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IDEA

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Global Macro Briefing

EMXC – the Next Driver of the Global Recovery

EM ex-China (EMXC) will be the key driver of the acceleration in global growth in 2017-18. We expect EMXC GDP growth to rise to 3.7%Y in 2017 and 4.3%Y in 2018 from 2.8%Y in 2016. In this note, we analyse the key drivers, including the policy measures that swing growth to our bull or bear case.

EMXC to lead the global recovery: While we expect a synchronous global recovery, EMs ex-China (EMXC) will be the largest contributor to the acceleration in global growth in 2017 and 2018 combined. This is the first time since the early 2000s that EMXC's global growth contribution would be driving the global recovery.

EMXC entering the productive growth phase of typical EM boom-bust cycles: After four years in the adjustment phase, a simultaneous rebound in both external and domestic demand is driving a recovery while macro-stability indicators continue to improve broadly across EM. We expect growth in EMXC to be moderately higher than consensus forecasts, at an average of 4.0%Y in 2017-18 (compared with the consensus estimate of 3.9%Y during the same period).

What are the key domestic policy anchors to achieving our bullish outlook? While most EMXCs have already made a significant correction to macro policies, driving a major improvement in their macro-stability indicators, they still need to stay on the path of gradual implementation of the three key policy reforms – fiscal consolidation, public infrastructure spending and management of financial stability risks. In our base case forecasts, we are building in gradual progress in the right direction in each of those policy areas, and we view the risks to the growth outlook as balanced.

What are the external risks to the outlook? Considering that EMs have just emerged from the adjustment phase, we think that the key risks to the growth outlook for EM will largely be external rather than domestic. These risks include US policy (pace of monetary policy tightening and protectionism) and China demand (policy tightening). On the positive side, if the DM investment cycle picks up at a faster pace than our current expectations, it will provide an additional boost to EM growth via the trade channel.

MORGAN STANLEY ASIA LIMITED

Chetan Ahya
ECONOMIST
Chetan.Ahya@morganstanley.com +852 2239-7812

MORGAN STANLEY & CO. INTERNATIONAL PLC

Elga Bartsch
ECONOMIST
Elga.Bartsch@morganstanley.com +44 20 7425-5434

Jonathan Ashworth
ECONOMIST
Jonathan.Ashworth@morganstanley.com +44 20 7425-1820

MORGAN STANLEY ASIA LIMITED

Nora Wassermann
ECONOMIST
Nora.Wassermann@morganstanley.com +852 2848-5614

Exhibit 1: Morgan Stanley forecasts at a glance

	2016E	2017E		2018E	
	MS	MS	Cons.	MS	Cons.
GLOBAL	**3.1**	**3.5**	**3.5**	**3.7**	**3.7**
G10	**1.6**	**1.8**	**1.9**	**1.7**	**1.9**
US	1.6	2.0	2.2	2.0	2.3
Euro Area	1.7	1.8	1.6	1.7	1.6
Japan	1.0	1.3	1.2	0.9	1.0
UK	1.8	1.8	1.7	1.1	1.3
EM	**4.2**	**4.7**	**4.7**	**5.0**	**4.9**
China	6.7	6.4	6.5	6.2	6.2
India	7.5	7.6	7.0	7.8	7.4
Brazil	-3.6	0.6	0.7	3.1	2.2
Russia	-0.2	1.2	1.2	1.6	1.6
MW Global*	**2.5**	**2.8**	**2.8**	**3.0**	**3.0**

Source: Morgan Stanley Research forecasts; Note that we raised our euro area GDP forecast by 0.4pp for 2017, which lifted the global aggregate from 3.4%Y to 3.5%Y. *Refers to global GDP weighted by long-term market exchange rates instead of PPP weights.

Key Macro Risk Events

FRIDAY, APR 21 - EUR PMI COMPOSITE (FLASH)

SUNDAY, APR 23 - FRENCH PRESIDENTIAL ELECTIONS, 1ST ROUND

MONDAY, APR 24 - IFO BUSINESS CLIMATE

THURSDAY, APR 27 - BOJ & ECB RATES DECISION, US DURABLE GOODS

FRIDAY, APR 28 - UK & US 1Q GDP, EUR CPI

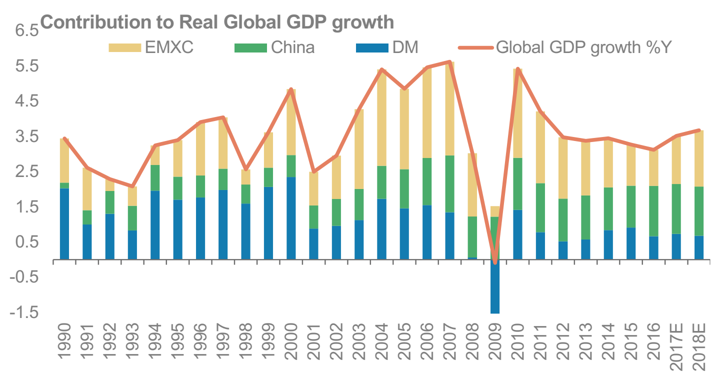
What's Inside

EMXC to be the key driver of the next leg of the global recovery

We have been arguing that 2017 will be the first year of synchronous recovery in EM and DM post-2010, as DMs are exiting the deleveraging phase and EMs are recovering from a period of macroeconomic adjustment. This synchronous recovery is creating a positive feedback loop, with the pick-up in DM aggregate demand supporting EM exports (the former still accounts for approximately 60% of total EM exports), and reduced underlying disinflationary concerns in EMs helping to reinforce reflation in DMs. We expect global GDP growth to return to or stay slightly above its long-term average of 3.6%Y. Our forecasts for global GDP growth are 3.5%Y in 2017 and 3.7%Y in 2018.

While we expect a broad-based global recovery, EMs ex-China (EMXC) will be the largest contributor to the acceleration in global growth in 2017 and 2018, which is the first time since the early 2000s. In PPP-weighted terms, EMXC now accounts for 40% of global GDP (in USD terms its weight is still somewhat smaller at 24%), more than twice the size of China (18% of global GDP; 15% in USD terms) and similar to DMs at 42%.

Exhibit 2: We expect EMXC's contribution to global growth to exceed China's over 2017-18



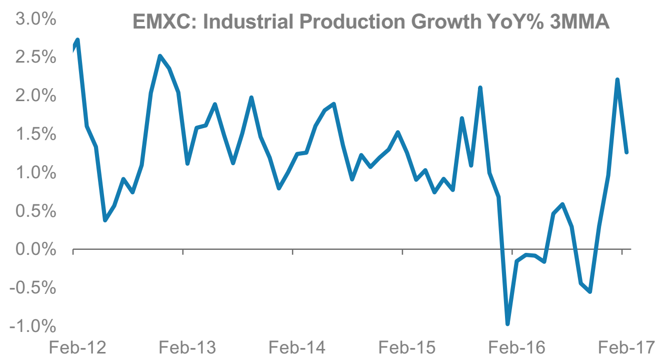
Source: IMF, Haver Analytics, Morgan Stanley Research estimates

The growth trend in EMXC decelerated steadily after a sharp post-global financial crisis bounce in 2010 of 6.4%Y to a low of 2.8%Y in 2016. We expect EMXC to achieve average GDP growth of 4.0%Y over 2017 and 2018, compared with the consensus forecast of 3.9%Y. Indeed, it will be the first meaningful acceleration in EMXC since 2010. At the same time, we anticipate a modest growth deceleration in China with improved debt management, as well as a slight pick-up in DM growth accompanied by a steady rise in core inflation.

EMXC entering productive growth phase of the typical EM boom-bust cycle

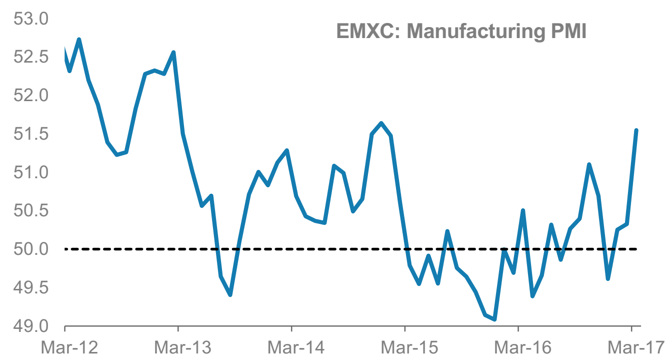
The most recent period characterised by an EMXC-driven improvement in global growth and improving macro stability was during the 2000s. 2017-18 will be the first time since then that a meaningful recovery in EMXC will lift global growth. Since our last global macro outlook in November 2016, EM high-frequency indicators such as exports, composite PMI, industrial production and capital imports have all moved up, signalling a revival in EM growth momentum.

