THE WORLD BANK
Development Economics | Prospects Group

Global Monthly

July 2023

Overview

- June Purchasing Managers Indexes (PMIs) indicate global activity is decelerating, with services growth cooling gradually and manufacturing remaining soft.
- China's recovery slowed markedly in 2023Q2, with declining retail sales signaling tepid consumption.
- Risk sentiment in financial markets has nonetheless firmed, as signs of cooling inflation have lessened perceived downside risks.

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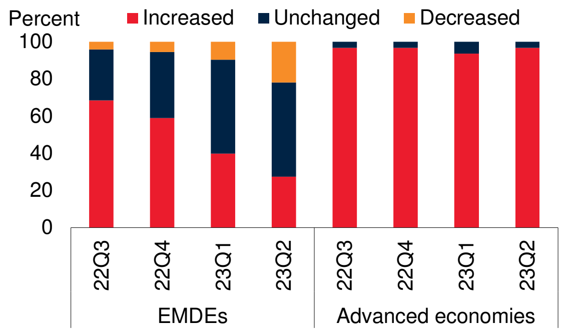
Chart of the Month

- A growing number of emerging market and developing economy (EMDE) central banks have recently paused monetary tightening or lowered policy rates. In contrast, policy tightened further in most advanced economies (AEs) in 2023Q2.
- Core inflation has declined since 2023Q1 in most economies, though it remains generally high. Headline inflation has returned to target ranges in several large EMDEs.

Evolution of policy interest rates



Sources: Haver Analytics; World Bank.
Note: Bars show the share of countries for which policy rates have increased, decreased or remained unchanged in the specified quarter. Euro area is disaggregated into constituent countries. Last observation is June 2023.

Special Focus: Fiscal Policy Challenges in Low-Income Countries

- Low-income countries (LICs) face formidable development challenges, exacerbated in many cases by weak fiscal positions. Half of all LICs are currently in, or at high risk of, debt distress.
- In the average LIC, government debt has risen by 30 percentage points of GDP since 2011, reflecting persistent primary fiscal deficits. Debt has also shifted toward riskier sources of financing.
- Improvements in domestic revenue mobilization, spending efficiency, and institutional frameworks can help bolster debt sustainability and support long-term growth. In some cases, debt relief may be necessary.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Philip Kenworthy and Marie Albert under the supervision of Carlos Arteta, based on contributions from Prospects Group staff. The special focus was prepared by Joseph Mawejje. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: decelerating. Recent data indicate that global growth is decelerating, with activity bifurcated between cooling, but still solid, expansion of services and soft manufacturing activity. Services growth continues to benefit from the rotation of spending away from goods, with particularly strong demand for travel and recreation services. The global services purchasing managers index (PMI) edged down in June but remained in expansionary territory, at 54. In contrast, surveys signal declining manufacturing activity in a growing number of economies, reflecting high financing costs and excess inventory in some sectors. The global manufacturing PMI declined to 48.8 in June—the tenth consecutive sub-50 monthly reading—while the proportion of economies with sub-48 manufacturing PMIs increased to the highest level since 2020Q2 (figure 1.A).

Global trade: weak goods, services growth easing. Global goods trade is likely to have weakened further in 2023Q2. PMI readings for manufacturing new export orders remained in negative territory in 2023Q2, falling to 47.1 in June. Amid weak goods demand and slowing activity in some large economies, global suppliers' delivery times remained at historic lows. In contrast, services trade continued to expand in June, though at a slower pace compared to May (figure 1.B). International tourist arrivals strengthened further in 2023Q1, increasing to 80 percent of arrivals for the same period in 2019, and remain on track to reach up to 95 percent of pre-pandemic levels in 2023.

