

# Falling Long-Term Growth Prospects: *Trends, Expectations, and Policies*

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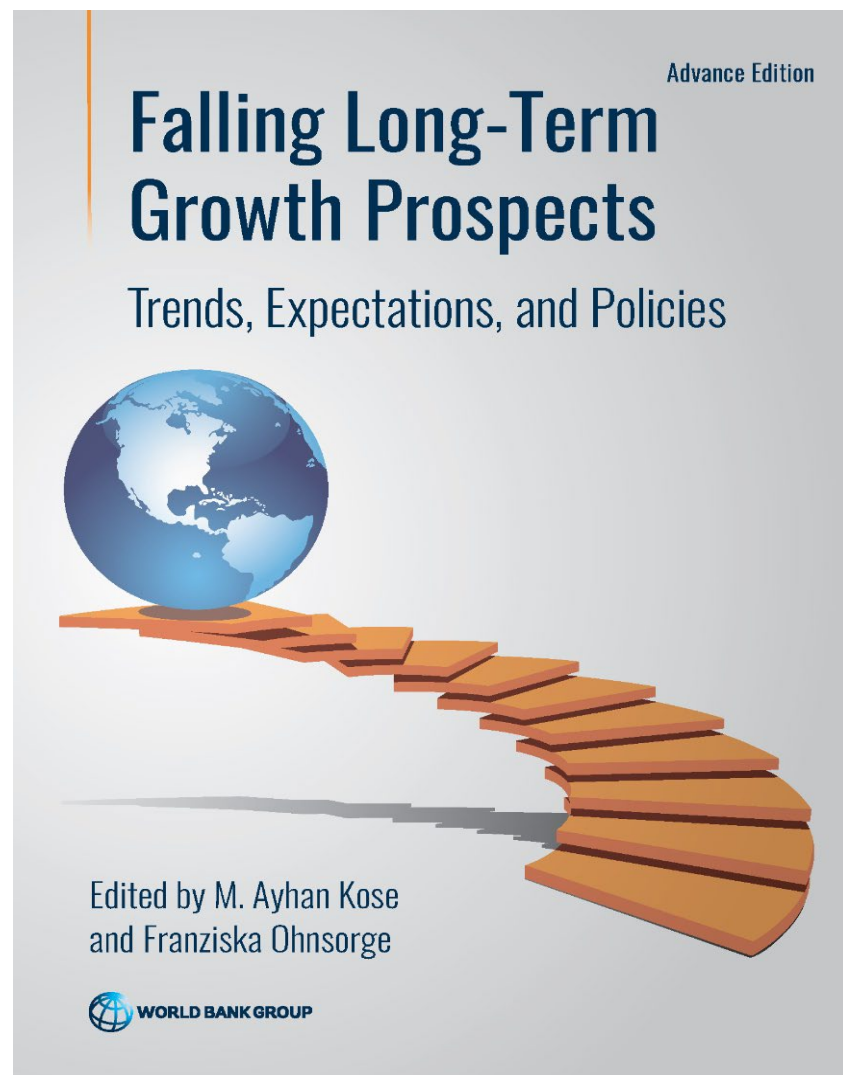
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# New Study on “*Falling Long-Term Growth Prospects*”



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- **Regional Dimensions of Potential Growth: Hopes and Realities**
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- **Potential Growth Prospects: Risks, Rewards, and Policies**
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- **Services-Led Growth: Better Prospects after the Pandemic?**

[www.worldbank.org/long-term-growth-prospects](http://www.worldbank.org/long-term-growth-prospects)

# Potential Growth: *An Economy's Speed Limit*

**Potential growth rate.** The maximum growth rate that an economy can sustain in the long-term at full employment and full capacity without igniting inflation. Effectively an economy's speed limit.

**Critical for policy formulation.** Influences policy interest rates, the scale of government spending and tax policy, and long-term development plans.

**Unobservable but possible to estimate.** The first comprehensive database of the nine most commonly used measures of potential growth for 173 countries for 1981-2021 was released by the World Bank. Global, regional, and country-specific estimates of potential growth are included.

**Possible to increase the rate of potential growth.** Through policy interventions that improve productivity, investment, and labor supply.

# Three Questions

**1 How has potential growth evolved?** *Potential growth declined between 2000-10 and 2011-21 due to a broad-based weakening of drivers of growth and a series of adverse shocks.*

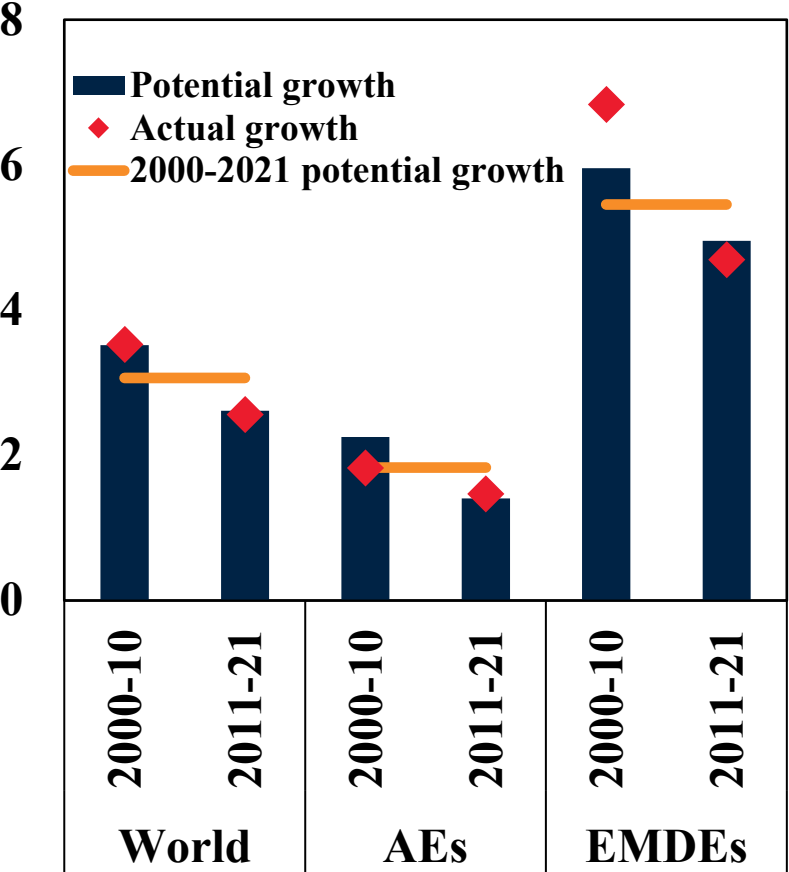
**2 What are prospects for potential growth?** *Potential growth is expected to weaken further in 2022-30, with downside risks.*

**3 Which policies can help lift long-term growth prospects?** *A repeat of each country's best ten-year reform effort could help reverse the slowdown in potential growth.*

