Global activity is firming broadly as expected. Manufacturing and trade are picking up, confidence is improving, and international financing conditions remain benign. Global growth is projected to strengthen to 2.7 percent in 2017 and 2.9 percent in 2018-19, in line with January forecasts. In emerging market and developing economies (EMDEs), growth is predicted to recover to 4.1 percent in 2017 and reach an average of 4.6 percent in 2018-19, as obstacles to growth in commodity exporters diminish, while activity in commodity importers continues to be robust. Risks to the global outlook remain tilted to the downside. These include increased trade protectionism, elevated economic policy uncertainty, the possibility of financial market disruptions, and, over the longer term, weaker potential growth. A policy priority for EMDEs is to rebuild monetary and fiscal space that could be drawn on were such risks to materialize. Over the longer term, structural policies that support investment and trade are critical to boost productivity and potential growth.

Summary

Global growth is firming, contributing to an improvement in confidence. A recovery in industrial activity has coincided with a pick-up in global trade, after two years of marked weakness (Figure 1.1). In emerging market and developing economies (EMDEs), obstacles to growth among commodity exporters are gradually diminishing, while activity in commodity importers remains generally robust. As a result, and despite substantial policy uncertainty, global growth is projected to accelerate to 2.7 percent in 2017, up from a post-crisis low of 2.4 percent in 2016, before strengthening further to 2.9 percent in 2018-19, broadly in line with January projections.

Activity in advanced economies is expected to gain momentum in 2017, supported by an upturn in the United States, as previously anticipated. In the Euro Area and Japan, growth forecasts have been upgraded reflecting strengthening domestic demand and exports. Investment across advanced economies has firmed, while private consumption growth has moderated. As actual growth continues to exceed potential growth, increasing inflation and narrowing output gaps have raised the prospects of less accommodative monetary policy. Advanced economy growth is expected to accelerate to 1.9 percent in 2017, before moderating gradually in 2018-19. As usual, the outlook is predicated only on legislated fiscal and trade policies.

The recovery in global trade coincides with strengthening investment, which is more import-intensive than other components of aggregate demand. Nevertheless, structural headwinds, including slower trade liberalization and value chain integration, as well as elevated policy uncertainty, continue to weigh on the outlook for trade.

Global financing conditions have been benign and benefited from improving market expectations about growth prospects. Financial market volatility has been low despite elevated policy uncertainty, reflecting investor risk appetite and, perhaps, some level of market complacency. Renewed risk appetite has supported EMDE financial markets and led to a narrowing of corporate bond spreads globally. Capital inflows to EMDEs were robust in the first half of 2017, partly in a rebound from late-2016 weakness. Over time, however, a gradual tightening of international financing conditions may weigh on capital flows to EMDEs. Commodity prices have continued to rise moderately, although prospects for increased U.S. shale oil production are weighing on the outlook for oil prices.

Against an improving international backdrop, growth in EMDEs has strengthened from a post-crisis low of 3.5 percent in 2016. It is projected to reach 4.1 percent in 2017 and 4.5 percent in 2018. In commodity exporters, firming commodity prices, recovering industrial activity, stabilizing investment, and improving confidence are supporting a gradual recovery, following near-stagnation in the past couple of years. This recovery will be broad-based, impacting nearly 70 percent of commodity exporters in 2017. However, lingering fiscal and external adjustment

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TABLE 1.1 Real GDP[1]

(percent change from previous year)

