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WORLD

IMF Raises Global Economic Outlook for This Year and 2018

The International Monetary Fund's World Economic Outlook report forecasts growth of 3.6% this year and 3.7% next year



International Monetary Fund chief economist Maurice Obstfeld in June. PHOTO: MANAN VATSYAYANA/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Josh Zumbrun

Oct. 10, 2017 9:00 a.m. ET

The world economy's acceleration so far this year has been stronger than earlier estimates, with an upswing under way across nearly all the world's major economies, the International Monetary Fund said ahead of a meeting of the world's finance chiefs in Washington this week.

In its flagship report, known as the World Economic Outlook, the IMF raised its forecast for growth to 3.6% this year and 3.7% next year, an acceleration from the 3.2% growth recorded in 2016.

That is up 0.1 percentage point in each year from the most recent round of forecasts, released in July.

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that in the short-term, the global economy has achieved a degree of momentum that has eluded the world for many years.

“The current global acceleration is also notable because it is broad-based—more so than at any time since the start of this decade,” said the IMF’s chief economist, Maurice Obstfeld.

But the organization also cautioned that recovery from the financial crisis of 2007-09 remains incomplete, and that latent risks could return within a few years.

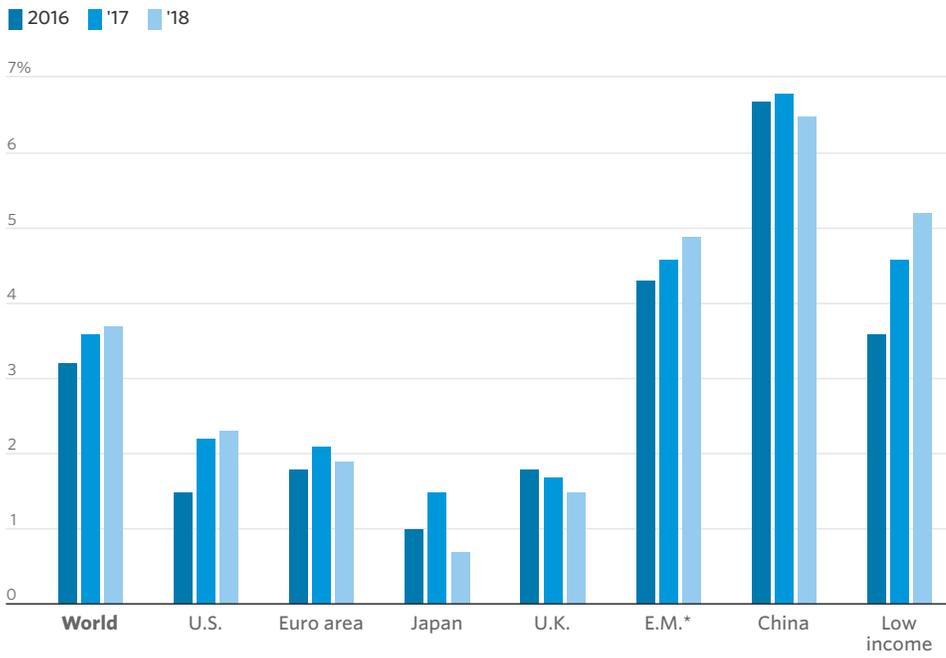
“Policy makers should seize the moment: the recovery is still incomplete in important respects, and the window for action the current cyclical upswing offers will not be open forever,” Mr. Obstfeld said.

With only three months remaining, it has become clear that 2017 will be a year that bucks the trend of the past decade, in which economic forecasters repeatedly started the year optimistic about growth prospects but then continually marked them down.

The improvements haven’t been large, but have been witnessed nearly everywhere, with increases of 0.1 or 0.2 percentage points in the U.S., euroarea, Japan and China. Canada’s growth forecast has notched up 0.5 points since the July estimate, and other advanced economies were up 0.3 points.

Rising Tide of Growth

Economic growth rates in most major economies are projected to increase in 2017



*Emerging markets
Source: International Monetary Fund

THE WALL STREET JOURNAL

This year will likely be the strongest since 2014, with most of the world’s major economies

strengthening. Enough may strengthen again in 2018 that it could be the strongest year for growth since 2011, when the world was enjoying a strong but fleeting snapback from the financial crisis, according to IMF projections.

Among the world’s 10 largest economies, the U.K. is the only one expected to see growth slow in both 2017 and 2018, weighed down by depreciation of the pound following the

Despite this portrait of a widely improving global economy, the IMF kept its report focused on lingering risks.

The inflation outlook has softened since the spring. The IMF lowered inflation forecasts to 1.7% in advanced economies over the next two years, below the 2% rate most advanced countries target and below forecasts earlier this year. The report cautioned that wage growth is likely to remain weak around the world.

Financial markets could quickly reverse, especially given how far stocks have risen. The IMF also cautioned about risks of monetary tightening: The Federal Reserve has been raising interest rates and other central banks are pivoting away from stimulus.

The report also cited two key political risks, though it didn't dwell on them: The risk of "an inward shift of policies" in the form of protectionism that might reduce international trade, and the risk of "noneconomic factors" including geopolitical tensions and domestic political discord, among others. Both could be interpreted as references to fears about U.S. policy.

While there is no doubt the global economy has strengthened, a debate over risks is shaping up as a recurring theme of this year's annual meetings of the IMF and World Bank, which will last through Saturday.

On the one side, synchronized growth can be mutually reinforcing. That could be one factor that stymied the world economy from stabilizing earlier in the decade.

"I'm very optimistic," said Adam Posen, the president of the Peterson Institute for International Economics, in an interview before the IMF's report was released. "There's no reason we can't have continued balanced growth in the majority of the world's economies."

Yet others may view this moment of broad-based growth as fragile and, quite possibly, fleeting.

In speeches last week, IMF managing director Christine Lagarde and World Bank President Jim Yong Kim urged countries that being outside of a major crisis presents a rare moment for action.

"The set of policies currently in place may be ones that boost the stock market, but not necessarily the real economy," Cornell University's Eswar Prasad, who is also a senior fellow at the Brookings Institution, said in an interview before the IMF's report. The monetary and fiscal policies that many countries have relied on over the past decade "are useful at propping things in the short-run, but not at fixing things that are wrong with these economies in the long-run."

Write to Josh Zumbrun at Josh.Zumbrun@wsj.com

Appeared in the October 11, 2017, print edition as 'Global Economic Expansion Exceeds Forecasts, IMF Says.'