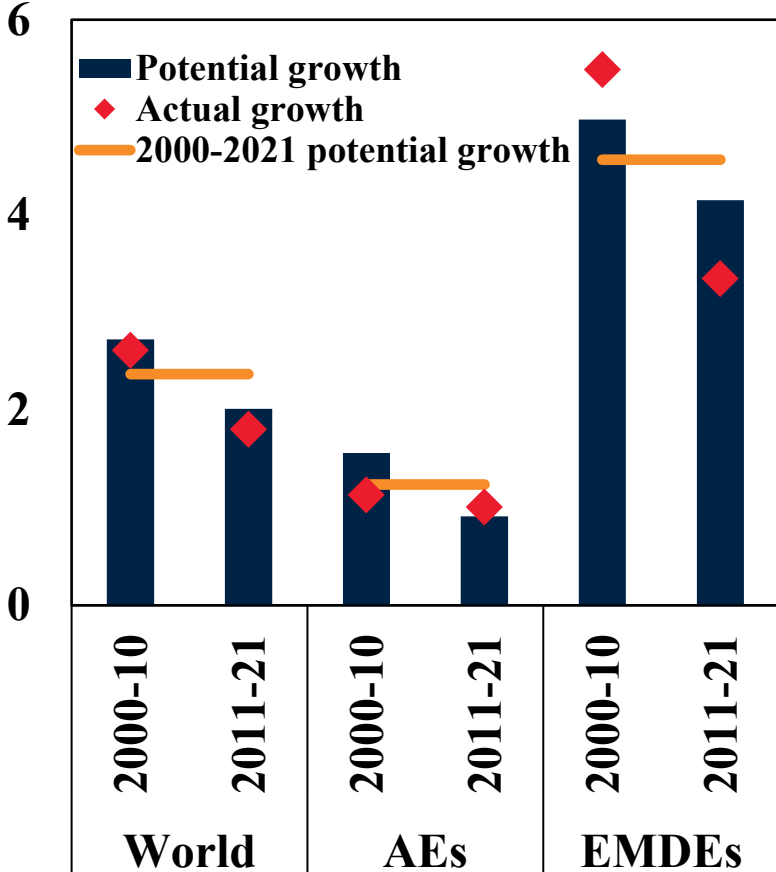
# Potential Growth — 1

## Declining

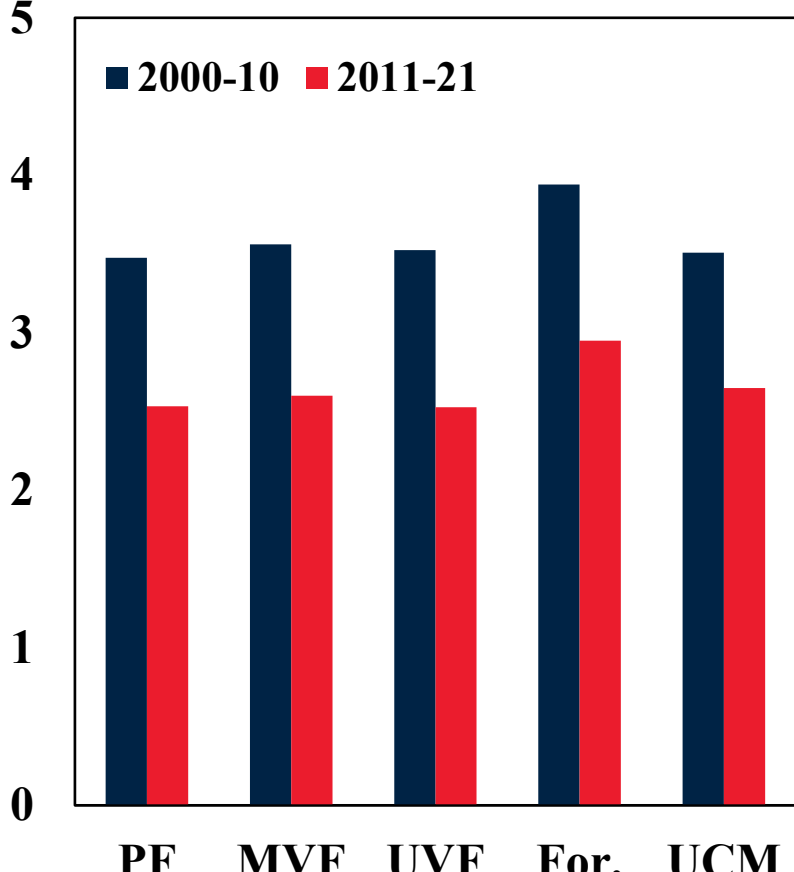
Potential growth  
(Percent)



Per capita potential growth  
(Percent)



Global potential growth  
(Percent)



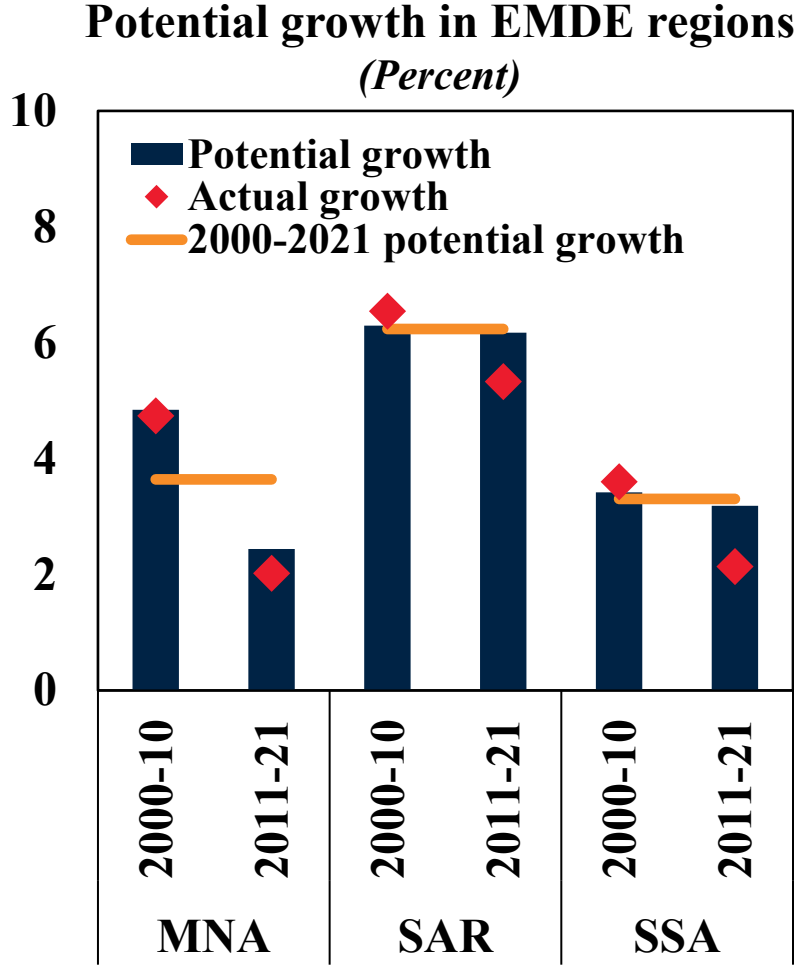
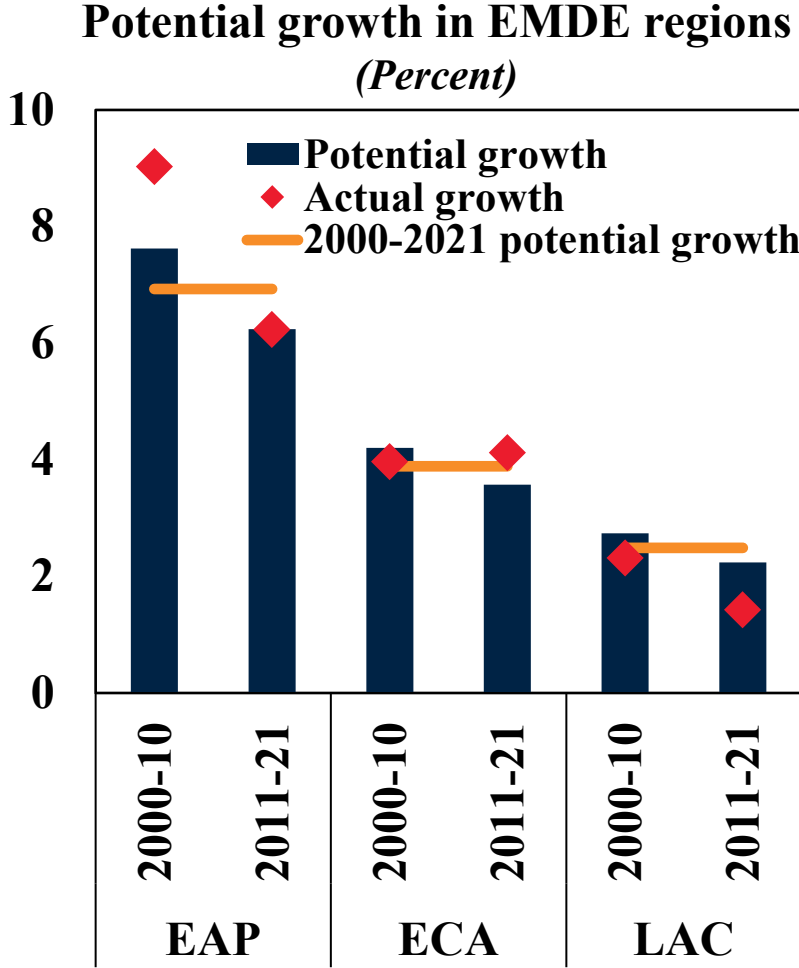
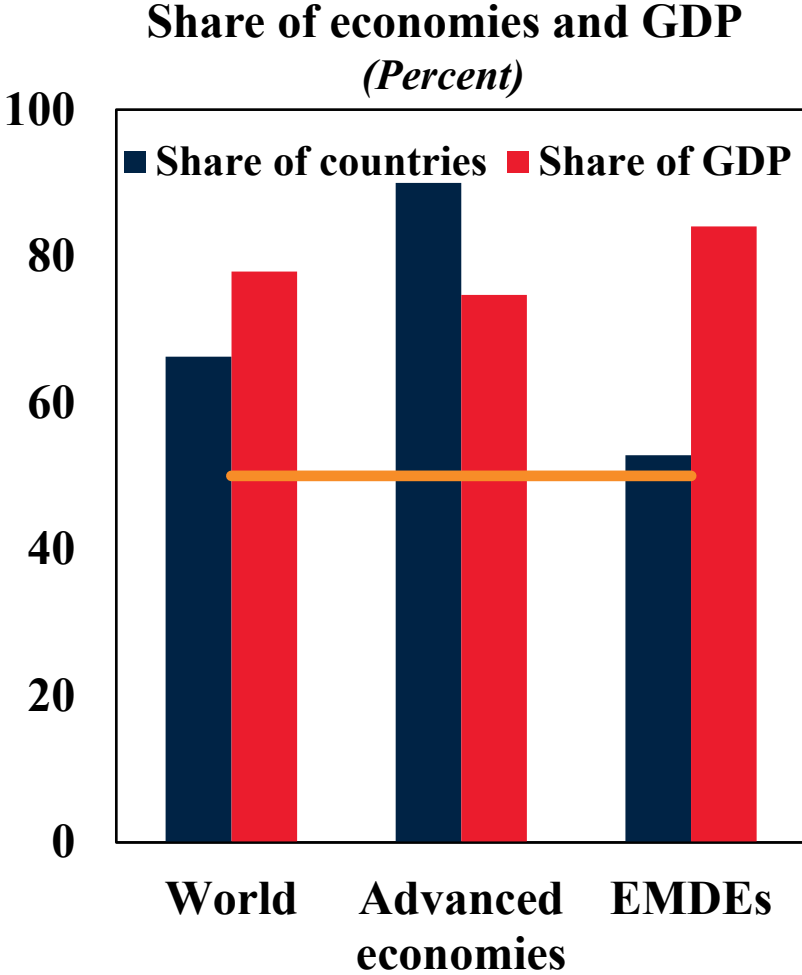
Sources: UN population statistics, World Bank.

