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WEBINAR

State of the global economy: Slowing growths, rising risks

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UNCORRECTED TRANSCRIPT – CHECK AGAINST RECORDING

INTRODUCTION

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PANEL DISCUSSION

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COULIBALY: Good morning, everyone. My name is Brahima Coulibaly, senior fellow and vice president of the Global Economy and Development Program at Brookings. Really warm welcome to all of you who have tuned in from around the world. I know for some of you this very late in the evening. So thank you for making the time to join this conversation on the state of the global economy. We know that the global economy has been hit hard by a series of destabilizing shocks over the course of the past three years, starting with the COVID 19 pandemic. But as economies were reeling from the pandemic, geopolitical tension escalated earlier last year following the Russian invasion of Ukraine, which disrupted food and energy markets and contributed to push up inflation to levels not seen in decades. In response, central banks in advanced economies embarked on an aggressive monetary policy tightening to contain inflation. But it also had the unwelcome consequences of raising the cost of capital and the costs of financing for development and complicating the sovereign debt situation. The impact of these shocks was still playing out when a new shock surfaced early last year, namely the heightened financial stability risks following the bank failures in the U.S. and Europe. In this edition of the World Bank's Global Economic Prospects, which motivates today's conversation, they envision a sizable deceleration of global economic activity from 3% last year to about 2% this year, and it would be subdued next year, noting also heightened risk of recession in several countries. It is always a treat to read Ayhan and his team's take on the global economy. The report contains rigorous special issues focused on financial spillovers of rising U.S. interest rates and fiscal policy challenges in low income countries. There is a link to the reports on today's event page I encourage you to read it if you haven't already. But beyond the headline economic growth numbers, I think this shocks undermining the recovery in several countries and jeopardizing really progress toward poverty reduction and shared prosperity. The report documents that more than half of the population in low income countries now live in extreme poverty, compared with about 36% in 2019. This situation could worsen if the global growth continues to slow or falls into a recession and or inflation remains elevated. But we are very fortunate to have a great panel of experts to help us understand the global economic outlook. And the risk that we're facing and importantly, what should be the policy priorities to navigate these risks. And lay the foundation for a more inclusive and sustainable recovery. So in terms of the plan for the rest of the session, for the next 10 minutes or so, you'll hear from anchors who will present the highlights of the report to motivate the conversation. But we have introduction. Ayhan is a nonresident senior fellow in our Global Economy and Development Program at Brookings, and he's deputy chief economist at the World Bank. We will then be joined by three other experts for panel discussion and it will be sure to leave some time at the end to address your questions and comments. So thank you all to those who submitted their questions. You can continue to share those questions and comments via email at events@brookings.edu. That's events@brookings.edu or through Twitter using the hashtag global economy in one word. So now let me turn it to Ayhan for the presentation session.

