GLOBAL GROWTH PROJECTIONS

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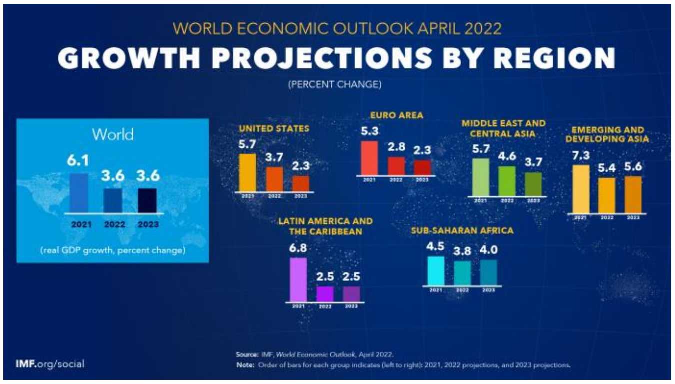
The war in Ukraine has triggered a costly humanitarian crisis that demands a peaceful resolution. At the same time, economic damage from the conflict will contribute to a significant slowdown in global growth in 2022 and add to inflation. Fuel and food prices have increased rapidly, hitting vulnerable populations in low-income countries hardest.

1. World Economic Outlook 2022

Global growth is projected to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. This is 0.8 and 0.2 percentage points lower for 2022 and 2023 than projected in January. Beyond 2023, global growth is forecast to decline to about 3.3 percent over the medium term. War-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7 percent in advanced economies and 8.7 percent in emerging market and developing economies—1.8 and 2.8 percentage points higher than projected last January. Multilateral efforts to respond to the humanitarian crisis, prevent further economic fragmentation, maintain global liquidity, manage debt distress, tackle climate change, and end the pandemic are essential.[1]



[1] World Economic Outlook, April 2022: War Sets Back The Global Recovery (imf.org)

Emerging and Developing Europe, including Russia and Ukraine, will see GDP contract by approximately 2.9 percent in 2022, before expanding by 1.3 percent in 2023. The main drivers of the contraction are the impact of higher energy prices on domestic demand and the disruption of trade, especially for Baltic states, whose external demand will decline along with the contraction in Russia's economy. Advanced Europe: The main channel through which the war in Ukraine and sanctions on Russia affect the euro area economy is rising global energy prices and energy security. Because they are net energy importers, higher global prices represent a negative terms-of-trade shock for most European countries, translating to lower output and higher inflation. Supply chain disruptions have also hurt some industries—including the automobile sector—with the war and sanctions further hindering production of key inputs. As a consequence, euro area GDP growth in 2022 is revised down to 2.8 percent (1.1 percentage points lower than in January), with the biggest downgrades in economies such as Germany and Italy with relatively large manufacturing sectors and greater dependence on energy imports from Russia. Across the euro area, the hit to activity is partially offset by increased fiscal support.

Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	2021	PROJECTIONS 2022	PROJECTIONS 2023
World Output	6.1	3.6	3.6
Advanced Economies	5.2	3.3	2.4
United States	5.7	3.7	2.3
Euro Area	5.3	2.8	2.3
Germany	2.8	2.1	2.7
France	7.0	2.9	1.4
Italy	6.6	2.3	1.7
Spain	5.1	4.8	3.3
Japan	1.6	2.4	2.3
United Kingdom	7.4	3.7	1.2
Canada	4.6	3.9	2.8
Other Advanced Economies	5.0	3.1	3.0
Emerging Market and Developing Economies	6.8	3.8	4.4
Emerging and Developing Asia	7.3	5.4	5.6
China	8.1	4.4	5.1
India	8.9	8.2	6.9
ASEAN-5	3.4	5.3	5.9
Emerging and Developing Europe	6.7	-2.9	1.3
Russia	4.7	-8.5	-2.3
Latin America and the Caribbean	6.8	2.5	2.5
Brazil	4.6	0.8	1.4
Mexico	4.8	2.0	2.5
Middle East and Central Asia	5.7	4.6	3.7
Saudi Arabia	3.2	7.6	3.6
Sub-Saharan Africa	4.5	3.8	4.0
Nigeria	3.6	3.4	3.1
South Africa	4.9	1.9	1.4
Memorandum			
Emerging Market and Middle-Income Economies	7.0	3.8	4.3
Low-Income Developing Countries	4.0	4.6	5.4

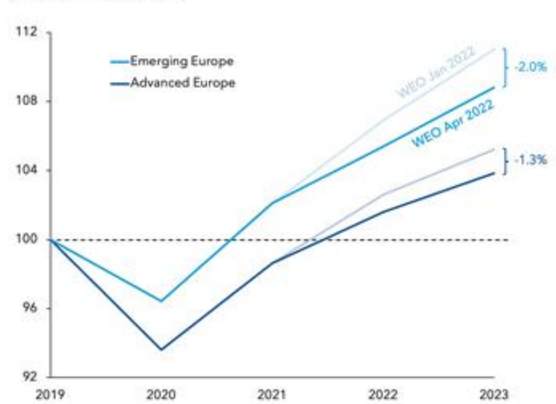
Source: IMF, *World Economic Outlook*, April 2022

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2021/2022 starting in April 2021. For the April 2022 WEO, India's growth projections are 8.9 percent in 2022 and 5.2 percent in 2023 based on calendar year.

