

JANUARY 2018

Global Economic Prospects

The Regional Outlooks in Charts

(click on region)

East Asia and Pacific

Europe and Central Asia

Latin America and the Caribbean

Middle East and North Africa

South Asia

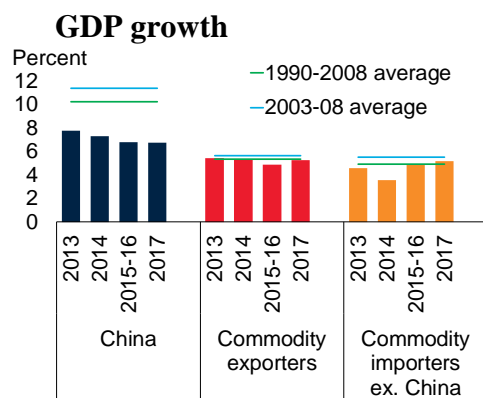
Sub-Saharan Africa

The Economic Outlook for East Asia and the Pacific in Six Charts: Strong Growth, Easing Moderately

Growth in the EAP region strengthened marginally to 6.4 percent in 2017, 0.2 percentage point higher than expected. The region continued to be a major driver of global growth, accounting for more than a third of it in 2017, mostly because of China’s significant contribution. Regional growth is projected to gradually slow to 6.2 percent on average in 2018-20. That is broadly in line with previous forecasts, with the structural slowdown in China outweighing a modest further cyclical pickup in the rest of the region. The outlook assumes a modest continuing recovery in commodity prices, strong external demand, and moderately tighter, but still supportive global financing conditions.

1. Strong regional growth in 2017.

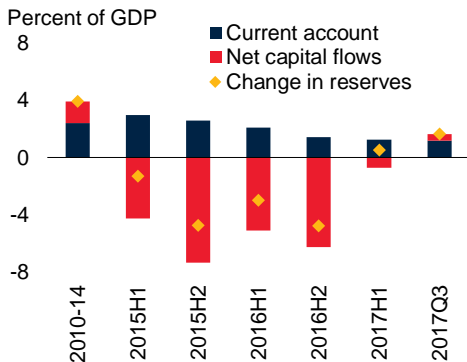
Growth in the East Asia and Pacific (EAP) region strengthened marginally to 6.4 percent in 2017, 0.2 percentage point higher than expected. Growth in China inched up in 2017—a deviation from the economy’s structural slowdown. Growth in the region excluding China accelerated slightly in 2017 to around its potential rate, reflecting a cyclical recovery in large commodity exporters, such as Indonesia and Malaysia, and Thailand.



2. An improved external environment.

The acceleration of regional growth last year largely reflected a significant improvement in the external environment—an expansion of global activity and trade, a recovery of commodity prices, and benign financing conditions. Trade flows recovered markedly across the region and net capital outflows from the region have reversed.

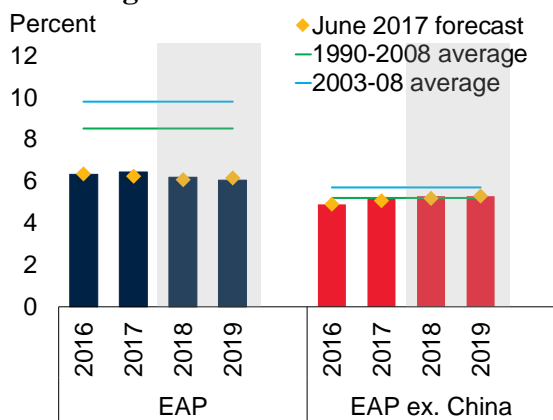
Balance of payments



3. Projected Gradual Slowdown in China Outweighs Pickup in Rest of Region.

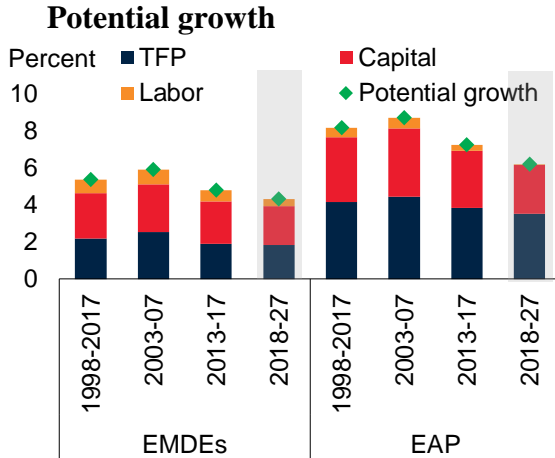
Regional growth is projected to gradually slow to 6.2 percent in 2018, and to 6.1 percent on average in 2019-20, broadly in line with previous forecast. The structural slowdown in China is expected to outweigh a modest further cyclical pickup in the rest of the region. The region is expected to continue to be a major driver of global growth and account for more than a third of it in 2017-20, mostly because of China’s significant (30 percent) contribution.

GDP growth forecasts



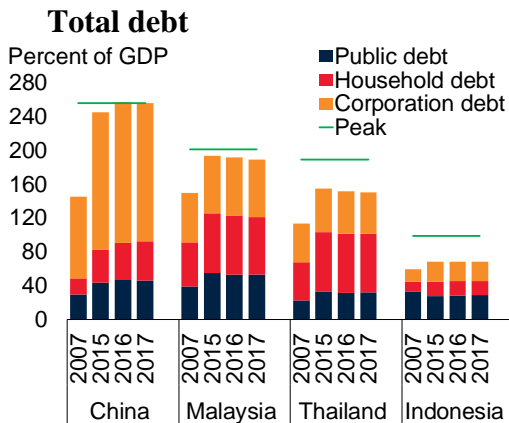
4. Potential Growth on Track to Decelerate.

