Global growth prospects have weakened significantly amid the war in Ukraine, rising energy, food and commodity prices, soaring inflation and tightening monetary policy stances by major central banks. The world economy is projected to grow by 3.1 per cent in 2022, marking a downward revision of 0.9 percentage points from our previous forecast released in January 2022. The baseline forecast faces significant downside risks from further intensification of the war in Ukraine and potential new waves of the pandemic.

Growth forecasts for the United States, European Union and China have been revised downward, with the European Union registering the most significant downward revision. The European Union economy — most directly hit by disruptions in the energy supply from the Russian Federation — is now expected to grow by 2.7 per cent in 2022, down from 3.9 per cent expected in January. The United States economy is expected to grow by 2.6 per cent, while China is expected to grow by 4.5 per cent in 2022. The developing countries, as a group, are projected to grow by 4.1 per cent in 2022, down from 6.7 per cent in 2021.

The broad-based slowdown of the global economy will undermine a full, inclusive and sustainable recovery from the pandemic. This slowdown, and the war in Ukraine — triggering sharp increases in food and fertilizer prices — will hit the developing countries particularly hard, exacerbating food insecurity and increasing poverty. Monetary tightening by the developed countries will increase borrowing costs, undermine debt sustainability, and further constrain the fiscal space to support a full recovery of developing country economies.

The war in Ukraine — and its effects on energy and commodity prices — may also undermine climate action. On the one hand, high oil and gas prices could incentivize more fossil fuel extraction, or greater use of coal. High nickel prices could adversely affect the production of electric vehicles, while rising food prices may impede the production of biofuel. On the other hand, these high prices are also an opportunity for countries to resolve their energy and food security concerns through accelerating the adoption of renewables and improving systemic efficiencies, thus aligning with overall sustainable development objectives and strengthening the fight against climate change.
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Global macroeconomic trends

Global overview

The global economy may be on the cusp of a new crisis, while still recovering from the pandemic. The war in Ukraine has upended the fragile recovery from the pandemic, triggering a devastating humanitarian crisis in Europe, pushing up food and commodity prices and exacerbating inflationary pressures worldwide. Geopolitical and economic uncertainties are dampening business confidence and investment and further weakening short-term economic prospects. Against this backdrop, the global economy is now projected to grow by only 3.1 per cent in 2022 and 2023 (see figure 1), marking substantial downward revisions of 0.9 and 0.4 percentage points, respectively, from our previous forecast released in January 2022.¹ Our baseline outlook faces major downside risks from further intensification of the war in Ukraine, new waves of the pandemic and faster-than-expected monetary tightening in the developed economies.

Figure 1
Growth of world gross product, 2015-2023

The downgrades in growth prospects are broad-based (see table 1). The United States economy is forecast to slow to 2.6 per cent in 2022 due to high inflationary pressures, aggressive monetary tightening by the Federal Reserve and a strong US dollar, worsening net export balances. In China, GDP is projected to expand by 4.5 per cent, a downward revision of 0.7 percentage points, with stringent zero COVID-19 policies adversely affecting growth prospects. Meanwhile, there is an exceptionally heavy toll on the economy of the European Union: its GDP is projected to expand by 2.7 per cent in 2022, 1.2 percentage points lower than expected in January.

¹ Despite the deterioration of the global outlook, growth numbers for 2022 remain relatively positive due to “carry-over” effects from 2021, when the recovery gained significant momentum in many economies.
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</tbody>
</table>

**Memorandum items:**

| World trade<sup>e</sup> | -7.8 | 10.4 | 4.1 | 4.8 | 1.6 | 0.8 |
| World output growth with PPP weights<sup>f</sup> | -3.3 | 5.9 | 3.1 | 3.6 | 1.1 | -0.2 |

**Source:** UN DESA.

-<sup>a</sup> Partially estimated.
-<sup>b</sup> UN DESA forecasts.
-<sup>c</sup> Excludes Libya.
-<sup>d</sup> Fiscal year basis.
-<sup>e</sup> Includes goods and services.
-<sup>f</sup> Based on 2010 benchmark.
The economic prospects for the Commonwealth of Independent States and Georgia are also sharply downgraded. The Russian Federation’s economy is projected to contract by about 10 per cent in 2022, buffeted by unprecedented trade and financial sanctions that came into effect in March. Amid massive destruction of infrastructure, population displacement and disruption of economic activities, the Ukrainian economy is projected to contract by 30 to 50 per cent in 2022.

The outlook for developing countries has also deteriorated, with GDP projected to increase by 4.1 per cent in 2022, 0.4 percentage points lower than the forecast in January. Higher energy and food prices, rising inflationary pressures and slowing growth in the United States, the European Union and China are weakening growth prospects in developing countries. The monetary tightening in the United States will sharply increase their borrowing costs. A growing number of developing countries — especially the least developed countries — face stagnant growth prospects and rising risks of a lost decade, amid high levels of debt distress. The outlook is compounded by worsening food insecurity, especially in Africa. Lower vaccination rates also make developed countries more vulnerable to new waves of COVID-19 infections. By the end of April 2022, the number of doses per 100 people in the developed countries stood at 190.8, compared to 143.5 in developing countries and only 35.5 in Africa.

