Global Economic Prospects
Darkening Skies

JANUARY 2019
Oil prices averaged $68 per barrel (bbl) in 2018, a touch lower than June forecasts but about 30 percent higher than in 2017. While robust global oil consumption contributed to this increase, supply-side factors were the main drivers of price movements through the year. Continuing declines in production in Venezuela and market concern about the impact of U.S. sanctions on Iran contributed to rising Brent crude oil prices, which peaked at $86/bbl in early October. However, prices fell sharply in November after the United States announced temporary waivers to the sanctions on Iran for eight countries, including China and India. The decline in prices also reflected continued rapid growth in oil production in the United States, as well as a substantial increase in supply by the Organization of the Petroleum Exporting Countries (OPEC) and the Russian Federation.

Oil prices are expected to average $67/bbl in 2019 and 2020, $2/bbl lower than June projections; however, uncertainty around the forecast is high. While growth in oil demand is expected to remain robust in 2019, the expected loss in momentum across EMDEs could have a greater impact on oil demand than expected. The outlook for supply is uncertain and depends to a large extent on production decisions by OPEC and its non-OPEC partners. While these producers have agreed to cut output by 1.2mb/d for six months starting January 2019, few details have been forthcoming about the distribution of the cuts, and they may prove insufficient to reduce the oversupply of oil. Considerable uncertainty remains about the full impact of Iranian sanctions once the waivers end, as well as the outlook for Venezuelan production. Meanwhile, crude oil output in the United States is expected to rise by a further 1mb/d in 2019, with capacity constraints envisioned to ease in the second half of the year as new pipelines come onstream.

Metals prices rose 6 percent, on average, in 2018, less than previously expected. After increasing in the first half of last year, prices fell sharply in the second half following the imposition of broad-based tariffs by the United States on China’s imports (World Bank 2018d). Heightened trade tensions involving these economies have raised market concerns about global trade and investment prospects; as a result, they have clouded the outlook for demand for commodities. Industrial metals have been particularly responsive to these concerns given their many uses in the manufacture of tradable goods, with some metals such as nickel falling more than 20 percent. In contrast, the price of steel and aluminum in the United States rose following the announcement of specific tariffs on imports of those metals from a wide range of countries. Metals prices are expected to stabilize in 2019 and 2020.

While agricultural prices were roughly flat in 2018 as a whole, they declined appreciably in the second half of the year, with developments varying by commodity. Soybean prices in the United States fell substantially following the announcement of tariffs by China on imports of U.S. soybeans, while prices were higher in other countries, particularly in Brazil. The imposition of tariffs has led to trade diversion, with China’s imports of soybeans from the United States 25 percent lower in 2018 relative to 2017, while those from Brazil have risen 22 percent. More recently, the gap in prices has closed, as China has resumed purchases of U.S. soybeans. Wheat prices were slightly higher in 2018, as bad weather in Europe led to smaller harvests. Estimates for the 2018-19 crop forecast have been revised up for most commodities, and high stock-to-use ratios for rice and wheat reduce the likelihood of a food price spike. In all, agricultural prices are projected to remain broadly stable in 2019 and 2020.

**Emerging market and developing economies: Recent developments and outlook**

**EMDE growth is expected to stall at 4.2 percent in 2019, markedly below previous expectations. The forecast reflects the lingering effects of recent financial market pressure in some large economies, with a substantially weaker-than-expected pickup in commodity exporters accompanied by a deceleration in commodity importers. Growth is projected to plateau at 4.6 percent toward the end of the forecast horizon, as the recovery in commodity exporters levels**
renewed market attention to country-specific vulnerabilities and financial stress in some large economies with persistent macroeconomic fragilities—most notably, Argentina and Turkey. More generally, the weakness in activity was most pronounced in EMDEs that suffered financial market pressures in a context of elevated current account deficits and high exposure to portfolio and bank inflows (Figure 1.11). Many of these economies faced sizable currency depreciation, equity market declines, or foreign reserve losses (e.g., Angola, Argentina, Turkey, South Africa).

