World Economic Outlook UPDATE
An update of the key WEO projections

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A Firming Recovery

- *The pickup in global growth anticipated in the April* World Economic Outlook *remains on track, with global output projected to grow by 3.5 percent in 2017 and 3.6 percent in 2018. The unchanged global growth projections mask somewhat different contributions at the country level. U.S. growth projections are lower than in April, primarily reflecting the assumption that fiscal policy will be less expansionary going forward than previously anticipated. Growth has been revised up for Japan and especially the euro area, where positive surprises to activity in late 2016 and early 2017 point to solid momentum. China's growth projections have also been revised up, reflecting a strong first quarter of 2017 and expectations of continued fiscal support. Inflation in advanced economies remains subdued and generally below targets; it has also been declining in several emerging economies, such as Brazil, India, and Russia.*

- *While risks around the global growth forecast appear broadly balanced in the near term, they remain skewed to the downside over the medium term. On the upside, the cyclical rebound could be stronger and more sustained in Europe, where political risk has diminished. On the downside, rich market valuations and very low volatility in an environment of high policy uncertainty raise the likelihood of a market correction, which could dampen growth and confidence. The more supportive policy tilt in China, especially strong credit growth, comes with rising downside risks to medium-term growth. Monetary policy normalization in some advanced economies, notably the United States, could trigger a faster-than-anticipated tightening in global financial conditions. And other risks discussed in the April 2017 WEO, including a turn toward inward-looking policies and geopolitical risks, remain salient.*

- *Projected global growth rates for 2017–18, though higher than the 3.2 percent estimated for 2016, are below pre-crisis averages, especially for most advanced economies and for commodity-exporting emerging and developing economies. Among the former, many face excess capacity as well as headwinds to potential growth from aging populations, weak investment, and slowly advancing productivity. In view of weak core inflation and muted wage pressures, policy settings should remain consistent with lifting inflation expectations in line with targets, closing output gaps, and—where appropriate—external rebalancing. Reforms to boost potential output are of the essence, and slow aggregate output growth makes it even more important that gains are shared widely across the income distribution. Financial stability risks need close monitoring in many emerging economies. Commodity exporters should continue adjusting to lower revenues, while diversifying their sources of growth over time.*

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The Global Economy Maintains Momentum

The cyclical recovery continues. Growth outturns in the first quarter of 2017 were higher than the April WEO forecasts in large emerging and developing economies such as Brazil, China, and Mexico, and in several advanced economies including Canada, France, Germany, Italy, and Spain. High-frequency indicators for the second quarter provide signs of continued strengthening of global activity. Specifically, growth in global trade and industrial production remained well above 2015–16 rates despite retreating from the very strong pace registered in late 2016 and early 2017. Purchasing managers' indices (PMIs) signal sustained strength ahead in manufacturing and services.

Commodities and inflation. Oil prices have receded, reflecting strong inventory levels in the United States and a pickup in supply. Headline inflation also generally softened as the impact of the commodity price rebound of the second half of 2016 faded, and remains at levels well below central bank targets in most advanced economies. Core inflation has remained broadly stable. It has largely been stable in emerging economies as well, with a few, such as Brazil and Russia, witnessing strong declines.

Bond and equity markets. Long-term bond yields in advanced economies, which had declined since March, rebounded in late June and early July. The U.S. Federal Reserve raised short-term interest rates in June, but markets still expect a very gradual path of U.S. monetary policy normalization. Bond spreads over Germany have compressed sharply in France, Italy, and Spain on reduced electoral uncertainty and firming signs of recovery. Equity prices in advanced economies remain strong, signaling continued market optimism regarding corporate earnings. Markets are also optimistic about emerging market prospects as reflected in strengthening equity markets and some further compression of interest rate spreads. Oil exporters provide an exception to this pattern, in light of the marked weakening of oil prices since March.

Exchange rates and capital flows. As of end-June, the U.S. dollar has depreciated by around 3½ percent in real effective terms since March, while the euro has strengthened by a similar amount on increased confidence in the euro area recovery and a decline in political risk. Over the same period, exchange rate changes across emerging market currencies have been relatively modest, with some strengthening of the Mexican peso on tighter monetary policy and reduced concerns about U.S. trade frictions, and a depreciation of the Brazilian real on renewed political uncertainty. Capital flows to emerging economies have been resilient in the first few months of 2017, with a notable pickup in non-resident portfolio inflows.

