Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

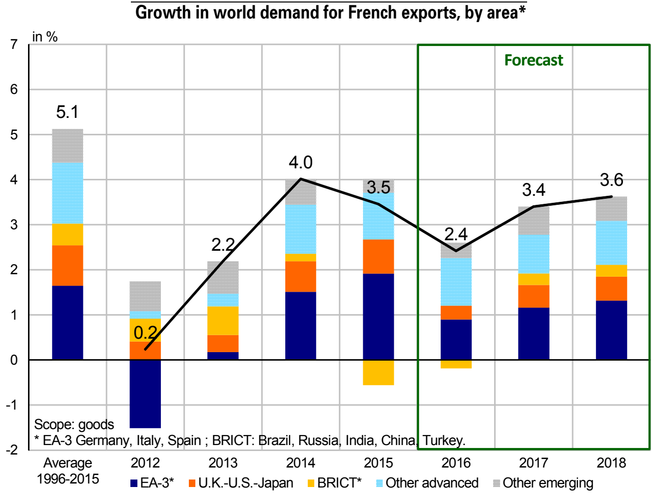
No. 194
March 2017

TRÉSOR-ECONOMICS

The world economy in spring 2017: a gradual improvement amid high uncertainty

- After a two-year slowdown, world economic activity should quicken in 2017, continuing at a milder pace in 2018. This acceleration will likely be driven both by the advanced economies–particularly the United States-and the emerging economies, as conditions in Russia and Brazil improve.
- In the United States, after a slack in 2016, economic growth should gain momentum in 2017 and 2018 thanks to the new administration's planned stimulus measures. Similarly, Japan's economy is set to accelerate in 2017 thanks to a massive recovery package, followed by slightly slower growth in 2018. In the United Kingdom, the economy is forecast to slow, and the uncertainty over negotiations to leave the European Union (EU) should reduce GDP growth by a total of approximately one point in 2017-2018.
- The recovery enjoyed by the euro area for the past three years should persist at a nearly stable pace. The European Central Bank (ECB) is set to continue providing monetary support, but the rise in inflation due to higher energy prices will likely affect household purchasing power. The divergent paths taken by the leading euro-area countries will reflect, in particular, their different fiscal stances.
- The outlook for the emerging economies is contrasted. Conditions should improve in Brazil and Russia, but growth will likely weaken in China and stay below its potential in Turkey. India's economy should slow in 2017 then accelerate in 2018.
- After a two-year slowdown, world trade is expected to pick up in 2017, with a moderate acceleration in 2018. World demand for French exports should display a similar profile over the forecasting horizon.
- This scenario is affected by many uncertainty factors: the policy of the new U.S. administration, the extent of the impact of the Brexit referendum, and fiscal stances and upcoming election results in Europe. Political, geopolitical and financial tensions persist in the emerging economies, and China's rebalancing still raises major risks, although the reforms implemented in India could generate stronger growth than forecast. Lastly, the possible enactment of protectionist measures could dampen the world trade rebound observed in late 2016.

Growth in world demand for French exports, by area*



Source: DG Trésor.

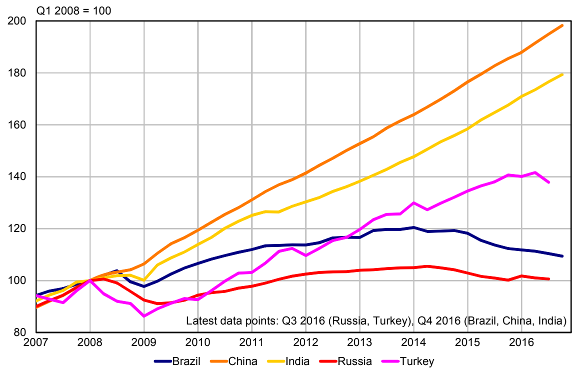
*The forecasts and data in this document were finalised on 23 February 2017.

MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES

1. World growth proved resilient in the second half of 2016

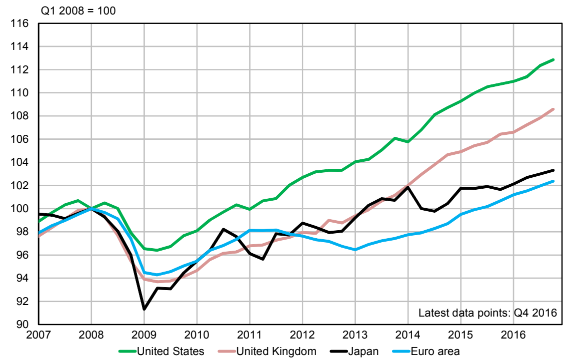
Among the emerging economies, the encouraging short-term signals in Russia and China contrasted with the negative signals in Turkey and India. In the advanced economies, GDP growth proved resilient in late 2016 (see Charts 1 and 2).

Chart 1: GDP in the main emerging economies



Sources: National statistical institutes.

Chart 2: GDP in the main advanced economies



Sources: National statistical institutes.

