Global Economic Prospects

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June 2022

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WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Three Questions

1. What are near-term prospects and risks for the global and ECA economy?

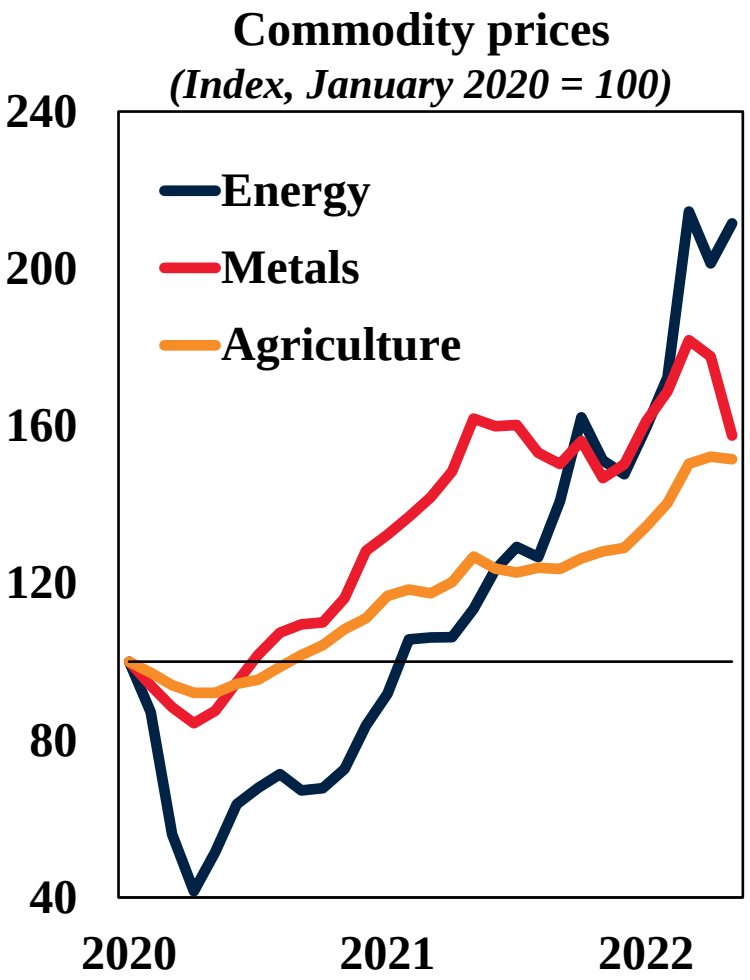
2. Which threat does stagflation present for EMDEs?

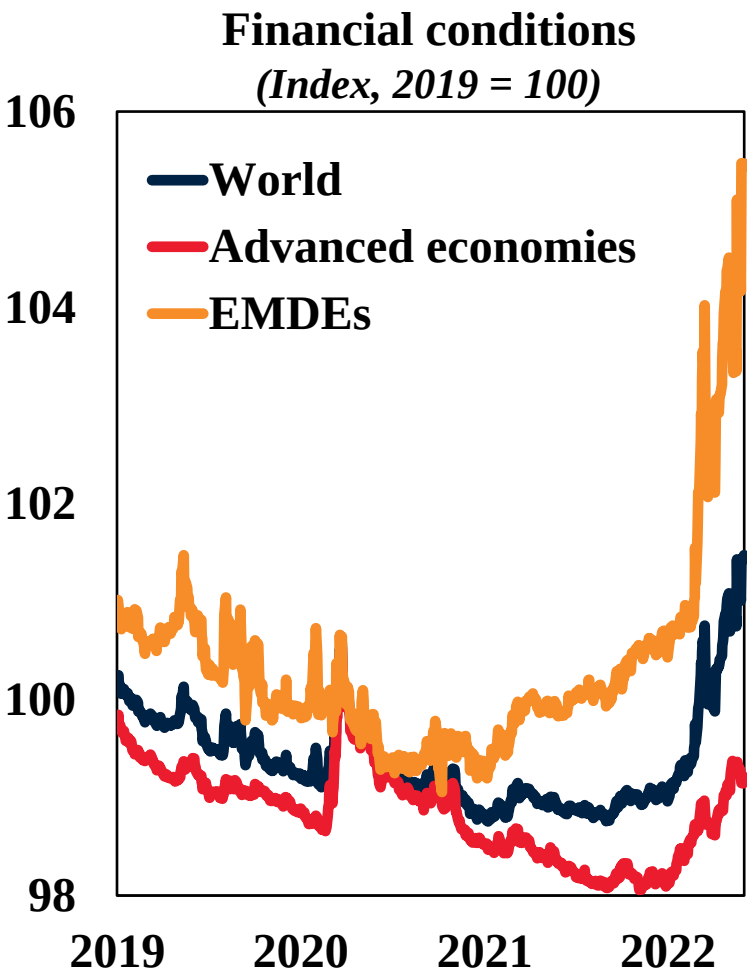
3. What are the lessons from the 1970s for policy responses to food and energy price shocks, especially in the context of the green transition?

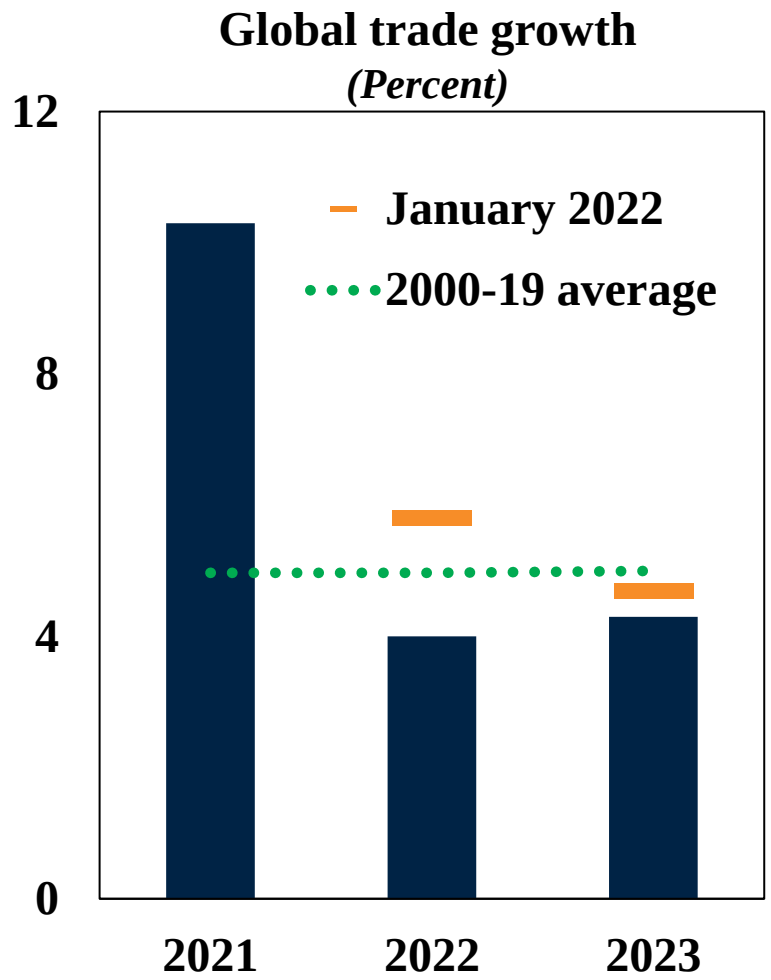
** EMDEs = Emerging Market and Developing Economies; ECA = EMDE Europe and Central Asia*

Global Backdrop

Higher Commodity Prices; Tighter Financial Conditions; Weaker Trade Growth







Sources: Bloomberg; World Bank.

Left Panel. Monthly data from World Bank's *Pink Sheet*. Last observation is May 2022. Center Panel. Based on Goldman Sachs Financial Conditions Index. Higher index numbers reflect tighter financial conditions. The aggregates are computed using GDP weights at 2010-19 prices and market exchange rates, based on 25 economies (including Euro Area)—12 advanced economies and 13 EMDEs. Line for EMDEs excludes data for the Russian Federation. Last observation is June 1, 2022. Right Panel. Trade measured as the average of export and import volumes. January 2022 refers to forecasts presented in the January 2022 *Global Economic Prospects* report..

Global Growth Forecasts

Sharper Slowdown in 2022-23

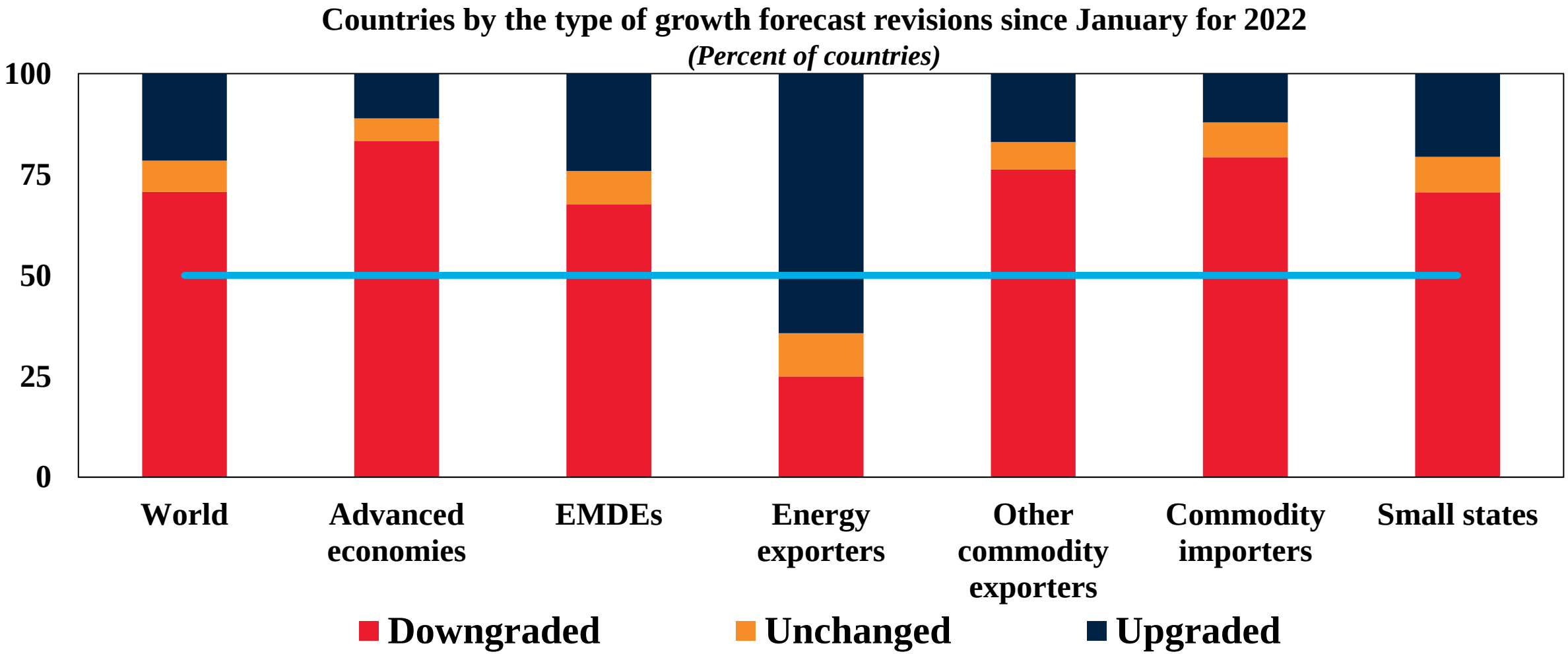
GDP growth
(Percent)

						Change from January 2022	
	2013-19	**2020**	**2021e**	**2022f**	**2023f**	**2022**	**2023**
World	**2.9**	**-3.3**	**5.7**	**2.9**	**3.0**	**-1.2**	**-0.2**
Advanced economies	**2.0**	**-4.6**	**5.1**	**2.6**	**2.2**	**-1.2**	**-0.1**
EMDEs	**4.5**	**-1.6**	**6.6**	**3.4**	**4.2**	**-1.2**	**-0.2**
East Asia and Pacific	**6.6**	**1.2**	**7.2**	**4.4**	**5.2**	**-0.7**	**0.0**
Europe and Central Asia	**2.7**	**-1.9**	**6.5**	**-2.9**	**1.5**	**-5.9**	**-1.4**
Excluding Russia and Ukraine	***4.0***	***-1.3***	***7.9***	***2.8***	***3.5***	***-0.6***	***-0.1***
Latin America and the Caribbean	**1.3**	**-6.4**	**6.7**	**2.5**	**1.9**	**-0.1**	**-0.8**
Middle East and North Africa	**2.6**	**-3.7**	**3.4**	**5.3**	**3.6**	**0.9**	**0.2**
South Asia	**6.5**	**-4.5**	**7.6**	**6.8**	**5.8**	**-0.8**	**-0.2**
Sub-Saharan Africa	**3.1**	**-2.0**	**4.2**	**3.7**	**3.8**	**0.1**	**0.0**

Source: World Bank.
Note: Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates; e and f refer to estimates and forecasts, respectively.

Changes in Growth Forecasts for 2022

Downgrades for Most Countries



Source: World Bank.
Note: Figure shows the share of countries in respective country groups with forecast upgrades, downgrades, and no forecast changes for 2022 since the January 2022 *Global Economic Prospects* report. The horizontal yellow line shows 50 percent. Sample includes 180 countries, consisting of 36 advanced economies and 144 EMDEs, including 28 energy-exporting EMDEs, 59 other (non-energy) commodity-exporting EMDEs, 57 commodity-importing EMDEs, and 34 small states.

Global Growth Forecasts

Sharper Slowdown in 2022-23

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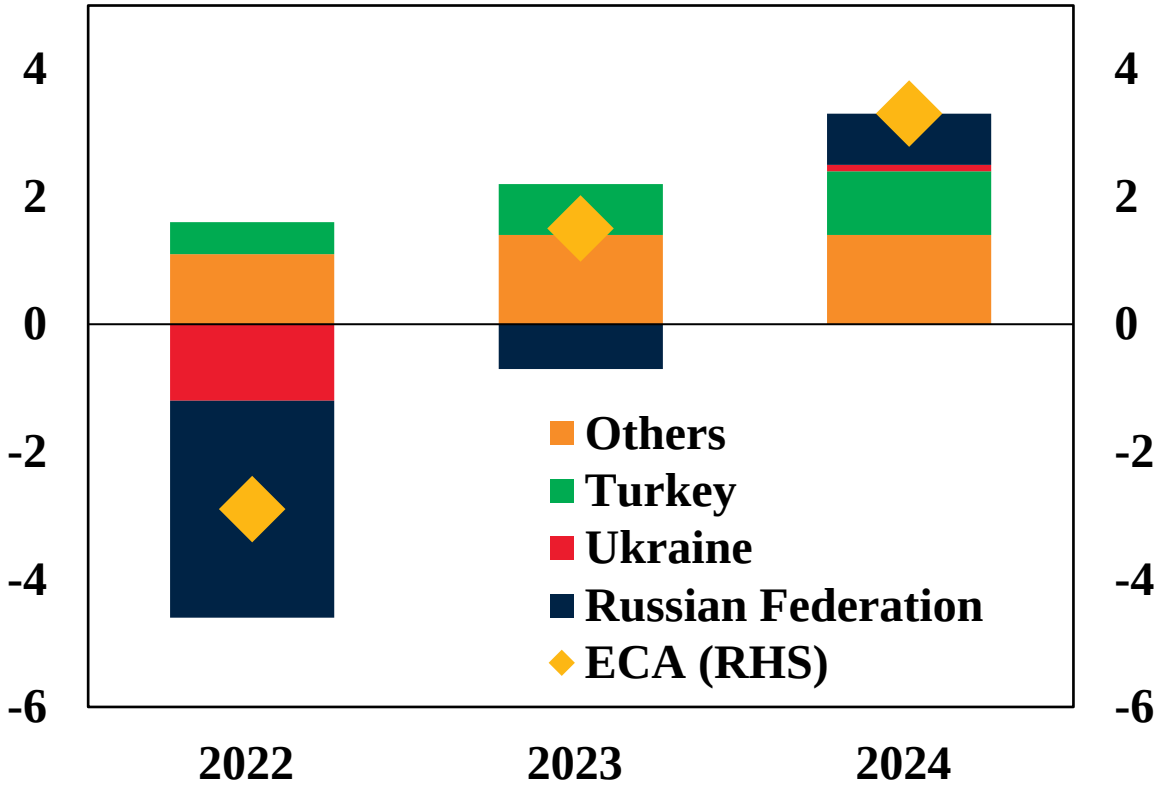
Sub-Saharan Africa	**3.1**	**-2.0**	**4.2**	**3.7**	**3.8**	**0.1**	**0.0**

Source: World Bank.
Note: Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates; e and f refer to estimates and forecasts, respectively.

