AT A GLANCE . . .
The world economy

- The world economy grew by 3.0 per cent in 2015, as indicated in our last two forecasts. It is now projected to grow only slightly faster this year, by 3.2 per cent, and by 3.8 per cent in 2017.
- In the advanced economies, the modest and uneven recovery is expected to continue, while many major emerging market economies continue to face significant challenges, with slower growth in some cases and deep recessions in others.
- The renewed decline in global oil prices in the past three months, accompanied by sharp falls in equity prices worldwide, have increased uncertainty about the global economic outlook.
- Recent falls in oil and other global commodity prices will lower inflation again in the short term, but should boost global demand while increasing the challenges faced by commodity producers.

Recent declines in equity prices may be expected to reduce global demand and activity in the short term, while the fall in oil prices should have the opposite effect, while also lowering inflation. Our forecast reflects these implications of developments up to mid-January. It also reflects recent economic data, which have been less favourable in terms of growth than we assumed in November.

The decline in oil prices seems mainly attributable to supply factors and would therefore normally be viewed as positive for global demand and activity. But its recent correlation with falls in equity markets raises questions about whether there are fears that it mainly signals weaker demand – particularly in China – or fears that it increases the threat of deflation, given that inflation in the advanced economies is well below targets and the scope for further monetary easing is limited. Or it may indicate that the market has been focusing on the effects on oil-producing countries and companies. Or it may, to some extent, reflect factors unrelated to oil prices, such as a correction of overvalued markets and increased risk aversion.

Recent developments have highlighted several risks:
First, the downturn in oil and other commodity prices carries both downside and upside risks. It will directly impede the rise in inflation toward official targets and increase the short-term risk of deflation. On the other hand, it may provide a larger boost to global demand than our forecast assumes.

Second, recent declines in equity prices may go further, reducing confidence and household wealth and raising the cost of finance.

Third, rising interest rates in the United States will tend to increase capital outflows from emerging markets and exacerbate the policy challenges they face. At the same time, further appreciation of the US dollar would increase the burden of dollar-denominated liabilities to unhedged foreign borrowers.

Fourth, risks to the cohesion of the EU arising from shortcoming in policies to address the influx of migrants add to the risks to the Euro Area arising from the continuing failure to complete the architecture of the monetary union.

With regard to monetary policies, recent developments have increased the case for further easing in the Euro Area, and also Japan, and it now seems unlikely that any further increase in interest rates by the Fed will be advisable for several months.

Summary of the forecast — Percentage change, year-on-year

	World economy			Real GDP growth in major economies				
	Real GDP(a)	Consumer prices(b)	World trade(c)	US	China	Japan	Euro Area	India
2015	3.0	0.7	3.4	2.4	6.9	0.7	1.5	7.7
2016	3.2	1.0	5.3	2.5	6.5	1.0	1.5	7.3
2017	3.8	1.8	6.3	2.7	6.3	1.2	1.9	7.8

(a) Based on global PPP shares. (b) OECD countries. (c) Volume of total world trade.

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