



Overview

- The war in Ukraine is markedly weighing on global sentiment.
- Energy prices have recorded unprecedented increases since the outbreak of hostilities, while financing conditions have tightened amid a surge in volatility.
- The war will have spillovers beyond the two countries' borders, and may trigger a further worsening of global economic conditions and financial market turbulence.

Chart of the Month

- On February 24th, Russia invaded Ukraine after months of rising geopolitical tensions in the region.
- In response, many countries have imposed severe economic sanctions on Russia, targeting banks; the country's central bank; and, more recently, the energy sector.
- Russian financial conditions have deteriorated sharply as a result, with spreads soaring and the value of the ruble declining by as much as 40 percent against the U.S. dollar.

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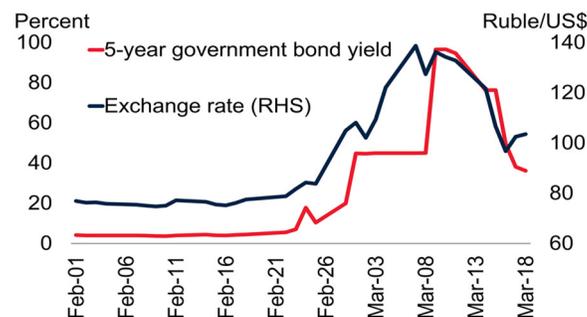
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Russian sovereign bond yield and exchange rate



Sources: Bloomberg; World Bank.
Note: Last observation is March 18, 2022.

Special Focus: COVID-19 and Income Inequality

- The global recession triggered by the COVID-19 pandemic and the highly uneven economic recoveries that followed have raised between-country income inequality.
- Within-country income inequality has likely increased in emerging market and developing economies (EMDEs) on account of severe job and income losses among lower-income population groups. Adverse impacts on education, rising inflation, and surging debt levels may further exacerbate inequality in the longer run.
- Reversing the increase in inequality requires a set of national policy measures together with global support.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Justin-Damien Guénette and Lucia Quaglietti under the supervision of Carlos Arteta, based on contributions from Dhruv Devesh Gandhi, Osamu Inami, Sergiy Kasyanenko, Philip Kenworthy, Peter Nagle, Vasiliki Papagianni, Lorez Qehaja, Franz Ulrich Ruch, Kaltrina Temaj, Ekaterine Vashakmadze, and Collette Wheeler. The special focus was prepared by Amat Adarov. This *Global Monthly* reflects data available up to March 17th, 2022. For more information, visit: www.worldbank.org/prospects. Back issues of this report [are available since 2008](#).



Monthly Highlights

Global activity: sharp deterioration in sentiment. Survey data points to a pickup in global growth in February amid a sharp decline of COVID-19 cases and associated ease of mobility restrictions. The global composite PMI rose from 51.1 to 53.4. The upturn was broad-based, including in the services sector where the global services PMI increased to 53.9, having declined in the previous 3 months. More recent indicators point to a sharp deterioration of sentiment in the wake of the war in Ukraine and ensuing sanctions. Financial market volatility has increased, contributing to a sharp tightening of global financial conditions (figure 1.A). Meanwhile, inflation continues to increase amid rising energy prices, with the PMI for global producer prices reaching 67.7 in February, up from 66.8 in January. Inflationary pressures are likely to worsen given soaring commodity prices and disrupted supply chains.

Global trade: renewed global value chain disruptions. Global goods trade picked up in February, with the global PMI manufacturing new export orders index increasing from 49.7 to 50.8. Logistic disruptions and airspace bans associated with the war in Ukraine are likely to exacerbate persistent supply bottlenecks, as elevated commodity prices ripple through global value chains and trade is re-routed across longer and more expensive routes. Trade through the Black Sea has already been disrupted, with dry bulk vessels at Ukrainian ports down more than 90 percent in the week to March 15th relative to a month earlier. Calls to Russian ports fell by more than 20 percent over the same period. Shipping costs of dry bulk materials have increased meanwhile, an indication that disruptions are translating into higher transportation costs (figure 1.B).