Note: AEs = advanced economies. PF = production function approach. MVF = multivariate filter-based. UVF = univariate filter-based, UCM= Unobserved Components Model.

Left and Center panel: Based on potential growth derived using production function approach. GDP-weighted average. Sample includes 30 advanced and 53 emerging market and developing economies. Right panel: Based on common sample of 30 advanced economies and 25 EMDEs for 2000-21 to ensure consistency in samples across methodologies

# Potential Growth — 2

## Broad-Based Slowdown



Sources: UN population statistics, World Bank.

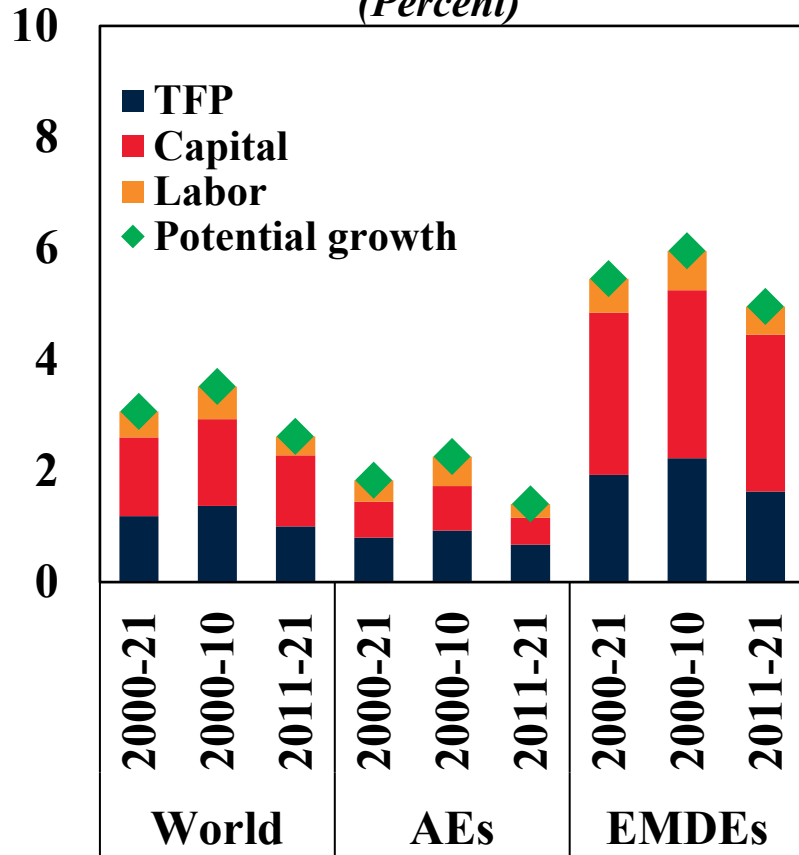
Note: GDP-weighted averages of production function-based potential growth estimates.

Left Panel: Number of economies and their share of global or group GDP with potential growth in each period below its 2000-10 average. Horizontal line indicates 50 percent. Unbalanced sample of 30 advanced economies and 53 EMDEs for 2000-21. Center and Right Panels: Sample of 30 advanced economies and 53 EMDEs.

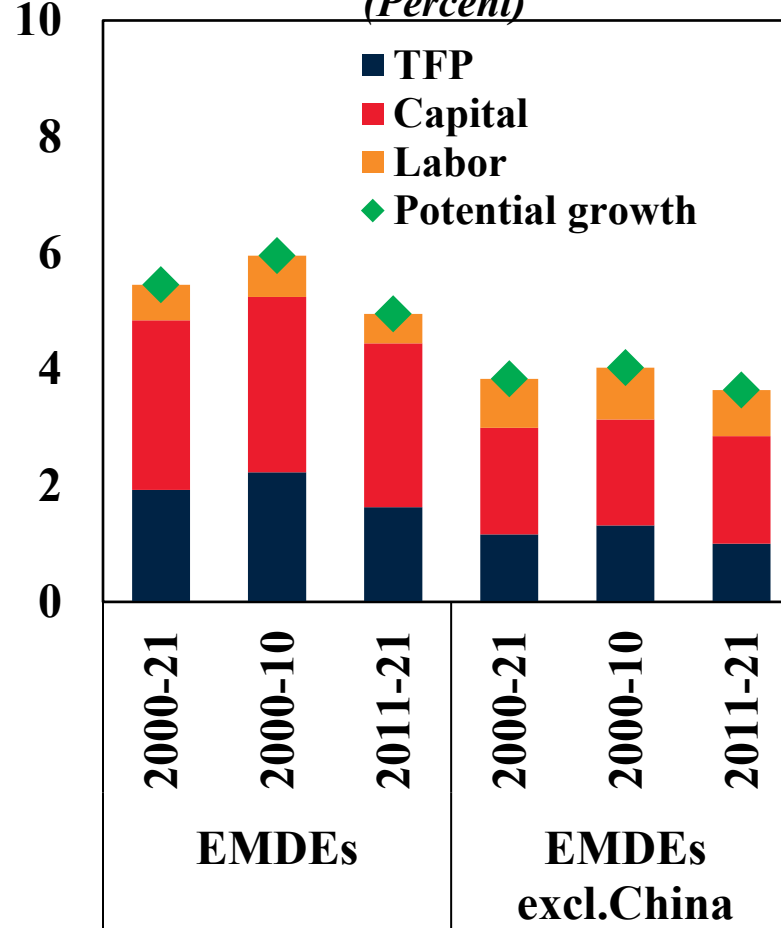
# Potential Growth — 3

## Broad-Based Slowdown in Fundamental Sources of Growth

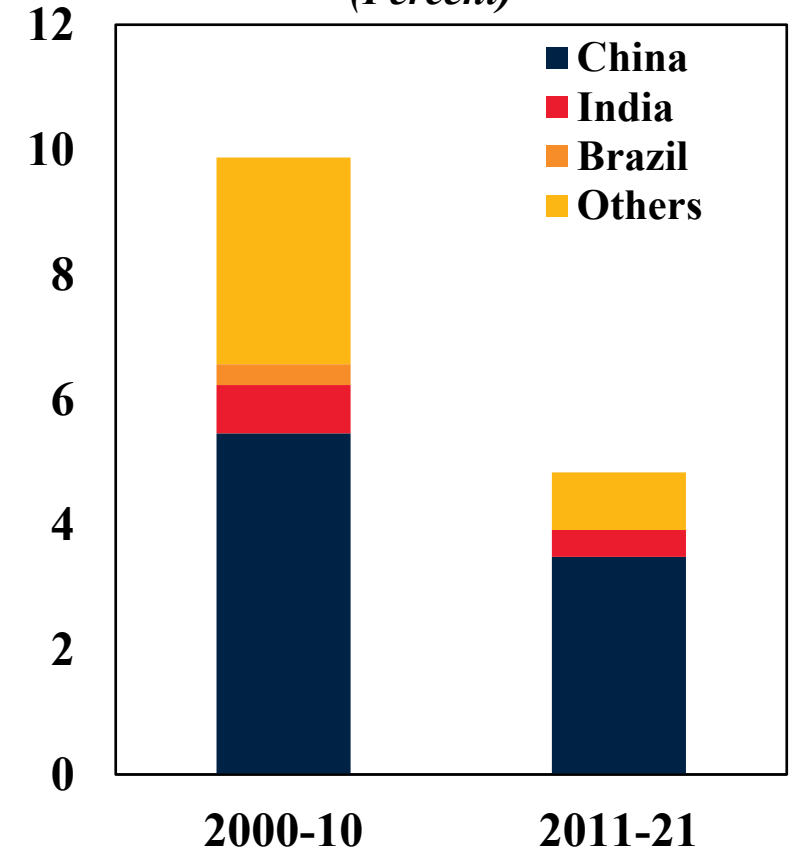
Contributions to potential growth  
(Percent)



Contributions to potential growth  
(Percent)



Contribution to EMDEs investment growth, by country  
(Percent)



Source: World Bank.