Beyond the forecast horizon, regional potential growth is anticipated to decelerate to under 6 percent in 2018-27, as demographic pressures in China and other large economies (for example Thailand) dampen labor supply and slow productivity growth, and as capital accumulation slows. Growth rates in China and in the rest of the region are expected to gradually converge.



5. Risks to the Outlook Are More Balanced.

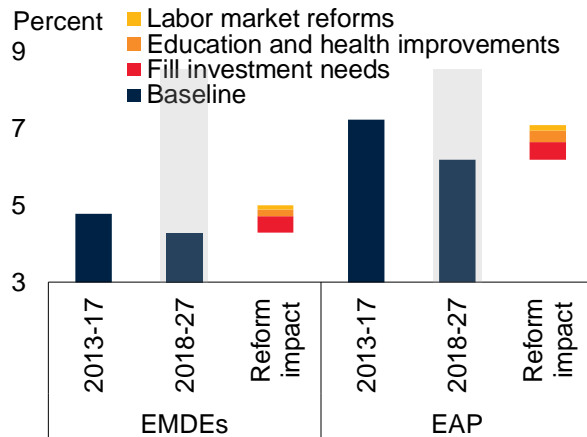
Risks to the forecast have become more balanced, especially because of the potential for further upside surprises to growth in advanced economies, but are still tilted on the downside. Downside risks include rising geopolitical tensions, an abrupt tightening of global financing conditions, increased global protectionism, and steeper-than-expected slowdowns in major economies, including China. Highly leveraged economies and countries with high or rapidly raising fiscal deficits are particularly vulnerable.



6. Reforms Could Boost Growth

Policies to boost total factor productivity – defined as the portion of gains in output that can't be explained by increases in the quantity of labor or capital -- across the region could partly offset the diminishing returns from capital and the effects of demographic trends in several major economies that dampen labor supply and slow productivity growth.

Potential output growth under reform scenarios



Sources: World Bank, Haver Analytics, International Monetary Fund, Bank of International Settlements, Quarterly External Debt Statistics, World Bank.

- Commodity exporters include Indonesia, Lao PDR, Malaysia, and Mongolia. Commodity importers ex. China include Cambodia, Philippines, Solomon Islands, Thailand, Vanuatu, and Vietnam. GDP-weighted averages.
- Data for 2017 reflect 2017Q3.
- Yellow diamonds correspond with the June 2017 edition of Global Economic Prospects. Shaded areas indicate forecasts.
- Potential growth estimates based on production function approach.
- The highest debt-to-GDP ratio since 1995Q1. The peak is identified to have occurred in 1997Q4 in Thailand, 1998Q4 in Malaysia, 2001Q4 in Indonesia, and 2017Q2 in China. 2017 data reflect 2017Q2. Total debt comprises of credit to household and non-financial corporations and general government debt (broad definition). For China, the sum of credit to household and non-financial corporations is consistent with the People's Bank of China Aggregate Financing to the Real Economy (stock) level. General government debt includes central and local government debt and social security funds, but excludes public enterprises. Data presented in the chart is broadly consistent with the IMF estimates of total debt (World Bank 2017a).
- Policy scenarios are described in Annex 3.1 of the January 2018 GEP.

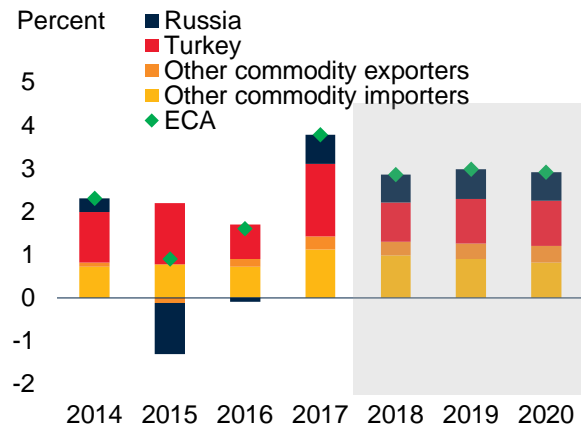
Relatively Stable: The Outlook for Growth in Emerging and Developing Europe and Central Asia in Five Charts

Growth in the emerging and developing Europe and Central Asia region is estimated to have reached to 3.8 percent in 2017, the strongest performance since 2011, helped by stabilizing commodity prices and strong demand from the Euro Zone. In addition, economies of the region rebounded from country-specific shocks that occurred in 2016. Growth is expected to moderate in 2018 to 2.9 percent. The forecast assumes a modest recovery in commodity prices, a gradual moderation of growth in the Euro Area following a strong cyclical pickup in 2017-18, an orderly tightening of global financing conditions, and no new geopolitical tensions.

1. Stable Outlook, Differences Across the Region

A relatively stable overall growth forecast masks considerable cross-country differences. Growth is expected to continue strengthening in the eastern part of the region over the next three years in line with firming commodity prices and strengthening domestic demand supported by remittances. In contrast, growth in the western part of the region is anticipated to slow the Euro Area recovery matures.

