RESEARCH

A Rocky Recovery: Global Prospects and Policies

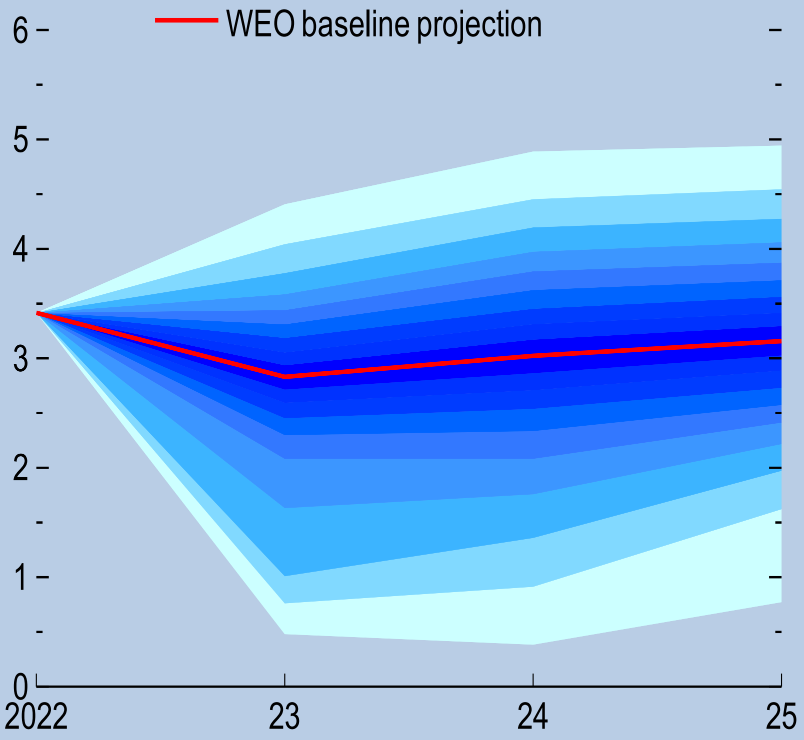
WORLD ECONOMIC OUTLOOK
APRIL 2023

CHIARA MAGGI – IMF

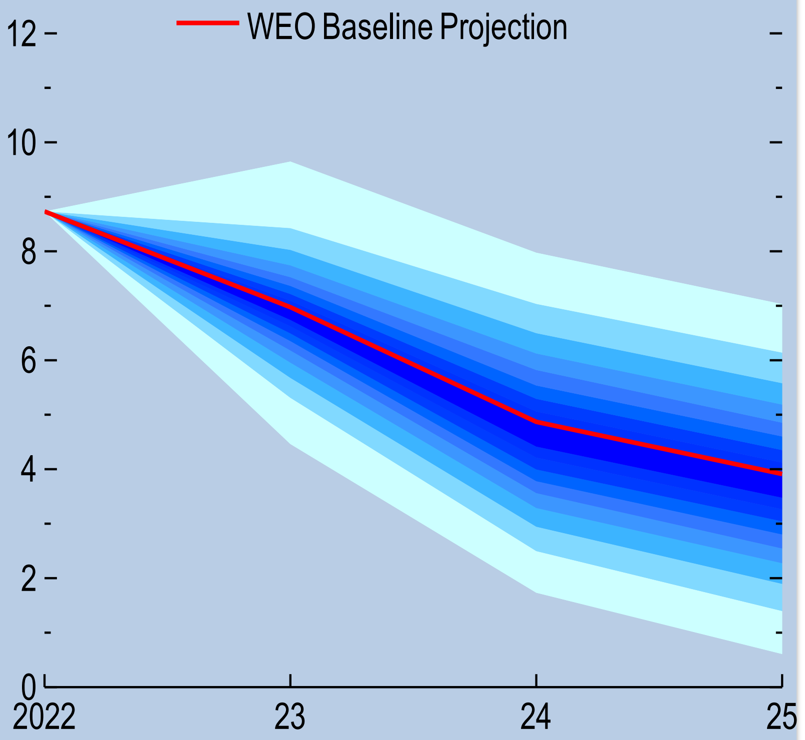
Overview: A Rocky Recovery

Global growth bottoming out and inflation easing

Forecast Uncertainty for World Growth
(percent; year over year)



Forecast Uncertainty for Headline Inflation
(world headline; percent; year over year)



Recent Developments

- **Stabilizing growth but financial stresses**
- **Four forces**
  - **Inflation and monetary tightening**
  - **Debt high, fiscal buffers limited**
  - **Commodity shocks unwinding**
  - **China's economic reopening**

Outlook

Risks & Policies

Risks

- Downside dominates
  - Financial conditions tighter-than-expected
  - Stickier inflation
  - Debt distress
  - Faltering growth in China
  - Geopolitical/economic fragmentation worsen

Policy priorities

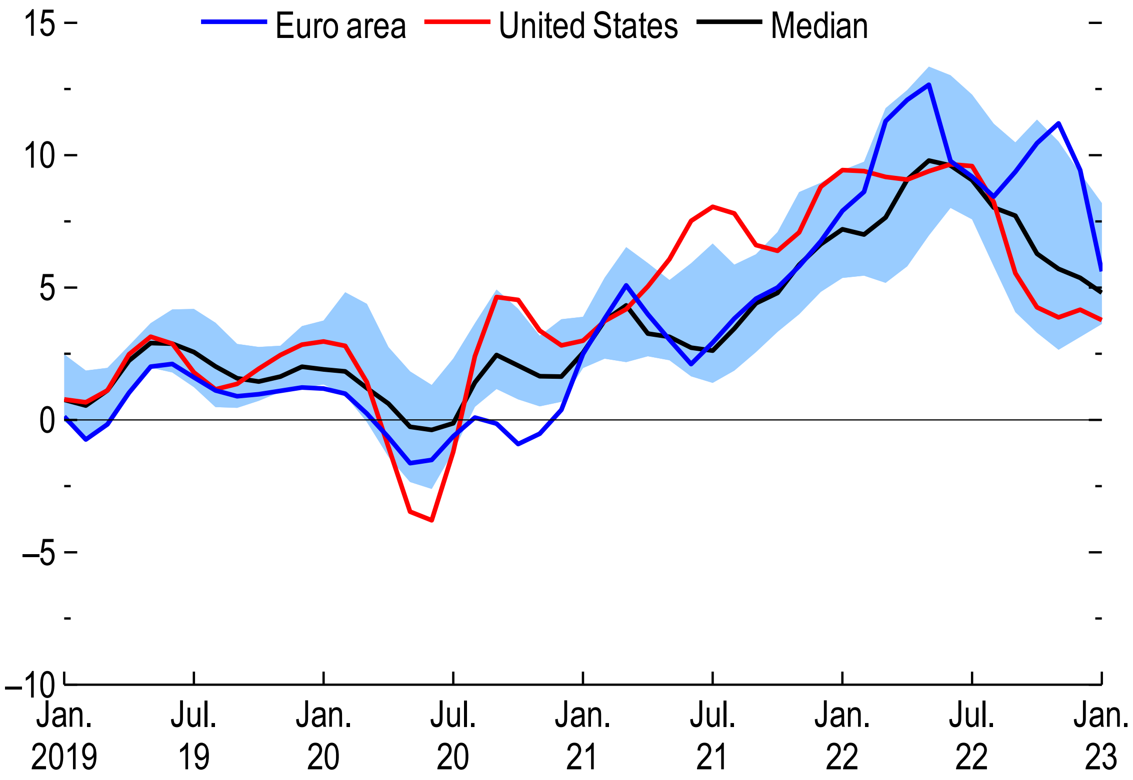
- Achieve global disinflation
- Safeguard financial stability
- Normalize fiscal policy

Sources: IMF, *World Economic Outlook*; and IMF staff estimates.

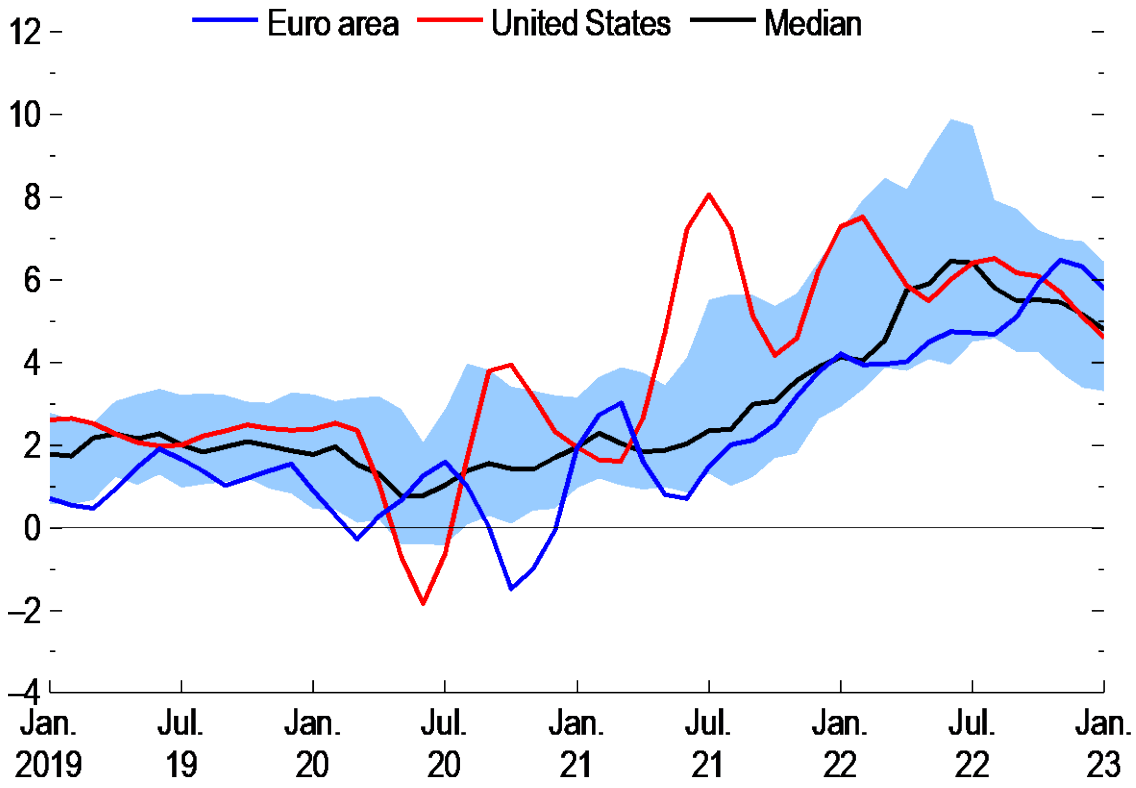
Recent developments

Inflation coming down but sticky and still high

Headline Inflation
(Percent, three-month moving average; SAAR)

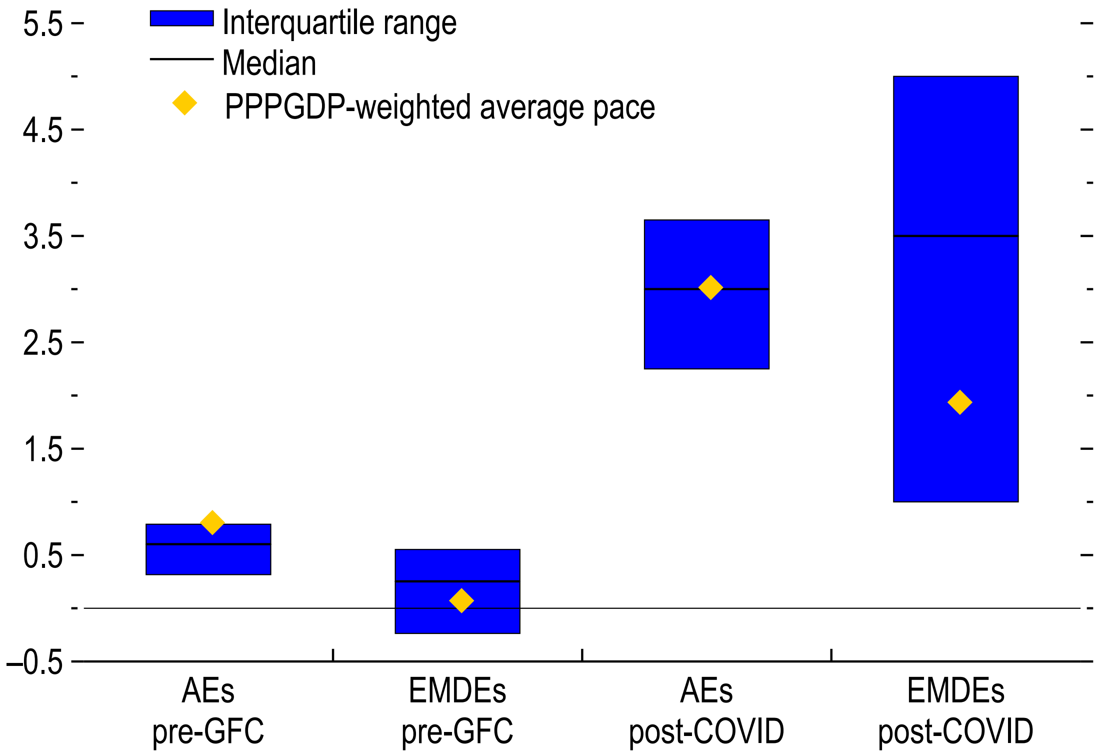


Core Inflation
(Percent, three-month moving average; SAAR)

