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World economic situation and prospects as of mid-2019*

Summary

The global growth outlook has weakened amid unresolved trade tensions and elevated international policy uncertainty. Across both developed and developing countries, growth projections for 2019 have been downgraded. Alongside a slowdown in international trade, business sentiments have deteriorated, casting a cloud over investment prospects. In response to softening economic activity and subdued inflationary pressures, major central banks have eased their monetary policy stances.

While part of the growth slowdown reflects temporary factors, downside risks remain high. Prolonged trade disputes could have significant spillovers, including through weaker investment and the disruption of production networks. While recent monetary policy shifts have reduced short-term financial pressures, they may further fuel debt accumulation, increasing medium-term risks to financial stability. These persistent macroeconomic risks are compounded by the greater frequency and intensity of natural disasters, exemplifying the rise in the effects of climate change.

In the face of these multifaceted challenges, tackling the current growth slowdown and placing the world economy on a robust path towards implementation of the 2030 Agenda for Sustainable Development require more comprehensive and well-targeted policy responses. This should include a combination of monetary, fiscal and development-oriented measures. A coordinated multilateral approach to global climate policy, including a price on carbon, is an important element of this policy mix. In this regard, increasing use of internal CO_2 prices by the private sector indicates some willingness by firms to adapt to expected policy changes.

The deterioration of the growth prospects of many countries that are already lagging behind poses additional challenges to sustainable development, especially to achieving the goal of universal eradication of extreme poverty by 2030. Future progress on poverty reduction will depend to a significant extent on the effective management of ongoing urbanization, particularly in Africa and South Asia.

* The present document updates *World Economic Situation and Prospects 2019* (United Nations publication, Sales No. E.19.II.C.1), released in January 2019.

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I. Global macroeconomic trends

A. Global overview

The short-term outlook for the global economy has weakened

1. The global economy is experiencing a broad-based growth slowdown, reinforcing indications in *World Economic Situation and Prospects 2019* that the current growth cycle may have peaked. In tandem with the slowing of industrial production, there has been a visible weakening in international trade activity, reflecting in part unresolved trade disputes between China and the United States of America. Indicators also point to deterioration in economic sentiment and business confidence, amid persistently high uncertainty within the international policy environment. In many developed and developing countries, the moderation in growth of gross domestic product (GDP) has been more pronounced than expected, as some risks to economic activity materialized. Slowing economic activity and low inflationary pressures have prompted shifts in the monetary policy stances of major central banks. While looser monetary conditions have contributed to some degree of stabilization in global financial markets and capital flows, the world economy continues to face considerable downside risks arising from persistent trade tensions, the build-up of financial imbalances and intensifying climate change. Against this backdrop, world gross product growth is now expected to moderate from 3.0 per cent in 2018 to 2.7 per cent in 2019 and to 2.9 per cent in 2020, reflecting a downward revision of *World Economic Situation and Prospects 2019* forecasts released in January 2019 (table 1).

2. Amid elevated downside risks, many countries currently have limited macroeconomic policy space for mitigation of the effects of an adverse shock. The increasingly challenging economic environment is casting a shadow over the prospects for achieving the Sustainable Development Goals. Growth of GDP per capita is expected to remain weak in large parts of Africa, Latin America and the Caribbean and Western Asia, complicating poverty reduction efforts in those regions (figure I). In addition, many developing countries continue to face increasing risks from climate change, which threatens their economic prospects. These challenges highlight the urgent need to strengthen multilateralism and address existing gaps in development financing.[1]

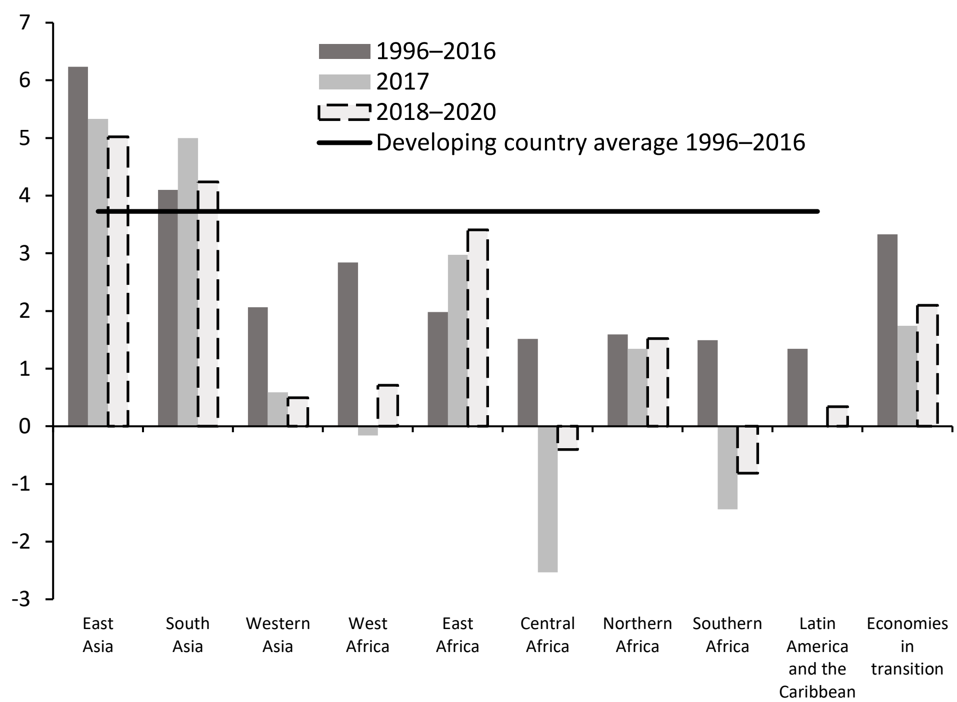
[1] Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2019* (United Nations publication, Sales No. E.19.I.7).

Table 1
Growth of world output, 2017–2020

	Annual percentage change				*Change from* World Economic Situation and Prospects 2019 *forecast*	
	2017	*2018*[a]	*2019*[b]	*2020*[b]	*2019*	*2020*
World	3.1	3.0	2.7	2.9	-0.3	-0.1
Developed economies	2.3	2.2	1.8	1.8	-0.3	-0.1
United States of America	2.2	2.9	2.3	2.1	-0.2	0.1
Japan	1.9	0.8	0.8	1.0	-0.6	-0.2
European Union	2.4	1.9	1.5	1.8	-0.5	-0.3
EU-15	2.2	1.7	1.3	1.6	-0.5	-0.2
EU-13	4.7	4.3	3.6	3.4	0.0	-0.1
Euro area	2.4	1.8	1.4	1.6	-0.5	-0.3
Other developed countries	2.5	2.3	2.1	2.2	-0.2	0.0
Economies in transition	2.0	2.7	2.0	2.3	0.0	-0.3
South-Eastern Europe	2.4	3.9	3.4	3.2	-0.3	-0.5
Commonwealth of Independent States and Georgia	2.0	2.7	1.9	2.3	-0.1	-0.2
Russian Federation	1.6	2.3	1.4	2.0	0.0	-0.1
Developing economies	4.4	4.3	4.1	4.5	-0.2	-0.1
Africa	2.6	2.7	3.2	3.7	-0.2	0.0
Northern Africa	3.2	2.6	3.1	4.2	-0.3	0.7
East Africa	5.9	6.1	6.4	6.5	0.0	0.0
Central Africa	0.1	1.3	2.7	2.7	0.2	-1.1
West Africa	2.5	3.2	3.5	3.6	0.1	-0.2
Southern Africa	0.9	0.9	1.4	2.1	-0.7	-0.5
East and South Asia	6.1	5.8	5.4	5.6	-0.1	-0.1
East Asia	6.0	5.8	5.5	5.5	-0.1	0.0
China	6.8	6.6	6.3	6.2	0.0	0.0
South Asia	6.3	5.7	5.0	5.8	-0.4	-0.1
India[c]	7.1	7.2	7.0	7.1	-0.6	-0.4
Western Asia	2.5	2.5	1.7	2.6	-0.7	-0.8
Latin America and the Caribbean	1.1	0.9	1.1	2.0	-0.6	-0.3
South America	0.6	0.3	0.7	2.0	-0.7	-0.3
Brazil	1.1	1.1	1.7	2.3	-0.4	-0.2
Mexico and Central America	2.4	2.3	2.0	2.1	-0.5	-0.2
Caribbean	0.0	1.9	1.9	2.5	-0.1	0.5
Least developed countries	4.2	4.8	4.6	5.8	-0.5	0.1
***Memorandum items*:**						
World trade[d]	5.3	3.6	2.7	3.4	-1.0	-0.5
World output growth with purchasing power parity (PPP)-based weights	3.7	3.6	3.3	3.6	-0.3	-0.1

Source: UN/DESA.
[a] Partial estimation.
[b] UN/DESA forecasts.
[c] Fiscal year basis.
[d] Including goods and services.

Figure I
Average annual GDP per capita growth by region, 1996–2016
Percentage



Source: UN/DESA.
Note: Figures for 2018 are estimates; figures for 2019–2020 are projections.

