

# Global Economic Prospects

## *June 2022*

M. Ayhan Kose and Jongrim Ha  
EFI



## Global Economic Prospects – *June 2022*

- Global Outlook
- Regional Outlooks
- Global Stagflation
- The War in Ukraine: Implications for Energy Markets and Activity

## Three Questions

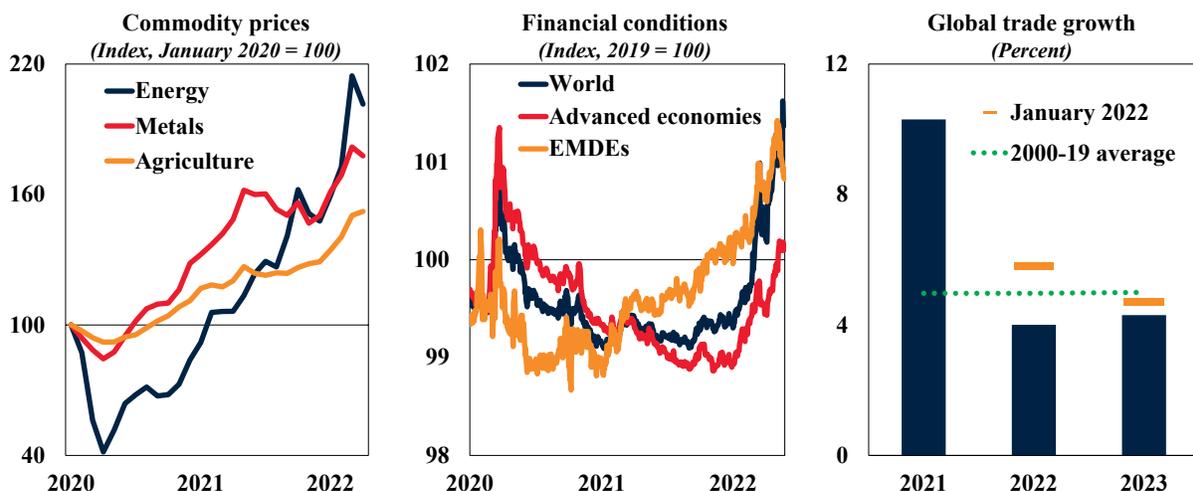
- 1** **What are near-term prospects for the global economy?** *Much sharper global slowdown than expected in January 2022, with broad-based forecast downgrades. Multiple downside risks cloud the outlook.*
- 2** **Why does the stagflation threat present challenges for EMDEs?** *The 1970s stagflation ended with a series of financial crises in EMDEs. These economies are now facing a rising risk of a similar outcome.*
- 3** **What are the policy priorities for EMDEs?** *Coordinating policies to overcome global challenges; balancing macroeconomic policy tradeoffs; responding to food and energy price shocks; and building the foundations for a green, resilient, and inclusive recovery.*

3 \* EMDEs = Emerging Market and Developing Economies



## Global Backdrop

*Higher Commodity Prices; Tighter Financial Conditions; Weaker Trade Growth*



4 Sources: Bloomberg; World Bank. Left Panel. Monthly data from World Bank's *Pink Sheet*. Last observation is April 2022. Center Panel. Based on Goldman Sachs Financial Conditions Index. Higher index numbers reflect tighter financial conditions. The aggregates are computed using GDP weights at 2010-19 prices and market exchange rates, based on 25 economies (including Euro Area)—12 advanced economies and 13 EMDEs. Line for EMDEs excludes data for the Russian Federation. Last observation is May 23, 2022. Right Panel. Trade measured as the average of export and import volumes. January 2022 refers to forecasts presented in the January 2022 *Global Economic Prospects* report.



## Global Growth Forecasts

### Sharper Slowdown in 2022-23

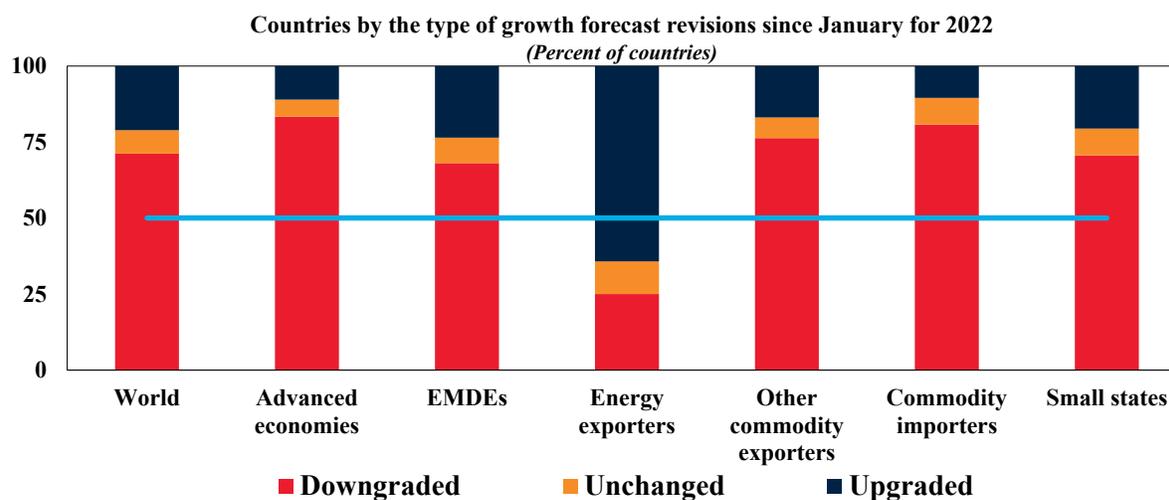
	GDP growth (Percent)					Change from January 2022	
	2013-19	2020	2021e	2022f	2023f	2022	2023
<b>World</b>	2.9	-3.3	5.7	2.9	3.0	-1.2	-0.2
<b>Advanced economies</b>	2.0	-4.6	5.1	2.6	2.2	-1.2	-0.1
<b>EMDEs</b>	4.5	-1.6	6.6	3.4	4.2	-1.2	-0.2
East Asia and Pacific	6.6	1.2	7.2	4.4	5.2	-0.7	0.0
Europe and Central Asia	2.7	-1.9	6.5	-2.9	1.5	-5.9	-1.4
<i>Excluding Russia and Ukraine</i>	4.0	-1.3	7.9	2.8	3.5	-0.6	-0.1
Latin America and the Caribbean	1.3	-6.4	6.7	2.5	1.9	-0.1	-0.8
Middle East and North Africa	2.6	-3.7	3.4	5.3	3.6	0.9	0.2
South Asia	6.5	-4.5	7.6	6.8	5.8	-0.8	-0.2
Sub-Saharan Africa	3.1	-2.0	4.2	3.7	3.8	0.1	0.0