1.1 The main emerging economies have moved in contrasting patterns

The emerging economies are still facing adverse domestic and external factors. Their performance is hampered by the downtrend in Chinese growth, although the monetary and fiscal measures implemented by China are sustaining demand in the short term. The emerging economies are also impacted by foreign capital outflows due–among other reasons–to rising U.S. interest rates. Despite the recent increase in commodity prices, exporting countries are still suffering from weak prices. Lastly, some emerging countries face political and geopolitical uncertainties that weigh, in particular, on private investment.

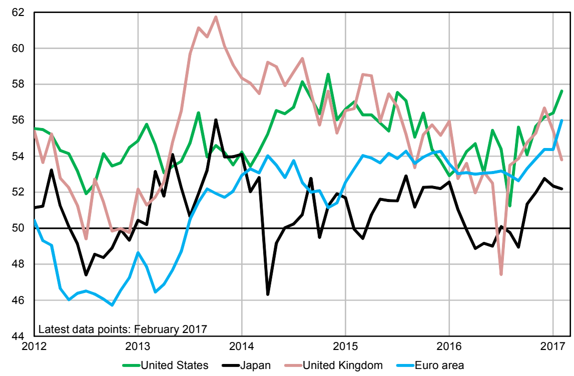
The encouraging short-term signals in China and Russia contrast with negative signals in Turkey and India. In China, stepped-up measures to support the economy have curbed the slowdown, but at the price of an increase in existing imbalances. In Russia, higher oil prices are supporting growth through investment in the extractive industries and lower inflation. The Indian economy, which relies heavily on cash payments, is suffering from the unexpected demonetisation of the two main banknotes. Turkey's private sector is impacted by political uncertainties.

1.2 The main advanced economies displayed resilience at end-2016, and their short-term indicators are upbeat for early 2017

The advanced economies posted robust growth at year-end. The U.S. economy accelerated in H2, sending GDP growth to 1.6% for 2016 and confirming the end of the slowdown observed at the start of the year, attributable to weak oil prices and the dollar's past appreciation. The euro-area economy remained stable, fuelled by factors including the upturn in investment and exports–putting total growth for 2016 at 1.7%. The U.K. performed surprisingly well in H2 despite the outcome of the Brexit referendum and uncertainties over the future of trade relations with the EU. Overall, however, growth slowed in 2016 to 1.8%. In Japan, by contrast, the consumption slowdown caused a gradual deceleration of the total economy at end-2016, reducing annual growth to 1.0%.

The indicators available in early 2017 suggest contrasting situations in the advanced economies (see Chart 3). The indices from surveys of U.K. purchasing managers in manufacturing and services (PMI) fell sharply in July after the referendum, then staged a rapid and vigorous rebound, and now seem to be trending down since the December peak. Similarly, Japanese PMI surveys improved after October following the announcement of a stimulus package, then dipped slightly in early 2017. In the U.S., by contrast, the surveys' upbeat performance since September 2016 seems to be strengthening. In the euro area, PMI figures have been steadily improving since October 2016, reaching their highest level since April 2011.

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



Source: Markit (Purchasing Managers' Index), except for U.S. (Institute for Supply Management).

1.3 Late 2016 also saw an upturn in oil prices and significant volatility in the financial markets

In late November 2016, OPEC reached an agreement to reduce production by 1.2 million barrels a day (BPD) from 1 January 2017 on. Eleven non-OPEC countries joined this effort by committing to trim production by nearly 0.6 million BPD. This sent oil prices rising again, and the barrel price has been fluctuating at around $55 since the start of 2017. The increase has been moderated by the abundant oil supply, particularly in the U.S., where drilling resumed in mid-2016. The markets will be particularly attentive to compliance with the agreement in H1[1] and to the end-May decision on whether or not to extend the agreement for a further six months.

The financial markets experienced several ruptures in 2016. The Brexit referendum and Donald Trump's election shook the stock markets and fuelled volatility on the currency markets. The British pound dropped sharply after the unexpected outcome of the U.K. vote, and volatility remains high on account of factors such as statements by ministers on future U.K.-EU relations. In the U.S., the prospect of an expansionary fiscal policy drove up sovereign rates and the dollar, while share prices were buoyed by the expected positive impact on growth and higher inflation expectations. In Italy, the referendum caused a mild increase in the country's sovereign spreads.

2. The world economy is forecast to accelerate rather sharply in 2017 and more moderately in 2018

After a two-year slowdown, the world economy should accelerate in 2017 and, to a lesser degree, in 2018 (see Table 1). The main drivers will be the U.S. rebound and the improvement in Russia and Brazil.

2.1 Growth is expected to gradually gain momentum in the emerging economies as Russia and Brazil recover

In China, the downtrend in the growth rate is likely to persist into 2018 but should be contained in 2017 thanks to the government's stimulus measures, whose impact is still hard to assess. However, the increase in domestic imbalances–due, in particular, to the sharp rise in credit amid high debt levels and excess production capacity–could entail a more pronounced adjustment in GDP growth in 2018.

