## HIGHLIGHTS from Chapter 1:
## THE GLOBAL OUTLOOK

**Key Points**

- *Global growth is set to slow substantially in 2023, to 2.1 percent from 3.1 percent last year, amid continued monetary policy tightening to rein in high inflation, before a tepid recovery in 2024, to 2.4 percent.*
- *Inflation has been persistent but is projected to decline gradually as demand weakens and commodity prices moderate.*
- *Global financial conditions have tightened as a result of policy rate hikes and recent bouts of financial instability. This has weighed particularly on emerging market and developing economies (EMDEs) with greater vulnerabilities.*
- *By the end of 2024, economic activity in EMDEs will still be about 5 percent below levels projected on the eve of the pandemic. In more than one-third of LICs—especially the poorest—per capita incomes in 2024 will remain below 2019 levels.*
- *Risks to the outlook are to the downside. Widespread banking stress could lead to significantly weaker growth outcomes. Persistent inflation could result in further monetary tightening.*
- *Global cooperation is critical to tackle climate change and support populations affected by crises and hunger.*
- *Limited fiscal space across EMDEs highlights the need to improve the efficiency of spending and revenue collection systems.*
- *Reinforcing central bank independence and credibility and promoting rigorous financial supervision are imperative to maintaining price and financial stability.*
- *Potential growth in EMDEs has been on a decades-long declining path. Reversing this trend will require decisive structural reforms, including measures to improve investment conditions, develop human capital and infrastructure, and promote trade.*

**Global activity: sharp slowdown.** The resilience that global economic activity exhibited earlier this year is expected to fade. After growing 3.1 percent last year, the global economy is set to slow substantially in 2023, to 2.1 percent, amid continued monetary policy tightening to rein in high inflation, before a tepid recovery in 2024, to 2.4 percent (figure A). Inflation pressures persist, and the drag on growth from the ongoing monetary tightening is expected to peak in 2023 in many major economies. Recent banking sector stress will further tighten credit conditions.

**EMDE outlook: weaker growth in many economies.** In EMDEs, aggregate growth is projected to edge up to 4 percent in 2023, almost entirely due to a rebound in China. Excluding China, growth in EMDEs is set to slow substantially to 2.9 percent this year. Spillovers from the banking turmoil in advanced economies to EMDEs have so far been limited. However, EMDEs with more pronounced vulnerabilities, as reflected by lower credit ratings, have experienced slower growth and greater financial stress, including large currency depreciations and a sharp widening of sovereign spreads. Projections for 2023 growth in these economies have fallen by more than half over the last year (figure B). More generally, the slowdown across EMDEs as a whole will compound a period of more widespread weakness—over the first half of the 2020s (2020-2024), growth in EMDEs is expected to average just 3.4 percent, one of the weakest half-decades of the past 30 years (figure C). In fact, nearly a third of EMDEs, including two-thirds of countries in fragile and conflict-affected situations, are expected to have lower per capita incomes in 2024 than they did in 2019.

**Risks to the outlook: banking failures highlight financial vulnerabilities.** Bank balance sheets have sustained unrealized losses from recent economic weakness and the unusually rapid rise in interest rates. This could be exacerbated by stresses in the corporate real estate sector and declines in residential house prices, which are already taking place in countries accounting for half of global activity. The collapse of multiple banks this year highlights the possibility of more disorderly failures, which could lead to systemic banking crises and protracted economic losses. In a scenario where banking stress re-emerges and results in a severe credit crunch in advanced economies, global growth in 2024 would only be 1.3 percent. In another scenario where financial stress propagates internationally to a far greater degree, the world economy would experience a severe downturn in 2024 (figure D).

**Global policy challenges: avoiding financial turmoil and accelerating the energy transition.** Recent bank collapses and bouts of financial instability underline the importance of sound international financial regulation. The rising number of EMDEs in debt distress highlights the need for globally coordinated debt relief that overcomes the challenges posed by the increasing diversity of lenders. Sustained international cooperation is also needed to accelerate the clean energy transition, help countries improve both energy security and affordability, and incentivize the investments needed to pursue a path toward resilient, low-carbon growth.