Regional Growth

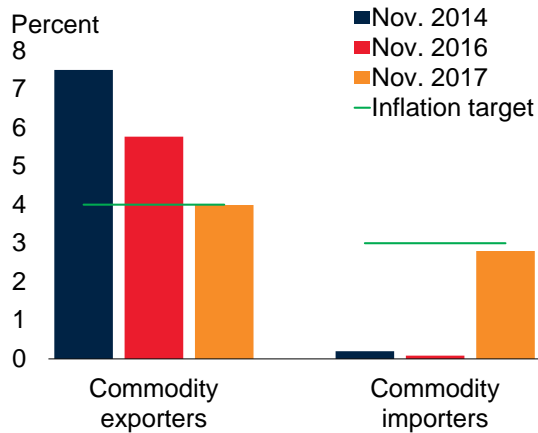


Source: World Bank

2. Inflation in Check

Inflation was close to targets set by authorities across the region. For commodity exporters, inflation eased as the negative impacts of the oil price plunge of 2014-16 faded. Price levels in commodity importing countries are picking up as economic activity gains strength.

Inflation



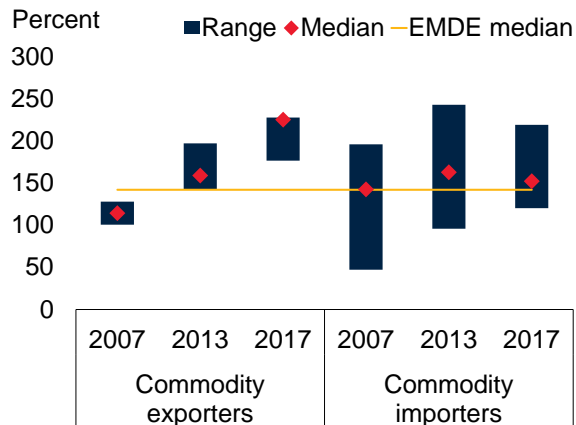
Sources: Haver Analytics, national central banks

Note: Median of annual consumer price inflation for each sub group.

3. Rise in External Debt

External debt as a percent of export value increased markedly for commodity exporters after the oil price plunge, as the value of exports declined. Commodity importers' external positions have started to improve recently.

External debt



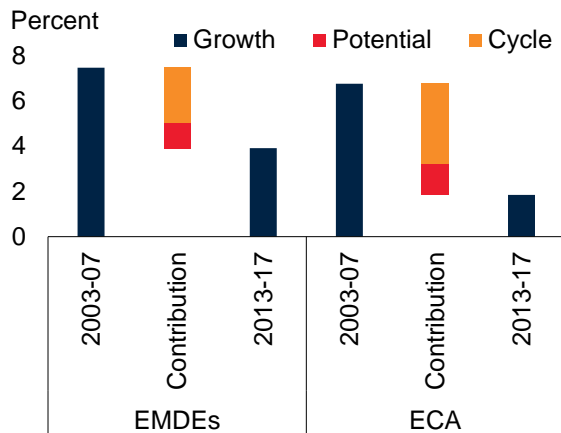
Source: Haver Analytics

Note: Total external debt over exports of goods and services

4. Slowing potential growth

Economic growth slowed more sharply after the global financial crisis in the Europe and Central Asia region than elsewhere. Cyclical factors affecting this slowdown, such as the European debt crisis and the oil price plunge, slowed growth by 3.3 percentage points, 1 percentage point more than other regions. The negative demographic prospects of aging populations, alongside slowing investment cut potential growth by 1.4 percentage points.

Potential Growth

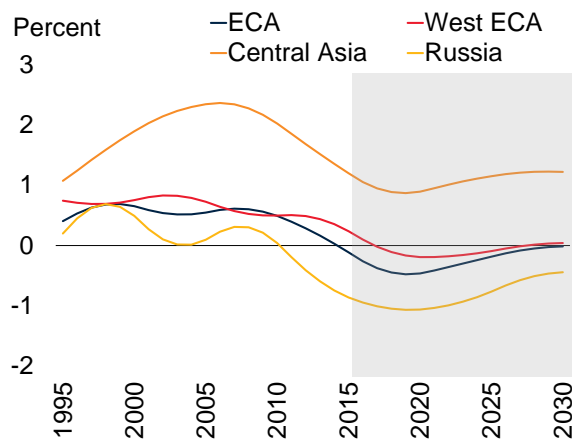


Source: World Bank

5. Working-age population share weighing on growth.

After the collapse of the Soviet Union, the fertility rate collapsed across the region. This started to have an impact on the growth in the share of the population that is of working age (15-64) in the late 2000s and continues to weigh on regional growth prospects.

Working age population growth



Source: United Nations

Note: Annual growth of working age population for total population for countries in each sub-region

Gathering Momentum: Growth Prospects in Latin America and the Caribbean in Five Charts

A cyclical growth recovery in Latin America and the Caribbean began in 2017. The upturn in regional growth, from -1.5 percent in 2016 to 0.9 percent in 2017, reflects broadly improving conditions in Brazil, which emerged from a deep, two-year-long recession in the first half of the year, and in Argentina, where growth rebounded after contracting in 2016. The outlook for accelerating regional growth is supported by strengthening private consumption and investment, particularly in commodity exporting countries. Domestic demand is expected to respond favorably to strengthening confidence, relatively low inflation, and global financing conditions that, while somewhat tighter, are still supportive.

