MULTIPLE CRISES ARE CHANGING THE WORLD

The onset of the Covid-19 pandemic triggered a severe loss of life, tipped millions into extreme poverty, dented investment prospects, and inflicted lasting scars on human capital through learning and job losses. In addition, there are the consequences of Russia's invading Ukraine. Our author describes the wide range of socio-economic impacts which these overlapping crises are having on the various world regions and calls on the international community to take common, determined action.

By Collette Wheeler

Following the outbreak of the pandemic, the global economy fell into its deepest recession since World War II, with gross domestic product (GDP) contracting 3.3 per cent in 2020. In response, governments rapidly deployed macroeconomic support, including by cutting policy interest rates, providing liquidity, and implementing substantial fiscal support that amounted to about 30 per cent of GDP in advanced economies and 7 per cent of GDP in emerging market and developing economies (EMDEs) in 2020.

Eventually, macroeconomic support and economic reopening gave way to a rebound in activity, with global output expanding 5.7 per cent in 2021. Despite this, global GDP remained about 3 per cent below pre-pandemic trends – in other words, below the level of output that would have been expected absent the pandemic. The recovery that emerged in 2021 was exceptionally uneven, with EMDEs experiencing weaker recoveries relative to advanced economies, partly owing to small-

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er fiscal support packages and highly unequal vaccine access in EMDEs. Although output and investment in advanced economies were expected to gradually return to pre-pandemic trends, in EMDEs – particularly in small states and fragile and conflict-afflicted countries – they were anticipated to remain markedly below.

The global economy, still suffering from the effects of more than two years of pandemic, is experiencing yet another major negative shock. The Russian Federation's invasion of Ukraine in early 2022 has not only precipitated a humanitarian catastrophe but has also resulted in a deep regional slowdown and substantial negative global spillovers. These spillovers are magnifying pre-existing strains from the pandemic, such as bottlenecks in global supply chains, and intensifying volatility in commodity markets.

Global economy set to head for sharp deceleration

Against the backdrop of this significantly more challenging context, the global economy is expected to experience its sharpest deceleration, following an initial recovery from global recession, in more than 80 years. Global growth is projected to slow from 5.7 per cent in 2021 to 2.9 per cent in 2022 and average 3 per cent in 2023-24. The effects of the invasion have also caused a further reduction in policy space, which is now much more limited than at the onset of the pandemic, particular in EMDEs. Rising global borrowing costs are heightening the risk of financial stress among the many EMDEs that over the past decade have accumulated debt at the fastest pace in more than half a century *(also see pages 7–10)*.

In EMDEs, the economic rebound following the pandemic-induced recession of 2020 was already fading prior to Russia's invasion of Ukraine. Despite the fact that the recovery from the 2020 recession remains incomplete, activity in most EMDEs is forecast to slow sharply this year. EMDE growth is expected to roughly halve from 6.6 per cent in 2021 to 3.4 per cent in 2022. Investment, which was already expected to be subdued, is likely to be further weakened by soft investor confidence, higher interest rates and heightened uncertainty about growth prospects and policy, especially in economies perceived as less creditworthy.

The invasion and its spillovers are having different impacts on EMDE regions. Outside of Europe and Central Asia, the effects have weighed particularly heavily on regions with a large number of commodity importers, as well as in those with countries especially vulnerable to the increases in global inflation and investor risk aversion. The rising cost of food is likely to have particularly adverse near-term effects, especially in countries reliant on importing staple foods like wheat and corn *(also see pages 14–16)*. Spillovers from the invasion in the form of higher prices for energy and food are reducing incomes and increasing input costs, with particularly negative impacts on the terms of trade of South Asia. Forecasts for activity have also been downgraded this year in East Asia and the Pacific as a result of lockdowns in China and recent commodity price movements, while the forecast for sub-Saharan Africa has been downgraded if major energy exporters such as Nigeria are excluded. By contrast, some regions with large numbers of commodity exporters, especially in the Middle East and North Africa, are expected to benefit from the significant increases in the prices of energy, some agricultural commodities, and several metals. However, increased policy uncertainty, price volatility, higher input costs and weaker global demand are all expected to reduce new investment, including in extractive sectors.

Poverty and food insecurity in low-income countries will increase

In low-income countries (LICs), Russia's invasion of Ukraine is expected to further deepen poverty and worsen food insecurity. Food consumption in LICs accounts for over 45 per cent of total household expenditure, and diets remain heavily based on staple foods, including wheat. Disruptions to wheat imports from Russia and Ukraine, along with surging global food prices, are therefore expected to exert a strong drag on LIC growth and stall progress in poverty reduction, particularly in those economies where large shares of the population are already experiencing food insecurity (Democratic Republic of Congo, Ethiopia, Madagascar, Mozambique, South Sudan).

In fragile and conflict-affected LICs, elevated levels of violence and insecurity are reckoned to lead to an even further deterioration of food security. Agricultural production in a number of LICs is expected to remain subdued. A few countries have faced worsening drought conditions with delayed and below-average rainfall (Horn of Africa – Ethiopia, Somalia, Sudan, Uganda); others have experienced planting delays because of poor rainfall (Burundi, Madagascar, Malawi, Mozambique). In some LICs, higher prices of grains are expected to limit the ability of farmers, especially those dependent on subsistence agriculture, to purchase enough seeds for the new planting season and feed for livestock. The war in Ukraine has also markedly disrupted global fertiliser supply, with Russia the world's largest fertiliser exporter. Higher prices of fertilisers and fuels are expected to weigh heavily on farming output as well.

