United Nations | Department of Economic and Social Affairs

MONTHLY BRIEFING
ON THE WORLD ECONOMIC SITUATION AND PROSPECTS

Economic Analysis | No. 134 | 3 February 2020

GLOBAL ISSUES: *WORLD ECONOMIC SITUATION AND PROSPECTS 2020* WARNS THAT WEAKER GROWTH THREATENS TO SET BACK SUSTAINABLE DEVELOPMENT

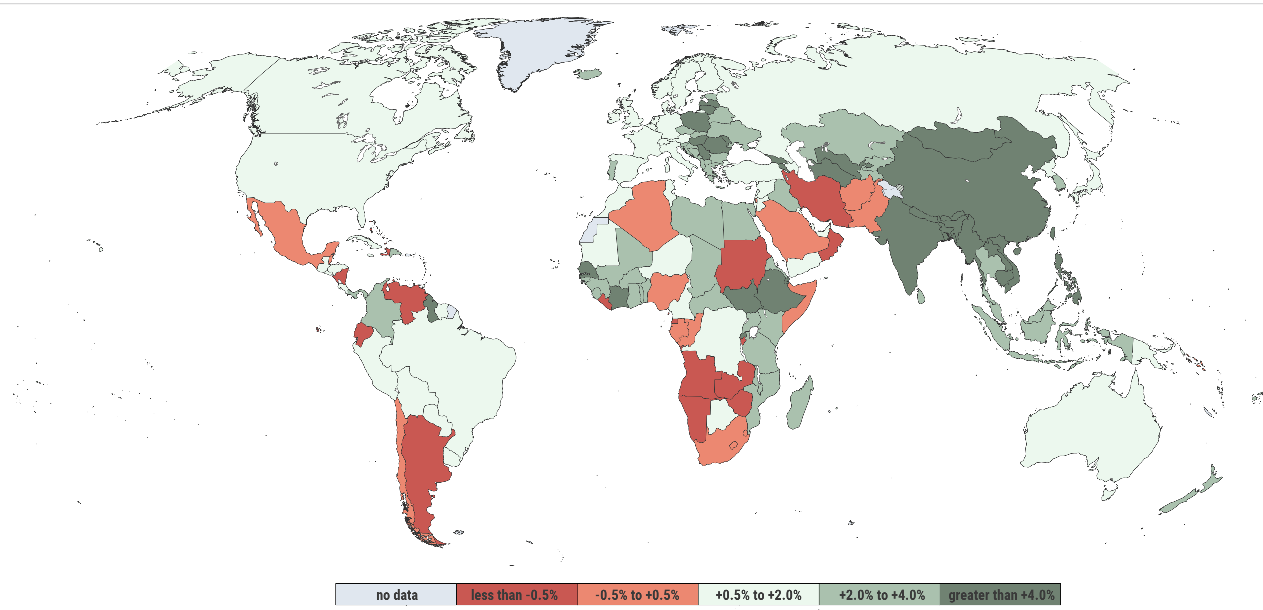
SUMMARY

- According to the ***WESP 2020***, **sluggish global growth threatens sustainable development**
- **1 in 5 countries will see per capita incomes stagnate or decline this year, notably in Africa, Latin America and parts of Western Asia**
- **Across the world, many policies continue to encourage the use of fossil fuels**

The World Economic Situation and Prospects (WESP) 2020, launched at UN Headquarters in New York on 16 January, notes that the global economy slowed to a decade-low last year, largely as a result of prolonged trade disputes and high policy uncertainty. The broad-based deterioration threatens to impede efforts to reduce poverty, create decent jobs, broaden access to affordable and clean energy, and achieve many other Sustainable Development Goals. World gross product growth slipped to 2.3 per cent in 2019—the lowest rate since the global financial crisis of 2008–2009. This slowdown is occurring alongside growing discontent with the social and environmental quality of economic growth, amid pervasive inequalities and the deepening climate crisis. A modest uptick in global growth to 2.5 per cent is forecast for 2020. But policy uncertainties will continue to weigh on investment plans, and the risks of a further deterioration in the economic situation are high, amid trade tensions, escalating geopolitical conflicts, elevated debt levels, as well as increasing climate risks.

