



# ***THE STATE OF GLOBAL ECONOMY AND CHALLENGES AHEAD***

**December 2015**

**By Eteri Kvintradze**

# Global and Regional Perspective

- Global outlook
- Regional outlook
- Risks and opportunities for Sri Lanka's economic transformation

# WEO October Growth Forecast: Advanced Economies

(percent change from a year earlier)



World



Advanced Economies



U.S.



U.K.



Japan



Euro Area



Germany



France

<b>2015</b>	<b>3.1</b>	<b>2.0</b>	<b>2.6</b>	<b>2.5</b>	<b>0.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.2</b>
Revision (April 2015)	(-0.4)	(-0.4)	(-0.5)	(-0.2)	(-0.4)	(0.0)	(-0.1)	(0.0)
<b>2016</b>	<b>3.6</b>	<b>2.2</b>	<b>2.8</b>	<b>2.2</b>	<b>1.0</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>
Revision (April 2015)	(-0.2)	(-0.2)	(-0.3)	(-0.1)	(-0.2)	(0.0)	(-0.1)	(0.0)

Sources: IMF, *World Economic Outlook*, October 2015 Board version.

# WEO October Growth Forecast : Emerging Markets and LIDCs

(percent change from a year earlier)



World



Emerging  
Market and  
Developing  
Economies



China



India



Brazil



Russia



Low Income  
Developing  
Countries

**2015**

**3.1**

**3.9**

**6.8**

**7.3**

**-3.0**

**-3.8**

**4.9**

Revision  
(April 2015)

(-0.4)

(-0.3)

(0.0)

(-0.2)

(-2.0)

(0.0)

(-0.7)

**2016**

**3.6**

**4.5**

**6.3**

**7.5**

**-1.0**

**-0.6**

**5.9**

Revision  
(April 2015)

(-0.2)

(-0.2)

(0.0)

(0.0)

(-2.0)

(0.5)

(-0.2)

Sources: IMF, *World Economic Outlook*, October 2015 Board version.

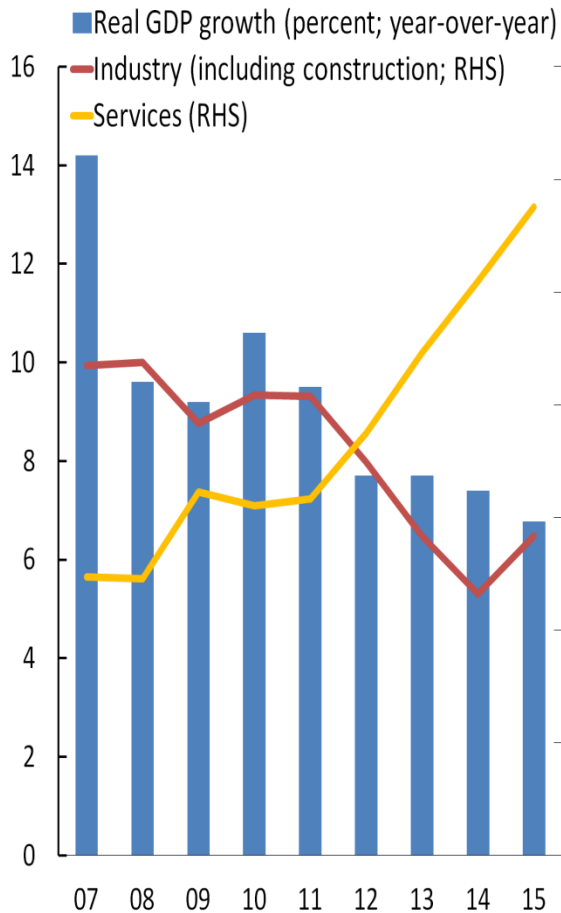
# Emerging Market and Developing Economies: Slowing Growth and Multiple Challenges

## Intersection of three powerful forces

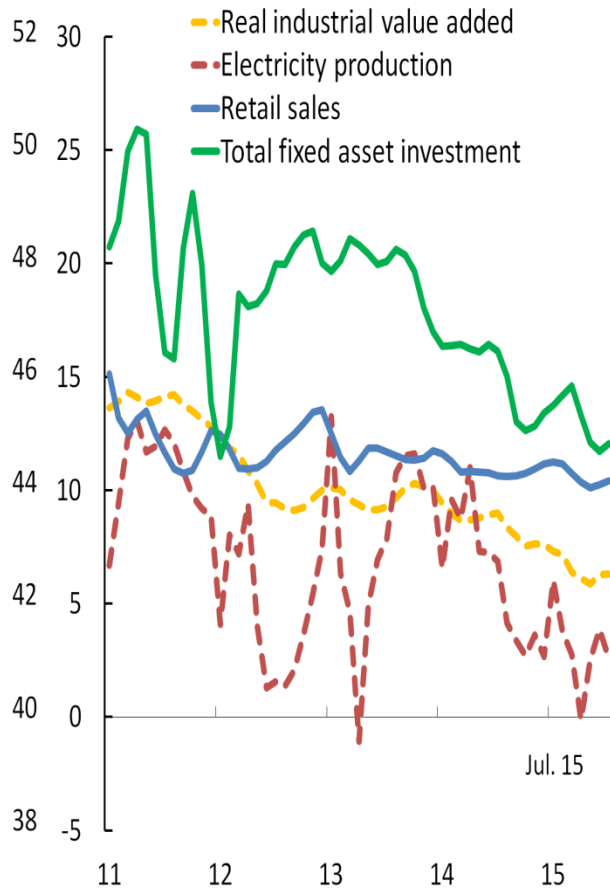
- China's economic transformation
- Decline in commodity prices
- Monetary policy normalization in the U.S.

# China: Rebalancing. How Large is the Slowdown?

**Share of Gross Value Added 1/**  
(percent of GDP)



**Supply and Demand Indicators**  
(percent; year-over-year; 3mma)

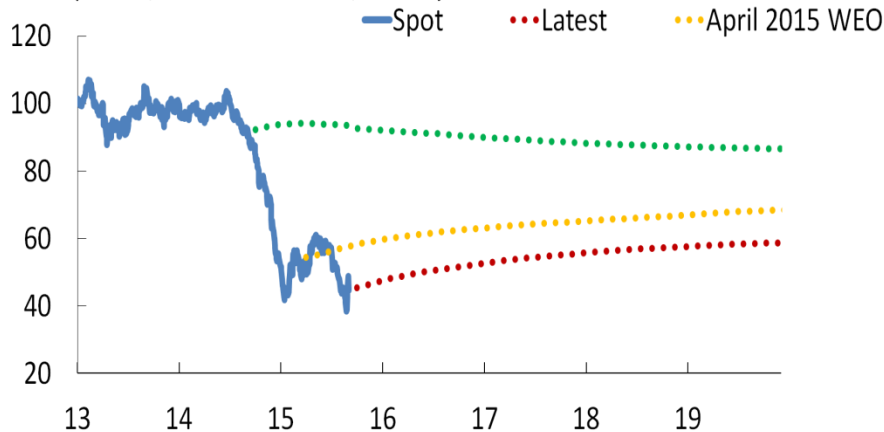


- Complex transition to new growth model, driven by consumption and services
- Difficult reforms while preserving demand and reducing vulnerabilities
- Spillovers through trade and commodity prices

# Generally Weaker Commodity Price Prospects

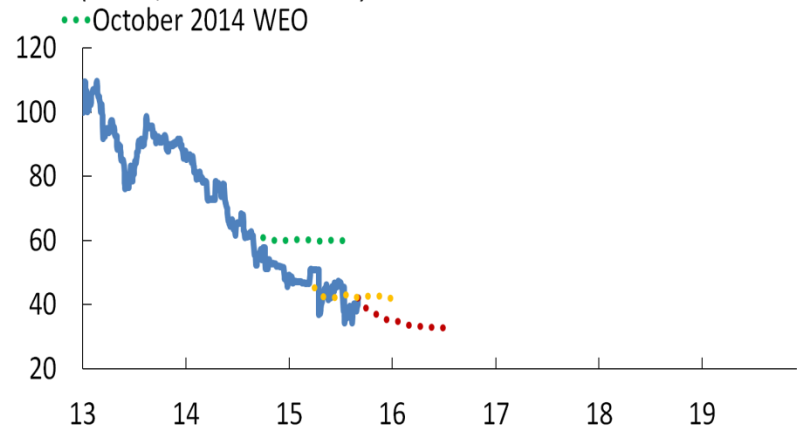
## Oil: Spot and Futures Prices

(index; Jan. 2013=100; Brent)



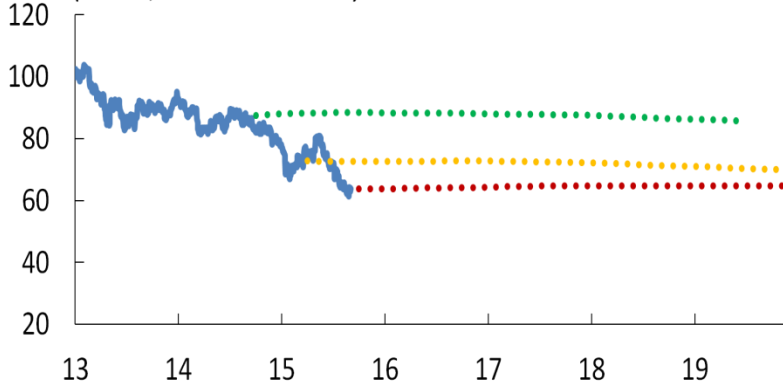
## Iron Ore: Spot and Futures Prices

(index; Jan. 2013=100)



