



# GLOBAL ECONOMIC OUTLOOK

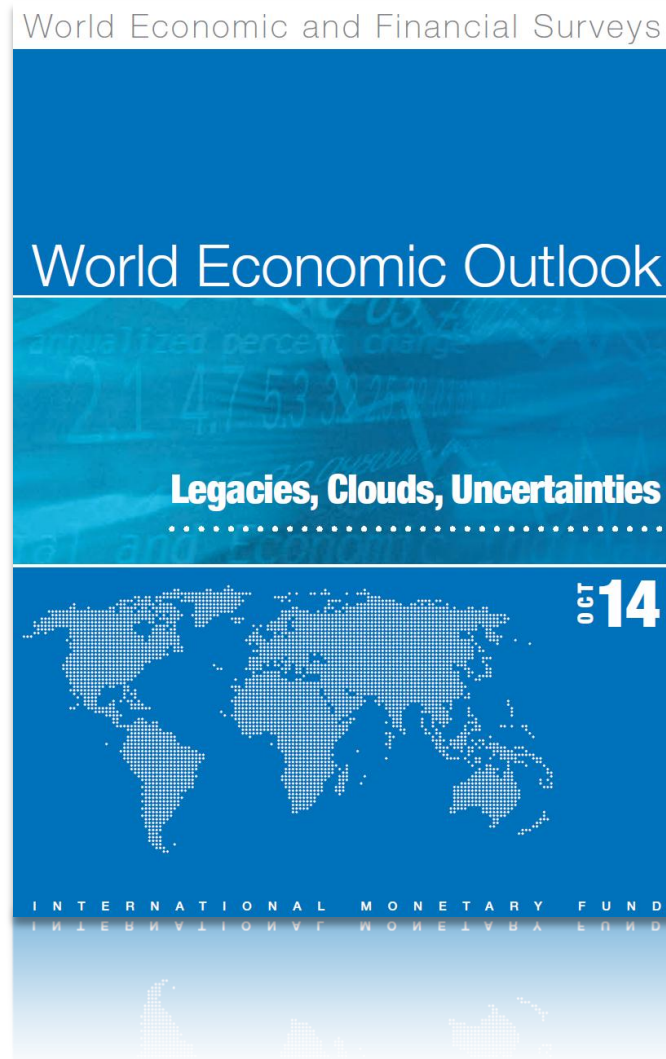
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International Monetary Fund

\*The views expressed in this presentation are those of the speaker and do not necessarily represent those of the IMF policy.

# Despite some Setbacks, Global Recovery Continues...

- Legacies from the crisis
  - Recovery pace has been uneven; public and/or private debt affecting outlook
- Clouds and Uncertainties—downside risks have increased
  - Uneven fragile growth
  - Risks from protracted low inflation
  - Slowing emerging markets
  - Simmering geopolitical tensions
- Ways to stimulate growth and jobs

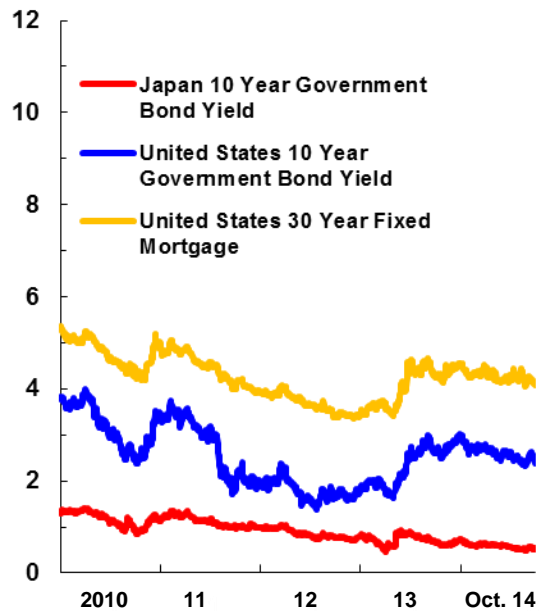


## Section 1

# RECENT DEVELOPMENTS AND PROSPECTS

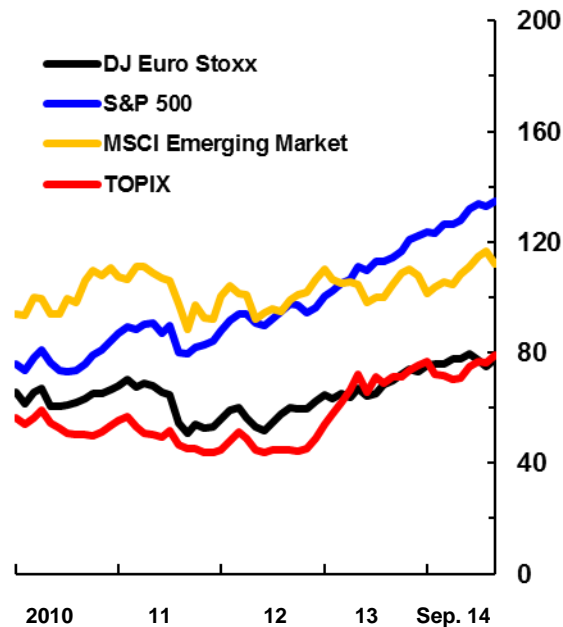
# In advanced economies, financial conditions have eased since April 2014

## Key Interest Rates (percent)



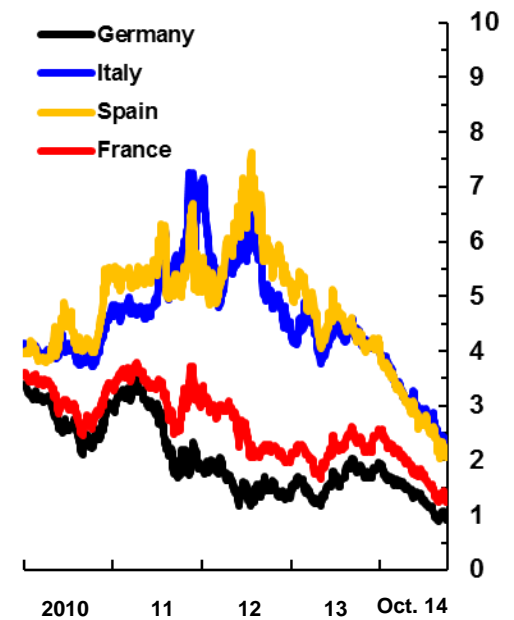
May 22, 2013

## Equity Markets (national currency)



May 22, 2013

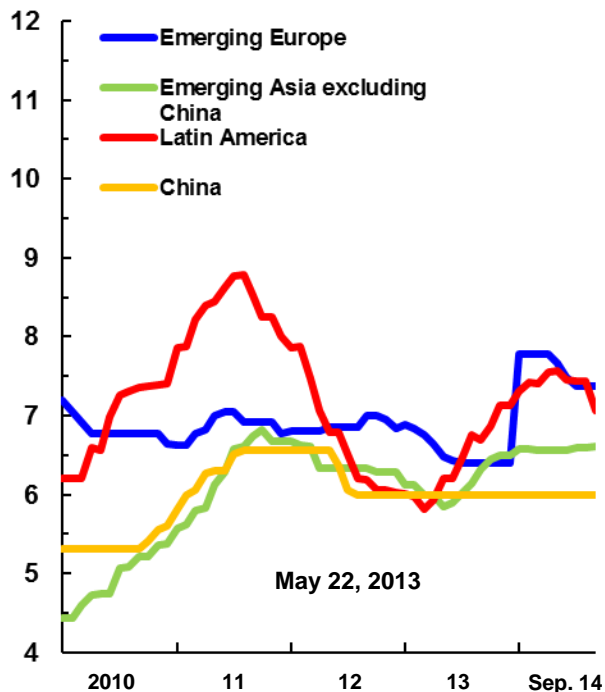
## Government Bond Yields (percent)