5 Source: World Bank.  
Note: Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates; e and f refer to estimates and forecasts, respectively.



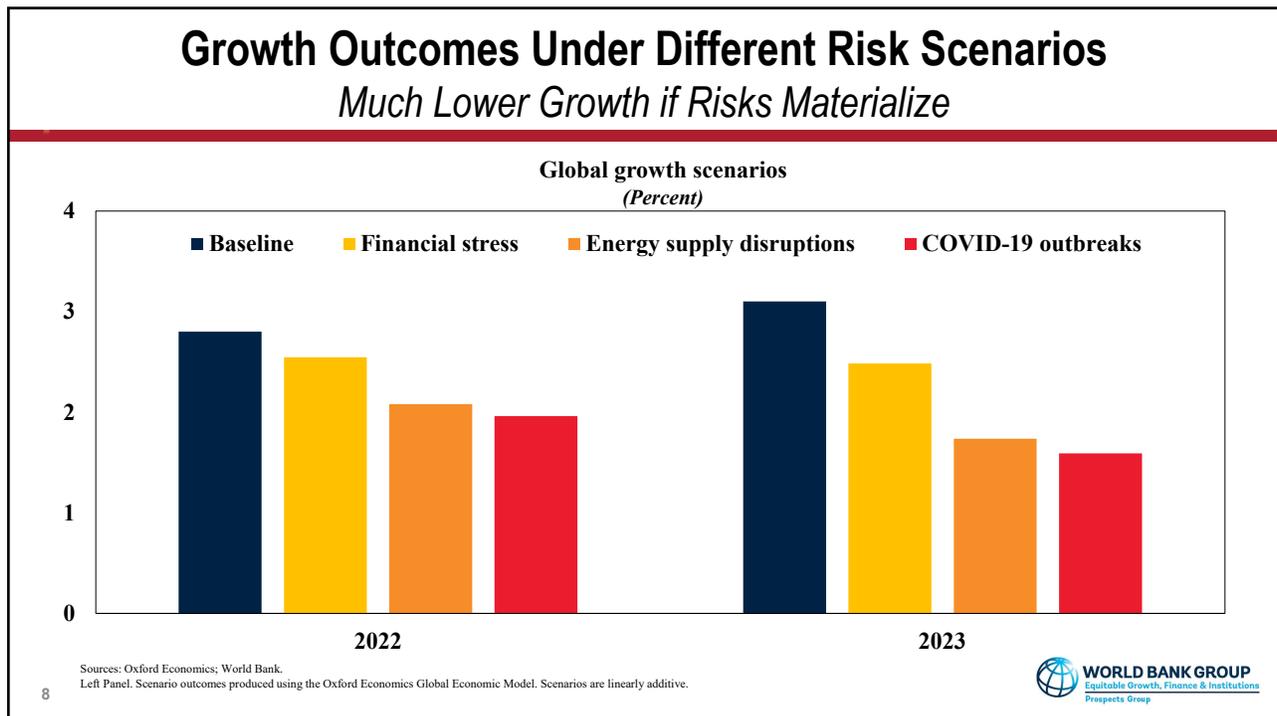
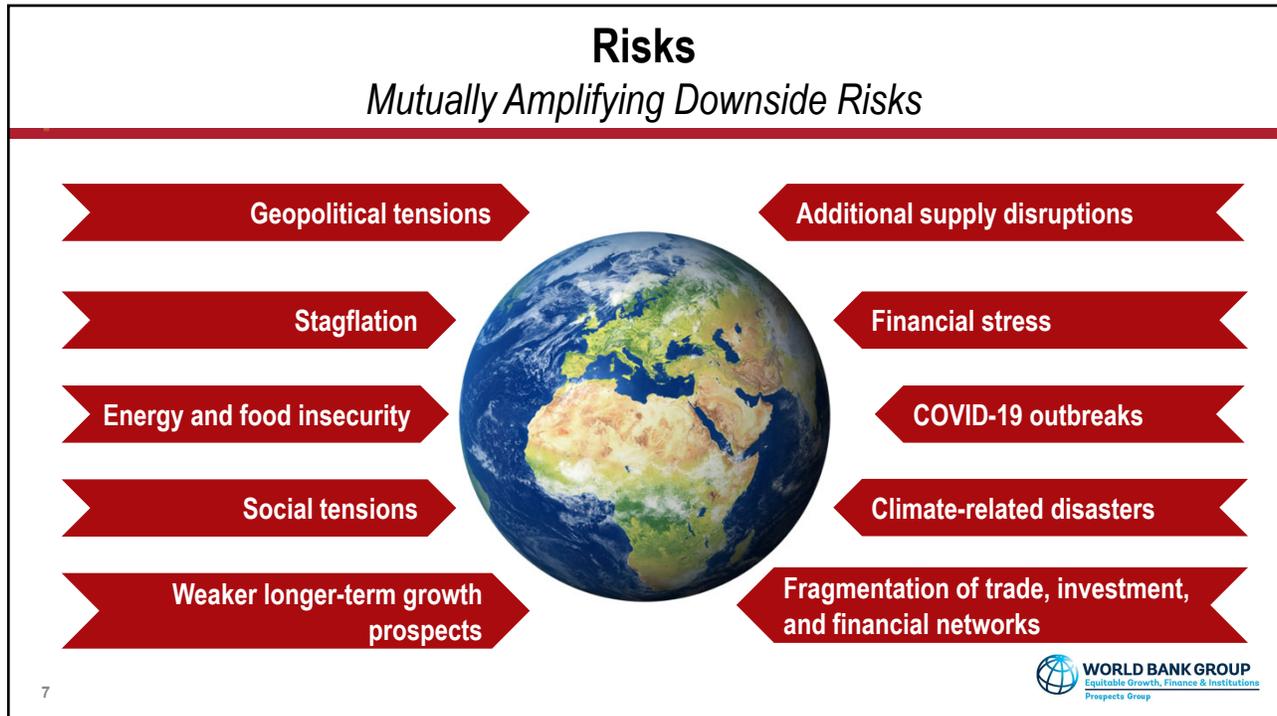
## Changes in Growth Forecasts for 2022