	2014	2015	2016	2017	2018	2019	2016	2017	2018	2019
			Estimates	Projections			Percentage point differences from January 2017 projections			
World	**2.8**	**2.7**	**2.4**	**2.7**	**2.9**	**2.9**	**0.1**	**0.0**	**0.0**	**0.0**
Advanced economies	**1.9**	**2.1**	**1.7**	**1.9**	**1.8**	**1.7**	**0.1**	**0.1**	**0.0**	**0.0**
United States	2.4	2.6	1.6	2.1	2.2	1.9	0.0	-0.1	0.1	0.0
Euro Area	1.2	2.0	1.8	1.7	1.5	1.5	0.2	0.2	0.1	0.1
Japan	0.3	1.2	1.0	1.5	1.0	0.6	0.0	0.6	0.2	0.2
Emerging and developing economies (EMDEs)	**4.3**	**3.6**	**3.5**	**4.1**	**4.5**	**4.7**	**0.1**	**-0.1**	**-0.1**	**0.0**
Commodity-exporting EMDEs	2.2	0.3	0.4	1.8	2.7	2.9	0.1	-0.5	-0.3	-0.2
Other EMDEs	6.0	6.0	5.7	5.7	5.7	5.8	0.1	0.1	0.0	0.0
Other EMDEs excluding China	4.5	5.0	4.5	4.6	4.9	5.1	0.2	0.0	-0.1	0.0
East Asia and Pacific	6.8	6.5	6.3	6.2	6.1	6.1	0.0	0.0	0.0	0.0
China	7.3	6.9	6.7	6.5	6.3	6.3	0.0	0.0	0.0	0.0
Indonesia	5.0	4.9	5.0	5.2	5.3	5.4	-0.1	-0.1	-0.2	-0.1
Thailand	0.9	2.9	3.2	3.2	3.3	3.4	0.1	0.0	0.0	0.0
Europe and Central Asia	2.3	1.0	1.5	2.5	2.7	2.8	0.3	0.1	-0.1	-0.1
Russia	0.7	-2.8	-0.2	1.3	1.4	1.4	0.4	-0.2	-0.3	-0.4
Turkey	5.2	6.1	2.9	3.5	3.9	4.1	0.4	0.5	0.4	0.4
Poland	3.3	3.9	2.8	3.3	3.2	3.2	0.3	0.2	-0.1	-0.2
Latin America and the Caribbean	0.9	-0.8	-1.4	0.8	2.1	2.5	0.0	-0.4	-0.2	-0.1
Brazil	0.5	-3.8	-3.6	0.1	1.8	2.1	-0.2	-0.4	0.0	-0.1
Mexico	2.3	2.6	2.3	1.8	2.2	2.5	0.3	0.0	-0.3	-0.3
Argentina	-2.5	2.6	-2.3	2.7	3.2	3.2	0.0	0.0	0.0	0.0
Middle East and North Africa	3.4	2.8	3.2	2.1	2.9	3.1	0.5	-1.0	-0.4	-0.3
Saudi Arabia	3.7	4.1	1.4	0.6	2.0	2.1	0.4	-1.0	-0.5	-0.5
Iran, Islamic Rep.	4.3	-1.8	6.4	4.0	4.1	4.2	1.8	-1.2	-0.7	-0.3
Egypt, Arab Rep.[2]	2.9	4.4	4.3	3.9	4.6	5.3	0.0	-0.1	-0.1	-0.1
South Asia	6.7	6.9	6.7	6.8	7.1	7.3	-0.1	-0.3	-0.2	-0.1
India[3]	7.2	7.9	6.8	7.2	7.5	7.7	-0.2	-0.4	-0.3	-0.1
Pakistan[2]	4.0	4.0	4.7	5.2	5.5	5.8	0.0	0.0	0.0	0.0
Bangladesh[2]	6.1	6.6	7.1	6.8	6.4	6.7	0.0	0.0	-0.1	0.0
Sub-Saharan Africa	4.6	3.1	1.3	2.6	3.2	3.5	-0.2	-0.3	-0.4	-0.2
South Africa	1.6	1.3	0.3	0.6	1.1	2.0	-0.1	-0.5	-0.7	0.2
Nigeria	6.3	2.7	-1.5	1.2	2.4	2.5	0.2	0.2	-0.1	0.0
Angola	4.8	3.0	0.0	1.2	0.9	1.5	-0.4	0.0	0.0	0.6
Memorandum items:										
Real GDP[1]										
High-income countries	1.9	2.2	1.7	1.9	1.9	1.7	0.1	0.1	0.1	0.0
Developing countries	4.4	3.6	3.6	4.3	4.7	4.9	0.1	-0.1	-0.1	0.0
Low-income countries	6.3	4.7	4.4	5.4	5.8	5.8	-0.3	-0.2	-0.2	-0.3
BRICS	5.1	3.9	4.2	5.0	5.2	5.4	-0.1	-0.1	-0.2	-0.1
World (2010 PPP weights)	3.5	3.3	3.1	3.4	3.6	3.7	0.1	-0.1	-0.1	0.0
World trade volume[4]	4.1	2.8	2.5	4.0	3.8	3.8	0.0	0.4	-0.2	-0.1
Commodity prices										
Oil price[5]	-7.5	-47.3	-15.6	23.8	5.7	5.4	-0.5	-4.4	-2.7	0.8
Non-energy commodity price index	-4.6	-15.0	-2.6	4.0	0.7	1.0	0.0	2.6	-1.5	-1.1

