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World Bank warns of 'lost decade' for the global economy

Світовий банк попереджає про «втрачене десятиліття» для світової економіки

Світовий банк попередив, що пандемія коронавірусу та війна росії в Україні призвели до зниження потенціалу довгострокового зростання світової економіки, що може стати «втраченим десятиліттям». Зниження потенційного зростання має серйозні наслідки для здатності світу долати такі виклики, як бідність, відмінні доходи та зміна клімату. Найбільше постраждають економіки, що розвиваються, середні річні темпи зростання, за прогнозами, впадуть з 6% з 2000 по 2010 рік до 4% цього десятиліття. Світовий банк закликав до креативного формування політики, більш тісного узгодження основ міжнародної валютної та фіскальної політики та зниження торговельних витрат для боротьби з кризою. Нещодавні банківські кризи посилили навантаження на світову економіку, і офіційні особи попередили, що значний економічний вітер може схилити США до рецесії.

<https://www.smh.com.au/business/the-economy/world-bank-warns-of-lost-decade-for-the-global-economy-20230328-p5cvtn.html>

The World Bank warned on Monday the coronavirus pandemic and Russia's war in Ukraine had contributed to a decline in the global economy's long-term growth potential, leading to what could be a "lost decade" that would mean more poverty and fewer resources to combat the impact of climate change.

The warning comes as the world deals with overlapping crises — a pandemic that crippled economies and strained public health systems and Russia's invasion of Ukraine, which disrupted global supply chains and hurt international trade ties. The threat of a more protracted slump coincides with new signs of stress in the world's financial system as a series of banking crises threaten to undermine economic growth.

The World Bank projected in a new report that average potential global output is poised to fall to a 30-year low of 2.2 per cent per year between 2023 and 2030. That would be a sharp decline from 3.5 per cent per year during the first decade of this century.

The falloff will be even more pronounced for developing economies, which grew at an average annual rate of 6 per cent from 2000 to 2010; that rate could decline to 4 per cent this decade.

"A lost decade could be in the making for the global economy," said Indermit Gill, the World Bank's chief economist and senior vice president for development economics. "The ongoing decline in potential growth has serious implications for the world's ability to tackle the expanding array of challenges unique to our times — stubborn poverty, diverging incomes and climate change."

Officials at the World Bank said the "golden era" of development appeared to be coming to an end. They warned that policymakers would need to get more creative as they tried to address global challenges without being able to rely on the rapid economic expansions of countries such as China, which has long been an engine of worldwide growth.

They suggested that international monetary and fiscal policy frameworks should be more closely aligned, and that world leaders needed to find ways to reduce trade costs and increase their labour force participation. A return to faster growth, they said, will not be easy.

"It will take a Herculean collective policy effort to restore growth in the next decade to the average of the previous one," the World Bank said in the report.

The increasing frequency of global crises continues to weigh on output even as signs of an economic rebound emerge. Efforts by central banks to tame inflation by raising interest rates have fuelled turmoil in the banking sector, leading to the failures of Silicon Valley Bank and Signature Bank in the United States this month and the rescue of Credit Suisse by UBS.

Top economic officials have been watching to see if the strain on the banking system will become a significant economic headwind that could tip the United States into a recession.

“It definitely brings us closer right now,” Neel Kashkari, president of the Federal Reserve Bank of Minneapolis, said of a recession on the CBS program “Face the Nation” on Sunday. “What’s unclear for us is how much of these banking stresses are leading to a widespread credit crunch.”

Kristalina Georgieva, the managing director of the International Monetary Fund, said on Sunday that “risks to financial stability have increased” and that given high levels of uncertainty, policymakers must remain vigilant. She noted that the recent turmoil could have implications for the IMF’s global economic outlook and financial stability report, which will be released in the next few weeks.

“At a time of higher debt levels, the rapid transition from a prolonged period of low interest rates to much higher rates — necessary to fight inflation — inevitably generates stresses and vulnerabilities, as evidenced by recent developments in the banking sector in some advanced economies,” Georgieva said at the China Development Forum.

The IMF said in January that it believed a global recession could be avoided as growth began to rebound later this year. At the time, it projected that output would be more resilient than previously anticipated, and it upgraded its growth projections for 2023 and 2024, but it did warn that “financial stability risks remain elevated.”

World Bank officials said if the current banking turmoil spiralled into a financial crisis and recession, then global growth projections might be even weaker because of the associated losses of jobs and investment.

“However you look at it, if the current situation gets worse and turns into a recession, especially a recession at the global level, that could have negative implications for long-term growth prospects,” said Ayhan Kose, director of the World Bank’s Prospects Group and the lead author of the report.