

FOR RELEASE

In Washington, D.C.: January 16, 2017, 9:00 a.m. EST

## A Shifting Global Economic Landscape

- *After a lackluster outturn in 2016, economic activity is projected to pick up pace in 2017 and 2018, especially in emerging market and developing economies. However, there is a wide dispersion of possible outcomes around the projections, given uncertainty surrounding the policy stance of the incoming U.S. administration and its global ramifications. The assumptions underpinning the forecast should be more specific by the time of the April 2017 World Economic Outlook, as more clarity emerges on U.S. policies and their implications for the global economy.*
- *With these caveats, aggregate growth estimates and projections for 2016–18 remain unchanged relative to the October 2016 World Economic Outlook. The outlook for advanced economies has improved for 2017–18, reflecting somewhat stronger activity in the second half of 2016 as well as a projected fiscal stimulus in the United States. Growth prospects have marginally worsened for emerging market and developing economies, where financial conditions have generally tightened. Near-term growth prospects were revised up for China, due to expected policy stimulus, but were revised down for a number of other large economies—most notably India, Brazil, and Mexico.*
- *This forecast is based on the assumption of a changing policy mix under a new administration in the United States and its global spillovers. Staff now project some near-term fiscal stimulus and a less gradual normalization of monetary policy. This projection is consistent with the steepening U.S. yield curve, the rise in equity prices, and the sizable appreciation of the U.S. dollar since the November 8 election. This WEO forecast also incorporates a firming of oil prices following the agreement among OPEC members and several other major producers to limit supply.*
- *While the balance of risks is viewed as being to the downside, there are also upside risks to near-term growth. Specifically, global activity could accelerate more strongly if policy stimulus turns out to be larger than currently projected in the United States or China. Notable negative risks to activity include a possible shift toward inward-looking policy platforms and protectionism, a sharper than expected tightening in global financial conditions that could interact with balance sheet weaknesses in parts of the euro area and in some emerging market economies, increased geopolitical tensions, and a more severe slowdown in China.*



## Developments in the second half of 2016

Global output growth is estimated at about 3 percent (at an annualized rate) for the third quarter of 2016—broadly unchanged relative to the first two quarters of the year. This stable average growth rate, however, masks divergent developments in different country groups. There has been a stronger-than-expected pickup in growth in advanced economies, due mostly to a reduced drag from inventories and some recovery in manufacturing output. In contrast, it is matched by an unexpected slowdown in some emerging market economies, mostly reflecting idiosyncratic factors. Forward-looking indicators such as purchasing managers' indices have remained strong in the fourth quarter in most areas.

Among advanced economies, activity rebounded strongly in the United States after a weak first half of 2016, and the economy is approaching full employment. Output remains below potential in a number of other advanced economies, notably in the euro area. Preliminary third-quarter growth figures were somewhat stronger than previously forecast in some economies, such as Spain and the United Kingdom, where domestic demand held up better than expected in the aftermath of the Brexit vote. Historical growth revisions indicate that Japan's growth rate in 2016 and in preceding years was stronger than previously estimated.<sup>1</sup>

The picture for emerging market and developing economies (EMDEs) remains much more diverse. The growth rate in China was a bit stronger than expected, supported by continued policy stimulus. But activity was weaker than expected in some Latin American countries currently in recession, such as Argentina and Brazil, as well as in Turkey,

which faced a sharp contraction in tourism revenues. Activity in Russia was slightly better than expected, in part reflecting firmer oil prices.

*Commodity prices and inflation.* Oil prices have increased in recent weeks, reflecting an agreement among major producers to trim supply. With strong infrastructure and real estate investment in China as well as expectations of fiscal easing in the United States, prices for base metals have also strengthened. Headline inflation rates have recovered in advanced economies in recent months with the bottoming out of commodity prices, but core inflation rates have remained broadly unchanged and generally below inflation targets. Inflation ticked up in China as capacity cuts and higher commodity prices have pushed producer price inflation to positive territory after more than four years of deflation. In other EMDEs, inflation developments have been heterogeneous, reflecting differing exchange rate movements and idiosyncratic factors.

