

Centre for the New Economy and Society

Chief Economists Outlook

May 2022



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May 2022

This quarterly briefing builds on the latest policy developments and research as well as consultations and surveys with leading Chief Economists from both the public and private sectors, organized by the World Economic Forum's Centre for the New Economy and Society.

It aims to summarize the emerging contours of the current economic environment and identify priorities for further action by policy-makers and business leaders in response to the compounding shocks to the global economy from the COVID-19 pandemic and geopolitical events.

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1. Context: a perfect storm

The May 2022 Chief Economists Outlook¹ comes out amid extremely high uncertainty about geopolitical developments, the trajectory of the global economy and the next steps for economic policy. Instead of entering a post-COVID recovery phase, economies are experiencing additional shocks, first and foremost from the war in Ukraine and associated geopolitical repercussions, but also from new outbreaks of COVID-19 and lockdowns in major industrial centres.

Beyond the immediate humanitarian impact of the conflict and the ongoing health consequences of the pandemic, this has meant downward revisions to growth prospects and exacerbated inflationary pressures from disruptions to commodities and food supplies. Oil and gas price shocks are complicating the balance between energy security and the transition to greener energy sources, while rising food and commodity prices are threatening lives and affecting the cost of living across the world. Concerns over debt sustainability,

capital flight and currency depreciation in low- and middle-income countries are on the rise as monetary policy in major economies is tightened.

While the effects on overall economic activity are currently expected to be less severe than those experienced in the wake of the first COVID lockdown, the combined impact of these shocks means a continued focus on managing crises, a high risk of secondary shocks, and a diversion from investment in increasing productivity, social mobility, sustainability, stability and resilience.

Geopolitical uncertainty and polarization may also contribute to driving the global economy deeper into fragmentation, with longer-term consequences for trade, prices and living standards. In combination, these shifts have resulted in the global economy entering a new phase of high volatility with fewer mechanisms for global coordination and collaboration, compounding the effects on the most vulnerable economies and individuals.

¹ Data collection for the Chief Economists Survey was concluded on 2 May 2022. Editing was concluded on 17 May 2022.

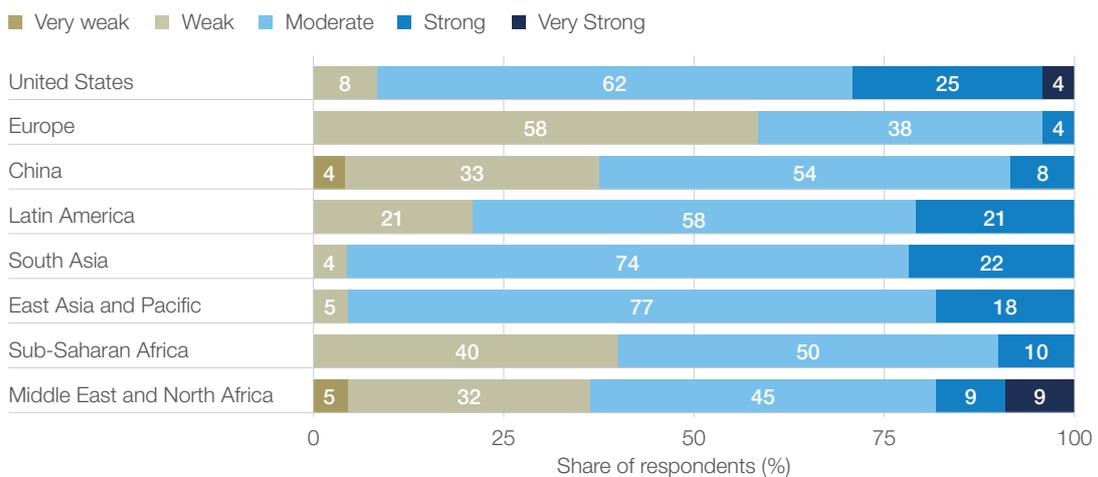
2. Recovery – disrupted

At the beginning of 2022, the consensus forecast was for the largest economies to have returned to pre-COVID growth paths by the end of the year, led by China, Europe and the US. The OECD had forecast global growth at 4.5% in 2022 and 3.2% in 2023.² Inflation was running high across advanced economies but was expected to wane over the course of 2022 as supply bottlenecks were resolved, excess demand disappeared and monetary policy action was fine-tuned to manage the phase-out of pandemic-related crisis measures.

Forecasts were more subdued for low- and middle-income countries, with growth predicted still to be 5.5% below trend in 2024 (excluding China).³ Risks to debt stability were expected from the spillover effects of advanced-economy monetary policy action to combat inflation. A divided recovery was becoming apparent as the most vulnerable economies and individuals were hit disproportionately hard by the crisis and were having a more difficult time recovering.

Figure 1. Expected economic activity outlook 2022 by economy and region

In the current context, marked by the war in Ukraine and continued COVID-19 surges among other shocks, what is your expected 2022 outlook for economic activity in the following economies?



Note: The numbers in the graphs may not add up to 100% because figures have been rounded up/down.

Source: Chief Economists Survey, April 2022

² OECD, December 2021.