Domestic demand across EMDEs has generally moderated, reflecting tighter domestic borrowing conditions, softer confidence, and policy tightening in some large economies to ward off domestic price and capital outflow pressures. A rebound in EMDE gross capital formation that began in 2015 has slowed, and investor sentiment has deteriorated. On the external front, import growth has softened, partly due to sharp currency depreciations in some large economies, while export growth has also moderated, reflecting weaker external demand—notably, moderating global investment. Recent high-frequency indicators confirm the weaker momentum among EMDEs, particularly in those that have sizable current account deficits and rely heavily on portfolio and bank flows.

Commodity-exporting EMDEs

The pace of recovery in commodity exporters has weakened significantly, and activity across the group has become more heterogenous. Investor confidence has generally worsened, especially toward economies with external vulnerabilities and fragile domestic conditions (e.g., Angola, Argentina, Nigeria, South Africa). Recent declines in oil and other commodity prices have posited additional headwinds to activity.

Long-standing challenges in several large economies have resurfaced. In a number of countries, capital flows have softened, and asset prices and currencies have come under significant pressure amid weaker global trade, rising trade restrictions, and renewed investor attention to country-specific factors including sizable current account and fiscal deficits and elevated debt. As a consequence, the rebound in domestic demand off. In over 35 percent of EMDEs, per capita growth will be too low to avoid widening income gaps with advanced economies.

Recent developments

The recovery in EMDE activity has stagnated. Aggregate growth in EMDEs edged down to an estimated 4.2 percent in 2018—0.3 percentage point below previous projections—against the backdrop of a substantial strengthening of the U.S. dollar, weakening capital flows, heightened trade tensions, and moderating global manufacturing and trade. This more challenging international environment was accompanied by...
has slowed and the recovery in investment has stalled (e.g., Argentina, Iran, South Africa). Private consumption growth has also cooled following several years of continued recovery, partly reflecting the dampening impact of higher inflation and tighter lending conditions.

Among the largest commodity exporters, growth in Argentina plummeted following acute financial market stress that resulted in sharp currency depreciation and monetary policy tightening. In South Africa, activity contracted in the first half of 2018 and, despite a recovery in the second half, it remains subdued, reflecting challenges in mining production, low business confidence, and policy uncertainty. Growth in Brazil was lackluster in 2018, reflecting a trucks’ strike mid-year and heightened policy uncertainty. In Russia, growth has been resilient, supported by private consumption and exports; however, momentum has slowed, reflecting policy uncertainty, recent oil price declines, and renewed pressures on currency and asset prices. Output has contracted in a number of other commodity exporters that experienced declines in commodity production (e.g., Angola, Equatorial Guinea); social tensions (e.g., Nicaragua), or other idiosyncratic factors (e.g., sanctions in Iran).

In contrast, activity has firmed further in several oil-exporting economies where oil production rebounded in 2018 (e.g., Kuwait, United Arab Emirates). Recoveries have also continued, to varying degrees, in some large energy exporters where significant adjustments were introduced in response to the 2014-16 oil price plunge (e.g., Azerbaijan, Colombia, Saudi Arabia; World Bank 2018e, 2018f). Despite recent declines in industrial metals prices, growth among some large metals exporters has continued to show resilience (e.g., Chile, Mongolia, Peru). In addition, activity in a number of countries has been supported by infrastructure spending and foreign direct investment flows (e.g., Benin, Côte d’Ivoire, Ethiopia, Lao People’s Democratic Republic, Morocco, Senegal, Uganda; World Bank 2018g).

**Commodity-importing EMDEs**

Growth in commodity importers has decelerated, reflecting capacity constraints, moderating export growth, and deteriorated conditions in some large economies with elevated vulnerabilities and heightened policy uncertainty. Inflation has generally moved up, partly in response to higher energy prices in most of 2018 and closed or positive output gaps. Price pressures, widening fiscal and current account deficits, or in some cases currency and financial market volatility have prompted a shift to less accommodative monetary policy in some countries in this group (e.g., India, Mexico, Pakistan, the Philippines, Romania).