Source: World Bank.

Notes: PPP = purchasing power parity. 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 Annex Table 1. BRICS include: Brazil, Russia, India, China, and South Africa.

1. Aggregate growth rates calculated using constant 2010 U.S. dollars 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.

needs dampen growth prospects in a number of countries. As a result, growth in commodity exporters is projected to rise from 0.4 percent in 2016 to 1.8 percent in 2017 and 2.6 percent in 2018—somewhat below January forecasts, reflecting longer-than-expected adjustment to low commodity prices in some countries and, to a lesser degree, slightly lower oil price projections.

Growth continues to be robust among commodity importers. Windfalls from the recent decline in commodity prices is waning, but accommodative policies are supporting domestic demand and export growth is being bolstered by a recovery in global trade. The forecast for growth in commodity importers remains stable, at an average of 5.7 percent in 2017-19.

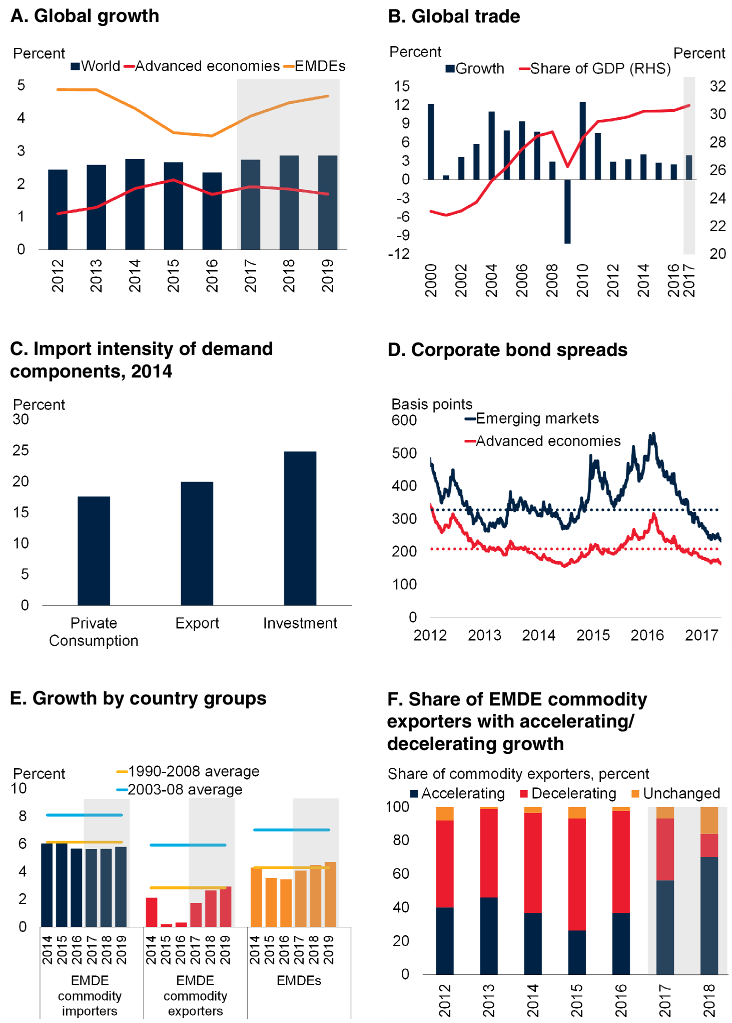
In low-income countries, growth is rebounding, as rising metals prices lift production in metal exporters and infrastructure investment continues in non-resource intensive economies. However, some low-income countries are still struggling with declining oil production, conflict, drought, and security and political challenges. Growth in low-income countries is expected to strengthen during 2017-19, as activity firms in commodity exporters.

