

EXECUTIVE SUMMARY

After slowing sharply in the last three quarters of 2018, the pace of global economic activity remains weak. Momentum in manufacturing activity, in particular, has weakened substantially, to levels not seen since the global financial crisis. Rising trade and geopolitical tensions have increased uncertainty about the future of the global trading system and international cooperation more generally, taking a toll on business confidence, investment decisions, and global trade. A notable shift toward increased monetary policy accommodation—through both action and communication—has cushioned the impact of these tensions on financial market sentiment and activity, while a generally resilient service sector has supported employment growth. That said, the outlook remains precarious.

Global growth is forecast at 3.0 percent for 2019, its lowest level since 2008–09 and a 0.3 percentage point downgrade from the April 2019 World Economic Outlook. Growth is projected to pick up to 3.4 percent in 2020 (a 0.2 percentage point downward revision compared with April), reflecting primarily a projected improvement in economic performance in a number of emerging markets in Latin America, the Middle East, and emerging and developing Europe that are under macroeconomic strain. Yet, with uncertainty about prospects for several of these countries, a projected slowdown in China and the United States, and prominent downside risks, a much more subdued pace of global activity could well materialize. To forestall such an outcome, policies should decisively aim at defusing trade tensions, reinvigorating multilateral cooperation, and providing timely support to economic activity where needed. To strengthen resilience, policymakers should address financial vulnerabilities that pose risks to growth in the medium term. Making growth more inclusive, which is essential for securing better economic prospects for all, should remain an overarching goal.

After a sharp slowdown during the last three quarters of 2018, global growth stabilized at a weak pace in the first half of 2019. Trade tensions, which had abated earlier in the year, have risen again sharply, resulting in significant tariff increases between the United States and China and hurting business

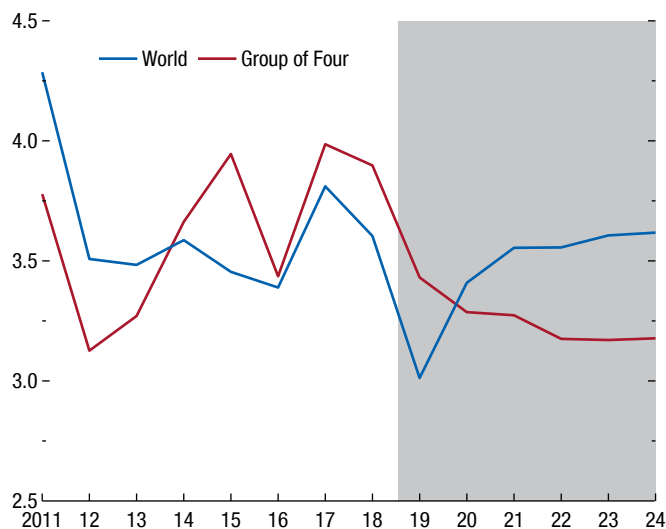
sentiment and confidence globally. While financial market sentiment has been undermined by these developments, a shift toward increased monetary policy accommodation in the United States and many other advanced and emerging market economies has been a counterbalancing force. As a result, financial conditions remain generally accommodative and, in the case of advanced economies, more so than in the spring.

The world economy is projected to grow at 3.0 percent in 2019—a significant drop from 2017–18 for emerging market and developing economies as well as advanced economies—before recovering to 3.4 percent in 2020. A slightly higher growth rate is projected for 2021–24. This global growth pattern reflects a major downturn and projected recovery in a group of emerging market economies. By contrast, growth is expected to moderate into 2020 and beyond for a group of systemic economies comprising the United States, euro area, China, and Japan—which together account for close to half of global GDP (Figure 1).

The groups of emerging market economies that have driven part of the projected decline in growth in 2019 and account for the bulk of the projected recovery in 2020 include those that have either been under severe strain or have underperformed relative to past averages. In particular, Argentina, Iran, Turkey, Venezuela, and smaller countries affected by conflict, such as Libya and Yemen, have been or continue to be experiencing very severe macroeconomic distress. Other large emerging market economies—Brazil, Mexico, Russia, and Saudi Arabia, among others—are projected to grow in 2019 about 1 percent or less, considerably below their historical averages. In India, growth softened in 2019 as corporate and environmental regulatory uncertainty, together with concerns about the health of the nonbank financial sector, weighed on demand. The strengthening of growth in 2020 and beyond in India as well as for these two groups (which in some cases entails continued contraction, but at a less severe pace) is the driving factor behind the forecast of an eventual global pickup.