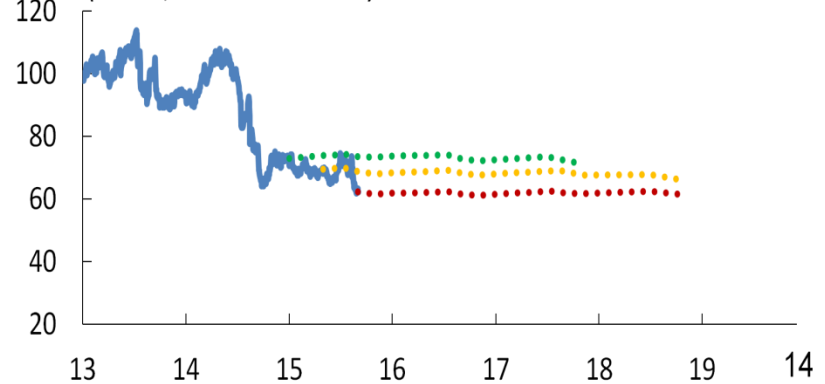
## Copper: Spot and Futures Prices

(index; Jan. 2013=100)



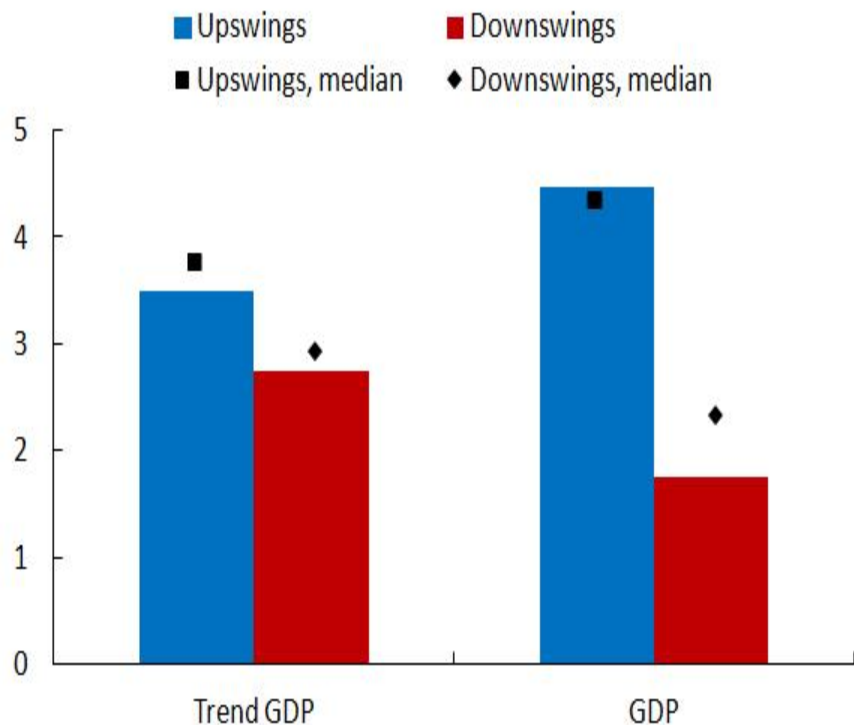
## Soybeans: Spot and Futures Prices

(index; Jan. 2013=100)

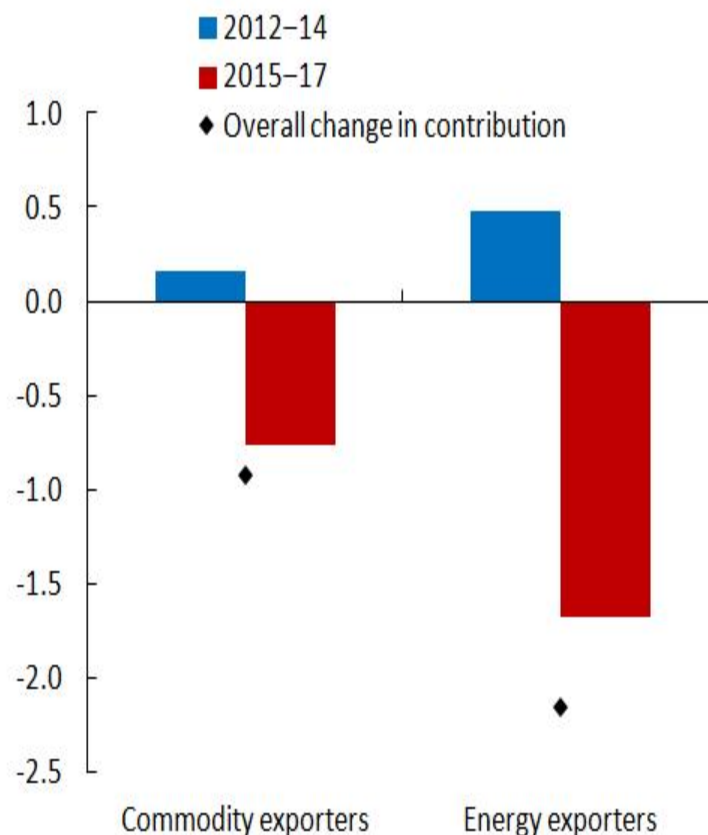


# Commodity Exporters to see drag on Actual and Potential Growth

**Average Annual Growth during Commodity Terms-of-Trade Upswings and Downswings (Percent)**

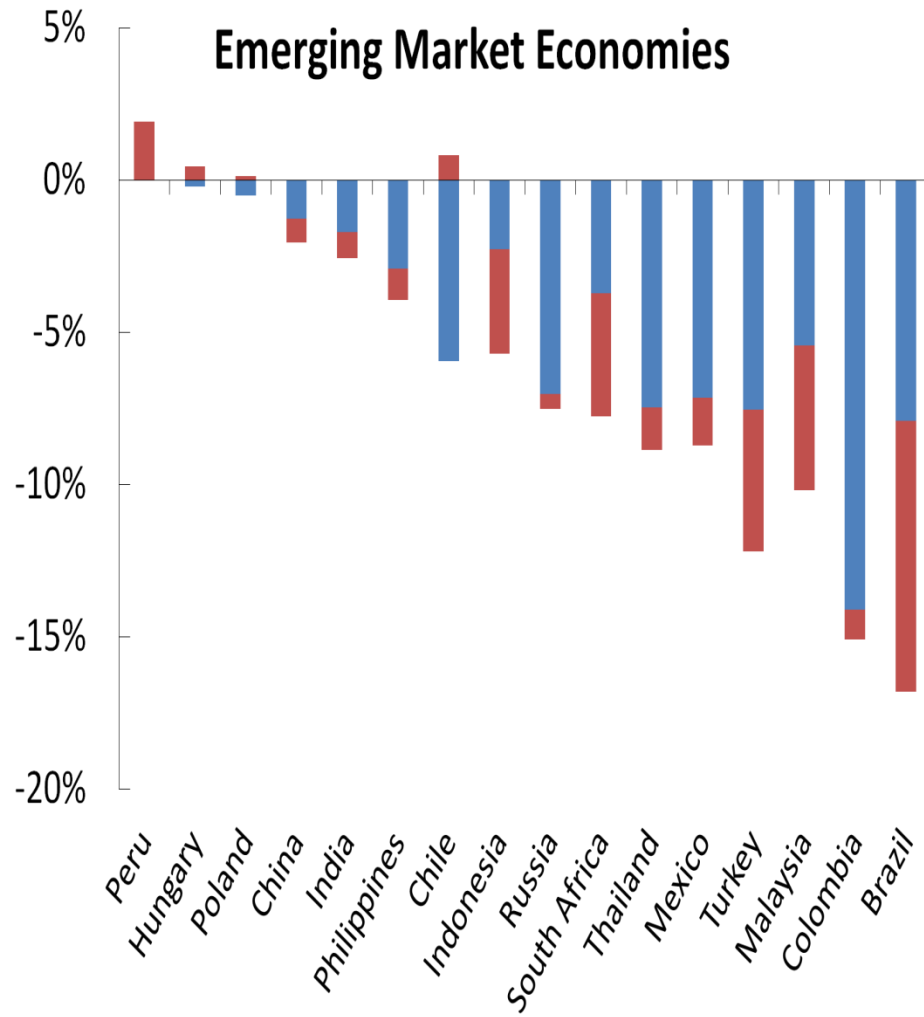
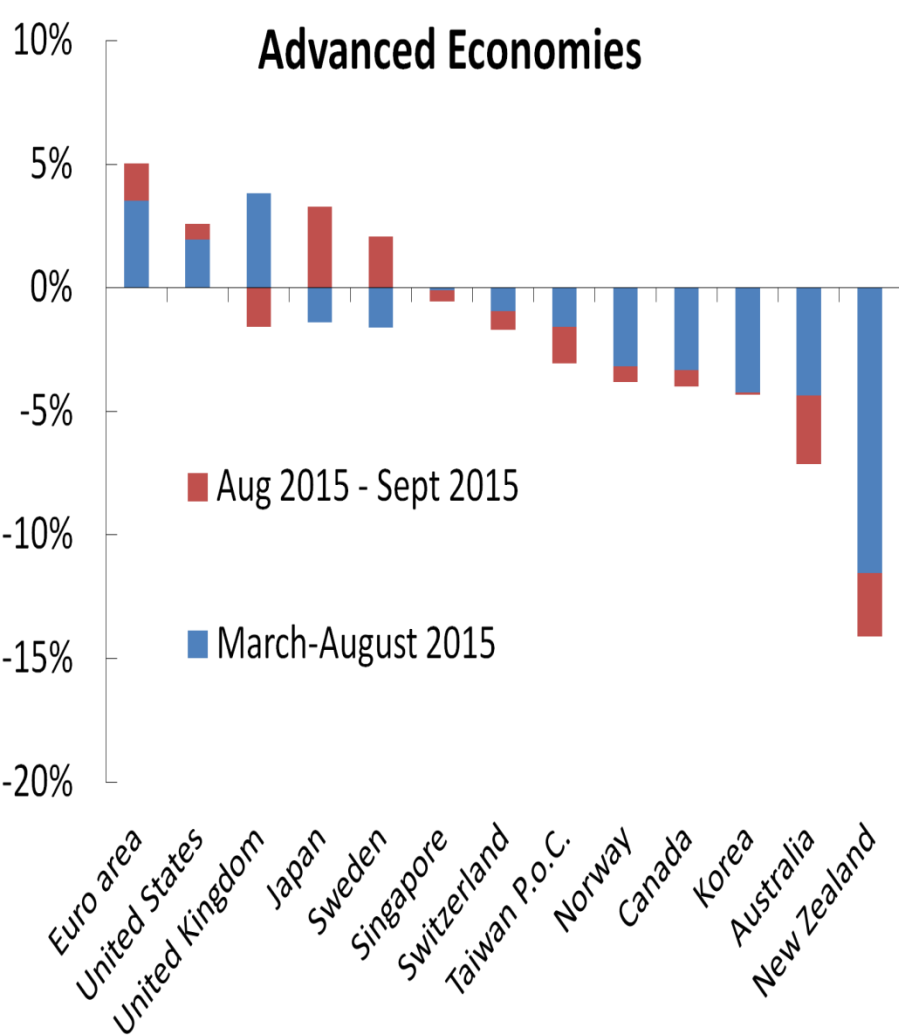


