Global Economic Prospects
Slowing Growth, Rising Risks

February 2022

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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)**

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Four Questions

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

2 **What are the main risks and policy priorities for EMDEs?** *Multiple downside risks cloud the outlook. Room for macroeconomic policies is limited. Structural interventions are needed for green, resilient, and inclusive growth.*

3 **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.*

4 **How can EMDEs cope with volatility in commodity markets?** *Need to employ robust policy frameworks to smooth the cycles and put in place structural measures to reduce reliance on commodity exports.*

* EMDEs = Emerging Market and Developing Economies

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Short-term Growth Prospects
Broad-Based and Exceptionally Steep Slowdown in 2022-23

GDP growth
(Percent)

Legend: 2020 | 2021 | 2022 | 2023

World | Advanced economies | EMDEs
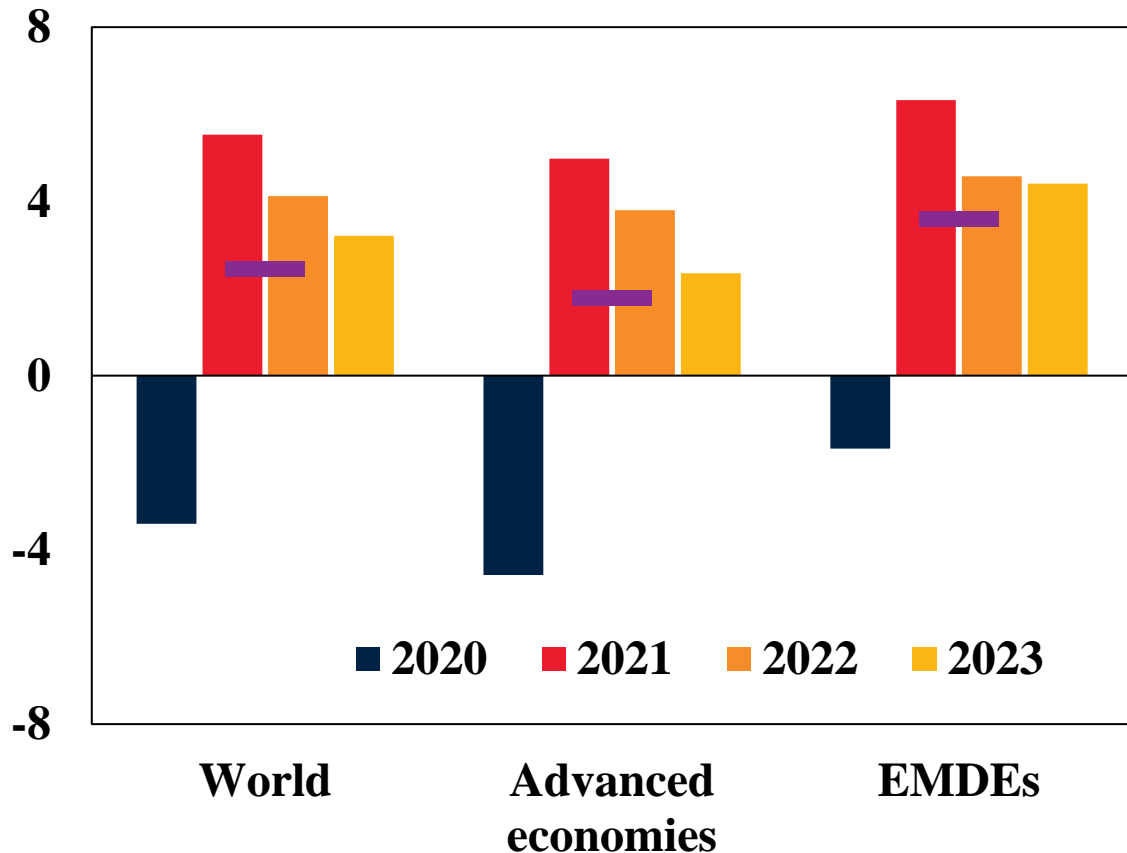
Two-year-slowdowns in global growth after rebounds from global recessions
(Percentage points)
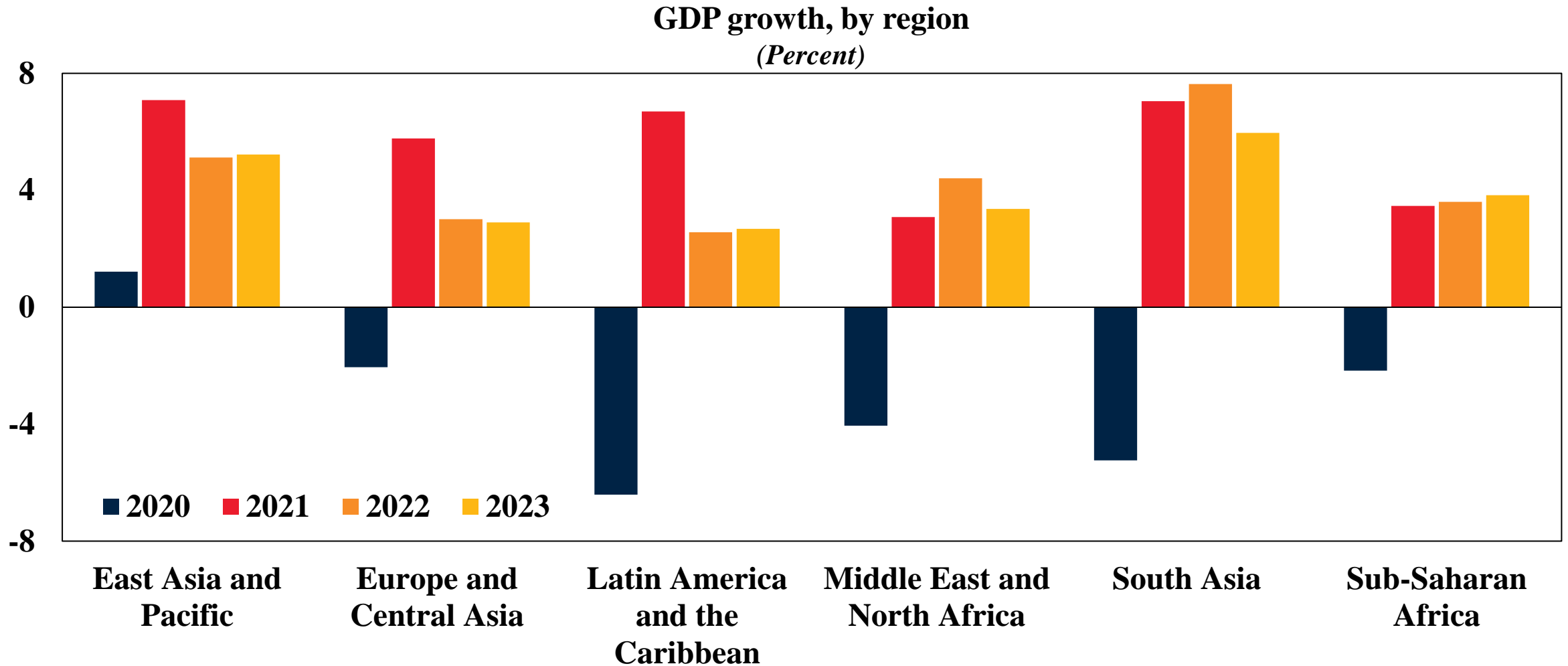
2021-23 | 2010-12 | 1992-94 | 1983-85 | 1976-78
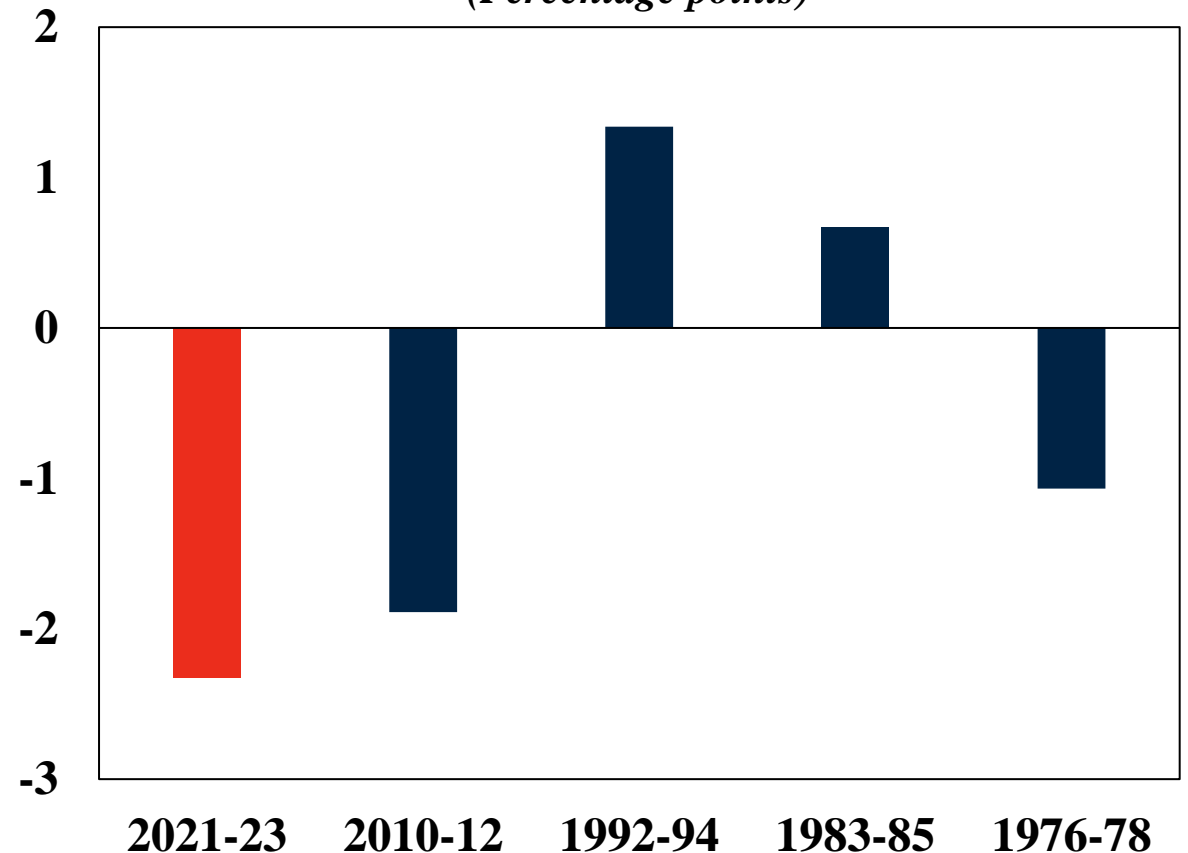
Source: World Bank.
Note: Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates. Data for 2021 are estimates and data for 2022 and 2023 are forecasts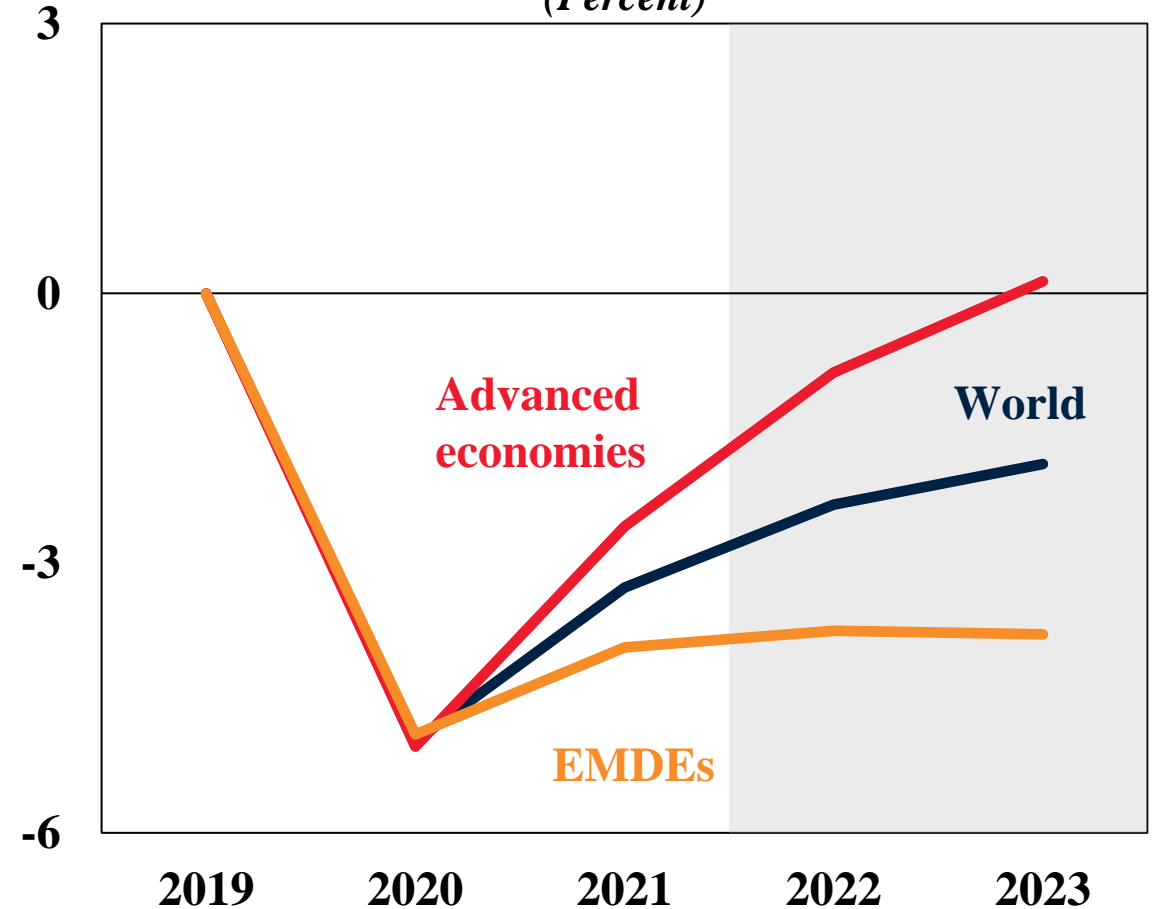. Left Panel. Purple horizontal lines refer to potential growth estimates based on a production function approach as described in Kilic Celik, Kose, and Ohnsorge (2020).

