HIGHLIGHTS from CHAPTER 1: WEAK MOMENTUM, HEIGHTENED RISKS

Key Points

- *Global growth in 2019 is projected to slow to 2.6 percent, 0.3 percentage point below previous forecasts, due to weaker-than-expected trade and investment at the start of the year. Global trade growth in 2019 has been downgraded to 2.6 percent—the weakest pace since the global financial crisis.*
- *Global growth is expected to gradually rise to 2.8 percent by 2021, assuming continued benign global financing conditions, as well as a modest recovery in emerging market and developing economies (EMDEs) previously affected by financial market pressure.*
- *Risks are firmly on the downside, in part reflecting the possibility of destabilizing policy developments, including a further escalation of trade tensions between major economies.*
- *It is urgent for countries to reinforce policy buffers against possible negative shocks and to implement reforms that promote private investment and improve public sector efficiency.*

Global growth: Slowing manufacturing and trade. Global economic activity continued to soften at the start of 2019, with international trade and manufacturing showing signs of marked weakness (Figure A). Heightened policy uncertainty, including a recent re-escalation of trade tensions between major economies, has been accompanied by a deceleration in global investment and a decline in confidence (Figure B). As a result, global GDP growth in 2019 has been downgraded to 2.6 percent—0.3 percentage point below previous projections. In particular, global trade growth in 2019 has been revised down a full percentage point, to 2.6 percent—slightly below the pace observed during the 2015-16 trade slowdown, and the weakest since the global financial crisis. Export growth is expected to decelerate across EMDE regions in 2019 amid moderating external demand. As recent softness abates, global GDP growth is projected to edge up to 2.7 percent in 2020 and to 2.8 percent in 2021. Slowing activity in advanced economies and China is expected to be accompanied by a modest cyclical recovery in major commodity exporters and in a number of EMDEs affected by recent pressure (Figure C).

EMDE activity: Weak momentum, subdued investment. EMDE activity has been markedly weaker than expected, with a substantial softening in external demand, heightened global policy uncertainty, and subdued investment only partially offset by recent improvements in external financing conditions. As a result, EMDE growth is projected to pick up from a four-year low of 4 percent in 2019—0.3 percentage point below previous projections—to 4.6 percent in 2020-21. This recovery is predicated on the waning impact of earlier financial pressure currently weighing on activity in some large EMDEs (Figure D). It also assumes no further escalation in trade restrictions between major economies and stability in commodity prices. EMDE investment growth will remain soft, particularly in countries affected by recent pressure (Figure E). Subdued investment will weigh on EMDE growth prospects and dampen productivity.

Per capita growth in EMDEs: Insufficient to tackle poverty. Near-term growth will be insufficient to result in significant progress toward global poverty alleviation, with per capita income growth this year remaining below its long-term average in more than half of EMDEs. In about a third of EMDEs, per capita growth in 2019 will be below that of advanced economies, resulting in widening income

gaps. These EMDEs are mainly in commodity-reliant regions such as Sub-Saharan Africa, Latin America and the Caribbean, and the Middle East and North Africa. To reduce global extreme poverty to 3 percent by 2030, income per capita growth in countries where extreme poverty concentrates would need to be sustained at about 8 percent per year, more than twice the rate projected over the next two years.

Risks to the outlook: Firmly on the downside. Risks continue to be tilted to the downside. Confidence and investment could be markedly impacted by a sudden rise in policy uncertainty—triggered, for instance, by substantial new trade barriers between major economies that lead to cascading trade costs and a lack of clarity about future trading rules. New financial stress episodes in EMDEs could be amplified by rising debt levels, corporate sector vulnerabilities, and increasing refinancing pressures. Sharper-than-expected slowdowns in major economies could have substantial spillover effects for EMDEs. These risks are further compounded in some regions by the possibility of intensifying conflict and by the increased frequency of extreme weather events. The probability of global growth in 2020 being at least 1 percentage-point below current projections is estimated at close to 20 percent—such a slowdown would be comparable to the 2001 global downturn (Figure F).

