

## Global Economy: The Big Picture

**Growth outlook**

- **Global growth:** Slowed in 2015, gradually recovering in 2016-17.
- **Emerging and developing countries:** Widespread disappointments in 2015, modest pickup in 2016-17.
- **Backdrop:** Lower commodity prices and capital flows, and weak global trade.
- **Amplifying factors:** Deteriorating potential growth and adverse spillovers from large emerging markets.

**Risks**

- **Sharper slowdown in large emerging markets:** Substantial effects on others.
- **Financial market turbulence:** Rising borrowing costs, heightened risk aversion, currency pressures and lingering vulnerabilities.
- **Geopolitical risks:** Terrorist attacks and escalating geopolitical tensions.

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## Four Questions

### 1. How is the health of the global economy?

*Gradually healing but still fragile. Growth slowed in 2015, moderate acceleration in 2016*

### 2. Who catches a cold when major emerging markets sneeze?

*Other emerging and frontier markets; modest spillovers to major advanced economies*

### 3. What are the major risks?

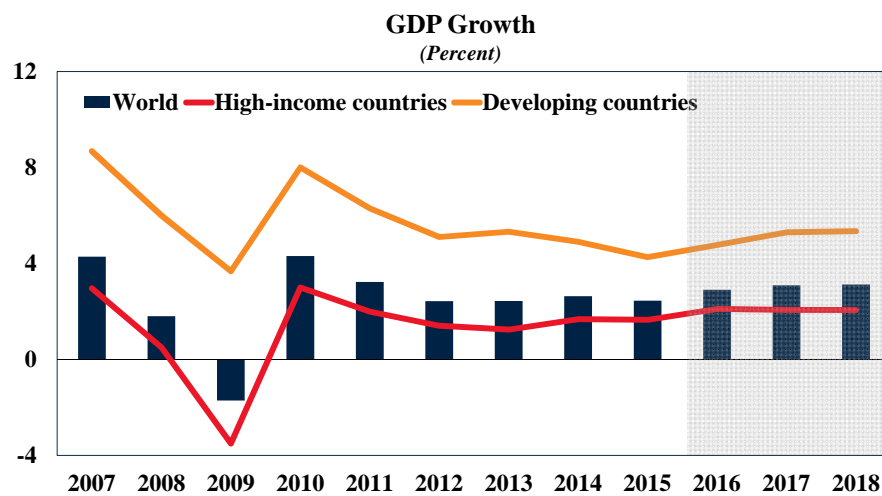
*Slowdown in large emerging markets, financial market turbulence, geopolitical risks*

### 4. What are the main policy challenges?

*Limited space for cyclical stimulus; need for structural reforms*

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## Global Growth: Slower Growth in 2015



Source: World Bank.

Note: Several countries were reclassified from middle-income to high-income country status in 2015, including Argentina, Hungary, and Venezuela.<sup>4</sup> All series have been adjusted to ensure a constant sample according to current income status.

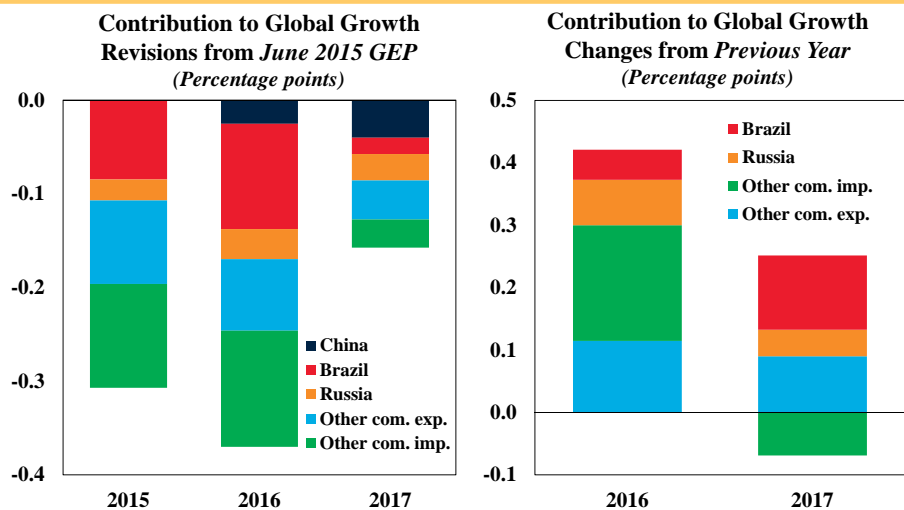
## Global and Regional Forecasts: *Modest Pickup in 2016-17*