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Regional Growth Forecasts
Slowing Growth in Several Regions

GDP growth, by region
(Percent)

Legend: ■ 2020 ■ 2021 ■ 2022 ■ 2023

Regions: East Asia and Pacific | Europe and Central Asia | Latin America and the Caribbean | Middle East and North Africa | South Asia | Sub-Saharan Africa

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Uneven Global Recovery
Lasting Scarring Partly due to Weak Output and Investment Recovery

Gaps with pre-pandemic trends by 2023
(Percent)
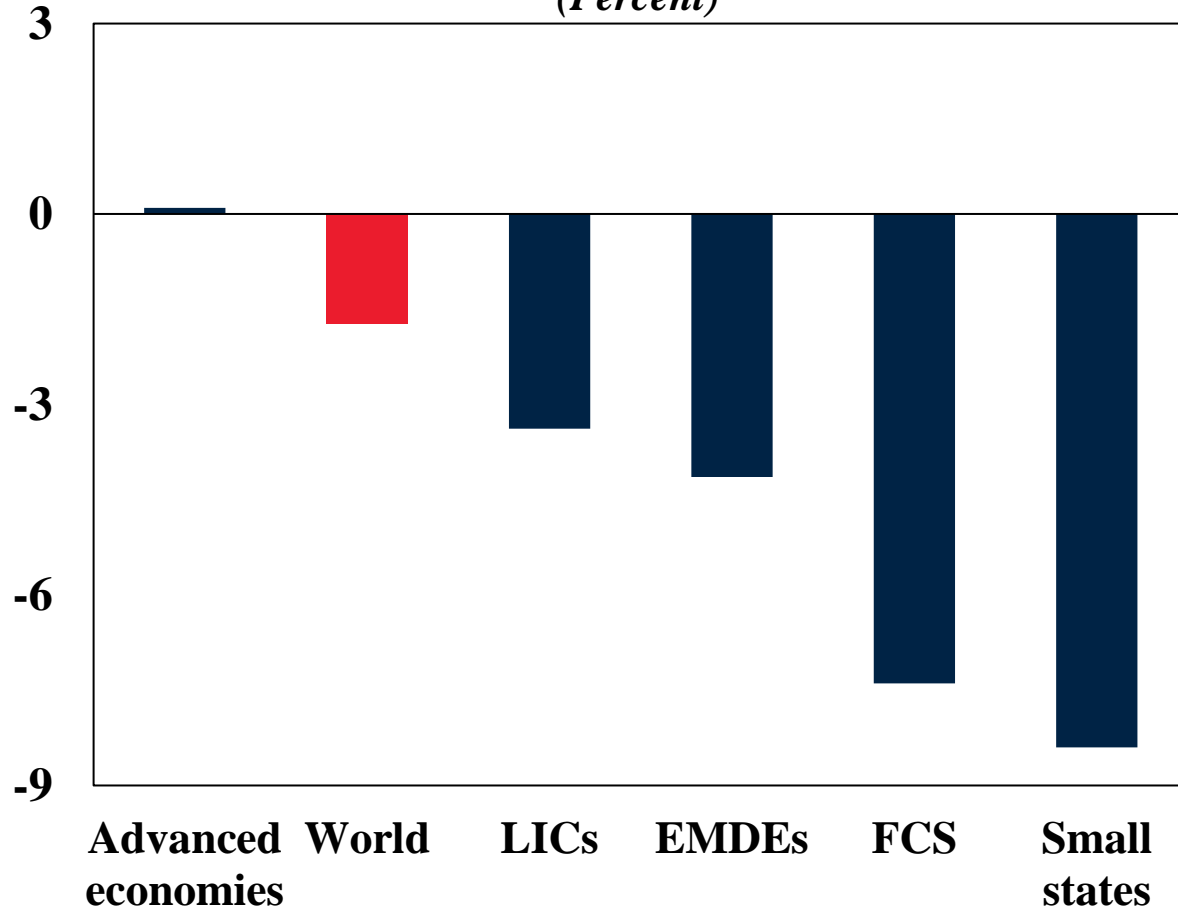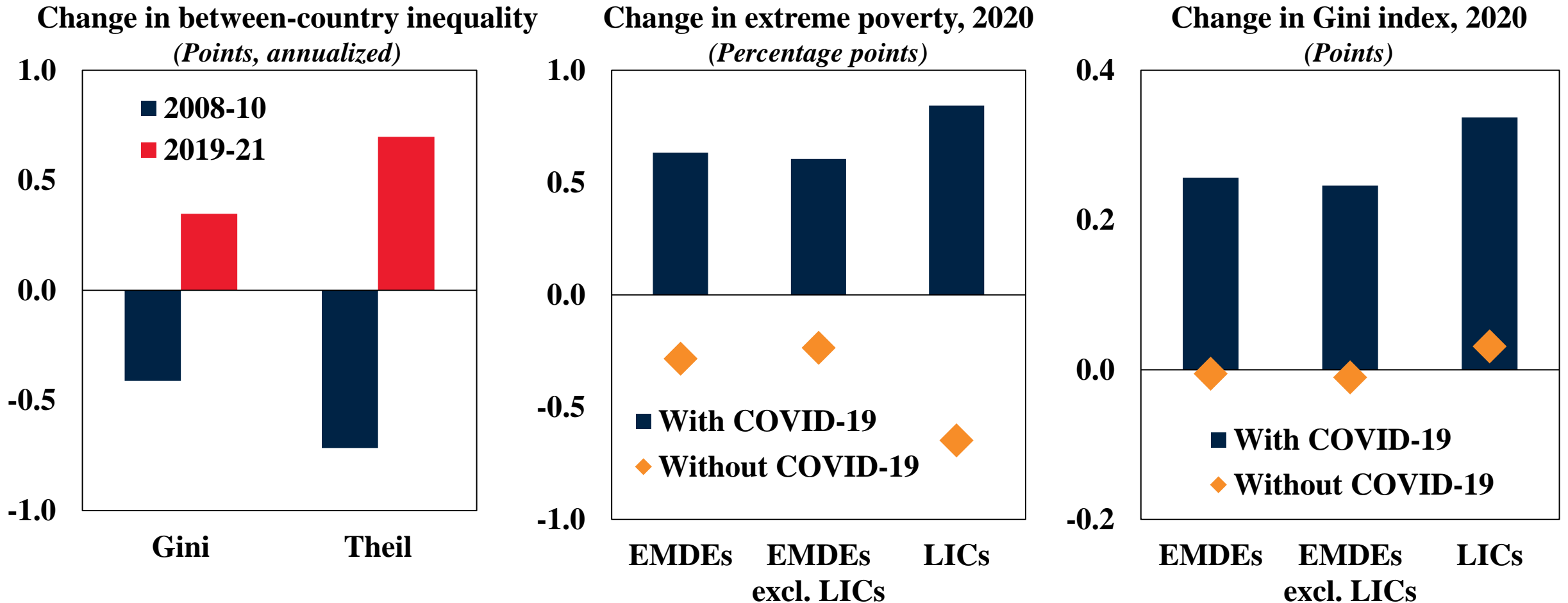

Deviation of investment from pre-pandemic trends
(Percent)

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Impact of COVID-19 on Inequality and Poverty
Increase in Poverty and Inequality

Change in between-country inequality
(Points, annualized)

- 2008-10
- 2019-21

Gini · Theil

Change in extreme poverty, 2020
(Percentage points)

- With COVID-19
- Without COVID-19

EMDEs · EMDEs excl. LICs · LICs

Change in Gini index, 2020
(Points)

- With COVID-19
- Without COVID-19

EMDEs · EMDEs excl. LICs · LICs

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. Based on 147 countries. Theil generalized entropy GE(1) index and Gini index are computed using GDP per capita, PPP (constant 2017 international dollars). All changes are annualized. 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.

Four Questions

2   **What are the main risks and policy priorities for EMDEs?**

* EMDEs = Emerging Market and Developing Economies

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Risks
Multiple, Possibility of Hard Landing

COVID-19: new outbreaks

Inflationary pressures

Supply bottlenecks

Climate-related disasters

Financial stress

Weaker long-term growth

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Inflation and Monetary Policy

Sharp Increase in 2021; Above Target in Many; Rising Policy Rates Already

CPI inflation
(Percent)

Legend: Advanced economies, EMDEs, LICs

X-axis: Jan-20, Dec-20, Nov-21

EMDEs with inflation above target
(Percent of countries)

X-axis: 2019, 2020, 2021

Policy rates in EMDEs
(Percent)

Legend: EMDEs, EMDEs excl. China, EMDEs (2010-18 average)

