HIGHLIGHTS from Chapter 1:
THE GLOBAL OUTLOOK

Key Points

- *Global growth is expected to decelerate from 5.5 percent in 2021 to 4.1 percent in 2022 and 3.2 percent in 2023, reflecting continued COVID-19 flare-ups, diminished fiscal support, and lingering supply bottlenecks.*
- *A number of headwinds weigh on the recovery in emerging market and developing economies (EMDEs) vis-à-vis advanced economies, including lower vaccination rates, tighter fiscal and monetary policies, and more persistent scarring from the pandemic.*
- *Consequently, while output and investment in advanced economies are projected to return to pre-pandemic trends next year, they will remain markedly below in EMDEs.*
- *The global outlook faces significant downside risks, including further Omicron-driven economic disruptions, additional supply bottlenecks, a de-anchoring of inflation expectations, and financial stress.*
- *Given limited policy space in EMDEs to support activity if needed, these downside risks increase the possibility of a hard landing.*
- *The ongoing slowdown and multiple downside risks underscore the need for concerted international action and the need to implement a comprehensive set of national policy responses.*
- *Global cooperation needs to be strengthened to achieve equitable vaccine distribution, improve debt sustainability, and tackle climate change.*
- *EMDE policy makers also face the challenges of inflationary pressures, spillovers from prospective advanced-economy monetary tightening, and constrained fiscal space.*
- *Over the longer term, policy makers will need to pursue decisive policy actions that mitigate vulnerabilities to commodity shocks, reduce income and gender inequality, and enhance preparedness for health- and climate-related crises.*

Global activity: a slowing recovery. After surging to 5.5 percent in 2021, global growth is projected to slow markedly to 4.1 percent in 2022, reflecting continued COVID-19 flares up, diminished policy support, and lingering supply disruptions. Emerging market and developing economies (EMDEs) are expected to experience notably weaker and more fragile recoveries in output compared to those in advanced economies (figures A). The recovery lost momentum in the second half of last year amid resurgences of the COVID-19 pandemic and widespread supply bottlenecks, the latter also contributing to a notable rise in global consumer price inflation. While many advanced economies and EMDEs have fully vaccinated a majority of their populations, at recent vaccination rates, only about a third of the LIC population will have received even one vaccine dose by the end of 2023 (figure B).

EMDE recovery: lagging behind. In contrast to advanced economies, most EMDEs are expected to suffer substantial scarring from the pandemic, with growth trajectories not strong enough to return investment or output to pre-pandemic trends over the forecast horizon of 2022-23. EMDE growth is projected to slow from 6.3 percent in 2021 to 4.6 percent in 2022, as the ongoing withdrawal of macroeconomic support, together with COVID-19 flare-ups amid the spread of the Omicron variant and continued vaccination obstacles, weigh on the recovery of domestic demand. These forecasts imply that per capita income growth in EMDEs will decelerate from an estimated 5.1 percent in 2021 to 3.4 percent in 2022, with only about 45 percent of EMDEs regaining their 2019 level of per capita income this year. Rising food prices will hit the poorest populations the hardest, increasing food insecurity and accentuating the pandemic's impact on income inequality.

Risks to the outlook: Tilted to the downside. The global outlook is subject to several downside risks. Critically, the highly transmissible Omicron variant could overwhelm health systems, forcing governments to tighten pandemic control measures and causing a sharp slowdown in near-term global growth (figure C). Continued supply strains could lead to additional disruptions to international trade and contribute to further inflation surprises, increasing the risk that inflation expectations become de-anchored (figure D). Increases in private as well as public debt to unprecedented levels have left many EMDEs vulnerable to financial stress. Climate-related disasters such as floods, droughts, and heatwaves could also substantially weigh on activity. As EMDEs have limited policy space to provide additional support if needed, these downside risks heighten the possibility of a hard landing—a much sharper slowdown in growth than currently envisioned.

