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Global Economic Slowdown (2023)

and

Way Forward

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Research Assistant, Economic Affairs & National Development

Working Paper

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Abstract

Globally, an economic downturn has been observed in 2023, and the global growth forecasts for the year have been downgraded from their 2022 levels. The present working paper aims to explore causes and consequences of the global economic slowdown in 2023, highlight the potential sources of upside and downside risks to the global economy, and analyse the future growth outlook for 2024 and beyond. It identifies the economic fallout of the war in Ukraine, the global interest rate hikes, the prolonged effects of the COVID-19 pandemic, and the impacts of climate change as the major contributing factors to the global economic slowdown alongside the decline in global investment, a slowdown in global trade, debt distress, political instability, a weakening in productivity growth, an interruption of the global environmental action, the decrease in global commodity prices, as well as the rise in poverty, inequality, and unemployment as its major adverse consequences. It also shows that global growth is expected to remain sluggish in 2024 and below potential during the remainder of the decade. Further downside risks to the global economy in the foreseeable months, majorly attributable to a potentially widespread financial turmoil metastasising from banking stress in advanced economies, also loom large. However, factors such as a faster-than-expected consumption recovery or strengthening of the labour market can lead to stronger-than-expected global economic growth. Pursuing a data-driven monetary policy, addressing supply side constraints, investing in climate resilience, and implementing precautionary measures to prevent a banking crisis will be imperative to address the causes of the economic slowdown and downside risks. While strengthening official support to developing countries and emerging economies, implementing structural reforms at the national level to boost economic recovery, boosting global trade, focusing on employment protection and recovery, alongside strengthening social protection will be vital to avoid the worst outcomes.

Keywords: Global Economic Slowdown, Recession, Interest Rate Hike, War in Ukraine.

1. Introduction

The contemporary world is marked by a period of simultaneous shocks, which means that humanity is now living in the midst of a global ‘polycrisis.’ The economic historian, Adam Tooze, defines a global ‘polycrisis’ as ‘not just a situation where there are multiple crises, but a situation where the whole is even more dangerous than the sum of the parts.’ [1] The beginning of the conflict in Ukraine, in early 2022, severely disrupted the global energy and food markets and exacerbated global inflation. The global inflation surge triggered aggressive monetary policy tightening measures in developed and developing countries, generating a global interest rate shock. This occurred at a time when the world was still facing the effects of the COVID-19 pandemic, and climate change continued to pose a grave threat to humanity. The confluence of these multiple crises resulted in a significant blow to the world economy, and global growth slowed from 6.3% in 2021 to 3.5% in 2022according to the IMF,[2] and from 6.0% to 3.1% according to the World Bank.[3] In 2023, the effects of these multiple crises still reverberate worldwide.

Against this international context, global growth continues to weaken, and International Monetary Fund’s (IMF) baseline forecast (July 2023 issue) expects global output growth to fall to 3.0% in 2023 (Table 1).[4] While this cuts across both developed and developing nations, advanced economies’ aggregate growth is projected to decline by 1.2 percentage points compared to EMDEs, which is forecasted to remain the same, as certain regions among the EMDEs, including the Emerging and Developing Asia (including China and India) and the Emerging and Developing Europe (including Russia) are expected to witness an increased aggregate economic growth in 2023 compared to 2022 (Table 1).[5]

The World Bank’s economic projections indicate a relatively larger economic downturn globally and in advanced economies. The baseline forecast of the World Bank (June

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1 Omega, “The Global Polycrisis,” Accessed June 3, 2023, https://omega.ngo/learn-more/the-global-polycrisis/.

2 International Monetary Fund, *Near-Term Resilience, Persistent Challenges*, report (Washington, D.C.: International Monetary Fund, 2023), https://www.imf.org/en/Publications/WEO/Issues/2023/07/10/world-economic-outlook-update-july-2023.

3 World Bank Group, *Global Economic Prospects*, report (Washington, D.C.: The World Bank, 2023), https://www.worldbank.org/en/publication/global-economic-prospects.

4 International Monetary Fund, *World Economic Outlook: A Rocky Recovery*, report (Washington, D.C.: International Monetary Fund, 2023), https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023.

5 Ibid., 4.

2023 issue) expects global growth to fall to 2.1% in 2023 from 3.1% in 2022 [6] and the advanced economies' growth to decline to 0.7% in 2023 (Table 2).[7] In contrast, the aggregate growth in the EMDEs is expected to increase to 4% in 2023 compared to 3.7% in 2022, as the East Asia and Pacific region (including China) is forecasted to record a significant economic rebound (Table 2).[8] However, if China is excluded, the estimated percentage reduces substantially to 2.9%.[9] Regionally, overall growth is forecasted to be the lowest in the Euro Area and highest in South Asia (Table 2).[10]

Further downside risks, majorly due to potentially widespread banking turmoil, also loom large. Banking stress is already visible in the US as three major banks have collapsed,[11] while many others are at risk of failing.[12] In the IMF's plausible alternative scenario (April 2023 issue)involving further stress in individual banks and moderate additional tightening in credit conditions, the global growth may fall to 2.5% in 2023, by far the lowest growth output since 2001's economic slowdown, excluding the financial crisis of 2007-2009 and the economic downturn caused by the initial phase of COVID-19 Pandemic.[13] In a severely adverse scenario involving risks such as much more persistent and sharper tightening of financial conditions due to the banking system's turbulence, escalation of the war in Ukraine, delays in China's post-COVID-19 recovery, or geoeconomic fragmentation affecting global economic governance, the global growth could fall below 2.0%.[14] The prospect of global growth falling below 2.0% is now approximately 25%, i.e., more than twice the normal probability.[15] The World Bank (June 2023 issue) has also stressed that the overall economic outlook could worsen more drastically in the event of widespread banking turmoil. In a scenario where there is banking stress in advanced economies and a severe credit crunch, global growth may drop to 1.9%.[16] If the banking stress propagates globally, global growth may drop to 1.8%.[17]

[6] World Bank Group, *Global Economic Prospects*, 4.
[7] Ibid., 4.
[8] Ibid., 4.
[9] Ibid., 6.
[10] Ibid., 4.
[11] Mathew Goldberg, "List of Failed Banks: 2009-2023," *Bankrate*, May 13, 2023, https://www.bankrate.com/banking/list-of-failed-banks/.
[12] Bryan Mc Govern, "Banking Crisis 2023 Explained: What Investors need to Know," *Resource News*, May 23, 2023, https://investingnews.com/banking-crisis-explained-timeline/.
[13] International Monetary Fund, *World Economic Outlook: A Rocky Recovery*, 11.
[14] Ibid., 14-15.
[15] Ibid., 15.
[16] World Bank Group, *Global Economic Prospects*, 31.
[17] Ibid., 32.

The current economic slowdown carries several challenges, as it weakens demand, reduces consumer spending, contracts economic activity, declines investor confidence, and contributes to financial instability. This demands urgent multilateral cooperation and effective policy measures to address the major causes and mitigate the risks and challenges of the global economic slowdown. With that in mind, this working paper explores the causes and consequences of the global economic slowdown and proposes a way forward. The remainder of the paper is structured as follows. First, it explores the proximate and most significant causes of the deteriorating global economic environment. Second, it highlights the potential sources of upside and downside risks to the global economy. Third, it explores the visible and probable consequences of the global economic slowdown. Fourth, it outlines the possible future growth outlook. Finally, it proposes a way forward followed by a conclusion.

