Global Economic Prospects

HIGHLIGHTS from CHAPTER 1

GLOBAL OUTLOOK: A FRAGILE RECOVERY

Key Points

- *Global growth is projected to strengthen to 2.7 percent in 2017 and 2.9 percent in 2018-19, broadly in line with previous forecasts. Global manufacturing and trade have firmed, financing conditions remain benign, and commodity prices have generally stabilized.*
- *Growth in emerging market and developing economies is expected to increase to 4.1 percent in 2017 and average 4.6 percent in 2018-19. The improvement is driven by diminishing obstacles to activity in commodity exporters and robust growth in commodity importers.*
- *Risks to the outlook include increased restrictions to trade, the possibility of financial market disruptions, and, over the longer term, weaker potential growth. Emerging market and developing economies need to rebuild fiscal space and accelerate reforms that support investment, trade, and productivity.*

Global growth: strengthening. Global growth is projected to strengthen to 2.7 percent in 2017 and 2.9 percent in 2018-19, as expected. In advanced economies, a modest investment-led recovery is underway, with growth picking up to 1.9 percent in 2017, from 1.7 percent in 2016, before moderating in 2018-19 (Figure 1.A). In emerging market and developing economies (EMDEs), growth is anticipated to recover to 4.1 percent in 2017, from a post-crisis low of 3.5 percent in 2016, and reach an average of 4.6 percent in 2018-19, as obstacles to growth in commodity exporters diminish, while activity in commodity importers remains robust (Figure 1.B).

Global trends: supportive. Global trade has gained momentum, following two years of pronounced weakness. The upswing is driven by strengthening investment in advanced economies, increased trade flows to and from China, and improved import demand from commodity-exporting emerging market and developing economies. Nevertheless, slower trade liberalization, flagging value chain integration, and elevated trade policy uncertainty continue to weigh on the medium-term outlook. Global financing conditions remain benign, benefiting from improving market expectations about growth prospects. Commodity prices are expected to recover at a moderate pace, although oil price projections have been revised down, reflecting the prospect of increased U.S. shale oil production.

Commodity-exporting emerging market and developing economies: diminishing obstacles. Following near-stagnation over the past two years, growth in commodity exporters is projected to rise to 1.8 percent in 2017 and 2.7 percent in 2018 in a broad-based recovery (Figure 1.C). However, lingering fiscal and external adjustment needs continue to dampen growth prospects in a number of countries. Longer-than-expected adjustment to low commodity prices and, to a lesser degree, lower oil price projections have resulted in forecast downgrades for a number of exporters.

Commodity-importing emerging market and developing economies: stable growth. Growth continues to be robust among commodity importers. Windfalls from the recent decline in commodity prices are waning, but accommodative policies are supporting domestic demand and a recovery in global trade is fueling export growth. The forecast for growth in commodity importers remains stable, at an average of 5.7 percent in 2017-19. China's gradual transition to slower but more sustainable growth continues as expected.

Low-income countries: recovering. Growth is rebounding in low-income countries as rising metals prices lift production in metal exporters and infrastructure investment continues in non-resource-intensive economies. However, some low-income countries are still struggling with declining oil production, conflict, drought, and security and political challenges. Growth in low-income countries is expected to strengthen during 2017-19, as activity firms in commodity exporters.

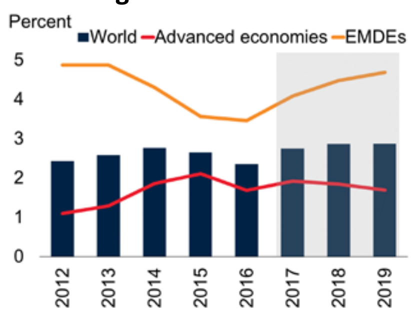
Risks to the forecast: tilted to the downside. Downside risks continue to dominate the outlook, despite the possibility of more expansionary fiscal policy in major advanced economies (Figure 1.D). Escalating trade restrictions could derail a fragile recovery in trade and undo gains from past liberalization efforts. A further increase in policy uncertainty from already high levels could dampen confidence and investment. After a period of unusually low financial market volatility, market reassessment of policy-related risks or of the pace of advanced-economy monetary policy normalization could provoke financial turbulence and contribute to swings in asset prices and capital flows in emerging market and developing economies. A renewed slide in oil prices could set back the incipient recovery in oil exporters. Over the longer term, persistent weakness in productivity and investment growth could further erode potential growth.