*Financial market developments.* Long-term nominal and real interest rates have risen substantially since August (the reference period for the October 2016 WEO), particularly in the United Kingdom and in the United States since the November election. As of January 3, nominal yields on 10-year U.S. Treasury bonds have increased by close to one percentage point since August, and 60 basis points since the U.S. election. These changes have been mostly driven by an anticipated shift in the U.S. policy mix. Specifically, U.S. fiscal policy is projected to become more expansionary, with stronger future demand implying more inflationary pressure and a less gradual normalization of U.S. monetary policy. The increase in euro area long-term yields since August was more moderate—some 35 basis

---

<sup>1</sup> Due to the broadly parallel increase in IMF staff's estimate of potential growth, the revision did not materially change the estimate of Japan's output gap.

points in Germany but 70 basis points in Italy, reflecting elevated political and banking sector uncertainties. The U.S. Federal Reserve raised short-term interest rates in December, as expected, but in most other advanced economies the monetary policy stance has remained broadly unchanged. In emerging market economies, financial conditions were heterogeneous but generally tightened, with higher long-term interest rates on local-currency bonds, especially in emerging Europe and Latin America. Policy rate changes since August also reflected this heterogeneity—with rate hikes in Mexico and Turkey and cuts in Brazil, India, and Russia—as did changes in EMBI (Emerging Market Bond Index) spreads.

*Exchange rates and capital flows.* The U.S. dollar has appreciated in real effective terms by over 6 percent since August. The currencies of advanced commodity exporters have also strengthened, reflecting the firming of commodity prices, whereas the euro and especially the Japanese yen have weakened. Several emerging market currencies depreciated substantially in recent months—most notably the Turkish lira and the Mexican peso—while the currencies of several commodity exporters—most notably Russia—appreciated. Preliminary data point to sharp nonresident portfolio outflows from emerging markets in the wake of the U.S. election, following a few months of solid inflows.

## Forecast

Global growth for 2016 is now estimated at 3.1 percent, in line with the October 2016 forecast. Economic activity in both advanced economies and EMDEs is forecast to accelerate in 2017–18, with global growth projected to be 3.4 percent and 3.6 percent, respectively, again unchanged from the October forecasts.

Advanced economies are now projected to grow by 1.9 percent in 2017 and 2.0 percent in 2018, 0.1

and 0.2 percentage points more than in the October forecast, respectively. As noted, this forecast is particularly uncertain in light of potential changes in the policy stance of the United States under the incoming administration. The projection for the United States is the one with the highest likelihood among a wide range of possible scenarios. It assumes a fiscal stimulus that leads growth to rise to 2.3 percent in 2017 and 2.5 percent in 2018, a cumulative increase in GDP of ½ percentage point relative to the October forecast. Growth projections for 2017 have also been revised upward for Germany, Japan, Spain, and the United Kingdom, mostly on account of a stronger-than-expected performance during the latter part of 2016. These upward revisions more than offset the downward revisions to the outlook for Italy and Korea.

The primary factor underlying the strengthening global outlook over 2017–18 is, however, the projected pickup in EMDEs' growth. As discussed in the October WEO, this projection reflects to an important extent a gradual normalization of conditions in a number of large economies that are currently experiencing macroeconomic strains. EMDE growth is currently estimated at 4.1 percent in 2016, and is projected to reach 4.5 percent for 2017, around 0.1 percentage point weaker than the October forecast. A further pickup in growth to 4.8 percent is projected for 2018.

- Notably, the growth forecast for 2017 was revised up for China (to 6.5 percent, 0.3 percentage point above the October forecast) on expectations of continued policy support. However, continued reliance on policy stimulus measures, with rapid expansion of credit and slow progress in addressing corporate debt, especially in hardening the budget constraints of state-owned enterprises, raises the risk of a sharper slowdown or a disruptive adjustment. These risks can be exacerbated by capital outflow pressures,

especially in a more unsettled external environment.

- Nigeria's forecasts were also revised up, primarily reflecting higher oil production due to security improvements.

Growth forecasts for 2017 were instead revised down in a number of other regions:

- In India, the growth forecast for the current (2016–17) and next fiscal year were trimmed by one percentage point and 0.4 percentage point, respectively, primarily due to the temporary negative consumption shock induced by cash shortages and payment disruptions associated with the recent currency note withdrawal and exchange initiative.
- Elsewhere in emerging Asia, growth was also revised down in Indonesia, reflecting weaker-than-projected private investment, and in Thailand, in light of a slowdown in consumption and tourism.
- In Latin America, the growth downgrade reflects to an important extent more muted expectations of short-term recovery in Argentina and Brazil following weaker-than-expected growth outturns in the second half of 2016, tighter financial conditions and increased headwinds from U.S.-related uncertainty in Mexico, and continued deterioration in Venezuela.
- In the Middle East, growth in Saudi Arabia is expected to be weaker than previously forecast in 2017 as oil production is cut back in line with the recent OPEC agreement, while civil strife continues to take a heavy toll on a number of other countries.

