# INTERNATIONAL FORECAST

## GLOBAL SPILLOVERS AND INTERCONNECTIONS

# Overview of international material for the August 2015 forecast round

**Ahead of the Benchmark meeting (20 July) and Key Issues 1 (22 July)**

17 July 2015

International Directorate

**Key messages:**

***Central projection***

- **The *Benchmark* forecast for world GDP is a touch weaker than in May, following downward revisions to the euro area (in large part related to Greece), China (reflecting the correction in equities) and other EMs (reflecting weaker data). A partial offset comes from oil prices, which have fallen 9% across the curve. The projections are a little weaker than the July WEO Update.**
- The level of UK-weighted world GDP is around 0.2% weaker by the end of the forecast period (2018 Q3) than in the May *IR*, with world trade around 0.6% weaker.
- The euro area is slightly weaker reflecting the assumed fallout from the crisis in Greece. While the central projection assumes a programme for Greece is agreed and proceeds without any major problems, the risk of Grexit remains material.
- In the central projection, the debt overhang weighs heavily on activity in Greece, but also spills over to a limited extent to the rest of the euro area through bank funding costs and weaker near-term confidence. This leaves the projection for euro-area GDP 0.4% lower than in May.
- Chinese growth is now expected to slow by more than in the May IR reflecting the impact on confidence of the fall in equity prices. The markdowns to growth are modest, reflecting an expected greater degree of policy accommodation than in May.
- Prospects for non-China EMEs, which were revised down in the Feb IR, remain subdued. While the data news has been mixed – Russian GDP was not as weak as feared in Q1, but Latin America continues to disappoint – overall, non-China EMEs are a touch weaker than in May.
- The outlook for US GDP is essentially unchanged since May, with the boost from oil prices offset by the weaker world.
- Brent crude is down 9% across the curve since May. While this partly reflects the weaker world outlook and increased downside risks, supply factors (including signs of resilient output in the US, on-going OPEC production strength, and growing evidence of an inventory overhang) appear to have been the main factor putting downward pressure on prices.

***Risks***

- **The downside risks have increased since May, particularly from China and Greece. Partly offsetting this, the risk of a further supply-driven fall in the oil price has also increased.**
- The staff view is that a very significant risk of 'Grexit' remains. **The proposed approach to these risks is for the Committee to discuss risk scenarios at Key Issues 1, and to decide how much weight to put on these scenarios at Draft.**

**Key Issues Meeting 1 will be devoted to the outlook for the world economy. This time will be used to set out the key assumptions driving the forecast for each of the major regions, and illustrate the sensitivity of the UK forecast to these assumptions. The material will focus on China and Greece (including the channels back to the UK), and, if there is time, we will also be ready to tee-up a discussion of the risks from the US supply outlook.**

## News to the central projection for world activity

### *Global growth and inflation*

*The world outlook is little weaker than in May…*

While recent developments in Greece and China mean that the outlook for world activity has deteriorated somewhat, the central projection embodies continued moderate world growth in which significant tail risks are avoided (**Chart 1**). Activity slowed at the start of the year and was weaker than expected in the May IR. But the Benchmark forecast does not embody a synchronised or sustained slowing in global activity: weakness in Q1 appears to have been concentrated in the US and Developing Asia, particularly China. Growth elsewhere evolved broadly as expected.

*…but world growth picks up gradually as AEs continue to recover from the crisis headwinds supported by low oil prices and a boost from policy.*

Following the weakness of global activity at the start of the year, growth is expected to pick up from Q2 and recover gradually through 2015. Overall, we expect only a slight improvement in global growth through the forecast: UK-weighted world GDP growth is expected to recover from 2.3% in 2015 to 2.6% in 2016 and remain around that level. The sharp fall in the oil price since last summer and ECB QE are expected to support world activity. But growth remains subdued due to the weakness of potential supply growth across the world.

*The Benchmark forecast is a little weaker than the IMF WEO, reflecting developments in Greece.*

Overall, the forecast for global growth is a little weaker than in May. That largely reflects the expected impact of the situation in Greece on the euro area (**Chart 2**). The level of UK-wtd world GDP is around 0.2% lower by year 3 than previously expected. In PPP-weighted space, growth in 2015 is expected to slow to 3.2% from 3.4% last year, before recovering to 3.6% in 2016. Those forecasts are 0.1pp and 0.2pp weaker than the latest IMF WEO Update, and are also at the bottom end of Consensus forecasts (**Table 1**).[1] But this difference is small and largely reflects the estimated impact of the recent negotiations over the Greece programme on the forecast.

