Transcript of the Press Conference on the Release of the April 2016 World Economic Outlook

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Participants:

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Ms. Stankova: Good morning and good afternoon to those who are watching us online from other parts of the world.

Thank you for joining us for the press conference on the release of the World Economic Outlook. This round the report is entitled “Too Slow For Too Long.”

At the press conference, we have Maurice Obstfeld, Economic Counsellor and Director of Research of the IMF. To his left is Gian Maria Milesi-Ferretti, Deputy Director in the Research Department. To Maurice’s right is Oya Celasun, Chief of the World Economic Studies Division.

With this, I will pass the microphone to Maurice Obstfeld for his introductory remarks, and then we will take your questions.

Mr. Obstfeld: Thank you, Olga, and good morning everyone.

Global growth continues but at an increasingly disappointing pace that leaves the world economy more exposed to negative risks. Growth has been too slow for too long. The new World Economic Outlook anticipates a slight acceleration in growth in 2016 relative to 2015, to a 3.2 percent rate of growth, followed by a further acceleration to 3.5 percent in 2017. However, these projections continue to be progressively less optimistic over time.

The downgraded forecasts reflect a broad-based slowdown across different country groups. The slowdown results from longer-term trends that we have highlighted in earlier editions of the World Economic Outlook. As always, there is considerable diversity among country groups. If you look just at emerging markets, there are some large emerging markets growing at over 7 percent annually, some shrinking close to 4 percent.

The central scenario that the World Economic Outlook projects and that I have just described looks, however, less likely to materialize compared with some possibly less favorable outcomes. To support both global growth and to guard against downside risks, we are proposing a three-pronged policy approach based on monetary, fiscal. And structural policies.

What risks concern us the most? Prominent among them are financial risks and risks of non-economic origin. Since last summer, we have seen two distinct rounds of financial market turbulence. These featured abrupt sell-offs in assets, spikes in risk aversion, spikes in sovereign risk premia, and sharp falls in the prices of oil and other commodities.

Markets have largely recovered. In fact, they did so both times. Arguably, financial markets reacted more than the changing fundamentals would have warranted both on the downswing and the upswing. There is a risk that further bouts of volatility feed through to the real economy, as the new Global Financial Stability Report documents.

The bouts of turbulence that we have seen overlie a steady trend of tightening global financial conditions. One manifestation of those is the trend of increasing capital outflows from emerging markets. While most have managed to cope with this, as we document in Chapter 2 of the World Economic Outlook, more strains could begin to appear.

What about the non-economic risks that the global economy faces? No. 1, continuing violent instability in a number of countries, notably Syria, continues to drive refugees in the millions to surrounding countries to Europe. This is a humanitarian disaster. It has challenged the EU's ability to preserve open internal borders. As the incidents of terrorism has increased, the strains have only risen. Coupled with other economic pressures, the result in Europe has been a rising tide of inward-looking nationalism.

One manifestation of increased nationalism is the very real possibility that the United Kingdom exits the European Union, damaging a wide range of trade and financial relationships. At the same time, across Europe, the political consensus that once propelled European unification is fraying.

In other advanced economies, such as the United States, a backlash against cross-border economic integration threatens to halt or even reverse the post-war trend of trade liberalization. Unfortunately, there is more.

Several large emerging market economies face political tensions or geopolitical risks. A number of low-income countries and emerging market countries are facing drought and flood conditions connected with the current El Nino. So, putting these risks together, our view is that these could more easily undermine our baseline outcome, our 3.2 percent growth outcome for this year that is more fragile owing to its lower level of growth.

Why is this? Well, the weaker growth is, the greater the chance that the proceeding risks materially materialize, pulling the world economy below stalling speed. In such a position, demand is weak, too weak to avoid a low growth equilibrium that some economists have characterized as secular stagnation.

In many countries, the lack of wage growth and greater inequality have created widespread census that economic growth has mainly been to the benefit of economic elites and mobile capital that they have gained disproportionately, leaving too many others behind. Lower growth reinforces this turn toward inward-looking nationalistic attitudes. In brief, lower growth means less room for error.