**Average Annual GDP Growth Impact (Percent)**





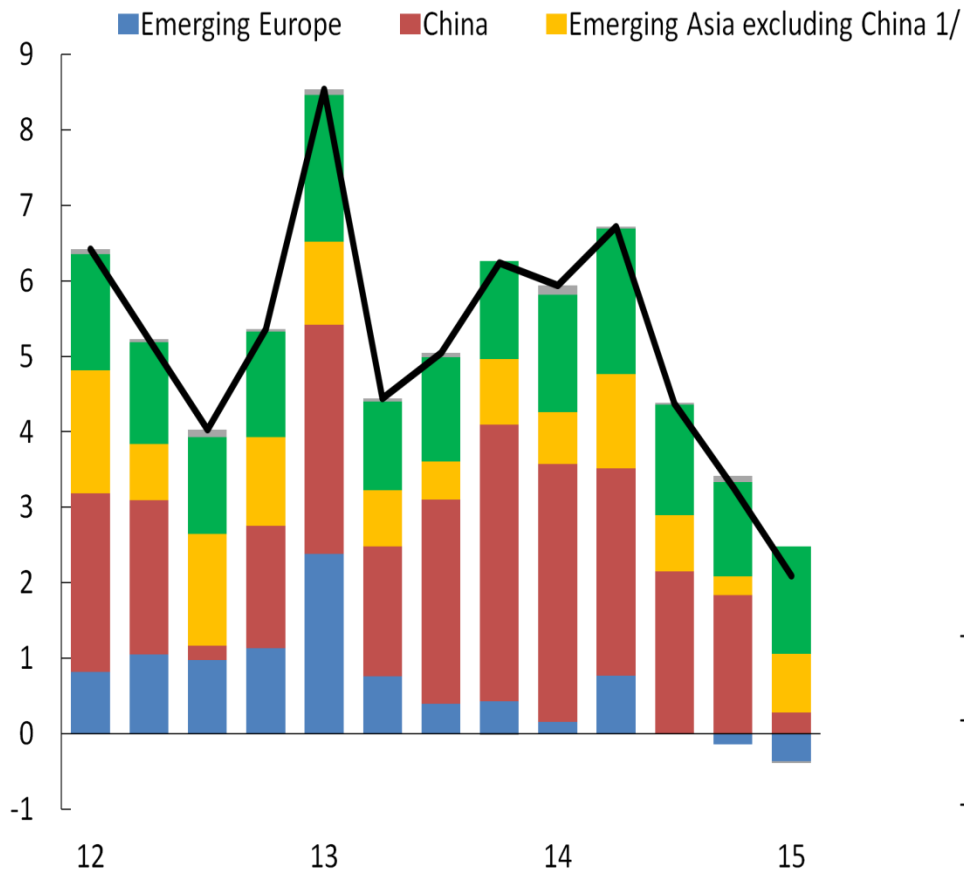
# Substantial Exchange Rate Realignment ... And, More Recently, Exchange Rate Regime Changes, Impact of China, and Country-Specific Shocks



# Declining EM Capital Inflows and Fall in Reserves

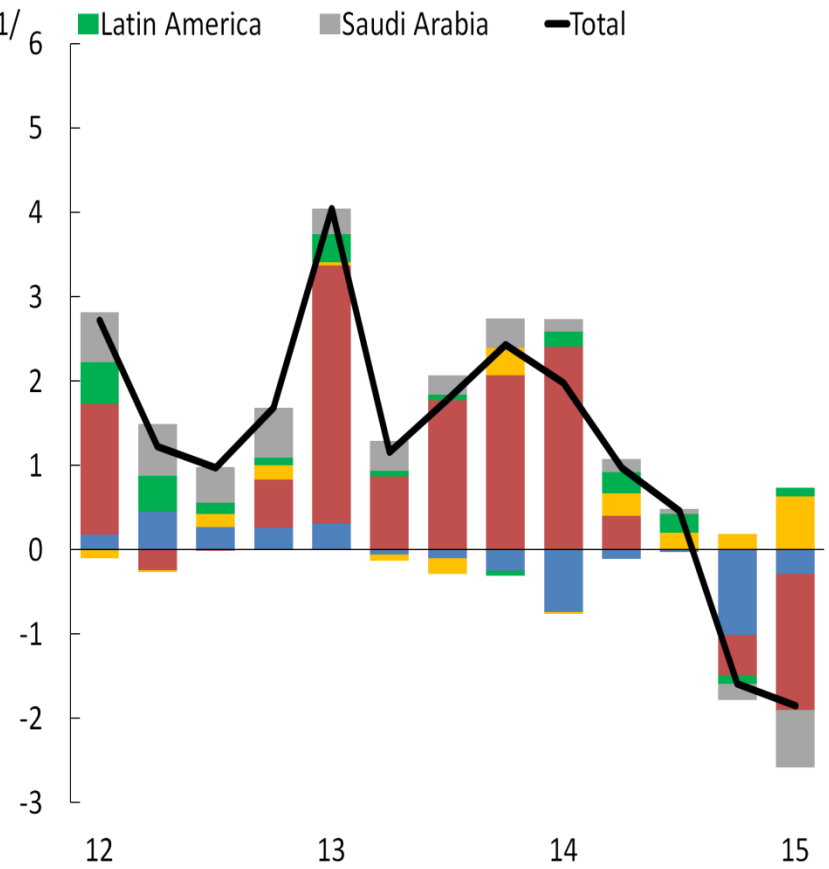
## Capital Inflows

(percent of GDP)



