World Economic Outlook UPDATE
An update of the key WEO projections

FOR RELEASE:
In Mexico City (CDT): 10:00 a.m., July 24, 2014
In Washington, DC (EDT): 11:00 a.m., July 24, 2014

STRICTLY CONFIDENTIAL
UNTIL RELEASED

An Uneven Global Recovery Continues

- *The global growth projection for 2014 has been marked down by 0.3 percent to 3.4 percent, reflecting both the legacy of the weak first quarter, particularly in the United States, and a less optimistic outlook for several emerging markets. With somewhat stronger growth expected in some advanced economies next year, the global growth projection for 2015 remains at 4 percent.*[1]
- *Global growth is expected to rebound from the second quarter of 2014, as some of the drivers underlying first-quarter weakness, such as the inventory correction in the United States, should have only temporary effects, and others should be offset by policies, including in China. But the first-quarter setback will only be partially offset.*
- *Downside risks remain a concern. Increased geopolitical risks could lead to sharply higher oil prices. Financial market risks include higher-than-expected U.S. long-term rates and a reversal of recent risk spread and volatility compression. Global growth could be weaker for longer, given the lack of robust momentum in advanced economies despite very low interest rates and the easing of other brakes to the recovery. In some major emerging market economies, the negative growth effects of supply-side constraints and the tightening of financial conditions over the past year could be more protracted.*
- *In many advanced and emerging market economies, structural reforms are urgently needed to close infrastructure gaps, strengthen productivity, and lift potential growth.*

Global growth moderated more than expected in the first quarter of 2014, from an annual rate of 3¾ percent in the second half of 2013 to 2¾ percent—some ½ percentage point lower than the forecast in the April 2014 *World Economic Outlook* (WEO). Although there were upside surprises to activity—in Japan, and also in Germany, Spain, and the United Kingdom—four negative surprises dominated.

In the United States, the inventory overhang at the end of 2013 turned out to be larger than expected, leading to a stronger correction. A harsh winter further dampened demand, exports declined sharply after a strong fourth quarter, and output contracted in the first quarter of 2014. In China, domestic demand moderated more than expected, reflecting the authorities' effort to rein in credit growth and a correction to real estate activity. Activity in Russia decelerated sharply as geopolitical tensions further weakened demand. In other emerging market economies, weaker-than-projected growth resulted both from weaker external demand, notably from the United States and China, and, in a number of cases, softer domestic demand with weaker investment growth.

Financial conditions have eased since the April 2014 WEO was released. Long-term interest rates in advanced economies have declined further, in part reflecting expectations of a lower neutral policy rate over the medium term; indicators of expected price volatility have declined as well, and equity prices have strengthened. With euro area inflation in April below expectations, the European Central Bank cut its policy rate and deployed other easing measures at its June meeting. In this environment, capital flows to emerging market economies have recovered despite generally weaker activity, bond spreads for emerging market sovereigns have declined, and exchange rates and equity prices have stabilized or even strengthened in some of these economies.

Leading indicators point to the global recovery regaining strength in the second quarter of 2014. This is consistent with the view that the unexpected weakness in the first quarter was in large part temporary, because the impact of factors such as harsh winter weather and inventory correction will disappear and policies have already responded to weaker growth, including in China.

[1] Global and regional growth figures in this *WEO Update* are computed with revised purchasing power parity (PPP) weights (see box) and are, therefore, not comparable to the reported figures in the April 2014 WEO. For example, the forecast for global growth for 2015 in the April 2014 WEO would have been 4 percent if it were computed with the revised weights.

Moreover, key drivers supporting the recovery identified in the April 2014 WEO remain in place, including moderating fiscal consolidation and highly accommodative monetary policy in most advanced economies. Nevertheless, some of the demand weakness in the first quarter appears to be more persistent, especially in investment globally, and is expected to result in lower global growth in 2014 compared with that predicted in the April 2014 WEO. Overall, global growth, which is now computed using the new 2011 purchasing power parities of the International Comparison Program (see box), is projected to rise to 3.4 percent in 2014 and 4 percent in 2015 (Table 1).

