



# Global Economic Outlook: *Heightened Tensions, Subdued Investment*

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EFI - Prospects Group

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## *Global Economic Prospects – June 2019*

- Global Outlook
- Regional Outlooks
- Investment: Weak Prospects, Strong Needs
- Debt: No Free Lunch
- Currency Depreciations, Inflation, and Central Bank Independence
- Growth in Low-Income Countries: Evolution, Prospects, and Policies

## Three Questions

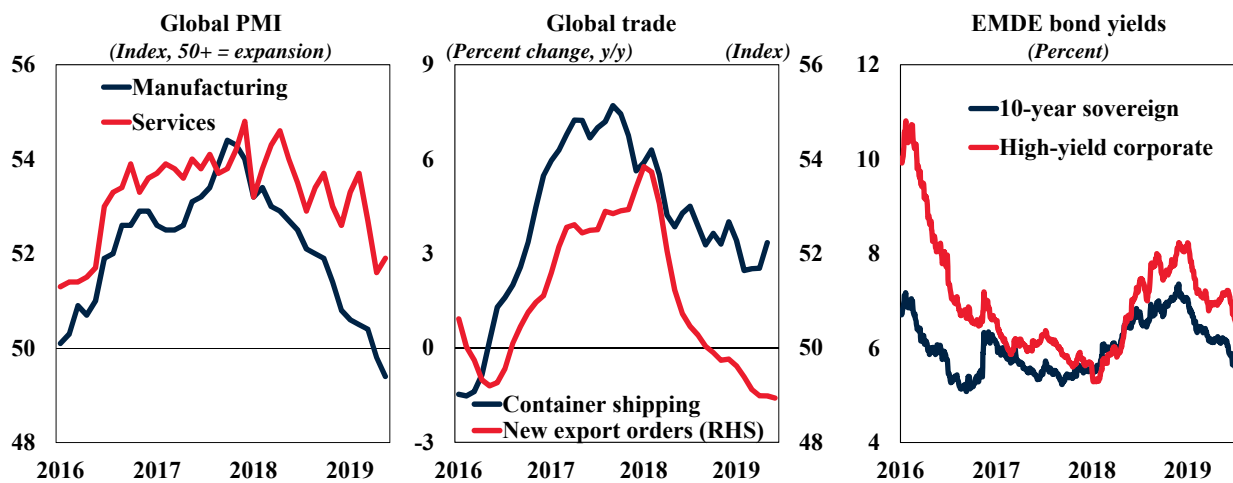
- 1 **How is the health of the global economy?** *Weakening. Significant downside risks clouding the outlook. Comprehensive policies needed to improve growth prospects.*
- 2 **Is this a good time for EMDEs to accumulate debt?** *Depends... Important to strike a balance between taking advantage of low interest rates and avoiding excessive debt accumulation.*
- 3 **What are prospects for low-income countries?** *Despite robust growth in the short run, multiple challenges to achieving middle-income status.*

3 \* EMDEs = Emerging Market and Developing Economies



## Manufacturing, Trade and Finance

*Weak Manufacturing and Trade; Still Favorable Financing Conditions*



4 Sources: Bloomberg, Haver Analytics, Institute of Shipping Economics and Logistics, World Bank. Left Panel. Manufacturing and services are measured by Purchasing Managers' Index (PMI). PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is June 2019. Center Panel. Figure shows 3-month moving averages. New export orders measured by Purchasing Managers' Index (PMI). Last observation is May 2019 for container shipping and June 2019 for new export orders. Right Panel. 10-year sovereign bond yields are computed summing the J.P. Morgan Emerging Market Bond Index spreads and the U.S. 10-year government bond yields. High-yield corporate bond yields are represented by the effective yields of the ICE BofAML High Yield Emerging Markets Corporate Plus Index. Last observation is July 12, 2017.



## Growth Forecasts

### *Widespread Disappointments*

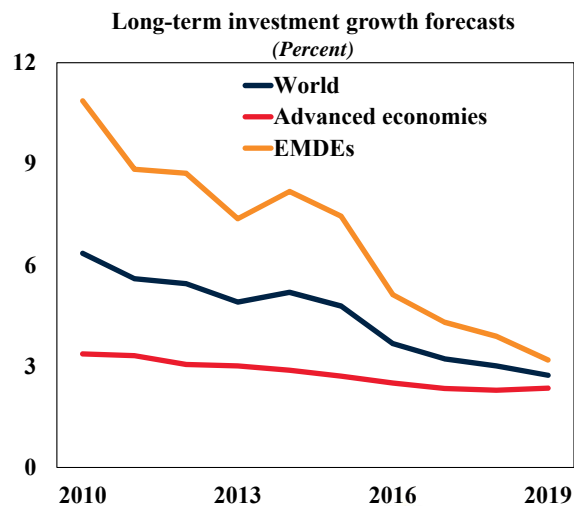
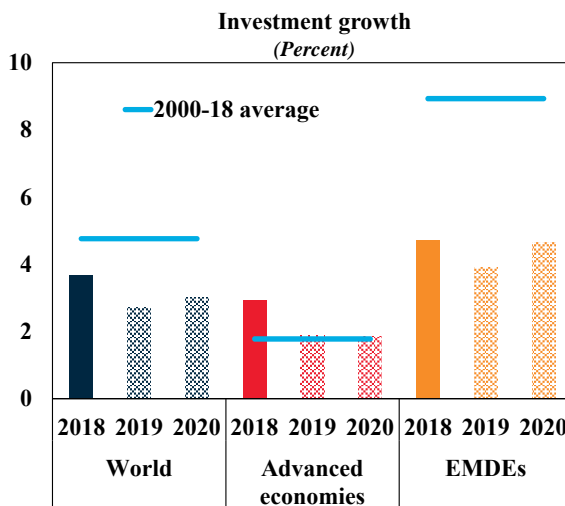
|                                 | GDP growth<br>(Percent) |      |       |       |       | Change from<br>January 2019 |      |
|---------------------------------|-------------------------|------|-------|-------|-------|-----------------------------|------|
|                                 | 2012-16                 | 2017 | 2018e | 2019f | 2020f | 2019                        | 2020 |
| <b>World</b>                    | 2.7                     | 3.1  | 3.0   | 2.6   | 2.7   | -0.3                        | -0.1 |
| <b>Advanced economies</b>       | 1.7                     | 2.3  | 2.1   | 1.7   | 1.5   | -0.3                        | -0.1 |
| <b>EMDEs</b>                    | 4.4                     | 4.5  | 4.3   | 4.0   | 4.6   | -0.3                        | 0.0  |
| East Asia and Pacific           | 6.9                     | 6.5  | 6.3   | 5.9   | 5.9   | -0.1                        | -0.1 |
| Europe and Central Asia         | 2.4                     | 4.1  | 3.1   | 1.6   | 2.7   | -0.7                        | 0.0  |
| Latin America and the Caribbean | 1.3                     | 1.7  | 1.6   | 1.7   | 2.5   | -0.4                        | -0.2 |
| Middle East and North Africa    | 3.4                     | 1.2  | 1.4   | 1.3   | 3.2   | -0.6                        | 0.5  |
| South Asia                      | 6.7                     | 6.7  | 7.0   | 6.9   | 7.0   | -0.2                        | -0.1 |
| Sub-Saharan Africa              | 3.7                     | 2.6  | 2.5   | 2.9   | 3.3   | -0.5                        | -0.3 |

