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"World Economic outlook"

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Even with the sharp oil price decline—a net positive for global growth—the world economic outlook is still subdued, weighed down by underlying weakness elsewhere, says the IMF's latest WEO Update.

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IMF defined followings as the cross currents.

- *Global growth will receive a boost from lower oil prices, which reflect to an important extent higher supply. But this boost is projected to be more than offset by negative factors, including investment weakness as adjustment to diminished expectations about medium-term growth continues in many advanced and emerging market economies.*
- *Global growth in 2015–16 is projected at 3.5 and 3.7 percent, downward revisions of 0.3 percent relative to the October 2014 World Economic Outlook (WEO). The revisions reflect a reassessment of prospects in China, Russia, the euro area, and Japan as well as weaker activity in some major oil exporters because of the sharp drop in oil prices. The United States is the only major economy for which growth projections have been raised.*
- *The distribution of risks to global growth is more balanced than in October. The main upside risk is a greater boost from lower oil prices, although there is uncertainty about the persistence of the oil supply shock. Downside risks relate to shifts in sentiment and volatility in global financial markets, especially in emerging market economies, where lower oil prices have introduced external and balance sheet vulnerabilities in oil exporters. Stagnation and low inflation are still concerns in the euro area and in Japan.*

IMF concluded that four key developments have shaped the global outlook since the release of the October 2014 WEO.

First, oil prices in U.S. dollars have declined by about 55 percent since September. The decline is partly due to unexpected demand weakness in some major economies, in particular, emerging market economies—also reflected in declines in industrial metal prices. But the much larger decline in oil prices suggests an important contribution of oil supply factors, including the decision of the Organization of the Petroleum Exporting Countries (OPEC) to maintain current production levels despite the steady rise in production from non-OPEC producers, especially the United States.

Second, while global growth increased broadly as expected to 3¾ percent in the third quarter of 2014, up from 3¼ percent in the second quarter, this masked marked growth divergences among major economies. Specifically, the recovery in the United States was stronger than expected, while economic performance in all other major economies—most notably Japan—fell short of expectations.

Third, with more marked growth divergence across major economies, the U.S. dollar has appreciated some 6 percent in real effective terms relative to the values used in the October 2014 WEO. In contrast, the euro and the yen have depreciated by about 2 percent and 8 percent, respectively, and many emerging market currencies have weakened, particularly those of commodity exporters.

Fourth, interest rates and risk spreads have risen in many emerging market economies, notably commodity exporters, and risk spreads on high-yield bonds and other products exposed to energy prices have also widened. Long-term government bond yields have declined further in major advanced economies, reflecting safe haven effects and weaker activity in some, while global equity indices in national currency have remained broadly unchanged since October.

Developments since the release of the October WEO have conflicting implications for the growth forecasts. On the upside, the decline in oil prices driven by supply factors—which, as noted, are expected to reverse only gradually and partially—will boost global growth over the next two years or so by lifting purchasing power and private demand in oil importers (see box). The impact is forecast to be stronger in advanced economy oil importers, where the pass-through to end-user prices is expected to be higher than in emerging market and developing oil importers.

Source: IMF

Among major advanced economies, growth in the United States rebounded ahead of expectations after the contraction in the first quarter of 2014, and unemployment declined further, while inflation pressure stayed more muted, also reflecting the dollar appreciation and the decline in oil prices.

In the euro area, growth in the third quarter of 2014 was modestly weaker than expected, largely on account of weak investment, and inflation and inflation expectations continued to decline. Activity is projected to be supported by lower oil prices, further monetary policy easing (already broadly anticipated in financial markets and reflected in interest rates), a more neutral fiscal policy stance, and the recent euro depreciation. But these factors will be offset by weaker investment prospects, partly reflecting the impact of weaker growth in emerging market economies on the export sector, and the recovery is projected to be somewhat slower than forecast in October, with annual growth projected at 1.2 percent in 2015 and 1.4 percent in 2016.

In Japan, the economy fell into technical recession in the third quarter of 2014. Private domestic demand did not accelerate as expected after the increase in the consumption tax rate in the previous quarter, despite a cushion from increased infrastructure spending. Policy responses—additional quantitative and qualitative monetary easing and the delay in the second consumption tax rate increase—are assumed to support a gradual rebound in activity and, together with the oil price boost and yen depreciation, are expected to strengthen growth to above trend in 2015–16.

