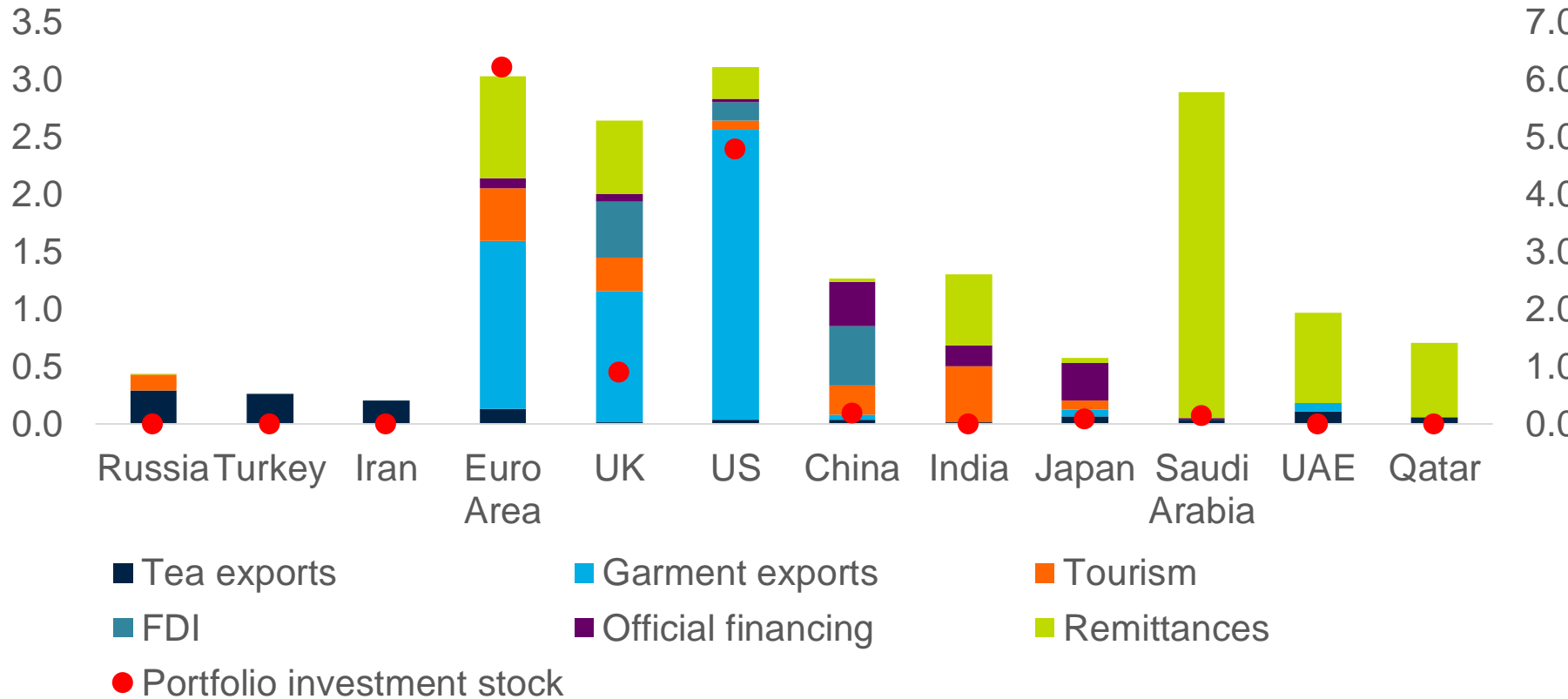

Outlook and state of play key economies

A stylized graphic of a globe, composed of several thick, light blue curved lines that intersect to form a grid-like pattern representing latitude and longitude. The globe is positioned in the lower-left corner of the slide.

