Global Economic Prospects

HIGHLIGHTS from CHAPTER 1

GLOBAL OUTLOOK

BROAD-BASED UPTURN: WILL IT LAST?

Key Points

- *Global growth reached 3 percent in 2017, its strongest rate since 2011, in a broad-based upturn. It is predicted to edge up to 3.1 percent in 2018, as a continued recovery in emerging market and developing economies (EMDEs) more than offset a slight moderation in advanced economies.*
- *EMDE growth is projected to strengthen to 4.5 percent in 2018 in a supportive global environment, as headwinds to activity in commodity exporters gradually dissipate and growth in commodity importers remains robust.*
- *The global outlook is still subject to downside risks, including the possibility of financial stress, increased protectionism, rising geopolitical tensions, and, over the longer term, weaker potential growth.*
- *With output gaps closing or closed in many countries, accommodative cyclical policies are becoming less urgent. Given the prospects for a continued softening of potential growth, structural reforms that spur long-term growth, investment, and productivity should take priority.*

Global growth: stronger than expected. Global growth reached a stronger-than-expected 3 percent in 2017—a notable recovery from a post-crisis low of 2.4 percent in 2016 (Figure 1.A). The substantial improvement reflected an investment-led pickup in advanced economies and a growth acceleration in EMDEs, where activity in commodity exporters rebounded. Overall, growth increased in more than half of the world's economies in 2017, highlighting the broad-based nature of the recovery (Figure 1.B). In 2018, global growth is forecast to edge up to 3.1 percent as the cyclical upturn in advanced economies continues, albeit at a slightly more moderate pace, and EMDE growth rises to 4.5 percent, as activity recovers further in commodity exporters and remains robust in commodity importers.

Global trends: supportive. Global trade growth strengthened significantly in 2017, benefiting from a cyclical upturn in global capital spending (Figure 1.C). It is expected to moderate gradually in 2018-19 as the investment-led upturn in advanced economies lose strength and import demand in China decelerates. Global financing conditions remained benign throughout 2017, but are likely to tighten in 2018, as monetary policy gradually normalizes in major advanced economies. Both energy and metals prices are forecast to level off in 2018 after posting significant gains in 2017, while agricultural prices are anticipated to remain stable.

Commodity-exporting EMDEs: gradual recovery. Growth in commodity exporters is predicted to pick up from 1.8 percent in 2017 to 2.7 percent in 2018, as headwinds gradually moderate (Figure 1.D). Key economies—such as Brazil and Russia—emerged from recession in 2017, as prices of most commodities rose, confidence improved, the drag from earlier policy tightening diminished, and investment bottomed out. However, growth was still too weak to improve average per capita incomes, which continued to stagnate after two consecutive years of contraction. The cyclical rebound is expected to continue in 2018, with prospects of a further strengthening in domestic demand and sustained export growth. Accordingly, sizable negative output gaps are expected to narrow.

Commodity-importing EMDEs: robust growth. Growth in commodity importers is projected to remain robust in 2018, at 5.7 percent. Solid export growth is expected to offset the impact of diminishing policy support as inflation increases amid rising commodity prices. A continued slowdown in China is expected to be partially counterbalanced by a pickup in other commodity importers.

Low-income countries: rebounding. Growth in low-income countries (LICs) is projected to rise to 5.4 percent in 2018, as commodity prices firm. Non-resource intensive LICs in Sub-Saharan Africa are expected to continue to expand at a solid pace, supported by infrastructure investment and exports. However, growth is projected to moderate in countries adjusting to high public debt, large external imbalances, and rising fiscal deficits. Activity in non-resource-intensive LICs in South Asia is expected to expand at a modest pace, as the security situation continues to weigh on investment.

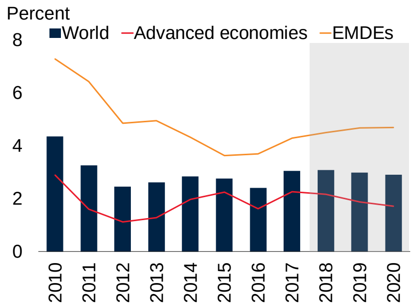
Risks to the forecast: more balanced but still on the downside. Risks to the global outlook are becoming more balanced, mainly due to the possibility of stronger-than-expected growth in the largest advanced economies and EMDEs. However, downside risks continue predominate. A sudden increase in borrowing costs, triggered by a reassessment of the pace of advanced-economy monetary policy normalization or rising concerns about elevated asset valuations, could lead to financial stress and disrupt capital flows to EMDEs (Figure 1.E). Escalating trade restrictions could derail the recovery in trade and undo gains from past liberalization efforts. Over the longer term, a more pronounced slowdown in potential output growth in both advanced economies and EMDEs would make the global economy more vulnerable to shocks and worsen prospects for improved living standards.

