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CLEC
Comité Latinoamericano de
Economistas de FELABAN

Perspectivas Económicas Mundiales

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Fondo Monetario Internacional



Guatemala, 17 de octubre de 2016

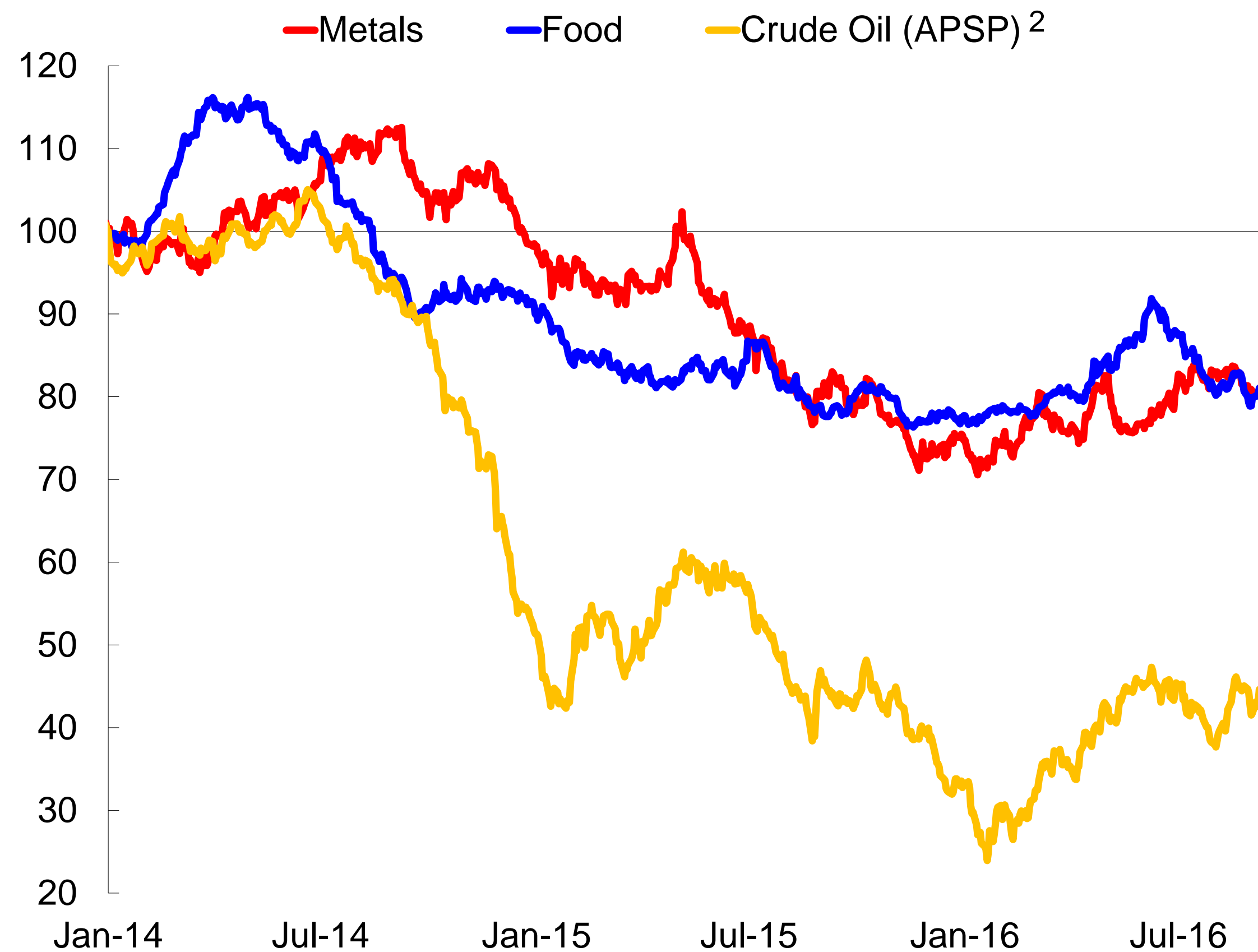
Main changes in recent months

- Advanced economy (AE) performance slightly weaker than expected in April amid weak investment; monetary policy set to remain accommodative for longer
- Emerging market (EM) growth performance improving; financial market sentiment toward EMs has become more upbeat; commodity prices firmed and capital flows have picked up
- But it's a heterogeneous world:
 - AEs continue to differ significantly in extent of post-crisis repair
 - Some of the emerging market and developing economies (EMDE) face challenging conditions; others are expanding very fast
- Growing political discontent and the rise of inward-looking policy platforms is a concern

Some recovery in commodity prices, especially for oil

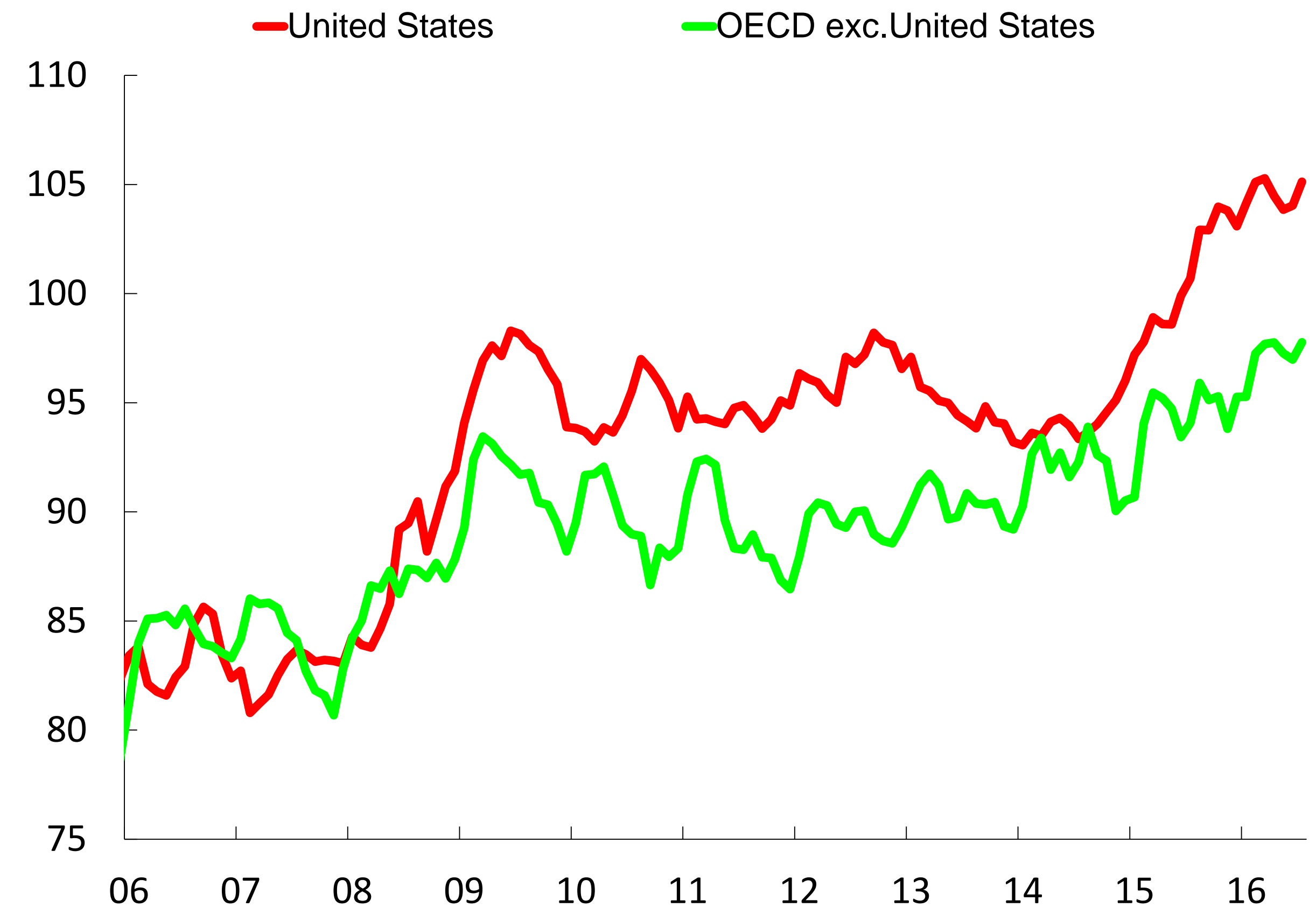
Commodity price indices¹

(Jan. 1, 2014 = 100)



Oil inventories¹

(days of forward demand)



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

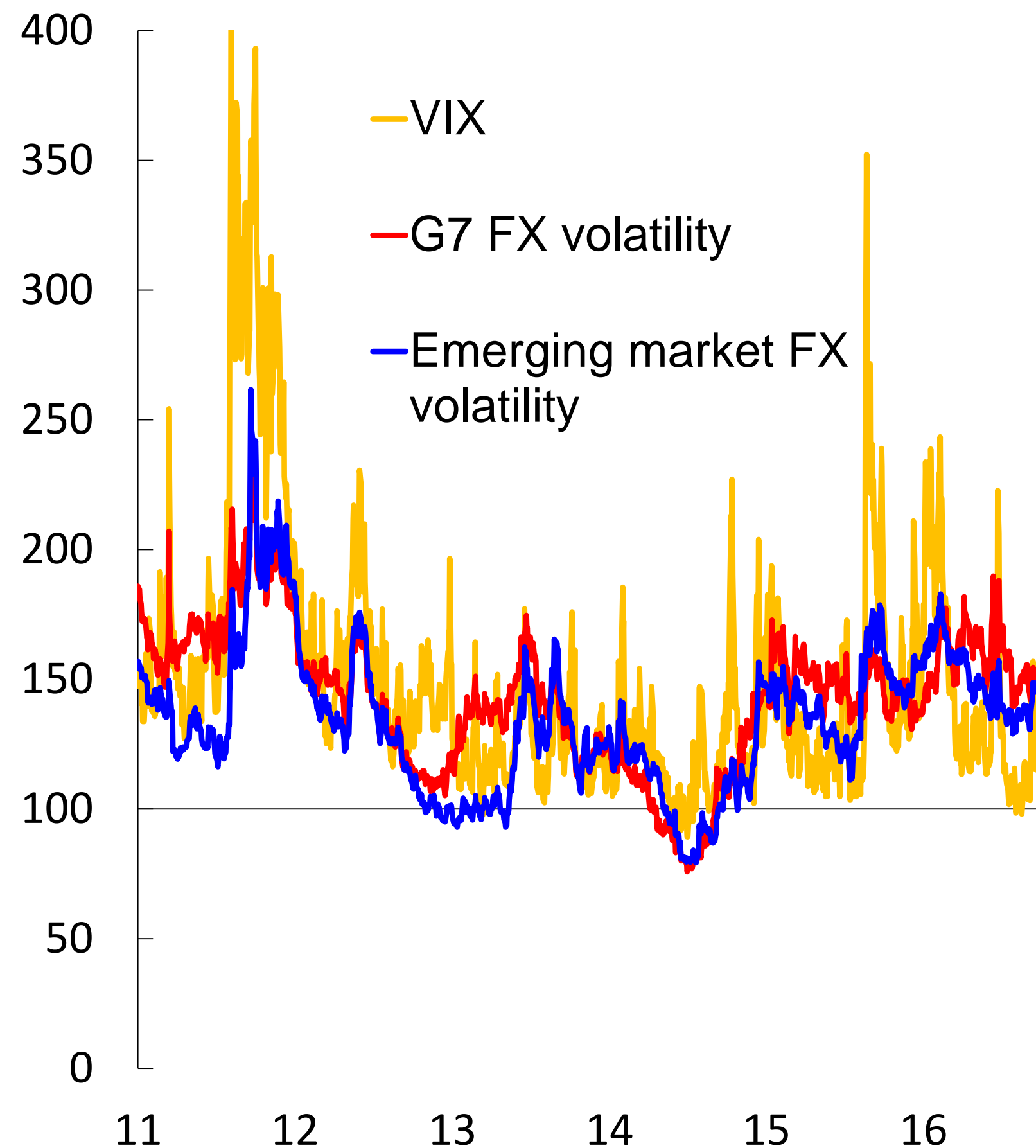
¹ Latest available data are for September 15, 2016.

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

Calmer financial markets

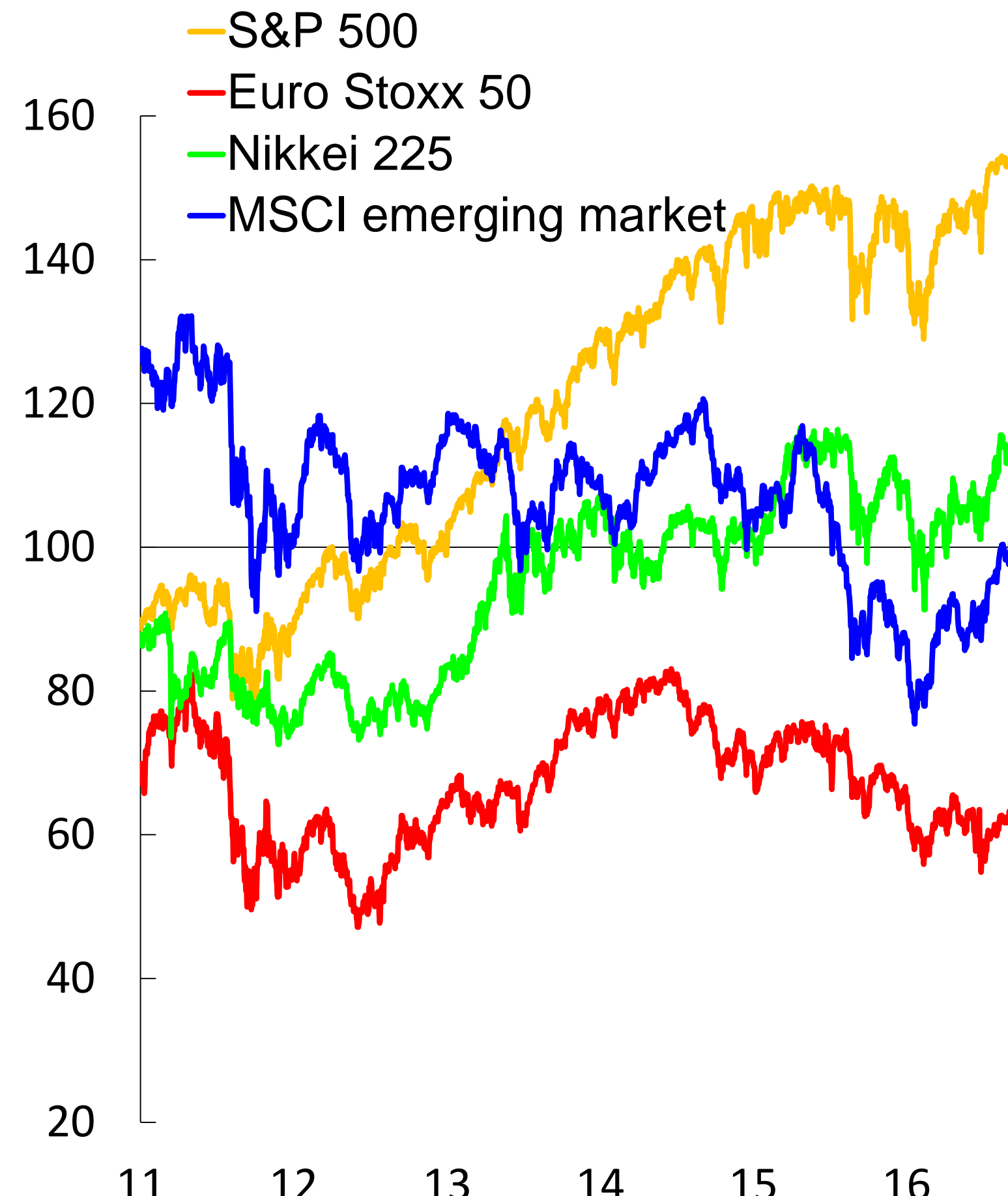
Financial market volatility¹

(index; Jan. 1, 2007=100)



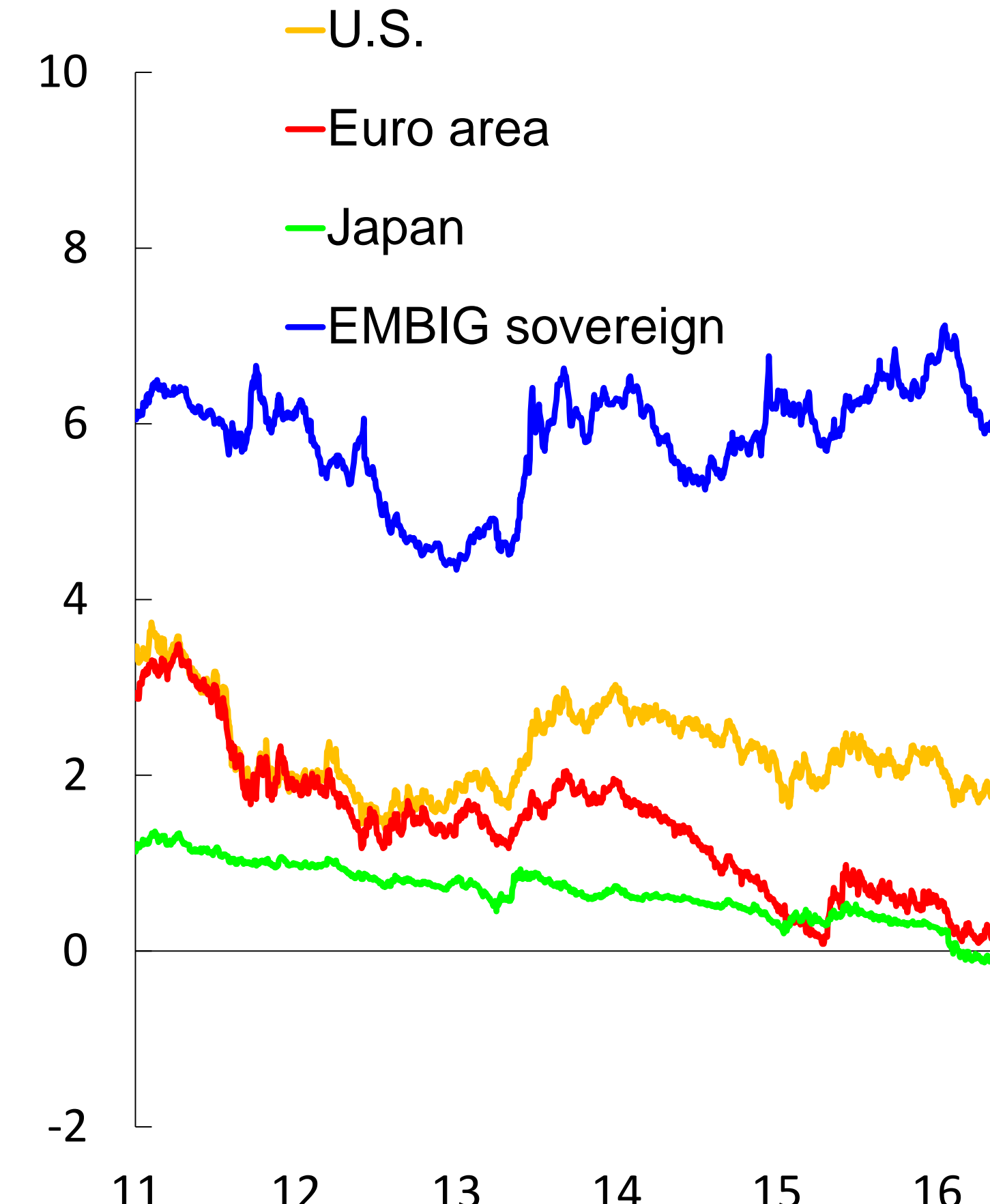
Equity prices¹

(index; Jan. 1, 2007=100)



Government bond yields¹

(percent)