Ralph van Doorn
Senior Country Economist
World Bank Sri Lanka office

Key countries for Sri Lanka

Sources of FX by type and country, % of GDP 2014



Note: exports (CBSL), FDI flows (BOI), remittance flows (World Bank), Tourism (CBSL; gross tourism receipts proportionally distributed by arrivals), official financing (CBSL)

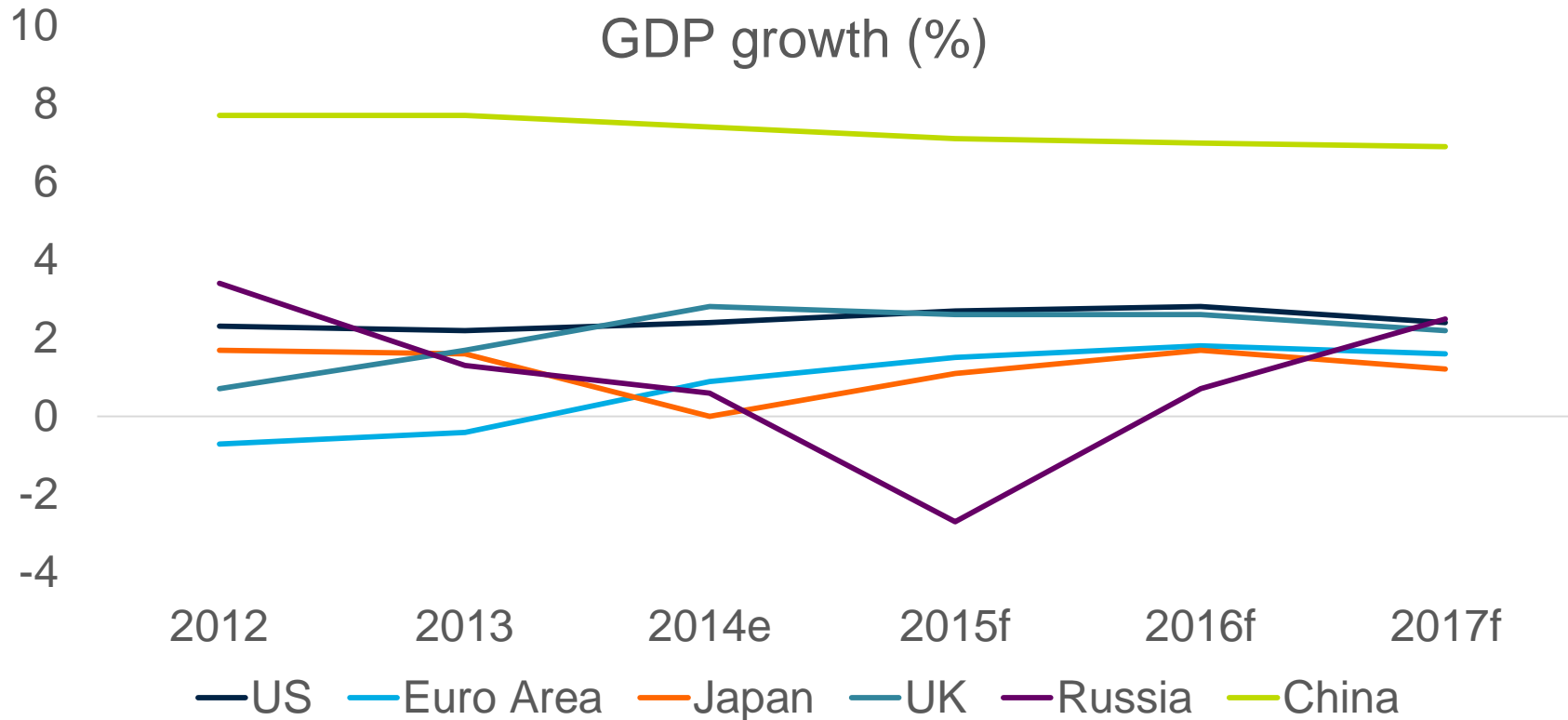
Main messages

- The recovery in major high-income countries gained traction in 2015. This has been increasingly driven by stronger domestic demand, particularly in the **United States**, where employment conditions are improving markedly.
- In the **Euro Area** credit growth is picking up and unemployment is declining.
- The recovery remains more fragile in **Japan** despite strong policy stimulus.
- **China's** economic slowdown became more pronounced in 2015 but remained orderly, as further deceleration in sectors with excess capacity was partially offset by robust growth in services.

