

EXECUTIVE SUMMARY

World Economic Situation **and** Prospects

2020



United Nations

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The World Economic Situation and Prospects is a joint product of the United Nations Department of Economic and Social Affairs (UN DESA), the United Nations Conference on Trade and Development (UNCTAD) and the five United Nations regional commissions (Economic Commission for Africa (ECA), Economic Commission for Europe (ECE), Economic Commission for Latin America and the Caribbean (ECLAC), Economic and Social Commission for Asia and the Pacific (ESCAP) and Economic and Social Commission for Western Asia (ESCWA)). The United Nations World Tourism Organization (UNWTO), and staff from the UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLS), and the International Labour Organization (ILO) also contributed to the report.

EXECUTIVE SUMMARY

The broad-based deterioration of global economic prospects may cause setbacks in the pursuit of development goals

A dynamic and inclusive global economy is essential to meeting the ambitious targets of the 2030 Agenda for Sustainable Development. Amid prolonged trade disputes and wide-ranging policy uncertainties, the world economy has seen a significant and broad-based deterioration over the past year. This 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. Even as global trade tensions ease along some fronts, the potential for relapse is high, as important issues underlying these disputes have yet to be tackled in depth. Based on the assumption that potential setbacks will not materialize, a modest uptick in global growth to 2.5 per cent is forecast for 2020, though policy uncertainties will continue to weigh on investment plans.

Trade policy uncertainty has taken a toll on global investment and exports

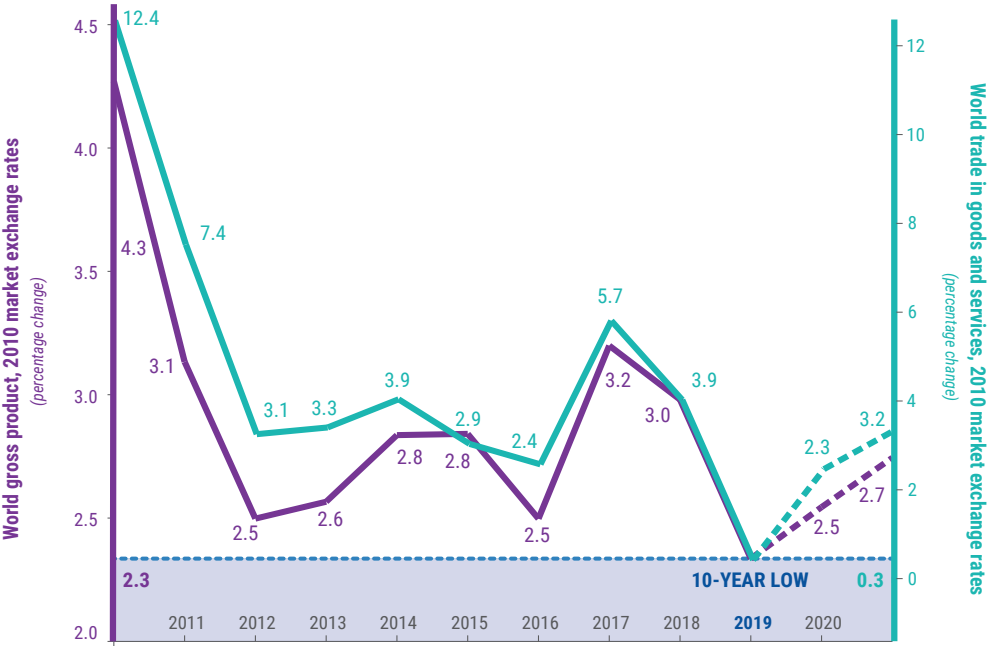
Rising tariffs and months of shifting between the escalation and de-escalation of global trade tensions have fuelled policy uncertainty, significantly curtailed investment, and pushed global trade growth down to 0.3 per cent in 2019—its lowest level in a decade. Bilateral trade between the United States



**AMID PROLONGED TRADE DISPUTES
AND WIDE-RANGING POLICY
UNCERTAINTIES, THE WORLD ECONOMY
HAS SUFFERED A SIGNIFICANT AND
BROAD-BASED DETERIORATION**

World gross product growth slipped to 2.3% in 2019.
A modest uptick to 2.5% is forecast for 2020
provided risks are kept at bay.