In Brazil, growth should gradually accelerate in 2017 as the political situation clarifies and inflation converges towards the centre of the central bank's target of 4.5% ± 1.5 points. However, the exit from recession will be slow and conditional upon the return of private investors' confidence. The recovery is also likely to be hindered by limp household consumption and further fiscal consolidation.

In India, growth is set to weaken significantly in 2017 owing to the unexpected demonetisation of 500- and 1000-rupee bills, in an economy where 98% of transactions[2] are conducted in cash (see Box 1). Growth should rebound in 2018, notably thanks to strong growth in public-sector wages and the implementation of the single Goods and Services Tax at federal level–a move aimed at simplifying indirect taxation and creating a single market.

In Russia, the economy is forecast to return to positive growth thanks to higher commodity prices and despite the maintenance of international sanctions. However, the scope of the upturn is limited by structural vulnerabilities such as the dependence on extractive industries, the lack of investment and adverse demographics. The economy is also likely to suffer from fiscal consolidation, made necessary by the fact that the oil price has fallen below the budget-balancing level and one of the two reserve funds is nearly depleted.

In Turkey, growth is projected to remain weak owing to the impact of political uncertainties on domestic demand. The inflationary effect of the depreciation of the Turkish pound should depress household consumption, while private investors are likely to adopt a wait-and-see stance. The economy may also be affected by tighter international financing conditions because of the volume of short-term debt in foreign currency and the rise in commodity prices, given the country's dependence on energy imports.

Box 1: **Demonetisation of 500- and 1,000-rupee bills in India**

On 8 November, Prime Minister Narendra Modi announced the immediate withdrawal of 500- and 1,000-rupee bills (worth around €7 and €14 respectively). The decision–whose goals include combating money laundering–led to the immediate withdrawal of 86% of the total value of fiduciary currency in circulation. The INR500 have been replaced by new bills with the same value, while the INR1,000 notes are being gradually replaced by INR2,000 notes.

The decision entailed an abrupt fall in the quantity of money in circulation and significant confusion among the population, with short-term effects that are still hard to assess. The moderate decline in year-on-year GDP growth from 7.3% in Q3 to 7.0% in Q4 2016 contrasts with the main economic indicators, which suggest a sharper slowdown particularly in retail trade and the real-estate sector. This divergence may be partly due to an underestimation of the contraction in the informal sector, which accounts for over 40% of GDP.

The socio-economic consequences of the measure are hard to forecast in the longer term. The return of some informal-sector activities to the formal sector and the increase in banking inclusion should foster productivity gains. However, the stated goal of combating tax evasion and money laundering does not appear to have been fully met, since the central bank and the government reckon that 95% of the demonetised bills have already returned to the financial system. Some observers also point to the socio-economic consequences of the measure on the most vulnerable population categories, in particular the elderly and women, who have limited access to bank accounts. These effects are still hard to assess.

(1) OPEC has shown its commitment to cut production as its compliance reached approximately 90% in January, This excluding Libya and Nigeria, which are exempted from output cuts. However, their production levels are running well below their historical averages owing to conflicts and production stoppages so thatboth countries have a strong potential for a rebound, while Russia's compliance is set to be only gradual.

(2) Number of transactions.

2.2 Fiscal policies should support the U.S. and Japanese economies, while the consequences of the referendum are expected to inhibit growth in the U.K.

After a sluggish 2016 (1.6%), **U.S. growth should rebound to 2.3% in 2017 and quicken to 2.4% in 2018**, particularly thanks to the expansionary fiscal policy announced by the new administration (see Box 2). Moreover, buoyant world demand in 2017 and 2018 should spur a U.S. export recovery, benefiting the entire manufacturing sector. With the U.S. economy nearing full employment, wages should post strong growth. Under this scenario, the Fed will continue tightening monetary policy after its initial 25-bp rate hikes in December 2015, December 2016 and March 2017.

In Japan, after the yen's appreciation in 2016, **growth is poised to accelerate in 2017**, sustained by a favourable fiscal policy; over the forecasting horizon, it should then ease slightly as the effects of the stimulus measures fade. The weak unemployment rate, now below its structural level, and demographic decline are expected to put upward pressure on wages, and inflation should move back into moderately positive territory.

The U.K. slowdown is forecast to continue, with GDP growth dipping from 1.8% in 2016 to 1.7% in 2017 and 1.5% in 2018. The activation of Article 50 in March will open a period of uncertainty, leading firms to defer investment decisions and hindering business growth. The steep depreciation of the British pound, which has lost over 15% since mid-December 2015, should curb household purchasing power through higher inflation, but it will also help exports. The government is likely to support the economy in particular through public investment. Meanwhile, the Bank of England, caught between the prospect of high inflation and the uncertainties generated by the referendum, could steer its monetary policy in either a restrictive or an accommodative direction.

