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Premium

# ExplainSpeaking | Why 2020-2030 has the makings of a lost decade for the global economy

A new World Bank report states that global average potential GDP growth rate—the theoretical growth rate an economy can sustain over the medium term without risking excess inflation—is expected to fall to a three-decade low of 2.2% a year between now and 2030.

Written by [Udit Misra](#) [Follow](#)

New Delhi | Updated: March 30, 2023 07:00 IST



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According to the World Bank, if all countries make a strong push, potential global GDP growth can be boosted by 0.7 percentage point. (AP/File)

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*Dear Readers,*

From the perspective of the global economy, the year 2023 started off on a mildly optimistic note. As top policymakers and CEOs met in Davos, there was a sense that the global economy might be able to dodge the **chances of a recession in 2023**. The

...ratcheted up the apprehensions of a recession.

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In this context, a new research publication by the World Bank, titled “Falling Long-Term Growth Prospects”, argues that the current decade (2020-2030) “could be a lost decade in the making—not just for some countries or regions as has occurred in the past—but for the whole world.”

Simply put, the World Bank has found that the overlapping crises of the past few years — Covid-19 pandemic, Russia’s invasion of Ukraine and the resultant spike in inflation as well as monetary tightening — have ended a span of nearly three decades of sustained economic growth.

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“Starting in 1990, productivity surged, incomes rose, and inflation fell. Within a generation, about one out of four developing economies leaped to high-income



He further warns that **without a big and broad policy push to rejuvenate it, the global average potential GDP growth rate—the theoretical growth rate an economy can sustain over the medium term based on investment and productivity rates without risking excess inflation—is expected to fall to a three-decade low of 2.2% a year between now and 2030, down from 2.6% in 2011-21 and 3.5% during the first decade of this century.**

The important thing to understand here is that while the report talks about global growth slowdown, the main hurt will be felt by emerging economies such as India. **“A persistent and broad-based decline in long-term growth prospects imperils the ability of emerging market and developing economies (EMDEs) to combat poverty, tackle climate change, and meet other key development objectives,”** states the World Bank.

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The World Bank report recounts a 2015 research request by Kausnik Basu, the World Bank Group's Chief Economist at the time, to assess the long-term growth prospects of emerging market and developing economies (EMDEs).

While the World Bank came up with a preliminary study (titled "Slowdown in Emerging Markets: Rough Patch or Prolonged Weakness?"), the latest publication provides "a definitive answer" to the question. And the answer is: These economies are in the midst of a prolonged period of weakness.

Look at the data for actual GDP growth and per capita GDP growth in the two tables (A.1 and A.3) below. **It shows a broad-based decline over the past two decades whether a country belongs to EMDEs or the middle-income countries (MICs) or the low-income countries (LICs).**

**TABLE A.1 Actual GDP growth (percent)**

Country group	Period	Growth	Country group	Period	Growth	Country group	Period	Growth
EMDEs	2000-10	6.0	EMDEs	2000-09	5.9	EMDEs	2000-08	6.3
	2011-21	4.4		2010-19	5.1		2011-19	4.9
	2022-24	3.6		2022-24	3.6		2022-24	3.6
MICs	2000-10	6.3	MICs	2000-09	6.1	MICs	2000-08	6.5
	2011-21	4.6		2010-19	5.3		2011-19	5.0
	2022-24	3.6		2022-24	3.6		2022-24	3.6
LICs	2000-10	6.0	LICs	2000-09	5.9	LICs	2000-08	6.0
	2011-21	4.8		2010-19	5.4		2011-19	5.2
	2022-24	4.9		2022-24	4.9		2022-24	4.9

Source: World Bank.



Table A.1: Actual GDP growth of countries categorised by income (2000-2024)



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Country group	Period	Growth	Country group	Period	Growth	Country group	Period	Growth
<b>EMDEs</b>	2000-10	4.6	<b>EMDEs</b>	2000-09	4.4	<b>EMDEs</b>	2000-08	4.8
	2011-21	3.2		2010-19	3.5		2011-19	3.5
	2022-24	2.7		2022-24	2.7		2022-24	2.7
<b>MICs</b>	2000-10	4.9	<b>MICs</b>	2000-09	4.7	<b>MICs</b>	2000-08	5.1
	2011-21	3.5		2010-19	4.1		2011-19	3.8
	2022-24	2.8		2022-24	2.8		2022-24	2.8
<b>LICs</b>	2000-10	2.9	<b>LICs</b>	2000-09	2.8	<b>LICs</b>	2000-08	2.9
	2011-21	1.7		2010-19	2.3		2011-19	2.1
	2022-24	2.1		2022-24	2.1		2022-24	2.1

Source: World Bank.



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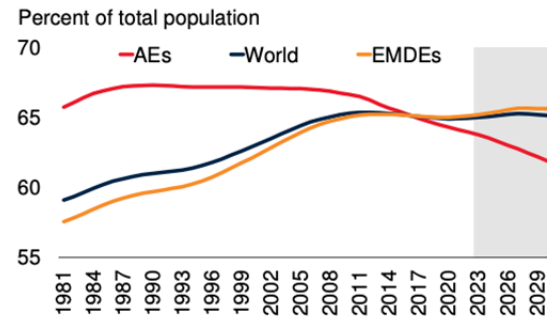
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Table A.2: Per capita GDP growth of countries categorised by income (2000-2024)

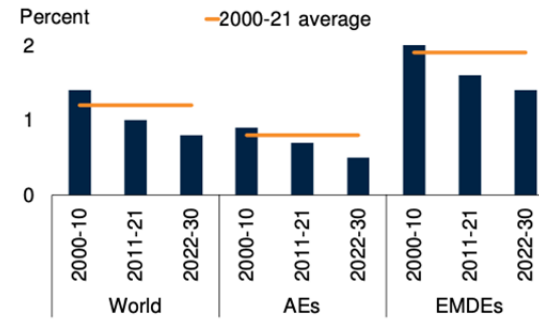
The World Bank has looked at a whole set of fundamental drivers that determine economic growth and found that all of them have been losing power. The six charts below capture the weakness.

