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Q&A- Significant investments needed to help lower income countries recover from 2022 and brace for 2023: Axel van Trotsenburg, World Bank



The world requires significantly more investments to correct setbacks from last year and to brace for a potentially challenging 2023, Axel van Trotsenburg, Managing Director of Operations at the World Bank, told the Reuters Global Markets Forum in Davos, Switzerland on Monday, January 16.

"We will need to step up investments in a major way, that has to happen in every country by the public sector," said Trotsenburg, warning that low growth forecasts would have "serious consequences" for developing countries.

Lower income countries need not just aid from organisations like the World Bank, but "highly concessional" loans at affordable interest rates and flexibility from investors on debt restructuring, he added.

Following are edited excerpts from the conversation:

Q: What are the biggest risks facing major global economies this year and which countries or areas are hardest hit?

A: Indeed, we are going to face a difficult year. The Global Economic Prospects report came out from the World Bank this year and provided some sobering news. Our projections show the world economy will only increase by 1.7%. That is down from 2.9% last year. But the 1.7% has to be put into context. This is the lowest growth rate in three decades, except the two recessions of 2020 and 2009. That has serious consequences for developing countries. Developing countries have lower growth. That means that for example, the per capita income growth in Africa is only 1%, and the harsh reality is that means increased poverty levels as well as what we have seen last year, that food insecurity is still sky high. So it translates into real difficult situations for people and that is our concern.

Q: What kind of recession are you expecting?

A: We have not forecasted that the U.S. will fall into recession, but basically that it will stay at about 0.5%. The euro area would be essentially flat. But this is still having major impacts on the global economy, because the three big growth bubbles are growing below expectations - the U.S., euro zone and China. That has its ripple effects through trade, through a generally more difficult operating environment. I just want to remind you, for example, on monetary policy, because of the high inflation levels, particularly OECD (Organization for Economic Cooperation and Development) countries have been tightening their monetary policies, and this has translated to higher interest rates but has (caused) major outflows from emerging market economies, and the interest rate on the external debt has been rising. So quite a few countries are also facing debt distress situations. That makes it a very complicated operating environment for these countries.

Q: Are you worried the Fed and even other central banks could over-tighten?

A: We don't comment about what is the right level on this. It was very clear that countries had to react to the rapidly increasing inflation. Maybe the good news is that inflation levels have been falling in the U.S. now for a couple of months, and also in the euro area. This is at least a little bit less than the concerns we had earlier. Still, we need always to keep in mind where the World Bank is particularly concerned is, what does this all mean for developing countries? And therefore our concern is that we need to keep the finger on this, that the countries that we need to consider what the ripple effects are on emerging markets and developing economies. We need also to see what that means for the international community in terms of supporting particularly



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the poorest countries. When the going gets rough in industrialized countries, people get very concerned about themselves, but it is actually necessary that we stay very much in solidarity.

Q: What are the key areas or economies that the World Bank is expected to target in 2023?

A: We don't target one or the other countries, we target all our client countries, the poorest countries and the middle-income countries. If you're looking at the last three years, we have committed \$210 billion. Compare that to the pre-COVID period, that was about \$130 billion. So we have actually scaled up it by \$80 billion, because we realize that countries need support. Not only the support for COVID, or now again, for food crisis, or conflict and war like in Ukraine, but also for the longer-term development agenda and climate change. So we saw this as a dual task -- crisis support, but also continued sharp focus on the development agenda, and especially climate. That is the reason why we have continued to aggressively expand our portfolio. On climate, the loan approvals last year reached \$29 billion, this is almost double from four years ago. So that is what you need to do and a lot more is to be done.

Q: What kind of mobilization efforts do you think would be required to assist the low and middle income countries to address especially the debt and fiscal vulnerabilities?

A: For the low-income countries, they need highly concessional resources. So the poorest of the poor need grants, they also need highly concessional loans long term and below market interest rates. They still need large funding. We have expanded this a lot, but they need more. For middle income countries, there has been a huge outflow on this and they need a lot of inflows on this that cannot be done only by the multilateral institution, but also by the private sector, and that is difficult. Now, there are also countries that are struggling with debt distress, and they need that worked out. That will need to be pursued more proactively, because it is really difficult for countries to go on. When they are in debt distress situations, they can no longer do the necessary investments on education, health, and therefore they need restructuring that makes it possible for them to continue the ordinary business of the country.

Q: How feasible is that in a rising interest rate scenario, where capital is becoming more expensive?

A: It will require from all, and therefore, governments will need to make adjustments. But I also think that it will require a good, coordinated approach, particularly those countries that are having problems and as you see, you have countries like Zambia that need urgent support. You see countries like Sri Lanka that require support. They will need to do their homework. But that should not mean that the international community should not also do its share.