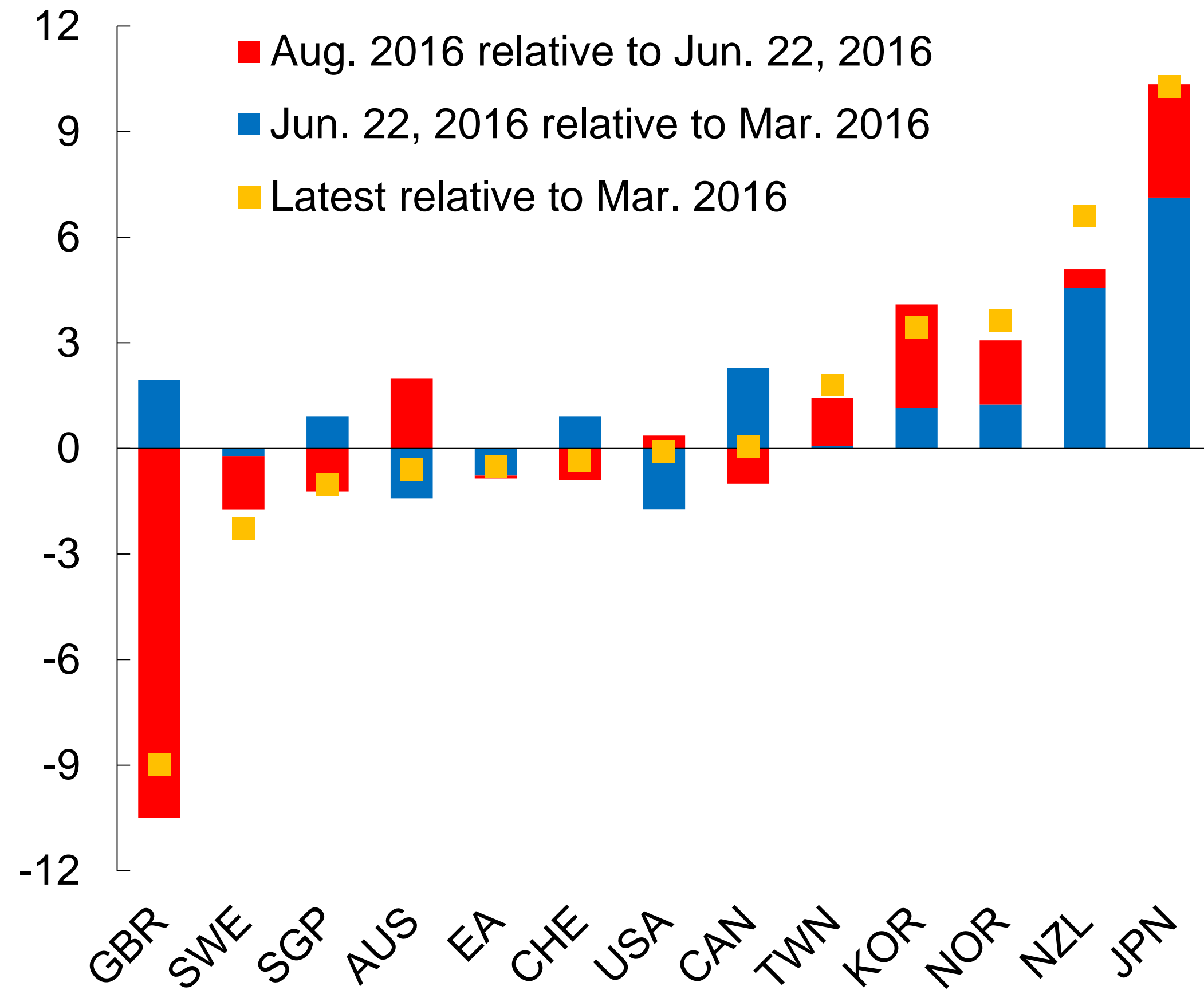


Sources: Bloomberg, L.P.; Haver Analytics; and IMF staff calculations. ¹Latest available data are for September 21, 2016.

Effective Exchange Rate Changes since March 2015

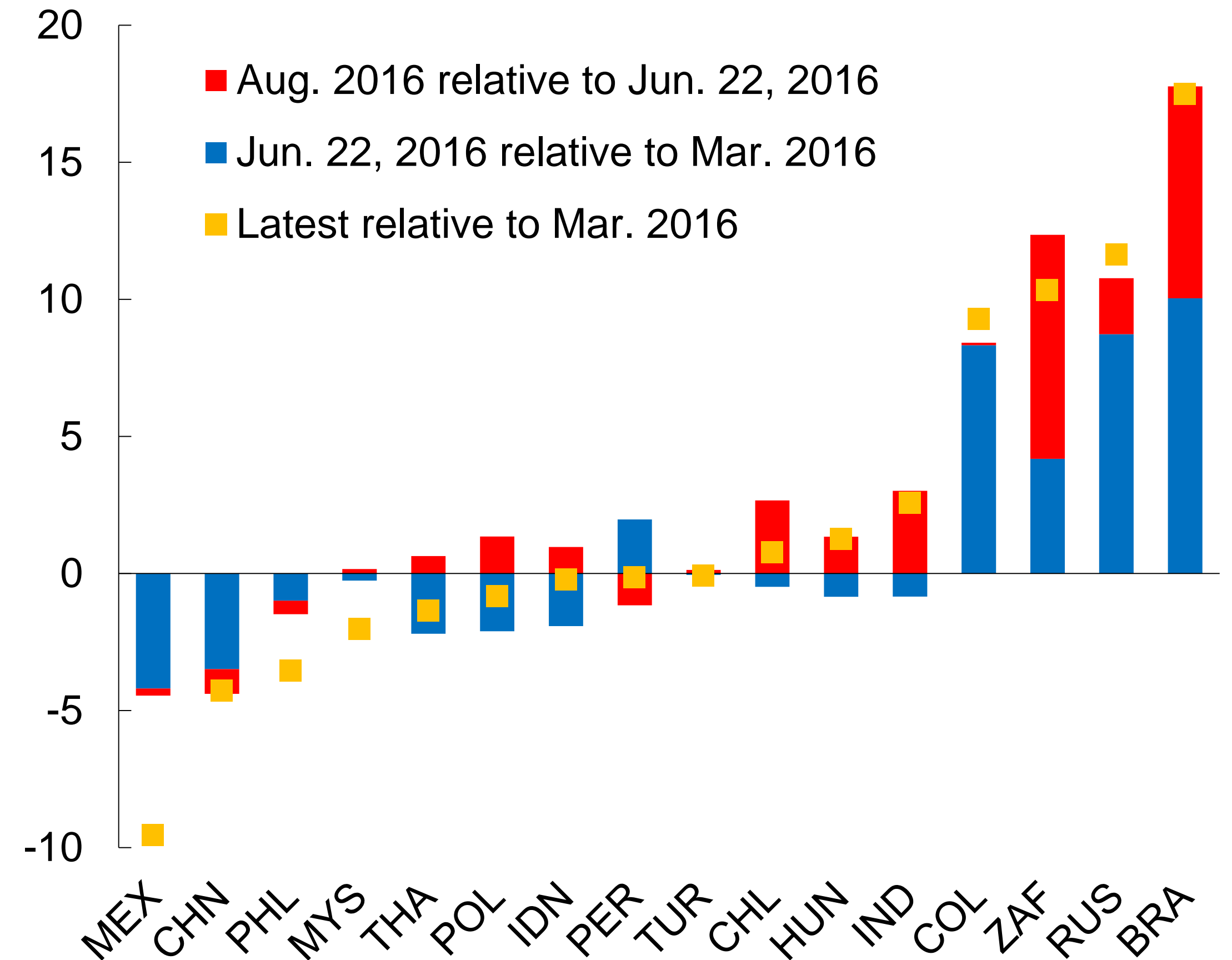
Advanced Economies

(Percent)



Emerging Market Economies

(Percent)

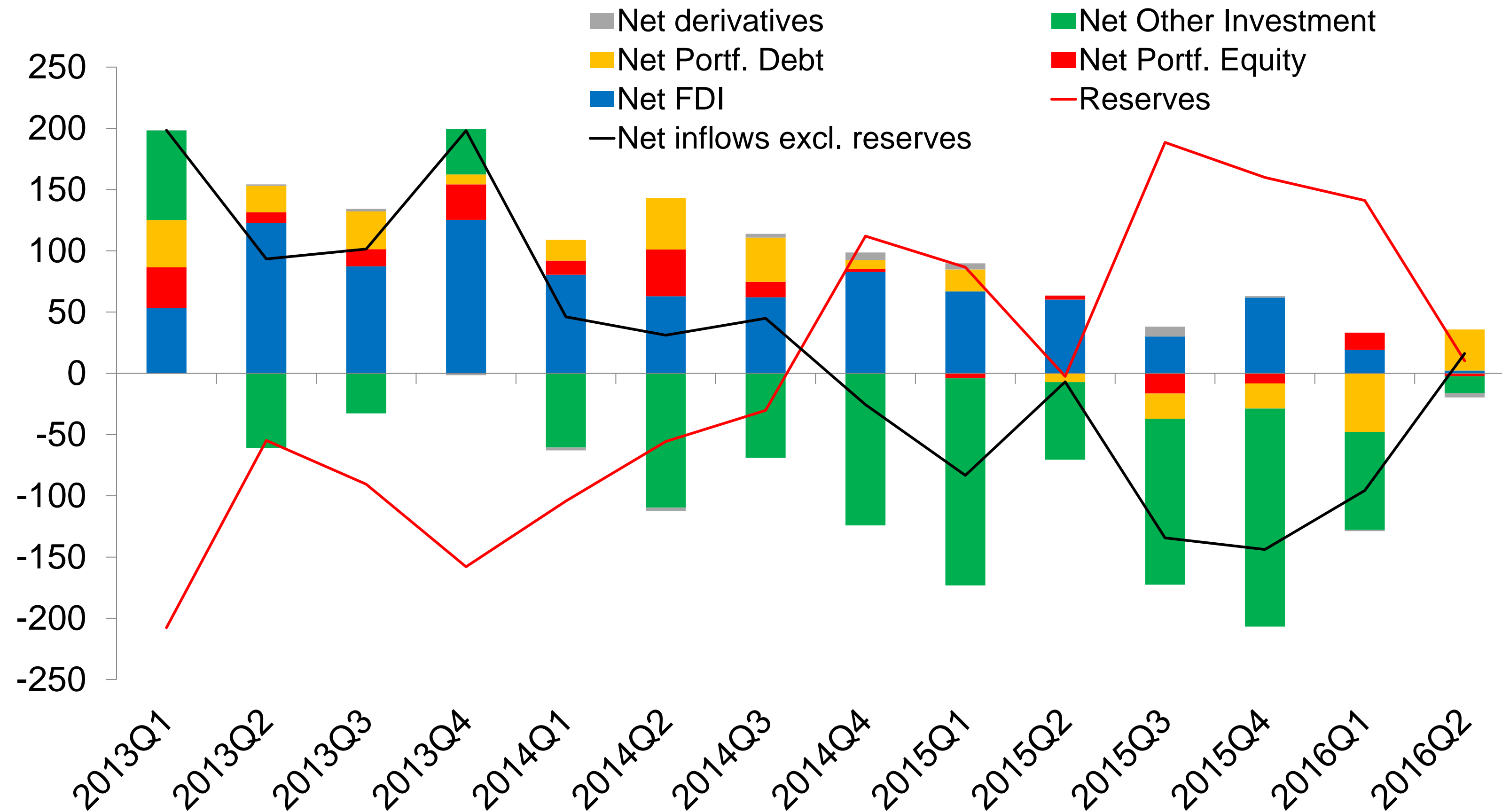


Source: IMF staff estimates.

... capital flows to EMDEs have picked up

Net Capital Inflows to Emerging Market Economies

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



Major global trends

Advanced economies

- Varying degrees of post-crisis repair
- Low inflation
- Demographic trends
- Weak productivity growth
- Low interest rates
- 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



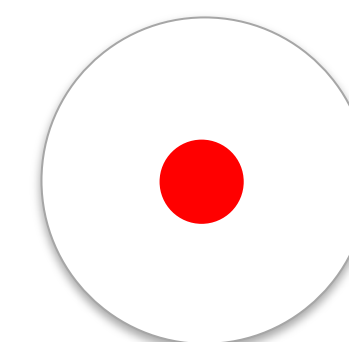
Advanced Economies



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

-0.2

0.5

0.1

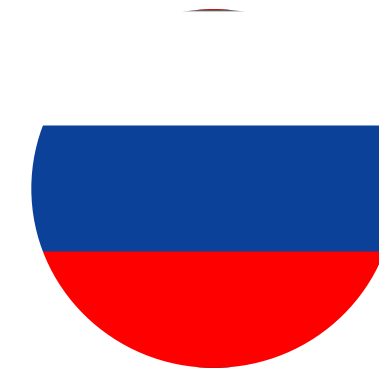
0.2

-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

4.9

Revision from
Jul. 2016

0.0

0.0

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0.0

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-0.3

-0.2

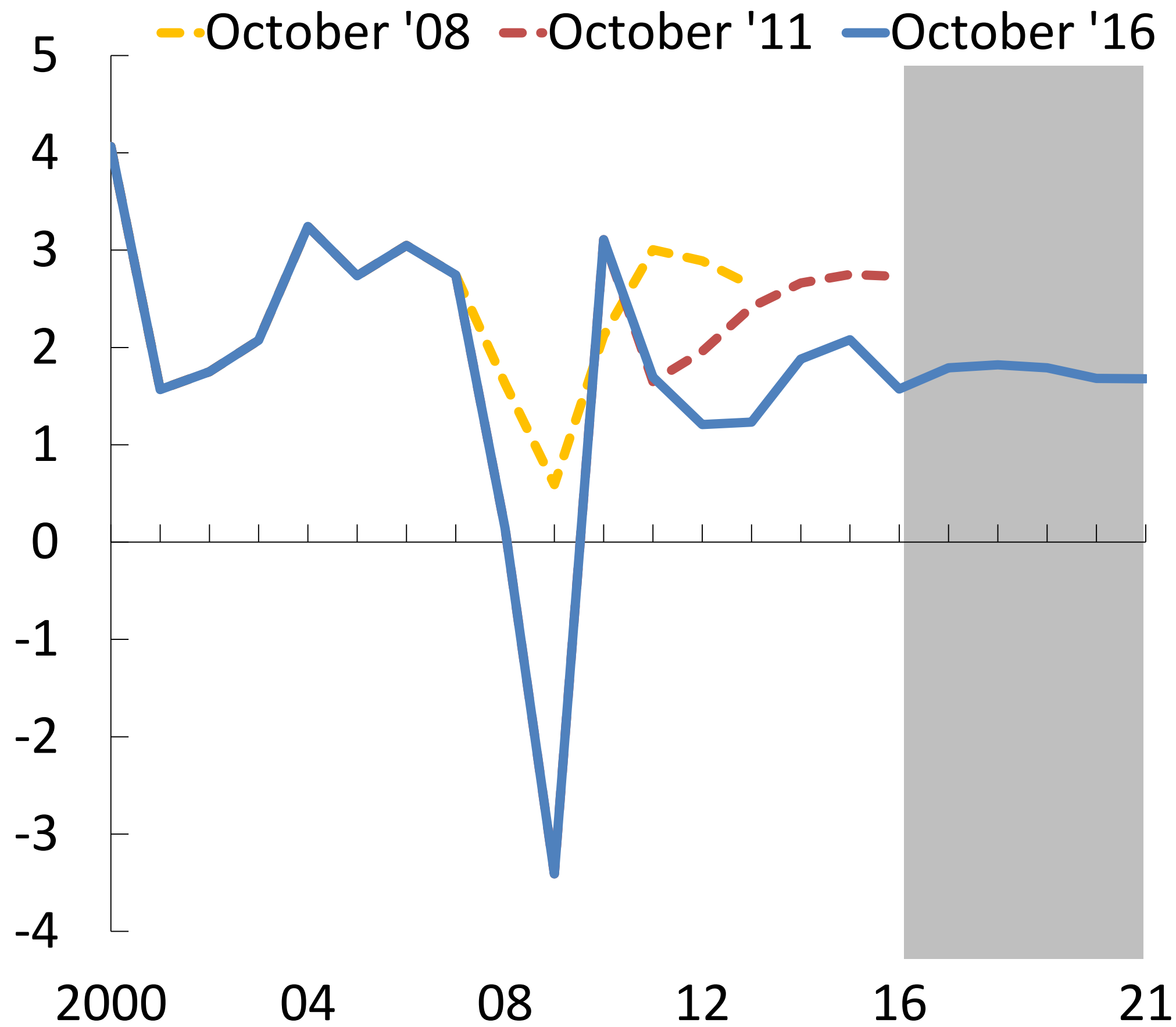
Baseline assumptions for the medium term

- 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)

Growth projections beyond 2017

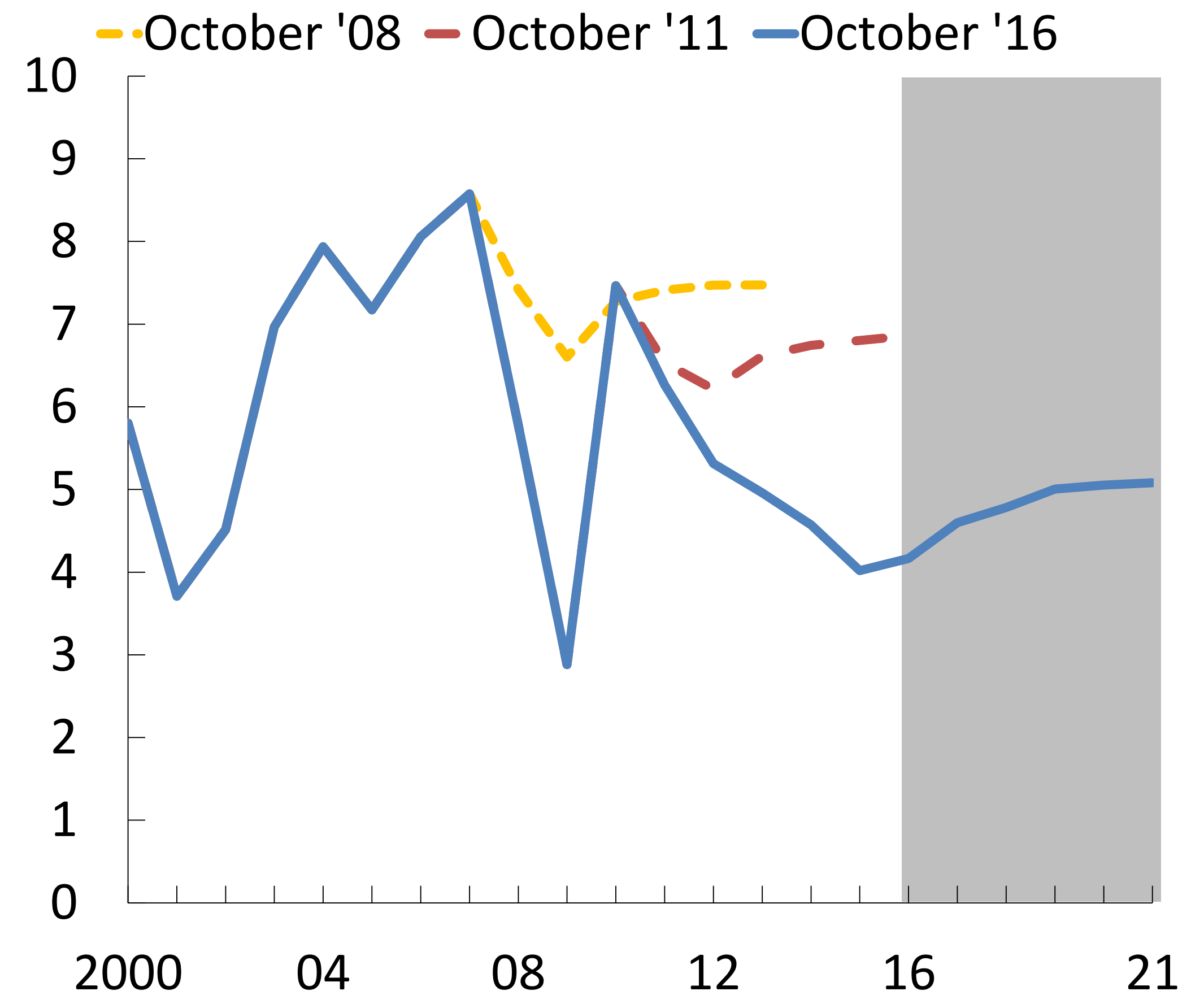
AEs: Real GDP Growth

(percent; various WEO forecast vintages)



