

# Global Economic Prospects

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Equitable Growth, Finance & Institutions

Prospects Group

# Four Questions

1 What are near-term prospects for the global economy?

2 How do Fed policy changes affect EMDEs?

3 What are prospects for EMDE investment?

4 What are the policy priorities?

# Global Growth Forecasts

## *A Sharp Downturn in 2023*

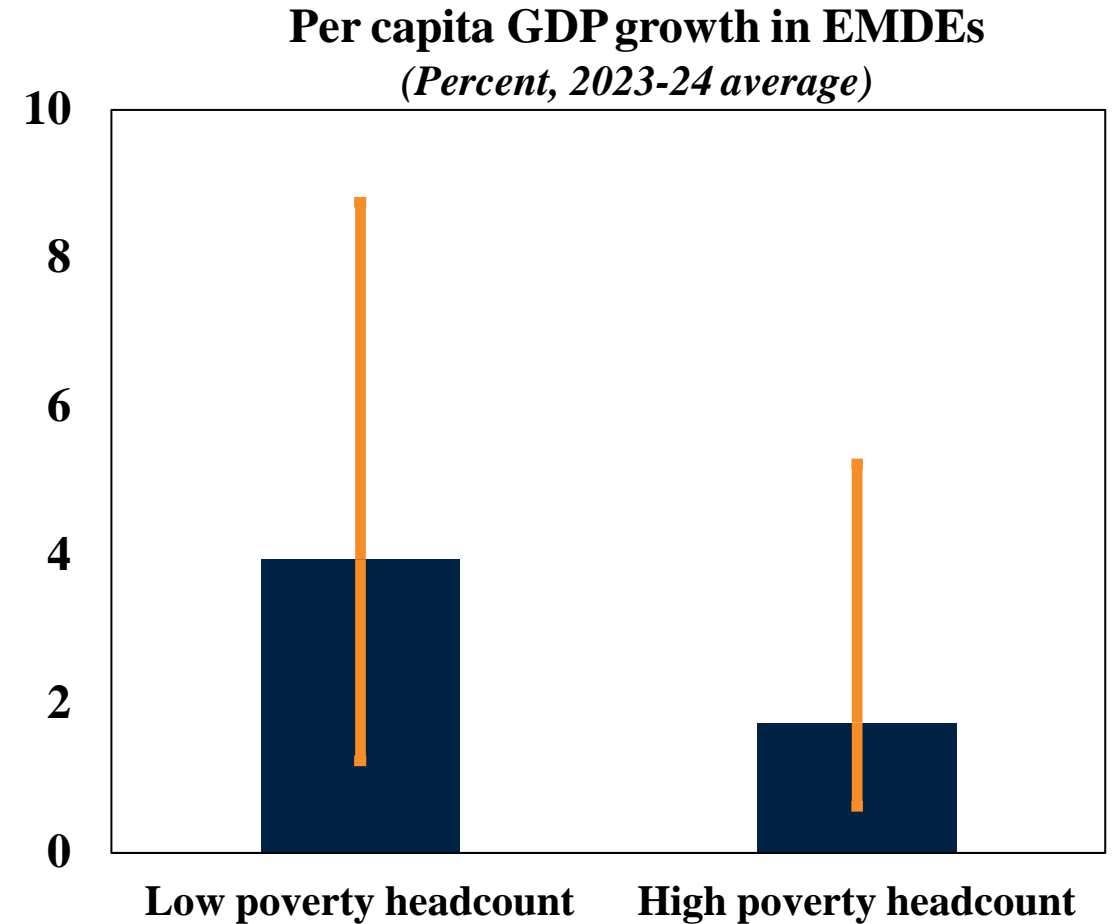
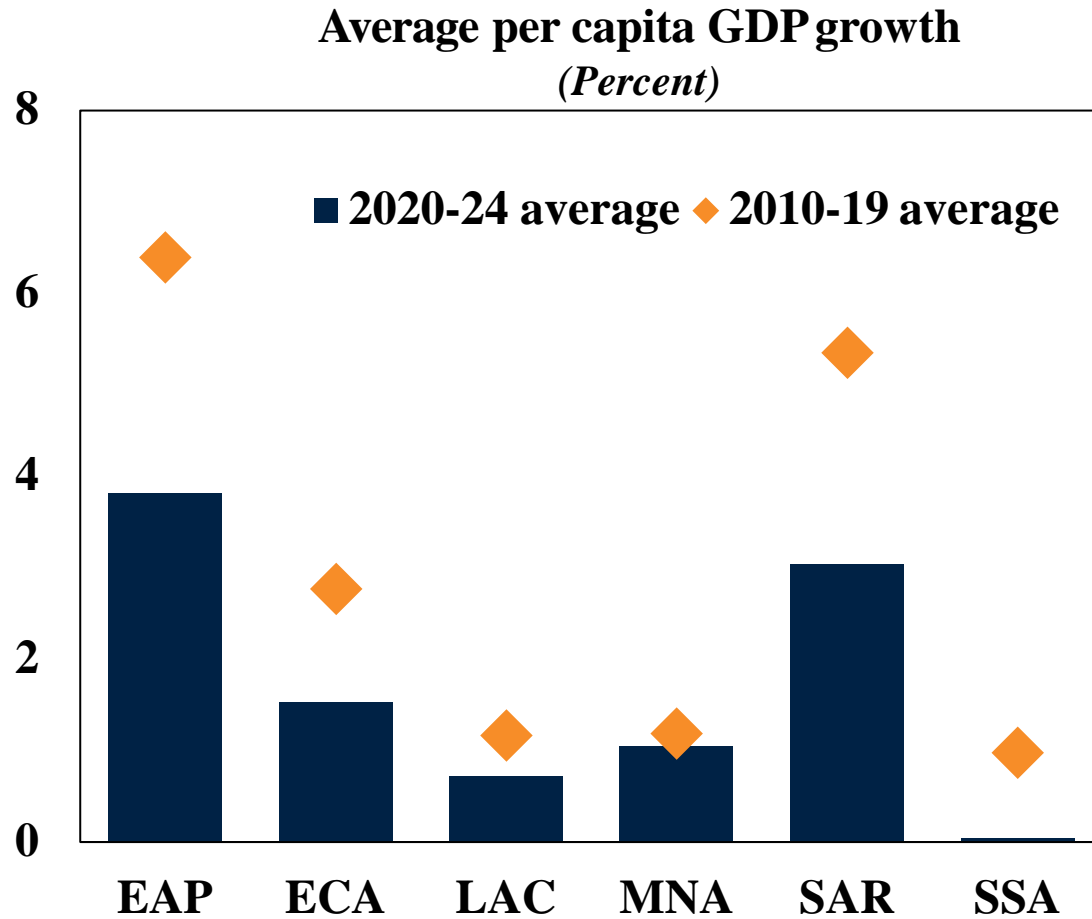
	GDP growth (Percent)						Change from June 2022		
	2013-19	2020	2021	2022e	2023f	2024f	2022	2023	2024
<b>World</b>	2.9	-3.2	5.9	2.9	1.7	2.7	0.0	-1.3	-0.3
<b>Advanced economies</b>	2.0	-4.3	5.3	2.5	0.5	1.6	-0.1	-1.7	-0.3
<b>EMDEs</b>	4.5	-1.5	6.7	3.4	3.4	4.1	0.0	-0.8	-0.3
<i>Excluding China</i>	3.2	-3.9	5.7	3.8	2.7	3.6	1.1	-0.7	-0.4
East Asia and Pacific	6.6	1.2	7.2	3.2	4.3	4.9	-1.2	-0.9	-0.2
Europe and Central Asia	2.7	-1.7	6.7	0.2	0.1	2.8	3.2	-1.4	-0.5
<i>Excluding Russia and Ukraine</i>	4.1	-1.0	8.2	4.2	2.1	3.4	1.5	-1.4	-0.4
Latin America and the Caribbean	1.3	-6.2	6.8	3.6	1.3	2.4	1.1	-0.6	0.0
Middle East and North Africa	2.6	-3.6	3.7	5.7	3.5	2.7	0.4	-0.1	-0.5
South Asia	6.4	-4.5	7.9	6.1	5.5	5.8	-0.7	-0.3	-0.7
Sub-Saharan Africa	3.2	-2.0	4.3	3.4	3.6	3.9	-0.3	-0.2	-0.1

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.

# Impact of Multiple Global Shocks

## *Weaker Income Growth, Especially for Poorest*



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

Left Panel. Population projections from UN World Population Prospects 2022. Center Panel. “Low poverty headcount” are EMDEs with poverty headcount below the 25th percentile, and “high poverty headcount” are those above the 75th percentile. Bars show per capita GDP growth simple average for 2023-24 for 40 EMDEs and orange whiskers indicate the minimum-maximum range. Sample excludes the Russian Federation and Belarus. Poverty data are the poverty headcount ratios at \$2.15 a day (2017 PPP).

