

# Global Economic Outlook: *Global Economy at a Crossroads*

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EFI - Prospects Group

October 2019



**WORLD BANK GROUP**

Equitable Growth, Finance & Institutions

Prospects Group

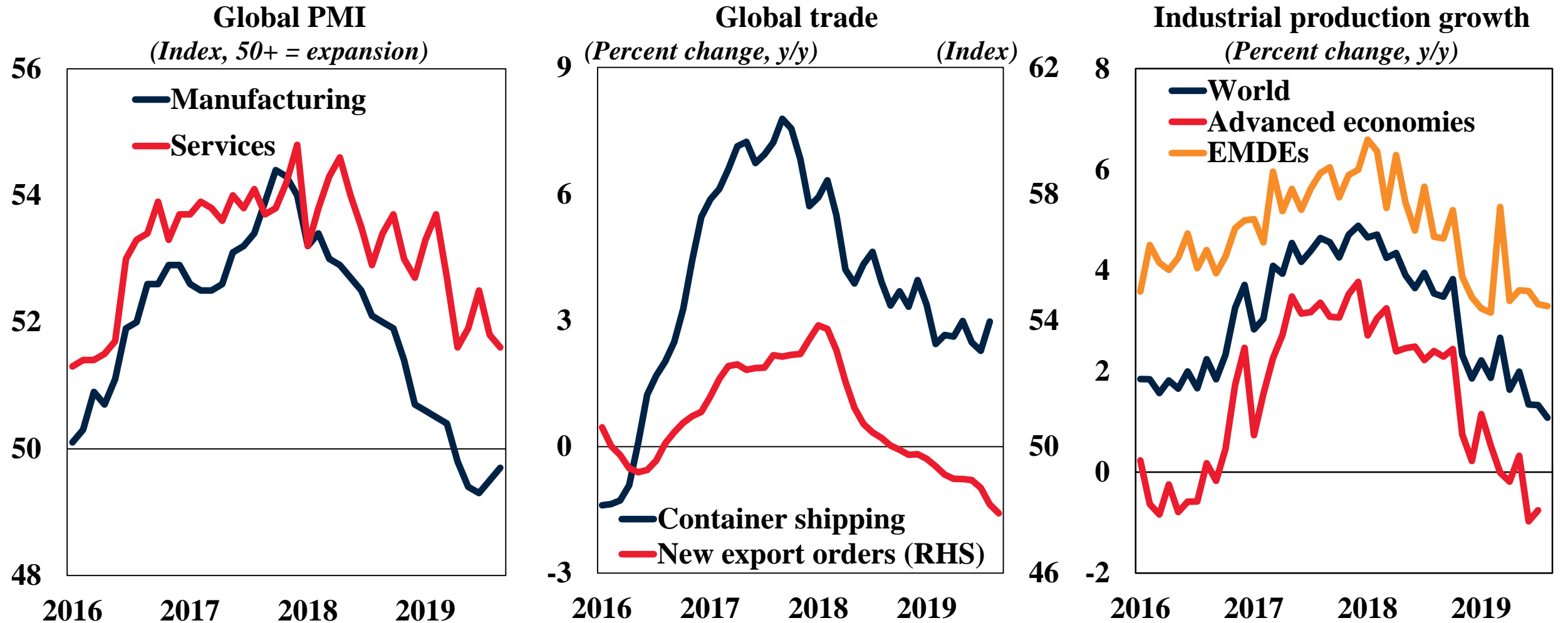
# Three Questions

- 1** **How is the health of the global economy?** *Weakening. Sharper-than-expected slowdown in 2019-20.*
- 2** **How does this global slowdown compare with previous episodes?** *Similar in most activity indicators, but different because of strong labor markets and limited policy space.*
- 3** **What are the major risks and what policies could help?** *Several downside risks threaten the recovery. Country-specific, comprehensive, cyclical and structural policies needed urgently to reduce vulnerabilities and improve growth prospects.*

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

# Trade and Industrial Production

## *Synchronized Slowdown*

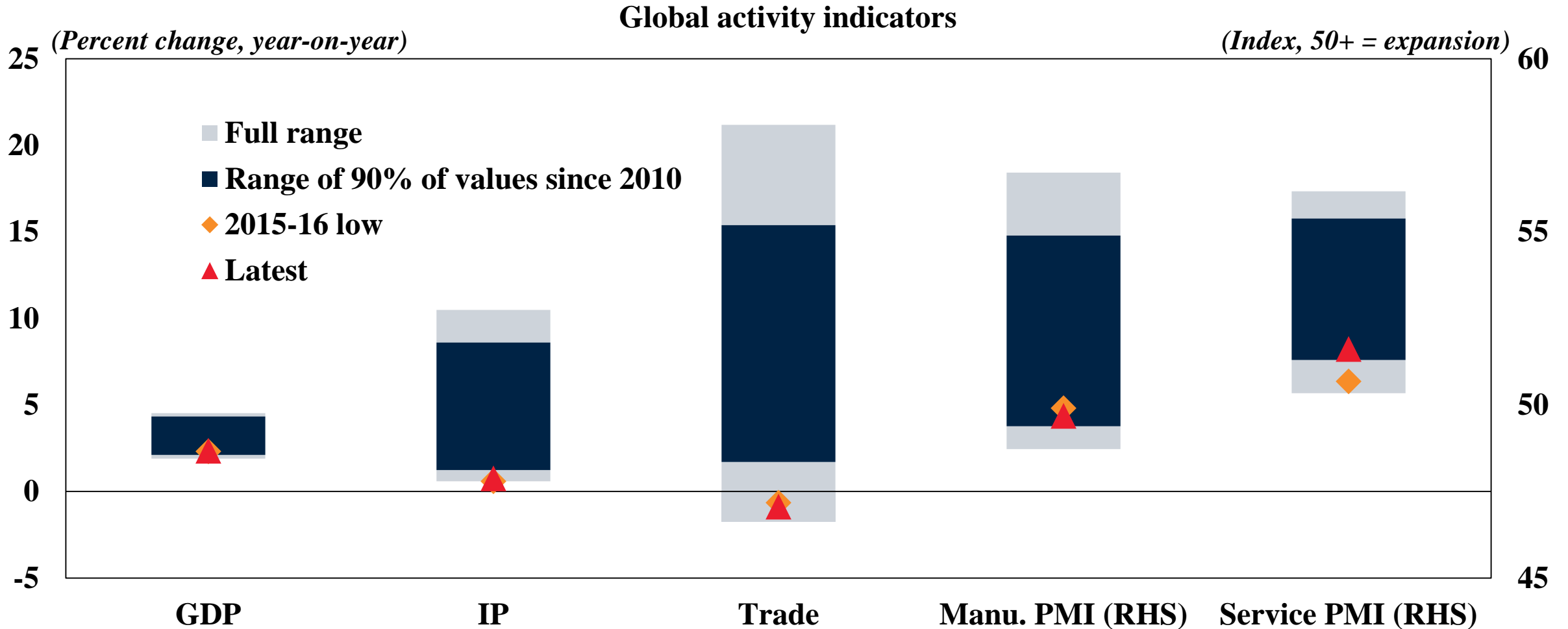


Sources: Bureau for Economic Policy Analysis, Haver Analytics, Institute of Shipping Economics and Logistics, World Bank.

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 September 2019. Center Panel. Figure shows 3-month moving averages. New export orders measured by Purchasing Managers' Index (PMI). Last observation is September 2019. Right Panel: Seasonally adjusted. Last observation August 2019.

# Global Activity

## *Close to Post-Crisis Lows in Multiple Indicators*



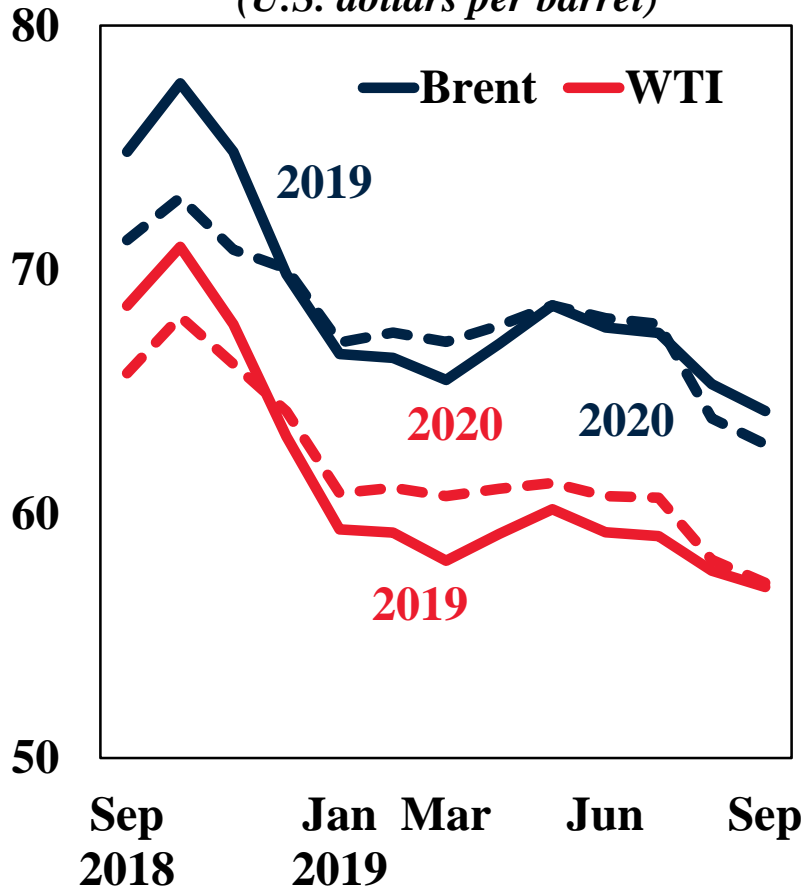
Sources: Haver Analytics, World Bank.

Note: IP represents industrial production. PMI represents global manufacturing Purchasing Managers' Index (PMI). 2015-16 low represents the lowest point during 2015-2016. Last observations for IP and Trade are July 2019. Last observation for GDP is 2019Q2. Last observation for PMI is September 2019. Full range means the full distribution with highest bound and lowest bound. Light blue bars represent the upper 5% percentile and lower 5% percentile. Dark blue bars represent the 90% range of values.

