WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

June 2022

Overview

- According to the June 2022 *Global Economic Prospects* report, the Russian Federation's invasion of Ukraine is hastening a sharp deceleration of global economic activity.
- Global growth is projected to nearly halve from 5.7 percent in 2021 to 2.9 percent in 2022.
- Amid persistent headwinds from high commodity prices and the continued withdrawal of policy support, global growth is not expected to rebound in 2023.

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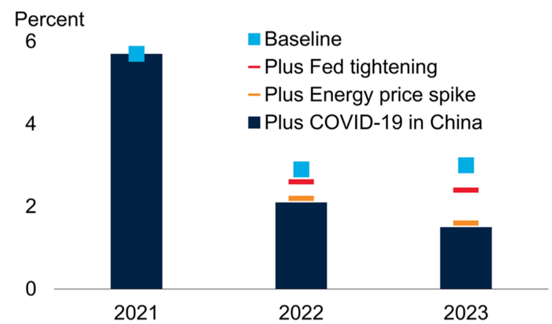
Chart of the Month

- The global outlook is subject to a wide range of mutually amplifying downside risks.
- Some of these risks—accelerated U.S. monetary tightening, war-driven energy price spikes and COVID-19 resurgences in China—are quantified using model-based scenario analysis.
- The simultaneous materialization of these three quantified risks could reduce global growth to 1.5 percent in 2023—half of the baseline growth forecast.

Global growth scenarios



Sources: Oxford Economics; World Bank.
Note: Scenario outcomes produced using the Oxford Economics Global Economic Model. Scenarios are linearly additive. Aggregate growth rates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

Special Focus: Global stagflation

- Global inflation has risen sharply from its lows in mid-2020, partly due to persistent supply bottlenecks, and soaring food and energy prices. Inflation is expected to peak around mid-2022 and then gradually decline, but to remain above its pre-pandemic level.
- Global growth is decelerating and, through the 2020s, is expected to remain below its average pace of the 2010s.
- This has raised the risk of stagflation: a combination of high inflation and sluggish growth. Ending the stagflation of the 1970s required steep increases in interest rates, which triggered a global recession and a string of financial crises.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Justin-Damien Guénette, Samuel Hill and Vasiliki Papagianni under the supervision of Carlos Arteta. The special focus was prepared by Jongrim Ha. This *Global Monthly* reflects data available up to June 21th, 2022. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: sharp slowdown. Global growth is expected to slow from 5.7 percent in 2021 to 2.9 percent in 2022 as a result of the adverse spillovers from Russia's invasion of Ukraine, the fading of pent-up demand, and the withdrawal of policy support amid high inflation (figure 1.A). The cumulative losses to global activity relative to its pre-pandemic trend are expected to continue mounting, especially among EMDE commodity importers (figure 1.B).

Global trade: major disruptions. Goods trade slowed in the first half of 2022 as supply chains continued to be affected by the lingering effects of the pandemic, including disruptions in major Asian ports and lockdowns in China. In addition, Russia's invasion of Ukraine and its repercussions have led to severe dislocations that have magnified pre-existing bottlenecks. Services trade has regained its pre-pandemic level, driven by a rebound in non-tourism services. Global trade growth is anticipated to slow to 4 percent in 2022 as the war in Ukraine further disrupts global value chains, global activity gradually shifts back toward the less trade-intensive services sector, and international mobility moves toward pre-pandemic levels only gradually (figure 1.C).

Commodity markets: rising energy and food prices. Commodity prices surged in the first half of 2022, in part reflecting the war in Ukraine. Price increases were particularly pronounced for commodities where Russia and Ukraine are large exporters, including energy and wheat, as the war disrupted production and trade (figure 2.A). The G7 and the EU announced they would ban or phase out their imports of Russian oil, with similar measures taken for coal and natural gas. Energy prices are forecast to rise 52 percent in 2022. Agricultural prices are also expected to rise this year, reflecting weaker grain production in Ukraine and much higher input costs.

Global inflation: continued price pressures. Inflation has accelerated in both advanced economies and EMDEs, in part reflecting surging commodity prices, persistent supply disruptions, and tight labor markets in some countries. Global median headline CPI inflation rose to 7.8 percent (y/y) in April 2022, its highest level since 2008. Aggregate EMDE inflation reached over 9.4 percent—its highest level since 2008—while inflation in advanced economies, at 6.9 percent, is the highest since 1982. Inflation is now above target in the vast majority of advanced economies and EMDEs that have adopted inflation targeting.