Global financing conditions: tightening amid volatility and heightened risks. Global financial conditions tightened in early March, as the war in Ukraine soured risk appetite. Global equities fell 5 percent from mid-February to mid-March, while the dollar strengthened more than 2 percent against a basket of major currencies amid elevated geopolitical risk. U.S. long-term yields rose 12 basis points over the same period. In early March, European equity volatility reached levels last seen in April 2020 during the initial spread of Covid-19. Russian financial asset prices collapsed following the imposition of sanctions and capital controls, while credit default swap (CDS) spreads increased sharply from mid-February in several countries in Europe and Central Asia (Slovakia, Hungary, Poland, Turkey). Global debt and equity flows are reflecting divergent expected impacts of the war on commodity importers and exporters. Flows to LAC remained positive and flows to MENA energy exporters

FIGURE 1.A Stock market volatility and global financing conditions

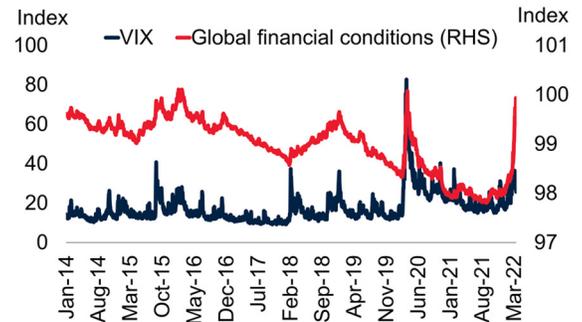


FIGURE 1.B Commodity shipping costs

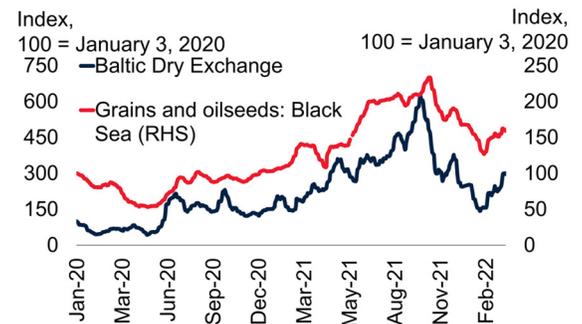
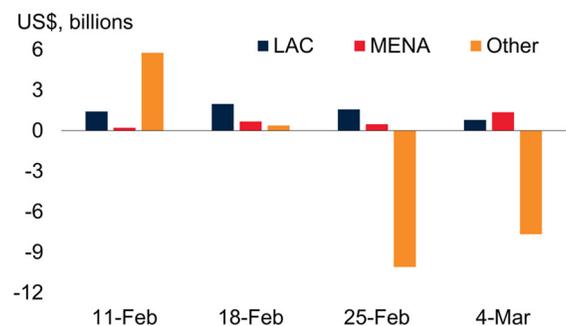


FIGURE 1.C Net weekly portfolio inflows



Sources: Bloomberg; Institute of International Finance; International Grain Council; World Bank.
A. Last observation is March 17, 2022 for VIX and March 16, 2022 for global financial conditions. The global financing conditions index represent a weighted average of the country-specific Goldman Sachs Financial Conditions Indexes (FCI) using constant GDP weights at average 2010-19 prices and market exchange rates.
B. The Baltic Dry Exchange is an index of freight rates paid for sea transport of dry bulk materials across major global routes. The Grains and oilseeds Freight Index is an index of freights paid for sea transport of grains and oilseeds through the Black Sea. Last observation is March 15, 2022.
C. LAC = Latin America and the Caribbean, MENA = Middle East and North Africa. Figure shows weekly net non-resident purchases of stocks and bonds. Sample includes 2 advanced economies and 18 EMDEs.



strengthened. In contrast, portfolio flows to all other regions (ECA, EAP, SAR and SSA) turned sharply negative (figure 1.C).

