



WORLD ECONOMIC OUTLOOK

January 2018

Research Department, International Monetary Fund

Global activity has gained further momentum

- **Global growth** picked up further in 2017H2; outlook is for higher annual growth in 2018 and 2019
 - **Advanced Economies** (AE): stronger cyclical recovery in near term, subdued potential growth in medium term
 - **Emerging Market and Developing Economies** (EMDE): activity in stressed economies bottoming out, commodity importers generally projected to maintain high growth rates
- **Inflation** remains subdued
- **Risks** skewed to the downside in the medium term
- **Policy priorities:** macroeconomic management needs vary; common goals are to boost potential output, increase resilience, and make growth more inclusive

Forces shaping the outlook

Advanced economies

- **Cyclical sweet spot:** growth accelerates but inflation remains subdued
- **Supportive financial conditions**
- Varying degrees of **post-crisis repair**
- Demographic headwinds

Emerging market and developing economies

Ongoing forces...



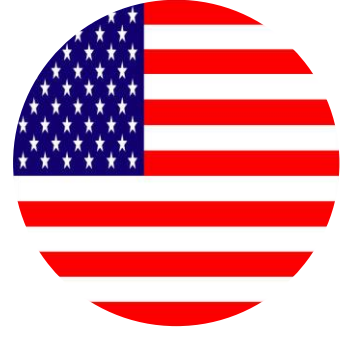

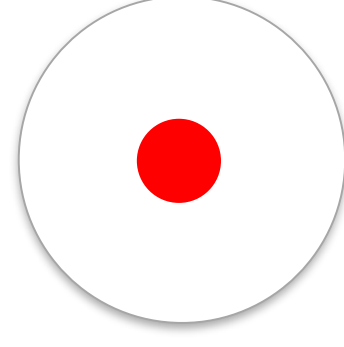



- **Commodity price recovery** offers cyclical respite, but adjustment still needed
- **China's rebalancing** and transition
- **Geopolitical and political factors**

...overlaid on...

- Demographic trends
- **Weak productivity growth**

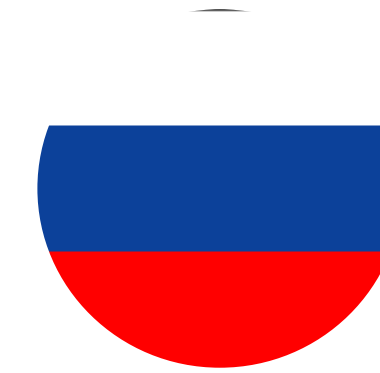
Growth projections: Advanced economies

(percent change from a year earlier)

	 World	 Advanced Economies	 U.S.	 U.K.	 Japan	 Euro Area	 Germany	 Canada
2017	3.7	2.3	2.3	1.7	1.8	2.4	2.5	3.0
2018	3.9	2.3	2.7	1.5	1.2	2.2	2.3	2.3
Revision from Oct. 2017	0.2	0.3	0.4	0.0	0.5	0.3	0.5	0.2
2019	3.9	2.2	2.5	1.5	0.9	2.0	2.0	2.0
Revision from Oct. 2017	0.2	0.4	0.6	-0.1	0.1	0.3	0.5	0.3

Growth projections: Emerging markets and LIDCs

(percent change from a year earlier)



