

The global economic outlook in 2023

From rising inflation to population dynamics, the coming years will be challenging for the global economy



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[Global economic outlook in 2024: A world fraught with polarization](#)

Economically speaking, 2022 wasn't as bad as expected. Despite the war in Ukraine, global growth was at 3.4%. Even so, 2023 looks like it will be rockier, with projected growth of 2.9%, and more than anything, uncertainty.

To avoid the many pitfalls, governments must keep their eyes on the prize — long-term reforms that build competitive advantage and reduce economic fallout.

IESE Professor Nuria Mas delivered these remarks during a special session in London that took a wide-ranging look at the global outlook for 2023. She touched on the resilience of Europe, techniques to beat uncertainty, and the twin challenges of demographic shifts and climate change.

Who is headed for recession?

The IMF is pessimistic that the U.K. can avoid recession, and Mas broadly shares that view. She pointed to high inflation, pressures on the labor market that lead to salaries increasing much more quickly than in the rest of Europe, along with the rising costs of mortgages, which leave families with less ability to consume beyond the basics. There are risks of second-wave effects: high salaries can make inflation persistent, leading to interest rates climbing even higher.

A large part of the U.K.'s woes stem from Brexit, though the timeline makes it hard to know how many were caused by COVID-19 instead. In any case, separation from the European market has left gaps in the labor market. And compared with the EU and the United States, many more Britons are also on long-term sick leave after the pandemic.

Beyond the U.K., the prospects of escaping recession look better. With regard to the EU, Mas is optimistic, although with reservations. The EU has shown resilience and largely maintained connections with the rest of the world. The prices of gas and raw materials are going down, and China is reopening after it ended its zero-COVID policy, meaning EU exports can pick up again.

China, meanwhile, faces two main challenges to its own recovery: the real-estate market, showing signs of being a bubble, and its rapidly aging population. The confluence of these two factors could lead to further social unrest there. "I always say the same thing," Mas explained. "China needs to figure out a way of building enough wealth before the majority of its population gets too old." India, meanwhile, appears to be doing well and shows a lot of potential.

Remain attentive and prepare to pivot

The key word in all of this is *uncertainty*. Regardless of which direction the data trends point

to, there are enough unknown variables at play that things could end up being better or worse than expected.

For Mas, this means that we need to pay close attention to what the data implies as it emerges. Decisions need to be made and paths followed, but if early signs suggest we have made mistakes, we need the agility to change course quickly.

Meanwhile, even the “wins” of the past year are shrouded in unknowns. The EU has reduced its dependence on Russian gas, thanks to accumulating reserves and a mild winter, so energy levels are better than feared. However, the reserves will eventually run out, and it remains to be seen if they can be refilled in good time.

Help for the most precarious

It has been a difficult winter for many people, with inflation largely driven by food and energy prices. As is often the case, poorer populations are the most affected, as paying for basic goods and services accounts for most of their household expenditure, and they are less resilient to external shocks. This is also true of countries. How should governments respond?

Many public policies have been put in place to help ease the burden of rising prices and protect the most vulnerable. Mas believes this to be important, with the caveat that not everyone is equally vulnerable and not all segments of society should be equally protected from paying higher prices.

“Government interventions should be targeted and temporary,” she said, rather than giving general subsidies to everyone. Again, this increased spending is happening in a context where government debt is already running high. And there are other important causes requiring funding.

“We need to help the vulnerable,” Mas affirms. “We also need to subsidize the green transition and the digital transition.” And many countries, particularly in the EU, may need to beef up their defense spending. And then there are stretched pensions: “Something has to give.”

Still, it is these structural reforms that give countries the greatest chance of weathering the long-term problems of globalization, changing demographics and climate change.

Consequences to avoid

There's no substitute for being prepared, and Mas highlighted a few other issues that are likely to affect the global economic outlook going forward.

She pointed to the shrinking of globalization in practices such as "friendshoring," where countries limit their supply-chain contacts to allies and "friends." Apart from the difficulty of defining a "friend" across a range of interests and values, in practice "friendshoring" increases the likelihood of a bipolar or multipolar world, which has costs.

At present, around 40% of global trade is concentrated (meaning importers depend on three or fewer nations for an import). And 75% of that number is trade that is *optionally* concentrated. It's not that other suppliers don't exist; it's that we don't choose to work with them, which reduces our ability to weather supply shocks.

Demographics are also going to change the way we interact. Populations are aging across the developed world, with the exception of the United States. Meanwhile, populations continue to grow in the Global South. Sub-Saharan Africa alone will account for half the world's population growth until 2050. A challenge will be developing these economies enough to support their populations and prevent the mass migration that is already underway and being exacerbated by climate change.

Meanwhile, we are all trying to make the green transition at the same time, along with the digital transition, which means there will be competition for resources and talent.

These structural reforms won't be easy. As everyone knows, things don't take it in turn to go wrong; they overlap and all need attention at the same time. But current efforts to tackle all these economic problems only go part way if they don't take long-term structural changes into account.

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