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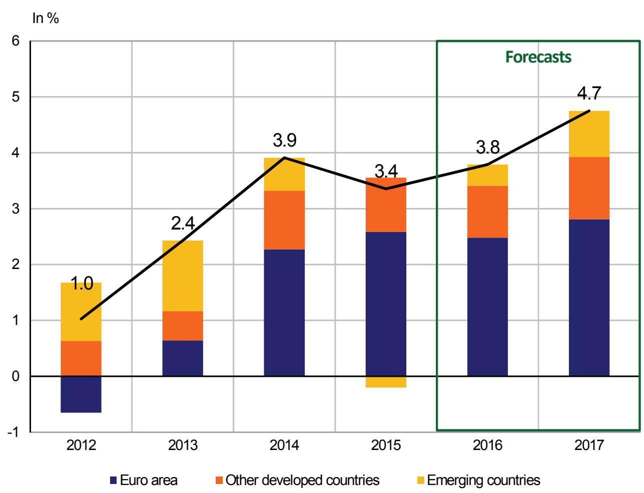
The world economy in spring 2016: a gradual recovery after the 2015 trough

- In 2015, the world economy lost momentum. There were, however, strong geographic disparities. The advanced economies continued to expand, with the United States and United Kingdom posting a brisk performance. In the emerging economies, by contrast, the slowdown persisted. World activity is expected to recover by 2016 and accelerate in 2017, driven by the rebound of the emerging economies-after five consecutive years of deceleration–and by faster growth in the advanced economies in 2016, which will be followed by stabilisation in 2017.
- The emerging economies proved sluggish in 2015. The slowdown continued in China, while Brazil and Russia experienced deep recessions. On the positive side, India and, to a lesser extent, Turkey posted resilient growth. The emerging economies are forecast to accelerate gradually in 2016 and 2017, with improvements in Brazil and Russia more than offsetting China's persistent slowdown.
- After their buoyant 2015 performance fuelled by strong domestic demand, the U.S. and the U.K. economies are likely to maintain their pace–perhaps with a mild deceleration over the forecasting horizon–while growing at above their potential rate. In Japan, the recovery begun in 2015, which proved fitful particularly at year-end, should last into 2016. However, the rise in value added tax (VAT) scheduled for 1 April 2017 may cause the economy to stall next year.
- In the euro area, the recovery gained strength in 2015 but remained uneven. The sharp decline in interest rates, promoted by the European Central Bank's monetary policy, as well as a milder fiscal consolidation and low oil prices should provide continued support for growth over the forecasting horizon.
- Real world trade slowed significantly in 2015, hampered by the contraction of imports by Russia, Brazil, China and other countries. World trade is expected to accelerate in 2016 and 2017, thanks to the gradual improvement in the emerging economies. Given France's trade structure, world demand for French exports suffered less from the emerging economies' slowdown in 2015–but it will also benefit less from their expected rebound in 2016. The overall scenario is thus a moderate acceleration in 2016 and a stronger one in 2017, sustained by the expected growth in trade inside the euro area.
- The gains from the past decline in oil prices and the favourable exchange rate could be invested or consumed faster than expected in the advanced economies, thus quickening growth. By contrast, the slowdown in Chinese demand due to excess manufacturing capacity and the economy's shift towards consumption and services could be stronger than forecast, but would likely entail a more robust effort by Chinese authorities to support demand. Lastly, commodity prices–particularly oil prices–and exchange rates are subject to many contingencies. Depending on the circumstances, they may therefore stimulate or constrain economic activity in the advanced and emerging countries. Overall, the uncertainties affecting this scenario are evenly balanced.

Growth in world demand for French exports, by area*



Source: DG Trésor.

*The forecasts and data in this document were finalised on 18 February 2016.

MINISTÈRE DES FINANCES ET DES COMPTES PUBLICS
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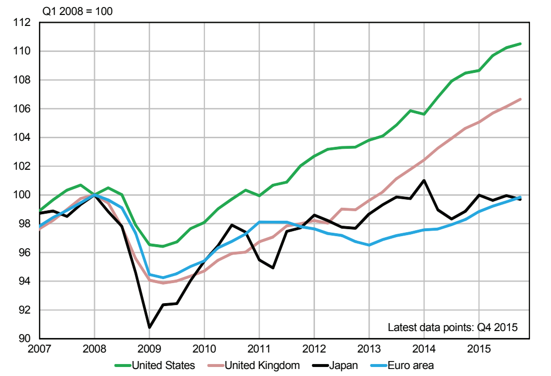
1. The world economy slowed temporarily in 2015 owing to the difficulties of the emerging economies and the fitful performance of the advanced economies

