Global
Economic
Prospects

Is a Global Recession Imminent?

October 2022

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Three Questions

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

2 Which challenges does this global outlook present for EMDEs?

3 What are the policy implications?

** EMDEs = Emerging Market and Developing Economies*

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Three Questions

1

What are short-term prospects for the global economy? *Steep growth slowdown, persistent elevated inflation. With downside risk of global recession.*

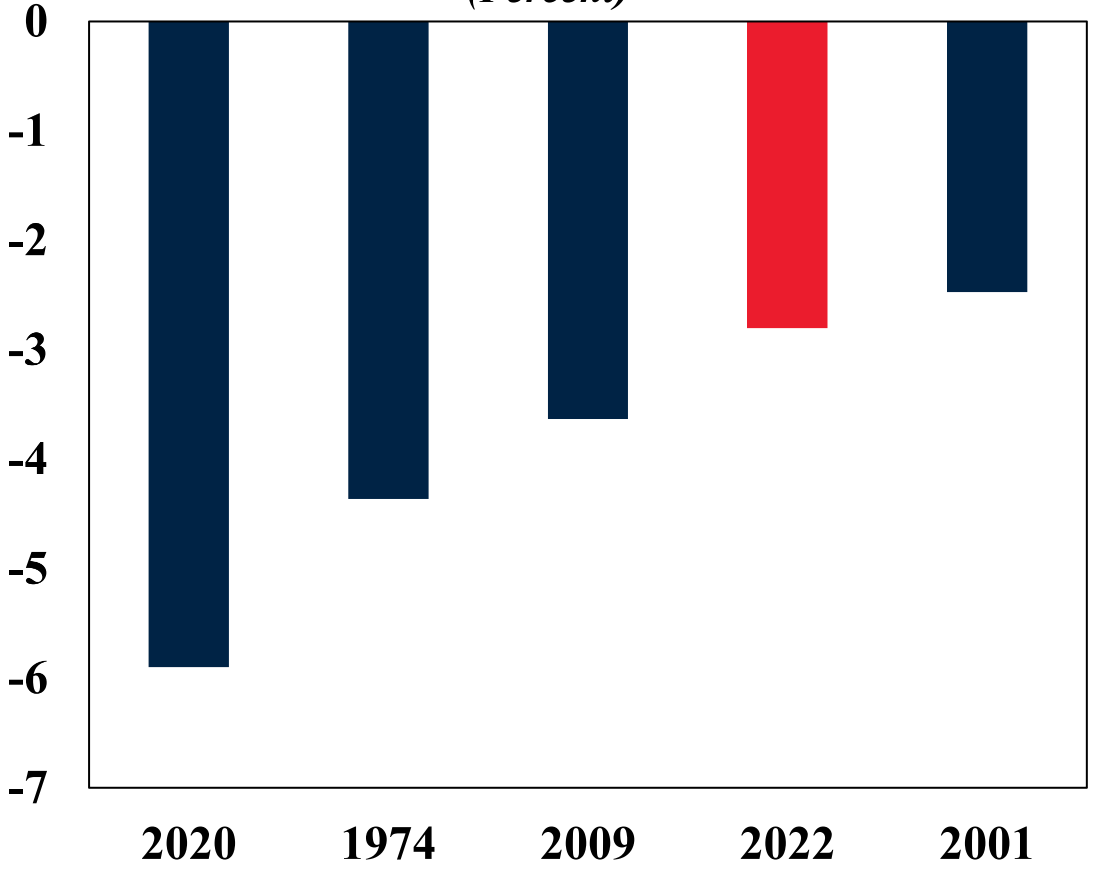
** EMDEs = Emerging Market and Developing Economies*

Global Growth

Steep Growth Slowdown

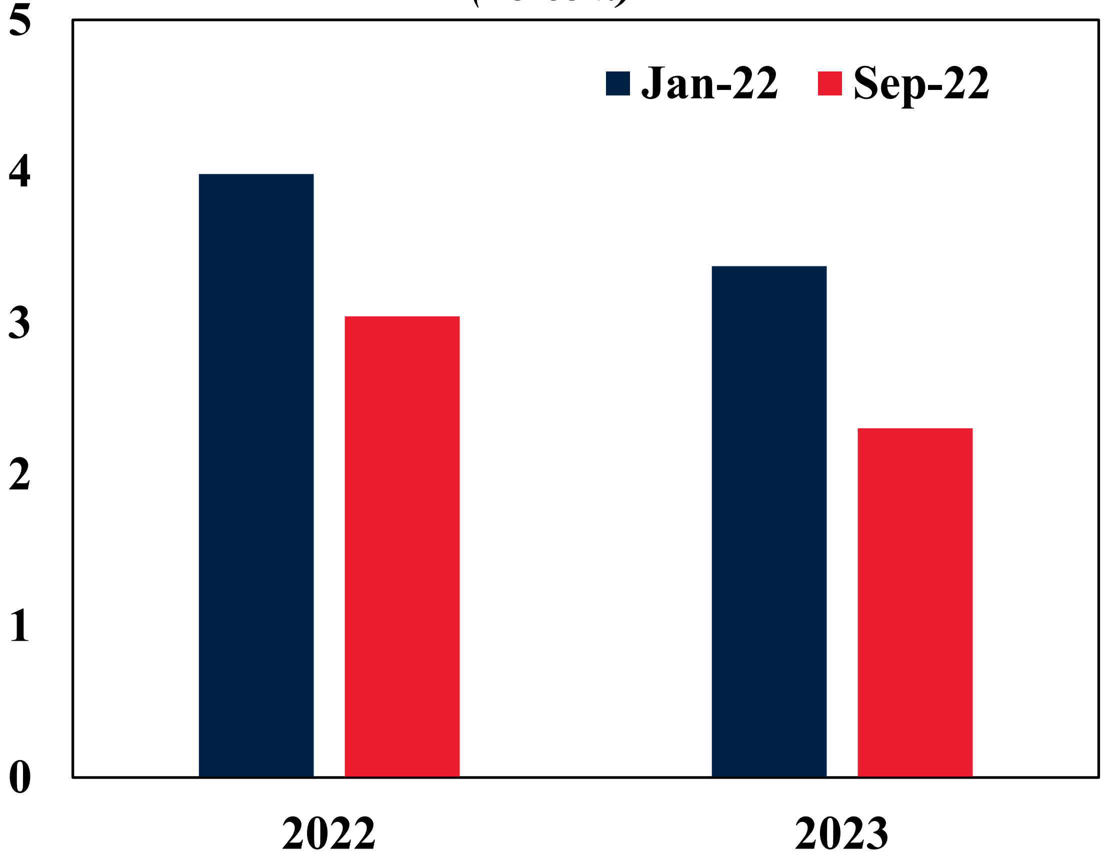
Steepest global growth slowdowns since 1970

(Percent)



Global GDP growth

(Percent)



Sources: Consensus Economics; World Bank.

Note: EMDEs = emerging market and developing economies. Left Panel: The five largest decline in global growth (from the previous year) since 1970. Right Panel. Consensus global growth forecasts for 2022 and 2023, based on monthly consensus forecasts in January and September 2022. Sample covers 86 countries – 33 advanced economies and 53 EMDEs.

