



***Comments on World  
Bank Global Economic  
Prospects (January  
2022 Report)***

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# Three challenges highlighted in GEP report

## 1. Large macroeconomic imbalances

- High debt, widening fiscal deficits, central bank balance sheet expansions
- Tightening monetary policy cycle
- Spillovers from advanced to emerging economies

## 2. Income inequality across and within countries

- Pandemic-related rises in poverty
- Inflationary asset price booms

## 3. Economic uncertainty

- Impaired supply chains
- Volatility in financial markets and commodity prices

# GEP policy agenda

- 1. Concerted effort to mobilize external resources and accelerate debt relief efforts**
  - \$93 billion replenishment of the International Development Association (IDA)
  - Further efforts on implementing the G20's Common Framework for debt restructuring for low-income countries under stress
- 2. Supporting domestic growth through innovation**
  - Digital transformation
  - Investment in infrastructure, climate adaptation and clean energy
  - Continued development of local financial markets
- 3. Food security**
  - Particularly in fragile and conflict-affected countries
  - Aggravated by volatile commodity prices and climate change

# Five main comments

## 1. Global inflation and medium-term risks

- Transitory versus permanent effects
- Medium term inflation expectations broadly anchored: sensitivity tests and risks associated with continued supply bottlenecks, labor shortages and high energy prices
- Supply and demand factors; commodity exporters v. importers

## 2. Global monetary policy spillovers during recovery

- Inflation-motivated versus growth-motivated tightening in the US

## 3. Debt sustainability and the co-ordination of fiscal and monetary policy

- Balancing short-term need for fiscal accommodation with longer term consolidation needs
- Further efforts on raising tax revenue and careful design of medium-term fiscal frameworks
- Fiscal governance options; credible well-communicated fiscal rules v. discretion
- Co-ordination with monetary policy: fiscal multiplier and r-g dynamics
- Debt restructuring issues: toward capital expenditure and sustainable infrastructure; private sector participation
- Shorter duration local currency debt: increasing rollover risks and the sensitivity of debt servicing to rate rises