Exhibit 3: Industrial production growth has remained relatively strong in EMXC



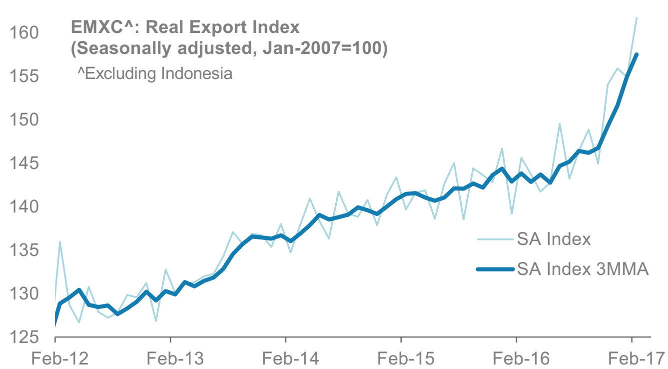
Source: Haver Analytics, Morgan Stanley Research

Exhibit 4: EMXC manufacturing PMIs has continued to rise at the margin



Source: Haver Analytics, Morgan Stanley Research

Exhibit 5: EMXC real export index has improved since late 2016

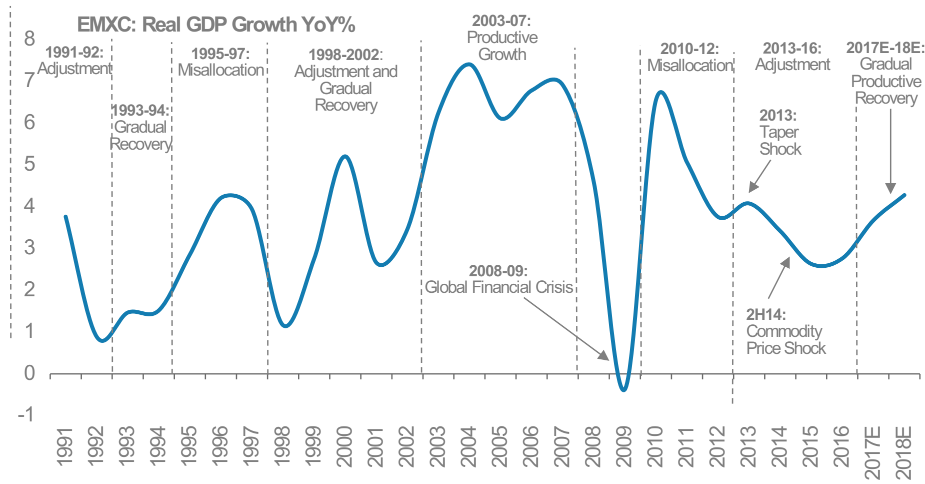


Source: Haver Analytics, Morgan Stanley Research

Exhibit 6: Trends in real export growth have also picked up considerably in recent months

Source: Haver Analytics, Morgan Stanley Research

Exhibit 7: The EM boom-bust cycle



Source: IMF, Haver Analytics, Morgan Stanley Research estimates; Note: Data from 2009 onwards include EMs under MS coverage only. Please see Exhibit 11 for more details on the EM growth phases delineated above. To understand our stylised framework for analyzing EM business cycles, see EM Economics Playbook: How Robust is the Improvement in the EM Cycle? September 16, 2016.

Key anchors to the EMXC growth acceleration story

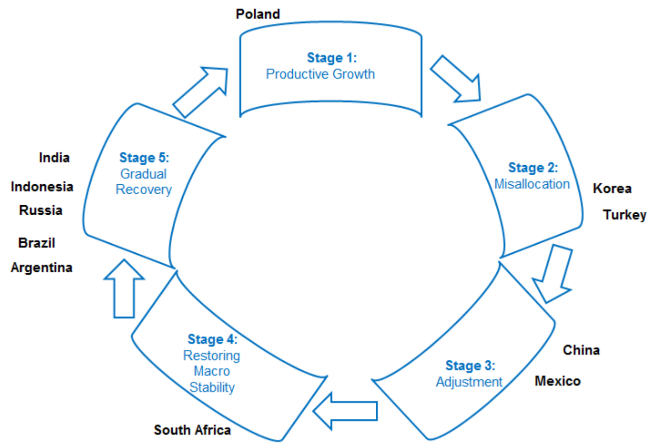
The recovery in EM ex-China is being driven by twin factors:

Improving external demand environment… Import volume growth in G3 picked up from -0.5%Y 3MMA in May 2016 to 4.7%Y in January, in line with our global trade leading indicator (MSGTLI), pointing to a better external environment for EMXC. A recovery in external demand tends to play a critical role in EM recovery, as EMs emerge from the adjustment phase with relatively low capacity utilisation in the manufacturing sector. Exports therefore provide the growth equity that helps to repair corporate sector and banking sector balance sheets. For commodity-producing EMs, a revival of external demand is also accompanied by improving terms of trade. The better external demand environment thus provides a direct uplift to aggregate demand, while also generating positive spillover effects on domestic demand, typically via a boost to capex.

...as well as domestic demand: The adjustment phase in EMs entailed aggressive tightening in monetary conditions and a reduction in real wages. However, as macro stability is improving, monetary conditions are beginning to normalise and real wage growth is rising along with productivity growth. The steady rise in consumption growth and exports should therefore support an increase in capacity utilisation and a turn in the investment cycle.

In our base case, while growth in EM commodity-importing countries will accelerate modestly, commodity-exporting EMs will accelerate more significantly after painful adjustment in 2015-16. We expect growth in commodity importers ex China to edge higher to 5.7%Y in 2017 and 6.0%Y in 2018, from 5.4%Y in 2016. Note that our above-consensus forecast for EMXC in 2017-18 combined is largely driven by our more positive view on India. We think the demonetisation impact on the Indian economy will fade quicker than expected and exports and investment growth will be more supportive. At the same time, growth in commodity exporters should see a more significant uptick to 1.6%Y in 2017 and 2.4%Y in 2018, from just 0.3%Y in 2016, with notably Russia, Brazil and Argentina escaping the recessionary conditions in the previous two years.

Exhibit 8: The stylised EM cycle: A number of EM have moved towards the recovery phase



Source: Morgan Stanley Research

Exhibit 9: EMXC: Risks to our growth forecasts

	MS 2017 Scenarios			Base vs
	Bear	Base	Bull	Consensus
India	7.1	**7.6**	8.1	+0.6ppt
Indonesia	4.6	**5.2**	5.8	-0.1ppt
Korea	1.6	**2.4**	3.2	-0.1ppt
Brazil	0	**0.6**	1.3	-0.1ppt
Mexico	1.2	**1.5**	2	-0.1ppt
Argentina	1.5	**3.1**	4.5	+0.2ppt
Colombia	1.2	**1.9**	2.6	-0.4ppt
Russia	0.6	**1.2**	2.1	in line
Turkey	0.5	**2.3**	3.9	-0.2ppt
South Africa	0.4	**1.4**	2.3	+0.3ppt
Poland	2.5	**3.1**	4.5	-0.2ppt
EMXC*	3.3	**4.0**	4.7	+0.2ppt
EM Aggregate	4.1	**4.7**	5.3	in line

Source: Morgan Stanley Research; *Including only the EMXC listed in this table.

What are the risks to our bullish outlook?

External factors – US policy, China demand, DM investment cycle

Considering that EMs have just emerged from the adjustment phase, we think that the key risks to the growth outlook for EM will largely be external rather than domestic. Over the next 6-12 months, the recovery in external demand more broadly and improvement in the terms of trade for EM commodity exporters specifically will be important drivers of the EMXC outlook. However, with output gaps narrowing in DMs, particularly in the US, we see the risk of central banks having to take up tightening in monetary policy at a much faster pace than what is currently priced in by financial markets. In the US, we are also watching risks of the administration potentially taking up protectionist policies. Moreover, a sharper-than-expected slowdown in China and/or lower commodity prices would weigh on growth in EMs, and particularly commodity exporters.

On the other hand, we also see upside risks to EM and global growth, stemming from a pick-up in DM investment growth which would help to lift productivity growth and therefore prolong the business cycle in DMs.

Domestic policies to gain importance as recovery progresses

Our growth expectations for major EMs ex China hinge not only on our assumptions for the external environment, but more importantly also on domestic policy actions.

As EM growth is being lifted by stronger DM growth and rising exports, capacity utilisation will rise and disinflationary pressures will recede, in our view. As output gaps in EM start narrowing, domestic policies will play an increasingly important role in avoiding a renewed deterioration in macro stability. In particular, through focusing on maintaining macro stability, EM policy-makers play a crucial part in ensuring that EM growth is accompanied by a rise in (private) investment growth and productivity, and thus avoiding a premature end to the growth cycle. Maintaining macro stability will be particularly important against a backdrop of more hawkish/less dovish DM central banks and tightening of global financial conditions.

Three key areas of domestic policy action that determine our EM growth outlook

While most EMXCs have already made a significant correction in macro policies (especially lifting of real interest rates and cutting of real wages), driving a major improvement in their macro-stability indicators, they still need to stay on the path of gradual implementation of the three key policy reforms – fiscal consolidation, public infrastructure spending and management of financial stability risks. These three policy reforms will influence the outcomes penciled into our bull, base and bear cases for the major EMXC (based on 11 major economies accounting for more than 75% of GDP in the region):

Fiscal policy reform

For the major EMXC, our country economists identify fiscal policy reform as the most common issue, given that progress in this area has been incomplete for most emerging market economies. This view is also shared by the IMF country experts. In their recent survey of 188 IMF Mission Chiefs, 90% of respondents found that structural fiscal reforms were important for macro performance. Fiscal deficits across major EMs remain somewhat high as tax revenue growth has been constrained by the weak growth environment. In addition, amid efforts to consolidate fiscal deficits, there is also a need to direct fiscal expenditure away from unproductive areas such as subsidies and direct transfers to households towards boosting capex. While we expect a continued effort by policy-makers in the right direction, we do acknowledge risks from potential political events.