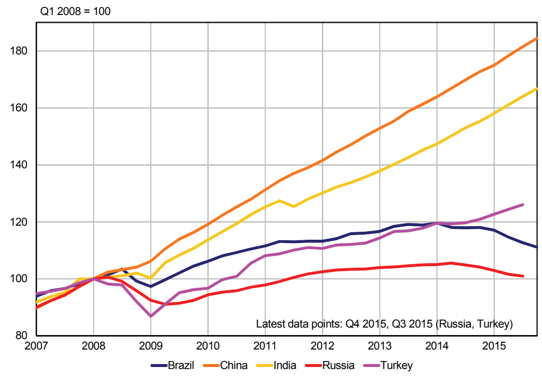
In 2015, global economic activity decelerated, with sharp local disparities. Growth remained buoyant in the United States and United Kingdom and the recovery strengthened in the euro area despite a mild slowdown in H2; Japan experienced a fitful recovery and the slowdown persisted in the emerging economies, amid recessions in Brazil and Russia, and a continuing slowdown in China (see Charts 1 and 2).

Chart 1: GDP in the main advanced economies



Sources: National statistical institutes.

Chart 2: GDP in the main emerging economies



Sources: National statistical institutes.

1.1 The slowdown persists in the emerging economies

The emerging economies were still slowing at end-2015, owing to external and domestic factors. Persistent external factors include the slowdown in China, tighter international financing conditions and–for the commodity-exporting countries–softer commodity prices. The economies that are heavily dependent on commodity exports (such as the Middle East, Russia and Venezuela) are particularly impacted[1]. Among the domestic factors, many emerging economies are facing a productivity slowdown due to structural difficulties and political uncertainties (South Africa, Brazil, Venezuela) or geopolitical tensions (Middle East, Russia, Turkey) (see Box 1). The combination of these factors reduces fiscal and monetary manoeuvring room, restricting the scope for economic stimulus measures.

The main emerging economies display contrasting situations. Brazil and Russia have plunged into deep recessions triggered by weaker commodity prices and Chinese demand, but also by local factors such as international sanctions in Russia and the sharply degraded political climate in Brazil. China's gradual slowdown partly reflects its shift towards consumption and services amid a manufacturing and real-estate glut. The risk of a hard landing seems to have eased since Summer 2015, particularly thanks to official monetary and fiscal stimulus measures, but volatility in the financial markets remains high. In India and Turkey, growth has remained relatively vigorous.

The economic indicators do not point to a strong acceleration in the emerging economies in 2016. In China, they suggest a further slowdown. The recession may persist in Brazil–as a result of restrictive economic policies and pending a clarification of the political situation–and in Russia, because of weak oil prices. In Turkey, growth is expected to remain hampered by major geopolitical uncertainties. India, unlike the other main emerging economies, should remain on a robust growth path.

1.2 The advanced economies proved resilient, but surveys point to a slowdown in early 2016

In the advanced economies, the recovery persisted despite some hiccups. In the euro area, GDP growth dipped from 0.8% in H1 to 0.7% in H2. Spain's performance remained strong. By contrast, growth remained moderate in Germany and lost further momentum in Italy. Outside the euro area, the U.S. and U.K. economies remained brisk despite a somewhat disappointing U.S. performance at year-end. Japan's economy had seemed to be on a firm recovery path since the start of the year, but turned down sharply in Q4 after the decline in private consumption.

The indicators available in early 2016 foreshadow a slowdown in most advanced economies. Surveys of purchasing managers in manufacturing and services show a worsening climate in the U.K., the euro area, Japan and the U.S. (see Chart 3). In the U.K., the PMI surveys have fallen steeply after the H2 2015 rebound. In the U.S., by contrast, the ISM composite index–which appeared to be trending down since the Summer–improved slightly in February. Similarly, in the euro area, PMI surveys rebounded in March after their January and February declines. While these surveys do seem to indicate a gloomier outlook, their level has stayed above 50 in all four areas.

(1) See Camatte, H., Darmet-Cucchiarini, M., Gillet, T., Masson E., Meslin O., Padieu Y. and Tavin, A. (2016), "*mpact of the oil price decline on France and the global economy*", *Trésor-Economics* no. 168.

Box 1: **Vulnerabilities in the emerging economies**

The emerging economies face adverse international conditions that hamper their growth and exacerbate their structural problems. The emerging economies have been losing momentum since the post-crisis rebound in 2010-2011. This slowdown has three distinctive features: (1) its causes, which are both short-term and structural; (2) its scope, as most of the large emerging economies are concerned; and (3) its duration, which exceeds that of previous slowdowns.

