

**POLICYMAKERS NEED  
STEADY HAND OVER  
THE GLOBAL  
ECONOMY**

**ECONOMIC BRIEF 29.102022**

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## 1. Policymakers Need Steady Hand as Storm Clouds Gather Over Global Economy

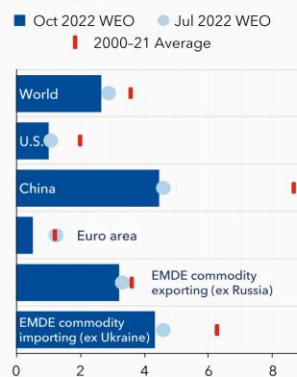
The global economy continues to face steep challenges, shaped by the Russian invasion of Ukraine, a cost-of-living crisis caused by persistent and broadening inflation pressures, and the slowdown in China.

The global growth forecast for this year is unchanged at 3.2 percent, while the projection for next year is lowered to 2.7 percent—0.2 percentage points lower than the July forecast. The 2023 slowdown will be broad-based, with countries accounting for about one-third of the global economy poised to contract this year or next. The three largest economies, the United States, China, and the euro area will continue to stall. Overall, this year's shocks will re-open economic wounds that were only partially healed post-pandemic. In short, the worst is yet to come and, for many people, 2023 will feel like a recession.

### Broad slowdown

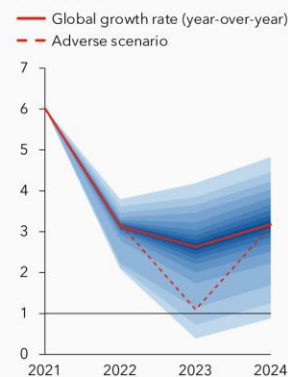
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#### 2023 real GDP growth (percent; year-over-year)



Sources: IMF, World Economic Outlook; and IMF staff calculations.  
Note: Right panel fan shades denote 5-95 percentile; black line represents stagnant global income per capita.

#### Uncertainty for global growth (forecast, percent)

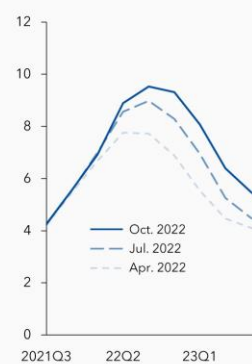


IMF

### Persistent price pressures

Global inflation is broadening, and forecast to peak at 9.5% this year before decelerating to 4.1% by 2024.

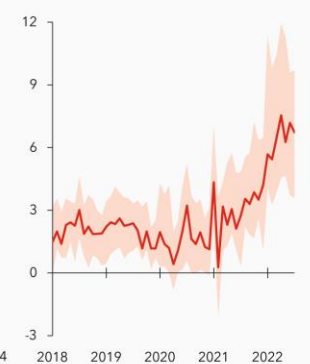
#### Projected inflation path (world headline; percent; year-over-year)



Sources: Haver Analytics; IMF, World Economic Outlook; and IMF staff calculations.  
Note: The band indicates 25-75 percentile range for each month. Group represents 89.4% of GDP of advanced economies, 75% of emerging market and developing economies, and 81% of world GDP based on purchasing power parity weights.

IMF

#### Core inflation (median; percent; annualized month-over-month)



Despite the economic slowdown, inflation pressures are proving broader and more persistent than anticipated. Global inflation is now expected to peak at 9.5 percent this year before decelerating to 4.1 percent by 2024. Inflation is also broadening well beyond food and energy. Global core inflation rose from an annualized monthly rate of 4.2 percent at end-2021 to 6.7 percent in July for the median country.<sup>1</sup>

<sup>1</sup> Policymakers Need Steady Hand as Storm Clouds Gather Over Global Economy (imf.org)

## 2. Cost of Living Crisis

Increasing price pressures remain the most immediate threat to current and future prosperity by squeezing real incomes and undermining macroeconomic stability. Central banks are now laser-focused on restoring price stability, and the pace of tightening has accelerated sharply.