- **India** has already embarked on gradual fiscal consolidation in order to maintain the moderation in inflation. In the annual central government budget announced in February 2017, the central government aims to cut the fiscal deficit to 3.2% of GDP for the fiscal year ending March 2018, from 3.5% in fiscal year 2017. Moreover, the central government acknowledged the recommendations of the committee appointed to review the Fiscal Responsibility and Budget Management Act. That committee has recommended that the government should target reduction of national level public debt in a systematic manner.
- In **Brazil,** our expectations for a continued decline in inflation and further monetary policy easing mainly hinge on the assumption that crucial parts of the fiscal reform (i.e., pension reform) will be passed in Congress this year. Pension reform is critical

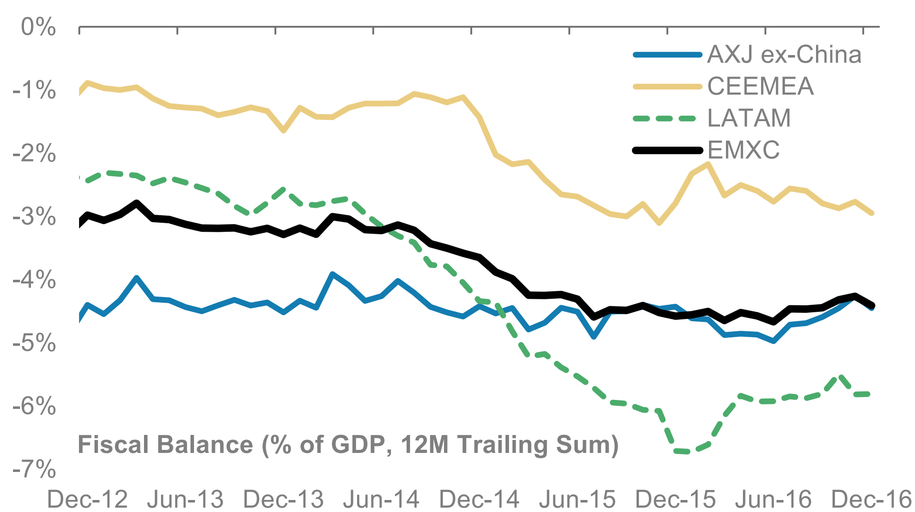
for the government to cut the fiscal deficit successfully from the relatively high levels of 9% of GDP. If the government fails to execute this reform, it will revive concerns about inflation, constrain the central bank from easing further and slow the economic recovery.

- In **Argentina,** fiscal consolidation remains in focus as well, given elevated inflation and the necessity to re-establish policy credibility following its recent return to international capital markets. We are watching the upcoming mid-term elections as the key risk factor to our base case assumption of gradual progress in fiscal policy reform.

- **South Africa** has been moving in the right direction by aiming for continued reduction in the fiscal deficit. The latest government budget has laid down the path to reduce the fiscal deficit further to 3.4% of GDP in 2016/17 and 2.6% in 2019/20 from 3.7% in 2015/16. However, recent political uncertainties have increased the risk of jeopardising this fiscal consolidation effort.

- **Russia** has continued to manage a tight fiscal policy through expenditure management. Following the impeccable fiscal performance from last year, with the federal budget deficit at only 3.4% of GDP, the plan for further fiscal tightening in 2017 has not changed despite higher oil prices so far. We are watching the risk of fiscal slippage ahead of the March 2018 presidential elections. Our current base case is that there will be a subdued pre-election stimulus, and the government will stay on course to implement the transitional fiscal rule in the next three years and full fiscal rule from 2020 (see Russia Economics and Strategy: Moscow Trip Takeaways - Time to Think Ahead, April 5, 2017).

Exhibit 10: Limited progress made in fiscal consolidation within EMXC



Source: CEIC, Haver Analytics, Morgan Stanley Research

Public infrastructure investment

In major EMs with lower per capita income levels (<US$5,000), supportive demographic trends and rising needs from rapid urbanisation have meant that infrastructure shortcomings are in focus. However, public infrastructure spending programmes have been hit by the slowdown in growth and tax revenues in the last 3-4 years. As tax revenues pick up with the cyclical recovery in growth and with a renewed focus on productive fiscal spending, we expect infrastructure spending to pick up pace over the forecast horizon.

For **India,** our base case assumes continued implementation of infrastructure projects. In **Indonesia,** we expect infrastructure to take up a larger share of overall government spending. Similar to India, the pace of infrastructure project implementation in Indonesia impacts the risk skew for 2017. In **Colombia,** we expect some delay in public infrastructure spending on the back of construction-related corruption issues. These potential delays combined with uncertainty ahead of presidential elections have made us less optimistic about the near-term investment outlook and growth in general, although we expect some recovery in 2018.

Management of financial stability risks

A slowdown in growth during the macro adjustment period has adversely impacted the corporate and banking sector balance sheets in some emerging market economies. As the demand for investment improves, healthy banking sector balance sheets will be important to support funding.

In **India** and **Poland,** governments are focusing on the resolution of bad debt on banks' balance sheets. In **India,** the government has to ensure a smooth and relatively swift pace of resolution of non-performing loans in the banking system and also needs to ensure adequate recapitalisation of state-owned banks (SOE), which account for about 70% of loans in the banking system. We see some downside risks if the progress on resolution of non-performing bank loans and recapitalisation of SOE banks remains slow. In **Poland,** a smooth implementation of the FX loan conversion programme would pose some upside risk. Importantly, the authorities have moved away from the most market-unfriendly unilateral redenomination of FX loans (forcing banks to take FX losses) and seem likely to opt for a voluntary redenomination, to be achieved through negotiations between banks and borrowers. In **Brazil,** we expect subsidised lending to be reduced further this year, which should help to curb implicit fiscal costs. We also expect further privatisation efforts, including toll roads and railways, as well as asset sales from state-owned companies. There will be upside to our growth scenario stemming from privatisation, especially if hydro power plants are added to this year's programme.

For a summary of country-specific domestic policy anchors, see Exhibit 11.

We gratefully acknowledge the contribution of Shraddha Raman to this report.

Exhibit 11: Domestic policy anchors by country

	Domestic Policy Action	Bear	Base	Bull	2017 Bull-Bear Skew	Next Milestone	Country Economist
India	**Fiscal policy:** Fiscal consolidation progress **Infrastructure:** Pace of public investment implementation **Financial sector:** Resolution of NPLs **Other:** Efforts to attract private investment	• Government policies turn populist, leading to a deterioration in productivity • Slow pace of NPL resolution, banking system remains a drag on growth	• Government stays on path of fiscal consolidation which will support improvement in productivity • Public infrastructure investment supports domestic demand recovery • NPLs resolution progresses at gradual pace	• Infrastructure project implementation accelerates • Pace of NPL resolution accelerates • Efforts to attract private investment bear fruit, bringing about recovery in private capex	Balanced	Government announcement on NPL resolution, probably in next 3 months	Derrick Kam
Indonesia	**Fiscal policy:** Rationalising subsidy expenditure; proposed revision to several tax laws; crackdown on tax avoidance & evasion; improving tax compliance; expanding the tax base **Infrastructure:** Pace of public infrastructure spending	• The revenue drop-off as tax amnesty programme expires is larger than expected, posing constraints to funding ability • Public infrastructure spending come in slower than expected	• No material widening in fiscal deficit given the 3% deficit ceiling • A more efficient government expenditure mix with a greater share spent on infrastructure which should generate better multipliers and support a mild recovery	• Broad fiscal reforms gather speed and provide a material lift to government revenue • Public infrastructure spending accelerates	Balanced	Mid-year 2017 budget revision	Deyi Tan
Korea	**Fiscal policy:** Introduction of tax hikes & redistributive policies under new administration **Other:** Progress on chaebol reforms, SME support, labour market reforms, minimum wage policies	Lack of political consensus results in policy stalemate, halt to progress on structural reforms and weaker sentiments	A conservative fiscal policy stance is adopted with no material widening in fiscal deficit	The newly elected president finds a coalition quickly which improves sentiment. Watered down fiscal policies such as tax hikes and redistributive policies are implemented, providing near-term support to the economy.	Balanced	Presidential elections, probably on May 9	Deyi Tan
Brazil	**Fiscal policy:** Pension reform **Financial sector:** Privatisation of state-owned assets	Pension reform not approved which would weigh on fiscal outlook and limit room for monetary policy easing	• Pension reform to be approved by mid-year with some changes • Privatisation is making further progress	• Approval of pension reform which allows BCB to cut rates even faster • Large privatisation of state-owned assets	Balanced	Lower House approval of pension reform (probably in May)	Arthur Carvalho
Mexico	**Other:** Revamp of NAFTA agreement	• Mexico fails to strike a deal with US; US takes up protectionist policies • Protectionism plays into the hand of populist candidate, bettering his chances in 2018 presidential contest	Mexico and US strike a deal on NAFTA; US does not take up any aggressive policy action	Strengthened framework for NAFTA, which helps boost trade and investment, supports currency and provides central bank with more room for manouvering	Upside	• Proposal for NAFTA revamp • Mexico state election on June 4	Luis Arcentales
Argentina	**Fiscal policy:** Government's ability to make progress on fiscal consolidation **Infrastructure:** Deployment of existing infrastructure investment plan **Financial sector:** Deepening capital markets	Administration is losing support which negatively affects ability to make further reform progress	• Current government does not gain majority in congressional elections, but still makes some progress on fiscal reform • We expect roughly half of public infrastructure plan to be implemented over next 5 years given red tape • Net financing from fixed income capital markets of 3.1% of GDP p.a. on average	• Administration's popularity increases as macro situation improves, providing tailwinds for further reform progress • Implementation of public infrastructure plan exceeds expectations • Faster increase in capital market deepening via access to international capital markets and local debt markets	Balanced	Mid-term congressional elections in October	Fernando Sedano
Colombia	**Fiscal policy:** Measures to achieve long-term targets **Infrastructure:** Implementation of infrastructure program	• Additional fiscal reform measures may be needed to reach fiscal targets beyond 2018 • Infrastructure programme is mostly halted on the back of corruption issues	• Fiscal targets for 2017 and 2018 should be achievable, but less so beyond 2018, given optimistic assumptions on tax receipts • Infrastructure programme to face delays on the back of corruption issues	Corruption issues do not affect infrastructure programme this year	Balanced	Presidential Elections, May 2018	Fernando Sedano
Russia	**Fiscal policy:** Size and timing of pre-election fiscal spending **Other:** Communication and timing of implementation of Comprehensive Government Action Plan	The government fails to communicate its post-election economic programme, which keeps uncertainty high and investment depressed	• Subdued pre-election stimulus coming late in 2017 in the form of targeted public sector wages increases in line with the 2012 presidential decree • Moderately tight fiscal policy • "Transitional" fiscal rule stays intact	• Pro-reform government agenda helps boost private investment. • The Comprehensive Government Action Plan, which includes measures such as infrastructure investments and labour market reforms, boosts sentiment in expectation of stronger growth over 2018-20.	Upside		Alina Slyusarchuk
Turkey	**Fiscal policy:** Additional counter-cyclical fiscal policies **Financial sector:** Further macroprudential easing, expansion in non-retail lending through credit guarantee facility	• Non-credible (monetary and fiscal) policy response generating further TRY weakness and increasing concerns on the asset quality of the banking system • Early elections within 2017, denting consumer confidence further	• Credible policies with monetary policy remaining tight until inflation back to single-digits in 4Q17 • Gradual expansion in fiscal policy (2.4% budget deficit to GDP in 2017) • No early elections within 2017	• More orthodox monetary policy rebuilding investor confidence and attracting foreign capital flows • Acceleration in structural reforms in areas such as the labour market, investment incentive scheme or education after the referendum	Balanced	Announcements on constitution changes, timing of the next elections, possible cabinet reshuffle and both monetary / fiscal policy changes	Ercan Erguzel
South Africa	**Fiscal policy:** Fiscal policy consolidation progress **Other:** Finalisation of Mining Charter, IPP programme, VISA regulations	Ongoing political uncertainty after replacement of the finance minister weighs on fiscal sustainability, reform progress and business sentiment. Ratings downgrade risk remerges	• Continued fiscal consolidation and restoration in confidence levels supports the macro adjustment process, providing a constructive backdrop for growth • Political stability is restored	• Settling political risks provides clarity on the outlook • A disciplined Finance Minister supports confidence levels • The SARB starts easing by November 2017	Balanced	• Motion of no confidence vote • ANC policy conference	Andrea Masia
Poland	**Infrastructure:** EU structural funds, 'Polish Investments' programme **Financial sector:** FX loan conversion into PLN	• EU funds absorption fails to rebound meaningfully from a low 2016 base • Government reverts to plans to force FX loan conversion after the summer, possibly at off-market rates	Gradual increase in EU funds absorption, some lingering uncertainty on the FX loan conversion process but no forced redenomination	• Fast acceleration in EU funds, accompanied by projects funded under the 'Polish Investments' initiative • Most FX loans are converted successfully this year and a big source of uncertainty is lifted	Upside	Post-summer recess - possible further steps on FX loan conversion	Pasquale Diana

