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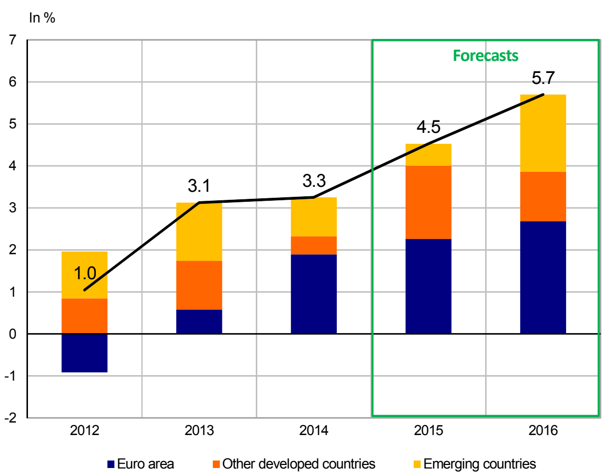
TRÉSOR-ECONOMICS

# The world economic situation in spring 2015: global activity is accelerating, driven by the advanced countries

- Disregarding quarterly fluctuations, GDP growth steadily gained momentum in 2014 in all the advanced economies except Japan. Nevertheless, substantial divergences persist between the main economic areas.
- The recovery is forecast to spread to all the advanced economies in 2015, and growth in the euro area should accelerate in 2016. The sharp decline in oil prices is a boost to the global economy. However, less favourable conditions in the emerging countries is something of a drag on world economic momentum.
- Economic activity is still buoyant in the United States and United Kingdom, but growth remains sluggish in Japan. Thanks to sustained robust domestic demand, the US and UK economies have expanded vigorously since spring 2014 and should continue to fuel growth in the advanced countries. Japan's economy slowed sharply in the wake of the VAT rise on 1 April 2014. Japanese growth will likely remain slack over the entire forecasting horizon.
- Recovery remains uneven in the euro area. The euro's depreciation and the steep drop in interest rates, stimulated by the European Central Bank's Quantitative Easing programme, should sustain business activity in the area. Germany's economy rebounded strongly in Q4, with business investment and private consumption looking set to remain vigorous. The Spanish economy continued to expand. As in other euro-area economies, the recovery in Spain-after the deep correction induced by the crisis-will probably continue to be fuelled by domestic factors, amid an improvement in the labour market. By contrast, the Italian economy contracted for the third consecutive year. The Italian recovery is expected to remain very weak, with investment unlikely to pick up before 2016.
- The emerging economies, on the whole, recorded slack performance, reflecting the slowdown in China, major economic difficulties in Brazil and even more so in Russia, which is predicted to slip into recession as a result of lower oil prices and international sanctions. India's relatively brisk growth sets it apart from the other BRIC countries. Thus, emerging economies are expected to post slightly higher growth rates in 2016, but will remain well below the pre-crisis average.
- World trade is poised to accelerate in 2015 and 2016, owing mainly the solid performance of the US and UK economies and the recovery in the euro area. Global demand for French goods and services is forecast to move on a similar trend, gaining 4.5% and 5.7% this year and next. The trend will be sustained, in particular, by the upturn in growth in France's chief trading partner: the euro area.

**Growth in Global demand for French goods and services by area**




*Source: DG Trésor.*

MINISTÈRE DES FINANCES
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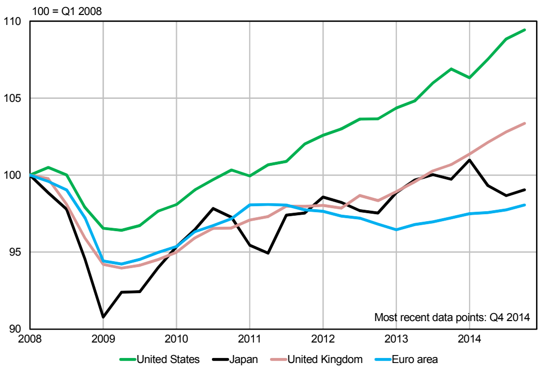
## 1. Following quarterly fluctuations, the global economy accelerated in late 2014

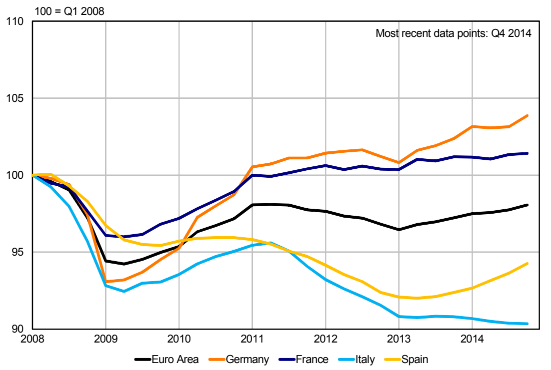
World economic conditions improved throughout 2014. Growth remained robust in the US and UK, and recovery took hold in the euro area. However, the Japanese economy turned in another lacklustre performance after the VAT increase of 1 April 2014, while the slowdown persisted in the emerging countries (see charts 1 and 2).