INTERNATIONAL MONETARY FUND IMF.org

The weight of war

Europe's advanced and emerging economies will recover more slowly because of spillovers from the war in Ukraine.
(Real GDP Index, 2019 = 100)



Sources: IMF, World Economic Outlook Database; and IMF staff calculations.
Note: Advanced Europe and Emerging Europe are PPP GDP weighted average. Emerging Europe excludes Belarus, Russia, Turkey, and Ukraine.

IMF

The war is a supply shock that reduces economic output and raises prices. Indeed, forecasted inflation will accelerate to 5.5 percent in advanced economies and to 9.3 percent in emerging European economies excluding Russia, Turkey, and Ukraine. Those forecasts are up by 2.2 and 3.5 percentage points, respectively, from the January projections.

Several major economies—such as France, Germany, Italy, and the United Kingdom—are projected to barely expand or even contract for two straight quarters this year. Activity in Russia is forecast to shrink by 8.5 percent, and in Ukraine by 35 percent.[2]

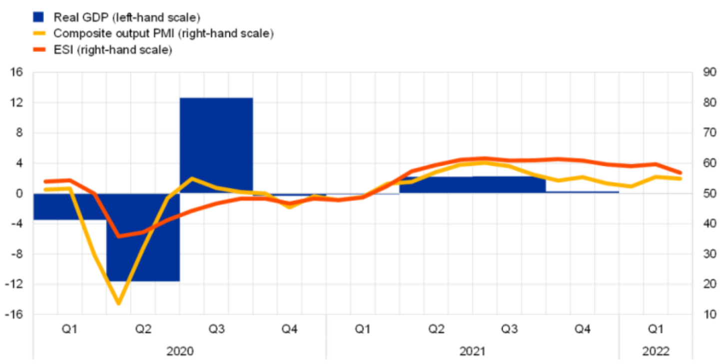
[2] War in Ukraine is Serious Setback to Europe's Economic Recovery – IMF Blog

2. Euro Area GDP Growth - ECB

Euro area real GDP growth slowed in the final quarter of 2021, following the greater dynamism observed in the two previous quarters. Output growth moderated to stand at 0.3% quarter on quarter in the fourth quarter of last year, following stronger readings in the second and third quarters (Chart 4). This outcome was in line with the flash estimate. GDP is now 0.2% above the pre-pandemic peak observed in the final quarter of 2019, and the carry-over effect on annual growth this year is estimated at 1.9%. Domestic demand and changes to inventories made a positive contribution to growth in the fourth quarter, whereas net trade had a negative impact. The rise in output in the fourth quarter was broad-based across countries, notwithstanding the decline in Germany. The latest estimate for 2021 puts GDP growth at 5.3%, the biggest annual rise since the early 1970s. On the production side, total value added edged upwards, rising by 0.1% quarter on quarter in the fourth quarter. Value added in industry excluding construction was unchanged, with the same being observed in the service sector, while value added in the construction sector rose by 1.1%.[3]

Euro area real GDP, the composite output PMI and the ESI

(left-hand scale: quarter-on-quarter percentage changes; right-hand scale: diffusion index)



Sources: Eurostat, European Commission, IHS Markit and ECB calculations.

3. The Growing Threat of Global Recession

With luck, the risk of a synchronized global downturn will recede by late 2022. But for the moment, the odds of recession in Europe, the United States, and China are significant and increasing, and a collapse in one region will raise the odds of collapse in the others.
A recession in Europe is almost inevitable if the war in Ukraine escalates, and Germany, which has been fiercely resisting calls to pull the plug on Russian oil and gas, finally relents. China is finding it

[3] Update on economic, financial and monetary developments (europa.eu)

increasingly difficult to sustain positive growth in the face of draconian COVID-19 lockdowns, which have already brought Shanghai to a screeching halt and now threaten Beijing. In fact, the Chinese economy may already be in recession. And with US consumer prices currently increasing at their fastest rate in 40 years, prospects for a soft landing for prices without a big hit to growth look increasingly remote.

Clearly, emerging markets and poorer developing economies will suffer mightily in the event of a global recession. Even energy and food-exporting countries, which until now have benefited economically from the war because of high prices, would likely have problems.

With luck, the risk of a synchronized global downturn will recede by late 2022. But for the moment, the odds of recession in Europe, the US, and China are significant and increasing, and a collapse in one region will raise the odds of collapse in the others. Record-high inflation does not make things any easier. I am not sure politicians and policymakers are up to the task they may soon confront.[4]

4. Central And Southeast Europe

Growth in Central and Southeastern Europe (CESEE) will be 1 percentage point (pp) lower than expected in January because of the war in Ukraine and the imposition of new sanctions on Russia, the Vienna Institute for International Economic Studies (wiiw) said in its spring forecast.
The 2021 growth meant the region exceeded the pre-pandemic level of 2019 by 4.1pp, with 17 of the region's 23 countries registering recovery stronger than the decline of 2020. Only Montenegro, Bulgaria, North Macedonia, Ukraine, Czechia and Slovakia have yet to exceed their pre-pandemic GDP levels.

In its new baseline scenario, which assumes a mid-year ceasefire in the war, the wiiw predicts average growth of around 3% this year, with the most pronounced slowdown in Turkey (8.3pp), where last year's credit boom has already run into balance-of-payments constraints, and the Western Balkans (4.5pp).[5]

[4] This Inflation Is Demand-Driven and Persistent by Jason Furman - Project Syndicate (project-syndicate.org)
[5] bne IntelliNews - Emerging Europe growth to fall to an average of 3% this year, says wiiw