HIGHLIGHTS from CHAPTER 1: GLOBAL OUTLOOK

DARKENING SKIES

Key Points

- *Global growth has moderated, and it is expected to slow from 3 percent in 2018 to 2.9 percent in 2019.*
- *International trade and manufacturing activity have softened, trade tensions remain elevated, and some large emerging market and developing economies (EMDEs) have experienced financial stress.*
- *Against this challenging backdrop, EMDE growth is expected to stall at 4.2 percent in 2018 and 2019, reflecting a weaker-than-expected recovery in commodity exporters and a faster-than-expected deceleration in commodity importers.*
- *Downside risks have become more acute. Financial market pressures and trade tensions could escalate, denting activity in the economies involved and globally.*
- *To confront these challenges, EMDE policymakers need to rebuild policy buffers and accelerate reforms needed to foster stronger growth.*

Global growth: Moderating. Global growth is moderating as the recovery in trade and manufacturing activity loses steam (Figure A). Activity in advanced economies is expected to slow, as capacity constraints become more binding and policy accommodation is withdrawn. In emerging market and developing economies (EMDEs), the recovery has lost momentum, with some large economies experiencing financial stress, and is projected to be weaker than previously anticipated. In all, global growth is expected to moderate from 3 percent in 2018 to 2.9 percent in 2019, and to level off at 2.8 percent in 2020-21 (Figure B).

Global trends: Intensifying headwinds. Despite ongoing negotiations, trade policy uncertainty remains elevated and continues to weigh on confidence. Equity prices have fallen, borrowing costs have increased, and portfolio outflows have intensified in EMDEs. Energy prices fluctuated markedly in the second half of 2018, mainly reflecting supply factors, with sharp falls toward the end of the year (Figure D). Prices of most metals and, to a lesser extent, agricultural commodities also weakened, largely due to concerns about the effects of tariffs on global growth and trade.

EMDE growth: Stalling recovery. The recovery in EMDEs has stalled. Growth is predicted to remain at 4.2 percent in 2019, with a markedly weaker-than-expected pickup in commodity exporters accompanied by a sharper-than-expected deceleration in commodity importers (Figure D). Forecast downgrades are in some cases significant, reflecting, to varying degrees, external financing pressures, slowing external demand, policy uncertainty, and commodity price declines. In China, activity remains robust but is decelerating, with the negative impact of trade tensions buffered by calibrated policy interventions. In low-income countries (LICs), growth is still predicted to firm as infrastructure investment continues and easing drought conditions support a rebound in agricultural output. However, LIC metals exporters are struggling, partly due to softer metals prices.

Per capita growth in EMDEs: Insufficient to tackle poverty. Per capita income growth in EMDEs is expected to stabilize at 3 percent in 2019, which will be insufficient to narrow income gaps with advanced economies in over 35 percent of countries. The share will be even greater among commodity exporters (41 percent) and in countries affected by fragility, conflict, and violence (nearly 60 percent). In particular, per capita growth in Sub-Saharan Africa—where more than half of the world's extreme poor resides—will remain subdued in the near term and remain inadequate to lead to significant progress toward poverty alleviation (Figure E).

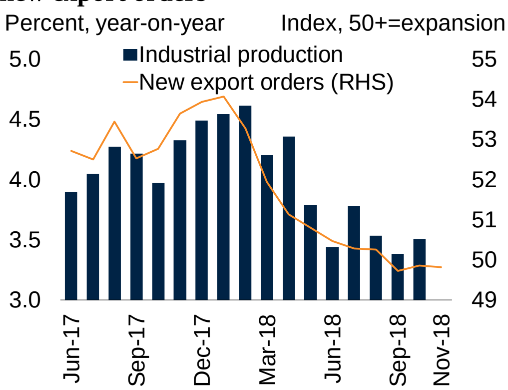
Risks to the outlook: Firmly on the downside. The balance of risks has tilted further to the downside. The risk of disorderly financial market developments has increased and could spread through EMDEs, amplified by elevated vulnerabilities in many countries. A substantial intensification of trade restrictions remains a palpable possibility, and its realization could be highly disruptive in the presence of complex value chains. Policy uncertainty and geopolitical risks remain high and could negatively impact confidence and investment both in the affected countries and globally. Although unlikely in the near term, the simultaneous occurrence of a severe U.S. downturn and a sharper-than-expected deceleration in China would trigger a significant slowdown in global activity (Figure F).

