

IMF's World Economic Outlook October 2012 – Highlights

The IMF continued to remain cautiously optimistic about global recovery in its latest edition of the World Economic Outlook, released over the weekend at the Annual Meetings in Tokyo. The IMF estimates project **global growth, at 3.3 and 3.6% in 2012 and 2013 respectively**, which is weaker than forecast in the July 2012 WEO Update. **The global outlook remains for a two-speed scenario. Output is expected to remain sluggish in advanced economies (2012: 1.3% 2013f: 1.5%) but will still be relatively solid in many emerging market and developing economies (2012: 5.3% 2013f: 5.6%).** These forecasts are based on two crucial assumptions: (a) “the European policymakers will adopt policies that gradually ease financial conditions further in periphery economies”; (b) “the US policymakers will prevent the drastic automatic tax increases and spending cutbacks (the “fiscal cliff”) implied by existing budget law, raise the US federal debt ceiling in a timely manner, and progress toward a comprehensive plan to restore fiscal sustainability”. This implies that any deviation from these assumptions would lead to a further downward revision in growth estimates.

Global growth slowed again during Q2 2012 after rebounding during Q1, after some regional shocks (including the financial stress in the euro area periphery and slowing domestic demand in Asia and Latam) sent shockwaves through the globe leading to wide-ranging spillovers. In emerging market and developing economies, activity has been slowed by policy tightening in response to capacity constraints, weaker demand from advanced economies, and country-specific factors, but policy improvements have raised these economies’ resilience to shocks in addition to positive factors like high credit growth and favorable terms-of-trade shocks. **Consumption has shown greater**

resilience in emerging market and developing economies, but higher food prices may harm many households; somewhat lower oil prices may support consumption in the advanced economies. Headline inflation has declined across the globe, thanks to lower commodity prices. In the emerging markets, core inflation declined as well, while in advanced economies, it has remained stable around 1.5%. However upward pressure remains, notwithstanding already high prices, in various smaller advanced and a number of emerging market and developing economies.

The **MENA region is expected to grow at 5.25% in 2012**, after a subdued 3.25% growth recorded a year ago courtesy the Arab turmoil. **However, the divergence in economic growth continues to be evident amongst oil exporters and importers in the region.** Oil exporters, forecast to grow at 6.5% this year, continue to benefit from the higher oil prices and hence increased government spending. Oil importers, especially those involved in political and economic change in the past months, are likely to focus more on policy to rebuild macroeconomic stability and restore investor confidence. Growth at a moderate pace of 1.25% in 2011-12 reflects the effects of social unrest and political uncertainty, weak external demand, and high oil prices amongst oil importers alongside steep declines in FDI and tourism. By 2013, growth is expected to improve to 3.25%, as uncertainty clears amidst stable political arena and pick-up in external demand. Risks for the medium-term outlook include geo-political risks, lower oil prices, fiscal positions and vulnerability to trade spillovers from lower growth in advanced nations.