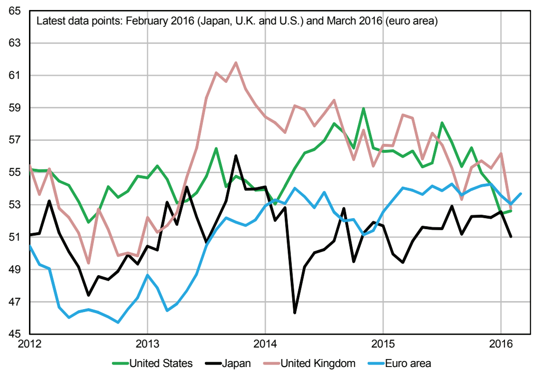
The emerging economies' structural problems increase their exposure to external risks. The emerging economies have become more dependent on external financing in recent years, in an environment marked by the advanced countries' accommodative monetary policies. Since early 2015, expectations of a U.S. monetary policy tightening have been generating major capital outflows, raising financing costs and weighing on economic activity. The retreat of foreign investors is accompanied by a depreciation of emerging currencies. This has weakened governments and firms indebted in foreign currencies, and has threatened the stability of banking systems. The economies whose growth model relies chiefly on external demand are also vulnerable to the world trade slowdown. China's weaker growth and the rebalancing of its growth model[a] have a particularly adverse impact on Asian countries, owing to their strong regional integration. The IMF (*Spillover Report* 2014) estimates that a one-point decrease in Chinese GDP growth reduces the Asian economies' growth by 0.3 point; for South Korea and Taiwan, the IMF puts the impact at 0.6 and 0.9 points respectively. The Chinese slowdown also affects certain commodity prices, owing to China's dominance in these markets. The least diversified economies are heavily exposed in the commodity markets-particularly oil and natural gas producers, who are hit by a sharp fall in prices. The most vulnerable exporting countries are those with weak financial reserves, most notably measured against their external debt.

The slowdown is also due to domestic factors specific to each economy. Some countries such as South Africa and Brazil suffer from an investment deficit that creates bottlenecks and restrains productivity. Some insufficiently diversified economies, especially those with a commodity-based growth model (Middle East, Venezuela), have been severely affected by the decline in commodity prices. In several countries, political tensions (Brazil, Venezuela) or geopolitical tensions (Middle East, Russia) are undermining investment and, in the longer run, potential growth. The growth slowdown is all the more pronounced as the authorities' manoeuvring room to support the economy is limited. In many countries, public finances are weakened by the contraction in tax revenues due to slack growth and softer commodity prices. In addition, monetary policy is constrained by tighter international monetary conditions and capital outflows, which exacerbate currency depreciation and generate imported inflation. In Brazil, for example, the *real* fell more than 30% against the dollar in 2015, and year-on-year inflation reached nearly 11% in January 2016 owing to the adjustment in administered prices and imported inflation.

Short-term risks in the emerging economies are high, but most countries continue to display significant potential growth in the longer run. Many emerging economies have become more resilient, particularly to external shocks. Some economies are helped by favourable demographic dynamics and an increasingly skilled labour force. In India, for example, the UN projects further growth in the working-age population (ages 25-64) to 2050. The fulfilment of these growth prospects, however, will depend on the implementation of structural reforms that will reduce these economies' vulnerabilities and increase investor confidence.

a. Albert, M., Jude, C. and Rebillard, C. (2015), "Actual and potential growth in China", *Trésor-Economics* no. 155, October.

Chart 3: Surveys of purchasing managers in manufacturing and services in the advanced economies



Source: ISM, Markit.

1.3 The financial markets' increased volatility in the recent period is due to a combination of economic, monetary and political factors

Late 2015 was marked by a monetary policy divergence between the Fed and the other central banks. In December 2015, after inflation prospects worsened in Summer 2015, the European Central Bank (ECB) extended its Quantitative Easing (QE) programme by six months to March 2017; in March 2016, it cut its deposit facility rate by a further 10 basis points to –0.40% and the refinancing rate by 5 basis points. Also in March, the ECB raised its monthly purchases under the QE programme by €20bn and extended the list of securities eligible for the programme to euro-area corporate bonds. Four new targeted longer-term refinancing operations (TLTROs) will be launched with very attractive conditions between June 2016 and March 2017. The ECB also announced its readiness to apply its instruments in the event of a further deterioration in growth and inflation forecasts. Meanwhile, the Bank of Japan (BOJ) implemented a package of additional measures at end-December, lengthening the maturities of securities purchased but without changing their volume. At end-January 2016, it introduced negative interest rates on a portion of the surpluses of commercial banks' new reserves, and for the fourth time pushed back the time frame for achieving its 2% inflation target to mid-2017. It also stated that it would pursue its policy of "quantitative and qualitative easing" and negative interest rates as long as necessary to attain and stabilise that target. The Bank of England (BOE), as well, pledged to maintain an accommodative monetary policy until the economic recovery is firmly established. It should be recalled that the BOE has kept its key rate at 0.5% since March 2009 and ceased its asset purchases in November 2012. In the U.S., meanwhile, the Fed raised its key rates by 25 basis points after its monetary policy meeting in December, but announced that its policy would remain accommodative. The Fed has now adopted a prudent posture with regard to the path and upward pace of interest rates.

