Global Economic Outlook: Scenario Analysis for 2023 and Tendencies

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Abstract

The purpose of this article was to map the most likely scenario for the year 2023, given the economic prospects in the world, and to project tendencies. To this end, a documental analysis was carried out based on studies made available by organizations and institutes specialized in global economic analysis. The applied method was the exploratory and the technical procedure was the bibliographic and descriptive, using a quali-quantitative technique to analyse and qualify the data. To operationalize the research, the material obtained was manipulated for subsequent tabulation and construction of graphics and tables using the Microsoft Excel application. Among the main elements used to identify the economic impacts, we can quote: (i) the COVID-19 pandemic, (ii) the main tendencies of the economy in the post-pandemic world, (iii) the economic policies adopted by countries in combating to the crisis, and (iv) the behaviour of wage dynamics in this context. The results showed that the economic crisis aggravated by the COVID-19 pandemic caused a global economic recession, severely affecting the cost of living. In the field of tendencies, there was the expectation of low economic growth and restrictive policies that are causing an increase in interest rates. In the labour market, the outlook is for a low supply of workforce with repercussions on wage dynamics, which should remain below the values practiced before the health crisis. The possible solution will depend on the willingness of the countries to promote cooperation to provide priority assistance to the most vulnerable classes and the ability to stabilize prices, avoiding greater pressure on inflation and interest rates, with a direct impact on wages.

Keywords: economic crisis, pandemic, COVID-19, economic policy, tendencies, salary

1. Introduction

This paper provides a conceptual analysis of the economic crisis based on approaches advocated by renowned authors. As can be seen, an economic crisis originates from several aspects, such as: exchange rate, inflation, internal and/or external debt, and other typical phenomena that affect the finances of a country hit by financial difficulties. Regardless of its origin, the consequences of an economic crisis will always result in imbalances and/or recessions that will affect production, trade, the cost of living and, among others, the political, social and economic stability of a nation (IPEA, 2022).

The current economic crisis was strongly influenced by the global health crisis triggered from 2020 by the COVID-19 pandemic. From a medical point of view, the Coronavirus pandemic has caused brutal mortality in the world. By the social bias, the pandemic had a huge impact on the way of life of people who had to adapt to confinement. From a financial point of view, the crisis was even more impactful, producing a worldwide recession, a phenomenon that caused a downfall in the global trade, unemployment, the bankruptcy of companies and the slowdown of the economy and its many sequels that are difficult to repair (DIAS JUNIOR, 2022; BASTOS, 2022).

Thus, in the face of a global phenomenon that has affected (and continues to affect) the entire society, it is of salutary public interest that there be debates on the subject, especially in the academic world, to have the situation better understood so the society can prepare for similar events and better be able to face them. Thereby, this article aims to determine what would be the most likely scenario for the year 2023 in view of the global economic scenario and estimate some tendencies based on these data. The work was developed through the analysis of the main impacts of the economic crisis caused by the COVID-19 pandemic and by examining the main trends of the post-pandemic global economy, seeking to understand what are the economic policies adopted by countries to combat the crisis and what is the behaviour of the wage dynamics.

To respond to these questions, this research was organized into 6 (six) parts. Firstly, there is the work introduction. In the second part, the research problem and its objectives were elaborated. In part three, a theoretical review was carried out addressing the concepts of economic crisis, global economic crisis and the impacts brought by the COVID-19 pandemic, the main tendencies of the post-pandemic world economy, the economic policies adopted by countries to tackle the crisis and, finally, the behaviour of wage dynamics in the post-COVID-19 period. In part four, the methodology applied in this research is presented. In the fifth part there is a discussion of the results followed by the conclusion and, in the sixth part, there is a list of bibliographical references used as the basis of the research.

The results presented that the global economic recession, aggravated by the health crisis caused by the COVID-19 pandemic, caused considerable damage to the world economy and, based on the analysed tendencies, could continue to cause serious problems, mainly due to other aggravating factors, such as the war in Ukraine, the difficulty of Europe and the United States in containing high inflation and the prospect of low growth in China.

2. Research Problem and Objectives

According to the Report on the Perspectives of the World Economy, of the International Monetary Fund - IMF (2022), the world is going through a period of deceleration of the higher-than-expected economic activity. This phenomenon was aggravated by the record high of inflation and due to the cost of living crisis, in addition to the impact caused by the invasion of Ukraine by Russia and the COVID-19 pandemic. According to the IMF, these factors are strongly impacting global economic prospects.

Considering the above, this research aims to answer the most likely scenario for the year 2023 in view of the economic prospects in the world, and to project tendencies. To accomplish this task, it is proposed to analyse, in a generic way: (a) what are the impacts of the economic crisis caused by the COVID-19 pandemic, (b) what are the main tendencies of the economy in the post-pandemic world, (c) what are the policies adopted by the countries in combating the crisis, (d) and what is the behaviour of wage dynamics in this context.

3. Theoretical Review

In this topic, the main concepts on the subject researched are disclosed using consistent theoretical references, such as defended PhD theses, data made available by the International Monetary Fund, by the World Bank through the Directorate of Macroeconomic Studies and Policies (DIMAC), and by the *Instituto de Pesquisa Econômica Aplicada* (Institute of Applied Economic Research) - IPEA (2022). The purpose was to collect information to allow the conclusions of the work and to achieve the research objectives.

