Centre for the New Economy and Society

Chief Economists Outlook

September 2023

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Chief Economists Outlook
September 2023

This quarterly briefing builds on the latest policy development research as well as consultations and surveys with leading chief economists from both the public and private sectors, organized by the World Economic Forum's Centre for the New Economy and Society.

It aims to summarize the emerging contours of the current economic environment and identify priorities for further action by policy-makers and business leaders in response to the compounding shocks to the global economy from geoeconomic and geopolitical events.

The survey featured in this briefing was conducted in August 2023.

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Executive summary

The September 2023 *Chief Economists Outlook* launches amid slowing global momentum and continuing economic uncertainty. Despite the fact that recession concerns appear to have eased, the outlook remains anaemic: six out of ten chief economists expect the global economy to weaken in the coming year.

Political factors are expected to be an important influence on global economic developments in the year ahead, with large majorities of respondents expecting geopolitics (90%) and domestic politics (79%) to be a source of volatility.

Regionally, the growth outlook remains patchy. Respondents continue to see the strongest growth in Asia over the remainder of 2023 and into 2024, with the notable exception of China, where prospects of a strong rebound have been clouded by deflationary pressures. In the US, the outlook has strengthened significantly since the May 2023 *Chief Economists Outlook*, with about eight out of ten respondents now expecting moderate or strong growth in 2023 and 2024. For Europe, about 77% still expect weak or very weak growth this year. Looking ahead to 2024, however, respondents point to a significant brightening of the outlook for the first time in years.

The survey reveals some signs of optimism about the likely easing of inflationary pressures. Although, regionally, chief economists expect inflationary concerns to persist this year, 86% of respondents say that the worst of the inflationary surge will have passed a year from now. This brightening in the outlook is driven by expectations across a range of areas, including weaker wage growth (72%), looser labour market conditions (68%) and fading supply-chain pressures (61%).

The improvement in inflation expectations is reflected in the chief economists' views on the future trajectory of monetary policy. Respondents are almost unanimous (93%) in expecting the pace of tightening to slow in inflation-prone economies and expecting global monetary policy to become less synchronized in the coming year (78%).

Chief economists continue to highlight potentially damaging knock-on effects from the prolonged tightening of financial conditions. These include tightening of lending conditions, increases in corporate debt defaults and the prospect of corrections in property and equity markets.

Many of the headwinds that continue to buffet the global economy have a particularly acute impact on developing countries. The chief economists surveyed share a somewhat pessimistic picture of the current trajectory for global development. The majority of respondents expect future progress towards development goals to be undermined by geopolitical tensions (74%) and tighter financial conditions (59%), while only a minority expect to see stronger cooperation (41%) and an increase in private capital flows (30%) between advanced and developing economies.

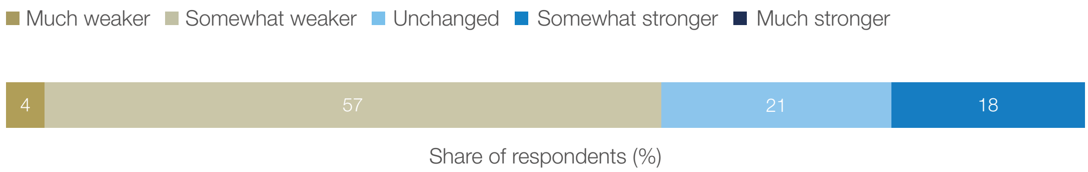
If flows of private capital can be unlocked, however, the chief economists appear optimistic about its effectiveness in driving progress across a broad range of development-related categories. This is particularly true in relation to digital transformation (97%), energy access and affordability (76%), food systems and nutrition (67%), and climate change, biodiversity loss and pollution (67%).

1. Global momentum remains elusive

Political factors stoke uncertainty

The global economic outlook remains anaemic, with six out of ten respondents in the latest survey of chief economists expecting overall conditions to weaken over the year ahead (see Figure 1). Uncertainty around the trajectory of the world economy remains high despite the fact that fears of a global recession appear to have eased or that many regions are expected to record a modest pick-up in growth rates in 2024. Global headwinds persist, and the prospects of a stronger recovery next year have dimmed, not least because of mounting concerns about the vitality of China's economy following its post-COVID-19 reopening at the end of 2022.[1]

Figure 1. The global economic outlook
Looking at the year ahead, what are your expectations for the future condition of the global economy?



Note: The numbers in the graphs may not add up to 100% because figures have been rounded up/down.