# Risks

## *Multiple Downside Risks*



**Persistent inflation**



**Geopolitical turmoil**



**Climate-related disasters**



**Unanticipated monetary tightening**



**Energy and food insecurity**



**Fragmentation of global trade, investment, and financial networks**



**Financial stress**



**Social tensions**



**Weaker longer-term growth prospects and larger development challenges**



**COVID-19 outbreaks**

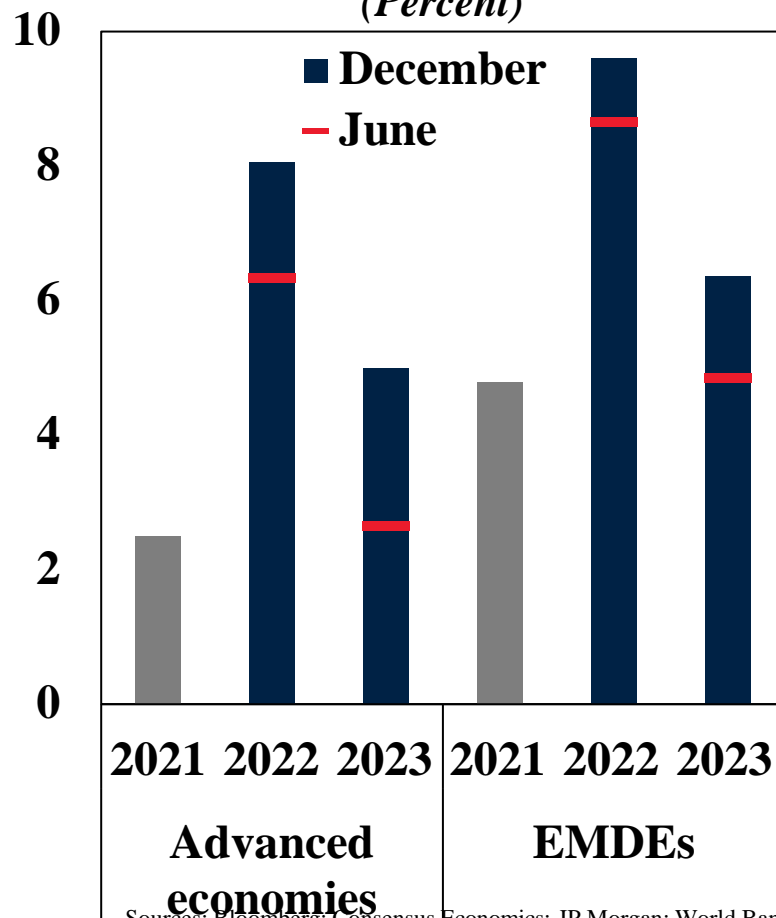
# Four Questions

**2** **How do Fed policy changes affect EMDEs?** *Monetary policy reaction shocks substantially tighten financial conditions in EMDEs and increase the probability of financial crisis.*

# Tighter Monetary Policy and Financial Stress

*Higher Interest Rates; Elevated Inflation; Tighter Financial Conditions*

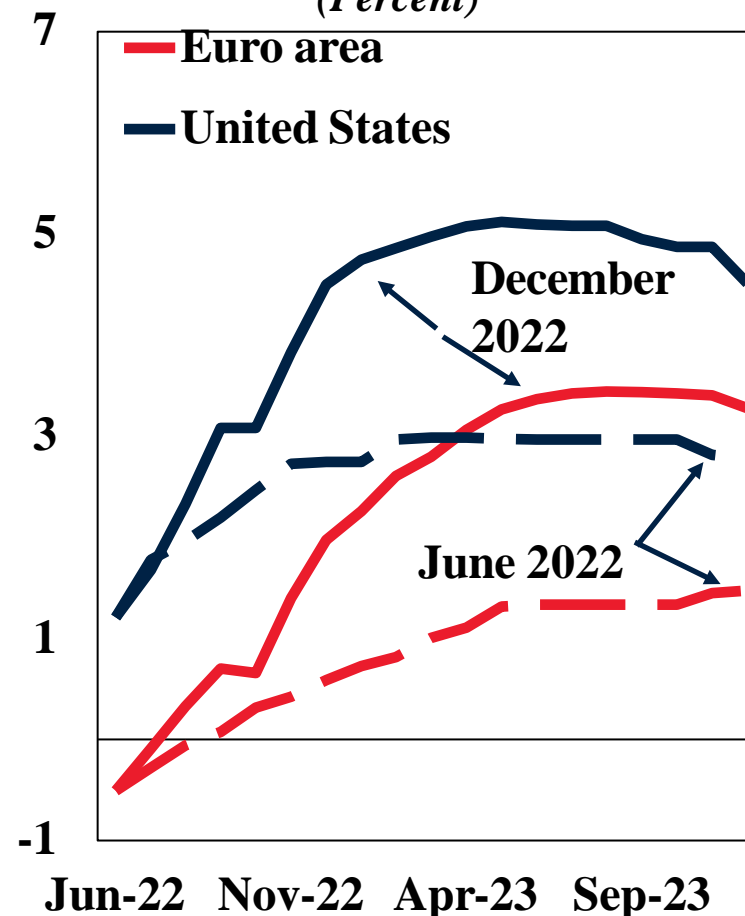
Survey-based inflation expectations  
(Percent)



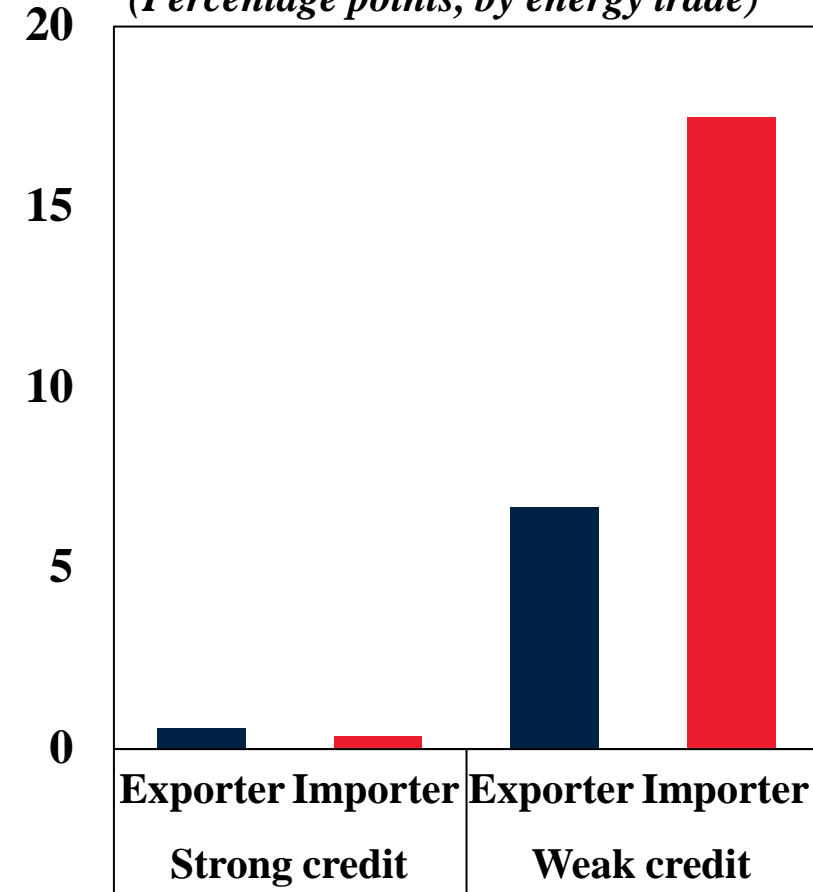
Sources: Bloomberg; Consensus Economics; JP Morgan; World Bank.

Left Panel. The median headline CPI inflation expectations for 33 advanced economies and 50 EMDEs derived from Consensus Economics surveys in respective months of 2022. Center Panel. Policy rate expectations derived from futures curves. The lines for December 2022 are as of December 15, 2022, and those for January 2022 are as of end-2021. Right Panel. 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, the Russian Federation, and Ukraine. Last observation is November 25, 2022. Strong credit defined as ratings from Aaa to Baa3. Weak credit defined as ratings from Caa to Ca.