5 Source: World Bank.  
Note: e and f refer to estimates and forecasts, respectively.



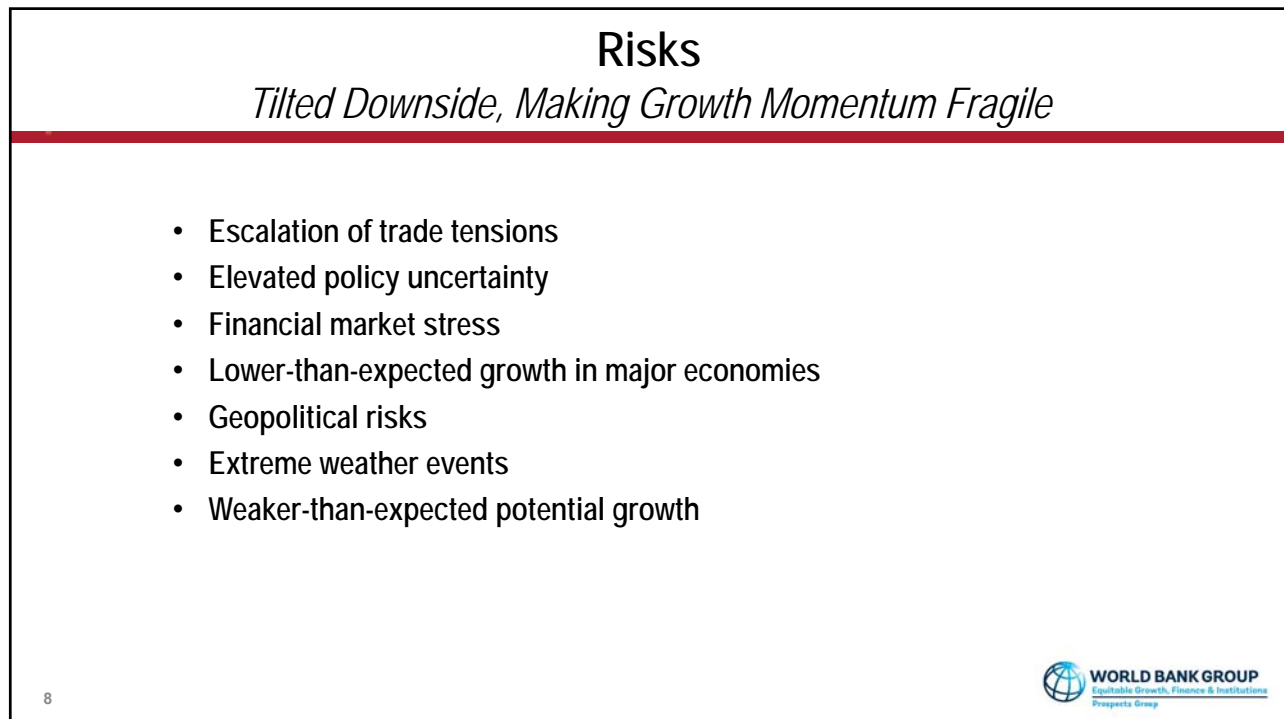
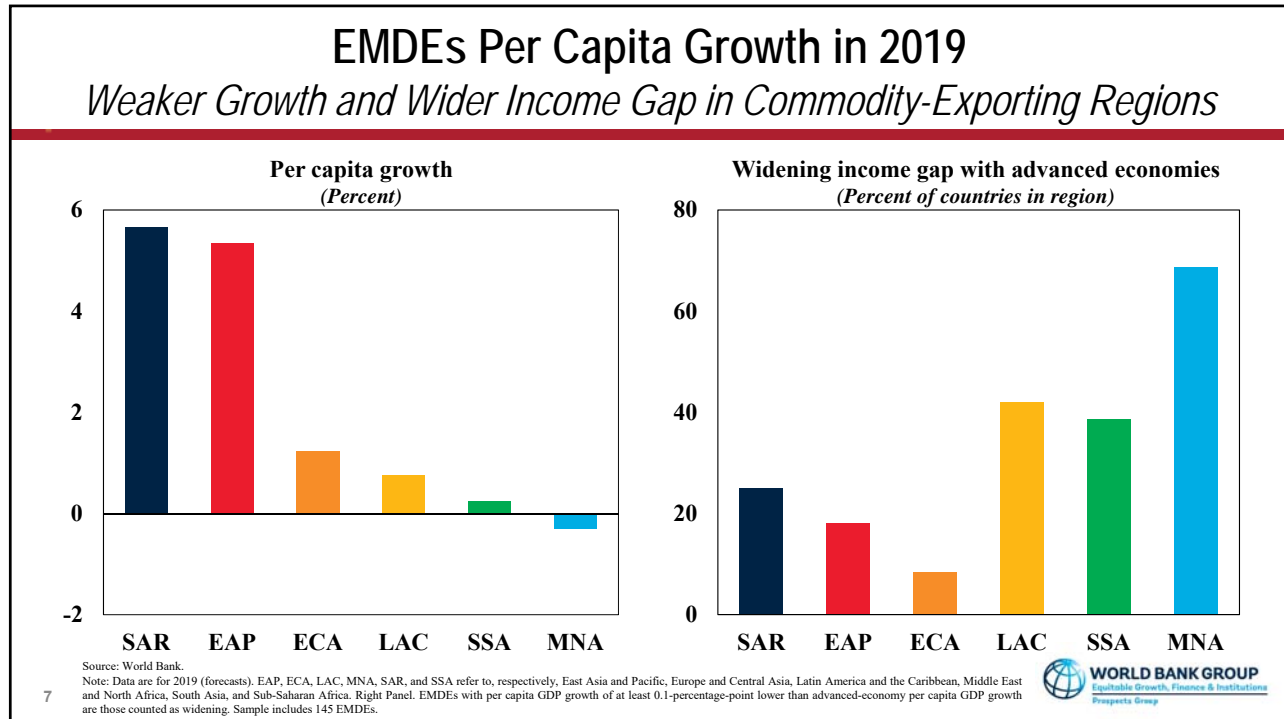
## Investment Growth