1. Real activity indicators in Brazil improved markedly in 2017

Brazil's recovery is expected to solidify in 2018. The economy is anticipated to grow 2 percent as improving labor conditions and low inflation support private consumption, and as policy conditions become more supportive of investment.

Industrial Production and Retail Trade, Brazil



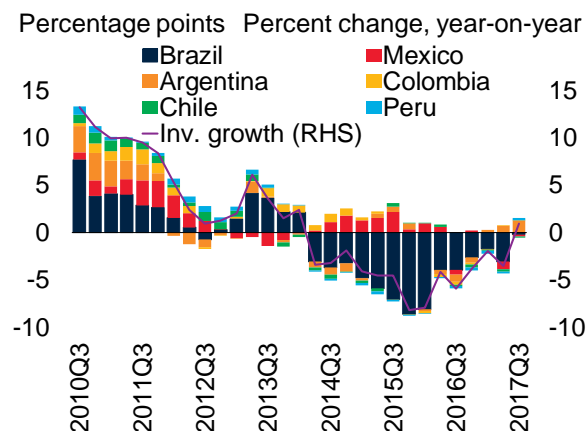
Sources: Haver Analytics, World Bank.

Note: Lines show 3-month moving averages using non-seasonally-adjusted data. Last observation is October 2017.

2. Investment is recovering

Although the contraction in fixed investment in the region continued for a fourth consecutive year in 2017, in part due to policy uncertainty, it is easing. Investment growth has been positive in recent quarters in some large economies, including Argentina and Peru.

Regional Investment Growth



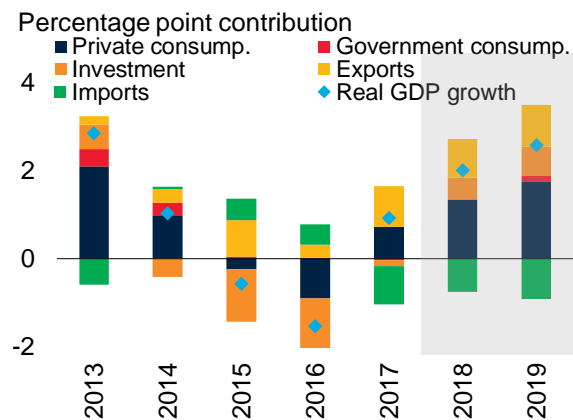
Sources: Haver Analytics, World Bank.

Note: Line shows GDP-weighted average of gross fixed capital formation growth in Argentina, Brazil, Chile, Colombia, Mexico, and Peru using non-seasonally-adjusted data. Bars show contribution of each of the six economies to regional investment growth. The six economies shown in the figure represent 85 percent of regional GDP.

3. Accelerating private consumption and investment will lift regional growth in 2018 and 2019

Regional growth is projected to gain momentum in the next two years, rising to 2 percent in 2018 and 2.6 percent in 2019. The growth acceleration is anticipated to be supported predominantly by strengthening private consumption and, to a lesser degree, by investment.

Components of Regional Growth



Sources: Haver Analytics, World Bank.

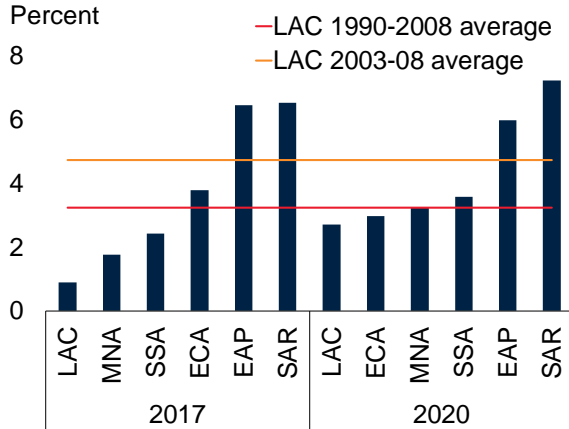
Note: GDP-weighted averages. Bars show contribution of each of the components of GDP to regional growth.

4. Yet growth in Latin America and the Caribbean will continue to underperform

Despite the projected acceleration in activity, growth in the region is expected to remain below its long-term average—and below that of all other emerging and developing economy regions—as external drivers of growth are only moderately supportive. The large gains in some commodity prices (energy and

metals) in 2017 are not expected to continue, while growth in the United States, to which the region is deeply tied through trade and financial flows, is forecast to decelerate in 2019 and 2020.

Regional Growth Compared to Other Regions and Historical Levels



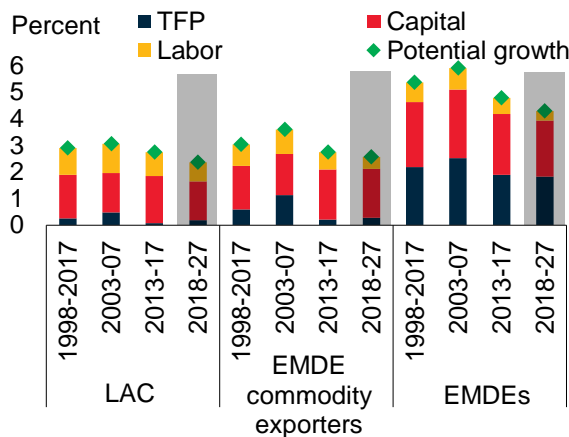
Sources: Haver Analytics, World Bank.

Note: GDP-weighted averages. EAP = East Asia and Pacific, ECA = Europe and Central Asia, MNA = Middle East and North Africa, SAR = South Asia, and SSA = Sub-Saharan Africa.