The volatility of stock markets and sovereign interest rates has increased as a result of uncertainties over monetary policy choices, on top of concerns about Greece last Summer and China since then, as well as the impact of lower oil prices on oil-company shares. Amid this heightened risk aversion, stock markets retreated in Q3

2015 and early 2016, before rebounding in mid-February. Meanwhile, sovereign interest rates in the advanced economies eased slightly in H2 2015 after a sharp rise from April to July, but spreads remain contained.

The abundant oil supply–a consequence of OPEC decisions and brisk production of unconventional oil, among other factors–has triggered a fresh decline in prices. After plunging from $110 in mid-2014 to $50 in January 2015, oil prices rebounded, displaying a sharp volatility in H1 2015 (in the $50-65 range) fuelled by many uncertainties including the outcome of negotiations on Iran's nuclear programme. Since H2 2015, Brent and WTI (West Texas Intermediate) prices have dropped again, hitting an 11-year low of under $30 in January 2016.

2. After stalling in 2015, global growth is projected to accelerate in 2016 and 2017, with the gradual recovery in the emerging economies and a more vigorous expansion in the advanced economies

After decelerating in 2015 in the wake of the emerging economies, the world economy is poised to gradually gain momentum in 2016 and 2017. It should be driven both by the gradual improvement in the emerging economies by 2017 (except for China, whose slowdown is expected to persist) and by the strength of the advanced countries: economic activity should continue to accelerate in the euro area, while growth in the U.S. and U.K. should remain vigorous. The impact of the current decline in oil prices on global growth is likely to be positive, although it may be curtailed by several effects, potentially in combination[2].

2.1 The emerging economies–apart from China–should gradually gain momentum in the wake of Brazil and Russia

The emerging economies should experience a mild acceleration in 2016 and 2017, notably thanks to Russia and Brazil's gradual exit from crisis. Our scenario assumes an easing of Brazil's political uncertainties, but Brazil and Russia should also benefit from the stabilisation of commodity prices and the positive effects of past currency depreciations on their competitiveness. A slower than expected normalisation of U.S. monetary policy would ease financial pressures in the emerging countries that are heavily exposed to international capital movements–most notably South Africa, Brazil, Mexico and Turkey. The measures taken by Chinese authorities to curb the economic slowdown are also likely to provide indirect support for the emerging economies, particularly the Asian countries (South Korea, Malaysia and Taiwan). On the other hand, China's slowdown is forecast to continue, and the oil countries, especially in the Middle East, should be hampered by the fiscal consolidation measures designed to partly offset their loss of oil revenues and the weakening of their external balances.

In China, the further slowdown forecast in 2016 and 2017 is partly due to structural factors such as the rebalancing of the growth model and population ageing. It also reflects short-term developments such as the contraction in investment, which suffers from excess production capacity and the earlier sharp rise in economic agents' debt. The monetary and fiscal stimulus measures should, however, dampen the slowdown. Officials have announced a rise in the public deficit from 2.3% of GDP in 2015 to 3.0% in 2016, achieved through tax cuts and higher social spending. In early 2016, the People's Bank of China lowered its required reserves ratio for the fourth time since November 2014.

In Brazil, the recession is expected to continue in 2016 before a very progressive recovery in 2017, assuming a gradual improvement in the political climate, which is inhibiting investment. The economy will remain hampered in 2016 by fiscal consolidation, a restrictive monetary policy to cope with high inflation, and structural weaknesses such as the infrastructure deficit.

In India, growth should remain firm in 2016 and 2017. Low commodity prices, particularly for oil, should offer continued stimulus and greater manoeuvring room in economic policy through reduced public spending on energy subsidies as well as lower inflation.

In Russia, the recession is set to persist in 2016 in an adverse international context of weak oil prices and sanctions. Domestic demand will likely be curbed by inflation and fiscal consolidation measures. Growth may rebound in 2017 assuming a gradual normalisation of the geopolitical situation and a stabilisation of commodity prices.

