



**Asia-Pacific
Economic Cooperation**

2015/SOM1/EC/028

Agenda Item: 7

World Economic Outlook Update: Cross Currents


Purpose: Information
Submitted by: IMF



APEC
PHILIPPINES
2 0 1 5

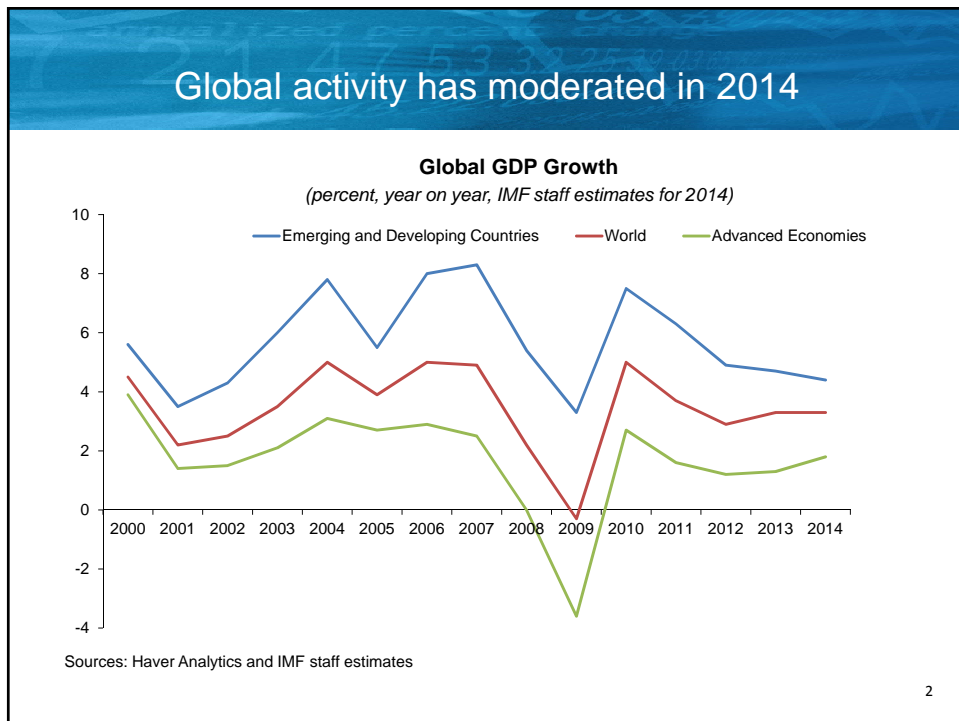
**First Economic Committee Meeting
Clark, Philippines
4-5 February 2015**

World Economic Outlook Update: Cross Currents



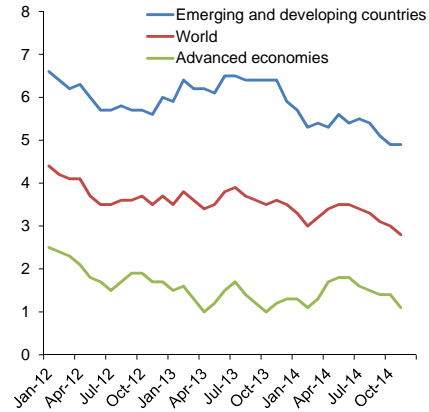
Shanaka J. Peiris
IMF Resident Representative to the
Philippines

Feb. 4, 2015



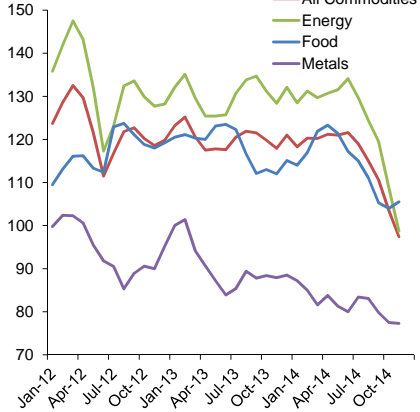
Inflation pressures are easing

Headline Inflation
(percent year-on-year)