EMs: Real GDP Growth

(percent; various WEO forecast vintages)

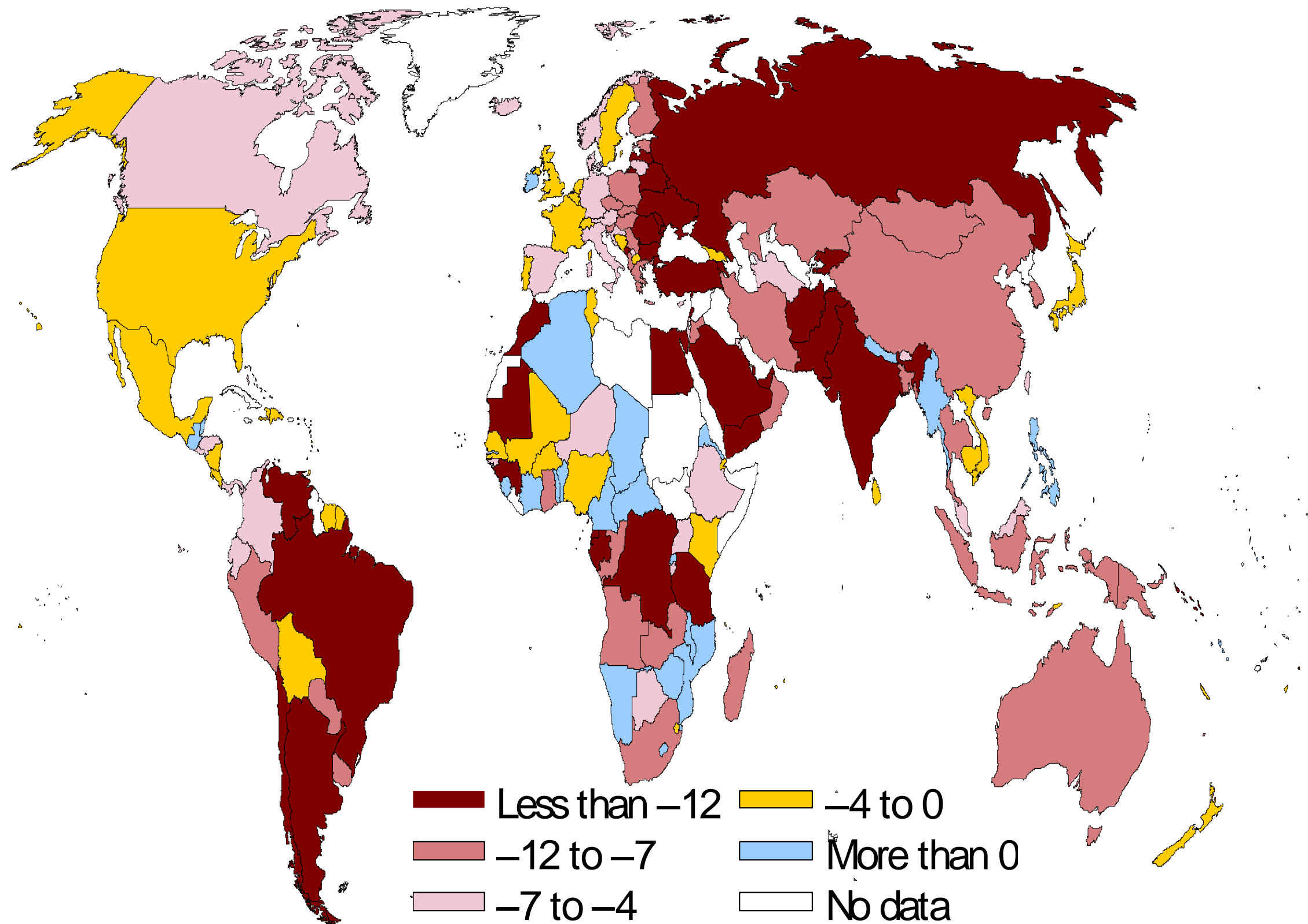


Downside risks continue to dominate the outlook

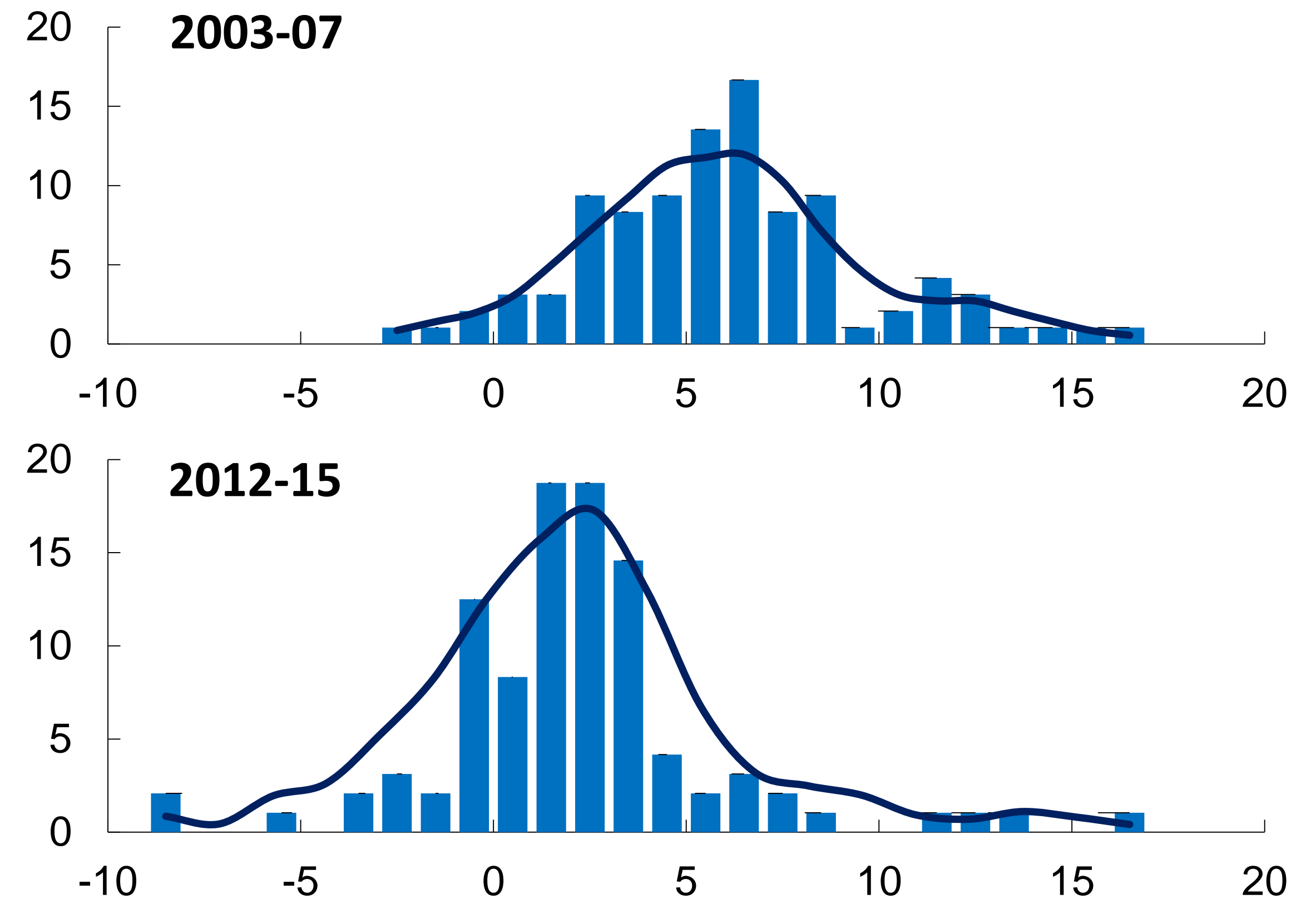
- *Protectionism.* Inward-looking policy approaches could harm trade and integration, leading firms to defer investment and hiring decisions.
- *Stagnation in AEs.* An extended period of weak demand could lead to persistently lower growth and inflation in advanced economies. An unmooring of inflation 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 war 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.

A widespread slowdown in global trade

Difference in Average Real Import Growth between 2003-07 and 2012-15
(Percentage points)



Distribution of Average Real Import Growth Across Different Goods
(Percent)



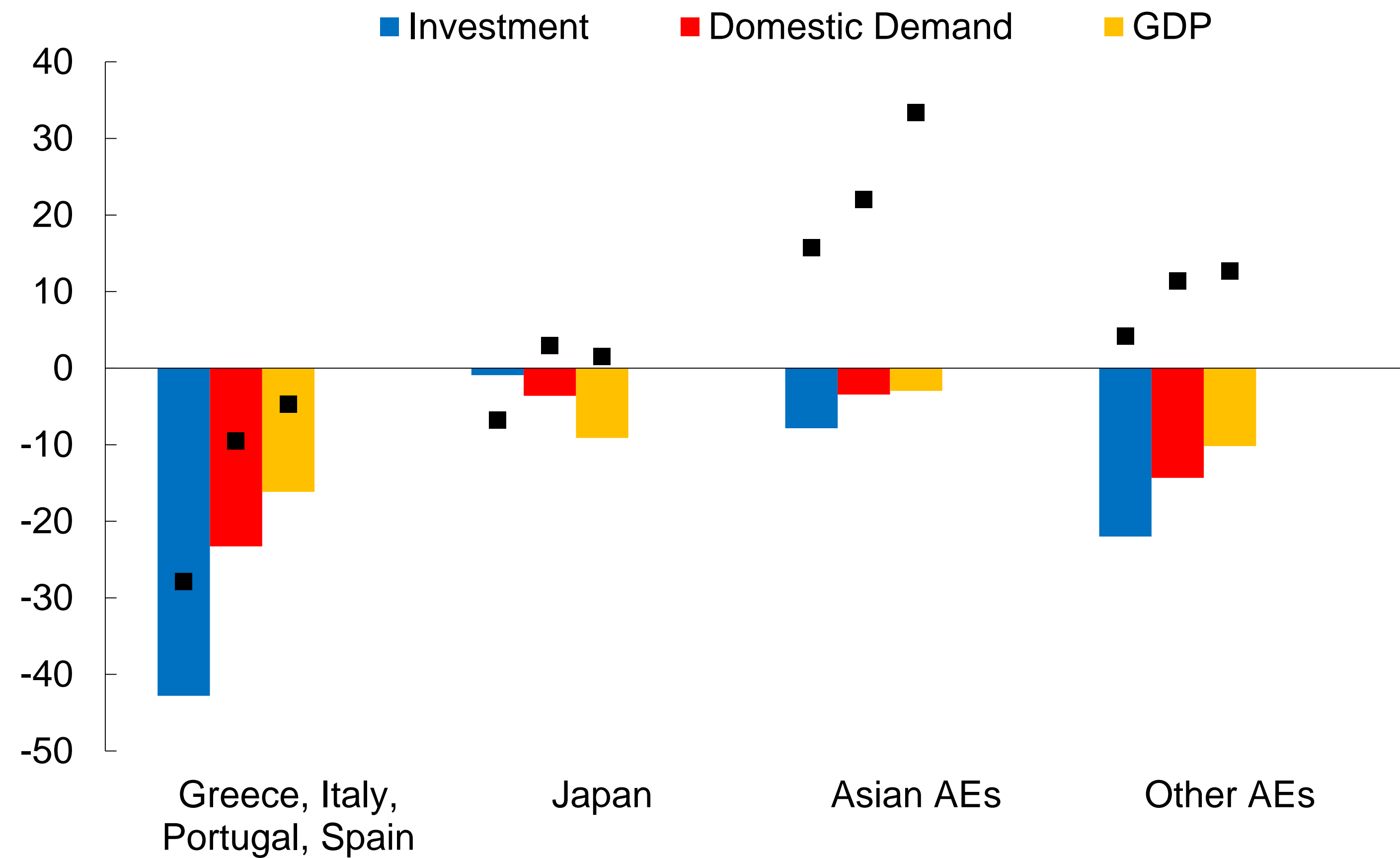


ADVANCED ECONOMY TRENDS

Uneven progress with recovery

Deviation from Precrisis Trend and Level

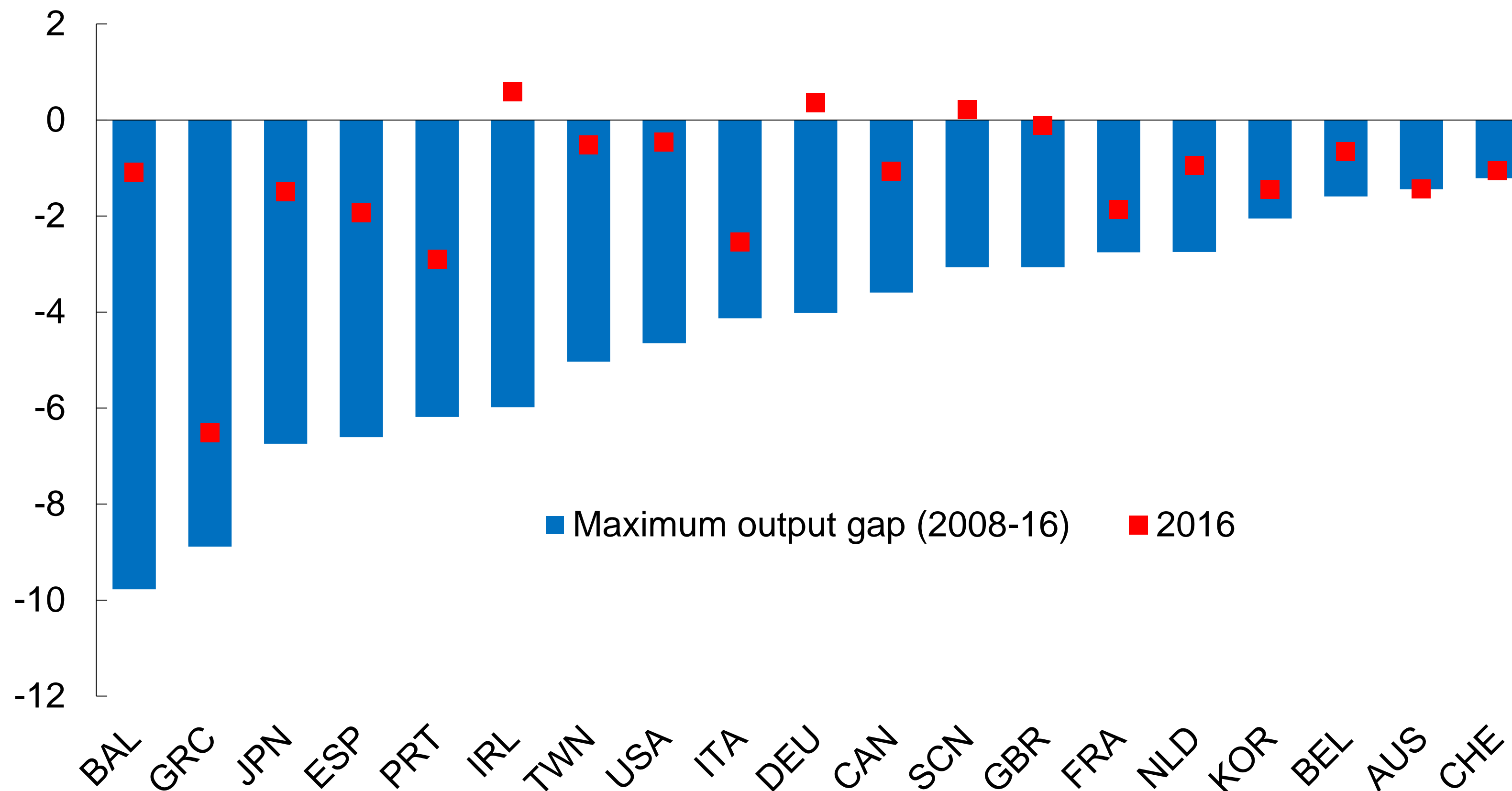
(Colored bars show percentage difference from precrisis trend; black squares show percentage differences from 2007 levels)



Output still below potential

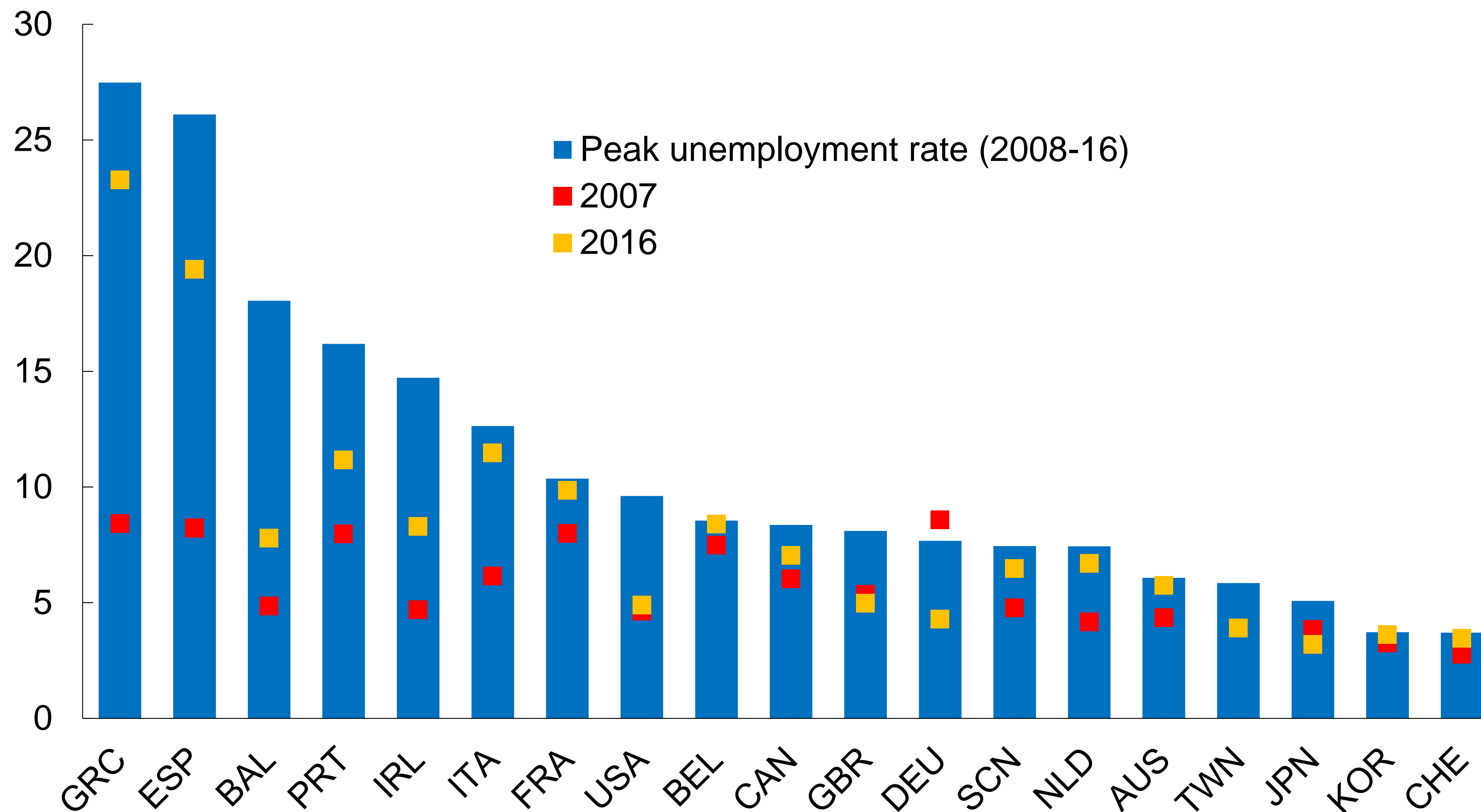
Output Gap

(Percent of Potential Output)



