INTERNATIONAL FORECAST

INTERNATIONAL DIRECTORATE

Overview of international material for the Nov 2015 forecast round

Ahead of Key Issues 2 (22 October)

20 October 2015

International Directorate

Key messages:

Central projection

- **The *Benchmark* forecast for world GDP is materially weaker than in August, following large downward revisions to emerging markets, other economies in Asia and associated spillovers to advanced economies. The forecast is slightly weaker than the WEO.**
- The level of UK-weighted world GDP is 0.8% lower by the end of the forecast (2018 Q4) than August, the largest markdown since the euro-area crisis. Through trade channels alone, these revisions reduce UK GDP by around 0.3%.
- Weaker outturns in EMs – particularly in Brazil and Russia where growth fell back further in Q2 – along with capital outflows and an increase in credit spreads have led us to revise down our forecasts for EM growth again. World activity growth is expected to remain subdued until the turn of the year as the drag from EMs persists.
- In China, the authorities have taken further actions to support growth. And high-frequency data point towards near-term growth that is little changed from that in August IR. However, reserve decumulation and reduced policy space suggest a more challenging medium-term outlook.
- In the Benchmark forecast, Brent crude is down 10½% across the curve since August. The majority of the most recent fall appears to reflect demand factors, consistent with the material downwards revision to world GDP. We now think that around half of the overall fall in oil prices since mid-2014 is related to demand factors, while earlier in the year positive supply factors were thought to have contributed to two-thirds of the fall in prices.
- For the US and euro area, the fall in oil prices provides only a partial cushion to the drag on growth from weaker EMEs and Asia. For both countries the trade and financial spillovers from emerging markets, including an appreciation of the dollar and the euro, more than offset the boost from lower oil prices.

Risks

- **The downside risks appear to have increased since August, particularly from China where more policy space is being used to deliver the central projection.**
- More broadly, EM growth, excluding China, could continue to disappoint. An alternative central projection in which EM output was an additional 3% weaker would leave UK GDP an estimated 0.6% lower, through trade channels alone. This alternative central projection, which holds financial prices fixed, would offset all of the upside news to the UK Benchmark forecast due to asset prices and would be appropriate if the MPC judges asset price movements since August signalled a weaker world central projection.

Key Issues Meeting 1 will be devoted to the outlook for the world economy. The committee will have the chance to discuss the treatment of news in the central projection, as well as the balance of risks, and will be shown a range of options for how to map developments since August into the central case and skew.

News to the central projection for world activity

Global growth and inflation

The world forecast is weaker due to downward revisions to EMEs and spillovers to AEs

Following financial market volatility over the summer, the Benchmark forecast for global growth is weaker (**Chart 1**). In particular, this year's growth outlook for Asia and EMEs has been revised down, as a number of economies disappointed at the start of the year and the weakness there looks set to continue. In AEs, activity is expected to be depressed a little by spillovers from recent events in China and other EMEs, reflecting slower trade growth, the resulting appreciation of the dollar and euro and tighter financial conditions. Acting in the other direction, lower oil prices should only provide partial relief from the fallout from lower growth prospects in EMEs (**Chart 2**). Overall, we continue to expect a modest recovery in world GDP growth. But the outlook is materially weaker than in August, particularly in the near term.

Chart 1: UK-wtd world GDP

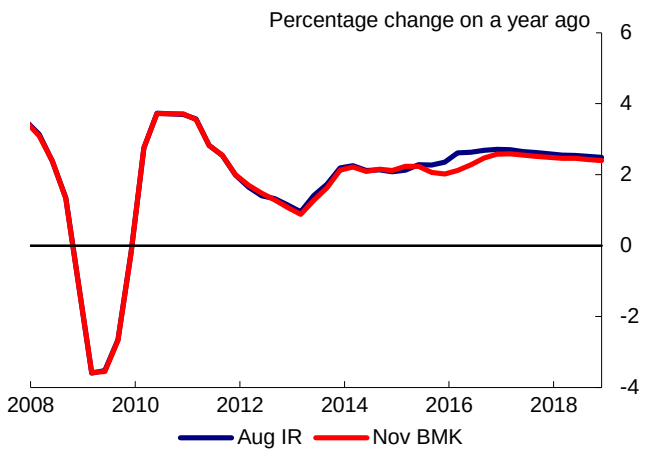
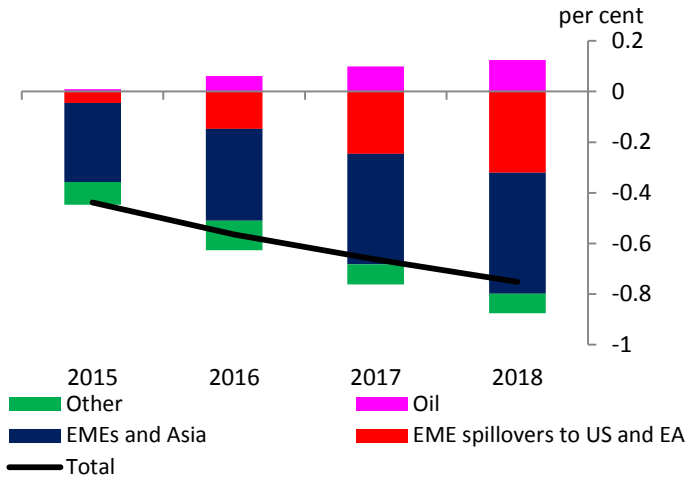