## FX Reserve Flows

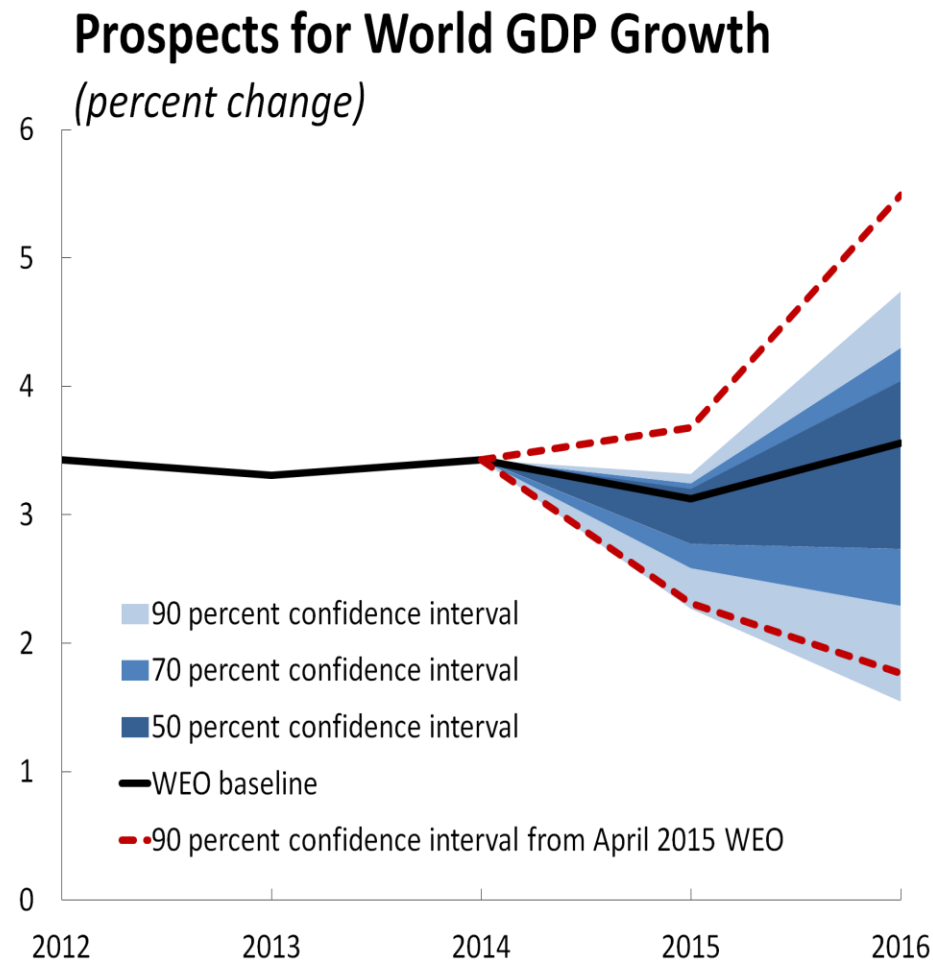
(percent of GDP)



# Balance of Risks Is Still Tilted to the Downside

- Risks:

- Geopolitical risks more contained, but still very relevant
- Overall financial conditions are tightening...
- ...Exacerbating the impact of weak commodity prices on exporters
- Risk of sudden stop in EM financial flows and higher global risk premia
- Slower growth in China
- Lower potential output growth in EMs
- Risks of stagnation, secular stagnation, and entrenched low inflation in AEs



# Asia and Pacific Fall 2015 Regional Economic Outlook **Update** **Bolstering Resilience amid the Slowdown**

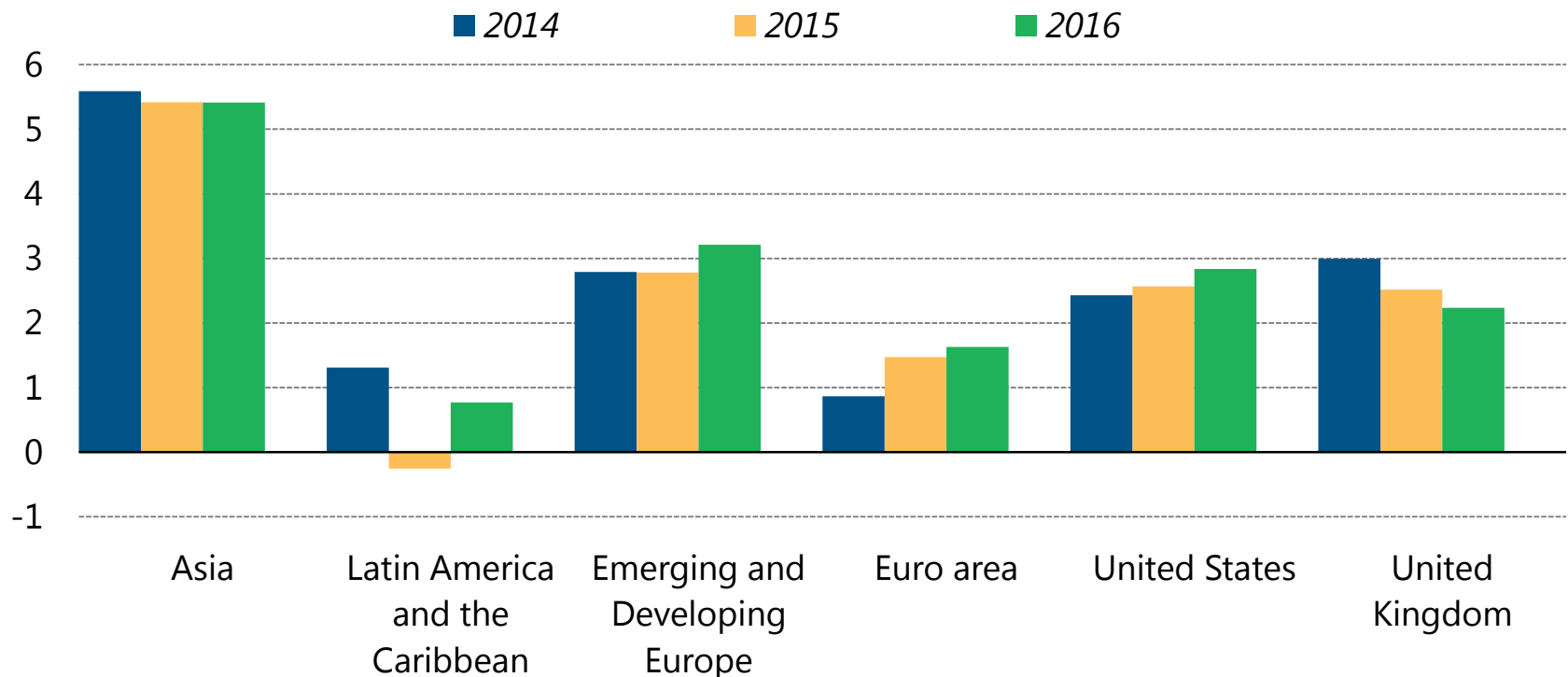




# But Asia's outlook remains relatively robust...

## Global: Real GDP Growth

(Year-on-year; percent change)

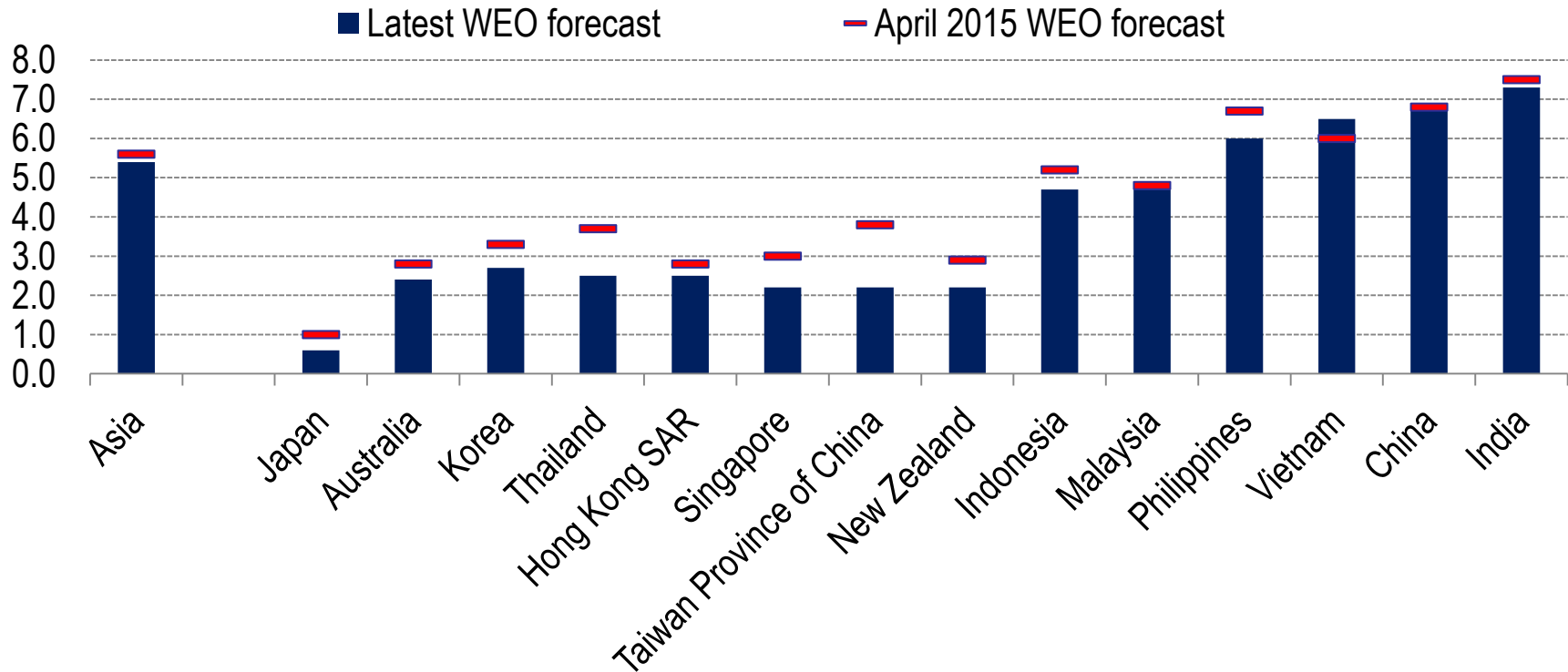


Source: IMF, *World Economic Outlook* database.