Economic growth around the world remains very uneven. Despite significant headwinds from global trade tensions, East Asia remains the world's fastest growing region and the largest contributor to global growth. East Africa is also expected to continue to exhibit rapid income growth. However, 1 in 5 countries will see per capita incomes stagnate or decline this year, notably in Africa, Latin America and parts of Western Asia (figure 1). Many of these are commodity exporters, which are still ailing from the effects of the commodity price downturn of 2014–2016. In one third of commodity-dependent developing countries—home to

Figure 1
GDP per capita growth, 2020



Source: United Nations, *World Economic Situation and Prospects 2020*, Sales No. E.20.II.C.1, chap. I, p. 9. The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

870 million people—average real incomes are lower today than they were in 2014. This includes several larger economies, such as Angola, Argentina, Brazil, Nigeria, Saudi Arabia and South Africa. Africa has experienced a decade of near stagnation in per capita GDP, notwithstanding some bright spots such as Côte D'Ivoire, Ethiopia and Rwanda. Meanwhile, average per capita incomes in Latin America and the Caribbean are about 4 per cent lower today than in 2014.

The extended period of stagnant or declining average incomes has seen rising levels of poverty in the affected regions, despite progress towards poverty eradication at the global level. Sustained progress towards poverty reduction will require both a significant boost to productivity growth and firm commitments to tackle high levels of inequality. In the absence of steep declines in inequality, estimates in the *WESP 2020* indicate that to eradicate poverty in Africa, annual per capita growth of over 8 per cent would be needed in the majority of countries. This compares to the woefully inadequate average rate of just 0.5 per cent recorded over the past decade.

The deteriorating economic outlook has prompted monetary easing around the world. A total of 67 central banks around the world loosened their monetary stance in 2019, marking the broadest shift in monetary policy since the global financial crisis. However, it has become clear that monetary stimulus alone is insufficient to revive the world economy. Moreover, further monetary easing may also entail significant costs, including the exacerbation of financial stability risks. Low global interest rates and ample liquidity conditions have contributed to the underpricing of risks, pushing up asset prices and encouraging the rise in global debt.

Meanwhile, investors continue to underestimate climate risks, encouraging short-sighted decisions that expand investment into carbon-intensive assets. This is partly a result of policies that continue to encourage the use of fossil fuels. Fossil-fuel subsidies remain in place across the world and are more than double the level of global subsidies to support renewable energy. Emitting carbon and other greenhouse gases remains cost-free in most of the world, despite the heavy environmental and health burden that it poses to society. Where a form of carbon pricing has been introduced, carbon-intensive sectors often remain exempt and prices are generally set far too low to deliver change.

The energy sector accounts for about three quarters of global greenhouse gas emissions. Therefore, the only way to decisively break the link between emissions and economic activity is to move away from burning fossil fuels. Without a significant change in the energy mix, global goals of reaching net zero emissions by 2050 will be missed by a large margin. For example, global CO_2 emissions would rise by over 250 per cent if developing countries were to follow consumption and production patterns in the developed world.

The transition to a cleaner energy mix has the potential to bring not only environmental benefits but also economic benefits for many countries. For example, heavy importers of fossil fuels stand to benefit from the development of local renewable energy sources, leading to improvements in energy supply security and their balance of payments. Meanwhile, some countries will see increased demand for their metal and mineral resources that are used in low-carbon technologies. But countries that continue to rely on fossil-fuel exports to finance government spending or essential imports face risks of stranded assets and job losses. The uneven nature of these returns emphasizes the need for cooperative and coordinated global policies to make progress on energy transition. Measures to compensate those who are negatively impacted are essential, both to protect the vulnerable and to safeguard the political viability of difficult but urgently needed policy actions.

