



## World Economic Situation and Prospects as of mid-2022

### Key Messages

#### GLOBAL ECONOMIC OUTLOOK

- The UN downgrades global growth to 3.1 per cent in 2022, from the 4.0 per cent it had forecast in January. The war in Ukraine has upended the fragile recovery from the COVID-19 pandemic, triggering a devastating humanitarian crisis in Europe, increasing food and commodity prices and exacerbating inflationary pressures worldwide.
- Rising geopolitical and economic uncertainties are dampening business confidence, and increasing borrowing costs are weakening investment prospects. The global economy faces major downside risks from further escalation of the war in Ukraine, new waves of the pandemic, and faster-than-expected monetary tightening in the developed economies.

#### REGIONAL PROSPECTS

- The deterioration of growth prospects is broad-based, including for the world's largest economies – the United States, the European Union, and China – and the majority of developing economies.
- Amid high inflationary pressures and aggressive monetary tightening, the United States economy is forecast to grow by only 2.6 per cent in 2022, down from the 5.7 per cent GDP growth it registered in 2021.
- Stringent zero-COVID policies cloud the growth prospects of the Chinese economy, which is set to expand by 4.5 per cent in 2022, which is 0.7 percentage point lower than the previous forecast.
- The war in Ukraine and the economic sanctions imposed against the Russian Federation are exacting heavy tolls not only on the economies of the Russian Federation and Ukraine, but also on the entire CIS area and the neighbouring economies, including the European Union. The economy of the European Union is projected to grow by 2.7 per cent in 2022, marking a sharp downward revision of 1.2 per cent since the forecast in January.
- In developing countries, output is projected to increase by 4.1 percent in 2022, against the backdrop of higher energy and food prices, rising inflationary pressures and slower growth in the United States, China and the European Union. The monetary tightening in the United States is also set to increase developing countries' borrowing costs and worsen financing

gaps. Tighter external financial conditions will adversely affect growth prospects, especially for the countries with high exposure to global capital markets facing debt distress. The outlook is compounded by worsening food insecurity, especially in Africa.

## **RISING INFLATIONARY PRESSURES**

- The world economy is facing substantial and more persistent inflationary pressures. Global inflation is projected to increase to 6.7 per cent in 2022, twice the average of 2.9 per cent during the past decade. Headline inflation in the United States has reached the highest level in four decades. Inflation is rising in many countries across Western Asia and Latin America and the Caribbean, and in the CIS region.
- Rising inflation poses an additional challenge to an inclusive recovery as it disproportionately affects low-income households. The decline in real incomes is particularly pronounced in developing countries, where poverty is more prevalent, wage growth remains constrained, and fiscal support measures to alleviate the impact of higher oil and food prices are more limited.
- Surging food inflation is worsening food insecurity and pushing millions below the poverty line in many developing countries that are still struggling with economic shocks from the pandemic. Rising poverty will inevitably worsen inequality, both within and between countries, in the near term.

## **WAR IN UKRAINE IMPACT ON GLOBAL CLIMATE ACTION**

- The war in Ukraine unfolded at a time when global CO<sub>2</sub> emissions reached a record high. By driving up energy prices and placing energy security at the heart of policy making in many countries, the conflict will significantly impact the global efforts to deal with the climate emergency.
- As countries are looking to expand energy supplies amid high oil and gas prices, fossil fuel production is likely to increase in the short term. High prices of nickel and other metals may adversely affect the production of electric vehicles, while rising food prices may hamper the use of biofuels.
- The crisis also presents an opportunity for countries to address their energy and food security concerns by accelerating the adoption of renewables and increasing efficiencies, thus strengthening the fight against climate change.

## MOUNTING MACROECONOMIC POLICY CHALLENGES

- Major central banks in developed economies will need to calibrate their interest rate hikes to contain inflationary pressures, while minimizing their spillover effects on the borrowing costs and debt sustainability of the developing countries.
- Higher inflation and rising borrowing costs will further constrain the fiscal space of developing countries. Rising debt servicing obligations will likely push many countries in the direction of austerity and fiscal consolidation, but a premature fiscal consolidation will derail the still fragile recovery and increase their debt sustainability risks.
- Governments need to provide targeted support to alleviate the effects of higher food and fuel prices on poorer segments of the population, while pursuing medium-term fiscal and debt sustainability. This will require comprehensive debt restructuring and debt relief for the poorer countries, particularly the least developed countries.

For more information, please visit: <https://www.bit.ly/wespmidyear>

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