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ON THE WORLD ECONOMIC SITUATION AND PROSPECTS

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AFTER A STRONG RECOVERY IN 2021, GLOBAL GROWTH MOMENTUM IS LOSING STEAM

The World Economic Situation and Prospects (WESP) 2022 warns that global economic recovery hinges on a delicate balance amid new waves of COVID-19 infections, persistent labour market challenges, lingering supply-chain constraints and rising inflationary pressures. After a global contraction of 3.4 per cent in 2020 and following an expansion of 5.5 per cent in 2021, the highest rate of growth in more than four decades, the world economy is projected to grow by 4 per cent in 2022 and 3.5 per cent in 2023. World gross product in 2021 was 1.9 per cent higher than in 2019 but still 3.3 per cent below the level of output projected prior to the pandemic. These aggregate growth figures, however, mask marked divergences in the pace of recovery across countries and regions (figure 1).

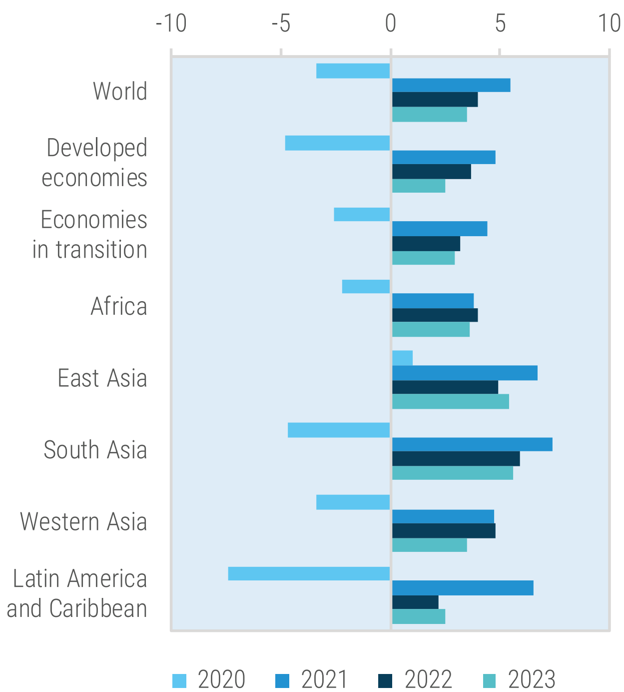
Global recovery in output in 2021 was largely driven by robust consumer spending and some uptake in investment. Trade in goods bounced back, surpassing the pre-pandemic level. But growth momentum slowed considerably by the end of 2021 including in big economies like China, the European Union and the United States of America, as the effects of fiscal and monetary stimuli dissipated, and major supply-chain disruptions emerged. Growth impetus generally has been weaker in most developing countries and economies in transition. While higher commodity prices have helped commodity-exporting countries at large, rising food and energy prices have triggered rapid inflation, particularly in the Commonwealth of Independent States (CIS) and Latin America and the Caribbean. Recovery has been especially slow in tourism-dependent economies, notably in the small island developing States.

Near-term global growth prospects face major down-side risks, amid a lingering pandemic. With new waves of infections spreading quickly, the human and economic tolls are expected to increase. The growth outlook therefore remains susceptible to an upsurge in cases and potential restrictions on economic activities. Limited access to vaccines poses a particular challenge to most developing countries and transition economies as a resurgence of the virus will likely affect them more than the developed countries, which have achieved relatively high vaccination coverage. By December 2021, the number of vaccine doses per 100 people in the least developed countries stood at just 23.9 against 147.4 in the developed countries (figure 2). Limited supplies of vaccines from manufacturers and domestic fiscal constraints continue to limit access for many developing countries.

KEY MESSAGES

- The world has emerged from the depths of a paralyzing economic crisis, but recovery remains fragile amid the lingering pandemic, persistent labour market challenges, ongoing supply-chain disruptions and rising inflation.
- The pandemic has threatened hard-won achievements towards the 2030 Agenda for Sustainable Development, significantly undermining progress on global poverty reduction.
- Governments around the world are facing difficult policy choices, which require better targeted and coordinated monetary, fiscal and labour market policies.

