

# Global Economic Prospects

## HIGHLIGHTS from CHAPTER 1 GLOBAL OUTLOOK: FRAGILE, HANDLE WITH CARE

### Key Points

- *Global growth is expected to edge up to 2.5 percent in 2020—up slightly from the post-crisis low of 2.4 percent registered last year—as trade and investment gradually recover.*
- *The recovery in global growth will reflect an expected pickup in emerging market and developing economies (EMDEs), which are projected to grow 4.1 percent this year. However, this will largely depend on a rebound in a small number of large EMDEs, most of which are emerging from deep recessions or sharp slowdowns.*
- *While growth could be stronger if reduced trade tensions lead to a sustained reduction in uncertainty, the balance of risks is to the downside.*
- *In an environment of limited macroeconomic policy space compounded by high debt levels, EMDEs need to foster inclusive and sustainable growth by undertaking reforms to bolster governance and business climates, improve tax policy, promote trade integration, and rekindle productivity growth, while protecting vulnerable groups.*

**Global activity: Broad-based weakness.** Global growth decelerated to an estimated post-crisis low of 2.4 percent in 2019 amid a decline in various key indicators of economic activity (Figure A). Economic weakness was widespread, with nearly 90 percent of advanced economies and 60 percent of emerging market and developing economies (EMDEs) experiencing varying degrees of deceleration last year. While trade disputes heightened policy uncertainty throughout most of 2019, bilateral negotiations between the United States and China since mid-October resulted in a Phase One agreement—including a planned partial rollback of tariffs—that have de-escalated trade tensions.

Global growth is projected to edge up to 2.5 percent in 2020—0.2 percentage point below previous forecasts—and to stabilize to around 2.7 percent over the forecast horizon as investment and trade gradually recover (Figure B). Global trade growth—which is estimated to have slowed to 1.4 percent in 2019, its weakest pace since the global financial crisis—is projected to firm in 2020 and reach 1.9 percent, assuming that trade tensions do not re-escalate. In the near term, monetary policy across the world is generally expected to remain accommodative; however, fiscal policy support is likely to fade (Figure C).

**EMDE growth: Fragile.** After decelerating to an estimated weaker-than-expected 3.5 percent last year, growth in EMDEs is projected to pick up to 4.1 percent in 2020—0.5 percentage point below previous forecasts, reflecting downgrades to half of EMDEs amid downward revisions to trade and investment growth.

Nonetheless, the recovery in aggregate EMDE growth this year—which assumes continued monetary policy support in many economies, no disruptive volatility in commodity prices, and generally benign borrowing costs—is not envisioned to be broad-based: About a third of EMDEs are expected to decelerate. Instead, it is largely predicated on a rebound in a small number of large EMDEs, most of which are emerging from deep recessions or sharp slowdowns but remain fragile (Figure D). Excluding this group of countries, there would be almost no acceleration in EMDE growth this year. Going

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forward, EMDE growth is projected to stabilize at an average of 4.4 percent in 2021-22, as trade and investment continue to firm. Despite the projected recovery in EMDE growth, per capita income growth in EMDEs will remain insufficient to meet poverty alleviation goals. More specifically, per capita income growth will be slowest in Sub-Saharan Africa—the region where most low-income countries are clustered and most of the world’s poor live.

**Risks to the outlook: Tilted to the downside.** Risks to the global outlook are skewed to the downside. A re-escalation of trade tensions and protracted policy uncertainty could erode confidence and weigh on global activity (Figure E). Amid financial sector vulnerabilities, major economies could slow more than expected. Some EMDEs, especially those with elevated debt, are at risk of financial stress, while others could be affected by geopolitical tensions, social unrest, large swings in commodity prices, or increasingly volatile weather patterns. The materialization of one or more of these risks could lead to a more severe global downturn—a situation many economies are not adequately prepared to confront. On the upside, the projected recovery could be stronger than expected if recent policy actions—particularly those that have alleviated U.S.-China trade tensions—lead to a sustained reduction in policy uncertainty and bolster confidence, trade, and investment.

**Productivity growth in EMDEs: Ongoing slowdown.** The global economy has experienced a broad-based slowdown in productivity growth since the global financial crisis, including in EMDEs. Productivity growth is the primary driver of per capita income growth and poverty reduction (Figure F). Reversing the downward trend in EMDE productivity growth will be essential to foster long-term growth, improve living standards, and make additional progress in poverty reduction.