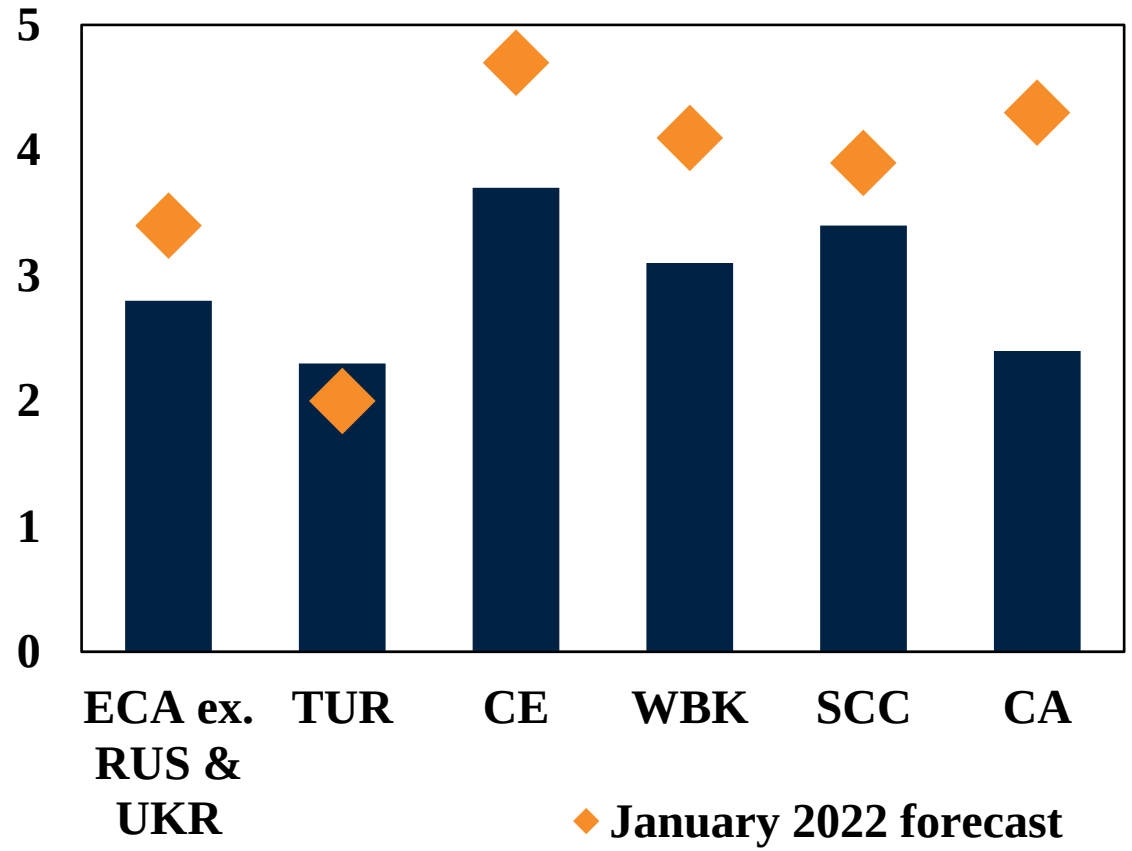
ECA Growth Forecasts for 2022

Downgrades are especially pronounced due to sizable spillovers

Contribution to growth in ECA
(Percentage points, Percent)



Growth in ECA subregions, 2022
(Percent)



Source: World Bank.
Note: CA = Central Asia; CE = Central Europe; RUS = Russian Federation; SCC = South Caucasus; TUR = Turkey; UKR = Ukraine; WBK = Western Balkans.
Left Panel. Aggregates calculated using constant GDP weights at average 2010-19 prices and market exchange rates. The sample includes 23 ECA countries. Right Panel. Bars denote latest forecast; diamonds correspond to January 2022 forecasts in the Global Economic Prospects report.

Risks

Mutually Amplifying Downside Risks

- Geopolitical tensions
- Stagflation
- Energy and food insecurity
- Social tensions
- Weaker longer-term growth prospects
- Additional supply disruptions
- Financial stress
- COVID-19 outbreaks
- Climate-related disasters
- Fragmentation of trade, investment, and financial networks

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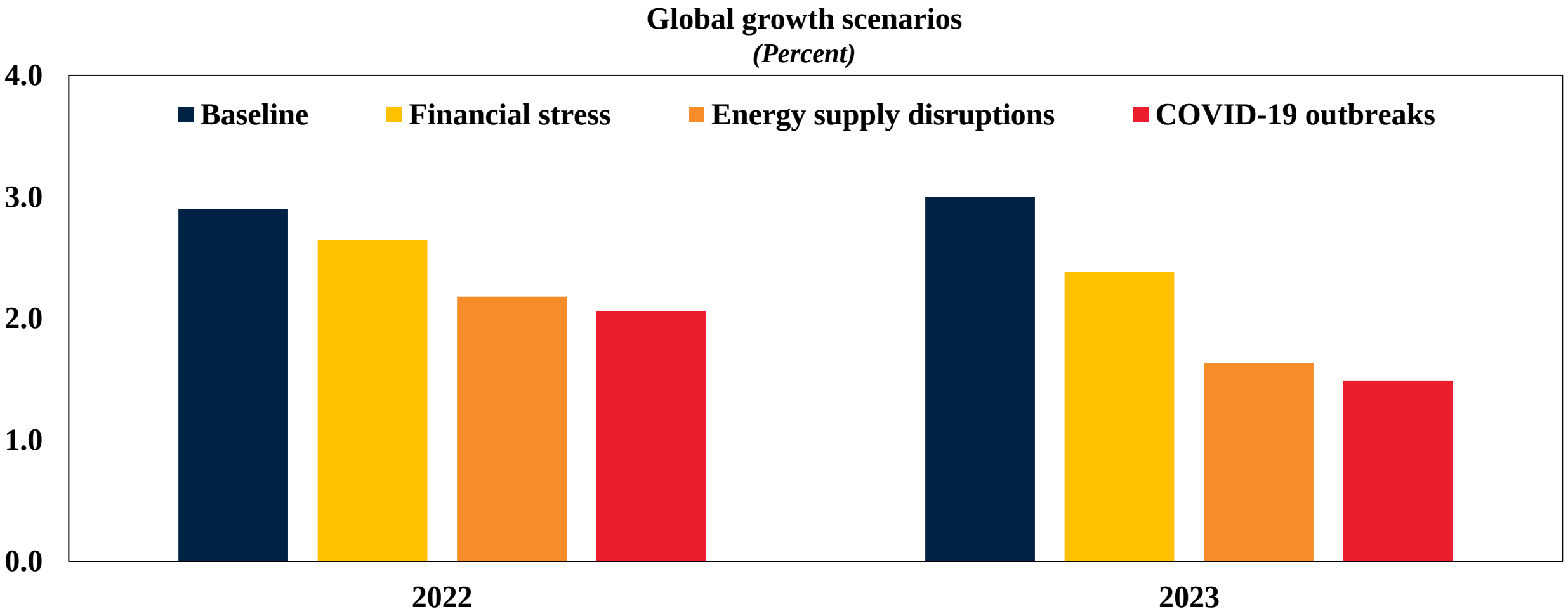
Global Growth Outcomes Under Different Risk Scenarios

Much Lower Growth if Risks Materialize



Sources: Oxford Economics; World Bank.
Left Panel. Scenario outcomes produced using the Oxford Economics Global Economic Model. Scenarios are linearly additive.

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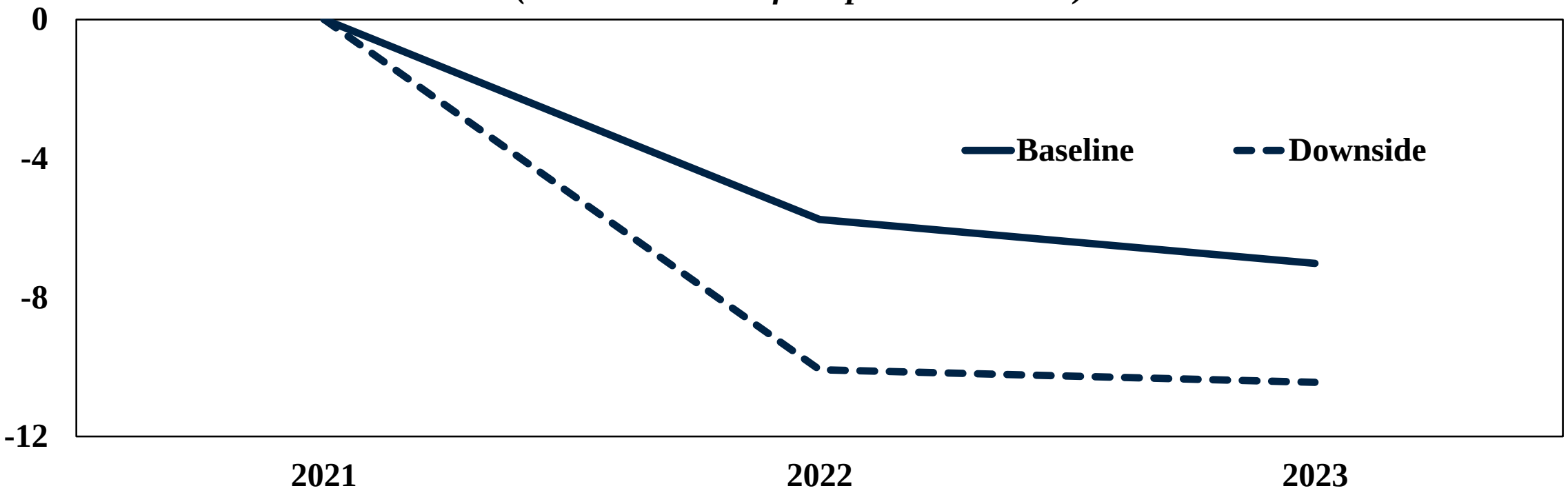
ECA Growth Outcomes Under Different Risk Scenarios

Much Steeper Fall if Risks Materialize

Percent deviations of ECA output (baseline and downside scenario) from pre-war baseline

(Percent deviation from pre-war baseline)



Source: Oxford Economics;, World Bank.

Note: ECA = Europe and Central Asia. Scenario outcomes produced using the Oxford Economics Global Economic Model. Figure shows the percent deviation from the prewar baseline in ECA output as a result of the Russian invasion of Ukraine. Prewar is defined as projections published in the January 2022 edition of the Global Economic Prospects report. "Baseline" entails current projections as reflected in table 2.2.2. "Downside" entails a scenario in which the war's impact is much more severe, as outlined in World Bank (2022). It assumes that an escalation of the war triggers additional sanctions and reduces Russian exports to the euro area. The downside scenario also assumes a shock to financial confidence, a 20 percent contraction in Russian GDP, and a 75 percent contraction in Ukrainian GDP. The Oxford Global Economic Model (GEM)—a large-scale global semi-structural projection model—is used to conduct the simulations described here (Oxford Economics 2019).

Risks

Mutually Amplifying Downside Risks

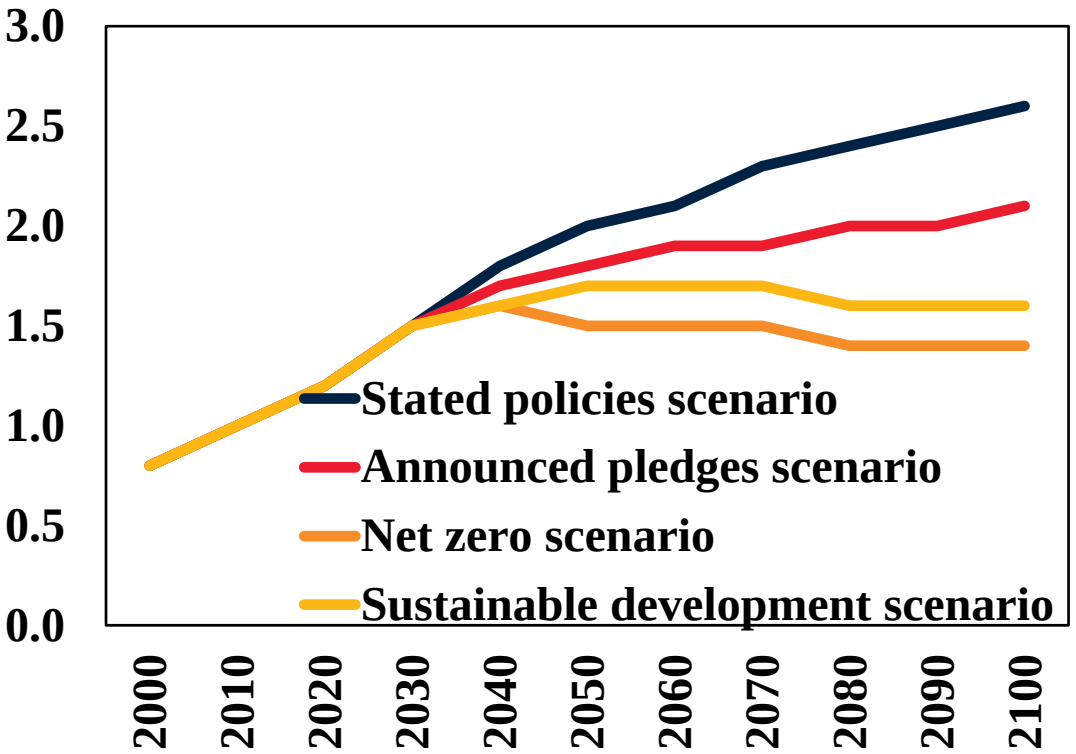
- Geopolitical tensions
- Stagflation
- Energy and food insecurity
- Social tensions
- Weaker longer-term growth prospects

- Additional supply disruptions
- Financial stress
- COVID-19 outbreaks
- Climate-related disasters
- Fragmentation of trade, investment, and financial networks

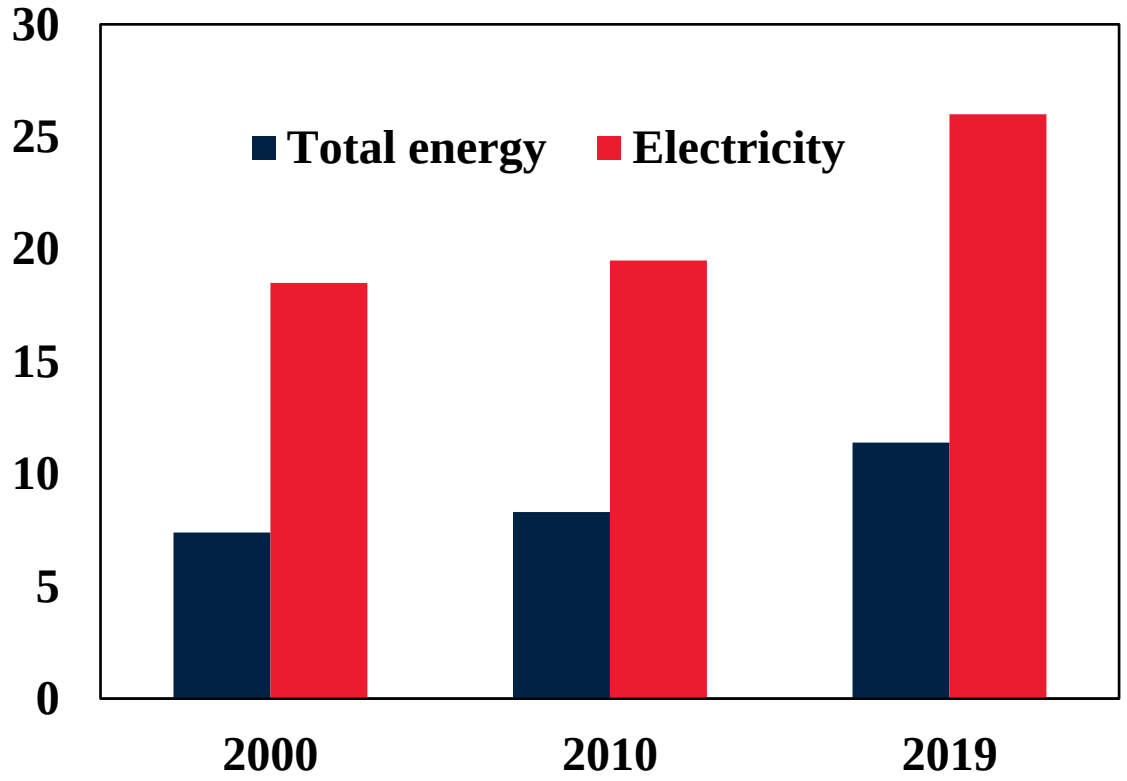
Rising Global Temperatures

Underscore the need to tackle climate change

Rise in global median surface temperature
(Degrees Celsius)



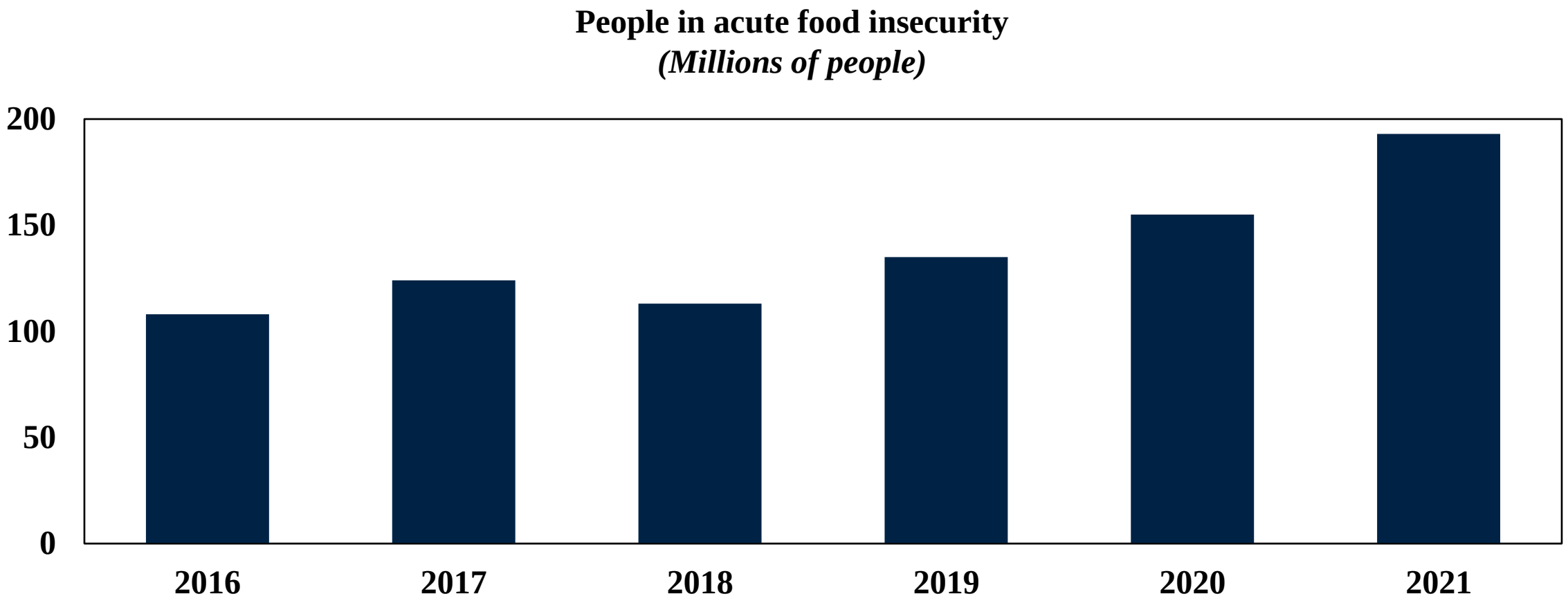
Share of renewables in global energy supply
(Percent)



Source: BP (database), IEA (2021b), World Bank.
Left Panel. Data show the global median surface temperature rise over time in the scenarios in IEA (2021b). Right Panel. Renewables includes biomass, geothermal, hydro-electric, solar, tidal, wave, and wind.