Table 1: Overview of the World Economic Outlook Projections

	Year over Year						Q4 over Q4 2/		
	Estimate		Projections		Difference from April 2023 WEO Projections 1/		Estimate	Projections	
	2021	2022	2023	2024	2023	2024	2022	2023	2024
World Output	**6.3**	**3.5**	**3.0**	**3.0**	**0.2**	**0.0**	**2.2**	**2.9**	**2.9**
Advanced Economies	**5.4**	**2.7**	**1.5**	**1.4**	**0.2**	**0.0**	**1.2**	**1.4**	**1.4**
United States	5.9	2.1	1.8	1.0	0.2	–0.1	0.9	1.4	1.1
Euro Area	5.3	3.5	0.9	1.5	0.1	0.1	1.8	1.2	1.5
Germany	2.6	1.8	–0.3	1.3	–0.2	0.2	0.8	0.5	1.5
France	6.4	2.5	0.8	1.3	0.1	0.0	0.6	0.9	1.6
Italy	7.0	3.7	1.1	0.9	0.4	0.1	1.5	0.9	1.1
Spain	5.5	5.5	2.5	2.0	1.0	0.0	3.0	1.8	2.2
Japan	2.2	1.0	1.4	1.0	0.1	0.0	0.4	1.5	1.0
United Kingdom	7.6	4.1	0.4	1.0	0.7	0.0	0.6	0.5	1.3
Canada	5.0	3.4	1.7	1.4	0.2	–0.1	2.1	1.6	1.8
Other Advanced Economies 3/	5.5	2.7	2.0	2.3	0.2	0.1	1.0	1.8	2.1
Emerging Market and Developing Economies	**6.8**	**4.0**	**4.0**	**4.1**	**0.1**	**–0.1**	**3.1**	**4.1**	**4.1**
Emerging and Developing Asia	7.5	4.5	5.3	5.0	0.0	–0.1	4.2	5.3	4.9
China	8.4	3.0	5.2	4.5	0.0	0.0	3.1	5.8	4.1
India 4/	9.1	7.2	6.1	6.3	0.2	0.0	6.1	4.3	6.4
Emerging and Developing Europe	7.3	0.8	1.8	2.2	0.6	–0.3	–1.3	2.7	2.0
Russia	5.6	–2.1	1.5	1.3	0.8	0.0	–3.1	1.9	0.8
Latin America and the Caribbean	7.0	3.9	1.9	2.2	0.3	0.0	2.6	0.8	2.9
Brazil	5.0	2.9	2.1	1.2	1.2	–0.3	2.5	1.3	2.2
Mexico	4.7	3.0	2.6	1.5	0.8	–0.1	3.7	1.9	1.7
Middle East and Central Asia	4.4	5.4	2.5	3.2	–0.4	–0.3	. . .	. . .	. . .
Saudi Arabia	3.9	8.7	1.9	2.8	–1.2	–0.3	5.5	2.0	2.9
Sub-Saharan Africa	4.7	3.9	3.5	4.1	–0.1	–0.1	. . .	. . .	. . .
Nigeria	3.6	3.3	3.2	3.0	0.0	0.0	3.2	2.6	3.6
South Africa	4.7	1.9	0.3	1.7	0.2	–0.1	1.3	0.9	2.0
Memorandum									
World Growth Based on Market Exchange Rates	6.0	3.0	2.5	2.4	0.1	0.0	1.8	2.5	2.4
European Union	5.5	3.7	1.0	1.7	0.3	0.1	1.8	1.5	1.7
ASEAN-5 5/	4.0	5.5	4.6	4.5	0.1	–0.1	4.7	4.6	4.8
Middle East and North Africa	4.0	5.4	2.6	3.1	–0.5	–0.3	. . .	. . .	. . .
Emerging Market and Middle-Income Economies	7.1	3.9	3.9	3.9	0.0	–0.1	3.1	4.1	4.1
Low-Income Developing Countries	4.1	5.0	4.5	5.2	–0.2	–0.2	. . .	. . .	. . .

Source: IMF, *Near-Term Resilience, Persistent Challenges,* 4.
Note: e = estimate; f = forecast. Percent change, unless noted otherwise.

Table 2: Real GDP (World Bank)

							Percentage point differences from January 2023 projections	
	2020	2021	2022e	2023f	2024f	2025f	2023f	2024f
World	**-3.1**	**6.0**	**3.1**	**2.1**	**2.4**	**3.0**	**0.4**	**-0.3**
Advanced economies	**-4.3**	**5.4**	**2.6**	**0.7**	**1.2**	**2.2**	**0.2**	**-0.4**
United States	-2.8	5.9	2.1	1.1	0.8	2.3	0.6	-0.8
Euro area	-6.1	5.4	3.5	0.4	1.3	2.3	0.4	-0.3
Japan	-4.3	2.2	1.0	0.8	0.7	0.6	-0.2	0.0
Emerging market and developing economies	**-1.5**	**6.9**	**3.7**	**4.0**	**3.9**	**4.0**	**0.6**	**-0.2**
East Asia and Pacific	1.2	7.5	3.5	5.5	4.6	4.5	1.2	-0.3
China	2.2	8.4	3.0	5.6	4.6	4.4	1.3	-0.4
Indonesia	-2.1	3.7	5.3	4.9	4.9	5.0	0.1	0.0
Thailand	-6.1	1.5	2.6	3.9	3.6	3.4	0.3	-0.1
Europe and Central Asia	-1.7	7.1	1.2	1.4	2.7	2.7	1.3	-0.1
Russian Federation	-2.7	5.6	-2.1	-0.2	1.2	0.8	3.1	-0.4
Türkiye	1.9	11.4	5.6	3.2	4.3	4.1	0.5	0.3
Poland	-2.0	6.9	5.1	0.7	2.6	3.2	0.0	0.4
Latin America and the Caribbean	-6.2	6.9	3.7	1.5	2.0	2.6	0.2	-0.4
Brazil	-3.3	5.0	2.9	1.2	1.4	2.4	0.4	-0.6
Mexico	-8.0	4.7	3.0	2.5	1.9	2.0	1.6	-0.4
Argentina	-9.9	10.4	5.2	-2.0	2.3	2.0	-4.0	0.3
Middle East and North Africa	-3.8	3.8	5.9	2.2	3.3	3.0	-1.3	0.6
Saudi Arabia	-4.3	3.9	8.7	2.2	3.3	2.5	-1.5	1.0
Iran, Islamic Rep. [2]	1.9	4.7	2.9	2.2	2.0	1.9	0.0	0.1
Egypt, Arab Rep. [2]	3.6	3.3	6.6	4.0	4.0	4.7	-0.5	-0.8
South Asia	-4.1	8.3	6.0	5.9	5.1	6.4	0.4	-0.7
India [2]	-5.8	9.1	7.2	6.3	6.4	6.5	-0.3	0.3
Pakistan [2]	-0.9	5.8	6.1	0.4	2.0	3.0	-1.6	-1.2
Bangladesh [2]	3.4	6.9	7.1	5.2	6.2	6.4	0.0	0.0
Sub-Saharan Africa	-2.0	4.4	3.7	3.2	3.9	4.0	-0.4	0.0
Nigeria	-1.8	3.6	3.3	2.8	3.0	3.1	-0.1	0.1
South Africa	-6.3	4.9	2.0	0.3	1.5	1.6	-1.1	-0.3
Angola	-5.6	1.1	3.5	2.6	3.3	3.1	-0.2	0.4

Source: World Bank Group, *Global Economic Prospects*, 4.
Note: e = estimate; f = forecast. Percent change from previous year unless indicated otherwise.

