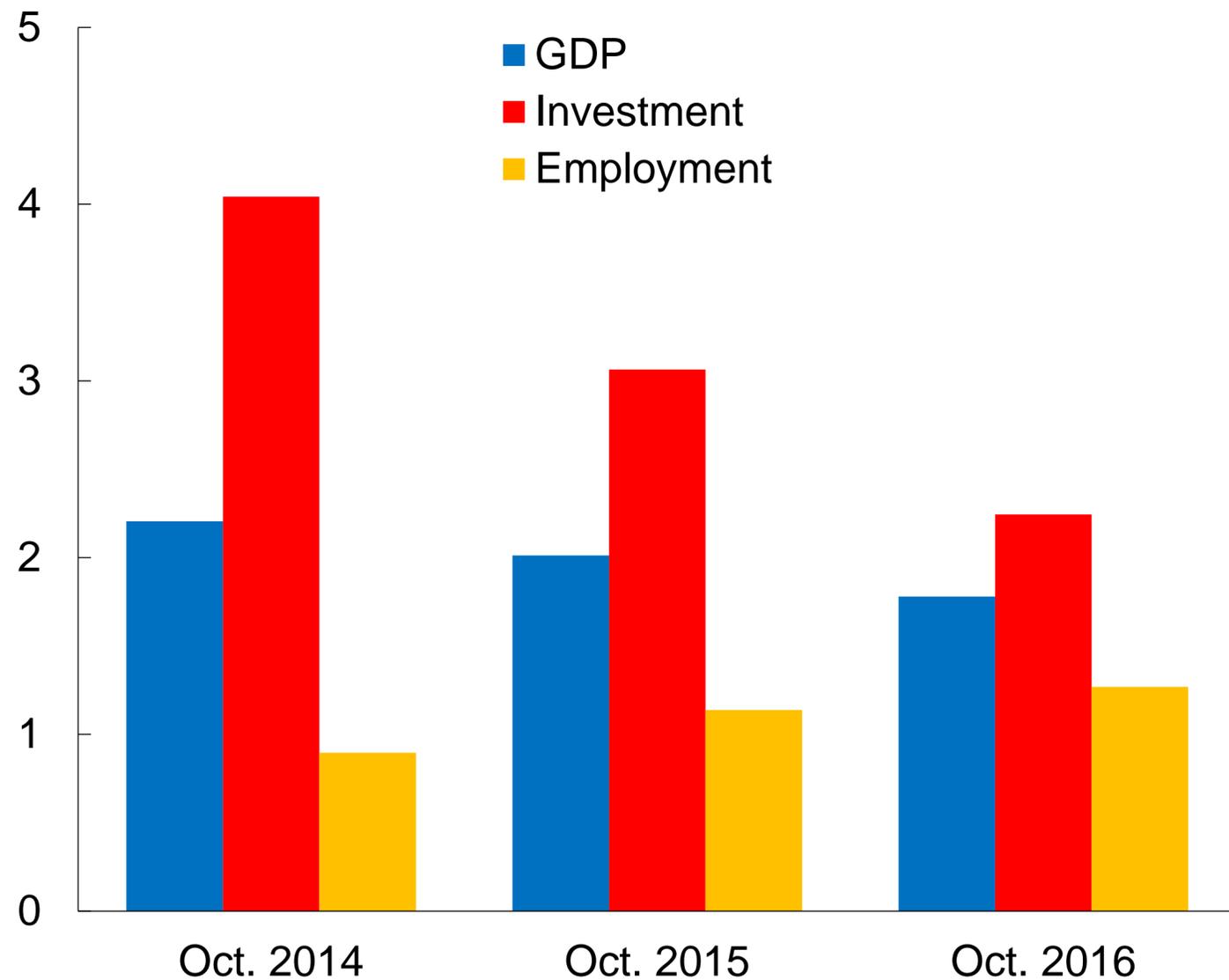


Sources: United Nations Population and Development database; and IMF staff estimates.
Working-age population defined as the population with age between 15 and 64.

Weaker growth, stronger employment: downgraded forecasts of labor productivity...

