

# Economic Alert iQ



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International

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## IMF Cuts World Growth Forecast

- The IMF in its July Update of its World Economic Outlook (released today), trimmed its forecast for global growth to 3.3% in 2015, 0.2 percentage points lower than what was predicted in the April 2015 report and lower than the 3.4% expansion experienced in 2014.
- One of the reasons for the downward revision was the poor performance of the US economy, which had spill over effects in Canada and Mexico. The IMF noted that the harsh winter weather and port closures, as well as downsizing of capital expenditure in the oil sector contributed to weakening US activity.
- The Fund left unchanged the forecasts for economic growth in the Euro Area at 1.5% and 1.7% in 2015 and 2016 respectively, indicating that the recovery remains broadly on track owing to robust recovery in domestic demand, but did outline that unfolding developments in Greece are likely to have a significant impact on activity relative to earlier expectations. Meanwhile, many of the other European countries have had their projected growth rates revised upwards.
- Growth in the emerging markets is projected to slow from 4.6% in 2014 to 4.2% in 2015, compared to the Fund's April forecast of 4.3% for 2015, with a deeper cut in Brazil's performance. According to the IMF, Brazil's economy will contract 1.5%, compared to the April's forecast of 1%. China's growth prospects remained unchanged at 6.8%.
- The outlook for emerging markets in general is expected to be adversely impacted by lower commodity prices and tighter external and financial conditions.

## Risks to the Forecast

According to the IMF risks are slightly tilted to the downside. These risks include:

- An increase in volatility in the financial markets.
- Developments in Greece have not yet had any significant contagion effects, and according to the IMF, timely policy action should help to manage such risks if they were to materialize.
- Low medium term growth or a slow return to full employment alongside low inflation, particularly in the advanced economies
- China's transition to a new growth model
- Increased geopolitical tensions in the Middle East, Ukraine or parts of Africa, which can have spill over effects on economic activity.

## Policy Priorities

- The IMF has advised that accommodative monetary policy be continued in the advanced economies to support economic activity and spur inflation back to target.
- For countries with the fiscal space, near term fiscal stance should be eased, especially through infrastructure investment.
- In emerging markets, policy needs to support demand, which should come from fiscal policy rebalancing aimed at boosting longer term growth.
- In oil exporters, public spending should be adjusted to lower oil revenue where there is no fiscal space.

**IMF's World Economic Outlook Projections**

	Year over Year Percent Change					
					Difference from April 2015	
			Projections		WEO Update	
	2013	2014	2015	2016	2015	2016
World Output	3.4	3.4	3.3	3.8	-0.2	0
Advanced Economies	1.4	1.8	2.1	2.4	-0.3	0
United States	2.2	2.4	2.5	3	-0.6	-0.1
Euro Area	-0.4	0.8	1.5	1.7	0	0.1
Germany	0.2	1.6	1.6	1.7	0	0
France	0.7	0.2	1.2	1.5	0	0
Italy	-1.7	-0.4	0.7	1.2	0.2	0.1
Spain	-1.2	1.4	3.1	2.5	0.6	0.5
Japan	1.6	-0.1	0.8	1.2	-0.2	0
United Kingdom	1.7	2.9	2.4	2.2	-0.3	-0.1
Canada	2	2.4	1.5	2.1	-0.7	0.1
Emerging Market and Developing Economies	5	4.6	4.2	4.7	-0.1	0
China	7.7	7.4	6.8	6.3	0	0
India	6.9	7.3	7.5	7.5	0	0
Latin America and the Caribbean	2.9	1.3	0.5	1.7	-0.4	-0.3
Brazil	2.7	0.1	-1.5	0.7	-0.5	-0.3
Mexico	1.4	2.1	2.4	3	-0.6	-0.3

Source: IMF, World Economic Outlook Update, July 2015

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