*World trade has weakened more than world GDP, but is expected to bounce back.*

Data on world imports have softened notably relative to world activity, with Asian trade data particularly weak. This most-recent slowing in world trade growth remains puzzling. But recent data suggest GDP and trade growth will recover in Q2, such that the slowing will prove temporary.[2]

*Commodity prices have fallen reducing tradable goods price inflation.*

Despite a recent pickup in inflation in a number of countries, the near-term outlook for global inflation is a touch weaker than in May reflecting the fall in commodity prices. Brent crude is down 9% across the curve since May following signs that production growth is proving resilient in the face of lower prices, and the worsening outlook for consumption growth (**Chart 3**). Meanwhile the prices of industrial metals have fallen sharply given their strong links to worries about prospects for China. All this puts downward pressure on the Benchmark forecast for world export price inflation which is on average 1pp weaker over the next year despite some upside news in CPI inflation outturns (**Chart 4**).

**Chart 1: UK-wtd world GDP and trade (BMK v May IR)**

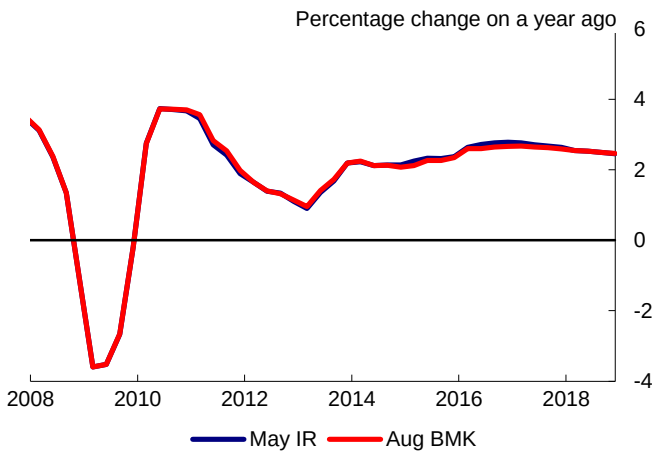
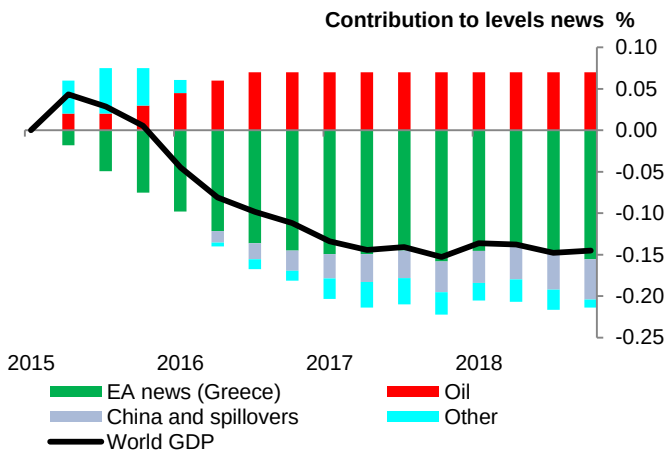
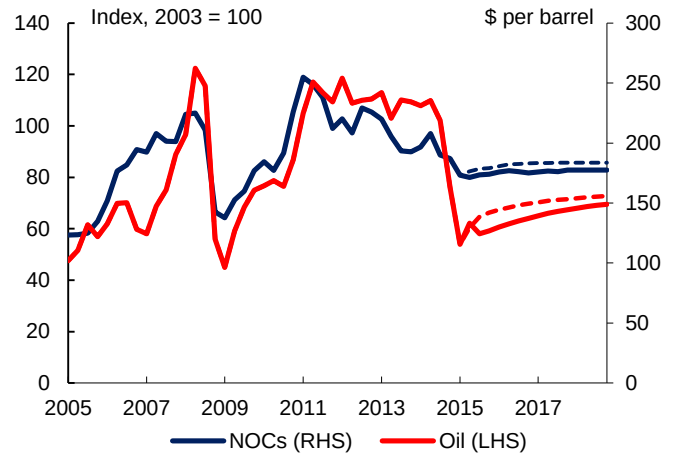



**Chart 2: Contributions to news in UK-wtd world GDP**



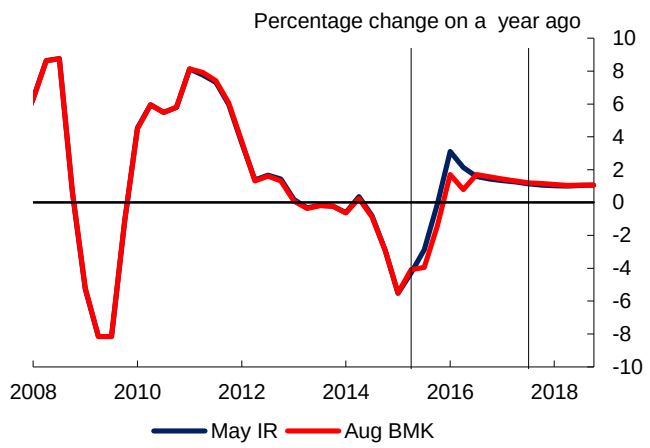

[1] See
[2] See July International Economics Monthly and July MPC data summary

**Chart 3: Oil and non-oil commodity prices**




Solid lines show August Benchmark, dashed lines show May IR

**Chart 4: WXP**




### *Euro area*

*Spillovers from the situation in Greece have weakened the euro-area outlook.*

The outlook for euro-area growth is a little weaker than in May. That largely reflects the assumed impact of spillovers from uncertainty surrounding negotiations between Greece and its creditors. That said, the market reaction to this uncertainty has been muted, so the Benchmark forecast assumes it will only reduce the level of euro-area GDP by around 0.3%. Nonetheless, significant uncertainty surrounding Greece's membership of the euro remains, and this is discussed below (and in more detail in a companion note).

