Updating The Global Economic Outlook in The Post-Pandemic Context

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Abstract

The unsteady recovery in 2021 was followed by increasingly gloomy events in 2022 as threats began to emerge. In the second quarter of this year, global output compressed due to the slowdown in China and Russia, while household spending in the United States was below estimates. Several blows have shaken a global economy already weakened by the pandemic: higher-than-expected inflation around the world - especially in the United States and major European economies - which has led to a tightening of financial conditions; a worse-than-expected slowdown in China, a result of COVID-19 and containment outbreaks; and even greater negative consequences of the war in Ukraine.

Key words: inflation, wage growth, global financial markets, global demand, monetary policy
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1. Introduction

According to the underlying forecast, growth will slow from 6.1% the last year to 3.2% in 2022, down 0.4 percentage points from the April 2022 edition of the World Economic Outlook (WEO). The slower pace of growth earlier in the year, the loss of household purchasing power and the tightening of monetary policy led to a downward revision of 1.4 percentage points in the USA. In China, new constraints and the aggravation of the housing crisis forced a 1.1 percentage point downward revision to growth, with significant global implications. In Europe, meanwhile, significant downward revisions mirror the repercussions of the war in Ukraine and monetary policy tightening. In 2023, monetary policy disinflation should start to bite and global growth in production is expected to be only 2.9%.

Overwhelmingly, risks to the outlook point to the downside. The war in Ukraine could cripple russian gas imports into Europe; inflation could be harder to reduce than expected, either because of tighter-than-expected labor markets or because inflation expectations are de-anchored; tightening global financial conditions could cause over-indebtedness in emerging market and developing economies; new outbreaks of COVID-19 and confinements, as well as a worsening of the crisis in the real estate sector, could further inhibit growth in China; (Duval et al, 2022, p.8) and geopolitical fragmentation could hamper global trade and cooperation. An alternative scenario, in which risks materialize, inflation rises further and global growth slow to 2.6% and 2.0% in 2022 and 2023, respectively, would put growth in the bottom 10% of performance since 1970.

Further tightening of monetary policy will undoubtedly entail some real financial burdens, postponing it will merely aggravate the burden. Supportive fiscal policy can certainly assist in buffering the shock to more vulnerable, yet given the fiscal situation facing governments due to the

pandemic and the need to deflate the overall macroeconomic situation (Baker et al 2016, p.131), these policies will have to be offset by higher taxes or higher public spending.

2. Literature review

Globalization is seen as a moment in the globalization process, in which the main actor is the company, preferably the multinational one. This view is supported even by Anglo-Saxon literature. Here, for example, is how one fairly recent English dictionary defines globalization. Globalization is the tendency of firms to establish production units throughout the world, i.e. wherever the market is large enough to allow economies of scale. This leads to an increase in the number and size of multinational companies. The basic feature of globalization is that goods, services, capital, labor, and ideas are transferred across borders and across borders. internationally through firms (Livesey, 1993, p.27).

A somewhat similar interpretation of globalization is found in other dictionaries.

Among them, without making a specific selection, we will refer to one recently published in Italy. Globalization is a recent process that consists in the realization of a market of world dimensions. This is made possible by the leveling out of needs standardization of products and the unprecedented development of communications and the media. Businesses interested in the phenomenon of globalization are characterized by an elastic, dynamic structure with a high technological content either in the production or distribution of goods. Among other things, they have to frequently review their strategic plans in order to avoid being excluded from the highly competitive market.

Globalization is undoubtedly not only about the activity of firms and the trade flows they cause. It also includes financial globalization, which cannot be excluded from the list of forces that have caused the major adjustments and structural adjustments in the world economy. The basic idea that emerges from some works on the subject is the following: globalization should be seen as a specific phase of internationalization of capital and the highlighting of its potential for capitalization on the scale of all regions of the world, wherever resources and markets are found markets. (Michalet, 1985, p. 91)

3. Research methodology

In the analysis, we used information provided by several international institutions.

The economic forecasts used to interpret the data are forecasts of consumer price indices for the current year and forecasts for the 6-10 years horizon.

These data were provided by the International Monetary Fund and analyzed using the purchasing managers' index. I have also analyzed data provided via Bloomberg Finance, namely the emerging markets bond index.