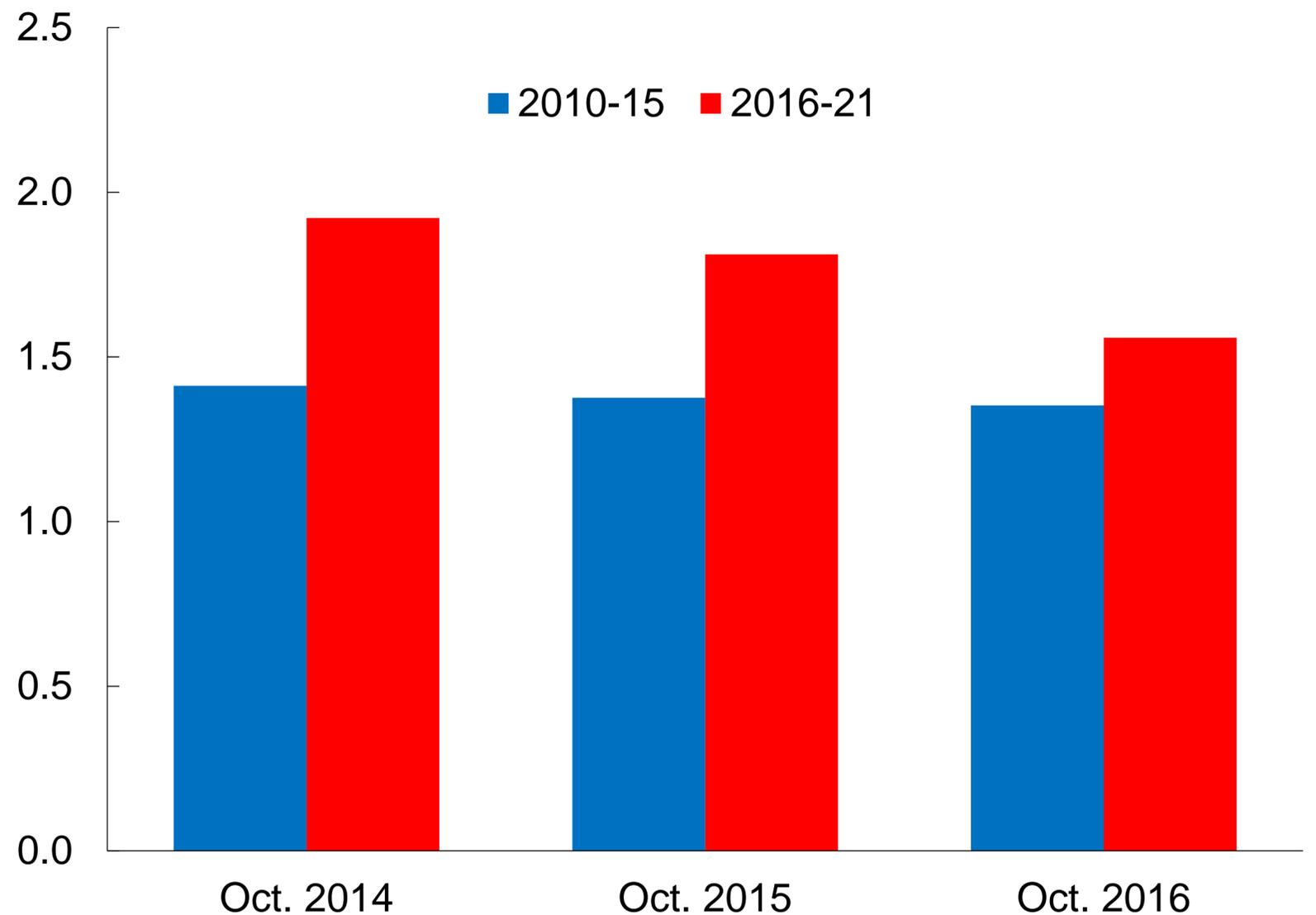
Employment, Fixed Investment, GDP

(Percent; average growth rate for 2014-16)



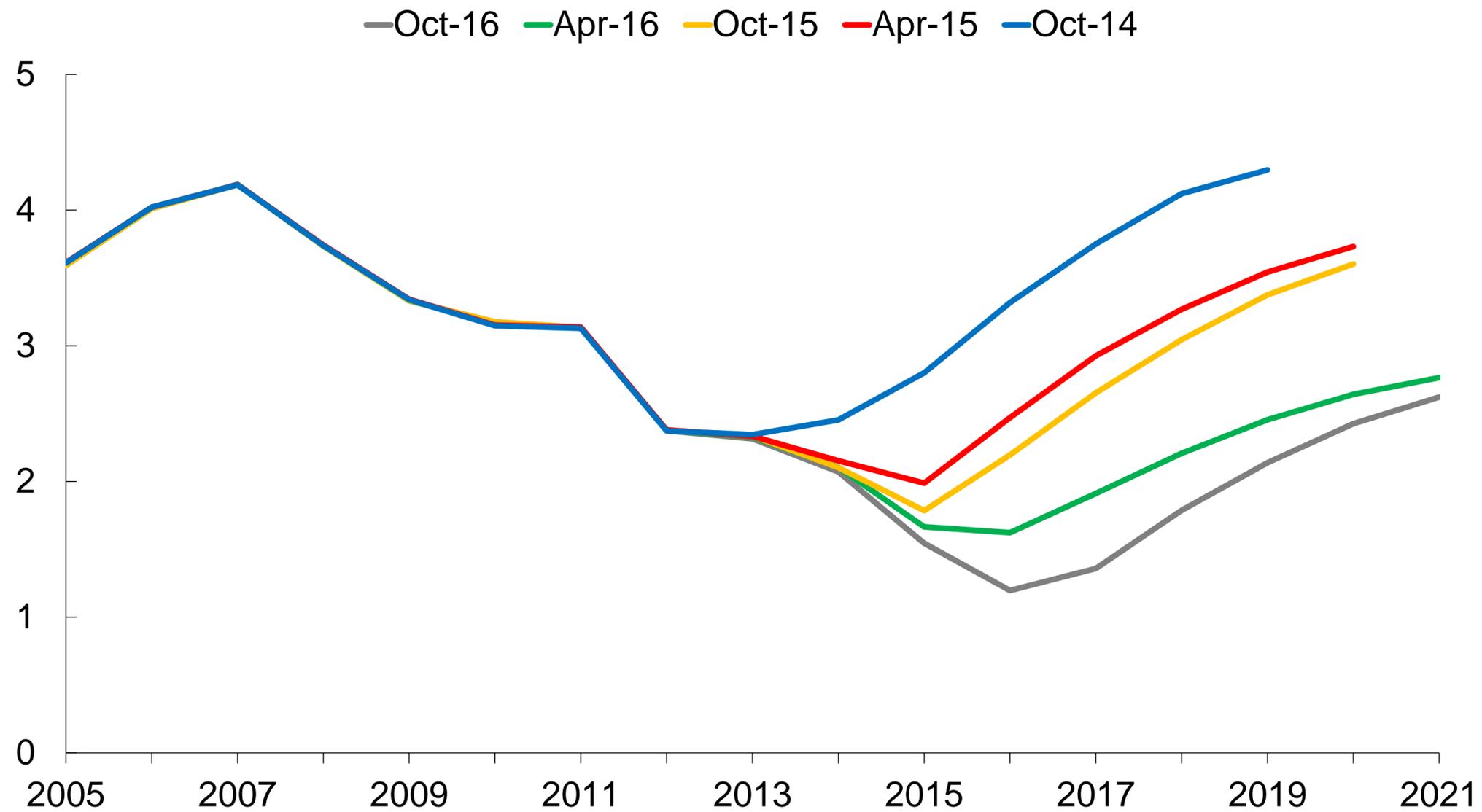
Potential Growth

(Percent; average growth rates)



... and expected interest rates

WEO Long-Term Nominal Interest Forecasts (Percent)