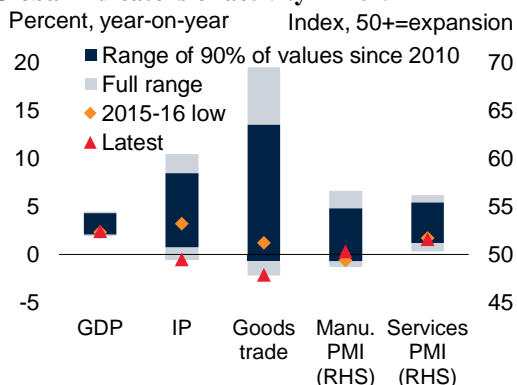
**Policy priorities for EMDEs: Pursue structural reforms, boost productivity.** Bolstering productivity growth by encouraging diversification and upgrading to high-value added, technology-intensive industries is a pressing priority. Encouraging EMDE integration in supply chains could also boost productivity and help to counterweigh the effects of weak global trade. Measures to improve governance and business climates and phase out price controls can make institutional environments more conducive to growth. Lastly, tax policy reforms are needed to broaden the revenue base to fund growth-enhancing and climate-friendly investment to support inclusive and sustainable growth.

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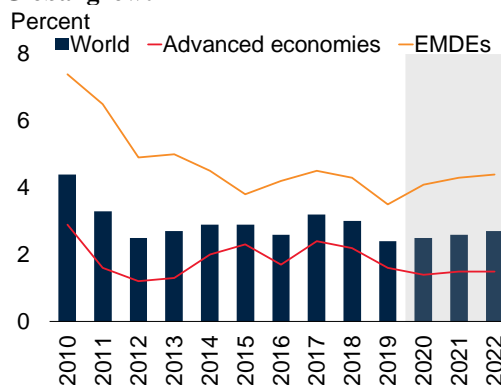
**Figure: Global prospects**

Global growth decelerated markedly last year to 2.4 percent—its slowest pace since the global financial crisis—amid weakening trade and investment. Global growth is projected to recover to 2.5 percent in 2020 as EMDE activity recovers. Monetary accommodation has helped buoy growth, but fiscal support is expected to wane. The outlook, however, is fragile given ongoing global headwinds and structural bottlenecks. Despite recent progress, a re-escalation of trade tensions could again heighten policy uncertainty and further damage confidence and activity. Boosting EMDE productivity, which has been on a downward trend in recent years, is essential to foster growth prospects and poverty reduction.

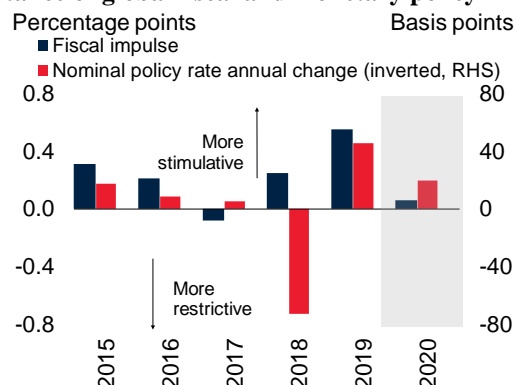
**A. Global indicators of activity in 2019**



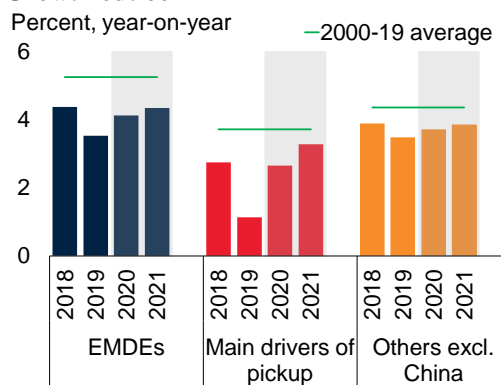
**B. Global growth**



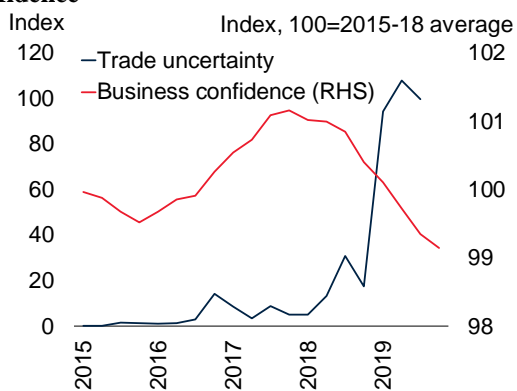
**C. Stance of global fiscal and monetary policy**