The research was conducted using economic data from China, Russia, the US, and major European countries, and analyzed in the context of the repercussions of the war in Ukraine.

4. Findings

The global recession is intensifying as headline economic negative risks are materialising. The faltering rebound in 2021 was succeeded by progressively gloomier trends in 2022. Earnings were marginally stronger overall than anticipated in the first quarter, yet global real-time GDP is expected to contract in the 2nd quarter - the first time it has contracted from 2020 - due to slowdowns in China and Russia.

The downside perils detailed in the April 2022 edition of the WEO report are materializing, with a broad-based rise in inflation, particularly in the United States and large European economics, leading to a sharper squeeze in world financial terms; a deeper-than-expected deceleration in China as a result of the COVID-19 imminent outbreaks and confinements; and new negative spillovers from the war in Ukraine. Once more, global inflation is raising unexpectedly, foreign central banks to tighten policy even more. As of 2021, consumer prices have been growing faster than expected, as detailed in WEO report.

In the USA, the price consumerr inflation index rose 9.1% in June versus a year earlier, and likewise rose by 9.1% in the UK in May, representing the highest rate of inflation rate in 40 years in these two countries. In the euro area, inflation ri reached 8.6% in June, the highest level since the creation of the currency union. Equally worring is the fact that in emerging markets and developing economies, inflation in the second quarter is expected to have been 9.8%. Higher food and energy prices, tight supply in many areas and a shift in the balance of demand towards service sectors have led to higher headline inflation in most economies.

However, core inflation has also risen, as reflected in various core inflation indicators, mirroring the transmission of cost push through through supply chain and labour shortages, particularly in advanced economies. On average, wage growth has not kept pace with inflation, eroding household purchasing power in both advanced and emerging markets and developing economies. While long-term expectations of inflation have remained steady in the majority of advanced economies, some measures indicate that they have started to rise, including in the United States. In response to the latest data, central banks in major advanced economies have withdrawn money and have raised inflation policy at a faster pace than anticipated in WEO April 2022. Central banks in several emerging markets and developing economies have opted for more forceful interest rate than in previous austerity cycles in advanced economies.

The resulting increase in longer-term borrowing costs, such as mortgage interest rates, coupled with the tightening of global financial conditions has led to a precipitate fall in equity prices, weighing on growth. At the same time, public aid packages to address COVID-19 have been terminated.

China's economic slowdown has exacerbated problems in the global supply chain. Outbreaks of COVID-19 and mobility restrictions under the authorities' zero COVID strategy have widely and severely disrupted economic activity.

In Shanghai, a major distribution center in the global supply chain, a strict lockdown was enacted in April 2022, forcing a halt to all economic activity in the city for approximately eight weeks. In the second quarter, real GDP contracted significantly, 2.6% in sequential figures, due to the decline in consumption, which recorded the largest drop since the first quarter of 2020, when the pandemic broke out and fell 10.3%. Since then, more contagious variants have led to a worrying increase in COVID-19 cases. China's deteriorating real estate crisis is also weakening real estate sales and investment. China's slowdown causes global consequences: confinements have exacerbated problems in the global supply chain, and declining household spending is reducing demand for goods and services from China's trading partners. The war in Ukraine continues, causing widespread problems.

The value of humanity is rising: nearly 9 million people have left Ukraine since the start of the Russian invasion, and the death toll continues to rise, as does the destruction of tangible assets. Since April 2022, the major developed countries imposed further monetary penalties on Russia; in turn, the European Union agreed to ban coal imports from August 2022 and the shipping of Russian oil from 2023.

In the meanwhile, the Organisation of the Petroleum Exporting Countries has decided to bring forward the oil supply surge scheduled for September, and the Group of Seven plans to contemplate the implementation of a price floor for russian crude deliveries.

These offsetting actions mean that the overall increase in international crude oil prices over last year is only slightly less than forecast in the April 2022 edition of the WEO report. More significantly, Russia deliveries of piped gas to Europe have recently declined sharply to around 40% of last year's volume, contributing to the sharp rise in natural gas prices in June. The contraction in the Russian economy in Q2 is estimated to have been smaller than expected as non-energy and crude oil exports held up better than expected.

In these circumstances, the consequences of the war on the main European economies have been more severe than expected, both because of rising energy prices, loss of consumer confidence, and reduced buoyancy in the industry due to persistent problems in the supply chain and rising input prices.