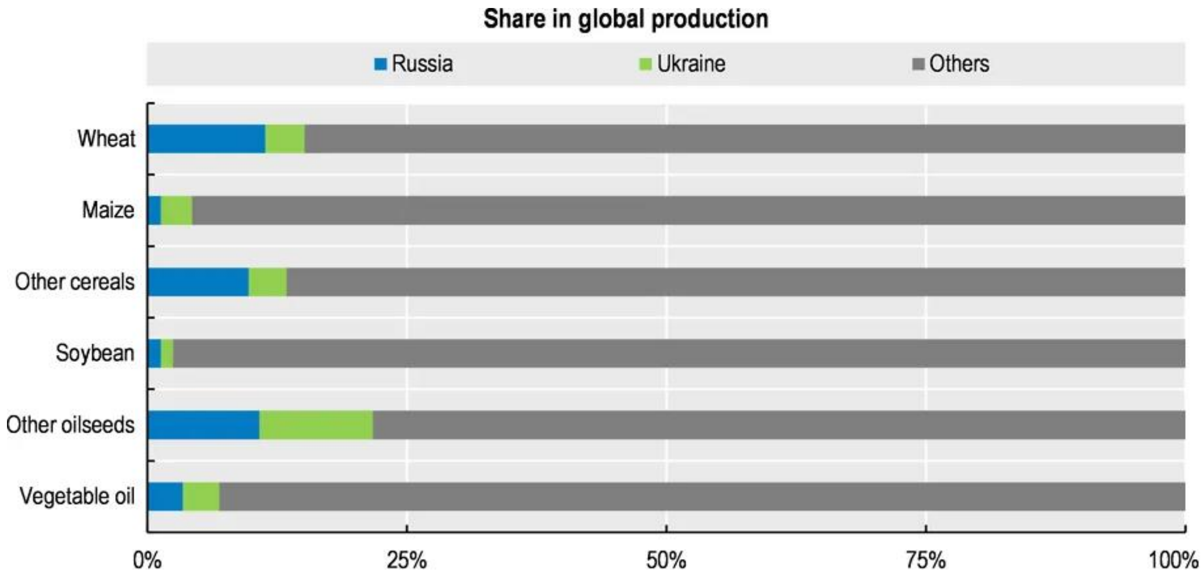
2. Major Contributory Factors of the Global Economic Slowdown in 2023

Causes of the global economic slowdown in 2023 are many and varied. The following section highlights a few of the proximate and most significant causes.

2.1 Economic Fallout of the War in Ukraine

Beginning in early 2022, the war in Ukraine triggered one of the largest commodity shocks and led to unprecedented price hikes globally, as Ukraine and Russia accounted for a considerable share of global food, energy, and fertilizer supplies in the period leading up to the war. From 2016/17 to 2020/21, Ukraine and Russia accounted for 13% of the global wheat production, 20% of global barley production, 50% of the sunflower seed production, and produced several other cereals (Figure 1).[18] In terms of exports, Ukraine was the third, fourth, and fifth largest exporter of maize, barley, and wheat, respectively, and accounted for 25% of the sunflower oil exports.[19] Similarly, Russia was the first and third leading exporter of wheat and barley, respectively, and accounted for 50% of sunflower oil exports (Figure 2).[20] It was also the world's largest exporter of natural gas and nitrogen fertilizers, the second-largest exporter of oil and potassic fertilizers, and the third-largest supplier of coal and phosphorous fertilizers.[21] Additionally, the war triggered massive disruptions in trade and supply chains by resulting in disruption or blockage of international transportation routes, plant stoppages, export controls and sanctions on Russia, and the Russian ban on the exports of certain food grains and manufactured goods.[22] This, coupled with the changes in global commodity prices, affected producers and consumers worldwide.

Figure 1: Shares of Russia and Ukraine in Global Production of Selected Crops (2016/17 to 2020/21 Avg)



Source: OECD, "The Impacts and Policy Implications of Russia's Aggression against Ukraine on Agricultural Markets."

18 Organisation for Economic Co-operation and Development, "The Impacts and Policy Implications of Russia's Aggression against Ukraine on Agricultural Markets," August 5, 2022, https://www.oecd.org/ukraine-hub/policy-responses/the-impacts-and-policy-implications-of-russia-s-aggression-against-ukraine-on-agricultural-markets.

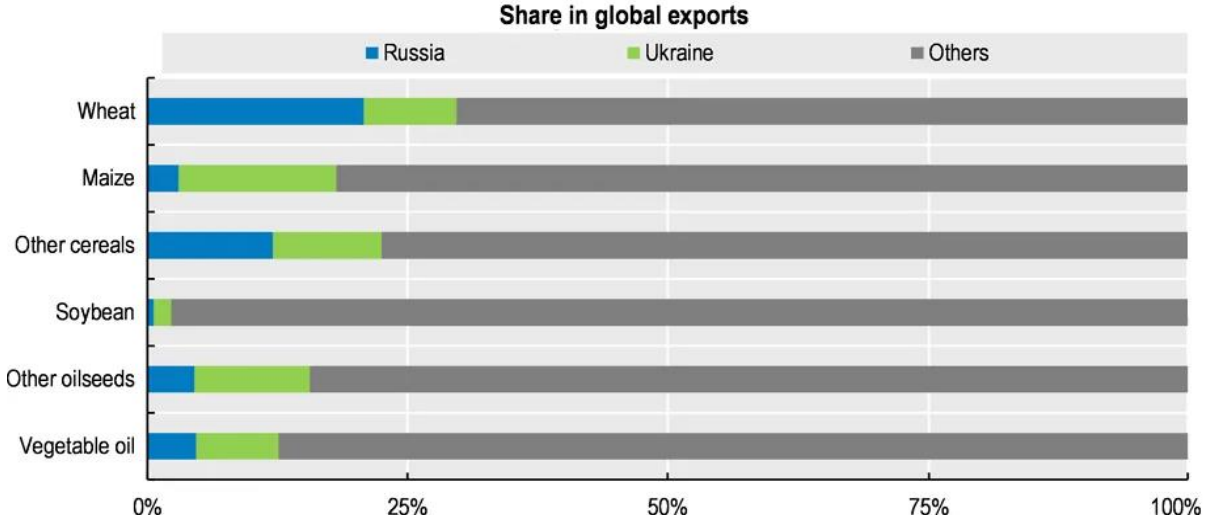
19 Ibid.

20 Ibid.

21 Ibid.

22 Congressional Research Service, "Russia's 2022 War Against Ukraine: Global Economic Effects," May 12, 2022, https://crsreports.congress.gov/product/pdf/IF/IF12104.

Figure 2: Shares of Russia and Ukraine in Global Exports of Selected Crops (2016/17 to 2020/21 Avg)



Source: OECD, “The Impacts and Policy Implications of Russia’s Aggression against Ukraine on Agricultural Markets.”