Turning to the major advanced economies, a growth rebound is underway in the **United States** as temporary factors wane. But with a more muted recovery in investment, the rebound is expected to provide only a partial offset to the weak first-quarter outcome in terms

Table 1. Overview of the *World Economic Outlook* Projections 1/

(Percent change unless noted otherwise)

	Year over Year						Q4 over Q4		
			Projections		Difference from April 2014 WEO Projections 2/		Estimates	Projections	
	2012	2013	2014	2015	2014	2015	2013	2014	2015
World Output	**3.5**	**3.2**	**3.4**	**4.0**	**–0.3**	**0.0**	**3.6**	**3.3**	**3.8**
Advanced Economies	**1.4**	**1.3**	**1.8**	**2.4**	**–0.4**	**0.1**	**2.0**	**1.8**	**2.4**
United States	2.8	1.9	1.7	3.0	–1.1	0.1	2.6	1.7	3.0
Euro Area	–0.7	–0.4	1.1	1.5	0.0	0.1	0.5	1.4	1.6
Germany	0.9	0.5	1.9	1.7	0.2	0.1	1.4	1.8	1.8
France	0.3	0.3	0.7	1.4	–0.3	–0.1	0.8	1.0	1.6
Italy	–2.4	–1.9	0.3	1.1	–0.3	0.0	–0.9	0.8	1.2
Spain	–1.6	–1.2	1.2	1.6	0.3	0.6	–0.2	1.7	1.5
Japan	1.4	1.5	1.6	1.1	0.3	0.1	2.4	1.4	0.6
United Kingdom	0.3	1.7	3.2	2.7	0.4	0.2	2.7	3.4	2.2
Canada	1.7	2.0	2.2	2.4	–0.1	0.0	2.7	2.0	2.4
Other Advanced Economies	2.0	2.3	3.0	3.2	0.0	0.0	2.8	2.7	3.7
Emerging Market and Developing Economies	**5.1**	**4.7**	**4.6**	**5.2**	**–0.2**	**–0.1**	**5.1**	**4.8**	**5.0**
Commonwealth of Independent States	3.4	2.2	0.9	2.1	–1.0	–1.1	2.1	–0.4	0.9
Russia	3.4	1.3	0.2	1.0	–1.1	–1.3	2.0	–0.1	0.4
Excluding Russia	3.6	4.2	2.4	4.4	–0.6	–0.6	. . .	. . .	. . .
Emerging and Developing Asia	6.7	6.6	6.4	6.7	–0.2	–0.1	6.7	6.6	6.4
China	7.7	7.7	7.4	7.1	–0.2	–0.2	7.7	7.7	6.8
India 3/	4.7	5.0	5.4	6.4	0.0	0.0	6.1	5.6	6.6
ASEAN-5 4/	6.2	5.2	4.6	5.6	–0.4	0.2	. . .	. . .	. . .
Emerging and Developing Europe	1.4	2.8	2.8	2.9	0.4	0.0	3.4	3.0	3.5
Latin America and the Caribbean	2.9	2.6	2.0	2.6	–0.5	–0.3	1.9	1.9	2.6
Brazil	1.0	2.5	1.3	2.0	–0.6	–0.6	2.2	1.3	2.2
Mexico	4.0	1.1	2.4	3.5	–0.6	0.0	0.6	3.0	3.4
Middle East, North Africa, Afghanistan, and Pakistan	4.9	2.5	3.1	4.8	–0.2	0.2	. . .	. . .	. . .
Sub-Saharan Africa	5.1	5.4	5.4	5.8	0.0	0.2	. . .	. . .	. . .
South Africa	2.5	1.9	1.7	2.7	–0.6	0.0	2.1	1.7	2.7
Memorandum									
Low-Income Developing Countries	5.8	6.3	6.2	6.5	0.0	0.0	. . .	. . .	. . .
World Growth Based on Market Exchange Rates	2.6	2.4	2.7	3.3	–0.3	0.0	2.9	2.7	3.1
World Trade Volume (goods and services)	**2.8**	**3.1**	**4.0**	**5.3**	**–0.3**	**0.0**	**. . .**	**. . .**	**. . .**
Imports (goods and services)									
Advanced Economies	1.1	1.4	3.5	4.6	0.0	0.1	. . .	. . .	. . .
Emerging Market and Developing Economies	5.7	5.7	4.7	6.4	–0.3	0.1	. . .	. . .	. . .
Commodity Prices (U.S. dollars)									
Oil 5/	1.0	–0.9	0.1	–4.3	0.0	1.7	2.6	–0.9	–5.7
Nonfuel (average based on world commodity export weights)	–10.0	–1.2	–1.7	–3.6	1.8	0.4	–2.9	–1.4	–2.7
Consumer Prices									
Advanced Economies	2.0	1.4	1.6	1.7	0.1	0.1	1.2	1.7	1.8
Emerging Market and Developing Economies	6.1	5.9	5.4	5.3	–0.2	–0.1	5.5	5.0	4.8
London Interbank Offered Rate (percent)									
On U.S. Dollar Deposits (six month)	0.7	0.4	0.3	0.8	0.0	0.0	. . .	. . .	. . .
On Euro Deposits (three month)	0.6	0.2	0.2	0.2	0.0	–0.1	. . .	. . .	. . .
On Japanese Yen Deposits (six month)	0.3	0.2	0.2	0.2	0.0	0.0	. . .	. . .	. . .

