QNB Economics
economics@qnb.com
23 October 2016

Global growth to settle at near 3%

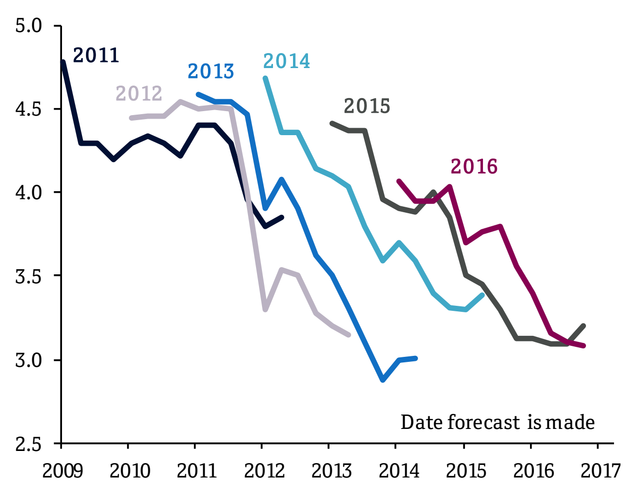
The International Monetary Fund (IMF) kept its expectations for global growth in 2016 unchanged at 3.1% in its recently-published World Economic Outlook. While the headline figure remained the same, the forecast for growth in advanced economies (AEs) was revised down by 0.2 percentage points (pps) to 1.6%, relative to the last forecast made in July. However, this was offset by an upward revision to emerging markets (EMs) growth prospects. Beyond this year, the IMF expects global growth to pick up to 3.4% in 2017. But given its recent record of over-optimistic forecasts, we expect this number to be revised down closer to 3.0% when the next round of forecasts are published in January.

Why did the IMF revise down its growth forecasts for AEs in 2016? The main reason has been the slower-than-expected growth in the US, which only reached 1.4% in the first half of the year compared to a year earlier. The loss in the momentum of US growth was a result of the weakness in investment and exports, despite strong consumption growth. As a result, the IMF has sharply revised down its forecast for US growth in 2016 to 1.6% from 2.2% three months earlier. In addition, the decision of the UK to leave the European Union (Brexit) has also led to a deterioration in the growth outlook in a number of European economies.

The downgrade in the growth outlook for AEs was exactly offset by the improvement in the outlook for EMs. The IMF now expects EMs to grow by 4.2% in 2016, up from 4.1% three months ago. The improvement in EM outlook was due to three factors. First, continued monetary easing in AEs and the delay in the US rate hikes have resulted in capital inflows to EMs, which supported their currencies. This allowed a number of EM central banks to lower interest rates, which has been positive for growth. Second, the recovery in commodity prices has benefited EMs, given that a number of them are commodity exporters. Third, growth in China has been more resilient than previously feared thanks to the government's stimulus. This helped EM growth both directly, since China accounts for nearly 30% of EM GDP, and indirectly, since it meant stronger Chinese demand for imports from other EMs.

Beyond this year, the IMF expects global growth to pick up in 2017, reaching 3.4%. The recovery is expected to be broad-based including both AEs and EMs. US growth is expected to rebound to 2.2% in 2017 as the negative impact of lower oil prices on energy investments abates and as the effect of past appreciation of the US dollar on exports fades away. This would be enough to drive growth in AEs despite the expected damage of Brexit on the UK economy. Meanwhile, loose monetary conditions in AEs and the continued recovery in commodity prices should raise EM growth to 4.6% next year.

IMF global growth forecast revisions
(Annual % change)



Sources: IMF, Haver Analytics and QNB Economics

Is the IMF growth forecast for 2017 likely to materialise? Given its past track record of over-optimistic projections, we expect the IMF's growth forecast to be revised down when the next round of projections are published next January. Since 2012, the IMF has revised down its global growth forecast by an average of 0.24pps between October and January. And it is not hard to imagine risks that could push its growth for 2017 below 3.4%. For example, the recovery in the US economy may not materialise, especially as higher oil prices may hurt consumption. Brexit could prove more detrimental to the UK economy than the IMF anticipates, particularly if a "hard Brexit" is pursued. The Chinese economy still faces the risks of a hard landing given its sizeable corporate debt. The recovery in commodity prices is not guaranteed. EMs are still vulnerable to sudden swings in the movement of global capital. And non-economic risks (political and security) could also hurt global growth.

Overall, we expect global growth to settle at a historically low level of around 3.0% in 2017. The slowdown is inevitable as China, the global engine of growth, adjusts to a lower but more sustainable growth rate. For global growth to pick up, other countries need to contribute. A more growth-friendly mixture of policies in AEs, especially on the fiscal side, could help. Policies to reduce the reliance of EMs on commodity prices and the movement of foreign capital, which are volatile, could also be supportive to global growth.

QNB Economics Team:

Ziad Daoud*
Acting Head of Economics
+974-4453-4642

Rory Fyfe
Senior Economist
+974-4453-4643

Ali Jaffery
Economist
+974-4453-4423

Nancy Fahim
Economist
+974-4453-4648

* Corresponding author