

Navigating the Global Uncertainties: Challenges and Opportunities

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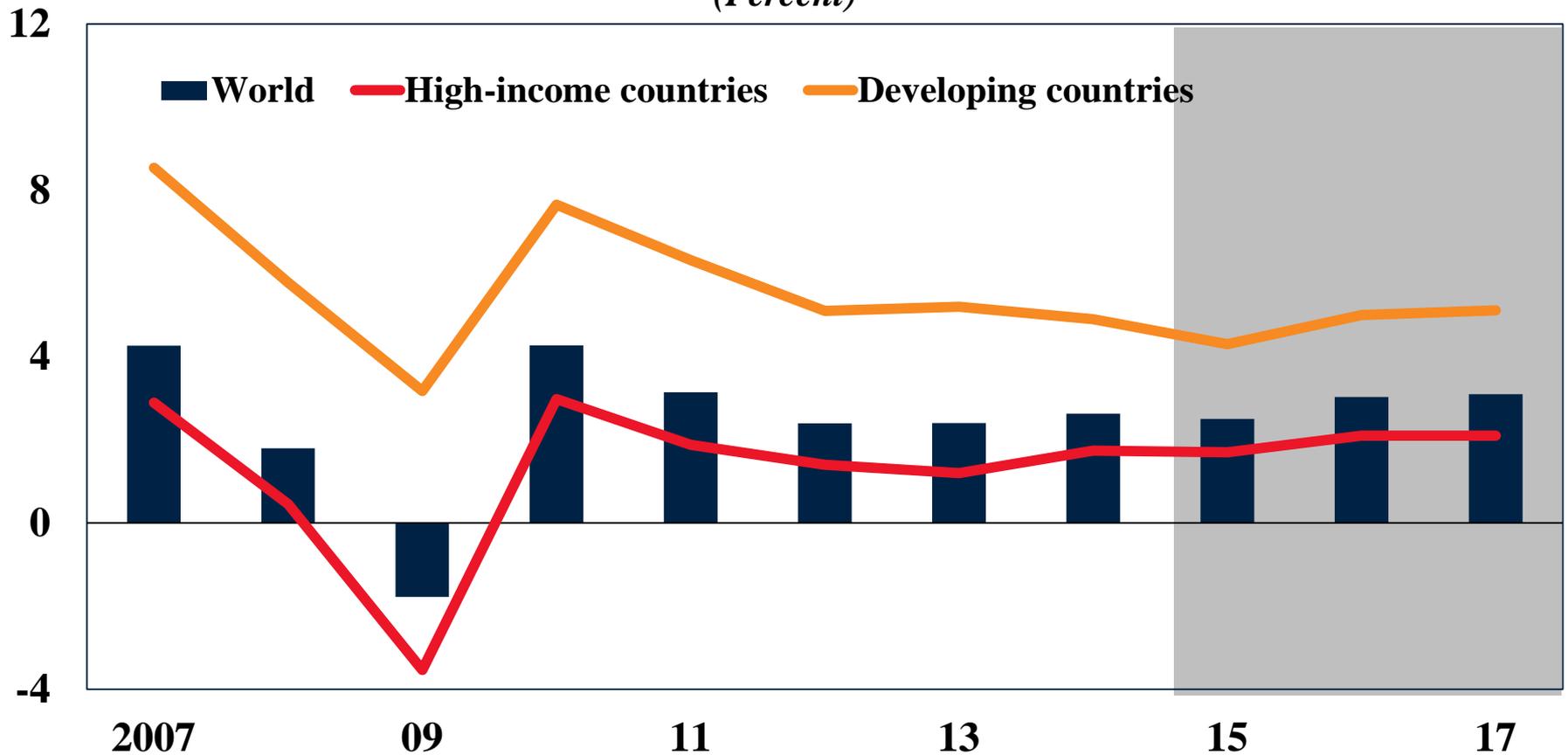
Key Takeaways

- Global economic outlook remains uncertain
- China's growth likely to continue to slow and shift away from investment
- US interest rates will likely rise soon affecting the cost and availability of capital
- Commodity prices likely to remain soft while trade growth remains slow
- Navigating these uncertainties will require continued macroeconomic prudence in the short term and sustained structural reform in the longer term
- In much of developing East Asia and Pacific, current policies provide a good base on which to build

Global Growth

Another Disappointing Year

GDP Growth
(Percent)

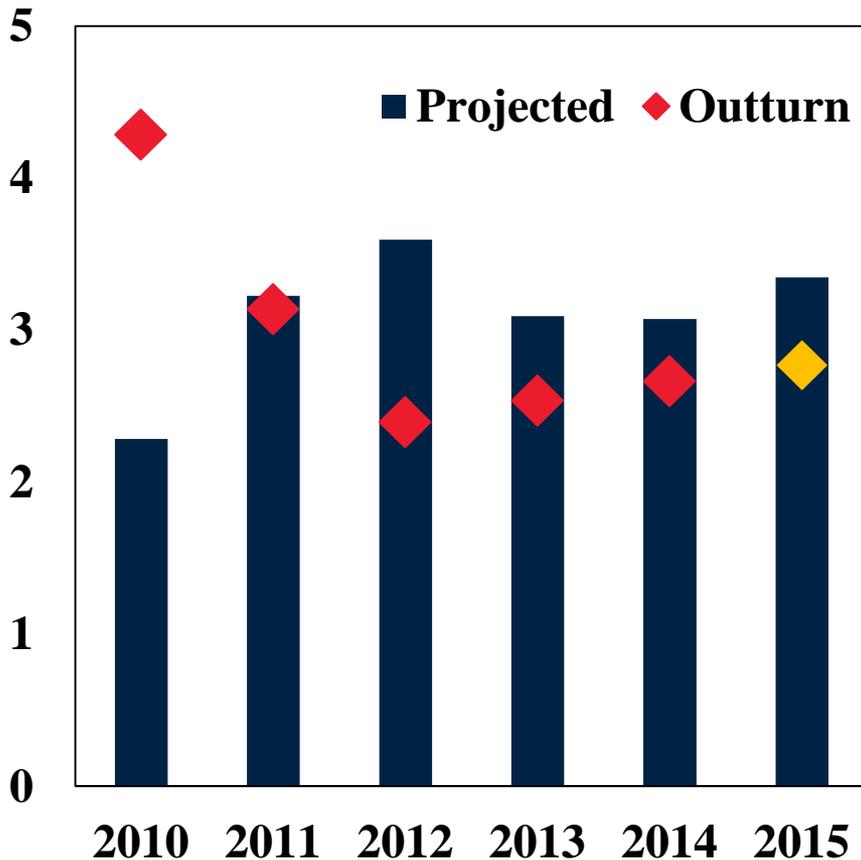


Source: World Bank.

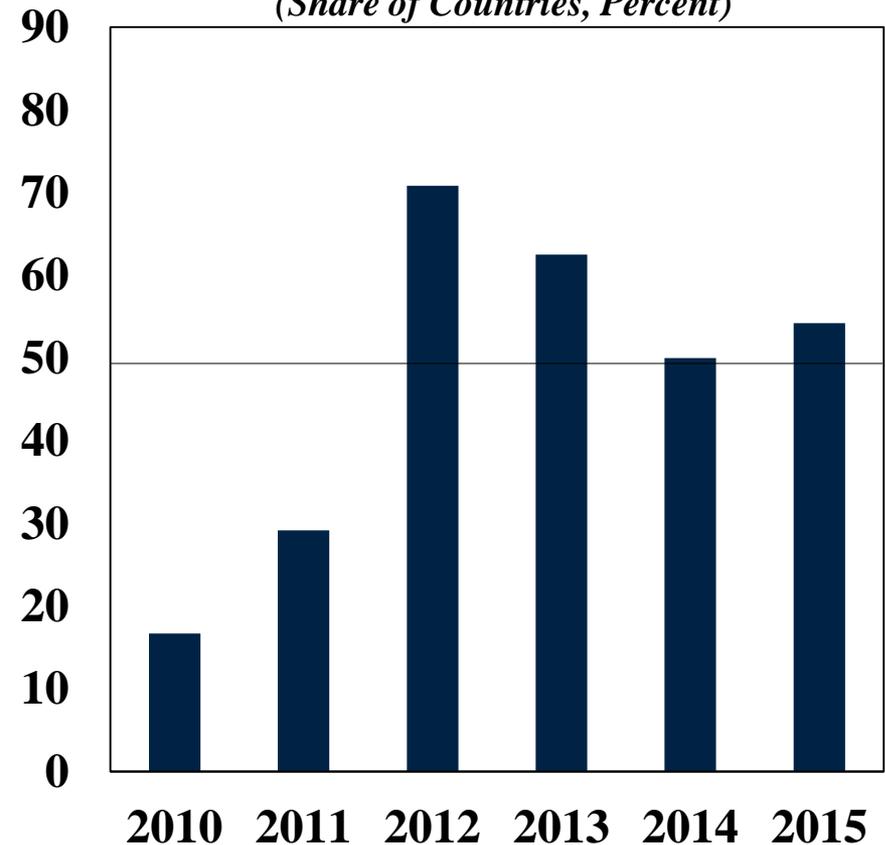
Growth Forecasts

Successive Downward Revisions

Global Growth Projections
(Percent)