In Turkey, growth is forecast to remain stable in 2016 and 2017 at close to its potential rate, thanks to the support for domestic demand provided by low oil prices and the early-2016 rise in the minimum wage. However, the economy's performance remains subject to geopolitical uncertainties and the vulnerability due to external debt in foreign currencies.

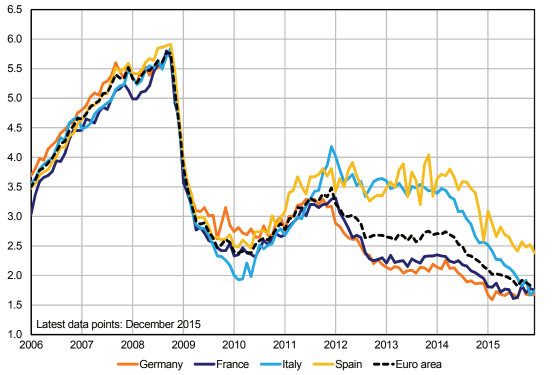
2.2 The euro-area economy is expected to gain momentum, driven by domestic growth engines

The euro area is likely to register gradually stronger growth, with a narrowing divergence of national growth rates within the area. Low oil prices, milder fiscal consolidation and the ECB's accommodative monetary policy will stimulate growth, which is set to quicken in 2016 and 2017. The main driver will be domestic demand. First, private consumption should be helped by the rise in household purchasing power, amid continued moderate inflation and robust job creation. Second, business investment should remain buoyant, thanks to brighter demand prospects and a significant improvement in financing conditions in the peripheral countries. Financial fragmentation has decreased sharply, including for interest

(2) See Camatte et al., op. cit.

rates on new business loans (see Chart 4), which, however, remain high in Spain. Business credit is also poised to recover, fuelled by the ECB's accommodative policy. Exports should be fuelled by the acceleration in world demand, supported by the gradual upturn in demand in the emerging countries.

Chart 4: Interest rates on new loans to non-financial corporations



Source: ECB.

In Germany, growth should remain brisk in 2016 and 2017. The economy will be driven by private consumption and public spending, which should be trending up–particularly in response to the influx of migrants–without compromising fiscal balance or the government's target of reducing the public debt. Employment will probably continue to provide support despite a possible rise in unemployment from its record low in 2015, as migrants gradually enter the labour force. The construction industry is expected to recover but the outlook for corporate investment remains uncertain given German firms' investment behaviour since the crisis.

In Italy, growth should accelerate in 2016 and 2017. Job creation will remain vigorous as the recovery consolidates, a trend helped by the partial renewal in 2016 of exemptions from social contributions on hirings under open-ended contracts. In addition, tax exemptions for households (abolition of the property tax on the main residence) should provide a further boost to purchasing power, quickening the growth in private consumption. Investment in durable goods is forecast to keep rising thanks to brighter demand prospects, pro-business tax measures and improved financing conditions.

In Spain, growth is projected to remain high in 2016 and 2017 thanks to robust household consumption. This aggregate should continue to benefit from weak inflation, amid strong job creation and weaker wage restraint. Investment is expected to remain dynamic, including in construction, particularly thanks to a catching-up trend that will gradually fade. The moderation of wage costs should help to support exports and allow Spain to consolidate its market-share gains of recent years.

2.3 The U.S. and U.K. are on a vigorous growth path, and the recovery in Japan should continue, before a slowdown in 2017

Outside the euro area, the U.S. and U.K. are forecast to record the best performance among the advanced economies–but with no further acceleration. Growth should remain broadly stable in the U.S., as the Fed raises interest rates. In the U.K., growth will likely level off at a brisk pace in 2016-2017 and stay above potential growth. In Japan, the recovery is expected to intensify in 2016 but will stall in early 2017 owing to the VAT increase scheduled for Q2 2017.

In the U.S., growth should remain broadly stable over the forecasting horizon. The pace of job creation could ease as unemployment moves below its natural level, but an uptrend in wages may quicken household income growth. However, consumption is expected to slow as a result of rising inflation. Overall investment spending should remain stable despite higher interest rates. The negative contribution of foreign trade to growth should diminish in 2016 and 2017.

In the U.K., the growth rate is set to stabilise in 2016 and in 2017 amid further fiscal consolidation. Private consumption will remain the chief growth engine, driven by faster household income growth and the persistence of low inflation. Business investment should thus be stimulated by the positive demand outlook and the decrease in spare capacity. The major uncertainties in this scenario are the campaign for the referendum on keeping the U.K. in the European Union–and its outcome.