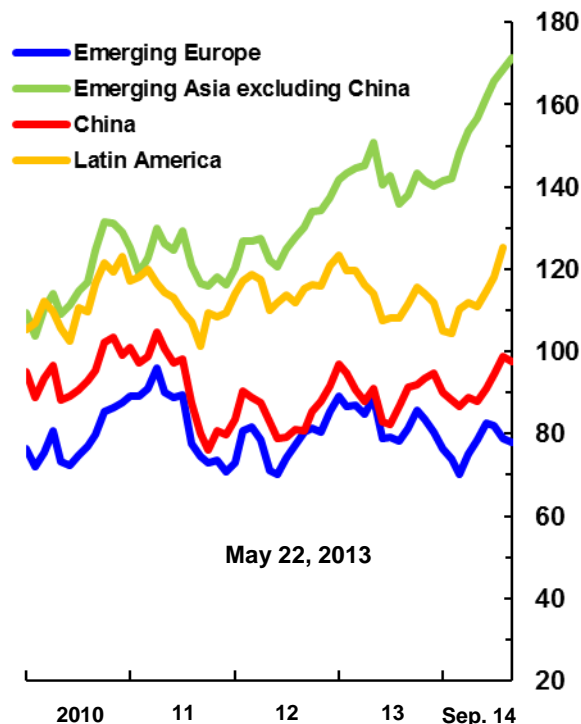
May 22, 2013

# EMs have also seen financial conditions ease since April

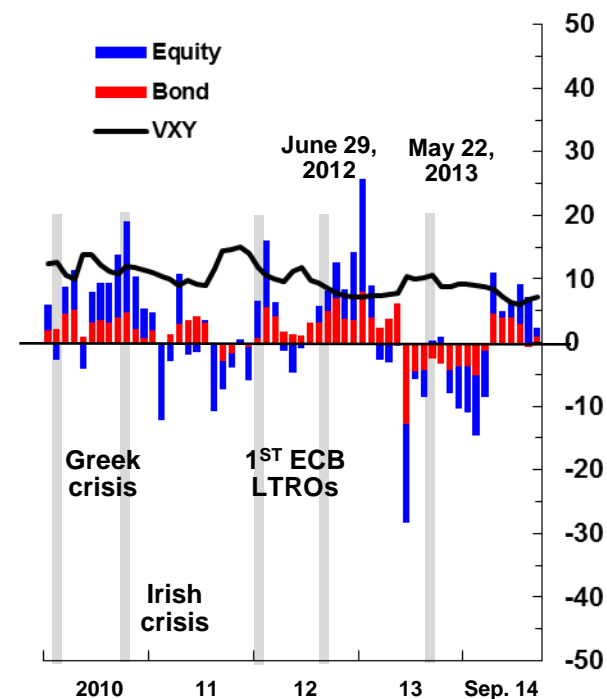
## Policy Rates (percent)



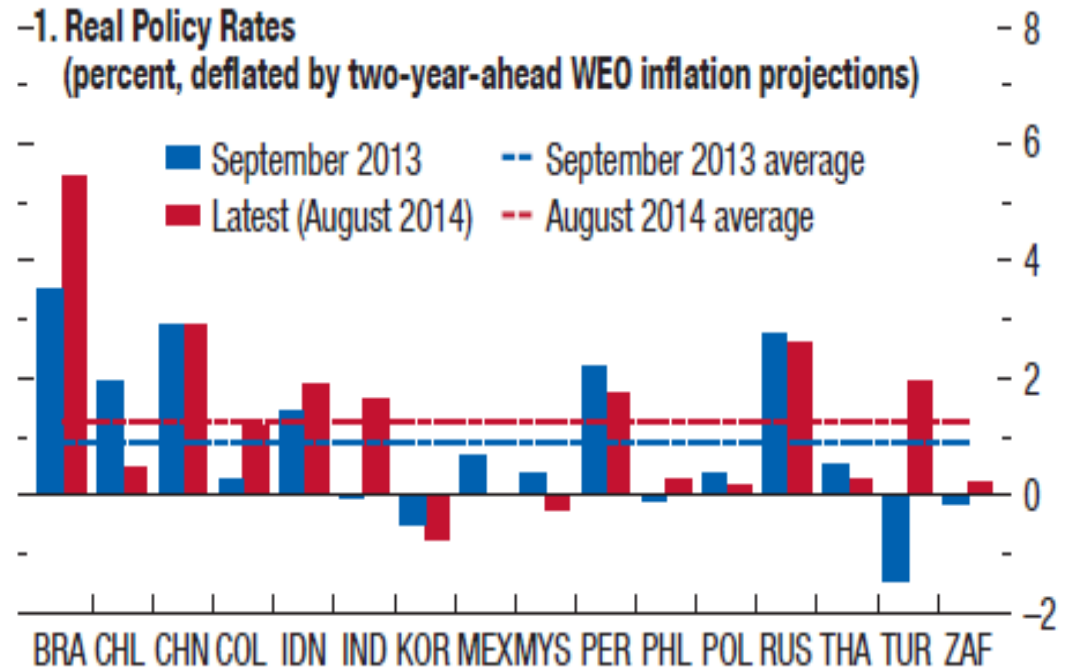
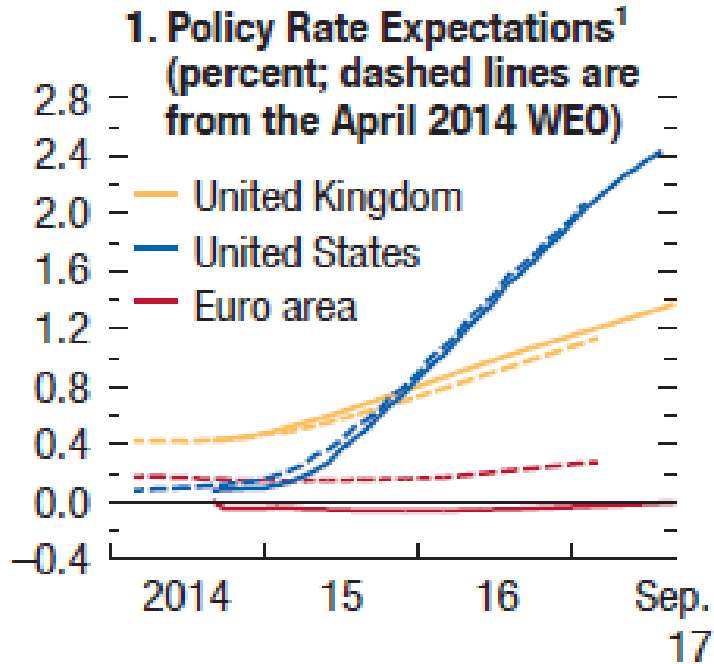
## Equity Markets (national currency)