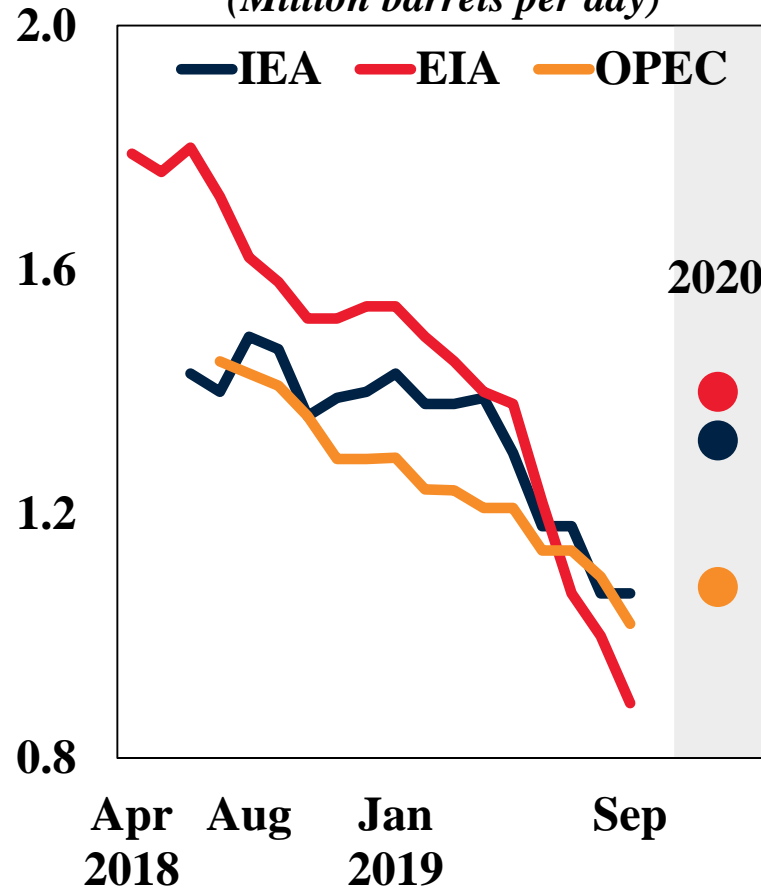
# Oil Markets

## *Downgraded Price Forecasts; Disappointing Demand*

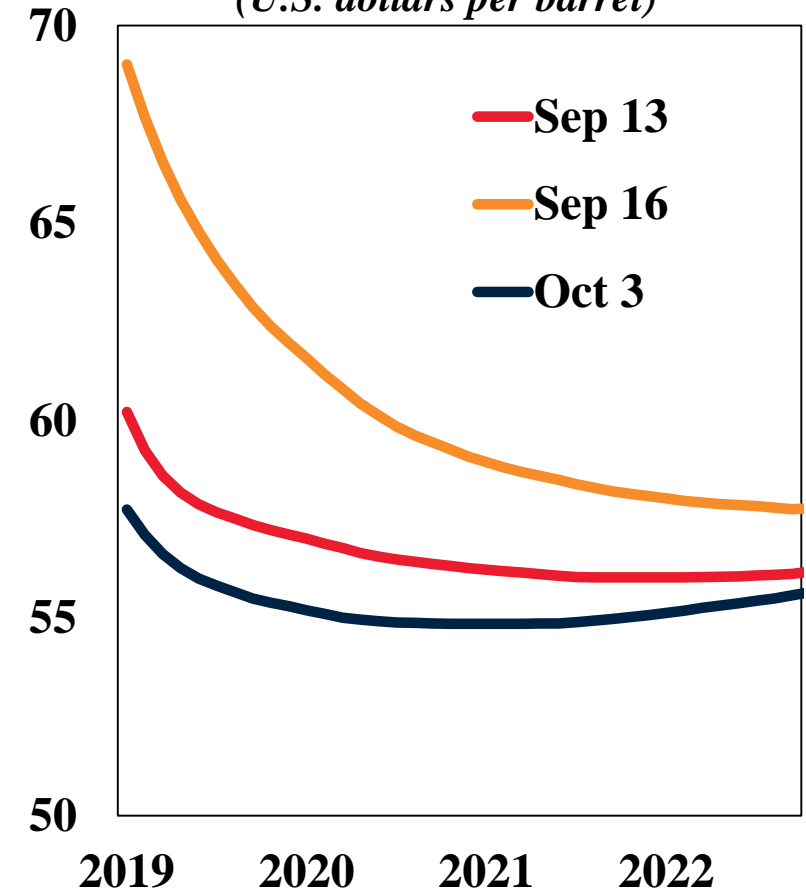
**Oil price forecasts**  
(U.S. dollars per barrel)



**Oil demand forecasts for 2019**  
(Million barrels per day)



**Brent futures curves, 2019**  
(U.S. dollars per barrel)



Sources: Bloomberg, Consensus Economics, International Energy Agency (IEA), Organization of Petroleum Exporting Countries (OPEC), U.S. Energy Information Administration (EIA), World Bank.

Left Panel. Average oil price forecasts for Brent and WTI. Last observation is September 2019. Center Panel. Forecasts of oil demand for 2019 as of denoted months by respective organizations. Last observation is September 2019. Dots in the shaded area show forecasts for 2020 as of September 2019. Right panel: Futures curves as reported on the closing prices of the respective day. Last observation is December 2022.

# Growth Forecasts

## *Sharper-than-Expected Slowdown*

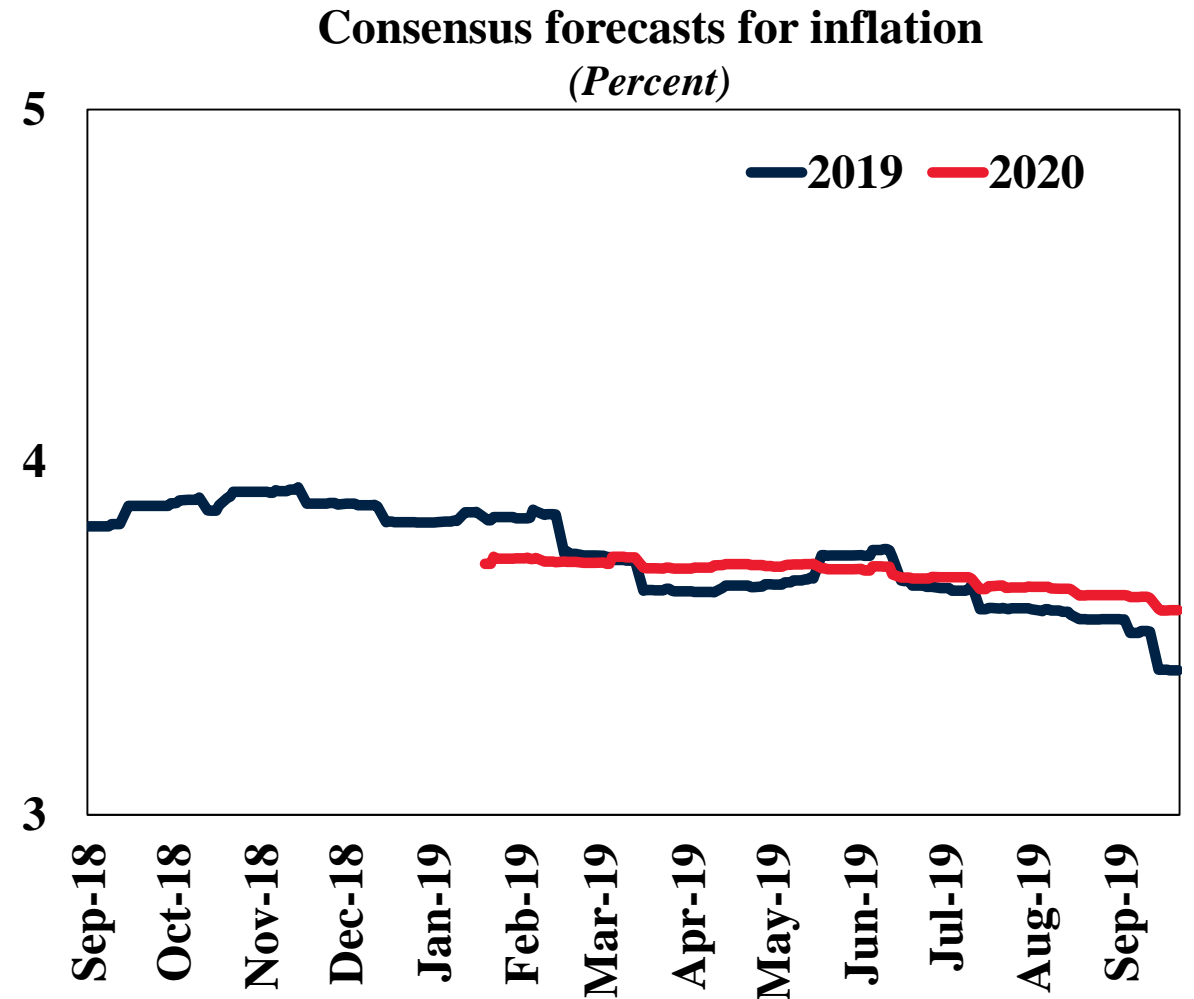
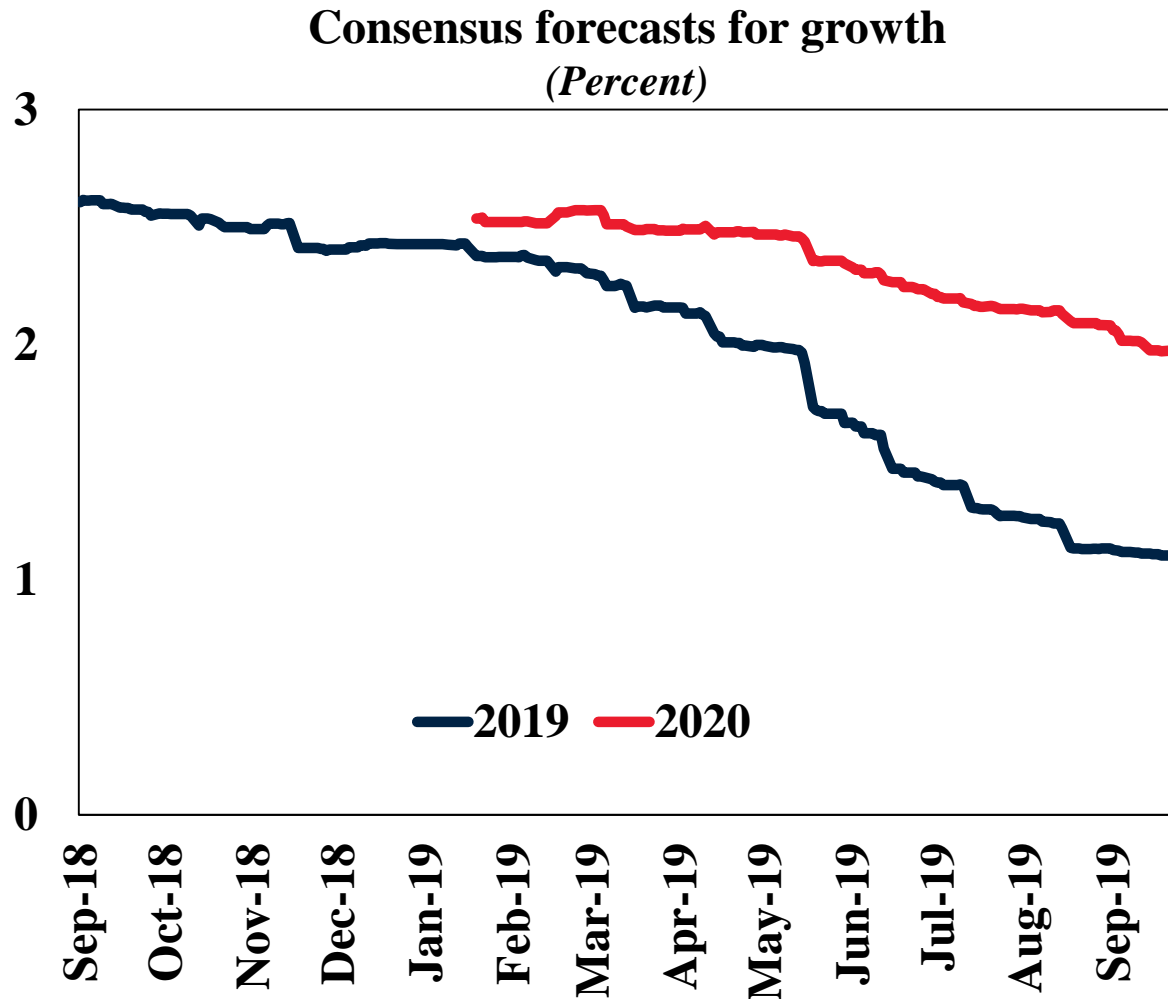
	GDP growth (Percent)					Change from June 2019	
	2012-16	2017	2018	2019e	2020f	2019	2020
<b>World</b>	2.7	3.2	3.0	2.5	2.5	-0.1	-0.2
<b>Advanced economies</b>	1.7	2.4	2.2	1.6	1.4	-0.1	-0.1
<b>EMDEs</b>	4.5	4.5	4.3	3.7	4.2	-0.3	-0.4
<b>East Asia and Pacific</b>	6.9	6.5	6.3	5.8	5.7	-0.1	-0.2
<b>Europe and Central Asia</b>	2.4	4.1	3.2	1.8	2.7	0.2	0.0
<b>Latin America and the Caribbean</b>	1.3	1.7	1.6	1.0	1.9	-0.7	-0.6
<b>Middle East and North Africa</b>	3.4	1.1	0.8	0.2	2.5	-1.1	-0.7
<b>South Asia</b>	6.7	6.7	7.1	6.2	6.4	-0.7	-0.6
<b>Sub-Saharan Africa</b>	3.7	2.7	2.6	2.6	3.0	-0.3	-0.3

Source: World Bank.

