

Global Economic Prospects

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Development Economics • Prospects

Four Questions

1 **What are near-term prospects for the global economy?** *A sharp global slowdown underway. The outlook clouded by multiple downside risks, in particular an intensification of financial stress.*

2 **What are long-term prospects for the global economy?** *Potential growth declined between 2000-10 and 2011-21 and is expected to weaken further in 2022-30, with downside risks.*

3 **What are the main fiscal policy challenges in LICs?** *Rising debt, interest payments, chronic revenue weakness, and growing spending pressures.*

4 **What are the policy priorities?** *Global and national policies to ensure financial and macroeconomic stability and boost potential growth and address climate change.*

* **EMDEs = Emerging Market and Developing Economies**

* **LICs = Low-Income Countries**

Four Questions

1 **What are near-term prospects for the global economy?** *A sharp global slowdown underway. The outlook clouded by multiple downside risks, in particular an intensification of financial stress.*

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Global Growth Forecasts

Sharp Downturn Continues in 2023

GDP growth (Percent)

	GDP growth (Percent)						<i>Change from January 2023</i>	
	2010-19	2020	2021	2022e	2023f	2024f	2023	2024
World	3.1	-3.1	6.0	3.1	2.1	2.4	0.4	-0.3
Advanced economies	2.0	-4.3	5.4	2.6	0.7	1.2	0.2	-0.4
EMDEs	5.1	-1.5	6.9	3.7	4.0	3.9	0.6	-0.2
<i>Excluding China</i>	3.8	-3.9	5.9	4.1	2.9	3.4	0.2	-0.2
East Asia and Pacific	7.2	1.2	7.5	3.5	5.5	4.6	1.2	-0.3
Europe and Central Asia	3.2	-1.7	7.1	1.2	1.4	2.7	1.3	-0.1
Latin America and the Caribbean	2.3	-6.2	6.9	3.7	1.5	2.0	0.2	-0.4
Middle East and North Africa	3.4	-4.0	3.7	5.7	2.2	3.3	-1.3	0.6
South Asia	6.7	-4.1	8.3	6.0	5.9	5.1	0.4	-0.7
Sub-Saharan Africa	3.7	-2.0	4.4	3.7	3.2	3.9	-0.4	0.0

Source: World Bank.

Note: Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates; e and f refer to estimates and forecasts, respectively.



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Global Growth Forecasts

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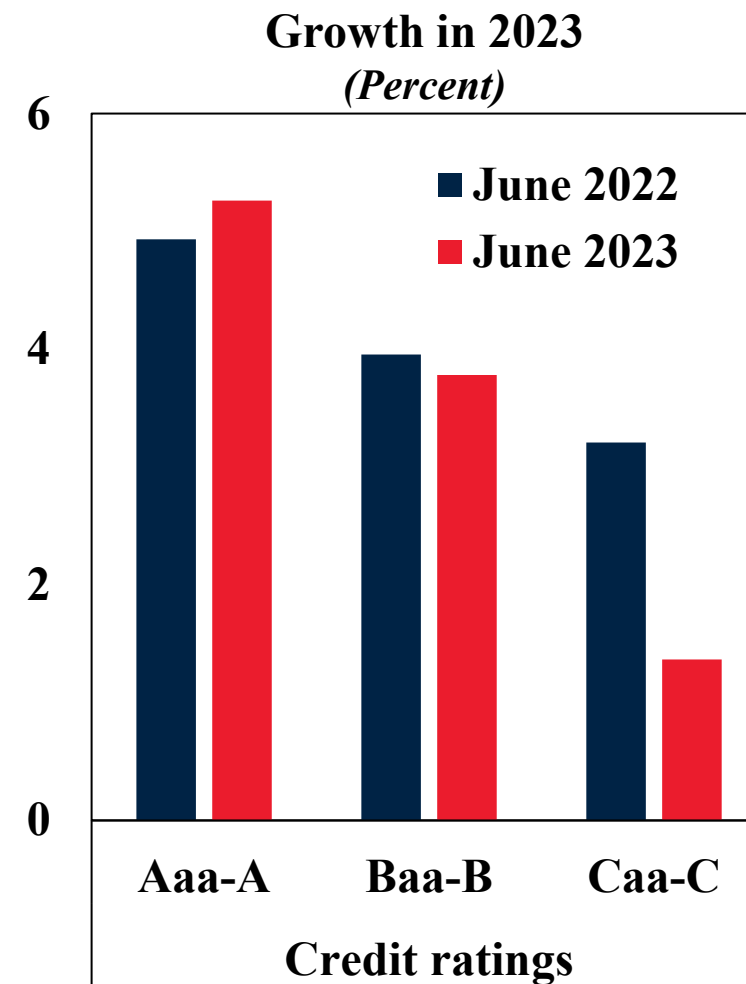
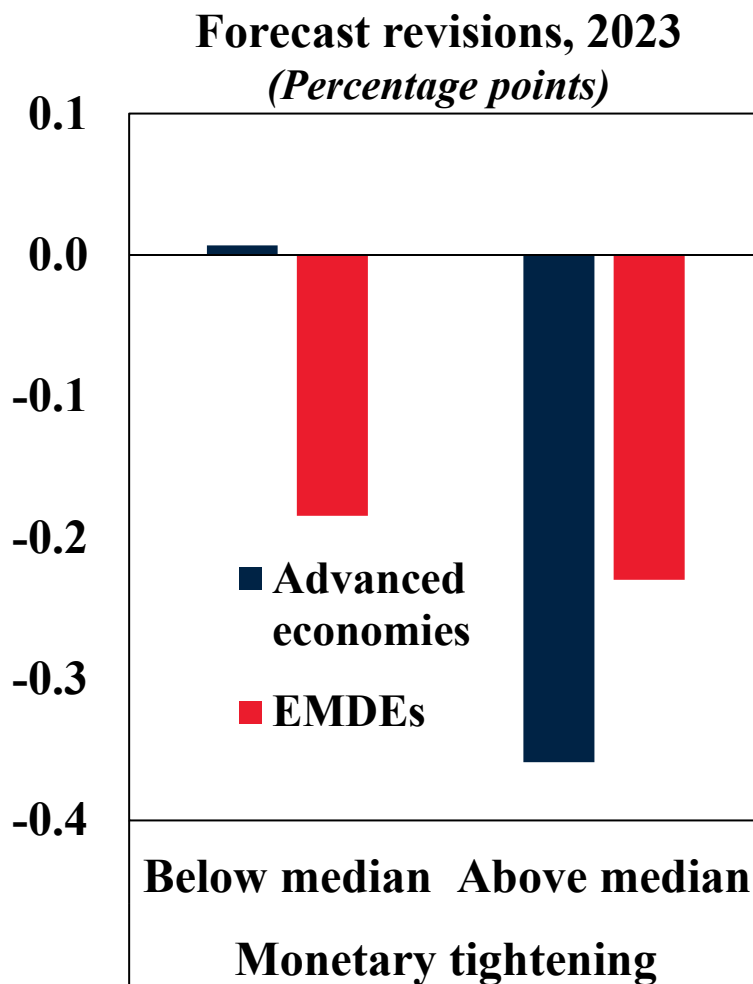
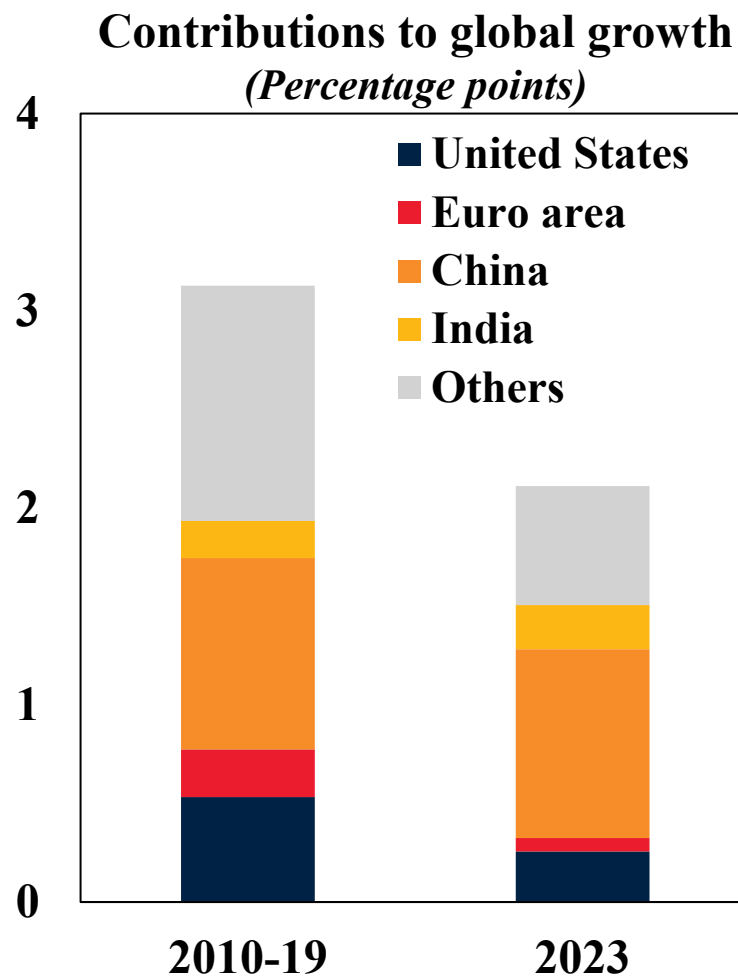
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Source: World Bank.

Note: Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates; e and f refer to estimates and forecasts, respectively.

Growth Forecasts for 2023

Larger Downgrades in Countries with Tighter Monetary Policy and Greater Vulnerabilities



Sources: Bloomberg; Haver Analytics; World Bank.

Left Panel. Aggregate growth rates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Data for 2023 are forecasts. Center Panel. Figure shows average 2023 forecast change between the January and June 2023 editions of the *Global Economic Prospects* report according to whether the central bank's policy rate has increased by more or less than the median number of country-specific standard deviations. Sample includes 19 advanced economies and 77 EMDEs. Right Panel. Comparison of GDP-weighted growth between different editions of the *Global Economic Prospects* report, by credit ratings. Sample includes 9 Aaa-A, 63 Baa-B, and 24 Caa-C economies.