*But macro prospects remain encouraging reflecting the boost from oil and QE.*

While euro-area prospects hinge on a lasting solution being found to the Greek debt crisis, the macro outlook has continued to improve gradually. GDP growth was 0.4% in 2015 Q1, in line with the May IR. High-frequency indicators have remained robust since then – though there has been some softening in German and French business surveys – and now point to growth of 0.4% in Q2 (**Chart 5**). That would mean four-quarter growth of 1.3%, which would be the strongest since mid-2011, and well above estimates of potential growth.[3] The improvement in growth seen over the past couple of years has reflected a number of powerful tailwinds (**Chart 6**), including: a reversal in the drag from fiscal policy; a boost from oil prices; and the impetus from ECB QE.

**Chart 5: Euro-area PMIs and forecast**

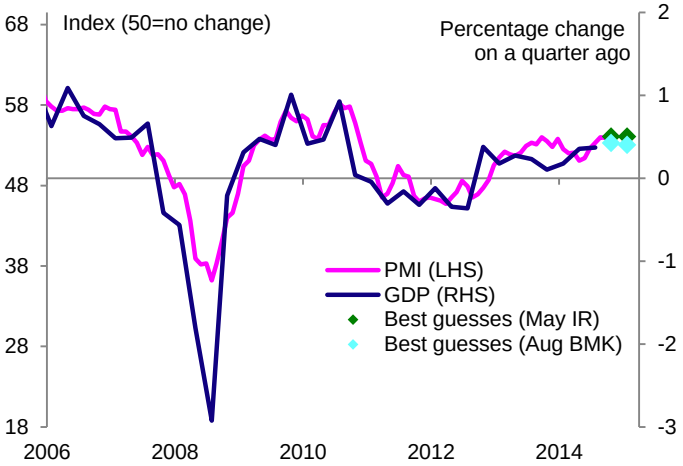
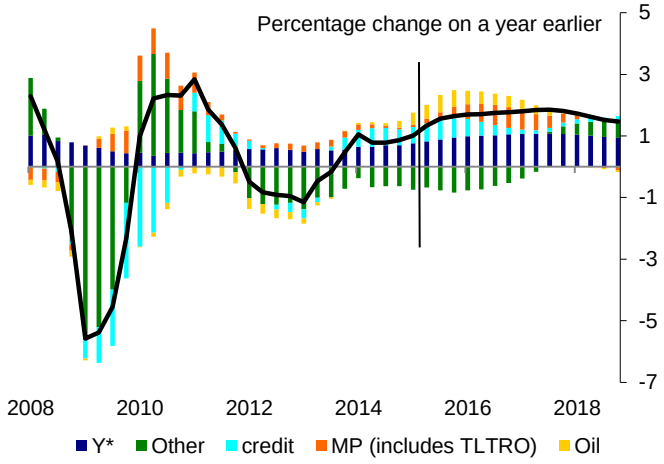



**Chart 6: Euro-area GDP decomp**




### *China*

*The central projection for China is weaker following the collapse in equity prices.*

The other key development since last round has been the sharp decline in equity prices in China. The Chinese stock market fell by 30% between mid-June and early-July (**Chart 7**). Initially, policy action did not appear to be effective in stopping the precipitous fall. But the stock market has recovered over the past week, such that prices are now 25% below their peak. It seems unlikely that on its own the fall in Chinese equities will lead to a significant deterioration in macro prospects

[3] We estimate potential growth is currently around 0.8%, compared to the ECB at 1.0% and IMF at 0.9%

through wealth channels or corporate financing: equities only account for 2-4% of households total assets (compared to 20-30% for US households) and 5% of total social financing, and stock prices are still 80% above levels seen a year ago.

But while the direct impact of the equity market may be limited, the recent volatility has raised concerns about the ability of policymakers to manage the economy. And we have allowed this reduction in confidence to pull down on growth from the second half of the year. As a result, the forecasts for 2015 and 2016 are now a touch weaker than in May (BMK: 6.7% in 2015, 6.3% in 2016; May IR: 6.8% and 6.5%). Growth in Q2 was a little stronger than expected in May at 1.7% oqa, up from 1.5% in Q1. But we have not taken much signal from that given that the unexpected strength seems to be accounted for by strong growth in the financial sector, which has been associated with the rise in equity prices.