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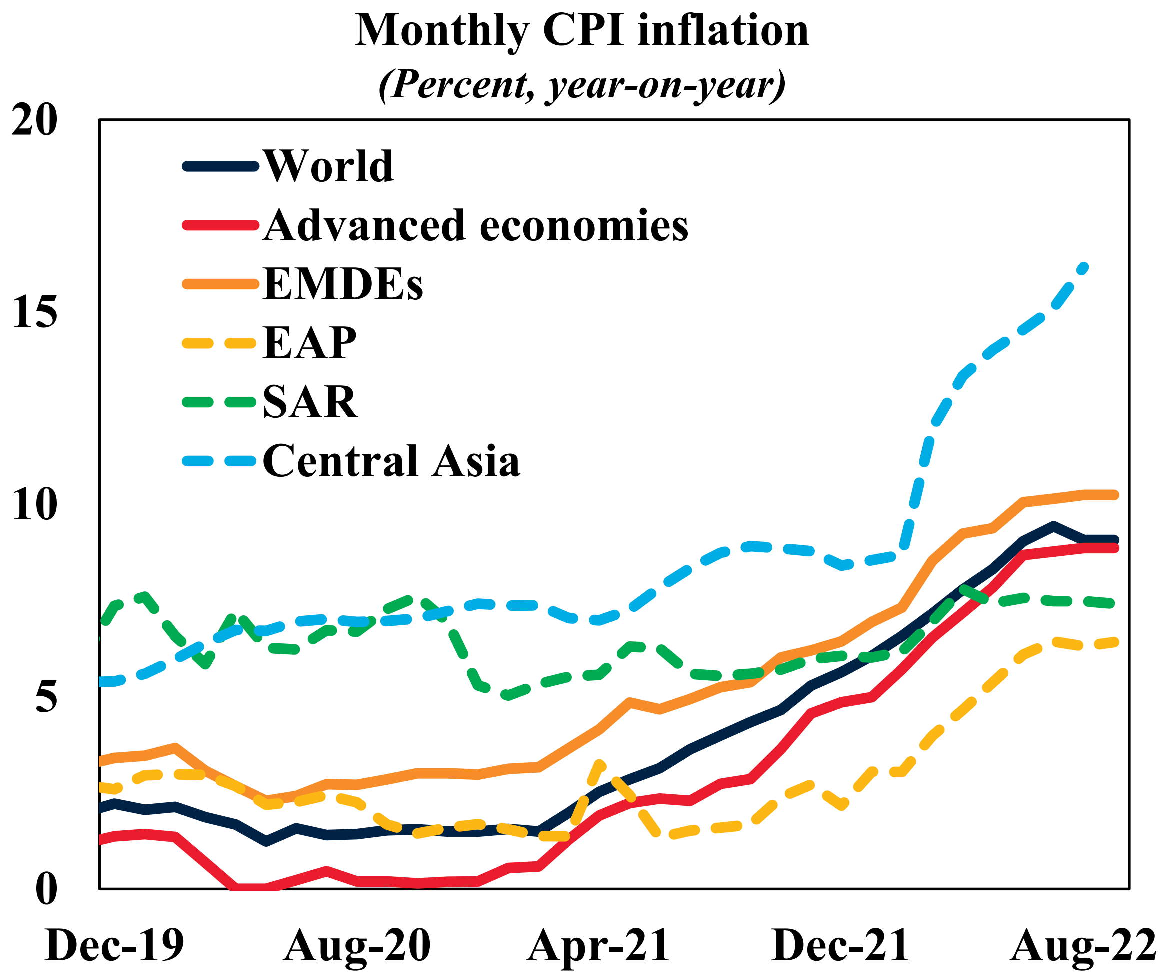
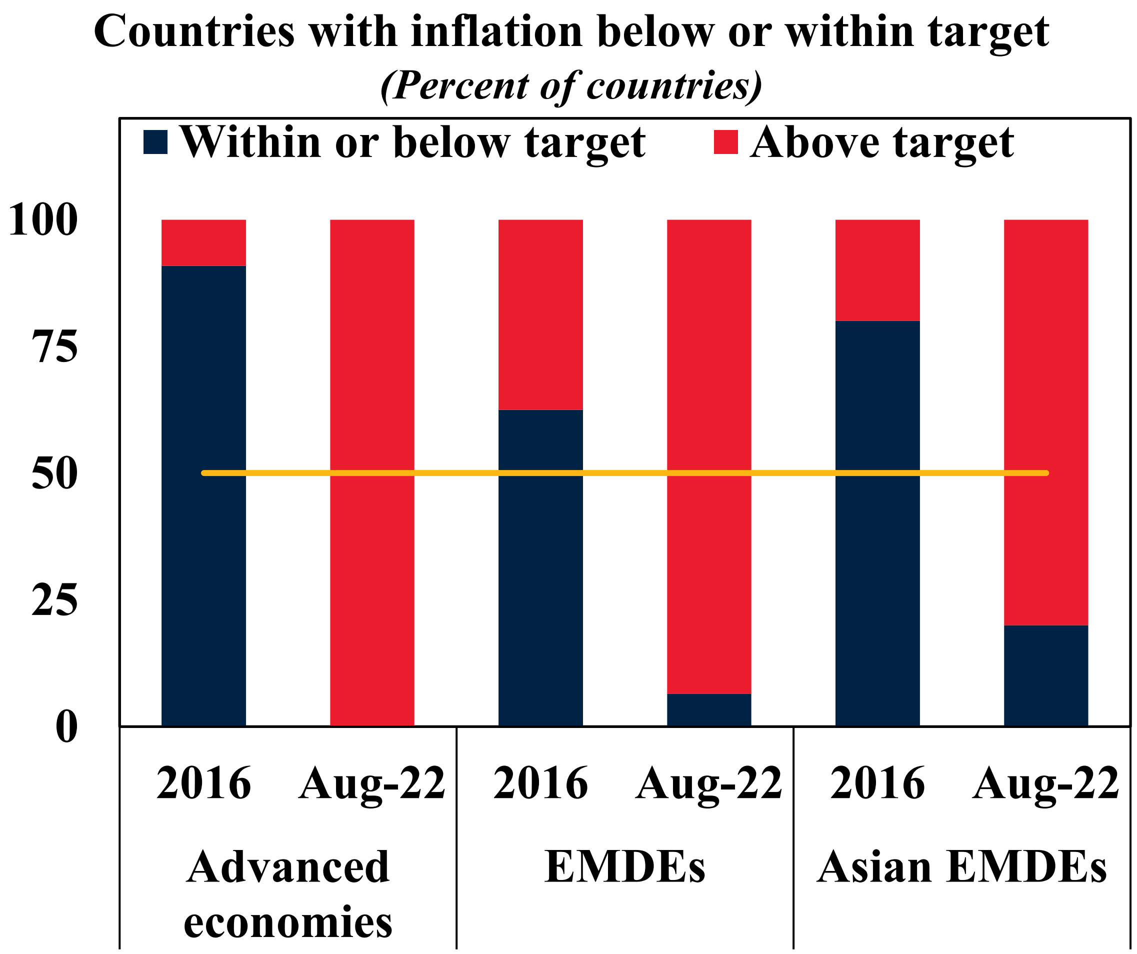
Inflation, 2016 versus 2022

From Record-Lows to Record-Highs





Sources: Haver Analytics; World Bank.

Note: EMDEs = Emerging market and developing economies. EAP = East Asia and Pacific SAR = South Asia.

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, of which 5 are EAP, 3 are SAR and Kazakhstan for Central Asia. Data updated through September 2022. Left Panel. Bars show the share of inflation-targeting economies (in percent) with average inflation during the course of the year (or month) below or within the target range. Sample size includes 29 EMDEs and 12 advanced economies in 2022, and 24 EMDEs and 11 advanced economies in 2016. ADB countries include Indonesia, India, Kazakhstan, Philippines, and Thailand.

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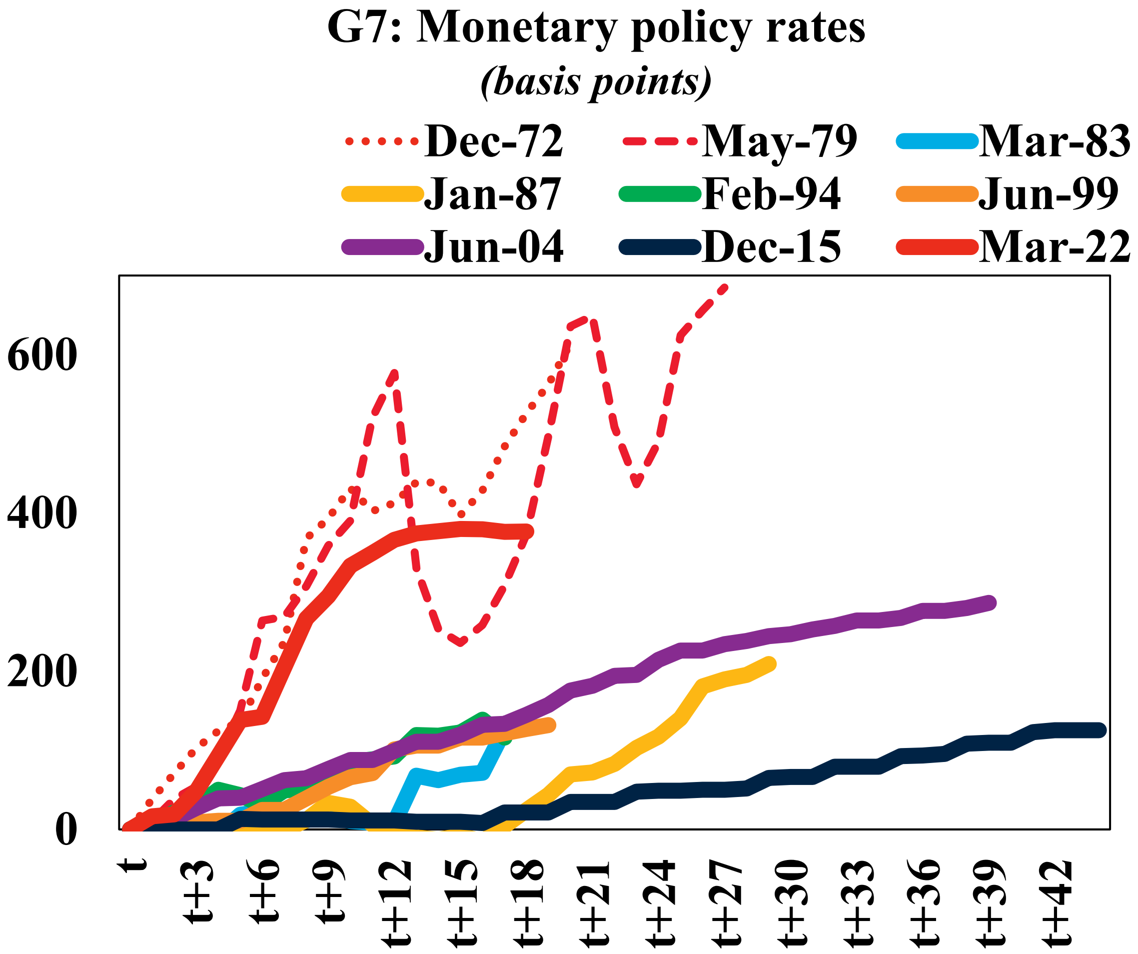
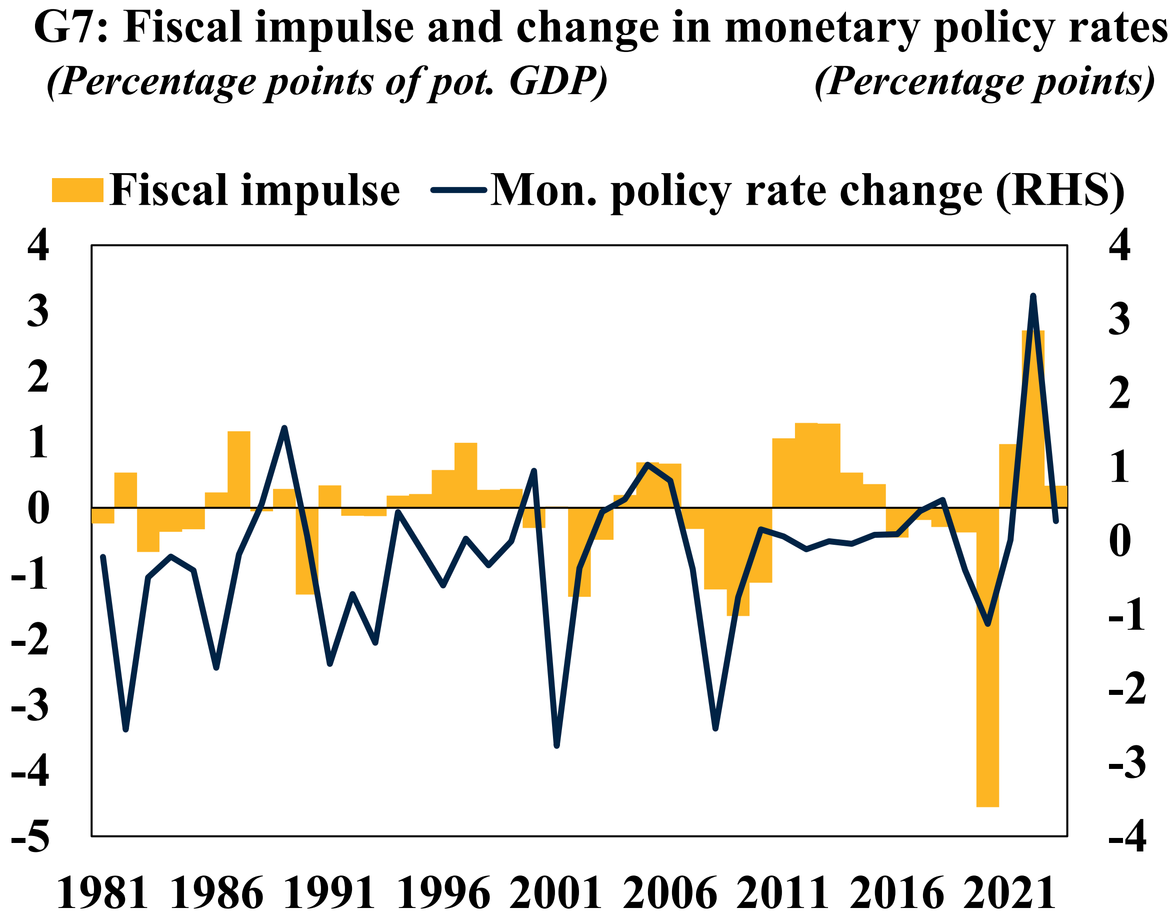
Macroeconomic Policies