Interest rate expectations  
(Percent)



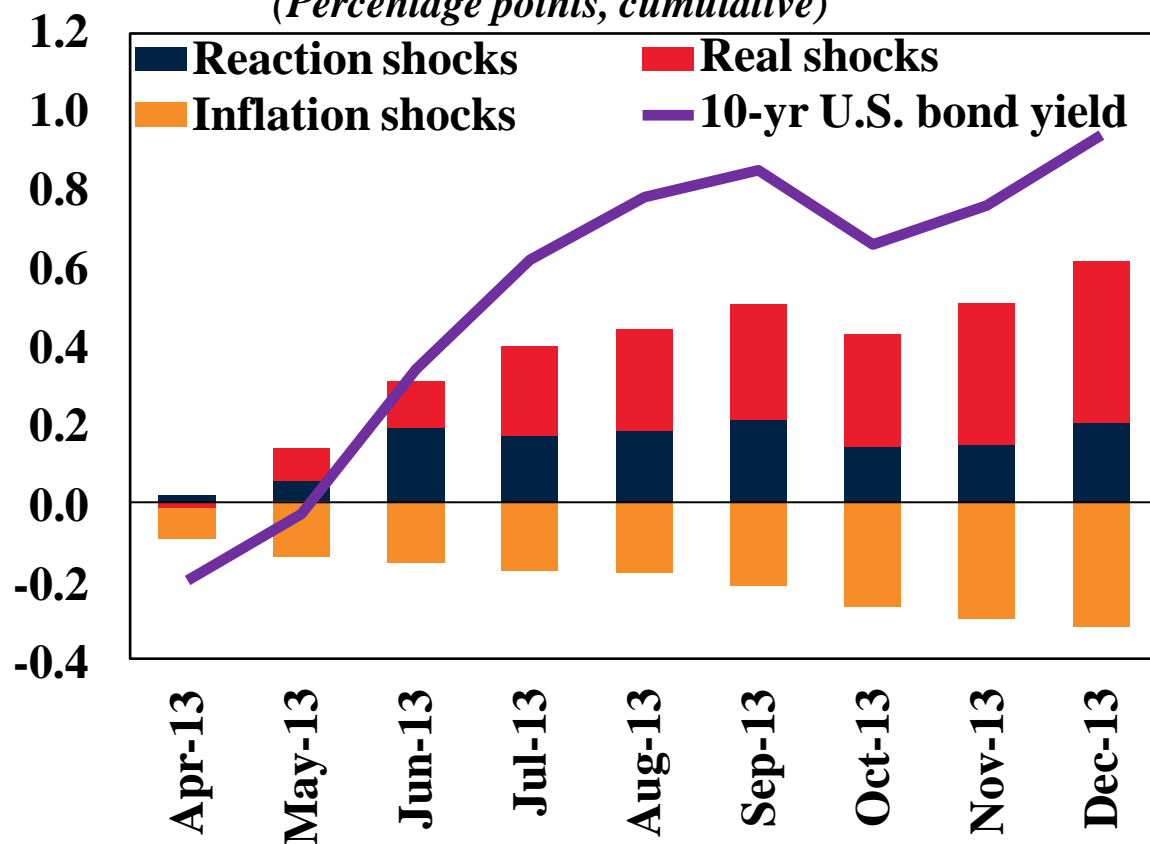
EMDE sovereign spread changes, 2022  
(Percentage points, by energy trade)



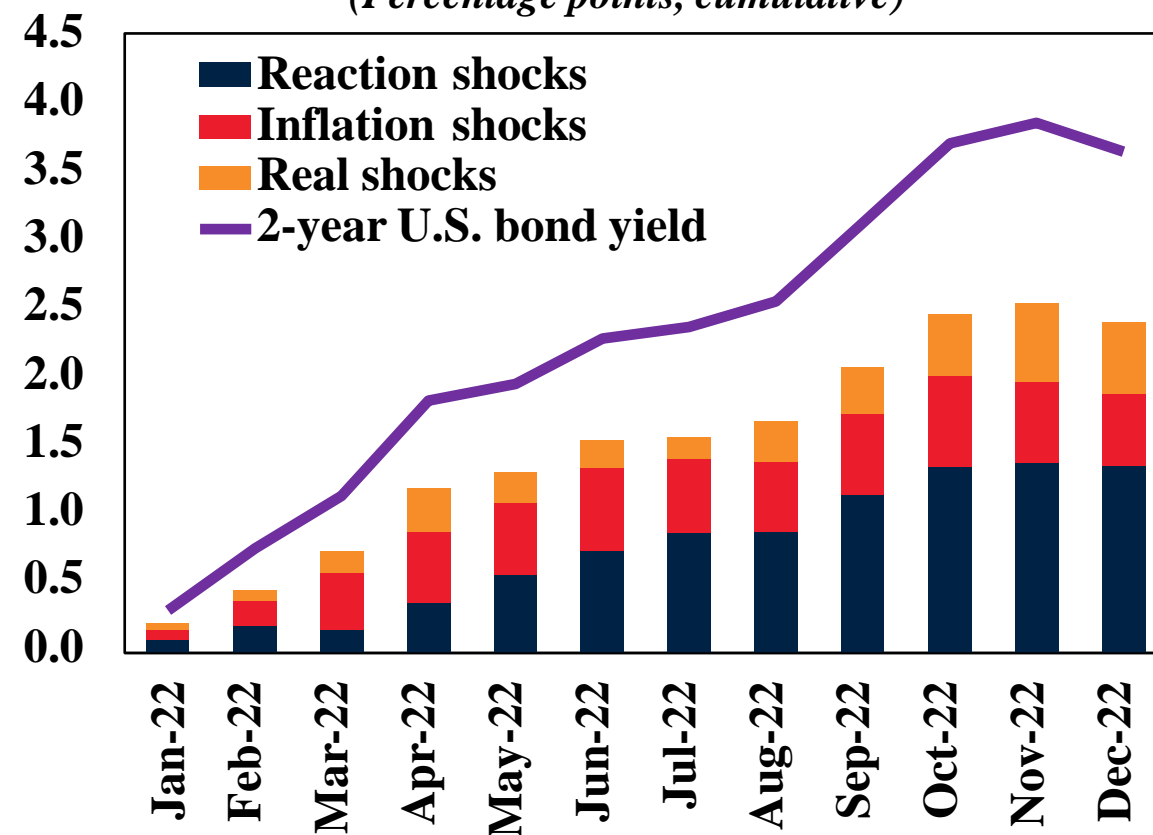
# Drivers of U.S. Interest Rate Shocks

## *Perception of Changing U.S. Fed Policy Reaction, As In Taper Tantrum*

Contributions to changes in 10-year U.S. treasury yields: Taper Tantrum  
(Percentage points, cumulative)



Contributions to changes in 2-year U.S. treasury yields: Current tightening cycle  
(Percentage points, cumulative)