FIGURE 1.A Global growth

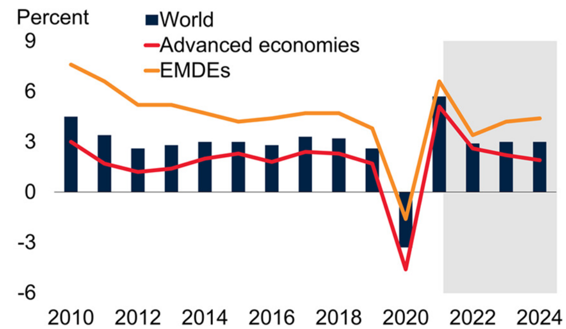


FIGURE 1.B Cumulative output losses, 2020-24

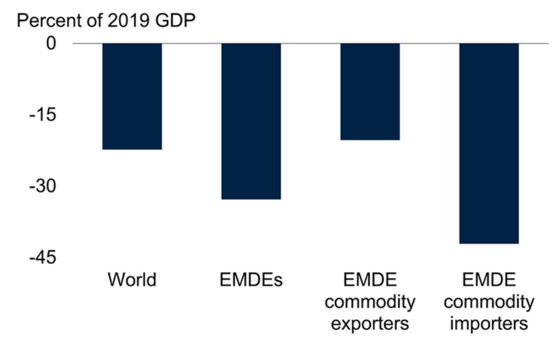
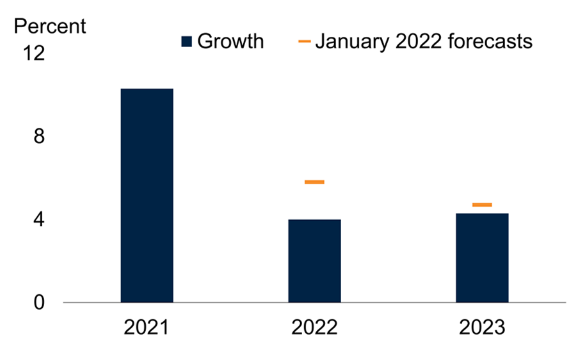


FIGURE 1.C Global trade forecast



Sources: Consensus Economics; World Bank.
Note: EMDEs = emerging market and developing economies.
A. Shaded area indicates forecasts. Aggregate growth rates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.
B. Bars show cumulative output losses over 2020-24, which are computed as deviations from trend, expressed as a share of GDP in 2019. Output is measured in U.S. dollars at 2010-19 prices and market exchange rates. Trend is assumed to grow at the regression-estimated trend growth rate of 2010-19. EMDE commodity exporters exclude the Russian Federation and Ukraine.
C. Trade measured as the average of export and import volumes. January 2022 forecasts are from the January 2022 edition of *Global Economic Prospects* report.

Global financing conditions: tightening. Rising inflation has led to expectations of faster monetary policy tightening across the world. Advanced-economy bond yields have risen, and measures of equity volatility have seen a sustained increase. The U.S. dollar has strengthened notably, increasing the cost of servicing dollar-denominated liabilities globally. EMDE financial conditions have reached their tightest level since the start of the pandemic. Equity and debt flows to EMDEs turned sharply negative in March, while bond issuance in the first quarter of 2022 across EMDEs was weaker than in any first quarter since 2016. Since the war started, sovereign spreads have increased on average across EMDEs, but by considerably more among commodity importers (figure 2.B).

United States: slower growth. U.S. activity lost momentum in the first half of this year, owing to the short-lived hit from the Omicron wave, tighter financing conditions, and the economic effects of the war in Ukraine. With inflation well above target, the Federal Reserve began to raise policy rates in March; in all, markets expect policy rates to approach 4 percent in the first half of 2023 before declining to 3.3 percent by end-2023. U.S. growth is forecast to slow to 2.5 percent in 2022, reflecting sharply higher energy prices, tighter financial conditions, and additional supply disruptions caused by the war. Growth is expected to moderate further to an average of 2.2 percent in 2023-24, as continued withdrawal of fiscal support and monetary policy tightening weighs further on activity.