Q: With 2022 being the year we've seen one of the largest shocks to food and energy markets and security, what would be the right measures or investments to be better prepared for such challenges in the future?

A: There are the short-term measures. They pertain often more to social protection measures to help the most vulnerable be in a position that they can particularly feed their families, and so malnutrition among children doesn't increase. But there are more fundamental structural things. The support should also tackle the longer-term structural problems. They relate to agricultural policies domestically but also internationally. What I mean with that is that there are lots of subsidies in OECD countries that are distorting agricultural markets and hurting particularly developing countries. So they should ideally be reduced aggressively. And we should also look at far more agricultural policies and raising productivity so that countries can make sure that they have enough production at home that can avoid these type of crises.

Q: On the sidelines of COP 27, you had said, there is no money going to Sub-Saharan Africa full stop. What type of financial and other assistance would you like to see flowing in?

A: There is a lot of money going from the World Bank, we have actually changed our support in our portfolio towards Africa. I think in 2000, 15% of our total commitments went to Africa, it was at that time, maybe \$3 billion. Now, last year, it was about \$35 billion and almost 50% of all our commitments went there. That is to stay. We need also to be selective in directing scarce resources, particularly concessional resources, where they matter most. Africa is certainly one of the most deserving continents for this type of financing. What I meant at COP is that very little private sector money is going but also philanthropic money is going. I was challenging people should not only talk but show what is going into Africa. And at this stage, there is far too little. From a World Bank point of view, there is some impatience on this that we need to help African countries facing multiple crises. There is some urgency, and therefore I think that the declared solidarity should be translated into action.

Q: On fragmentation - how much of that is actually impacting countries we've been talking about?

A: One needs to look where fragmentation is taking place. I think that there is a lot of debate about production and near-shoring, etc. At the same time, it is also true that over the last couple of decades, there has been an impressive amount of globalisation. We need to have a good, informed discussion, what worked and what didn't work, what are the risks. Certainly the bank would warn not to throw the baby with the bath water. There are many things that worked very well. But then there are also things that really need to be reviewed. It is in that context that that we need to analyse this. Fragmentation is always an issue, whether you do that with development assistance but also other activities, that there is a tendency on this, that should be discussed, but also one needs to see, can one actually address it with certain policy measures? Not all policy measures will be effective to address that issue.

Q: How have 2022's economic conditions affected investments into the energy transition and to combat climate change?

A: The way I look at climate change is not the short-term; I think we need to take a longer-term view. That is where also a lot of the discussion went to net zero by 2050. You will always see in the world economy, some ups and downs, they are inevitable and a fact of life. That doesn't mean that the overall strategy to deal with climate change changes in its longer-term direction. Certainly, last year was very complex with the invasion of Russia into Ukraine, and the subsequent effects on commodity markets, particularly on oil, gas markets, etc. There have been setbacks in the sense that coal was again used in Europe and much more than actually planned for. Also the change from importing gas from Russia for Europe, and then redirect has had huge consequences. I think these are transitory phenomenon. What I think also from the policymakers' point of view here, that their long-term plans stay, and I think that is desirable. What these events, however, show is that we need even more investments to keep up the momentum to correct the setback of last year. This has highlighted that however we turn it, we will need to step up in a major way investments. That has to happen in every country by the public sector. But I think we need to draw in far more the private sector, and in the international public sector, like the World Bank, absolutely. We need to do our share as well as others. And we are perfectly willing to do so. And we have been trying to step up aggressively to show that also during crisis times, we need to stay focussed on such issues like climate change.

Q: Mark Carney's initiative getting the investment community involved in climate change and climate financing - do you think that's taken a backseat?

A: One needs to take a longer-term view. These are early days. If these early days are also being affected by multiple crises, then a good idea is sometimes affected by it. But that doesn't mean that ultimately, we will not be successful. What I however say to everybody is climate change is a collective responsibility be it everybody. I cannot only look to the other and to say to the private sector, to government, you need to do more. The way I argue in the World Bank is, we need to take our responsibility, be as proactive as possible, provide the financing, show the financing, document the financing, and keep on trying. And this is where I sometimes say people should move from the talk to the action and even when it is difficult - we have seen it is difficult in many countries - but it is doable. And if the World Bank can do it, others can do it.

Q: Any parting thoughts?

A: It is important that in meetings like Davos, we keep a sharp focus what we can do as international community, and I think there is certainly in a difficult time, that one feels one cannot do anything. I happen to believe you can do a lot. And you can do a lot within your enterprise, within your government or institutions like the Bank. We need to keep focused on this, that instead of complaining, act, and this is what I say - people around the world require or request from us - this is not only to analyse that the times are tough, but that you provide hope, and also possibility, and that is our responsibility. That's the reason the Bank is here in Davos

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