

Global Economic Prospects

June 2022

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Equitable Growth, Finance & Institutions

Prospects Group

Three Questions

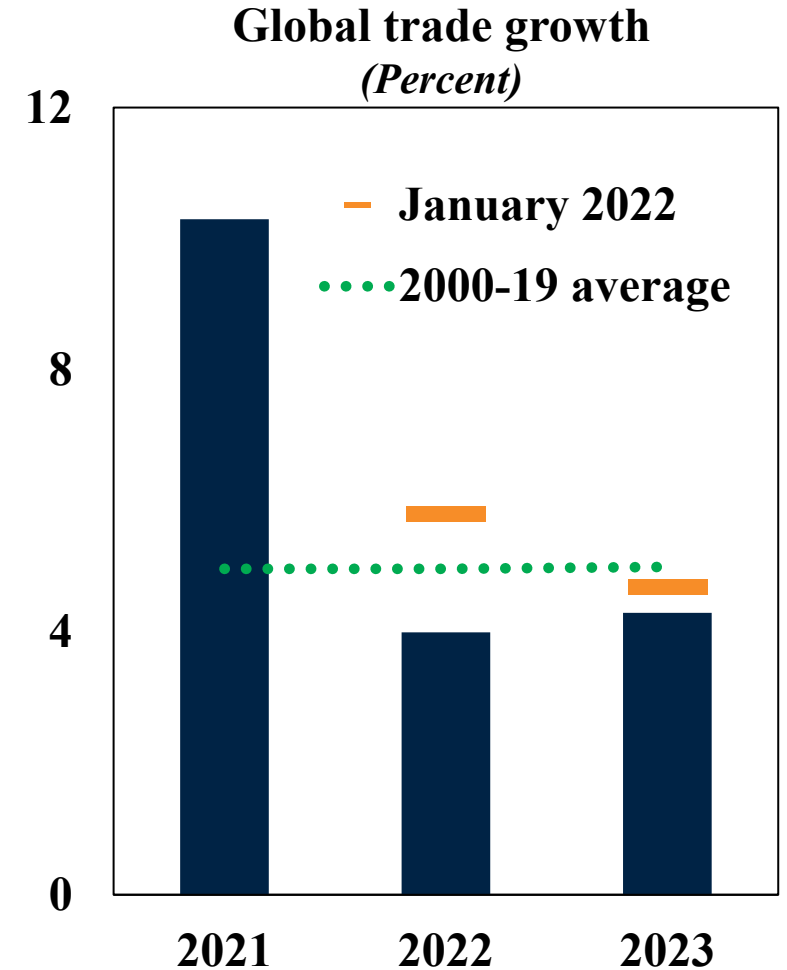
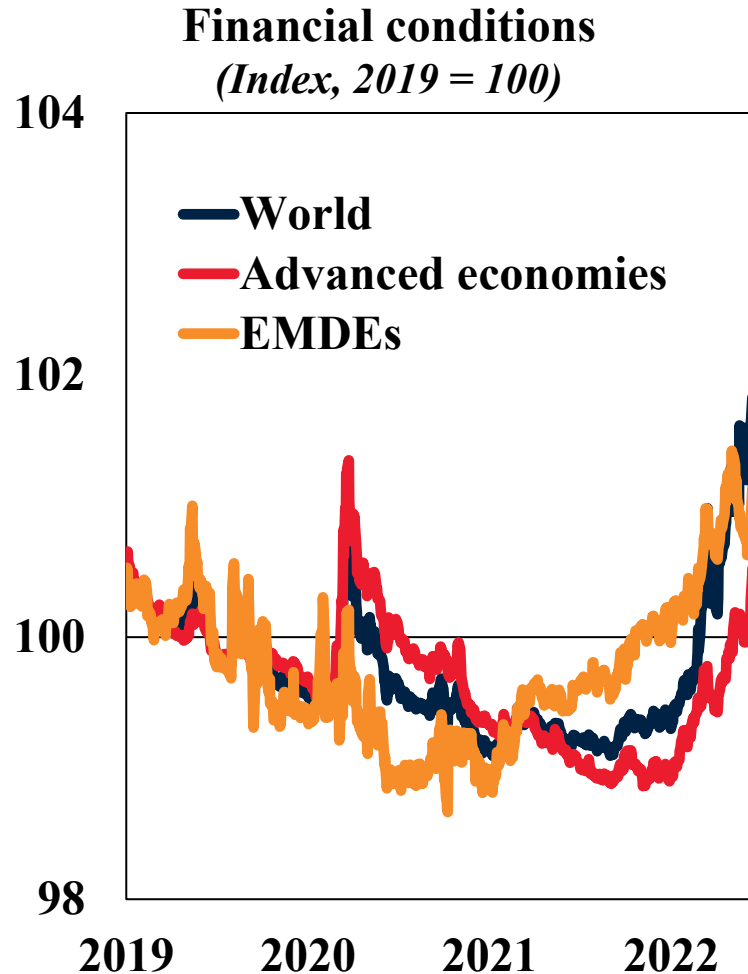
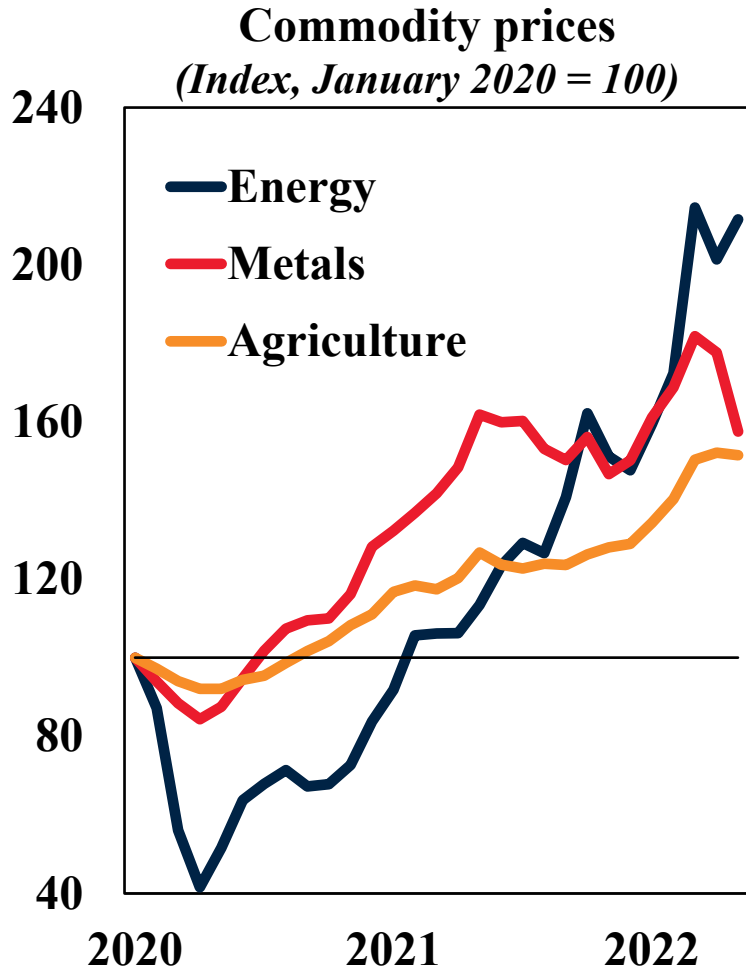
1 What are near-term prospects for the global economy?

2 Which threat does stagflation present for EMDEs?

3 What are the policy implications?

Global Backdrop

Higher Commodity Prices; Tighter Financial Conditions; Weaker Trade Growth



Sources: Bloomberg; World Bank.

Left Panel. Monthly data from World Bank's *Pink Sheet*. Last observation is May 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 June 27, 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)

	GDP growth (Percent)					<i>Change from January 2022</i>	
	2013-19	2020	2021e	2022f	2023f	2022	2023
World	2.9	-3.3	5.7	2.9	3.0	-1.2	-0.2
Advanced economies	2.0	-4.6	5.1	2.6	2.2	-1.2	-0.1
EMDEs	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

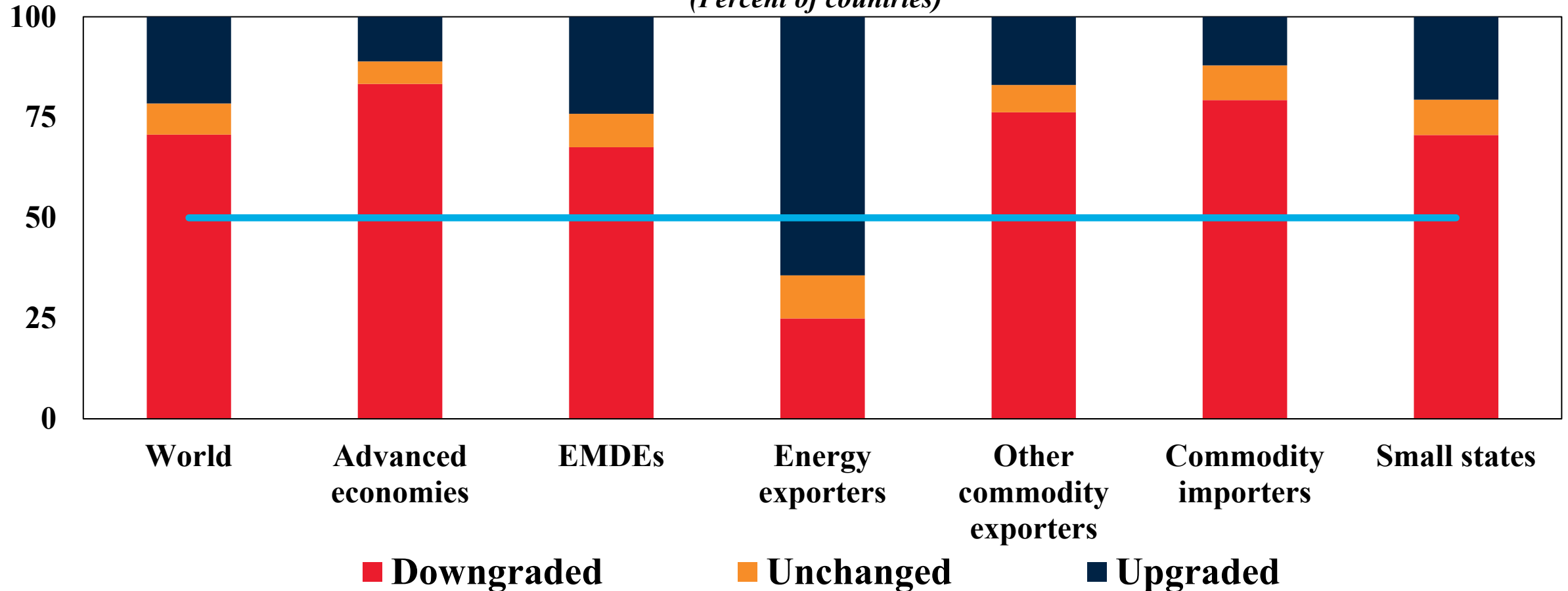
Source: World Bank.