Policy priorities for EMDEs: Brace for headwinds, undertake reforms. Recent financial market stress in some EMDEs highlights the need to bolster the capacity to cope with tighter external financing conditions and sustain strong growth. Fragile fiscal positions underscore the urgency to improve domestic revenue mobilization and to commit to or deepen fiscal reforms aimed at improving the efficiency of expenditures. Central banks' commitment to price stability may be tested by sharp depreciations, which warrants shoring up central bank credibility proactively. In the longer term, steps to enhance human capital, encourage regional economic integration, and lower barriers to investment for small- and medium-sized enterprises would boost productivity and potential growth. Policies that help improve outcomes in these areas would also help address the challenges associated with informality, thus reinforcing the basis for future productivity growth.

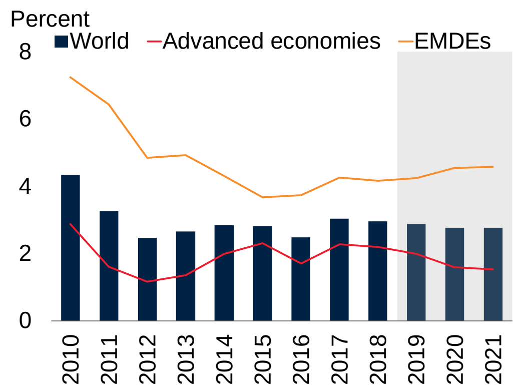
Figure 1: Global prospects

Global growth is moderating, as industrial activity and trade decelerate. The recovery in EMDEs has stalled amid slowing external demand, rising borrowing costs, and recent weakness in commodity prices. The pickup in growth among commodity exporters is markedly weaker than previously expected, while EMDE per capita income growth will remain subdued and largely insufficient to alleviate extreme poverty, particularly in Sub-Saharan Africa. A sharper-than-expected slowdown in both the United States and China could significantly erode the global outlook.

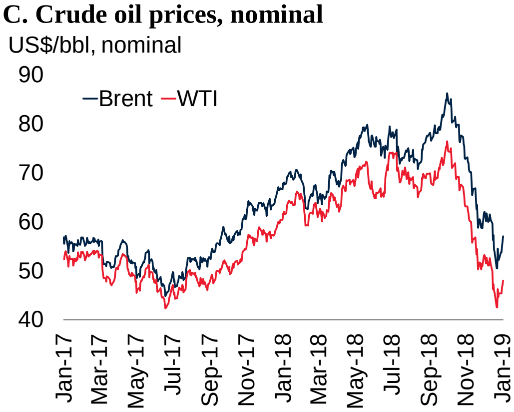
A. Global industrial production and new export orders