Policy priorities for emerging market and developing economies: restore fiscal space and accelerate reforms. The adverse impact of the earlier fall in commodity prices on government budgets in commodity exporters is gradually dissipating, but fiscal space remains constrained in many emerging market and developing economies, suggesting the need for continued fiscal adjustment (Figure 1.E). Investment and productivity growth in emerging market and developing economies has slowed steadily post-crisis, and reforms will need to accelerate to lift growth prospects. Policy priorities include structural measures to improve the business climate, to support investment in human and physical capital, and to enhance the regional and global trade integration of emerging market and developing economies. Greater trade openness has generally been associated with lower poverty in emerging market and developing economies, as well as graduation from low- to middle-income status (Figure 1.F).

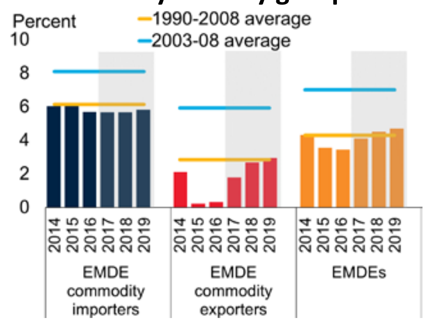
Figure 1: Global Prospects

Growth is expected to gain strength in both advanced economies and emerging market and developing economies, amid improvement in global manufacturing and trade. The projected recovery in EMDEs mainly reflects expectations of diminishing obstacles to activity in commodity exporters. Downside risks to global growth continue to prevail, including the possibility of greater restrictions to trade and financial market disruptions. Fiscal space remains constrained in many EMDEs, suggesting the need for continued fiscal adjustment. Countries that graduated from low- to middle-income status generally had a higher degree of trade openness, suggesting that further trade integration may spur development.

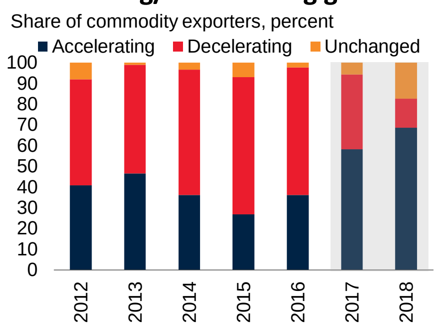
A. Global growth



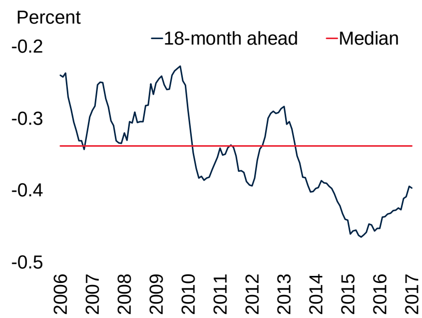
B. Growth by country groups



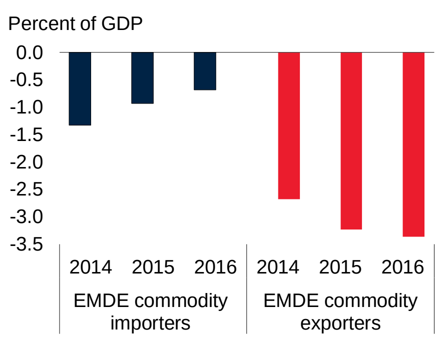
C. Share of EMDE commodity exporters with accelerating/decelerating growth