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

# Growth and Inflation Forecasts for LAC

## *Lower Growth, Lower Inflation*

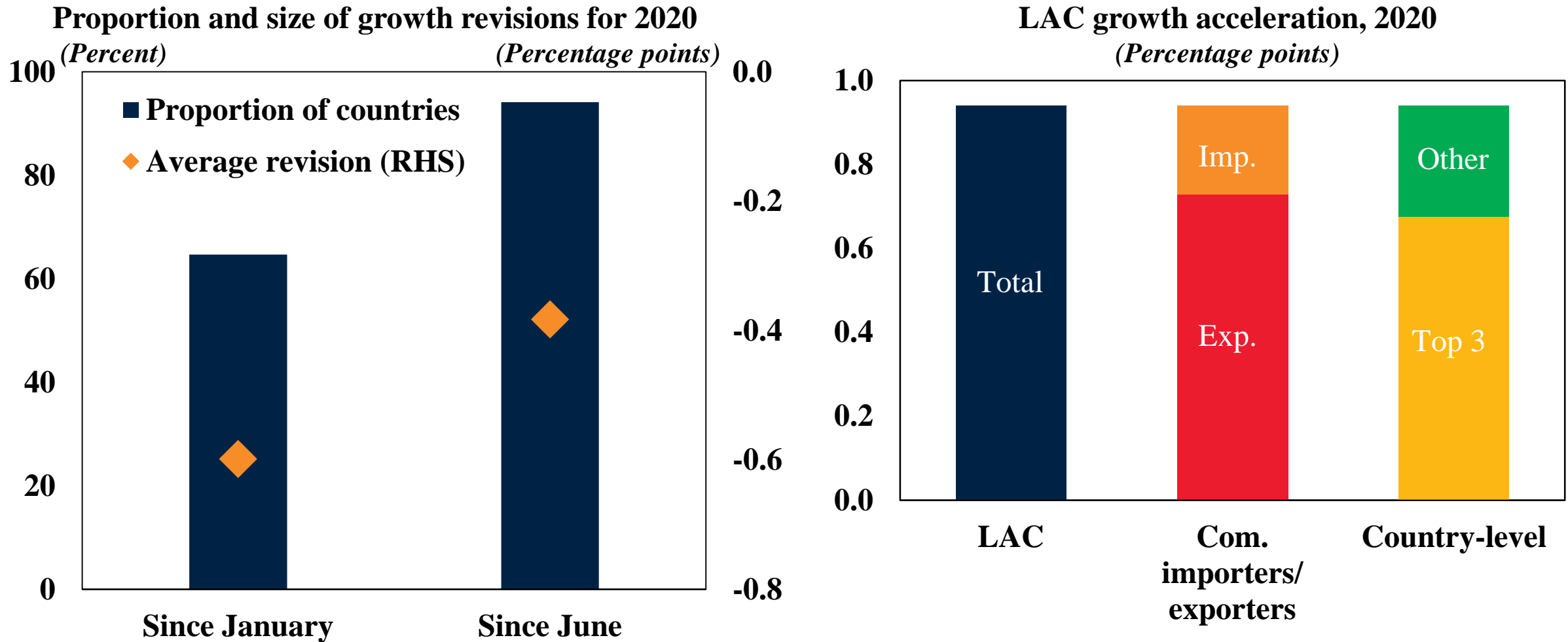


Source: Consensus Economics and World Bank

Left panel. Based on forecasts for 7 economies, excluding Venezuela and Argentina. Dashed lines exclude Argentina. Weighted using constant 2010 U.S. dollars GDP for 2018. Last observation 23 Sept 2019. Right panel. Based on forecasts for 7 economies, excluding Venezuela and Argentina. Dashed lines exclude Argentina. Weighted using constant 2010 U.S. dollars GDP for 2018. Last observation 23 Sept 2019.

# 2020 Growth Revisions in LAC

*Mostly Downgrades; Acceleration Due to a Few Countries*



Sources: Consensus Economics, World Bank.

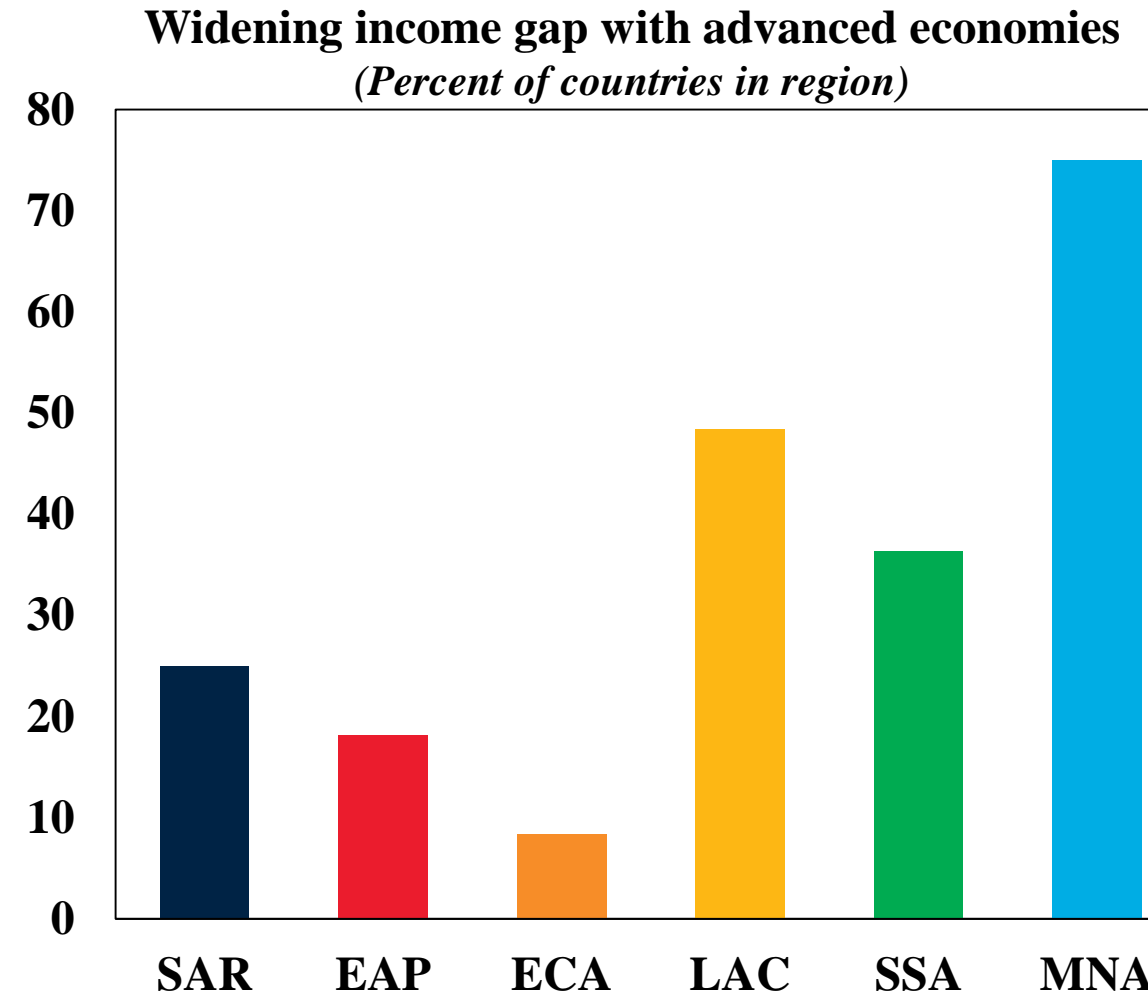
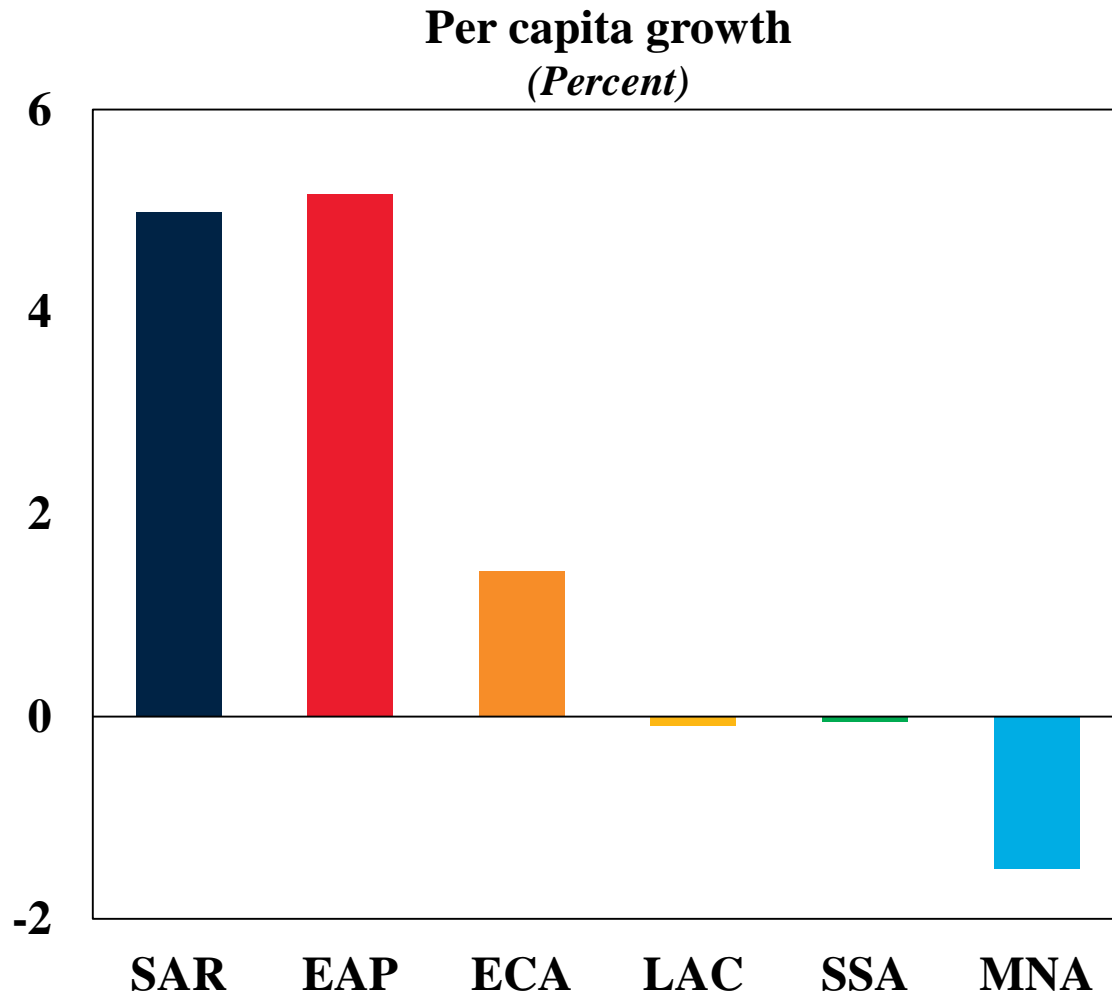
Left Panel. Based on data for 17 economies. "Since January" are revisions between January and September forecast. "Since June" are forecast revisions between June and September 2019.

"Average revision" refers to unweighted averages. Right Panel. Data for 31 economies, Top 3 are Argentina, Brazil, and Mexico.



# EMDEs Per Capita Growth in 2019

## *Weaker Growth and Wider Income Gap in Commodity-Exporting Regions*



Source: World Bank.

Left Panel. Data are for 2019 (bars) and 2020 (diamonds). 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. Data are for 2019 (bars) and 2020 (diamonds). EMDEs with per capita GDP growth of at least 0.1-percentage-point lower than advanced-economy per capita GDP growth are those counted as widening. Sample includes 145 EMDEs.