³ IMF, October 2021.

The last [Chief Economists Survey](#), in November 2021, had identified the expectation that overall inflation would be short-term, upward movement on wages medium-term, and global fragmentation medium- to long-term but ultimately reversible.

Six months later, the picture is significantly different. The majority of respondents in the latest survey expect a moderate economic outlook in the United States, China, Latin America, South Asia, East Asia and Pacific, sub-Saharan Africa and the Middle East and North Africa. In Europe, the majority expect the economic outlook to be weak.

The invasion of Ukraine by Russia has transformed earlier projections, alongside other trends. The IMF points to five forces that will shape the global economic outlook in 2022: 1) the war in Ukraine; 2) monetary tightening and financial market volatility; 3) fiscal withdrawal; 4) China's slowdown; and 5) pandemic vaccine access. The latest IMF forecast from April 2022 sees global growth dropping to 3.6% in 2022 from an estimated 6.1% in 2021 and its January 2022 forecast of 4.4%.⁴

Ukraine and Russia themselves are projected to experience severe contractions in GDP of more than 30% and close to 10% respectively.⁵ Together they make up only 2% of both global GDP and of global trade but they are large players in a small number of important commodity markets: combined they account for 30% of global exports of wheat; 20% of corn, mineral fertilizers and natural gas; and 11% of oil.⁶ The impact on prices has been greatest for nickel, coal and wheat, all of which have seen price fluctuations of more than 75% since January 2022.⁷

The effect on other regions will, to an important extent, be a function of their connection to Ukraine and Russia, as well as the impact of the war on commodity prices. The IMF estimates that GDP in Emerging and Developing Europe (including Russia and Ukraine) will contract by 2.9% in 2022 and expand by 1.3% in 2023. Euro area GDP growth in 2022 is revised down to 2.8% (-1.1 percentage points compared to January). For countries in the Middle East and Central Asia, the negative impact is expected to come mainly via food price transmission, while net oil exporters may benefit from higher energy prices, with average growth for the region projected to be 4.6% in 2022, an upgrade of 0.3 percentage points compared to January. Equally, economies in sub-Saharan Africa will be significantly affected by higher food prices yet are nevertheless expected to grow on average by 3.8%, which is 0.1 percentage points higher than the January projection.

Growth prospects for emerging and developing Asia in 2022 are downgraded by 0.5 percentage points to 5.4%. They depend heavily on China's economy, which has been weakened by new COVID outbreaks and tough lockdowns and expected to grow by 4.4%, down from a January projection of 4.8%. The US sees a downgrade of 0.3 percentage points to 3.7% arising from faster monetary tightening in response to accelerating inflation. Finally, growth in Latin American economies is expected to land at 2.5% on average, an upward revision of 0.1 percentage points, with headwinds coming from high inflation, policy tightening and slowdown spilling over from trade partners.⁸

4 IMF, April 2022.

5 Ibid.

6 OECD, March 2022.

7 Ibid.

8 IMF, April 2022.

3. Six expectations for the future of the economy

To get a more nuanced view of the forces driving the global outlook, we asked Chief Economists about their expectations for: 1) inflation and wages; 2) food security; 3) multinational corporations; 4) global integration; 5) the impact of sanctions on Russia; and 6) the future role of the US dollar.

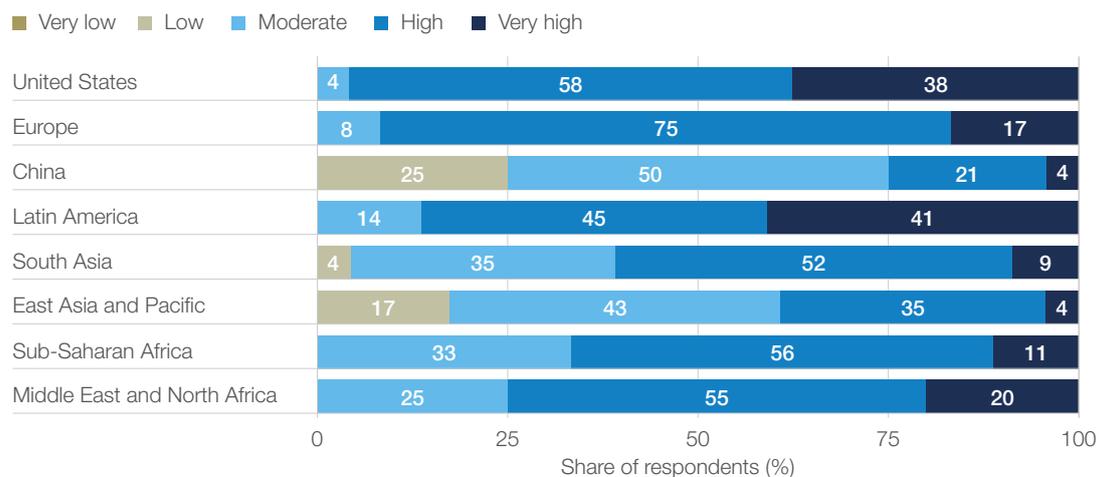
Higher inflation alongside lower real wages globally

According to the views of survey respondents, the inflation outlook in 2022 remains toughest for Latin America and

the US, with 41% and 38% of respondents respectively expecting very high inflationary pressures for the rest of 2022. Fewer respondents expect very high pressures for MENA, Europe, sub-Saharan Africa, South Asia and East Asia, including China. Overall, inflation expectations are highest for the US, followed by Europe and Latin America, with 96%, 92% and 86% of survey respondents respectively projecting inflation to run either high or very high in 2022. At the other end of the spectrum, 25% of survey respondents expect low inflation in China, 17% in East Asia and the Pacific overall.

