Global Economic Prospects

HIGHLIGHTS from CHAPTER 1: GLOBAL OUTLOOK

THE TURNING OF THE TIDE?

Key Points

- *After reaching 3.1 percent in both 2017 and 2018, global growth is expected to moderate over the next two years as global slack dissipates, major central banks gradually remove policy accommodation, and the recovery in commodity exporters matures.*
- *Progress in per capita income growth will be uneven across emerging market and developing economies, and generally insufficient to tackle extreme poverty in Sub-Saharan Africa.*
- *The outlook is subject to significant downside risks, including the possibility of disorderly financial market movements, escalating trade protectionism, heightened policy uncertainty, and rising geopolitical tensions.*
- *To confront these risks and bolster long-term growth, policymakers need to rebuild policy buffers and accelerate reforms to boost competitiveness, adapt to technological change, and promote trade openness.*

Global growth: expected to ease. Global growth is projected to stabilize at 3.1 percent in 2018—the same pace as last year—supported by firming investment in advanced economies, a continued recovery in commodity-exporting emerging market and developing economies, and still robust growth in commodity-importing ones (Figure 1.A). However, only in a minority of countries will activity accelerate further this year, and global growth is projected to ease gradually over the next two years, to 2.9 percent in 2020. Despite the projected moderation, global growth will continue to exceed potential, suggesting that capacity constraints will become more binding and global inflation will rise.

Global trends: less supportive of growth. Trade has been robust, but is expected to moderate, as the recovery in capital spending wanes (Figure 1.B). A faster-than-expected rise in global interest rates, combined with a renewed strength of the U.S. dollar, have contributed to tighter external financing conditions and moderating capital inflows in emerging market and developing economies (EMDEs). In this context, investors have become increasingly focused on country-specific exposures to rising borrowing costs and currency pressures. Commodity prices—particularly oil—are also higher than previously expected, mainly reflecting supply-side considerations.

EMDE growth: maturing recovery. Growth in EMDEs is projected to gain further strength, reaching 4.5 percent in 2018 before stabilizing at 4.7 percent in 2019-20 as the recovery in commodity exporters matures. Growth in commodity exporters is expected to increase to 2.5 percent in 2018 and to average 3.0 percent in 2019 and 2020, as investment growth plateaus and output gaps close. Growth in commodity importers is projected to remain broadly stable in 2018-20, averaging 5.8 percent, as a structural slowdown in China is offset by a moderate pickup in the rest of the group.

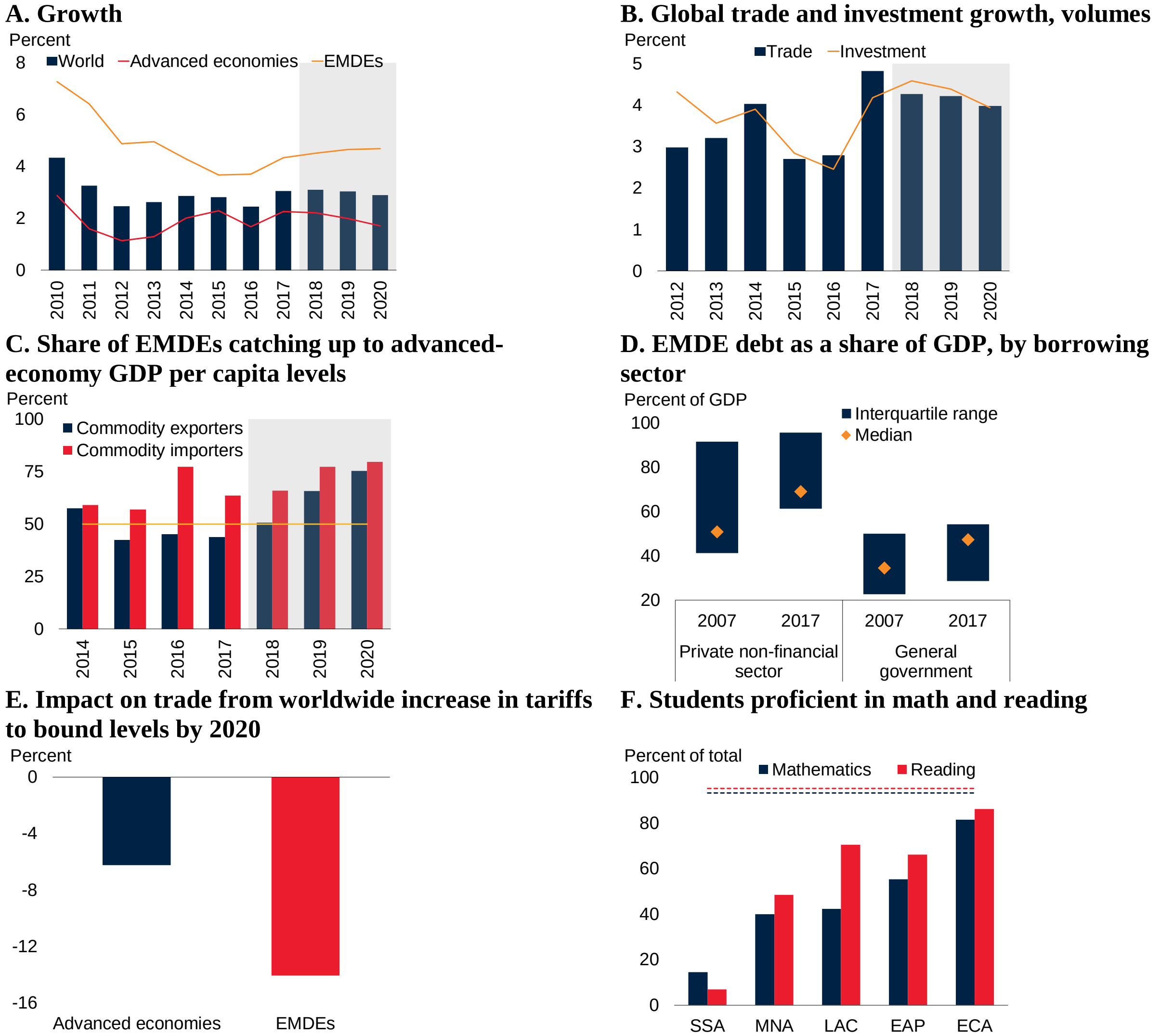
Per capita income in EMDEs: uneven progress. Growth prospects for EMDEs remain favorable over the forecast horizon but may not be sufficient to ensure rapid poverty alleviation, particularly in Sub-Saharan Africa. In that region, per capita income growth is projected to reach 1 percent by 2020, significantly lower than the EMDE average of 3.5 percent. In contrast, per capita income growth is expected to reach 6 percent in South Asia, which is the region with the second largest number of extreme poor. At the projected pace, growth will be insufficient to restart the catch-up of income per capita with advanced economies in about one-third of EMDEs (Figure 1.C).

