

HIGHLIGHTS from Chapter 1: THE GLOBAL OUTLOOK

Key Points

- *Russia's invasion of Ukraine has led to a humanitarian catastrophe, a deep regional slowdown, and substantial negative global spillovers that are magnifying pre-existing strains from the pandemic, such as continued supply bottlenecks and rising inflation.*
- *In this challenging context, global growth is projected to slow sharply from 5.7 percent in 2021 to 2.9 percent in 2022 and 3 percent in 2023-24.*
- *The effects of the war in Ukraine—including more acute inflationary pressures and a faster pace of monetary tightening than previously assumed—account for most of the 1.2 percentage point downward revision to this year's growth forecast.*
- *Despite the negative shock to global activity in 2022, there is essentially no rebound projected next year, with global growth forecast to edge up only slightly to 3 percent.*
- *The global outlook faces significant downside risks, including intensifying geopolitical tensions, an extended period of stagflation reminiscent of the 1970s, widespread financial stress caused by rising borrowing costs, and worsening food insecurity.*
- *Global efforts are urgently required to alleviate the mounting human suffering caused by the war in Ukraine and worldwide food shortages.*
- *International cooperation is also needed to achieve a durable end to the pandemic, particularly in fostering vaccination in the poorest countries, and to enhance global energy security by accelerating the transition toward low-carbon energy sources.*
- *Surging energy and food prices and tightening financial conditions can be addressed in part with safeguards to central bank independence and targeted relief for vulnerable households, as controls on food and energy prices are likely to be ineffective and costly.*
- *Reversing the damage inflicted by pandemic and the war in Ukraine will require measures to prevent fragmentation in trade networks, invest in education and digital technologies, and promote labor force participation through active labor market policies.*

Global activity: faltering recovery. Russia's invasion of Ukraine has not only led to a humanitarian catastrophe, but also a deep regional slowdown and substantial negative global spillovers. As a result, the world economy is expected to experience its sharpest deceleration following an initial recovery from global recession in more than 80 years. Global growth is projected to slow from 5.7 percent in 2021 to 2.9 percent in 2022, as the war in Ukraine disrupts activity and trade in the near term and as policy support is withdrawn amid high inflation (figure A). Growth projections for 2022 have been downgraded for most economies (figure B). Despite the negative shock to global activity in 2022, there is essentially no rebound projected next year. Global growth is forecast to edge up only slightly, to 3 percent in 2023, as many headwinds—in particular, high commodity prices and continued monetary tightening—are expected to persist. The cumulative losses to global activity relative to its pre-pandemic trend are expected to continue mounting over the forecast horizon, especially among EMDE commodity importers.

EMDE outlook: substantial slowdown. EMDE growth is projected to roughly halve in 2022, slowing from 6.6 percent in 2021 to 3.4 percent—well below its average of 4.8 percent over 2011-19. The slowdown in part reflects the spillovers from Russia's invasion of Ukraine, which will



result in a deep downturn in the ECA region, trade disruptions, commodity price volatility, higher input costs, and weaker confidence. These spillovers are strengthening pre-existing headwinds to growth such as rising inflationary pressures, tightening financial conditions, continued withdrawal of policy support, and softening external demand. The growth slowdown in EMDEs also applies to per capita income growth, which is expected to fall from 5.4 percent in 2021 to 2.3 percent in 2022. EMDE per capita incomes will be nearly 5 percent below their pre-pandemic trend in 2022, with many countries reversing progress toward advanced-economy levels (figure C).

Risks to the outlook: tilted to the downside. The war in Ukraine has increased the probability of negative tail risks, many of which are interlinked. Widening geopolitical turmoil could further destabilize global economic activity and, in the longer term, cause global trade, investment, and financial networks to fragment. The increase in energy prices over the past two years—the largest since the 1973 oil crisis—raises concerns that the global economy is entering a period of stagflation reminiscent of the 1970s (figure D). Rising price pressures could require substantially more monetary tightening than currently expected, resulting in widespread financial stress. Food shortages could worsen and spark social unrest, while new, more virulent variants of COVID-19 could emerge and disrupt activity. The simultaneous materialization of several of these downside risks could cause global activity to fall more sharply in 2022 and halve in 2023 (figure E).