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

Countries by the type of growth forecast revisions since January for 2022
(Percent of countries)



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.

Global Growth Forecasts

Sharper Slowdown in 2022-23

GDP growth (Percent)

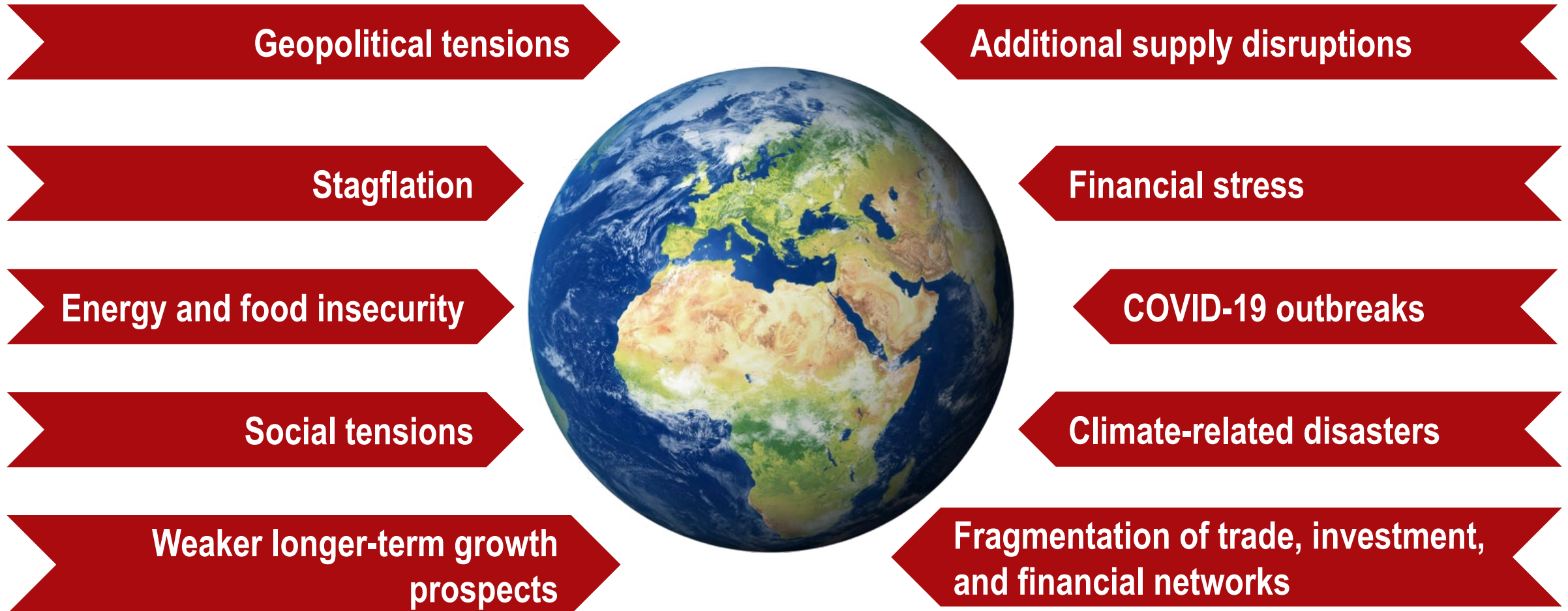
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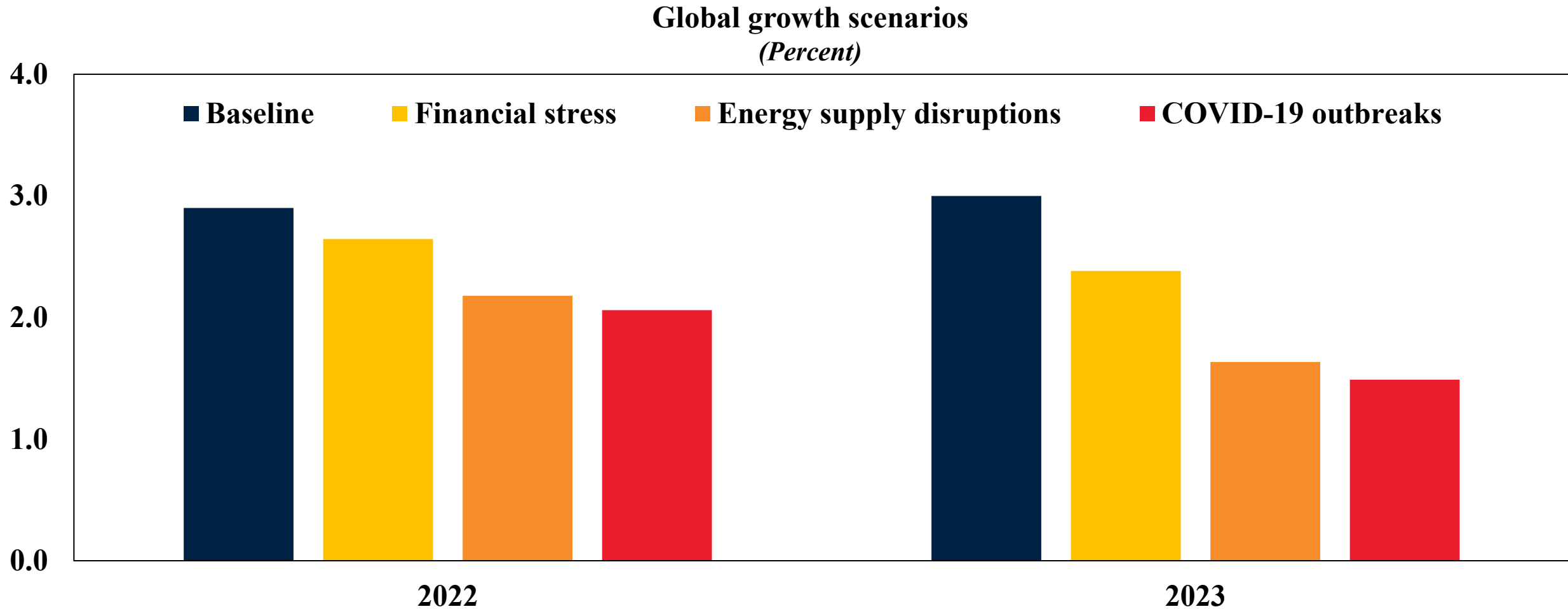
Risks

Mutually Amplifying Downside Risks



Growth Outcomes Under Different Risk Scenarios

Much Lower Growth if Risks Materialize



Sources: Oxford Economics; World Bank.

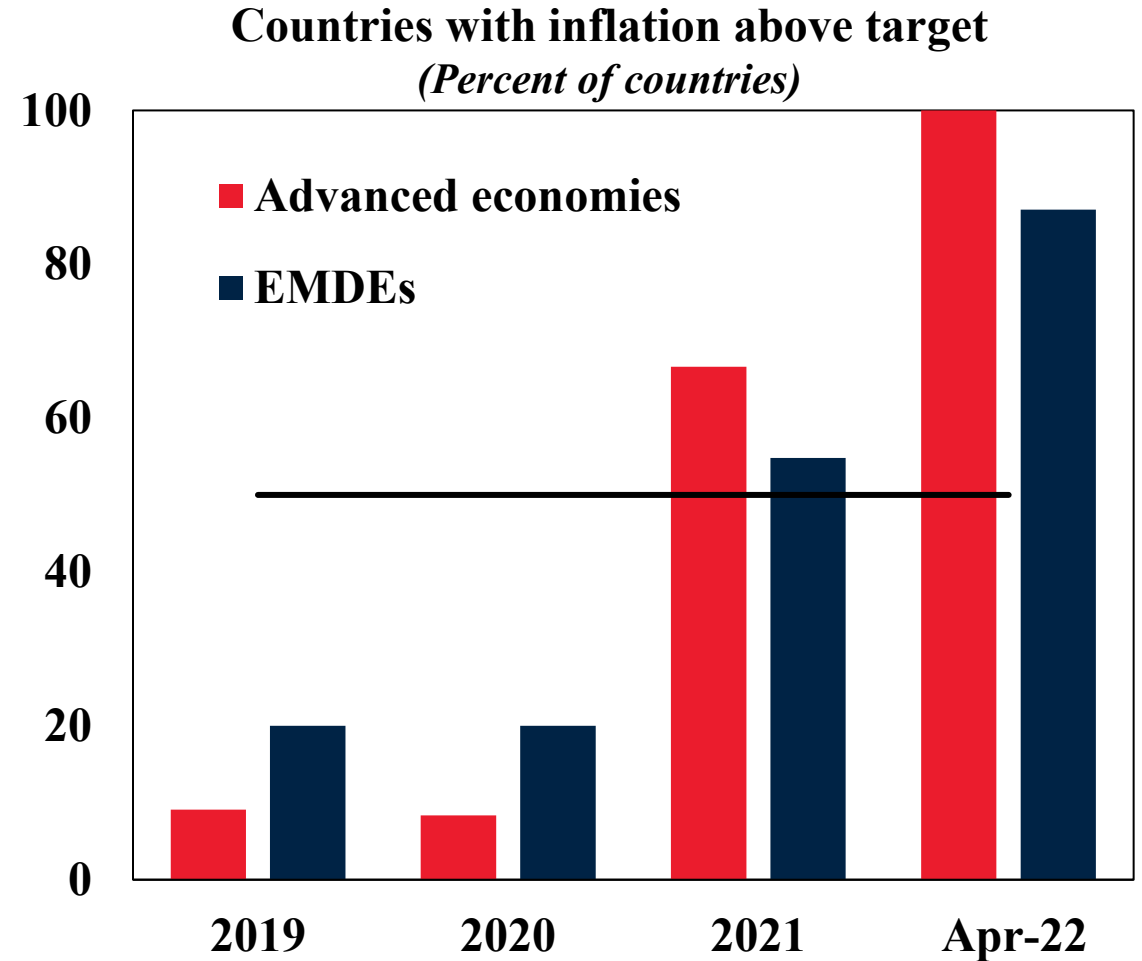
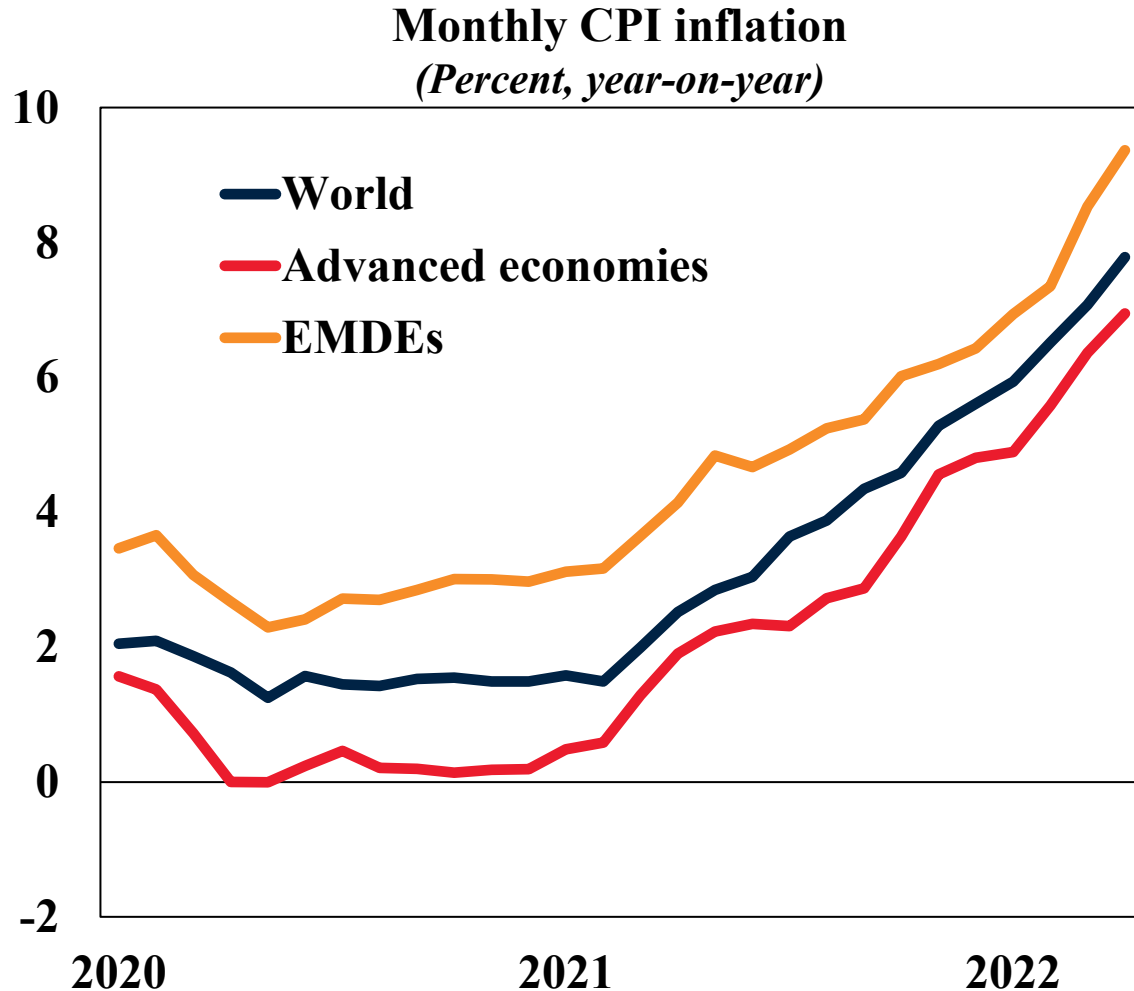
Left Panel. Scenario outcomes produced using the Oxford Economics Global Economic Model. Scenarios are linearly additive.