# Three Questions

- 2 **How does this global slowdown compare with previous episodes?** *Similar in most activity indicators, but different because of strong labor markets and limited policy space.*

# Global Recessions and Downturns

## *Broad Synchronized Weakness in Activity*

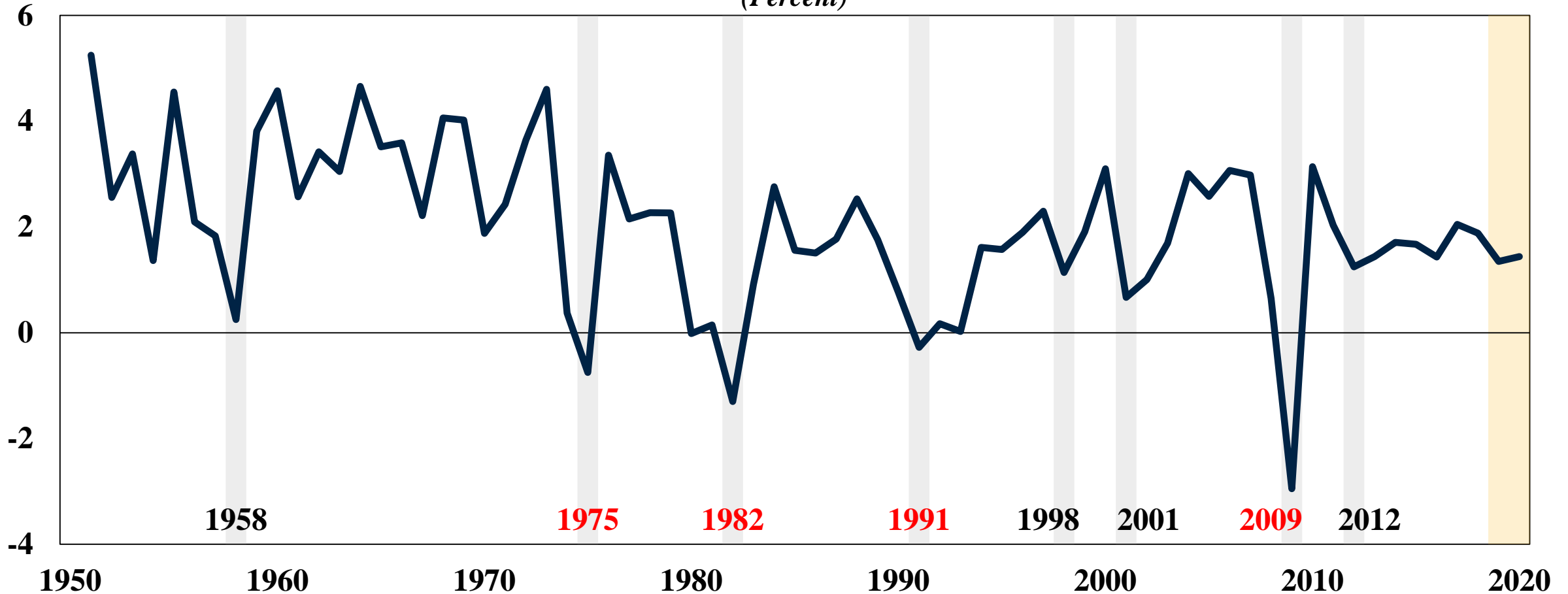
- A global recession is defined as a decline in world real GDP per capita accompanied by a broad synchronized deceleration in multiple measures of global economic activity (IP, trade, capital flows, unemployment, energy consumption).
- Four global recessions: **1975** (1.1; -0.7), **1982** (0.4; -1.3),  
**1991** (1.3; -0.3), **2009** (-1.8; -3.0)
- The average decline in world per-capita output is 1.3 percent during these episodes; about 3 percentage points lower than the average over 1950-2018 (with market weights).
- Four global downturns: Lowest global growth except recessions and years around  
**1958** (2.2; 0.2), **1998** (2.5; 1.1), **2001** (1.9; 0.7), **2012** (2.5; 1.2)

Note: Years of global recessions and downturns, with GDP growth and per capita GDP growth (with market weights) are in parentheses next to these years.

# Evolution of Global Growth: 1950-2020

## *Four Global Recessions; Four Global Downturns*

Global per capita output growth  
(Percent)



Sources: Feenstra, Inklaar, and Timmer (2015); World Bank.

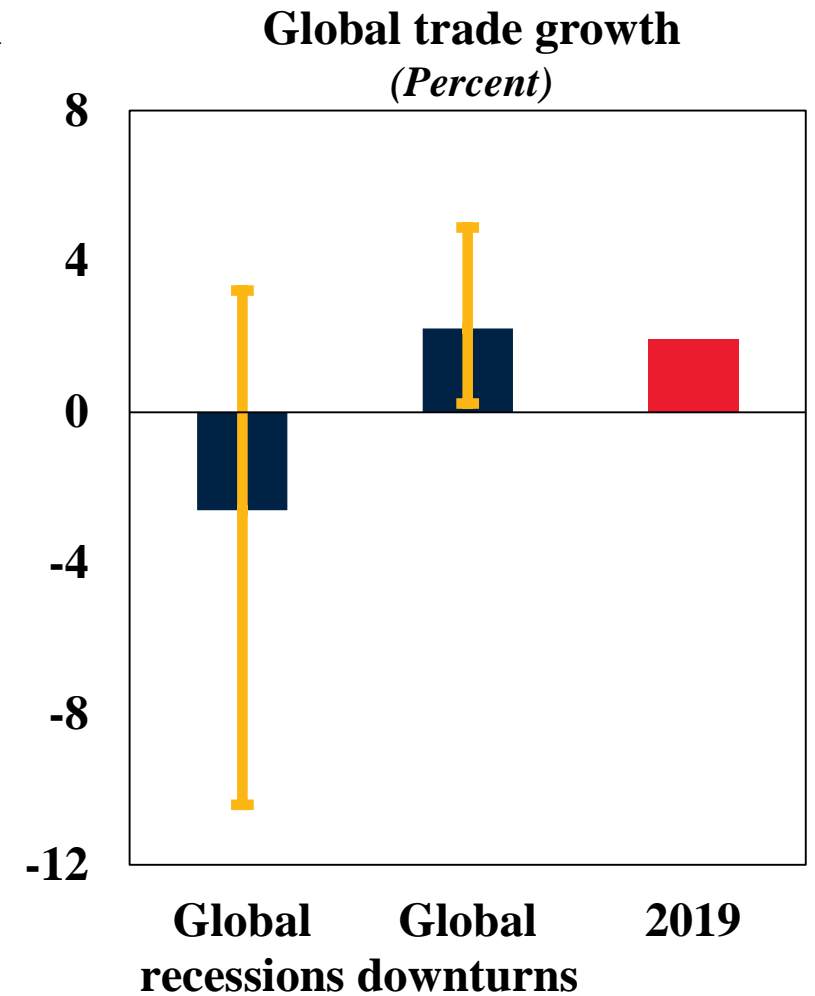
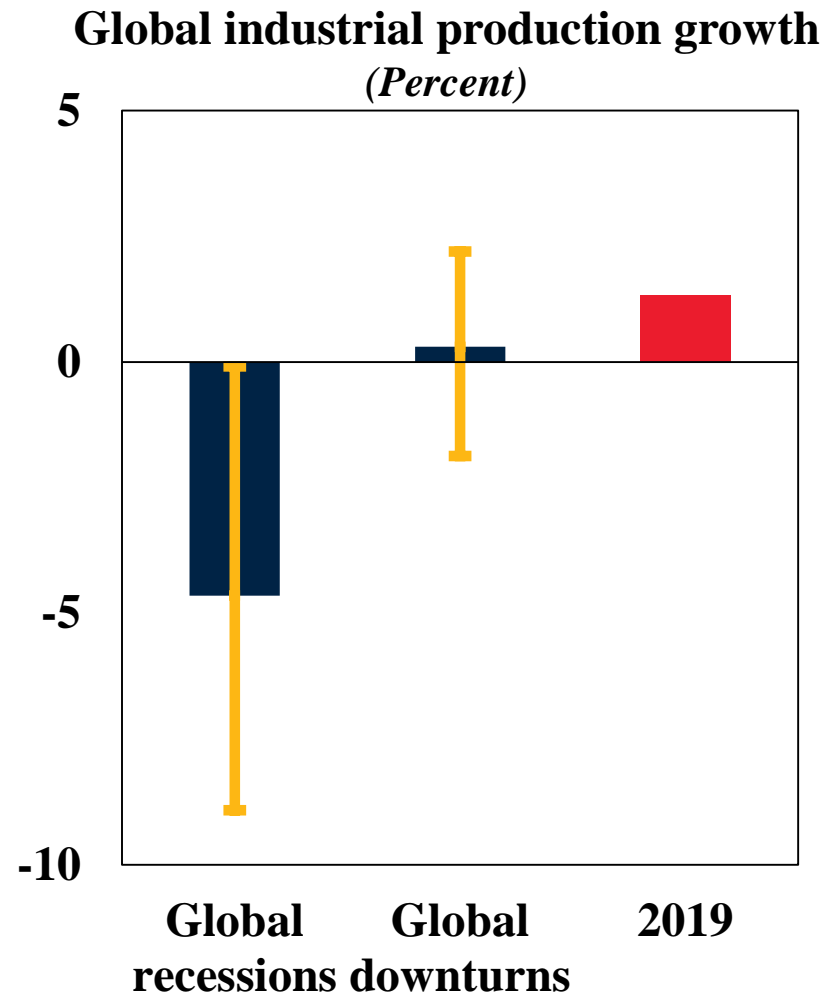
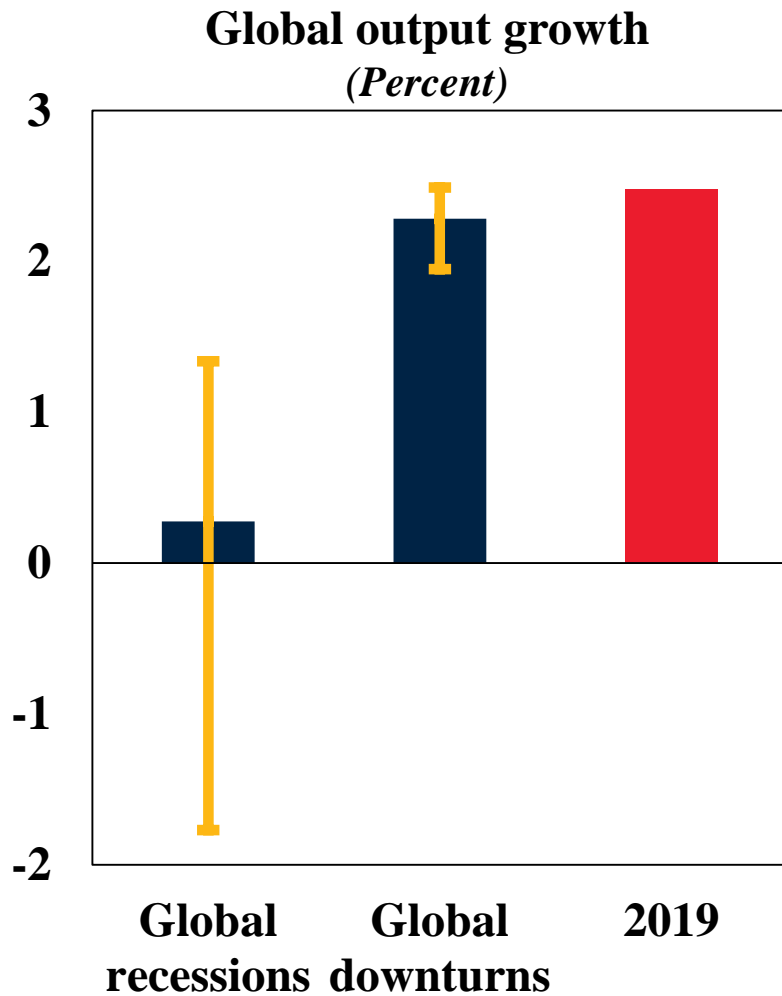
Note: Shaded areas (in gray) indicate global recessions and downturns, and forecasts are shaded in yellow.