## Risks

Risks to the global growth outlook are two sided but are assessed to be skewed to the downside, especially over the medium term:

- Recent political developments highlight a fraying consensus about the benefits of cross-border economic integration. A potential widening of global imbalances coupled with sharp exchange rate movements, should those occur in response to major policy shifts, could further intensify protectionist pressures. Increased restrictions on global trade and migration would hurt productivity and incomes, and take an immediate toll on market sentiment.
- In those advanced economies where balance sheets remain impaired, an extended shortfall in private demand and inadequate progress on reforms (including bank balance sheet repair) could lead to permanently lower growth and inflation, with negative implications for debt dynamics.
- In addition to the risks already mentioned in the previous section, underlying vulnerabilities remain among some other large emerging market economies. High corporate debt, declining profitability, weak bank balance sheets, and thin policy buffers imply that these economies are still exposed to tighter global financial conditions, capital flow reversals, and the balance sheet implications of sharp depreciations. In many low-income economies, low commodity prices and expansionary policies have eroded fiscal buffers and led in some cases to a precarious economic situation, heightening their vulnerability to further external shocks.

- Geopolitical risks and a range of other noneconomic factors continue to weigh on the outlook in various regions—civil war and domestic conflict in parts of the Middle East and Africa, the tragic plight of refugees and migrants in neighboring countries and in Europe, acts of terror worldwide, the protracted effects of a drought in eastern and southern Africa, and the spread of the Zika virus. If these factors intensify, they would deepen the hardship in directly affected countries. Increased geopolitical tensions and terrorism could also take a large toll on global market sentiment and economic confidence.
- On the upside, the support to activity from policy stimulus in the United States and/or China could turn out to be larger than what has been incorporated into current forecasts, which also would result in a stronger pickup of activity in their trading partners unless the positive spillovers are tempered by protectionist trade policies. Upside risks also include higher investment if confidence in the recovery of global demand strengthens, as some financial market indicators seem to suggest.
- In those advanced economies where output gaps are still negative and wage pressures muted, the risk of persistent low inflation (or deflation, in some cases) remains. Monetary policy therefore must remain accommodative, relying on unconventional strategies as needed. But accommodative monetary policy alone cannot lift demand sufficiently, and fiscal support—calibrated to the amount of space available and oriented toward policies that protect the vulnerable and lift medium-term growth prospects—therefore remains essential for generating momentum. In cases where fiscal adjustment cannot be postponed, its pace and composition should be calibrated to minimize the drag on output.
- In those advanced economies without substantially negative output gaps, any fiscal support should be targeted toward strengthening safety nets (including for aiding the integration of refugees in some cases) and increasing longer-term potential output through high-quality infrastructure investment and supply-friendly and equitable tax reform. In such cases, well-anchored inflation expectations should allow for a gradual pace in the normalization of monetary policy.

## Policies

The baseline forecast for the global economy points to a pickup in growth over the rest of the forecast horizon from its subdued pace this year, in the context of positive financial market sentiment, especially in advanced economies. Nonetheless, the potential for disappointments is high, as underscored by repeated growth markdowns in recent years. Against this backdrop, and given the diversity in cyclical positions and policy space, priorities differ across individual economies:

- More broadly, accommodative macroeconomic policies must be accompanied by and support structural reforms that can counteract waning potential growth—including efforts to boost labor force participation, encourage investments in skills, improve the matching process in labor markets, liberalize entry into closed professions, increase dynamism and innovation in product and service markets, and promote business investment, including in research and development.