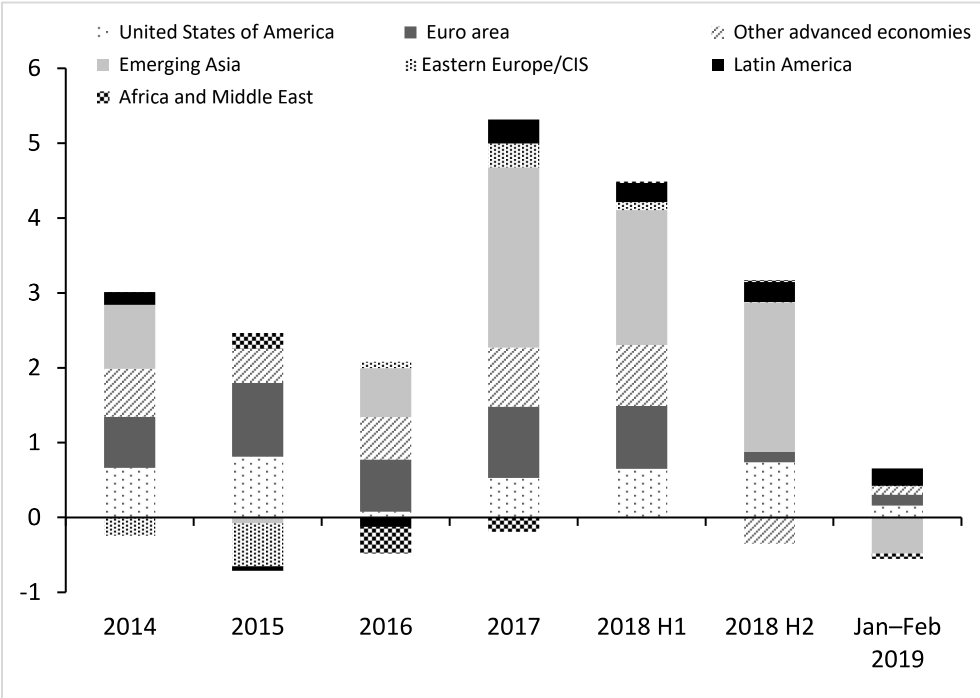
The slowdown in world trade activity is weighing on global growth

3. The weaker growth outlook across most regions is attributable to a confluence of external and domestic factors. On the external front, persistent trade tensions and higher tariffs have weighed on the trade performance of many developed and developing countries. Not only have rising barriers to trade directly impacted global trade flows, but they have also increased uncertainty, affecting business and consumer confidence.

4. As a result, growth of global merchandise trade volume slowed more sharply than expected, particularly in late 2018 and early 2019 (figure II). Data from the United States Census Bureau show that bilateral merchandise trade between China and the United States has declined by more than 15 per cent since September 2018, when the second round of tariffs came into effect. This has also impacted global value chains in East Asia and other trading partners.

Figure II
Contribution to global merchandise import volume growth by region, 2014–2019

Percentage points



Abbreviations: H1, first half; H2, second half.
Source: UN/DESA, based on data from Netherlands Bureau for Economic Policy Analysis (CPB).
Note: While regional groupings are not strictly comparable with those used in *World Economic Situation and Prospects,* they do still illustrate regional tendencies.

Volatility in global commodity prices persists

5. Elevated trade-related headwinds have been compounded by continued volatility in global commodity prices. Oil prices have recovered from the recent lows in December 2018, with the Brent spot price reaching $75 per barrel in April 2019. The assumptions underlying the economic forecasts made in *World Economic Situation and Prospects* are that Brent spot prices will average $65.5 in 2019 and $65 in 2020. However, those assumptions are subject to high uncertainty. With global oil demand expected to decelerate and United States crude oil production growing, an effective extension of the production agreement led by the Organization of the Petroleum Exporting Countries (OPEC) would be a key determinant of crude oil prices in 2019. Significant supply disruptions and a spike in oil prices related to geopolitical factors remain a possibility, given the situation in Iran (Islamic Republic of), Libya and Venezuela (Bolivarian Republic of). As regards other commodity prices, those of agricultural commodities are generally expected to remain weak in the near term. However, localized spikes of food prices in parts of Africa and Western Asia due to weather-related shocks and conflicts cannot be ruled out.

External headwinds affecting growth are compounded by domestic factors

6. Growth projections for 2019 have been revised downward in all major developed economies. In the United States, the growth momentum is projected to moderate as headwinds arising from trade policy are compounded by the waning

effects of fiscal stimulus. In Europe, while the effects of auto production disruptions are expected to dissipate, economic activity will be dampened by weaker confidence, softer external demand and the prolonged uncertainty generated by Brexit-related developments. In Japan, weak external demand has weighed on investment in the manufacturing sector, while household consumption remains sluggish.

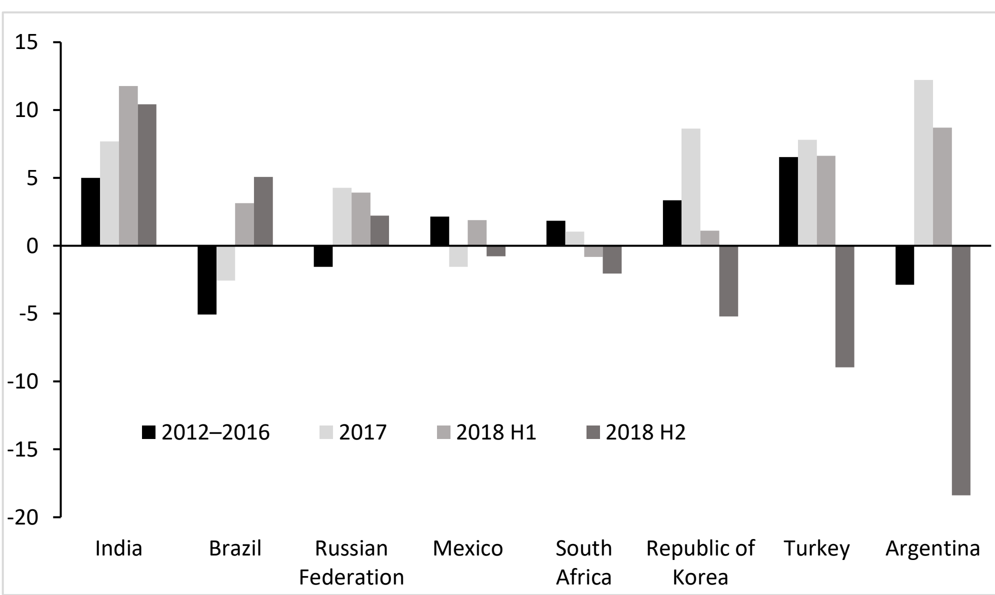
7. The growth outlook for many developing economies has also weakened. Latin America and the Caribbean, Southern Africa and Western Asia have given rise to particularly large downward revisions for growth in 2019. The weaker prospects for Southern Africa are attributable to the devastation caused by Cyclone Idai, coupled with a subdued outlook for the economy of South Africa, which is severely hampered by power shortages. In Western Asia, growth in Saudi Arabia is projected to slow amid oil production cuts, while Turkey will emerge from recession only gradually, following a sharp contraction in domestic demand in the second half of 2018. The revision downward of the outlook for Latin America and the Caribbean reflects weaker-than-expected activity in the region's largest economies – Argentina, Brazil and Mexico – and a further severe contraction in Venezuela (Bolivarian Republic of). In contrast, growth prospects remain favourable in other developing regions, most notably East Africa and East Asia. In China, recent policy stimulus measures will largely offset the adverse effects of trade tensions. Despite downward revisions, growth in India remains strong amid robust domestic demand.

Renewed weakness in investment may dampen the medium-term outlook

8. In the second half of 2018, gross fixed capital formation growth moderated, including in several large developing and transition countries (figure III). The prolonged period of high uncertainty in the global policy environment has hampered business sentiments and weighed on capital spending, particularly in trade-oriented sectors. A sharper and more protracted downturn in international trade activity could significantly impact the medium-term growth outlook of trade-dependent economies.

Figure III
Annual growth of gross fixed capital formation in selected emerging economies, 2012–2018

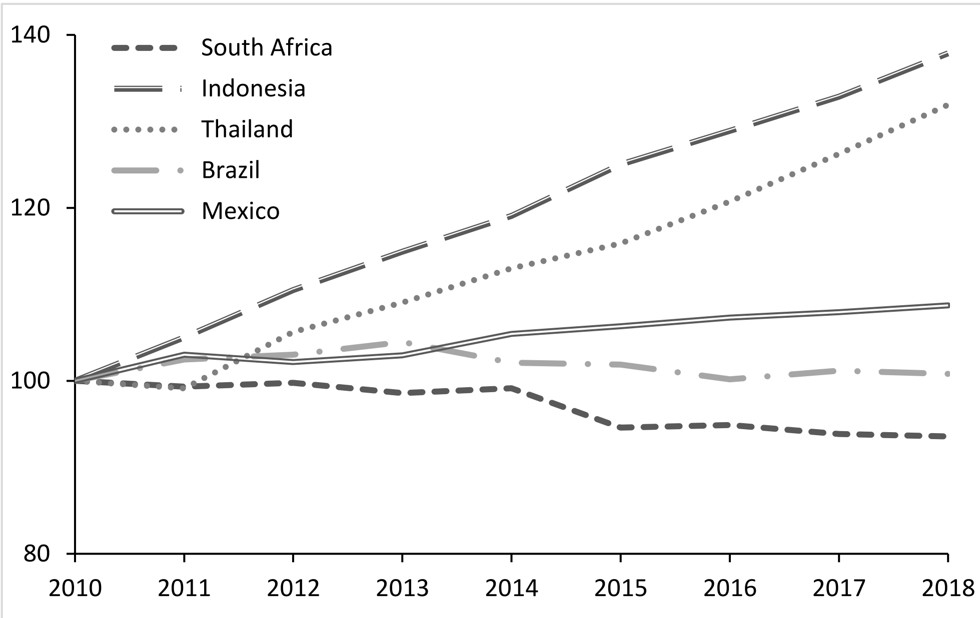
Percentage



Abbreviations: H1, first half; H2, second half.
Source: UN/DESA, based on CEIC Data and national authorities.

