

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

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Project LINK



**WORLD BANK GROUP**

Macroeconomics, Trade & Investment

Prospects Group

# Four Topics

1 How is the global economy doing, and what risks does it face?

2 Development issue #1: Subdued EMDE investment

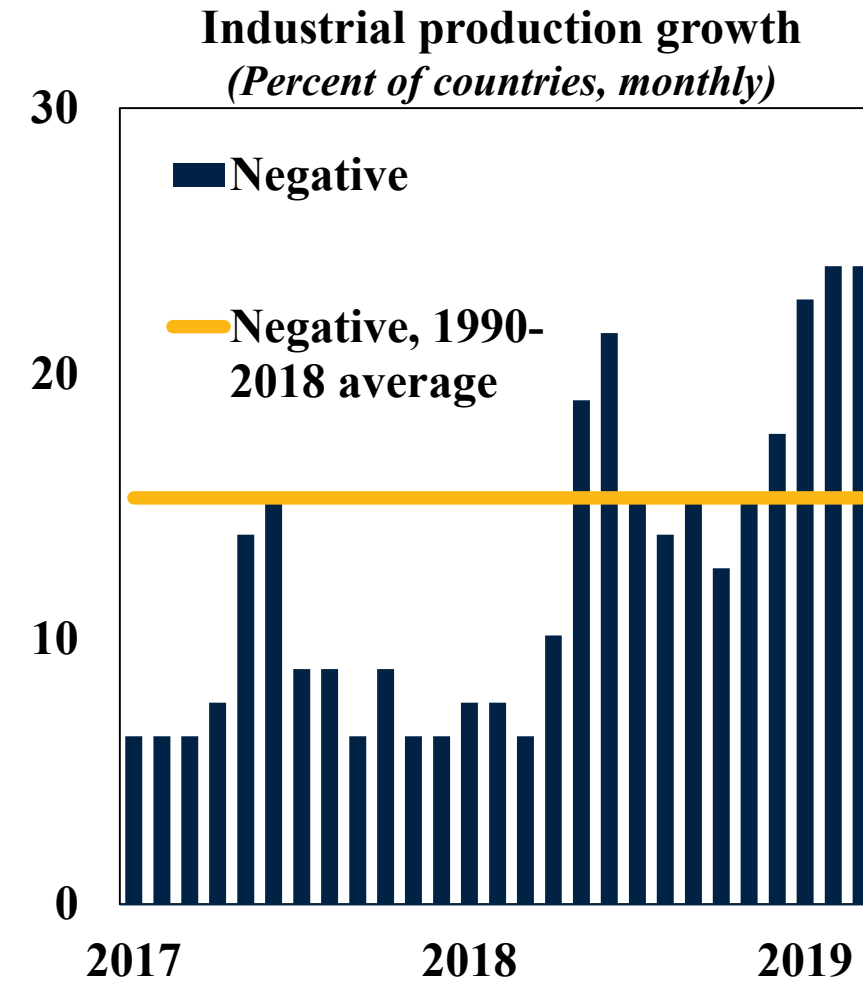
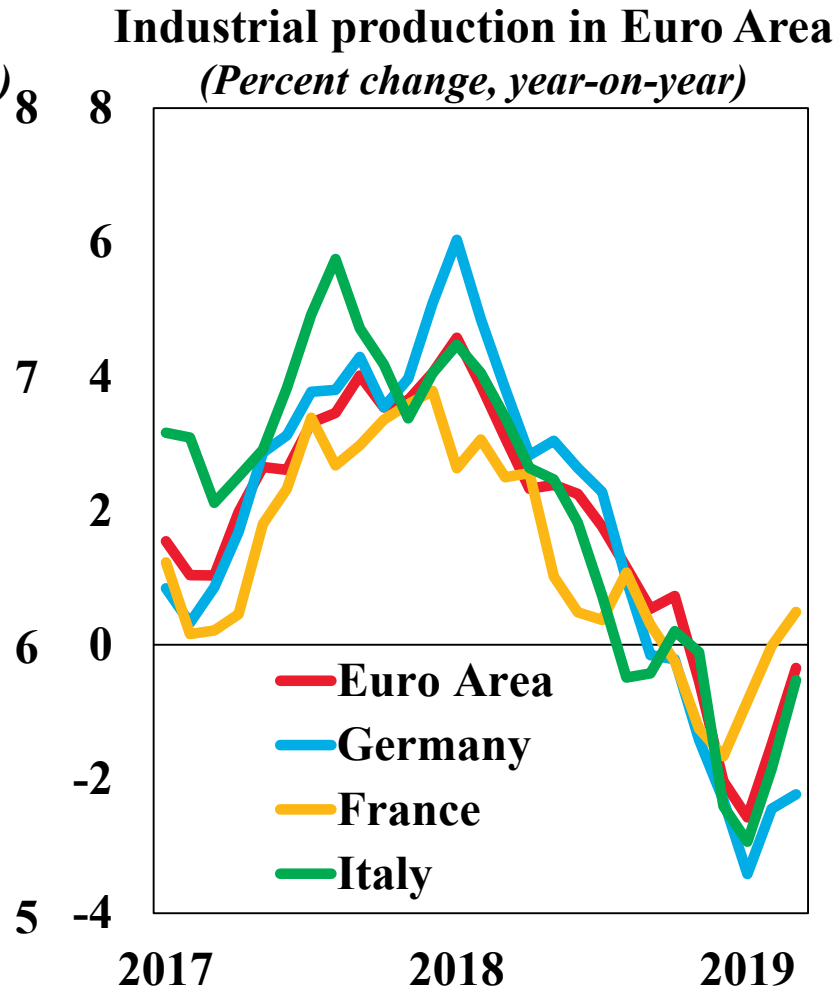
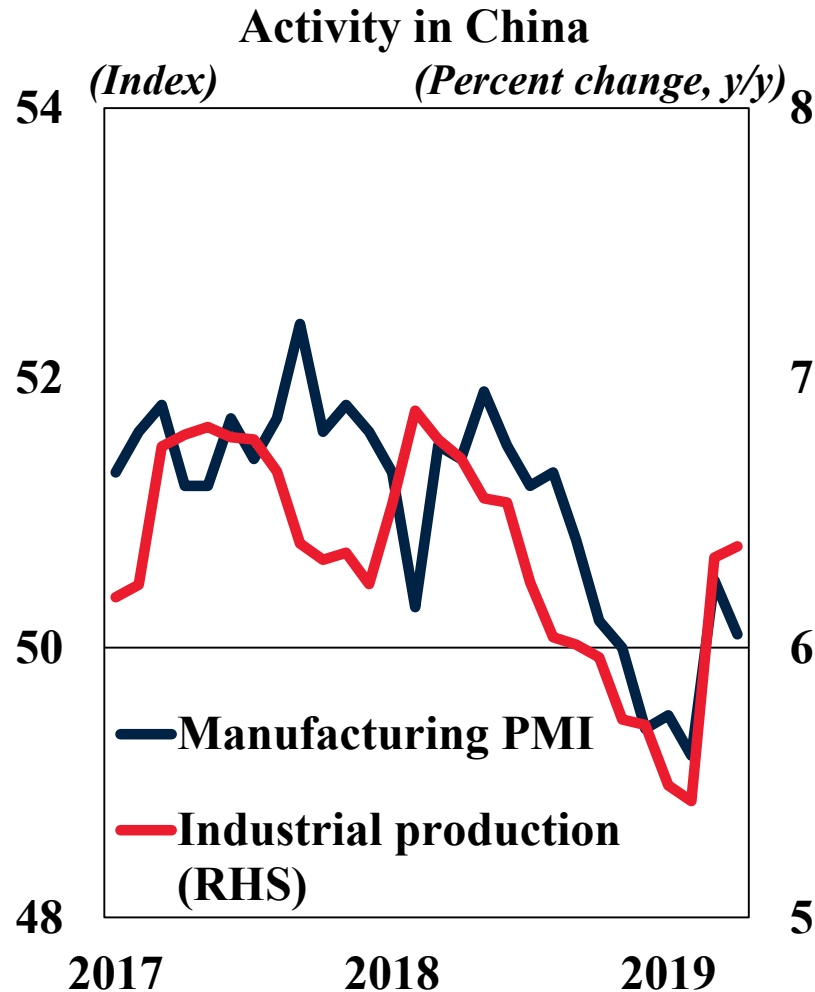
3 Development issue #2: High debt in EMDEs

4 Development issue #3: Poor prospects for low-income countries

\* *EMDEs = Emerging Market and Developing Economies*

# Global Activity

## Slowing



Sources: Haver Analytics, World Bank.

Left Panel. In manufacturing PMI (Purchasing Managers' Index), readings above 50 indicate expansion in economic activity, readings below 50 indicate contraction. Industrial production is presented as year-on-year percent change and as a 3-month moving average. Last observation is April 2019. Center Panel. Year-on-year percent change in industrial production (excluding construction sector), presented as 3-month moving averages. Last observation is March 2019. Right Panel. Last observation is 2019Q1.