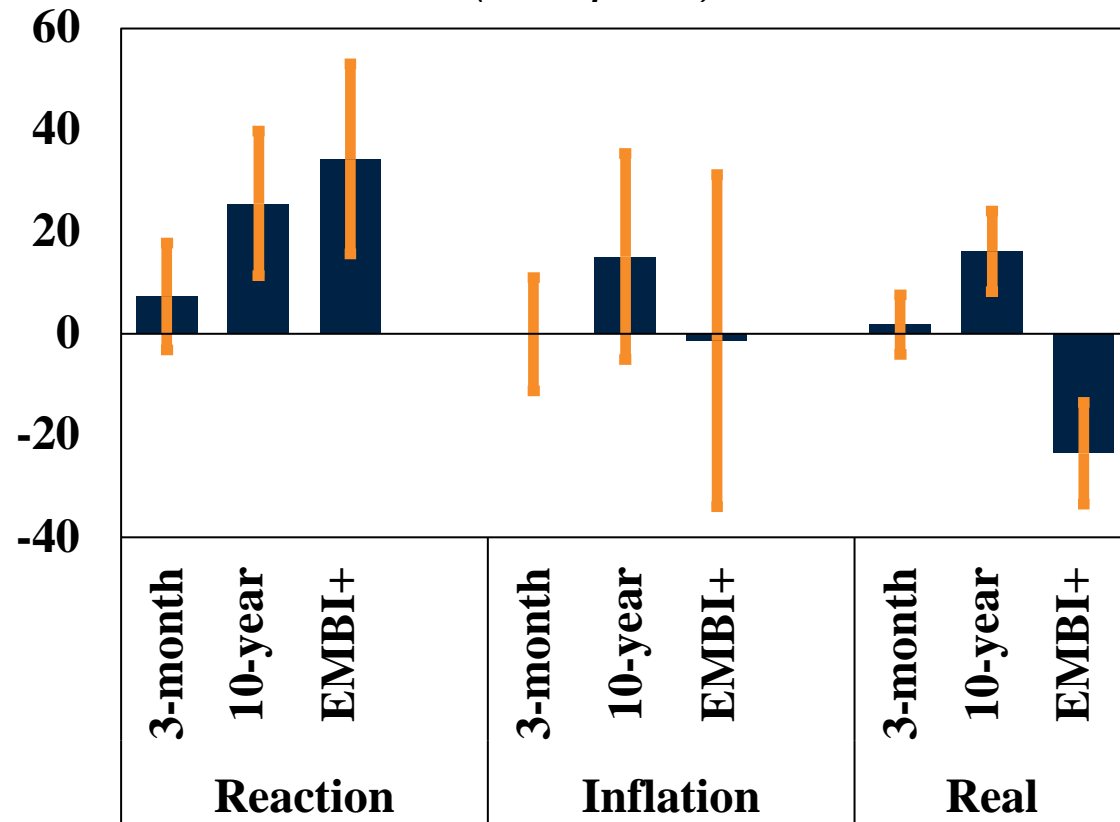




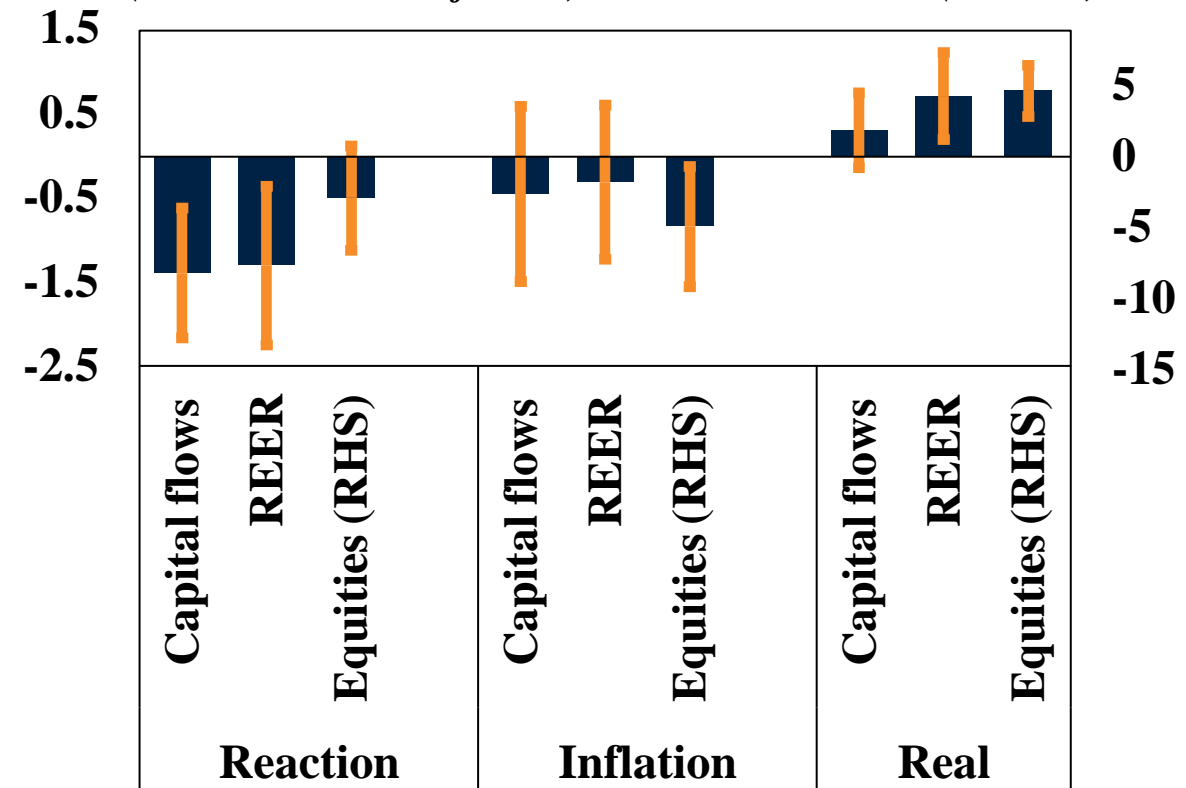
# Impact of U.S. Interest Rate Shocks on EMDEs

## *Capital Outflows; Rising Borrowing Cost; Depreciation*

Impact of 25 basis point shock on EMDE interest rates after one quarter  
(Basis points)



Impact of 25 basis point shock on EMDE financial variables after one quarter  
(Percent/Percent of GDP) (Percent)



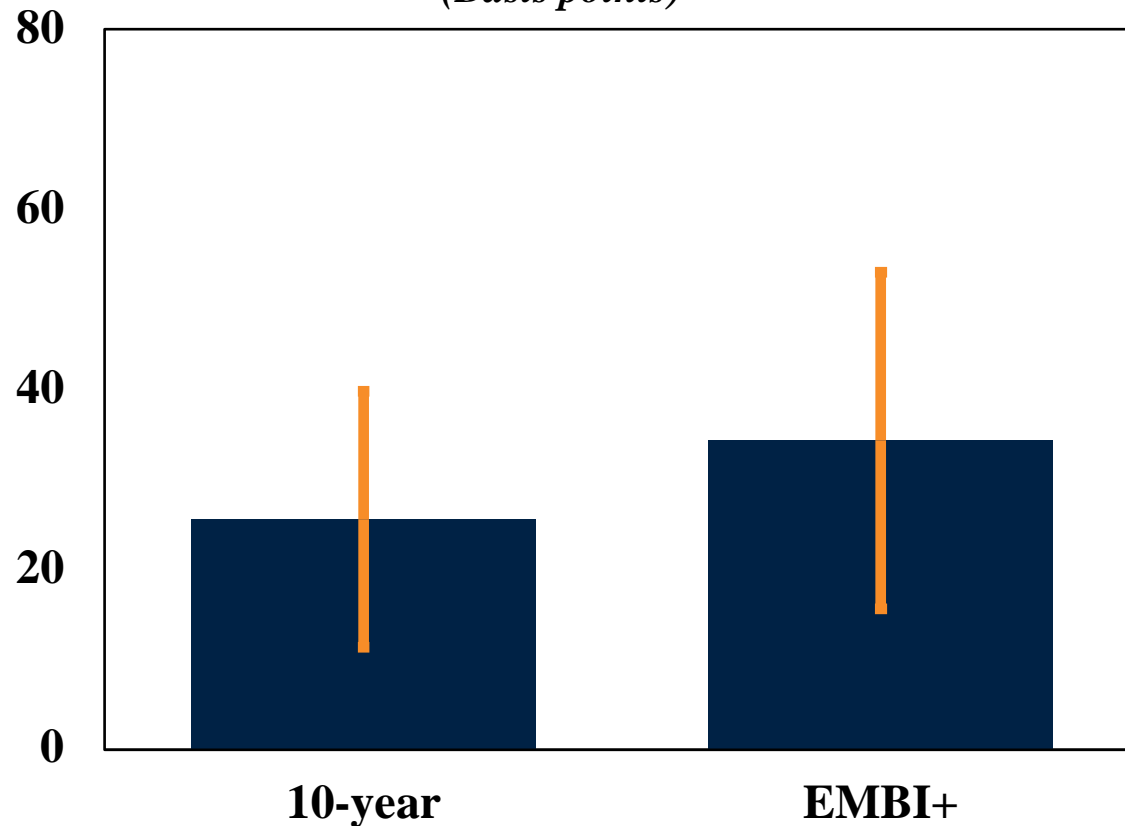
Sources: Arteta, Kamin, and Ruch (2022); World Bank.

Note: Panel local projection models with fixed effects and robust standard errors. See table A3 of Arteta, Kamin, and Ruch (2022) for details. Models estimated over periods as long as 1997Q2-2019Q4; they exclude observations during global financial crisis (2008Q4-2009Q4) and the COVID-19 pandemic. Bars reflect impact on first quarter ( $y_{t+1}$ ). Orange whiskers reflect 90 percent confidence intervals. EMBI = emerging market bond index. Right Panel: Positive “capital flows” values reflect an increase in net liabilities of portfolio and other investments as a percent of GDP for EMDEs. Positive “REER” values reflect an appreciation in the exchange rate. Figure excludes fixed exchange rate economies. REER = real effective exchange rate.

