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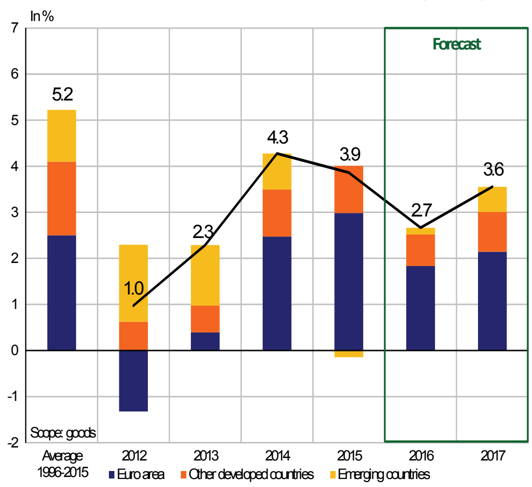
The world economy in summer 2016: moderate but gradually accelerating growth

- World growth in 2016 is showing fresh of weakness, having contracted in 2015 on a slowdown in emerging economies. Global activity has been affected by a soft patch in the United States in the first half year. The pace is expected to quicken in 2017 as the US economy gathers momentum and Brazil and Russia gradually pull out of recession.
- The uncertainty generated by the UK referendum on remaining in the European Union (EU) is expected to lop nearly one percentage point off overall growth for 2016 and 2017. Most of the impact during that period is likely to come from faltering business and consumer confidence, worsening financial conditions and a possible surge in market volatility. The slowdown will have a limited impact on growth in the euro area. Having strengthened further in early 2016, the UK economy will stop growing in 2017 due to the gradual disappearance of positive externalities – notably oil price softness and euro depreciation – and to the effects of Brexit.
- US activity is expected to pick up in 2017 once the current year's lull has subsided. This soft patch is due to an earlier run-up in the dollar and to oil industry troubles caused by falling prices. Japan is also likely to see a surge in activity in 2017 thanks to a huge stimulus package. In emerging economies, overall growth is expected to be slightly brisker than in 2016 despite an ongoing slowdown in China and a likely halt to economic growth in Turkey. These developments are mainly due to a bottoming out of the recession in Russia and Brazil.
- World trade should continue to slow in 2016 on disappointing first-half imports into the euro area and China and weakening domestic demand in the United States and the United Kingdom. A gradual acceleration is expected in 2017, driven mainly by stronger activity. World demand for French exports should follow a similar pattern, while continuing to outpace growth in world trade, since France's exports depend less than world trade does on emerging economies.
- The extent of the fallout from the UK referendum is still unclear. The country's growth will be responsive to progress on EU exit negotiations, and its policy mix could be adjusted to underpin the expansion. Fiscal policy settings are another major contingency, especially in Japan, where the timing and extent of the stimulus package are uncertain. Political and financial tensions prevail in emerging economies, and China's efforts to rebalance its economy are still prone to significant risks. By contrast, in light of recent encouraging signals, the likely recoveries in Brazil and Russia in 2017 could be stronger than expected. The risks to this global economic scenario seem to be in balance.

Growth in world demand for French exports, by area*



Source: DG Trésor.

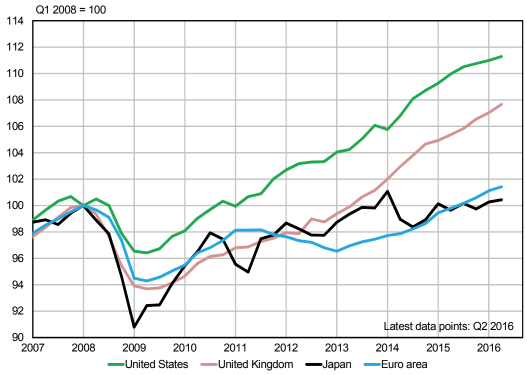
* The forecasts and data in this document were finalised on 23 August 2016.