5. Potential growth will remain weak

Moreover, Latin America and the Caribbean appears set to experience a modest deceleration in already weak potential growth, the level of output that would be sustained at full capacity utilization and full employment, in part due to decreasingly favorable demographic trends. Investment growth is anticipated to recover, but not to the stimulus-fueled rates of the early 2010s, thus limiting gains in the contribution of capital to potential growth. Potential growth in the region is also held back by longstanding weak total factor productivity.

Contributions to Regional Potential Growth



Source: World Bank.

Note: Simple averages during year spans of annual GDP-weighted averages of 15 LAC economies, 29 commodity-exporting economies, and 49 EMDE economies. TFP = total factor productivity.

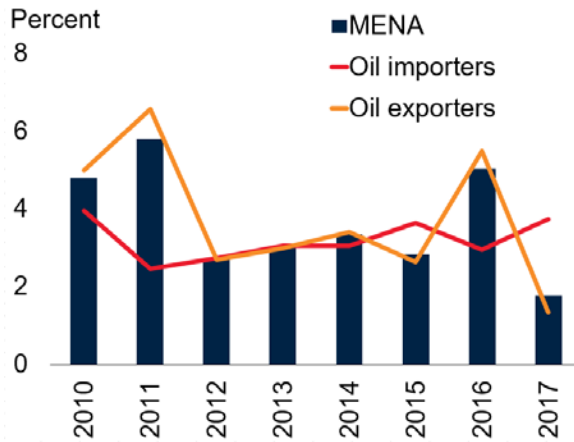
The Middle East and North Africa Outlook in Five Charts: Recovery after a Weak 2017

Growth in the Middle East and North Africa region is estimated to have slowed sharply in 2017 and is forecast to recover to 3 percent in 2018. Regional activity is anticipated to strengthen gradually over the medium term, in response to policy reforms and easing fiscal adjustments. A number of downside risks continue to cloud the outlook for the region, including geopolitical tensions and conflict, weakness in oil prices, and obstacles to reform progress. These are only partly offset by the possibility of a stronger-than-expected Euro Area recovery.

1. Regional growth tumbled last year, led by oil exporters

Growth in the Middle East and North Africa is estimated to have slowed sharply to 1.8 percent in 2017 from 5 percent the year before, driven by decline in growth among oil exporters. Both GCC and non-GCC oil exporters' growth declined, contributed by oil production cuts and continued geopolitical tensions.

Growth



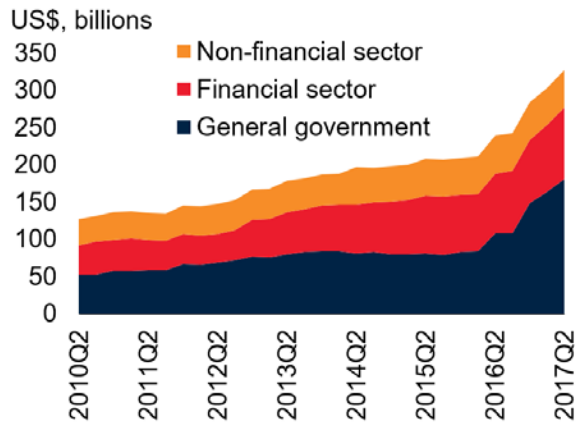
Source: World Bank

Notes: Weighted average growth of real GDP.

2. Upswing in debt issuance

Fiscal adjustments across the region have contributed to large sovereign bond issuances, lead to a rapid rise in international debt securities.

International Debt Securities



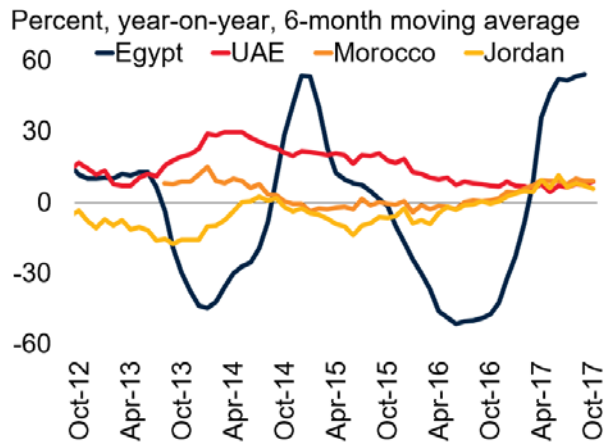
Source: Bank for International Settlements

Notes: Sum of international debt securities outstanding for 14 MENA countries. Last observation is 2017Q2.

3. Broad-based growth improvements likely

Growth is projected to improve in 2018 across both oil importers and exporters, supported by policy reforms and easing fiscal adjustments, as well as improvements in tourism among oil importers.

Tourism growth



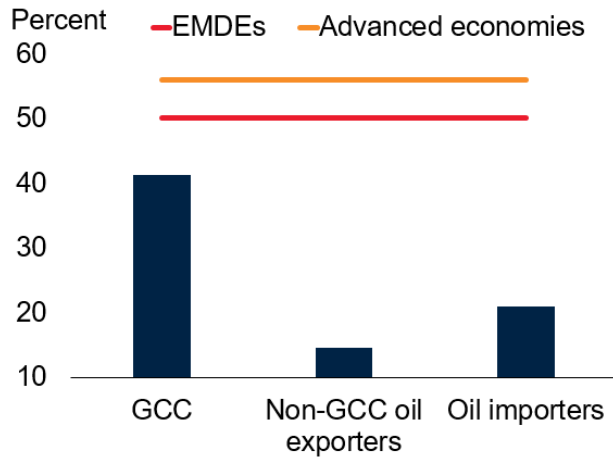
Source: Haver Analytics

Notes: Growth of tourist arrivals for Egypt, Jordan, and Morocco. Data for the United Arab Emirates denote hotel guest arrivals in Abu Dhabi.