World

Emerging
Market and
Developing
Economies

China

India

Brazil

Russia

South
Africa

Sub-
Saharan
Africa

2017

3.7

4.7

6.8

6.7

1.1

1.8

0.9

2.7

2018

3.9

4.9

6.6

7.4

1.9

1.7

0.9

3.3

Revision from
Oct. 2017

0.2

0.0

0.1

0.0

0.4

0.1

-0.2

-0.1

2019

3.9

5.0

6.4

7.8

2.1

1.5

0.9

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Revision from
Oct. 2017

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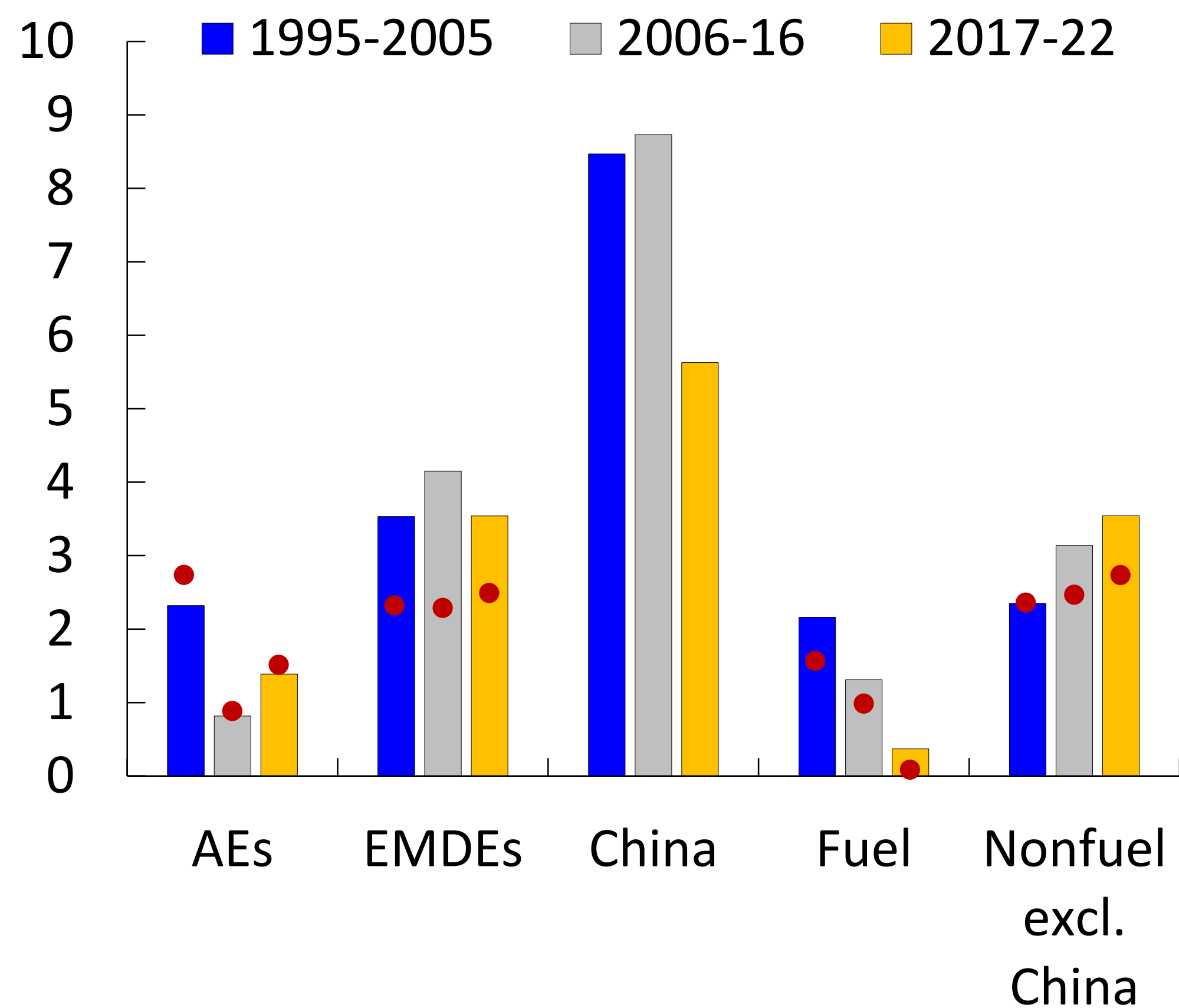
Recovery “falls short” in a few areas

- Underlying inflation remains below target in AEs
- Medium term growth projections in AEs and commodity-exporting EMDEs fall short of past averages
- In over $\frac{1}{4}$ of EMDEs, real per capita GDP is not projected to converge toward AE levels over 2017-22

Per capita real GDP growth set to remain below past averages in AEs and commodity (especially fuel) exporters

