The steady expansion under way since mid-2016 continues, with global growth for 2018–19 projected to remain at its 2017 level. At the same time, however, the expansion has become less balanced and may have peaked in some major economies. Downside risks to global growth have risen in the past six months and the potential for upside surprises has receded.

Global growth is projected at 3.7 percent for 2018–19—0.2 percentage point lower for both years than forecast in April. In the United States, momentum is still strong as fiscal stimulus continues to increase, but the forecast for 2019 has been revised down due to recently announced trade measures, including the tariffs imposed on $200 billion of US imports from China. Growth projections have been marked down for the euro area and the United Kingdom, following surprises that suppressed activity in early 2018. Among emerging market and developing economies, the growth prospects of many energy exporters have been lifted by higher oil prices, but growth was revised down for Argentina, Brazil, Iran, and Turkey, among others, reflecting country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills. China and a number of Asian economies are also projected to experience somewhat weaker growth in 2019 in the aftermath of the recently announced trade measures. Beyond the next couple of years, as output gaps close and monetary policy settings continue to normalize, growth in most advanced economies is expected to decline to potential rates—well below the averages reached before the global financial crisis of a decade ago. Slower expansion in working-age populations and projected lackluster productivity gains are the prime drivers of lower medium-term growth rates. US growth will decline as fiscal stimulus begins to unwind in 2020, at a time when the monetary tightening cycle is expected to be at its peak. Growth in China will remain strong but is projected to decline gradually, and prospects remain subpar in some emerging market and developing economies, especially for per capita growth, including in commodity exporters that continue to face substantial fiscal consolidation needs or are mired in war and conflict.

Risks to global growth skew to the downside in a context of elevated policy uncertainty. Several of the downside risks highlighted in the April 2018 World Economic Outlook (WEO)—such as rising trade barriers and a reversal of capital flows to emerging market economies with weaker fundamentals and higher political risk—have become more pronounced or have partially materialized. While financial market conditions remain accommodative in advanced economies, they could tighten rapidly if, for example, trade tensions and policy uncertainty were to intensify. Monetary policy is another potential trigger. The US economy is above full employment, yet the path of interest rate increases that markets anticipate is less steep than that projected by the Federal Reserve. Unexpectedly high inflation readings in the United States could therefore lead investors to abruptly reassess risks. Tighter financial conditions in advanced economies could cause disruptive portfolio adjustments, sharp exchange rate movements, and further reductions in capital inflows to emerging markets, particularly those with greater vulnerabilities.

The recovery has helped lift employment and income, strengthened balance sheets, and provided an opportunity to rebuild buffers. Yet, with risks shifting to the downside, there is greater urgency for policies to enhance prospects for strong and inclusive growth. Avoiding protectionist reactions to structural change and finding cooperative solutions that promote continued growth in goods and services trade remain essential to preserve and extend the global expansion. At a time of above-potential growth in many economies, policymakers should aim to enact reforms that raise medium-term incomes to the benefit of all. With shrinking excess capacity and mounting downside risks, many countries need to rebuild fiscal buffers and strengthen their resilience to an environment in which financial conditions could tighten suddenly and sharply.

In advanced economies, economic activity lost some momentum in the first half of 2018 after peaking in the second half of 2017. Outcomes fell short of projections in the euro area and the United Kingdom; growth in world trade and industrial production declined; and some high-frequency indicators moderated. Core inflation remains very different across advanced economies—well below objectives in the euro area and Japan, but close to target in the United
Global growth is forecast at 3.7 percent for 2018–19, 0.2 percentage point below the April 2018 WEO projection, and is set to soften over the medium term. Global financial conditions are expected to tighten as monetary policy normalizes; the trade measures implemented since April will weigh on activity in 2019 and beyond; US fiscal policy will subtract momentum starting in 2020; and China will slow, reflecting weaker credit growth and rising trade barriers. In advanced economies, marked slowdowns in working-age population growth and lackluster productivity advances will hold back gains in medium-term potential output. Across emerging market and developing economies, medium-term prospects are mixed. Projections remain favorable for emerging Asia and emerging Europe, excluding Turkey, but are tepid for Latin America, the Middle East, and sub-Saharan Africa, where—despite the ongoing recovery—the medium-term outlook for commodity exporters remains generally subdued, with a need for further economic diversification and fiscal adjustment. Prospects for 2018–19 were marked down sharply for Iran, reflecting the impact of the reinstatement of US sanctions. For Turkey, market turmoil, sharp currency depreciation, and elevated uncertainty will weigh on investment and consumer demand, likewise justifying a sharp negative revision in growth prospects. Growth for China and a number of Asian economies have also been revised down following the recently announced trade measures. Some 45 emerging market and developing economies—accounting for 10 percent of world GDP in purchasing-power-parity terms—are projected to grow by less than advanced economies in per capita terms over 2018–23, and hence to fall further behind in living standards.

