Global Economic Prospects

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Global Economic Prospects – January 2022

- Global Outlook (Chapter 1)
- Regional Outlooks (Chapter 2)
- Commodity Price Cycles: Drivers and Policies (Chapter 3)
- Impact of COVID-19 on Global Income Inequality (Chapter 4)
- Resolving High Debt after the Pandemic: Lessons from Past Episodes of Debt Relief (Special Focus)
Three Questions

1. What are near-term prospects for the global economy?

2. What are the main features of commodity price cycles?

3. What are the policy priorities for EMDEs?

*EMDEs = Emerging Market and Developing Economies

Global Growth Slowdown in 2022-23

Broad-Based and Exceptionally Steep


Note: Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates. Data for 2021 are estimates and data for 2022 and 2023 are forecasts.
**Global Growth Forecasts**

**Slowing Growth**

<table>
<thead>
<tr>
<th>GDP growth (Percent)</th>
<th>Change from June 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013-19</td>
</tr>
<tr>
<td>World</td>
<td></td>
</tr>
<tr>
<td>2022f</td>
<td>2.9</td>
</tr>
<tr>
<td>Advanced economies</td>
<td></td>
</tr>
<tr>
<td>2022f</td>
<td>2.0</td>
</tr>
<tr>
<td>EMDEs</td>
<td></td>
</tr>
<tr>
<td>2022f</td>
<td>4.5</td>
</tr>
</tbody>
</table>


Note: Headline aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates; e = estimate; f = forecast.

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**Uneven Global Recovery**

**Lasting Scarring Partly due to Weak Output and Investment Recovery**

<table>
<thead>
<tr>
<th>Deviation of output from pre-pandemic trends by 2023 (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>-3</td>
</tr>
<tr>
<td>-6</td>
</tr>
<tr>
<td>-9</td>
</tr>
<tr>
<td>Advanced World economies</td>
</tr>
</tbody>
</table>


Note: Figures show 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. Left Panel: LICs and LICs refer to fragile and conflict-affected situations and low-income countries, respectively. The small states sample includes 32 EMDEs. Right Panel: Shaded area indicates forecasts.
Impact of COVID-19 on Inequality and Poverty

Increase in Poverty and Inequality

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

Left Panel. Based on World Bank’s World Development Indicators and growth projections. The figure show annualized change in the coefficient between the two years indicated. Theil generalized entropy GE(1) index and Gini index are computed using GDP per capita, PPP (constant 2017 international dollars). The calculations are based on a balanced panel of 176 countries over the period 2008-20. Center and Right Panels. The simulations estimate the changes in the income distribution of households in 2020 against a counterfactual 2020 income distribution that assumes the last pre-pandemic sectoral output growth forecast for 2020. The sample includes 34 countries. The simulations are based on country-specific sectoral growth projections and harmonized high-frequency phone surveys data as of July 2021. Difference between the average change in extreme poverty (Center Panel) or the Gini index (Right Panel) in the COVID-19 scenario and the no-pandemic counterfactual scenario.

Change in between-country inequality

Change in Gini index, 2020

EMDEs EMDEs excl. LICs LICs

With COVID-19 Without COVID-19

With COVID-19

Without COVID-19

Distributional Impacts in EMDEs

Larger Income Losses in Vulnerable Households, Limited Access to Support

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

Note: LICs refer to low-income countries. Left Panel. Simple averages. Sample consists of 36 EMDEs, including 6 LICs. Orange whiskers indicate the maximum and the minimum values. Center Panel. Chart shows the contributions based on a logit regression of the incidence of households reporting income losses on variables measuring household characteristics and country dummy variables (Narayan et al. forthcoming). Each bar shows the contribution to the conditional probability of losing income in 2020. Agriculture is the baseline sector; wage-employed, male workers, and women with secondary and tertiary education are the baseline demographic categories in the regression. Right Panel. Simple average. Sample includes 51 EMDEs, of which 12 are LICs. Based on wave 1 of harmonized high-frequency phone surveys conducted in 2020.
Risks
Multiple, Possibility of Hard Landing

- COVID-19: new outbreaks
- Inflationary pressures
- Supply bottlenecks
- Climate-related disasters
- Financial stress
- Weaker long-term growth

COVID-19 Outbreaks and Vaccination
Recurring Outbreaks, Still Uneven Vaccination

Sources: Our World in Data, World Bank.
Left Panel: Daily new cases are shown as 7-day moving averages. Last observation is January 28, 2022. Center Panel: Daily new cases per million people are shown as 7-day moving averages. Last observation is January 28, 2022. Right Panel: Figure shows the percent of population that received at least one dose of a COVID-19 vaccine, as of January 31, 2021, June 30, 2021, and January 28, 2022.
Interconnected Risks
Higher Inflation; Tightening Financial Conditions

Inflation surprises
(Index, >0 = upside data surprise)

-30 0 30 60 90
2019 2020 2021

Financing conditions
(Index; January 1, 2021 = 100)
100 101 102 103
Jan-21 May-21 Sep-21 Jan-22

U.S. interest rate expectations
(Percent)
0.0 0.2 0.4 0.6 0.8 1.0
2021 2022

Sources: Bloomberg, Citigroup, Haver Analytics, Rogoff and Yang (2021), World Bank.
Left Panel: Data are from Citigroup Economic Surprise Index. The Citi inflation surprise index measures price surprises relative to market expectations. A positive index reading means inflation has been higher than expected and a negative reading means inflation has been lower than expected. Last observation is November 2021. Center Panel: Financial condition indices (FCI) are calculated using the Goldman Sachs FCI comprised as a weighted average of short-term interest rates, long-term interest rates, the trade-weighted exchange rate, an index of credit spreads, and the ratio of equity prices to the 10-year average of earnings per share. Sample includes 10 advanced economies (including euro area) and 12 EMDEs (excluding China). Aggregates are calculated using GDP weights at average 2010-19 prices and market exchange rates. Last observation is January 6, 2022. Right Panel: U.S. Federal Fund futures curve. Current is based on data from January 12, 2023. Last observation is December 2022.