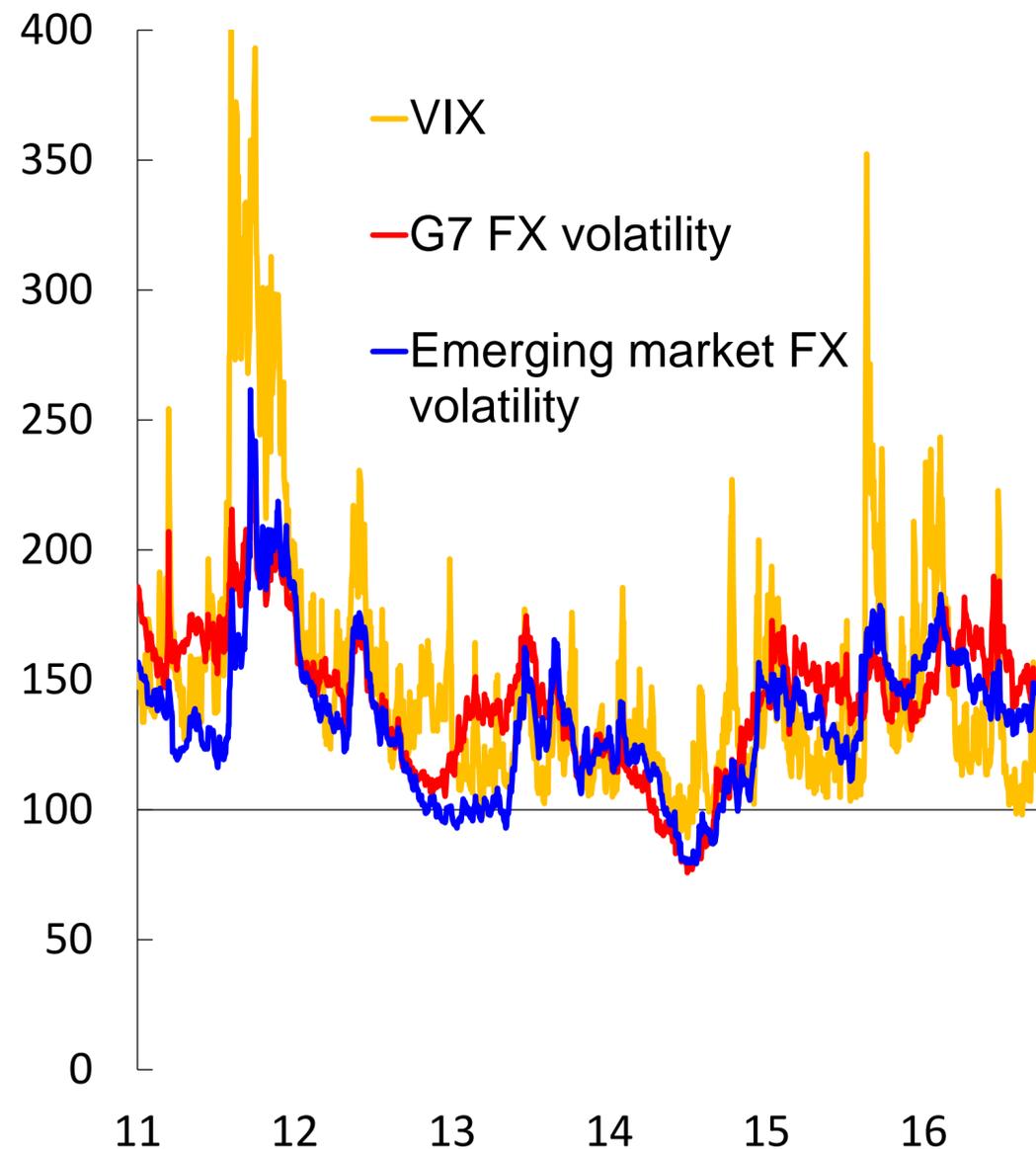




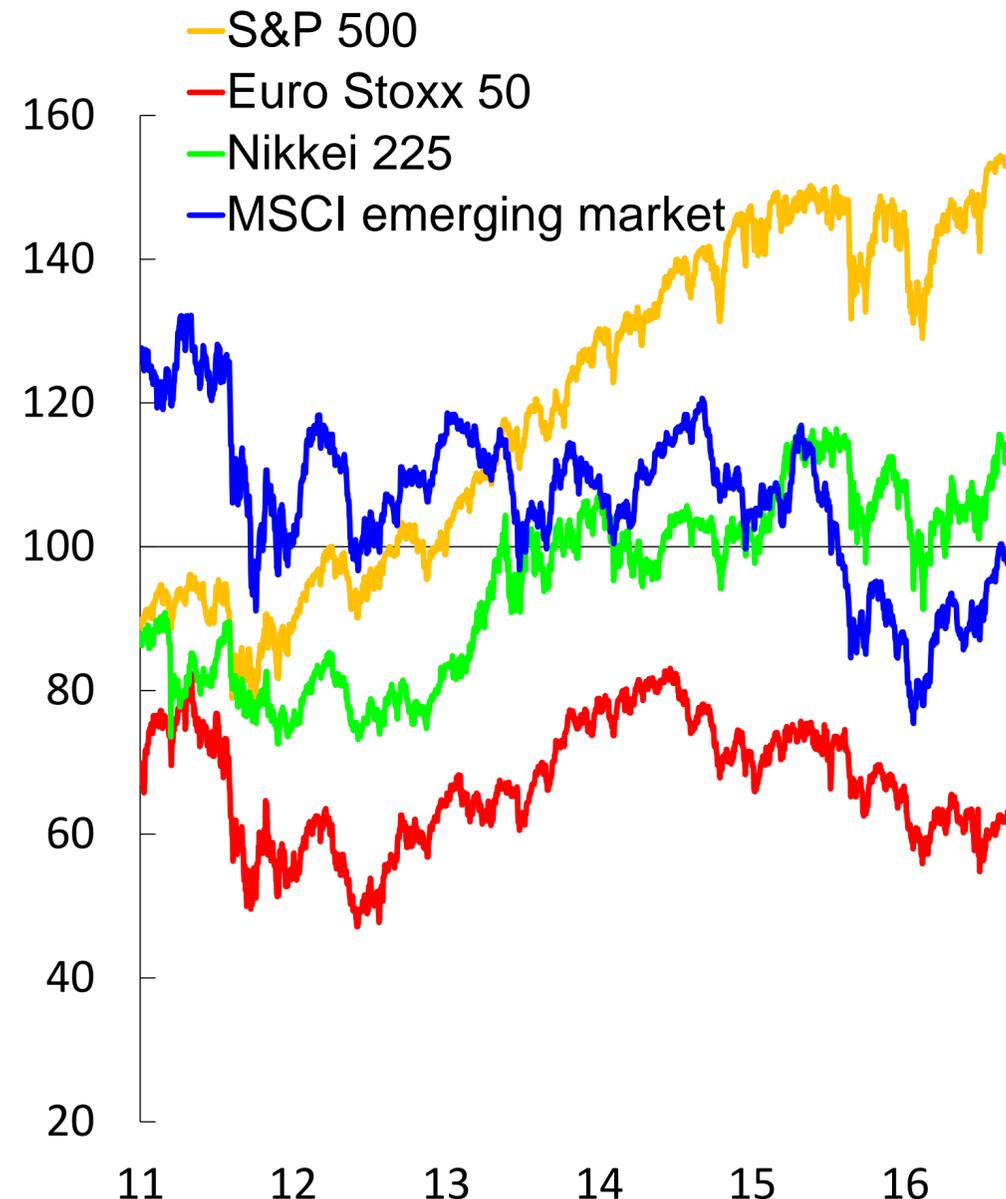
EMERGING MARKET AND DEVELOPING ECONOMY TRENDS

Recent months: calmer financial