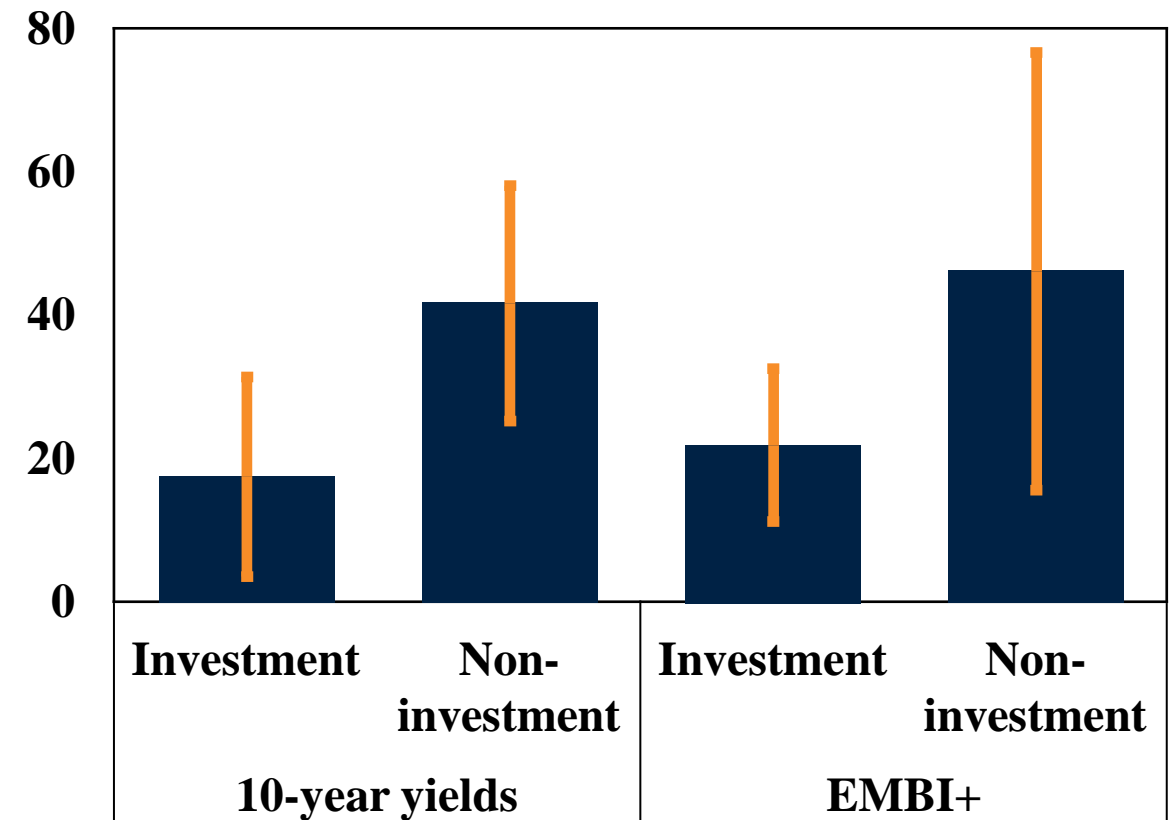
# Impact of U.S. Policy Reaction Shocks on EMDEs

## *Rising Borrowing Cost, Especially For Weaker Credit Risk*

Impact of 25 basis point reaction shock  
after one quarter  
(Basis points)



Impact of 25 basis point reaction shock  
after one quarter, by sovereign credit rating  
(Basis points)



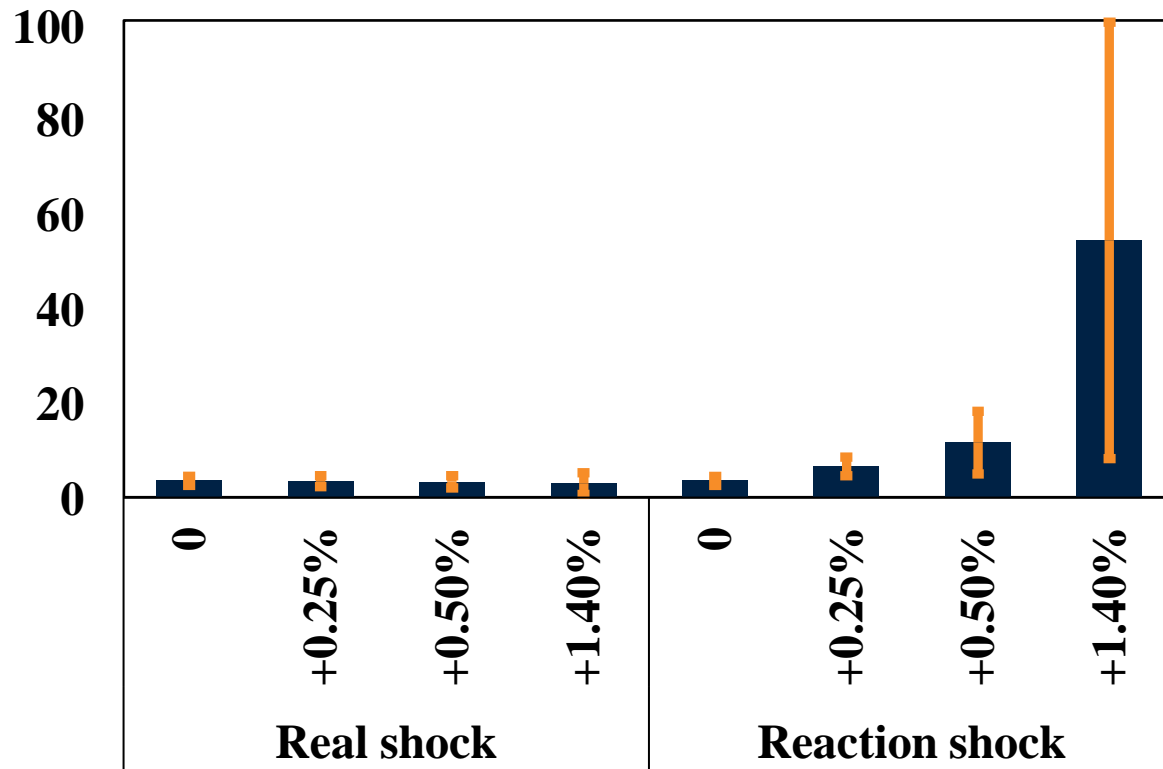
Sources: Arteta, Kamin, and Ruch (2022); World Bank.

Note: Panel local projection models with fixed effects and robust standard errors. See table A3 of Arteta, Kamin, and Ruch (2022) for details. Models estimated over periods as long as 1997Q2-2019Q4; they exclude observations during global financial crisis (2008Q4-2009Q4) and the COVID-19 pandemic. Bars reflect impact on first quarter. Orange whiskers reflect 90 percent confidence intervals. Average foreign-currency long-term sovereign debt rating by Fitch Ratings, Moody's, and Standard and Poor's. EMBI = emerging market bond index.

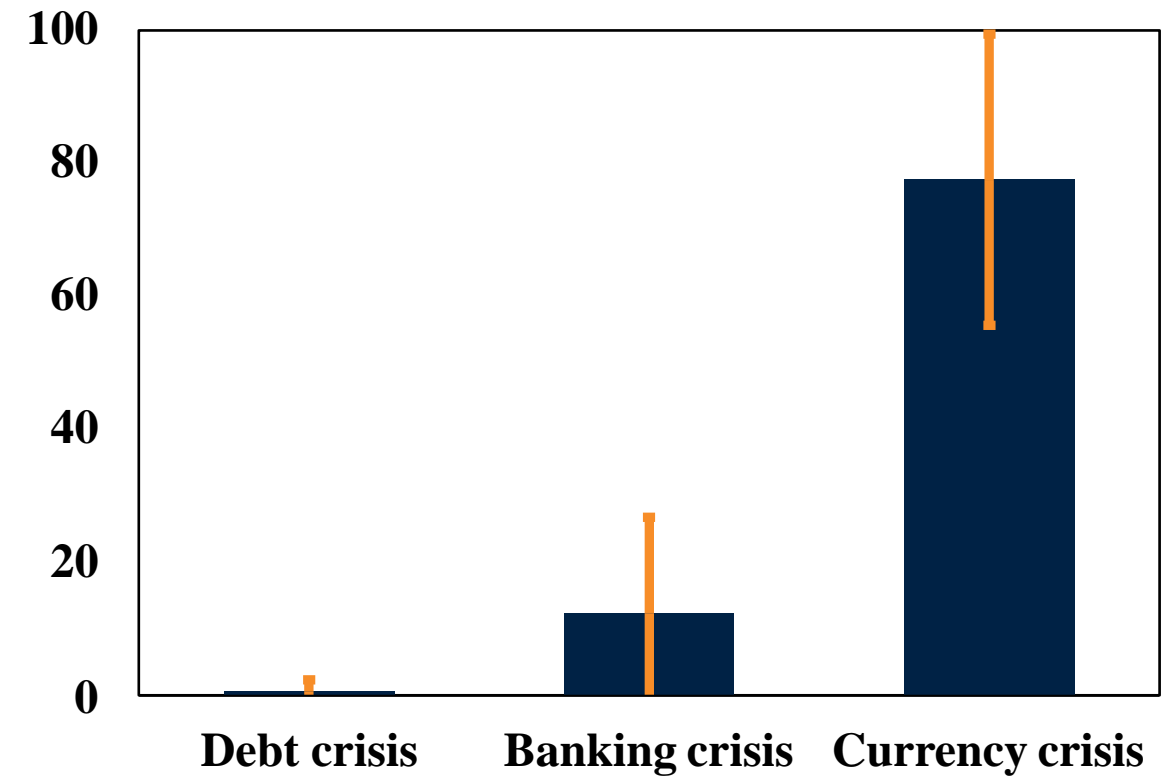
# Impact of U.S. Interest Rate Shocks on Crisis Probability

## *A More Hawkish Fed Makes EMDE Crises More Likely*

**Impact of U.S. interest rate shocks on EMDE financial crisis probability**  
(Percent)



**Probability of EMDE financial crisis in response to reaction shocks during 2022**  
(Percent)



Sources: Arteta, Kamin, and Ruch (2022); Kose et al. (2022); Laeven and Valencia (2020); Schumacher, Trebesch, and Enderlein (2021); World Bank.