Risks to the outlook: tilted downward. Risks to the outlook are tilted to the downside, with some becoming more acute. In particular, an accelerated tightening of global financing conditions and disorderly exchange rate developments could have severe consequences in many EMDEs facing record-high debt levels, mounting refinancing needs, and deteriorating credit quality (Figure 1.D). Escalation of trade restrictions among major economies could derail global trade, with particularly adverse consequences for EMDEs (Figure 1.E). Electoral outcomes in a number of countries, including in Europe, could heighten policy uncertainty, while an intensification of geopolitical tensions could also hamper growth prospects. Depleted policy buffers make many countries unprepared to the possibility of a faster-than-expected slowdown in global growth.

Policy priorities for EMDEs: brace for headwinds. Policymakers need to meet head-on the prospects of rising global interest rates and possible financial market volatility. Deteriorating debt dynamics underline the importance of fostering revenue mobilization and restoring fiscal buffers. EMDEs also need to boost longer-term growth prospects by intensifying economic diversification among commodity exporters, and, more broadly, by strengthening workforce skills, adapting to technological change, and promoting trade openness. Higher tertiary education enrollment can help move EMDEs closer to technological frontiers, but improving basic numeracy, literacy, and skills from current levels is a key priority for many low- and middle-income countries (Figure 1.F).

Figure 1: Global prospects

Global growth remains robust but is projected to decelerate as global trade and investment moderate. In about one-third of EMDEs, income per capita growth will be insufficient to restart catch-up with advanced economies. EMDEs are vulnerable to a sudden increase in borrowing costs amid elevated debt levels, and to escalating trade protectionism. Improving education outcomes could help raise per capita income levels and growth prospects in key EMDE regions.



Sources: Bank for International Settlements, World Bank.
A. -C. Shaded area indicates forecasts.
A. E. EMDEs = emerging market and developing economies.
A. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights.
B. Trade measured as the average of export and import volumes.
C. EMDEs with per capita GDP growth of at least 0.1 percentage point higher than advanced-economy per capita GDP growth are those counted as converging. Advanced-economy growth rates calculated using constant 2010 U.S. dollar GDP weights. Sample includes 73 EMDE commodity exporters and 44 EMDE commodity importers.
D. Debt is defined as loans and debt securities. Sample includes 16 EMDEs.
E. Bars denote the percent deviation from baseline in 2020. Data are calculated from simulations using the GDyn computable general equilibrium model (Ianchovichina and McDougall 2000; Ianchovichina and Walmsley 2012). Trade-weighted aggregates include 36 advanced economies and 71 EMDEs.
F. EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and Caribbean, MNA = Middle East and North Africa, and SSA = Sub-Saharan Africa. Data for South Asia are unavailable. Dashed horizontal lines show advanced-economy average.