	GDP Growth (Percent)				Change from June		
	Current forecast						
	2014	2015	2016	2017	2015	2016	2017
<b>World</b>	2.6	2.4	2.9	3.1	-0.4	-0.4	-0.1
<b>High-income countries</b>	1.7	1.6	2.1	2.1	-0.3	-0.2	-0.1
<b>Developing countries</b>	4.9	4.3	4.8	5.3	-0.4	-0.6	-0.2
East Asia and Pacific	6.8	6.4	6.3	6.2	-0.3	-0.4	-0.4
Europe and Central Asia	2.3	2.1	3.0	3.5	0.3	-0.4	-0.2
Latin America and Caribbean	1.5	-0.7	0.1	2.3	-1.5	-2.3	-0.6
Middle East and North Africa	2.5	2.5	5.1	5.8	0.1	1.4	2.0
South Asia	6.8	7.0	7.3	7.5	-0.1	0.0	0.0
Sub-Saharan Africa	4.6	3.4	4.2	4.7	-0.8	-0.3	-0.3

Source: World Bank.

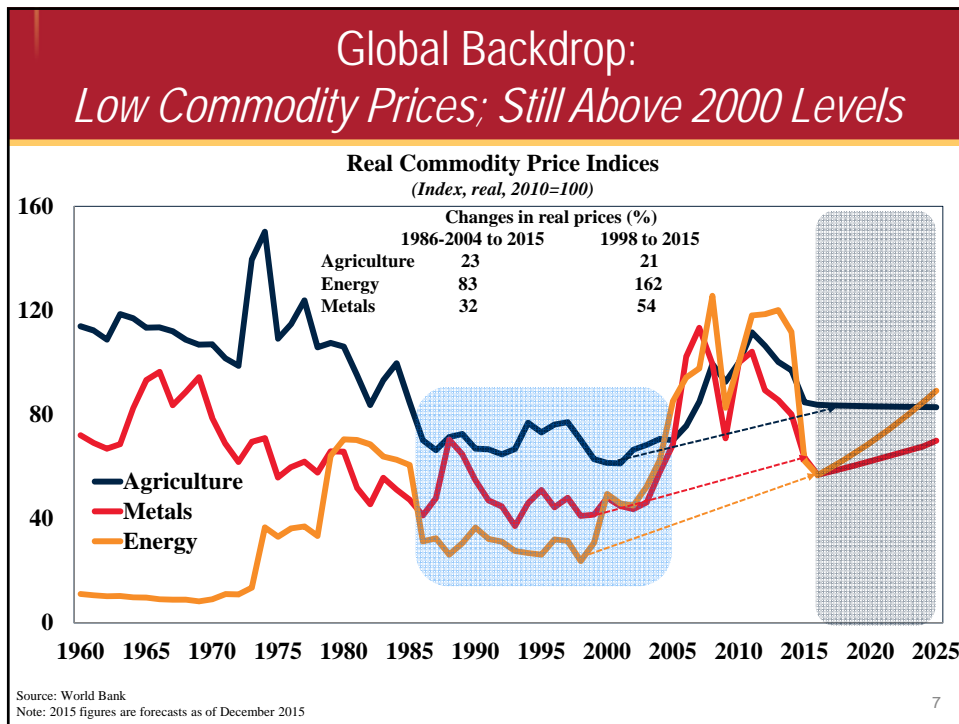
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## Global Growth Outlook: *Changes Driven by Large Emerging Markets*



Source: World Bank.

Left panel: Contribution of all countries to revisions to global growth between June 2015 Global Economic Prospects and January 2016 Global Economic Prospects. Cumulated contributions from individual country growth revisions can differ from global growth revisions reported in Table 1.1 due to rounding effects. Right panel: Contribution of all countries to changes in global growth from the previous year.