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during May 5–June 2, 2014. Economies are listed on the basis of economic size.

1/ Global and regional grow th figures are based on new purchasing pow er parity (PPP) w eights derived from the recently released 2011 International Comparison Program survey (see box) and are not comparable to the figures reported in the April 2014 WEO. The quarterly estimates and projections account for 90 percent of the w orld PPP w eights.

2/ The comparisons are based on April 2014 country forecasts aggregated w ith the revised PPP w eights. The projections for Ukraine are included in the July 2014 *WEO Update*, but are excluded in the columns comparing the current forecasts w ith those in the April 2014 WEO since they w ere excluded at the time.

3/ For India, data and forecasts are presented on a fiscal year basis and output grow th is based on GDP at market prices. Corresponding grow th rates for GDP at factor cost are 4.5, 4.7, 5.4, and 6.4 percent for 2012/13, 2013/14, 2014/15, and 2015/16, respectively.

4/ Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

5/ Simple average of prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel w as $104.07 in 2013; the assumed price based on futures markets is $104.14 in 2014 and $99.62 in 2015.

of annual growth. Growth is now projected at 1.7 percent for 2014, rising to 3 percent in 2015. Growth in the **euro area** is expected to strengthen to 1.1 percent in 2014 and 1½ percent in 2015 but to remain uneven across the region, reflecting continued financial fragmentation, impaired private and public sector balance sheets, and high unemployment in some economies. In **Japan**, with a stronger than expected performance in the first quarter, growth in 2014 is now projected to be higher at 1.6 percent, decelerating to 1.1 percent in 2015, mostly due to the planned unwinding of fiscal stimulus.

In **emerging market and developing economies,** growth is now projected to decrease to 4.6 percent in 2014 and then strengthen to 5.2 percent in 2015. In **China**, the authorities have resorted to limited and targeted policy measures to support activity in the second half of the year, including tax relief for small and medium enterprises, accelerated fiscal and infrastructure spending, and targeted cuts in required reserve ratios. As a result, growth in 2014 is projected to be 7.4 percent. For next year, although the outlook remains to an important extent a function of the government's target, growth is projected to moderate to 7.1 percent as the economy transitions to a more sustainable growth path. In **India**, growth appears to have bottomed out, and activity is projected to pick up gradually after the postelection recovery in business sentiment, offsetting the effect of an unfavorable monsoon on agricultural growth. In a number of major emerging market economies, growth projections for 2014–15 have been marked down. In **Brazil**, tighter financial conditions and continued weakness in business and consumer confidence are holding back investment and dampening consumption growth. In **Mexico**, weaker construction and a slower U.S. recovery are projected to result in slower growth in 2014 relative to the previous forecast. In **Russia**, investment is expected to remain weaker for longer, given geopolitical tensions. Growth in **South Africa** is expected to stay sluggish as a result of electricity constraints and labor conflicts.