In 2019, world gross product growth and world trade growth fell to their lowest level in a decade



Source: UN DESA, including estimates and forecasts for 2019-2021.

of America and China has plummeted, with significant disruptions to international supply chains. The global electronics and automobile sectors, which have extensive cross-country production networks, have been hit particularly hard. Nonetheless, several countries have benefited from a rise in global export market share, as firms seek to source inputs from countries that are not directly affected by rising tariffs. Meanwhile, many of the least developed countries (LDCs), which are generally not well integrated into global trading networks, have remained relatively unaffected by trade disputes. Unlike most of the rest of the world, the majority of LDCs saw GDP growth accelerate in 2019.

Global trade tensions have fueled uncertainty, pushing global trade growth down to 0.3% in 2019

Trade tensions have become intertwined with financial fragilities

The world economy is plagued by risks that threaten financial stability. Amid prolonged loose monetary conditions in developed economies and rapid credit growth in some emerging economies, high levels of debt are pervasive. Elevated debt levels not only pose financial risks themselves but also reduce an economy's resilience to shocks, creating a source of fragility in cases of further deterioration in economic activity. An escalation of trade tensions could become intertwined with these fragilities if it were to trigger a “flight to safety” among investors, driving an appreciation of the United States dollar and an implicit tightening of monetary conditions in developing countries. As households and firms struggle to roll over debt, rising bankruptcies and tighter credit conditions could trigger a disorderly deleveraging process and large asset price corrections.

There are growing concerns that monetary policy has reached its limits...

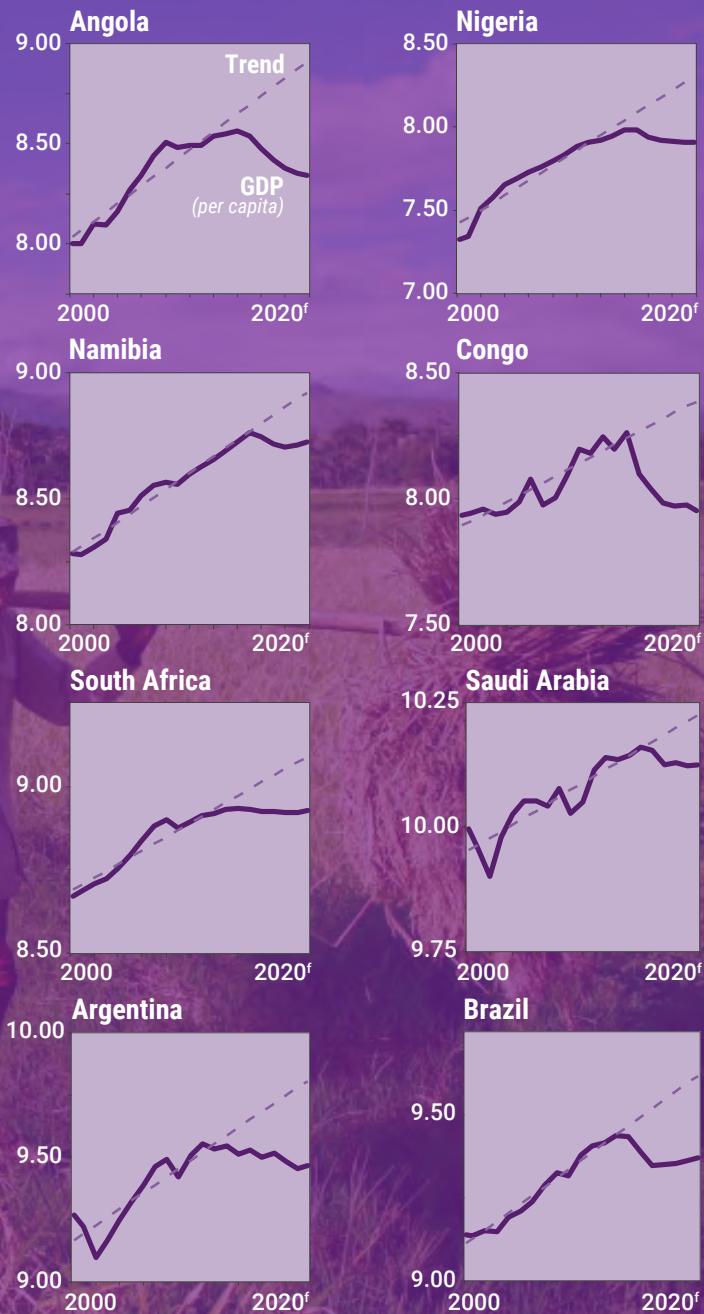
Overburdened monetary policies have proven insufficient to stimulate investment, which in many countries is being held back less by financing costs than by uncertainty and a lack of business confidence. Much of the recently accumulated global debt has been channeled into financial assets rather than

Bilateral trade between China and the United States has plummeted, with significant disruptions to global supply chains

into raising productive capacity—illustrating a worrying disconnect between the financial sector and real economic activity. Strong demand for negative-yielding sovereign bonds suggests that many investors are more willing

to endure small losses than to undertake productive investment, indicating a very pessimistic view about economic growth in the future. With no signs of a significant investment revival in the near term, productivity growth will remain weak over the medium term.

