WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

January 2022

Overview

- According to the January 2022 Global Economic Prospects report, global growth will slow markedly this year and next.
- In contrast to advanced economies, output in emerging and developing economies (EMDEs) is not expected to return to pre-pandemic output trends by 2023.
- The global outlook is subject to downside risks, including pandemic resurgence, worsening supply bottlenecks, a de-anchoring of inflation expectations, and financial stress.

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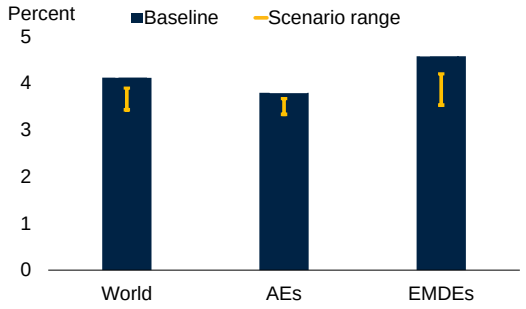
Chart of the Month

- Model-based scenario analysis suggests that simultaneous Omicron-driven economic disruptions could reduce global growth by between 0.2 to 0.7 percentage point.
- The effects of severe Omicron outbreaks would likely be felt most acutely by those countries that can least afford a further slowing of growth—including EMDEs with limited policy space or a notable reliance on tourism.
- The vast majority of the shock would be felt in the first quarter of 2022, followed by a notable bounce back in the second quarter.

Possible Omicron-driven global growth outcomes for 2022



Source: World Bank.
Note: AEs = advanced economies; EMDEs = emerging market and developing economies. Yellow lines denote the range of the downside scenario in which economies (18 advanced economies and 22 EMDEs) face a range of unanticipated pandemic shocks, scaled from about one-tenth to about two-tenths of the size of those from the first half of 2020.

Special Focus: Resolving high debt after the pandemic

- Global debt levels surged in 2020, and many countries currently in debt distress, or at risk of becoming so, may eventually need debt relief.
- Frameworks such as the Paris Club, the Brady Plan, the Heavily Indebted Poor Countries Initiative, and the Multilateral Debt Relief Initiative have coordinated debt relief efforts in the past.
- Currently, the G20's Common Framework for debt treatment provides a structure to initiate debt restructuring for eligible countries, but largely avoids the issue of outright debt reductions.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Patrick Kirby and Philip Kenworthy under the supervision of Carlos Arteta. This *Global Monthly* reflects data available up to January 18th, 2022. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: slowing growth. Global growth is expected to slow to 4.1 percent in 2022, from 5.5 percent in 2021. Growth is expected to soften further in 2023, to 3.2 percent, as pent-up demand dissipates and supportive monetary and fiscal policies are unwound. Most EMDEs are not expected to experience sufficiently strong growth to return output to pre-pandemic trends by next year (figure 1.A).

Pandemic developments: COVID-19 surging. Global caseloads have surged in recent weeks, as the emergence of the Omicron variant fuels massive outbreaks. Most governments have shied away from reimposing lockdowns, relying instead on accelerated vaccinations in concert with widespread masking, expanded testing, and limits on large gatherings. At recent vaccination rates, only about a third of the LIC population would be inoculated by the end of 2023 (figure 1.B).

Global trade: constrained supply. The recovery in global trade has reflected a rotation of global demand toward highly trade-intensive manufactured goods, while services trade (particularly tourism) remains relatively subdued. Strains in global supply chains continue as a result of pandemic-related factory and port shutdowns, weather-induced logistics bottlenecks, and an acute shortage of semiconductors and shipping containers, though recent measures of supply backlogs and delivery times suggest a nascent easing. After reaching 9.5 percent in 2021, global trade is expected to slow to 5.8 percent in 2022 and to 4.7 percent in 2023 as growth slows and the pandemic-era rotation into goods moderates.

Commodity markets: elevated energy prices. Energy prices surged in the second half of 2021 and are currently projected to be much higher in 2022 than previously expected (figure 1.C). Natural gas and coal prices rose particularly sharply in 2021. Energy demand has been lifted by firming global activity and adverse weather, while global oil output rebounded more slowly than expected owing to supply outages and production constraints, in addition to a muted response to higher prices by U.S. shale oil production. Non-energy commodity prices have largely stabilized at high levels. Metals and agricultural prices are expected to soften somewhat in 2022.