In emerging market and developing economies, growth is projected to remain broadly stable at 4.3 percent in 2015 and to increase to 4.7 percent in 2016—a weaker pace than forecast in the October 2014 WEO. Three main factors explain the downshift:

Lower growth in China and its implications for emerging Asia: Investment growth in China declined in the third quarter of 2014, and leading indicators point to a further slowdown. The authorities are now expected to put greater weight on reducing vulnerabilities from recent rapid credit and investment growth and hence the forecast assumes less of a policy response to the underlying moderation. Slower growth in China will also have important regional effects, which partly explains the downward revisions to growth in much of emerging Asia.

In India, the growth forecast is broadly unchanged, however, as weaker external demand is offset by the boost to the terms of trade from lower oil prices and a pickup in industrial and investment activity after policy reforms.

A much weaker outlook in Russia: The projection reflects the economic impact of sharply lower oil prices and increased geopolitical tensions, both through direct and confidence effects. Russia's sharp slowdown and ruble depreciation have also severely weakened the outlook for other economies in the Commonwealth of Independent States (CIS) group.

Downward revisions to potential growth in commodity exporters: In many emerging and developing commodity exporters, the projected rebound in growth is weaker or delayed compared with the October 2014 projections, as the impact of lower oil and other commodity prices on the terms of trade and real incomes is now projected to take a heavier toll on medium-term growth.

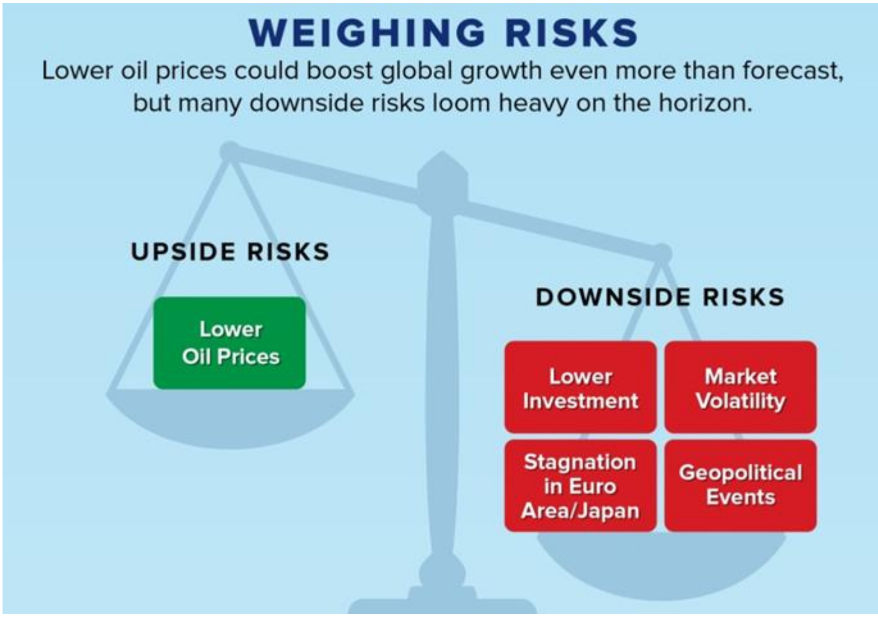
Overview of the *World Economic Outlook* Projections *(Percent change unless noted otherwise)*