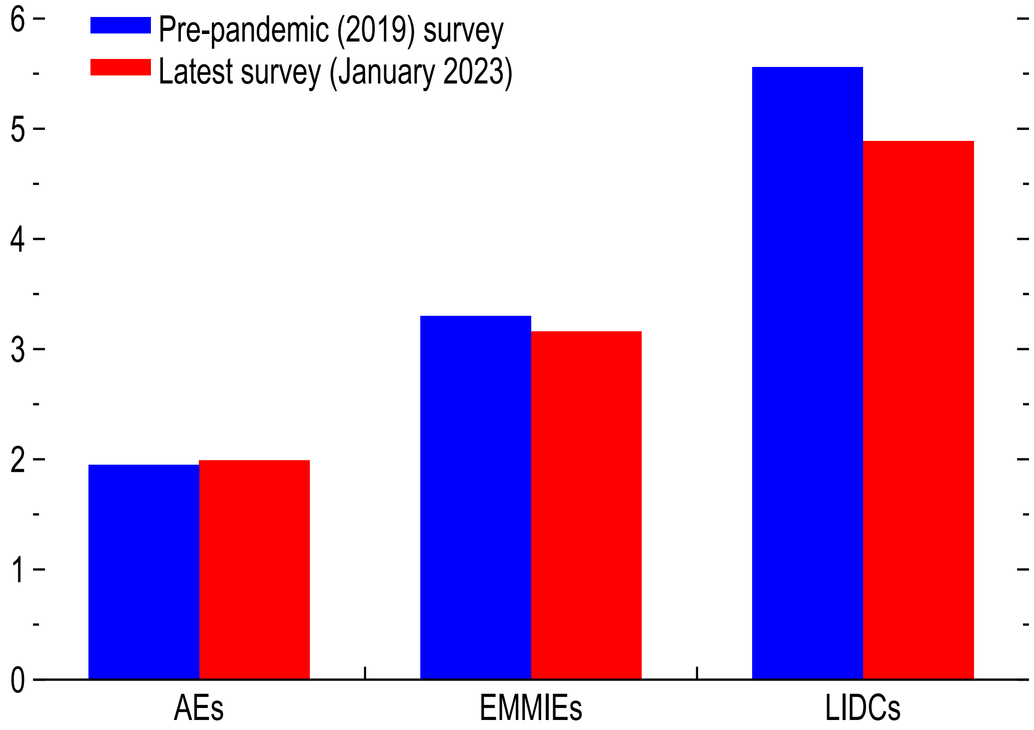


Rapid, synchronous monetary tightening helping anchor expectations

Monetary policy tightening across economies
(Percent change per year and episode)

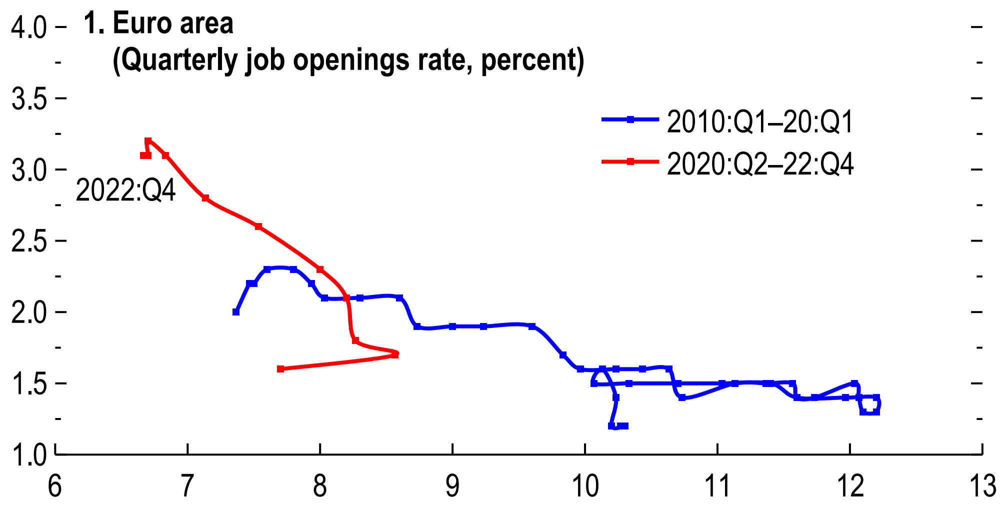


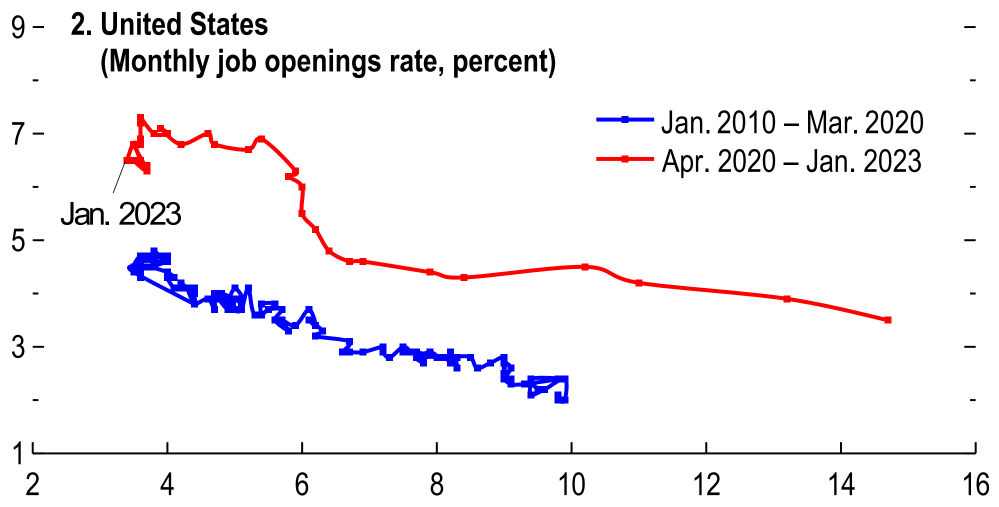
Inflation expectations
(5-year-ahead CPI inflation expectations)



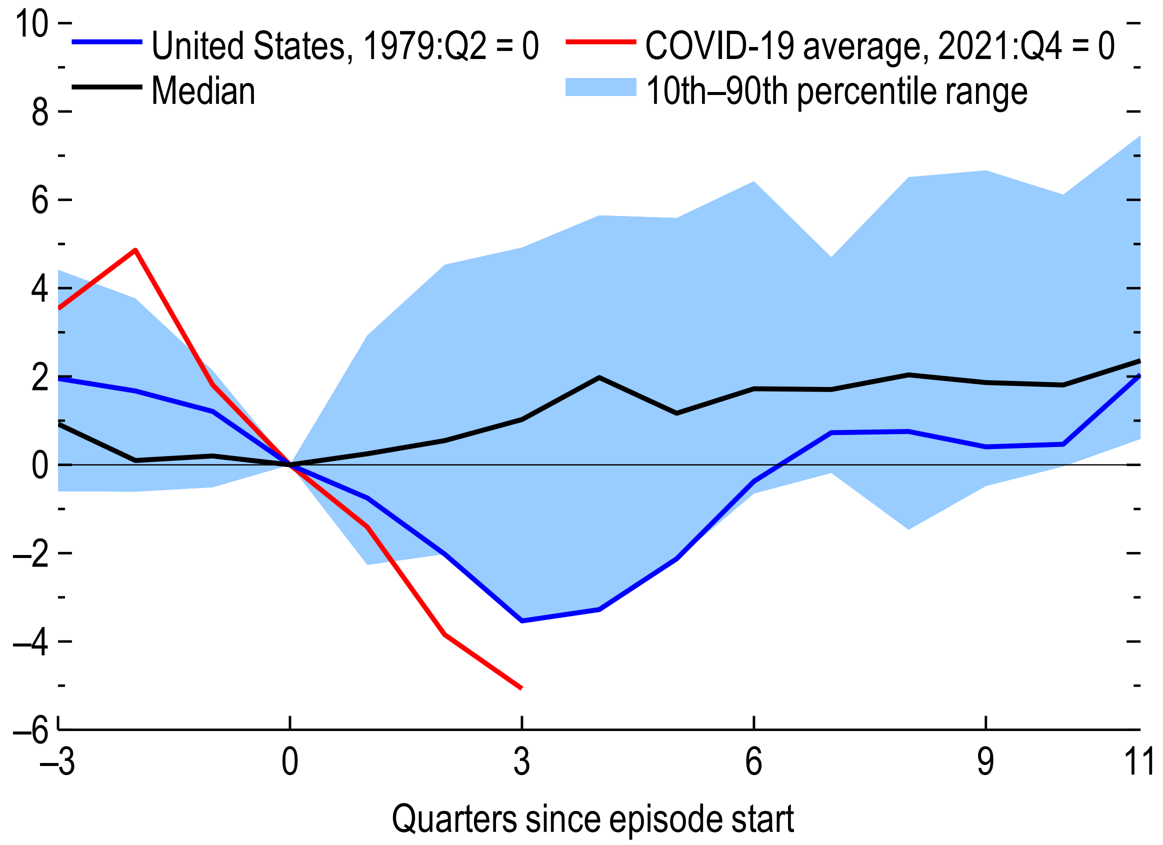
Tight labor markets yet no sign of wage–price spiral

Beveridge Curves in the Euro Area and US



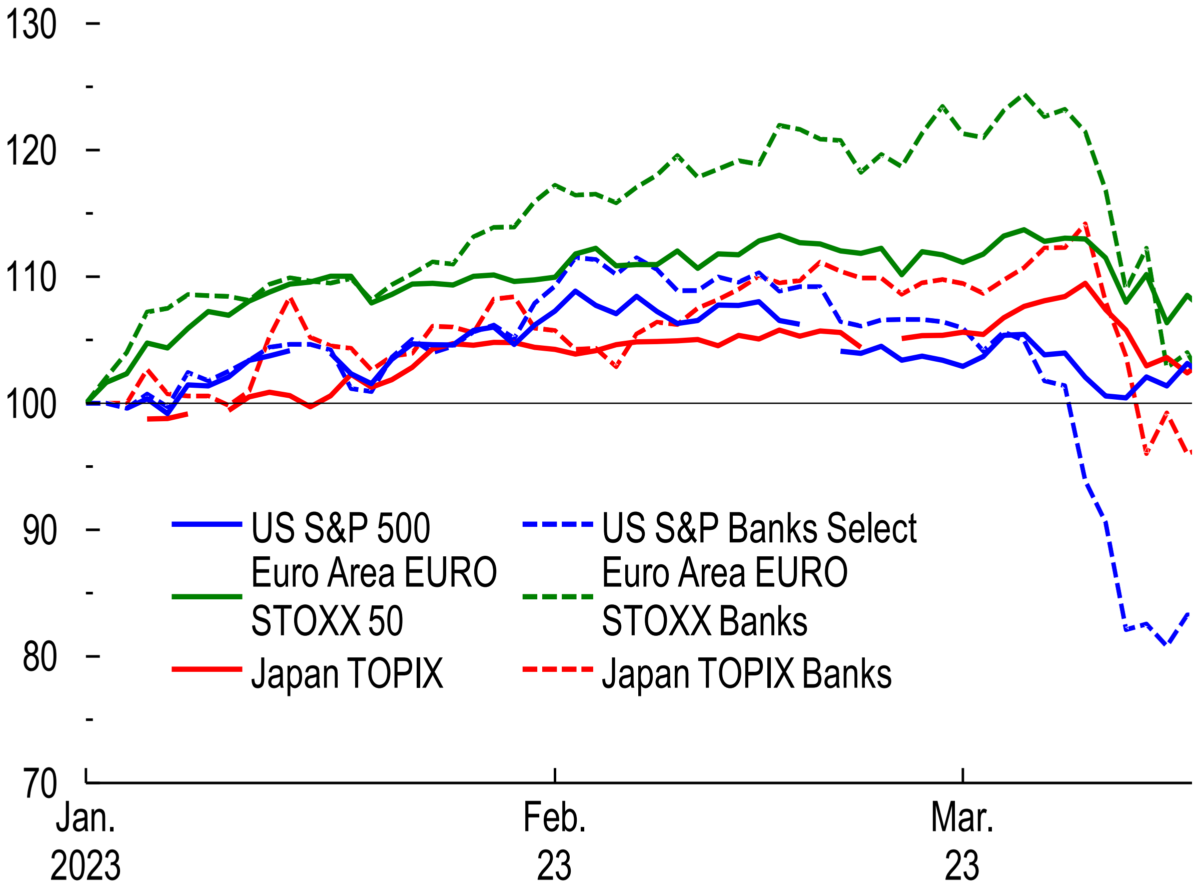


Real wage growth across historical episodes
(Percent difference since episode start)