Downward Revisions to EME Growth Projections
(Share of Countries, Percent)



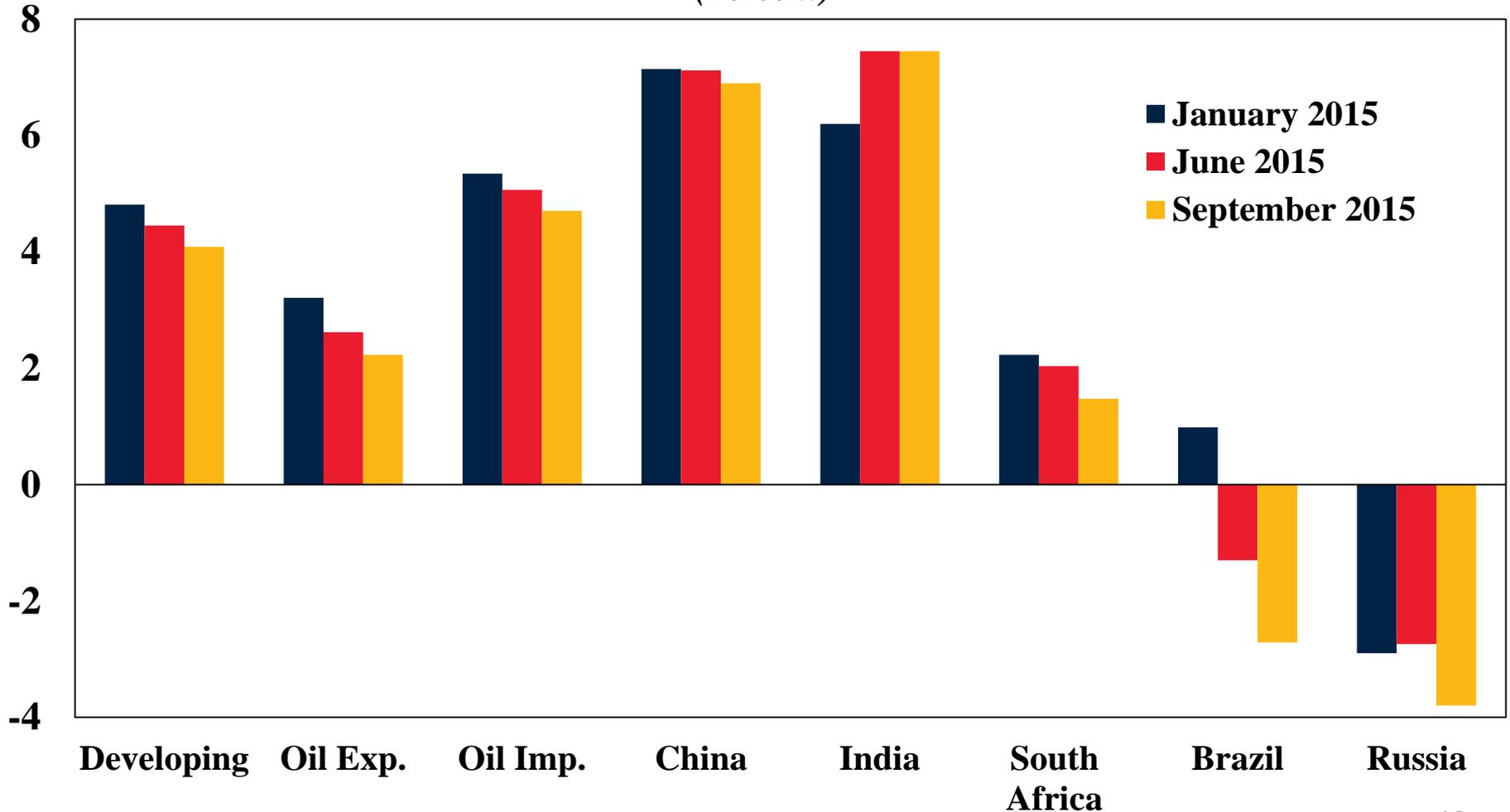
Source: World Bank.

Left panel: Projected numbers are forecasts a year before the indicated year. “Outturn” for 2015 is the September 2015 projection.

Right panel: The share of EME (24 economies) that had a downward revision during the same year.

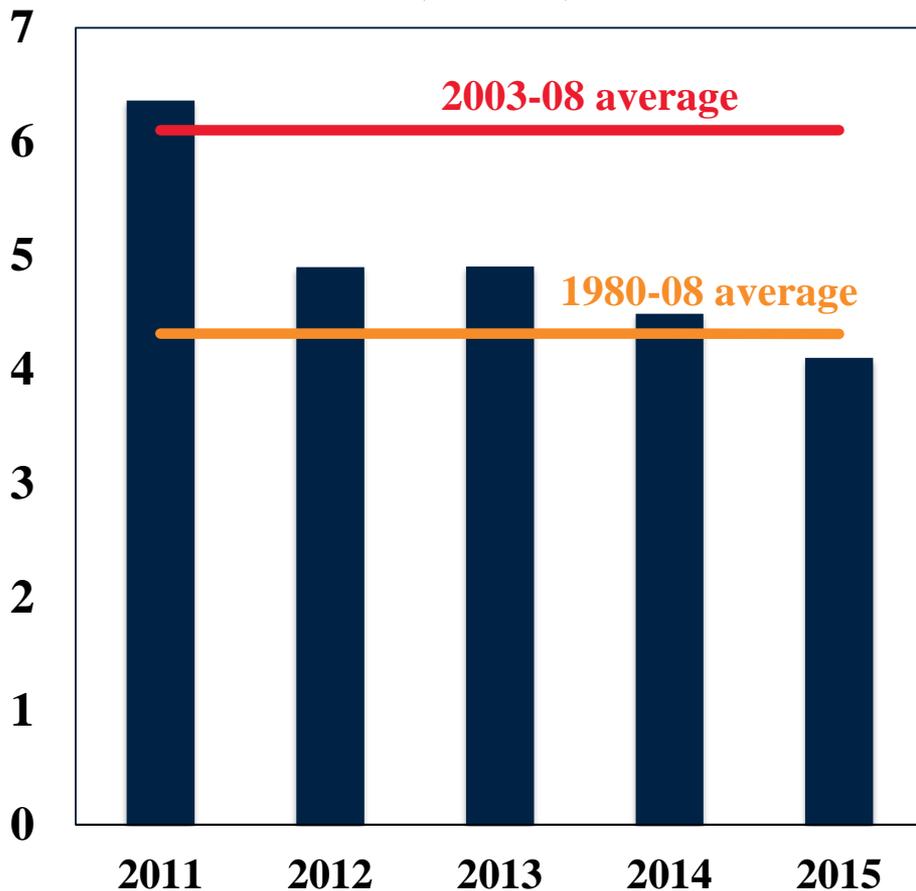
Developing Countries: Growth Slowing Across the Board

Evolution of 2015 Growth Forecasts
(Percent)