Sharpest Policy Tightening in Four Decades





Sources: IMF GFS and WEO; U.S. CBO; FRED database; World Bank.
Left Panel: GDP-weighted average of G7 monetary policy rates in past U.S. Federal Reserve tightening cycles. Right Panel. Blue line shows real GDP-weighted average of changes in structural fiscal balance (fiscal impulse) from the previous year, in G7 countries. Data for Germany 1980-1990, Italy 1984-1987, and Japan 1980-1993 estimated based on output gaps (from latest IMF WEO) and the assumption of unit-elastic revenues and inelastic expenditures to GDP. Red line shows real GDP-weighted average of monetary policy rate changes from the previous year, in G7 countries.

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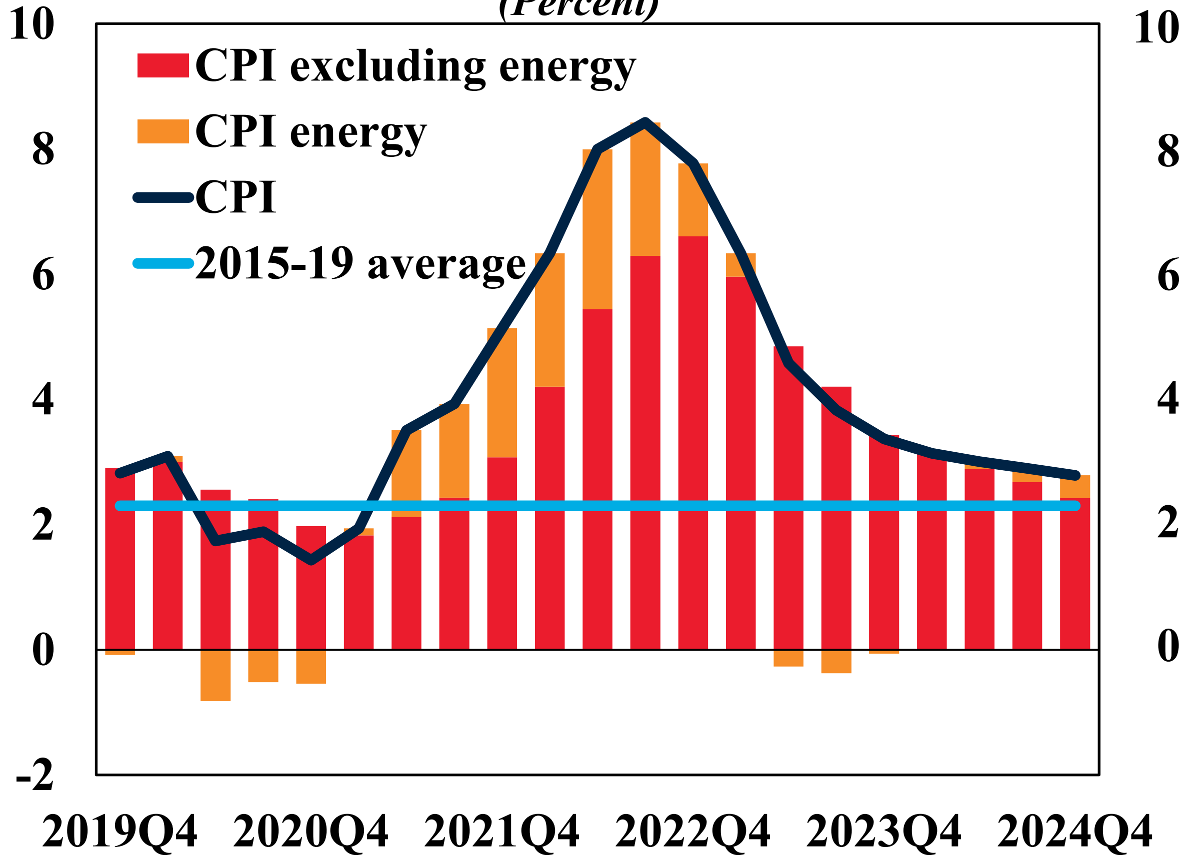
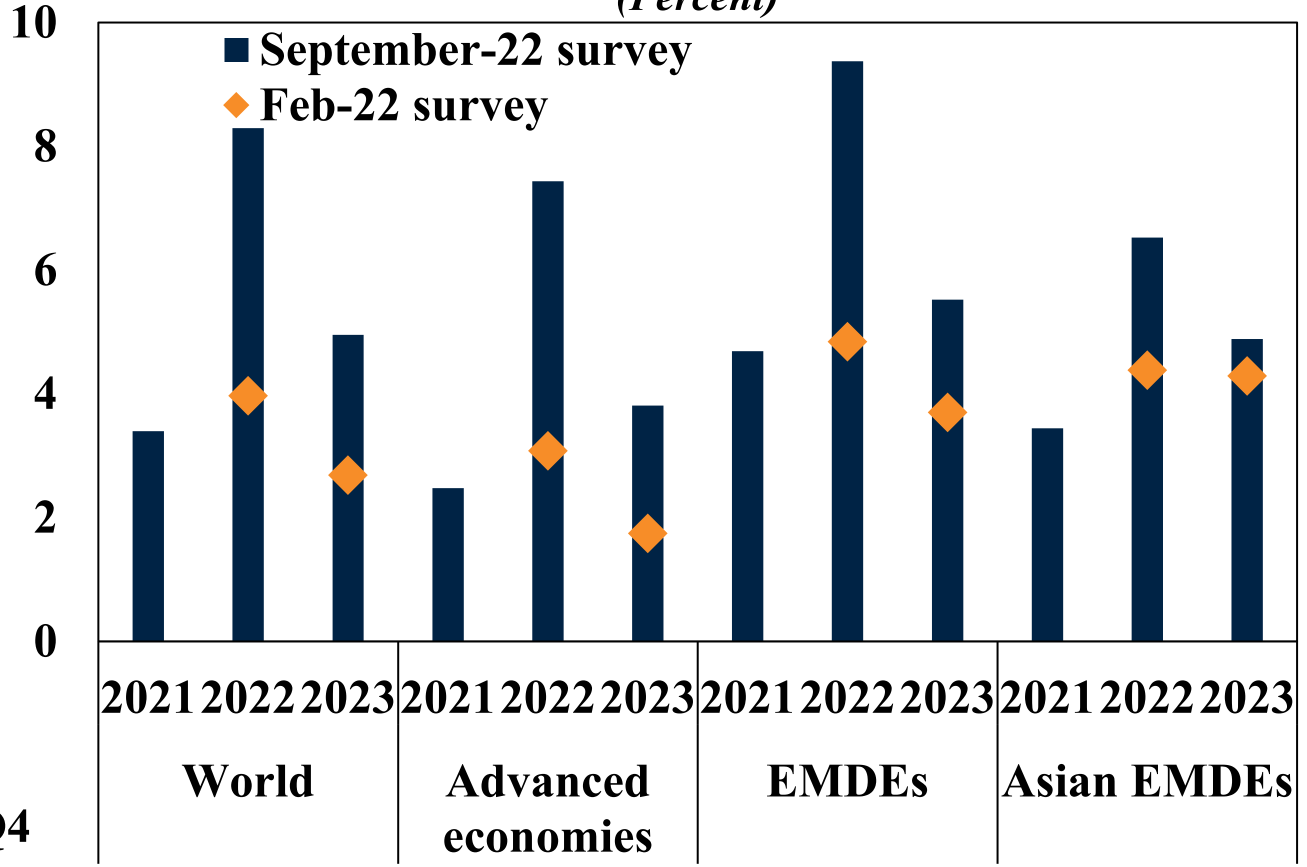
Inflation Prospects

Inflation Will Ease, But Not Enough To Meet Targets

Model-based global CPI inflation projection
(Percent)



Survey-based inflation expectations
(Percent)



Sources: Consensus Economics; Oxford Economics Model; World Bank.
Note: EMDEs = emerging market and developing economies.
Left Panel: Model-based projection of quarterly global year-over-year CPI inflation using Oxford Economics Global Economic Model. Projection embeds the updated global oil price forecast.
Right Panel. Figure shows the median one-year-ahead headline CPI inflation expectations for 32 advanced economies, 51 EMDEs and 12 Asian EMDEs derived from February, and September 2022 Consensus Economics surveys.