Many commodity-dependent developing countries are still ailing from the downturn in prices in 2014-2016



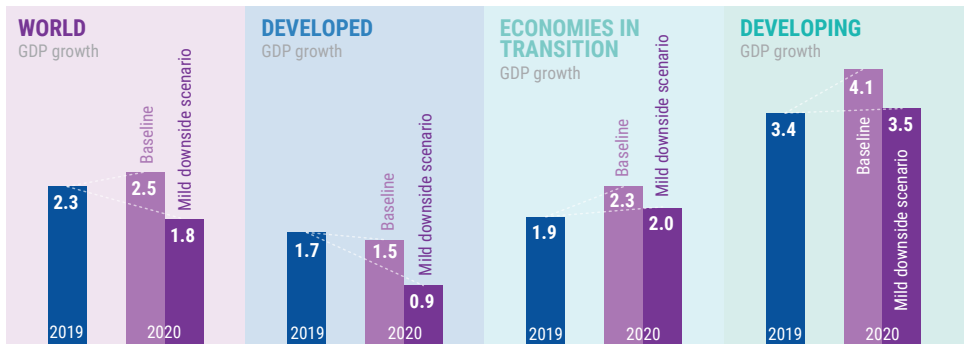
Source: UN DESA.
Note: Scale expressed in terms of log of GDP per capita. Figures for 2018-2020 include UN DESA estimates and forecasts.

THE WORLD ECONOMY IS PLAGUED BY RISKS THAT THREATEN FINANCIAL STABILITY

These may become intertwined with trade tensions, amid prolonged loose monetary conditions, rapid credit growth in some emerging economies and high levels of debt.



Risks are strongly tilted to the downside, amid deepening political polarization, increasing scepticism over the benefits of multilateralism and limited global policy space



Source: UN DESA, based on projections and scenarios produced with the World Economic Forecasting Model. See full report for details underpinning the scenarios.