Now, we are not presently in a crisis. As Managing Director Christine Lagarde pointed out a short while ago, we are not in a state of alarm but in a state of alert. Nonetheless, a state of alert demands that we think about policies that might be useful.

Policymakers should focus in this environment on two tasks. The first is to strengthen the baseline outcome by strengthening growth. This is valuable in itself, of course, but it is also useful insurance against downside events. The second task of policymakers is to make contingency plans for a possible future in which downside risks, nonetheless, do materialize.

For both tasks, as I have said, a three-pronged approach is necessary. First of all, continued monetary accommodation is appropriate where deflationary pressures remain, where output gaps remain, but monetary policy needs support from the other two policy prongs, from fiscal policy and from structural policy.

For a number of countries, infrastructure investment looks attractive, especially when their governments face very low real borrowing rates. Fiscal support of research and development could have a very rich payoff in terms of greater efficiency and output, as the latest Fiscal Monitor demonstrates.

Balanced budget tax reforms can also be a component. They can support aggregate demand, encourage labor force participation, and enhance social cohesion. As this latest World Economic Outlook also explains, a range of well-sequenced structural reforms can boost potential output, especially if accompanied by complementary fiscal support. Pro-competitive market reforms, in particular, can be supportive of growth, even in the short term, and we have a number of country experiences of this. Finally, further financial strengthening is essential in order for the three prongs of policy—monetary, fiscal, and structural—to be most effective.

These actions can be taken now, but policymakers should not ignore the need to prepare for possible adverse outcomes compared to the baseline. They should identify mutually-reinforcing fiscal and structural policies to deploy collectively in the future in case downside risks do materialize.

In addition, continuing international cooperation to improve the functioning of the International Monetary System and the stability of international finance are vital tor global economic resilience. That work has progressed significantly since the global financial crisis, but more needs to be done and, of course, more work is in train.

With its downside possibilities, the current diminished outlook calls for an immediate and proactive response. To repeat, there is no longer much room for error. But by clearly recognizing the risks that they jointly face and acting together to prepare for those risks, national policymakers can bolster confidence, support growth, and guard more effectively against the risk of a derailed recovery.

Thank you very much. With that, we will take your questions.

Ms. Stankova: Please identify yourself and your affiliation when asking a question.

Questioner: Mr. Obstfeld, could you elaborate a bit on this risk of secular stagnation? Is that likely? What would be the consequences of this secular stagnation?

Mr. Obstfeld: As a result of our progressive downgrades of growth, we view it as more likely, not extremely likely. In an environment of very low real interest rates, low natural rates of interest, the burden on monetary policy, as we have seen, becomes very great. So, that is behind our call for other policies to support monetary policy, structural and fiscal.

Questioner: In the World Economic Outlook report and in your own opening remarks, you make a number of comments about Brexit and the dangers that that poses, but you offer no real detail. I mean, it is a rather sort of impressionistic idea that it will have a disruptive effect on trade, a disruptive effect on markets. I wonder if you could elaborate and say if you have done any work in that area and what impact it might have.

Mr. Obstfeld: We are preparing more detailed estimates in connection with the upcoming Article IV surveillance mission to the United Kingdom. Since the early 1970s, the United Kingdom economy has become progressively more integrated through trade and finance with that of Continental Europe.

It is obvious that there is a lot of uncertainty at the moment about what will happen in June that it is weighing on confidence and investment in the UK. A Brexit vote would lead to a two-year process of renegotiation in which it seems unlikely—we cannot presuppose what would happen—that Britain’s status with respect to access to the EU would not change, and this would have a big effect on the UK, on its European partners and, in fact, on countries more globally who are integrated into the current set of arrangements.

So, on that basis, we would view this as a significant global change. Again, more details will be forthcoming after our Article IV mission. For the moment, we do not have detailed numbers for you.

Question: (Microphone not on)...