Adverse Weather Events Pose Risks to Food Supplies

Risks have been magnified by supply disruptions from invasion and war



Source: FSIN and GNAFC (2022), World Bank.
Note: EMDEs = emerging market and developing economies. Data from the Food Security Information Network's Global Report on Food Crises 2022.

Three Questions

2 **Which threat does stagflation present for EMDEs?** *The 1970s stagflation ended with a series of financial crises in EMDEs. These economies are now facing a rising risk of a similar outcome.*

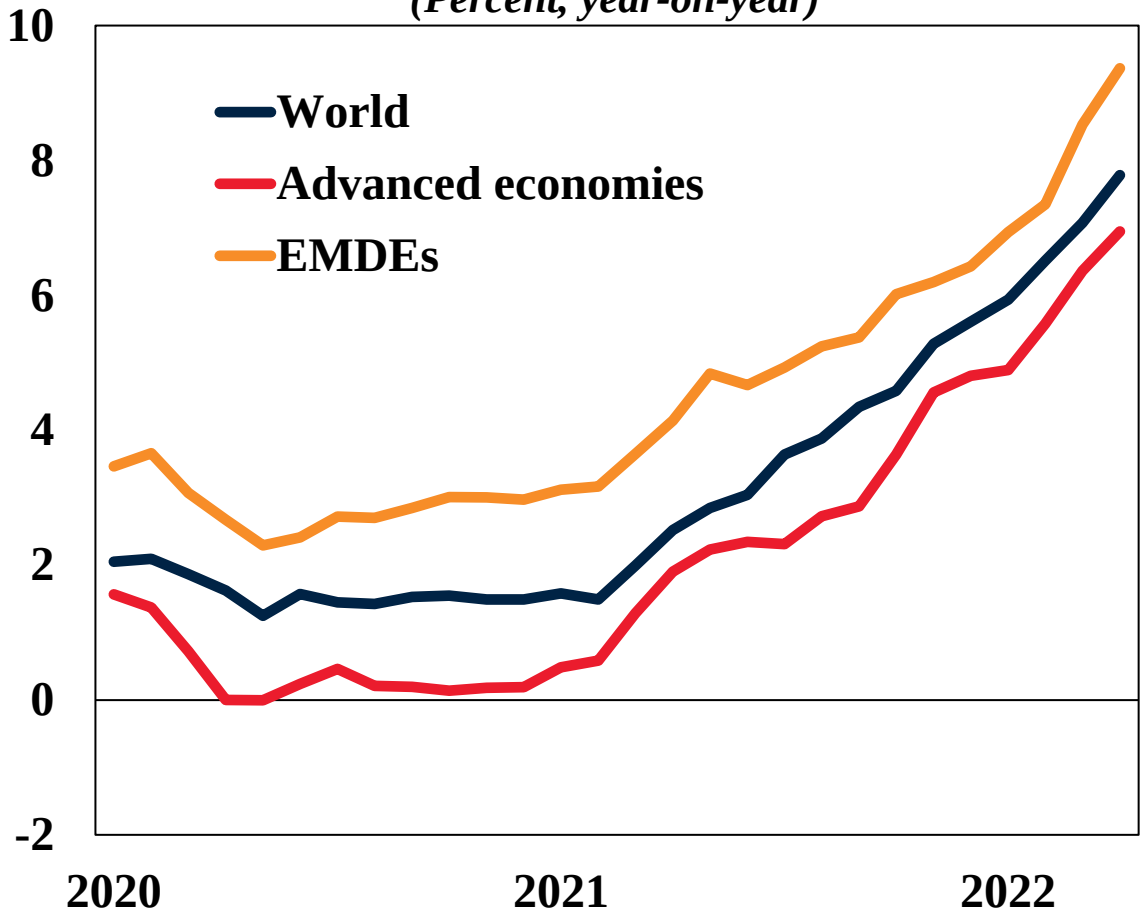
** EMDEs = Emerging Market and Developing Economies*

Global Stagflation?

High Inflation, Tepid Growth

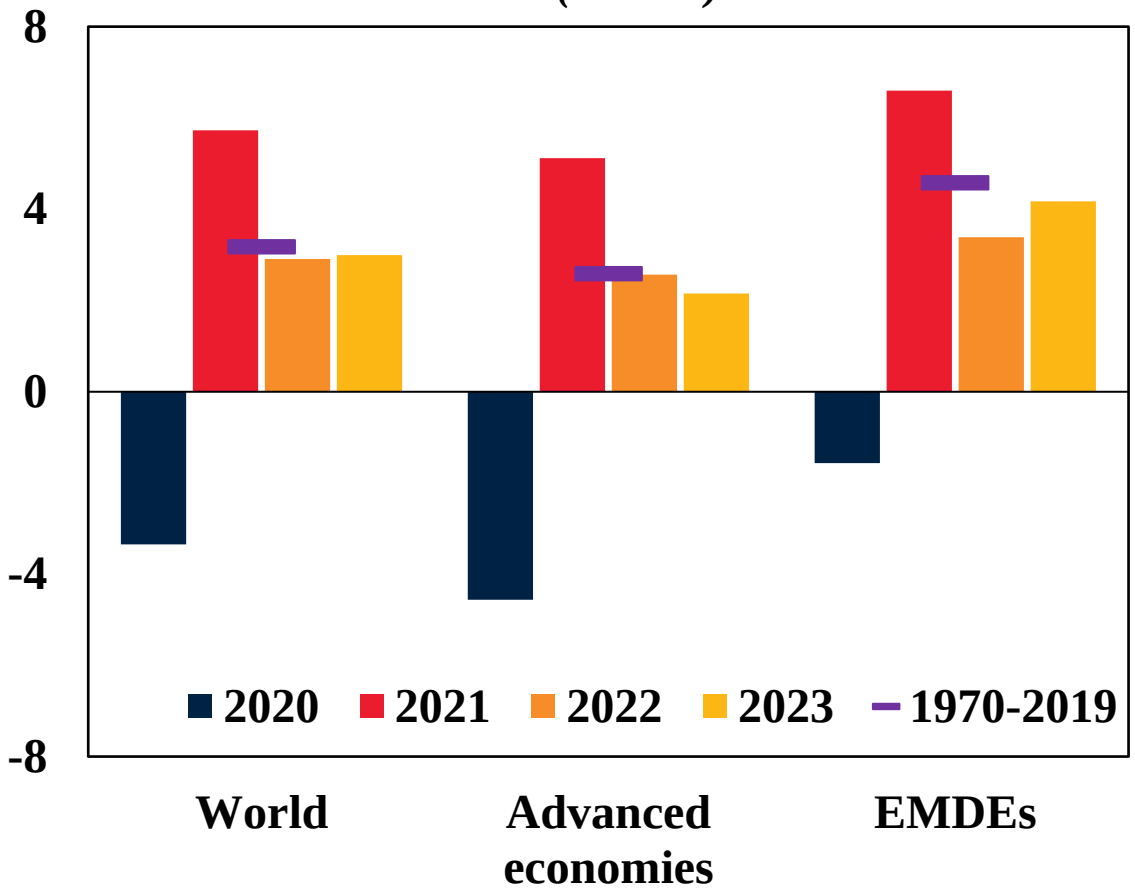
Monthly CPI inflation

(Percent, year-on-year)



GDP growth

(Percent)



Sources: Haver Analytics; International Monetary Fund; World Bank.

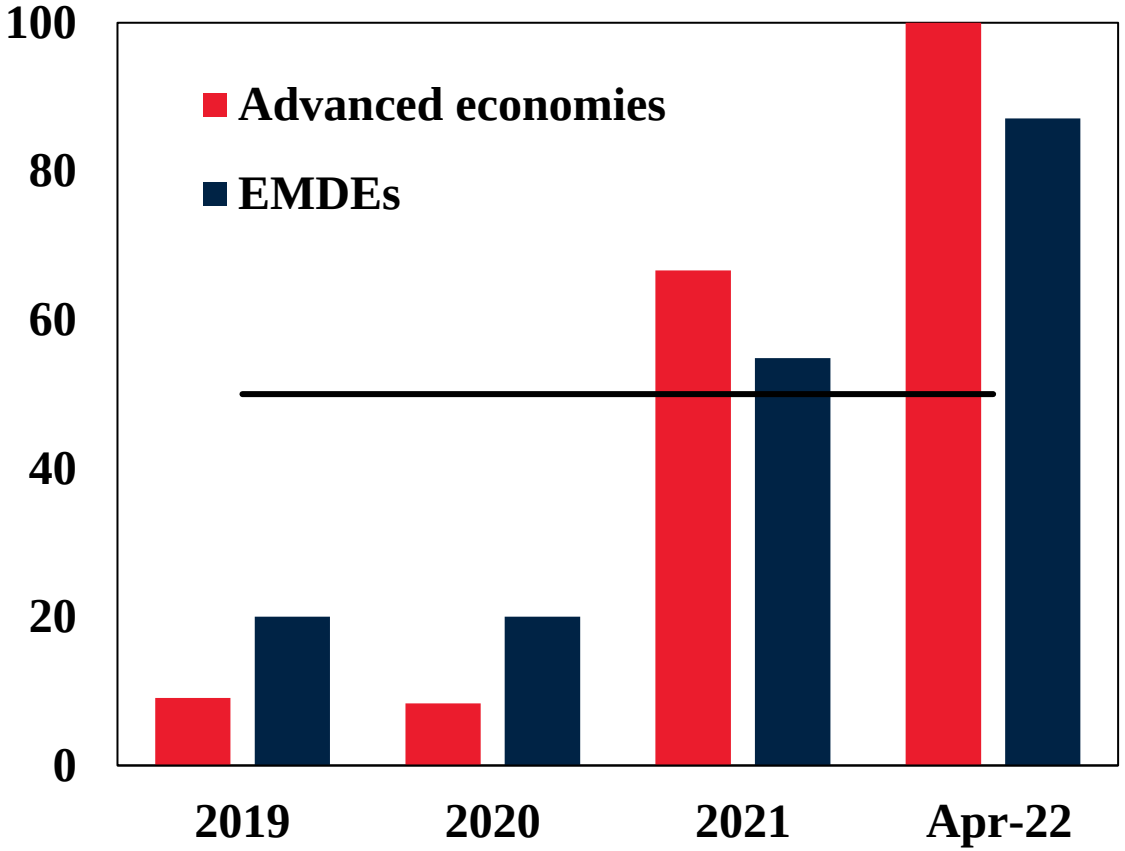
Left Panel. CPI refers to consumer price index. Year-on-year inflation. Lines show group median inflation for 81 countries, of which 31 are advanced economies and 50 are EMDEs. Last observation is March 2022. Right Panel. Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates.

Inflation Prospects

Above Target Almost Everywhere; Decline Expected in 2023

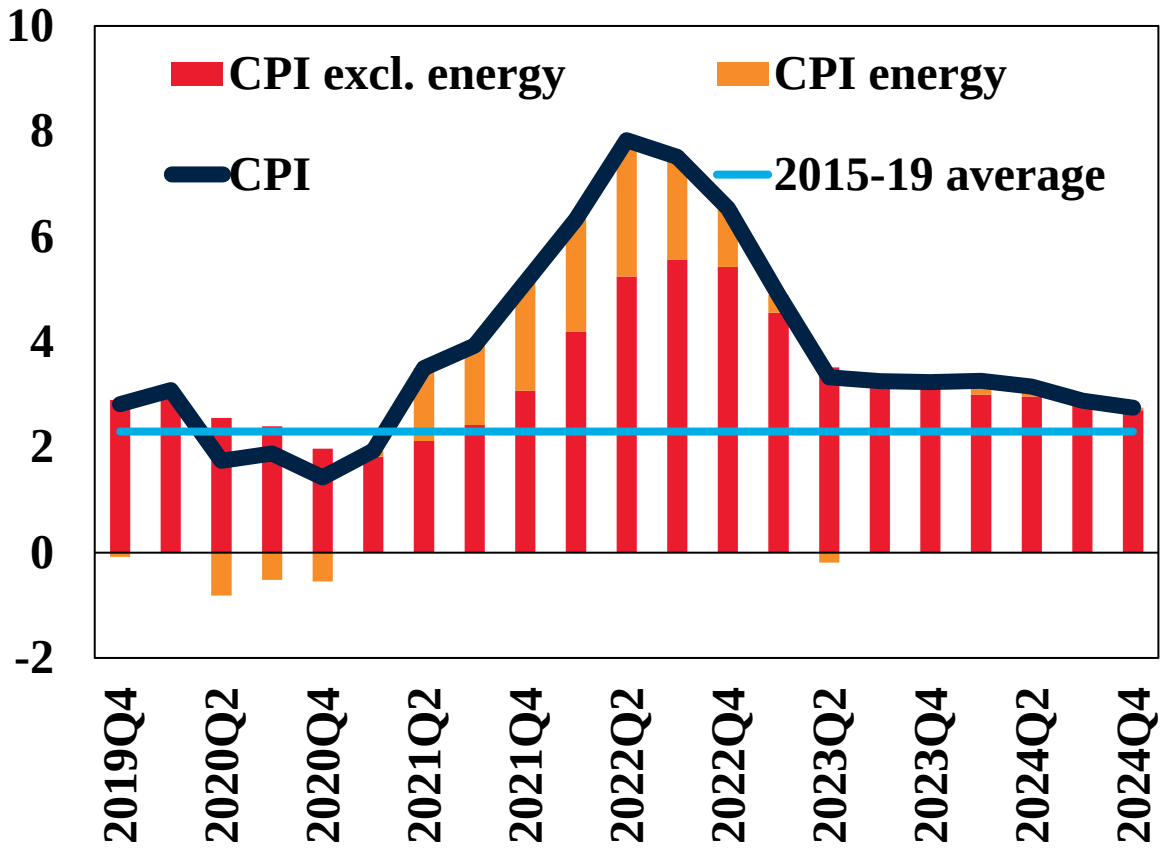
Countries with inflation above target

(Percent of countries)



Model-based global CPI inflation projection

(Percent)



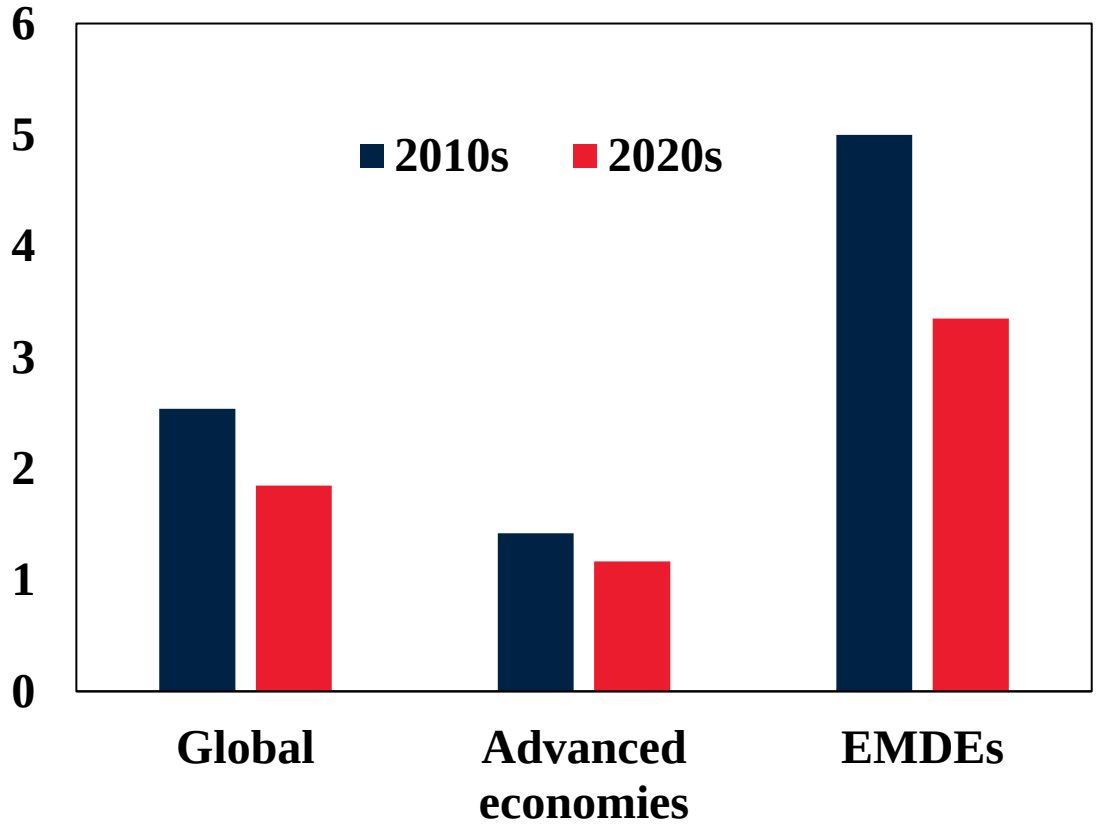
Sources: International Monetary Fund; World Bank.