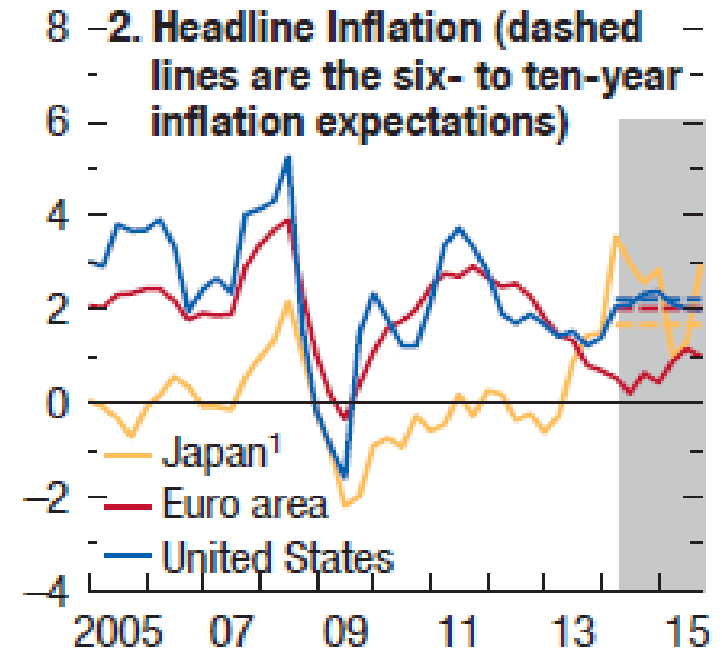
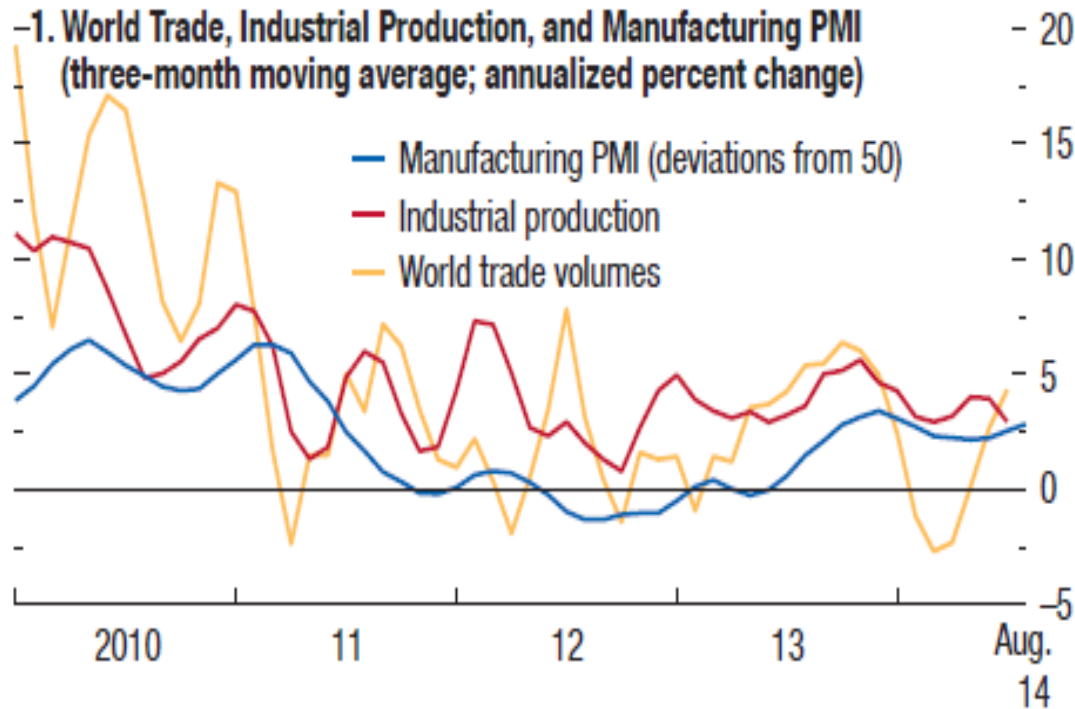
## Net Flows in Emerging Market Funds (billions of U.S. dollars)



# Monetary Conditions Remains Accommodative in Advanced Economies



# Leading indicators point to a pickup of global activity but a weak and uneven pace.



Section 2

# GLOBAL OUTLOOK



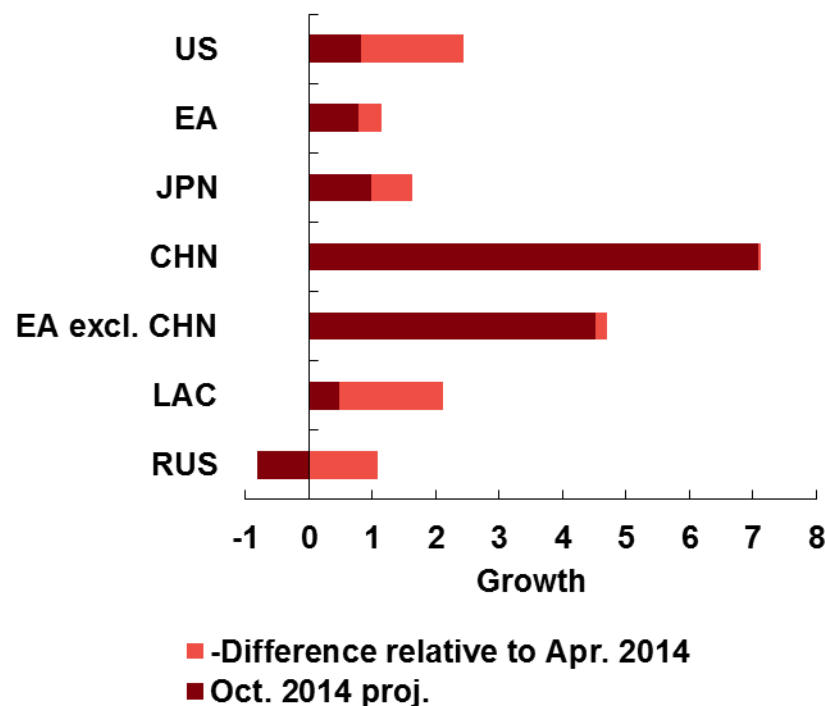
# Setbacks to global growth in the first half of 2014

## Growth fell short of expectations:

- U.S.: Sharp correction (“payback”) after an earlier inventory buildup; and bad weather in Q1
- Growth stalled in the euro area in Q2. No easy core-periphery explanation (growth surprised on the upside in Spain but downside in Germany).
- Greater hit to Q2 GDP from sales tax increase in Japan. Private investment recovery still tentative.
- Weaker Q1 in China on tighter policies to cool credit and housing market; policy stimulus in Q2
- Effects of geopolitical tensions in Russia and economic crisis in Ukraine
- Slower growth in LAC, particularly in Brazil

## GDP Growth, 2014:H1—October vs. April 2014

(annualized semiannual percent change)



