

World Economic Outlook¹

Despite setbacks, an uneven global economic recovery continues. Largely due to weaker-than-expected global activity in the first half of 2014, the growth forecast for the world economy has been revised downward to 3.3 percent this year, 0.4 percentage point lower than in the April 2014 *World Economic Outlook*. Global growth is projected to rebound in the second half of 2014 and into 2015 driven by strengthening growth in both advanced and emerging market economies. Accommodative monetary policy, favorable financial conditions, and a reduced pace of fiscal consolidation provide a favorable backdrop for stronger growth in the United States and the euro area. Emerging market and developing economies will likely profit from a recovery in external demand associated with faster growth in advanced economies as well as from strengthening domestic demand, in part linked to new measures to support activity (notably in China). By contrast, low growth in Russia, a country with important economic links, particularly for the Caucasus and Central Asia (CCA) region, reflects the impact of geopolitical tensions on foreign investment, domestic production, and confidence.

Overview of the *World Economic Outlook* Projections

(Annual percent change)

	2013	Projections	
		2014	2015
World output	3.3	3.3	3.8
Advanced economies	1.4	1.8	2.3
Of which: United States	2.2	2.2	3.1
European Union	0.2	1.4	1.8
Emerging and developing economies	4.7	4.4	5.0
Of which: MENAP	2.5	2.7	3.9
CCA	6.6	5.5	5.6
Commonwealth of Independent States	2.2	0.8	1.6
Of which: Russia	1.3	0.2	0.5
World trade volume (goods and services)	3.0	3.8	5.0
Commodity prices			
Oil ¹	-0.9	-1.3	-3.3
Nonfuel ²	-1.2	-3.0	-4.1

Sources: IMF, *World Economic Outlook* (October 2014) and *Regional Economic Outlook: Middle East and Central Asia* (October 2014).

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 \$104.07 in 2013; the assumed price based on future markets is \$106.08 in 2014 and \$102.82 in 2015.

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

Downside risks have increased since the spring. Increased geopolitical tensions, linked to the Russia-Ukraine situation and continued strife in some countries in the Middle East, could prove persistent, hampering recovery in the countries directly involved and taking a toll on confidence elsewhere. And a worsening of such tensions could lead to sharply higher oil prices, asset price declines, and further economic distress. Financial market risks include a reversal of the recent risk spreads and volatility compression triggered by a larger-than-expected increase in U.S. long-term rates—which would also tighten financial conditions for emerging markets. Secular stagnation and low potential growth in advanced economies remain important medium-term risks. For emerging markets, despite downward revisions to forecasts, the risk remains that the projected increase in growth next year will fail to materialize (at least in full) and that potential growth is lower than currently projected. And risks of a hard landing in China in the medium term, owing to excess capacity and the credit overhang, remain a concern.

Given the fragility of the global recovery and concerns about declining potential growth, policies need to focus on raising actual and potential growth. In the advanced economies, avoiding premature monetary policy normalization remains a priority, as is fiscal adjustment, attuned in pace and composition to supporting both the recovery and long-term growth. And structural reforms to raise potential output are of the essence. In emerging markets, the scope for macroeconomic policies to support growth, if needed, varies across countries and regions, but space is limited in countries with external vulnerabilities. And there is a general, urgent need for country-specific structural reforms to strengthen growth potential or make growth more sustainable.

¹ See IMF, *World Economic Outlook*, *Global Financial Stability Report*, and *Fiscal Monitor* (all October 2014) for more information.