Commodity markets: Black Sea Grain Initiative lapses. Most commodity prices eased in June (figure 1.C). Oil prices moved higher in July, however, reaching $80/bbl amid concerns over tighter global supply, after Saudi Arabia announced the extension of production cuts of 1 million barrels per day through August. Agriculture prices declined 2.4 percent in June, primarily driven by palm oil (-12.4 percent) and wheat (-6.5 percent). The Russian Federation announced on July 17th that it would not renew the Black Sea Grain Initiative (BSGI)—a U.N.-brokered deal enabling Ukrainian grain and oilseed shipments, which has helped facilitate approximately 33 million tons of grain exports. Markets had largely anticipated the initial announcement, but protracted bombing of Ukrainian ports and grain silos saw wheat and corn prices rally to three-week highs. Later in July, India (which accounts for 40 percent of global rice exports) announced an export ban on

FIGURE 1.A Manufacturing PMIs

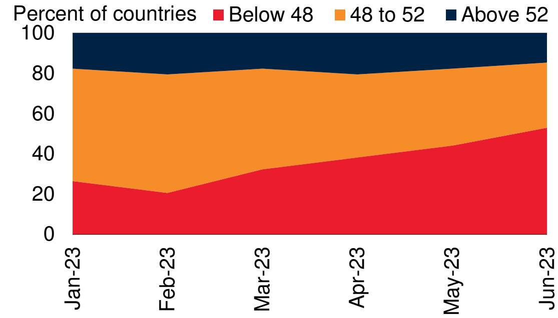


FIGURE 1.B New export orders

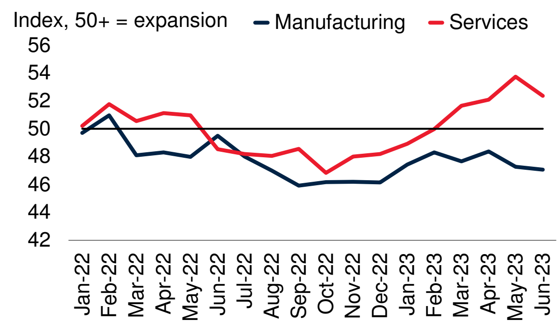
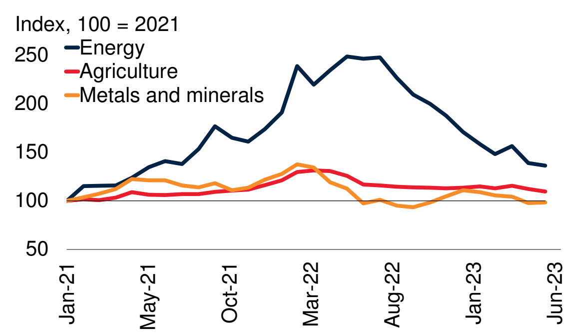


FIGURE 1.C Commodities prices



Sources: Haver Analytics; World Bank.
Note: PMI = Purchasing Managers' Index.
A. Sample of manufacturing PMIs for 34 economies (19 advanced economies and 15 EMDEs). Last observation is June 2023.
B. Figure shows manufacturing and services global PMI new export orders. Last observation is June 2023.
C. Monthly indices based on nominal US dollars, 2021 = 100. Last observation is June 2023.

non-basmati rice, intended to address domestic food inflation concerns. Rough rice futures rose 1.5 percent the following day, to the highest price since early May. The ban could affect up to 80 percent of India's rice exports. June saw little change in metals prices overall, as increased prices for iron ore (+7.9 percent) and tin (+6.6 percent) offset declines in zinc (-4 percent) and aluminum (-3.7 percent).

Global financial conditions: firming global risk sentiment. Advanced economy bond yields rose in June and early July, driven by rising inflation-adjusted yields, as signs of moderating core and headline inflation reduced concerns that curbing inflation will require further sharp downturns in growth. Ten-year inflation-adjusted U.S. Treasury yields briefly reached a new cyclical high of over 1.8 percent. Market expectations of policy rate cuts in the United States and the euro area also receded—anticipated end-2023 policy rates have returned close to their March peaks (before the onset of banking stress; figure 2.A). Alongside, risk appetite firmed, with the VIX equity volatility index averaging 14 in June—the lowest monthly reading since before the pandemic. Firming risk appetite supported debt and equity portfolio inflows to EMDEs, which were consistently positive in June and early July. As U.S. bond yields have risen, EMDE sovereign risk spreads have declined, suggesting investors perceive reduced downside risks. Accordingly, EMDE dollar-denominated borrowing costs have fallen slightly on net (figure 2.B).

United States: mixed macro data. Despite a robust start to the year (2023Q1 growth was revised to 2 percent, from 1.3 percent), recent indicators point to ebbing momentum in key sectors. Real consumption spending was flat in May, with momentum slowing sharply so far in 2023Q2 (figure 2.C). The U.S. manufacturing sector continues to struggle, as seen by ISM PMI weakening to 46 in June, the eighth consecutive month in contractionary territory. However, labor markets remain tight, with a near-record low unemployment rate in June of 3.6 percent, and service sector surveys still indicate steady expansion. Core CPI remained high in June, at 4.8 percent (y/y), but cooled materially from 5.3 percent in May.