In Japan, the recovery begun in 2015 should continue in 2016, but the VAT increase announced will likely weigh on the economy in 2017. Domestic demand will be supported by the stimulus package in 2016 and a consumption spike ahead of the VAT rise. The latter, planned for 1 April 2017, is forecast to trigger a significant consumption slowdown. Exports should be helped by an uptrend in competitiveness, as firms now seem ready to pass on a greater proportion of the yen's earlier depreciation to selling prices. Nominal wages should keep rising as a result of wage negotiations and a rebound in profitability for firms benefiting from the new stimulus package. Corporate investment is set to increase, as businesses rebuild their margins and as domestic and external demand prospects brighten.

Box 2: **Main economic revisions since the French 2016 Draft Budget Bill and comparison with main international organisations**

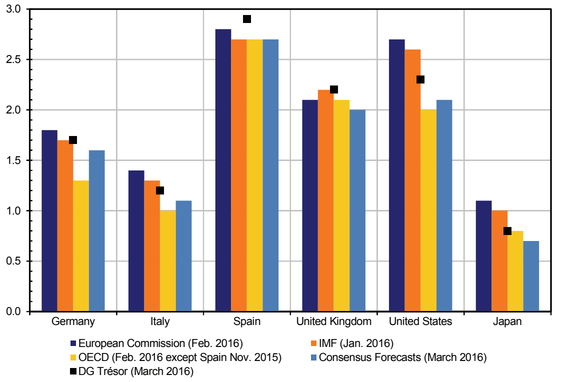
Since the forecasts prepared last Summer for the 2016 Draft Budget Bill (Project de Loi de Finances: PLF), new information on the world economic situation has led to downward revisions.

In the emerging economies, financial tensions, the weakness of world trade and the decline in commodity prices have curtailed growth more sharply than expected. In 2016, the revision is particularly substantial for two countries: (1) Brazil (–2.7 points), where the sovereign rating downgrade and the worsening political climate weigh on investor confidence and delay the implementation of the structural reforms needed for economic recovery; (2) Russia (–1.4 points), hit by the drop in oil prices since the 2016 PLF.

As regards the advanced economies, the lowering of the forecasts for 2016 is due to a weaker performance than expected at end-2015 and a more adverse external environment. The euro area 2016 growth forecast has accordingly been revised downwards by 0.1 point. Similarly, the recovery in Japan should be milder than expected in the previous forecasting exercise (entailing a –0.2 point revision for 2016). The forecasts for the U.S. have been revised downwards as well (by –0.5 points for 2016), notably on account of falling oil prices, which have had a long-term impact on the extractive industry.

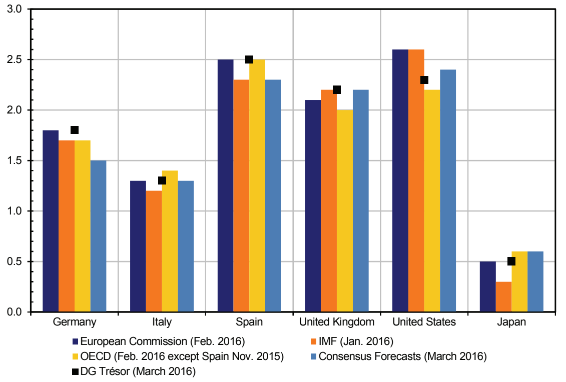
These forecasts are broadly consensual (see Charts 5 and 6). A large majority of organisations still expects growth to accelerate despite recent short-term developments. However, the recent OECD forecasts (February 2016 Interim Economic Outlook) seem generally lower than the other forecasts. The OECD has revised its scenario downwards because of the weaknesses of the advanced economies suggested by the last indicators for 2015 and the vulnerability of the emerging economies: world growth has been revised downwards by 0.3 point from the November forecasts to 3.0% for 2016 and 3.3% for 2017 after 3.0% in 2015.

Chart 5: 2016 growth forecasts



Sources: IMF, OECD, European Commission, Consensus Forecasts, DG Trésor.

Chart 6: 2017 growth forecasts



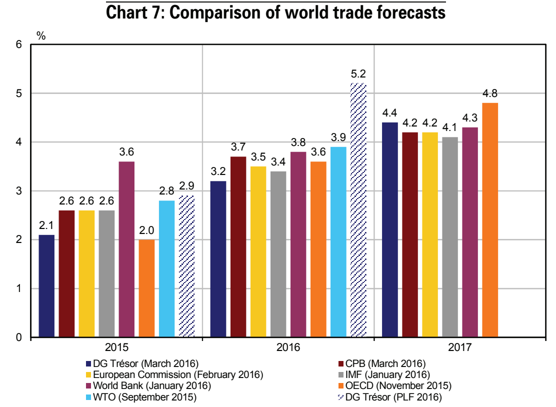
Sources: IMF, OECD, European Commission, Consensus Forecasts, DG Trésor

We have revised our world trade forecasts downwards by nearly 2 points in 2016 from the 2016 PLF. This downward adjustment is divided between the emerging economies and the advanced economies. Among the former, imports were less dynamic than expected in China, Russia and Brazil in H2 2015, and the weaker growth outlook in Russia and Brazil has led to a downward revision of their import forecasts. Among the advanced economies, imports proved disappointing in Q3 and Q4 2015 in the U.S. (whose imports account for some 15% of world trade), and in Japan and the euro area in Q4. We have also lowered import forecasts for the advanced economies because of the downward revision in their exports, in turn a consequence of lower forecasts for demand by the emerging economies.