Commodity markets: record-high prices due to geopolitical risk. Commodity prices surged as a result of the war in Ukraine (figure 2.A). Price increases have been especially large for commodities where Russia and Ukraine are key exporters (figure 2.B). Brent crude oil prices reached a 10-year-high of \$130/bbl at the beginning of March as the United Kingdom and United States banned Russian oil imports, although prices later fell to around \$100/bbl. Production among OPEC+ countries has continued to be below target and the group left its monthly production target increase unchanged at 0.4 mb/d at their March meeting. Natural gas prices in Europe more than doubled in the aftermath of the invasion, amid supply uncertainty, as Europe remains heavily reliant on Russian imports of natural gas. Gas prices have fallen back lately but remain 40 percent higher than in mid-February. Coal prices also rose sharply as several European countries announced plans to increase coal-powered electricity generation and build stockpiles. Several metal prices reached all-time highs in March, including aluminum, nickel, and palladium due to concerns over metal supply since Russia is one of the world’s largest producers of these metals. Nickel prices quadrupled at the start of March, due to a “short squeeze,” with those market participants unable to meet margin calls forced to close short positions. Wheat prices increased by 40 percent, reaching record highs.

United States: policy tightens. Recent data point to a limited effect of the rapidly subsiding Omicron wave. Real personal spending jumped 1.5 percent (m/m) in January, even as real disposable income slipped 0.5 percent and the savings rate fell to 6.4 percent—its lowest monthly level since 2013 (figure 2.C). In February, the services PMI jumped from 51.2 to 56.5, underpinned by a decline in new caseloads and easing restrictions. The U.S. economy also added 678,000 jobs in that month, with the unemployment rate falling to 3.8 percent—its lowest level since March 2020. More recently, the war in Ukraine is spilling over to the U.S. economy via surging gasoline prices. Citing a tight labor market and elevated inflation—total consumer price inflation reached 7.9 percent (y/y in February)—the Federal Reserve increased policy rates by 25 basis points and signaled another 6 rate hikes for 2022 at its FOMC meeting in March.

Other advanced economies: continued headwinds. In the *euro area*, the services PMI rebounded from 51.1 to 55.5 in February alongside the lifting of COVID-19 containment measures. Meanwhile, headline inflation registered another record high of

FIGURE 2.A Commodity prices since the outbreak of the Russia-Ukraine war

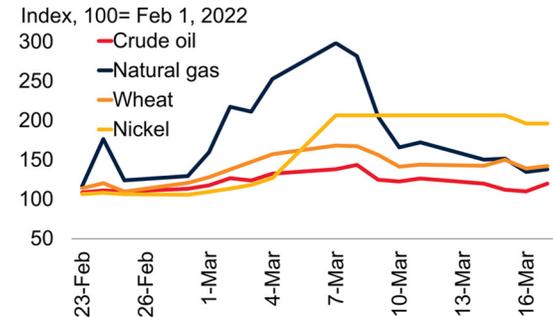


FIGURE 2.B Russia’s and Ukraine’s commodity exports

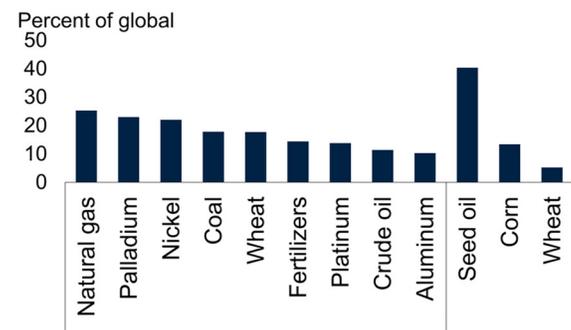
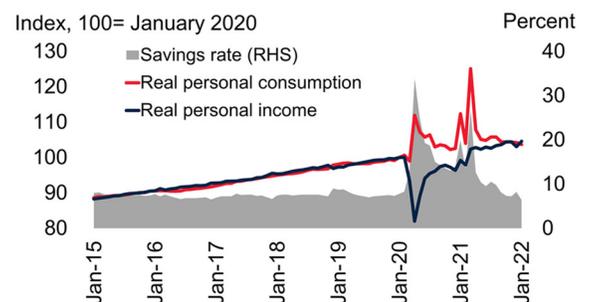


FIGURE 2.C U.S. real income, consumption and savings rate



Sources: Bloomberg; UN Comtrade; World Bank.

