

Global Economic Prospects: *Darkening Skies*

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WORLD BANK GROUP

Macroeconomics, Trade & Investment

Prospects Group

Global Economic Prospects – January 2019

- Global Outlook
- Regional Outlooks
- Growing in the Shadow: Challenges of Informality
- The Great Disinflation
- Poverty Impact of Food Price Shocks and Policies
- Debt in Low-Income Countries: Evolution, Implications, and Remedies

Four Questions

1 **How is the health of the global economy?** *Global growth remains robust but momentum lost. Multiple activity indicators point a slowdown.*

2 **What are the major risks?** *Financial stress, trade tensions, policy uncertainty, geopolitical risks, and slower potential growth.*

3 **What are the challenges of informality in EMDEs?** *Widespread in EMDEs; Associated with adverse development outcomes; Calls for a comprehensive policy strategy.*

4 **What policies could help?** *Need for proactive cyclical measures and structural reforms.*

* *EMDEs = Emerging Market and Developing Economies*

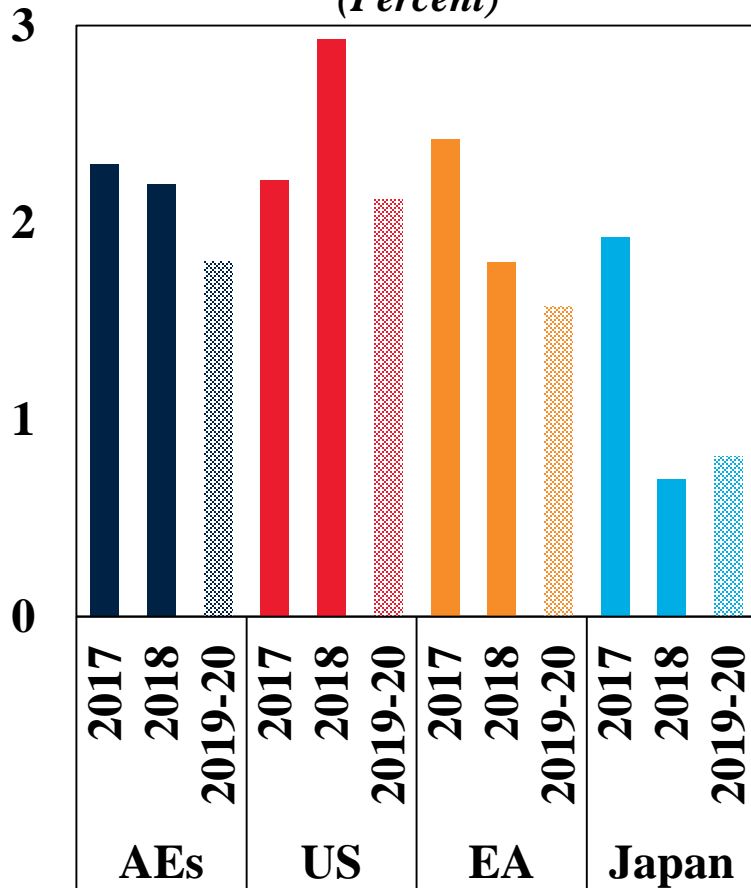
Four Questions

- 1 **How is the health of the global economy?** *Global growth remains robust but momentum lost. Multiple activity indicators point a slowdown.*

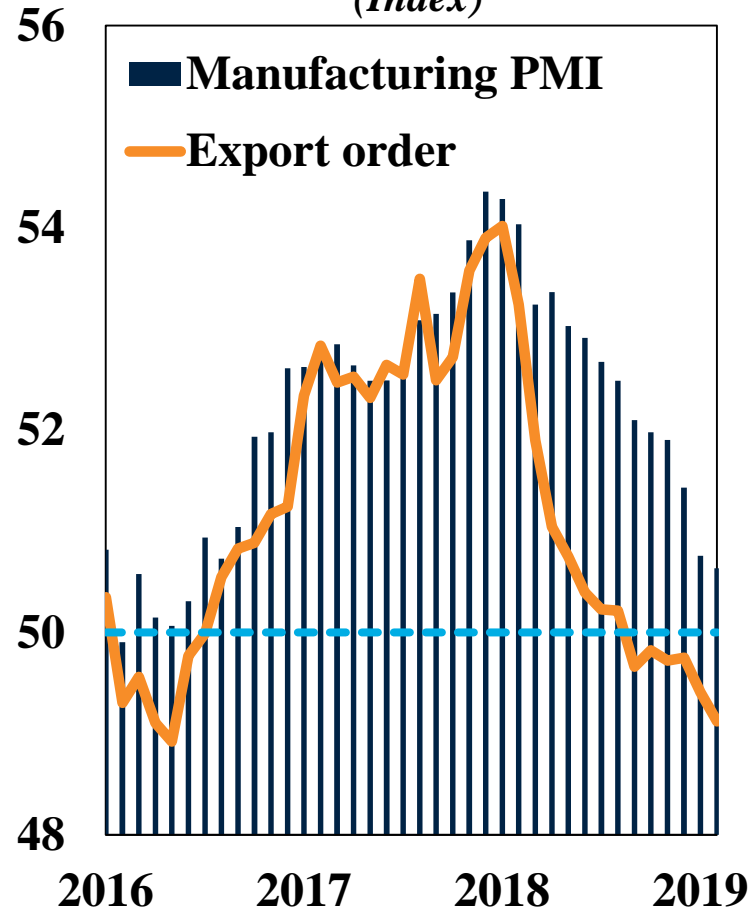
A Challenging External Environment:

Slowing Growth in Advanced Economies; Weakening Global Trade; Volatile Oil Markets

Growth in advanced economies
(Percent)

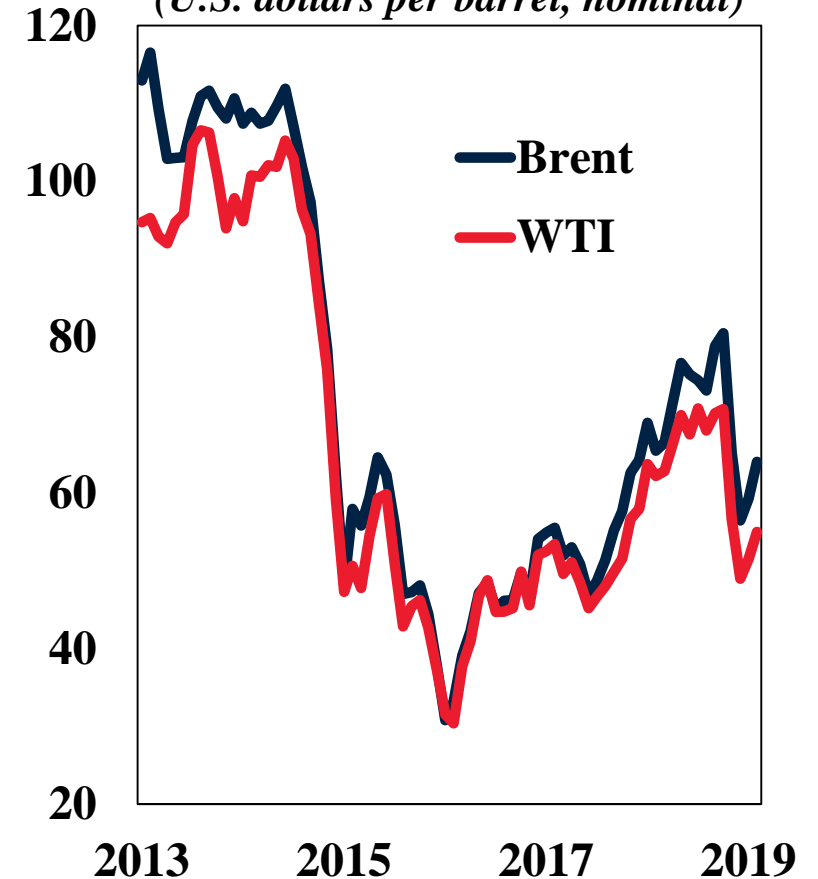


Global PMI and export orders
(Index)



Crude oil prices

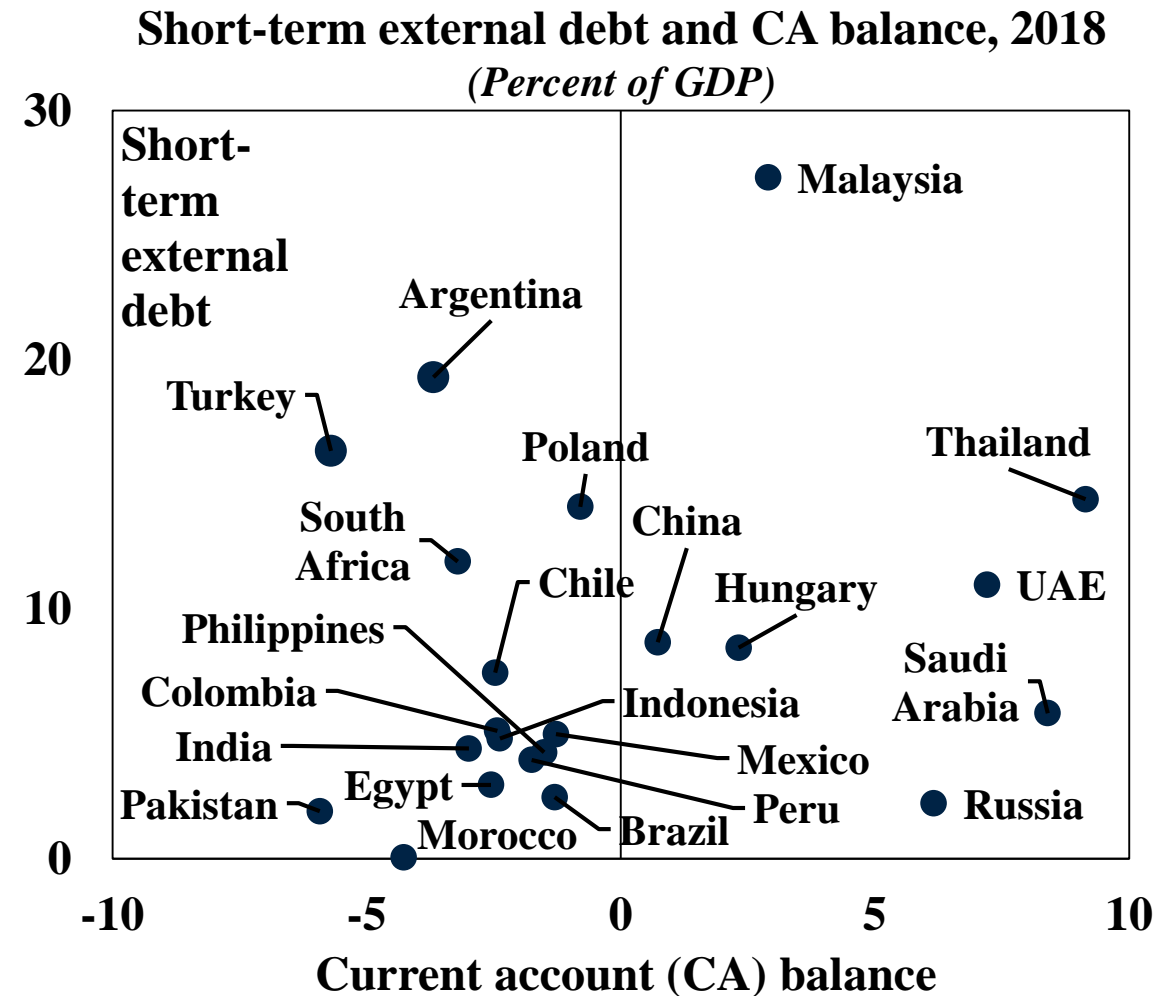
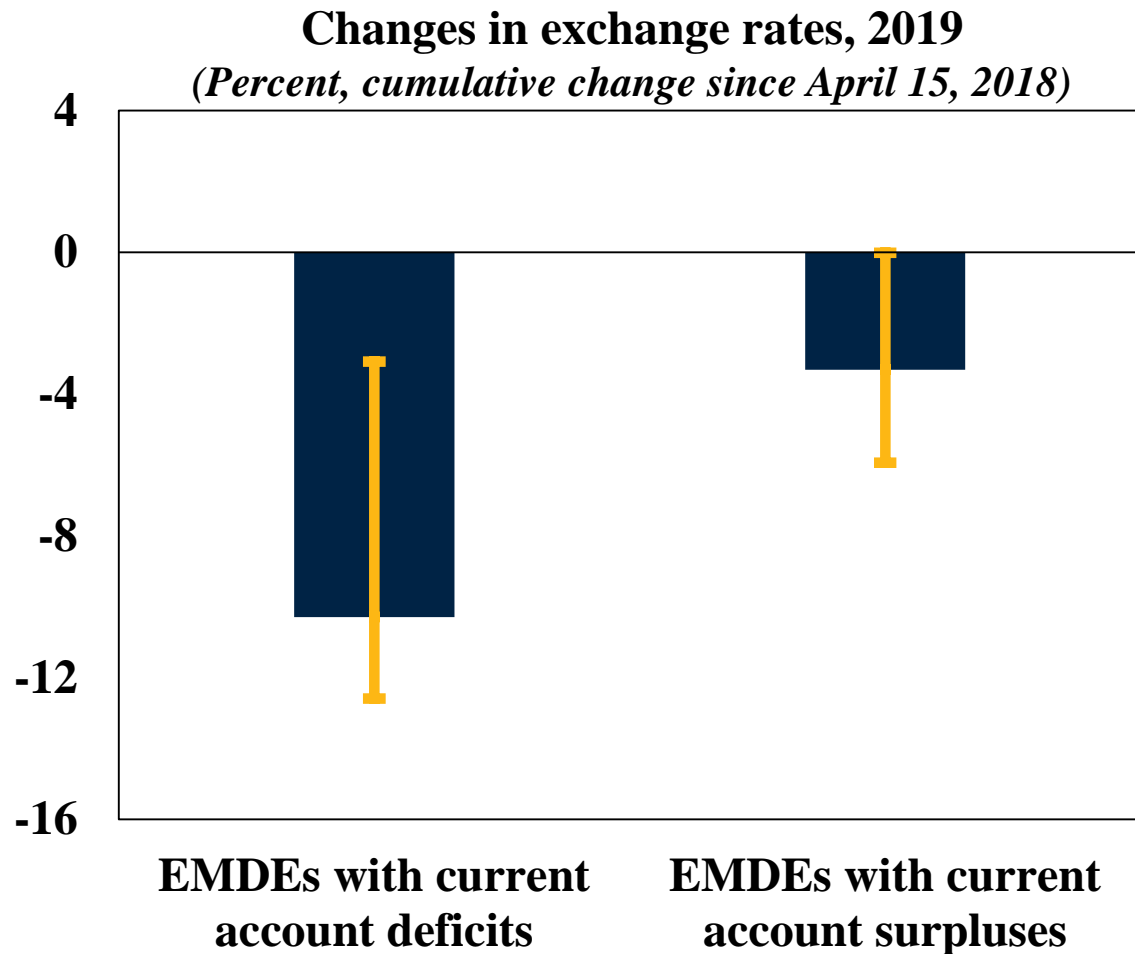
(U.S. dollars per barrel, nominal)