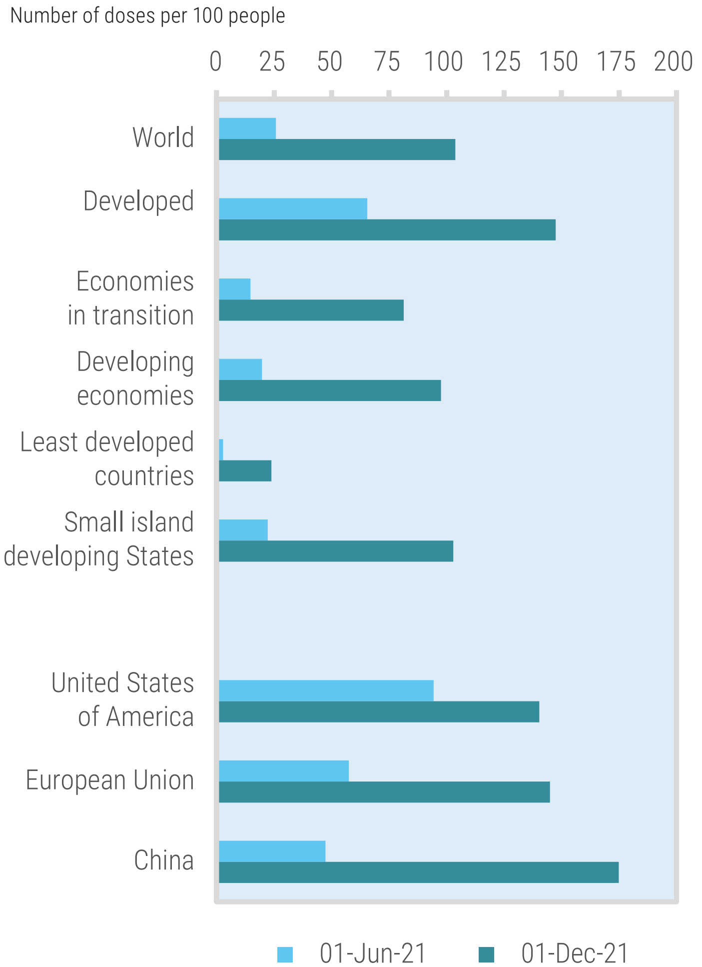
Figure 1
Growth of world gross domestic product



Source: UN DESA estimates and forecasts.
Note: Africa excludes Libya; Latin America and the Caribbean excludes the Bolivarian Republic of Venezuela.

The Monthly Briefing on the World Economic Situation and Prospects is prepared by the Global Economic Monitoring Branch in UN DESA's Economic Analysis and Policy Division. It is published on the first business day of the month. This issue is based on the World Economic Situation and Prospects 2022, launched on 13 January 2022, available at bit.ly/wespreport.

Figure 2
Vaccination progress



Source: UN DESA, based on data from Our World in Data, available at https://ourworldindata.org/coronavirus (accessed on 20 December 2021).

Lagging labour market recovery

Employment levels are projected to remain well below pre-pandemic levels during 2022–2023 and possibly beyond. The pace of job creation has been largely inadequate to offset earlier employment losses although the picture varies across regions. While labour markets in developed countries are gradually improving as recovery gathers pace, employment growth in developing countries remains weak amid lower vaccination progress and limited stimulus spending. This divergence is projected to continue in the near-term. In developed economies, full employment recovery is projected in 2023 or in some cases in 2024. The developing economies, especially those in Africa, Latin America and the Caribbean, and Western Asia, are expected to see much slower recovery of jobs.

Rising inflationary pressures

Rising inflationary pressures in major developed economies and a number of large developing countries present additional risks to recovery. Global headline inflation rose to an estimated 5.2 per cent in 2021, more than 2 percentage points above its trend rate in the past 10 years. The inflationary pressure was particularly pronounced in the United States, the euro area and Latin America and the Caribbean. A faster-than-expected tightening of global monetary conditions represents another major challenge. Any unexpected shifts in the monetary policy stances of the Federal Reserve in the United States could abruptly change investor expectations and trigger large adjustments in portfolio allocations, while significantly altering capital flows to developing countries.