The reopening of Ukraine’s Black Sea ports, international donor support to Ukraine, and the resumption of the global grain trade [23] eased pressure on the global economy in 2023. Global energy and food prices also declined in parallel.[24] Notwithstanding this, the effects of the war continue to exert a drag on the global economy in several ways. Global commodity prices are expected to remain higher compared to the pre-pandemic levels throughout 2023.[25] The Ukrainian agricultural sector continues to suffer from the impacts of the war, and its total grain harvest could reduce from 53.1 million tons in 2022 to 44.3 million tons in 2023.[26] The Western sanctions and export controls on Russia also persist.[27] At the same time, Moscow has imposed a ban on the export of several items from the West and a prohibition on Russian firms from making payments to overseas shareholders.[28] Additionally, supply chains impacting Russia and Ukraine remain affected, primarily due to the concerns surrounding safe

[23] World Bank, “Russia’s Invasion of Ukraine and Cost-of-Living Crisis Dim Growth Prospects in Emerging Europe and Central Asia,” April 6, 2023, https://www.worldbank.org/en/news/press-release/2023/04/06/russian-invasion-of-ukraine-and-cost-of-living-crisis-dim-growth-prospects-in-emerging-europe-and-central-asia.

[24] United Nations, *World Economic Situation and Prospects as of mid-2023*,5.

[25] World Bank Group, *Global Economic Prospects,* 9.

[26] Pavel Polityuk, “Exclusive-Ukraine’s 2023 Grain Harvest seen Falling to 44.3 million T – Farm Industry,” *Reuters*, March 20, 2023, https://www.reuters.com/article/ukraine-crisis-harvest-idUSKBN2VM1CH.

[27] “What are the Sanctions on Russia and are they Hurting,” *BBC News*, May 24, 2023, https://www.bbc.com/news/world-europe-60125659.

[28] Ibid.

transport, and the sanctions alongside the safety and political impacts of the war are anticipated to result in long-term effects on the rail and over-the-road cargo between Western Europe and Russia and Belarus.[29] More recently, the Russian exit from the Black Sea grain deal, which paved the way for the resumption of global grain trade, has raised new concerns about the global food prices.[30]

Many of the indirect economic effects of the war are also likely to linger over an extended period and weigh down on the global economy, including throughout 2023. For instance, the reduction in savings due to inflationary pressures and an associated increase in the cost of living may have a lingering effect on the global economy by inhibiting investment and capital accumulation. The high inflationary environment also tends to worsen poverty and inequality, which has a prolonged impact on economic growth by declining human productivity, increasing governmental expenditures on social protection, reducing consumer spending, or fuelling social unrest. However, the economic fallout of the global interest rate hikes provoked by the rapid upward surge in global inflation is the war's most significant indirect economic impact and warrants being explored in detail.

2.2 Global Interest Rate Hike Spree

In recent times, the world has witnessed the most aggressive and fastest interest rate hike cycle in decades as central banks worldwide battle to clamp down on inflation and prevent currency depreciation. In July 2023, the US Federal Reserve System (Fed) increased its interest rate for the eleventh time since March 2022,[31] making it the severest and fastest hike cycle since 1988.Table3 highlights the duration and severity of interest rate hikes cycles by the Fed since 1988. In response and in a bid to stabilise prices, advanced economies' central banks have also been ramping up their respective interest rates. For instance, in July 2023, the European Central Bank (ECB), i.e., the central bank of the 19 European Union countries and some of the largest economies, implemented its ninth increase in interest rate since July 2022,

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29 Nikolay Bozhilov, "Supply Chains a Year after the Start of War in Ukraine," *The Logistics Point*, March 2, 2023, http://www.thelogisticspoint.com/2023/03/02/supply-chains-a-year-after-the-start-of-the-war-in-ukraine/.

30 Amy Chew, "Russia's Exit from Grain Deal puts Focus on Asia's Food Prices," *Al Jazeera*, July 27, 2023, https://www.aljazeera.com/economy/2023/7/21/russias-exit-from-grain-deal-puts-focus-on-asias-food-prices.

31 Trading Economics, "United States Fed Funds Rate," Accessed June 5, 2023, https://tradingeconomics.com/united-states/interest-rate.

bringing it from 0% to 4.25%.[32] In a similar vein, central banks in developing countries and emerging market economies have been implementing tighter monetary policy measures, while some have even remained ahead of a few advanced nations in terms of interest rate hikes.[33]

Table 3: Interest Rate Hike Cycles by the US Fed since 1988: Duration and Severity

Interval	Duration (Months)	Aggregate Change in Interest Rate
Mar 1988 – May 1989	14	3.23
Feb 1994 – Feb 1995	12	2.67
Jun 1999 – May 2000	11	1.51
Jun 2004 – Jun 2006	24	3.96
Dec 2015 – Dec 2018	36	2.03
Mar 2022 – July2023	17	5.25

Source: Jenna Ross, "The Pace of the US Interest Rate Hikes is Faster than any Time in Recent History. Is this Creating a Risk of Recession?" The World Economic Forum, October 12, 2022, https://www.weforum.org/agenda/2022/10/comparing-the-speed-of-u-s-interest-rate-hikes-1988-2022/. (Table updated by the author)

The tighter monetary policy measures are expected to slow throughout 2023 but a significant transition to monetary loosening may take some time.[34] In developing countries and emerging markets, high-interest rates affect economic growth and stability majorly by triggering sharp currency depreciations, stimulating capital outflow, changing the savings and investment decisions of firms and households, and increasing debt levels.[35] In advanced nations, high-interest rates weaken economic activity, mainly by dampening investor sentiment and consumer demand. For instance,

32 Trading Economics, "Euro Area Interest Rate," Accessed June 5, 2023, https://tradingeconomics.com/euro-area/interest-rate.

33 Zahra Niazi, "Global Interest Rate Shock: Implications for Economic Growth in Developing Countries and Emerging Markets," (paper, Centre for Aerospace & Security Studies, Islamabad, 2021), https://casstt.com/global-interest-rate-shock-implications-for-economic-growth-indeveloping-countries-emerging-markets/.

34 Spencer Feingold, "What are the Most Significant Economic Impacts of Higher Interest Rates? Chief Economists Explain," *World Economic Forum*, May 2, 2023, https://www.weforum.org/agenda/2023/05/growth-summit-significant-economic-impacts-higher-interest-rates-chief-economists/.

35 Niazi, "Global Interest Rate Shock: Implications for Economic Growth in Developing Countries and Emerging Markets."

in the US, the housing market, i.e., a significant contributor to the US' Gross Domestic Product (GDP), faces challenges as interest rate hikes tend to increase mortgage rates, reduce the affordability of consumers, and inhibit demand.[36]

2.3 Prolonged Effects of the COVID-19 Pandemic

In 2020, the world was hit by the COVID-19 pandemic, which had a debilitating impact on the world economy. Restrictions on movement, border closures, and rapid spread of the disease caused severe disruptions across industries, trade and supply chains, along with the labour market. The mobility restrictions began to ease significantly in the second half of 2021 and 2022 following the widespread uptake of the COVID-19 vaccination and the subsequent decline in virus cases worldwide.[37] In early May 2023, the World Health Organisation (WHO) declared the pandemic an ongoing health issue, stressing that it no longer constitutes a health emergency.