Chart 2: News to world forecast since the Aug *IR*



Global growth disappointed in Q2 and the outlook for the second half of the year has been revised down

UK-weighted world GDP growth in Q2 was 0.2pp weaker than forecast in the August *IR* at 0.5%. That almost entirely reflected downside news in EMEs and newly industrialised Asian economies, with Brazil and Russia, which contracted by 2% in Q2, accounting for a significant share of the total news. We expect growth to remain around current rates for the next few quarters as the weakness in both countries persists. While that view is towards the bottom end of a range of global indicators (**Chart 3**), the indicators have all tended to over-predict growth in recent quarters. And we have repeatedly been surprised to the downside by current quarter growth over the past two years.[1]

The Benchmark forecast is weaker than the IMF WEO in 2016, reflecting a lower forecast for the US and some EMEs

Global growth has been revised down a little in each year of the forecast, largely reflecting the weaker outlook for EMEs. UK-weighted world GDP is 0.8% weaker by the end of the forecast (2018 Q4) than in August. This is the largest markdown to the Benchmark forecast since November 2011. In 2015, PPP-weighted world GDP – the measure used by the IMF - is expected to fall to 3.0% from 3.4% in 2014, the weakest pace since 2009, before recovering back to 3.3% next year. Our forecast is weaker than the IMF's this year and next. That difference reflects a more pessimistic forecast for the US and some EMEs, in part due to data released since the WEO was published (**Table 1**). The downside news in world GDP is reflected in world trade, with UK-weighted world imports 2% lower by the end of the forecast period.

Much of the large markdown to growth since last summer is assumed to reflect weaker supply

Stepping back, the international outlook has weakened significantly since the summer of last year. UK-weighted world output is 1.7% lower by end-2017 relative to the August 2014 *Inflation Report*. Much of this downward revision reflects a judgment that global potential growth will be significantly weaker going forward than previously thought.[2] And as a result the world output gap is only a little wider over the forecast than we were expecting a year ago (**Chart 4**). Given the

downwards revisions to potential, global growth is expected to remain some way below pre-crisis average even while output gaps are closing.

Oil prices have fallen, reducing tradable goods price inflation

The outlook for global inflation has been revised down slightly since August in the near term. That primarily reflects the decline in the oil price. Brent prices are 10½% lower across the curve relative to August. Unlike the earlier falls in the oil price, however, which appeared to be driven by supply factors, model-based estimates and information from market contacts suggest the recent decline reflects weaker demand. In particular, MI contacts point to concerns about a slowing in Chinese growth and the outlook for other EMEs such as Russia and Brazil. Weaker oil prices weigh a little on the forecast for world CPI and drag more significantly on world export prices, reducing the level by over 1% in 2016 (**Chart 5**).