Note: CPI refers to consumer price index. Left Panel. Bars show the share of inflation-targeting economies (in percent) with average inflation during the course of the year (or month) above the target range. Right Panel: Model-based projection of quarterly global year-over-year CPI inflation using Oxford Economics Global Economic Model. Projection embeds global oil price forecast presented in table 1.1 of the June 2022 *Global Economic Prospects* report.

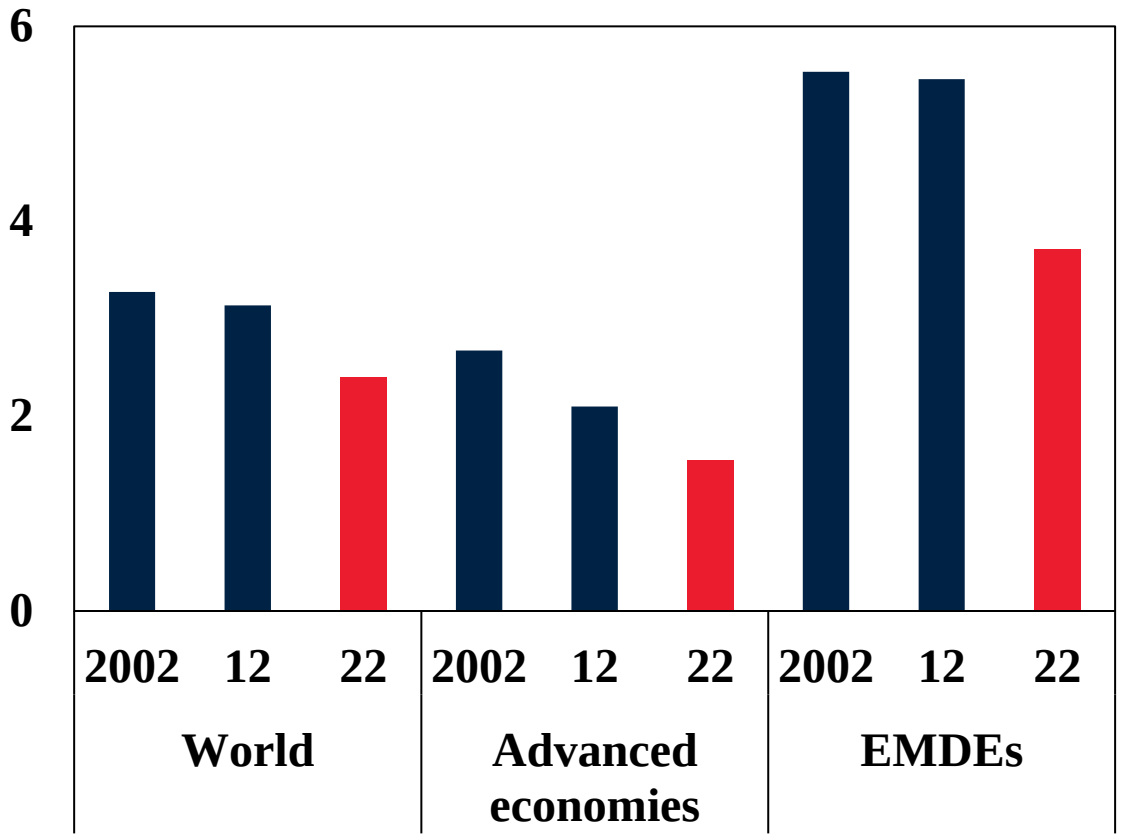
Growth Prospects: Weaker, Less Attractive to Investors

Weakening Growth Fundamentals; Downgrades to Long-Term Expectations

Potential growth
(Percent)



Long-term growth expectations
(Percent)



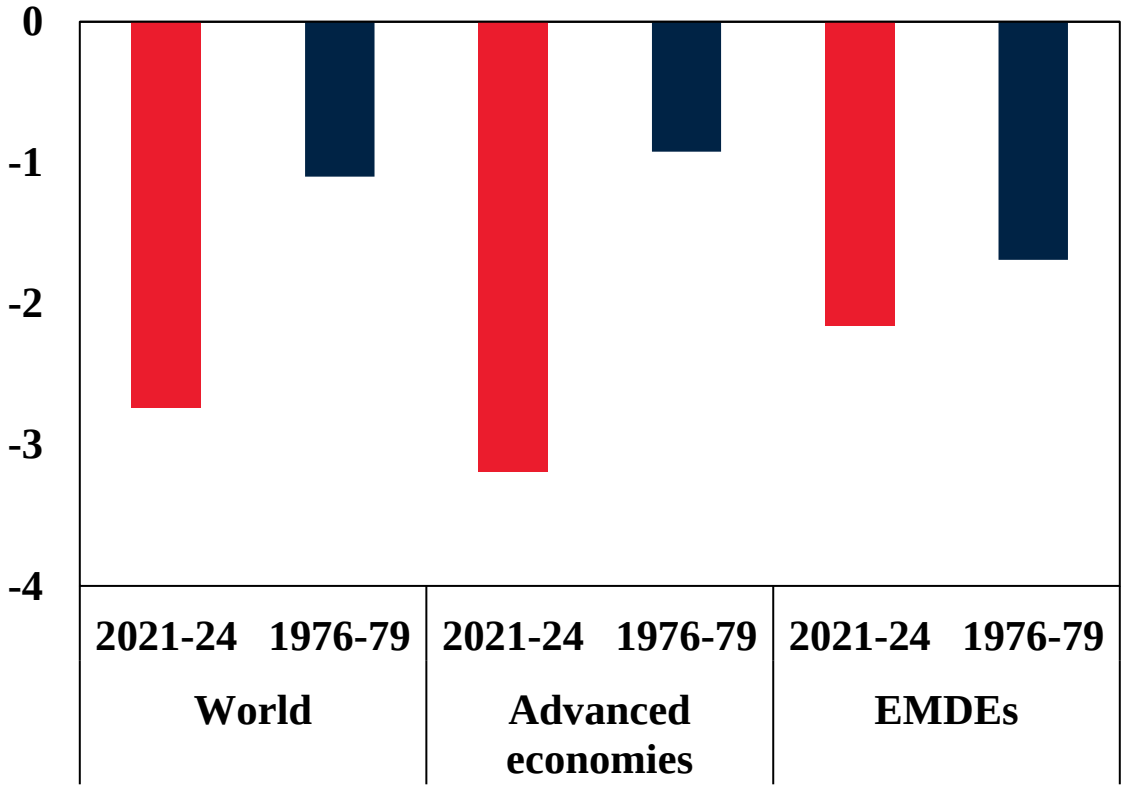
Sources: Consensus Economics; World Bank.
Left Panel. GDP-weighted average (at 2010 prices and exchange rates) for 82 countries, including 52 EMDEs. Potential growth estimates based on a production function approach as described in Kilic Celik, Kose, and Ohnsorge (2020) and World Bank (2021b). 2020s forecasts in red bars assume that investment grows as expected by consensus forecasts, working-age population and life expectancy evolve as envisaged by the UN Population Projections, and secondary and tertiary school enrollment and completion rates decline by 2.5 percentage points.Right PanelResults from the latest Consensus Economics surveys in each year are presented. Sample includes 84 countries (33 advanced economies and 51 EMDEs). The horizontal axis shows the years when Consensus Economics forecasts are surveyed.

Similarities to the 1970s

Steep Growth Slowdown, Surges in Commodity Prices

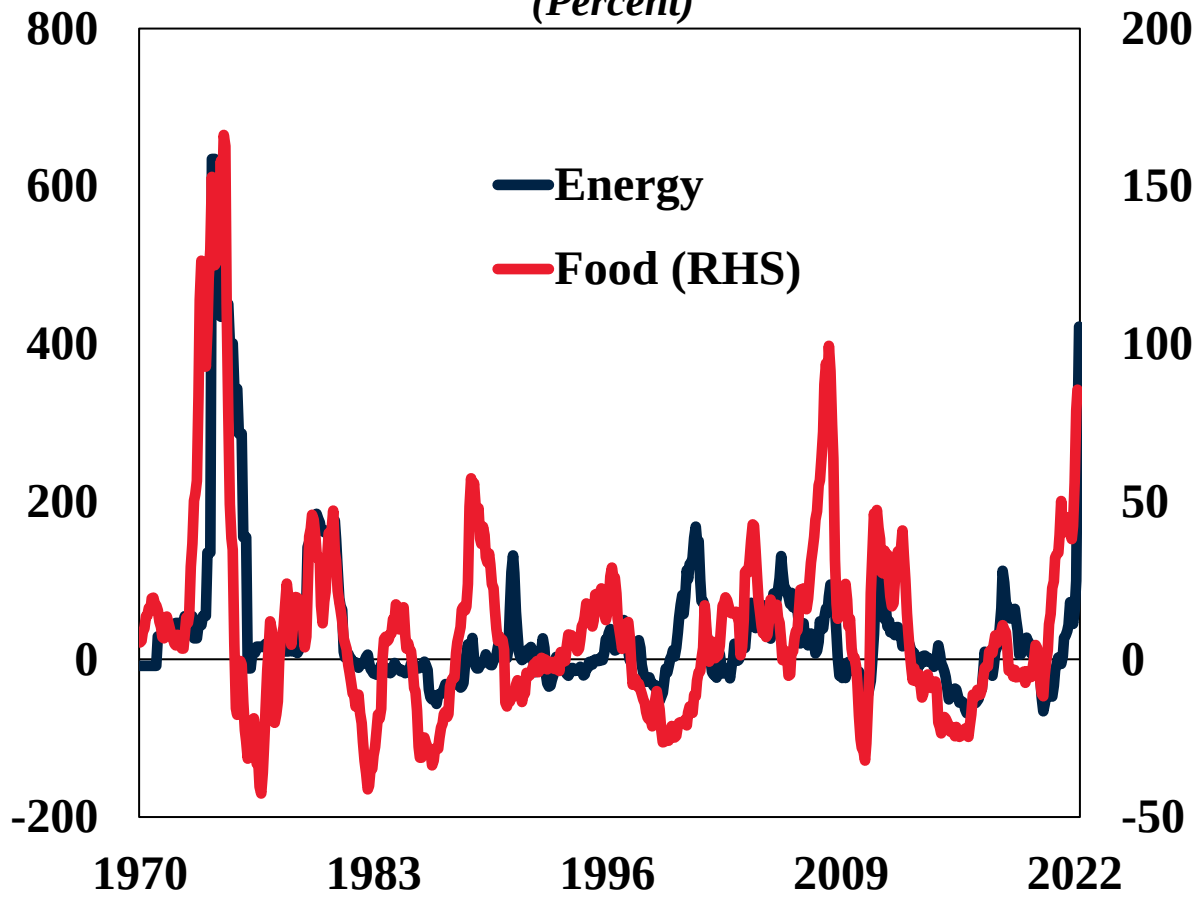
Slowdowns in growth after global recessions

(Percentage points)



Commodity price changes

(Percent)

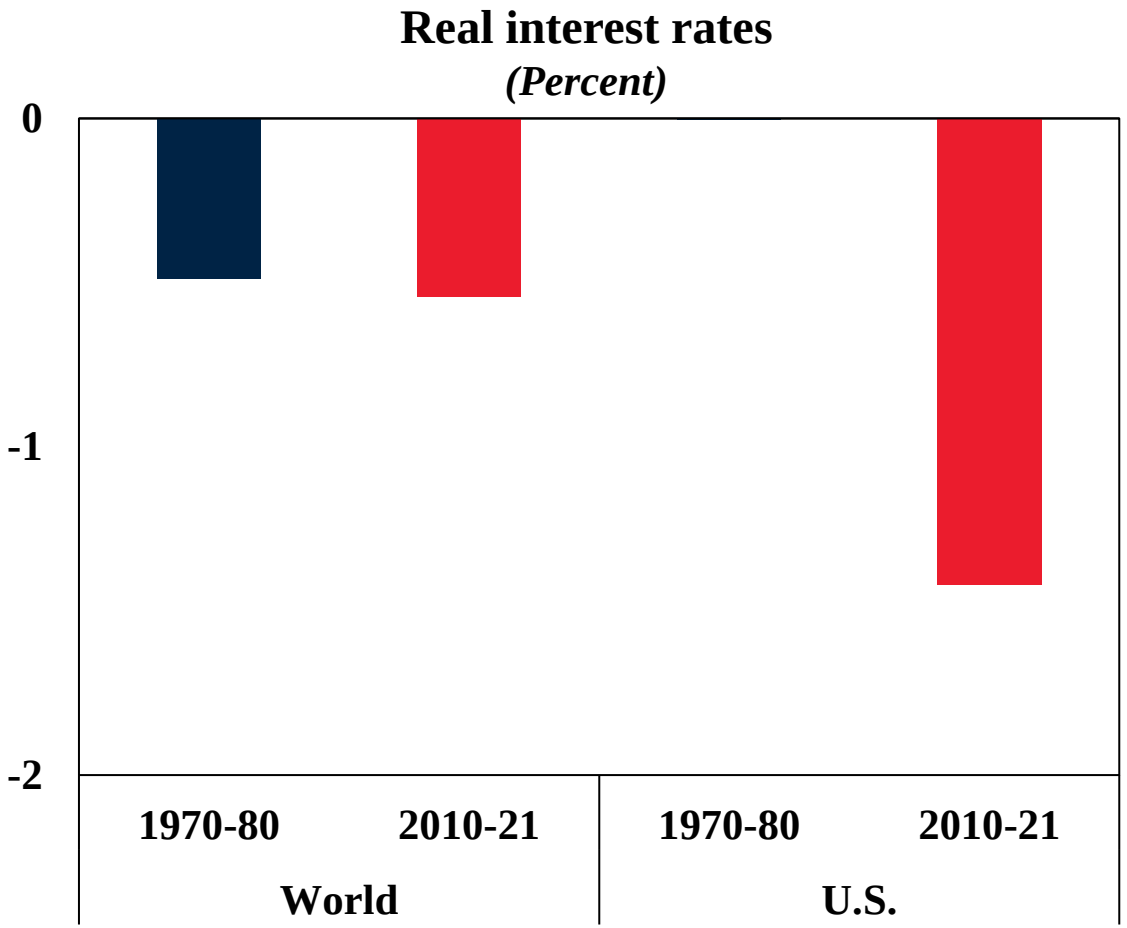


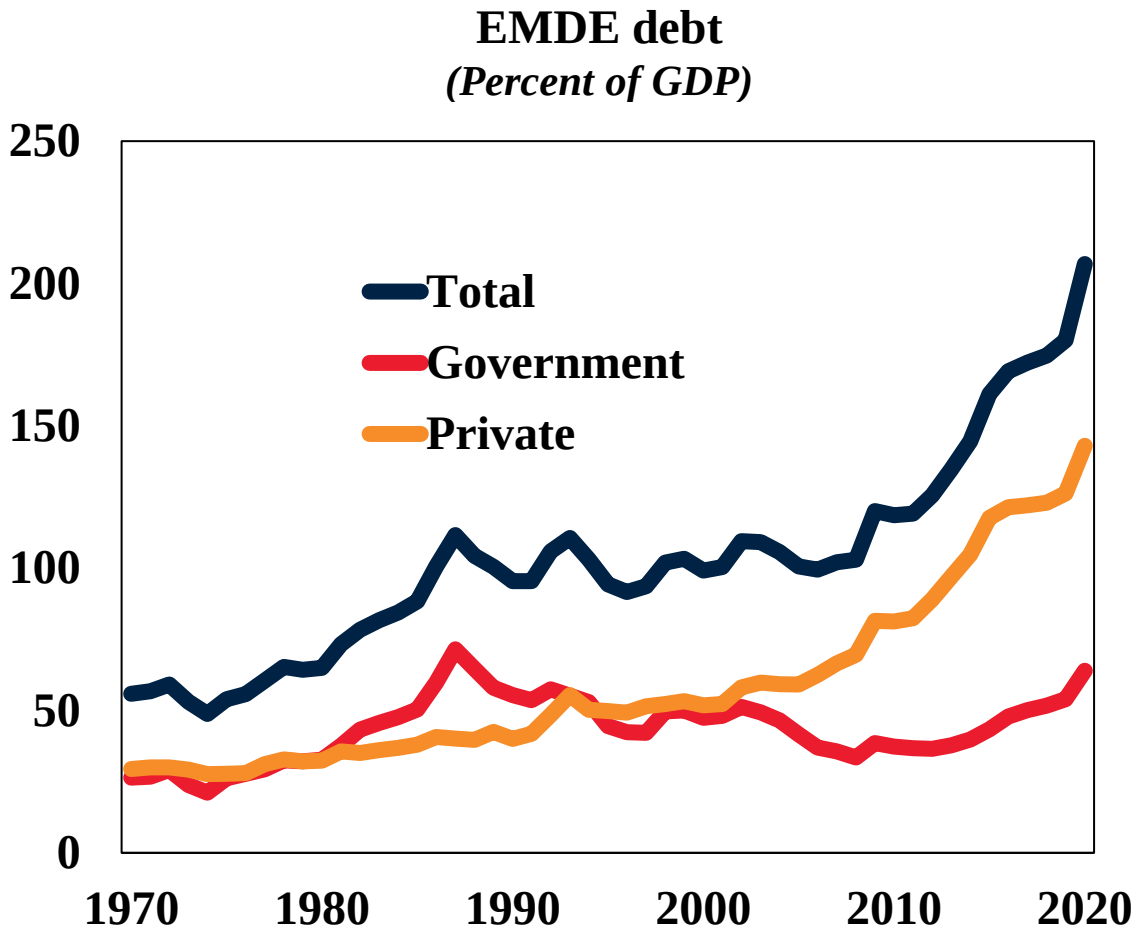
Sources: Bloomberg; Federal Reserve Economic Data; Haver Analytics; World Bank.