MINISTÈRE DE L'ÉCONOMIE
ET DES FINANCES

1. Global growth faltered in first-half 2016, in the wake of the United States and China

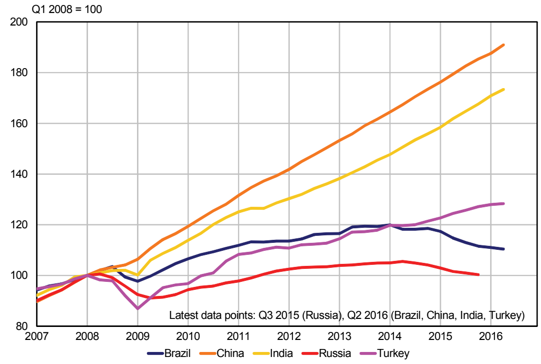
The world economy showed signs of slowing in early 2016. This was mainly due to a sharp deceleration in the United States and persistently weak conditions in some emerging economies. At the same time, the recovery in the euro area gained traction, and the UK economy seemed fairly resilient in the run-up to the referendum on continued EU membership (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 Growth in emerging economies is still sluggish, but encouraging signs are visible

Activity in emerging economies is still hampered by persistently unfavourable factors, both external and domestic. These countries have been hurt by the ongoing slowdown in China and a gradual tightening of global financing conditions. Another negative factor is low commodity prices, which impact in particular on less diversified exporters, notably the Middle East, Russia and Venezuela. These external factors are fuelling structural weaknesses in emerging economies and intensifying the risks from high private debt. Activity and investment are being affected by political uncertainties, notably in South Africa, Brazil, Turkey and Venezuela, as well as by geopolitical concerns about the Middle East and Russia. Taken together, these factors have reduced fiscal and monetary headroom for economic stimulus measures.

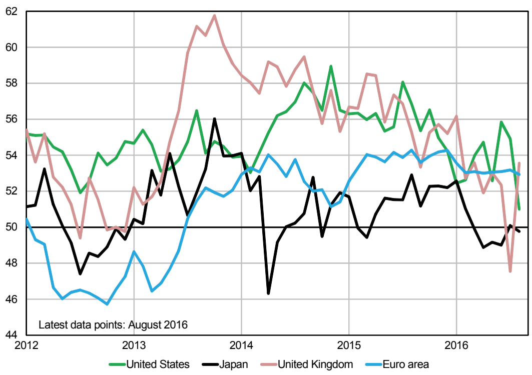
The main emerging economies show contrasting situations. The pace of recession in Brazil and Russia is slowing, largely because commodity prices are stabilising and competitiveness has improved as a result of earlier currency depreciations. In China the authorities are providing fiscal and monetary support to dampen the slowdown as the economy shifts towards consumption and services. India's economy is expanding robustly, and Turkey's growth has been sturdy so far despite underlying weaknesses and mounting political uncertainty.

1.2 Growth in the main advanced economies strengthened in early 2016 but slowed sharply in the United States

First-half growth trends in advanced economies were uneven. The recovery in the euro area gained traction: annualised growth came in at 1.8% compared with 1.4% in second-half 2015, equivalent to a carryover growth rate of 1.3% for 2016. In the United Kingdom, where first-quarter growth lost some momentum, the second quarter was surprisingly robust ahead of the EU membership referendum. In the United States, by contrast, growth was disappointing, with industry affected by dollar strength and the mining sector by oil price weakness. In Japan, where a recovery seemed to be taking hold at the beginning of the year, the economy flatlined in the second quarter.

The economic indicators available at mid-2016 point to contrasts among advanced economies (Chart 3). Surveys of purchasing managers in industry and services rallied sharply in the United Kingdom in August, having plunged in July in the aftermath of the referendum. Survey data from Japan, which had worsened since the year began, have recovered sharply since the stimulus package was unveiled in July. In the United States the ISM composite index seems to have been trending downward since mid-2015, despite the occasional rally. Indicators for the euro area show the business climate is stable.

Chart 3: Manufacturing and services PMI surveys in advanced economies



Sources: ISM, Markit.

Box 1: **UK referendum: macroeconomic impact out to 2017**

The outcome of the UK referendum on remaining in the EU triggered a swift and violent reaction on markets. The main European stock indices plummeted – bank stocks were hardest hit – while sterling fell sharply and currency volatility increased. Investors turned to safe assets, triggering a steep fall in yields on 10-yr German, French and US bonds. Two months later, however, markets seemed to have settled, though bank stocks at end-August were well off their pre-referendum and early-year highs.

The UK economy is likely to lose momentum because of uncertainties over the EU exit procedure. If corporate confidence and the business climate turn down (Chart 4), domestic and foreign direct investment may be postponed or cancelled. In this case, job creation would also be impacted due to uncertainty and a softer growth outlook. The decline in households' confidence and purchasing power caused by sterling depreciation could dent their consumption and investment. Furthermore, even though the institutional framework for trade relations will not change in the near future, business could still be affected by expectations and uncertainty about the future. In addition, pressures on the current account could surface as a result of smaller capital inflows. The expected shock may be cushioned as the UK economy becomes more competitive thanks to sterling weakness and monetary easing by the BoE.