The balance of risks to the global growth forecast is tilted to the downside, both in the short term and beyond. The potential for upside surprises has ebbed, given diminished growth momentum and tighter financial conditions in emerging market and developing economies. At the same time, several of the downside risks highlighted in the April 2018 WEO—such as rising trade barriers and a reversal of capital flows to emerging market economies with weaker external positions, such as Argentina and Turkey—have become more pronounced or have partially materialized.

Escalating trade tensions and the potential shift away from a multilateral, rules-based trading system are key threats to the global outlook. Since the April 2018 WEO, protectionist rhetoric has increasingly turned into action, with the United States imposing tariffs on a variety of imports, including on $200 billion of imports from China, and trading partners undertaking or promising retaliatory and other protective measures. An intensification of trade tensions, and the associated rise in policy uncertainty, could dent business and financial market sentiment, trigger financial market volatility, and slow investment and trade. Higher trade barriers would disrupt global supply chains and slow the spread of new technologies, ultimately lowering global productivity and welfare. More import restrictions would also make tradable consumer goods less affordable, harming low-income households disproportionately.

Still-easy global financial conditions could tighten sharply, triggered by more aggressive monetary policy tightening in advanced economies or the materialization of other risks that shift market sentiment. Such developments would expose vulnerabilities that have accumulated over the years, dent confidence, and undermine investment (a key driver of the baseline growth forecast). In the medium term, risks stem from a potential continued buildup of financial vulnerabilities, the implementation of unsustainable macroeconomic policies amid a subdued growth outlook, rising inequality, and declining trust in mainstream economic policies. A range of other noneconomic risks are also relevant. If any of these risks materializes, the likelihood of other adverse developments will rise.

The environment of continued expansion offers a narrowing window of opportunity to advance policies and reforms—both multilaterally and at the country level—that extend the momentum and raise medium-term growth for the benefit of all, while building buffers for the next downturn and strengthening resilience to an environment where financial conditions could tighten suddenly and sharply.
**Foster cooperation.** Countries need to work together to tackle challenges that extend beyond their own borders. To preserve and broaden the gains from decades of rules-based global trade integration, countries should cooperate to reduce trade costs further and resolve disagreements without raising distortionary barriers. Cooperative efforts are also essential for completing the financial regulatory reform agenda, strengthening international taxation, enhancing cybersecurity, tackling corruption, and mitigating and coping with climate change.

**Bring inflation to target, build buffers, curb excess imbalances.** Monetary accommodation needs to continue where inflation is weak, but cautious, well-communicated, data-dependent normalization should proceed where inflation is close to target. Fiscal policy should aim to rebuild buffers for the next downturn, and the composition of public spending and revenues should be designed to bolster potential output and inclusiveness. In countries at or close to full employment, with an excess current account deficit and an unsustainable fiscal position (notably the United States), public debt needs to be stabilized and eventually reduced, and procyclical stimulus, which is contributing to rising global imbalances and heightened risks to the US and global economies, should be withdrawn. Countries with both excess current account surpluses and fiscal space (for example, Germany) should increase public investment to boost potential growth and reduce external imbalances.

**Strengthen the potential for higher and more inclusive growth.** All countries should grasp the opportunity to adopt structural reforms and policies that raise productivity and ensure broad-based gains—for instance, by encouraging technological innovation and diffusion, increasing labor force participation (especially by women and youth), supporting those displaced by structural change, and investing in education and training to enhance job opportunities.

**Build resilience.** Macro- and microprudential policies face the challenges of building financial buffers, curtailing leverage, limiting excessive risk taking, and containing financial stability risks (including threats to cybersecurity). In the euro area, balance sheet repair needs to continue. Emerging market economies should aim to keep contingent liabilities and balance sheet mismatches in check. Building on recent efforts, China should continue to rein in credit growth and address financial risks, even if growth temporarily slows. Among the main findings of Chapter 2 is that countries with stronger fiscal positions before the global financial crisis, and those with more flexible exchange rate regimes, experienced smaller output losses. Underscoring the importance of macroprudential policies and effective supervision, countries with greater financial vulnerabilities before the global financial crisis suffered larger output losses. The analysis in Chapter 3 highlights important ways in which emerging market and developing economies can reap the benefits from stronger institutions. In the current juncture where global financial conditions are normalizing, more credible monetary policy frameworks that effectively anchor inflation expectations can make the economy more resilient to adverse external shocks by improving the tradeoff between inflation and output.

**Improve convergence prospects for low-income developing countries.** Continued progress toward the 2030 United Nations Sustainable Development Goals is imperative to foster greater economic security and better living standards for a rising share of the world’s population. Given their generally high levels of public indebtedness, low-income developing countries need to make decisive progress to strengthen their fiscal positions while prioritizing well-targeted measures to reduce poverty. They must also boost the resilience of their financial systems. Investing in human capital, improving access to credit, and reducing infrastructure gaps can promote economic diversification and improve the capacity to cope with climate shocks.