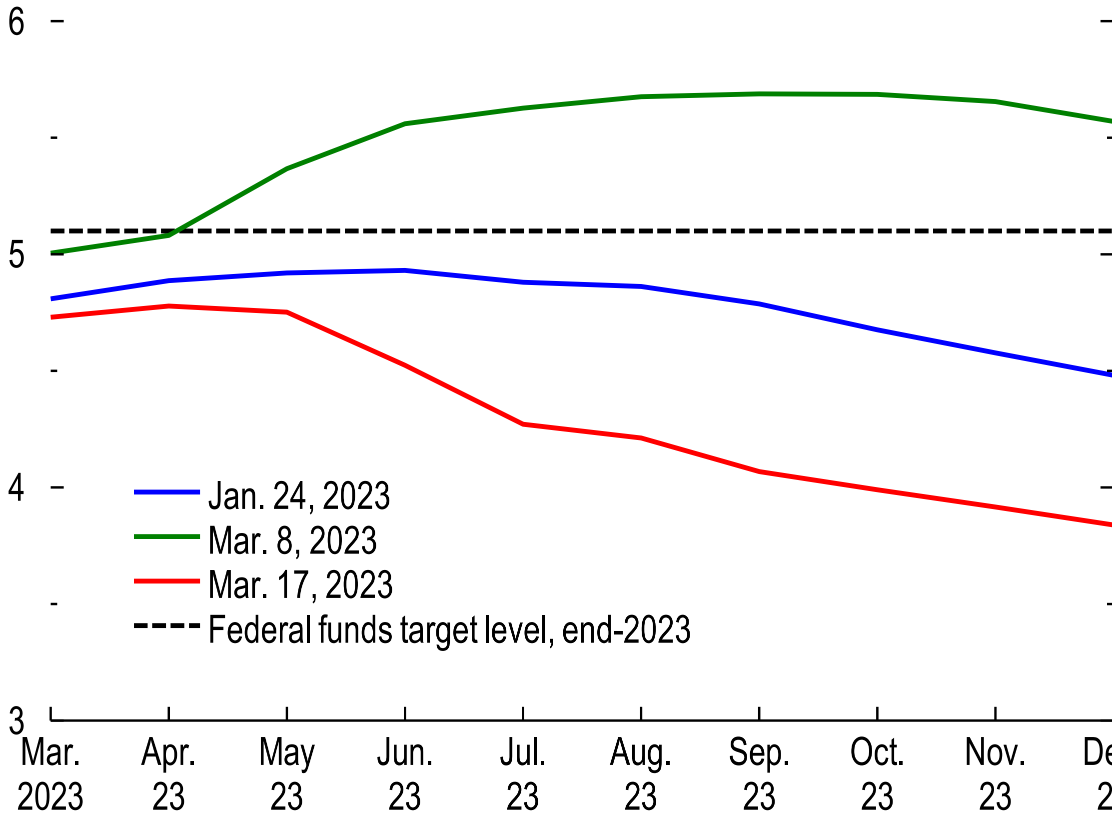


Financial stresses rose and repricing risks reemerged

Broad Equity and Bank Equity indices
(Index; January 1, 2023 = 100)

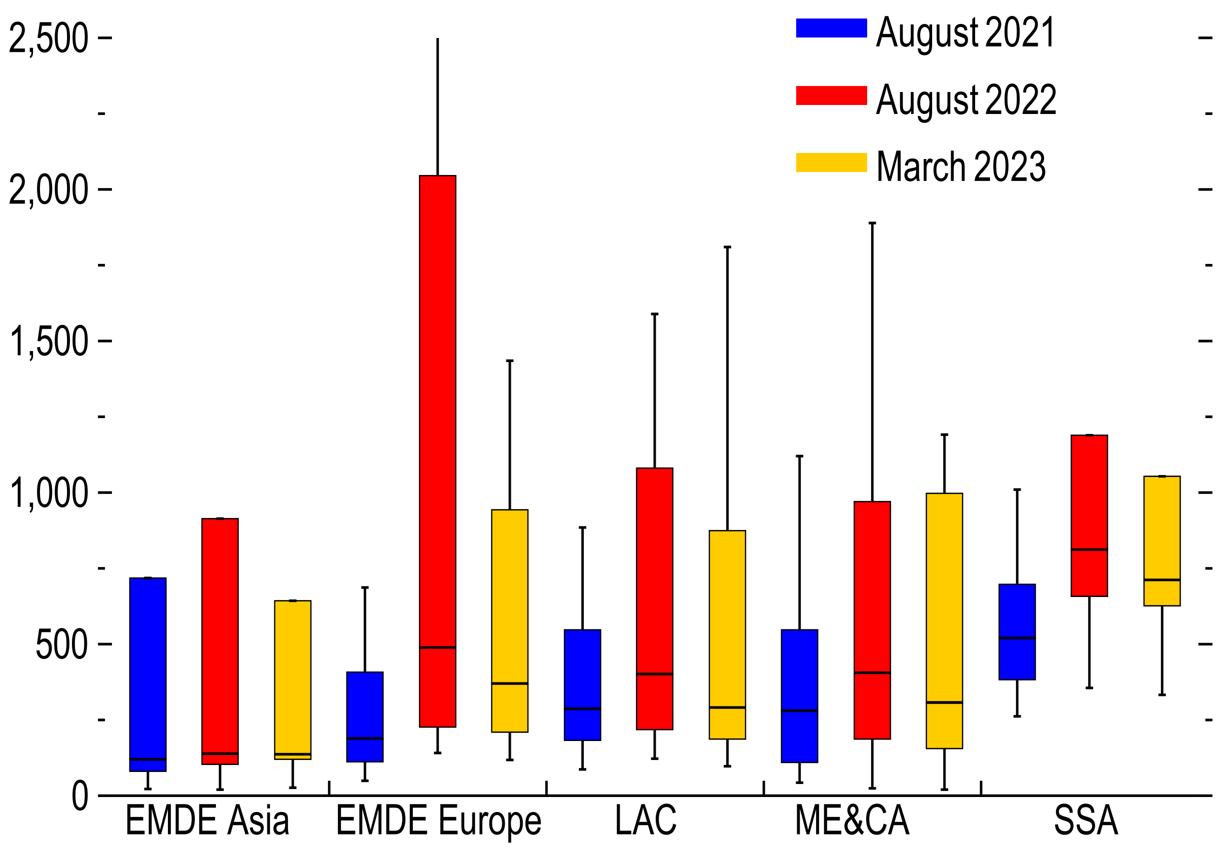


Shifting market-implied US policy rate expectations
(Annualized percent)

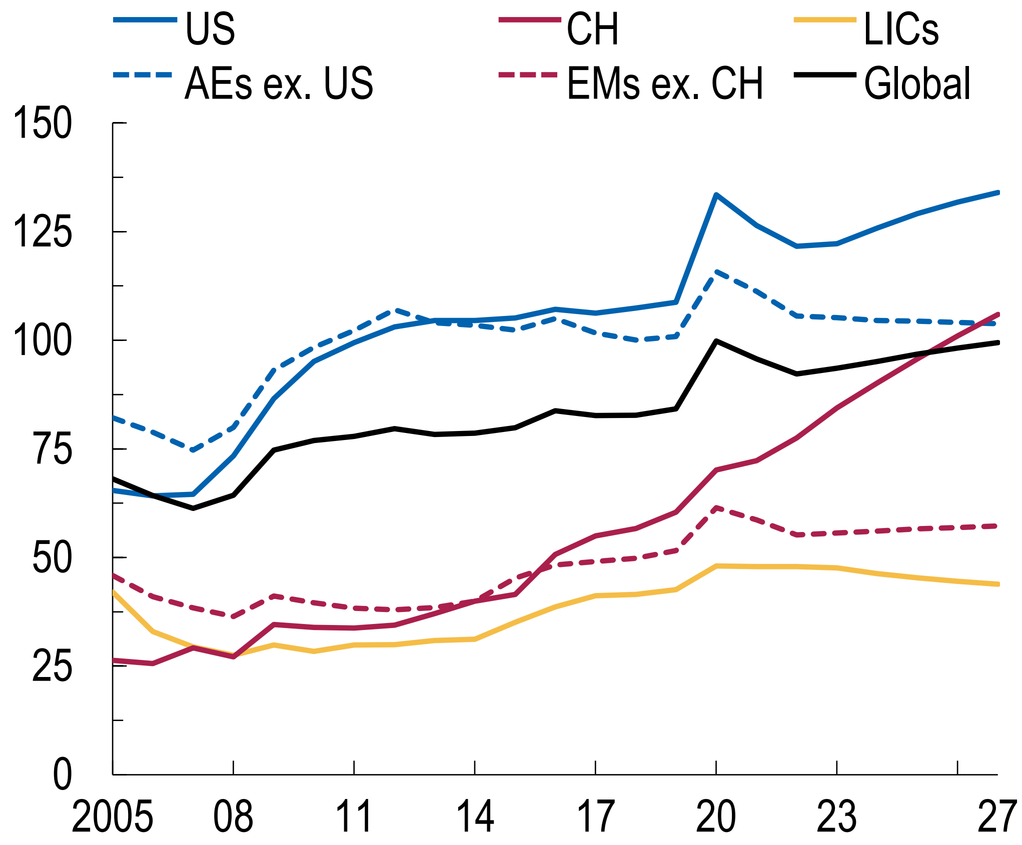


Spreads come down, but debt still high

Sovereign Spreads in Emerging Markets
(Basis points)

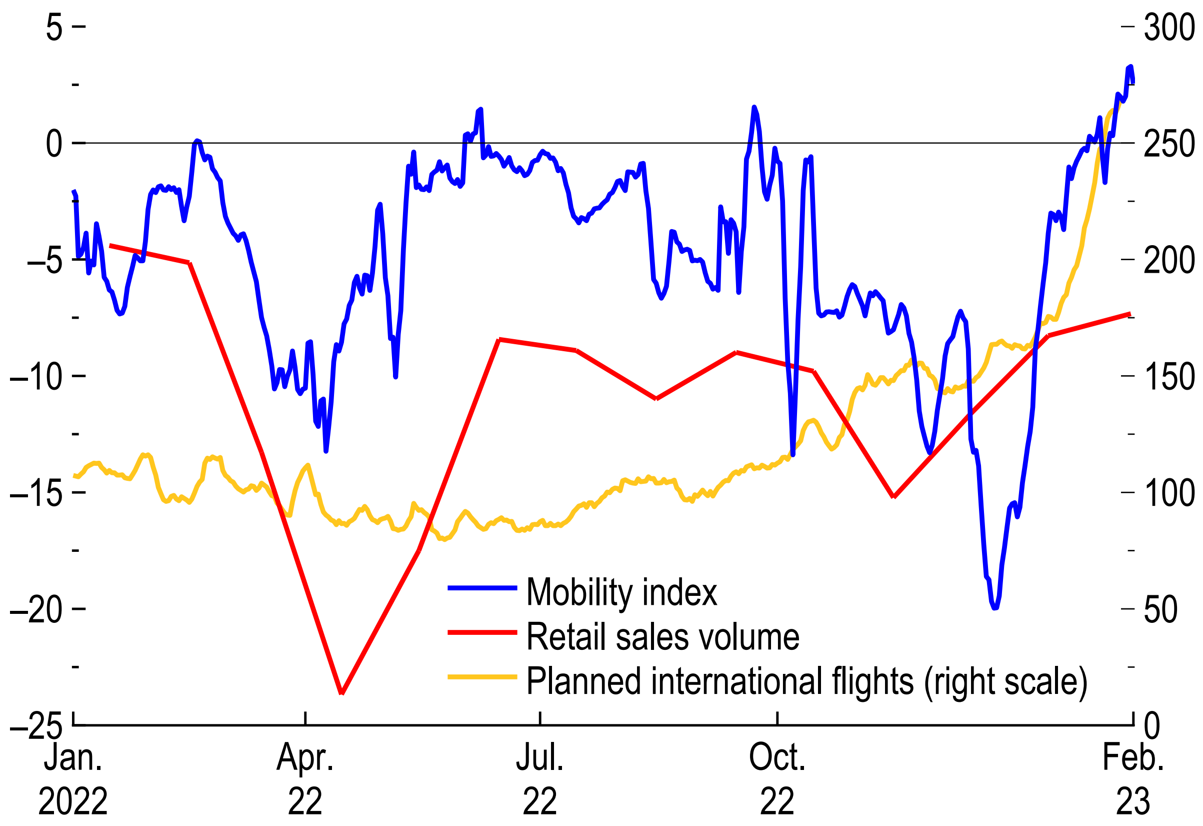


Government Debt
(Percent of GDP)

