

**Transcript of a Press Conference on the July 2017 World Economic Outlook
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MS. YAN: Good morning, everyone. Welcome to this press conference on World Economic Outlook update here in Kuala Lumpur, Malaysia. My name is Ting Yan and I'm with the communications department of the IMF. Here with me today is Mr. Maurice Obstfeld, Economic Counsellor and Director of the Research Department of the IMF, and sitting beside him is Mr. Gian Maria Milesi-Ferretti, Deputy Director of the Research Department.

Today, we're launching the update of the WEO. The main report that covers all member countries and a couple of analytical chapters will be published as usual, in October. So, this update covers a smaller number of countries and the team will limit the answers to the global outlook and to the countries that are included in the forecast. We also invite all journalists to submit their questions online. With that, let me turn to Maurice for opening remarks and we'll take your questions after that.

MR. OBSTFELD: Thank you, Ting. Let me first say what a pleasure it is to be here in Kuala Lumpur, Malaysia at the Bank Negara Malaysia. We thank for making this WEO update launch possible here. The recovery in global growth that we projected in April is on a firmer footing. There is now no question mark over the world economy's gain in momentum. As in our April forecast, the World Economic Outlook update projects 3.5 percent growth in global output for this year and 3.6 percent for next year. Those aggregate numbers are unchanged. However, the distribution of this growth around the world has changed. Compared with last April's projection, some economies are up and others are down, offsetting those improvements. Notable compared with the not too distant past is the performance of the Euro area where we have raised our forecast. We are also raising our projections for Japan, for China and for emerging and developing Asia more generally. We also see notable improvements in emerging and developing Europe and in Mexico.

Where are the offsets to this good news? From a global growth perspective, the most important downgrade is the United States. Over the next two years, U.S. growth should remain above its longer-term potential growth rate but we have reduced our forecast for both 2017 and 2018 to 2.1 percent per year because near term U.S. fiscal policy looks less likely to be expansionary now than we believed would be the case in the spring. Even this 2.1 percent growth pace is still well above the lack luster 2016 U.S. outcome which was 1.6 percent.

Our projection for the United Kingdom this year is also lowered based on the economy's tempered performance so far in 2017. The ultimate impact of Brexit on the United Kingdom remains unclear still. Overall though recent data point to the broadest, synchronized upswing the World Economy has experienced in the last decade and that's good news. World trade growth has also picked up with volumes projected to grow faster than global output in the next two years.

There do remain areas of weakness, however, among middle and low income countries, notably commodity exporters. They continue to adjust to reduced terms of trade. Latin America still struggles with sub par growth and we have lowered projections for the region over the next two years. Growth this year in Sub-Saharan Africa is projected to be higher than last year but remains barely above the population growth rate implying stagnating per capita incomes once again.

There are risks that the outcome could be better or worse than we now project. We view the risks as evenly balanced in the near term but skewed to the downside over the medium term. Near term, there is the possibility of even stronger growth in continental Europe as political risks have diminished. On the downside though, many emerging and developing economies have been receiving capital inflows at favorable borrowing rates which otherwise might be favorable but possibly leads to risks of balance of payment reversals down the road.

Strains could emerge if advanced economies central banks show an increasing preference for monetary tightening as some have in recent months. Core inflation pressures remain low in advanced economies in measures of longer term inflation expectation show no indications of upward drift beyond targets. So, central banks should continue to proceed cautiously based on incoming economic data. This would reduce the risk of a premature tightening in financial markets.

Supportive policy has promoted China's recent high growth rates and we have upgraded our 2017 and 2018 forecast for China by 0.1 and 0.2 percentage point respectively to 6.7 and 6.4 percent over those two years. But higher growth is coming at the cost of continuing rapid credit expansion and the resulting financial stability risks. China's recent moves to address non-performing loans and to coordinate financial oversight therefore are welcome. Finally, the threat of protectionists actions and responses remain salient in the near and medium terms as do geo political risks.