Macroeconomic policy challenges: tighten financing conditions and unsustainable debt burdens. Russia's invasion of Ukraine and the resulting surge in inflationary pressures are triggering an acceleration in the pace of monetary tightening in many advanced economies and EMDEs. Many central banks in EMDEs face the challenge of tackling high inflation at a time where the cyclical recovery from the pandemic is fragile and incomplete. This is more daunting in countries with less well anchored inflation expectations and less established monetary policy credibility. As central banks in advanced economies reduce monetary policy accommodation, capital flow volatility and currency depreciation may pose additional challenges to EMDE policy makers. The ability of EMDE fiscal authorities to provide support will be severely limited by tighter financing conditions and higher borrowing costs amid elevated debt loads and depleted policy space. Debt was already on an unsustainable path for many EMDEs prior to the war in Ukraine, and fiscal sustainability is likely to be eroded further by weaker growth prospects and higher borrowing costs.

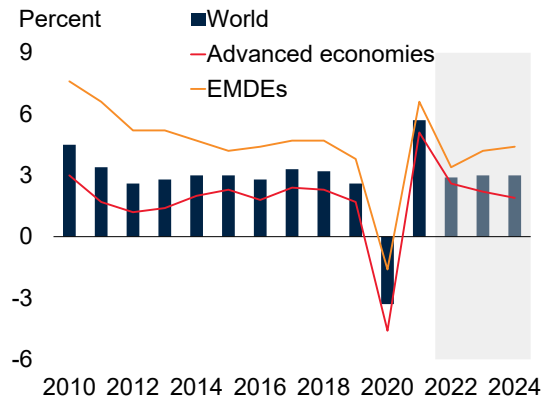
Structural policy priorities: tackling food insecurity and trade fragmentation; fostering education and labor force participation. Many of EMDEs' longer-term challenges have been aggravated by the pandemic and the war in Ukraine. Building resilience to food price volatility is critical, as the war in Ukraine has worsened food insecurity across many EMDEs (figure F). To the extent possible, policy makers in EMDEs should refrain from responding to rising commodity prices by adding to the already-high number of price controls, and instead expand social safety nets, diversify food sources, and accelerate the transition toward low-carbon energy sources. Policy makers in EMDEs should also counter the risk of trade costs being pushed up by trade and financial fragmentation, including by putting in place measures to enhance trade resilience and promote diversification. Finally, policymakers should accelerate the pace of vaccination and reverse the scarring inflicted by the pandemic on growth prospects, including by promoting investments in education and the enhancement of labor force participation through active labor market policies, especially for women.

Global Economic Prospects

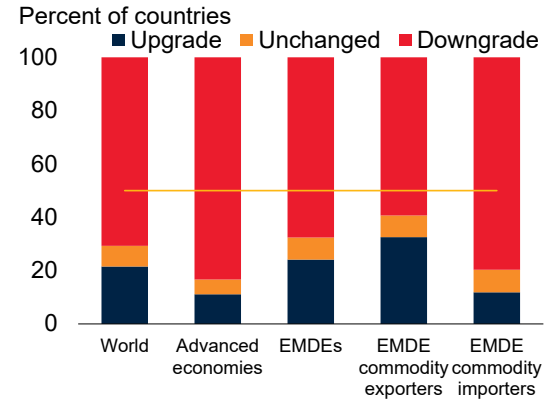
Figure: Global growth prospects and policy challenges

Russia's invasion of Ukraine has significantly accelerated the projected slowdown in global growth. Forecasts for most economies have been downgraded for this year, and EMDE progress toward advanced-economy per capita income levels has slowed. Surging energy and food prices heighten the risk of a prolonged period of stagflation reminiscent of the 1970s. Global growth could be substantially weaker if key negative risks were to materialize. To address rising food insecurity, EMDE policy makers can deploy targeted support rather than distortionary price controls, which are already widespread.