DEVELOPED ECONOMIES

North America: Fossil fuel sector plays important roles in both economic and environmental spheres

According to estimates in the *WESP 2020*, GDP growth in the United States moderated to 2.2 per cent in 2019. Economic activity is expected to continue to decelerate towards 1.7 per cent this year, largely reflecting the toll on investment of prolonged trade policy uncertainty and the impact of tariffs on specific sectors. Business confidence has been on a steady downward trend since the escalation of trade disputes in August 2018. Although trade tensions have eased along some fronts, the potential for setbacks are high, and firms and households are expected to remain cautious. At the same time, the effects of fiscal stimulus measures introduced in 2018 are fading and a lower global oil price has discouraged investment in the fossil fuel industry.

Investment in the United States is increasingly sensitive to the oil price, reflecting the short-term nature of investment in the shale industry, which now accounts for over 60 per cent of United States oil and gas production. The important role of the fossil fuel sector in the economy acts as an obstacle to more rapid progress towards environmental goals. Progress towards a cleaner energy mix is lagging behind most of Europe, and there has been a steady unwinding of environmental regulation over the last few years.

In contrast, Canada has set ambitious targets to meet emissions commitments under the Paris Agreement. But the federal Government and individual provinces continue to provide various types of subsidies to the fossil fuel industry, which remains an important sector of the Canadian economy. These subsidies, conflict with the incentives and targets of the nationwide carbon tax. Removing this double standard would accelerate progress towards the country's environmental targets.

Developed Asia: Resilient investment sustains growth in Japan against weakening consumption and exports

In Japan, real GDP growth is estimated at 0.7 per cent for 2019 and is forecast to remain below 1 per cent in 2020 for the third year in a row. While domestic demand has remained more resilient, the country's weak economic performance reflects weak external demand. Slowing demand from China, in particular, has impacted exports of the automotive and electronics sectors. Although corporate profits are in decline as a result of sluggish export earnings, capital investments remain firm, particularly in software, information technology and R&D. Private consumption has been constrained by declining real wages and a hike in the consumption tax rate in October 2019. A modest acceleration in GDP growth to 1.3 per cent is expected for 2021 as the impact of the consumption tax rise dissipates and real wages stabilize.

Europe: External conditions, policy uncertainty and structural changes take a toll on growth

The European Union (EU) is expected to see only limited growth of 1.6 per cent in 2020 and 1.7 per cent in 2021. Against the backdrop of heightened global trade tensions, exporters face numerous challenges, including tariffs, weaker or delayed demand, and having to make corporate decisions under greater policy uncertainty. In addition, structural challenges and changes in significant sectors such as the car industry put long-established business models in doubt and create the need for companies and policymakers to develop new economic paradigms. As these factors will suppress the contribution of exports to economic performance, domestic demand will remain the mainstay of growth. Lower unemployment, solid wage gains and additional monetary stimulus on top of the already supportive monetary stance will underpin solid household consumption. The very accommodative monetary policy stance will continue to drive investment in domestically oriented sectors such as residential construction, creating positive knock-on effects for many small and medium-sized companies. The outlook remains subject to numerous risks and challenges that could lead to a significant slowdown in growth, including a renewed escalation in trade tensions, a disorderly exit of the United Kingdom from the EU and financial instability stemming from the loose monetary policy stance. As in the previous years, economic growth in the countries that joined the EU in 2004–2013, is expected to outpace the EU average.

ECONOMIES IN TRANSITION

Commonwealth of Independent States: Policy easing will likely support growth in the CIS, but downside risks are high

Growth slowed in the CIS countries and Georgia in 2019, driven by a marked growth deceleration in the Russian Federation and weaker terms of trade. Average GDP growth for the region declined to 1.8 per cent in 2019 but is expected to increase modestly to 2.3 per cent in 2020 and 2.4 per cent in 2021. The economy of the Russian Federation is estimated to have expanded by just around 1 per cent in 2019, as a result of base effects and persistently weak consumer demand. Looking forward, increased fiscal spending in the Russian Federation in line with the implementation of national development projects and the impact of monetary easing should support stronger growth in 2020–2021. Among other energy exporters, Kazakhstan grew by an estimated 4 per cent, driven by strong domestic demand. Most of the energy-importing CIS countries, with the exception of Belarus, enjoyed relatively solid growth in 2019. In the outlook, strong growth in most of those countries is expected to continue; in Central Asia, the implementation of the Belt and Road Initiative should further support the development of energy and transport infrastructure.