The moderation in activity is most evident among commodity importers with increasing capacity constraint, high current account deficits, or sizable public debt. The slowdown in Turkey—which faced a substantial deterioration in foreign investor confidence—has been especially severe. Activity is also slowing, and financial conditions have tightened, in a number of other commodity importers that have experienced financial market stress or continue to face widening fiscal and current account deficits (e.g., Pakistan, the Philippines, Romania).

Slowing Euro Area growth has diminished the positive trade and financial spillovers that had previously supported activity in several countries in Europe and Central Asia (e.g., Bulgaria, Croatia, Montenegro). However, in some economies, moderate inflation and low interest rates have supported a pickup in growth (e.g., Hungary, Poland, Serbia). Growth in Mexico remains moderate, partly owing to tighter financing conditions and domestic policy-related uncertainty.

Although activity continues to be generally more solid in Asia, external headwinds have increased. In India, growth has accelerated, driven by an upswing in consumption, and investment growth has firmed as the effects of temporary factors wane. However, rising interest rates and currency volatility are weighing on activity (World Bank 2018h). Other Asian economies (e.g., Bhutan, Cambodia, Vietnam) continue to benefit from pan-Asian infrastructure investment projects, including the China-led Belt and Road Initiative (World Bank 2018b).
Recent developments

Economic growth is gradually improving in most low-income countries (LICs), even though the external environment is becoming less favorable (Figure 1.2.1). Robust growth in several non-resource-intensive countries has been supported by agricultural production (e.g., Rwanda, Uganda) and services (e.g., Nepal, Uganda) on the production side, and household consumption (e.g., Togo, Tajikistan) and public investment (e.g., Benin, The Gambia, Nepal, Tajikistan) on the demand side. However, in Ethiopia—the largest LIC—growth lost momentum as weaker activity in the construction and manufacturing sectors was aggravated by foreign exchange shortages. Among exporters of industrial commodities, Chad emerged from two years of recession partly due to the recovery in oil prices from their 2016 trough, as well as increased oil production. In contrast, the growth performance of metals exporters was more subdued, reflecting weaker metals prices and external demand, as well as mine closures (e.g., Sierra Leone), and heightened political uncertainty (e.g., Democratic Republic of Congo).

Progress on poverty reduction in LICs continues to be disappointing, with more than 40 per cent of the population in these countries living in extreme poverty—i.e., earning below $1.90 per day. And while this ratio has remained broadly unchanged in recent years, insufficient per capita GDP growth, especially in economies affected by fragility, conflict, and violence, means that the poverty headcount is rising.

Current account deficits are estimated to have widened in several countries in 2018. Among non-resource-intensive economies, as well as metals exporters, external balances have deteriorated as exports declined in response to weaker external demand and moderating metals prices and the effect of rising fuel prices on import bills. In contrast, oil exporters, such as Chad, recorded smaller deficits, helped by higher oil export earnings.

The financing of current account deficits has become more challenging amid a less supportive external environment, as foreign direct investment (FDI) inflows slowed in almost 40 percent of countries (e.g., Mozambique, Tanzania, Zimbabwe; UNCTAD 2018). FDI inflows, in particular to LICs, are more vulnerable to fluctuations in international financial conditions (Burger and Ianchovichina 2017). However, in some countries, reduced political uncertainty and improved investor sentiment have supported stronger FDI inflows (e.g., Benin, The Gambia). In addition, remittance flows have recovered in several countries as growth in selected advanced economies improved in recent years (e.g., Benin, Guinea-Bissau, Haiti; World Bank 2018). Nevertheless, for many LICs, the accumulation of sufficient international reserves remains difficult, leaving them below the three-months-of-imports benchmark and highly vulnerable to negative shocks.