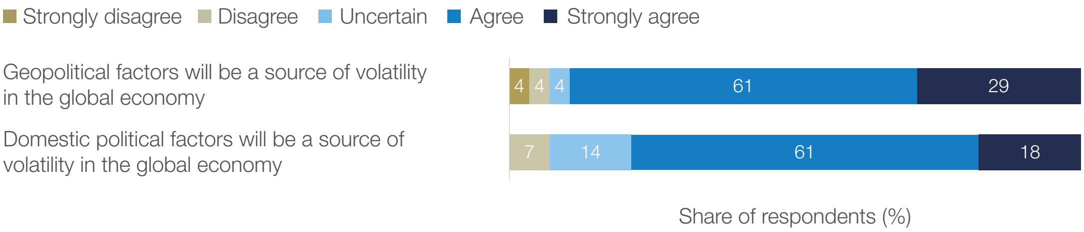
Source: Chief Economists Survey, August 2023

One notable source of uncertainty is the impact of political factors on the world economy. In successive surveys, chief economists have drawn attention to the destabilizing effect of rising geopolitical and geoeconomic tensions. This remains the case in the latest survey, with 90% of respondents expecting geopolitical factors to be a source of global economic volatility in the year ahead. Notably, only a slightly smaller proportion (79%) say the same about domestic political factors. This figure may be influenced by the imminent start of a US electoral cycle that is widely expected to be unusually consequential. Nevertheless, it also points to a broader trend in recent years of the global economy becoming the focus of sharper domestic political attention in many countries.

1 Huang et al., July 2023.

Figure 2. Political sources of global economic volatility

Looking at the year ahead, do you agree/disagree with the following statements?



Source: Chief Economists Survey, August 2023

The chief economists' expectation of weaker global conditions is echoed in the latest projections from the International Monetary Fund (IMF), which warn of decelerating momentum and looming downside risks despite a modest upgrade to 3% on their forecast for global growth in 2023.[2] This overall forecast for the global economy masks a growing divergence in growth prospects around the world, however. The IMF notes that global growth is currently heavily reliant on expansions being recorded in the majority of emerging and developing economies, whereas there is a continuing slowdown across 93% of advanced economies.

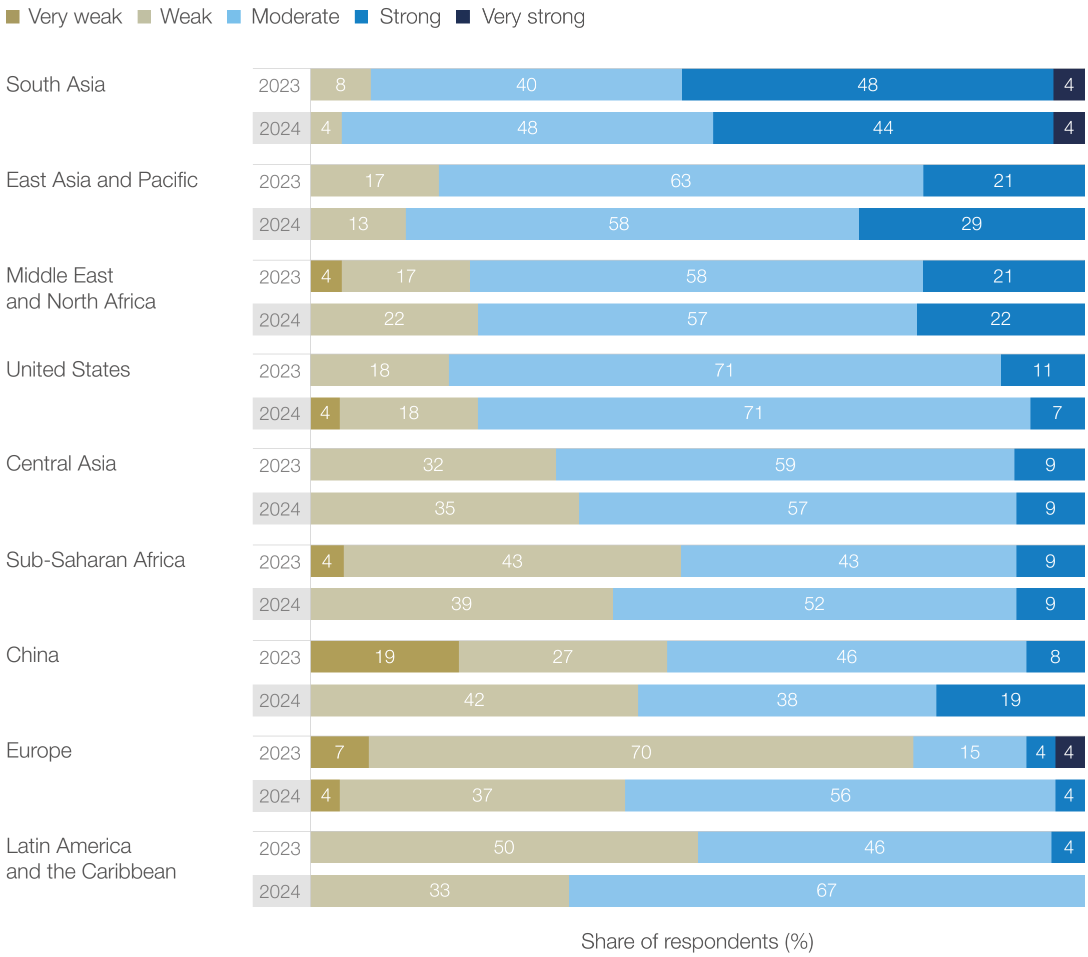
A similar pattern of regional variation is evident in the latest chief economist survey results (see Figure 3). Respondents continue to see the strongest growth prospects in Asia over the remainder of 2023 and into 2024, with the notable exception of China. In particular, 92% expect moderate or strong growth this year in South Asia, with a clear increase since the last survey in the share of respondents expecting strong growth in the region, from 36% to 52%. The outlook for East Asia and Pacific is also very positive, with 84% expecting moderate or strong growth this year. However, this reflects a slight weakening since May, in line with the slowdown in China.