4. Despite growth acceleration, challenges remain

Nevertheless, the region faces a number of challenges, including low female labor force participation.

Women Labor Force Participation



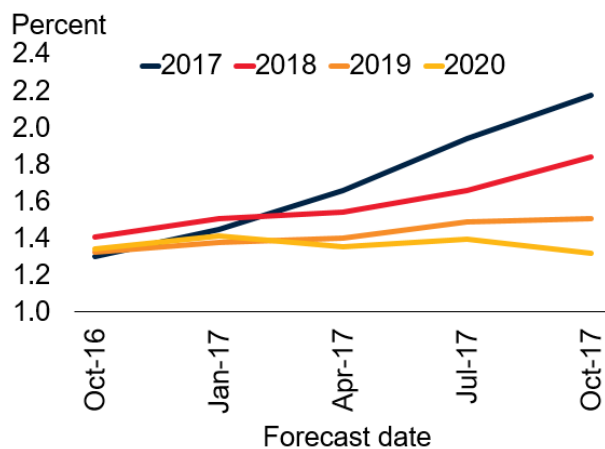
Source: World Bank

Notes: Workforce as a percent of female population ages 15+. Unweighted average of 5 GCC economies, 2 Non-GCC oil exporters, and 5 oil importers. Based on latest available data since 2010 for each country.

5. European growth could spill over to region

Despite improving growth in the coming years, the MENA region still faces a number of long-standing risks, such as geopolitical conflicts and weaker-than-expected oil prices, but stronger than-expected recovery in the Euro Area presents an upside risk for many economies, especially oil importers.

Consensus growth forecasts: Euro Area



Source: Consensus Economics

Notes: Annual consensus growth forecasts for each year denoted in the legend. 2017 denotes estimates. X-axis denotes the date for which the forecast is conducted.

The Outlook for Growth in South Asia in Five Charts: Robust Prospects

South Asia's growth prospects appear robust, with household consumption expected to remain strong, exports expected to recover, and investment projected to revive with the support of policy reforms and infrastructure improvements.

Figure 1. Growth outlook

Growth in the region was an estimated 6.5 percent in 2017. It is forecast to pick up to 6.9 percent in 2018 and stabilize around 7 percent over the medium term. The forecast assumes strengthening external demand as the recovery firms in advanced economies, and supportive global financing conditions. Monetary policy is expected to remain accommodative as modest fiscal consolidation proceeds in some countries.

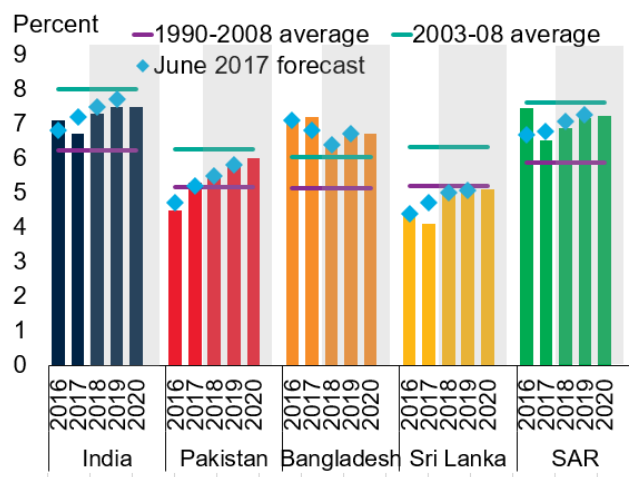


Figure 2. Inflation rates

Inflation rates in the region remain broadly below historical averages while progress in fiscal consolidation has been mixed across economies.

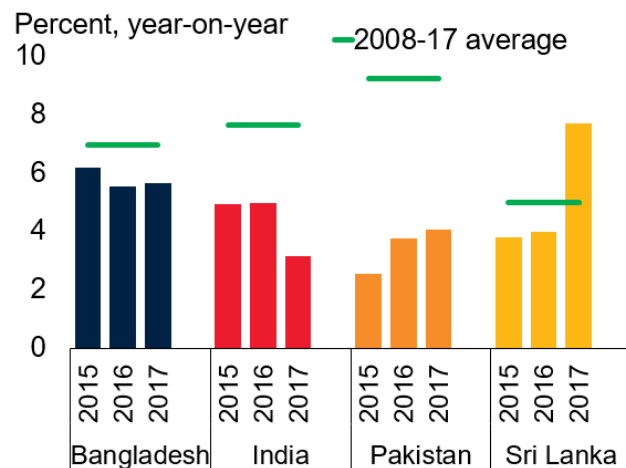


Figure 3. Non-performing loans

Non-performing loans remain high in South Asia despite some progress.