However, economic prospects of the CIS region are subject to a number of risks. The share of hydrocarbons in the region's exports remains high and a global slowdown could weaken commodity prices and expose banking sector vulnerabilities. Several CIS economies face large debt servicing costs over the period 2019–2021; all of them face challenges associated with the transition to "green" energy.

In *South-Eastern Europe*, growth slowed in the largest countries in 2019, due in part to base effects as well as weaker demand from main trading partners in the EU. The region still remains dependent on foreign financing. Faltering economic performance in the EU remains a major risk factor. Average GDP in South-Eastern Europe is expected to grow by 3.4 per cent both in 2020 and in 2021.

DEVELOPING ECONOMIES

Africa: Growth rates are insufficient for meaningful development progress

The economic situation in Africa remains challenging amid the slowdown in the global economy, lingering effects from the collapse in commodity prices and protracted fragilities in some large countries. Situations are widely divergent across subregions, however. While economic conditions remain robust in East Africa and are improving in North Africa, growth in West, Central and Southern Africa remains inadequate to meet mounting development challenges. GDP growth for the region as a whole is projected to increase moderately from 2.9 per cent in 2019 to 3.2 per cent in 2020 and it is set to accelerate to 3.5 per cent in 2021, contingent on the implementation of effective reforms and subject to large downside risks.

Africa continues to face difficulties in achieving the more robust and sustained growth path that is needed to enhance living standards across the continent. GDP per capita growth is unlikely to reach much above 1 per cent in the near term. More broadly, average GDP per capita growth in 2010 — 2019 was only 0.5 per cent—well below the average growth of the previous decade and only marginally higher than average per capita growth in the 1980s and 1990s. A step change in the rate of economic growth is needed if the region hopes to make meaningful progress towards achieving the Sustainable Development Goals.

East Asia: Growth prospects have softened amid strong external headwinds

Against the backdrop of an increasingly challenging external environment, the short-term growth outlook for East Asia has weakened. In 2019, regional GDP growth slowed to 5.2 per cent from 5.7 per cent the previous year, as high trade tensions and policy uncertainty weighed on exports and domestic demand. Looking ahead, the region is projected to sustain a more moderate growth pace of 5.2 per cent in 2020 and 2021. As business sentiments remain subdued, a strong revival of private investment appears unlikely. Nevertheless, the easing of monetary and fiscal policies across many economies in the region is likely to support growth.

In China, growth is projected to moderate at a gradual pace. The implementation of policy stimulus measures will partially offset the adverse effects of the trade dispute on the economy. However, some of these measures may exacerbate domestic financial vulnerabilities, leading to higher financial stability risks.

Despite a weaker exports outlook, the growth prospects of several other large East Asian economies, including Indonesia, Malaysia, the Philippines and Thailand remains favourable, underpinned by resilient domestic demand. Private consumption will be supported by healthy labour market conditions and policy measures to boost household disposable income. In most of these countries, public investment growth is expected to strengthen, driven by the implementation of large infrastructure projects.

Risks to East Asia's growth outlook are strongly tilted to the downside. Continued high uncertainty surrounding global trade policies would not only prolong weaknesses in the external sector but could also generate significant spillovers to the domestic economy. In addition, financial markets in the region remain susceptible to abrupt changes in investor sentiment, potentially triggering large capital outflows. In several economies, high indebtedness poses a risk to domestic financial stability.