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Scenarios:

Baseline, Global Slowdown, Global Recession

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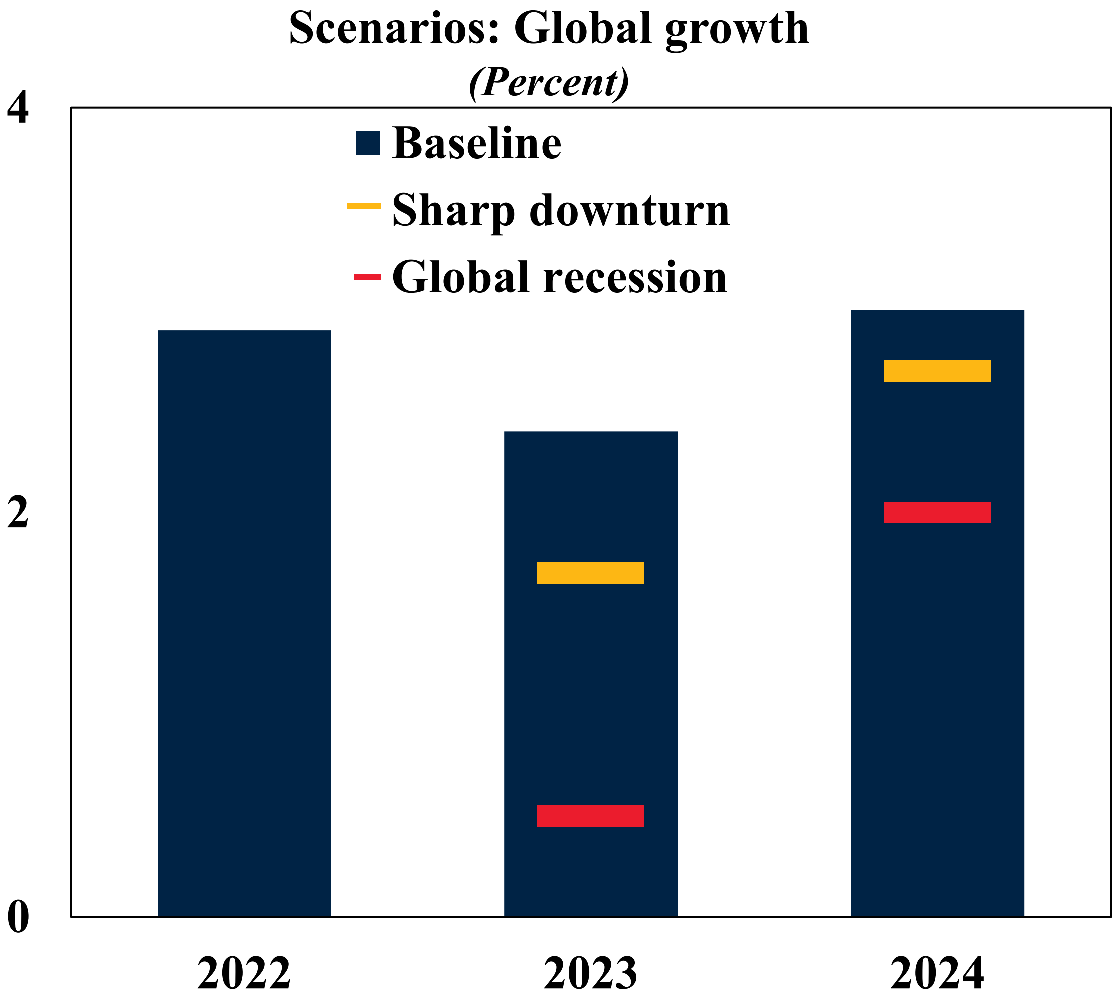
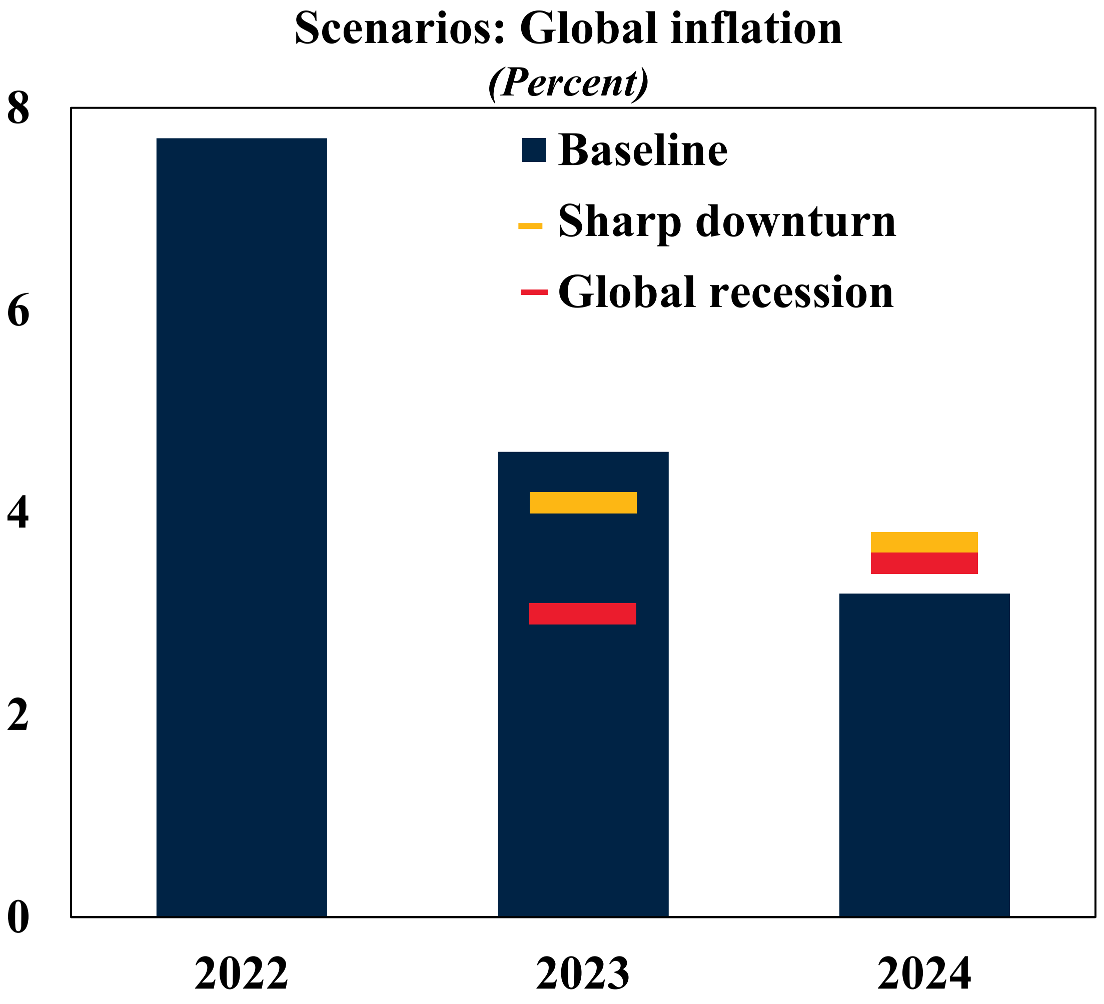
Risk to Global Growth

Global Downturn or Recession





Sources: Consensus Economics; Guenette, Kose, and Sugawara (2022); World Bank.
Note: These scenarios are produced using the *Oxford Economics Global Economic Model* (OEM).