Source: Morgan Stanley Research

Exhibit 12: The EM boom-bust cycle in details

	Macro Environment	Symptoms
1991-92: Adjustment	Political developments and volatility in commodity prices triggered adjustments in EMs.	• ICOR remained elevated • Stabilisation in current account balances
1993-94: Gradual Recovery	Structural reforms helped to restore macro stability in a number of EMs, supporting overall growth.	• Improvement in ICOR • Stabilisation in current account balances
1995-97: Misallocation	Excess investment and misallocation in non-tradable sectors, supported by foreign capital inflows.	• ICOR on the rise • Current account in deficit • Overvalued currencies
1998-2002: Adjustment and Gradual Recovery	Sluggish growth momentum, characterised by faster growth in domestic savings relative to investments	• Improvement in ICOR • Build-up of current account surplus
2003-07: Productive Growth	Strong demand growth in DM and rising commodity prices supported exports, providing spillovers to domestic demand.	• ICOR still declining despite rising investment • Continued expansion in current account surplus
2008-09: Global Financial Crisis	Sharp decline in external demand led to corresponding slowdown in consumption and investment.	• ICOR began to rise • Narrowing current account surplus
2010-12: Misallocation	Aggressive countercyclical policy actions, alongside strong capital inflows, drove a rapid expansion in domestic demand. China's sharp rise in investments also lifted growth in commodity exporters.	• Rising ICOR • Narrowing current account surplus • Sharp pick-up in real credit growth and domestic inflation • Appreciation in REER
2013-16: Adjustment	Growth stuck in lower channel as economies began adjustments following the taper tantrum and commodity price shock.	• ICOR remained elevated • Gradual improvement in current account balance • Domestic inflation normalising
2017E-18E: Gradual Productive Recovery	We expect growth to accelerate gradually as EMXC moves from adjustment to recovery. Better growth in DM should also provide a conducive environment for growth as external demand strengthens.	• ICOR begins to improve • Domestic inflation and current account balance stabilise

Source: Morgan Stanley Research

Key forecast profile

Exhibit 13: GDP growth, CPI inflation, monetary policy rates

	Quarterly														
	2016				2017				2018				2016E	2017E	2018E
Real GDP (%Q, SAAR)	**1Q**	**2Q**	**3Q**	**4QE**	**1QE**	**2QE**	**3QE**	**4QE**	**1QE**	**2QE**	**3QE**	**4QE**			
Global	**3.5**	**3.0**	**3.8**	**3.3**	**4.0**	**3.8**	**3.6**	**3.6**	**3.8**	**3.7**	**3.4**	**3.4**	**3.1**	**3.5**	**3.7**
G10	**1.5**	**1.5**	**2.4**	**2.1**	**1.8**	**2.6**	**1.9**	**1.8**	**1.7**	**1.6**	**1.6**	**1.5**	**1.6**	**1.8**	**1.7**
United States	0.8	1.4	3.5	2.1	1.5	3-3.5*	2.1	2.2	2.1	1.9	1.9	1.7	1.6	2.0	2.0
Euro Area	2.2	1.3	1.7	1.9	2.4	2.5*	1.8	1.6	1.7	1.7	1.7	1.7	1.7	1.8	1.7
Japan	1.9	2.2	1.2	1.2	0.9	1.6	1.8	0.8	0.8	0.5	0.5	0.9	1.0	1.3	0.9
UK	0.6	2.4	2.0	2.7	1.9*	1.6	1.2	1.2	1.2	1.2	0.8	0.0	1.8	1.8	1.1
EM (YoY)	**4.3**	**4.2**	**4.0**	**4.3**	**4.5**	**4.6**	**4.7**	**4.8**	**4.9**	**5.0**	**5.0**	**5.0**	**4.2**	**4.7**	**5.0**
China (YoY)	6.7	6.7	6.7	6.8	6.9	6.5	6.3	6.1	6.0	6.2	6.2	6.2	6.7	6.4	6.2
India (YoY)	8.6	7.2	7.4	7.0	7.4	7.6	7.6	7.9	7.8	7.8	7.9	7.9	7.5	7.6	7.8
Brazil (YoY)	-5.4	-3.6	-2.9	-2.5	-1.2	-0.6	1.1	2.8	3.3	3.3	3.2	2.9	-3.6	0.6	3.1
Russia (YoY)	-0.4	-0.5	-0.4	0.3	0.2	1.0	1.4	2.0	1.9	1.8	1.5	1.2	-0.2	1.2	1.6
Consumer Price Inflation (YoY)															
Global*	**2.7**	**2.5**	**2.4**	**2.6**	**2.7**	**2.9**	**3.0**	**3.0**	**2.9**	**2.9**	**2.8**	**2.8**	**2.5**	**2.9**	**2.8**
G10	**0.6**	**0.5**	**0.7**	**1.3**	**2.0**	**2.0**	**2.1**	**2.0**	**1.8**	**1.9**	**1.9**	**1.9**	**0.8**	**2.0**	**1.9**
United States	1.1	1.1	1.1	1.8	2.6	2.4	2.5	2.2	2.0	2.2	2.2	2.1	1.3	2.5	2.1
Euro Area	0.0	-0.1	0.3	0.7	1.8	1.5	1.7	1.7	1.3	1.5	1.4	1.5	0.2	1.7	1.4
Japan	0.0	-0.3	-0.5	0.3	0.5	0.7	1.2	1.4	1.5	1.7	1.8	1.9	-0.1	0.9	1.7
UK	0.3	0.4	0.7	1.2	2.1	2.8	2.9	3.0	2.9	2.7	2.5	2.1	0.7	2.7	2.6
EM*	**4.2**	**3.9**	**3.7**	**3.6**	**3.3**	**3.5**	**3.7**	**3.8**	**3.7**	**3.5**	**3.5**	**3.4**	**3.9**	**3.6**	**3.5**
China	2.1	2.1	1.7	2.2	1.4	2.4	2.5	2.6	2.5	2.2	2.1	2.1	2.0	2.3	2.2
India	5.3	5.7	5.2	3.7	3.6	3.4	4.3	5.2	5.1	4.7	4.6	4.9	5.0	4.1	4.8
Brazil	10.1	9.1	8.7	7.0	4.9	4.0	3.3	3.7	4.3	4.4	4.3	4.3	8.8	4.0	4.3
Russia	8.4	7.3	6.8	5.7	4.6	3.8	3.7	3.9	4.5	4.8	4.5	4.1	7.1	4.0	4.5
Monetary Policy Rate (% p.a.)															
Global	**3.3**	**3.2**	**3.2**	**3.2**	**3.3**	**3.2**	**3.2**	**3.2**	**3.2**	**3.3**	**3.3**	**3.4**	**3.2**	**3.2**	**3.4**
G10	**0.1**	**0.1**	**0.1**	**0.2**	**0.3**	**0.4**	**0.4**	**0.5**	**0.7**	**0.8**	**0.9**	**1.1**	**0.2**	**0.5**	**1.1**
United States	0.375	0.375	0.375	0.625	0.875	1.125	1.125	1.375	1.625	1.875	2.125	2.375	0.625	1.375	2.375
Euro Area	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.25	-0.25	-0.40	-0.40	-0.25
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.10	-0.10	-0.10	0.10
UK	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
EM	**5.7**	**5.6**	**5.6**	**5.6**	**5.5**	**5.4**	**5.2**	**5.2**	**5.2**	**5.1**	**5.1**	**5.1**	**5.6**	**5.2**	**5.1**
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
India	6.75	6.50	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.50	6.25	6.25	6.50
Brazil	14.25	14.25	14.25	13.75	12.25	10.25	9.00	8.50	8.50	8.50	8.50	8.50	13.75	8.50	8.50
Russia	11.00	10.50	10.00	10.00	9.75	9.25	8.75	8.25	8.25	8.00	7.50	7.00	10.00	8.25	7.00

Note: Global and regional aggregates for GDP growth are GDP-weighted averages, using PPPs. Japan CPI includes VAT; Japan policy rate is the interest rate on excess reserves; CPI numbers are period averages. Global* and EM* Consumer Price Inflation Aggregates exclude Venezuela and Argentina. *tracking estimate.
Source: IMF, Morgan Stanley Research forecasts

Key debates in global economics

Our core views on the global economy

The global recovery is likely to gain more momentum in 2017 on the back of faster US growth, stable DM growth and rebounding EM momentum. While growth becomes more balanced, material risks emanate from late-cycle fiscal stimulus, faster Fed rate hikes and a broad globalisation backlash.