Global Risks

Multiple Downside Risks

Financial stress

Geopolitical stress

Climate-related disasters

Further monetary tightening

Energy and food insecurity

Weaker long-term growth prospects

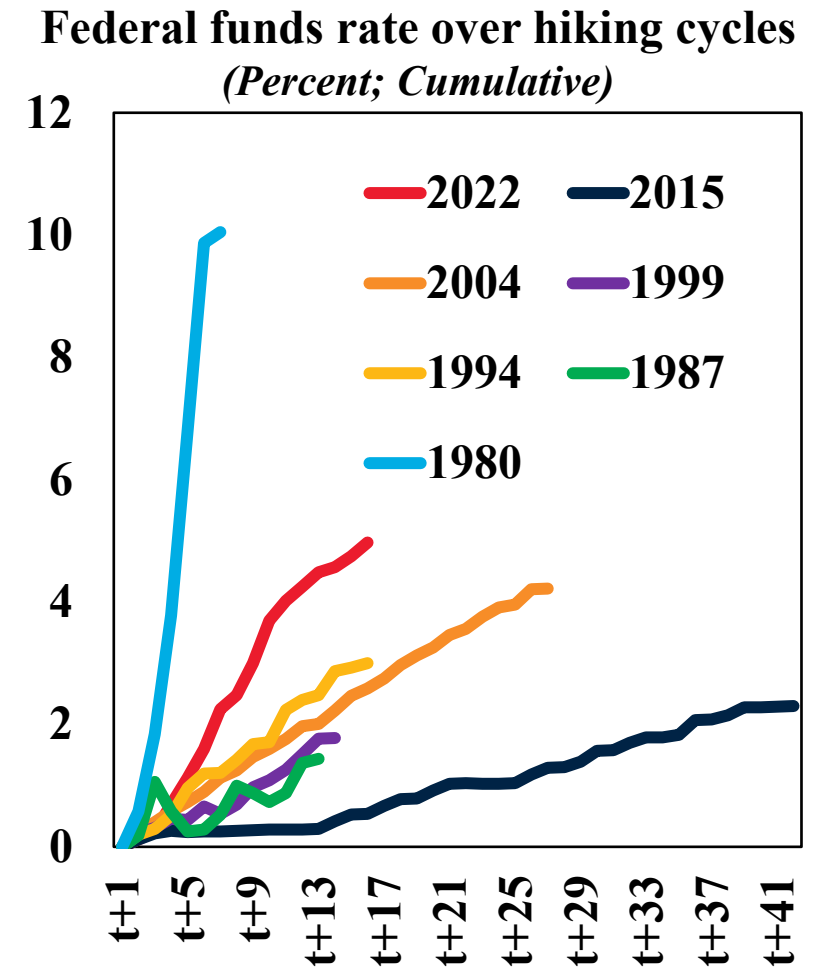
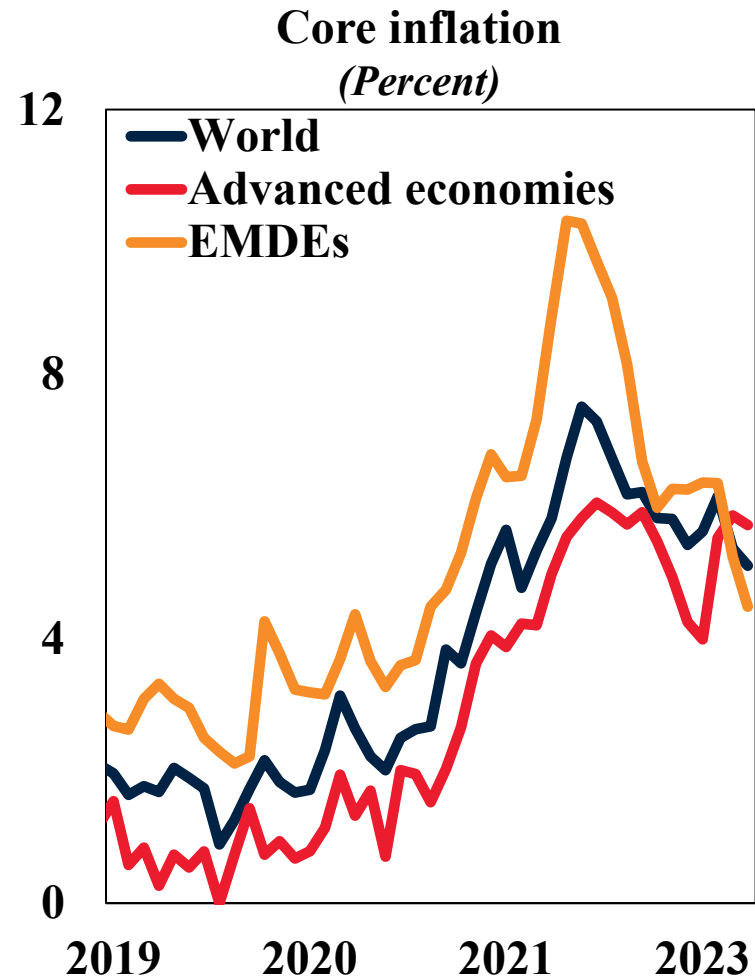
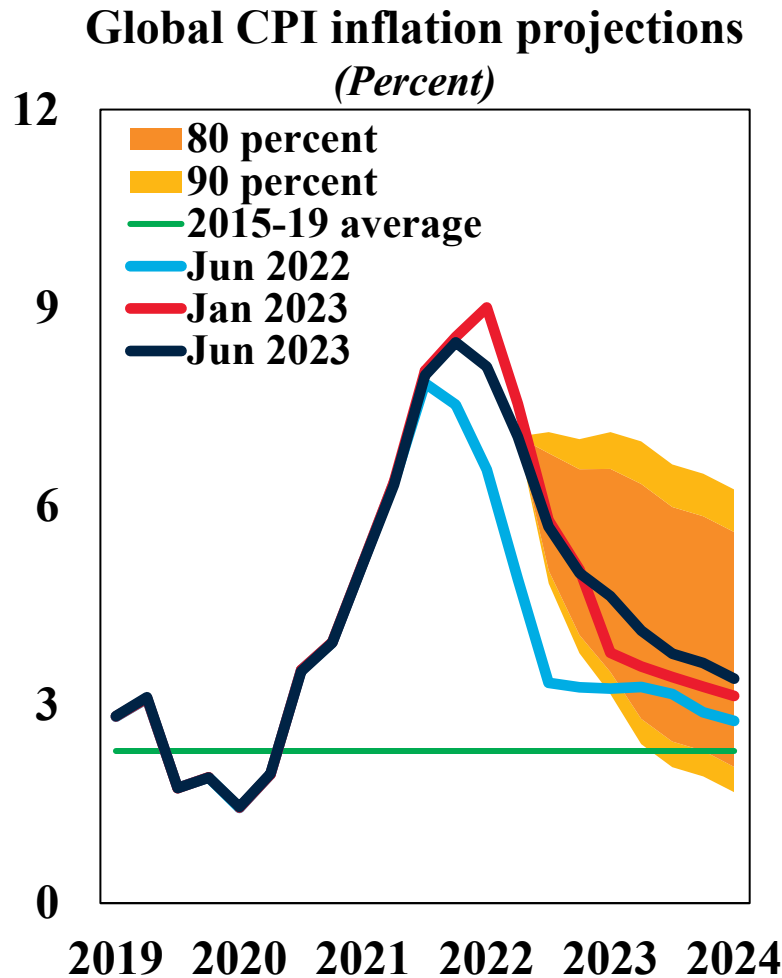
Persistent high inflation

Social tensions

Fragmentation of global economic networks

Inflation and Monetary Policy

Headline Higher for Longer; Core Persistent; Steep Interest Rate Increases



Sources: Consensus Economics; Federal Reserve Bank of St. Louis; Haver Analytics; Oxford Economics; World Bank.

Left Panel. Model-based projections of year-on-year global CPI inflation using Oxford Economics' Global Economic Model as presented in the June 2023 edition of the *Global Economic Prospects* report. Uncertainty bands constructed from the distribution of forecast errors for total CPI from Consensus Economics for an unbalanced panel of 18 economies. Center Panel. Median 3-month core inflation at an annualized rate. Sample includes up to 31 advanced economies and 40 EMDEs. Last observation is April 2023. Right Panel. Based on the monthly series of effective federal funds rate. Last observation is May 2023.

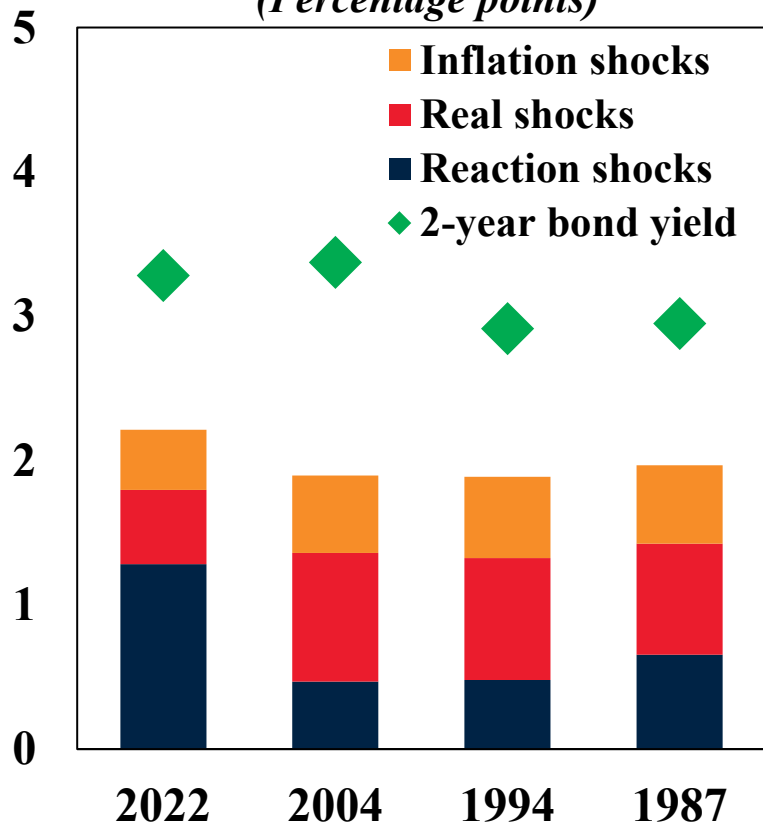


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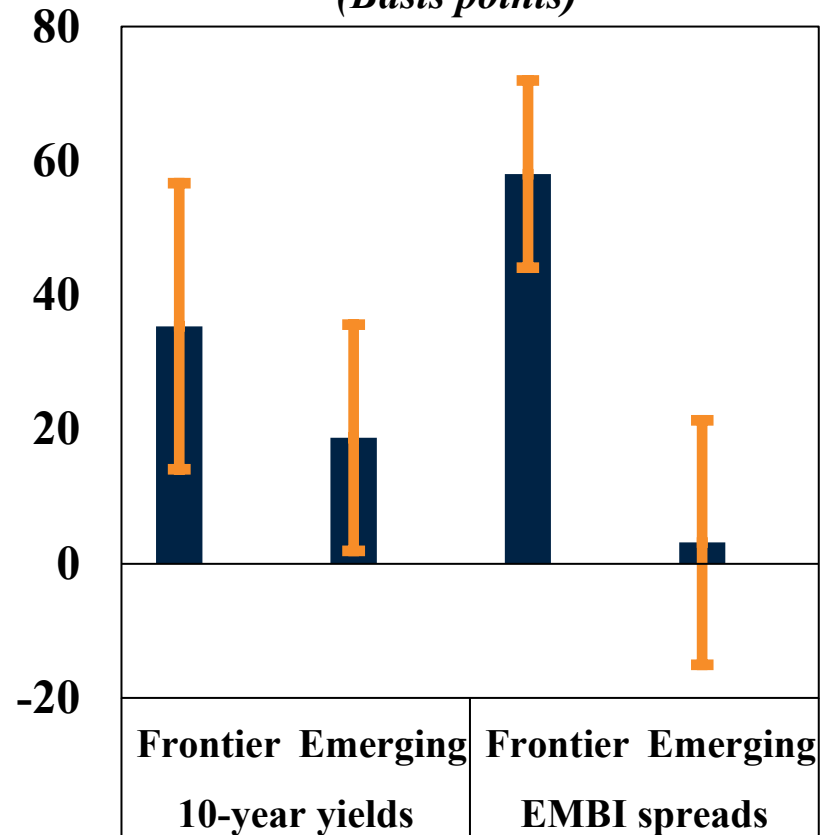
U.S. Interest Rate Increases

More Hawkish Fed Reaction, More Adverse Impact on Frontier Markets

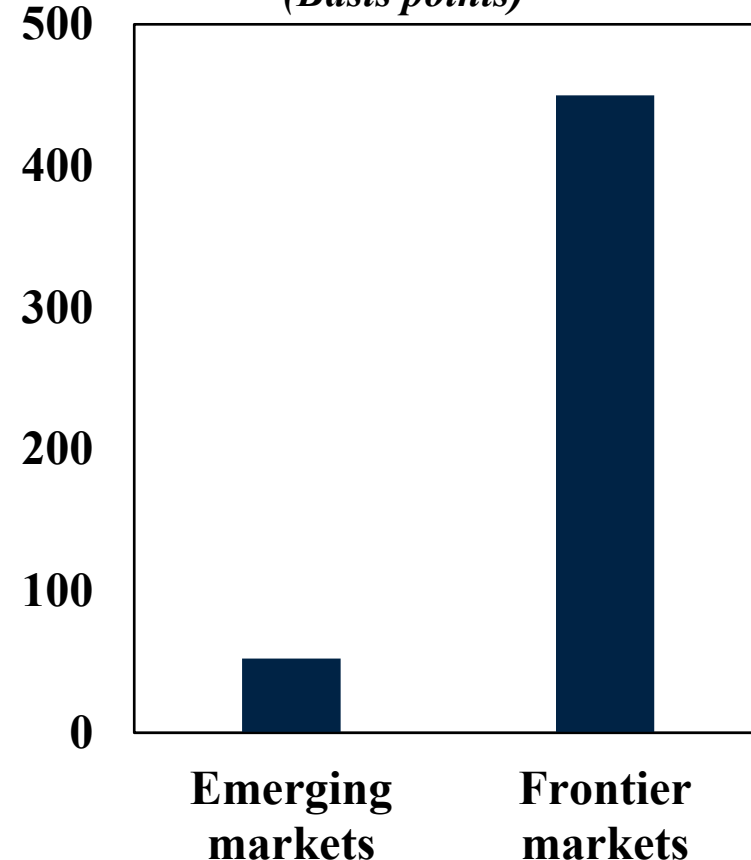
Drivers of interest rate changes
(Percentage points)



Impact of reaction shocks on EMDEs
(Basis points)



Change in EMBI spread since Feb. 2022
(Basis points)

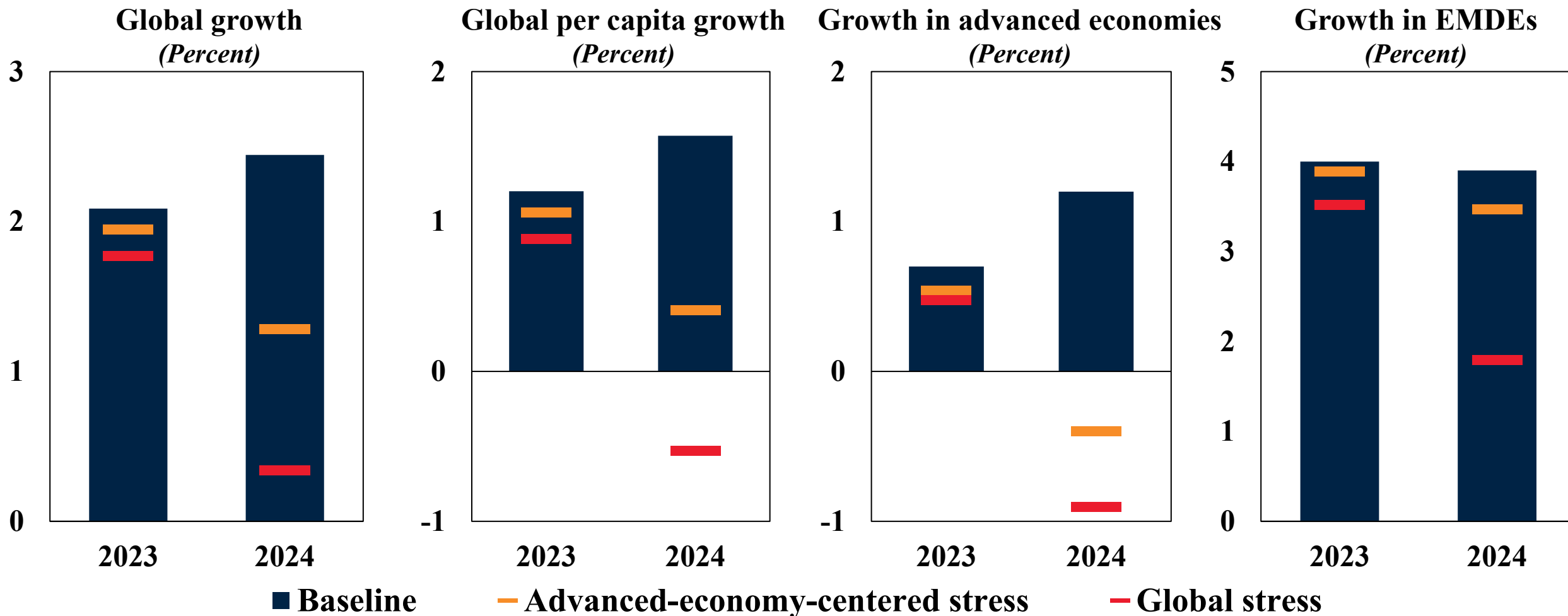


Sources: Arteta, Kamin, and Ruch (2022); J.P. Morgan; MSCI; World Bank.