	Year over Year					
			Projections		Difference from October 2014 Projections	
	2013	2014	2015	2016	2015	2016
World Output 1/	**3.3**	**3.3**	**3.5**	**3.7**	**–0.3**	**–0.3**
Advanced Economies	**1.3**	**1.8**	**2.4**	**2.4**	**0.1**	**0.0**
United States	2.2	2.4	3.6	3.3	0.5	0.3
Euro Area	–0.5	0.8	1.2	1.4	–0.2	–0.3
Germany	0.2	1.5	1.3	1.5	–0.2	–0.3
France	0.3	0.4	0.9	1.3	–0.1	–0.2
Italy	–1.9	–0.4	0.4	0.8	–0.5	–0.5
Spain	–1.2	1.4	2.0	1.8	0.3	0.0
Japan	1.6	0.1	0.6	0.8	–0.2	–0.1
United Kingdom	1.7	2.6	2.7	2.4	0.0	–0.1
Canada	2.0	2.4	2.3	2.1	–0.1	–0.3
Other Advanced Economies 2/	2.2	2.8	3.0	3.2	–0.2	–0.1
Emerging Market and Developing Economies 3/	**4.7**	**4.4**	**4.3**	**4.7**	**–0.6**	**–0.5**
Commonwealth of Independent States	2.2	0.9	–1.4	0.8	–2.9	–1.7
Russia	1.3	0.6	–3.0	–1.0	–3.5	–2.5
Excluding Russia	4.3	1.5	2.4	4.4	–1.6	–0.2
Emerging and Developing Asia	6.6	6.5	6.4	6.2	–0.2	–0.3
China	7.8	7.4	6.8	6.3	–0.3	–0.5
India 4/	5.0	5.8	6.3	6.5	–0.1	0.0
ASEAN-5 5/	5.2	4.5	5.2	5.3	–0.2	–0.1
Emerging and Developing Europe	2.8	2.7	2.9	3.1	0.1	–0.2
Latin America and the Caribbean	2.8	1.2	1.3	2.3	–0.9	–0.5
Brazil	2.5	0.1	0.3	1.5	–1.1	–0.7
Mexico	1.4	2.1	3.2	3.5	–0.3	–0.3
Middle East, North Africa, Afghanistan, and Pakistan	2.2	2.8	3.3	3.9	–0.6	–0.5
Saudi Arabia 6/	2.7	3.6	2.8	2.7	–1.6	–1.7
Sub-Saharan Africa	5.2	4.8	4.9	5.2	–0.9	–0.8
Nigeria	5.4	6.1	4.8	5.2	–2.5	–2.0
South Africa	2.2	1.4	2.1	2.5	–0.2	–0.3
Memorandum						
Low-Income Developing Countries	6.1	5.9	5.9	6.1	–0.6	–0.5
World Growth Based on Market Exchange Rates	2.5	2.6	3.0	3.2	–0.2	–0.2
World Trade Volume (goods and services)	**3.4**	**3.1**	**3.8**	**5.3**	**–1.1**	**–0.2**
Imports						
Advanced Economies	2.0	3.0	3.7	4.8	–0.6	–0.2
Emerging Market and Developing Economies	5.5	3.6	3.2	6.1	–2.9	–0.2
Commodity Prices (U.S. dollars)						
Oil 7/	–0.9	–7.5	–41.1	12.6	–37.8	14.6
Nonfuel (average based on world commodity export weights)	–1.2	–4.0	–9.3	–0.7	–5.2	0.1
Consumer Prices						
Advanced Economies	1.4	1.4	1.0	1.5	–0.8	–0.4
Emerging Market and Developing Economies 3/	5.9	5.4	5.7	5.4	0.1	0.2
London Interbank Offered Rate (percent)						
On U.S. Dollar Deposits (six month)	0.4	0.3	0.7	1.9	0.0	0.3
On Euro Deposits (three month)	0.2	0.2	0.0	0.1	–0.1	–0.1
On Japanese Yen Deposits (six month)	0.2	0.2	0.1	0.1	0.0	0.0

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during December 8, 2014-January 5, 2015.
1/The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.
21 Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom United States) and euro area countries.
3/ The quarterly estimates and projections account for approximately 80 percent of the emerging market and developing economies.
4/ For India, data and forecasts are presented on a fiscal year basis and output growth is based on GDP at market prices.
5/ Indonesia, Malaysia, Philippines, Thailand, Vietnam.
6/ For Saudi Arabia, the revisions to the growth forecasts for 2015-16 partly reflect a rebasing of the national accounts to 2010, which resulted in a higher share of the oil sector in the economy and a downward revision of estimated actual growth in 2013 and 2014.
7/ Simple average of prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was S96.26 in 2014; the assumed price based on futures markets is $56.73 in 2015 and $63.88 in 2016.

Risks to the Outlook

Sizable uncertainty about the oil price path in the future and the underlying drivers of the price decline has added a new risk dimension to the global growth outlook. On the upside, the boost to global demand from lower oil prices could be greater than is currently factored into the projections, especially in advanced economies. But oil prices could also have overshot on the downside and could rebound earlier or more than expected if the supply response to lower prices is stronger than forecast. Important other downside risks remain.