Policy priorities for EMDEs: Increase resilience. EMDEs need to reinforce macroeconomic frameworks to improve resilience to shocks, particularly in countries with high debt levels. Given limited fiscal space and large investment needs to meet critical development goals, policymakers need to ensure that public spending is cost effective and growth enhancing and that policy environments are conducive to private-sector-led solutions. Structural reforms aimed at bolstering the business climate could also significantly bolster prospects. Improving access to reliable and affordable infrastructure, leveraging productivity-enhancing technologies, and buttressing institutional quality can help remove key bottlenecks to activity. Building resilience to extreme weather events, and boosting agricultural productivity is also a key priority in countries with large and poor rural populations.
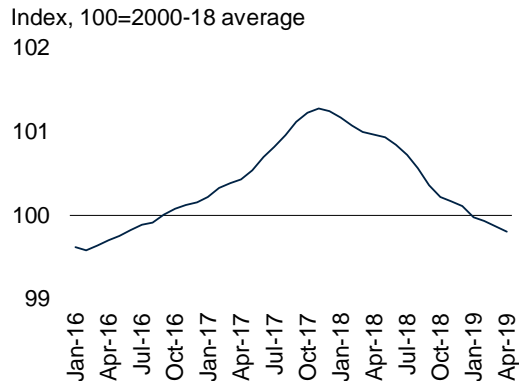
Global Economic Prospects

Figures: Global prospects

Global growth softened further in the first half of the year, amid weakening trade and manufacturing. Amid heightened policy uncertainty, confidence has declined. After weakness in 2019, EMDE growth is expected to recover in 2020-21, as headwinds in key economies fade, but investment will remain subdued. A further escalation of trade tensions involving major economies could lead to a sharp increase in trade barriers and weigh on confidence and investment. The probability of global growth being 1 percentage point below forecast in 2020 is close to 20 percent.
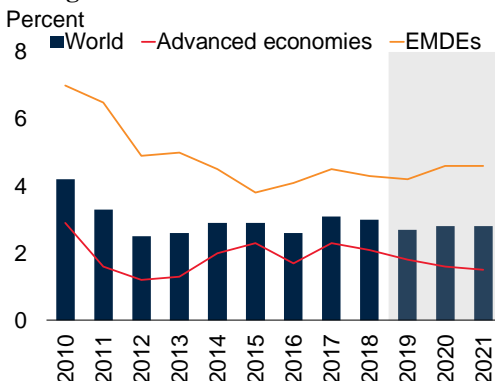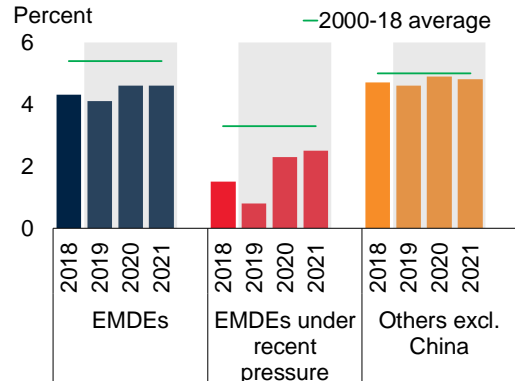
A. Global manufacturing and new export orders
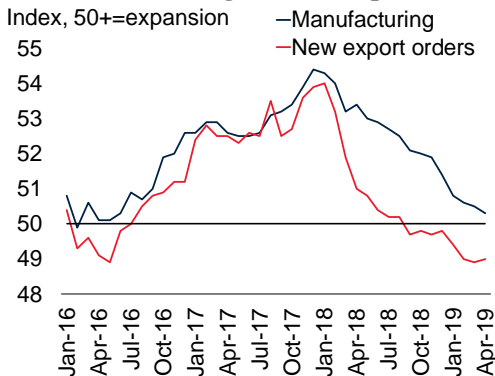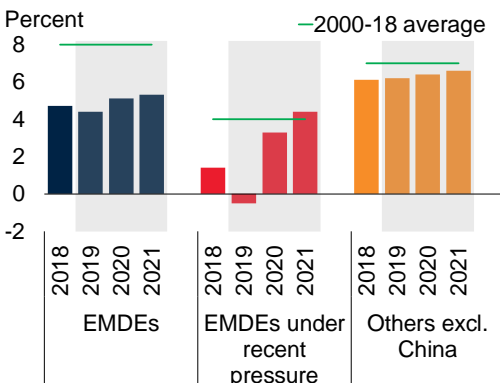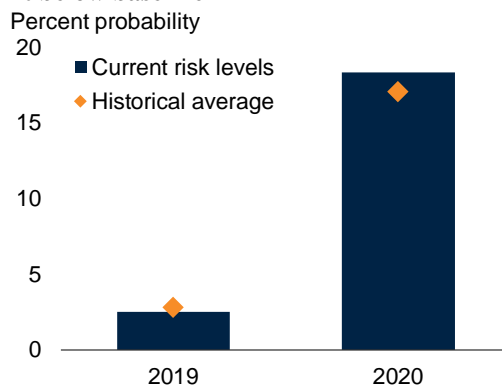
B. Global business confidence