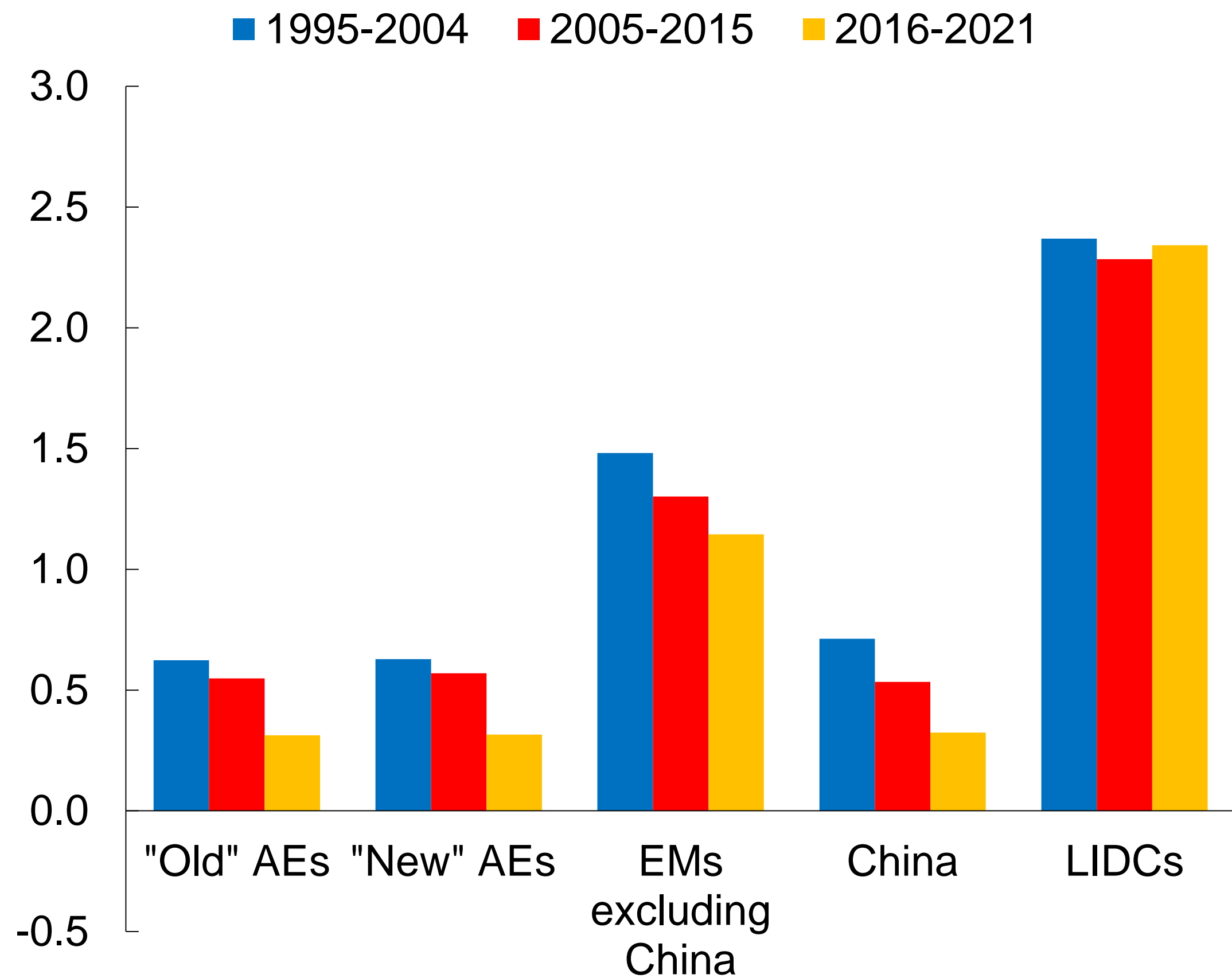
Labor market scars still visible

Unemployment Rate (Percent of the Labor Force)

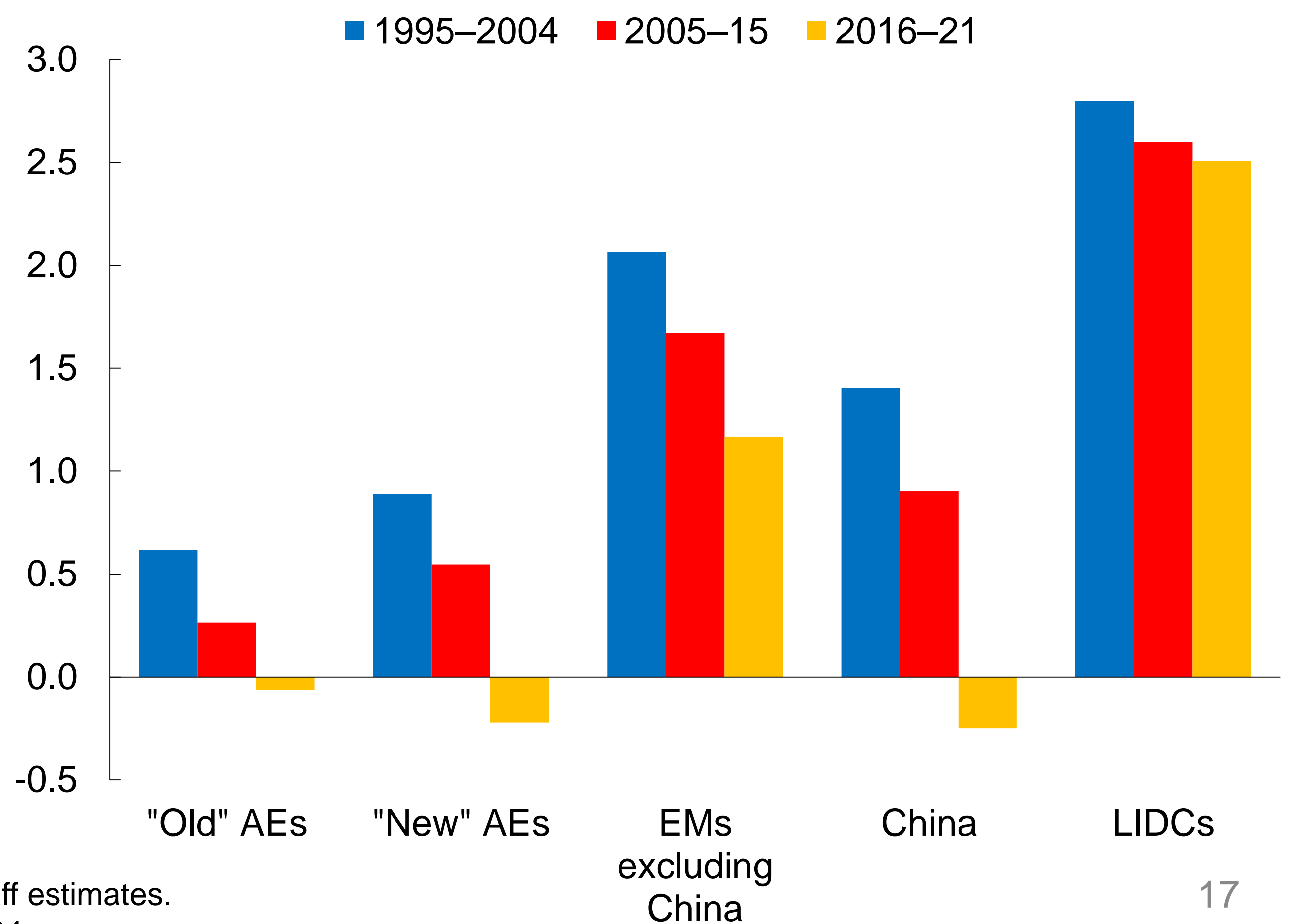


AE workforce to shrink over the next 5 years

Population Growth
(Percent)



Working Age Population Growth
(Percent)

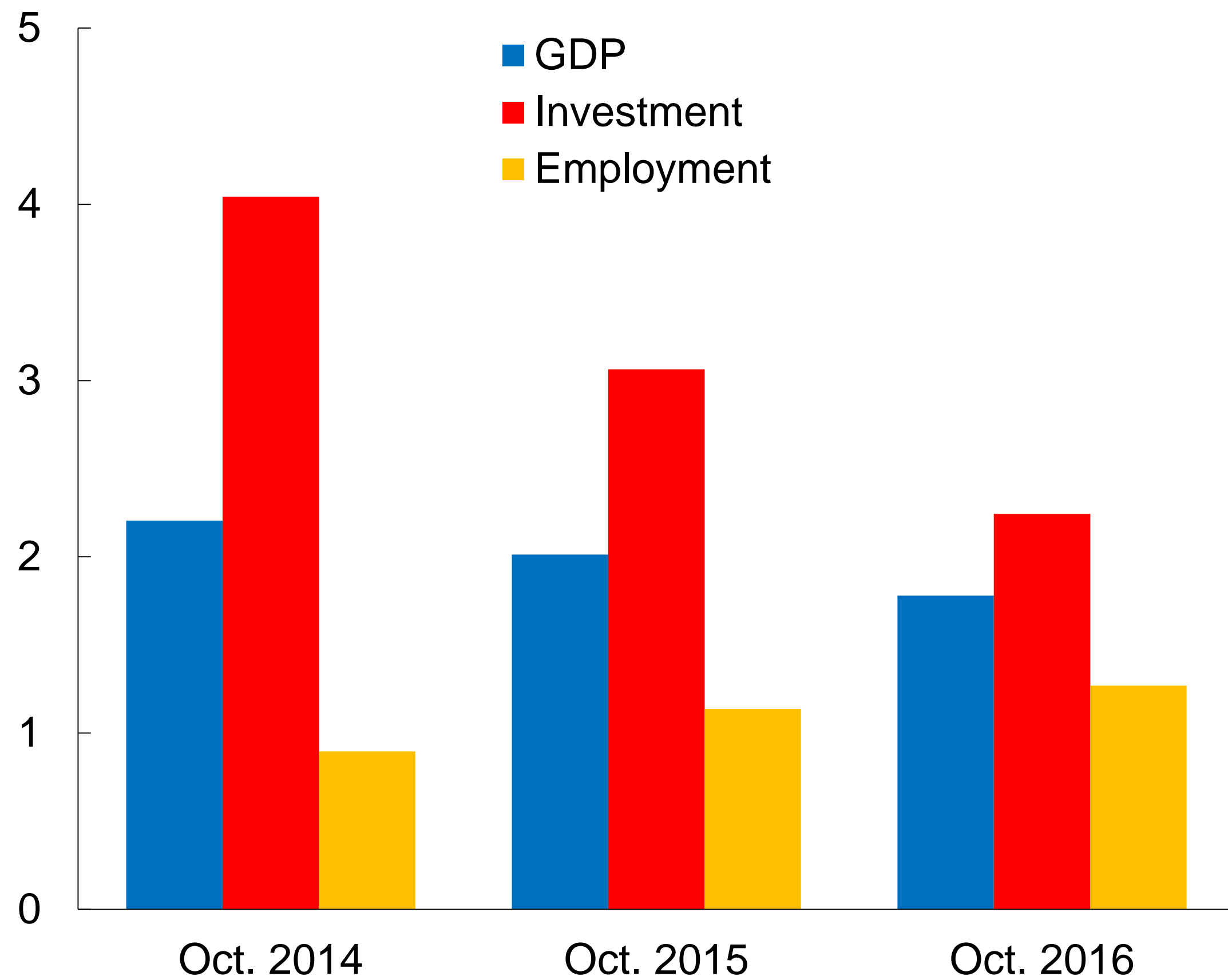


Sources: United Nations Population and Development database; and IMF staff estimates.
Working-age population defined as the population with age between 15 and 64.

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

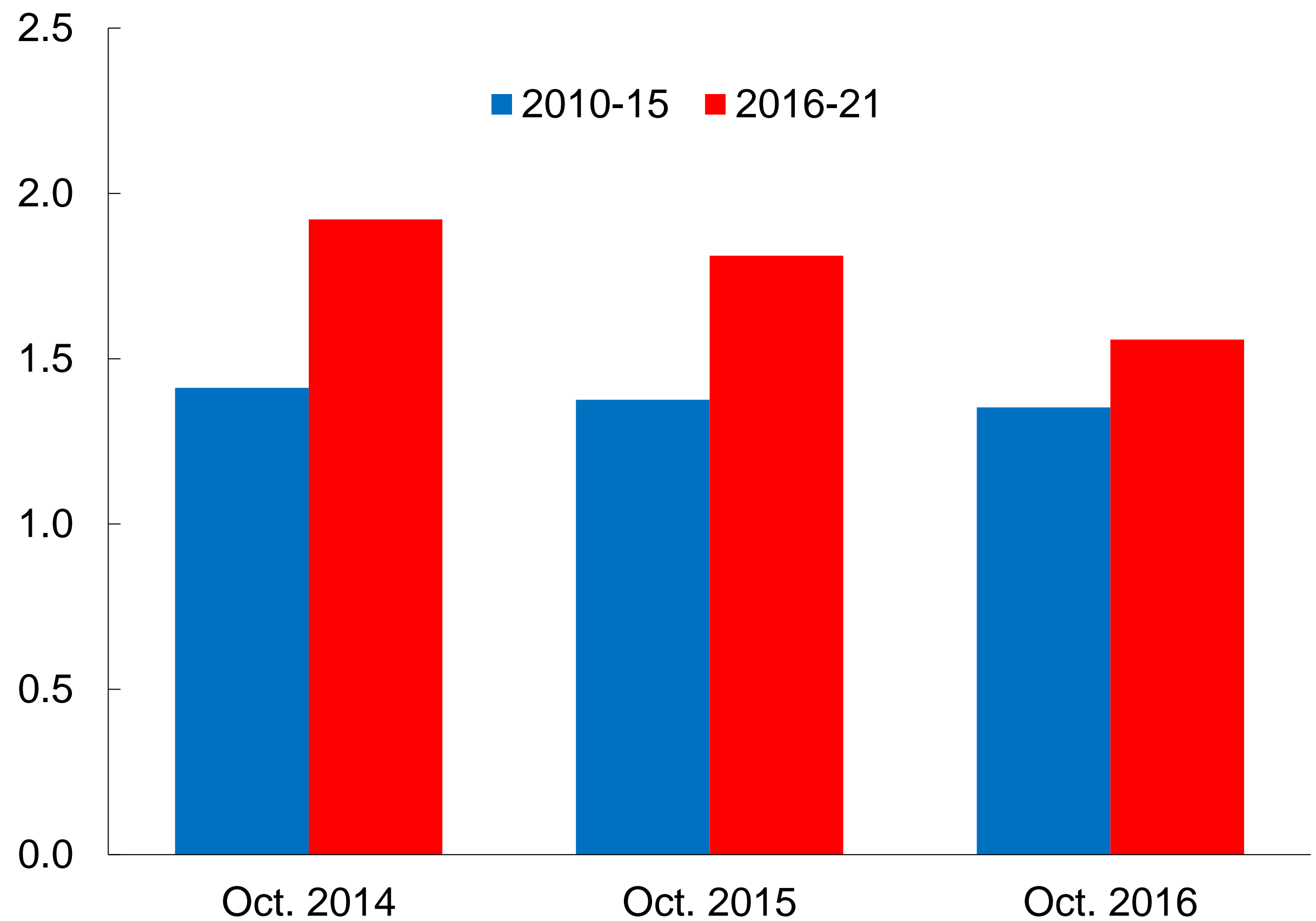
Employment, Fixed Investment, GDP

(Percent; average growth rate for 2014-16)



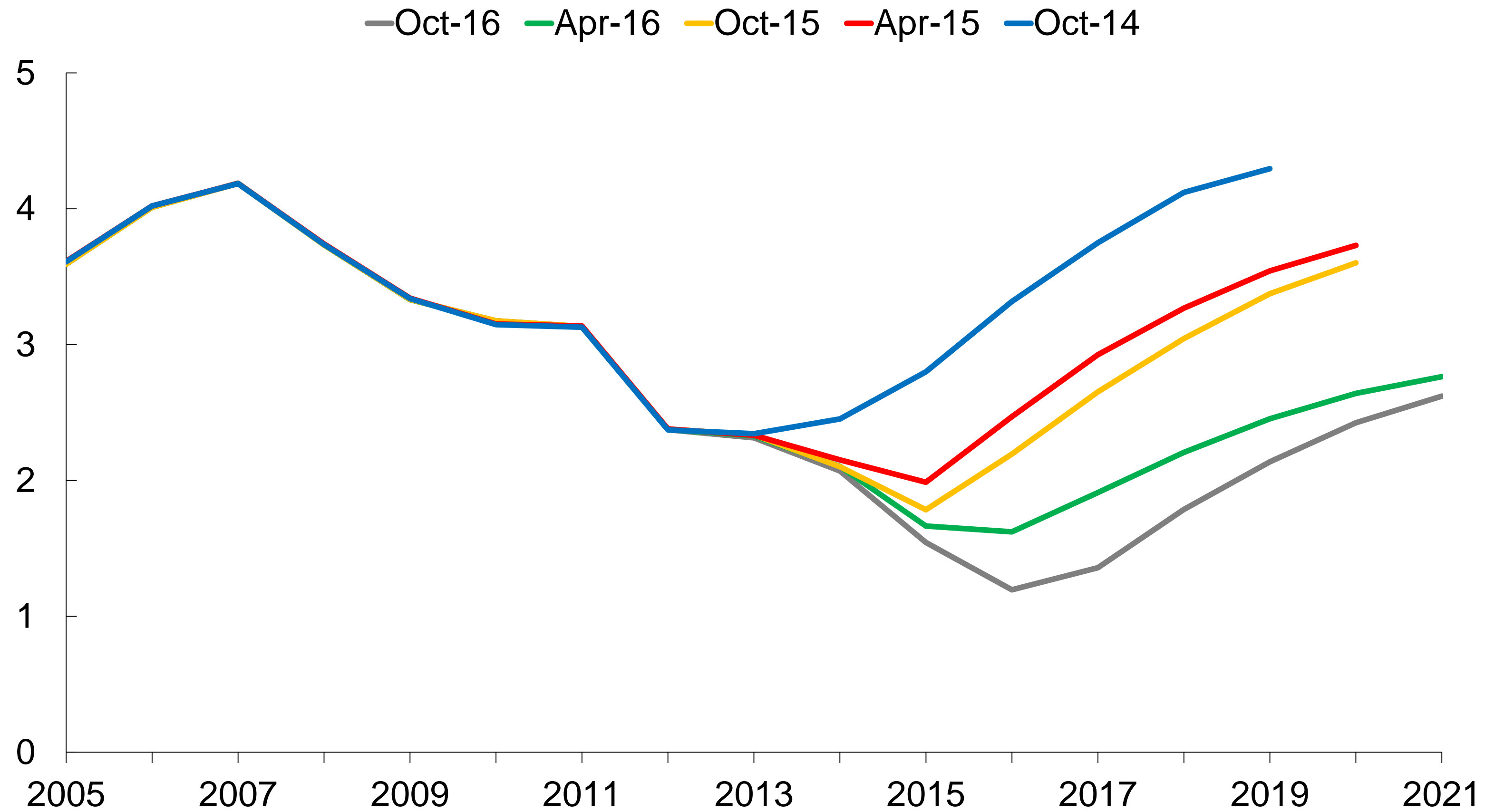
Potential Growth

(Percent; average growth rates)



... and expected interest rates

WEO Long-Term Nominal Interest Forecasts (Percent)