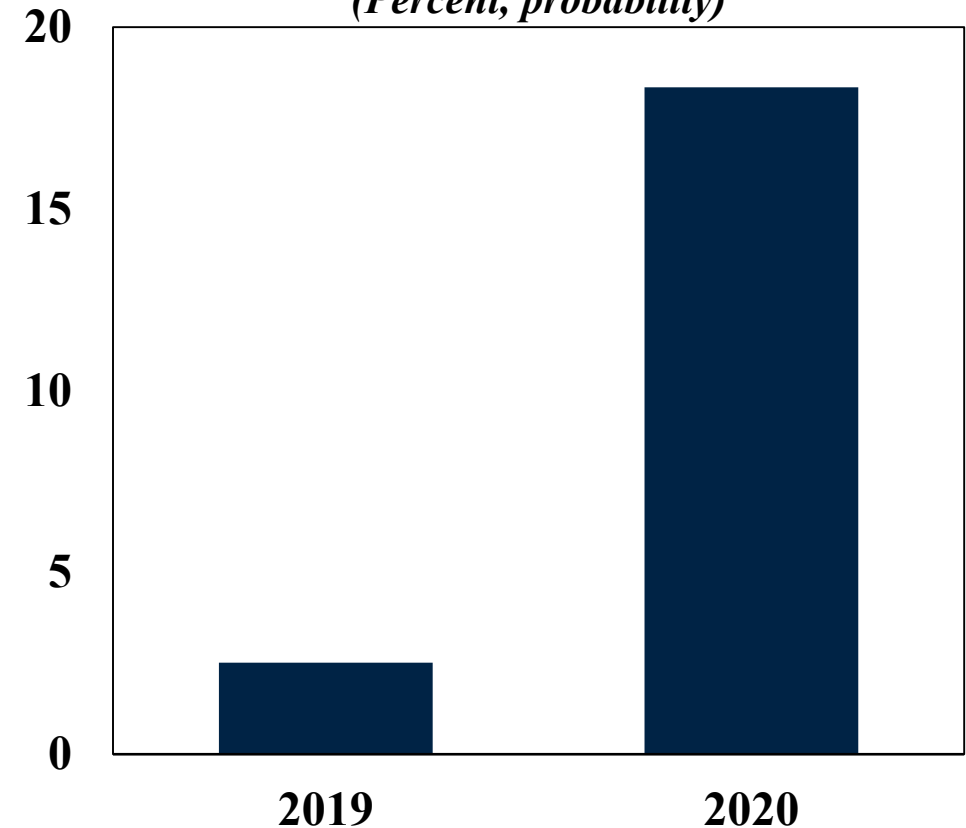
# Risks

## *Tilted Downside, Making Momentum Fragile*

### Short-term risks

- Escalation of trade tensions
- Elevated policy uncertainty
- Financial market stress
- Lower-than-expected growth in major economies
- Geopolitical risks
- Extreme weather events

Probability of global growth being 1-  
percentage-point below baseline  
(Percent, probability)

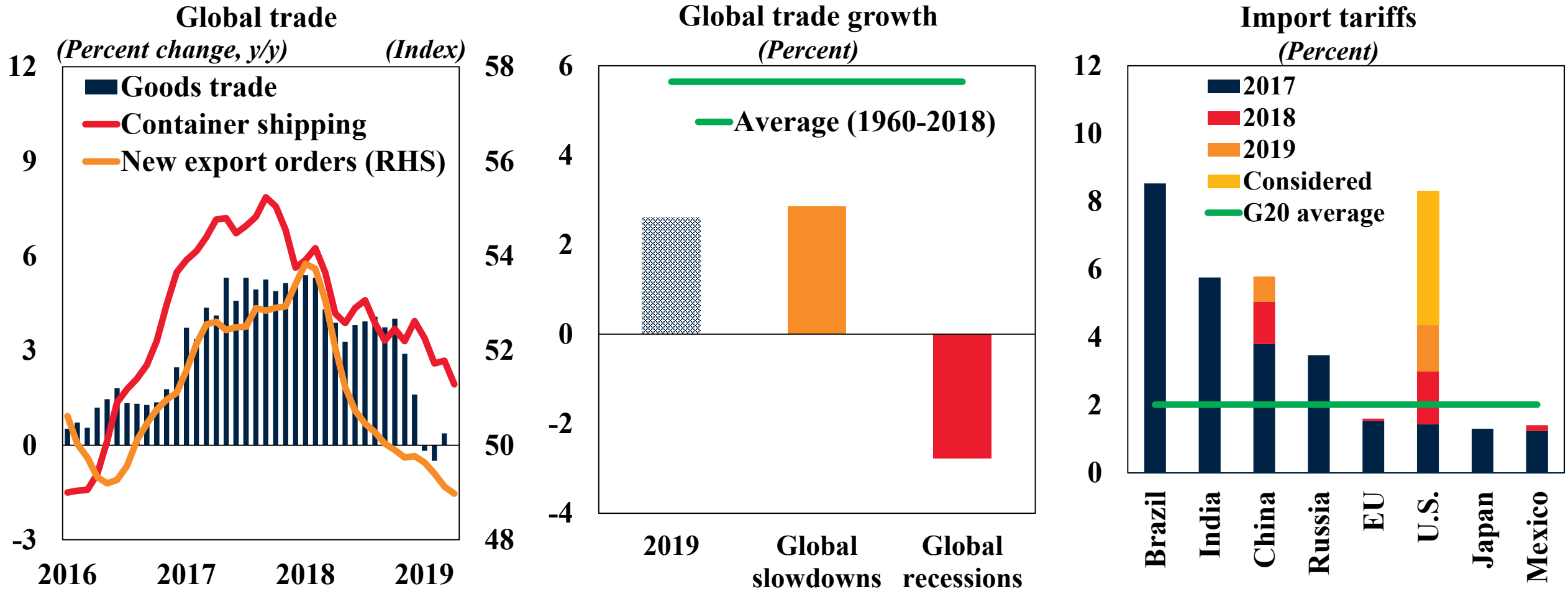


Source: World Bank.

Note: Values for 2019 are computed from the forecast distribution of 6-month-ahead oil price futures, S&P 500 equity price futures, and term spread forecasts. Values for 2020 are based on 18-month-ahead forecast distributions. The forecast distribution of global growth uses time-varying estimates of the standard deviation and skewness extracted from the forecast distribution of three underlying risk factors (oil price futures, the S&P 500 equity price futures, and term spread forecasts). Each of the risk factor's weight is derived from the model described in Ohnsorge, Stocker, and Some (2016). Last observation is May 7, 2019.

# Risk #1: Global Trade

## *Already Weak*

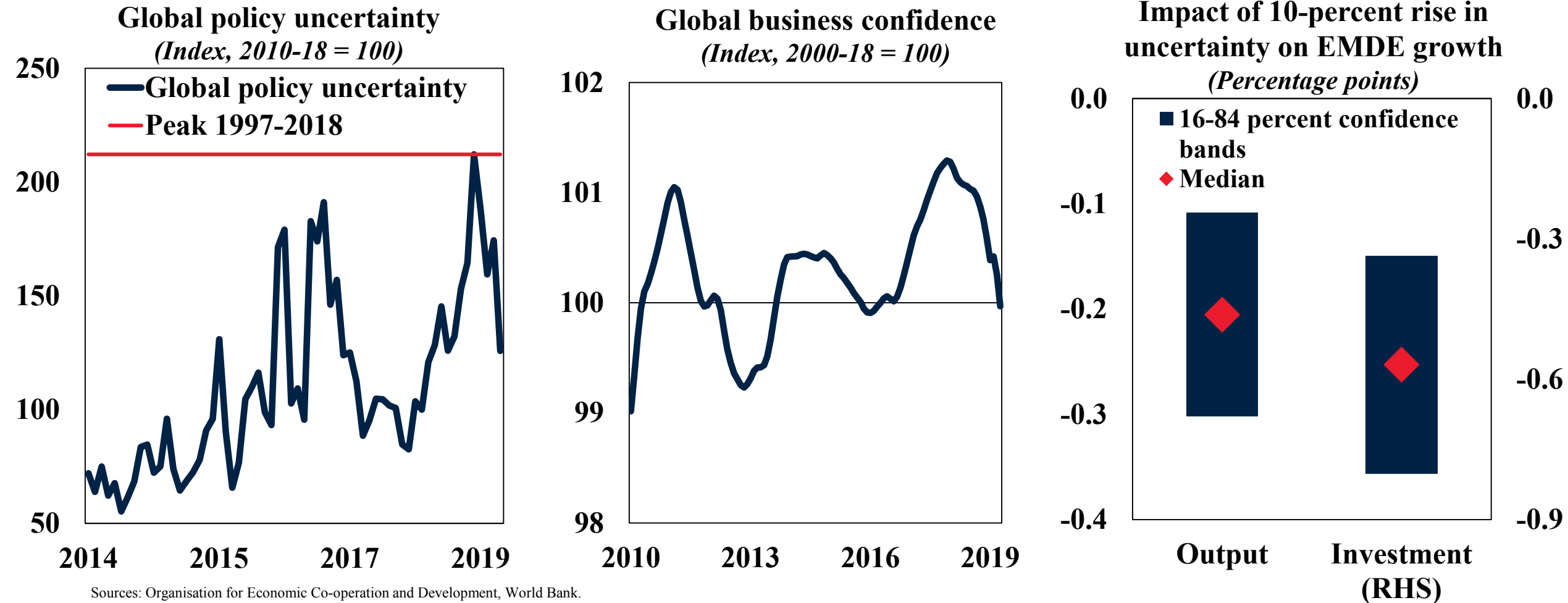


Sources: Haver Analytics; U.S. Census Bureau; World Bank.

Left Panel. Figure shows 3-month moving averages. New export orders measured by Purchasing Managers' Index (PMI). PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is March 2019 for goods trade, and April 2019 for container shipping and new export orders. Center Panel. Trade is a sum of exports and imports of goods and services in constant 2010 U.S. dollars. Global slowdowns and global recessions are, respectively, an average of 1998 and 2001, and an average of 1975, 1982, 1991, and 2009. A shaded bar for 2019 indicates forecast. Right 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).