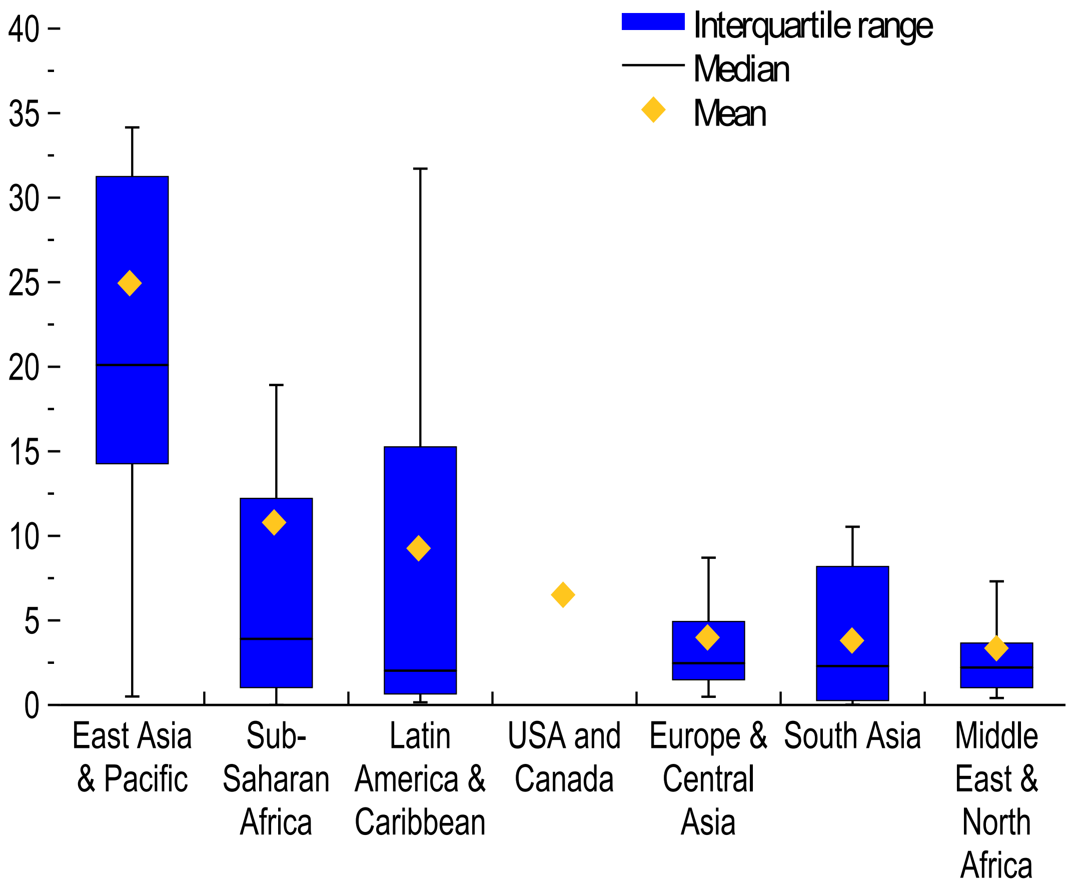


China rapid reopening amid global slowdown in COVID

China's high frequency economic indicators
(Percent deviation from trend)



Share of economies exports directed to China
(Percent of total exports)



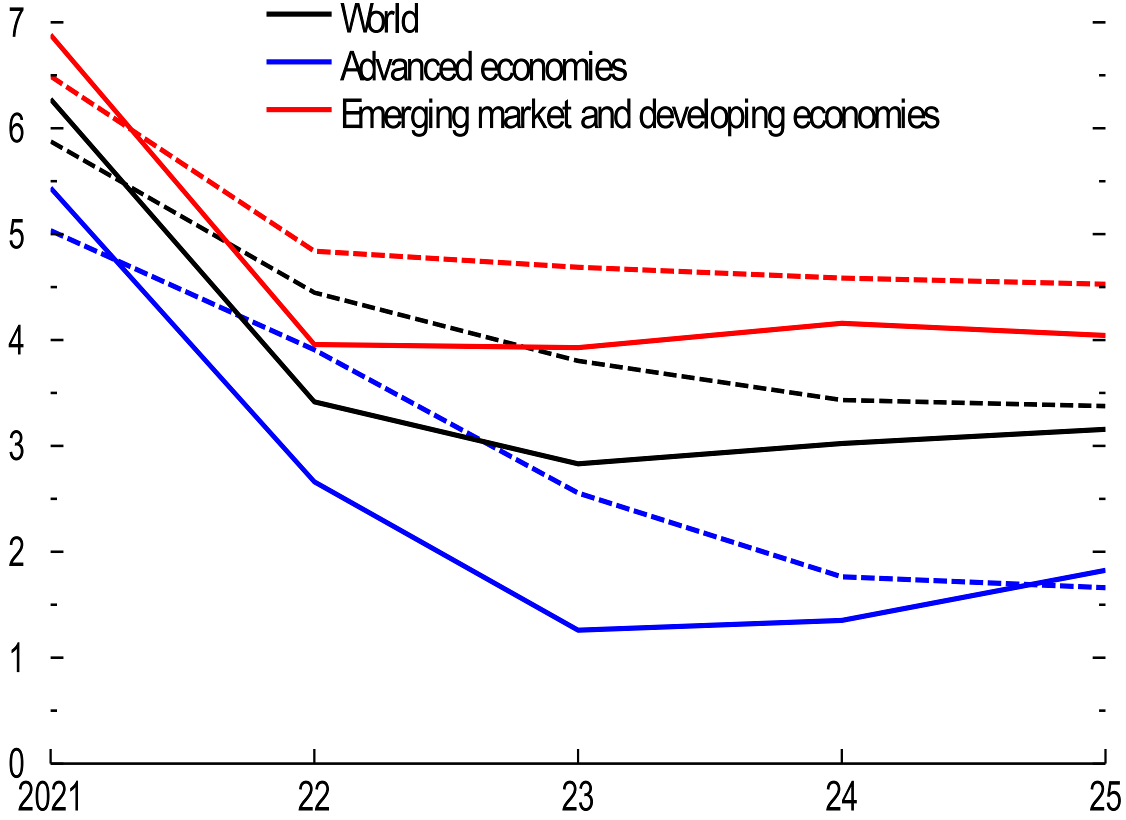
The outlook

Growth Outlook: Feeble and Uneven

Global growth declines in 2023. Slow recovery toward earlier path.

Growth Outlook

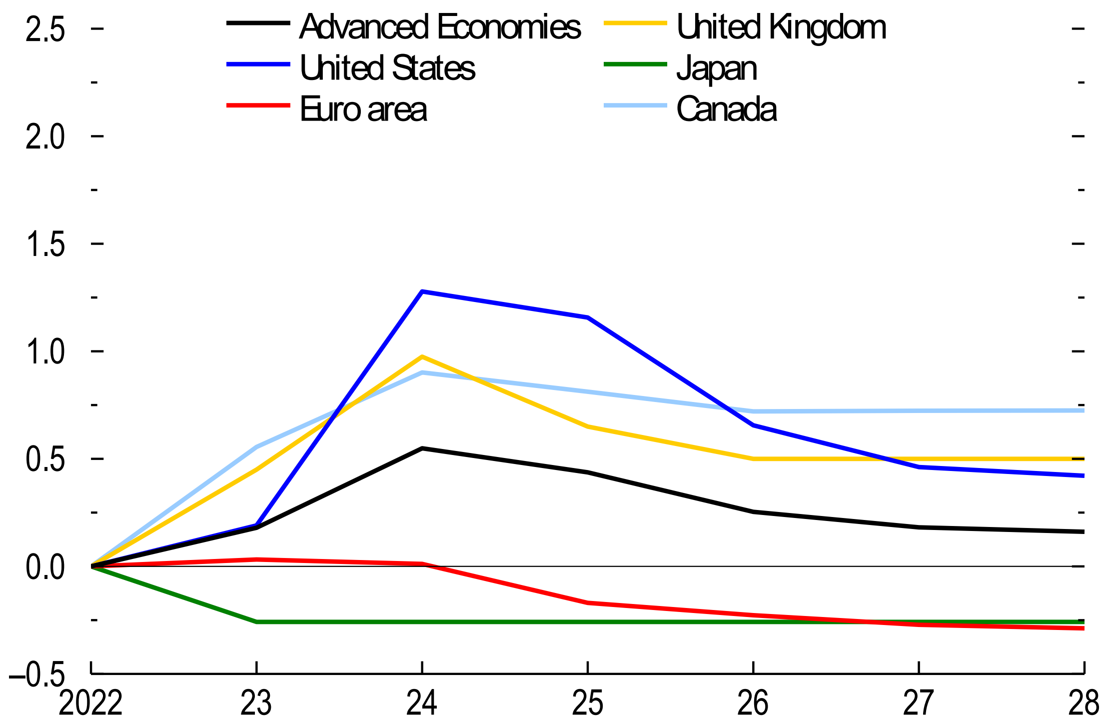
(Percent; dashes from January 2022 WEO *Update*)



Slowdown especially sharp in advanced economies, with rising unemployment

Unemployment in Advanced Economies

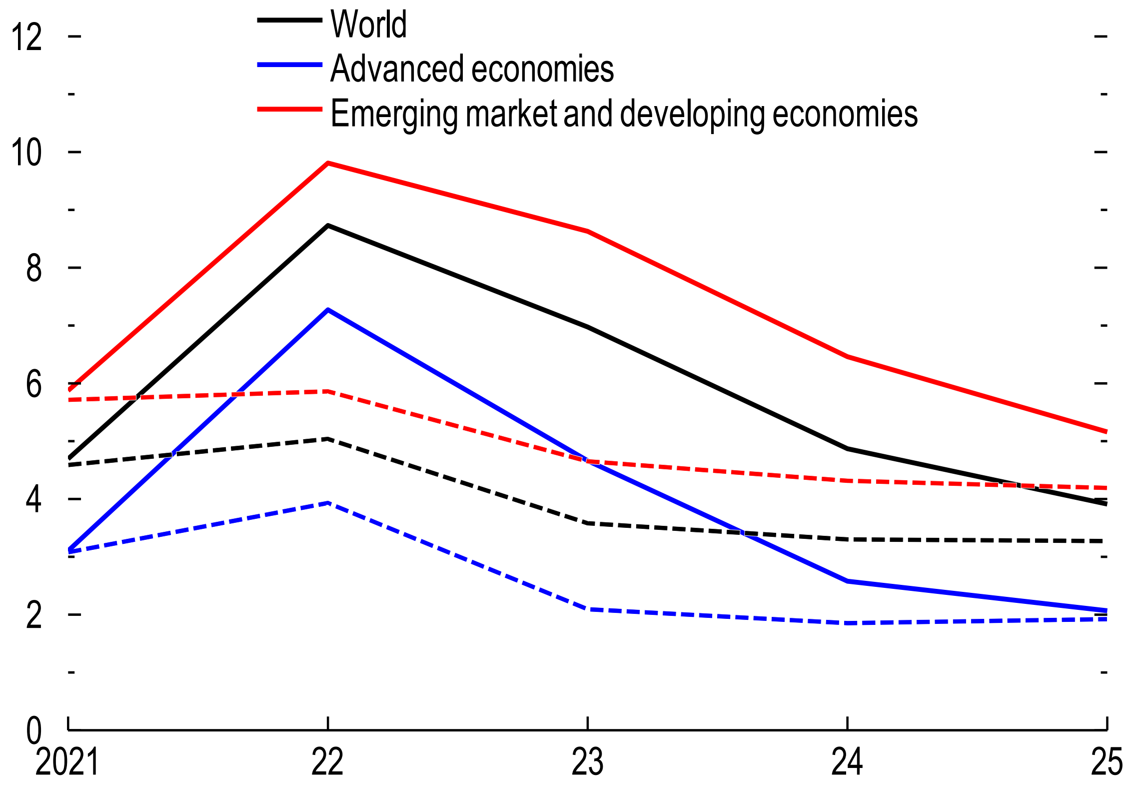
(Percentage point difference from 2022 level)



Inflation: Still High but Falling

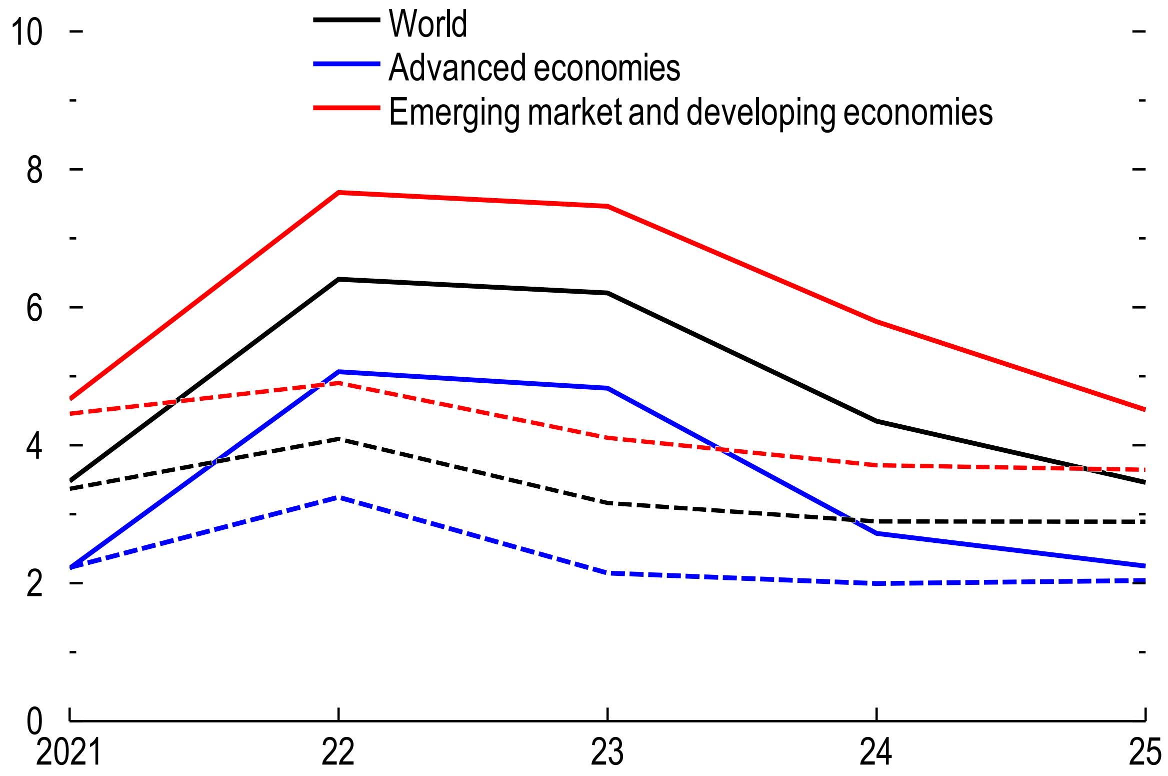
Headline inflation to fall in ¾ of countries in 2023