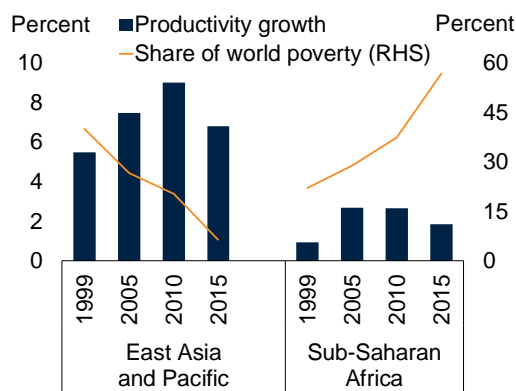
**D. Growth outlook**



**E. Global trade policy uncertainty and business confidence**



**F. Productivity growth and global poverty**



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Source: Ahir, Bloom, and Furceri (2018); Bank for International Settlements; Consensus Economics; CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Organisation for Economic Co-operation and Development; Penn World Table; The Conference Board; World Bank.

Note: EMDEs = emerging market and developing economies.

A. Trade measured as the average of exports and imports volumes. Manu. = manufacturing. PMI = Purchasing Managers' Index. PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is 2019Q3 for GDP, October 2019 for industrial production and goods trade, and November 2019 for PMI.

B.C.D. Shaded areas indicate forecasts. Data for 2019 are estimates.

B. Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates.

C. Aggregates calculated using nominal U.S. dollar GDP weights. Fiscal impulse is the negative change in general government cyclically adjusted primary balance. Policy rates are the December to December change. Sample includes 35 AEs and 77 EMDEs for fiscal impulse and 16 AEs and 21 EMDEs for policy rates. Policy rates for 2020 use the December 2019 *Consensus Forecasts* report for central bank policy rates. When these are unavailable, the change in short-term yields is used.

D. "Main contributors to pick up" includes the eight largest EMDEs that account for 90 percent for the acceleration in EMDE growth between 2019 and 2020 (Argentina, Brazil, India, Iran, Mexico, the Russian Federation, Saudi Arabia, and Turkey). Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates.

E. Trade policy-related uncertainty is an index presented in Ahir, Bloom, and Furceri (2018) for 143 countries on a quarterly basis. Business confidence data are end of period and include 7 advanced economies and 5 EMDEs. Aggregate business confidence calculated using GDP weights at 2010 prices and market exchange rates. Last observation is 2019Q3 for trade policy uncertainty and October 2019 for business confidence.

F. Productivity is defined as output per worker. Sample includes 29 advanced economies and 74 EMDEs. Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates. Poverty is defined as the extreme poor living at or below \$1.90 per day, in 2011 PPP terms.

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**TABLE 1.1 Real GDP<sup>1</sup>**

(Percent change from previous year)

