

press release

Global Focus Q2 2016: What to expect in a stagnating world

Major economies of US and Europe unable to kick-start global growth

29 March 2016, London – Standard Chartered has lowered its 2016 global growth forecast to 2.5 per cent from 3.0 per cent, as it expects the two major drivers of the world economy, the US and the euro area, to be in stagnation this year; US growth is expected to be only 1.0 per cent and euro-area growth 1.4 per cent.

Global growth is sluggish. Although the world economy should be able to avoid recession, the absence of recession or an outright crisis means the policy response is inadequate, perpetuating this sluggish global growth.

The world is suffering from weak demand, and policy makers in most countries are relying solely on monetary policy to boost growth, whereas what the world economy needs to boost growth is fiscal stimulus. If the private sector is not borrowing to consume or invest despite the low-interest-rate environment, there is a need for governments to borrow and spend on key projects themselves. In the absence of a recession or a crisis, this is unlikely to happen.

A sense of urgency is lacking. China is an exception, as the authorities seem determined to use fiscal policy to keep growth above 6.5 per cent. Indonesia and Thailand also look ready to implement infrastructure projects this year, which should boost their economies. Amid weak global growth, domestic policy in individual countries will play an increasingly important role.

Standard Chartered's economic outlook for 2016 opined that sentiment towards emerging markets would be weak at the beginning of 2016, but that markets would regroup and rebound despite anaemic global economic growth. The negativity on emerging markets has been driven by expectations of Federal Reserve interest rate hikes, concerns about China and the collapse in oil prices.

However, Standard Chartered expects no more Fed hikes and for China to avoid a hard landing, with an expectation that oil prices will rebound further. Momentum in the world economy is likely to remain sluggish, but sentiment should improve as markets readjust their expectations.

Broad money supply growth correlates well with nominal GDP but is often ignored. This is partly because broad money supply measures are unavailable in many countries, such as China and the US. And in countries where money supply data is available, there are better ways of calculating the data to capture the true 'moneyness' of different financial instruments.

Standard Chartered deals with these limitations in its recent Special Report - "Money supply – The forgotten indicator" - taking broad money supply data for the US from the Institute of Financial Stability, and constructed its own estimates of broad money supply data for China, India, the euro area and Japan. These measures show that money supply growth has picked up in the past year but is still well below pre-2008 levels, suggesting that a global recession is unlikely, at least in the near-term.

Marios Maratheftis, Chief Economist, commented: "Global growth is anaemic and large parts of the world economy, especially in the West, are likely to be in stagnation this year. It is difficult to get excited about the stagnant world economy. But it is not all negative. A recession, in the absence of shocks, should be avoided. And our expectations of no further rate hikes in the US, along with stable growth and better communication from China, should be positive for sentiment – particularly for markets in Asia."

- Ends -

For further information please contact:

Jai Ganesh M
Head of External Communications and Public Affairs, AME
Standard Chartered Bank
+ 971 4508 4625
M-Jai.Ganesh@sc.com

Wasim Ben Khadra
Senior Manager, External Communications, AME
Standard Chartered Bank
Tel: 00971 4 508 3221
Mobile: 00971 55 213 7824
Email: Wasim-ben.khadra@sc.com

Note to Editors

Standard Chartered

We are a leading international banking group, with around 84,000 employees and a 150-year history in some of the world's most dynamic markets. We bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East. Our heritage and values are expressed in our brand promise, Here for good.

Standard Chartered PLC is listed on the London and Hong Kong Stock Exchanges as well as the Bombay and National Stock Exchanges in India.

For more information please visit www.sc.com. Explore our insights and comment on our blog, [BeyondBorders](#). Follow Standard Chartered on [Twitter](#), [LinkedIn](#) and [Facebook](#).