9. In many developing countries, investor confidence has been adversely affected also by elevated domestic policy uncertainties, amid persistent structural challenges. In several large economies, such as Brazil, Mexico and South Africa, the inability to achieve a sustained revival in investment could weigh on already weak long-term productivity growth (figure IV), further impeding their sustainable development prospects.

Figure IV
Productivity trends in selected emerging economies, 2010–2018
Output per employed person in 2017 US dollars (2010 = 100)



Source: UN/DESA, based on the Conference Board Total Economy Database™ (adjusted version), November 2018.

Growth prospects of least developed countries have weakened

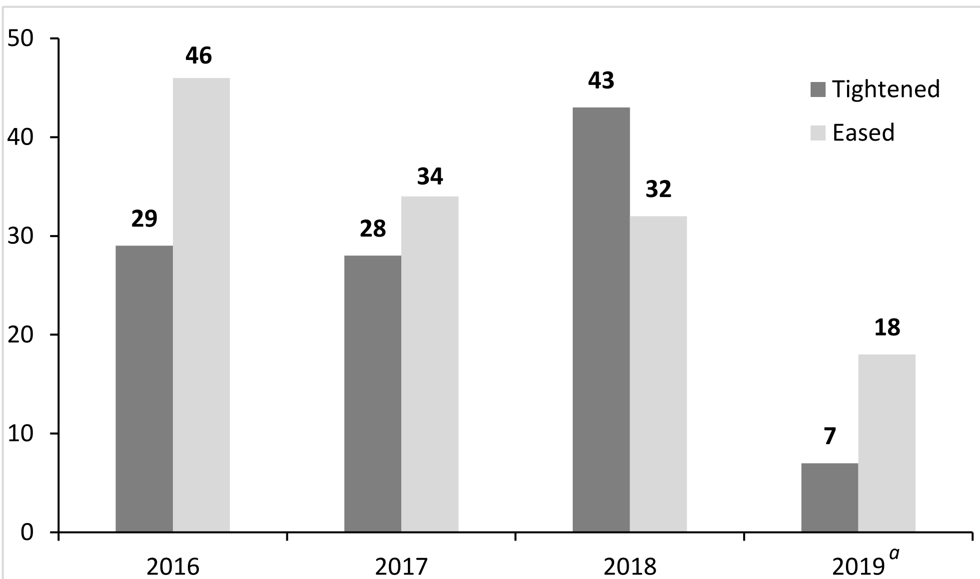
10. Economic projections for the least developed countries have also been downgraded from those projections reported in *World Economic Situation and Prospects 2019*. After expanding by 4.8 per cent in 2018, GDP growth is projected to decline slightly to 4.6 per cent in 2019, before improving so as to reach 5.8 per cent in 2020. Thus, achievement of Sustainable Development Goal 8.1 (at least 7 per cent annual GDP growth in the least developed countries) remains a distant prospect. In the near term, living conditions in countries such as Afghanistan, Angola, Burundi, Haiti and Lesotho are expected to improve only slightly. In addition, the aforementioned Cyclone Idai has caused a humanitarian crisis in Mozambique, a country that already faces extremely difficult economic conditions, amid a prolonged debt crisis and political instability. Against this backdrop, there are concerns regarding the country's capacity to manage mounting public health and food security challenges and to mobilize financial resources for reconstruction.

B. Macroeconomic policies and financial markets

Monetary policy stances are shifting

11. The slowdown in global economic activity has triggered a shift across many developed and developing economies towards easier monetary policy stances (figure V). This shift is taking place in an environment of subdued global inflation, amid weakening demand and a moderate outlook for global commodity prices. Among the developed economies, headline inflation generally remains below central bank targets. Across the developing regions, including Africa and Latin America, inflationary pressures have also eased, reflecting in part more stable exchange rates and improved agricultural production.

Figure V
Monetary policy shifts, 2016–2019
Number of central banks (sample covers 95 central banks)



Source: UN/DESA, based on Central Bank News.
[a] As of 25 April 2019.

12. In March, the United States Federal Reserve (the Fed) lowered its expectations from two to zero rate hikes in 2019, while maintaining the target range for the federal funds rate at 2.25–2.50 per cent. The Fed will also begin to slow the pace of its balance sheet normalization. In efforts to boost credit growth, the European Central Bank recently launched a new series of targeted longer-term refinancing operations and decided to delay any increase in interest rates until at least 2020. Meanwhile, China further lowered the reserve requirement ratios for banks in early 2019 to improve domestic liquidity conditions. Given increased uncertainty over growth prospects, a few large developing economies, including Egypt, India and Nigeria, have also reduced their key policy rates.

Financial market conditions have eased but stability risks remain

13. Recent monetary policy shifts have helped stabilize global financial conditions and have pushed up asset prices. After confronting significant financial pressures in the second half of 2018, capital flows to emerging economies recovered in early 2019, with a modest increase projected for the rest of the year. However, financial markets

remain prone to abrupt shifts in investor sentiments and risk assessments. Furthermore, emerging economies continue to face the challenge of translating capital inflows into productive domestic investments.

14. While the easing of monetary policy may have reduced some short-term risks, it is still unlikely to boost domestic demand significantly in countries with highly leveraged household and corporate sectors. Moreover, high policy uncertainty, particularly surrounding unresolved trade disputes and the Brexit process, may also limit the effectiveness of monetary policy. For many economies, a more protracted period of monetary accommodation could exacerbate financial imbalances, thus raising medium-term risks to financial stability.

Fiscal policy space is constrained in many countries

15. As monetary policy space remains limited, more countries worldwide are adopting easier fiscal policy stances in order to bolster growth. However, the ability of many economies to introduce large-scale fiscal stimulus measures is limited, given persistent fiscal deficits and elevated public debt levels. For commodity-dependent economies, fiscal space remains constrained, as commodity prices are still well below levels seen before 2014.

16. The extended period of low global interest rates fuelled an increase in borrowing by Governments. In this regard, many countries have seen a significant rise in interest burdens, undermining their governments' capacities to utilize fiscal policy to pursue development objectives. In 2018, interest payments alone exceeded 20 per cent of government revenue in several countries in Africa, Latin America and South Asia. Those countries are also particularly vulnerable to shifts in financial conditions, through a rise in borrowing costs, currency depreciations or commodity price shocks. Of particular concern is the rising number of low-income countries that are either already facing difficulties in servicing their debt or at a high risk of debt distress.[2]

17. Given the increasing downside risks to growth and limited fiscal resources, policymakers in many countries face the challenge of simultaneously supporting short-term economic activity and preserving fiscal sustainability. In this environment, there is a risk that policymakers would delay implementing the structural reform measures necessary to address sustainable development challenges, including eradicating poverty, tackling rising inequality and enhancing climate change resilience. For most countries, there is a need to improve the efficiency of fiscal spending, through the channelling of expenditure towards measures that will promote more inclusive and sustainable growth prospects. Further, measures designed to improve fiscal management are also important for the strengthening of public finances and the preservation of confidence. Those measures include improving the allocation of expenditure, expanding the tax base and ensuring that public borrowing is channelled towards productive investment.

C. Risks to the outlook

18. The baseline scenario rests on the assumption that current economic and financial conditions will not deteriorate further. However, with major downside risks prevailing, there is a significant possibility of a sharper slowdown or more prolonged weakness in the global economy which could impact development progress.

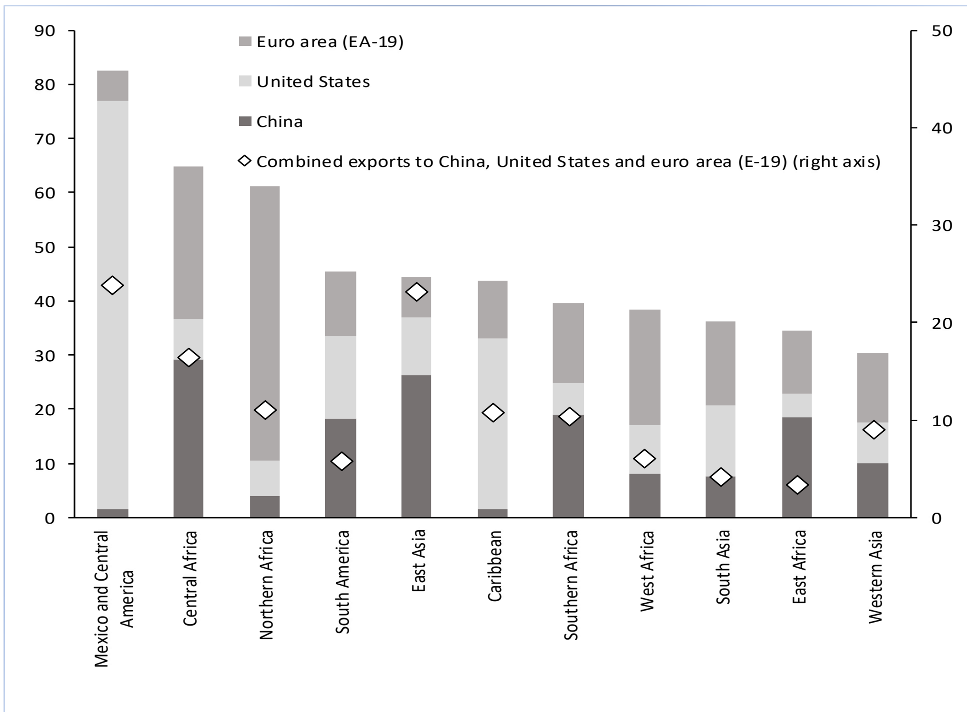
[2] International Monetary Fund, *Macroeconomic Developments and Prospects in Low-income Developing Countries*, IMF Policy Paper (Washington, D.C., March 2018).