However, the United Nations' World Economic Situation and Prospects report highlights that the impacts of the pandemic linger and may continue to affect the global economy over the long term,[38] including in 2023. More generally, people experiencing COVID-19-related symptoms may not be able to return to work fully, or their unplanned absenteeism from work may lead to unnecessary delays in manufacturing and affect businesses.[39] Businesses in contact-intensive industries may also find hiring and retaining employees challenging as people increasingly opt for less contact-intensive employment or work-from-home opportunities.[40] As of mid-2023, labour markets in Japan, Europe, and North America continued to remain tight, with recurrent worker shortages.[41] Moreover, studies have suggested that human costs in terms of lives lost

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36 Wealth Management, "The Impact of Today's Higher Interest Rates on the Housing Market," May 23, 2023, https://www.usbank.com/investing/financial-perspectives/investing-insights/interest-rates-impact-on-housing-market.html.

37 Meghan Benton, Samuel Davidoff-Gore, Jeanne Batalova, Lawrence Huang, and Jie Zong, "COVID-19 and the State of Global Mobility in 2021," (Policy Paper, International Organization for Migration and Migration Policy Institute, Geneva and Washington, DC, 2021), https://migration.iom.int/reports/covid-19-and-state-global-mobility-2021; Global Data Institute, Displacement Tracking Matrix, *Global Mobility Restrictions Overview*, report (Switzerland: International Organization for Migration, 2022), https://dtm.iom.int/reports/dtm-covid-19-global-mobility-restrictions-overview-21-november-2022.

38 United Nations, *World Economic Situation and Prospects as of mid-2023.*

39 United Nations, *World Economic Situation and Prospects 2023*, report (New York: United Nations Department of Economic and Social Affairs, 2023), https://desapublications.un.org/publications/world-economic-situation-and-prospects-2023.

40 Ibid.

41 United Nations, *World Economic Situation and Prospects as of mid-2023*, report (New York: United Nations Department of Economic and Social Affairs, 2023), https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-as-of-mid-2023/.

will have enduring repercussions for the world economy.[42] In addition, estimates indicate that 65 to 75 million people may have entered into extreme poverty in 2020 as a consequence of the pandemic and another 80 million may have become undernourished.[43] This is also expected to affect global economic growth in 2023 and beyond.[44]

2.4 Climate Change: A Continuing Challenge

In recent times, climate change-induced disasters have become increasingly frequent and intense, and experts warn that even more significant challenges lie ahead as the world remains far from meeting the goal of limiting global warming to well below 2° Celsius. The effects of climate change continue to weigh heavily on the world economy through damage to infrastructure and property, lost productivity, and mass migration, among other challenges. The year 2022 was also unprecedented in terms of climate-fuelled disasters, as record-breaking temperatures, droughts, severe floods, and storms caused widespread destruction across many countries and regions of the world.[45] A study found that ten extreme weather events in 2022 caused more than USD3 billion in estimated damages covered by insurance.[46] The actual financial costs are even higher if uninsured losses are accounted for.[47] Hurricane Ian, which hit Cuba and the US in September 2022, alone resulted in USD100 billion in estimated damages.[48] Moreover, the Pakistani floods of 2022 caused more than USD30 billion, while the summer drought and heatwave in Europe and the UK resulted in USD20 billion in total estimated losses.[49]

The year 2023 unfolded yet another chapter of climate catastrophes. During the first week, at least eight European countries, including Lithuania, Denmark, Poland, the Netherlands, Latvia, the Czech Republic, and Belarus, witnessed the warmest January

42 James K. Jackson, Martin A. Weiss, Andres B. Schwarzenberg, Rebecca M. Nelson, Karen M. Sutter, and Michael D. Sutherland, *Global Economic Effects of COVID-19*, report (Washington, D.C.: Congressional Research Service, 2021), https://sgp.fas.org/crs/row/R46270.pdf.

43 Ibid., 13.

44 Ibid., 13.

45 Jenny Wilson, "Climate action: What's New and what's Next in 2023," World Food Programme, January 13, 2023, https://www.wfp.org/stories/climate-action-whats-new-and-whats-next-2023.

46 Christian Aid, *Counting the Cost 2022: A Year of Climate Breakdown*, report (London: Christian Aid, 2022), https://www.preventionweb.net/publication/counting-cost-2022-year-climate-breakdown.

47 Ibid.

48 Ibid.

49 Ibid.

day on record [50] after encountering the second warmest year in 2022. While in the first eight months, the world saw 43 major events of natural disasters, with floods and tropical cyclones being the two most occurrences.[51] The catastrophic impact of these events on the global economy in 2023 cannot be underestimated. In the US alone, each of the 15 confirmed individual weather and climate disaster events, during the first seven months of 2023, resulted in losses exceeding USD1 billion.[52] This is the highest number of billion-dollar disasters recorded since NOAA started keeping track of these events in 1980.[53] To put this into perspective, recent estimates suggest that extreme weather events have resulted in economic damage of USD4.3 trillion within the last 50 years,[54] and climate change could result in a loss of 4% in global annual economic output by 2050, with lower-income and lower-middle-income countries being at the greatest risk.[55]

3. Potential Sources of the Upside and Downside Risks to the Global Economy in 2023

The following section highlights the potential sources of upside and downside risks to the global economy that can lead to weaker- or stronger-than-expected economic growth in 2023.

3.1 Potential Sources of Downside Risks

The possibility of financial stress resulting from weaknesses in banks and the Non-Bank Financial Institutions (NBFIs) poses a major downside risk to the global economy. The rise in interest rates, coupled with the slowdown in economic activity, weakens the balance sheets of banks and the NBFIs by reducing the value of their

[50] Damien Gayle, “Extreme Event: Warm January Weather Breaks Record Across Europe,” *Guardian*, January 2, 2023, https://www.theguardian.com/world/2023/jan/02/extreme-event-warm-january-weather-breaks-records-europe.

[51] Earth Science and Remote Sensing Unit, “International Disaster Charter Activations,” Accessed September 9, 2023, https://eol.jsc.nasa.gov/ESRS/Disasters/ShowIDCTracking.pl.

[52] NOAA, “July 2023 brought Record-high Temperatures, Devastating Floods Across the US,” August 8, 2023, https://www.noaa.gov/stories/july-2023-brought-record-high-temperatures-devastating-floods-across-us.

[53] Ibid.

[54] “Climate Change Causes 2m Deaths in 50 Years; Poor Suffer Most: UN,” *Al Jazeera*, May 22, 2023, https://www.aljazeera.com/news/2023/5/22/climate-change-causes-2m-deaths-in-50-years-poor-suffer-most-un.

[55] Marc Jones, “How Hard could Climate Change Hit the Global Economy, and Where would Suffer Most?” *World Economic Forum*, April 29, 2022, https://www.weforum.org/agenda/2022/04/climate-change-global-gdp-risk/.

long-term assets and increasing the number of non-performing loans (loans that are not likely to be paid by borrowers or are subject to delayed repayment).[56] Additionally, several countries have been reporting a fall in real estate prices, which along with the softening demand, also tends to weaken the bank balance sheets by raising mortgage defaults.[57] This has the potential to trigger a major stress in the financial system by resulting in cascading bank failures and credit tightening (tightening of the standards for consumer and business loans). Financial stress in any major economy or region can have repercussions beyond their borders due to cross-border linkages among the financial institutions, including banks and the NBFIs.[58]

Banking turmoil has already manifested in the US, as surging interest rates triggered recent bank failures, including the collapse of the Signature Bank, the Silicon Valley Bank in March 2023 and the First Republic Bank in May 2023.[59] The high-interest rates translated into a fall in the value of the large portfolio of bonds held by the banks, leading them to sell the bond holdings at a loss.[60] Other major contributory factors included excessive levels of uninsured bank deposits and ineffective regulation by the US Fed.[61] As a result, several banks tightened the standards for consumer and business loans.[62] If the banking turmoil spreads further, it can have a major contagion effect on other countries and regions.