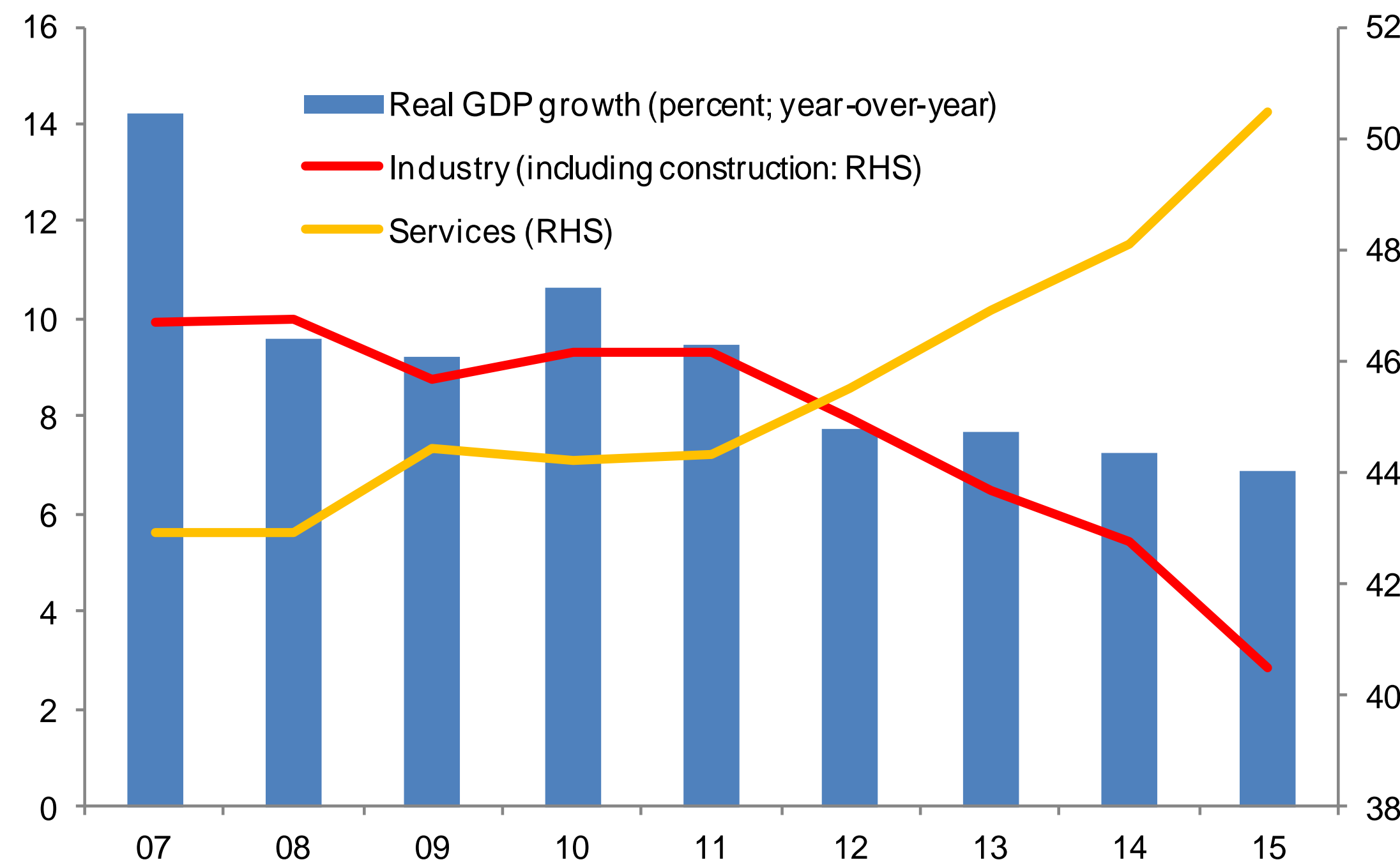
EMERGING MARKET AND DEVELOPING ECONOMY TRENDS

A slowdown and rebalancing in China

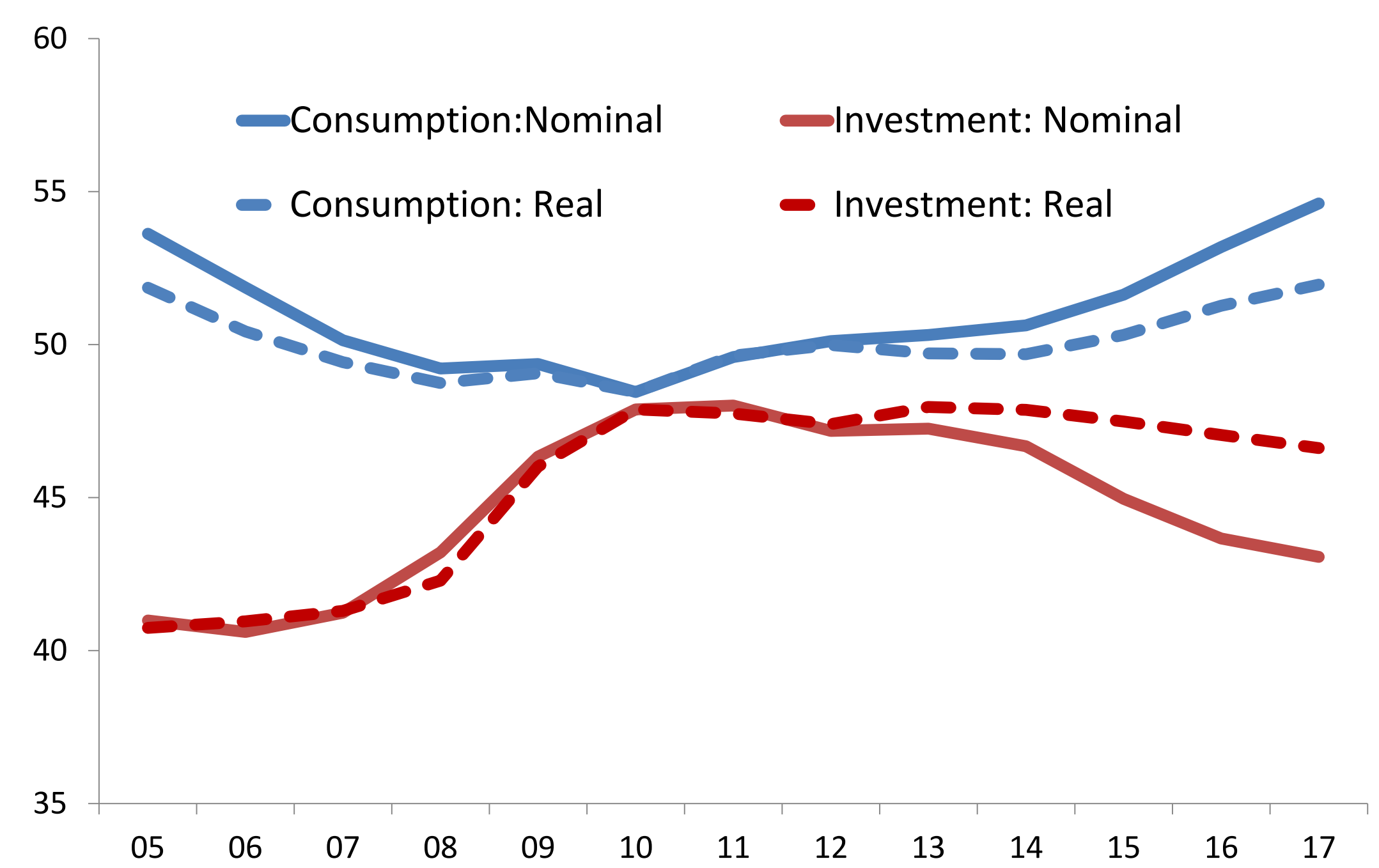
The share of industry in GDP is shrinking...

...as is the share of investment

Share of Gross Value Added
(percent of GDP)



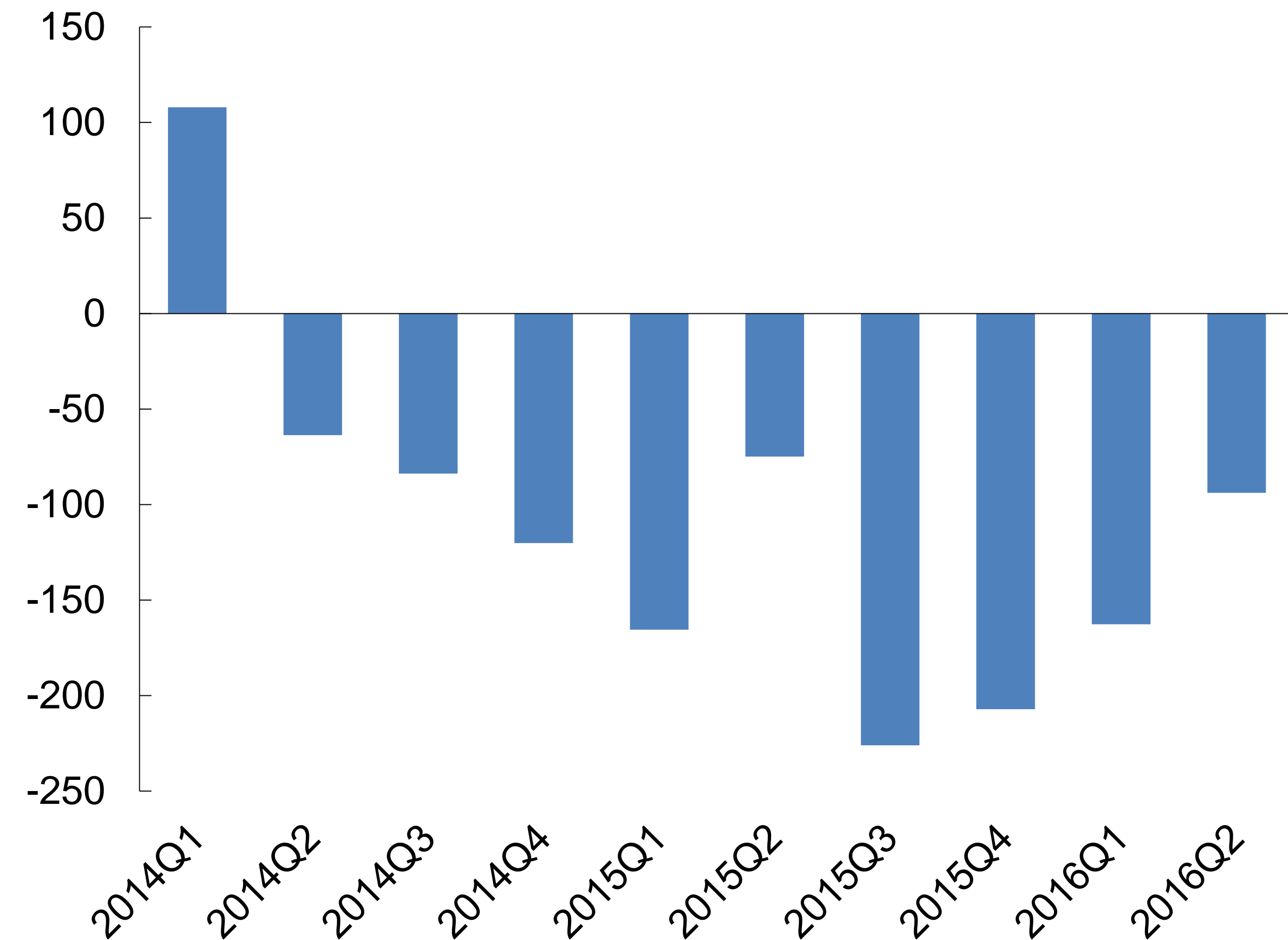
Share of Gross Value added by Expenditure
(Percent of GDP)



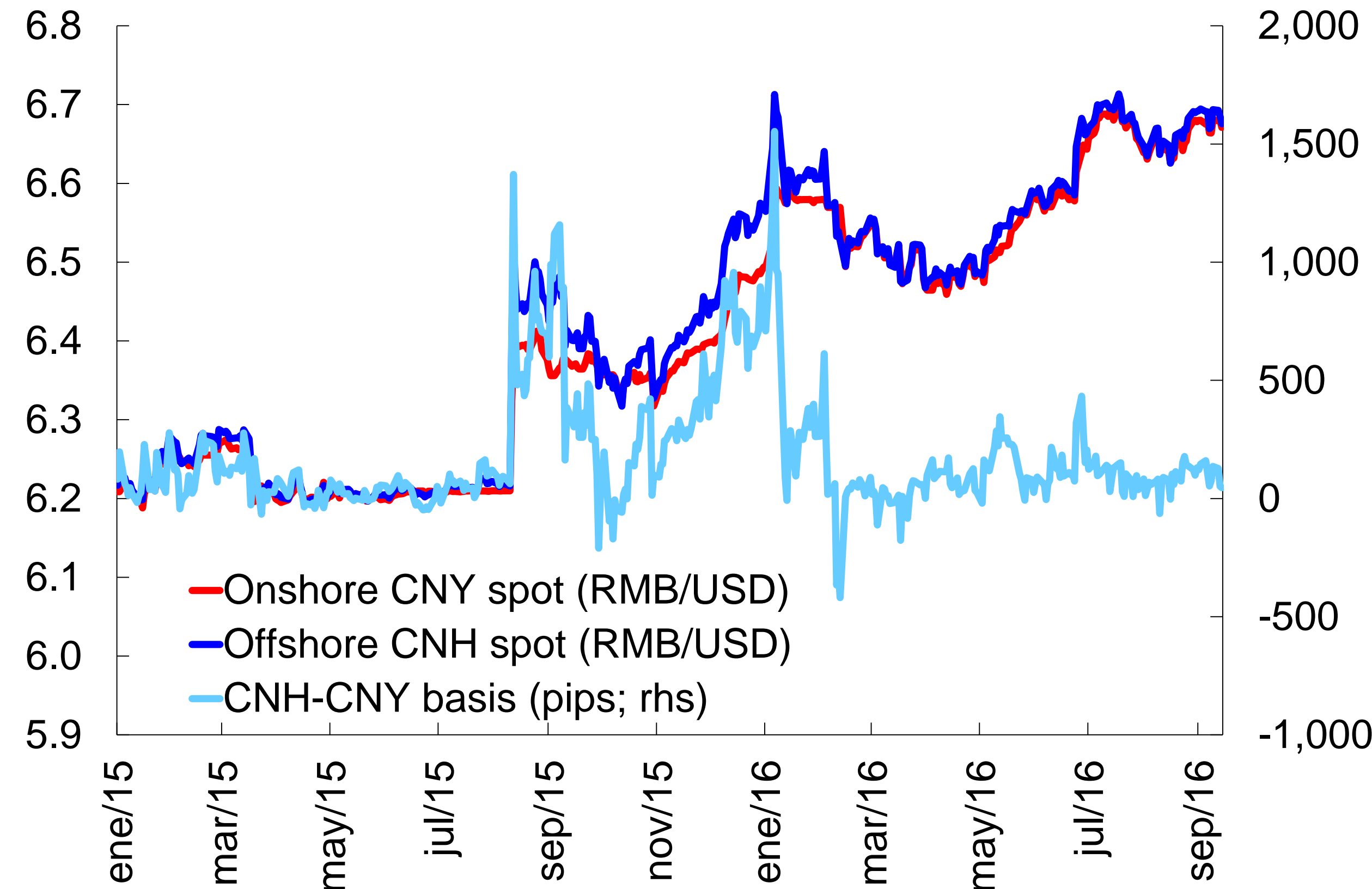
Acute anxiety earlier in the year has faded...

Outflow pressures have abated

(Net capital flows, billion USD)



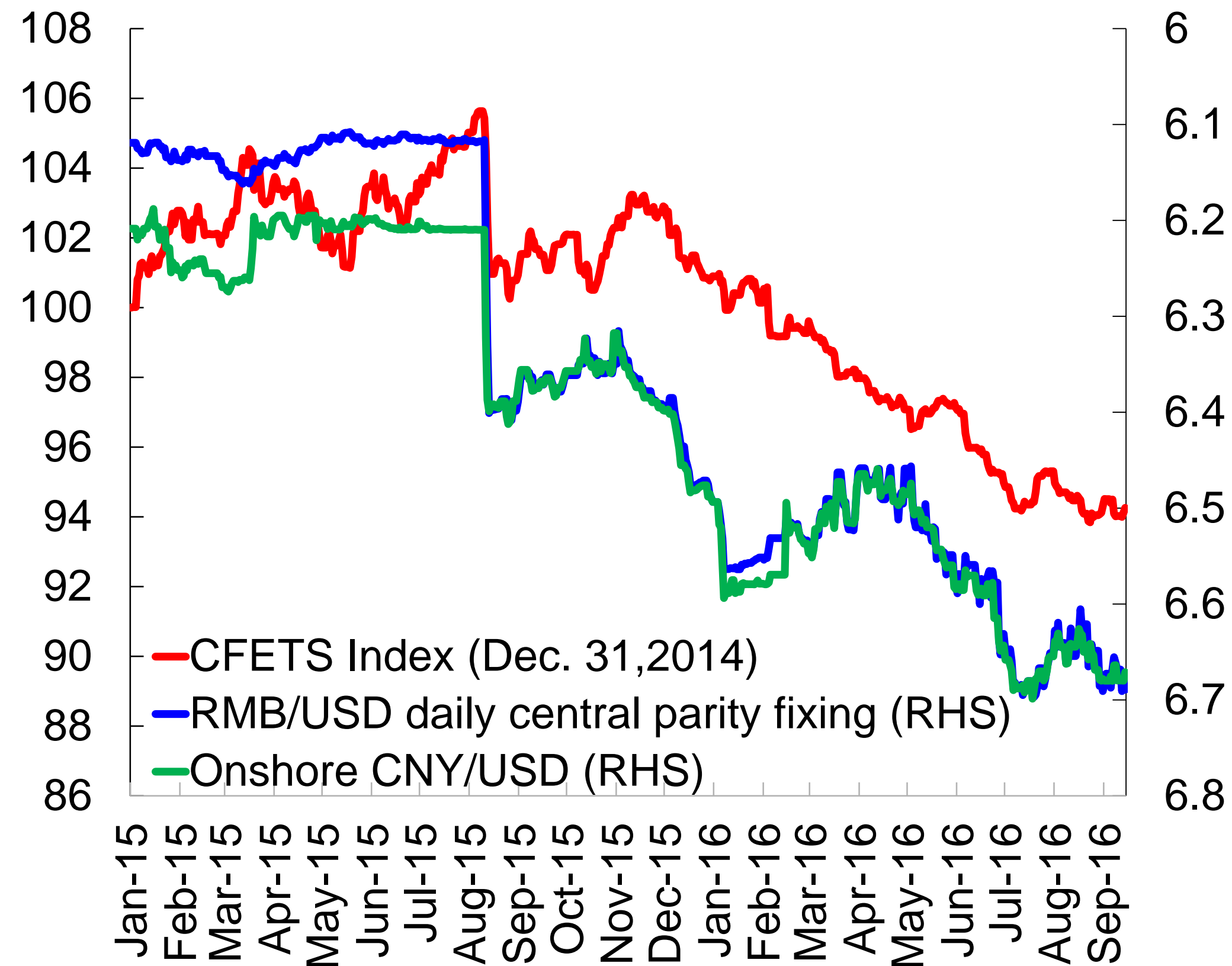
Spread between Onshore and Offshore exchange rates has narrowed



...even as the exchange rate has steadily depreciated

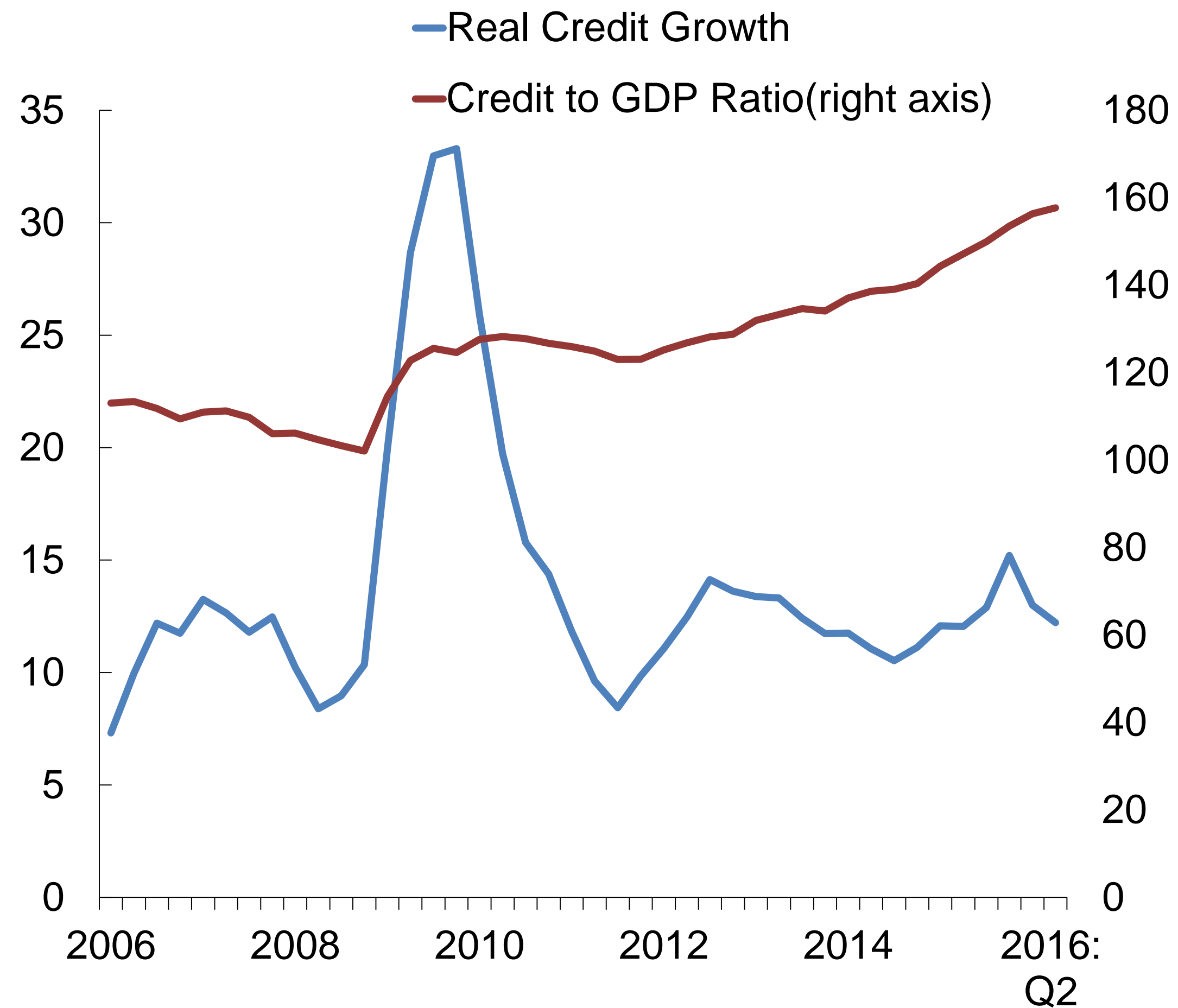
Daily Exchange Rate

(Jan. 1, 2015-today)