Main messages

- With external demand negatively affected by a slowdown in large emerging market economies, forecast growth across major high-income economies in 2016 has been shaded down, but still shows a slight improvement from 2015.
- The **tightening cycle** of the U.S. Federal Reserve is projected to be very gradual, while policy accommodation will likely continue in the Euro Area and Japan.
- **Remittances** generally expected to recover, but risks of low oil prices remain
- **Trans-Pacific Partnership**: non-member apparel, textiles and footwear exporters could face greater competition from Vietnam (member) in TPP markets

Recovery gaining traction although growth continues to disappoint



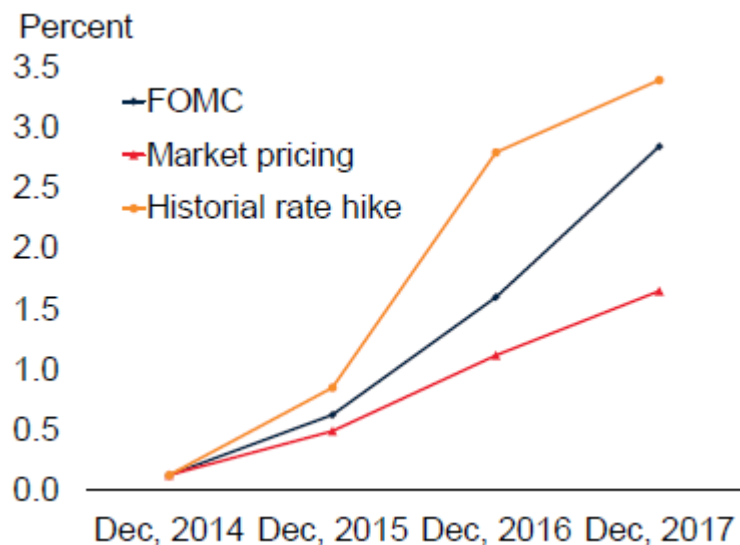
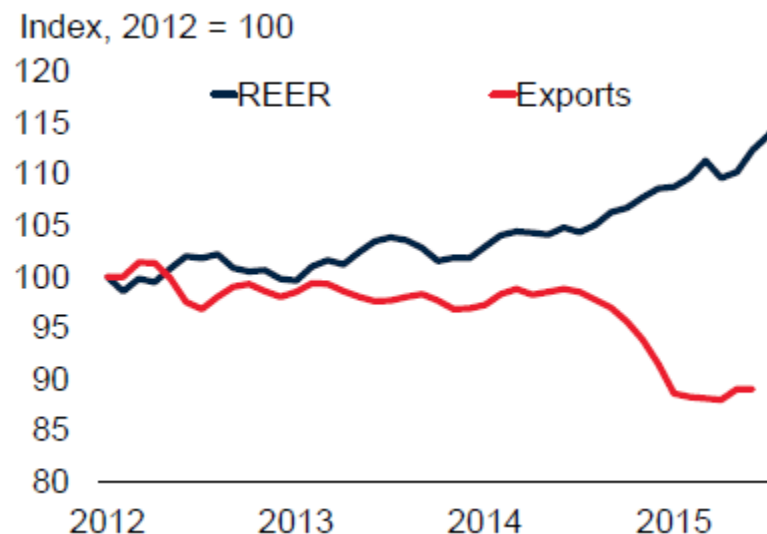
June 2015 projections. Since then, downward adjustments in all countries, except Euro Area

Source: World Bank Global Economic Prospects, June 2015

USA

- Robust consumer spending and investment in the non-oil private sector continued to support growth in 2015
- Growth is expected to remain above potential
- Unemployment rate reached the lows achieved during previous recoveries, but labor participation and growth in productivity have been trending down in recent years, constraining potential output growth
- Strengthening U.S. dollar and weakening external demand are weighing on exports and manufacturing activity
- Points to a more gradual tightening cycle by the U.S. Federal Reserve.

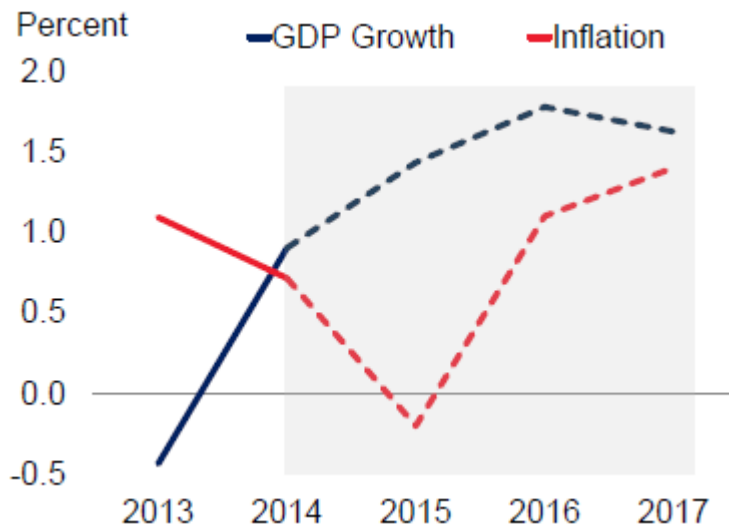
U.S. dollar exchange rate and real exports U.S. policy interest rate expectations