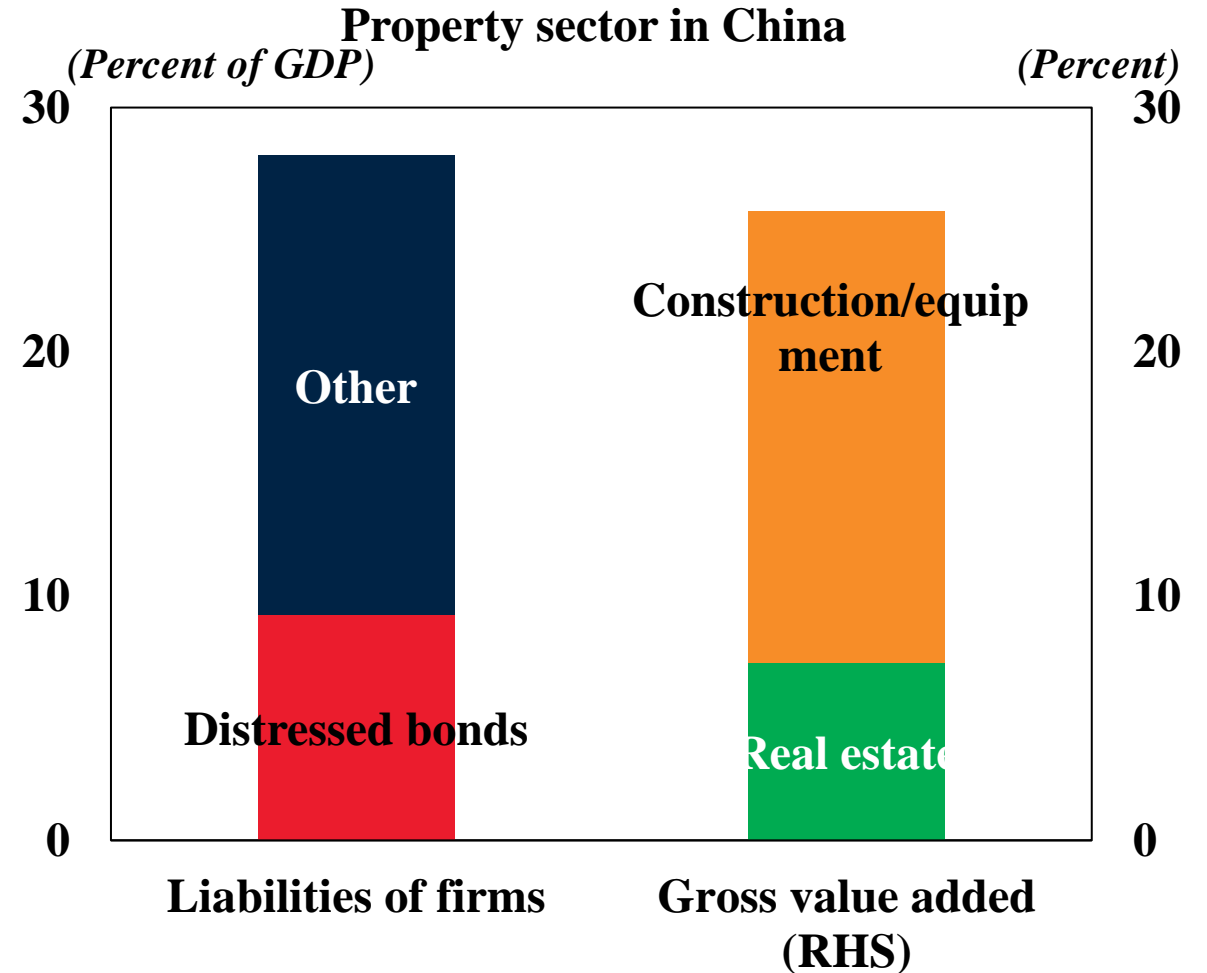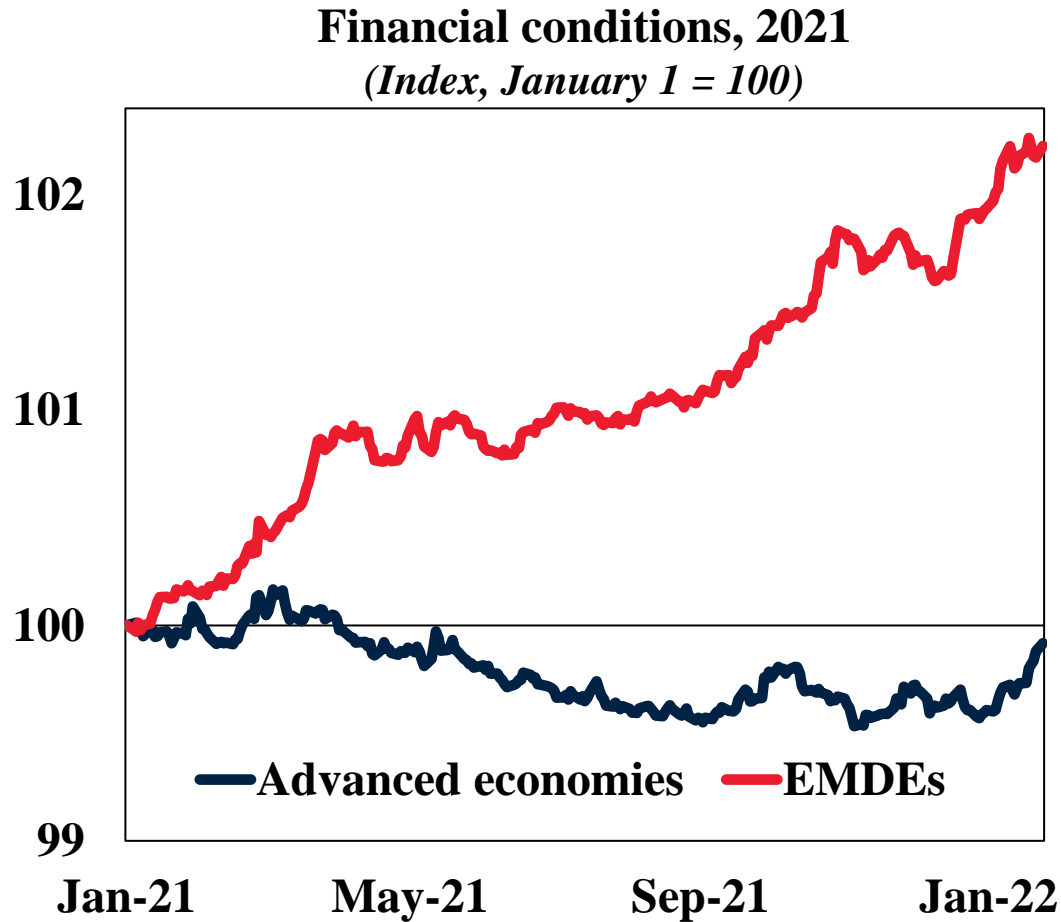X-axis: Jan-19, Dec-19, Dec-20, Dec-21
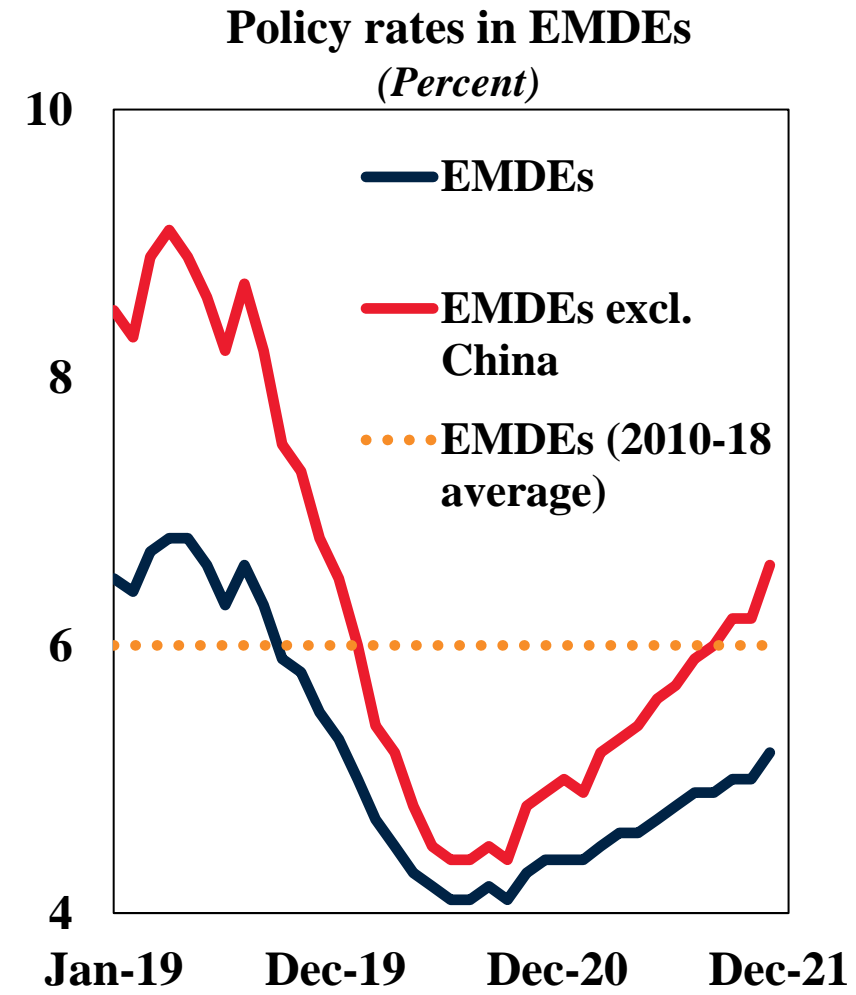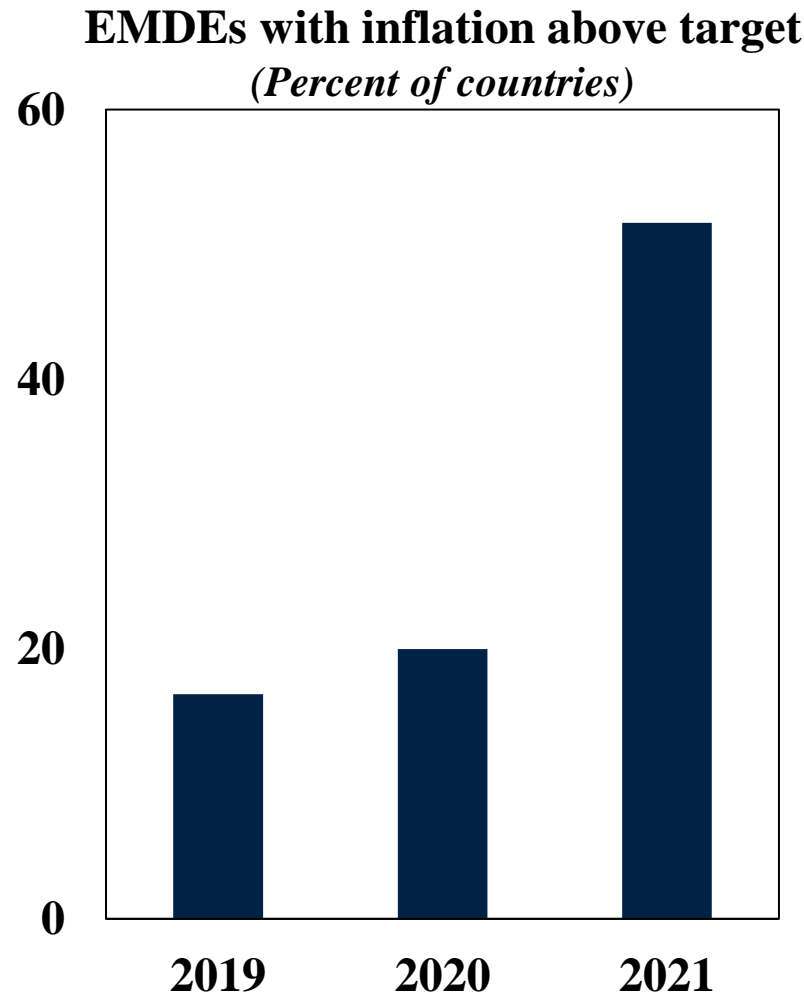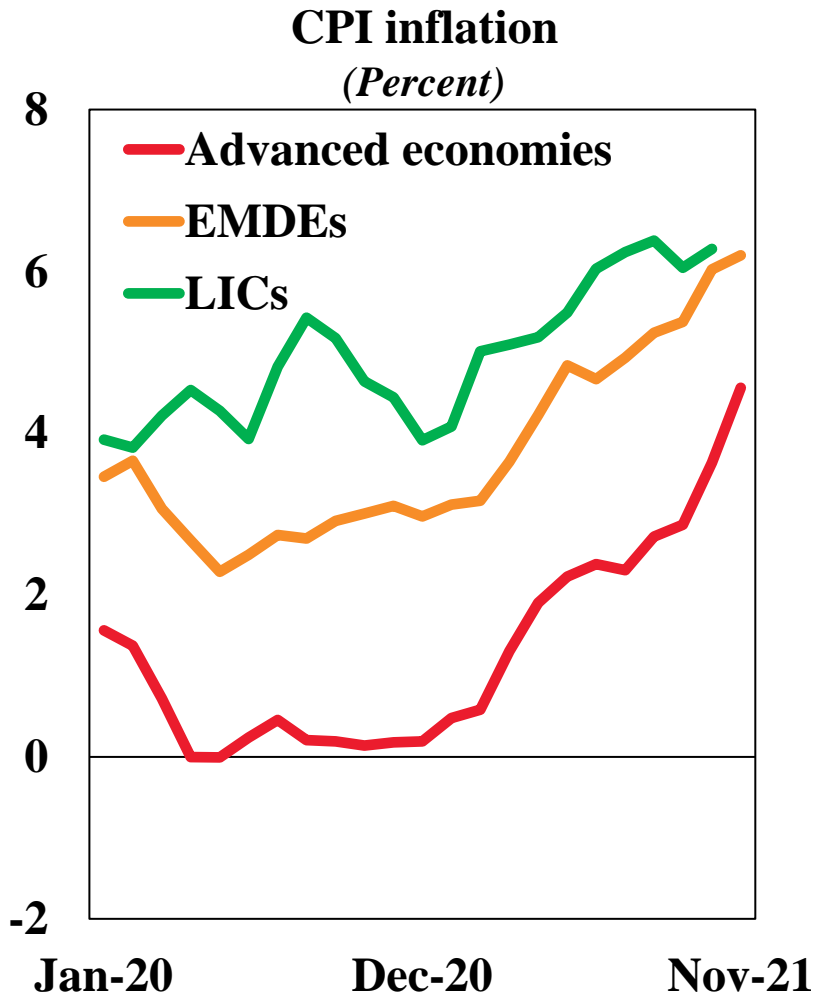
Sources: Consensus Economics, Haver Analytics, World Bank.
Left Panel. CPI refers to consumer price index. Year-on-year group median inflation for 81 countries, of which 31 are advanced economies, 50 are EMDEs. LICs indicates 13 low-income countries. Center Panel. Share of inflation-targeting EMDEs that experienced inflation above the target range for each year. 2021 inflation is based on average of January-October 2021. Right Panel. Aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Sample includes 22 EMDEs. Last observation is December 2021.