Mr. Obstfeld: It would be surprising to me personally if the reduction in Britain’s access to the EU which might occur would not be a negative factor. Now, it could be that the negotiations leave the status quo pretty much as is. We would still have the effects of uncertainty in the intervening period. It is hard to believe that those would be positive.

Questioner: Mr. Obstfeld, what is “stall speed” and what is its implications for the world economy? I am reminded that one of your predecessors, Mike Mussa, used to say that 3 percent global growth was pretty much a world recession.

Mr. Obstfeld: We do not have an estimate for stall speed because we have not ever really observed it. So, it is hard to say what it is.

There is also not a generally accepted estimate of global recession. What I will say is that when we sort of look at global growth and compare it to past averages, you know, in the world economy today, developing and emerging markets, which generally grow faster than advanced countries for good reason, have a much higher weight. So, when we see global growth at the same level it was, say, in the 1980s, it is cause to worry and think there is room for a more buoyant growth picture.

Where it is that the world economy loses its lift, we cannot say. It is not where we are now, but the risk that we get there, as we continually downgrade our estimates of actual and potential growth, is clearly rising.

Questioner: Is it possible to distinguish in the projection that you make of negative growth for Brazil this year what is due to purely economic factors and what is due to the political crisis the country is going through at the moment?

Mr. Obstfeld: I am going to turn that to our Brazil expert.

Ms. Celasun: It is very difficult to distinguish between political and economic factors at this time. We have to remember that Brazil's recession is coming from a confluence of factors. First came the drop in commodity prices, which meant a drop in revenues for Brazil. There was this overdue adjustment in utility prices that weighed on demand.

There is weak confidence that comes from the need for a fiscal adjustment, and delays in Article XVIII and implementing a plan for that. Political uncertainty has been part of this mix weighing on confidence. Gradually came a tightening of financial conditions that added to it.

So, I would say it is really a mix of these factors and it is very difficult to distinguish each one of them, the role of each one of them.

Questioner: Does that mean that when the political crisis is solved one way or the other, conditions will be there for growth?

Ms. Celasun: Once the political environment turns and goes back to a calmer state, policymakers will find the time and space to design and start implementing policies. Within a more accommodating domestic environment, together with some structural reforms that boost growth, the conditions will be there for a return to much more normal growth rates.

Questioner: I would like to know what is your take on the role of the IMF in helping other countries to cope with the spillover effect in China's transitional economy. With the renminbe officially joining the SDR this October, what are your suggestions to the central bank to better communicate with the market? In a report of the World Economic Outlook, it mentioned that countries should also design collective measures to maintain stability. How can China participate in this?

Mr. Obstfeld: Okay. You asked a number of questions. Let me try to address them as best I can.

Our advice to emerging markets over the years has centered on their exchange rate frameworks, fiscal frameworks, and financial stability frameworks. By and large, these have stood them in quite good stead in the current environment of retracting capital flows and tightening global financial conditions. Again, Chapter 2 of the World Economic Outlook compares the current episode of capital flows to past episodes, and there has certainly been significant resilience this time around.

That being said, there are fundamental issues for a number of countries, particularly the commodity exporters, in developing more diverse export bases which requires a change in their growth strategy. Frankly, part of the reason is that many countries have been symbiotic with an environment in which there has been very high demand for commodities, some of it coming from China.

So, there is an adjustment period ahead and we certainly stand ready to help our members in all the ways we can help them, including our technical assistance and other advice to navigate this transition, which we are confident they will be able to do.

In China, I think the People's Bank has moved very forcefully to communicate more with the markets, to make clear what its exchange rate policy is and what its intentions are, and this has had a beneficial effect. There is always room for even more transparency and even more dialogue with the markets. We are confident that China will move over time in that direction. That is one of the ways that China can support global growth.

There are other ways, of course, such as, for example, working on ensuring a smoother domestic transition, which would require a number of actions that we have talked about in our surveillance, including reforming state-owned enterprises, dealing with nonperforming loans on corporate balance sheets, strengthening banks, strengthening the regulatory framework. These types of policies will help China, and by helping China, which is now the second or largest economy in the world, depending on how you measure it, they will support global growth.