Figure 2. Inflation

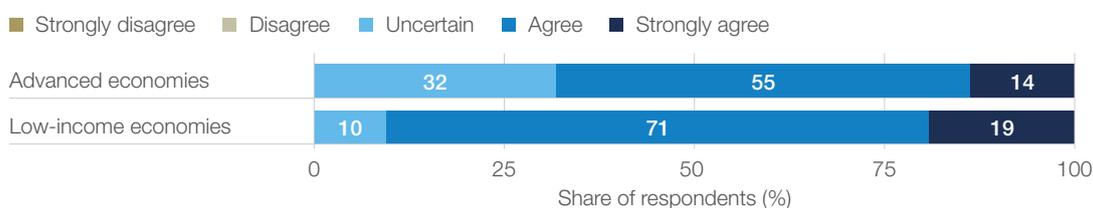
In the current context, what is your expected 2022 outlook for inflation in the following economies and regions?



Source: Chief Economists Survey, April 2022

Figure 3. Real wages

For advanced/low-income economies, do you agree/disagree with the following statement: “Average real wages will decline”?



Source: Chief Economists Survey, April 2022

In parallel, over two-thirds of respondents expect average real wages to decline in advanced economies, while nearly one-third are uncertain. Furthermore, 90% of respondents expect average real wages to fall across low-income economies.

Inflationary pressures intensified in the first four months of the year, driven by prolonged and renewed disruptions across supply chains as well as negative supply shocks arising from the war in Ukraine and the related sanctions regime. The effect of the war in Ukraine is expected to be stronger for oil and gas prices this year, while food prices could be affected for longer. There are also domestic price pressures that have changed inflation expectations from transitory to the longer term in many economies.

The IMF projects a 1.8 percentage point increase in inflation for advanced economies (to 5.7%) and a 2.8 percentage point increase in emerging markets and developing economies (to 8.7%). Price dynamics have morphed from being concentrated in specific markets to becoming a broader phenomenon as they are starting to affect inflation expectations, wages and thus prices more generally.

Food insecurity in developing economies

Dire global consequences of the war in Ukraine are expected to come especially through higher prices for food around the world and the subsequent impact in terms of hunger and the cost of living. In 2020, 36 countries imported more than 50% of their wheat from Russia or Ukraine.⁹ In March 2022, the Food and Agriculture Organization (FAO)'s Food Price Index (FFPI) leapt to its highest level since its inception in 1990. Vegetable oils, cereals and meat sub-indices are at all-time highs, while the levels of sugar and dairy products rose significantly as well.¹⁰ Wheat prices are forecast to increase by more than 40%, reaching an all-time high in nominal terms this year.¹¹ The World Food Programme (WFP)'s monthly food procurement costs are estimated to increase by a total of \$23 million as a result of the war's impact on wheat prices alone.¹²

In their food security outlook for the next three years, survey respondents are divided over South Asia's prospects but united in their expectation of a highly insecure environment in sub-Saharan Africa and in

⁹ UN GCRG, April 2022.

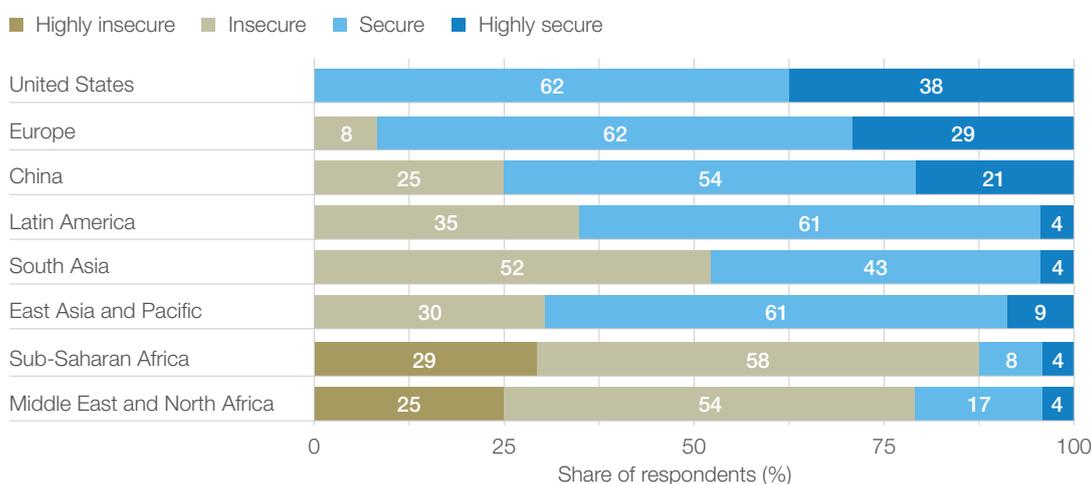
¹⁰ FAO, April 2022.