Note: GDP-weighted averages of production function-based potential growth estimates. TFP = total factor productivity. AEs = advanced economies; EMDEs = emerging market and developing economies. Left and Center Panels: Sample of 30 advanced economies and 53 EMDEs. Right Panel: Investment refers to gross fixed capital formation. Investment growth is calculated with countries' real annual investment in constant U.S. dollars as weights. Bars show the percentage point contribution of each country or country group to EMDE investment growth during the indicated years. Height of the bars is average EMDE investment growth during the indicated years. Sample includes 69 EMDEs.

# Three Questions

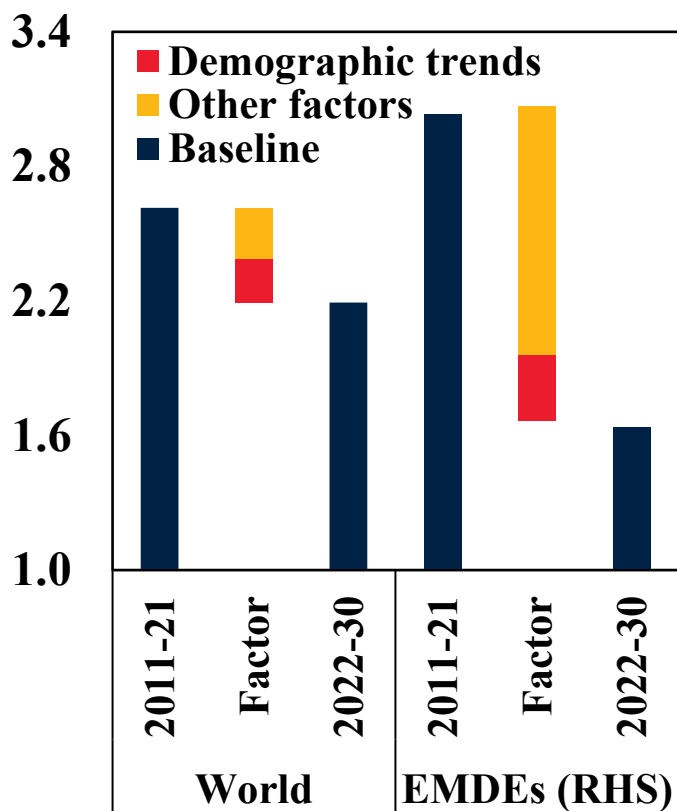
**2** **What are prospects for potential growth?** *Potential growth is expected to weaken further in 2022-30, with downside risks.*



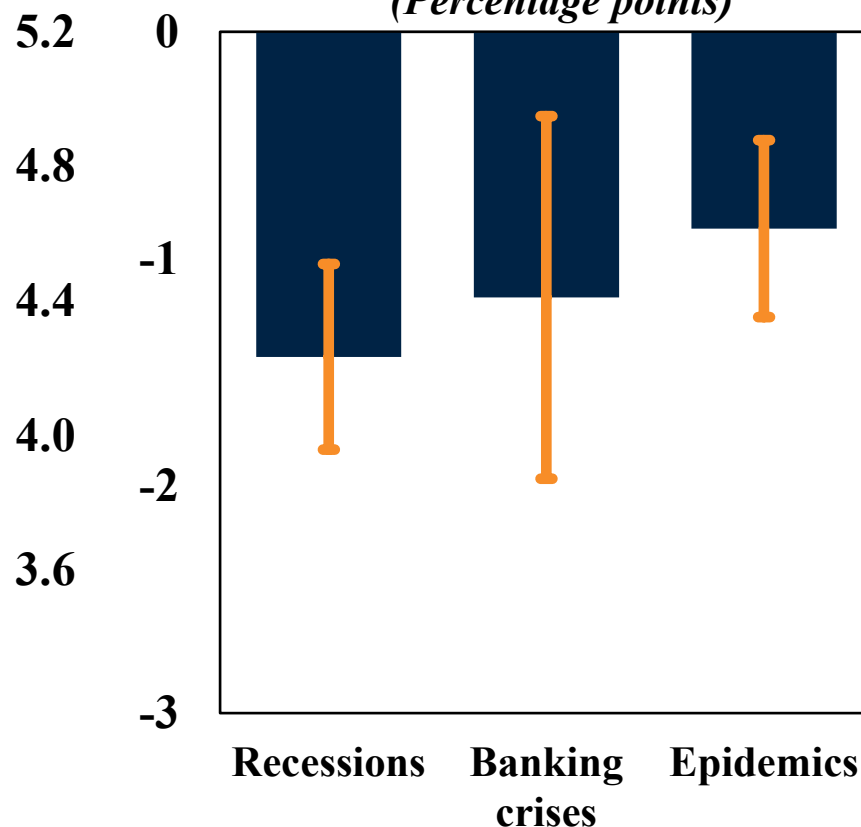
# Prospects for Potential Growth - 1

*Slower in the 2020s; Risk of Weaker Outcomes with Adverse Events*

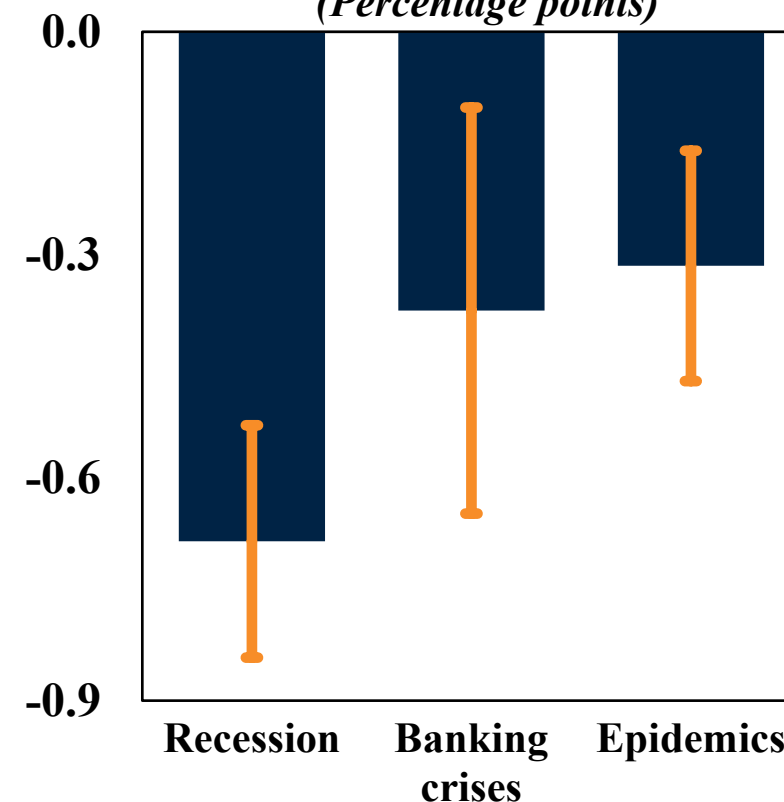
Potential growth  
(Percent)



Response of potential output  
growth 5 years later  
(Percentage points)



Response of potential TFP  
growth 5 years later  
(Percentage points)