Growth: DM motoring ahead steadily, EM picks up pace: On the back of stable DM and faster EM growth, global GDP will be pushing back towards its historical average and above its long-term potential in 2017. In DM, faster growth in the US will be the main driver, but we expect GDP growth in Japan and the euro area to accelerate as well. In EM, a rebound in commodity-exporting economies compensates for a gradual slowdown in China.

Inflation: Leaving lowflation, scoping inflation pressures: The reflation that started in 2015 but was interrupted by an RMB regime shift continues into 2017. DM inflation will move towards and in some cases above central bank targets. EM commodity exporters will leave adverse highflation behind, while disinflationary pressures in EM commodity importers will dissipate.

Policy: Tighter monetary policy will largely offset a fiscal policy boost: Fiscal policy will likely get more expansionary. In the US, late-cycle fiscal stimulus will bring faster Fed hikes – we see another two rate hikes this year and four more in 2018. The BoJ effectively leaves the MoF in control of its balance sheet and only raises its yield target in 2H17. The ECB has started to reduce its net asset purchases and will likely announce QE tapering in September (beginning in January).

Wider tails make for an intense macro debate: The macro outlook for 2017 is subject to a large degree of uncertainty, not least due to the change in the US government, the busy calendar of key political events in Europe and the start of the Brexit negotiations. The fatter tails of the distribution of possible macro outcomes will likely make for an interesting and intense macro debate over the next 12 months.

Country highlights

US: Sentiment has begun to reverse from multi-year highs as the reality that policy-making is not easy takes hold. After a rough start to the year we are looking for a sizeable rebound in 2Q growth that leaves our outlook for GDP intact. The Fed's outlook for growth and inflation also appears intact, and alongside a backdrop of easy financial conditions supports delivery of two additional hikes this year. We look for the next hike to come at its June meeting.

Euro area: Despite political risks, GDP growth is likely to remain solid and above potential. Headline inflation is past the peak, while core inflation will likely pick up only gradually. The ECB's policy remains supportive, but it has started to reduce its monthly purchases. We expect changes to the forward guidance in June and QE tapering to be announced in September and to start in January. We've placed the first depo rate hike in September 2018.

Japan: Growth in 2017-18 will likely be supported by fiscal policy and a global rebound. The fiscal package passed in October 2016 will be spent largely in 2017-18, and extra fiscal support is possible. The global shift to fiscal stimulus will aid Japan's efforts. Inflation will probably re-accelerate, as the yen weakens, oil stabilises and wages rise. Monetary policy should remain highly accommodative, but no new monetary support is likely, in our view. Structural reform policies are proceeding at a measured pace, and there are some signs of re-acceleration.

China: Stronger-than-expected activity growth amid better external demand has provided room for a faster pace of counter-cyclical tightening, with more hikes in interbank rates and tighter regulations on CDs/non-standard credit expected. We think activity growth is close to the peak, and would probably start to roll over in the coming quarters on a higher comparison base and the shift in policy. That said, the pace of slowdown will only be modest due to a synchronous global recovery, and our annual growth forecast of 6.4%Y is facing upside risks.

Brazil: Although the recovery remains sub-par, we expect the Brazilian economy to emerge from its two-and-a-half-year recession this year as inflation and interest rates fall materially. The combination of slightly higher real income growth and lower interest costs should help the consumer stabilise and lead to an inventory recovery cycle.

India: We maintain our constructive outlook on the growth recovery. Consumption is showing tentative signs of a bounce-back and should strengthen further as the impact from the currency replacement programme fades, while the external demand environment has continued to improve. Private capex will take off from 2018 and the economy will be firing on all cylinders then.

Russia: We see growth at 1.2%Y in 2017 and 1.6%Y in 2018, though the recent recovery in oil prices poses upside risks to our forecast. Prudent fiscal policy and a deflationary contribution from FX pass-through move our CPI forecast down to average 4.0%Y in 2017. Still, given the new FX intervention policy, we expect the first rate cut in June, with rates falling to 8.25% by end-2017.

For our global forecasts, see 2017 Global Macro Outlook: Faster Reflation, Fatter Tails, November 27, 2016.

What's new in the global economy

In the US, data are mixed, with softness in the establishment survey payroll result and a very strong gain in the household survey's measure of employment that dropped the unemployment rate (4.5%) to a new cycle low, below the Fed's estimate of full employment. The labour market improvement should not leave much doubt about a June Fed rate hike, in our view.

In the euro area, we upgraded our GDP forecast by 40bp to 1.8%Y this year, and 10bp to 1.7%Y next year. This means that the output gap will close at a faster pace. Combined with a slow amelioration of inflation dynamics, this is consistent with a reduction in the size of the purchases, which we envisage ending in mid-2018 or so. We think that the ECB is unlikely to hike while tapering is ongoing. But it seems to us that its projections and recent speeches are such that we'll see the first depo rate increase, by 10-15bp to -0.25% maximum, by September 2018.

In China, March headline PPI softened on a base effect and CPI remained subdued on weak food prices. The breakdown shows that non-commodity PPI and core CPI inflation continued to gain strength, indicating the downstream sector's capability to pass higher commodity prices onto consumers. We believe that PPI YoY has peaked but a deep deflation is unlikely on better industrial capacity utilisation, and CPI will pick up gradually while hovering in the PBOC's comfort zone.

Key research highlights

Ellen Zentner

US Economics & Strategy: Balance Sheet Reduction: Keep it Simple

The minutes from the March FOMC meeting revealed a preference among participants for keeping balance sheet reduction simple and easy to communicate... read more

Daniele Antonucci

European Economics & Rates Strategy: The ECB and the Inflation Path

The underlying pace of inflation is likely to get better, but to stay weak for an extra year. This only requires a small policy recalibration. We expect a final round of QE in 2018, combined with tapering. read more

Jacob Nell

UK Economics & Strategy: The Brexit Election

A Conservative victory on June 8 could herald looser fiscal and tighter monetary policy, virtually rule out the UK staying in the single market and reduce the risk of a disorderly Brexit. read more

Ercan Erguzel

'Yes' Wins the Referendum; What's Next?

The referendum mainly to give executive powers to the president resulted in a narrow win for 'yes'. We discuss six developments to focus on in the near term. read more

Global risk calendar

Date	Time (Ldn)	Ccy	Event	Ref. Period	MS forecast	Market	Previous
20-Apr	9:00	TWD	Export Orders (YoY)	Mar		8.8%	22.0%
20-Apr	15:00	USD	Leading Index	Mar	0.2%	0.2%	0.6%
21-Apr	**9:00**	**EUR**	**PMI Composite**	**Apr P**	**56.0**	**56.4**	**56.4**
21-Apr	9:30	GBP	Retail Sales (MoM)	Mar	0.3%	0.0%	1.3%
21-Apr	15:00	USD	Existing Home Sales	Mar	5.75m	5.55m	5.48m
23-Apr		**EUR**	**French Pres. Elections, 1st round**				
24-Apr	**9:00**	**EUR**	**IFO Business Climate**	**Apr**			**112.3**
25-Apr	13:00	HUF	NBH Rates Decision		0.9%	0.9%	0.9%
25-Apr	15:00	USD	New Home Sales	Mar		595k	592k
25-Apr	15:00	USD	New Home Sales (MoM)	Mar		0.5%	6.1%
25-Apr	15:00	USD	Consumer Confidence Index	Apr		124.3	125.6
26-Apr	12:00	TRY	CBT Rates Decision		8.00%		8.00%
27-Apr	**N/A**	**JPY**	**BoJ Rates Decision**		**-0.10%**		**-0.10%**
27-Apr	8:30	SEK	Riksbank Rates Decision		-0.50%		-0.50%
27-Apr	**12:45**	**EUR**	**ECB Rates Decision**		**0.00%**		**0.00%**
27-Apr	12:45	EUR	ECB Deposit Facility Rate		-0.40%		-0.40%
27-Apr	13:00	EUR	German CPI (YoY)	Apr P		1.6%	1.6%
27-Apr	**13:30**	**USD**	**Durable Goods Orders**	**Mar P**		**1.0%**	**1.8%**
04/27-05/03	N/A	EUR	German Retail Sales (MoM)	Mar			1.8%
28-Apr	0:30	JPY	Unemployment rate	Mar			2.8%
28-Apr	0:30	JPY	CPI (YoY)	Mar			0.3%
28-Apr	0:50	JPY	Industrial Production (MoM)	Mar P			2.0%
28-Apr	6:30	EUR	French GDP (QoQ)	1Q A			0.4%
28-Apr	9:00	EUR	M3 (YoY)	Mar			4.7%
28-Apr	**9:30**	**GBP**	**GDP (QoQ)**	**1Q A**			**0.7%**
28-Apr	10:00	EUR	CPI Estimate (YoY)	Apr			1.5%
28-Apr	11:30	RUB	CBR Rates Decision		9.50%		9.75%
28-Apr	13:30	USD	Employment Cost Index (QoQ)	1Q		0.6%	0.5%
28-Apr	**13:30**	**USD**	**GDP (QoQ)**	**1Q A**		**1.3%**	**2.1%**
28-Apr	14:00	COP	BDRC Rates Decision		7.25%	6.75%	7.00%
28-Apr	15:00	USD	Univ. of Michigan Confidence	Apr F		96.5	96.9
30-Apr	**9:00**	**CNY**	**NBS manufacturing PMI**	**Apr**		**51.6**	**51.8**

Source: Bloomberg, MS FX Strategy Research. N/A Denotes timing approximate or not confirmed / All times and dates are Ldn time and correct as of the date of publication / For a full list of economic events, see the calendar on the Morgan Stanley Matrix Platform.