Source: Haver Analytics

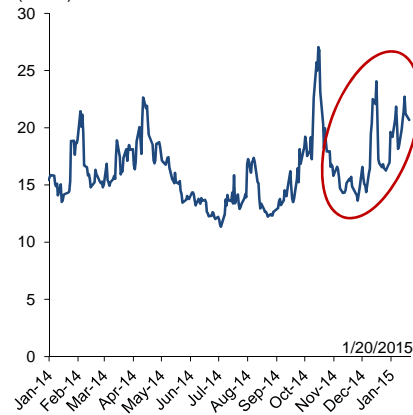
Commodity Price Index
(Index, 2010=100)



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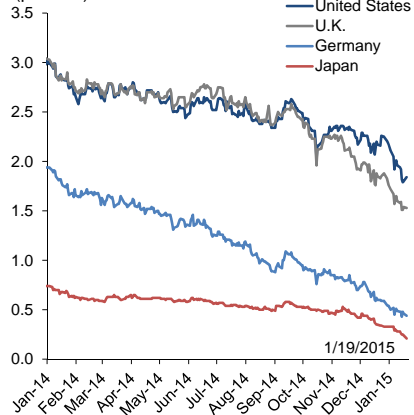
Financial market volatility is returning...

CBOE NASDAQ Volatility Index (VIX)
(index)



Source: Haver Analytics

Government Bond Yields
(percent)

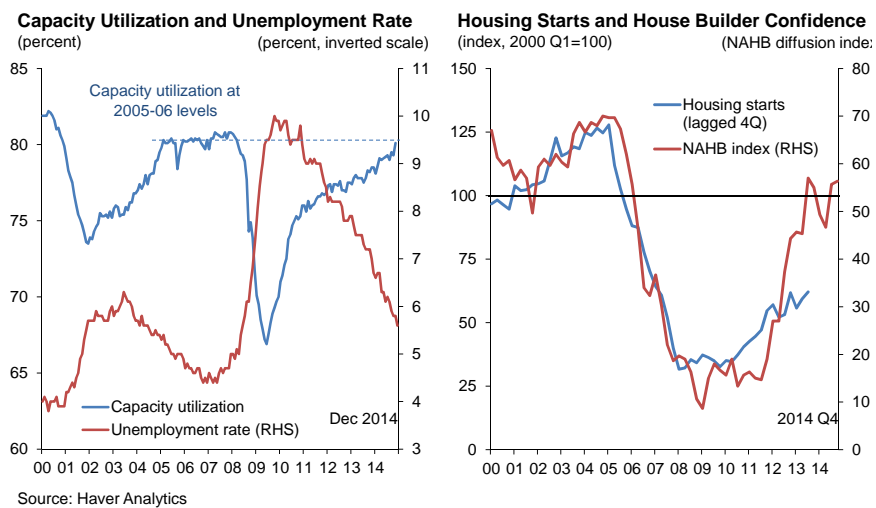


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Developments in the U.S., Euro Area, China

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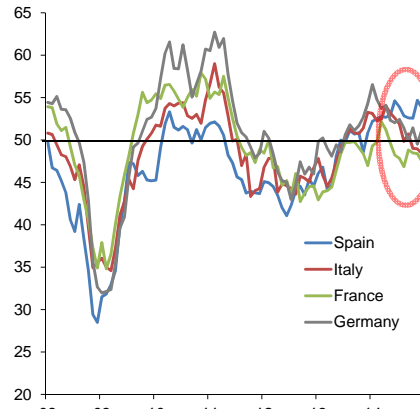
U.S.: A Solid Recovery, Closer to Full Capacity



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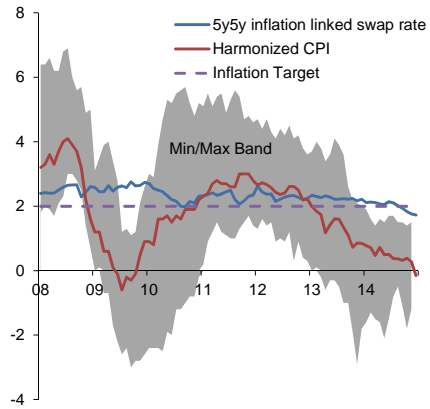
Euro Area: Low Growth, Low Inflation

Manufacturing PMI
(index, above 50=expansion)



Source: Haver Analytics and IMF staff estimates

Inflation and Inflation Expectations*
(percent year-on-year)