Global inflation: heightened price pressures. Global inflation repeatedly surprised to the upside in recent months, with median headline consumer price inflation reaching 5.3 percent (year-on-year) in November 2021, up from a pandemic-related

FIGURE 1.A Deviation of output from pre-pandemic trends

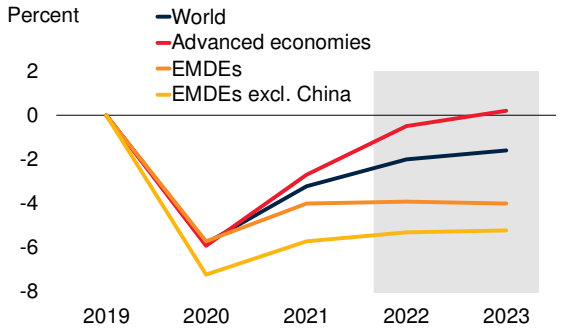


FIGURE 1.B Projected vaccine coverage based on recent vaccination rates

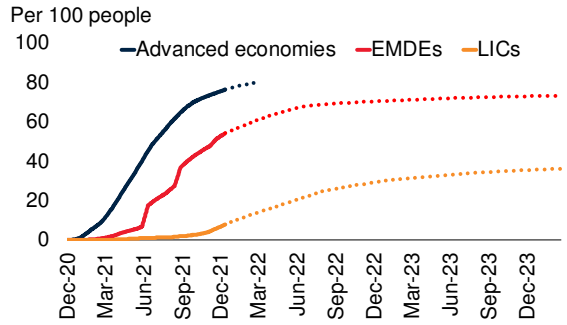
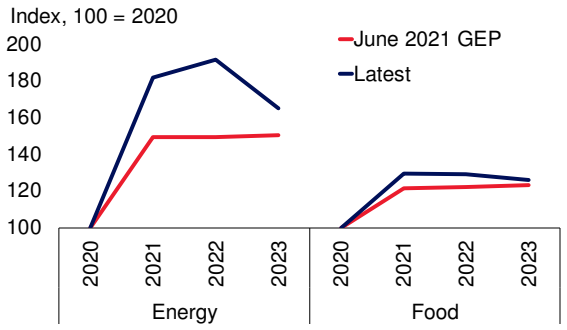


FIGURE 1.C Commodity price forecast changes



Sources: Our World in Data (database); World Bank.
Note: EMDEs = emerging market and developing economies; LICs = low-income countries.
A. Aggregates calculated using GDP weights at average 2010-19 prices and market exchange rates. Shaded area indicates forecasts. Data for 2021 are estimates. Figure shows the percent deviation between the latest projections and forecasts released in the January 2020 edition of the Global Economic Prospects report. For 2023, the January 2020 baseline is extended using projected growth for 2022.
B. Number of people who received at least one COVID-19 vaccine dose per 100 people. Projections based on 14-day moving averages of daily vaccination rates. Data through December 23, 2021.
C. Red line corresponds to the forecast at the time of the June 2021 edition of the Global Economic Prospects (GEP) report. Blue line refers to the current forecast.

trough of 1.2 percent in May 2020 (figure 2.A). The rebound in global demand and activity since mid-2020, together with supply disruptions and rising commodity prices, have pushed headline inflation to decade highs across many countries. Core consumer price inflation—excluding food and energy—has also increased globally. Four fifths of EMDEs saw inflation increase in 2021, and about a third of countries experienced double-digit food inflation.

Global financing conditions: highly accommodative in advanced economies, tighter in EMDEs. Financial conditions in advanced economies have remained very accommodative even as some major central banks have begun to reduce long-term asset purchases and signaled plans to raise policy rates. In contrast, EMDE financing conditions have tightened, reflecting policy rate hikes in a number of large countries as central banks grapple with rising inflation and currency depreciation. EMDE international bond issuance has remained generally robust, but portfolio flows to EMDEs declined in 2021, reflecting a broader deterioration in risk sentiment as well as uncertainty about prospects for monetary policies of major central banks.

United States: decelerating. Activity softened in the second half of 2021 in the face of COVID-19 outbreaks, mounting supply shortages, and rising energy prices, as well as a fading boost to incomes from pandemic-related fiscal support. Inflation surprised markedly to the upside and broadened across components, and a tightening labor market applied upward pressure to wages (figure 2.B). In all, U.S. output is estimated to have expanded by 5.6 percent in 2021—1.2 percentage points below previous forecasts. Growth is expected to slow to 3.7 percent in 2022 and 2.6 percent in 2023 as excess savings are spent, support from fiscal and monetary policy wanes, and supply bottlenecks gradually dissipate.