A. Last observation is March 17, 2022.

B. Data for 2020. Export shares for energy commodities are in volume terms, and for non-energy commodities are in value terms.

C. Blue and red lines show the annual growth rate of real personal consumption and real personal income indexed to January 2020. Gray shaded area represents the annual change in personal savings rate. Last observation is January 2022.



5.9 percent (y/y) in February, on the back of a 32 percent increase in energy prices. Sentiment has deteriorated sharply since the war in Ukraine, with the Sentix index plunging from 16.6 to -7.0—its lowest level since November 2020. Owing to its outsized reliance on Russian oil and gas, energy prices have increased particularly sharply in the euro area, weighing heavily on household real disposable income (figure 3.A). Pandemic control measures continued to ease in March despite renewed Omicron-related surges in many countries, including Germany. In *Japan*, incoming data point to a persistent drag from the Omicron wave, with the services PMI slipping deeper into contraction in February, from 47.6 to 47.2.

China: Policy easing amid Covid-19 resurgence. After a weak start in January, the Caixin General Manufacturing PMI rose to 50.4 in February, from 49.1 in January and the official NBS Non-Manufacturing PMI rose to 51.6 (figure 3.B). Industrial production and fixed asset investment growth accelerated to 7.5 percent and 12.2 percent (y/y) respectively in January-February 2022 on the back of front-loaded fiscal policy support. Trade slowed but remained robust, with exports and imports expanding by 16.3 and 15.5 percent (y/y), respectively. New lockdowns in response to a COVID-19 resurgence are expected to dampen activity in March. China announced a GDP growth target of “around 5.5 percent” for 2022—at the high end of market expectations—signaling a shift to fiscal policy easing but maintaining a relatively cautious stance on the property sector.

Other EMDEs: spillovers from war. The war in Ukraine is having a large negative impact on the Europe and Central Asia region due to tight regional economic and financial linkages—Russia alone accounts for about 40 percent of regional GDP. The war is also expected to adversely affect other EMDEs, particularly commodity-importing economies, which have experienced a rapid increase in sovereign spreads since the war started (figure 3.C). Prior to the war, indicators pointed to resilient activity across many EMDEs. In **India**, economic activity expanded by 5.4 percent (y/y) in 2021Q4, although momentum slowed into the new year. **South Africa**’s GDP grew by 4.9 percent last year, with the Omicron wave exerting a smaller-than-expected drag on the economy in 2021Q4. **Saudi Arabia** is benefiting from robust growth driven by the expansion of oil production with output expanding by 6.8 percent (y/y) in 2021Q4. GDP growth in **Thailand** accelerated in 2021Q4 to 1.9 percent (y/y) after contracting 0.2 percent in 2021Q3, helped by the easing of COVID-19 restrictions. In **Brazil**, following a recession in 2021Q2-Q3, Q4 GDP expanded 0.5 percent (q/q), helped by robust agricultural output growth. In **Mexico**, GDP growth was flat in 2021Q4.