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Table 1.1 Real GDP[1]

(Percent change from previous year)

	2015	2016	2017e	2018f	2019f	2020f	Percentage point differences from January 2018 projections: 2018f	2019f	2020f
World	**2.8**	**2.4**	**3.1**	**3.1**	**3.0**	**2.9**	**0.0**	**0.0**	**0.0**
Advanced economies	**2.3**	**1.7**	**2.3**	**2.2**	**2.0**	**1.7**	**0.0**	**0.1**	**0.0**
United States	2.9	1.5	2.3	2.7	2.5	2.0	0.2	0.3	0.0
Euro Area	2.1	1.8	2.4	2.1	1.7	1.5	0.0	0.0	0.0
Japan	1.4	1.0	1.7	1.0	0.8	0.5	-0.3	0.0	0.0
Emerging market and developing economies (EMDEs)	**3.7**	**3.7**	**4.3**	**4.5**	**4.7**	**4.7**	**0.0**	**0.0**	**0.0**
Commodity-exporting EMDEs	0.5	0.8	1.8	2.5	3.0	3.0	-0.2	-0.1	-0.1
Other EMDEs	6.1	5.9	6.2	5.8	5.8	5.7	0.1	0.1	0.0
Other EMDEs excluding China	5.2	4.9	5.3	5.1	5.1	5.1	0.3	0.0	0.0
East Asia and Pacific	6.5	6.3	6.6	6.3	6.1	6.0	0.1	0.0	0.0
China	6.9	6.7	6.9	6.5	6.3	6.2	0.1	0.0	0.0
Indonesia	4.9	5.0	5.1	5.2	5.3	5.4	-0.1	0.0	0.1
Thailand	3.0	3.3	3.9	4.1	3.8	3.8	0.5	0.3	0.4
Europe and Central Asia	1.1	1.7	4.0	3.2	3.1	3.0	0.3	0.1	0.0
Russia	-2.5	-0.2	1.5	1.5	1.8	1.8	-0.2	0.0	0.0
Turkey	6.1	3.2	7.4	4.5	4.0	4.0	1.0	0.0	0.0
Poland	3.8	2.9	4.6	4.2	3.7	3.5	0.2	0.2	0.4
Latin America and the Caribbean	-0.4	-1.5	0.8	1.7	2.3	2.5	-0.3	-0.3	-0.2
Brazil	-3.5	-3.5	1.0	2.4	2.5	2.4	0.4	0.2	-0.1
Mexico	3.3	2.9	2.0	2.3	2.5	2.7	0.2	-0.1	0.1
Argentina	2.7	-1.8	2.9	1.7	1.8	2.8	-1.3	-1.2	-0.4
Middle East and North Africa	2.8	5.0	1.6	3.0	3.3	3.2	0.0	0.1	0.0
Saudi Arabia	4.1	1.7	-0.7	1.8	2.1	2.3	0.6	0.0	0.1
Iran	-1.3	13.4	4.3	4.1	4.1	4.2	0.1	-0.2	-0.1
Egypt[2]	4.4	4.3	4.2	5.0	5.5	5.8	0.5	0.2	0.0
South Asia	7.1	7.5	6.6	6.9	7.1	7.2	0.0	-0.1	0.0
India[3]	8.2	7.1	6.7	7.3	7.5	7.5	0.0	0.0	0.0
Pakistan[2]	4.1	4.6	5.4	5.8	5.0	5.4	0.3	-0.8	-0.6
Bangladesh[2]	6.6	7.1	7.3	6.5	6.7	7.0	0.1	0.0	0.3
Sub-Saharan Africa	3.1	1.5	2.6	3.1	3.5	3.7	-0.1	0.0	0.1
Nigeria	2.7	-1.6	0.8	2.1	2.2	2.4	-0.4	-0.6	-0.4
South Africa	1.3	0.6	1.3	1.4	1.8	1.9	0.3	0.1	0.2
Angola	3.0	0.0	1.2	1.7	2.2	2.4	0.1	0.7	0.9
Memorandum items:									
Real GDP[1]									
High-income countries	2.3	1.7	2.2	2.2	2.0	1.8	0.0	0.1	0.0
Developing countries	3.7	3.8	4.6	4.7	4.8	4.8	0.0	0.0	-0.1
Low-income countries	4.9	4.8	5.5	5.7	5.9	6.3	0.3	0.4	0.6
BRICS	4.0	4.4	5.3	5.4	5.4	5.4	0.1	0.0	0.0
World (2010 PPP weights)	3.4	3.2	3.7	3.8	3.8	3.7	0.1	0.1	0.0
World trade volume[4]	2.7	2.8	4.8	4.3	4.2	4.0	0.3	0.3	0.2
Commodity prices									
Oil price[5]	-47.3	-15.6	23.3	32.6	-1.4	0.1	23.2	-3.1	-1.6
Non-energy commodity price index	-15.8	-2.6	5.5	5.1	0.2	0.5	4.5	-0.6	-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. Simple average of Dubai, Brent, and West Texas Intermediate.

For additional information, please see www.worldbank.org/gep.