Left Panel. Shocks estimated from a sign-restricted Bayesian vector autoregression model. Inflation shocks are prompted by rising expectations of U.S. inflation, and real shocks by anticipation of improving U.S. economic activity. Reaction-function shocks are prompted by investors' assessments that the Federal Reserve has made a hawkish shift. Cumulative change in shocks and yields over each hiking cycle. Current episode for 2022 includes January 2022 to April 2023. Center Panel. Figure shows impact of 25 basis point reaction shock on EMDE financial variables after one quarter. Based on the MSCI country classification in 2022. Frontier markets include up to 9 economies while emerging markets include up to 19 economies. Orange whiskers reflect 90 percent confidence intervals. "EMBI spreads" based on EMBI (emerging market bond index) global. Right Panel. Unweighted average EMBI spread for 9 frontier markets and 14 emerging markets, as classified by MSCI.

Growth Scenarios for 2023-24

Global Financial Stress Accompanied with Weaker Growth



Sources: Guenette, Kose, and Sugawara (2022); Oxford Economics; World Bank.

Note: In addition to the baseline scenario, the Oxford Economics Global Economic Model is used to quantify the downside risks to growth from a severe credit crunch and global financial stress. Under the advanced-economy-centered stress scenario, financial conditions tighten considerably more than in the baseline in advanced economies, while spillovers to EMDEs are limited. Under the global stress scenario, spillovers to EMDEs interact with some vulnerabilities in EMDEs, such as bank undercapitalization and elevated public and private debt and financial stress propagates internationally.

Four Questions

2 **What are long-term prospects for the global economy?** *Potential growth declined between 2000-10 and 2011-21 and is expected to weaken further in 2022-30, with downside risks.*

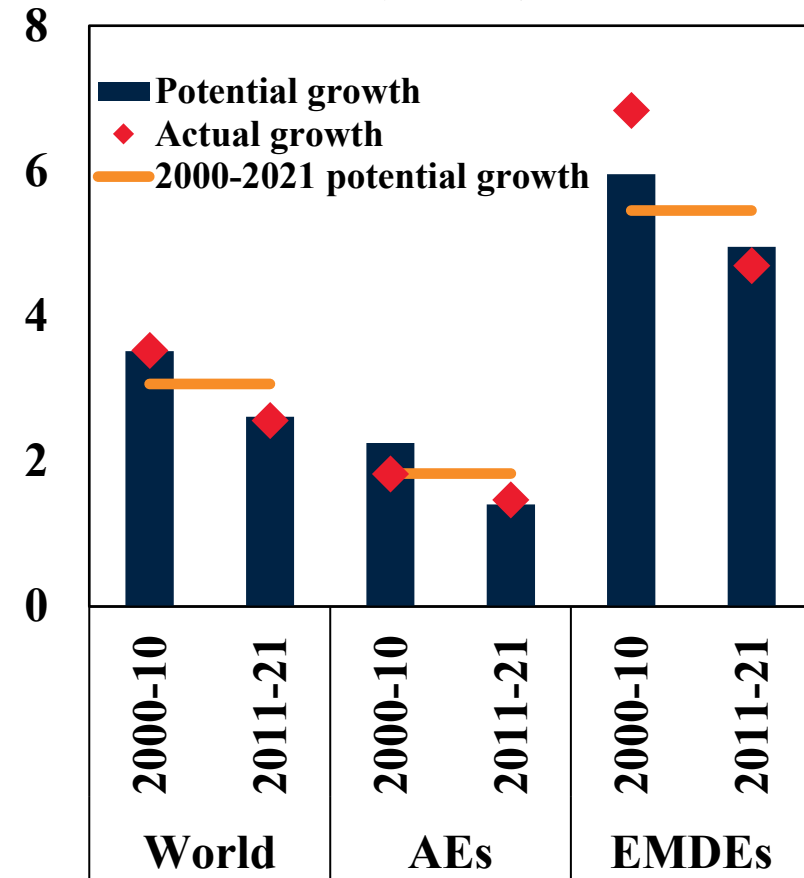
* **EMDEs = Emerging Market and Developing Economies**

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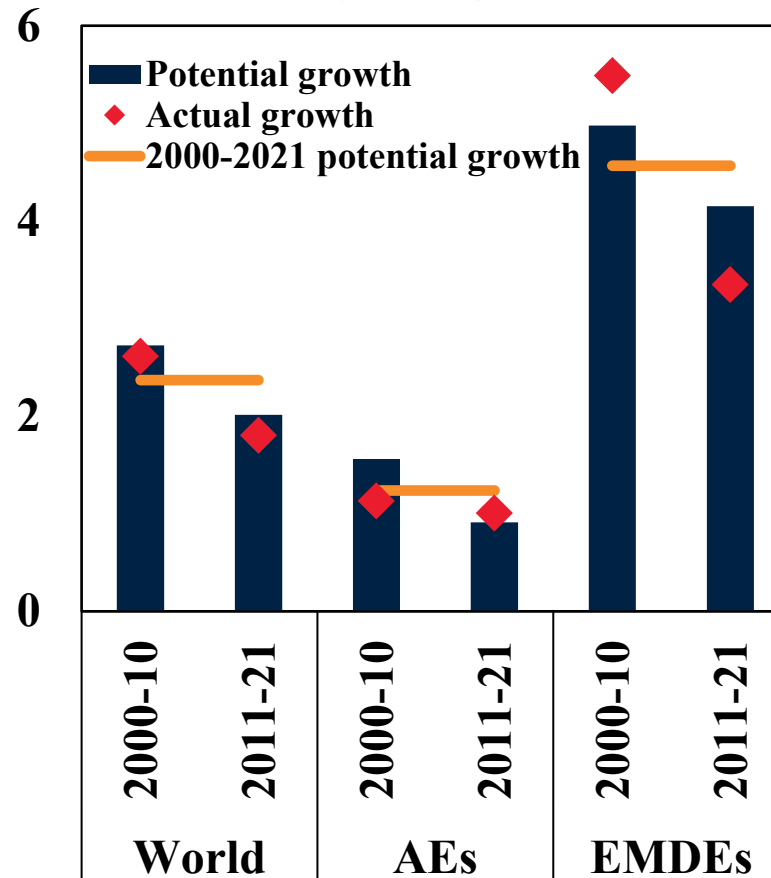
Potential Growth

Declining

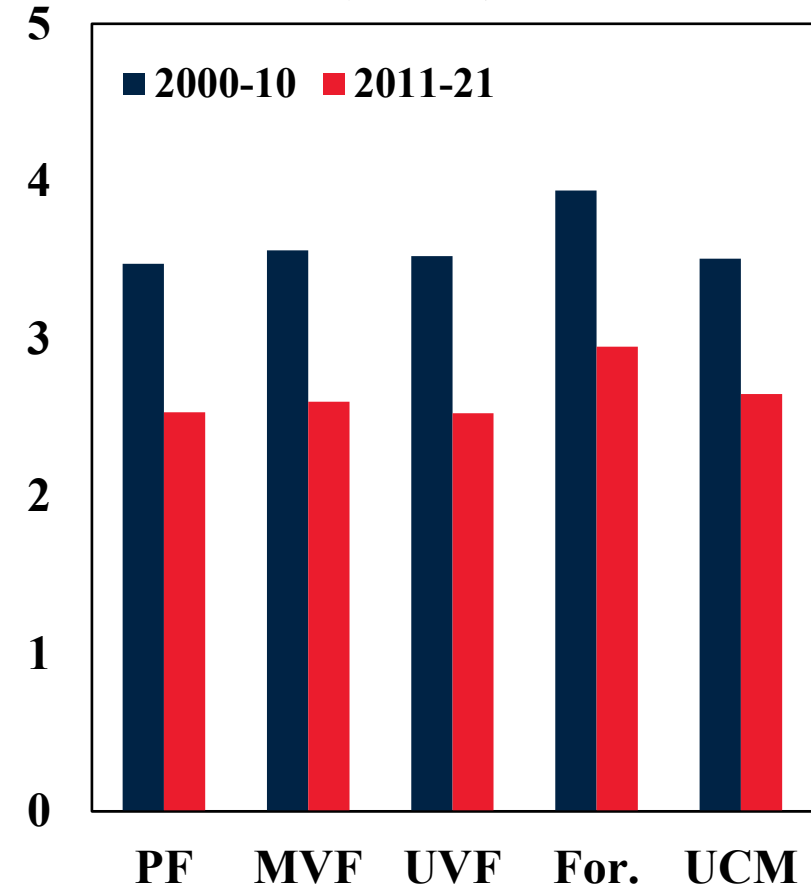
Potential growth
(Percent)



Per capita potential growth
(Percent)



Global potential growth
(Percent)



Sources: UN population statistics, World Bank.

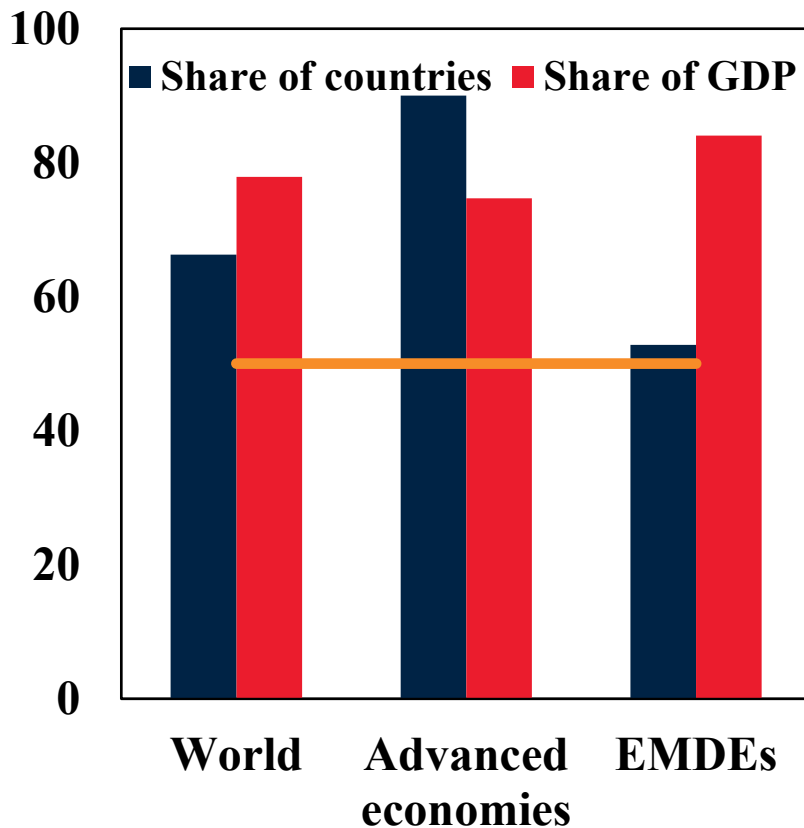
Note: AEs = advanced economies. PF = production function approach. MVF = multivariate filter-based. UVF = univariate filter-based, UCM= Unobserved Components Model.

Left and Center panel: Based on potential growth derived using production function approach. GDP-weighted average. Sample includes 30 advanced and 53 emerging market and developing economies. Right panel: Based on common sample of 30 advanced economies and 25 EMDEs for 2000-21 to ensure consistency in samples across methodologies.