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

## WEO Real GDP Growth Projections (percent change from a year earlier)



**World      U.S.      Euro Area      Japan      Brazil      Russia      India      China      LIDCs**

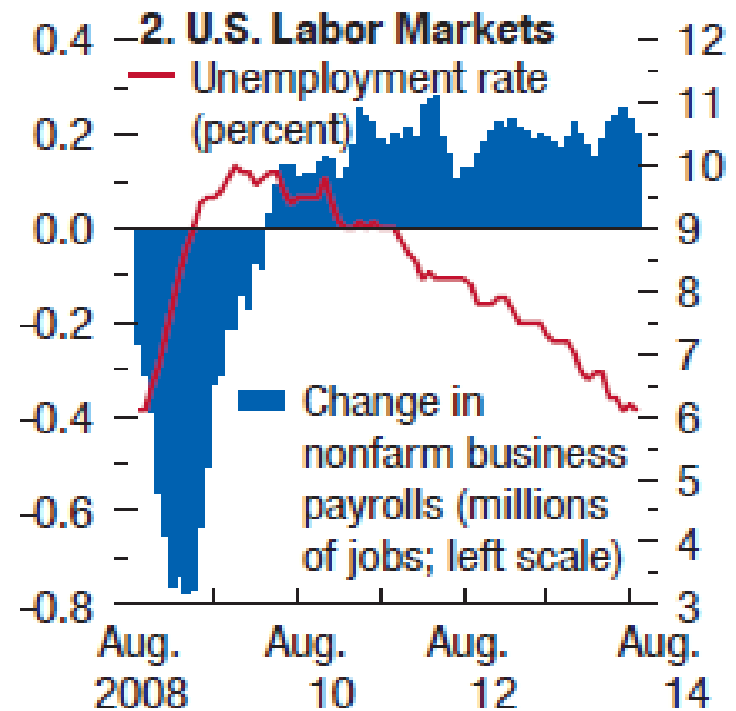
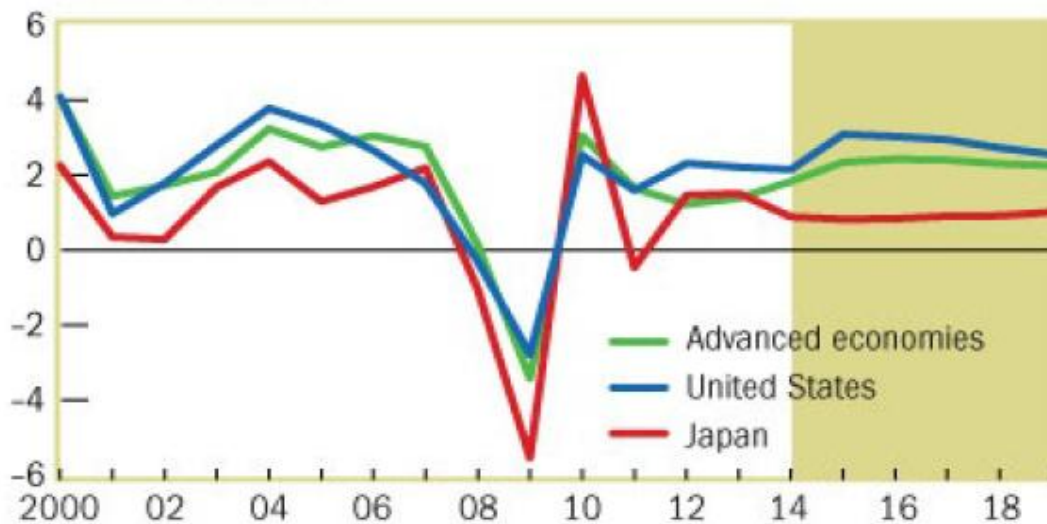
|                        |            |            |            |            |            |            |            |            |            |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 2014<br>(October 2014) | <b>3.3</b> | <b>2.2</b> | <b>0.8</b> | <b>0.9</b> | <b>0.3</b> | <b>0.2</b> | <b>5.6</b> | <b>7.4</b> | <b>6.1</b> |
| 2014<br>(April 2014)   | <b>3.6</b> | <b>2.8</b> | <b>0.8</b> | <b>1.4</b> | <b>1.8</b> | <b>1.3</b> | <b>5.4</b> | <b>7.5</b> | <b>6.3</b> |
| 2015<br>(October)      | <b>3.8</b> | <b>3.1</b> | <b>1.3</b> | <b>0.8</b> | <b>1.4</b> | <b>0.5</b> | <b>6.4</b> | <b>7.1</b> | <b>6.5</b> |
| 2015<br>(April 2014)   | <b>4.0</b> | <b>3.0</b> | <b>1.3</b> | <b>1.0</b> | <b>2.7</b> | <b>2.3</b> | <b>6.4</b> | <b>7.3</b> | <b>6.5</b> |

Source: IMF, World Economic Outlook.

# Stronger Pickup of Output and Employment in the United States; Tax Hike Effects in Japan

## United States and Japan

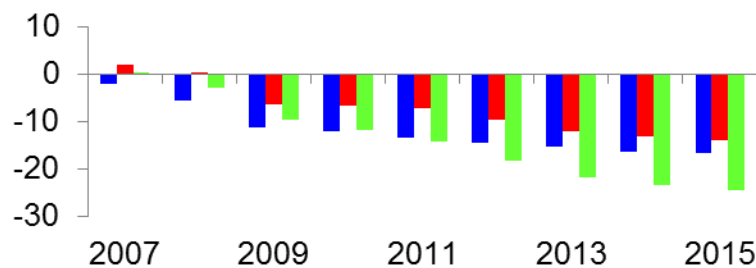
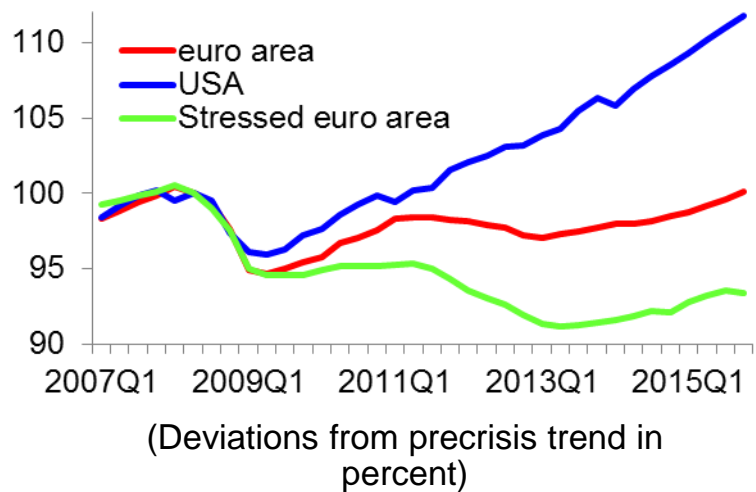
Growth in the U.S. has rebounded with jobs picking up; Japan's recovery has slowed



# Legacy effects expected to weigh on aggregate demand in the euro area

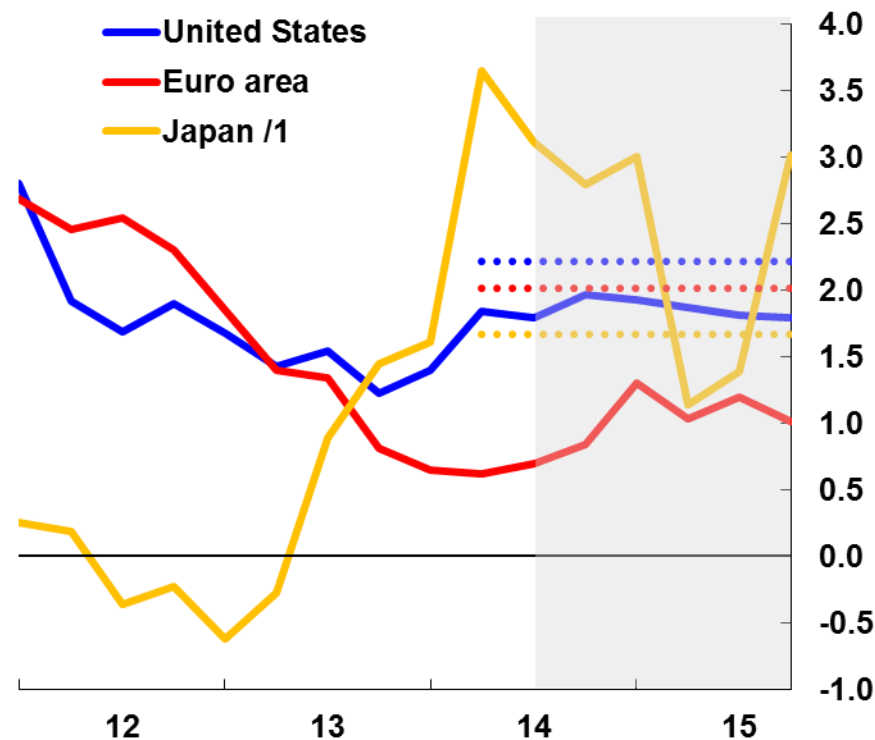
## Speed of Recovery and Output Loss Relative to Pre-crisis Trends