Other advanced economies: ongoing recoveries. After a strong mid-year rebound, euro area growth is estimated to have slowed in the fourth quarter, reflecting surging COVID-19 caseloads, supply bottlenecks, and sharply higher energy prices. After reaching an estimated 5.2 percent in 2021, euro area growth is projected to slow to 4.2 percent in 2022. In Japan, activity remained subdued through 2021, but it is likely to have picked up toward the end of the year as high vaccination rates allowed for the relaxation of pandemic-control measures. After an estimated 1.7 percent expansion in 2021, growth is set to firm to 2.9 percent in 2022, in part as a result of fiscal stimulus.

FIGURE 2.A Inflation surprises

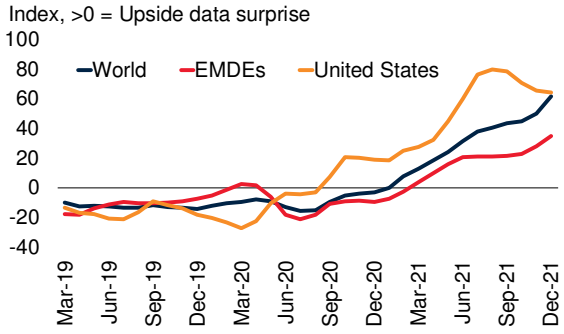


FIGURE 2.B Labor market indicators in the United States

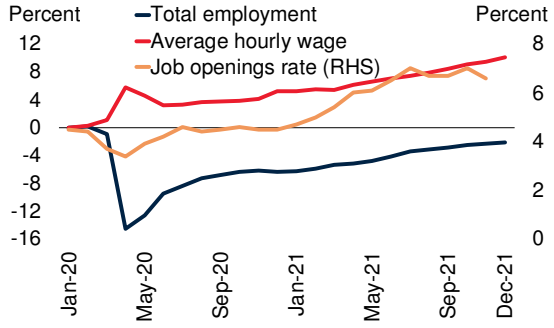
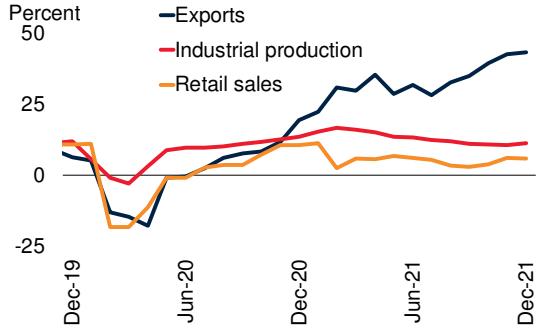


FIGURE 2.C Growth of exports, industrial production, and retail sales in China



Sources: Bloomberg; Citigroup; Haver Analytics; U.S. Bureau of Labor Statistics; World Bank.
Note: EMDEs = emerging market and developing economies.
A. Citigroup Inflation Surprise Index. A positive (negative) index reading means inflation was higher (lower) than expected. Last observation is December 2021.
B. Blue and red lines show the percentage deviation from the number of employees on nonfarm payrolls and average hourly wage, in January 2020. Last observation is December 2021 for the number of employees on nonfarm payrolls and average hourly wage and November 2021 for the job openings rate.
C. Figure shows 3-month moving average of two-year growth rate. Exports data show seasonally adjusted value of goods exports. Industrial production and retail sales data show real seasonally adjusted data. Last observation is December 2021.

China: real estate-led slowdown. China's growth has decelerated more than previously envisioned, reflecting recurrent pandemic-related restrictions and regulatory curbs on the property and financial sectors, which have weighed on consumption and residential investment. Manufacturing growth has been solid, however, and export growth has accelerated (figure 2.C). In all, output is estimated to have expanded by 8 percent in 2021. For 2022, protracted pandemic-related challenges and a real estate sector downturn are expected to continue to weigh on growth, which is forecast to moderate to 5.1 percent, a downward revision of 0.3 percentage points.