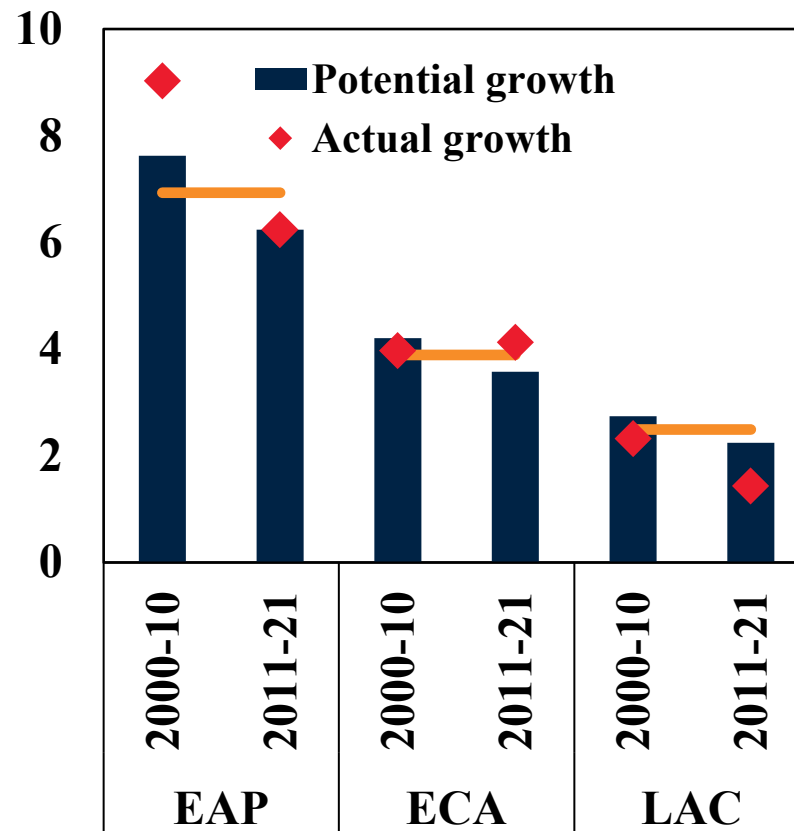
Potential Growth

Broad-Based Slowdown

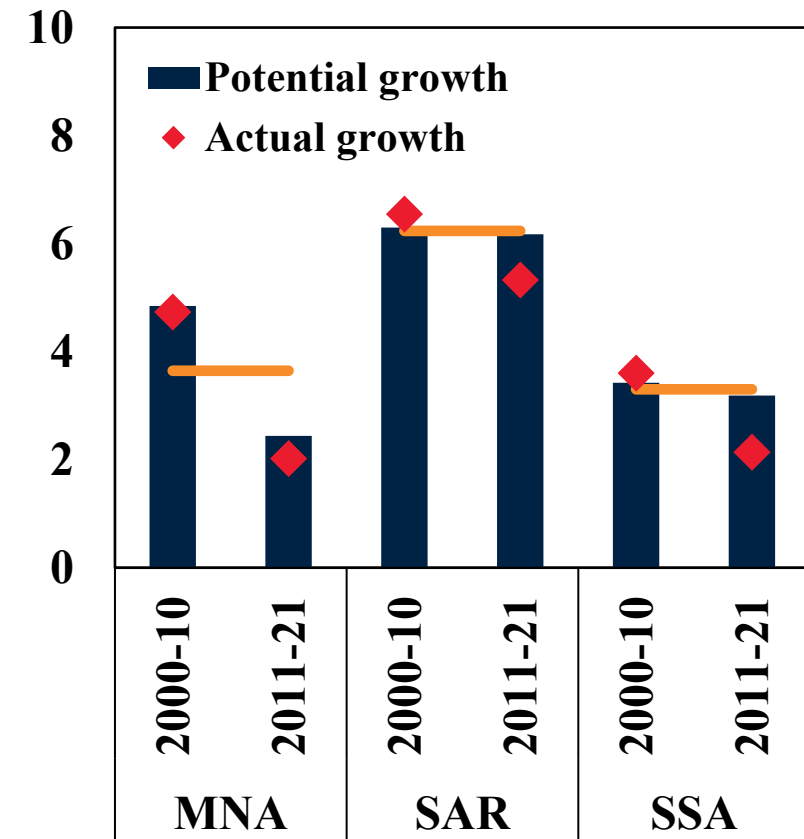
Share of economies and GDP with slowing potential growth 2000-10 to 2011-21
(Percent)



Potential growth in EMDE regions
(Percent)



Potential growth in EMDE regions
(Percent)



Sources: UN population statistics, World Bank.

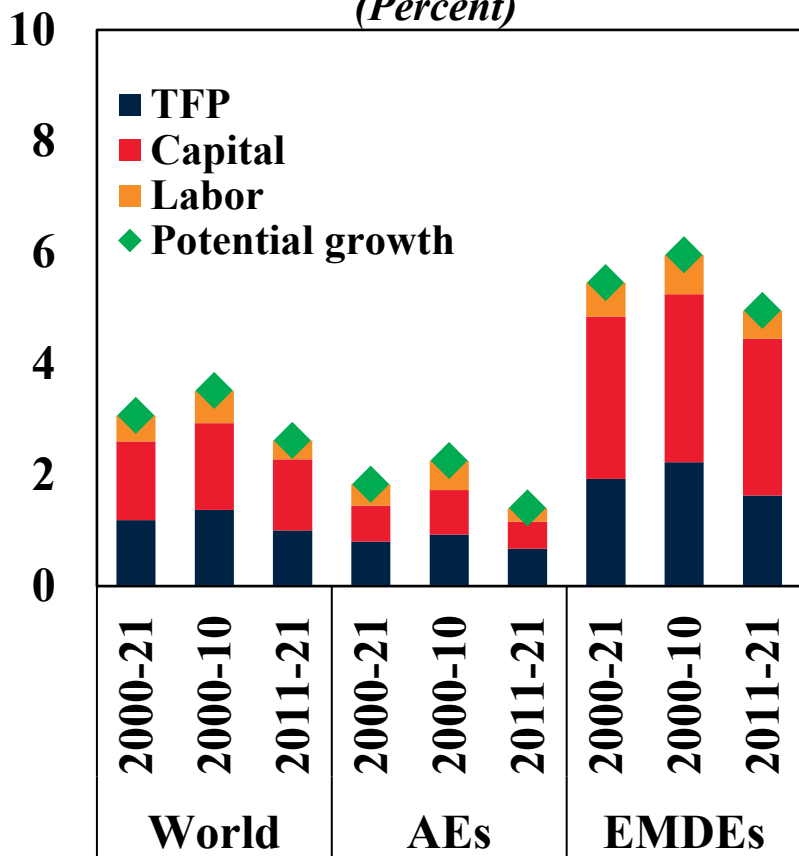
Note: GDP-weighted averages of production function-based potential growth estimates.

Left Panel: Number of economies and their share of global or group GDP with potential growth in each period below its 2000-10 average. Horizontal line indicates 50 percent. Unbalanced sample of 30 advanced economies and 53 EMDEs for 2000-21. Center and Right Panels: Sample of 30 advanced economies and 53 EMDEs.

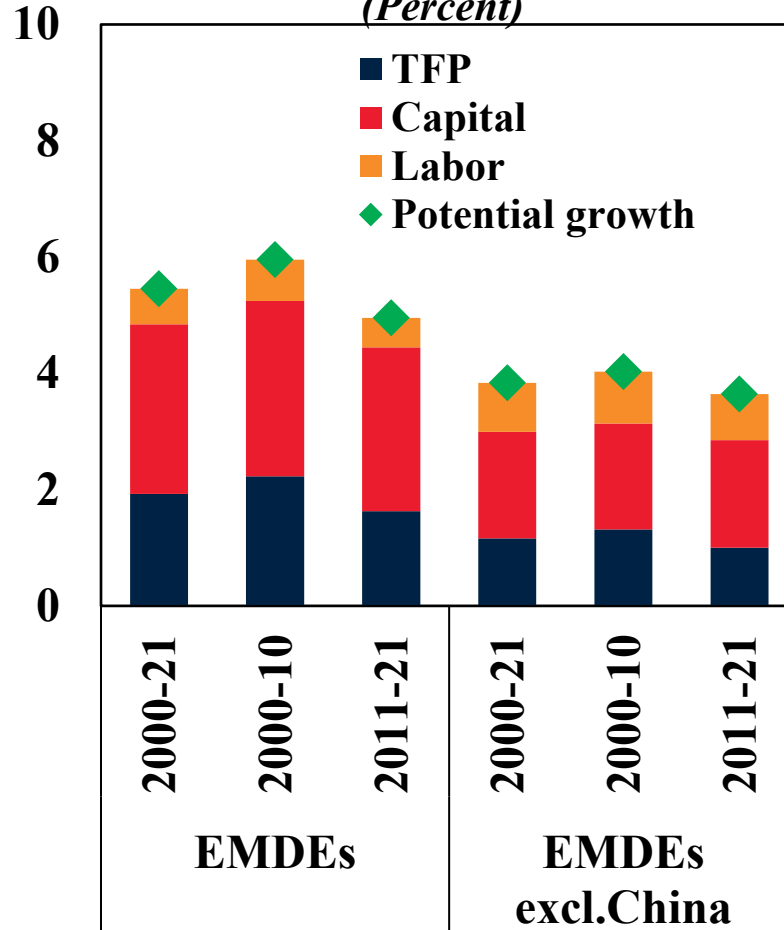
Potential Growth

Broad-Based Slowdown in Fundamental Sources of Growth

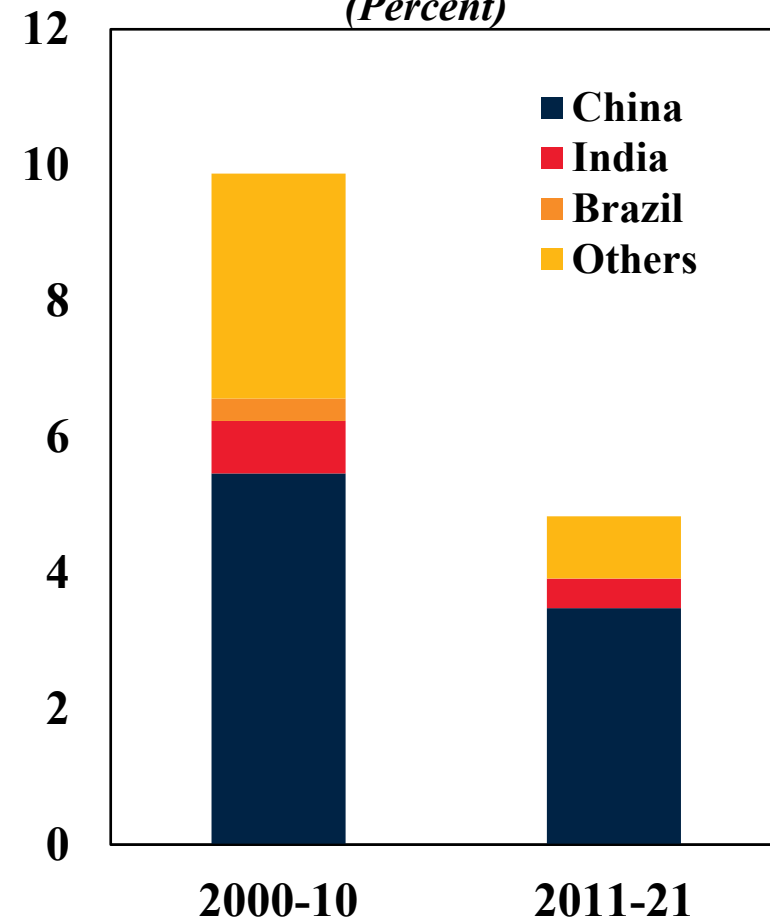
Contributions to potential growth
(Percent)



Contributions to potential growth
(Percent)



EMDEs investment growth
(Percent)



Source: World Bank.

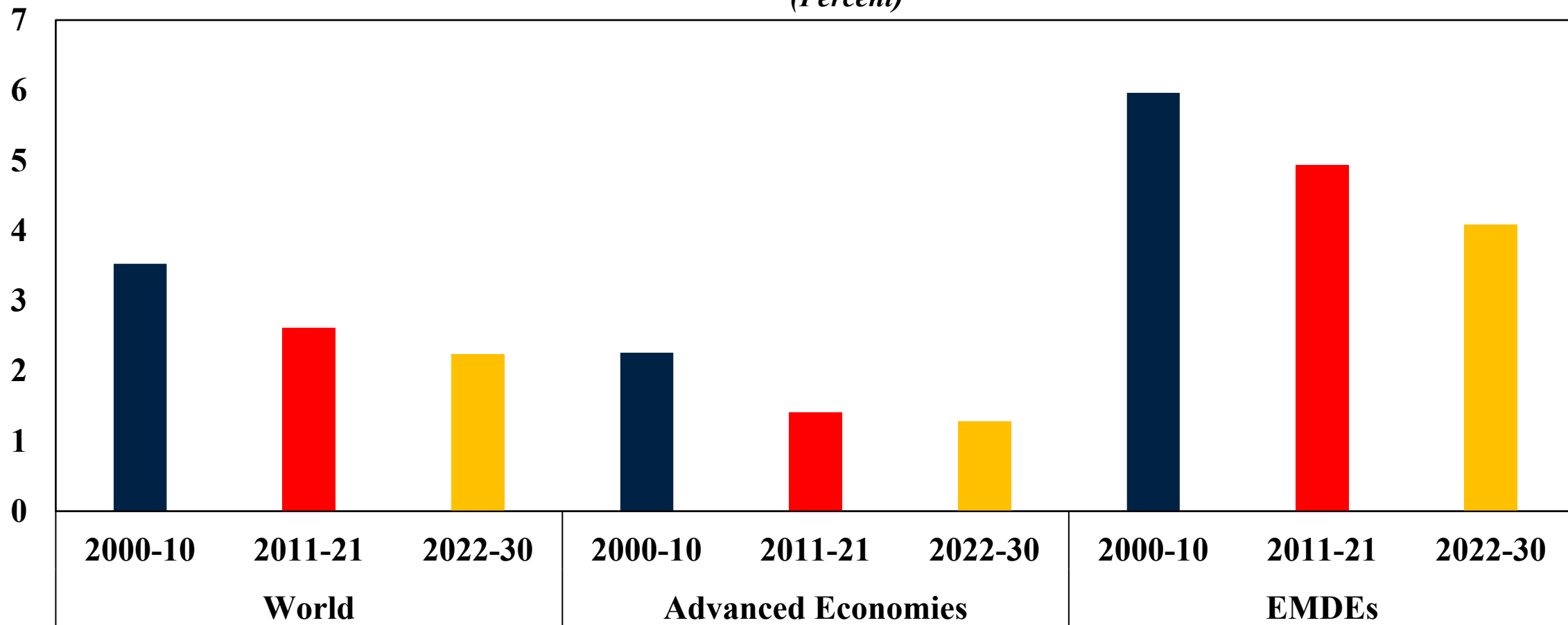
Note: GDP-weighted averages of production function-based potential growth estimates. TFP = total factor productivity. AEs = advanced economies; EMDEs = emerging market and developing economies. Left and Center Panels: Sample of 30 advanced economies and 53 EMDEs. Right Panel: Investment refers to gross fixed capital formation. Investment growth is calculated with countries' real annual investment in constant U.S. dollars as weights. Bars show the percentage point contribution of each country or country group to EMDE investment growth during the indicated years. Height of the bars is average EMDE investment growth during the indicated years. Sample includes 69 EMDEs.