### *Subdued*

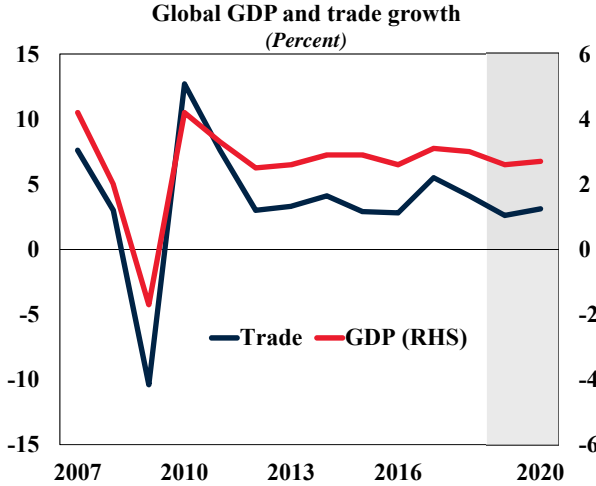
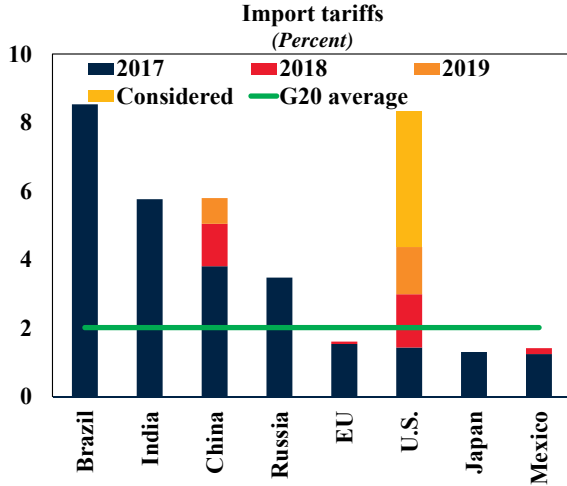


6 Sources: Consensus Economics, Haver Analytics, Oxford Economics, World Bank.  
Note: Investment refers to real gross fixed capital formation (public and private combined). Left Panel. 2010 investment-weighted averages. Sample includes 65 EMDEs and 34 advanced economies. Right Panel. 10-year-ahead forecasts surveyed in indicated year. Constant 2010 U.S. dollar investment-weighted averages. Sample includes 23 advanced economies and 20 EMDEs. For 2010-18, the average of four projections during the year is shown; for 2019, the average of two projections during the first half of the year is shown.





## Global Trade *Weak*



Sources: Haver Analytics; U.S. Census Bureau; World Bank.

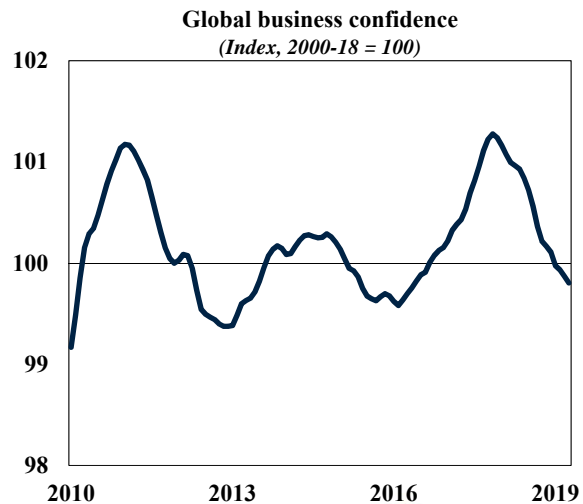
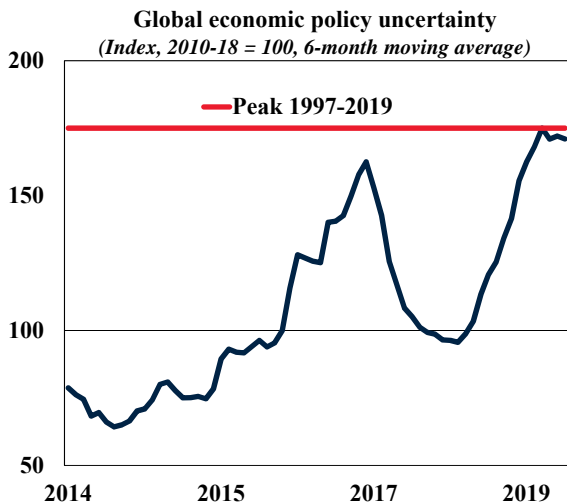
Left Panel. The information is as of May 23, 2019. Blue bars represent the trade-weighted averages for 2017 tariffs. Tariffs put in effect in 2018 and 2019 are shown in red and orange, respectively. "Considered" reflects additional tariffs on U.S. imports from China not subject to 2018-19 tariff hikes and tariffs on U.S. imports of motor vehicles and parts (imports from Canada and Mexico are assumed to be exempted). Right Panel. Trade is the average of export and import volumes. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP and trade weights. Shaded area indicates forecasts.