Left Panel. Percent change in monthly energy and food price indices over a 24-month period. This facilitates a comparison of the April 2020 trough with the most recent data (April 2022). Due to data limitations, prior to 1979, the energy price change is proxied using the oil price change. Right Panel. Figure shows changes in global growth (in percentage points) between 2021-24 and 1975-79; covers three years following a rebound from a global recession.

Similarities to the 1970s

Accommodative Monetary Policy; EMDE Financial Vulnerabilities



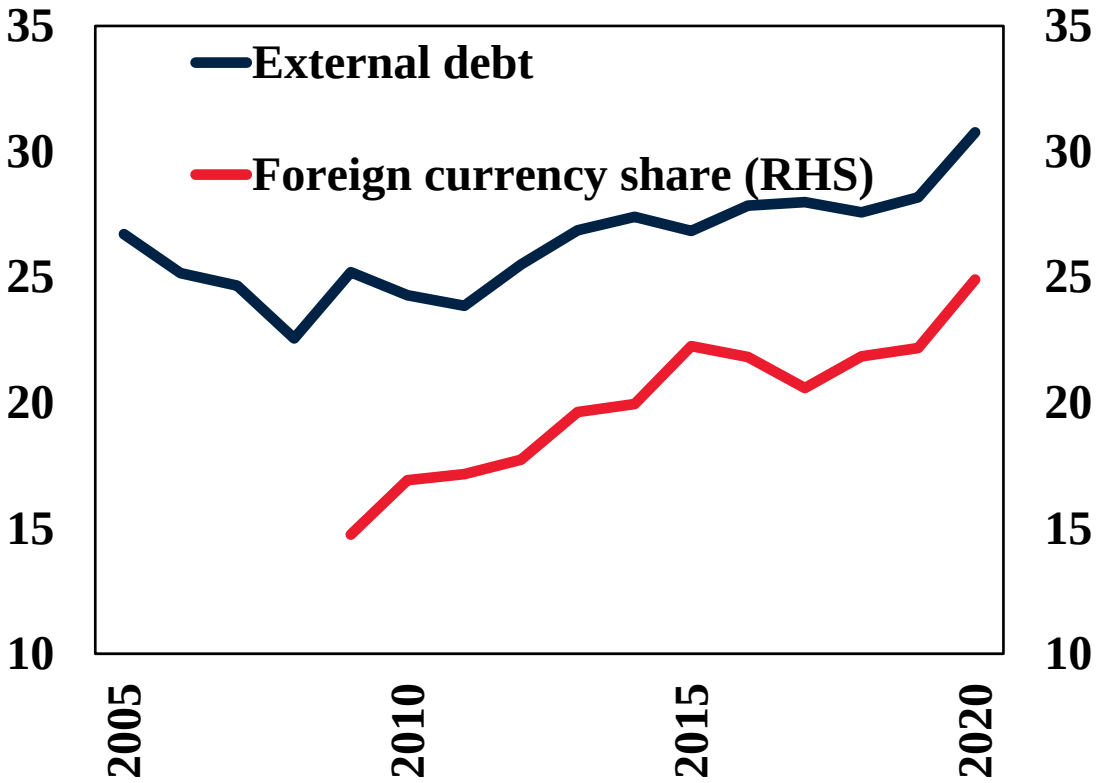


Sources: Bloomberg; Federal Reserve Economic Data; Haver Analytics; World Bank.
Left Panel. Figure shows nominal and real (CPI-adjusted) short-term interest rates (Treasury bill rates or money market rates, with the maturity of three months or less). Global interest rates are weighted by GDP in U.S. dollars. Sample includes 113 countries, though the sample size varies by year. Right Panel: GDP-weighted averages based on a sample of up to 153 EMDEs.

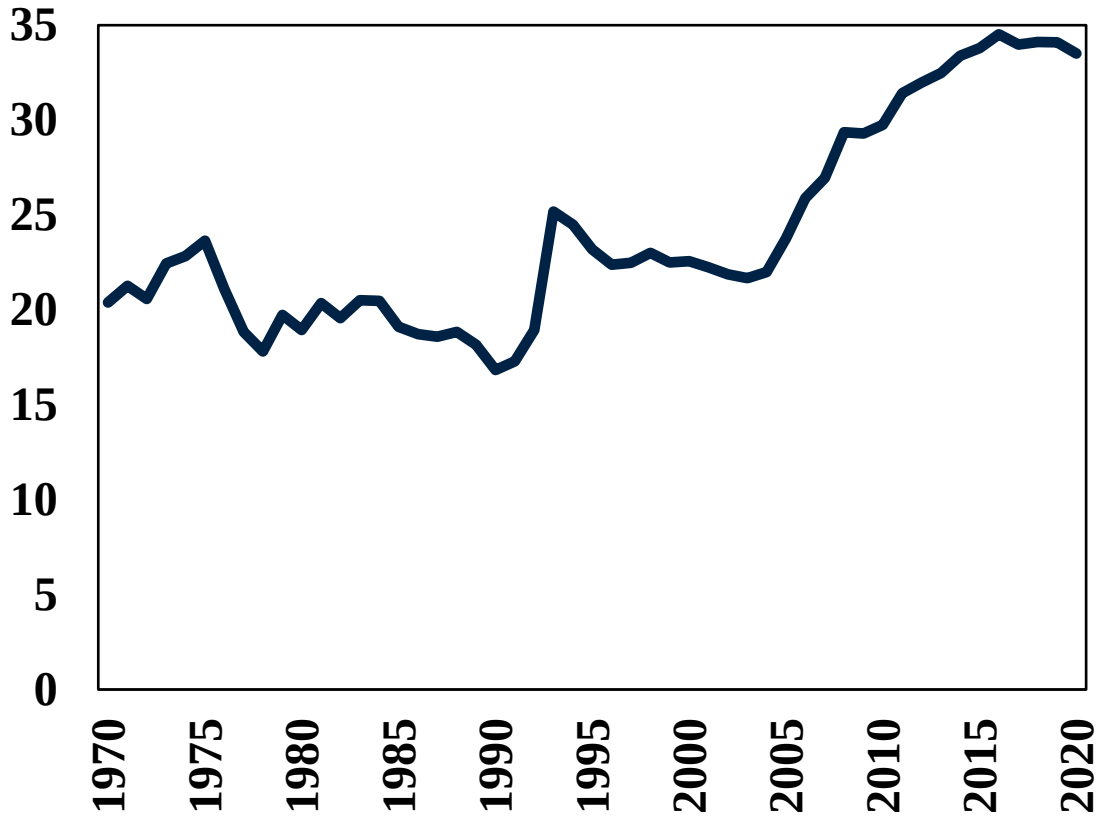
EMDE External Debt Vulnerabilities

Greater external exposure and tighter financing conditions

External debt and foreign currency share of government debt
(Percent of GDP, Percent of total)



Share of EMDE external debt subject to variable rates
(Percent of total external debt)



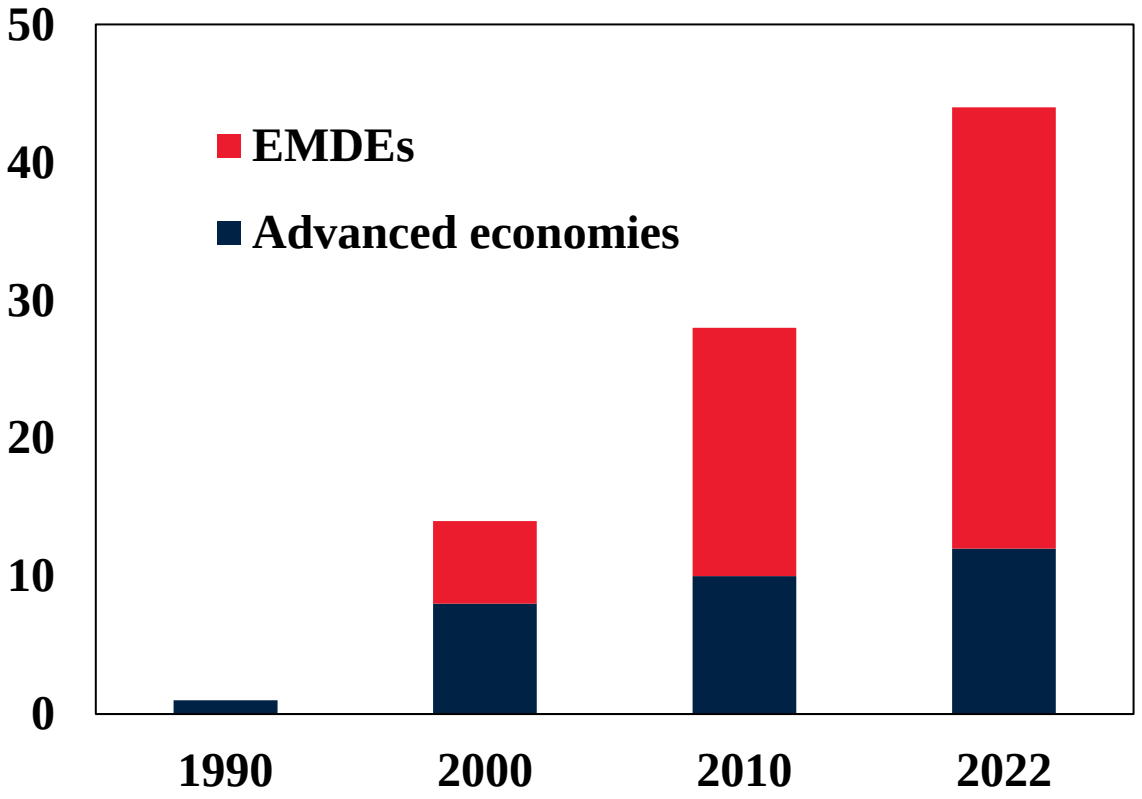
Sources: Haver Analytics; International Monetary Fund; Kose et al. (2020); Kose, Sugawara, and Terrones (2021); World Bank.
Note: EMDEs = emerging market and developing economies.
Left Panel. External debt (percent of GDP) is based on GDP-weighted average of up to 137 EMDEs. Foreign currency share of government debt is an average of up to 36 EMDEs. Right panel. Figure shows the EMDE average of variable rate external debt as a share of total external debt.

Differences from the 1970s

More Inflation Targeting; Better-Anchored Expectations

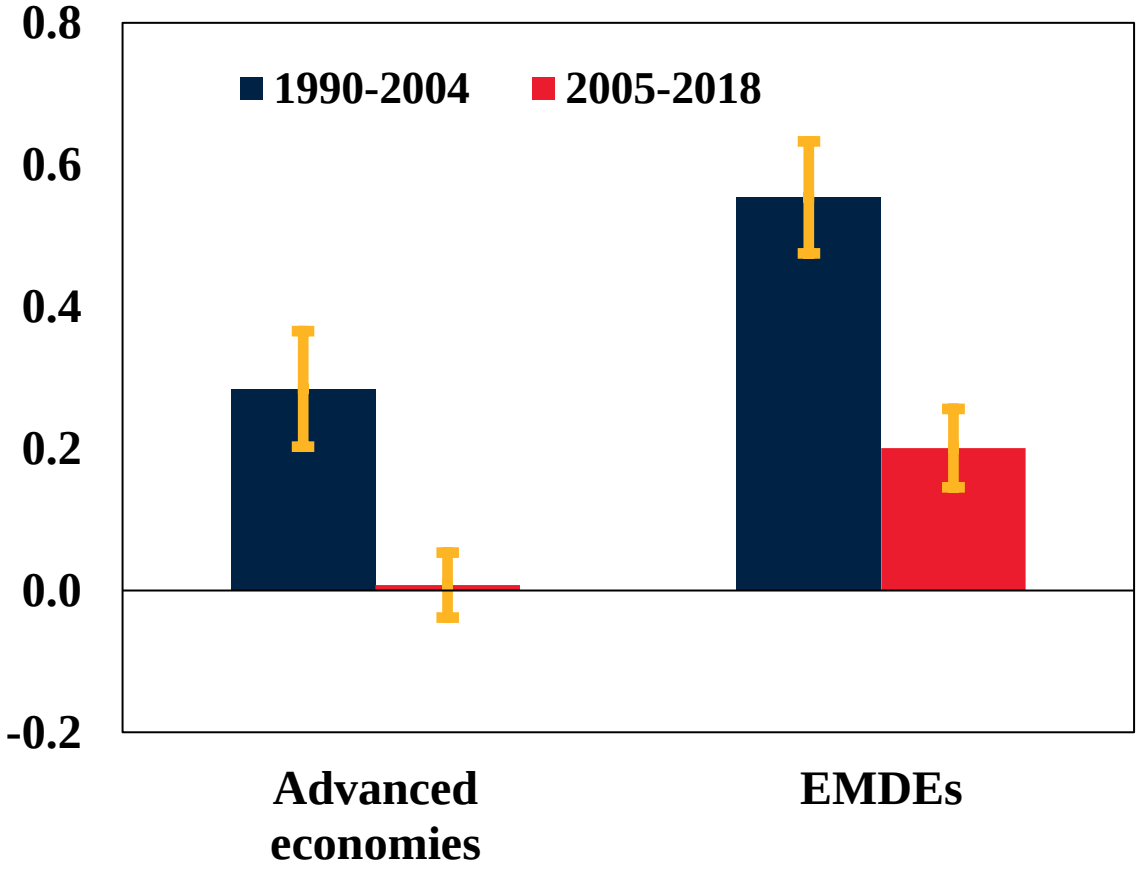
Number of countries with inflation targeting

(Number)



Response in inflation expectations to surprises

(Percentage points)

