A Rocky Recovery: Global Prospects and Policies

WORLD ECONOMIC OUTLOOK
APRIL 2023

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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
  o Financial conditions tighter-than-expected
  o Stickier inflation
  o Debt distress
  o Faltering growth in China
  o 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)

-0.5 0.5 1.5 2.5 3.5 4.5 5.5

Interquartile range
Median
PPP GDP-weighted average pace

AEs pre-GFC
EMDEs pre-GFC
AEs post-COVID
EMDEs post-COVID

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

0 1 2 3 4 5 6

Pre-pandemic (2019) survey
Latest survey (January 2023)

AEs
EMMIEs
LIDCs
Tight labor markets yet no sign of wage–price spiral

**Beveridge Curves in the Euro Area and US**

1. Euro area
   - Quarterly job openings rate, percent
   - 2010:Q1–20:Q1
   - 2020:Q2–22:Q4

2. United States
   - Monthly job openings rate, percent
   - Jan. 2010 – Mar. 2020
   - Apr. 2020 – Jan. 2023

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

- United States, 1979:Q2 = 0
- COVID-19 average, 2021:Q4 = 0
- Median
- 10th–90th percentile range

**Quarters since episode start**

Jan. 2023
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)
Sovereign Spreads in Emerging Markets
(Basis points)

Government Debt
(Percent of GDP)
China’s rapid reopening amid global slowdown in COVID

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

- Mobility index
- Retail sales volume
- Planned international flights (right scale)

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

- Interquartile range
- Median
- Mean

Data sources and analysis:
- East Asia & Pacific
- Sub-Saharan Africa
- Latin America & Caribbean
- USA and Canada
- Europe & Central Asia
- South Asia
- Middle East & North Africa
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)
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.
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!
Commodity prices moderated, but spikes still a risk

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

**Natural Gas Storage in Europe**
(Percent of capacity)

*All commodities*
*Energy*
*Food*
*Base metals*
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)

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<tr>
<th></th>
<th>World</th>
<th>Advanced Economies</th>
<th>U.S.</th>
<th>Euro Area</th>
<th>Italy</th>
<th>U.K.</th>
<th>Emerging Market and Developing Economies</th>
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Source: IMF, April 2023 *World Economic Outlook.*
## Growth Projections: Emerging Markets and LIDCs

(percent change from a year earlier)

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<th>Year</th>
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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.

![Graphs of World Growth, World Headline Inflation, and World Core Inflation]

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

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

- **Net imports**
- **Domestic storage**

**Harmful Trade Restrictions Imposed**
(Total number)

- **Goods**
- **Investment**
- **Service**