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Inflation and Financial Risks
Tightening Financial Conditions; Deleveraging in China

Financial conditions, 2021
(Index, January 1 = 100)

Advanced economies — EMDEs

Property sector in China
(Percent of GDP) *(Percent)*

Other

Distressed bonds
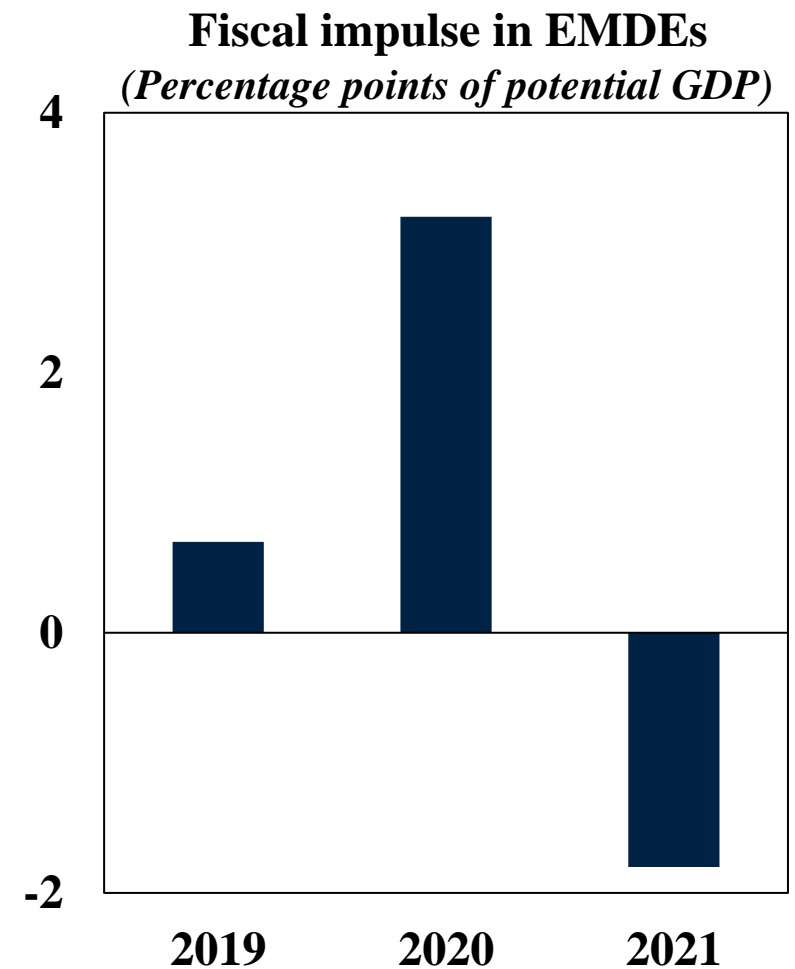
Construction/equipment

Real estate

Liabilities of firms
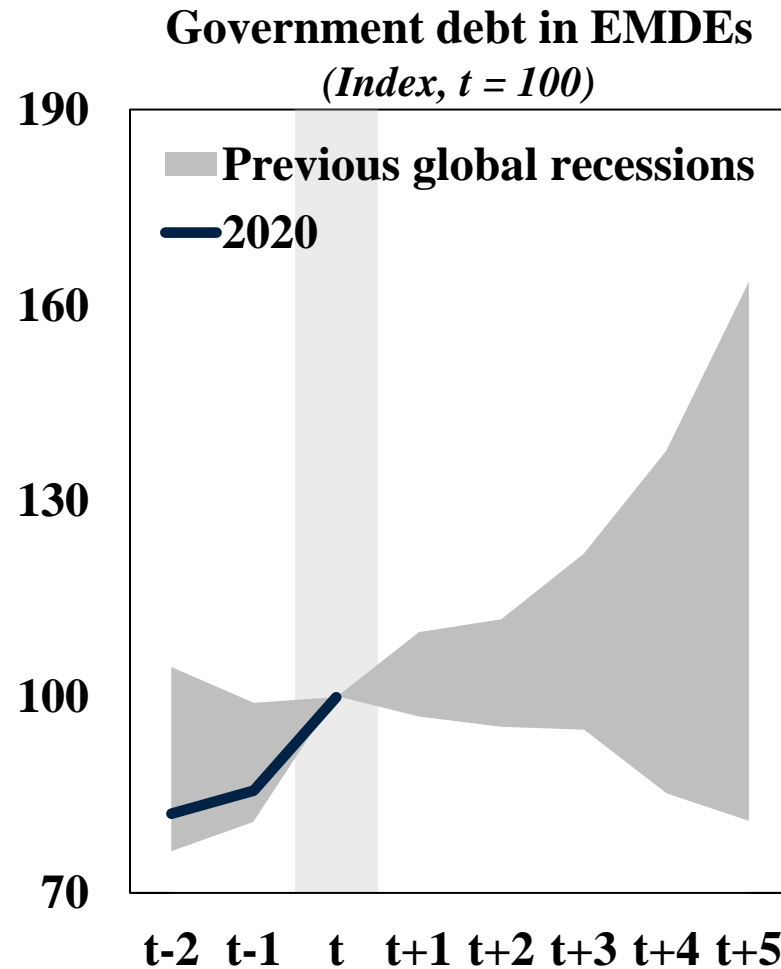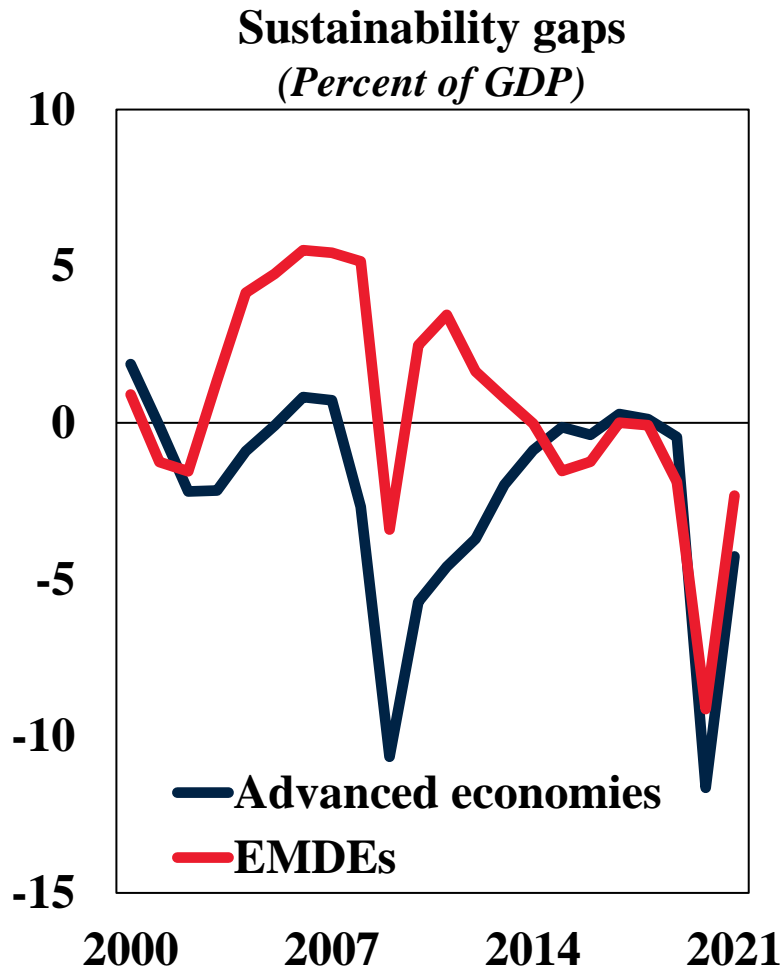
Gross value added (RHS)

Sources: Bloomberg; Citigroup; Haver Analytics; Rogoff and Yang (2021); Wind Information, Co.; World Bank.
Left Panel. Financial condition indices (FCI) are Goldman Sachs FCI constructed as a weighted average of short-term interest rates, long-term interest rates, the trade-weighted exchange rates, 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 2021 GDP weights at average 2010-19 prices and market exchange rates. Last observation is January 24, 2022. Right Panel. Left bar shows liabilities of listed property companies as share of GDP. Right bar shows gross value added based on 2020 input-output tables. Gross value added of construction and equipment investment are estimates.

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Debt and Fiscal Policy
Dealing with Sustainability Challenges; Withdrawing Fiscal Support; Likely Higher Debt

Sustainability gaps
(Percent of GDP)

Advanced economies
EMDEs

Government debt in EMDEs
(Index, t = 100)

Previous global recessions
2020

t-2 t-1 t t+1 t+2 t+3 t+4 t+5

Fiscal impulse in EMDEs
(Percentage points of potential GDP)

2019   2020   2021

Sources: Kose et al. (2017; 2021); International Monetary Fund.