Further trade restrictions would hamper global growth

19. A further escalation of trade disputes among the world's largest economies poses a significant risk for both short- and medium-term global growth prospects. Amid unresolved trade-related tensions with China, the United States recently signalled its intention to impose tariffs on the European Union, primarily targeted at the aircraft and food industries, that will be additional to the steel and aluminium tariffs already in place. A spiral of further tariffs and acts of retaliation would, through its impact, not only dampen the growth of these large economies, but also exert severe spillover effects on developing economies, particularly the ones with high export exposure to the economies that are impacted (figure VI).

Figure VI
Developing regions' exports to selected major economies

Share of total exports (percentage) Share of GDP (percentage)



Source: UN/DESA, based on International Monetary Fund (IMF), Direction of Trade Statistics; CEIC; and IMF, World Economic Outlook Database, April 2019.

20. Amid rising global trade tensions, the effectiveness of the present rules-based multilateral trading system has come under threat. The World Trade Organization (WTO) dispute settlement process may become constrained by the failure of member States to fill the vacancies in the Appellate Body, which makes the final binding decisions on appeal cases. As of 1 April 2019, there remain only three members of the body, the minimum number for the quorum needed to review a case. Since the terms of two serving members end on 10 December, failure to secure new appointments to the Appellate Body will have left WTO without an appeal function by the end of 2019. The paralysis of the Appellate Body would critically weaken the rules-based multilateral trading system at a time when the number of active trade disputes has risen significantly.

High indebtedness is a key source of vulnerability

21. Recent shifts towards more accommodative policies may have lifted investor sentiment in the short term. However, the impact on asset prices and risk-taking behaviour could lead to an increase in financial risks in the medium term. Prolonged loose financial and lending conditions – including lower expectations as regards the federal funds rate in the medium term – will fuel search-for-yield behaviour, contributing to a further build-up of debt.

22. The high level of indebtedness has become a prominent feature of the global economy. The global stock of debt is nearly one-third higher than in 2008 and more than three times global GDP.[3] Elevated levels of debt are not only a financial risk in themselves, but also a source of vulnerability should there be an economic downturn. If the slowdown in the global economy becomes more acute, firms and households may struggle to roll over debt, triggering a disorderly deleveraging process, large corrections in asset prices and spikes in risk aversion. In this context, a particular risk stems from the recent upsurge of leveraged loans in the corporate sector in some developed countries. The global leveraged loan market has grown to about $1.3 trillion, more than double its size a decade ago. In the United States, it now exceeds the size of the high-yield corporate bond market. Rising investor demand, coupled with firms' willingness to take on more debt, has led to a deterioration in underwriting standards and in the credit quality of these loans.

Climate risks pose an ever-increasing threat to the global economy

23. The average global temperature in 2018 was the fourth highest since 1880. The 20 warmest years on record occurred in the past 22 years amid continuously rising CO_2 levels; and the degree of warming during the period spanning the past five years – which now holds the record for being the hottest since the start of modern measurements – has been remarkable, both on land and in the ocean. In 2019 – which might prove to be warmer still, given forecasted El Niño conditions – the atmosphere is projected to experience one of the largest-ever increases in the level of CO_2 over 62 years of measurement.[4] A large proportion will remain in the atmosphere for thousands of years.

24. While it is predicted that the 2019 Atlantic hurricane season will be slightly below average, the impacts of long-term global warming are increasingly present. The 2018 season was the third in a series of above-average seasons, with hurricanes causing damage at a cost of about $51 billion.[5] There was also devastating flooding in India and a major typhoon in the Philippines. The 2018 wildfire season was marked, inter alia, by California's largest and deadliest wildfire to date as well as an extremely rare event: the breaking out of wildfires in Scandinavia north of the Arctic Circle. These and other severe and costly events made 2018 the fourth-costliest year in terms of insured losses since 1980. Three insurance and reinsurance firms (Aon, Munich Re and Swiss Re) estimate the economic cost of natural disasters in 2018 at $155 billion–$225 billion, with only $79 billion–$90 billion insured.

The rising number of refugees creates macroeconomic challenges

25. The number of conflict-related forcefully displaced persons, including refugees and internally displaced persons, is estimated to have continued to rise in 2018.

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[3] United Nations Conference on Trade and Development, "Financing for development: debt and debt sustainability and interrelated systemic issues" (TD/B/EFD/2/2 and Corr.1 and 2 of 26 October 2018), para. 4.

[4] Met Office, "Faster CO_2 rise expected in 2019", 25 January 2019.

[5] Munich Re, "Series of typhoons in Japan and two direct hits in the USA: summary of the 2018 tropical cyclone season", 5 December 2018.

According to the Office of the United Nations High Commissioner for Refugees, the number of refugees under its mandate exceeded 20 million in June 2018, while the conflict-related internally displaced population stood at 39.7 million.[6] Existing political instabilities and social tensions could lead to a further increase in forcefully displaced persons in 2019. And even where high-intensity armed violence has ceased, low-intensity conflict may prevent the forcefully displaced population from returning home.

26. About 95 per cent of conflict-related forcefully displaced persons are hosted in developing countries, pressuring fiscal balances. Despite financial support from the international community, many host countries divert substantial financial resources from already strained budgets to support forcefully displaced residents. This may impinge on other social provisions as well as on the policy space available for responding to external shocks.

II. Medium-term sustainable development challenges

A. Internalizing the cost of greenhouse gas emissions

Carbon pricing is a key element in addressing climate change

27. In light of the evident acceleration of climate change, a swift and radical transition away from fossil fuels is needed. This will require a fundamental change in economic decision-making and private consumption behaviour. Governments have several policy options for accelerating this process. These include increasing subsidies for clean energy and carbon removal technology, eliminating fossil fuel subsidies, regulating the sources of carbon emissions, implementing stringent energy-efficiency standards and changing public opinion and behaviour through campaigns designed to enable a shift towards conservation of energy and carbon-rich land cover. Many believe, however, that these policy options will fall short unless they are supported by carbon pricing.

28. The objective of carbon pricing is to fix a fundamental flaw in the economic system. Economic decisions that result in the emission of greenhouse gases generate a host of negative effects on the environment; but with no monetary cost incurred by the emitters of greenhouse gases, decisions on the production and consumption of goods and services are based on the artificially low cost of using fossil fuels, rather than on a full-cost assessment which includes these environmental externalities. This means that certain consequences of economic decisions accrue as a negative externality to society at large, but do not feature in the private decision-making of producers and consumers. The understatement of costs has dramatic consequences: certain goods and services are produced and consumed in quantities that exceed the environmentally sustainable level. In other words, individual decisions made on the basis of the existing incomplete set of price and cost signals impose high environmental costs on society.

29. Carbon pricing obliges producers and consumers to incorporate in their economic decisions what has so far been offloaded as a negative externality onto society. Creating a market for greenhouse gas emissions essentially establishes them as a commodity, whose price would then have to be factored into economic decisions. This would shift economic incentives, for example, by requiring the calculation of

[6] Office of the United Nations High Commissioner for Refugees, *Mid-Year Trends 2018* (Geneva, 2018).

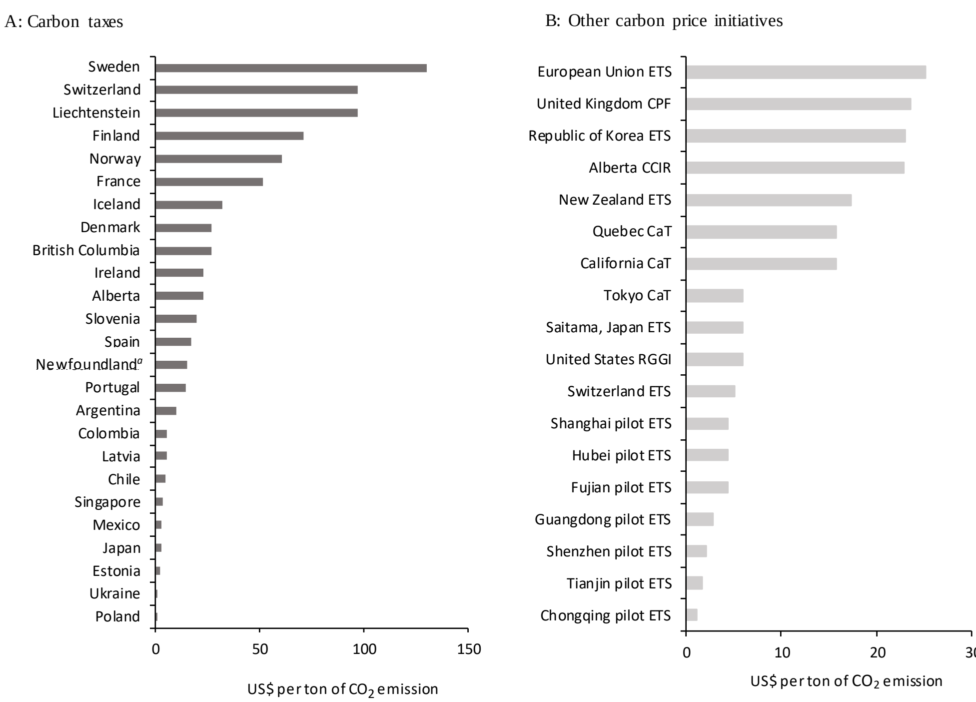
new, adjusted costs along the extraction and consumption chain of fossil fuel-based products.