Headline Inflation
(Percent; dashed lines from January 2022 WEO *Update*)



Core inflation much stickier than headline

Inflation Excluding Food and Energy
(Percent; dashed lines from January 2022 WEO *Update*)



Plausible Alternative Scenario

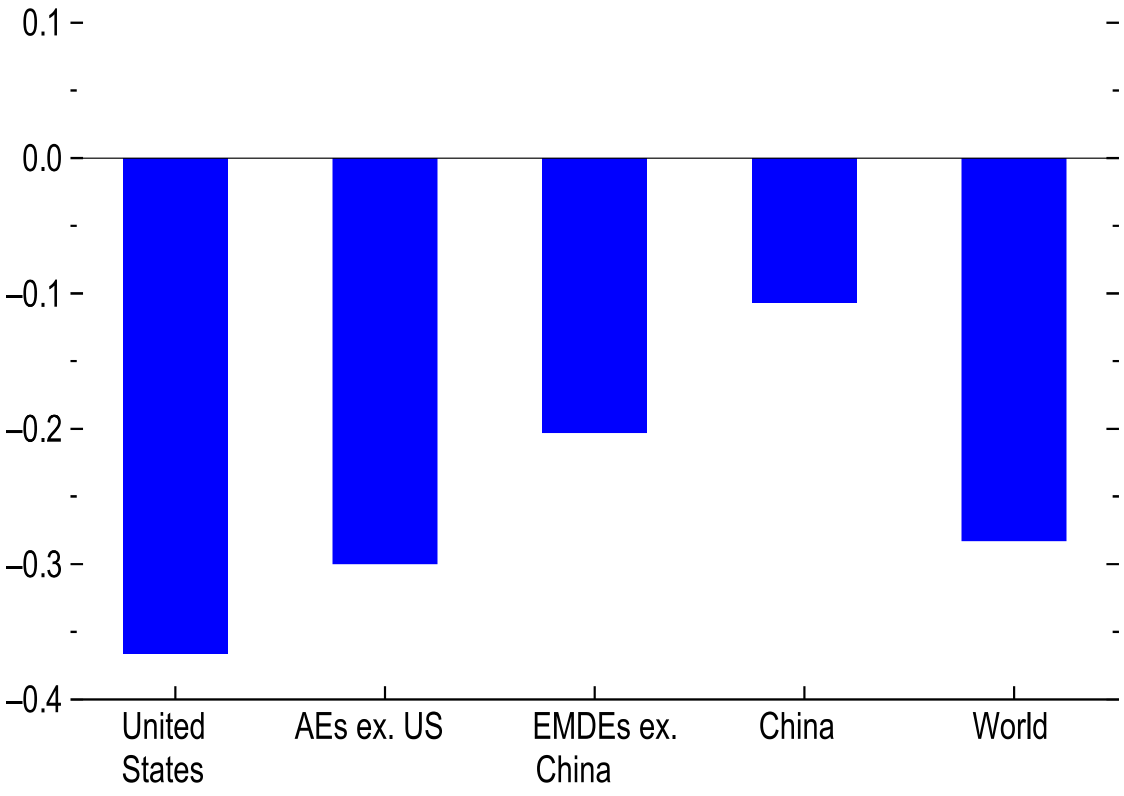
Credit Conditions Tighten

- Further stress in vulnerable banks.
- More cautious bank lending in USA, euro area, JPN.
- Comparable to 1/10 of credit decrease in 2008-09.

- Monetary policy reacts to weaker inflation, output.
- Fiscal policy automatic stabilizers operate.

- Widespread credit crisis averted.
- But world growth lower by 0.3pp in 2023.
- Spillovers: financial and trade exposures, commodity prices.

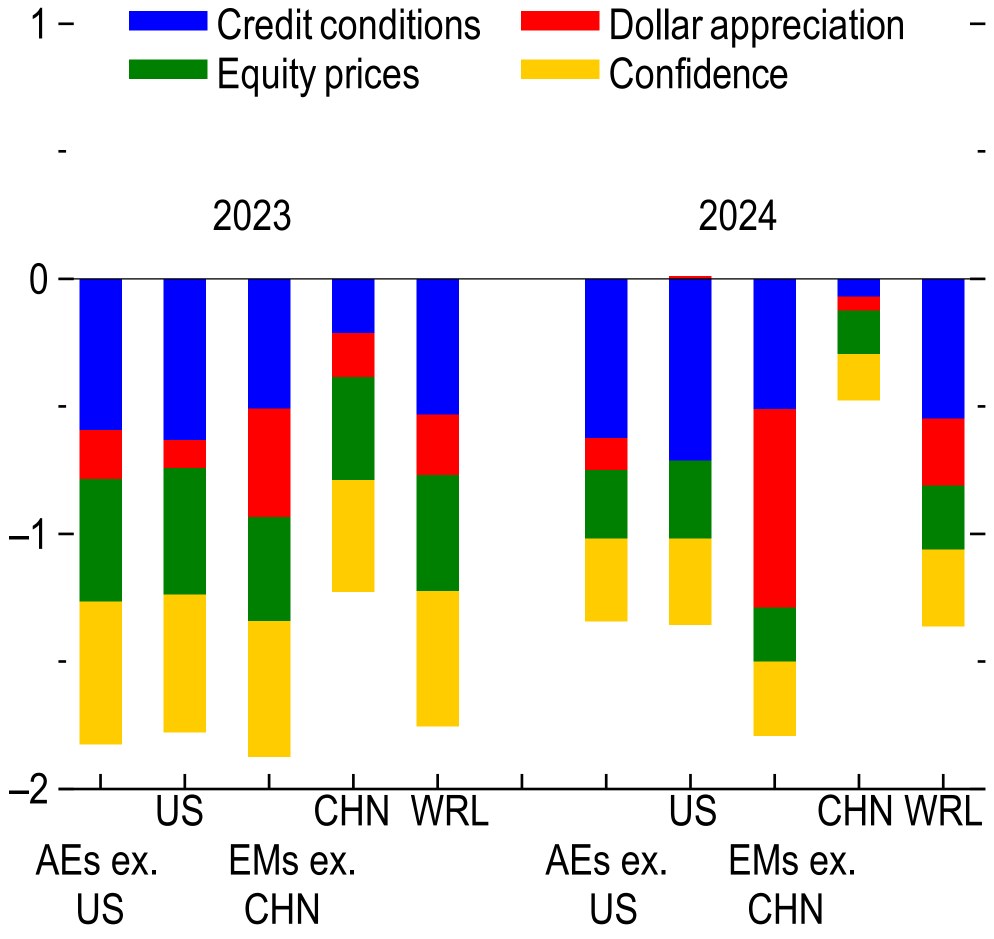
Real Level GDP in 2023
(Percent deviation from baseline)



Risks

Risk of a severe tightening in global financial conditions

Impact on GDP, severe scenario
(percent deviation from baseline)



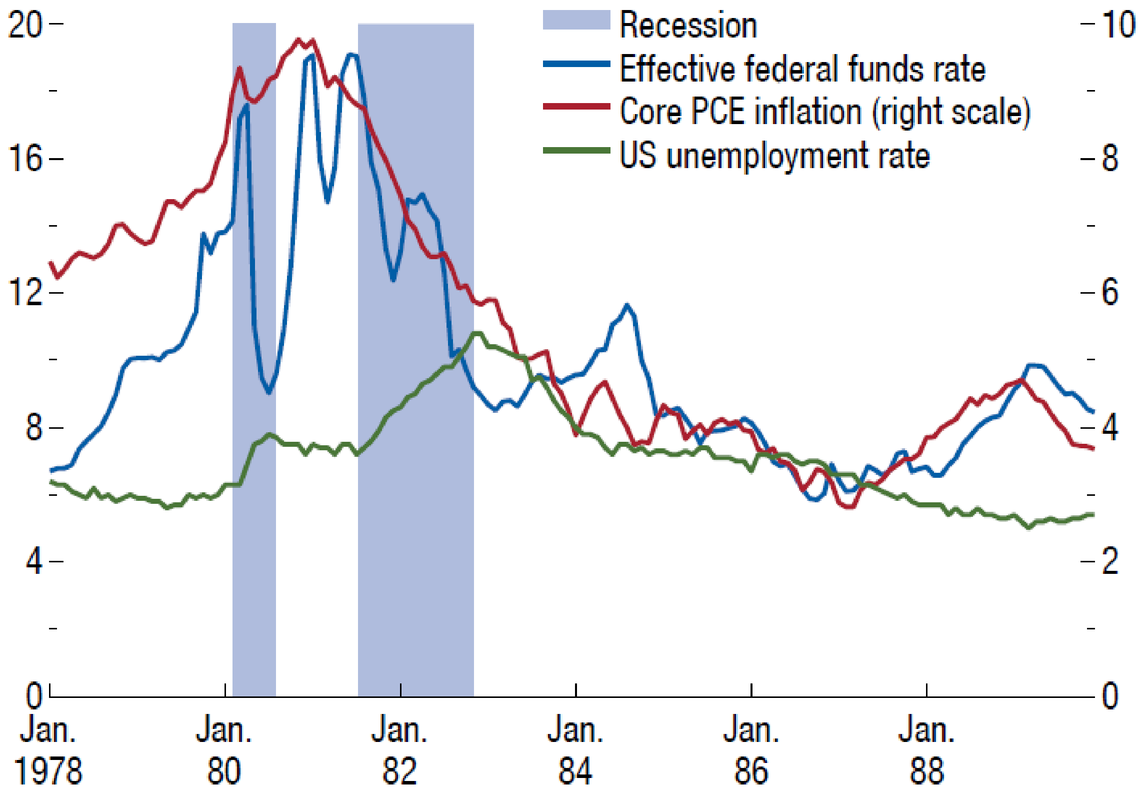
- Credit contraction comparable to 1/5 of decrease in 2008-09 (GFC)
- Macro effect amplified by flight to safety and dollar appreciation, which strongly impacts EMs (excluding China).
- Decline in global equity
- Fall in confidence: 75% of the estimated increase in precautionary savings in GFC

Global output decreases by **1.8 percent** in 2023 and **1.4 percent** in 2024, relative to the baseline (about one fourth the size of the impact of the GFC).

Policy priorities

Ensuring a Durable Fall in Inflation

Risk of Premature Easing: The US Experience in the 1980s
(Percent)



Monetary policy: steady but ready

- Where core inflation persists, raise real rates, hold above neutral, prevent de-anchoring.
- Stand ready to address financial sector risks with available tools.
- If severe downside scenario materializes and financial stability at stake, readjust monetary policy path to minimize contagion.
- Clear communication on inflation goal.

Policy Priorities – Summary

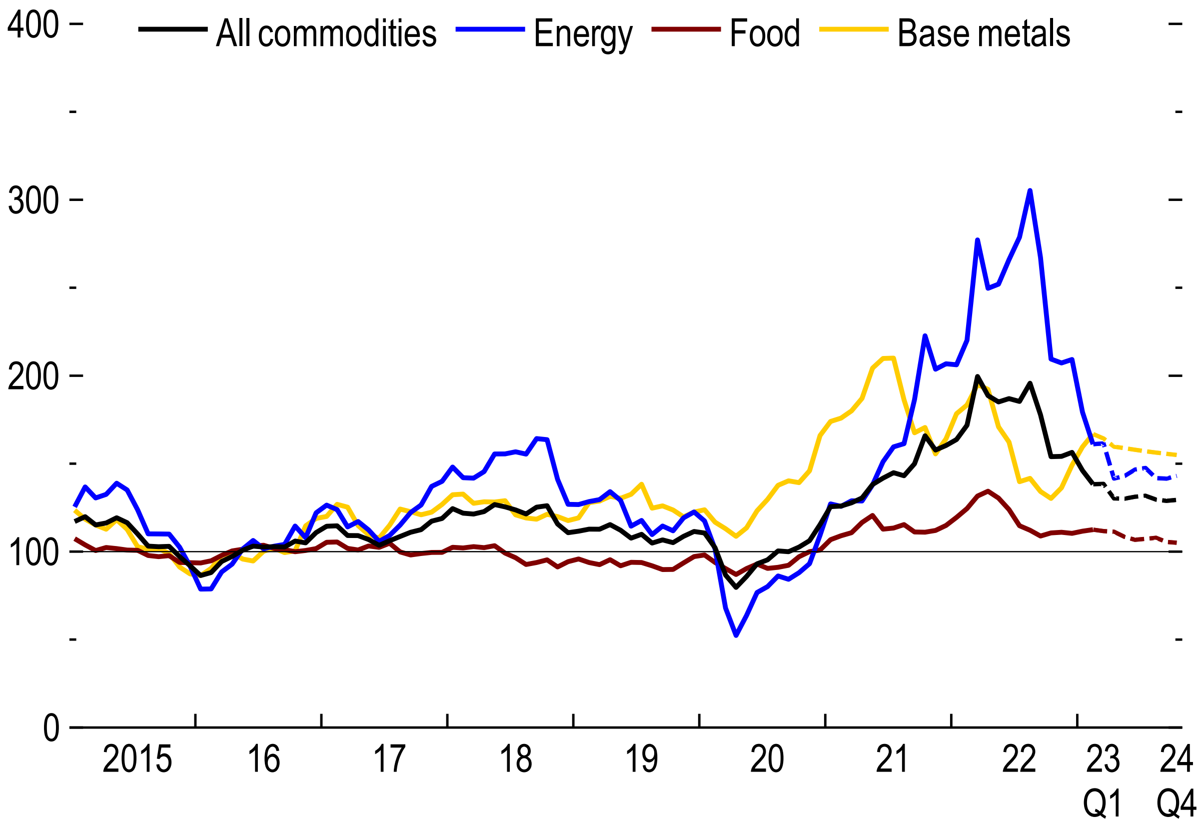
- **Monetary policy should be steady but ready**
  - Clear communication on Central Banks' objectives and responses are crucial
  - Prioritize disinflation to prevent de-anchoring & contain financial stress with proper tools
  - If threats to financial sector become systemic: tightening pause or easing may be needed
- **Fiscal policy normalization**
  - Tightening needed to support monetary policy & restore debt sustainability and buffers
  - Target support to vulnerable and improve spending/boost revenues
  - With shocks: let automatic stabilizers operate & provide temporary support if fiscal space
- **Financial & external policies** must safeguard macro-financial stability
  - Monitor financial risks in banks, NBFIs and real estate sectors
  - Address governance, risk management practices and supervisory gaps
  - If imminent outflow crisis: combine targeted FXI and CFM. Don't substitute needed macro adjustment.
- **Coordination is vital including on** debt resolution frameworks and lifting trade barriers on food and fertilizers. Coordinated climate action is needed – avoid green protectionism.
- **Structural policies** essential to support medium-term growth and boost productivity.