KOSE: Thank you. Coul. It's great to be here to exchange views on the global economy. I would like to highlight three quick points based on our latest report to inform our panel discussion. To share a few slides. So as I mentioned, I'm going to make three quick points based on the latest global economy prospects report. The first point I would like to make is about economic growth and inflation. As you see in this figure for 2023, global growth forecasts have been upgraded since the beginning of this year. This has been mainly driven by greater than expected resilience, especially in some major economies, advanced economies, including the United States. So at the global level, the likelihood of a sharp downturn is lower today than what we had at the beginning of 2023. And if you would like to call that a soft landing, obviously the likelihood of soft landing for the global economy has increased. However, underlying this upgrade is a slowdown in activity this year relative to last year. Due to the lag and ongoing effects of monetary policy tightening to assist in inflation and of course, limited support for our fiscal policy. We expect these factors to continue to be a drag on activity heading into next year. And because we downgraded our growth forecast for next year. In a nutshell, global growth is projected to slow from around 3% in 2020 to around 2% this year. And then there will be a marginal increase in growth next to around 2.4%. The slowdown is much sharper. The advanced economies as these economies cope with inflation by increasing interest rates, we are expecting tighter credit conditions, labor markets to soften and of course the lingering effects of past spikes on activity in emerging market that will help the economies. And as you see here, growth is projected to edge up a little bit. If you look at the aggregate, but if you take called China, given that China did poorly last year and expect it to do well this year, even though China is also slowly emerging developed economies excluding China, you'll have a sharp slowdown. The slowdown in this economy is expected to be more severe. For emerging developing economies, especially frontier markets, with elevated fiscal vulnerabilities and external financing. It is important to put these numbers in context. Yes, this year growth has been better than expected, and next year growth will improve marginally. But these growth numbers are still lower than what the global economy and each country group advanced economies, emerging developed economies delivered on average during the decade prior to the pandemic. And if you look at the bigger picture. Average growth in emerging developed economies since the beginning of this decade for the period 2020-24. That means the, you know, the first half of this decade. Will be the lowest for any non-overlapping five year period since the mid 1990s. As you can see here on the left panel. So growth has been slowing and that slowdown has accelerated. Because of this small part. Of course, progress on per capita income growth has stalled for many emerging market economies, especially those facing headwinds from widespread poverty and fragility. On the right panel. You can see that in nearly one third of emerging market developed economies, even by 2024, the recovery is going to be too weak to restore per capita income to its pre-pandemic level. The fraction of countries. When you think about low income countries and fragile and complete states leaks, then if it's even larger. So these economies are going through, of course, a very difficult period and the difficult period transition. Basically recovery or pretty much no recovery when we think about their per capita income levels prior to the pandemic. When you take a long term perspective, this adds up to stagnating take up in per capita income between emerging market developed economies and advanced economies over the past decade. Let me talk about inflation a little bit. It's you can see in the slide, inflation expectations have been coming down along with actual inflation. With most commodity prices falling and supply chain bottlenecks largely behind us, we are expecting global inflation to moderate over the next 18 months. However, we also expected global inflation to remain a ball. It is pre-pandemic level for the foreseeable future. And of course, when you think about advanced economies, emerging market, there will be economies. We are expecting inflation to be above the central bank targets. While headline inflation has been coming down, the core inflation has been stubbornly persistent, which is being fed by elevated services, inflation, tight labor markets and the pass through of earlier increases in energy costs into a broader price. It is unlikely that inflation will converge to target levels without some material softening of growth in coming months. This implies that monetary policy will need to remain tight in the near term. So if monetary policy remains tight, that means. Global interest rates are going to be high and the cost of funding is going to remain elevated. On the left chart, you see the impact of rapid tightening of monetary policy in advanced economies has been accompanied by a surge in the number of emerging developed economies, with sovereign spreads exceeding ten percentage points. Now one in four of these economies. Facing threats larger than ten percentage points, a benchmark suggesting three to much loss of market access and even likelihood of higher likelihood of default. Since the policy tightening cycle started last year in March, threads of frontier markets have risen almost certainly more than in other emerging market economies in the middle chart. You see the government that evolution in low income countries and lower middle income countries. In low income countries, government debt rose by about 30 percentage points of GDP between 2011 and 22. It increased considerably for lower middle income countries. Some of these economies, of course, are frontier markets. As a result of these developments, 14 out of 28 lower income countries are now in debt distress or at a high risk of debt distress. Compared with only six in 2015. Another important statistic that we think about that. There have been 14 debt default events since 2020. Compared to 19 events in total from 2000 to 2019. On the right chart. The sharp increase in debt, combined with rising global interest rates, has raised debt service spending, as you can see. Net interest payments surged in 2020 and that continued and projected to remain high for the foreseeable future. No. I mentioned financial stress and that's related risks. That was my second point. Let me turn to my third point. That is about the need for global cooperation to mitigate the risks associated with climate change and fragmentation of global trade networks. Recent heatwaves, heatwaves around the world clearly showed us climate change is with us. Value control for population. The average low income country experienced more natural disasters in eight years than the average advanced economy, an emerging market, developing economies and advanced economies. We are better equipped to cope with the implications of climate change, including these heatwaves we have been experiencing. What was remarkable, in a very short time period, the fraction of the population affected by natural disasters in low income countries has increased sharply, as you see on the list, especially among countries in fragile and conflict situations. This compounds the development challenges these countries face. Much of the increase here in the share of population affected by natural disasters in recent years has been driven by severe droughts in fragile lakes in the Sahel region. On the right. Another worrying development is basically the split. Generating growth in emerging developed economies requires global trade to remain as an engine of growth. But the global trade network no longer plays its traditional role. In fact, we are expecting global trade to slow down significantly this year. But more importantly, we see trade restricting measures popping up more and more. In fact, since 2011, more than four times as many trade restricting measures as trade liberalizing measures have been implemented. So climate change is weakness and fragmentation of trade networks is with us as well. In conclusion, I try to make three points here with respect to growth and inflation. Yes, there is higher than expected global growth this year, but there is still a sharp slowdown underway. Growth will likely be lower than the average of the coming decade. Inflation has been declining, but will likely be higher next year than the central bank's target. The second point was about policy, interest rates and financial stress. They're expecting interest rates in major advanced economies to remain high for this year and the next year. The combination of elevated borrowing costs, weak growth and limited fiscal space increases the likelihood of financial stress and hinders development and climate objectives. And finally, it's going to be critical for national and global policymakers to work together in the short run to ensure financial and macroeconomic stability. Food insecurity is becoming a huge problem Coul you alluded to. And in the medium run to boost growth prospects, the potential growth, address climate change and ensure sustainable development. I invite all of you to visit our Web page to check out our analytical work on these issues. Thank you. Thank you Coul.

COULIBALY: Hello. Thank you Ayhan for this very succinct presentation. I know it's a challenge to compress so many pages into a ten minute presentation. But it's very much, though it may be much appreciated at introduce an earlier. So now let me introduce the other panelist. So the second panelist Ayhan is going to stay on as a panelist for the rest of the session is a second panelist is Eswar Prasad, who is a senior fellow in our Global Economy and Development program, where he also holds the New Century Chair in International Trade and Economics and is author of the TIGER Index, which is a bi-annual joint Brookings Financial Times publication of indices that track the state of the global economy. He's also professor of trade policy and economics at Cornell University. And joining us from London is Janet Henry, who is global chief economist at HSBC, where she directs and oversees the economic research and forecasts. And much of her recent research has focused on the globalization and the challenges of post the global financial crisis. And the fourth panelist is Professor Kevin Urama, who is the chief economist and vice president of the Economic Governance and Knowledge Management at the African Development Bank. And in this capacity, among other things, he provides intellectual leadership and oversees the bank's knowledge production. They also released their own annual report on the state of African economies earlier this year entitled "Mobilizing Private Finance Sector Financing for Climate Change and Green Growth in Africa." So thank you all for for joining. I look forward to a really fascinating conversation. So before I turn to the panelist, and if I may ask you a couple of questions in terms of know, just to understand whether the growth forecast so growth is up this year compared to your last edition because data was a bit stronger than we thought. And I think that seems to be a theme we're hearing a little bit, in fact, because last week the Fed chairman, Jay Powell, said they are no longer envisioning or calling for a recession in the U.S. So somehow it looks like we're despite all these shocks, the data seem to be showing a little bit of positive surprises. And you've revised up growth in several countries U.S., euro area, China, Mexico, etc.. So why was why did growth surprise us on the upside? And why doesn't the positive momentum continue into next year since you're downgrading next year? Are we underestimating too much the resiliency of the global economy?

