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Global Growth to Slow through 2023, Adding to Risk of 'Hard Landing' in Developing Economies

*Spread of COVID-19 Variants Alongside Inflation, Debt, and Inequality Intensifies Uncertainty*

WASHINGTON, Jan. 11, 2022—Following a strong rebound in 2021, the global economy is entering a pronounced slowdown amid fresh threats from COVID-19 variants and a rise in inflation, debt, and income inequality that could endanger the recovery in emerging and developing economies, according to the World Bank's latest *Global Economic Prospects* report. Global growth is expected to decelerate markedly from 5.5 percent in 2021 to 4.1 percent in 2022 and 3.2 percent in 2023 as pent-up demand dissipates and as fiscal and monetary support is unwound across the world.

The rapid spread of the Omicron variant indicates that the pandemic will likely continue to disrupt economic activity in the near term. In addition, a notable deceleration in major economies—including the United States and China—will weigh on external demand in emerging and developing economies. At a time when governments in many developing economies lack the policy space to support activity if needed, new COVID-19 outbreaks, persistent supply-chain bottlenecks and inflationary pressures, and elevated financial vulnerabilities in large swaths of the world could increase the risk of a hard landing.

*"The world economy is simultaneously facing COVID-19, inflation, and policy uncertainty, with government spending and monetary policies in uncharted territory. Rising inequality and security challenges are particularly harmful for developing countries," said **World Bank Group President David Malpass**. "Putting more countries on a favorable growth path requires concerted international action and a comprehensive set of national policy responses."*

The slowdown will coincide with a widening divergence in growth rates between advanced economies and emerging and developing economies. Growth in advanced economies is expected to decline from 5 percent in 2021 to 3.8 percent in 2022 and 2.3 percent in 2023—a pace that, while moderating, will be sufficient to restore output and investment to their pre-pandemic trend in these economies. In emerging and developing economies, however, growth is expected to drop from 6.3 percent in 2021 to 4.6 percent in 2022 and 4.4 percent in 2023. By 2023, all advanced economies will have achieved a full output recovery; yet output in emerging and developing economies will remain 4 percent below its pre-pandemic trend. For many vulnerable economies, the setback is even larger: output of fragile and conflict-affected economies will be 7.5 percent below its pre-pandemic trend, and output of small island states will be 8.5 percent below.

Meanwhile, rising inflation—which hits low-income workers particularly hard—is constraining monetary policy. Globally and in advanced economies, inflation is running at the highest rates since 2008. In emerging market and developing economies, it has reached its highest rate since 2011. Many emerging and developing economies are withdrawing policy support to contain inflationary pressures—well before the recovery is complete.

The latest *Global Economic Prospects* report features analytical sections that provide fresh insights into three emerging obstacles to a durable recovery in developing economies. The first, on debt, compares the latest international initiative to tackle unsustainable debt in developing economies—the G20 Common Framework—with previous coordinated initiatives to facilitate debt relief. Noting that COVID-19 pushed total global debt to the highest level in half a century even as the creditors' landscape became increasingly complex, it finds that future coordinated debt relief initiatives will face higher hurdles to success. Applying lessons from the past restructurings to the G20 Common Framework can increase its effectiveness and avoid the shortcomings faced by earlier initiatives.

*"The choices policymakers make in the next few years will decide the course of the next decade," said **Mari Pangestu, the World Bank's Managing Director for Development Policy and Partnerships.** "The immediate priority should be to ensure that vaccines are deployed more widely and equitably so the pandemic can be brought under control. But tackling reversals in development progress such as rising inequality will require sustained support. In a time of high debt, global cooperation will be essential to help expand the financial resources of developing economies so they can achieve green, resilient, and inclusive development."*

The second analytical section examines the implications of boom-and-bust cycles of commodity prices for emerging market and developing economies, most of which are heavily dependent on commodity exports. It finds that these cycles were particularly intense in the past two years, when commodity prices collapsed with the arrival of COVID-19 and then surged, in some cases to all time-highs last year. Global macroeconomic developments and commodity supply factors will likely cause boom-bust cycles to continue in commodity markets. For many commodities, these cycles may be amplified by the forces of climate change and the energy transition away from fossil fuels. The analysis also shows that commodity-price booms since the 1970s have tended to be larger than busts, creating significant opportunities for stronger and more sustainable growth in commodity-exporting countries—if they employ disciplined policies during booms to take advantage of windfalls.