But vulnerabilities continue to accumulate with continued reliance on credit

Rising Dependence on Credit
(Percent)



Reinvigorate growth, improve its distribution, and make it durable

Continue 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



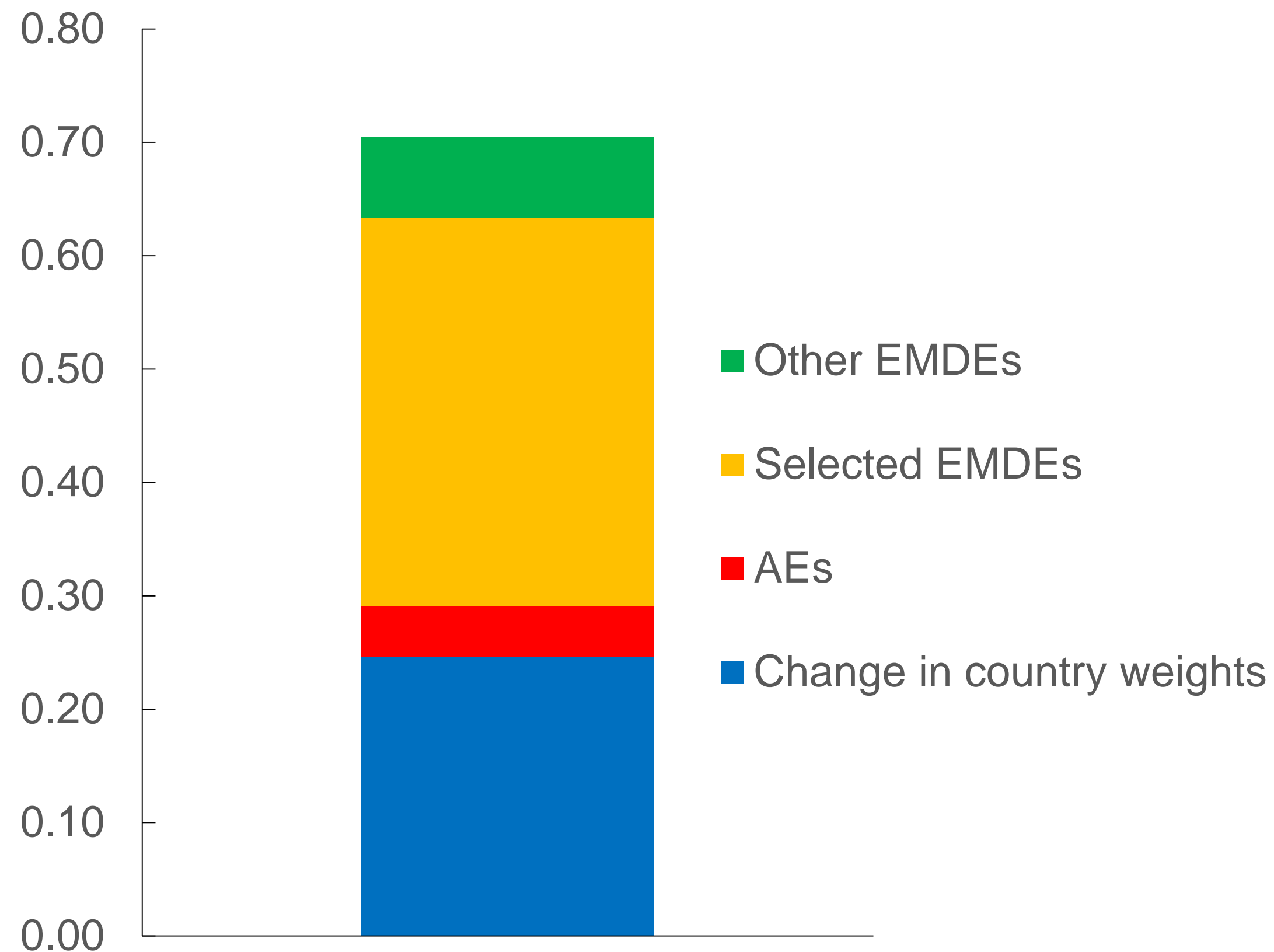
Thanks

Additional slides

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

Increase in World Growth

(Percentage points)



Source: IMF staff calculations.

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

- 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

Forecast for 2016-17

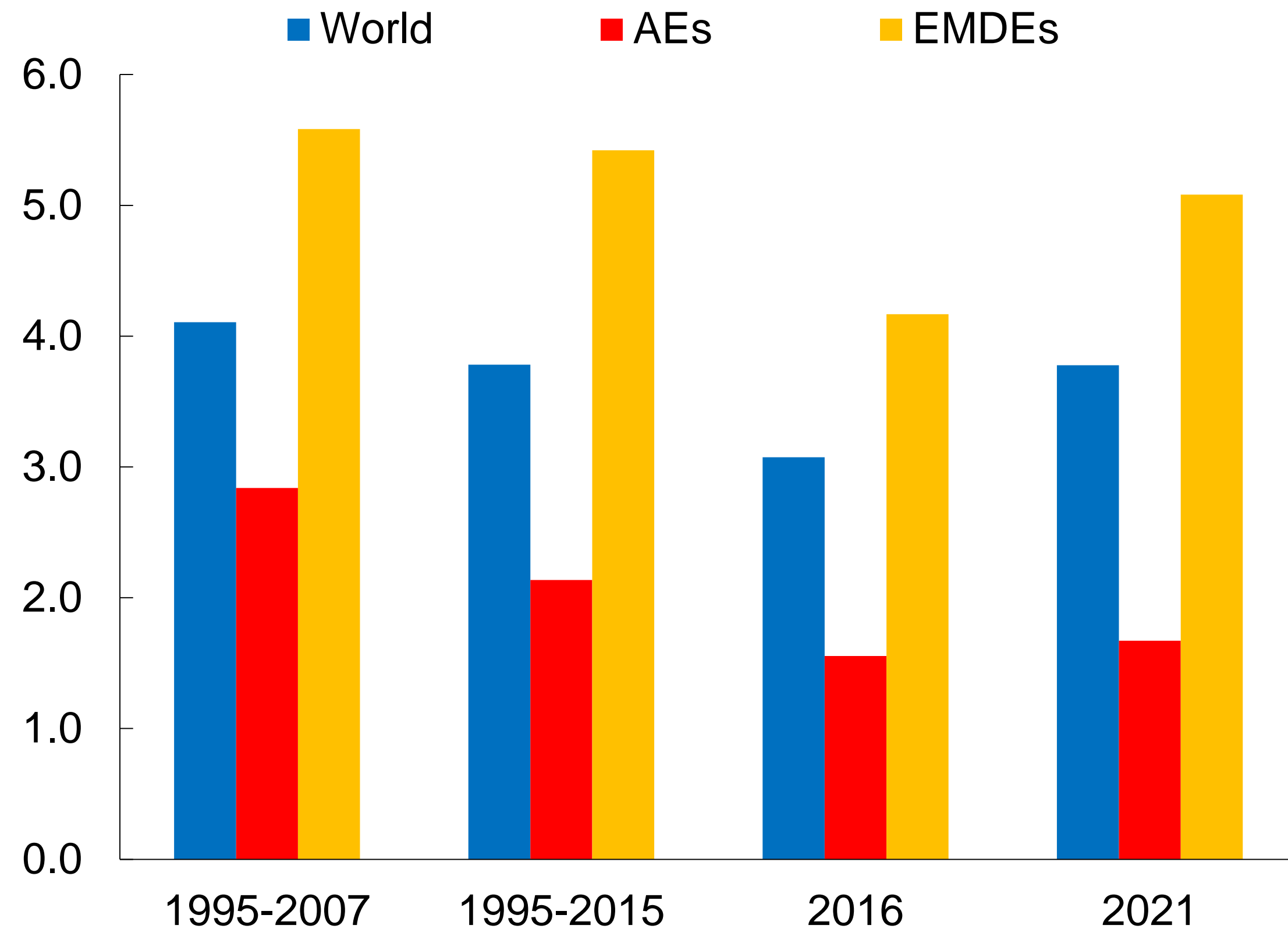
Subdued growth in 2016 followed by a recovery in 2017:

- **AEs:** Growth projected at 1.6 percent in 2016 and 1.8 percent in 2017, down from 2.1 in 2015
 - A weak second quarter in the United States
 - Impact of Brexit on the UK
- **EMDEs:** Slight improvement to 4.2 percent in 2016 (from 4.0 in 2015); a more meaningful pick up in 2017 (4.6 percent).
- Wide diversity in growth rates:
 - Conditions beginning to normalize in some stressed economies (Russia, Brazil)
 - Incipient or deepening recessions in others (Nigeria, Venezuela)
 - Continued fast growth in India, ASEAN, some economies in Sub-Saharan Africa

Shifting weights have an important bearing on the medium term global growth forecast

World GDP Growth

(Percent)



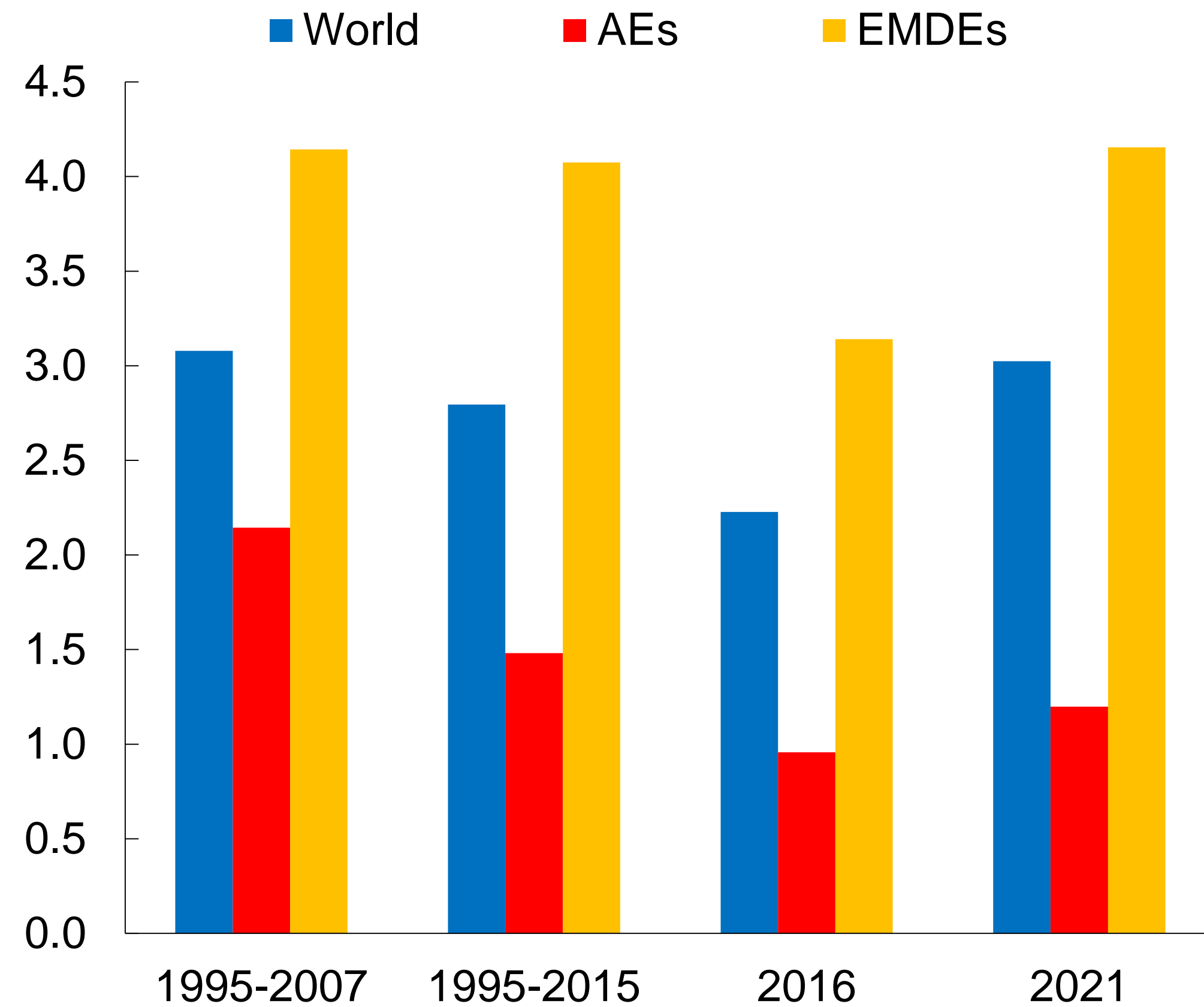
Source: IMF staff calculations.

- 2021 Real GDP growth is lower than its 1995-15 average for both AEs and EMDEs.
- But 2021 world growth is roughly equal to its 1995-2015 average, since the weight of faster-growing EMDEs has increased.

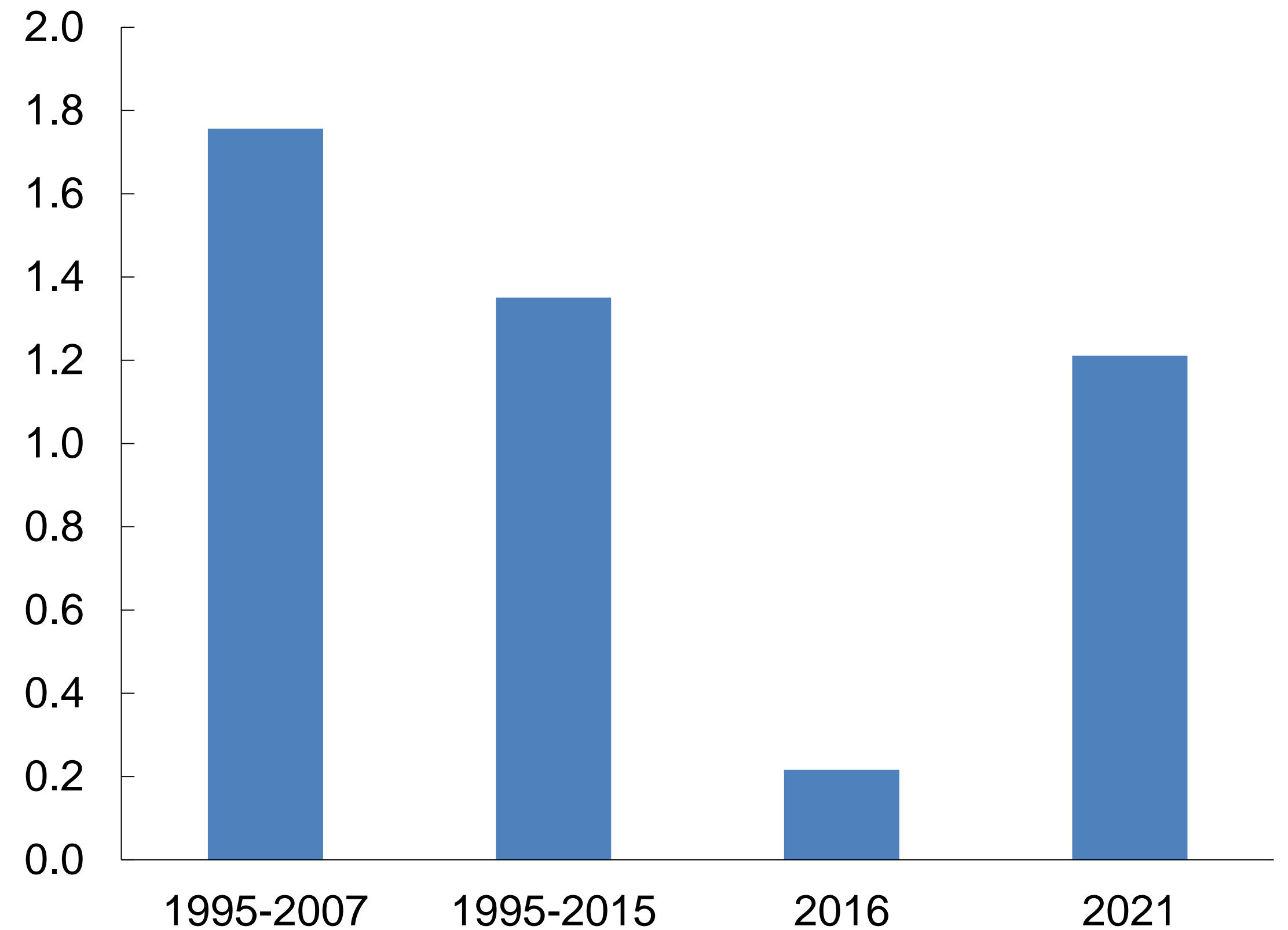
2016 growth unambiguously weak

2021 forecast broadly in line with past averages

World Growth in GDP per Capita
(Percent)



