

Global Economic Prospects



HIGHLIGHTS from CHAPTER 1 GLOBAL OUTLOOK: DIVERGENCES AND RISKS *Global Economic Prospects June 2016*

Key Points

- *Global growth in 2016 is projected at 2.4 percent, unchanged from last year's disappointing pace, and 0.5 percentage point below January forecasts.*
- *Advanced economies will again see mediocre growth this year. Emerging market and developing economies (EMDEs) are facing persisting headwinds.*
- *Commodity exporters continue to struggle to adapt to persistently low prices, while importers are so far showing greater resilience.*
- *Downside risks to growth have become more pronounced since the start of the year, and policy uncertainty has increased.*
- *While the capacity for monetary and fiscal stimulus has narrowed, structural reforms could boost growth in the short- and long-term.*

Global growth: continued weakness. Global growth this year is projected at 2.4 percent, unchanged from the disappointing pace of 2015, and 0.5 percentage point below January forecasts (Figure 1.A). Emerging market and developing economies (EMDEs) account for about half of this downward revision, in large part due to the significant downgrade to growth forecasts for commodity exporters, and amid heightened domestic uncertainties and a challenging external environment (Figure 1.B). Advanced economies are projected to expand by 1.7 percent this year, 0.5 percentage point slower than expected in January. Investment continues to be soft, and export prospects have worsened. Despite a boost from lower energy prices and improvements in labor markets, advanced-economy growth is expected to level off in 2016, rather than strengthen further as previously envisaged.

EMDEs: divergences. Growth disappointments have extended into 2016. Aggregate growth for EMDEs is projected at 3.5 percent for 2016, just above the post-crisis low reached in 2015. However, the overall forecast masks a marked difference between commodity exporters and importers (Figure 1.C). After stagnating last year, growth in commodity exporting EMDEs for 2016 is expected to be 0.4 percent—substantially below the 1.6 percent forecast in January, reflecting a significant downward revision in commodity price forecasts, weak global trade, volatile capital flows, and persistent domestic challenges. In contrast, growth projections for commodity importing EMDEs are little changed at 5.8 percent for 2016, and are expected to be broadly stable at that level through 2018. Policy buffers continue to erode in commodity exporting EMDEs, especially in oil exporting countries, reducing their ability to withstand further downside shocks.

LICs: commodity exporters struggling to adjust. Low-income country (LIC) growth slowed to 4.5 percent in 2015, the weakest pace since 2009. Although output is projected to pick up to 5.3 percent this year in this group, lower commodity prices and nagging security and political challenges have trimmed 0.9 of a percentage point from the previous forecast (Figure 1.D). While the difficult external environment confronting LICs will likely continue, growth is still expected to be supported by resilient investment growth and implementation of reforms.

Risks: tilted further to the downside. A sharper-than-expected deceleration in major emerging market economies, rising policy and political uncertainties, geopolitical risks and eroding confidence in policy effectiveness could set back global growth and trigger financial market turbulence, with particularly significant consequences for EMDEs. Rising private sector indebtedness has become a significant source of vulnerability in some EMDEs. Historically, countries with rapidly rising debt in the years leading up to a period of financial stress have experienced a more protracted slowdown in its aftermath.

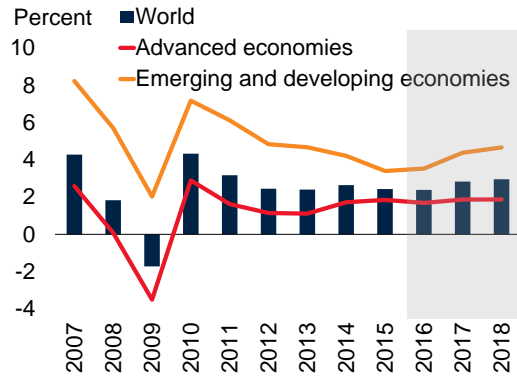
Policy buffers: limited. Limited fiscal and monetary policy buffers in many countries is leaving the global economy less prepared to cope with these risks. The room for policy accommodation has increasingly diverged between commodity importers and exporters (Figures 1.E and 1.F). Diminishing foreign reserves and fiscal buffers have already forced many commodity exporting EMDEs to tighten policy pro-cyclically. In commodity importing EMDEs, even though low commodity prices have reduced fiscal and external vulnerabilities and inflation, the scope for expansionary fiscal policy remains limited because of weak starting positions. In advanced economies, actual and expected inflation are below targets. Large-scale unconventional monetary policy accommodation in advanced economies has to some extent bolstered demand, but may over time have diminishing returns and raise financial stability risks. Expansionary fiscal policy could support activity in a number of advanced economies in the event of an adverse shock.