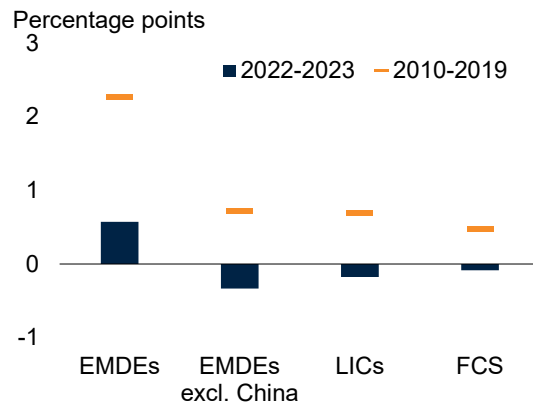
A. Global growth



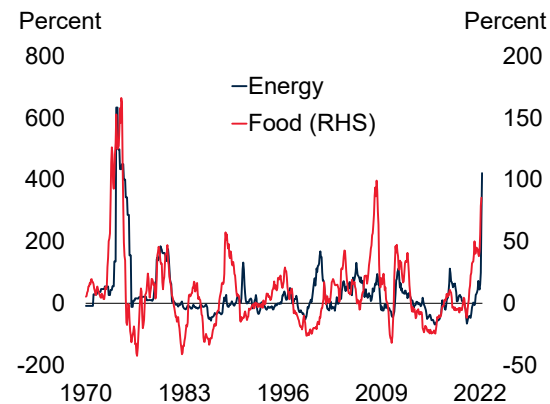
B. Forecast revisions to 2022 growth



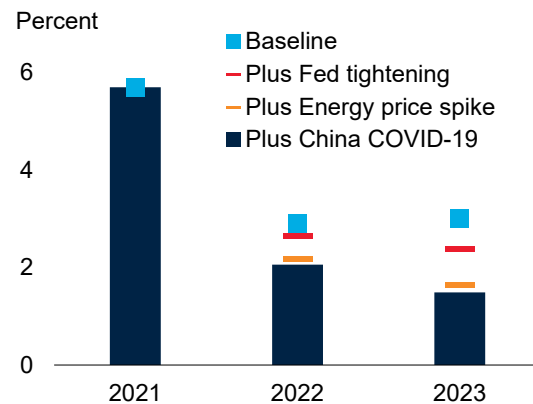
C. EMDE per capita income growth relative to advanced-economy average



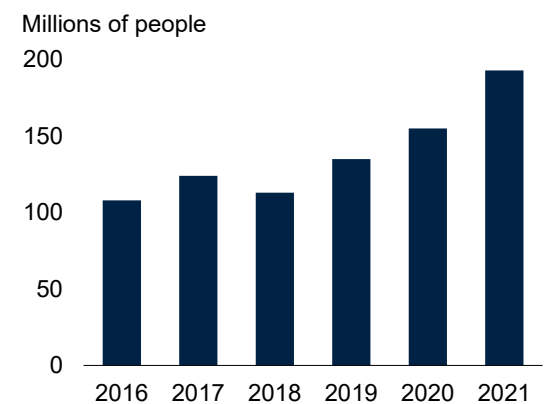
D. Energy and food prices



E. Global growth scenarios



F. Food insecurity



Global Economic Prospects



Sources: Bloomberg; Consensus Economics; Eurostat (database); FSIN and GNAFC (2022); Haver Analytics; International Monetary Fund; Oxford Economics; World Bank.

Note: EMDEs = emerging market and developing economies; LICs = low-income countries; FCS = fragile and conflict-affected situations; EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia, SSA = Sub-Saharan Africa. Unless otherwise indicated, aggregate growth rates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

A. Shaded area indicates forecasts.

B. Forecast revisions are the change in 2022 growth forecasts between January 2022 and June 2022 editions of *Global Economic Prospects*.

C. Relative per capita income growth is computed as the difference in per capita GDP growth between each respective EMDE group and the advanced-economy average.

D. Figure shows percent change in monthly energy and food price indexes 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.

E. Scenario outcomes produced using the Oxford Economics Global Economic Model. Scenarios are linearly additive.

F. Data from the Food Security Information Network's Global Report on Food Crises 2022.

Global Economic Prospects

TABLE 1.1 Real GDP¹

(Percent change from previous year)