3.1 Economic Crisis: Generic Conceptualization

Generally, an economic crisis has as main characteristics the imbalances and recessions originated from the investor's search for wealth in economic and patrimonial terms. Crises can be represented by exchange rate shocks, inflation, the bursting of the asset bubble, problems in the banking system or arising from internal and external debts, among other variables that are difficult to control. These so-called economic setbacks have a strong potential for transmission from one economy to another and may generate regional, national and even global crises, especially due to the globalized economy. The impact tends to be strongly enhanced if the economic crisis is accompanied by health and environmental problems (REINHART E ROGOFF, 2010; VIDAL, 2011. CHESNAIS, 2015).

For Menezes, Moreira and Souza (2005), there are at least three explanations for the instabilities that cause crises. Firstly, the authors highlight the weak fundamentals of the economies as a cause of exchange rate instability. The weakness of these bases would be in the adoption of a fixed exchange rate regime and inconstancies in economic policies that could lead to the gradual dilapidation of international reserves and, thus, to produce speculation. Secondly, the authors assert that, depending on the nature of the shocks and the initial conditions, the crisis may be preceded by market expectations. Thereby, it would be necessary to identify the possibility of multiple equilibria with self-realization capacity resulting from consistent predictions. The third explanation for the economic crises would be based on the maladjustments of the banking system, a situation that has the capacity to trigger exchange rate crises or vice versa. In the latter case, the authors consider that financial weaknesses facilitate the evolution of vulnerability and the loss of credibility in the systems by economic agents, causing attacks on the country's currency.

Gadelha (2011) notes that there are relationships between macroeconomic variables that affect the economy, triggering crises in the system and resulting in disequilibrium and deficits that negatively impact the economy. The author states that recent research has demonstrated the existence of a relationship between economic growth and fiscal policy under at least two variables, namely: (i) public spending, and (ii) national income. The results of these surveys demonstrated that, theoretically, public expenditures are internal variables driven by behaviour. In this case, the growth of the economy would lead to an increase in government activities. From the traditional point of view, the author asserts that, in the short term, fiscal policy operates positively on the level of economic activity, acting as a multiplier of expenses. Thus, the public spending would be considered as an instrument of external economic policy action, which would cause changes in the aggregated level of the real Gross Domestic Product (GDP) in the short term, which would be useful for correcting the cyclical fluctuations of the economy.

3.2 The Global Economic Crisis and the Impacts Brought by the COVID-19 Pandemic

In addition to the reasons presented in the previous subtopic, economic crises are usually hard hit when accompanied by health problems. Therefore, economic crises associated with crises in the health area generate strong impacts on economic sectors, especially those directly related to services. Furthermore, this type of crisis affects the lives of the population and the consumption. The consequences are several, among which we can highlight the imbalance of supply and demand in industry and commerce, which, in turn, generates a loss of value in the stocks market and causes an overthrow profitability, causing companies to become indebted. In this way, the global emergency that occurred from the COVID-19 pandemic seriously impacted the financial situation of nations, involving global trade and industry and causing economic impacts in all sectors of society. It should be noted that some of these factors were positive, as was the case with the growth observed in the technology sector (DIAS JUNIOR, 2022; BASTOS, 2022).

According to Cardoso (2020), before the COVID-19 pandemic, there were already signs that a global economic crisis was taking shape. With the advent of the pandemic in early 2020, the crisis in the global economy underwent a major boost and came to be considered as one of the most relevant in history, notably due to the impressive speed with which the world economy degraded. For instance, official data show that the planet's macroeconomic and social indicators worsened in three weeks, which took three years to happen in the period of the Great Depression (economic recession that hit international capitalism at the end of the decade from 1920) that occurred from 1929 onwards.

According to the IMF (2022), the global economic crisis, aggravated by the Coronavirus pandemic (health crisis), has caused a sharp global economic recession. In 2020, the fall in the Global Gross Domestic Product was -3.1%, with the countries of Latin America and the Caribbean, whose recorded aggregate GDP downfall was -6.1%, were the most impacted. As a result, the economic crisis strengthened by the COVID-19 pandemic is being considered the most serious global economic recession since the crash of the New York Stock Exchange in 1929 and the Second World War. The disastrous effects were felt across the globe, with a negative emphasis on the overthrow in the volume of international trade; the retraction in demand that caused a drastic decay in commodity prices, and the growth of poverty and hunger in the world (IMF, 2022).