# Five main comments (contd.)

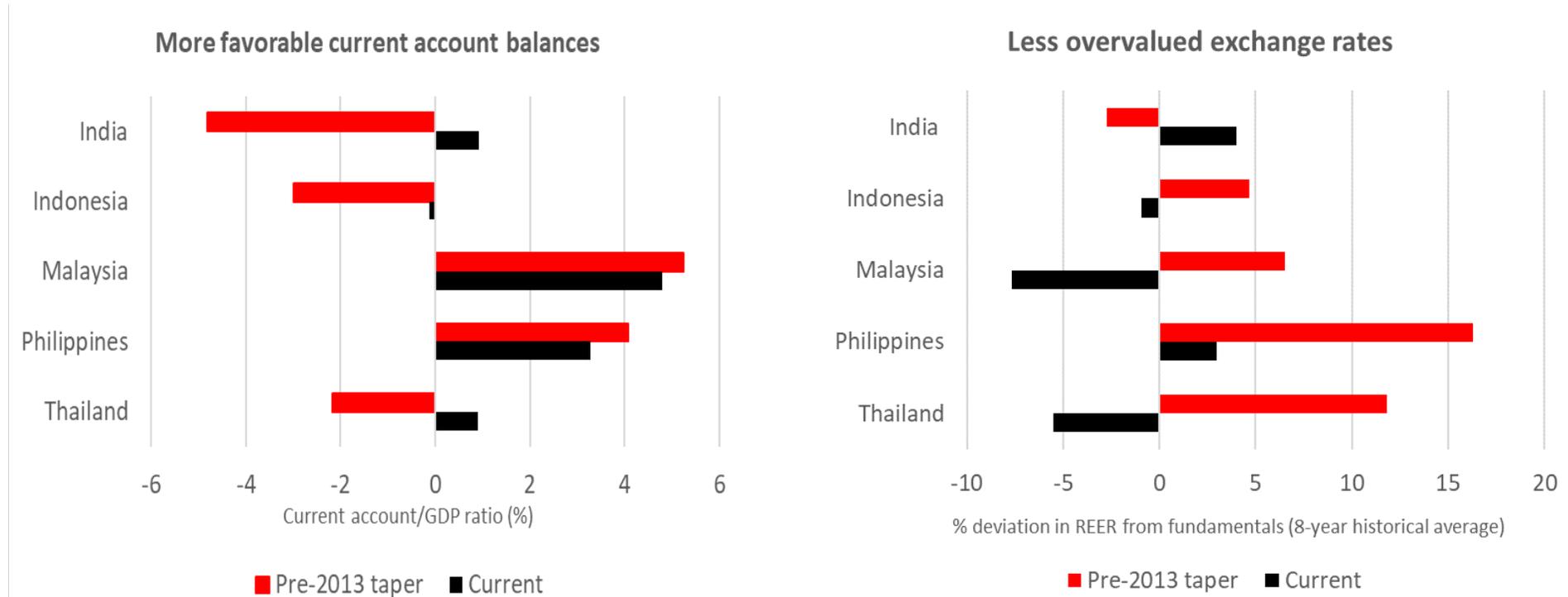
## 4. Economic uncertainty

- Still prevalent for 2022; which factors dominate?
- Financing conditions, external debt vulnerabilities, capital flow developments

## 5. Digitalization

- Key underpinning of sustainable economic recovery and development
- Further empirical work would be extremely useful

# Resilience of Asian economies to external shocks



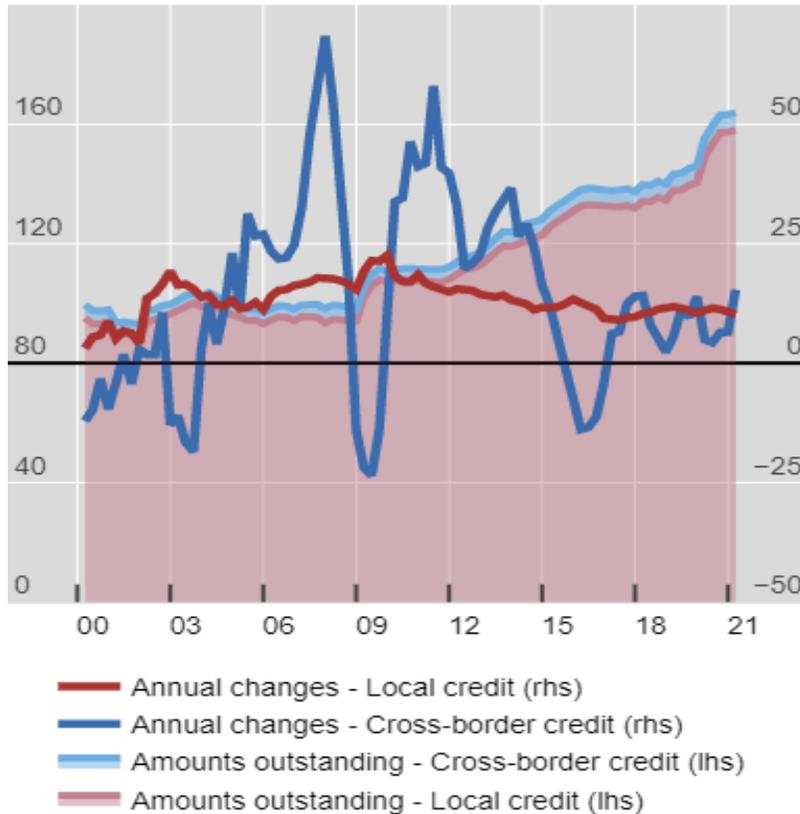
Source: Bloomberg.

Source: Authors' calculation using BIS data.