Box 2: **Potential economic effects of the enactment of the new U.S. administration's programme**

During his campaign, the newly elected president announced a fiscal programme equal to about 3% of GDP per year, focused on the following measures:

- An infrastructure investment plan ($50-10 bn per year over ten years, or 0.3%-0.5% of GDP) and an increase in defence spending ($40-45 bn per year, or 0.2% of GDP);
- A cut in the corporate tax rate from 35% to 15%, entailing a decline in tax revenues of some $200 bn per year, or 1.1% of GDP;
- A reduction in the number of income tax brackets and a cut in the top marginal income tax rate from 39.6% to 33%; this would lower tax revenues by $100-150 bn per year, or approximately 0.5%-0.8% of GDP.

Such a fiscal stimulus would have a positive impact on U.S. growth: the IMF has revised its 2017 and 2018 growth forecasts upwards by 0.4 points (between the October 2016 WEO and the January 2017 update), and Consensus Forecasts has made a similar 0.3-point revision for 2018 (between October 2016 and March 2017). Admittedly, this stimulus policy may be accompanied by a more restrictive monetary policy, dampening its positive effects. **At present, however, considerable uncertainty persists regarding the measures that will actually pass into law.**

A U.S. fiscal stimulus could have beneficial but modest effects on the euro-area economy through trade and exchange rates: the stimulus will likely increase U.S. demand for European goods and services, and the euro's depreciation against the dollar would improve the competitiveness of the EU economies. These positive effects would, however, be mitigated by the rise in European long-term rates and the ECB's possible reaction to imported inflation if the euro depreciates. Under broadly favourable assumptions[a], the OECD has estimated that the U.S. fiscal stimulus would have a positive impact of 0.1 points in 2017 and 0.3 points in 2018 on world growth, and of around 0.05 and 0.15 points respectively on euro-area growth.

However, the protectionist policy announced by President Trump carries a risk for America's partner economies, both advanced and emerging. The most exposed are the main trade partners of the U.S., particularly the emerging economies such as Mexico and China. The economies with large current-account deficits and/or significant debt in foreign currency (such as South Africa and Turkey) could suffer from a faster-than-expected hike in Fed rates, leading to an appreciation of the dollar and potentially destabilising capital outflows.

a. At a more detailed level, the estimate published in the November 2016 Economic Outlook incorporates the impact of a reduction of over 10 points in the effective corporate tax rate from 2018, a reduction in income tax revenues of 0.5 points of GDP from H2 2017, and an increase in public investment and consumption of 0.25 points of GDP each. However, this estimate assumes an unfunded fiscal expansion and does not include the protectionist measures announced.

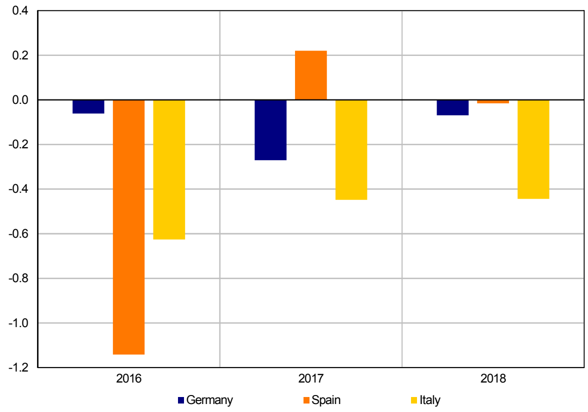
2.3 The euro-area recovery should continue at a moderate pace

Growth in the euro area is expected to remain nearly stable in 2017 and 2018. The ECB should continue to provide monetary support[3] but private consumption may weaken as a result of higher inflation due to the upturn in oil prices. The recovery in lending and investment will probably still be hampered by the vulnerability of the European banking system, despite improved financing conditions. The British referendum may also adversely impact the euro-area economy in two ways: (i) business investment could suffer from rising uncertainties, notably after the activation of Article 50 and the start of negotiations on Brexit; (ii) a slowdown in trade with the U.K., and within the euro area through an indirect effect, would cut back exports. The latter, however, should benefit from the acceleration in world demand, and external trade would no longer make a negative contribution to GDP growth.

The euro area's aggregate fiscal stance is expected to remain broadly neutral, but fiscal policies in individual countries may differ. Germany should maintain a mildly accommodative stance in 2017-2018 but the composition of expenditures should be less favourable to growth. Spain will likely undertake a significant structural adjustment in 2017 to comply with recommendations from Brussels. Italy, by contrast, should adopt an expansionary fiscal policy in 2017-2018 (see Chart 4). These differences in fiscal stances would partly explain the divergences in individual countries' trajectories.

(3) On 8 December, the ECB announced the extension of its Quantitative Easing (QE) programme to December 2017 while reducing its monthly purchases from €80 bn to €60 bn starting in April 2017.

Chart 4: Structural adjustment (fiscal stance)



Source: European Commission (Winter forecast).

In Germany, growth is forecast to ease slightly from 1.9% in 2016 to 1.6% in 2017 and 2018. Despite a broadly more accommodative fiscal stance, the composition of expenditures may be less favourable to the economy, given the decline in public consumption resulting from the slowdown in migrant inflows[4]. Despite the increase in the labour force due to the gradual integration of migrants into the labour market and the slowdown in net job creation, the unemployment rate should remain very low.