Three Questions

2 **Which threat does stagflation present 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.*

Inflation

At A 14-Year High and Above-Target Almost Everywhere

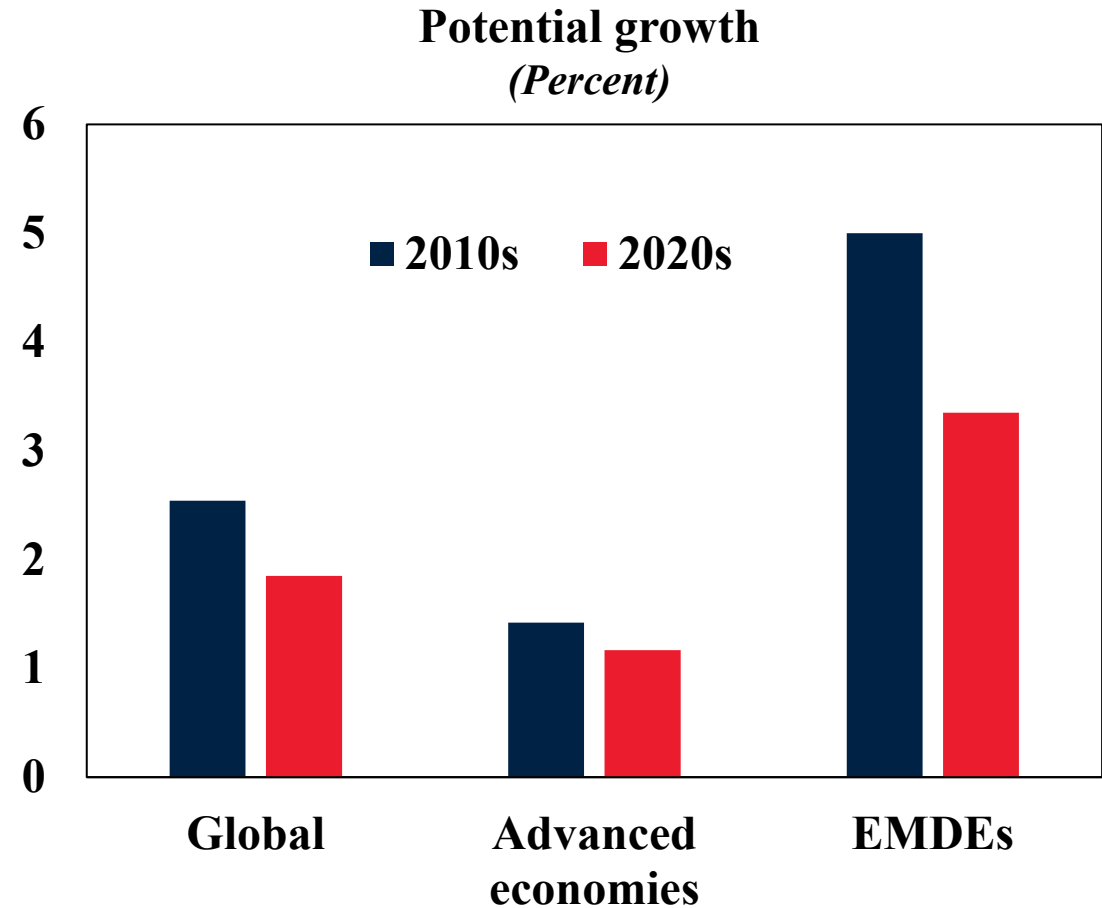
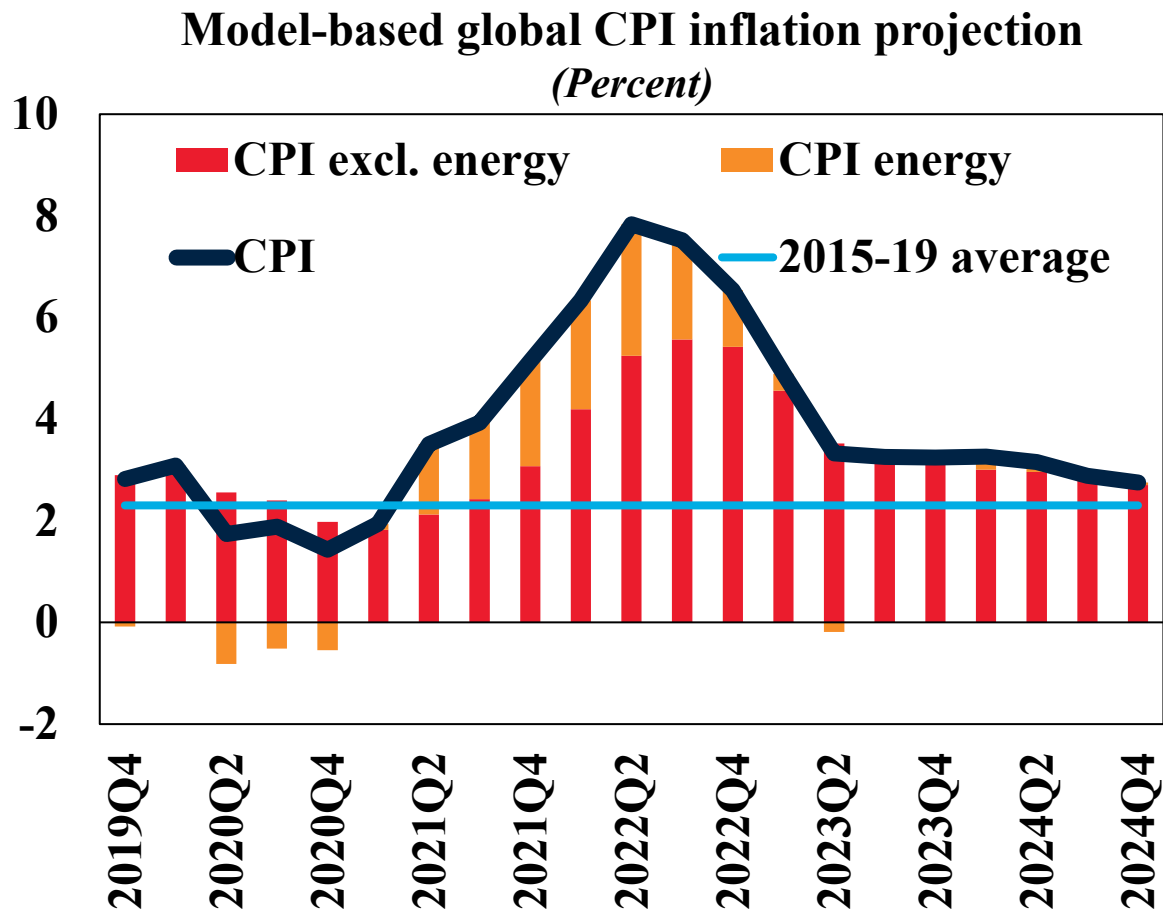


Sources: Haver Analytics; International Monetary Fund; World Bank.

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 March 2022. . 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.