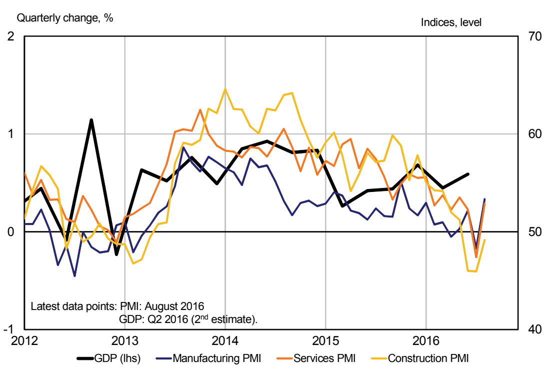
The growth outlook for the United Kingdom will fall by an estimated 1 percentage point over two years, with forecasts of 1.7% for 2016 and 1.2% for 2017. These estimates are consistent with the 'mild' scenario presented by the European Commission[a]. Farther out, growth will also be affected by the cost of departure, which will depend not only on the agreements reached between the United Kingdom and the EU and the period of uncertainty leading up to their signature, but also on extent to which markets react.

The referendum outcome will also impact on the United Kingdom's partner countries through three principal channels: trade, uncertainty and foreign exchange. While most of these partners are exposed to all three channels, the impact will vary according to each country's trade links and inherent characteristics. Chart 5 shows the respective exposures. The importance of the trade channel depends mainly on the percentage of exports to the United Kingdom relative to the country's total exports and, more broadly, on openness to trade. The significance of the other two channels – uncertainty and foreign exchange – is illustrated by the degree of post-vote shock to different variables, shown by the variations in the domestic stock index, the sovereign bond yield and the nominal effective exchange rate (NEER)[b]. Also taken into consideration is the change in monthly PMI readings between July and June, but this probably captures factors unrelated to Brexit. It should also be noted that mounting uncertainty could adversely affect lending conditions, particularly in countries already burdened by high levels of non-performing loans.

The consequences of the referendum would affect some countries more than others. Japan is likely to be hardest hit through the foreign exchange channel due to a steep rise in the safe-haven yen, but it is relatively insensitive to the other two channels. The impact of the three channels on the United States will probably be moderate. By contrast, the euro area will feel a heavier economic impact through the trade channel as well as through rising uncertainty and fears of contagion.

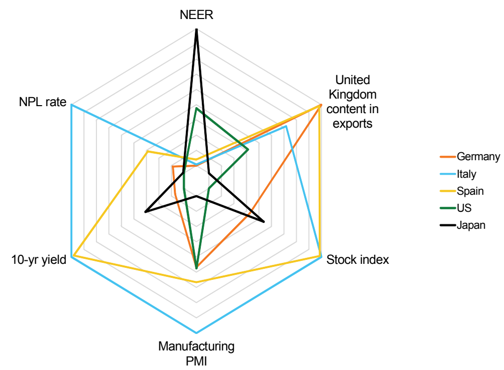
Brexit will probably affect the main euro area economies in different ways. Germany would be hurt chiefly through the negative effects of investor uncertainty on investment. Spain would feel a heavier impact, largely through tourism and employment. The worst affected country would be Italy, especially if Brexit accentuates weaknesses in its banking sector, curbing the recovery in lending and investment. In sum, euro area growth would contract by around a quarter percentage point over the forecasting horizon, consistent with the assessment made by the European Commission in its 'mild' scenario.

Chart 4: United Kingdom GDP and PMIs



Sources: ONS, Markit.

Chart 5: Exposure to Brexit



Sources: Data Insight, Chelem, World Bank, Markit, EBA.

a. The Economic Outlook after the UK Referendum: A First Assessment for the Euro Area and the EU, July 2016.
b. To strip out the effects of the referendum result, these changes are calculated between the voting day, 23 June, and the following day, when the results were announced.