The third analytical section explores COVID-19's impact on global inequality. It finds that the pandemic has raised global income inequality, partly reversing the decline that was achieved over the previous two decades. It has also increased inequality in many other spheres of human activity—in the availability of vaccines; in economic growth; in access to education and health care; and in the scale of job and income losses, which have been higher for women and low-skilled and informal workers. This trend has the potential to leave lasting scars: for example, losses to human capital caused by disruptions in education can spill over across generations.

Ayhan Kose, Director of the World Bank's Prospects Group, said: *"In light of the projected slowdown in output and investment growth, limited policy space, and substantial risks clouding the outlook, emerging and developing economies will need to carefully calibrate fiscal and monetary policies. They also need to undertake reforms to erase the scars of the pandemic. These reforms should be designed to improve investment and human capital, reverse income and gender inequality, and cope with challenges of climate change."*

Download Global Economic Prospects here.

Regional Outlooks:

East Asia and Pacific: Growth is projected to decelerate to 5.1% in 2022 before increasing slightly to 5.2% in 2023. For more, see regional overview.

Europe and Central Asia: Growth is forecast to slow to 3.0% in 2022 year and 2.9% in 2023. For more, see regional overview.

Latin America and the Caribbean: Growth is projected to slow to 2.6% in 2022 before increasing slightly to 2.7% in 2023. For more, see regional overview.

Middle East and North Africa: Growth is forecast to accelerate to 4.4% in 2022 before slowing to 3.4% in 2023. For more, see regional overview.

South Asia: Growth is projected to accelerate to 7.6% in 2022 before slowing to 6.0% in 2023. For more, see regional overview.

Sub-Saharan Africa: Growth is forecast to accelerate slightly to 3.6% in 2022 and rise further to 3.8% in 2023. For more, see regional overview.

TABLE 1.1 Real GDP¹

(Percent change from previous year)