Inflation and Growth Prospects

Inflation Will Ease; Growth Will Slow Further



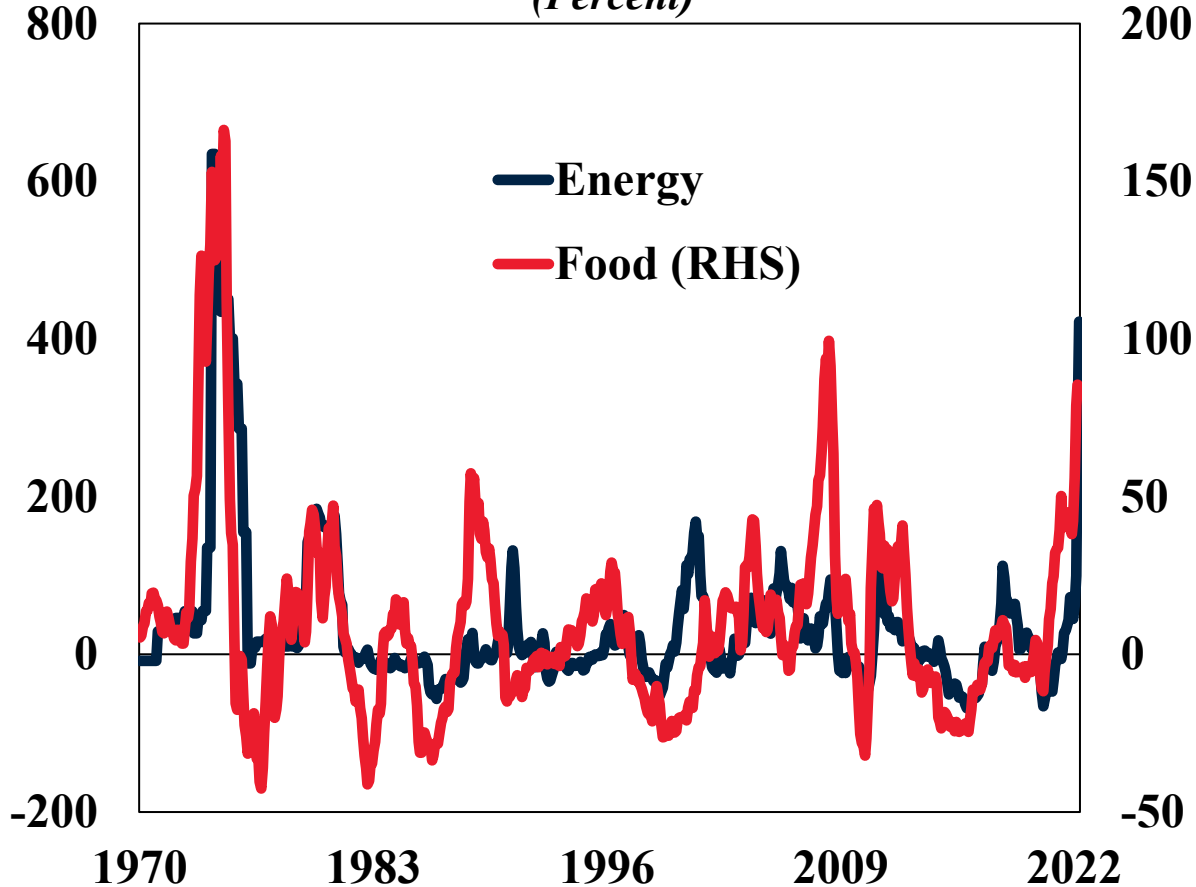
Sources: International Monetary Fund; World Bank.

Note: CPI refers to consumer price index. Left 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. Right 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.

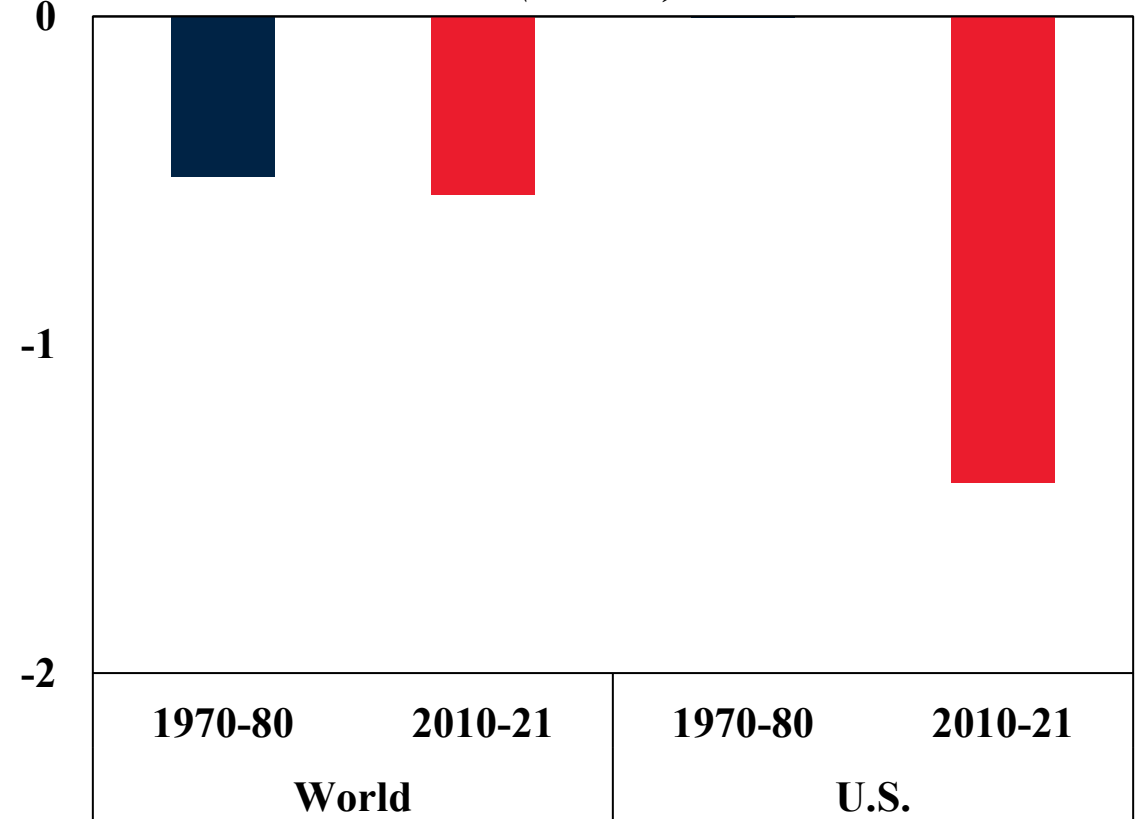
Similarities to the 1970s

Large Commodity Price Shocks; Accommodative Monetary Policy

Commodity price changes
(Percent)



Real interest rates
(Percent)



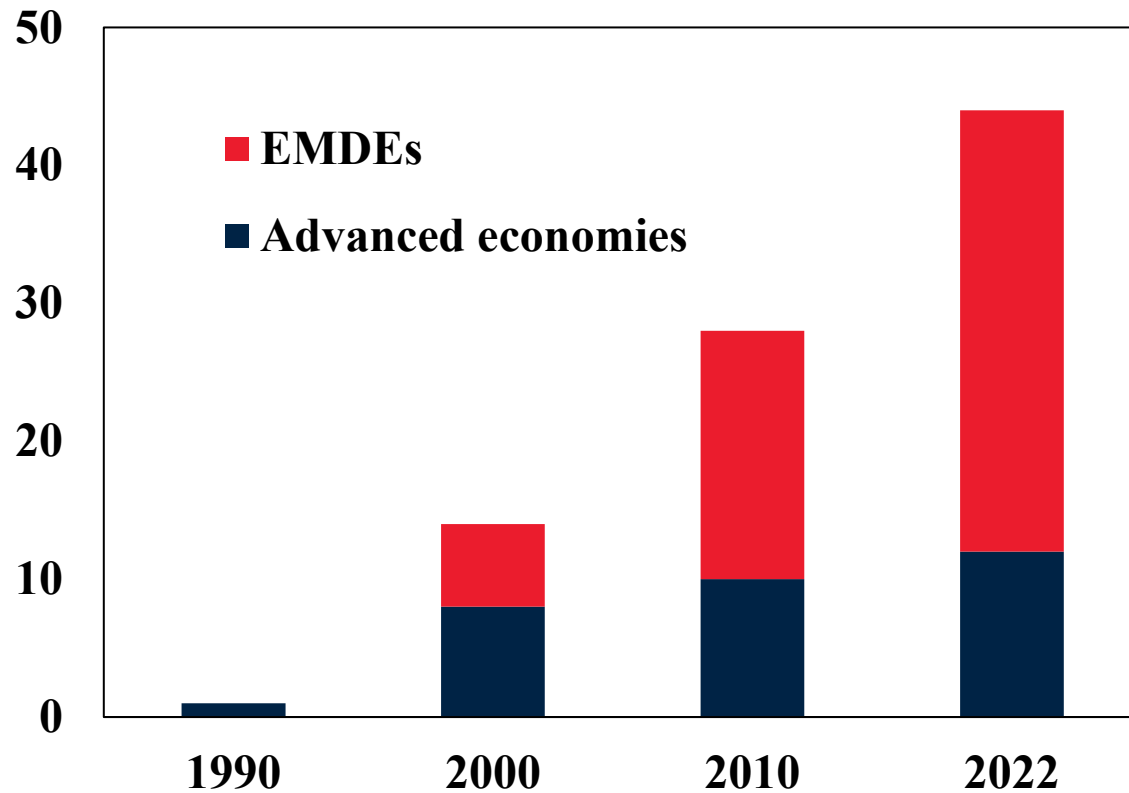
Sources: Bloomberg; Federal Reserve Economic Data; Haver Analytics; World Bank.

Left Panel. Figure shows changes in global growth (in percentage points) between 2021-24 and 1975-79; covers three years following a rebound from a global recession. Right Panel: Figure shows nominal and real (CPI-adjusted) short-term interest rates (Treasury bill rates or money market rates, with the maturity of three months or less). Global interest rates are weighted by GDP in U.S. dollars. Sample includes 113 countries, though the sample size varies by year.

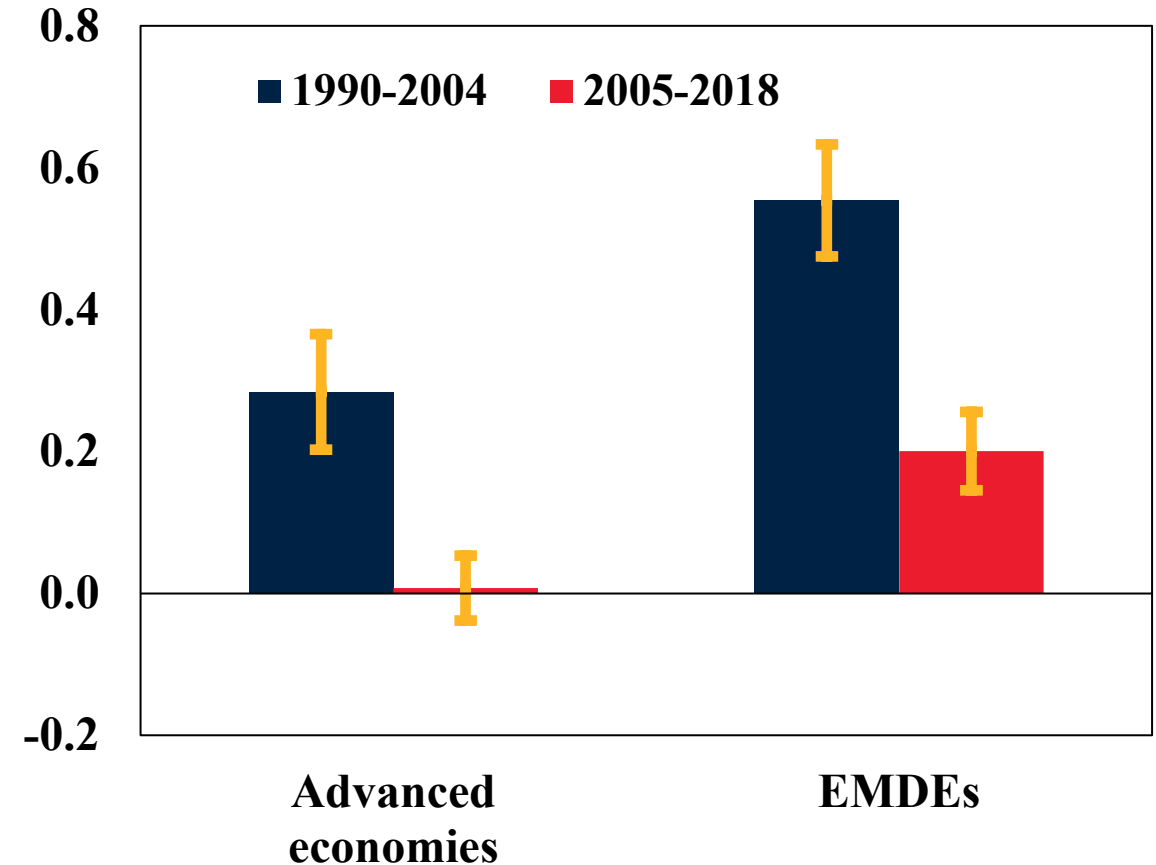
Differences from the 1970s

More Inflation Targeting; Better-Anchored Expectations

Number of countries with inflation targeting
(Number)