# Growth has been moderating

## Downward Revisions to 2015 GDP Growth

(Year-on-year percent change)



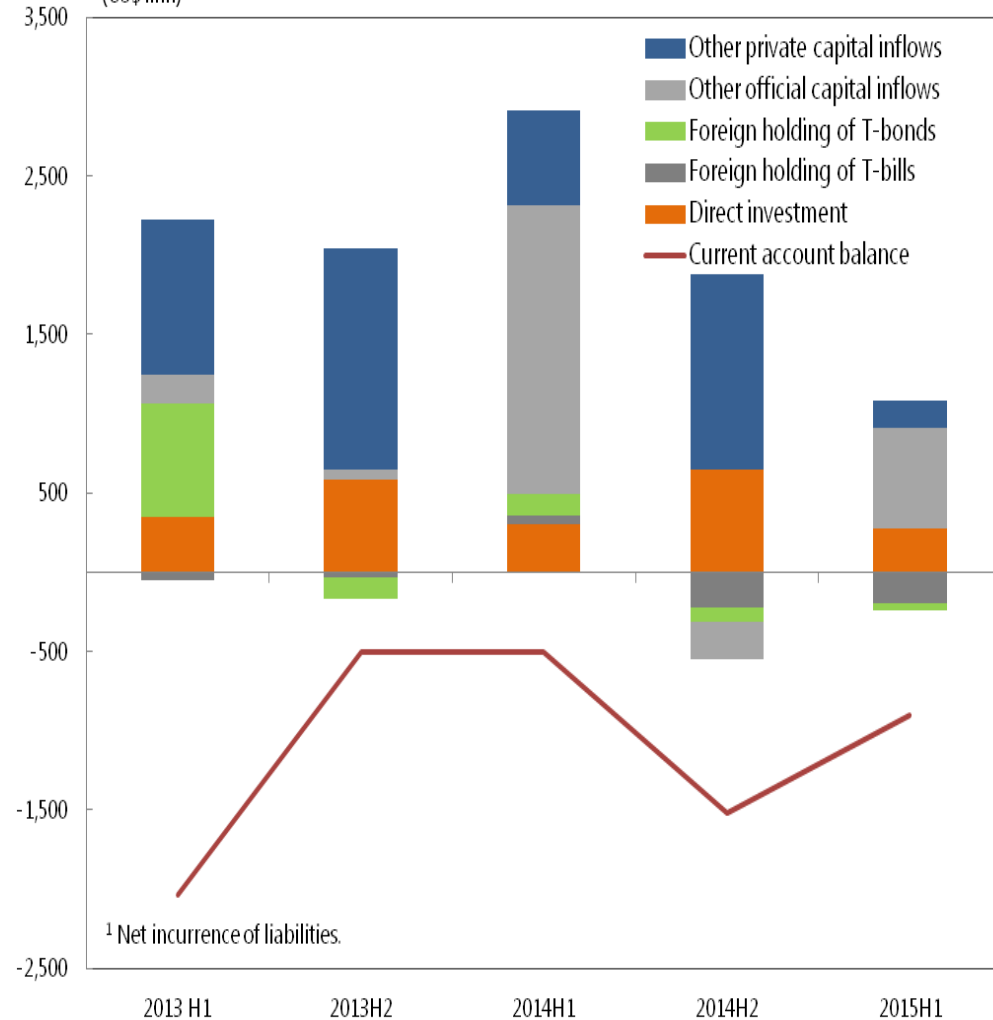


# Sri Lanka: External Vulnerability

**Sri Lanka: Strong non-oil imports offsetting the positive oil shock**  
(Import growth in percent)



**Sri Lanka: Declining foreign capital inflows<sup>1</sup>**  
(US\$ mln)



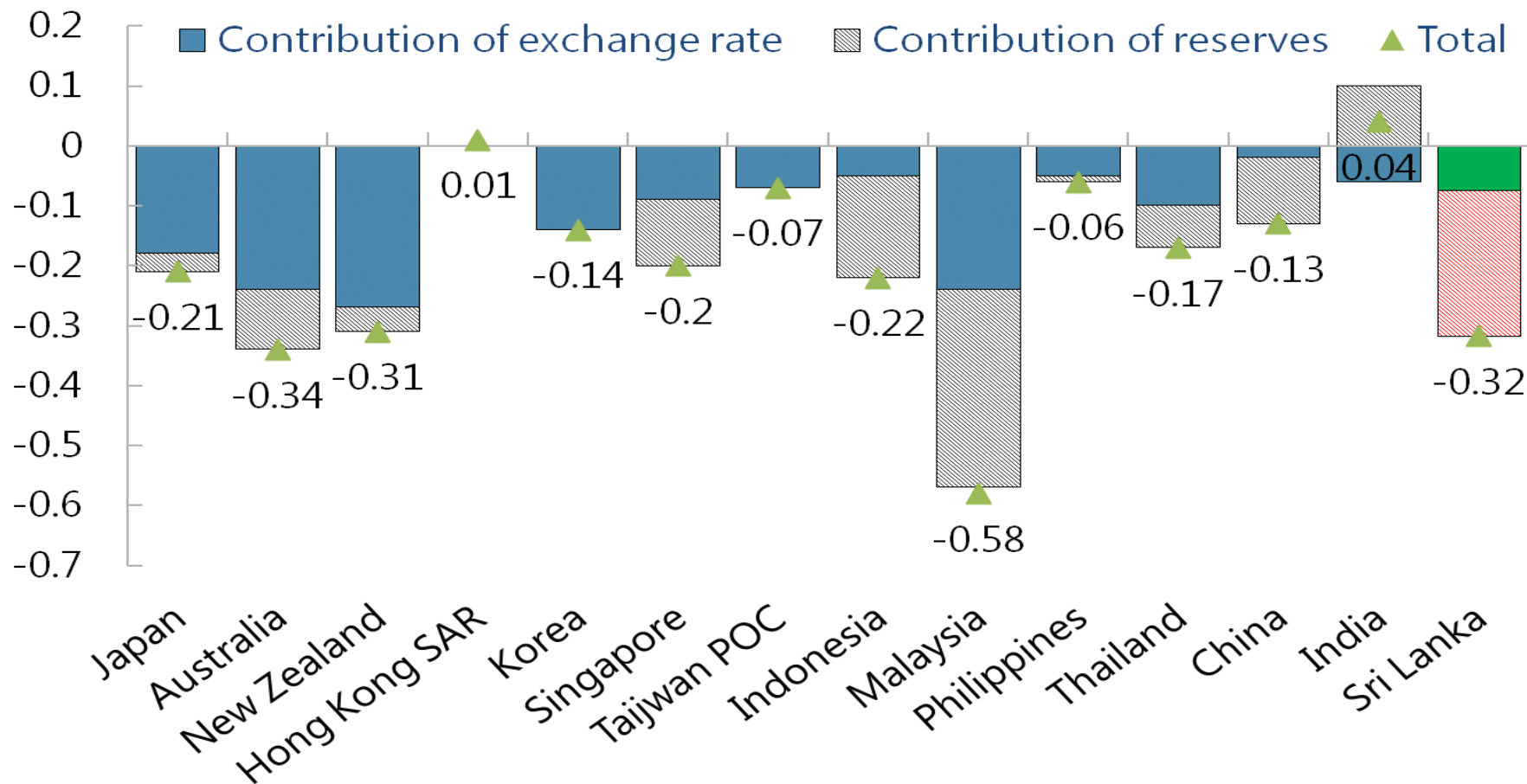
<sup>1</sup> Net incurrence of liabilities.



# Sri Lanka: External Vulnerability

## Asia: Exchange Market Pressure Index

(Rate of change in US\$/LC exchange rate + rate of change in reserves; year-on-year)