Policy priority: focus on structural reforms. In an environment of weak growth, rising risks, and limited policy buffers, growth-sustaining structural policies are urgently needed. These measures would boost medium- and long-term growth, reduce vulnerabilities, and signal to investors that authorities are committed to reinforcing long-term prospects. If well targeted, they could also support short-term aggregate demand. Greater investment—in infrastructure, productivity enhancing technology, and human capital—could lay the foundation for stronger growth. Policies should aim to fill public infrastructure gaps, encourage foreign direct investment, strengthen human capital, foster diversification, and reduce trade barriers. However, countries with diminishing fiscal space may be limited in financing such investments. International cooperation efforts could include commitments to undertake expansionary fiscal policies if large downside risks materialize, to channel pooled global resources into infrastructure and human capital investment, and to strengthen global safety nets for the most fragile countries.

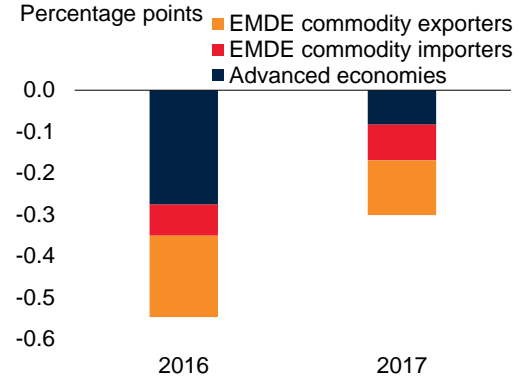
Figure 1: Divergences and Risks

Weak global growth is persisting in 2016. The recovery in major advanced economies has stalled. Among emerging and developing economies (EMDEs), commodity exporting, including a majority of low income countries, are facing a combination of severe domestic and external headwinds. In contrast, commodity importing EMDEs are generally showing greater resilience and steady growth. Monetary and fiscal policy space to support growth is limited in many EMDEs, with substantial variation between commodity importers and commodity exporters.

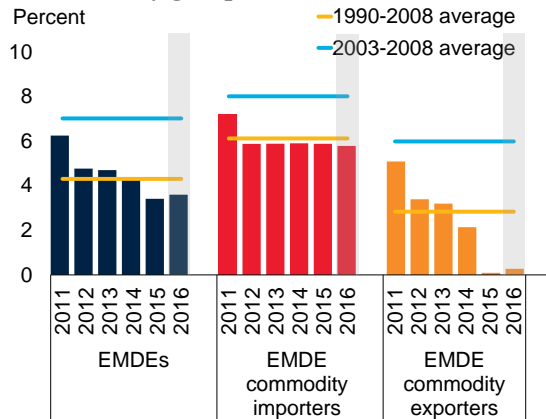
A. Global growth



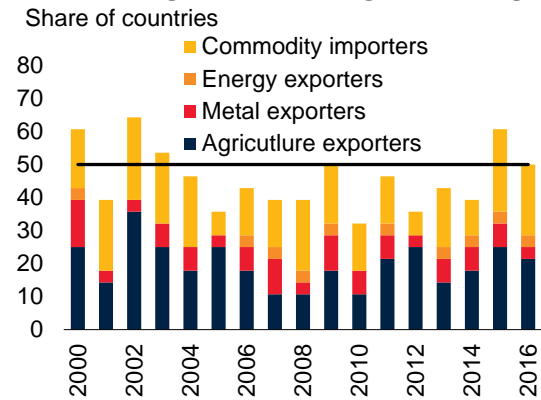
B. Contribution to global growth revisions