Chart 3: World GDP and global indicators

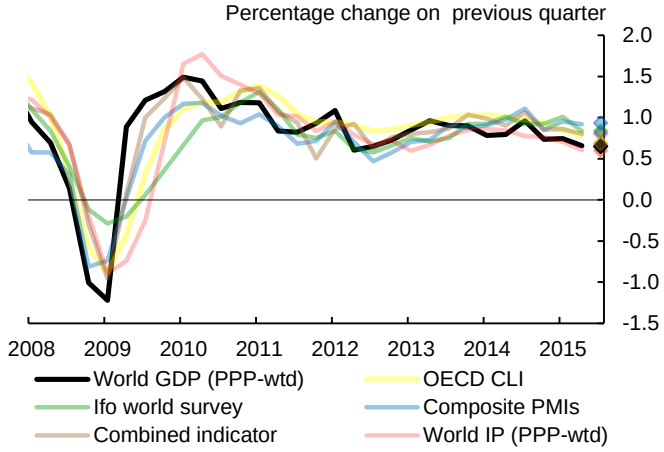


Chart 4: World output gap

Chart 5: Commodity prices

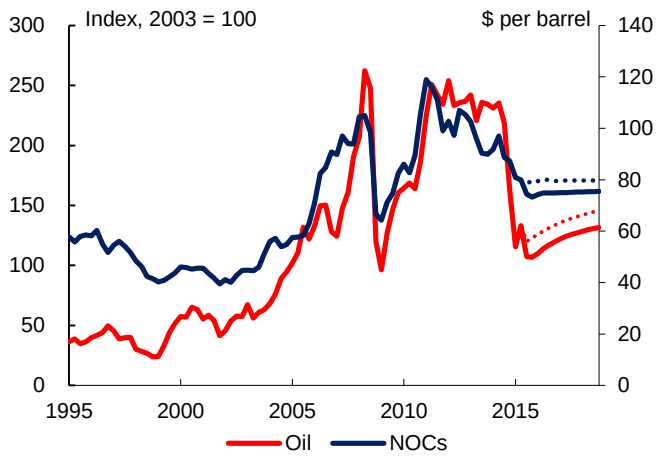
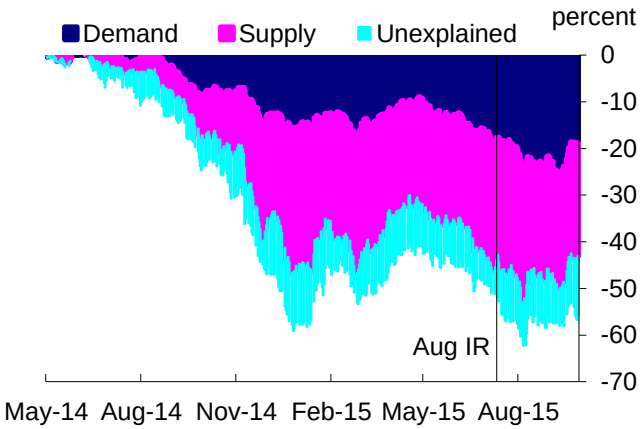


Chart 6: Asset-price decomposition of the fall in Brent since June 2014



Treatment of lower oil prices in the International forecast

Since last summer, the world forecast has been revised down, despite the oil price fall

In the February *Inflation Report,* following a 35% fall in the Brent futures curve, we judged that the boost to global output from lower oil prices was more than offset by weaker prospects for potential growth in EMEs. We took the judgement that the fall in oil prices would have a positive impact on the world economy, providing a 0.8% boost to output over the forecast. However, at the same time, the International Forecast took on a more pessimistic view of potential growth in EMEs, where output over the forecast was revised down by around 2%. So despite the large prospective boost to disposable incomes in oil importing economies, the world forecast was revised down.

Recently, more of the price fall reflects weaker demand…

Since February, the outlook for global growth has deteriorated further, particularly in EMEs despite oil prices falling an additional 10% since February. Negative demand factors related to concerns over EME growth prospects have weighed on oil prices, and demand factors now appear to account

…and the revisions to the forecast over the past year are consistent with slower underlying growth

for around half of the fall since 2014 (**Chart 6**).[3] Ready-reckoners imply that the 20% fall in oil prices that models suggest is due to demand factors is consistent with a level of world activity that is 2% lower than the counterfactual, roughly the downward revision we have made to PPP-weighted GDP since the November 2014 *IR*. Underlying growth in several oil importers, including Japan and China, appears to have been revealed to be weaker than at first thought, offsetting the stimulus of lower oil prices. And lower oil prices have depressed activity in exporters such as Russia and the Middle East by more than expected, with the effects compounded by geopolitical factors.

Growth in the US and euro area does appear to be benefitting from lower oil prices

That said, while counteracting factors have dominated over the impact of lower oil prices for the world as a whole, we can see evidence for a boost to growth in our major trading partners, the euro area and US, from the fall in oil prices. Consumption in the euro area was an estimated 0.2% higher due to oil in Q2, coming in line with our forecast. And in the US, whilst the impact of lower oil prices was obscured by erratics in Q1 (GDP grew by 0.2%oqa), consumption was robust in Q2, contributing 0.6pp to GDP growth. Overall, we expect continued support for growth in the US and euro area from lower oil prices, with growth boosted by around 0.2pp in 2015 and 2016. That boost to growth has been partially offset by external factors and signs of unexpected underlying weakness, particularly in the US, where the forecast for growth is around 0.2pp lower in each year relative to the November 2014 *IR.* However, in the euro area, a combination of oil and QE has strengthened growth prospects, and our forecast is 0.2pp higher in each year than before the oil judgement was applied.