In Italy, growth is expected to edge up from 0.9% in 2016 to 1.0% in 2017, and then to level off in 2018. The government's decision to reduce the tax burden on households and businesses should stimulate the economy. However, the effects of exemptions from social contributions, which boosted employment in 2016, are expected to fade. This factor, combined with inconclusive wage talks (owing to the persistence of high unemployment), should slow private consumption. Difficulties in the banking sector will probably continue to hinder the credit recovery and investment growth.

In Spain, growth is projected to weaken from 3.2% in 2016 to 2.6% in 2017 and 2.4% in 2018 owing to the expected fiscal adjustment. The main aggregate affected will be business investment, despite a high confidence level and favourable financing conditions. Private consumption will no longer be sustained, as in 2016, by tax cuts for households. However, its slowdown should be mitigated by buoyant job creation and the stabilisation of real wages.

Table 1: Growth forecasts*

GDP (annual average in %)	Average *2000-2007*	2014	2015	2016[a]	2017 (*forecasts,working-day adjusted)*	2018
World growth	**4.5**	**3,4**	**3.3**	**3.1**	**3.4**	**3.5**
Memorandum: world growth forecast in PLF 2017	*4.5*	*3.4*	*3.1*	*3.0*	*3.4*	
Advanced economies[b]	**2.7**	**1.9**	**2.1**	**1.6**	**2.0**	**2.0**
United States	2.7	2.4	2.6	1.6	2.3	2.4
Japan	1.5	0.2	1.3	1.0	1.1	0.9
United Kingdom	2.9	3.0	2.2	1.8	1.7	1.5
Euro area[c]	**2.2**	**1.2**	**2.0**	**1.7**	**1.6**	**1.6**
Germany	1.6	1.6	1.7	1.9	1.6	1.6
Italy	1.5	0.1	0.8	0.9	1.0	1.0
Spain	3.7	1.4	3.2	3.2	2.6	2.4
Other advanced economies	3.9	2.7	1.5	1.7	2.3	2.6
Emerging economies[b]	**6.6**	**4.6**	**4.2**	**4.2**	**4.4**	**4.6**
Brasil	3.6	0.5	−3.8	−3.6	0.5	1.5
China	10.5	7.3	6.9	6.7	6.5	5.5
India	7.1	6.9	7.5	7.5	6.5	7.4
Russia	7.2	0.7	−3.0	−0.2	1.2	1.3
Turkey	5.4	5.0	5.9	2.0	2.0	2.0
Other emerging economies	4.3	3.4	3.4	3.1	3.3	3.9
World demand for French exports[d]		*4.0*	*3.5*	*2.4*	*3.4*	*3.6*
World trade[e]		*4.0*	*2.5*	*1.4*	*3.3*	*3.5*

a. For 2016, data from annual accounts if available; otherwise, from quarterly accounts supplemented, where applicable, by DG Trésor forecasts.
b. The "advanced economies" and "emerging economies" aggregates are estimated from IMF forecasts, adjusted (for the years to which forecasts apply) by DG Trésor forecasts covering the countries in the table above as well as France, and adjusted (for past data) by revisions to the national accounts.
c. For the forecasting period, the "euro area" aggregate is extrapolated from DG Trésor forecasts for Germany, France, Italy and Spain.
d. 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 86% of French exports.
e. World trade covers 40 countries and organisations (the 39 listed above plus France), which receive 85% of world exports.

Source: IIMF, World Economic Outlook update, January 2017; calculations and forecasts: DG Trésor.
**Forecasts were finalized on 23 February 2017; historical data incorporate later revisions*

(4) The negative structural adjustment appears to be due, among other reasons, to an increase in social benefits paid to households and to tax cuts. However, the impact of these transfers on the economy may be less significant than that of cuts in spending, particularly on migrants.

Box 3: **Main revisions since the French 2017 Draft Budget Bill and comparison with forecasts by international organisations**

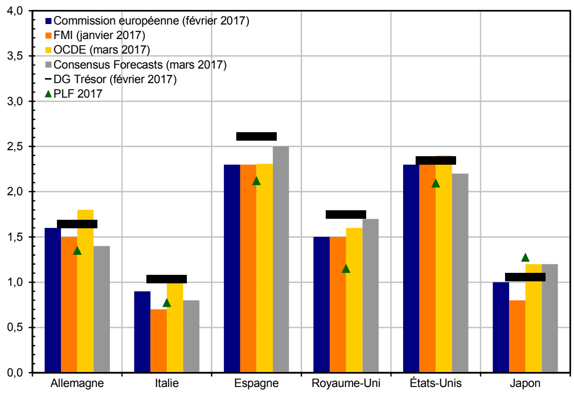
Since the scenario prepared for the French 2017 Draft Budget Bill (Projet de Loi des Finances: PLF), the international environment has improved in the advanced economies but deteriorated in the emerging economies, leaving our 2017 world growth forecast unchanged.