markets, improved sentiment toward EMs

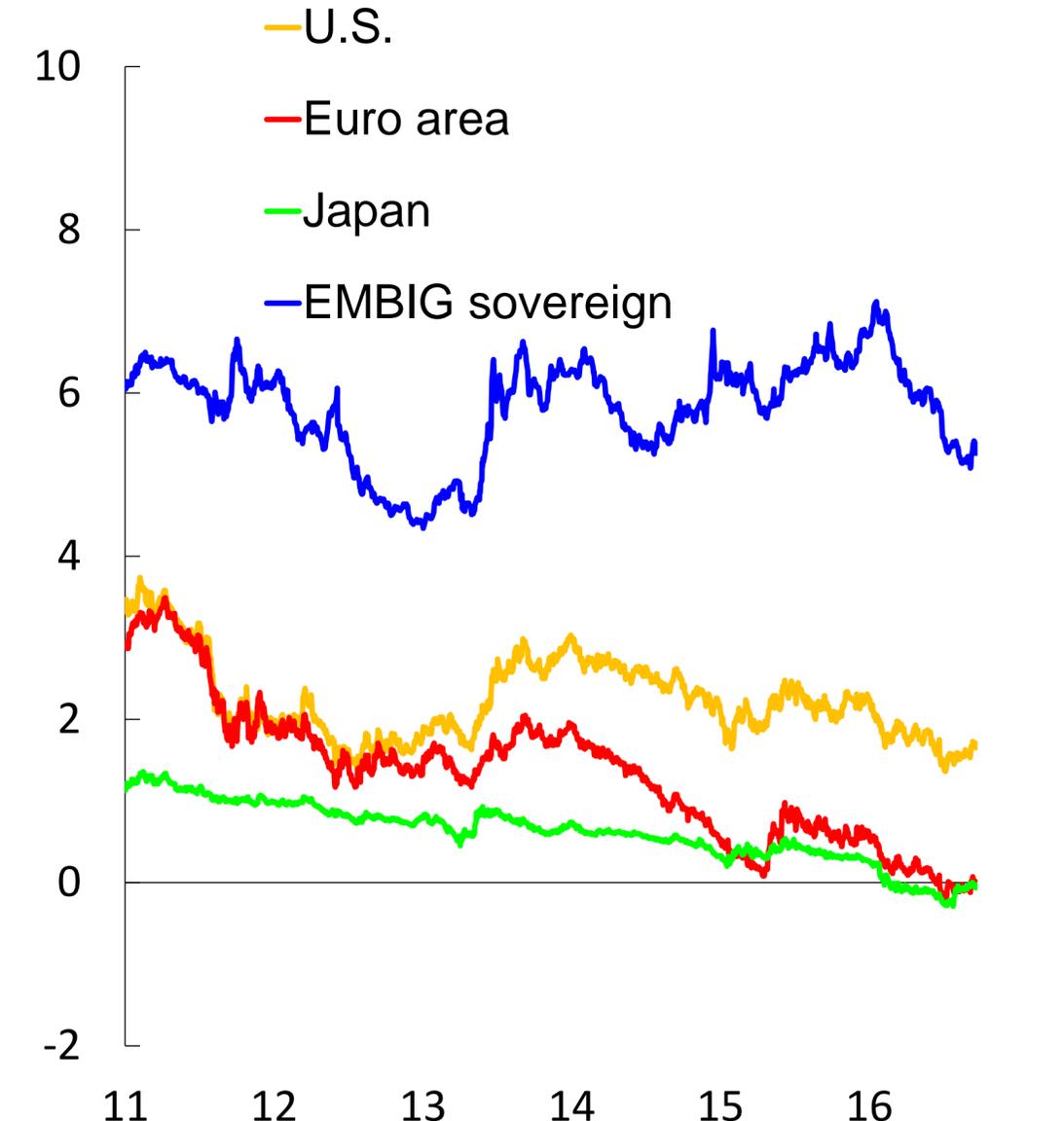
Financial market volatility¹
(index; Jan. 1, 2007=100)



Equity prices¹
(index; Jan. 1, 2007=100)