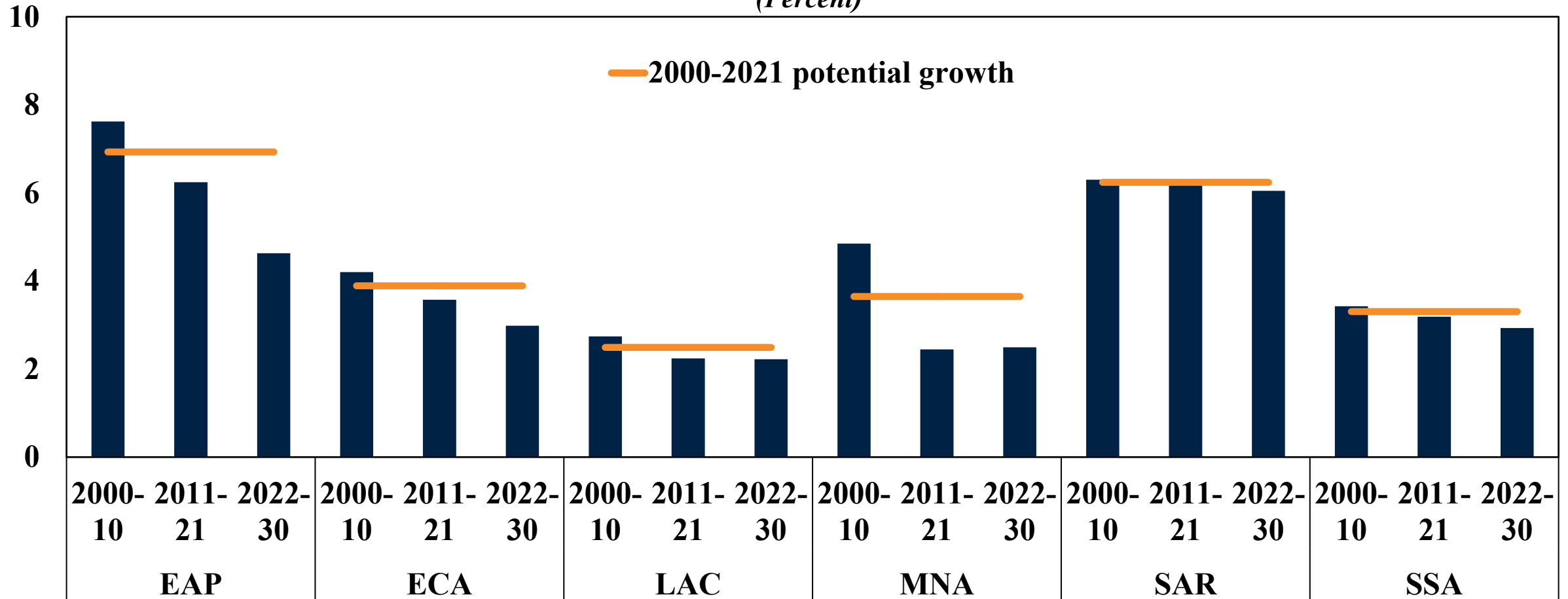
Source: World Bank.

Note: TFP refers to total factor productivity. Left Panel. GDP-weighted arithmetic averages using potential growth estimate based on production function approach. "Other factors" reflects convergence-related productivity growth, policy changes, cohort effects, and a slowdown in investment growth relative to output growth. "Factor" reflects the percentage-point changes between the averages of 2011-21 and 2022-30. Center and Right Panels. Blue bars are coefficient estimates from local projections models. Orange whiskers indicate 90 percent confidence interval. Recessions are defined as the period from the peak preceding a business cycle trough to the trough, with the troughs defined as years in which output growth is both negative and one standard deviation below the long-term average. Banking crises are from Laeven and Valencia (2020). Epidemics include SARS (2003), swine flu (2009), MERS (2012), Ebola (2014), and Zika (2016). Sample includes unbalanced panel of 32 advanced economies and 97 EMDEs for 1981-2020.

# Prospects for Potential Growth - 2

## *Weaker in Most Regions in the 2020s*

Potential growth in EMDE regions  
(Percent)



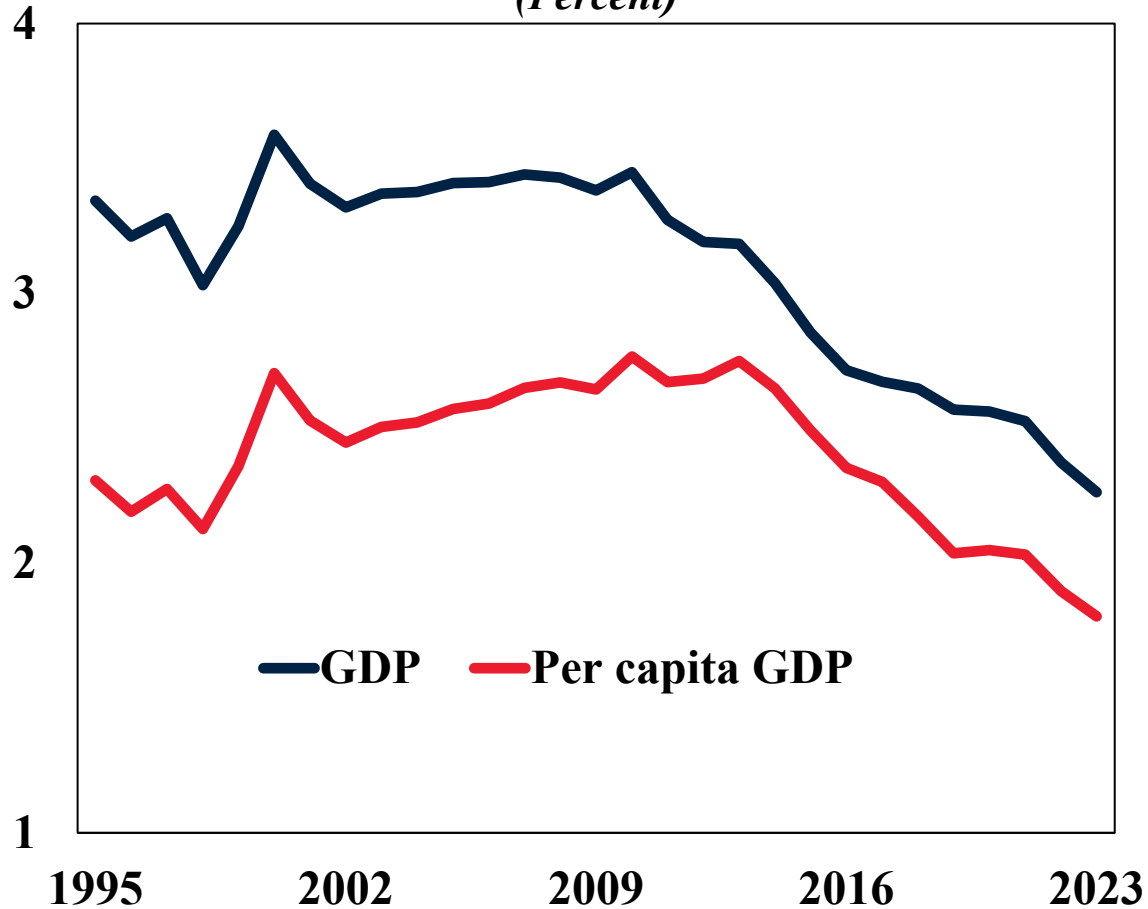
Source: World Bank.

Note: EAP, ECA, LAC, MNA, SAR, and SSA refer to, respectively, East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa. GDP-weighted arithmetic averages using potential growth estimate based on production function approach.

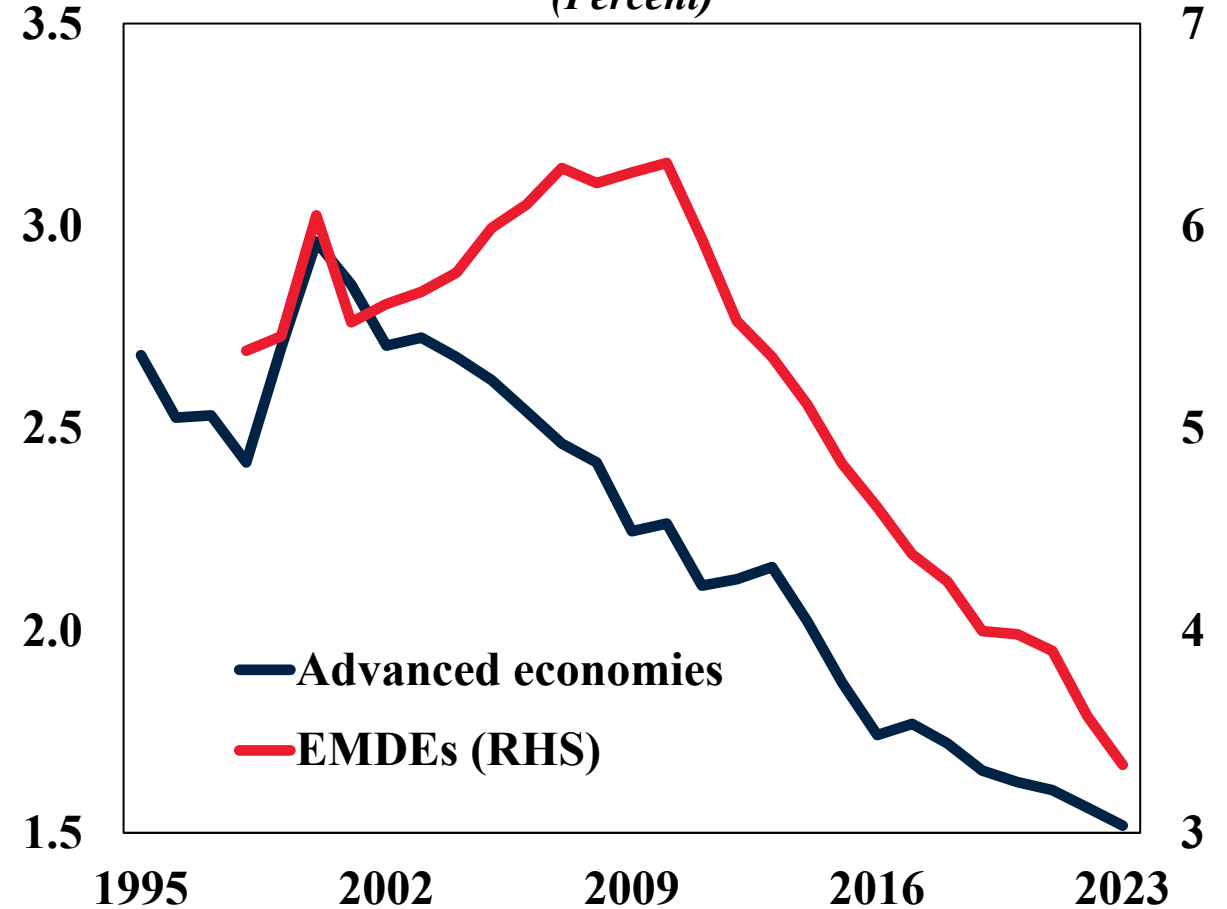
# Long-Term Global Growth Forecasts from Consensus