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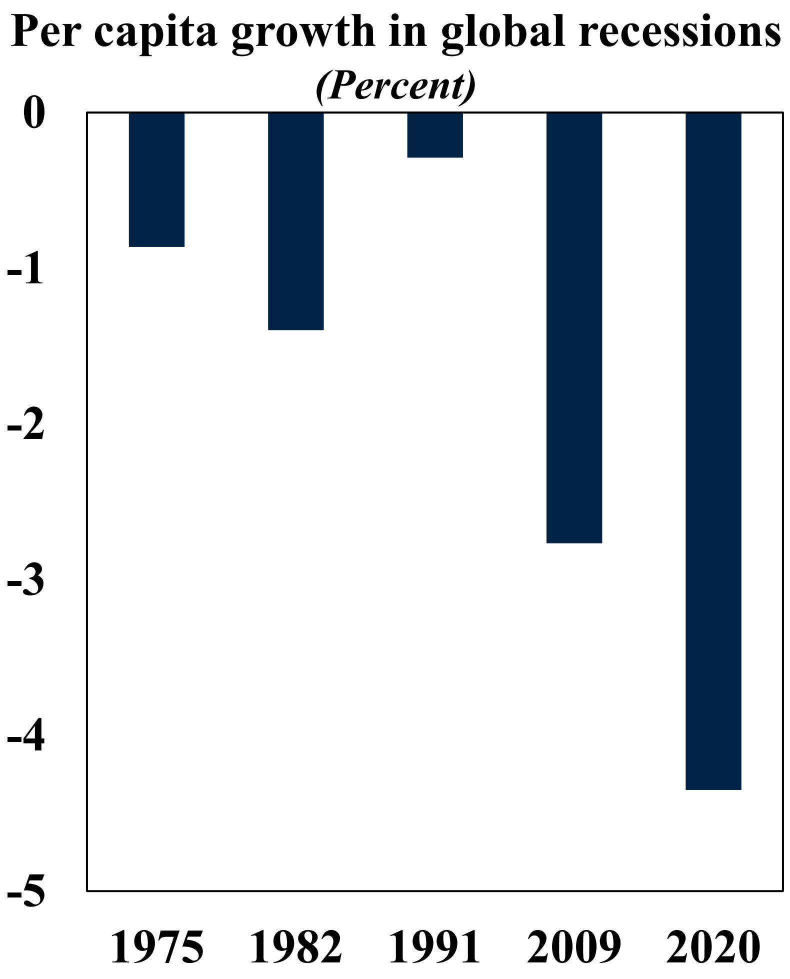
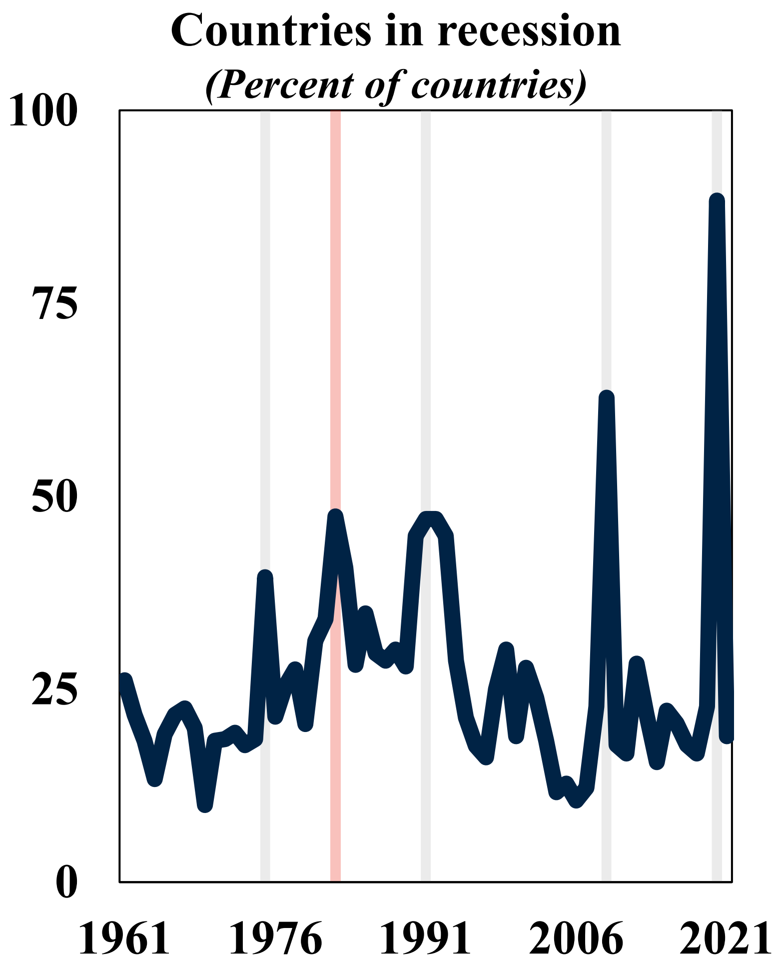
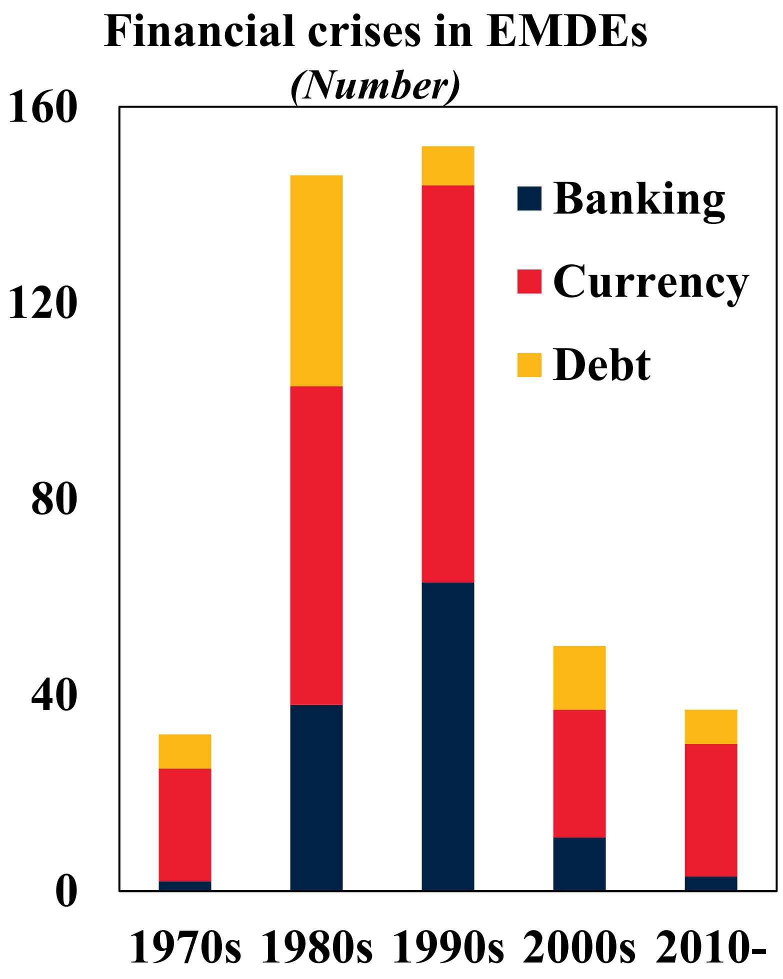
End of Stagflation

Global Recession, EMDE Financial Crises







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.

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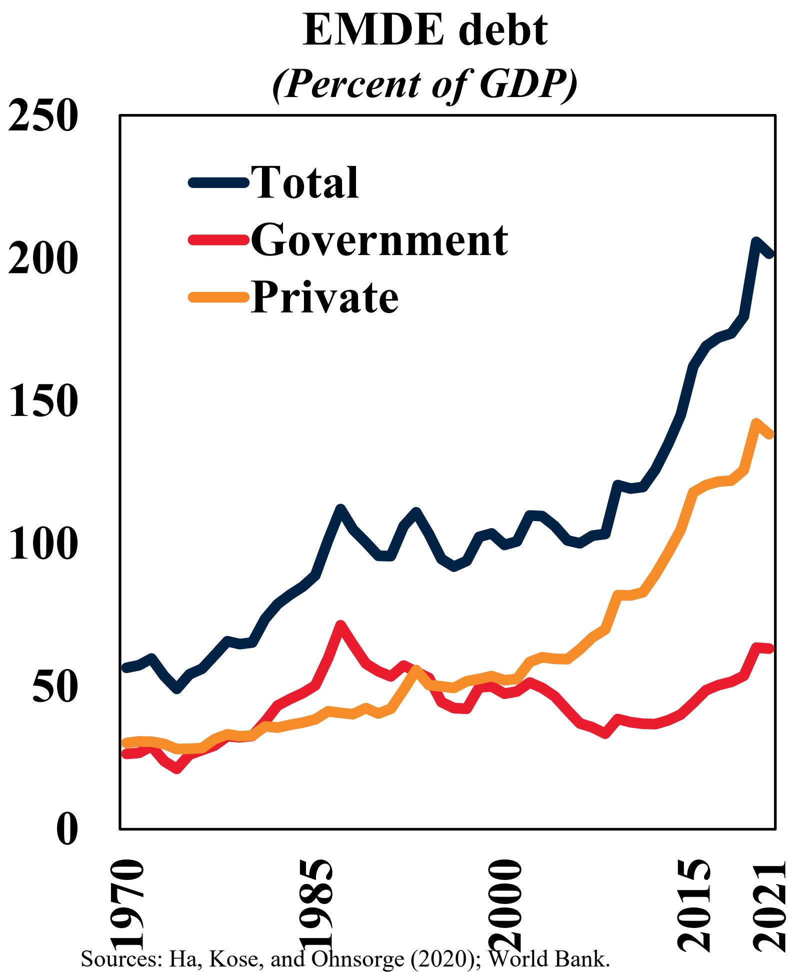
Three Questions

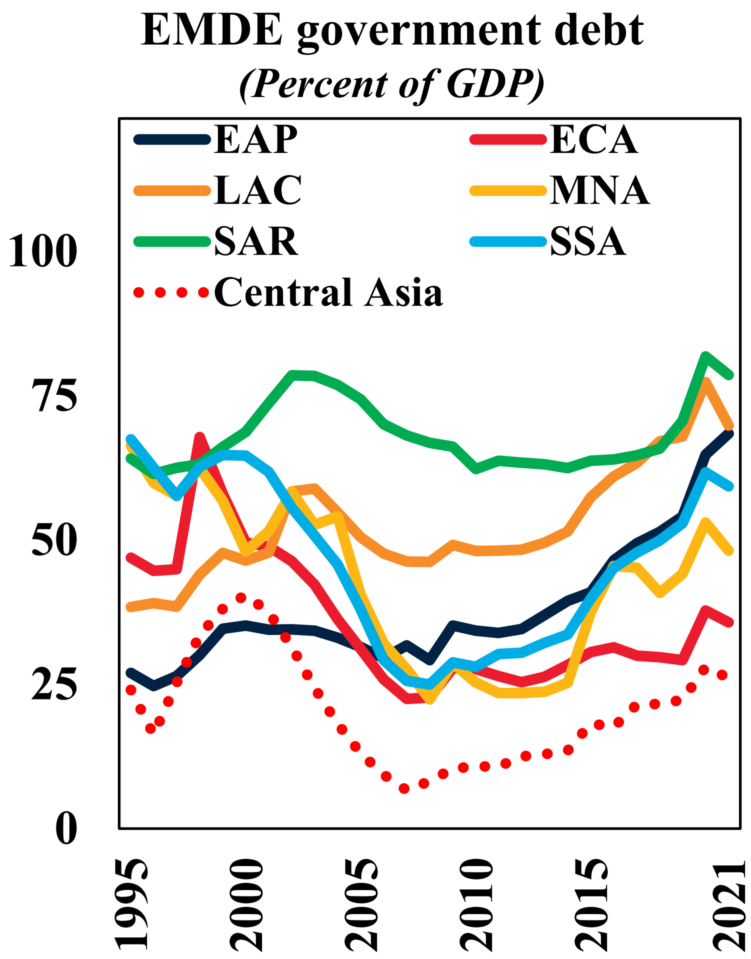
2 **Which challenges does this global outlook present for EMDEs?** *A risk of a repeat of the 1970s when stagflation ended with a series of financial crises in EMDEs.*

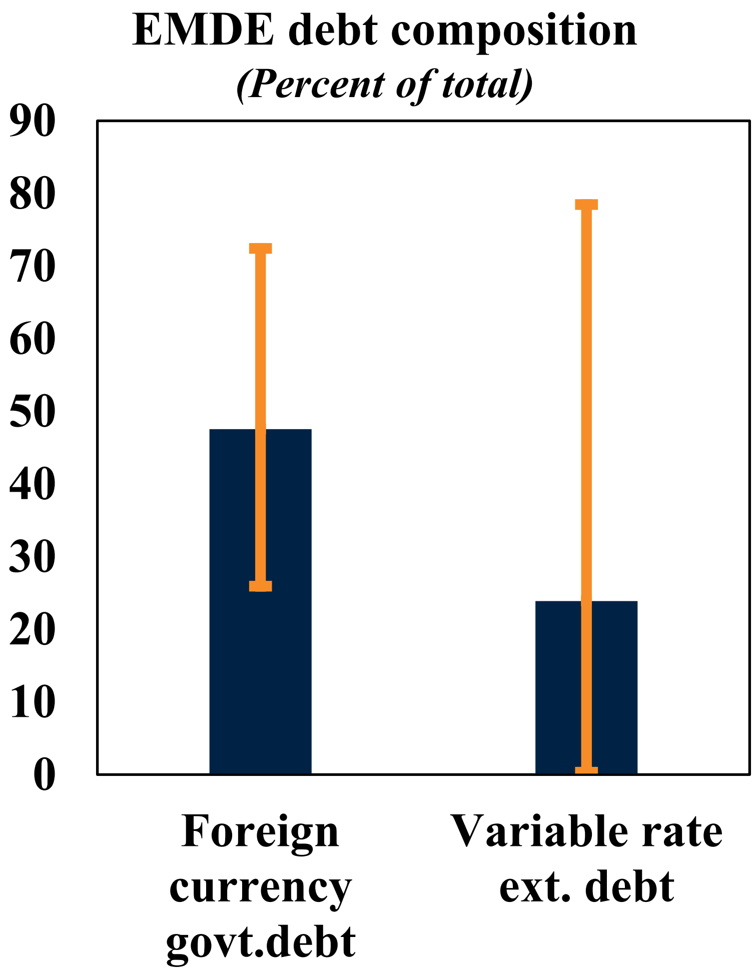
** EMDEs = Emerging Market and Developing Economies*

Financial Stability Risks

Record-High Debt in EMDEs







Sources: Ha, Kose, and Ohnsorge (2020); World Bank.