In the May edition of the *Chief Economists Outlook,*[3] 97% of respondents expected China to record moderate or strong growth in 2023. In the latest survey, that figure has almost halved to 54%. A similar proportion (57%) expect moderate or strong growth in 2024, suggesting there is little expectation of a rapid improvement in conditions. Besides the slower-than-expected rebound of domestic consumption earlier this year, China's economic prospects have been clouded by deflationary pressures and signs of fragility in the crucial real estate market.[4] Trade volumes have also slumped, with imports down by 12.4% and exports by 14.5% in the year to July 2023.[5] While the immediate effects of this weakness are already being felt by China's regional neighbours, a sharp and sustained slowdown in China would risk wider spillover effects, fuelling even greater uncertainty over the medium-term prospects for the global economy.

2 IMF, July 2023.
3 World Economic Forum, 2023.
4 Wakabayashi et al., August 2023.
5 General Administration of Customs People's Republic of China, August 2023.

Figure 3. Expectations for growth in 2023-24

What is your expectation for economic growth in the following geographies in 2023 and 2024?



Source: Chief Economists Survey, August 2023

Respondents' expectations for the US have moved in the opposite direction compared to China, with a sharp increase between May and September in the proportion expecting moderate or strong growth (from 50% to 82%). Moreover, expectations are broadly the same for 2024 at 78%. In Europe, the expectations for 2023 are dismal, with about 77% of respondents expecting weak or very weak growth. However, looking ahead to 2024, the chief economists point to a significant brightening of the outlook for the first time in years, with expectations of moderate or strong growth jumping from 23% to 60%.

Elsewhere in the world, respondents point to a slight improvement in the growth outlook. In the Middle East and North Africa, in particular, there is a noticeable increase in the share of respondents expecting at least moderate growth (79%, up from 64% in the last survey), with a similar outlook for 2024. Latin America and the Caribbean and Sub-Saharan Africa remain at the weaker end of the outlook globally. Respondents are almost equally split between weak and strong growth expectations for 2023, but both regions are expected to improve slightly in 2024.