3.3 Main Tendencies of the Post-pandemic World Economy

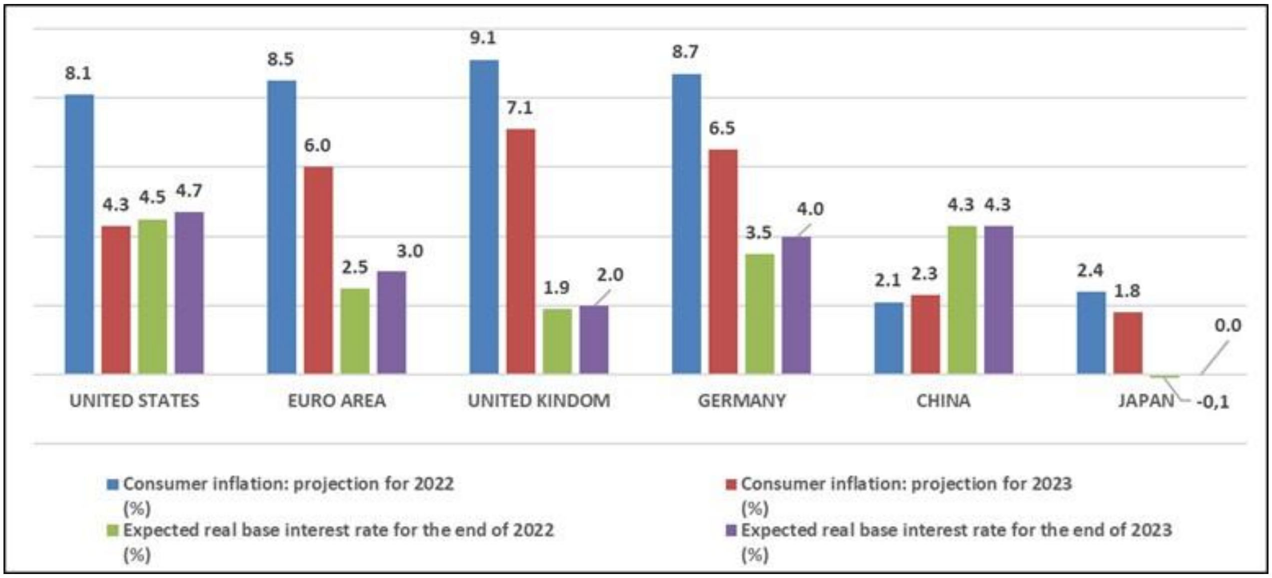
In 2021, surprisingly, the world GDP reached 6% against the -3.1% at the height of the health crisis. Some economists consider that the reopening of the economy contributed to sustaining the global economic recovery, despite the existence of reflections from the recent financial and health crisis. The World Bank analysts commented that the results were not better only due to the crisis was aggravated by shortages caused by the fall in the production of several products, which interfered to meet the intense demand that arose from the reopening of economies, resulting in a mismatch that caused a high inflation and lack of products. As a result, there was a reduction in the purchasing power of the population, which caused obstacles to the recovery of the economy. In addition, that year, the energy crisis in Latin America, China and Europe was highlighted, with oil representing the greatest source of concern for governments. Furthermore, the real estate sector in China suffered a serious setback with the financial difficulties of the company *Evergrande*, the largest in the field in the Asian country. Even so, the world showed impressive strength in the recovery of the economy, although it is still too early for a more consistent assessment (BANCO MUNDIAL, 2022; IPEA/DIMAC, 2021).

The following Table presents the comparison between the real GDP (2019 to 2021) and projected GDP (2022/2024) in order to compare the evolution of the world economy.

Table 1. Real GDP 2019/2021 and Projected 2022/2024 (%)

Description	2019	2020	2021	2022p	2023p	2024p
World	2,8	-3,1	6,0	4,1	1,7	2,7

Source: World Bank (2022). Data compiled by IPEA/DIMAC Nov-Dec/2022, with adaptations.



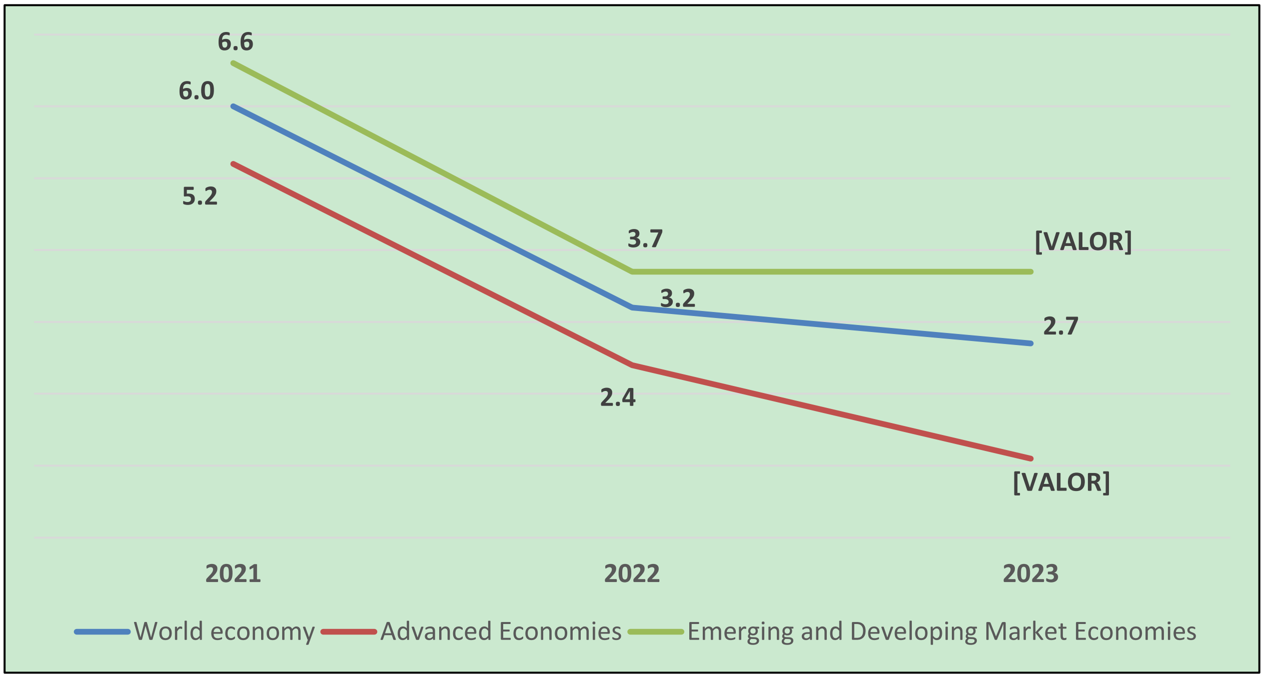
Graphic 1. Expected inflation rates and interest rates for 2022/2023 in the main economies of the world

Source: World Bank (2022). Data compiled by IPEA/DIMAC Nov-Dec/2022, with adaptations.