# Risk #2: Uncertainty and Confidence

*Record High Uncertainty; Deteriorating Confidence; Sizeable Impact on EMDEs*

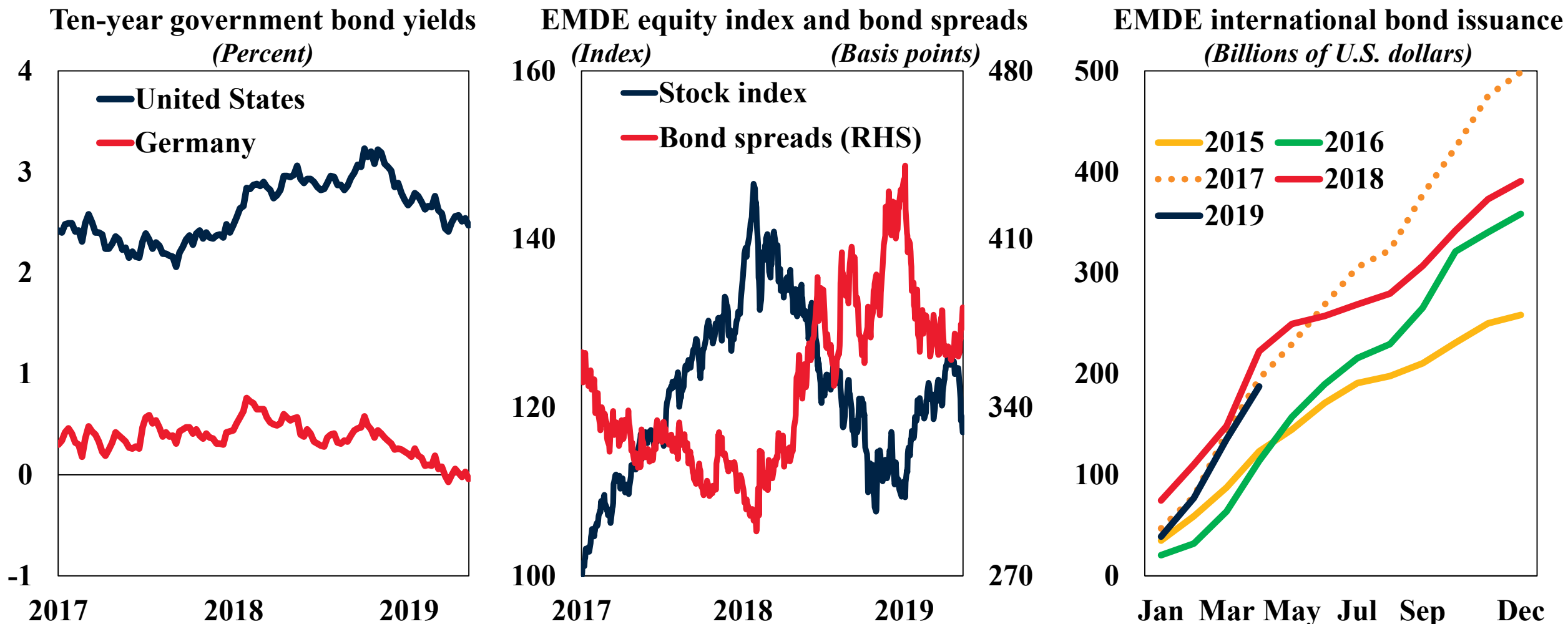


Sources: Organisation for Economic Co-operation and Development, World Bank.

Left Panel. Global 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 April 2019. Center Panel. Global business confidence is represented by average business confidence across G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States). Last observation is April 2019. 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.

# Risk #3: Global Financing Conditions

*Easing since early 2019, but no guarantee that will continue*



Sources: Bloomberg, Dealogic, J.P. Morgan, World Bank.

Left Panel. Figure is based on weekly data and shows government bond yields on Friday of each week. Last observation is May 13, 2019. Center Panel. Stock index is measured by MSCI Emerging Markets index and equal to 100 on January 3, 2017. Bond spreads refer to J.P. Morgan EMBIG strip spreads. Last observation is May 13, 2019. Right Panel. Figure shows accumulated sum. Last observation is April 2019.

# Growth Forecasts

## *Widespread Disappointments*

	GDP growth (Percent)					<i>Change from January 2019</i>	
	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
<b>East Asia and Pacific</b>	6.9	6.5	6.3	5.9	5.9	-0.1	-0.1
<b>Europe and Central Asia</b>	2.4	4.1	3.1	1.6	2.7	-0.7	0.0
<b>Latin America and the Caribbean</b>	1.3	1.7	1.6	1.7	2.5	-0.4	-0.2
<b>Middle East and North Africa</b>	3.4	1.2	1.4	1.3	3.2	-0.6	0.5
<b>South Asia</b>	6.7	6.7	7.0	6.9	7.0	-0.2	-0.1
<b>Sub-Saharan Africa</b>	3.7	2.6	2.5	2.9	3.3	-0.5	-0.3

Source: World Bank.

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



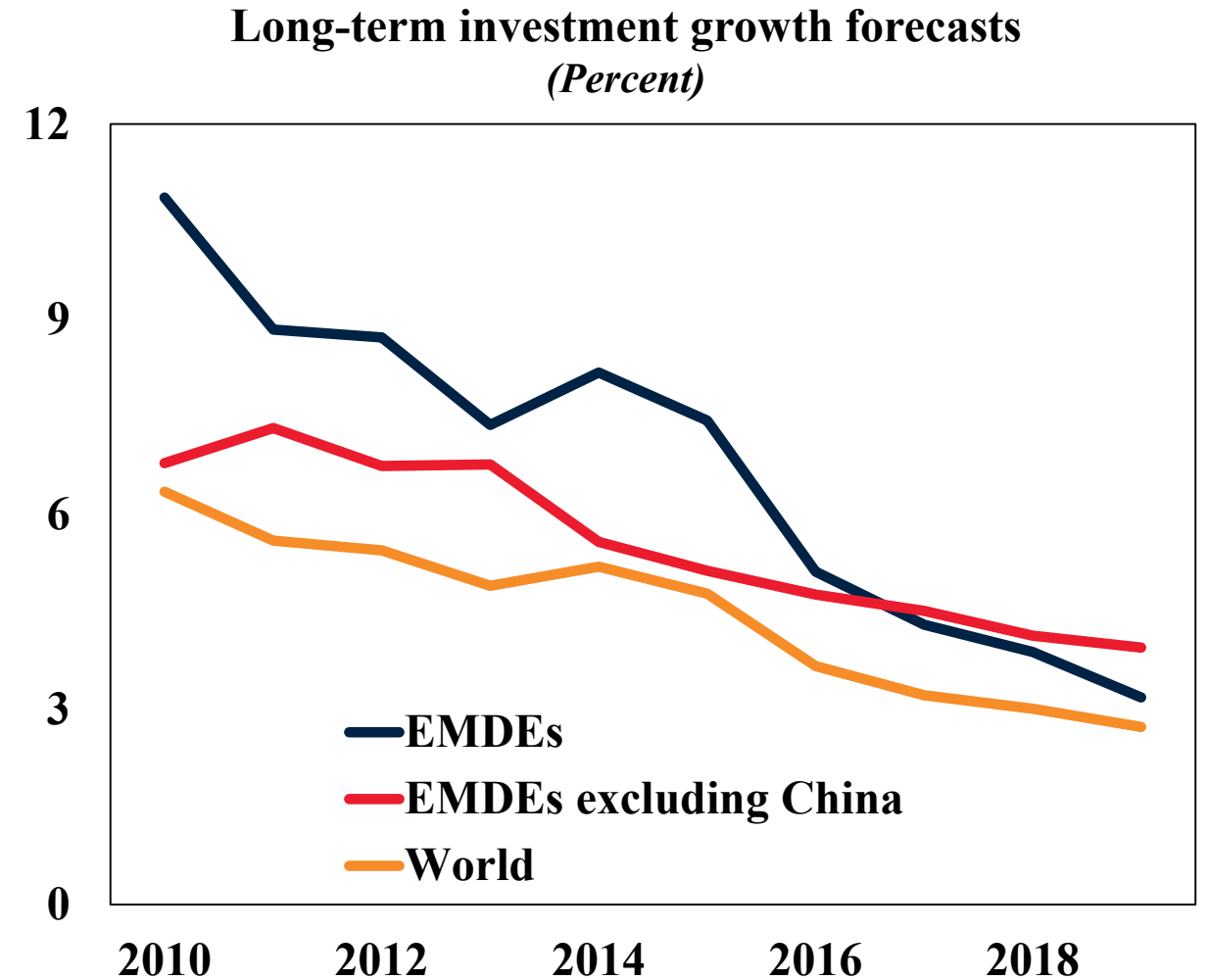
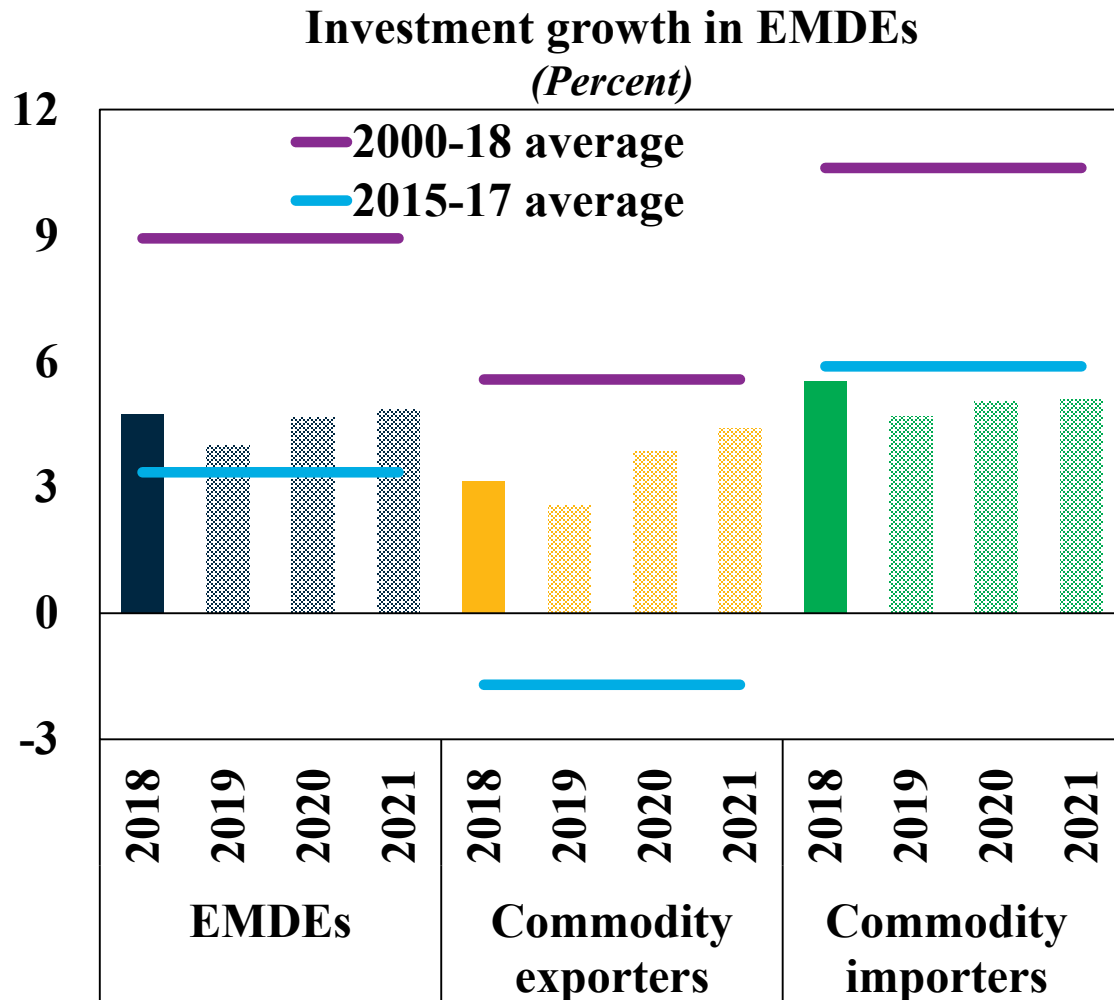
# Topic #2