Sources: Bloomberg, Haver Analytics, World Bank.

Left Panel. Aggregate growth rates calculated using 2010 U.S. dollar GDP weights. Shaded bars indicate forecasts. “AEs” stands for advanced economies, “US” for United States, “EA” for Euro Area. Center Panel. For global manufacturing PMI (Purchasing Managers’ Index) and export orders, readings above 50 (shown as a dashed line in light blue) indicate expansion in economic activity, readings below 50 indicate contraction. Last observation is February 2019. Right Panel. Monthly average. Last observation is February 2019.

Exchange Rates and External Vulnerabilities: Larger Depreciations in Emerging Markets with Current Account Deficits



Sources: Bloomberg, International Monetary Fund, World Bank.

Left Panel. Average cumulative changes in exchange rates between April 15, 2018 and February 5, 2019, based on 15 emerging market economies 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. Right Panel. Data are for 23 emerging market economies where data are available in 2018 (as estimates). Qatar is not shown due to large short-term external debt in percent of GDP (55 percent).

Growth Forecasts: *Mostly Downgraded...*

	GDP growth (Percent)					<i>Change from June 2018</i>	
	2012-16	2017	2018e	2019f	2020f	2018	2019
World	2.6	3.1	3.0	2.9	2.8	-0.1	-0.1
Advanced economies	1.7	2.3	2.2	2.0	1.6	0.0	0.0
EMDEs	4.3	4.3	4.2	4.2	4.5	-0.3	-0.5
East Asia and Pacific	6.9	6.6	6.3	6.0	6.0	0.0	-0.1
Europe and Central Asia	2.4	4.0	3.1	2.3	2.7	-0.1	-0.8
Latin America and the Caribbean	1.0	0.8	0.6	1.7	2.4	-1.1	-0.6
Middle East and North Africa	3.4	1.2	1.7	1.9	2.7	-1.3	-1.4
South Asia	6.5	6.2	7.7	7.1	7.1	+1.1	0.0
Sub-Saharan Africa	3.7	2.6	2.5	3.4	3.6	-0.6	-0.1

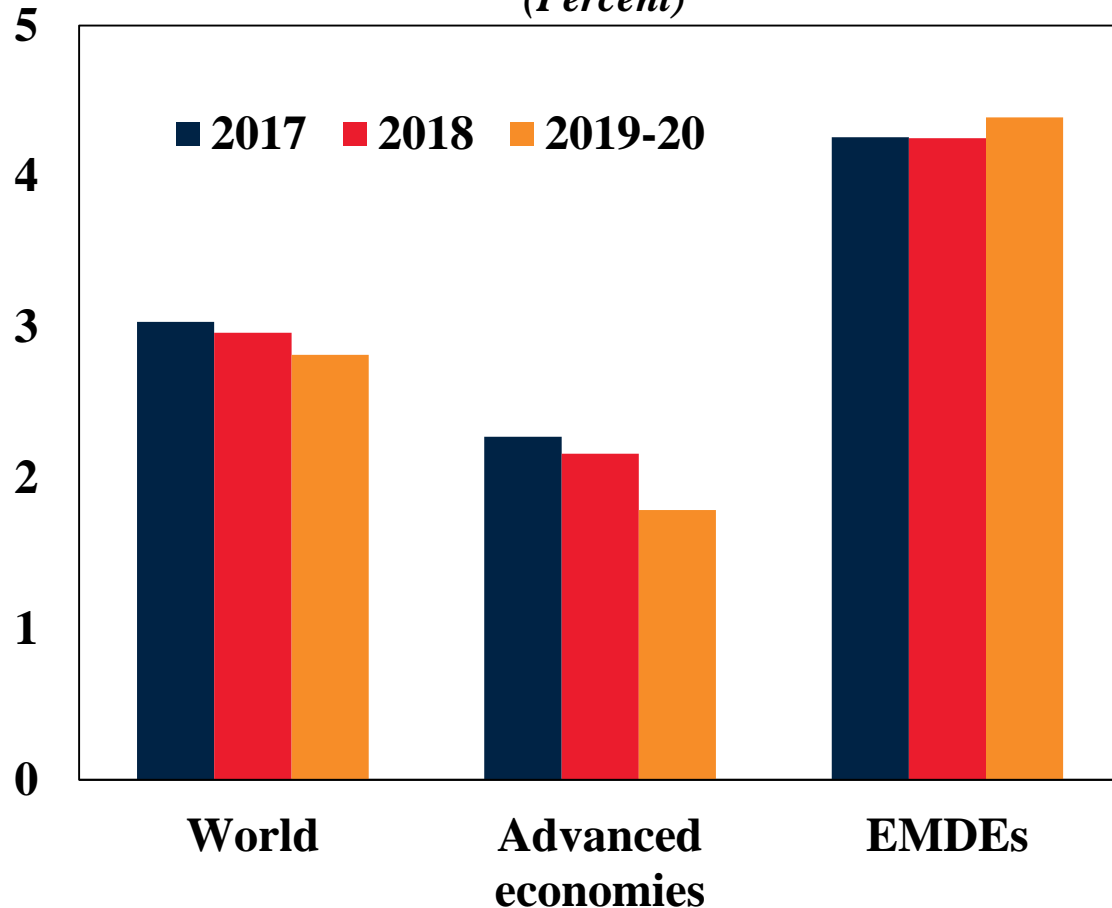
Source: World Bank.

Note: e and f refer to estimates and forecasts, respectively.

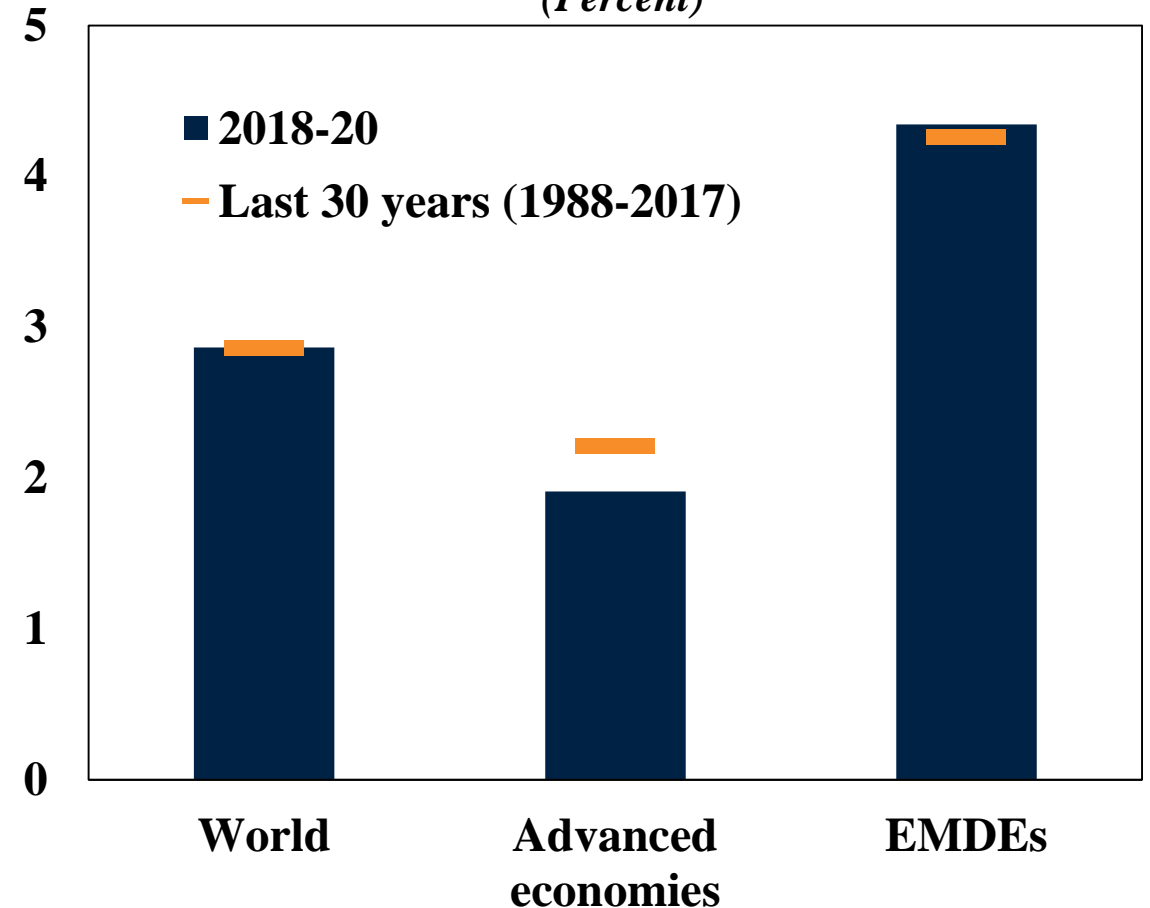
Growth Forecasts:

Slower but Comparable with Historical Average

Growth prospects
(Percent)



Growth prospects in historical context
(Percent)

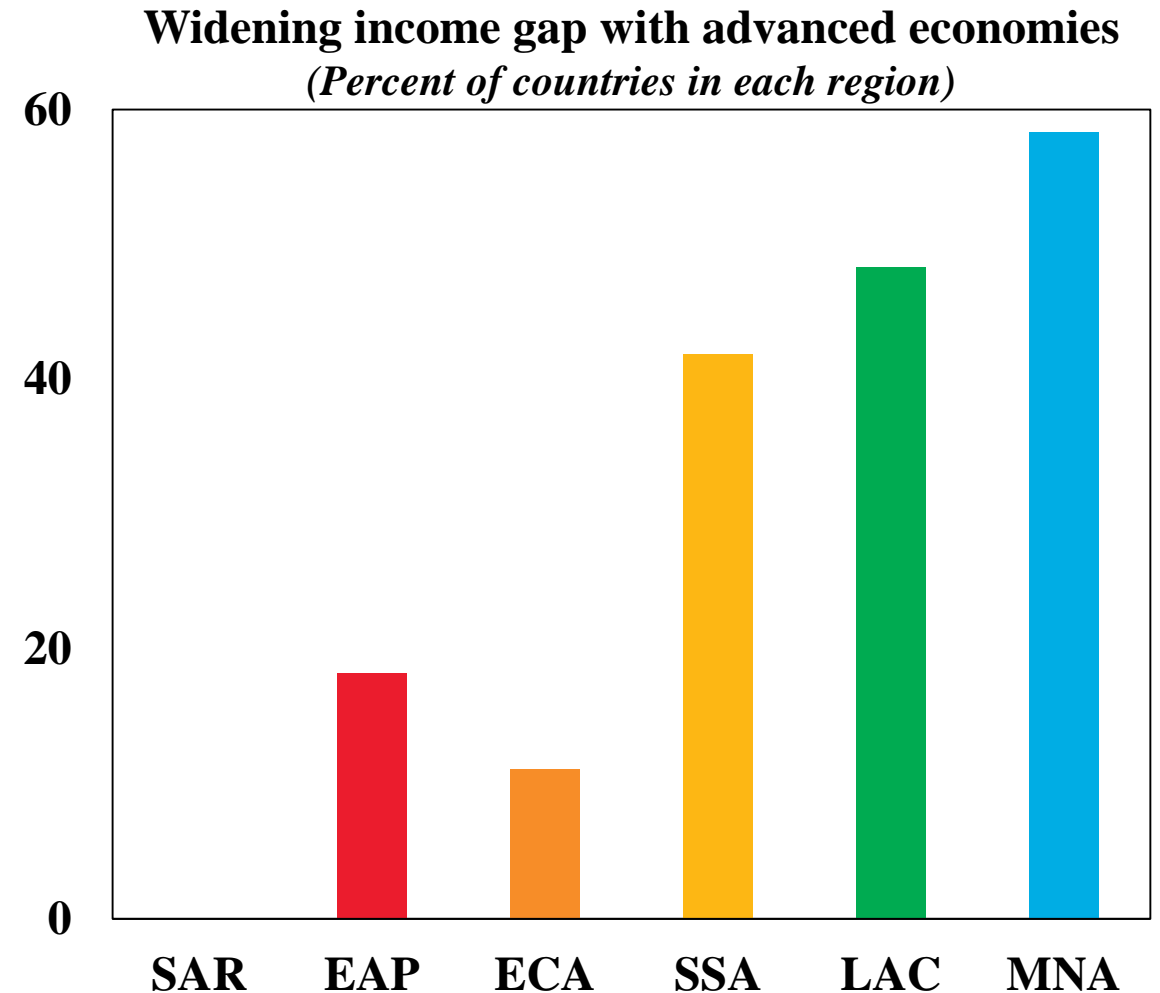
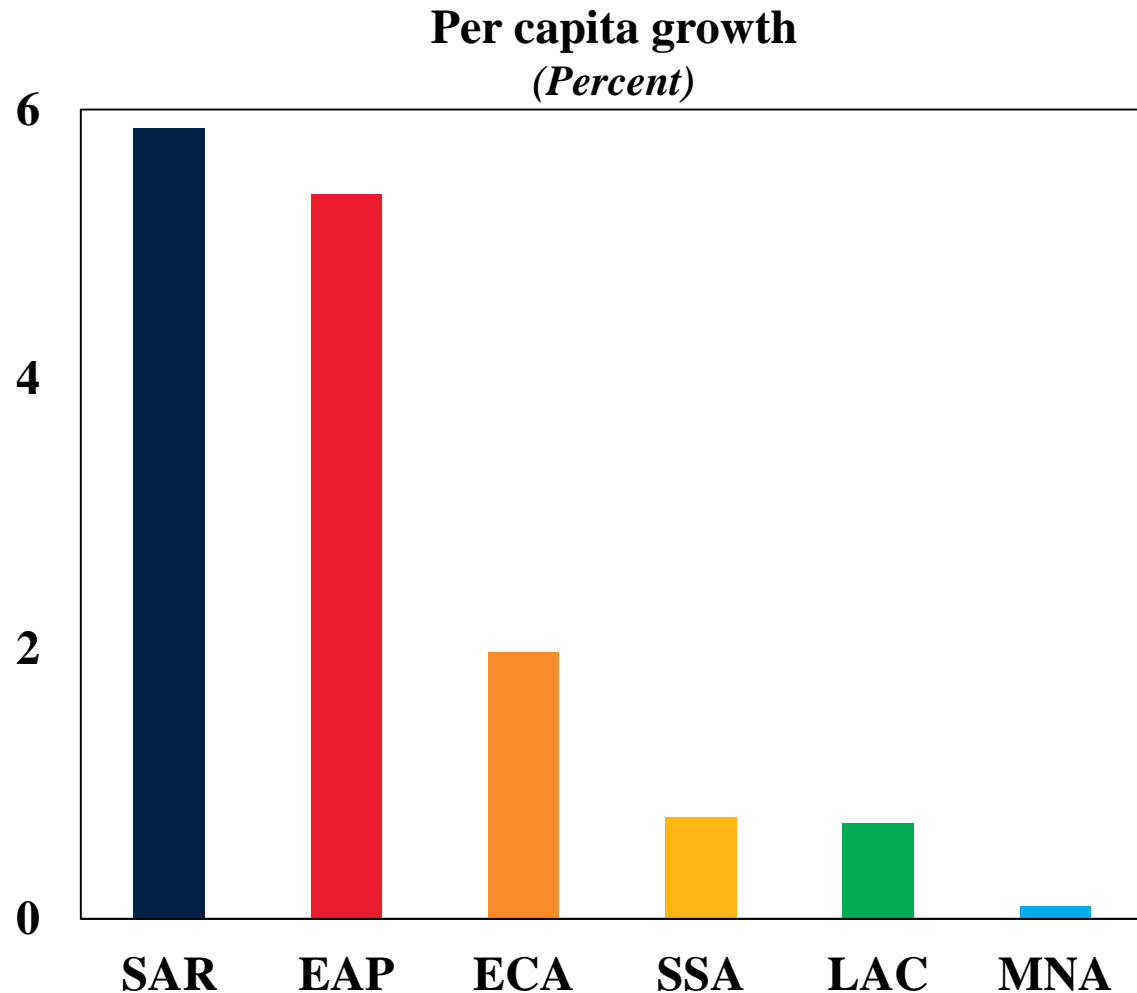


Source: World Bank.

Note: Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights. Right Panel. Growth over the last 30 years is average growth over 1988-2017. Best 6 years and worst 6 years refer to the highest and lowest average growth over consecutive 6 years within the last 30 years, respectively. For the world, the highest and lowest growth is recorded during 2002-07 and 2008-13, respectively. In advanced economies and EMDEs, the highest growth is found to be 1995-2000 and 2003-08 and the lowest growth is 2008-13 and 1989-94, respectively.