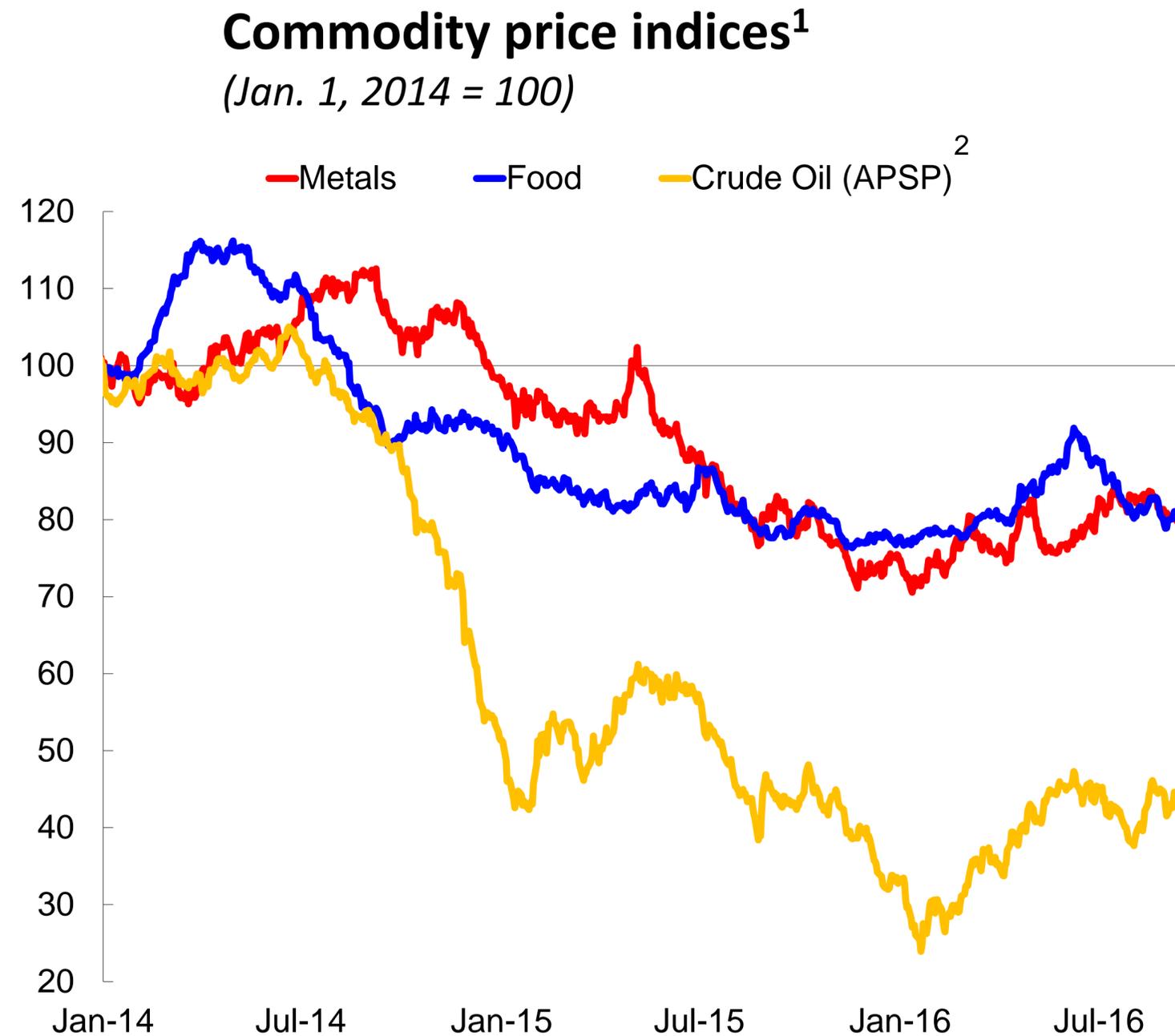


Government bond yields¹
(percent)



Sources: Bloomberg, L.P.; Haver Analytics; and IMF staff calculations. ¹Latest available data are for September 21, 2016.

Some recovery in commodity prices, especially for oil



Sources: IMF, *World Economic Outlook*; IMF, *Primary Commodity Price System*; and International Energy Agency (IEA).

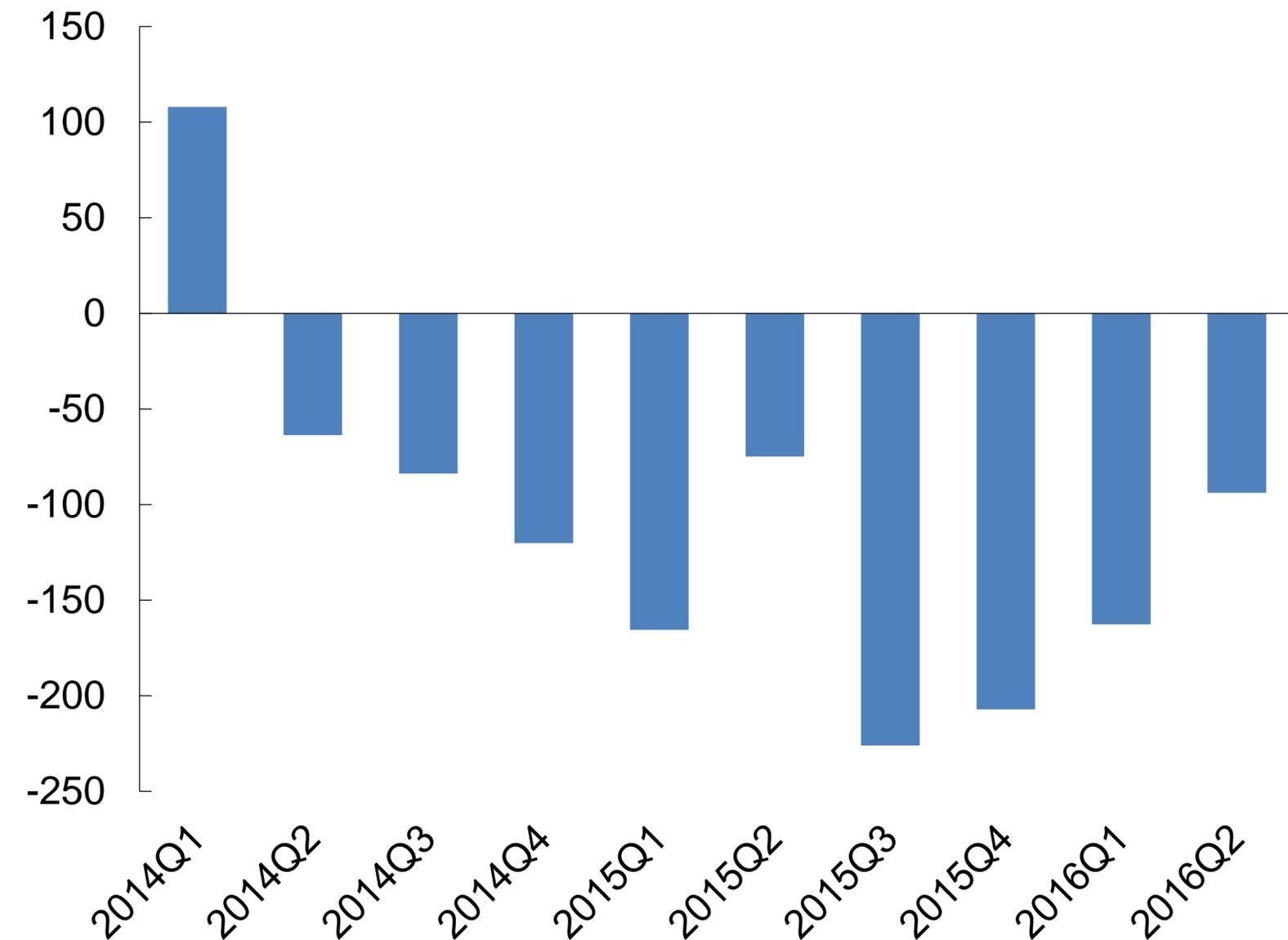
¹ Latest available data are for September 15, 2016.

² APSP (Average Petroleum Spot Price): average of U.K. Brent, Dubai, and West Texas Intermediate, equally weighted.