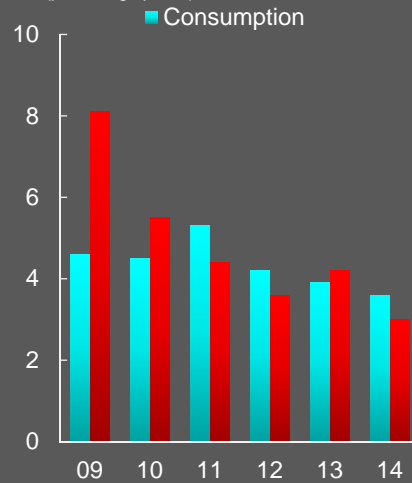


Note: Figure reports euro area aggregate, and maximum and minimum of euro area economies. Data for the maximum and minimum is only available through November 2014

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China: Internal Rebalancing

Contribution to GDP Growth 1/
(percentage points)



Share of Gross Value Added 1/
(percent of GDP)



Sources: Haver Analytics; and National Bureau of Statistics of China.
1/ 2014 observations represent the 2014Q3 data.

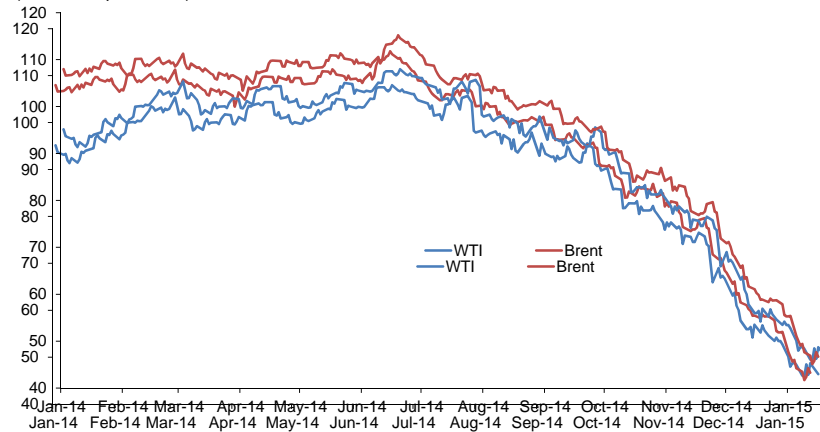
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The Decline in the Price of Oil

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Decline in the oil prices

Oil Prices
(US Dollar per barrel)



Source: Haver Analytics

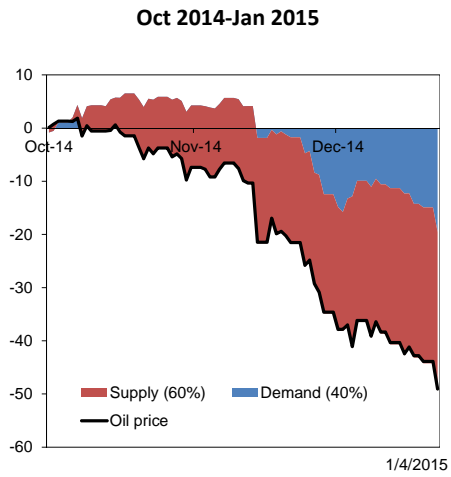
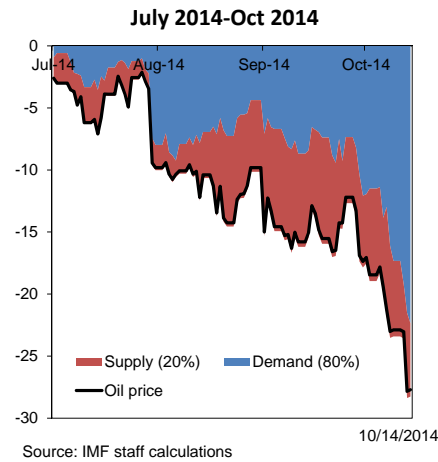
1/20/2015

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Fall in Oil Prices: Supply or Demand?