KOSE: Thank you. Now, when you look at the growth forecast of last June to, let's say this July for this year. Growth forecasts pretty much downgraded up until late January of this year from June of last year for this year. And there was the expectation that we will we would have a very serious downturn in the global economy because of the impact of the tightening monetary policy consequences of that, of course, for advanced economies. Labor markets, growth, performance, overall credit conditions, as well as for emerging market developing economies. One thing that changed the dynamics, of course, China's opening up and there was the initial hope about China. That hope is still there, but we need to now temper those hopes, given the kind of the slowdown we're observing in China. What was surprising is that resilience of labor markets and of course, resilience of the consumer, especially on the services. But when you look at the data, you see on the services side, quite a bit of resilience on the manufacturing side, quite a bit of a slowdown. Now why we are seeing weakness going forward. When you think about financing conditions, obviously countries are going to increasingly feel that lag effects of monetary policy tightening and that will affect consumption as well as investment. And you already see a pooling of labor markets in the United States. Okay. So and then when you think about global trade and is it kind of a driver of economic growth that is slowing and slowing sharply? Last year, global trade growth was around 6%. This year we are expecting to be around actually 2%. And then it was down to arithmetic. U.S. economy, of course, resilient, but U.S. economy is also slowly and we are expecting euro area as well as China to have weaker growth outlook going forward. When you put all of these together, a slowdown is underway. Will there be upside surprises that can be? Are we in a better position today relative to, you know, what we thought at the beginning of the year? Yes, But as I mentioned, you need to put these numbers in the bigger context. From the perspective of the emerging developed economies, growth remains quite weak. For them to make serious progress in a number of challenges they are facing. Back to you.

COULIBALY: Thank you Ayhan for that. And in terms of the control of the outlook itself, it looks like growth is bottoming this year. By 2025, you're up to 3%, which is in line perhaps with your 2010-19 outbreak that you showed on your on your on your slide. And inflation will continue to fall. So so can we characterize that as a soft landing scenario?

KOSE: At the global level. I will take that as a soft landing. But that, you know, the kind of that this sort of soft landing, hard landing evolves from week to week. So it's better not to, you know, all these things we have been reading during the past week, everything is nice and dandy. It was very similar early January we hit because of this type of perception. So let's not carry the way we did.

COULIBALY: Okay, we won't hold you up to that. But. But then last report, though, you did have a useful special issue on the issue of stagflation. And that was a time when inflation was running at 9%. And it looks like this report has no mention of stagflation. Can we now say that the stagflation scenario is off the table?

KOSE: I think it's fair to say that the increase in policy rates has been quite aggressive and now with the hope that the inflation is coming down in the way it has been coming down, you are going to be in quite a restrictive zone using the lingo of central bankers in advanced economies in the U.S. as well as euro area. So the stagflation discussion of at least for the moment, is off the table.

COULIBALY: No, that's that's wonderful. Great to know. If I can now turn to your Eswar for your take on what you've heard. And I want to go off like the title of your last TIGER Index to track the global economy, which you published in April now right, "A Perilous Moment Rife with Risks in Talking About the Global Economy." So given the surprisingly strong data in several countries, do you still see the situation that way? And are you only in the soft landing camp, also the global recession camp or your third camp?

PRASAD: Thank you, Coul. First of all, I want to commend Ayhan and his team for an excellent report, as you're sure they're right on the bottom in terms of analyzing where the global economy is and where the soft sports might be and where there might be some room for optimism. And certainly in Ayhan's words there, the probability of a soft landing for the world as a whole has increased. But there are huge asymmetries around the world. In the U.S. we are seeing, of course, inflation coming down perhaps somewhat faster than at least few had anticipated. And the labor market seems to be holding up well. Domestic demand is holding up well. So that's all very positive. But the second largest economy, and again, I alluded to this is not in such great shape. If you look at recent indicators in China, they point to significant softness in the economy, in China compared to much of the rest of the world. They are facing deflationary risks with CPI, inflation basically at zero and producer prices actually falling. And if China were to try to export its way out of a recession, that could have fairly significant consequences around the world, not just for China itself. Now, for much of the post global financial crisis, Peter, the US and China have been the key twin drivers of global growth. So having one of those drivers doing moderately well, that is the US and one driver are beginning to be on much shakier ground. Certainly creates some concerns for the entire world economy because it will affect not just global demand but also demand for certain things like commodities that are hugely important for a significant portion of the world economy. But again, there is some ground for optimism as well done. So a little westward of China could see where India is heading. I think the Indian economy is poised for a year of pretty strong growth and we are likely to see the economy perform well this year and into next year. But again, hearkening back to some of the issues maintained and mentioned in Ivan's report, the key issue is whether we will see stimulus coming from some of the economies, like growth is slowing and whether the stimulus will do two things. First, boost short term economic activity. And second, undertake some of the measures that are needed to boost longer term productivity growth and GDP growth overall. Because I think one of the key factors holding growth back in many countries right now is the lack of confidence in where the global economy is going, but also in terms of the contours of domestic policies and China as exhibited in this context. We've seen private investment last year basically collapsing. Household consumption is not doing well. So I just come back from a from an extended trip to China. And I can tell you the view from Beijing where policymakers are relatively sanguine about the direction of the economy is quite different from the view I heard in other parts of the country, especially Shanghai, where the private sector seems much more concerned about the direction of government policies. So I think picking up on some of the themes that I had supported, we're going to need some fairly forceful action from governments providing a balanced mix of monetary and in many cases fiscal stimulus. China, again, being a prime example of this. But in addition, some measures to build confidence so that the private sector can do what it needs to do in terms of supporting growth.