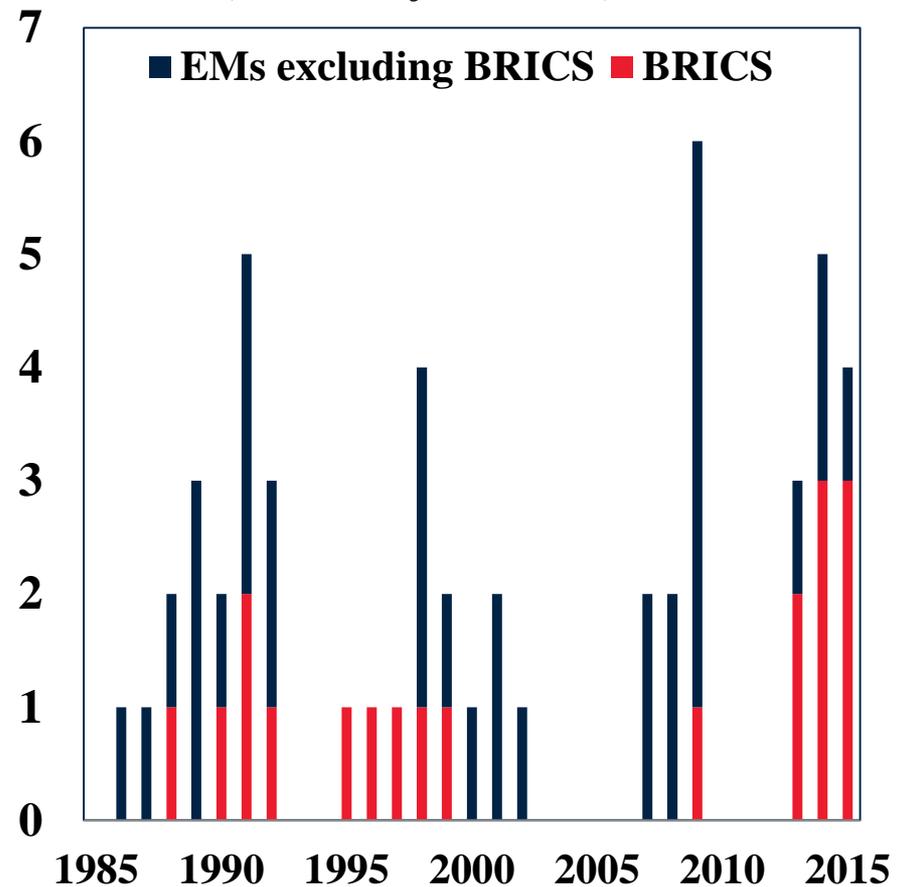


Emerging Markets: A Synchronized Slowdown

EME Growth (Percent)



EMEs Slowing for Three Consecutive Years (Number of countries)

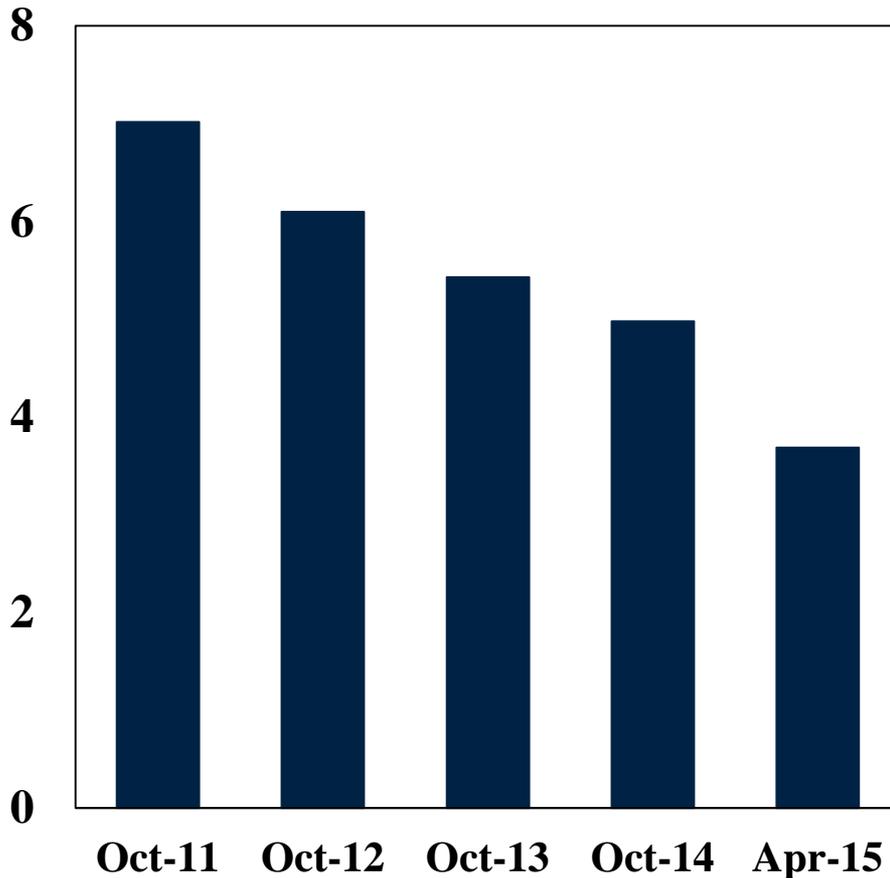


Source: World Bank, IMF World Economic Growth.

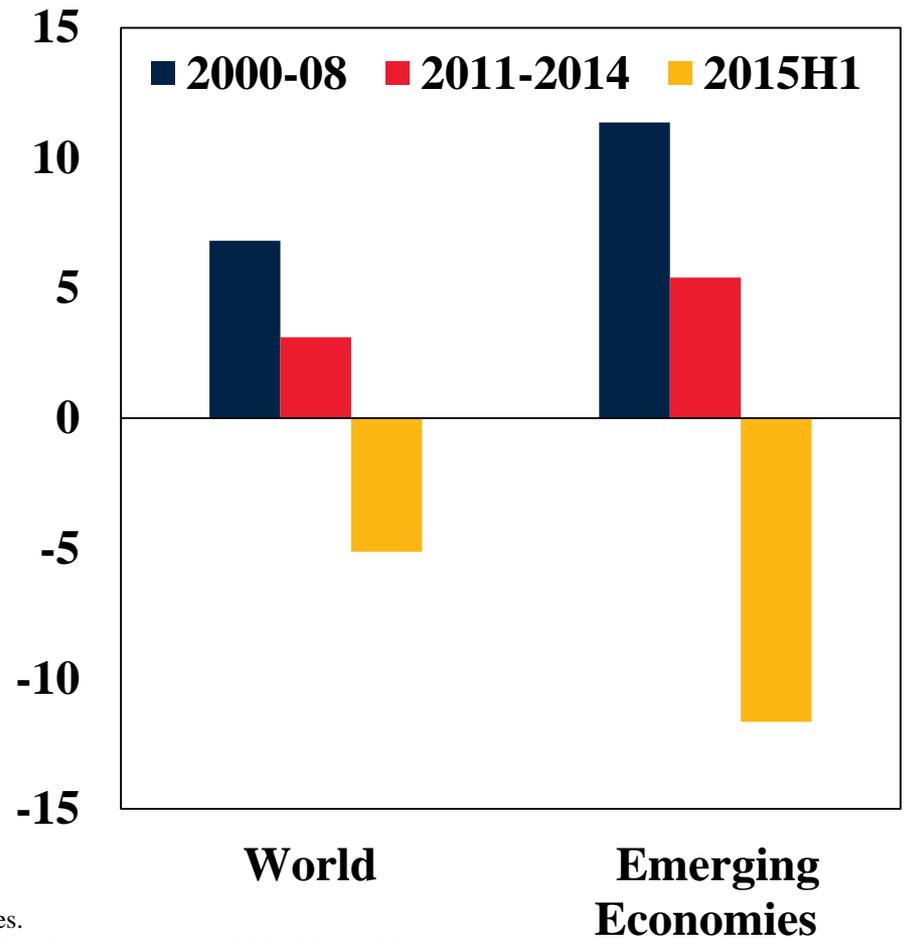
Left panel: Weighted average GDP growth of 24 Emerging Market (EME) countries. Right panel: Number of EME countries in which growth slowed for three consecutive years. BRICS include Brazil, Russia, India, China, and South Africa.