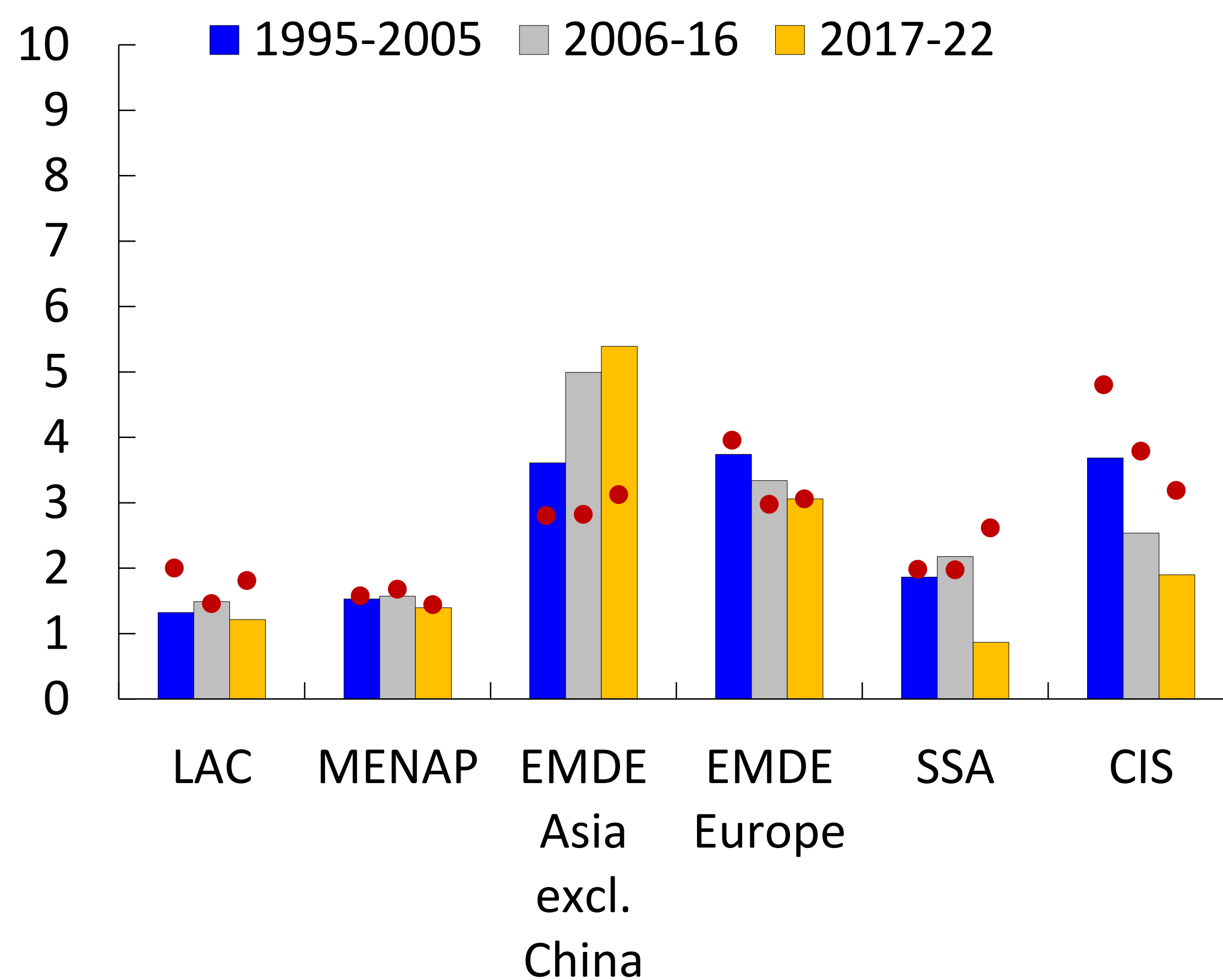
Per Capita Real GDP Growth across Country Groups

(percent)



Emerging Market and Developing Economies, by Region

(percent)

