



Small States: *Faltering Recovery, Multiplying Challenges*

M. Ayhan Kose
April 2022



Two Questions

1

What are near-term growth prospects for small states? *A lagging recovery from the pandemic is being further held back by global supply shocks. Geopolitical tensions associated with the war amplify risks, including financial stress, inflation, supply disruptions, food insecurity, social tensions, fragmentation of trade, investment, and financial networks.*

2

What are the policy priorities? *Supporting the vulnerable through the period of high food and energy prices; facilitating trade; mitigating debt vulnerabilities; accelerating vaccinations; preparing for climate change and natural disasters; addressing structural barriers to growth.*

² * EMDEs = Emerging Market and Developing Economies

Two Questions

1

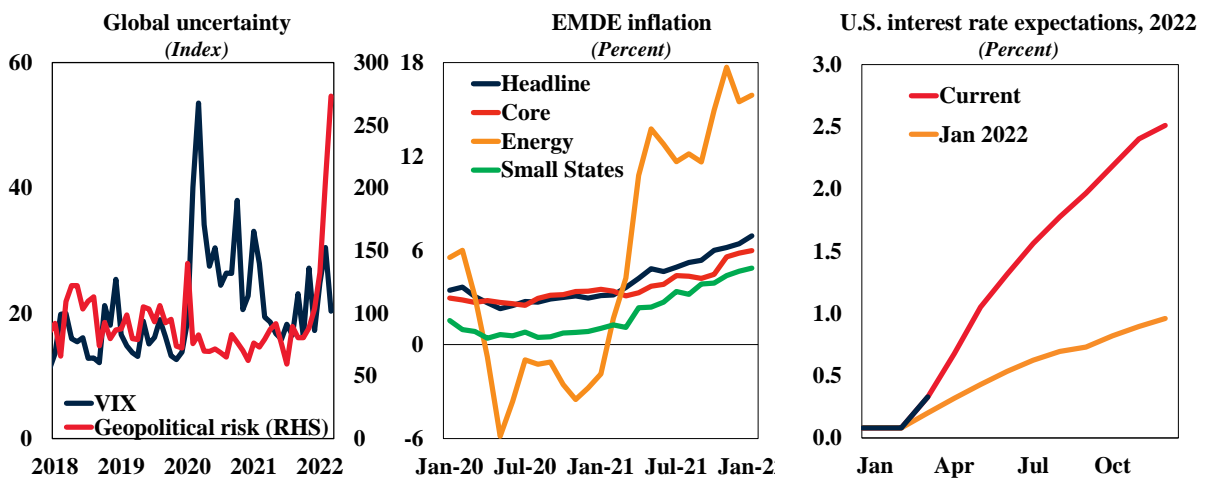
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Global Economic Environment