Left Panel. Sustainability gaps are computed with current output growth rates and long-term interest rates. Aggregates are weighted averages using current GDP in U.S. dollars as weights. Data for 2021 are preliminary estimates. Center Panel. Swathe indicates the evolution of government debt in EMDEs (in percent of GDP), indexed at 100 in the year of the global recession (year "t"). The previous global recessions include four global recessions: 1975, 1982, 1991, and 2009. The solid blue line is for the 2020 global recession. Data are available for up to 153 EMDEs. Right Panel. Fiscal impulse is the (GDP weighted) negative change in the cyclically-adjusted primary balance from the previous year. Sample includes 30 EMDEs.
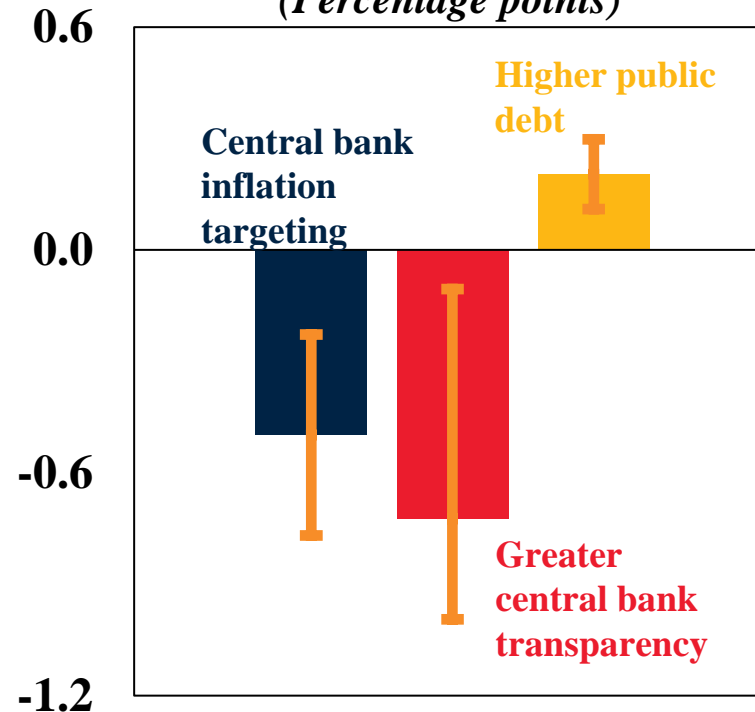
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Inflation Expectations, Debt and Activity

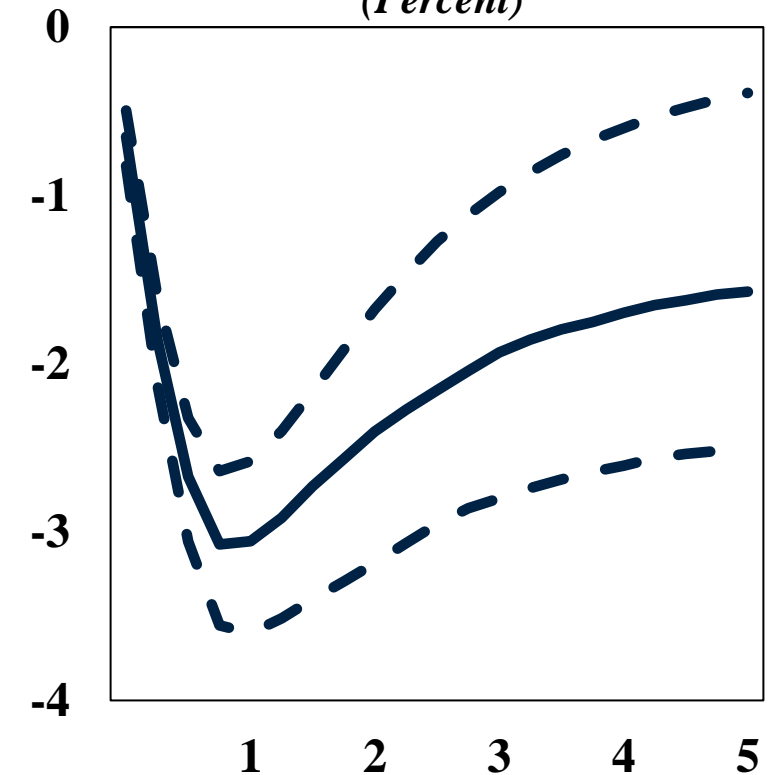*Sensitivity to Inflation Surprises; Even More with Debt and Weaker Transparency; Adverse Impact on Activity*

Sensitivity of inflation expectations to inflation shocks
(Percentage points)

Legend:
- First sub-sample
- Second sub-sample

X-axis: Advanced economies, EMDEs
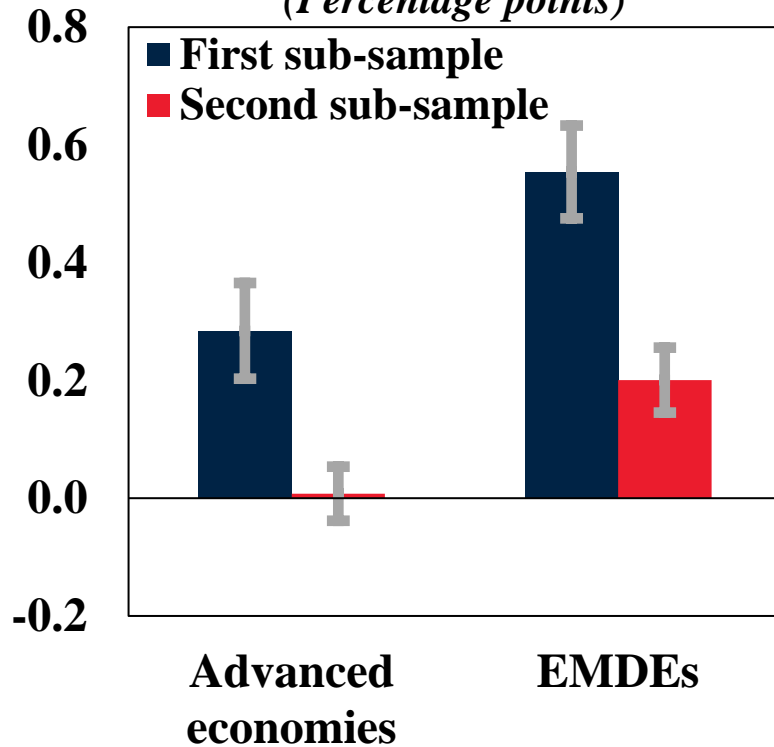
Impact of shocks on sensitivity of inflation expectations in EMDEs
(Percentage points)

Labels: Central bank inflation targeting; Higher public debt; Greater central bank transparency

Impact of inflation uncertainty on investment
(Percent)

X-axis: 1 2 3 4 5

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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
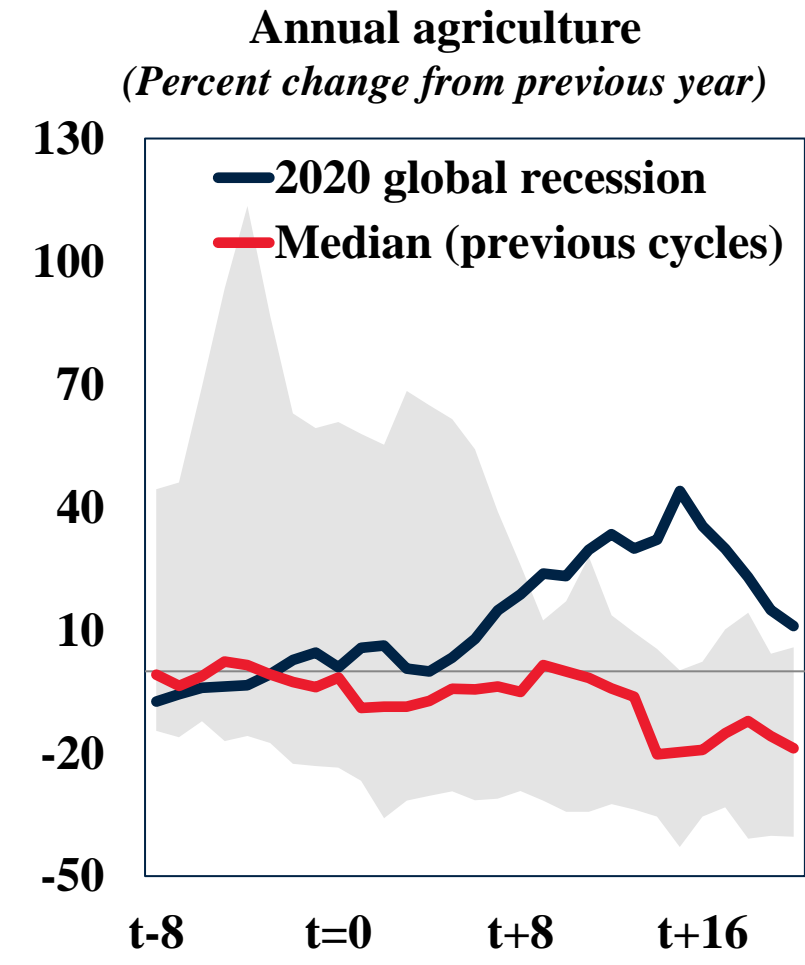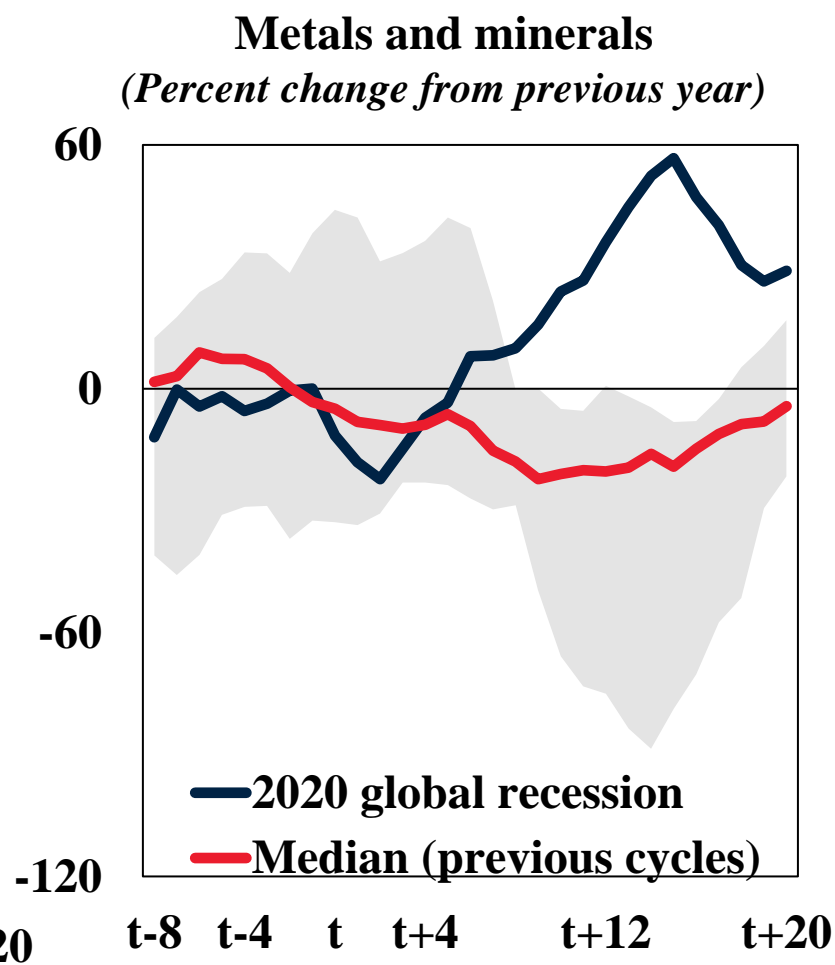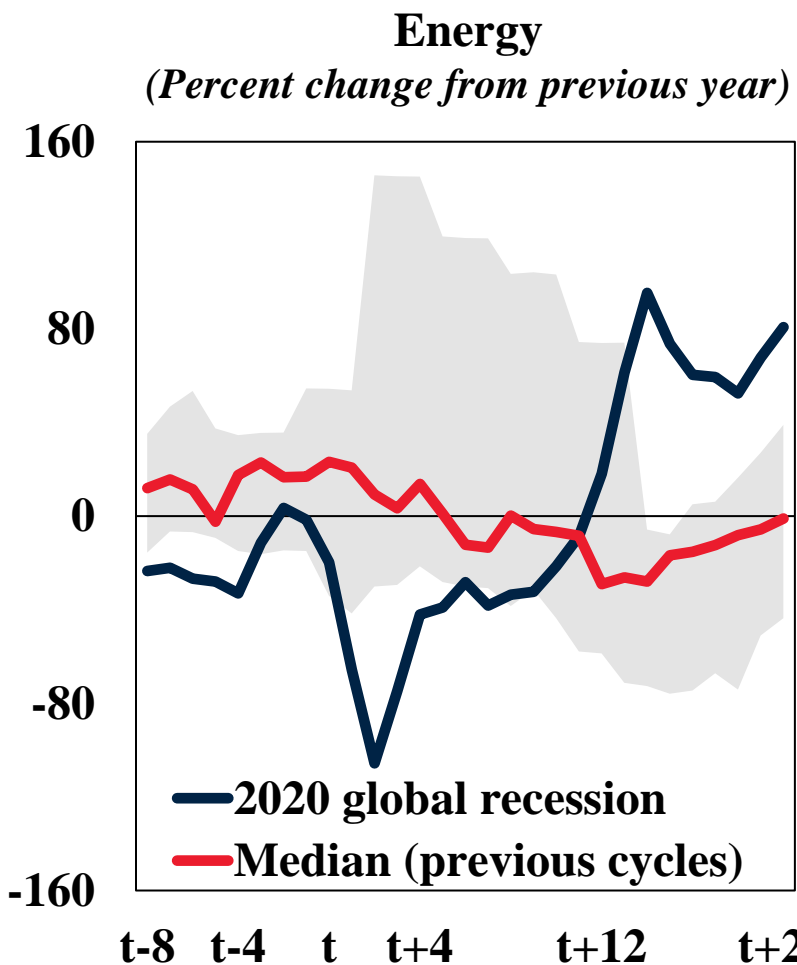
Four Questions

3

What are the main features of commodity price cycles?

