Global Economic Prospects January 2019

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The World Bank, in its recently released Global Economic Prospects Report – January 2019 titled 'Darkening Skies', has sketched gloomy outlook for the global economic growth in the upcoming years, reiterating the fears of global slowdown. Worries over trade war, weak global growth and financial stress in the developing economies are likely to weigh on global growth outlook.

For 2018, the global growth estimate has been revised downwards by 0.1 percentage points from 3.1% as per June 2018 report to 3% in January 2019 report. Likewise, in 2019, the global economic growth is projected to grow by 2.9% compared with earlier 3% amid softer international trade and manufacturing activities, elevated trade tensions and financial market pressures in some of the emerging market economies. In 2020 and 2021, the global economic growth has been forecasted to be at 2.8% in each year, 0.1 percentage point lower than earlier projections.

Despite all odds, India is expected to remain the fastest growing emerging market economy and its growth forecast has been kept unchanged at 7.3% in FY19 while the economy is expected to grow at 7.5% in the next 3 years.

Key Highlights

- The advanced economies are expected to grow at 2% in 2019, lower than 2.2% in 2018 owing to capacity constraints and withdrawal of policy accommodation except the US where fiscal stimulus is boosting the economic activities.
- Emerging and developing market economies (EMDEs) growth forecasts have been revised downwards by 0.5 percentage points to 4.2% in 2019. Slowing external demand, rising borrowing costs and persistent policy uncertainties, pressures in financial markets and weaker than expected pick up in commodity trade are likely to weigh on the growth.
- East Asia and Pacific remains one of the world's fastest-growing developing regions despite a moderated 6% growth in 2019 following broadly stable commodity prices, a moderation in global demand and trade and a gradual tightening of global financial conditions.
- In Europe and Central Asia, the growth has been revised downwards by 0.8 percentage points to 2.3% mainly on account of lingering effects of financial stress in Turkey.

- Latin American and Caribbean region growth is expected to be at 1.7%, which is likely to be supported by pick up in private consumption.
- Middle East and North Africa region is expected to grow by 1.9% in 2019 where policy reforms are expected to bolster growth.
- South Asia's growth will be at 7.1%, more than 6.9% growth in the previous year and retained at June 2018 forecasts underpinned by strengthening investment and robust consumption. This mainly reflects strengthening domestic demand in India, as the benefits of structural reforms such as GST harmonization.
- Regional growth of Sub-Saharan Africa is projected to be at 3.4% for 2019.

Table 1: Real GDP Growth (%)

	2018e	2019f	2020f	2021f
World	**3.0**	**2.9**	**2.8**	**2.8**
Advanced economies	2.2	2.0	1.6	1.5
United States	2.9	2.5	1.7	1.6
Euro Area	1.9	1.6	1.5	1.3
Japan	0.8	0.9	0.7	0.6
Emerging market and developing economies (EMDEs)	4.2	4.2	4.5	4.6
East Asia and Pacific	6.3	6.0	6.0	5.8
China	6.5	6.2	6.2	6.0
Indonesia	5.2	5.2	5.3	5.3
Thailand	4.1	3.8	3.9	3.9
Europe and Central Asia	3.1	2.3	2.7	2.9
Russia	1.6	1.5	1.8	1.8
Latin America and the Caribbean	0.6	1.7	2.4	2.5
Brazil	1.2	2.2	2.4	2.4
Mexico	2.1	2.0	2.4	2.4
Argentina	-2.8	-1.7	2.7	3.1
Middle East and North Africa	1.7	1.9	2.7	2.7
Saudi Arabia	2.0	2.1	2.2	2.2
South Asia	6.9	7.1	7.1	7.1
India*	7.3	7.5	7.5	7.5
Sub-Saharan Africa	2.7	3.4	3.6	3.7

Note: e – estimate f- forecast, * for the corresponding financial year
Source: Global Economic Prospects – Darkening Skies, January 2019, World Bank

Risks to the outlook

There are downward risks to the global growth forecast that are emanating from weaker than expected global trade and industrial activity, elevated trade tensions, heightened financial market pressures in some EMDEs and increasing borrowing costs following gradual withdrawal of accommodative policies by major central banks. A strengthening U.S. dollar, heightened financial market volatility and rising risk premiums have intensified capital outflow. Currency pressures are witnessed in some large EMDEs, with some vulnerable countries experiencing substantial financial stress. Volatile energy prices and weakened metal prices have also posed a risk to overall economic growth prospects.

- **Disorderly financial market developments** may lead to faster than expected tightening of global financial conditions, fluctuations in major currencies and contagion from financial stress to some EMDEs. The rising borrowing costs could also lead to increased investor risk aversion and capital outflows from emerging markets.

- **Escalating trade restrictions** pose a threat to cross-border trade and investments. The trade tension between the US and China, if unresolved could further hamper the global growth as it could have a spill over effect on the emerging markets.
- **Policy uncertainty and geopolitical tensions** could eventually lead to increase in financial market volatility. It could further lead to delay in capital spending by companies, which could in turn affect the global growth prospects.
- **Regional specific downside risks:** Regions are vulnerable to sudden shifts in policy that could result in fiscal slippage, decline in investment and weaker growth potential due to insufficient structural reforms.
- **Simultaneous slowdown in the two largest economies** in the US and China could bring the global economy closer to a global recession as the corporate debt vulnerability have been rising in the US while private debt in China is also increasing considerably.

However, the upside could come from possible revival in productivity leading to stronger than expected global activities.

Indian scenario

As per the report, the domestic demand is improving owing to structural reforms undertaken by the country recently and a revival in credit growth. India's growth is expected to be at 7.3% in FY19, making it a fastest growing emerging economy, as economic activity has showed sustained recovery with strong domestic demand. While investment continued to strengthen amid GST harmonization and a rebound of credit growth, consumption remained the major contributor to growth. Private consumption is projected to remain robust. As per the World Bank's estimates, current account deficit is expected to widen to 2.6% of GDP while the Inflation is projected to rise somewhat above the midpoint of the Reserve Bank of India's target range of 2-6%, mainly owing to energy and food prices.

However, the risks to the projected growth could arise from fiscal slippages, rising inflation and possibility of delays in structural reforms to address the weakness in the balance sheets of banks and non-financial corporates. The external risks pertain to a further deterioration in current accounts and a faster than expected tightening of global financial conditions.

We expect GDP to grow by 7.4% in FY19, current account deficit will be between 2.25%- 2.5% of GDP and retail inflation to average 4% for the remainder of the fiscal FY19.

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