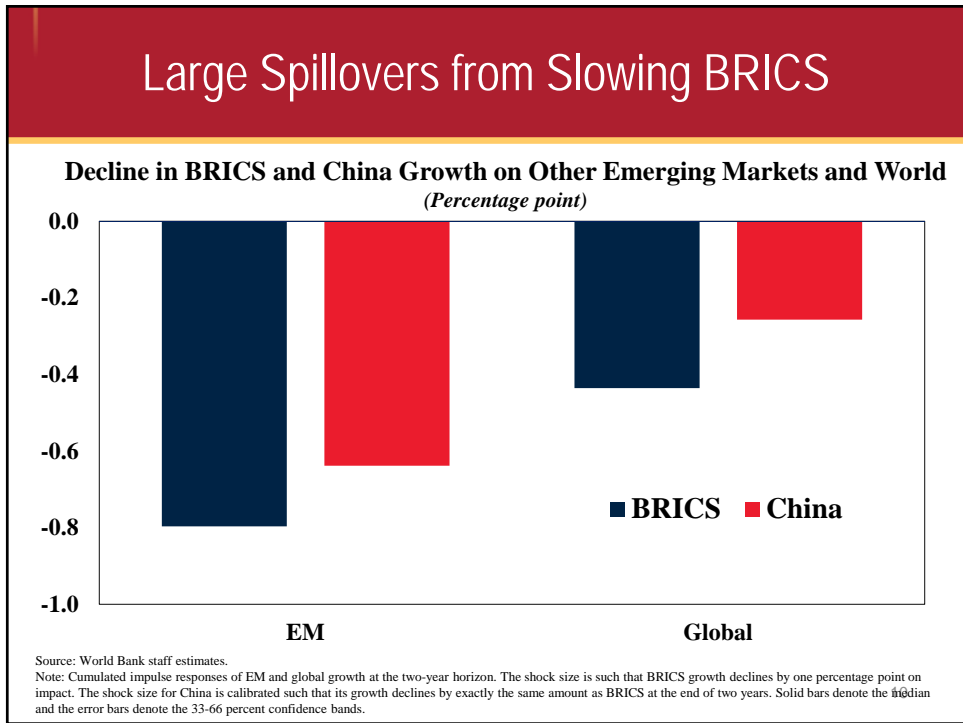
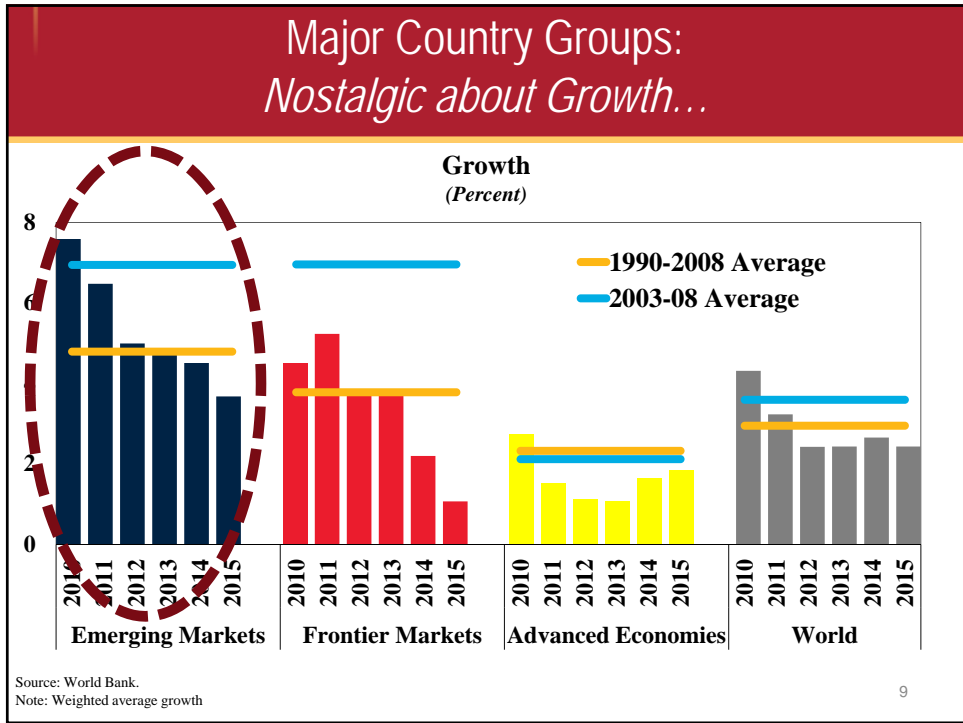