The war in Ukraine and the sanctions against the Russian Federation have rattled commodity markets, exacerbating supply-side shocks. In 2022, global trade growth is projected to slow down markedly, after a strong rebound in 2021. The conflict has directly disrupted exports of crude oil, natural gas, grains, fertilizer and metals, pushing up energy, food and commodity prices (see figure 2). The Russian Federation and Ukraine are key

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2 As of 31 March 2022, 21 among the 46 LDCs were in debt distress or faced high risk of debt distress, according to the IMF.
suppliers of agricultural goods, accounting for 25 per cent of global wheat exports, 16 per cent of corn exports and 56 per cent of exports of sunflower oil.

Food security concerns have also prompted countries to impose export restrictions, further constraining the supply of agricultural products and critical agricultural inputs. Since the beginning of 2022, countries have introduced 47 restrictions on exports of food — grains, edible oils, meat, etc. — and fertilizer, of which 43 came into effect after the war in Ukraine broke out in February. The Food and Agricultural Organization's (FAO) composite food price index reached record levels of 159.7 and 158.5 in March and April 2022, respectively, surpassing the previous high of 131.9 in 2011. Since the beginning of the year, the food price index rose by 22.9 per cent, with the vegetable oils price index increasing by 51.6 per cent.

Higher commodity prices, including base metals, have sharply increased production costs in automotive, electronics and other manufacturing sectors. The war halted the production of neon gas in Ukraine, which accounted for about half of the global output. As neon gas is a critical input for the production of semiconductors, this will likely worsen the semiconductor shortages, which have already negatively impacted the production of automobiles and electronics. The continued COVID-19 lockdown measures in China, including in major manufacturing centres and port cities, are also exacerbating production challenges. Even before the outbreak of the war in Ukraine, global supply-chain disruptions remained elevated, close to record highs.\(^3\) The manufacturing industries purchasing managers index, a leading indicator of manufacturing output growth, fell sharply in the first quarter of 2022 across most G20 economies.

### Inflation strikes back

#### From transitory to more persistent inflationary pressures

The world economy is facing substantial inflationary pressures. Global inflation is projected to increase to 6.7 per cent in 2022, twice the average of 2.9 per cent during 2010–2020 (see figure 3). Headline inflation in the United States has reached the highest level in four decades. In developing regions, inflation is rising in Western Asia and Latin America and the Caribbean (see figure 4). Soaring food and energy prices are having knock-on effects on the rest of the economy, as reflected in the significant rise in core inflation in many economies.

Inflation began trending upward during the pandemic, as lockdown measures and border closures disrupted global supply chains. As progress in vaccination allowed countries — especially the developed economies — to ease pandemic-related restrictions, household demand quickly recovered to pre-pandemic levels or even further (e.g., demand for durable goods), but supply-side challenges persisted, which generated inflationary pressures in 2021. Policymakers in the developed economies expected the pandemic-induced inflationary pressure to be transitory, but it has proved to be persistent, with the war in Ukraine — and the new rounds of supply-side shocks — also fueling high inflation expectations.

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\(^3\) Gianluca Benigno, Julian Di Giovanni, Jan Groen, and Adam Noble, "Global Supply Chain Pressure Index: March 2022 Update," Federal Reserve Bank of New York Liberty Street Economics, 3 March 2022.
Figure 3
Global annual inflation, 2010–2022

Average world inflation 2010-2020 is 2.9%

Figure 4
Annual inflation by regions

Source: UN DESA.
Note: Data for 2022 are projections. Data excludes the Bolivarian Republic of Venezuela.
We expect commodity prices to remain elevated throughout 2022 before easing somewhat in 2023. Also, lower fertilizer exports from the Russian Federation — coming on top of China restricting export of fertilizers since July 2021, together with prices close to all-time highs — will likely result in lower global crop yields in the coming seasons. The Russian Federation is one of the largest exporters of fertilizers to major agricultural producers, including Brazil and the United States.

Tight labour market conditions — with unemployment rates at or close to record lows and acute shortages of workers — are also adding to inflationary pressures in developed countries. In the United Kingdom and the United States, for example, inflation expectations are rising, while nominal wage growth has started catching up with overall price increases, increasing the risk of a wage-price spiral.\(^4\) In developing countries, inflationary pressures are compounded by balance-of-payments challenges and downward pressures on exchange rates. A faster-than-expected global monetary tightening could trigger capital outflows, further weakening exchange rates and adding inflationary pressures through the import channel. The current inflation cycle is clearly more pronounced and persistent than the global inflation spike in 2007‒2008, and inflationary pressures are unlikely to subside significantly in the near term.

**Differentiated implications for developed and developing countries**

Higher inflationary pressures are prompting central banks to tighten their monetary policy stances. Monetary tightening might exacerbate the persistent supply-side constraints, as higher interest rates will discourage investments that could ease some of the logistical bottlenecks that emerged during the pandemic crisis. Lower business investments — induced by higher interest rates — during a period of economic recovery will only contribute to further delaying the full recovery. Higher interest rates in the developed economies will also adversely affect growth in the developing countries, especially in Africa and Latin America and the Caribbean where weak employment growth and higher unemployment rates relative to the pre-pandemic level continue to persist.\(^5\) Higher borrowing costs will also weaken investment and worsen financing gaps between developed and developing countries (see next subsection).

Rising inflation is posing an additional challenge to an inclusive recovery as it disproportionally affects low-income households that spend a much larger share of their income on food items. 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 on the vulnerable groups 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 (see regional outlook section). Rising poverty will inevitably worsen inequality, both within and between countries, in the near term.