Thank you!

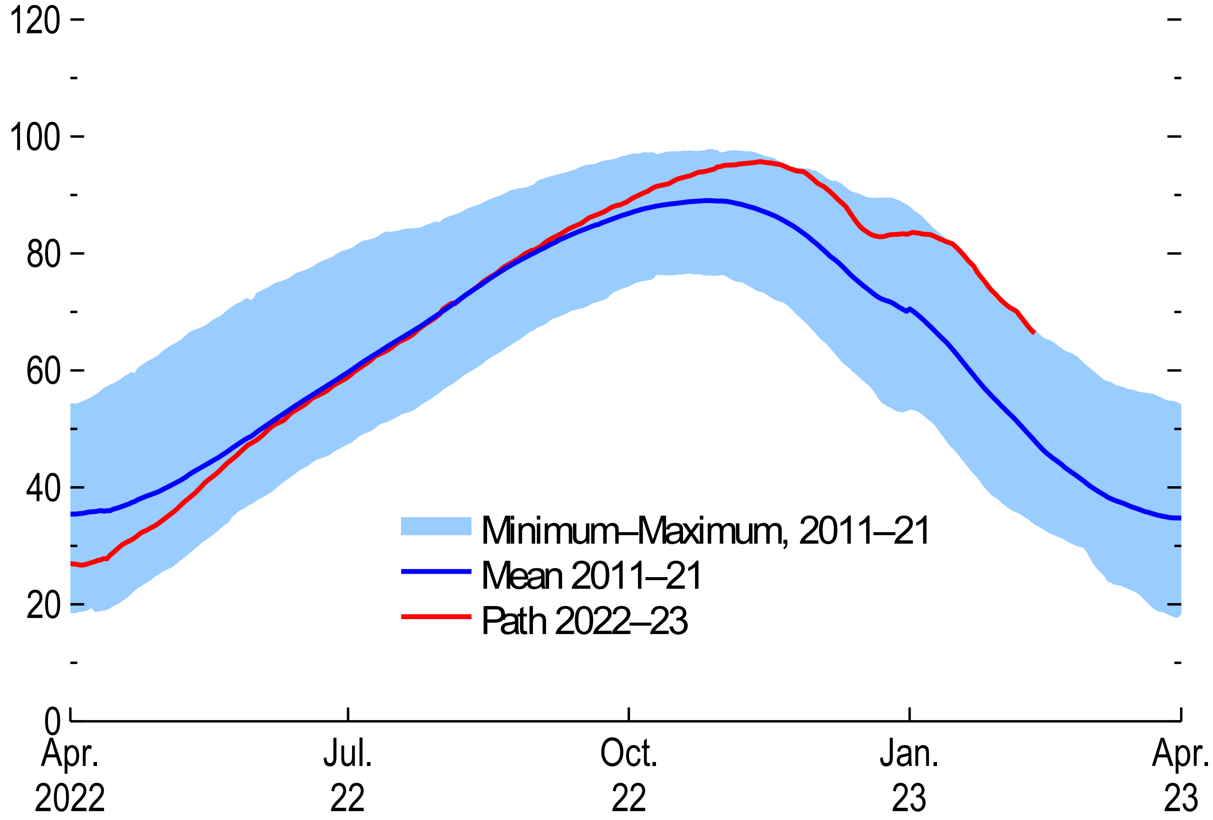
Extra Slides

Commodity prices moderated, but spikes still a risk

Commodity price indices and forecasts
(Index, 2016 = 100)



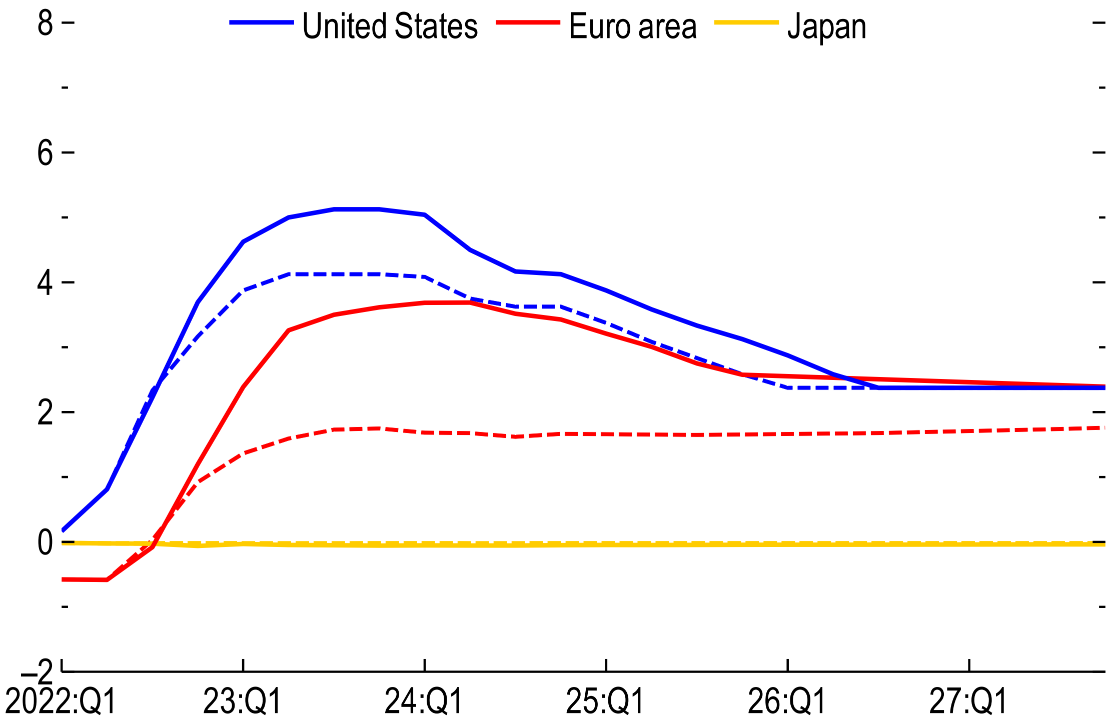
Natural Gas Storage in Europe
(Percent of capacity)



Assumptions for the Baseline Forecast

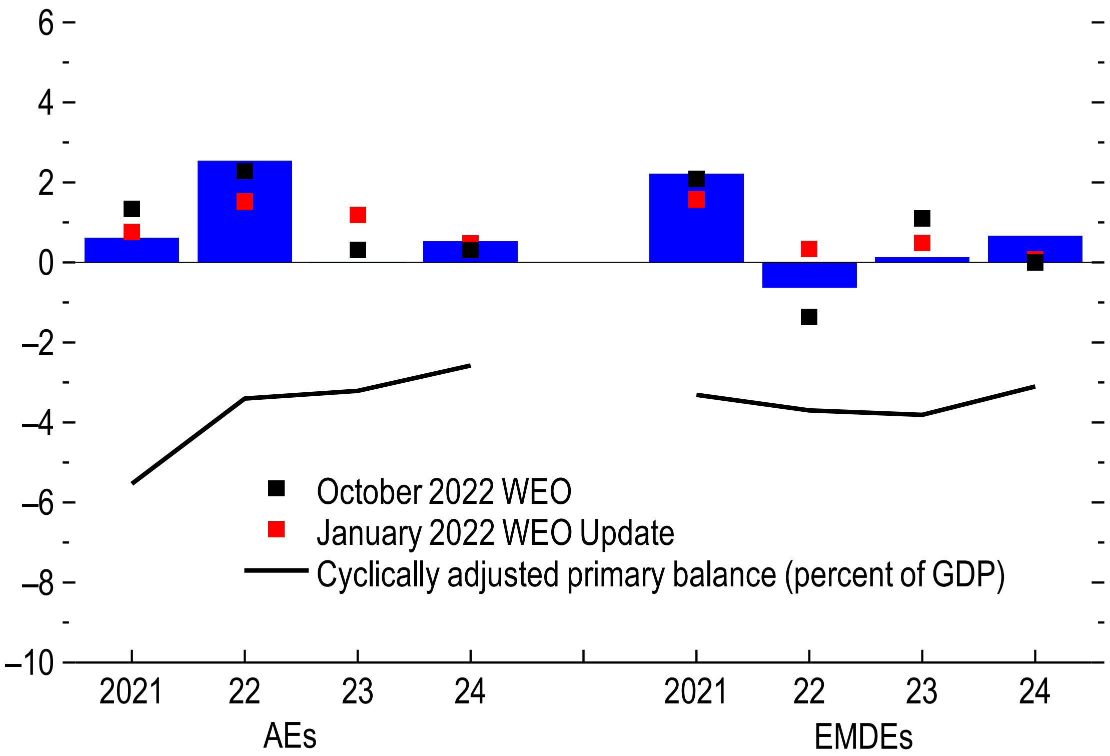
Monetary policy rates: higher for longer

Policy Rates in Selected AEs
(Percent; annualized; dashed lines are October 2022 WEO vintage)



Government support: very gradual withdrawal

Fiscal Stance, 2021-24
(Change in structural primary fiscal balance, percent of potential GDP)



Growth Projections
(percent change from a year earlier)

	World	Advanced Economies	U.S.	Euro Area	Italy	U.K.	Emerging Market and Developing Economies	China
2022	3.4	2.7	2.1	3.5	3.7	4.0	4.0	3.0
Revision from Jan. 2023	0.0	0.0	0.1	0.0	−0.2	−0.1	0.1	0.0
2023	2.8	1.3	1.6	0.8	0.7	−0.3	3.9	5.2
Revision from Jan. 2023	−0.1	0.1	0.2	0.1	0.1	0.3	-0.1	0.0
2024	3.0	1.4	1.1	1.4	0.8	1.0	4.2	4.5
Revision from Jan. 2023	−0.1	0.0	0.1	−0.2	−0.1	0.1	0.0	0.0

Source: IMF, April 2023 *World Economic Outlook*.