After the drastic impact on the world economy caused by the health crisis in 2020 and a brief recovery in 2021, a worsening of the world economic scenario is observed from 2022. According to the World Bank (2022), IMF (2022) and data from IPEA/DIMAC (2022), the situation stems from the persistent increase in inflation. Moreover, the reduction of the COVID-19 pandemic provoked the beginning of more restrictive monetary cycles, such as, for instance, the inhibition or even the retreat of expansionary fiscal policies due to the need to fight inflation. Furthermore, external factors such as the continuation of the war in Ukraine and the real estate crisis in China, in addition to the interruption of activities in the Asian giant due to the resurgence of the coronavirus in that country, contributed to the worsening of the global economic scenario. As a result, both the World Bank and the IMF reduced the world economic growth projections for the period 2022/2024 (Table 1).

According to the IPEA/DIMAC (2022) data, the scenario for 2023 is one of worsening GDP growth forecast, due to the increase in expected real interest rates notwithstanding the rising inflation rates in the main economies of the world, as shown in Graphic 1, which demonstrates the evolution of inflation rates and the expected basic interest rate.

What is found from the data in Graphic 1, combining the information in Table 1, is an uncertainty scenario. After the sharp downfall in the world economy caused by the COVID-19 pandemic in 2020 and the surprising recovery in 2021, a comprehensive and intense slowdown in the world economy can be seen from 2022, with an even greater retraction in 2023 and a slight recovery in 2024. Thus, it appears that the deterioration in the GDP growth in 2023 (Table 1) is compatible with the expected rise in interest rates caused by high expected inflation rates (Graphic 1). In the same direction, when verifying the projections of the growth rate in the world economy separating the advanced economies and the economies of emerging and developing markets, there is confirmation of the worsening trends in the economic scenario already shown in Table 1 and Graphic 1. This is what can be seen from the data collated in Graphic 2 hereafter (IMF, 2022).



Graphic 2. Growth rate projections in the world economy, advanced and emerging/developing markets (%)

Source: World Bank (2022). Data compiled by IPEA/DIMAC Nov-Dec/2022, with adaptations.

In the projections shown in Graphic 2 above, it can be seen that, in all scenarios (world economy, advanced and emerging/developing markets), there is a downward tendency in economic development. It should be noted that, in the case of the world economy, the projection is for a decay from 6.0% to 2.7% considering the period from 2021 to 2023. In advanced economies, the representative overthrow is from 5.2% to 1.1%. In the case of emerging and developing market economies, the descent was from 6.6% to 3.7% from 2021 to 2022, maintaining the level of 3.7% for 2023, that is, in the latter case it demonstrates stagnation.

According to the International Monetary Fund (2022) the deceleration in economic activity above expectations, as well as the highest inflation in recent decades, caused a financial squeeze in several regions. Such an occurrence has the potential to generate a considerable crisis in the cost of living. Given this scenario, it is necessary for governments to adopt efficient measures capable of overcoming the installed crisis and promoting the resumption of sustainable economic growth

3.4 Economic Policies Adopted by Countries for Tackling the Crisis

As seen, the global economic crisis that affects countries requires governments to adopt efficient practices. In the field of monetary policy, governments are expected to take actions capable of containing inflation and restoring price stability. As for fiscal policy, it is desirable that governments adopt measures aimed at promoting relief in pressures on the cost of living, which can be done through restrictive policies. Thus, in order to tackle the crisis efficiently, economic policies are being concentrated on combating inflation, austerity in fiscal policies, effectiveness in monetary policies and protection of the most vulnerable social strata.

In this sense, the researchers Gaspar, Lam and Piazza (2022), based on a study led by the IMF between January and June 2022 that covered 174 countries and involved nations with advanced economies and developing market economies, point out that nations have adopted a series of measures to mitigate the impact of prices on people, aiming to combat the unbridled rise in food and energy prices. The main ones are: (1) taxation on consumption; (2) semi-availability (policy for granting vouchers or discounts); (3) price subsidies; (4) update of individual and corporate income tax tables; (5) price freeze; (6) taxation of customs duties; (7) in-kind transfers; (8) wage bill (sum of wages paid to workers during the year); and (9) export restrictions.

The expectation is that the measures mentioned above will contribute to combating the rise in food and energy prices, allowing the prioritization of assistance through social safety nets to people belonging to the most vulnerable groups, with governments having to take care not to increase the aggregate demand, which would force central banks to raise interest rates, resulting in greater spending on public debt service. In any case, the authors assert that, by adopting a more restrictive fiscal policy, governments will be taking the right measures to combat the insistent rise in inflation (GASPAR, LAM E PIAZZA, 2022).

As for fiscal policy, Fournier et al (2022) note that governments were forced to increase spending due to the COVID-19 pandemic and, later, the war in Ukraine. This, according to the authors, led to an increase in public debt levels and consequent budget restrictions, producing cost increases and a record public debt. Furthermore, the need to adopt extraordinary fiscal measures to tackle the pandemic created an environment of uncertainty regarding the effectiveness of these measures. To answer to the question, the way out would be the expansion of cooperation on a world scale.