...and further easing may exacerbate risks

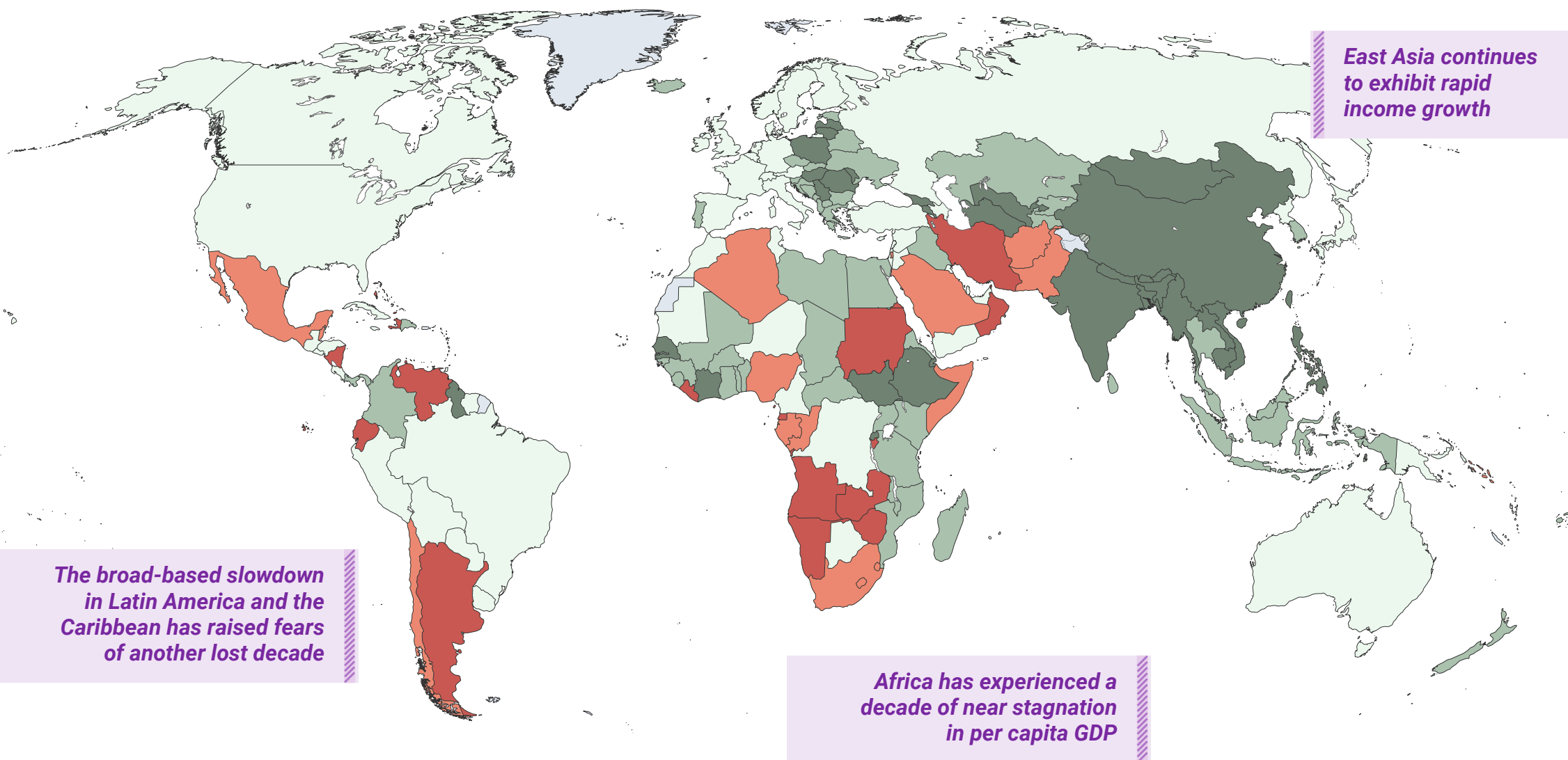
Overreliance on monetary policy is not just insufficient to revive growth; it also entails significant costs, including the exacerbation of financial stability risks. Low global interest rates and ample liquidity conditions have contributed to the underpricing of risks, pushing up asset prices and encouraging the rise in global debt. The more protracted period of easy monetary policy has the potential to fuel a further build-up of financial imbalances.

Risks remain strongly tilted to the downside

The modest rebound in global growth foreseen for 2020 is contingent on the assumption that numerous risks lurking on the horizon do not materialize—that trade tensions and tariffs do not intensify further; that Brexit is concluded with a transparent framework for the future relationship between the United Kingdom and the European Union; that geopolitical frictions do not escalate; that risks to financial stability remain contained; and that catastrophic climate shocks remain at bay. Even a small deviation from any of these stipulations could deliver a further slowdown in global growth in 2020. For example, a flareup of trade tensions that prompted firms in developed economies and in East Asia to postpone just 1 per cent of investment could see world trade growth slow to 0.6 per cent and world gross product growth to just 1.8 per cent in 2020. This compares to baseline projections of 2.3 and 2.5 per cent, respectively.

1 IN 5 COUNTRIES WILL SEE PER CAPITA INCOMES STAGNATE OR DECLINE THIS YEAR

GDP per capita growth projections, 2020 ^{a,b}



^a Disclaimer: The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. Dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. A dispute exists between the Governments of Argentina and the United Kingdom of Great Britain and Northern Ireland concerning sovereignty over the Falkland Islands (Malvinas).

^b The map represents countries and/or territories or parts thereof for which data is available and/or analysed in World Economic Situation and Prospects 2020. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries.

Source: UN DESA

Any one of the downside risks is likely to aggravate other risks, potentially derailing the global economy. Compounded by deepening political polarization, increasing scepticism over the benefits of multilateralism and limited global policy space, these difficult near-term headwinds have the potential to inflict severe and long-lasting damage on society and pose a considerable threat to prospects for achieving the Sustainable Development Goals by 2030.

A more balanced policy mix is needed

Amid concerns about overstretched monetary policies, a more balanced policy mix is called for. While central banks have responded swiftly to the deteriorating global outlook, fiscal policy has generally been underutilized as a countercyclical tool. With interest rates at historic lows, Governments that have ample fiscal space and pressing public investment needs should make use of the current favourable financing conditions. However, high debt levels and sizeable fiscal deficits limit the room for fiscal stimulus in many cases.