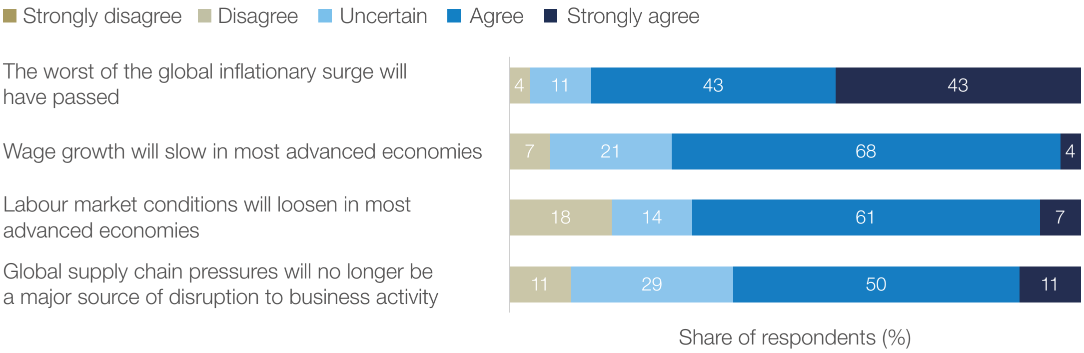
Inflationary pressures subside

One positive development for the global economy in recent months has been the moderation of headline rates of inflation. Base effects account for much of this, as sharp price rises in 2022 have dropped out of the inflation rate's 12-month horizon. However, it also reflects the impact of rapid monetary tightening, as well as the normalization of supply chain conditions, the relative stability of global food and energy markets, and the spillover of deflationary pressures from China.[6]

The easing of inflationary pressures is reflected in the chief economists survey, with a marked decline since May in the proportion of respondents expecting high or very high inflation this year. The vast majority of respondents (86%) also say that the worst of the inflationary surge will have passed a year from now (see Figure 4). Labour market conditions are one contributor to this, particularly in advanced economies, where around seven in ten chief economists expect looser labour markets and weaker wage growth. In addition, a majority of respondents (61%) expect supply-chain disruptions to have faded further.

Figure 4. Global inflation drivers

Looking at the year ahead, do you agree/disagree with the following statements?



Source: Chief Economists Survey, August 2023

It is worth noting that some inflationary concerns persist. In particular, the decline of headline rates masks continuing stickiness in many countries' core inflation rate, which strips out the most volatile price categories and is often seen as a good gauge of underlying domestic price pressures. The IMF has cautioned that core inflation will not fall this year in about half of the world's economies.[7] The inflation outlook is also vulnerable to potential future shocks to the global economy, from increased extreme weather events to a deepening of global fragmentation.[8]

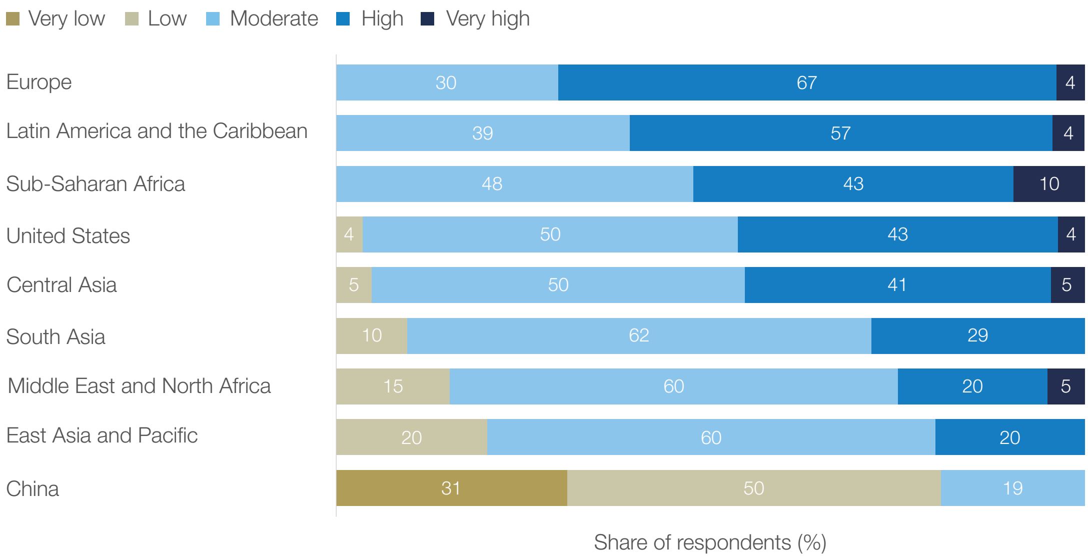
The chief economists' expectations for inflation in the US have significantly improved since the last survey, with the proportion expecting moderate or lower inflation increasing from 32% in May to 54%.

6 Smith, August 2023.
7 IMF, July 2023.
8 Lagarde, August 2023.

In Europe, by contrast, around 70% of respondents still expect high or very high inflation this year, although this represents a significant drop from 90% in May. At the other end of the spectrum is China, where mounting concerns about deflationary pressures are reflected in a jump in the proportion of chief economists expecting low or very low inflation this year, up from 48% in May to 81% in the latest survey.