Other downside risks to the global economy include systematic debt distress in the EMDEs resulting from the combined effect of lower growth and high-interest rates or further tightening of monetary policy if global inflation proves to be stickier and more persistent.[63] Moreover, the escalation of the war in Ukraine, delays in China's post-COVID-19 recovery, and geoeconomic fragmentation affecting global economic governance can also worsen the global economic outlook.[64]

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56 World Bank Group, *Global Economic Prospects*, 30.
57 Ibid., 30.
58 World Bank Group, *Global Economic Prospects*, 31.
59 Goldberg, "List of Failed Banks: 2009-2023."
60 Natalie Sherman, "US Raises Interest Rates despite Banking Turmoil," *BBC News*, March 23, 2023, https://www.bbc.com/news/business-65041649.
61 German Lopez, "Another Bank Failure," *New York Times*, May 2, 2023, https://www.nytimes.com/2023/05/02/briefing/bank-failures-first-republic-bank.html.
62 Christopher Rugaber, "US Raises Interest Rates despite Banking Turmoil," *BBC News*, March 23, 2023, https://www.bbc.com/news/business-65041649.
63 International Monetary Fund, *World Economic Outlook: A Rocky Recovery*, 14.
64 Ibid., 14.

3.2 Potential Sources of Upside Risks

On the upside, several factors could contribute to a faster-than-expected consumption recovery, stimulating domestic economic growth and positive spillover effects through trade linkages. These factors include, for instance, the use of the savings accumulated during the pandemic,[65] unexpected rises in employment,[66] or a more persistent and stronger boost to consumption provided by China's economic recovery than assumed in the World Bank's baseline forecast.[67] Additionally, the global output growth could be less affected by the decreasing return on investment and the effect of the pandemic than assumed in the World Bank's baseline forecast.[68] Moreover, labour markets could strengthen due to factors such as the rise in labour force participation as a result of rising wages or an increase in productivity due to an extended period of excess labour demand,[69] providing a boost to the economy. Arguably, a strong multilateral response can also increase the prospects of stronger-than-expected economic growth.

4. Consequences of the Global Economic Slowdown in 2023

The following section highlights the visible and probable consequences of the global economic slowdown in 2023, many of which are also likely to linger over an extended period.

4.1 Decline in Global Investment

A global economic slowdown tends to adversely affect investment by heightening the volatility and uncertainty in the investment markets. As a case in point, according to the Coldwell Banker Richard Ellis (CBRE), the volume of global commercial real estate investment fell by 64%, 56%, and 20% in Europe, the Americas, and Asia-Pacific, respectively, during 2023-Q1, majorly due to tight credit conditions, a constrained macroeconomic outlook, and financial market volatility.[70] And the annual commercial real estate investment volume in 2023 has been projected to reduce by 26%, with a

[65] International Monetary Fund, *World Economic Outlook: A Rocky Recovery*,14.
[66] World Bank Group, *Global Economic Prospects,* 35.
[67] Ibid., 35.
[68] Ibid., 35.
[69] Ibid., 34-35.
[70] Coldwell Banker Richard Ellis, "Global Real Estate Investment Continues to Fall in Q1,"*CBRE Investment Management,* May 22, 2023, https://www.cbre.com/insights/briefs/global-real-estate-investment-continues-to-fall-in-q1.

30% decrease in Europe, 27% in the Americas, and around 5% to 10% in the Asia Pacific.[71]

4.2 Social Impacts

The social impacts of the global economic slowdown are many and varied, some of which are as follows. First, a contraction of the global economy feeds into unemployment, as businesses struggling to generate sufficient revenue are forced to adopt cross-cutting measures, such as reducing their existing workforce and pausing new recruitment. According to the International Labor Organisation (ILO), 3 million more individuals globally could become unemployed in 2023, while global employment is expected to only grow by 1.0%.[72] This is less than half the level of growth recorded in 2022.[73] Second, the deteriorating economic environment reduces the governments' policy space to support the poor and the economically vulnerable through social protection expenditures. Third, an economic slowdown puts downward pressure on wages, thus affecting households' ability to maintain a stable income. Fourth, in the absence of social protection, many people are forced to accept precarious work characterised by poorly paid and lower-quality jobs, thus feeding into social injustices. According to the ILO, the deteriorating global economic environment will likely worsen decent work deficits and reverse the world's progress in reducing global poverty.[74]

4.3 Slowdown in Global Trade

A global economic slowdown is accompanied by a decline in international trade as the demand for goods and industrial production weakens. According to the World Bank, in the first half of 2023, growth in the global goods trade slowed, attributable to a decline in industrial production.[75] This, coupled with protectionist trade measures, re-shift in demand towards the services sector, and the weakened demand, is expected to affect the global trade outlook throughout 2023.[76] The overall international trade

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71 Ibid.

72 International Labor Organization, *World Employment and Social Outlook: Trends 2023*, report (Geneva: International Labor Organization, 2023), https://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_865332.pdf.

73 Ibid., 13.

74 Ibid., 12-15.

75 World Bank Group, *Global Economic Prospects*, 7.

76 Ibid., 8.

growth is expected to drop from 6% in 2022 to 1.7% in 2023 due to a combination of these factors,[77] and remain weak during the remainder of the present decade.[78]

4.4 Debt Distress

The current wave of economic weakening, coupled with the present interest rate hike shock, has catalysed global debt distress by making it more challenging for debtor nations to manage their public debts. According to the Institute of International Finance (IIF), global debt is now USD 45 trillion higher than its pre-pandemic level.[79] It rose by USD 8.3 trillion to an almost record USD 305 trillion during 2023-Q1 and is predicted to keep growing faster.[80] The WEF expects that although the global debt stock is unlikely to reach destabilising levels, the number of states in default and the percentage value of the world debt could significantly increase in 2023.[81] In 2023, default risk on debt remains high in many developing countries, including Tunisia, El Salvador, Ghana, Pakistan, the Maldives, and Ethiopia.[82]

4.5 Political Instability

The citizen's discontent due to the socioeconomic pressures of the economic slowdown tends to spawn unrest, public opposition, and, thus, political instability. According to Verisk Maplecroft's (the global risk analytics company) Chief Analyst, the burden of social pressures and protracted economic hardship will increase the magnitude and frequency of public opposition against their respective political institutions throughout 2023.[83] In May 2023, the company noted that 100 countries fell into its Civil Unrest Index's high or extreme risk categories due to the socioeconomic burdens on the population, with the sharpest unrest recorded in Peru.[84] It also reported

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77 Ibid., 8.

78 Ibid., xv.

79 Mark McSherry, "Global Debt Stock Soars to Near-record $305 Trillion," *Euro Financial Review*, May 18, 2023, https://eurofinancialreview.com/2023/05/18/global-debt-stock-soars-to-near-record-305-trillion/.