EMDE Per Capita Growth in 2019

Weaker Growth and Wider Income Gap in Commodity-Exporting Regions

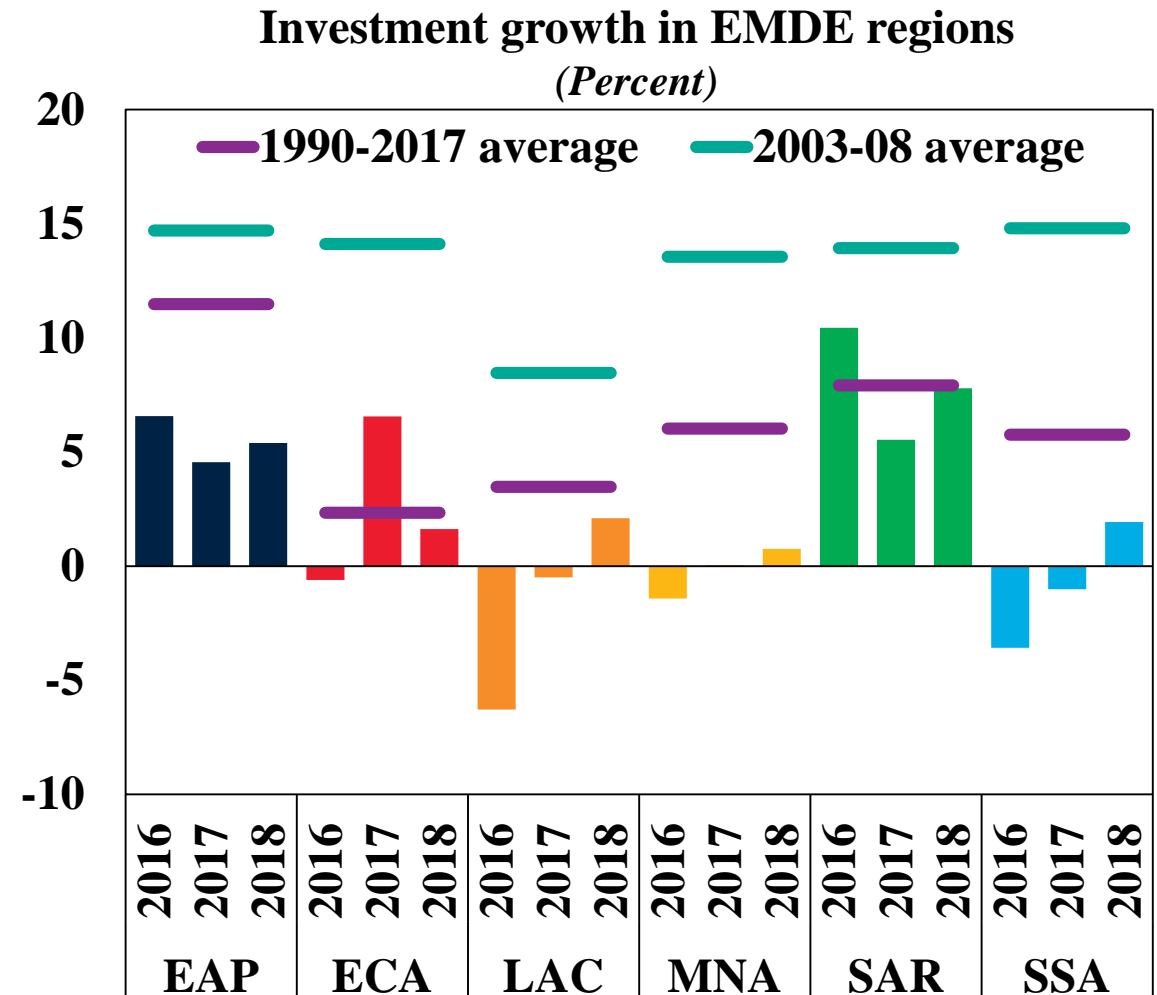
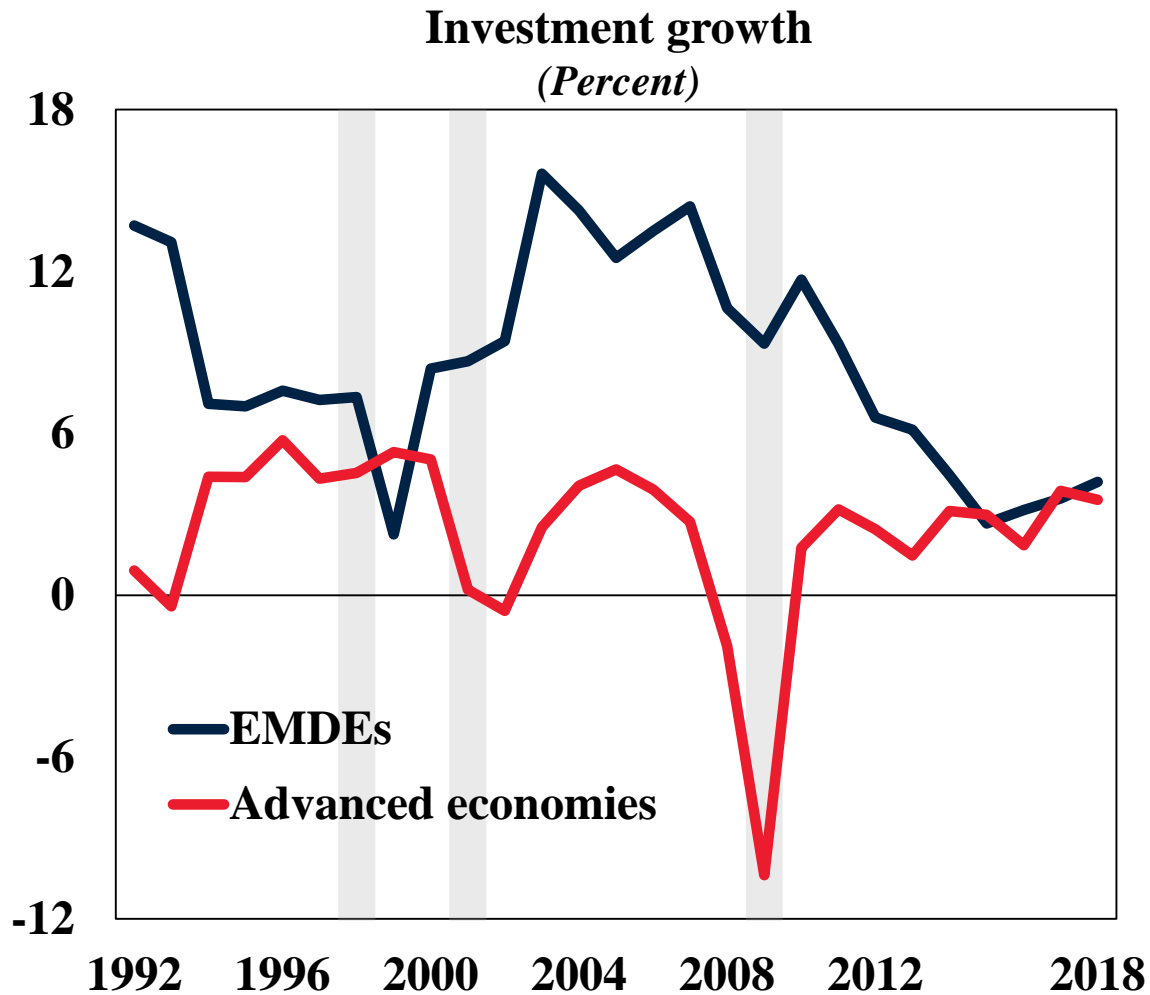


Source: World Bank.

Note: Data are for 2019 (forecasts). EAP, ECA, LAC, MNA, SAR, and SSA refer to, respectively, East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa. Right Panel. EMDEs with lower per capita GDP growth than advanced-economy per capita GDP growth are counted as countries with widening income gaps. Sample includes 118 EMDEs.

Investment Growth in EMDEs

Modest Recovery since 2015; Still Low in Commodity-Dependent Regions



Sources: Haver Analytics, Oxford Economics, World Bank.

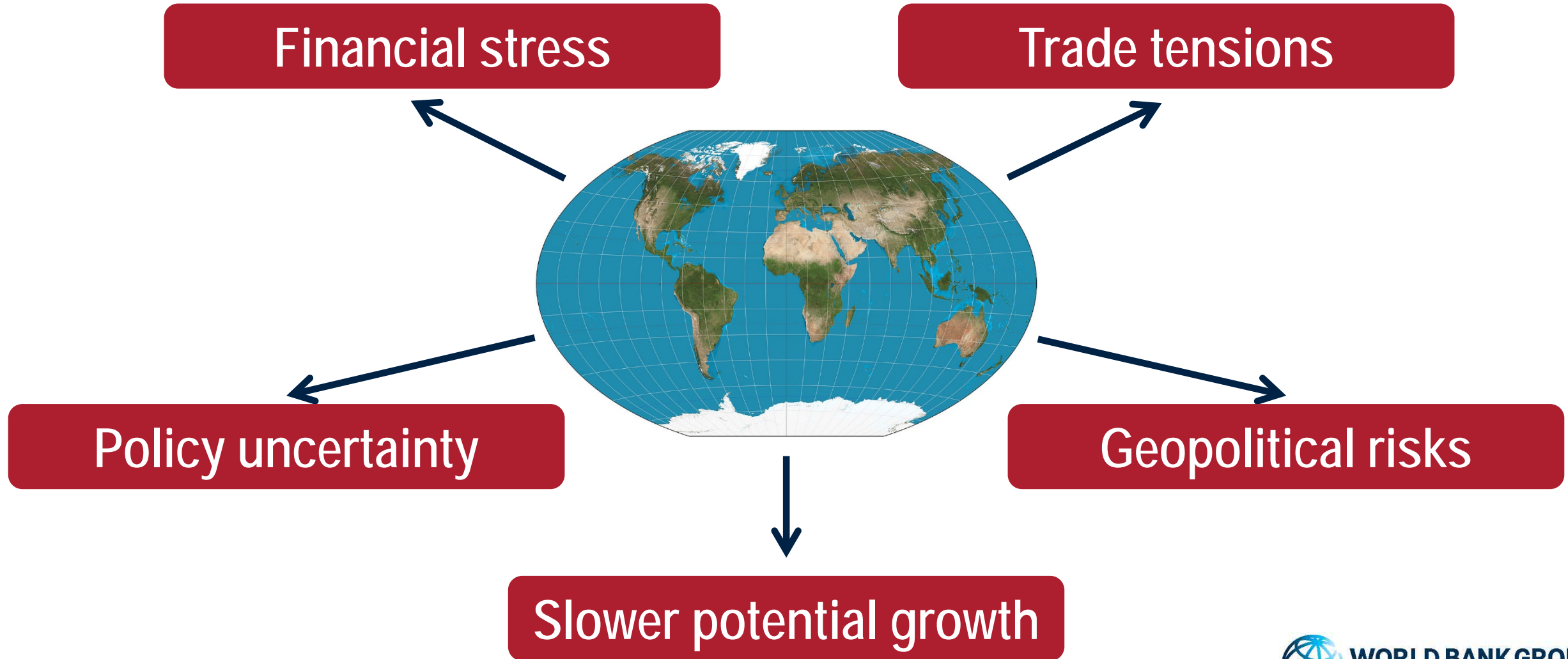
Note: 2010 investment-weighted averages. Sample includes 55 EMDEs and 33 advanced economies. Investment refers to real gross fixed capital formation (public and private combined). Left Panel. Grey bars indicate global recessions and slowdowns. Right Panel. Sample includes seven EAP (East Asia and Pacific), 11 ECA (Europe and Central Asia), 16 LAC (Latin America and the Caribbean), nine MNA (Middle East and North Africa), three SAR (South Asia), and nine SSA (Sub-Saharan Africa) economies.

Four Questions

2 **What are the major risks?** *Financial stress, trade tensions, policy uncertainty, geopolitical risks, and slower potential growth.*

Risks:

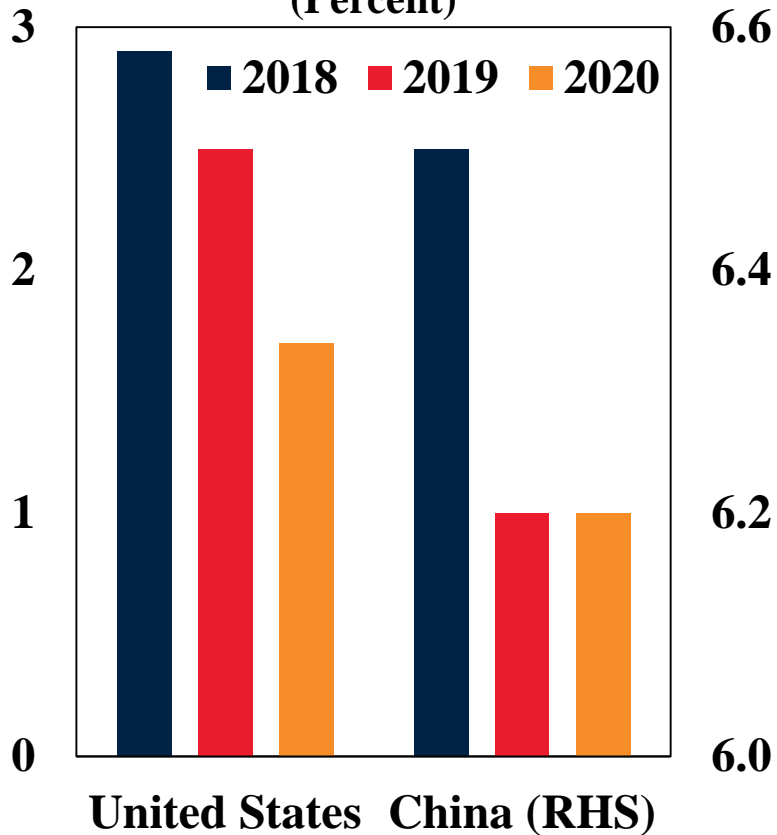
Increasingly Tilted to Downside



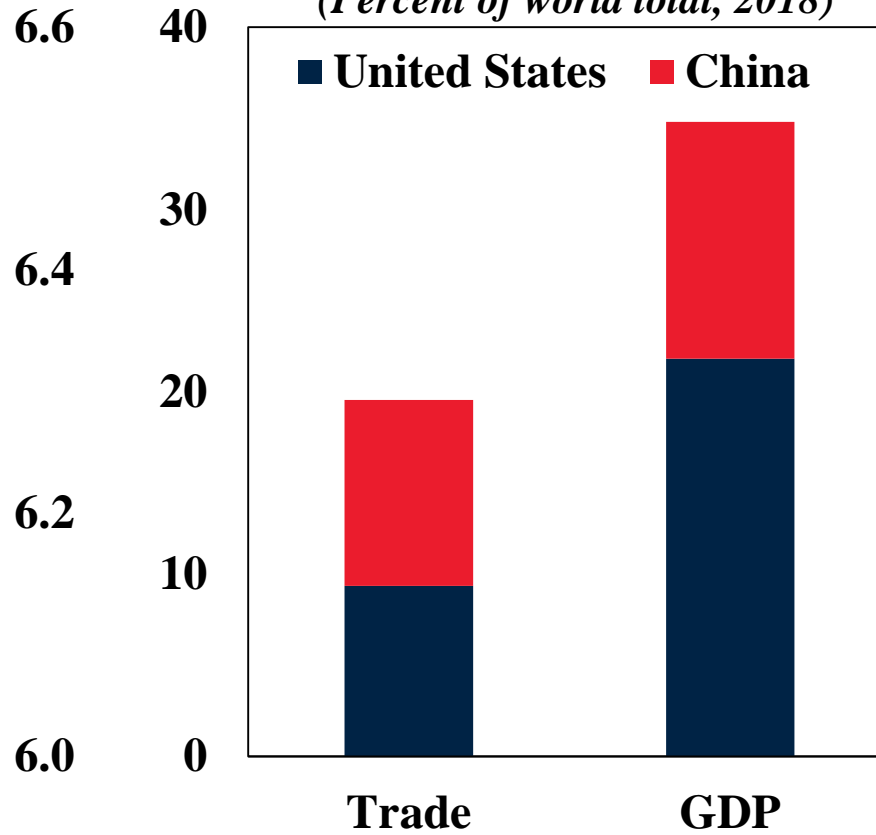
United States and China - Trade

If Trade Tensions Escalate, Large Spillovers

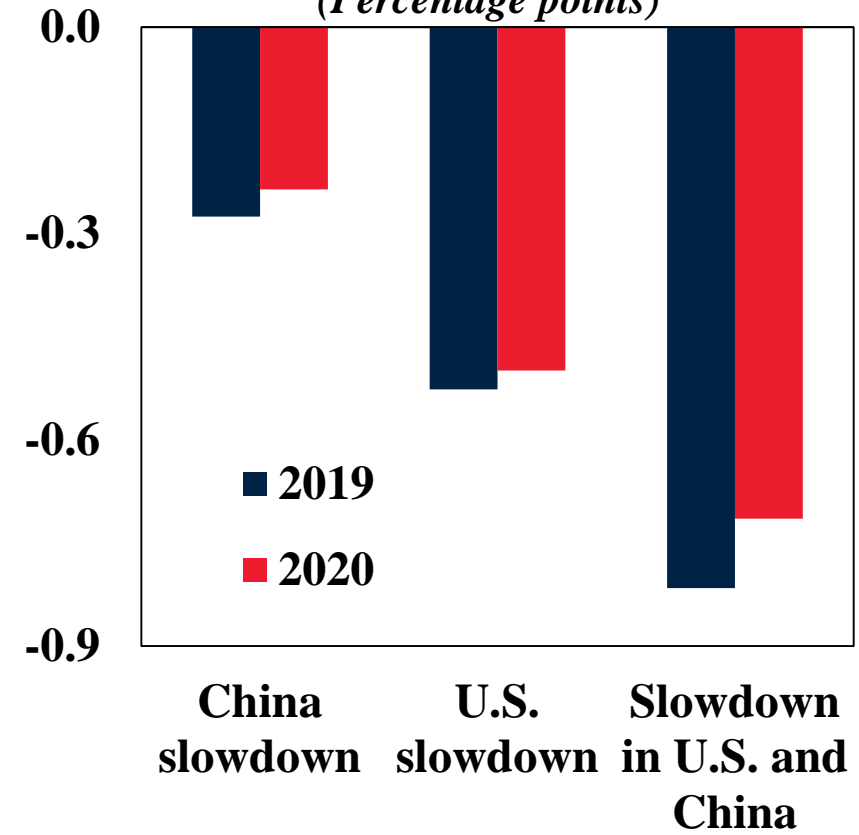
U.S. and China output growth forecasts (Percent)



Share of global trade and global GDP (Percent of world total, 2018)



Impact of a 1-percentage-point growth slowdown on global growth (Percentage points)



Sources: Bloomberg, World Bank.

Left Panel. Data for 2018 and 2019-20 are estimates and forecasts, respectively. Center Panel. Data are for 2018. Trade is represented by exports of goods and services in percent of global goods and services exports. Exports and GDP are measured in constant 2010 U.S. dollars. Right Panel. Bars show scenarios assuming a 1-percentage-point growth slowdown in China, in the United States, and the combination of the two. Slowdown shocks are applied in the second half of 2019. Based on the vector autoregression model presented in the January 2016 *Global Economic Prospects* report. Deviations from baseline are all significantly different from zero.

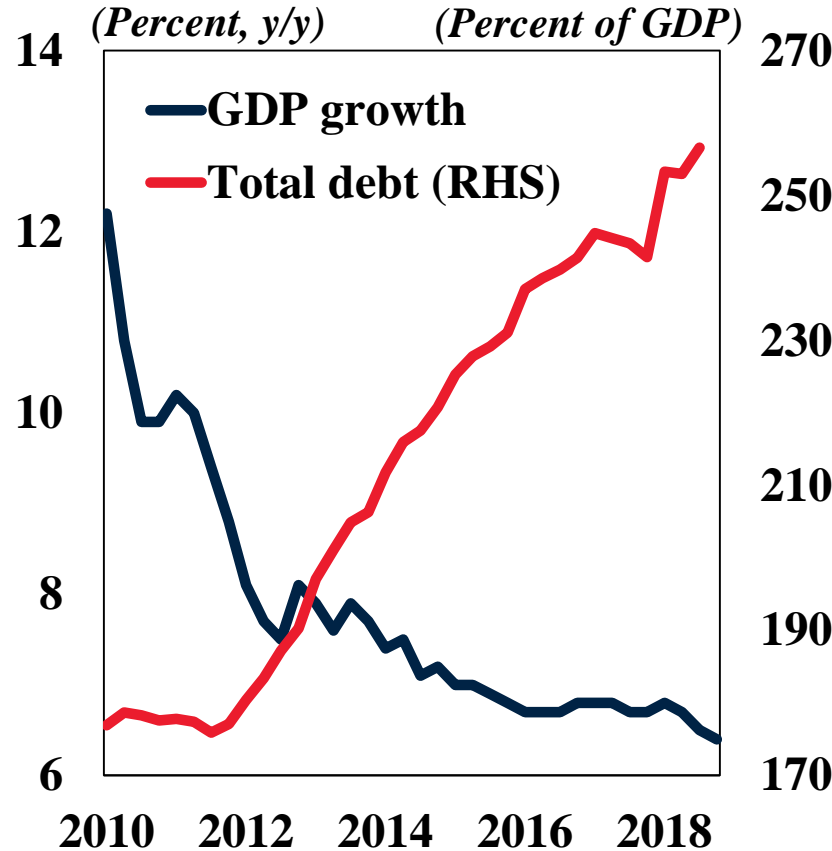
Growth, Debt and Trade - China

Weakening Growth; Mounting Debt; Slowing Trade

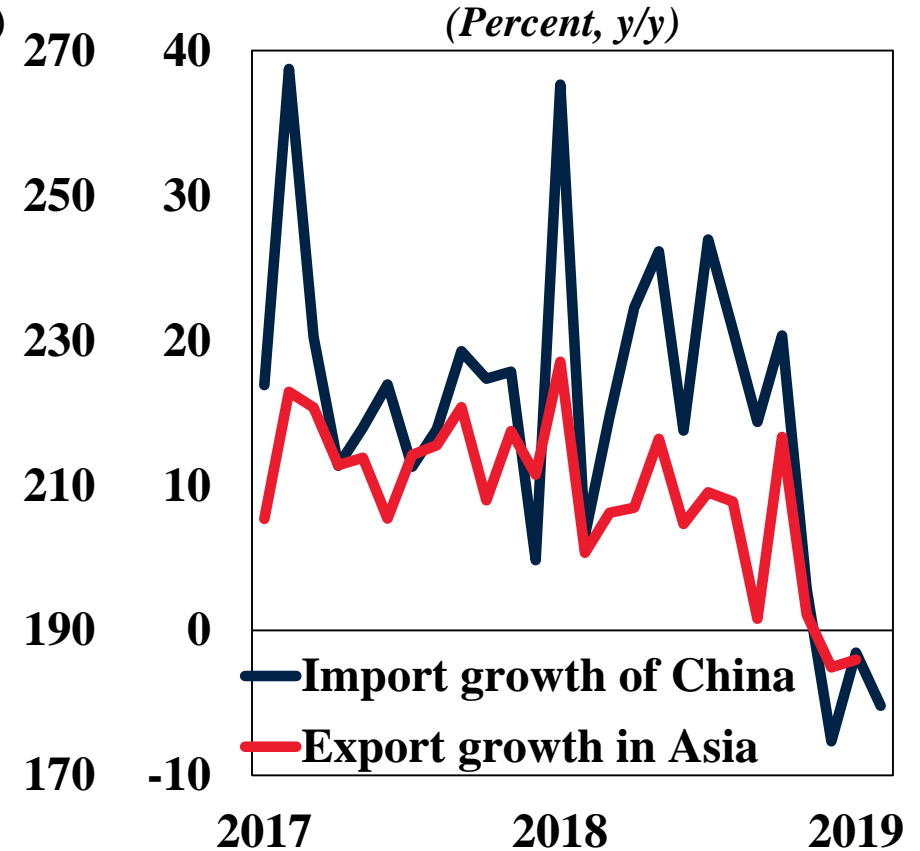
PMI and retail sales growth in China



Growth and total debt in China



Trade growth in Asian countries



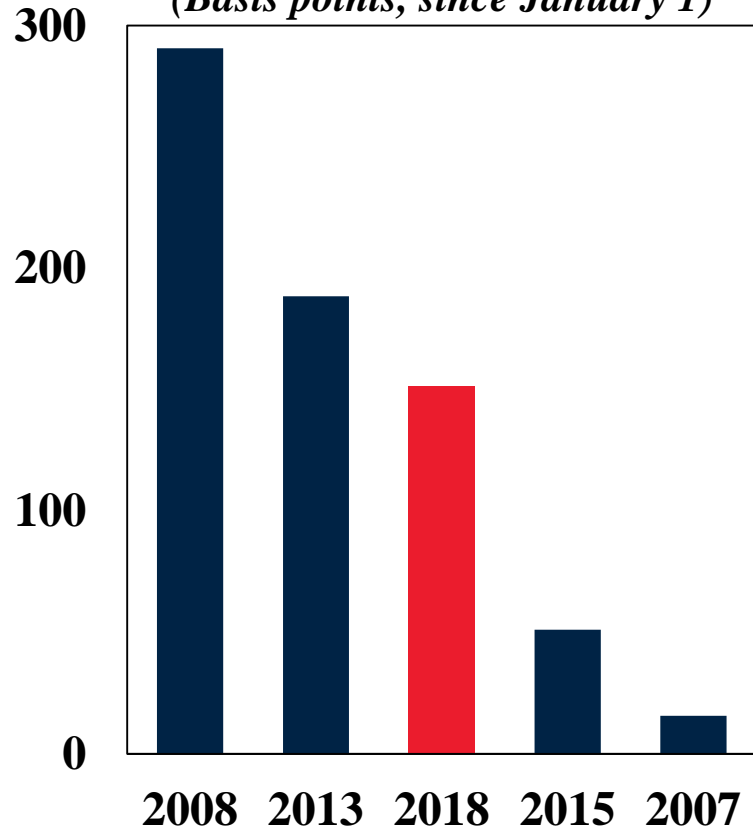
Sources: Bloomberg, Haver Analytics, World Bank.