Global economic dashboard

US

1. US Economics & Strategy: Balance Sheet Reduction: Keep it Simple

2. US Economics: Post-Election Jobs: Think Small

3. US Economics: Business Conditions: Back to Pre-Election Levels

Europe

1. European Economics & Rates Strategy: The ECB and the Inflation Path

2. France Economics & Strategy Brief: Elections: What's in the Price?

3. UK Economics & Strategy: The Brexit Election

Japan

1. Japan Strategy & Economic Insights: Macro and Micro Implications of Wage Reflation in Japan

2. Japan Economics: Can Japan Achieve 2% Long Run Real Growth?

3. Japan Economics: Report Card on Work Style Reform: D

Asia Pacific

1. South Korea Strategy & Economics: Presidential Elections: Trading Places

2. Singapore Economics & Property: Property Prices Inflecting and On Track to Double by 2030

3. China Economics: Strong 1Q Growth Provides Room for Further Counter-cyclical Tightening

CEEMEA

1. Economics and Strategy: Czech-out Time

2. Turkey: 'Yes' Wins the Referendum; What's Next?

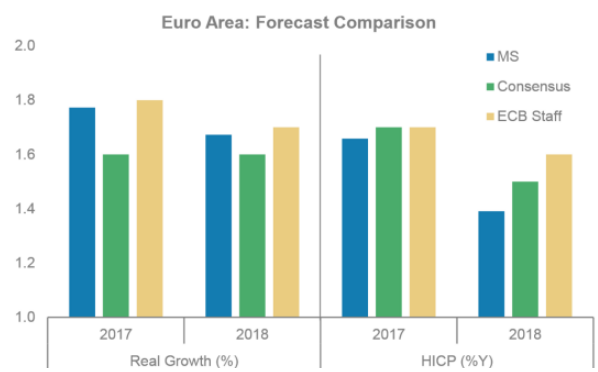
3. Russia Economics & Strategy: Moscow Trip Takeaways – Time to Think Ahead

Latin America

1. Brazil Economics & Strategy: Lower Rates, Recovering Growth, Higher Returns

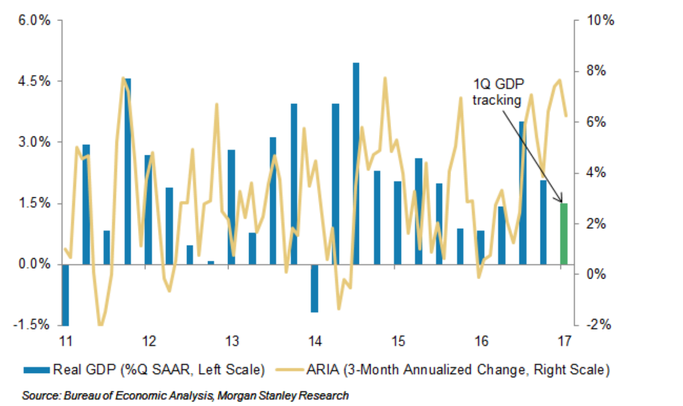
2. Latin America: On (a Slower) Track

Exhibit 14: Euro area: We're above consensus on growth, below on inflation



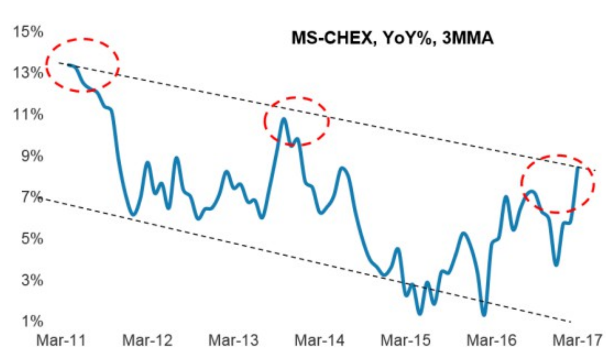
Source:
Source: ECB Mar/17 Staff Projections, Bloomberg, Morgan Stanley Research forecasts

Exhibit 15: US: ARIA corroborates the sizeable 2Q rebound in GDP we expect



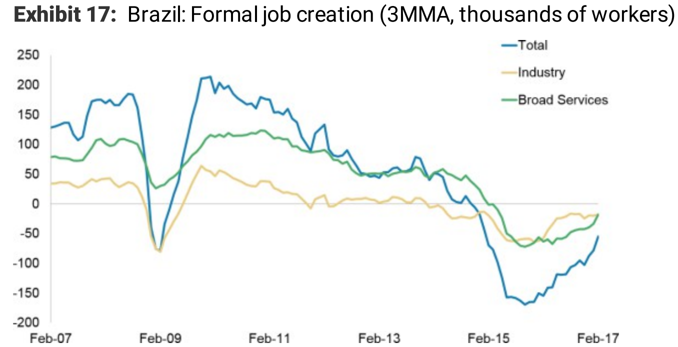
Source: BEA, Morgan Stanley Research

Exhibit 16: China: Cyclical growth accelerated in 1Q17



Source: CEIC, Morgan Stanley Research

Exhibit 17: Brazil: Formal job creation (3MMA, thousands of workers)



Source: CAGED, MTE, Morgan Stanley Research

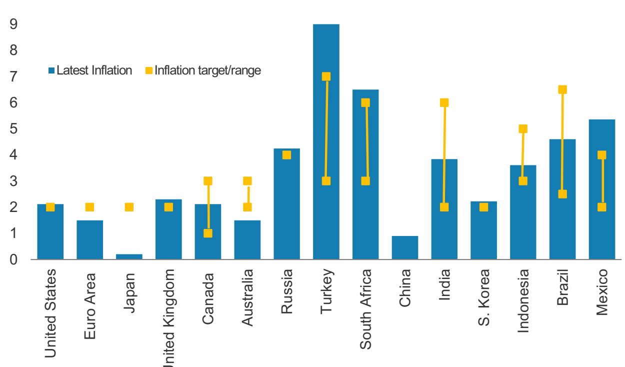
Inflation & central bank monitor

Exhibit 18: Inflation monitor and next policy moves by country

	Inflation target	Latest Month	12M MS Forecast	Next Rate Decision	Current Rate	Market Expects (bp)	MS Expects (bp)	Risks to our call
United States	2.0% PCE Price Index	2.1%	1.8%	03 May	0.875	0	0	-
Euro Area	< 2% HICP (u)	1.5%	1.5%	27 Apr	-0.40	0	0	-
Japan	2% CPI (u)	0.2%	1.5%	27 Apr	-0.10	-2	0	-
United Kingdom	2%	2.3%	3.0%	11 May	0.25	0	0	Risk of a rate rise if economy performs well
Canada	1-3%	2.1%	2.3%	24 May	0.50	0	0	-
Norway	2.5% CPI	2.4%	2.1%	04 May	0.50	-1	0	-
Sweden	2.0% CPI	1.3%	1.9%	27 Apr	-0.50	0	0	-
Australia	2-3% over the cycle	1.5%	2.3%	02 May	1.50	0	0	-
Russia	4% CPI, end-2017	4.3%	4.7%	28 Apr	9.75	-	-25	-
Poland	2.5% (+/- 1%) CPI	2.0%	2.2%	17 May	1.50	0	0	-
Czech Republic	2.0% (+/-1%) CPI	2.6%	2.1%	04 May	0.05	-	0	-
Hungary	3.0% CPI +/- 1%	2.7%	3.1%	25 Apr	0.90	0	0	-
Romania	2.5 (+/-1%) CPI	0.2%	2.9%	05 May	1.75	-	0	-
Turkey	5% (±2%)	8.5%	8.1%	26 Apr	8.00	-	0	-
Israel	1-3%	0.9%	1.0%	29 May	0.10	0	0	-
South Africa	3 - 6%	6.3%	5.3%	25 May	7.00	1	0	Inflation deceleration prompts early easing
Nigeria	6-9%	17.8%	9.9%	23 May	14.00	-	0	-
China	N/A	0.9%	2.5%	N/A	4.35	-	0	Upside risk - better global growth, faster Fed rate hikes
India	2-6%	3.8%	4.1%	07 Jun	6.25	-	0	-
Hong Kong	N/A	-0.1%	2.2%	04 May	1.25	-	0	Faster pace of rate hikes
S. Korea	2% CPI	2.2%	1.2%	25 May	1.25	0	0	Evenly Balanced
Taiwan	N/A	0.2%	1.2%	6/15 - 6/30	1.375	1	0	Evenly Balanced
Indonesia	4% +/- 1.0%	3.6%	5.0%	20 Apr	4.75	-	0	Evenly balanced
Malaysia	N/A	4.5%	3.1%	12 May	3.00	0	0	Evenly balanced
Thailand	2.5% +/- 1.5% CPI	0.8%	2.5%	24 May	1.50	-2	0	Evenly balanced
Philippines	3% +/-1% CPI	3.4%	3.0%	11 May	3.00	-	0	Evenly balanced
Brazil	4.5% +/-2.0% IPCA	4.6%	4.4%	31 May	11.25	-106	-100	Weaker than expected economic activity
Mexico	3% +/-1% CPI	5.4%	3.7%	18 May	6.50	10	25	-
Argentina	12-17% in 2017	32%	16.7%	NA	26.3	-	-	-
Chile	3% +/-1% CPI	2.7%	2.8%	18 May	2.75	-14	-25	-
Peru	2% +/-1% CPI	4.0%	2.6%	11 May	4.25	-	0	-
Colombia	3% +/-1% CPI	4.7%	3.2%	28 Apr	7.00	-9	-25	-