### Downgrades for Most Countries



6 Source: World Bank.  
Note: Figure shows the share of countries in respective country groups with forecast upgrades, downgrades, and no forecast changes for 2022 since the January 2022 *Global Economic Prospects* report. The horizontal yellow line shows 50 percent. Sample includes 180 countries, consisting of 36 advanced economies and 144 EMDEs, including 28 energy-exporting EMDEs, 59 other (non-energy) commodity-exporting EMDEs, 57 commodity-importing EMDEs, and 34 small states.





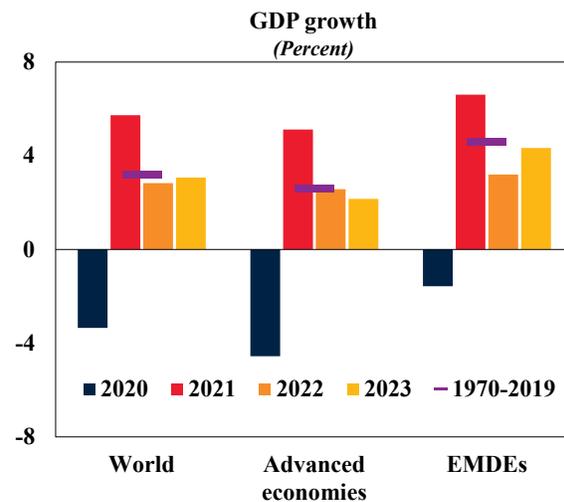
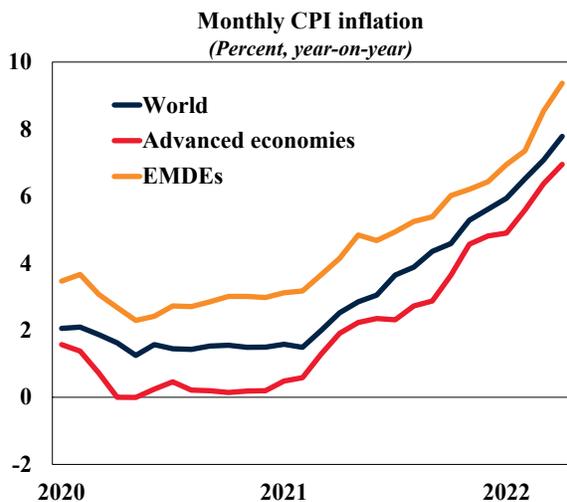
## Three Questions

**2** Why does the stagflation threat present challenges for EMDEs? *The 1970s stagflation ended with a series of financial crises in EMDEs. These economies are now facing a rising risk of a similar outcome.*

9 \* EMDEs = Emerging Market and Developing Economies



## Global Stagflation? High Inflation; Tepid Growth



Sources: Haver Analytics; International Monetary Fund; World Bank.  
 Left Panel. CPI refers to consumer price index. Year-on-year inflation. Lines show group median inflation for 81 countries, of which 31 are advanced economies and 50 are EMDEs. Last observation is April 2022. Right Panel. Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates.