Global poverty is projected to remain at record highs

Adverse impacts of the pandemic on growth and employment have significantly undermined progress on global poverty reduction, dashing hopes of achieving Sustainable Development Goal 1 of ending extreme poverty. While economic recovery in 2021 led to some poverty reduction, this could not offset the surge in 2020 – an estimated 77 million more people were living in extreme poverty in 2021 than in 2019. Fast-developing economies in East Asia and South Asia and developed economies are expected to experience some poverty reduction. In contrast, poverty is forecast to further increase in the world's most vulnerable economies. Insufficient fiscal space and the slow recovery of employment in general will undermine poverty reduction in many developing countries in the near term. This is particularly the case in Africa, where the absolute number of people in poverty is anticipated to rise through 2023.

Higher inequality may emerge as a longer-term legacy of the COVID-19 crisis

Higher levels of inequality within and between countries are emerging as a longer-term consequence of the pandemic. For the vast majority of developing countries, a full recovery of GDP per capita will remain elusive. The gap between what they will achieve and what they would have achieved without the pandemic will persist well into 2023. In contrast, GDP per capita in the developed economies is expected to almost fully recover by 2023 relative to pre-pandemic projections.

Uneven recovery of employment and income across different population groups is increasing inequalities within countries. In particular, the crisis has exacerbated the gender divide, especially in developing countries, where women experienced a sharper decline in employment and labour force participation than men. Many women face serious barriers to re-entering the labour force, especially women with young children. Support for unpaid domestic work, including childcare, will remain crucial to reversing the gender divide in the recovery of jobs. More broadly, an inclusive and sustainable recovery will require putting gender considerations at the heart of social protection and labour market policies.

Fiscal asymmetries are shaping recovery and development prospects

Governments around the world will need to continue accommodative fiscal stances and avoid the temptations of premature fiscal consolidation. This will help ensure a robust, inclusive and sustainable recovery. Yet differences in fiscal space and structural constraints across countries will continue to limit the ability to support pandemic-related expenditures, including vaccination, as well as to provide relief to the most vulnerable and support the restoration of employment.

Fiscal and debt situations are extremely challenging for low-income developing countries. With very limited fiscal space to confront the pandemic and support recovery, they are taking resources to respond to the crisis from other critical areas, including public investment and education. Unsustainable external debt burdens, additional borrowing during the pandemic and increasing debt-servicing costs have put a rising number of countries on the verge of a debt crisis. They are in urgent need of further and coordinated international support for debt relief.

The pandemic triggered an unprecedented monetary policy response

Since the onset of COVID-19, countries around the world have rolled out extraordinary measures to mitigate adverse economic and financial impacts. Both developed and developing country central banks have implemented large-scale asset purchase programmes to respond to the pandemic. Empirical evidence shows that while these programmes have helped to stabilize financial markets and kickstart economic recovery, their effectiveness in stimulating investment, employment and growth is less clear.

Large-scale asset purchases by central banks have led to an underpricing of risks and encouraged a borrowing binge in some developing countries. Stock and bond prices have shot to unprecedented levels while financial market volatility has escalated. A quick turnaround in asset purchases and tightening of monetary policy will likely lead to sharp market corrections with significant international spillover effects.

By inflating prices of risky assets, asset purchase programmes have disproportionately benefited the wealthiest households. Beyond exacerbating wealth inequalities, these measures have likely also increased gender and intergenerational disparities. Central banks clearly need to pay adequate attention to the distributional consequences of these programmes.

As the economic recovery progresses, monetary authorities will need to carefully sequence, calibrate and coordinate policy stances to ensure that asset purchases remain a viable and effective policy tool. If, for example, central banks purchase and hold long-term assets with smaller carbon footprints, they can help to finance climate action, mitigate climate risks and promote the transition to carbon-neutral economies. The current crisis presents an opportunity for monetary authorities to undertake bold climate action, and also address income and wealth inequality, while promoting a more inclusive and sustainable recovery.