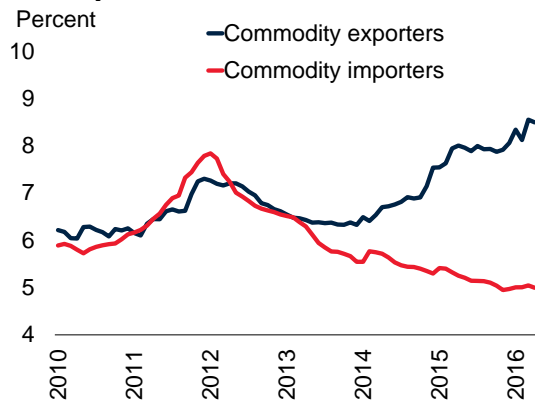
C. Growth by group



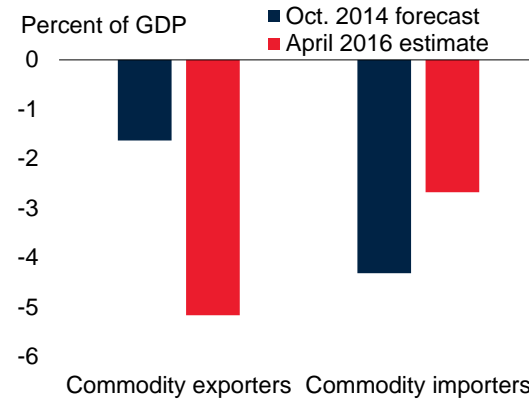
D. LICs with growth below long-term averages



E. Policy interest rates in EMDEs



F. Fiscal balance in EMDEs in 2015



Sources: World Bank, Haver Analytics.

A. Shaded area indicate forecasts.

B. Contribution to global growth revisions measured in constant 2010 U.S. dollars. Cumulative contributions from individual country growth revisions can differ from global growth revisions (reported in Table 1.1) due to decimal rounding.

D. Long-term growth averages calculated over the period 1996-2008. Sample includes 28 low-income countries.

E. Simple average. Sample includes 29 commodity exporters and 21 commodity importers. Last observation is April 2016.

F. Oct. 2014 forecast from the October 2014 World Economic Outlook. April 2016 estimate from the April 2016 World Economic Outlook.

Table 1.1 Real GDP¹
(percent change from previous year)