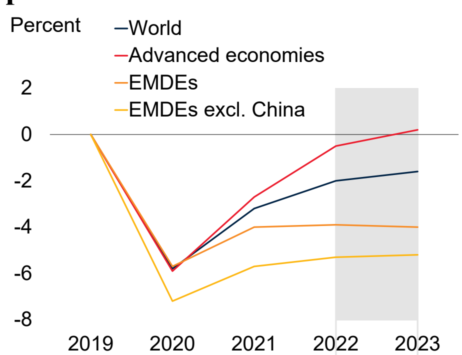
Macroeconomic policy challenges: rising inflation and unsustainable debt burdens. A growing number of EMDEs have tightened monetary policies to respond to inflationary pressures. As central banks in advanced economies begin to reduce monetary policy accommodation, capital flow volatility and currency depreciation may pose additional challenges to EMDE policy makers. In addition, the removal of pandemic-related fiscal support may not be sufficient to stabilize debt levels in light of persistently weak revenues, and softer-than-projected growth or an abrupt tightening of financing conditions could trigger a deterioration in fiscal sustainability gaps. In LICs, these challenges could be magnified by elevated debt-servicing costs following the rise that occurred before the pandemic. As such, further episodes of debt distress could occur, and achieving sustainable debt levels might only be possible through coordinated debt relief. Success in this endeavor will require the broad participation of diverse creditors.

Structural policy priorities: increase vaccination, enhance crisis preparedness, reduce inequality, and foster resilience to commodity price shocks. A concerted effort to deepen international policy cooperation will be needed to tackle mounting global challenges, including low vaccination rates in LICs, unsustainable debt loads in many EMDEs, and climate change. Addressing the pandemic's severe human and economic costs underscore the importance of policy actions to prevent, prepare for, and respond to future crises, in addition to enhancing health systems and strengthening human and physical capital. Policies should also be aimed at mitigating the multi-dimensional increase in inequality brought about by the pandemic (figure E). Recent volatility in commodity prices, coupled with the fact that commodities represent a key source of export revenues for most EMDEs, underscores the importance of reforms to foster resilience in the face of commodity price shocks (figure F).

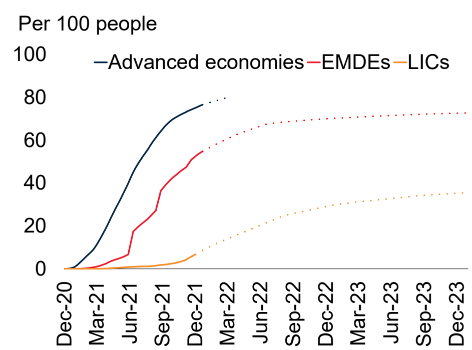
Figure: Global growth prospects and policy challenges

Emerging market and developing economies (EMDEs) are experiencing a weaker recovery than advanced economies, owing to slower vaccination progress, a faster pace of policy support withdrawal, and more pronounced scarring effects from the pandemic. At recent vaccination rates, only about a third of the LIC population will have received even one vaccine dose by the end of 2023. A synchronized Omicron-driven pandemic surge could weigh notably on global growth. Continued inflation surprises could de-anchor inflation expectations. Policy efforts are needed to reverse pandemic-related increases in gender and income inequality, in addition to bolstering resilience to commodity price shocks.

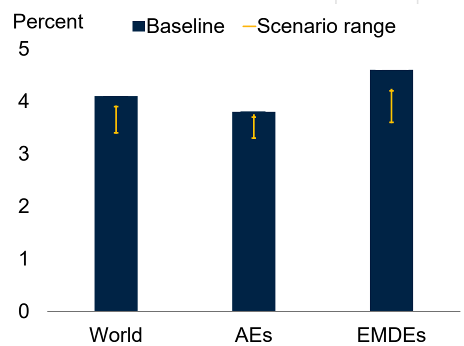
A. Deviation of output from pre-pandemic trends



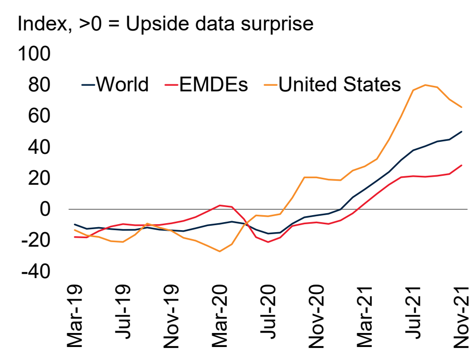
B. Projected vaccine coverage based on recent vaccination rates



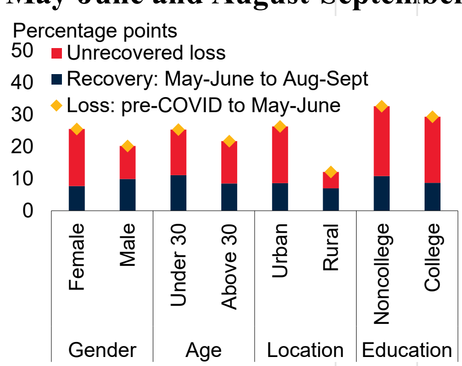
C. Possible Omicron-driven growth outcomes for 2022