The main advanced economies have maintained accommodative monetary policies even though the US Federal Reserve has stated clearly that it intends to normalise. The Bank of England (BoE) reacted to the risk of a post-referendum slowdown by cutting its policy rate by 25 basis points to 0.25% and announcing a huge increase in its quantitative easing (QE) programme, from £375 billion to £545 billion. Although markets had been expecting a rate cut, they were surprised at the extent of the QE measures. The European Central Bank (ECB) stepped up its own QE programme[1] by more than the market expected in order to ease business financing conditions and shore up the recovery in lending. The Bank of Japan (BoJ) maintained a highly accommodative policy stance. In addition to introducing innovative measures at the beginning of the year, notably a negative interest rate on some excess reserves, the BoJ said it

(1) The ECB stepped up monthly purchases of securities from €20bn to €80bn in April 2016, and in June 2016 began buying investment-grade corporate bonds issued in the euro area.

was ready to ease policy yet again if needed. The Federal Reserve also remained accommodative, keeping interest rates on hold at its June and July meetings because of uncertainty over the UK referendum. Even so, it is the only major central bank that seems poised to normalise monetary policy in the coming quarters.

Oil price weakness is being maintained by ample supply due to OPEC policy and unconventional oil production. This has supported household purchasing power in advanced economies[2]. A slight uptick has nonetheless been seen in recent months, with the per-barrel price nearing $50 in June as Canadian output was hit by a wildfire in Fort McMurray and violence erupted in the Niger Delta.

1.3 The UK referendum is fuelling market uncertainty

The referendum result roiled financial markets and maintained a climate of uncertainty, which nevertheless remained in check during the summer. Stock prices tumbled on news of the outcome but rallied in the following weeks. Sterling also fell markedly, along with the sovereign bond yields of reputedly safe issuers, including the United Kingdom. In addition, uncertainty about the results of the EU bank stress tests, published in late July, contributed to a degree of volatility despite being well received by markets.

2. Global growth is likely to contract slightly in 2016, then pick up in 2017 on fresh buoyancy in the United States and some emerging economies

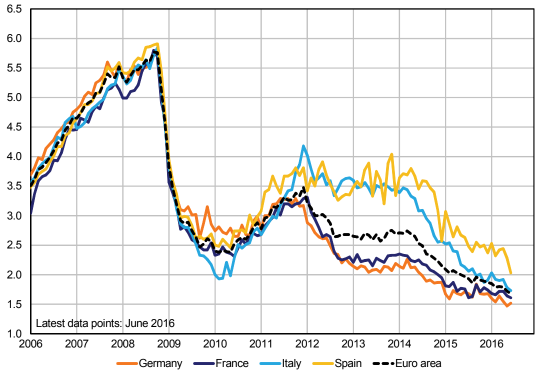
For 2016 as a whole, global growth is expected to be down slightly on 2015 due to a lacklustre beginning-of-year performance. Despite the UK referendum impact, the global economy could pick up momentum in 2017 with the end of the soft patch in the United States and an improvement in the situations in Russia and Brazil.

2.1 The outcome of the Brexit referendum will probably stifle economic growth in the United Kingdom and the euro area

The UK economy should continue to slow, with growth of 1.7% in 2016 and 1.2% in 2017, compared with 2.2% in 2015 and 3.1% in 2014. The outcome of the EU membership referendum marked the start of a period of uncertainty that is hindering growth (Box 1). But the external environment should offer support by 2017, having affected growth in 2014 and 2015. The steep post-referendum drop in sterling and the pick-up in British export markets should underpin exports, while imports will slow along with domestic demand. In our scenario, moreover, the BoE would move towards another interest rate cut between late 2016 and early 2017, possibly in tandem with more quantitative easing.

The referendum's consequences are likely to affect the euro area, bringing growth to a standstill. In all probability the external factors that boosted growth in 2015, including softer oil prices and euro depreciation, will gradually disappear. Strong employment should sustain household consumption amid subdued inflation. Business investment is likely be affected by greater referendum-induced uncertainty, despite a marked improvement in financing conditions in the peripheral economies (Chart 6). And although the ECB has taken measures to encourage lending, its recovery could be held back by weaknesses in some countries' banking systems. Exports are likely to be sustained by stronger world demand, driven by firmer demand in emerging economies, but may nonetheless be impacted by Brexit.

Chart 6: Interest rates on new loans to non-financial companies



Source : ECB.

In Germany growth should pick up to 1.8% in 2016 then slow to 1.4% in 2017. Despite an upturn in employment, joblessness could edge up slightly in 2017 as migrants are gradually integrated into the labour market. Nonetheless the number of new arrivals, which jumped to 1.1 million in 2015, is likely to fall during the forecasting period. Consequently public-sector expenditure should continue to grow but since the public finances will still show a substantial surplus, the debt should decline quickly.

In Italy growth in 2016 and 2017 is expected to level off at 0.8%, as in 2015. Job creation will be helped by the partial renewal in 2016 of social contribution exemptions for people hired on open-ended contracts against a backdrop of sluggish productivity. Although equipment investment is recovering, the pace is uncertain. The extent of the upturn is likely to depend on improvements in the financial position of Italian companies and a pick-up in lending, currently restrained by banking system weaknesses.