Other advanced economies: euro area contraction. In the euro area, downwardly revised 2023Q1 growth of -0.1 percent (q/q), following -0.1 percent growth in 2022Q4, heralded a technical recession. Composite euro area PMIs have also entered contractionary territory, with the June reading falling to 49.9, from 52.8 in May, and the July flash PMI at 48.9 (an

FIGURE 2.A Policy rate expectations for end-2023

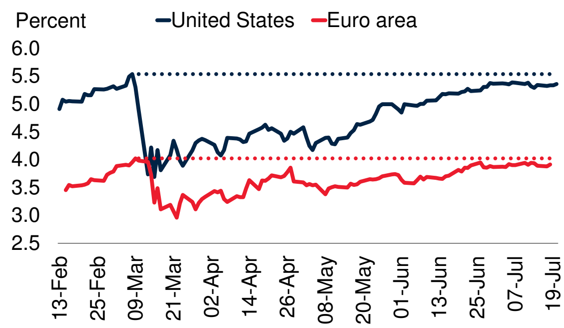


FIGURE 2.B Changes in EMDE borrowing costs since June

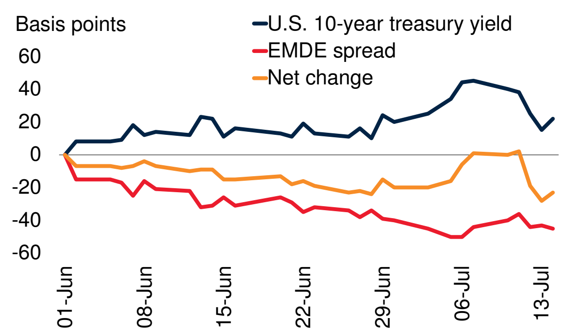
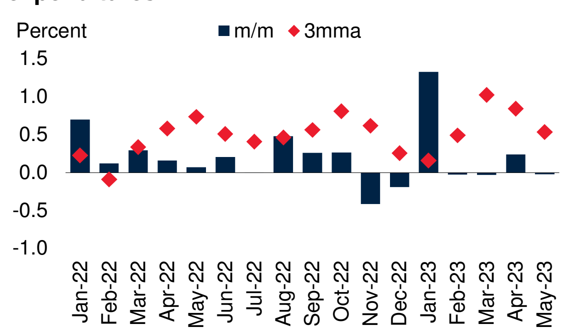


FIGURE 2.C U.S. real personal consumption expenditures



Sources: Bloomberg, FRED (database); J.P. Morgan; World Bank.
Note: EMDEs = emerging market and developing economies. 3mma = 3-month moving average.
A. Market-derived policy rate expectations for the end of 2023, based on overnight indexed swap (OIS) rates. Dotted lines indicate previous peak in expected end-2023 policy rates. Last observation is 20 July 2023.
B. EMDE spread is the spread from the J.P. Morgan aggregate Emerging Markets Bond Index (weighted by market capitalization). Net change is the change in U.S. 10-year treasury yields plus the change in EMDE spread. Last observation is 14 July 2023.
C. Bars and diamonds show respectively, non-annualized m/m and 3-month average percent change in seasonally adjusted real personal consumption expenditures. Last observation is May 2023.

eight-month low). The June manufacturing sub-index declined to 43.4, after industrial production fell 2.3 percent in the three months to May (figure 3.A). Falling prices for energy and intermediate goods saw producer price inflation turn negative, at -1.5 percent in May (y/y), with energy also feeding into lower consumer inflation. In Japan, June's PMIs indicated stagnating manufacturing activity but continued services growth. Core inflation peaked at 4.3 percent in May (y/y), before edging down to 4.2 percent in June. The weaker yen, which has depreciated about 10 percent against the U.S. dollar year-to-date, appears to have added to inflationary pressures.