***US***

*There has been little change in the US outlook given evidence of a bounce back from the weak Q1 outturn.*

In the US, the latest indicators have confirmed our assessment that the weakness in growth in Q1 was largely temporary. Consumption indicators have recovered suggesting growth in Q2 will pick up as expected (the nowcast is for Q2 growth of 0.9% compared to 0.0% in Q1). Further out the forecast is little changed. Our forecast is conditioned on a yield curve which has the FOMC beginning to raise rates in December, with the level of the fed funds reaching 2.5% by the end of the forecast.

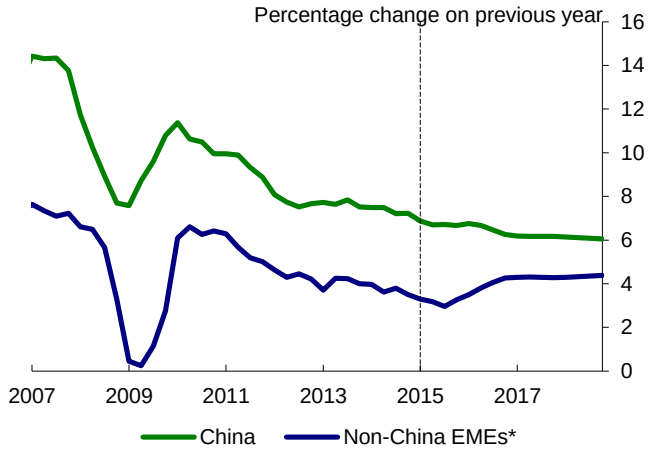
***RoW***

*Data news for non-China EMEs has been mixed but the outlook is weaker overall.*

Elsewhere, prospects for non-China EMEs, which were revised down substantially in February, remain subdued. The data news has been mixed, however. In Russia, the near-term weakness has been a little less severe than anticipated. But outturns for other EMEs have continued to disappoint. This is particularly true in Latin America where the outlook for Brazil remains a concern. Overall, non-China EMEs are a touch weaker than in May with growth revised down slightly to 4% in 2015 compared with a pre-crisis average of around 5½%. The August BMK forecast assumes growth gradually recovers through the rest of the year (**Chart 8**) but is also a touch weaker than previously assumed.

**Chart 7: Chinese equity prices**

**Chart 8: EME growth**




*PPP-weighted

## Key assumptions underlying the central projections for world activity

*At KI1 we plan to tee up a discussion of the key assumptions shaping the headwinds from the world, and how they could evolve differently.*

At Key Issues Meeting 1 the Committee will have the opportunity to discuss the key assumptions underlying growth in each of the regions and sensitivities around them. Underlying the Benchmark central projection is a view that world activity is running below potential, such that the world output gap is currently 1.7%, closing slowly over the forecast period (**Chart 9**). So weakness in the level of world demand is a key cyclical headwind for the UK. Above and beyond this, the world economy is structurally weaker than a continuation of its pre-crisis path would imply, leaving world

GDP 12% below its pre-crisis trend at the end of the forecast (**Chart 10**).

**Chart 9: World output gap**

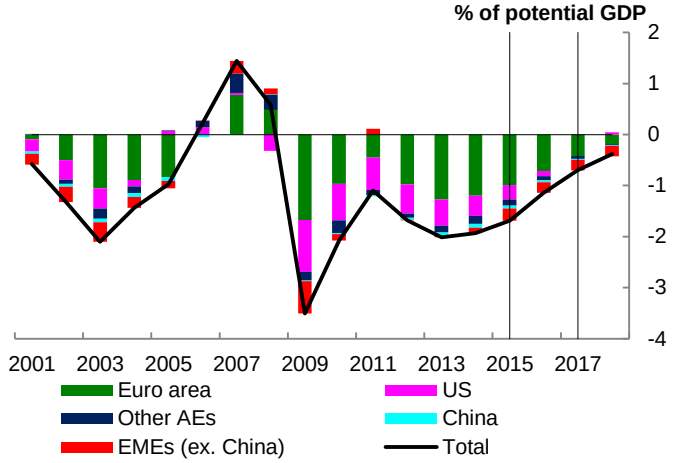
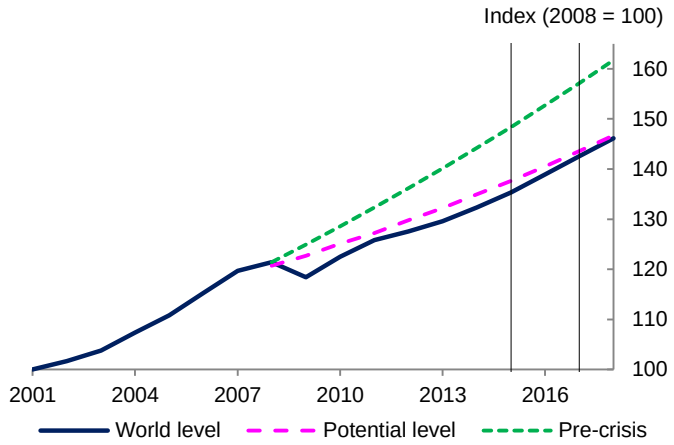