Other advanced economies: weak recovery. In the euro area activity decelerated in the first half of 2022, mainly on account of the war in Ukraine and an earlier resurgence of COVID-19. Key euro area members are particularly dependent on energy imports from Russia—including gas, which account for about 35 percent of total gas imports into the area (figure 2.C). Euro area growth is projected to slow to 2.5 percent in 2022, as additional supply shocks caused by the war weigh on activity. In Japan, growth is expected to be 1.7 percent this year, reflecting drag from COVID-19, a deterioration in the terms of trade caused by the war in Ukraine, and weaker exports. Growth is forecast to slow over 2023-24, as pent-up demand is exhausted.

China: lockdowns-related weakness. Activity in China has slowed sharply due mainly to COVID-19 outbreaks and strict lockdowns, with growth in consumer spending particularly subdued. Trade and manufacturing investment have lost momentum, owing to supply disruptions and the negative impact of the war in Ukraine. While the contraction of real estate investment moderated at the start of the year, it has deepened again due to pandemic-related restrictions. China is

FIGURE 2.A Russian Federation's and Ukraine's commodity exports

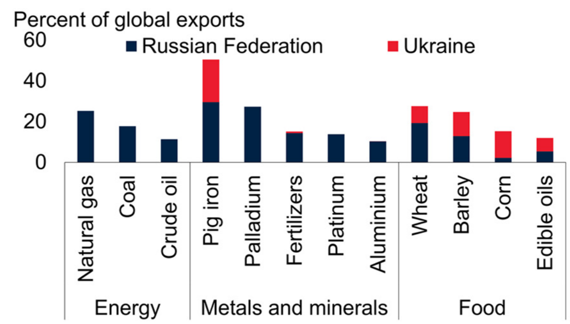


FIGURE 2.B Change in EMDE sovereign spreads by commodity exporter status

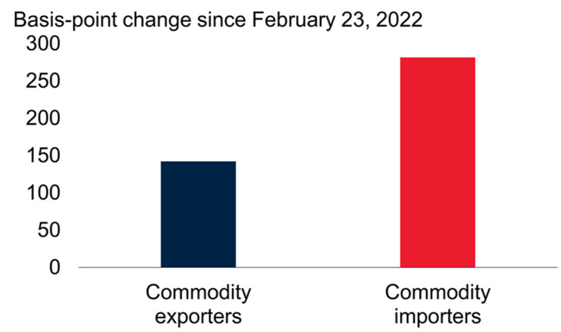
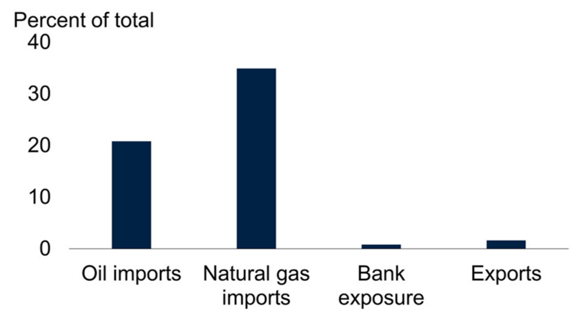


FIGURE 2.C Euro area exposures to Russia



Sources: BIS (database); Comtrade (database); Eurostat (database); J.P. Morgan; World Bank.

Note: EMDE = emerging market and developing economies.

A. Data for energy and food is trade volume; data for metals and minerals is trade values. Fertilizers include phosphate rock and potash minerals, and ammonia-based non-minerals. Data are for 2020.

B. Figure shows the difference in bond spreads between the latest available data and February 23, 2022 (day prior to the invasion of Ukraine). Last observation is June 21, 2022.

C. Bank exposure shows claims of BIS foreign banks on Russian residents on a consolidated basis. Claims are expressed as shares of total outstanding cross-border claims. Bank exposure data is for quarter ending September 2021. Oil imports, natural gas imports, and exports data are for 2020, shown in percent of total oil and gas imports.

expected to grow 4.3 percent in 2022, weighed down by COVID-19 and related lockdowns, and 5.2 percent in 2023. To mitigate the impact of the lingering pandemic and worsening terms of trade, fiscal, monetary, and regulatory policies are envisioned to be more supportive than previously expected (figure 3.A).

