A Rocky Recovery—Global Prospects and Policies—
(based on Chap. 1 of IMF World Economic Outlook (WEO) April 2023)

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Seminar at the Japan Center for International Finance (JCIF)
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Overview: A Rocky Recovery

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

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

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
Activity strengthened amid depressed confidence

Manufacturing Output PMI
(Above 50 expanding; below 50 contracting)

Services' Business Activity PMI
(Above 50 expanding; below 50 contracting)

Consumer Confidence
(September 2021 = 100)
Activity strengthening in late 2022 and early 2023 ...

**Services' Business Activity PMI**  
(Above 50 expanding; below 50 contracting)

**Manufacturing Output PMI**  
(Above 50 expanding; below 50 contracting)
But then 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)
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
-0.5 -0.5
-0.5 -0.5
-0.5 -0.5
5.5 5.5
5.5 5.5
5.5 5.5
5.5 5.5

Interquartile range
Median
PPGDP-weighted average pace

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

-6 -6 -6 -6 -6 -6 -6 -6
-5 -5 -5 -5 -5 -5 -5 -5
-4 -4 -4 -4 -4 -4 -4 -4
-3 -3 -3 -3 -3 -3 -3 -3
-2 -2 -2 -2 -2 -2 -2 -2
-1 -1 -1 -1 -1 -1 -1 -1
0 0 0 0 0 0 0 0

Pre-pandemic (2019) survey
Latest survey (January 2023)
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
   - 2022:Q4

2. United States
   (Monthly job openings rate, percent)
   - Jan. 2010 – Mar. 2020
   - Apr. 2020 – Jan. 2023
   - 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
Sovereign spreads come down, but debt still high

**Sovereign Spreads in Emerging Markets**
(Basis points)

- **EMDE Asia**
- **EMDE Europe**
- **LAC**
- **ME&CA**
- **SSA**

- August 2021
- August 2022
- March 2023

**Government Debt**
(Percent of GDP)

- US
- AEs ex. US
- CH
- EMs ex. CH
- LICs
- Global

- 2005
- 2008
- 2011
- 2014
- 2017
- 2020
- 2023
- 2027
Commodity prices moderated, but spikes still a risk

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

Natural Gas Storage in Europe
(Percent of capacity)
China rebounds with reopening, with positive spillovers

**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

East Asia & Pacific  
Sub-Saharan Africa  
Latin America & Caribbean  
USA and Canada  
Europe & Central Asia  
South Asia  
Middle East & North Africa
The outlook
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)

- United States
- Euro area
- Japan

Government support: very gradual withdrawal

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

- October 2022 WEO
- January 2022 WEO Update
- Cyclically adjusted primary balance (percent of GDP)
Growth Outlook: Feeble and Uneven

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

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

- World
- Advanced economies
- Emerging market and developing economies

**Unemployment in Advanced Economies**
(Percentage point difference from 2022 level)

- Advanced Economies
- United Kingdom
- United States
- Japan
- Euro area
- Canada

Slowdown especially sharp in advanced economies, with rising unemployment.
## Growth Projections: Advanced Economies

(Percent change from a year earlier)

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>Advanced Economies</th>
<th>U.S.</th>
<th>Euro Area</th>
<th>Japan</th>
<th>U.K.</th>
<th>Canada</th>
<th>Other Advanced Asia</th>
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<tbody>
<tr>
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<td>3.4</td>
<td>2.7</td>
<td>2.1</td>
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<td>2023</td>
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Revision from Jan. 2023

Source: IMF, April 2023 *World Economic Outlook.*
## Growth Projections: Emerging Markets and LIDCs

(percentage change from a year earlier)

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>Emerging Market and Developing Economies</th>
<th>China</th>
<th>India</th>
<th>Brazil</th>
<th>Russia</th>
<th>Commodity Exporting Economies</th>
<th>Low Income Developing Countries</th>
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Source: IMF, April 2023 *World Economic Outlook.*
### Growth projections: Asia
(percent change from a year earlier)

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<th>China</th>
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<th>Japan</th>
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Source: IMF, April 2023 World Economic Outlook.
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)
Inflation: Still High but Falling

Headline inflation to fall in ¾ of countries in 2023

Core inflation much stickier than headline

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

**Inflation Excluding Food and Energy**
(Percent; dashed lines from January 2022 WEO Update)
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
  - Slower expected pace of structural reforms
  - Implications for living standards, including in LICs
  - Implications for r* (Chapter 2 of April 2023 WEO)
After rising in 2022 with higher commodity prices, current account balances to narrow over time.
Risks
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.

Source: IMF staff calculations.
Note: Each shade of blue represents a five percentage point interval.
### Risks to the Outlook

<table>
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<th>Downside</th>
<th>Upside</th>
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<td>Financial sector tightening from high interest rates</td>
<td>Much diminished relevance:</td>
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<td></td>
<td>• Resilient consumption from households saving buffers</td>
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<td>Sharper monetary policy impact amid high debt</td>
<td>• Labor markets easing with lower unemployment cost; further easing of supply-side bottlenecks</td>
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<td>Stickier inflation</td>
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<td>Systemic sovereign debt distress in EMDEs</td>
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<td>Faltering growth in China</td>
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<td>Escalation of the war in Ukraine</td>
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<td>Geopolitical and economic fragmentation</td>
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Risk of a severe tightening in global financial conditions

**Impact on GDP, severe scenario**  
(Percent deviation from baseline)

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**Impact on core inflation, severe scenario**  
(Percent deviation from baseline)

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Additional Risks

Sharper monetary policy impact amid high debt

Household Indebtedness Rate
(2022:Q1–Q2 average; 2007:Q1–Q2 average)

Systemic Sovereign debt distress in EMDEs
Risks of debt distress in LIDCs (percent)

Fragmentation further hampers multilateral cooperation
Harmful Trade Restrictions Imposed (Total number)

Source: OECD; IMF-World Bank LIDC Debt Sustainability Analysis Database; Global Trade Alert; and IMF staff calculations.
Policy priorities
Monetary policy: steady but ready

Uncertainty on US natural rate of unemployment (Percent)

- Prioritize disinflation to prevent de-anchoring
  - Stay data-dependent amid high uncertainty (natural rates, lags, effects)
  - Communicate clearly on objectives and responses
  - If threats to financial sector become systemic: tightening pause or easing may be needed

- Safeguard financial stability
  - Contain financial stress with proper tools
  - Monitor financial risks in banks, NBFIIs and real estate sectors
  - Address governance, risk management practices and supervisory gaps
Fiscal policy normalization

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

- Fiscal policy normalization
  - Tightening needed to support monetary policy & restore debt sustainability and buffers
  - Improve spending/boost revenues
  - With shocks: let automatic stabilizers operate & provide temporary support if fiscal space

- Protect the vulnerable through targeted support
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)
Policy coordination and medium-term growth

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

- Coordination is vital including
  - lifting trade barriers on food and fertilizers
  - Improving debt resolution frameworks

- Strengthen multilateral cooperation

- Climate cooperation is needed – avoid green protectionism

- Structural policies essential to support medium-term growth
Chapter 2: The Natural Rate of Interest: Drivers and Implications for Policy


Chapter 3: Coming Down to Earth: How to Tackle Soaring Public Debt


Chapter 4: Geoeconomic Fragmentation and Foreign Direct Investment


The full report can be downloaded here:
Extra Slides
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.
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)