(Real GDP, 2008Q2=100)

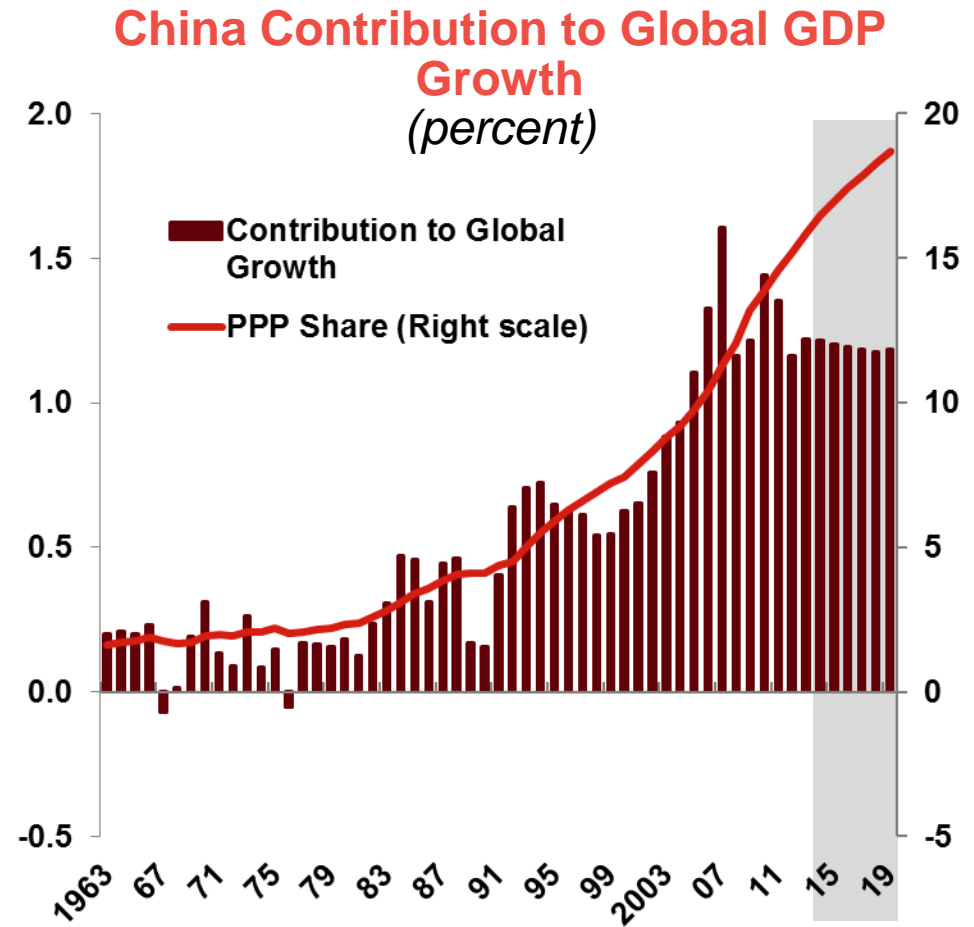
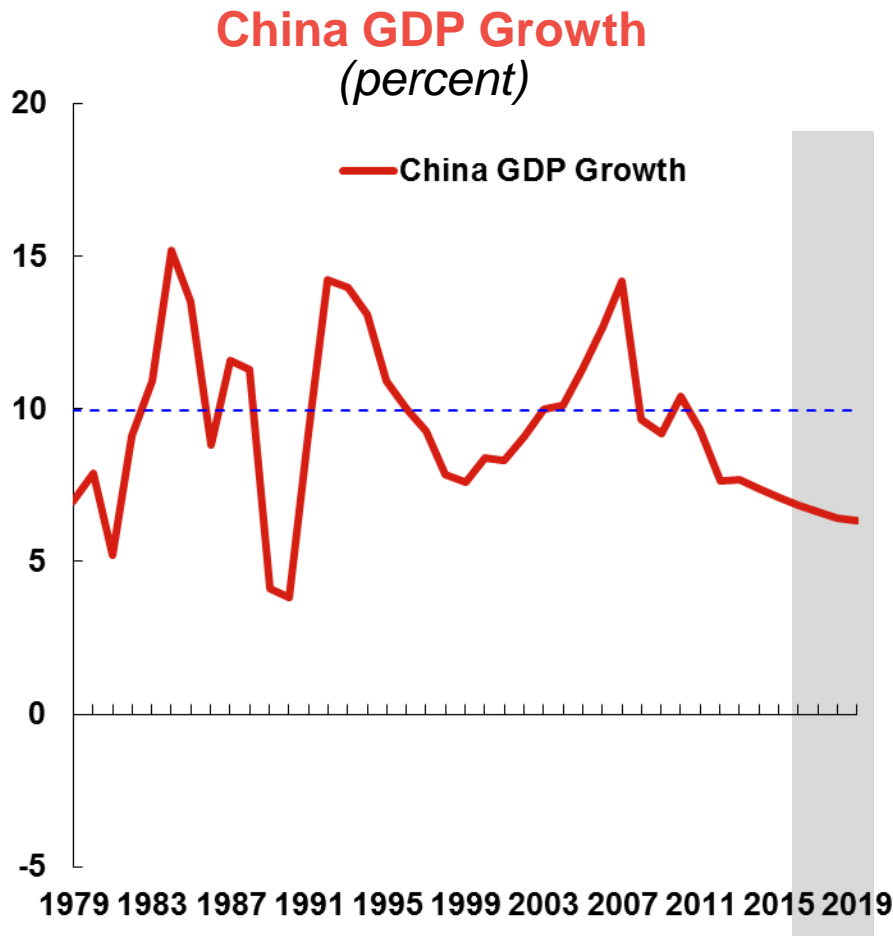


## Headline Inflation

(year-over-year percent change; dashed lines are the six- to ten-year inflation expectation)



# Growth in China expected to moderate, but contribution to global growth remains broadly unchanged.

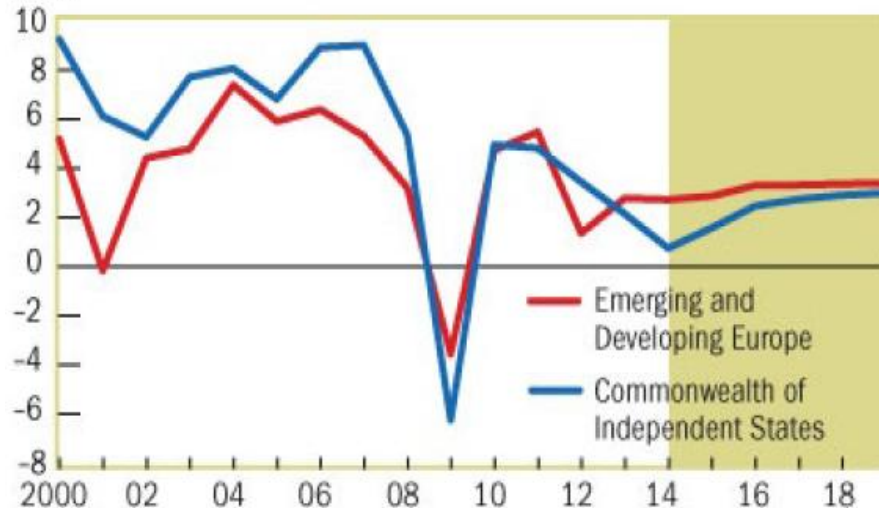


Source: IMF staff estimates

# Rising Geopolitical Tensions in Russia and Weaker Outlook on Latin America

## CIS<sup>1</sup> and Emerging and Developing Europe

In Russia and the CIS weaknesses reflect the impact of geopolitical tensions



## Latin America and the Caribbean

Growth will slow sharply this year, particularly in Brazil, with a rebound expected in 2015