Despite the current improved outlook, longer term growth forecasts remain subdued compared with historical levels and tepid longer term growth also carries risks. In advanced economies, median real incomes have stagnated and inequality has risen over several decades. Even as unemployment is falling, wage growth still remains weak. Continuing slow growth not only holds back the improvement of living standards but also carries risks of exacerbating social tensions that have already pushed some electorates in the direction of inward looking policies.

In emerging economies in contrast despite generally higher inequality than in the advanced economies, substantial incomes gains have accrued even to those low in the income distribution. The current cyclical upswing offers policy makers an ideal opportunity to tackle some of the long-term forces behind slower, underlying growth. Suitable structural reforms can raise potential output in all countries, especially if supported by growth friendly fiscal policies, including productive infrastructure investment, provided there is room in the government budget. In addition, investment in people is critical whether in basic education, job training or reskilling programs. Such initiatives will both increase labor markets, resilience to economic transformation and raise potential output. The same policy measures that can help economies adjust to globalization, and we've described some of these in a recent report co-authored with the World Bank and the WTO, are more broadly necessary to meet the challenges of technology and automation.

Strengthening multilateral cooperation is another key to prosperity in a range of areas including trade, financial stability policy, corporate taxation, climate, health and famine relief. Where national developments have strong international spillovers, policies based narrowly on national advantage, are at best, inefficient and at worst, highly damaging to all. With that, we welcome your questions.

MS. YAN: We can take your questions now. Please identify yourself and keep your questions brief. For those who are watching us online, you are also encouraged to submit questions on our online press center. Thank you. Any questions in the room? We have a question here.

QUESTIONER: Can you share first about the Malaysia economy outlook for the rest of the year?

MR. OBSTFELD: We have upgraded Malaysia's growth outlook to 4.8 percent for this year. We see a successful effort to increase the sustainability of that which is on a downward path. Very, very steady hand in monetary policy for Malaysia. There, if anything, are upside risks for this forecast so we're optimistic here in Malaysia.

QUESTIONER: I have two questions. Is it healthy for China to keep forcing growth this high when it fueled by a massive credit bubble that may destabilize the world if it pops? My second question, it's been a strong year for Asia exports. What is your outlook for the rest of the year and can this strong volume hold up?

MR. OBSTFELD: Let me start with your first question on China growth. Our China team in the Fund has indeed recommended that growth targets and goals be downplayed. We recognize that China is going through a very important rebalancing process which inevitably will entail a slowing path of economic growth. Of course, in the first two quarters of this year, growth has come in very high. Part of this is, of course, a general upsurge in world growth, the upsurge in trade in Asia but there is also a component that has been fueled by expanding domestic credit and that's the part that worries. Now, the Chinese authorities are, of course, cognizant of the problems of rapid credit growth, of non-performing loans and have been increasingly speaking about these problems and taking measures. So, we might see a more subdued pace of economic growth over the coming year. Though, as a whole for this year, we have upgraded the China forecast to 6.7 percent, as I mentioned.

Asia and particularly developing Asia has been a real growth leader in this cyclical upswing. We see higher manufacturing, higher investment, higher trade. In principle, this is sustainable and could even improve further but there are definite risks to the forecast, some of which I mentioned, with monetary policy normalization going on in the U.S. possibly starting in Europe later in the year or early next year. We will see interest rate movement that could have spillovers. Then, as I mentioned, there are

threats of protectionists policies or inward looking policies more generally that for the very, very open economies of Asia which very much rely on trade would be particularly harmful, potentially. These are not in our baseline forecasts but they are risks that we are aware of.

MS. YAN: Any more questions in the room?

QUESTIONER: I have a question to do with automation and this move towards industry 4.0 specifically for the region in Southeast Asia. I think a lot of countries are going to go through that and how is that going to affect our economy in the near future and also how it is going to affect our job market as well, thank you.