South Asia: Economic growth rebounds but structural challenges loom

Growth in South Asia is projected to rebound in 2020, but the region will continue to face daunting challenges to sustainable development, according to the *WESP 2020*. Economic growth in South Asia is forecast to recover to 5.1 per cent in 2020, after falling to a decade-low of 3.3 per cent in 2019, but will remain well below the rates seen in the recent past. The region struggled in 2019 with a combination of external headwinds, notably the global economic slowdown and falling trade, and country-specific domestic challenges. As the effects of one-off shocks wane and some governments respond with vigorous fiscal expansion, economic activity will rebound in most of the South Asian countries. Fiscal stimulus in India is expected to boost economic growth in the short-term, but a number of structural barriers will need to be addressed to achieve sustainable economic growth.

The risks to South Asia's economic outlook are heavily tilted to the downside. The region remains exposed to external shocks, notably trade shocks and climate change, due to insufficiently climate-resilient infrastructure and a lack of economic diversification in most countries. Structural challenges also include the low quality of employment, with gender barriers to the labour market among the highest in the world. High-quality formal employment continues to be a distant dream for most people in South Asia, hampering the region's long-term development prospects. Improved access to clean and affordable energy, moreover, will be needed to generate jobs and reduce the region's dependence on fossil fuels. As economic growth recovers, policymakers will urgently need to address these structural barriers to development.

Western Asia: Economic prospects are clouded by oil price, real estate and geopolitical risks

In 2019, the region experienced a sharp decline in the rate of economic expansion owing to both sluggish domestic demand and weakening external demand, with average GDP growth estimated to have dropped to 1.0 per cent from 2.3 per cent in 2018. The slump in the real estate sector dampened both consumption and investment through a negative wealth effect. Energy-importing countries faced tightening fiscal and balance-of-payments constraints. For the member countries of the Gulf Cooperation Council (GCC), the contribution of the energy sector to GDP growth is estimated to have been negligible. While oil prices have fallen from their latest peak in October 2018, the level of crude oil production has barely changed since that time due to OPEC-led supply ceiling coordination. Non-energy exports have also faced weakening demand from Europe, South Asia and East Asia. Moreover, ongoing conflict and an unstable security situation in the Syrian Arab Republic and Yemen have suppressed the recovery in intraregional trade.

Average GDP growth for Western Asia is forecast at 2.4 per cent in 2020 and 2.8 per cent in 2021. While weak external demand will continue to weigh on the region, recovering credit growth, a stabilization of the real estate sector, and ongoing economic reform are expected to support domestic demand growth. The main downside risks are a substantial decline in oil prices, further deterioration in the real estate sector, and the intensification of geopolitical risk events.

Latin America and the Caribbean: The region is mired in a prolonged economic slump

Latin America and the Caribbean is undergoing a prolonged economic slump that is undermining progress towards the Sustainable Development Goals. Amid challenging external conditions, heightened policy uncertainty and country-specific headwinds, the region's GDP grew by only 0.1 per cent in 2019. A slow and uneven recovery is projected over the next two years, with regional growth averaging 1.3 per cent in 2020 and 2.0 per cent in 2021. Since the end of the commodity boom in 2014, the region has failed to achieve meaningful economic growth. Average per capita GDP today is nearly 4 per cent below the 2014 level. Lower average incomes and persistently high inequality have led to an increase in poverty levels in recent years.

In 2020, economic growth will likely be supported by accommodative monetary policy as inflationary pressures remain generally contained. Consumer and business sentiment are expected to improve gradually in many countries, including Brazil and Mexico. The risks to the outlook are skewed to the downside, however. On the external front, the region is vulnerable to a further slowdown in global trade and lower commodity prices. In addition, abrupt changes in investor sentiment could trigger renewed financial volatility and large capital outflows. On the domestic front, policy uncertainty, political turmoil and social unrest threaten to weigh on growth in several economies. In many cases, these challenges are compounded by a lack of fiscal policy space as governments continue to grapple with sizeable public deficits and elevated debt burdens.