In 2016, world growth exceeded the forecast by a modest 0.1 points. In Japan, the change in the base year for the national accounts resulted in an increase in the GDP level. In Russia, the recession was milder than expected. For 2017:

- **In the advanced economies**, the U.K. proved more resilient after the referendum than forecast in the PLF. However, the activation of Article 50 in March gives reason to maintain our assessment of a probable negative impact, which should simply occur later than initially expected. In the U.S., the new president's stimulus plan should result in stronger-than-expected growth in the domestic economy and in those of partner countries in 2017. Moreover, the rise in Brent oil prices should benefit U.S. manufacturing, even though it will burden the net oil-importing economies.
- **Among the emerging economies**, the outlook is now less bright in India, after the surprise demonetisation of 500- and 1,000-rupee bills, and in Turkey, which is still feeling the consequences of the failed coup in July 2016. In China, by contrast, the government's stepped-up stimulus measures should contain the economic slowdown.

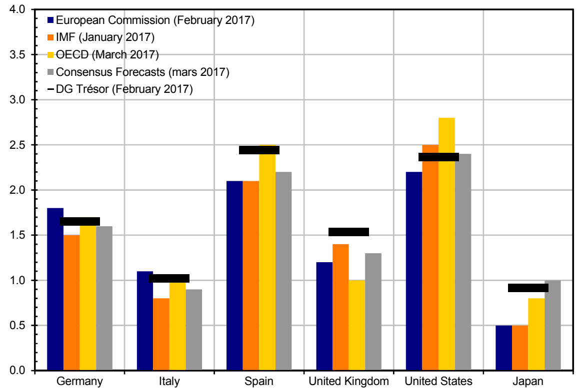
This scenario of accelerating growth from 2017 on, driven by both the advanced and the emerging economies, is broadly consensual (see Charts 5 and 6). It is close to the scenario presented by the European Commission in February and those published by the IMF in January (WEO update) and the OECD in March (interim forecasts). It is also consistent with the March Consensus Forecasts.

Chart 5: Growth forecasts for 2017



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

Chart 6: Growth forecasts for2018



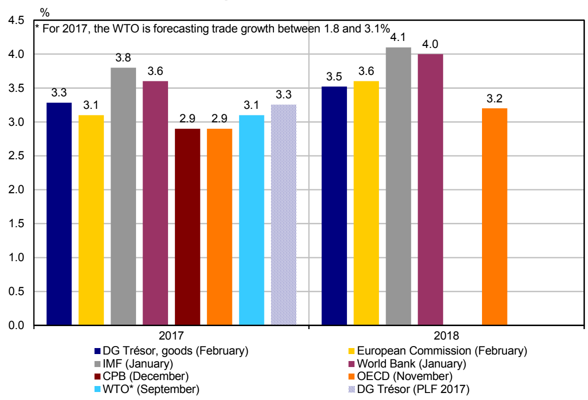
Sources: MF, OECD, European Commission, Consensus Forecasts, DG Trésor.

Our world trade forecasts for both 2016 and 2017 are unchanged from the PLF.

The sharp acceleration in world trade in 2017, followed by a more modest increase in 2018, is also consensual (see Chart 7). Our world trade growth forecasts lie in the lower range of forecasts by other organisations for 2018, owing to our more conservative forecasts for certain countries such as the U.S.

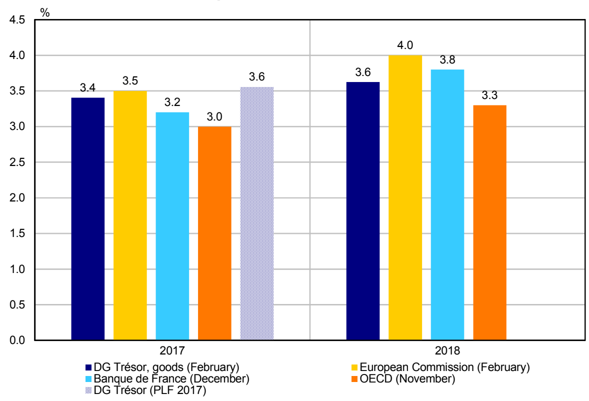
By contrast, we have made a slight downward revision in our forecast for world demand for French exports: we now expect 3.4% growth in 2017 (as against 3.6% in the PLF), up from 2.4% in 2016 (as against 2.7% in the PLF). Because of its export structure, France has been more adversely affected by the disappointing Q3 2016 import figures for the euro area, particularly Spain. Our forecasts are consistent with those of international organisations (see Chart 8).

Chart 7: Comparison of world trade forecasts



Sources: international organisations, DG Trésor.

Chart 8: Comparison of world demand forecasts



Sources: international organisations, DG Trésor.