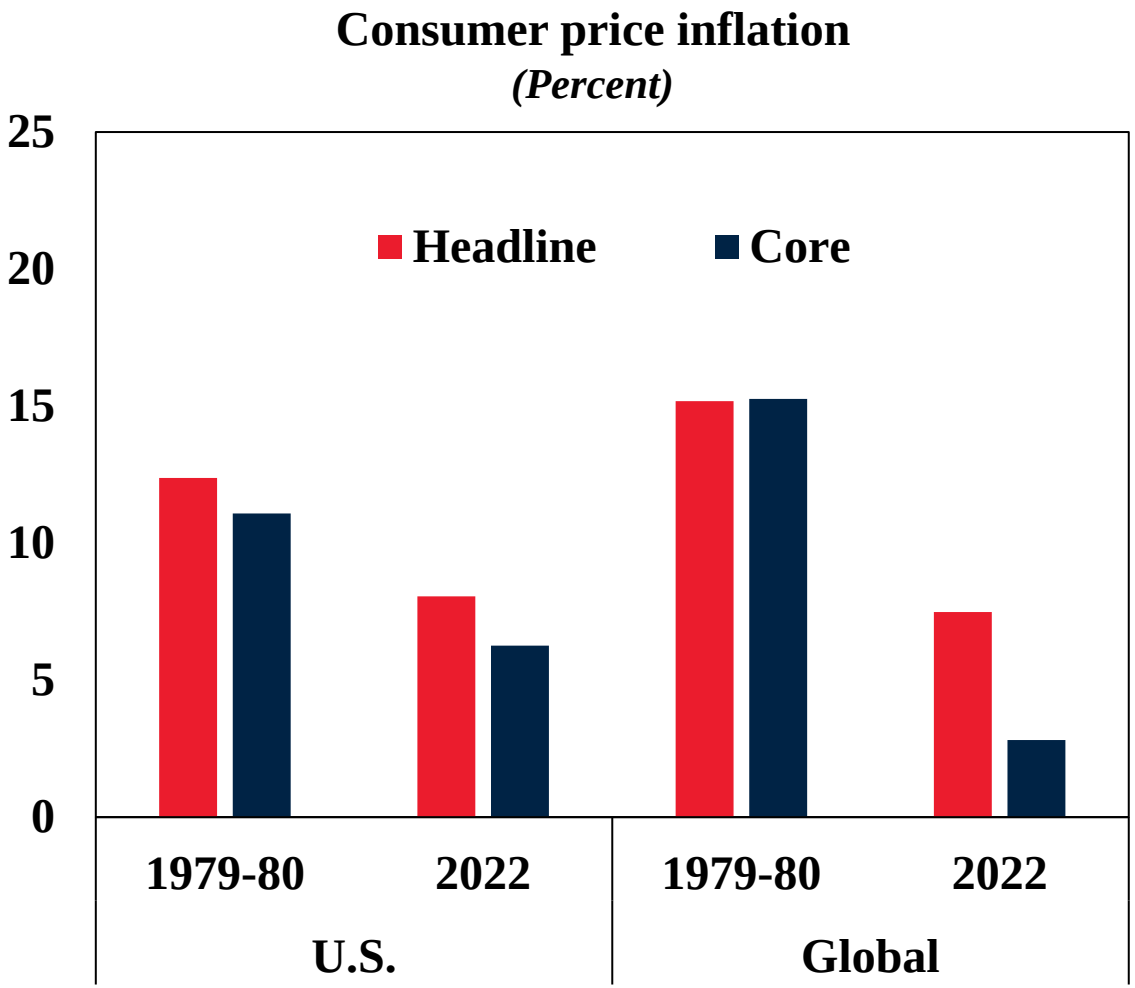


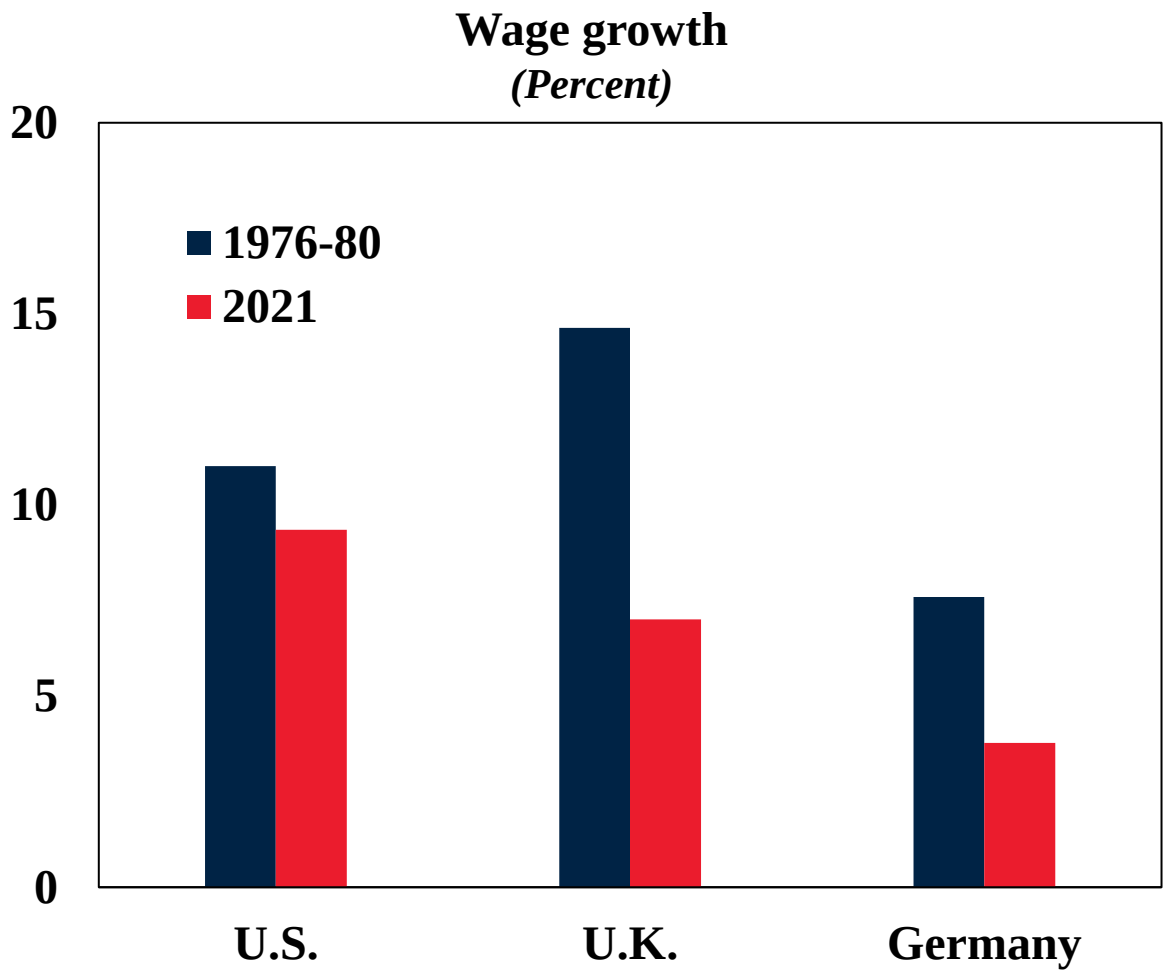
Sources: Ha, Kose, and Ohnsorge (2019); International Monetary Fund; OECD; World Bank.

Left Panel. Based on the clarification of IMF Annual Report on Exchange Arrangements and Exchange Restrictions and country-specific sources. Right Panel: Inflation expectations are five-year-ahead expectations of annual inflation. Inflation shocks are defined as the difference between realized inflation and short-term inflation expectations in the previous period. Sensitivity is estimated using a panel regression of the change in five-year-ahead inflation expectations on inflation shocks. Bars denote medians and vertical lines denote 90 percent confidence intervals. Sample period is divided into the first (1990-2004) and second (2005-2018) sub-periods. Based on a sample of 24 advanced economies and 23 EMDEs.

Differences from the 1970s

For Now, Still Lower Inflation Pressures





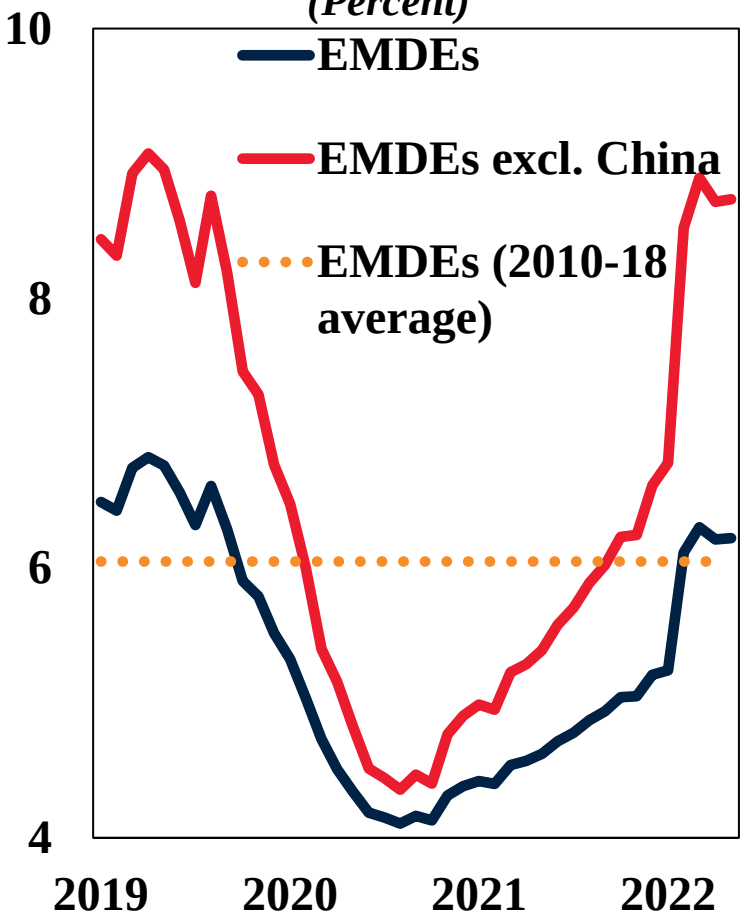
Sources: Ha, Kose, and Ohnsorge (2019); Haver Analytics; International Monetary Fund; OECD; World Bank.
Note: CPI refers to consumer price index. Left Panel. Annual averages of headline and core CPI inflation in the United States and global (average across 66 countries). 2022 is based on the averages of January to April 2022. Right Panel: Annual averages of wage growth. 2022 is based on the averages of January to April 2022.

Monetary Policy

Global Monetary Policy Tightening Underway

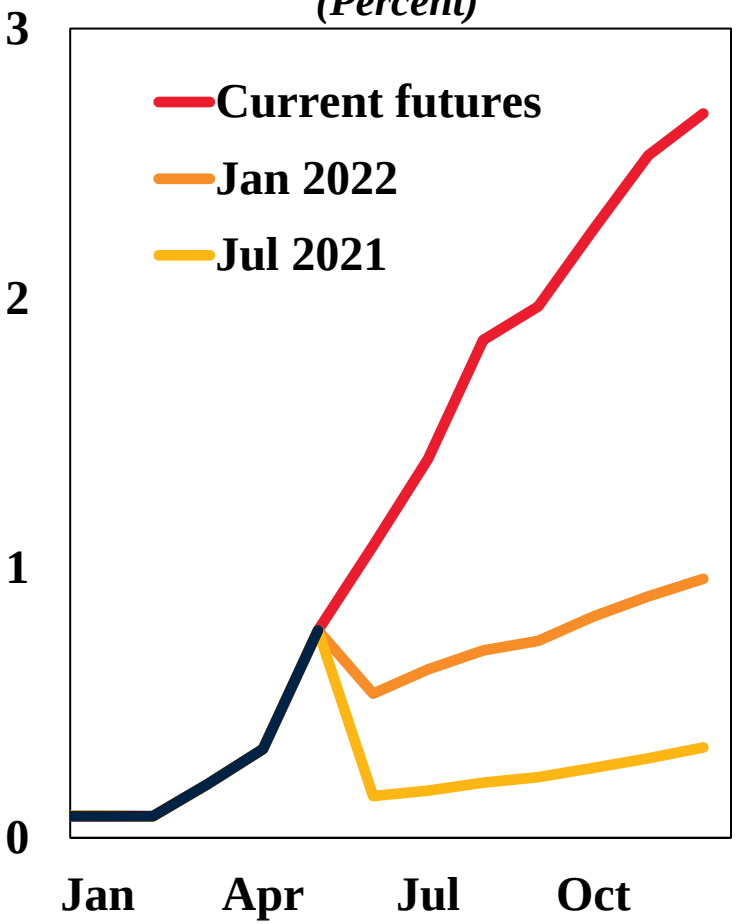
Policy rates in EMDEs

(Percent)



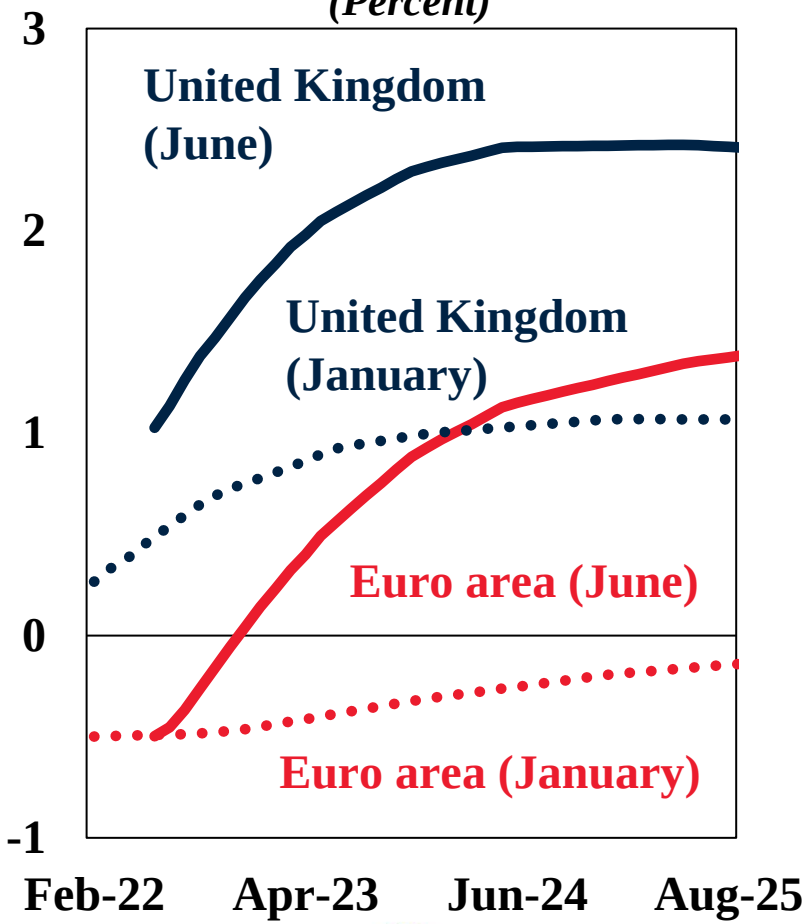
U.S. interest rate expectations, 2022

(Percent)



Interest rate expectations in Europe

(Percent)



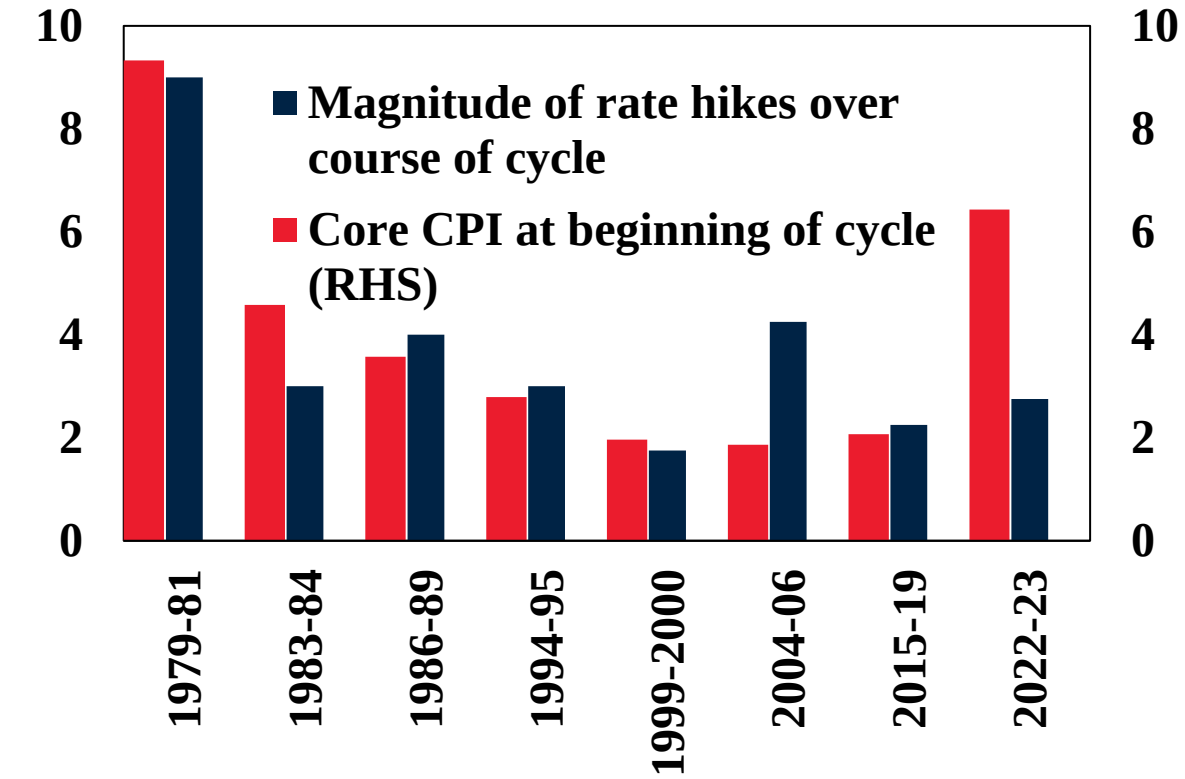
Sources: Bloomberg, Haver Analytics, World Bank.

Left Panel. Sample includes 22 EMDEs. Nominal policy rates using real GDP as weights. Last observation is May 2022. Center and Right Panels. Market expected interest rates based on overnight interest rate swaps. Current futures (for Center Panel) is based on data from June 30, 2022. For Right Panel, January is based on data from January 3, 2022, and June on data from June 2, 2022.