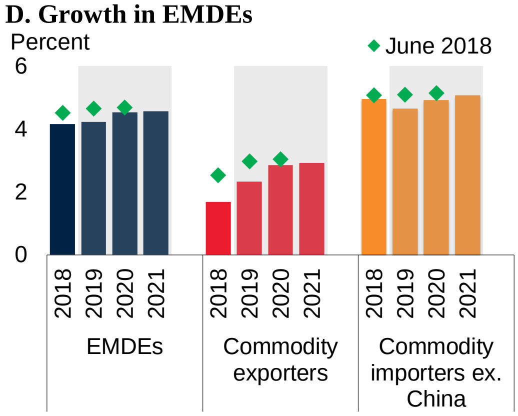
B. Global growth



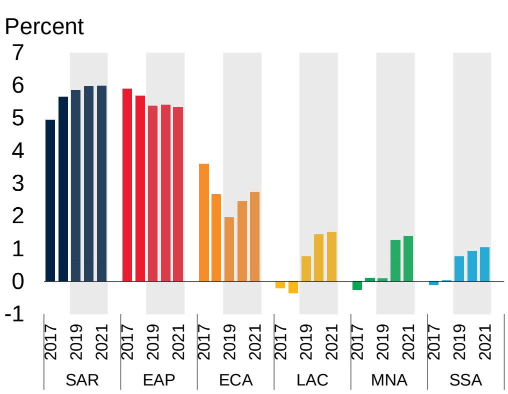
C. Crude oil prices, nominal



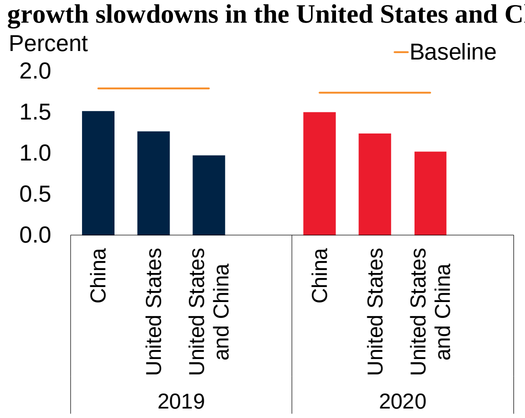
D. Growth in EMDEs



E. Per capita growth, by EMDE region



F. Global per capita growth scenarios: Impact of growth slowdowns in the United States and China



Source: Bloomberg, Haver Analytics, Institute of International Finance, World Bank.
A. New export orders measured by Purchasing Managers' Index (PMI). PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is November 2018 for new export orders and October 2018 for industrial production.
B.D.E. Shaded areas indicate forecasts. Data for 2018 are estimates. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights.
C. WTI = West Texas Intermediate. Last observation is January 4, 2019.
D. Green diamonds denote forecasts in the June 2018 edition of the *Global Economic Prospects* report.
E. EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia, and SSA = Sub-Saharan Africa.
F. Blue and red bars show scenarios assuming a 1-percentage-point growth shock in China, the United States, and the combination of the two. Shocks are applied in the second half of 2019. Based on the vector autoregression model presented in January 2016 edition of the *Global Economic Prospects* report. Deviations from baseline are all significantly different from zero.

Table 1.1 Real GDP[1]

(Percent change from previous year)