**Chart 1: GDP trends in the leading advanced economies**




*Source: National data.*

**Chart 2: GDP in the leading euro area countries**



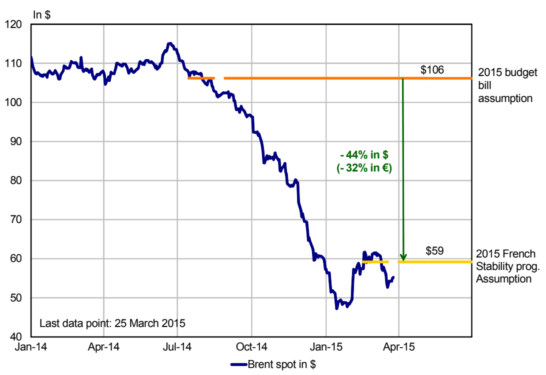

*Source: National data.*

### 1.1 Oil prices down sharply

Since June 2014, Brent and WTI prices have fallen by more than 50%, reaching a five-year low of around $50 per barrel in early 2015, down from the stable high prices of between $105 and $115 per barrel from early 2011 through mid-2014.

Amid the flare-up of geopolitical tensions (Syria, Iraq, and the Russia-Ukraine crisis) the slump in oil prices since last June could be explained by weak world demand-also reflected by the fall in other commodity prices-and an abundantly supplied market. The International Energy Agency (IEA) has revised its 2015 forecast for growth in world oil demand downwards from 1.1 mb/d in December 2014 to 0.9 mb/d in January 2015. Thus, factoring in the slack recovery, global crude-oil demand is projected to rise from 92.4 mb/d in 2014 to 93.3 mb/d in 2015. Three main factors account for this abundance of supply: (1) North American production from shale and oil sands, which has been rising steadily for the past three years, (2) the resumption of Libyan production (0.4 mb/d on average), and (3) OPEC's maintenance of production quotas at 30 mb/d.

**Chart 3: Oil prices**




*Source: Commodity Research Bureau.*

**Our assumption is that crude oil prices will pick up slightly and hold steady at around $60 in 2015 (chart 3).** Geopolitical tensions, particularly in Libya and Iraq, could put upward pressure on prices. Similarly, futures contracts point to a rise in prices in the medium term owing to the negative impact of lower prices on oil-sector investment. However, world oil supply should remain high, curbing the price rise over the year. In particular, in the event of a positive outcome of negotiations on the Iranian embargo, the supply of Iranian oil could rise in 2015 and 2016, and this could help to keep oil prices at their current levels.

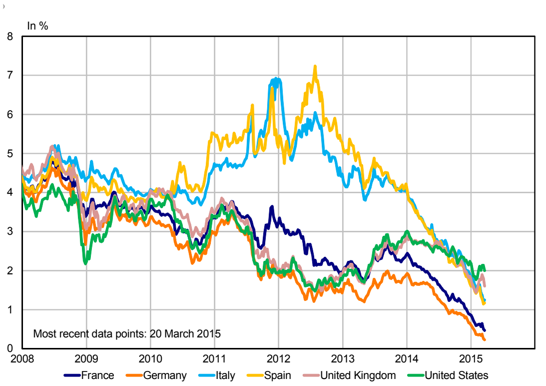
### 1.2 Financial conditions remain very favourable

**Financing conditions for euro-area countries continued to improve.** Sovereign rates are running near their historical lows and spreads continue to narrow, even as the European Central Bank (ECB) significantly eased its monetary policy in early 2015 by implementing an extended programme of securities purchases announced in June 2014 (chart 4). The programme adds purchases of sovereign and European agency paper to the previously announced purchases of asset-backed securities (ABS) and guaranteed bonds. Under the terms of the programme, the Eurosystem will purchase €60 billion in securities a month, comprising €10 billion in ABS and guaranteed bonds, approximately €6 billion in agency paper and €44 billion in sovereign paper. The purchases began in March 2015 and will continue until inflation returns to levels consistent with the ECB's objective. This announcement comes in addition to the measures already in place, namely, targeted longer-term refinancing operations (TLTRO) and very low interest rates.

The Bank of Japan (BoJ), which had already been implementing a highly accommodative monetary policy in order to reach a sustainable 2% inflation target, responded to the unexpected economic contraction in Q3 and falling commodity prices by increasing its securities purchases in October 2014. The BoJ says that it stands ready to take other measures if the price slowdown exceeds forecasts.

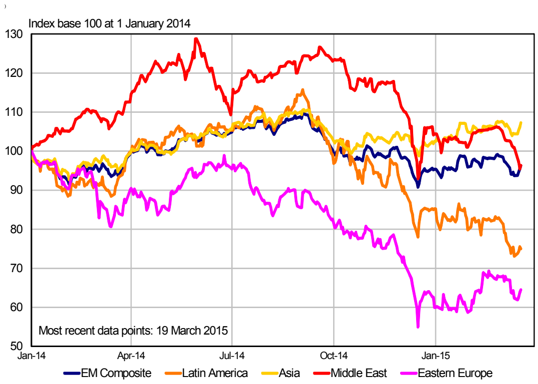
**Sovereign rates also declined in the US and UK, but remain higher than in the euro area.** Spreads between US and UK rates and German sovereign rates are running near their highest levels since the late 1990s. Unlike the ECB and BoJ, the US and UK central banks have begun to normalise their monetary policy and are preparing the first rise in their key rates. The Fed ended its Quantitative Easing (QE) programme in October 2014 and is getting ready to raise its key rates. However, rates are expected to remain at their floor level "for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal", which suggests that the first rate hike will not occur before summer 2015. Meanwhile, the Bank of England (BoE) has pledged to maintain an accommodative monetary policy until the economic recovery is firmly under way. It has held its key rate at 0.5% since March 2009 and stopped purchasing assets in November 2012. The stock of government bonds purchased through monetary creation stands at £375 billion. Under the BoE's forward guidance policy, revised in February 2014, the rise in the key rate is determined by the decrease in the economy's spare capacity. With inflation now well below the BoE target of 2%, British key rates are unlikely to rise before end-2015.