Global Growth Forecast to Pick up in 2017 and 2018

Global growth for 2016 is now estimated at 3.2 percent, slightly stronger than the April 2017 forecast, primarily reflecting much higher growth in Iran and stronger activity in India following national accounts revisions. Economic activity in both advanced economies and emerging and developing economies is forecast to accelerate in 2017, to 2 percent and 4.6 percent respectively, with global growth projected to be 3.5 percent, unchanged from the April forecast. The growth forecast for 2018 is 1.9 percent for advanced economies, 0.1 percentage point below the April 2017 WEO, and 4.8 percent for emerging and developing economies, the same as in the spring. The 2018 global growth forecast is unchanged at 3.6 percent. The revisions reflect primarily the macroeconomic implications of changes in policy assumptions for the world's two largest economies, the United States and China, as discussed below.

Advanced economies

- The growth forecast in the **United States** has been revised down from 2.3 percent to 2.1 percent in 2017 and from 2.5 percent to 2.1 percent in 2018. While the markdown in the 2017 forecast reflects in part the weak growth outturn in the first quarter of the year, the major factor behind the growth revision, especially for 2018, is the assumption that fiscal policy will be less expansionary than previously assumed, given the uncertainty about the timing and nature of U.S. fiscal policy changes. Market expectations of fiscal stimulus have also receded.

- The growth forecast has also been revised down for the **United Kingdom** for 2017 on weaker-than-expected activity in the first quarter.

- By contrast, growth projections for 2017 have been revised up for many **euro area countries**, including France, Germany, Italy, and Spain, where growth for the first quarter of 2017 was generally above expectations. This, together with positive growth revisions for the last quarter of 2016 and high-frequency indicators for the second quarter of 2017, indicate stronger momentum in domestic demand than previously anticipated.

- The growth forecast for 2017 was also revised up for **Canada**, where buoyant domestic demand boosted first-quarter growth to 3.7 percent and indicators suggest resilient second-quarter activity, and marginally for **Japan**, where private consumption, investment, and exports supported first-quarter growth.

Emerging and developing economies

Emerging and developing economies are projected to see a sustained pickup in activity, with growth rising from 4.3 percent in 2016 to 4.6 percent in 2017 and 4.8 percent in 2018. These forecasts reflect upward revisions, relative to April, of 0.2 percentage point for 2016, and 0.1 percentage point for 2017. As in the most recent WEO forecast vintages, growth is primarily driven by commodity importers, but its pickup reflects to an important extent gradually improving conditions in large commodity exporters that experienced recessions in 2015–16, in many cases caused or exacerbated by declining commodity prices.

- **China's** growth is expected to remain at 6.7 percent in 2017, the same level as in 2016, and to decline only modestly in 2018 to 6.4 percent. The forecast for 2017 was revised up by 0.1 percentage point, reflecting the stronger than expected outturn in the first quarter of the year underpinned by previous policy easing and supply-side reforms (including efforts to reduce excess capacity in the industrial sector). For 2018, the upward revision of 0.2 percentage point mainly reflects an expectation that the authorities will delay the needed fiscal adjustment (especially by maintaining high public investment) to meet their target of doubling 2010 real GDP by 2020. Delay comes at the cost of further large increases in debt, however, so downside risks around this baseline have also increased.

- Growth in **India** is forecast to pick up further in 2017 and 2018, in line with the April 2017 forecast. While activity slowed following the currency exchange initiative, growth for 2016—at 7.1 percent—was higher than anticipated due to strong government spending and data revisions that show stronger momentum in the first part of the year. With a pickup in global trade and strengthening domestic demand, growth in the ASEAN-5 economies is projected to remain robust at around 5 percent, with generally strong first quarter outturns leading to a slight upward revision for 2017 relative to the April WEO.

- In **Emerging and Developing Europe**, growth is projected to pick up in 2017, primarily driven by a higher growth forecast for Turkey, where exports recovered strongly in the last quarter of 2016 and the first quarter of 2017 following four quarters of moderate contraction, and external demand is projected to be stronger with improved prospects for euro area trading partners. The Russian economy is projected to recover gradually in 2017 and 2018, in line with the April forecast.