Response in inflation expectations to surprises
(Percentage points)

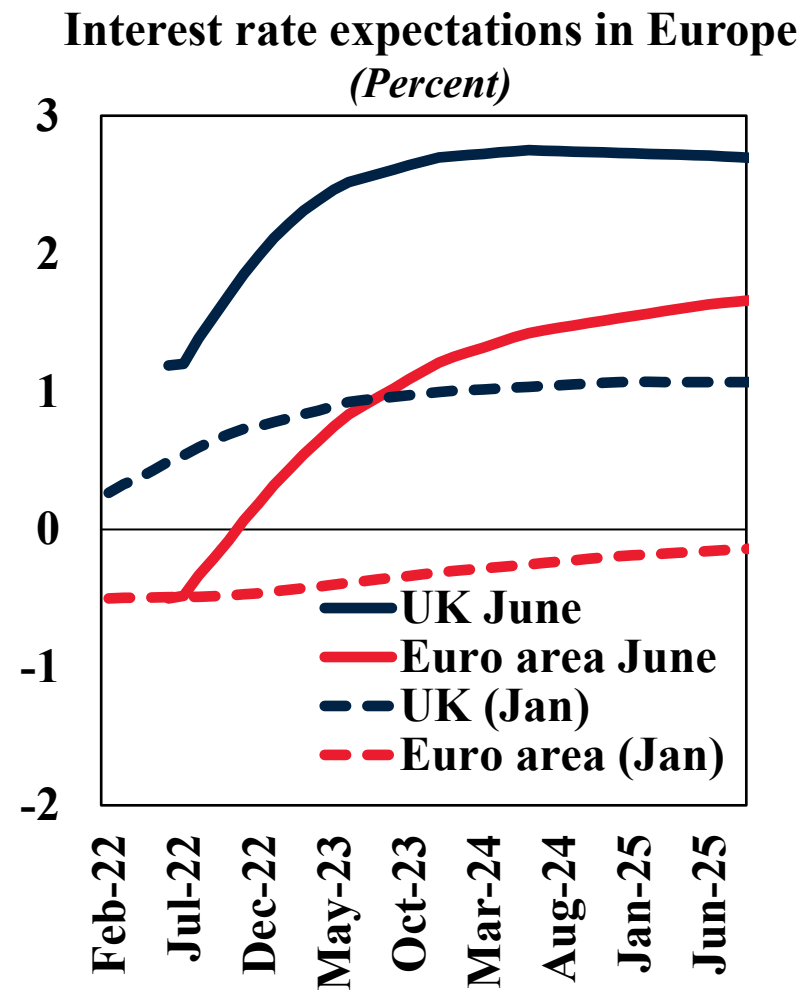
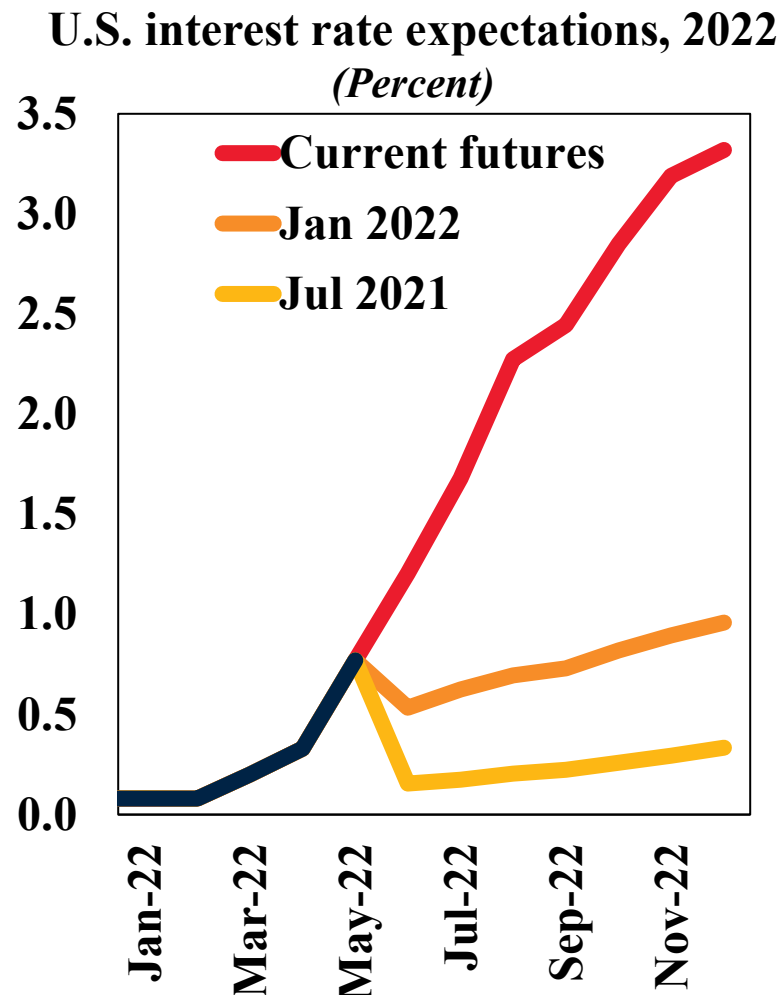
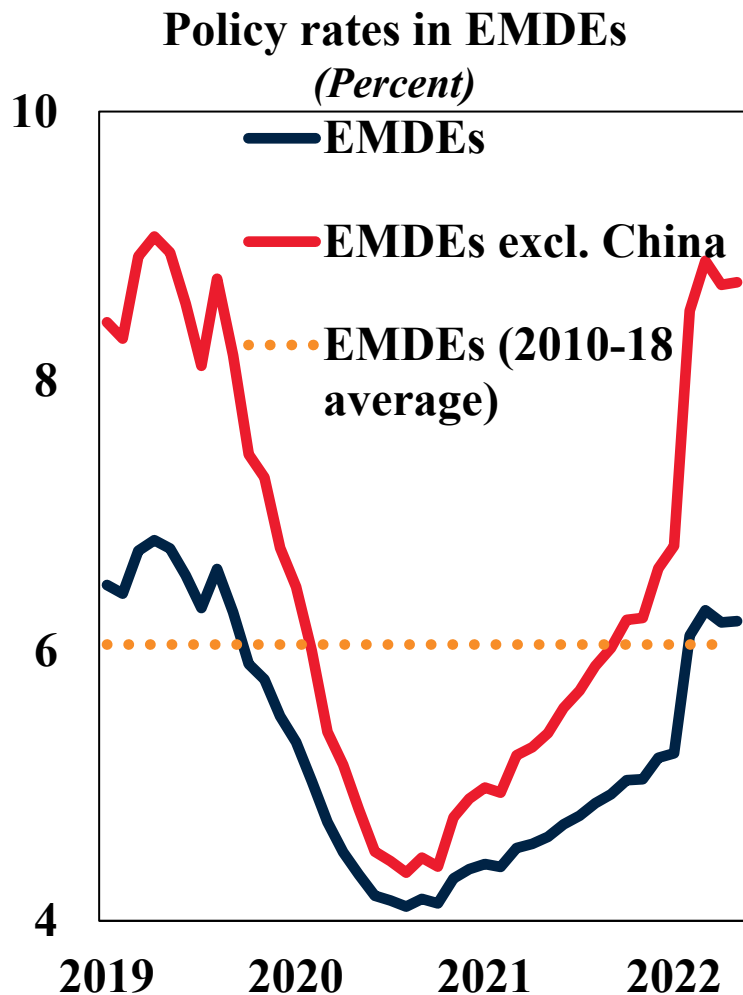


Sources: Ha, Kose, and Ohnsorge (2019); International Monetary Fund; OECD; World Bank.

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.