FIGURE 3.A Trade and energy commodity exposure to Russia

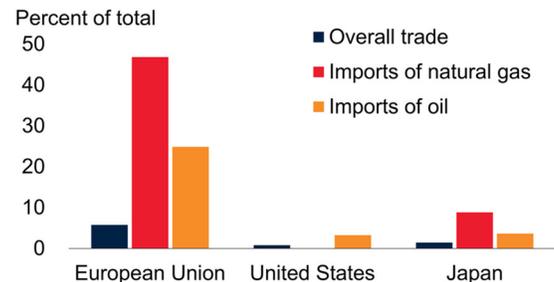


FIGURE 3.B China’s official PMI

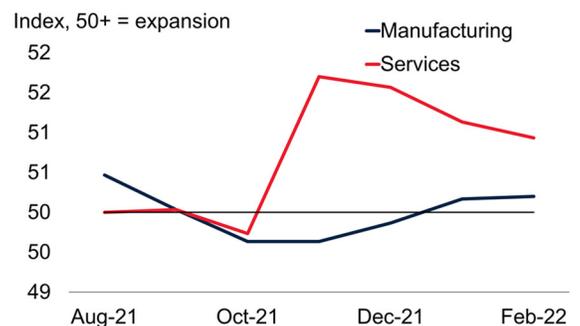
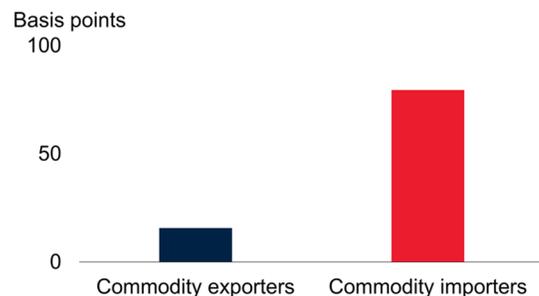


FIGURE 3.C Cumulative increase in EMDE sovereign spreads by commodity status



Sources: Eurostat; Census Bureau; Haver Analytics; J.P. Morgan; Ministry of Finance Japan; U.S. Energy Information Administration; World Bank.
Note: EMDEs = emerging market and developing economies.
A. Bars show the Russia’s share of overall trade of goods (exports plus imports of goods), imports of natural gas and imports of crude oil in respective economies in 2021. Data on natural gas and crude oil imports in European Union represent the first semester of 2021 (January to June).
B. Figure shows the 3-month moving average of the Official PMI. Purchasing Managers’ Index (PMI) readings above 50 indicates expansion in economic activity; readings below 50 indicates contraction.
C. Figure shows the difference in bond spreads between the latest available data and February 23, 2022 (day prior to outbreak of Russia-Ukraine war). Last observation is March 16, 2022.



Special Focus: COVID-19 and Income Inequality

The COVID-19 pandemic has exacerbated global income inequality. Over the two decades ending in 2019, both global between-country income inequality and average within-country income inequality fell markedly. Analysis in the January 2022 [Global Economic Prospects](#) Report indicates that the pandemic has partly reversed this progress. Weak recoveries in EMDEs are expected to raise between-country inequality. Within-country income inequality is also estimated to have increased somewhat in EMDEs because of severe job and income losses among lower income population groups.

The deep recession and uneven recovery have increased between-country inequality. In contrast to the global financial crisis and recession of 2007-09, the recession triggered by COVID-19 and the lagging economic recovery in EMDEs have substantially raised between-country income inequality (figure 4.A). By some measures—between-country Gini and Theil indices based on real per capita GDP—between-country inequality reversed back to levels seen in the early 2010s.

Within-country income inequality is estimated to have increased moderately in EMDEs. Model-based simulations conducted for a sample of 34 EMDEs with available household surveys and sectoral growth data suggest that within-country inequality increased in these countries as a result of the pandemic (figure 4.B). However, the magnitude of the increase appears to have been small: the Gini coefficient is estimated to have increased, on average, by 0.3 points relative to a no-pandemic counterfactual scenario. This increase is comparable in magnitude to the annual average decline in income inequality within these EMDEs over the preceding two decades. In the average low-income country (LIC), the estimated increase in the Gini coefficient is 0.1 point more than in the average EMDE.