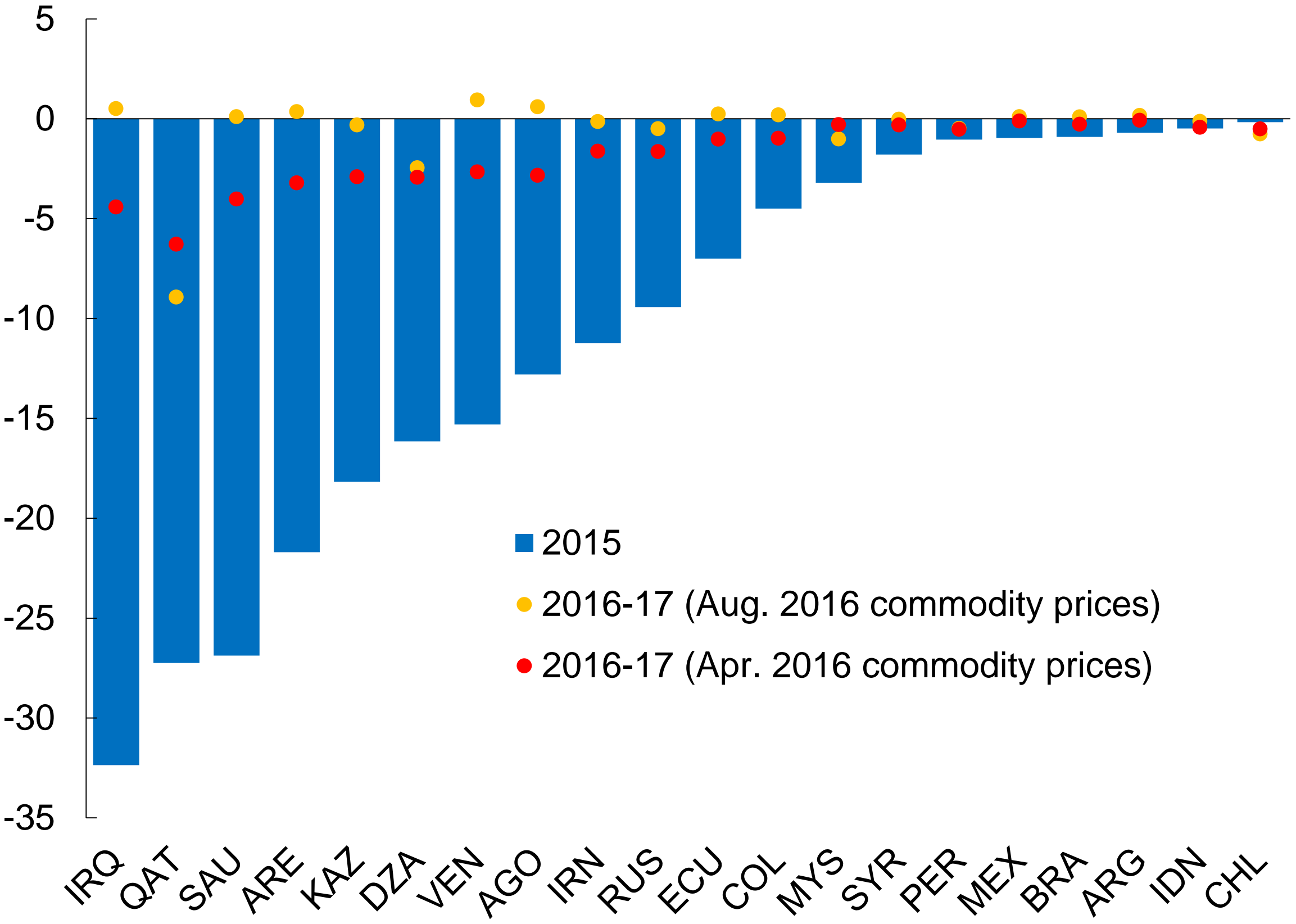
Growth in GDP per Worker in Advanced Economies
(Percent)



Winners and losers from lower commodity prices

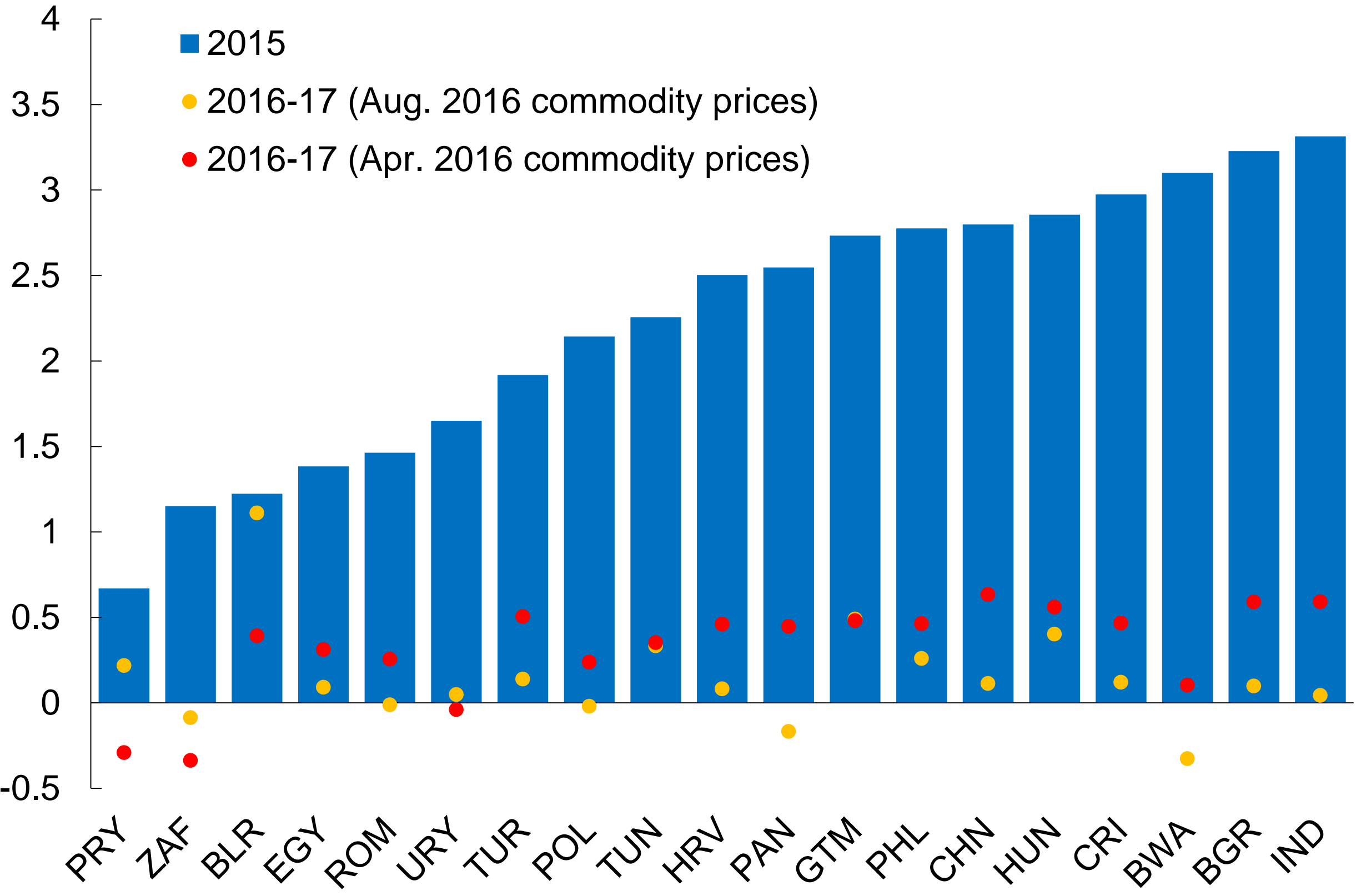
Terms-of-Trade Windfall Losses

(Percent of GDP)



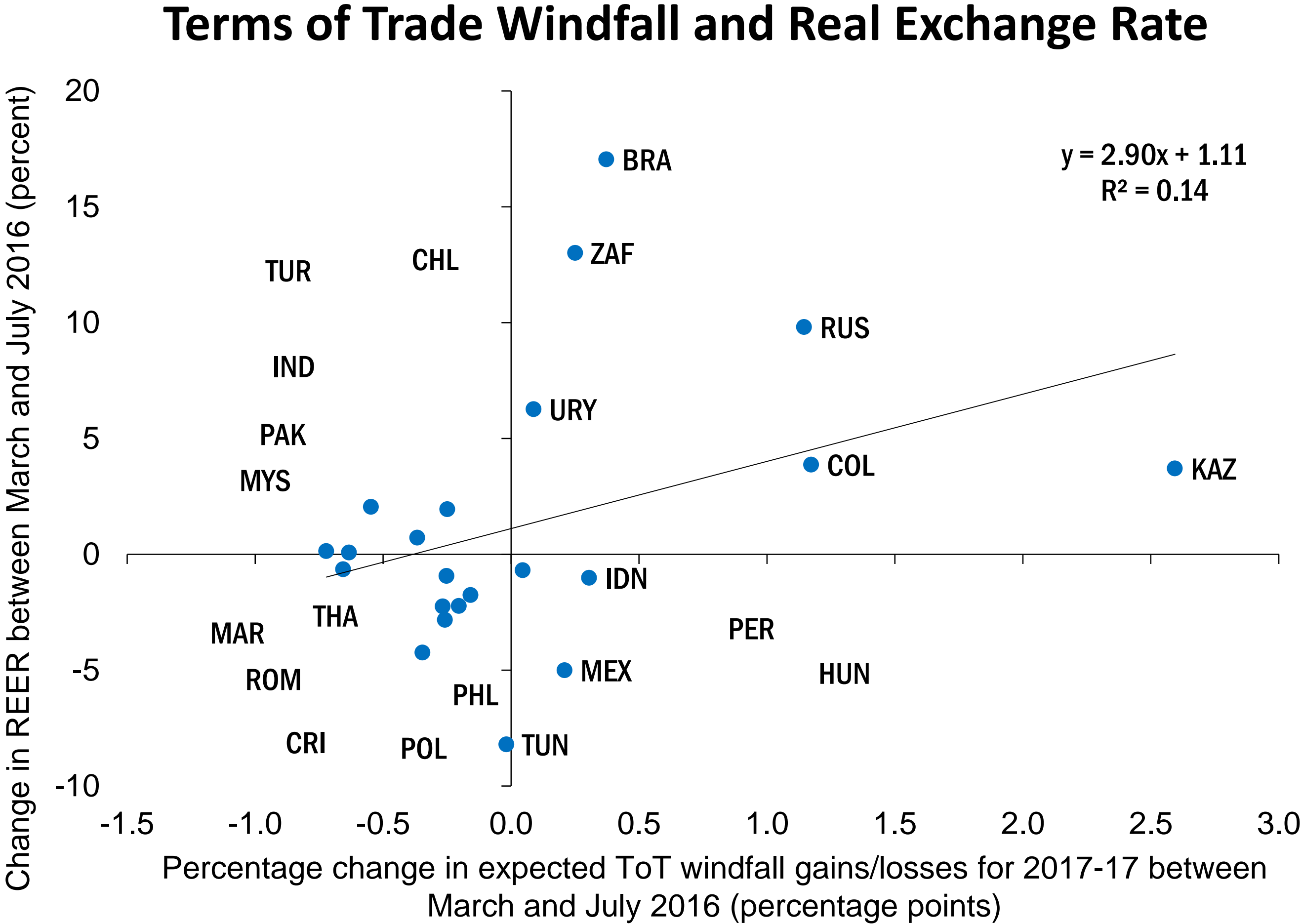
Terms-of-Trade Windfall Gains

(Percent of GDP)



Source: IMF staff estimates.

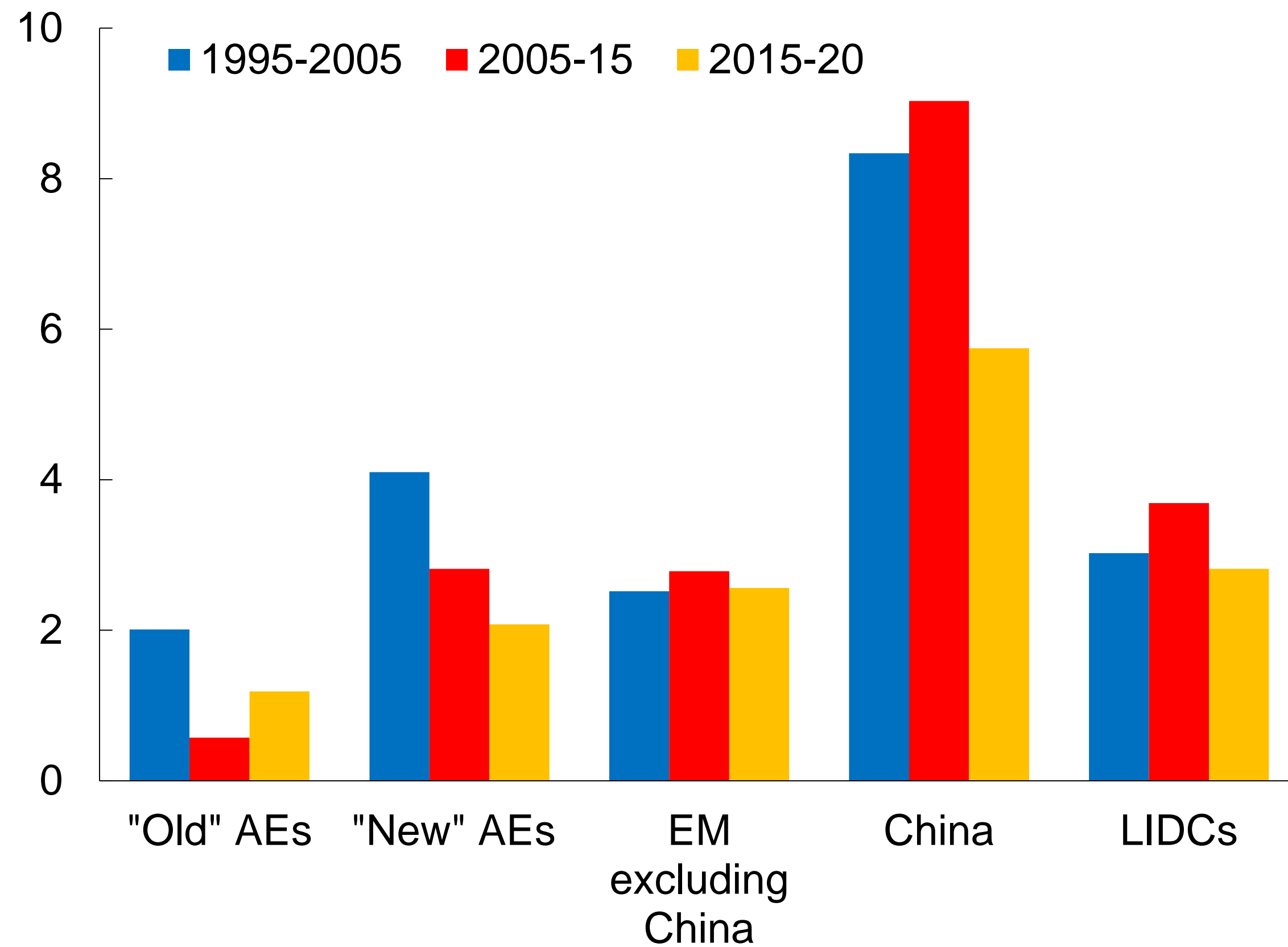
Exchange rate changes correlated with the terms of trade



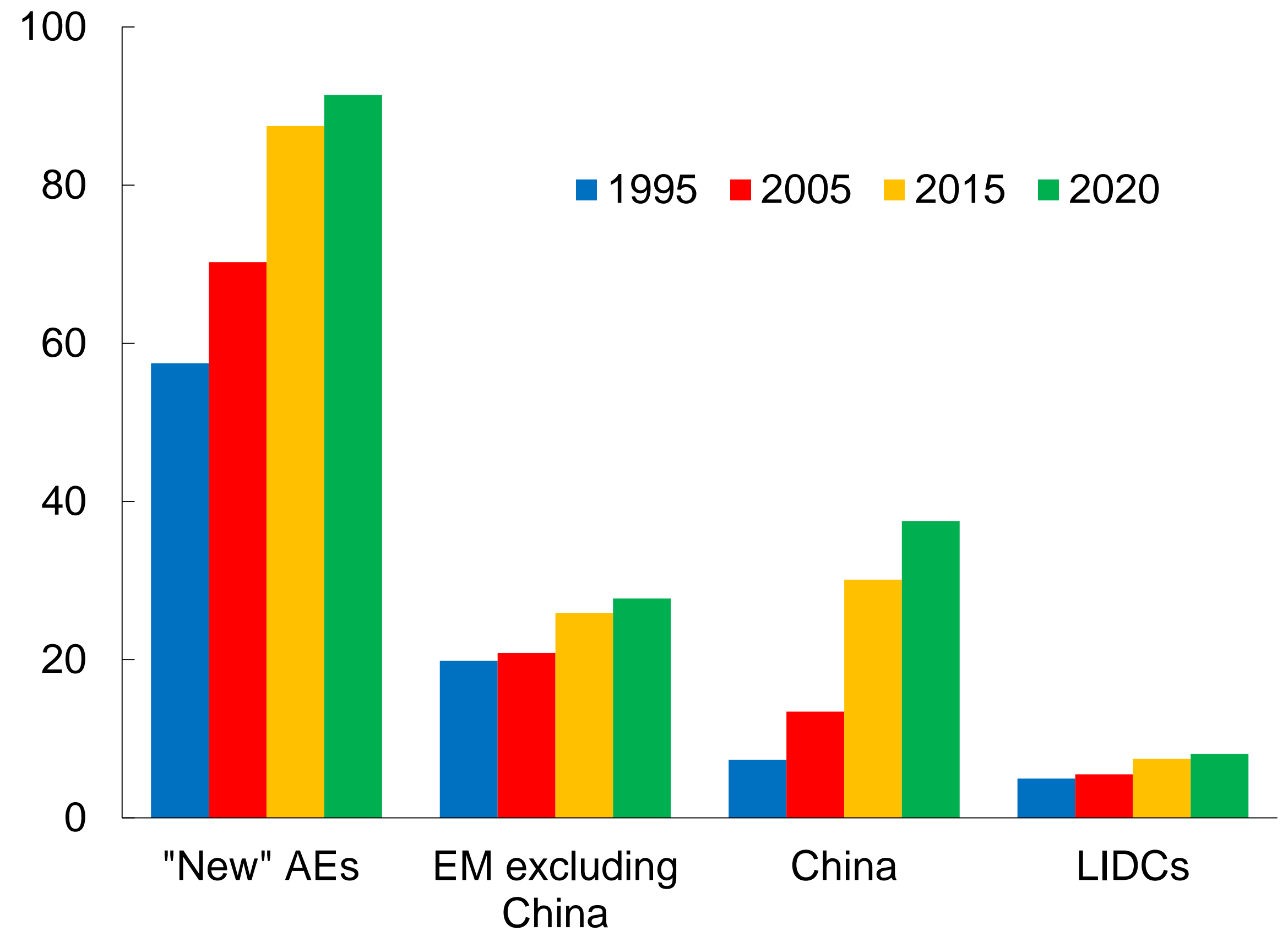
Source: IMF staff estimates.