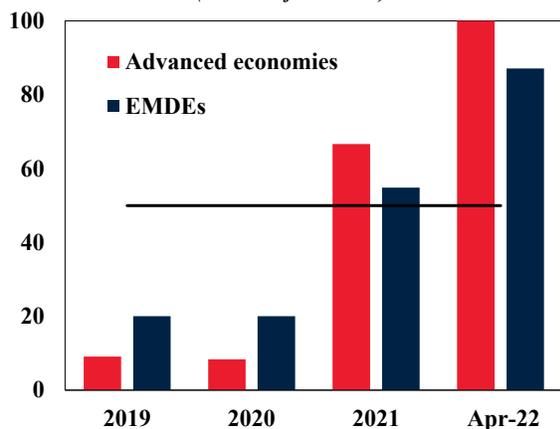
10



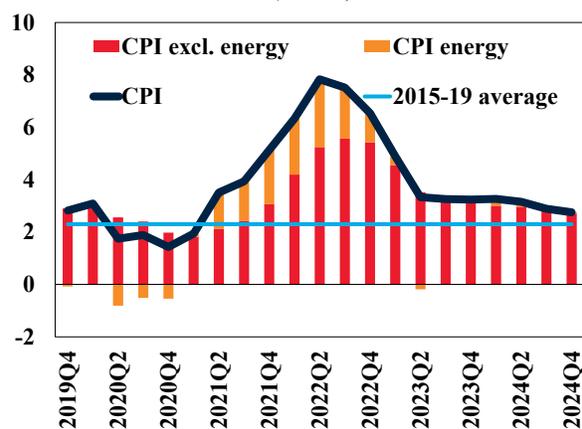
## Inflation Prospects

*Above Target Almost Everywhere; Decline Expected in 2023*

**Countries with inflation above target**  
(Percent of countries)



**Model-based global CPI inflation projection**  
(Percent)



Sources: International Monetary Fund; World Bank.

Note: CPI refers to consumer price index. Left Panel: Bars show the share of inflation-targeting economies (in percent) with average inflation during the course of the year (or month) above the target range. Right Panel: Model-based projection of quarterly global year-over-year CPI inflation using Oxford Economics Global Economic Model. Projection embeds global oil price forecast presented in table 1.1 of the June 2022 *Global Economic Prospects* report.