2

## Development issue #1: Subdued EMDE investment

# Investment Growth

## *Subdued Recovery*

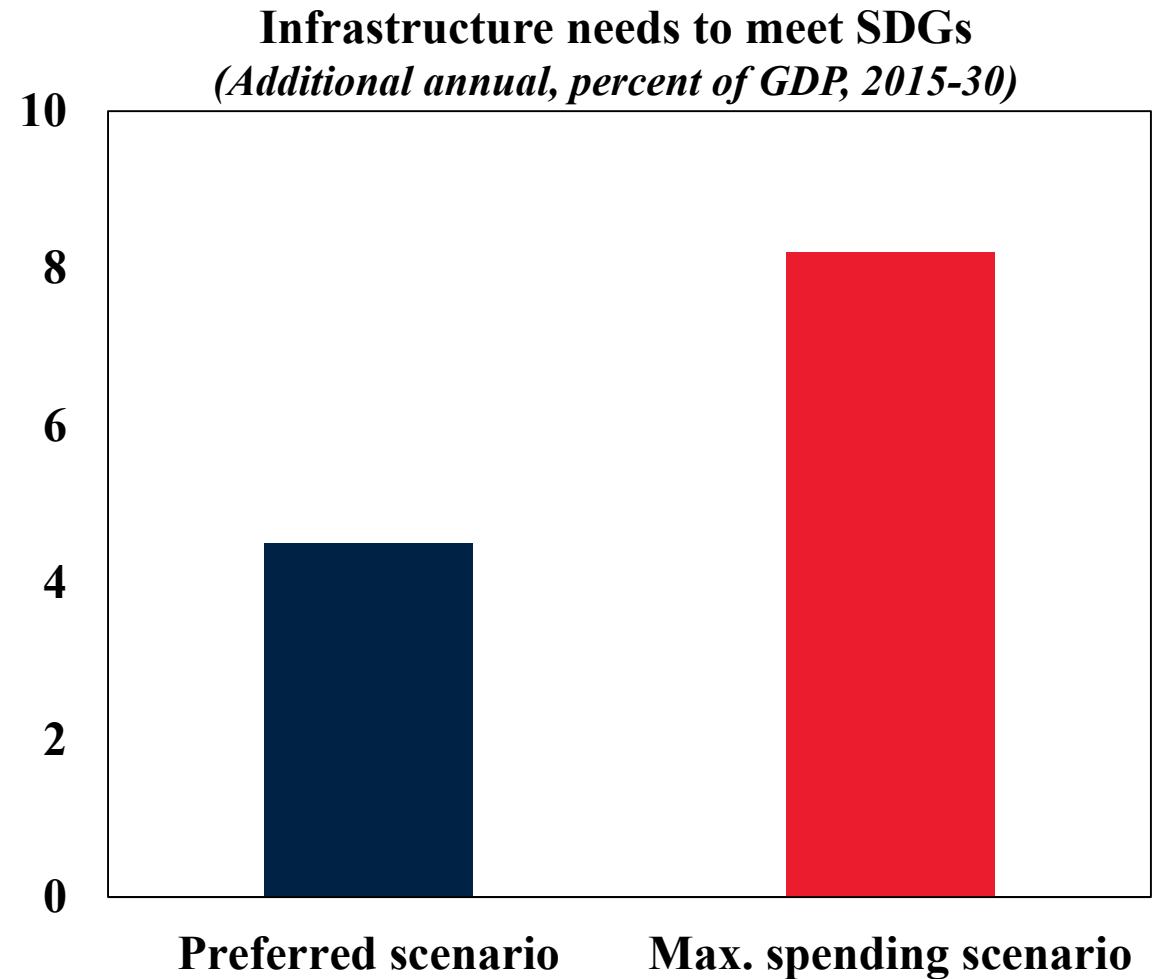
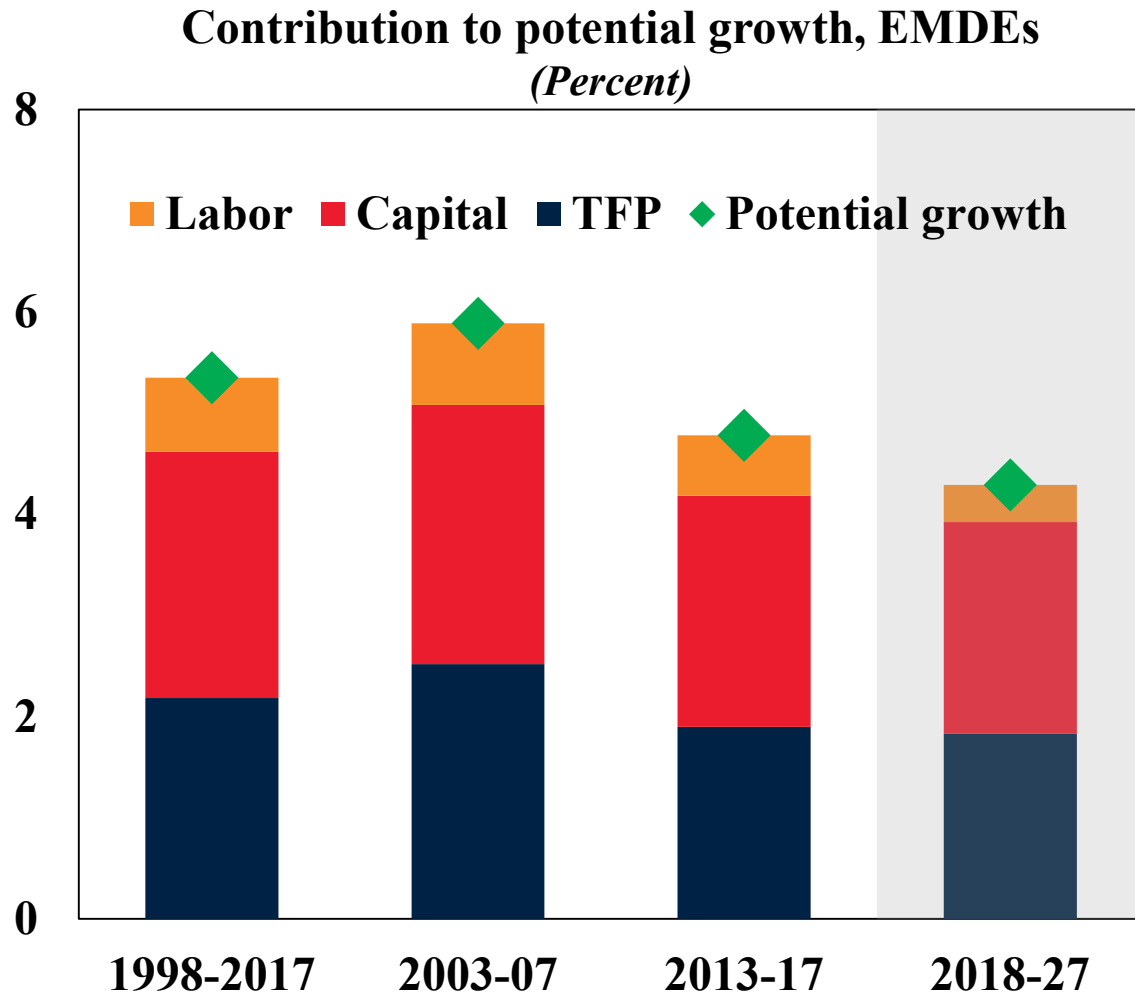


Sources: Haver Analytics, Consensus Economics, World Bank.