Monetary Policy

Global Monetary Policy Tightening Underway

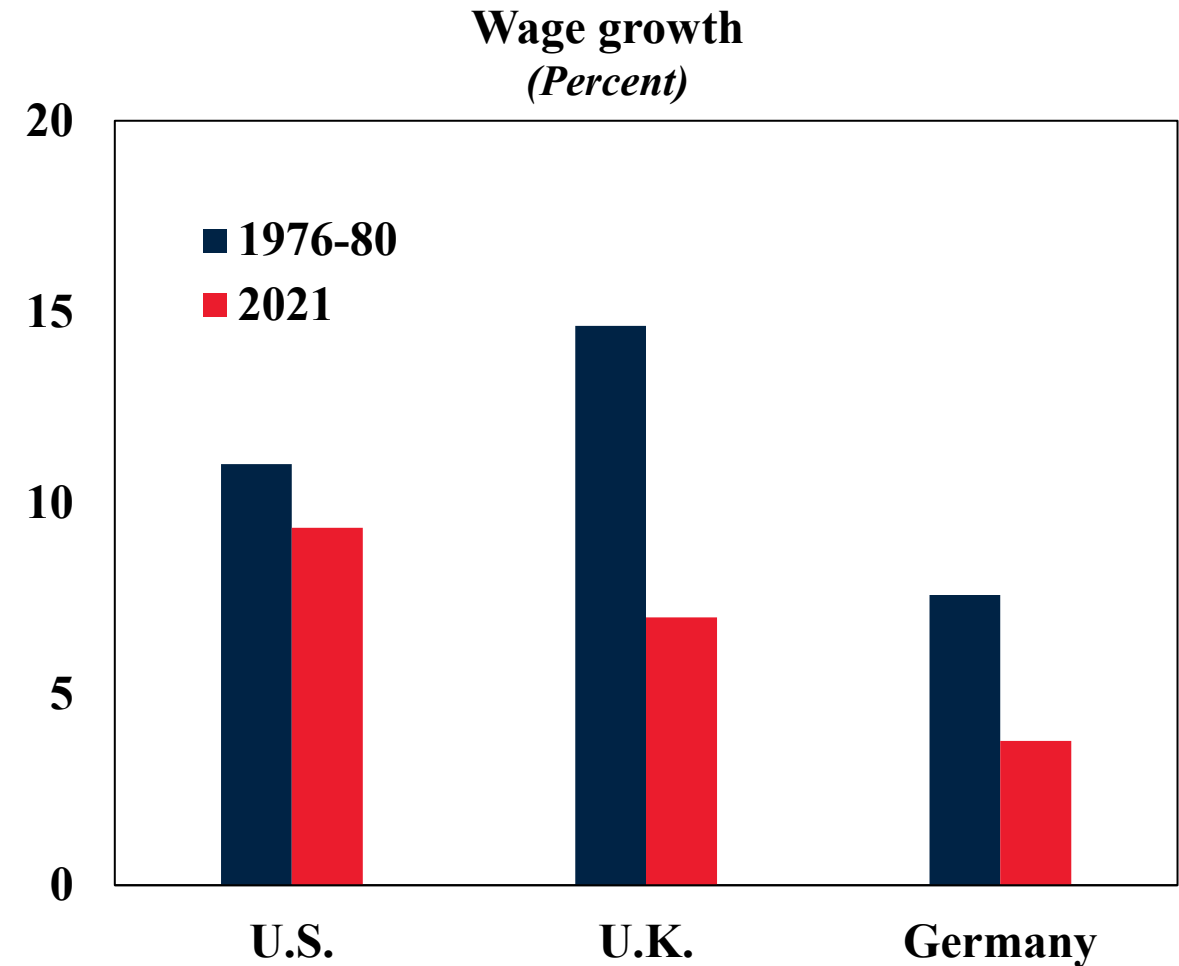
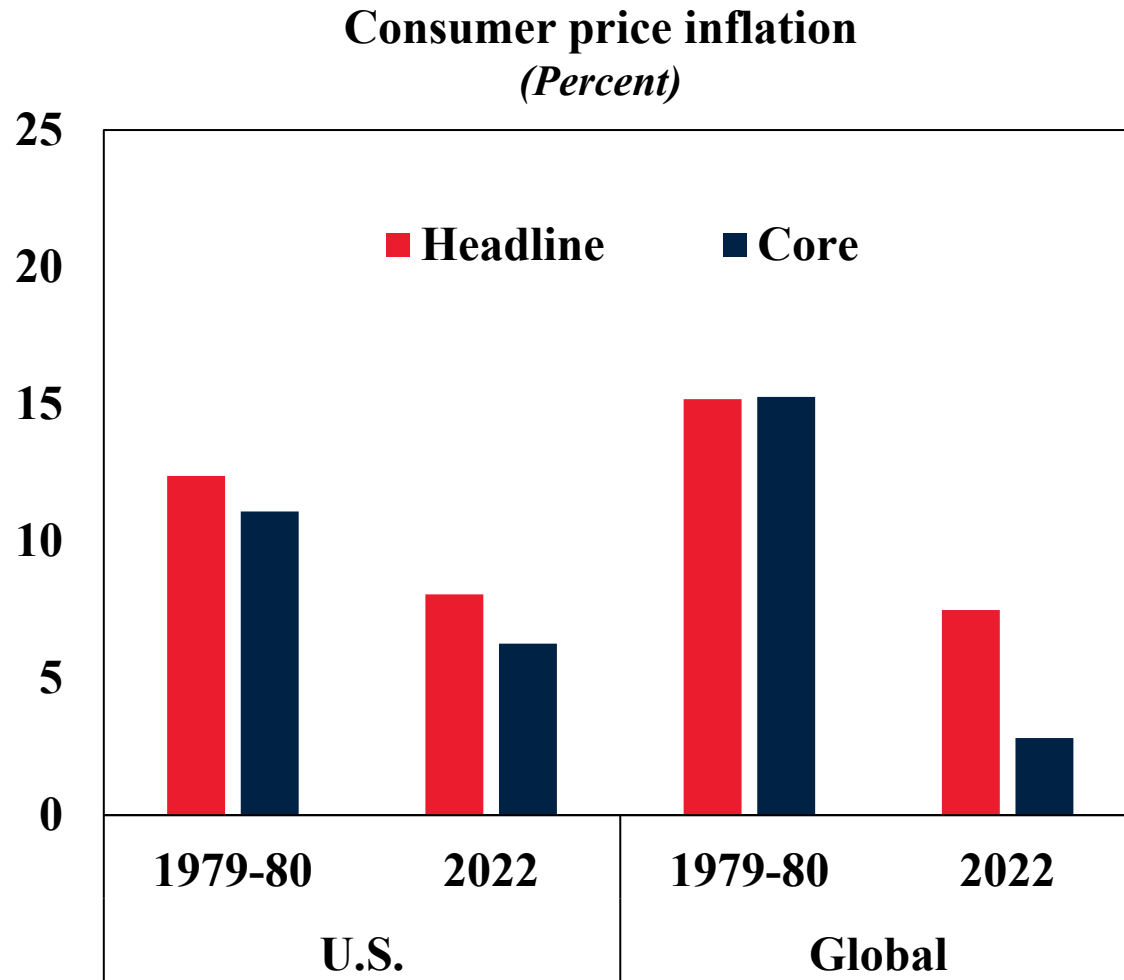


Sources: Bloomberg, Haver Analytics, World Bank.

Left Panel. Sample includes 22 EMDEs. Nominal policy rates using real GDP as weights. Last observation is May 2022. Center and Right Panels. Market expected interest rates based on overnight interest rate swaps. Current futures (for Center Panel) is based on data from June 30, 2022. For Right Panel, January is based on data from January 3, 2022, and June on data from June 27, 2022.

Differences from the 1970s

For Now, Still Lower Inflation Pressures



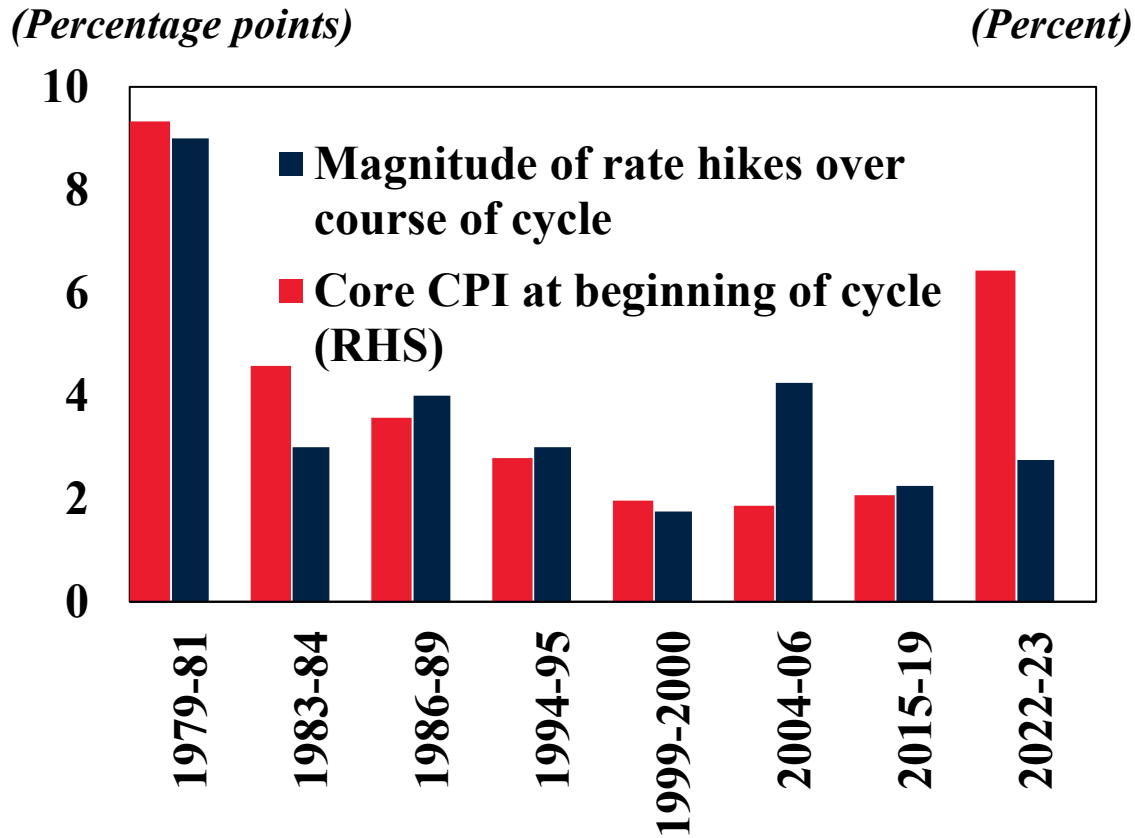
Sources: Ha, Kose, and Ohnsorge (2019); Haver Analytics; International Monetary Fund; OECD; World Bank.

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.

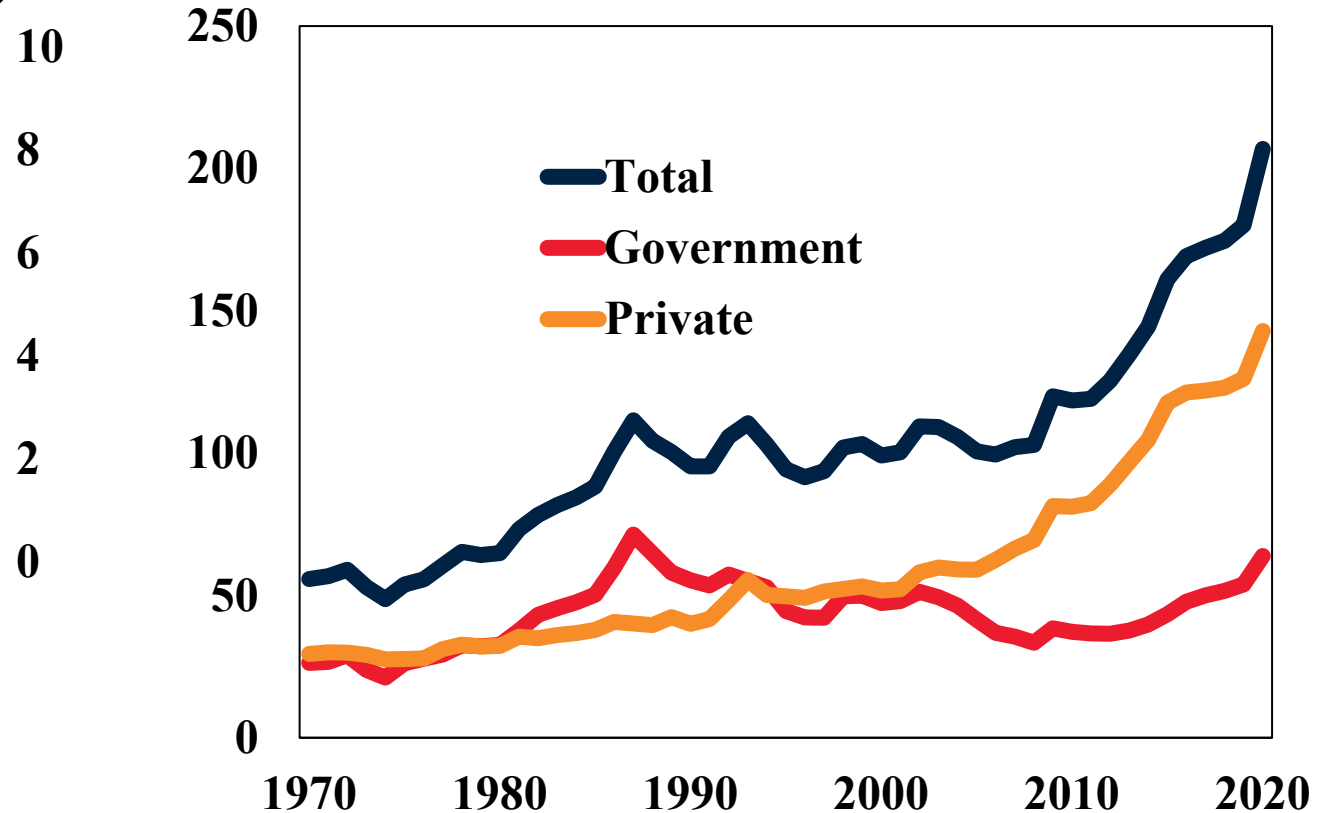
Ending Stagflation

Sharp Rate Hikes

Magnitude of U.S. rate hikes and core CPI during previous Federal Reserve tightening cycles