Policy priorities for EMDEs: lift potential growth. In 2018, negative output gaps should approach zero among EMDEs, helped by the recent recovery in commodity exporters and advanced economies. Closing gaps in major advanced economies would allow for a normalization of monetary policy after a decade of exceptional easing. With the anticipated further withdrawal of monetary stimulus by advanced economies, EMDE policymakers need to remain alert to the potential for adverse spillovers and pursue policies to lift long-term growth. Policy options include improvements in education and health systems; high-quality investment; and labor market, governance, and business climate reforms (Figure 1.F). These efforts are critical to boost long-term growth prospects and alleviate poverty.

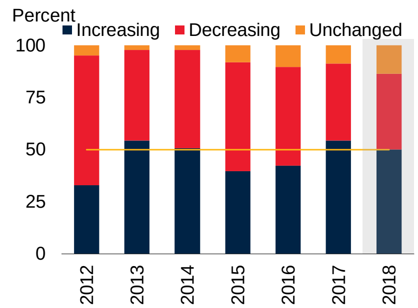
Figure 1: Global Prospects

Global growth accelerated in 2017, supported by a broad-based recovery encompassing more than half of the world's economies, and is expected to edge up in 2018. Global trade regained significant momentum, supported by a cyclical upturn in capital spending. As headwinds ease for commodity exporters, growth in income per capita is expected to gradually resume, but at a slow pace. Risks to the outlook have become more balanced, but remain tilted to the downside. In particular, asset valuations are elevated and interest rates are still at historically low, raising the prospect of sudden market adjustments. Structural reforms will be essential to stem a further decline in potential growth in EMDEs.

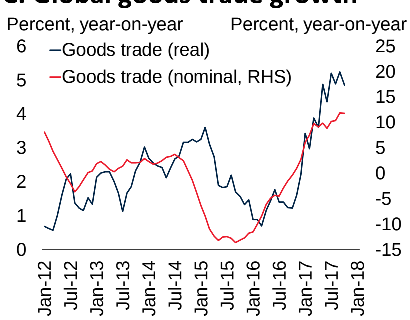
A. Growth



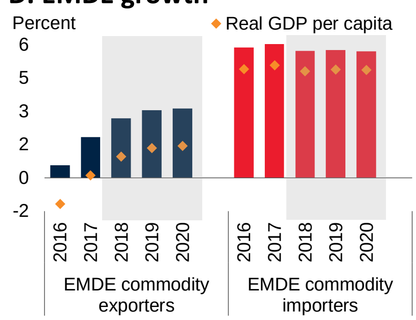
B. Share of countries with increasing/ decreasing growth



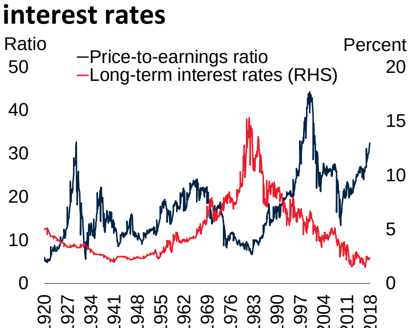
C. Global goods trade growth



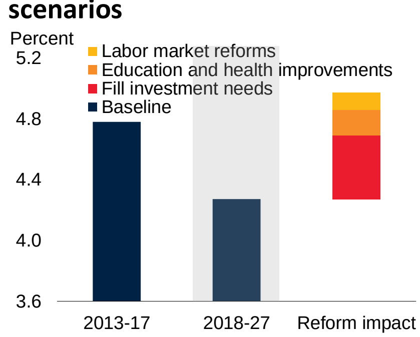
D. EMDE growth



E. U.S. equity prices and long-term interest rates



F. EMDE potential growth under reform scenarios



Sources: CPB Netherlands Bureau for Economic Policy Analysis, World Bank, Yale University.
A.B.D.F. Shaded areas indicate forecasts.
A.B.D. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights.
B. Increasing / decreasing growth are changes of at least 0.1 percentage point from the previous year. Countries with a slower pace of contraction from one year to the next are included in the increasing growth category. Sample includes 36 advanced economies and 146 EMDEs.
C. Last observation is October 2017.
E. Price-to-earnings ratio is the cyclically-adjusted ratio. Long-term interest rates are nominal 10-year Treasury constant maturity rates. Last observation is December 2017. Data for December 2017 are estimates.
F. GDP-weighted averages of production function-based potential growth under different policy scenarios as described in Chapter 3.