**Chart 10: UK-weighted world GDP**




### *Key assumptions underlying the euro area forecast*

*A number of favourable tailwinds have driven an improvement in the euro-area outlook…*

Growth in the euro area has recovered over the past year and a modest further pick up is expected over the forecast. A number of tailwinds have driven the improvement in growth (**Chart 6**). The fall in oil has boosted real income growth supporting activity at the start of the year, and a further boost is expected over the forecast.[4] Improved credit conditions have also supported growth: bank lending rates fell significantly following the ECB's comprehensive assessment last summer and lending rates are expected to fall further over the forecast. And ECB QE is also expected to provide a significant boot to growth over the forecast, with the impact beginning to come through from the second half of this year. The tailwinds mean growth is able to rise above potential, such that the output gap is closing over the forecast.

*…but growth remains modest given anaemic potential supply growth.*

Despite these significant tailwinds, growth in the euro area remains modest throughout the forecast: growth rises from 0.9% in 2014 to 1.8% in 2017. That reflects the weak outlook for potential growth. In the August Benchmark, potential growth picks up modestly from its current levels as productivity recovers, but it only reaches 1% by the end of the forecast period, which is significantly below the historical average of 1.7%. The subdued pace of potential output growth in the EA forecast reflects a combination of factors, in particular slow growth of the capital stock relative to pre-crisis given weak investment and a weaker outlook for trend participation. The contribution of trend participation to potential output is expected to be modest, reaching only half of the pre-crisis rate, due to demographic factors and ageing.

*Nonetheless growth could turn out even weak (and headwinds to the UK larger) if 'Grexit' risks crystallise.*

[4] See: Initial evidence on the impact of the fall in the price of oil on UK GDP

*In the central case China's rebalancing continues smoothly with a gradual tapering in growth prospects.*

*But there are clearly risks to this process which could lead to a hard landing in China.*

### *China*

The forecast assumes that growth in China slows gradually, as the authorities successfully rebalance the economy away from investment and exports and towards consumption (**Chart 8**). Headline growth gradually slows to 6.2% in 2017 from 7.2% in 2014. That is in line with the weakening in potential growth, which is expected to decline as slowing population growth and an ageing population reduce potential employment growth, lower investment leads to slower capital growth, and TFP growth slows as a result of approaching the technical frontier.

A key judgment underlying the forecast is that the authorities are willing and able to engineer a gradual rebalancing of the economy. But there are significant risks to this assumption. The authorities' reforms will weaken the control they have over their policy levers. In particular, the liberalisation of deposit rates is now likely to happen this year and this will lower control over credit and investment, which have been pivotal to growth for over 30 years. And fiscal reform, if not well managed, could result in an additional fiscal drag this year. And at the same time, the authorities may be unwilling to offset adverse shocks in order to avoid further increasing vulnerabilities related to past rapid growth in credit and investment.

### *Scenarios*

At the Key Issues 1 meeting, we will show a couple of scenarios to illustrate how significantly the crystallisation of downside risks in China could affect the UK outlook.

The first scenario considers the risk that the recent stock market crash causes a bigger hit to

*The recent stock market volatility could way on confidence, hitting investment and spill over to the wider economy through the shadow banking sector*

confidence than we have assumed in the central case. The reduction in confidence weighs on domestic spending growth, manifesting in particular in sharp falls in investment and house price falls. This spills over to the wider economy via the shadow banking sector, which is heavily exposed to property, and through pressure on local government finances as tax revenues and land prices fall. As activity slows, the authorities respond to offset some of the weakness. Monetary policy is loosened. Other policies are more targeted on consumption and less on investment/infrastructure spending in order to provide stimulus without exacerbating existing vulnerabilities (highly leveraged local governments and excess capacity in some industries), but these prove less effective than expected in combating the effects of lower confidence. Depreciation of the RMB is limited, in part so it doesn't conflict with aims of RMB internalisation. In this scenario, the level of Chinese GDP is 3% weaker by the end of the forecast.

*A 3% fall in Chinese GDP could reduce UK GDP by 0.3%, largely through indirect trade links and also financial channels*

Such a scenario would be expected to have a modest impact on UK growth. Our global VAR model suggests that the 3% fall in Chinese GDP would reduce UK GDP by around 0.3%.[7] On the face of it, this may seem like a large impact on the UK, given China only account for 4% of UK export demand. And as large consumer of oil, we might expect some offset through lower oil prices. But, whilst direct trade links with China are limited, China accounts for a much larger share of exports for our main trading partners, and is a particularly important source of demand for other EMEs (**Chart 11**). As a result, the impact of a shock to China through indirect trade links is likely to be significantly larger than the direct links. Furthermore, financial channels could be important, as UK-banks have sizeable exposures to China, which have risen markedly over the past 5 years (**Chart 12**). And given China is the largest economy in the world, it is likely that a sharp slowing there could lead to confidence spillovers too. The GVAR should account for all of these channels, including the offset from high oil prices.