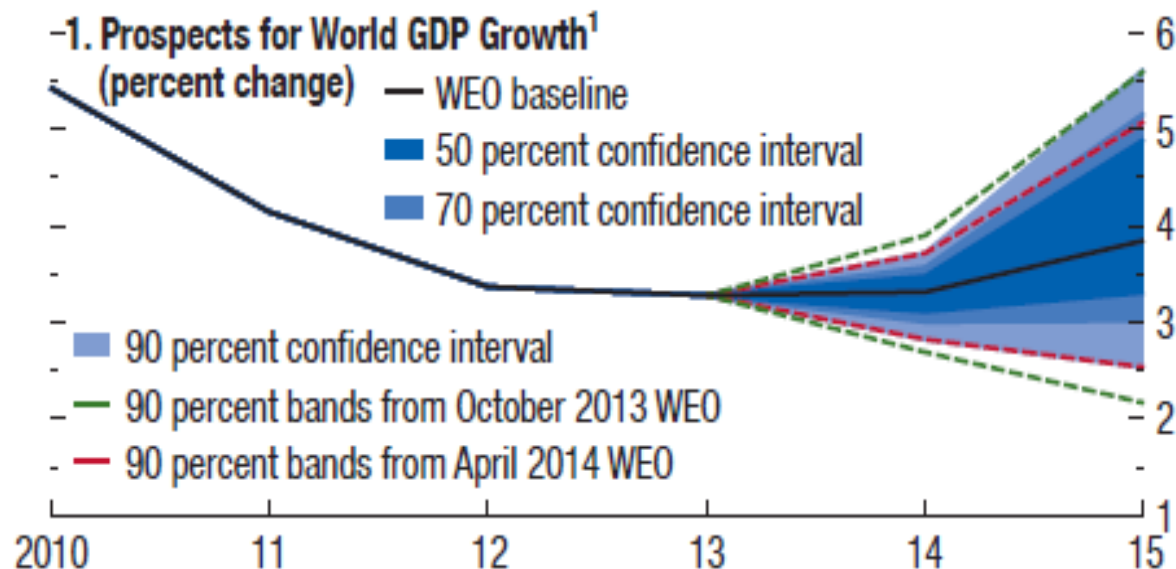


Section 3

# RISKS TO THE OUTLOOK

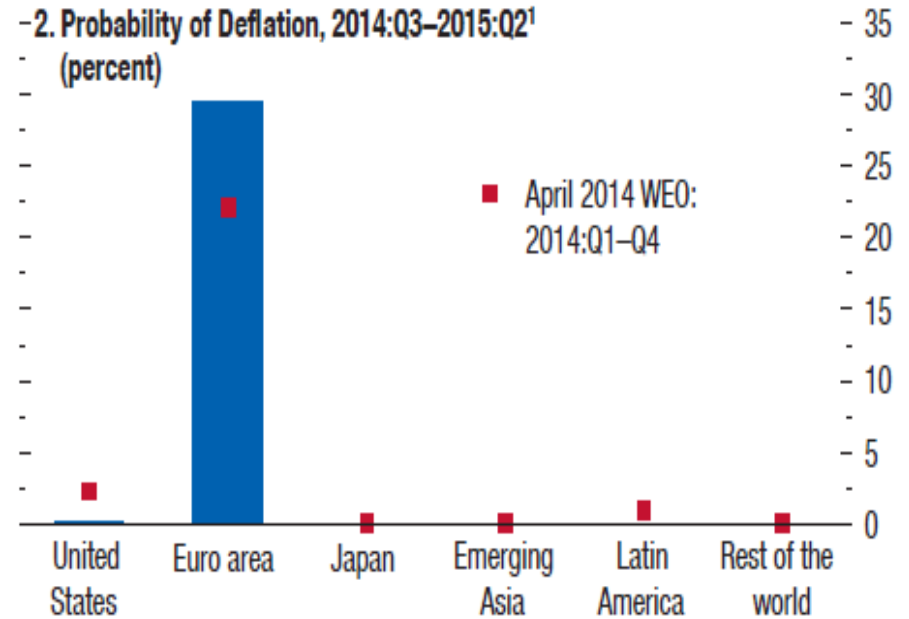
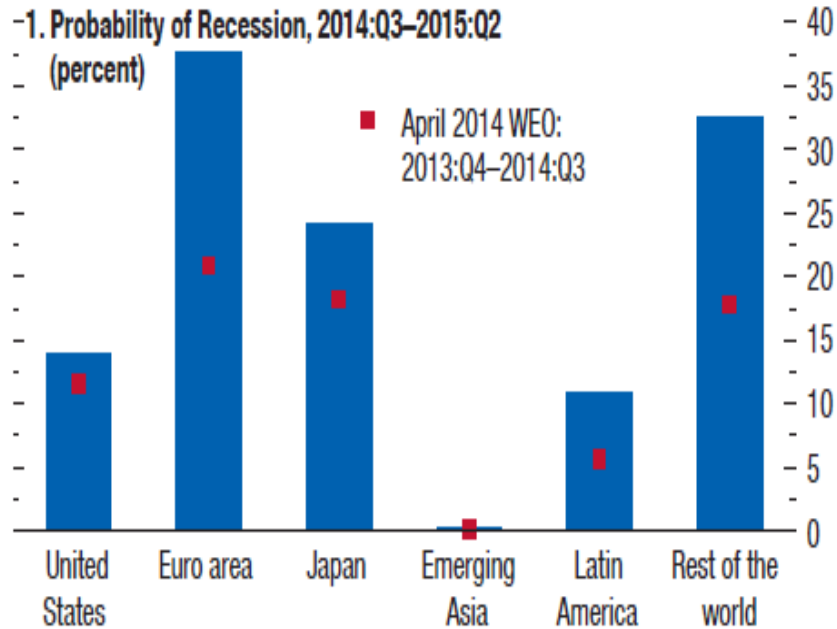
# Risks to the Outlook

- Downside risks have increased
- Immediate and short-term risks
  - Simmering geopolitical tensions
  - Risks from protracted low inflation (Euro-area)
  - Faster than expected interest rate hikes
- Medium term risks
  - Secular stagnation in advanced economies
  - Slowing emerging markets
  - Hard landing in China