COULIBALY: No, thank you Eswar. And I think it is the case that China has indeed been an important engine of global growth. But let's say China's contribution continues to be it becomes underwhelming. Can we count on India to fill in that void, since it's also been a bright spot in this global economic environment?

PRASAD: One wishes it were a so-called the Indian economy certainly going to do well. Unfortunately, it doesn't quite have the heft of the Chinese economy. It's still a much smaller economy. But the fact that you do have at least that one bright spot in terms of growth is going to help. And it's certainly going to play a role in terms of many of the other things that we see happening in the world economy, including a real orientation of global financial flows, potentially a rejiggering of global supply chains. None of this is going to happen overnight, but I think India does provide some hope for optimism that all of this will end up in a slightly. More positive space. But certainly the Indian economy, I think, can pull its weight in the world economy, but it's not large enough or nor does it add enough to global demand by itself to be a major engine of global growth.

COULIBALY: Yeah, that's why I said despite the is robust growth, it's still a relatively smaller economy. So I think that maybe, Janet, if I can bring you into the conversation from where you are at HSBC. How do you see it? Have you also been surprised by the strength of the data? And are you soft landing, you know, in the recession camp?

HENRY: Actually in our latest forecasting round, which was fairly recent as well. Our global aggregates for this year and next barely changed, but it was the moving parts that changed because we we lowered the eurozone and we lowered China, but we upgraded the US for this year and India and Latin America. And it's so, yes, we've been we've been surprised by the resilience of some of those regions, Latin America, in the face of what are still really quite high real interest rates. They've managed to sustain a recovery. Nothing like Asian standards, but pretty, you know, more solid than you typically associate with Latin America. And that's the resilience of of the U.S.

consumer. But in terms of where we go from here and perhaps where where we differ a little bit from from the World Bank's projections is that we've got a weaker growth outlook for 2024 and probably than the markets are expecting. Financial markets, even though they're well aware that we've had an extraordinary cycle over the last three years with a pandemic out of war and big supply shocks in labor markets, financial markets always want to think about the recovery in a normal way. You get as soon as you've seen the peak in rates, you get rate cuts and you get a V-shaped recovery and we see something much more protracted. So, no, it's not a traditional recession of a couple of quarters with quick rate cuts and a V-shaped recovery. It is something that takes longer in order to ensure that inflation at least gradually moves back in the direction of central bank targets. We see interest rates staying higher for longer. So some parts of the economy feeling the strain from higher interest rates. Other parts where they're still seeing the benefits from tax incentives, energy subsidies in Europe, tax incentives in the U.S. that will offset the ongoing tightness of monetary policy. So an unusual cycle. I wouldn't say it's a soft landing because unemployment's going to continue rising, but I wouldn't call it a typical hard landing either.

COULIBALY: So somewhere in between. Now what what can you help us make sense of what the financial markets are trying to tell us? So you look at the stock market indices and in many of them, it's been quite, quite strong in terms of returns so far this year at least. And then you look at the yield curve, they've been inverted and have been inverted for quite some time. And we've thought of this in the past as a strong indicator of recessions. But do you see it that way or how do you what what signal should we be taking from these different indicators of the financial markets as it relates to the outlook.

HENRY: Uh an inverted yield curve often is a precursor to a recession, but it will never give you a precise timeline, and it's not always 100% accurate. But you're absolutely right. Financial markets have been a lot stronger. And while equity markets have been a lot stronger for far longer than anyone expected. If you'd asked most people even two years ago, that the ECB would take interest rates to 2%, never mind 4%. No. Well, few would have really believed that that would would happen. But a vast amount of money was provided to the global economy with with quantitative easing. And in a high inflation world, remember, real interest rates, at least current interest real interest rates are not not that high. Also, some parts of the economy are more affected by higher interest rates than others, and that includes the corporate sector as well as elements of the household sector. But yes, everyone's struggling to make sense of some of the movements in financial markets, but there are sectors where profits growth has remained a lot stronger than anyone anticipated.

COULIBALY: Okay. Thank you. Kevin, if I can now turn to you. It's been a really rough ride for low income countries, many of them in the African region, which we know I think are the most vulnerable to shocks, as mentioned earlier. But they also have reduced capacity to manage them. So the AFDB is, under your own leadership, has released its report, as I flagged earlier. So what messages there resonate with you from where you are?

URAMA: Thank you. Thank you very much. And let me really congratulate the colleagues for the very excellent chance to sing the. Can you hear? Can you hear me?

COULIBALY: Yeah. Yes, we can.