Other EMDEs: tighter policy, softer external demand. EMDE output is estimated to have expanded by 6.3 percent in 2021, 0.2 percentage point higher than expected. This reflected a mix of robust external demand, favorable prices for commodity exporters, resilient remittances and, in some countries, strong labor market recoveries feeding into domestic demand. The pandemic has likely scarred potential output, however, because of its protracted effects on human and physical capital, and it will leave EMDE output and investment still below pre-pandemic trends by the end of 2023, particularly for small states (figure 3.A). The outlook for EMDEs is dampened by moderating external demand, the continued effects of the pandemic, and the withdrawal of macroeconomic policy support. In EMDEs excluding China, growth is forecast to decelerate to 4.2 percent in 2022—a pace insufficient to return output to pre-pandemic trends until after 2023.

Per capita incomes: widening between-country inequality. EMDE per capita income growth is expected to weaken from an estimated 5.1 percent in 2021 to 3.4 percent on average in 2022-23. The pandemic has unwound several years of progress in narrowing the gap between EMDE per capita incomes and those of advanced economies. In nearly 70 percent of EMDEs, average per capita income growth over 2021-23 will lag the advanced-economy pace, with substantial ground lost in countries facing fragile and conflict-affected situations (figure 3.B).

Risks: tilted to the downside. The global outlook is highly uncertain, with risks to growth tilted to the downside (figure 3.C). The recent emergence of the Omicron variant underscores how the ongoing pandemic and continued uneven access to vaccines could further reduce economic growth. The recovery is also at risk from more persistent supply disruptions, mounting inflationary pressures, financial stresses, climate-related disasters, and weaker-than-anticipated long-term growth drivers.

FIGURE 3.A Share of EMDEs with output in 2023 below/above pre-pandemic trends

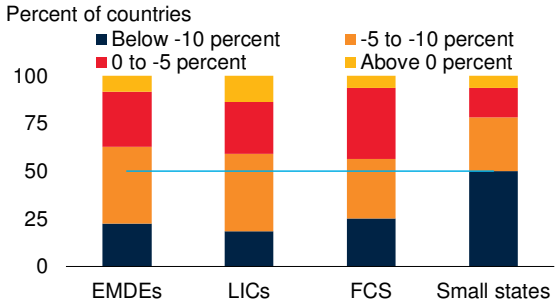


FIGURE 3.B Per capita income growth relative to advanced economies

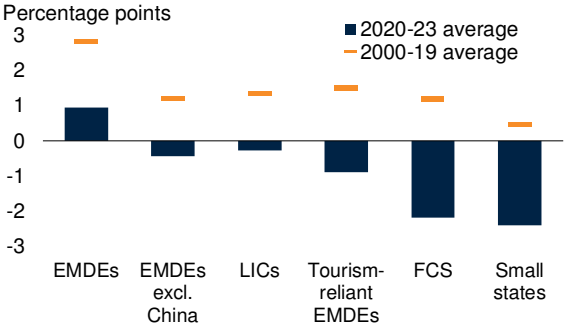
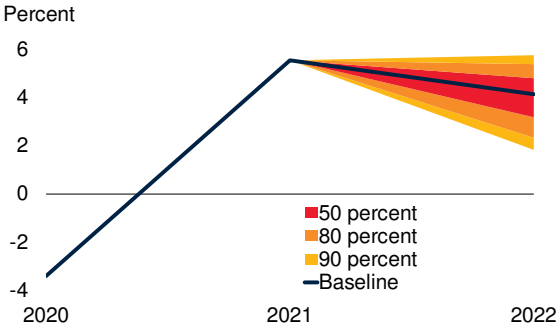


FIGURE 3.C Probability distribution around global growth forecast



Sources: Bloomberg; Ohnsorge, Stocker, and Some (2016); Oxford Economics; World Bank.
Note: EMDEs = emerging market and developing economies; LICs = low-income countries; FCS = fragile and conflict-affected situations. Tourism-reliant EMDEs are those with inbound tourism expenditures as a share of GDP above the fourth quartile. Small states are EMDEs with a population of 1.5 million or less. Aggregates calculated using GDP weights at average 2010-19 prices and market exchange rate.
A. Share of countries with 2023 output above or below pre-pandemic trends compared with January 2020 edition of the Global Economic Prospects report.
B. Sample includes 144 EMDEs, 22 LICs, 31 FCS, 37 tourism-reliant EMDEs, and 24 small, tourism-reliant EMDEs. The small states sample includes 34 EMDEs; the aggregate excludes Guyana, which is experiencing a growth boom due to rapid offshore oil industry development.
C. Forecast distribution generated using time-varying estimates of the standard deviation and skewness extracted from oil price futures, S&P 500 equity price futures, and term spread forecasts, as described in Ohnsorge, Stocker, and Some (2016).