China: slowing momentum. Growth slowed markedly in 2023Q2, to 0.8 percent (q/q) from 2.2 percent in 2023Q1, as reopening effects faded (figure 3.B). In year-on-year terms, growth picked up to 6.3 percent, reflecting favorable base effects. In June, retail sales growth continued to decline, to 3.1 percent (y/y), from 12.7 percent in May, while industrial production growth edged up to 4.4 percent (y/y). Reflecting weaker internal and external demand, trade contracted further in June, with imports down 6.8 percent (y/y) and exports falling 12.4 percent. The June official PMI points to tepid activity ahead with the manufacturing component largely unchanged at 49, while the non-manufacturing component declined for the third month to 53.2. Amid signs of slower activity and subdued inflation, the People's Bank of China lowered policy rates by 10 basis points in June, with the one-year loan prime rate falling to 3.55 percent.

Other EMDEs: moves towards monetary easing. Inflation across many EMDEs continued to moderate in June, coming within, or close to, target ranges in some large economies in Asia and Latin America (figure 3.C). Monetary policy is becoming less hawkish—about half of EMDE central banks left policy rates unchanged in 2023Q2, and 16 percent reduced them (including Costa Rica, Hungary, and Vietnam; see chart of the month). In contrast, Argentina and Türkiye sharply hiked rates in response to ongoing rapid inflation. Markets appeared to welcome decisions in Nigeria to devalue the naira and remove fuel subsidies, with sovereign spreads narrowing, though inflation may rise in the near term. Across EMDEs (excluding China), the average manufacturing PMI decreased from 51 to 50.3, suggesting decelerating activity—surveys in Brazil, Poland, and Vietnam, among others, remain in contraction territory. Service sector expansion appears to have slowed slightly but remains solid, with the average PMI declining from 55.8 to 55.1, buoyed by India (58.5).

FIGURE 3.A Euro area activity

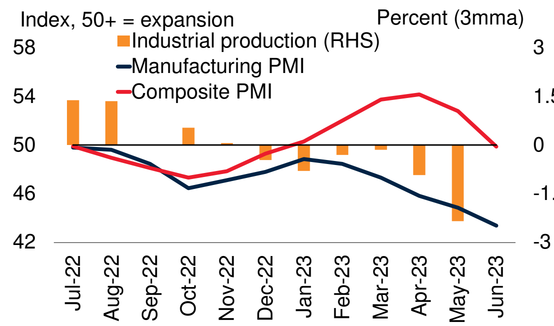


FIGURE 3.B Growth in China

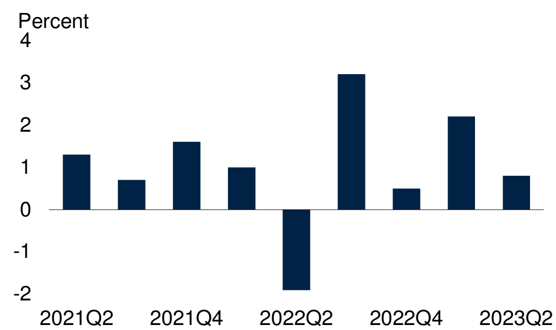
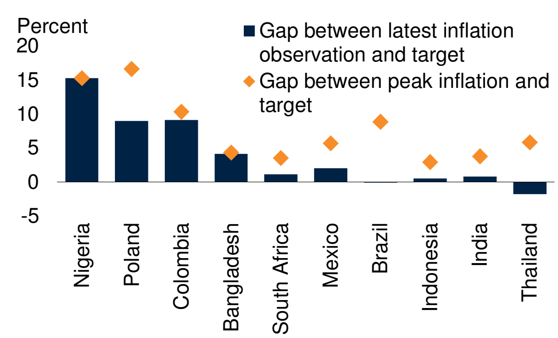


FIGURE 3.C Inflation in EMDEs



Sources: Haver Analytics; National Bureau of Statistics of China; Reuters; World Bank.
Note: 3mma = 3-month moving average
A. Blue line shows the monthly Manufacturing PMI index. Red line shows the monthly Composite PMI. Yellow bars show the moving 3-month growth rate of industrial production. Last observation is June 2023 for PMI data and May 2023 for industrial production data.
B. Quarter-on-quarter real GDP growth. Last observation is 2023Q2.
C. Bars show the gap between latest inflation observation and inflation target. Diamonds show the gap between the peak of inflation since Jan-2021 and inflation target. If target range, mid-point is taken for the target. Latest observation is June 2023.