Fiscal deficits generally widened among the LICs, with the median deficit increasing from 3.3 percent of GDP in 2017 to an estimated 3.5 percent in 2018. The deterioration reflected rising fiscal deficits among several industrial-commodity-exporting LICs as moderating metals prices dampened revenues. However, in oil-exporting countries (e.g., Chad), higher oil revenues combined with improved non-oil revenue collection yielded a fiscal surplus, and in some non-resource-intensive countries, fiscal consolidation delivered narrower fiscal deficits (e.g., Benin, The Gambia).

Debt levels remain elevated in many countries and continue to rise. In Liberia and Sierra Leone, the debt-to-GDP ratio has increased more than twofold over the last five years, driven by a significant slowdown in growth and continually weak revenue collection (Liberia) and a depreciating exchange rate coupled with new borrowings (Sierra Leone). In addition to the rise in debt ratios, changes in the composition of debt have made some countries more vulnerable to shifts in international financing conditions (Chapter 4). As countries have gained

Note: This box was prepared by Rudi Steinbach. Research assistance was provided by Hazel Macadangdang.
access to international capital markets and non-resident participation in domestic debt markets expanded, non-concessional debt has increased, reaching more than 30 percent of total public debt in several LICs (e.g., Ethiopia, Mozambique, Senegal) and over half of total public debt in Zimbabwe.

As a result, debt sustainability has deteriorated in several LICs. By late 2018, The Gambia, Mozambique, South Sudan, and Zimbabwe were classified as in debt distress under the IMF–World Bank debt sustainability framework. In addition, Ethiopia was downgraded during the year from a moderate-risk to high-risk rating.

**Outlook**

Growth in LICs is expected to improve, rising to 5.9 percent in 2019 and an average of about 6.3 percent in 2020-21 (Figure 1.2.2). While the growth recovery among the metals exporters is expected to be sluggish, as lower revenues constrain fiscal spending, growth among oil exporters is expected to be spurred by higher oil
growth among the LICs is expected to improve. In non-resource-intensive economies, growth will be supported by stronger agriculture production and continued infrastructure investment, while oil exporters should benefit from higher oil production. However, weaker metals prices and subdued external demand imply a sluggish recovery in metals exporters. Moreover, progress on poverty reduction in LICs is expected to be slow, as per capita income growth still remains modest, especially among fragility, conflict, and violence-affected economies.

**A. GDP growth forecasts**

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<tr>
<th>Year</th>
<th>LICs</th>
<th>Industrial commodity exporting LICs</th>
<th>Non resource-intensive LICs</th>
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**B. Per capita GDP growth**

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<th>Year</th>
<th>LICs</th>
<th>FCV-affected economies</th>
<th>LICs ex FCV-affected economies</th>
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Note: Shaded area indicates forecasts. Industrial commodity countries include energy- and metal-based economies, and the sample includes 8 countries. Non-resource intensive countries include agricultural exporters and commodity importers, and the sample includes 22 countries.

A. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights.

B. FCV = fragility, conflict, and violence. Aggregate per capita growth rates calculated using the total GDP for each subgroup divided by its total population. Afghanistan, Liberia, and Tajikistan are excluded due to data limitations.

**Risks**

The economic outlook is dominated by downside risks. On the external front, slower-than-projected growth in major world economies—such as the United States, Euro Area, or China—would adversely affect export demand and investment in several LICs, specifically countries that are heavily dependent on these large economies for trade and investment flows. Moreover, escalating trade tensions involving major economies (e.g., rising tariffs between the United States and China) would be detrimental to LICs that depend on extractive industries—specifically metals producers, as metals prices are likely to fall faster than other commodity prices in response (World Bank 2018j). Furthermore, an unexpected deterioration in international financial conditions could disrupt capital inflows (IMF 2018b), fuel disorderly exchange rate depreciations, and raise financing costs, especially in LICs with weaker macroeconomic fundamentals or higher political risks. Sharp increases in debt-servicing costs, specifically foreign-currency-denominated debt, would undermine much-needed fiscal consolidation efforts and crowd out poverty-reducing expenditures.