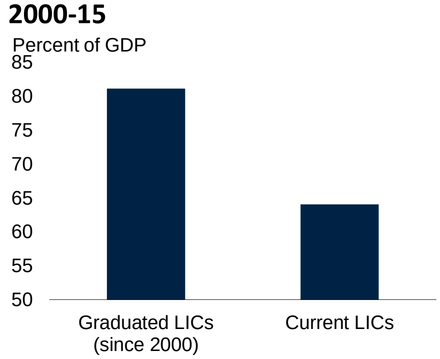
D. Downside risks to global growth forecasts



E. Fiscal sustainability gap in EMDEs



F. Trade-to-GDP ratio in low-income countries, 2000-15



Sources: Bloomberg, Consensus Economics, International Monetary Fund WEO, World Bank.

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

A. B. C. Shaded area indicate forecasts.

C. Accelerating / decelerating growth are changes of at least 0.1 percentage point in growth rates from the previous year. Sample includes 86 commodity-exporting EMDEs.

D. Downside risks measured as the time-varying skewness of global growth forecasts, computed from of the forecast distribution of three underlying risk factors (oil price futures, the S&P 500 equity price futures, and term spread forecasts). Each of the three risk factors' weight is estimated using the variance decomposition of global growth forecasts derived from the vector autoregression model described in Ohnsorge, Stocker, and Some (2016).

E. Sustainability gap is measured as the difference between the primary balance and the debt-stabilizing primary balance, assuming historical average (1990–2016) interest rates and growth rates. A negative gap indicates that government debt is on a rising trajectory. Figure shows median in each country group. Sample includes 44 commodity-exporting and 28 commodity-importing EMDEs.

F. Simple averages. LICs stands for low-income countries. Graduated LICs include 31 countries. Current LICs include 29 countries.

Table 1.1 Real GDP[1]
(percent change from previous year)