EMDE debt (Percent of GDP)



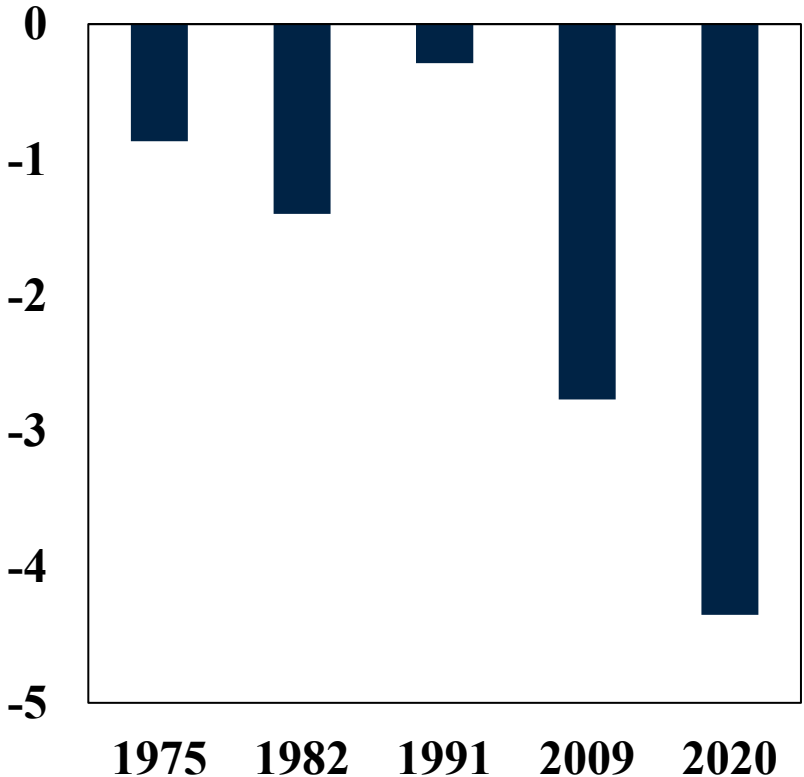
Sources: Bank for International Settlements; Federal Reserve Economic Data; Havers Analytics; World Bank.

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: GDP-weighted averages based on a sample of up to 153 EMDEs.

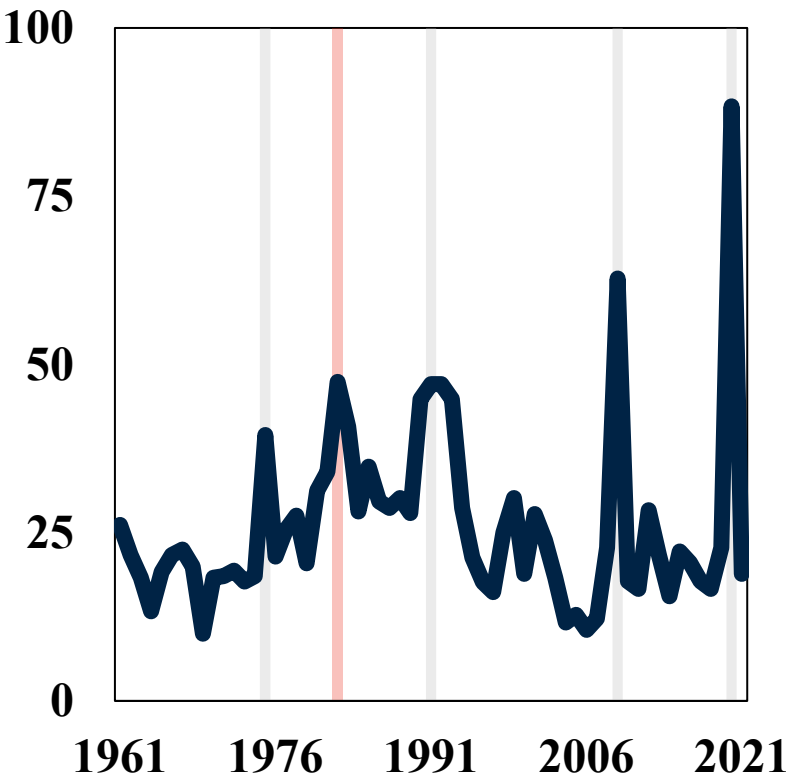
End of Stagflation

Global Recession, EMDE Financial Crises

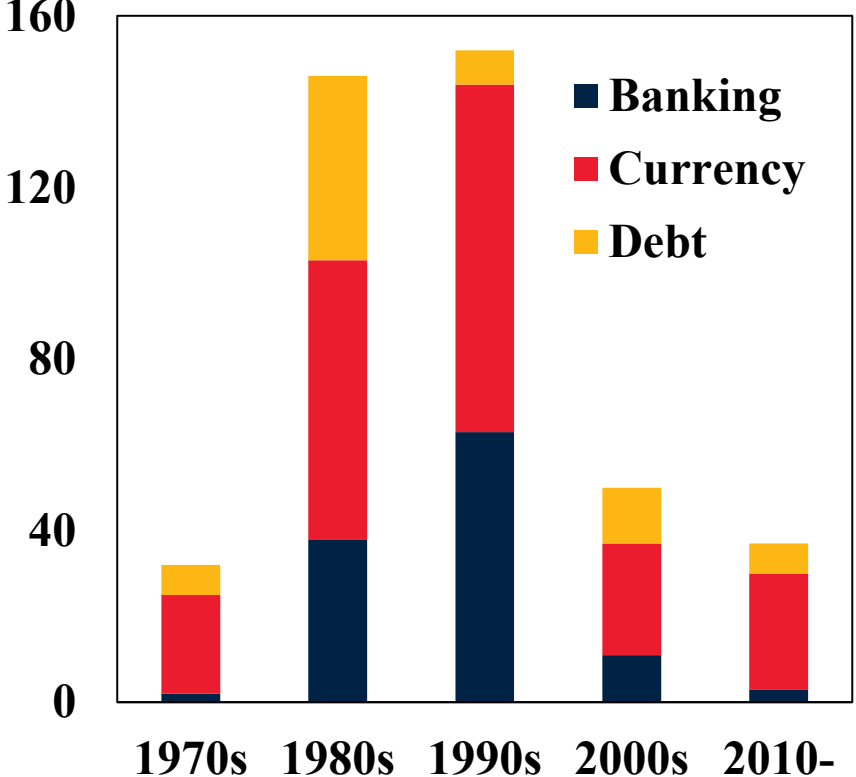
Per capita growth in global recessions
(Percent)



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.

Three Questions

3 **What are policy implications?** *Calibrate macroeconomic policies; boost growth; heed policy lessons from previous energy and food price shocks.*

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

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)