80 Ibid.

81 World Economic Forum, *The Global Risks Report 2023*, report (Geneva: World Economic Forum, 2023), https://www3.weforum.org/docs/WEF_Global_Risks_Report_2023.pdf.

82 Stuart Culverhouse and Patrick Curran, "Trade to Watch: Sovereign Default Risks," *Tellimer Insights*, December 20, 2022, https://tellimer.com/article/trade-to-watch-sovereign-default-risks.

83 Jess Middleton, "The Trendline - Global Political Risk at the Highest Level in Five Years," *Verisk Maplecroft*, February 2, 2023, https://www.maplecroft.com/insights/analysis/risk-signals-global-political-risk-at-highest-level-in-five-years/.

84 Jess Middleton, "The Trendline – Climate-driven Unrest Escalates in Europe in 2023-Q1," *Verisk Maplecroft*, May 2, 2023, https://www.maplecroft.com/insights/analysis/the-trendline-climate-driven-unrest-escalates-in-europe-in-2023-q1/.

that 37 African nations had a high or extreme risk of civil unrest, compared to 28 in 2017.[85]

4.6 Global Climate Action

The global economic slowdown acts as a double-edged sword for global climate action. On one hand, it acts as a facilitator by curbing emissions, as a decline in industrial and trade activities reduces the release of carbon dioxide and other pollutants into the atmosphere.[86] However, on the other hand, weakened economic growth can interrupt global environmental action by restricting financial investment in climate mitigation and adaptation measures, which can cancel out the positive benefits once the crisis situation recedes.[87] According to the WEF, the current economic downturn will make it challenging for some states to build resilience in ecological systems, invest in green technologies, and contain future environmental shocks.[88]

4.7 Decline in Global Commodity Prices

The slowdown in economic activity (and demand for commodities thereof) is one of the factors contributing to a decline in global commodity prices compared to 2022. Other factors include a redistribution of commodity trade flows and favourable (warmer than expected) winter weather,[89] reducing energy demand. A 14% drop in commodity prices was recorded in 2023-Q1, and by the end of March, the prices were almost 30% lower than the historic high prices in June 2022.[90] Overall, energy, metal, and agricultural prices are expected to ease considerably in 2023, with agricultural prices projected to fall by 7.2% in 2023.[91] Resultantly, the global headline inflation[92] is expected to fall to 5.5% in 2023 from 7.3% in 2022.[93]

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85 Aleix Montana, "Global Unrest in Africa Hits 6-year High," *Verisk Maplecroft*, May 18, 2023, https://www.maplecroft.com/insights/analysis/civil-unrest-in-africa-hits-6-year-high/.

86 Venkatachalam Anbumozhi and Armin Bauer, "Impact of Global Recession on Sustainable Development and Poverty Linkages," (working paper, Asian Development Bank Institute, Tokyo, 2010), https://www.adb.org/sites/default/files/publication/156082/adbi-wp227.pdf.

87 Ibid., 6.

88 World Economic Forum, *The Global Risks Report 2023,* 19.

89 World Bank Group, *Commodity Markets Outlook*, report (Washington, D.C.: World Bank, 2023), https://openknowledge.worldbank.org/server/api/core/bitstreams/6864d537-d407-4cab-8ef1-868dbf7e07e2/content.

90 Ibid., 1.

91 World Bank Group, *Global Economic Prospects*, 9.

92 Total inflation in an economy.

93 Ibid., 29.

However, prices of all major commodities are still expected to remain elevated this year by historical standards and well above their 2015-2019 average levels.[94] For instance, the price of grains stood at 130.97 in the USD Index on July 1, 2023, compared to 89.87 on December 1 2019.[95] The prices of oil and meals stood at 119.42 in the USD Index on July 1 2023, compared to 85.56 on December 1 2019.[96]

4.8 Impact on Productivity Growth

According to the World Bank, productivity[97] growth, as a major driver of economic growth, may remain affected throughout the remainder of the present decade.[98] A global economic slowdown can contribute to it by weakening the demand and lowering the amount of capital investment for productivity growth.[99] Moreover, a slowdown in international trade following the economic downturn can also affect productivity growth by limiting knowledge transfer through trade-related activities and affecting the states' ability to derive benefits from the economies of scale (i.e., the cost advantage firms experience after increasing the level of output)through exports.[100]

5. Future Growth Outlook: 2024 and Beyond

The world economy is expected to rise slightly in 2024. According to the World Bank's baseline forecast, the global economy is expected to expand by 2.4% in 2024 from 2.1% in 2023.[101] The baseline forecast anticipates that the global inflation and the resultant interest rate hike cycle will peak during 2023 and gradually dissipate.[102] The inflationary pressure is likely to decrease due to a combination of factors, including growth deceleration, stability of commodity prices, and softening of labour demand in

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94 World Bank, "Commodity Prices to Register Sharpest Drop since the Pandemic," press release, April 27, 2003, https://www.worldbank.org/en/news/press-release/2023/04/27/commodity-prices-to-register-sharpest-drop-since-the-pandemic.

95 John Baffes and Dawit Mekonnen, "Falling Food Prices, Yet much Higher than Pre-Covid," Blog, *World Bank*, August 16, 2023, https://blogs.worldbank.org/opendata/falling-food-prices-yet-much-higher-pre-covid.

96 Ibid.

97 Note: In Economics, 'Productivity' refers to how much output can be produced with a given set of inputs.

98 World Bank Group, *Global Economic Prospects,* xv.

99 United Nations Department of Economic and Social Affairs, "The Slowdown in Productivity Growth: A View from International Trade," April 21, 2017, https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/dsp_policy_11.pdf.

100 Ibid.

101 World Bank Group, *Global Economic Prospects*, xv.

102 Ibid., 28.

most economies. However, the IMF's most recent report forecasts the global growth in 2024 to be 3.0% - similar to the 2023 forecast.[103] Although, downside risks to the global economy also loom large, which can lead to weaker-than-expected economic growth in 2024. According to the World Bank, in the event of widespread banking stress in advanced economies and a severe credit crunch, global growth could only be 1.3% in 2024 compared to 2.4% in 2023.[104] In a severely adverse scenario where the banking stress spreads globally, global growth could fall to only 0.3% – a level that effectively amounts to a recession.[105] Likewise, in the IMF's plausible alternative scenario involving further stress in individual banks and moderate additional tightening in credit conditions, global growth could be 2.5% in 2024 compared to 3.0% in the baseline forecast.[106]

Global output growth is projected to remain below potential throughout the 2020s. According to the World Bank, the global potential growth over the remainder of this decade could be 0.4 percentage points lower than the average from 2011-21, falling to a three-decade low of 2.2%.[107] Several factors are expected to shape this economic outlook. Many current global risks, including a cost-of-living crisis, societal polarisation, geo-economic fragmentation, environmental threats, large-scale involuntary migration, and global debt distress,[108] may continue to impact the global economy over the remainder of 2020s. The scarring from the effects of the pandemic may have a long-term impact on the global economy. In addition, trade, finance, commodity, and labour markets may become more segmented as a result of geopolitical tensions.[109] This could hinder the efficient allocation of resources and capital, reduce technological diffusion, and adversely affect export-led development.[110]

However, if the world responds strongly now, there are prospects that the global economy could recover faster than anticipated. In light of this, the following section offers recommendations for not only addressing the causes of the economic slowdown and its consequent challenges but also mitigating downside risks as well as increasing the prospects of stronger-than-expected economic growth in 2023 and beyond.