Left Panel. PMI refers to Purchasing Managers' Index. Readings above 50 indicate expansion in economic activity, readings below 50 indicate contraction. Retail sales growth refers to year-on-year percent change in retail sales of all enterprises and expressed as a 6-month moving average. Last observation is February 2019 for PMI and December 2018 for retail sales growth. Center Panel. GDP growth is year-on-year, and total debt includes government debt, household debt, and non-financial corporation debt. Last observation is 2018Q4 for GDP growth and 2018Q3 for total debt. Right Panel. Import and export growth refers to year-on-year percent change in merchandise imports and exports in U.S. dollars, respectively. Export growth in Asia includes total goods exports from the following countries to the world: Bangladesh; Hong Kong, China; India; Indonesia; Japan; Republic of Korea; Malaysia; Mongolia; Pakistan; Philippines; Singapore; Sri Lanka; Taiwan, China; Thailand; and Vietnam. Last observation is February 2019.

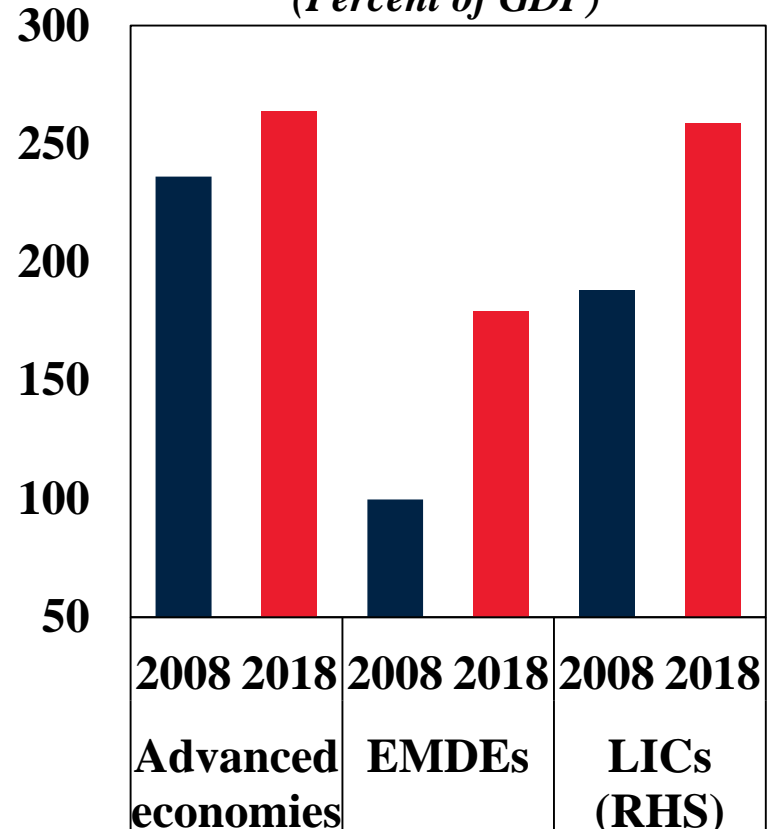
Other Risks

Rising Borrowing Costs; Elevated Debt; High Policy Uncertainty

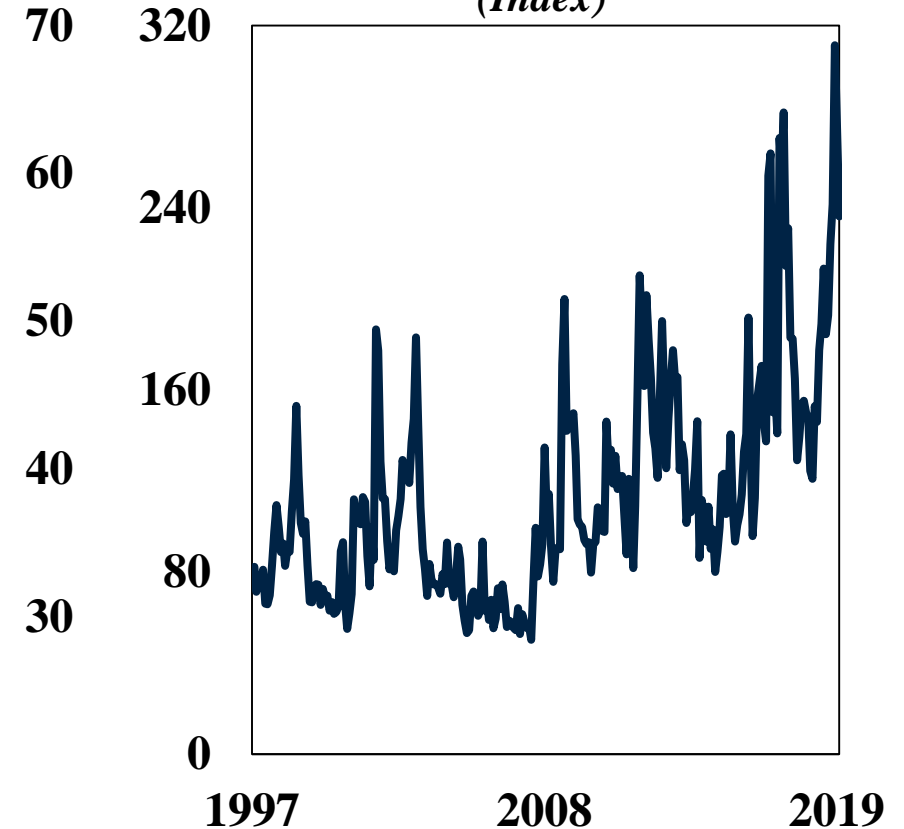
Largest changes in EMDE bond yields
(Basis points, since January 1)



Total debt stocks
(Percent of GDP)



Global economic policy uncertainty
(Index)



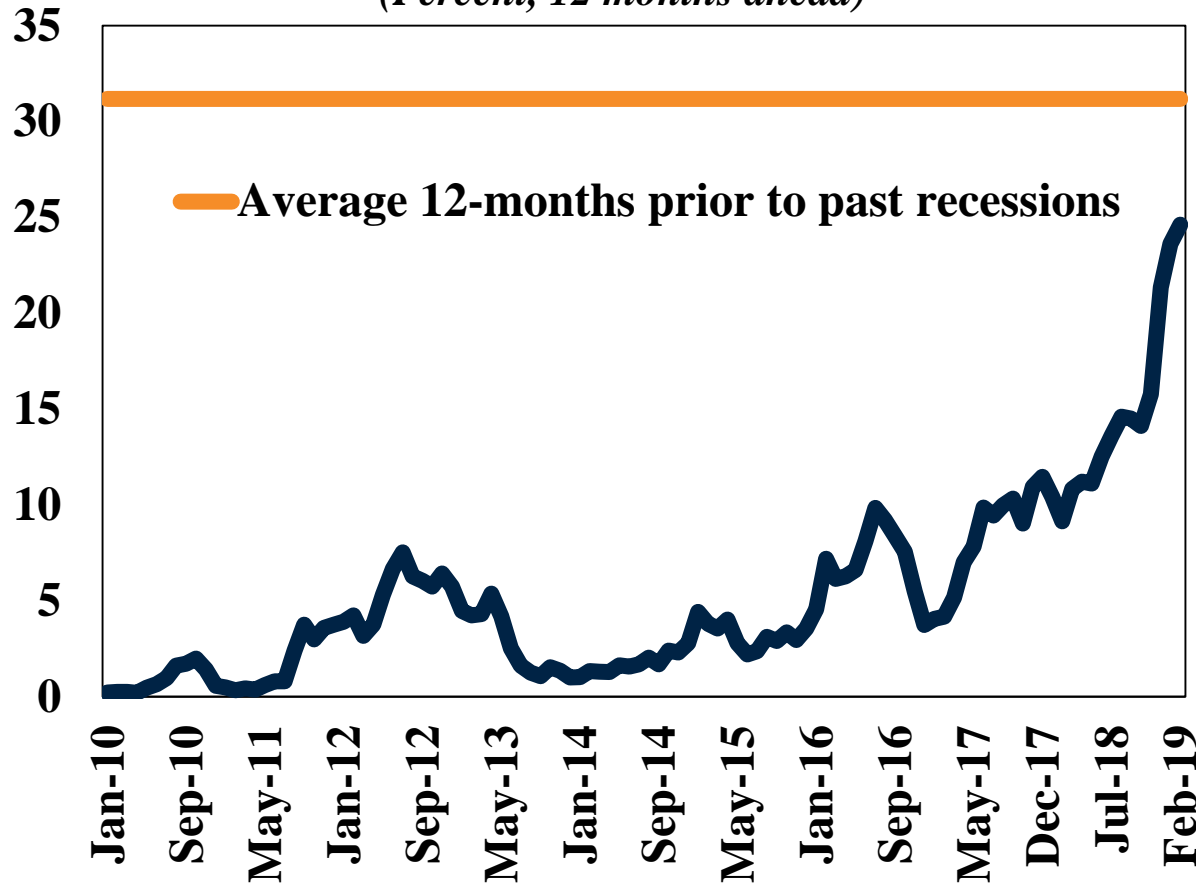
Sources: Baker, Bloom, and Davis (2016); Bank for International Settlements; Bloomberg; International Monetary Fund; J.P. Morgan; World Bank.

Left Panel. Cumulative annual changes, from the beginning to the end of the year, of EMDE bond yields, which are calculated as the sum of the J.P. Morgan Emerging Market Bond Index (EMBI) spread and the 10-year U.S. Treasury yield. Center Panel. Aggregates are computed with debt and GDP expressed in current U.S. dollars, following the methodology in BIS. Advanced-economy and EMDE aggregates are based on 27 and 16 countries, respectively, and data for 2018 are as of the second quarter. Data for 2018 in low-income countries (LICs) are for the latest available quarter and sample includes 21 LICs. Total debt is measured as total credit to general government and non-financial private sector for advanced economies and EMDEs and a sum of general government debt and domestic claims on the private sector for LICs. Right Panel. Global economic policy uncertainty is a GDP-weighted average of national economic policy uncertainty indexes for 18 countries, which are based on the frequency of articles in domestic newspapers mentioning economic policy uncertainty. Last observation is February 2019.

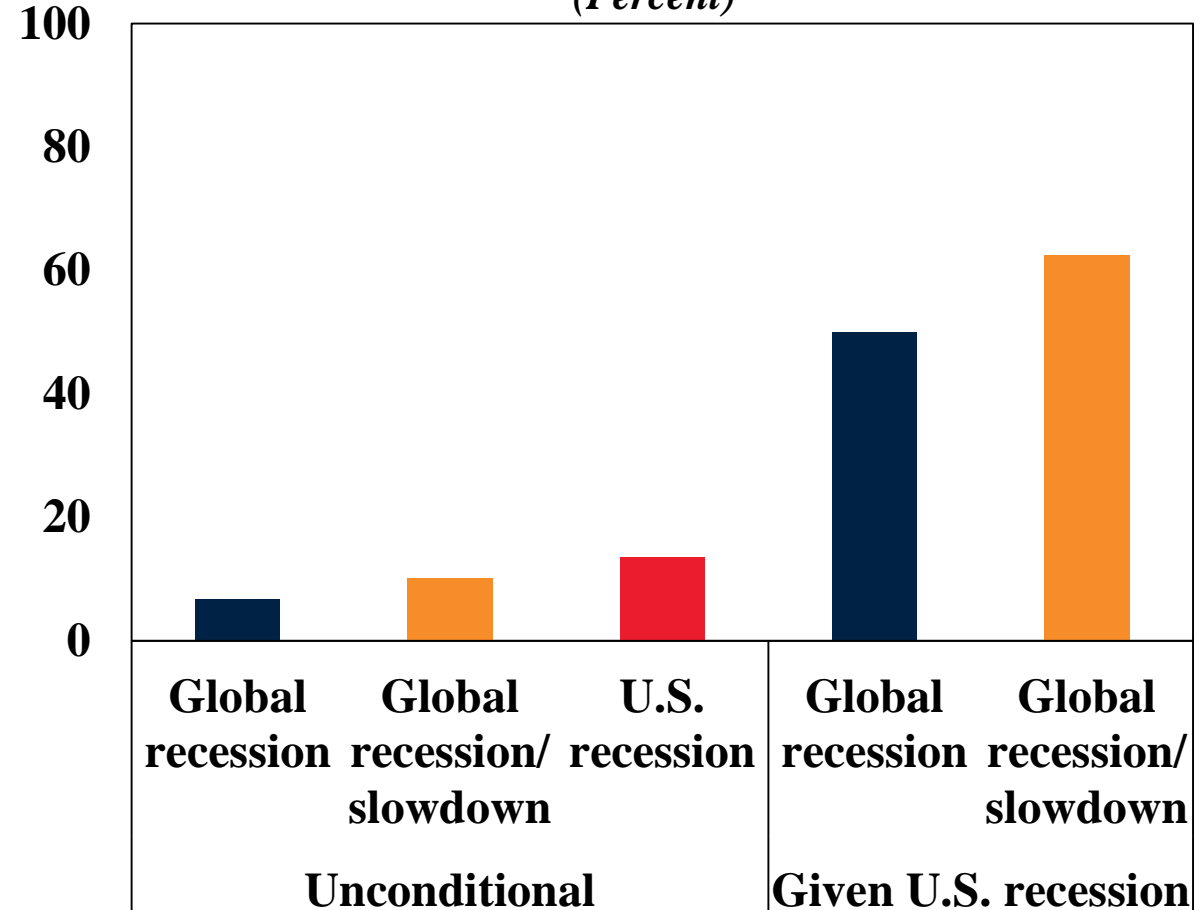
Probability of Recession

Getting Higher...

