

THE WORLD ECONOMY

Forecast summary

Forecast for world GDP growth in 2017 has been revised up to 3.6 per cent, which would be the fastest growth in six years. Growth projections for 2018 and the medium term are unchanged, at 3.6 and 3.4 per cent, respectively. Inflation forecast has nevertheless generally been revised down slightly.

In the Euro Area, stronger economic performance, together with reduced political uncertainty, provides an opportunity for action to complete the monetary union and reduce economic imbalances.

To avoid jeopardising the recovery, central banks in the advanced economies will have to manage policy normalisation with particular caution.

Recent data for several major economies point to a more significant pick-up in global growth this year than we projected in May. Among the advanced economies, the upward revisions have been most marked for the Euro Area and Japan. The improvement in growth performance seems due partly to the highly accommodative monetary policies of recent years but also to a turnaround in the stance of fiscal policies since 2015. Our growth projections for 2017 have also been revised up for Brazil, India and Russia. The broad improvement in global output growth is being accompanied by an acceleration of world trade.

Our projections of inflation have been revised down, partly reflecting recent low inflation surprises. Consumer price inflation remains below central banks' targets in the advanced economies, and wage inflation has remained subdued even where unemployment is historically low. Inflation is also close to or below targets in key emerging market economies.

Major uncertainties remain about US fiscal, trade, and regulatory policies, which carry upside and downside risks for growth. In the Euro Area, political uncertainty has been reduced by the French elections, but risks of financial instability remain, especially with an incomplete banking union. More broadly, economic recovery remains fragile and could be derailed by policy mistakes.

In the Euro Area, work towards completion of the economic and monetary union failed to meet targets set two years ago for mid-2017. The recent stronger economic performance of the Area, together with a more conducive political environment, provides an opportunity to implement the needed reforms. The Area also still suffers from the divergence in international competitiveness and economic balances that has developed since the introduction of the euro. A fiscal boost and promotion of larger wage increases in Germany would be the best way to address this problem.

Central banks in several advanced economies have been facing a dilemma in their conduct of monetary policy: low unemployment has suggested a threat of inflationary pressure, but actual inflation has remained below targets and declined recently, with wage increases remaining subdued. Past relationships both between unemployment and inflation, and between interest rates and demand, seem unreliable. Economic recoveries are fragile, the costs of any renewed weakness are potentially high, and consistently below-target inflation in recent years jeopardises the credibility of the symmetry of inflation targets. These considerations suggest that central banks should base decisions on withdrawal of accommodation on evidence of whether actual or expected inflation is rising significantly above targets, rather than on questionable estimates of output and employment gaps.

Summary of the forecast

Percentage change, year-on-year

	World economy			Real GDP growth in major economies				
	Real GDP ^(a)	Consumer prices ^(b)	World trade ^(c)	US	China	Japan	Euro Area	India
2016	3.1	1.1	2.4	1.6	6.7	1.0	1.7	7.9
2017	3.6	2.1	4.2	2.1	6.7	1.3	2.0	7.5
2018	3.6	2.0	4.2	2.3	6.4	1.0	1.8	7.7

(a) Based on global PPP shares. (b) OECD countries, private consumption deflator. (c) Volume of total world trade.