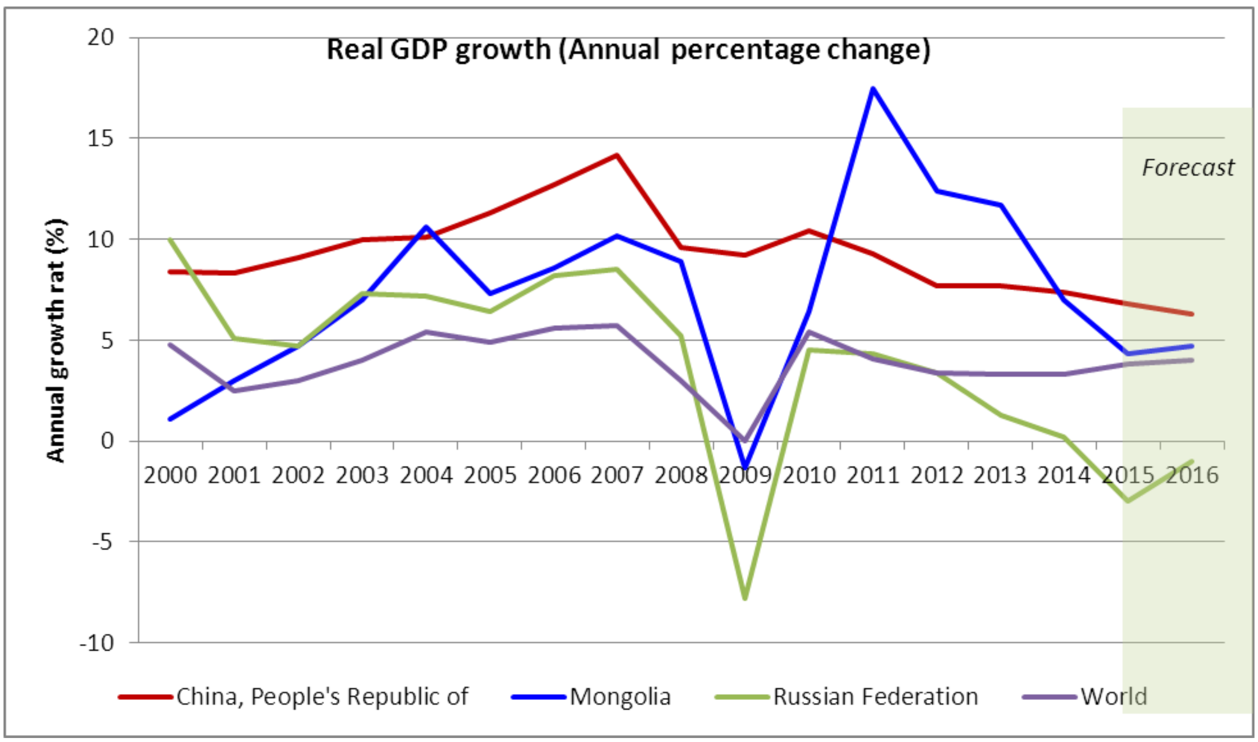


Source: IMF

In global financial markets, risks related to shifts in markets and bouts of volatility are still elevated. Potential triggers could be surprises in activity in major economies or surprises in the path of monetary policy normalization in the United States in the context of a continued uneven global expansion. Emerging market economies are particularly exposed, as they could face a reversal in capital flows. With the sharp fall in oil prices, these risks have risen in oil exporters, where external and balance sheet vulnerabilities have increased, while oil importers have gained buffers. In many major economies, there are still some downside risks to prospective potential output, which would feed into near-term demand. Geopolitical risks are expected to remain high, although related risks of global oil market disruptions have been downgraded in view of ample net flow supply.

Summary

IMF projections for world economic growth for 2015 are higher than the World Bank has estimated. The World Bank has just recently revised down its forecast of world's economic growth to 3.0 for 2015 and 3.3 for 2016.
As for Mongolia, its GDP growth rate for 2014 is forecasted by IMF to be 9.1% in the October WEO. However, by the first nine months of 2014, Mongolia's GDP has grown by only 7% and is not likely to hike much in the last quarter of 2014. Although, Mongolia is among the highest grown countries for 2014, current challenges faced to the macroeconomic fundamentals prevent it from growing further in 2015.
The recent World Economic Outlook published by the World Bank forecasted that Mongolia's GDP to grow around 6%, which still may be optimistic. Especially in the light of two neighboring countries' economic growth slowing, and decreasing commodity price trend, Mongolia's GDP growth in 2015 could fall below than 5.9 percent, the forecast for low income developing countries estimated by IMF.



Source: IMF

The figure shows that Mongolia had the similar growth pattern to Russia since 2005 and this trend likely to continue in the coming years, probably due to the dependency of both countries' economies on the commodity exports. It can be concluded that Mongolia and Russia might be hit harder by the commodity market turmoil in 2015. However Mongolian economic growth will not likely to decline as dramatic as Russia, since the sources of the growth slowdown are not quite the same.
(Sources: IMF, World Bank, National Statistics Office of Mongolia)

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