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World Bank Forecasts Slower but Smoother Growth

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Loading packages of clothing in Bangkok. Thai officials should watch for signs of an overheating economy, the World Bank says.

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WASHINGTON — The world economy will face slower but less volatile growth in the coming months and years, the World Bank forecast on Wednesday, as dire risks from the financial crisis in Europe fade and emerging economies confront new challenges adapting to softer commodity prices and the prospect of rising interest rates.

“There’s a growing recognition that this is not the aftereffect of the crisis,” Andrew Burns, the lead author of the report, said in an interview. “It is a new normal.”

All in all, the bank’s economists forecast that the global economy will grow about 2.2 percent this year and 3 percent in 2014 in the latest periodic update to its Global Economic Prospects report. That is slightly weaker growth than the World Bank forecast in January.

The report’s authors said they expected sluggish growth from high-income countries, with the euro area remaining weak but finally emerging from recession and Japan gaining some momentum from the government’s aggressive fiscal and monetary measures after a decade of malaise and

stagnation. The bank raised its estimate of 2013 growth for Japan to 1.4 percent from its earlier prediction of 0.8 percent.

The United States is expected to be relatively strong among the world's rich nations. Even so, the World Bank, which is responsible for encouraging development around the globe, anticipates that the American economy will grow only about 2 percent this year, in line with its performance over the last three years.

For emerging economies, conditions vary widely, the report said, but the picture is broadly good. Across large parts of Latin America, East Asia and sub-Saharan Africa, countries are growing close to their potential capacities, tied to factors like increases in productivity and the working-age population, and should expect little acceleration in the coming years, the report said.

In many cases, that means growing more slowly than during the expansion that preceded the global financial crisis. But those lower levels of growth might be more durable and sustainable, the report's authors said.

Policy makers should focus on their individual domestic challenges, like improving infrastructure, streamlining regulations and rebuilding fiscal buffers that were thinned during the crisis. Officials in some countries, like Thailand and Ethiopia, should remain vigilant for signs of overheating and bubbles, the bank said.

"The slower growth is not really an issue of a big change in the fundamentals," Mr. Burns said. "But the very strong growth in the precrisis period was above capacity, and we're moving into a period where growth is more in line with underlying capacity. That can be a bit of a frustrating thing for developing countries."

In Eastern Europe, the Middle East and North Africa, economies remain fragile and in some cases deeply troubled, the report said. Countries in Eastern and Central Europe, still emerging from the post-Soviet era, in many cases suffer from the same problems as countries in high-income Europe. These include fragile banking sectors, credit problems and large budget deficits. Still, growth should pick up in developing Europe to more than 4 percent in 2015 from about 2.7 percent last year.

The Middle Eastern and North African region continues to struggle with political instability. Growth might pick up as tensions ease, the bank said.

The world economy is undergoing a fundamentally positive realignment, Mr. Burns said, as developing economies become more reliant on themselves and one another for new demand. Now, more than half of developing-country trade occurs with other developing countries, rather than with richer nations like the United States and Japan, the report said. That is up from 37 percent in 2001.

The trend is not just about China, either, the bank emphasized, though it buys 26 percent of its exports from developing countries, compared with 14 percent in 2001. “Growth of trade between the remaining developing countries has also outpaced trade with high-income countries by a wide margin,” the report said.

There is a new risk from the United States and other high-income economies, however: the end of extremely accommodating monetary policy. The scaling back of the Federal Reserve’s policy of quantitative easing, for instance, might lead to higher interest rates around the world, the report noted.

Businesses in many countries have eagerly taken advantage of low rates to embark on major projects relying on longer-term loans, like construction projects. That has created conditions ripe for higher losses from loans that no longer make sense if interest rates rise and demand eases.

“Higher interest rates will increase debt-servicing costs and could increase default rates on existing loans,” the bank warned. “Banks in countries that have enjoyed very strong growth and asset-price inflation, together with high levels of government or private sector debt, may be at particular risk.”

There were no obvious signs of risk in specific emerging economies, Mr. Burns said, though conditions seemed to indicate that financial bubbles could be developing. “We won’t know who’s swimming naked until the tide goes out,” Mr. Burns said.

Developing countries also may need to adjust to lower commodity prices as global growth slows in the postcrisis period, bank economists said.

“Over the last four years, developing economies have become very accustomed to high commodity prices related to the real economy,” said Hans Timmer, the director of the development prospects group at the bank. But higher prices helped increase supply, and demand might slow down. “We’re postcrisis, postrecovery, and we’re having new discussions.”