U.S. recession probability in next 12 months
(Percent, 12 months ahead)



Recession probability, 1960-2018
(Percent)



Sources: Federal Reserve Bank of New York, Kose and Terrones (2015), National Bureau of Economic Research, World Bank.

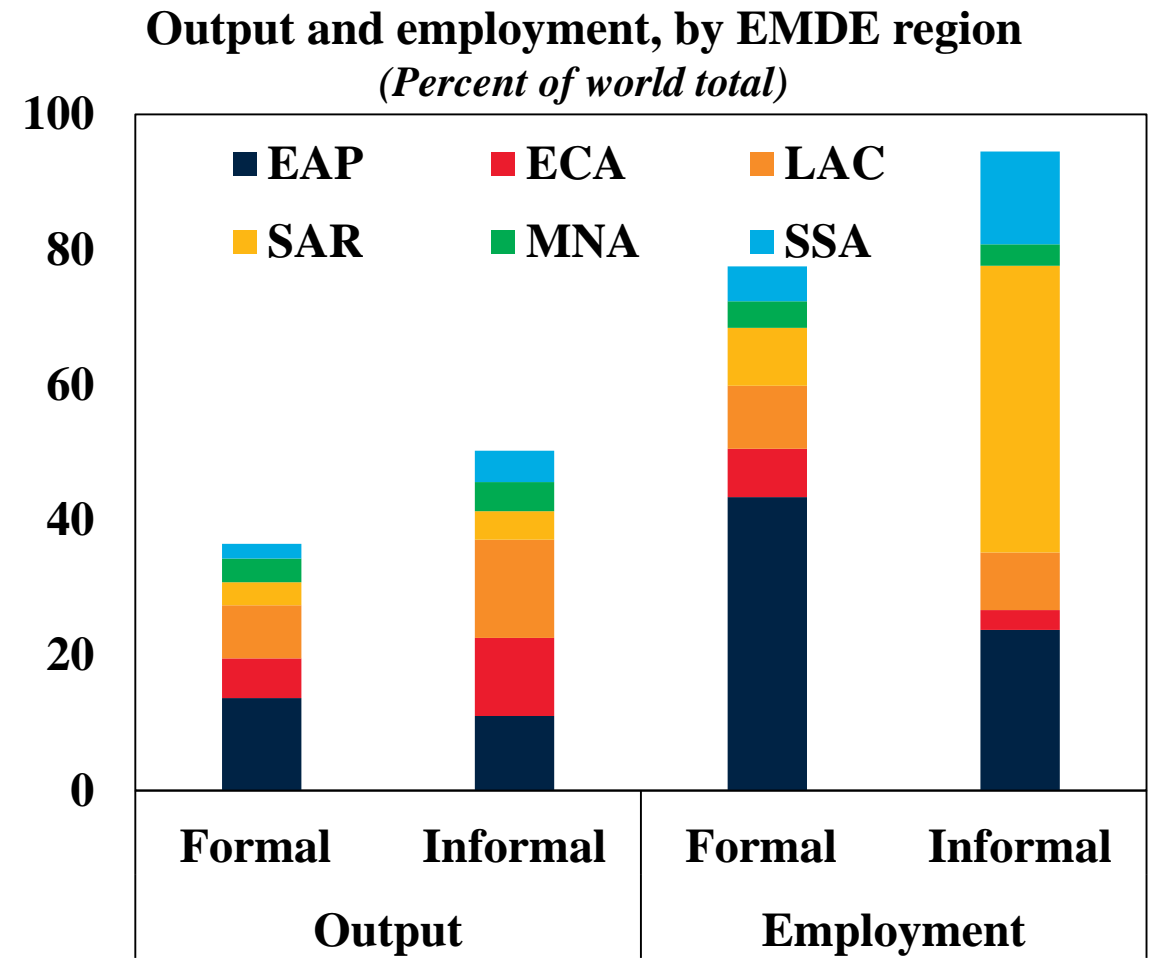
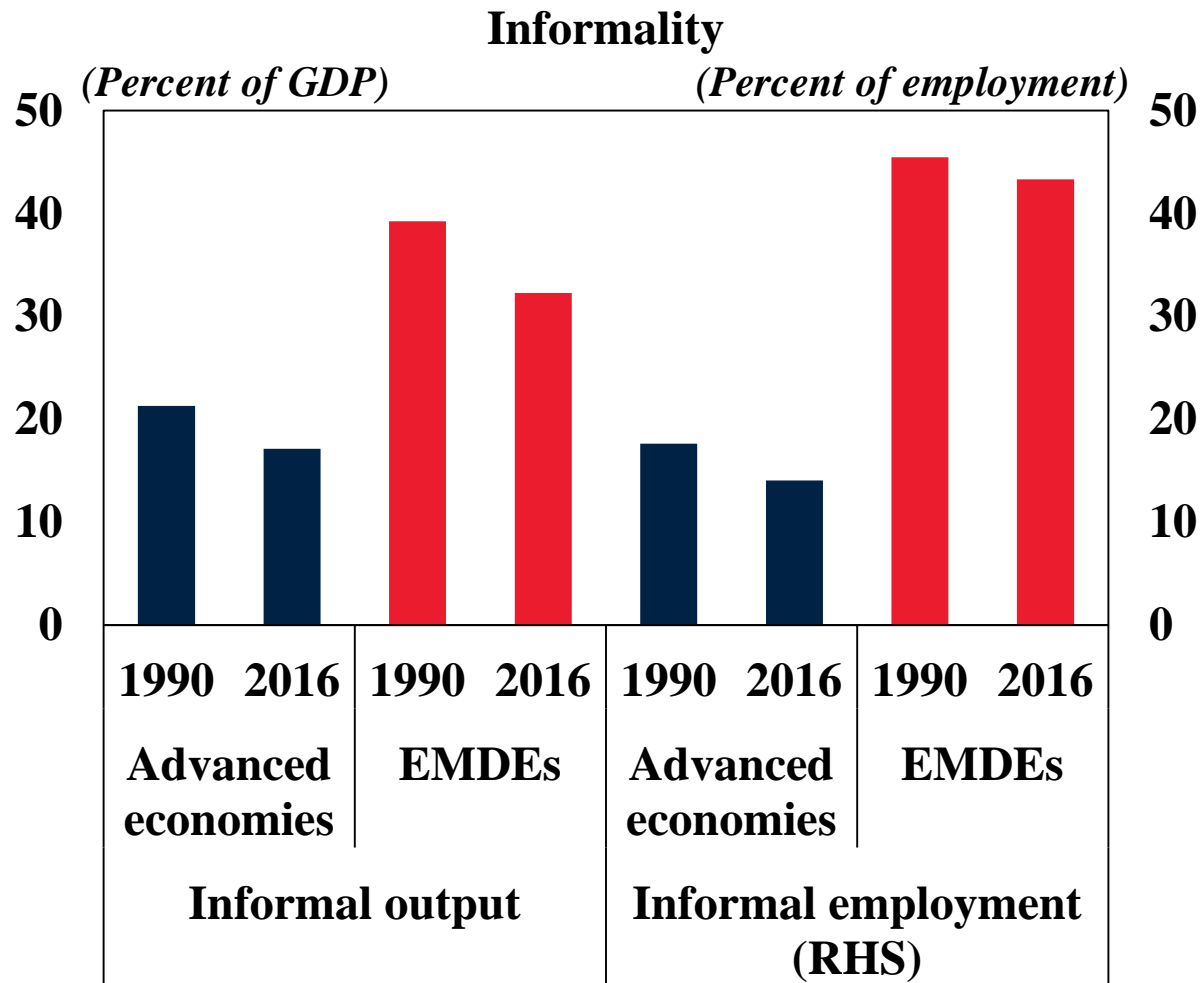
Left Panel. Recession probabilities calculated in the Federal Reserve Bank of New York yield curve-based model, which uses the difference between 10-year and 3-month Treasury rates to calculate the probability of a recession in the United States twelve months ahead. Last observation is January 2019 (i.e., recession probability for January 2020). Right Panel. Probabilities are based on annual data.

Four Questions

- 3 **What are the challenges of informality in EMDEs?** *Widespread in EMDEs; Associated with adverse development outcomes; Calls for a comprehensive policy strategy.*

* *EMDEs = Emerging Market and Developing Economies*

Informality: *Prominent in EMDEs*

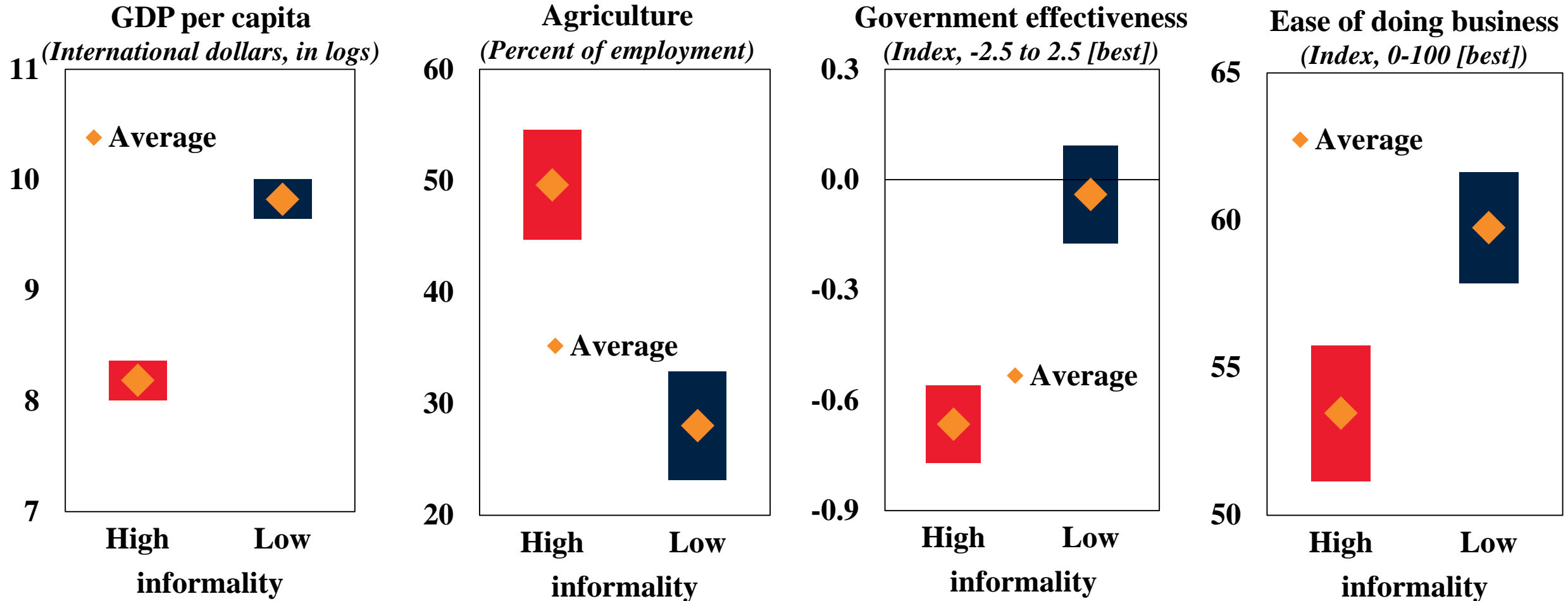


Sources: Elgin et al. (forthcoming); World Bank.