Prospects for Potential Growth

Broad-Based Slowdown

Potential output growth
(Percent)



Source: Kose and Ohnsorge (2023).

Note: EMDEs = emerging market and developing economies. The book and underlying data are available for download at www.worldbank.org/en/research/publication/long-term-growth-prospects.



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Four Questions

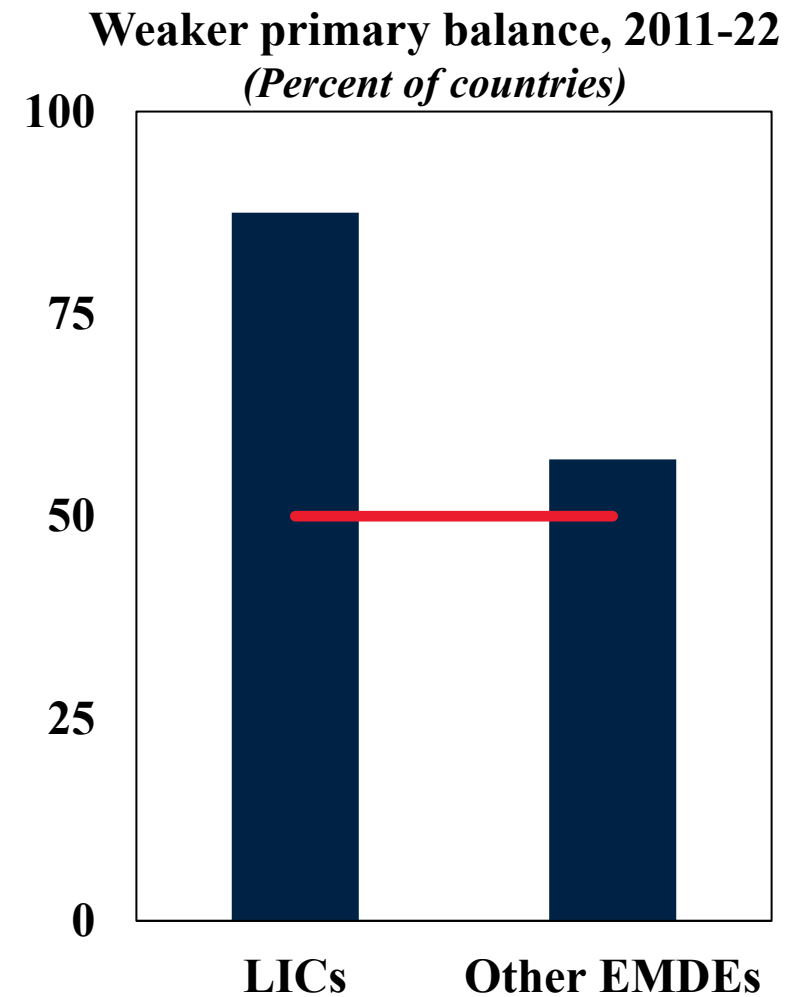
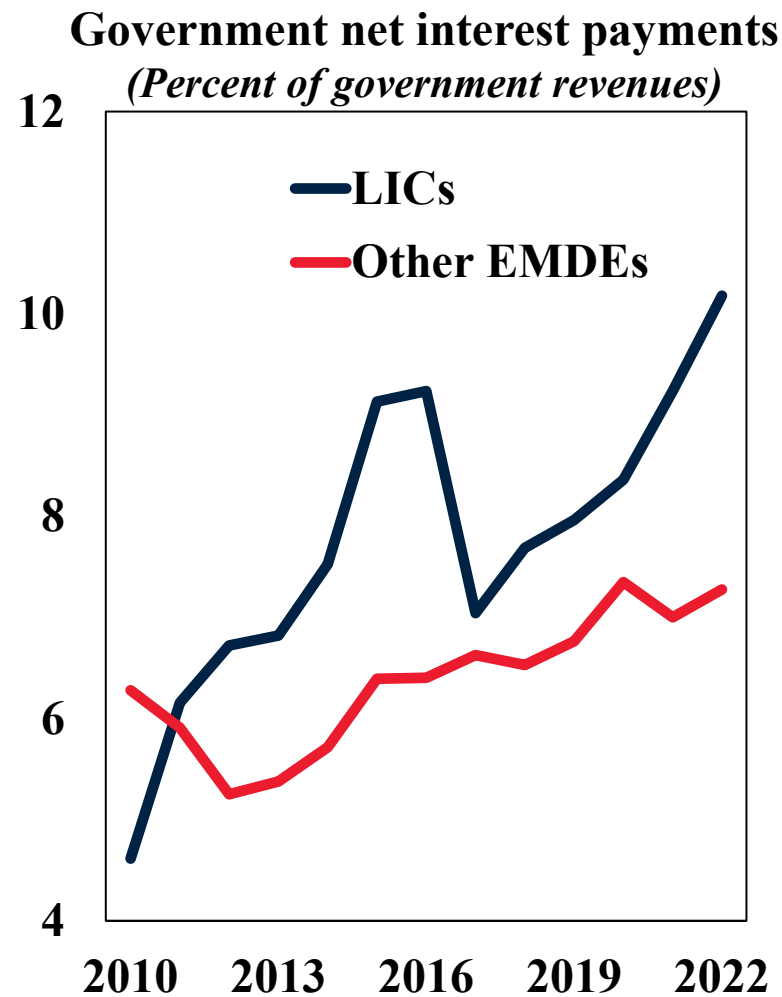
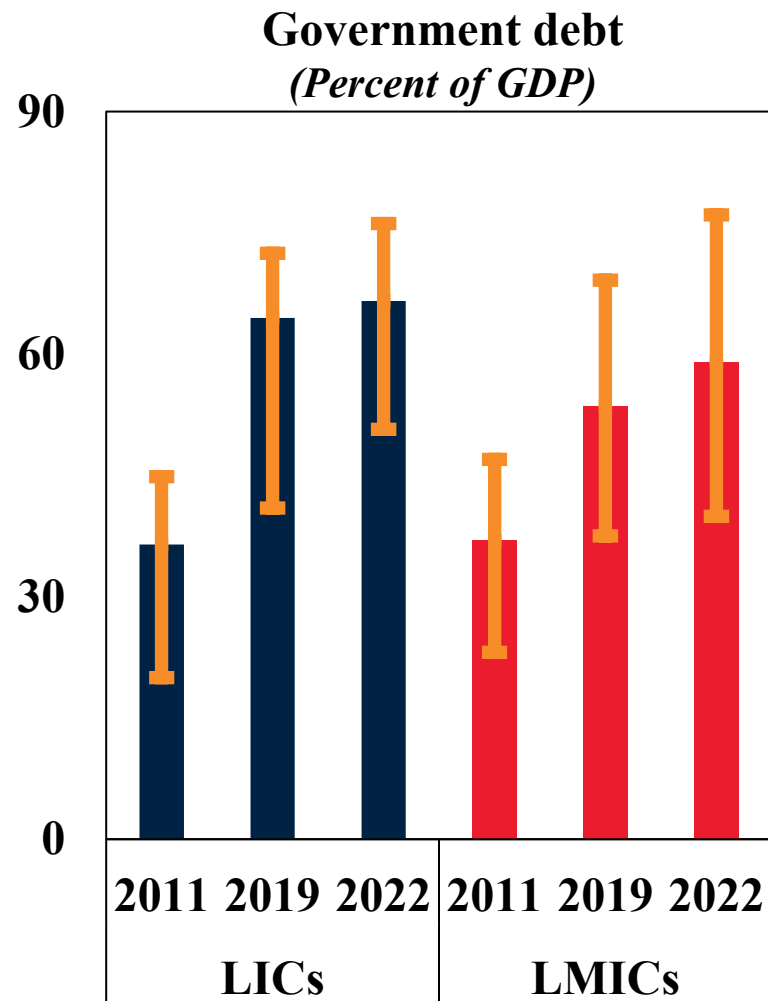
3 **What are the main fiscal policy challenges in LICs?** *Rising debt, interest payments, chronic revenue weakness, and growing spending pressures.*

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Fiscal Challenges in LICs

Rising Debt; Increasing Interest Payments; Deteriorating Fiscal Balances



Sources: Haver Analytics, International Monetary Fund, Kose et al. (2022), World Bank.

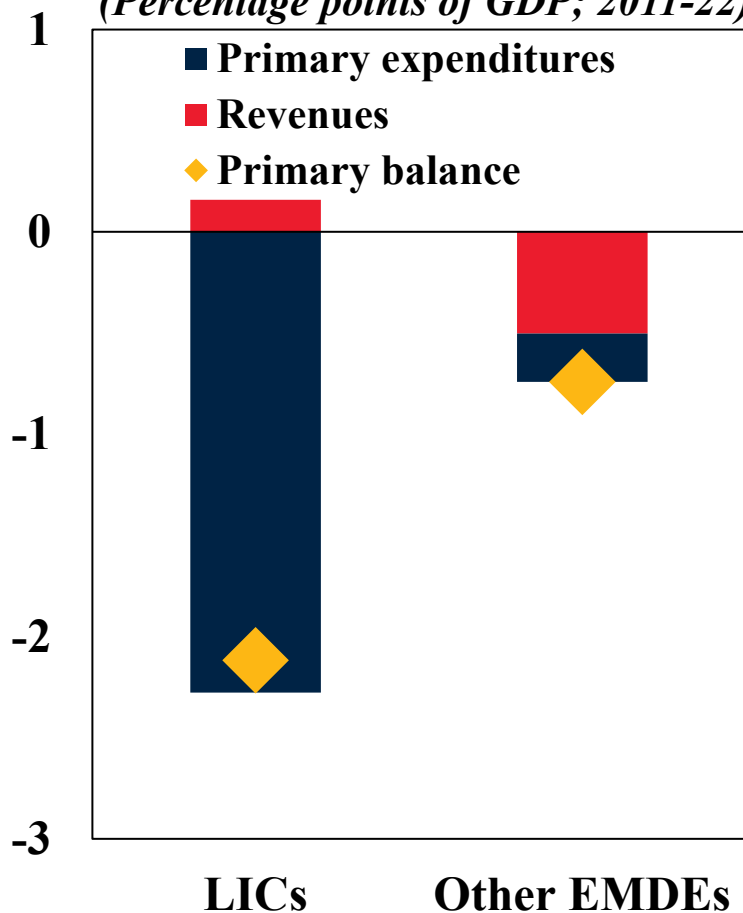
Left Panel. Bars show the unweighted averages. Orange whiskers show the interquartile ranges. Center Panel. Net interest payments are the difference between primary balances and overall fiscal balances. Aggregates computed with government revenues in U.S. dollars as weights, based on 27 LICs and 123 other (non-LIC) EMDEs. Right Panel. The grey line denotes 50 percent.

Fiscal Deficits and Revenues in LICs

Growing Spending Pressures; Revenue Weakness, Especially in Indirect Taxes

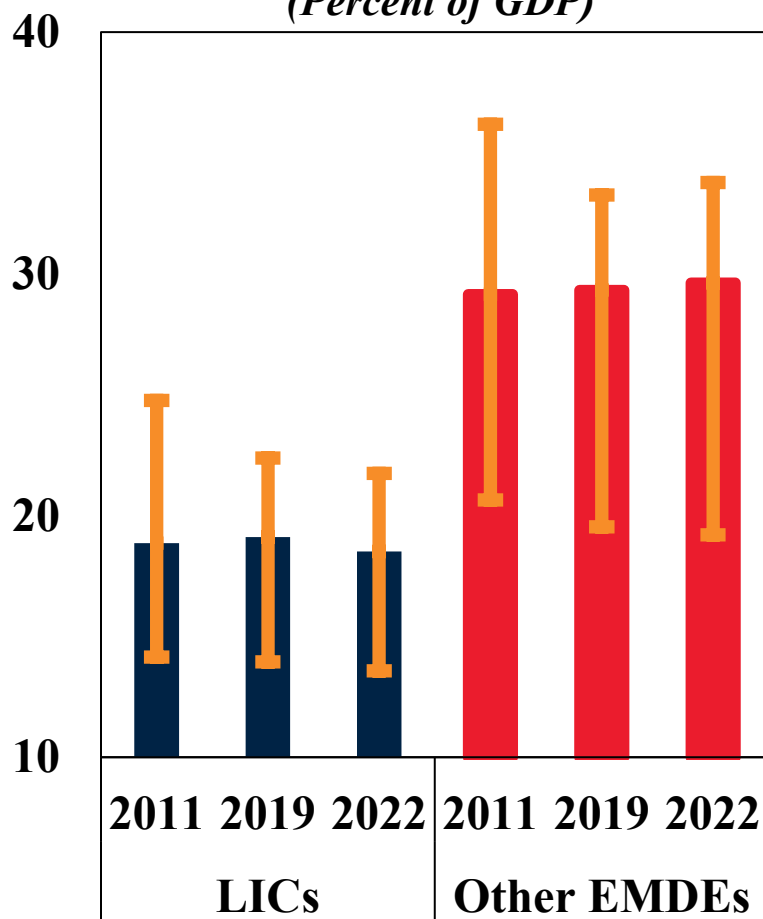
Contributions to primary balance changes

(Percentage points of GDP; 2011-22)



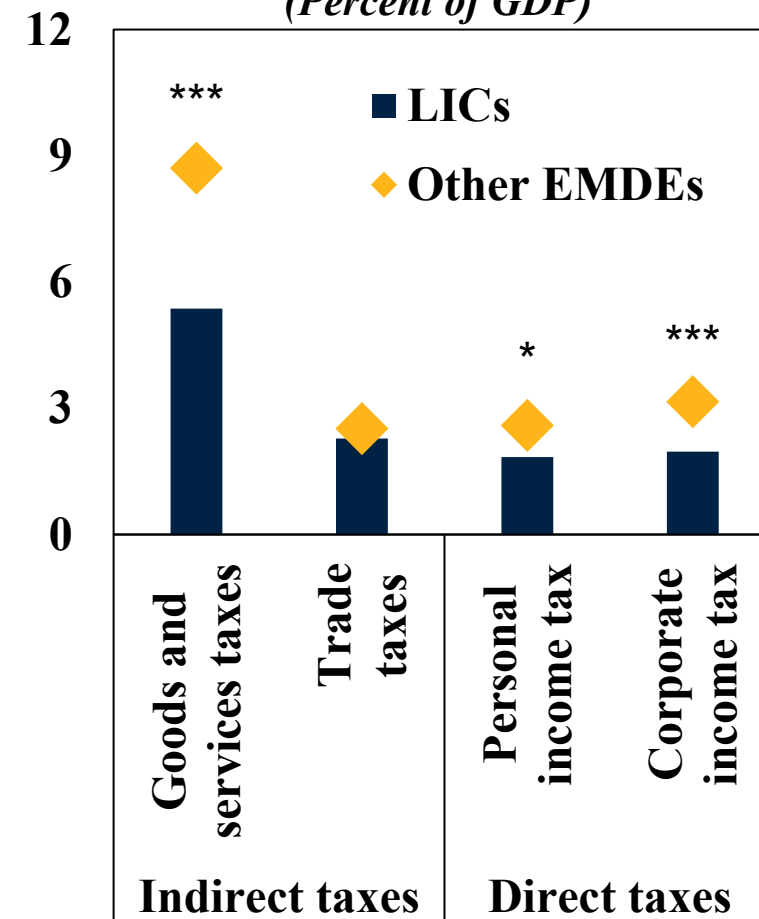
Government revenues

(Percent of GDP)



Direct and indirect tax revenues

(Percent of GDP)



Sources: International Monetary Fund; World Bank.