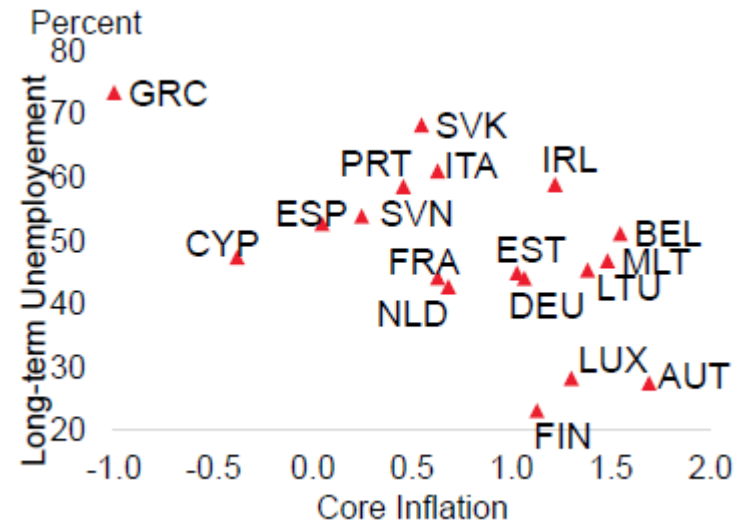
Euro area

- Recovery supported by strengthening domestic demand and exports in 2015
- Pickup in credit and intra-European trade growth point to a broadening recovery.
- Deflation concerns receded, but core inflation and wage growth remain subdued among economies with high long-term unemployment rates

Growth and inflation



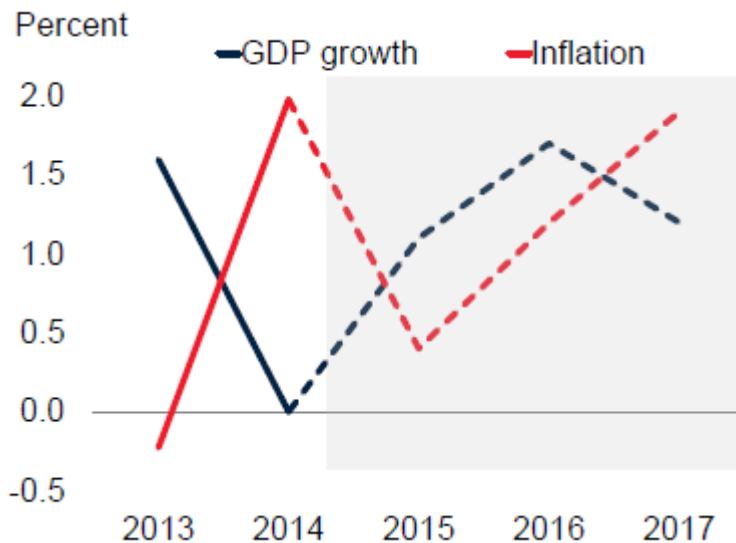
Long-term unemployment and core inflation