**Chart 4: World sovereign yields**




*Source: IHS Global Insight.*

**Chart 5: MSCI Emerging Markets Index**




*Source: Morgan Stanley.*

### 1.3 These positive factors have promoted stronger growth in the advanced economies

**After a relatively unfavourable first half of 2014, growth accelerated in the second half (table 1).** In all likelihood, the strong decrease in oil prices and interest rates, combined with a generally more favourable policy mix, has already contributed to the acceleration of growth in the advanced economies. In 2014, GDP growth rates rose to 2.4% in the US, 2.6% in the UK, and 0.9% in the euro area, but Japan posted a negative 0.1%.

**Outside the euro area, the US and UK enjoyed vigorous growth, while Japan experienced a mild contraction partly due to the VAT increase on 1 April 2014.** The US posted strong growth in Q2 and Q3, after a Q1 hit by an unusually harsh winter. In Q4, the US economy slowed but maintained momentum. The UK displayed a steadier profile, with growth running high since mid-2013. In Japan, the VAT shock caused a sharp downturn in growth in Q2 and Q3. The expected upswing failed to materialize in Q4, as quarterly GDP growth came to a disappointing 0.4%.

**In the euro area, growth improved from a negative 0.4% in 2013 to a positive 0.9% in 2014.** After stagnating at 0.1% in 2014 Q2, the pace quickened in the second half, sending GDP growth to 0.3% in Q4. Economic activity was particularly buoyant in Spain, where growth reached 0.7% in Q4, after a year marked by a rebound for all domestic demand drivers including construction investment. Year-end growth was also strong in Germany at 0.7%, a surprisingly vigorous performance fuelled by private consumption and construction investment. Belgium recorded 0.3% growth in Q4, while the Netherlands and Portugal posted 0.5%. By contrast, the Italian economy stayed flat at 0.0%, resulting in a new year of recession at a negative 0.4% for 2014.

**In the main emerging economies, growth continued to weaken in Q4 amid sharp financial tensions, particularly in Russia** (chart 5).

**Table 1: Quarterly GDP trends (quarter-on-quarter real GDP growth, adjusted for seasonal and working-day variations, in %)**

| | Q3 2013 | Q4 2013 | Q12014 | Q2 2014 | Q3 2014 | Q4 2014 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| **Developed economies (quarter-on-quarter real GDP growth, adjusted for seasonal and working-day variations)** | | | | | | | | | |
| United States | 1.1 | 0.9 | −0.5 | 1.1 | 1.2 | 0.5 | *2.3* | *2.2* | *2.4* |
| Japan | 0.4 | −0.3 | 1.3 | −1.6 | −0.7 | 0.4 | *1.7* | *1.6* | −0.1 |
| United Kingdom | 0.7 | 0.4 | 0.7 | 0.8 | 0.7 | 0.5 | *0.7* | *1.7* | *2.6* |
| **Euro area** | **0.2** | **0.3** | **0.3** | **0.1** | **0.2** | **0.3** | ***−0.8*** | ***−0.4*** | ***0.9*** |
| Germany | 0.3 | 0.4 | 0.8 | −0.1 | 0.1 | 0.7 | *0.6* | *0.2* | *1.6* |
| **France** | **−0.1** | **0.3** | **−0.1** | **−0.1** | **0.3** | **0.1** | ***0.4*** | ***0.4*** | ***0.4*** |
| Italy | 0.1 | 0.0 | −0.1 | −0.2 | −0.1 | 0.0 | *−2.8* | *−1.7* | −0.4 |
| Spain | 0.1 | 0.3 | 0.3 | 0.5 | 0.5 | 0.7 | *−2.1* | *−1.2* | *1.4* |
| Belgium | 0.4 | 0.2 | 0.4 | 0.1 | 0.3 | 0.2 | *0.1* | *0.3* | *1.0* |
| Netherlands | 0.3 | 0.4 | −0.4 | 0.7 | 0.3 | 0.8 | *−1.6* | *−0.7* | *0.9* |
| **Emerging economies (year-on-year, not adjusted for seasonal and working-day variations)** | | | | | | | | | |
| Brazil | 2.4 | 2.2 | 1.9 | −0.9 | −0.2 | n.d. | *1.0* | *2.5* | - |
| China | 7.8 | 7.7 | 7.4 | 7.5 | 7.3 | 7.3 | *7.7* | *7.7* | *7.4* |
| India | 7.5 | 6.6 | 5.3 | 7.0 | 7.8 | 7.5 | *6.9* | *7.2* | *6.9* |
| Russia | 1.3 | 2.0 | 0.9 | 0.8 | 0.7 | n.d. | *3.4* | *1.3* | - |
| Turkey | 4.2 | 4.5 | 4.8 | 2.2 | 1.7 | n.d. | *2.1* | 4.1 | - |