Figure 5. Inflation expectations

What is your expectation for inflation in the following geographies in 2023?



Source: Chief Economists Survey, August 2023

Elsewhere, a majority of chief economists now expect moderate or lower inflation in East Asia and Pacific (80%), the Middle East and North Africa (75%), South Asia (72%) and Central Asia (55%). By contrast, despite an improved outlook since the last survey, most chief economists still expect high or very high inflation in Latin America and the Caribbean (61%) and Sub-Saharan Africa (53%).

2. Financial clouds persist

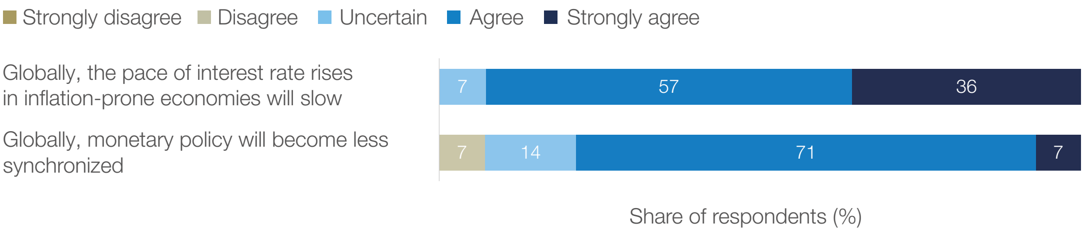
Monetary policy remains delicately poised

As noted above, central banks' sharp and synchronized tightening of monetary policy appears to have succeeded in preventing inflation expectations from becoming unanchored and, in most cases, has dampened inflationary pressures over the last year. That success has led to increasing debate around the pace and timing of any shift towards a looser monetary policy stance, particularly in the early months of 2023 when there were heightened concerns about the risks posed by high interest rates to banking stability and to global growth.

In the latest survey, chief economists are almost unanimous (93%) in expecting the pace of interest rate rises in inflation-prone economies to slow. They also expect the particularities of individual economies to move to the fore again, with almost 80% of respondents saying they expect to see less synchronization of monetary policy across central banks in the year ahead.

Figure 6. Monetary policy outlook

Looking at the year ahead, do you agree/disagree with the following statements?



Source: Chief Economists Survey, August 2023

The decision by the US Federal Reserve to hold interest rates unchanged at its June meeting marked an important step after a prolonged sequence of rate hikes.[9] However, it is notable that the mood remains very cautious: rate hikes may have been paused, but that does not mean that a reversion to low rates is imminent. This broadly hawkish tone was echoed by other central bankers at the annual Jackson Hole gathering in late August, where there was a strong focus on the need to respond to structural challenges for the global economy,[10] such as climate change, demographics, and deepening geopolitical and economic fractures. Monetary policy is therefore likely to be carefully calibrated in the months ahead as central banks

9 Federal Reserve, June 2023.

10 Federal Reserve Bank of Kansas City, August 2023.

navigate delicate domestic and global economic conditions.

This process is likely to prove more challenging for some central banks than others. A significant majority of chief economists (75%) highlighted the particular difficulties faced by the Bank of England in bringing inflation back to its target rate of 2%, with much smaller proportions pointing to the challenges faced by the European Central Bank (ECB) (14%), the Turkish central bank (7%) and the Federal Reserve (4%). The Federal Reserve[11] and the ECB[12] have both faced calls to keep rates unchanged in September 2023 to bolster lending and growth, but there is little prospect of an imminent monetary easing.