# What Happened during Global Recessions?

- **1975:** the first oil price shock, fourfold increase, the beginning of a prolonged period of stagflation, with low output growth and high inflation in the United States. All of the G-7 countries except Germany experienced high inflation rates.
- **1982:** the rapid increase in oil prices; tight monetary policies in several advanced economies; and the Latin American debt crisis.
- **1991:** difficulties in the U.S. credit markets; banking and currency crises in Europe (Norway, Finland, Sweden in 91; ERM crisis in 92) and challenges faced by the east European transition economies; burst of the asset price bubble in Japan; and the uncertainty stemming from the Gulf War and the subsequent increase in the price of oil.
- **2009:** global financial crisis

# Global Activity in 2019 - 1

## *Similar to Earlier Downturns*

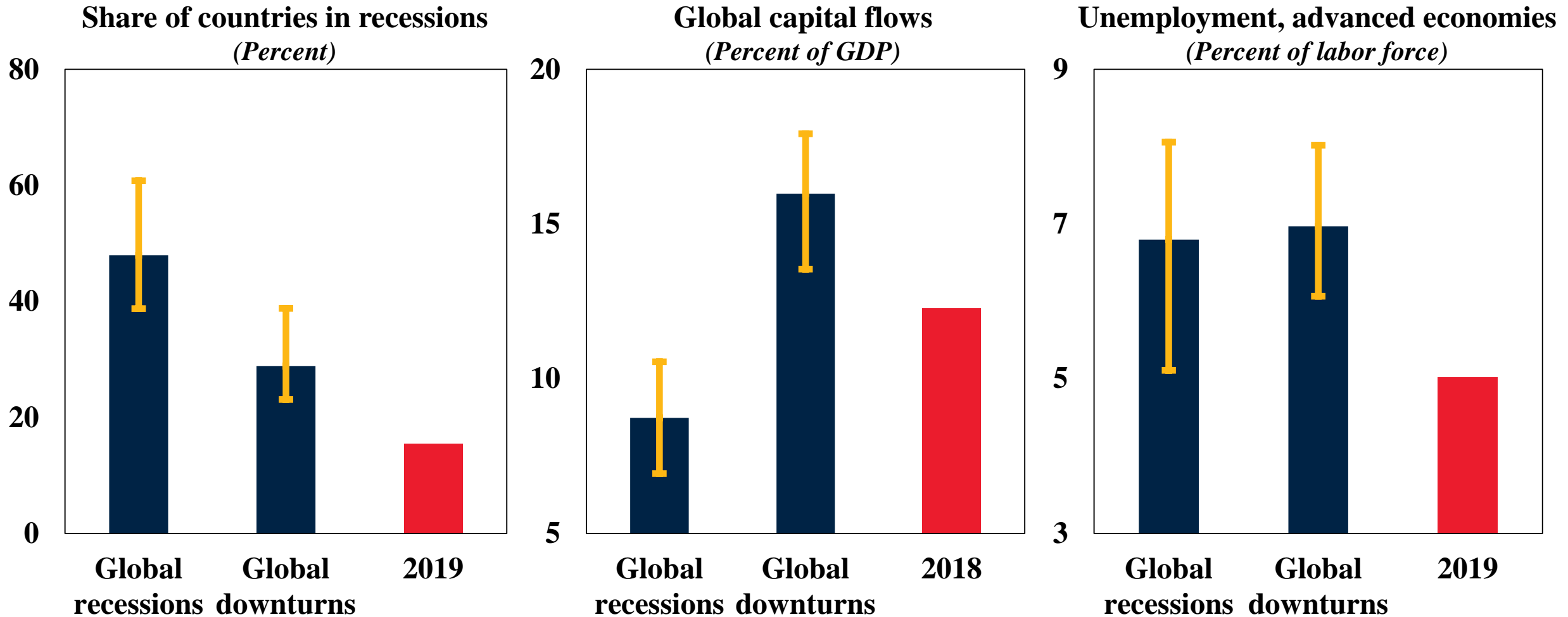


Sources: Feenstra, Inklaar, and Timmer (2015); Haver Analytics; Organisation for Economic Co-operation and Development; World Bank.

Note: Average growth during global recessions and global downturns, as well as growth in 2019. Global recessions are 1975, 1982, 1991, and 2009, while global downturns are 1958, 1998, 2001, and 2012. Vertical yellow lines refer to a minimum-maximum range of growth during global recessions and downturns. Data for 2019 are forecasts in output (Left Panel) and trade (Right Panel) and average of the first two quarters of the year in industrial production (Center Panel).

# Global Activity in 2019 - 2

## *Different from Earlier Downturns*

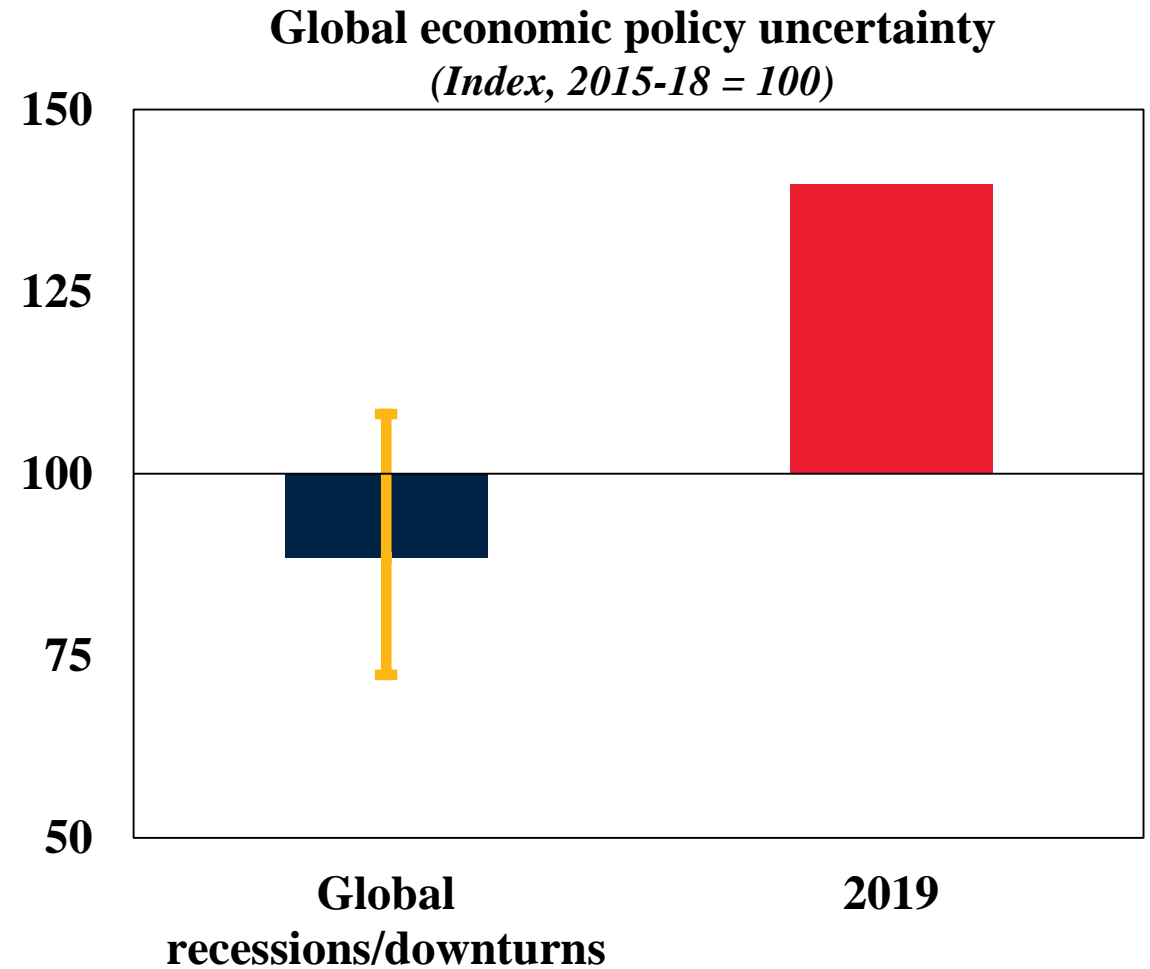
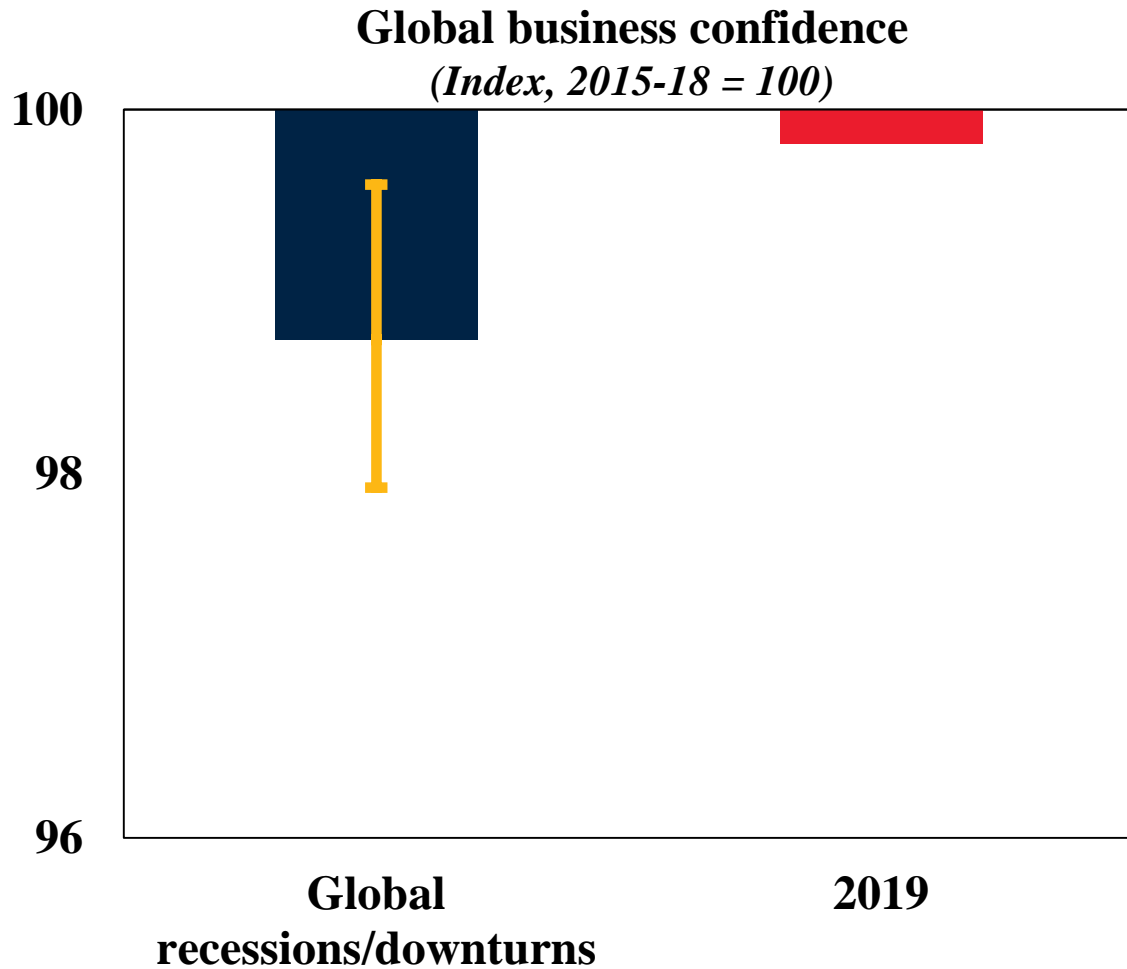


Sources: Feenstra, Inklaar, and Timmer (2015); International Monetary Fund; World Bank.

Note: Averages during global recessions and global downturns, as well as in 2019 (or 2018 in the case of capital flows in Center Panel). Global recessions are 1975, 1982, 1991, and 2009, while global downturns are 1958, 1998, 2001, and 2012, when data are available. A country-level recession is measured as a contraction in real per capita GDP. Capital flows (in Center Panel) are measured as the sum of absolute values of capital outflows and capital inflows. Vertical yellow lines refer to a minimum-maximum range of global recessions and downturns. Data for 2019 are forecasts in the share of countries in recessions (Left Panel) and unemployment (Right Panel).