**Chart 11: China scenarios**

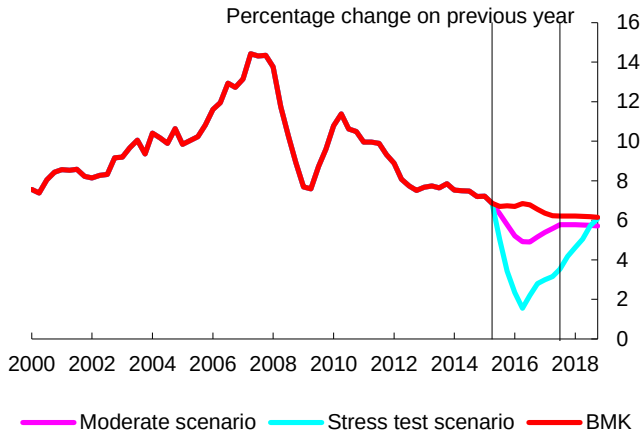
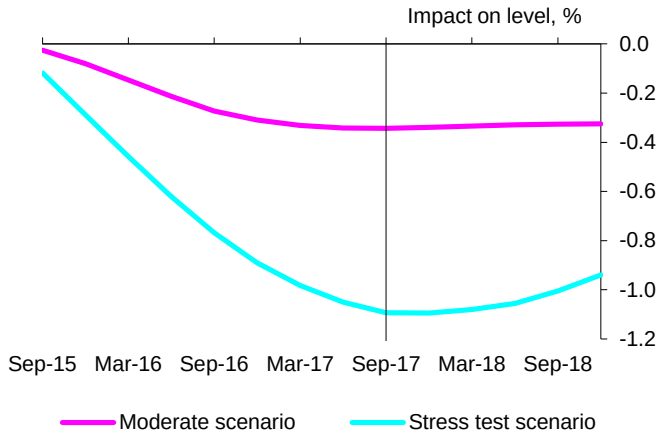



**Chart 12: Impact of Chinese scenarios on UK GDP**




*A sharper fall in Chinese GDP could have additional impacts on the UK through risk sentiment*

The second scenario considers a hard landing in China, based on the 2015 UK stress test, to illustrate how such a tail risk event might impact on the UK. Chinese GDP falls by over 9% in this scenario. And the GVAR suggests that this would reduce UK GDP by around 1%. But this is probably a lower-bound estimate of the UK impact in such an extreme scenario. That is because the GVAR is a linear model, and so it will not account for the potential non-linearities associated with large shocks. Moreover, the GVAR is based on past correlations, and China has been increasing in global importance, so it is unlikely to fully capture the impact that a big shock in China could now have on global risk sentiment. If there were to be such a sharp decline in Chinese GDP, this could lead to a rise in premia on risky assets, potentially affecting equities and corporate bonds globally, as well as euro-area periphery and EME sovereign bonds. Such a shock to global risk sentiment would be likely to have an impact on the UK over and above the estimate provided by the GVAR.

***US***

*US growth is expected to continue to recover through the rest of the year following temporary weakness in Q1.*

Having stalled at the start of 2015, GDP growth in the US is expected to recover in the second quarter. And the August *Benchmark* assumes annual growth in 2015 of 2.4%, unchanged from 2014, before peaking at 2.6% in 2016.

A number of tailwinds are expected to support growth over the forecast. In particular, consumption should receive support from the recent fall in oil prices and the continued improvement in the labour market. We expect the lower oil price to boost consumption by around 0.9% and GDP by 0.6%. And employment growth is expected to remain robust leading to improved household confidence and further rises in wage growth, which has already picked up significantly following the recent tightening in the labour market. Residential investment should also support growth in the medium term, as the labour market recovery and a further easing in credit conditions allow pent-up demand to come on stream. Partially offsetting this, the appreciation of the dollar since the middle of 2014 is expected to weigh on US GDP by around 1.0% over the forecast horizon.

*In the central case the FOMC start to raise rates gradually as slack is eroded.*

An important feature of the US forecast is weak potential supply growth. This means that even though GDP growth remains below its pre-crisis average of 3.0% throughout the forecast, growth is sufficient to close the output gap by 2016. And eroding labour market slack leads the Fed to raise rates from December of this year. The forecast assumes that the FOMC raise rates gradually, in line with the yield curve, in a well communicated manner such that there is no significant negative impact on financial markets. The rise in rates is expected to reduce US GDP by around 1% over the forecast. As the boost to US activity from the tailwinds fades, GDP growth is expected to gradually fall back after 2016 towards our estimate of potential.