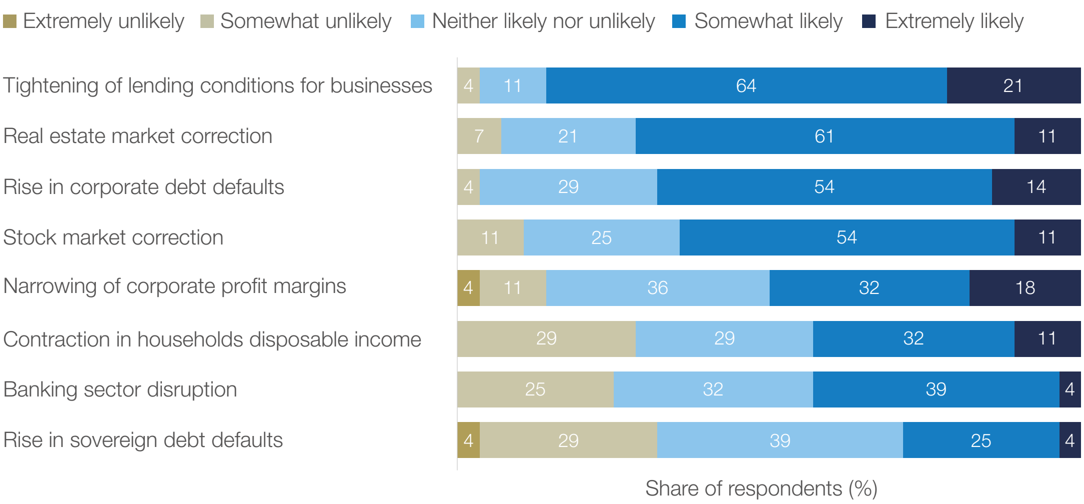
Financial tightening starts to bite

The effects of recent monetary and financial tightening are being increasingly felt by businesses and households alike.

The overwhelming majority of chief economists (85%) highlighted the tightening of lending conditions to business as the most likely adverse impact of financial conditions over the year ahead (see Figure 7). This is already being reflected on both sides of the Atlantic, with about 50% of US banks tightening business lending conditions in the second quarter of 2023, according to a recent Federal Reserve survey, and with many signalling that further tightening is in store over the remainder of 2023.[13] In the Eurozone, the ECB reports the same pattern on business lending in around a quarter of banks.[14] The economic impact of these financial ripples could range as high as 1% of gross domestic product (GDP) in the US, according to one estimate.[15] One positive sign for financial conditions is a significant easing of respondents' concerns about the likelihood of banking sector disruption; at the time of the previous survey, higher interest rates had been a contributory factor in a brief period of significant financial sector turmoil.

Figure 7. The impact of financial developments

Based on your expectations for financial conditions in the year ahead, how likely are the following?



Source: Chief Economists Survey, August 2023

11 Matthews, August 2023.
12 Koranyi, August 2023.
13 Federal Reserve, July 2023.
14 European Central Bank, July 2023.
15 Ieplo, April 2023.

An increase in corporate debt defaults is highlighted by around two-thirds of respondents as a concern over the next year. There are already signs that this is happening. For example, the value of US corporate debt defaults in the first half of 2023 ($21 billion) already surpassed the total recorded in 2021 and 2022 combined.[16] According to the latest estimates, the default rate for US and European high-yield bonds could increase to 4.25%[17] and 3.6%[18], respectively, by March 2024, from 2.5% and 2.8% a year earlier. These developments are not yet being reflected in corporate credit markets, however, which continue to signal broad confidence, with US and Eurozone spreads for high-yield bond indices against government bonds remaining tight at less than 400 and 450 basis points, respectively.[19] On corporate profitability, around half of respondents expect a squeeze on profit margins in the year ahead, with only 15% expecting a further increase in margins from their current historically high levels.

Looking at other potential impacts of tighter financial conditions, the chief economists surveyed also highlight the risk of a market correction for property (72%) and equities (65%). There is little evidence yet of stock market nervousness, with most key international indices registering solid growth since the start of the year – the S&P 500[20], STOXX Europe 600[21] and Nikkei 225[22] were up by 15%, 6% and 25%, respectively, at the end of August. By contrast, the evidence of stress in global property markets is much clearer, with higher interest rates feeding through to reduced demand and prices in many economies. In China, there are signs of more grave distress in the property sector, leading to a major hit to consumer sentiment and investor confidence and raising questions about the country's growth prospects.[23]

Chief economists also highlight the impact of financial tightening on individuals, with almost half of respondents expecting disposable incomes to contract over the year ahead. Any such squeeze on incomes would risk sustaining the cost-of-living crisis for many households – inflationary pressures may be subsiding, but a reduction in the rate of inflation does not pull average prices back from the historically high levels reached over the last year of surging inflation.