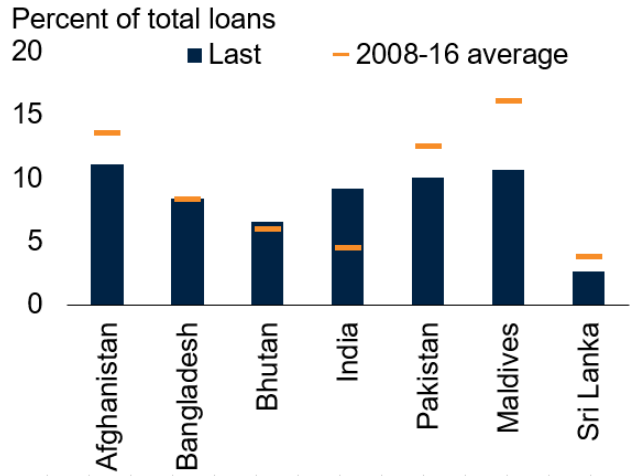


Figure 4. Regional potential growth

Regional potential growth has slowed from around 7.2 percent prior to global financial crisis to an average of 6.8 percent in recent years, reflecting a slowdown in capital accumulation. Over the medium term, South Asia’s potential growth is expected to stabilize at around 6.7 percent.

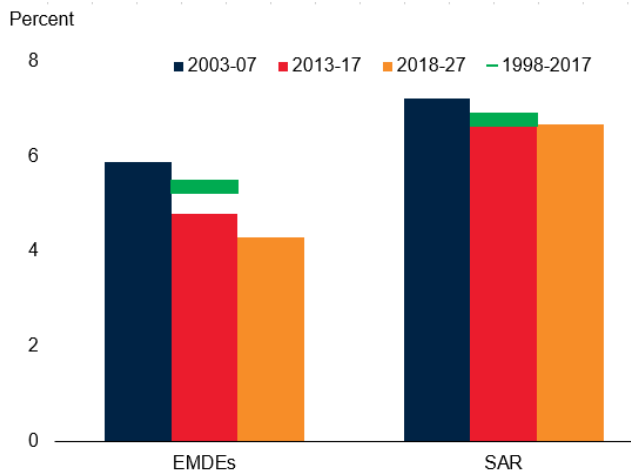
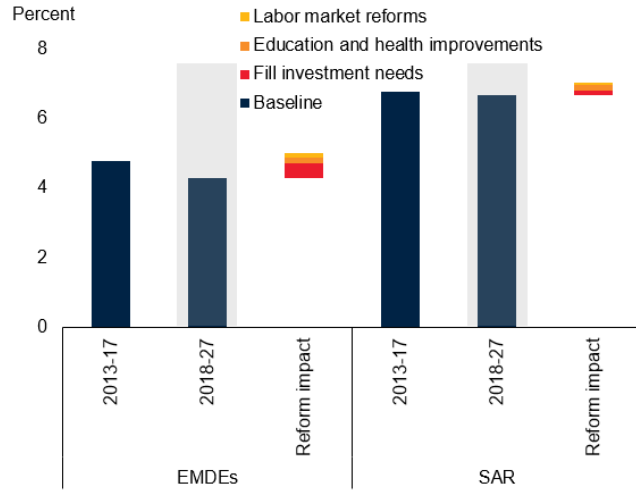


Figure 5. Policies to improve potential growth

Labor market, education, and health reforms, along with investment, could boost the region’s potential growth by as much as 0.4 percentage points a year. Promoting greater integration of the region into global and regional value chains could also provide a nudge.

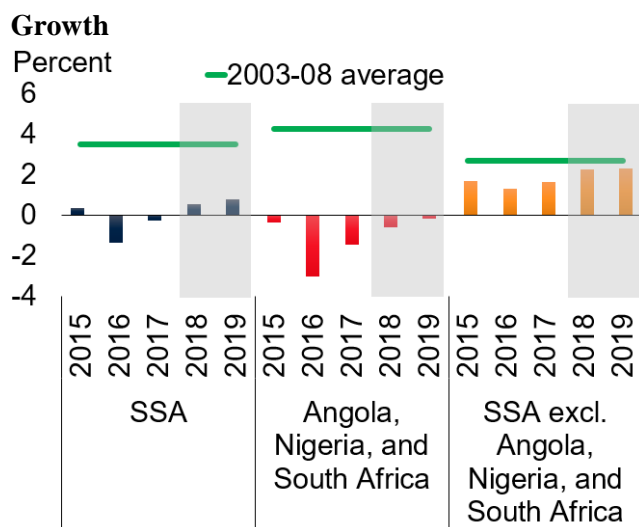


The Outlook for Sub-Saharan Africa in Five Charts: Striving for recovery

The global economic recovery will see economic conditions improving in Sub-Saharan Africa. Activity is projected to pick up across the region over the forecast horizon, helped by firming commodity prices and gradually strengthening domestic demand. However, in the absence of reforms, potential growth is expected to remain low given demographic and investment trends, weighing on per capita incomes and diminishing the prospects for poverty reduction. Downside risks predominate, including the possibilities that commodity prices will remain weak, global financing conditions will tighten in a disorderly fashion, and that regional political uncertainty and security tensions will intensify. On the upside, a stronger-than-expected pickup in global activity could further boost exports, investment, and growth in the region.

1. Sub-Saharan Africa's growth outlook is improving

Growth in Sub-Saharan Africa is projected to pick-up to 3.2 percent this year, from an estimated 2.4 percent in 2017 and 1.3 percent in 2016, and strengthen gradually. While Angola, Nigeria, and South Africa – the region's largest economies — will struggle to boost growth, the performance of the rest of the region will be stronger.