# Confidence and Uncertainty in 2019

## *Weak Confidence, High Uncertainty*



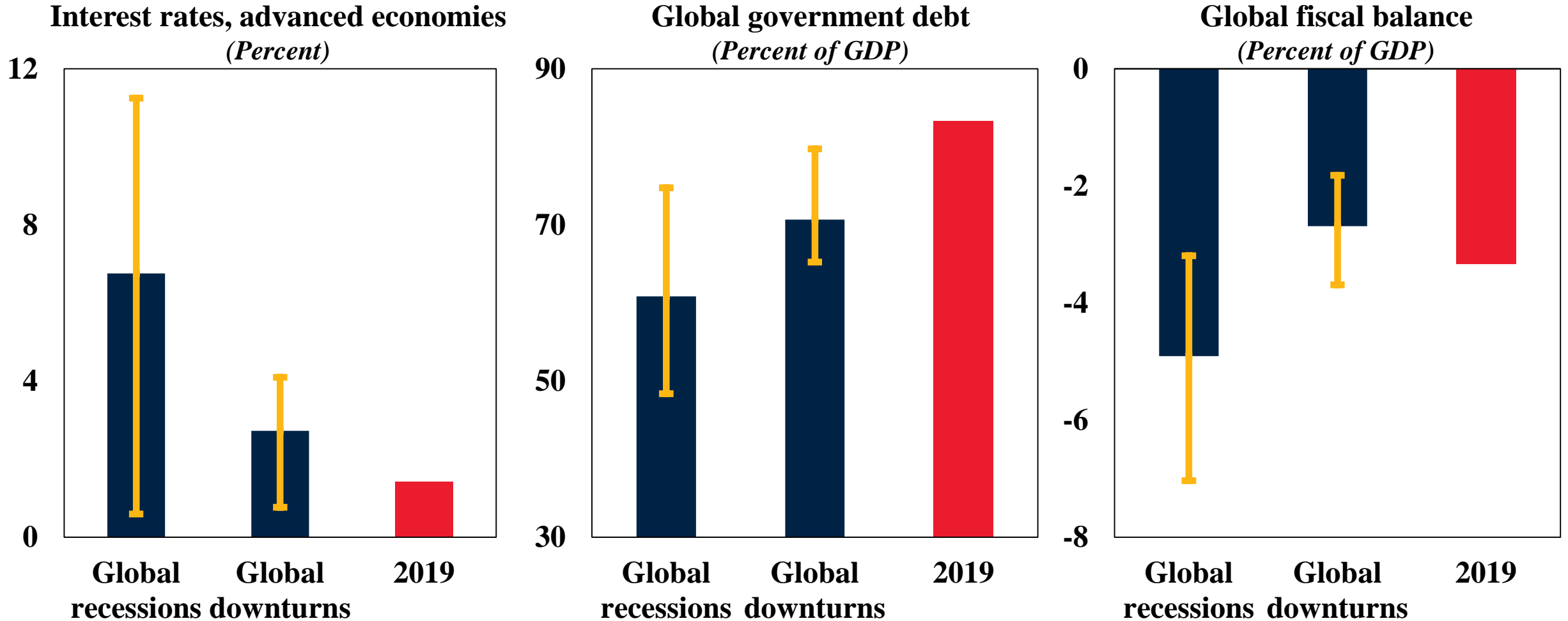
Sources: Davis (2016); Huidrom et al. (forthcoming); World Bank.

Note: Global business confidence and economic policy uncertainty during global recessions and global downturns, as well as in 2019. Vertical yellow lines refer to a minimum-maximum range of global recessions and downturns. Left Panel. Global recessions are 1975, 1982, 1991, and 2009, while global downturns are 1998, 2001, and 2012. Data for 2019 refer to an average of the first two quarters of the year. Right Panel. Global recessions are 1991 and 2009 due to the data availability, and global downturns are 1998, 2001, and 2012. Data for 2019 refer to an average of the first eight months of the year.



# Policy Space in 2019

*More Limited: Lower Interest Rates, Higher Debt*



Sources: Haver Analytics; International Monetary Fund; Kose and Terrones (2015); Kose et al. (2017).

Note: Averages during global recessions and global downturns, as well as in 2019. In Center and Right Panels, since data are available since 1980, global recessions refer to 1982, 1991, and 2009, while global downturns are 1998, 2001, and 2012. Interest rates refer to short-term interest rates. Vertical yellow lines refer to a minimum-maximum range of global recessions and downturns. Data for 2019 are annual averages of data for the first two quarters for interest rates (Left Panel) and forecasts in government debt (Center Panel) and fiscal balances (Right Panel).

# Three Questions

- 3** **What are the major risks and what policies could help?** *Several downside risks threaten the recovery. Country-specific, comprehensive, cyclical and structural policies needed urgently to reduce vulnerabilities and improve growth prospects.*

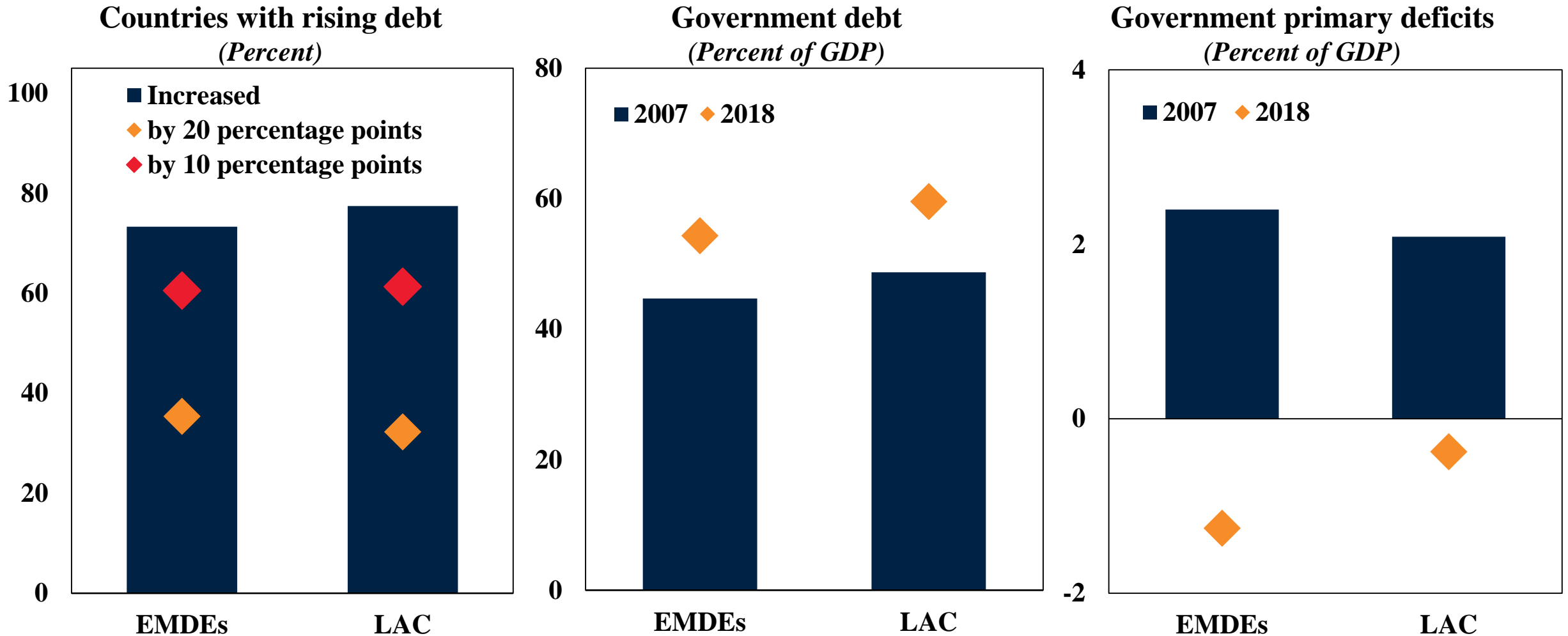
# Risks

*Multiple, Tilted to Downside*

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

# Fiscal Space in LAC

*More Limited Than Prior to the 2009 Global Recession*

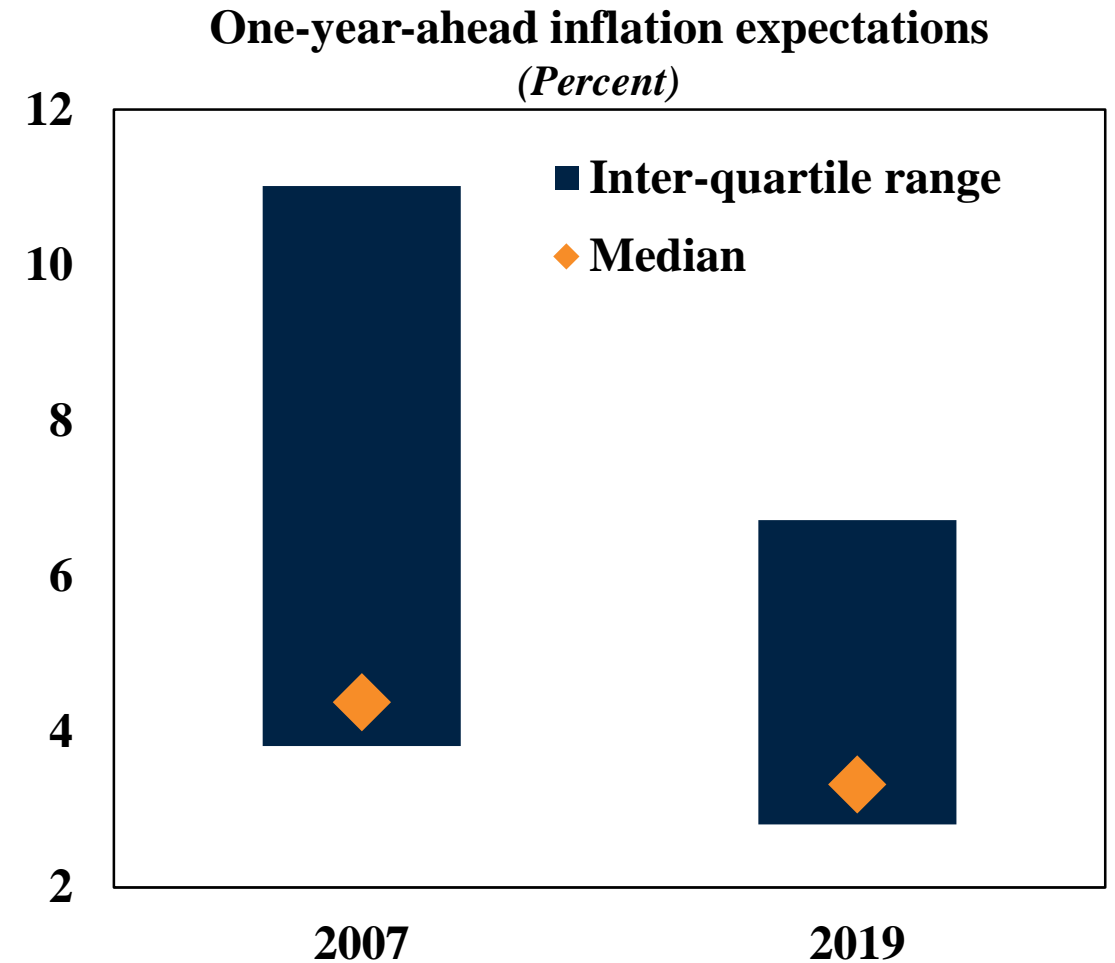
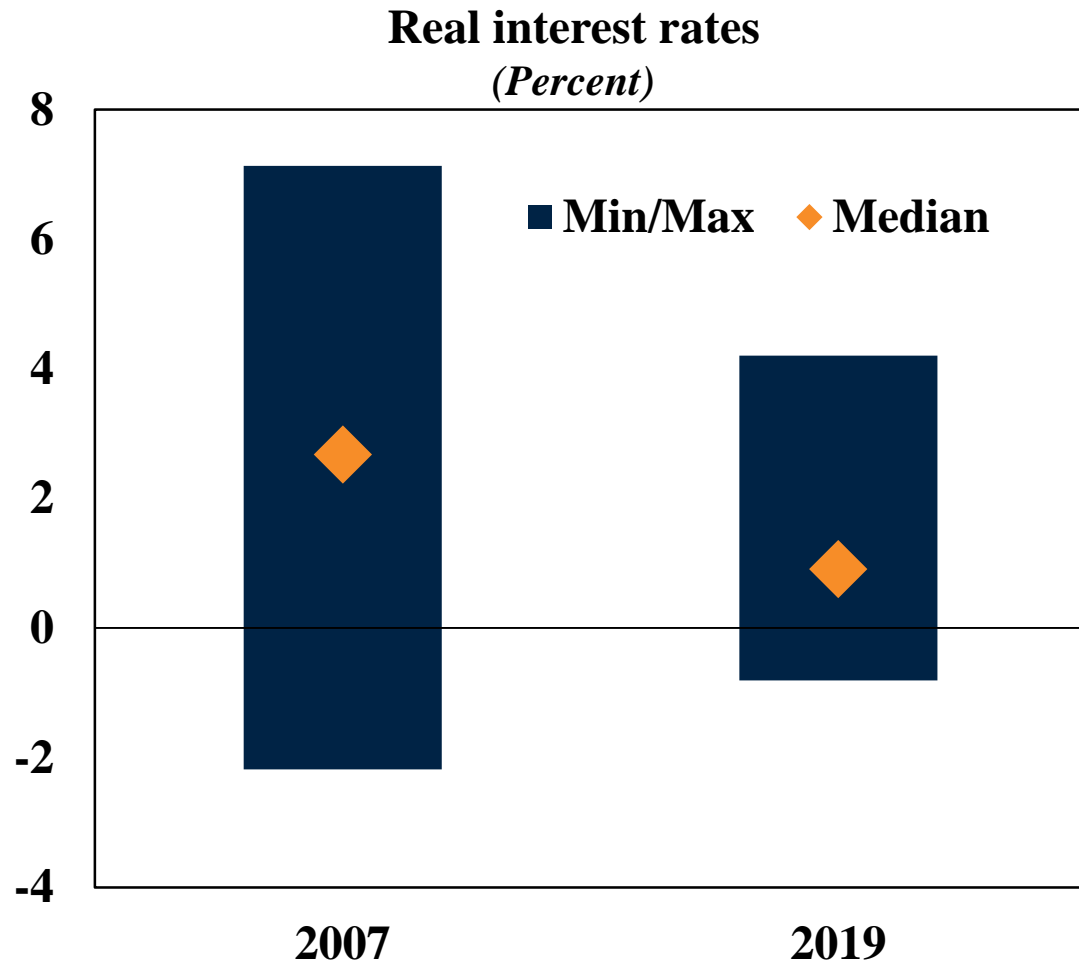


Source: World Bank.