16 Clarfelt, June 2023.
17 S&P Global, May 2023a.
18 S&P Global, May 2023b.
19 Federal Reserve Bank of St. Louis, September 2023.
20 S&P Global, August 2023.
21 Reuters, August 2023b.
22 Reuters, August 2023a.
23 Gao et al., August 2023

3. A challenging backdrop for global development

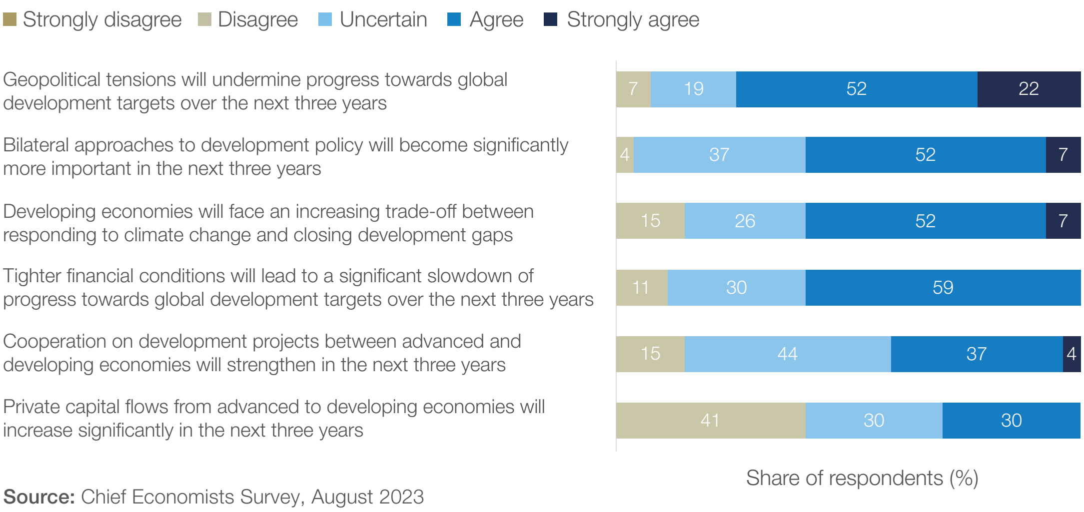
Gathering headwinds impede SDGs progress

Many of the factors that have been highlighted as sources of global economic disruption in this and previous *Chief Economists Outlooks* – such as geopolitical tensions, supply-chain disruption and financial tightening – have a particularly acute impact in developing countries while also sapping global momentum to achieve progress on development goals. The cumulative effect is disheartening. At the midway point between the launch of the Sustainable Development Goals (SDGs) process and their target date for achievement in 2030, progress is way off track.[24]

The latest survey of chief economists paints a pessimistic picture of the current trajectory for global development. Almost three-quarters of respondents (74%) expect geopolitical tensions to undermine progress towards development goals over the next three years, while 59% expect tighter financial conditions to hinder progress (see Figure 8). Moreover, less than half (41%) of respondents expect stronger cooperation between advanced and developing countries, and less than a third (30%) expect an increase in flows of private capital from advanced to developing countries. By contrast, a solid majority (59% of respondents) expects a significant increase in the importance of bilateral approaches to development.

Figure 8. The outlook for global development

With the world halfway to the 2030 deadline for the SDGs, do you agree/disagree with the following statements?



Source: Chief Economists Survey, August 2023

24 United Nations, June 2023.

This gloomy assessment is borne out in the latest *Global Sustainable Development Report*.[25] Not only has progress slowed on many targets since 2020, but it has also been reversed in numerous cases. As a result, global gaps have widened in areas including food security, the eradication of extreme poverty, climate action and the protection of biodiversity.[26] The cost-of-living crisis has been particularly damaging to global development efforts, pushing up to 95 million more people into extreme poverty as of last year and widening inequality around the world.[27] At the current pace, more than half a billion people will still live in extreme poverty in 2030.[28]

The chief economists surveyed also highlight the risk of global development efforts having to compete for attention and resources in the face of other pressing priorities. In particular, almost six out of ten respondents warn that developing countries will confront an intensifying trade-off between closing development gaps and responding to climate change. This is in line with an earlier IMF estimate of the trade-off between growth and climate action, which finds that a 1% increase in GDP corresponds, on average, to an increase of 0.7% in emissions.[29] However, it is worth noting that the World Bank has cautioned against excessive pessimism on this point, arguing that progress on some of the most glaring development priorities, such as reducing extreme poverty, involves much smaller and more manageable emissions trade-off.[30]

Unlocking progress on investment gaps

While the outlook for global development has darkened in recent years, there are grounds for optimism that an ambitious push can still deliver significant progress by 2030.[31] There is also a glaring need for more effective mobilization of finance, although careful prioritization and coordination will be required. The United Nations Conference on Trade and Development's (UNCTAD) most recent estimate of the annual investment gap that needs to be closed in order to meet the SDGs is around $4 trillion, up from $2.5 trillion when the SDGs were adopted in 2015.[32]

The survey of chief economists revealed uncertainty on the likelihood of increasing flows of private capital from advanced to developing countries. However, if flows of private capital can be unlocked, the chief economists are quite optimistic about the impact it can have across a broad range of development-related categories (see Figure 9).