China

Financial market volatility has increased following a rise in Chinese policy uncertainty…

Since the August IR was published, financial market volatility in China has increased. The exchange rate has depreciated by 2%, following the PBOC's unexpected change in its policy for setting the daily fix on 10 August. Large capital outflows have been seen, with the authorities using reserves to stabilise the exchange rate. Chinese equities resumed their decline, falling a further 15% since early August, likely reflecting the authorities removal of some supporting measures. On 24 August, 'Black Monday', there were spillovers that affected financial market sentiment globally.

…but activity in H2 does not appear to have slowed significantly as a result

Despite significant financial market volatility in China over the summer, there is no sign that the near-term growth outlook has deteriorated sharply. According to our preferred measure, GDP grew by 1.6% oqa in Q3, in line with the August *IR* and our November *IR* nowcast. And activity indicators for the second half of the year have shown little sign of being affected by the recent financial market volatility. In fact, indicators of industrial sector activity have stabilised recently, having been particularly weak at the beginning of the year (e.g. electricity and freight have recovered). That is consistent with the large number of additional fiscal measures introduced[4] and the loosening of monetary policy since early August, which are assumed in the forecast to be sufficient to allow the authorities to reach their 2015 growth target of 'around' 7% (the 2015 forecast is 6.8%). But there is a risk that the drag from confidence and financial conditions following recent events could mean growth is weaker than forecast even with these policy measures.

Growth further out is a little softer than in August

Further out, the forecast is a little weaker than in August. Growth rates in 2017 and 2018 have been revised down by 0.2pp and 0.1pp, respectively, to 6% in both years. In addition, tighter credit conditions for Chinese corporates, due to capital outflows, are also likely to weigh on activity further out. We should get a better sense of how the authorities will attempt to steer the economy once they announce their growth target for 2016 later this month. We expect the target for 2016 to be lower than that for 2015 – probably 'around 6 ½ % - but a lot of uncertainty around the future

[3] Our asset price based decomposition finds demand factors account for 54% of the explained fall in oil prices since June 2014, while our Kilian-Murphy VAR-based decomposition finds the supply contribution is a little higher at 60%, but can only be updated to August.
[4] For example: providing support for infrastructure, raising local government debt limits and providing additional support to home buyers

path for growth will remain. And the chance of a sharper slowing in growth is a significant risk (see below).

Other emerging markets

EM growth has been revised down again due to rising credit spreads and capital outflows

Following a string of markdowns since 2014, the outlook for EMEs has been revised down again this round (**Chart 7**).[5] Q2 GDP disappointed across a number of EMEs. But growth in Russia and Brazil was particularly weak, falling by 4.5% oya and 1.9% oqa respectively and explaining half of the total downside surprise in PPP-weighted world GDP. Rising bond spreads (**Chart 8**) and capital outflows from across EMEs, particularly those in Latin America, point to further headwinds to growth. The fall in commodity prices since last round is also expected to weigh further on activity in commodity producers. Consistent with growth remaining subdued into the second half of the year, emerging market PMIs have declined recently.

Potential growth is also slower further out

At the same time that we have revised down the near-term outlook, we have also marked down GDP and potential growth further out, in line with the latest IMF revisions. Again, this follows a string of downwards revisions to potential growth in EMEs. In the near term, most of the downwards revision to EME growth since the start of the year is judged to be cyclical and is reflected in a larger output gap. But further out, only around a third of the decline is cyclical, with the rest reflecting weaker potential supply.

Chart 7: EME revisions since August 2014 (Cumulative revisions to the level of GDP)

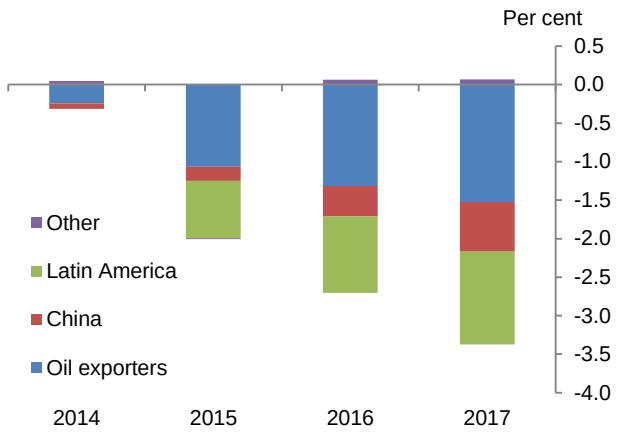
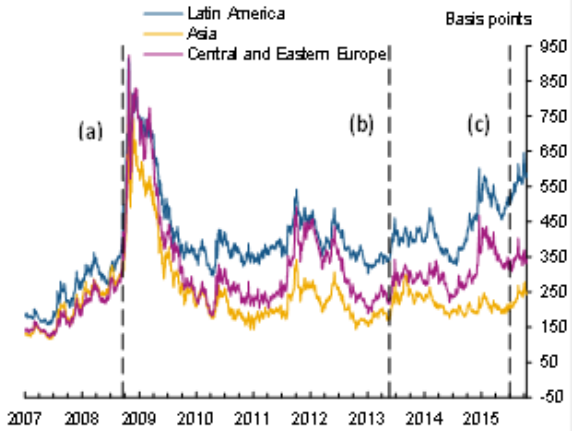