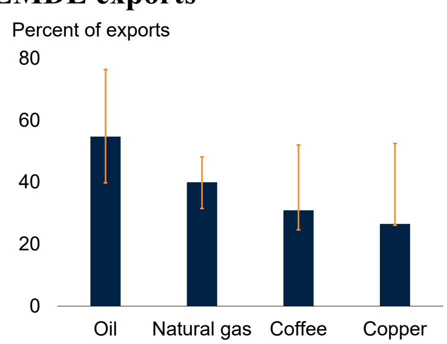
D. Inflation surprises



E. Job losses and recoveries between May-June and August-September 2020



F. Shares of energy, metals, and agriculture in EMDE exports



Sources: Bloomberg; Citigroup; Comtrade (database); Mahler (r) et al. (forthcoming); Narayan et al. (forthcoming); Our World in Data (database); Oxford Economics; WITS (database); World Bank.

Note: AEs = advanced economies; EMDEs = emerging market and developing economies. Unless otherwise noted, aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange Data for 2021 are estimates.

A. Shaded area indicates forecasts. Figure shows 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.
B. Figure shows the number of people who received at least one dose of COVID-19 vaccine per 100 people. Projections based on 14-day moving averages of daily vaccination rates. Data through December 23, 2021.
C. Yellow line denotes the range of the downside scenario in which economies (18 advanced economies and 22 EMDEs) face a range of unanticipated pandemic shocks, scaled from about one-tenth to about two-tenths of the size of those from the first half of 2020.
D. Figure shows the 3-month moving average of the Citigroup Economic Surprise Index. Index measures price surprises relative to market expectations. A positive (negative) index reading means inflation was higher (lower) than expected. Last observation is November 2021.
E. Figure shows the decline in the average share of employed among surveyed households in percentage points (pp) terms from pre-pandemic to May-June 2020, split into recovery in employment between May-June and August-September 2020, when policy stringency declined, and "unrecovered loss." The results are based on 14-17 emerging market and developing economies (EMDEs) with at least one survey wave for this period.
F. Figure shows the median share of exports accounted for by oil, natural gas, copper, and coffee, for EMDE exporters of that commodity. Oil includes 20 EMDEs, copper 6, natural gas 5, and coffee 4. Blue bars show medians and orange whiskers show interquartile ranges.

TABLE 1.1 Real GDP[1]

(Percent change from previous year)