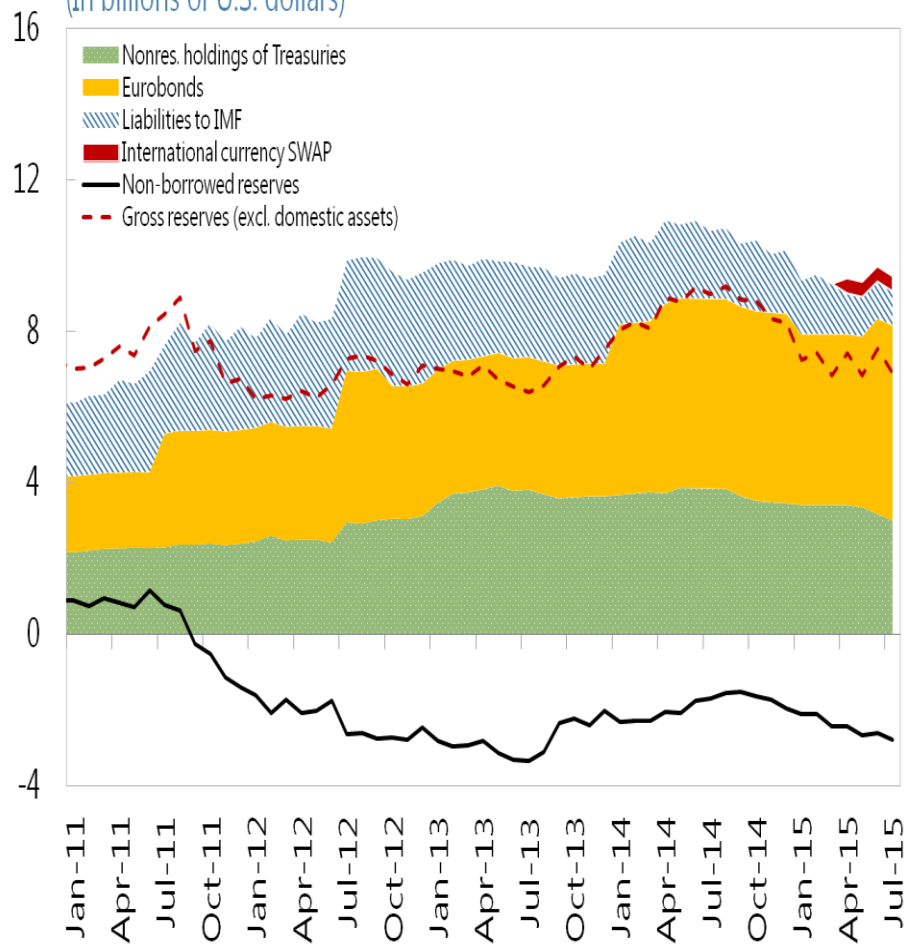




# Sri Lanka: External Vulnerability

## Evolution of Gross Reserves

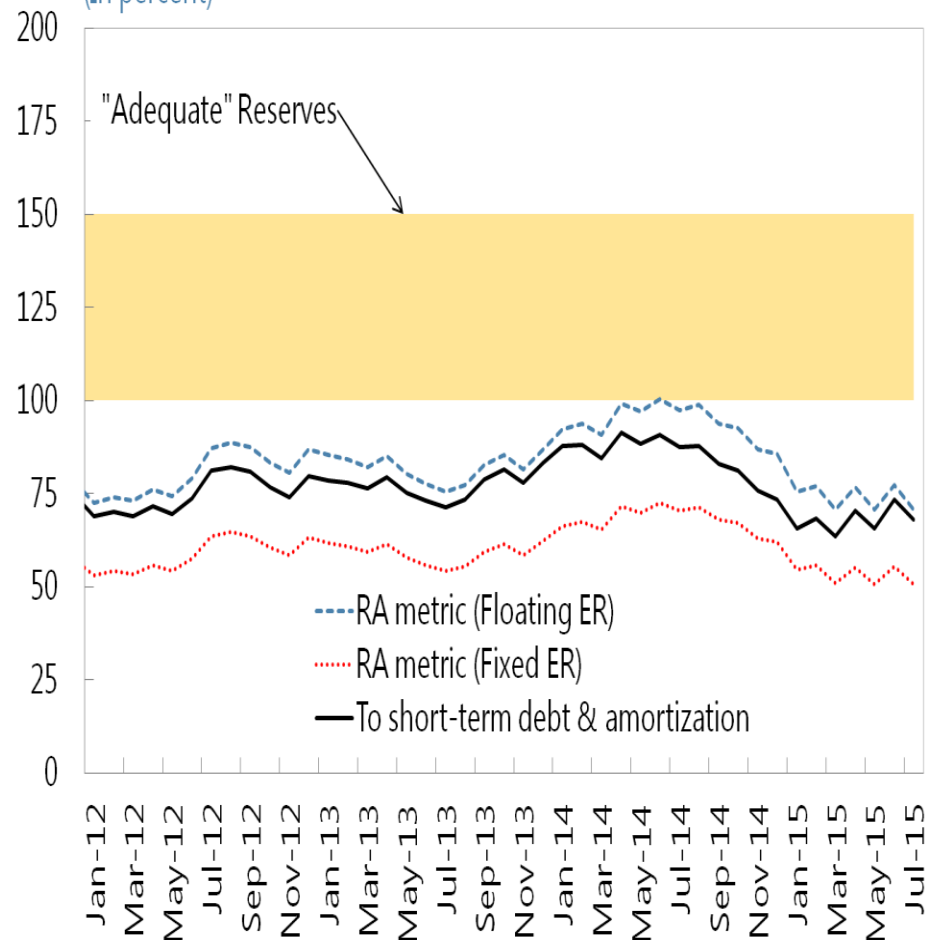
(In billions of U.S. dollars)



Source: IMF staff estimates.

## Sri Lanka: Reserve Metrics Dynamics

(In percent)

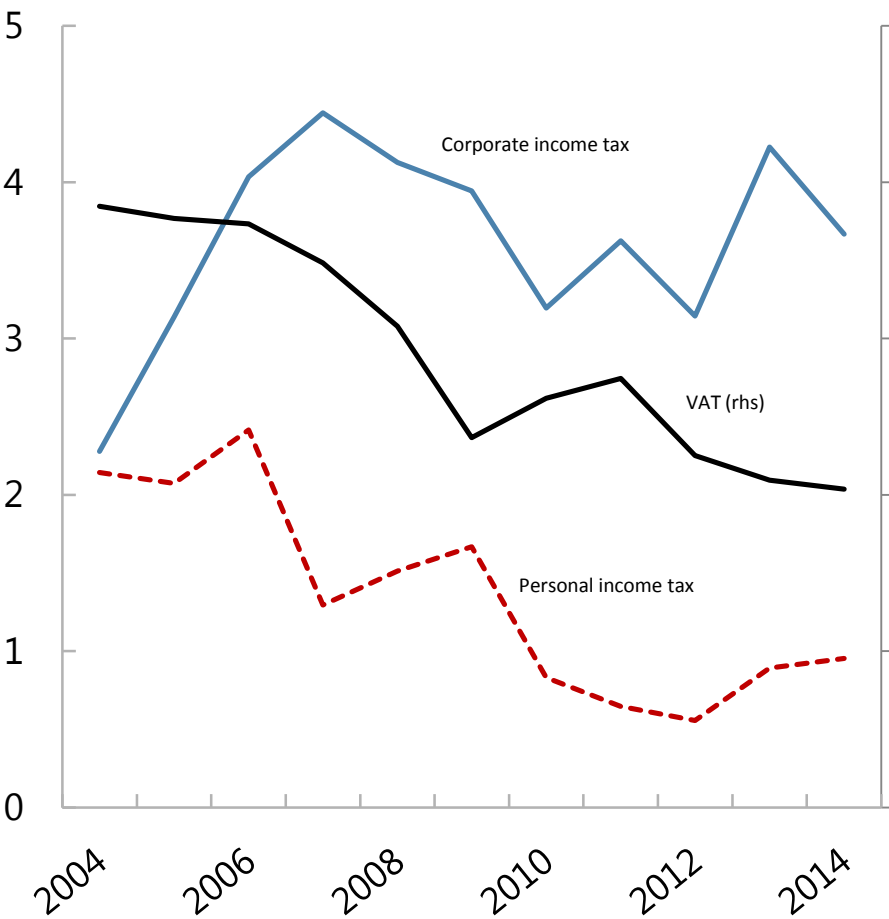


Source: IMF staff estimates.

