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IMF's World Economic Outlook (WEO) and the Recent Policy Responses of Major Central Banks

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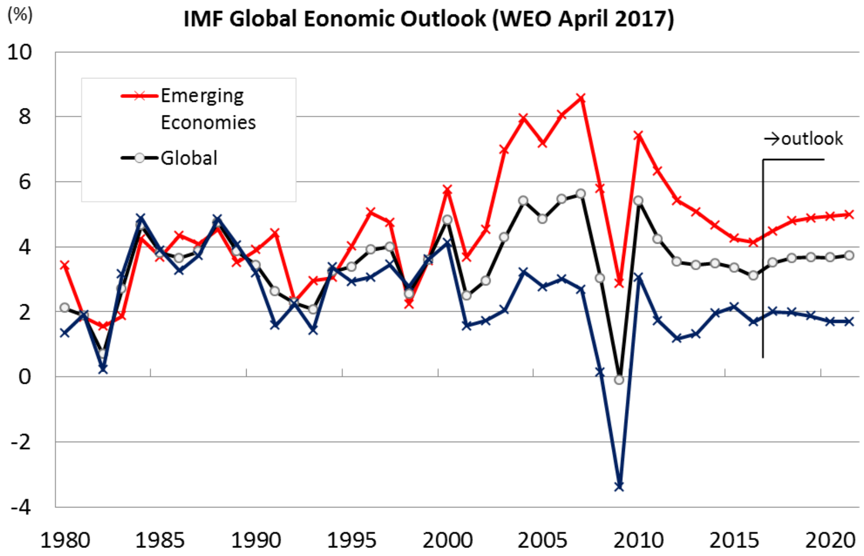
The International Monetary Fund (IMF) released its World Economic Outlook (WEO) on April 18. The notable point of this outlook is in its reinforced focus on short-term optimism and middle to long-term vigilance on the world economy. That is the message that, while the short-term economic activities are expected to pick up owing to a cyclical factor and rebound of oil prices, the strength of its recovery momentum and its sustainability are rather likely to face an increased downward pressure because of structural factors like demographic changes and a rise of protectionism in trade and investment. The subtitle of the WEO is "Gaining Momentum?", the one with a question mark, indicating the IMF's concern over the future uncertainties despite an improved near-term outlook.

Anyway it is good news that the world has a brighter outlook as a whole, if any of a short-term nature. The growth outlook for this year for the world was revised upward to 3.5% from its January projection of 3.4%, suggesting a recovery turning from the two consecutive years' decelerations to 3.4% in 2015 and 3.1% in 2016. The upward revision mainly centers on advanced economies with substantial upgrades for Japan (to current outlook of 1.2% from 0.8% in January outlook) and the UK (to 2.0% from former 1.5%). Despite no change in its projection for this year at 2.3%, the U.S. is expected to continue to be an economic driver for the world growth, with a high expectation on the policy of Trumponomics that includes large-scale fiscal expenditures. So "the world growth outlook of 3.5% for 2017" can be said to reflect the general backdrop that "amid the activity gaining strength in advanced economies the conditions in commodities exporters are expected to improve supported by the recovery of commodity prices, and the concerns over the Chinese economy have been mitigated".



（Source） IMF WEO April 2017

On the other hand, the “medium- to long-term concerns (=downside risks)” have resulted from the following two factors. One is the continuation of “secular stagnation” especially in advanced economies where the potential growth rate is subdued by such structural problems as ageing population and excessive capital stocks. The other one is the quite high “uncertainty in political and policy environment“, reflecting a rise of populism and others. Needless to say, the future uncertainty surrounding the latter political arena is more serious, putting a threatening risk that a rise of populism may jeopardize the emerging global pick up in all country groups which has been seen for the first time after the global financial crisis. Although the world economy is gaining speed in the short-term, the level of growth is still low and the change to the global growth forecast is quite small, and therefore it will be hard to project a bright forecast for the longer-term.

Then it will become a key in forecasting the world economy for this year in which order and in what degree to incorporate the following three factors that have different characters in their vectors and time axis: (i) <u>global and cyclical permeation of momentum of the recovery in growth, (ii) continuation of prolonged stagnation due to population problems and others, and (iii) future uncertainties over the political and policy environment.</u> The IMF’s WEO has not built an indisputable reputation in its correctness of the outlook and since 2010, it had repeated almost at every publication to revise downward the initial forecast of the world growth for a year, but this time it has revised upward, though by a slim 0.1%. It is considered that this is because the IMF assesses the current growth momentum that is emerging simultaneously in all country groups as fairly sustainable.

Such judgement of the IMF seems to be consistent with the recent movements taken by major central banks. The Federal Reserve Board of the U.S. has been accelerating faster than before its normalization process of its monetary policy, by referring to a start of the balance sheet adjustment. The European Central Bank has indicated, albeit cautiously, the likelihood of modification of its massive monetary easing. At the March meeting of the Monetary Policy Committee of the Bank of England, a vote, though only one, was cast for an interest raise. The Bank of Japan also changed its assessment of current business condition to “expanding” for the first time in 9 years in its April 2017 report on Outlook for Economic Activity and Prices. The policy expectations by the market participants also dramatically changed from a half year earlier when about 80% of participants had expected “an additional monetary easing” to the current forecast that more than half of the participants expect that “the next action will be monetary tightening”. (cited from ESP Forecast, April 10)

On the surface, the central banks seem to have tilted toward normalization of monetary policy as the recovery momentum is gaining speed globally. However, given the medium- to long-term downside risks of “prolonged stagnation” and “political and policy uncertainties”, the real intention of leaning to the policy normalization can be read as to be better prepared for the next economic downturn that may come sooner or later. In other words, it is likely that taking into account the significance of the medium-to long-term downside risks, the central banks may be intending to reconstruct their policy tools so that they can use them at the next occurring of recession. In any case, the growth outlook for the world economy seems to have become harder to forecast as the three factors noted above ((i) to (iii)) have been intertwined with delicate policy judgements needed by major central banks.