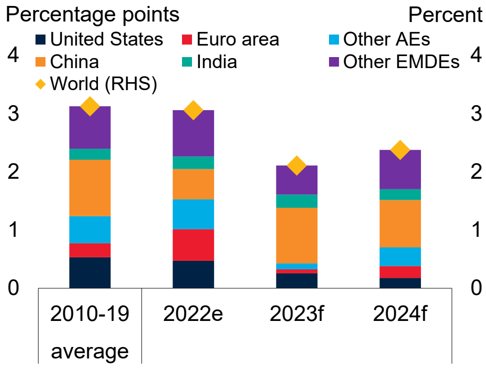
**Near-term domestic policy challenges: bringing down inflation and building fiscal space.** The need to bring down elevated inflation highlights the importance of central bank independence and credibility. Similarly, strengthening reserve buffers can make EMDEs more resilient to capital flow fluctuations and exchange rate volatility, while regulatory reforms and enhanced bank resolution frameworks can boost the strength of financial institutions. The combination of tighter financing conditions, slowing growth, and elevated debt levels poses significant fiscal challenges for EMDEs. Fiscal space is often limited, highlighting the need for more efficient spending and revenue collection systems. For some countries, particularly LICs, the rising cost of servicing debt is increasing the risk of debt distress (figure E).

**Structural policy priorities: reversing the slowdown in potential growth**. Potential growth in EMDEs has been on a decades-long declining path because of slowing growth rates of labor force, investment, and productivity. The slowdown in these fundamental factors has been exacerbated by the overlapping shocks of the pandemic, Russia's invasion of Ukraine, and the sharp tightening of global monetary policy in response to high inflation. Reversing the decline in potential growth will require decisive structural reforms (figure F). These include measures to improve investment conditions, develop human capital through education and health improvements, increase participation in the formal labor force, foster productivity growth in services, and promote international trade. In particular, fostering investment in green energy and climate resilience can ensure that growth is both robust and sustainable.

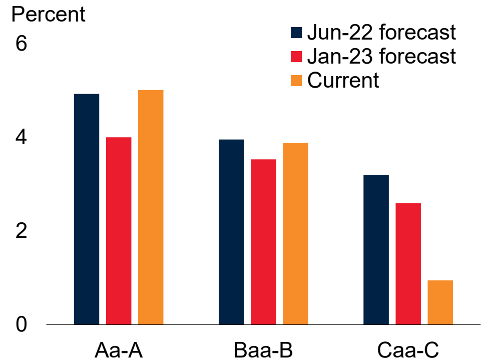
## Figure: Global growth prospects and policy challenges

*The global economy is forecast to slow substantially this year, with a pronounced deceleration in advanced economies. Emerging market and developing economies (EMDEs) with lower credit ratings are set to experience a particularly sharp slowdown. For EMDEs as a whole, the first half of the 2020s (2020-2024) is expected to be one of the weakest such periods in recent decades. An intensification of advanced-economy banking stress could result in a sharp slowdown in global growth in 2024, or even a deep global downturn if it were to have major international spillovers. Rising debt servicing costs are increasing the risk of debt distress. Reversing the decline in potential growth requires decisive structural reforms.*