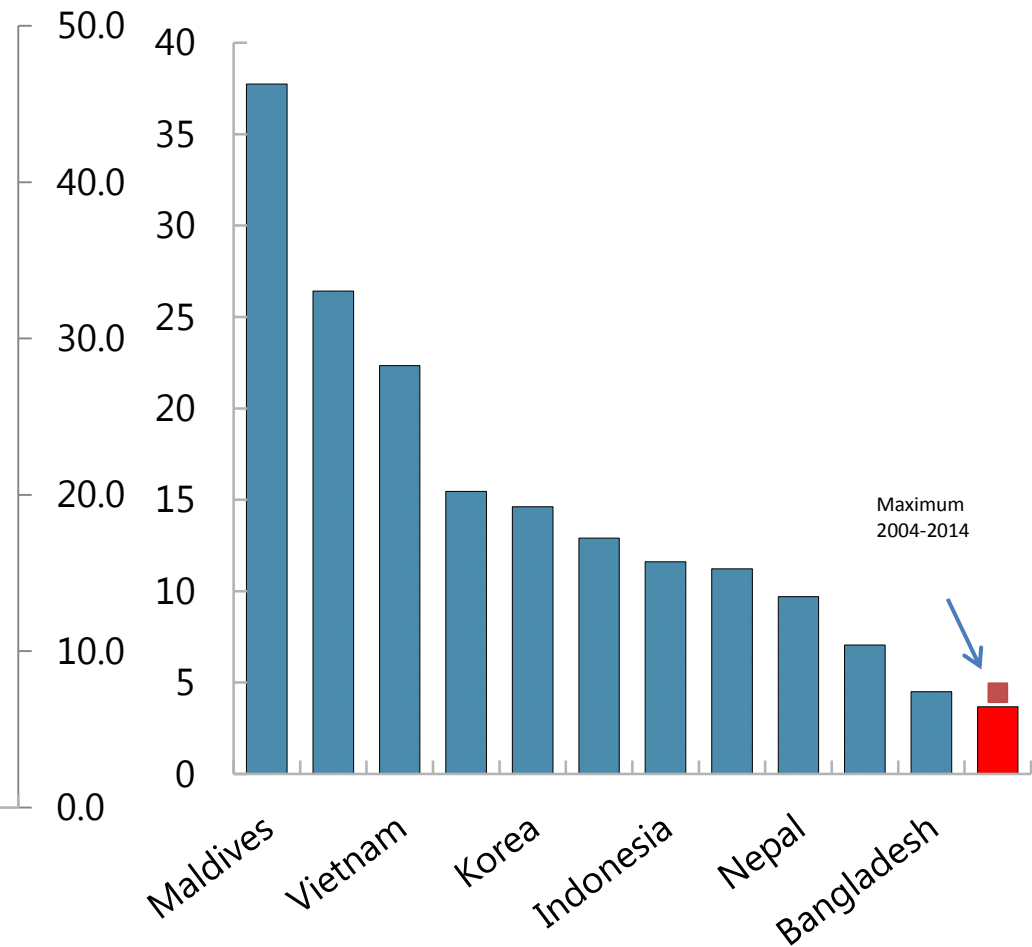


# Sri Lanka: Fiscal Vulnerability

**Sri Lanka: Tax Revenue Productivity, 2004-2014**  
(Revenue to GDP ratio/tax rate)



**Corporate Income Tax Productivity, 2014**  
(Corporate tax collection in percent of GDP/corporate tax rate)

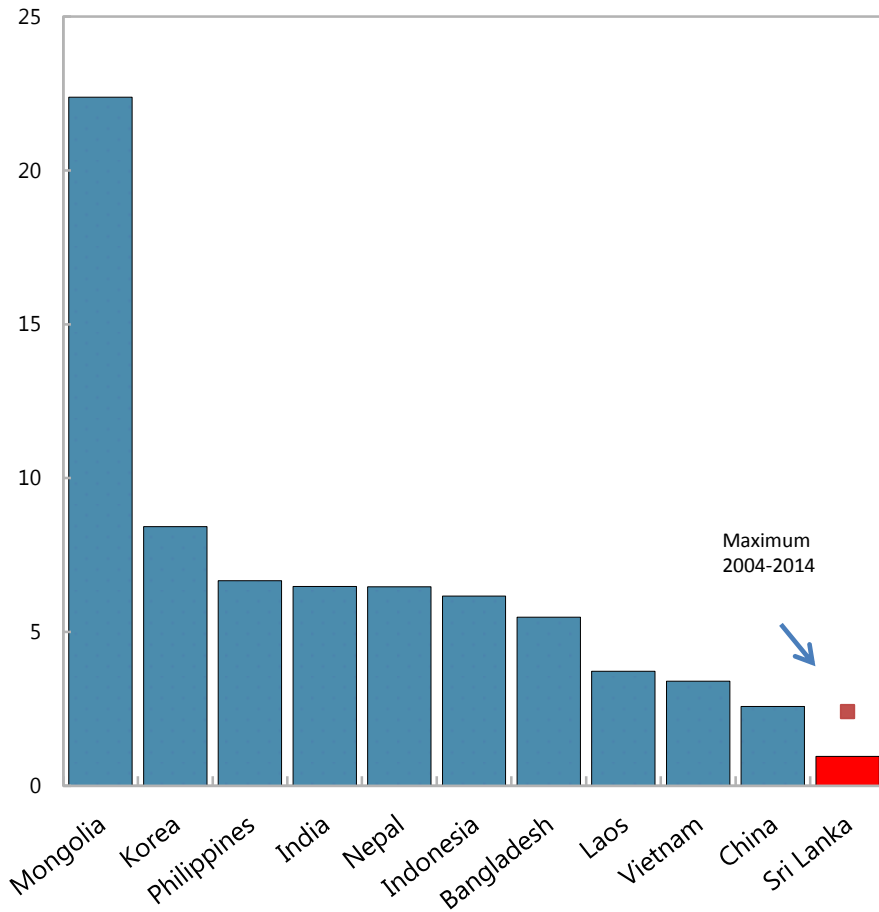




# Sri Lanka: Fiscal Vulnerability

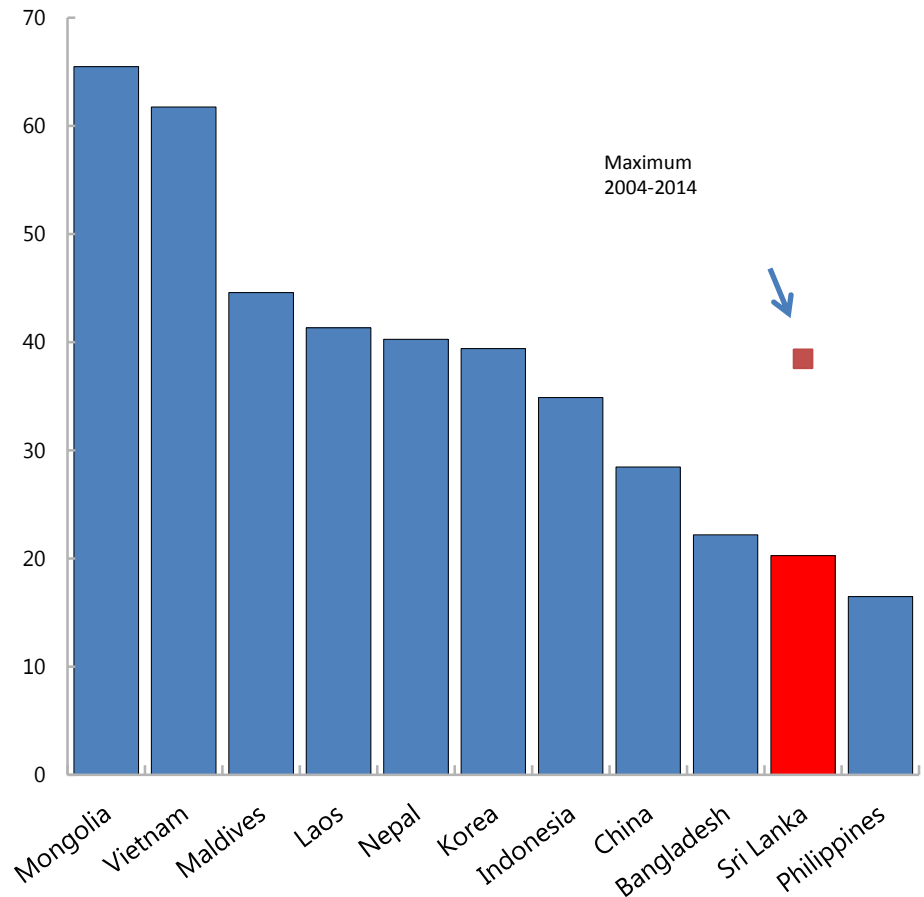
## Personal Income Tax Productivity, 2014

(Personal income tax in percent of GDP/personal income tax rate)



## VAT/Sales Tax Productivity, 2014

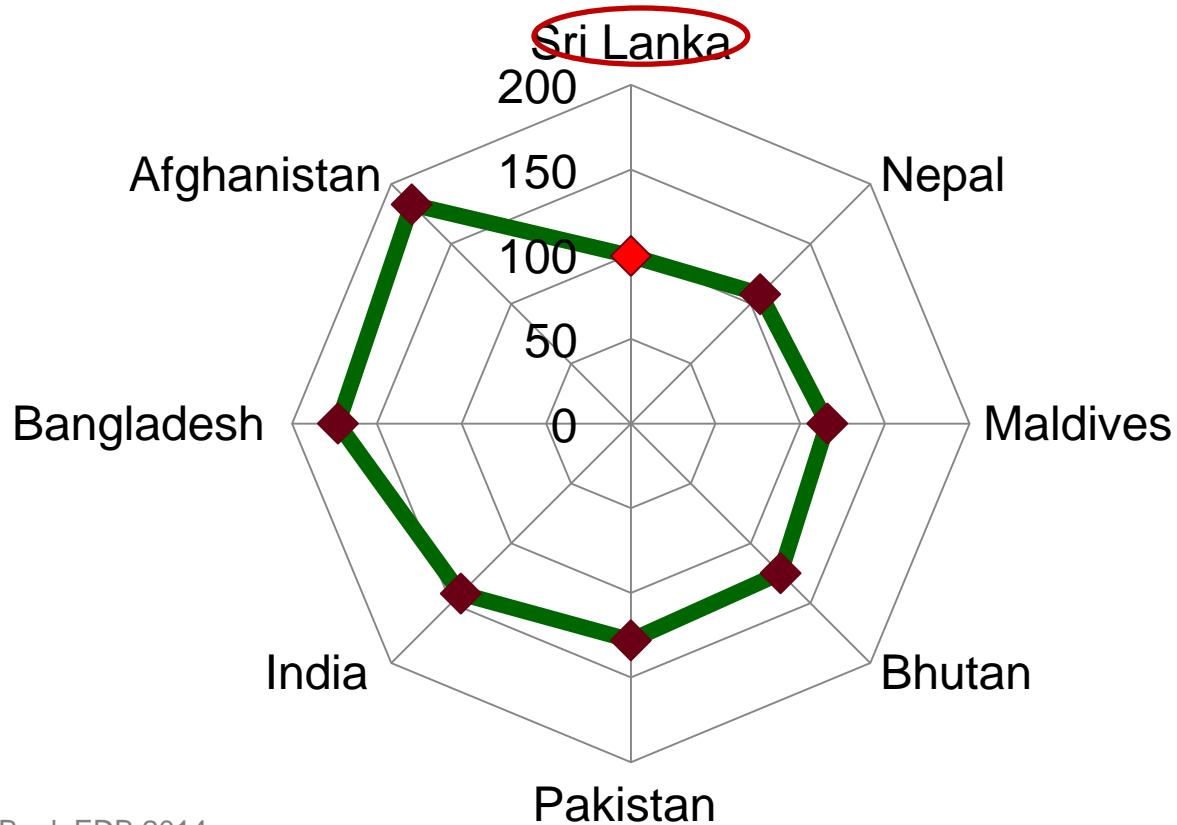
(VAT/sales tax revenue in percent of GDP/tax rate)