Growth Projections: Emerging Markets and LIDCs

(percent change from a year earlier)

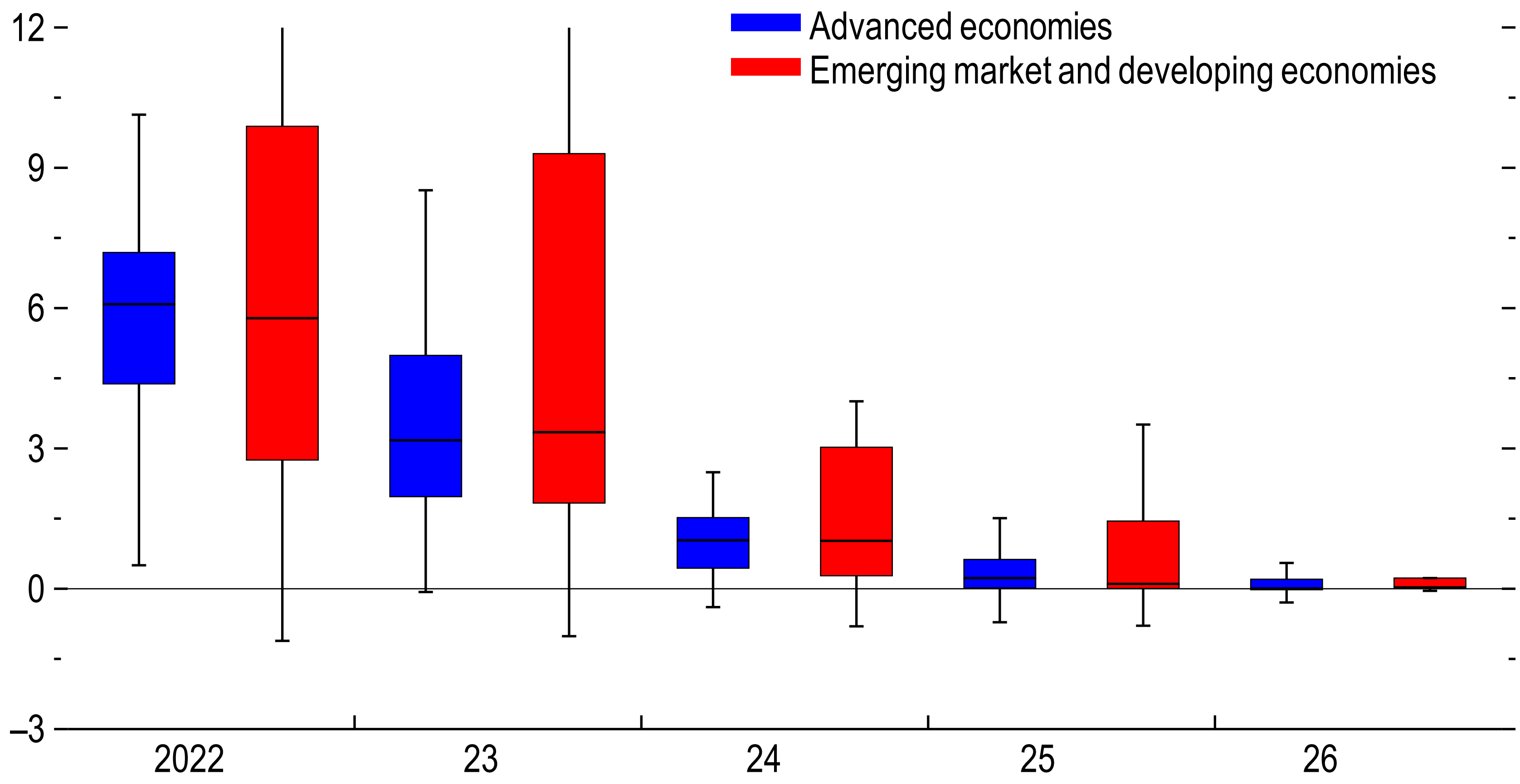
	World	Emerging Market and Developing Economies	China	India	Brazil	Russia	Other Commodity Exporters	Low Income Developing Countries
2022	**3.4**	**4.0**	**3.0**	**6.8**	**2.9**	**-2.1**	**3.6**	**5.0**
Revision from Jan. 2023	0.0	0.1	0.0	0.0	-0.2	0.1	0.1	0.1
2023	**2.8**	**3.9**	**5.2**	**5.9**	**0.9**	**0.7**	**2.5**	**4.7**
Revision from Jan. 2023	-0.1	-0.1	0.0	-0.2	-0.3	0.4	-0.1	-0.2
2024	**3.0**	**4.2**	**4.5**	**6.3**	**1.5**	**1.3**	**3.0**	**5.4**
Revision from Jan. 2023	-0.1	0.0	0.0	-0.5	0.0	-0.8	-0.1	-0.2

Source: IMF, April 2023 *World Economic Outlook*.

Inflation Slowly Converging to Target

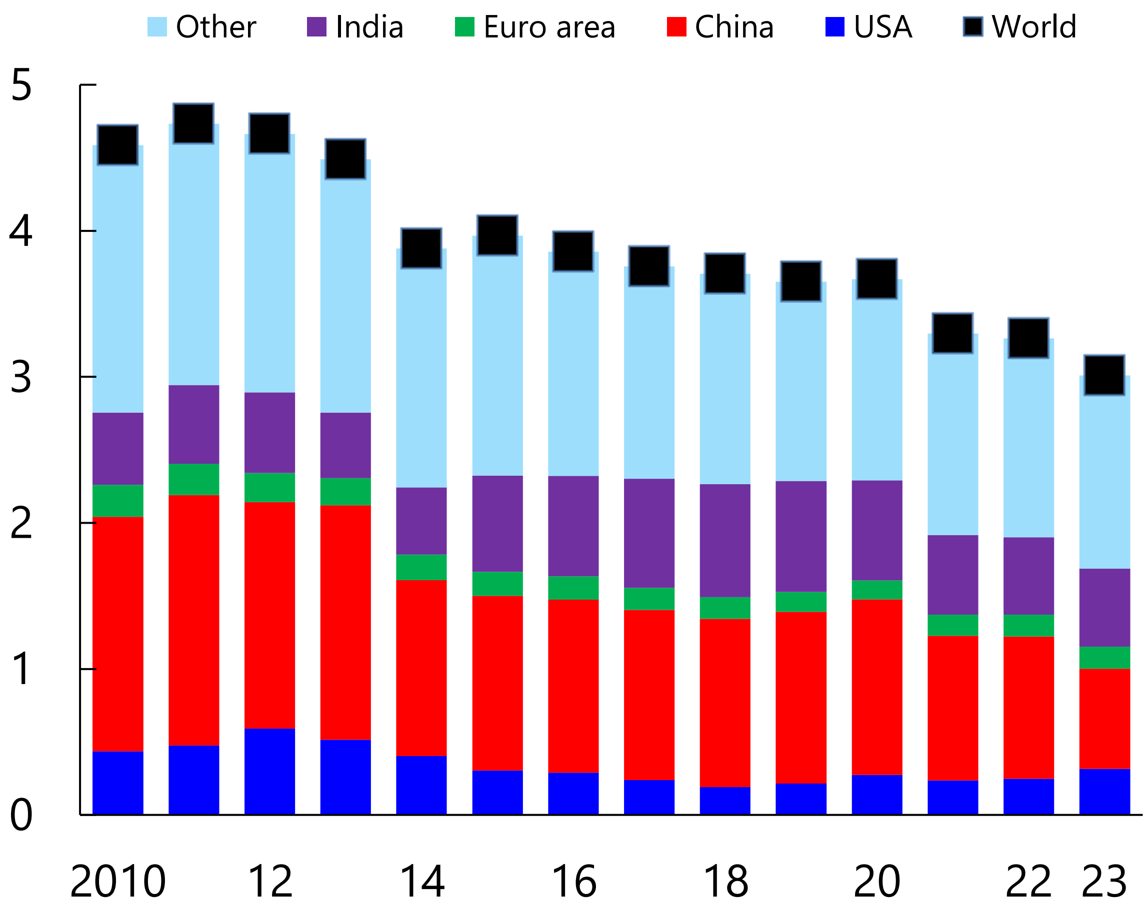
Returning inflation to target to take until 2025 in most cases

Cross-country Distribution of Gap from Inflation Target
(Percentage point; 72 inflation-targeting countries)



The Medium Term: Not What It Used to Be

Five–Year–Ahead WEO Real Growth Projections Over Time
(Percent; economy contributions to world in percentage points)



Lowest Forecast in Decades

- Progress toward income convergence
- Slower labor force growth
- Geoeconomic fragmentation
- Implications for living standards, including in LICs

Risks to the Outlook

Downside

- Financial sector tightening from high interest rates
- Sharper monetary policy impact amid high debt
- Stickier inflation
- Systemic sovereign debt distress in EMDEs
- Faltering growth in China
- Escalation of the war in Ukraine
- Geopolitical and economic fragmentation

Upside

Much diminished relevance:

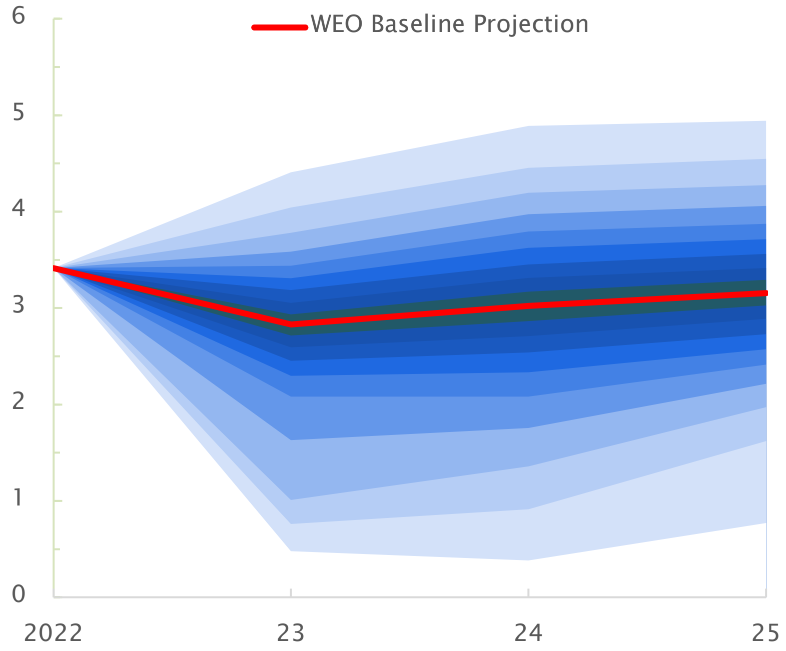
- Resilient consumption from households saving buffers
- Labor markets easing with lower unemployment cost; further easing of supply-side bottlenecks

Downside Risks Dominate

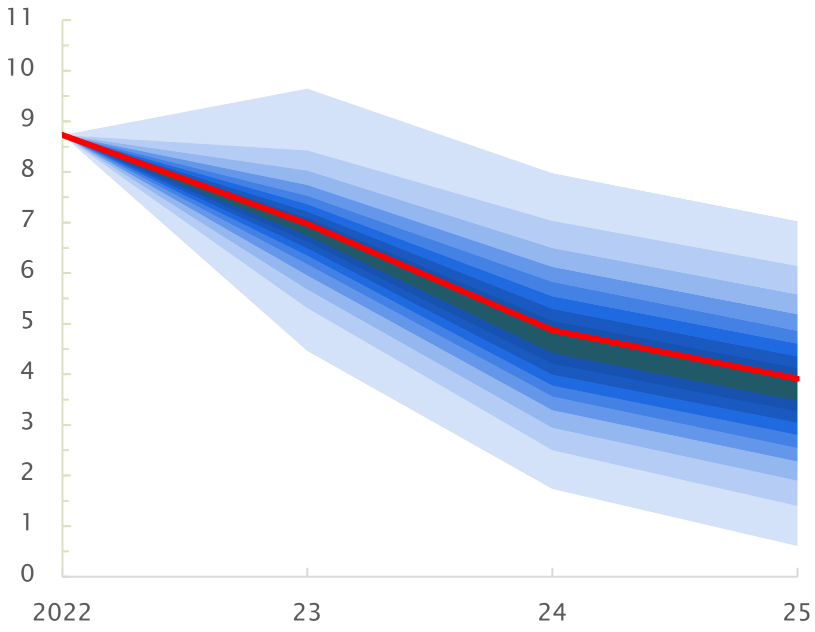
The balance of risks to growth is to the downside…

… while the distribution of risks to both headline and core inflation is skewed to the upside in the near term.

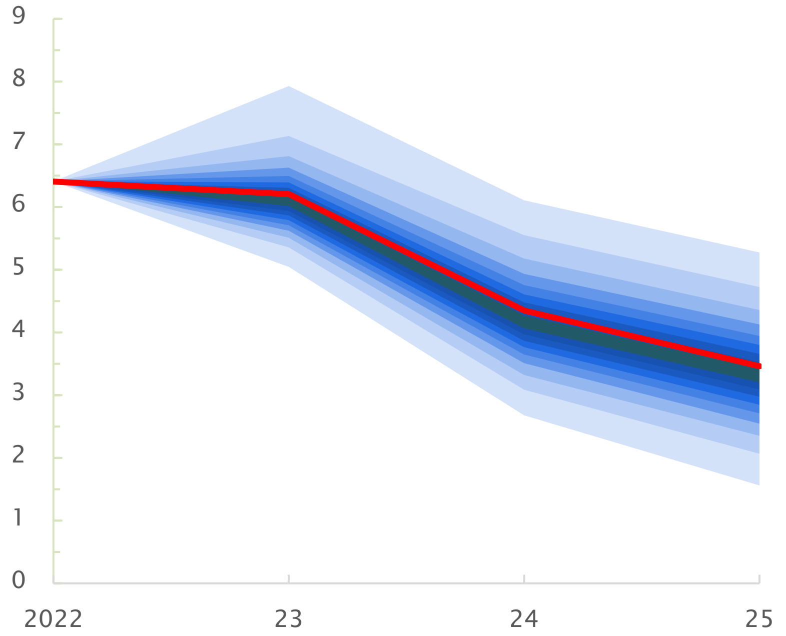
World Growth
(Percent)



World Headline Inflation
(Percent)



World Core Inflation
(Percent)