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4. Wage-price spiral refers to the cause-and-effect relation between rising wages and rising prices.
Worsening financing prospects for developing countries

The war in Ukraine and the global monetary tightening cycle are worsening the financing gaps in developing countries, particularly in poorer countries. Since September 2021, capital flows to emerging economies have trended downwards, with net portfolio outflows reaching $9.8 billion in March 2022, compared to, on average, net monthly inflows of about $30 billion over 2021. A faster-than-expected monetary tightening by the Fed could trigger quick “flight to safety”, adversely affecting domestic financial stability and growth in many developing countries.

Developing countries are also facing the prospect of higher borrowing costs, which were already high before the pandemic. In developed countries, the average interest cost of outstanding government debt has fallen to 1 per cent, but the average cost for developing countries is over 3 per cent. The least developed countries, which have had access to concessional lending, have however increasingly borrowed at significantly higher interest rates from the international capital market. In 2021, African and LDC sovereign Eurobonds were issued with yields above 5 per cent — and in 40 per cent of African bonds, the yield was above 8 per cent. Since early March 2022, hard currency yields of emerging market sovereign bonds have increased substantially, with more than 20 per cent of the bonds trading with spreads above 1,000 basis points on the secondary market. The monetary tightening and consequent increases in the risk-free US Treasury rates would further increase the already high yields on developing country sovereign debt, which will further raise refinancing or rollover costs.

The monetary tightening will not only raise borrowing costs but also constrain the fiscal space in many developing countries, particularly for net energy and food-importers. The current debt crisis in Sri Lanka, a net oil and food importer, is an example of the solvency challenges confronting many developing countries. As of 31 March 2022, about 60 per cent of the least developed and other low-income countries were at high risk of or in debt distress, almost double the number in 2015 (see figure 5). Debt servicing burdens of the developing countries have risen considerably since the beginning of the pandemic. The total debt-service payments on public and publicly-guaranteed debt of the poorest countries is expected to reach US dollar 35 billion in 2022, which is 45 per cent above the level in 2020.

While the Fed’s more aggressive tightening path will affect the LDCs and other low-income countries, many of these countries are also adversely impacted by the spillover effects of the war in Ukraine. Surging global fuel and food prices are affecting the most vulnerable populations in these countries. It will remain critical to scale up concessional finance and official development assistance (ODA) to ease their financing and balance of payment challenges. While preliminary estimates from the OECD point towards an increase

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6 Institute of International Finance, “Capital flows Tracker – April 2022”.
of ODA to a record-high of $179 billion in 2021, it is still only 0.33 per cent of DAC donors’ combined gross national income.\textsuperscript{10} There are also risks that financial support and humanitarian aid for Ukraine could come at the expense of ODA to other countries in need during 2022–2023.

**Mounting macroeconomic policy challenges, amid failing multilateralism**

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. Amid strong consumer spending, the United States’ Federal Reserve raised its funds rate by a total of 75 basis points in two consecutive rate hikes in March and May 2022 and signalled that it would embark on a more aggressive pace of rate hikes. The Federal Reserve will need to ensure that inflation expectations remain anchored, while avoiding a hard landing of the economy. The European Central Bank, which has kept its main policy rate unchanged so far, had signalled a more gradual monetary tightening approach.

The spectre of higher inflation and rising borrowing costs poses major monetary and fiscal policy challenges for developing countries. Since the second half of 2021, monetary tightening in developing countries has gained momentum (see figure 6). As higher interest rates raise borrowing costs and deter investments which will remain critical for

\textsuperscript{10} OECD, COVID-19 assistance to developing countries lifts foreign aid in 2021, Paris.
steering the recovery, developing economies will instead need to utilize other tools such as macroprudential policies — including capital control measures — to limit their exposure to sudden changes in capital flows. In March 2022, the International Monetary Fund updated its policies on liberalization and management of capital flows. The updated policy gives countries freedom to pre-emptively employ capital control measures in limited circumstances, for example, when there is a currency mismatch between its foreign assets and liabilities. The IMF also announced that it would not judge countries if they were to impose capital controls for national and international security considerations. The developing countries will need to take full advantage of these new flexibilities, not only to manage capital inflows but also to stem large outflows, address re-pricing risks and reduce roll-over risks.

Constrained fiscal space and high and rising debt servicing obligations will likely push many developing countries in the direction of austerity and fiscal consolidation. But a premature fiscal consolidation will derail the still fragile recovery and actually increase their debt distress risks. Governments, even with constrained fiscal space, will 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 poorer countries, particularly the least developed countries.

The pandemic and the war in Ukraine have tested the limits of multilateralism and have confirmed that the current multilateral system is not fit for purpose. With millions

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around the world facing severe food insecurity — potentially joining the ranks of nearly a billion already in living in poverty — multilateralism needs to rise to the challenges of stimulating inclusive growth, creating employment, taming food price inflation and boosting resilience, while providing debt relief to the countries facing debt distress. The need for macroeconomic policy coordination — through fair and inclusive multilateral processes — is more pressing than ever to address the scourge of rising hunger and poverty, reduce inequality, fight climate change, and put the world back on the trajectory of sustainable development.

