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Countries Growingly Revising Economic Growth Projections Downward

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

Since early 2015, economic growth forecasts for this year have tended to be revised downward. In its latest economic outlook in June, the World Bank lowered this year's world economic growth forecast by 0.2 percentage points from the January forecast to 2.8%. Subsequently, the International Monetary Fund released its latest outlook in July, cutting its 2015 world economic growth projection by 0.2 points from its April forecast to 3.0%.

The World Bank and IMF outlooks, though differing from each other over various points, commonly cited a U.S. economic growth deceleration as one of the reasons for the downward revision. They also pointed out weakness seen in developing and emerging economies.

But key developments regarding the world economy came after (or just before) the July 9 release of the latest IMF outlook, including Greece's difficult negotiations with the European Union on the Greek debt problem, their eventual agreement, a sharp decline and destabilization on the Shanghai stock market and China's yuan devaluation campaign.

As these economic downside risks have emerged, crude oil prices have plunged again, indicating a double-dip situation that could induce subsequent developments. On August 19, the benchmark West Texas Intermediate crude oil futures price dropped by $1.82 per barrel from the previous day to $40.80, signaling its imminent slip below the psychologically important level of $40/bbl.

Coming next is the serious problem of fears about economic deterioration in oil producing countries. The Financial Times on August 19 took up Venezuelan economic deterioration on the oil price plunge. Noting that an oil price fall of $1/bbl leads to a revenue drop of $700 million for Venezuela whose oil exports account for more than 90% of its total exports, the British newspaper described the South American oil producing country as being plagued with dangerous macroeconomic conditions.

In fact, Venezuela's foreign currency reserves have rapidly declined, standing at a 12-year low of $15.3 billion in the latter half of July. The abovementioned government revenue decline on the oil price plunge has increased doubts about the Venezuelan government's debt repayment capacity. The newspaper quoted debt rating agency Moody's Investors Service as saying Venezuela has a 50% chance of defaulting in 2016.

Russia, which also depends heavily on oil and gas revenues, has been attracting attention again as the oil price plunge has been coupled with an energy demand slump in Europe as its key export destination and Western economic sanctions over the Ukraine crisis to bring about tough economic conditions.

On August 10, the Russian Federal State Statistics Service announced that preliminary Russian gross domestic product during the April-June quarter contracted by 4.5% year on year after a 2.2% fall in the previous quarter. The two-quarter consecutive contraction reaffirmed Russia's entry into recession. Key GDP components private consumption and investment posted sharp drops. In June, for example, retail sales logged a 9.4% year-on-year decrease. Some analysts point out that economic realities indicate that the preliminary GDP contraction could be revised to a worse one.

It may be needless to say that low oil and gas prices are behind the economic slump. The problems are not limited to the substantial economic contraction in the April-June quarter but include the additional oil price fall since July, which has plunged the oil market into a double-dip situation. In this sense, the Russian economy is expected to deteriorate further in the July-September quarter. No optimism can be warranted for future Russian economic conditions.

It would be a natural development that low oil prices exert downward pressure on Venezuela, Russia and other oil-producing economies. In addition, we must pay attention to other developments causing economic slump fears. For example, Japan's April-June GDP, as released August 17, posted a 0.4% contraction from the previous month, the first shrinkage in the three quarters. The contraction, annualized at 1.6%, was attributed to private consumption deceleration and slack exports.

In addition, Thailand revised its economic growth projection downward on August 17 when a large-scale explosion took place in its capital city of Bangkok in what was alleged to be a terrorist attack. The Thai National Economic and Social Development Board lowered its 2015 economic growth forecast from 3-4% to 2.7-3.2%. Reasons for the downward revision reportedly included an export slump amid Chinese economic growth deceleration, currency depreciation in trading partners and drought. As a matter of course, the explosion’s impacts on tourism and other economic operations were not taken into account for the revision. The incident could serve as an additional downside factor. In Asia, Taiwan and India have also lowered their economic growth forecasts recently. Generally, we see a growing number of adverse economic factors.

If economic growth deceleration in major countries brings about slack demand, it may work to push down crude oil and other resource prices and affect oil-producing and other resource-rich economies, creating a new risk factor for the world economy. Such negative chain reaction would be difficult to end. Lowered crude oil and other resource prices should have positive effects as well on the world economy. But such effects have yet to emerge in full strength. We must pay attention to future developments regarding downside risks.

Contact: report@tky.ieej.or.jp
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