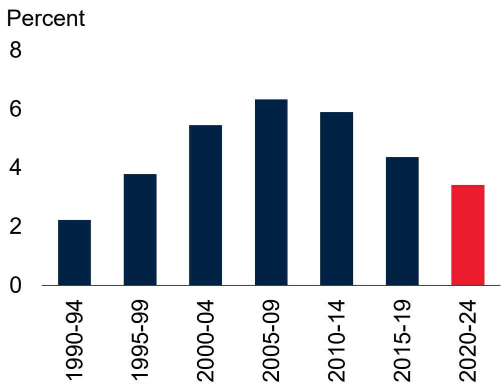
### A. Contributions to global growth



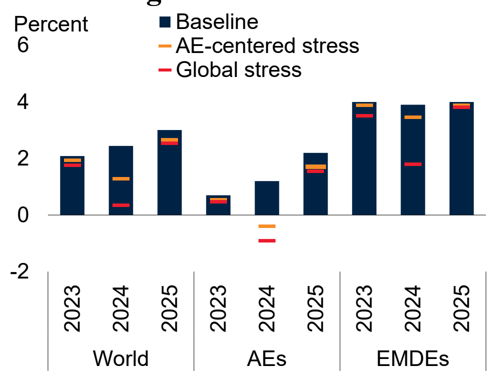

### B. EMDE growth in 2023, by credit rating



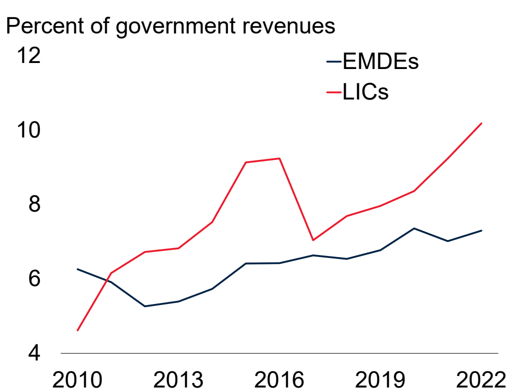

### C. Growth in EMDEs



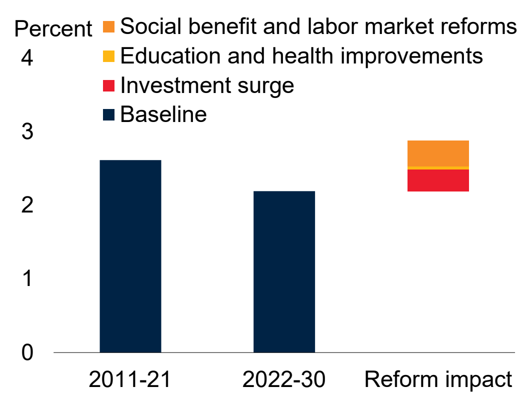

### D. Global growth under different scenarios




### E. Government net interest payments in EMDEs and LICs




### F. Global potential growth under reform scenarios




Sources: Consensus Economics; Kose and Ohnsorge (2023a);Kose et al. (2022); Moody's Analytics; Oxford Economics; World Bank.

Note: AEs = advanced economies; EMDEs = emerging market and developing economies; LICs = low-income countries. Unless otherwise indicated, aggregate growth rates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Data for 2023-24 are forecasts.

A. Data for 2023-24 are forecasts.

B. Comparison of GDP-weighted growth across editions of the Global Economic Prospects report, by credit ratings. Sample includes 9 Aaa-A, 62 Baa-B, and 25 Caa-C EMDEs.
C. Figure shows the non-overlapping 5-year average growth in EMDEs.
D. Global growth is computed by aggregating GDP at 2015 market exchange rates and prices from the Oxford Economics Model.
E. 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 150 EMDEs, including 27 LICs.
F. Figure shows annual GDP-weighted averages. Scenarios assume a repeat of each country's best 10-year improvement as described in Kose and Ohnsorge (2023a). Data for 2022-30 are forecasts.