Table 1.1 Real GDP[1]

(Percent change from previous year)

							Percentage point differences from June 2017 projections		
	2015	2016	2017e	2018f	2019f	2020f	2017e	2018f	2019f
World	**2.8**	**2.4**	**3.0**	**3.1**	**3.0**	**2.9**	**0.3**	**0.2**	**0.1**
Advanced economies	**2.2**	**1.6**	**2.3**	**2.2**	**1.9**	**1.7**	**0.4**	**0.4**	**0.2**
United States	2.9	1.5	2.3	2.5	2.2	2.0	0.2	0.3	0.3
Euro Area	2.1	1.8	2.4	2.1	1.7	1.5	0.7	0.6	0.2
Japan	1.4	0.9	1.7	1.3	0.8	0.5	0.2	0.3	0.2
Emerging market and developing economies (EMDEs)	**3.6**	**3.7**	**4.3**	**4.5**	**4.7**	**4.7**	**0.2**	**0.0**	**0.0**
Commodity-exporting EMDEs	0.4	0.8	1.8	2.7	3.1	3.1	0.0	0.0	0.2
Other EMDEs	6.1	5.9	6.0	5.7	5.7	5.7	0.3	0.0	-0.1
Other EMDEs excluding China	5.2	4.9	5.1	4.8	5.1	5.1	0.5	-0.1	0.0
East Asia and Pacific	6.5	6.3	6.4	6.2	6.1	6.0	0.2	0.1	0.0
China	6.9	6.7	6.8	6.4	6.3	6.2	0.3	0.1	0.0
Indonesia	4.9	5.0	5.1	5.3	5.3	5.3	-0.1	0.0	-0.1
Thailand	2.9	3.2	3.5	3.6	3.5	3.4	0.3	0.3	0.1
Europe and Central Asia	1.0	1.7	3.8	2.9	3.0	3.0	1.3	0.2	0.2
Russia	-2.8	-0.2	1.7	1.7	1.8	1.8	0.4	0.3	0.4
Turkey	6.1	3.2	6.7	3.5	4.0	4.0	3.2	-0.4	-0.1
Poland	3.8	2.9	4.5	4.0	3.5	3.1	1.2	0.8	0.3
Latin America and the Caribbean	-0.6	-1.5	0.9	2.0	2.6	2.7	0.1	-0.1	0.1
Brazil	-3.5	-3.5	1.0	2.0	2.3	2.5	0.7	0.2	0.2
Mexico	3.3	2.9	1.9	2.1	2.6	2.6	0.1	-0.1	0.1
Argentina	2.6	-2.2	2.7	3.0	3.0	3.2	0.0	-0.2	-0.2
Middle East and North Africa	2.8	5.0	1.8	3.0	3.2	3.2	-0.3	0.1	0.1
Saudi Arabia	4.1	1.7	0.3	1.2	2.1	2.2	-0.3	-0.8	0.0
Iran, Islamic Rep.	-1.3	13.4	3.6	4.0	4.3	4.3	-0.4	-0.1	0.1
Egypt, Arab Rep.[2]	4.4	4.3	4.2	4.5	5.3	5.8	0.3	-0.1	0.0
South Asia	7.1	7.5	6.5	6.9	7.2	7.2	-0.3	-0.2	-0.1
India[3]	8.0	7.1	6.7	7.3	7.5	7.5	-0.5	-0.2	-0.2
Pakistan[2]	4.1	4.5	5.3	5.5	5.8	6.0	0.1	0.0	0.0
Bangladesh[2]	6.6	7.1	7.2	6.4	6.7	6.7	0.4	0.0	0.0
Sub-Saharan Africa	3.1	1.3	2.4	3.2	3.5	3.6	-0.2	0.0	0.0
South Africa	1.3	0.3	0.8	1.1	1.7	1.7	0.2	0.0	-0.3
Nigeria	2.7	-1.6	1.0	2.5	2.8	2.8	-0.2	0.1	0.3
Angola	3.0	0.0	1.2	1.6	1.5	1.5	0.0	0.7	0.0
Memorandum items:									
Real GDP[1]									
High-income countries	2.3	1.7	2.2	2.2	1.9	1.8	0.3	0.3	0.2
Developing countries	3.6	3.8	4.5	4.7	4.8	4.9	0.2	0.0	-0.1
Low-income countries	4.7	4.5	5.1	5.4	5.5	5.7	-0.3	-0.4	-0.3
BRICS	4.0	4.4	5.2	5.3	5.4	5.4	0.2	0.1	0.0
World (2010 PPP weights)	3.3	3.2	3.7	3.7	3.7	3.7	0.3	0.1	0.0
World trade volume[4]	2.7	2.3	4.3	4.0	3.9	3.8	0.3	0.2	0.1
Commodity prices									
Oil price[5]	-47.3	-15.6	23.8	9.4	1.7	1.7	0.0	3.7	-3.7
Non-energy commodity price index	-15.0	-2.6	4.9	0.6	0.8	1.2	0.9	-0.1	-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 World 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 Table 1.2. BRICS include: Brazil, Russia, India, China, and South Africa.

1. Aggregate growth rates calculated using constant 2010 U.S. dollar 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 of goods and non-factor services.

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

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