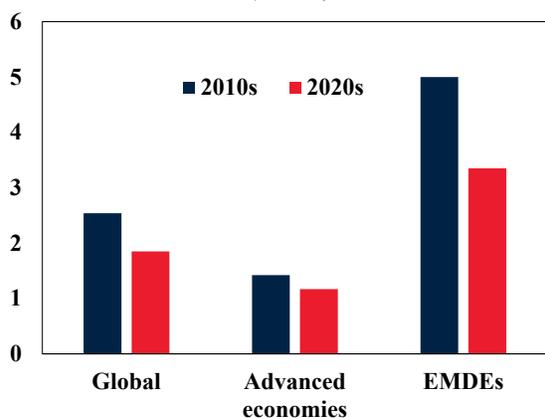


11

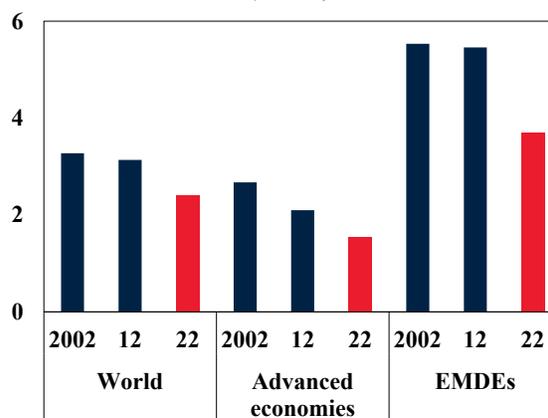
## Growth Prospects

*Weakening Growth Fundamentals; Downgrades to Long-Term Expectations*

**Potential growth**  
(Percent)



**Long-term growth expectations**  
(Percent)

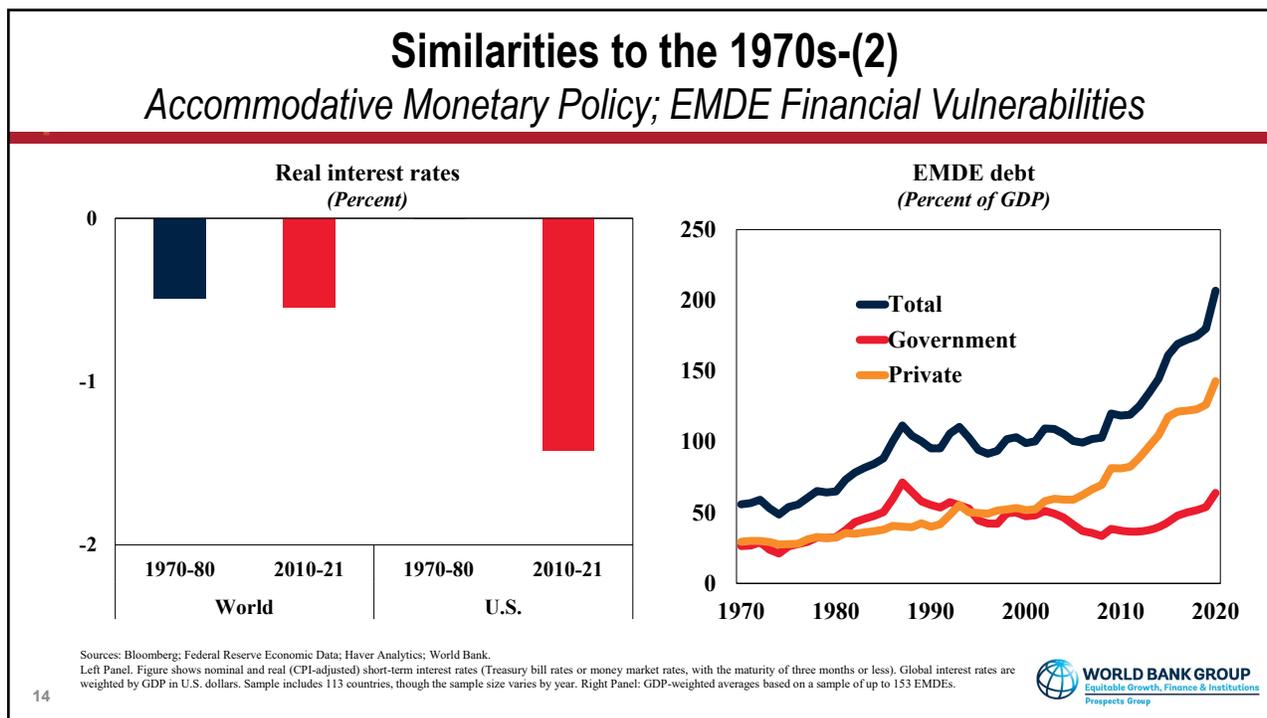
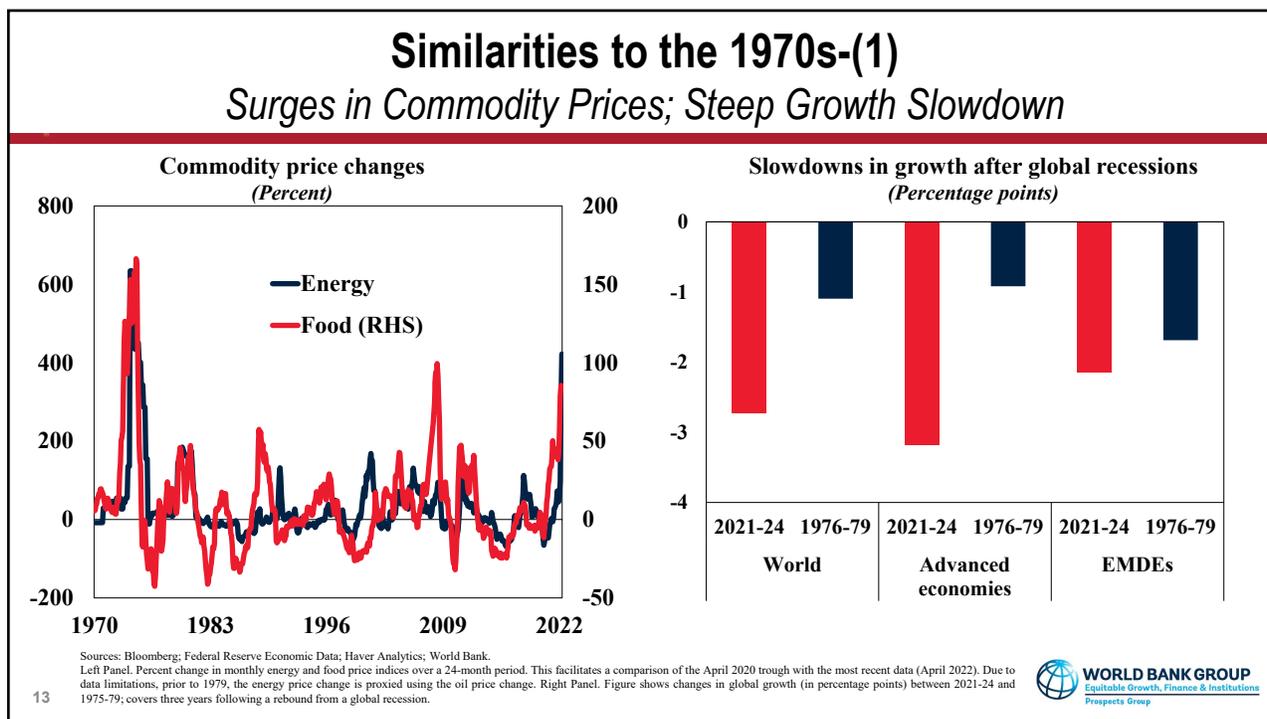


Sources: Consensus Economics; World Bank.

Left Panel: 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 in red bars 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. Right Panel: Results from the latest Consensus Economics surveys in each year are presented. Sample includes 84 countries (33 advanced economies and 51 EMDEs). The horizontal axis shows the years when Consensus Economics forecasts are surveyed.



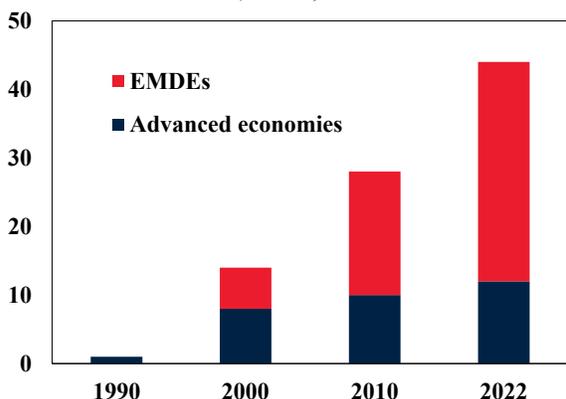
12



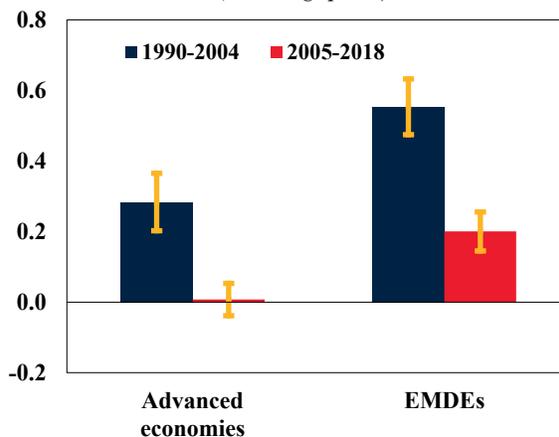
## Differences from the 1970s-(1)

### *More Inflation Targeting; Better-Anchored Expectations*

**Number of countries with inflation targeting**  
(Number)



**Response in inflation expectations to surprises**  
(Percentage points)



Sources: Ha, Kose, and Ohnsorge (2019); International Monetary Fund; OECD; World Bank.