- Emerging market and developing economies face starkly diverse cyclical positions and structural challenges. In general, enhancing financial resilience can reduce the vulnerability to a tightening of global financial conditions, sharp currency movements, and the risk of capital flow reversals. Economies with large and rising nonfinancial debt, unhedged foreign liabilities, or heavy reliance on short-term borrowing to fund longer-term investments must adopt stronger risk management practices and contain balance sheet mismatches.
- In low-income countries that have seen their fiscal buffers decrease over the last few years, the priority is to restore those buffers while continuing to spend efficiently on critical capital needs and social outlays, strengthen debt management, improve domestic revenue mobilization, and implement structural reforms—including in education—that pave the way for economic diversification and higher productivity.
- For the countries hardest hit by the decline in commodity prices, the recent market firming provides some relief, but the adjustment to reestablish macroeconomic stability is urgent. This implies allowing the exchange rate to adjust in countries not relying on an exchange rate peg, tightening monetary policy where needed to tackle increases in inflation, and ensuring that needed fiscal consolidation is as growth-friendly as possible. The latter is particularly important in countries with pegs, where the exchange rate cannot act as a shock absorber. Over the longer term, countries highly dependent on one or a few commodity products should work to diversify their export bases.
- With growth weak and policy space limited in many countries, continued *multilateral effort* is required in several areas to minimize risks to financial stability and sustain global improvements in living standards. This effort must proceed simultaneously on a number of fronts. To share the long-term benefits of economic integration more broadly, policymakers must ensure that well-targeted initiatives are in place to help those adversely affected by trade opening and to facilitate their ability to find jobs in the sectors of the economy that are expanding. Economic fairness also calls for multilateral and national efforts to crack down on tax evasion and prevent tax avoidance practices. Efforts to strengthen the resilience of the financial system must continue, including by recapitalizing institutions and cleaning up balance sheets where necessary, ensuring effective national and international banking resolution frameworks, and addressing emerging risks from nonbank intermediaries. A stronger global safety net can protect economies with robust fundamentals that may nevertheless be vulnerable to cross-border contagion and spillovers. Last but not least, multilateral cooperation is also indispensable to address important longer-term global challenges, such as meeting the 2015 Sustainable Development Goals, mitigating and coping with climate change, and preventing the spread of global epidemics.