As the scope for further fiscal and monetary easing is limited in many countries, efficiency in policymaking takes on an increasingly important role. This requires moving away from a focus on short-term targets towards longer-term planning for inclusive economic development. Structural shifts in the design of fiscal policy should be carefully integrated with labour market initiatives, conducive business and financial regulation, effective social protection systems and prudently targeted investment incentives. A balanced policy approach stimulates economic growth while moving towards greater social inclusion, gender equality, and environmentally sustainable production and consumption. Although national priorities differ, some common overarching global priorities include scaling up investment and aligning policy to decarbonize energy, agriculture and transport; undertaking targeted infrastructure investment to broaden access to clean and renewable energy, clean water and transport links; and supporting equal opportunities in access to high-quality education, health care and formal employment.

National policies must be complemented by more effective global cooperation

Many development challenges are global in nature and cannot be adequately addressed by domestic structural policies alone. National policies need to be complemented by more effective international cooperation in order to achieve shared goals, particularly in the areas of climate change, international trade and finance. As the global economic balance is shifting from the European



INTEREST RATE CUTS ARE INSUFFICIENT TO STIMULATE INVESTMENT

Labour productivity growth will stay weak without strong policy measures, including large-scale infrastructure investment, improvements to the quality of education and promotion of innovation capacity.



A MORE BALANCED POLICY MIX IS NEEDED

Policy priorities include decarbonizing economic activity; broadening access to electricity, clean water and transport; and supporting equal opportunities in education, health care and formal employment.

Union, the United States and other developed countries towards China, India and other developing countries, global economic decision-making power is shifting as well. Global cooperation mechanisms will need to recognize this shifting balance while continuing to allow the underrepresented to be heard.

Headline GDP figures miss crucial aspects of the quality of economic growth

While GDP is the measure most widely used to assess economic prosperity and performance, it reveals nothing about how income is distributed within a country; the impact of economic activity on natural resources and the environment; or the quality of life enjoyed by the population in terms of education, health or personal safety. Along many dimensions, global well-being continues to fall well short of targeted levels. Deadly conflicts continue, the climate crisis is deepening, the number of people suffering from food insecurity and undernourishment is rising, and there is increasing recognition that inequalities in income, education, health and opportunity underpin profound social discrimination. **Calls for change are widespread across the globe, reflecting a growing discontent with the current economic, social and environmental status quo.**

Progress towards higher living standards has stalled for many

In per capita terms, the global economy is projected to grow by 1.5 per cent in 2020. The baseline scenario projects a modest acceleration in GDP growth in many developing regions, with East Africa and East Asia expected to continue to exhibit rapid income growth. However, 1 in 5 countries will see per capita incomes stagnate or decline this year. Progress towards higher living standards has already stalled for many. In one third of commodity-dependent developing countries (home to 870 million people), average real incomes are lower today than they were in 2014.

Eradicating poverty will increasingly rely on tackling inequality

The share of the population living in extreme poverty has declined steadily and significantly over the past few decades, largely owing to successful experiences in China and India. Although progress has been achieved in global terms, the number of people living in extreme poverty has risen in several sub-Saharan African countries and in parts of Latin America and the Caribbean and Western Asia. 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, eradicating poverty in non-LDCs in Africa would require an annual per capita income growth rate of 8.7 per cent—in comparison with the woefully inadequate rate of 0.5 per cent recorded over the past decade.

Climate risks increasingly pose threats to humanity...

Risks associated with the climate crisis are becoming an ever-greater challenge for many countries, and climate action must be an integral part of any policy mix. The only way to break the connection between greenhouse gas emissions and economic activity is to change the energy mix. Arresting global warming will require a strong political will and the full deployment of all available policy instruments.

...while many current policy actions lack long-term vision, aggravating global risks

Climate risks continue to be underestimated, encouraging short-sighted decisions that expand investment in carbon-intensive assets. The transition to a world that places a price on carbon, where polluters shoulder an increasing share of the environmental costs associated with their activities, will expose widespread vulnerabilities among holders of carbon-intensive assets. This will leave many Governments and investors exposed to sudden losses and stranded assets. More broadly, the current lack of a long-term vision will make environmental targets extremely difficult to achieve.