Left Panel. Based on the clarification of IMF Annual Report on Exchange Arrangements and Exchange Restrictions and country-specific sources. Right Panel. Inflation expectations are five-year-ahead expectations of annual inflation. Inflation shocks are defined as the difference between realized inflation and short-term inflation expectations in the previous period. Sensitivity is estimated using a panel regression of the change in five-year-ahead inflation expectations on inflation shocks. Bars denote medians and vertical lines denote 90 percent confidence intervals. Sample period is divided into the first (1990-2004) and second (2005-2018) sub-periods. Based on a sample of 24 advanced economies and 23 EMDEs.

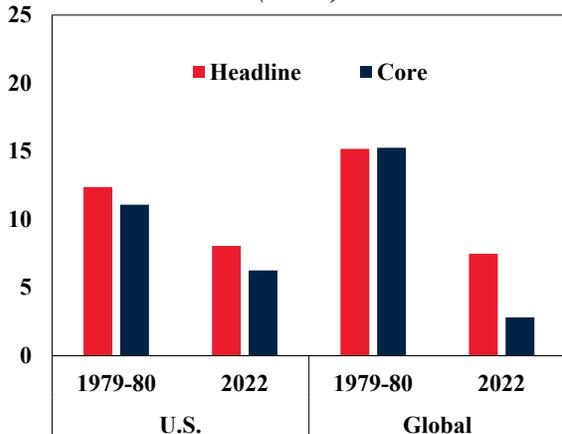
15



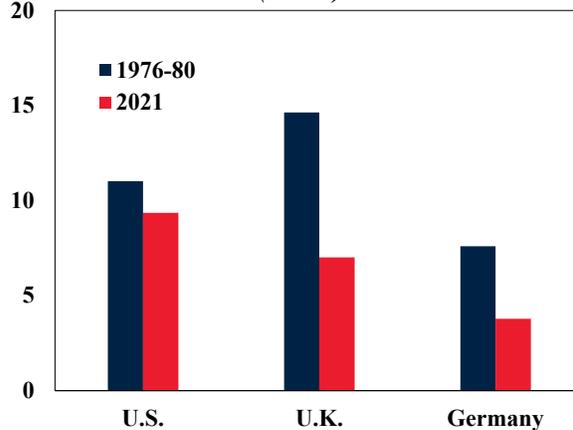
## Differences from the 1970s-(2)

### *For Now, Still Lower Inflation Pressures*

**Consumer price inflation**  
(Percent)



**Wage growth**  
(Percent)



Sources: Ha, Kose, and Ohnsorge (2019); Haver Analytics; International Monetary Fund; OECD; World Bank.

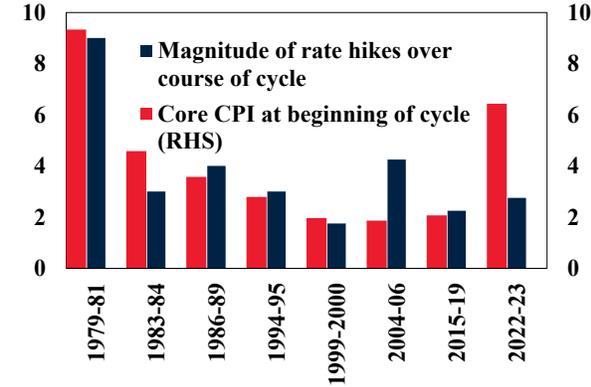
Note: CPI refers to consumer price index. Left Panel. Annual averages of headline and core CPI inflation in the United States and global (average across 66 countries). 2022 is based on the averages of January to April 2022. Right Panel: Annual averages of wage growth. 2022 is based on the averages of January to April 2022.

16

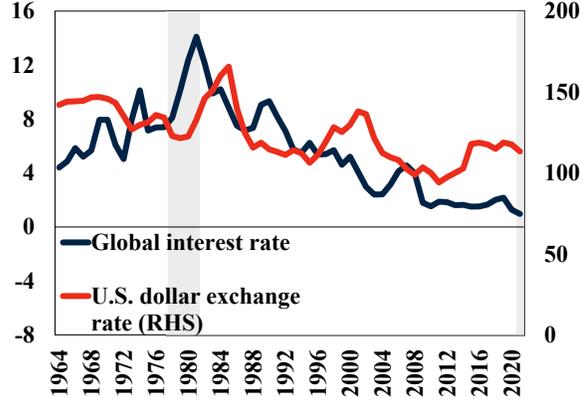


## Ending Stagflation-(1) Sharp Rate Hikes

**Magnitude of U.S. rate hikes and core CPI during previous Federal Reserve tightening cycles**  
(Percentage points) (Percent)



**Global interest rates and U.S. exchange rate**  
(Percent) (Index)



Sources: Bank for International Settlements; Federal Reserve Economic Data; Havers Analytics; World Bank.

