Darkening Prospects: Global Economy to Slow to 2.9 percent in 2019 as Trade, Investment Weaken

Emerging, Developing Economies Should Rebuild Policy Buffers, Boost Productivity to Sustain Growth

WASHINGTON, January 8, 2019 — Global economic growth is projected to soften from a downwardly revised 3 percent in 2018 to 2.9 percent in 2019 amid rising downside risks to the outlook, the World Bank said on Tuesday. International trade and manufacturing activity have softened, trade tensions remain elevated, and some large emerging markets have experienced substantial financial market pressures.

Growth among advanced economies is forecast to drop to 2 percent this year, the January 2019 *Global Economic Prospects* says. Slowing external demand, rising borrowing costs, and persistent policy uncertainties are expected to weigh on the outlook for emerging market and developing economies. Growth for this group is anticipated to hold steady at a weaker-than-expected 4.2 percent this year.

"At the beginning of 2018 the global economy was firing on all cylinders, but it lost speed during the year and the ride could get even bumpier in the year ahead", said **World Bank Chief Executive Officer Kristalina Georgieva.** "As economic and financial headwinds intensify for emerging and developing countries, the world's progress in reducing extreme poverty could be jeopardized. To keep the momentum, countries need to invest in people, foster inclusive growth, and build resilient societies."

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The upswing in commodity exporters has stagnated, while activity in commodity importers is decelerating. Per capita growth will be insufficient to narrow the income gap with advanced economies in about 35 percent of emerging market and developing economies in 2019, with the share increasing to 60 percent in countries affected by fragility, conflict, and violence.

A number of developments could act as a further brake on activity. A sharper tightening in borrowing costs could depress capital inflows and lead to slower growth in many emerging market and developing economies. Past increases in public and private debt could heighten vulnerability to swings in financing conditions and market sentiment. Intensifying trade tensions could result in weaker global growth and disrupt globally interconnected value chains.

"Robust economic growth is essential to reducing poverty and boosting shared prosperity," said **World Bank Group Vice President for Equitable Growth, Finance and Institutions, Ceyla Pazarbasioglu.** "As the outlook for the global economy has darkened, strengthening contingency planning, facilitating trade, and improving access to finance will be crucial to navigate current uncertainties and invigorate growth."

Analytical chapters address key current topics:

- The informal sector accounts for about 70 percent of employment and 30 percent of GDP in emerging market and developing economies. Since it is associated with lower productivity and tax revenues and greater poverty and inequality, this is symptomatic of opportunities lost. Reducing tax and regulatory burdens, improving access to finance, offering better education and public services, and strengthening public revenue frameworks could level the playing field between formal and informal sectors.
- Debt vulnerabilities in low-income countries are rising. While borrowing has enabled many countries to tackle important development needs, the median debt-to-GDP ratio of low-income countries has climbed, and the composition of debt has shifted toward more expensive market-based sources of financing. These economies should focus on mobilizing domestic resources, strengthening debt and investment management practices and building more resilient macro-fiscal frameworks.
- Sustaining historically low and stable inflation is not guaranteed in emerging market and developing economies. Cyclical pressures that have depressed inflation over the past decade are gradually dissipating. The long-term factors that have helped reduce inflation over the past five decades – global trade and financial integration, widespread adoption of robust monetary policy frameworks – may lose momentum or reverse. Maintaining low global inflation may become as much of a challenge as achieving it.
- Policies aimed at softening the blow of global food price swings can have unintended consequences if implemented by many governments in uncoordinated fashion. Government interventions can provide short-term relief, but widespread actions are likely to exacerbate food price spikes, with heaviest impact on the poor. For example, trade policies introduced during the 2010-11 food price spike may have accounted for more than one-quarter of the increase in the world price of wheat and maize. The 2010-11 food price spike tipped 8.3 million people (almost 1 percent of the world's poor) into poverty.

"Designing tax and social policies to level the playing field for formal and informal sectors as well as strengthening domestic revenue mobilization and debt management will be important priorities for policymakers to overcome the challenges associated with informality in developing economies," said **World Bank Prospects Group Director Ayhan Kose**. "As the economic outlook dims, such efforts become even more important."