- After contracting in 2016, economic activity in **Latin America** is projected to recover gradually in 2017–18 as a few countries—including Argentina and Brazil—exit their recessions. In comparison to the April 2017 WEO, Brazil's growth forecast for 2017 is now higher in light of the strong first quarter, but ongoing weakness in domestic demand and an increase in political and policy uncertainty will be reflected in a more subdued pace of recovery, and hence in lower projected growth in 2018. Mexico's growth forecast for 2017 is revised up from 1.7 to 1.9 percent on the back of strong activity in the first quarter of the year, with an unchanged forecast for 2018. Revisions for the rest of the region are mostly to the downside, including a further deterioration of conditions in Venezuela.

- Growth in the **Middle East, North Africa, Afghanistan, and Pakistan region** is projected to slow considerably in 2017, reflecting primarily a slowdown in activity in oil exporters, before recovering in 2018. The 2017–18 forecast is broadly unchanged relative to the April 2017 WEO, but the growth outcome in 2016 is estimated to have been considerably stronger in light of higher growth in Iran. The recent decline in oil prices, if sustained, could weigh further on the outlook for the region's oil exporters.

- In **Sub-Saharan Africa**, the outlook remains challenging. Growth is projected to rise in 2017 and 2018, but will barely return to positive territory in per capita terms this year for the region as a whole—and would remain negative for about a third of the countries in the region. The slight upward revision to 2017 growth relative to the April 2017 WEO forecast reflects a modest upgrading of growth prospects for South Africa, which is experiencing a bumper crop due to better rainfall and an increase in mining output prompted by a moderate rebound in commodity prices. However, the outlook for South Africa remains difficult, with elevated political uncertainty and weak consumer and business confidence, and the country's growth forecast was consequently marked down for 2018.

Risks

Short-term risks are broadly balanced, but medium-term risks are still skewed to the downside. Risks to the U.S. forecast are two sided: the implementation of a fiscal stimulus (such as revenue-reducing tax reform) could drive U.S. demand and output growth above the baseline forecast, while implementation of the expenditure-based consolidation proposed in the Administration's budget would drive them lower. On the upside, the pickup in activity in the euro area, with buoyant market sentiment and reduced political risks, could be stronger and more durable than currently projected. On the downside, protracted policy uncertainty or other shocks could trigger a correction in rich market valuations, especially for equities, and an increase in volatility from current very low levels. In turn, this could dent spending and confidence more generally, especially in countries with high financial vulnerabilities. Lower commodity prices would further exacerbate macroeconomic strains and complicate adjustment needs in many commodity exporters. Other downside risks threatening the strength and durability of the recovery include:

- *A more protracted period of policy uncertainty.* Despite a decline in election-related risks, policy uncertainty remains at a high level and could well rise further, reflecting—for example—difficult-to-predict U.S. regulatory and fiscal policies, negotiations of post-Brexit arrangements, or geopolitical risks. This could harm confidence, deter private investment, and weaken growth.

- *Financial tensions.* In China, failure to continue the recent focus on addressing financial sector risks and curb excessive credit growth (mainly through tighter macroprudential policy settings) could result in an abrupt growth slowdown, with adverse spillovers to other countries through trade, commodity price, and confidence channels. A faster-than-expected monetary policy normalization in the United States could tighten global financial conditions and trigger reversals in capital flows to emerging economies, along with U.S. dollar appreciation, straining emerging economies with large leverage, U.S. dollar pegs, or balance sheet mismatches. At the same time, to the extent that such monetary policy tightening reflects a stronger U.S. outlook, U.S. trading partners would benefit from positive demand spillovers. In some euro area countries, weak bank balance sheets and an unfavorable profitability outlook could interact with higher political risks to reignite financial stability concerns, and a rise in long-term interest rates would worsen public debt dynamics. Finally, a broad rollback of the strengthening of financial regulation and oversight achieved since the crisis—both nationally and internationally—could lower capital and liquidity buffers or weaken supervisory effectiveness, with negative repercussions for global financial stability.

- *Inward-looking policies.* Over the longer term, failure to lift potential growth and make growth more inclusive could fuel protectionism and hinder market-friendly reforms. The results could include disrupted global supply chains, lower global productivity, and less affordable tradable consumer goods, which harm low-income households disproportionately.

- *Noneconomic factors*. Rising geopolitical tensions, domestic political discord, and shocks arising from weak governance and corruption can all weigh on economic activity.

