# Executive Summary

*The global recovery is set to decelerate markedly amid continued COVID-19 flare-ups, diminished policy support, and lingering supply bottlenecks. In contrast to that in advanced economies, output in emerging market and developing economies (EMDEs) will remain substantially below the pre-pandemic trend over the forecast horizon. The global outlook is clouded by various downside risks, including renewed COVID-19 outbreaks due to Omicron or new virus variants, the possibility of de-anchored inflation expectations, and financial stress in a context of record-high debt levels. If some countries eventually require debt restructuring, this will be more difficult to achieve than in the past. Climate change may increase commodity price volatility, creating challenges for the almost two-thirds of EMDEs that rely heavily on commodity exports and highlighting the need for asset diversification. Social tensions may heighten as a result of the increase in between-country and within-country inequality caused by the pandemic. Given limited policy space in EMDEs to support activity if needed, these downside risks increase the possibility of a hard landing. These challenges underscore the importance of strengthened global cooperation to foster rapid and equitable vaccine distribution, proactive measures to enhance debt sustainability in the poorest countries, redoubled efforts to tackle climate change and within-country inequality, and an emphasis on growth-enhancing policy interventions to promote green, resilient, and inclusive development and on reforms that broaden economic activity to decouple from global commodity markets.*

**Global Outlook**. After rebounding to an estimated 5.5 percent in 2021, global growth is expected to decelerate markedly to 4.1 percent in 2022, reflecting continued COVID-19 flare-ups, diminished fiscal support, and lingering supply bottlenecks. The near-term outlook for global growth is somewhat weaker, and for global inflation notably higher, than previously envisioned, owing to pandemic resurgence, higher food and energy prices, and more pernicious supply disruptions. Global growth is projected to soften further to 3.2 percent in 2023, as pent-up demand wanes and supportive macroeconomic policies continue to be unwound. Although output and investment in advanced economies are projected to return to pre-pandemic trends next year, in emerging market and developing economies (EMDEs)—particularly in small states and fragile and conflict-afflicted countries—they will remain markedly below, owing to lower vaccination rates, tighter fiscal and monetary policies, and more persistent scarring from the pandemic.

Various downside risks cloud the outlook, including simultaneous Omicron-driven economic disruptions, further supply bottlenecks, a de-anchoring of inflation expectations, financial stress, climate-related disasters, and a weakening of long-term growth drivers. As EMDEs have limited policy space to provide additional support if needed, these downside risks heighten the possibility of a hard landing. This underscores the importance of strengthening global cooperation to foster rapid and equitable vaccine distribution, calibrate health and economic policies, enhance debt sustainability in the poorest countries, and tackle the mounting costs of climate change. EMDE policy makers also face the challenges of heightened inflationary pressures, spillovers from prospective advanced-economy monetary tightening, and constrained fiscal space. Despite budgetary consolidation, debt levels—which are already at record highs in many EMDEs—are likely to rise further owing to sustained revenue weakness. Over the longer term, EMDEs will need to buttress growth by pursuing decisive policy actions, including reforms that mitigate vulnerabilities to commodity shocks, reduce income and gender inequality, and enhance preparedness for health- and climate-related crises.

**Regional Prospects.** Growth in most EMDE regions in 2022-23 is projected to revert to the average rates during the decade prior to the pandemic, with the exception of East Asia and

Pacific. This pace of growth will not be enough to recoup output setbacks during the pandemic, however. By 2023, annual output is expected to remain below the pre-pandemic trend in all EMDE regions, in contrast to advanced economies, where the gap is projected to close. The pace of recovery will be uneven across and within regions, with downside risks dominating the outlook. On a per capita basis, the recovery may leave behind those in economies that experienced the deepest contractions in 2020, such as tourism-reliant island economies. Half or more of economies in East Asia and Pacific, Latin America and the Caribbean, and the Middle East and North Africa, and two-fifths of economies in Sub-Saharan Africa, will still be below their 2019 per capita GDP levels by 2023.

This edition of *Global Economic Prospects* also includes analytical pieces on the features and implications of global commodity price cycles, the impact of the COVID-19 pandemic on global income inequality, and the experience with past coordinated debt restructurings.

**Commodity Price Cycles: Drivers and Policies.** Commodity prices soared in 2021 following the broad-based decline in early 2020, with prices of several commodities reaching all-time highs. In part, this reflected the strong rebound of demand from the 2020 global recession. Energy and metal prices generally move in line with global economic activity, and this tendency has strengthened in recent decades. Looking ahead, global macroeconomic developments and commodity supply factors will likely continue to cause recurring commodity price swings. For many commodities, these may be amplified by the transition away from fossil fuels. To dampen the associated macroeconomic fluctuations, the almost two-thirds of EMDEs that are commodity exporters need to strengthen their policy frameworks and reduce their reliance on commodity-related revenues by diversifying exports and, more importantly, national asset portfolios.

**Impact of COVID-19 on Global Income Inequality.** The COVID-19 pandemic has raised global income inequality, partly reversing the decline that was achieved over the previous two decades. Weak recoveries in EMDEs are expected to return between-country inequality to the levels of the early 2010s. Preliminary evidence suggests that the pandemic has also caused within-country income inequality to rise somewhat in EMDEs because of particularly severe job and income losses among lower-income population groups. Over the medium and long term, rising inflation, especially food price inflation, as well as pandemic-related disruptions to education may further raise within-country inequality. Within-country inequality remains particularly high in EMDE regions that account for about two-thirds of the global extreme poor. To steer the global recovery onto a more equitable development path, a comprehensive package of policies is needed. A rapid global rollout of vaccination and redoubled productivity-enhancing reforms can help lower between-country inequality. Support targeted at vulnerable populations and measures to broaden access to education, health care, digital services and infrastructure, as well as an emphasis on supportive fiscal measures, can help lower within-country inequality. Assistance from the global community is essential to expedite a return to a green, resilient, and inclusive recovery.

**Resolving High Debt after the Pandemic: Lessons from Past Episodes of Debt Relief.** In the pandemic-induced global recession of 2020, global debt levels surged. The rise in debt has led to several countries initiating debt restructurings, while many others are in or at high risk of debt distress and may also eventually need debt relief. Historically, several umbrella frameworks coordinated 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 provides a structure to initiate debt restructuring for low-income IDA eligible countries, but largely avoids the issue of outright debt reductions. Future umbrella frameworks for debt restructuring will face greater challenges than those in the past due to a more fragmented creditor base.