A significant share of survey respondents in EMDEs reported income losses and work stoppages since the start of the pandemic, especially in LICs. The World Bank's harmonized phone surveys from the COVID-19 Household Monitoring Dashboard suggest that over 60 percent of households in surveyed EMDEs reported income losses since the start of the COVID-19 pandemic. In LICs, the average share of households reporting income losses was above 70 percent (figure 4.C). Almost a third of the surveyed households reported job losses or work stoppages since the beginning of the pandemic, with a greater share (36 percent) of respondents reporting work stoppages in LICs.

FIGURE 4.A Change in global between-country income inequality

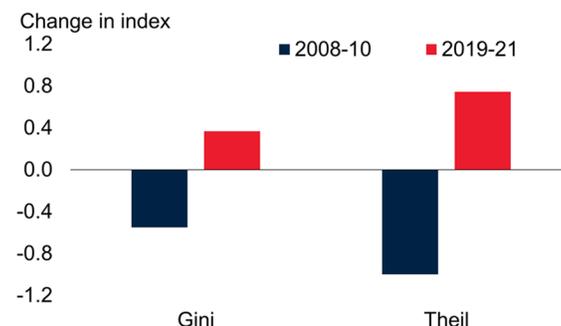


FIGURE 4.B Change in within-country income inequality in EMDEs, 2019-20

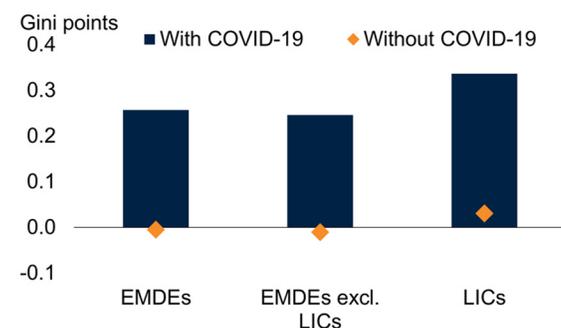
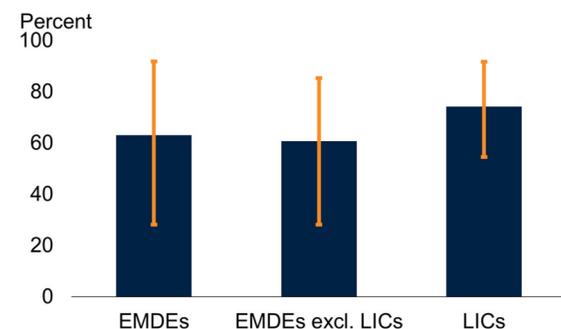


FIGURE 4.C Share of households reporting income losses, by income group



Sources: Narayan et al. (2022); World Bank.

Note: EMDEs = emerging market and developing economies; LICs = low-income countries.

A. Figure shows annualized changes in the between-country Gini and Theil indices in 2008-10 and 2019-21. The calculations are based on a strongly balanced panel of 176 countries. The Gini index is on 0-100 scale. The Theil generalized entropy GE (1) index and the Gini index are computed using GDP per capita, purchasing power parity-adjusted (constant 2017 international dollars), based on the World Bank's World Development Indicators and growth estimates.

B. Figure shows the difference between the estimated average change in the Gini index in the COVID-19 scenario and the no-pandemic counterfactual scenario, as presented in Chapter 4 of the January 2022 edition of the *Global Economic Prospects* report.

C. Calculations based on the Harmonized High-Frequency Phone Surveys (HFPS) data from the COVID-19 Household Monitoring Dashboard for wave 1. Simple averages. Sample consists of 36 EMDEs, including 6 LICs. Orange whiskers indicate the maximum and the minimum values.



Women, low-skilled workers, and informal workers have been disproportionately affected by the pandemic. According to the survey data, these population groups reported a greater share of job losses and work stoppages, particularly in urban areas (figure 5.A). Estimations using logit regressions indicate that women were 8 percentage points more likely to stop working and 5 percentage points more likely to lose income than men during the first months of the pandemic. Workers without tertiary education were 10 percentage points more likely to stop working and 5 percentage points more likely to lose income than workers with tertiary education. Informal workers were 19 percentage points more likely to incur income losses than workers in the formal sector.