¹¹ World Bank, April 2022.

¹² WFP, March 2022.

Figure 4. Food security

What is your expected outlook for food security in the next three years in the following economies and regions?



Source: Chief Economists Survey, April 2022

the Middle East and North Africa. Food import dependencies are set to strain national budgets in countries trying to maintain current coverage of food subsidies. The World Food Programme expects the cost of bread subsidies in Egypt, the largest importer of wheat from both Russia and Ukraine, to rise by more than 23% this year.¹³ There is agreement among survey respondents that food security is unlikely to be affected in the US, Europe and, to a lesser extent, China, East Asia and Pacific, and Latin America. Although prices for unprocessed food in the EU rose by 9.2% in April,¹⁴ high-income countries are better placed to provide food subsidies and mitigate the impact of inflation.

Beyond the direct effects, food supply in the medium term could see additional downward pressure if a reduced supply of fertilizers causes upcoming crop yields to

fall. Analysis from the World Bank¹⁵ explains how this could potentially unfold: as the world's largest producer of soya beans, Brazil imports about half of its potash fertilizer from Ukraine and Russia. China then imports soya beans from Brazil to feed its livestock, which could affect the price of meat in China and around the world.

As a reaction to the drop in global food supply, export restrictions are being erected in the name of national interests. Most prominently, Indonesia banned palm oil exports in April 2022 and has since extended the ban to other oil products.¹⁶ Globally, the share of trade measured in calories affected by export restrictions is set to surpass the level during the 2008 food price crisis.¹⁷ At the current trajectory, the world is on track for the worst food crisis in recent history compounded by the additional pressure of high energy prices.

13 WFP, March 2022.

14 EUROSTAT, April 2022.

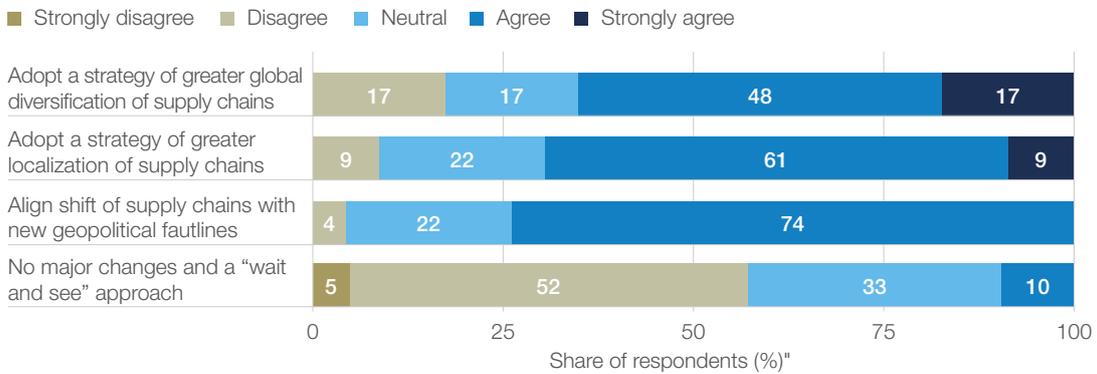
15 Ruta, April 2022.

16 Listiyorini et al., April 2022.

17 IFPRI, April 2022.

Figure 5. Multinationals’ choices and trade-offs

Given current developments, how do you expect multinational companies to respond in the next three years to prospective supply chain constraints?



Source: Chief Economists Survey, April 2022

More localization, diversification, and politicization of supply chains

Global supply chains have been increasingly redrawn over the past years, including through Brexit, the deep impact of the global pandemic, and the fallout and uncertainty from the war in Ukraine.¹⁸ Amid fears of continued shocks, both governments and business are rethinking their approach to exposure, self-sufficiency and security in trade and production relationships.¹⁹

Against this backdrop, multinational corporations have multiple strategies at their disposal to reconfigure their corporate structures and prepare their supply chains for an increasingly volatile future.

Chief Economists expect a substantial restructuring of supply chains in the next three years.

They consider it likely or highly likely that multinational companies will both diversify and localize their supply chains at the same time during that period. The realignment of global value chains along new geopolitical fault lines is also considered likely by a large majority of respondents. In the context of supply chain reconfiguration, companies are shifting from efficiency to resilience and are expected to prioritize localization over diversification. Chief Economists have little expectation for the notion of “wait and see” in the decisions of multinationals on where to place their supply chains, as pressures continue to rise globally. At the same time, the current geo-economic environment will make restructuring a complex and costly process for multinational corporations.²⁰

18 Baldwin and Freeman, April 2022.

19 In reaction to the state of the global economy, President Biden mandated a comprehensive assessment of the vulnerability and resilience of the US’s critical supply chains in February 2021; see the United States Government, February 2021.

