World Developments and Outlook: A Strengthening Global Economy

The global developments shaping the world economic outlook are reflected in the projections for the Middle East and Central Asia region through their impact on commodity prices, export demand, remittances, exchange rates, and financial conditions.

The global upswing in economic activity remains on track, confirming the findings in the April 2017 World Economic Outlook. Global growth has been marginally revised up to 3.6 percent for 2017 and 3.7 percent for 2018. Overall, this forecast reflects a steady improvement over the 2016 growth rate of 3.2 percent (see table). At the country level, although the forecast for the United States has been revised downward relative to the April 2017 World Economic Outlook, the outlook for key trading partners continues to improve. Projected growth in the euro area has been revised upward by 0.4 percentage point in 2017 and 0.3 percentage point in 2018 on the back of strong private consumption and investment, while growth in China has been revised upward by 0.2 percentage point in 2017, reflecting stronger growth in the first half of the year, and 0.3 percentage point in 2018, reflecting an expectation that the authorities will maintain an expansionary policy mix.

The growth outlook for Russia has also been revised upward relative to April, by 0.4 and 0.2 percentage point in 2017 and 2018, respectively, helped by stabilizing oil prices, easing financial conditions, and improved confidence. Nevertheless, over the medium term, the global growth momentum is expected to soften as output gaps close and demographic factors restrain potential growth.

Global trade growth moderated in the second quarter after expanding vigorously in the first quarter, but the momentum remains positive reflecting the expected recovery in global demand and especially capital spending. Consequently, global trade growth is projected to rebound to about 4 percent in 2017 and remain about 1 percentage point higher than GDP growth into the medium term. Oil is currently trading between $50–$60 a barrel and is expected to hover around these levels into the medium term. Non–fuel commodities are projected to strengthen in 2017 and 2018 relative to their 2016 averages. Looking ahead, commodity prices are expected to rise slightly, by approximately 1 percent a year between 2019 and 2022. While the improved global growth and trade outlook represents an important window of opportunity, and some countries will benefit from higher non–fuel commodity prices, the sustained low oil price environment will continue to weigh on prospects for the MENAP and CCA regions.
Market sentiment has continued to be strong and volatility low, even as expectations of US fiscal easing have dimmed. Capital flows to emerging market economies have remained resilient in recent months, continuing their recovery after the sharp decline in late 2015 and early 2016 as investor optimism about the global economic outlook improved and financial conditions eased. With expectations of a more gradual pace of monetary policy normalization, US long-term interest rates have declined by around 20 basis points and the dollar has depreciated, which should ease some fiscal vulnerabilities for countries across the MENAP and CCA regions.

Short-term risks to the global outlook are broadly balanced between, on the positive side, a stronger-than-expected recovery and, on the negative side, the risk of policy missteps given an environment of high policy uncertainty and geopolitical tensions. Medium-term risks remain tilted to the downside, including a possible shift toward inward-looking policies in advanced economies, a more rapid tightening of global financial conditions (including due to faster-than-anticipated normalization of monetary policy in the United States, which would also be associated with a US dollar appreciation), and noneconomic factors, including geopolitical tensions, domestic political discord, risks from weak governance and corruption, extreme weather events, and terrorism and security concerns. These risks are interconnected and can be mutually reinforcing. Countries in the MENAP and CCA regions are particularly exposed to risks to the outlook for key trading partners, prospects for global trade, tightening of global financial conditions and a stronger US dollar, and any increase in regional security and political tensions.