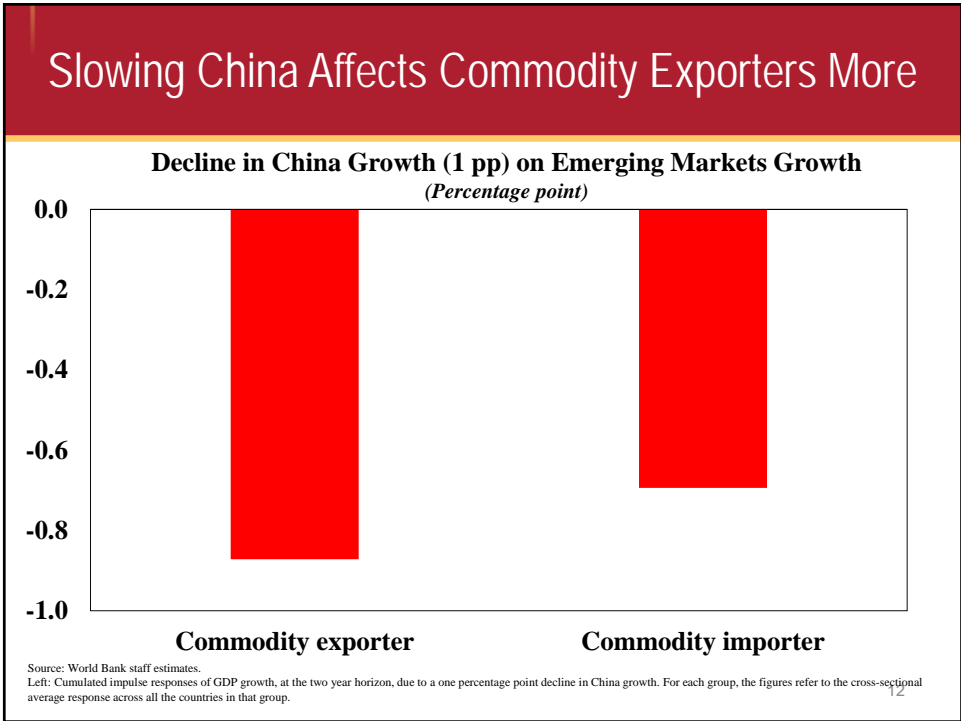
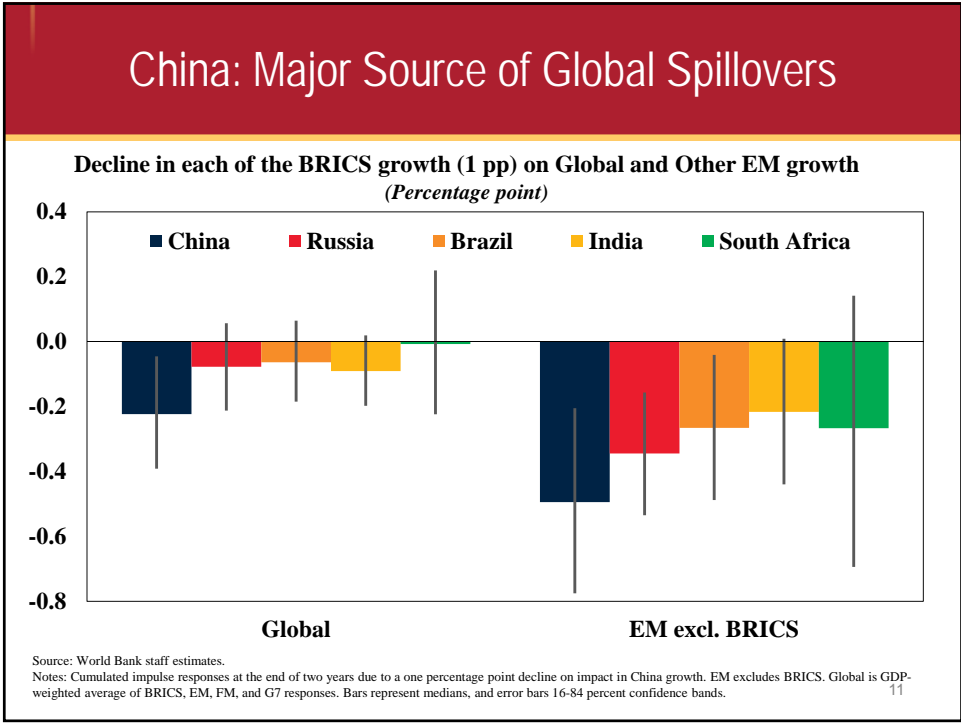
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