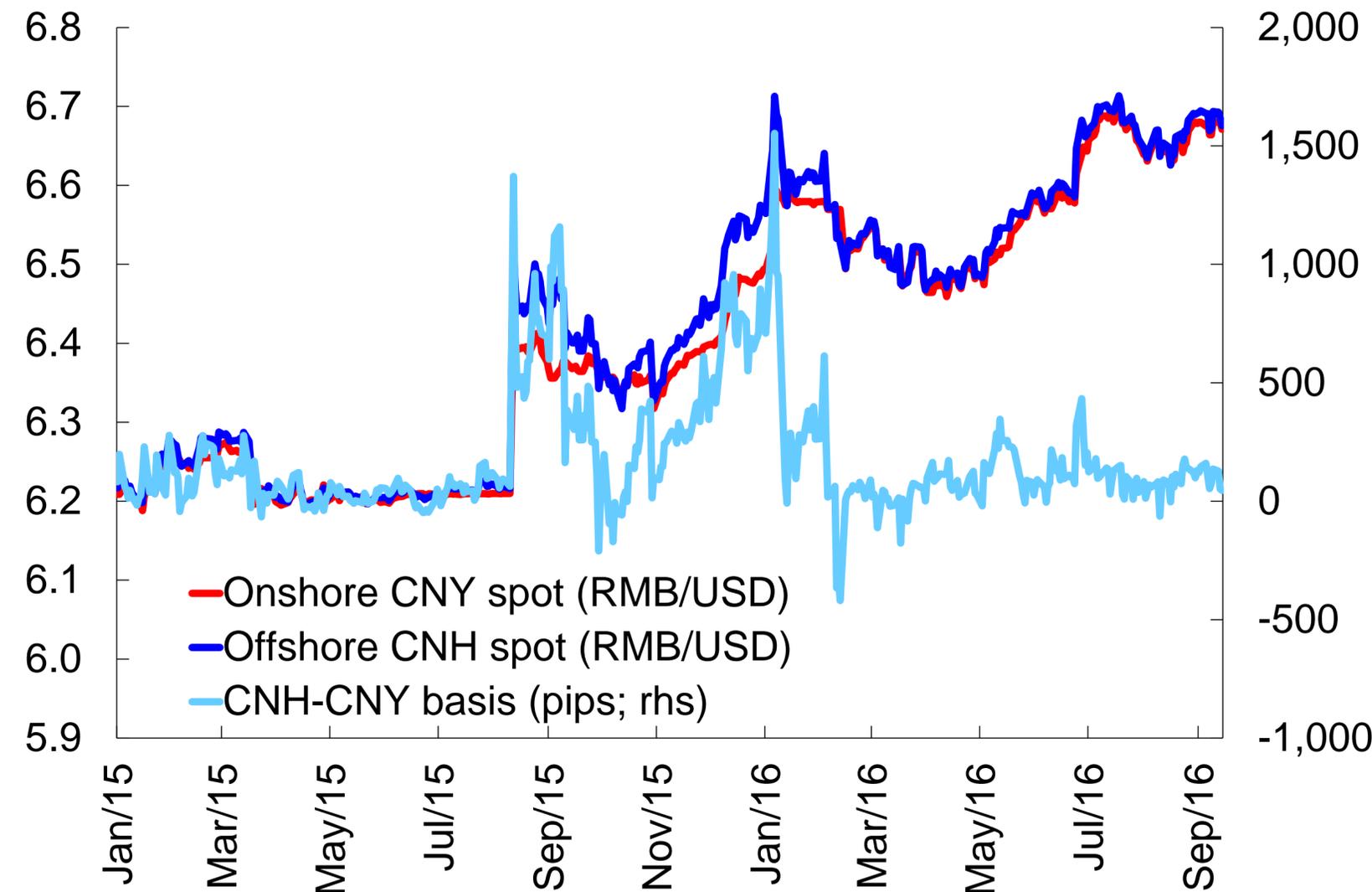
China: acute anxiety earlier in the year has faded

Outflow pressures have abated

(Net capital flows, billion USD)



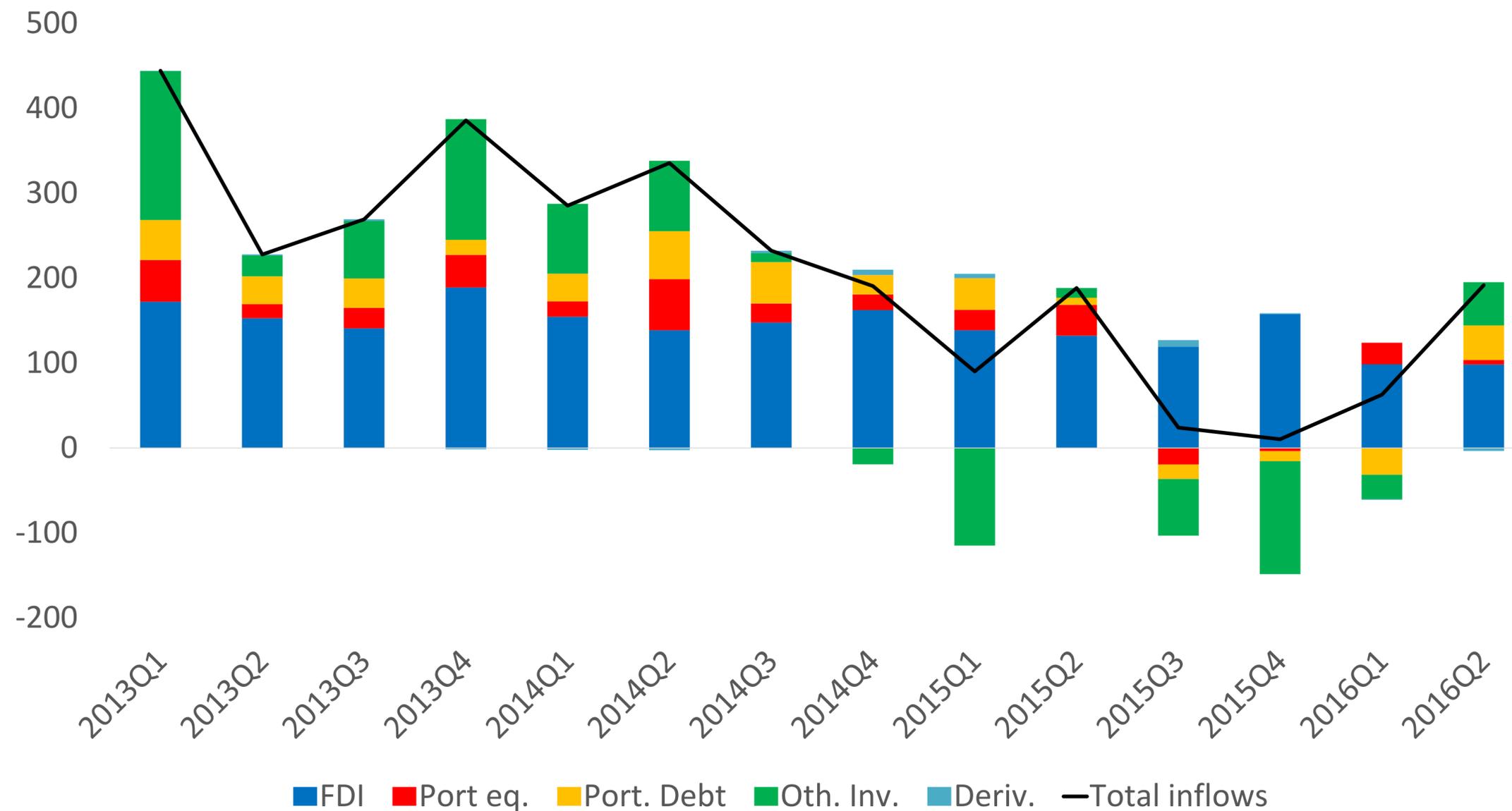
Spread between Onshore and Offshore exchange rates has narrowed



Capital inflows to EMDEs have picked up ...

