

Foreword

The crisis facing development is intensifying.

Our latest forecasts indicate a sharp, long-lasting slowdown, with global growth declining to 1.7 percent in 2023 from 3.0 percent expected just six months ago. The deterioration is broad-based: in virtually *all* regions of the world, per-capita income growth will be slower than it was during the decade before COVID-19. The setback to global prosperity will likely persist: By the end of 2024, GDP levels in emerging-market and developing economies (EMDEs) will be about 6 percent below the level expected on the eve of the pandemic. Median income levels, moreover, are being eroded significantly—by inflation, currency depreciation and under-investment in people and the private sector.

The latest *Global Economic Prospects* report highlights why the outlook is particularly devastating for many of the poorest economies, where poverty reduction has already ground to a halt. Total debt among EMDEs is at a 50-year high, and Russia's invasion of Ukraine has added major new costs. This leaves no room for fiscal support at a time when people are still suffering from COVID-related setbacks in health, education and nutrition.

Over the next two years, per-capita income growth in EMDEs is expected to average only 2.8 percent—a full percentage point less than the 2010-2019 average. Between 2020 and 2024, per-capita income growth in EMDEs other than China is projected to be roughly the same as per-capita income growth in advanced economies, meaning income convergence is now effectively stalled. In fragile and conflict-affected areas, average per-capita incomes are expected to decline by 2024. In small states, an important focus of this edition of *Global Economic Prospects*, the output decline during the pandemic was about seven times the average decline in other EMDEs partly because of prolonged disruptions to tourism. Recoveries are expected to be weak, with large and persistent reductions in the level of output.

Restoring progress will be especially difficult where poverty rates are highest. In Sub-Saharan Africa, which is home for 60 percent of the world's poor, per-capita income growth is expected to average just 1.2 percent over the next two years—a rate that could cause poverty rates to rise, not fall.

This report also takes a detailed look at the shortfall in the new investment needed to overcome the reversals hitting development. Gross investment in EMDEs is projected to grow by just 3.5 percent on average from 2022 through 2024. That's less than half the average rate in the previous two decades and less than the rate needed to maintain capital stocks. Amid sharply rising global interest rates, the large fiscal demand on global capital by the governments of advanced economies points to a channeling of critical resources *away* from EMDEs. Today, roughly one in five EMDEs is effectively locked out of global debt markets, up from one in 15 in 2019.

The ongoing shortfall in investment in EMDEs casts a cloud over *all* development and climate objectives. Sluggish investment weakens the rate of growth of potential output, reducing the capacity of economies to increase median incomes, promote shared prosperity and repay debts. Slow capital accumulation obstructs advances in technology and productivity, impeding overall economic growth. It also hinders the ability of countries to tackle climate change and achieve the full array of development needs such as access to electricity, clean water and sufficient hours in school to achieve foundational learning skills.

With the global economy under pressure, five critical steps must be taken. Boosting median incomes and shared prosperity in EMDEs will require:

More investment to create jobs and increase output, allowing growth in consumption. This report underscores the urgent need for EMDEs to design policies that attract and incentivize new investment. This will require a comprehensive

strategy featuring fiscal, structural and regulatory measures to boost public and private investment, in ways that meet the needs of individual countries. Fiscal and monetary policies that support stable, market-based currencies and productive investment are particularly critical to promote growth, higher median income, and poverty reduction.

Improvements in the business-enabling environment. In about 60 EMDEs for which data is available, investment growth was about 7 percentage points higher on average in years when investment-climate reforms were implemented. In low-income countries that rely on public-private partnerships for infrastructure investment, it is critical to establish a robust regulatory framework. Corruption and restrictions on foreign direct investment are key factors limiting the quantity and quality of cross-border investment. Reducing business start-up costs and strengthening property rights can also help enable business growth.

Greater debt transparency and sustainability, especially for the rising share of poor countries at high risk of debt distress. A faster, more decisive debt reconciliation and restructuring process will be vital to avoid the damage associated with delays and incremental steps.

Integrating climate and development in ways that increase energy access and speed up the transition to lower-carbon energy. These objectives need to be complemented by increased

investment in climate adaptation. Meeting the challenge of increasing global public goods will require better mobilization of public-private partnerships, sustained international cooperation, and large new concessional funding and grants by the global community.

Stronger cooperation to increase cross-border trade. Greater efforts are needed to diversify products and markets, gain access to trade finance and strengthen trade facilitation through arrangements such as customs agreements. Governments should reduce arbitrary barriers to both imports and exports alike. Protectionist measures including the latest wave of export bans on food and fertilizers should be shunned.

Thus, even in a time of scarce resources, there is much that policy makers can do to encourage the right investments to materialize. One global starting point is to veer away from the wasteful subsidies that prevail and redirect the savings to more productive uses including private sector investment, targeted time-bound subsidies, and impactful climate investments.

Even though the world is now in a very tight spot, there should be no room for defeatism. The latest *Global Economic Prospects* report makes it clear that there are significant reforms that could be undertaken now to strengthen the rule of law, improve the outlook and build stronger economies with more robust private sectors and better opportunities for people around the world.

David Malpass
President
World Bank Group