*But inflationary pressure could build more rapidly if productivity growth doesn't pick up and the labour market continues to tighten.*

A key judgment underlying the forecast is that productivity growth picks up, such that labour market slack is absorbed at a much slower rate than has been seen in recent years. As in the UK, productivity growth in the US has been weak in recent years following large declines in the unemployment rate and was particularly weak at the start of the year. But the forecast relies on a strong recovery in productivity, which is particularly important given the proximity of unemployment to the NAIRU - unemployment fell to 5.3% in June, just 0.1pp above the FOMC's latest estimate for the upper tendency of the longer run rate. There is a risk that productivity will not pick up as expected, putting upwards pressure on wages, growth and inflation.

***Scenario***

*If productivity were to continue to flatline, US GDP would be 3% weaker and UK output is 0.5% weaker…*

*…but if there was a more rapid pick up in productivity, this would spillover positively.*

To illustrate the sensitivity of the forecast to different paths for US productivity growth, two scenarios will be considered. Given the risks around productivity growth appear to be balanced, the scenarios are symmetric. In the downside one, productivity growth stagnates, whereas in the second scenario productivity surprises to the upside to the same extent (**Chart 13**).

The impact of the two scenarios on the UK may be expected to be fairly modest and symmetric. In the downside scenario, the weakness of productivity growth means slack continues to be eroded rapidly, causing further declines in unemployment. Greater inflationary pressure causes the Fed to raise rates at a faster pace than implied by the yield curve. US GDP is around 3% weaker, which pulls down on UK output by 0.5% by the end of 2017, largely through trade channels (**Chart 14**). In the upside scenario, faster productivity growth reduces inflationary pressure, meaning the Fed postpones raising interest rates, boosting UK GDP by 0.5%.

*Non-trade spillovers could magnify these effects considerably.*

However, it is possible that if the Fed were forced to raise rates more rapidly that could trigger a sharp rise in global term premia. If we assume that term premia rose by 100bps in EME and 50bps in AEs, similar to the experience of the taper tantrum, that could reduce UK GDP by an additional 0.5% at year 1 and 0.2% at year 2. But given how low term premia currently are globally, it is unlikely that an upside productivity surprise that caused the Fed to keep rates on hold for longer than expected would case a fall in term premia of the same magnitude. For that reason, the balance of risks to the UK from uncertainty over US productivity lies to the downside.

**Chart 13: US productivity scenarios**

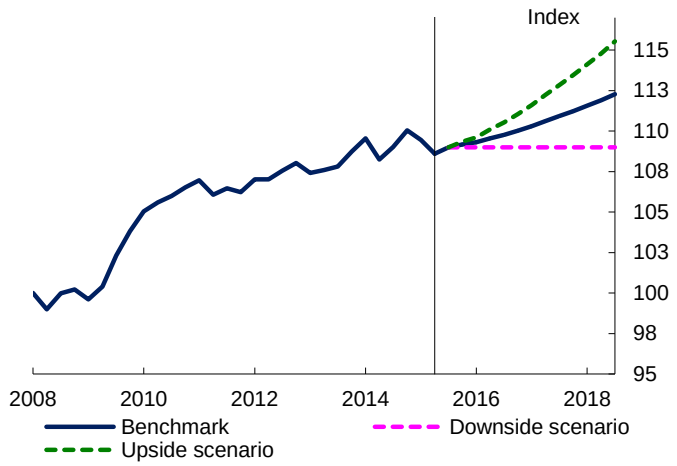
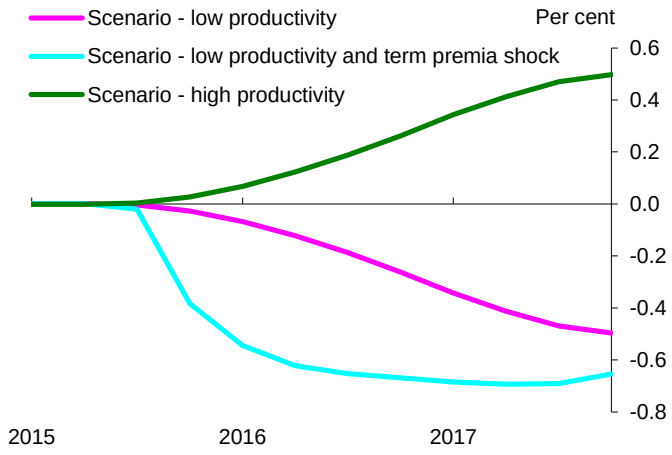



**Chart 14: Impact of US scenarios on UK GDP**




### *Non-China EMEs*

*Non-China EMEs recover over the forecast period as a number of significant headwinds wane…*

Outside of China, some recovery is expected in EMEs over the first year of the forecast (**Chart 8**). That is driven by: a modest recovery in Russia following the sharp declines in output seen around the turn of this year, a pickup in Latin America as Brazil emerges from recession, and a recovery in commodity producers as the drag from the recent oil price falls diminishes.