Note: Investment refers to real gross fixed capital formation (public and private combined). 2010 investment-weighted averages. Sample includes 56 EMDEs. Shaded bars indicate forecasts. Right Panel. 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.

# 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 based on three scenarios: Minimum spending scenario (less ambitious goals, high efficiency); Preferred scenario (ambitious goals, high efficiency); and Maximum spending scenario (ambitious goals, low efficiency).

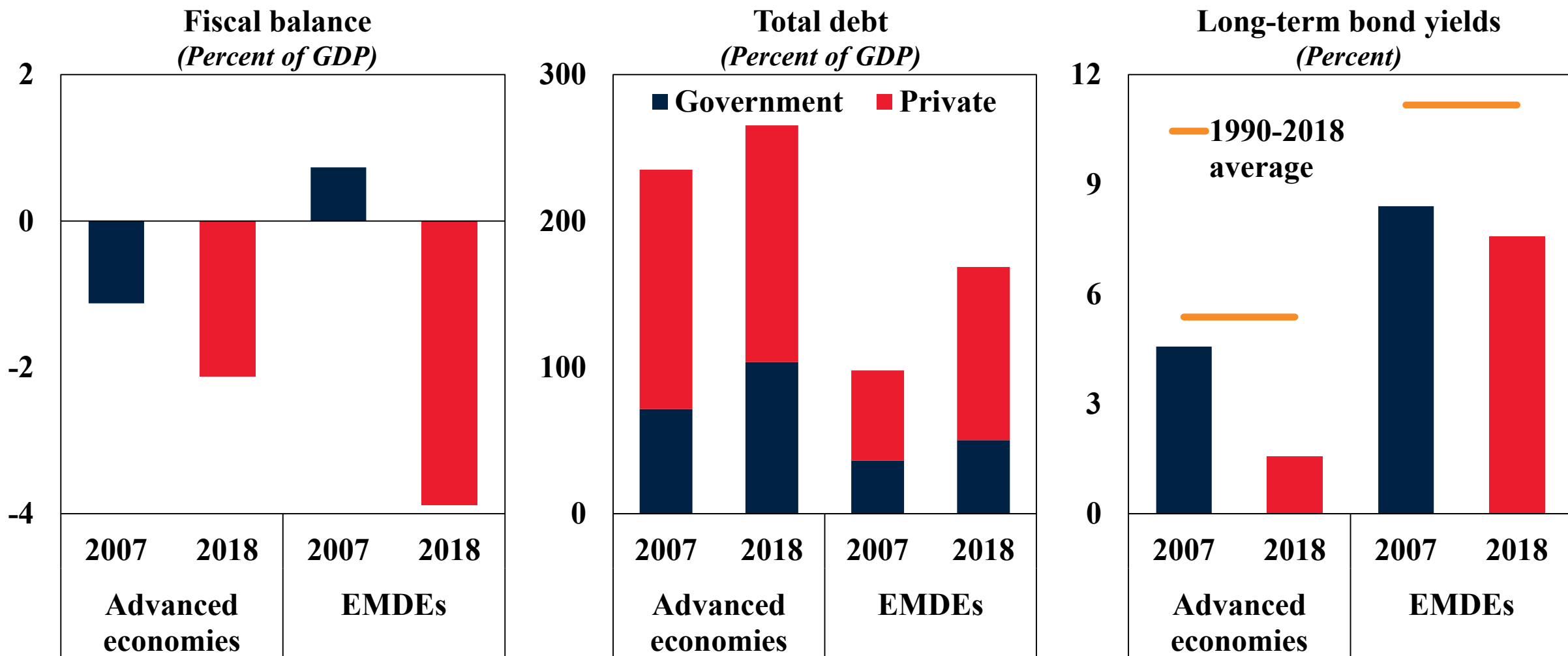
# Topic #3

3

## Development issue #2: High debt in EMDEs

# Borrowing Costs and Fiscal Positions

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

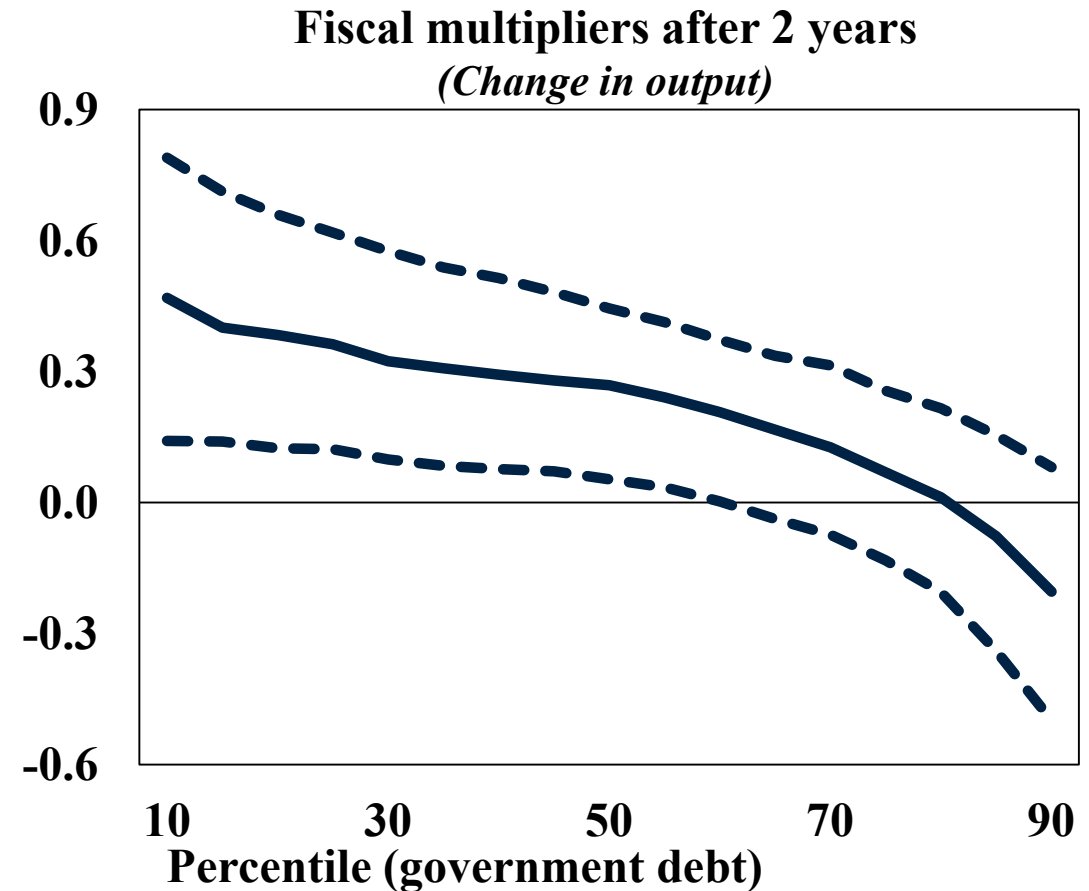
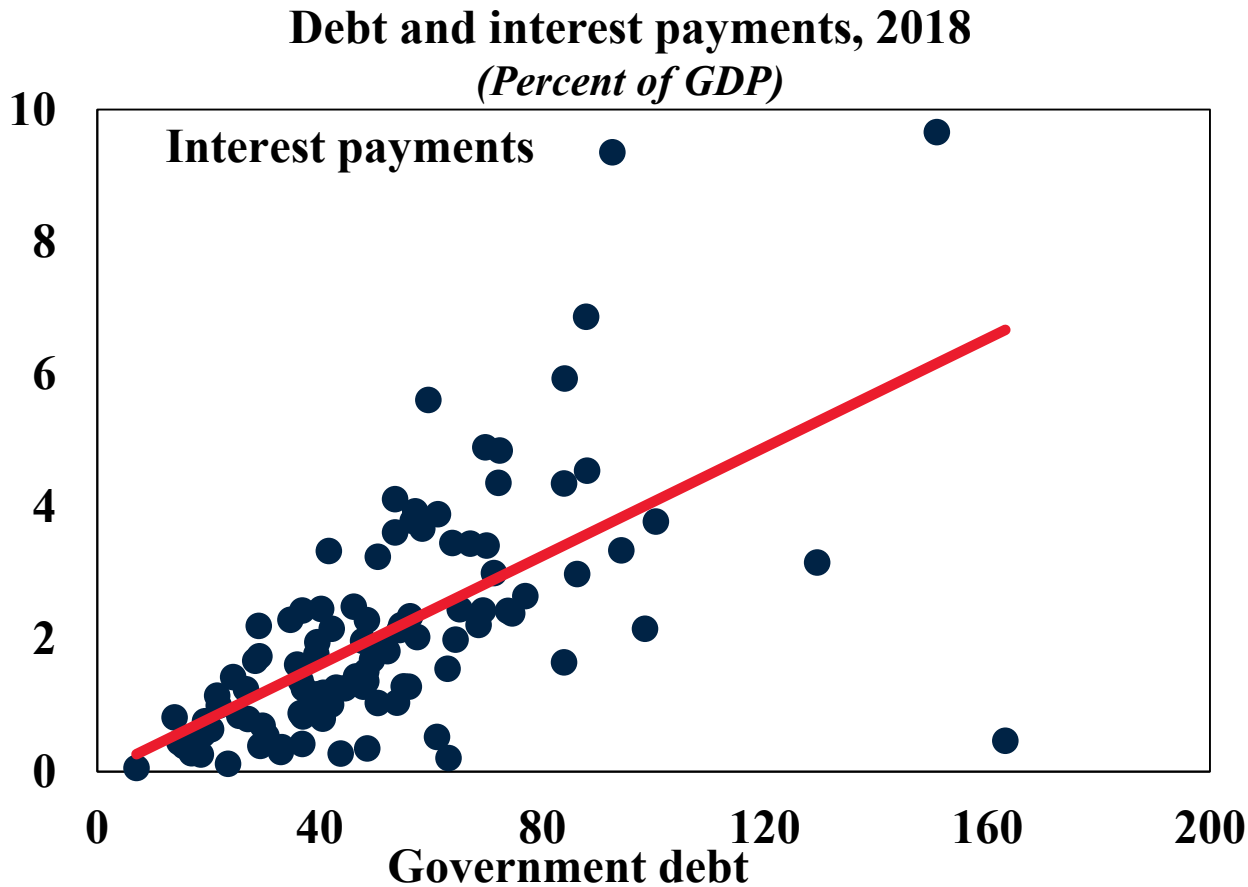