20 Financial Times, April 2022.

Greater rollback of globalization in goods, labour and technology than services

The November Chief Economists Survey identified deglobalization as the most significant trend reversal in the global economy. The pandemic experience had fragmented value chains, trade relationships and financial ties. The repercussions from recent geopolitical events are both cementing and disrupting these trends, creating new fault lines in physical integration and compounding rifts in the virtual space, where spheres of US and Chinese influence have become a feature of the current system.

We asked the members of the Chief Economists Community for their views on the prospects for different dimensions of global integration in the next three years: the markets for goods, services, labour and technology. A majority of respondents expect goods, technology and labour markets to fragment further (79%, 65% and 54% respectively). For services, there is a split of 43% of respondents expecting fragmentation vs. 39% expecting

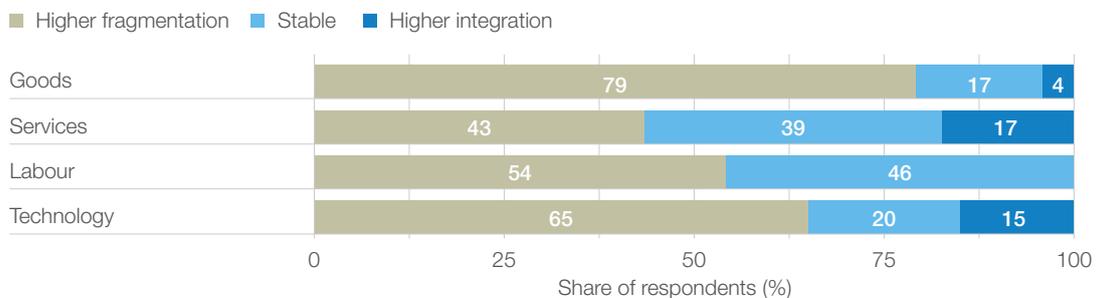
no change, while 17% of respondents see the potential for higher integration in the near future.

Only 15% of respondents see a possibility of higher integration for technology markets, while 4% expect this for goods markets. None of the respondents expects to see any movement towards higher labour market integration in the coming three years.

Sanctions effective in dampening the economic outlook for Russia

The immediate effect of Western sanctions on Russia was a plunge in the rouble followed by a sharp rebound. The early days of the sanctions regime also saw bank runs and the collapse in the value of Russian companies traded domestically and abroad to a point that necessitated the shutdown of the Russian stockmarket and led to the removal of Russian equities from foreign indices. In addition, Russia's sovereign credit rating collapsed. The central bank intervened early by hiking the policy rate and capital controls were imposed.²¹ As of 4 May 2022, almost

Figure 6. Globalization
What do you expect to be the outlook for economic integration in the next three years in the following areas?

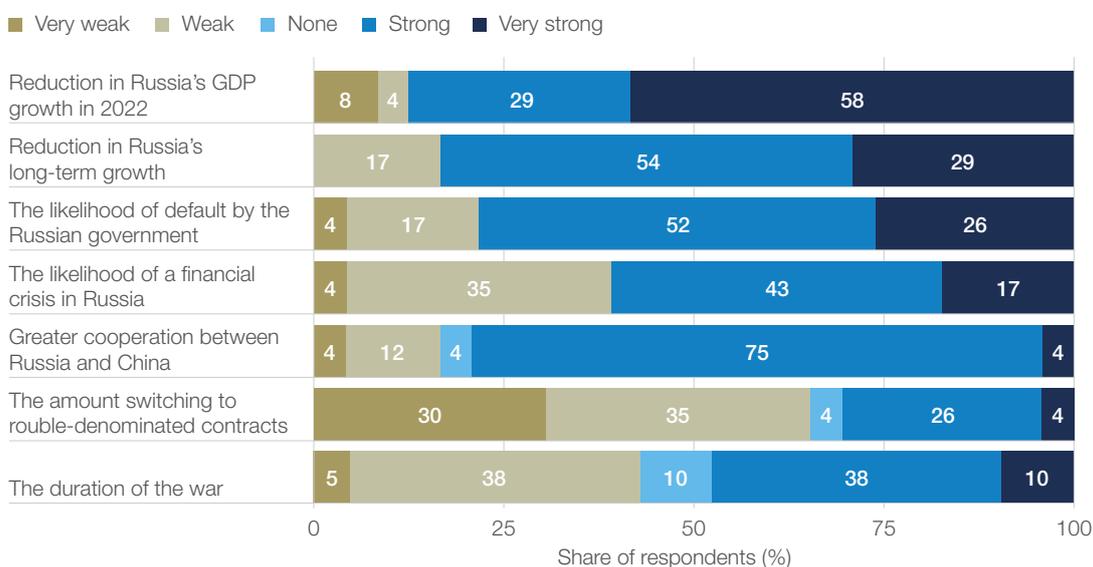


Source: Chief Economists Survey, April 2022

21 Berner, March 2022.

Figure 7. Impact of sanctions on Russia

What do you expect the impact of sanctions on Russia to be on the following outcomes?



