Global Economic Prospects

June 2023

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Global Economic Prospects – June 2023

• Global Outlook (Chapter 1)
• Regional Outlooks (Chapter 2)
• Financial Spillovers of Rising U.S. Interest Rates (Chapter 3)
• Fiscal Policy Challenges in Low-Income Countries (Chapter 4)
Three 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 the main fiscal policy challenges in LICs?** Rising debt, interest payments, and fiscal deficits amid persistent revenue weakness and growing spending pressures. Limited fiscal space for stimulus or investments for development and climate objectives.

3. **What are the policy priorities?** Implement global and national policies to, in the short run, ensure financial and macroeconomic stability and, in the long run, boost potential growth, address climate change, and ensure a sustainable development path.

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**Global Growth Forecasts**

*Sharp Downturn Continues in 2023*

<table>
<thead>
<tr>
<th>GDP growth (Percent)</th>
<th>Change from January</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2010-19</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td></td>
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<tr>
<td>World</td>
<td>3.1</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>2.0</td>
</tr>
<tr>
<td>EMDEs</td>
<td>5.1</td>
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<tr>
<td>Excluding China</td>
<td>3.8</td>
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<tr>
<td>East Asia and Pacific</td>
<td>7.2</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>3.2</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>2.3</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>3.4</td>
</tr>
<tr>
<td>South Asia</td>
<td>6.7</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>3.7</td>
</tr>
</tbody>
</table>


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.
Global Growth Forecasts

GDP growth (Percent)

-8 -4 0 4 8

2020 2021 2022 2023 2024

World Advanced economies EMDEs EMDEs excl. China

2010-19 average


Note: Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates. Data for 2022 are estimates and data for 2023 and 2024 are forecasts.

Growth Forecasts for 2023

Larger Downgrades in Countries with Tighter Monetary Policy and Greater Vulnerabilities

Contributions to global growth (Percentage points)

Forecast revisions, 2023 (Percentage points)

-0.4 -0.3 -0.2 -0.1 0 0.1

Below median Above median

Monetary tightening

Growth in 2023 (Percent)

-0.4 -0.3 -0.2 -0.1 0 0.1

Advanced economies EMDEs

Source: 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.
Growth and Income Convergence in EMDEs

Weakest 5-year Growth since 1990; Many Still Below Pre-Pandemic Income; Stalling Catch-Up

Left Panel. Figure shows the non-overlapping 5-year average growth in EMDEs. Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates.

Center and Right Panels. GDP per capita for aggregates are calculated as aggregated GDP divided by the aggregate population. GDP aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. The center panel shows the share of countries in respective groups with real per capita GDP in 2024 lower than in 2019.

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.


U.S. Interest Rate Increases

More Hawkish Fed Reaction, More Adverse Impact on Vulnerable EMDEs

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: Share of countries with EMBI spread above 10 percentage points. Unbalanced sample includes 69 EMDEs. Last observation is May 9, 2023.
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.

Three Questions

2 What are the main fiscal policy challenges in LICs? Rising debt, interest payments, and fiscal deficits amid persistent revenue weakness and growing spending pressures. Limited fiscal space for stimulus or investments for development and climate objectives.

* EMDEs = Emerging Market and Developing Economies
* LICs = Low-Income Countries
**Fiscal Challenges in LICs**

**Rising Debt; Increasing Interest Payments; Deteriorating Fiscal Balances**

**Government debt (Percent of GDP)**

**Government net interest payments (Percent of government revenues)**

**Weaker primary balance, 2011-22 (Percent of countries)**

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 bar denotes 50 percent.

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**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)**

*** and * show the difference between LICs and other EMDEs is statistically significant at 1 percent and 10 percent levels, respectively.

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 (as 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

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.

Three Questions

What are the policy priorities? Implement global and national policies to, in the short run, ensure financial and macroeconomic stability and, in the long-run, boost potential growth, address climate change, and ensure a sustainable development path.

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Global Challenges

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

People under natural disasters in LICs (Percent of population)

- Drought
- Floods and storms

External debt, by creditor (Percent of GDP)

- EMDEs (excl. LICs)
- LICs (RHS)
- Multilateral
- Non-Paris Club
- Paris Club
- Bondholders

New trade measures (Number)

Restricting
Liberalizing

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

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Studies by the World Bank Prospects Group

Questions & Comments

Thanks!

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