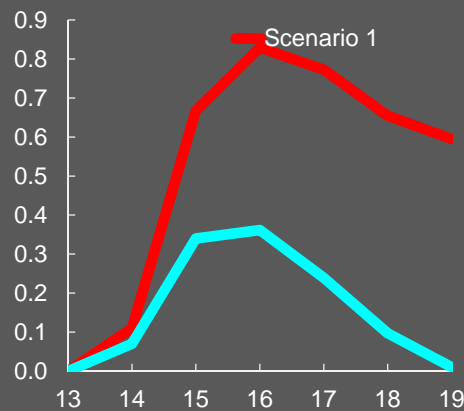
Drivers of Oil Prices

(cumulative change of log oil price)

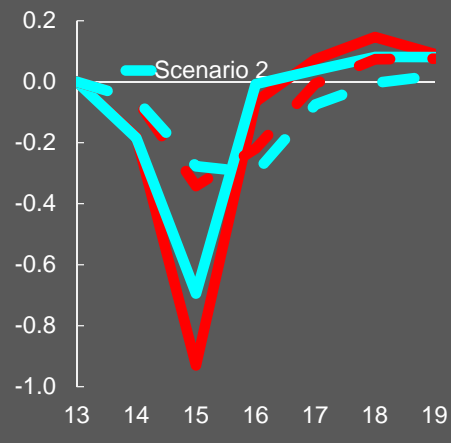


Simulation Results from Two Scenarios

Global GDP (percent difference)



Global CPI Inflation 1/ (percentage point difference)



Source: IMF staff projections.

Note: Scenario 1: persistent supply shift, accounting for 60% of the observed decline in futures prices.

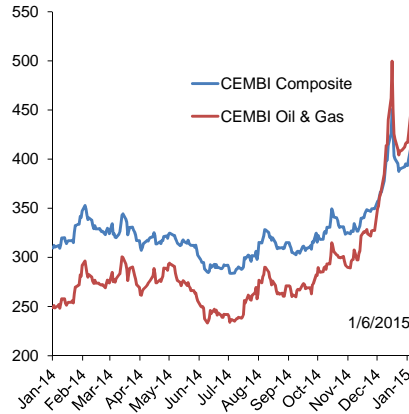
Scenario 2: supply shift, accounting for 60% of the decline in prices initially, but gradually unwound over time.

1/ Dotted line corresponds to core CPI inflation and the solid line to headline inflation.

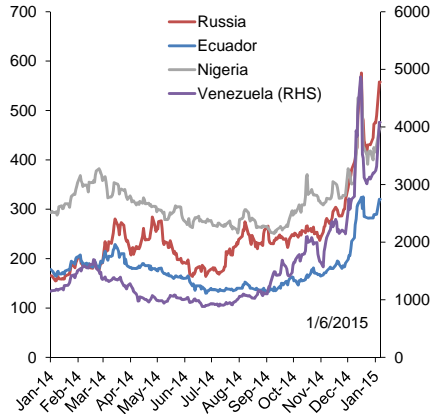
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Financial risks remain in oil exporting countries

EM Corporates: Bond Spreads
(basis points)



Oil Exporting Sovereigns: CDS
(basis points)

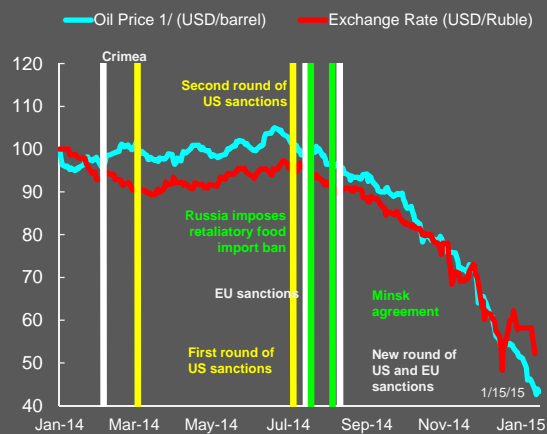


Source: Bloomberg L.P.

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Impact on Russia

Oil Price and Exchange Rate
(index; January 1, 2014 = 100)



Source: Bloomberg, L.P.; and Primary Commodity Price System, Global Data Source, IMF.
1/ APSP Crude oil.

Three factors at play:

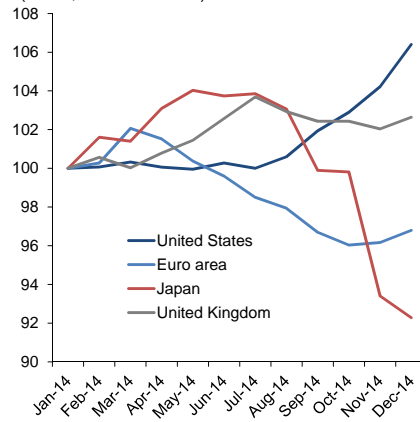
- Political uncertainty: slowdown in growth since 2011.
- Geopolitical tensions and sanctions: about 1-1.5% lower growth in 2014.
- Oil price decline: real income decrease by more than 7% of GDP (in USD dollars).