Based on results from panel logit model with random effects. Left Panel: “0” indicates the probability of a crisis in a given year when there is no change in the underlying shock and all other variables included in the model are at their sample means. “+0.25%”, “+0.50%”, and “+1.40%” indicate the crisis probabilities in the hypothetical case of 25, 50, and 140 basis point increase in the 2-year U.S. Treasury yield driven by the underlying shock. Right Panel: Reflects a 140 basis-point increase in the 2-year U.S. Treasury yield driven by a reaction shock (the increase seen in 2022). Orange whiskers reflect one standard deviation confidence intervals.

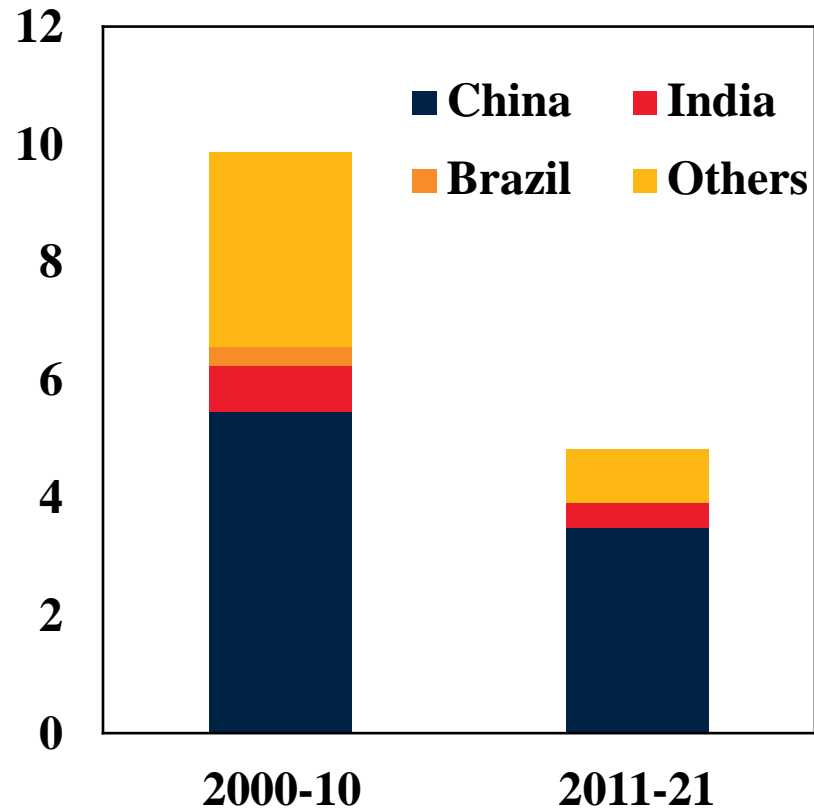
# Four Questions

**3** **What are prospects for EMDE investment?** *Further investment slowdown, on the heels of a decade of subdued investment in the 2010s.*

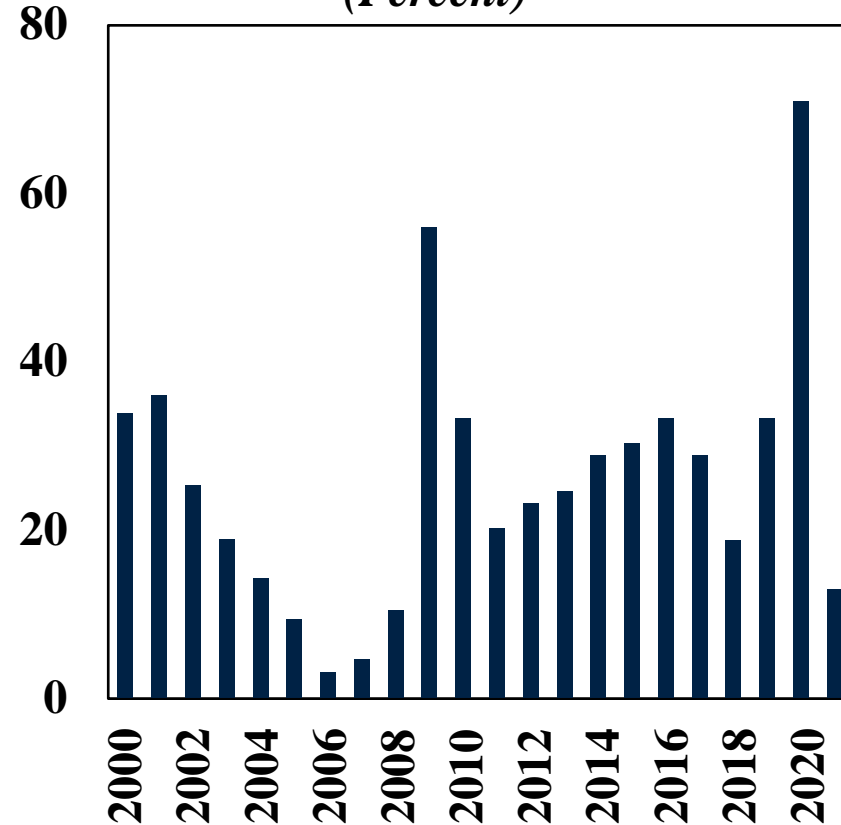
# Investment in EMDEs

## *Decade-Long Slowdown; Weak Recovery Going Forward*

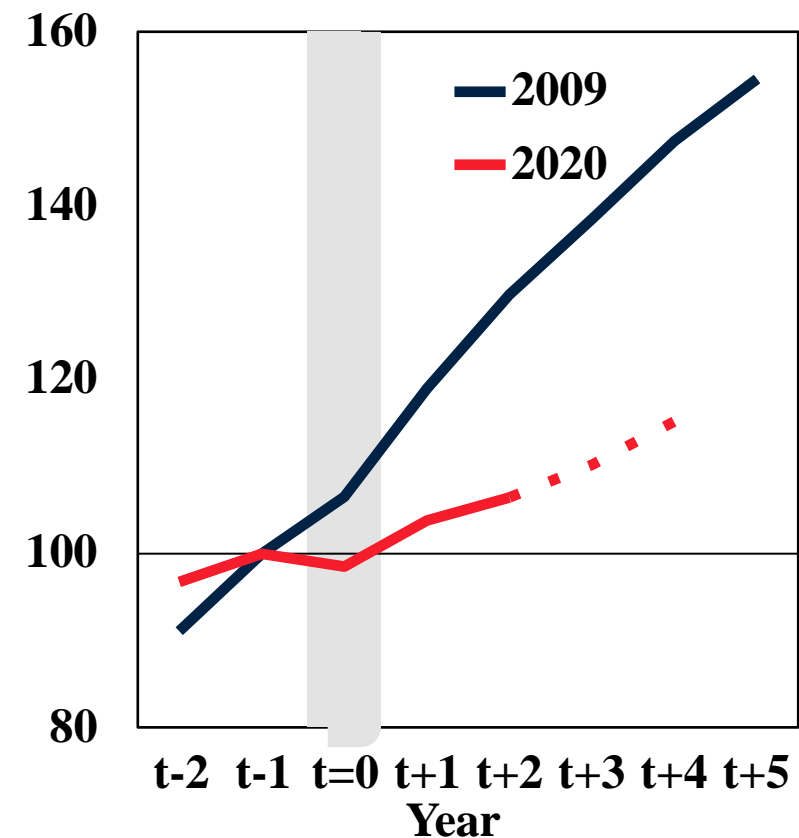
**Contribution to EMDE investment growth  
(Percent)**



**Share of EMDEs with an investment contraction  
(Percent)**



**Investment in EMDEs  
(Index,  $t-1 = 100$ )**



Sources: Haver Analytics; World Bank.