The pandemic has elevated the risks of worsening income inequality in the longer run. As pandemic-induced disruptions to education and the disproportionate adverse effects on low-income households worsen intergenerational mobility, the increase in inequality may become entrenched, especially in LICs. For instance, among the households with school-age children who attended school before the pandemic, only 39 percent reported engagement in any learning or education activities since school closures in LICs, as opposed to 79 percent in other EMDEs (figure 5.B). Estimations suggest that children in rural areas and from households with lower education levels of survey respondents were much less likely to continue learning during school closures (figure 5.C). The probability of continued learning among children was 4 percentage points lower in households where respondents had stopped working during the pandemic.

Comprehensive policy efforts are needed to lower income inequality. A comprehensive strategy is needed to steer the global economy onto a more inclusive development path. Such a strategy needs to include measures to reduce both between-country and within-country inequality through national reforms and with support from the global community. This involves a rapid global rollout of vaccination and productivity-enhancing reforms in EMDEs to lower between-country inequality; fiscal support targeted at vulnerable population groups and measures to broaden access to education, health care, digital services, and infrastructure; and assistance from the global community to resolve debt overhangs and to ensure an open and rules-based global trade and investment climate that nurtures faster productivity growth.

FIGURE 5.A Share of respondents reporting work stoppage, by demographic group

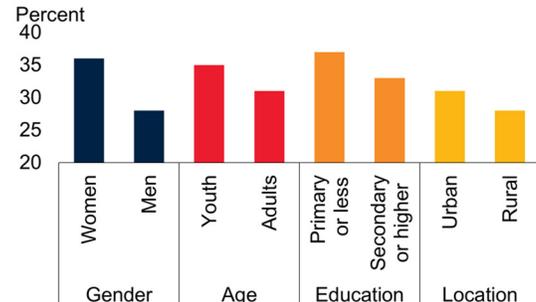


FIGURE 5.B Children engaged in education during school closures in EMDEs, 2020

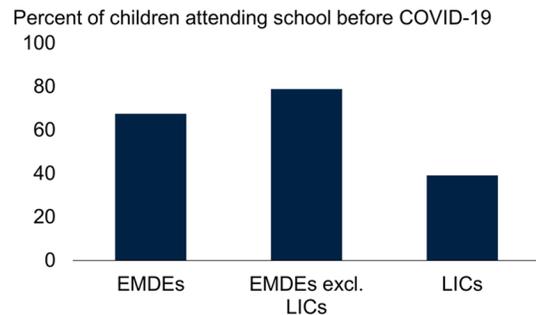
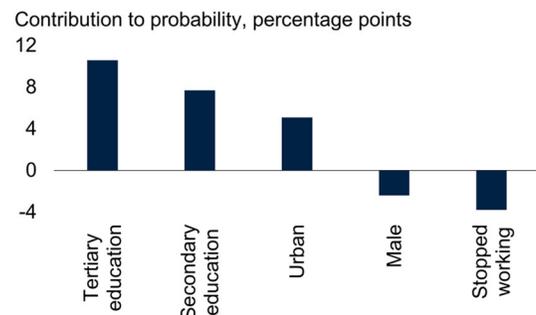


FIGURE 5.C Likelihood of continued learning among children during school closures



Sources: Kugler et al. (2021); Narayan et al. (2022); World Bank.

Note: EMDEs = emerging market and developing economies; LICs = low-income countries.

A. Calculations based on the Harmonized High-Frequency Phone Surveys (HFPS) data from the COVID-19 Household Monitoring Dashboard for wave 1. Simple averages. Youth is defined as 18-24 years and adults as older than 25.

B.C. Calculations based on the Harmonized High-Frequency Phone Surveys data from the COVID-19 Household Monitoring Dashboard for wave 1 in 2020.