Special Focus: Resolving high debt after the pandemic

Global debt levels surged in the pandemic-induced global recession of 2020. This has led to several countries initiating debt restructurings, while many others may also eventually need debt relief. Historically, several umbrella frameworks coordi-nated debt relief to multiple debtor countries from multiple creditors on common principles. They offered substantial—but protracted—debt stock reductions that were typically preceded by a series of less ambitious debt relief efforts. The G20 Common Framework is the latest umbrella initiative aimed at resolving debt distress.

Global debt levels have surged in recent years. Total global debt reached 263 percent of GDP in 2020, its highest level in half a century, with rapid growth in both government and private debt and in both advanced economies and emerging market and developing economies (EMDEs). In EMDEs, government debt rose by 9 percentage points to 63 percent of GDP in 2020, the fastest one-year increase in the past three decades, with additional increases in contingent liabilities and debt incurred by state-owned enterprises. This recent debt increase has come on the heels of a decade of rising debt in EMDEs amid slowing growth (figures 4.A and 4.B). As a result, more than half of low-income countries are in debt distress or at high risk of debt distress.

In recognition that some countries were facing unsustainable debt burdens, the G20 announced the Common Framework for debt treatments beyond the DSSI. The Framework includes both Paris Club members and non-Paris Club G20 members, including China. Consistent with previous debt relief initiatives, the Framework requires countries to seek comparable debt relief from other creditors on at least as favorable terms as from official sector creditors. The Framework primarily envisions debt relief through maturity extensions and interest rate reductions, but in the most difficult circumstances debt write-offs may be considered.

The Common Framework is the latest example of an umbrella initiative coordinating sovereign debt restructuring. Previous examples include the 2005 Multilateral Debt Relief Initiative (MDRI), the 1996 Heavily Indebted Poor Countries (HIPC) Initiative, the 1989 Brady Plan, and the Paris Club established in 1956. In these initiatives, debt relief was granted to several debtor countries on common principles (figures 4.C and 5.A).

Previous debt resolution initiatives provide useful guidance for the present. Debt restructurings initially often provided limited relief, with a preference for rescheduling debt payments rather

FIGURE 4.A Total debt

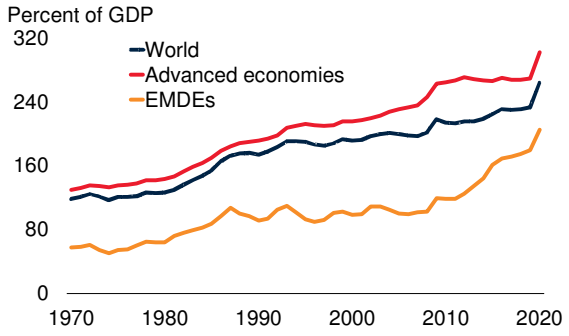


FIGURE 4.B Government debt

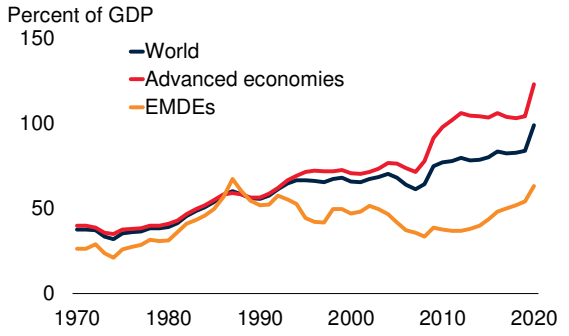
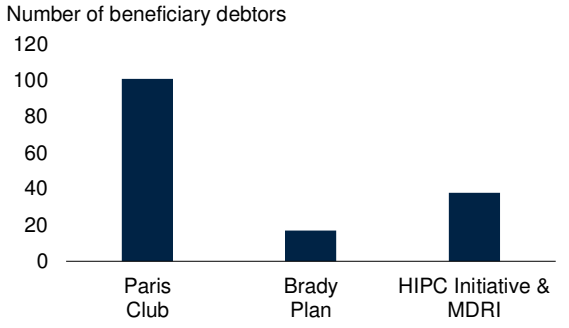


FIGURE 4.C Number of debtor countries included in umbrella initiatives



Sources: Cheng, Diaz-Cassou, and Erce (2019); Cruces and Trebesch (2013); Gamara, Pollock, and Braga (2009); IMF (2019); Kose et al. (2017, 2021); World Bank.