In Spain growth is expected to remain robust, despite slowing to 3.0% in 2016, from 3.2% in 2015 and 2.1% in 2017, as the catch-up trend loses momentum. The moderate increase in wage costs and the improvement in non price competitiveness should continue to underpin exports and enable Spain to consolidate the market share gains made in recent years.

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

2.2 The economies of Japan and the United States are set to accelerate in 2017

In the United States growth is expected to ease to 1.5% in 2016, from 2.6% in 2015, and then pick up to 2.1% in 2017. The 2016 slowdown is due to the combined effects of external shocks – notably falling energy prices, dollar appreciation and softer global demand – that have impacted heavily on manufacturing and oil & gas. As these shocks recede over the forecasting horizon, business investment should recover despite the prospect of an interest rate hike, and exports in 2017 will also give a boost to activity. Conditions in the labour market are expected to trend upwards as unemployment slips below the natural rate, allowing for stronger wage growth.

In Japan, which saw the yen appreciate in 2016, growth is likely to accelerate in 2017 on the back of supportive fiscal policy. The VAT hike scheduled for April 2017 has been pushed back to October 2019, and a huge stimulus plan was announced in second-half 2016 with a view to boosting the economy. Nonetheless the stronger yen will affect not only exports but also, more importantly, corporate profit margins, thus resulting in slower wage growth.

2.3 Emerging economies are set to expand gradually as Brazil and Russia emerge from recession

Growth in emerging economies is expected to edge up in 2016 and 2017, largely thanks to the recovery in Brazil and Russia. These economies are still affected by the slowdown in China, low commodity prices and tighter international financing conditions. Commodity exporting economies, especially in the Middle East, have been hit by fiscal consolidation necessitated by low prices. However, the outlook has brightened slightly since early 2016 as a result of economic support measures in China, a commodity price uptick and a slower than expected increase in US policy interest rates. These factors, combined with competitiveness gains from earlier currency depreciations, point to an end to recession in Russia and Brazil, where investors have been reassured by a clearer political situation.

In China the economy will continue to decelerate in both 2016 and 2017 due to structural factors such as the rebalancing of the country's growth model and cyclical movements caused particularly by slower private-sector investment. The Chinese economy is still vulnerable as a result of excess manufacturing capacity, a property overhang, fast-rising corporate debt, and an increase in bad loans. In the near term, however, the slowdown is likely to be cushioned by a monetary and fiscal stimulus package, which is reportedly substantial but hard to gauge precisely.

In Brazil the recession is expected to slow, as indicated by the less troubling economic signals seen since early 2016. Quarterly growth could move back into positive territory in 2017 as investor confidence improves on a clearer political situation. Nonetheless, activity will still be impacted by fiscal consolidation, monetary policy driven by high inflation (which is nevertheless broadly lower since the beginning of the year) and structural weaknesses such as a lack of infrastructure and low productivity.

In India growth should be brisk in 2016 and 2017, driven largely by consumption, while investment is likely to fall as a result of the public investment cuts written into the Union budget for 2016-17. Private investment, however, may benefit from fresh opportunities brought by the introduction of a single goods-and-services tax and the policy of opening up some sectors of the economy to foreign direct investment.

Russia could move out of recession by the beginning of 2017 despite the renewal of international sanctions, as its economy benefits from the stable oil price and earlier depreciation of the rouble. However, since the authorities have little leeway to support economic activity, especially fiscally, growth will be sub-potential in 2017.

In Turkey growth is likely to slow sharply in 2017. The country's existing structural problems (Box 2) have been heightened by the negative effects of the failed coup and insecurity on tourism receipts and capital inflows.

Box 2: **Risks are mounting in Turkey**

The Turkish economy was relatively sturdy at the beginning of 2016. First-quarter GDP grew 4.7% year on year (the growth rate for 2015 was 4.0%) on the back of buoyant private consumption, which contributed 4.9 points to growth. Consumption was boosted by low commodity prices (Turkey's main import), a 30% minimum wage hike in January, and demand from nearly 3 million refugees, who make up 4% of the population. The second growth engine was public consumption, which contributed 1.2 points, whereas private investment and foreign trade both made negative contributions.