URAMA: Okay. So I'm saying I want to thank the colleagues for an excellent report and identifying the three key areas, which we also indeed pinpoint in our report. What our report is also showing is of remarkable resilience that despite all the shocks, the economy is in, that in the case of Africa, it's a bit slow down from what we had in terms of the resurgence in growth. And it's been to one now a trip when it has to. But we do expect that from 2010. I mean, 2010 will continue up to like. So we see that as positive. But then the challenge is that if you look at the structural issues within the economy, small private consumption is not still doing well. Investment is not doing well and so is industrial sector growth. So I will be very much in between with regard to whether we call this a soft landing or just the benefits of the energy price hikes, which was, you know, agreed to. And a lot of the energy exporters from the the African economies, when you looked at those structural differences in terms of country groupings, then you'll find that oil exporters were really at the center of this kind of recovery. Now we are recording what some other economies like, for instance, and then is are actually not doing very well. So you see in countries depending on where they stand at the at the moment. Now, another point that that was raised in this book or that this goes into their resources and is that the impact, the spillover in India, advanced economies with regard to imported inflation into Africa and the African continent. And they'll find that it's not only why India is a bit Latin, it is the country and the depreciation of currencies now at about five 15.1. We also expect that by 2024 we'll be able to go back to below double digit inflationary rates on the continent. That was. That's already explained and I don't need to go to it. Then the point you raised about debt and the debt vulnerabilities at default potential, the possibility is on the continent. But when you decompose that, you also still find that exchange rate. Exchange rate depreciation is one of the major key drivers because of what he has explained here with regard to the increased costs of debt repair. I mean, this is what's. Of course, I press spread like this cycle. That leaves the cost of capital higher for countries. And that's like China. We're doing that for us in Africa for key risks are the things with we feel needs to be watched within this period. Of course, the high interest rate and this or this and trial. But linked to that about here because not because of capacity to adapt or even the access to financing for the technologies that will allow the great transition and for the continent to benefit from green industrialization. Despite the fact that most of the green minerals are on the continent. So we will we it will identify these two aspects as big risks to what? But again, this subdued growth in China as you raised the heat for Africa, because this China is one of them. And you know as. Markets for us. But the long term systemic challenge of dependance on commodity markets is also a major issue, both in terms of managing inflation is an issue in terms of the disruptions of global supply chain. See also be the trade issues that demand and how it will be addressed. If not, I would say, is soft, but not completely because it's not. Thank you.

COULIBALY: No, thank you. Thank you, Kevin, for that perspective. The Internet, the. The audio was okay, but at times you were fading in and out. One trick I've tried, I've tried in the past that has worked is when you turn off the video so that that helps the time. But let me ask you a follow up question then on the economy. I think when you look at the growth rate and what you've characterized was a little bit a bit about the aggregate for the region, but it looks like there are three large countries that tend to dominate Africa's aggregate growth Nigeria, Angola, South Africa. And those are struggling, struggling with the structural issues as like as you alluded to. But if you take those out, you can see that several countries are actually growing at a pretty rapid pace, including several over 6%. And that is despite all these shocks we're talking about. Is that is it a story of resilience, some somewhere there, or how do you square this with the narrative and those concerned a lot about the multitude of the shocks to hit low income countries. If you are speaking, you might be on mute.

URAMA: Yes. Thank you very much. Apologies for the for the, uh, the audio. Uh, the the. The connection to the. No, I'm not. Only I think it's me.

COULIBALY: Yes. Keeps keep talking.

URAMA: I mean, we I mean.

COULIBALY: We can hear, but the quality is not great. Keep talking. Did you. Did you hear the questions?

URAMA: Hello?

COULIBALY: Yes.

URAMA: If he heard me.

COULIBALY: Yeah. Okay.

URAMA: So you are very right. Okay. Question: The.

COULIBALY: Okay. I think we we lost. We lost that. We lost Kevin. So when we'll continue with him, when we get him back. So now, if I can, maybe don't go back to you, Janet. But this time, like on the monetary policy outlook for the advanced economies. I think Powell was pretty clear last week do power that they no longer see a recession, but he wasn't prepared to take a firmer stance on whether or not they would. This was the last last week was the last rate hike. So what is your sense as to and some and some private sector participants are building in clearly rate reductions beginning beginning next year. So how do you see the evolution of monetary policy in the advanced economies, the U.S., but also maybe the euro area where you seem to be envisioning a weaker economic outlook?

HENRY: Yes. Don't forget, it's not so long ago that the financial markets thought the recession was going to be the first half of this year and the rate cuts were going to be in the second half of this year. So, I mean, I think Powell has been quite clear that policy is restrictive. The question is whether it's restrictive enough. Now, actually, we think that July was the last rate rise. It's just that we expect it to stay there for some time. And as long as the data move in the right direction over the next couple of months, then they won't need to tighten again in September. So really, they'll be looking very hard at the employment report and the inflation report. They need to see core PC inflation gradually move below 4% by the end of the year and they think it's unlikely that they are going to see inflation move in that direction without some softening in the labor market. Now, some of the labor market data is showing a slowdown, but wage growth still above 4% is not consistent with getting back to 2% inflation. So we don't see the first rate cut happening until probably the second quarter of 2024 at the earliest. And the fact is, if the data remain too resilient in the next couple of months and the economy's accelerating, then there is a very real risk that they actually need to tighten up a little bit further. And as far as the ECB is concerned, previously the ECB had been very keen to tell us that they were still very much on a tightening track at their meeting last week. They're now telling us that it's 50-50 in September, but also what they need to do after that, because when we look at the eurozone versus the U.S., eurozone growth may have been weaker, but there is a lot more rigidity in labor markets and core inflation is still higher in the eurozone than it is in the U.S. And so once inflation gets into service sector and into labor markets, it's much more likely to stay persistent in Europe. So we think the ECB will be raising rates once more and we've got no cuts at all in 2024 because we see inflation still above target.

COULIBALY: Okay. Thank you for that. Kevin, are you with us now? Can you hear us?

URAMA: Yes, I can hear you. Can you hear me?

COULIBALY: Yes. Did you hear the question?