Global Trade: Subdued

Forecasts of Global Trade Growth for 2015
(Percent)



Global Import Growth
(Percent)

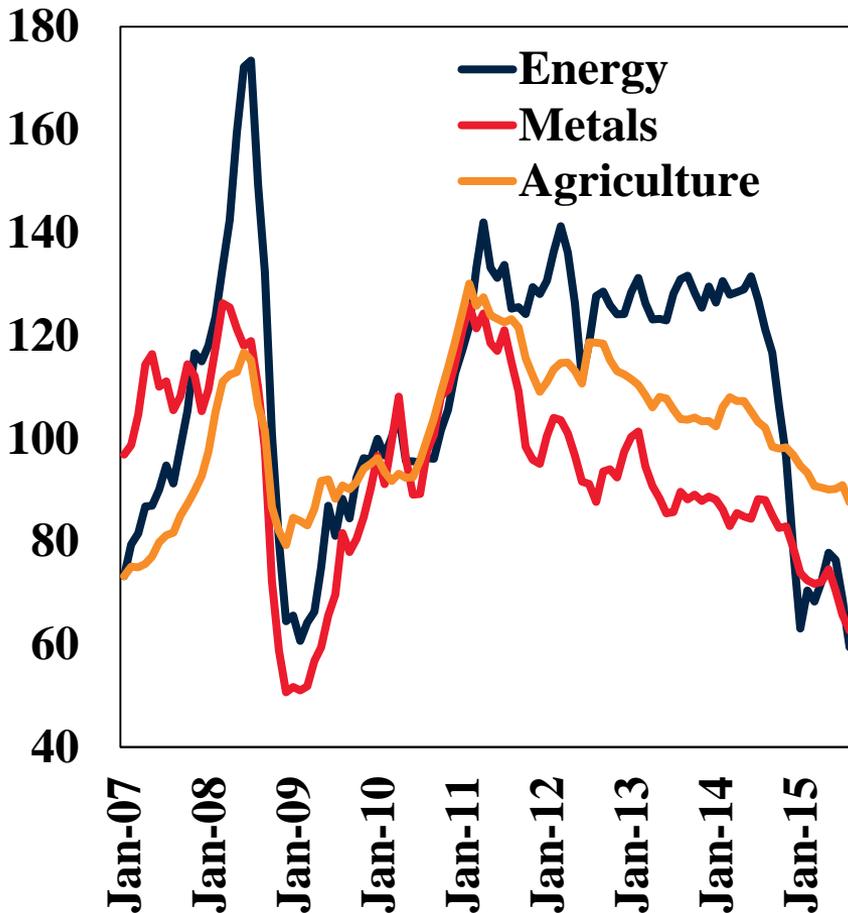


Source: IMF WEO database, CPB World Trade Monitor, and World Bank staff estimates.

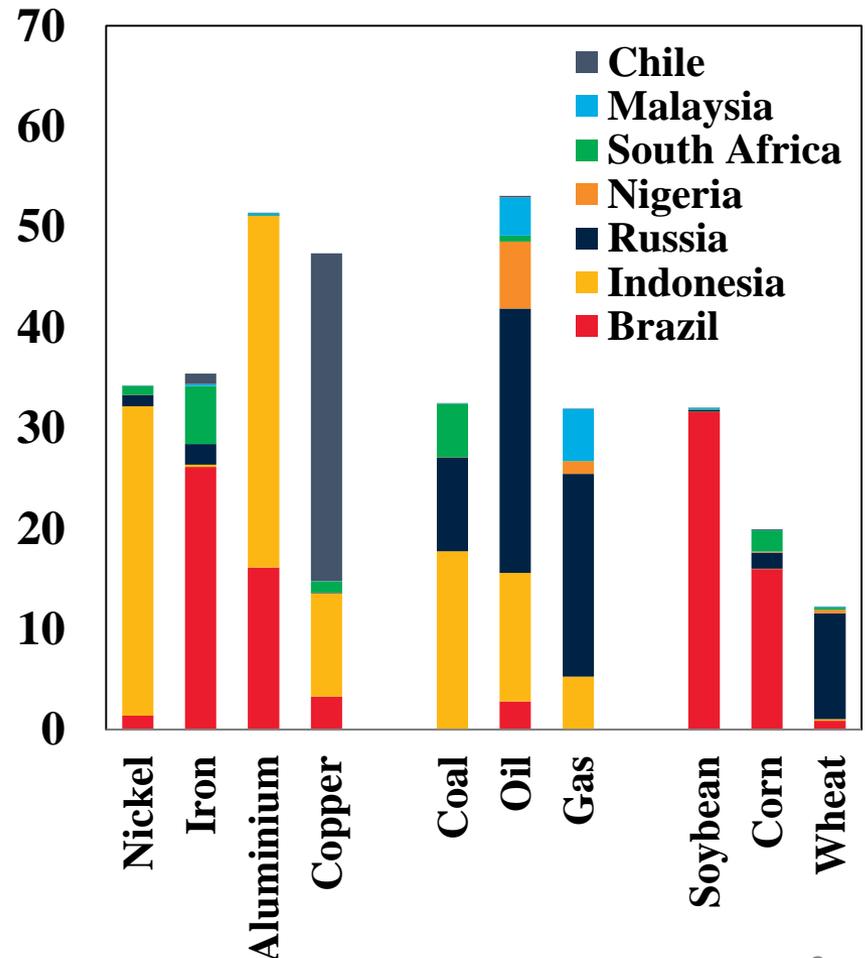
Left panel: Annual percent change in trade volume of goods and services forecast for 2015. Right panel: For 2000-08 and 2011-14, average annual merchandise import growth. For 2015H1, 6-month-over 6-month merchandise growth, annualized.

Commodity Prices: Falling

Commodity Prices
(US\$ nominal, 2010=100)



EMEs in Global Commodity Exports
(Percent of total)



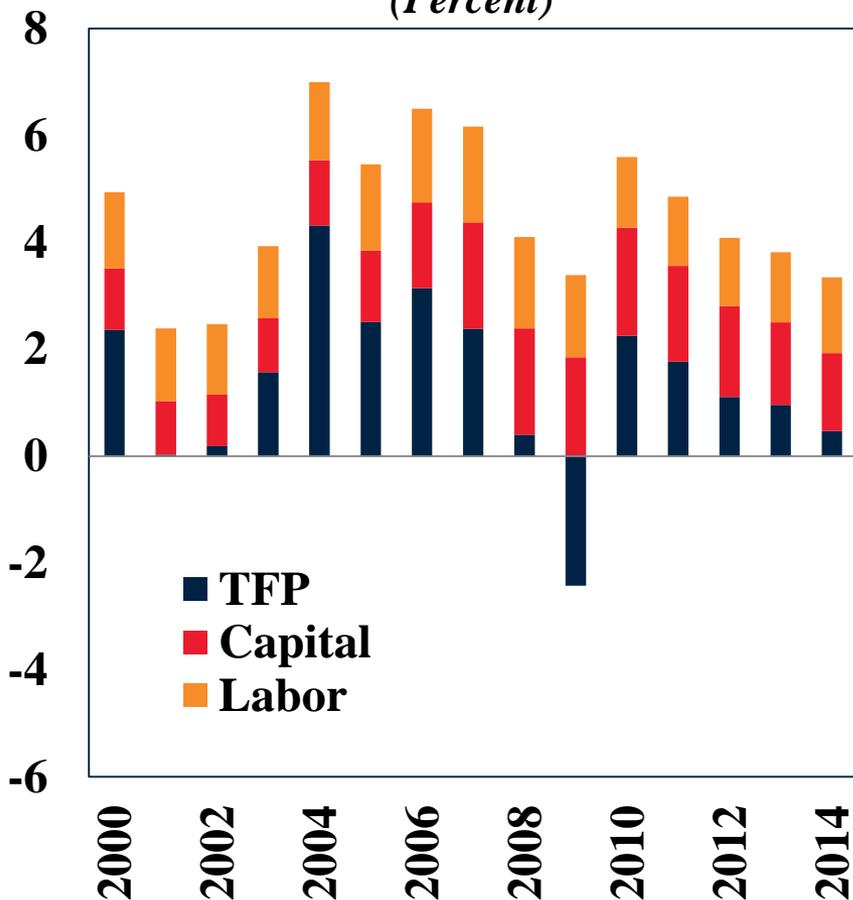
Source: World Bank.

Left panel: The latest observation is for August 2015.