B. Response to survey question about children engaged in any education activities since school closures (percent of household with school age children who attended school before the pandemic), by income group (simple averages). Sample consists of 49 EMDEs, including 14 LICs.

C. Based on the logit regression of the incidence of households reporting continued learning among children on covariates reflecting characteristics of respondents and households, and country fixed effects. The sample is limited to households with children going to school before the pandemic.



Recent Prospects Group Publications

Global Economic Prospects - June 2022 (Forthcoming)

Commodity Markets Outlook - April 2022 (Forthcoming)

[Global Economic Prospects - January 2022](#)

[Commodity Markets Outlook - October 2021](#)

[Demand and Supply Shocks: Evidence from Corporate Earning Calls](#)

[What Has Been the Impact of COVID-19 on Debt? Turning a Wave into a Tsunami](#)

[What Types of Capital Flows Help Improve International Risk Sharing?](#)

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[Women, Business and the Law 2022](#)

[World Development Report 2022 : Finance for an Equitable Recovery](#)

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: February 22, 2021 - March 21, 2022					
Country	Date	Indicator	Period	Actual	Previous
United States	2/24/22	GDP	Q4	5.6%	4.9%
France	2/25/22	GDP	Q4	5.4%	3.5%
Germany	2/25/22	GDP	Q4	1.8%	2.9%
Mexico	2/25/22	GDP	Q4	1.1%	4.5%
India	2/28/22	GDP	Q4	5.4%	8.5%
Poland	2/28/22	GDP	Q4	7.6%	5.5%
Turkey	2/28/22	GDP	Q4	9.1%	7.5%
Australia	3/1/22	GDP	Q4	4.2%	4.0%
Canada	3/1/22	GDP	Q4	3.3%	3.8%
Indonesia	3/1/22	CPI	FEB	2.1%	2.2%
South Korea	3/2/22	GDP	Q4	4.2%	4.0%
Brazil	3/4/22	GDP	Q4	1.6%	4.0%
Italy	3/4/22	GDP	Q4	6.2%	3.9%
China	3/8/22	CPI	FEB	0.8%	0.8%
Euro area	3/8/22	GDP	Q4	4.6%	4.0%
Japan	3/8/22	GDP	Q4	0.4%	1.2%
South Africa	3/8/22	GDP	Q4	1.7%	2.9%
Argentina	3/9/22	IP	JAN	-0.3%	10.4%
Russian Federation	3/9/22	CPI	FEB	9.2%	8.7%
Saudi Arabia	3/9/22	IP	JAN	11.1%	11.2%
United States	3/10/22	CPI	FEB	7.9%	7.5%

(Percent change y/y)

Upcoming releases: March 22, 2022- April 21, 2022				
Country	Date	Indicator	Period	Previous
South Africa	3/23/22	CPI	FEB	5.7%
Netherlands	3/25/22	GDP	Q4	5.1%
Spain	3/25/22	GDP	Q4	3.4%
Germany	3/30/22	CPI	MAR	5.2%
United States	3/30/22	GDP	Q4	4.9%
Indonesia	3/31/22	CPI	MAR	2.1%
United Kingdom	3/31/22	GDP	Q4	7.0%
South Korea	4/4/22	CPI	MAR	3.7%
France	4/5/22	IP	FEB	-1.5%
Germany	4/7/22	IP	FEB	1.5%
Mexico	4/7/22	CPI	MAR	7.3%
Spain	4/8/22	IP	FEB	1.7%
China	4/10/22	CPI	MAR	0.8%
United Kingdom	4/11/22	IP	FEB	2.3%
India	4/12/22	IP	FEB	1.3%
United States	4/12/22	CPI	MAR	7.9%
Italy	4/13/22	IP	FEB	-2.2%
China	4/17/22	GDP	Q1	4.0%
Canada	04/20/22	CPI	MAR	5.5%
Euro area	04/21/22	CPI	MAR	5.8%
Japan	04/21/22	CPI	MAR	0.9%