Questioner: I basically want to ask a couple of things.

The Russian central bank has just released a new projection which is rather optimistic, more optimistic than yours. My question is very simply, has Russia turned the corner? What are the prospects for sustainable growth?

Secondly, I have been coming to these meetings for 20 years. I keep hearing the same things over and over and over again. You say fiscal, structural, and monetary. As you know, monetary is almost gone; there is no space. Fiscal for many is also unaffordable. Structural takes a very long time. So, what is there to be done immediately to improve the situation in the short term?

Mr. Obstfeld: Do you want to take Russia and I will take the policy question?

Mr. Milesi-Ferretti: We have revised the growth rate for 2016 in Russia downwards relative to January, because we have seen during 2015 a delay in turning the corner; that is, the second part of the year was a bit weaker than we would have hoped and, hence, we entered 2016 on a weaker footing.

Having said that, clearly market conditions for Russia have improved. They have been helped by the overall decline in global risk aversion; they have been helped by the fact that oil prices have rebounded; and I think they have been clearly helped by the fact that Russia has made use of exchange rate flexibility as an adjustment tool and other policies to support that as well.

We envisage a return to growth in our projections on an annual basis during 2017, so basically turning the corner at some point during the current year. The forecast remains, of course, heavily dependent on the conditions I mentioned before; basically, the mood in international markets toward emerging markets in general and, of course, what happens to the outlook for oil prices.

Mr. Obstfeld: Let me take the policy question. It is true we have been a little repetitive over the years and maybe one could characterize it more charitably as consistent. Where we have seen our advice followed, generally the outcome has been good. There is certainly an issue that you raise, which is that policy works with lags.

Monetary policy can be implemented overnight. Partly for that reason, it has been bearing an excessive burden, but we should not hide behind legislative lags and the difficulties of enacting structural or fiscal reforms. Our job is to point out how beneficial these can be. Then the political process has to pick up that ball and run with it.

It is our belief that by repeating and analyzing these alternative policies, we can move the ball down the field. Again, if you look at Chapter 3 of our WEO, it shows that even in the short run, certain structural reforms—which are certainly feasible—could be stimulative. So, all we can do is keep repeating, keep pointing it out, keep doing analysis, and then politics has to take up the challenge.

Questioner: Could you give me some specific economic reasons why you expect a recovery for the Brazilian economy and the Argentine economy for the next year?

Mr. Obstfeld: Do you want to take that again?

Ms. Celasun: Let me start with Brazil; we just spoke a little bit about it. For Brazil, as I just mentioned, we expect the political situation to normalize over the course of the year. The adverse terms of trade effect drops and export prices will phase out. Broadly, over time, Brazil will return to a much normal state and growth should turn positive sometime in 2017. Of course, in the outer years, growth will turn to much more positive rates.

In Argentina, the government has embarked on a set of reforms to normalize the economy, remove distortions. The exchange rate market has been liberalized in December, with a depreciation that brought together the parallel market and official exchange rates. Utility prices, electricity prices have been raised to mitigate the effect of subsidies on the fiscal balance. Most of the price controls have been removed.

These relative price changes and these changes in policies have required tight monetary policy early in the year. We expect these changes to bring about a mild recession in 2016. It is difficult to make forecasts at this time, with these big changes in the economy, removal of these distortions, and the fact that statistics are under review. But beyond that, we believe that these reforms are bolstering confidence and the productive capacity of the economy over time, and we expect growth to return to close to 3 percent in 2017.

Questioner: As you mentioned in your opening remarks, Europe is facing a number of challenges. One could say that Greece is one of them. So, what are your projections for the Greek economy? What kind of debt relief do you expect by the Europeans so that they can be on board? Also, do you think that Europe must give more flexibility to Greece to tackle the refugee crisis/.