The country's growth model is vulnerable because it relies on foreign capital. Private consumption is partly credit-financed by the rest of the world because of a shortfall in domestic saving, which accounts for 16% of GDP compared with 20% for investment. The accumulated deficits on the current account, equivalent to 4% of GDP in 2015, and the external debt build-up has made the economy more reliant on foreign capital. Turkey had to raise almost $200 billion in external funding in 2015 (more than a quarter of GDP) to finance the current account deficit and service external debt.

Geopolitical and domestic strains are weighing on capital inflows and foreign tourist arrivals. The flare-up in political tensions following the failed coup is likely to depress international tourism receipts, already hit by security problems arising from the gloomier geopolitical situation across the region. Foreign investors may reduce their presence in Turkey for the same reason, impacting on potential growth and making the existing external financing problems even worse[a]. Together these factors are likely to put a damper on the economy, suggesting that growth in 2017 will plummet to 2.5%, versus 3.4% forecast for 2016.

a. See Gillet T. and Morin Wang M. (2016), "How would the external debt of five major emerging countries respond to financial tensions?", *Trésor-Economics* No. 176, August.

Box 3: Main adjustments to the 2016 Stability Programme and comparison with international organisations' forecasts

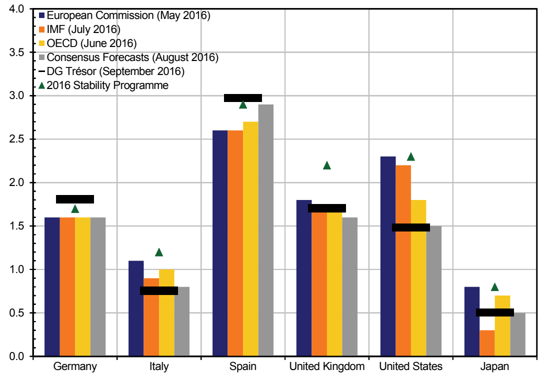
The international environment has deteriorated in advanced economies and, to a lesser, in emerging economies since the Stability Programme scenario was drawn up. For that reason we have lowered our global growth forecasts by 0.3 points for 2016 and 0.2 points for 2017.

For advanced economies, the 2016 markdown was prompted largely by the dip in first-half US growth, apparently due to a harsher than expected impact from the oil price decline and dollar appreciation. The revision for 2017 is attributable chiefly to the Brexit vote, which led us to reduce our growth forecasts for both the United Kingdom and the euro area. The growth forecast for Japan in 2017 has been raised significantly because the VAT hike scheduled for April 2017 has been postponed until October 2019 and the government has announced a huge stimulus package.

Regarding emerging economies, although the outlook is less bleak for the BRICs, the failed mid-July putsch in Turkey is likely to hurt the country's growth prospects, while growth forecasts for sub-Saharan Africa have been revised sharply downwards.

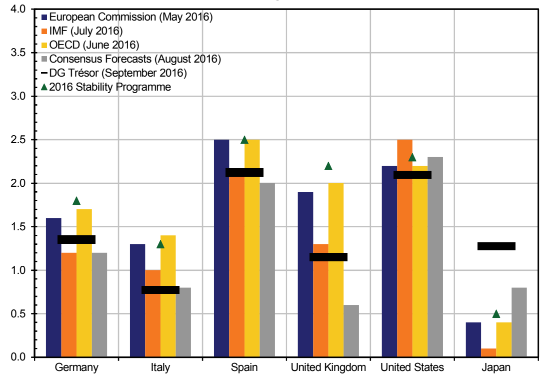
There is broad agreement on the scenario of a growth pick-up starting in 2017, driven mainly by emerging economies (Charts 7 and 8). This is similar to the scenario presented by the European Commission in its May forecasts and by the OECD in the *Economic Outlook* for June, neither organisation having factored in a "leave" vote in the UK exit referendum. The IMF gave a similar scenario in its July update to the *World Economic Outlook*. However, the Consensus Forecasts for August are less optimistic for 2017 because they incorporate a larger, Brexit-driven slowdown in the United Kingdom and the euro area.

Chart 7: 2016 growth forecasts



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

Chart 8: 2017 growth forecasts



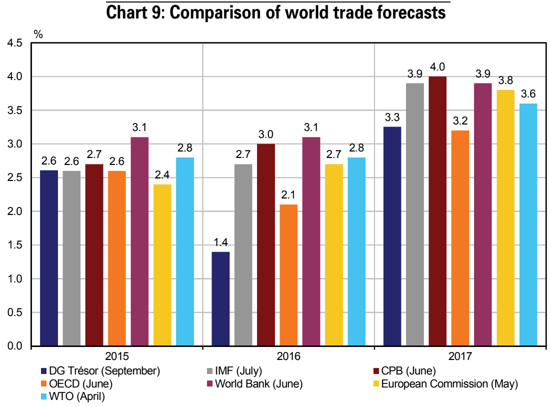
Sources: IMF, OECD, European Commission, Consensus Forecasts, DG Trésor.