*Sources: DataInsight and Eurostat; there may be minor discrepancies with annual accounts due to the method used to compute working days.*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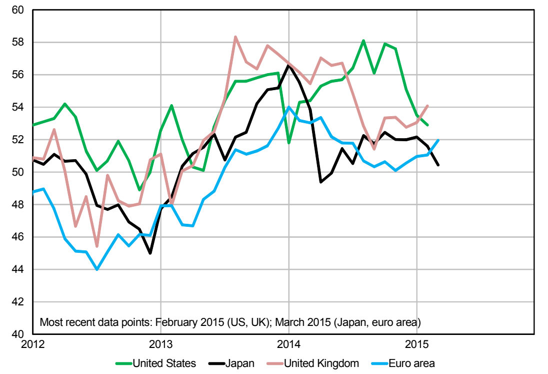
### 1.4 The economic outlook in early 2015 suggests a persistence of trends observed in late 2014

**The economic indicators available in spring 2015 indicate a slowdown in activity in the US, limp growth in Japan, while the UK and the euro area picking up.** Surveys of purchasing managers in the manufacturing industry are in positive territory in all four areas (chart 6). In the US, adverse weather conditions will likely dampen Q1 growth. The ISM indices are down for the fourth month in a row from last summer's unusually high levels. In Japan, the effects of Abenomics seem to be wearing off, and the recovery is slow to take hold after the VAT shock. In the UK, the uptrend in PMI surveys suggests robust growth will persist amid a rapid improvement in the labour market. In the euro area, confidence surveys point to a brighter economic outlook and an expansion in business activity. In the main emerging economies, the data confirm a slowdown in China and, to a lesser extent, in India. The exception is Turkey, which should experience a rebound at year-end. In the case of Brazil and, even more so, Russia, signs point to persistent downturn. Both economies are likely to have entered into recession in early 2015, as the very significant deterioration in the economic indicators suggest. The contraction is forecast to be particularly severe in Russia, amid the geopolitical crisis and falling oil prices.

**Chart 6: Manufacturing industry purchasing managers surveys, advanced economies**




*Source: ISM, Markit*

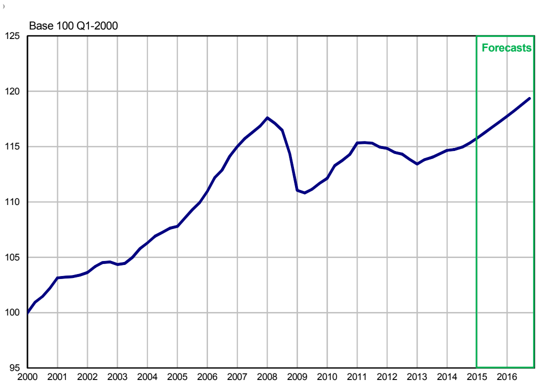
## 2. World growth is set to strengthen gradually in 2015, driven by the US and UK

In our forecast, the recovery will spread to all the advanced economies in 2015 and growth will accelerate in the euro area in 2016.

### 2.1 In the euro area, economic activity should accelerate, fuelled by domestic growth engines

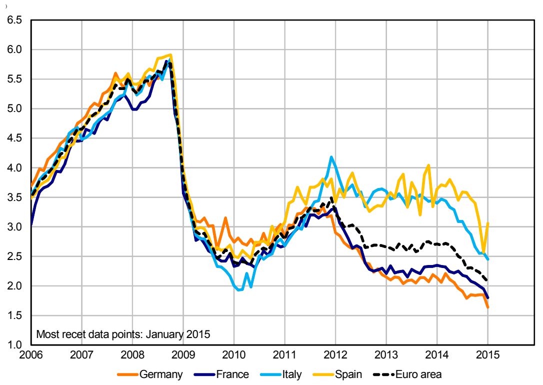
**The euro area recovery is expected to be gradual and uneven.** The sharp drop in oil prices (box 2) and the euro's steep depreciation in early 2015 should stimulate economic growth, which is likely to accelerate in 2015 and 2016 (chart 7). In the monetary union's southern countries, budgetary efforts were concentrated in the post-crisis period and their easing should loosen the constraints on the recovery. Domestic demand is set to be the main driver of growth. Private consumption is expected to rise as the purchasing power of households improves, underpinned by a combination of persistently weak inflation and lower oil prices. In turn, business investment is likely to be robust, spurred by the significant improvement in financing conditions in the peripheral countries and the acceleration in world trade. Financial fragmentation has been sharply reduced, including with regard to interest rates on new business loans (chart 8). Moreover, the ECB's massive Quantitative Easing programme should promote a recovery in business lending. The recovery will, however, be fragile, particularly as the unemployment rate is expected to remain high at over 10%, with projections of only a very gradual decline.

