WORLD ECONOMIC OUTLOOK
Navigating Global Divergences

2023 OCT
Disclaimer: The World Economic Outlook (WEO) is a survey by the IMF staff published twice a year, in the spring and fall. The WEO is prepared by the IMF staff and has benefited from comments and suggestions by Executive Directors following their discussion of the report on September 26, 2023. The views expressed in this publication are those of the IMF staff and do not necessarily represent the views of the IMF’s Executive Directors or their national authorities.

## CONTENTS

Assumptions and Conventions viii

Further Information x

Data xi

Preface xii

Foreword xiii

Executive Summary xvi

**Chapter 1. Global Prospects and Policies**

Growing Global Divergences 1
Outlook: Stable but Slow 10
Risks to the Outlook: Tilted to the Downside but More Balanced 19
Policy Priorities: From Disinflation to Sustained Growth 22
Box 1.1. Dimming Growth Prospects: A Longer Path to Convergence 26
Box 1.2. Risk Assessment Surrounding the *World Economic Outlook'*s Baseline Projections 30
Commodity Special Feature: Market Developments and the Commodity Price Channel of Monetary Policy 34
References 46

**Chapter 2. Managing Expectations: Inflation and Monetary Policy**

Introduction 49
Recent Patterns in Inflation Expectations 52
The Role of Expectations in Inflation Dynamics 55
Expectations Formation and Monetary Policymaking 58
Conclusions 64
Box 2.1. Firms' Inflation Expectations, Attention, and Monetary Policy Effectiveness 65
Box 2.2. Fiscal Imprudence and Inflation Expectations: The Role of Monetary Policy Frameworks 66
Box 2.3. Energy Subsidies, Inflation, and Expectations: Unpacking Euro Area Measures 67
References 68

**Chapter 3. Fragmentation and Commodity Markets: Vulnerabilities and Risks**

Introduction 71
What Makes Commodities Vulnerable in the Event of Fragmentation? 73
Fragmentation in Commodity Markets 76
Which Commodities Are Most Vulnerable? 77
Economic Impacts of Commodity Market Fragmentation 79
Implications for the Clean Energy Transition 83
Summary and Policy Implications 84
Box 3.1. Commodity Trade Tensions: Evidence from Tanker Traffic Data 87
Box 3.2. Commodity Market Fragmentation in History: Many Shades of Gray 88
Box 3.3. The Uneven Economic Effects of Commodity Market Fragmentation 89
References 90

©International Monetary Fund. Not for Redistribution
Statistical Appendix

Assumptions 93
What's New 93
Data and Conventions 93
Country Notes 94
Classification of Countries 95
General Features and Composition of Groups in the World Economic Outlook
Classification 97
Table A. Classification by World Economic Outlook Groups and Their Shares in Aggregate GDP, Exports of Goods and Services, and Population, 2022 99
Table B. Advanced Economies by Subgroup 100
Table C. European Union 100
Table D. Emerging Market and Developing Economies by Region and Main Source of Export Earnings 101
Table E. Emerging Market and Developing Economies by Region, Net External Position, Heavily Indebted Poor Countries, and Per Capita Income Classification 102
Table F. Economies with Exceptional Reporting Periods 104
Table G. Key Data Documentation 105
Box A1. Economic Policy Assumptions Underlying the Projections for Selected Economies 115
List of Tables 119

Output (Tables A1–A4) 120
Inflation (Tables A5–A7) 127
Financial Policies (Table A8) 132
Foreign Trade (Table A9) 133
Current Account Transactions (Tables A10–A12) 135
Balance of Payments and External Financing (Table A13) 142
Flow of Funds (Table A14) 146
Medium-Term Baseline Scenario (Table A15) 149

World Economic Outlook Selected Topics 151

IMF Executive Board Discussion of the Outlook, September 2023 161

Tables

Table 1.1. Overview of the World Economic Outlook Projections 12
Table 1.2. Overview of the World Economic Outlook Projections at Market Exchange Rate Weights 14
Table 1.SF1. Average Response of CPIs 38
Annex Table 1.1.1. European Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment 40
Annex Table 1.1.2. Asian and Pacific Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment 41
Annex Table 1.1.3. Western Hemisphere Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment 42
Annex Table 1.1.4. Middle East and Central Asia Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment 43
Annex Table 1.1.5. Sub-Saharan African Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment 44
Annex Table 1.1.6. Summary of World Real per Capita Output 45
Online Tables—Statistical Appendix

Table B1. Advanced Economies: Unemployment, Employment, and Real GDP per Capita
Table B2. Emerging Market and Developing Economies: Real GDP
Table B3. Advanced Economies: Hourly Earnings, Productivity, and Unit Labor Costs in Manufacturing
Table B4. Emerging Market and Developing Economies: Consumer Prices
Table B5. Summary of Fiscal and Financial Indicators
Table B7. Advanced Economies: General Government Structural Balances
Table B8. Emerging Market and Developing Economies: General Government Net Lending/Borrowing and Overall Fiscal Balance
Table B9. Emerging Market and Developing Economies: General Government Net Lending/Borrowing
Table B10. Selected Advanced Economies: Exchange Rates
Table B11. Emerging Market and Developing Economies: Broad Money Aggregates
Table B12. Advanced Economies: Export Volumes, Import Volumes, and Terms of Trade in Goods and Services
Table B13. Emerging Market and Developing Economies by Region: Total Trade in Goods
Table B14. Emerging Market and Developing Economies by Source of Export Earnings: Total Trade in Goods
Table B15. Summary of Current Account Transactions
Table B16. Emerging Market and Developing Economies: Summary of External Debt and Debt Service
Table B17. Emerging Market and Developing Economies by Region: External Debt by Maturity
Table B18. Emerging Market and Developing Economies by Analytical Criteria: External Debt by Maturity
Table B19. Emerging Market and Developing Economies: Ratio of External Debt to GDP
Table B20. Emerging Market and Developing Economies: Debt-Service Ratios
Table B21. Emerging Market and Developing Economies, Medium-Term Baseline Scenario: Selected Economic Indicators

Figures

Figure 1.1. Incomplete Recovery: Scarring from the Shocks of 2020–22
Figure 1.2. The COVID-19 Shock: Returning to Normal
Figure 1.3. Cumulative Excess Savings in Advanced Economies
Figure 1.4. Tourism Returning to Normal
Figure 1.5. Slower Growth Momentum Ahead
Figure 1.6. China’s Economy Losing Momentum
Figure 1.7. Inflation Turning the Corner
Figure 1.8. Headline Inflation Distribution
Figure 1.9. Different Drivers: Inflation in Selected Economies
Figure 1.10. Labor Markets Still Tight but Easing
Figure 1.11. Little Evidence of Wage-Price Spirals
Figure 1.12. Profits and Labor Shares: Accounting for Inflation
Figure 1.13. Monetary Policy to Remain Tight
Figure 1.14. Credit Channel Active in US and EA
Figure 1.15. House Prices Slowing or Reversing, 2022–23
Figure 1.16. Monetary and Fiscal Policy Assumptions
Figure 1.17. Growth Outlook: Stable and Slow
<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2.1</td>
<td>Inflation Expectations in Emerging Market and Developing Economies: Monetary Policy Frameworks and Public Debt Interactions</td>
<td>66</td>
</tr>
<tr>
<td>2.3.1</td>
<td>Marginal Impacts of Fiscal Measures for Relief from the Energy Price Shock on Inflation and Expectations</td>
<td>67</td>
</tr>
<tr>
<td>3.1</td>
<td>Fragmentation Keywords in Earnings Calls</td>
<td>72</td>
</tr>
<tr>
<td>3.2</td>
<td>Commodities: Key Characteristics</td>
<td>75</td>
</tr>
<tr>
<td>3.3</td>
<td>Commodity Trade and Distance of Military Alliances</td>
<td>76</td>
</tr>
<tr>
<td>3.4</td>
<td>Signs of Fragmentation</td>
<td>77</td>
</tr>
<tr>
<td>3.5</td>
<td>Price Changes Due to Fragmentation in Individual Commodity Markets</td>
<td>78</td>
</tr>
<tr>
<td>3.6</td>
<td>Wheat Price Increase in the US-Europe+ Bloc due to a Harvest Shock</td>
<td>79</td>
</tr>
<tr>
<td>3.7</td>
<td>Largest Price Increases Induced by a Single Exporter Switching Blocs</td>
<td>80</td>
</tr>
<tr>
<td>3.8</td>
<td>Surplus Changes due to Fragmentation in Individual Commodity Markets</td>
<td>81</td>
</tr>
<tr>
<td>3.9</td>
<td>Impact of Fragmentation on Real GDP and Inflation</td>
<td>82</td>
</tr>
<tr>
<td>3.10</td>
<td>Impact of Fragmentation of Critical Mineral Markets on Investment in Renewables and Electric Vehicles, 2030</td>
<td>84</td>
</tr>
<tr>
<td>3.1.1</td>
<td>Changes in Tanker Shipments from Russia’s Ports from 2019:Q2 to 2023:Q2</td>
<td>87</td>
</tr>
<tr>
<td>3.3.1</td>
<td>Estimated Output Losses</td>
<td>89</td>
</tr>
<tr>
<td>3.3.2</td>
<td>Estimated GDP Losses in Low-Income Countries and Others</td>
<td>89</td>
</tr>
</tbody>
</table>
A number of assumptions have been adopted for the projections presented in the World Economic Outlook (WEO). It has been assumed that real effective exchange rates remained constant at their average levels during July 25, 2023–August 22, 2023, except for those currencies participating in the European exchange rate mechanism II, which are assumed to have remained constant in nominal terms relative to the euro; that established policies of national authorities will be maintained (for specific assumptions about fiscal and monetary policies for selected economies, see Box A1 in the Statistical Appendix); that the average price of oil will be $80.49 a barrel in 2023 and $79.92 a barrel in 2024; that the three-month government bond yield for the United States will average 5.3 percent in 2023 and 5.4 percent in 2024, that for the euro area will average 3.0 percent in 2023 and 3.2 percent in 2024, and that for Japan will average –0.2 percent in 2023 and –0.1 percent in 2024; and that the 10-year government bond yield for the United States will average 3.8 percent in 2023 and 4.0 percent in 2024, that for the euro area will average 2.4 percent in 2023 and 2.6 percent in 2024, and that for Japan will average 0.5 percent in 2023 and 0.6 percent in 2024. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would, in any event, be involved in the projections. The estimates and projections are based on statistical information available through September 25, 2023.

The following conventions are used throughout the WEO:
• . . . to indicate that data are not available or not applicable;
• – between years or months (for example, 2022–23 or January–June) to indicate the years or months covered, including the beginning and ending years or months; and
• / between years or months (for example, 2022/23) to indicate a fiscal or financial year.
• “Billion” means a thousand million; “trillion” means a thousand billion.
• “Basis points” refers to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).
• Data refer to calendar years, except in the case of a few countries that use fiscal years. Please refer to Table F in the Statistical Appendix, which lists the economies with exceptional reporting periods for national accounts and government finance data for each country.
• For some countries, the figures for 2022 and earlier are based on estimates rather than actual outturns. Please refer to Table G in the Statistical Appendix, which lists the latest actual outturns for the indicators in the national accounts, prices, government finance, and balance of payments for each country.

What is new in this publication:
• Ecuador’s fiscal sector projections, which were previously omitted due to ongoing program discussions, are now included.
• Eritrea’s data and projections for 2020–28 are excluded from the database due to constraints in data reporting.
• Sri Lanka’s projections for 2023–28 are excluded from publication owing to ongoing discussions on sovereign debt restructuring.
• Ukraine’s projections for 2024–28, in line with the program’s baseline scenario, are now included.
• For West Bank and Gaza, certain projections for 2022–28 are excluded from publication pending methodological adjustments to statistical series.
In the tables and figures, the following conventions apply:

- Tables and figures in this report that list their source as “IMF staff calculations” or “IMF staff estimates” draw on data from the WEO database.
- When countries are not listed alphabetically, they are ordered on the basis of economic size.
- Minor discrepancies between sums of constituent figures and totals shown reflect rounding.
- Composite data are provided for various groups of countries organized according to economic characteristics or region. Unless noted otherwise, country group composites represent calculations based on 90 percent or more of the weighted group data.
- The boundaries, colors, denominations, and any other information shown on maps do not imply, on the part of the IMF, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

As used in this report, the terms “country” and “economy” do not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.
Corrections and Revisions

The data and analysis appearing in the World Economic Outlook (WEO) are compiled by the IMF staff at the time of publication. Every effort is made to ensure their timeliness, accuracy, and completeness. When errors are discovered, corrections and revisions are incorporated into the digital editions available from the IMF website and on the IMF eLibrary (see below). All substantive changes are listed in the online table of contents.

Print and Digital Editions

Print

Print copies of this WEO can be ordered from the IMF bookstore at imfbk.st/530521.

Digital

Multiple digital editions of the WEO, including ePub, enhanced PDF, and HTML, are available on the IMF eLibrary at http://www.elibrary.imf.org/OCT23WEO.

Download a free PDF of the report and data sets for each of the charts therein from the IMF website at www.imf.org/publications/weo or scan the QR code below to access the WEO web page directly:

Copyright and Reuse

Information on the terms and conditions for reusing the contents of this publication are at www.imf.org/external/terms.htm.
This version of the *World Economic Outlook* (WEO) is available in full through the IMF eLibrary (www.elibrary.imf.org) and the IMF website (www.imf.org). Accompanying the publication on the IMF website is a larger compilation of data from the WEO database than is included in the report itself, including files containing the series most frequently requested by readers. These files may be downloaded for use in a variety of software packages.

The data appearing in the WEO are compiled by the IMF staff at the time of the WEO exercises. The historical data and projections are based on the information gathered by the IMF country desk officers in the context of their missions to IMF member countries and through their ongoing analysis of the evolving situation in each country. Historical data are updated on a continual basis as more information becomes available, and structural breaks in data are often adjusted to produce smooth series with the use of splicing and other techniques. IMF staff estimates continue to serve as proxies for historical series when complete information is unavailable. As a result, WEO data can differ from those in other sources with official data, including the IMF’s *International Financial Statistics*.

The WEO data and metadata provided are “as is” and “as available,” and every effort is made to ensure their timeliness, accuracy, and completeness, but these cannot be guaranteed. When errors are discovered, there is a concerted effort to correct them as appropriate and feasible. Corrections and revisions made after publication are incorporated into the electronic editions available from the IMF eLibrary (www.elibrary.imf.org) and on the IMF website (www.imf.org). All substantive changes are listed in detail in the online tables of contents.

For details on the terms and conditions for usage of the WEO database, please refer to the IMF Copyright and Usage website (www.imf.org/external/terms.htm).

Inquiries about the content of the WEO and the WEO database should be sent by mail or online forum (telephone inquiries cannot be accepted):

World Economic Studies Division  
Research Department  
International Monetary Fund  
700 19th Street, NW  
Washington, DC 20431, USA  
Online Forum: www.imf.org/weoforum
The analysis and projections contained in the *World Economic Outlook* are integral elements of the IMF’s surveillance of economic developments and policies in its member countries, of developments in international financial markets, and of the global economic system. The survey of prospects and policies is the product of a comprehensive interdepartmental review of world economic developments, which draws primarily on information the IMF staff gathers through its consultations with member countries. These consultations are carried out in particular by the IMF’s area departments—namely, the African Department, Asia and Pacific Department, European Department, Middle East and Central Asia Department, and Western Hemisphere Department—together with the Strategy, Policy, and Review Department; the Monetary and Capital Markets Department; and the Fiscal Affairs Department.

The analysis in this report was coordinated in the Research Department under the general direction of Pierre-Olivier Gourinchas, Economic Counsellor and Director of Research. The project was directed by Petya Koeva Brooks, Deputy Director, Research Department, and Daniel Leigh, Division Chief, Research Department.

The primary contributors to this report are Silvia Albrizio, Jorge Alvarez, Mehdi Benatiya Andaloussi, John Bluedorn, Christian Bogmans, Allan Dizioli, Christopher Evans, Christoffer Koch, Toh Kuan, Chiara Maggi, Jorge Miranda Pinto, Jean-Marc Natal, Diaa Noureldin, Andrea Pescatori, Ervin Prifti, Marika Santoro, Alexandre Sollaci, Martin Stuermer, Petia Topalova, and Philippe Wingender.


Gemma Rose Diaz from the Communications Department led the editorial team for the report, with production and editorial support from Michael Harrup, and additional assistance from Lucy Scott Morales, James Unwin, Nancy Morrison, Grauel Group, and Absolute Service, Inc.

The analysis has benefited from comments and suggestions by staff members from other IMF departments, as well as by Executive Directors following their discussion of the report on September 26, 2023. However, estimates, projections, and policy considerations are those of the IMF staff and should not be attributed to Executive Directors or to their national authorities.
Resilient Global Economy Is Limping Along, with Growing Divergences

The global economy continues to recover slowly from the blows of the pandemic, Russia’s invasion of Ukraine, and the cost-of-living crisis. In retrospect, the resilience has been remarkable. Despite the disruption in energy and food markets caused by the war, and the unprecedented tightening of global monetary conditions to combat decades-high inflation, the global economy has slowed, but not stalled. Yet growth remains slow and uneven, with growing global divergences. The global economy is limping along, not sprinting.

Global activity bottomed out at the end of last year while inflation—both headline and underlying (core)—is gradually being brought under control. But a full recovery toward prepandemic trends appears increasingly out of reach, especially in emerging market and developing economies.

According to our latest projections, global growth will slow from 3.5 percent in 2022 to 3 percent this year and 2.9 percent next year, a 0.1 percentage point downgrade for 2024 from our July projections. This remains well below the historical average.

Headline inflation continues to decelerate, from 9.2 percent in 2022, on a year-over-year basis, to 5.9 percent this year and 4.8 percent in 2024. Core inflation, excluding food and energy prices, is also projected to decline, albeit more gradually than headline inflation, to 4.5 percent in 2024.

As a result, projections are increasingly consistent with a “soft landing” scenario, bringing inflation down without a major downturn in activity, especially in the United States, where the forecast increase in unemployment is very modest, from 3.6 to 3.9 percent by 2025.

But important divergences are appearing. The slowdown is more pronounced in advanced economies than in emerging market and developing ones. Within advanced economies, the US surprised on the upside, with resilient consumption and investment, while euro area activity was revised downward. Many emerging market economies proved quite resilient and surprised on the upside, with the notable exception of China, facing growing headwinds from its real estate crisis and weakening confidence.

Three global forces are at play. First, the recovery in services is almost complete. Over the past year, strong demand for services supported service-oriented economies—including important tourism destinations such as France and Spain—relative to manufacturing powerhouses such as China and Germany. High demand for labor-intensive services also translated into tighter labor markets, and higher and more persistent services inflation. But services activity is now weakening alongside a persistent manufacturing slowdown, suggesting services inflation will decrease in 2024 and labor markets and activity will soften.

Second, part of the slowdown is the result of the tighter monetary policy necessary to bring inflation down. This is starting to bite, but the transmission is uneven across countries. Tighter credit conditions are weighing on housing markets, investment, and activity, more so in countries with a higher share of adjustable-rate mortgages or where households are less willing, or able, to dip into their savings. Firm bankruptcies have increased in the US and the euro area, although from historically low levels. Countries are at different points in their hiking cycles: advanced economies (except Japan) are near the peak, while some emerging market economies, such as Brazil and Chile, have already started easing.

Third, inflation and activity are shaped by the incidence of last year’s commodity price shock. Economies heavily dependent on Russian energy imports experienced a steeper increase in energy prices and a sharper slowdown. Some of our recent work shows that the pass-through from higher energy prices played a large role in driving core inflation upward in the euro area, unlike in the United States, where core inflation pressures reflect instead a tight labor market.

Despite signs of softening, labor markets in advanced economies remain buoyant, with historically low unemployment rates helping to support activity. So far, there is scant evidence of a “wage-price spiral,” and real wages remain below prepandemic levels. Further, many countries experienced a sharp—and welcome—compression
in the wage distribution. Some of this compression reflects the higher amenity value of flexible and remote work schedules for high earners, reducing wage pressures for that group.

**Risks**

While some of the extreme risks—such as severe banking instability—have moderated since April, the balance remains tilted to the downside.

First, the real estate crisis could deepen further in China, an important risk for the global economy. The policy challenge is complex. Restoring confidence requires promptly restructuring struggling property developers, preserving financial stability, and addressing the strains in local public finance. If real estate prices decline too rapidly, the balance sheets of banks and households will worsen, with the potential for serious financial amplification. If real estate prices are artificially propped up, balance sheets will be protected for a while, but this may crowd out other investment opportunities, reduce new construction activity, and have an adverse impact on local government revenues through reduced land sales. Either way, China’s economy needs to pivot away from a credit-driven real estate model of growth.

Second, commodity prices could become more volatile under renewed geopolitical tensions and disruptions linked to climate change. Since June, oil prices have increased by about 25 percent, on the back of extended supply cuts from OPEC+ (the Organization of the Petroleum Exporting Countries plus selected nonmembers) countries. Food prices remain elevated and could be disrupted further by an escalation of the war in Ukraine, causing important hardship for many low-income countries. This, of course, represents a serious risk to the disinflation strategy. Geoeconomic fragmentation has also led to a sharp increase in the dispersion in commodity prices across regions, including critical minerals. As Chapter 3 of this report analyzes, this could pose serious macroeconomic risks going forward, including to the climate transition.

Third, while both underlying and headline inflation have decreased, they remain uncomfortably high. Near-term inflation expectations have risen markedly above target, although they now appear to be turning a corner. As Chapter 2 of this report details, bringing these near-term inflation expectations back down is critical to winning the battle against inflation. With tight labor markets, ample excess savings in some countries, and adverse energy price developments, inflation could become more entrenched, requiring even more forceful action from central banks.

Fourth, fiscal buffers have eroded in many countries, with elevated debt levels, rising funding costs, slowing growth, and an increasing mismatch between the growing demands on the state and available fiscal resources (see the October 2023 Fiscal Monitor). This leaves many countries more vulnerable to crises and demands a renewed focus on managing fiscal risks.

Finally, despite the tightening of monetary policy, financial conditions have eased in many countries (see the October 2023 Global Financial Stability Report). The danger is of a sharp repricing of risk, especially for emerging markets, that would appreciate further the US dollar, trigger capital outflows, and increase borrowing costs and debt distress.

**Policies**

Under our baseline scenario, inflation continues to recede as central banks maintain a tight stance. With many countries near the peak of their tightening cycles, little additional tightening is warranted. However, easing prematurely would squander the gains achieved in the past 18 months. Once the disinflation process is firmly on its way and near-term inflation expectations are decreasing, adjusting the policy rate downward will allow the monetary policy stance, that is, the real interest rate, to remain unchanged until inflation targets are in sight.

Fiscal policy needs to support the monetary strategy and help the disinflation process. In 2022, fiscal and monetary policies were pulling in the same direction, as many of the pandemic emergency fiscal measures were unwound. In 2023, the degree of alignment has decreased. Most worrying is the case of the United States, where the fiscal stance has deteriorated substantially. Fiscal policy in the US should not be procyclical, even less so at this stage of the inflation cycle. More broadly, fiscal policy everywhere should focus on rebuilding fiscal buffers that have been severely eroded by the pandemic and the energy crisis, for instance, by removing energy subsidies.

We should also return our focus to the medium term. Here the picture is becoming darker. Medium-term growth prospects are weak, especially for emerging market and developing economies. The implications are profound: a much slower
convergence toward the living standards of advanced economies, reduced fiscal space, increased debt vulnerabilities and exposure to shocks, and diminished opportunities to overcome the scarring from the pandemic and the war.

With lower growth, higher interest rates, and reduced fiscal space, structural reforms become key. Higher long-term growth can be achieved through a careful sequence of structural reforms, especially those focused on governance, business regulations, and the external sector. These “first-generation” reforms help unlock growth and make subsequent reforms—whether to credit markets, or for the green transition—much more effective.

Multilateral cooperation can help ensure that all countries achieve better growth outcomes. First, countries should avoid implementing policies that contravene World Trade Organization rules and distort international trade. Second, countries should safeguard the flow of critical minerals needed for the climate transition, as well as that of agricultural commodities. Such “green corridors” would help reduce volatility and accelerate the green transition.

Finally, all countries should aim to limit geoeconomic fragmentation that prevents joint progress toward common goals and instead work toward restoring trust in rules-based multilateral frameworks that enhance transparency and policy certainty and help foster a shared global prosperity. A robust global financial safety net with a well-resourced IMF at its center is essential.

Pierre-Olivier Gourinchas
Economic Counsellor
The global recovery from the COVID-19 pandemic and Russia’s invasion of Ukraine remains slow and uneven. Despite economic resilience earlier this year, with a reopening rebound and progress in reducing inflation from last year’s peaks, it is too soon to take comfort. Economic activity still falls short of its prepandemic path, especially in emerging market and developing economies, and there are widening divergences among regions. Several forces are holding back the recovery. Some reflect the long-term consequences of the pandemic, the war in Ukraine, and increasing geoeconomic fragmentation. Others are more cyclical in nature, including the effects of monetary policy tightening necessary to reduce inflation, withdrawal of fiscal support amid high debt, and extreme weather events.

Global growth is forecast to slow from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024. The projections remain below the historical (2000–19) average of 3.8 percent, and the forecast for 2024 is down by 0.1 percentage point from the July 2023 Update to the World Economic Outlook. For advanced economies, the expected slowdown is from 2.6 percent in 2022 to 1.5 percent in 2023 and 1.4 percent in 2024, amid stronger-than-expected US momentum but weaker-than-expected growth in the euro area. Emerging market and developing economies are projected to have growth modestly decline, from 4.1 percent in 2022 to 4.0 percent in both 2023 and 2024, with a downward revision of 0.1 percentage point in 2024, reflecting the property sector crisis in China. Forecasts for global growth over the medium term, at 3.1 percent, are at their lowest in decades, and prospects for countries to catch up to higher living standards are weak. Global inflation is forecast to decline steadily, from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024. But the forecasts for 2023 and 2024 are revised up by 0.1 percentage point and 0.6 percentage point, respectively, and inflation is not expected to return to target until 2025 in most cases.

Risks to the outlook are more balanced than they were six months ago, on account of the resolution of US debt ceiling tensions and Swiss and US authorities’ having acted decisively to contain financial turbulence. The likelihood of a hard landing has receded, but the balance of risks to global growth remains tilted to the downside. China’s property sector crisis could deepen, with global spillovers, particularly for commodity exporters. Elsewhere, as Chapter 2 explains, near-term inflation expectations have risen and could contribute—along with tight labor markets—to core inflation pressures persisting and requiring higher policy rates than expected. More climate and geopolitical shocks could cause additional food and energy price spikes. As Chapter 3 explains, intensifying geo-economic fragmentation could constrain the flow of commodities across markets, causing additional price volatility and complicating the green transition. Amid rising debt-service costs, more than half of low-income developing countries are in or at high risk of debt distress.

There is little margin for error on the policy front. Central banks need to restore price stability while using policy tools to relieve potential financial stress when needed. As Chapter 2 explains, effective monetary policy frameworks and communication are vital for anchoring expectations and minimizing the output costs of disinflation. Fiscal policymakers should rebuild budgetary room for maneuver and withdraw untargeted measures while protecting the vulnerable. Reforms to reduce structural impediments to growth—by, among other things, encouraging labor market participation—would smooth the decline of inflation to target and facilitate debt reduction. Faster and more efficient multilateral coordination is needed on debt resolution to avoid debt distress. Cooperation is needed as well to mitigate the effects of climate change and speed the green transition, including (as Chapter 3 explains) by ensuring steady cross-border flows of the necessary minerals.