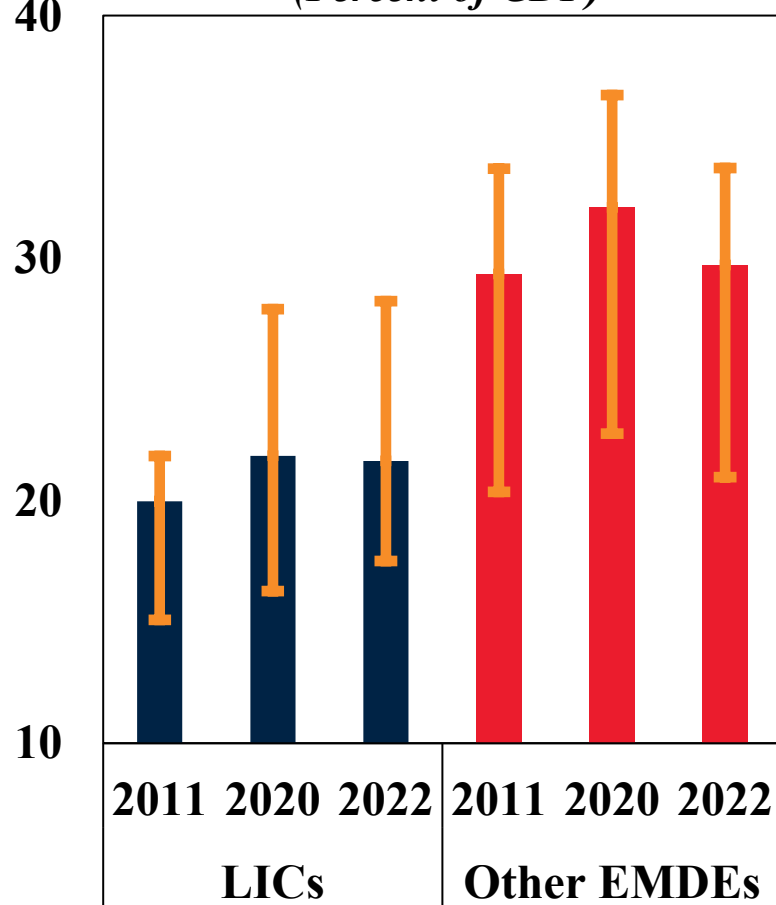
Left Panel. Bars show unweighted average changes between 2011 and 2022 in revenue-to-GDP ratio and primary fiscal balance-to-GDP ratio as well as negative of primary expenditure-to-GDP ratio. Center Panel. Bars show the unweighted average, with whiskers showing interquartile ranges. Data for 2022 are estimated. Right Panel. Unweighted average revenues (in percent of GDP) during 2011-2021 in LICs and other EMDEs. *** and * show the difference between LICs and other EMDEs is statistically significant at 1 percent and 10 percent levels, respectively.



Government Expenditures in LICs

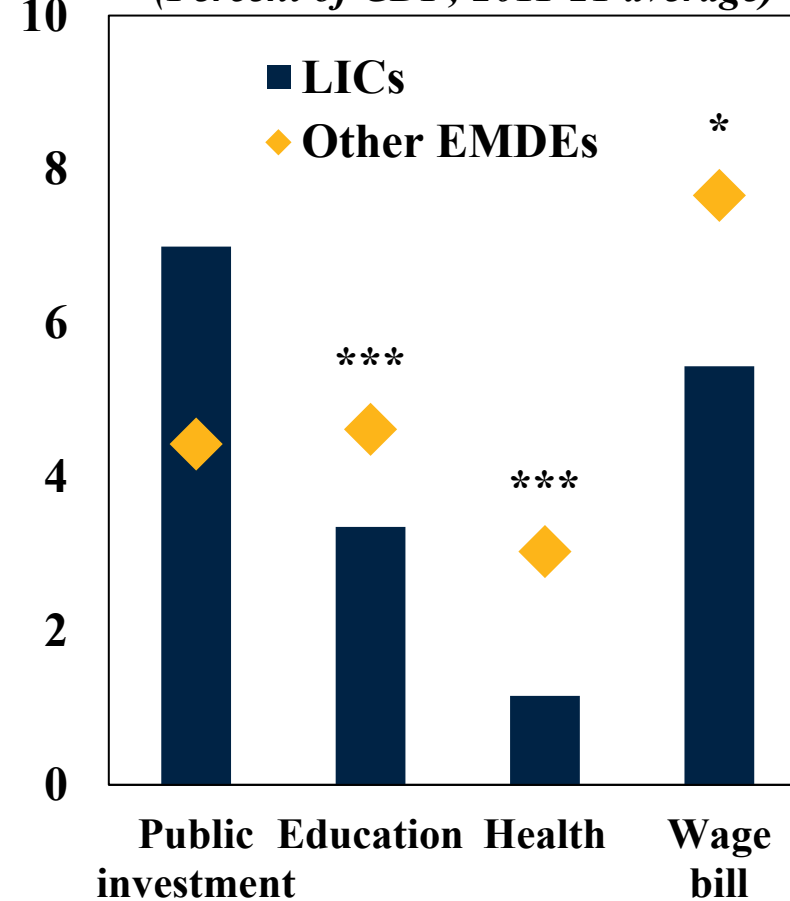
Smaller Allocation for Education and Health; Lower Efficiency

Primary expenditures
(Percent of GDP)

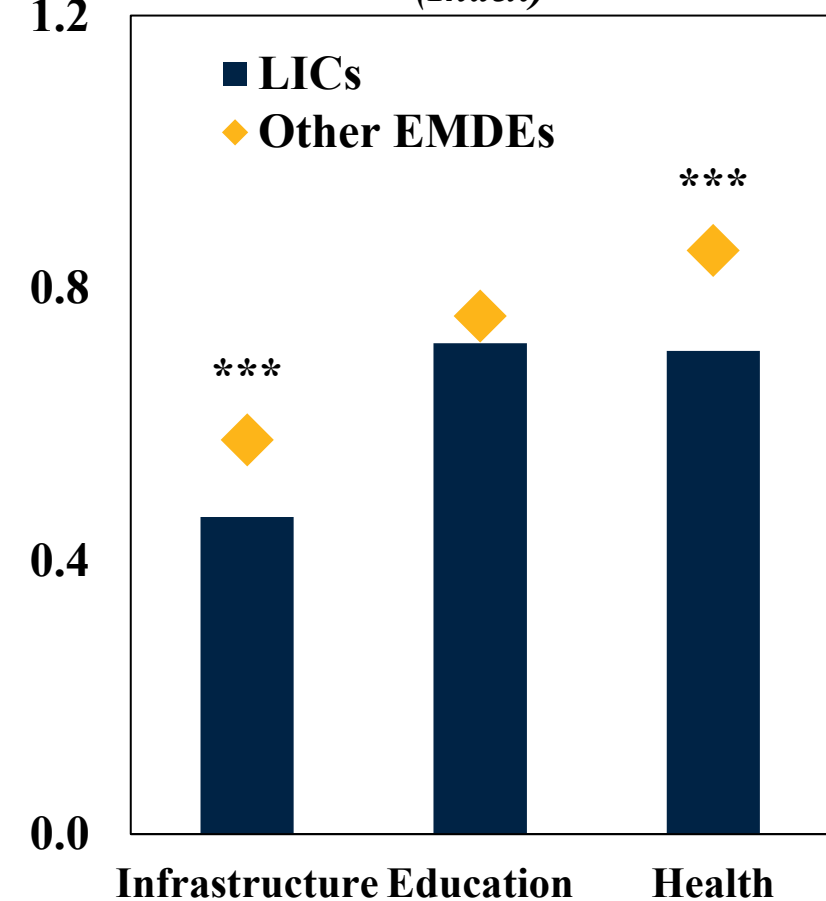


Expenditures

(Percent of GDP; 2011-21 average)



Spending efficiency
(Index)



Sources: Dabla-Norris et al. (2011); International Monetary Fund; World Bank; World Economic Forum.

Left Panel. Bars show unweighted averages, and whiskers show interquartile ranges, based on 140 EMDEs, including 27 LICs. Data for 2022 are estimated. Center and Right Panels. Unweighted averages for LICs and other EMDEs, based on up to 26 LICs (Center Panel) and up to 21 LICs (Right Panel). *** and * show the difference between LICs and other EMDEs is statistically significant at 1 percent and 10 percent levels, respectively.

Four Questions

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What are the policy priorities? *Global and national policies to ensure financial and macroeconomic stability and boost potential growth and address climate change.*

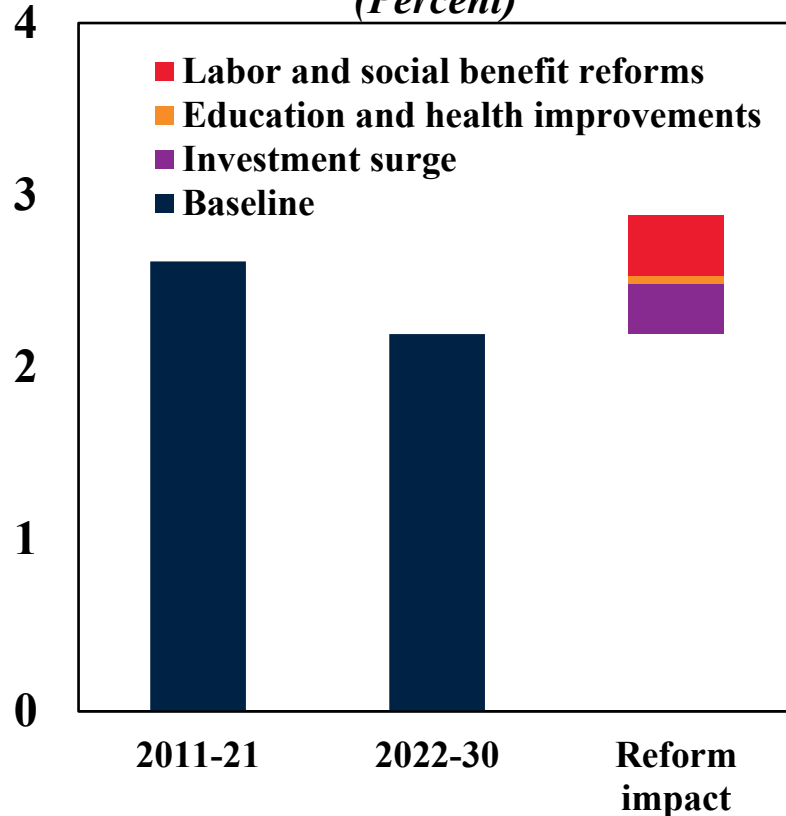
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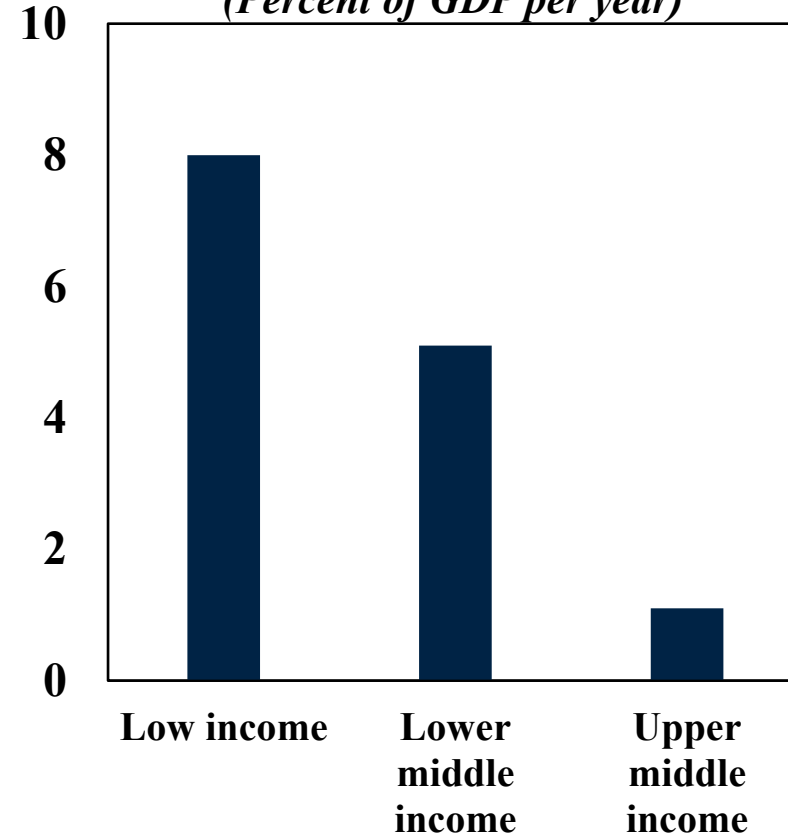
Interventions to Improve Potential Growth

