Reflections on the Global Economic Outlook

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Outline

1. Global Megatrends
2. Global Economic Outlook
3. Potential Risks (Perspectives on EM Debt)
4. Policy Implications
5. The SDG Framework
Global Megatrends

- Demographic transitions
- Urbanization
- Fragility and violence
- Climate change
- Market Volatility and Debt Vulnerability
- Technological changes
- Shifts in the global economy
- Renewed debate about globalization
There was a demographic turning point in 2010

• Higher working-age population shares are associated with higher per capita output growth.

• Global demographic trends turned from tailwinds to growth into headwinds around 2010.

Source: World Bank Global Economic Prospects, 2018
The world can be divided into four major demographic groups

<table>
<thead>
<tr>
<th>Demographic Group</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-dividend</td>
<td>Lagging in human development outcomes</td>
</tr>
<tr>
<td>Early-dividend</td>
<td>Job creation for rapidly growing share of working-age people, mostly youth</td>
</tr>
<tr>
<td>Late-dividend</td>
<td>Populations beginning to age; potential slowdown in growth of labor supply</td>
</tr>
<tr>
<td>Post-dividend</td>
<td>Adapting to aging to maintain living standards</td>
</tr>
</tbody>
</table>

Most of the global population lives in early- and late-dividend countries and while 78 percent of global growth was from late- and post-dividend countries, 90 percent of global poverty is in pre- and early-dividend countries.

Urbanization and development outcomes

Proportion of population living in urban areas, 1960-2011

Proportion of urban population living in slums, 1990-2010
The number of disasters and losses has been rising. Development progress needs to integrate resilience to avoid undoing hard fought development gains.
Commodity cycles exacerbate global economic volatility

Commodity price indexes, annual

US$ constant, 2010=100

Agriculture
Metals
Energy
The rate of technological advancement is unprecedented
Violent conflict is increasing and becoming more complex

Number of people killed by violent conflict

Number of conflicts, by type

Source: Pathways to Peace, World Bank, 2018
Multipolarity

The world’s economic center of gravity, 1980–2016, in black, at three-year intervals

Evolution of the earth’s economic center of gravity: 1 CE to 2025

Source: Danny Quah, 2011

Source: McKinsey Global Institute, 2012
The global risks landscape in 2018

Robust but Slowing Growth in Advanced Economies; Weakening Global Trade

- Growth in advanced economies
  - (Percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>Euro Area</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2.5</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>2018</td>
<td>2.3</td>
<td>1.6</td>
<td>1.1</td>
</tr>
<tr>
<td>2019-20</td>
<td>2.1</td>
<td>1.5</td>
<td>1.0</td>
</tr>
</tbody>
</table>

- Global industrial production growth and export orders
  - (Percent, 3 months SA)
  - (Index, 50+ = expansion)

  **Industrial production growth**

  - Sources: Haver Analytics, World Bank.
  - Left Panel: Aggregate growth rates calculated using 2000 U.S. dollar GDP weights. Shaded bars indicate estimates and forecasts. Right Panel: Industrial production growth is presented as seasonally-adjusted annualized growth (total of volumes in the last three months on a preceding three-month basis). For export orders, readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation for industrial production growth is July 2018, and for export orders is September 2018.
Tightening Financing Conditions; Diverging Commodity Prices

- Bond and CDS spreads in EMDEs

  (Basis points)

- Source: Bloomberg.

- Left Panel: EM CDS spreads are for five years and measured as a weighted average of 15 sovereign issuers. Last observation is October 1, 2018. Right Panel: June 15 is the date the U.S. administration announced broad-based tariffs on China. Last observation is September 26, 2018.
Global and Regional Forecasts

*Downgrades...*

- GDP growth
  - (Percent)