Emerging Markets: Capital Inflows, 2013-16

(2013Q1-2016:Q2, billions of U.S. dollars)



Despite the recent relative calm, the outlook for EMDEs remains generally weaker than in the past

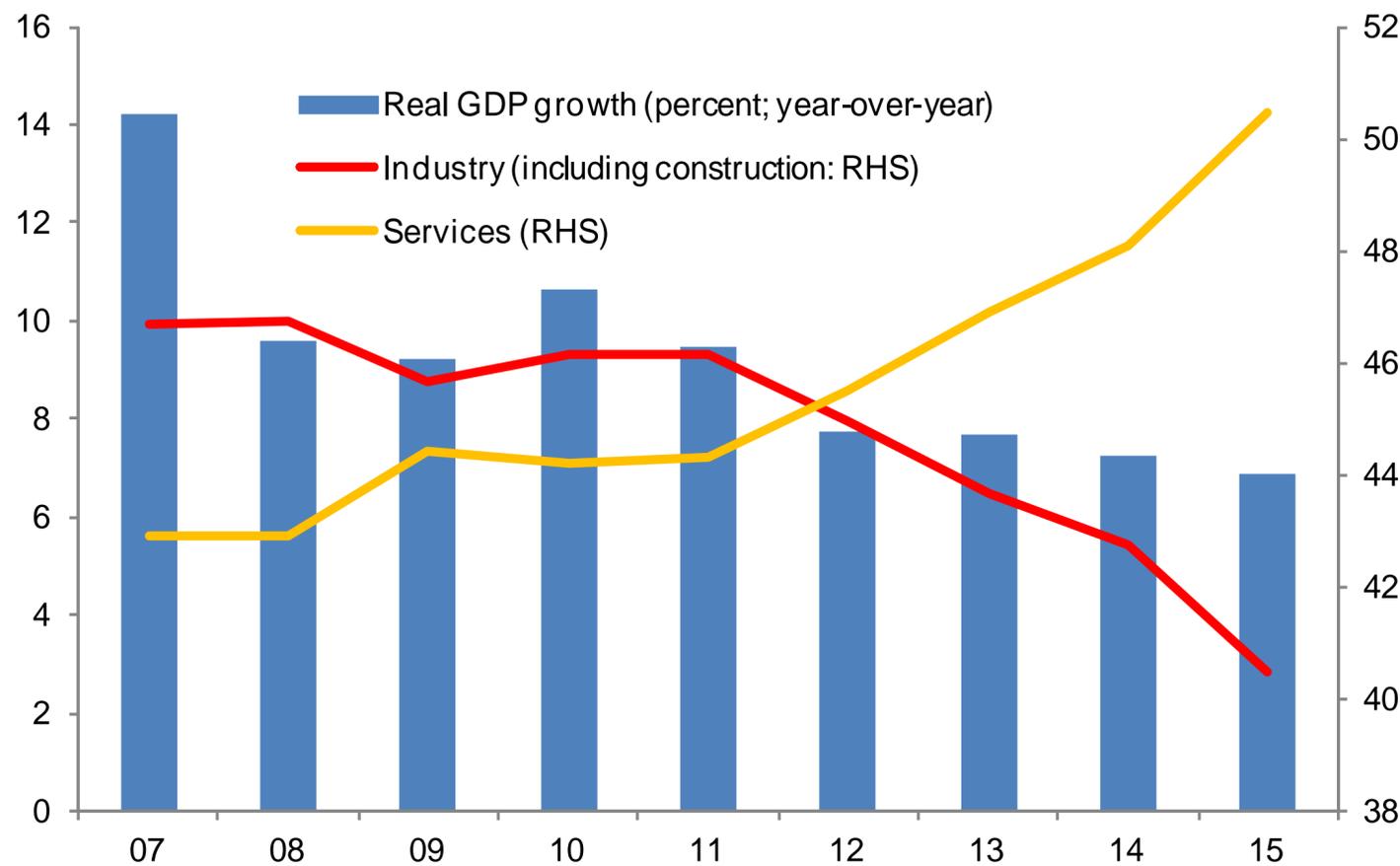
- External financial conditions for EMDEs have eased recently, but other factors weigh on the outlook
 - **China's rebalancing and slowdown:** spillovers magnified by its lower reliance on import- and resource-intensive investment
 - **Spillovers from persistently weak AE demand**
 - **Commodity exporters:** continued adjustment to lower revenue
 - **Conflict:** political discord, domestic strife, geopolitical tensions

A slowdown and rebalancing in China

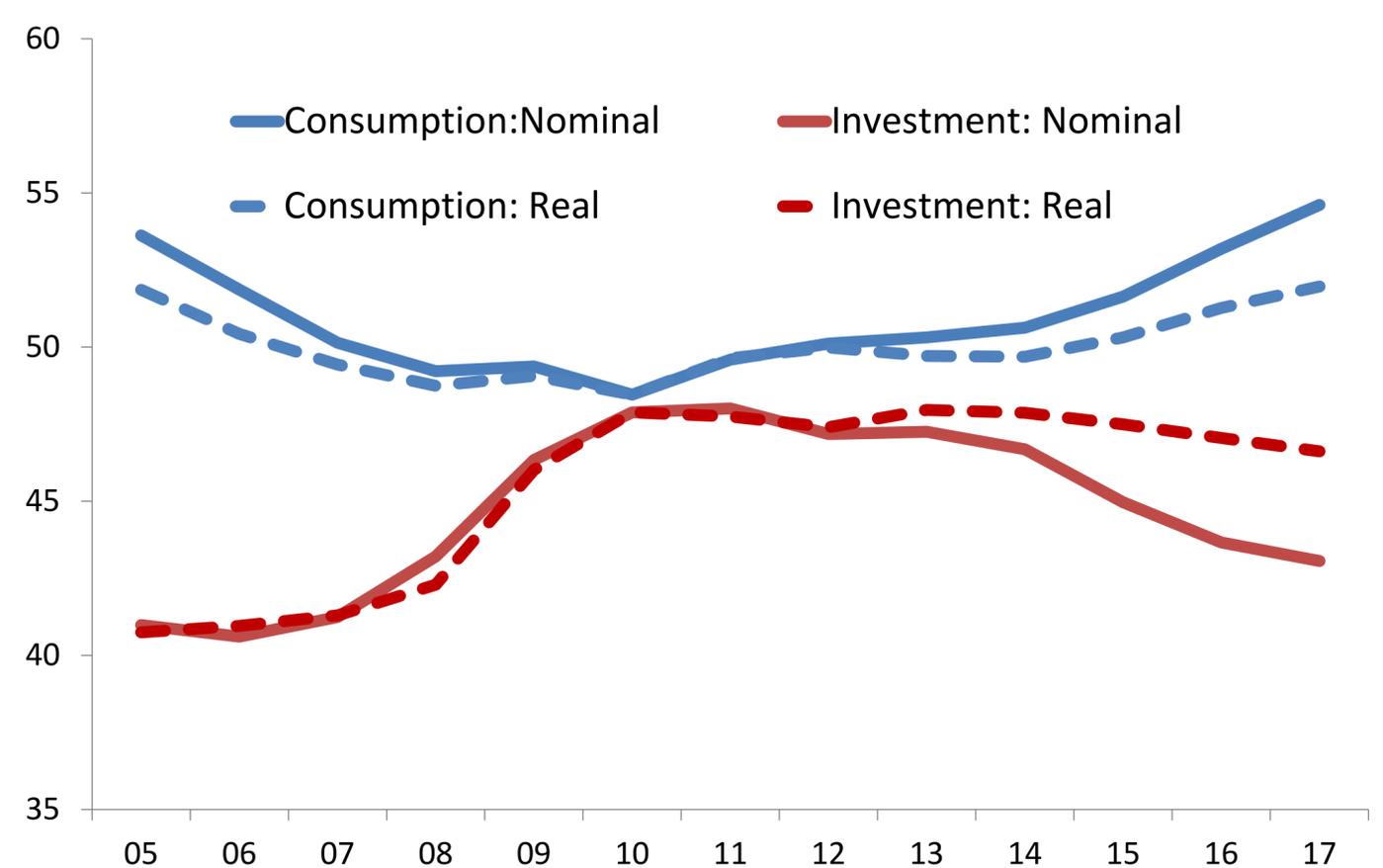
The share of industry in GDP is shrinking...