Risks to debt sustainability are high, as several countries are either already in debt distress or facing high risk thereof, according to the IMF–World Bank debt sustainability framework for LICs (Chapter 4). The recent increased reliance on foreign currency borrowing has...
increased the extent to which debt sustainability is vulnerable to sharp currency depreciations.

Weather-related shocks, such as flooding or severe and prolonged drought episodes remain an important risk for many LICs. A return of the drought conditions experienced in recent years would undermine the ongoing recovery in agricultural production. In addition, lower agricultural output, and the food price spikes that are likely to follow, could adversely affect poverty rates in many LICs, especially countries where agricultural activity accounts for a dominant share of domestic value added (e.g., Chad, Sierra Leone), or is the prevailing source of employment (e.g., Burkina Faso, Burundi; Chapter 4).

Health crises are a continuous concern. The recent Ebola outbreak in the Democratic Republic of Congo could have a detrimental impact on economic activity in the country and the sub-region should it spread to major urban centers and to neighboring countries.
**BOX 1.3 Regional perspectives: Recent developments and outlook**

The cyclical upswing in regions with many commodity exporters (such as Latin America and the Caribbean, and the Middle East and North Africa) is proceeding at a more moderate pace than previously anticipated, partly reflecting a substantial slowdown in some large economies, and is expected to plateau toward the end of the forecast horizon. Growth in regions with large numbers of commodity importers (such as South Asia and East Asia and the Pacific) is projected to remain solid at around 6-7 percent. For all regions, risks to the outlook are increasingly tilted to the downside.

**East Asia and Pacific.** Growth is projected to moderate to a still-robust pace of about 6 percent in 2019 and remain near that level over the forecast period, in line with earlier projections. In China, policies aimed at rebalancing the economy and countering the impact of higher U.S. tariffs will continue to tilt activity toward consumption and away from exports. Excluding China, regional growth is expected to remain steady at 5.2 percent over the forecast horizon. Risks to regional growth are to the downside and have intensified. They include a further escalation of trade restrictions and a faster-than-expected tightening of global financing conditions. Highly leveraged economies and countries with sizable external financing needs are particularly vulnerable to disruptions in real and financial activity.

**Europe and Central Asia:** Growth fell to an estimated 3.1 percent in 2018, driven by a slowdown in Turkey and in Central European economies. Turkish growth for this year has been revised sharply down due to substantial financial market stress and the associated economic effects, contributing to a deceleration in regional growth in 2019 to 2.3 percent. Growth in the region is expected to pick up to 2.7 percent in 2020, as a rebound in Turkey offsets a moderation in activity among other commodity importers. Risks are tilted to the downside and growing. They include the possibility of renewed stress in Turkey alongside larger-than-expected spillovers to the rest of the region, and unexpected shifts in policy.

**Latin America and the Caribbean.** Growth stalled at 0.6 percent in 2018, held back by a currency crisis and drought in Argentina, a truckers’ strike in Brazil, and worsening conditions in Venezuela. Although regional growth is projected to strengthen over the forecast horizon, the improvement will be weaker than previously expected, partly owing to the effects of financial market tightening and trade policy uncertainty. However, firming momentum in Brazil and Colombia, together with gradual improvements in Argentina, will push regional growth to 1.7 percent in 2019 and 2.4 percent in 2020. Downside risks dominate, including the possibility of an abrupt further tightening of external financial conditions, a further escalation of domestic or international trade policy uncertainty, adverse market responses to fiscal conditions, and disruptions from natural disasters.

**Middle East and North Africa.** Growth in the region is expected to pick up slightly to 1.9 percent in 2019, but prospects are uneven across countries. Accelerating activity in Saudi Arabia and Egypt is expected to be offset by a sharp contraction in Iran following the imposition of U.S. sanctions. Increased oil production and fiscal easing are supporting the recovery in some oil exporters, while oil importers continue to benefit from policy reforms. Regional growth is projected to rise to 2.7 percent in 2020-21, as domestic demand among both oil importers and exporters shows a broad-based pickup, supported by reforms and diversification policies. Key downside risks include the possibility of intensified geopolitical tensions, renewed volatility in oil prices, rising global trade restrictions, an abrupt tightening of global financing conditions, and delays in reform implementation.