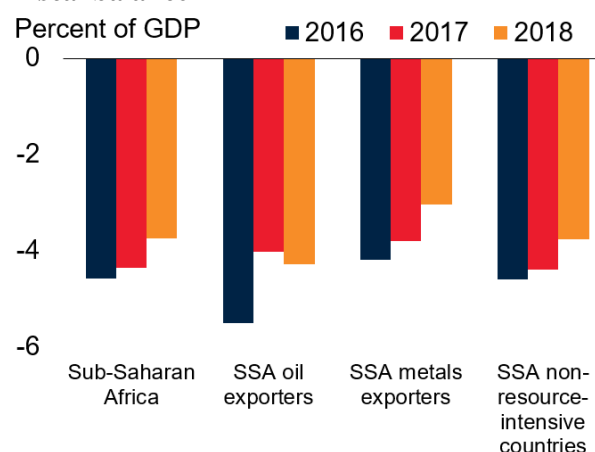
Source: World Bank

Note: shaded areas represent forecasts

2. The outlook is partly buoyed by the likelihood of fiscal consolidation

Countries across the region are expected to push ahead with fiscal consolidation as external borrowing costs look set to rise. For countries like Angola, Kenya, and South Africa, 2018 will be a critical year for reining in large fiscal deficits, as failure to do so could see investor sentiment sour significantly.

Fiscal balance



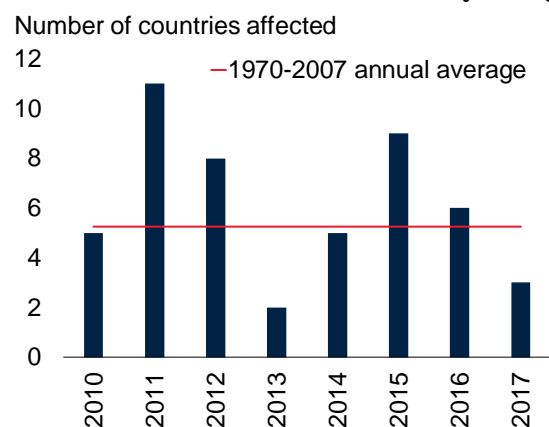
Source: World Economic Outlook.

Notes: Median of country groups. Data for 2017 are estimates, data for 2018 are forecasts. Non-resource-intensive countries include agricultural exporters and commodity importers.

3. Stabilizing weather conditions are also likely to support higher growth in 2018

A combination of drought and elevated political and policy uncertainty contributed to a slower-than-anticipated growth in several countries in 2017, particularly in East Africa. As these headwinds ease, stronger growth is expected across East Africa in 2018, with the recovery in agriculture boosting activity.

Number of SSA countries affected by drought



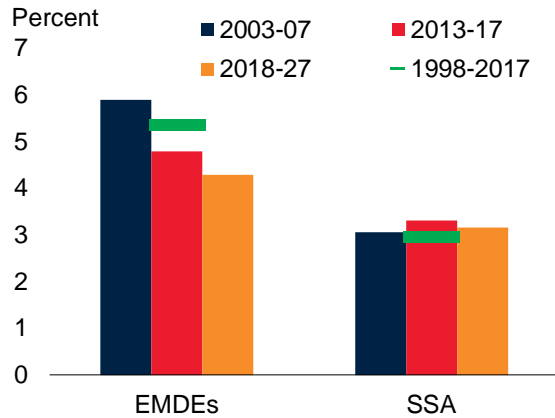
Source: Emergency events database (www.emdat.be), Brussels, Belgium.

Note: Chart shows number of SSA countries experiencing at least one drought in any given year.

4. Structural reforms would still be needed to boost potential growth over the medium-term

The region's high fertility rates could slow the growth of the working-age population, and the weakening of the investment rate will moderate capital stock growth. Absent reforms, potential growth—which determines the rate at which an economy can expand—is likely to remain low over the next decade, below the average for emerging market and developing economies.

SSA potential growth



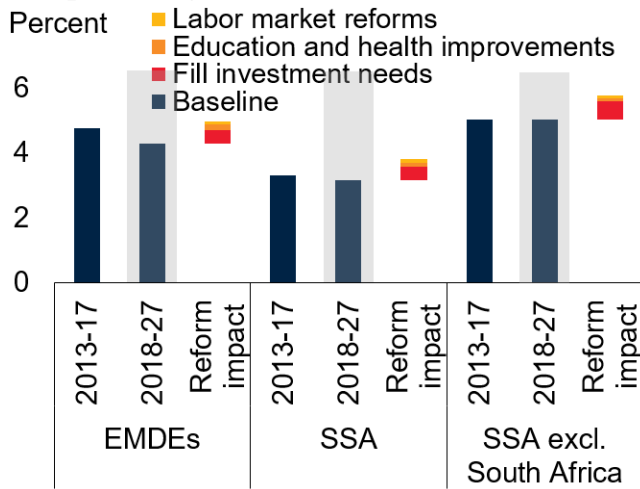
Source: World Bank staff estimates.

Notes: GDP-weighted averages. EMDE = Emerging market and developing economies.

5. A sustained increase in per capita potential growth would be critical for poverty reduction

SSA's potential growth could be boosted through policies to spur investment, improve education and health, and raise female participation rates. Excluding South Africa, potential growth could rise above the emerging market and developing economy average by 2027, as well as above the regional population growth rate, improving the prospect of gains in per capita incomes.

SSA potential growth under reform scenarios



Source: World Bank staff estimates

Notes: GDP-weighted averages.