Sources: Kose et al. (2017); World Bank.

Left Panel. Averages computed with current U.S. dollar GDP as a weight, based on 35 advanced economies and 117 EMDEs. Center Panel. Averages computed with current U.S. dollar GDP as a weight, based on 38 advanced economies and 154 EMDEs. Right Panel. Simple averages, based on 36 advanced economies and 61 EMDEs.

# Cost of Debt

*Less Resources for Spending; Less Effective Fiscal Policy*



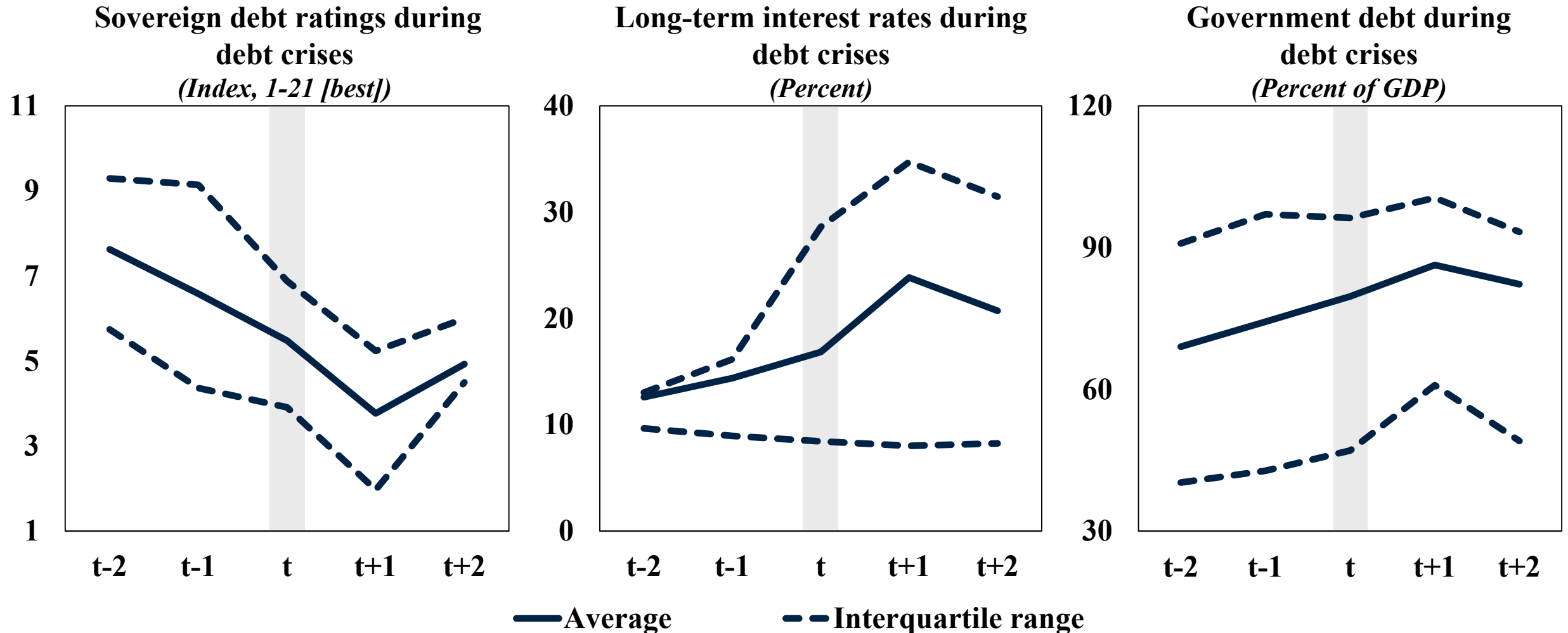
Sources: Huidrom et al. (2019); Kose et al. (2017); Laeven and Valencia (2018); World Bank.

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.

Right 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

# Cost of Debt

## *Higher Vulnerability to Crises*



Sources: Kose et al. (2017); Laeven and Valencia (2018); World Bank.

Note: Simple averages, as well as interquartile ranges, based on balanced samples. Debt crises are as defined in Laeven and Valencia (2018). When there are multiple crises identified within five years, the one with the lowest real GDP growth is counted as an event. Sample includes 16 crisis episodes (Left Panel) and 11 episodes (Center and Right Panels). Left Panel. The sovereign ratings are converted to a numerical scale ranging from 1 to 21 (higher, better rating).