Impact of the war in Ukraine on global climate action

The war in Ukraine has unleashed a devastating humanitarian crisis, while dealing a major blow to the global economic recovery from the COVID-19 pandemic. By driving up energy prices and placing energy security at the heart of policy making in many countries, it could also significantly impact the global efforts to deal with the climate emergency. This crisis unfolds at a time when global CO₂ emissions are at an all-time high, having resumed their upward trend after a temporary drop in the first half of 2020 due to responses to the COVID-19 pandemic. Total greenhouse gas (GHG) emissions in 2019 reached about 59 gigatonnes of carbon dioxide equivalent (GtCO₂eq) units. The remaining carbon budget, consistent with a 50 per cent chance of limiting global warming to 1.5°C, has been assessed at 500 GtCO₂eq units, making short-term increases in emissions even more problematic. Emissions will likely increase, for example, if there is a net replacement of natural gas — a relatively clean fossil fuel — with coal in energy production; or if food price increases prompt a reduction in biofuel use or the clearing of land to increase agricultural production; or if military spending, normally associated with large GHG footprints, increases substantially.

In the medium to longer term, the outlook for GHG emissions will depend on several factors. Sustained price increases in energy markets could accelerate the adoption of renewables and more efficient alternatives, but could also incentivize oil and gas companies, seeking to maximize revenue, to ramp up investments in fossil fuels resulting in additional stranded assets. On the other hand, increases in the cost of production of batteries or supply chain issues could undermine demand for electric vehicles.

War and climate action: direct pathways

In addition to dire human costs, wars can be punishing for the environment and the climate, as they can substantially increase GHG emissions. The post-9/11 wars from 2001 to 2018, for example, produced 1.2 GtCO₂eq units — the equivalent to the annual emissions of

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12 Intergovernmental Panel on Climate Change (IPCC), “Climate Change 2022 — Mitigation of Climate Change”, Working Group III Contribution to the IPCC Sixth Assessment Report (AR6), Summary for Policymakers.

257 million passenger cars, which is more than double the number of cars currently on the road in the United States. War-related fuel consumption directly accounted for more than one third of the emissions.

Increased militarization in Europe — as a direct consequence of the conflict — would likely further increase carbon emissions. Germany aims to create a special fund of €100 billion for military procurement and allocate over 2 per cent of GDP to defence — a level not reached in over three decades. Others, including Canada, China, the United States and many European countries, have also pledged to increase military spending. High energy consumption at military bases and increased fuel use from military equipment will inevitably increase carbon footprints. The world’s militaries combined and the industries that provide their equipment are already estimated to account for up to 6 per cent of all global emissions.\(^\text{14}\) Also, some military equipment has a relatively longer life expectancy, such as naval ships and jets, which would lock in carbon-intensive technology and delay decarbonisation. Reconstruction after the war will also require use of carbon-intensive cement and concrete. Conflict-driven emissions will accelerate the depletion of the world’s limited remaining carbon budget.

**War and climate action: indirect pathways**

**Global energy markets and supplies**

The war in Ukraine and the wide-ranging economic sanctions imposed on the Russian Federation are expected to fundamentally reshape the global energy landscape. The conflict has roiled energy markets worldwide and propelled energy security concerns to the forefront. International oil and gas prices — which were already rising steeply before the conflict escalated — reached the highest level in a decade. The price of Brent crude oil averaged $109 per barrel in March 2022, up by 66 per cent from a year ago. Natural gas prices increased by 90 per cent during the same period. Higher prices can drive lower consumption by inducing efficiency gains and reduced use but can also spur greater production through increased utilization of existing facilities and, in the longer term, additional investments in renewable or carbon-intensive sources of energy.

Governments around the world have put in place measures to shield households and businesses from the effects of energy price increases. In addition to direct income support to low-income households, these measures include cuts in value-added taxes on energy consumption, energy price caps, fuel rebates and cost subsidies.\(^\text{15}\) Germany, France, Italy, and Spain, for example, have announced energy support measures worth a combined €80 billion. Artificially low energy prices distort incentives for households and businesses to consume less energy.\(^\text{16}\) In addition, poorly targeted energy subsidies can strain scarce budgetary resources and be politically difficult to reverse.


\(^{15}\) G. Sgaravatti, S. Tagliapietra and G. Zachmann, “National policies to shield consumers from rising energy prices”, Bruegel Datasets, 2022.

\(^{16}\) G. Wagner, “The right way to help people hurting from high energy prices”, Bloomberg, April 2022.
In response to escalating prices, many countries are looking to expand domestic energy supplies. In the short run, these efforts will likely result in increased fossil fuel production. In the United States, the world’s largest producer of oil and natural gas, higher prices and growing energy security concerns have prompted an increase in drilling activities. In mid-April, the US rig count, which measures the number of active oil wells, was 58 per cent higher than a year ago. Meanwhile, the Government of the United States has announced the release of 1 million barrels of crude oil every day for the next six months from its Strategic Petroleum Reserve to bring energy prices down.

In Europe, geopolitical and energy security concerns have moved to the top of the political agenda amid the spike in energy prices. The war has led many governments to reconsider their energy policies and their energy dependence on the Russian Federation.¹⁷ In 2020, the Russian Federation accounted for about 41 per cent of the European Union’s natural gas imports, 37 per cent of oil imports and 19 per cent of hard coal imports (see figure 7). For Germany, which is set to completely phase out nuclear power by the end of 2022, Russian gas accounted for 65 per cent of total gas imports in 2020. An immediate cut to gas supplies from the Russian Federation without alternative arrangements would have severe repercussions, potentially triggering a deep recession in countries like Germany.¹⁸

A move to eliminate or reduce imports of Russian gas would mean a scramble for alternatives to minimize economic disruption. In the medium term, the EU could turn to other energy exporters. This will, however, require the EU to quickly resolve infrastructure bottlenecks in pipelines, storage terminals and tankers. Imports of natural gas, which is

![Figure 7](image)

**European Union: Fossil Fuel energy sources in 2020, by category**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Natural gas</th>
<th>Oil</th>
<th>Coal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports from Russian Federation</td>
<td>41.1%</td>
<td>36.5%</td>
<td>19.3%</td>
</tr>
<tr>
<td>Domestic production</td>
<td>46.3%</td>
<td>60.5%</td>
<td>60.4%</td>
</tr>
<tr>
<td>Other</td>
<td>12.6%</td>
<td>3.0%</td>
<td>20.3%</td>
</tr>
</tbody>
</table>

Source: Eurostat, calculation based on energy balances.