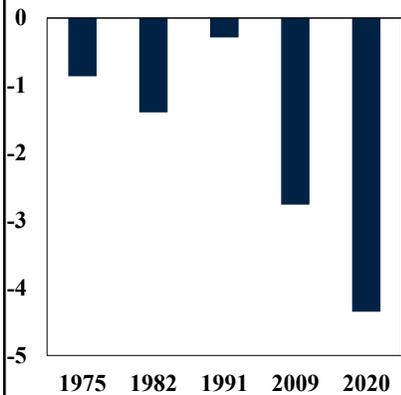
Left Panel: Blue bars show the extent of policy rate increases during previous tightening cycles: 1979-81, 1983-84, 1986-89, 1994-95, 1999-2000, 2004-06, 2015-19. Value for 2023 is an estimate based on market expectations for the level of the Fed Funds rate in mid-2023. Core CPI for 2022-23 shows latest data associated with tightening cycle. Right Panel: Figure shows nominal short-term interest rates (Treasury bill rates or money market rates, with the maturity of three months or less) and nominal effective exchange rate for the U.S. dollar. Global interest rates are weighted by GDP in U.S. dollars. Sample includes 113 countries, though the sample size varies by year.



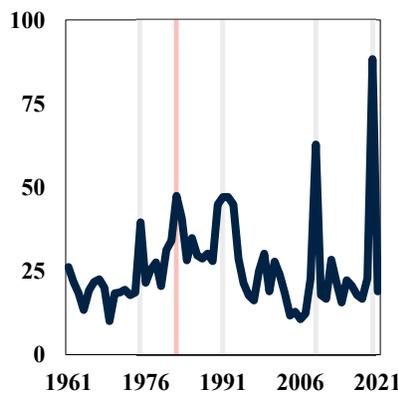
17

## Ending Stagflation-(2) Global Recession; EMDE Financial Crises

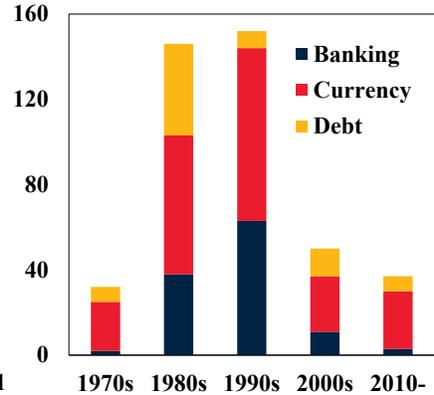
**Per capita growth in global recessions**  
(Percent)



**Countries in recession**  
(Percent of countries)



**Financial crises in EMDEs**  
(Number)



Sources: Haver Analytics; International Monetary Fund; World Bank.

Center Panel: Share of countries in recession, defined as a contraction in per capita GDP. Right Panel: Total number of banking, currency, and sovereign debt crises in EMDEs over respective periods.



18

## Three Questions

- 3** **What are the policy priorities for EMDEs?** *Coordinating policies to overcome global challenges; balancing macroeconomic policy tradeoffs; responding to food and energy price shocks; and building the foundations for a green, resilient, and inclusive recovery.*

19 \* **EMDEs = Emerging Market and Developing Economies**



## Global Policy Priorities

*Alleviate Short-Term Pressures; Build Long-Term Foundations*

### ***Mitigate the effects of the war in Ukraine***

- Support humanitarian relief efforts
- Alleviate food insecurity in vulnerable countries
- Undertake reconstruction efforts in areas devastated by the war in Ukraine

### ***Support green, resilient, and inclusive recovery***

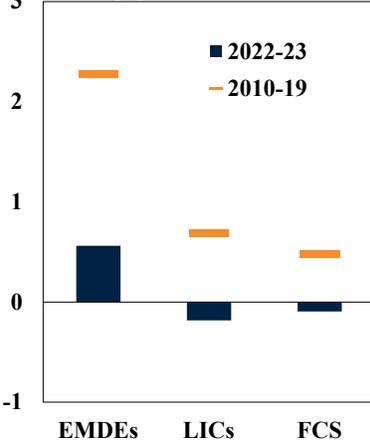
- Accelerate vaccine rollout, strengthen pandemic preparedness
- Provide debt relief where needed
- Facilitate energy transition away from fossil fuels
- Bolster rules-based international economic order to guard against fragmentation of trade, investment, and financial networks

20

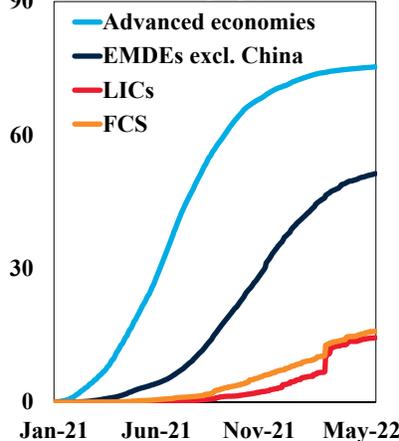
## Income Growth, Vaccination, and Climate Challenges in LICs

*Slower Income Convergence; Lower Rates of Vaccination; More Extreme Weather Events*

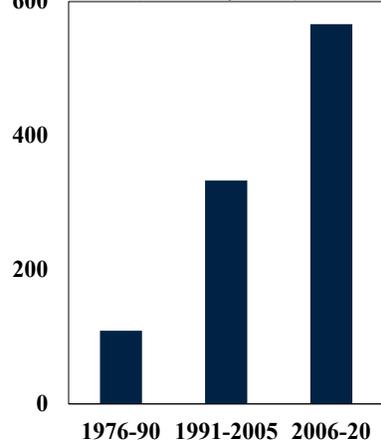
**Per capita income growth differentials**  
(Percentage points, relative to adv. econ.)



**Vaccination rates**  
(Per 100 people)



**Extreme weather events affecting LICs**  
(Number of events)



Sources: Our World in Data; Mahler et al. (2022); World Bank.