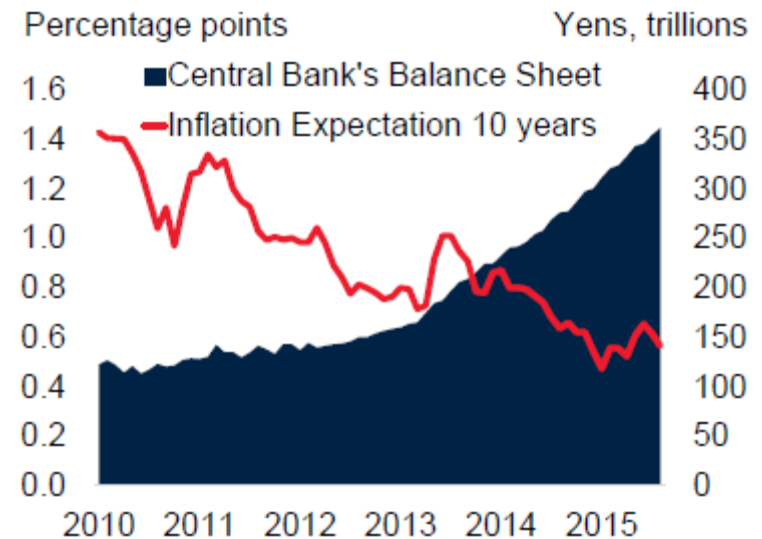
Japan

- Growth remains fragile, with private consumption and exports failing to pick up in 2015
- Expected to recover moderately in 2016
- Skill shortages in key services sectors continued to increase, raising prospects of a gradual acceleration in wage growth. Rising female participation has boosted employment rates and is helping to offset demographic pressures
- Long term inflation expectations remain below the 2 percent inflation target,
- despite further policy easing by the Bank of Japan.

Growth and inflation



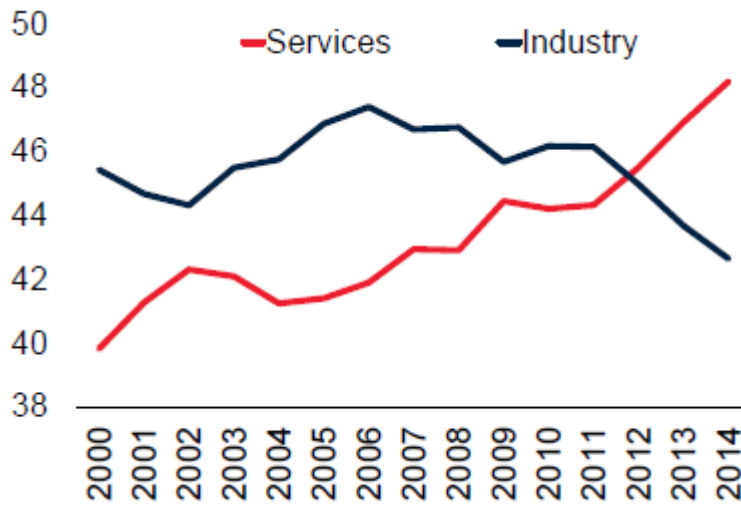
Inflation expectations and central bank balance sheet



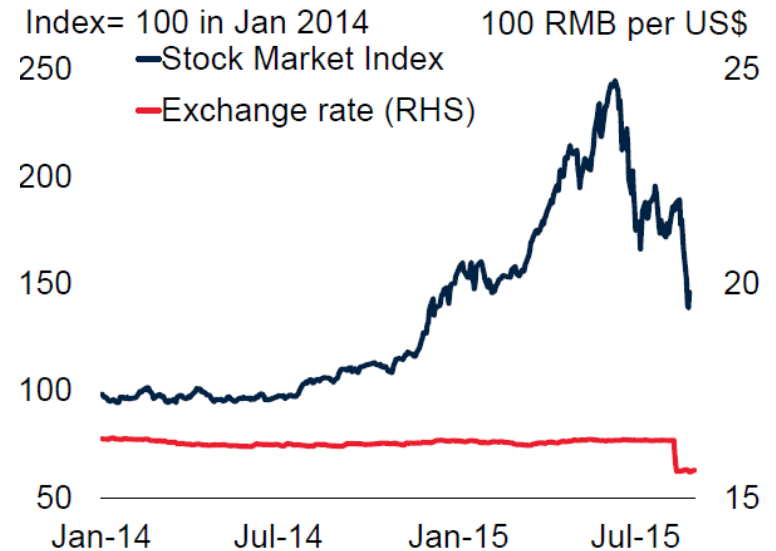
China

- Growth slowdown in China has been most noticeable among state-owned enterprises in manufacturing and real estate
- In sign of rebalancing, share of services employment and GDP has increased, supporting real incomes and contributing to robust private consumption
- Drop in equity prices and change in exchange rate policy led to market turbulence, but foreign reserves remain plentiful and current account in surplus, reducing risk associated with capital outflows