# Global Economic Prospects

**TABLE 1.1 Real GDP[1]**

*(Percent change from previous year unless indicated otherwise)*

| | 2020 | 2021 | 2022e | 2023f | 2024f | 2025f | Percentage point differences from January 2023 projections: 2023f | Percentage point differences from January 2023 projections: 2024f |
|---|---|---|---|---|---|---|---|---|
| **World** | **-3.1** | **6.0** | **3.1** | **2.1** | **2.4** | **3.0** | **0.4** | **-0.3** |
| **Advanced economies** | **-4.3** | **5.4** | **2.6** | **0.7** | **1.2** | **2.2** | **0.2** | **-0.4** |
| United States | -2.8 | 5.9 | 2.1 | 1.1 | 0.8 | 2.3 | 0.6 | -0.8 |
| Euro area | -6.1 | 5.4 | 3.5 | 0.4 | 1.3 | 2.3 | 0.4 | -0.3 |
| Japan | -4.3 | 2.2 | 1.0 | 0.8 | 0.7 | 0.6 | -0.2 | 0.0 |
| **Emerging market and developing economies** | **-1.5** | **6.9** | **3.7** | **4.0** | **3.9** | **4.0** | **0.6** | **-0.2** |
| East Asia and Pacific | 1.2 | 7.5 | 3.5 | 5.5 | 4.6 | 4.5 | 1.2 | -0.3 |
| China | 2.2 | 8.4 | 3.0 | 5.6 | 4.6 | 4.4 | 1.3 | -0.4 |
| Indonesia | -2.1 | 3.7 | 5.3 | 4.9 | 4.9 | 5.0 | 0.1 | 0.0 |
| Thailand | -6.1 | 1.5 | 2.6 | 3.9 | 3.6 | 3.4 | 0.3 | -0.1 |
| Europe and Central Asia | -1.7 | 7.1 | 1.2 | 1.4 | 2.7 | 2.7 | 1.3 | -0.1 |
| Russian Federation | -2.7 | 5.6 | -2.1 | -0.2 | 1.2 | 0.8 | 3.1 | -0.4 |
| Türkiye | 1.9 | 11.4 | 5.6 | 3.2 | 4.3 | 4.1 | 0.5 | 0.3 |
| Poland | -2.0 | 6.9 | 5.1 | 0.7 | 2.6 | 3.2 | 0.0 | 0.4 |
| Latin America and the Caribbean | -6.2 | 6.9 | 3.7 | 1.5 | 2.0 | 2.6 | 0.2 | -0.4 |
| Brazil | -3.3 | 5.0 | 2.9 | 1.2 | 1.4 | 2.4 | 0.4 | -0.6 |
| Mexico | -8.0 | 4.7 | 3.0 | 2.5 | 1.9 | 2.0 | 1.6 | -0.4 |
| Argentina | -9.9 | 10.4 | 5.2 | -2.0 | 2.3 | 2.0 | -4.0 | 0.3 |
| Middle East and North Africa | -3.8 | 3.8 | 5.9 | 2.2 | 3.3 | 3.0 | -1.3 | 0.6 |
| Saudi Arabia | -4.3 | 3.9 | 8.7 | 2.2 | 3.3 | 2.5 | -1.5 | 1.0 |
| Iran, Islamic Rep.[2] | 1.9 | 4.7 | 2.9 | 2.2 | 2.0 | 1.9 | 0.0 | 0.1 |
| Egypt, Arab Rep.[2] | 3.6 | 3.3 | 6.6 | 4.0 | 4.0 | 4.7 | -0.5 | -0.8 |
| South Asia | -4.1 | 8.3 | 6.0 | 5.9 | 5.1 | 6.4 | 0.4 | -0.7 |
| India[2] | -5.8 | 9.1 | 7.2 | 6.3 | 6.4 | 6.5 | -0.3 | 0.3 |
| Pakistan[2] | -0.9 | 5.8 | 6.1 | 0.4 | 2.0 | 3.0 | -1.6 | -1.2 |
| Bangladesh[2] | 3.4 | 6.9 | 7.1 | 5.2 | 6.2 | 6.4 | 0.0 | 0.0 |
| Sub-Saharan Africa | -2.0 | 4.4 | 3.7 | 3.2 | 3.9 | 4.0 | -0.4 | 0.0 |
| Nigeria | -1.8 | 3.6 | 3.3 | 2.8 | 3.0 | 3.1 | -0.1 | 0.1 |
| South Africa | -6.3 | 4.9 | 2.0 | 0.3 | 1.5 | 1.6 | -1.1 | -0.3 |
| Angola | -5.6 | 1.1 | 3.5 | 2.6 | 3.3 | 3.1 | -0.2 | 0.4 |
| ***Memorandum items:*** | | | | | | | | |
| **Real GDP[1]** | | | | | | | | |
| High-income countries | -4.3 | 5.4 | 2.8 | 0.8 | 1.3 | 2.3 | 0.2 | -0.3 |
| Middle-income countries | -1.2 | 7.1 | 3.4 | 4.2 | 4.0 | 4.1 | 0.8 | -0.3 |
| Low-income countries | 1.4 | 4.2 | 4.8 | 5.1 | 5.9 | 5.9 | 0.1 | 0.3 |
| EMDEs excluding China | -3.8 | 5.9 | 4.1 | 2.9 | 3.4 | 3.8 | 0.2 | -0.2 |
| Commodity-exporting EMDEs | -3.7 | 5.1 | 3.2 | 1.9 | 2.8 | 2.9 | 0.0 | 0.0 |
| Commodity-importing EMDEs | -0.3 | 7.9 | 3.9 | 5.0 | 4.4 | 4.5 | 0.9 | -0.4 |
| Commodity-importing EMDEs excluding China | -4.0 | 7.0 | 5.3 | 4.2 | 4.2 | 4.8 | 0.4 | -0.3 |
| EM7 | -0.4 | 7.7 | 3.3 | 4.7 | 4.1 | 4.2 | 1.2 | -0.4 |
| World (PPP weights)[3] | -2.8 | 6.3 | 3.3 | 2.7 | 2.9 | 3.4 | 0.5 | -0.3 |
| **World trade volume[4]** | **-7.8** | **11.0** | **6.0** | **1.7** | **2.8** | **3.0** | **0.1** | **-0.6** |
| | | | | | | | Level differences from January 2023 projections | |
| **Commodity prices[5]** | | | | | | | | |
| WBG commodity price index | 63.1 | 101.0 | 143.3 | 110.1 | 109.2 | 110.5 | -14.9 | -7.3 |
| Energy index | 52.7 | 95.4 | 152.6 | 108.9 | 109.1 | 111.0 | -21.6 | -9.2 |
| Oil (US$ per barrel) | 42.3 | 70.4 | 99.8 | 80.0 | 82.0 | 84.4 | -8.0 | 2.0 |
| Non-energy index | 84.1 | 112.5 | 124.4 | 112.5 | 109.5 | 109.5 | -1.2 | -3.5 |