**Chart 7: Euro area GDP trends since 2000**




*Source: Eurostat, DG Trésor calculations.*

**Chart 8: Interest rates on new loans to non-financial corporations**



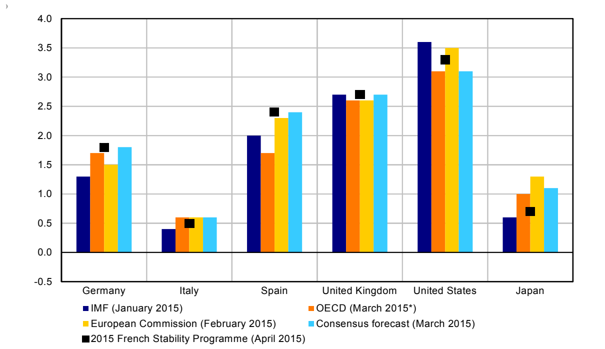

*Source: European Central Bank (ECB).*

## Box 1: **Comparison with forecasts by international organisations**

### A. Economic growth forecasts for the main advanced countries

The scenario of gradually stronger growth in the developed countries but a downturn in growth in the main emerging economies is broadly consensual (charts 9 and 10)..

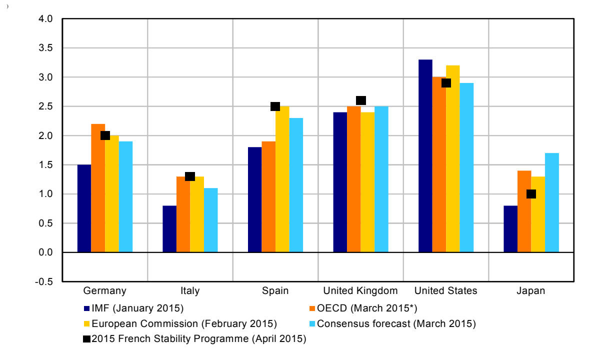
**Chart 9: 2015 growth forecasts**




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

* OECD: March 2015, except Spain: November 2014.

**Chart 10: 2016 growth forecasts**




*Sources : FMI, OCDE, European Commission, Consensus Forecasts, DG Trésor.*

* OECD: March 2015, except Spain: November 2014.

### B. World trade trends

**World trade growth was extremely weak in 2012 and 2013 compared with its pre-crisis trend and GDP growth. One explanation involves short-term factors, in particular the "double dip" in the euro area.** The world-trade slowdown between 2010 and 2013 was largely due to the sovereign crisis in the euro area (2010-2012), which led to a second recession followed by a very mild rebound in 2013. **Beyond the short-term causes, a more lasting pattern of slower trade growth may be at work, linked to changes in globalization.** Between 1990 and 2005, on an annual average basis, world trade expanded nearly twice as fast as the world economy, by 6.6% versus 3.5%. As the IMF[a] and others have noted, this period may therefore have witnessed a global shift in production and value chains-a trend that is now likely to slow.

In this scenario, the short-term effect mentioned above will be reversed, leading to an increase in the elasticity of world trade relative to world GDP growth, as the euro area's share of world trade exceeds its share of world growth. However, this elasticity is likely to remain weaker than before the crisis owing to the structural factors described earlier. We predict world trade growth of 4.5% in 2015 and 5.6% in 2016, in line with forecasts by international organisations (table 2).

### C. Forecasts of growth in world demand for French goods and services

**The divergence in trends in world demand for French goods and services and in world trade is due to geographic composition effects.** In the past decade, France, because of its geographic position, has derived relatively little benefit from imports by fast-growing countries and has suffered from the slackness of euro-area trade, especially in the past two years. Global demand for French goods and services has therefore risen more slowly than world trade. However, the expected recovery in the euro area, combined with weaker growth in the main emerging economies, gives reason to believe that the pace of world demand growth in the medium term could match or even exceed that of world trade (table 3).

**The scenario of an acceleration of world demand for French goods and services is consistent with OECD and European Commission scenarios.** The forecasts by the two international organisations are, however, slightly below the DG Trésor figures. The OECD forecasts date from November 2014 and do not incorporate the full decline in oil prices and all the attendant positive effects. The gap with European Commission forecasts is narrower, reflecting a more pessimistic outlook for imports by France's partners under the assumption of similar GDP growth.

**Table 2: World trade growth forecasts**

| Average annual growth, in % | 2014 | 2015 | 2016 |
|---|---|---|---|
| 2015 French Stability Programme (April 2015) | 3.5 | 4.5 | 5.6 |
| OECD (March 2015) | 3.0 | 4.5 | 5.5 |
| European Commission (February 2015) | 2.6 | 4.3 | 5.3 |
| IMF (January 2015) | 3.1 | 3.8 | 5.3 |
| WTO (September 2014) | 3.1 | 4.0 | - |

*Sources: WTO, IMF, European Commission, OECD, DG Trésor.*

**Table 3: Forecasts of growth in global demand for French goods and services**

| Average annual growth, in % | 2014 | 2015 | 2016 |
|---|---|---|---|
| 2015 French Stability Programme (April 2015) | 3.3 | 4.5 | 5.7 |
| European Commission (February 2015) | 2.9 | 4.3 | 5.4 |
| WTO (September 2014) | 2.5 | 3.9 | 5.0 |

*Sources: WTO, European Commission, DG Trésor.*

a. Constantinescu, C., Mattoo, A., and Ruta, M. (2014), "Slow Trade", Finance & Development, December, vol. 51, no. 4, available at http://www.imf.org/external/pubs/ft/fandd/2014/12/constant.htm.