Downside risks remain a concern

The downside risks discussed in the April 2014 WEO remain relevant. **Geopolitical risks** have risen relative to April: risks of an oil price spike are higher due to recent developments in the Middle East while those related to Ukraine are still present. In global financial markets, there is a risk of a renewed rise in longer-term interest rates, particularly if U.S. long-term rates increase more sharply and rapidly than expected as monetary policy normalization proceeds, and of a reversal in risk sentiment and risk premium compression. In major advanced economies, there is a risk of stagnation in the medium term. In the **euro area,** adverse shocks—domestic or external—could lead to persistently lower inflation or price declines. **Emerging market economies**—particularly those with domestic weaknesses and external vulnerabilities—may face a sudden worsening of financial conditions and a reversal in capital flows in the event of a shift in financial market sentiment. Many of these economies also face the risk that the factors underpinning the weakening of growth will persist into the medium term.

Raising growth

The weaker global growth expected for the first half of this year underscores that raising actual and potential growth must remain a priority in most economies. Although the role of temporary factors in the slowdown in key advanced economies in the first quarter must be recognized, robust demand momentum has not yet emerged despite continued very low interest rates and easing of brakes to the recovery, including from fiscal consolidation or tight financial conditions. Monetary policy should thus remain accommodative in all major **advanced economies,** although prospects for inflation and economic slack under the baseline will call for gradual normalization at different times. The pace and composition of fiscal adjustment should be attuned to supporting both the recovery and long-term growth. To limit financial stability risks related to continued low interest rates, the reform of financial regulation should be completed, and macroprudential tools should be developed further and deployed.

Many **emerging market and developing economies** are still adjusting to tighter financial conditions and implied higher cost of capital since May 2013 and weaker medium-term growth trajectories. But with external vulnerabilities and little macroeconomic policy space in some cases, policy options to support growth if needed are more limited. Allowing exchange rates to respond to changing fundamentals and addressing problems of inflation pressure and policy credibility where relevant will generally help build monetary policy space.

Finally, in many economies, advanced and emerging market alike, there is an urgent need for structural reforms to strengthen growth potential or make growth more sustainable.

Revised Purchasing Power Parity Weights

Following the recent release of the 2011 survey by the International Comparison Program (ICP) for new purchasing power parity benchmarks, the *World Economic Outlook*'s (WEO's) estimates of purchasing power parity weights and GDP valued at purchasing power parities have been updated. This box documents the implications of these changes for economies' weight in global GDP and for global and regional GDP growth rates in the WEO.

The ICP's purchasing power parities indicate how many units of a country's local currency are needed to buy a comparable basket of goods and services valued in a common currency (taken for convenience to be the U.S. dollar). Roughly speaking, they are equivalent to exchange rates that indicate equal purchasing power between local currency and the U.S. dollar. The ICP provides purchasing power parities for a benchmark year (2011 in the most recent release). Outside the benchmark year, the IMF follows the standard practice of extrapolating purchasing power parities using relative inflation rates based on GDP deflators.[1] These purchasing power parities are the basis for purchasing power parity GDP and weights in the WEO. The weights are used to compute regional and global real GDP growth as well as other real sector aggregates, including inflation.

The 2011 ICP revisions suggest a significantly higher purchasing power parity weight—compared with that implied by the 2005 survey—for emerging market and developing economies as a group and individually for many countries (Table 2). Emerging market and developing economies' total weight in global purchasing power parity GDP in 2013 has risen from 51 percent as derived from the 2005 survey to 56 percent based on the 2011 survey. Conversely, the share of advanced economies as a group has fallen.