¹⁸ S. Müller-Dreizigacker, "Von der Pandemie zur Energiekrise — Wirtschaft und Politik im Dauerstress. Gemeinschafts-Diagnose".
the least polluting of all fossil fuels, could also partly be replaced by oil and coal.\textsuperscript{19} Within Europe there is also renewed interest in nuclear power as a way to decrease reliance on Russian oil and natural gas. It is also likely that the Russian Federation would find new markets for fossil fuels in East and South Asia, where its oil and gas exports could replace coal, the dirtiest fossil fuel. In East and South Asia, coal continues to play a dominant role in the energy mix.\textsuperscript{20}

High energy prices will also likely boost investments in renewables and energy efficiency, potentially supporting the shift away from fossil fuels. In many countries, solar energy has already become the cheapest form of new electricity. According to a recent report, 62 per cent of total renewable power generation added in 2020 had lower costs than the cheapest new fossil fuel option.\textsuperscript{21} Unit costs for other renewables such as onshore and offshore wind and concentrating solar power\textsuperscript{22} are also below fossil fuel costs. Earlier periods of high fossil fuel prices, however, also led major oil and gas producers to ramp up investment in fossil fuel infrastructure. Similar responses at this time — including short-term policy measures — could lock the world into a high-carbon future. But since continually falling prices of renewables and multi-stakeholder commitments to climate action are increasing the risk of stranded assets, energy and financial firms may be more reluctant now to invest in new fossil fuel projects.\textsuperscript{23}

**Challenges to vehicle electrification amid potential mineral shortages**

The war in Ukraine has also shaken global markets for metals (see figure 8), with potential knock-on effects on the price of renewables. An average electric-car battery, for example, contains about 80 pounds of nickel. Nickel prices have increased by about 50 per cent compared to last year, as the Russian Federation processes 20 per cent of the world’s high-grade nickel. High nickel prices may also have adverse environmental impacts as the prospects of higher profit will likely encourage the production of additional nickel from polluting and environmentally destructive strip-mining, including from the rainforests of Indonesia and the Philippines. Overall, the price of a basket of EV battery metals rose by 64 per cent compared to last year, which could raise the final price of an EV by up to $2,000 and slow down EV sales.\textsuperscript{24} This has exposed the vulnerability of EVs to price shocks in essential metals, on top of pandemic-related supply chain problems.

The net effect of the conflict on clean-energy products will largely depend on how well manufacturers manage to secure supplies of critical minerals — including existing inventories, invest in new processing plants, and recycle battery materials. To ensure access to critical minerals, the 31 member countries of the International Energy Agency

\textsuperscript{19} Global power generation from coal is estimated to have jumped by 9 per cent last year as a result of natural gas prices that were already on the rise, with a further increase expected for 2022. See International Energy Agency, “Coal 2021 — Analysis and forecast to 2024”, 2021.

\textsuperscript{20} Ibid.


\textsuperscript{22} IPCC, op. cit.

\textsuperscript{23} Dutch Bank ING recently became the biggest bank yet to end financing for new oil and gas projects.

\textsuperscript{24} Al Root, “Soaring nickel will drive Tesla, EV players to do this with batteries”, Barron’s, 20 March 2022.
(IEA) launched a critical minerals security program in March 2022 that could include the stockpiling of metals needed for EVs and other renewable energy infrastructure, similar to IEA members’ strategic stockpiles of oil. Arguably, prices of nickel and other minerals essential to the climate transition would have increased anyways as the transition took hold.

**Challenges from Food prices**

Sustainable biofuels (ethanol, biodiesel and renewable diesel) are important fossil-fuel substitutes for land-based transport\(^\text{25}\) and are critical to achieving net zero scenarios.\(^\text{26}\) Globally, 13 per cent of corn production and 20 per cent of global sugar cane production go into ethanol production, while 11 per cent of global vegetable oil production is used for biodiesel.\(^\text{27}\) The war has pushed up food prices, especially for items such as wheat, corn and vegetable oil, as the Russian Federation and Ukraine are major producers and exporters of these commodities.

Growing food and energy security concerns are raising questions about the use of food crops for biofuel. Croatia, Finland, and Sweden, for example, recently relaxed biofuel blending mandates to reduce energy price pressures. The United States administration, on the other hand, is studying whether waiving biofuel blending mandates could help offset the surge in grain prices, while in the meantime extending the availability of higher biofuel blends of gasoline during the summer to curb high fuel costs. Carbon intensity of land transport will likely increase considerably should biofuel use decline during the

\(^{25}\) IPCC, op. cit.


current episode of high food prices. In the EU, a reduction of 0.4 percentage points in the proportion of biofuels used could lead to an increase in emission intensity of road transport fuels of 0.6 per cent.\textsuperscript{28}

Increased food prices will also likely lead to the intensification of agricultural practices and the expansion of agriculture into lands left fallow or under forest cover. For example, in March, European officials agreed to let farmers grow food and sow crops on fallow land. With land use change being a significant contributor to GHG emissions (about 10 per cent of the total in 2019), effects such as these could draw further from a dwindling carbon budget.