Negative effects of the pandemic, inflation and the war are mutually reinforcing each other

Globally, the combined effects of the pandemic, increased inflation, the war in Ukraine and country-specific factors are reckoned to lead to a net increase of 75 million people in extreme poverty by the end of this year relative to pre-pandemic projections, primarily in regions where poverty is already elevated. Per capita income is expected to be lower in 2023 than its pre-pandemic level in about half of the countries in East Asia and the Pacific (predominantly small island economies), the Middle East and North Africa, Latin America and the Caribbean, and sub-Saharan Africa. Within regions, the recovery in per capita incomes is set to be slowest in low-income countries and island economies dependent on tourism, where incomes remain deeply depressed relative to pre-pandemic levels. In tourism dependent EMDE small states (countries with populations under 1.5 million), most of which are in East Asia and the Pacific and LAC, per capita income will probably remain 7 per cent below its pre-pandemic level in 2022.

Although the pandemic is weighing less heavily on the near-term outlook for emerging market and developing economies, it is still expected to have lasting effects on long-term growth across countries, and many of these effects will be compounded by the war. The adverse impact on human capital, investor confidence, fixed capital formation and supply chains from these two crises will weigh on long-term growth prospects. As a result, EMDE potential growth is reckoned to be below 4 per cent over 2022-30, a sharp slowdown from about 5 per cent in the 2010s.

Many of the world's poorest countries are being left behind, and much remains to be done to reverse the pandemic's staggering human and economic costs and counter damaging headwinds from the invasion. Education systems across many EMDEs are experiencing the worst crisis in 100 years. Globally, about 131 million children missed three-quarters of their in-person learning from March 2020 to September 2021. Given long school closures and the varying effectiveness of remote learning, learning poverty in low-and middle-income countries has risen sharply – the share of children under ten who are unable to read and understand a simple text, which already exceeded 50 per cent before the pandemic, is expected to surpass 70 per cent *(also see pages 22–24)*.

The global community needs to ramp up efforts to mitigate humanitarian crises caused by the war in Ukraine and conflict elsewhere. International assistance will be needed to cushion the blow from surging oil and food prices, particularly in poorer nations facing acute food insecurity risks. The impact of the war alone could tip millions back into food insecurity over the next two years. Meanwhile, EMDE policy-makers need to refrain from implementing export restrictions or price controls, which could end up magnifying the increase in commodity prices. With rising inflation, tightening financial conditions, and elevated debt levels sharply limiting policy space, spending can be reprioritised towards targeted relief for vulnerable households.

> Debt relief needs to be rapid, comprehensive, and sizable to minimise risks to growth prospects

The world has to become better prepared for pandemics

Efforts have to be maintained to end the Covid-19 pandemic, particularly in the poorest countries. Sustained collective action is required to bolster global pandemic preparedness and rapidly expand vaccination campaigns. Expanding vaccination coverage is a global priority, especially in LICs, where only not quite 20 per cent of people have been fully vaccinated owing to a combination of insufficient supply, logistical challenges and vaccine hesitancy *(also see pages 11–13)*. Much of the existing production capacity of vaccines continues to be allocated to vaccinations and boosters in higher-income countries.

Globally coordinated debt relief efforts, including the G20 Common Framework for Debt Treatments, are critical to help EMDEs where debt sustainability has sharply deteriorated amid weak growth, surging commodity prices and tighter financing conditions. Debt dynamics are especially unfavourable among LICs, about half of which were either experiencing or at high risk of experiencing debt distress prior to the invasion of Ukraine. The same is true for about one-third of EMDE small states. In the past, delays in resolving unsustainable debt have had severe economic consequences for affected countries. Accordingly, debt relief needs to be rapid, comprehensive, and sizable to minimise risks to growth prospects. International financial institutions can help by easing near-term debt service pressures.

Over the long run, policies will be required to reverse the damage inflicted by the dual shocks of the pandemic and the war on growth prospects, including preventing fragmentation in trade networks, improving education and raising labour force participation. To counter the risk of costs being pushed up by trade and financial fragmentation, policy-makers can put in place measures to enhance trade resilience and promote diversification. Moreover, reversing the scarring inflicted by Covid-19 on growth prospects will take substantial policy efforts, including investments in education and the enhancement of labour force participation through active labour market policies, especially for women. Remote and hybrid education, which became a necessity during the pandemic, has the potential to transform the future of learning if systems are strengthened and technology is better leveraged. Enhancing digitalisation and fostering connectivity are some of the steps that can increase the efficiency of education spending. Enhancing learning equality should also be promoted, including by channelling resources to disadvantaged pupils, such as those displaced by war and conflict. Finally, flexible programmes aimed at lifelong learning and reskilling the unemployed are also needed.

Collette Mari Wheeler is a Senior Economist in the World Bank's Prospects Group. She is one of the lead authors of the corporate flagship Global Economic Prospects report, which presents the World Bank's view on the global economy.
Prior to joining the World Bank, Wheeler worked for an economics consulting firm. She holds an MA in economic development and a BA in economics and philosophy from Vanderbilt University, Tennessee, USA.
Contact: cwheeler@worldbank.org