			Estimates	Projections			Percentage point differences from January 2017 projections			
	2014	2015	2016	2017	2018	2019	2016	2017	2018	2019
World	**2.8**	**2.7**	**2.4**	**2.7**	**2.9**	**2.9**	**0.1**	**0.0**	**0.0**	**0.0**
Advanced Economies	**1.9**	**2.1**	**1.7**	**1.9**	**1.8**	**1.7**	**0.1**	**0.1**	**0.0**	**0.0**
United States	2.4	2.6	1.6	2.1	2.2	1.9	0.0	-0.1	0.1	0.0
Euro Area	1.2	2.0	1.8	1.7	1.5	1.5	0.2	0.2	0.1	0.1
Japan	0.3	1.1	1.0	1.5	1.0	0.6	0.0	0.6	0.2	0.2
Emerging Market and Developing Economies (EMDE)	**4.3**	**3.6**	**3.5**	**4.1**	**4.5**	**4.7**	**0.1**	**-0.1**	**-0.1**	**0.0**
Commodity-exporting EMDE	2.2	0.3	0.4	1.8	2.7	3.0	0.1	-0.5	-0.3	-0.1
Other EMDE	6.0	6.0	5.7	5.7	5.7	5.8	0.1	0.1	0.0	0.0
Other EMDE excluding China	4.5	5.0	4.5	4.6	4.9	5.1	0.2	0.0	-0.1	0.0
East Asia and Pacific	6.8	6.5	6.3	6.2	6.1	6.1	0.0	0.0	0.0	0.0
China	7.3	6.9	6.7	6.5	6.3	6.3	0.0	0.0	0.0	0.0
Indonesia	5.0	4.9	5.0	5.2	5.3	5.4	-0.1	-0.1	-0.2	-0.1
Thailand	0.9	2.9	3.2	3.2	3.3	3.4	0.1	0.0	0.0	0.0
Europe and Central Asia	2.3	1.0	1.5	2.5	2.7	2.8	0.3	0.1	-0.1	-0.1
Russia	0.7	-2.8	-0.2	1.3	1.4	1.4	0.4	-0.2	-0.3	-0.4
Turkey	5.2	6.1	2.9	3.5	3.9	4.1	0.4	0.5	0.4	0.4
Poland	3.3	3.9	2.8	3.3	3.2	3.2	0.3	0.2	-0.1	-0.2
Latin America and the Caribbean	0.9	-0.8	-1.4	0.8	2.1	2.5	0.0	-0.4	-0.2	-0.1
Brazil	0.5	-3.8	-3.6	0.3	1.8	2.1	-0.2	-0.2	0.0	-0.1
Mexico	2.3	2.6	2.3	1.8	2.2	2.5	0.3	0.0	-0.3	-0.3
Argentina	-2.5	2.6	-2.3	2.7	3.2	3.2	0.0	0.0	0.0	0.0
Middle East and North Africa	3.4	2.8	3.2	2.1	2.9	3.1	0.5	-1.0	-0.4	-0.3
Saudi Arabia	3.7	4.1	1.4	0.6	2.0	2.1	0.4	-1.0	-0.5	-0.5
Iran, Islamic Rep.	4.3	-1.8	6.4	4.0	4.1	4.2	1.8	-1.2	-0.7	-0.3
Egypt, Arab Rep.[2]	2.9	4.4	4.3	3.9	4.6	5.3	0.0	-0.1	-0.1	-0.1
South Asia	6.7	6.9	6.7	6.8	7.1	7.3	-0.1	-0.3	-0.2	-0.1
India[3]	7.2	7.9	6.8	7.2	7.5	7.7	-0.2	-0.4	-0.3	-0.1
Pakistan[2]	4.0	4.0	4.7	5.2	5.5	5.8	0.0	0.0	0.0	0.0
Bangladesh[2]	6.1	6.6	7.1	6.8	6.4	6.7	0.0	0.0	-0.1	0.0
Sub-Saharan Africa	4.6	3.1	1.3	2.6	3.2	3.5	-0.2	-0.3	-0.4	-0.2
South Africa	1.6	1.3	0.3	0.6	1.1	2.0	-0.1	-0.5	-0.7	0.2
Nigeria	6.3	2.7	-1.6	1.2	2.4	2.5	0.1	0.2	-0.1	0.0
Angola	4.8	3.0	0.0	1.2	0.9	1.5	-0.4	0.0	0.0	0.6
Memorandum items:										
Real GDP[1]										
High-income Countries	1.9	2.2	1.7	1.9	1.9	1.7	0.1	0.1	0.1	0.0
Developing Countries	4.4	3.6	3.6	4.3	4.7	4.9	0.1	-0.1	-0.1	0.0
Low-income Countries	6.3	4.7	4.4	5.4	5.8	5.8	-0.3	-0.2	-0.2	-0.3
BRICS	5.1	3.9	4.2	5.0	5.2	5.4	-0.1	-0.1	-0.2	-0.1
World (2010 PPP weights)	3.5	3.3	3.1	3.4	3.6	3.7	0.1	-0.1	-0.1	0.0
World trade volume[4]	4.1	2.7	2.5	4.0	3.8	3.8	0.0	0.4	-0.2	-0.1
Commodity prices										
Oil price[5]	-7.5	-47.3	-15.6	23.8	5.7	5.4	-0.5	-4.4	-2.7	0.8
Non-energy commodity price index	-4.6	-15.0	-2.6	4.0	0.7	1.0	0.0	2.6	-1.5	-1.1

Source: World Bank.

Notes: PPP = purchasing power parity. 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. Pakistan's growth rates are based on GDP at factor cost. The column labeled 2017 refers to FY2016/17.
3. The column labeled 2016 refers to FY2016/17.
4. World trade volume for goods and non-factor services.
5. Simple average of Dubai, Brent, and West Texas Intermediate.

For additional information, please see www.worldbank.org/gep.