Percentage point differences  
from June 2019 projections

	2017	2018	2019e	2020f	2021f	2022f	2019e	2020f	2021f
<b>World</b>	<b>3.2</b>	<b>3.0</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>
<b>Advanced economies</b>	<b>2.4</b>	<b>2.2</b>	<b>1.6</b>	<b>1.4</b>	<b>1.5</b>	<b>1.5</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.0</b>
United States	2.4	2.9	2.3	1.8	1.7	1.7	-0.2	0.1	0.1
Euro Area	2.5	1.9	1.1	1.0	1.3	1.3	-0.1	-0.4	0.0
Japan	1.9	0.8	1.1	0.7	0.6	0.4	0.3	0.0	0.0
<b>Emerging market and developing economies</b>	<b>4.5</b>	<b>4.3</b>	<b>3.5</b>	<b>4.1</b>	<b>4.3</b>	<b>4.4</b>	<b>-0.5</b>	<b>-0.5</b>	<b>-0.3</b>
Commodity-exporting EMDEs	2.2	2.0	1.5	2.6	2.9	3.0	-0.6	-0.5	-0.1
Other EMDEs	6.2	5.8	4.8	5.1	5.2	5.2	-0.4	-0.4	-0.3
Other EMDEs excluding China	5.4	5.0	3.3	4.0	4.4	4.5	-0.9	-0.8	-0.6
East Asia and Pacific	6.5	6.3	5.8	5.7	5.6	5.6	-0.1	-0.2	-0.2
China	6.8	6.6	6.1	5.9	5.8	5.7	-0.1	-0.2	-0.2
Indonesia	5.1	5.2	5.0	5.1	5.2	5.2	-0.2	-0.2	-0.1
Thailand	4.0	4.1	2.5	2.7	2.8	2.9	-1.0	-0.9	-0.9
Europe and Central Asia	4.1	3.2	2.0	2.6	2.9	2.9	0.4	-0.1	0.0
Russia	1.6	2.3	1.2	1.6	1.8	1.8	0.0	-0.2	0.0
Turkey	7.5	2.8	0.0	3.0	4.0	4.0	1.0	0.0	0.0
Poland	4.9	5.1	4.3	3.6	3.3	3.1	0.3	0.0	0.0
Latin America and the Caribbean	1.9	1.7	0.8	1.8	2.4	2.6	-0.9	-0.8	-0.3
Brazil	1.3	1.3	1.1	2.0	2.5	2.4	-0.4	-0.5	0.2
Mexico	2.1	2.1	0.0	1.2	1.8	2.3	-1.7	-0.8	-0.6
Argentina	2.7	-2.5	-3.1	-1.3	1.4	2.3	-1.9	-3.5	-1.8
Middle East and North Africa	1.1	0.8	0.1	2.4	2.7	2.8	-1.2	-0.8	0.0
Saudi Arabia	-0.7	2.4	0.4	1.9	2.2	2.4	-1.3	-1.2	-0.1
Iran	3.8	-4.9	-8.7	0.0	1.0	1.0	-4.2	-0.9	0.0
Egypt <sup>2</sup>	4.2	5.3	5.6	5.8	6.0	6.0	0.1	0.0	0.0
South Asia	6.7	7.1	4.9	5.5	5.9	6.0	-2.0	-1.5	-1.2
India <sup>3</sup>	7.2	6.8	5.0	5.8	6.1	6.1	-2.5	-1.7	-1.4
Pakistan <sup>2</sup>	5.2	5.5	3.3	2.4	3.0	3.9	-0.1	-0.3	-1.0
Bangladesh <sup>2</sup>	7.3	7.9	8.1	7.2	7.3	7.3	0.8	-0.2	0.0
Sub-Saharan Africa	2.7	2.6	2.4	2.9	3.1	3.3	-0.5	-0.4	-0.4
Nigeria	0.8	1.9	2.0	2.1	2.1	2.1	-0.1	-0.1	-0.3
South Africa	1.4	0.8	0.4	0.9	1.3	1.5	-0.7	-0.6	-0.4
Angola	-0.1	-1.2	-0.7	1.5	2.4	3.0	-1.7	-1.4	-0.4
<b>Memorandum items:</b>									
<b>Real GDP<sup>1</sup></b>									
High-income countries	2.4	2.2	1.7	1.5	1.5	1.6	-0.1	-0.1	-0.1
Developing countries	4.8	4.4	3.7	4.3	4.5	4.5	-0.4	-0.4	-0.3
Low-income countries	5.5	5.8	5.4	5.4	5.5	5.8	-0.3	-0.6	-0.6
BRICS	5.3	5.4	4.6	4.9	4.9	5.0	-0.5	-0.4	-0.4
World (2010 PPP weights)	3.9	3.7	2.9	3.2	3.3	3.4	-0.4	-0.3	-0.3
<b>World trade volume<sup>4</sup></b>	5.9	4.0	1.4	1.9	2.5	2.8	-1.2	-1.3	-0.7
<b>Commodity prices<sup>5</sup></b>									
Oil price	23.3	29.4	-10.3	-5.4	1.9	1.9	-6.9	-3.9	1.2
Non-energy commodity price index	5.5	1.7	-4.7	0.1	1.7	1.7	-2.6	0.2	0.3

Source: World Bank.

Note: 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. 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. Headline aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates. World growth rates based on purchasing power parity (PPP) weights attribute a greater portion of global GDP to EMDEs relative to market exchange rates due to the PPP methodology, which uses an exchange rate that is calculated from the difference in the price levels of a basket of goods and services between economies.

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/commodities>.

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