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## Uncertainty and Confidence

*Record High Uncertainty; Deteriorating Confidence*



Sources: Baker, Bloom, and Davis (2016); Organisation for Economic Co-operation and Development; World Bank.

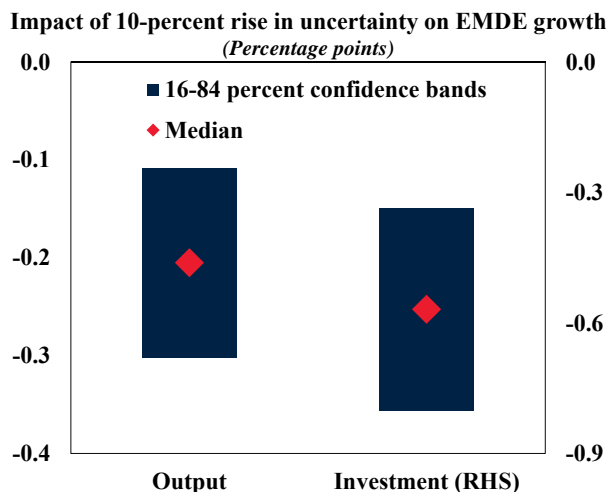
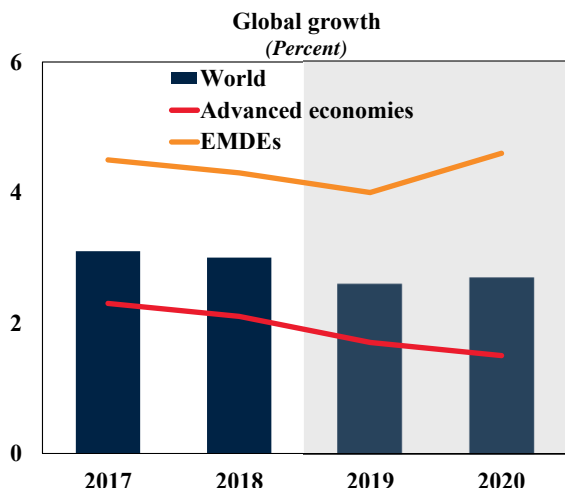
Left Panel. Global economic policy uncertainty is computed by Baker, Bloom, and Davis (2016), and based on the frequency of articles in domestic newspapers mentioning economic policy uncertainty. Last observation is June 2019. Right Panel. Global business confidence is represented by average business 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.



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## Global Growth and Spillovers from Uncertainty

### Slowdown in 2019; Sizeable Impact on EMDEs



Source: World Bank.

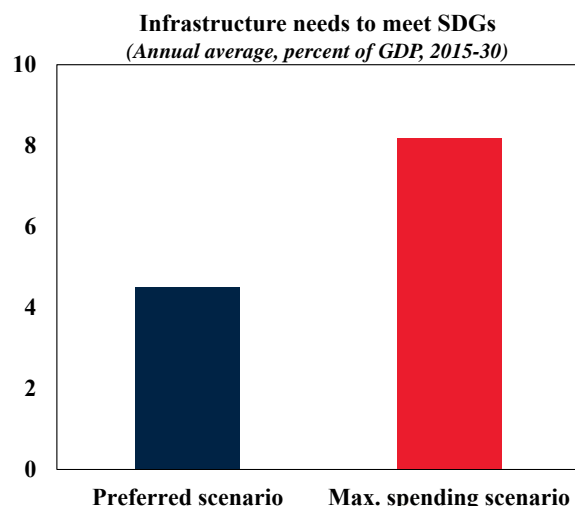
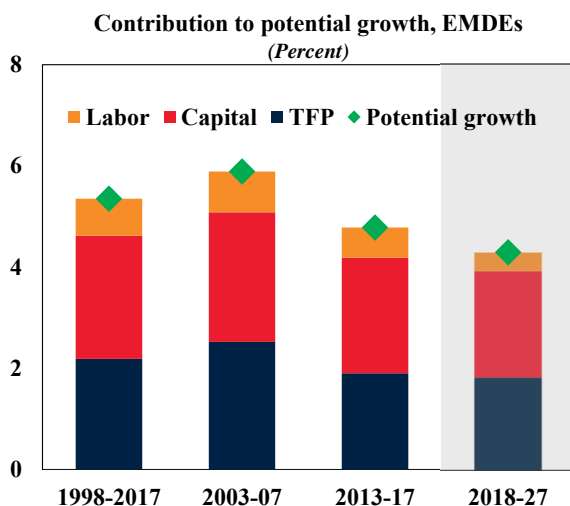
Left Panel. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights. Data for 2018 are estimates. Shaded area indicates forecasts. Right Panel. Cumulative impulse response after one year on output and investment growth in 18 EMDEs to a 10-percent increase in U.S. Economic Policy Uncertainty (EPU). Vector autoregressions are estimated for 1998Q1-2016Q2 with two lags. The model includes U.S. EPU, MSCI emerging market equity price index, J.P. Morgan's EMBIG spreads, aggregate real output and investment growth in 18 EMDEs, G7 real GDP growth, U.S. 10-year government bond yields, and MSCI world equity price index are added as exogenous regressors.



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## Implications of Weak Investment Growth

### Lower Potential Growth; Inability to Meet SDGs



Sources: Rozenberg and Fay (2019); World Bank.