National and global support for climate action

Expectations that G20 stimulus spending during the COVID-19 pandemic would support mitigation efforts — and contribute to reducing emissions — have not materialized.\textsuperscript{29} Only about 6 per cent of total stimulus spending went to reducing emissions, including electrifying vehicles, making buildings more energy efficient and installing renewables.\textsuperscript{30} Faced with the Ukraine conflict, with energy and food security concerns dominating the policy discourse, climate change challenges have taken a backseat. The sixth assessment report of the UN Intergovernmental Panel on Climate Change (IPCC), however, emphasized that the world is running out of time to avoid catastrophic global warming.

While climate action may possibly face obstacles in the short-term, it remains critical to scale up efforts to deliver on the Paris Agreement on climate change and the 2030 Agenda for Sustainable Development. A greater political and stakeholder impetus towards energy decarbonization can arise from the recognition of its link to energy and national security.\textsuperscript{31} At the same time, the conflict in Ukraine highlights the complex relationships among energy and food security, climate change and sustainable development. The crisis presents a new, and unique, opportunity to address these complexities with appropriate policies, targeted investments, policies and international cooperation in order to accelerate the transition towards sustainability, while minimizing the costs of such transition.

\textsuperscript{28} The average emission intensity of road transport fuels in the EU in 2019 decreased 0.55 per cent compared to 2018. The decrease can be attributed mainly to an increase (from 5.2 per cent to 5.6 per cent) in the proportion of biofuels used. Figures do not include indirect land-use change. For more information, see European Environment Agency, “Greenhouse gas emission intensity of fuels and biofuels for road transport in Europe”.


\textsuperscript{30} This is a smaller share than after the global financial crisis of 2008–09, when an estimated 16 per cent of stimulus spending went towards cutting emissions.

\textsuperscript{31} Nature, “European Union can break free from Russia’s fossil fuels”, vol. 604, 7 April 2022.
Regional economic outlook

Developed economies

North America

The United States GDP is forecast to expand by 2.6 per cent in 2022 and 1.8 per cent in 2023, marking a significant downward revision of our earlier forecast released in January 2022. Stubbornly high inflation, aggressive monetary tightening by the Federal Reserve and the direct and spillover effects of the war in Ukraine will continue to drag down growth, while a strong dollar — a direct consequence of monetary tightening — will contribute to further widening trade deficits and reducing growth in 2022.

The unemployment rate declined to 3.6 per cent in March, only marginally above the 50-year low recorded in February 2020, and the number of job openings remained close to an all-time high. Total employment and labour force participation rate, however, are still below pre-pandemic levels. Consumer price inflation - which jumped to a four-decade high of 8.5 per cent in March — presents the key policy challenge for the United States. The war in Ukraine has driven energy and food prices further up and exacerbated supply constraints amid strong consumer demand. In addition, widespread and lingering worker shortages have boosted wage growth. With price pressures expected to ease only slowly, annual inflation is projected to average 7 per cent in 2022, before declining to about 4 per cent in 2023. Against the backdrop of an increasingly tight labour market and high inflation, the Federal Reserve is expected to aggressively pursue monetary tightening in 2022, with a view to ensuring a soft landing of the economy.

Canada's economy is expected to expand by 4 per cent in 2022, supported by the lifting of COVID-19 restrictions, release of pent-up demand, and solid export growth. In response to high inflation, the Bank of Canada will continue to raise its policy rate in the months ahead, leading to softening domestic demand and an expected moderation in growth to 2.8 per cent in 2023.

Japan and developed Asia

The developed Asian economies are forecast to register resilient economic growth in 2022, with GDP increasing by 3.6 per cent in Australia, 2.7 per cent in Japan, 3.4 per cent in New Zealand and 3.1 per cent in the Republic of Korea. The outbreaks of the Omicron variant of the COVID-19 pandemic did not cause significant economic slowdown in these countries, and both domestic and external demand are expected to support growth in 2022. In Japan, where the recovery is lagging behind other countries in the region, private investment is expected to grow after two years of contraction. Continuing supply chain disruptions exacerbated by the war in Ukraine and lockdowns in China, however, are expected to reduce external demand in the region, particularly in the second quarter of 2022. The rising inflationary pressures have encouraged the region’s central banks, except for the Bank of Japan, to tighten their monetary policy stances. Fiscal policies, on the other hand, will remain expansionary compared to the pre-pandemic stances.
Europe

The war in Ukraine is projected to weigh heavily on Europe’s economies, fuelling inflation and slowing recovery from the pandemic. Our growth forecasts for the European Union and the United Kingdom — predicated on the assumption that energy prices will remain elevated — have been revised significantly downward. In the European Union, GDP is now projected to expand by 2.7 per cent in 2022 and 2.4 per cent in 2023 — 1.2 and 0.2 percentage points, respectively, lower than what we expected in January.

The sharp increase in energy prices represents a large negative terms-of-trade shock for the region. In 2020, the European Union imported 57.5 per cent of its total energy consumption, with imports from the Russian Federation accounting for almost 25 per cent. A sudden stop of oil and natural gas flows from the Russian Federation would likely send many European Union economies into recession.