The food crisis is worsening. Global food prices have stabilized in recent months but remain well above 2021 levels. The main driver of global food price inflation - particularly for cereals such as wheat - has been the war in Ukraine; export restrictions imposed in several countries have pushed up

global food prices, although some of these have recently been lifted. Low-income countries, where food is a major part of consumption, are feeling the effects of this inflation the most.

Countries whose diets include mostly goods with the highest price increases (especially wheat and maize), those with the highest dependence on food imports, and those with a large pass-through of world prices to local staple food prices are the most affected.

Low-income countries with pre-war acute malnutrition and excess mortality, especially in sub-Saharan Africa, have suffered particularly severe effects. Coming slowdown, predominance of downside risks and the developments outlined in the previous section, create extraordinary uncertainty about the current outlook. The baseline projections described in the following analysis are based on several assumptions, including that there are no further unexpected reductions in natural gas flows from russia to the rest of Europe, that long-term inflation expectations remain stable, and that disorderly adjustments in global financial markets as a result of the tightening of disinflationary monetary policy do not worsen. However, there is a significant risk that some or all of these underlying assumptions may not hold true.

In addition, indicators of economic uncertainty and concerns about a coming recession have increased in recent months. For the United States, some indicators, such as the Federal reserve Bank of Atlanta's GDP. Now, forecasting model suggests that a technical recession (defined as two consecutive quarters of negative growth) may have already begun.

With growth of almost 3% in 2022-2023, a fall in global GDP per head - which is occasionally linked to a global recession - is not currently part of the baseline scenario. However, fourth-quarter-to-fourth-quarter growth projections indicate a substantial loosening of business activity in the latter part of 2022. While revisions are generally negative for advanced economies, for emerging market and developing economies they are more varied due to different exposure to underlying developments. In emerging markets and developing economies, the negative revisions to growth in 2022-23 are mainly due to the sharp slowdown in China's economy and moderating economic growth in India. As a result, the revision in emerging and developing economies in Asia is significant, at 0.8 percentage points in the base scenario for 2022.

Elsewhere, growth revisions to the baseline scenario have been mostly upward. real GDP in emerging and developing economies in Europe is projected to contract 1.5 percentage points lower in 2022 than projected in the April 2022 WEO but to grow 0.4 percentage points lower in 2023, as a result of stronger-than-expected Russian export growth in 2022 and recently announced new sanctions on Russia in 2023.

The revision in Latin America and the Caribbean is also upward, by 0.5 percentage points in 2022, thanks to a stronger recovery in the major economies (Brazil, Mexico, Colombia, Chile). On average, the outlook for countries in the Middle East, Central Asia, and Sub-Saharan Africa is unchanged or positive due to the effects of high metal and fossil fuel prices in some commodity-exporting countries.

Inflation: the headline inflation baseline projections are also more pessimistic: for 2022, they are revised up to 8.3% in Q4 from 6.9% in the April 2022 WEO. The inflation revision in 2022 is wider for developed countries, where inflation is projected to reach 6.3% in Q4, up from 4.8% in the April 2022 WEO, and is explained by substantial increases in headline CPI inflation in important countries such as the UK (revised up by 2.7 points to 10.5%) and the euro area (revised up by 2.9 points to 7.3%). The forecast for 2023 is virually unchanged - an increase of only 0.2 per percentage points from Q4 to Q4 - projecting expectations for inflation to fall as central banks tighten policy and the underlying effects of energy prices turn negative. For emerging market and developing economies, inflation in 2022 is forecast to reach 10.0% Q4-Q4. Revisions for these economies show greater diversity across countries, with relatively modest increases in emerging and developing Asia (partly due to slowing activity in China and moderate increases in food commodity prices), but larger revisions for Latin America and the Caribbean (up to 3.0 percentage points) and for emerging and developing Europe (up to 2.9 percentage points).

World trade growth in 2022 and 2023 is likely to slow more than previously anticipated, due to reduced global demand and supply chain issues.

The balance of risks is clearly on the downside, driven by a range of factors that could adversely affect global economic performance. The following issues are of particular concern. The war in Ukraine triggers further increases in energy prices. Since April 2022, the amount of Russian gas

transported by pipeline to Europe has fallen sharply, to about 40% of last year's level, which is reflected in downward revisions to the latest forecasts compared to those in April.