In view of the worsening international environment, we have lowered our world trade forecasts relative to the Stability Programme. We have trimmed them by 1.8 points in 2016, mainly because new data have been included. In particular, imports in China and India were disappointing in the first quarter, and in the United States for the entire first half-year. The trade forecasts for 2017 have been lowered by 1.2 points, due firstly to the downward revision of import forecasts for the United Kingdom and its trading partners, and secondly to the more pessimistic attitude of international organisations to trade in the countries not monitored by DG Trésor.

Our scenario of a marked slowdown in world trade in 2016 is cautious. Our forecasts are lower than those of the main international organisations in 2016. There is general agreement with our scenario that world trade will pick up in 2017. However, our forecasts are at the lower end of those made by the main international organisations for 2017, but most have not yet updated their world trade scenarios to take account of the Brexit referendum (Chart 9).

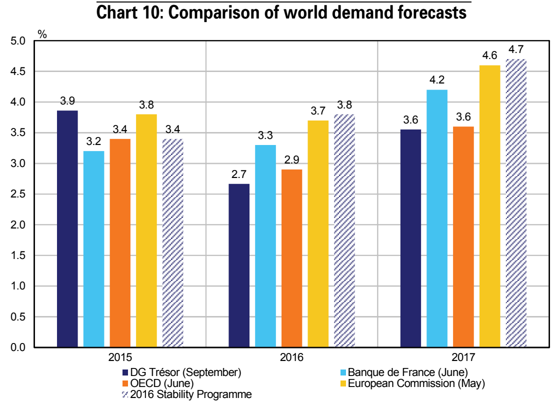
The outlook for global demand for French exports has been lowered less steeply for 2016 (by 1.1 points) owing to their geographical structure. They are less oriented than world exports towards emerging economies and the United States. In 2017, the forecast for global demand has been lowered by1.2 points, the same as for world trade. Our forecasts are at the bottom of the range of the projections issued by international organisations (Chart 10).

Chart 9: Comparison of world trade forecasts



Sources: IMF, CPB, OECD, World Bank, European Commission, WTO, DG Trésor.

Chart 10: Comparison of world demand forecasts



Sources: Banque de France, OECD, European Commission, DG Trésor.

Table 1: Growth forecasts

GDP (annual average,%)	Average 2000-2007	2014	2015	2016	2017
				(forecasts, working-day adjusted)	
World growth	**4.5**	**3.4**	**3.1**	**3.0**	**3.4**
Advanced economies*	**2.7**	**1.9**	**1.9**	**1.6**	**1.8**
United States	2.1	2.4	2.6	1.5	2.1
Japan	1.1	−0.1	0.6	0.5	1.3
United Kingdom[1]	2.3	3.1	2.2	1.7	1.2
Euro area*	**2.2**	**0.9**	**1.7**	**1.6**	**1.5**
Germany[1]	*1.3*	*1.6*	*1.5*	*1.8*	*1.4*
Italy	*0.9*	*−0.3*	*0.8*	*0.8*	*0.8*
Spain[1]	*3.3*	*1.4*	*3.2*	*3.0*	*2.1*
Emerging economies*	**6.6**	**4.6**	**4.0**	**4.1**	**4.6**
Brazil	*3.6*	*0.1*	−3.8	*−3.5*	*0.0*
China	*10.5*	*7.3*	*6.9*	*6.6*	*6.2*
India	*7.1*	*7.2*	*7.3*	*7.4*	*7.3*
Russia	*7.2*	*0.7*	−3.7	−1.0	0.8
Turkey	*5.2*	*2.9*	*4.0*	*3.4*	*2.5*
World demand – France**		*4.3*	*3.9*	*2.7*	*3.6*
World trade***		*4.1*	*2.6*	*1.4*	*3.3*

[1] Working-day adjusted (past period).
* World growth is estimated from IMF forecasts, adjusted by DG Trésor forecasts covering the countries in the table above and France.
**World demand covers 39 countries and organisations (Germany, Belgium, Italy, Spain, United States, United Kingdom, 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.
*** World trade covers 40 countries (the 39 listed above plus France), which receive 85% of world exports.