A number of factors weigh on longer-term EMDE growth prospects, including structural headwinds to global trade, worsening demographics, slowing productivity growth, and governance and institutional challenges. Even if the expected modest rebound in investment across EMDEs materializes, slowing capital accumulation in recent years may already have reduced potential growth.

Substantial risks cloud this outlook, despite the possibility of fiscal stimulus in some major advanced economies, particularly the United States (Figure 1.2). Escalating trade restrictions could derail a fragile recovery in trade and undo gains from past liberalization efforts. A further increase in policy uncertainty from already high levels could dampen confidence and investment and trigger financial market stress, after a period of unusually low financial market volatility. Market reassessment of advanced-economy monetary policy, or disorderly exchange rate developments, could contribute to swings in EMDE asset prices and capital flows, potentially amplified by vulnerabilities in some countries. Over the longer

FIGURE 1.1 Global prospects

Growth is projected to gain strength in both advanced economies and emerging market and developing economies (EMDEs). Global trade growth has firmed and is expected to outpace GDP growth after two years of marked weakness. The pickup in global trade partly reflects a bottoming out of global investment, which is relatively import-intensive. Global financing conditions remain benign. The projected recovery in EMDEs is largely driven by expectations of diminishing obstacles to activity in commodity exporters.

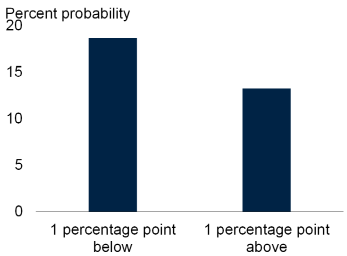


Sources: Bloomberg, Haver Analytics, World Bank, World Input-Output Database.
A. Aggregate growth rates calculated using constant 2010 U.S. dollars GDP weights.
B. Global trade is measured as volume of goods and services. Shaded area indicates forecasts.
C. GDP-weighted average based on input-output tables for 25 advanced economies and 7 EMDEs.
D. Dotted lines indicate the median values since 2005. Last observation is May 10, 2017.
E. Shaded areas indicate forecasts.
F. Accelerating / decelerating growth are changes of at least 0.1 percentage point in growth rates from the previous year. Sample includes 88 commodity-exporting EMDEs. Shaded area indicates forecasts.

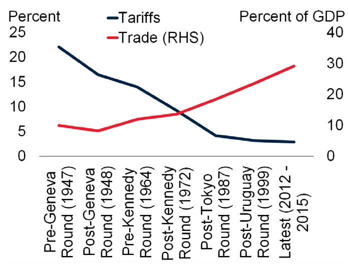
FIGURE 1.2 Global risks and policy challenges

Downside risks to global growth include rising protectionism, high policy uncertainty, and the possibility of financial market disruptions. U.S. monetary policy has tightened gradually so far, but a faster pace would impact global financing conditions. Inflation has eased among EMDE commodity exporters, allowing room for cuts in policy interest rates. With deficits prevailing across EMDEs, and debt on a rising path, especially in commodity exporters, fiscal space remains constrained.

