



# International Monetary Fund

## **A Rocky Recovery—Global Prospects and Policies—**

(based on Chap. 1 of IMF World Economic Outlook (WEO) April 2023)

**Akihiko YOSHIDA**

**Director, the IMF Regional Office for Asia and the Pacific (OAP)**

*Seminar at the Japan Center for International Finance (JCIF)*

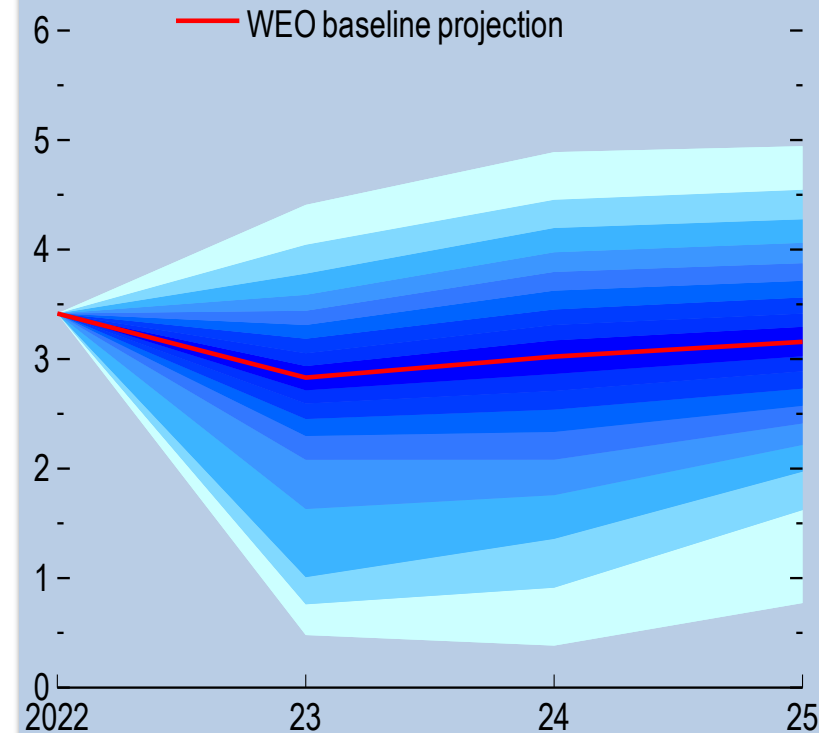
*May 31, 2023*

# Overview: A Rocky Recovery

## Global growth bottoming out and inflation easing

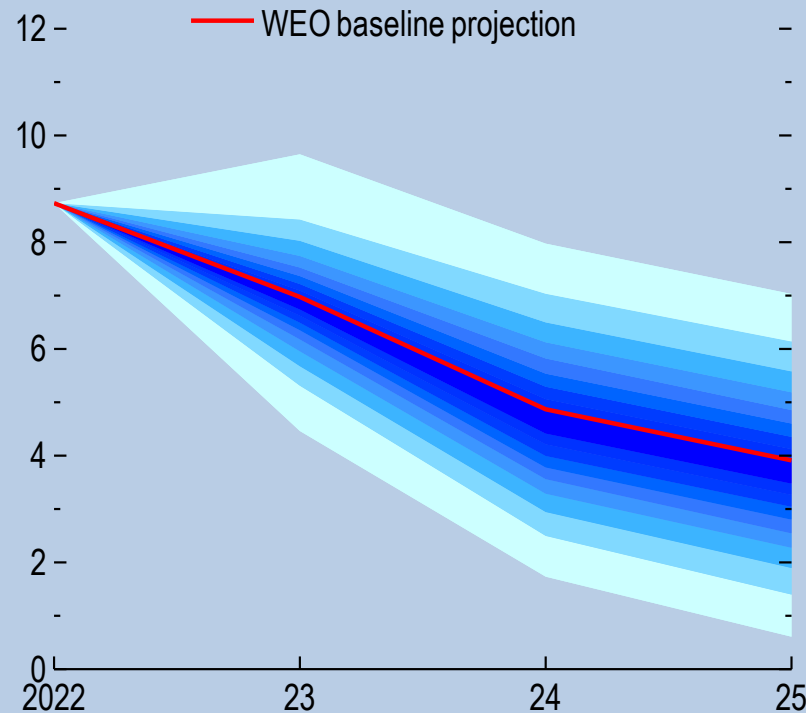
### Forecast Uncertainty for World Growth

(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

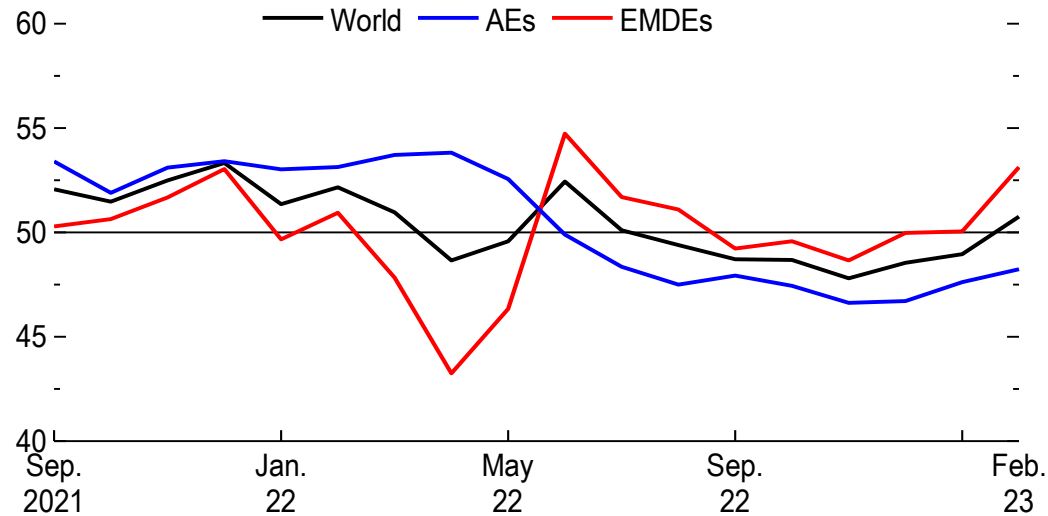
- Achieve global disinflation
- Safeguard financial stability
- Normalize fiscal policy

# Recent developments

# Activity strengthened amid depressed confidence

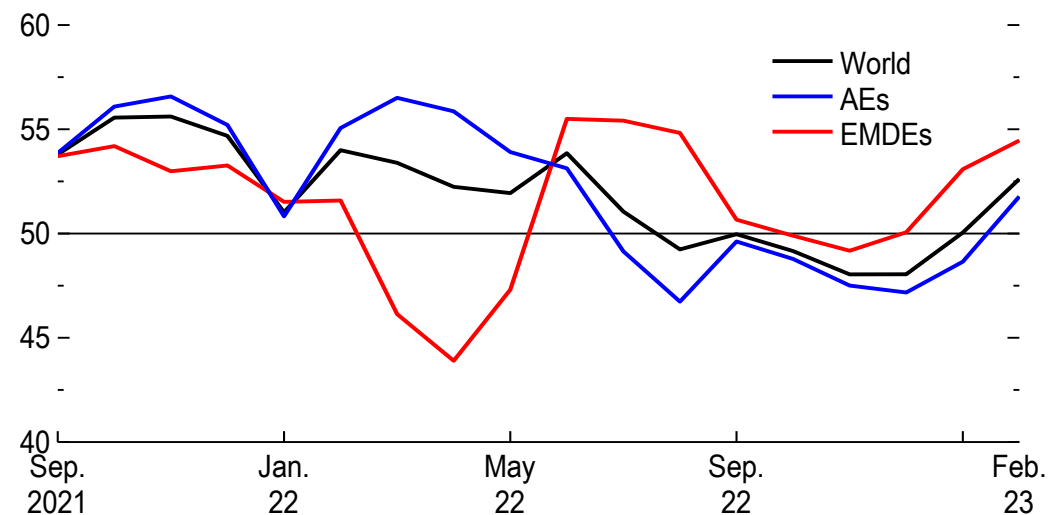
## Manufacturing Output PMI

(Above 50 expanding; below 50 contracting)



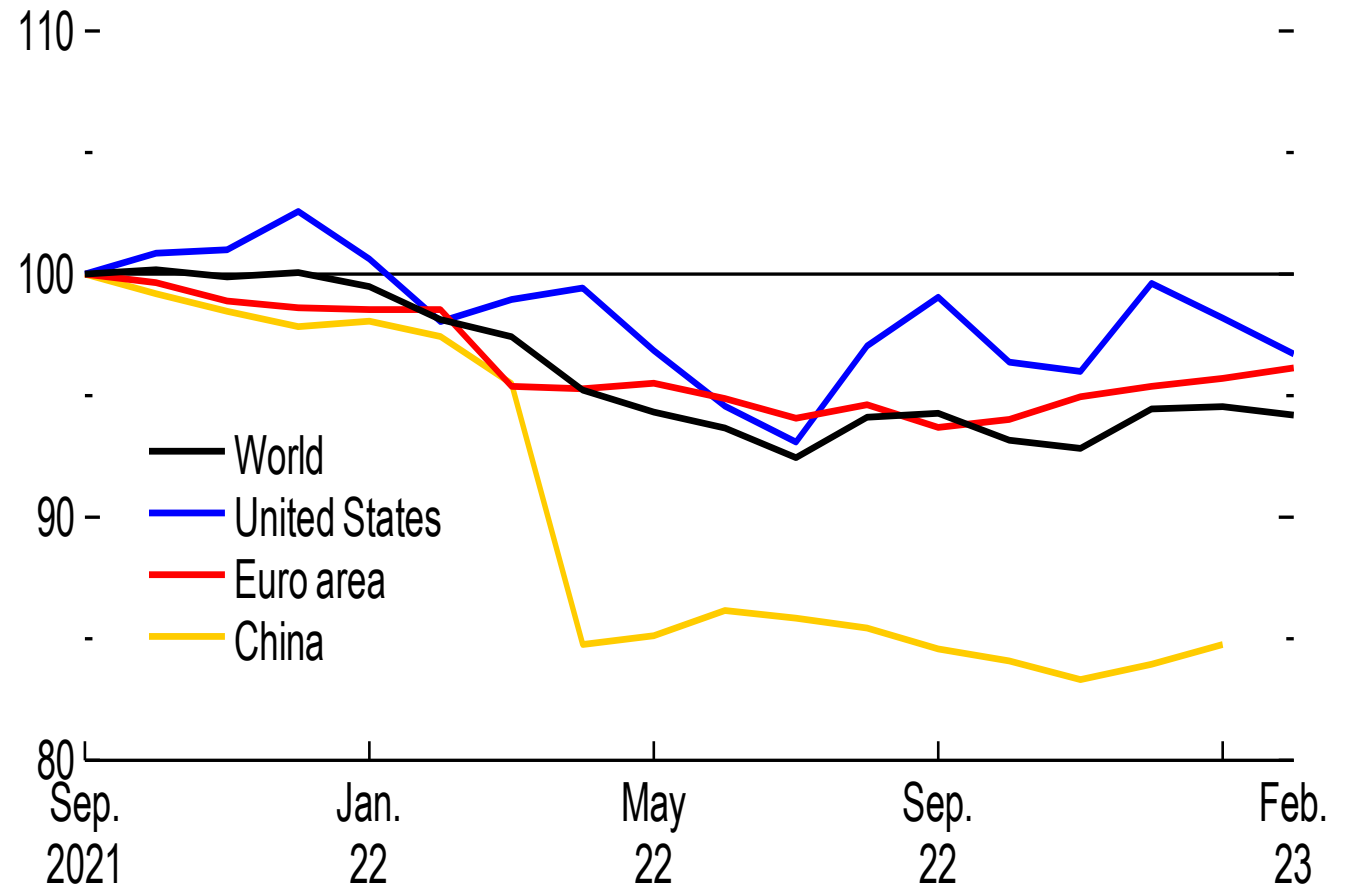
## Services' Business Activity PMI

(Above 50 expanding; below 50 contracting)



## Consumer Confidence

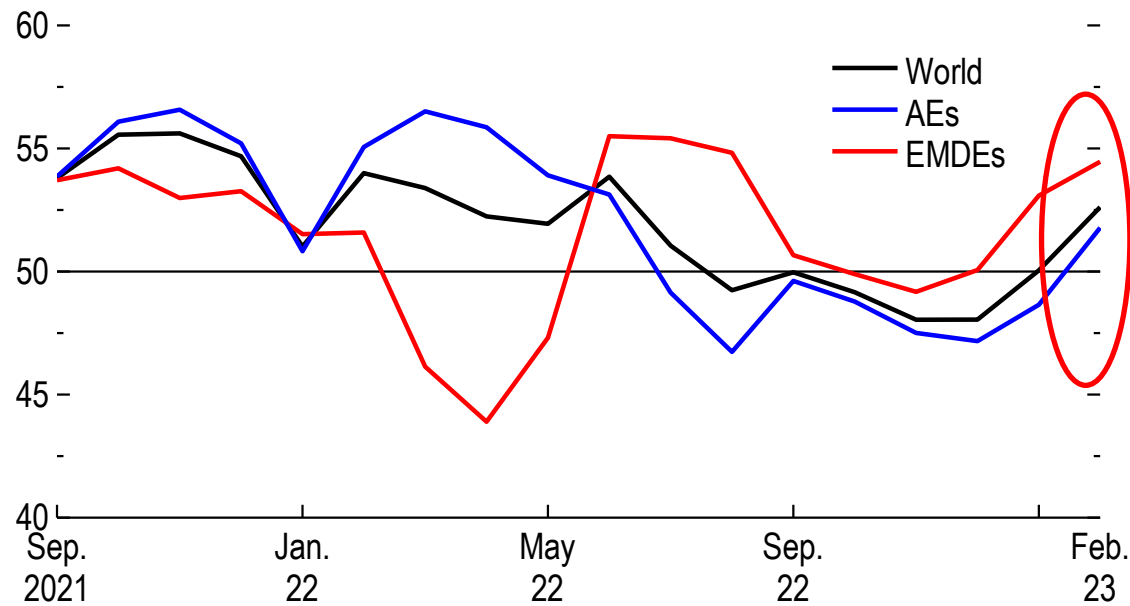
(September 2021 = 100)



# Activity strengthening in late 2022 and early 2023 ...

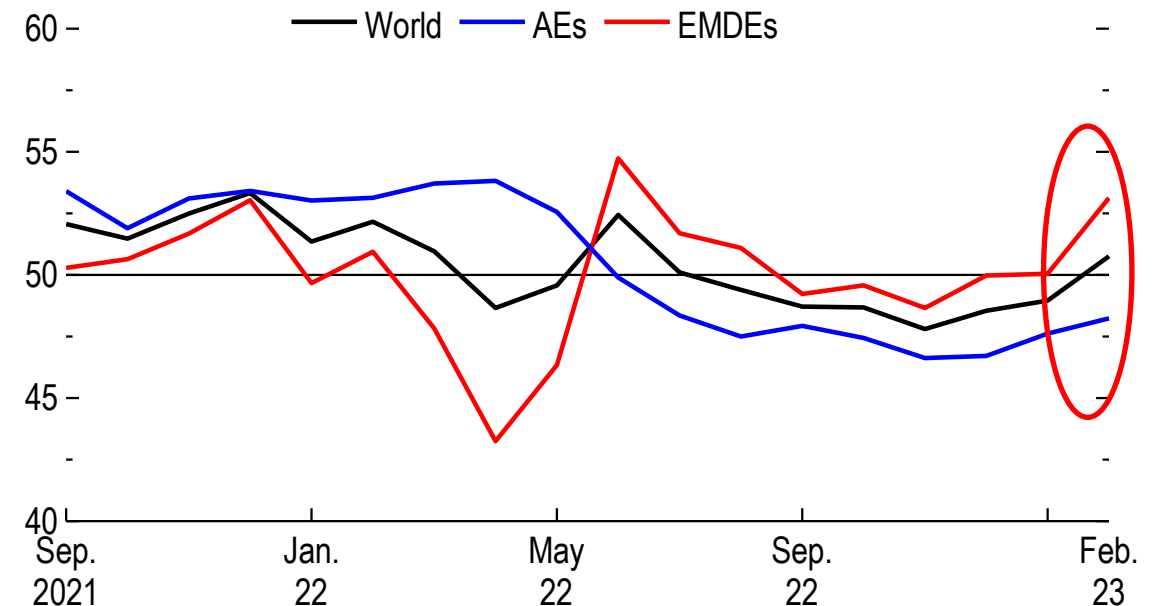
## Services' Business Activity PMI

(Above 50 expanding; below 50 contracting)



## Manufacturing Output PMI

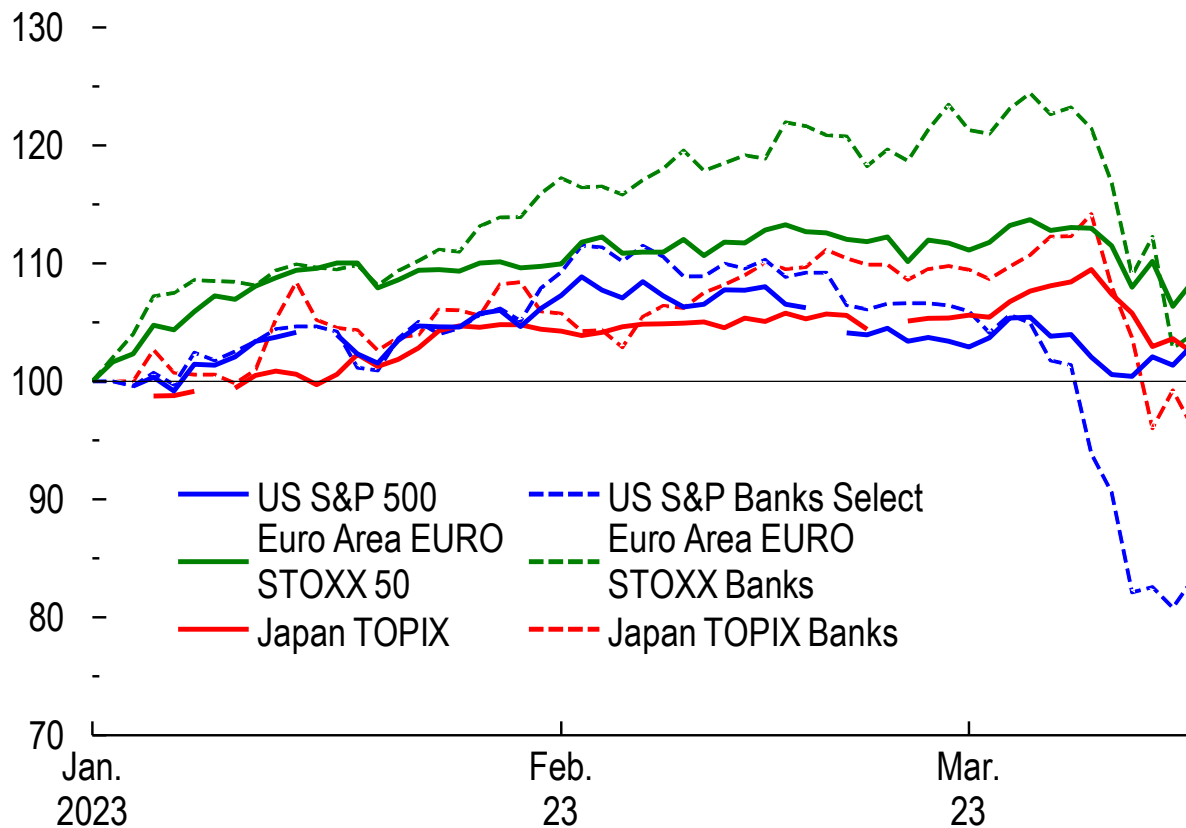
(Above 50 expanding; below 50 contracting)



# But then financial stresses rose and repricing risks reemerged

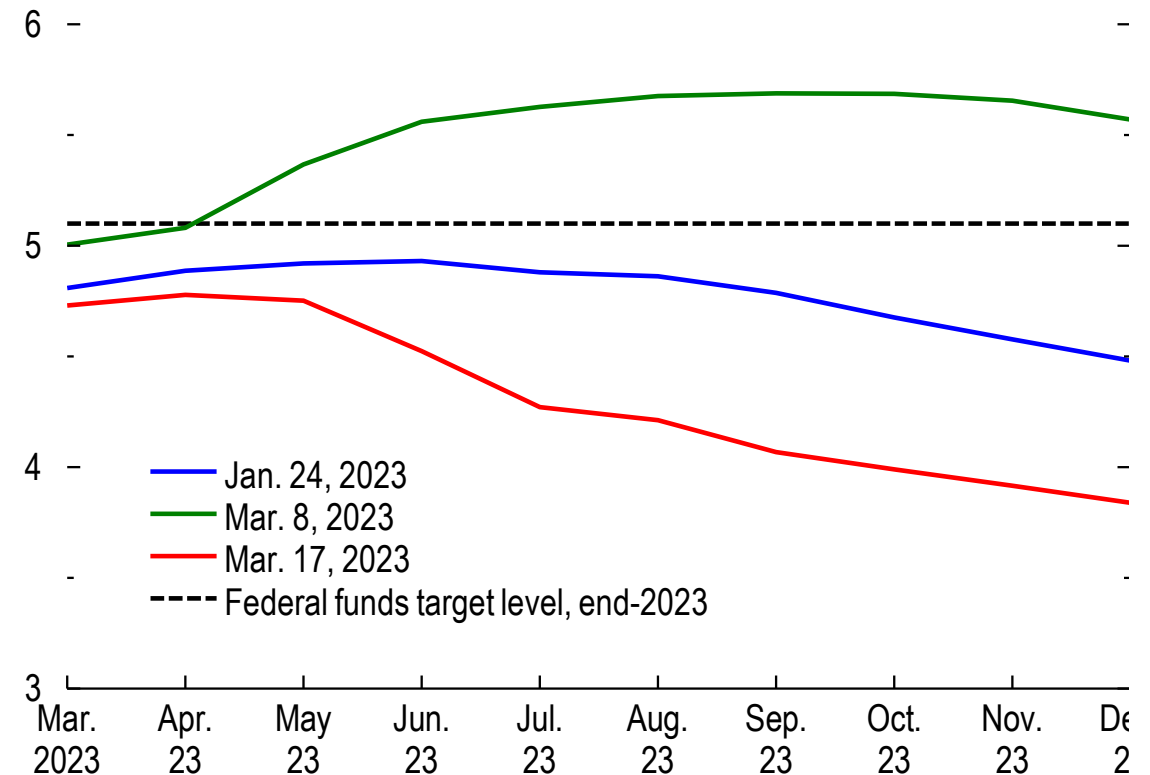
## Broad Equity and Bank Equity indices

(Index; January 1, 2023 = 100)



## Shifting market-implied US policy rate expectations

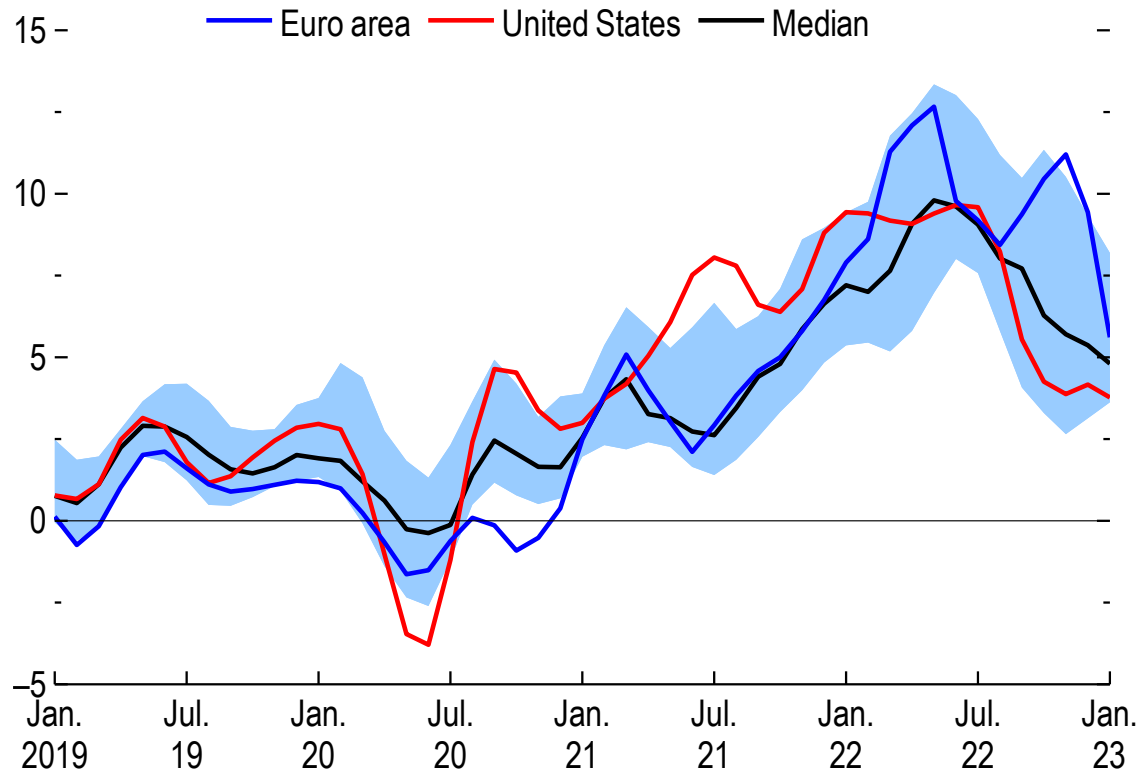
(Annualized percent)



# Inflation coming down but sticky and still high

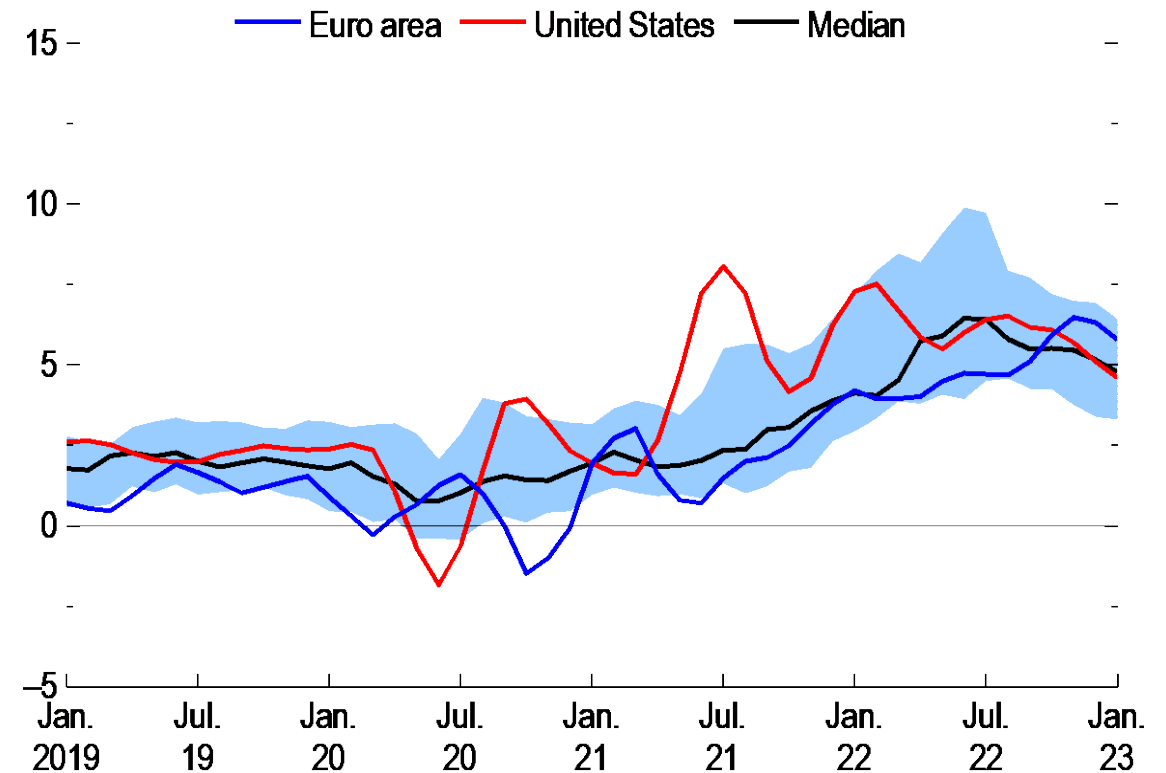
## Headline Inflation

(Percent, three-month moving average; SAAR)



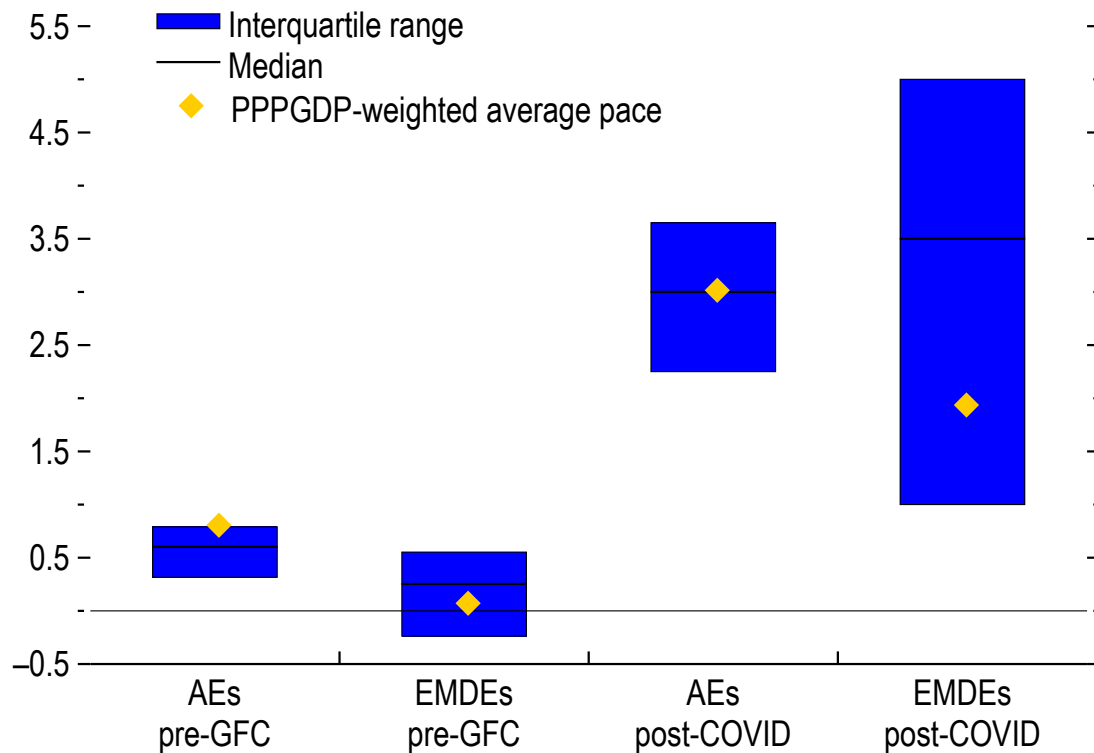
## Core Inflation

(Percent, three-month moving average; SAAR)

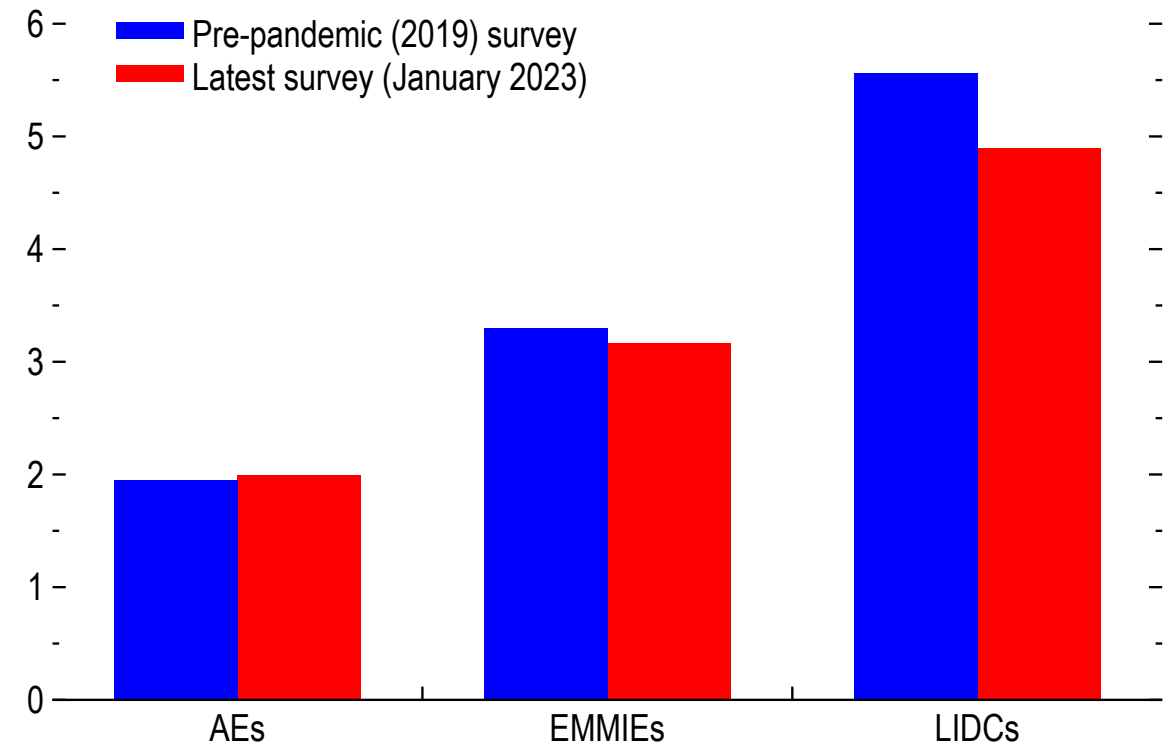


# Rapid, synchronous monetary tightening helping anchor expectations

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



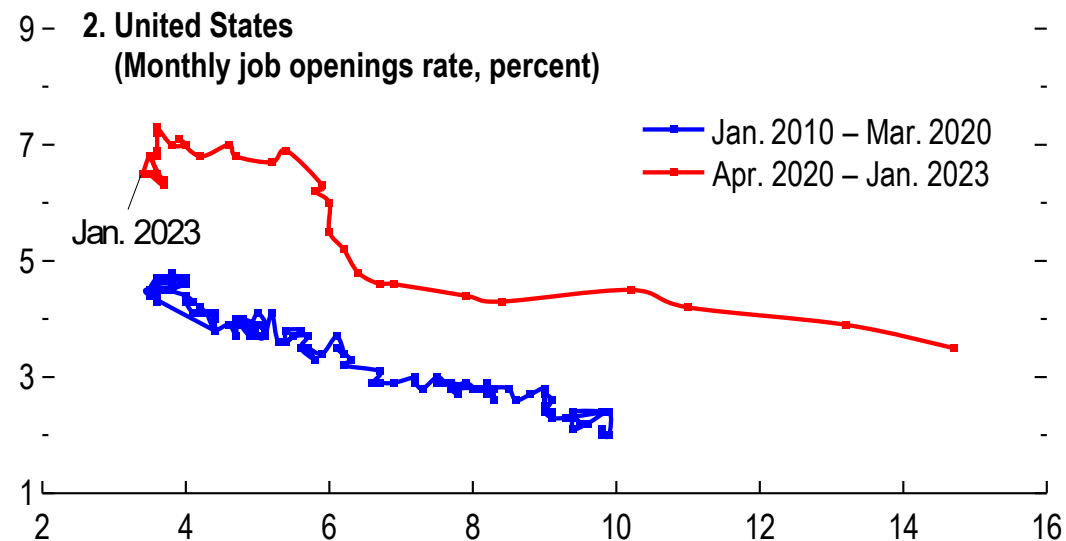
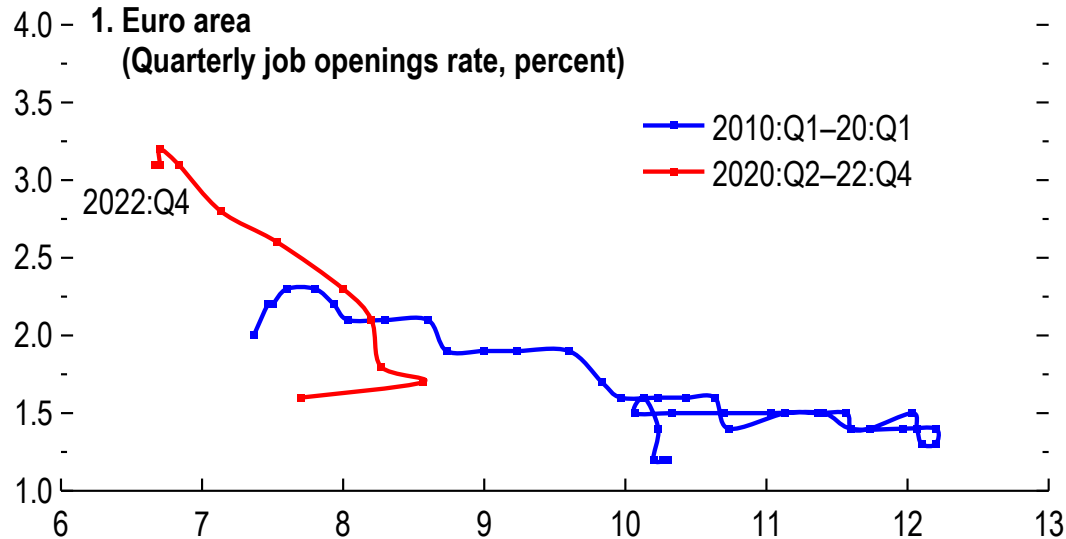
## Inflation expectations (5-year-ahead CPI inflation expectations)



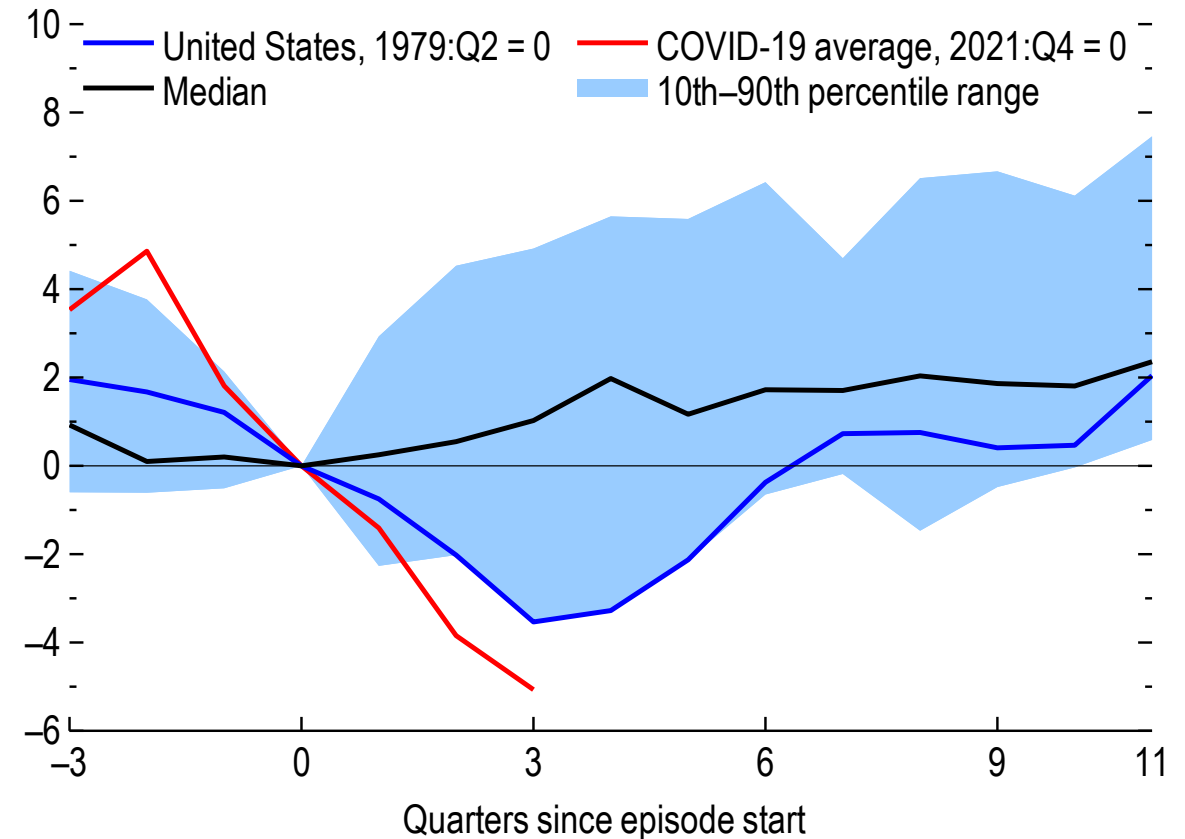


# Tight labor markets yet no sign of wage-price spiral

## Beveridge Curves in the Euro Area and US

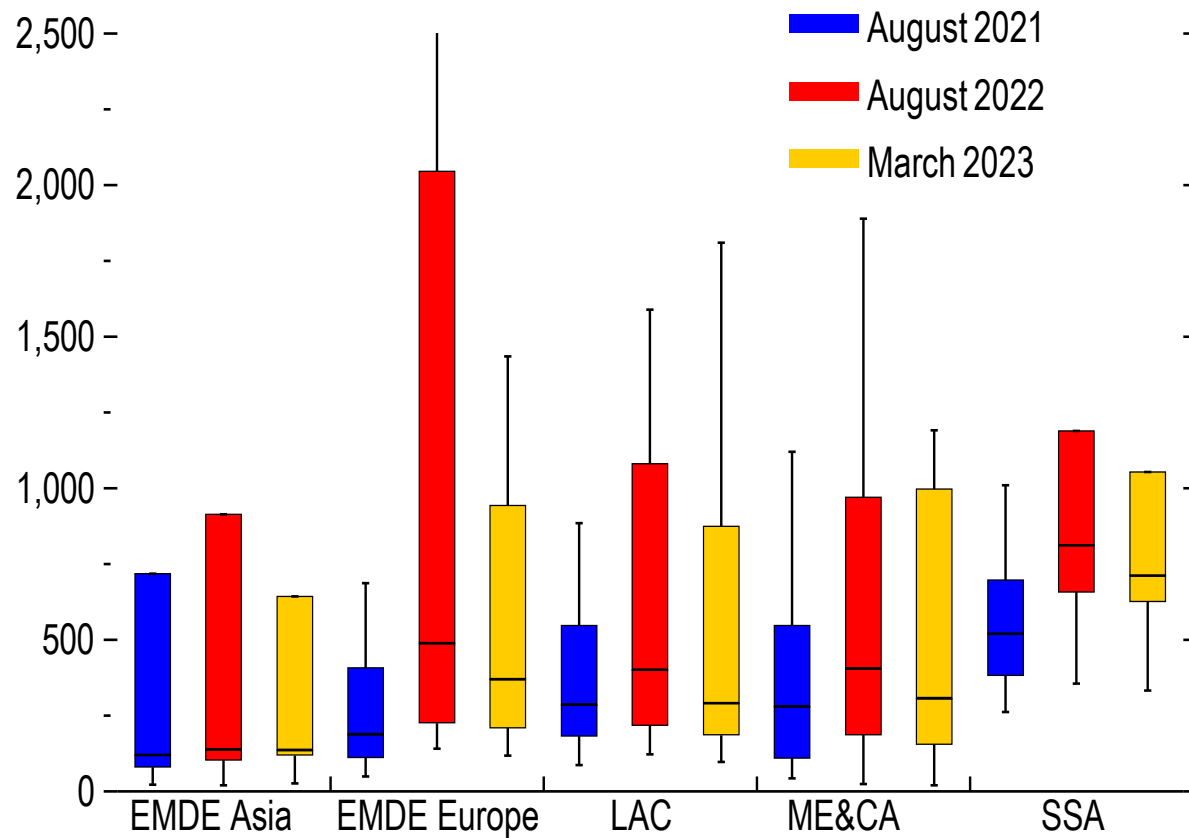


## Real wage growth across historical episodes (Percent difference since episode start)

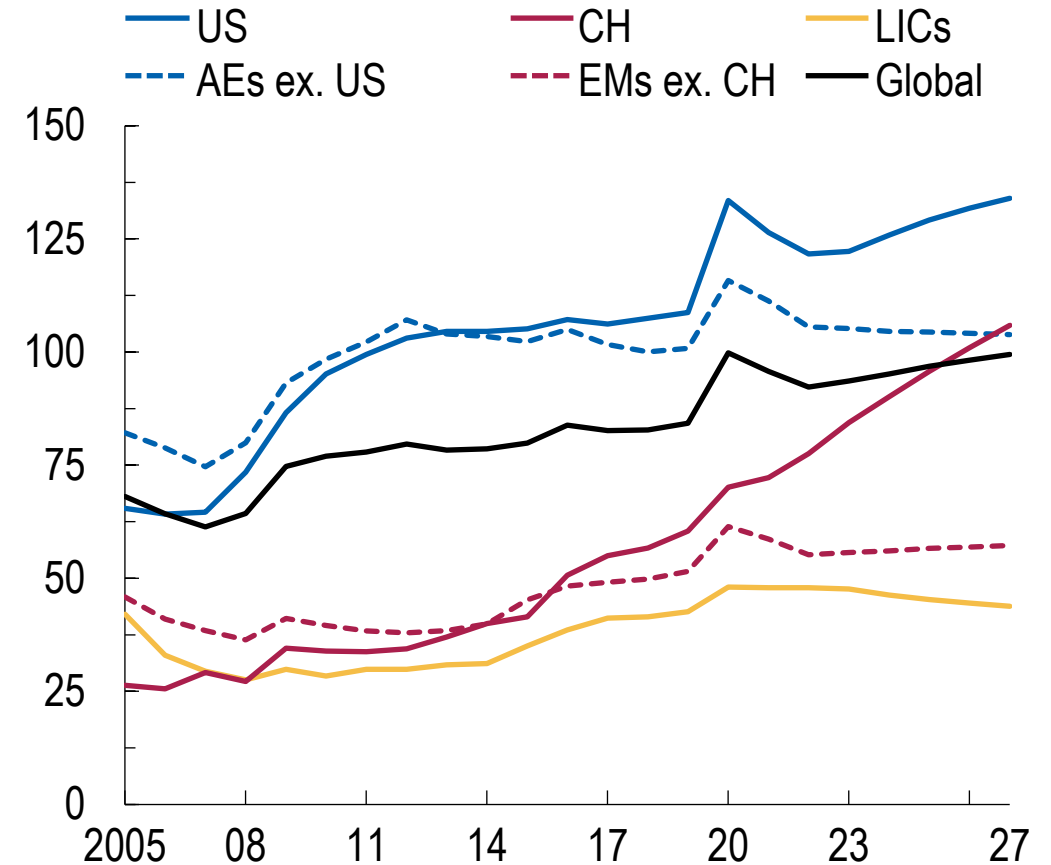


# Sovereign spreads come down, but debt still high

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



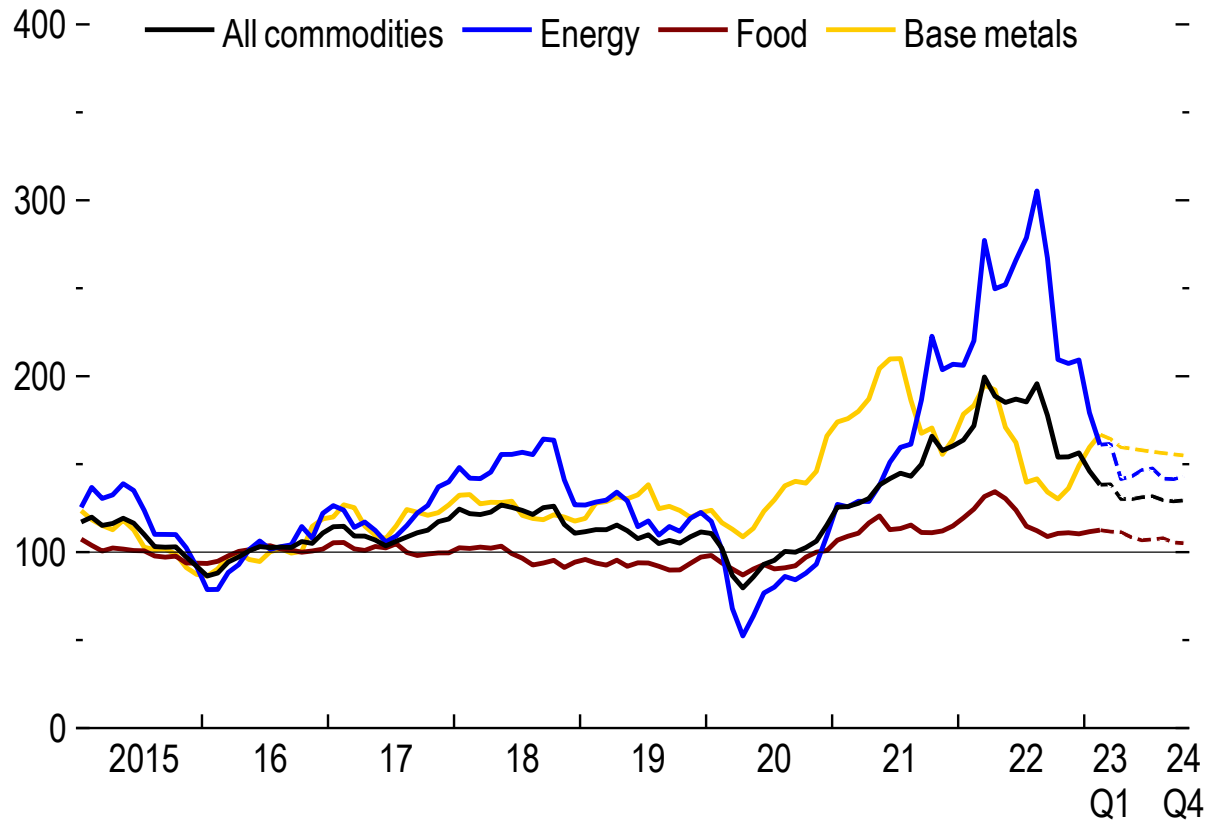
**Government Debt**  
(Percent of GDP)



# Commodity prices moderated, but spikes still a risk

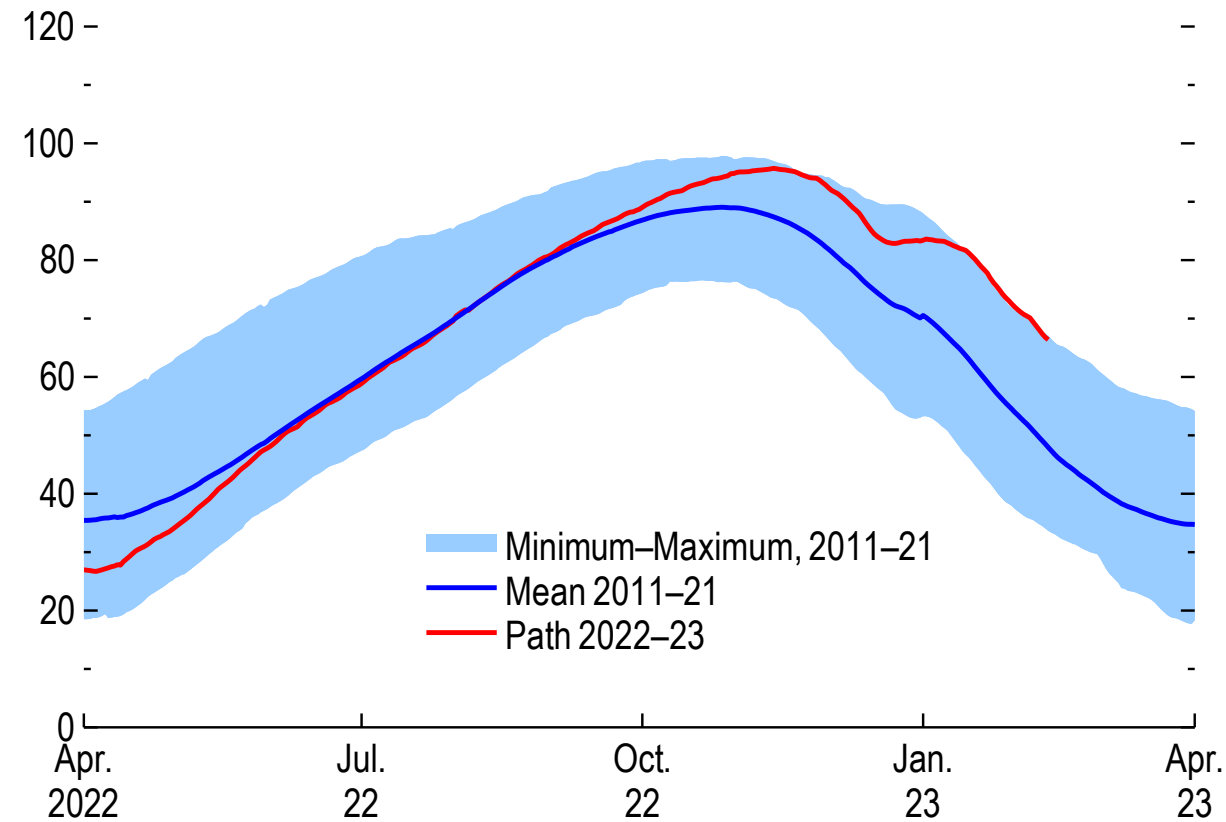
## Commodity price indices and forecasts

(Index, 2016 = 100)



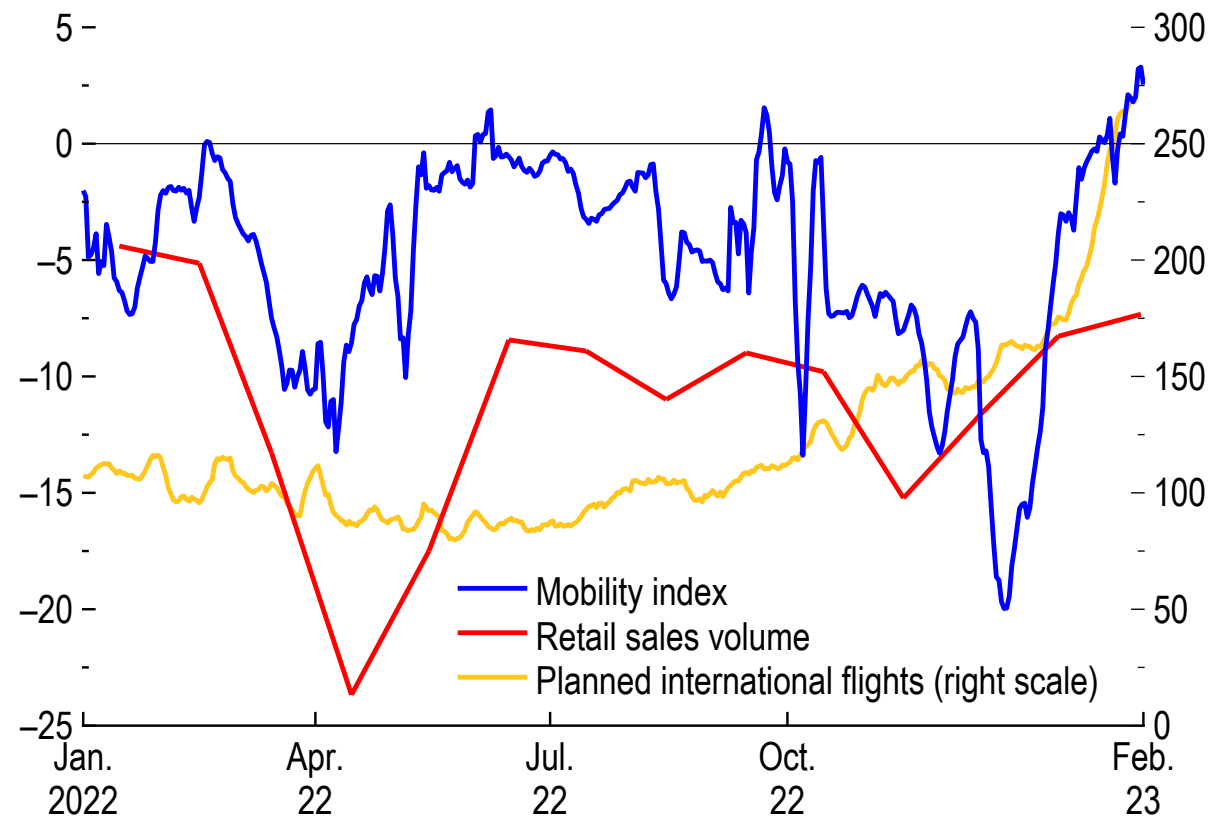
## Natural Gas Storage in Europe

(Percent of capacity)

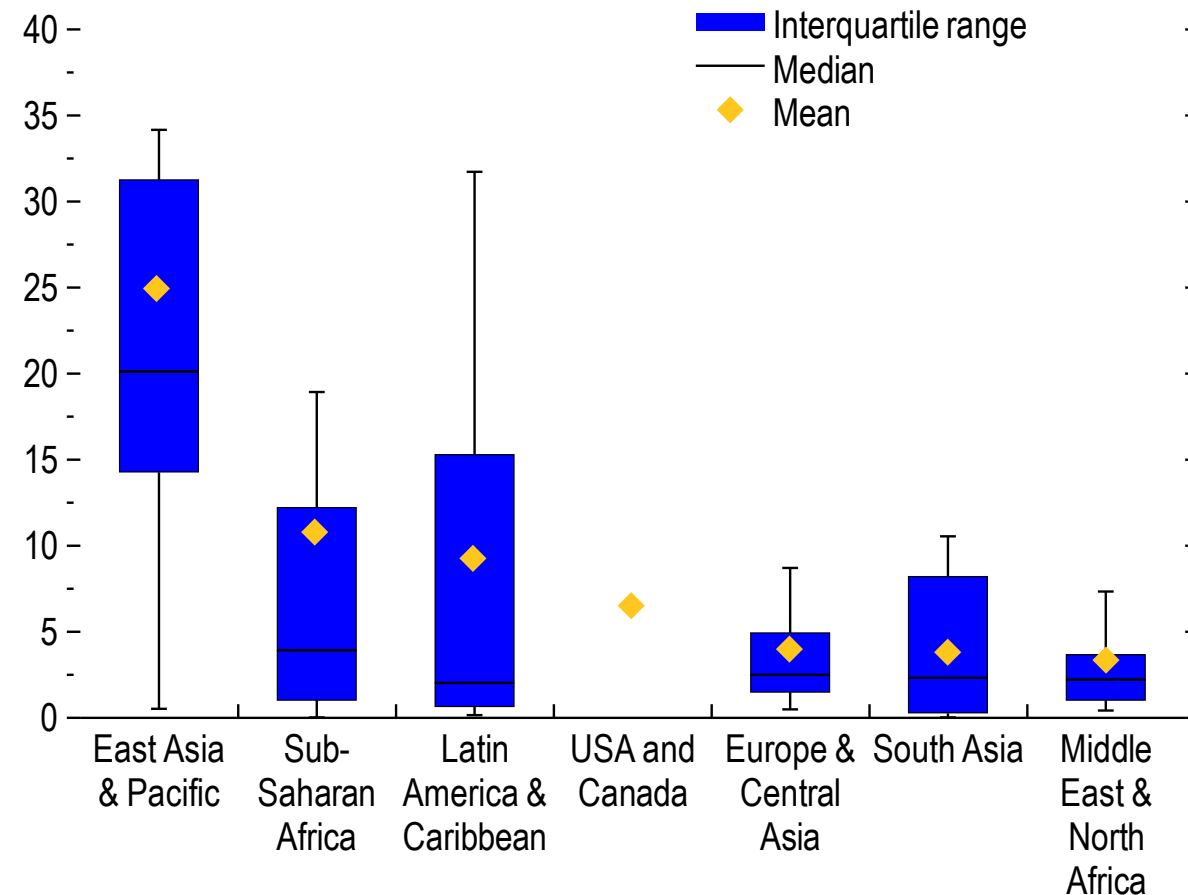


# China rebounds with reopening, with positive spillovers

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



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



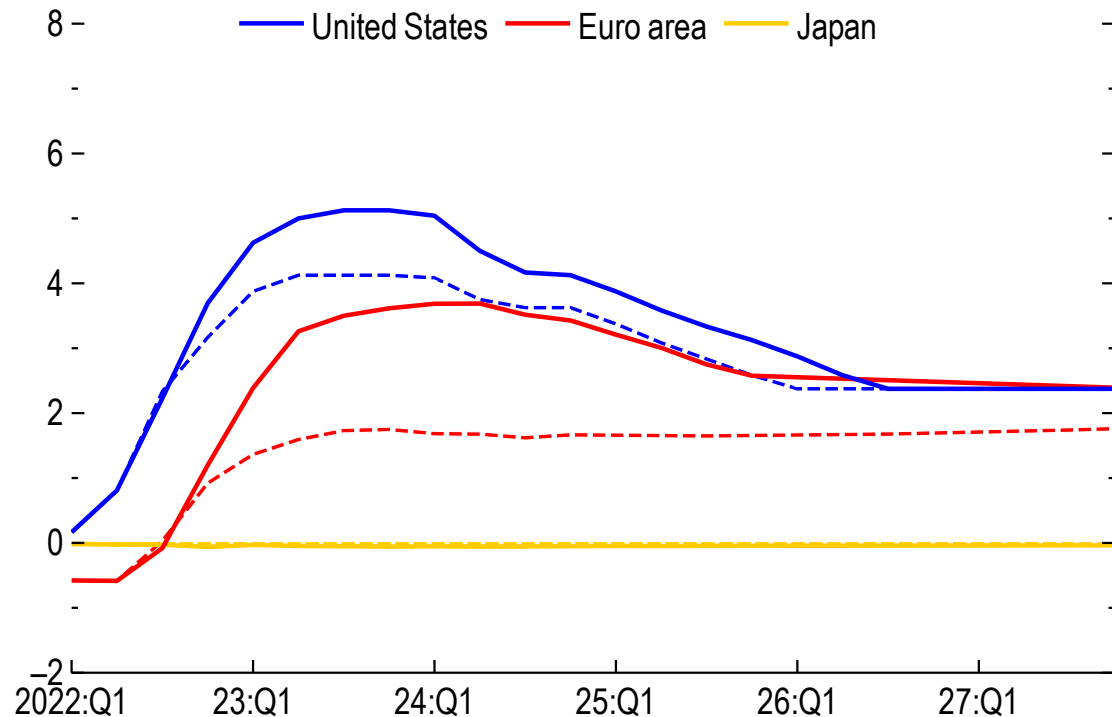
# **The outlook**

# Assumptions for the Baseline Forecast

## Monetary policy rates: higher for longer

### Policy Rates in Selected AEs

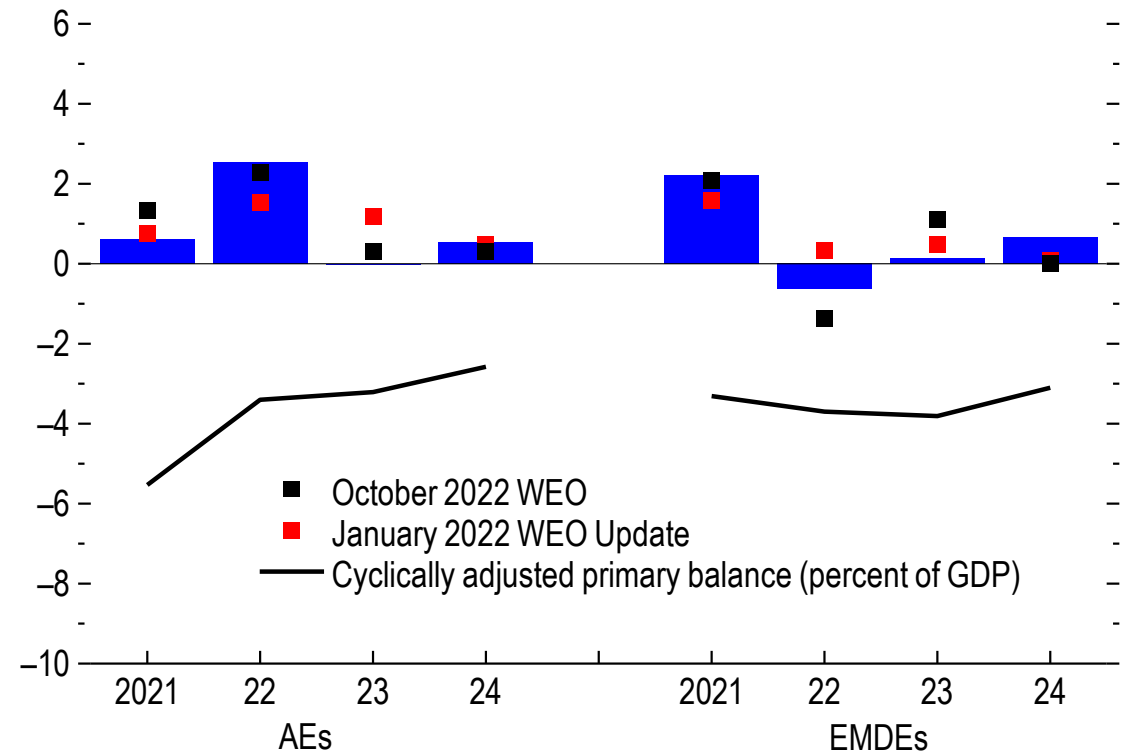
(Percent; annualized; dashed lines are October 2022 WEO vintage)



## Government support: very gradual withdrawal

### Fiscal Stance, 2021-24

(Change in structural primary fiscal balance, percent of potential GDP)

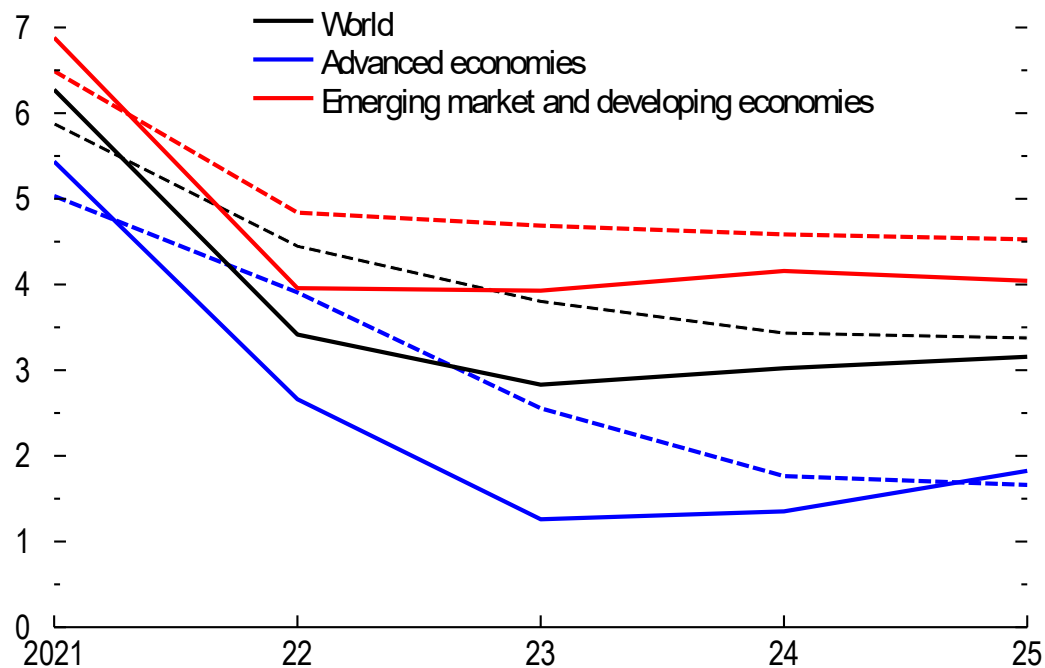


# Growth Outlook: Feeble and Uneven

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

## Growth Outlook

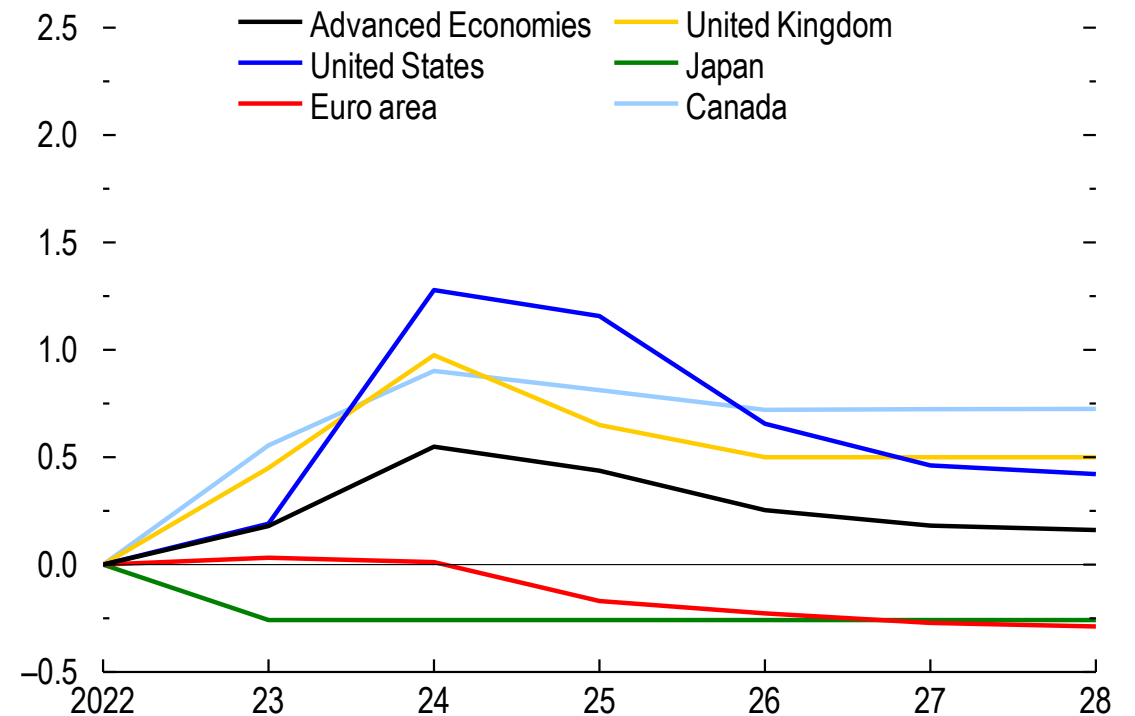
(Percent; dashes from January 2022 WEO Update)



Slowdown especially sharp in advanced economies, with rising unemployment

## Unemployment in Advanced Economies

(Percentage point difference from 2022 level)



# Growth Projections: Advanced Economies

(percent change from a year earlier)



World



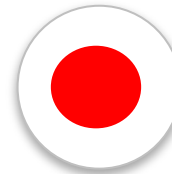
Advanced Economies



U.S.



Euro Area



Japan



U.K.



Canada



Other  
Advanced Asia

**2022**

**3.4**

**2.7**

**2.1**

**3.5**

**1.1**

**4.0**

**3.4**

**2.5**

Revision from  
Jan. 2023

0.0

0.0

0.1

0.0

-0.3

-0.1

-0.1

-0.2

**2023**

**2.8**

**1.3**

**1.6**

**0.8**

**1.3**

**-0.3**

**1.5**

**1.8**

Revision from  
Jan. 2023

-0.1

0.1

0.2

0.1

-0.5

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-0.2

**2024**

**3.0**

**1.4**

**1.1**

**1.4**

**1.0**

**1.0**

**1.5**

**2.3**

Revision from  
Jan. 2023

-0.1

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-0.2

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0.1

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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	Commodity Exporting Economies	Low Income Developing Countries
<b>2022</b>	<b>3.4</b>	<b>4.0</b>	<b>3.0</b>	<b>6.8</b>	<b>2.9</b>	<b>-2.1</b>	<b>3.6</b>	<b>5.0</b>
Revision from Jan. 2023	0.0	0.1	0.0	0.0	-0.2	0.1	0.1	0.1
<b>2023</b>	<b>2.8</b>	<b>3.9</b>	<b>5.2</b>	<b>5.9</b>	<b>0.9</b>	<b>0.7</b>	<b>2.5</b>	<b>4.7</b>
Revision from Jan. 2023	-0.1	-0.1	0.0	-0.2	-0.3	0.4	-0.1	-0.2
<b>2024</b>	<b>3.0</b>	<b>4.2</b>	<b>4.5</b>	<b>6.3</b>	<b>1.5</b>	<b>1.3</b>	<b>3.0</b>	<b>5.4</b>
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*.

# Growth projections: Asia

(percent change from a year earlier)



World



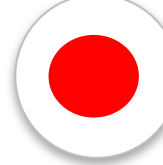
Asia



China



India



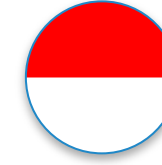
Japan



Korea



Australia



Indonesia



Thailand



Singapore

**2022**

**3.4**

**3.8**

**3.0**

**6.8**

**1.1**

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Revision from  
Jan. 2023

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Revision from  
Jan. 2023

-0.1

-0.1

0.0

-0.2

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Revision from  
Jan. 2023

-0.1

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

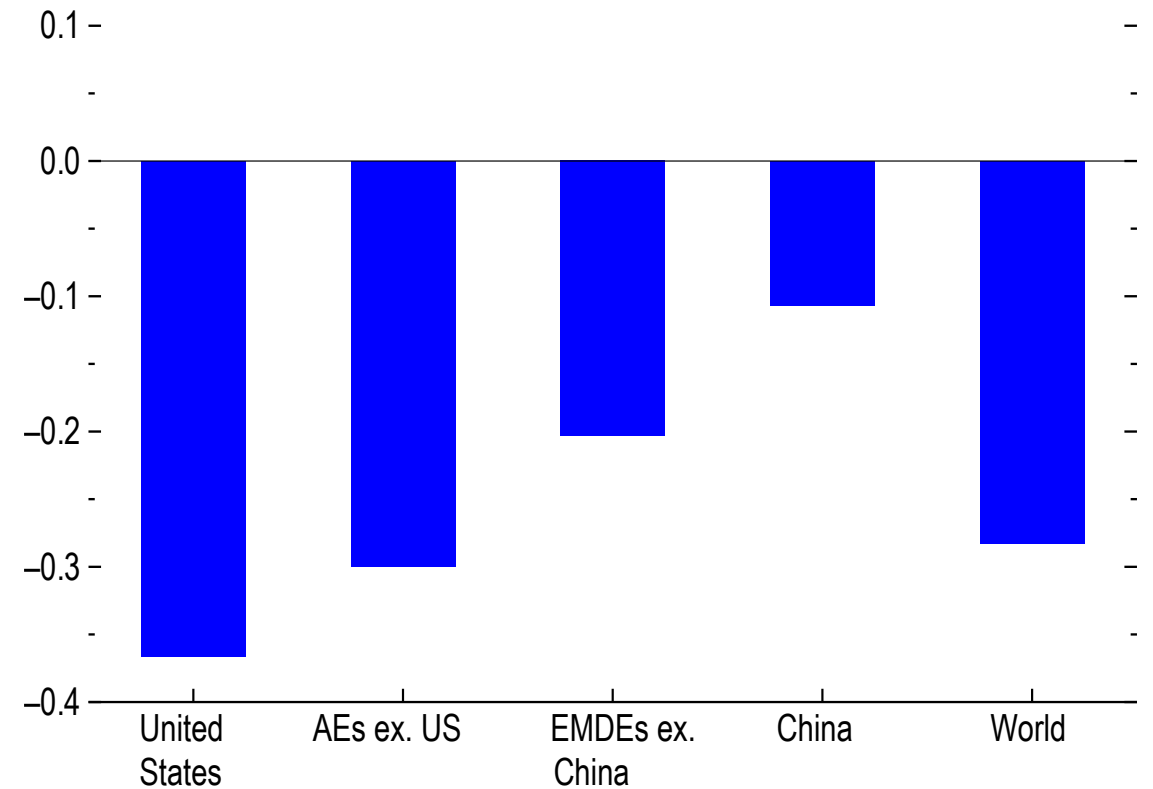
# Plausible Alternative Scenario

## 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)

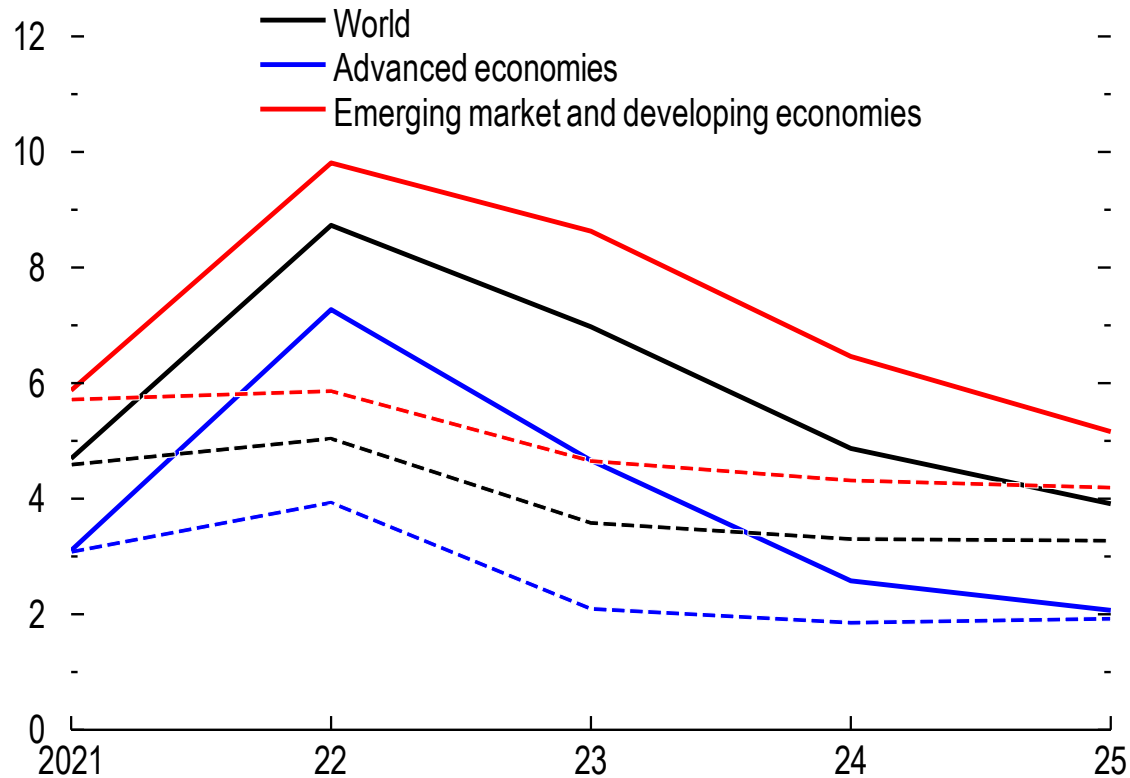


# Inflation: Still High but Falling

Headline inflation to fall in  $\frac{3}{4}$  of countries in 2023

## Headline Inflation

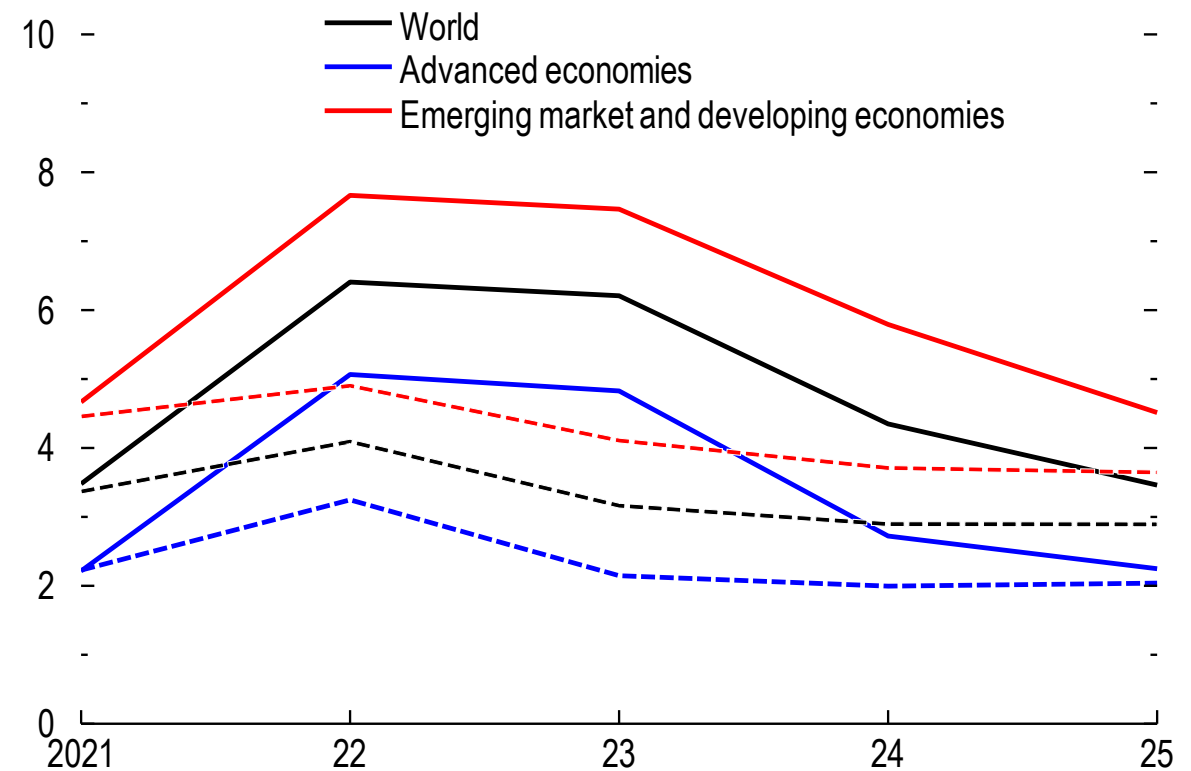
(Percent; dashed lines from January 2022 WEO Update)



Core inflation much stickier than headline

## Inflation Excluding Food and Energy

(Percent; dashed lines from January 2022 WEO Update)

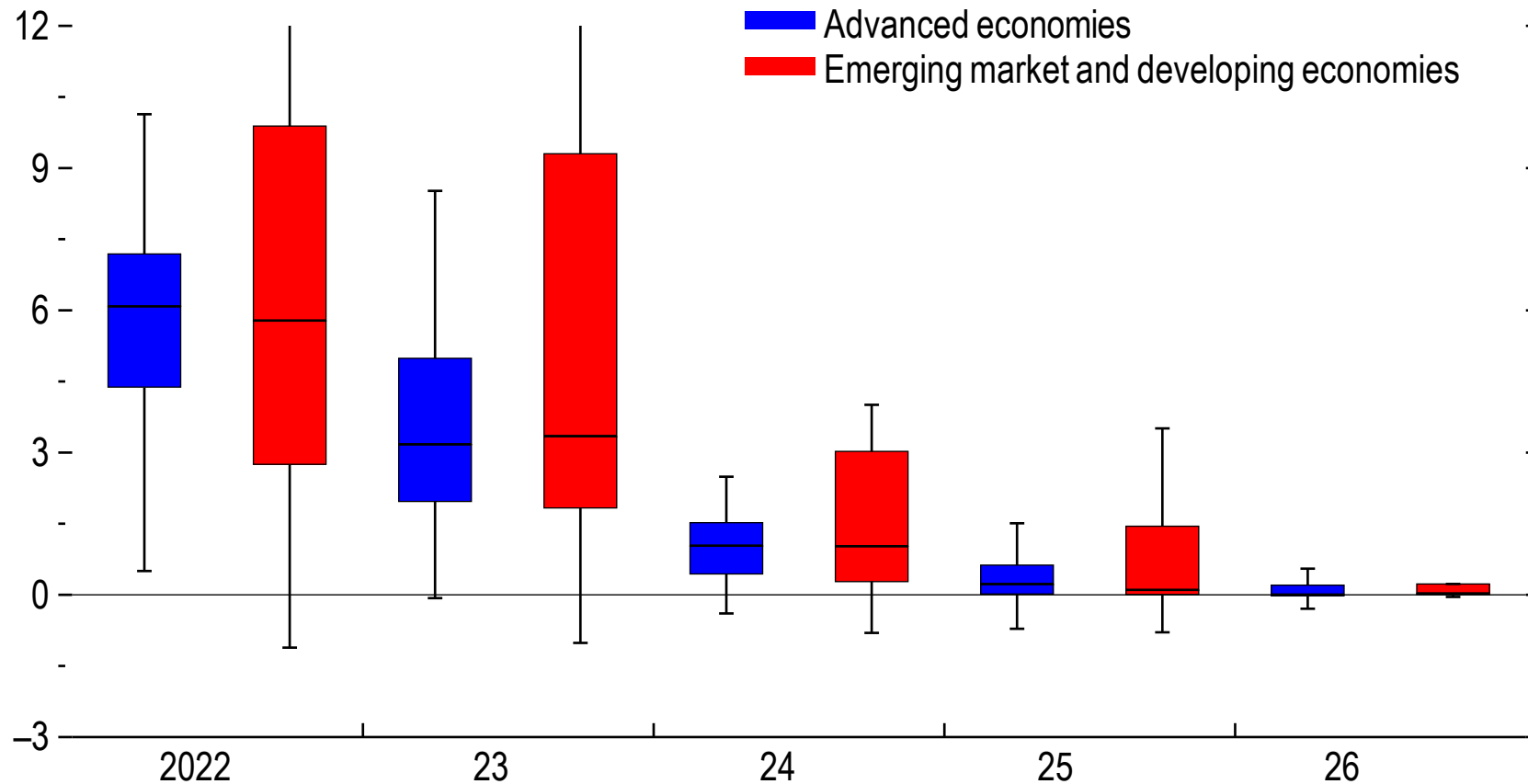


# Inflation Slowly Converging to Target

Returning inflation to target to take until 2025 in most cases

## Cross-country Distribution of Gap from Inflation Target

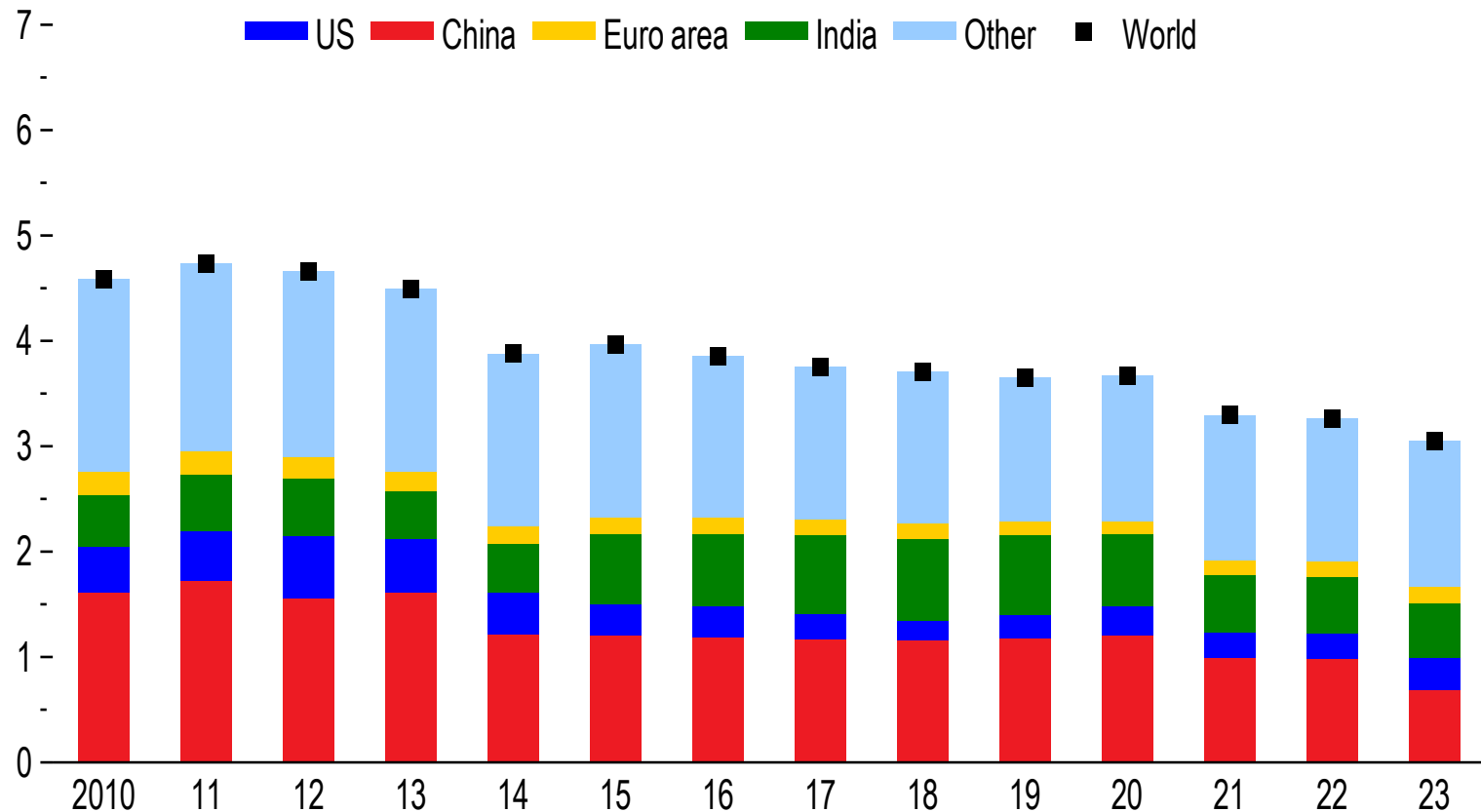
(Percentage point; 72 inflation-targeting countries)



# 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)



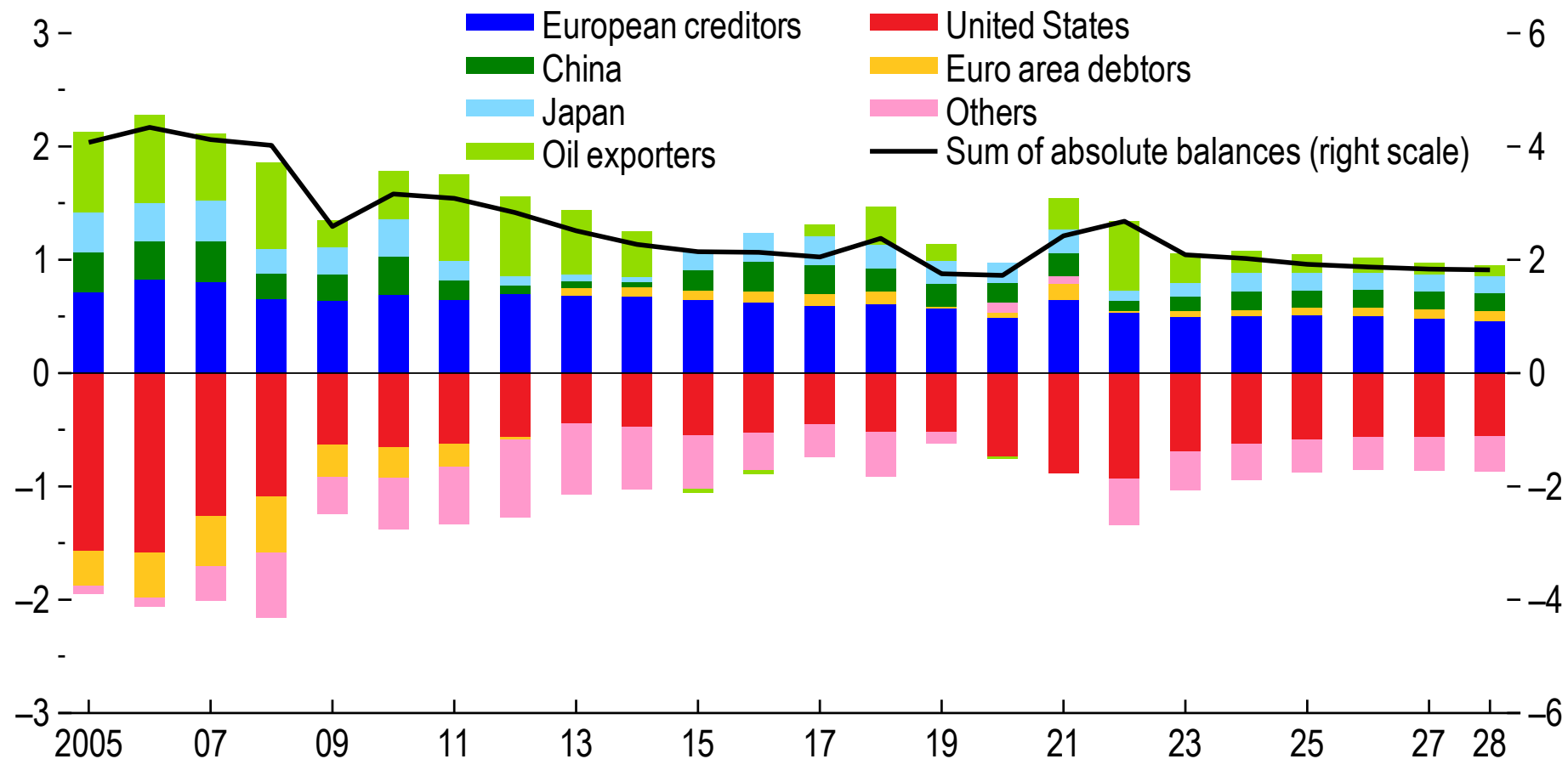
## Lowest Forecast in Decades

- 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)

# Trade Slowdown, Narrowing Balances

After rising in 2022 with higher commodity prices, current account balances to narrow over time

## Global Current Account Balance (Percent of global GDP)



# Risks

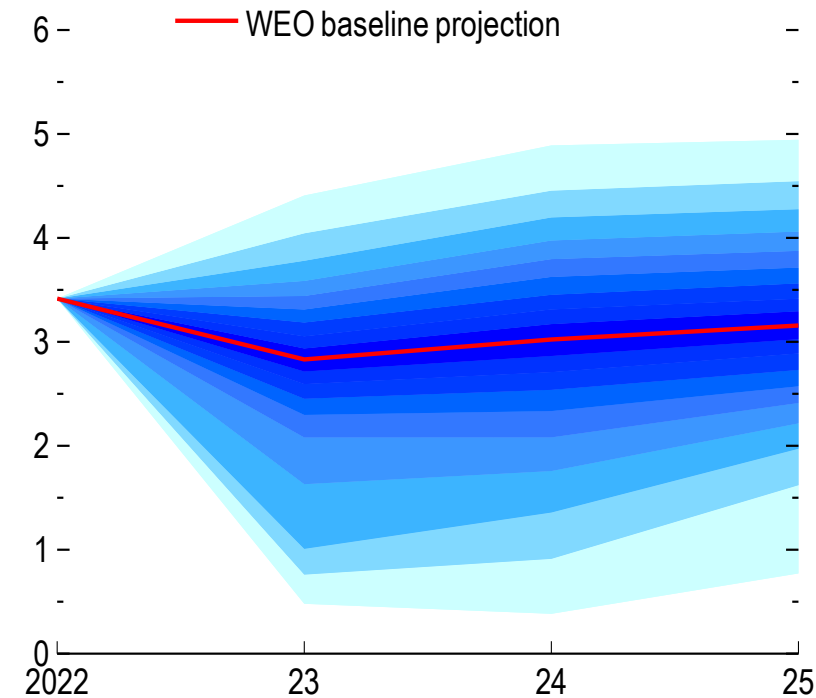


# Downside Risks Dominate

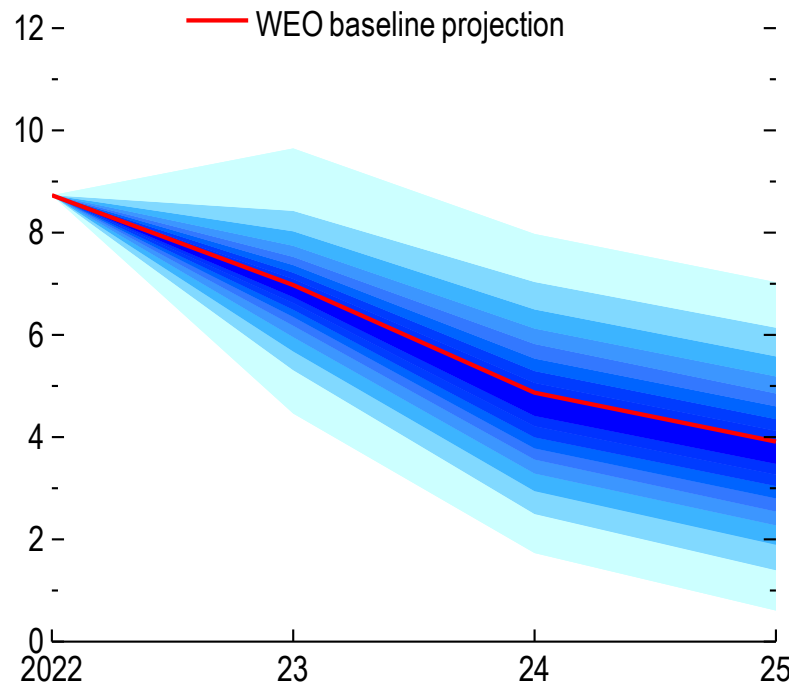
The balance of risks to growth is to the downside...

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

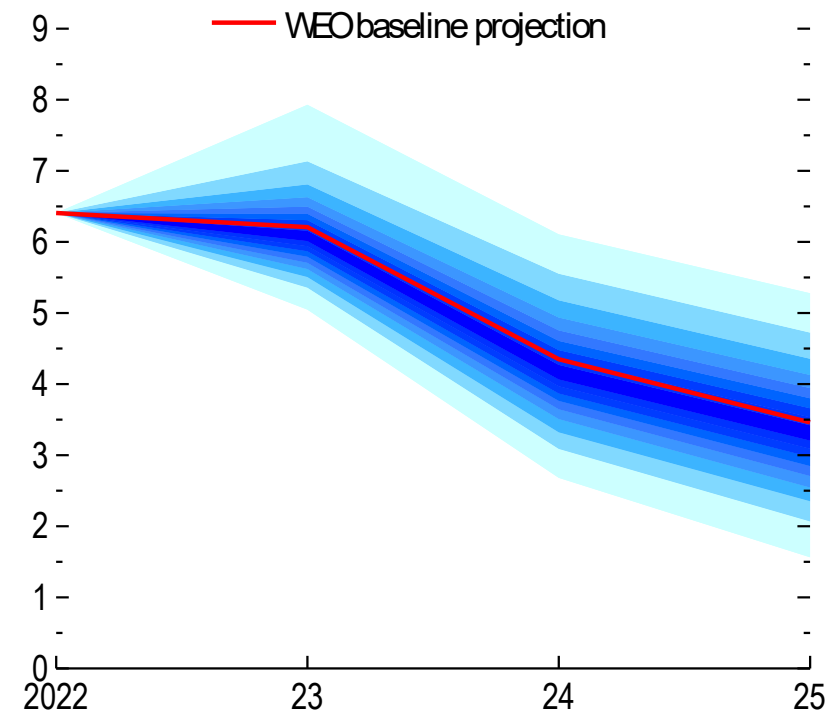
**World Growth**  
(Percent)



**World Headline Inflation**  
(Percent)



**World Core Inflation**  
(Percent)



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

# 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**

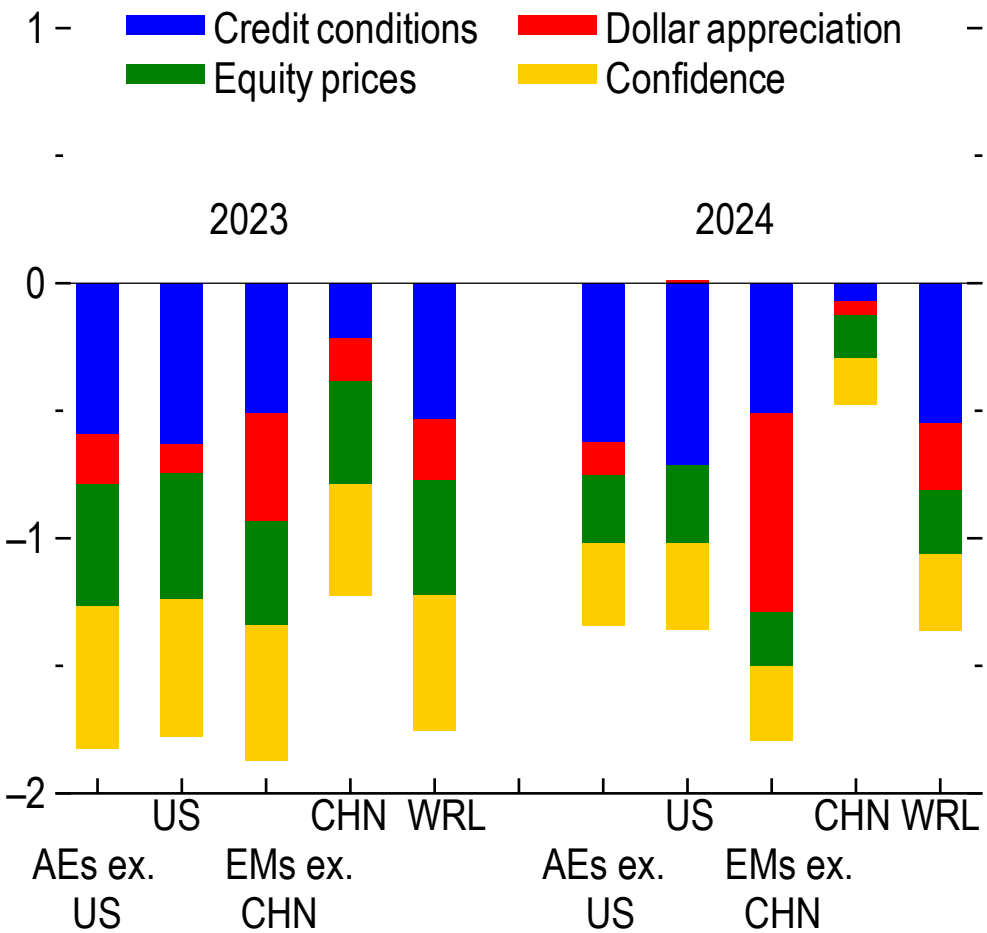
## Upside

**Much diminished relevance:**

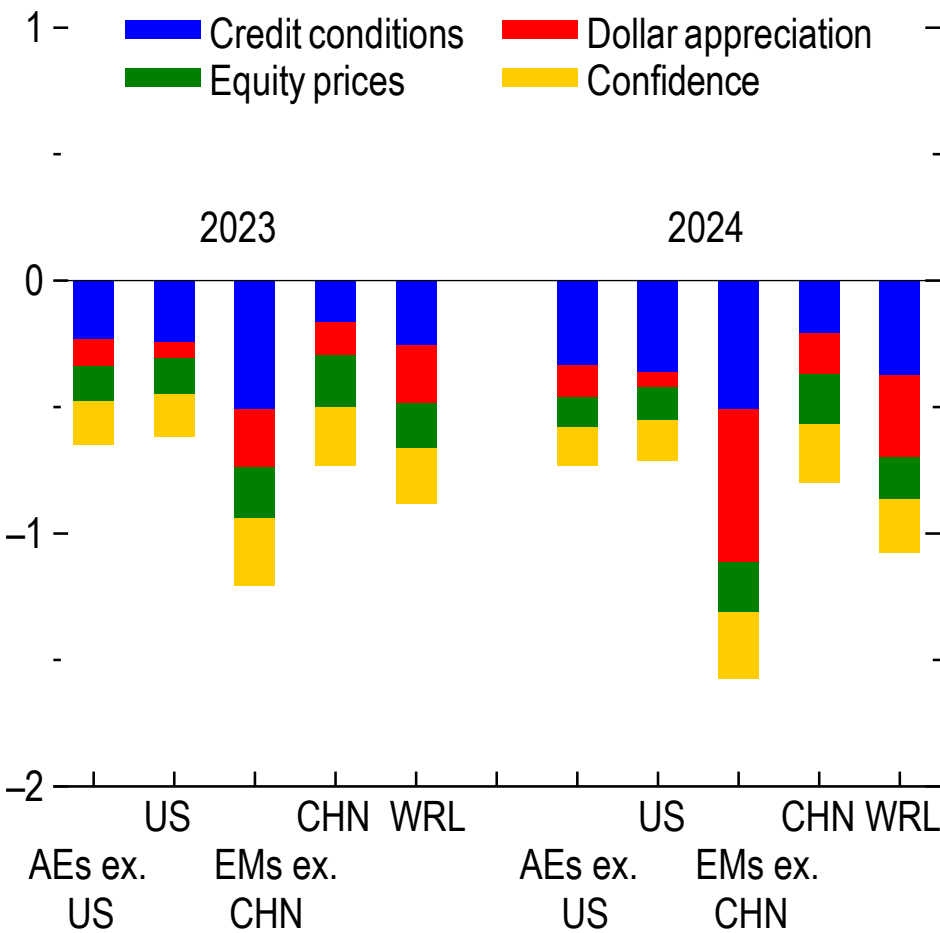
- **Resilient consumption from households saving buffers**
- **Labor markets easing with lower unemployment cost; further easing of supply-side bottlenecks**

# Risk of a severe tightening in global financial conditions

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



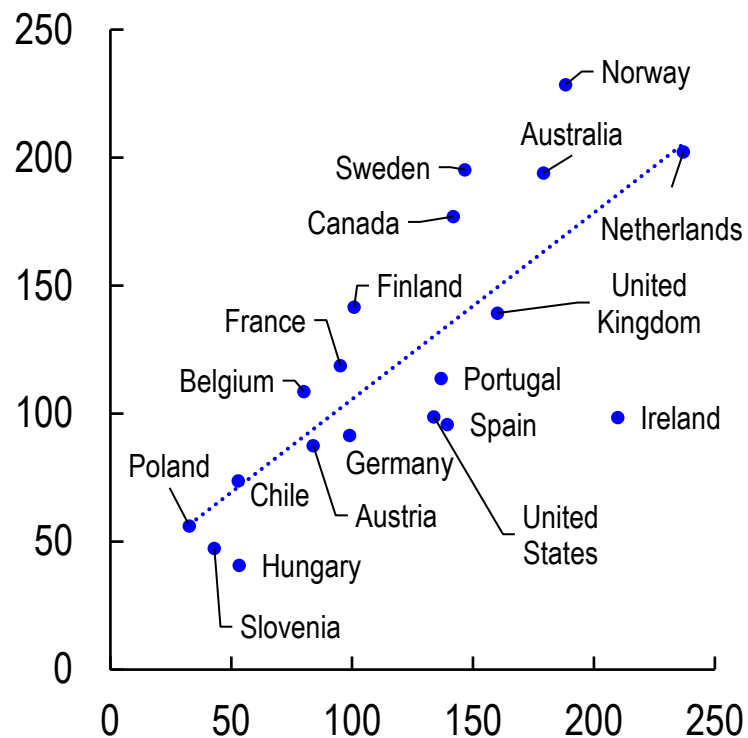
**Impact on core inflation, severe scenario**  
*(percent deviation from baseline)*



# Additional Risks

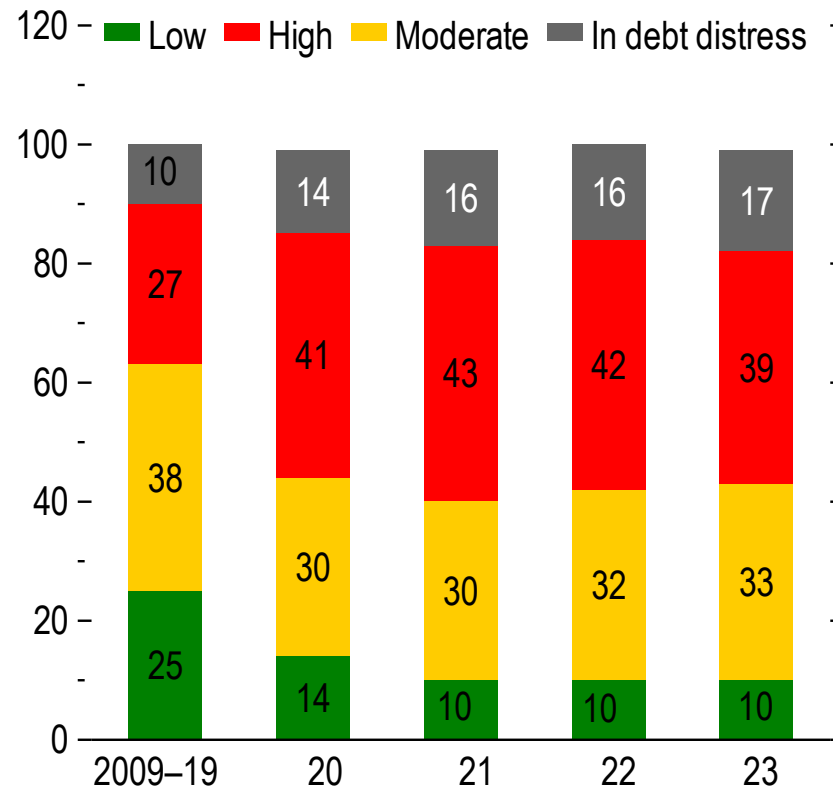
## Sharper monetary policy impact amid high debt

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



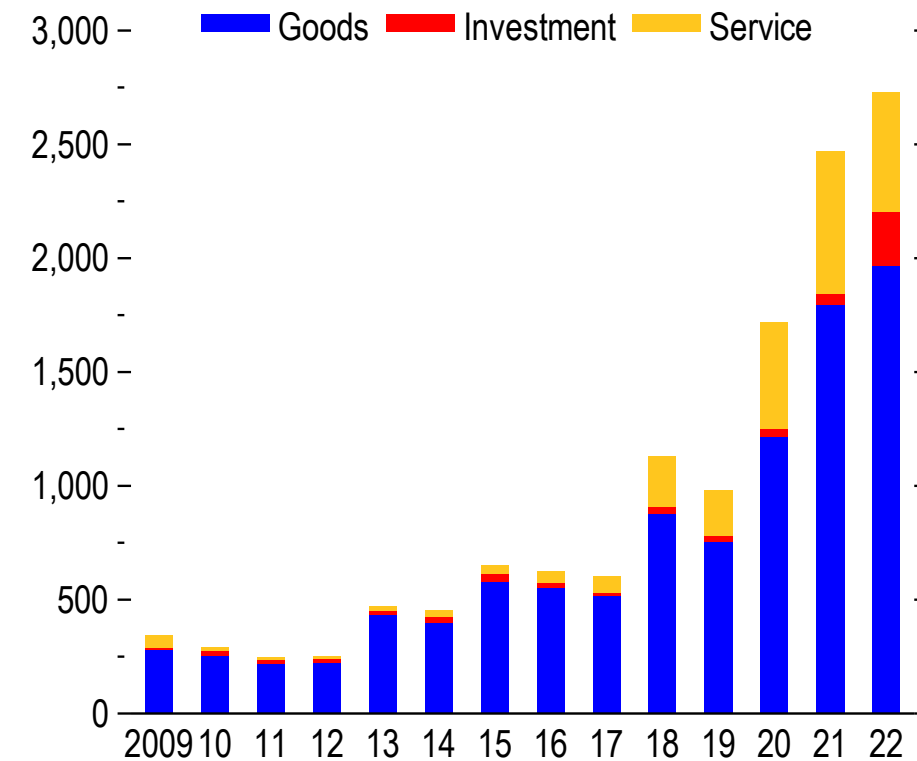
## Systemic Sovereign debt distress in EMDEs

Risks of debt distress in LIDCs  
(percent)



## Fragmentation further hampers multilateral cooperation

Harmful Trade Restrictions Imposed  
(Total number)

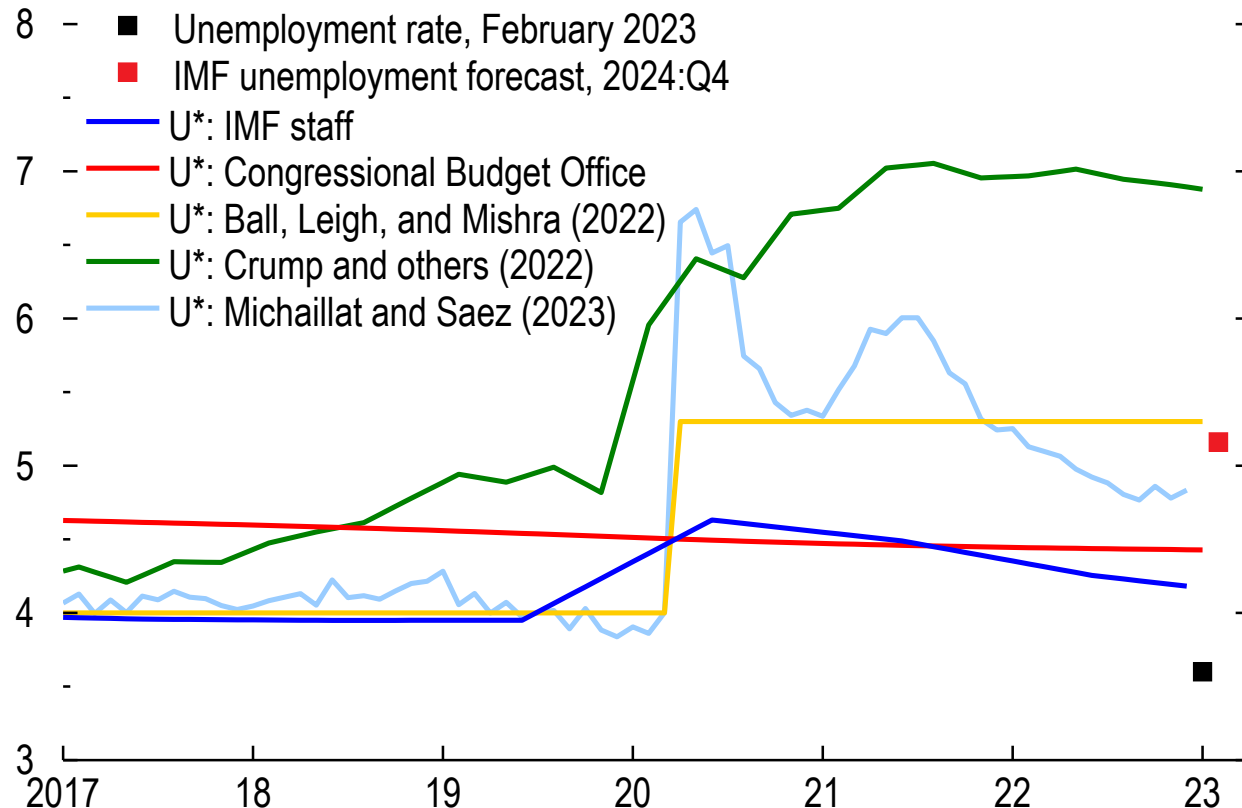


Source: OECD; IMF-World Bank LIDC Debt Sustainability Analysis Database; Global Trade Alert; and IMF staff calculations.

# Policy priorities

# Monetary policy: steady but ready

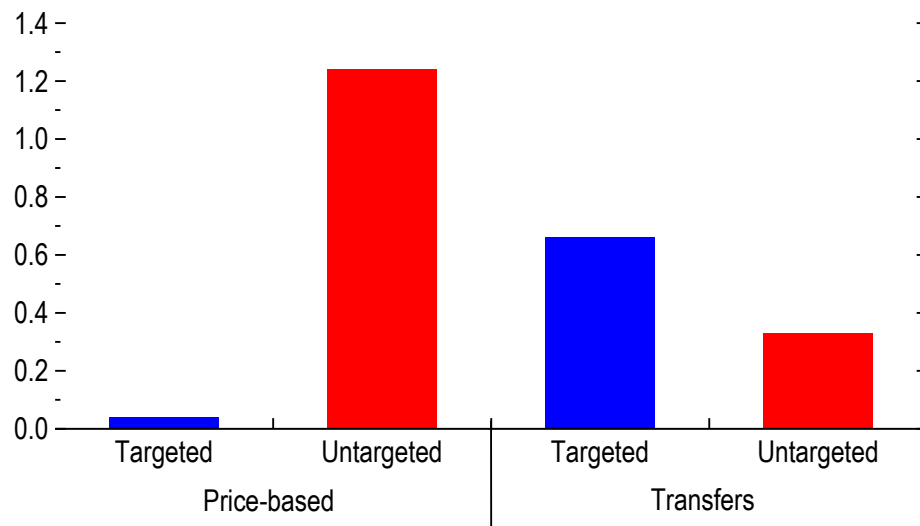
## Uncertainty on US natural rate of unemployment (Percent)



- **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, NBFIs 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

**US Real Effective Exchange Rate Index**  
(2010=100)



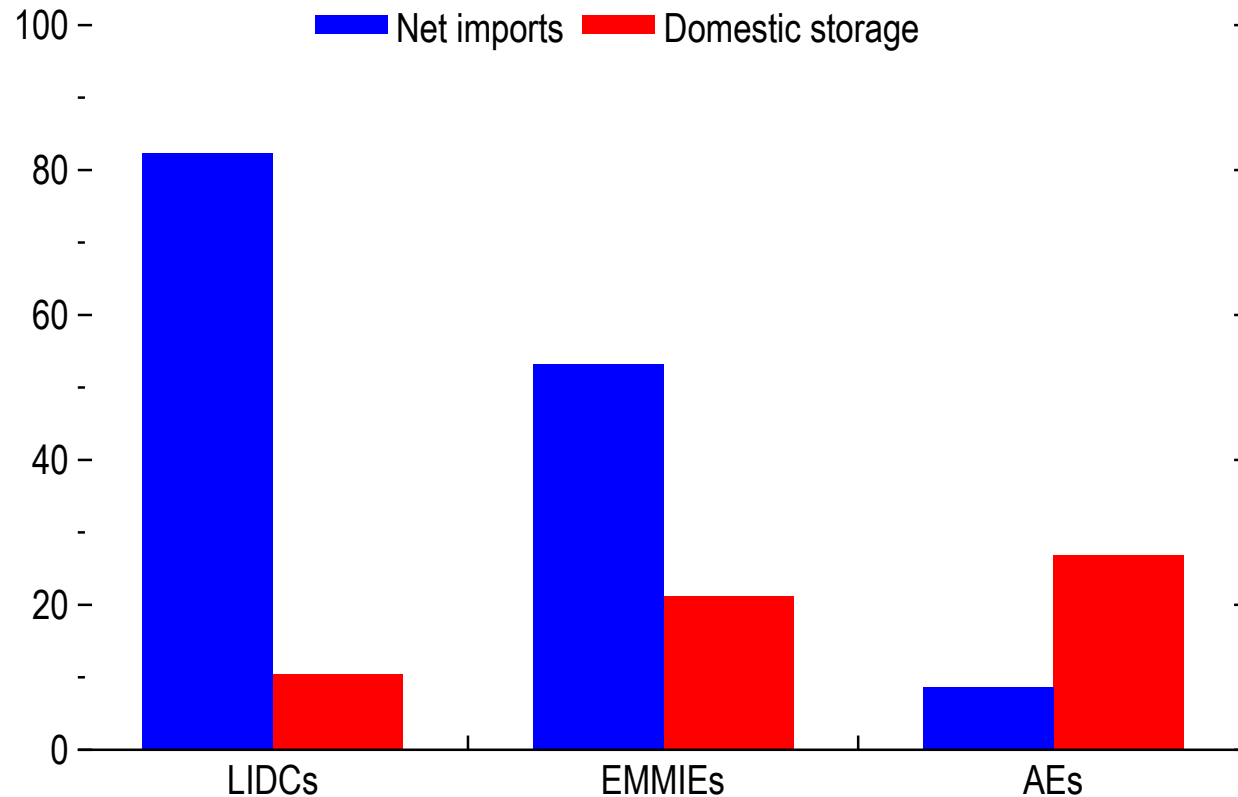
- **Deploy external policies if imminent crisis**
  - Combine targeted FXI and CFM.
  - Don't substitute needed macro adjustment.
- **Use global financial safety net**
  - Employ IMF's precautionary financial arrangements
  - Focus aid on low-income countries facing shocks
  - Draw from arrangement to provide dollar liquidity if needed (e.g. swap lines)



# 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

# Analytical Chapters



## Chapter 2: The Natural Rate of Interest: Drivers and Implications for Policy

- Blog: <https://www.imf.org/en/Blogs/Articles/2023/04/10/interest-rates-likely-to-return-towards-pre-pandemic-levels-when-inflation-is-tamed>



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

- Blog: <https://www.imf.org/en/Blogs/Articles/2023/04/10/how-to-tackle-soaring-public-debt>



## Chapter 4: Geoeconomic Fragmentation and Foreign Direct Investment

- Blog: <https://www.imf.org/en/Blogs/Articles/2023/04/05/fragmenting-foreign-direct-investment-hits-emerging-economies-hardest>

The full report can be downloaded here:

<https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>

# 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)