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

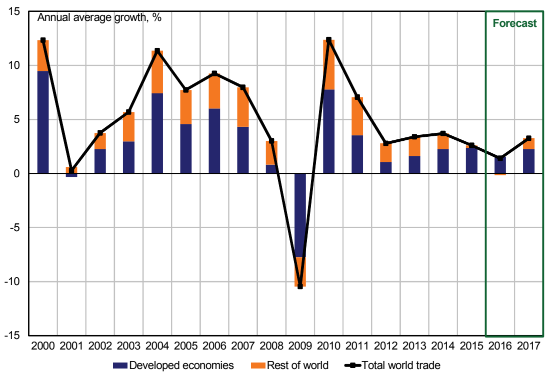
3. World demand for French exports will continue slowing in 2016, then pick up in 2017

World trade[3] slowed sharply in 2015, from 4.1% to 2.6%, owing to a contraction in imports by emerging economies that was sharper than suggested by the countries' domestic demand trends.

World trade is likely to continue slowing in 2016, with growth reaching 1.4% (Chart 11). This is partly due to the euro area, where imports rose by a scant 0.7% in the first quarter after an outstanding 6.1% growth rate in 2015. Italian and Spanish imports in particular were much lower than the level of economic activity would suggest, resulting in slower elasticity of imports to GDP in the euro area in 2016. The trade slowdown is also due to the United States and the United Kingdom, where domestic demand is likely to decelerate. Moreover, weaker world demand for oil is affecting exporter countries and holding back their imports. After a poor performance in 2015, emerging economy imports are expected to remain sluggish compared to the trend in their domestic demand. In particular, imports are likely to contract slightly in China and India, despite those countries' strong growth, and fall sharply once again in Brazil and, to a lesser extent, Russia.

World trade should surge to 3.3% in 2017, driven both by a US upturn and emerging economies. Emerging country imports should gather momentum in 2017 as Russia and Brazil emerge gradually from recession and imports recover in China and India, more closely in line with their domestic demand. Support for world trade will also come from a US recovery after the soft patch in 2016, but will be impacted by lower imports from the United Kingdom due to a slower economy. Trade in the euro area should pick up only slightly because of Brexit referendum fallout. In all, growth in world trade will be well below the pre-crisis rate of 6.7% annually from 1990 to 2008, due both to comparatively weak growth and to the effects of more structural trends[4].

Chart 11: World trade and contributions by area



Source: IMF, July 2016 WEO update. Forecasts: DG Trésor.

World demand for French exports should follow a similar pattern but continue to grow faster than world trade. Because of the way its exports are structured[5], France benefits from the pick-up underway in euro area since 2014. World demand will slow to 2.7% in 2016, from 3.9% in 2015, then accelerate to 3.6% in 2017 (Chart, page 1).

(3) World trade in goods, by volume.
(4) See François L., Lecumberry J. and Shimi L. (2016), "Why is world trade so weak?", *Trésor-Economics* No. 166, April.
(5) Half of French exports are to the euro area, compared with slightly more than a quarter of world exports.

4. This baseline scenario is exposed to uncertainties

- **The extent of the effects of the UK referendum is still uncertain.** Britain's growth in the coming years will be sensitive to progress on EU exit talks. However, there is a possibility that the policy mix might be changed, notably through milder fiscal consolidation.
- **A slower than expected increase in US policy rates** could undermine the dollar and consequently restrain economic activity in partner countries. Conversely, a faster rise would indicate that the economy is more buoyant than had been thought. This would probably cause partners' currencies to depreciate, thus encouraging growth, but could also lead to potentially unsettling capital outflows from emerging economies.
- **Emerging economies are still exposed to major contingencies.** China's necessary rebalancing of its economy exposes it to serious risks, exacerbated by high levels of corporate debt. Low commodity prices have created financial distress for many producer countries. Another adverse contingency stems from political and geopolitical uncertainties, especially in South Africa, the Middle East and Turkey. By contrast, cyclical indicators for Russia and Brazil have become more encouraging in the past few months, suggesting a stronger than expected recovery in 2017.
- **Fiscal policy settings show considerable uncertainty in numerous countries.** Budget implementation could be complicated by the uncertain outcome of the forthcoming referendum on constitutional reform in Italy and the absence of a working government in Spain. By contrast, aside from the possibility of stimulus in the United Kingdom, the run-up to the US presidential election could see the use of additional budgetary resources voted in late 2015. The election result itself is another source of uncertainty. In Japan, both the timing and the extent of the stimulus package are still uncertain.

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