Source: Chief Economists Survey, April 2022

1,000 companies have announced stronger measures in relation to their presence in Russia than international sanctions would require.²² About half of Russian foreign reserves were rendered unusable, the central bank had more than doubled interest rates to 20%, and oil and gas sanctions were projected to cause a loss of around \$30 billion in export revenues and around 2% of GDP.²³

At the time of writing this report, the European Commission was expected to pass a sixth package of sanctions.²⁴ The Russian economy has to some extent rebounded and is set to run a record trade surplus, leading the central bank to lower the key interest rate to 14% again.^{25,26}

We asked Chief Economists about their expectations of the impact of sanctions on different economic outcomes in the months to come. Some 87% of survey respondents expect a strong or very strong effect on lowering Russia's GDP growth in 2022, and 83% anticipate a reduction in Russia's long-term growth. The latest estimates from the EBRD²⁷ and the IMF²⁸ expect Russian GDP in 2022 to contract by 10% and 8.5%, respectively.

At the time of writing, the likelihood of Russian government default was expected to be very high, with slightly less likelihood of the sanctions triggering a financial crisis in Russia. So far, Russia has narrowly avoided default, but the risk has not subsided.^{29,30,31}

22 Yale School of Management, May 2022.

23 EBRD, March 2022.

24 Financial Times, May 2022a.

25 The Economist, May 2022a.

26 The Economist, May 2022b.

27 EBRD, March 2022.

28 IMF, April 2022.

29 Bloomberg, April 2022.

30 The Economist, April 2022.

31 Financial Times, May 2022b.

Respondents expect the impact of sanctions to strongly improve cooperation between China and Russia. According to *The Economist*, China’s exports to Russia fell by over 25% in April compared to 2021, while its imports from Russia increased by more than 56%.³² Respondents had relatively low expectations of a switch to rouble-denominated contracts. Finally, despite the economic impact of sanctions, views on whether they will prove an effective instrument for shortening the duration of the war were mixed.

Continued dominance of the US dollar as a global reserve currency

The restrictions imposed by the US on Russia through its financial sanctions regime have led some observers to argue that such a “weaponization” of the dollar might deter its future use and usefulness as a reserve currency,³³ as current sanctions prevent the Russian central bank from accessing its US dollar reserves.

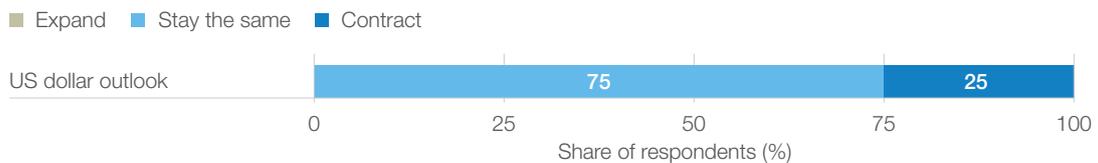
Historically, the US dollar has served as a global reserve currency since the Bretton Woods Agreement in 1944. At the turn of this century, its share as a global reserve currency stood at more than 70%. Its current share of global reserves stands at 59%, followed by the euro at 20% and the yen at 5.8%.³⁴ It has been argued that this downward trend has been a result of deliberate diversification by central banks away from the US dollar, rather than of underlying trends in its value.³⁵

In the short term, the US dollar seems to be seeing an expansion, as US monetary policy tightens and interest rates rise. The economic turmoil caused by the war in Ukraine has also led investors to switch to the US dollar as a safe haven rather than shifting out of it.

Most survey respondents expect the role of the dollar as a reserve currency to remain stable (75%) in the next three years, with only 25% seeing the role of the dollar waning.

Figure 8. US dollar outlook

The role of the US dollar as a reserve currency in the next three years will:



Source: Chief Economists Survey, April 2022

32 *The Economist*, May 2022b.
 33 Burgess, March 2022.
 34 Arslanalp et al., March 2022.
 35 Eichengreen, March 2022; Arslanalp et al., March 2022.