URAMA: Yes, I did hear the question. Sorry about this. Is the realities of the will of the economy as well. So the issue here is that when you look at the Africa's economy, you are right, the media is telling the full story because we see several countries on the continent really growing at above 6%. In fact, six of the you know, the ten best performing economies in Africa are now set to get back into the league of ten fastest growing economies. And this is because of several factors that goes really unmentioned often in these kinds of discussions. No prudent macroeconomic policy management has been really taking root in South Africa's economies, and that comes with Prudential. But public finance, public finance management activity, while working with 45 countries, working with the IMF and the World Bank to try and build the activity, and simply by increasing domestic revenue mobilization and plug in some of the issues of illicit financial flows we have seen in the past so bad on the economies of some of these countries. So infrastructure that in in Cote d'Ivoire where I lead Ethiopia and the rest of them, you are beginning to see the benefits of long term investment. And you know, but then the other things that I. Well, first of all, to the extent that vulnerability risks because of the takes these investments, do yields now start to apply risks to that growth prospects because of fears and challenges of debt. It is and it is the downgrade. And so not so well. So that is why indeed, it's just quite I would actually love to see in this report the. But I'm pissed actually, with how the current global bubble financing I get the job. Creates a vicious cycle of high and low of high risk rates. I mean, the risk ratings for countries, high cost of vulnerability, the poor and higher cost of capital. So that continues to create this. I mean, the problem with the trap that we all talk about in the in many aspects. So, I mean, look at countries are asked for.

COULIBALY: But I think we lost them again. So this is we're all at the mercy of technology. But until he joins again, maybe we can switch now to the spillover effects. And I think the the I think you've correctly documented this has been a pretty aggressive Fed policy tightening and. For the pace of tightening and how fast it's occurred. Would you have expected more troubles in the emerging market, developing countries? Or are we seeing less of it based on historical experience? And if or is there a story there of relative resilience compared to past episodes of Fed policy tightening?

KOSE: Yes. Now, the story with respect to the spillover effects of a policy tightening is a bit nuanced when we think about what's happened over the past 18 months. When you look at big emerging markets, a number of them actually started tightening policy ahead of advanced economies to basically contain inflationary pressures. And it just that their policies of more or less in an intelligent way. So we don't have a big emerging market having financial difficulties. Having said that, when you look at frontier markets, when you look at lower middle income economies, you see significant challenges there. I already mentioned this, you know, stunning statistics, the number of defaults since 2020 14 and those since 2000 to 2019, just 90. So when you look at the spreads or frontier market economies relative to other emerging developed economies, much higher than you think, about fraction of economies, there have spreads more than ten percentage points. We are basically getting close to the numbers, but we saw, you know, early 2000 now. So in a nutshell, there are significant challenges there, especially in the context of these frontier market economies. And those challenges will be there for the foreseeable future. In an environment, you have weak growth and high borrowing costs and limited fiscal space. Okay.

COULIBALY: So in terms of its effect, do you feel like we've seen much of that already or it's still going to play out with a lag? The the the the the US interest rate policy spillover effects.

KOSE: I think it's going to.

COULIBALY: We're getting out closer to to the to the peak of the rate increases. Is it going to be better from here on in terms of for emerging markets, in terms of spillovers or we think, well, some of this effect is still to play out.

KOSE: I think the baseline for the aggregate, emerging developed economies, we are seeing a modest acceleration from this year to next year. But when you look at the kind of the evolution over the past 18 months, countries with lower credit ratings, countries with higher fiscal. Who will know abilities ended up being affected more. And I think that there are still formidable risks down the road for those economies. I agree with Janet. Central banks will follow a data dependent approach going forward. And as much as you know, we think that in the context of the US, maybe this is the last increase, there might be more increases. And as you know, Coul, there is this lag effects of monetary policy. And those things are going to be felt around the world going forward as well as in advanced economies.

COULIBALY: Okay. So you showed when this aggressive tightening started. I think one place where it was evidence was indeed the strength of the dollar. I think you wrote about this and there were several countries concerned about the strength of the dollar and conversely, the weaknesses in their own own currencies in terms of the spillover effect that we're concerned about. Did you think that we're overestimating those negative spillovers effect or do you have you seen some resiliency in those countries, particularly emerging markets, developing economies? And has has the dollar peaked?

PRASAD: That's a tough question to answer. Coul. But certainly in terms of the effect of a dollar strengthening, that is something that much of the emerging market in developing economy world does view with some degree of concern. On the one hand, it's certainly helpful if you're currency depreciates relative to the dollar, which remains the major currency in global finance in terms of boosting our exports. On the other hand, there is a risk of currency depreciation capital outflows spiral that many countries are concerned about is always this complicated balance. Now, at a time when depreciation relative to the dollar does not give you much of a boost in terms of exports because global demand is is very weak, that would seem like the risks are much greater. And those risks, of course, are even greater for the economies that are very exposed in terms of having large amounts of foreign currency debt, significant current account deficits and so on. But picking up on a point that I have made, it's very important to make this distinction between the major emerging market economies and the strongest economies, and also a small group of emerging market economies that are quite vulnerable because of their current account deficits and therefore their reliance on external financing and their having undertaken a set of policies that were not necessarily helpful to confidence and in some cases compounded by political instability. So if you look at the key emerging market economies, you know, China, India, Brazil, which recently went from a current account deficit to a small current account surplus. All of those countries have held up quite well, certainly even in some of those countries, in some small open economies. The fact that you had some corporates that were exposed to foreign currency debt, mostly dollar denominated debt, that creates localized exposures. But systemically these were not hugely important. But then there are many countries, including Han Solo, Turkey, Venezuela, Sri Lanka, Pakistan, all of which had a variety of internal political and economic problems that in tandem with huge amounts of foreign currency, debt and tighter global financing conditions, have put them in a very dire situation. So it's worth noting that the dollar strength does not seem to have led to any systemic problems or the major emerging market economies, because I think many of them learned useful lessons from previous financial crises. They built up significant amounts of global foreign exchange reserves. They've let their currencies depreciate and become a buffer from any of these shocks that they're facing. But I think there are many economies that are going to be quite vulnerable, and especially if you have weak global demand and especially the weak commodity prices because of a slowing in China that could come back to haunt many frontier economies in particular.

