World Economic Outlook

The global recovery remains subdued in the context of significant downside risks. Underlying factors shaping the outlook include: ongoing realignments such as the rebalancing in China and the decline in commodity prices; slow productivity growth; unfavorable demographic trends; new shocks such as Brexit—the vote in June by the United Kingdom to leave the European Union; and non-economic factors such as political uncertainty, global conflicts, and refugee crises. These factors imply a generally muted baseline for growth forecasts and substantial uncertainty about economic prospects.

Global growth is projected to slow to 3 percent in 2016, a slightly weaker projection than in the April 2016 *World Economic Outlook*. The revised forecast reflects weaker-than-expected activity in the United States in the first half of 2016, as well as the fallout from the Brexit vote. Although financial market reaction to the result of the U.K. referendum has been contained, the increase in economic, political and institutional uncertainty is expected to have negative macroeconomic consequences, especially in the United Kingdom. More broadly, growth in advanced economies is projected to slow to 1½ percent this year, as these countries still grapple with the fallout from the global financial crisis, low productivity growth, and aging populations. Growth in emerging market and developing economies is expected to marginally strengthen to 4.1 percent in 2016, following five consecutive years of decline. While these countries account for three-quarters of the world's projected growth this year, their outlooks are uneven and generally weaker than in the past, a result of the slowdown in China, lower commodity revenues, weak demand in advanced economies, as well as conflicts, political discord, and geopolitical tensions in several countries.

Overview of the World Economic Outlook Projections
(Annual percent change)

		Projections	
	2015	2016	2017
World output	3.2	3.1	3.4
Advanced economies	2.1	1.6	1.8
Of which: United States	2.6	1.6	2.2
European Union	2.3	1.9	1.7
Emerging and developing economies	4.0	4.2	4.6
Of which: MENAP	2.3	3.4	3.4
CCA	3.2	1.3	2.6
Commonwealth of Independent States	–2.8	–0.3	1.4
Of which: Russia	–3.7	–0.8	1.1
World trade volume (goods and services)	2.6	2.3	3.8
Commodity prices			
Oil[1]	–47.2	–15.4	17.9
Nonfuel[2]	–17.5	–2.7	0.9

Sources: IMF, *World Economic Outlook* (October 2016) and *Regional Economic Outlook: Middle East and Central Asia* (October 2016).
[1] Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was $50.79 in 2015; the assumed price based on future markets is $42.96 in 2016 and $50.64 in 2017.
[2] Average (measured in U.S. dollars) based on world commodity export weights.

In 2017, global growth is projected to strengthen to 3½ percent, but this outlook depends crucially on rising growth in emerging market and developing economies, where the easing of downward pressures on countries with weak growth in 2016—Brazil, Russia, and those in sub-Saharan Africa—is expected to more than offset the slowdown of growth in China. Growth in emerging market and developing economies is projected to increase to 4½ percent and in advanced economies to 1¾ percent.

See IMF, *World Economic Outlook*, *Global Financial Stability Report*, and *Fiscal Monitor* (all October 2016) for more information.

Longer-term prospects for advanced economies remain muted, given demographic headwinds and weak productivity growth, although growth in emerging market and developing economies is expected to strengthen further over the medium term. This optimism is based on a number of important favorable assumptions such as gradual normalization of conditions in economies currently under stress, a general pickup in growth in commodity exporters, a continued rebalancing of China's economy, and resilient growth in other emerging market and developing countries.

Against this backdrop, policy priorities differ across individual economies depending on the specific objectives of improving growth momentum, combating deflationary pressures, or building resilience. Globally, urgent action relying on all policy levers is needed to head off further growth disappointments, combat damaging perceptions that policies are ineffective, and that rewards accrue only to those at the higher end of the income distribution. Among advanced economies, policies should aim to support near-term demand through accommodative monetary policy and supportive fiscal stance—calibrated to the amount of fiscal space available—while implementing measures to lift potential growth and, in some cases, steps to strengthen bank and corporate balance sheets. In emerging market and developing economies, the broad policy objective should be to maintain income convergence by reducing distortions in product, labor, and capital markets, addressing financial vulnerabilities, and investing in education and health care. Low-income developing economies should focus on rebuilding policy buffers, while preserving critical capital expenditures and social outlays. Implementation of structural reforms would pave the way for economic diversification and higher productivity. Continued multilateral effort is required to address the ongoing backlash against global trade, establish effective banking resolution frameworks, and build a stronger global safety net.