Emissions trading systems and carbon taxes are the most common initiatives

30. The most common carbon pricing initiatives are emissions trading systems, within which emitters can trade government-issued emission allowances to cover their emission levels; and carbon taxes, which are fees levied on the carbon content of fossil fuels. There are other initiatives, such as results-based climate financing programmes (entailing payments for verified reductions in greenhouse gas emissions) and internal carbon pricing (entailing calculation by firms of the cost of using or investing in greenhouse gases).

31. Choosing among different pricing schemes depends necessarily on national priorities, circumstances and political context. Views vary widely regarding the best scheme, the targets to be set and how the revenues collected are to be used. Hybrid approaches to carbon pricing, combining elements of an emissions trading system and a carbon tax, or simultaneous complementary use of both systems are being applied with increasing frequency. As of May 2018, 45 countries and 25 subnational jurisdictions (cities, States and regions) had adopted carbon pricing initiatives, and more are planned. Prices per ton of CO2 equivalent among initiatives currently range from less than $1 to $139 (figure VII). Approximately $33 billion in carbon pricing revenues was collected by Governments in 2017.[7]

Figure VII
Carbon pricing, 2019



Abbreviations: CaT, cap and trade; CCIR, Carbon Competitiveness Incentive Regulation; CPF, carbon price floor; ETS, emissions trading system; RGGI, Regional Greenhouse Gas initiative.
Source: UN/DESA, based on World Bank, Carbon Pricing Dashboard.
Note: Nominal prices on 1 February 2019. Because of methodical differences and other factors, prices are not necessarily comparable.
[a] Includes Labrador.

[7] World Bank (2018). *State and Trends of Carbon Pricing 2018*, (Washington, D.C., May 2018).

Many companies already use internal carbon pricing

32. In the absence of more widespread market-based carbon pricing, many companies already use a theoretical so-called shadow price for carbon, as a risk-assessment tool for evaluating investments and guiding business strategy in anticipation of future carbon constraints. Some, including several large international companies, collect a carbon fee from their own business units (e.g., manufacturing divisions) or from activities (e.g., business travel) and direct the revenue towards products or projects that help them meet their climate goals. The cost of complying with regulations also constitutes an implicit internal carbon cost incurred by firms. In 2017, over 1,300 companies, including more than 100 Fortune Global 500 companies, were using some form of internal carbon price to inform their decision-making or were planning to do so in the next two years. The increasing use of internal carbon prices by the private sector provides the opportunity to tackle climate change challenges jointly through public-private cooperation. In its recommendations, the Task Force on Climate-related Financial Disclosures established by the Financial Stability Board encourages investors and businesses to disclose their internal carbon prices, as does the Business Leadership Criteria on Carbon Pricing initiative under the United Nations Global Compact.

Carbon pricing would lead to a redefinition of the concept of economic wealth and liabilities

33. Carbon pricing is poised to exert a domino effect on corporate behaviour and on investor diligence regarding climate change risk and identification of potential stranded assets. It can also support broader outcomes extending beyond emissions mitigation, including stimulation of low-carbon innovation and the tackling of other environmental issues such as air pollution. More broadly, creating a market for greenhouse gas emissions and establishing those emissions as a commodity would lead to a reassessment of carbon liabilities, carbon wealth and fossil fuel-based projects and would also incentivize positive externalities by placing a tangible value on carbon storage capacity. This alone could create an entirely new economic paradigm as the economic value of forests, wetlands and other territories rich in carbon capturing potential becomes clearer and rises, through, e.g., helping to preserve and expand carbon sinks. In sum, pricing carbon monetizes emissions and can help shift investments to low-carbon options. It also builds awareness, aligns incentives and promotes greater public buy-in for a country’s sustainability goals. Moreover, by viewing investments through the lens of a carbon price and evaluating them within that context, Governments and companies can avoid investing in assets that would have to be retired early and registered as a loss on balance sheets.

“Carbon leakage” highlights the need for a multilateral approach

34. To date, carbon pricing tools have been introduced on a very limited and fragmented basis. As initiatives advance through application of ad hoc, country-by-country and even firm-level approaches, there is a risk of “carbon leakage” – through the relocation of carbon-intensive industries to jurisdictions whose regulations are more lax – and, potentially, even the risk of an increase in global emission levels. The carbon leakage-based argument underpins the special treatment (entailing a larger share of free allowances) granted under the European Union emissions trading system to industrial installations that are considered to be subject to a high level of exposure to such risks.

35. The potential for carbon leakage highlights the risks of fragmented policy frameworks and the need for a concerted multilateral approach to carbon pricing. Unified principles and standards would also facilitate the alignment of carbon pricing

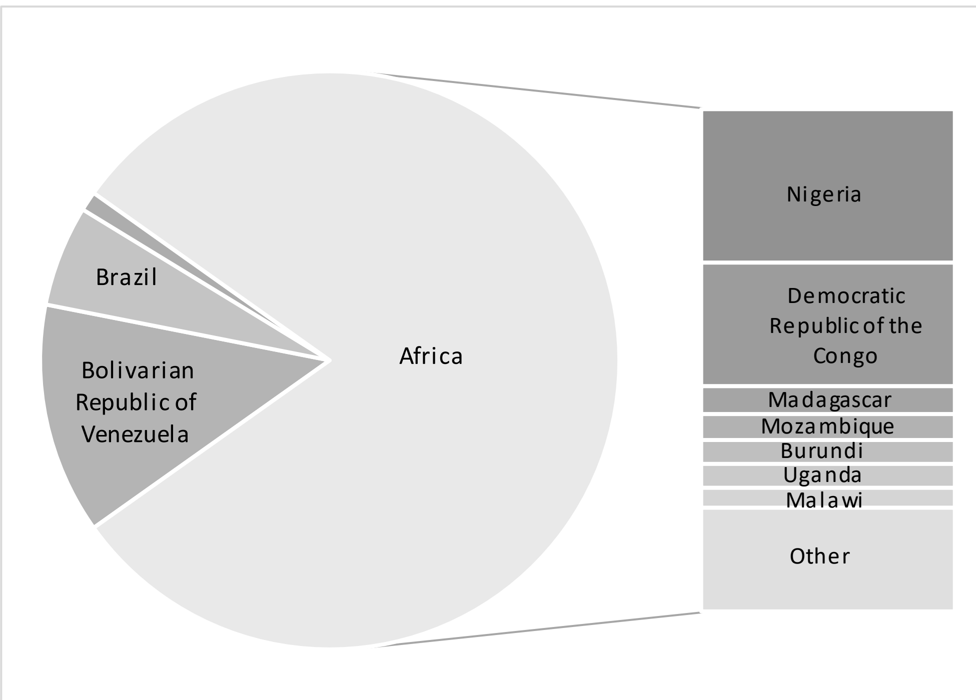
with initiatives in other major policy areas such as trade and international finance. However, absent a global solution, accelerating regional and subregional carbon pricing mechanisms constitutes – given the urgency of the challenge at hand – a second-best option.

B. Poverty trends, urban/rural divides and sustainable urbanization

The worsening macroeconomic outlook dims the prospects for poverty eradication

36. Heightened international policy uncertainty and weaker global growth have reinforced concerns that the attainment of Sustainable Development Goal 1 (universal eradication of extreme poverty by 2030) is becoming increasingly out of reach. Recent empirical evidence shows that over the past few years, many countries have experienced significant setbacks in their fight against poverty (figure VIII), including several economies of sub-Saharan Africa where poverty levels are already among the highest in the world. In the Democratic Republic of the Congo, Mozambique and Nigeria, for example, the total number of people in extreme poverty – represented by those living on less than $1.90 per day – has risen notably since 2014. In Latin America and the Caribbean, the rate of extreme poverty, while still fairly low, edged up between 2014 and 2017 amid deteriorating economic conditions in Argentina, Brazil and Venezuela (Bolivarian Republic of).[8]

Figure VIII
Geographical profile of the increase in poverty between 2014 and 2018



Source: UN/DESA estimates, based on World Bank data.
Note: The figure offers data only for countries in which the number of the poor is estimated to have increased from 2014 to 2018. The total increase for countries with available data is estimated at 30 million-40 million people.

[8] Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America, 2018* (United Nations publication, Sales No. E.18.II.G.7).

37. The situation is even more concerning at higher international poverty lines. Global progress in reducing extreme poverty since the 1990s has not been fully matched by declines in the number of people living on less than $3.20 per day or $5.50 per day.[9] This is particularly the case for South Asia and sub-Saharan Africa, which together currently account for almost 90 per cent of the world's poor. It is estimated that in both regions more than 4 out of 5 people still live below the $5.50 per day threshold. Hence, while extreme poverty rates have fallen, the great majority of people still experience a high level of deprivation.