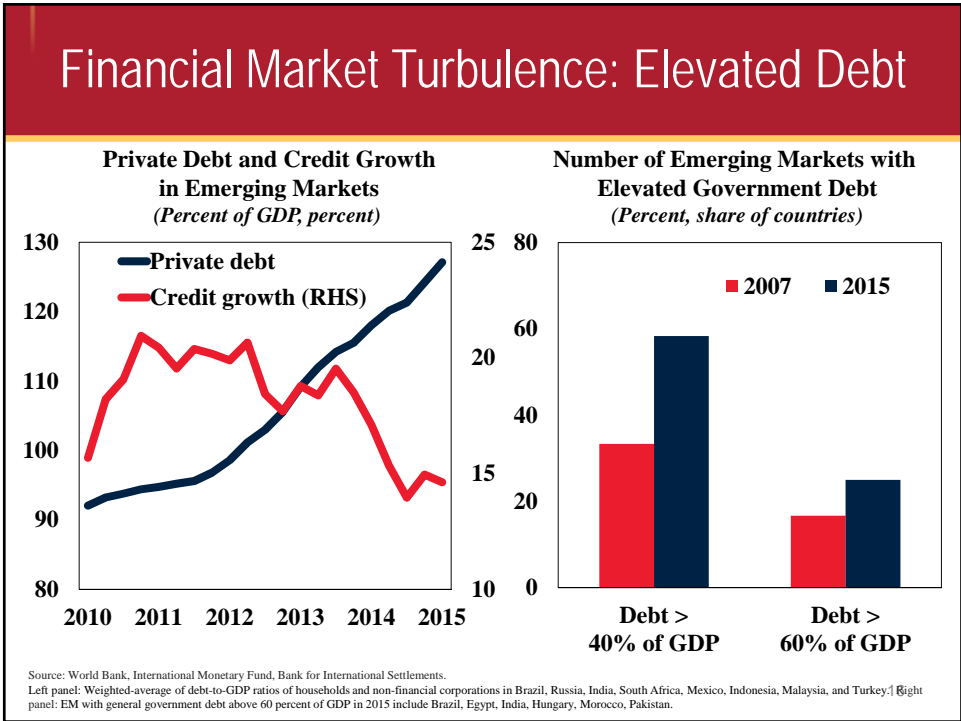
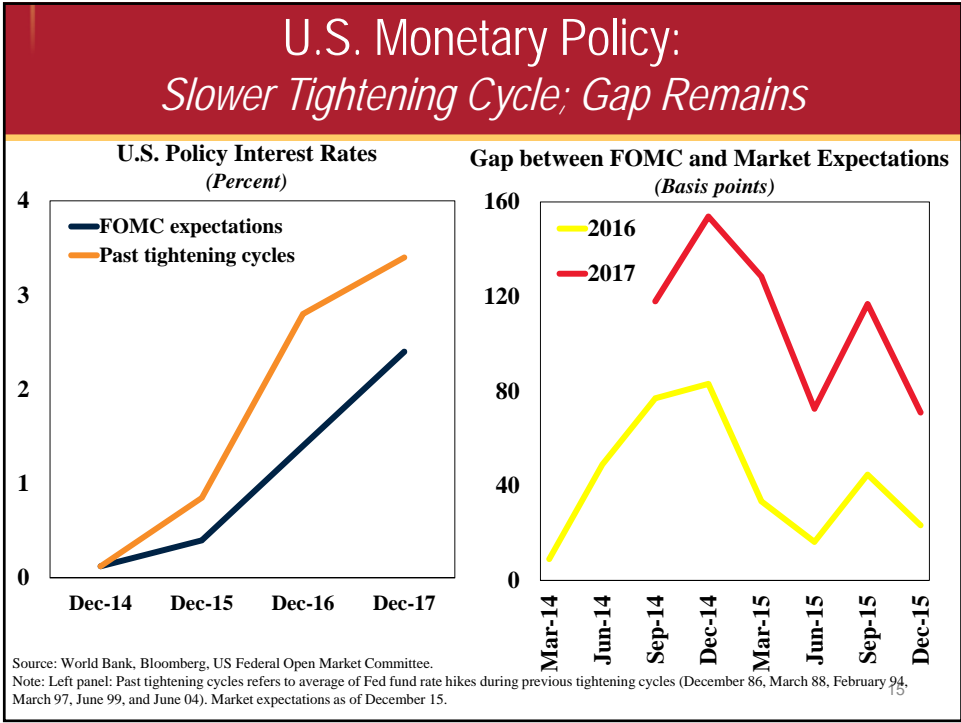
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