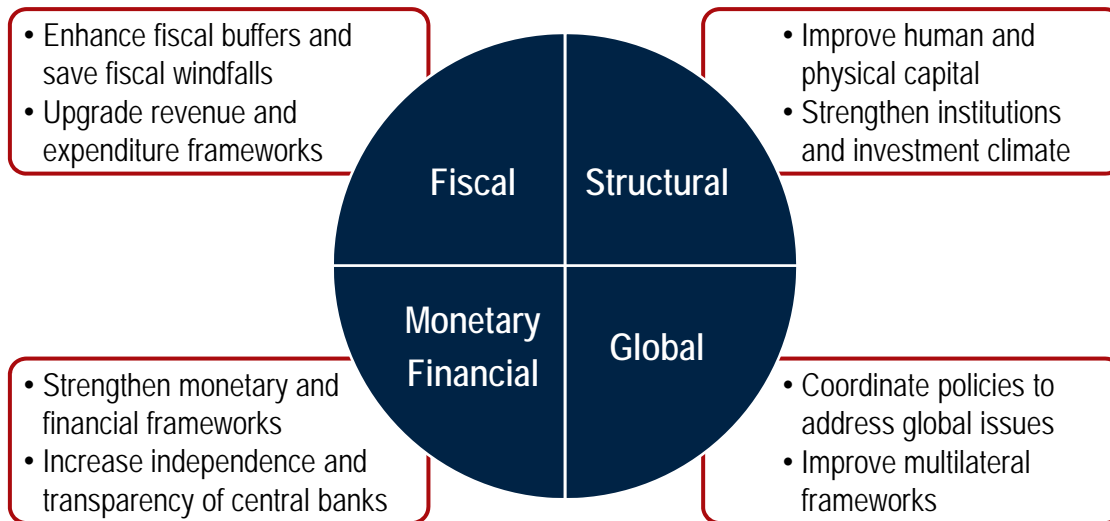
Left Panel. GDP-weighted averages. TFP refers to total factor productivity. Sample includes 50 EMDEs. Shaded area indicates forecasts. Right Panel. Figure is from the World Bank estimates (Rozenberg and Fay 2019), which show infrastructure (transport, electricity, and water and sanitation) spending needs in low- and middle-income countries. It shows results based on two scenarios: Preferred scenario (ambitious goals, high efficiency) and Maximum spending scenario (ambitious goals, low efficiency).



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## Policies

*Depends on Country Context but Comprehensive Policies Needed*



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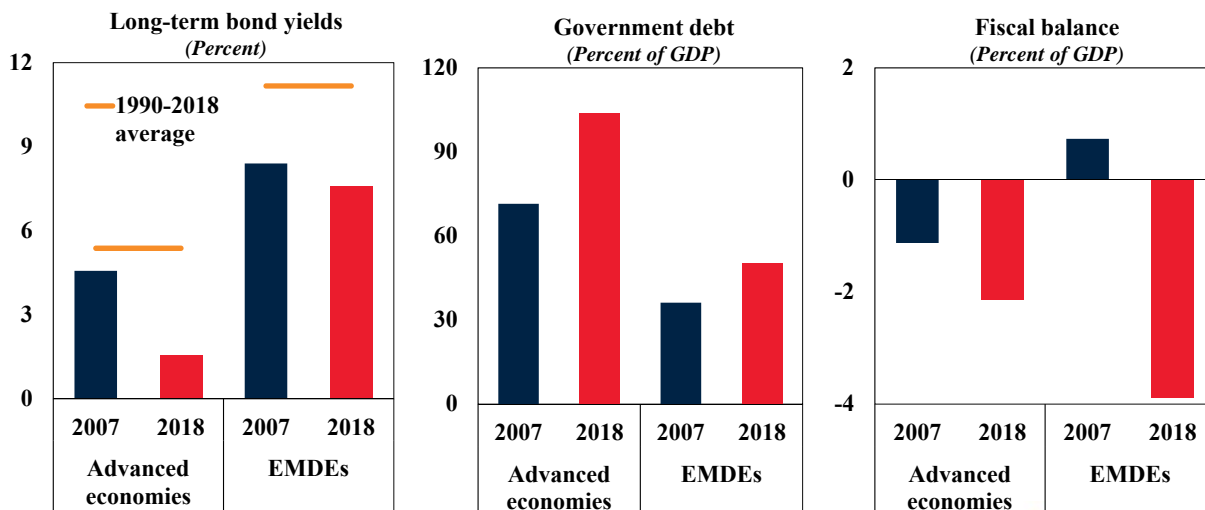
## Three Questions

- 2** **Is this a good time for EMDEs to accumulate debt?** *Depends... Important to strike a balance between taking advantage of low interest rates and avoiding excessive debt accumulation.*

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## Borrowing Costs and Fiscal Positions