High Uncertainty; Rising Inflation; Tightening Financial Conditions

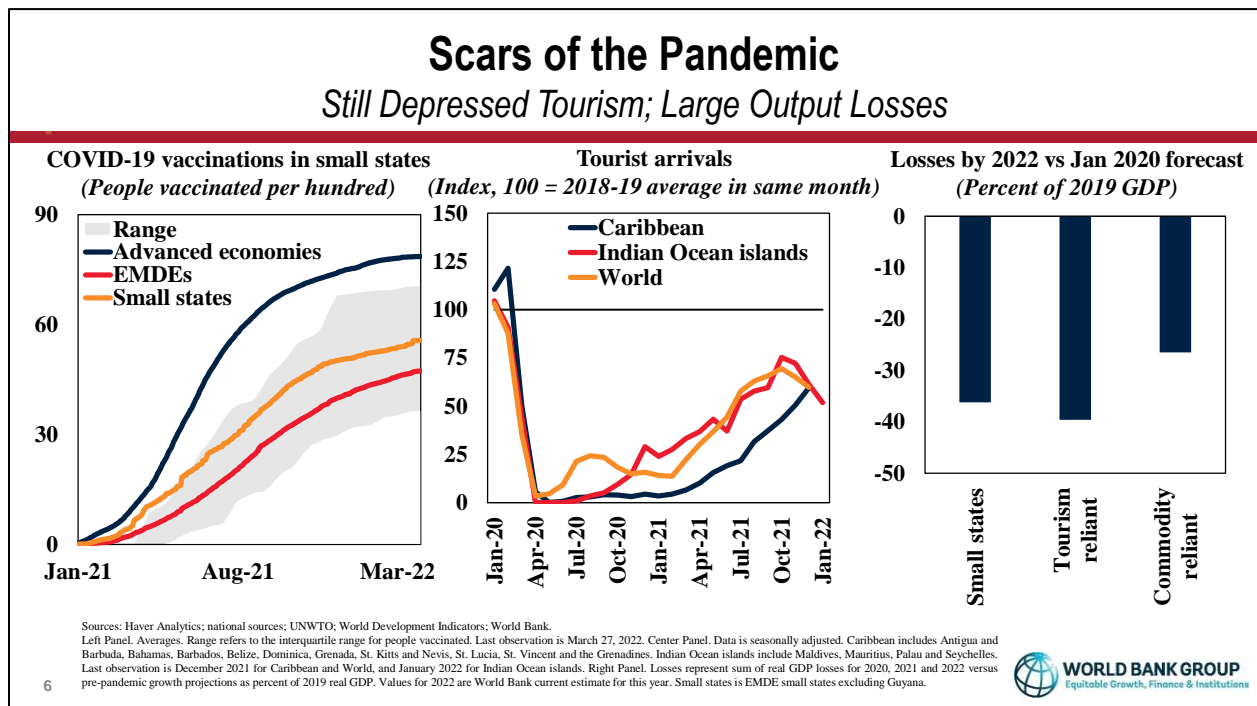
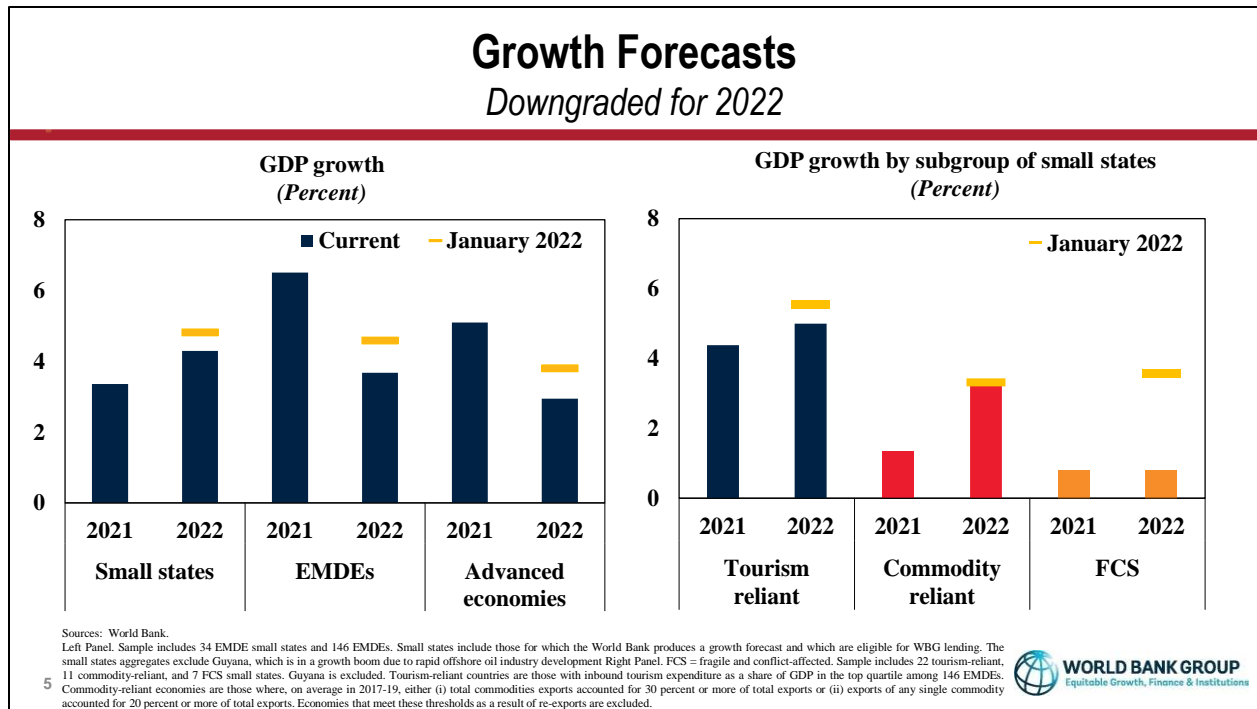