Special Focus: Fiscal Policy Challenges in Low-Income Countries

LICs face with formidable development challenges. The pandemic and the severe global recession that accompanied it triggered steep downturns across low-income countries (LICs). The pandemic reversed gains in poverty reduction, delayed progress toward the achievement of key development goals, and widened gender disparities. These setbacks, combined with the global repercussions of the Russian Federation's invasion of Ukraine, have compounded development challenges in LICs. About 4 out of 10 of the world's extreme poor reside in LICs, and GDP per capita in LICs is projected to remain below its pre-pandemic trend in the next few years (figure 4.A). Food insecurity has also intensified, especially in fragile and conflict-affected LICs and those that have faced natural disasters (figure 4.B). Adverse shocks such as extreme climate events and conflict are more likely to tip households into distress in LICs than elsewhere because of limited social safety nets.

LICs fiscal positions have deteriorated. In the average LIC, government debt has risen since 2011 by 30 percentage points of GDP to 67 percent of GDP in 2022—its highest level (outside 2020) since 2005. Net interest spending in the average LIC has risen by 4 percentage points of government revenues to 10 percent of revenue in 2022. Public gross financing needs in the average LIC rose by 3 percentage points of GDP to 11.4 percent of GDP in 2022 from 2019 (figure 4.C). Government debt increased in nine out of ten LICs, often rising fastest in countries affected by combinations of fragility, conflict, weak governance, and commodity dependence. The sharp increase in government debt and interest spending since 2011 severely constrains LICs ability to address development challenges. As of end-April 2023, 14 out of the 28 LICs were assessed as being in debt distress or at a high risk of debt distress, compared with six LICs in 2015 (figure 5.A).

LIC debt has shifted in composition toward riskier sources of financing. By 2021, the average LIC carried external debt equivalent to 51 percent of GDP—almost three-fourths of total government debt and more than twice as much as in 2012. A significant share of external debt in LICs was denominated in foreign currencies. Since 2011, the non-concessional share of government debt has also risen by almost half in the average LIC, to 55 percent in 2020. Increased reliance on riskier sources of financing makes LICs vulnerable to currency, interest rate, and refinancing risks.

FIGURE 4.A **Income per capita in LICs**

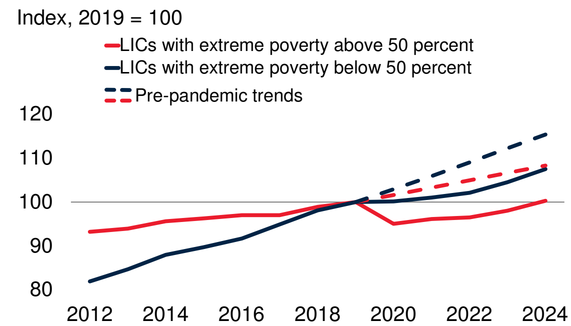


FIGURE 4.B **Food insecurity, by conflict**

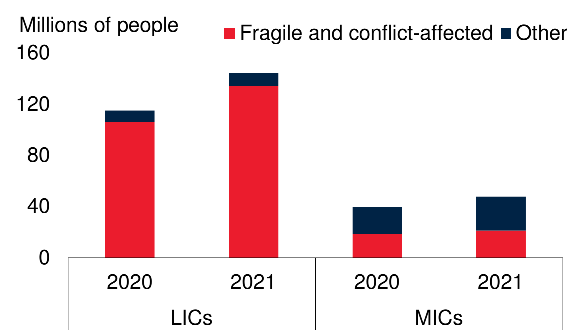
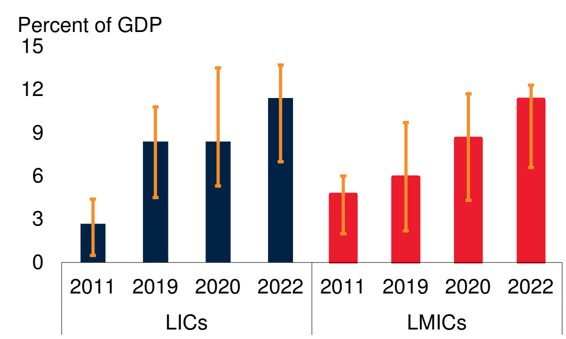


FIGURE 4.C **Public gross financing needs**



Sources: International Monetary Fund; World Bank, World Development Indicators; World Bank.