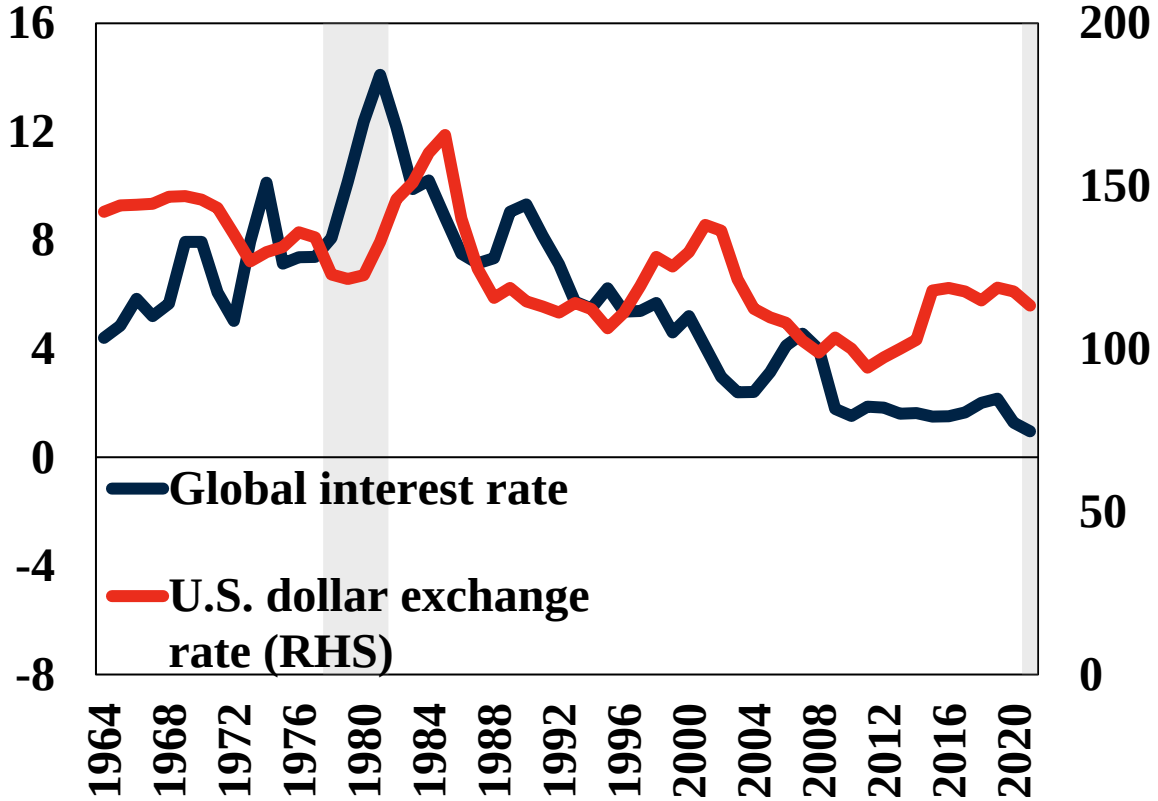
Ending Stagflation

Sharp Rate Hikes

Magnitude of U.S. rate hikes and core CPI during previous Federal Reserve tightening cycles



Global interest rates and U.S. exchange rate

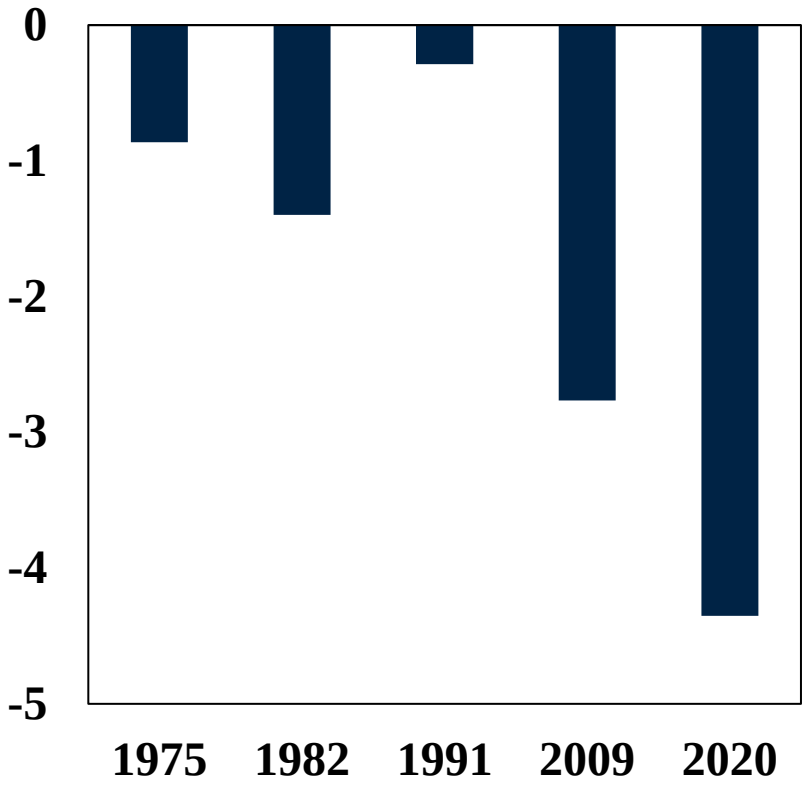


Sources: Bank for International Settlements; Federal Reserve Economic Data; Havers Analytics; World Bank.
Left Panel. Blue bars show the extent of policy rate increases during previous tightening cycles: 1979-81, 1983-84, 1986-89, 1994-95, 1999-2000, 2004-06, 2015-19. Value for 2023 is an estimate based on market expectations for the level of the Fed Funds rate in mid-2023. Core CPI for 2022-23 shows latest data associated with tightening cycle. Right Panel: Figure shows nominal short-term interest rates (Treasury bill rates or money market rates, with the maturity of three months or less) and nominal effective exchange rate for the U.S. dollar. Global interest rates are weighted by GDP in U.S. dollars. Sample includes 113 countries, though the sample size varies by year.

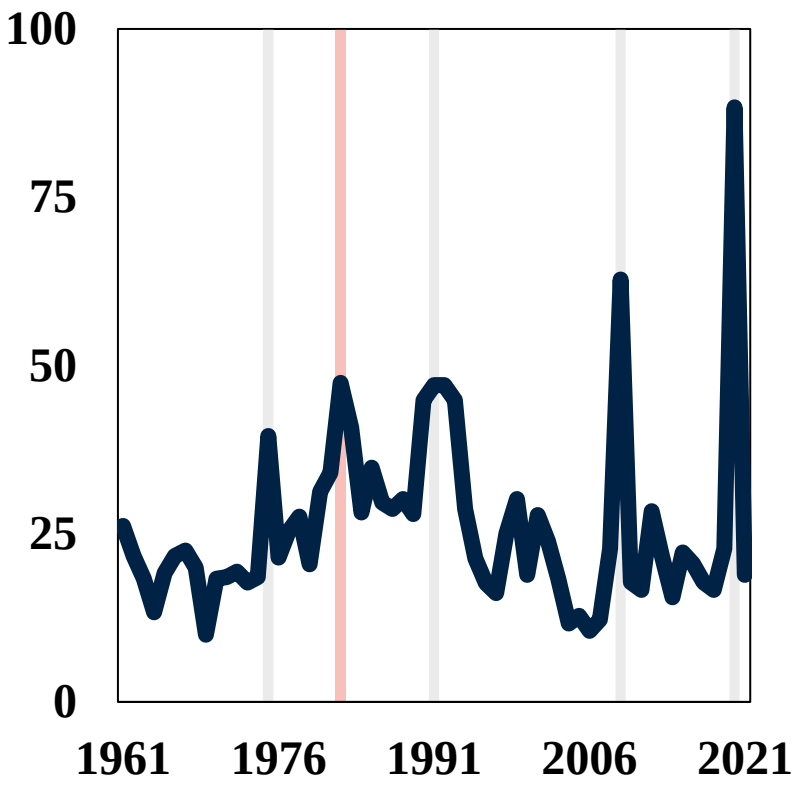
End of Stagflation

Global Recession, EMDE Financial Crises

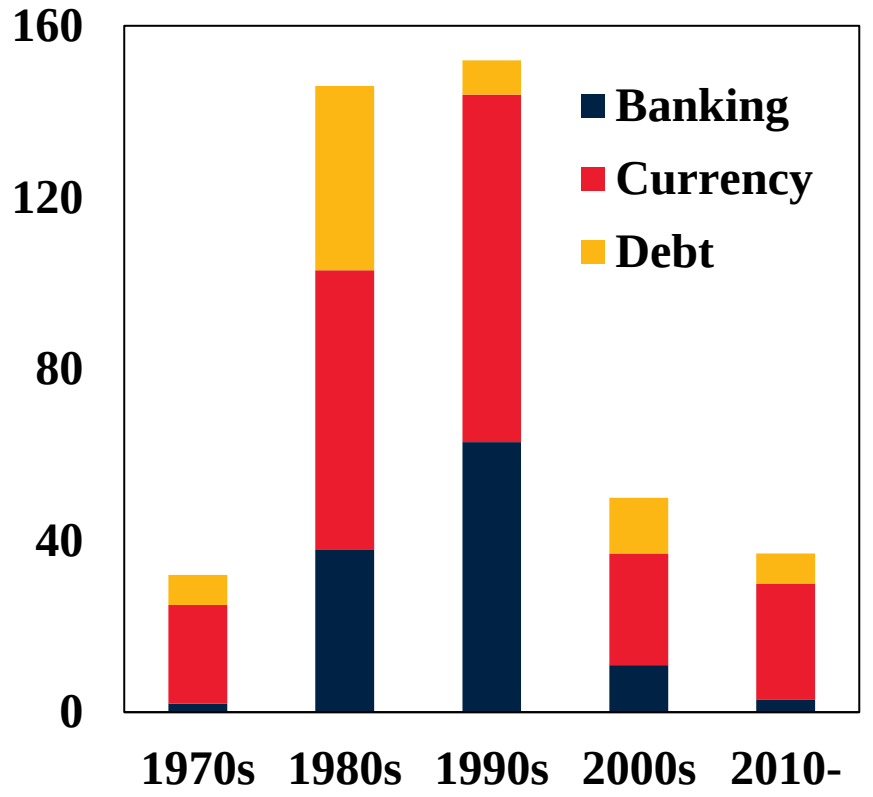
Per capita growth in global recessions
(Percent)



Countries in recession
(Percent of countries)



Financial crises in EMDEs
(Number)



Sources: Haver Analytics; International Monetary Fund; World Bank.
Center Panel: Share of countries in recession, defined as a contraction in per capita GDP. Right Panel: Total number of banking, currency, and sovereign debt crises in EMDEs over respective periods.

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Three Questions

3 **What are the lessons from the 1970s for policy responses to food and energy price shocks, especially in the context of green transition?** *Avoid subsidies, price controls, trade restrictions. Improve efficiency, incentivize new supplies.*

** EMDEs = Emerging Market and Developing Economies*

Global Policy Priorities

Alleviate Short-Term Pressures; Build Long-Term Foundations

Mitigate the effects of the war in Ukraine

- Support humanitarian relief efforts
- Alleviate food insecurity in vulnerable countries
- Undertake reconstruction efforts in areas devastated by the war in Ukraine

Support green, resilient, and inclusive recovery

- Accelerate vaccine rollout, strengthen pandemic preparedness
- Provide debt relief where needed
- Facilitate energy transition away from fossil fuels
- Bolster rules-based international economic order to guard against fragmentation of trade, investment, and financial networks

National Policy Priorities

Manage Short-Term Policy Tradeoffs; Build Long-Term Foundations

Macroeconomic policies

- *Monetary policy.* Prioritize price stability, calibrating policy to avoid derailing recovery
- *Fiscal policy.* Ensure fiscal sustainability while preserving investment and social spending
- *Financial policy.* Enhance financial sector resilience

Structural policies

- Integrate refugees and migrant workers; expand public services
- Improve business climates, promote education, strengthen human capital, raise female labor participation, and boost productivity
- Implement targeted support instead of distortionary policies to respond to high food and energy prices

Coping with High Food and Energy Prices

Mostly Distortive Policies Employed so far; Better Options Available

Policy responses employed so far

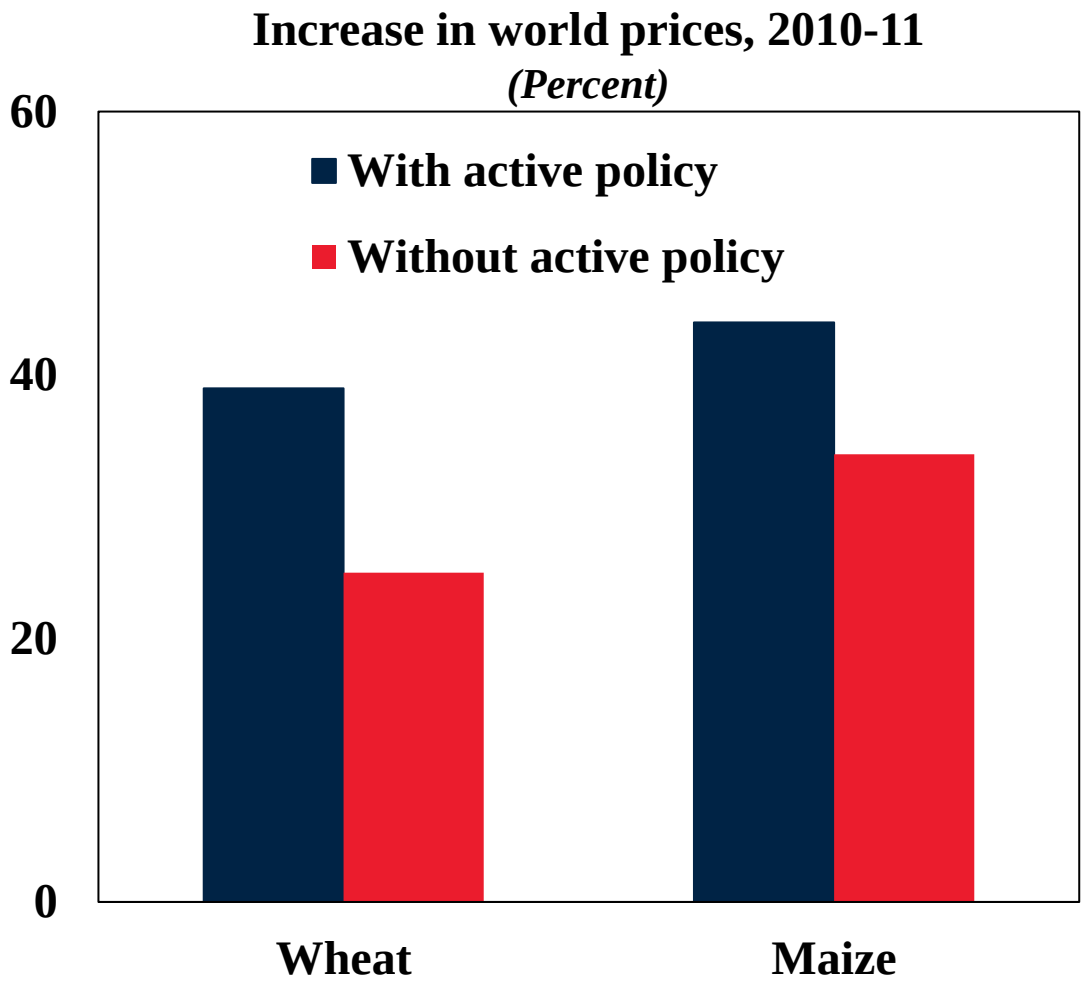
- Reduction in fuel taxes; introduction of fuel subsidies
- Export restrictions on wheat and fertilizers
- Measures to boost energy supply (easing regulations on new installation of renewables)

