In its semiannual update, the International Monetary Fund revisits its earlier projections on global growth, assessing the impacts that recent changes to the economic and geopolitical environment have made on the outlook for the economy. The IMF examines a number of issues, such as the consequences of trade problems between the United States and China, and the effect Brexit may have on growth. This succinct report will interest anyone wishing to keep up-to-date with current issues affecting the global economy.

Take-Aways

• Momentum in global economic growth is still subdued.
• In 2019 and 2020, the developing nations will grow more than twice as fast as the developed countries.
• Downside risks are prevalent.
• Growth needs appropriate monetary and fiscal policy responses.

Summary

Momentum in global economic growth is still subdued.

Tensions between the United States and China, and concerns over Brexit have hindered global growth, particularly in the emerging economies. Although service sectors have been resilient, global manufacturing remains lackluster. Trade has softened, notably in Asia. Nonetheless, the potential for future central bank accommodation and for some improvement in the relationship between America and China has bolstered market sentiment to some degree.

“Against a difficult backdrop that included intensified US–China trade and technology tensions, as well as prolonged uncertainty on Brexit, momentum in global activity remained soft in the first half of 2019.”
In 2019 and 2020, the developing nations will grow more than twice as fast as the developed countries.

The IMF projects global growth of 3.2% in 2019, a figure that reflects the increase in US tariffs on imports from China and its likely effect on the wider Asia region. The forecast for 2020 of 3.5% growth relies on a number of factors, such as supportive market sentiment, an improvement of the current situation in the euro area and stabilization in a number of emerging markets.

“The slowdown in global manufacturing activity, which began in early 2018, has continued.”

Projections call for the developed countries to grow by 1.9% in 2019 and 1.7% in 2020, and for the developing nations to grow by 4.1% in 2019 and 4.7% in 2020.

Downside risks are prevalent.

Since April 2019, risks to the outlook for global growth have increased. First, US trade tariffs and concerns over Brexit will continue to disrupt trade and discourage investment. Second, the US–China trade war and deteriorating conditions in high-debt nations can harm fragile risk sentiment. Third, lower core inflation, which makes debt servicing more difficult for borrowers and restricts monetary policy, could hinder growth. Finally, geopolitical risks and climate change remain significant threats.

“Appropriately calibrated macroeconomic policies are central to stabilizing activity and strengthening the foundations of the recovery.”

Growth needs appropriate monetary and fiscal policy responses.

Policy decisions must relieve trade tensions and uncertainty, in particular regarding threats to existing trade agreements. The imposition of tariffs is not the answer; rather, countries must engage in dialogues to resolve trade issues and facilitate international cooperation.

To raise productivity, monetary policies must be suitably accommodative, notably in the emerging economies. For the developed nations, fiscal policy should smooth demand, boost the potential for growth and ensure stability in public finances. In the emerging economies, the focus should be on limiting debt and investing in infrastructure.

About the Author

The International Monetary Fund advises member nations on policy issues and works to promote economic stability and well-being.