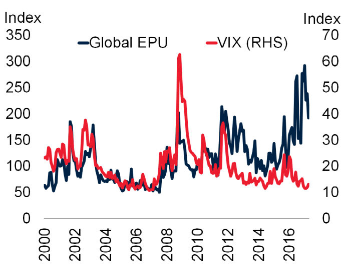
A. Probability of a 1-percentage-point deviation from one-year ahead global growth forecasts



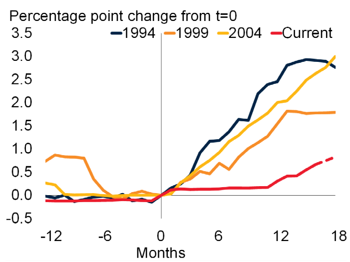
B. Global trade and tariffs



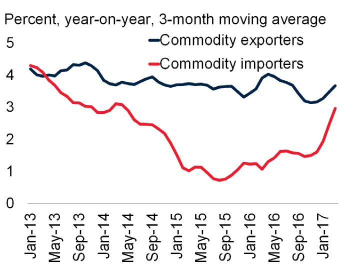
C. Economic policy uncertainty (EPU) and financial market volatility (VIX)



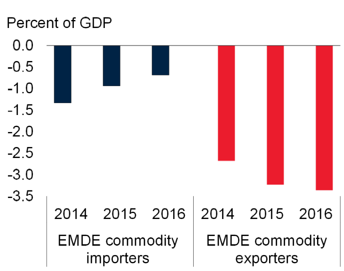
D. U.S. policy interest rates around tightening cycles



E. Consumer price inflation in EMDEs



F. Fiscal sustainability gap



Sources: Baker, Bloom, and Davis (2015); Bloomberg; Bown and Irwin (2015); Federal Reserve Board; Haver Analytics; International Monetary Fund WEO; World Bank.
A. Probabilities computed from forecast distribution of oil price futures, S&P500 equity price futures, and term spread forecasts.
B. Global trade is defined as the sum of exports and imports in percent of GDP. Applied tariff rates based on weighted mean for all products.
C. VIX is the implied volatility of option prices on the U.S. S&P 500. EPU is the Economic Policy Uncertainty index computed by Baker, Bloom, and Davis (2015). Last observation is April 2017.
D. t=0 refers to the start of U.S. monetary policy tightening cycles (January 1994, June 1999, June 2004, and December 2015 ("current"). Dashed lines show market implied changes. Last observation is March 2017.
E. Sample includes 75 commodity-exporting and 54 commodity-importing EMDEs and shows the median in each respective group. Last observation is March 2017.
F. Sustainability gap is measured as the difference between the primary balance and the debt-stabilizing primary balance, assuming historical average (1990–2016) interest rates and growth rates. A negative gap indicates that government debt is on a rising trajectory; a positive gap indicates government debt is on a falling trajectory. Figure shows median in each country group. Sample includes 44 commodity-exporting and 28 commodity-importing EMDEs.

term, persistent weakness in productivity and investment growth would erode potential growth.

Policymakers face the challenge in nurturing the recovery, confronting downside risks, and fostering longer-term growth. Central banks in advanced economies will gradually normalize monetary policy as inflation increases and economic slack diminishes. While the U.S. tightening cycle is well ahead of other major advanced economies, it is proceeding at a substantially slower pace than in the past. Expansionary fiscal policy could help support the recovery, as long as it is consistent with medium-term fiscal sustainability. Policy priorities include measures to support workers most affected by sectoral shifts in employment through better training and job search programs, and to share the dividends of growth and gains from globalization more widely.

Inflation rates in EMDE commodity exporters and importers are converging. Easing inflation among commodity exporters since mid-2016 has allowed a more accommodative monetary policy stance in some countries. Although the impact of the earlier drop in commodity prices on the government budgets of commodity exporters is dissipating, fiscal space remains constrained in many EMDEs, suggesting the need for continued fiscal adjustment. EMDEs will need to continue to pursue structural reforms to improve their longer-term growth prospects, diversify their economies, and develop domestic as well as foreign markets. These efforts include policies to improve the business climate, support investment in human and physical capital, and enhance regional and global trade integration of EMDEs.