Figure 1. GDP Growth: World and Group of Four
(Percent)

The global growth pattern reflects a major downturn and projected recovery in a group of emerging market economies. By contrast, growth is expected to moderate into 2020 and beyond for a group of systemic economies.



Source: IMF staff estimates.

Note: Group of Four = China, euro area, Japan, United States.

Growth has also weakened in China, where the regulatory efforts needed to rein in debt and the macroeconomic consequences of increased trade tensions have taken a toll on aggregate demand. Growth is projected to continue to slow gradually in coming years, reflecting a decline in the growth of the working-age population and gradual convergence in per capita incomes.

Among advanced economies, growth in 2019 is forecast to be considerably weaker than in 2017–18 in the euro area, North America, and smaller advanced Asian economies. This lower growth reflects to an important extent a broad-based slowdown in industrial output resulting from weaker external demand (including from China); the widening global repercussions of trade tensions and increased uncertainty on confidence and investment; and a notable slowdown in global car production, which has been particularly significant for Germany. Growth is forecast to remain broadly stable for the advanced economy group at 1¾ percent in 2020, with a modest pickup in the euro area offsetting a gradual decline in US growth. Over the medium term, growth in advanced economies is projected

to remain subdued, reflecting a moderate pace of productivity growth and slow labor force growth as populations age.

The risks to this baseline outlook are significant. As elaborated in the chapter, should stress fail to dissipate in a few key emerging market and developing economies that are currently underperforming or experiencing severe strains, global growth in 2020 would fall short of the baseline. Further escalation of trade tensions and associated increases in policy uncertainty could weaken growth relative to the baseline projection. Financial market sentiment could deteriorate, giving rise to a generalized risk-off episode that would imply tighter financial conditions, especially for vulnerable economies. Possible triggers for such an episode include worsening trade and geopolitical tensions, a no-deal Brexit withdrawal of the United Kingdom from the European Union, and persistently weak economic data pointing to a protracted slowdown in global growth. Over the medium term, increased trade barriers and higher trade and geopolitical tensions could take a toll on productivity growth, including through the disruption of supply chains, and the buildup in financial vulnerabilities could amplify the next downturn. Finally, unmitigated climate change could weaken prospects, especially in vulnerable countries.

At the multilateral level, countries need to resolve trade disagreements cooperatively and roll back the recently imposed distortionary barriers. Curbing greenhouse gas emissions and containing the associated consequences of rising global temperatures and devastating climate events are urgent global imperatives. As Chapter 2 of the *Fiscal Monitor* argues, higher carbon pricing should be the centerpiece of that effort, complemented by efforts to foster the supply of low-carbon energy and the development and adoption of green technologies. At the national level, macroeconomic policies should seek to stabilize activity and strengthen the foundations for a recovery or continued growth. Accommodative monetary policy remains appropriate to support demand and employment and guard against a downshift in inflation expectations. As the resulting easier financial conditions could also contribute to a further buildup of financial vulnerabilities, stronger macroprudential policies and a proactive supervisory approach will be critical to secure the strength of balance sheets and limit systemic risks.

Considering the precarious outlook and large downside risks, fiscal policy can play a more active role, especially where the room to ease monetary policy is limited. In countries where activity has weakened or could decelerate sharply, fiscal stimulus can be provided if fiscal space exists and fiscal policy is not already overly expansionary. In countries where fiscal consolidation is necessary, its pace could be adjusted if market conditions permit to avoid prolonged economic weakness and disinflationary dynamics. Low policy rates in many countries and the decline in long-term interest rates to historically very low or negative levels reduce the cost of debt service while these conditions persist. Where debt

sustainability is not a problem, the freed-up resources could be used to support activity as needed and to adopt measures to raise potential output, such as infrastructure investment to address climate change.

Across all economies, the priority is to take actions that boost potential output growth, improve inclusiveness, and strengthen resilience. As the analysis presented in Chapters 2 and 3 suggests, structural policies for more open and flexible markets and improvements in governance can ease adjustment to shocks and boost output over the medium term, helping to narrow within-country differences and encourage faster convergence across countries.