Other EMDEs: decelerating. The war in Ukraine has exacerbated a deceleration in EMDE output, making the external environment markedly less supportive, and causing an economic collapse in Ukraine and deep recession in Russia. The war is weighing on aggregate EMDE growth prospects owing to higher inflation and input costs, disruptions to trade, weaker confidence, and a steep rise in policy uncertainty. These will add to pre-existing headwinds to growth, including rising inflationary pressures and tightening financial conditions, the ongoing removal of policy support, and softening external demand. EMDE growth is expected to roughly halve in 2022, to 3.4 percent—far weaker than its annual average of 4.8 percent over 2011-19—before firming to an average of 4.3 percent in 2023-24, as the lingering effects of the war abate (figure 3.B).

Per capita incomes: stalling catch-up with advanced economies. Even excluding Russia and Ukraine, EMDE per capita income growth is anticipated to slow markedly in 2022, to 3 percent, as high food and fuel prices weigh on real household incomes, constrained fiscal space limits government support, and labor market recoveries decelerate. Weaker growth will slow the pace of catch-up with advanced-economy per capita income for many EMDEs—especially in LICs, where per capita income is projected to grow at only half the pace of advanced economies. Over the next few years, EMDEs are expected to make little progress toward catching up with advanced-economy income levels—and, if China is excluded, progress is expected to reverse, undoing some of the gains made over 2010-19 (figure 3.C).

Risks: tilted to the downside. The war in Ukraine has increased the probability of negative tail risks, many of which are interlinked. The increase in energy and food prices raises concerns that the global economy is entering a period of stagflation reminiscent of the 1970s. Intensifying geopolitical turmoil, particularly in Europe, could further increase energy prices and destabilize global economic activity and, in the longer term, cause global trade, investment, and financial networks to fragment. Rising price pressures could require faster U.S. monetary tightening, resulting in widespread financial stress. Food shortages could worsen and spark social unrest. Recurring outbreaks of COVID-19 could trigger renewed lockdowns while new, more virulent variants of COVID-19 could emerge and disrupt global activity more broadly.

FIGURE 3.A Change in fiscal balance in China

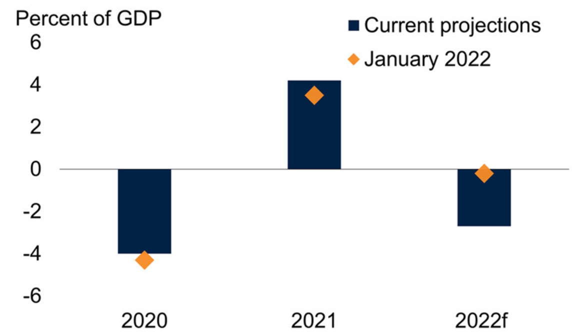


FIGURE 3.B Contributions to EMDE growth

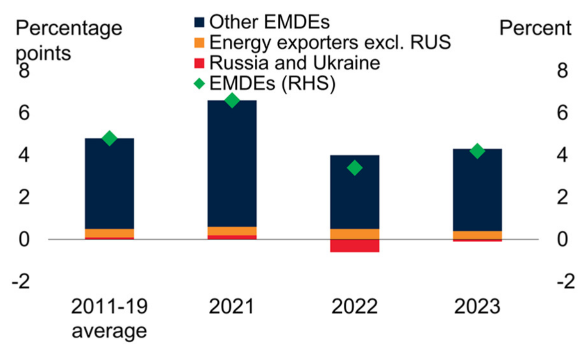
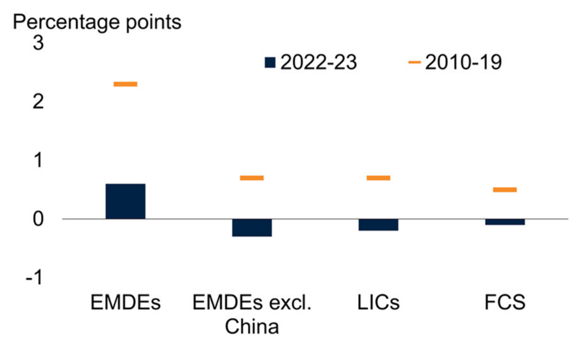


FIGURE 3.C EMDE per capita income growth relative to advanced-economy average



Source: World Bank.

Note: EMDEs = emerging market and developing economies; FCS = fragile and conflict-affected situations; LICs = low-income countries.

RUS = the Russian Federation.

A. f = forecast. World Bank staff calculations. "January 2022" refers to the January 2022 edition of the Global Economic Prospects report. The augmented fiscal balance is a sum of the general public (excluding adjustment from the stabilization fund), government fund, state capital operation, and the social security fund budget balances.

B. Aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Data for 2022-23 are forecasts.

C. Per capita GDP levels calculated using the total GDP for each subgroup divided by its total population. Data for 2022-23 are forecasts. Aggregates calculated using GDP weights at average 2010-19 prices and market exchange rates. 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.

Special Focus: Global Stagflation

Global stagflation. Global inflation has risen sharply from its lows in mid-2020, especially since the Russian Federation's invasion of Ukraine. Markets expect inflation to peak around mid-2022 and then decline, but to remain elevated even after these shocks subside and monetary policies are tightened further. Global growth has been moving in the opposite direction: it has declined sharply since the beginning of the year and, for the remainder of this decade, is expected to remain below the average of the 2010s. In light of these developments, the risk of stagflation—a combination of high inflation and sluggish growth—has risen. The recovery from the stagflation of the 1970s required steep increases in interest rates by major advanced-economy central banks to quell inflation, which triggered a global recession and a string of financial crises in emerging market and developing economies (EMDEs). If current stagflationary pressures intensify, EMDEs would likely face similar challenges again because of their less well-anchored inflation expectations than advanced economies, elevated financial vulnerabilities, and weakening growth fundamentals.

Inflation at multi-year highs. In April 2022, global inflation (at 7.8 percent, y/y) and EMDE inflation (at 9.4 percent) were at their highest levels since 2008 (figure 4.A). Inflation in advanced economies was at its highest level since 1982. Inflation was above target ranges in all advanced economies and almost 90 percent of inflation-targeting EMDEs. Global inflation is expected to decline to 3 percent in mid-2023. This, however, would still be about 1 percentage point above its average in 2019.

Slowing growth. After its pandemic-related collapse in 2020, global growth rebounded to 5.7 percent in 2021, supported by unprecedented fiscal and monetary policy accommodation. It is now expected to slow to 2.9 percent in 2022 and 3 percent in 2023-24 because of the war in Ukraine, the fading of pent-up demand, and the withdrawal of policy support amid high inflation. Beyond the near-term, global growth is expected to slow further over the 2020s, reflecting a trend weakening of the fundamental drivers of growth (figure 4.B).

Stagflation again? These developments raise concerns about stagflation similar to what happened in the 1970s. The experience of the 1970s is a reminder that there is a considerable risk that inflation remains high or continues to rise if supply shocks persist, inflation expectations become unanchored, or long-term disinflationary forces fade (figure 4.C).

FIGURE 4.A Inflation

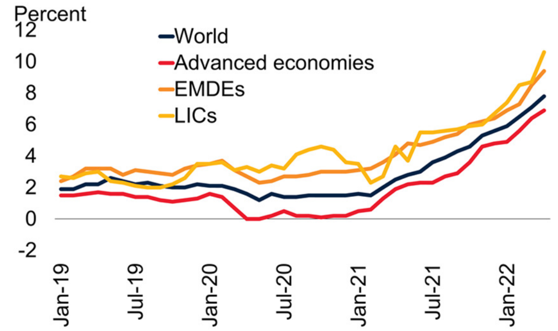


FIGURE 4.B Potential growth prospects

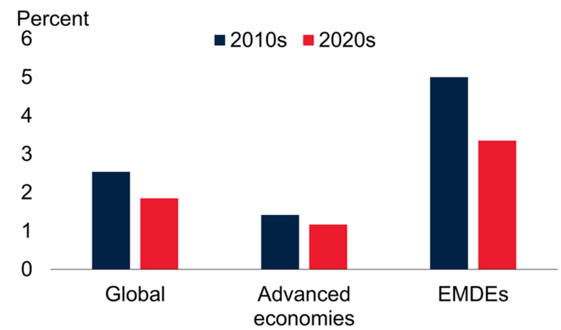
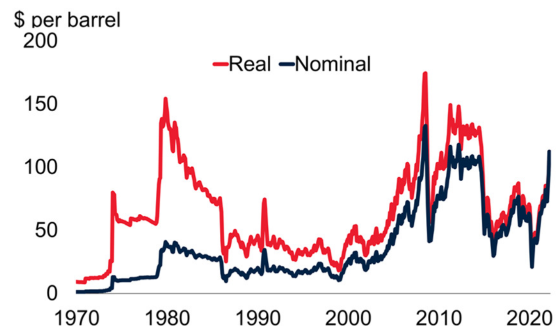


FIGURE 4.C Oil price



Sources: Ha, Kose, and Ohnsorge (2021); Haver Analytics; International Monetary Fund; World Bank.