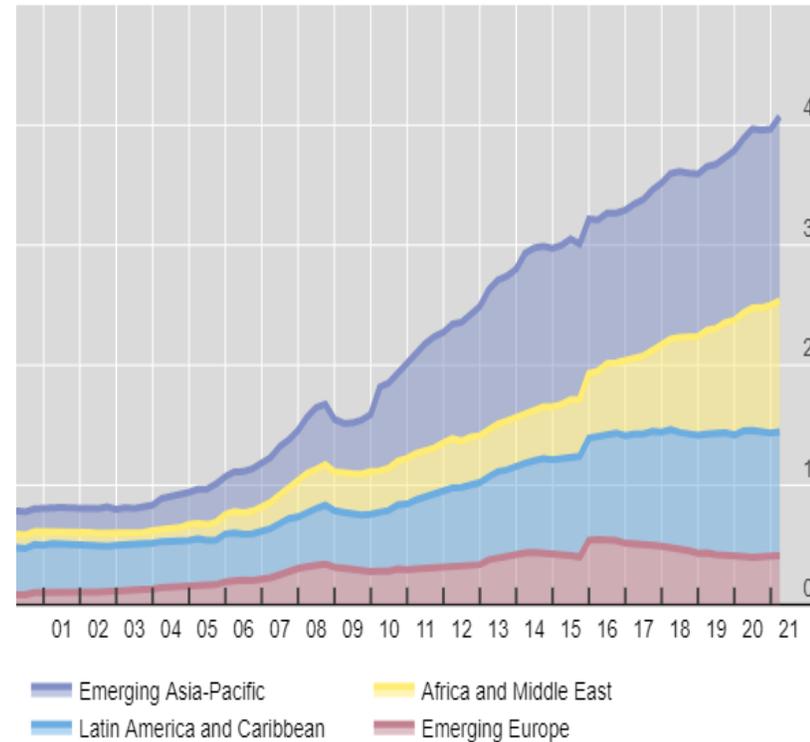
- Less reliance on foreign financing
- Exchange rates less vulnerable to sharp depreciations