<table>
<thead>
<tr>
<th>Region</th>
<th>2012-16</th>
<th>2017</th>
<th>2018e</th>
<th>2019f</th>
<th>2020f</th>
<th>2018 change</th>
<th>2019 change</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2.8</td>
<td>3.0</td>
<td>3.0</td>
<td>2.9</td>
<td>2.8</td>
<td>-0.1</td>
<td>-0.1</td>
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<tr>
<td>Advanced economies</td>
<td>1.7</td>
<td>2.3</td>
<td>2.2</td>
<td>2.0</td>
<td>1.6</td>
<td>0.0</td>
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<tr>
<td>EMDEs</td>
<td>4.8</td>
<td>4.2</td>
<td>4.2</td>
<td>4.3</td>
<td>4.6</td>
<td>-0.3</td>
<td>-0.4</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>7.3</td>
<td>6.6</td>
<td>6.3</td>
<td>6.0</td>
<td>6.0</td>
<td>0.0</td>
<td>-0.1</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>3.2</td>
<td>4.0</td>
<td>3.1</td>
<td>2.5</td>
<td>2.7</td>
<td>-0.1</td>
<td>-0.6</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>2.2</td>
<td>0.8</td>
<td>0.7</td>
<td>1.8</td>
<td>2.4</td>
<td>-1.0</td>
<td>-0.5</td>
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<tr>
<td>Middle East and North Africa</td>
<td>3.5</td>
<td>1.2</td>
<td>1.8</td>
<td>1.9</td>
<td>2.7</td>
<td>-1.2</td>
<td>-1.4</td>
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<tr>
<td>South Asia</td>
<td>6.4</td>
<td>6.2</td>
<td>6.9</td>
<td>7.1</td>
<td>7.1</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4.3</td>
<td>2.5</td>
<td>2.8</td>
<td>3.4</td>
<td>3.6</td>
<td>-0.3</td>
<td>-0.1</td>
</tr>
</tbody>
</table>
Risks are Increasingly Tilted to the Downside

- Financial stress
- Trade tensions
- Policy uncertainty
- Geopolitical risks

Slower potential growth
Higher Inflation; Lower Jobless Rate; Increasing Policy Rate

- Inflation and unemployment rate in the U.S.

\[(\text{Percent, year-on-year})\]

\[(\text{Percent of labor force})\]

- Policy rates and market expectations

Sources: Bloomberg; Haver Analytics; World Bank

Left Panel. Inflation is measured by year-on-year change in the personal consumption expenditures (PCE) price index. Both PCE price index and unemployment rate are seasonally adjusted. Dotted lines refer to projections over longer run in the latest Federal Open Market Committee (FOMC) meeting (in September 2018), based on the central tendency. Last observation is August 2018.

Right Panel. Policy rates are for the effective Fed funds (United States), EONIA (Euro Area), and overnight call rate (Japan). Blue dots (FOMC median) are medians of individual FOMC participant's judgment of the appropriate target level for the federal fund rate at the end of 2018 to 2022, in the September 2018 FOMC meeting. Shaded area indicates market expectations derived from overnight swap rates (as of September 28, 2018).
Falling Equity Prices; Depreciating Renminbi; Significant Growth Spillovers

• Equity prices, 2018
  - (Index, April 15 = 100)

• Exchange rates, 2018
  - (Percentage points)
  - (Index, April 15 = 100)

Sources: Bloomberg, Haver Analytics, World Bank.

Left and Center Panels: Other EM7 is median of Brazil, India, Indonesia, Mexico, Russia, and Turkey. Last observation is October 1, 2018. Left Panel: Based on country-level MSCI index. Center Panel: Currency is measured by spot exchange rate vs. 40 U.S. dollars. Right Panel: Cumulative impulse response of EMDE and global growth after one year to a 1-percentage-point decline in U.S. and China’s growth. Based on vector autoregression of world GDP excluding the source country of spillover; output growth in the source country of the shock; the U.S. 10-year sovereign bond yield plus JPMorgan’s EMBI index, output in EMDE excluding China, and oil price as an exogenous variable (in the case of China’s spillover, the order of growth is third). Median impact. The sample includes advanced economies, consisting of Canada, Euro Area (19 countries), Japan, and the United Kingdom, and 15 EMDEs for 1998Q2-2016Q2.
Larger Depreciations in Emerging Markets with Current Account Deficits

- **Changes in exchange rates, 2018**
  - (Percent, cumulative change since April 15)

- **Short-term external debt and CA balance, 2018**
  - (Percent of GDP)

Sources: Bloomberg, International Monetary Fund, World Bank.

