HIGHLIGHTS from Chapter 1:
THE GLOBAL OUTLOOK

Key Points

- *The global economy has slowed to the extent that it is perilously close to falling into recession—defined as a contraction in annual global per capita income—only three years after emerging from the pandemic-induced recession of 2020.*
- *Very high inflation has triggered unexpectedly rapid and synchronous monetary policy tightening around the world, resulting in worsening global financial conditions.*
- *Global growth is forecast to slow to 1.7 percent in 2023—the third weakest pace of growth in nearly three decades, overshadowed only by the global recessions caused by the pandemic in 2020 and the global financial crisis in 2009.*
- *Risks to the outlook are to the downside. Global inflation may not moderate as expected, or may be pushed higher by renewed supply disruptions. Persistently high core inflation may require policy interest rates to be lifted higher and faster than currently expected, which may contribute to widespread financial stress. The risk of policy missteps is elevated.*
- *Policy makers can take action to help avoid a sharp slowdown stemming from financial instability or excessive monetary tightening in pursuit of inflation objectives.*
- *The international community needs to intensify its support to those affected by conflict and food insecurity. It can also help reduce the risk of debt crises in the poorest countries through timely debt restructuring.*
- *Tighter financing conditions, weaker growth, and elevated debt levels create significant fiscal challenges for EMDEs. In responding to food and energy shocks, governments need to avoid inefficient subsidies or export restrictions. and instead provide targeted support to vulnerable groups.*
- *Given the rising human and economic costs of more frequent climate-related disasters, speedy action to foster the energy transition is critical for mitigating climate change.*

Global activity: heightened risk of recession. Global growth is expected to decelerate sharply to 1.7 percent in 2023—the third weakest pace of growth in nearly three decades, overshadowed only by the global recessions caused by the pandemic in 2020 and the global financial crisis in 2009 (figure A). Global inflation has been more persistent than previously assumed, and high core inflation suggests that inflation may remain above pre-pandemic averages in many countries for an extended period. To rein in high inflation and bolster credibility, major central banks have tightened policy at the fastest pace in more than 40 years (figure B). Aggressive monetary policy tightening to contain high inflation, deteriorating financial conditions, declining confidence, and widespread energy shortages have contributed to a downgrade in global growth of 1.3 percentage points. The United States, the euro area, and China are all undergoing a period of pronounced weakness, and the resulting spillovers are exacerbating the headwinds faced by EMDEs.

EMDE outlook: persistent losses to activity. The forecast for EMDEs in 2023 has been downgraded 0.8 percentage point, to a subdued 3.4 percent, in large part due to weaker external demand and tighter financing conditions. The overlapping adverse shocks of recent years are expected to keep output in EMDEs 5.6 percent below pre-pandemic trends in 2023—considerably worse than in advanced economies, where output is expected to be only 2.2 percent below pre-pandemic trends this year (figure C). In about one-third of EMDEs, per capita income is not expected to surpass 2019 levels until at least 2024, with the slowest growth in regions where poverty is highest.

Risks to the outlook: potential for policy missteps.

In light of high inflation and repeated negative supply shocks, there is substantial uncertainty about the impact of central bank policy in terms of both magnitude and timing. As a result, the risk of policy missteps is elevated. To bring inflation under control, central banks may need to hike policy rates more than is currently expected. Financial stress may result from the combination of additional monetary tightening, softer growth, and falling confidence in an environment of elevated debt. Financial conditions have already worsened for less creditworthy EMDEs, especially if they are also energy importers (figure D). Given already-weak global growth, a combination of sharper monetary policy tightening and financial stress could result in a more pronounced slowdown or even a global recession this year (figure E). Weaker-than-expected activity in China amid pandemic-related disruptions and stress in the real estate sector, rising geopolitical tensions and trade fragmentation, and climate change could also result in markedly slower growth.