Note: LICs = low-income countries; LMICs = lower-middle income countries; MICs = middle-income countries.

A. Extreme poverty rate is measured as the share of people living on less than $2.15 per day. Per capita income is calculated as each group's GDP divided by each group's population. Dashed lines indicate per capita income assuming its growth rate equals to 2000-19 average after 2019. The sample excludes the Democratic Republic of Congo and Niger—both with over half of the population experiencing extreme poverty.

B. Bars show the number of people in food crisis as classified by the Integrated Food Security Phase Classification (IPC/CH) Phase 3, that is, in acute food insecurity crisis or worse.

C. Bars show the unweighted averages. Orange whiskers show the interquartile ranges.

Fiscal deterioration has mainly reflected chronic revenue weakness, which underpins persistent fiscal deficits. Sizable primary deficits have been the main source of debt accumulation in the average LIC since 2011. In the period 2011-22, the average LICs' primary deficit was 2.2 percent of GDP, about 0.8 percentage points of GDP above the average for other EMDEs. During the pandemic, LIC primary deficits averaged 3.1 percent of GDP, 0.5 percentage points of GDP above the average for other EMDEs. About 60 percent of LICs ran primary deficits every single year during 2011-22, reflecting revenue weakness. In the average LIC, government revenues amounted to 18 percent of GDP during 2011-22, 11 percentage points of GDP lower than in the average EMDE. In part, this revenue weakness reflected a decline in grant financing for LICs, from 6.5 percent of GDP in 2011-15 to 2.7 percent of GDP in 2016-21.

LICs are characterized by lower social spending and spending efficiency. A lack of revenues constrains spending in LICs. Compared with the average non-LIC EMDE, government spending was 10 percentage points of GDP lower during 2011-22. This relative shortfall particularly affected investments in human capital: at 3.4 and 1.2 percent of GDP during 2011-21, LICs' spending on education and health, respectively, was statistically significantly weaker than in other EMDEs. By contrast, defense spending was broadly in line with other EMDEs, with LICs spending more on defense (1.8 percent of GDP) than health (figure 5.B). In addition, spending was used less effectively in LICs than elsewhere. Government spending efficiency has been statistically significantly weaker in LICs than in other EMDEs in most major spending categories, especially infrastructure and health (figure 5.C).

LIC fiscal positions can be improved through national policy reforms and global support. High debt levels require strengthened debt management and, in some cases, may warrant debt relief. In addition, LICs can prioritize domestic revenue mobilization, improved spending efficiency, and structural interventions to generate stronger growth. These measures need to be embedded in domestic reforms to improve institutional frameworks, ease structural constraints, and address informality. They also need to be supported by well-coordinated global policies to help LICs build fiscal management capacity, address unsustainable debt loads, and deal with illicit financial flows.

FIGURE 5.A EMDEs in, or at risk of, debt distress

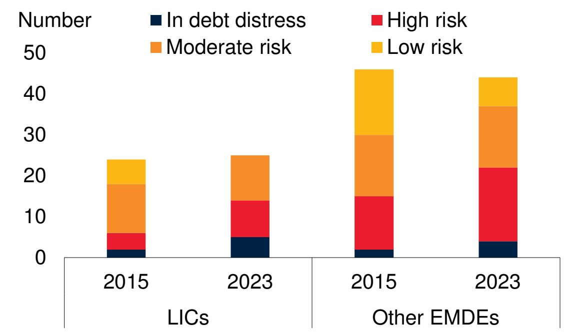


FIGURE 5.B Expenditures on major spending categories, 2011-21 average

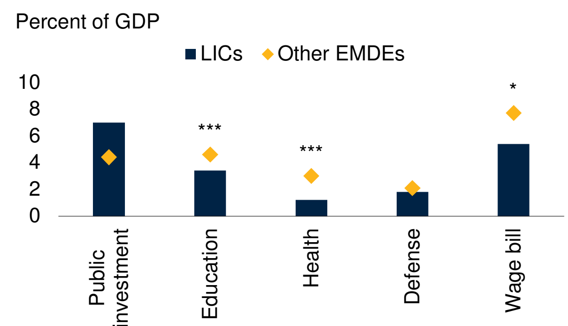
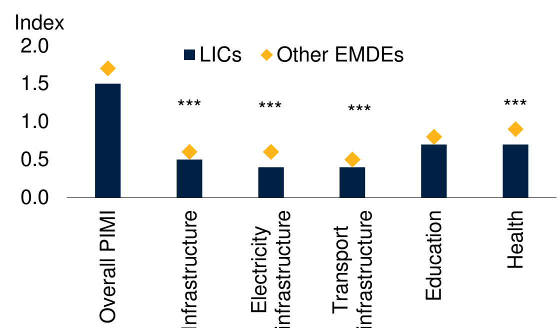