C. Global growth

D. Growth in EMDEs

E. Investment growth in EMDEs

F. Probability of global growth being 1 percentage point below baseline

Source: Bloomberg, Haver Analytics, J.P. Morgan, Organisation for Economic Co-operation and Development, World Bank.

Note: EMDEs = emerging market and developing economies.

A. Manufacturing and new export orders are measured by Purchasing Managers' Index (PMI). PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Black horizontal line indicates expansionary threshold. Last observation is April 2019.

B. Average business confidence across major advanced economies and EMDEs, including Brazil, Canada, France, Germany, Italy, Japan, Russia, Turkey, the United Kingdom, and the United States. Last observation is April 2019.

C.D.E. Shaded areas indicate forecasts. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights. Data for 2018 are estimates.

D.E. EMDEs under recent pressure include: a) countries that have had an increase in their J.P. Morgan EMBI credit spread of at least one standard deviation above the 2010-19 average at any time since April 2018 (Argentina, Brazil, Egypt, Gabon, Jordan, Lebanon, Mexico, Nigeria, South Africa, Sri Lanka, Tunisia, Turkey); or b) countries that have been subject to recent sanctions (Iran, Russia).

F. The fan chart shows the forecast distribution of global growth using time-varying estimates of the standard deviation and skewness extracted from the forecast distribution of three underlying risk factors: oil price futures, the S&P 500 equity price futures, and term spread forecasts. Each of the risk factor's weight is derived from the model described in Ohnsorge, Stocker, and Some (2016). Values for 2019 are computed from the forecast distribution of 6-month-ahead oil price futures, S&P 500 equity price futures, and term spread forecasts. Values for 2020 are based on 18-month-ahead forecast distributions. Last observation is May 21, 2019.

Table 1.1 Real GDP[1]

(Percent change from previous year)