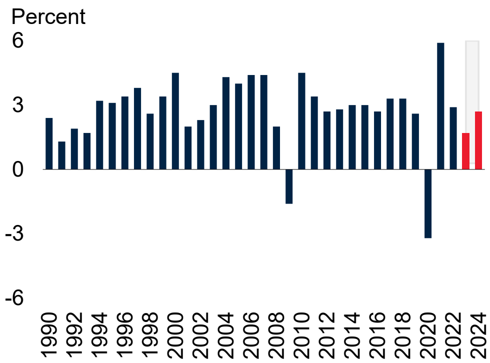
Macroeconomic policy challenges: lowering the risk of a sharp slowdown. As they pursue their inflation objectives, central banks can help avoid a substantial global economic slowdown by taking into account cross-border spillovers from other monetary authorities' actions, which may tighten financial conditions more than expected. Financial stability risks can be mitigated by strengthening macroprudential regulation and promptly addressing financial vulnerabilities, such as rising nonperforming loans or currency mismatches. The international community also needs to reduce the risk of debt crises in EMDEs by supporting timely debt restructuring. On the fiscal front, tighter financing conditions, weaker growth, and elevated debt levels create significant challenges. Timely and carefully calibrated fiscal consolidation needs to be guided by credible medium-term frameworks, with a focus on reducing wasteful spending, such as inefficient agricultural and fuel subsidies, and ensuring that support for the poor and most vulnerable is well-targeted. Governments also need to avoid imposing export restrictions in response to food and energy shocks, while intensifying their support for the large numbers of people affected by conflict or food insecurity, particularly in low-income countries (figure F).

Structural policy priorities: fostering stronger, more resilient growth. The long-term scarring effects of the overlapping adverse shocks of recent years have led to large cumulative losses. To offset these losses and bolster green, resilient, and inclusive growth, EMDEs will need to make substantial investments in all forms of capital—human, physical, social, and natural. Given limited fiscal space, this will require private-sector involvement and new concessional financing from the international community. This can be complemented by structural reforms that improve the investment climate and reallocate public expenditures toward growth-enhancing investment. Such efforts will need to be accompanied by measures to strengthen social protection systems, foster gender equality, promote investments in human capital, and facilitate more resilient food systems. Given the rising human and economic costs of more frequent climate-related disasters, particularly in small states, speedy action to foster the energy transition is critical for mitigating climate change.

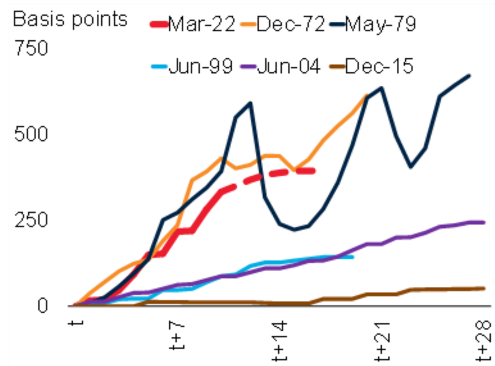
Figure: Global growth prospects and policy challenges

Global growth in 2023 is expected to be the third weakest in nearly three decades, overshadowed only by global recessions. High inflation worldwide has prompted rapid and synchronous global monetary policy tightening. This has further slowed the recovery from the pandemic recession and contributed to worsening financial conditions, particularly for less creditworthy emerging market and developing economies (EMDEs). Given already-weak global growth, even a moderate negative shock could push the global economy into recession this year. A rising number of people are affected by food insecurity, especially in the poorest countries.

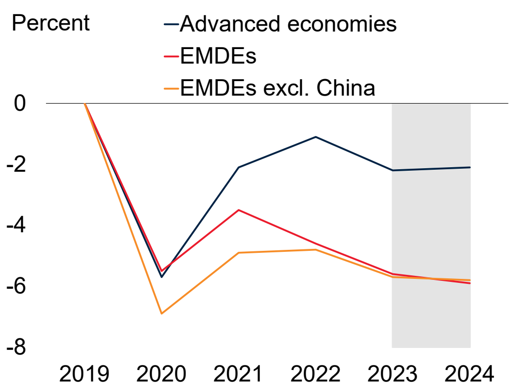
A. Global growth



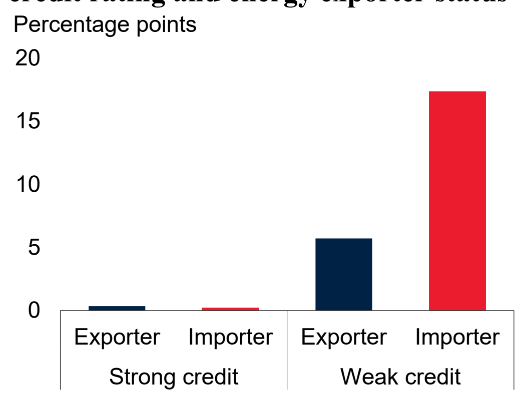
B. G7 policy rates



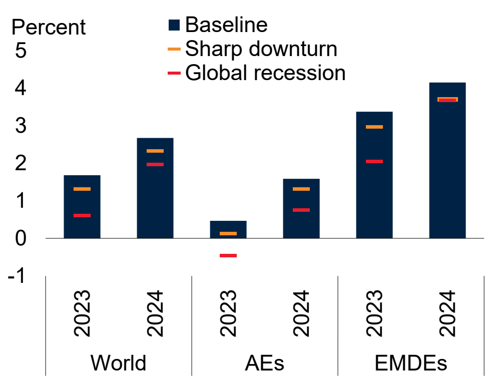
C. Deviation of output from pre-pandemic trends



