World Bank makes major reduction in global growth forecast

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The World Bank has made a significant cut to its global growth forecast for 2023, laying out what amounts to a disaster for poorer countries that comprise a major proportion of the world's population. It warned that the global economy is on a "razor's edge" and could easily fall into recession.

In its twice yearly *Global Economic Prospects* report issued on Tuesday, the World Bank revised down the previous forecast of 3 percent growth, made back in June, to just 1.7 percent. Excluding the contractions resulting from the 2008 financial crisis and the onset of the pandemic, it is the lowest level in three decades, and could come in even lower than forecast.

The impact on emerging markets and developing economies is devastating. The estimated size of their economies at the end of 2024 is now 6 percent less than the forecasts before the pandemic struck. The cumulative loss of output between 2020 and 2024 amounting to 30 percent of the GDP recorded in 2019.

Numerous factors are cited as bearing down on global growth, including inflation and the effects of the pandemic. However, the chief reason is the synchronised tightening of monetary policies and the lifting of interest rates by the world's central banks, spearheaded by the US Federal Reserve.

The effect of this new interest-rate regime, instituted to suppress the upsurge of the working class demanding wage increases amid the highest inflation in 40 years, is pointed to in many parts of the report.

In its opening chapter, it said the lowering of its forecast by 1.3 percentage points reflected "more aggressive financial tightening, deteriorating financial conditions and declining confidence."

Growth projections for "almost all" of the advanced economies were downgraded along with around two-thirds of all emerging market and developing economies (EMDEs) for 2023 and for "about half of all economies in 2024."

The downgrades mean that "global activity is now expected to fall even further below its pre-pandemic trend over the forecast horizon, with EMDEs accounting for most of the shortfall."

In the advanced economies, it said, economic conditions had "deteriorated" with "one of the most aggressive monetary policy tightening cycles in recent history" in the US expected to "slow growth sharply."

The risks to the growth outlook were "tilted to the downside." In a situation of high inflation, with repeated negative supply shocks, there is considerable uncertainty about the impact of central bank policy, in terms of both magnitude and timing, and the persistence of inflation and interest rate hikes, which may be more than is currently expected, it noted.

"Financial stress among sovereigns [countries], banks, and nonbank financial institutions may result from the combination of additional monetary tightening, softer growth, and falling confidence in an environment of elevated debt."

With global growth already weak, the combination of sharper monetary policy tightening and increased financial stress "could result in a more pronounced slowdown even a global recession [defined by the World Bank as a reduction in per capita income] this year."

In the crisis of 2008, China rode to the rescue as its massive stimulus packages provided a buffer for many low-income commodity exporting countries, as well as some high-income countries, such as Australia and Canada. This is not going to be repeated as China is very much at the centre of the global recessionary wave.

The report noted that Chinese growth is estimated to have fallen to 2.7 percent in 2022, some 1.6 percentage points below the previous forecast, and, except for the onset of the pandemic in 2020, China is now experiencing "the weakest pace of growth since the mid-1970s."

The situation is the same in two other key areas, the US and Europe.

US growth is expected to slow to just 0.5 percent in 2023, the lowest rate outside of official recessions in more than 50 years.

The World Bank has downgraded its growth forecast for the euro area to zero, from the previous prediction of 1.9 percent due to "ongoing energy supply disruptions and more monetary policy tightening than expected."

While the worsening situation for EMDEs has been intensified by the pandemic, and now interest rate hikes, the trend was already evident.

The chief driving factor of growth is investment and, as the report noted, all the factors spurring it, such as strong output growth, credit expansion, rising capital flows and terms of trade improvements, have "seen a declining trend since the 2007–2009 global financial crisis."

In the past, an increase in trade provided some limited relief for poorer countries. No longer. After falling to a low rate of 4 percent in 2022, global trade growth is expected to slow still further to 1.6 percent in 2023, reflecting lower global demand, with "the current post-recession rebound in global trade … on course to be among the weakest on record."

While there has been some fall in the price of energy and food commodities over the past six months, in US dollar terms, this has not translated into lower prices for most of the world's people because of the rise of the dollar against other currencies.

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For example, the report said that while the price of Brent crude oil had fallen by 5 percent in US dollar terms from February to November, it rose in domestic currency terms by 7 percent on average in advanced economies (excluding the US) and by 5 percent in oil-importing EMDEs.

"As a result, commodity-driven inflationary pressures in many countries may be more persistent than indicated by recent declines in global commodity prices."

With the US Fed insisting there will be no abatement in monetary tightening, this trend is set to continue.

The result is that 220 million people are confronted with "severe food insecurity" and this number could "rise further if upward risks to food prices materialise."

Insofar as there has been a decline in commodity prices it is not a sign of "recovery" but rather an effect of the slowdown in growth and the development of recession.

In its executive summary of the report, the World Bank said "urgent efforts are needed to mitigate the risks of global recession and debt distress in EMDEs." But it offered no policies to meet these growing threats.

Rather the report pointed to cuts in government spending, noting that "limited policy space"—the result of rising debt—means that policy makers must ensure that "any fiscal support is focused on vulnerable groups" while ensuring that inflation expectations remain well anchored and the financial system "continue to be resilient."

These words, intended to give the impression that policy makers have answers, are thrown up as a smokescreen to cover the fact, as the body of the report makes clear, that all the institutions of global capitalism are confronting a situation racing out of their control.

But that does not mean they have no policies. They do. However, the measures they seek to implement are not aimed at alleviating the deepening crisis but at placing its burden on the backs of the working class in advanced capital countries and developing countries alike.

When the World Bank issued its June 2022 report, we said that, while it was not the intention, the content was "a major indictment of the operation of the global capitalist system." That assessment is more than confirmed in the latest report and this raises before the working class the essential task.

If billions of people face poverty and misery it is not because the material resources do not exist to overcome these scourges. They are there in abundance. But they can only be used to meet human need if they are freed from capitalist social relations based on private ownership and private profit through the unified struggle of the global working class—the producers of all wealth—for international socialism.