A higher weight in global purchasing power parity GDP and stronger real GDP growth for emerging market and developing economies (compared with that of advanced economies) has meant that global growth is now estimated to have been higher in recent years. Average global growth during 2011–13 was 3.6 percent, some ¼ percentage point higher than the level based on the old weights. Similarly, over the forecast horizon, global growth in 2014–15 is projected to average 3.7 percent, about 0.1 percentage point higher than the level based on the old weights.[2]

That said, a purchasing-power-parity-based weight is only one measure of an economy's systemic relevance in the global economy. When weighted by GDP at market exchange rates, emerging market and developing economies account for less than 40 percent of global GDP, reflecting their more limited purchasing power in international markets. For instance, China and India are estimated to account for 16 percent and 6.7 percent of global GDP in 2013 in purchasing power parity terms, respectively, but only 12.7 percent and 2.5 percent in current U.S. dollars (rightmost column in Table 2).

Table 2. Classification by *World Economic Outlook* Groups and Their Shares in Aggregate GDP, 2013
(Percent of total for group or world)

		ICP 2011		ICP 2005		Difference		U.S. dollars
		Advanced Economies	World	Advanced Economies	World	Advanced Economies	World	World
Advanced Economies	**36**	**100.0**	**43.6**	**100.0**	**49.4**	**0.00**	**-5.82**	**60.8**
United States		37.8	16.5	38.7	19.1	-0.91	-2.65	22.5
Euro Area	18	28.0	12.2	26.6	13.1	1.48	-0.90	17.2
Japan		10.5	4.6	10.8	5.4	-0.33	-0.77	6.6
United Kingdom		5.2	2.3	5.5	2.7	-0.29	-0.45	3.4
Canada		3.4	1.5	3.5	1.7	-0.10	-0.25	2.4
Other Advanced Economies	14	15.0	6.5	14.8	7.3	0.15	-0.80	8.8
Memorandum								
Major Advanced Economies	7	75.2	32.8	75.7	37.4	-0.53	-4.63	46.2
		Emerging Market and Developing Economies	World	Emerging Market and Developing Economies	World	Emerging Market and Developing Economies	World	World
Emerging Market and Developing Economies	**153**	**100.0**	**56.4**	**100.0**	**50.6**	**0.00**	**5.82**	**39.2**
Commonwealth of Independent States	12	8.6	4.9	8.2	4.2	0.37	0.69	3.7
Emerging and Developing Asia	29	50.8	28.7	51.3	26.0	-0.50	2.70	18.4
Emerging and Developing Europe	13	6.0	3.4	6.6	3.3	-0.58	0.06	2.6
Latin America and the Caribbean	32	15.5	8.7	17.2	8.7	-1.71	0.03	7.9
Middle East, North Africa, Afghanistan, and Pakistan	22	13.8	7.8	11.2	5.7	2.59	2.11	4.5
Sub-Saharan Africa	45	5.3	3.0	5.5	2.8	-0.17	0.23	2.1
Memorandum								
Brazil		5.2	3.0	5.5	2.8	-0.23	0.19	3.0
China		28.1	15.9	30.6	15.5	-2.49	0.38	12.7
India		11.8	6.7	11.5	5.8	0.30	0.84	2.5
Russia		6.1	3.4	5.8	2.9	0.32	0.51	2.8
South Africa		1.2	0.7	1.3	0.7	-0.19	-0.03	0.5

Sources: International Comparison Program (ICP), *2011 Summary of Results and Findings;* and IMF staff estimates.
Note: Cells are shaded blue (red) when the shares in global GDP based on ICP 2011 are higher (lower) relative to the shares based on ICP 2005.

[1] See Angus Deaton and Bettina Aten, "Trying to Understand the PPPs in ICP2011: Why Are the Results So Different?" NBER Working Paper No. 20244 (Cambridge, Massachusetts: National Bureau of Economic Research, 2014), for details on the differences in the underlying price surveys for 2005 and 2011.

[2] Note that given the changes in underlying weights, the global and regional growth projections in the July 2014 *WEO Update* are not comparable with those in the published version of the April 2014 WEO.