# Raise overall productivity and competitiveness by enabling business entry and investment

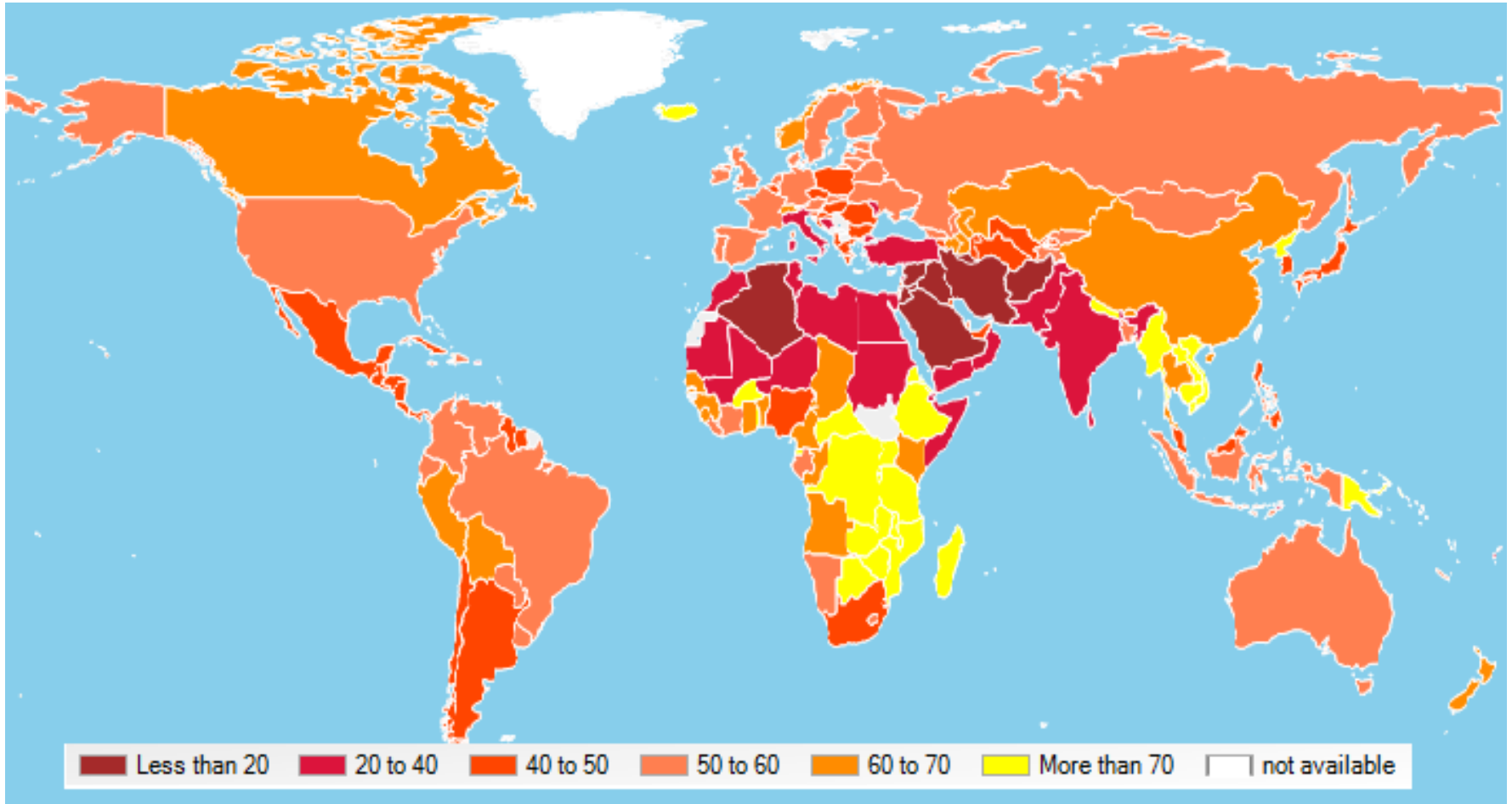
## Ease of Doing Business Rank



Source: World Bank EDR 2014



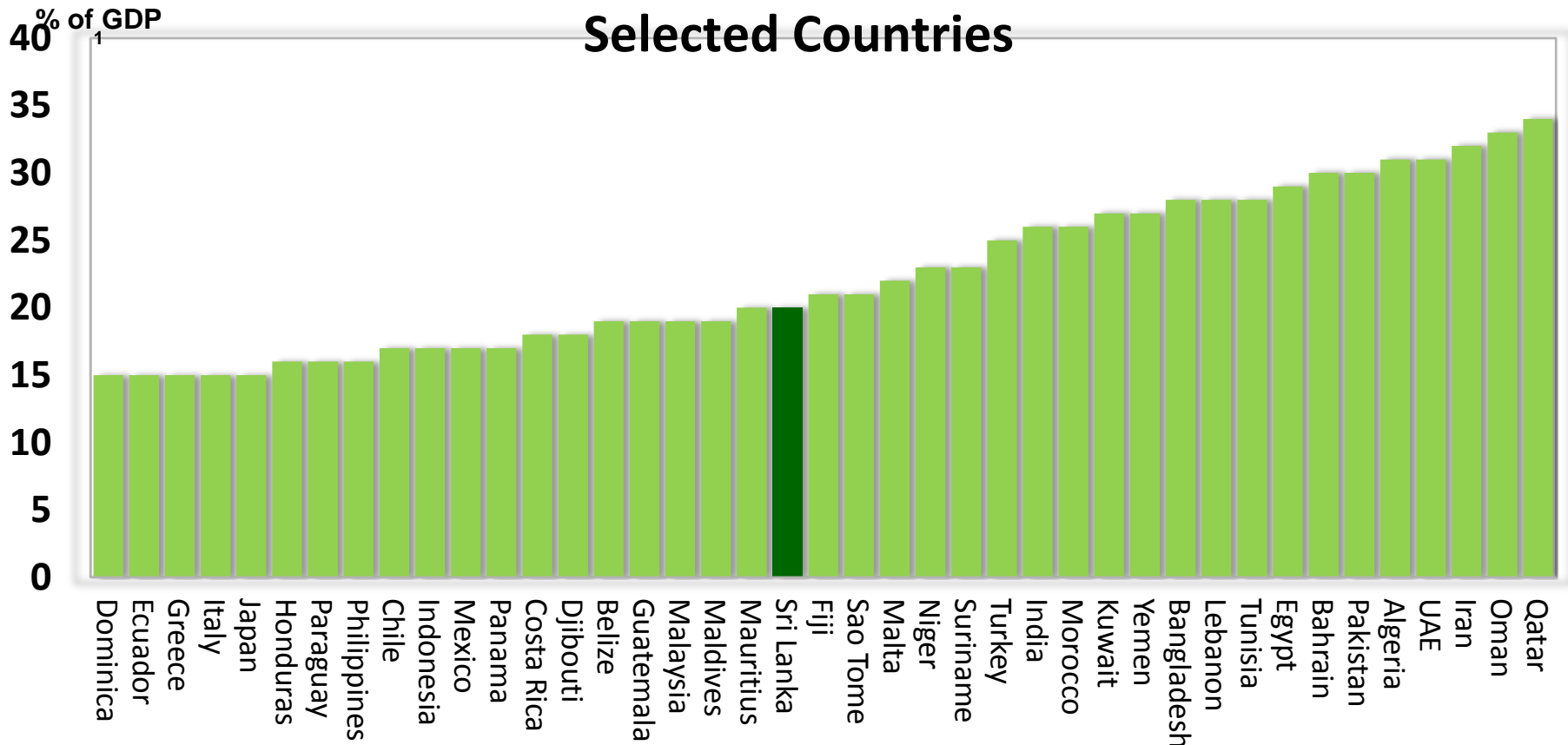
# Labor market reforms needed, including to boost female labor force participation rate





# Potentially big payoffs to policies that reduce economic gender gaps

## GDP Losses due to Economic Gender Gaps in Selected Countries



Source: Estimates by Cuberes and Teignier (2014)



# Recap

- **Asia baseline: steady growth in near-term...**  
*...amidst choppy external environment and China rebalancing*
- **External factors pose principal downside risk...**  
*...but “home-grown” ones are significant as well*
- **Reforms needed to contain vulnerabilities and sustain transformation beyond the near-term**



# Recap: Sri Lanka

## Policy priorities

- **Build buffers by placing public revenue back on a sustainable path**
- **Enact structural reforms to raise overall productivity**





Thank you

[www.imf.org/colombo](http://www.imf.org/colombo)