GDP share of services and industry, %



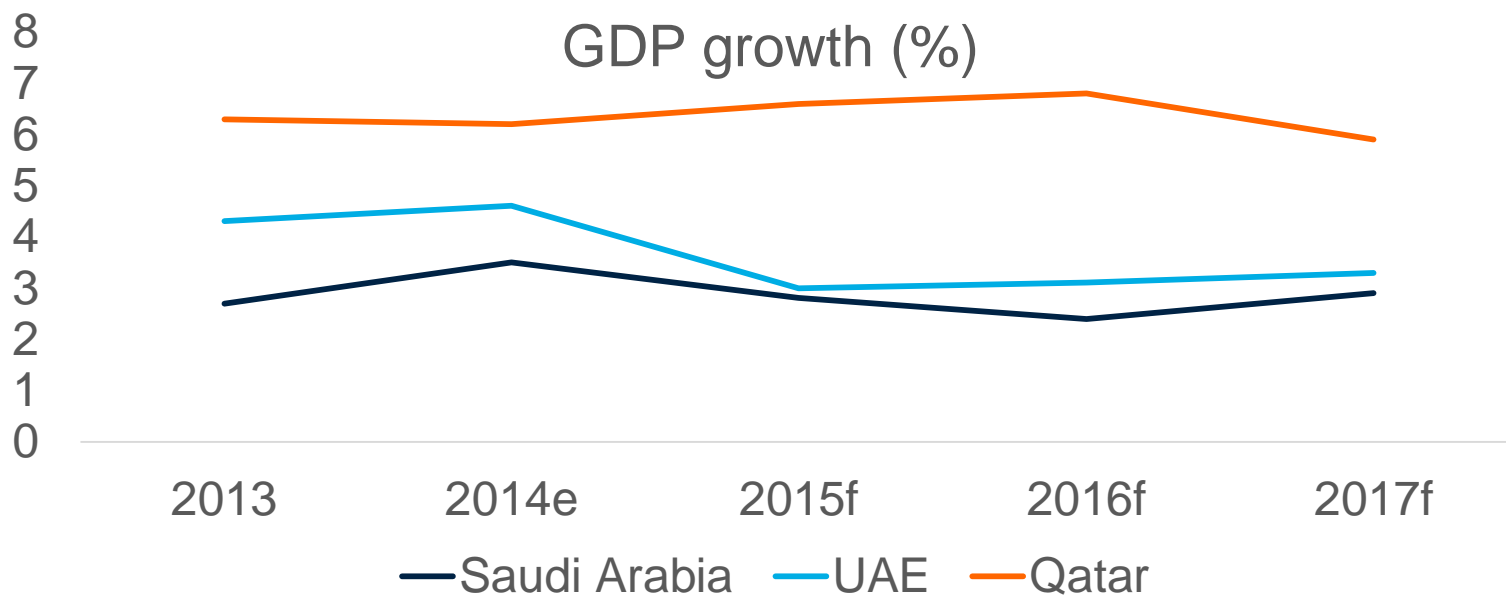
Stock market index and exchange rate



Source: Haver Analytics, World Bank

Middle East outlook

- Remittances projected to grow by about 4 percent per year in 2016 and 2017, buoyed by recovery in US and Euro Area
- Low oil prices downside risk for remittances from oil-exporting countries
- Iran: lifting of sanction could lead to growth acceleration