## *Downgraded*

Ten-year-ahead global growth forecasts  
(Percent)



Ten-year-ahead output growth forecasts, by country group  
(Percent)



Sources: Consensus Economics, United Nations, World Bank.

Note: The aggregated growth is computed with constant U.S. dollar GDP weights, based on data for 87 countries, consisting of 34 advanced economies and 53 EMDEs. The horizontal axis refers to the year of consensus forecast surveys. In the left panel, per capita global output growth is computed as the difference between 10-year-ahead global growth forecasts and population growth estimates in the years for which forecast surveys are conducted.

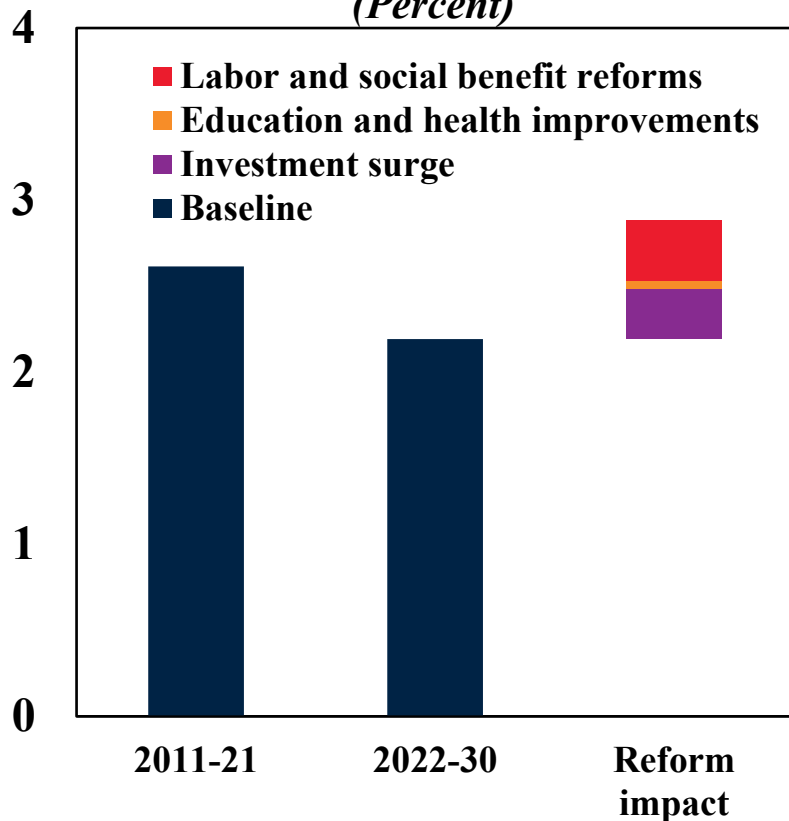
# Three Questions

**3** Which policies can help lift long-term growth prospects? *A repeat of each country's best ten-year reform effort could help reverse the slowdown in potential growth.*

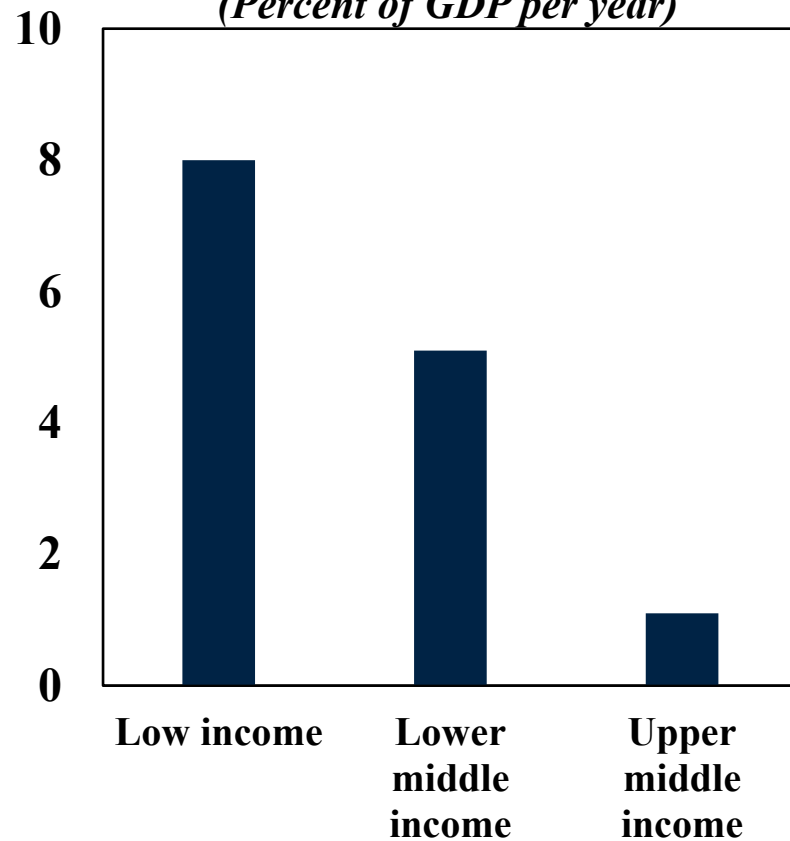
# Interventions to Improve Potential Growth

## *Climate-Related Investment Push; Higher Female Labor Force Participation*

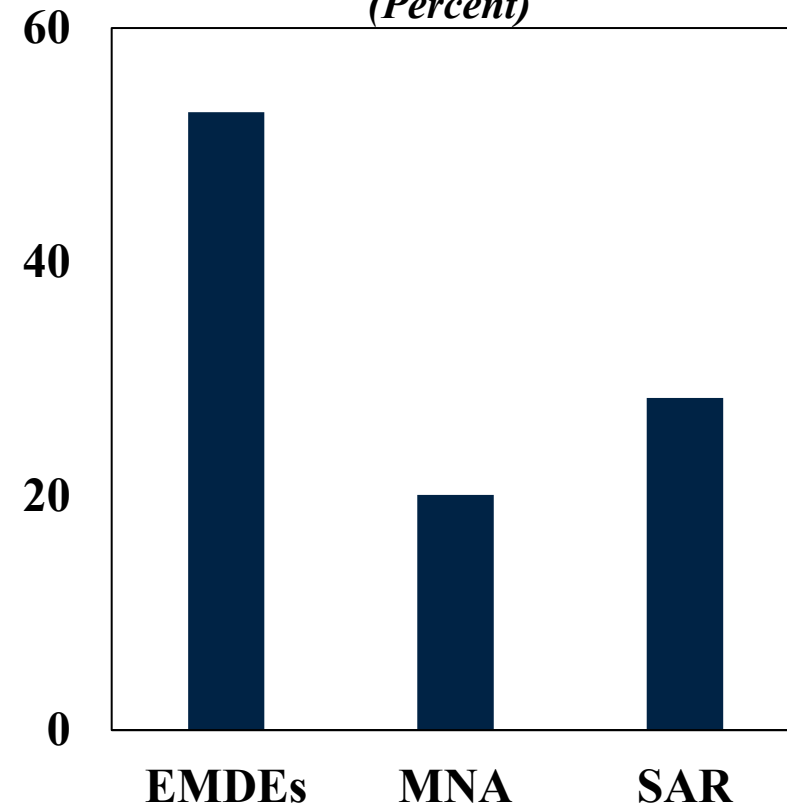
**Global potential growth in reform scenarios**  
(Percent)



