Is a Global Recession Imminent?

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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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Global Growth

Steep Growth Slowdown

Steepest global growth slowdowns since 1970

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>-7</td>
</tr>
<tr>
<td>1974</td>
<td>-6</td>
</tr>
<tr>
<td>2009</td>
<td>-5</td>
</tr>
<tr>
<td>2022</td>
<td>-4</td>
</tr>
<tr>
<td>2001</td>
<td>-3</td>
</tr>
</tbody>
</table>

Global GDP growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan-22</th>
<th>Sep-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>2023</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

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.
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.
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.
Inflation Prospects

Inflation Will Ease, But Not Enough To Meet Targets

Sources: Consensus Economics; Oxford Economics Model; World Bank.

Note: EMDEs = emerging market and developing economies.


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.
Scenarios:
Baseline, Global Slowdown, Global Recession
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).
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.
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).
Current (Fourth) Wave of Debt
Largest and Fastest Increase; Rising Debt with Growth Slowdown

Average annual change in total debt
(Percentage points of GDP)

Debt and growth in EMDEs, Wave IV
(Percent of GDP)
(Percent)

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.
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.
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.
Three Questions

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

* EMDEs = Emerging Market and Developing Economies
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
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.

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

*EMDEs = Emerging Market and Developing Economies*
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   Evolution, Drivers, and Policies
   Editors: Jongrim Ha, M. Ayhan Kose, and Franziska Ohnsorge

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   The Impact of the War in Ukraine on Commodity Markets
   April 2022

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