...as is the share of investment

Share of Gross Value Added
(percent of GDP)



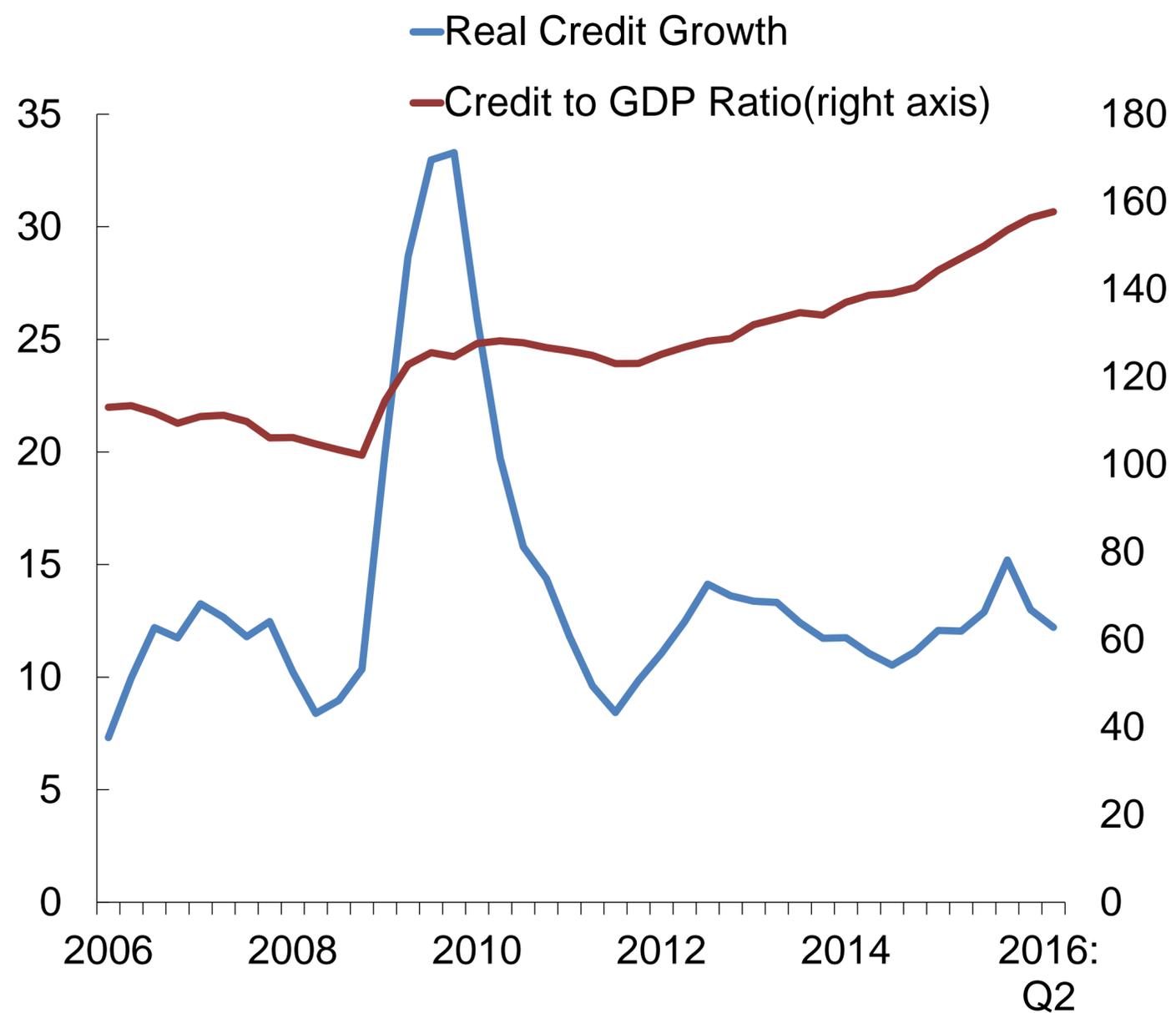
Share of Gross Value added by Expenditure
(Percent of GDP)



But vulnerabilities are rising with continued reliance on credit

China: Rising Dependence on Credit

(Percent)



Policies: reinvigorate growth, improve its distribution, and make it durable

Comprehensive and consistent three-pronged approach to growth

- Accommodative monetary policy alone is not enough
- Fiscal support—calibrated based on available fiscal space—remains crucial for lifting economic activity
- Structural reforms—prioritized to maximize impact and combined with macroeconomic policies—are essential

Also need to enhance financial stability

- Complete and implement regulatory reform
- Monitor macroprudential and systemic aspects of capital flows
- Improved global financial safety net

Reinvigorate multilateral cooperative efforts

- Sustainably higher and inclusive growth needs more forceful, comprehensive, and well-communicated policies
- Refocus the trade discussion towards the benefit of integration
- Recognize need to address cooperatively other public-good problems, including refugees, between-country inequality, epidemics, and extreme weather

Thank you