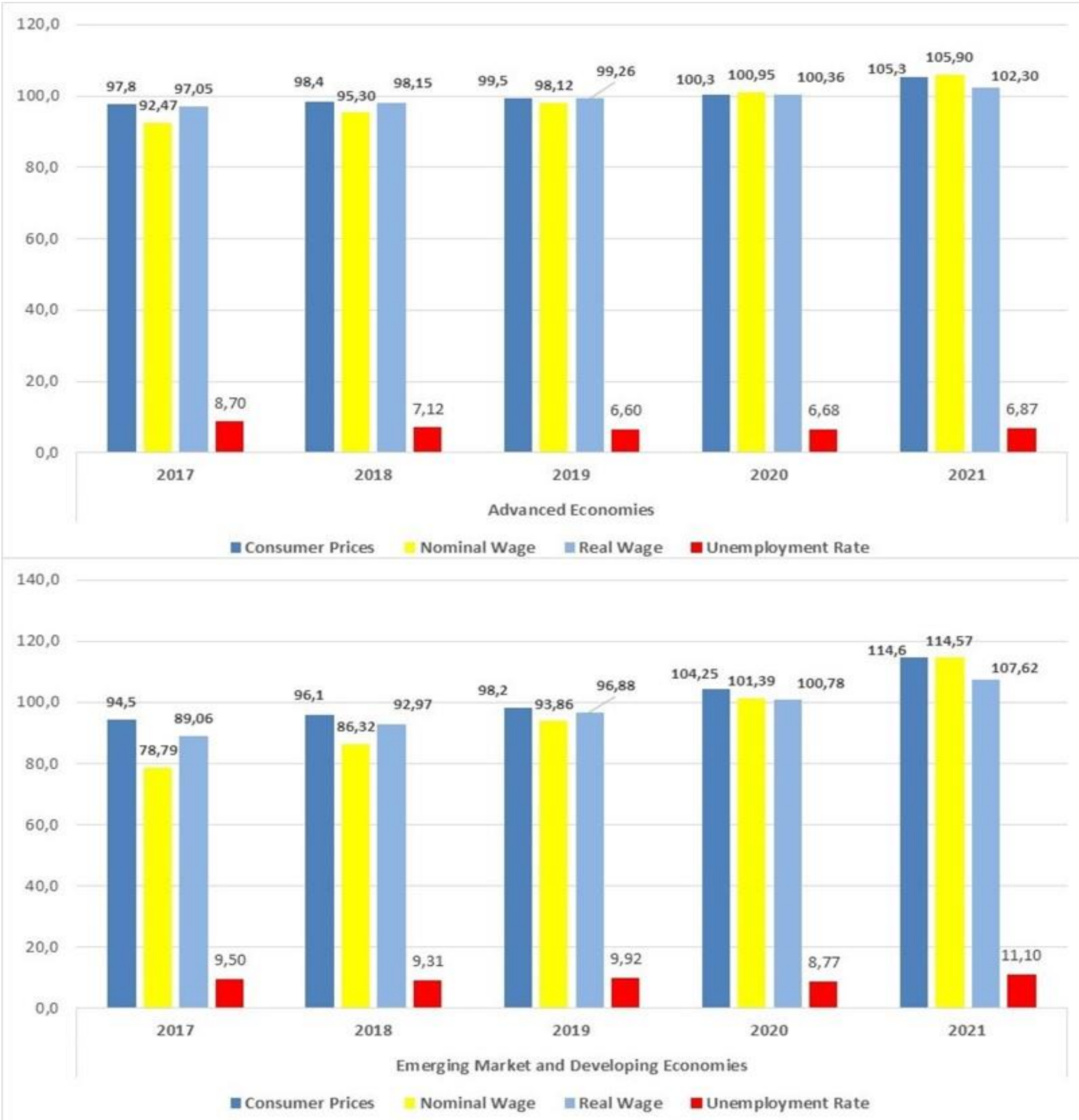
Thereby, the appropriate fiscal policy for the countries most directly or indirectly affected by the war in Ukraine would be the one geared towards responding to the humanitarian crisis and the economic disruption caused by the conflict, where fiscal support could be directed to priority areas in order to protect the most vulnerable population. In nations where economic growth is stronger, fiscal measures to combat high inflation must persevere in the transition process in search of economic balance. In relation to the most fragile economies and those in emerging markets, countries must establish priorities for expenditures and adopt measures to increase revenues, with a view to avoiding risks of over-indebtedness and reducing the vulnerabilities typical of low-income economies. Finally, the authors highlight the indispensability of broader global and collective cooperation, with the objective of combating the most urgent problems represented by the food and energy crisis, as well as the risk of new pandemics and rising debt, in addition to the need to improve development to address climate change that causes structural and humanitarian tragedies (FOURNIER ET AL, 2022).

With regard to monetary policy, the consensus in the academy is that the authorities focus their efforts on restoring price stability and attenuating pressures on the cost of living. In this scenario, central banks are adopting a more restrictive monetary policy, reducing the supply of money in the economy, which inevitably causes an increase in interest rates. For instance: the American Central Bank raised the interest rate by 3 (three) percentage points since the beginning of 2022 and warned the market of the imminence of new increases. In the wake of this posture, the Bank of England raised the basic interest rate by 2 (two) percentage points, while the European Central Bank adjusted its basic interest rate by 1.25 (one point twenty-five) percentage points upwards in the same period. Even so, there are considerable risks that these measures will cause a reduction in production and employment levels and will not be enough to reduce inflation. Moreover, divergence in the monetary policy stance of major economies could cause an overvaluation of the US dollar, which could lead emerging markets to over-indebtedness. It should be noted, nonetheless, that the improvement in economic prospects depends on the capacity for cooperation between governments and on a successful adjustment of monetary and fiscal policies, which can be done internally by countries. However, there are external variables, such as the conflict in Ukraine and the prospect of low growth in the Chinese economy, which may affect this process (IMF, 2022).

3.5 Behaviour of Wage Dynamics in the Post-COVID-19 Period

Bluedorn et al (2022) when analysing the behaviour of the wage dynamics in the post-COVID-19 period, mention that, after the sharp shock to the economy resulting from the health crisis in 2020 and the economic recovery from 2021, inflation gained strength and reached levels that have not been seen for nearly 40 years in certain countries. According to the authors, several factors contributed to the rise in prices, among them, besides to the pandemic, supply chain disruptions, commodity price shocks, expansive monetary policy and fiscal support.