**German** GDP growth is expected to continue in 2015 and intensify in 2016, driven by private consumption in 2015 and also by investment in 2016. Real household income will be sustained by the very moderate pace of inflation and the enactment of the minimum wage. We also expect the labour market trend to remain positive, with unemployment already at an all-time low of 5.0% in 2014.

**Italy** is projected to show timid GDP growth in 2015, followed by stronger gains in 2016. Private consumption should accelerate, driven by the rise in household purchasing power as income-tax cuts remain in place, and despite the persistently weak employment situation. Equipment investment should also gradually accelerate with the expected upturn in business lending coming on top of the already very low interest rate environment. By contrast, the recovery in construction investment will probably be slower. Trade should continue to provide an additional stimulus to growth.

**In Spain**, activity should pick up in 2015 and 2016, thanks to the resilience of domestic growth engines. Household purchasing power will likely be sustained by the persistence of weak inflation and the recovery in wage growth after several years of wage restraint, amid rising job creation and falling unemployment. Non-construction investment should remain particularly buoyant, with corporate profit margins still running high and financing conditions improving. Construction investment should also continue to recover in 2015..

## Box 2: **The effects of lower oil prices**

**Oil prices have fallen sharply since June 2014.** The Brent crude spot price-European market benchmark-stands at a five-year low. To varying degrees, this oil price decline has had a positive impact on growth in France's main economic partners, all of which are net energy importers. **Falling oil prices also, no doubt, mask a weakening of world demand.**

**A. How will lower oil prices affect France's main economic partners?**

In advanced economies, lower oil prices should feed through to **lower energy bills**, proportionate to importing countries' oil dependence. Households will likely benefit from the decline via **lower inflation**, which should sustain their purchasing power. A lower Brent benchmark price would bring pump prices down and therefore have a direct downward impact on energy inflation. The size of the impact depends, among other things, on the share of petroleum products in energy inflation (relatively larger in Spain, but smaller in Japan and the UK), as well as on the level of taxes on petroleum products. For example, taxes on petrol and diesel fuel are relatively low in Spain and the US.

**The magnitude of the positive impact also varies from country to country.** Lower oil prices would also reduce input costs for businesses, enabling them to rebuild profit margins. Businesses could then either invest more or take advantage of the situation to reduce their prices and increase competitiveness gains. This positive impact is dampened for the producer countries (US and UK) by the negative effect of lower oil prices on local producers.

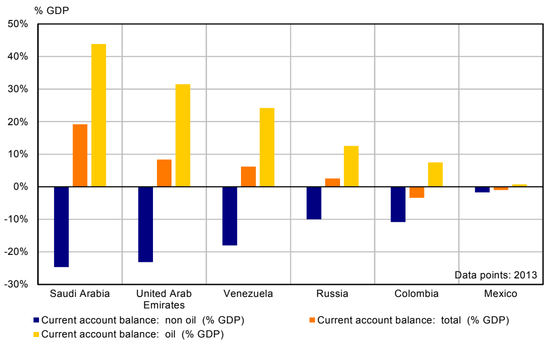
We have imputed the impacts in our forecasts after benchmarking existing studies on the subject. In the euro area, a halving of the oil price would add a half-point of GDP over two years. The impact would be slightly stronger in the US but weaker in the UK. The effects on inflation would also be far greater in Spain and the US than in Italy or Japan.

**B. How will lower oil prices affect the emerging economies?**

**The drop in oil prices weakens oil-exporting countries but is not expected to generate strong tensions in the emerging economies except Russia and Venezuela.** Both of these countries are heavily dependent on oil revenues, with their net oil exports accounting for 13% and 24% of GDP respectively. Lower oil prices have thus sharply increased external risk, as witnessed by the net currency depreciation in some exporting countries: the Russian rouble, for example, fell 60% in the second half of 2014, while countries such as Venezuela with fixed exchange rate regimes are finding it more difficult to maintain their peg to the dollar. Other risks include an erosion of foreign exchange reserves and current account balances. Such conditions increase capital flight risk as well as the vulnerability of countries with exposure to foreign currency denominated debt. Moreover, these economies are hard hit by fiscal losses. Oil accounts for 50% of fiscal revenues in Venezuela and Russia at a time when the oil price needed to balance their budgets is far higher than the mid-March price per barrel of around $60.