* EMDEs = Emerging Market and Developing Economies

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Commodity Prices around Global Recessions
Unusually Sharp Price Rebound from 2020 Global Recession

Energy
(Percent change from previous year)

Metals and minerals
(Percent change from previous year)

Annual agriculture
(Percent change from previous year)
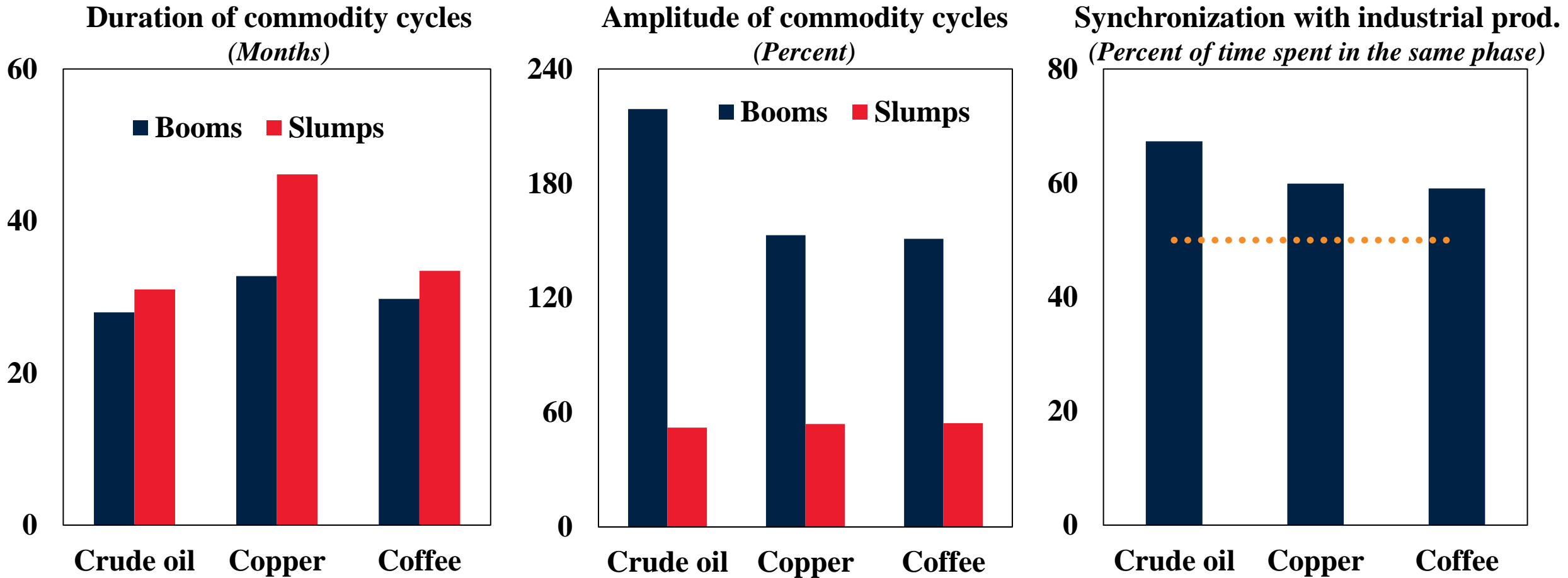

— 2020 global recession
— Median (previous cycles)

Source: World Bank.
Note: The horizontal axis represents the time period in months, where t=0 denotes the peak of global industrial production before global recessions and downturns since 1970. The vertical axis measures the percent change in the commodity price series from a year earlier. The blue line shows the trajectory of the current commodity cycle around the COVID-19 recession, while the red line is the median of previous cycles around a global recession or downturn (as in Kose, Sugawara, and Terrones 2020). Gray shaded areas represent the range of observed values. Data from January 1970 to October 2021.

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

Duration of commodity cycles
(Months)

Booms ■ Slumps ■

Crude oil | Copper | Coffee

Amplitude of commodity cycles
(Percent)

■ Booms ■ Slumps

Crude oil | Copper | Coffee

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

Crude oil | Copper | Coffee

Source: 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). Center Panel: Amplitude measures the average real price change (in percentage terms) from trough to peak for booms and from peak to trough for 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 one if both series are in the same phase at any time. Dashed orange line indicates 50 percent.

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Commodity Reliance of EMDEs
Particularly Pronounced in Energy Exporters
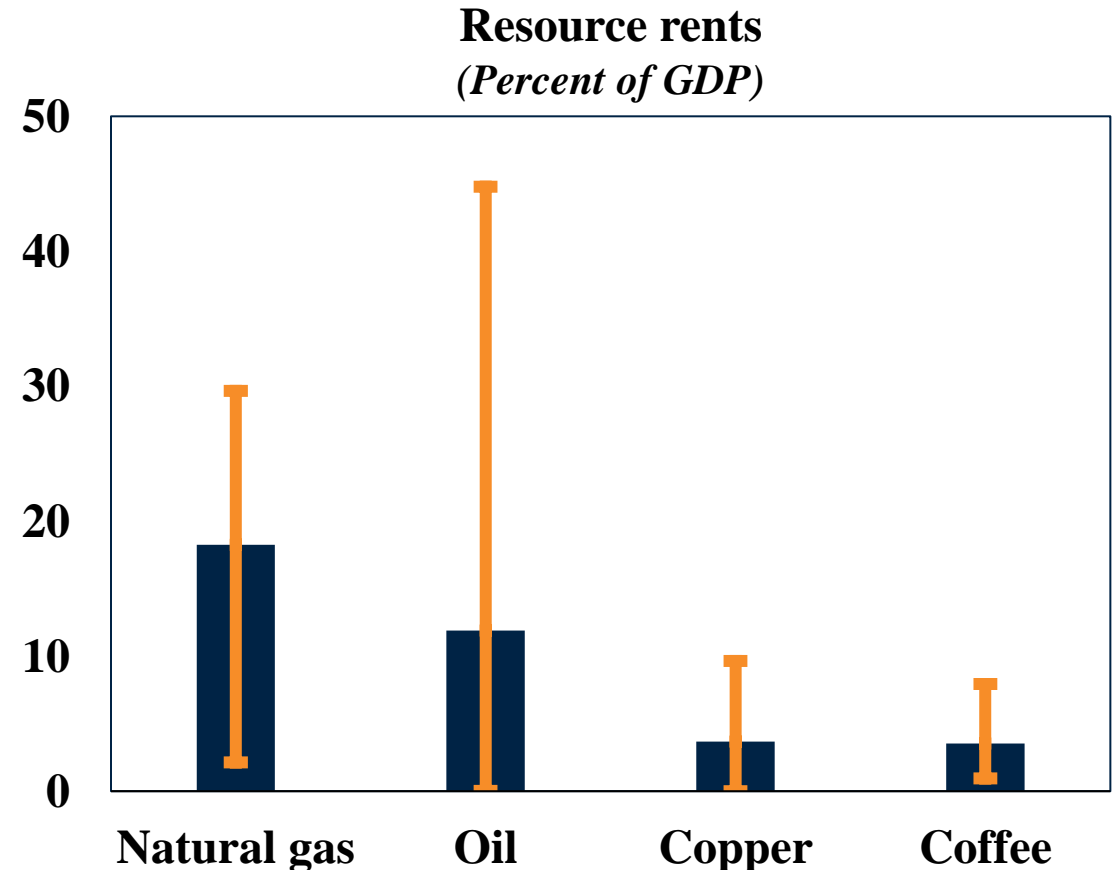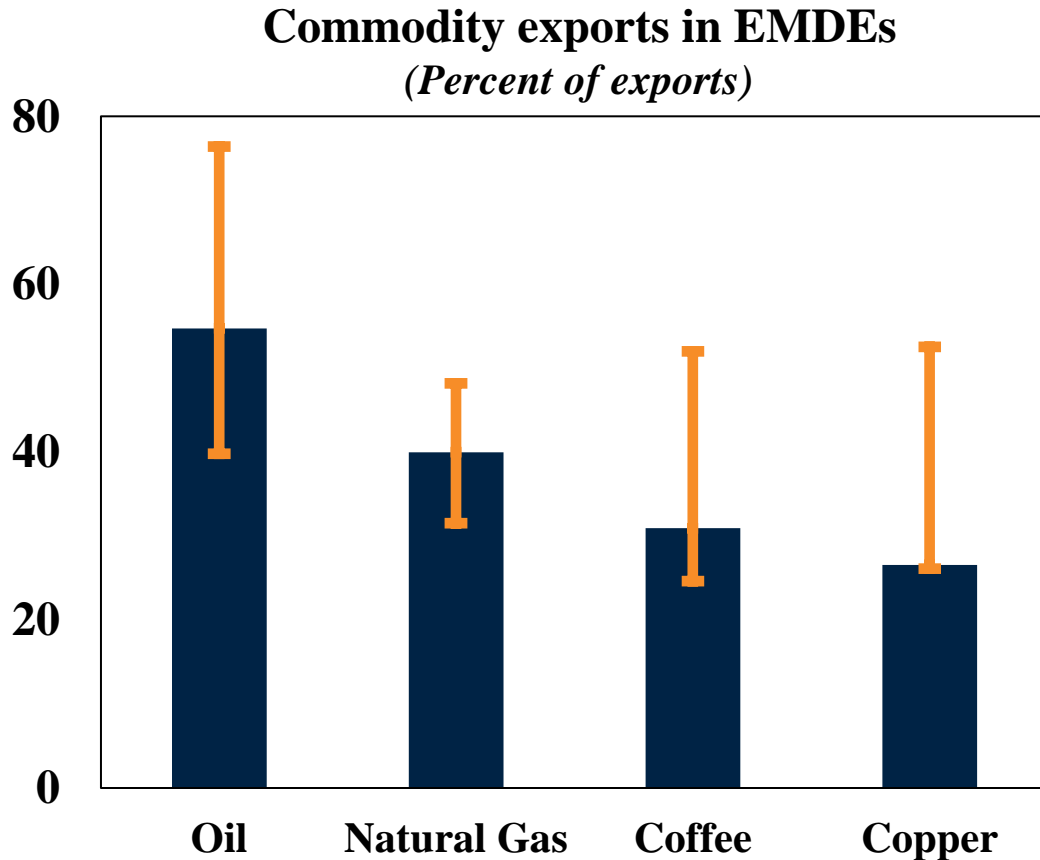
Commodity exports in EMDEs
(Percent of exports)

Resource rents
(Percent of GDP)

Left Panel: 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. Right Panel: Unweighted average of resource rents as percent of GDP for EMDE commodity exporters of natural gas (13 countries), oil (44 countries), copper (14 countries), and coffee (13 countries). Total natural resource rents of exporters of each commodity included in the figure are the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents. Countries relying on the export of multiple commodities are included in the averages for each commodity. As an example, a country identified as a natural gas exporter may be deriving resource rents from exports of both natural gas and oil; its share of resource rents is included in the averages for both oil and natural gas since the breakdown of resource rents by individual commodity is not available.