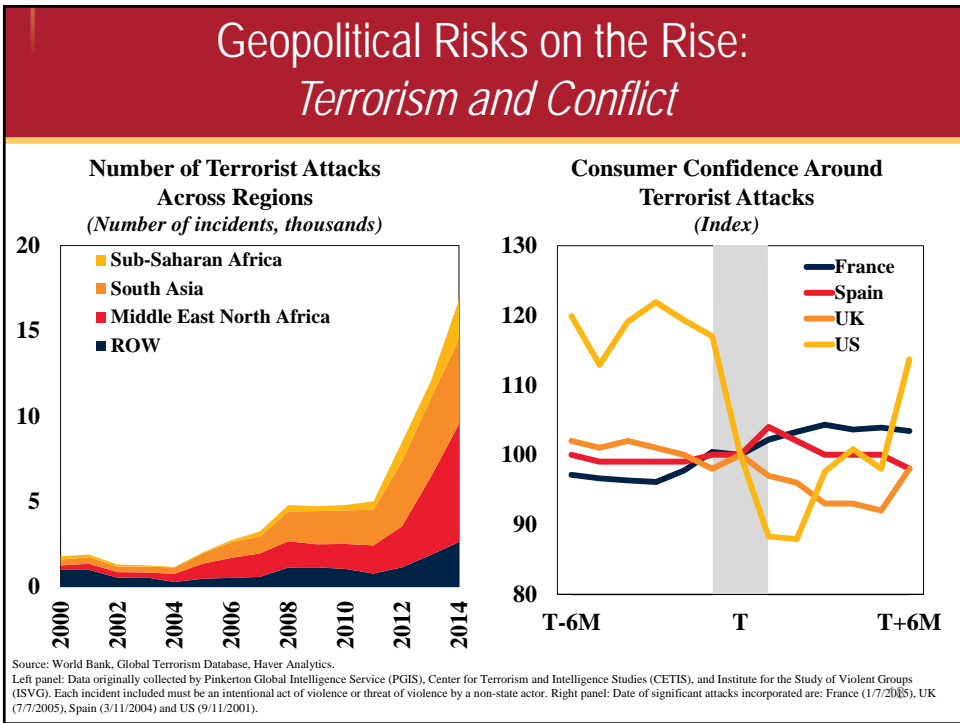
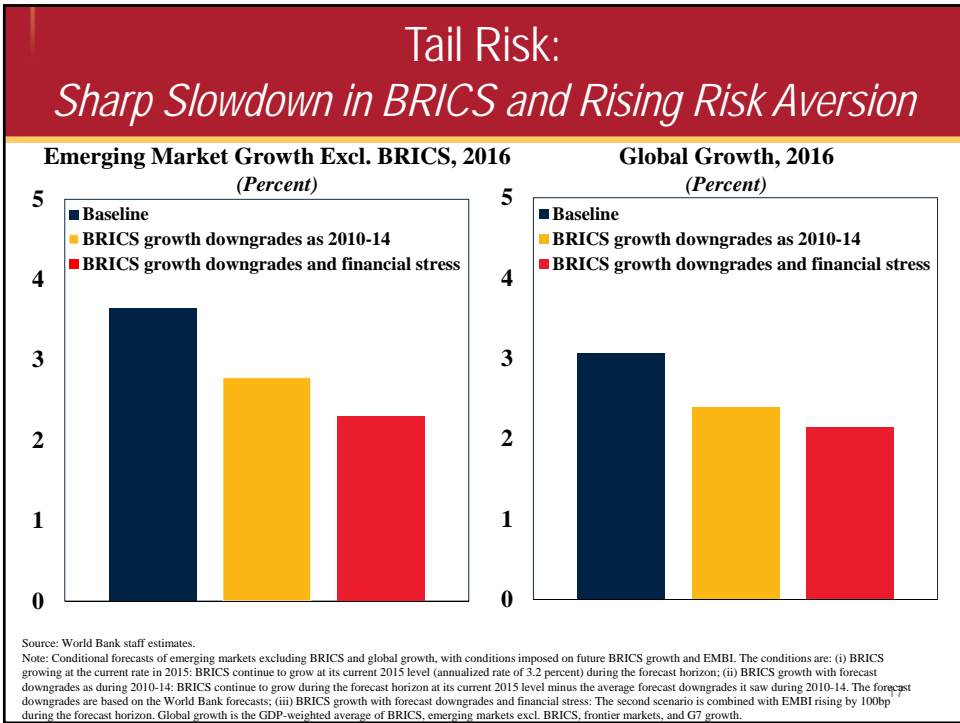
## Downside Risks: Old and New