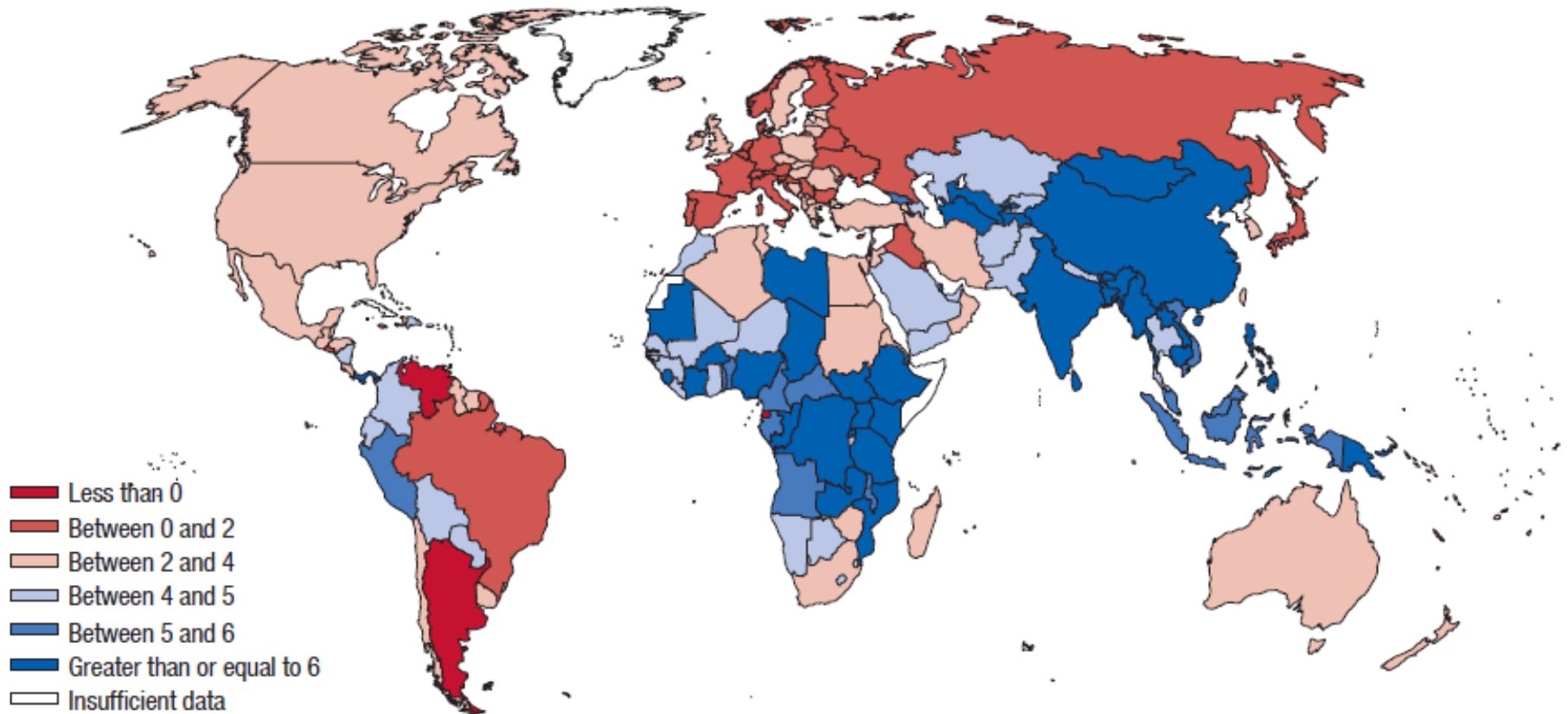


# Risks of Recession and Deflation Appear Higher



# Effects of a Plausible Downside Scenarios on Growth Forecast

## 1. 2015 GDP Growth Forecasts<sup>1</sup> (percent)



## Section 4

# POLICIES TO SUPPORT GROWTH AND JOBS

# Projected growth pick-up may fall short of expectations... Raising actual and potential growth remains a priority

## Advanced economies

- Avoid premature monetary policy tightening
- Fiscal adjustment attuned in pace and composition to supporting both the recovery and long-term growth
- Complete financial regulatory reforms
- Develop and strengthen macroprudential measures

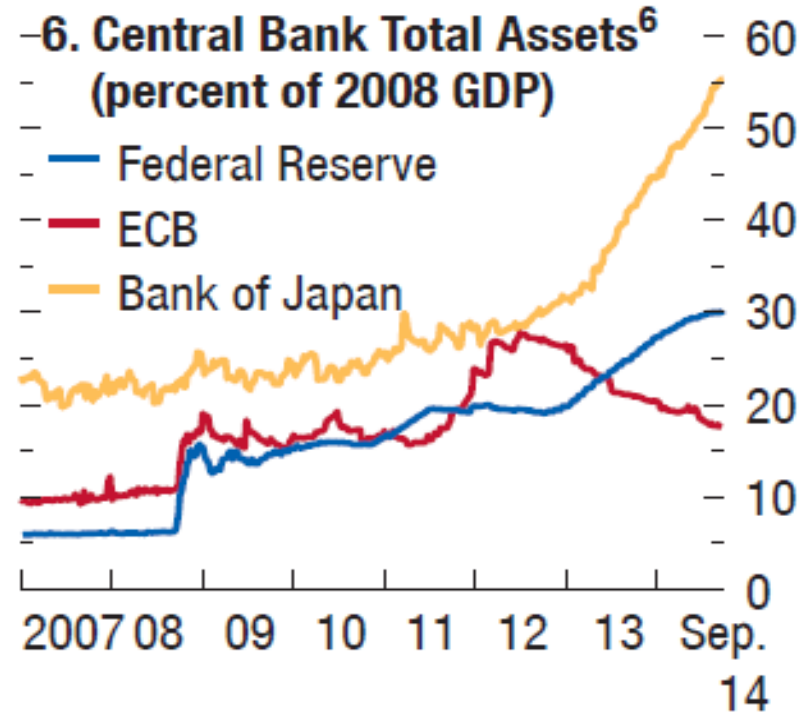
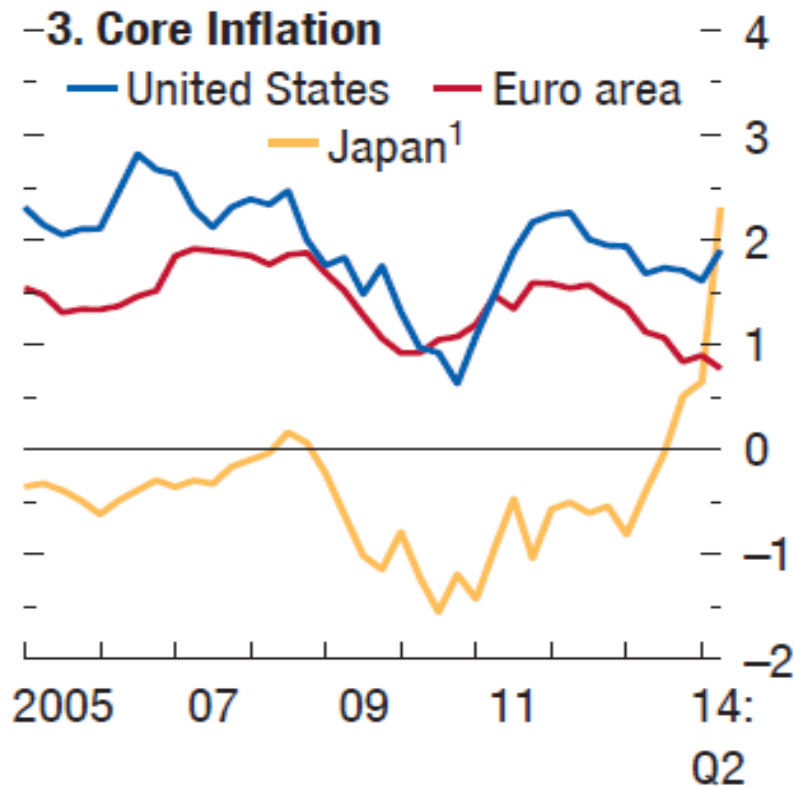
## Emerging and developing economies

- Manage financial volatility and contain external vulnerability
- Allow exchange rate to adjust to external shocks
- Scope for macroeconomic policies to support growth is limited in economies with external vulnerabilities