Our scenario of a world trade recovery by 2016 after the 2015 slowdown is consensual. Our forecasts lie in the lower range of forecasts by other organisations in 2016 and are consistent with them in 2017 (see Chart 7).

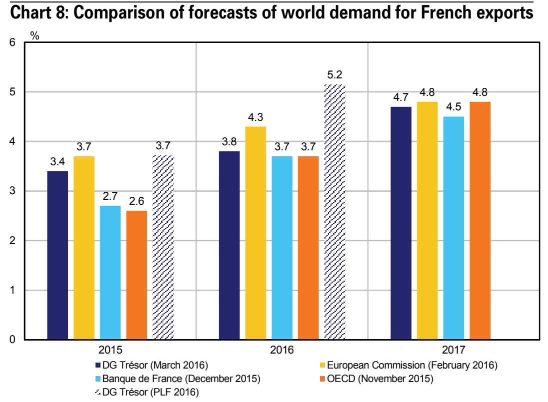
World demand for French exports has also been revised downwards since the PLF, but less sharply than world trade (by –1.3 points in 2016) owing to the geographic structure of French exports, which are relatively less oriented towards the emerging economies, the U.S. and Japan than world exports. Our forecasts align with those of other organisations (see Chart 8).

Chart 7: Comparison of world trade forecasts



Source: DG Trésor.

Chart 8: Comparison of forecasts of world demand for French exports



Source: DG Trésor.

Table 1: Growth forecasts

GDP (annual average in %)	Average 2000-2007	2014	2015	2016	2017
		(forecasts, working-day adjusted)			
World growth[a]	**4.5**	**3.4**	**3.1**	**3.3**	**3.6**
Advanced economies	**2.7**	**1.8**	**1.9**	**2.0**	**2.0**
United States	2.1	2.4	2.4	2.3	2.3
Japan	1.1	−0.1	0.5	0.8	0.5
United Kingdom	2.4	2.9	2.3	2.2	2.2
Euro area	**2.2**	**0.9**	**1.6**	**1.7**	**1.8**
Germany	*1.3*	*1.6*	*1.7*	*1.7*	*1.8*
Italy	*0.9*	*−0.4*	*0.8*	*1.2*	*1.3*
Spain	*3.3*	*1.4*	*3.2*	*2.9*	*2.5*
Emerging economies	**6.6**	**4.6**	**4.0**	**4.3**	**4.7**
Brazil	*3.6*	*0.1*	−3.8	*−3.2*	*0.0*
China	*10.5*	*7.3*	*6.9*	*6.3*	*6.0*
India	*7.1*	*7.3*	*7.3*	*7.4*	*7.4*
Russia	*7.2*	*0.6*	−3.7	−1.2	1.0
Turkey	*5.2*	*2.9*	*3.8*	*3.2*	*3.2*
World demand for French exports[b]		*3.9*	*3.4*	*3.8*	*4.7*
World trade[c]		*3.6*	*2.1*	*3.2*	*4.4*

a. World growth is estimated from IMF forecasts, adjusted by DG Trésor forecasts covering the countries in the table above France, Belgium and the Netherlands.

b. World demand covers 39 countries and organisations (Germany, Belgium, Italy, Spain, U.S., U.K., OPEC, Netherlands, China, Switzerland, Japan, Russia, Poland, Turkey, Brazil, Sweden, South Korea, Hong Kong, Singapore, Canada, Morocco, Portugal, Austria, Czech Republic, Hungary, Australia, India, Malaysia, Mexico, Thailand, Ireland, Denmark, Greece, Slovakia, Norway, Taiwan, Finland, Philippines and Argentina), which receive 90% of French exports.

c. World trade covers 40 countries (the 39 listed above plus France), which receive 85% of world exports.

Source IMF, January 2016 WEO update; calculations and forecasts: DG Trésor.