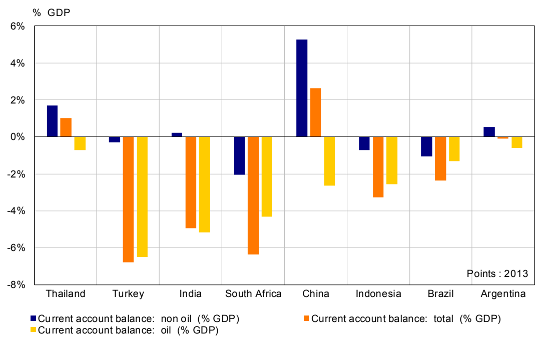
**Net oil-importing countries such as India and Turkey should see an overall improvement in their economic situation.** Firstly, the drop in oil prices should improve the trade balances of importing countries, particularly among the emerging economies, which engage in intensive commodity production. In China, the world's largest oil importer, the price slump has cut the energy bill by some 50% since mid-2014 and-according to the IMF-should add between 0.4 and 0.7 points to growth in 2015 and between 0.5 and 0.9 points in 2016[a]. In other words, lower oil prices should transfer wealth from exporting countries to importing countries, promoting a reduction in global imbalances. The second likely consequence is a fall in other prices, including production costs and the consumer price index (CPI). The effects are most visible in India and can also be seen in Turkey as well as in China where intermediate consumption prices have eased. This decline in inflation could increase fiscal space in some countries. Moreover, some emerging economies are taking advantage of the improvement in their economic situation to reform their energy subsidy system, which is a burden on their public finances. India, for example, has abolished its diesel fuel subsidies.

**Chart 11: Net oil exporters: current account balances, total and non-oil**




*Source: IMG (WEO April 2013).*

**Chart 12: Net oil importers: current account balances, total and non-oil**




*Source: IMF (WEO April 2013).*

a. Post by Arezki, R. and Blanchard, O. (2014), "Seven Questions about the Recent Oil Price Slump", December (http://blog-imfdirect.imf.org/2014/12/22/seven-questions-about-the-recent-oil-price-slump/). The authors examine two scenarios: in the first, lower oil prices are due to a constant distribution of supply and demand factors (60%/40%); in the second, which is more pessimistic, the share of supply factors shrinks. The results mentioned by the IMF and here in our April issue reflect only the impact of the supply shock, i.e., 60% of the fall in oil prices.

### 2.2 In the rest of the world, the US and UK will continue to be the growth engines of the advanced economies

The US and UK are expected to enjoy relatively strong growth, facilitating a gradual phase-out of monetary support to their economies. By contrast, the Japanese economy is forecast to stall. The slowdown in the main emerging economies is expected to be confirmed, as China continues to lose growth momentum and recession looks more probable in Russia and Brazil. Meanwhile, India and Turkey are on track to better performance, owing in particular to the boost to economic activity from lower oil prices.

**In the US**, growth should intensify in 2015 then continue at a robust pace in 2016 propelled by strong household consumption. The high rate of job creation combined with wage increases should quicken the rise in household purchasing power. Lower energy prices will also help sustain purchasing power in 2015, albeit temporarily. Businesses, whose financial condition has improved since the crisis, are expected to increase their investment levels, encouraged by the upturn in domestic demand and despite the slowdown in capital spending by oil companies. The external position will likely have a greater negative impact on GDP than in 2014 owing to the brisk pace of imports fuelled by faster-growing domestic demand.

**In the UK**, growth is forecast to remain firm in 2015 and 2016, spurred by domestic demand coupled with an export recovery. However, the pace of the expansion will probably weaken slightly over the forecasting horizon owing to stronger fiscal consolidation and a gradual rise in interest rates. Consumption should stay robust, thanks to the upturn in the aggregate payroll and the persistent weakness of inflation, which will sustain the purchasing power of households. The brighter demand outlook should induce firms to raise their equipment spending. The "productivity puzzle"-in other words, the vigour of employment relative to economic growth-should be gradually solved. Employment growth is expected to move below GDP growth; this will enable productivity to recover, although it will not return to its pre-crisis level.

**In Japan**, we expect only a gradual recovery in growth in 2015 and 2016, after the greater-than-anticipated impact in 2014 Q2-Q3 of the three-point increase in VAT on 1 April 2014. The economic upswing is conditional on an upturn in exports after three consecutive years of weak response to the yen's steep depreciation since mid-2012. The unemployment rate should converge towards its structural level. However, this is unlikely to exert upward pressure on wages, as most of the jobs created will be non-regular and in the service sector, with little bargaining power. Inflation is expected to fall sharply, missing its 2% target over the entire forecasting horizon. This raises the issue of the effectiveness of Abenomics and its capacity to pull Japan out of deflation for good.

**Among the main emerging economies,** China, Brazil and Russia are likely to grow at a slower pace in 2015 than in 2014. The slowdown should, however, be mitigated by the rebound in India and Turkey. In 2016, growth should accelerate in these emerging economies with the notable exception of China, whose widely expected slowdown is set to continue. Despite this overall improvement, growth in the main emerging economies will probably stay well below its pre-crisis average. A partial explanation can be found in structural factors, including weaker external demand and a gradual exhaustion of the catch-up process relative to the advanced economies. The loss of momentum also reveals weaknesses that are increasingly present to a varying extent across countries: a difficult shift towards growth models that are more domestic demand driven, a chronic deficit in infrastructure investment and, for some countries, severe competitiveness and governance problems.