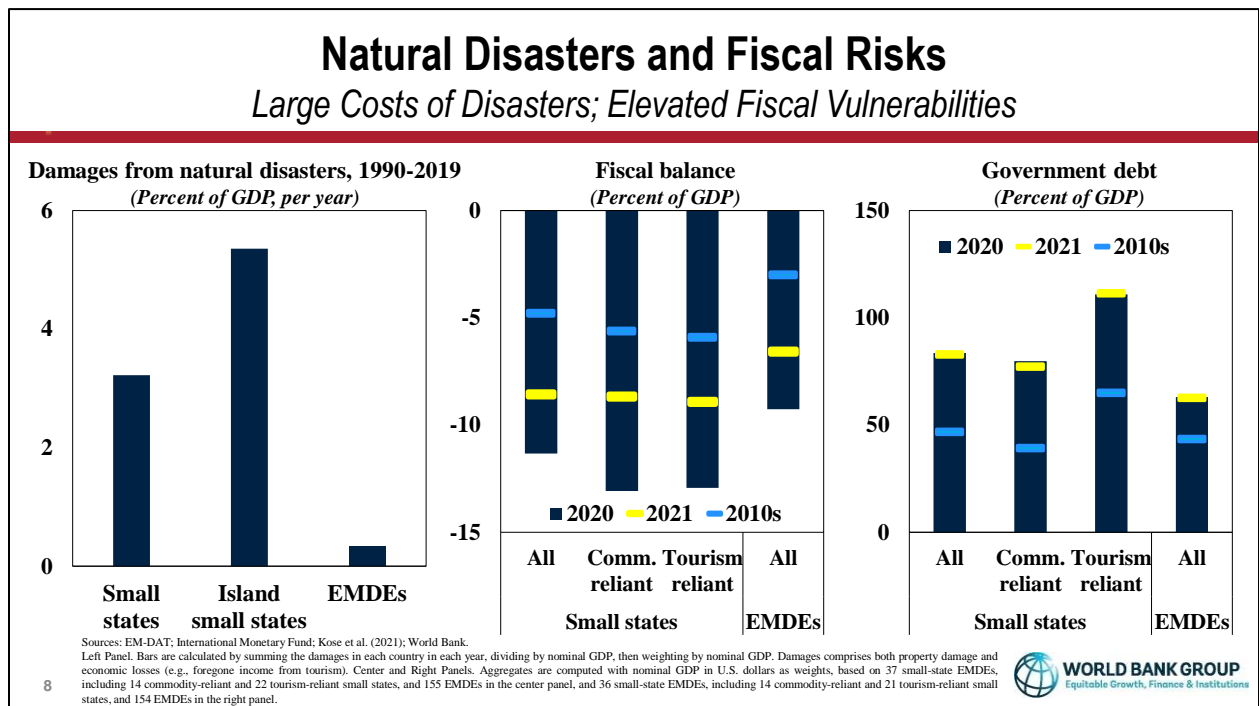
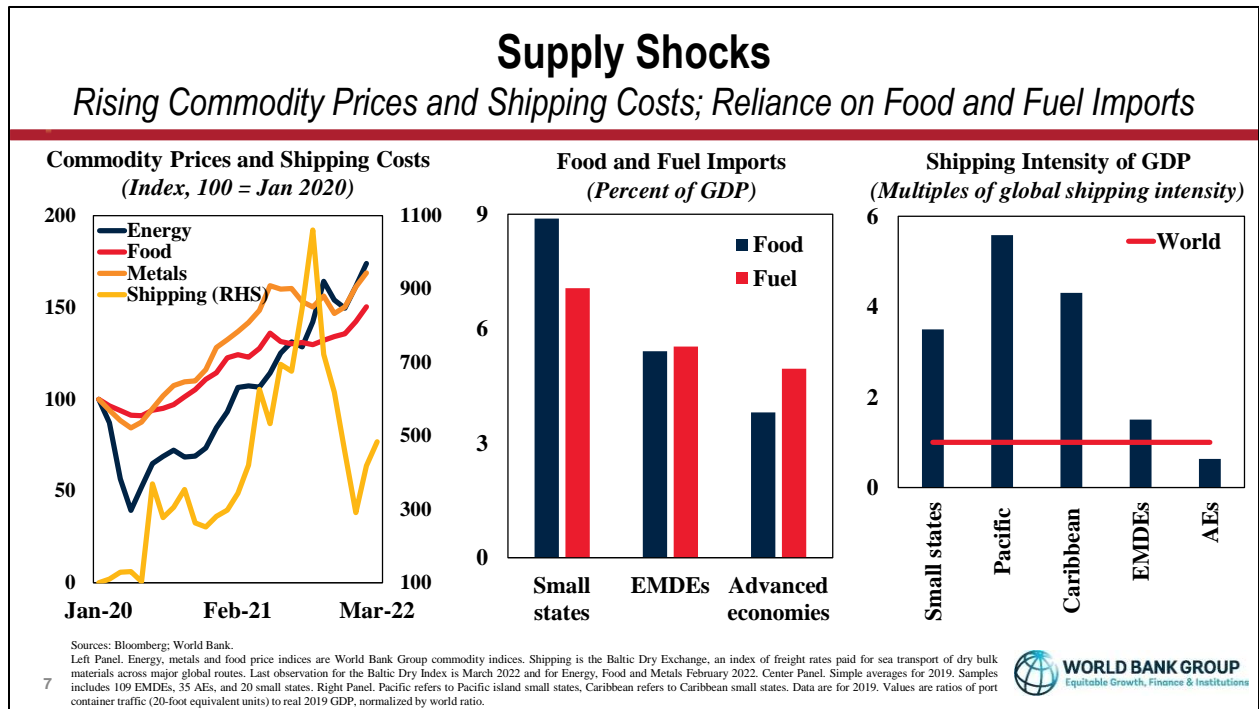
Sources: Bloomberg; Caldara and Iacoviello (2021), Haver Analytics, World Bank.