Mr. Obstfeld: Taking the last question first, there is certainly going to be a need for more flexibility to tackle the refugee crisis and some support from the broader European Community. It is a European problem; it is actually a global problem that the international community will have to address. Our team is involved in very constructive negotiations right now with the Greek government. These are on hold, pending this week's Spring Meetings.

But I cannot really answer the question about debt relief, because our goal is a program that adds up where basically the structural adjustment in Greece in terms of the general government, including pensions, and the debt relief that are put on the table for Greece allow Greece to return to a sustainable budget situation with strong growth eventually in a context where the demands on a country are realistic. So, that is a package that has many components. We are not taking a stand on each particular component, but we need a program that adds up.

Questioner: In the report you say that Italian growth has been weaker than expected. Can you please explain why? Also, all the other figures are more pessimistic than the ones predicted by the government.

Mr. Obstfeld: Well, again, as I said, we had a broadly based reduction in our prospects for future growth affecting all of Europe, and, to some extent, all of Europe is facing the prospect of lower global growth, which weighs on exports, weighs on demand.

Italy, in particular, is also facing challenges in resolving a nonperforming loan problem in its banking system. The authorities are addressing it, although the details are not clear. When and if they do so successfully, that will certainly help the general growth prospects in Italy.

I do not know if you have anything to add? Okay.

Ms. Stankova: I would like to take a question sent to us online. We will move to Africa. What are the main constraints for South Africa's growth and is there any way possible to address them in the short term?

Ms. Celasun: On Africa, on the drivers of the outlook for Africa, sub-Saharan Africa contains 45 economies, the outlook is quite diverse across them. We have oil exporters; we have exporters of non-oil commodities; and we have other economies that are less dependent on commodities.

Clearly, weak oil prices and commodity prices more broadly are a factor that these countries have to adjust to. It will take some time, but many of them are already embarking on difficult adjustments and that is weighing on their near-term outlook.

Many of the economies not affected by commodity prices are doing quite well, but there is also a broader tightening of global financial conditions facing lower-income frontier economies that goes beyond the tightening faced by emerging markets and that is weighing on their outlook.

Another factor is that Eastern and Southern Africa—Southern Africa is facing quite a severe drought. Rainfall levels are 40 percent lower than the historical average and that is weighing on the outlook for many economies, such as Ethiopia, Malawi, Zimbabwe, Zambia, and also South Africa. There are regions in the Sahel Belt and Central Africa that are also being affected by security concerns.

Ms. Stankova: Another question from online. What are the principal factors holding back the US economy from fully taking off?

Mr. Obstfeld: We should recognize for the US economy that, along many dimensions, it has been performing very well; for example, in job growth, which has actually been reflecting a growing participation rate over the last few months. Notwithstanding, there are significant headwinds that have prevented it from attaining even higher growth rates. Let me mention two.

One is the very sharp fall in investment in the energy sector. This has been driven obviously by the large sharp fall in oil prices and that has been a significant drag on US growth. The dollar has weakened a little bit recently, but in general it has strengthened since mid-2014, or so. That has been a drag on manufacturing, a drag on net exports, and has also taken a substantial bite out of growth. So, perhaps what is more surprising is how robust the performance of the economy has been, given these two major headwinds.

Questioner: I want to return to the topic of the first question. The gentleman in the front mentioned secular stagnation. Can you elaborate on what you think is the biggest risk to the global economy right now? In 2008, obviously we saw a major financial event followed by a deep recession, but it seems to me like you are warning more of a perhaps less spectacular financial event followed by a shallow recession but a longer recession. Anyway, can you elaborate on what you think the major tail risk is to the global economy right now?

Mr. Obstfeld: It is very hard to quantify these risks and I certainly would not predict any sort of financial event, although we cannot rule that out, either. The secular stagnation scenario that one would worry about is one with steadily declining growth which helps push investment even farther down than it has been from its already low level and creates a tepid rate of economic growth that is insufficient to return some economies to full employment, that is insufficient to generate real wage growth, and which contributes to exacerbating some of the political tensions that we are seeing across a range of economies associated with lower wage growth, the sense of many people that growth has left them behind.