**Additional investment needs for a low-carbon pathway, 2022-30**  
(Percent of GDP per year)



**Female labor force participation rate**  
(Percent)



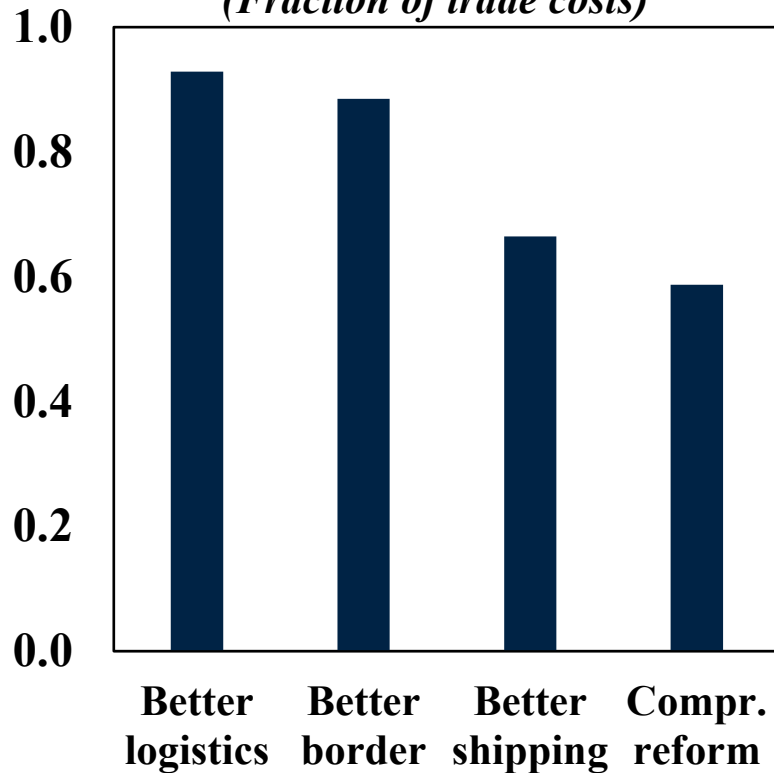
Sources: United Nations; World Bank.

Note: MNA and SAR refer to Middle East and North Africa and South Asia, respectively. Left Panel. GDP-weighted arithmetic averages. Scenarios assume a repeat, in each country, of each country's best ten-year improvement. Center Panel. Bars show the annual investment needs to build resilience to climate change and put countries on track to reduce emissions by 70 percent by 2050. Depending on availability, estimates include investment needs related to transport, energy, water, urban adaptations, industry, and landscape. In some *Country Climate and Development Reports*, especially those for low-income and lower-middle-income countries, estimated investments include development needs and cannot be considered entirely "additional" to pre-existing financing needs. Right Panel. Female labor force participation in percent of female working-age population.

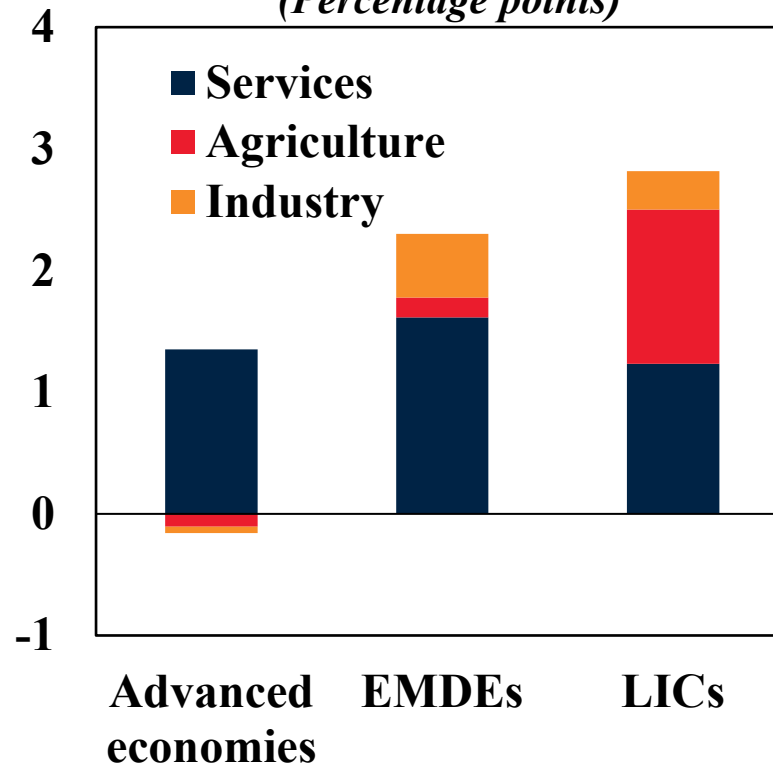
# Trade and Services as Engines of Growth

## *Reduce Trade Costs; Increase Productivity in Services*

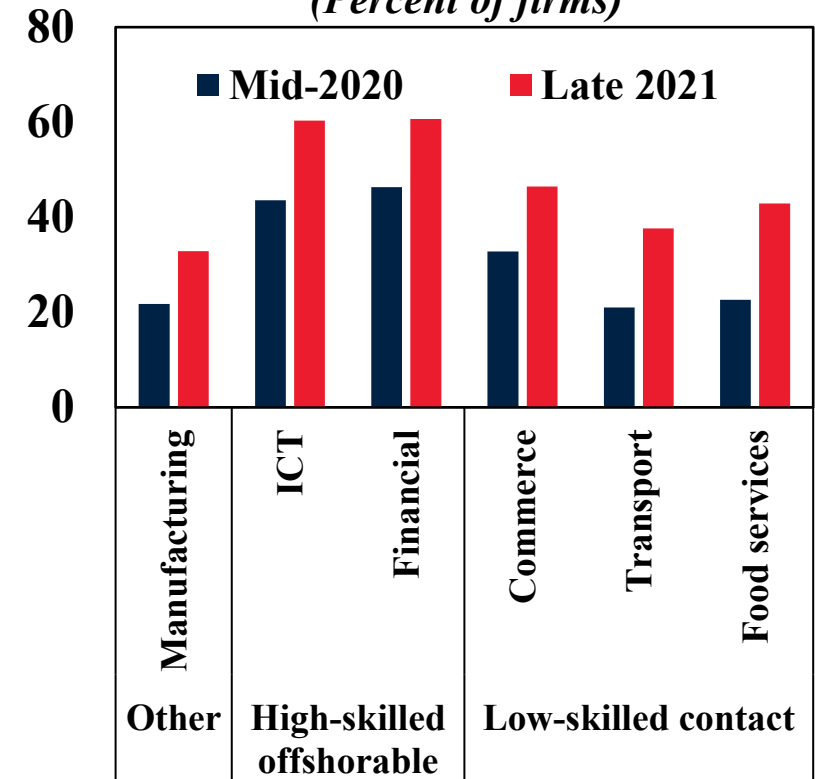
**Reduction in overall trade costs associated with policy improvements**  
(Fraction of trade costs)



**Contributions of individual sectors to employment growth**  
(Percentage points)



**Firms increasing use of digital technologies**  
(Percent of firms)



Sources: United Nations; World Bank; World Trade Organization.

Left Panel. Bars show the fraction of trade costs that would remain after policy improvements. Policy improvements assume that the average EMDE in the quartile of EMDEs with the poorest scores in the liner shipping connectivity index (LSHI) and logistics performance index (LPI) improves to match the score of the average EMDE in the quartile of EMDEs with the best score. The comprehensive package assumes that all three scores are improved simultaneously. Data refer to 2018. A value of 1 indicates unchanged trade costs in 2018 among the sample of EMDEs scoring in the poorest quartile on these indicators. Center Panel. Sample includes 30 advanced economies, 116 EMDEs, and 21 low-income countries (LICs). Bars represent an individual sector's contributions to employment growth, averaged over 1995-2019. Right Panel. ICT refers to information and communications technology. Balanced panel of 47 countries (comprising EMDEs) for which three waves are available. Each point corresponds to a survey data. For most countries, wave 1 was conducted in mid-2020 (Q2 or Q3), wave 2 in early 2021, and wave 3 in late 2021.