Note: EMDEs = emerging market and developing economies.

A.B. Data are available until 2020 for up to 191 countries. Nominal GDP weighted averages.

C. HIPC = Heavily Indebted Poor Country; MDRI = Multilateral Development Relief Initiative; DSSI = Debt Service Suspension Initiative.

than outright debt reductions, but over time shifted toward outright debt reductions. The Brady Plan, and the HIPC Initiative and subsequent MDRI were all preceded by repeated Paris Club reschedulings. This in part reflected an initial aversion of creditors to recognize losses, as well as a tendency to treat debt distress as a liquidity problem, rather than a solvency problem.

Lengthy debt crises result in economic losses. The delay in resolving unsustainable debt had severe economic consequences for the Brady countries and the HIPC countries. The Brady countries, notably LAC, suffered a "lost decade" of growth, with GDP per capita only recovering to its precrisis level by 1993 (figure 5.B). Among LICs, GDP per capita fell by an average of 0.2 percent per year between 1980-99—in the decade after HIPC debt relief (2001-2011) it averaged 2.9 percent a year (figure 5.C). Formalizing the implementation process with a clear timeline and transparent rules could help reduce the time taken to provide debt relief.

Ensuring private sector participation in debt relief is a key challenge. The Brady Plan incentivized private sector participation by collateralizing debt, enhanced by changes to tax and regulatory laws in creditor countries, and changes to the IMF's lending policies. In contrast, Paris Club agreements required countries to seek comparable treatment from private sector creditors, and private sector participation in HIPC/MDRI was assumed, but on a voluntary basis. In practice, ensuring private sector participation in these agreements was difficult, given limited tools to incentivize creditors. The World Bank's Debt Reduction Facility has been the primary method of fostering commercial creditors' participation in the HIPC Initiative, by providing grant funding to eligible governments to buy back—at a deep discount—debts owed to external commercial creditors. The Common Framework differs from the Brady Plan as it does not provide detail on private sector participation or contain incentives to encourage private sector participation. It also differs from HIPC/MDRI in that it veers away from providing deep face value haircuts.

Debt transparency is critical. The growing diversity of creditors and complexity of debt instruments can cause uncertainty about the level and composition of debt due a lack of consistent reporting standards and confidential loan terms. This raises the risk that public sector debt is higher in some EMDEs than reported, especially in cases where debt is indirect or obscured, such as through state-owned enterprises, public-private partnerships, or in the form of debt-like instruments. This can be a barrier to debt relief since creditors may be reluctant to provide debt relief until a country's true debt stock is known.

FIGURE 5.A Debt relief granted under umbrella initiatives

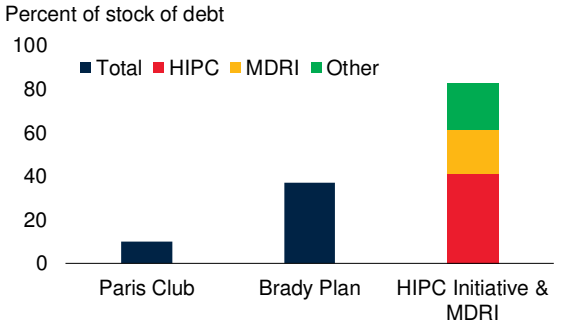


FIGURE 5.B Economic growth in Brady countries

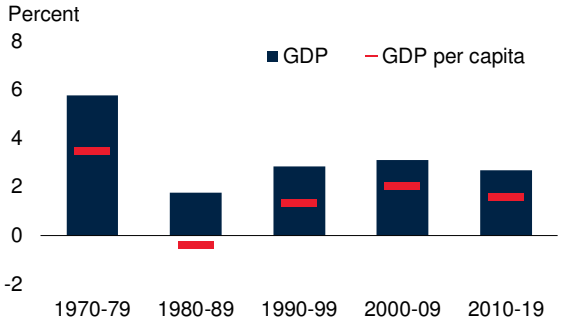
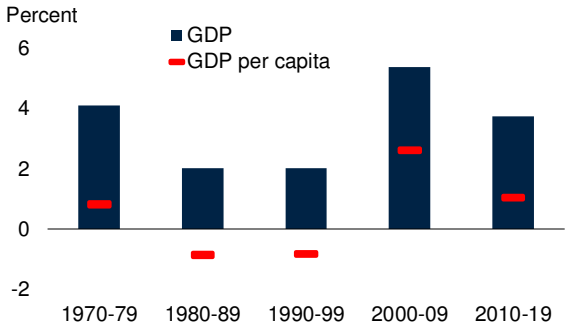


FIGURE 5.C Economic growth in LICs



Sources: Cheng, Diaz-Cassou, and Erce (2019); Cruces and Trebesch (2013); Gamara, Pollock, and Braga (2009);Haver Analytics; IMF (2019); World Bank.