COULIBALY: Thank you so will with the 15 minutes remaining on our time, we can now move into the the questions section of the of the discussion. So the first questions is coming from Nathan, who was an economic reporter. So what should central bankers look to aside from the Phillips curve when considering how the tools will bring down inflation? So let me try to translate that. In other words, monetary policy to mentor here to conquer inflation. And we know there's been significant tightening. But what is still stubborn, as was alluded to, are we expecting too much here from monetary policy and not enough attention to other tools? If I can turn to you, Janet, at least.

HENRY: Well, we are still in an era where central banks, they have one primary goal. Yes, other goals have been added, be it climate change, inclusive growth, etc. But their primary goal is to maintain price stability and to manage inflation. So inflation expectations are absolutely critical. And we need to remember that for a very long time, especially through the 2000s and even the decade following the financial crisis, there were a lot of factors that led to a very good relationship between growth and inflation. A lot of automation, a lot of globalization. We had a very good growth, inflation, trade off, and that helps to reinforce central banks credibility about their ability to manage inflation. And the difficulty they have now, of course, is that there are a lot of factors that are not as favorable. We've got a lot more fragmentation of trade flows. We've got actually government policy moving against them. You know, central banks trying to slow demand by raising interest rates at a time when governments in places are adding to demand through in Europe, energy subsidies and and now in the U.S., the Inflation Reduction Act and the CHIPS Act and such like and that is that is complicating what they're trying to do is Powell tells us it's not their job to tell the government what to do, but on policy, they need to act in response to certain given fiscal actions. But back to Ayhan's point, at the beginning, we're likely in the coming years going to be in a different growth inflation, interest rate, trade off. We're not going back to zero rates and we'll have to set probably lower growth and slightly higher inflation than we thought was normal before the before the pandemic. So, yes, I'm afraid interest rates at the moment are still the primary tool.

COULIBALY: The second question comes from Maricarmen. I think Eddie from the Maricarmen at Brookings and Eddie from the World Bank had a similar question. So just lump them in in one. They're interested a bit on how to address the issues facing the most vulnerable countries and improve their living standard in the long term beyond just managing current challenges. And at this point was more attentive to vulnerabilities, to climate change. So. Ayhan and Kevin. Kevin, please. Yes.

URAMA: Okay. Thank you. I think before I. I know I tried to attempt that question, which is a very big question. The issue around also the interest spread in.

COULIBALY: Kevin your audio is still not clear.

URAMA: Clear and I agree that that to the extent that it market structures work. But this current inflationary trend was seen as central bank. Okay. Are you hearing me now?

COULIBALY: Now we can keep talking. It was.

URAMA: Are you hearing me?

COULIBALY: It was breaking. Now it's fine. Keep talking.

URAMA: No. So let me switch off my video and see. So are you hearing me now?

COULIBALY: Yeah, we can hear you. Please proceed.

URAMA: Okay. Okay. Okay.

COULIBALY: Ayhan do you have a view on this?

KOSE: Yeah. Coul, there are urgent things and there are important things. I think there's no question there is urgency when it comes to short term inflation and overall trade off. But the important issue we try to highlight in the latest report, especially in the context of low income countries, low and middle income countries. The fiscal challenges have been chronic. These economies haven't made significant progress when it comes to revenue collection, and they ramp up significant spending over the past decade. Because of that, the debt challenges have been much larger now. And in terms of growth, as I mentioned in the presentation of the type of catch up you want to see, is not there growth prospects still quite weak, especially in per capita terms. What needs to be done? Obviously, the national policymakers have to have a comprehensive agenda and aggressive, ambitious agenda. I think there are grounds for that agenda between the climate challenges and huge investment needs and how these two basic align. Climate change will require an investment surge in these economies. We need to bring that investment surge in an intelligent way. But these economies don't have the resources and capacity to deliver sustained investment, so they need to get support from the global community. We have been having these discussions, of course, at the World Bank, and we will continue, I think, in Marrakech when we go to the annual meetings. Thank you both.

COULIBALY: Okay. And next question is from Stella. She's a student. She spoke. And the question is which country will suffer the most from the current geo economic fragmentation? I actually think that's an issue. I don't know how the report address it, if it did at all. But this could go to all all panelists. And if I can actually piggyback on that and ask a question related to generative A.I. and how you're thinking about its in potential impact on productivity and therefore long term growth and whether some of that was built into this outlook and how we're thinking about it. Because there's a sense that this this time would be different in terms of emerging technologies. We know some of the past ones have been driven, been able to trace their impact on productivity, which has been low. But some are comparing this generated AI to the Internet era and how it boosted productivity in the in the nineties, early, early 2000. Do you see it that way and has it been built into the forecast? And I'll be curious to hear two from Eswar and Janet both on when those we're going to lose the most from geoeconomic fragmentation as well as how to think about the effect of generative AI on productivity.

KOSE: Okay, so in the near term, we are really worried about the frontier markets and these vulnerable low income countries of the food crisis issue is also becoming a big, big challenge. Given recent developments we saw over the past two weeks with respect to the implications of a I and productivity in our long term projections of do not account for the innovations associated with these of new tools and how they will translate into higher productivity. That's why we are expecting growth to slow down in the rest of this decade relative to previous decade, and that is worrying us. The question is that whether these artificial intelligence based algorithms could translate into, you know, general purpose technological improvements and we see basically headline productivity numbers improving along with, of course, greater shared prosperity. I think the jury is out there on these issues. But when we think about Internet revolution, I think we need to keep our hope a little bit tempered given the kind of the all these innovations we see around productivity has been slowing and that with serious consequences for long term growth prospects.