ALONG MANY DIMENSIONS, GLOBAL WELL-BEING CONTINUES TO FALL SHORT

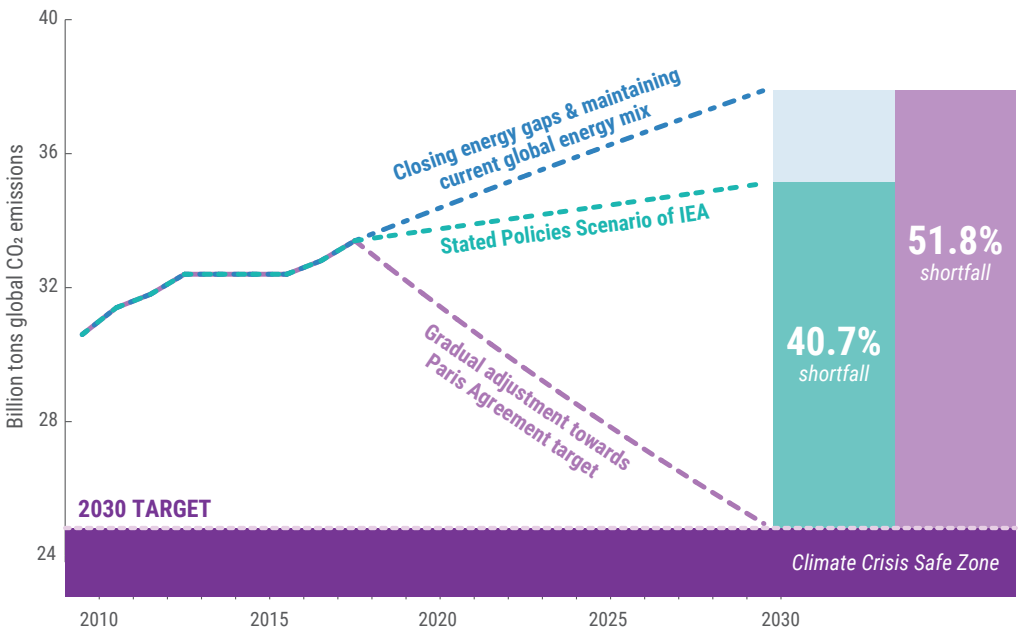
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**THE ONLY WAY TO DECISIVELY BREAK THE
CONNECTION BETWEEN GREENHOUSE GAS
EMISSIONS AND ECONOMIC ACTIVITY IS
TO CHANGE THE ENERGY MIX**

The energy sector accounts for about three quarters of global greenhouse gas emissions. Rising energy demand raises tensions with environmental goals.

The current energy mix is incompatible with emission targets and announced policies remain inadequate



Sources: UN DESA projections and IEA 2019 Stated Policies Scenario. See full report for details underpinning the scenarios.

Many countries stand to gain from the energy transition...

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 external balances. Meanwhile, some countries will see increased demand for resources used in low-carbon technologies, including metals and materials needed for renewable energy systems, efficient buildings and new forms of transportation. Ultimately, the transition will lead to greater value being placed on natural resources such as the sun, wind and waterways, and to increased support for the protection and expansion of forests as carbon sinks.

/// ...but costs and benefits will not be equally shared

The economic and social consequences of the global energy transition will necessarily be far-reaching. The costs and benefits will be very unevenly distributed within and between countries; discrepancies must be recognized and addressed through cooperative agreements to ensure a fair transition. Measures to alleviate the burden on those who will face disproportionate losses are essential—both to protect the vulnerable and to safeguard the political viability of difficult but urgently needed policy actions.

/// Urgent action can accelerate progress towards achieving global energy-related Sustainable Development Goals...

A wide gap remains between today's world and a world in which the energy system is compatible with global goals for climate protection, universal access to energy and clean air. Strategies for the delivery of accessible, reliable and

decarbonized energy are available but require political prioritization and public support. Achieving the necessary decline in emission levels will require a combination of technology change to enhance energy efficiency;

Any delay in decisive action towards energy transition could double the eventual costs

behavioural change to promote energy conservation and the expansion of carbon sinks; investment in the infrastructure and technology required to change the composition of the energy mix; and the development and deployment of carbon capture and sequestration technologies.

/// ...while a delay in decisive action will significantly increase the ultimate costs

The window of opportunity to act is narrowing. Any delay in decisive action will significantly increase the ultimate costs. Member States of the United Nations have declared this a decade of action to deliver the Sustainable Development Goals by 2030, and rapid progress towards achieving the energy transition must feature high on this agenda.

The full report
will be available in January 2020 at
www.un.org/development/desa/dpad/wesp-report