Left Panel. Based on data for 147 EMDEs and 31 LAC economies. Center Panel. Unweighted averages based on data for 147 EMDEs and 31 LAC economies. Right Panel. Unweighted averages based on data for 149 EMDEs and 31 LAC economies.

# Monetary Policy Space in LAC

## *Still Available but Use with Caution*

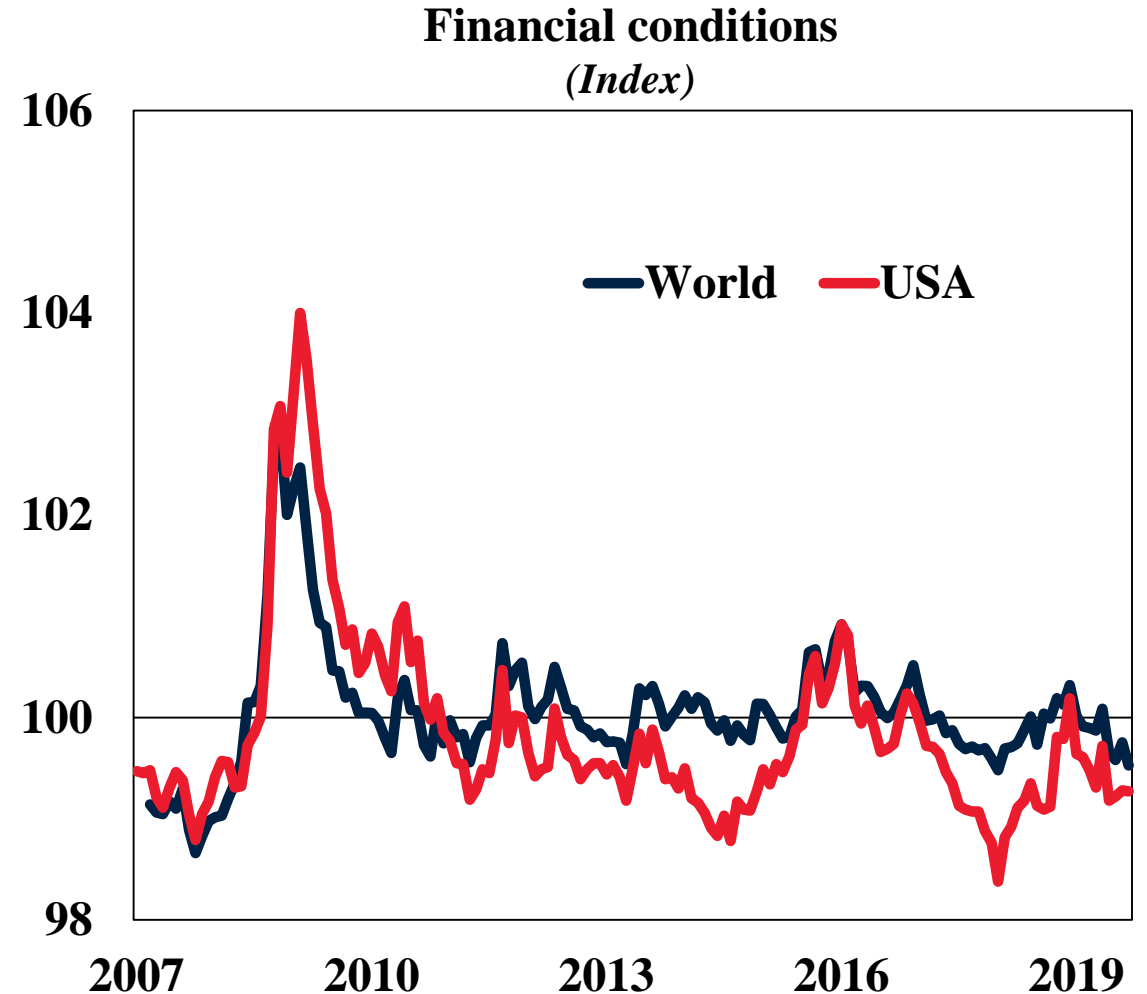
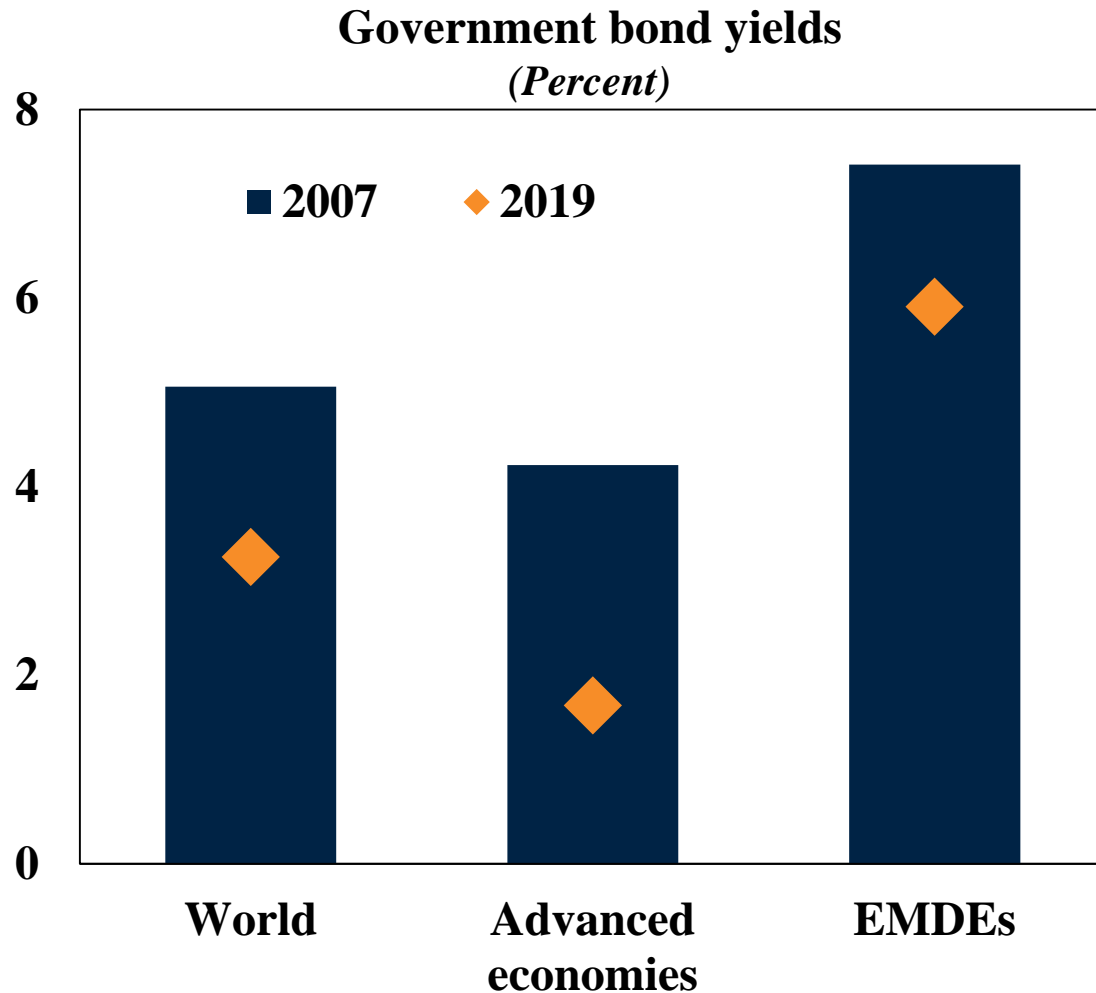


Sources: Consensus Economics, Haver Analytics, World Bank.

Left Panel. Real interest rates are nominal interest rates less expected inflation. Expected inflation is the one-year ahead forecasts from Consensus Economics. Based on data for 8 inflation targeting economies. Blue area shows minimum and maximum. Last observation is September 2019. Right Panel. One-year ahead inflation forecasts for 17 EMDEs. 2007 are forecasts prepared in December 2007. 2019 are forecasts prepared in September 2019.

# Global Financial Conditions

*Lower Yields, Higher Spreads, Easy Financing Conditions*

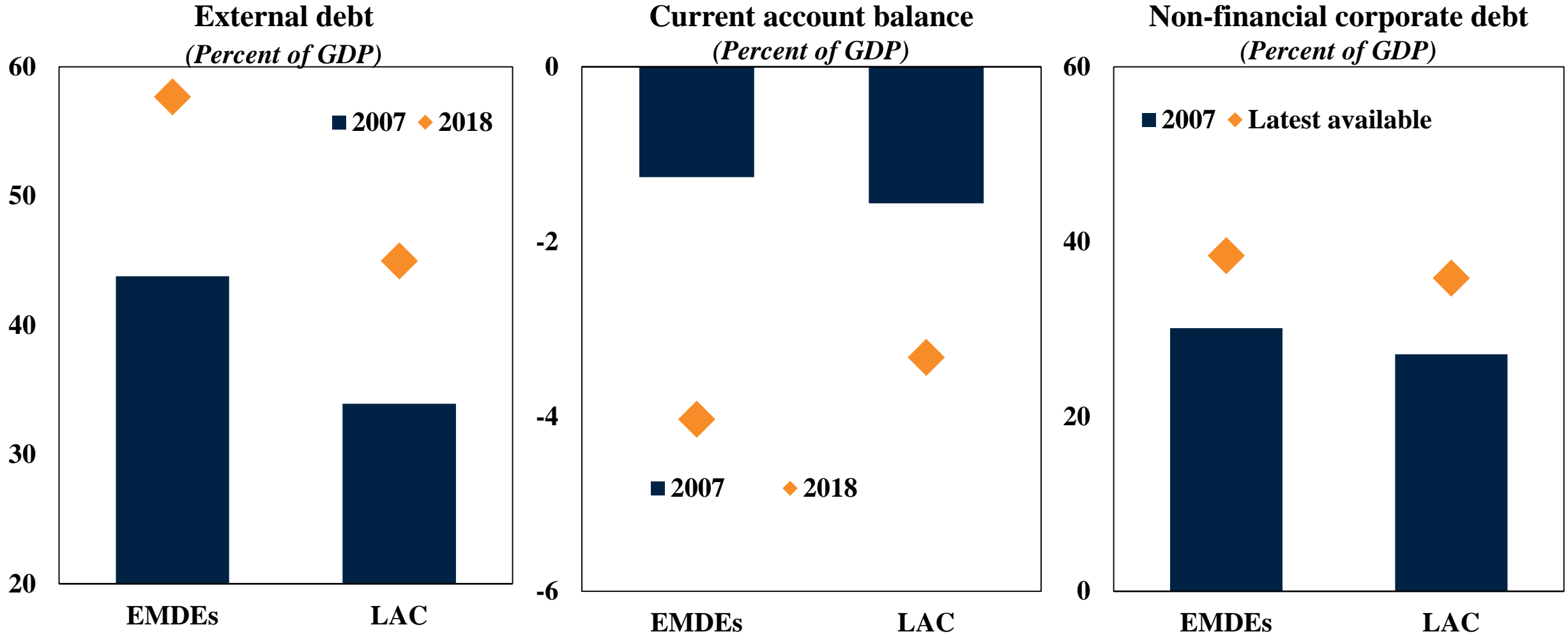


Sources: Bloomberg, Haver Analytics.