Rural/urban poverty gaps are slowly narrowing

38. The vast majority of the poor currently still live in rural areas.[10] According to recent estimates, the rural poor make up almost 80 per cent of the poor worldwide. In almost all countries, rural poverty rates are still much higher than urban poverty rates (figure IX), although the gap has been gradually narrowing in recent decades amid ongoing urbanization. In a sample of 24 countries, the average rural/urban poverty gap declined by about 5 percentage points between 2002–2004 and 2012–2014 – from 22 to 17 percentage points. There are stark regional differences: in South Asia and sub-Saharan Africa, poverty is still overwhelmingly concentrated in rural areas; by contrast, in Latin America and the Caribbean and East Asia and the Pacific, the urban poor currently make up more than one third of the total.

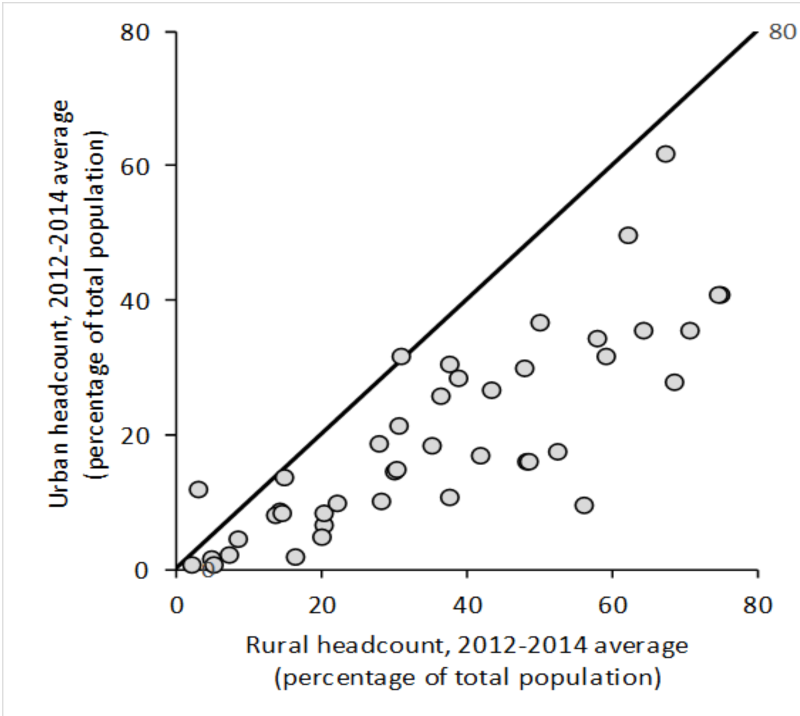
39. Rural/urban disparities are even more pronounced when one moves beyond purely monetary poverty, as many services are concentrated in cities. Multidimensional poverty measures – which also include measures related to education, access to infrastructure, health and household security – indicate that close to 85 per cent of all of the poor worldwide live in rural areas.[11]

[9] World Bank, *Poverty and Shared Prosperity: Piecing Together the Poverty Puzzle* (Washington, D.C.: 2018).

[10] See General Assembly resolution 73/244, entitled "Eradicating rural poverty to implement the 2030 Agenda for Sustainable Development", of 20 December 2018.

[11] United Nations Development Programme, 2018 Global Multidimensional Poverty Index.

Figure IX
Rural and urban poverty headcount at national poverty lines, 2012–2014 average



Source: UN/DESA estimates, based on World Bank data.
Note: Observations below the 45-degree line apply to countries where rural poverty rates exceed those for urban poverty.

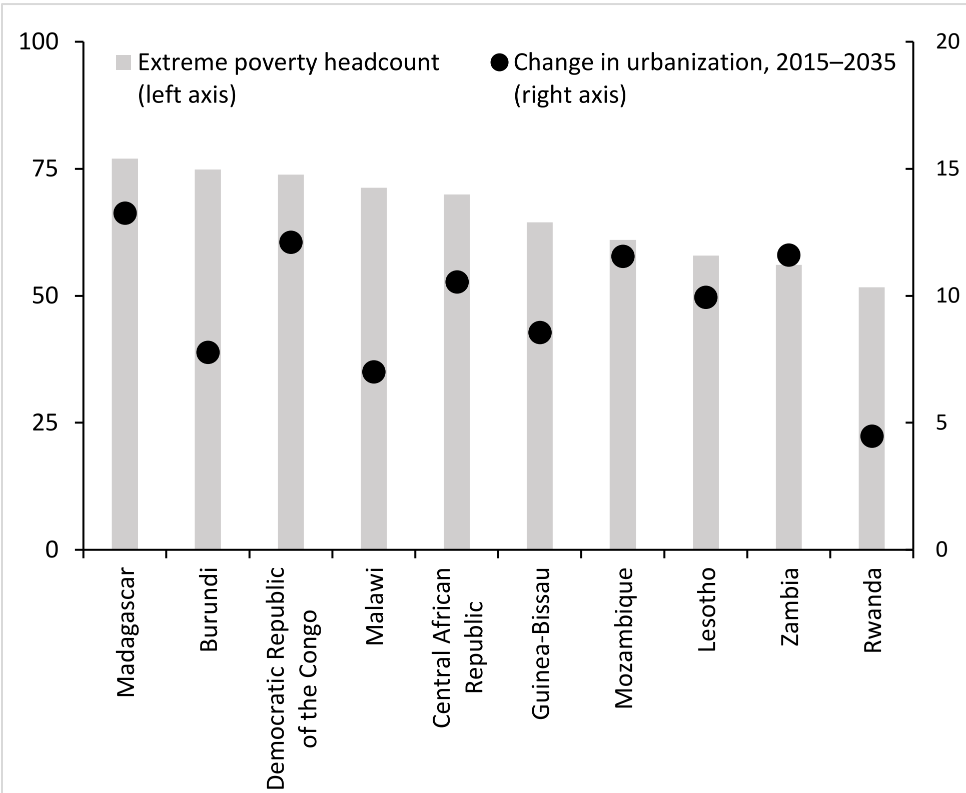
Sustainable urbanization is vital for future poverty reduction

40. How successful countries will be in eradicating poverty over the coming decades still depends critically on policies that address rural poverty, through, e.g., boosting agricultural productivity, building resilient infrastructure and strengthening education and health services. Yet, progress in poverty reduction will also be determined by countries' capacity to manage the ongoing urbanization process and harness its potential to enable sustainable development. The vital role of urbanization in development has been widely recognized. Spence, Clarke Annez and Buckley (2009) indicate that they know "of no countries that either achieved high incomes or rapid growth without substantial urbanization".[12] The urbanization rate for almost all countries that have managed to largely eradicate poverty is 40 per cent or more. While current levels of urbanization in Africa and South Asia are much lower than in the rest of the world, those regions are projected to see the most rapid urbanization going forward.[13] Figure X portrays the projected increase in the urbanization rate for the period 2015–2035 for 10 countries with high levels of extreme poverty.

[12] Michael Spence, Patricia Clarke Annez and Robert M. Buckley, eds. *Urbanization and Growth*: (Washington, D.C., World Bank on behalf of the Commission on Growth and Development, 2009), preface, p. x.
[13] United Nations, Department of Economic and Social Affairs, Population Division, *World Urbanization Prospects*: *The 2018 Revision*.

Figure X
Extreme poverty headcount rates (latest available data) and projected changes in urbanization

Percentage Percentage points



Sources: UN/DESA estimates, based on World Bank data; and United Nations, Department of Economic and Social Affairs, Population Division, World Urbanization Prospects. The 2018 Revision.

Note: The extreme poverty headcount rank is calculated based on the US$ 1.90 poverty line (2011 purchasing power parities (PPP)).

41. Urbanization has the potential to yield significant economic benefits in the form of gains from agglomeration, economies of scale, improved access to infrastructure and knowledge spillovers. Urban productivity levels not only tend to be higher than rural productivity levels, but may also increase faster, providing workers with higher wages. If managed well, urbanization can lift economic growth, foster job creation and reduce poverty.

42. However, these gains from urbanization are not guaranteed. Large-scale migration from rural areas into cities boosts productivity growth only when there is enough demand for labour in industrial or higher value added service sectors. In this context, the low levels of industrialization of many countries of sub-Saharan Africa – and, in some cases, even premature deindustrialization – are a major concern.[14] Given the dearth of formal employment opportunities, urban migrants tend to be absorbed into the sector of informal low-paid jobs. In addition, often the expansion of infrastructure is not keeping pace with the needs of rapidly growing urban

[14] Dani Rodrik, "Premature deindustrialization" (Cambridge, Massachusetts, John F. Kennedy School of Government, Harvard University, November 2015).

populations, resulting in traffic congestion, housing shortages and proliferation of slums.

43. Rapid urbanization, coupled with the changing nature of poverty, presents significant policy challenges. Improved urban planning and better policy coordination between authorities at the national level and those at the local level are key for sustainable urbanization. Prioritizing efforts to expand the availability of decent housing facilitates the raising of living standards, while at the same time helping to promote economic development. With the increase in risks arising from climate change and natural disasters, strengthening urban resilience is also indispensable. In this regard, the expansion of public transportation infrastructure is important as a means of alleviating congestion and reducing emissions, as well as of providing the urban poor with access to higher-paid employment opportunities within cities.