There are risks of both under- and over-tightening. Under-tightening would further entrench inflation, erode the credibility of central banks, and de-anchor inflation expectations. As history teaches us, this would only increase the eventual cost of bringing inflation under control.

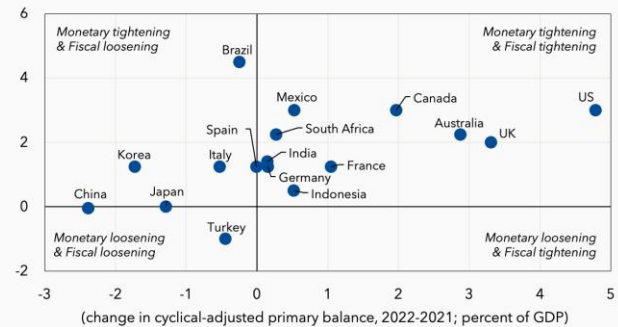
Over-tightening risks pushing the global economy into an unnecessarily severe recession. Financial markets may also struggle with overly rapid tightening. Yet, the costs of these policy mistakes are not symmetric. The hard-won credibility of central banks could be undermined if they misjudge yet again the stubborn persistence of inflation. This would prove much more detrimental to future macroeconomic stability. Where necessary, financial policy should ensure that markets remain stable. However, central banks need to keep a steady hand with monetary policy firmly focused on taming inflation.<sup>2</sup>

### Fiscal-policy conundrum

The cost-of-living crisis complicates fiscal policy formulation.

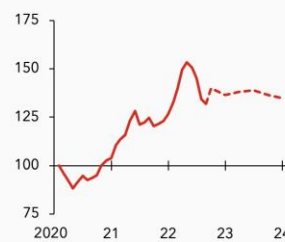
#### G-20 fiscal and monetary policy mix\*

(change in policy rates, Jan. 22 - latest, percentage points)



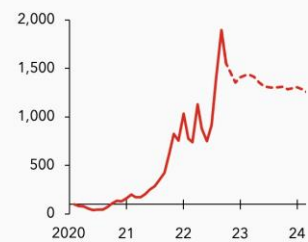
#### Food price index

(Jan 2020=100)



#### Natural gas prices

(Dutch TTF, Jan 2020=100)



Sources: Argus Direct; Bloomberg Finance L.P.; BIS; Haver Analytics; IMF Primary Commodity Price System; IMF, World Economic Outlook, October 2022; and IMF staff calculations.

Note: \*Excludes Russia. Food price index includes cereal, vegetable oils, meat, seafood, sugar, and other food (apple (non-citrus fruit), bananas, chana (legumes), fishmeal, groundnuts, milk (dairy), tomato (veg)) price indices.

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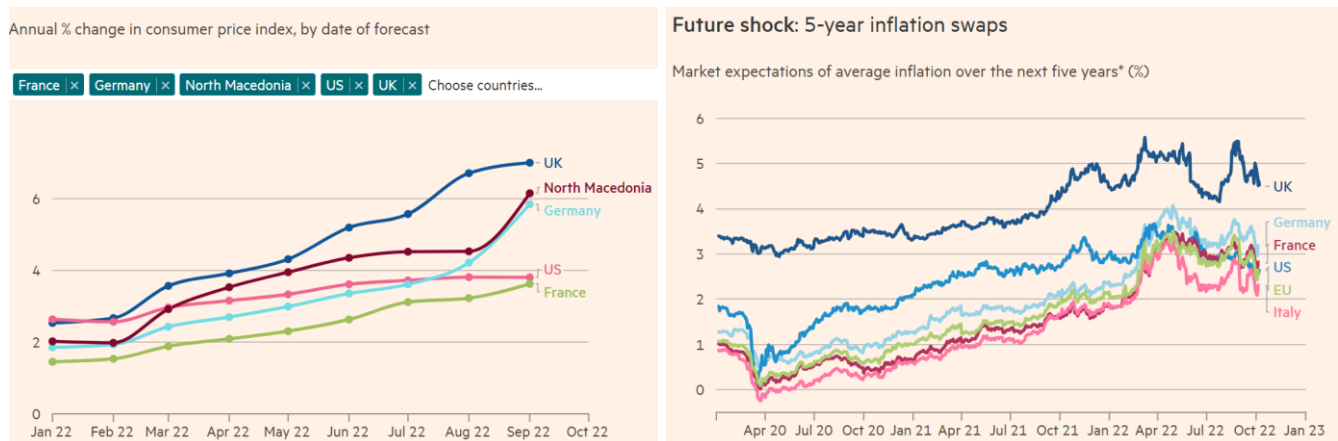
<sup>2</sup> Policymakers Need Steady Hand as Storm Clouds Gather Over Global Economy (imf.org)