In Europe, this could force energy rationing, affecting the main industrial sector, and could sharply reduce economic growth in the euro area in the coming years, with negative cross-border effects.

In several economies, several labor markets are at historically high levels, and workers could increasingly demand compensation for past increases in the rising cost of living

In this case, a rapid rise in headline inflation could be succeeded by an even sharper fall if the policy is tightened too far. Deflation is more costly than anticipated. Major central governments raised interest rate in response to high inflation. But the exact degree of policy tightening needed to reduce inflations Several factors affected the underlying economic toll of previous waves of deflation, comprising the starting point of inflation and inflationary expectancy, rigidity of wages and prices, the sensitivity of prices and wages to a fall in demand, and the stance of fiscal policy.

If developments in those determinants surprise monetary policy policies, or if the monetary policy stance is miscalculated - including the level of neutral interest rates - the next disinflationary adjustment could be more destabilising than anticipated.

Previous episodes of disinflation linked to restrictive monetary conditions, like those seen in developed countries in the early 1980s, were frequently expensive, as high uncertainty was the price that had to be paid to control inflation. This time around, lower initial inflation, lower and more firmly anchored inflation expectations, and greater flexibility in labour and product markets in advanced economies suggest that the costs could be lower. However, a higher degree of sovereign and corporate indebtedness could amplify the impact of firmer policies and affect the availability of central governments to take vigorous action against inflation, with the costs to output over the medium term likely to be higher if inflationary expectations rise significantly and lead to sharper increases in interest rates.

The risk of recession is particularly important in 2023, once growth in several economies is forecast to reach a trough, aggregate household economies are expected to have shrunk over the pandemic, and even mild impacts might lead to stagnating economies. For example, the most recent forecast projects real GDP growth at an annual rate in the United States in the fourth quarter of 2023 to be just 0.6%, making it increasingly difficult to avoid a recession. In several advanced economies, rising interest rates coupled with low growth will worsen debt dynamics and widen sovereign and corporate spreads, especially in countries with high debt levels. Indeed, the tightening of financial conditions is already contributing to the divergence of borrowing rates and worries about the risk of financial fragmentation in the euro area, which could hamper the transmission of monetary policy.

Tightening financial conditions lead to deteriorating debt in emerging and developing economies. As central banks in advanced economies raise interest rates to combat inflation, financial conditions around the world will continue to tighten.

The resulting increase in borrowing costs, if national monetary policies are not appropriately tightened, will put pressure on international reserves and lead to depreciation against the dollar, generating balance sheet valuation losses in economies with dollar-denominated net liabilities.

Widespread capital flight from emerging market and developing economies could amplify this risk.

In the 1970s, surpluses of oil exporters - who benefited from higher energy prices - boosted financing in the debt markets of emerging market economics. In the beginning of the 1980s, central banks tightened policies to combat high inflation, leading to disorderly external tightening and in some cases debt arrears, particularly in Latin America. Today, could similar shocks lead to similar imbalances? Although the source of the energy price shock is very similar in both cases, there are some important differences. First, the real increase in oil prices is lower in the current case, and current world production is less dependent on oil than before.

However, despite these positive changes, increased exposure to other major bilateral creditors and the recent pandemic have created new vulnerabilities, increasing public debt and eroding future growth potential in many countries.

5. Conclusions

We don't know when the pandemic crisis will end, but we do know that millions of jobs are threatened, that we need to protect the most vulnerable segments, such as SMEs, individual workers, women and young people, that we need to create survival mechanisms for companies.

Strong support is needed to address the social and economic impact of COVID-19. In the immediate future, there is an urgent need for fiscal and monetary measures to protect jobs jobs, keep cash flowing and businesses afloat, and accelerating future recovery. Tourism is a major source of jobs, especially for the most vulnerable groups, including women and young people. It is also a sector that has demonstrated resilience and its multiplier effect for the recovery of other sectors.

Strong and concerted mitigation and recovery plans in support of the sector can produce huge benefits for the overall economy and employment. Group Leaders of the 20 major economies (G20) have pledged to inject more than $5 trillion to support the global economy as part of their joint measures to reduce the economic impact of the pandemic.

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