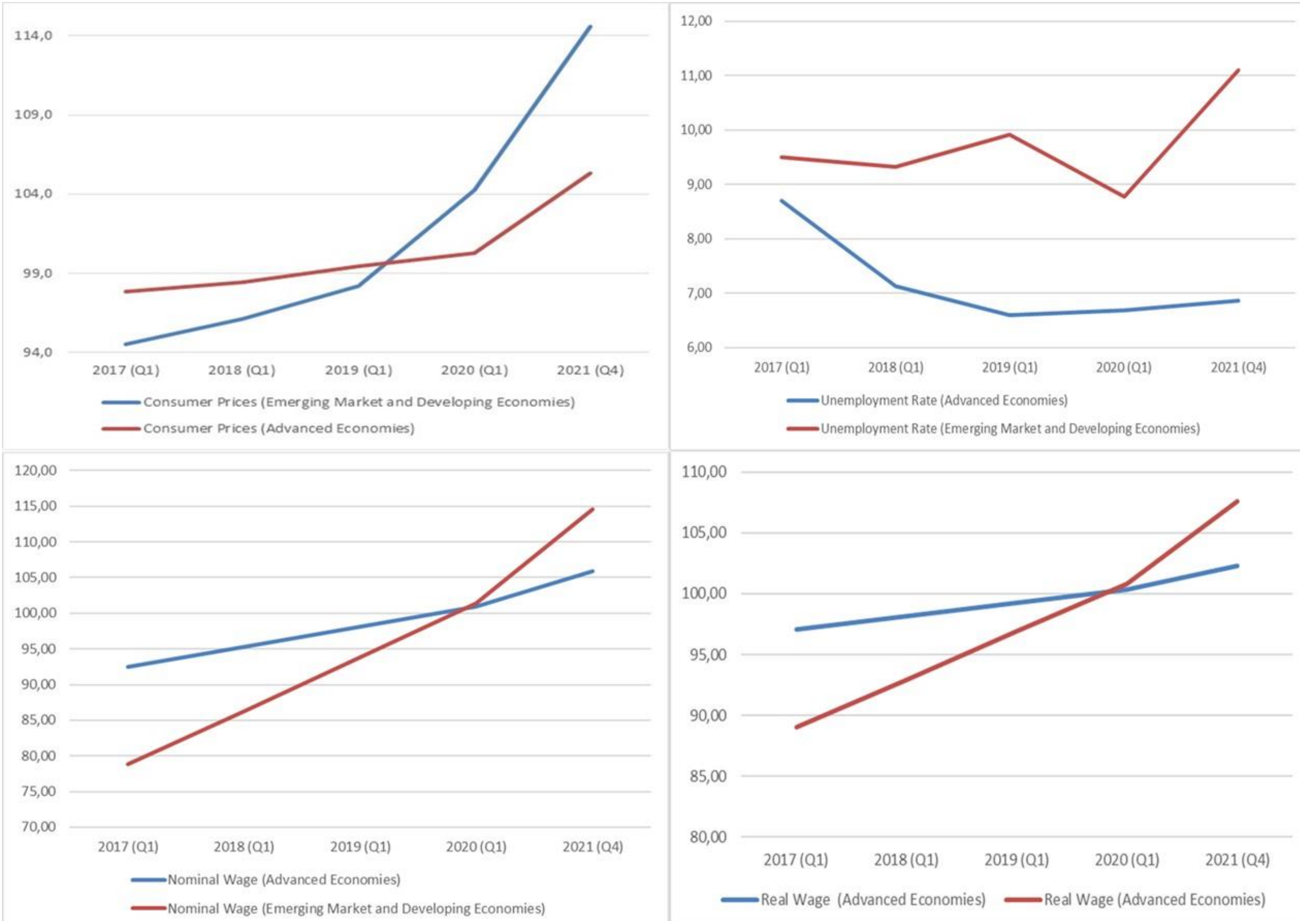
In this scenario, wage dynamics were impacted by the economic recovery that took place in 2021, by the increase in repressed consumer demand and by the change in their preferences for goods and services. This phenomenon made the demand for workforce reappear in several sectors, however, the supply of workers did not keep pace with the demand. It was observed that the delay in the labour response occurred because part of the workers developed health problems and had difficulties finding support for their families, thus, the search for work did not correspond to the offer that arose as a result of the economic recovery. This mismatch between labour demand and supply led to less flexible markets with greater wage pressure, where nominal salaries (per worker) suffered an average increase, with a fall in the unemployment rate in advanced economies and emerging/developing markets from the second half of 2020, as can be seen in Graphic 3, below (BLUEDORN ET AL, 2022).



Graphic 3. Wage Dynamics (nominal and real), consumer price and unemployment rate in Advanced, Emerging and Developing Economies (Note 1)

Source: World Bank (2022). Index, 2017/2020:Q1; 2021:Q4 = 100, unless otherwise stated. The "Q" indicators represent the interquartile range across economies. Data compiled by IPEA/DIMAC Nov-Dec/2022, with adaptations.

It is assumed from the analysis of Graphic 3 that there has been a significant growth in the consumer price index from 2020 onwards in emerging/developing markets. It is also noted that emerging/developing markets have suffered, since 2017, a much higher unemployment rate than those demonstrated in advanced economies. On the other hand, with regard to wage dynamics, greater growth is observed in emerging/developing markets, both in real and nominal salaries. Such highlights can be seen in Graphic 4 hereafter.