- Sharper slowdown in large emerging markets
- Financial market turbulence:
  - *Possible triggers:* Rising U.S. interest rates / U.S. dollar appreciation, heightened risk aversion, fragile liquidity conditions and deteriorating creditworthiness.
  - *Impact:* Slowing capital flows and risk of sudden stops.
- Tail risk (*a perfect storm?*):
  - *Sharper slowdown in large emerging markets combined with financial turbulence*
- Geopolitical risks:
  - *Terrorist attacks:* Limited effects of isolated events so far but potentially large effects possible.
  - *Geopolitical tensions:* Regional and global repercussions.
  - *Refugee crisis:* Regional repercussions.

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## Policy Challenges: *Limited Cyclical Space; Urgency of Reforms*

### Monetary policy, exchange rate and capital flows

- **Capital flow and currency pressures:** *Complicate the attainment of domestic policy objectives.*
- **Priority:** *Credible commitment to price and financial stability.*
- **Challenge:** *Limited space. Decoupling monetary policy from the U.S. Fed?*

### Fiscal policy

- **Commodity importers:** *Depleted fiscal buffers.*
- **Commodity exporters:** *Significant pressure on revenues.*
- **Challenge:** *Limited space. Availability and effectiveness of fiscal policy?*

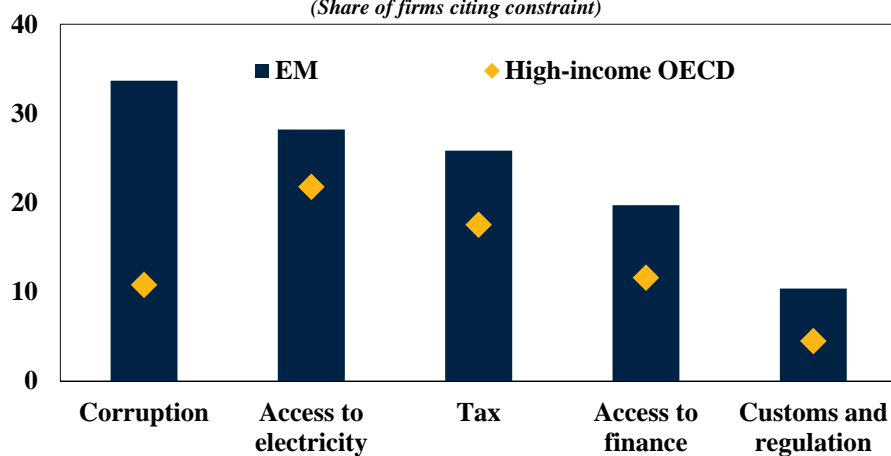
### Structural policy

- **Reforms:** *Key priority in slow growth environment.*
- **Challenge:** *Appetite for reforms?*