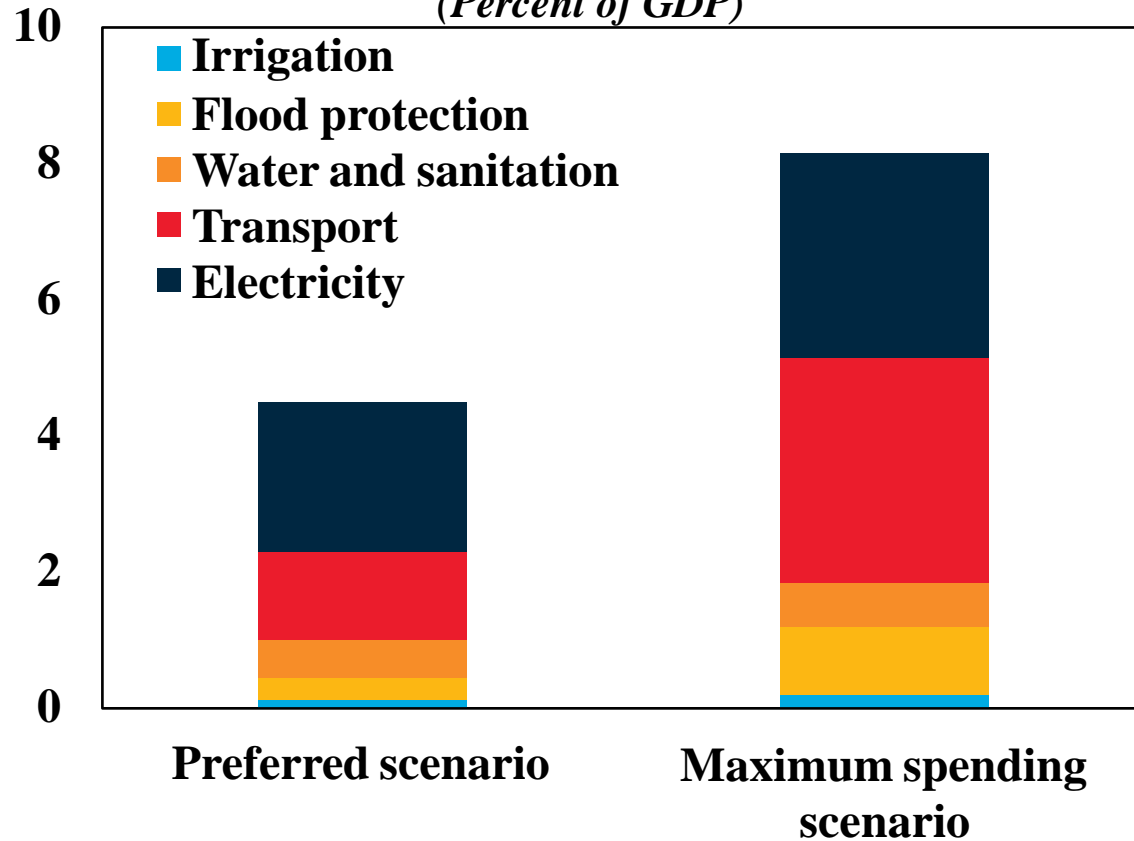
Note: EMDEs = emerging market and developing economies. Unless otherwise indicated, investment refers to gross fixed capital formation. Sample size includes 69 EMDEs.

Left Panel. Bars show the percentage point contribution of country groups to EMDE investment growth during the indicated years. Height of the bars is average EMDE investment growth during the indicated years. Center Panel. Bars show the share of EMDEs with an investment contraction during different years. Right Panel. Year "t" on the x-axis refers to the year of global recessions in 2009 and 2020. Dotted portion of the line is a forecast.

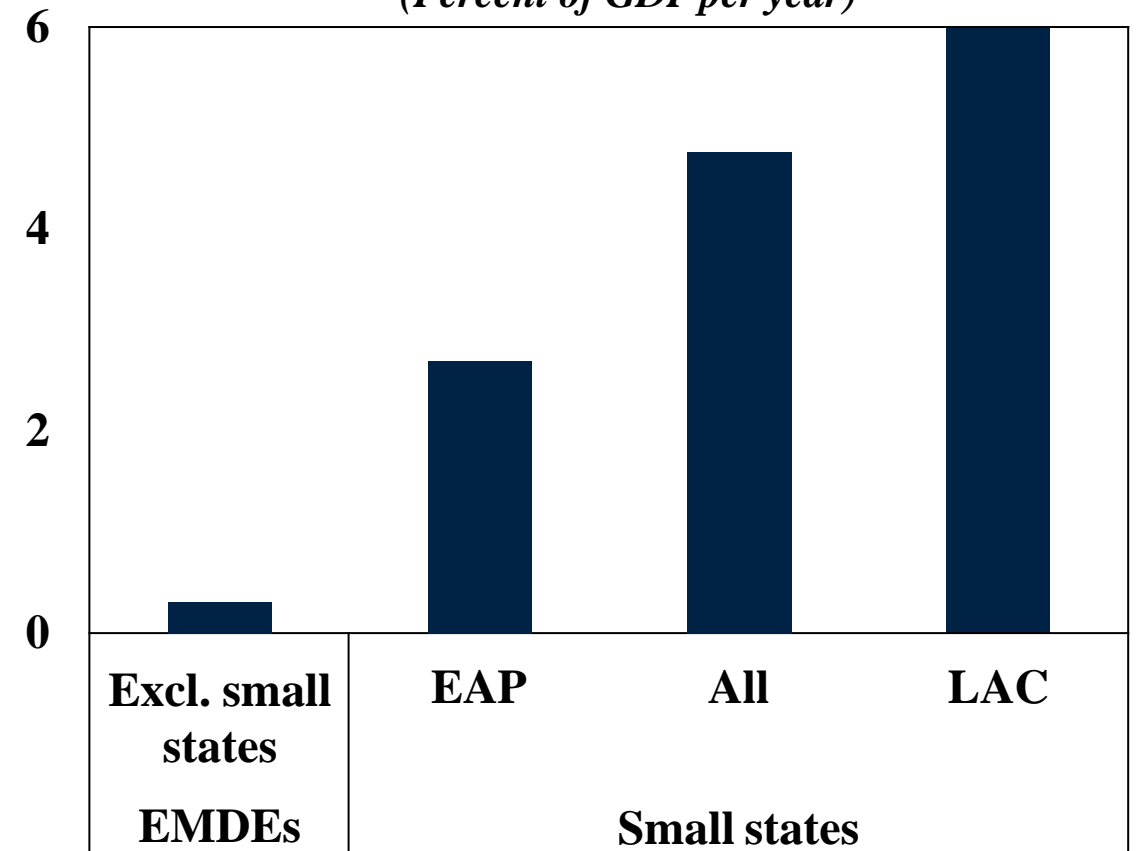
# Investment Needs

## *Large for Both Development Goals and Climate Objectives*

Average annual investment needs in infrastructure sectors related to SDGs  
(Percent of GDP)



Damages and losses from natural disasters, 1990-2021  
(Percent of GDP per year)



Sources: EM-DAT; Rozenberg and Fay (2019); World Bank.

Left Panel. Bars show average annual spending needs on capital (not including maintenance) during 2015-30. "Preferred scenario" is constructed using ambitious goals and high spending efficiency, and "maximum spending scenario" using ambitious goals and low spending efficiency. Country sample includes low and middle-income countries, as defined in the technical appendix of Rozenberg and Fay (2019). Bars are calculated by summing the damages in each country in each year, dividing by nominal GDP, then weighting by nominal GDP. Right Panel.