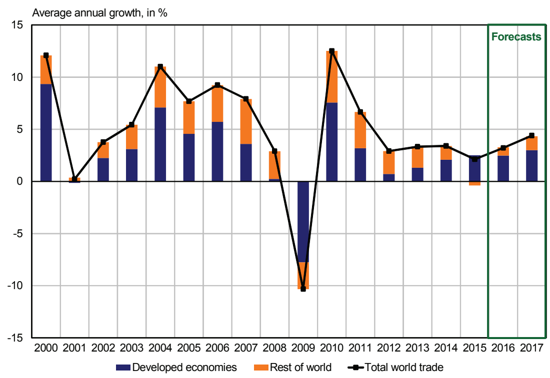
3. Gradual acceleration in world demand for French exports over the forecasting horizon

World trade growth slowed sharply from 3.6% in 2014 to 2.1% in 2015, partly owing to the contraction in imports by the emerging economies, which proved greater than suggested by their domestic demand trends. Some local factors constrained imports by the main emerging economies: (1) Brazil, where the sharp depreciation of the real eroded purchasing power; (2) Russia, where the rouble depreciated as well, and external trade was impacted by weaker oil prices, international sanctions and retaliatory measures adopted in response; (3) China, whose relatively import-intensive investment slowed as a result of the major imbalances facing the country (excess industrial and real-estate capacity, high debt).

Offsetting its poor performance in 2015, world trade growth is forecast to rebound to 3.2% in 2016, accelerating to 4.4% in 2017. The upswing will be driven by Brazil and Russia's gradual exit from recession and a progressive recovery in imports by China[3], while trade should remain buoyant in the euro area (see Chart 9). Because of the structural constraints in play, however, world trade growth is unlikely to return to its pre-crisis pace of 6.5% a year between 1990 and 2008[4].

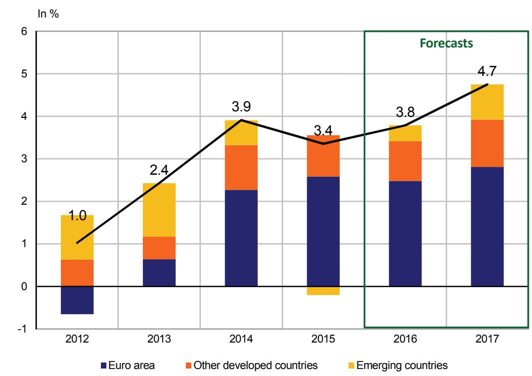
World demand for French exports should display a similar profile (see Chart 10). Thanks to the structure of French exports, growth in foreign demand for French products slowed less than world trade growth, easing from 3.9% in 2014 to 3.4% in 2015. However, it is also likely to benefit less from the expected rebound in the emerging economies in 2016. Our forecast indicates a mild acceleration to 3.8% in 2016–a downward revision of more than 1 point since the 2016 PLF–with a more robust increase to 4.7% in 2017.

Chart 9: World trade and contributions by area



Sources IMF, January 2016 WEO update; forecasts: DG Trésor.

Chart 10: World demand for French exports and contributions by area



Source: DG Trésor.

(3) Chinese imports are nevertheless expected to remain less buoyant than the Chinese economy given the shift from manufacturing to consumption and services.

(4) See François, L., Lecumberry, J. and Shimi, L. (2016), "Why is world trade so weak?", *Trésor-Economics* no. 166.

4. This baseline scenario is surrounded by major uncertainties

- **Rising vulnerabilities in the emerging economies are a major imponderable (see Box 1).** Beyond the recessions in Russia and Brazil, which could last longer than expected, some emerging economies may experience financial tensions that would undercut growth. Another risk factor is the oil countries' fiscal and external position. However, the risks in the emerging economies are mitigated by three factors: their greater resilience than in past episodes of tension; the Chinese authorities' resolve to use monetary and fiscal levers to support the economy; and the likely gradual pace of the Fed's rate hikes.
- **The pace of increases in U.S. key interest rates will also affect the advanced economies.** Given market volatility as well as uncertainties over the U.S. and world economic outlook, the pace of the Fed's rate hikes could be slower than expected, providing support for U.S. and world growth.
- **Commodity price movements remain subject to contingencies.** Oil prices could be dragged down if Iranian production returns to the market. Conversely, an upturn in prices of oil and other commodities would erode household purchasing power and domestic demand in the advanced economies, which are net commodity importers. On the other hand, it would stimulate recovery in the producer countries that have suffered from the fall in prices.
- **The gains from the past decline in oil prices and positive exchange-rate movements could spread to the advanced economies faster than expected.** Firms that have rebuilt their margins thanks to lower oil prices may now raise their investment. At the same time, households–who added to their savings in 2015 also thanks to lower oil prices–could use these saved purchasing-power gains to increase their consumption.

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