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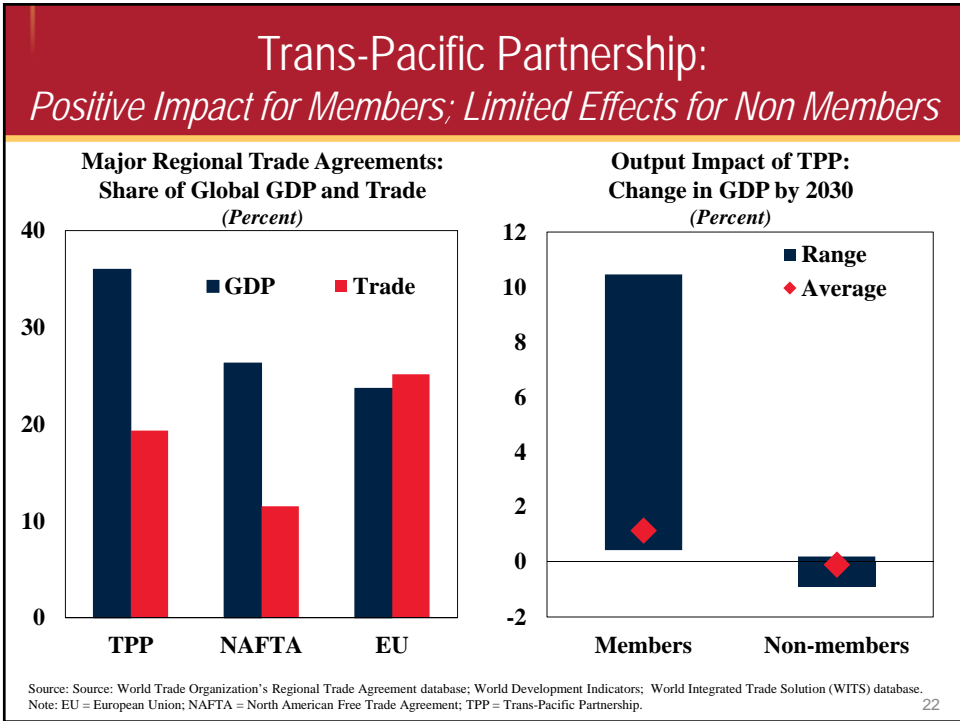
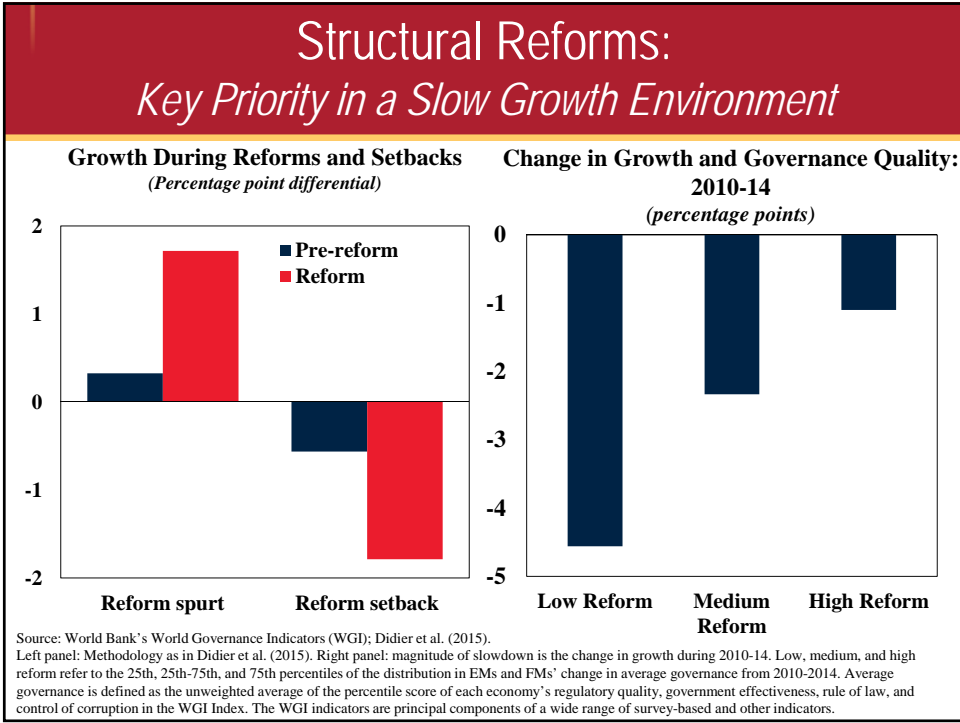
## Widespread Growth Bottlenecks: *Need for Structural Reforms*

**Major Constraints to Firm Activities**  
(Share of firms citing constraint)



Sources: World Bank Enterprise Surveys, OECD Product Market Regulations index.

Note: Left panel: for each indicator, bars show the EM/FM average of the country-specific percentage of firms citing that indicator as a major constraint. Each diamond shows that indicator for high-income OECD economies. EM: Malaysia, Thailand, Qatar, Saudi Arabia, South Africa, and the United Arab Emirates are not available. Right panel: restrictiveness of product market regulations measured by surveys on barriers to entrepreneurship, barriers to trade and investment, and state control. The index ranges from 1 to 6, where 1=least restrictive and 6=most restrictive. Among AE, data are not available for Hong Kong, Malta, Singapore, and the U.S. The latest available data is for the year 2013.



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*Questions & Comments  
Thanks!*

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## Global Economic Prospects – January 2016: *Spillovers amid Weak Growth*

- **Chapter 1:** Disappointments, Risks, and Spillovers
  - Special LIC Focus: From Commodity Discovery to Production
- **Chapter 2:** Regional Outlooks and Regional Spillovers from Emerging Markets
- **Chapter 3:** Who Catches a Cold When Emerging Markets Sneeze?
- **Chapter 4:** Two Topical Policy Issues
  - Potential Macroeconomic Implications of TPP
  - Currency and Capital Account Policies

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