# Corporate debt exposure in emerging Asia

Emerging Asia bank credit to the private non-financial sector



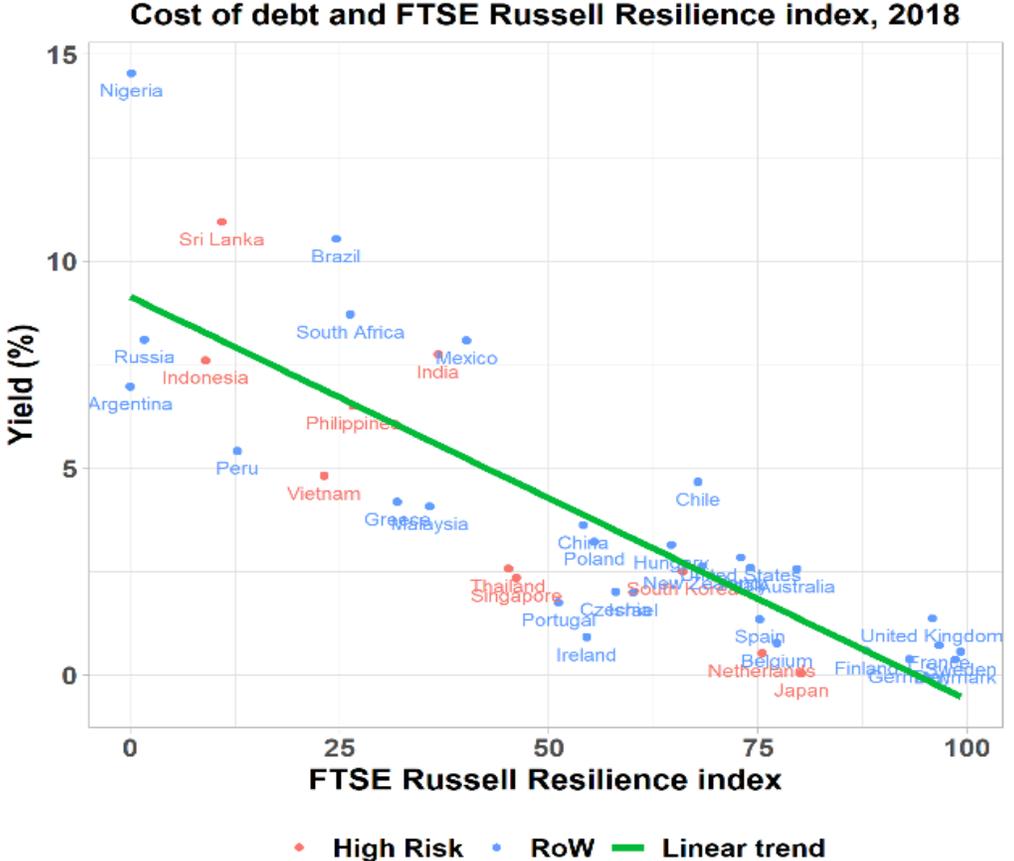
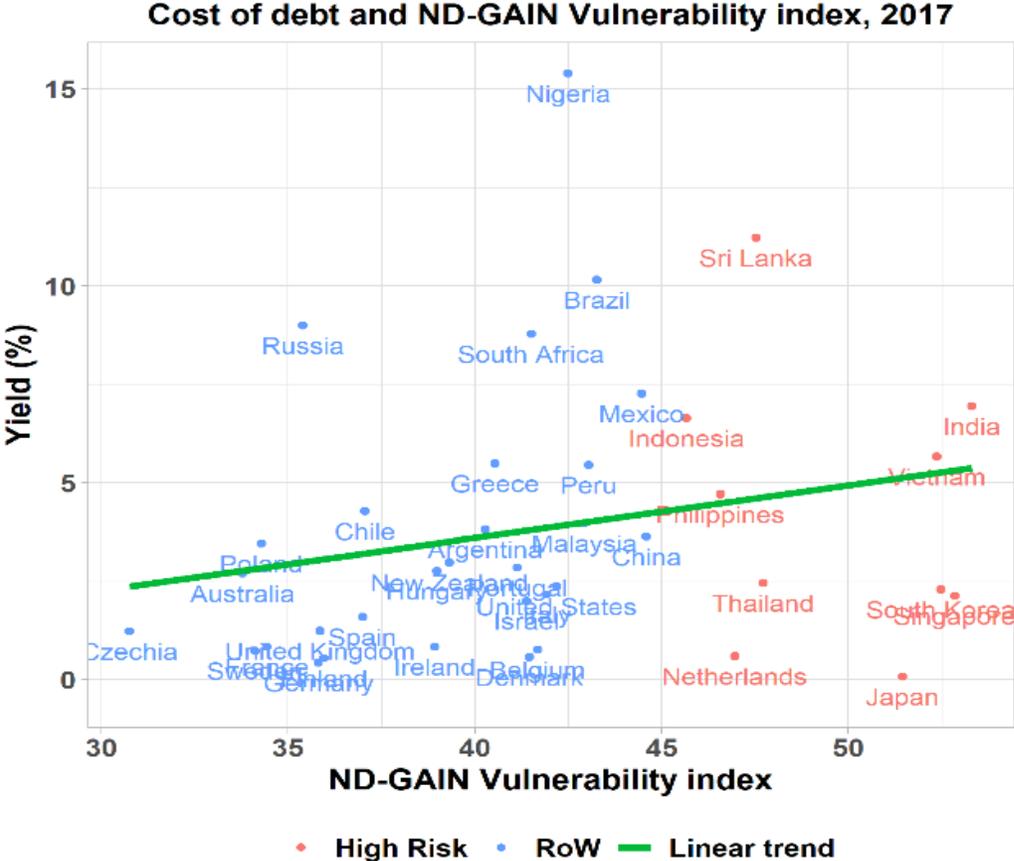
US dollar-denominated credit by region (USD trillion)



Source: BIS Global Liquidity Indicators

- USD-denominated corporate debt: could reflect positive market sentiment but carry-over requires favorable financing conditions

# Fiscal risks exacerbated by mounting climate risks



Source: Beirne, J., Renzhi, N. and Volz, U. 2021. “Feeling the Heat: Climate Risks and the Cost of Sovereign Borrowing”, *International Review of Economics and Finance*, Vol. 76, pp. 920-936.