Table 1. Overview of the World Economic Outlook Projections

(Percent change unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
	2015	Estimate	Projections		Difference from October 2016 WEO Projections 1/		2016	2017	2018
		2016	2017	2018	2017	2018			
<b>World Output</b>	<b>3.2</b>	<b>3.1</b>	<b>3.4</b>	<b>3.6</b>	<b>0.0</b>	<b>0.0</b>	<b>3.1</b>	<b>3.6</b>	<b>3.6</b>
<b>Advanced Economies</b>	<b>2.1</b>	<b>1.6</b>	<b>1.9</b>	<b>2.0</b>	<b>0.1</b>	<b>0.2</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>
United States	2.6	1.6	2.3	2.5	0.1	0.4	1.9	2.3	2.5
Euro Area	2.0	1.7	1.6	1.6	0.1	0.0	1.6	1.6	1.5
Germany	1.5	1.7	1.5	1.5	0.1	0.1	1.7	1.6	1.5
France	1.3	1.3	1.3	1.6	0.0	0.0	1.1	1.7	1.5
Italy	0.7	0.9	0.7	0.8	-0.2	-0.3	1.0	0.7	0.8
Spain	3.2	3.2	2.3	2.1	0.1	0.2	2.9	2.2	2.0
Japan 3/	1.2	0.9	0.8	0.5	0.2	0.0	1.5	0.8	0.5
United Kingdom	2.2	2.0	1.5	1.4	0.4	-0.3	2.1	1.0	1.8
Canada	0.9	1.3	1.9	2.0	0.0	0.1	1.6	2.0	2.0
Other Advanced Economies 4/	2.0	1.9	2.2	2.4	-0.1	0.0	1.7	2.5	2.6
<b>Emerging Market and Developing Economies</b>	<b>4.1</b>	<b>4.1</b>	<b>4.5</b>	<b>4.8</b>	<b>-0.1</b>	<b>0.0</b>	<b>4.2</b>	<b>5.1</b>	<b>5.1</b>
Commonwealth of Independent States	-2.8	-0.1	1.5	1.8	0.1	0.1	0.3	1.3	1.5
Russia	-3.7	-0.6	1.1	1.2	0.0	0.0	0.3	1.1	1.3
Excluding Russia	-0.5	1.1	2.5	3.3	0.2	0.4	...	...	...
Emerging and Developing Asia	6.7	6.3	6.4	6.3	0.1	0.0	6.1	6.6	6.3
China	6.9	6.7	6.5	6.0	0.3	0.0	6.6	6.5	6.0
India 5/	7.6	6.6	7.2	7.7	-0.4	0.0	6.2	7.9	7.6
ASEAN-5 6/	4.8	4.8	4.9	5.2	-0.2	0.0	4.3	5.3	5.3
Emerging and Developing Europe	3.7	2.9	3.1	3.2	0.0	0.0	2.8	2.6	3.3
Latin America and the Caribbean	0.1	-0.7	1.2	2.1	-0.4	-0.1	-0.7	1.7	2.0
Brazil	-3.8	-3.5	0.2	1.5	-0.3	0.0	-1.9	1.4	1.7
Mexico	2.6	2.2	1.7	2.0	-0.6	-0.6	1.9	1.4	2.4
Middle East, North Africa, Afghanistan, and Pakistan	2.5	3.8	3.1	3.5	-0.3	-0.1	...	...	...
Saudi Arabia 7/	4.1	1.4	0.4	2.3	-1.6	-0.3	...	...	...
Sub-Saharan Africa	3.4	1.6	2.8	3.7	-0.1	0.1	...	...	...
Nigeria	2.7	-1.5	0.8	2.3	0.2	0.7	...	...	...
South Africa	1.3	0.3	0.8	1.6	0.0	0.0	0.6	1.0	1.9
<i>Memorandum</i>									
Low-Income Developing Countries	4.6	3.7	4.7	5.4	-0.2	0.2	...	...	...
World Growth Based on Market Exchange Rates	2.6	2.4	2.8	3.0	0.0	0.1	2.5	2.9	2.9
<b>World Trade Volume (goods and services) 8/</b>	<b>2.7</b>	<b>1.9</b>	<b>3.8</b>	<b>4.1</b>	<b>0.0</b>	<b>-0.1</b>	...	...	...
Advanced Economies	4.0	2.0	3.6	3.8	-0.1	-0.3	...	...	...
Emerging Market and Developing Economies	0.3	1.8	4.0	4.7	0.1	0.4	...	...	...
<b>Commodity Prices (U.S. dollars)</b>									
Oil 9/	-47.2	-15.9	19.9	3.6	2.0	-1.2	15.0	7.6	2.5
Nonfuel (average based on world commodity export weights)	-17.4	-2.7	2.1	-0.9	1.2	-0.2	6.6	0.2	-1.4
<b>Consumer Prices</b>									
Advanced Economies	0.3	0.7	1.7	1.9	0.0	0.0	1.0	1.8	2.0
Emerging Market and Developing Economies 10/	4.7	4.5	4.5	4.4	0.1	0.2	3.9	4.0	3.9
<b>London Interbank Offered Rate (percent)</b>									
On U.S. Dollar Deposits (six month)	0.5	1.0	1.7	2.8	0.4	0.7	...	...	...
On Euro Deposits (three month)	-0.0	-0.3	-0.3	-0.2	0.1	0.2	...	...	...
On Japanese Yen Deposits (six month)	0.1	0.0	0.0	0.0	0.1	0.1	...	...	...

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during November 4-December 2, 2016. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted.

1/ Difference based on rounded figures for both the current and October 2016 *World Economic Outlook* forecasts.

2/ For World Output, the quarterly estimates and projections account for approximately 90 percent of annual world output at purchasing-power-parity weights. For Emerging Market and Developing Economies, the quarterly estimates and projections account for approximately 80 percent of annual emerging market and developing economies' output at purchasing-power-parity weights.

3/ Japan's historical national accounts figures reflect a comprehensive revision by the national authorities, released in December 2016. The main revisions are the switch from the System of National Accounts 1993 to the System of National Accounts 2008 and the updating of the benchmark year from 2005 to 2011.

4/ Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

5/ For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY2011/12 as a base year.

6/ Indonesia, Malaysia, Philippines, Thailand, Vietnam.

7/ At the time of finalizing the forecasts for Saudi Arabia, a revised quarterly GDP series consistent with the new annual GDP data had not been published. Hence, Q4-over-Q4 data are not shown.

8/ Simple average of growth rates for export and import volumes (goods and services).

9/ Simple average of prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$42.7 in 2016; the assumed price based on futures markets (as of December 6, 2016) is \$51.2 in 2017 and \$53.1 in 2018.

10/ Excludes Argentina and Venezuela.