A. Stock of debt refers to stock of eligible debt treated by the Paris Club or eligible for restructuring under the Brady Plan, and total stock of debt for the HIPC countries which received HIPC/MDRI debt relief. Paris Club includes 188 restructuring episodes and excludes debt restructuring under the "Classic" terms which did not offer debt relief, and the HIPC episodes taken from Cheng, Diaz-Cassou, and Erce (2019). Brady Plan includes 17 Brady Plan deals, taken from Cruces and Trebesch (2013). For HIPC/MDRI debt relief is split into debt relief under the HIPC Initiative (which includes debt relief provided by the Paris Club), MDRI (which includes debt relief on debt held by the multilateral institutions) and "Other" which refers to traditional debt relief outside of HIPC/MDRI.

B. Brady countries include 17 countries that negotiated a Brady Plan.

C. LICs = low income countries.

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TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: December 25, 2021 - January 24, 2022					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
Indonesia	1/2/22	CPI	DEC	1.9%	1.7%
Turkey	1/3/22	CPI	DEC	36.1%	21.3%
Italy	1/5/22	CPI	DEC	3.9%	3.8%
Germany	1/6/22	CPI	DEC	5.2%	5.3%
Mexico	1/7/22	CPI	DEC	7.4%	7.4%
Brazil	1/11/22	CPI	DEC	10.1%	10.7%
China	1/11/22	CPI	DEC	1.4%	2.4%
India	1/12/22	CPI	DEC	5.6%	4.9%
India	1/12/22	IP	NOV	1.4%	4.0%
United States	1/12/22	CPI	DEC	7.1%	6.9%
Argentina	1/13/22	CPI	DEC	50.9%	51.2%
Saudi Arabia	1/13/22	CPI	DEC	1.2%	1.1%
France	1/14/22	CPI	DEC	2.8%	2.7%
Canada	1/19/22	CPI	DEC	4.8%	4.6%
China	1/19/22	GDP	Q4	4.0%	4.9%
Euro area	1/19/22	GDP	Q3	3.9%	14.4%
South Africa	1/19/22	CPI	DEC	5.9%	5.5%
United Kingdom	1/19/22	CPI	DEC	4.8%	4.6%
Japan	1/20/22	CPI	DEC	0.8%	0.6%
Russian Federation	12/29/21	GDP	Q3	4.3%	10.5%
South Korea	12/30/21	CPI	DEC	3.7%	3.8%

(Percent change y/y)

Upcoming releases: January 25, 2022- February 24, 2022				
Country	**Date**	**Indicator**	**Period**	**Previous**
South Korea	1/27/22	IP	DEC	5.9%
Germany	1/28/22	GDP	Q4	2.6%
India	1/28/22	GDP	Q4	8.4%
Spain	1/28/22	GDP	Q4	3.4%
Euro area	1/31/22	GDP	Q4	3.9%
Italy	1/31/22	GDP	Q4	3.9%
Mexico	1/31/22	GDP	Q4	4.5%
Indonesia	2/1/22	CPI	JAN	1.9%
Italy	2/2/22	CPI	JAN	3.9%
South Korea	2/3/22	CPI	JAN	3.7%
Indonesia	2/4/22	GDP	Q4	3.5%
United States	2/10/22	CPI	JAN	7.1%
Poland	2/11/22	GDP	Q4	5.5%
United Kingdom	2/11/22	GDP	Q4	6.8%
Japan	2/14/22	GDP	Q4	1.1%
Thailand	2/15/22	GDP	Q4	-0.3%
South Africa	2/16/22	CPI	JAN	5.9%
United Kingdom	2/16/22	CPI	JAN	4.8%
United States	2/16/22	IP	JAN	3.7%
Japan	2/17/22	CPI	JAN	0.8%
United States	2/24/22	GDP	Q4	4.9%