Note: LICs and FCS refer to low-income countries and fragile and conflict-affected situations. Left Panel. Per capita income growth differentials are computed as differences in per capita GDP growth between respective EMDE groups and advanced economies, expressed in percentage points. Center Panel. Percent of population fully vaccinated. Last observation is May 24, 2022. Right Panel. Extreme weather events include droughts, floods, and storms. Data are available for 25, 27, and 23 LICs for droughts, floods and storms, respectively.



21

## National Policy Priorities

*Manage Short-Term Policy Tradeoffs; Build Long-Term Foundations*

### Macroeconomic policies

- *Monetary policy.* Prioritize price stability, calibrating policy to avoid derailing recovery
- *Fiscal policy.* Ensure fiscal sustainability while preserving investment and social spending
- *Financial policy.* Enhance financial sector resilience

### Structural policies

- Integrate refugees and migrant workers; expand public services
- Improve business climates, promote education, strengthen human capital, raise female labor participation, and boost productivity
- Implement targeted support instead of distortionary policies to respond to high food and energy prices

22

## Coping with High Food and Energy Prices

*Mostly Distortive Policies Employed so far; Better Options Available*

### Policy responses employed so far

- Reduction in fuel taxes; introduction of fuel subsidies
- Export restrictions on wheat and fertilizers
- Measures to boost energy supply (easing regulations on new installation of renewables)

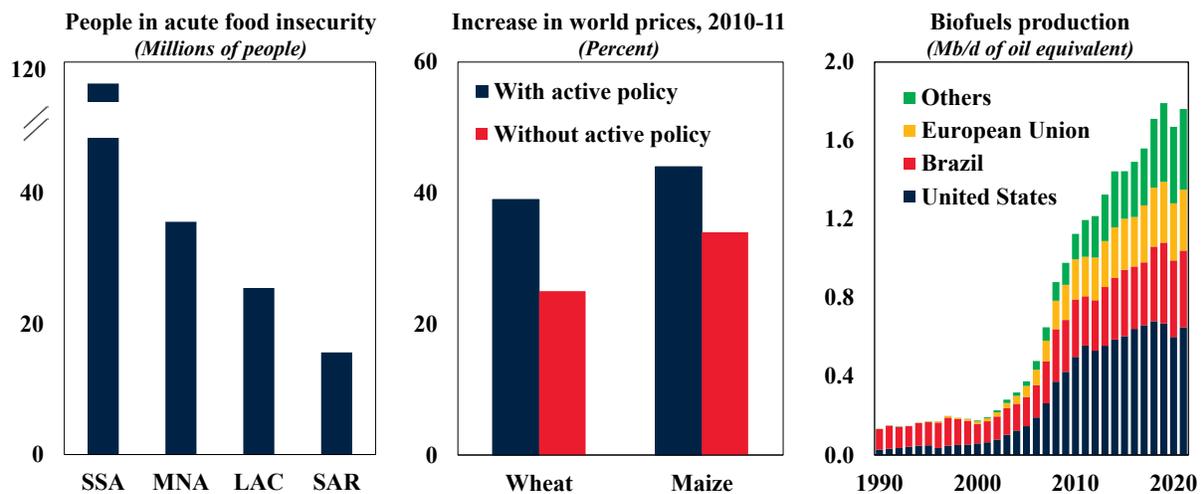
### Policy recommendations

- Avoid export bans and price controls
- Prioritize income support over subsidies; if subsidies are needed, ensure they are temporary
- Reduce waste; introduce incentives for efficiency
- Do not divert land to biofuel commodities
- Invest in renewable energy; invest in food technologies to raise yields
- Improve market transparency; facilitate policy dialog

23

## Responses to Food Price Shocks

*Widespread Food Insecurity; Costly Distortionary Interventions; More Land for Biofuels*



Sources: Ag-Incentives Database; BP; FSIN and GNAFC (2021); Ivanic and Martin (2014); Organisation for Economic Co-operation and Development; World Bank.  
 Left Panel. Bars represent the sum of people in high levels of food insecurity, as reflected by being in phase 3 or above of the Integrated Food Security Phase Classification (IPC) for 2021. Missing data for each country are imputed based on the regional rate change from 2020 to 2021. Sample size includes 3 SAR (South Asia), 37 SSA (Sub-Saharan Africa), 9 MNA (Middle East and North Africa), and 8 LAC (Latin America and the Caribbean) economies. Center Panel. Estimates based on an error correction model described in Laborde, Lakatos, and Martin (2019). Based on data for 82 countries for the period 2010-11.

24

## Three Questions

- 1 **What are near-term prospects for the global economy?** *Much shaper global slowdown than expected in January 2022, with broad-based forecast downgrades. Multiple downside risks cloud the outlook.*
- 2 **Why does the stagflation threat present challenges for EMDEs?** *The 1970s stagflation ended with a series of financial crises in EMDEs. These economies are now facing a rising risk of a similar outcome.*
- 3 **What are the policy priorities for EMDEs?** *Coordinating policies to overcome global challenges; balancing macroeconomic policy tradeoffs; responding to food and energy price shocks; and building the foundations for a green, resilient, and inclusive recovery.*

25

\* EMDEs = Emerging Market and Developing Economies



**Thanks!**  
***akose@worldbank.org***

[www.worldbank.org/gep](http://www.worldbank.org/gep)

[www.worldbank.org/inflation](http://www.worldbank.org/inflation)

<https://www.worldbank.org/en/research/publication/decade-after-global-recession>

[www.worldbank.org/commodities](http://www.worldbank.org/commodities)

26



## Recent Publications by Prospects Group