These risks are interconnected and can be mutually reinforcing. For example, an inward turn in policies could be associated with increased geopolitical tensions as well as with rising global risk aversion; noneconomic shocks can weigh directly on economic activity as well as harm confidence and market sentiment; and a faster-than-anticipated tightening of global financial conditions or a shift toward protectionism in advanced economies could reignite capital outflow pressures from emerging markets.

Policies

Policy choices will therefore be crucial in shaping the outlook and reducing risks.

- *Strengthening the momentum.* With countries at present facing divergent cyclical conditions, differing stances of monetary and fiscal policy remain appropriate. In advanced economies where demand is still lacking and inflation too low, monetary and (where feasible) fiscal support should continue; elsewhere monetary policy should normalize gradually, in line with economic developments, and fiscal policy should focus on supporting reforms aimed at expanding the economy's supply potential. Countries in need of fiscal consolidation should do so with growth-friendly measures. Emerging market economies should continue to allow exchange rates to buffer shocks, wherever possible.

- *Making growth resilient and balanced.* Efforts to accelerate private sector balance sheet repair and ensure sustainability of public debt are critical foundations for a resilient recovery. So are efforts from surplus and deficit countries alike to reduce excess current account imbalances.

- *Sustaining high and inclusive growth in the long term.* This goal calls for well-sequenced and tailored structural reforms to boost productivity and investment, measures to narrow gender labor force participation gaps, and active support for those hurt by shifts in technology or trade.

- *Enhancing resilience in low-income countries.* Among low-income developing countries, commodity exporters generally need sizable adjustment to correct macroeconomic imbalances, a challenge that would be exacerbated for fuel exporters by a persistent decline in oil prices. Policy priorities for diversified low-income developing countries vary, given the diversity of country circumstances, but an overarching goal for these economies should be to enhance resilience against potential future shocks by strengthening fiscal positions and foreign reserves holdings while growth is strong.

- *Working toward shared prosperity.* A well-functioning multilateral framework for international economic relations is another key ingredient of strong, sustainable, balanced, and inclusive growth. Pursuit of zero-sum policies can only end by hurting all countries, as history shows. Because national policies inevitably interact and create spillovers across countries, the world economy works far better for all when policymakers engage in regular dialogue and work within agreed mechanisms to resolve disagreements. A rule-based and open world trading system is especially vital for global prosperity, but it must be supported by domestic policies to facilitate adjustment, not only to trade but to rapid technological change.

- *Cooperating to ensure evenhandedness.* At the same time, the international community should continue to adapt the multilateral system to the changing global economy. Active dialogue and cooperation will help to improve and modernize the rules, while addressing valid country concerns. This process will ensure continued mutual benefits and evenhandedness. Together with strong domestic policies, it will also help avoid a broad withdrawal from multilateralism, either through widespread protectionism or a competitive race to the bottom in financial and regulatory oversight, which would leave all countries worse off.

Table 1. Overview of the *World Economic Outlook* Projections

(Percent change unless noted otherwise)