	2013	2014	Estimates		Projections		Percentage point differences from January 2016 projections			
			2015	2016	2017	2018	2015	2016	2017	2018
World	2.4	2.6	2.4	2.4	2.8	3.0	0.0	-0.5	-0.3	-0.1
Advanced Economies	1.1	1.7	1.8	1.7	1.9	1.9	-0.1	-0.5	-0.2	-0.1
United States	1.5	2.4	2.4	1.9	2.2	2.1	-0.1	-0.8	-0.2	-0.1
Euro Area	-0.3	0.9	1.6	1.6	1.6	1.5	0.1	-0.1	-0.1	-0.1
Japan	1.4	-0.1	0.6	0.5	0.5	0.7	-0.2	-0.8	-0.4	-0.6
Emerging Market and Developing Economies (EM)	4.7	4.2	3.4	3.5	4.4	4.7	0.0	-0.6	-0.3	-0.2
Commodity-exporting EMDE	3.2	2.1	0.2	0.4	2.4	3.0	0.1	-1.2	-0.8	-0.3
Other EMDE	5.9	5.9	5.9	5.8	5.7	5.8	0.0	-0.1	-0.1	-0.1
Other EMDE excluding China	3.9	4.3	4.7	4.7	4.9	5.0	0.0	-0.2	-0.2	-0.2
East Asia and Pacific	7.1	6.8	6.5	6.3	6.2	6.1	0.1	0.0	0.0	-0.1
China	7.7	7.3	6.9	6.7	6.5	6.3	0.0	0.0	0.0	-0.2
Indonesia	5.6	5.0	4.8	5.1	5.3	5.5	0.1	-0.2	-0.2	0.0
Thailand	2.7	0.8	2.8	2.5	2.6	3.0	0.3	0.5	0.2	0.3
Europe and Central Asia	2.3	1.8	-0.1	1.2	2.5	2.8	0.0	-0.4	-0.1	0.0
Russia	1.3	0.7	-3.7	-1.2	1.4	1.8	0.1	-0.5	0.1	0.3
Turkey	4.2	3.0	4.0	3.5	3.5	3.6	-0.2	0.0	0.0	0.2
Poland	1.3	3.3	3.6	3.7	3.5	3.5	0.1	0.0	-0.4	-0.4
Latin America and the Caribbean	2.9	1.0	-0.7	-1.3	1.2	2.1	0.2	-1.3	-0.9	-0.3
Brazil	3.0	0.1	-3.8	-4.0	-0.2	0.8	-0.1	-1.5	-1.6	-0.7
Mexico	1.4	2.3	2.5	2.5	2.8	3.0	0.0	-0.3	-0.2	-0.2
Argentina	2.9	0.5	2.1	-0.5	3.1	3.0	0.4	-1.2	1.2	0.0
Middle East and North Africa	2.0	2.9	2.6	2.9	3.5	3.6	-0.2	-1.1	-1.0	-0.5
Saudi Arabia	2.7	3.6	3.4	1.9	2.0	2.3	0.6	-0.5	-0.9	-0.6
Iran, Islamic Rep.	-1.9	4.3	1.6	4.4	4.9	4.7	-0.3	-1.4	-1.8	-1.3
Egypt, Arab Rep. ²	2.1	2.2	4.2	3.3	4.2	4.6	0.0	-0.5	-0.2	-0.2
South Asia	6.1	6.8	7.0	7.1	7.2	7.3	0.0	-0.2	-0.3	-0.2
India ²	6.6	7.2	7.6	7.6	7.7	7.7	0.3	-0.2	-0.2	-0.2
Pakistan ²	3.7	4.0	4.2	4.5	4.8	5.1	0.0	0.0	0.0	0.3
Bangladesh ²	6.0	6.1	6.5	6.3	6.8	6.0	0.0	-0.4	0.0	-0.8
Sub-Saharan Africa	4.8	4.5	3.0	2.5	3.9	4.4	-0.3	-1.7	-0.7	-0.3
South Africa	2.2	1.5	1.3	0.6	1.1	2.0	0.0	-0.8	-0.5	0.4
Nigeria	5.4	6.3	2.7	0.8	3.5	4.0	-0.6	-3.8	-1.8	-1.3
Angola	6.8	3.9	2.8	0.9	3.1	3.4	-0.2	-2.4	-0.7	-0.4
Memorandum items:										
Real GDP¹										
High-income Countries	1.2	1.7	1.6	1.5	1.9	1.9	0.0	-0.6	-0.2	-0.2
Developing Countries	5.3	4.9	4.3	4.3	4.9	5.1	0.0	-0.5	-0.4	-0.2
Low-income Countries	6.5	6.1	4.5	5.3	6.3	6.6	-0.6	-0.9	-0.3	0.0
BRICS	5.7	5.1	3.8	4.2	5.1	5.3	-0.1	-0.4	-0.2	-0.1
World (2010 PPP weights)	3.2	3.4	3.1	3.1	3.6	3.7	0.0	-0.5	-0.2	-0.2
World trade volume³	3.3	3.8	3.1	3.1	3.9	4.1	-0.5	-0.7	-0.4	-0.4
Commodity prices										
Oil price ⁴	-0.9	-7.5	-47.3	-25.7	32.5	6.5	-0.8	-17.2	25.3	-0.7
Non-energy commodity price index	-7.2	-4.6	-15.0	-12.2	10.5	2.3	-0.2	-10.4	8.6	0.4
Capital inflows to EMDE (percent of GDP)⁵	5.4	4.3	1.8	3.2	3.8	4.2	-0.5	-0.1	-0.4	-0.2

Source: World Bank.

Notes: PPP = purchasing power parity; e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. Country classifications and lists of Emerging Market and Developing Economies (EMDEs) are presented in Annex Table 1. BRICS include: Brazil, Russia, India, China and South Africa.

1. Aggregate growth rates calculated using constant 2010 U.S. dollars GDP weights.

2. GDP growth values are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis.

3. World trade volume for goods and non-factor services.

4. Simple average of Dubai, Brent, and West Texas Intermediate.

5. Balance of payments data for net capital inflows of foreign direct investment, portfolio investment, and other investment (BPM6).