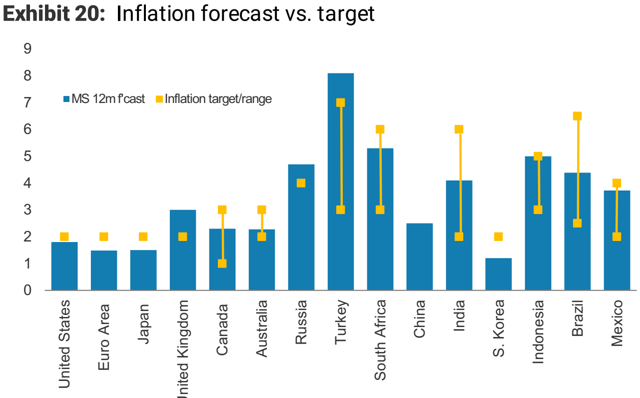
(u) = unofficial
Notes: Inflation numbers in red indicate values above target, green below; MS expectations in red (green) indicate our rate forecasts are above (below) market expectations. Japan policy rate is the interest rate on excess reserves.
Source: National central banks, Morgan Stanley Research forecast

Exhibit 19: Current inflation vs. target



Source: National data, Morgan Stanley Research

Exhibit 20: Inflation forecast vs. target



Source: National data, Morgan Stanley Research estimates

Monetary policy rate forecasts

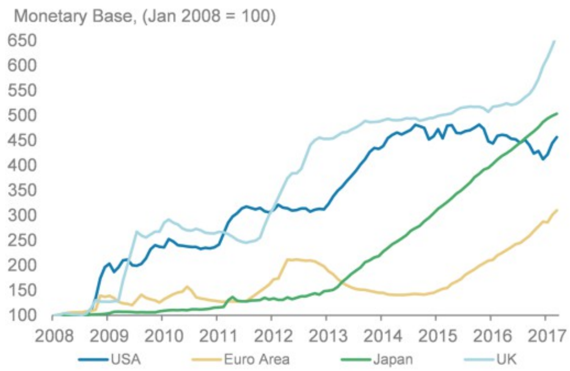
Exhibit 21: Monetary policy rate forecasts, 2016-18E

Monetary Policy Rate Forecasts

	Current	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
US	0.875	1.125	1.125	1.375	1.625	1.875	2.125	2.375
Euro Area	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.25	-0.25
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.10
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Canada	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00
Norway	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Sweden	-0.50	-0.50	-0.50	-0.50	-0.40	-0.40	-0.25	-0.25
Australia	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Russia	9.75	9.25	8.75	8.25	8.25	8.00	7.50	7.00
Poland	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Czech Republic	0.05	0.05	0.05	0.05	0.05	0.05	0.25	0.50
Hungary	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Romania	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Turkey	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Israel	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25
South Africa	7.00	7.00	7.00	7.00	6.75	6.50	6.50	6.50
Nigeria	14.00	14.00	13.00	12.00	11.50	11.50	11.50	11.50
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
India	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.50
Hong Kong	1.25	1.50	1.50	1.75	2.00	2.25	2.50	2.75
S. Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Taiwan	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375
Indonesia	4.75	4.75	4.75	5.25	5.25	5.25	5.25	5.25
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Philippines	3.00	3.00	3.25	3.50	3.50	3.50	3.50	3.50
Brazil	11.25	10.25	9.00	8.50	8.50	8.50	8.50	8.50
Mexico	6.50	6.75	6.75	6.75	6.75	6.75	6.75	6.75
Chile	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Peru	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75
Colombia	7.00	6.50	6.00	6.00	5.75	5.25	5.00	5.00

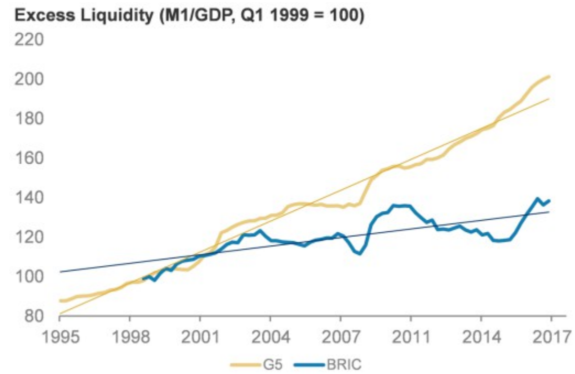
Source: Morgan Stanley Research forecasts

Exhibit 22: G4 monetary base



Source:FRB, BEA, ECB, Eurostat, BoJ, BoE, ONS, Morgan Stanley Research; "Retail M4" used for UK

Exhibit 23: G5 and BRIC excess liquidity



Source: National Sources, Morgan Stanley Research

Global GDP and inflation forecasts

Exhibit 24: Morgan Stanley real GDP and inflation forecasts, 2016-18E

	Real GDP (%)					CPI Inflation (%Y)				
	2016E	2017E		2018E		2016	2017E		2018E	
	MS	MS	Cons	MS	Cons	MS	MS	Cons	MS	Cons
Global*	**3.1**	**3.5**	**3.5**	**3.7**	**3.7**	**2.5**	**2.9**	**2.9**	**2.8**	**2.9**
G10	**1.6**	**1.8**	**1.9**	**1.7**	**1.9**	**0.8**	**2.0**	**2.0**	**1.9**	**1.9**
US	1.6	2.0	2.2	2.0	2.3	1.3	2.5	2.5	2.1	2.4
Euro Area	1.7	1.8	1.6	1.7	1.6	0.2	1.7	1.6	1.4	1.5
Japan	1.0	1.3	1.2	0.9	1.0	-0.1	0.9	0.7	1.7	1.0
UK	1.8	1.8	1.7	1.1	1.3	0.7	2.7	2.6	2.6	2.6
Canada	1.4	1.6	2.3	1.7	2.0	1.4	2.4	2.0	2.1	2.0
Norway	0.9	1.6	1.5	1.8	1.9	3.5	2.7	2.2	2.7	2.1
Sweden	3.1	2.1	2.4	1.8	2.3	1.0	1.7	1.6	2.4	1.9
Australia	2.6	2.1	2.5	2.6	2.8	1.3	2.3	2.1	2.4	2.2
EM*	**4.2**	**4.7**	**4.7**	**5.0**	**4.9**	**3.9**	**3.6**	**3.7**	**3.5**	**3.5**
CEEMEA	**0.9**	**2.0**	**1.9**	**2.5**	**2.5**	**7.3**	**6.2**	**6.6**	**5.6**	**5.6**
Russia	-0.2	1.2	1.2	1.6	1.6	7.1	4.0	4.4	4.5	4.3
Poland	2.8	3.1	3.3	3.0	3.2	-0.6	1.6	2.0	2.2	2.1
Czech Rep	2.4	2.6	2.6	3.0	2.6	0.6	1.9	2.2	2.0	2.0
Hungary	1.9	2.9	2.9	2.8	2.9	0.4	2.6	2.5	3.0	2.7
Ukraine	2.2	2.3	2.3	2.8	3.0	14.9	11.6	11.0	7.5	7.6
Kazakhstan	1.0	2.5	2.4	2.8	3.0	14.7	7.8	7.9	7.3	7.0
Turkey	2.2	2.3	2.5	3.2	3.1	7.8	10.0	9.8	8.4	8.0
Israel	4.0	3.0	3.3	2.9	3.2	-0.5	0.8	0.7	1.1	1.3
South Africa	0.5	1.4	1.1	1.8	1.8	6.3	5.8	5.8	5.5	5.5
Nigeria	-1.2	2.4	1.5	3.7	3.5	15.6	13.6	14.8	10.6	11.8
AXJ	**6.2**	**6.0**	**6.0**	**6.0**	**5.9**	**2.6**	**2.8**	**2.8**	**3.0**	**3.0**
China	6.7	6.4	6.5	6.2	6.2	2.0	2.3	2.2	2.2	2.3
India	7.5	7.6	7.0	7.8	7.4	5.0	4.1	4.5	4.8	4.8
Hong Kong	1.9	1.7	2.1	2.0	2.1	2.4	2.2	2.0	2.5	2.5
Korea	2.8	2.4	2.5	2.3	2.6	1.0	1.6	1.8	1.3	1.9
Taiwan	1.5	1.6	2.0	1.8	2.2	1.4	1.5	1.4	1.2	1.3
Singapore	2.0	1.5	2.0	1.8	2.1	-0.5	0.7	1.0	1.0	1.5
Indonesia	5.0	5.2	5.3	5.4	5.5	3.5	4.2	4.3	4.9	4.5
Malaysia	4.2	4.5	4.4	4.6	4.5	2.1	3.0	2.7	3.1	2.6
Thailand	3.2	3.1	3.3	3.3	3.4	0.2	2.4	1.6	2.5	2.0
Philippines	6.8	6.5	6.5	6.6	6.5	1.8	2.9	3.1	3.0	3.1
LatAm*	**-1.2**	**1.0**	**1.3**	**2.8**	**2.4**	**6.1**	**4.4**	**4.5**	**3.8**	**4.0**
Brazil	-3.6	0.6	0.7	3.1	2.2	8.8	4.0	4.3	4.3	4.5
Mexico	2.3	1.5	1.6	2.3	2.1	2.8	5.4	5.2	3.7	3.8
Chile	1.6	1.2	1.8	2.4	2.5	3.8	2.8	2.9	2.9	3.0
Peru	3.9	3.1	3.8	4.2	4.0	3.6	4.0	3.2	2.6	2.8
Colombia	2.0	1.9	2.3	2.4	3.0	7.5	4.5	4.4	3.4	3.6
Argentina	-2.3	3.1	2.9	3.6	3.2	40.6	23.0	22.8	15.6	15.4
Venezuela	-11.0	-5.0	-2.8	1.5	1.0	313.5	430.1	503.8	192.1	319.0

Source: IMF, Morgan Stanley Research forecasts. Note that we raised our euro area GDP forecast by 0.4pp for 2017, which lifted the global aggregate from 3.4%Y to 3.5%Y. * Global, EM and LatAm CPI aggregates exclude Venezuela and Argentina.