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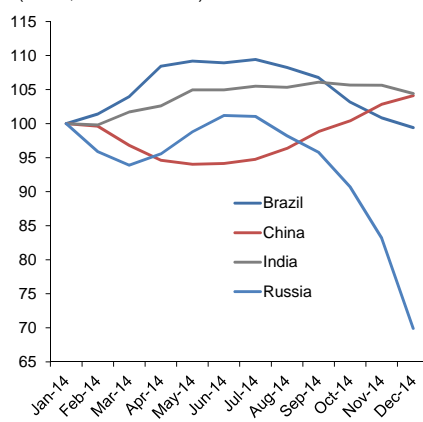
Exchange Rate Adjustments

Diverging exchange rate adjustments

Real Effective Exchange Rates
(Index, Jan 2014=100)

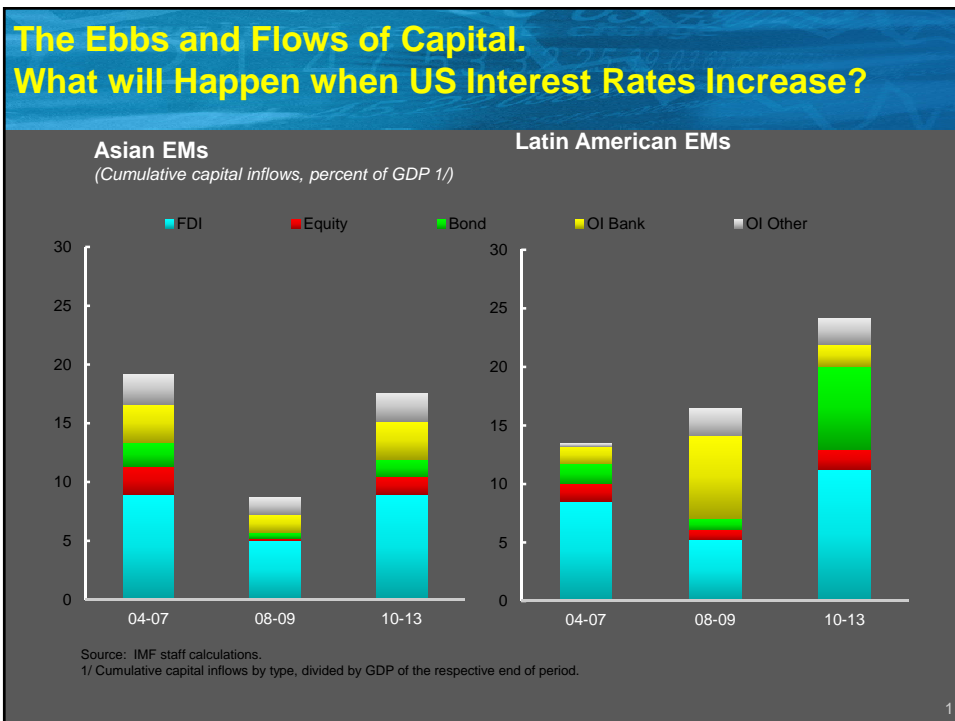
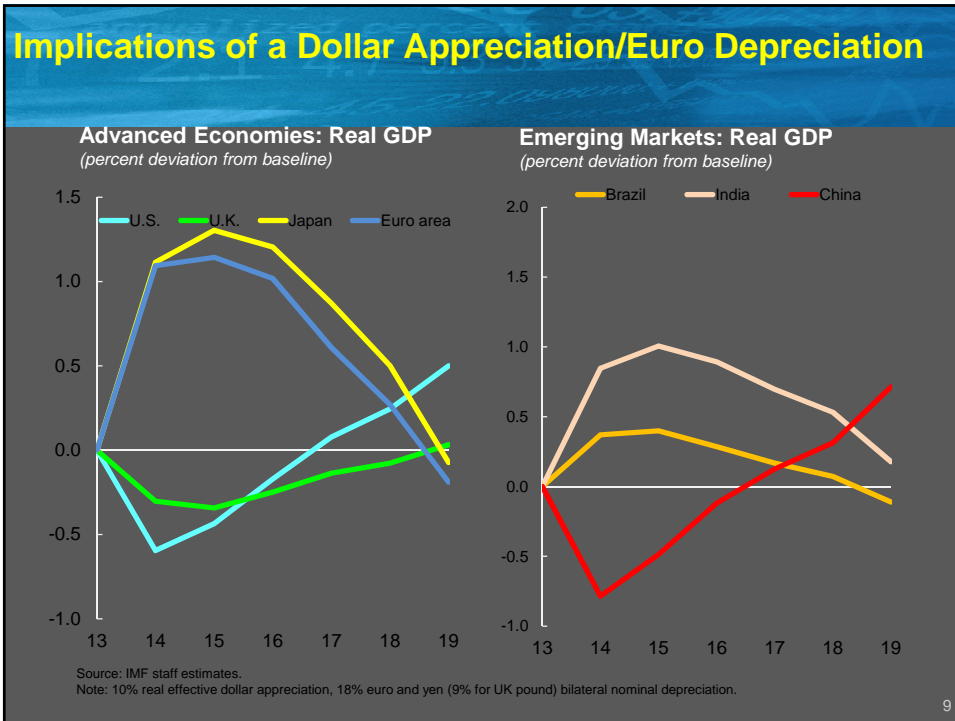