Note: EMDEs = Emerging market and developing economies. EAP=East Asia and Pacific; ECA=Europe and Central Asia; LAC=Latin America and the Caribbean; MNA= Middle East and North Africa; SAR = South Asia; SSA=Sub-Saharan Africa

Left Panel: Debt as percent of GDP. Sample size varies between years based on data availability. Minimum sample size is 71 and maximum 153. Total is a sum of government and private debt. Center Panel: EMDE debt as percent of GDP, by region. Sample size varies between years based on data availability. Central Asia includes Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. Right Panel: Averages of foreign currency share of government debt (31 EMDEs) and variable rate share of external debt. Orange whiskers show the range of Asian EMDEs (3 countries for foreign currency government debt [Bangladesh, Fiji and Indonesia] and 18 countries for variable rate ext. debt).

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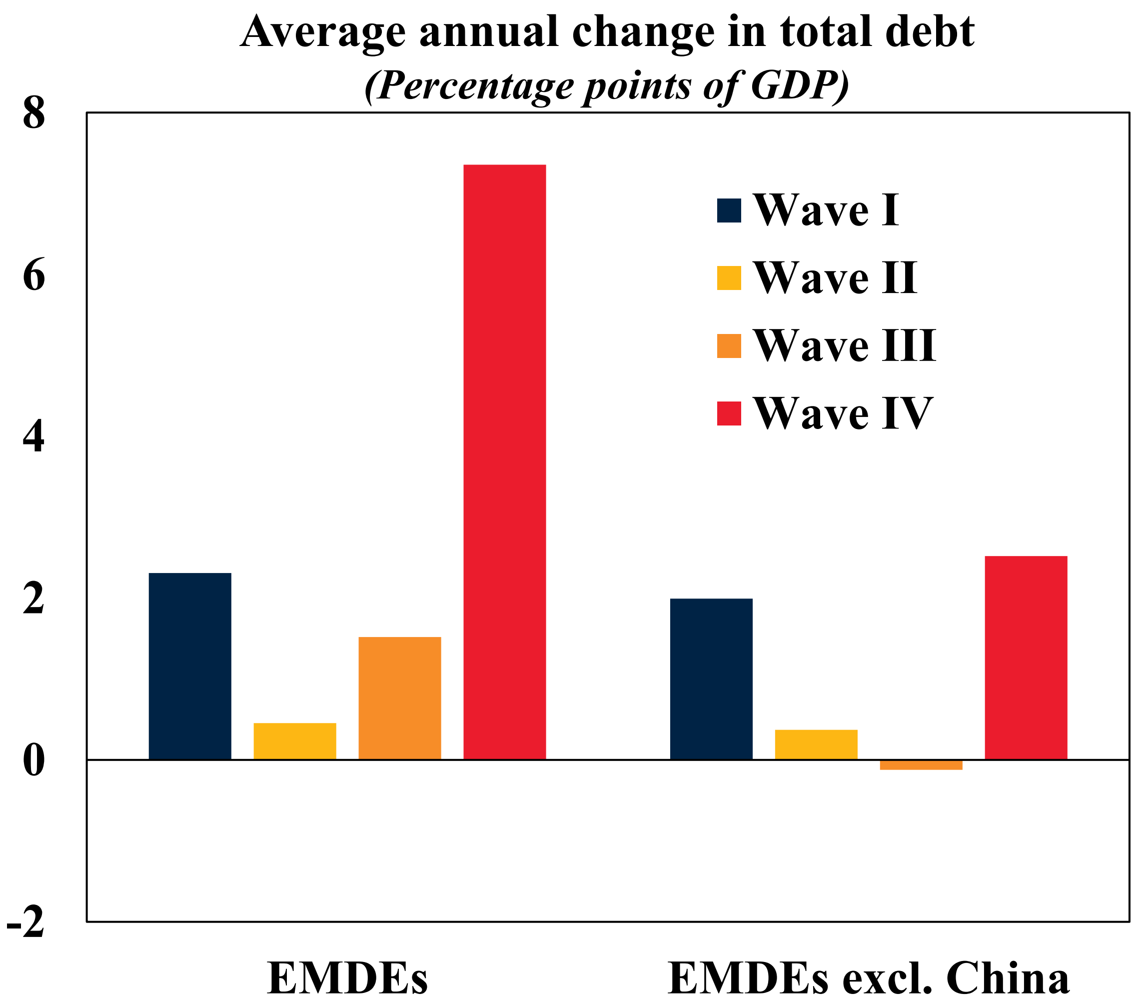
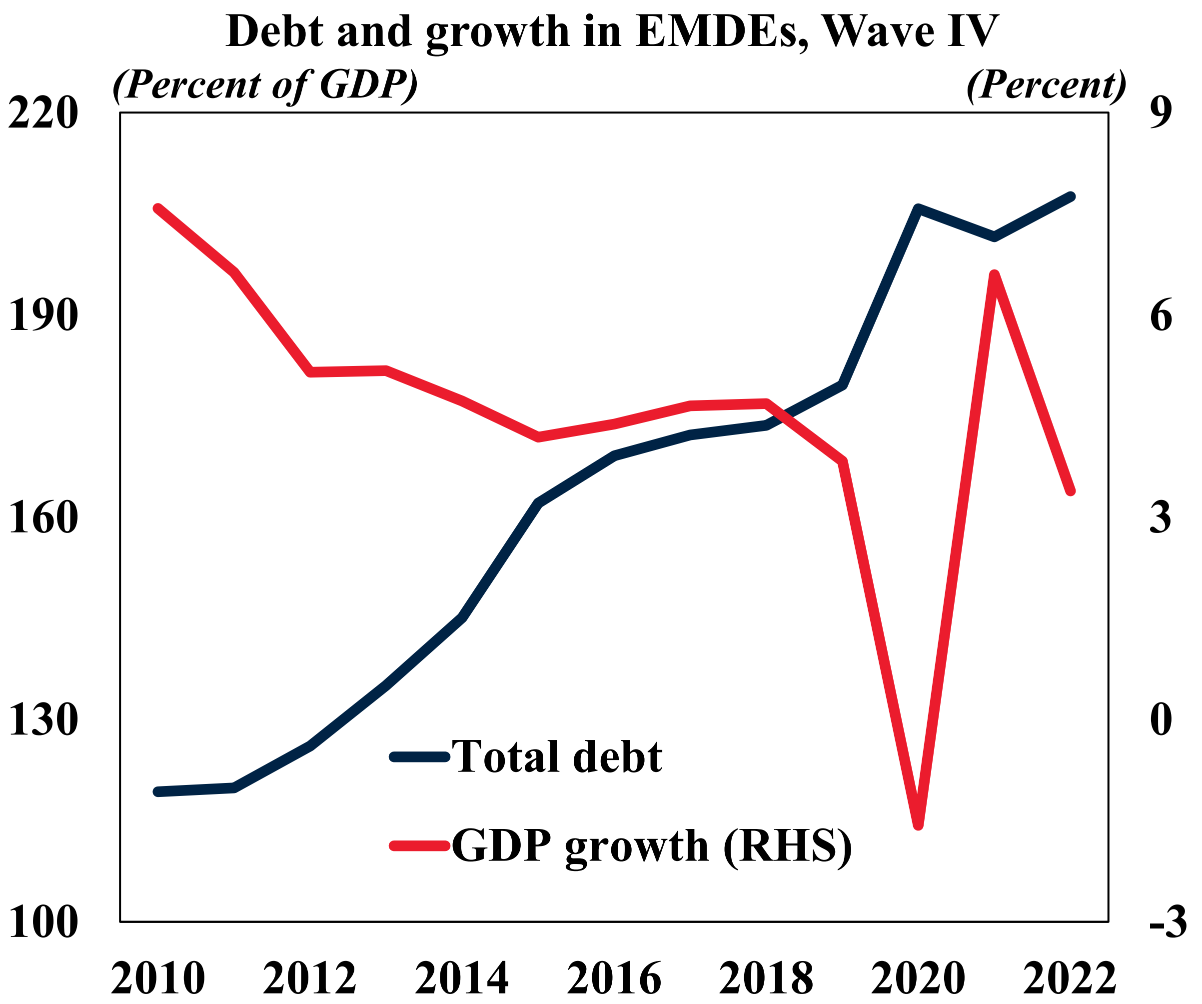
Current (Fourth) Wave of Debt

Largest and Fastest Increase; Rising Debt with Growth Slowdown





Sources: International Monetary Fund; Kose et al. (2021; 2022); World Bank.
Note: Total debt is defined as a sum of government and private debt. Wave I is over 1970-89, Wave II is over 1990-2001, Wave III is over 2002-09, and Wave IV starts in 2010. Aggregates computed with current GDP in U.S. dollars as a weight. Left Panel. Rate of changes calculated as changes in total debt-to-GDP ratios over the duration of waves, divided by the number of years in each of them. The last observation is 2022. Right Panel. GDP growth is real GDP growth, in percent, and taken from June 2022 *Global Economic Prospects*.