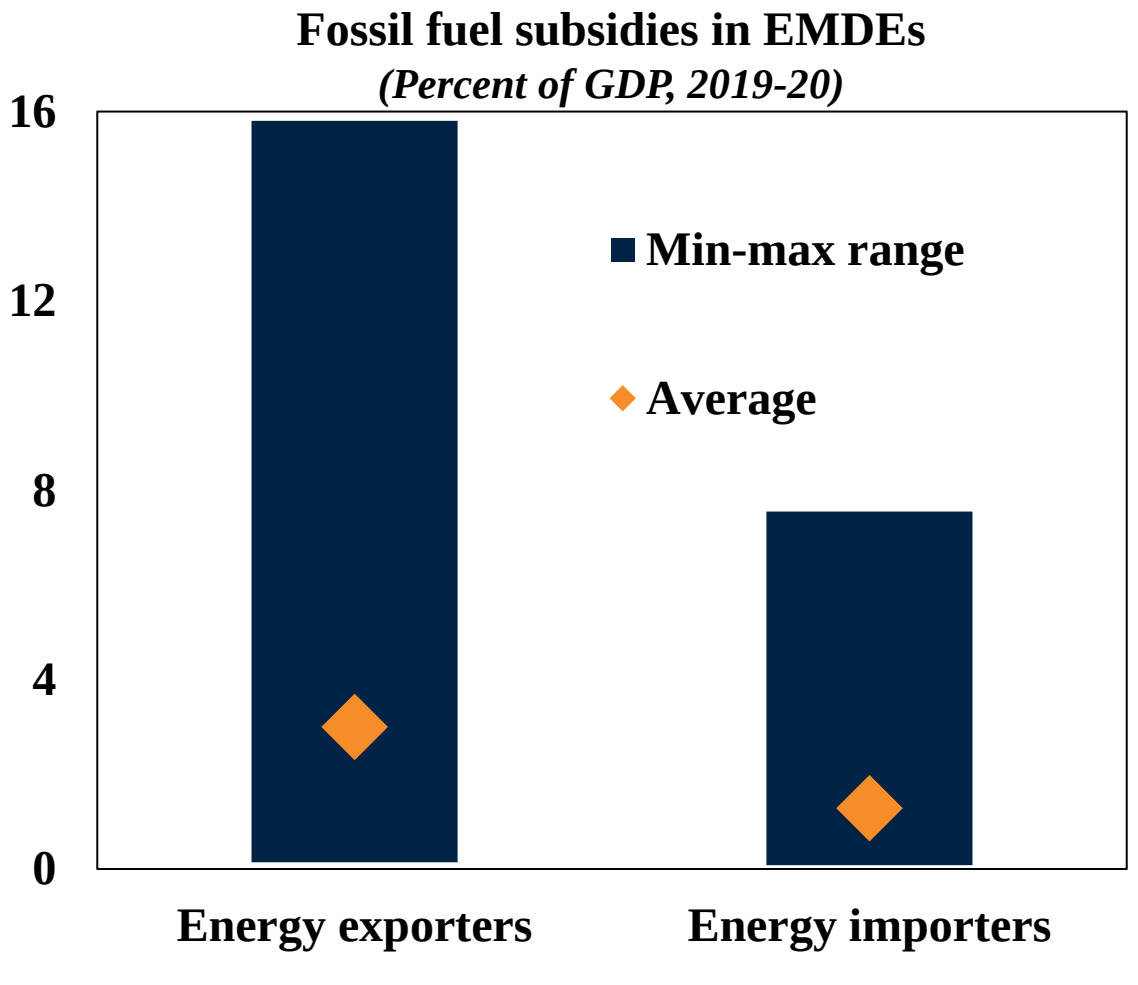
Policy recommendations

- Avoid export bans and price controls
- Prioritize income support over subsidies; if subsidies are needed, ensure they are temporary
- Reduce waste; introduce incentives for efficiency
- Do not divert land to biofuel commodities
- Invest in renewable energy; invest in food technologies to raise yields
- Improve market transparency, facilitate policy dialog

Responses to Commodity Price Shocks

Avoid Trade Restrictions; Subsidies

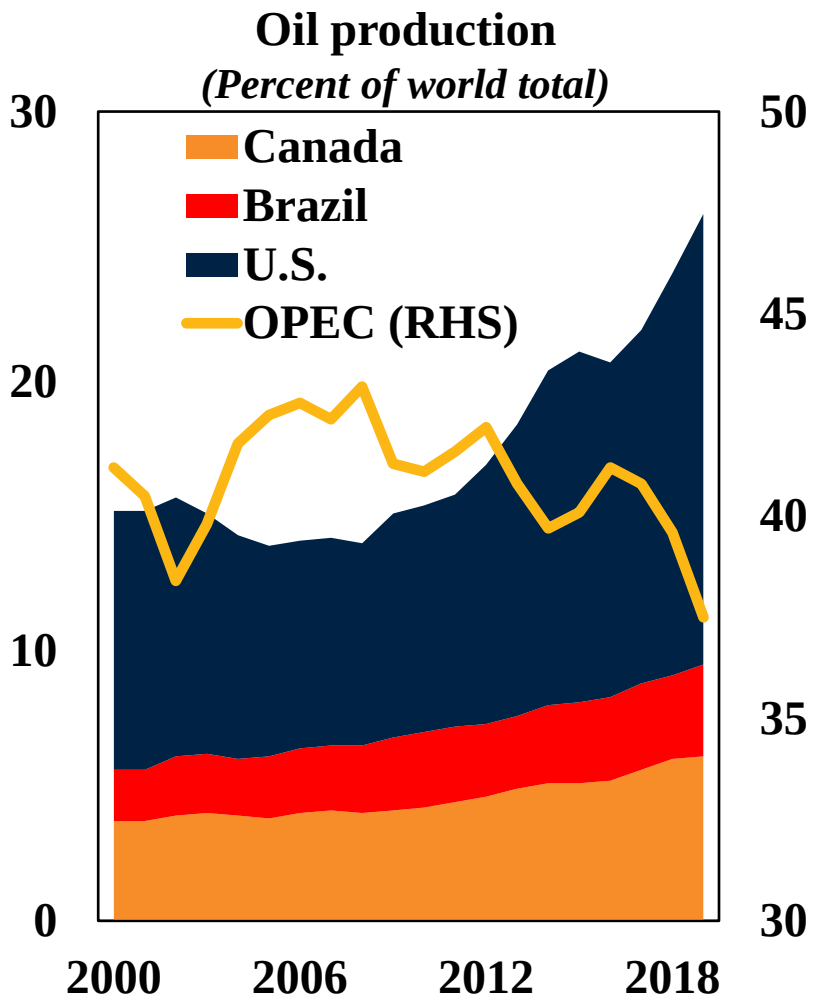


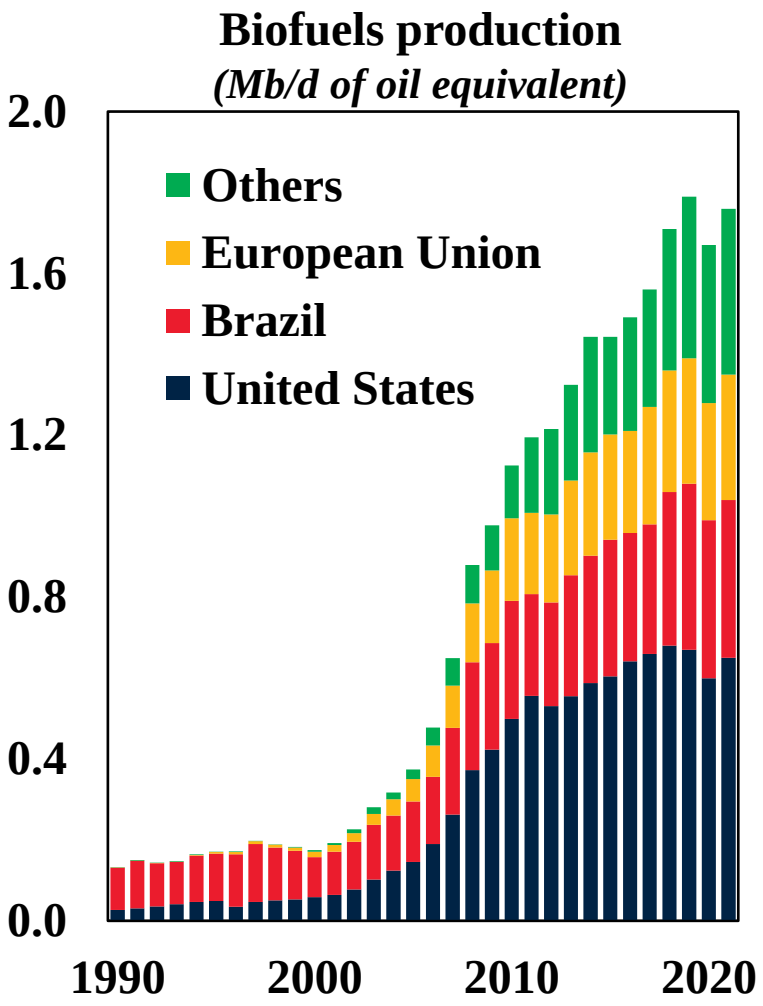


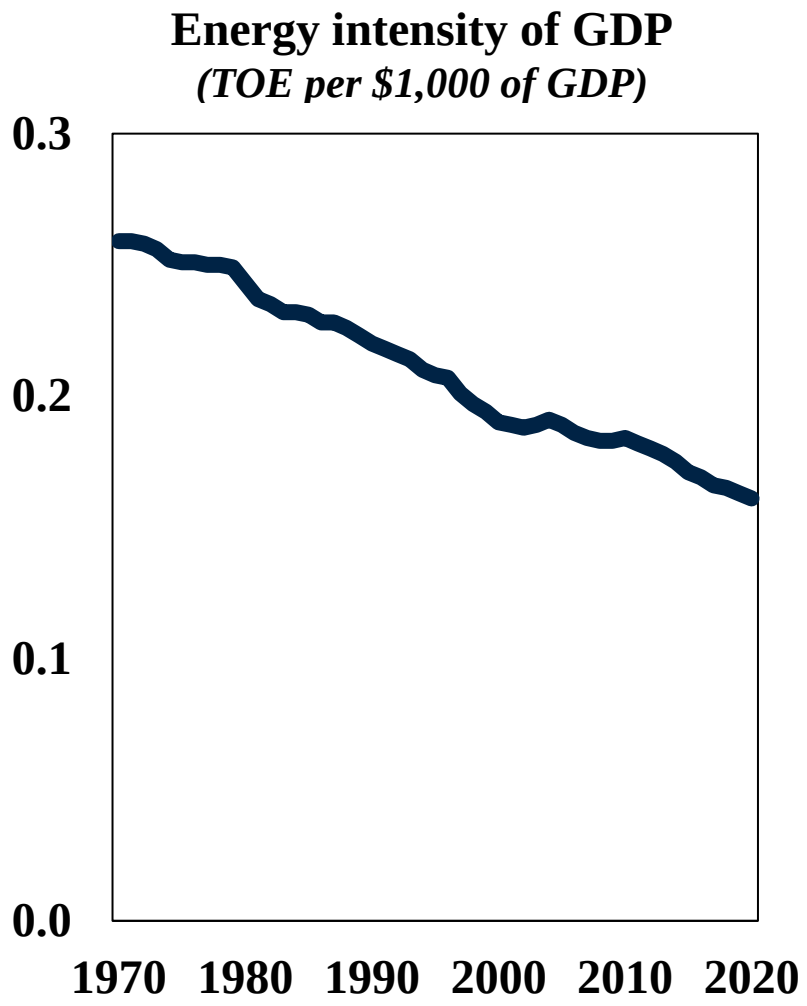
Sources: Ag-Incentives Database; BP; FSIN and GNAFC (2021); Ivanic and Martin (2014); Organisation for Economic Co-operation and Development; World Bank.
Left Panel. Bars represent the sum of people in high levels of food insecurity, as reflected by being in phase 3 or above of the Integrated Food Security Phase Classification (IPC) for 2021. Missing data for each country are imputed based on the regional rate change from 2020 to 2021. Sample size includes 3 SAR (South Asia), 37 SSA (Sub-Saharan Africa), 9 MNA (Middle East and North Africa), and 8 LAC (Latin America and the Caribbean) economies. Center Panel. Estimates based on an error correction model described in Laborde, Lakatos, and Martin (2019). Based on data for 82 countries for the period 2010-11.

Responses to Commodity Price Shocks

Encourage New Supplies, Efficiency





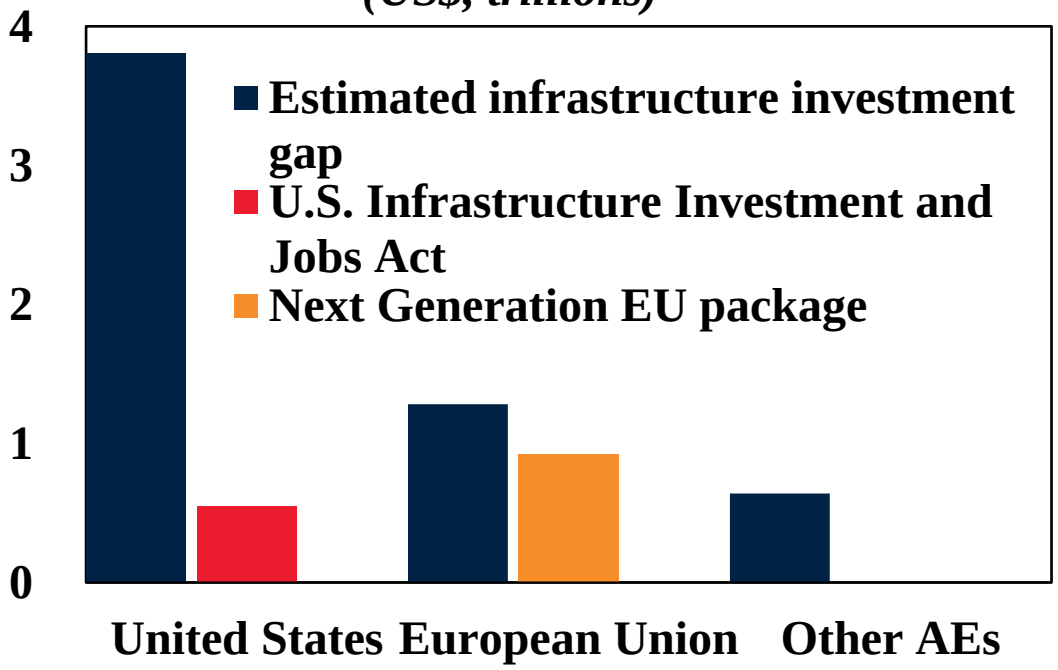


Sources: BP, International Energy Agency U.S. Department of Agriculture, World Bank.
Left Panel. Oil production as share of global production. Right Panel: Energy includes coal, natural gas, and oil. TOE stands for tonnes (metric tons) of oil equivalent. Aggregates calculated using GDP weights at average 2010-19 prices and market exchange rates.

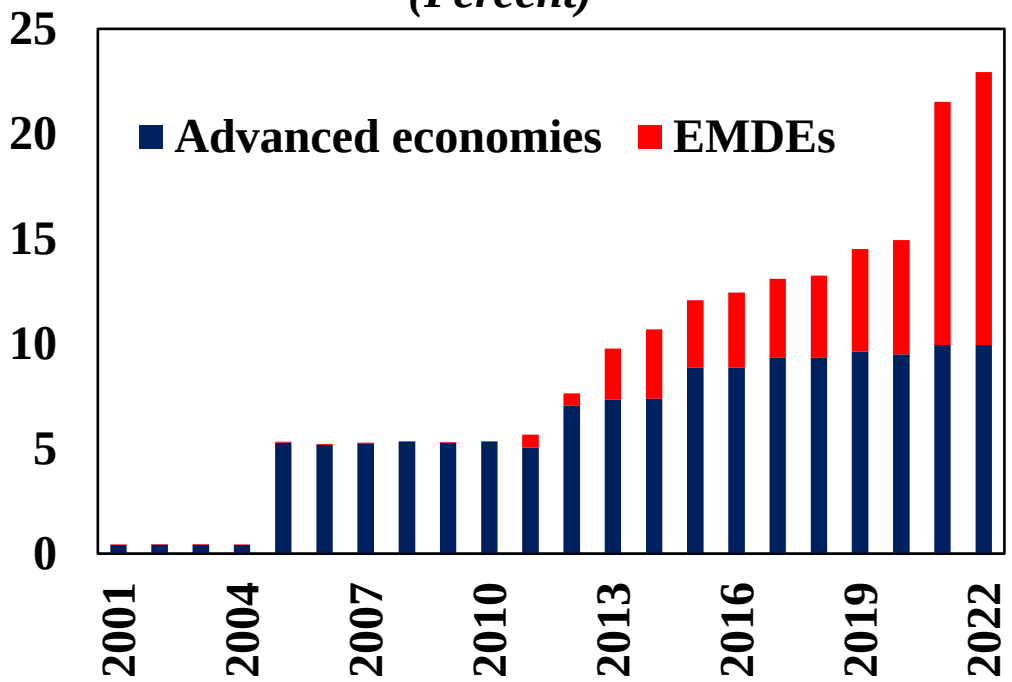
Urgent Policy Action Needed Tackle Climate Change

Efforts could be complemented with other policy priorities

Infrastructure investment gaps and recent fiscal packages
(US$, trillions)



Share of greenhouse gas emissions covered by carbon pricing
(Percent)



Source: Carbon Pricing Dashboard. Global Infrastructure Hub and Oxford Economics (2017), Haver Analytics, World Bank.
Note: EMDEs = emerging market and developing economies. AEs = advanced economies; EU = European union.
Left Panel. Blue bars show the infrastructure investment gap between 2017 and 2040, calculated as the difference between (1) baseline forecasts of infrastructure investment under the assumption that countries continue to invest in line with the pre-2015 trend and (2) the estimated investment needs if countries were to match the performance of their best performing peers, after controlling for differences in the characteristics of each country. Infrastructure investment gap in European Union includes Croatia, France, Germany, Poland, Romania, and Spain. "Other AEs" refers to other advanced economies, including Australia, Canada, France, Germany, Italy, Japan, Republic of Korea, New Zealand, Singapore, Spain, United Kingdom, and United States. Red bar shows the planned new federal spending under the U.S. Infrastructure Investment and Jobs Act. Right Panel. Figure shows the proportion of global greenhouse gas emissions covered by carbon-pricing measures. Sample includes 9 EMDEs and 24 advanced economies.

Three Questions

1 **What are near-term prospects for the global and ECA economy?** *Much shaper global slowdown than expected in January 2022, with broad-based forecast downgrades. Multiple downside risks cloud the outlook.*

2 **Which threat does stagflation present for EMDEs?** *The 1970s stagflation ended with a series of financial crises in EMDEs. These economies are now facing a rising risk of a similar outcome.*

3 **What are the lessons from the 1970s for policy responses to food and energy price shocks, especially in the context of the green transition?** *Avoid subsidies, price controls, trade restrictions. Improve efficiency, incentivize new supplies and seize opportunities.*

** EMDEs = Emerging Market and Developing Economies; ECA = EMDE Europe and Central Asia*

Thanks!

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