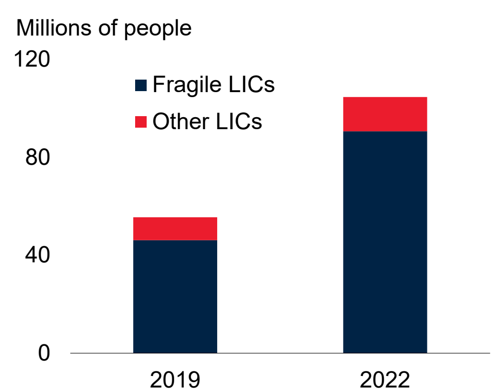
D. EMDE sovereign spread changes in 2022 by credit rating and energy exporter status



E. Global growth under different scenarios



F. Food insecurity in LICs



Sources: BIS (database); Bloomberg; FSIN and GNAFC (2022); GNAFC (2022); Haver Analytics; Moody's; Oxford Economics; JP Morgan; WDI (database); World Bank.

Note: G7 = Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States; AEs = advanced economies; EMDEs = emerging market and developing economies. Unless otherwise indicated, aggregate growth rates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

A. Sample includes up to 37 advanced economies and 144 EMDEs

B. Increases in short-term policy interest rate weighted by nominal GDP in current U.S. dollars. “t” is the month before the U.S. federal funds rate increases. A cycle ends when the G7-weighted policy rate peaks. Judgement used to define “double-peak” cycles, such as 1972 and 1979. The March 2022 cycle is extended using market-implied interest rate expectations from January 2023 onward, observed on December 16, 2022.

A.C. Shaded areas indicate forecasts.

C. Sample includes up to 37 advanced economies and 144 EMDEs.

D. Change in EMBI spreads since January 2022, using Moody's sovereign foreign currency ratings. Sample includes 11 EMDE energy exporters and 35 EMDE energy importers, and excludes Belarus, Lebanon, the Russian Federation, Ukraine, and Venezuela, RB. Last observation is December 13, 2022. Strong credit defined as ratings from Aaa to Baa3. Weak credit defined as ratings from Caa to C.

E. Scenarios use Oxford Economics *Global Economic Model*. Global growth aggregate is computed by Oxford Economics using 2015 market exchange rates and prices.

F. 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. Data for 2022 are estimates adapted from GNAFC (2022).

TABLE 1.1 Real GDP[1]