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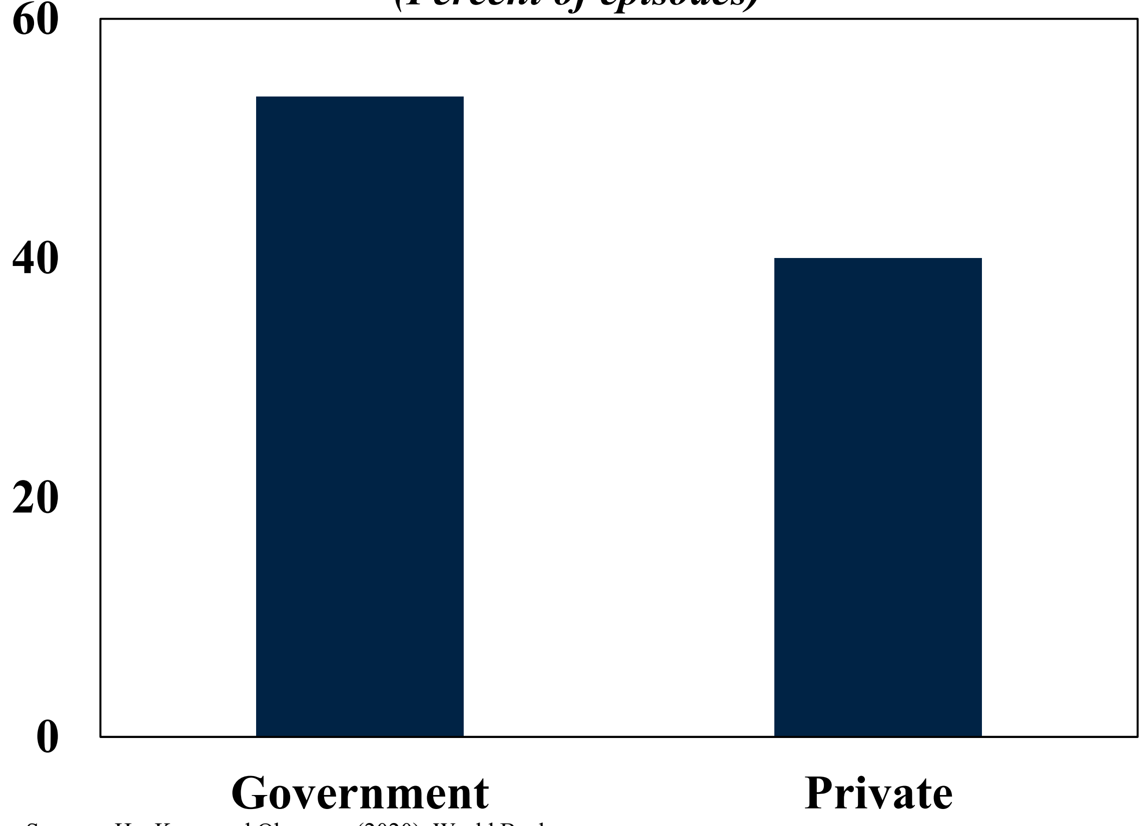
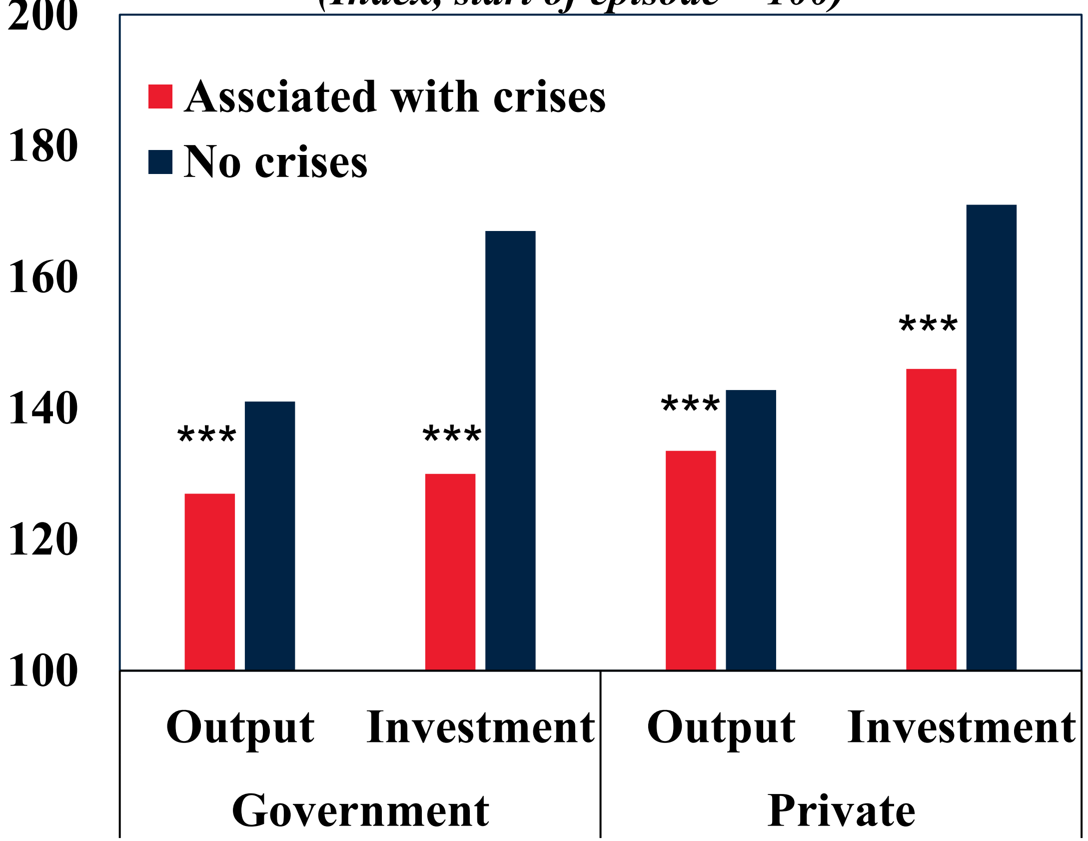
Debt Crises

Associated with Rapid Debt Accumulation, Economically Costly

Debt accumulation episodes associated with crises
(Percent of episodes)



Output and investment eight years after debt accumulation episodes end
(Index, start of episode = 100)



Sources: Ha, Kose, and Ohnsorge (2020); World Bank.
Left Panel: Notes: Episodes associated with crises are those that experience financial crises (i.e., banking, currency, and debt crises, as in Laeven and Valencia 2018) during or within two years after the end of episodes. Right Panel: Note: Median based on balanced samples. Year "t" refers to the beginning of rapid government debt accumulation episodes. Episodes associated with crises are those that experienced financial crises (banking, currency, and debt crises) during or within two years after the end of episodes. The information on crises is taken from Laeven and Valencia (2018). "*", "**", and "***" denote that medians between episodes associated with crises and those with no crises are statistically different at 10 percent, 5 percent, and 1 percent levels, respectively, based on Wilcoxon rank-sum tests.