Real Effective Exchange Rates
(Index, Jan 2014=100)



Source: Haver Analytics

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Global Economic Outlook

WEO Real GDP Growth Projections (January 2015)

(percent change from a year earlier)

	2014	2015	Change from WEO Oct 2014	
			2015	
World	3.3	3.5		-0.3
Advanced economies	1.8	2.4		0.1
United States	2.4	3.6		0.5
Euro area	0.8	1.2		-0.2
Japan	0.1	0.6		-0.2
Emerging market and developing economies	4.4	4.3		-0.6
Emerging and Developing Asia	6.5	6.4		-0.2
China	7.4	6.8		-0.3
India	5.8	6.3		-0.1
ASEAN-5*	4.5	5.2		-0.2
Latin America and the Caribbean	1.2	1.3		-0.9
Emerging and Developing Europe	2.7	2.9		0.1
Commonwealth of Independent States	0.9	-1.4		-2.9

Source: International Monetary Fund, World Economic Outlook Database, January 2015.
Note: ASEAN-5 consists of Indonesia, Malaysia, Philippines, Thailand and Vietnam.

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Policy Advice for Oil Importers and Exporters

Oil importers:

- Given output gaps, let demand and output increase
- Avoid passthrough of low headline into core

Oil exporters:

- Adjust government spending (choose the speed)
- Allow for depreciation (choose the speed)
- Avoid passthrough of depreciation into inflation

All

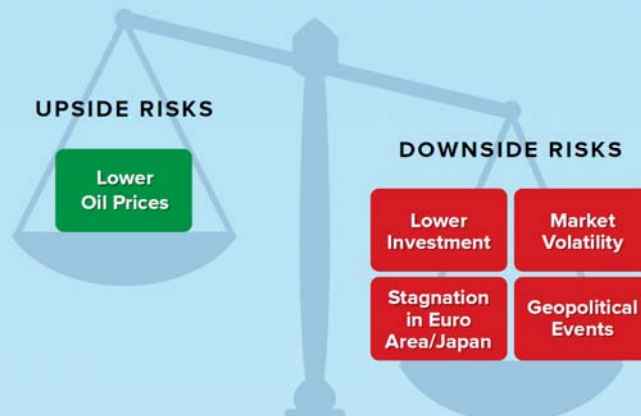
- EMs: decrease energy subsidies and increase targeted transfers
- AEs: consider increasing energy taxes, decreasing other taxes

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Risks to the forecasts

WEIGHING RISKS

Lower oil prices could boost global growth even more than forecast, but many downside risks loom heavy on the horizon.



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Summary: *Complex Cross Currents*

- **The good, but complex, news:**
 - The decline in the price of oil
 - Exchange rate adjustments
- **The bad news:**
 - Hard numbers about 2014: slightly worse, except the U.S.
 - Further downward revisions to potential growth
- **On net: Global growth down with heterogeneity**
 - Oil importers vs. exporters
 - Commodity importers vs. exporters
 - Legacies vs. no legacies
 - Dollar linked vs. euro-yen linked
 - Potential growth decline vs. no potential decline

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