III. Economic outlook by regions

A. Developed economies

44. Economic sentiment indicators in the United States deteriorated in early 2019, as tangible impacts from tariff hikes and trade tensions materialized, and consumer confidence was buffeted by the longest federal government shutdown in the country's history. The Congressional Budget Office estimates that the five-week shutdown, which impacted 800,000 federal employees, reduced the level of GDP in the first quarter of 2019 by 0.2 per cent, although much of what was lost will be recovered later in the year.

45. United States GDP is projected to grow by 2.3 per cent in 2019 – down from 2.9 per cent in 2018 and lower than the projection of 2.5 per cent as recorded in *World Economic Situation and Prospects 2019* (see table A.1) – as the effects of fiscal stimulus measures wane and export growth is hampered by ongoing trade disputes. In 2020, GDP growth in the United States is expected to moderate further to 2.1 per cent.

46. In Canada, GDP is forecast to grow by 1.8 per cent in 2019 and 2.0 per cent in 2020. Oil production cuts in Alberta, the impact of higher interest rates on the housing and automobile sectors, and tariffs on the exports of steel and aluminium to the United States all restrained activity in the first months of 2019.

47. The slowdown in economic growth, coupled with muted inflationary pressures, has prompted both the Federal Reserve and the Bank of Canada to put interest rate rises on hold. Nonetheless, headline unemployment rates in Northern America hover close to the lowest rates recorded in the last 40-50 years.

48. Japan's growth forecast for 2019 has been revised down from 1.4 to 0.8 per cent, which reflects weakening external demand. On a year-on-year basis, exports declined in the first months of 2019, notably to China; and this has significantly hampered plans for capacity-enhancing investments in the manufacturing sector. Amid stubbornly weak wage growth, private consumption is expected to remain sluggish. To cope with growing labour shortages, Japan recently relaxed its highly restrictive immigration policies.

49. The forecasts for Australia and New Zealand have also been revised down slightly. Australia's economy slowed in the fourth quarter of 2018 owing to a sharp decline in private investment. Despite fiscal stimulus measures, a further slowdown is expected in tandem with the stagnation of the housing sector. New Zealand also faces decelerating domestic and external demand; and the Reserve Bank of New Zealand has hinted at monetary easing in 2019. Both Australia and New Zealand are

expected to be influenced by weaker demand from their major trading partners, particularly China and countries of the European Union.

50. Economic activity in the European Union is projected to expand by 1.5 per cent in 2019 and by 1.8 per cent in 2020. This constitutes a downward revision compared with the previous forecast, as the trade-related downside risks attached to the last baseline forecast have started to materialize. By contrast, private consumption remains relatively robust. Solid labour-market conditions underpin upward wage pressure which, together with subdued inflation rates, supports household purchasing power and private consumption spending. In addition, the European Central Bank has postponed any withdrawal of its accommodative policy stance, which has supported investment and the construction sector in various countries. The nature of the risks to the baseline outlook remains unchanged, although the magnitude of those risks has shifted. The trade situation is already having a tangible negative impact on economic performance, with risks of a further deterioration in global trade conditions. The challenge confronted by the European Central Bank with regard to how to eventually exit its accommodative policy stance has become even more pronounced, while the euro area continues to face the unresolved problem of how to achieve and maintain a common fiscal policy stance in the absence of a more institutionalized policy framework. Further, the postponement of the exit of the United Kingdom of Great Britain and Northern Ireland from the European Union in the absence of clarification regarding the way forward has increased the risk of a disorderly separation. This could have severe negative consequences in the form of a disruption – or even a breakdown – in trade flows to and from the United Kingdom.

51. Those members of the European Union that have joined since 2004 (EU-13) are expected to sustain growth rates above the European Union average. However, the rate of expansion is expected to moderate in 2019, reflecting labour shortages, rising inflation and tighter monetary conditions in some countries. The excessive concentration of the industrial sector in Central Europe on the automotive industry poses significant risks, while the space for countercyclical policy measures remains limited.

B. Economies in transition

52. For the economies of the Commonwealth of Independent States (CIS), external conditions, including demand from major economies and prices of non-oil commodities, are less supportive in 2019. Growth is expected to moderate, especially as fiscal policies are largely growth-neutral and several countries have tightened monetary policy. The aggregate GDP of CIS and Georgia is expected to increase by 1.9 per cent in 2019 and 2.3 per cent in 2020. GDP growth in the Russian Federation has been estimated at 2.3 per cent for 2018, exceeding forecasts. A similarly strong performance in 2019 is unlikely. The recent value added tax rate hike has added to inflationary pressures, curbing consumer spending and impeding monetary easing. The economy is hampered by insufficient business lending and weak investment. With geopolitical tensions continuing, further sanctions could undermine business activity. The implementation of the social and economic development programmes should nevertheless add modestly to growth. Among other CIS energy-exporters, Azerbaijan is expected to benefit from higher natural gas output in 2019, while fiscal spending should support the expansion in Kazakhstan.

53. Among the CIS energy-importers, growth is projected to weaken in Ukraine. The country is confronted with lower steel prices, potential downscaling of the Russian natural gas transit and massive external debt repayments looming in 2019–2020. Belarus may see higher oil import costs from 2019 onward, restraining economic activity. The strong expansion recorded in 2018 in several smaller CIS

economies may not be sustained. However, growth in Central Asia should exceed the CIS average, and the implementation of the Belt and Road Initiative should facilitate an infrastructure upgrade and market access.

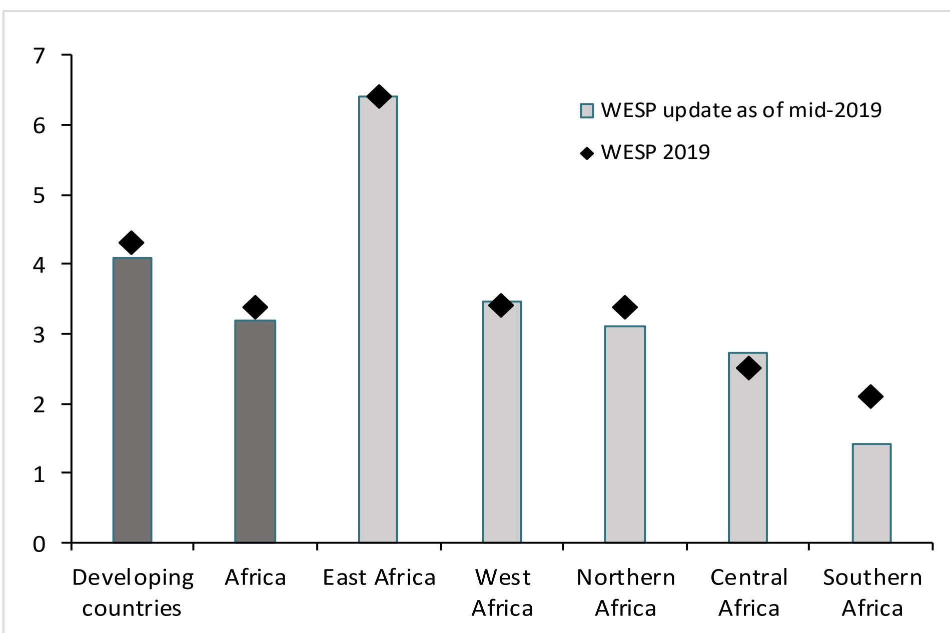
54. In South-Eastern Europe, aggregate GDP is expected to expand by 3.4 per cent in 2019 and by 3.2 per cent in 2020, supported by investment, in particular in the energy sector, and exports. However, recent incidences of political instability pose risks to the region.

C. Developing countries

Africa

55. The economic outlook for Africa remains challenging. While growth is estimated to pick up, the region faces difficulties in embarking on a robust and sustained growth trajectory, amid a global slowdown, tepid commodity prices and protracted fragilities experienced in many commodity exporters. Aggregate GDP growth is projected at 3.2 per cent in 2019 (figure XI) and at 3.7 per cent in 2020, after an estimated expansion of only 2.7 per cent in 2018. Inflation prospects are improving, owing to strong agricultural and food production and stable exchange rates in most economies. On the other hand, growth rates are insufficient to absorb a fast-growing labour force. The creation of decent jobs, especially for youth, represents a key challenge within the context of building a more inclusive development path and making further progress in poverty reduction across the continent. Downside risks to the outlook include weather-related shocks, political uncertainty and security concerns on the domestic front; and lower-than-expected commodity prices and an escalation of trade tensions on the external front. The recent upsurge in external sovereign bond issuances has also raised debt sustainability concerns in several economies.

Figure XI
Projected real GDP growth in Africa in 2019, by subregion
Percentage



Source: UN/DESA estimates.