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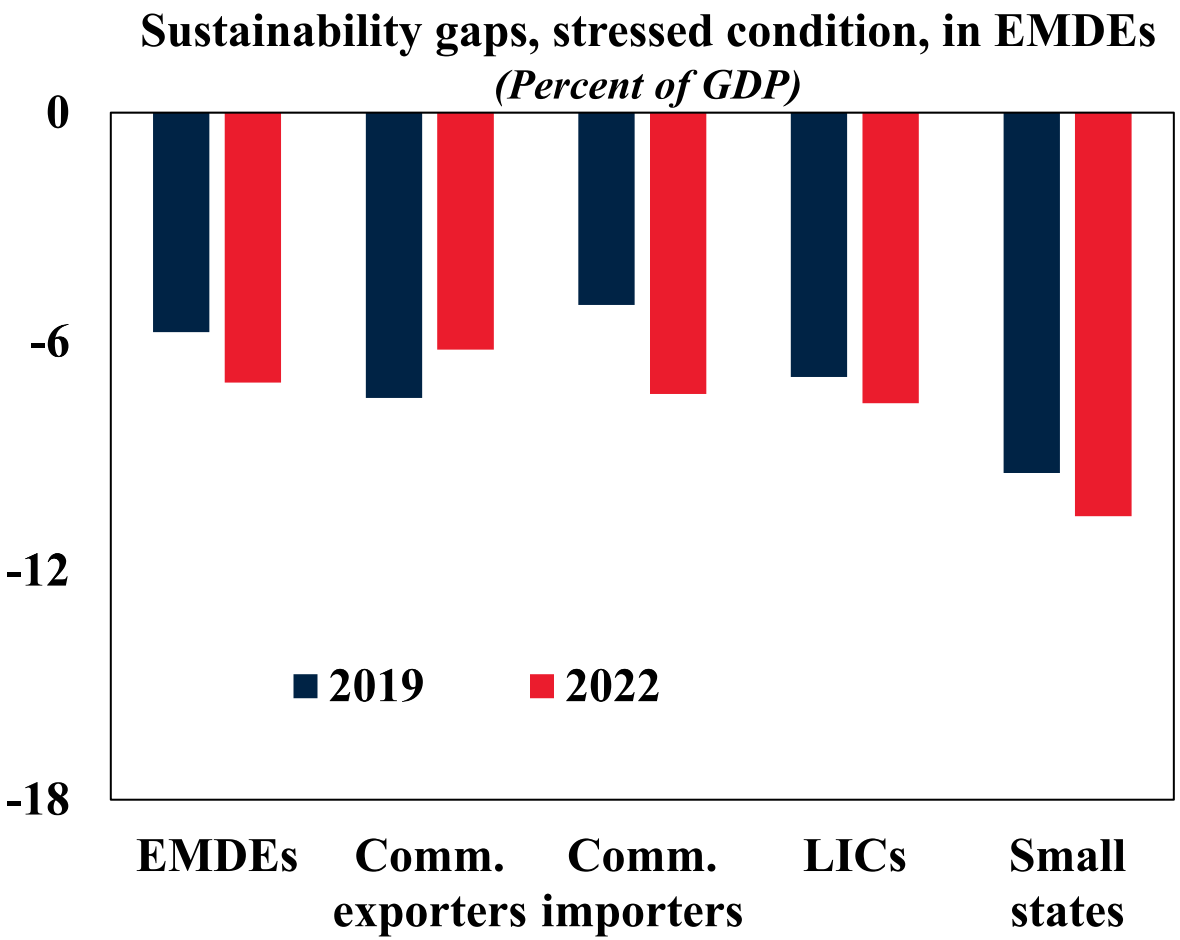
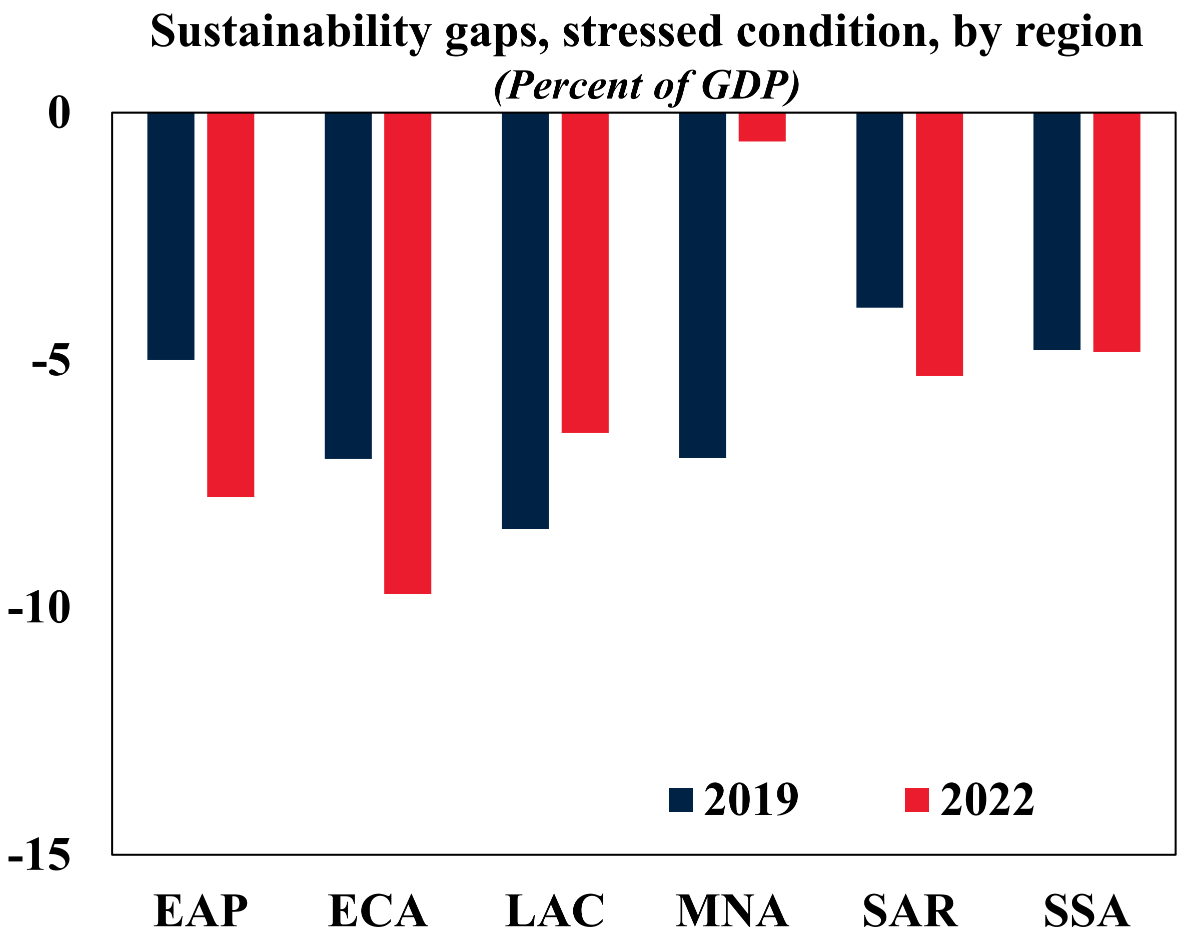
Financial Stress Conditions:

Return to Debt Sustainability Would Require Sizable Consolidation





Sources: Kose et al. (2022); World Bank.

Note: EAP, ECA, LAC, MNA, SAR, and SSA refer to, respectively, East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa. Sustainability gaps are measured as the difference between the primary balance and the debt-stabilizing primary balance under the stressed condition. A negative bar indicates government debt is on a rising trajectory; a positive gap indicates that government debt is on a declining trajectory. Aggregates computed with current GDP in U.S. dollars as a weight. Sample includes 81 EMDEs, including 49 commodity exporters and 32 commodity importers, 8 low-income countries (LICs), 7 small states, as well as 11 EAP, 14 ECA, 20 LAC, 8 MNA, 6 SAR, and 22 SSA countries.

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Three Questions

3 **What are the policy implications?** *Preserve financial stability, contain inflation, ensure complementary fiscal and structural policies.*

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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 during the downturn

Global Policy Priorities

Alleviate Short-Term Pressures; Build Long-Term Foundations

Mitigate the effects of the war in Ukraine

- Support humanitarian relief efforts
- Alleviate food insecurity in vulnerable countries
- Undertake reconstruction efforts in areas devastated by the war in Ukraine

Support green, resilient, and inclusive recovery

- Accelerate vaccine rollout, strengthen pandemic preparedness
- Provide debt relief where needed
- Facilitate energy transition away from fossil fuels
- Bolster rules-based international economic order to guard against fragmentation of trade, investment, and financial networks

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2 **Which challenges does this global outlook present for EMDEs?** *A risk of a repeat of the 1970s when stagflation ended with a series of financial crises in EMDEs.*

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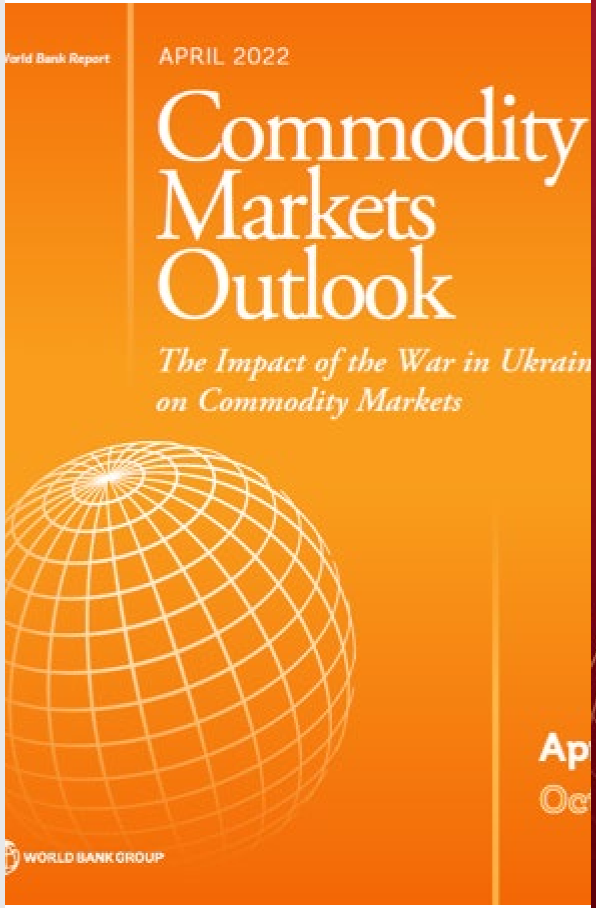

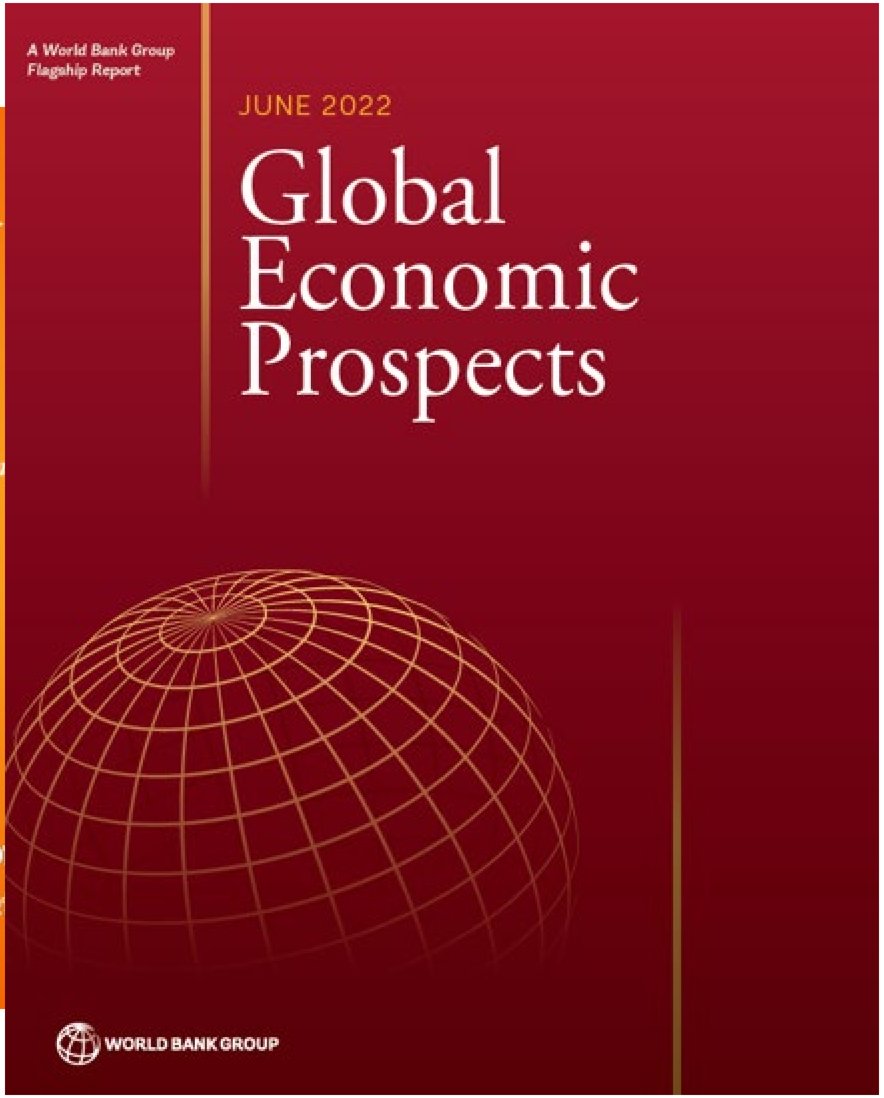

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