Chart 8: EMBI Global sovereign bond spreads – regional breakdown



(a) Lehmans. (b) US tapering. (c) China concerns.

US

Spillovers from events in China and weaker labour market data weigh on US growth

The outlook for the US is slightly weaker than in August, with GDP 0.4% lower by end-2018. In part that reflects spillovers from the recent China-related financial market volatility: the resulting appreciation of the dollar and tightening in financial conditions weigh on growth, partly offset by the fall in the yield curve and lower oil prices. On the domestic side, recent market data have been disappointing. Both employment and, in particular, labour income have been weaker than expected, which weighs on growth in the near term. The forecast assumes that the labour market weakness is largely temporary, but there is a risk that it proves more persistent than expected.

The forecast assumes productivity will pick up gradually over the forecast following slow growth in recent years

Since the August *IR*, the BEA has released revisions to GDP going back to 2012. Overall, the level of GDP in the back data has been revised down by 0.7%. As a result, productivity has also been revised down for the period 2012-2014 (**Chart 9**). We continue to expect productivity to improve gradually over the forecast period, but the weak productivity growth over the past few years raises the risk this will not happen.

The output gap is expected to close by mid-2017, even as GDP

Further out, growth in the US is forecast to converge slowly towards potential growth over the course of the forecast horizon. We expect growth to peak at 2.5% in 2015 and fall back to 1.8% by the end of the forecast in 2019. Despite growth remaining someway below its pre-crisis average of

[5] See "What is driving the Benchmark forecast for EMEs?". Forthcoming

growth remains subdued

3% throughout the forecast, the output gap closes by the middle of 2017. And we forecast inflation to return to 2% by early 2018. The forecast is conditioned on the market yield curve, which picks up more slowly than the Fed anticipates (based on their dots chart).

Euro area

Growth in the euro area is weaker, almost entirely reflecting external factors…

The euro-area forecast has been revised down slightly, almost entirely reflecting external factors. In particular, the appreciation of the exchange rate following the recent China-related rise in risk aversion is expected to detract 0.3% from euro area GDP (**Chart 10**). And the weaker outlook for EMEs will reduce exports, reducing GDP by 0.3%. Credit conditions are also looking a little tighter, as bank CDS spreads and non-bank bond spreads have been higher than expected. The lower yield curve and fall in oil prices provide only a partial offset. Overall, the level of GDP by the end of 2018 is 0.4% lower than previously forecast, while we now expect inflation to reach just 1.7% by the end of 2018. The outlook for euro-area growth and inflation looks significantly weaker than it did in March at the start of the ECB's QE programme, and as such we now think the decision on whether to extend asset purchases will be a close call. Our forecast is weaker than the September ECB staff projections, and implies considerable tolerance for below target inflation from the Governing Council. We are likely to learn more about the ECB's reaction function in coming months. For now we have not factored in any additional QE in the central projection.

…and further monetary policy easing looks a close call.

There is a risk that recent developments in China could weigh on activity by more than expected

Growth in the second half of 2015 is only expected to be a touch slower than in the August IR. The Benchmark forecast is for growth of 0.4% through the remainder of the year, in line with the steer from our preferred indicators. That said, there is a risk that recent developments in China could weigh on euro-area growth this year by more than we are currently pencilling in. And, indeed, the weak German trade data for August, which showed a 5% fall in exports on the month, suggest that there are downside risks to the near-term outlook.