*Source:* World Bank.

*Note:* e = estimate (actual data for commodity prices); f = forecast. WBG = World Bank Group. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given date. For the definition of EMDEs, developing countries, commodity exporters, and commodity importers, please refer to table 1.2. EM7 includes Brazil, China, India, Indonesia, Mexico, the Russian Federation, and Türkiye. The World Bank is currently not publishing economic output, income, or growth data for Turkmenistan and República Bolivariana de Venezuela owing to lack of reliable data of adequate quality. Turkmenistan and República Bolivariana de Venezuela are excluded from cross-country macroeconomic aggregates.

1. Headline aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates.
2. GDP growth rates are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. For India and the Islamic Republic of Iran, the column labeled 2022 refers to FY2022/23. For Bangladesh, the Arab Republic of Egypt, and Pakistan, the column labeled 2022 refers to FY2021/22. Pakistan's growth rates are based on GDP at factor cost.
3. World growth rates are calculated using average 2010-19 purchasing power parity (PPP) weights, which attribute a greater share of global GDP to emerging market and developing economies (EMDEs) than market exchange rates.
4. World trade volume of goods and nonfactor services.
5. Indexes are expressed in nominal U.S. dollars (2010 = 100). Oil refers to the Brent crude oil benchmark. For weights and composition of indexes, see https://worldbank.org/commodities.