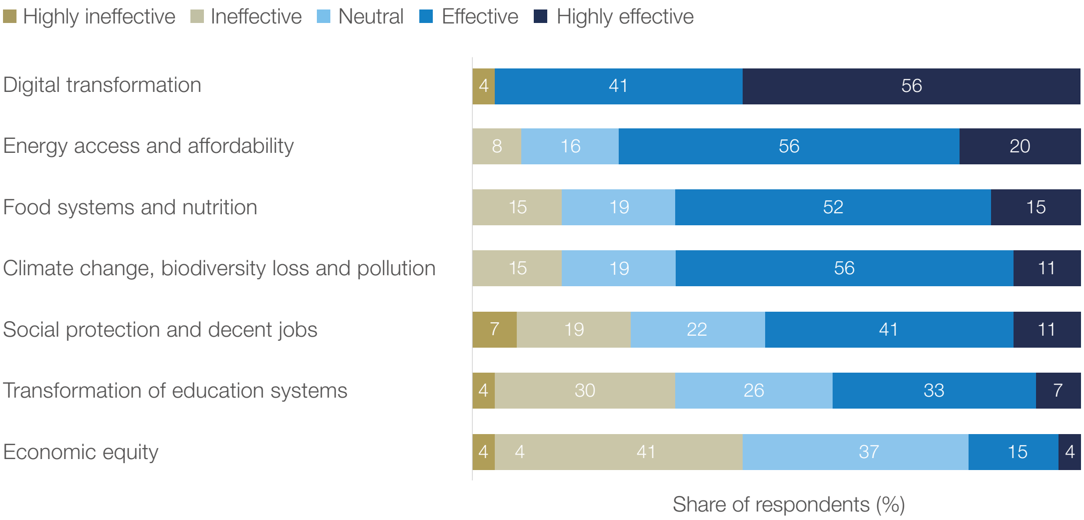
This is particularly true in relation to digital transformation, where there was near unanimity (97%) among respondents about the effectiveness of private capital, with more than half saying it can be highly effective at driving progress in this area. There is a lot of progress to be made. Up to half of the population in low- and middle-income economies lack access to the internet, rising to 64% in the least-developed economies.[33] Moreover, the potential benefits of

25 Ibid.
26 Ibid.
27 United Nations, January 2023.
28 World Bank, October 2022.
29 Cohen et al., August 2017.
30 Wollburg et al., February 2023.
31 United Nations, June 2023.
32 UNCTAD, July 2023.
33 ITU and UNESCO, September 2022.

digitalization are numerous. In addition to its direct economic and social gains, it also has the potential for spillover benefits in many other areas of development, including education, health and the deployment of zero-carbon technologies.[34]

Figure 9. The role of private capital

Looking at the following categories of SDGs, where do you think private capital can be most effective in driving progress?



Source: Chief Economists Survey, August 2023

The second category highlighted by chief economists is energy access and affordability, where 76% of respondents say private capital will be effective. Closely behind it are the "climate change, biodiversity loss and pollution" and the "food systems and nutrition" categories, both at 67%. Arguably, these three sustainability-related categories are ones where efforts to boost private capital flows are already most advanced. The issuance of private sustainable finance in developing economies reached around $250 billion in 2020 and 2021, almost a three-fold increase on the volumes recorded up to 2019, but still only half what is needed, according to the IMF.[35] While private actors are well positioned to make a difference on both the supply and demand sides of climate-related development, the chief obstacles are weak policies and a lack of bankable projects.[36]

For categories of societal development typically associated with the public sector, the chief economists are less positive about the effectiveness of private capital. Just over half of respondents (52%) say private capital can be effective at driving progress on social protection and decent jobs. The figure drops to 40% for the transformation of education systems and to 19% for driving progress on economic equity. It is important to note in this regard that capital flows are not the only way that the private sector can play an effective development role. When it comes to socioeconomic factors, in particular, their incorporation into business strategy throughout the value chain can be a driver of progress.

34 UNECE, October 2022.
35 Ehlers et al., July 2023.
36 Bhattacharya et al., May 2022.

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