	2019	2020	2021e	2022f	2023f	Percentage point differences from June 2021 projections: 2021e	2022f	2023f
World	**2.6**	**-3.4**	**5.5**	**4.1**	**3.2**	**-0.2**	**-0.2**	**0.1**
Advanced economies	**1.7**	**-4.6**	**5.0**	**3.8**	**2.3**	**-0.4**	**-0.2**	**0.1**
United States	2.3	-3.4	5.6	3.7	2.6	-1.2	-0.5	0.3
Euro area	1.6	-6.4	5.2	4.2	2.1	1.0	-0.2	-0.3
Japan	-0.2	-4.5	1.7	2.9	1.2	-1.2	0.3	0.2
Emerging market and developing economies	**3.8**	**-1.7**	**6.3**	**4.6**	**4.4**	**0.2**	**-0.1**	**0.0**
East Asia and Pacific	5.8	1.2	7.1	5.1	5.2	-0.6	-0.2	0.0
China	6.0	2.2	8.0	5.1	5.3	-0.5	-0.3	0.0
Indonesia	5.0	-2.1	3.7	5.2	5.1	-0.7	0.2	0.0
Thailand	2.3	-6.1	1.0	3.9	4.3	-1.2	-1.2	0.0
Europe and Central Asia	2.7	-2.0	5.8	3.0	2.9	1.9	-0.9	-0.6
Russian Federation	2.0	-3.0	4.3	2.4	1.8	1.1	-0.8	-0.5
Turkey	0.9	1.8	9.5	2.0	3.0	4.5	-2.5	-1.5
Poland	4.7	-2.5	5.1	4.7	3.4	1.3	0.2	-0.5
Latin America and the Caribbean	0.8	-6.4	6.7	2.6	2.7	1.5	-0.3	0.2
Brazil	1.2	-3.9	4.9	1.4	2.7	0.4	-1.1	0.4
Mexico	-0.2	-8.2	5.7	3.0	2.2	0.7	0.0	0.2
Argentina	-2.0	-9.9	10.0	2.6	2.1	3.6	0.9	0.2
Middle East and North Africa	0.9	-4.0	3.1	4.4	3.4	0.6	0.8	0.1
Saudi Arabia	0.3	-4.1	2.4	4.9	2.3	0.0	1.6	-0.9
Iran, Islamic Rep.[3]	-6.8	3.4	3.1	2.4	2.2	1.0	0.2	-0.1
Egypt, Arab Rep.[2]	5.6	3.6	3.3	5.5	5.5	1.0	1.0	0.0
South Asia	4.4	-5.2	7.0	7.6	6.0	0.1	0.8	0.8
India[3]	4.0	-7.3	8.3	8.7	6.8	0.0	1.2	0.3
Pakistan[2]	2.1	-0.5	3.5	3.4	4.0	2.2	1.4	0.6
Bangladesh[2]	8.2	3.5	5.0	6.4	6.9	1.4	1.3	0.7
Sub-Saharan Africa	2.5	-2.2	3.5	3.6	3.8	0.7	0.3	0.0
Nigeria	2.2	-1.8	2.4	2.5	2.8	0.6	0.4	0.4
South Africa	0.1	-6.4	4.6	2.1	1.5	1.1	0.0	0.0
Angola	-0.6	-5.4	0.4	3.1	2.8	-0.1	-0.2	-0.7
Memorandum items:								
Real GDP[1]								
High-income countries	1.7	-4.6	5.0	3.8	2.4	-0.3	-0.2	0.2
Developing countries	4.0	-1.4	6.5	4.6	4.5	0.2	-0.2	0.0
EMDEs excluding China	2.5	-4.2	5.2	4.2	3.8	0.8	0.0	0.1
Commodity-exporting EMDEs	1.8	-3.9	4.5	3.3	3.1	0.9	0.0	0.0
Commodity-importing EMDEs	4.9	-0.5	7.2	5.2	5.0	-0.1	-0.2	0.0
Commodity-importing EMDEs excluding China	3.3	-4.5	6.1	5.3	4.6	0.7	0.0	0.1
Low-income countries	4.6	1.3	3.3	4.9	5.9	0.2	0.0	0.0
EM7	4.5	-0.6	7.2	4.8	4.7	0.0	-0.3	0.0
World (PPP weights)[4]	2.9	-3.0	5.7	4.4	3.6	0.0	-0.1	0.1
World trade volume[5]	**1.1**	**-8.2**	**9.5**	**5.8**	**4.7**	**1.2**	**-0.5**	**0.3**
Commodity prices[6]								
Oil price	-10.2	-32.8	67.2	7.2	-12.2	16.9	7.2	-13.1
Non-energy commodity price index	-4.2	3.0	31.9	-2.0	-4.0	9.4	0.5	-1.3

Source: World Bank.

1. Headline aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates. The aggregate growth rates may differ from the previously published numbers that were calculated using GDP weights at average 2010 prices and market exchange rates. Data for Afghanistan and Lebanon are excluded.
2. GDP growth rates are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. Pakistan's growth rates are based on GDP at factor cost. The column labeled 2019 refers to FY2018/19.
3. GDP growth rates are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. The column labeled 2019 refers to FY2019/20.
4. World growth rates are calculated using average 2010-19 purchasing power parity (PPP) weights, which attribute a greater share of global GDP to emerging market and developing economies (EMDEs) than market exchange rates.
5. World trade volume of goods and nonfactor services.
6. Oil price is the simple average of Brent, Dubai, and West Texas Intermediate prices. The non-energy index is the weighted average of 39 commodity prices (7 metals, 5 fertilizers, and 27 agricultural commodities). For additional details, please see https://www.worldbank.org/commodities.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given date. For the definition of EMDEs, developing countries, commodity exporters, and commodity importers, please refer to table 1.2. EM7 includes Brazil, China, India, Indonesia, Mexico, the Russian Federation, and Turkey. The World Bank is currently not publishing economic output, income, or growth data for Turkmenistan and República Bolivariana de Venezuela owning to lack of reliable data of adequate quality. Turkmenistan and República Bolivariana de Venezuela are excluded from cross-country macroeconomic aggregates.