Potential growth is assumed to subdued throughout the forecast, and has been marked down this round

Throughout the forecast, we continue to expect a number of tailwinds - improved credit conditions since summer last year, lower oil prices and ECB QE - to support growth in the euro area. But growth is expected to remain significantly weaker than pre-crisis throughout the forecast due to weaker potential supply. Potential growth is forecast to pick up modestly from its current levels as productivity recovers, but it only reaches 1.1% by the end of the forecast period. The subdued pace of potential output growth in the EA forecast reflects a combination of factors, in particular worsening demographics and lower growth of the capital stock relative to pre-crisis given weak investment. And this round, we have marked potential supply down a little more reflecting weaker trend TFP growth and a larger demographic drag from the ageing population than we had previously assumed.[6]

Chart 9: US productivity: Output per worker

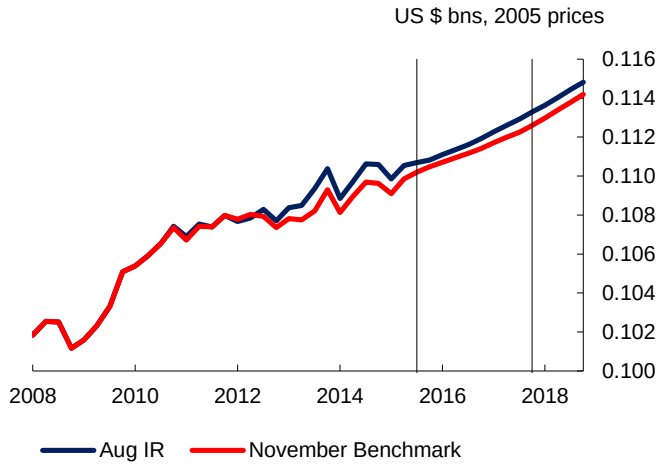
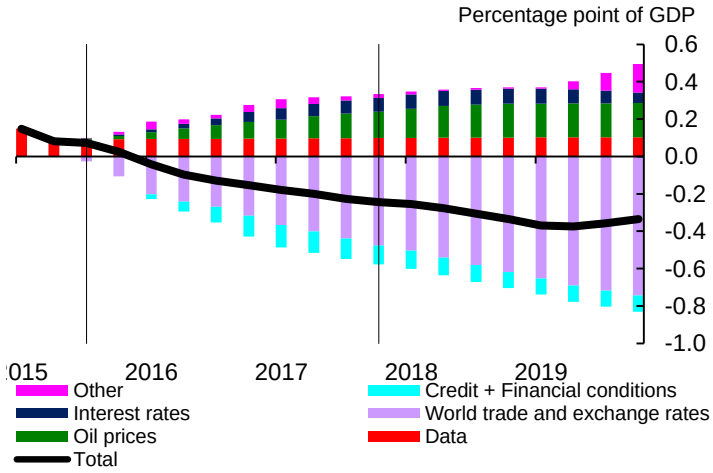


Chart 10: EA forecast drivers decomp



[6] Full details will be discussed in the forthcoming euro-area supply stocktake

Risks to the central projection

The key risks to the international forecast are summarised in Table 1. Given recent developments, we will focus on the risks to the emerging markets at the Key Issues 2.

Risks to emerging markets

There is a risk that growth in non-Chinese EMEs will not pick up as expected next year

A broad based EME slowing

Unlike China, where growth continues to decelerate throughout the forecast, growth is expected to pick up in non-Chinese EMEs in 2016. However, the latest downside surprise to EM growth outside of China points to further weakness in underlying growth, leading to a one percent downward revision in the *Benchmark* forecast relative to the August *IR* (and 4% relative to the Nov 2014 *IR*). And there is a clear risk that this projection will once again prove over-optimistic. In the past, a combination of larger-than-expected cyclical downturns, particularly in Russia and Brazil, tightening credit conditions driven by capital outflows, and downward revisions to potential growth has been responsible for the negative news to the forecast.

An alternative central projection where EME weakness is more persistent and potential output is weaker implies GDP is 3% lower over the forecast

A credible alternative projection for non-China EMEs might assume an even more pessimistic view of potential output, and a slower recovery from the weakness in Brazil and Russia. In the November Benchmark forecast, after the impact of the recessions in Russia and Brazil wash out, growth rises to around 4.5% in non-China EMEs. But it is plausible that growth will recover more slowly and is unlikely to exceed recent levels given it has been on a downward trajectory since 2010. To assess the impact on the UK of a more pessimistic central projection for non-Chinese EMEs, we construct a scenario in which GDP is 3% lower by the end of the forecast, with growth stabilising at around its recent (post-2012) average of 3.7% oya (**Chart 11**). This recent average is also consistent with the long-run average growth rate of EMEs before China's accession to the WTO (1980-2001), a period which excludes the impact of a surge in world trade and Chinese growth, which had large positive spillovers to other EMEs. If post-2001 EME growth was temporarily boosted by these one-off factors, growth beforehand may be a more reliable indicator of EME prospects.