*…but growth looks structurally weak reflecting weaker productivity prospects and population aging.*

But growth in EMEs is expected to remain significantly weaker than in recent years - growth is only forecast to rise to around 4%, over 2½pp weaker than the average seen in the five years preceding the crisis. That subdued forecast reflects the weak outlook for potential supply growth. Our view is that much of the slowing of growth in emerging markets seen since the crisis reflects structural factors, which are expected to continue to weigh on growth. In particular, the weakness of supply growth reflects a slowing in productivity growth. But slower population growth and aging populations, as well as weaker capital growth are also expected to weigh on potential.[8]

*There are downside risks even relative to this weak path given prospective US policy normalisation.*

Despite the weak outlook for non-China EMEs, the balance of risks to growth lies firmly to the downside. In particular, there are significant vulnerabilities that could be triggered by a disorderly adjustment to US policy normalisation. And a sharp slowing in China could weigh heavily on emerging market growth.

### *Summary of risks to activity*

Overall, we judge that the balance of risks to global activity remains to the downside: the risks appear to be skewed firmly to the downside for the euro area, China and other emerging markets. Whereas in the US, we judge them to be more balanced given upside risks to consumption.

*Overall, the risks to the downside risks to the world forecasts are judged to have increased.*

And they have tilted further to the downside since the May IR due to recent developments in Greece, which increase the likelihood of Greece leaving the euro given the worse outlook for debt sustainability, and the panicked reaction of policy makers to the stock market volatility in China, which raises concerns about their ability to manage the economy (**Table 3**). Partly offsetting that, the risk of a further supply driven fall in the oil price has increased since last round.

The Greek scenario note runs through how recent developments may affect the UK GDP fanchart skews.

**Table 1: External forecast comparison**

| | Aug BMK | | IMF | | Consensus forecasts* | |
|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 |
| World (PPP-weighted) | 3.2 | 3.6 | 3.3 | 3.8 | 3.3 | 3.9 |
| US | 2.5 | 2.7 | 2.5 | 3.0 | 2.4 | 2.8 |
| Euro area | 1.4 | 1.7 | 1.5 | 1.7 | 1.5 | 1.8 |
| Japan | 1.1 | 1.7 | 0.8 | 1.2 | 1.0 | 1.7 |
| China | 6.7 | 6.3 | 6.8 | 6.3 | 6.8 | 6.7 |
| India | 7.5 | 7.4 | 7.5 | 7.5 | 7.7 | 8.0 |
| MENA | 2.7 | 3.7 | 2.6 | 3.8 | N/A | N/A |
| Latin Amerca and Carribean | 0.5 | 1.5 | 0.5 | 1.7 | 0.3 | 1.9 |
| Sub-Saharan Africa | 4.4 | 5.0 | 4.4 | 5.1 | N/A | N/A |

**Table 3: Key risk**

Key: High | Medium | Low

| Risk | Detail | Probability | Prob change since May | Horizon | Impact on UK economy |
|---|---|---|---|---|---|
| **Downside risks** | | | | | |
| Grexit with material contagion | Greece exits the euro area with material contagion to other periphery countries | | ↔ | ST/MT | |
| Euro-area deflation | Euro-area suffers a period of low nominal growth with inflation expectations deanchoring for a time | | ↔ | MT | |
| Euro-area breakup | Two or more countries leave the currency union with severe financial-market fallout | | ↔ | MT | |
| US downside risk | Productivity stagnates such that inflationary pressure builds more rapdily and growth disappoints | | ↔ | ST/MT | |
| Risk premia snapback | Risk that asset prices fall sharply exacerbated by divergent monetary policy and poor liquidity | | ↔ | ST/MT | |
| Severe slowdown in China | Due to Housing market crash /Credit shock / over investment | | ↑ | ST / MT | |
| EME downturn emanating outside of China | General weak outturns across globe for output and inflation requiring lower interest rates | | ↔ | ST / MT | |
| Geo-politics (Russia, ISIS) | Russia/Ukraine could worsen. Middle East developments increase risk of terrorist incident, oil prices rise. | | ↔ | MT | |
| Secular stagnation | Inability of policymakers to reduce real rates sufficiently | | ↔ | LT | |
| **Upside risks** | | | | | |
| US consumption boom | Stronger domestic demand or productivity performance | | ↔ | ST | |
| Larger QE boost in euro area | The combination of ECB QE, AQR deliver a stronger recovery, particularly in investment | | ↓ | ST / MT | |
| Further falls in oil prices | Return to the market of Iranian oil/ pressure of inventory build | | ↑ | ST | |
| **Net international risks to UK GDP** | | | | | |
| World | US risks: balanced; EA risks: downside; EMEs: downside; Oil: upside | ***Risks to the downside*** | | | |

**Notes:**

Probability: red (high), above 0.1; amber (medium), 0.1<x<0.05; green (low), <0.05

Prob change: refers to how the likelihood of the risk has changed since the May *IR*

Horizon: ST, risks that are most likely to crystallise over the next 6 months); MT, within two years; LT, up to 5 years

Impact: red (high), over 1% impact on UK GDP over three years; amber (medium), ½%; green (low), < ¼%