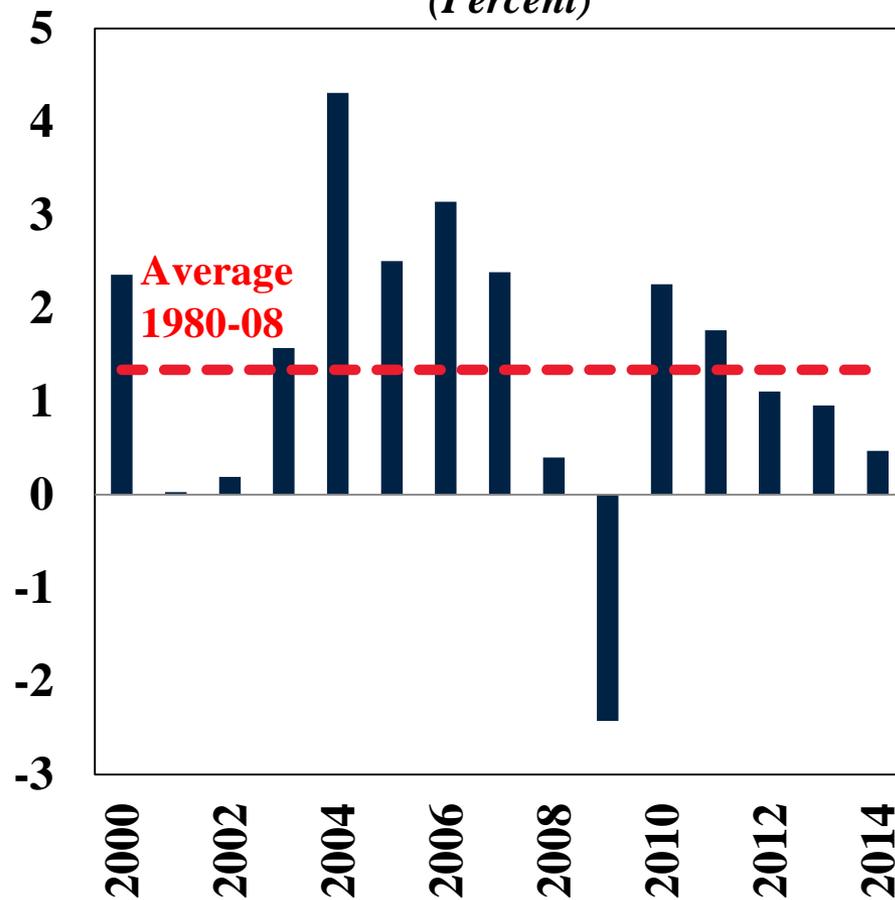
Right panel: Average over 2008-2013. Including exports of ores (e.g. bauxite) and oil products.

Productivity Growth: Slowing

Contribution to EME Growth
(Percent)



TFP Growth in EMEs
(Percent)

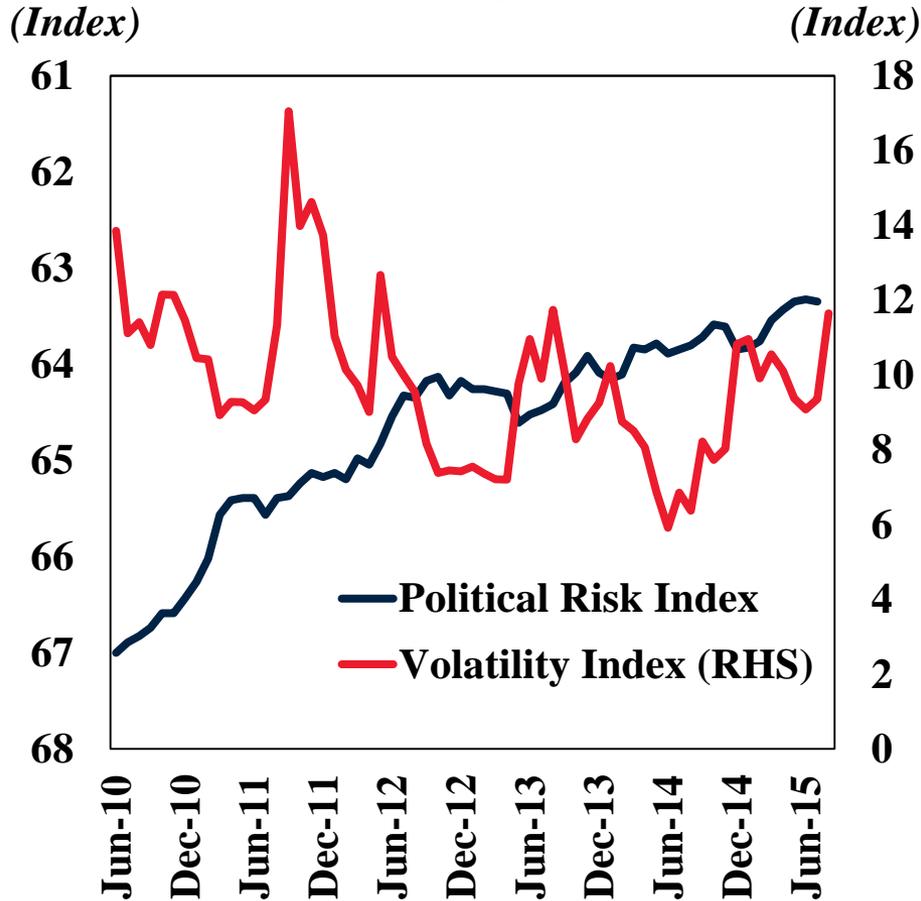


Source: World Bank, Haver Analytics.

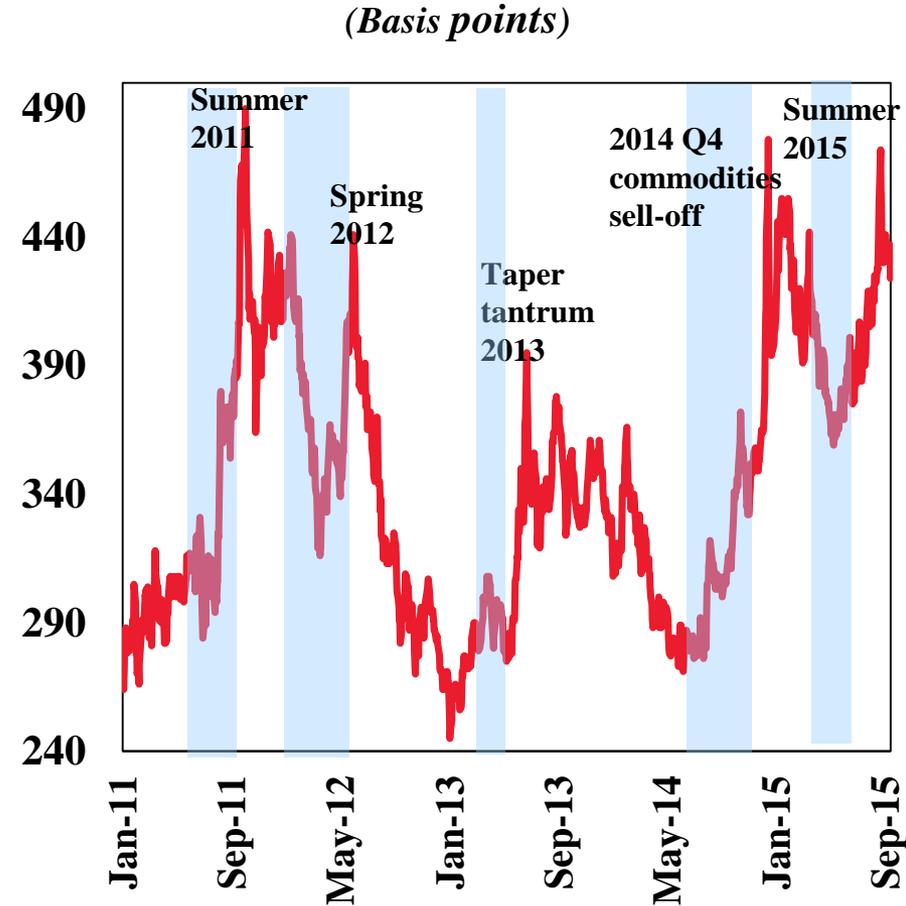
Note: Decomposition based on a Cobb-Douglas production function. Unweighted averages to ensure that the charts reflect the full universe of EME.

