Global Economic Outlook:
Global Economy at a Crossroads

M. Ayhan Kose
EFI - Prospects Group

October 2019
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.

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


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

Global activity indicators

(Percent change, year-on-year) (Index, 50+ = expansion)

- Full range
- Range of 90% of values since 2010
- 2015-16 low
- Latest

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


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**

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

Note: e and f refer to estimates and forecasts, respectively.
Growth and Inflation Forecasts for LAC

Lower Growth, Lower Inflation

Consensus forecasts for growth (Percent)

Consensus forecasts for inflation (Percent)

Source: Consensus Economics and World Bank

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


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.

Per capita growth (Percent)

-2 0 2 4 6

SAR EAP ECA LAC SSA MNA

Widening income gap with advanced economies (Percent of countries in region)

0 10 20 30 40 50 60 70 80

SAR EAP ECA LAC SSA MNA
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

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.

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).
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

Countries with rising debt
(Percent)

Government debt
(Percent of GDP)

Government primary deficits
(Percent of GDP)

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

Government bond yields
(Percent)

Financial conditions
(Index)

Sources: Bloomberg, Haver Analytics.
External and Corporate Vulnerabilities in EMDEs
Larger than Prior to the 2009 Global Recession

Sources: Bank for International Settlements, International Monetary Fund, World Bank
Policy Frameworks in LAC
More Countries with Rules-Based Policy and Flexible Exchange Rate Regimes

Fiscal rules
(Number of counties)

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>LAC</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Other EMDEs</td>
<td>5</td>
<td>15</td>
</tr>
</tbody>
</table>

Fiscal rules increase from 20 to 30

Inflation targeting
(Number of counties)

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>LAC</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Other EMDEs</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

Inflation targeting increases from 15 to 30

Flexible exchange rate regime
(Number of counties)

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>LAC</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Other EMDEs</td>
<td>5</td>
<td>15</td>
</tr>
</tbody>
</table>

Flexible exchange rate increases from 15 to 30

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

EMDE growth slowdowns in 2007-09, by pre-crisis features
(Percentage points)

- External debt
- Fiscal deficit
- Inflation
- Credit growth

EMDE growth slowdowns in 2007-09, by policy interventions
(Percentage points)

- Reserves drawdown
- Monetary policy easing
- Fiscal expansion

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 |
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.

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.
“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!

M. Ayhan Kose
EFI - Prospects Group
akose@worldbank.org

www.worldbank.org/prospects