Left Panel. Nominal 10 year government bond yields. Weighted using constant 2010 U.S. dollar GDP. 2019 includes data up to September 2019. Right Panel. Based on Goldman Sachs Financial Conditions for the United States, United Kingdom, Japan, Euro Area, China, India, Indonesia, Brazil, Mexico, Russia, and Turkey. Weighted using constant 2010 U.S. dollar GDP for 2018.

# External and Corporate Vulnerabilities in EMDEs

## *Larger than Prior to the 2009 Global Recession*

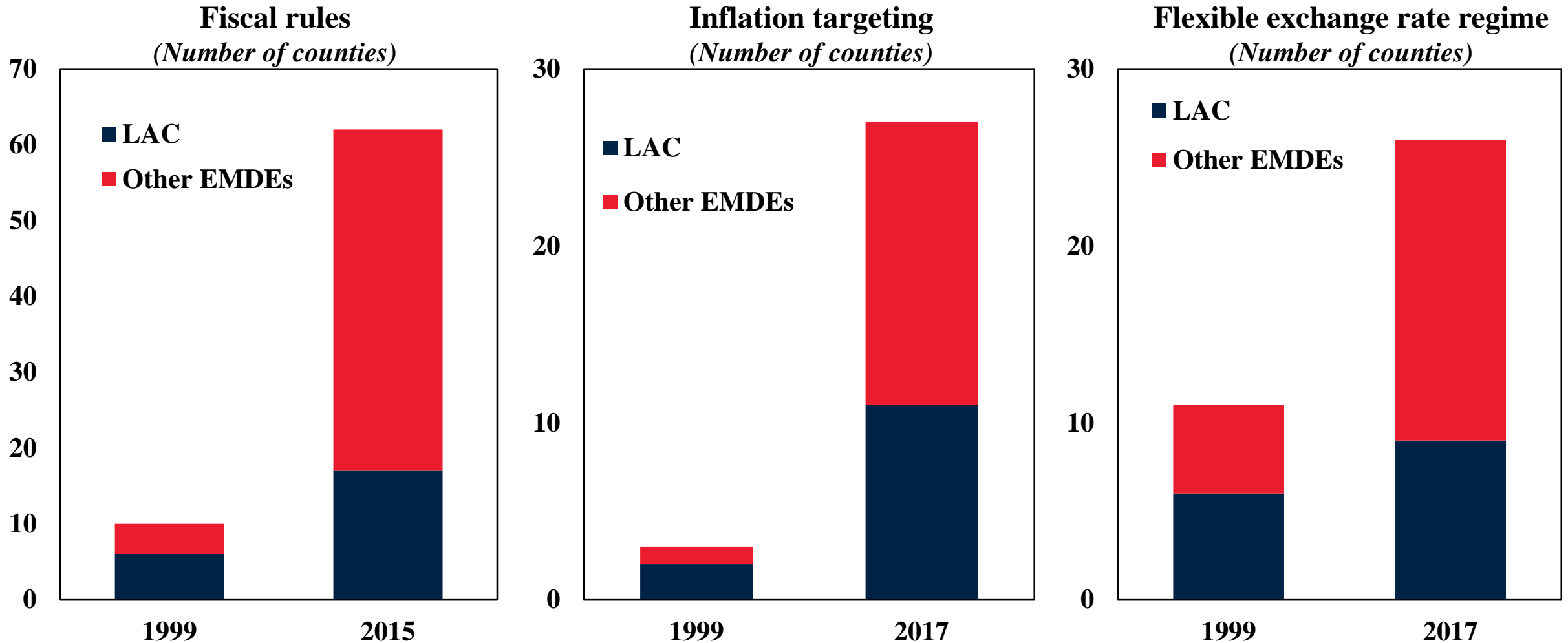


Sources: Bank for International Settlements, International Monetary Fund, World Bank

Left Panel. Unweighted averages based on 67 EMDEs and 16 LAC economies. Center Panel. Unweighted averages based on data for 153 EMDEs and 25 LAC economies. Right Panel. Unweighted averages based on data for 10 LAC economies and 48 EMDEs. Latest available is 2019Q1 for 16 economies, 2016 or 2017 for 32 economies.

# Policy Frameworks in LAC

*More Countries with Rules-Based Policy and Flexible Exchange Rate Regimes*



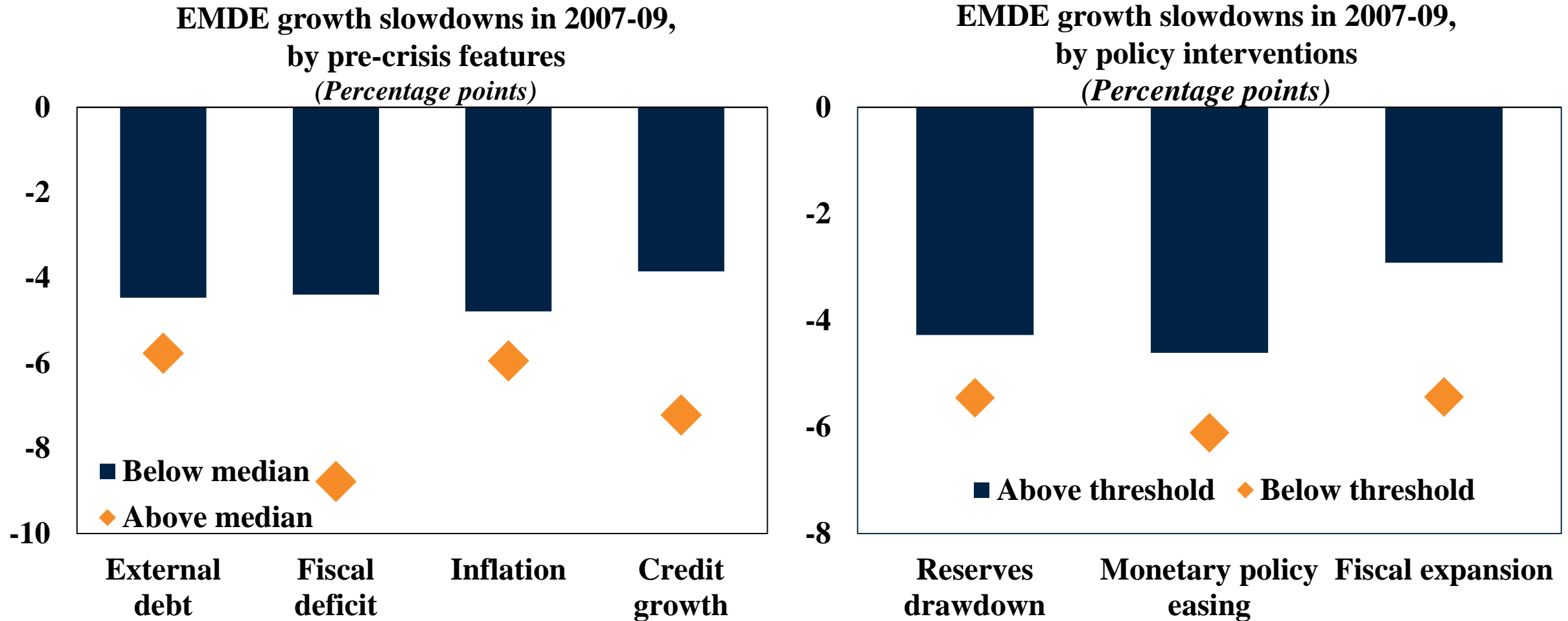
Source: International Monetary Fund.

Left Panel. An economy is considered to implement a fiscal rule if it has one or more fiscal rules on expenditure, revenue, budget balance or debt. Last observation is 2015. Center Panel. Based on the IMF AREAER database. Right Panel. An economy is considered to have a flexible exchange rate if it is classified as “Floating” or “Free Floating”.



# Growth Outcomes During the 2009 Global Recession

*Countries with Smaller Vulnerabilities and More Policy Space Suffered Less*



Sources: Chinn and Ito (2016), International Monetary Fund, World Bank.

Note: Growth slowdowns are the GDP growth differential between 2007 (pre-crisis) and 2009. Depending on data availability for each indicator, the number of EMDEs ranges from 80 to 154.

Left Panel. Trade openness is proxied by trade as a share of GDP and financial openness is based on the Chinn-Ito index. External debt and fiscal deficit are in percent of GDP. Inflation is the annual change in the consumer price index. Credit growth is the annual change in domestic credit to the private sector. Right Panel. The threshold for reserves drawdown is 10 percent of the reserve-to-debt ratio. Monetary easing refers to the lowering of interest rates, with a 0.5 percent threshold. Fiscal expansion refers to growth in real government consumption expenditure, with a 10 percent growth threshold.

# Policy Responses

## *Urgency of Country-Specific, Comprehensive, and Credible Policies*

### Monetary and financial sector policies

- *Objective: Maintain price and financial stability without compromising growth*
- **Possible measures:** Strengthen/maintain central bank independence and transparency, develop local capital markets, improve/use macroprudential policies, remain vigilant in microprudential supervision

### Fiscal policy

- *Objective: Support growth while maintaining fiscal sustainability*
- **Possible measures:** Broaden revenue base, improve tax administration, strengthen spending efficiency, enhance debt transparency

### Structural policy

- *Objective: Lift long-term growth prospects without compromising short-term growth*
- **Possible measures:** Improve governance, streamline business regulation, invest in human and physical capital

### Global policies

- *Objective: Coordinate policies to address global challenges*
- **Policy measures:** Strengthen global standards for trade and financial integration, corporate taxes, debt management, and climate change

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- 2 How does this global slowdown compare with previous episodes?** *Similar in most activity indicators, but different because of strong labor markets and limited policy space.*
- 3 What are the major risks and what policies could help?** *Several downside risks threaten the recovery. Country-specific, comprehensive, cyclical and structural policies needed urgently to reduce vulnerabilities and improve growth prospects.*

# Annual Meetings “Invitation Only” Event

## *New Challenges Facing Emerging and Developing Economies*

### A Decade since the Global Recession

Lessons and Challenges  
for Emerging and Developing Economies

Editors  
M. Ayhan Kose and Franziska Ohnsorge



**“New Challenges Facing Emerging and Developing Economies”** will preview a new World Bank study reviewing, and drawing lessons from, the experience of emerging market and developing economies since the 2009 global recession. Notwithstanding some improvements in policy frameworks, many of these countries are now facing new challenges as they have become more vulnerable to financing shocks than before the last global recession. The panel discussion will focus on policy options available for these economies to effectively weather the next global downturn.

#### Moderator

**Ceyla Pazarbasioglu**, Vice President, World Bank

#### Featuring

**Axel van Trotsenburg**, Managing Director of Operations, World Bank

**Viral Acharya**, NYU Stern School of Business, Ex-Deputy Governor, Reserve Bank of India

**Reza Baqir**, Governor, State Bank of Pakistan

**Patrick Ngugi Njoroge**, Governor, Central Bank of Kenya

**Eswar Prasad**, Cornell University

**Liliana Rojas-Saurez**, Center for Global Development

**Ayhan Kose**, Director, World Bank

#### Date & Time

Friday, October 18  
4:30 - 6:00 pm

#### Venue

Conference Room F L-101  
World Bank International Finance  
Corp Bldg.  
2121 Pennsylvania Ave., NW  
Washington DC



# Select Publications by Prospects Group

- [Global Economic Prospects](#) – *January 2020*  
(January and June)
- [Commodity Markets Outlook](#) – *October 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*

# Questions & Comments

## *Thanks!*

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