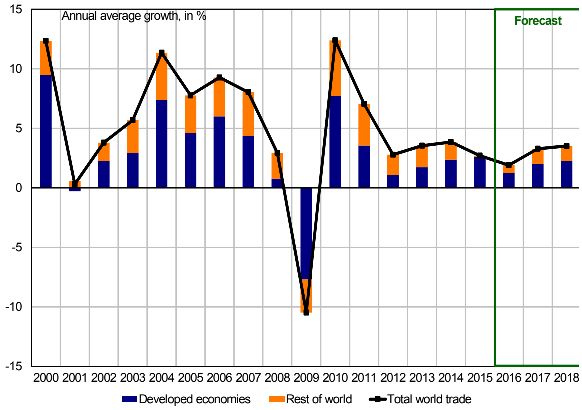
3. World demand for French exports is expected to stage a strong rebound in 2017 and gain further momentum in 2018

World trade[5] slowed sharply in 2016. Its growth rate fell from 2.5% the previous year to 1.4%, its lowest rate since 2009–under the negative impact of the U.S. economic slowdown and slack euro-area imports.

We expect world trade to recover in 2017 (see Box 4), **with a growth rate of 3.3%** (see Chart 9). Imports by the emerging economies should accelerate in 2017 as Brazil and Russia gradually exit recession, and as Chinese and Indian imports pick up, in a pattern more consistent with the two countries' domestic demand. World trade should also be supported by faster economic growth in the U.S. and an acceleration in OPEC trade, reflecting higher oil prices. On the negative side, world trade is likely to be adversely affected by the reduction in U.K. imports due to the country's economic slowdown.

In our scenario, world trade growth will accelerate more moderately in 2018, reaching 3.5%. The uptrend will be driven by stronger U.S. demand and faster-growing private investment in Germany. **World trade growth should thus converge towards the world economic growth rate over the forecasting horizon.** Nevertheless, owing to the relative weakness of economic growth and to trends of a more structural nature[6], world trade growth should stay well below its pre-crisis pace of 6% per year in 1990-2008.

Chart 9: World trade and contribution by area



Source: IMF, January 2017 World Economic Outlook update; forecasts: DG Trésor

World demand for French exports is expected to move in a similar pattern. However, we estimate that it rose at a faster pace in 2016 owing to a relative reduction in French export flows to the emerging economies[7]– whose imports contracted last year–and a relative increase in flows to the euro area[8]. After declining from 3.5% in 2015 to 2.4% in 2016, growth in world demand for French exports should recover to 3.4% in 2017, with a mild increase to 3.6% in 2018 (see Chart page 1).

4. This baseline scenario is open to major uncertainties

- **The scope and timing of the effects of the British referendum remain uncertain.** While the U.K. economy has proven resilient since the vote, the total long-term cost of an exit from the EU will depend on agreements reached with the EU and the duration of the period of uncertainty prior to their signing, as well as on market reactions. On the other hand, we cannot exclude a change in the U.K. policy mix such as a less forceful fiscal consolidation, which would lead to a firmer-than-expected growth.
- **Fiscal stances are marked by strong uncertainties.** Pending the results of the upcoming elections in France and Germany, the victory of the "no" in the December 2016 Italian constitutional referendum and the Spanish government's minority in Parliament could complicate budget implementation in each of these countries. For instance, additional spending would sustain their economies. Meanwhile, uncertainties persist over the enactment of the new U.S. administration's programme, and the timing and scope of Japan's stimulus package and of China's support measures.
- **The emerging economies remain subject to major imponderables.** In China, the government's substantial support measures and the strong growth in credit aggravate domestic imbalances and the risk of a deeper economic slowdown. Weak commodity prices are creating financial difficulties in several producer countries. Political and geopolitical uncertainties–notably in Brazil, Russia and Turkey–are also a potentially negative factor. On the positive side, Indian growth may prove stronger than expected thanks to the government's far-reaching reforms aimed at improving the business environment.
- **U.S. key rates could rise faster than expected**, signalling better-than-forecast economic conditions or a more hawkish stance by Federal Reserve Board members. This would entail a depreciation of partner countries' currencies that could stimulate their growth, but may also trigger potentially destabilizing capital outflows from the emerging economies.
- **The world trade outlook is particularly uncertain.** Several indicators suggest a rebound at end-2016 after two years of limp growth. This upswing could be compromised by the enactment of protectionist measures by the U.S.–and retaliatory measures by some partner countries.

(5) World trade in goods, in real terms.
(6) See L. François, J. Lecumberry and L. Shimi (2016), "Why is world trade so weak?", *Trésor-Economics* no. 166.
(7) Slightly over 20% of French exports go to the emerging economies, compared with nearly one-third of world exports.
(8) World demand for French exports has been more powerfully stimulated by the trade recovery in the euro area since 2014, thanks to the structure of French exports: one-half of French exports go to the euro area, versus slightly over one-quarter of world exports.