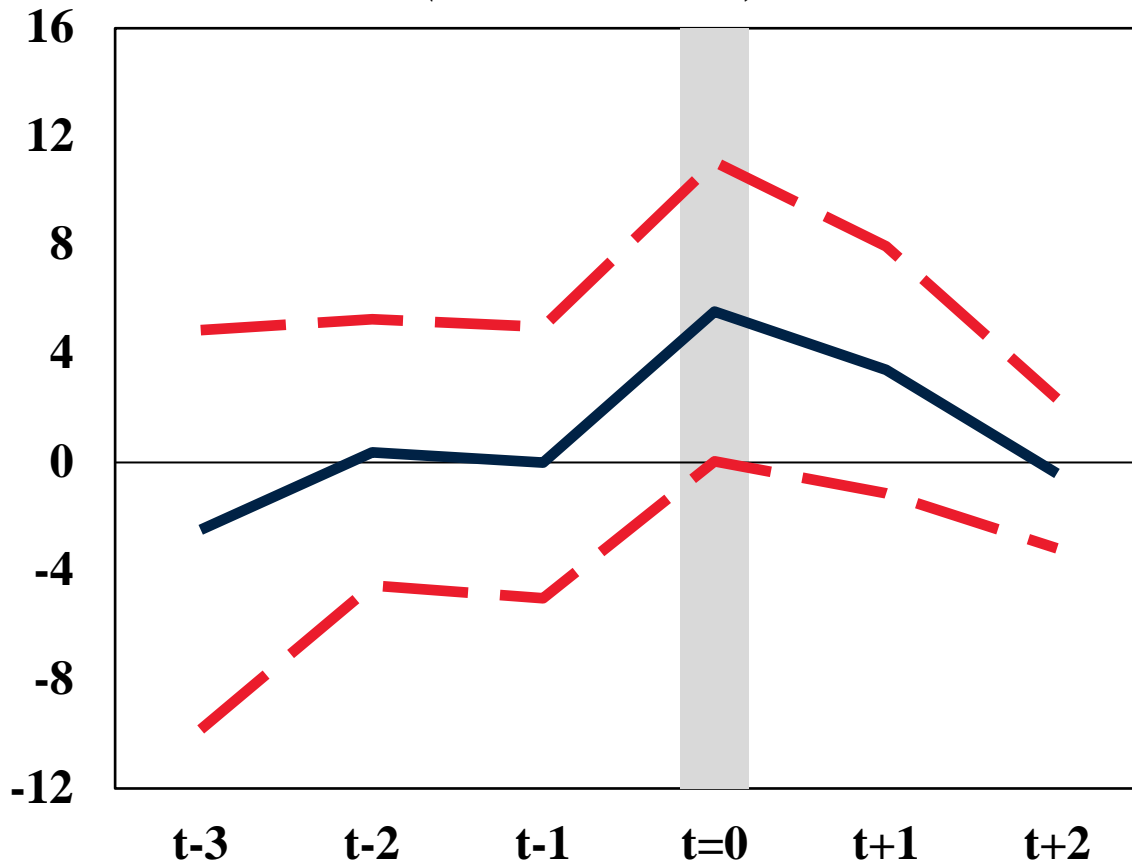
# Four Questions

**4** **What are the policy priorities?** *Globally:* cooperating to address global challenges. *Nationally:* implementing credible policies to set the foundations for a green, resilient and inclusive development path.

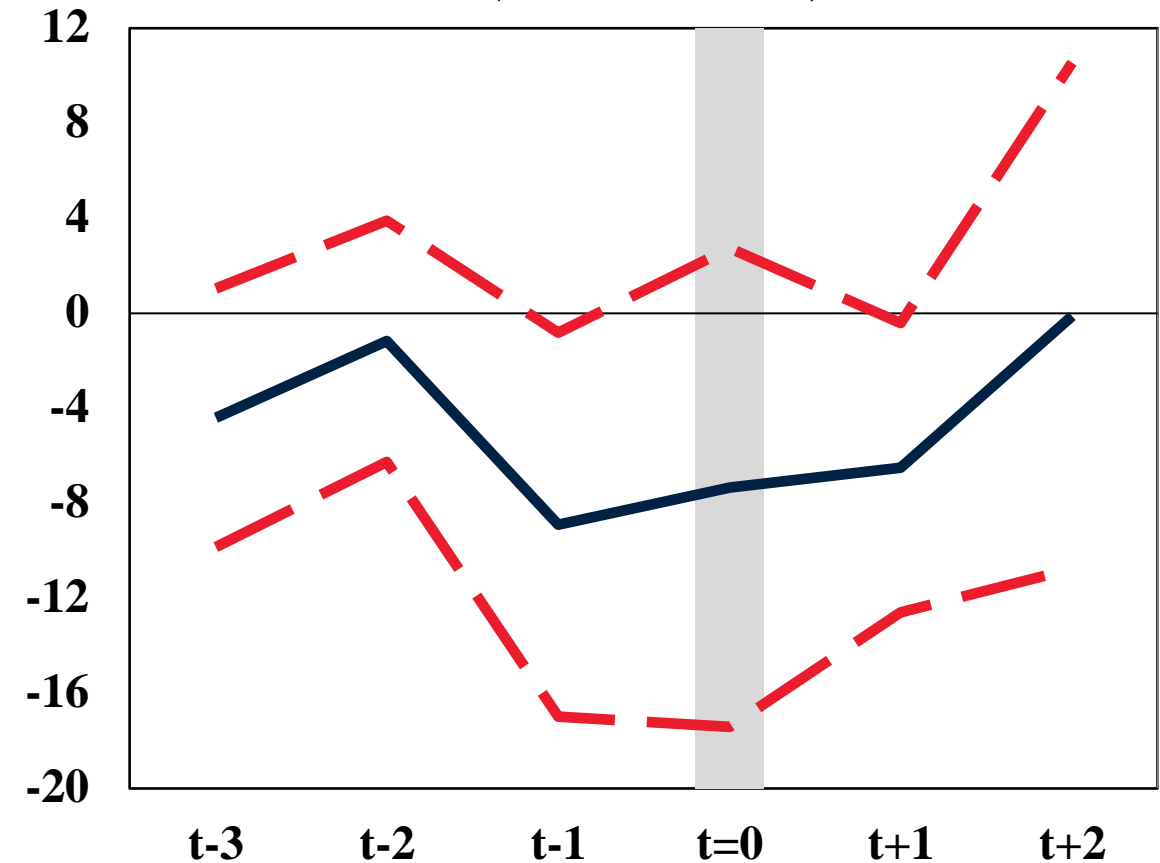
# Policies to Lift Investment

## *Reforms to Investment Climate*

**Investment growth around reform spurts**  
(Percent deviation)



**Investment growth around reform setbacks**  
(Percent deviation)



Sources: International Country Risk Profile; World Bank.

Note: EMDEs = emerging market and developing economies. Sample includes 60 EMDEs from 1984- 2022. Reform spurts and setbacks are defined in annex 3.2. Solid lines show the increase in investment growth around a reform spurt (panel A) or setback (panel B) at t=0 relative to the countries not experiencing a reform spurt or setback. Dashed lines show the 95 percent confidence interval.



# Policy Priorities

## *National and Global Policies to Boost Growth*

### ***Boosting Investment***

- Strengthen investment to meet development and climate goals
- Improve public spending efficiency, reallocate spending towards priority investments
- Improve governance frameworks and business climates to foster private investment
- Streamline regulatory environment to encourage private investment
- Facilitate trade and global value chain integration and digitalization to attract private investment

### ***Taking global action***

- Mitigate risk of global recession by considering cross-border spillovers of domestic monetary policy actions
- Address debt distress in EMDEs, especially frontier markets and LICs
- Bolster international cooperation to reduce food insecurity and avoid protectionist measures
- Tackle climate change and accelerate energy transition

### ***Improving growth and resilience in small states***

- Enable diversification through digitalization, reducing trade costs, and fostering new industries (e.g., eco-tourism)
- Invest in climate adaptation and domestic renewable energy sources
- Ensure disciplined financial management of state-owned enterprises
- Establish fiscal mechanisms (e.g., fiscal rules, disaster stabilization funds) to enhance disaster risk management

# Policy Priorities

## *Need for Macroeconomic Stability and Resilience*

### ***Fiscal policy challenges***

- Curtail inefficient spending, including by moving away from/repurposing expensive and regressive subsidies
- Enhance efficiency of critical productive spending while providing targeted support to vulnerable groups
- Improve revenue collection by broadening tax base and improving tax administration
- Strengthen fiscal frameworks and debt management

### ***Monetary and financial policy challenges***

- Tighten policy to the extent needed to ensure inflation expectations are well anchored
- Communicate policy actions clearly, leverage credible frameworks, and safeguard central bank independence
- Strengthen macroprudential policy to reduce vulnerability to capital outflows and currency pressures

### ***Strengthening resilience and inclusion***

- Establish flexible social protection systems to support vulnerable groups during major shocks
- Reduce food insecurity by avoiding market distortions and pursuing investments in agricultural R&D, diversification of food sources, and targeted interventions such as nutrition programs
- Increase female labor force participation and promote financial inclusion

# Four Questions

- 1 What are near-term prospects for the global economy?** *The weakest growth performance outside global recessions of the past three decades. Multiple downside risks cloud the outlook.*
- 2 How do Fed policy changes affect EMDEs?** *Monetary policy reaction shocks substantially tighten financial conditions in EMDEs and increase the probability of financial crisis.*
- 3 What are prospects for EMDE investment?** *Further investment slowdown, on the heels of a decade of subdued investment in the 2010s.*
- 4 What are the policy priorities?** *Globally: cooperating to address global challenges. Nationally: implementing credible policies to set the foundations for a green, resilient and inclusive development path.*

# Questions & Comments

## *Thanks*

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