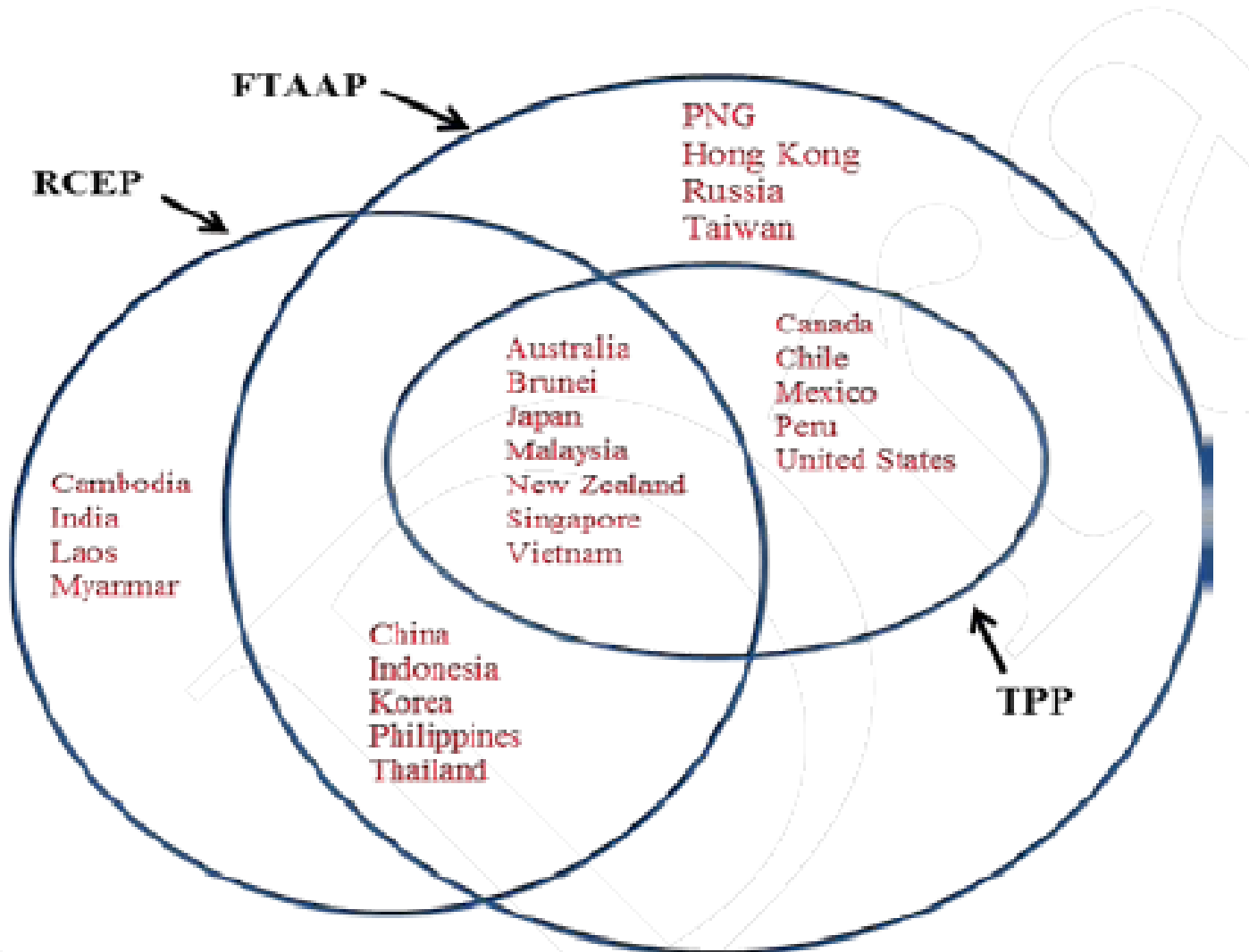


Source: World Bank GCC country team projections

Trans-Pacific Partnership

- October 4 Pacific Rim countries concluded negotiations on TPP, but not yet ratified.
- Initially: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam
- TPP covers
 - Traditional barriers to trade in goods and services (e.g., tariffs, restrictions on the movement of professionals),
 - Investment activities
 - Formal restrictions on some trade and investment activities
 - Burdensome and inconsistent regulations
 - Varying treatment of intellectual property
 - Differing labor and environmental standards
 - Issues specific to small and medium-size enterprises
 - New challenges arising in rapidly growing digital and green technologies.

Overlapping Asian trade agreements



Expected macroeconomic implications of TPP

Model simulations suggest that

- TPP will raise member country GDP, mostly from reductions in non-tariff-based (NTB) measures, services barriers and barriers to investment
- Largest gains in GDP expected in more protected and smaller member economies, thanks to smaller tariffs in own markets and from stronger positions in regional supply chains through deeper integration
- Positive spillovers could derive for non-members from streamlining and harmonization of NTBs and investment barriers among TPP members
- TPP may have adverse effects on Asian non-members with strong comparative advantage in sectors such as apparel, textiles and footwear and could face greater competition by Vietnam in TPP markets

More information

- Sri Lanka: <http://www.worldbank.org/en/country/srilanka>
- Global Economic Prospects (outlook and TPP will be discussed in January 2016 edition):
<http://www.worldbank.org/en/publication/global-economic-prospects>
- Remittances (October 2015 outlook):
<http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues>