Chapter I

Current Trends and Challenges in the Global Economy

Crisis averted?
How to future-proof against systemic shocks

Today's global economic landscape is characterized by growing inequalities and divergence of growth paths between key regions. The world economy is flying at "stall speed", with projections of a modest growth of 2.4 per cent in 2023, meeting the definition of a global recession. Cautiously, the outlook for 2024 suggests a modest growth improvement (2.5 per cent), contingent upon the euro area's recovery and the avoidance of adverse shocks by other leading economies.

While many economies will grapple with divergent recovery paths, deepening inequalities and mounting pressures of indebtedness, global growth is unlikely to rebound sufficiently to pre-pandemic trends. This means that urgent needs like food security, social protection, and climate adaptation risk not being addressed.

Compounding these issues is the absence of adequate multilateral responses and coordination mechanisms. Without decisive action, the fragility of the global economy and an array of diverse shocks risk evolving into systemic crises. Policymakers must navigate these challenges on multiple fronts to chart a more robust and resilient trajectory for the future.

To avert tomorrow's potential crises, this report urges policymakers to adopt a policy mix prioritizing the reduction of inequalities and the delivery of sustainable, investment-led growth and development.

Recommendations include

- Central banks must strengthen international coordination with a greater focus on long-term financial sustainability for the private and public sectors, and not just on price stability;
- Policymakers must enable advocate concerted increases of real wages and make concrete commitments towards comprehensive social protection;
- Investment in the energy transition process in developing countries must be actively pursued, by making technology and finance available and affordable, requiring stronger multilateral cooperation and appropriate agreements in the World Trade Organization (WTO), the International Monetary Fund (IMF) and the World Bank.

A. INTRODUCTION

The global economy is flying at "stall speed", with projected growth in 2023 of 2.4 per cent, meeting the conventional criteria for a global recession. The entire global economy, except East and Central Asia, has slowed since 2022. On a brighter note, inflation, while still above pre-pandemic years, is coming under control in many parts of the world. The banking crises that erupted in March 2023 did not lead to financial contagion, and commodity prices are down from their peaks in 2022. A small improvement in global growth is expected in 2024, contingent on the recovery in the euro area and other leading economies avoiding adverse shocks.

While there is a glimmer of hope on the horizon, celebrations of success would be inappropriate. Global growth, while showing some signs of improvement, has not sufficiently rebounded to pre-pandemic rates. This challenge compounds the difficulty of meeting critical needs such as food security, social protection, and climate adaptation, especially given the weakened foundation resulting from the global health pandemic.

Against this background, 2023 may turn out to be an inflection point in a fragile and uneven global recovery. Without adequate multilateral policy responses or coordination mechanisms, today's brittle economies and diverse shocks might evolve into tomorrow's systemic crises. This scenario is a threat to the multilateral system and global economic stability. Policymakers need to operate on multiple fronts to chart a stronger, more resilient trajectory for the future.

Analysis shows that three worrying trends are emerging in 2023:

- Divergent recovery paths in the context of slower growth across major regions;
- Deepening inequalities in income and wealth;
- Growing pressures of indebtedness and thinning policy autonomy in developing economies.

These three factors build onto an increasingly complex interplay between economic, climate and geopolitical risks. Growing inequalities within countries are a source of weak global demand and continue to hold back investment and growth. Divergence of low-growth trends between key regions, as well as within the Group of Seven and the initial BRICS countries (Brazil, the Russian Federation, India, China and South Africa), indicates that there is no clear driving force to propel the world economy onto a robust and sustainable recovery track.

"There is no clear driving force to propel the world economy onto a robust and sustainable recovery track."

Historically, growth divergence has led to uncoordinated domestic policy actions with negative global repercussions, especially for developing countries. Today, policy discussions in advanced economies often overlook systemic links and multilateral forums for policy coordination, such as the Group of 20 (G20), are not remedying the problem. This can hinder international cooperation and prevent the global economy from taking a sustainable recovery path.

The prospects for developing countries are especially concerning. Development requires a favourable external environment, characterized by strong global demand, stable exchange rates and affordable financing. Developing countries' ability to accelerate growth, strengthen productive capacities, decarbonize and meet their financial obligations is fundamentally dependent on steady and strong global demand. But international policy coordination centres on central banks that prioritize short-term monetary stability over long-term financial sustainability. This trend, together with inadequate regulation in commodity markets and continuous neglect for rising inequality are fracturing the world economy.

These threats are amplified by the uncertain impact of slower than expected growth in China and a deceleration of the economies in Europe, many of which have all but ground to a halt. They are particularly concerning given the present context, marked by a slowdown in the investment cycle, the impact of geopolitical conflicts on the structure of trade, food and energy security and the mounting costs of climate change and transition, all compounded by uncertainty in the outcome of the of the 2024 United States elections. Even if growing financial risks in the larger economies do not trigger sharper shocks, a development crisis is already unfolding, with countries across the global South facing increasing debt service obligations.

For people and planet, further rounds of monetary tightening to obtain quick disinflation in the advanced economies would mean more economic and social disruption at a time when recovery has stalled. An ongoing slowdown diminishes prospects for trade and investment, prompting a further loss of momentum, higher inequality and debt burdens expanding relative to gross domestic product (GDP).

Against this context, 2024 is unlikely to show substantial improvement. A strategy of growth in the global North becomes less feasible if high levels of debt (chapters II and V) and inadequate financial regulation threaten financial stability and food security (chapter III), and while income is increasingly retained by capital owners rather than workers (figure I.1). In the face of a crisis, previous coordination efforts have tended to ignore sectors or countries that are not considered systemically relevant, thus compounding the very crisis they sought to resolve. This mistake should be avoided at all costs.

“Monetary policy in advanced economies should take into account the damage that high interest rates can cause, in terms of structural change, climate adaptation and debt sustainability.”

This Report presents an alternative response, in which the pace of disinflation takes into consideration the impact of high real interest rates not only on inflation indicators, but also on economic activity, employment, income inequality and fiscal stability. In an interconnected world in which developing countries are potential engines of economic growth, policymakers in advanced economies should take into account the damage that high interest rates can cause to long-term investment – both in terms of structural change and climate adaptation – as well as debt sustainability. In the current international financial architecture, policy space is easily curtailed by movements in financial markets, with heavy impacts on social policies, investment and employment generation.

To address these problems, this Report suggests that:

1. Reducing inequality should be made a policy priority in developed and developing countries, keeping close watch on the labour share. This requires concerted increases of real wages and concrete commitments towards comprehensive social protection. Monetary policy is not to be used as a sole policy tool to alleviate inflationary pressures. With supply-side problems still unaddressed, a policy mix is needed to attain financial sustainability, help lower inequalities and deliver inclusive growth.

“A policy mix is needed to attain financial sustainability, help lower inequalities and deliver inclusive growth.”

2. In light of growing interdependencies in the global economy, central bankers should assume a wider stabilizing function, which would help balance the priorities of monetary stability with long-term financial sustainability.
3. Internationally, a systemic approach to regulating commodity trading generally, and food trading in particular, needs to be developed within the framework of the global financial architecture.
4. To help address the crushing burden of debt servicing and the threat of spreading debt crises, reforms are needed to the rules and practices of the global financial architecture. This architecture should ensure reliable access to international liquidity and a stable financial environment that promotes investment-led growth. Given the failure of the current architecture to facilitate the resilience and recovery of developing countries from debt stress, it is crucial to establish a mechanism to resolve sovereign debt workouts. This should be based on the participation of all developing countries and have agreed procedures, incentives and deterrents.
5. Finally, the energy transition would require not only fiscal and monetary agreements among the G20, but also agreements within the WTO to implement technology transfer, and within the IMF and World Bank to provide reliable access to finance. Without eliminating the incentives and regulatory conduits that make cross-border speculative investment so profitable, private capital is unlikely to be channelled to measures to help adapt to climate change.

The chapter is structured as follows. Section B examines the emerging risks to post-COVID-19 growth trend at the global level. It finds that divergence within key regional blocks and between major economies clouds the fragile growth of 2023, with downside risks lingering into 2024. Section C analyses the sectoral contribution to global demand growth in G20 economies. Section D identifies some of the key dimensions of the asymmetry between growing corporate concentration on the one hand and thinning fiscal policy space on the other. Section E discusses credit, investment and the impact of monetary policy on income and wealth inequality. Section F explores inflation, distribution and the easing or persistence of inflationary trajectories. Section G looks at labour costs and inequality. Section H concludes.

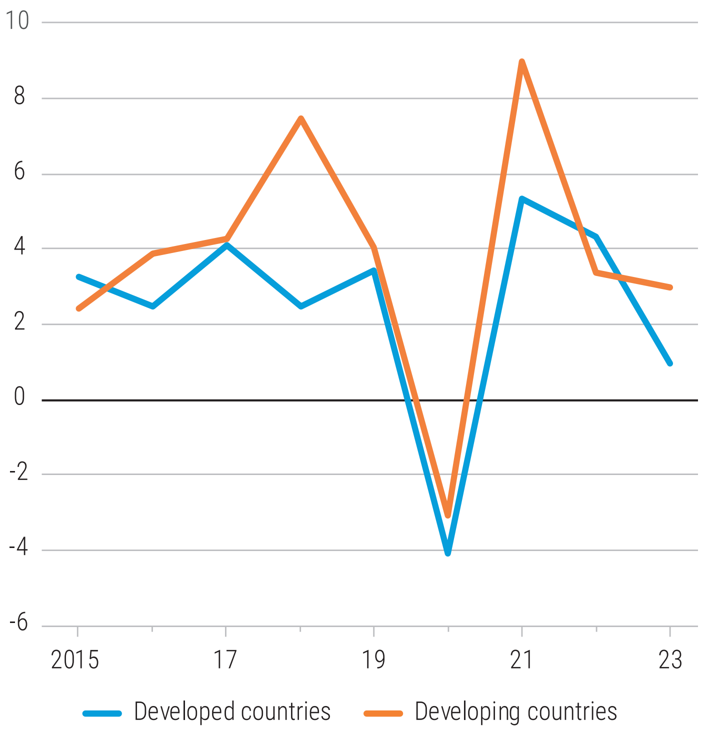
B. GLOBAL GROWTH LANDSCAPE: DIVERGENCE UNDER THE CLOUDS OF UNCERTAINTY

The growth of the world economic output is expected to decelerate to 2.4 per cent in 2023, before registering a small uptick to 2.5 per cent in 2024. (table I.1). These are among the lowest growth rates of the last four decades, outside of crisis years. Moreover, the figure for 2023 is below the conventional threshold of 2.5 per cent which marks recession in the global economy. These projections are subject to downside risks which have increased in recent months.

All regions, except for East and Central Asia, are expected to post slower growth this year than in 2022, with the largest drop (2.3 points) occurring in Europe. Likewise, among G20 countries, only Brazil, China, Japan, Mexico and the Russian Federation are expected to see a growth improvement, with considerable variation. Of particular concern, given the ambitious development and climate targets set by the international community with a 2030 delivery date, growth in 2023 and 2024 is also set to fall below the average for the five-year period before the pandemic, in all regions. Latin America is the exception, where growth in the earlier period was particularly weak (ECLAC, 2023).

In 2023, global growth showed uneven deceleration. Larger emerging economies are unlikely to provide a robust offset to slower growth in advanced economies. With tighter monetary policy, low investment (figure I.1), and limited government spending, the world economy is experiencing a lacklustre recovery reminiscent of the aftermath of the 2008–2009 financial crisis.

Figure I.1 Private investment is slowing down sharply again
Growth of private investment
(Percentage change)



Source: UNCTAD calculations based on the United Nations Global Policy Model and database.
Note: GDP at constant 2015 prices, PPP.