### *Lower Borrowing Costs but Higher Debt and Deficits*

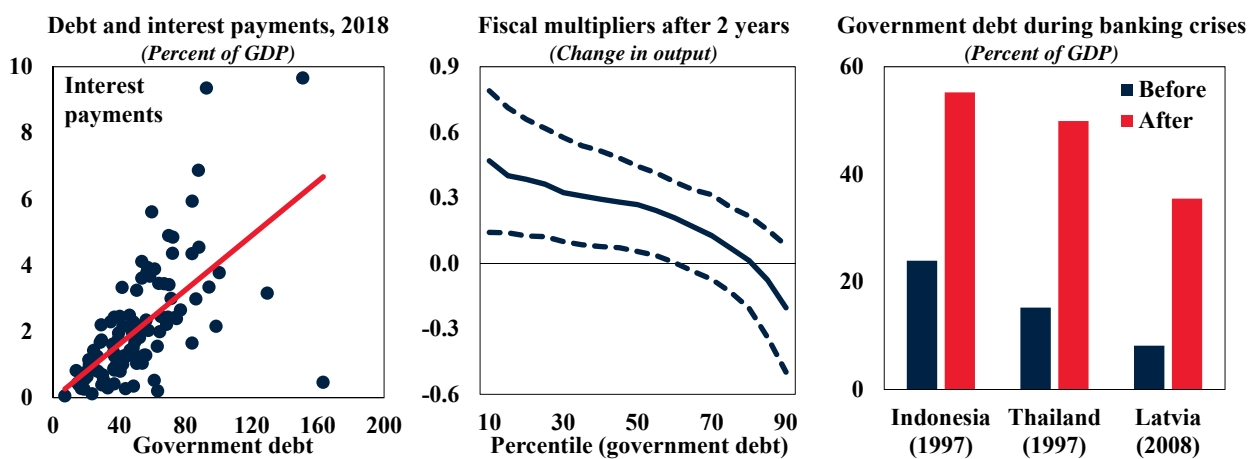


Source: Kose et al. (2017).  
 Left Panel. Simple averages, based on 36 advanced economies and 61 EMDEs. Center Panel. Averages computed with current U.S. dollar GDP as a weight, based on 35 advanced economies and 117 EMDEs. Right Panel. Averages computed with current U.S. dollar GDP as a weight, based on 38 advanced economies and 154 EMDEs.

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## Cost of Debt

### *Less Resources for Spending; Less Effective Fiscal Policy*



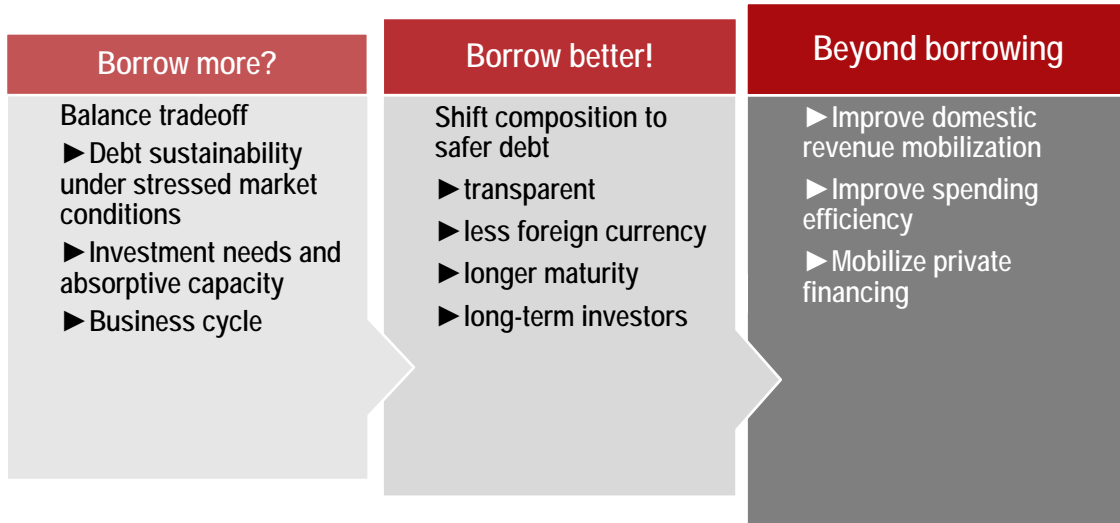
Sources: Huidrom et al. (2019); Kose et al. (2017); Laeven and Valencia (2018); World Bank.  
 Left Panel. General government gross debt on the horizontal axis and interest payments on the vertical axis. Sample includes 104 EMDEs, excluding small states as defined by the World Bank.  
 Center Panel. Figure shows the conditional fiscal multipliers for different levels of government debt after two years. Fiscal multipliers are defined as cumulative change in output relative to cumulative change in government consumption in response to a 1-unit government consumption shock. They are based on estimates from the IPVAR model, where model coefficients are conditioned only on government debt. Values shown on the x-axis correspond to the 10th to 90th percentiles of general government debt in percent of GDP in the sample. Solid line represents the median and dashed lines are the 16-84 percent confidence bands.  
 Right Panel. "Before" and "after" denote, respectively, one year before and after the onset of banking crisis, as shown by numbers below the corresponding country names, taken from Laeven and Valencia (2018). Government debt refers to general government debt, while data for Indonesia include central government debt only.

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## Debt Policy

*Balance taking advantage of low interest rates with avoiding excessive debt*



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## Three Questions

- 3** **What are prospects for low-income countries?** *Despite robust growth in the short run, multiple challenges to achieving middle-income status.*

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## 64 LICs in 2001

| EAP (8)     | ECA (9)      | LAC (2)   | MNA (1)     | SAR (6)     | SSA (38)      |               |               |
|-------------|--------------|-----------|-------------|-------------|---------------|---------------|---------------|
| Cambodia    | Armenia      | Haiti     | Yemen, Rep. | Afghanistan | Angola        | Gambia, The   | Nigeria       |
| Indonesia   | Azerbaijan   | Nicaragua |             | Bangladesh  | Benin         | Ghana         | Rwanda        |
| Korea, D.R. | Georgia      |           |             | Bhutan      | Burkina Faso  | Guinea        | Sao Tome & P. |
| Lao PDR     | Kyrgyz Rep.  |           |             | India       | Burundi       | Guinea-Bissau | Senegal       |
| Mongolia    | Moldova      |           |             | Nepal       | Cameroon      | Kenya         | Sierra Leone  |
| Myanmar     | Tajikistan   |           |             | Pakistan    | C.A.R.        | Lesotho       | Somalia       |
| Solomon Is. | Turkmenistan |           |             |             | Chad          | Liberia       | Sudan         |
| Vietnam     | Ukraine      |           |             |             | Comoros       | Madagascar    | Tanzania      |
|             | Uzbekistan   |           |             |             | Congo, D.R.   | Malawi        | Togo          |
|             |              |           |             |             | Congo, Rep.   | Mali          | Uganda        |
|             |              |           |             |             | Cote d'Ivoire | Mauritania    | Zambia        |
|             |              |           |             |             | Eritrea       | Mozambique    | Zimbabwe      |
|             |              |           |             |             | Ethiopia      | Niger         |               |