(Percent change from previous year unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	Percentage point differences from June 2022 projections: 2022e	2023f	2024f
World	**-3.2**	**5.9**	**2.9**	**1.7**	**2.7**	**0.0**	**-1.3**	**-0.3**
Advanced economies	**-4.3**	**5.3**	**2.5**	**0.5**	**1.6**	**-0.1**	**-1.7**	**-0.3**
United States	-2.8	5.9	1.9	0.5	1.6	-0.6	-1.9	-0.4
Euro area	-6.1	5.3	3.3	0.0	1.6	0.8	-1.9	-0.3
Japan	-4.3	2.2	1.2	1.0	0.7	-0.5	-0.3	0.1
Emerging market and developing economies	**-1.5**	**6.7**	**3.4**	**3.4**	**4.1**	**0.0**	**-0.8**	**-0.3**
East Asia and Pacific	1.2	7.2	3.2	4.3	4.9	-1.2	-0.9	-0.2
China	2.2	8.1	2.7	4.3	5.0	-1.6	-0.9	-0.1
Indonesia	-2.1	3.7	5.2	4.8	4.9	0.1	-0.5	-0.4
Thailand	-6.2	1.5	3.4	3.6	3.7	0.5	-0.7	-0.2
Europe and Central Asia	-1.7	6.7	0.2	0.1	2.8	3.2	-1.4	-0.5
Russian Federation	-2.7	4.8	-3.5	-3.3	1.6	5.4	-1.3	-0.6
Türkiye	1.9	11.4	4.7	2.7	4.0	2.4	-0.5	0.0
Poland	-2.0	6.8	4.4	0.7	2.2	0.5	-2.9	-1.5
Latin America and the Caribbean	-6.2	6.8	3.6	1.3	2.4	1.1	-0.6	0.0
Brazil	-3.3	5.0	3.0	0.8	2.0	1.5	0.0	0.0
Mexico	-8.0	4.7	2.6	0.9	2.3	0.9	-1.0	0.3
Argentina	-9.9	10.4	5.2	2.0	2.0	0.7	-0.5	-0.5
Middle East and North Africa	-3.6	3.7	5.7	3.5	2.7	0.4	-0.1	-0.5
Saudi Arabia	-4.1	3.2	8.3	3.7	2.3	1.3	-0.1	-0.7
Iran, Islamic Rep.[2]	1.9	4.7	2.9	2.2	1.9	-0.8	-0.5	-0.4
Egypt, Arab Rep.[3]	3.6	3.3	6.6	4.5	4.8	0.5	-0.3	-0.2
South Asia	-4.5	7.9	6.1	5.5	5.8	-0.7	-0.3	-0.7
India[2]	-6.6	8.7	6.9	6.6	6.1	-0.6	-0.5	-0.4
Pakistan[3]	-0.9	5.7	6.0	2.0	3.2	1.7	-2.0	-1.0
Bangladesh[3]	3.4	6.9	7.2	5.2	6.2	0.8	-1.5	-0.7
Sub-Saharan Africa	-2.0	4.3	3.4	3.6	3.9	-0.3	-0.2	-0.1
Nigeria	-1.8	3.6	3.1	2.9	2.9	-0.3	-0.3	-0.3
South Africa	-6.3	4.9	1.9	1.4	1.8	-0.2	-0.1	0.0
Angola	-5.8	0.8	3.1	2.8	2.9	0.0	-0.5	-0.3
Memorandum items:								
Real GDP[1]								
High-income countries	-4.3	5.3	2.7	0.6	1.6	0.0	-1.6	-0.4
Middle-income countries	-1.2	6.9	3.2	3.4	4.3	-0.1	-0.8	-0.2
Low-income countries	1.6	3.9	4.0	5.1	5.6	0.0	-0.1	0.0
EMDEs excluding China	-3.9	5.7	3.8	2.7	3.6	1.1	-0.7	-0.4
Commodity-exporting EMDEs	-3.7	4.9	2.8	1.9	2.8	1.6	-0.7	-0.4
Commodity-importing EMDEs	-0.4	7.6	3.6	4.1	4.8	-0.8	-0.8	-0.2
Commodity-importing EMDEs excluding China	-4.2	6.8	5.0	3.8	4.5	0.4	-0.7	-0.4
EM7	-0.4	7.4	3.0	3.5	4.5	-0.3	-0.8	-0.2
World (PPP weights)[4]	-2.8	6.1	3.1	2.2	3.2	0.0	-1.2	-0.3
World trade volume[5]	**-8.2**	**10.6**	**4.0**	**1.6**	**3.4**	**0.0**	**-2.7**	**-0.4**
						Level differences from June 2022 projections		
Commodity prices[6]								
Energy price index	52.7	95.4	151.7	130.5	118.3	7.1	4.4	7.2
Oil price (US$ per barrel)	42.3	70.4	100.0	88.0	80.0	0.0	-4.0	0.0
Non-energy commodity price index	84.4	112.0	123.7	113.7	113.0	-8.4	-7.6	-4.6

Source: World Bank.

Note: e = estimate; f = forecast. 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 owning 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. The aggregate growth rates may differ from the previously published numbers that were calculated using GDP weights at average 2010 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. The column labeled 2022 refers to FY2022/23.
3. GDP growth rates are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. Pakistan's growth rates are based on GDP at factor cost. The column labeled 2022 refers to FY2021/22.
4. 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.
5. World trade volume of goods and nonfactor services.
6. Energy price index is in nominal U.S. dollars (2010=100) and it includes coal (Australia), crude oil (Brent), and natural gas (Europe, Japan, and the United States). Oil price refers to the Brent crude oil benchmark. The non-energy index is in nominal U.S. dollars (2010=100) and it is the weighted average of 39 commodity prices (7 metals, 5 fertilizers, and 27 agricultural commodities). For additional details, please see https://www.worldbank.org/commodities.