Left Panel: Average cumulative changes in exchange rates since April 15, 2018, based on 30 EMDEs with estimated current account deficits in 2018 (i.e., Argentina, Brazil, Chile, Colombia, Egypt, India, Indonesia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Turkey, and South Africa) and eight emerging market economies with estimated current account surpluses in 2018 (i.e., China, Hungary, Malaysia, Qatar, Russia, Saudi Arabia, Thailand, and United Arab Emirates). Vertical yellow lines show the interquartile range. Last observation is October 5, 2018. Right Panel: Data are for 35 emerging market economies where data are available in 2018 (as estimates).
More Debt; More Market Financing; More Countries at Risk

Public Debt in EMs, 2013-18s (percent of GDP)

Source: Debt Vulnerabilities in Emerging and Low-Income Economies, World Bank Group and International Monetary Fund, 2018
More Debt; More Market Financing; More Countries at Risk

Gross Financing Needs in EMs

External Financing Needs and Reserves

*Source: Debt Vulnerabilities in Emerging and Low-Income Economies, World Bank Group and International Monetary Fund, 2018*
More Debt; More Market Financing; More Countries at Risk

- **External Variable Rate Debt**

- **EMs: Value of International Bonds Maturing**

- **Change in Credit Rating in EMs, 2012-18**

*Source: Debt Vulnerabilities in Emerging and Low-Income Economies, World Bank Group and International Monetary Fund, 2018*
Policy Responses

Financial stability measures
- Build-up capital buffers
- Macroeconomic policy measures
- FX reserve buffers
- Monetary policy
- Fiscal policy
- Use targeted interventions
- Use conventional tools, weighing policy trade-offs
- Use fiscal stabilization if space available; if not, build space
- Use swap and FX liquidity measures
- Capital flow measures
- Ease capital flow regulation, consider temporary restrictions on outflows

Decline in capital flows
Decline in growth
Risks Materialize

Macro-prudential measures
FX liquidity measures
Macroeconomic policy measures
- Implement structural reforms
- Allow exchange rate depreciation
Investing in Inclusive Growth: The Common Characteristics of High, Sustained Growth
Investing in Inclusive Growth:
Dashboard for inclusive, sustainable, and multidimensional growth

Natural Capital Accounting
- Forum’s Overall Sustainability
- Adjusted Global Competitiveness Index
- WBG Adjusted Net Savings Indicator

Unemployment
- Rates of National, Youth, and Female unemployment

Competitiveness
- Forum’s Global Competitiveness Index

Public Investment
- Public Investment as % of GDP

Gender Equality
- WBG’s Biennial Women, Business and the Law Report
- Forum’s Global Gender Gap Index

Shared Prosperity
- WBG’s Shared Prosperity Indicator

Equal Opportunity
- WBG’s Human Opportunity Index

Harnessing the impact of disruptive changes requires a comprehensive policy framework.
How will we enable these investments?
Data is the new oil
Finance for development will need to come from multiple sources.
Finance will need to come from all sources

FDI Net Inflows (% of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Low &amp; middle income</th>
<th>World</th>
<th>Middle East &amp; North Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
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<td>2017</td>
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Tax revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>High income</th>
<th>Middle income</th>
<th>Low income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
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<tr>
<td>2015</td>
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Big picture of developing countries' total resource receipts

- Personal remittances
- Non-ODA
- ODA

Fintech
Maximizing Fintech’s Potential
Opportunities, Challenges, Risks

- Monitor Developments Closely to Deepen Understanding of Evolving Financial Systems
- Reinforce Competition and Commitment to Open, Free and Contestable Markets
- Enable New Technologies to Enhance Financial Service Provision
- Embrace the Promise of Fintech
- Foster Fintech to Promote Financial Inclusion and Develop Financial Markets
- Adapt Regulatory Framework and Supervisory Practices for Orderly Development and Stability of the Financial System
- Modernize Legal Frameworks to Provide an Enabling Legal Landscape
- Safeguard the Integrity of Financial Systems
- Ensure Stability of Domestic Monetary and Financial Systems
- Enhance Collective Surveillance of the International Monetary and Financial System
- Develop Robust Financial and Data Infrastructure to Sustain Fintech Benefits
- Encourage International Cooperation and Information Sharing

Source: The Bali Fintech Agenda, World Bank, 2018
Finance will need to come from all sources

However, fintech needs adequate policy frameworks
Think globally, act locally.
SDGs’ Implementation through Local Governments
Thank You

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