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## 34 LICs in 2019; 27 in SSA

| EAP (1) (8) | ECA (1) (9) | LAC (1) (2) | MNA (2) (1) | SAR (2) (6) | SSA (27) (38) |               |              |
|-------------|-------------|-------------|-------------|-------------|---------------|---------------|--------------|
|             |             | Haiti       | Yemen, Rep. | Afghanistan |               | Gambia, The   |              |
|             |             |             | Syria       |             | Benin         |               | Rwanda       |
| Korea, D.R. |             |             |             |             | Burkina Faso  | Guinea        |              |
|             |             |             |             |             | Burundi       | Guinea-Bissau | Senegal      |
|             |             |             |             | Nepal       |               |               | Sierra Leone |
|             | Tajikistan  |             |             |             | C.A.R.        |               | Somalia      |
|             |             |             |             |             | Chad          | Liberia       |              |
|             |             |             |             |             | Comoros       | Madagascar    | Tanzania     |
|             |             |             |             |             | Congo, D.R.   | Malawi        | Togo         |
|             |             |             |             |             |               | Mali          | Uganda       |
|             |             |             |             |             |               |               |              |
|             |             |             |             |             | Eritrea       | Mozambique    | Zimbabwe     |
|             |             |             |             |             | Ethiopia      | Niger         | South Sudan  |

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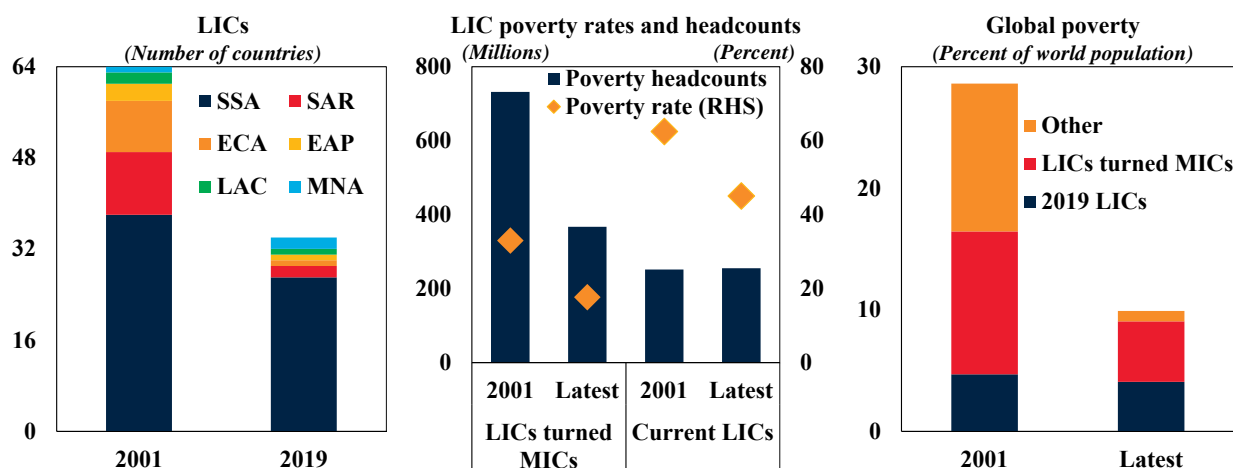
## 19 FCV LICs in 2019

| EAP (0) | ECA (0) | LAC (1) | MNA (2)     | SAR (1)     | SSA (15) (27) |               |
|---------|---------|---------|-------------|-------------|---------------|---------------|
|         |         | Haiti   | Yemen, Rep. | Afghanistan |               | Gambia, The   |
|         |         |         | Syria       |             |               |               |
|         |         |         |             |             | Burundi       | Guinea-Bissau |
|         |         |         |             |             | C.A.R.        | Somalia       |
|         |         |         |             |             | Chad          | Liberia       |
|         |         |         |             |             | Comoros       |               |
|         |         |         |             |             | Congo, D.R.   | Togo          |
|         |         |         |             |             |               | Mali          |
|         |         |         |             |             | Eritrea       | Mozambique    |
|         |         |         |             |             |               | Zimbabwe      |
|         |         |         |             |             |               | South Sudan   |

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## Evolution of Low-Income Countries (LICs)