Inflation has accelerated sharply across the European Union, reaching multi-decade highs in many countries. Consumer price inflation is projected to average 5.7 per cent in 2022, before declining to about 2.9 per cent in 2023. Rapidly rising costs will squeeze household budgets and weigh on consumption, while also prompting firms to cut or delay investments. These headwinds to growth are partly offset by a continued reopening of the economy, release of pent-up demand, and exceptionally strong labour markets. In February, the unemployment rate in the European Union stood at a historically low level of 6.2 per cent. The European Central Bank is expected to tighten monetary policy in 2022 — albeit less aggressively than the Federal Reserve, with a view to curbing inflation, even though growth prospects face significant downside risks.

EU member states from Eastern Europe and the Baltics region, including those in the euro area, are experiencing inflation rates well above the EU average, explained by higher energy intensity of GDP, larger share of food and energy in their respective consumer price indices, and persistent wage-price spirals. To contain the inflationary pressures, monetary policy was significantly tightened in 2022 in the East European countries with flexible currencies, which will further curb their growth prospects.

Deteriorating humanitarian crisis

As of late April 2022, over 5.3 million people, predominantly women and children, have left Ukraine (see figure 9). Poland, which has an approximately 2-million strong Ukrainian diaspora, became the primary destination for the refugees, accepting almost 3 million of them. While the authorities of these countries had anticipated such developments and had even made certain logistical preparations, the magnitude of the refugee flow turned out to be much larger than expected. The refugee crisis will impose a considerable financial burden on those countries at a time when they were planning to consolidate their finances after the large stimulus spending to fight the COVID-19 pandemic.

Economies in transition

The near-term economic prospects for the CIS and Georgia are sharply downgraded due to anticipated deep recessions in the Russian Federation and Ukraine and their negative spillover effect on the entire region. The aggregate GDP of the CIS and Georgia is expected to shrink by 8.8 per cent in 2022, with only a 1.9 per cent expansion in 2023.
In response to the war in Ukraine, virtually all developed countries have introduced stringent economic sanctions against the Russian Federation, targeting a wide range of enterprises and industries, Russian sovereign debt, and even the Central Bank. These sanctions, effectively curtailing trade and finance links of the country with the rest of the world and triggering an exodus of foreign companies, will lead to a steep recession in the Russian economy, with GDP projected to contract by over 10 per cent in 2022 and stagnate in 2023. Moreover, the Russian economy may shrink even further in 2023 if the European Union imposes a full or even a partial embargo on its energy imports from the Russian Federation.

The Ukrainian economy is projected to contract by 30 to 50 per cent in 2022 given massive destruction of physical infrastructure, suspension of production and trade activities, and displacement of population. The post-conflict reconstruction would require immense financial resources, estimated in some cases at €200-500 billion. The massive contraction of the Russian economy will negatively affect the entire CIS, especially the small energy-importing economies of Central Asia and the Caucasus, through trade, investment, migration and remittance channels. On the other hand, higher oil and natural gas prices may help to offset the negative impact of the crisis for energy exporters such as Azerbaijan and Kazakhstan.

Weaker economic activities in the EU, high inflation and tighter global financing conditions will adversely affect the growth prospects of the South-Eastern European economies, with GDP of the region projected to grow by 3.2 per cent in 2022 and 3.5 per cent in 2023.

See, for example: https://cepr.org/sites/default/files/news/BlueprintReconstructionUkraine.pdf.
Developing economies

As the Russian Federation and Ukraine are key suppliers of agricultural commodities globally, the price of both agricultural commodities and inputs, including fertilizers, rose sharply since the outbreak of the conflict. Soaring fertilizer prices will impede agricultural production globally, which will exacerbate food insecurity in many developing countries. Currently, an unprecedented 276 million people in 81 countries are estimated to already be acutely food insecure or at high risk. Countries in Africa and the Middle East — Algeria, Cameroon, Egypt, Kenya, Nigeria, South Africa, Syria, Tunisia, Yemen and Zimbabwe — are particularly vulnerable as they are net importers of agricultural products, including wheat, sunflower oil and maize. In addition, new waves of COVID-19 infections remain a major risk for the economic outlook of developing countries, particularly for those with lower vaccination rates.

Africa

Africa's economic prospects, which were already sluggish amid recurrent waves of COVID-19 infections, subdued investment and limited fiscal space, have taken another hit from the fallout of the Ukraine crisis. Elevated commodity prices, particularly for oil and gas and metals, are expected to benefit energy and mineral exporters, but the region's net energy importers will face a much higher fuel import bill, which will undermine their external and fiscal balances. Africa's GDP growth forecast for 2022 has been adjusted downward to 3.7 per cent. The region will pick up some of the slack in 2023 with economic growth forecast at 3.8 per cent, an upward revision of 0.2 percentage points from our forecast in January. The continental outlook, however, belies subregional disparities, as North Africa — most severely affected by the crisis in Ukraine — is expected to grow by 3.9 per cent, instead of 4.8 per cent as earlier forecast.

The production disruptions in Ukraine and the Russian Federation have driven food prices to an all-time high, with average consumer price inflation forecasted to reach 12.3 per cent in 2022 — the second highest rate of inflation among all developing regions. Rapidly rising food and fertilizer prices and disruptions to supply chains will add to domestic price pressures, further worsening already dire food insecurity. Domestic food production is adversely affected by floods, droughts, and other extreme weather events. The UN World Food Program expects the number of people in West and Central Africa facing acute hunger to reach 41 million in June, many of which children. After two consecutive years of rising poverty, the number of people in Africa living in extreme poverty is projected to rise by another 3.7 million because of the conflict in Ukraine.

