World economic situation and prospects 2022

A Bumpy Road Ahead
A cloudy economic outlook

- **World output grew by 5.5% in 2021 after a 3.4% contraction in 2020**
  - Underpinned by resumption of household spending and investment
  - Supply chain disruptions, inflation and new COVID variants holding back stronger recovery

- **Global output growth to moderate to 4.0% in 2022 and 3.5% in 2023**
  - Contingent on easing supply-side disruptions and lower inflation pressure
  - Omicron and quick phasing out of monetary stimulus could pose significant challenges

- **Inequalities within and between countries are widening**
  - Many developing countries will not recover to 2019 output before 2022 or 2023
  - Average incomes of the bottom 40 per cent fell by 6.7 per cent in 2021 compared to 2019; the income of the top 40 per cent were down only 2.8 per cent
  - 64 million more people will live in extreme poverty in 2022 relative to 2019
  - Unequal access to vaccination and treatment undermine robust recovery
The widening income gaps between rich and poor countries

- GDP per capita in the developed economies to fully recover by 2023
- GDP per capita income in the developing countries will remain below the levels projected before the pandemic
- A fifth of developing countries will still be below 2019 output levels in 2023
- Developing economies, especially in Africa, will remain well below pre-pandemic projections

GDP per capita losses by development status

Percentage change between current and pre-pandemic forecasts

- Developed economies
- Economies in transition
- Developing economies
The pandemic reversed poverty reduction trends

The number of people living in extreme poverty (millions)

- 2014: 868
- 2015: 848
- 2016: 840
- 2017: 835
- 2018: 818
- 2019: 812
- 2020: 897
- 2021: 889
- 2022: 876
- 2023: 865

Source: United Nations Department of Economic and Social Affairs
• Large job losses - 137 million fewer jobs worldwide relative to pre-pandemic level

• Long-lasting slack in labour markets

• Rising inequalities and weak growth have pushed up extreme poverty

• Surging food prices threatening food security

• High commodity prices provide respite for some countries

• But inadequate recovery in tourism hurting tourism-dependent countries, especially SIDS
Persistent vaccination gaps impeding inclusive recovery

Regional vaccination rates

Number of doses per 100 people

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<th>Region</th>
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<th>01-Dec-21</th>
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Central banks quickly expanded conventional monetary policy in early 2020.

Large-scale asset purchase programmes (APP) inflated asset prices worldwide:
- Balance sheets of developed country central banks increased by over $10 trillion.
- 27 Developing countries also implemented APPs for the first time.
- APPs benefited wealthy households,
  - Top 1% wealth gain averaged $3.5 million, bottom 20% wealth gain averaged $5,300 per person.
- Swift and bold action restored market confidence and financial stability.
- More muted effect on economic growth.
...But with unintended side effects

### Asset valuation changes in the United States

*Index, 1998 = 100*

- S&P 500
- NASDAQ Composite Index
- ICE BofA US Corporate Index Total Return
- Case-Shiller Home Price Index

### Growth of wealth across income groups in the United States

*Index, 1998 = 100*

- Bottom 20%
- Top 2-20%
- Top 1%
Many developing countries facing high risks of debt distress

- Ultra-low interest since the GFC encouraged excessive external borrowing by many developing countries.
- During 2010-2019, the public external debt of the low and lower middle-income countries rose by 101 per cent, compared to 7% decline during the previous decade.
- Debt owed to private creditors experienced the sharpest increase – 264% increase during 2010-2019.
- Sharp economic downturns and fiscal responses to the pandemic have pushed many of these countries to the verge of a debt crisis.
- International cooperation for restructuring debt and offering meaningful debt relief will remain critical.
The challenging policy landscape

- Rising **costs of public debt** limit fiscal space of developing countries
- Limited scope for another round of fiscal and monetary stimulus amid inflationary concerns
- Proactive fiscal policy will remain essential amid **varying fiscal constraints in developed and developing countries**
- International community needs ramp up support for **low-income countries**
- **Job creation**, especially for disadvantaged population, critical to avoid long-lasting scars
- **Social protection** to be strengthened through expanded public revenue and better use of technology
The bumpy road ahead

- Central banks will need to carefully time and sequence the **unwinding of their APPs**
  - High risk of policy mistakes
  - Increasing risks for (public) debt sustainability
  - Developing countries particularly at risk

- Need for **complementary policy** to address risks
  - Careful communication
  - Macroprudential policy
  - Greening APPs
  - Reforms of fiscal and taxation policies
Thank you