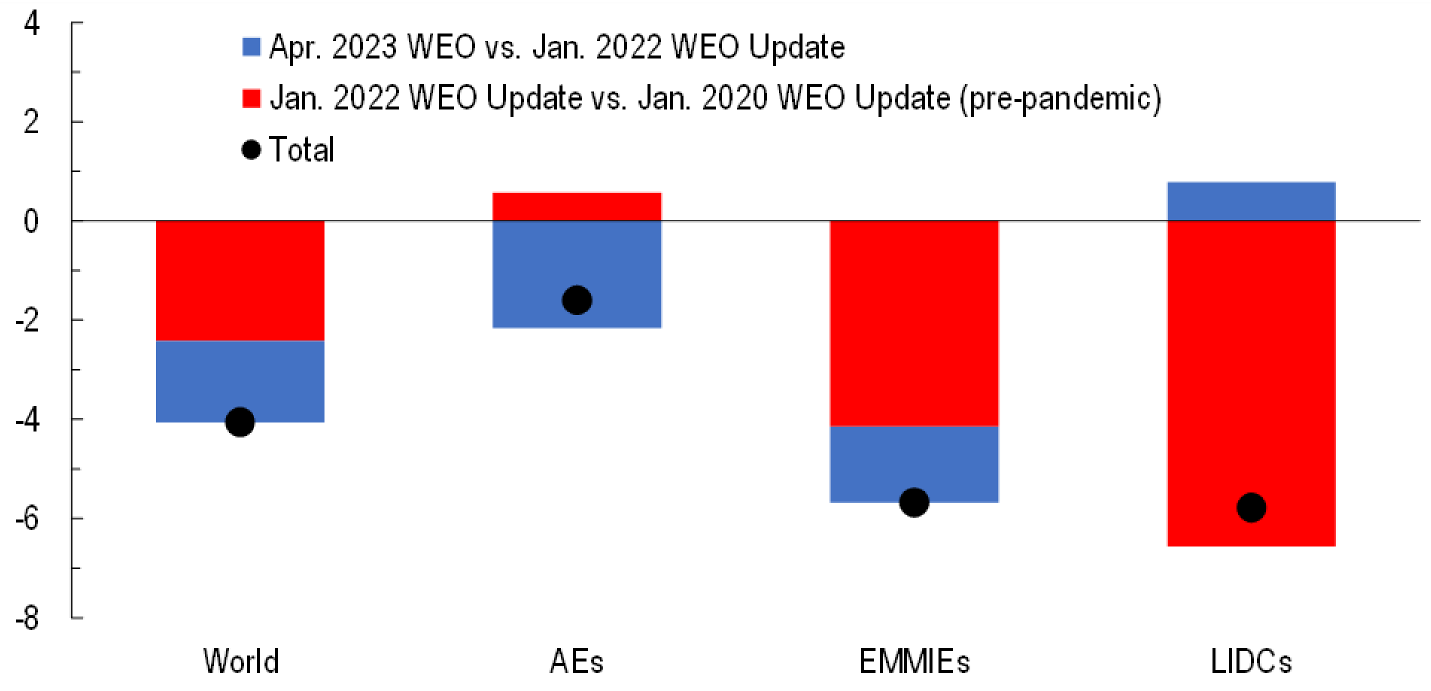


Source: IMF staff calculations.
Note: Each shade of blue represents a five percentage point interval.

Little Prospect of Recouping Accumulated Losses

With the feeble outlook for growth, little recovery of shortfalls expected by 2024

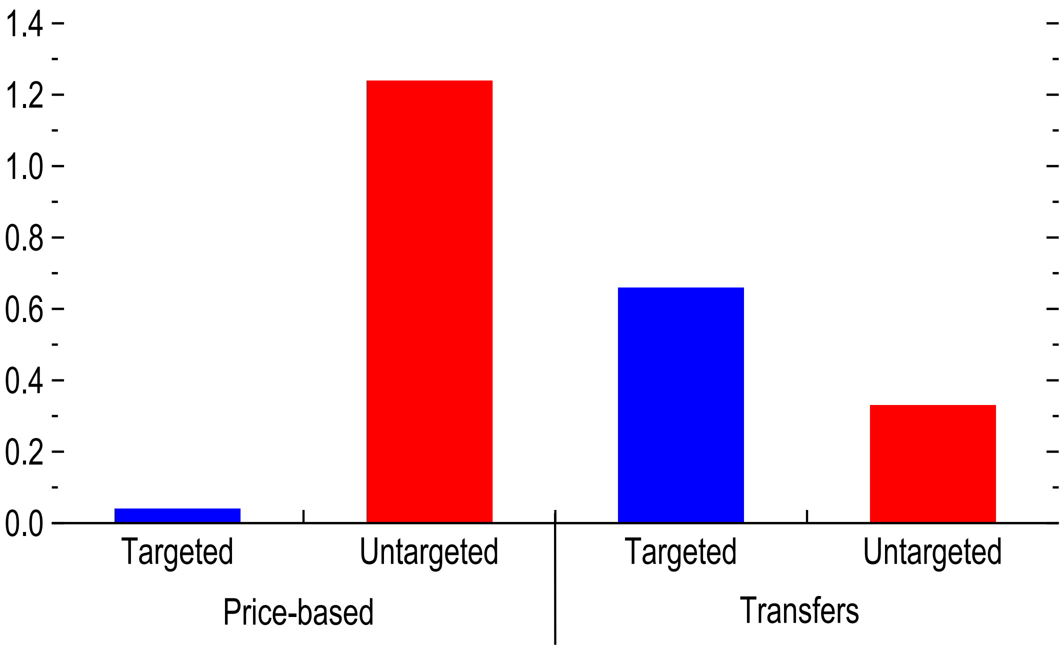
Output Losses Since the COVID-19 Pandemic
(Percent deviation of latest 2024 output level projection compared with pre-2020 and pre-2022 projections)



Rebuilding Fiscal Buffers

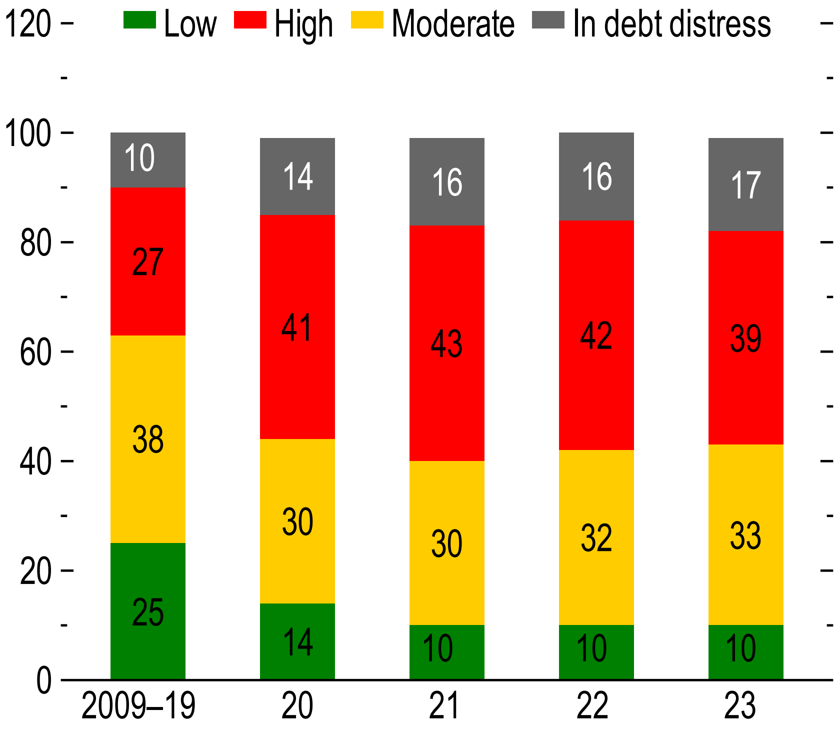
Normalize fiscal policy while supporting the vulnerable

Costs of Fiscal support to European Households in 2022-23
(Percent of European GDP)



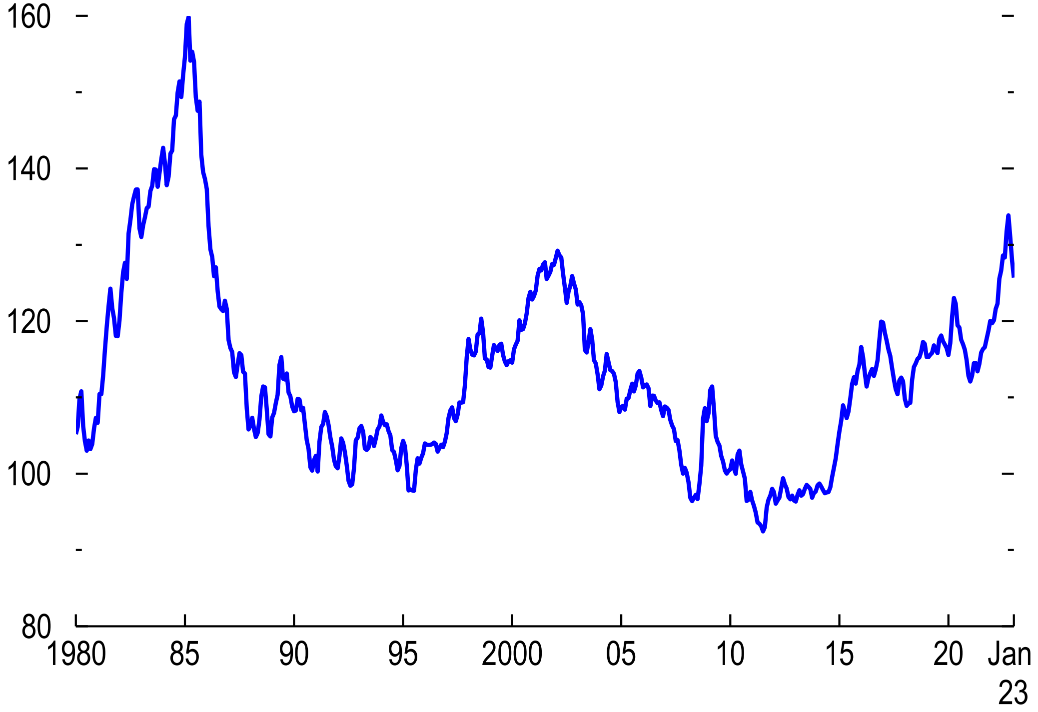
Restore debt sustainability, including via debt restructuring when necessary

Risk of Debt Distress in LICs
(Percent)



Safeguard macro-financial stability

US Real Effective Exchange Rate Index
(2010=100)

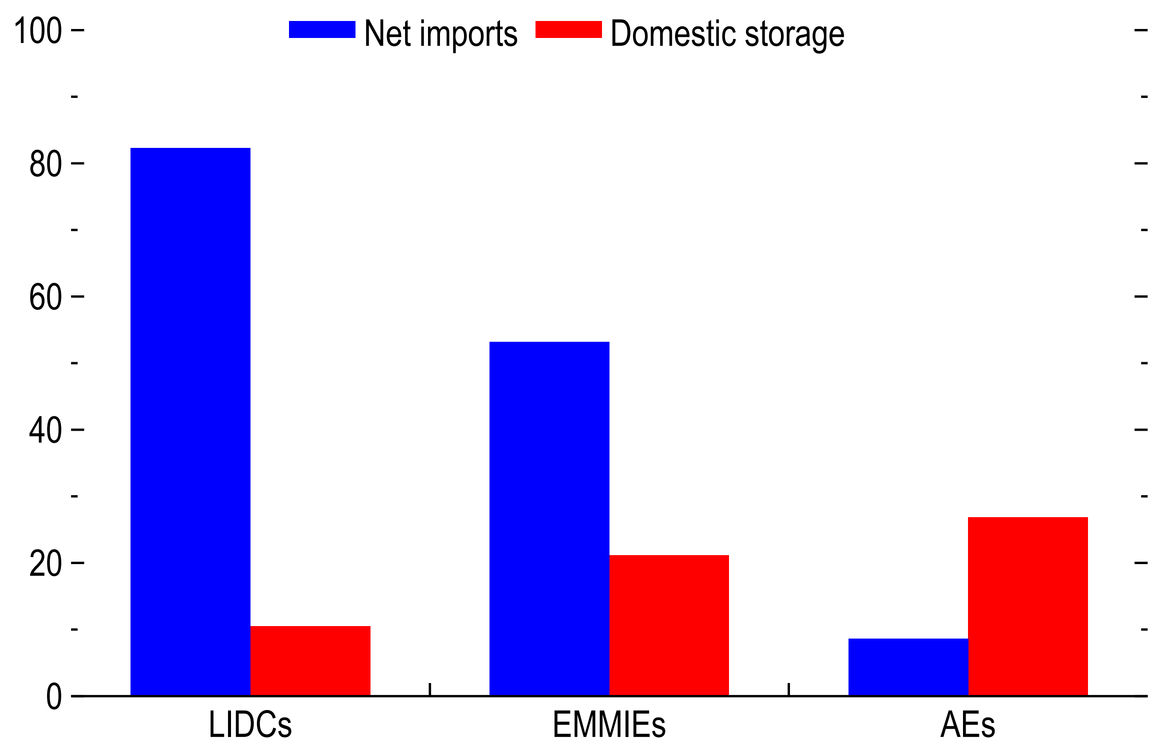


- **Deploy external policies if imminent crisis**
  - Combine targeted FXI and CFM.
  - Don’t substitute needed macro adjustment.

- **Use global financial safety net**
  - Employ IMF’s precautionary financial arrangements
  - Focus aid on low-income countries facing shocks
  - Draw from arrangement to provide dollar liquidity if needed (e.g. swap lines)

Limiting Costs of Fragmentation

Vulnerability to food insecurity – the case of wheat
(Percent of annual wheat consumption)



Harmful Trade Restrictions Imposed
(Total number)