# Topic #4

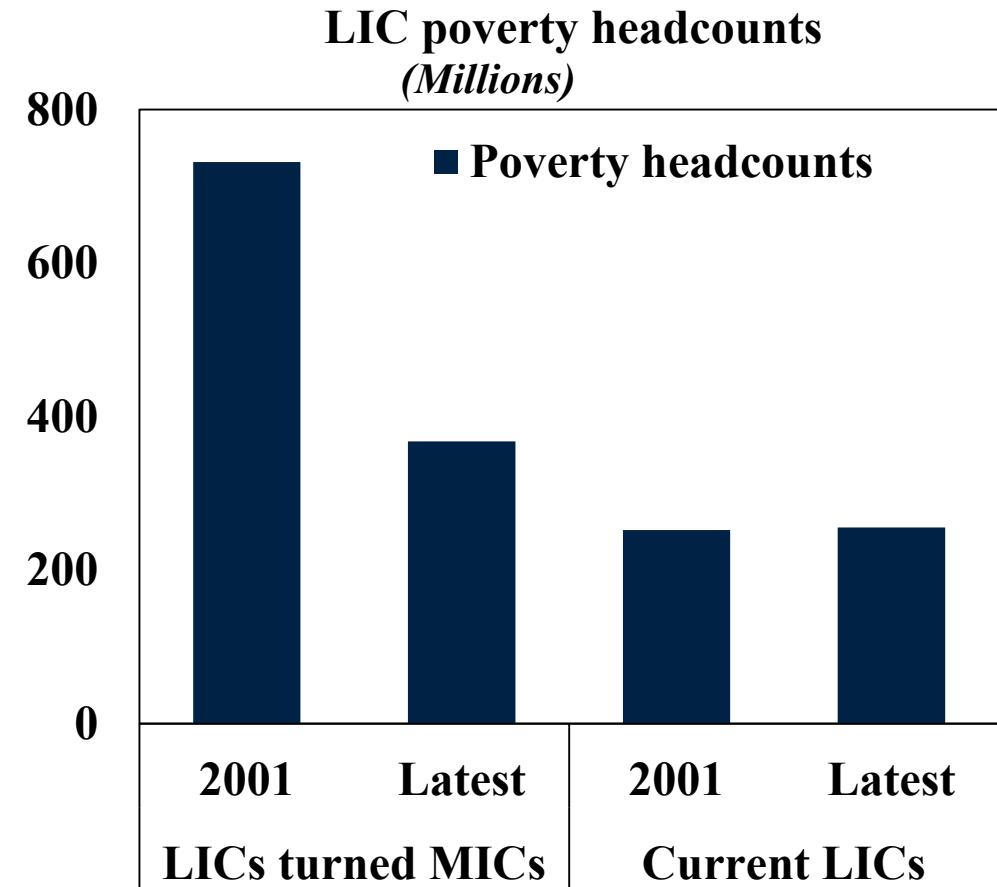
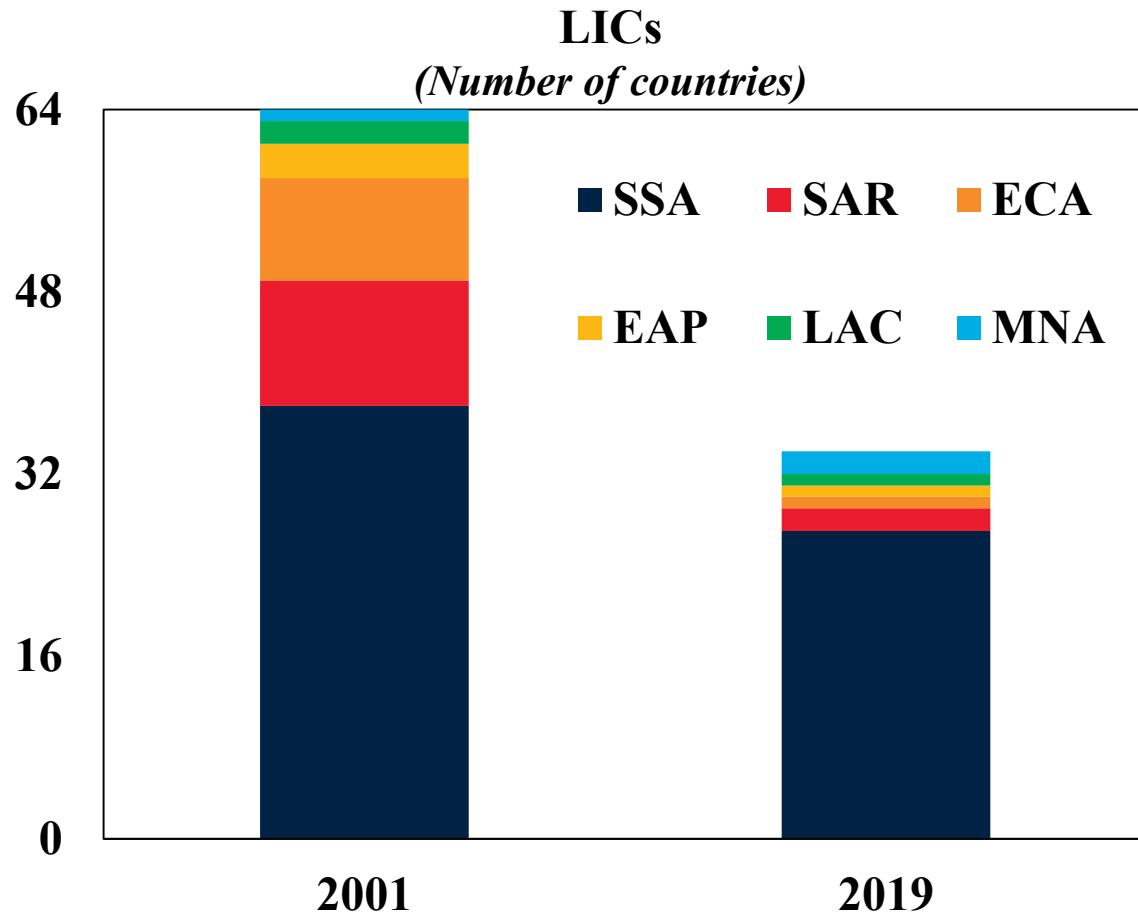
## 4 Development issue #3: Poor prospects for low-income countries

\* *EMDEs = Emerging Market and Developing Economies*



# Evolution of Low-Income Countries (LICs)

## *Halved in Number since 2001; Lower Poverty Rates*

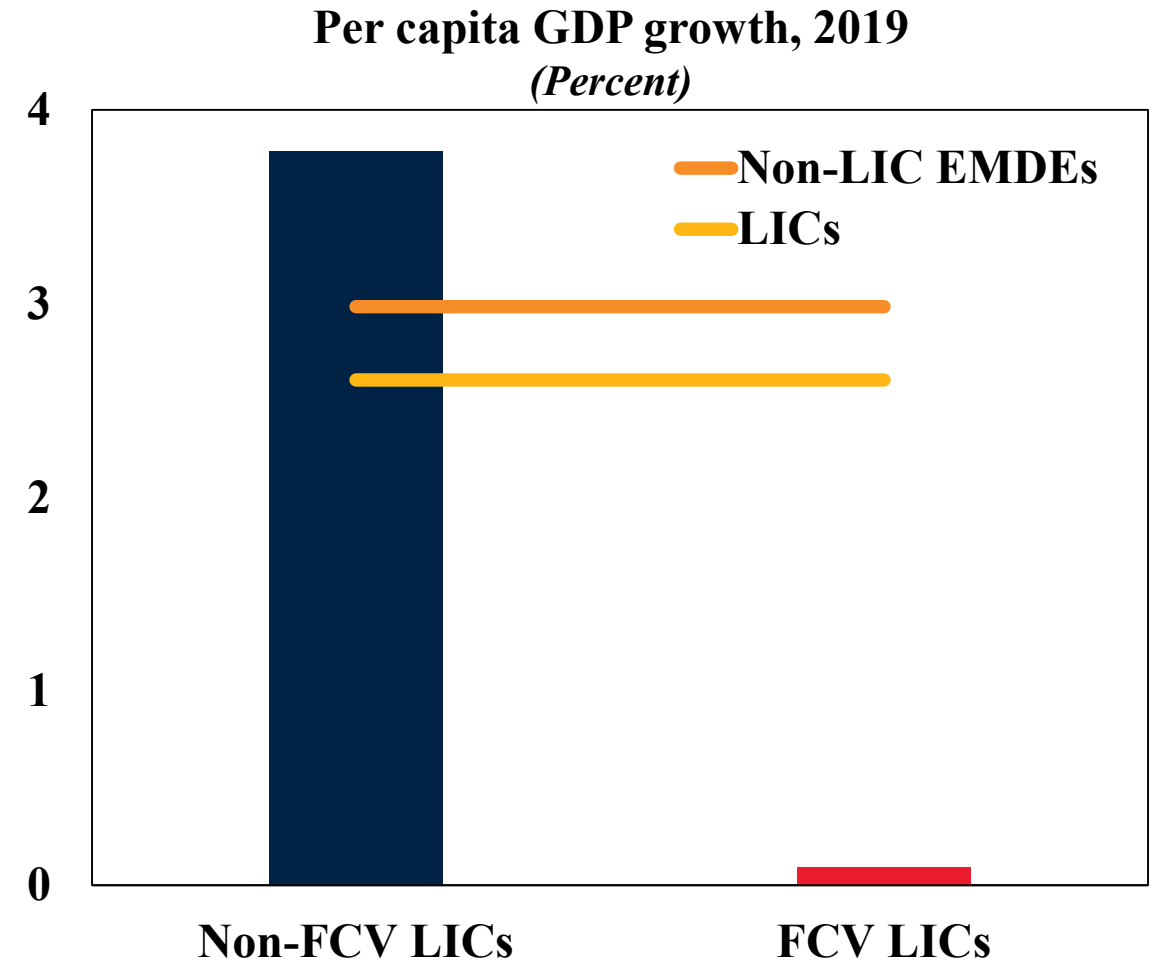
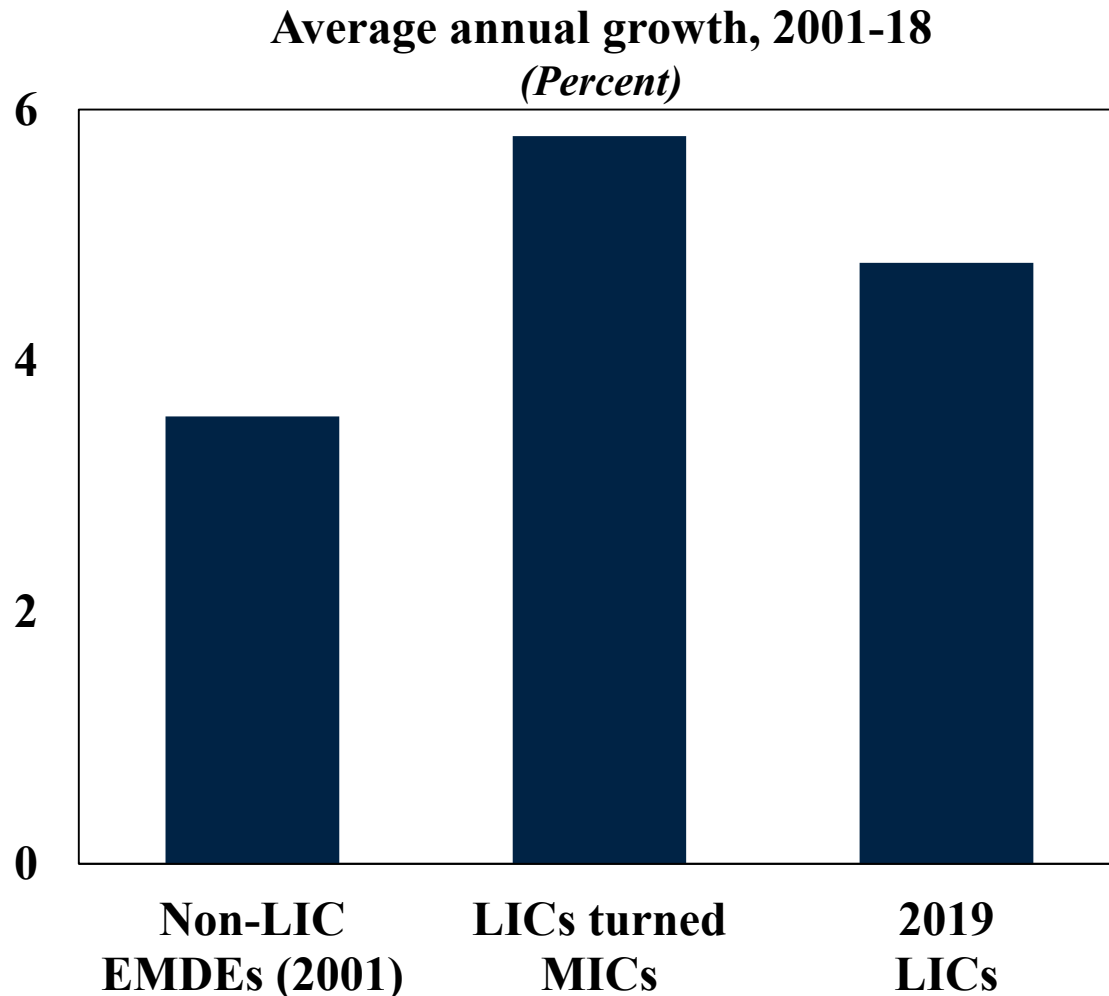


Sources: United Nations, World Bank.

