



Fragile economic recovery from COVID-19 pandemic upended by war in Ukraine

Amid rising inflationary pressures, UN revises global growth estimates downwards for 2022

New York, 18 May – The war in Ukraine has upended the fragile economic recovery from the pandemic, triggering a devastating humanitarian crisis in Europe, increasing food and commodity prices and globally exacerbating inflationary pressures, says the latest United Nations forecast released today.

According to the World Economic Situation and Prospects (WESP) as of mid-2022, the global economy is now projected to grow by only 3.1 per cent in 2022, down from the 4.0 per cent growth forecast released in January 2022. Global inflation is projected to increase to 6.7 per cent in 2022, twice the average of 2.9 per cent during 2010–2020, with sharp rises in food and energy prices.

The downgrades in growth prospects are broad-based, including the world's largest economies – the United States, China and the European Union – and the majority of other developed and developing economies. The growth prospects are weakening particularly in commodity-importing developing economies, driven by higher energy and food prices. The outlook is compounded by worsening food insecurity, especially in Africa.

“The war in Ukraine – in all its dimensions – is setting in motion a crisis that is also devastating global energy markets, disrupting financial systems and exacerbating extreme vulnerabilities for the developing world,” said UN Secretary-General António Guterres.

He added, “We need quick and decisive action to ensure a steady flow of food and energy in open markets, by lifting export restrictions, allocating surpluses and reserves to those who need them, and addressing food price increases to calm market volatility.”

European Union prospects

In addition to the tragic loss of many human lives and the unfolding humanitarian crisis, the war is exacting heavy tolls not only on the economies of the Russian Federation and Ukraine, but also on the neighbouring economies in Central Asia and Europe, including the European Union.

The sharp increase in energy prices represents a large negative terms-of-trade shock for the European Union, which in 2020 imported 57.5 per cent of its total energy consumption. The growth prospects for the European Union economy weakened significantly, with its GDP

World Economic Situation and Prospects as of mid-2022

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forecasted to grow by only 2.7 per cent in 2022, instead of the 3.9 per cent projected earlier in January.

As imports from the Russian Federation accounted for almost 25 per cent of Europe's energy consumption in 2020, a sudden halt in oil and natural gas flows from the Russian Federation would likely further increase energy prices and exacerbate inflationary pressures. EU member states from Eastern Europe and the Baltic region are severely impacted as they are already experiencing inflation rates well above the EU average.

Developing and Least Developed Countries' prospects

High inflation is reducing the real income of households, particularly in developing countries, where poverty is more prevalent, wage growth remains constrained, and fiscal support to alleviate the impact of higher oil and food prices remains limited.

The surge in food and energy prices are having knock-on effects on the rest of the economy and are posing an additional challenge to an inclusive recovery as it disproportionately affects low-income households that spend a much larger share of their income on food items.

The monetary tightening in the United States is also set to raise borrowing costs and worsen financing gaps in developing countries, including the least developed countries. Tighter external financial conditions will adversely affect growth prospects, especially for the countries with high exposure to global capital markets facing debt distress or risks of debt default. "The developing countries will need to brace for the impact of the aggressive monetary tightening by the Fed and put in place appropriate macroprudential measures to stem sudden outflows and stimulate productive investments," said Hamid Rashid, Chief of the Global Economic Monitoring Branch in the UN Department of Economic and Social Affairs (DESA), and the lead author of the report.

Climate actions challenged

The war in Ukraine unfolds at a time when global CO₂ emissions are at a record high. By driving up energy prices, the conflict will significantly impact 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 limit the use of biofuels.

"However, countries can also address their energy and food security concerns – brought to the fore due to the crisis – by accelerating the adoption of renewables and increasing efficiencies, thus strengthening the fight against climate change," emphasized Shantanu Mukherjee, UN DESA Director of Economic Policy and Analysis.

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