MR. OBSTFELD: Yeah that's \$65 million question these days. Of course, it's very high on the agenda for discussion in the advanced economies. You're totally right that there will be spillovers and direct effects to the Asian economies. Singapore is, I think, been a leader in confronting these issues and trying to create an innovation hub and in its educational and training policies. I think for the advanced economies, for other economies in Asia, particularly emerging economies, much more has got to be invested in both social safety nets and educational systems to anticipate what the challenges may be. Again, it is very difficult to know exactly how this will play out, how production patterns will shift, how activity will move between advanced and emerging economies. So, I think we all have to get ready for this transformation which is surely going to come down the road. Aside from direct investments in education, clearly other policies play a role in building the infrastructure that will help governments contend with this set of developments. For example, many of the economies in emerging Asia, share the problem that tax revenues are relatively low as a shared GDP. Our deputy managing director Furusawa was at a tax conference in Indonesia last week and spoke about this. Tax revenues need to be augmented so that governments can meet these challenges of improving social safety nets, equipping labor forces with the tools they'll need to navigate the future. I think governments need to take the issues you raised very seriously and formulate longer term plans that can address them.

MS. YAN: I think we have a question in the second row.

QUESTIONER: Just now you have revised up the Malaysia GDP from 4.5 to 4.8 for 2017. What about 2018?

MR. OBSTFELD: We have also revised up 2018 but not by as much.

QUESTIONER: How much?

MR. OBSTFELD: I think it was --

QUESTIONER: Exceeding five or still below?

MR. OBSTFELD: I don't have the exact number at my fingertips.

MR. MILESI-FERRETTI: Yeah because it is not one of the countries in our WEO update, I think it's just below.

MS. YAN: I'll get back to you bilaterally. Thanks.

MR. MISESI-FERRETTI: It is going to be just below, close to five but just below.

MS. YAN: I think we have another question in the front row.

QUESTIONER: Can you please elaborate more on the notably market correction in rich countries. How likely it is a systematic threat to the global economy. Thank you.

MR. OBSTFELD: We do see and we mentioned in the update that some market valuations, particularly in stock markets, appear to be very high. Measures of market volatility are at very low levels. This is happening while there are major policy changes possibly entrain. So, there is a risk that these valuations fall that perceive volatility rises at the same time. Many of these markets are not heavily leveraged so I don't want to overemphasize the risks but there could be knock-on effects to consumption, for example, which might slow growth. In some advanced economies also, corporate debt

levels are very high. There are some advanced economies where public debt levels are very high and normalizing interest rates might put some strain on the companies and the sovereigns that have to repay those debts. Those are things we're watching, they're not red alert at the moment but we definitely need to be aware of those risks.

MS. YAN: One question here in the middle.

QUESTIONER: How do you assess the risk of Middle-Eastern countries related to oil price fall and geopolitical unrest and what will be the effect in the South Asian countries for (inaudible) outlook.

MR. OBSTFELD: It is very hard for us to assess geopolitical risks though I would think that one of the obvious major developments in oil markets over recent years has been near the advent of U.S. shale production. Furthermore, the U.S. has now opened up oil exports. So, I think the global oil market is somewhat less sensitive than it would have been in the past to specifically Middle Eastern developments. U.S. shale has proved very resilient and if we look at where prices have been for a while now, they've been pretty much range bound at around \$50 a barrel or just under \$50 a barrel. That seems like a situation that is likely to be stable for a while. Now, you're absolutely right that geopolitical tensions and we're seeing the latest tensions in Qatar and other Gulf countries. There could be other issues, I don't really want to go into them, but there is a big flow of remittances to South Asia and that very well could be disruptive and that would have negative effects, particularly in countries like Bangladesh which are much more dependent on them, Pakistan probably less so elsewhere.

QUESTIONER: Good morning. Since you've mentioned -- you already gave a forecast for Malaysia, I know it's not supposedly country specific. But since the Malaysia number is and you've lumped Malaysia under ASEAN 5 and ASEAN 5 you raised forecast marginally by 0.1 percentage point. I was wonder if you could give the number as well for the Philippines.

MR. OBSTFELD: For Philippines. Our team is there now and they're discussing so this is not one of our WEO forecast countries. I think I will simply say for the region is that Malaysia is up, Indonesia is up, these big countries but there is divergence of performance across the remaining countries.