Note: CPI = consumer price index. EMDEs = emerging market and developing economies.

A. Year-on-year inflation. Lines show group median inflation for 81 countries, of which 31 are advanced economies and 50 are EMDEs. LICs inflation is based on 8 low-income countries. Last observation is April 2022.

B. 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 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.

C. Nominal and real crude oil prices (averages of Dubai, Brent, and WTI prices). Real oil prices are deflated by U.S. CPI index (March 2022 = 100).

Similarities with the 1970s. The current juncture resembles the early 1970s in three key respects: supply shocks and elevated global inflation, preceded by a protracted period of highly accommodative monetary policy in major economies; prospects for weakening growth over the longer term, which echo the unforeseen slowdown in potential growth of the 1970s; and vulnerabilities in EMDEs to the monetary policy tightening by advanced economies needed to quell inflation.

Differences from the 1970s. There are, however, important cyclical and structural differences. Energy and food prices are lower (in inflation-adjusted terms) than after the spikes in the 1970s and their increases over the past two years have been less than in the 1970s; central banks have well-established inflation targets, strengthened operational autonomy, and, often, substantial credibility built up over several decades; inflation expectations are better anchored; and economies have become more flexible in their ability to adjust to shocks (figure 5.A).

Threat of stagflation. If inflation expectations become de-anchored, as in the 1970s, as a result of persistently elevated inflation and repeated inflationary shocks, the interest rate increases required to bring inflation back to target will be greater than those currently anticipated by financial markets. This raises the specter of the steep increases in interest rates that tamed inflation but also triggered a global recession in 1982. That global recession also coincided with a string of financial crises and marked the beginning of a protracted period of weak growth in many EMDEs (figure 5.B).

Key lessons. A key lesson from the 1970s is that central banks need to act in a preemptive manner. This helps avoid a loss of confidence in their commitment to maintaining low inflation—specified today in their inflation targets—and to prevent a de-anchoring of inflation expectations. Fiscal policy also needs to do its part, not least since monetary policy will struggle to be credible if fiscal positions are unsustainable (figure 5.C).

EMDE Challenges. If current stagflationary pressures intensify, EMDEs would likely again face severe challenges because of their less well-anchored inflation expectations, elevated financial vulnerabilities, and weakening growth fundamentals. This makes it urgent for EMDEs to shore up their fiscal and external buffers, strengthen their monetary policy frameworks, and implement growth-enhancing reforms. EMDE policies will require careful calibration, credible formulation, and clear communication. This approach can go a long way in making these economies more resilient to sudden shifts in global financial markets.

FIGURE 5.A Number of countries with inflation targeting

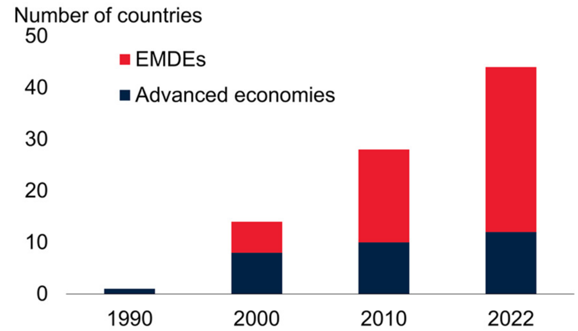


FIGURE 5.B Financial crises in EMDEs

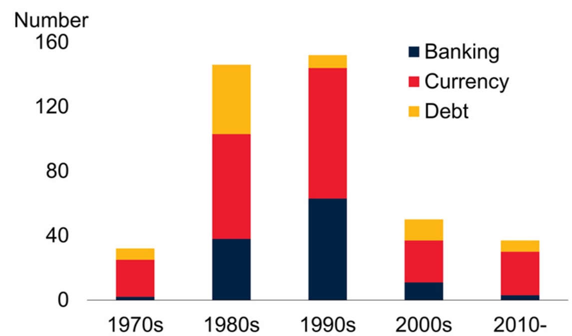
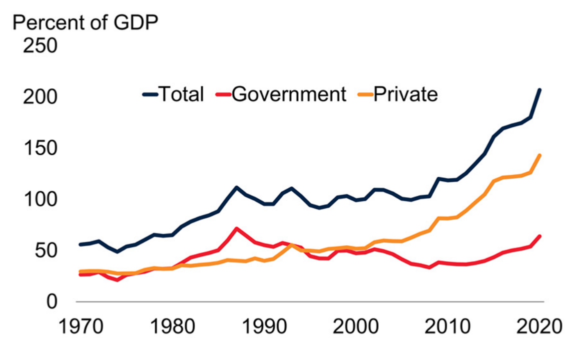