Where that would end up is very hard to foresee, but it is not a very attractive scenario. Does that culminate in some crisis and recession? It is not clear at all that that would be the case, but we definitely face the risk of going into doldrums that could be politically perilous.

Questioner: My question is also about China. In the past couple of months, two out of three international rating ratings, Standard and Poor's and Moody's, both lowered the Chinese economic outlook, but it seems that the IMF is pretty optimistic about the Chinese economy by upgrading it from [2.2] percent to 6.5 percent. How would you explain the differentiation between the projection of the IMF and the international rating agencies?

Mr. Obstfeld: We make multi-year projections. If you look out to the end of the forecast horizon, what you will see is that while we have upgraded near-term projections, we have downgraded the farther out projections.

The near-term upgrade reflects our confidence that additional measures that the Chinese leadership is putting into effect can bring growth to the 6.5 percent level in this year, which is the lower range of their target range of 6.5 to 7 percent. We see this stimulus coming and we upgrade the near-term forecasts on the result.

Our concern is some of the stimulus is likely to take the form of higher credit growth, more support for sectors that are in a secular sense declining and not that productive. So, we worry about the quality of growth more than the quantity of growth. If the quality of growth is lower the short run even though the quantity of growth is higher, you might think that longer-term growth will be lower. That is where the concerns that we have would come into play in the longer-term forecast.

Ms. Stankova - Let me again take some questions from those who participate online. The first question will take us to the Middle East. How significant is this light recovery in oil prices for the outlook for the countries of the Gulf Cooperation Council?

Mr. Obstfeld: Well, I think any recovery is helpful. Certainly, prices look a lot better than the levels they reached at the beginning of the year when we had our experience of financial market turbulence. Whether this increase will be permanent or not is hard to say. Futures markets certainly point to levels like these as being reasonable. It is also reasonable to think that, you know, at the low prices we have now, as investment retracts and supply, therefore, retracts, prices will be supported to some degree, though probably we will not seeing prices at the $100 a barrel level for some time, if ever.

Ms. Stankova: Another question would take us back to the Western Hemisphere. Every time the economy growth estimate for Mexico is lower. Do you think it has lost its luster? Is the slowdown due more to external or internal factors?

Ms. Celasun: Our forecast for Mexico for this year and next is quite robust, around 2 1/2 percent, slightly below what we expect to come to pass in the medium term. The Mexican economy is affected by—external factors that matter are oil prices, which matter for the fiscal sector, and developments in the US economy, especially in the industrial sector, and it is really some weakness in the US manufacturing sector that led to the downward revision. But going forward, the competitive currency and continued robust performance of the US economy should support growth in Mexico.

Questioner - [No English interpretation]...I think there are some countries not doing badly, such a Côte d'Ivoire, for instance, because of external flows. I am wondering if there are other countries that could be in a similar situation to Cote d'Ivoire; that is, they can maintain high growth levels. I want to turn to the Maghreb region that has not been mentioned. What is the outlook for the Maghreb countries?

Mr. Obstfeld: You have already addressed sub-Saharan Africa. Do you want to address Maghreb and Cote d'Ivoire?

Ms. Celasun: Côte d'Ivoire is one of the countries in Africa that has actually the highest growth rates. It is partly supported by strong infrastructure investment, so we expect that to support growth in the next couple of years. We have above 8 percent growth for Cote d'Ivoire in the next couple of years.

Again, there are downside risks. External demand is a factor. As other countries in the region suffer from commodity price weakness and nobody comes to pick up the slack for external demand, that is a risk going forward, as well as the tighter financial conditions that I just mentioned.

On Maghreb, again, we have oil exporters, importers. Importers are benefiting from the oil windfall but are dealing with security concerns, which is weighing on their performance.

Ms. Stankova: With this, we will conclude the press conference. We wish you a good day and see you tomorrow at the next press event.