**South Asia.** Growth is projected to accelerate to 7.1 percent in 2019. This mainly reflects strengthening domestic demand in India, as the benefits of structural reforms such as GST harmonization and bank recapitalization take effect. Elsewhere in the region, the forecast is for a moderation in activity, notably in Bangladesh and Pakistan. Over the medium term, growth is expected to remain at 7.1 percent, underpinned by robust domestic demand in the region. External vulnerabilities are rising, reflected in mounting external debt, widening current account deficits, and eroding foreign reserves. Risks to the outlook are to the downside. On the domestic front, vulnerabilities are being exacerbated by fiscal slippages and rising inflation, and there is a risk of delays in structural reforms to address balance sheet issues in the banking and non-financial corporate sectors. Key external risks include a further deterioration in current accounts and a faster-than-expected global financial tightening.

**Sub-Saharan Africa.** Regional growth reached an estimated 2.7 percent in 2018—a downward revision from previous projections, reflecting a sluggish expansion in the

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Note: This box was prepared by Patrick Kirby, with contributions from Yoki Okawa, Rudi Steinbach, Temel Taskin, Ekaterine Vashakmadze, Dana Vorisek, and Lei Ye. Research assistance was provided by Hazel Macadangdang.
Low-income countries

Economic activity has continued to strengthen in most low-income countries (LICs; Box 1.2). Increased agricultural production in the wake of easing drought conditions is supporting robust growth in several non-resource-intensive countries (e.g., Rwanda, Uganda), as well as infrastructure investment related to reforms (e.g., Benin, Senegal). However, in Ethiopia—the largest LIC—growth lost momentum as weaker activity in the construction and manufacturing sectors was aggravated by foreign exchange shortages. Among region’s largest economies amid moderate trade growth, tightening financial conditions, and weak prices for key metals and agricultural commodities. Regional growth is expected to pick up, reaching 3.4 percent in 2019 and an average of 3.7 in 2020-21, predicated on diminished policy uncertainty and improved investment in large economies, together with continued robust growth in non-resource-intensive countries. Per capita income growth is predicted to remain well below its long-term average in many countries, yielding little progress in poverty reduction. Downside risks include the possibility of slower-than-projected growth in China and the Euro Area, further declines in commodity prices, a sharp tightening of global financing conditions, fiscal slippage, stalled structural reforms, and conflict.

Exporters of industrial commodities, growth performances have varied. Chad emerged from two years of recession partly due to the recovery in oil prices from their 2016 trough, as well as increased oil production. However, for metal exporters, growth was more subdued, reflecting weaker metals prices and external demand. Lower export growth, combined with higher fuel-related imports, has caused current account deficits to widen in many LICs. In addition, the less favorable external environment is making the financing of these deficits more challenging. Moreover, government debt has continued to rise,
EMDE growth is expected to stall at 4.2 percent in 2019, well below previous forecasts, partly reflecting the lingering effects of financial stress in some large economies. EMDE growth is subsequently projected to plateau at 4.6 percent, as the recovery in commodity exporters levels off. Growth is close to upper estimates of potential in commodity importers, while slack remains in commodity exporters. A decreasing share of EMDEs will see further acceleration in activity, in part reflecting a less favorable external environment. Drivers of long-term growth suggest softening potential over the next decade.

Growth outlook

EMDE growth is expected to be close to the upper bound of estimates of its potential pace—particularly among commodity importers, where slack has largely been exhausted.

Growth in commodity exporters is projected to pick up to 2.3 percent in 2019—sharply below previous expectations—and plateau at 2.9 percent in both 2020 and 2021. Some large economies that experienced sizable contractions in activity in 2018 are expected to gradually recover over the forecast horizon (e.g., Angola, Argentina, Iran). The outlook for commodity exporters is uneven, however, partly owing to renewed market attention to country-specific vulnerabilities. Projections for about half of commodity exporters have been downgraded for 2019. Downward revisions reflect, to varying degrees, more adverse financial conditions and the resulting policy adjustment, softening confidence, lingering effects of strikes and political uncertainty, and weaker commodity prices and mining bottlenecks. These downward revisions are also reflected in forecasts for EMDE regions with a substantial number of commodity exporters (Box 1.3; Chapter 2).