Uncertainty: Rising

EME: Uncertainty and Risk



EME: Sovereign Bond Spreads



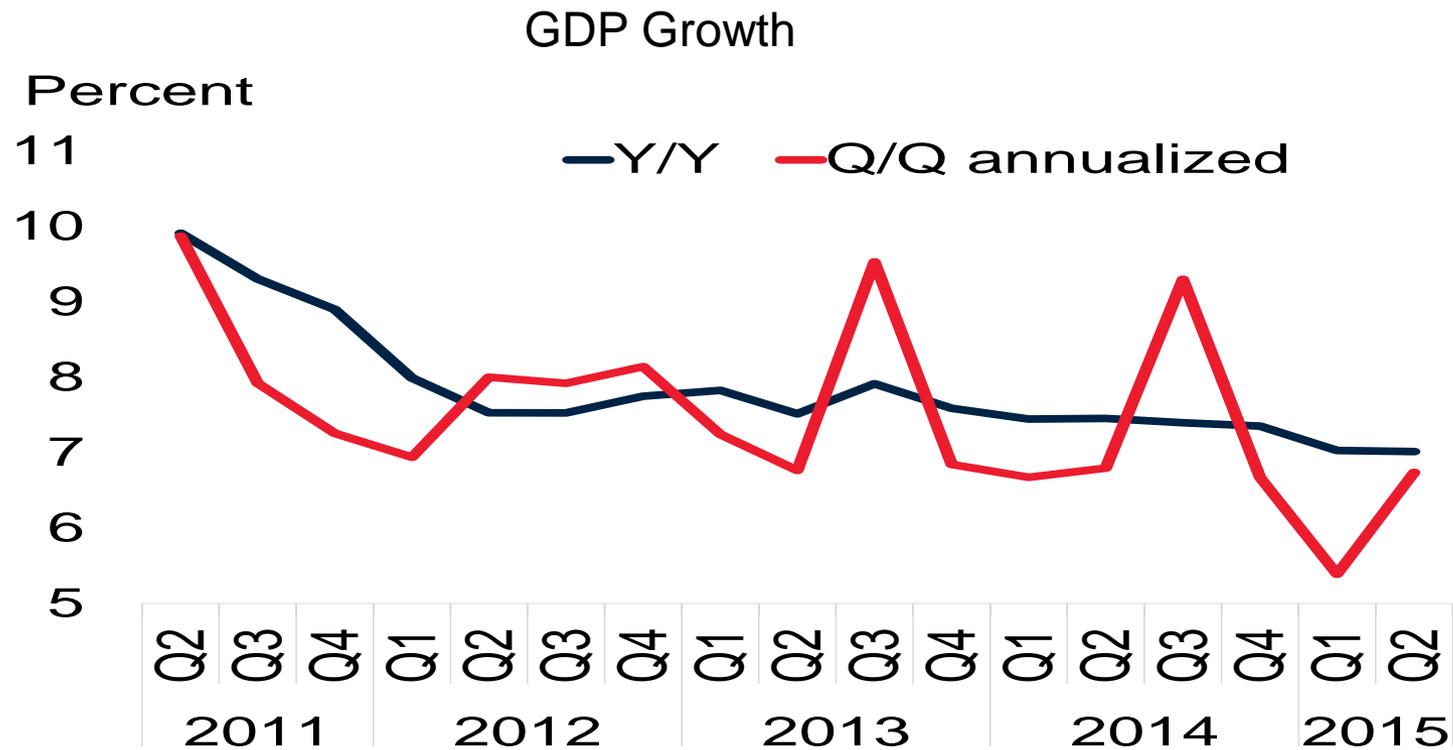
Source: Bloomberg.

Left panel: Political Risk Index (0 = highest, 100 = lowest): unweighted averages of Political Risk Rating of EMEs. Volatility Index: JPMorgan's emerging market volatility index, which tracks the level of implied volatility of emerging market currencies.

Prospects and Policy Challenges

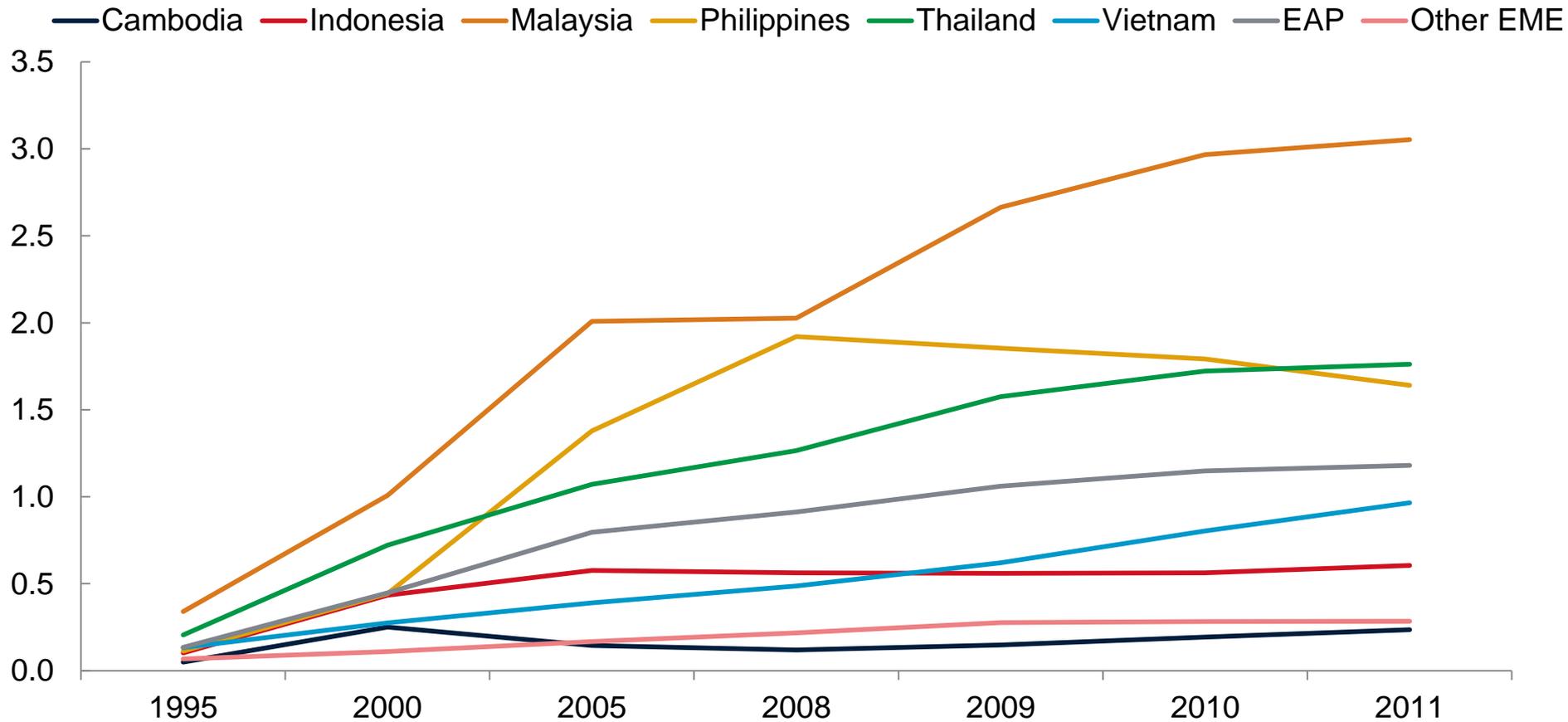
- In sum, slight slowing of the region's economies in 2016-2017 reflecting China's gradual slowdown and rebalancing
- This baseline assumes a gradual China slowdown and an orderly response to higher US interest rates, with commodity prices remaining low
- The uncertainties for region's developing economies in 2016-17 center on these two aspects