FIGURE 5.C Debt in EMDEs



Sources: International Monetary Fund; Kose et al. (2020); Kose, Sugawara, and Terrones (2021); Laeven and Valencia (2020); World Bank.
Note: EMDEs = emerging market and developing economies.
A. Based on the clarification of IMF Annual Report on Exchange Arrangements and Exchange Restrictions and country-specific sources.
B. Total number of banking, currency, and sovereign debt crises in EMDEs over respective periods.
C. GDP-weighted averages based on a sample of up to 153 EMDEs.

Recent Prospects Group Publications

Global Economic Prospects - June 2022
Commodity Markets: Evolution, Challenges, and Policies
Commodity Markets Outlook – April 2022
Implications of the War in Ukraine for the Global Economy
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East Asia and the Pacific Economic Update: Braving the Storms
The Impact of the War in Ukraine on Global Trade and Investment
World Bank's Women, Business and the Law 2022

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: May 22, 2022 - June 21, 2022					
Country	Date	Indicator	Period	Actual	Previous
Nigeria	5/23/22	GDP	Q1	3.6%	4.6%
Germany	5/25/22	GDP	Q1	3.8%	1.8%
Mexico	5/25/22	GDP	Q1	1.8%	1.1%
United States	5/26/22	GDP	Q1	3.5%	5.5%
Australia	5/31/22	GDP	Q1	3.3%	4.4%
Canada	5/31/22	GDP	Q1	2.9%	3.2%
France	5/31/22	GDP	Q1	4.5%	4.9%
India	5/31/22	GDP	Q1	4.1%	5.4%
Italy	5/31/22	GDP	Q1	6.2%	6.4%
Poland	5/31/22	GDP	Q1	9.4%	8.0%
Turkey	5/31/22	GDP	Q1	7.3%	9.1%
Russian Federation	6/1/22	IP	APR	-1.6%	3.1%
Brazil	6/2/22	GDP	Q1	1.7%	1.6%
Indonesia	6/2/22	CPI	MAY	3.6%	3.5%
Japan	6/7/22	GDP	Q1	0.7%	0.4%
Saudi Arabia	6/7/22	GDP	Q1	9.9%	6.7%
South Africa	6/7/22	GDP	Q1	3.0%	1.7%
China	6/9/22	CPI	MAY	2.0%	2.0%
Argentina	6/14/22	CPI	MAY	60.7%	58.0%
Euro area	6/17/22	CPI	MAY	8.1%	7.3%
United States	6/17/22	IP	MAY	5.8%	6.3%

(Percent change y/y)

Upcoming releases: June 22, 2022- July 21, 2022				
Country	Date	Indicator	Period	Previous
Canada	6/22/2022	CPI	MAY	6.6%
South Africa	6/22/2022	CPI	MAY	6.0%
United Kingdom	6/22/2022	CPI	MAY	7.8%
Japan	6/23/2022	CPI	MAY	2.5%
Netherlands	6/24/2022	GDP	Q1	7.0%
Spain	6/24/2022	GDP	Q1	5.5%
Euro area	6/29/2022	GDP	Q2	5.4%
Spain	6/29/2022	CPI	JUN	8.7%
United Kingdom	6/30/2022	GDP	Q1	6.6%
Indonesia	7/1/2022	CPI	JUN	3.6%
South Korea	7/4/2022	CPI	JUN	5.4%
Mexico	7/7/2022	CPI	JUN	7.7%
China	7/8/2022	CPI	JUN	2.0%
Italy	7/8/2022	IP	MAY	3.7%
India	7/12/2022	IP	MAY	7.1%
France	7/13/2022	CPI	JUN	5.3%
Germany	7/13/2022	CPI	JUN	8.0%
United States	7/13/2022	CPI	JUN	8.5%
China	7/14/2022	GDP	Q2	4.8%
Poland	7/15/2022	CPI	JUN	12.4%
Euro area	7/19/2022	CPI	JUN	8.1%