Left Panel. Unweighted averages. Informal output is measured as DGE-based informal output estimates. Informal employment is represented by self employment. World aggregates refer to global averages between 1990-2016. Right Panel. Data are averaged over 2010-16. Formal output refers to official GDP and informal output is DGE-based estimates. Formal employment is obtained as total employment minus informal employment (represented by self employment). EAP, ECA, LAC, MNA, SAR, and SSA refer to, respectively, East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa.

Correlates of Informality in EMDEs:

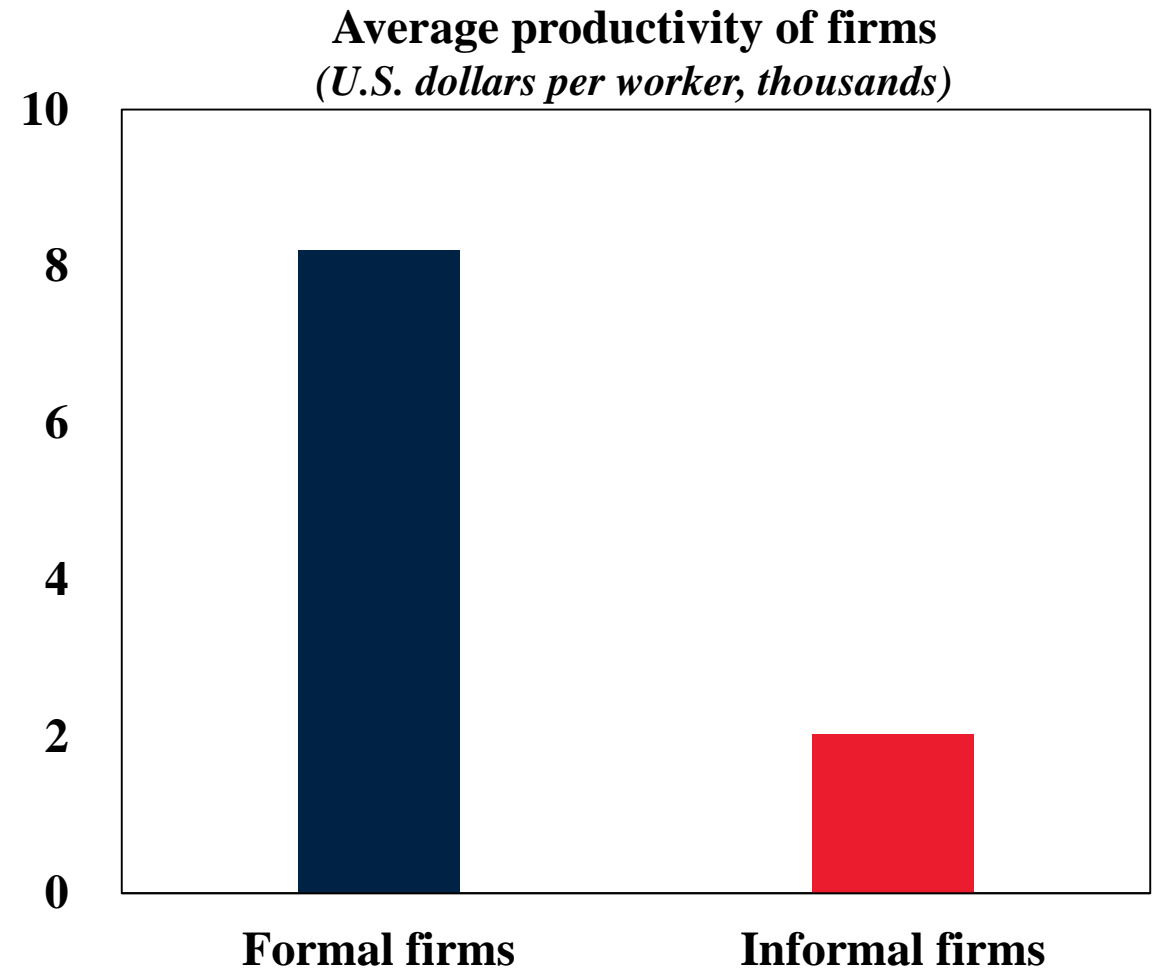
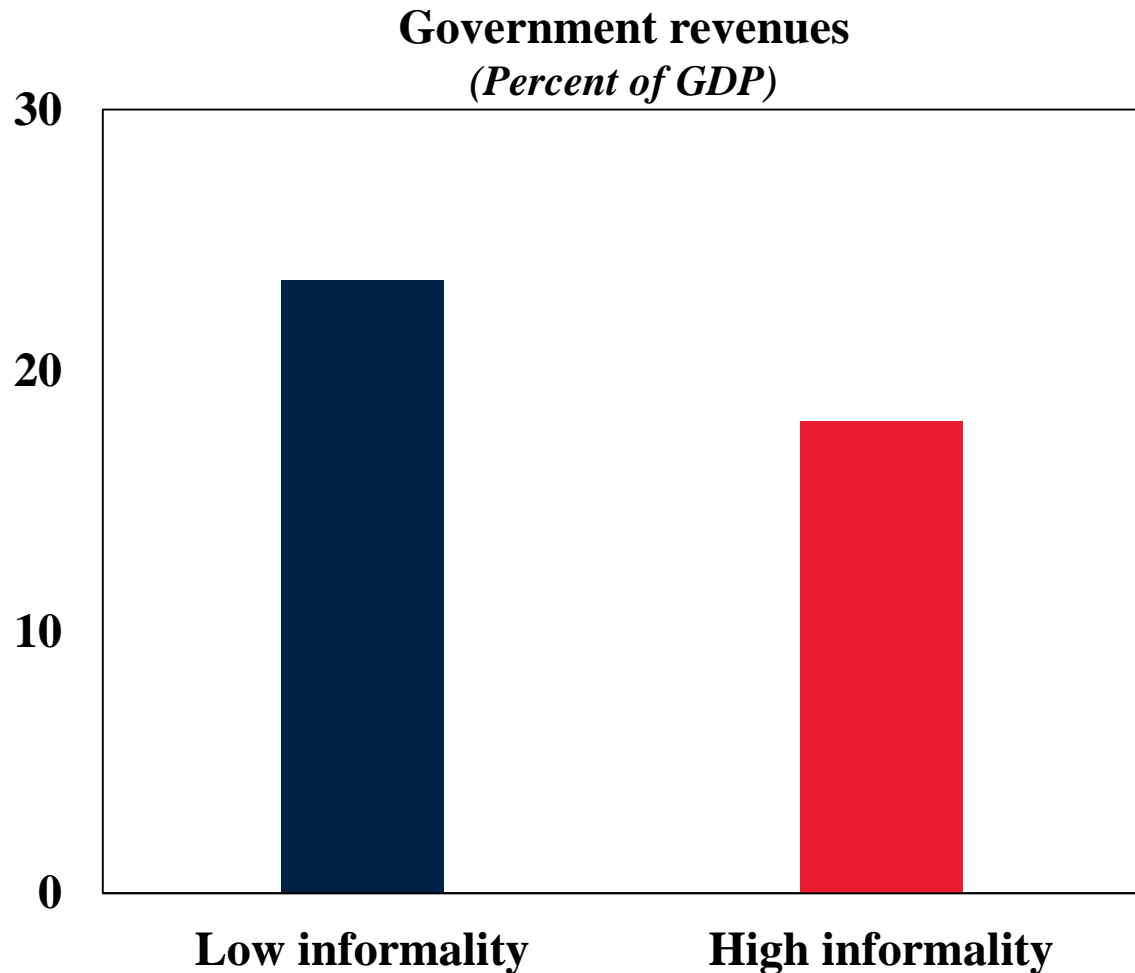
Lack of Development; Regulatory Burden; Weak Governance; Large Agriculture



Source: World Bank.

Note: "High informality" and "Low informality" refer to EMDEs with above-median and below-median DGE-based informal output over 1990-2016. Orange diamonds show averages of respective groups and blue and red bars show 90 percent confidence intervals (except for the fourth panel, which uses 95 percent confidence intervals). First Panel. GDP per capita is in constant 2011 international dollars, PPP, and expressed in logs. Second Panel. Employment in agriculture in percent of total employment, averaged over 1990-2016. Third Panel. Government effectiveness is as defined in the Worldwide Governance Indicator. Fourth Panel. Ease of doing business is measured as the overall distance to frontier, with 100 being the frontier and zero being the farthest from the frontier, as reported in Doing Business report 2017.

Challenges Associated with Informality: *Low Government Revenues; Lower Productivity*



Sources: Elgin et al. (forthcoming); International Monetary Fund, World Bank.

Left Panel. Average government total revenues in percent of GDP among the top and bottom thirds of EMDEs by the level of DGE-based informal output, shown as “High informality” and “Low informality,” respectively. Data are averaged over 2000-16. Sample includes 70 non-energy exporting EMDEs with populations above 3 millions. Right Panel. World Bank’s Enterprise Survey data for 135 countries (2008-18). Labor productivity is proxied by annual sales in 2009 U.S. dollars per worker. Labor productivity in average formal and informal firms, controlling for firm characteristics, including firm size and age, sector activity, location, and country-fixed effects.

Policies to Cope with Informality: *Tailored; Complementary; Longer-Term*

1 Tailor policies to country-specific circumstances

- Depending on the underlying drivers, including lack of development, heavy-handed regulations, and poor governance

2 Implement a package of complementary policies

- Comprehensive reforms covering fiscal, regulatory, and trade policies
- Supportive policies for vulnerable groups

3 Aim at long-term development outcomes

- Invigorate private sector activity and productivity (governance, finance, and human capital)
- Level the playing field for all workers and firms (streamline regulations)

Four Questions

4

What policies could help? *Need for proactive cyclical measures and structural reforms.*

Policies:

Cyclical Tools to Mitigate Risks; Reforms to Advance Structural Agenda

How to proactively respond to risks?

- Utilize fiscal, monetary and financial policies
- Strengthen policy frameworks

How to tackle structural problems?

- Identify priorities (human and physical capital, governance); implement reform programs
- Undertake measures to reduce informality

How to address global challenges?

- Coordinate policies globally to address global problems
- Improve multilateral frameworks

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Select Publications by Prospects Group

- *Global Economic Prospects – January 2019*
(January and June)
- *Commodity Markets Outlook – April 2019*
(April and October)
- *Inflation in Emerging and Developing Economies* – November 2018
- *Global Monthly*
- *Traders' Dilemma: Developing Countries' Response to Trade Dispute* – November 2018
- *Corporate Debt Overhang and Investment: Firm-Level Evidence* – August 2018
- *The Role of Major Emerging Markets in Global Commodity Demand* – June 2018
- *The 2014–16 Oil Price Collapse in Retrospect: Sources and Implications* – April 2018
- *The Global Costs of Protectionism* – December 2017

Questions & Comments

Thanks!

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