EMDEs: Slower convergence

Growth in Real per Capita Income
(Percent)

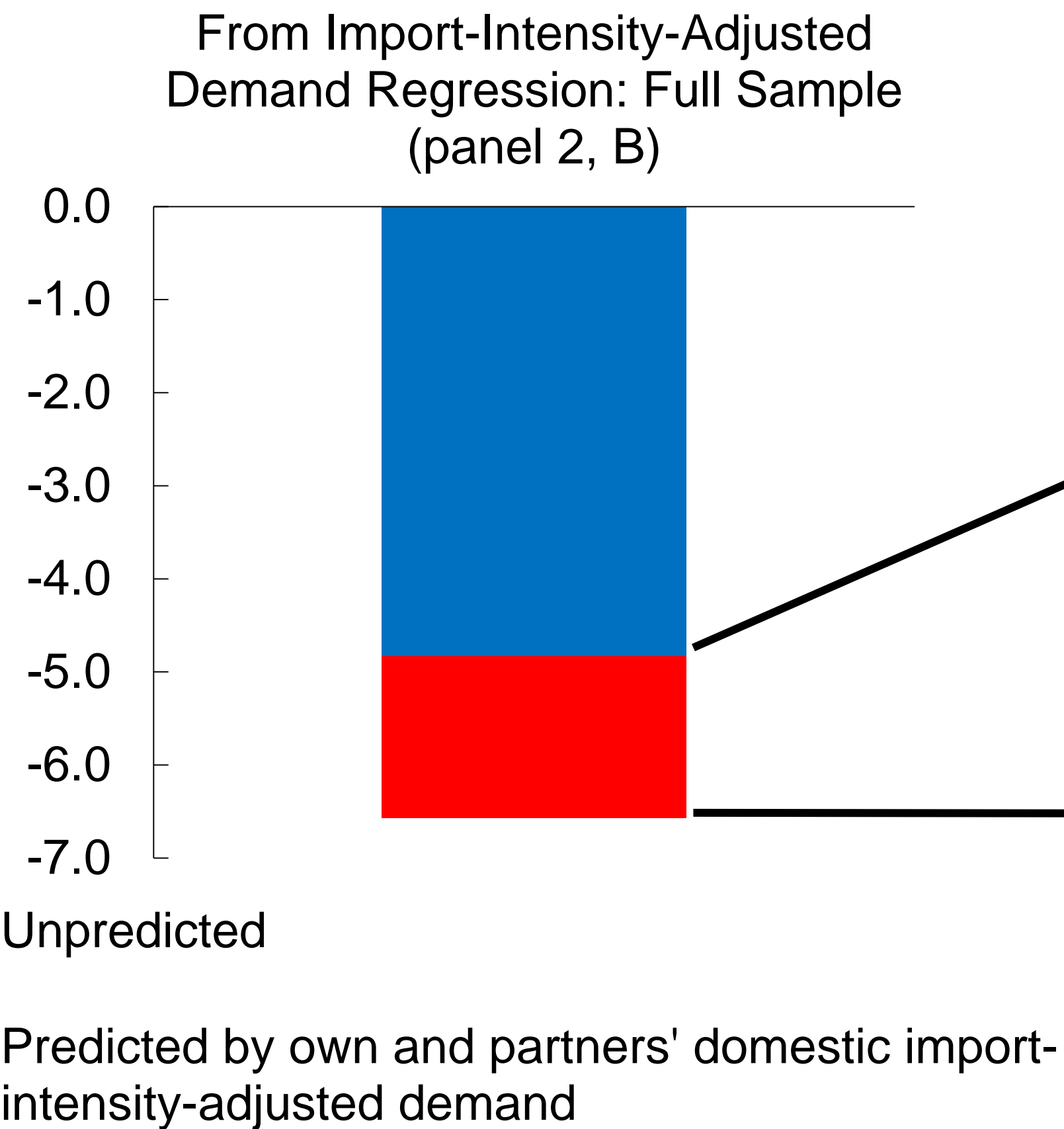


Real per Capita Income
(Percent of per capita income in "Old" AE)

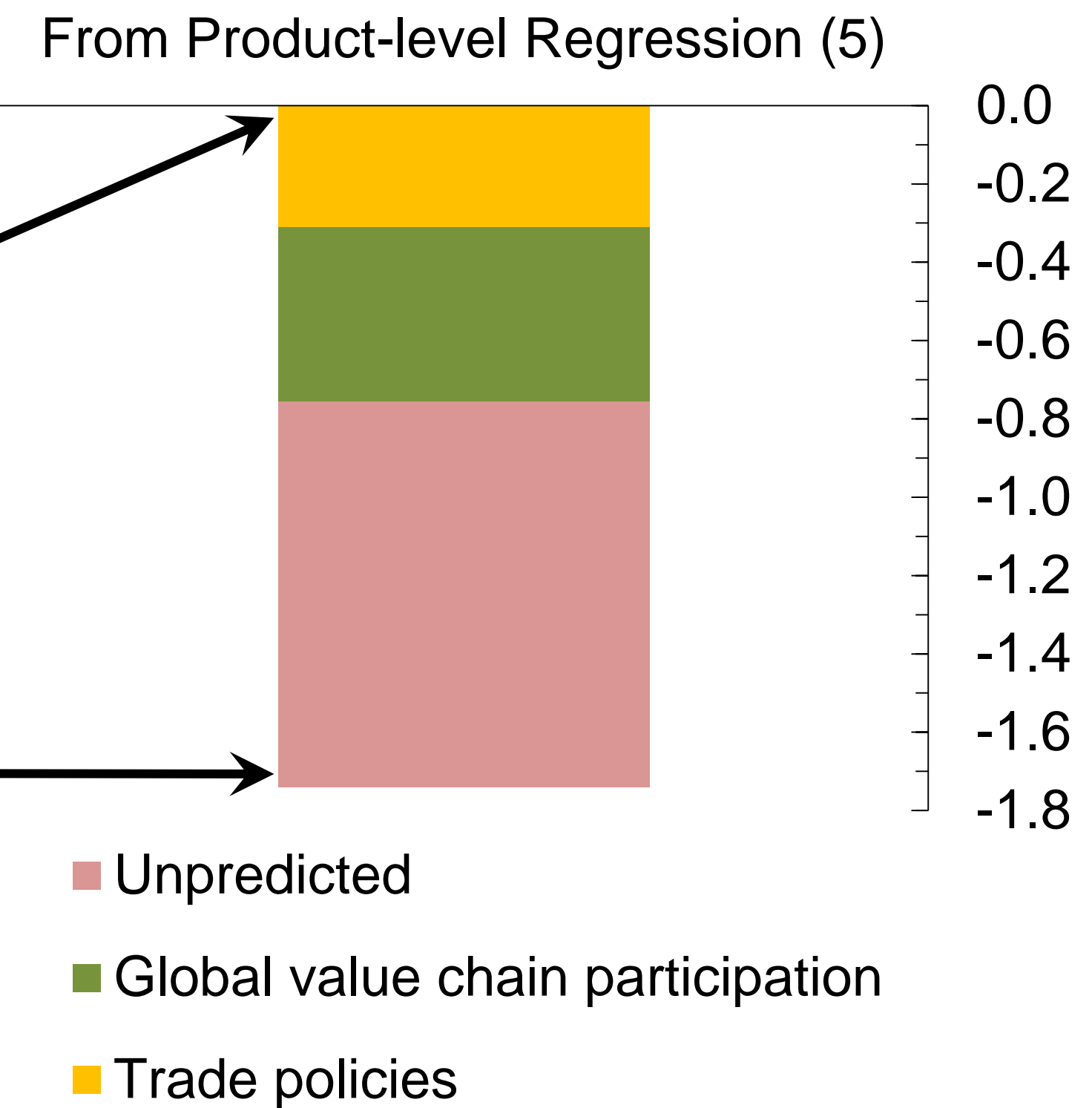


Decomposing the weakness in real goods imports growth

Contribution of Demand (Percent)



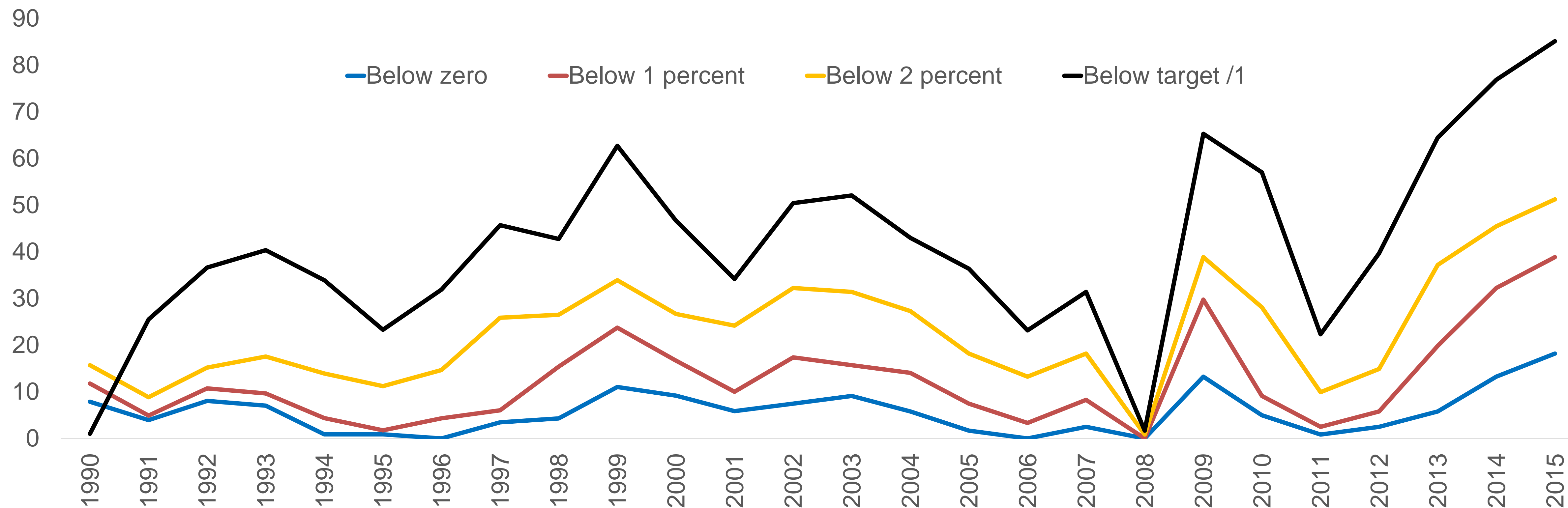
GVC Participation and Trade Policies (Percent)



Large share of countries with low inflation

Share of Countries with Low Inflation

(Percent)



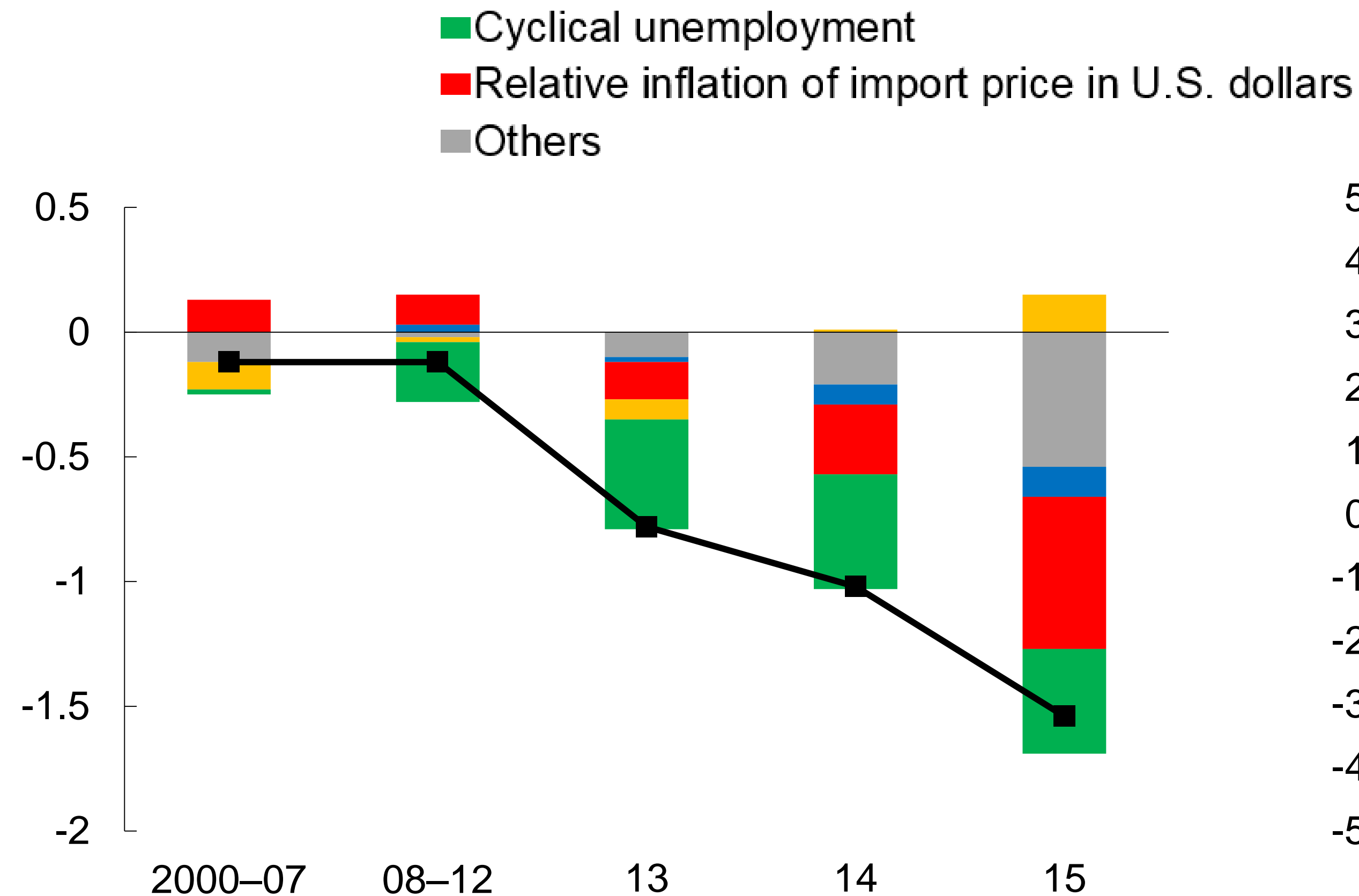
Sources: Consensus Economics; and IMF staff calculations.

Note: The figure is based on an unbalanced sample of 120 countries.

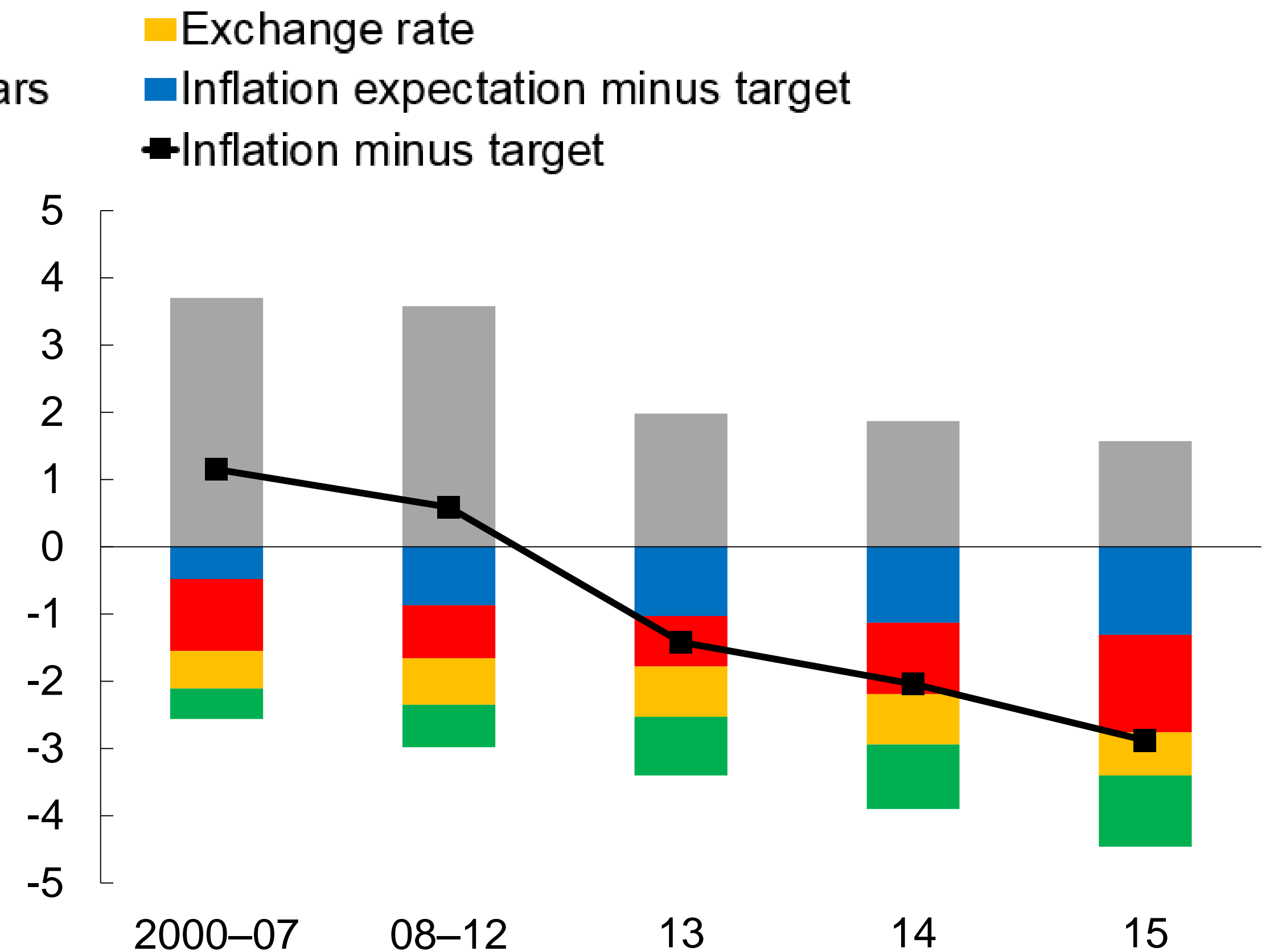
¹Target refers to long-term inflation expectations from Consensus Economics (10-year inflation expectations) or inflation forecasts from the World Economic Outlook database (5-year inflation expectations).

Disinflation in AEs and selected EMDEs

Advanced Economies (Percent)



Emerging Market Economies (Percent)

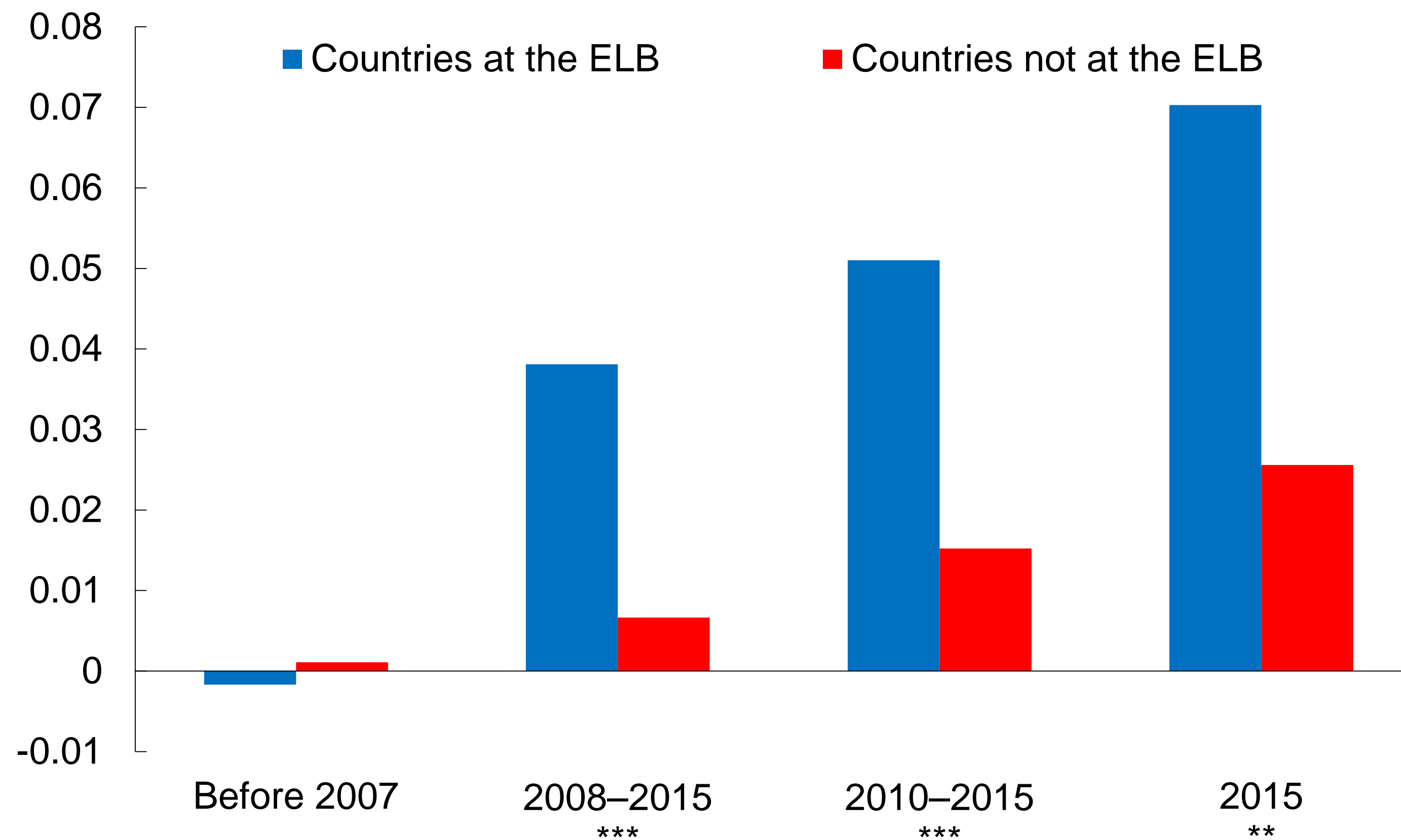


Sources: Consensus Economics; Haver Analytics; Organisation for Economic Cooperation and Development; and IMF staff calculations.

Note: Emerging Market Economies include those economies with inflation below long-term expectations in 2015: Bulgaria, China, Hungary, Malaysia, Mexico, Philippines, Poland, Romania, and Thailand.

Longer-term inflation expectations more sensitive to news once inflation approaches the ELB

Change in Sensitivity of Inflation Expectations to pre-2008 trend
(3 years ahead)



Source: Consensus Economics; Haver Analytics; and IMF staff calculations.

Note: ELB = effective lower bound. ***, **, * denote that the differences in the change in sensitivity of inflation expectations between countries at the ELB and the rest are significant at the 1, 5, and 10 percent confidence level, respectively, using Mood's median test.