							Percentage point differences from June 2018 projections		
	2016	2017	2018e	2019f	2020f	2021f	2018e	2019f	2020f
World	**2.4**	**3.1**	**3.0**	**2.9**	**2.8**	**2.8**	**-0.1**	**-0.1**	**-0.1**
Advanced economies	**1.7**	**2.3**	**2.2**	**2.0**	**1.6**	**1.5**	**0.0**	**0.0**	**-0.1**
United States	1.6	2.2	2.9	2.5	1.7	1.6	0.2	0.0	-0.3
Euro Area	1.9	2.4	1.9	1.6	1.5	1.3	-0.2	-0.1	0.0
Japan	0.6	1.9	0.8	0.9	0.7	0.6	-0.2	0.1	0.2
Emerging market and developing economies (EMDEs)	**3.7**	**4.3**	**4.2**	**4.2**	**4.5**	**4.6**	**-0.3**	**-0.5**	**-0.2**
Commodity-exporting EMDEs	0.8	1.7	1.7	2.3	2.9	2.9	-0.8	-0.7	-0.1
Other EMDEs	5.9	6.1	5.8	5.5	5.6	5.6	0.0	-0.3	-0.1
Other EMDEs excluding China	4.9	5.2	5.0	4.7	4.9	5.1	-0.1	-0.4	-0.2
East Asia and Pacific	6.3	6.6	6.3	6.0	6.0	5.8	0.0	-0.1	0.0
China	6.7	6.9	6.5	6.2	6.2	6.0	0.0	-0.1	0.0
Indonesia	5.0	5.1	5.2	5.2	5.3	5.3	0.0	-0.1	-0.1
Thailand	3.3	3.9	4.1	3.8	3.9	3.9	0.0	0.0	0.1
Europe and Central Asia	1.7	4.0	3.1	2.3	2.7	2.9	-0.1	-0.8	-0.3
Russia	-0.2	1.5	1.6	1.5	1.8	1.8	0.1	-0.3	0.0
Turkey	3.2	7.4	3.5	1.6	3.0	4.2	-1.0	-2.4	-1.0
Poland	3.1	4.8	5.0	4.0	3.6	3.3	0.8	0.3	0.1
Latin America and the Caribbean	-1.5	0.8	0.6	1.7	2.4	2.5	-1.1	-0.6	-0.1
Brazil	-3.3	1.1	1.2	2.2	2.4	2.4	-1.2	-0.3	0.0
Mexico	2.9	2.1	2.1	2.0	2.4	2.4	-0.2	-0.5	-0.3
Argentina	-1.8	2.9	-2.8	-1.7	2.7	3.1	-4.5	-3.5	-0.1
Middle East and North Africa	5.1	1.2	1.7	1.9	2.7	2.7	-1.3	-1.4	-0.5
Saudi Arabia	1.7	-0.9	2.0	2.1	2.2	2.2	0.2	0.0	-0.1
Iran	13.4	3.8	-1.5	-3.6	1.1	1.1	-5.6	-7.7	-3.1
Egypt[2]	4.3	4.2	5.3	5.6	5.8	6.0	0.3	0.1	0.0
South Asia	7.5	6.2	6.9	7.1	7.1	7.1	0.0	0.0	-0.1
India[3]	7.1	6.7	7.3	7.5	7.5	7.5	0.0	0.0	0.0
Pakistan[2]	4.6	5.4	5.8	3.7	4.2	4.8	0.0	-1.3	-1.2
Bangladesh[2]	7.1	7.3	7.9	7.0	6.8	6.8	1.4	0.3	-0.2
Sub-Saharan Africa	1.3	2.6	2.7	3.4	3.6	3.7	-0.4	-0.1	-0.1
Nigeria	-1.6	0.8	1.9	2.2	2.4	2.4	-0.2	0.0	0.0
South Africa	0.6	1.3	0.9	1.3	1.7	1.8	-0.5	-0.5	-0.2
Angola	-2.6	-0.1	-1.8	2.9	2.6	2.8	-3.5	0.7	0.2
Memorandum items:									
Real GDP[1]									
High-income countries	1.7	2.3	2.2	2.0	1.7	1.6	0.0	0.0	-0.1
Developing countries	4.0	4.6	4.4	4.4	4.7	4.7	-0.3	-0.4	-0.1
Low-income countries	4.8	5.5	5.6	5.9	6.2	6.3	-0.1	0.0	0.0
BRICS	4.4	5.2	5.3	5.2	5.3	5.3	-0.1	-0.2	-0.1
World (2010 PPP weights)	3.2	3.7	3.6	3.5	3.6	3.6	-0.2	-0.3	-0.1
World trade volume[4]	2.6	5.4	3.8	3.6	3.5	3.4	-0.5	-0.6	-0.5
Commodity prices[5]									
Oil price	-15.6	23.3	30.7	-2.9	0.0	0.0	-1.9	-1.5	-0.1
Non-energy commodity price index	-2.8	5.3	1.7	1.0	1.2	1.2	-3.4	0.8	0.7

Source: World Bank.

Notes: PPP = purchasing power parity; e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. Country classifications and lists of emerging market and developing economies (EMDEs) are presented in Table 1.2. BRICS include: Brazil, Russia, India, China, and South Africa.

1. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights.
2. GDP growth values are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. Pakistan's growth rates are based on GDP at factor cost. The column labeled 2017 refers to FY2016/17.
3. The column labeled 2016 refers to FY2016/17.
4. World trade volume of goods and non-factor services.
5. Oil is the simple average of Brent, Dubai, and West Texas Intermediate. The non-energy index is comprised of the weighted average of 39 commodities (7 metals, 5 fertilizers, 27 agricultural commodities). For additional details, please see http://www.worldbank.org/en/research/commodity-markets.

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