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103 International Monetary Fund, *Near-Term Resilience, Persistent Challenges*, 4.
104 World Bank Group, *Global Economic Prospects*, 32.
105 Ibid., 32.
106 International Monetary Fund, *World Economic Outlook: A Rocky Recovery*, 11.
107 World Bank Group, *Global Economic Prospects*, 33.
108 World Economic Forum, *The Global Risks Report 2023*.
109 World Bank Group, *Global Economic Prospects*, 34.
110 Ibid., 34.

6. Way Forward

6.1 To Address Causes of the Global Economic Slowdown and Downside Risks to the Global Economy

6.1.1 Pursue a Data-driven Monetary Policy and Address Supply Side Constraints

In view of the impact of monetary tightening on global growth, central banks must pursue a data-driven monetary policy to determine the cost-effectiveness of interest rate hikes and explore the scope for monetary easing. Supply side measures must be increasingly pursued to complement the attempts to address inflationary pressures through monetary tightening, thus providing greater room for monetary easing. At the global level, these measures can focus on removing barriers to international supply by reducing tariffs and other regulatory obstacles, constructively engaging for the restoration of the Black Sea grain deal, or easing transportation logjams (e.g., delays in customs clearance, port congestion) that lead to logistical delays or increase freight rates, and thus, the cost of items being transported, among others. At the national level, countries can focus on enhancing domestic production and prioritising indigenous energy resource development to enhance local resilience, expanding or diversifying supply chains across various countries or regions for key commodities, or expanding transportation options to mitigate the impact of supply chain disruptions.

6.1.2 Invest in Climate Resilience

Investing in climate resilience will be critical to preventing economic losses, safeguarding development gains, and reducing the need for costly relief and reconstruction efforts following a disaster. While developed nations must prioritise climate adaptation and mitigation in national planning and policy processes, they also have a moral imperative to support poor and vulnerable countries in developing climate resilience. This support can take several forms, including but not limited to enhancing funding for the Green Climate Fund (GCF), providing technical assistance to developing nations, or engaging in data-sharing with climate-vulnerable nations. However, for that support to be effective, developing nations must prioritise climate resilience measures in national planning and policy processes as well as manage and target the international support in a well-thought-out manner.

6.1.3 Take Preventive Measures to Avoid a Widespread Banking Crisis

Preventive measures to avoid a banking crisis are extremely crucial to prevent the materialisation of the downside risks. These should primarily include a greater regulatory oversight to ensure banks' compliance with the established regulations, the conduct of stress tests to determine banks' vulnerabilities, and enforcement of risk management practices. For individual banks, it is imperative to implement sound risk management practices, such as a regular assessment of borrowers' creditworthiness or ensuring that loans are made to creditworthy borrowers. Individual banks must also provide transparent information to all concerned stakeholders regarding their exposure to risks or financial condition to prevent a crisis. Moreover, countries should collaborate and engage to share experiences in risk and crisis management.

6.2 To Address Consequences of the Global Economic Slowdown

6.2.1 Strengthen Support for Developing Countries and Emerging Economies

Increasing developing countries' and emerging economies' access to external funding will be imperative to support them in dealing with the consequences of the global economic slowdown and limiting further adverse effects. Equally important will be providing an orderly and timely debt relief to countries with high debt servicing burdens to avoid risk of the spread of a debt crisis. The recent conclusion of the debt treatment agreement between Zambia and its official creditors under the Global Common Framework is encouraging. However, the framework must be strengthened by making the timelines and steps clearer, encouraging private creditors to participate in debt restructuring agreements, and revising as well as expanding the eligibility for support.

6.2.2 Initiate Structural Reforms to Boost Economic Recovery

Individual countries must prioritise structural reforms to hasten economic recovery. Reforms can include a diverse range of measures, including but not limited to removing regulatory hurdles and barriers to investment growth, strengthening the rule of law and protection of private property, diversifying the economic base, implementing taxation reforms, or investing in digital technology. If carried out successfully, the structural reforms can also play a monumental role in generating higher levels of productivity and, subsequently, higher levels of economic growth in individual countries.

6.2.3 Boost Global Trade

Rebounding global trade will be imperative. This can be facilitated by a broad range of measures, including but not limited to removing barriers to international supply by reducing tariffs and other regulatory obstacles, constructively engaging for the restoration of the Black Sea grain deal, engaging constructively to spur digital trade initiatives or providing targeted aid to least-developed and developing countries to enhance their trading capacities through aid-for-trade initiatives.

6.2.4 Focus on Employment Protection, Recovery and Strengthen Social Protection

For employment protection and recovery, it will be imperative to implement measures such as upskilling and reskilling employees by expanding vocational training to facilitate workers' transition from one job to another, investing in public employment programmes to provide work for the informal workers and the unemployed, or increasing the accessibility of credit for youth entrepreneurship, among others. It will also be imperative to devote priority attention to rationalising and improving the targeting of social protection schemes.

7. Conclusion

Globally, an economic downturn has been observed in 2023, and the global growth forecasts for the year have been downgraded from their 2022 levels as economies worldwide experience deteriorating economic environments. Significant divergences, however, exist, with the World Bank forecasting a global growth of 2.1% in 2023 compared to the IMF's forecast of 3%. The growth forecasts for 2024 also remain far from optimistic, with global growth expected only to rise slightly next year, according to the World Bank, or remain the same, as predicted by the IMF. While the reasons for the present global economic slowdown are many, the paper has identified the direct and indirect economic fallout of the war in Ukraine, the global interest rate hike spree, the prolonged effects of the COVID-19 pandemic, and the impacts of climate change as the major contributing factors. Measures including pursuing a data-driven monetary policy, addressing supplyside constraints at the global and domestic levels, and investing in climate resilience can help bring the global economy back on track.

Moreover, although the forecasted figures do not constitute a recession, bypassing the materialisation of many predictions, there are still reasons to be concerned about the risk of a recession in the foreseeable months, as even a moderate shock in this scenario can trigger a massive economic downturn. That said, the possibility of financial stress metastasising from banking stress in advanced economies poses a major downside risk to the global economy and needs to be mitigated by increasing the implementation of precautionary measures to prevent banking failures.

The visible and probable consequences of the global economic slowdown are also many and are likely to linger over an extended period in the absence of timely implementation of appropriate policy measures. The paper has identified the decline in global investment, a slowdown in global trade, debt distress, political instability, a weakening in productivity growth, an interruption of global environmental action, alongside rise in poverty, inequality, and unemployment as the major adverse consequences of the global economic slowdown. On a positive note, the slowdown in global economic activity is contributing to a decline in global commodity prices compared to 2022. However, they remain well above their 2015-2019 average levels. Measures including strengthening support to developing countries and emerging economies, implementing structural reforms at the national level to boost economic recovery, boosting global trade, focusing on employment protection and recovery, and strengthening social protection can help mitigate the consequences and avoid the worst outcomes.

Lastly, strengthening multilateral cooperation and diplomacy to navigate the complex times is imperative. Advanced economies, including the United States, China, Russia, and the European Union, will have to provide strong leadership in fostering constructive cooperation among the global community.

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