China's Gradual Slowing



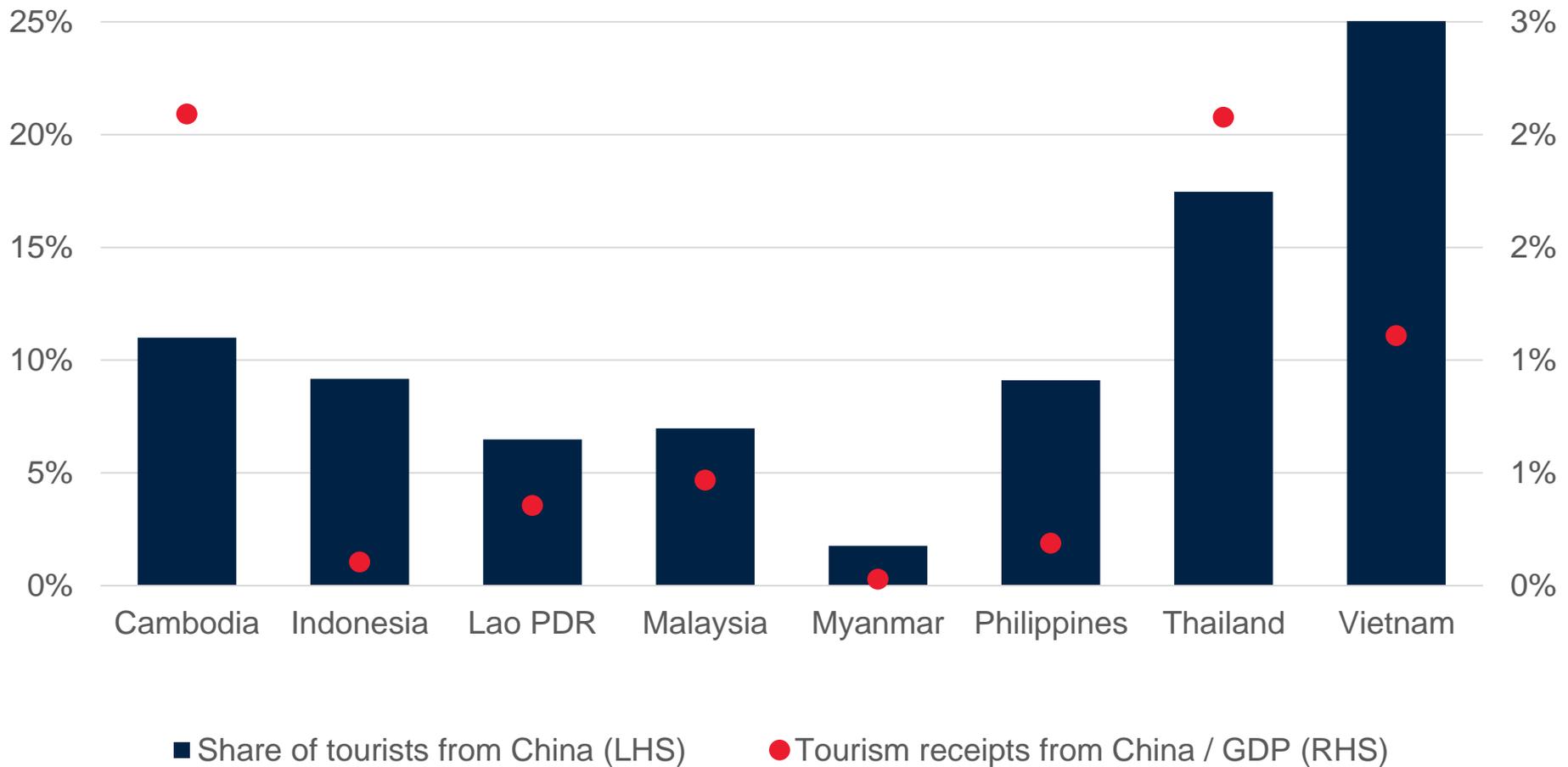
But Final Demand from China Now Matters More

(Share of Value Added in Manufacturing Exports as Percent of GDP)