Climate-Related Investment Push; Higher Female Labor Force Participation

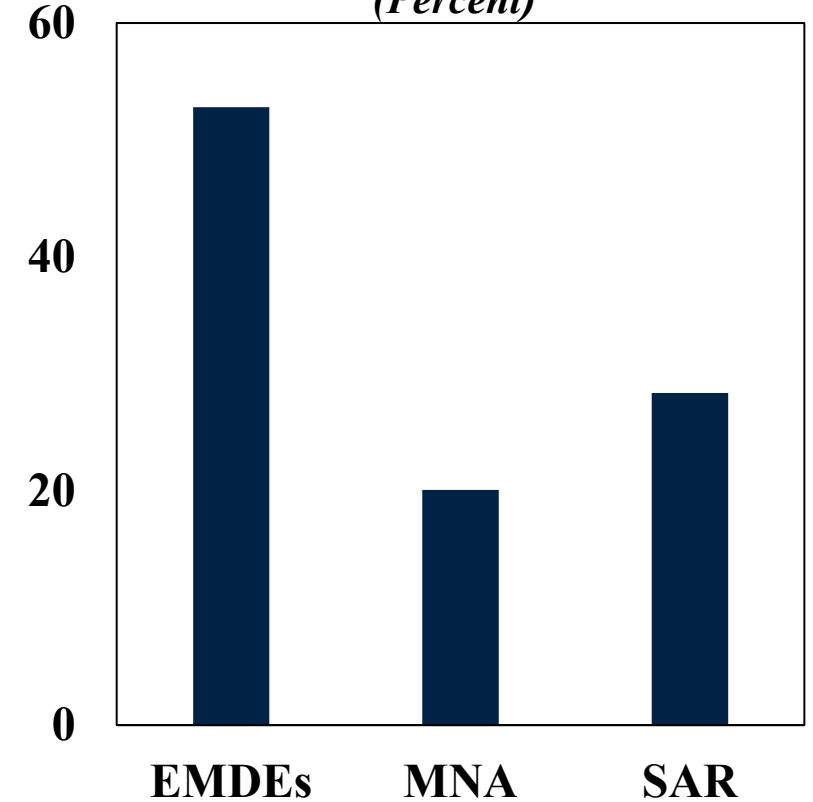
Global potential growth in reform scenarios
(Percent)



Additional investment needs for a low-carbon pathway, 2022-30
(Percent of GDP per year)



Female labor force participation rate
(Percent)



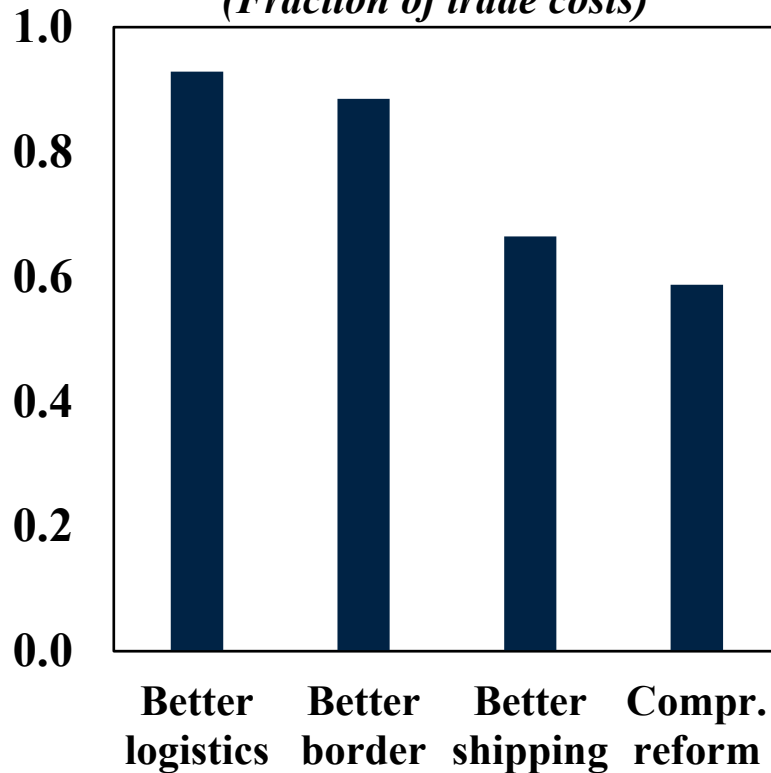
Sources: United Nations; World Bank.

Note: MNA and SAR refer to Middle East and North Africa and South Asia, respectively. Left Panel. GDP-weighted arithmetic averages. Scenarios assume a repeat, in each country, of each country's best ten-year improvement. Center Panel. Bars show the annual investment needs to build resilience to climate change and put countries on track to reduce emissions by 70 percent by 2050. Depending on availability, estimates include investment needs related to transport, energy, water, urban adaptations, industry, and landscape. In some *Country Climate and Development Reports*, especially those for low-income and lower-middle-income countries, estimated investments include development needs and cannot be considered entirely "additional" to pre-existing financing needs. Right Panel. Female labor force participation in percent of female working-age population.

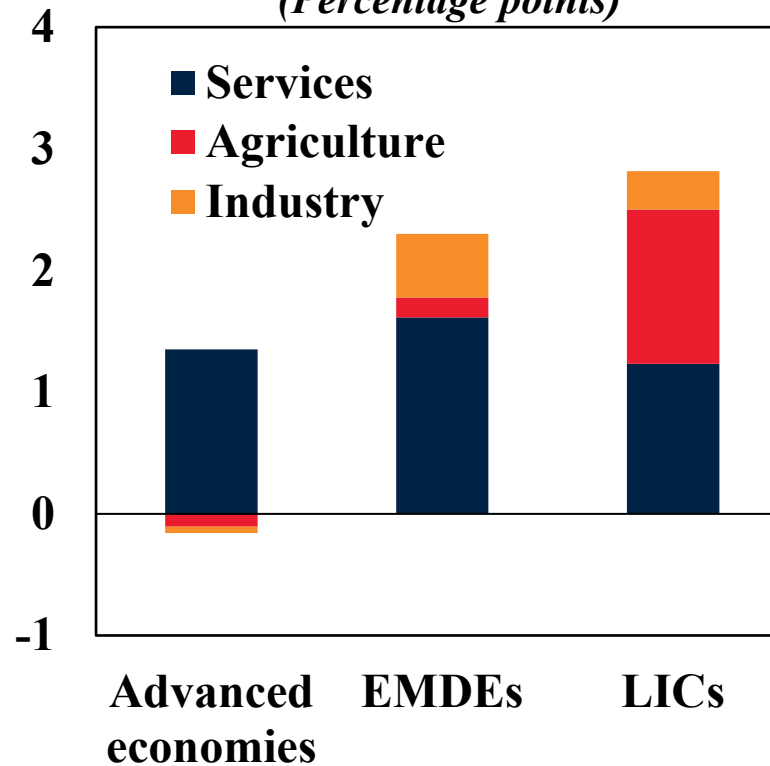
Trade and Services as Engines of Growth

Reduce Trade Costs; Increase Productivity in Services

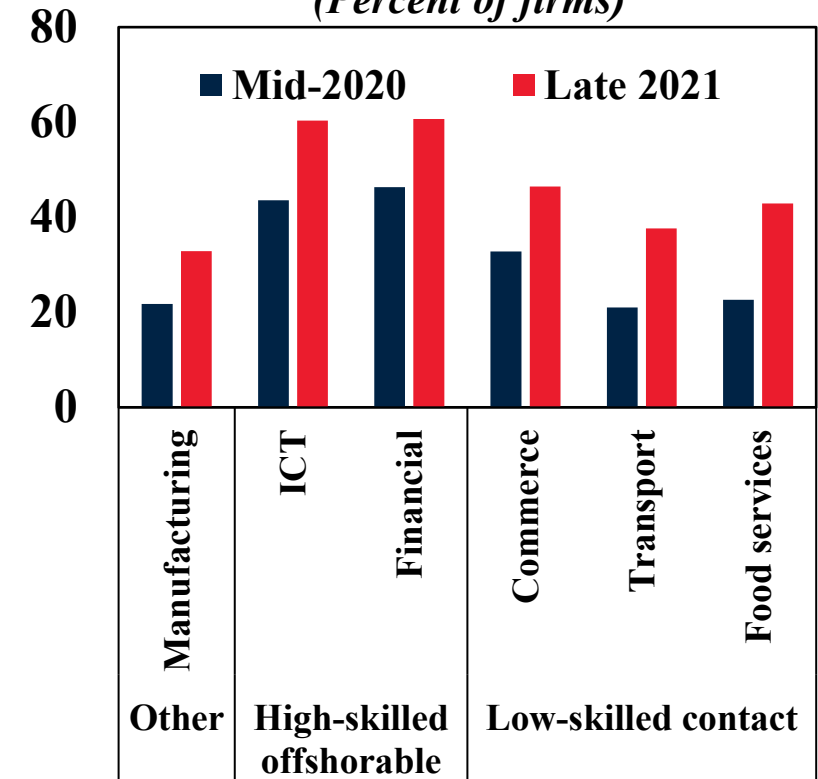
Reduction in overall trade costs associated with policy improvements
(Fraction of trade costs)



Contributions of individual sectors to employment growth
(Percentage points)



Firms increasing use of digital technologies
(Percent of firms)



Sources: United Nations; World Bank; World Trade Organization.

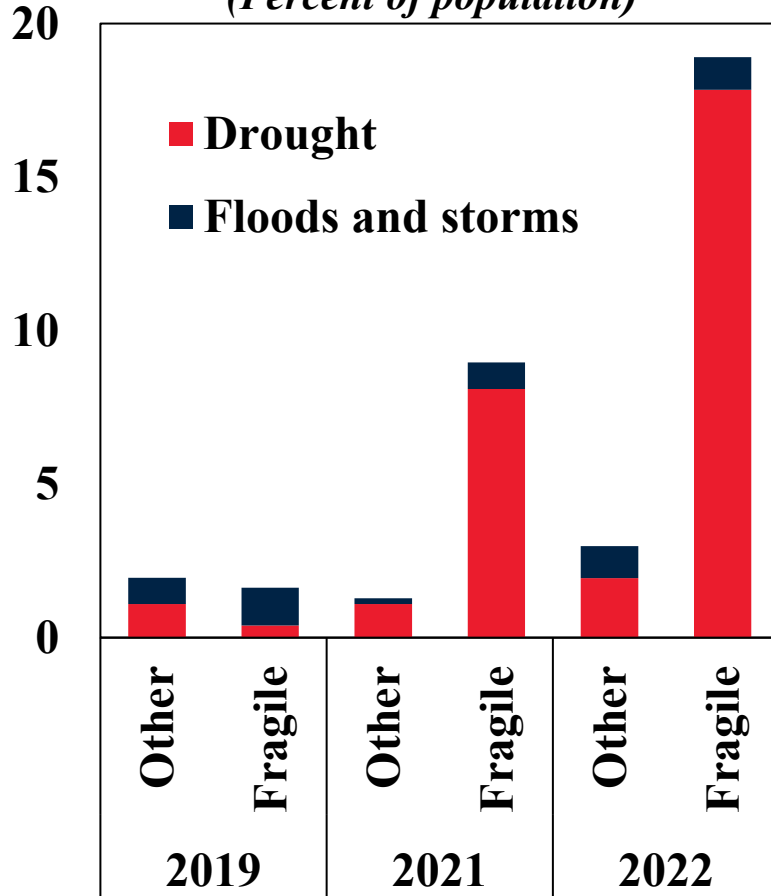
Left Panel. Bars show the fraction of trade costs that would remain after policy improvements. Policy improvements assume that the average EMDE in the quartile of EMDEs with the poorest scores in the liner shipping connectivity index (LSHI) and logistics performance index (LPI) improves to match the score of the average EMDE in the quartile of EMDEs with the best score. The comprehensive package assumes that all three scores are improved simultaneously. Data refer to 2018. A value of 1 indicates unchanged trade costs in 2018 among the sample of EMDEs scoring in the poorest quartile on these indicators. Center Panel. Sample includes 30 advanced economies, 116 EMDEs, and 21 low-income countries (LICs). Bars represent an individual sector's contributions to employment growth, averaged over 1995-2019. Right Panel. ICT refers to information and communications technology. Balanced panel of 47 countries (comprising EMDEs) for which three waves are available. Each point corresponds to a survey data. For most countries, wave 1 was conducted in mid-2020 (Q2 or Q3), wave 2 in early 2021, and wave 3 in late 2021.