Percentage point
differences from
June 2021 projections

	2019	2020	2021e	2022f	2023f	2021e	2022f	2023f
World	2.6	-3.4	5.5	4.1	3.2	-0.2	-0.2	0.1
Advanced economies	1.7	-4.6	5.0	3.8	2.3	-0.4	-0.2	0.1
United States	2.3	-3.4	5.6	3.7	2.6	-1.2	-0.5	0.3
Euro area	1.6	-6.4	5.2	4.2	2.1	1.0	-0.2	-0.3
Japan	-0.2	-4.5	1.7	2.9	1.2	-1.2	0.3	0.2
Emerging market and developing economies	3.8	-1.7	6.3	4.6	4.4	0.2	-0.1	0.0
East Asia and Pacific	5.8	1.2	7.1	5.1	5.2	-0.6	-0.2	0.0
China	6.0	2.2	8.0	5.1	5.3	-0.5	-0.3	0.0
Indonesia	5.0	-2.1	3.7	5.2	5.1	-0.7	0.2	0.0
Thailand	2.3	-6.1	1.0	3.9	4.3	-1.2	-1.2	0.0
Europe and Central Asia	2.7	-2.0	5.8	3.0	2.9	1.9	-0.9	-0.6
Russian Federation	2.0	-3.0	4.3	2.4	1.8	1.1	-0.8	-0.5
Turkey	0.9	1.8	9.5	2.0	3.0	4.5	-2.5	-1.5
Poland	4.7	-2.5	5.1	4.7	3.4	1.3	0.2	-0.5
Latin America and the Caribbean	0.8	-6.4	6.7	2.6	2.7	1.5	-0.3	0.2
Brazil	1.2	-3.9	4.9	1.4	2.7	0.4	-1.1	0.4
Mexico	-0.2	-8.2	5.7	3.0	2.2	0.7	0.0	0.2
Argentina	-2.0	-9.9	10.0	2.6	2.1	3.6	0.9	0.2
Middle East and North Africa	0.9	-4.0	3.1	4.4	3.4	0.6	0.8	0.1
Saudi Arabia	0.3	-4.1	2.4	4.9	2.3	0.0	1.6	-0.9
Iran, Islamic Rep. ³	-6.8	3.4	3.1	2.4	2.2	1.0	0.2	-0.1
Egypt, Arab Rep. ²	5.6	3.6	3.3	5.5	5.5	1.0	1.0	0.0
South Asia	4.4	-5.2	7.0	7.6	6.0	0.1	0.8	0.8
India ¹	4.0	-7.3	8.3	8.7	6.8	0.0	1.2	0.3
Pakistan ²	2.1	-0.5	3.5	3.4	4.0	2.2	1.4	0.6
Bangladesh ²	8.2	3.5	5.0	6.4	6.9	1.4	1.3	0.7
Sub-Saharan Africa	2.5	-2.2	3.5	3.6	3.8	0.7	0.3	0.0
Nigeria	2.2	-1.8	2.4	2.5	2.8	0.6	0.4	0.4
South Africa	0.1	-6.4	4.6	2.1	1.5	1.1	0.0	0.0
Angola	-0.6	-5.4	0.4	3.1	2.8	-0.1	-0.2	-0.7
Memorandum items:								
Real GDP¹								
High-income countries	1.7	-4.6	5.0	3.8	2.4	-0.3	-0.2	0.2
Developing countries	4.0	-1.4	6.5	4.6	4.5	0.2	-0.2	0.0
EMDEs excluding China	2.5	-4.2	5.2	4.2	3.8	0.8	0.0	0.1
Commodity-exporting EMDEs	1.8	-3.9	4.5	3.3	3.1	0.9	0.0	0.0
Commodity-importing EMDEs	4.9	-0.5	7.2	5.2	5.0	-0.1	-0.2	0.0
Commodity-importing EMDEs excluding China	3.3	-4.5	6.1	5.3	4.6	0.7	0.0	0.1
Low-income countries	4.6	1.3	3.3	4.9	5.9	0.2	0.0	0.0
EM7	4.5	-0.6	7.2	4.8	4.7	0.0	-0.3	0.0
World (PPP weights) ⁴	2.9	-3.0	5.7	4.4	3.6	0.0	-0.1	0.1
World trade volume⁵	1.1	-8.2	9.5	5.8	4.7	1.2	-0.5	0.3
Commodity prices⁶								
Oil price	-10.2	-32.8	67.2	7.2	-12.2	16.9	7.2	-13.1
Non-energy commodity price index	-4.2	3.0	31.9	-2.0	-4.0	9.4	0.5	-1.3

Source: World Bank.

1. Headline aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates. The aggregate growth rates may differ from the previously published numbers that were calculated using GDP weights at average 2010 prices and market exchange rates. Data for Afghanistan and Lebanon are excluded.

2. GDP growth rates are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. Pakistan's growth rates are based on GDP at factor cost. The column labeled 2019 refers to FY2018/19.

3. GDP growth rates are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. The column labeled 2019 refers to FY2019/20.

4. World growth rates are calculated using average 2010-19 purchasing power parity (PPP) weights, which attribute a greater share of global GDP to emerging market and developing economies (EMDEs) than market exchange rates.

5. World trade volume of goods and nonfactor services.

6. Oil price is the simple average of Brent, Dubai, and West Texas Intermediate prices. The non-energy index is the weighted average of 39 commodity prices (7 metals, 5 fertilizers, and 27 agricultural commodities). For additional details, please see <https://www.worldbank.org/commodities>.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given date. For the definition of EMDEs, developing countries, commodity exporters, and commodity importers, please refer to table 1.2. EM7 includes Brazil, China, India, Indonesia, Mexico, the Russian Federation, and Turkey. The World Bank is currently not publishing economic output, income, or growth data for Turkmenistan and República Bolivariana de Venezuela owing to lack of reliable data of adequate quality. Turkmenistan and República Bolivariana de Venezuela are excluded from cross-country macroeconomic aggregates.

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