	2016	2017	2018e	2019f	2020f	2021f	Percentage point differences from January 2019 projections 2019f	2020f	2021f
World	**2.6**	**3.1**	**3.0**	**2.6**	**2.7**	**2.8**	**-0.3**	**-0.1**	**0.0**
Advanced economies	**1.7**	**2.3**	**2.1**	**1.7**	**1.5**	**1.5**	**-0.3**	**-0.1**	**0.0**
United States	1.6	2.2	2.9	2.5	1.7	1.6	0.0	0.0	0.0
Euro Area	2.0	2.4	1.8	1.2	1.4	1.3	-0.4	-0.1	0.0
Japan	0.6	1.9	0.8	0.8	0.7	0.6	-0.1	0.0	0.0
Emerging market and developing economies	**4.1**	**4.5**	**4.3**	**4.0**	**4.6**	**4.6**	**-0.3**	**0.0**	**0.0**
Commodity-exporting EMDEs	1.5	2.1	2.2	2.1	3.1	3.0	-0.4	0.1	0.0
Other EMDEs	6.0	6.1	5.8	5.2	5.5	5.5	-0.3	-0.1	-0.1
Other EMDEs excluding China	5.1	5.4	4.9	4.2	4.8	5.0	-0.5	-0.1	-0.1
East Asia and Pacific	6.3	6.5	6.3	5.9	5.9	5.8	-0.1	-0.1	0.0
China	6.7	6.8	6.6	6.2	6.1	6.0	0.0	-0.1	0.0
Indonesia	5.0	5.1	5.2	5.2	5.3	5.3	0.0	0.0	0.0
Thailand	3.4	4.0	4.1	3.5	3.6	3.7	-0.3	-0.3	-0.2
Europe and Central Asia	1.9	4.1	3.1	1.6	2.7	2.9	-0.7	0.0	0.0
Russia	0.3	1.6	2.3	1.2	1.8	1.8	-0.3	0.0	0.0
Turkey	3.2	7.4	2.6	-1.0	3.0	4.0	-2.6	0.0	-0.2
Poland	3.1	4.8	5.1	4.0	3.6	3.3	0.0	0.0	0.0
Latin America and the Caribbean	-0.3	1.7	1.6	1.7	2.5	2.7	-0.4	-0.2	0.0
Brazil	-3.3	1.1	1.1	1.5	2.5	2.3	-0.7	0.1	-0.1
Mexico	2.9	2.1	2.0	1.7	2.0	2.4	-0.3	-0.4	0.0
Argentina	-2.1	2.7	-2.5	-1.2	2.2	3.2	0.5	-0.5	0.1
Middle East and North Africa	5.1	1.2	1.4	1.3	3.2	2.7	-0.6	0.5	0.0
Saudi Arabia	1.7	-0.7	2.2	1.7	3.1	2.3	-0.4	0.9	0.1
Iran	13.4	3.8	-1.9	-4.5	0.9	1.0	-0.9	-0.2	-0.1
Egypt[2]	4.3	4.2	5.3	5.5	5.8	6.0	-0.1	0.0	0.0
South Asia	8.1	6.7	7.0	6.9	7.0	7.1	-0.2	-0.1	0.0
India[3]	8.2	7.2	7.2	7.5	7.5	7.5	0.0	0.0	0.0
Pakistan[2]	4.6	5.4	5.8	3.4	2.7	4.0	-0.3	-1.5	-0.8
Bangladesh[2]	7.1	7.3	7.9	7.3	7.4	7.3	0.3	0.6	0.5
Sub-Saharan Africa	1.3	2.6	2.5	2.9	3.3	3.5	-0.5	-0.3	-0.2
Nigeria	-1.6	0.8	1.9	2.1	2.2	2.4	-0.1	-0.2	0.0
South Africa	0.6	1.4	0.8	1.1	1.5	1.7	-0.2	-0.2	-0.1
Angola	-2.6	-0.1	-1.7	1.0	2.9	2.8	-1.9	0.3	0.0
Memorandum items:									
Real GDP[1]									
High-income countries	1.7	2.3	2.1	1.8	1.6	1.6	-0.2	-0.1	0.0
Developing countries	4.4	4.8	4.6	4.2	4.7	4.8	-0.3	-0.1	0.0
Low-income countries	4.8	5.6	5.6	5.4	6.0	6.1	-0.5	-0.2	-0.2
BRICS	4.6	5.3	5.4	5.1	5.3	5.3	-0.1	0.0	0.0
World (2010 PPP weights)	3.3	3.7	3.7	3.3	3.5	3.6	-0.3	-0.1	0.0
World trade volume[4]	2.8	5.5	4.1	2.6	3.1	3.2	-1.0	-0.4	-0.2
Commodity prices[5]									
Oil price	-15.6	23.3	29.4	-3.4	-1.5	0.7	-0.5	-1.5	0.7
Non-energy commodity price index	-2.8	5.5	1.7	-2.1	-0.1	1.4	-3.1	-1.3	0.2

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. Due to lack of data, the World Bank has ceased producing a growth forecast for Venezuela and has removed Venezuela from all growth aggregates in which it was previously included.

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 2019 refers to FY2018/19.

3. The column labeled 2018 refers to FY2018/19.

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.

To download the data in this table, please visit www.worldbank.org/gep.