All the fundamental drivers of output growth slowed in the past decade. Improvements in human capital, the growth of the labor force, investment (including because of policy uncertainty) and total factor productivity (including through factor reallocation) all decelerated. These drivers of growth are expected to slow further in the remainder of the current decade.

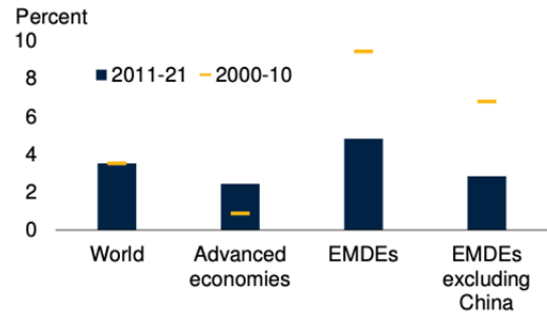
**A. Working-age population**



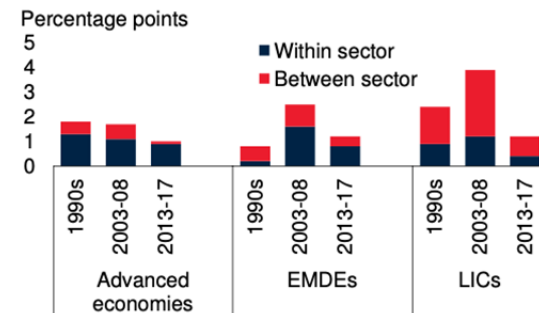
**B. TFP growth**



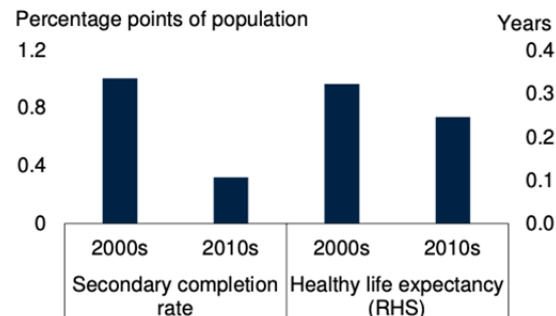
**C. Investment growth**



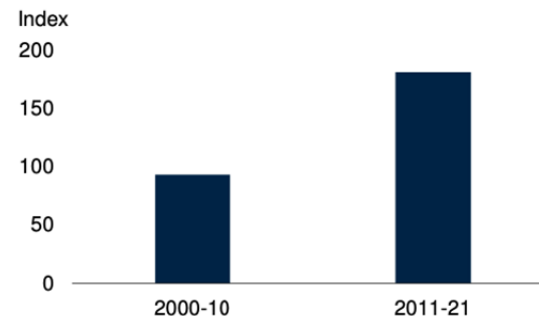
**D. Contributions to labor productivity growth**



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**F. Global policy uncertainty**



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These fundamental drivers include things like capital accumulation (through investment growth), labour force growth, and the growth of total factor productivity (which is the part of economic growth that results from more efficient use of inputs and which is often the result of technological changes) etc.

Not surprisingly then, the potential growth rate is expected to decelerate further (see Table A.3).

**TABLE A.3 Potential GDP growth (percent)**

Country group	Period	Growth	Country group	Period	Growth	Country group	Period	Growth
World	2000-10	3.5	Advanced economies	2000-10	2.2	EMDEs	2000-10	6.0
	2011-21	2.6		2011-21	1.4		2011-21	5.0
	2022-30	2.2		2022-24	1.2		2022-24	4.0

Source: World Bank.



Table A.3: Potential GDP growth for advanced and emerging market and developing economies

### What about India?

Even though India has also lost its growth momentum over the past two decades, it is and will likely remain a global leader when it comes to growth rates. India falls under the South Asia Region (SAR), which is expected to be fastest growing among emerging market and developing economies (EMDEs) for the remainder of this decade. To be sure, India accounts for three-fourths of the SAR output. SAR includes countries like Afghanistan, Pakistan, Sri Lanka, Nepal and Bangladesh etc.

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recession caused by the COVID-19 pandemic, expanding by 7.0 percent in 2021 after a drop of 4.5 percent in 2020. Output in the region is on track to grow by about 6.0 percent a year between 2022 and 2030, faster than the 2010s annual average of 5.5 percent and only moderately slower than growth in the 2000s,” states World Bank.

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**What can be done to boost potential global growth?**

According to the World Bank, if all countries make a strong push, potential global GDP growth can be boosted by 0.7 percentage point—to an annual average rate of 2.9%; this would be faster than the preceding decade (when the global economy grew by 2.6%) but still slower than the first decade of 2000s (when the growth clocked 3.5% per annum).

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