Chart 11: Alternative non-China EME projection

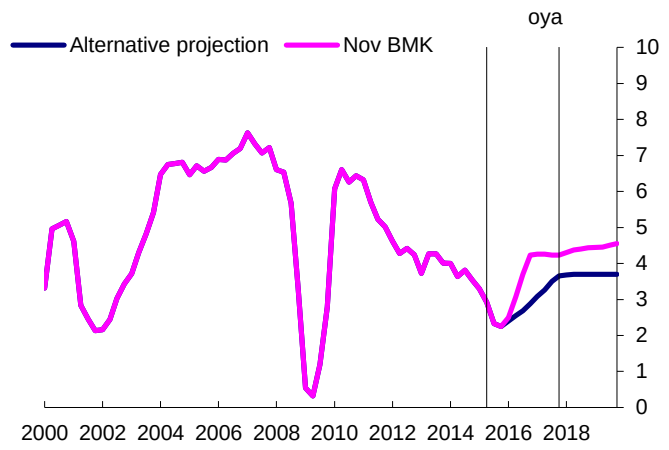
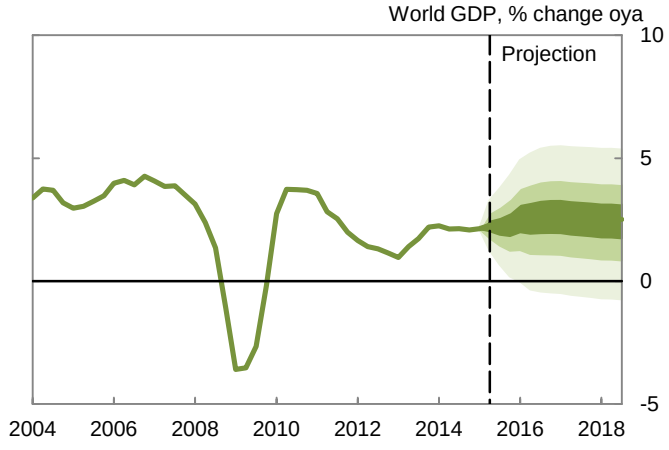


Chart 12: UK-weighted world GDP fan chart



That could reduce UK GDP by around 0.6%...

We estimate that UK GDP would be around 0.6% lower over the forecast period through trade channels alone if this alternative central projection for non-China EMEs were to be adopted. This is in addition to the -0.3% news to the UK forecast caused by downside revisions to EME and Asian forecasts in the November *Benchmark* forecast. Together, these downward revisions would completely offset all of the upside news to the UK forecast since August from asset prices, which amount to +0.9% from lower interest rates, exchange rate depreciation and lower oil prices. **This alternative projection may be appropriate if the MPC judges that movements in asset prices since**

August signals a weaker outlook for the world economy.

…although non-trade spillovers may be larger than model-based estimates

It is also easy to imagine larger non-trade spillovers from slowing EME growth than through trade channels alone. GVAR estimates, which should capture non-trade channels as well as trade linkages, are broadly in line with our standard treatment through trade, suggesting small financial linkages. However, financial linkages between the UK and EMEs are now much larger than over the period in which the GVAR was estimated (1980-2012). UK banks' exposures to EMEs viewed as having little policy space available currently amount to over $500bn (240% CET1), while non-bank exposures amount to an additional $300bn.[7] Losses resulting from these exposures could have spillovers to the UK though credit conditions, financial market volatility and confidence channels.

Risks to Chinese growth remain to the downside and continue to imply a -0.1pp skew for the UK GDP fan chart

Risks to Chinese growth

The probability of Chinese growth slowing more sharply than anticipated appear to have increased since last round given developments in financial markets. We have not pencilled in any confidence effects from the recent volatility. But it is possible that this channel could lead to weaker-than-forecast investment, having a moderate impact on GDP. And the risk of a hard landing, where growth temporarily falls to around 2% (in line with the 2015 UK stress test scenario) remains a downside risk (**Chart 13**). As discussed in the August Key Issues 1 meeting, our view is that the downside risks to Chinese growth on their own could be sufficient to imply a -0.1pp downside skew to the UK GDP fan charts (**Table 3**).[8]