*Halved in Number since 2001; Lower Poverty Rates*

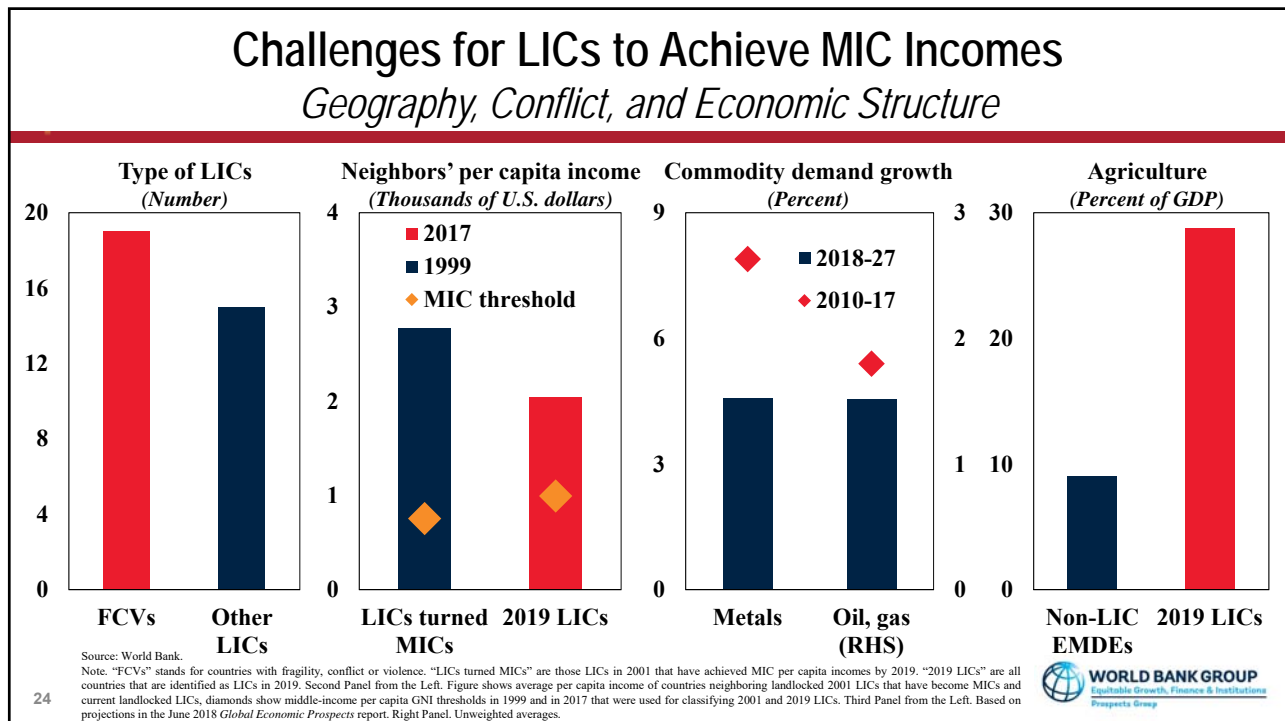
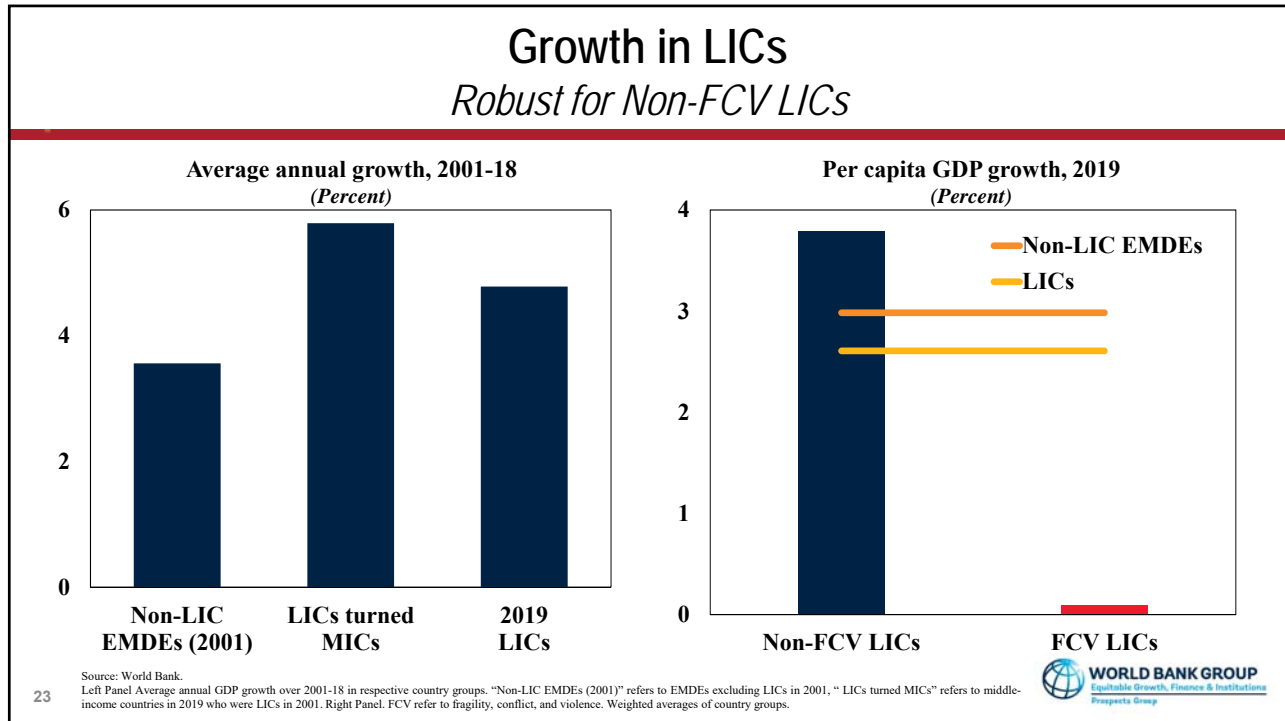


Sources: United Nations, World Bank.

Note: LICs refer to low-income countries. Left Panel. LICs in FY2001 had per capita GNI (current U.S. dollars) at \$755 or below, while LICs in FY2019 had per capita GNI at \$995 or below in 2017. 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. Center and Right Panels. "LICs turned MICs" are those LICs in 2001 that have achieved MIC per capita income by 2019. Center Panel. Poverty share for "LICs turned MICs" includes 26 of 32 countries and reflects 94.1 percent of the sample population in 2015. "Current LICs" are LICs that have remained LICs since 2001 and includes 25 of 32 countries and reflects 79.8 percent of the sample population. Right Panel. Poverty share for "LICs turned MICs" includes 26 of 32 countries and reflects 94.1 percent of the sample population in 2015, and "2019 LICs" includes 34 of 34 countries.

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## Three Questions

- 1 **How is the health of the global economy?** *Weakening. Significant downside risks clouding the outlook. Comprehensive policies needed to improve growth prospects.*
- 2 **Is this a good time for EMDEs to accumulate debt?** *Depends... Important to strike a balance between taking advantage of low interest rates and avoiding excessive debt accumulation.*
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## Select Publications by Prospects Group

- [Global Economic Prospects](#) – *June 2019*  
(January and June)
- [Commodity Markets Outlook](#) – *April 2019*  
(April and October)
- [Global Monthly](#)
- [Debt in Low-Income Countries: Evolution, Implications, and Remedies](#) – *March 2019*
- [Why do Fiscal Multipliers Depend on Fiscal Positions?](#) – *March 2019*
- [Inflation in Emerging and Developing Economies](#) – *November 2018*

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## Questions & Comments

*Thanks!*

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