Regional Outlooks:

East Asia and Pacific: East Asia and Pacific remains one of the world's fastest-growing developing regions. Regional growth is expected to moderate to 6 percent in 2019, assuming broadly stable commodity prices, a moderation in global demand and trade, and a gradual tightening of global financial conditions. Growth in China is expected to slow to 6.2 percent this year as domestic and external rebalancing continue. The rest of the region is expected to grow at 5.2 percent in 2019 as resilient demand offsets the negative impact of slowing exports. Indonesia's growth is expected to hold steady at 5.2 percent. The expansion of the Thai economy is expected to slow in 2019 to 3.8 percent.

Europe and Central Asia: The lingering effects of financial stress in Turkey are anticipated to weigh on regional growth this year, slowing it to 2.3 percent in 2019. Turkey is forecast to experience weak activity and slow to a 1.6 percent pace due to high inflation, high interest rates, and low confidence, dampening consumption and investment. Growth in the western part of the region, excluding Turkey, is projected to slow. Poland is anticipated to slow to 4 percent as Euro Area growth slows. Growth in the eastern part of the region is also anticipated to slow as large economies including Russia, Kazakhstan, and Ukraine decelerate.

Latin America and the Caribbean: Regional growth is projected to advance to a 1.7 percent pace this year, supported mainly by a pickup in private consumption. Brazil is forecast to expand 2.2 percent, assuming fiscal reforms are quickly put in place, and that a recovery of consumption and investment will outweigh cutbacks to government spending. In Mexico, policy uncertainty and the prospect of still subdued investment is expected to keep growth at a moderate 2 percent, despite the fall in trade-related uncertainty following the announcement of the U.S.-Mexico-Canada Agreement. Argentina is forecast to contract by 1.7 percent as deep fiscal consolidation leads to a loss of employment and reduced consumption and investment.

Middle East and North Africa: Regional growth is projected to rise to 1.9 percent in 2019. Despite slower global trade growth and tighter external financing conditions, domestic factors, particularly policy reforms, are anticipated to bolster growth in the region. Growth among oil exporters is expected to pick up slightly this year, as GCC countries as a group accelerate to a 2.6 percent rate from 2 percent in 2018. Iran is forecast to contract by 3.6 percent in 2019 as sanctions bite. Algeria is forecast to ease to 2.3 percent after a rise in government spending last year tapers off. Egypt is forecast to accelerate to 5.6 percent growth this fiscal year as investment is supported by reforms that strengthen the business climate and as private consumption picks up.

South Asia: Regional growth is expected to accelerate to 7.1 percent in 2019, underpinned by strengthening investment and robust consumption. India is forecast to accelerate to 7.3 percent in FY 2018/19 as consumption remains robust and investment growth continues, Bangladesh is expected to slow to 7 percent in FY2018/19 as activity is supported by strong private consumption and infrastructure spending. Pakistan's growth is projected to decelerate to 3.7 percent in FY2018/19, with financial conditions tightening to help counter rising inflation and external vulnerabilities. Sri Lanka is anticipated to speed up slightly to 4 percent in 2019, supported by robust domestic demand and investment boosted by infrastructure projects. Nepal's post-earthquake momentum is forecast to moderate, and growth should slow to 5.9 percent in FY2018/19.

Sub-Saharan Africa: Regional growth is expected to accelerate to 3.4 percent in 2019, predicated on diminished policy uncertainty and improved investment in large economies together with continued robust growth in non-resource intensive countries. Growth in Nigeria is expected to rise to 2.2 percent in 2019, assuming that oil production will recover and a slow improvement in private demand will constrain growth in the non-oil industrial sector. Angola is forecast to grow 2.9 percent in 2019 as the oil sector recovers as new oil fields come on stream and as reforms bolster the business environment. South Africa is projected to accelerate modestly to a 1.3 percent pace, amid constraints on domestic demand and limited government spending.

Table 1.1 Real GDP[1]
(Percent change from previous year)