Three Questions

What are the main features of commodity price cycles?
Commodity Reliance and Prices
Dependence on Commodity Exports; Unusually Sharp Rebound in 2020

Commodity exports in EMDEs
(Percent of exports)

Energy prices and global recessions
(Percent change from previous year)

Metal prices and global recessions
(Percent change from previous year)

Sources: WITS, World Bank.

Commodity Price Cycles
Larger Booms than Slumps, Synchronized with Global Industrial Production

Duration of commodity cycles
(Months)

Amplitude of commodity cycles
(Percent)

Synchronization with industrial prod.
(Percent of time spent in the same phase)

Sources: World Bank.

Note: Data from January 1970 to October 2021. Left Panel: Duration measures the average length (in months) of a phase (booms or slumps). Right Panel: Synchronization is measured by the concordance statistic which is defined as the proportion of time that two price series are in the same phase. It is equal to 100 if both series are in the same phase at any time. Dashed orange line indicates 50 percent.
Implications of Energy Transition for Metals Demand
Low-Carbon Technology More Metal Intensive Than Traditional Energy

Sources: Copper Alliance; World Bank (2017).

Left and Center Panels. Charts show the amount of copper and chromium required to generate one megawatt of electricity via different generation methods. Wind turbines require 3 times as much copper as a gas-powered turbine. Right Panel. Chart shows the amount of copper used in different types of vehicles. ICE stands for internal combustion engine; EV stands for electric vehicle.

Three Questions

3 What are the policy priorities for EMDEs?

*EMDEs = Emerging Market and Developing Economies*
Policy Priorities
Measures to Ensure Green, Resilient, and Inclusive Growth

Control the Pandemic
• Global coordination to ensure equitable access to vaccines and reduce the threat of new variants
• Accelerate vaccine rollout in EMDEs, especially LICs

Ensure Macroeconomic Stability
• Confront inflation to ensure price and financial stability; strengthen macroprudential policies
• Bolster domestic revenue mobilization to rebuild fiscal buffers and address debt sustainability concerns
• Strengthen fiscal, monetary, and macroprudential frameworks to manage business and commodity cycles
• Support vulnerable groups and strengthen policy interventions to avoid increases in within-country inequality

Enhance Crisis Preparedness and Growth Prospects
• Strengthen public institutions and health and education systems to bolster physical and human capital
• Foster firm competition and improve digital infrastructure
• Strengthen equality of opportunity by broadening access to health care, education, technology, infrastructure
• Reduce reliance on commodity sectors for fiscal and export revenues

Confront Climate Change and Inequality
• Expand financing to scale up climate change adaptation and facilitate decarbonization
• Enhance social safety nets, income redistribution, and access to education and health

Monetary and Fiscal Policies in EMDEs
Policy Tightening Underway

Left Panel. Sample includes 22 EMDEs. Nominal policy rates using real GDP as weights. Last observation is December 2021. Right Panel. Fiscal impulse is the (GDP weighted) negative change in the cyclically-adjusted primary balance from the previous year. Sample includes 30 EMDEs.
Lessons from Past Debt Restructurings

**Elevated Debt in LICs; Past Restructurings Offered Substantial Debt Relief**

Sources: Arslanalp and Henry (2005); Cheng, Diaz-Cassou, and Erci (2019); Gouriey, Pollock, and Ringe (2009); International Monetary Fund; Kose et al. (2021); World Bank.

Left Panel. Aggregates computed with current U.S. dollar GDP and current U.S. dollar government revenues as weight. Sample includes 24 low-income countries (LICs). Center and Right Panels. HIPC and MDRI refer to Heavily Indebted Poor Countries and Multilateral Debt Relief Initiative, respectively. Right Panel. 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 Erci (2019). Brady Plan includes 16 Brady Plan deals, taken from Arslanalp and Henry (2005). For HIPC/MDRI debt relief is split into debt relief under the HIPC Initiative (which includes debt relief provided by the Paris Club), MDR (provided by the multilateral institutions) and “Other” which refers to traditional debt relief outside of HIPC/MDRI.

Climate Challenges

**High Emissions Underscore Need for Green Transition**

Sources: BP, Climate Watch, Oxford Economics, World Bank.

Three Questions

1. **What are near-term prospects for the global economy?** A pronounced global slowdown is underway before the recovery is complete in EMDEs. There are multiple downside risks.

2. **What are the main features of commodity price cycles?** Often larger booms than slumps. Growing price synchronization across energy and metals, mostly because of global demand shocks.

3. **What are the policy priorities for EMDEs?** Control the pandemic; ensure macroeconomic stability; buttress debt sustainability; enhance crisis preparedness; improve resilience to commodity shocks; confront climate change; reduce gender and income inequality; enhance global cooperation.

*EMDEs = Emerging Market and Developing Economies*

Questions & Comments

Thanks!

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  (January and June)
- **Commodity Markets Outlook** – October 2021
  (April and October)
- **Global Monthly**

- **One-Stop Source: Global Database of Inflation** – July 2021
- **Inflation During the Pandemic “What Happened? What is Next?”** – July 2021

- **The Aftermath of Debt Surges** – September 2021
- **A Mountain of Debt: Navigating the Legacy of the Pandemic** – October 2021
- **What Has Been the Impact of COVID-19 on Debt? Turning a Wave into a Tsunami** – November 2021