FOREWORD

The global economy is in a synchronized slowdown, with growth for 2019 downgraded again—to 3 percent—its slowest pace since the global financial crisis. This is a serious climbdown from 3.8 percent in 2017, when the world was in a synchronized upswing. This subdued growth is a consequence of rising trade barriers; elevated uncertainty surrounding trade and geopolitics; idiosyncratic factors causing macroeconomic strain in several emerging market economies; and structural factors, such as low productivity growth and aging demographics in advanced economies.

Global growth in 2020 is projected to improve modestly to 3.4 percent, a downward revision of 0.2 percent from our April projections. However, unlike the synchronized slowdown, this recovery is not broad based and is precarious. Growth for advanced economies is projected to slow to 1.7 percent in 2019 and 2020, while emerging market and developing economies are projected to experience a growth pickup from 3.9 percent in 2019 to 4.6 percent in 2020. About half of this is driven by recoveries or shallower recessions in stressed emerging markets, such as Turkey, Argentina, and Iran, and the rest by recoveries in countries where growth slowed significantly in 2019 relative to 2018, such as Brazil, Mexico, India, Russia, and Saudi Arabia.

A notable feature of the sluggish growth in 2019 is the sharp and geographically broad-based slowdown in manufacturing and global trade. A few factors are driving this. Higher tariffs and prolonged uncertainty surrounding trade policy have dented investment and demand for capital goods, which are heavily traded. The automobile industry is contracting owing also to idiosyncratic shocks, such as disruptions from new emission standards in the euro area and China that have had durable effects. Consequently, trade volume growth in the first half of 2019 is at 1 percent, the weakest level since 2012.

In contrast to weak manufacturing and trade, the services sector across much of the globe continues to hold up; this has kept labor markets buoyant and wage growth healthy in advanced economies. The divergence between manufacturing and services has persisted for an atypically long duration, which raises concerns of whether and when weakness in manufacturing may spill over into the services sector. Some leading indicators, such as new services orders, have softened in the United States, Germany, and Japan, while remaining robust in China.

It is important to keep in mind that the subdued world growth of 3 percent is occurring at a time when monetary policy has significantly eased almost simultaneously across advanced and emerging markets. The absence of inflationary pressures has led major central banks to move preemptively to reduce downside risks to growth and to prevent de-anchoring of inflation expectations, in turn supporting buoyant financial conditions. In our assessment, in the absence of such monetary stimulus, global growth would be lower by 0.5 percentage points in both 2019 and 2020. This stimulus has therefore helped offset the negative impact of US–China trade tensions, which is estimated to cumulatively reduce the level of global GDP in 2020 by 0.8 percent. With central banks having to spend limited ammunition to offset policy mistakes, they may have little left when the economy is in a tougher spot. Fiscal stimulus in China and the United States have also helped counter the negative impact of the tariffs.

Advanced economies continue to slow toward their long-term potential. For the United States, trade-related uncertainty has had negative effects on investment, but employment and consumption continue to be robust, buoyed also by policy stimulus. In the euro area, growth has been downgraded due to weak exports, while Brexit-related uncertainty continues to weaken growth in the United Kingdom. Some of the biggest downward revisions for growth are for advanced economies in Asia, including Hong Kong Special Administrative Region, Korea, and Singapore, a common factor being their exposure to slowing growth in China and spillovers from US–China trade tensions.

Growth in 2019 has been revised down across all large emerging market and developing economies,

linked in part to trade and domestic policy uncertainties. In China, the growth downgrade reflects not only escalating tariffs but also slowing domestic demand following needed measures to rein in debt. In a few major economies, including India, Brazil, Mexico, Russia, and South Africa, growth in 2019 is sharply lower than in 2018, also for idiosyncratic reasons, but is expected to recover in 2020.

Growth in low-income developing countries remains robust, though growth performance is more heterogenous within this group. Robust growth is expected for noncommodity exporters, such as Vietnam and Bangladesh, while the performance of commodity exporters, such as Nigeria, is projected to remain lackluster.

Downside risks to the outlook are elevated. Trade barriers and heightened geopolitical tensions, including Brexit-related risks, could further disrupt supply chains and hamper confidence, investment, and growth. Such tensions, as well as other domestic policy uncertainties, could negatively affect the projected growth pickup in emerging market economies and the euro area. A realization of these risks could lead to an abrupt shift in risk sentiment and expose financial vulnerabilities built up over years of low interest rates. Low inflation in advanced economies could become entrenched and constrain monetary policy space further into the future, limiting its effectiveness. The risks from climate change are playing out now and will dramatically escalate in the future, if not urgently addressed.

As policy priorities go, undoing the trade barriers put in place with durable agreements and reining in geopolitical tensions top the list. Such actions can significantly boost confidence, rejuvenate investment, halt the slide in trade and manufacturing, and raise world growth. In its absence, and to fend off other risks to growth and raise potential output, economic activity should be supported in a more balanced manner. Monetary policy cannot be the only game in town and should be coupled with fiscal support where fiscal space is available and where policy is not already too expansionary. A country like Germany should take advantage of negative borrowing rates to invest in social and infrastructure capital, even from a pure cost-benefit perspective. If growth were to further deteriorate, an internationally coordinated fiscal response, tailored to country circumstances, may be required.

While monetary easing has supported growth, it is important to ensure that financial risks do not build up. As discussed in the October 2019 *Global Financial Stability Report*, with interest rates expected to be "low for long," there is a significant risk of financial vulnerabilities growing, which makes effective macroprudential regulation imperative.

Countries should simultaneously undertake structural reforms to raise productivity, resilience, and equity. As Chapter 2 of this *World Economic Outlook* demonstrates, reforms that raise human capital and improve labor and product market flexibility can help reverse a trend of growing divergence across regions within advanced economies that started in the late 1980s. The evidence points to automation—not trade shocks—as being behind the divergence in labor market performance across regions for the average advanced economy, which requires preparing the workforce for the future through appropriate skills training.

Chapter 3 makes a strong case for a renewed structural reform push in emerging market and developing economies and low-income developing countries. Structural reforms have slowed since the 2000s. The chapter shows that the appropriate sequencing and timing of reforms matters, as reforms deliver larger results during good times and when good governance is already in place.

With a synchronized slowdown and uncertain recovery, the global outlook remains precarious. At 3 percent growth, there is no room for policy mistakes and an urgent need for policymakers to cooperatively deescalate trade and geopolitical tensions. Besides supporting growth, such actions can also help catalyze needed cooperative solutions to improve the global trading system. Moreover, it is essential that countries continue to work together to address major issues, such as climate change (the October 2019 *Fiscal Monitor* provides concrete solutions), international taxation, corruption, and cybersecurity.

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