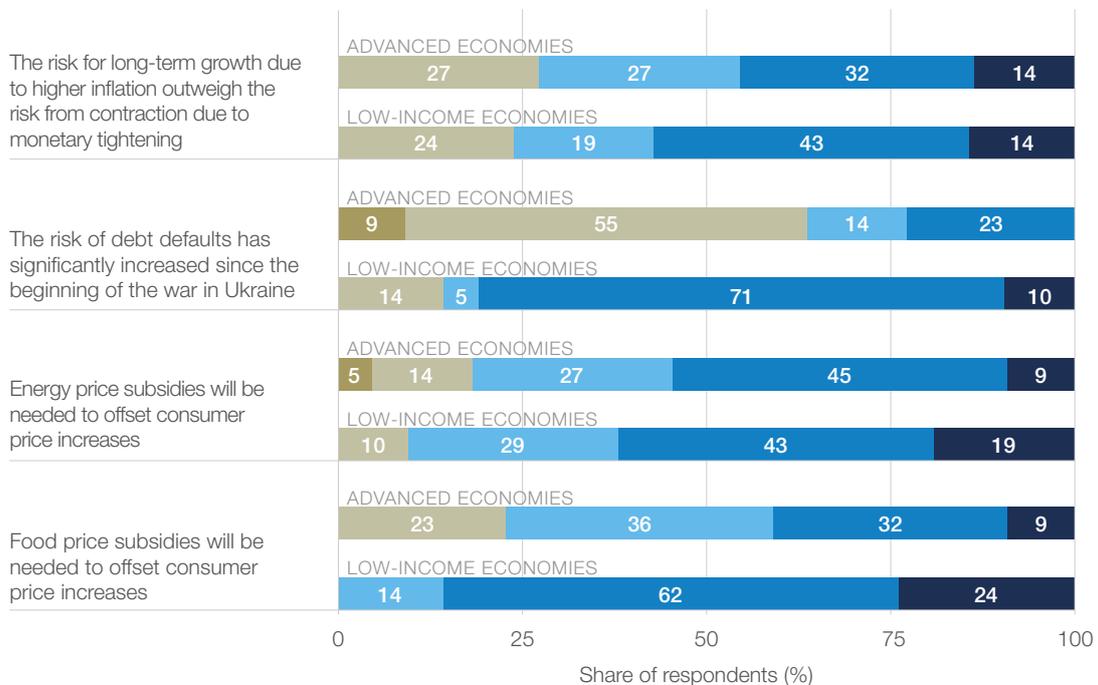
4. Navigating complexity: choices and trade-offs for policy-makers

We asked Chief Economists for their views on the next steps for macro policy action for both advanced and low-income economies, as well as the trade-offs related to inequality dynamics, energy security and global economic and climate objectives.

Figure 9. Macro policy choices and trade-offs

Do you agree/disagree with the following statements:

■ Strongly disagree ■ Disagree ■ Uncertain ■ Agree ■ Strongly agree



Source: Chief Economists Survey, April 2022

Balancing the risks of inflation and contraction

Policy-makers are facing complex trade-offs in monetary policy to tread the fine line between reining in inflation without tipping economies into recession.

Monetary policy is reflective of diverging national contexts. In the US, where inflation is running high, monetary policy has entered a phase of tightening, which is now expected to be much stronger than envisaged at the beginning of 2022, moving from an interest rate target of around 0.5% to closer to 3% by the end of 2023.³⁶ At present, in the EU, the monetary policy stance is expected to remain less restrictive, while the Bank of England raised interest by 25 basis points, taking the base rate to 1%.

In the case of advanced economies, opinions are divided over whether the risks for long-term growth associated with higher inflation outweigh the risks associated with short-term contraction due to monetary tightening. While 14% of respondents strongly agree that inflation is the bigger risk, 27% strongly feel that the risks from economic contraction in response to monetary tightening are greater.

This picture looks somewhat different for low-income economies. Views on the inflation/recession trade-off are divided, although more respondents agree that the risks for long-term growth associated with higher inflation outweigh the risks associated with short-term contraction due to monetary tightening (57% agree or strongly agree). The risks associated with higher inflation are given more weight than in the case of advanced economies (57% vs. 46%).

³⁶ Giles and Arnold, March 2022.

³⁷ Pisani-Ferry, March 2022.

Balancing the risks of food, fuel and inequality crisis with higher debt and the risk of default

Fiscal spending in many countries will need to expand to handle the fallout of the latest geopolitical developments. At the same time, policy-makers are being challenged to rebalance budgets in the wake of the COVID crisis.

Fiscal resources will need to be leveraged to support the large numbers of refugees arriving in particular in Eastern Europe and, globally, to cushion price increases in necessities such as fuel, electricity and food for the most vulnerable populations. Room for manoeuvre differs significantly across the major economies. In the US, inflationary pressures constrain additional fiscal action. In China and Europe, there is more leeway for fiscal policy.

It has been estimated that the short-term direct budgetary cost in the form of discretionary spending and tax cuts for the EU and its members could amount to €175 billion – or just over 1% of GDP in 2022 (€50 billion to offset inflation for the poorest; €75 billion on energy independence; €30 billion on refugees and humanitarian assistance; €20 billion on security and defence in 2022).³⁷

For advanced economies, more survey respondents expect there to be a need for energy price subsidies than food price subsidies (54% strongly agree or agree for energy prices, 41% agree or strongly agree for food prices). The majority of respondents (64%) do not see a significant increase in the risk of debt defaults for advanced economies.

For low-income economies, the vast majority feel that food price subsidies will be necessary (86%) and more so than energy price subsidies (62%) – the inverse of advanced economies. There is agreement that the risk of debt defaults has increased significantly since the beginning of the war in Ukraine in lower-income economies (81% agree or strongly agree).