East Asia

East Asia's growth is projected to subside from 7 per cent in 2021 to 4.4 per cent in 2022 and 5 per cent in 2023, as a projected slowdown in China will weigh on the regional average. The Chinese economy is forecast to grow by 4.5 per cent in 2022, down from 8.1 per cent in 2021. The Government of China has implemented stringent control measures, including introduction of rolling lockdowns in major cities, to contain the Omicron wave of the COVID-19 pandemic during the first quarter of 2022. The resulting slowdown in economic activities contributed to prolonging supply chains disruptions, negatively affecting other
developing countries through trade channels. In addition, soaring commodity prices have contributed to higher manufacturing costs across the region, adversely affecting exports.

The expected rebound of the Chinese economy by the end of 2022, and steadily recovering international tourism should bolster growth in the region in 2023. Fiscal policies in East Asia are expected to remain expansionary in 2022. However, an increasing number of countries are expected to pursue fiscal consolidation in 2023 to contain rising government debt. While China has been actively easing its monetary stance, Indonesia, Malaysia, Mongolia, and Singapore have already entered or are expected to enter a tightening phase in 2022. Other central banks remain hesitant to tighten policy, taking into account that higher interest rates will likely negatively impact growth and recovery. With the exception of Lao PDR, Mongolia, and Myanmar, inflation in the region is projected to remain below 5 per cent.

**South Asia**

The outlook in South Asia has deteriorated in recent months, against the backdrop of ongoing conflict in Ukraine, higher commodity prices and potential negative spillover effects from monetary tightening in the United States. The regional economic output is projected to expand by 5.5 per cent in 2022, which is 0.4 percentage points lower than our forecast released in January. India, the largest economy in the region, is expected to grow by 6.4 per cent in 2022, well below the 8.8 per cent growth in 2021, as higher inflationary pressures and uneven recovery of the labour market will curb private consumption and investment.

Furthermore, higher prices and shortages of farming inputs including fertilizers are likely to persist in the region, negatively impacting the agricultural sector in Bangladesh, India, Pakistan, and Sri Lanka. This will probably result in weaker harvests and exert further upward pressures on food prices in the near term. Along with higher energy prices, elevated prices of food will likely increase food insecurity across the region. Consumer price inflation in the region is expected to accelerate to 9.5 per cent in 2022, from 8.9 per cent in 2021.

Tighter external financial conditions will adversely affect regional growth prospects, especially for countries with high exposure to global capital markets facing debt distress or risks of debt default. The pandemic left many countries with large fiscal deficits and higher and unsustainable levels of public debt. Sri Lanka is currently facing a debt crisis and discussing a new IMF-supported program to bring its economy out of the crisis.

**Western Asia**

Western Asia’s growth, on average, is projected to decelerate from 6.1 per cent in 2021 to 4.5 per cent in 2022 and 3.6 per cent in 2023. These aggregate figures mask significant regional variations. The growth deceleration in 2022 is expected only in Israel, Jordan, the State of Palestine and Turkey. In the region’s other countries, especially the major crude oil producers, including Iraq and members of the Gulf Cooperation Council (GCC) – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates – growth is expected to accelerate in 2022, supported by the planned increase in crude oil production under the OPEC Plus agreement. The region’s non-oil sector also continues to expand despite the outbreak of the Omicron wave of the COVID-19 pandemic during the first quarter of 2022. The ongoing recovery of international tourism adds growth momentum, in particular in Lebanon, where the economy contracted starting in 2018.
Since the region is a net food importer and a large portion of staples are imported from the Russian Federation and Ukraine, the war in Ukraine has exacerbated inflationary pressures. Food security is becoming a growing concern, especially in Lebanon, the State of Palestine, the Syrian Arab Republic, and Yemen. Because of the rising inflationary pressures, central banks in the GCC countries, Israel, and Jordan have moved to a tightening cycle. On the fiscal policy side, the countries in the region continue their fiscal consolidation efforts to ensure public debt remains sustainable.

**Latin America and the Caribbean**

The outlook in Latin America and the Caribbean remains challenging. The war in Ukraine, rising inflationary pressures and waning macroeconomic policy support represent major headwinds to recovery. In addition, slowing growth in the United States and China — key trading partners — together with rising borrowing costs will further constrain regional growth prospects. Supply disruptions and elevated prices of fertilizers due to the war in Ukraine are projected to negatively impact agricultural output in Argentina, Brazil, and Uruguay, which will add further pressures to global food prices.

The war in Ukraine is impacting the region mainly through higher commodity prices and rising inflationary pressures. The sharp rise in energy and food prices is contributing to high inflation, affecting mainly the most vulnerable and increasing the risk of food insecurity and social unrest. Annual inflation is projected to accelerate to 14.6 per cent in 2022. Many central banks have responded by raising their policy rates. Higher borrowing costs, however, will reduce fiscal space further and increase pressures for fiscal consolidation.

After an expansion of 6.6 per cent in 2021, regional GDP is projected to expand by only 2.1 per cent in 2022 and 2.8 per cent in 2023. Brazil’s GDP — the largest in the region — is projected to expand by only 0.5 per cent, amid elevated inflation, tighter monetary conditions, and heightened uncertainty. Growth prospects for Mexico and Central America have been revised significantly downward, amid slowdown in the United States and subdued investment. By contrast, the economic outlook in the Caribbean is improving, supported by continued recovery in tourism. Labour market conditions remain weak across the region, with many countries facing higher unemployment and lower employment rates than before the pandemic. Poverty will likely not return to pre-pandemic levels in the near term.

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