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Implications of Energy Transition for Metals Demand
Low-Carbon Technology More Metal Intensive Than Traditional Energy
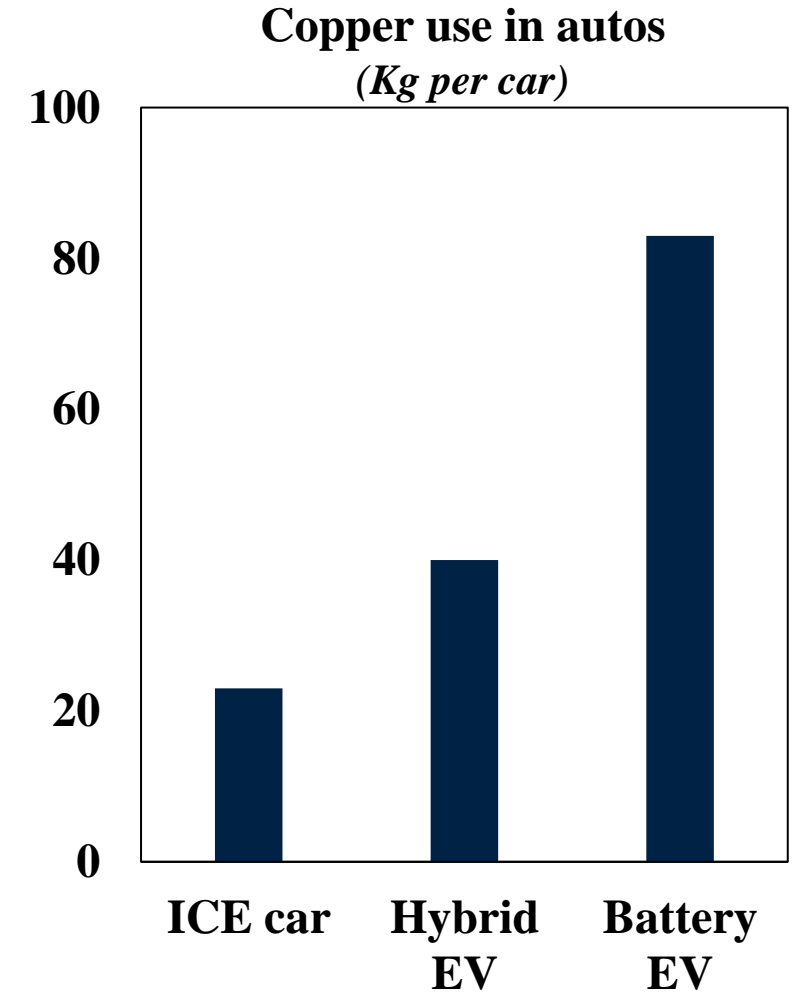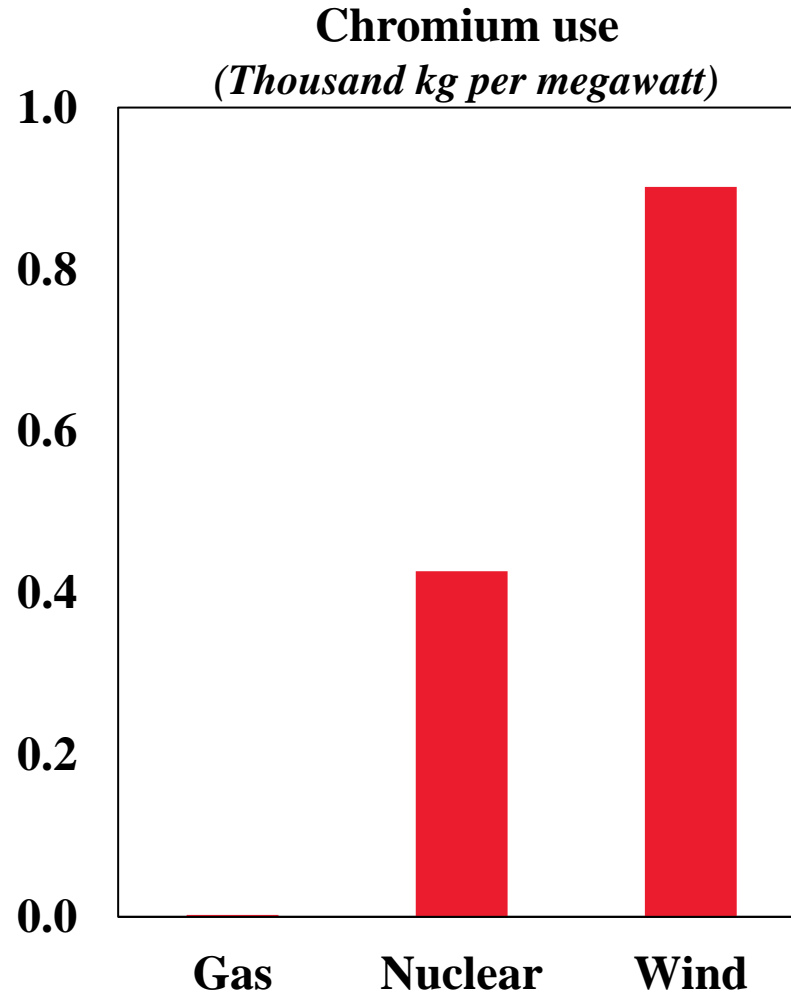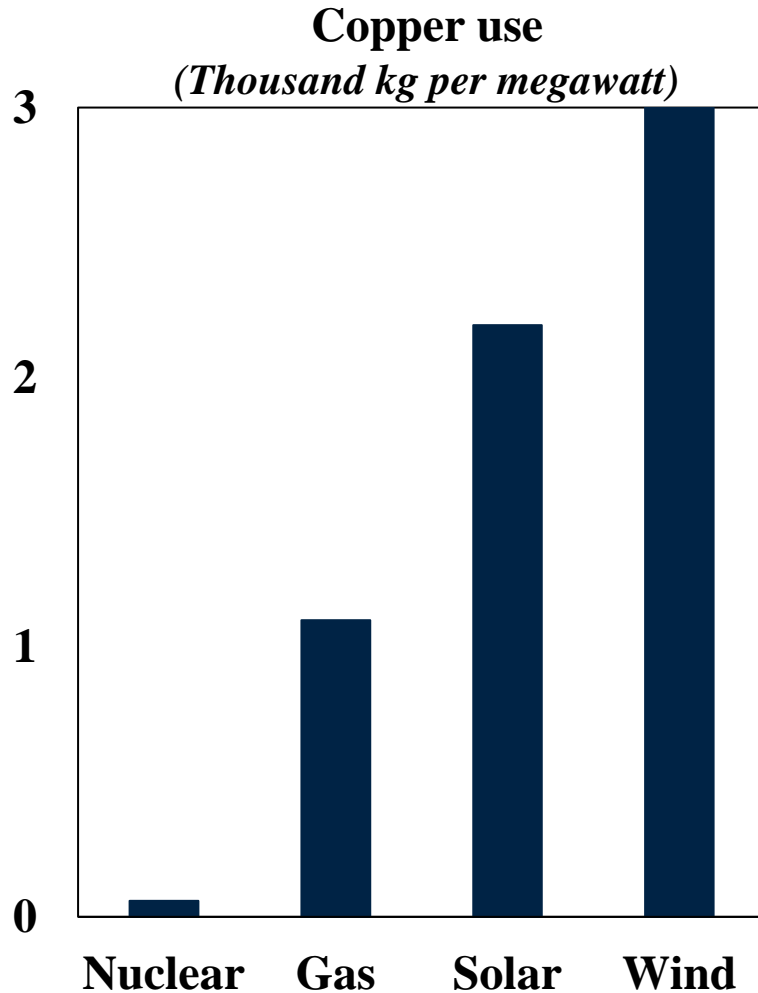
Copper use
(Thousand kg per megawatt)

Chromium use
(Thousand kg per megawatt)

Copper use in autos
(Kg per car)

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Four Questions

4

How can EMDEs cope with volatility in commodity markets?

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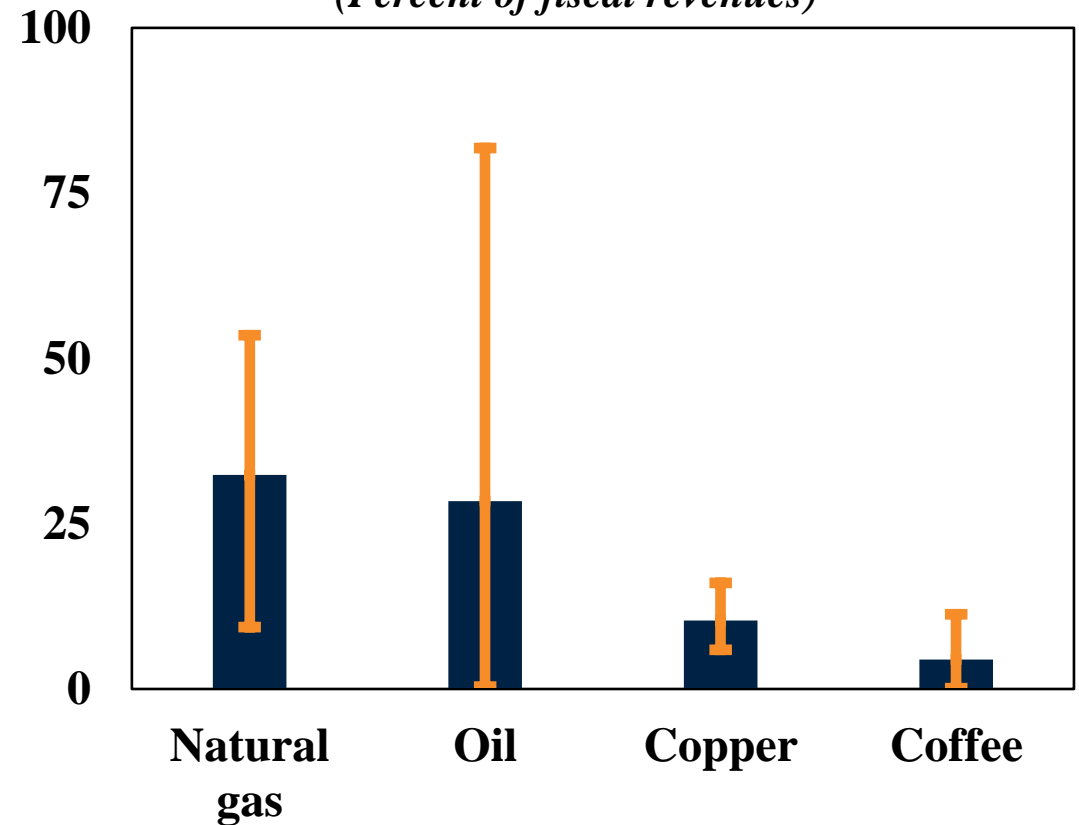Prospects Group

Commodity Price Cycles
Manage Impact, Reduce Exposure

Commodity-exporting EMDEs with fiscal rules or inflation targeting
(Number of countries)