Left Panel. VIX refers to 30-day expectation of U.S. equity volatility. End-month data are presented. Global geopolitical risk is represented by the benchmark index developed in Caldara and Iacoviello (2021). Monthly averages of daily data are presented. Last observation is March 2022. Center Panel. Year-on-year group median inflation for 81 countries, of which 31 are advanced economies, 50 are EMDEs and 15 small states (a geographically distributed sample of small states). Last observation is February 2022 except for small states, which is January 2022. Right Panel: Market expected interest rates based on overnight interest rate swaps. Data from April 6, 2022.

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Risks - 1

Before the War: Multiple Risks

A central image of the Earth is surrounded by seven red rounded rectangular boxes containing the following text: Financial stress, Inflation, Supply disruptions, COVID-19 outbreaks, Weaker longer-term growth prospects, and Climate-related disasters.

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Risks - 2

After the War: Multiplying and Mutually Amplifying Risks

A central image of the Earth is surrounded by ten red rounded rectangular boxes containing the following text: Geopolitical tensions, Financial stress, Inflation, Supply disruptions, COVID-19 outbreaks, Weaker longer-term growth prospects, Energy and food insecurity, Social tensions, Cyber-security risks, Climate-related disasters, and Fragmentation of trade, investment, and financial networks.

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Two Questions

2

What are the policy priorities? *Supporting the vulnerable through the period of high food and energy prices; facilitating trade; mitigating debt vulnerabilities; accelerating vaccinations; preparing for climate change and natural disasters; addressing structural barriers to growth.*

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Policy Priorities

Bolstering Resilience to Short-term Shocks and Boosting Long-term Growth

Bolstering resilience to shocks

- Limit immediate impact of food and fuel inflation on vulnerable groups through targeted transfers
- Balance need for macroeconomic support with fiscal sustainability and price / financial stability
- Increase support for disaster risk-pooling mechanisms to enable rapid response financing
- Accelerate vaccination; address hesitancy problem
- Support investment in renewable energy sources to reduce reliance on imported fossil fuels
- Coordinate policies globally to reduce debt burdens and enhance debt transparency
- Coordinate policies to address global challenges related to climate change

Boosting long-term growth prospects

- Enhance digital infrastructure and inclusion to leverage new economic opportunities
- Invest in education and healthcare to build human capital and remediate pandemic-related scarring
- Enhance infrastructure, logistical capacity and policies to reduce trade costs
- Pursue economic diversification and foster new sectors to reduce growth volatility (*"work-from-anywhere" economy; sustainable "blue-economy" industries*)

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Questions & Comments

Thank you!

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Commodity Markets Outlook – [April 26, 2022](#); New Study “Commodity Markets” – [May 2022](#) www.worldbank.org/commodities

The screenshot displays the World Bank's Commodity Markets website. The main article, "Commodity prices soared further in March—Pink Sheet," reports that energy prices surged 24.1% in March, led by crude oil (+20.2%), coal (+49.8%), and natural gas. It also notes that agricultural prices climbed 7.2% and food prices increased 11.6%, led by grains (+4.5%) and oils & meals (+2.1%). A bar chart titled "Nominal price indexes, percent changes, March over February" shows the following data:

Commodity Group	Percent Change (March over February)
Energy	24.1%
Non-energy	1.9%
Agriculture	7.2%
Services	-1.0%
Food	11.6%
Non-fuels	+1.9%
Fuels	24.1%
Metals & Minerals	7.2%
Processed	1.9%

Select Publications by World Bank EPI Prospects Group

- [Global Economic Prospects – June 2022](#)
(January and June)
- [Commodity Markets Outlook – April 2022](#)
(April and October)
- [Global Monthly](#)
- [From Low to High Inflation: Implications for Emerging and Developing Economies – April 2022](#)
- [One-Stop Source: Global Database of Inflation – July 2021](#)
- [Inflation During the Pandemic “What Happened? What is Next?” – July 2021](#)
- [What Has Been the Impact of COVID-19 on Debt? Turning a Wave Into A Tsunami – December 2021](#)
- [A Mountain of Debt: Navigating the Legacy of the Pandemic – October 2021](#)
- [The Aftermath of Debt Surges – September 2021](#)