	2016	2017	2018e	2019f	2020f	2021f	Percentage point differences from June 2018 projections 2018e	2019f	2020f
World	**2.4**	**3.1**	**3.0**	**2.9**	**2.8**	**2.8**	**-0.1**	**-0.1**	**-0.1**
Advanced economies	**1.7**	**2.3**	**2.2**	**2.0**	**1.6**	**1.5**	**0.0**	**0.0**	**-0.1**
United States	1.6	2.2	2.9	2.5	1.7	1.6	0.2	0.0	-0.3
Euro Area	1.9	2.4	1.9	1.6	1.5	1.3	-0.2	-0.1	0.0
Japan	0.6	1.9	0.8	0.9	0.7	0.6	-0.2	0.1	0.2
Emerging market and developing economies (EMDEs)	**3.7**	**4.3**	**4.2**	**4.2**	**4.5**	**4.6**	**-0.3**	**-0.5**	**-0.2**
Commodity-exporting EMDEs	0.8	1.7	1.7	2.3	2.9	2.9	-0.8	-0.7	-0.1
Other EMDEs	5.9	6.1	5.8	5.5	5.6	5.6	0.0	-0.3	-0.1
Other EMDEs excluding China	4.9	5.2	5.0	4.7	4.9	5.1	-0.1	-0.4	-0.2
East Asia and Pacific	6.3	6.6	6.3	6.0	6.0	5.8	0.0	-0.1	0.0
China	6.7	6.9	6.5	6.2	6.2	6.0	0.0	-0.1	0.0
Indonesia	5.0	5.1	5.2	5.2	5.3	5.3	0.0	-0.1	-0.1
Thailand	3.3	3.9	4.1	3.8	3.9	3.9	0.0	0.0	0.1
Europe and Central Asia	1.7	4.0	3.1	2.3	2.7	2.9	-0.1	-0.8	-0.3
Russia	-0.2	1.5	1.6	1.5	1.8	1.8	0.1	-0.3	0.0
Turkey	3.2	7.4	3.5	1.6	3.0	4.2	-1.0	-2.4	-1.0
Poland	3.1	4.8	5.0	4.0	3.6	3.3	0.8	0.3	0.1
Latin America and the Caribbean	-1.5	0.8	0.6	1.7	2.4	2.5	-1.1	-0.6	-0.1
Brazil	-3.3	1.1	1.2	2.2	2.4	2.4	-1.2	-0.3	0.0
Mexico	2.9	2.1	2.1	2.0	2.4	2.4	-0.2	-0.5	-0.3
Argentina	-1.8	2.9	-2.8	-1.7	2.7	3.1	-4.5	-3.5	-0.1
Middle East and North Africa	5.1	1.2	1.7	1.9	2.7	2.7	-1.3	-1.4	-0.5
Saudi Arabia	1.7	-0.9	2.0	2.1	2.2	2.2	0.2	0.0	-0.1
Iran	13.4	3.8	-1.5	-3.6	1.1	1.1	-5.6	-7.7	-3.1
Egypt[2]	4.3	4.2	5.3	5.6	5.8	6.0	0.3	0.1	0.0
South Asia	7.5	6.2	6.9	7.1	7.1	7.1	0.0	0.0	-0.1
India[3]	7.1	6.7	7.3	7.5	7.5	7.5	0.0	0.0	0.0
Pakistan[2]	4.6	5.4	5.8	3.7	4.2	4.8	0.0	-1.3	-1.2
Bangladesh[2]	7.1	7.3	7.9	7.0	6.8	6.8	1.4	0.3	-0.2
Sub-Saharan Africa	1.3	2.6	2.7	3.4	3.6	3.7	-0.4	-0.1	-0.1
Nigeria	-1.6	0.8	1.9	2.2	2.4	2.4	-0.2	0.0	0.0
South Africa	0.6	1.3	0.9	1.3	1.7	1.8	-0.5	-0.5	-0.2
Angola	-2.6	-0.1	-1.8	2.9	2.6	2.8	-3.5	0.7	0.2
Memorandum items:									
Real GDP[1]									
High-income countries	1.7	2.3	2.2	2.0	1.7	1.6	0.0	0.0	-0.1
Developing countries	4.0	4.6	4.4	4.4	4.7	4.7	-0.3	-0.4	-0.1
Low-income countries	4.8	5.5	5.6	5.9	6.2	6.3	-0.1	0.0	0.0
BRICS	4.4	5.2	5.3	5.2	5.3	5.3	-0.1	-0.2	-0.1
World (2010 PPP weights)	3.2	3.7	3.6	3.5	3.6	3.6	-0.2	-0.3	-0.1
World trade volume[4]	2.6	5.4	3.8	3.6	3.5	3.4	-0.5	-0.6	-0.5
Commodity prices[5]									
Oil price	-15.6	23.3	30.7	-2.9	0.0	0.0	-1.9	-1.5	-0.1
Non-energy commodity price index	-2.8	5.3	1.7	1.0	1.2	1.2	-3.4	0.8	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. 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/en/research/commodity-markets.

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