# Policy Priorities

## *Policies to Improve Potential Growth*

### ***Structural policies***

- Accelerate investment growth, including for green projects; upgrade investment climate and implement institutional reforms to facilitate private investment and attract FDI
- Implement education and health reforms to improve human capital
- Reform policies to increase female labor force participation
- Reduce cross-border trade costs, including through trade facilitation
- Support the diffusion of digital technologies by investing in ICT infrastructure and updating regulatory frameworks

### ***Macroeconomic and financial policies***

- Establish and maintain transparent and rules-based macroeconomic and financial policy frameworks
- Implement fiscal rules and medium-term budget frameworks to ensure fiscal sustainability
- Set up frameworks to undertake pro-active financial sector regulation and supervision

### ***Global cooperation***

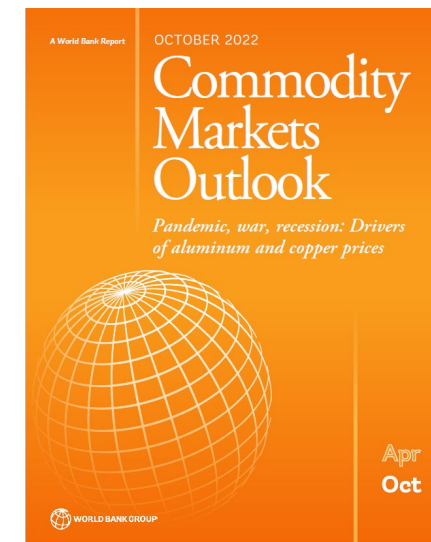
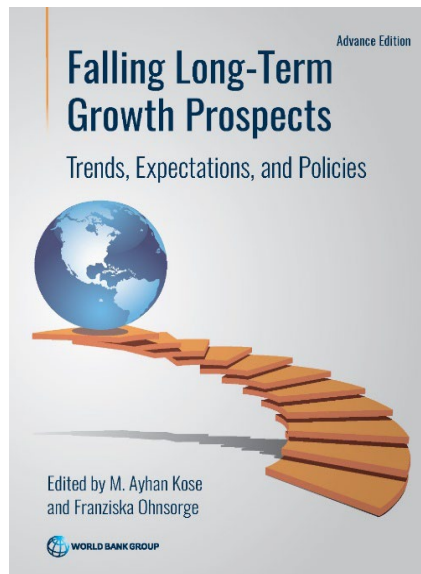
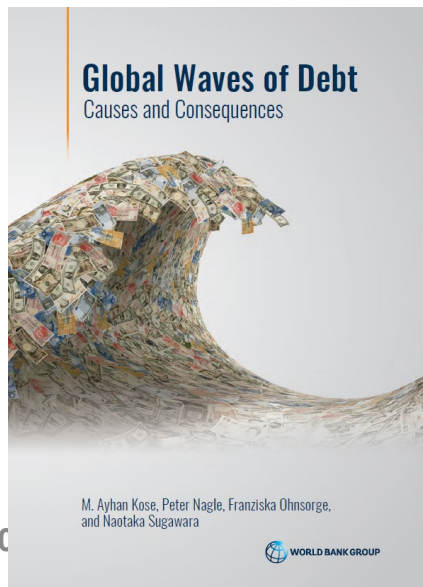
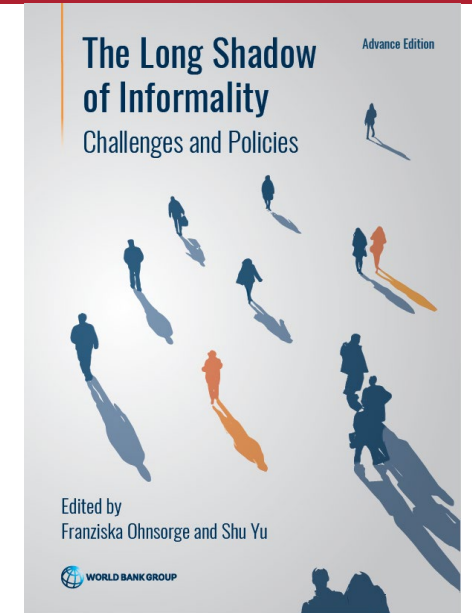
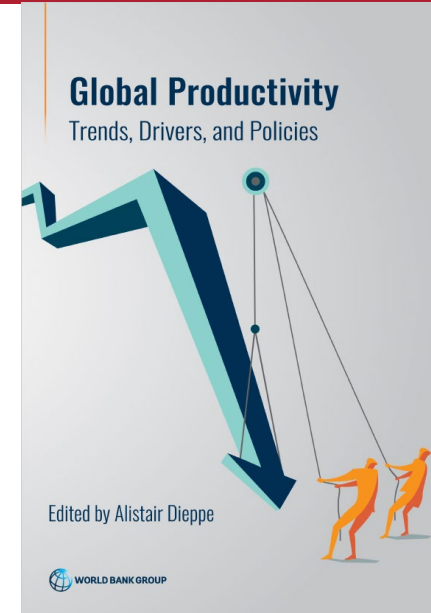
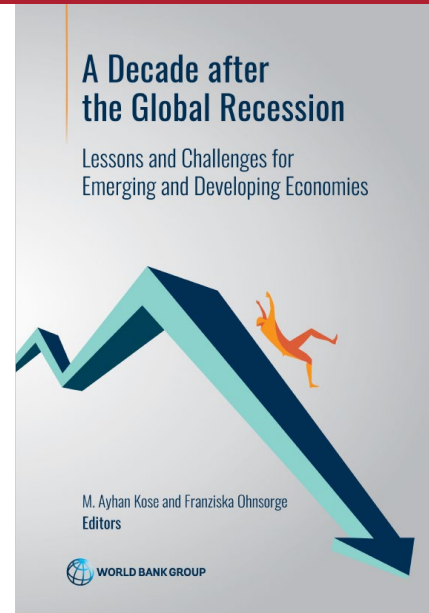
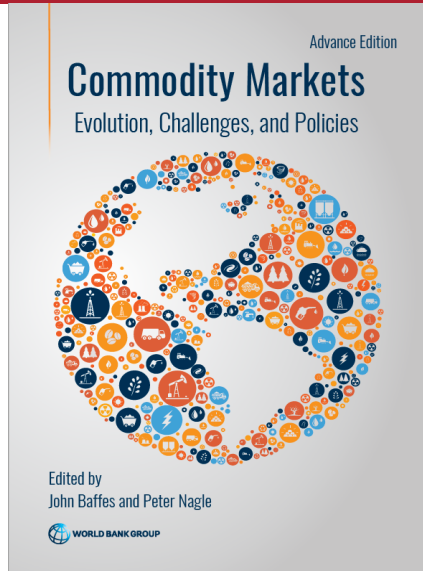
- Accelerate progress towards the goals of the Paris Agreement
- Promote a rules-based and open trade, finance, and investment climate
- Expand financing and build capacity to promote growth in low-income countries

# Three Questions

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# Studies by the World Bank Prospects Group



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## Global Monthly

February 2023

Overview	Table of Contents
<ul style="list-style-type: none"> <li>After declining steadily last year, many indicators of global activity and sentiment have recently stabilized.</li> <li>Financial market movements indicate increased risk appetite.</li> <li>Notwithstanding recent improvements, most data concerning economic activity are consistent with slower growth this year than last year.</li> </ul>	<ul style="list-style-type: none"> <li>Monthly Highlights..... 2</li> <li>Special Issue..... 5</li> <li>Recent Prospects Group Publications..... 7</li> <li>Recent World Bank Working Papers..... 7</li> <li>Recent World Bank Reports..... 7</li> <li>Table Major Data Releases..... 7</li> </ul>
<p><b>Chart of the Month</b></p> <ul style="list-style-type: none"> <li>Activity in China slowed sharply toward the end of 2022, but picked up in early 2023 as the wave of COVID-19 cases that followed the end of strict mobility restrictions waned.</li> <li>China's official composite PMI jumped from 41.6 to 52.9 in January, the second largest monthly increase in the series' 16-year history.</li> <li>PMI readings suggest that activity in the rest of the world also improved somewhat to start the year, but to a far lesser extent than in China.</li> </ul> <p><small>Source: IHS Markit, World Bank, IMF, and other sources. Information subject to change.</small></p>	<p><b>Composite PMIs in China and the rest of the world</b></p> <ul style="list-style-type: none"> <li>EMDEs experienced a broad-based slowdown in investment growth in the decade before the pandemic.</li> <li>The pandemic triggered a severe investment contraction in EMDEs, and a recovery in the aggregate level of EMDE investment to its pre-pandemic trend is not expected until the mid-2020s.</li> <li>Policy makers need to pursue a broad set of fiscal and structural policies, tailored to their country circumstances, to boost investment growth.</li> </ul>

The Global Monthly is a publication of the Prospects Group. This edition was prepared by Philip Kesterly, Jennifer Khadka, and Patrick Kelly under the supervision of Carlos Amador, based on contributions from Prospects Group staff. The special focus was prepared by Kenen Saito. The Global Monthly offers data available up to February 23, 2023. For more information, visit [www.worldbank.org/press](http://www.worldbank.org/press). Back issues of this report are available at [publib.worldbank.org](http://publib.worldbank.org).