— Adopted inflation targeting
— Adopted fiscal rules
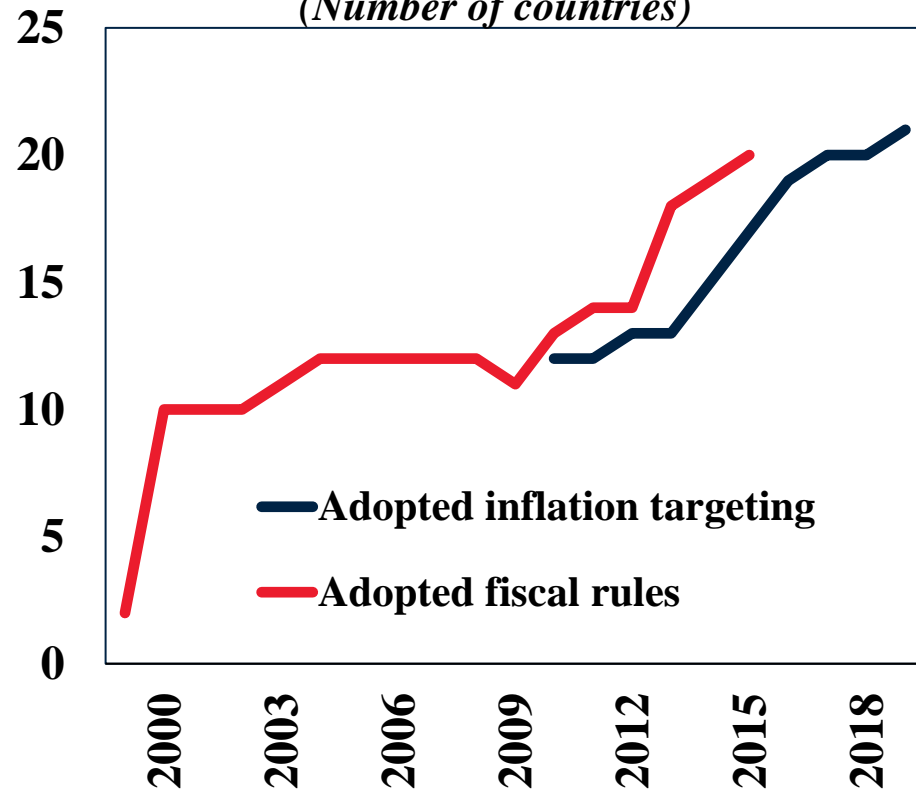
Resource revenues
(Percent of fiscal revenues)
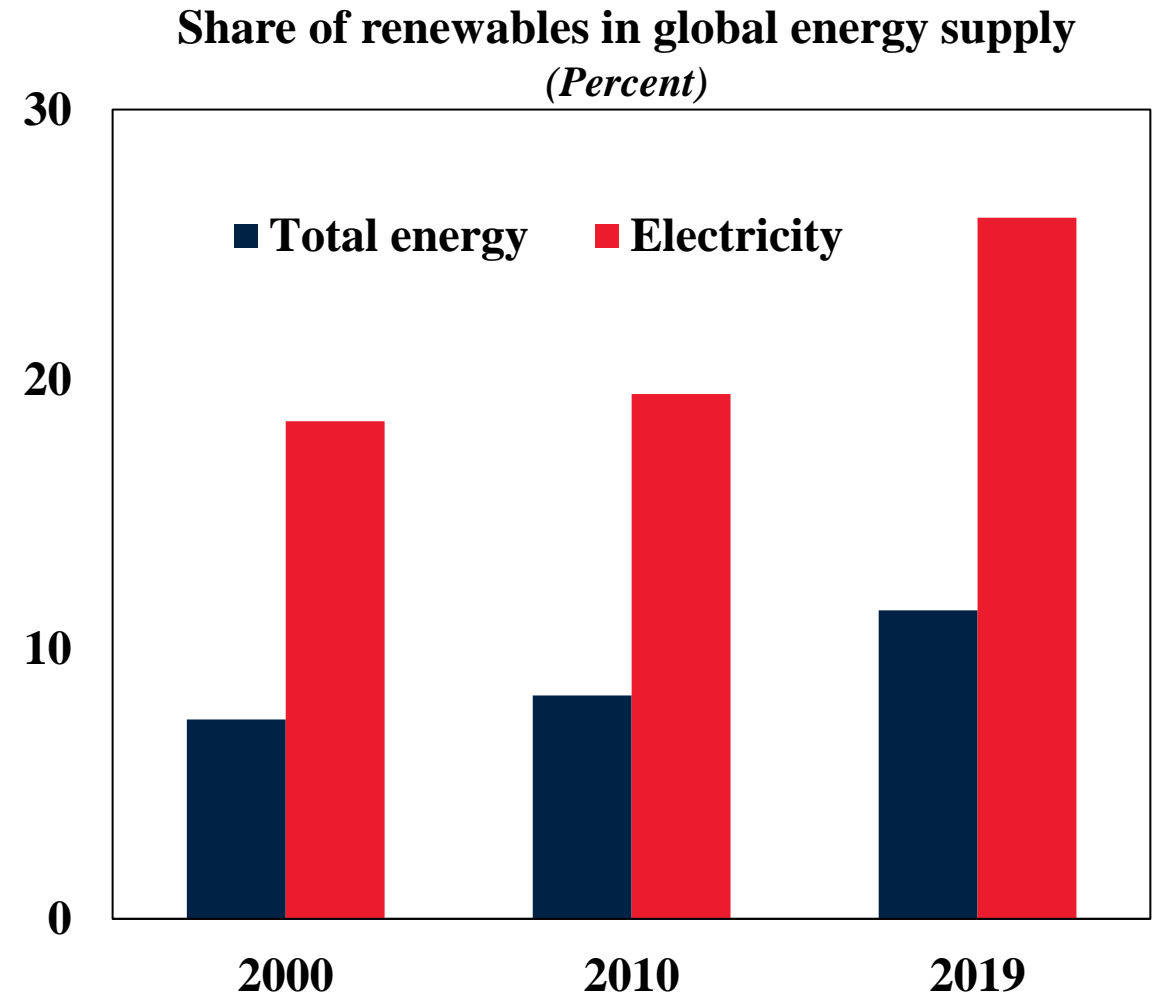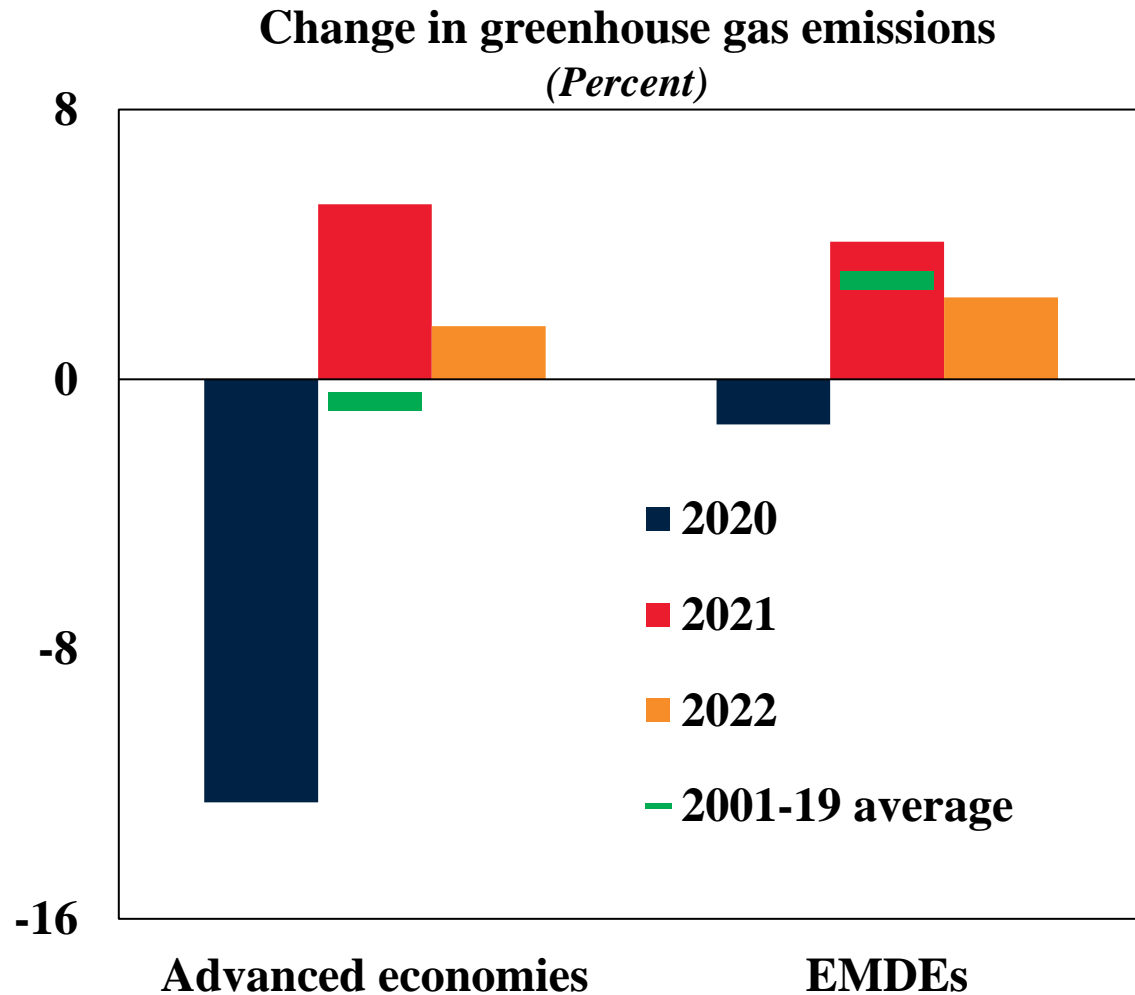
Natural gas, Oil, Copper, Coffee

Sources: Cerutti, Claessens, and Laeven (2017); Dincer, Eichengreen, and Geraats (2019); Ha, Kose, and Ohnsorge (2019); International Monetary Fund; World Bank.
Note: EMDEs = emerging market and developing economies. Left panel: An economy is considered to be implementing a fiscal rule if it has one or more fiscal rules on expenditure, revenue, budget balance, or debt. Inflation targeting as classified in the International Monetary Fund's Annual Report of Exchange Arrangements and Exchange Restrictions. Index of central bank transparency is the sum of the scores for answers to the fifteen questions (min = 0, max = 15) as specified in Dincer, Eichengreen, and Geraats (2019). Right Panel. Unweighted average of resource revenues as a share of fiscal revenues for EMDE commodity exporters of natural gas (5 countries), oil (25 countries), copper (4 countries) and coffee (5 countries). Countries relying on the export of multiple commodities are included in the averages for each commodity. Orange whiskers indicate minimum and maximum range.

Climate Challenges
High Emissions Underscore Need for Green Transition

Change in greenhouse gas emissions
(Percent)

Legend:
- 2020
- 2021
- 2022
- 2001-19 average

Categories: Advanced economies, EMDEs

Share of renewables in global energy supply
(Percent)

Legend:
- Total energy
- Electricity

Categories: 2000, 2010, 2019

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Policy Options for Commodity-Exporting EMDEs
Macroeconomic Policy Frameworks; Structural Measures

Macroeconomic frameworks to manage cycles

- Fiscal frameworks: fiscal rules; stabilization funds
- Monetary policy frameworks: exchange rate flexibility; inflation targeting
- Prudential and regulatory policies: micro- and macroprudential policies; capital flow management measures

Structural policies to reduce commodity reliance

- Export diversification
- National asset diversification: human capital; infrastructure; institutions; business climate
- Subsidy reforms

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Four Questions

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

2 **What are the main risks and policy priorities for EMDEs?** *Multiple downside risks cloud the outlook. Room for macroeconomic policies is limited. Structural policies are needed for green, resilient, and inclusive growth.*

3 **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.*

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Questions & Comments
Thanks!

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

- *<u>One-Stop Source: Global Database of Inflation</u>* – *July 2021*
- *<u>Inflation During the Pandemic "What Happened? What is Next?"</u>* – *July 2021*

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

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