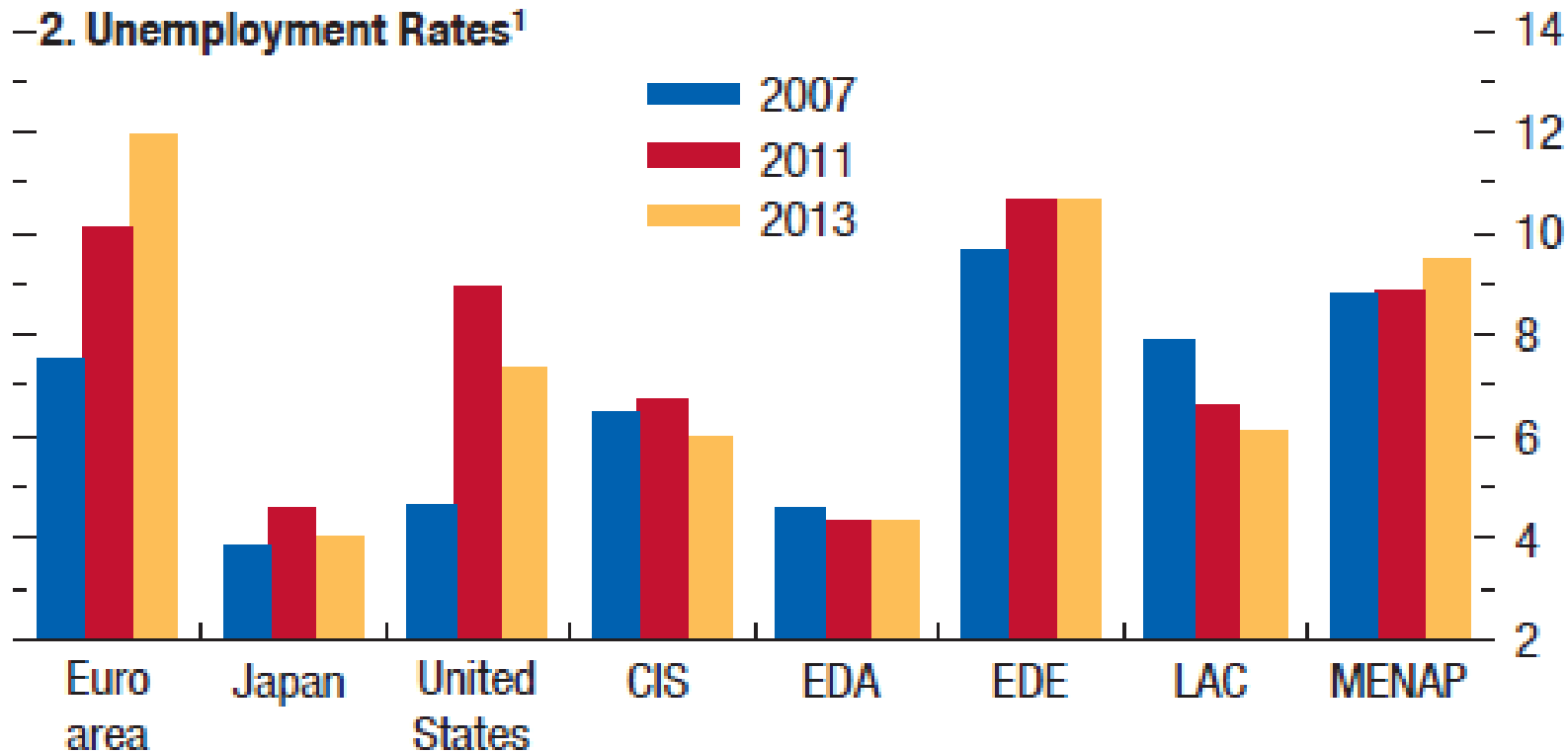
## All

- Structural reforms to raise productivity and potential output, make growth more sustainable
- Public investment if conditions are right: boost demand in the short term, help to raise potential growth in the long term

# Central Banks Play a Role in Guarding against Deflation

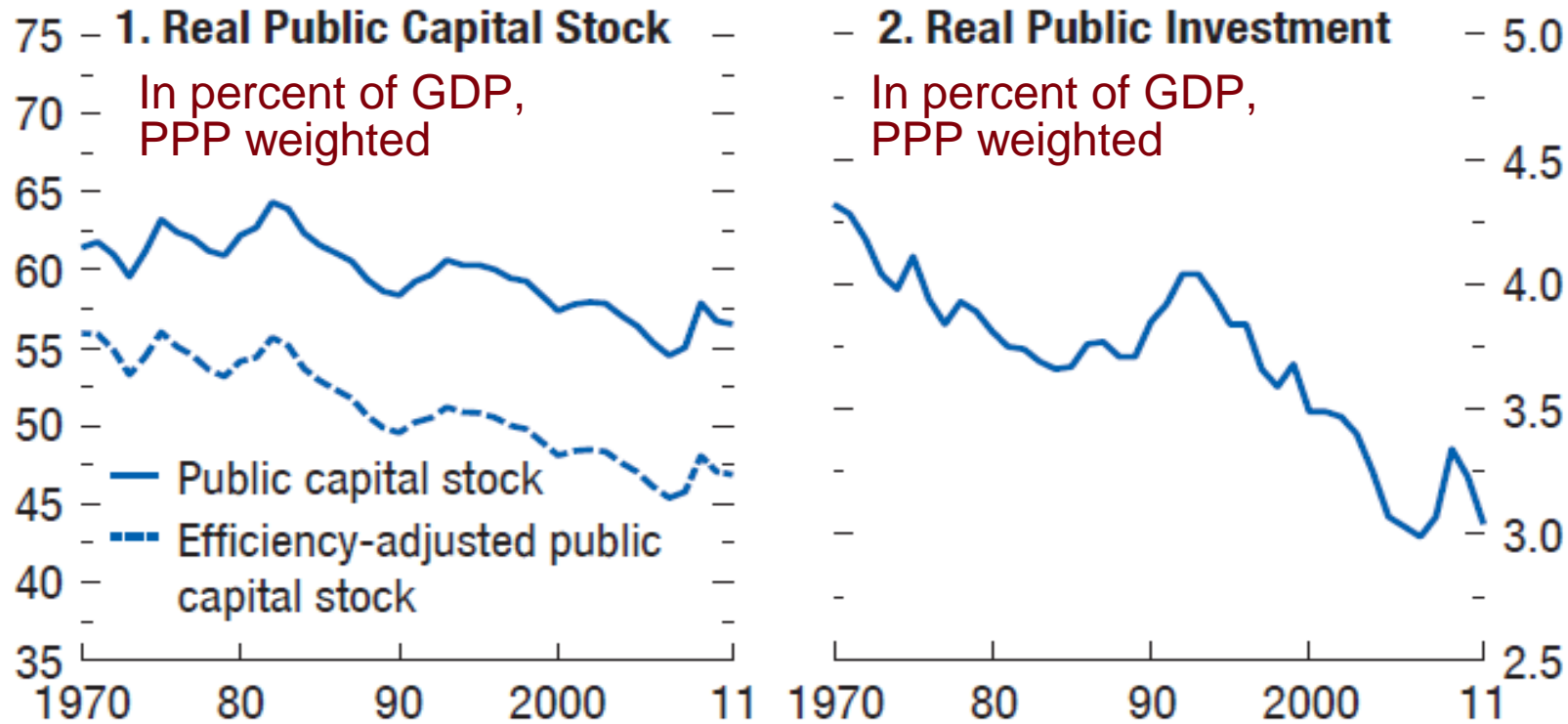


# Boosting Growth Potentials would Bring Jobs



# A Strong Case to Expand Public Infrastructure in Advanced Economies

## Advanced Economies



# Key Takeaways

- Global Economy still struggling to get on track: uneven and disappointing recovery
- Downward revision to global growth
- Downside risks have increased
  - Uneven fragile growth
  - Risks from protracted low inflation
  - Slowing emerging markets
  - Simmering geopolitical tensions
- Ways to stimulate growth and jobs