	Year over Year								
					Difference from April 2017 WEO Projections 1/		Q4 over Q4 2/		
		Estimate	Projections				Estimate	Projections	
	2015	2016	2017	2018	2017	2018	2016	2017	2018
World Output	**3.4**	**3.2**	**3.5**	**3.6**	**0.0**	**0.0**	**3.2**	**3.5**	**3.7**
Advanced Economies	**2.1**	**1.7**	**2.0**	**1.9**	**0.0**	**–0.1**	**2.0**	**1.9**	**1.9**
United States	2.6	1.6	2.1	2.1	–0.2	–0.4	2.0	2.0	2.3
Euro Area	2.0	1.8	1.9	1.7	0.2	0.1	1.8	1.9	1.7
Germany	1.5	1.8	1.8	1.6	0.2	0.1	1.8	1.9	1.5
France	1.1	1.2	1.5	1.7	0.1	0.1	1.2	1.7	1.5
Italy	0.8	0.9	1.3	1.0	0.5	0.2	1.1	1.1	1.0
Spain	3.2	3.2	3.1	2.4	0.5	0.3	3.0	3.0	2.1
Japan	1.1	1.0	1.3	0.6	0.1	0.0	1.6	1.2	0.5
United Kingdom	2.2	1.8	1.7	1.5	–0.3	0.0	1.9	1.4	1.4
Canada	0.9	1.5	2.5	1.9	0.6	–0.1	2.0	2.3	2.0
Other Advanced Economies 3/	2.0	2.2	2.3	2.4	0.0	0.0	2.5	2.1	2.7
Emerging Market and Developing Economies	**4.3**	**4.3**	**4.6**	**4.8**	**0.1**	**0.0**	**4.2**	**4.9**	**5.2**
Commonwealth of Independent States	–2.2	0.4	1.7	2.1	0.0	0.0	0.6	1.5	2.0
Russia	–2.8	–0.2	1.4	1.4	0.0	0.0	0.3	1.5	1.8
Excluding Russia	–0.5	1.8	2.5	3.5	0.0	0.0	. . .	. . .	. . .
Emerging and Developing Asia	6.8	6.4	6.5	6.5	0.1	0.1	6.3	6.6	6.5
China	6.9	6.7	6.7	6.4	0.1	0.2	6.8	6.4	6.4
India 4/	8.0	7.1	7.2	7.7	0.0	0.0	6.0	8.0	7.6
ASEAN-5 5/	4.9	4.9	5.1	5.2	0.1	0.0	4.8	5.2	5.2
Emerging and Developing Europe	4.7	3.0	3.5	3.2	0.5	–0.1	3.3	2.0	4.2
Latin America and the Caribbean	0.1	–1.0	1.0	1.9	–0.1	–0.1	–1.3	1.6	2.1
Brazil	–3.8	–3.6	0.3	1.3	0.1	–0.4	–2.5	1.5	1.7
Mexico	2.6	2.3	1.9	2.0	0.2	0.0	2.3	0.9	3.2
Middle East, North Africa, Afghanistan, and Pakistan	2.7	5.0	2.6	3.3	0.0	–0.1	. . .	. . .	. . .
Saudi Arabia	4.1	1.7	0.1	1.1	–0.3	–0.2	2.2	0.6	1.4
Sub-Saharan Africa	3.4	1.3	2.7	3.5	0.1	0.0	. . .	. . .	. . .
Nigeria	2.7	–1.6	0.8	1.9	0.0	0.0	. . .	. . .	. . .
South Africa	1.3	0.3	1.0	1.2	0.2	–0.4	0.4	1.3	1.1
Memorandum									
Low-Income Developing Countries	4.6	3.6	4.6	5.2	–0.1	–0.1	. . .	. . .	. . .
World Growth Based on Market Exchange Rates	2.7	2.5	2.9	3.0	0.0	0.0	2.6	2.8	3.0
World Trade Volume (goods and services) 6/	**2.6**	**2.3**	**4.0**	**3.9**	**0.2**	**0.0**	**. . .**	**. . .**	**. . .**
Advanced Economies	4.0	2.3	3.9	3.5	0.2	–0.1	. . .	. . .	. . .
Emerging Market and Developing Economies	0.3	2.2	4.1	4.6	0.1	0.3	. . .	. . .	. . .
Commodity Prices (U.S. dollars)									
Oil 7/	–47.2	–15.7	21.2	0.1	–7.7	0.4	16.2	6.2	–0.8
Nonfuel (average based on world commodity export weights)	–17.5	–1.8	5.4	–1.4	–3.1	–0.1	9.9	0.1	0.1
Consumer Prices									
Advanced Economies	0.3	0.8	1.9	1.8	–0.1	–0.1	1.2	1.7	2.0
Emerging Market and Developing Economies 8/	4.7	4.3	4.5	4.6	–0.2	0.2	3.7	4.0	3.9
London Interbank Offered Rate (percent)									
On U.S. Dollar Deposits (six month)	0.5	1.1	1.6	2.2	–0.1	–0.6	. . .	. . .	. . .
On Euro Deposits (three month)	–0.0	–0.3	–0.3	–0.2	0.0	0.0	. . .	. . .	. . .
On Japanese Yen Deposits (six month)	0.1	0.0	0.0	0.1	0.0	0.1	. . .	. . .	. . .

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during May 3-May 31, 2017. 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 April 2017 *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/ Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

4/ 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.

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

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

7/ 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 $42.8 in 2016; the assumed price based on futures markets (as of June 1, 2017) is $51.9 in 2017 and $52.0 in 2018.

8/ Excludes Argentina and Venezuela.