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.

# Growth in LICs

## *Robust for Non-FCV LICs*



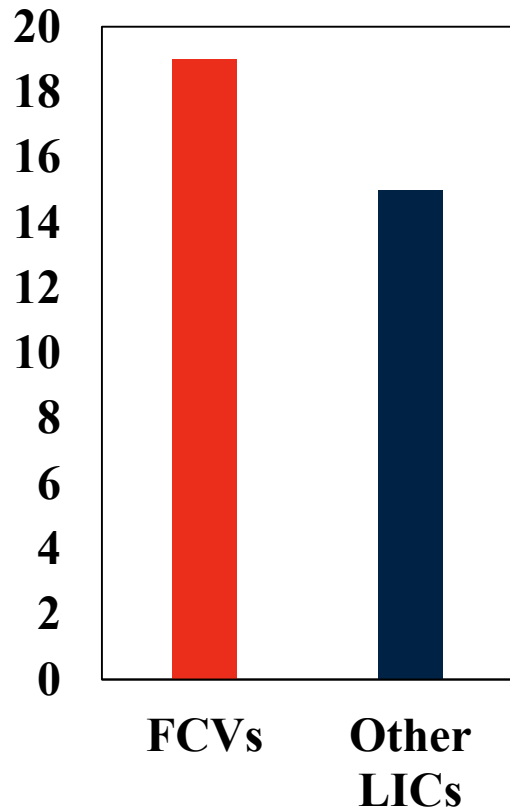
Source: World Bank.

Left Panel Average annual GDP growth over 2001-18 in respective country groups. “Non-LIC EMDEs (2001)” refers to EMDEs excluding LICs in 2001, “LICs turned MICs” refers to middle-income countries in 2019 who were LICs in 2001. Right Panel. FCV refer to fragility, conflict, and violence. Weighted averages of country groups.

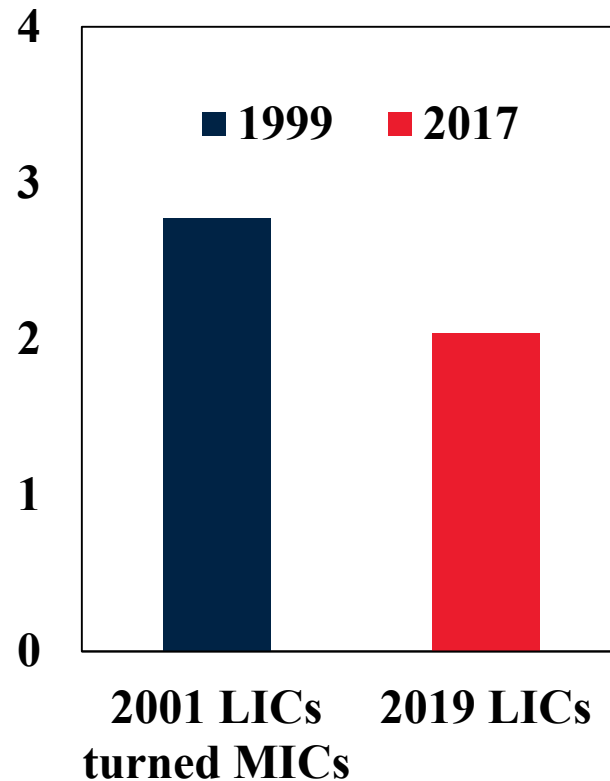
# Challenges for LICs to Achieve MIC Incomes

## *Geography, Conflict, and Economic Structure*

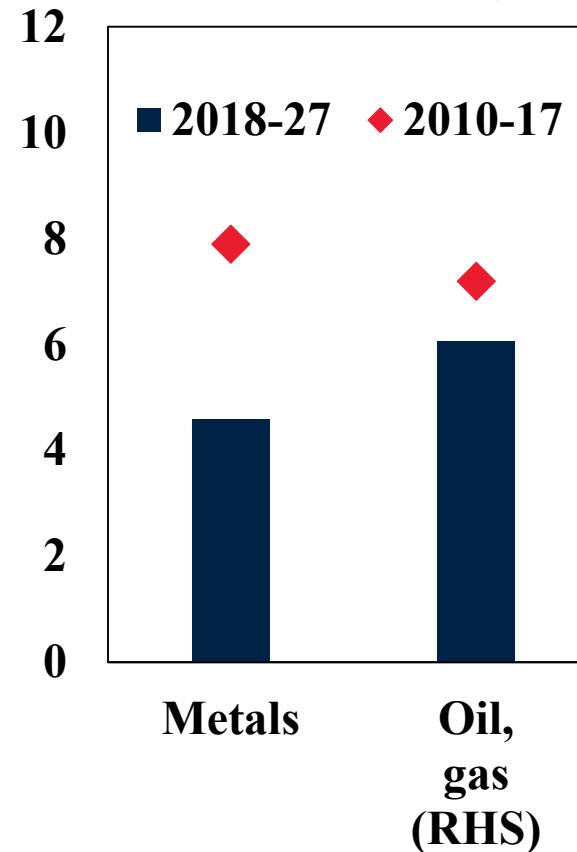
**Types of LICs**  
(Number of countries)



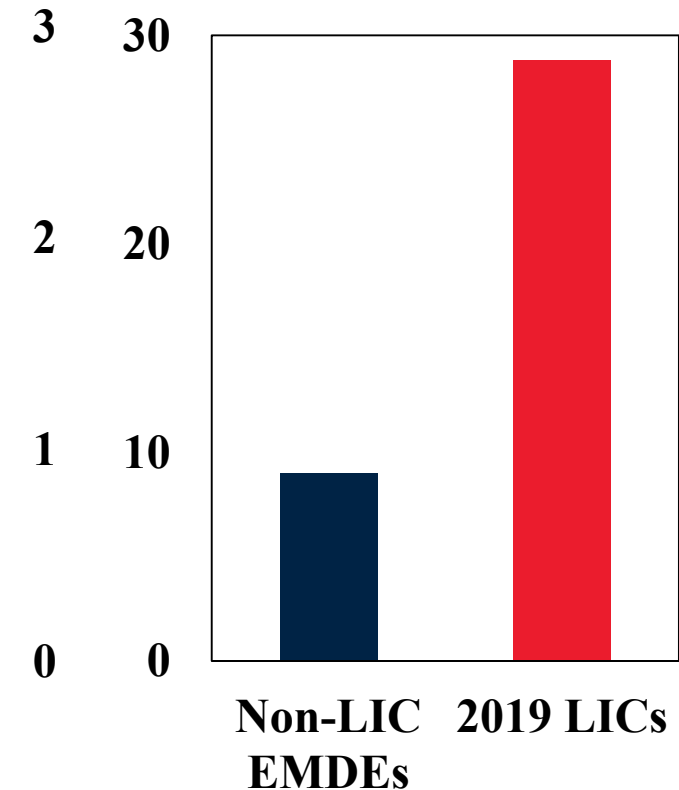
**Neighbors' per capita incomes**  
(Thousands of U.S. dollars)



**Commodity demand growth**  
(Percent, annual)



**Agriculture**  
(Percent of GDP)



Source: World Bank.

Note. "FCVs" stands for countries with fragility, conflict or violence. "LICs turned MICs" are those LICs in 2001 that have achieved MIC per capita incomes by 2019. Second chart from the left shows unweighted average per capita incomes of countries neighboring landlocked 2001 LICs that have become MICs and current landlocked LICs, diamonds show middle-income per capita GNI thresholds in 1999 and in 2017 that were used for classifying 2001 and 2019 LICs. "2019 LICs" are all countries that are identified as LICs in 2019. Third chart from the left is based on projections in June 2018 Global Economic Prospects report. Right chart shows unweighted averages.

# Four Topics

- 1** **How is the global economy doing, and what are the risks?** *Stabilizing but fragile with significant downside risks.*
- 2** **Development issue #1: Subdued EMDE investment.** *Subdued investment growth lowers potential growth and puts ability to meet development goals at risk.*
- 3** **Development issue #2: High debt in EMDEs.** *Important to strike a balance between taking advantage of low interest rates and avoiding excessive debt accumulation.*
- 4** **Development issue #3: Poor prospects for low-income countries.** *Despite robust growth in the short run, multiple challenges to achieving middle-income status.*

**\* EMDEs = Emerging Market and Developing Economies**

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(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**

# Questions & Comments

## *Thanks!*

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