### 3. World GDP Forecasts



Latest Global Growth Forecasts Show Challenges Facing Economies<sup>3</sup>

### 4. Inflation Forecasts for 2023



Investors' expectations of where inflation will be five years from now have been volatile in the past months reflecting central banks' more aggressive tightening, which lowers medium-term inflation, coupled with higher and volatile gas prices that could push inflation up. In some countries, particularly in Europe, governments' fiscal packages to offset the higher cost of energy are having an impact on inflation expectations. Higher interest rates have also raised the chances of a recession in some countries, with economists fearing a return to the stagflation of the 1970s — a situation characterised by persistent price pressures and weak growth.<sup>4</sup>

<sup>3</sup> Latest Global Growth Forecasts Show Challenges Facing Economies (imf.org)

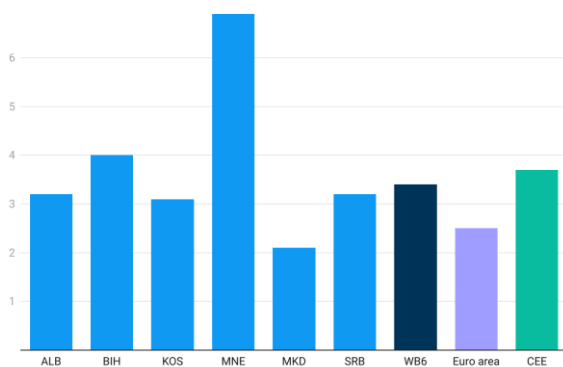
<sup>4</sup> Global inflation tracker: see how your country compares on rising prices | Financial Times (ft.com)

## 5. Western Balkans Regular Economic Report: Fall 2022

The economies of the Western Balkans continue to face a turbulent external environment, placing households, firms, and governments under acute stress. The war in Ukraine, and the resultant sharp increase and energy prices and slowdown in global growth, is weighing on economic performance in all six economies. Higher energy and food prices have pushed inflation to levels unseen for many years.

Economic growth proved to be robust in the first half of 2022, above expectations. Private consumption and investment were the key drivers of growth. Rising wages and remittances, together with increasing private credit, have supported private consumption. Investment was particularly strong in North Macedonia, Serbia, and in Bosnia and Herzegovina.

**Growth rates, 2022e, percent**



CEE: Bulgaria, Croatia, Czech R., Hungary, Poland, and Romania. CEE and Euro area source data: World Bank (Global Economic Prospects June 2022)  
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Fiscal spending pressures following the energy and food price shocks have offset revenue buoyance brought by high inflation and halted fiscal consolidation. The average fiscal deficit in 2022 is expected to increase by 0.4 percentage points as a share of GDP compared to in 2021. On one hand, high inflation has helped to boost revenue in nominal terms, especially for indirect taxes such as VAT. But on the other hand, public expenditure has increased significantly as governments took measures (and are forced to take measures) in response to rising inflation and the energy crisis.

During 2022, inflation in the Western Balkans has soared due to a combination of supply- and demand-side factors. Inflation is now expected to remain in double digits for 2022 in all Western Balkan countries except for in Albania. Food inflation reached as much as 25 percent in Bosnia and Herzegovina, Montenegro, and North Macedonia. While commodity price increases have been the most significant drivers of inflation, price pressures are increasingly broad-based.<sup>5</sup>

<sup>5</sup> Western Balkans Regular Economic Report Fall 2022 (worldbank.org)