	2019	2020	2021e	2022f	2023f	2024f	Percentage point differences from January 2022 projections	
							2022f	2023f
World	2.6	-3.3	5.7	2.9	3.0	3.0	-1.2	-0.2
Advanced economies	1.7	-4.6	5.1	2.6	2.2	1.9	-1.2	-0.1
United States	2.3	-3.4	5.7	2.5	2.4	2.0	-1.2	-0.2
Euro area	1.6	-6.4	5.4	2.5	1.9	1.9	-1.7	-0.2
Japan	-0.2	-4.6	1.7	1.7	1.3	0.6	-1.2	0.1
Emerging market and developing economies	3.8	-1.6	6.6	3.4	4.2	4.4	-1.2	-0.2
East Asia and Pacific	5.8	1.2	7.2	4.4	5.2	5.1	-0.7	0.0
China	6.0	2.2	8.1	4.3	5.2	5.1	-0.8	-0.1
Indonesia	5.0	-2.1	3.7	5.1	5.3	5.3	-0.1	0.2
Thailand	2.2	-6.2	1.6	2.9	4.3	3.9	-1.0	0.0
Europe and Central Asia	2.7	-1.9	6.5	-2.9	1.5	3.3	-5.9	-1.4
Russian Federation	2.2	-2.7	4.7	-8.9	-2.0	2.2	-11.3	-3.8
Turkey	0.9	1.8	11.0	2.3	3.2	4.0	0.3	0.2
Poland	4.7	-2.2	5.9	3.9	3.6	3.7	-0.8	0.2
Latin America and the Caribbean	0.8	-6.4	6.7	2.5	1.9	2.4	-0.1	-0.8
Brazil	1.2	-3.9	4.6	1.5	0.8	2.0	0.1	-1.9
Mexico	-0.2	-8.2	4.8	1.7	1.9	2.0	-1.3	-0.3
Argentina	-2.0	-9.9	10.3	4.5	2.5	2.5	1.9	0.4
Middle East and North Africa	0.9	-3.7	3.4	5.3	3.6	3.2	0.9	0.2
Saudi Arabia	0.3	-4.1	3.2	7.0	3.8	3.0	2.1	1.5
Iran, Islamic Rep. ³	-6.8	3.4	4.1	3.7	2.7	2.3	1.3	0.5
Egypt, Arab Rep. ²	5.6	3.6	3.3	6.1	4.8	5.0	0.6	-0.7
South Asia	4.1	-4.5	7.6	6.8	5.8	6.5	-0.8	-0.2
India ³	3.7	-6.6	8.7	7.5	7.1	6.5	-1.2	0.3
Pakistan ²	3.1	-0.9	5.7	4.3	4.0	4.2	0.9	0.0
Bangladesh ²	7.9	3.4	6.9	6.4	6.7	6.9	0.0	-0.2
Sub-Saharan Africa	2.6	-2.0	4.2	3.7	3.8	4.0	0.1	0.0
Nigeria	2.2	-1.8	3.6	3.4	3.2	3.2	0.9	0.4
South Africa	0.1	-6.4	4.9	2.1	1.5	1.8	0.0	0.0
Angola	-0.7	-5.2	0.7	3.1	3.3	3.2	0.0	0.5
Memorandum items:								
Real GDP¹								
High-income countries	1.7	-4.6	5.1	2.7	2.2	2.0	-1.1	-0.2
Middle-income countries	4.0	-1.3	6.8	3.3	4.2	4.5	-1.3	-0.3
Low-income countries	4.8	1.9	3.9	4.1	5.3	5.7	-0.8	-0.6
EMDEs excluding Russian Federation and Ukraine	3.9	-1.5	6.7	4.2	4.5	4.5	-0.5	0.0
EMDEs excluding China	2.5	-4.0	5.6	2.7	3.4	4.0	-1.5	-0.4
Commodity-exporting EMDEs	1.8	-3.8	4.8	1.2	2.6	3.2	-2.1	-0.5
Commodity-exporting EMDEs excluding Russian Federation and Ukraine	1.8	-4.0	4.8	3.7	3.3	3.4	0.3	-0.1
Commodity-importing EMDEs	4.9	-0.4	7.5	4.4	4.9	5.0	-0.8	-0.1
Commodity-importing EMDEs excluding China	3.2	-4.2	6.6	4.6	4.5	4.9	-0.7	-0.1
EM7	4.5	-0.5	7.3	3.3	4.3	4.7	-1.5	-0.4
World (PPP weights) ⁴	2.9	-3.0	6.0	3.1	3.4	3.5	-1.3	-0.2
World trade volume⁵	1.4	-8.0	10.3	4.0	4.3	3.8	-1.8	-0.4
Commodity prices⁶								
Oil price	-9.9	-33.9	66.5	42.0	-8.0	-13.0	35.0	3.8
Non-energy commodity price index	-4.2	3.3	32.7	17.9	-8.1	-3.1	19.9	-4.1

Source: World Bank.

1. Headline aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates. The aggregate growth rates may differ from the previously published numbers that were calculated using GDP weights at average 2010 prices and market exchange rates. Data for Afghanistan and Lebanon are excluded.

2. GDP growth rates are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. Pakistan's growth rates are based on GDP at factor cost. The column labeled 2022 refers to FY2021/22.

3. GDP growth rates are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. The column labeled 2022 refers to FY2022/23.

4. World growth rates are calculated using average 2010-19 purchasing power parity (PPP) weights, which attribute a greater share of global GDP to emerging market and developing economies (EMDEs) than market exchange rates.

5. World trade volume of goods and nonfactor services.

6. Oil price refers to the Brent crude oil benchmark. The non-energy index is the weighted average of 39 commodity prices (7 metals, 5 fertilizers, and 27 agricultural commodities). For additional details, please see <https://www.worldbank.org/commodities>.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given date. For the definition of EMDEs, commodity exporters, and commodity importers, please refer to table 1.2. EM7 includes Brazil, China, India, Indonesia, Mexico, the Russian Federation, and Turkey. The World Bank is currently not publishing economic output, income, or growth data for Turkmenistan and República Bolivariana de Venezuela owing to lack of reliable data of adequate quality. Turkmenistan and República Bolivariana de Venezuela are excluded from cross-country macroeconomic aggregates.