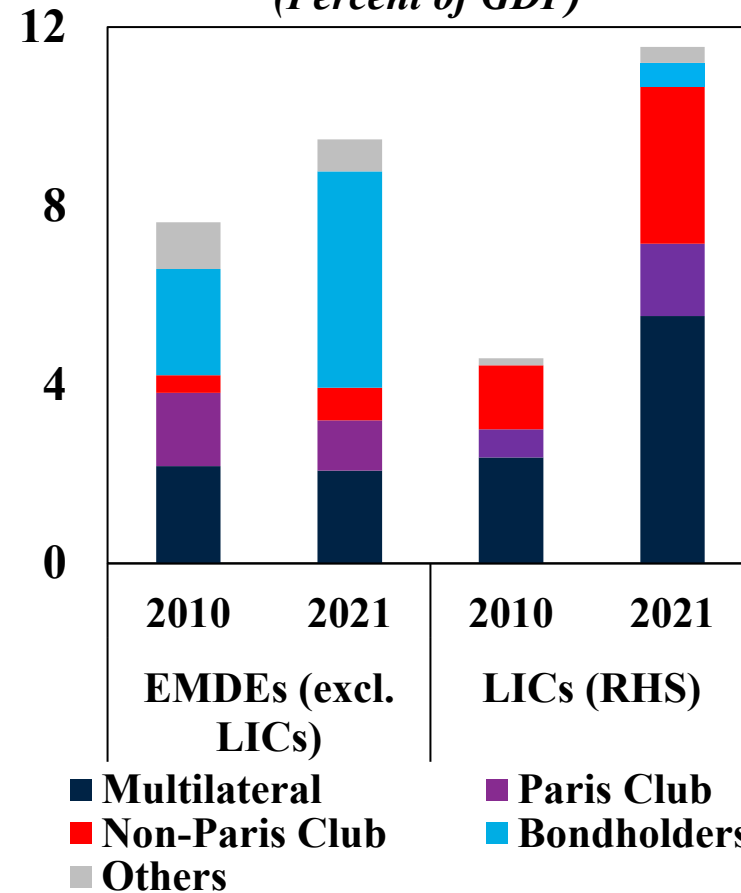
Global Challenges

Larger Impact of Climate Change; More Fragmented Creditor Space; More Barriers to Trade

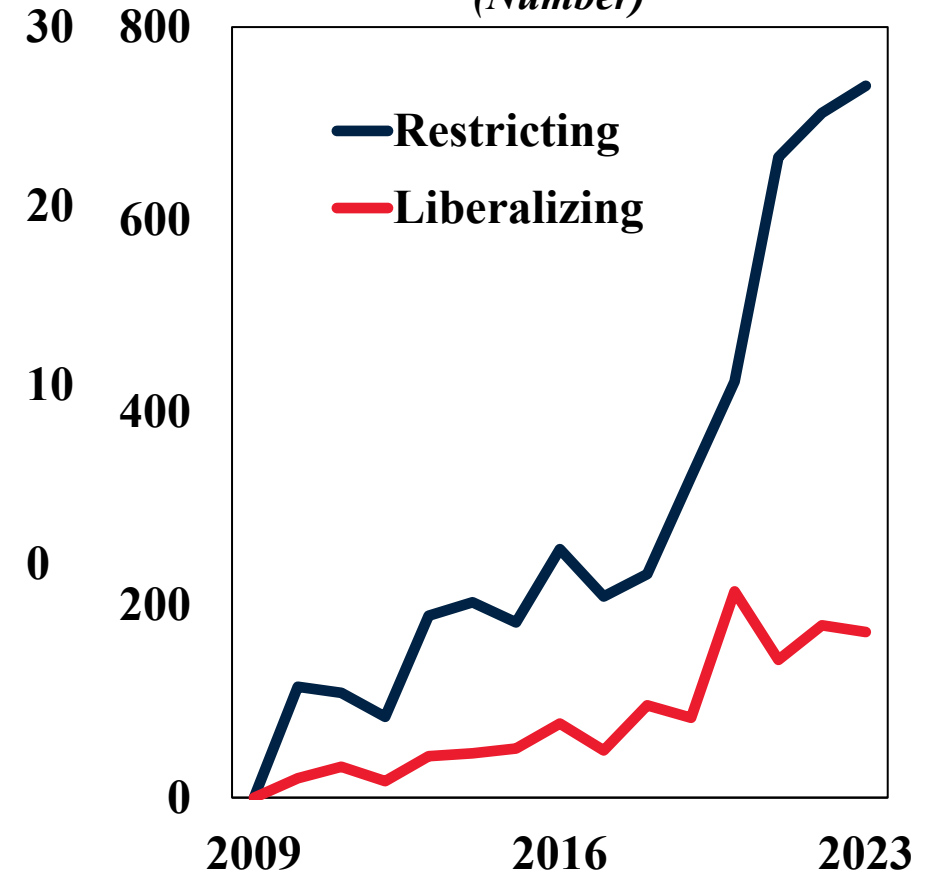
People under natural disasters in LICs
(Percent of population)



External debt, by creditor
(Percent of GDP)



New trade measures
(Number)



Sources: EM-DAT; Global Trade Alert; World Bank.

Left Panel. Fragile LICs refers to fragile and conflict-affected LICs. Bars indicate percent of population in the affected group countries. Center Panel. Figure shows the U.S. dollar GDP-weighted average of public and publicly guaranteed external debt. "Others" includes multiple lenders. Sample includes 119 EMDEs, of which 24 are LICs. Right panel. Figure shows the number of implemented trade policy interventions since November 2008. Restricting (Liberalizing) measures are interventions that discriminate against (benefit) foreign commercial interests. Last observation is May 9, 2023.

Policy Priorities - 1

Implement Policies at Global and National Levels

Global challenges

- Mitigate downside risks by implementing transparent, consistent, and credible policies
- Address debt distress in EMDEs, especially in LICs, and improve debt transparency
- Bolster international cooperation to reduce food insecurity, tackle climate change, and accelerate the energy transition
- Strengthen rules-based international order to guard against fragmentation of trade, investment, and financial networks

Monetary and financial policy challenges

- Ensure inflation expectations well anchored
- Communicate policy actions clearly, leverage credible frameworks, and safeguard central bank independence
- Strengthen macroprudential policy to reduce vulnerability to capital outflows, credit risk, and currency pressures

Fiscal policy challenges

- Curtail inefficient spending, such as expensive and regressive subsidies
- Enhance efficiency of critical spending while providing targeted support to vulnerable groups
- Improve revenue collection by broadening tax base and improving tax administration
- Strengthen debt management practices

Policy Priorities - 2

Implement Policies to Boost Growth and Resilience

Boosting long-term growth

- Foster trade, including through digitalization and reduced trade costs
- Invest in information and communication technology infrastructure
- Promote services as an engine of growth
- Strengthen management capabilities, worker skills, and education systems

Boosting investment

- Strengthen investment to meet development and climate goals
- Improve public spending efficiency, reallocate spending toward priority investments
- Foster private investment by improving governance, streamlining regulatory environment, and upgrading digitization

Strengthening resilience and inclusion

- Establish adequate and well-targeted social protection systems to support vulnerable groups during major shocks
- Reduce food insecurity by avoiding market distortions, investing in agricultural R&D, and diversifying food sources
- Increase female labor force participation and financial inclusion

Four Questions

1 **What are near-term prospects for the global economy?** *A sharp global slowdown underway. The outlook clouded by multiple downside risks, in particular an intensification of financial stress.*

2 **What are long-term prospects for the global economy?** *Potential growth declined between 2000-10 and 2011-21 and is expected to weaken further in 2022-30, with downside risks.*

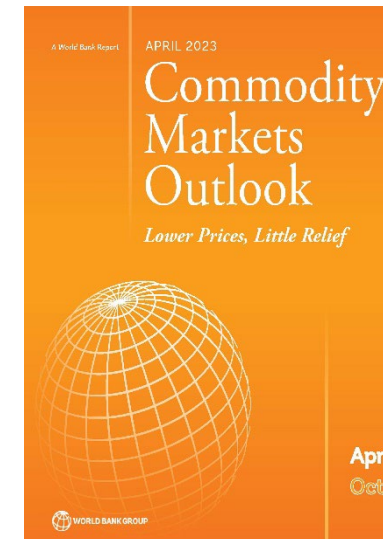
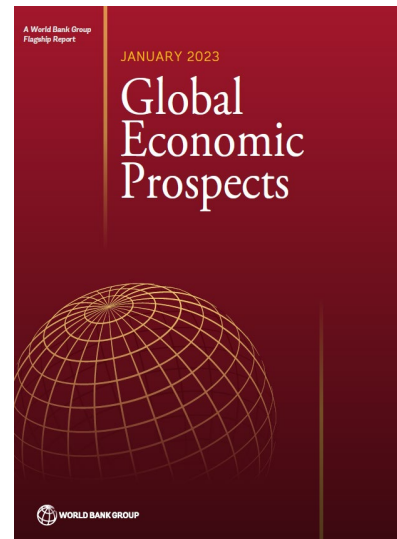
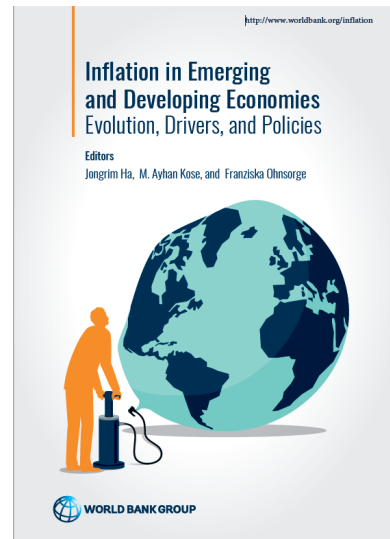
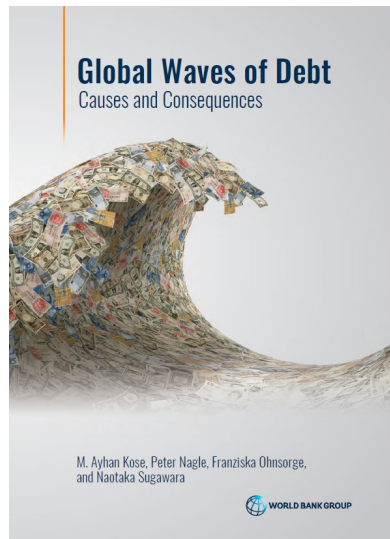
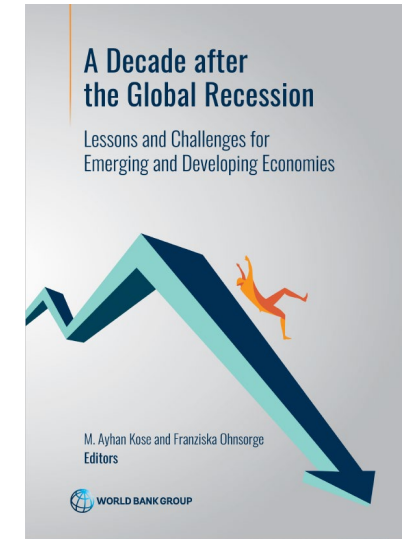
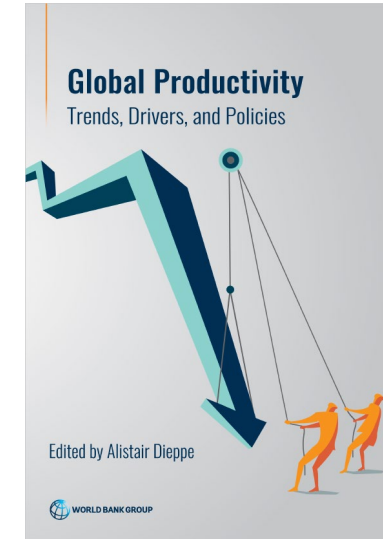
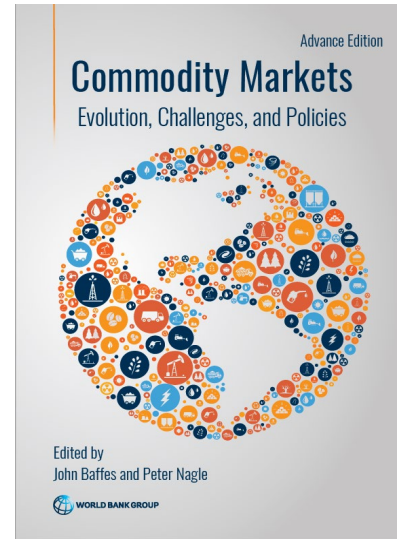
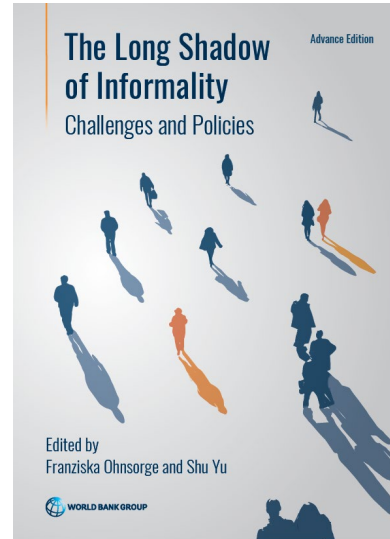
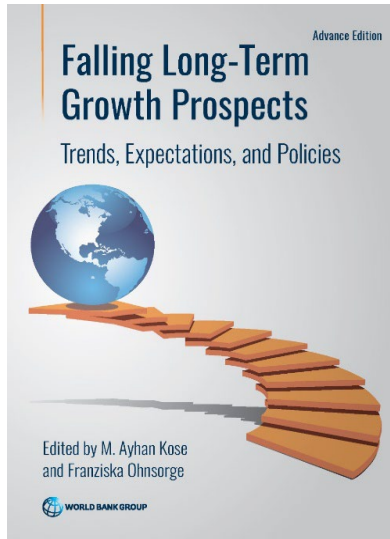
3 **What are the main fiscal policy challenges in LICs?** *Rising debt, interest payments, chronic revenue weakness, and growing spending pressures.*

4 **What are the policy priorities?** *Global and national policies to ensure financial and macroeconomic stability and boost potential growth and address climate change.*

* **EMDEs = Emerging Market and Developing Economies**

* **LICs = Low-Income Countries**

Studies by the World Bank Prospects Group



Questions & Comments

Thanks!

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