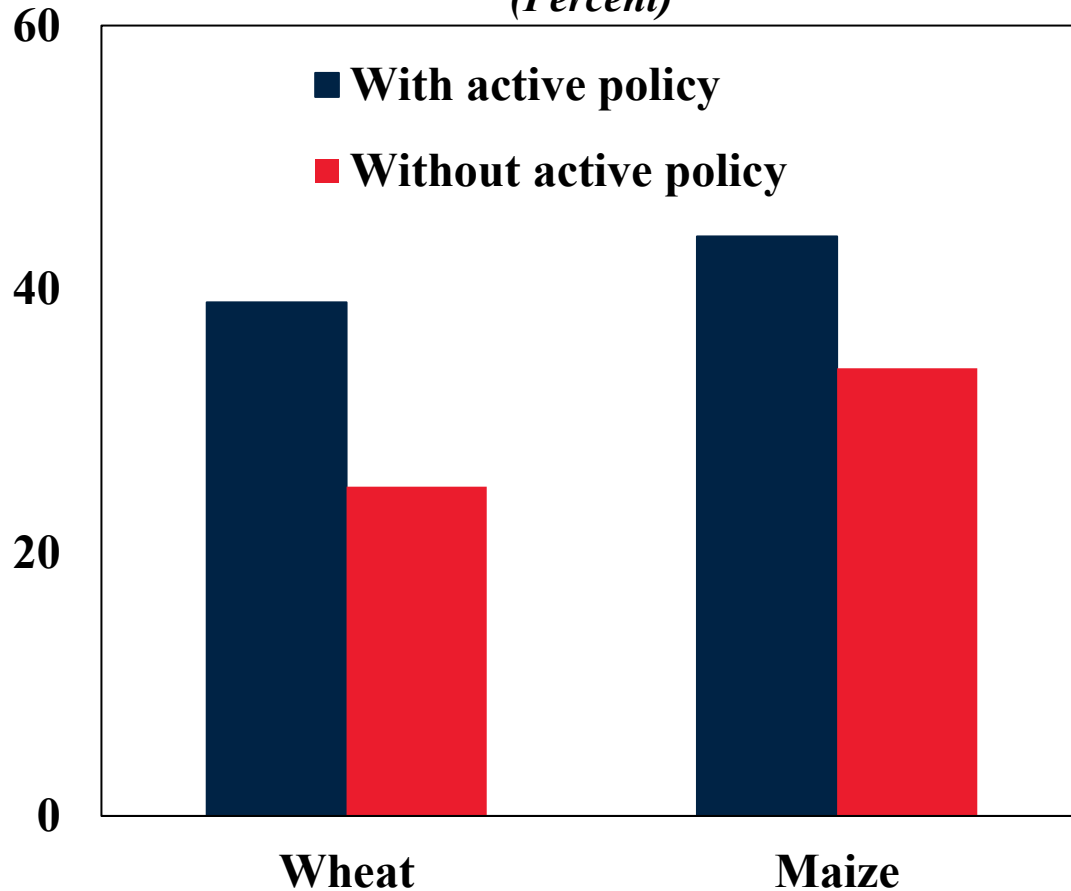
Policy recommendations

- 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

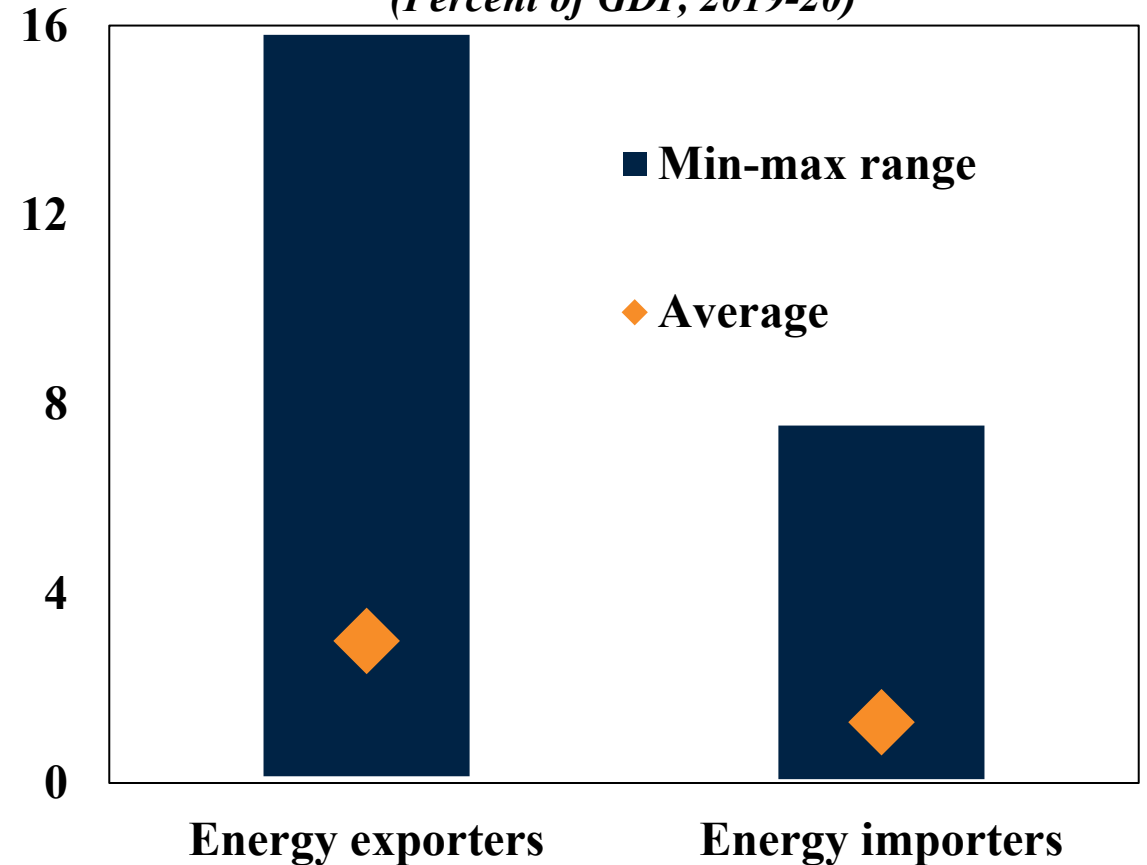
Responses to Commodity Price Shocks

Avoid Trade Restrictions; Subsidies

Increase in world prices, 2010-11
(Percent)



Fossil fuel subsidies in EMDEs
(Percent of GDP, 2019-20)



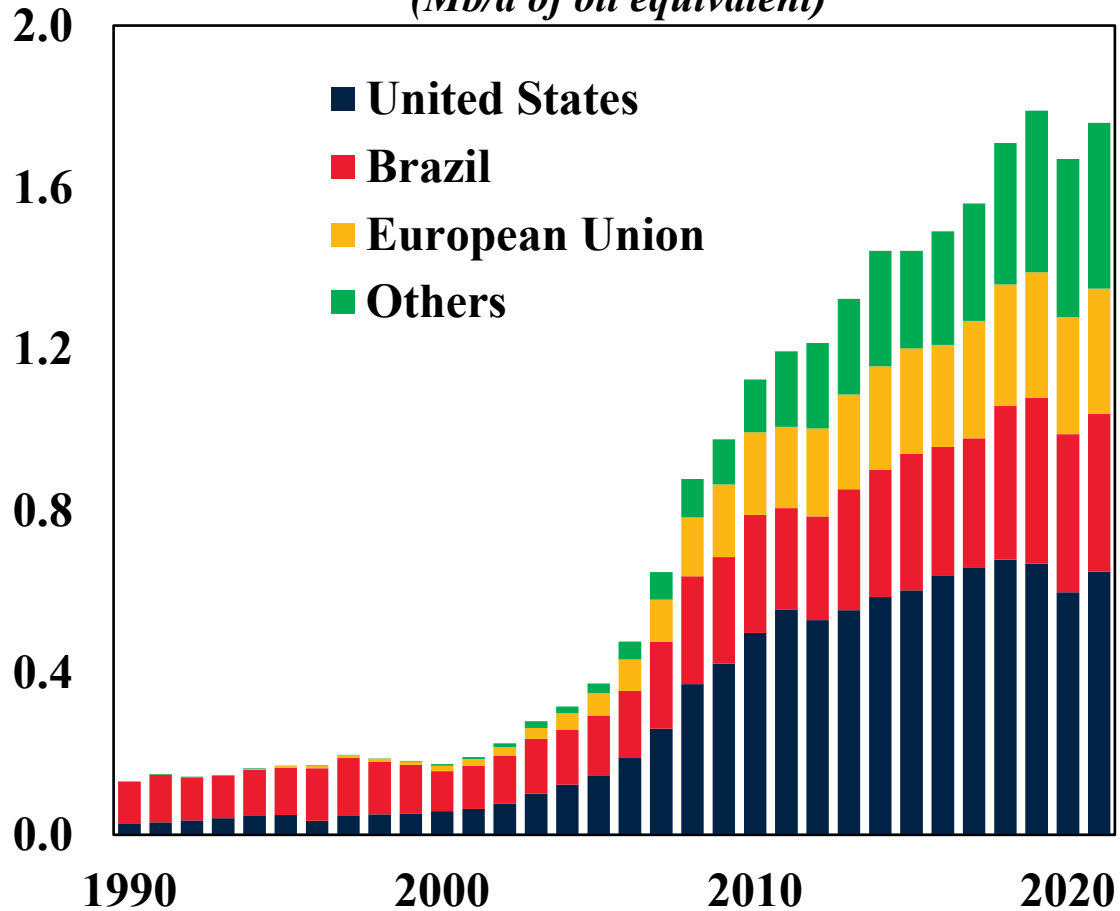
Sources: Ag-Incentives Database; BP; FSIN and GNAFC (2021); Ivanic and Martin (2014); Organisation for Economic Co-operation and Development; World Bank.

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.

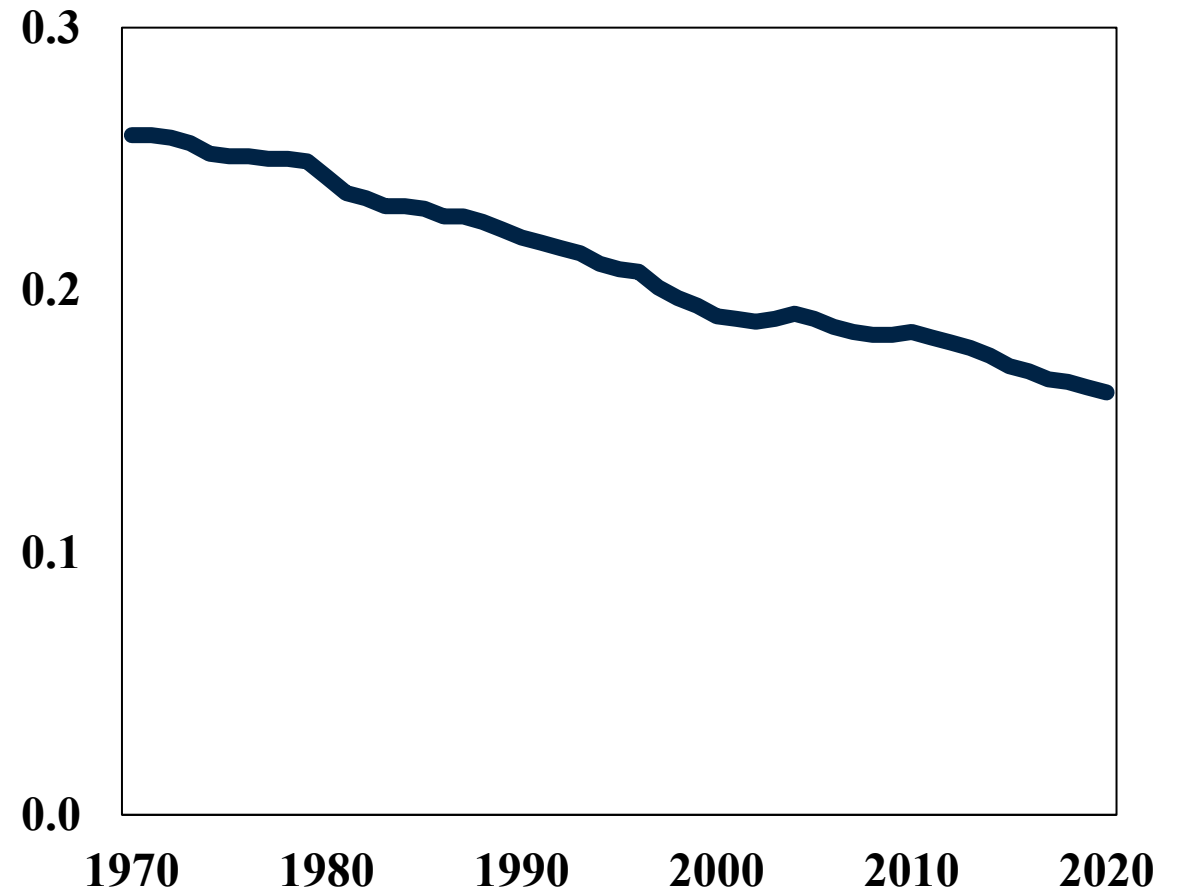
Responses to Commodity Price Shocks

Encourage New Supplies, Efficiency

Biofuels production
(Mb/d of oil equivalent)



Energy intensity of GDP
(TOE per \$1,000 of GDP)



Sources: BP, International Energy Agency U.S. Department of Agriculture, World Bank.

Right Panel: Energy includes coal, natural gas, and oil. TOE stands for tonnes (metric tons) of oil equivalent. Aggregates calculated using GDP weights at average 2010-19 prices and market exchange rates.

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 Which threat does stagflation present 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 policy implications?** *Calibrate macroeconomic policies; boost growth; heed policy lessons from previous energy and food price shocks.*

Thanks!
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