FIGURE 5.C Spending efficiency



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

Note: EMDEs = emerging market and developing economies; LICs = low-income countries; Other EMDEs = non-LIC emerging market and developing economies. *** shows the significance level at 1 percent, ** at 5 percent, and * at 10 percent.

A. Stacked bars show the number of LICs and other EMDEs in debt distress or at risk of debt distress, as of April 30, 2023.

B. Unweighted averages for LICs and other EMDEs for each spending category in percent of GDP. Data for up to 26 LICs.

C. Unweighted averages for LICs and other EMDEs for each spending category in percent of GDP. Spending efficiency overall and for infrastructure is the Public Investment Management Index by Dabla-Norris et al. (2012); Spending efficiency for education and health is the output efficiency calculated by Herrero and Ouedraogo (2018). Data for up to 120 EMDEs, including up to 21 LICs, for the latest year available.

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TABLE: Major Data Releases

(Percent change y-o-y)

Recent releases: June 22, 2023 - July 21, 2023					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
Argentina	6/22/23	GDP	Q1	1.3%	1.5%
Italy	6/28/23	CPI	JUN	6.4%	7.7%
Germany	6/29/23	CPI	JUN	6.4%	6.0%
South Africa	6/29/23	GDP	Q1	0.2%	0.8%
United Kingdom	6/30/23	GDP	Q1	0.2%	0.6%
Indonesia	7/3/23	CPI	JUN	3.5%	4.0%
South Korea	7/3/23	CPI	JUN	2.7%	3.3%
Russian Federation	7/5/23	GDP	Q1	-1.8%	-2.7%
Türkiye	7/5/23	CPI	JUN	38.2%	39.6%
Mexico	7/7/23	CPI	JUN	5.1%	5.8%
Brazil	7/11/23	CPI	JUN	3.2%	3.9%
India	7/12/23	CPI	JUN	4.8%	4.3%
United States	7/12/23	CPI	JUN	3.1%	4.1%
China	7/16/23	IP	JUN	4.4%	3.5%
Saudi Arabia	7/16/23	CPI	JUN	2.7%	2.8%
Canada	7/18/23	CPI	JUN	2.8%	3.2%
United States	7/18/23	IP	JUN	-0.4%	0.0%
China	7/19/23	GDP	Q2	6.3%	4.5%
Euro area	7/19/23	CPI	JUN	5.6%	6.1%
Euro area	7/20/23	GDP	Q1	1.0%	1.8%
Japan	7/20/23	CPI	JUN	3.2%	3.2%

(Percent change y-o-y)

Upcoming releases: July 22, 2023 - September 1, 2023				
Country	**Date**	**Indicator**	**Period**	**Previous**
South Korea	7/24/23	GDP	Q2	0.9%
Australia	7/26/23	CPI	Q2	7.1%
United States	7/27/23	GDP	Q2	1.8%
France	7/28/23	CPI	JUL	4.5%
France	7/28/23	GDP	Q2	0.9%
Germany	7/28/23	CPI	JUL	6.4%
Spain	7/28/23	GDP	Q2	4.2%
Euro area	7/31/23	GDP	Q2	1.0%
Germany	7/31/23	GDP	Q2	-0.5%
Italy	7/31/23	GDP	Q2	1.9%
Italy	7/31/23	CPI	JUL	6.4%
Mexico	7/31/23	GDP	Q2	3.7%
Saudi Arabia	7/31/23	GDP	Q2	3.8%
Indonesia	8/7/23	GDP	Q2	5.0%
United States	8/10/23	CPI	JUL	3.1%
India	8/11/23	IP	JUN	5.2%
Japan	8/14/23	GDP	Q2	1.8%
Thailand	8/15/23	GDP	Q2	2.7%
Poland	8/17/23	GDP	Q2	-0.1%
India	8/31/23	GDP	Q2	6.1%
Canada	9/1/23	GDP	Q2	2.2%