**Table 4: Growth forecasts**

| GDP (annual average in %) | Average 2000-2007 | 2013 | 2014 | 2015 (*forecasts,adjusted for working-day variations*) | 2016 |
|---|---|---|---|---|---|
| **Global growth** | **4.5** | **3.3** | **3.2** | **3.5** | **3.7** |
| **Advanced economies** | **2.6** | **1.4** | **1.8** | **2.4** | **2.4** |
| United States | 2.7 | 2.2 | 2.4 | 3.3 | 2.9 |
| Japan | 1.5 | 1.6 | −0.1 | 0.7 | 1.0 |
| United Kingdom | 3.0 | 1.7 | 2.6 | 2.7 | 2.6 |
| Euro area | **2.2** | **−0.4** | **0.9** | **1.4** | **1.8** |
| *Germany* | *1.7* | *0.2* | *1.6* | *1.8* | *2.0* |
| *Italy* | *1.5* | *−1.9* | *−0.4* | *0.5* | *1.3* |
| *Spain* | *3.8* | *−1.2* | *1.4* | *2.4* | *2.5* |
| **Emerging economies** | **6.6** | **4.7** | **4.2** | **4.4** | **4.7** |
| *Brazil* | *3.5* | *2.5* | *0.1* | −0.5 | *1.5* |
| *China* | *10.5* | *7.7* | *7.4* | *7.0* | *6.8* |
| *India* | *7.1* | *7.2* | *6.9* | *6.3* | *6.5* |
| *Russia* | *7.2* | *1.3* | *0.4* | −3.3 | −0.9 |
| *Turkey* | *5.2* | *4.1* | *2.9* | *3.4* | *3.8* |
| **World trade** | | *3.2* | *3.5* | *4.5* | *5.6* |
| *World demand - France* | | *3.1* | *3.3* | *4.5* | *5.7* |

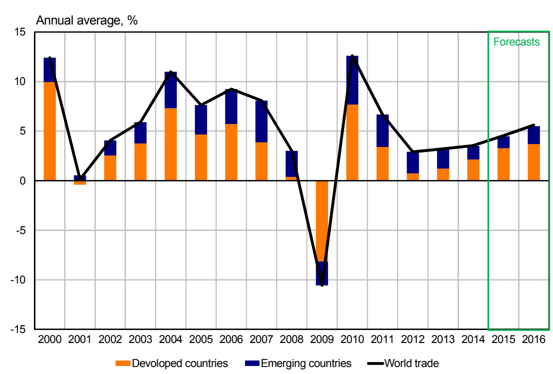
*Sources: National data, DG Trésor forecasts.*

## 3. World trade is set to accelerate, as will demand from destination countries for French exports

World trade grew 3.5% in 2014, just slightly faster than in 2013. The mildness of the increase was due to the slowdown in the emerging economies and the modest pace of recovery in the euro area. By 2016, we expect world trade growth to quicken thanks to the economic upswing in the advanced countries-particularly in the euro area-as they account for the larger share of world trade (chart 13). At 4.5% in 2015 and 5.6% in 2016, however, the pace of world trade growth will be substantially slower than in the past two decades, which saw annual growth averaging 6.6% between 1990 and 2008.

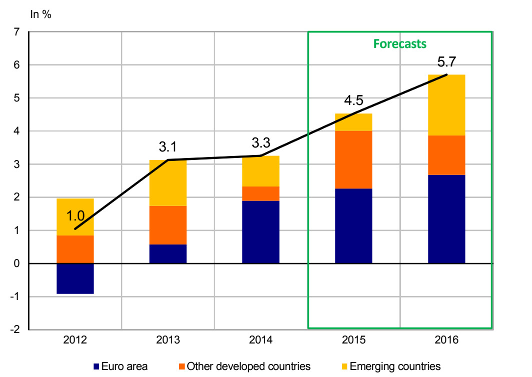
Foreign demand for French goods and services should follow a similar trend, gaining 4.5% in 2015 and 5.7% in 2016 (Chart 14).

Chart 13: World trade




*Sources: IMF, World Economic Outlook, October 2014; DG Trésor forecast..*

Chart 14: World demand for French goods and services




*Source: DG Trésor.*

## 4. This scenario of a gradual improvement in the global economy driven by the advanced countries remains vulnerable to several contingencies

- Future oil-price trends: a continued decline in oil prices would provide additional support for growth in the medium term, but could aggravate the risk of deflation in the euro area; conversely, a premature rise in oil prices could dampen growth.
- The recent slowdown in price growth is due in part, but not only, to the sharp drop in energy prices. The euro area is thus increasingly at risk of long-lasting negative inflation, whereas the "deflation" risk remains moderate.
- Regarding the situation in Greece, intense discussions are under way to find a constructive solution rapidly. A failure of these talks could soon revive market perceptions of systemic risk in the euro area.
- Future exchange rate movements: a continued depreciation of the euro could also provide additional stimulus to the euro area economy and promote an inflation rebound. However, a rise in exchange-rate volatility increases economic uncertainty.
- In the US and UK economies, the timing of monetary-policy normalisation remains indeterminate, given the uncertainty surrounding productivity and the labour market, and would impact exchange-rate movements.
- Regarding the emerging economies, commodity price trends-whether upwards or downwards-remain a major uncertainty. Moreover, geopolitical tensions in Eastern Europe generated by the Russia-Ukraine crisis could also flare up. A stronger-than-expected slowdown of China's economy (arising from a sharper-than-expected correction in the real-estate market) would weigh on the world economy and in particular on commodity-exporting countries such as Russia and Brazil, which are already hard hit by falling commodity prices. By contrast, the main upside risks are a more vigorous recovery in the developed countries or further monetary easing in the emerging economies after the first moves at the start of the year, despite the persistence of high inflation in certain countries.

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