Growth in commodity importers is expected to moderate to 5.5 percent in 2019 and remain steady at 5.6 percent in both 2020 and 2021—broadly in line with its potential rate. A structural as fiscal deficits remain elevated due to commodity-related declines in revenue, as well as governance challenges in some countries (Chapter 4).

FIGURE 1.12 EMDE growth prospects

EMDE growth is expected to remain at 4.2 percent in 2019, well below previous forecasts, partly reflecting the lingering effects of financial stress in some large economies. EMDE growth is subsequently projected to plateau at 4.6 percent, as the recovery in commodity exporters levels off. Growth is close to upper estimates of potential in commodity importers, while slack remains in commodity exporters. A decreasing share of EMDEs will see further acceleration in activity, in part reflecting a less favorable external environment. Drivers of long-term growth suggest softening potential over the next decade.

Growth in EMDEs is foreseen to increase to 4.5 percent in 2020, with a large part of this acceleration reflecting the projected dissipation of severe headwinds in a few large economies (e.g., Argentina, Iran, Turkey). In 2021, EMDE growth is expected to plateau at 4.6 percent as the recovery in commodity exporters matures. Throughout the forecast horizon, the international context is expected to be increasingly less favorable, in light of a projected slowdown in advanced-economy growth, weakening trade and investment, tighter financing conditions, and trade policy uncertainty. These factors will impede further acceleration in EMDE activity.

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slowdown in China is expected to be partly offset by a moderate pickup in other large economies in this group. In commodity importers excluding China, a downgrade to growth projections of 0.4 percentage point this year partly reflects the worsened outlook for Turkey as a result of the effects of recent financial market stress, and, to a lesser degree, in some other large economies (e.g., Pakistan, Romania).

Growth in LICs is expected to improve, rising to 5.9 percent in 2019 and 6.3 percent in 2020-21. However, for metals exporters, growth will be more sluggish than previously envisioned, with lower revenues constraining fiscal spending. In contrast, oil exporters should benefit from higher oil production and improving domestic demand. Economic activity is expected to remain robust in non-resource-intensive LICs. In fast-growing countries (e.g., Rwanda, Tanzania), the expansion will be supported by public investment in infrastructure and strong agricultural growth. Similarly, infrastructure investment related to structural reforms should sustain Senegal’s growth recovery. While growth in Ethiopia is expected to remain strong, it will be weighed down by a tighter fiscal stance, as the government aims to stabilize public debt.

In the longer run, the underlying potential growth of EMDEs has fallen considerably over the past decade, reflecting softening productivity growth and, to a lesser degree, slowing capital accumulation and less favorable demographic trends (Vorisek et al. forthcoming; World Bank 2018k). Potential growth in EMDEs is expected to further decline, as its fundamental drivers continue to weaken. Moreover, tightening global financing conditions, higher borrowing costs, moderating capital flows, and lingering policy uncertainty are likely to hamper investment growth in coming years, further constraining potential growth.

**Outlook for per capita income and poverty**

Per capita income growth in EMDEs is expected to stabilize at 3 percent in 2019—insufficient to narrow income gaps with advanced economies in over 35 percent of countries (Figure 1.13). The share will be even greater among commodity exporters (41 percent) and in countries affected by fragility, conflict, and violence (nearly 60 percent).

Although the extreme poverty rate—defined at a threshold of $1.90 per day—has fallen below 3 percent in more than half of the world’s economies in recent years, nearly one-fifth of countries faced rates above 30 percent in 2015, with the average for LICs standing above 40 percent. Poverty rates remain the highest among LICs, but the majority of extreme poor currently reside in large lower-middle-income countries, including India and Nigeria. Current growth