QUESTIONER: You spoke about wage stagnation in developed countries but you also see the trend in some emerging markets. How do you feel that governments can address this issue?

MR. OBSTFELD: This is one of the most pressing issues, I think, we're facing in the global economy. In our research department, we've been trying to do some studies of this to try to throw light on it. Our last World Economic Outlook covered labor share national (inaudible) around the world which is a very broad generalization. On average, it has come down the recent decades. Our next World Economic Outlook, we'll be looking more specifically at the wage growth question and try to understand wages and working conditions and what has happened there. There is no question that we have seen redistribution from labor to capital around the world in many, many countries. The question is, why is that and what can governments do about it. I don't think we have a full set of answers there but it is clear that one element has been technology because there have been not only changes between labor and capital but also between different skill categories of labor. Globalization has clearly played some role. The distribution of rents between labor and capital has clearly moved in capitals favor. These are some of the factors. I think we have to think about labor market policies. I think we have to think about competition policies, product market policies, how they affect the distribution of real incomes. Moreover, if you look at the areas where wages have risen, where there is a skill premium, this calls for us to think about, and this is my answer from before, think about the future labor force and how we can equip workers to take advantage of those skill premia and maybe push the dial back. It is clear that in many, many countries, the slow growth of wages is leading to political repercussions that are possibly going to be negative for overall growth if governments don't address them.

MS. YAN: We have a question here in the front row.

QUESTIONER: Just a couple of questions. One would be on the maybe you could elaborate a little bit more on the risks faced by growing protectionists policies especially while looking at the U.S. steel tariffs coming. Also, just a little bit more on the Malaysia growth. Could you maybe elaborate a little bit more on the aspects that kind of convince the IMF to raise the growth forecast to 4.8.

MR. OBSTFELD: Yeah, I mean on the latter, it is really, really just incoming data for this year has been very favorable. We take that into account. On international trade and the issue of protection is more general. Let's be clear that first of all this is not entirely a recent problem that actually since the global financial crisis, there has been an upsurge

in various protectionists measures across countries including many if not all of the G20 countries. I think this has reflected some of the tensions growing out of the global financial crisis. The coverage of those measures is still not that high so it has been a problem to date, it has been an increasing problem but it hasn't been the major drag on world trade. That, we think, has come more from the slow growth and slow investment that we've seen over the last period since the global financial crisis. What will happen in the future, we don't know. There has been rhetoric from several corners. We haven't seen a lot of action with the major exception of the U.S. withdrawing from the TPP which for a number of countries in this region and also for countries like Indonesia which might have hoped to join later, is a big setback in my opinion. As you know, there have been rumors about the U.S. study on steel and aluminum. We'll see what happens. The EU has already promised to retaliate against such measures. We'll have to wait and see what, if anything, comes out of that. The U.S. is also renegotiating NAFTA. Some of its negotiating objectives are quite familiar from the legislation that facilitated TPP or from TPP itself and wouldn't necessarily recommend or constitute major changes might even be improvements that all parties to NAFTA are happy with. Again, these threats are in our downside thinking. They're not built into our baseline because hopefully they don't happen but they are risks.

QUESTIONER: What about intra-region growth in this part of the world? How will intra-region trade growth compare to global trade and what about intra-region trade growth. Thank you.

MR. OBSTFELD: So, what factors, I didn't quite get you. What factors will drive what was the word before that?

QUESTIONER: Intra-region trade.

MR. OBSTFELD: Intra-region trade. I'm not sure how to answer that. We, in the Fund, did a study on the growth of global trade a couple of World Economic Outlook cycles ago and one of the major factors in driving trade is investment. With investment picking up, we would expect to see more trade also intra-regionally. In this particular region, TPP would have been a major stimulus, I think, to trade within the region. It's not going to happen but there are other initiatives out there that might go further in promoting trade within the region. At the Fund, we always prefer more multilateral solutions and bigger deals because with regional agreements, there is always the danger of trade diversion, overwhelming trade creation. While we welcome initiatives to lower barriers,

we also think to the greatest extent possible they should be non-discriminatory and promote global trade multilaterally.

