

World Economic Outlook¹

The recovery has suffered new setbacks, and uncertainty weighs heavily on the outlook. A key reason is that policies in the major advanced economies have not rebuilt confidence in medium-term prospects. Tail risks, such as those relating to the viability of the euro area or major U.S. fiscal policy mistakes, continue to preoccupy investors. The *World Economic Outlook* (WEO) forecast thus sees only a gradual strengthening of activity from the relatively disappointing pace of early 2012. Global growth is projected at 3.3 and 3.6 percent in 2012 and 2013, respectively (see table). Output is expected to remain sluggish in advanced economies but still relatively solid in many emerging market and developing economies. Unemployment is likely to stay elevated in many parts of the world, and financial conditions will remain fragile.

The WEO forecast rests on two crucial policy assumptions. The first is that European policymakers will adopt policies that gradually ease financial conditions further in periphery economies. The second is that U.S. policymakers will prevent the drastic automatic tax increases and spending cutbacks (the “fiscal cliff”) implied by existing budget law, raise the U.S. federal debt ceiling in a timely manner, and make good progress toward a comprehensive plan to restore fiscal sustainability.

This juncture presents major difficulties for policymakers. In many advanced economies, injections of liquidity are having a positive impact on financial stability, output, and employment, but the impact may be diminishing over time. Many governments have started in earnest to reduce excessive deficits, but because uncertainty is high, confidence is low, and financial sectors remain weak, fiscal achievements have been accompanied by disappointing growth or recessions. In emerging market and developing economies, policymakers are conscious of the need to rebuild fiscal and monetary policy space but are wondering how to calibrate policies in the face of major external downside risks.

An effective policy response in the major advanced economies is the key to improving prospects and inspiring more confidence about the future. In the short term, the main tasks are to rule out the tail risk scenarios and adopt concrete plans to bring down public debt over the medium term. Reducing the risks to the medium-term outlook presaged by the public debt overhang in the major advanced economies will require supportive monetary policies and appropriate structural reforms, as well as careful fiscal policy.

In emerging market and developing economies, activity has been slowed by policy tightening in response to capacity constraints, weaker demand from advanced economies, and country-specific factors. Policy improvements have raised their resilience to shocks. Since the crisis erupted in 2008, expansionary policies have buffered the negative impact of the weakness in advanced economy markets: fiscal deficits have typically been above precrisis levels, whereas real interest rates have been lower. Domestic credit has grown rapidly. Over the medium term, policymakers will need to ensure that they retain the ability to respond flexibly to shocks by maintaining a sound fiscal position and by keeping inflation and credit growth at moderate rates.

Global imbalances, and associated vulnerabilities, have diminished, but more decisive policy action is needed to address them. More adjustment in external-deficit economies and more internal demand in external-surplus economies would contribute not only to a safer global economy but also to stronger growth for all.

Overview of the *World Economic Outlook* Projections

(Percent change)

	Year-over-Year		
	Projections		
	2011	2012	2013
World output	3.8	3.3	3.6
Advanced economies	1.6	1.3	1.5
Of which: United States	1.8	2.2	2.1
European Union	1.6	-0.2	0.5
Emerging and developing economies	6.2	5.3	5.6
Of which: MENAP	3.3	5.1	3.6
CCA	6.7	5.7	5.5
Commonwealth of Independent States	4.9	4.0	4.1
Of which: Russia	4.3	3.7	3.8
World trade volume (goods and services)	5.8	3.2	4.5
Commodity prices			
Oil ¹	31.6	2.1	-1.0
Nonfuel ²	17.8	-9.5	-2.9

Sources: IMF, *World Economic Outlook* (October 2012) and *Middle East and Central Asia Regional Economic Outlook* (November 2012).

¹Simple 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 \$104.01 in 2011; the assumed price based on future markets is \$106.18 in 2012 and \$105.10 in 2013.

²Average (measured in U.S. dollars) based on world commodity export weights.

¹ See IMF, *World Economic Outlook* and *Global Financial Stability Report* (both October 2012) for more information.