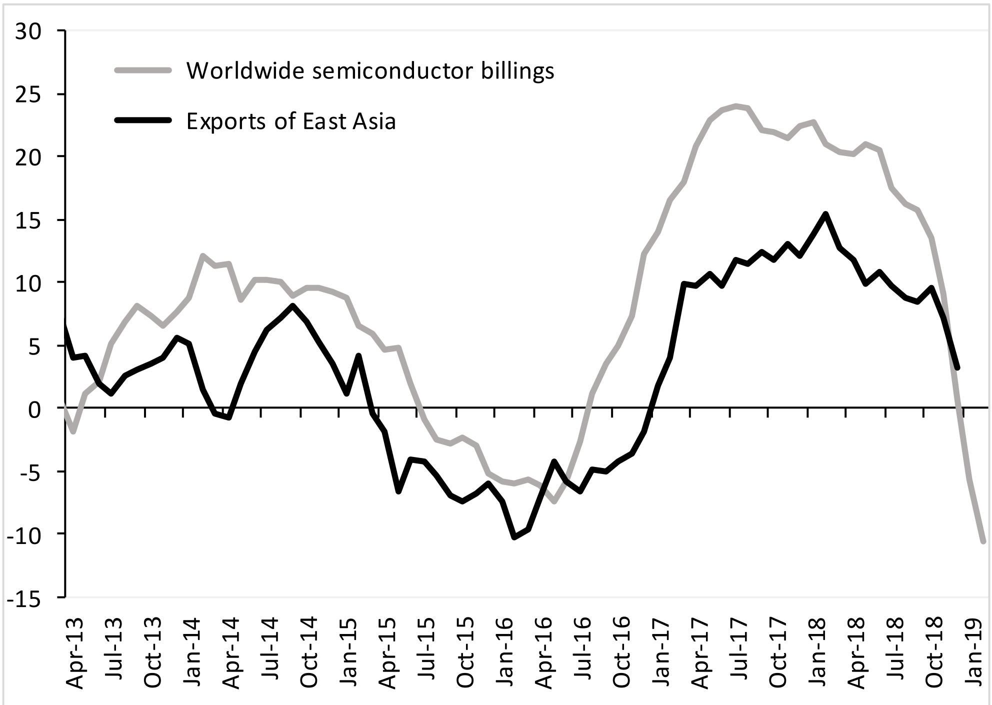
56. In Northern Africa, general sentiment has weakened in tandem with that of European economies, the subregion's largest trading partner. In addition, political instability and civil unrest are constraining economic activity in Algeria, the Sudan and Tunisia. Yet, growth is vigorous in Egypt, supported by stable balance-of-payment conditions. The short-term outlook for East Africa, which remains the fastest-growing subregion, is positive. Robust growth in Ethiopia, Kenya and the United Republic of Tanzania is underpinned by strong domestic demand and public investments in infrastructure. The economic block of West Africa is expected to continue to expand at a relatively fast pace, owing mainly to buoyant domestic demand in countries such as Côte d'Ivoire, Ghana and Senegal. The economy of Nigeria is also undergoing a slow recovery, owing to stronger household consumption and fixed investment, gradually rising oil prices and production, and reduced policy uncertainty. In Central Africa, the recovery remains feeble, amid unstable political, social and security conditions. Yet, reforms aimed at improving the business environment, governance and the financial sector should contribute to a gradual pickup in non-oil sectors, for example, in Cameroon and the Central African Republic. Similarly, growth in Southern Africa remains below potential. While the outlook for South Africa remains fragile owing to energy constraints and weak business confidence, Angola is slowly recovering from a protracted downturn. Cyclone Idai, one of the worst weather-related disasters ever to occur in the southern hemisphere, has caused a major humanitarian crisis, with visible economic impacts in Mozambique as well as in Malawi and Zimbabwe.

Asia

57. Despite elevated external headwinds, the short-term growth outlook in East Asia remains robust. Domestic demand is expected to remain resilient, supported by accommodative policies in most economies. However, the region's export performance will soften, in tandem with ongoing trade tensions, a more moderate expansion of global demand and a weakening of the global electronics cycle (figure XII). Against this backdrop, regional GDP growth is projected to moderate from 5.8 per cent in 2018 to 5.5 per cent in both 2019 and 2020.

Figure XII
Global semiconductor billings versus exports of East Asia. April 2013–January 2019

Annual growth (percentage)



Source: UN/DESA, based on World Semiconductor Trade Statistics; CEIC; and IMF, Direction of Trade Statistics.

Note: Growth figures have been calculated based on three-month moving averages of nominal dollar levels.

58. Growth in China is projected to moderate gradually from 6.6 per cent in 2018 to 6.3 per cent in 2019 and 6.2 per cent in 2020. Recent monetary and fiscal stimulus measures are expected to bolster domestic demand, partially offsetting the adverse impact of trade tariffs on overall growth. Nevertheless, these measures could also exacerbate domestic financial imbalances, raising the risk of a disorderly deleveraging process in the future.

59. For most other economies in the region, domestic demand will continue to drive growth, amid a slowdown in the external sector. Private consumption will be supported by healthy job creation, rising incomes and moderate inflationary pressures. In Indonesia, Malaysia and the Republic of Korea, the expansion of social welfare programmes will provide an additional impetus to consumer spending. Growth in many countries, including the Philippines and Thailand, will also be supported by public investment, amid the continued implementation of large infrastructure projects.

60. Downside risks to the growth outlook for East Asia remain elevated. A renewed intensification of trade frictions could severely disrupt the region's extensive production networks and prompt businesses to delay investment decisions, thus hampering medium-term productivity growth. On the domestic front, financial sector vulnerabilities, in particular high corporate and household debt, continue to pose a risk in several countries.

61. South Asia remains on a strong growth path, even as forecasts have been revised downward. Following an expansion of 5.7 per cent in 2018, GDP growth is estimated at 5.0 per cent in 2019 and 5.8 per cent in 2020. Across the region, output continues to be constrained by infrastructure bottlenecks. The economy of India, which generates two thirds of the regional output, expanded by 7.2 per cent in 2018. Strong domestic consumption and investment will continue to support growth, which is projected at 7.0 per cent in 2019 and 7.1 per cent in 2020. The economy of Bangladesh is forecast to grow by 7.1 per cent in 2019 and 2020. By contrast, growth in Pakistan is expected to slow from 5.4 per cent in 2018 to about 4 per cent in 2019 and 2020 amid fiscal, inflationary and domestic demand challenges. In the Islamic Republic of Iran, the 0.8 per cent GDP contraction in 2018 – largely reflecting external political factors – is expected to be followed by a further 2.0 per cent decline in 2019.

62. The slowdown in the European Union poses risks for the outlook in Bangladesh. The European Union accounts for about two thirds of total exports, with one fourth of exports concentrated in the slowing economies of Germany and the United Kingdom. India's exports remain more robust, as about half of them are destined for faster-growing Asian markets. Geopolitical risks continue to confront Afghanistan and Iran (Islamic Republic of).

63. The growth forecast for Western Asia for 2019 has been revised down from 2.4 to 1.7 per cent, reflecting forecast downgrades for Saudi Arabia and Turkey. In Saudi Arabia, oil sector output is lower, as the country has complied with new OPEC-led crude oil production cuts. In Turkey, a sharp decline in industrial production, following the steep depreciation of the Turkish lira in August 2018, indicates that the export sector will benefit only slowly from improved price competitiveness.

64. Despite a recovery in oil prices during the first quarter of 2019, domestic demand growth remained sluggish in the region's major oil exporters. Weak domestic demand has dampened inflationary pressures, with Qatar, Saudi Arabia and the United Arab Emirates facing deflation. The subdued outlook for Jordan and Lebanon remains unchanged, as both countries struggle to reduce public debt. In Lebanon in particular, the growing level of public debt is the source of increasing pressure on the banking system. The economy of Iraq is forecast to recover steadily as the expansion of domestic demand continues. Additional refinery facilities, which were damaged by armed conflict in 2014, have resumed operations, improving the availability of fuel products. The economy of the Syrian Arab Republic is supported by reconstruction activities; however, economic sanctions have stoked inflationary pressures. While the humanitarian crisis continues in Yemen, that country's economy is forecast to grow on the back of expanding oil and gas production. The robust growth of the economy of Israel is forecast to continue despite weaker external demand from Europe.

Latin America and the Caribbean

65. Amid slowing external demand, ongoing global policy uncertainty and country-specific factors, the economic recovery in Latin America and the Caribbean has lost momentum. Economic activity in late 2018 and early 2019 has been weaker than expected, particularly in some of the region's largest countries. This has prompted a downward revision of the short-term growth outlook. Regional GDP is projected to expand by 1.1 per cent in 2019, following estimated growth of 0.9 per cent in 2018. Growth is forecast to accelerate to 2.0 per cent in 2020 as economic conditions in Argentina and Brazil gradually improve.

66. The risks to the outlook remain tilted to the downside. Sharper-than-expected slowdowns in the region's main trading partners – China, the European Union and the United States – or renewed financial volatility could further weaken the recovery. In several of the region's economies, ongoing political uncertainty clouds the

prospects for investment and growth. In view of significant downside risks, limited inflationary pressures and constrained fiscal space, most central banks are likely to maintain accommodative monetary policies to support growth.

67. The region continues to be marked by stark differences in growth prospects across countries. Annual GDP is expected to contract in 2019 in Nicaragua and Venezuela (Bolivarian Republic of) in the wake of sociopolitical crises, as well as in Argentina, which has entered into a large-scale financial assistance programme with IMF. The short-term outlook for Brazil and Mexico is weaker than previously expected. In both countries, growth is projected to remain below 2 per cent in 2019. In Brazil, difficulties in implementing much-needed fiscal reform – particularly of the pension system – have negatively affected business confidence and investment, while rising unemployment weighs on household consumption. In Mexico, growth is expected to further moderate in 2019, partly because of policy uncertainty and slowing demand from the United States. The northern countries of Central America – El Salvador, Guatemala and Honduras – are expected to see subdued growth in the 2–3.5 per cent range. On the other hand, growth prospects remain favourable in several other economies, most notably Bolivia (Plurinational State of), the Dominican Republic, Panama and Peru. In these countries, strong domestic demand, including increased infrastructure spending, will support activity. In the Caribbean, the expected onset of commercial oil production in Guyana will likely boost regional growth in 2020.