Graphic 4. Tendencies in Wage Dynamics

Source: World Bank (2022). Data compiled by IPEA/DIMAC Nov-Dec/2022, with adaptations.

It should be noted that price inflation in 2021 was not accompanied by the salary growth. That is, the performance of real wages (nominal salaries deflated by consumer prices) was below the consumer prices.

Bluedorn et al (2022) indicate that, at the sectoral level, nominal wages have converged to pre-pandemic trends in both advanced, emerging and developing economies. However, the authors highlight that, in advanced economies, the increase in inflation that occurred in the second half of 2021 deteriorated wages that, at that moment, were converging towards a pre-pandemic trend. In emerging markets and developing economies, nonetheless, salaries remained below the pre-pandemic tendency. Thus, it was observed that sectoral changes in employment did not contribute to wage changes and to the average economy.

3.6 Critical Review of the Literature Covered in This Work

The literature covered in this task is wide and engages the global economy with a focus on the main economies of the world and on emerging economies. Although the studies point to the transition between the health problems brought about by the pandemic crisis caused by Covid-19 and the deepening of the economic crisis, it is not possible to see more details about the real impacts on the quality of life of the population due to their impoverishment. It is also verified that the studies are limited to analysing the consequences of the economic crisis on the countries, but do not point out possible solutions, notwithstanding they bring consistent information about the measures that the countries are adopting for the resumption of the economic activity across the globe.

It should also be considered that the researched literature does not transcend to innovative solutions, sticking to traditional measures as the only solution to economic crises (high interest rates, restrictive economic policy, among others). However, the studies indicate useful information for society regarding the understanding of the phenomenon that affects the entire world population, despite still presenting excessively technical language, which does not contribute to the breadth of understanding of the less educated population.

4. Methodology Applied in This Research

The major method used in this research was the document analysis, considering that documents and studies made available by organizations and institutes specialized in global economic analysis, such as the World Bank, the International Monetary Fund (IMF) and the *Instituto de Pesquisa Econômica Aplicada* (Institute of Applied Economic Research) - IPEA. To support the analysis, concepts defended by renowned authors were also used, as indicated in the article (GIL, 2022).

Regarding the objectives, the exploratory method was applied, since familiarization with the problem was sought in order to explain it. The technical procedures were essentially bibliographical, considering that previously published works were used (LAKATOS E MARCONI, 2021).

The research is also descriptive, given that it seeks to analyse, verify and to describe a certain phenomenon in an investigated reality (GIL, 2022).

In order to analyse the data, the quali-quantitative technique was adopted, considering that measurements were used and an attempt was made to present quantifiable results using numerical data. In the qualitative part, the data were processed and the quality of the information was evaluated in order to understand the phenomenon (GIL, 2022; LAKATOS E MARCONI, 2021).

To operationalize the research, the material obtained from specialized entities was manipulated, and then graphics and tables were constructed using the Microsoft Excel application for the data tabulation, which allowed obtaining a quantitative and detailed view of the information that served as the basis for the qualitative data analysis and support for the conclusion of the study.

5. Results and Discussions

After analysing the reports and studies made available by the institutes specialized in global economy, it was possible to perceive that the world economy is in a period of deceleration of the activity greater than imagined. The phenomenon is aggravated mainly by three causes: (i) high inflation motivated by the cost of living crisis; (ii) the war in Ukraine; and (iii) resurgence of the COVID-19 pandemic that occurred in China in the second half of 2022.

It was found that the global economic crisis was considerably impacted due to the association with the health crisis, caused by the pandemic from the first period of 2020, which affected the lives of the population and the consumption. Among others, the most felt consequences were the imbalance of supply and demand in the market, the loss of value in the stocks market, the falling profitability and the indebtedness of companies. This provoked a serious financial crisis in the countries and affected all social sectors. It was noted that even before the pandemic there were already indications that a global economic crisis was knocking on society's doors. The advent of the pandemic accelerated the onset of this crisis and, as a catalyst, streamlined the process with astonishing speed never before recorded on the world stage.

It was also noted that the worsening of the financial crisis caused a sharp economic recession, dropping the global Gross Domestic Product (GDP) to -1.3%, with countries with an emerging or developing economy suffering a falling GDP of -6.1%. The recession is being compared to the economic crisis that occurred in the 1920s (New York Stocks Exchange Crash) and during the Second World War. Its most striking effects are concentrated in the decay of the volume of world trade, in the reduction in demand that caused a sharp downfall on commodity prices and in the increase of poverty and hunger on the planet.

Regarding the tendencies, it was possible to perceive an oscillation in global economic results, including the reopening of the economy in 2021, which resulted in the surprising result of GDP in that year (6% against -3.1% in 2020), but which proved to be unsustainable due to other factors that impacted the results, such as the reduction in purchasing power, the energy crisis in Latin America, Europe and Asia and the problems tackled in the Chinese real estate market. On the other hand, IPEA/DIMAC studies show a worsening tendency in the expectation of world GDP growth, in view of the increase in the real interest rate due to high inflation (Graphic 1). Thereby, the World Bank projected that the world GDP will fall from 6% in 2021 to 4.1% in 2022, reaching 1.7% in 2023 and 2.7% in 2024 (Table 1). In a more elaborate analysis, IPEA/DIMAC (2022) projected a similar scenario, from 6% in 2021 to 3.7% in 2022 and 2.7% in 2024 (Graphic 2). In short: the tendency in the world's economy is for a decline in economic development due to the slowdown in economic activity, due to high inflation and the general financial tightening, which will impact the cost of living.

