World Economy Outlook- 2015

Reflecting the recent economic developments across the world especially the three important forces- China's economic transformation from export and investment led growth to consumption driven growth, declining global commodity prices and the impending hike in U.S interest rate, the IMF and the UNCTAD have represented their outlook on the world economy as well as the regions for 2015.

IMF –Snapshot of World Economic Outlook 2015

The International Monetary Fund (IMF) foresees a lower global growth for the year 2015 as against the previous year with modest pickup in advanced economies and a weaker growth in emerging markets.

Global real GDP growth is now projected to moderate at 3.1% in 2015 against 3.4% in 2014 and 0.2% below the forecast in July 2015. However, going ahead in 2016 the growth is expected to rebound to 3.6%.

Table 1: GDP Projections (%)

Country	2014	2015 (P)	2016 (P)
World	3.4	3.1	3.6
Advanced	1.8	2.0	2.2
United States	2.4	2.6	2.8
Euro Area	0.9	1.5	1.6
Germany	1.6	1.5	1.6
France	0.2	1.2	1.5
Italy	-0.4	0.8	1.3
Spain	1.4	3.1	2.5
Japan	-0.1	0.6	1.0
United Kingdom	3.0	2.5	2.2
Canada	2.4	1.0	1.7
Emerging and Developing Economies	4.6	4.0	4.5
China	7.3	6.8	6.3
India	7.3	7.3	7.5
ASEAN*	4.6	4.6	4.9
South Africa	1.5	1.4	1.3
Russia	0.6	-3.8	-0.6
Brazil	0.1	-3.0	-1.0
Mexico	2.1	2.3	2.8

Source: IMF, World Economic outlook, October 2015

** Indonesia, Malaysia, Philippines, Thailand and Vietnam*

Recent developments across the world

Growth in advanced economies in the first half of 2015 has remained modest. On the other hand, for most of emerging economies, the external conditions are becoming more difficult. The volatility in the financial markets rose sharply with declining commodity prices and downward pressure on many emerging markets currencies. Besides, capital inflows have slowed down and the hike in U.S. interest rates is likely to further tighten the external financial conditions. Moreover, the growth slowdown in China is so far reflected in the weakening commodity prices and weak exports to China. Against this background, the global growth in the first half of 2015 was recorded at 2.9% about 0.3% weaker than predicted.

Outlook for 2015

Modest Growth in Advanced Economies

Growth in advanced economies is projected to increase modestly to 2% in 2015 and 2.2% in 2016. The pickup in the current year is primarily based on-

- Strengthening of the modest recovery in Euro Area
- Positive growth in Japan
- Falling crude oil prices
- Accommodative monetary polices
- Improving financial conditions
- Currency depreciation in some cases

The growth is expected to rebound in 2016 particularly in North America, medium-term prospects remain subdued, reflecting a combination of lower investment, unfavorable demographics, and weak productivity growth.

Weakening growth prospects in emerging and developing economies

Growth prospects in emerging and developing economies appear to be weakening with growth for these economies being projected to decelerate from 4.6% in 2014 to 4% in 2015. The various combinations of factors that reflect the slowing growth in these economies are-

- Weaker growth in oil exports
- A slowdown in the Chinese economy
- Weaker outlook for exporters of other commodities
- Decline in export prices
- Geopolitical tensions and domestic strife in number of countries

In addition to the above factors, prospect of rising U.S interest rates and a stronger dollar contributing to higher borrowing costs for some borrowers have made external conditions more difficult for most of the emerging economies.

Subsequently, the rebound in growth in 2016 in the emerging and developing economies therefore indicates a general recovery with partial normalization of conditions in countries in economic distress in 2015, spillovers from the pickup in activity in advanced economies and the easing of sanctions on the Islamic Republic of Iran.

Factors posing downside risks to growth

1. **Falling oil and commodity prices-** The declining oil and commodity prices have been benefitting the countries in terms of imports. On the contrary, the outlook for commodity exporters remains to be complicated particularly for countries viz. Russia, Venezuela and Nigeria who have already face strained initial constraints.
2. **Sharp downturn in China –** The expected rebalancing toward a more market based and consumption driven growth proves to be challenging than expected.
3. **Increase in financial market volatility-** Increase in volatility in financial markets involves greater risk of capital outflows from emerging economies. Moreover, the concerns over China's growth prospects, outlook of Greece, the lower oil prices and contagion effects could further aggravate the volatility in markets.
4. **Strengthening of American currency-** the debtors in emerging economies who have taken recourse to foreign currency corporate debt (in dollars) are likely to face greater risk with further strengthening of the U.S dollar.
5. **Prevailing geopolitical tensions -** Increased geopolitical tensions in Ukraine, the Middle East, or parts of Africa could take a toll on confidence.

What needs to be done to avoid the low-growth path?

IMF suggests that increasing the actual and potential output should be given due priority on the policy front which entails demand support coupled with structural reforms.

- In order to contain the financial sector risks in the advanced economies, it is essential for the monetary policy to continue to remain accommodative. On the fiscal front, countries with room for fiscal stimulus shall use it to boost investments in public sector particularly in quality infrastructure.
- Moreover, there needs to be major focus on structural reforms albeit country specific shall broadly include measures to strengthen the labor force participation, facilitate labor market adjustment, and tackle legacy debt overhang and lower barriers to entry in product markets especially in services.
- Most of emerging economies remain resilient to external shocks owing to stronger forex reserves, flexible exchange rate, dependence on FDI flows and domestic currency external financing and stronger policy frameworks which aids in managing the increased volatility. However, given the present complex external environment EMEs face a trade-off between demand and the actual and potential growth and reducing vulnerabilities. Hence, it is essential for EMEs to focus on exchange rate policy to ensure financial stability. Simultaneously, there is a need for countries to focus on diversifying the economy. Hence, structural reforms to raise productivity and elimination of bottlenecks to production shall assist in diversifying the export base of the countries.

UNCTAD- World Output Growth

Table2: World Output growth (%)

Country	2014	2015 (P)
World	2.5	2.5
Developed Countries	1.6	1.9
United States	2.4	2.3
Euro Area	0.8	1.5
Germany	1.6	1.5
France	0.2	1.2
Italy	-0.4	0.7
Japan	-0.1	0.9
United Kingdom	3.0	2.3
Developing Countries	4.5	4.1
China	7.4	6.9
India	7.1	7.5
South Africa	1.5	1.9
Russia	0.6	-3.5
Brazil	0.1	-1.5
Mexico	2.1	2.1

Source: UNCTAD, Trade and Development report 2015.

- As per the report by UNCTAD, the global growth is expected to remain at around the same levels at average annual growth rate of 2.5% in 2015. This is expected to result from a slight acceleration of growth in developed countries, a moderate deceleration in developing economies and a contraction of GDP in transition economies. Therefore, the global output growth is projected to remain significantly below the 4% rate.
- Developed countries are projected to grow at around 1.9% in 2015 compared with 1.6% in 2014 while growth in developing economies is projected to decelerate to 4.1% from 4.5% albeit expanding at a rate of more than 4% owing to resilience of the most economies in Asian region.

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