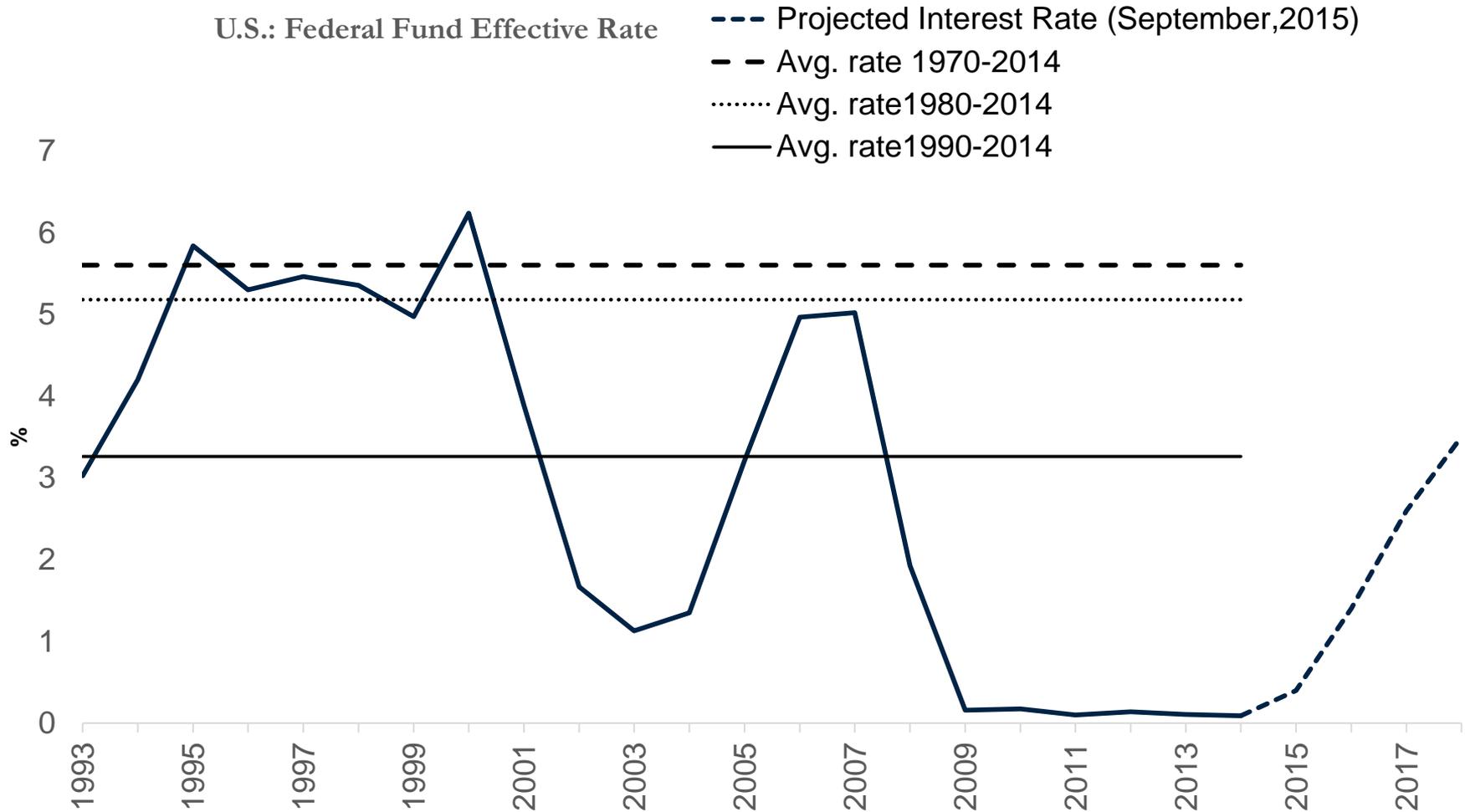


Chinese Tourism Also More Important

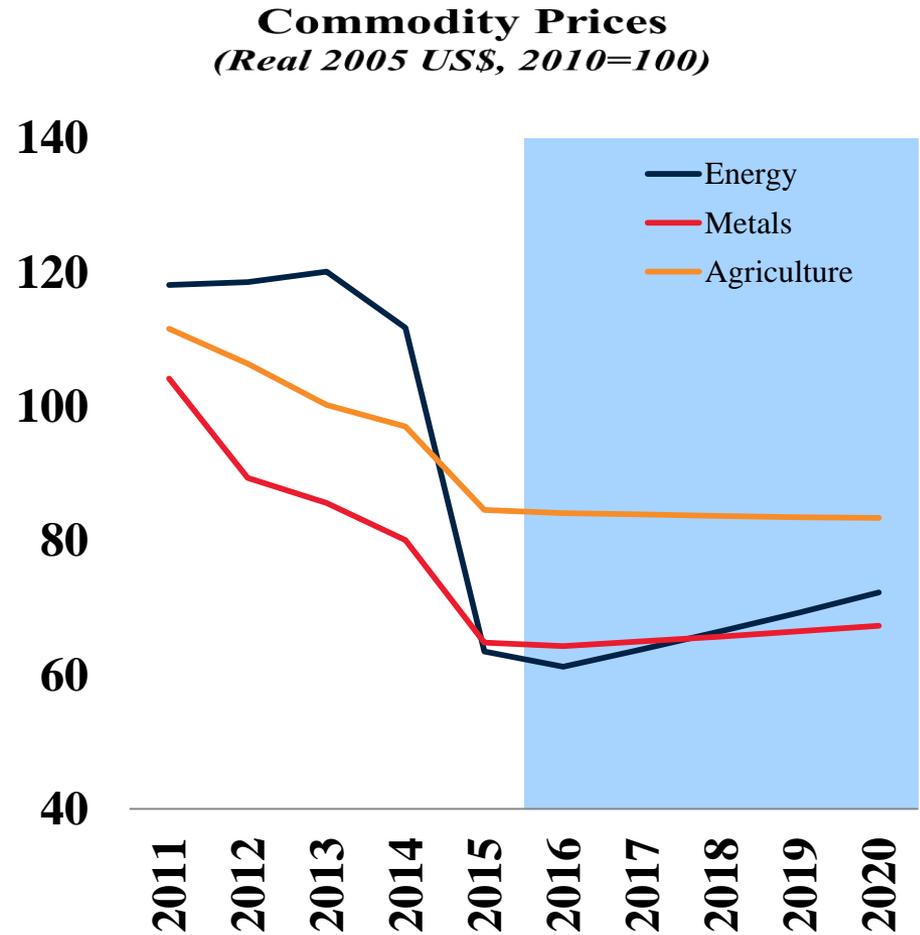
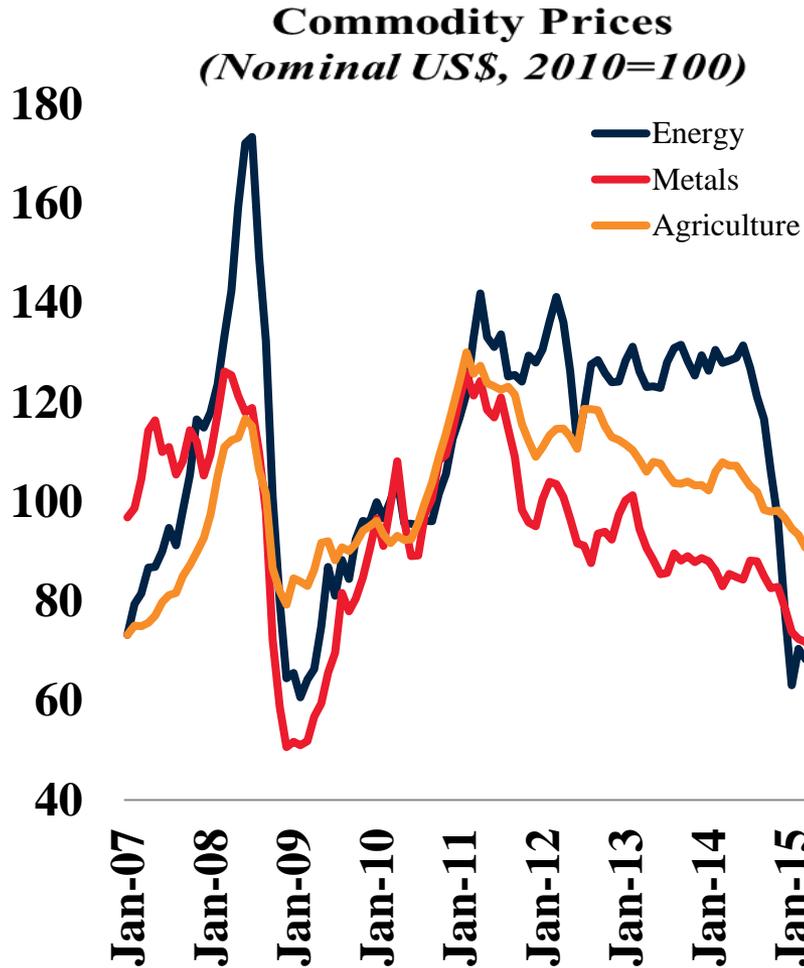
Tourism flows and receipts from China (percent, 2013)



US Rates Look Set to Rise



Commodity Prices Likely to Remain Soft



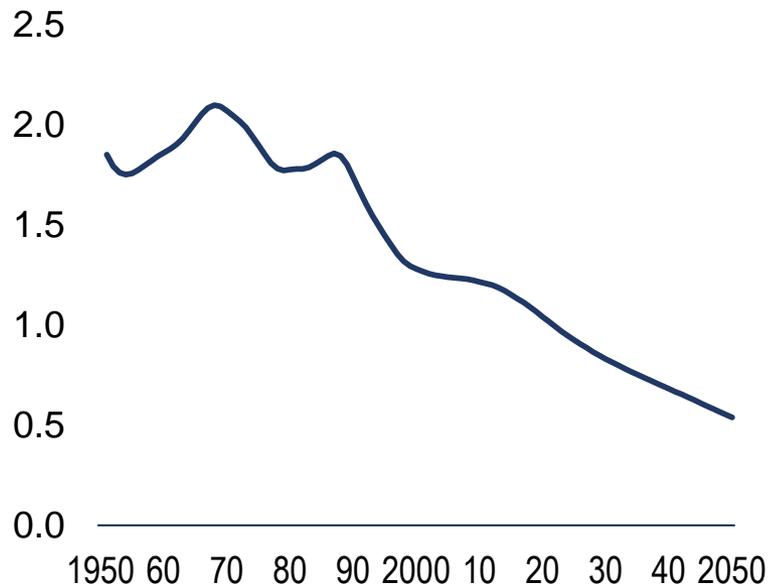
Challenges and Opportunities

- Little room for counter-cyclical macroeconomic policies in most countries
- Need to deepen structural reforms that would both enhance long-term growth prospects and boost confidence
- These priority reforms -- for the short and medium term – emerge from looking at countries’ current development challenges
- “Traps” – where growth is below potential – can exist at all income levels but countries at middle income face specific challenges

Global trends are at a turning point

A period of unprecedented global population growth has ended

Population growth rate (percent)

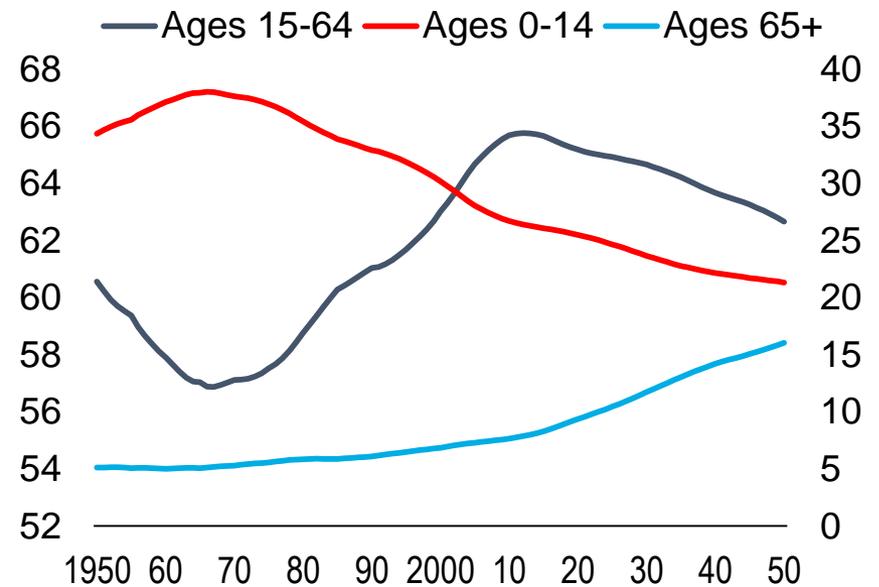


Note: Based on data from UN WPP 2015

The working-age share of the global population peaked and the world is now aging

Global population shares by age cohort (percent)

Ages 15-64: left axis, Ages 0-14 and 65+ : right axis



Stark Disparities Across Countries

Cumulative change in population, 2015-50

IBRD 41279