QUESTIONER: It shouldn't be country specific but as a heavily commodity dependent country, we just had the IMF 3rd EFF. How do you see the commodity dependent countries like Mongolia, big exporters of coal throughout the year? The second question is the summer has been known to be very dry and a lot of crops will be a loss. How do you see this climate issue affecting the global economic outlook?

MR. OBSTFELD: Thanks for those questions. For commodity dependent exporters more generally, diversification is really important. For much of the world, commodity prices were driven in the 2000s and the earlier part of this decade, very heavily by China's very commodity intensive growth pattern. As China rebalances, commodity prices have come down and it was sort of very easy to rely on commodities to invest very heavily, to borrow very heavily to fund those investments and now the situation has changed. Countries like Mongolia which borrowed heavily to build more mining capacity are now facing the type of adjustment problem with which are programs are trying to deal. So, diversification will be key and in many cases such as Mongolia, Mongolia's fiscal adjustment hopefully in a manner that protects the more vulnerable parts of the population will also be necessary. Coal prices are somewhat up but longer term the extent to which more countries move away from coal toward natural gas and green sources of energy, makes coal a very dangerous business to be in longer term. Of course, Mongolia has other commodity exports but still, diversification is going to be very critical. That's a good segway into the climate question. We are seeing increasingly the effects of climate change. We have seen several cycles in Asia. In India last year, the monsoonal rains came back but they had some bad stretches. Other countries in Asia are having problems. In Africa, at least four countries are facing famine now and the effects of drought have been very, very widespread. I think this is an issue that the global community really needs to address. The Paris Agreement was a great step in that direction. Much more needs to be done. In our department, and again, this will also be reflected in the World Economic Outlook, we've been looking specifically at the prospects for adaptation to climate change in low income countries. There is very strong message from the economics literature that in the countries where climate change is most severe, namely emerging developing countries that are not that far from the equator, the effects of higher temperatures on output are very negative and are a big problem in efforts to converge to increase social cohesion et cetera. Again, all we can do in the Fund is to urge the international community to continue on the path which it embarked on in Paris of strong targets for emissions reduction and, in fact, more ambitious targets over time.

MS. YAN: So, we still have time for a couple of more questions. Can we have one question here first.

QUESTIONER: Putting your finger on the past of world economy, could you tell us what could derail the protected growth rate by the IMF for this year?

MR. OBSTFELD: Well, we spell out a number of risks in the outlook. Problems in the area of trade policy are definitely a risk. We identify high valuations in asset markets, the possibility of a correction there. We identify the risk of a sudden financial tightening which might particularly have an adverse effect on emerging markets. It might also impinge on highly indebted corporates and sovereigns elsewhere in the world. With monetary policies normalizing in the U.S. and possibly starting to do so in the ECB, we continue to hope for measured data dependent and cautious monetary policy normalization which we think would reduce some of these risks.

MS. YAN: Let's take the last question.

QUESTIONER: My question is about North Korea's sanctions because China start to import brown coal from Mongolia which had increased our export for last year we have done for first half of the year. Do you see any price change because of this brown coal?

MR. OBSTFELD: Generally, the coal market has been a little bit stronger. I can't really give you a granular breakdown on what might happen. Generally, coal is subject to conflicting trends. As the world economy strengthens, there is more need, more demand but there is a trend of movement away from coal towards natural gas. There have been natural gas discoveries and as pipelines are built, this is going to make coal less attractive, especially in countries that want to reduce emissions. I would say longer term; the prospects are probably not good. Offsetting that, there may be development of more clean coal or other technologies that could make it possible to burn coal without such a high emissions load. So, future as always is very uncertain.

MS. YAN: Thank you. This concludes our press conference on World Economic Outlook update. I would like to thank you Maurice and Gian Maria and all the colleagues in this room. Thank you very much and have a nice day.

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