Against the presentation of this difficult scenario and the worsening trends demonstrated by the specialized bodies, this work sought to research and understand how governments have been acting to face the situation and how the public power has been preparing to combat the possible deterioration of the crisis designed by the IMF and World Bank. In this way, the focus was on the economic policies adopted by governments and, on the other hand, it analysed the behaviour of wage dynamics in the post-COVID-19 period. Regarding economic policies, it was possible to verify the measures adopted in the monetary and fiscal areas.

In general, it was found that countries have been opting for measures aimed at reducing prices on the population, especially with regard to food and energy, namely: taxing consumption, providing a voucher concession policy or discounts (semi-availability), granting price subsidies, updating personal and corporate income tax tables, freezing prices, imposing customs duties, making in-kind transfers, wage bills and restricting exports. Thus, the option to adopt more restrictive fiscal policies has as its real basis the effective fight against rising prices, which can prove to be effective in fighting inflation in the medium term.

Specifically, on fiscal policy, it was seen that, in the first moment of the pandemic, countries were forced to increase spending, which raised public debt levels, caused budget restrictions and a record public debt. Now it would be necessary to adopt measures to mitigate the problems caused by increased spending. The way out may be large-scale global cooperation. Therefore, it was possible to verify that governments should direct their fiscal policies to respond to the humanitarian crisis caused by the war in Ukraine, notably to combat the economic disturbances caused by the conflict, directing support to the portion of the population most affected by this battle. In addition, in relation to the more developed economies, the measures should focus on the search for economic stability, while in countries with more fragile economies and emerging markets, the focus should be on prioritizing expenditures combined with the growth of collections to avoid greater indebtedness and to ensure protection against specific vulnerabilities.

With regard to monetary policy, it was found that governments should prioritize policies aimed at stabilizing prices in order to reduce impacts on the cost of living. What has been observed is that Central Banks are reducing the money supply, prioritizing more restrictive policies. It turns out that these measures tend to increase the interest rate. The intention is that, with less money circulating, there will be less demand for products and services and, consequently, there will be a reduction in inflation. The effects may not be as effective, mainly due to the risk of overvaluation of the US dollar due to divergences in the stance of monetary policy in the major economies, the war in Ukraine and the low growth of the economy in China.

In relation to the dynamics of wages, there was a considerable impact produced by the recovery of the economy in 2021, by the substantial increase in demand and the change in consumer preferences. The reheating of the economy led to an increase in demand for workers in various sectors, nonetheless, supply did not match the speed of demand, causing a mismatch between demand and supply of workforce, leading the dynamics towards less flexible markets with greater salary pressure reflected in the average increase in workers' nominal wages. In emerging and developing markets, greater growth in salaries (nominal and real) was observed, nevertheless, the unemployment rate in these countries remains more pronounced than in countries with advanced economies. However, rising inflation has deteriorated salaries for workers in advanced economies, and even as nominal and real wages have risen in emerging and developing economies, remuneration for workers remain below pre-pandemic levels. Consequently, it was concluded that sectoral changes in employment did not affect the salaries.

6. Conclusion

The objective of this work was to research the most likely scenario for the year 2023 in view of the economic prospects in the world and to signalize tendencies. To answer to this question, 4 (four) essential aspects were analysed, namely: (i) the impacts of the economic crisis caused by the COVID-19 pandemic; (ii) economic tendencies in the post-pandemic world; (iv) the economic policies adopted by countries to combat the crisis; and (iv) the behaviour of wage dynamics considering the risks of a wage-price spiral.

The intense global economic recession caused by the COVID-19 pandemic, which caused a fall in the volume of international trade, a retraction in demand and the growth of poverty and hunger in the world, has been reflected in the downward trends in the Gross Domestic Product of countries from 2022 with a slight recovery from 2024. The expectation is for the continuity of the rise in the inflation rate and interest rates, the latter as a result of restrictive economic policies adopted by the countries to contain the high inflation, a measure that may become ineffective due to the war in Ukraine, the divergences among major economies on optimal economic policy and the risk of low growth in the Chinese economy. Furthermore, the economic recovery in 2021 caused a mismatch between demand and supply of labour, reflected in the average increase in nominal and real wages in all economies, but salaries were eroded by inflation, causing wages to continue below the values practiced before the pandemic.

Thus, it is concluded that the economic recession provoked by the financial crisis caused by the COVID-19 pandemic should continue to affect the cost of living in 2023, with low economic development and a strong tendency towards high inflation. In addition, countries should maintain restrictive economic policies that cause interest rate hikes. In the labour market, the outlook is for a low supply of workforce with repercussions on wage dynamics, which should remain below the values practiced before the pandemic crisis. As seen, the possible solution to tackle this situation may lie in the cooperation capacity between the countries, in the prioritization of assistance and help to the classes most affected, and in the effort to stabilize prices in an attempt to reduce the pressure on the salary. Therefore, it appears that the resumption of a more sustainable economic development is still far away.

For further research, it is suggested to deepen studies on the prospects of the world economy and the consequences of the economic slowdown in countries, in order to broaden the debate on the various aspects that permeate the phenomenon and affect the cost of living, affecting the world population. The idea would be to seek solutions and good practices adopted by countries that have obtained better results in combating the crisis and resuming economic growth and allowing benchmarking with other nations.

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Note

Note 1. Price inflation is defined by relating it to the consumer price index (unless otherwise recommended). In order to obtain a greater sample coverage, wages (nominal and real) are calculated per worker. For more details, see online annex 2.1 available at https://www.imf.org/pt/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022#Projections (IPEA/DIMAC Nov-Dec/2022).