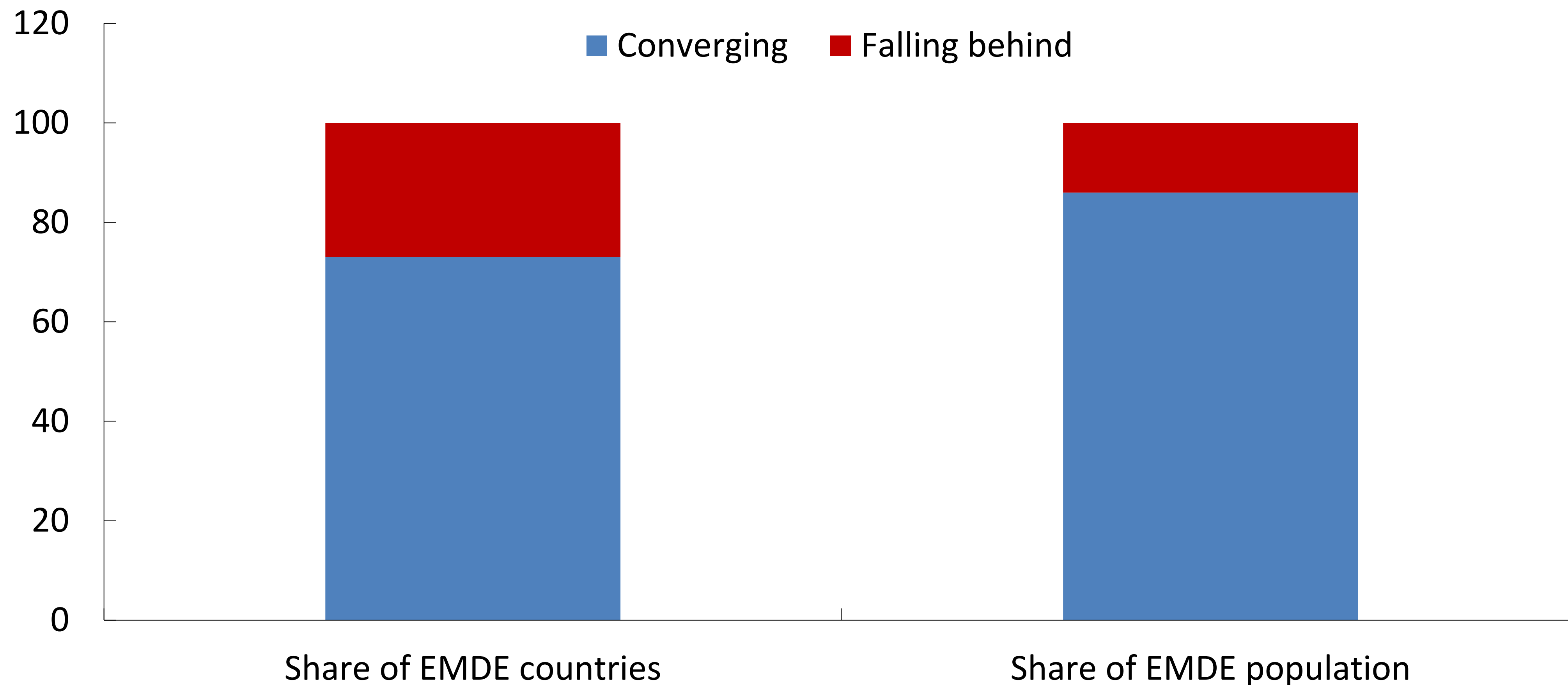


Source and notes: IMF staff calculations. Medians are shown by red dots.

About a quarter of EMDEs are not projected to see income convergence toward AEs in 2017-22

Share of EMDE Countries and Population Converging or Falling Behind (2017-22)

(percent)



Risks skewed to the downside over the medium term

- Financial tensions
 - **A potential tightening of global financial conditions:**
 - Accumulation of vulnerabilities that come to the fore over the medium term, risk off sentiment returns ;
 - or inflation surprise in US triggers faster than expected Fed interest rate normalization
 - **Risks of capital flow reversals**
 - **Financial deregulation:** broad rollback of regulatory reforms could foster excessive risk-taking
- Threats to global economic integration
- Non-economic factors

Use the cyclical upswing: undertake structural reforms to bolster potential output, make growth more inclusive, reduce risks

Advanced economies

- Cyclical support where demand, inflation are weak
- In some cases, if inflationary pressure surprises on upside, monetary policy normalization may need to proceed faster than currently anticipated
- Boost potential output, strengthen safety nets, make growth more inclusive
- Rebuild fiscal buffers

Emerging market and developing economies

- Structural reforms to boost potential output, make growth more inclusive
- Support for rebalancing and tame credit growth in China
- Adjustment to lower commodity revenues in exporters
- Contain financial risks in vulnerable EMDEs

