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World Economic Situation and Prospects as of mid-2023

Key messages

GLOBAL ECONOMIC OUTLOOK

- **The world economy is in the doldrums, with weak economic growth, stubborn inflation and rising interest rates in the major developed economies clouding the near-term economic outlook.** Legacy effects of the COVID-19 pandemic, the protracted war in Ukraine, exacerbating effects of climate change are impeding a rebound of global growth.
- **The slowdown in global growth in 2023 is likely to be less severe than previously expected, mainly due to resilient household spending in the developed economies and recovery in China.** Global economic growth is now projected to reach 2.3 per cent in 2023, an upward revision by 0.4 percentage points from the January forecast.
- **Notwithstanding the slight improvement in the major economies, prospects for many developing countries are even bleaker than was projected in January.** Average GDP per capita in Africa and Latin America and the Caribbean is projected to grow only marginally, reinforcing a longer-term trend of stagnating growth performance.
- **Through this year and the next, growth is expected to remain well below the average rate of 3.1 per cent registered during the two decades before the pandemic, underscoring challenges for meeting the SDGs.** Anemic growth in investment, high external debt burdens and rising debt vulnerabilities, growing financing gaps and simmering geo-political and climate risks portend a prolonged period of subpar growth in the world.
- **Global trade will continue to face strong headwinds, with growth projected at only 2.3 per cent in 2023.** While easing of supply chain constraints, recovery in tourism and China's reopening will render some support, weakening consumer demand in the developed

economies, tighter financing conditions and geopolitical tensions will continue to pose significant challenges to global trade.

- **Labour markets in many developed economies remain tight, marked by low unemployment rates and recurrent worker shortages.** Since the pandemic, the gender gap in employment rates has narrowed, in part due to increased use of telework and flexible work arrangements in many developed economies.
- **Average global inflation is projected to decline from 7.5 per cent in 2022 to 5.2 per cent in 2023 amid lower food and energy prices and softening demand especially in the large developed economies.** Inflation will, however, remain well above central banks' targets in many countries, exacerbating in particular the economic well-being of those living in poverty.
- **While global monetary policy tightening has continued, gradually easing inflationary pressure has allowed most central banks to slow the pace of interest rate hikes.** As peak interest rates in major developed economies are in sight, central banks in developing countries may find an opportunity to pause or reverse monetary tightening to support economic growth.
- **Rising borrowing costs, tighter global financial conditions and high debt burdens are constraining the fiscal space of many developing countries.** Globally, public debt as a share of GDP continues to be notably higher than before the pandemic, although the gap has narrowed in the last two years, largely due to a withdrawal of fiscal support and some growth recovery.
- **The banking sector turmoil in the United States and Europe is exposing underlying vulnerabilities triggered by rising interest rates.** Although swift and decisive actions by regulators prevented contagion and helped contain financial stability risks, financial sector fragilities and the measures taken to contain them will likely dampen credit and investment growth in the near-term.

MACROECONOMIC POLICY CHALLENGES

- **Policymakers around the world are facing increasingly difficult trade-offs between fighting inflation, preserving financial stability and supporting inclusive and sustainable economic recoveries, against the backdrop of lingering uncertainties.**
- **The process of reversing more than a decade of quantitative easing and loose monetary policy in developed countries is having significant spillover effects on developing countries.** Quantitative easing and excess global liquidity in the decade before the pandemic were associated with sharp increases in external debt in a large number of developing countries. The shift to quantitative tightening, along with higher interest rates, is exerting downward pressures on exchange rates of many developing countries, especially those facing the risk of capital outflows, adversely affecting balance of payment and exacerbating their debt sustainability risks.
- **Low economic growth and increasing financing constraints will further limit the ability of governments to invest in education, health, sustainable infrastructure and energy transition to accelerate progress towards sustainable development.**