Chart 13: Alternative China scenarios

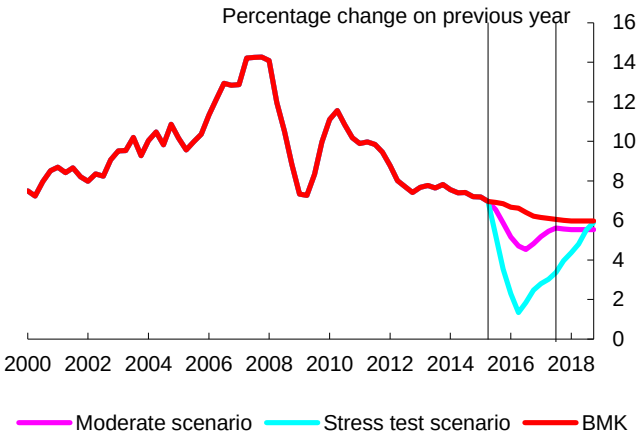


Table 3: Impact of China Scenarios on UK GDP fan chart

	Illustrative impact on Chinese GDP (by year 3)	Impact on UK GDP (by year 3)	Probability
Downside			
- between mode and moderate	0 to -3%	0 to -0.3%	60%
- between moderate and severe	-3% to -9%	-0.3% to -1.7%	15%
- worse than severe	worse than '-9%	worse than -1.7%	10%
Upside	0 to +3%	0 to +0.3%	15%
Implied UK GDP fan chart skew			-0.1pp

Risks to advanced economies

The balance of risks to advanced economies continues to be skewed to the downside, but has not changed materially since August.

The balance of risks to the euro area remain to the downside, largely reflecting continued risk of Grexit

Risks to the euro-area forecast

The euro-area forecast assumes that a programme for Greece remains on track. But the possibility of a Greek exit remains a significant downside risk. Aside from Greece, the risks to the euro area are more balanced. On the downside, the risk of the euro area entering a prolonged period of very low inflation looks to have increased slightly given the recent weakness in inflation outturns and measures of inflation expectations. But set against that, we judge that the probability of the ECB expanding their asset purchase programme has risen, given the weaker inflationary outlook. So overall, there does not appear to have been any significant change in the balance of risks to the euro area, which remain tilted to the downside on account of Greece.

Risks to the US forecast

US risks appear more balanced than elsewhere

In the US, the central projection assumes that productivity rises gradually, containing inflationary pressures as above trend growth continues. But there is a risk that productivity does not pick up as expected, causing the Fed to tighten rates more rapidly than implied by the yield curve. The downwards revisions to US productivity growth since 2012 may make us a little more concerned about this risk. That said, the particularly weak productivity growth outturns at the start of the year were actually revised up somewhat. And there does not appear to have been any significant rise in inflationary pressures, with wage data remaining weak. In addition, the recent softening in employment growth may suggest further downside risks to activity in the near term. On the upside, the consumption data remains robust, so although the risks to the US forecast are a little more to the downside since last time, they remain broadly balanced overall.

Global risks have moved further to the downside

Summary of risks to activity

Bringing all of the above together, our view is that the risks to global growth are to the downside. And those downside risks appear to have increased somewhat, reflecting events in emerging markets. The risks to advanced economies appear little changed since August.

We have produced fan charts that illustrate the uncertainty around the UK-weighted world GDP forecasts (**Chart 12**). This fan charts is calibrated on past forecast errors, in a very similar way to the UK fan. The fan includes a -0.2pp downside skew, which is consistent with the -0.1pp downside skew that was applied in the UK-weighted world GDP fan chart and attributed to uncertainty about the global outlook. The fan chart implies that there is just over a 10% probability of world GDP growth turning negative in any year of the forecast. More information on the calibration of the fan charts and mapping between international and UK risks can be found here.[9]

Table 1: External forecast comparison

	Nov BMK		IMF		Consensus forecasts*	
	2015	2016	2015	2016	2015	2016
World (PPP-weighted)	3.0 (3.2)	3.3 (3.6)	3.1	3.6	3.1	3.6
US	2.5 (2.5)	2.4 (2.6)	2.6	2.8	2.5	2.6
Euro area	1.5 (1.4)	1.7 (1.8)	1.5	1.6	1.5	1.7
Japan	0.7 (1.1)	1.4 (1.7)	0.6	1.0	0.6	1.3
China	6.8 (6.7)	6.3 (6.3)	6.8	6.3	6.8	6.5
India	7.1 (7.5)	7.3 (7.4)	7.3	7.5	7.5	7.8
MENA	2.6 (2.7)	3.4 (3.7)	2.3	3.8	N/A	N/A
Latin Amerca and Carribean	-0.4 (0.6)	0.6 (1.5)	-0.3	0.8	-0.6	0.8
Sub-Saharan Africa	3.8 (4.4)	4.6 (5.0)	3.8	4.3	N/A	N/A

August *IR* in brackets.

Table 3: Key risk

Key: High | Medium | Low

Risk	Detail	Probability	Prob change since Aug	Horizon	Impact on UK economy
Downside risks					
Grexit with material contagion	Greece exits the euro area with material contagion to other periphery countries		↔	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	ECB announces an extension of its QE programme or existing measures 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%