COULIBALY: Eswar please.

PRASAD: So Coul, I think the shift in emphasis away from efficiency of global supply chains and production structures to resilience I think is understandable in terms of the many risks that manufacturers consumers face intensely geopolitical uncertainties, climate change related risks and so on. But I think the shift to resilience does not currently have a welfare cost for the world at large. But having said that, there are going to be relative winners. Certainly there are some industries where this sort of concentration could actually be helpful, that in some countries like India, they could potentially benefit from a shift away from companies using China as the main a key component of their global supply chain. So there are countries that if they are in a position to take advantage of, these opportunities, will certainly be able to benefit in a relative sense at least. But the bigger picture here is that many of these changes, including the economic fragmentation, but also the air related changes, could ultimately substantially widen the inequities that already exist, both at the societal level but also at the global level, where many disadvantaged people in the richer countries and also many countries around the world that are not fully integrated with the global financial and trade system yet and therefore have not seen any of the benefits of globalization would but could end up suffering from the sort of geoeconomic fragmentation and the increase in trade barriers that I and so very nicely documented early on in the call. So I do worry that many of these trends are leading to a further, you know, increase in the disparities both within and across countries.

PRASAD: Janet you have any thoughts?

HENRY: I completely agree with both of my colleagues on the panel. There will be welfare costs globally as a consequence of the move towards fragmentation. And I agree, you know, it is driven by the need for economic resilience, but also security, energy security, food security. So it will be the smaller emerging economies who are most vulnerable in that world because they're not the obvious relative winners that are certainly as well, you know, referred to. So I diverge from that. And on the broader productivity story. I you know, I'd like to be optimistic on something from a relative perspective. I just find it hard at this stage to be confident that it's something that's going to necessarily lead to an economy wide improvement in productivity, certainly in the way that we can measure it and in a way that's going to deliver welcome welfare improvements, income inequality, improvements in tax revenues, improvements in living standards. And you mentioned, you know, the dot com revolution, the IT, if we look at every decade from the fifties, the sixties, the seventies, the eighties, the nineties, it's been week a decades of productivity. The one exception was the nineties in the U.S., but not necessarily elsewhere. And it was the IT team in the manufacturing boom where I would be a bit more optimistic on the productivity side from a I is in areas of the service sector but if it's supported which everything at the moment in that direction regarding manufacturing and services is supported by trade barriers, then it's something that will limit the global welfare gains that we saw in an era of of globalization.

COULIBALY: Okay. Thank you. I think we are we are at a time. But welcome back to Kevin. So if I can have each benefit to share with us your 30 seconds parting shot. And it could be the one issue that you are most most concerned about that you're watching most closely. Yes. Kevin, maybe we start with you. Welcome back.

URAMA: Okay. Thank you very much. On the productivity issues, I fully agree with Janet here, but in terms of the fragmentation of the global economy, who benefits, who loses? I think it depends on how even the low income and emerging economies respond, because the resources that would drive the global transitions are still in these economies. So if they plan smart, they can actually win big. And I just pray that they do so that we don't repeat the same mistakes that was made in the past. But in terms of the parting shot, for me, the parting shot is actually that my statement on hoping that the.

COULIBALY: We can hear you, Kevin.

URAMA: If to think broadly as low income countries on how to use the resources available to these countries, both human capital and natural capital, to chart a new global economy instead of trying to play in the this old system that has continued to discredit these countries in several ways, that Internet connectivity has not allowed me to expand in this discussion. Thank you.

COULIBALY: Yeah we hope to be able to welcome you again, but perhaps in person for the next event. Janet, Eswar, and then Ayhan, with your closing, parting thoughts.

HENRY: Oh, I'm an economist. I worry about lots of things. I worry about debt not just in the emerging economies, but the advanced economies and how the debt is going to be addressed and what it means for growth and globally. Energy transition is the big risk and without doubt something we need a global response to which the debt constraints trouble me that we're not going to achieve on an optimal basis.

COULIBALY: Eswar.

PRASAD: There is a lot to worry about in the short term. The medium term. They were hopeful that technology and human ingenuity will ultimately lead us to a better place. But we certainly need government policies that take us in the right direction rather than leaving U.S. history.

COULIBALY: Ayhan please.

KOSE: Today's the last day of July. You know, in August, the budget in DC pretty much closes. So I would like to end with a positive note before people leave for vacation. Recent developments in terms of inflation and growth numbers are positive, but let's not carry the weight. There are significant risks down the road, so policy policymakers need to work together globally at the kind of the national level as well. And they need to hope for the best but prepare for the worst for the next 12 months. Back to you.

COULIBALY: Yeah, no, I think I mean, that's a that's that's well said and myself, I'm encouraged that the scenario seems to be really moving away now from the recession and toward perhaps a mixed take on soft landing or not or somewhere in between. But at least it's an improvement from where we are worried about stagflation. And the high risk of recession was high. But let me also point that off so that even if we end up averting a recession, it doesn't mean all is necessarily well and there will still be many lives and livelihoods affected by this low growth environment. And for policies to remain proactive and attentive to those long lasting effects. And I think some of the recommendations in the in the report and as well as from what I've heard on how to navigate this, would prove quite helpful. So with that, really thank you all for having taken at them to join and share that expert point of view, was really fascinating. And Kevin, sorry that the technology didn't allow you to elaborate on all of your points, but we hope to welcome you again to the next edition. But with that, thank you and have the great rest of the day.

URAMA: Thank you. Thank you very much.

PRASAD: Thanks very much. Lovely to see all of you.

KOSE: Thank you. Thank you Eswar. Thank you Janet. Good to see you. Bye now.