Box 4: **Will the resurgent dynamism of world trade observed at end-2016 persist?**

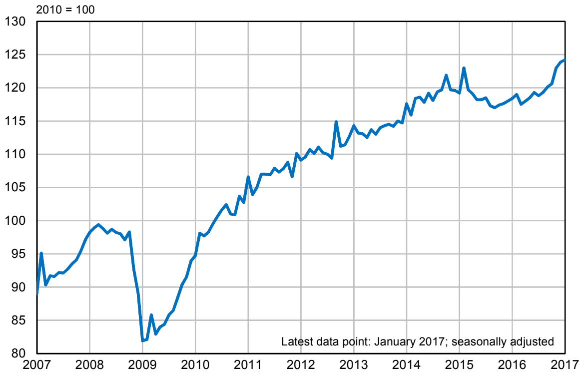
Despite a disappointing overall performance in 2016, world trade posted sharp growth in Q4. The CBP[a] put the gain at 1.1%, up from 0.6% in Q3–the fastest pace since Q3 2014. The statistical overhang for 2017 at end-December was 2.2%, compared with 1.2% in 2016.

Moreover, the World Trade Outlook Indicator[b] published by the WTO in February **reached 102.0** in November (versus 100.9 in August), **suggesting a moderate acceleration in world trade in Q1 2017**. This improvement was due to a robust increase in the following components: air freight, automobile sales, export orders, and container throughput. The Container Throughput Index[c] has been rising steadily since summer 2016 (see Chart 10), and surveys have been improving since June, with a sharp increase in the index for new export orders, both in the euro area (where values have reached their highest level since 2011) and at world level (see Chart 11).

The evolution of trade policies is one of the main uncertainties surrounding our world trade scenario, at a time when the election of Donald Trump in the U.S. raises fears of a protectionist surge that could slow world trade growth.

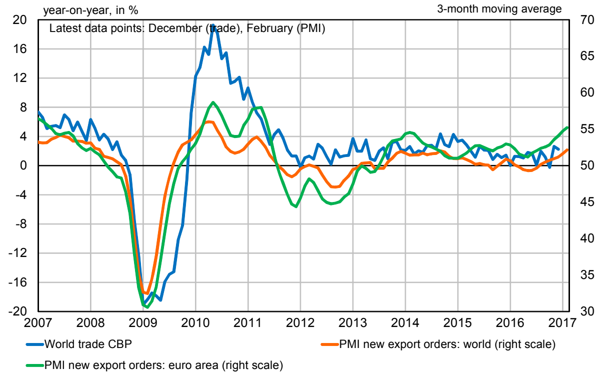
According to the WTO[d], for the period from October 2015 to October 2016, trade facilitation measures decreased slightly after peaking in 2015, but remained above their 2009-2015 average. Likewise, the number of trade-restrictive measures dipped after their 2015 peak. **On balance, trade facilitation measures outnumbered restrictive measures during the period. The WTO has nevertheless warned about the large stock of protectionist measures introduced since 2008 and their continued rise:** the new measures introduced are fewer in number in the period studied[e] than in the year-earlier period, but the stock remains stable owing to the slow pace of abrogation of protectionist measures.

Chart 10: Number of containers



Source: RWI/ISL.

Chart 11: World trade and PMI



Sources: CPB, Markit.

a. Centraal Plan Bureau (Netherlands).
b. The indicator has six components: export orders, international air freight, container port throughput, automobile production and sales, electronic components and agricultural raw materials. A reading of 100 indicates trade growth in line with recent trends, while a reading above or below 100 indicates above-trend or below-trend growth.
c. Indicator measuring the number of containers in 81 ports covering 60% of world trade.
d. WTO World Trade Report, December 2016 update.
e. October 2015-October 2016.

Jean-Baptiste BERNARD, Laetitia FRANÇOIS, Thomas GILLET, Julien LECUMBERRY
Yasmine OSMAN, Morgane SALOMÉ

Publisher:
Ministère de l'Économie
et des Finances

Direction Générale du Trésor
139, rue de Bercy
75575 Paris CEDEX 12

Publication manager:
Michel Houdebine

Editor in chief:
Jean-Luc Schneider
+33 (0)1 44 87 14 22
tresor-eco@dgtresor.gouv.fr

English translation:
Centre de traduction des
ministères économique
et financier

Layout:
Maryse Dos Santos

ISSN 1962-400X
eISSN 2417-9698

Recent Issues in English

March 2017

No. 193. Patents and Technical Standardisation: Recordin Competition and Innovation
Louise Rabier

No. 192. The G20's accomplishments, 10 years after the crisis
Flavien Dupuis, David Nahoum

February 2017

No. 191. Overcoming student difficulties at school
Emmanuel Saillard, Patrick Taillepied

No. 190. A contribution to the work on the strengthening of the euro area
Yves-Emmanuel Bara, Lucie Castets, Thomas Ernoult, Adrien Zakhartchouk

January 2017

No. 189. Composition and allocation of the distribuable surplus in Frnace since the crisis
Anne-Sophie Dufernez, Laura Le Seux

https://www.tresor.economie.gouv.fr/Ressources/tresor-economics

This study was prepared under the authority of the Directorate General of the Treasury (DG Trésor) and does not necessarily reflect the position of the Ministry of Economy and Finance.