Government budget balance and debt forecasts

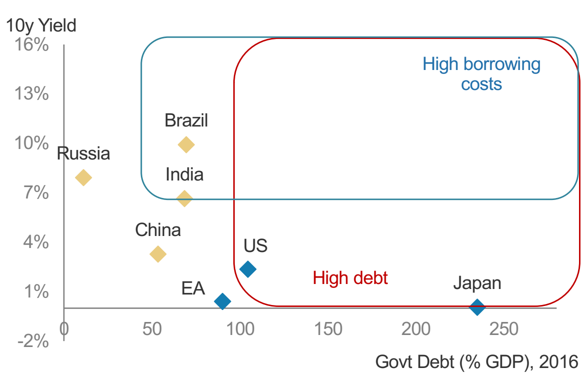
Exhibit 25: Budget balance, primary balance, gross and net government debt, 2015-18E

	General Gov't Budget Balance (% of GDP)				Primary General Gov't Budget Balance (% of GDP)			
	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E
DM								
US	-2.7	-3.0	-4.3	-5.8	-1.4	-1.7	-3.0	-4.4
Euro Area	-2.1	-2.1	-1.9	-1.7	0.3	0.2	0.2	0.4
Japan	-4.9	-4.5	-4.9	-4.8	-4.6	-4.5	-5.1	-4.8
UK	-4.0	-2.7	-3.1	-2.3	-2.3	-0.9	-1.1	-0.6
Canada	-1.3	-2.5	-2.3	-2.0	-0.6	-2.0	-2.0	-1.9
Sweden	0.2	0.0	-0.1	0.1	0.7	0.5	0.4	0.6
Australia	-2.5	-2.6	-2.5	-1.5	-1.5	-1.6	-1.5	-0.5
BRICs								
Russia	-2.4	-3.4	-1.8	-1.5	N/A	N/A	N/A	N/A
China	-3.4	-3.8	-3.8	-3.8	N/A	N/A	N/A	N/A
India	-6.6	-6.7	-5.9	-5.5	-1.7	-1.6	-1.4	-1.1
Brazil	-10.3	-8.9	-7.9	-6.9	-1.9	-2.5	-2.2	-1.3

	Gross General Gov't Debt (% of GDP)				Net General Gov't Debt (% of GDP)			
	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E
DM								
US	103	105	107	110	75.8	77.4	80.1	84.4
Euro Area	90	90	90	89	72.0	N/A	N/A	N/A
Japan	233	235	235	234	117.9	119.5	119.8	119.0
UK	88	88	88	89	53.2	53.3	53.5	54.4
Canada	92	92	91	89	26.3	26.9	25.3	23.6
Sweden	44	42	41	40	-28.0	N/A	N/A	N/A
Australia	34	36	38	39	16.0	18.2	19.9	21.2
BRICs								
Russia	10	11	12	13	N/A	N/A	N/A	N/A
China	49	53	57	60	N/A	N/A	N/A	N/A
India	69	69	67	65	N/A	N/A	N/A	N/A
Brazil	65	70	75	77	36.0	N/A	N/A	N/A

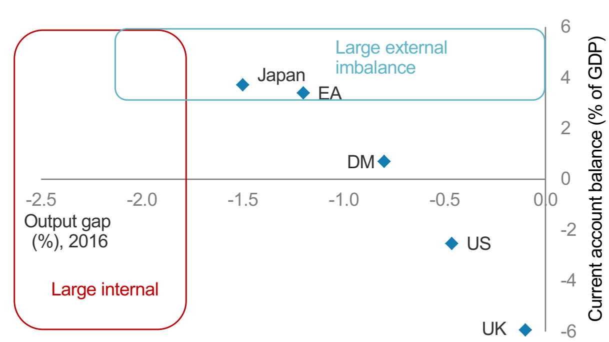
Source: IMF, Morgan Stanley Research forecasts

Exhibit 26: G3 and BRIC government debt and 10Y yield



Source: IMF forecasts, Morgan Stanley Research

Exhibit 27: G3 fiscal space – output gap and C/A balance



Source: IMF forecasts, Morgan Stanley Research

Global economics team

Global Co-Heads of Economics			
Chetan Ahya		Chetan.Ahya@morganstanley.com	+852 2239 7812
Elga Bartsch		Elga.Bartsch@morganstanley.com	+44 (0)20 7425 5434
Jonathan Ashworth		Jonathan.Ashworth@morganstanley.com	+44 (0)20 7425 1820
Nora Wassermann		Nora.Wassermann@morganstanley.com	+852 2848 5614
Americas			
Ellen Zentner	US	Ellen.Zentner@morganstanley.com	+1 212 296 4882
Ted Wieseman	US	Ted.Wieseman@morganstanley.com	+1 212 761 3407
Michel Dilmanian	US	Michel.Dilmanian@morganstanley.com	+1 212 761 3247
Robert Rosener	US	Robert.Rosener@morganstanley.com	+1 212 296 5614
Luis Arcentales	Latam, Chile, Mexico	Luis.Arcentales@morganstanley.com	+1 212 761 4913
Arthur Carvalho	Latam, Brazil	Arthur.Carvalho@morganstanley.com	+55 11 3048 6272
Lucas B. Almeida	Latam	Lucas.Almeida@morganstanley.com	+55 11 3048 6026
Thiago Machado	Brazil	Thiago.Machado@morganstanley.com	+55 11 3048 6249
Fernando Sedano	Argentina, Colombia, Venezuela	Fernando.Sedano@morganstanley.com	+55 11 3048 6605
Europe & Africa			
Elga Bartsch	Europe	Elga.Bartsch@morganstanley.com	+44 (0)20 7425 5434
Daniele Antonucci	Euro Area, France, Italy, Greece	Daniele.Antonucci@morganstanley.com	+44 (0)20 7425 8943
Jan Kozak	Germany, Netherlands	Jan.Kozak@morganstanley.com	+44 (0)20 7425 2571
Joao Almeida	Portugal, Spain	Joao.Almeida@morganstanley.com	+44 (0)20 7425 6838
Matthew Pennill	Europe	Matthew.Pennill@morganstanley.com	+44 (0)20 7425 2799
Jacob Nell	UK	Jacob.Nell@morganstanley.com	+44 (0)20 7425 8724
Melanie Baker	UK	Melanie.Baker@morganstanley.com	+44 (0)20 7425 8607
Pasquale Diana	CEEMEA, Poland, Hungary, Czech, Nordics	Pasquale.Diana@morganstanley.com	+44 (0)20 7677 4183
Andrea Masia	South Africa, Nigeria	Andrea.Masia@rmbmorganstanley.com	+27 11 282 1593
Alina Slyusarchuk	Russia, Kazakhstan, Ukraine	Alina.Slyusarchuk@morganstanley.com	+44 (0)20 7677 6869
Ercan Erguzel	Turkey, Israel	Ercan.Erguzel@morganstanley.com	+90 212 398 0223
Georgi Deyanov	Bulgaria, Serbia, Croatia	Georgi.Deyanov@morganstanley.com	+44 (0)20 7425 7006
Asia			
Chetan Ahya	Asia ex-Japan	Chetan.Ahya@morganstanley.com	+852 2239 7812
Derrick Kam	Asia ex-Japan, India, Hong Kong	Derrick.Kam@morganstanley.com	+852 2239 7826
Helen Lai	Asia ex-Japan, Hong Kong	Helen.Lai@morganstanley.com	+852 2848 5278
Jonathan Cheung	Asia ex-Japan, Hong Kong	Jonathan.Cheung@morganstanley.com	+852 2848 5652
Robin Xing	China	Robin.Xing@morganstanley.com	+852 2848 6511
Jenny Zheng	China	Jenny.L.Zheng@morganstanley.com	+852 3963 4015
Robert Feldman	Japan	Robert.Tokyo.Feldman@morganstanleymufg.com	+81 3 6836 8400
Takeshi Yamaguchi	Japan	Takeshi.Yamaguchi@morganstanleymufg.com	+81 3 6836 5404
Shoki Omori	Japan	Shoki.Omori@morganstanleymufg.com	+81 3 6836 5466
Upasana Chachra	India	Upasana.Chachra@morganstanley.com	+91 22 6118 2246
Aayushi Kukreja	India	Aayushi.Kukreja@morganstanley.com	+91 22 6118 2245
Deyi Tan	ASEAN, Korea, Taiwan	Deyi.Tan@morganstanley.com	+65 6834 6703
Zhixiang Su	ASEAN, Korea, Taiwan	Zhixiang.Su@morganstanley.com	+65 6834 6739
Fuxin Liu	ASEAN, Korea, Taiwan	Fuxin.Liu@morganstanley.com	+65 6834 6743
Daniel Blake	Australia	Daniel.Blake@morganstanley.com	+61 2 9770 1579

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