Balancing the risks of continued fossil fuel use against the shift to green energy

The World Bank expects energy prices to rise by more than 50% in 2022 before easing in 2023 and 2024.³⁸ In response, on 1 April 2022, member countries of the International Energy Agency (IEA) agreed to the largest emergency oil stock release in the IEA's history.³⁹ Despite such drastic

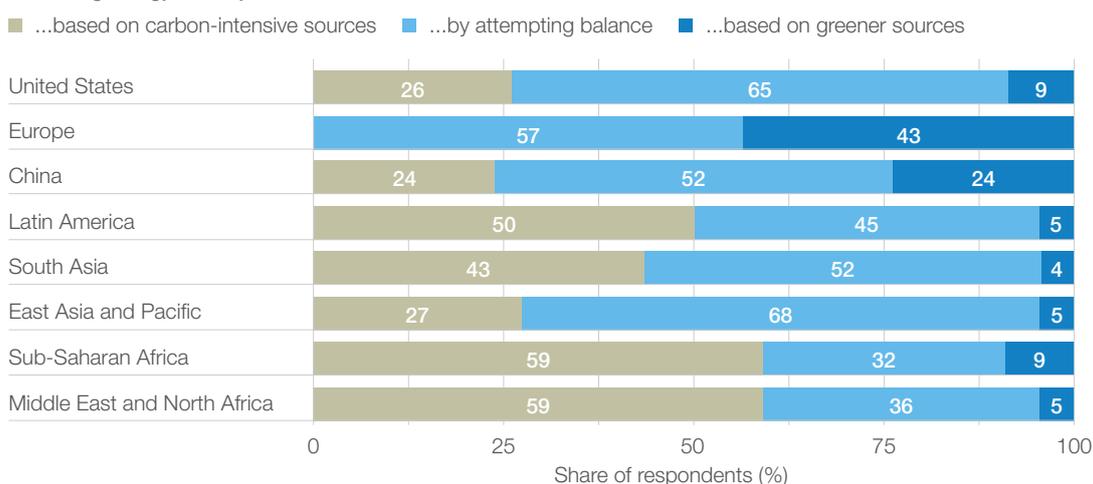
measures, the price of Brent crude oil could still average \$100 per barrel in 2022, its highest level since 2013 and an increase of more than 40% compared to 2021.⁴⁰ All-time price records are being shattered for natural gas in Europe as well as for coal.⁴¹

Ripple effects are being felt across the globe. In the short term, governments are limited to mitigating price shocks and guaranteeing energy security based on their current energy systems and supply dependencies. In the medium term, countries find themselves faced with the challenge of maintaining energy security while transforming their energy systems to meet climate-related targets. For Europe, 43% of survey respondents thus expect a pivot to greener energy sources over the next three years, while 57% expect a balanced strategy.⁴²

Figure 10. Energy policy

What is your expected outlook for energy policy priorities in the next three years in the following economies?

Prioritizing energy security



Source: Chief Economists Survey, April 2022

38 World Bank, April 2022.

39 IEA, April 2022.

40 World Bank, April 2022.

41 Ibid.

42 In Europe, although reserves are being depleted to gain time to adjust to the new environment, the short-term cost of reducing energy dependence on Russia could be as high as €100 billion.

For China, 54% of respondents expect policy-makers to attempt to take a balanced approach while 24% expect the country to follow either one of the narrower strategies. For East Asia and Pacific, the United States and South Asia, the majority of respondents expects a balanced approach. However, among those expecting a non-balanced approach, more respondents expect prioritization of energy security based on carbon-intensive sources than on greener sources across all regions except Europe and China. While this reflects national priorities, energy consumption patterns and differing sources of current supply for both carbon-intensive and greener energy sources in the next three years, the global picture does not bode well for nations reaching climate targets within the increasingly short window for climate action.

Balancing national priorities with long-term, global goals

Uncertainty, risk and stress in the global economy are extremely high at present. The fallout from the war in Ukraine is pushing systems already weakened by the pandemic to the brink of their capacity, revealing structural dependencies and unforeseen consequences in the process.

The potential for devastating secondary crises is high. According to the conclusions of the UN Secretary-General's Global Crisis Response Group on Food, Energy and Finance, the three-dimensional crisis we currently face could amount to a "perfect storm that threatens to devastate the economies of developing countries".⁴³ The combination of rising food and energy prices and their impact on already strained public budgets in many countries could

cause debt distress, lead to food shortages and blackouts, and trigger secondary armed conflicts. In advanced economies, too, inflation could similarly cause a cost-of-living crisis and lead to domestic social instability, a theme that has already been echoed by politicians across Europe.

The barrage of shocks and disruptions and the subsequent overload on the capacity of policy-makers and institutions risks diverting focus towards rising economic nationalism, causing a damaging pull-back from economic integration and a shift away from progress on humanity's long-term goals, such as combating climate change, reducing inequality and preparing for demographic change.⁴⁴

A shift of policy-makers' attention to national energy security, for example, risks deprioritizing the urgent need for action to combat climate change. Similarly, prioritizing short-term national interests at the expense of gains from the exchange of goods, services, ideas, technology and the movement of people risks setting back global economic convergence by decades, increasing the possibility of growing poverty and social and economic strife.

Faced with domestic pressures and tough decisions in uncertain conditions, it will be critical for policy-makers to keep a level head with a view towards the longer-term time horizon and a continued understanding of our shared humanity and common future.

⁴³ UN GCRG, April 2022.

⁴⁴ In a broad overview, Blanchard and Tirole (2022) identify climate change, inequality and demographic change as the three main global challenges of our time.

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