Chief Economists Outlook
September 2022

This briefing builds on the latest policy development 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 geo-economic and geopolitical events.
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1. Context

The September 2022 Chief Economists Outlook1 launches at a time of significant economic danger. The risks highlighted in our May outlook have begun to crystallize, dramatically so in the case of persistent inflation, which has surged to levels not seen in a generation in response to a combination of demand-side and supply-side factors. This in turn has triggered a sharp tightening of monetary policy in many countries, including the United States, threatening to choke off global growth. Meanwhile, real wages and consumer confidence are in freefall, adding further headwinds to growth and raising the prospect of social unrest.

Against this daunting backdrop, leaders face a catalogue of challenging decisions and trade-offs. As policy-makers seek to rein in inflation they risk triggering recession and a spike in unemployment. Introducing fiscal support measures for struggling households risks adding to levels of public borrowing that are already high after the outlays required by previous crises. Debt distress is at worrying levels among lower-income countries, increasing their exposure to additional shocks, such as climate-related natural disasters and placing many in a vicious cycle of debt servicing costs. The aftereffects of the pandemic era disruptions and the ongoing war in Ukraine are contributory factors in the current global economic picture.

The longer-term risk is that deepening geopolitical fissures continue to undermine policy coordination, weaken the global interconnectedness built over numerous decades and reduce opportunity, investment and growth potential for all. This is dramatically illustrated by changes to global supply chains as businesses seek to recalibrate in response to numerous shocks to global political and economic systems. Domestically and globally, we are in uncharted waters in the months ahead, and the repercussions of decisions by policy-makers and business leaders will be with us for years to come.

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1 Data collection for the Chief Economists Survey was concluded on 11 September 2022. Editing was concluded on 20 September 2022.
2. The outlook darkens

Global growth falters

The prospects for the global economy have dimmed according to the results of our latest survey of chief economists. Expectations for growth have been pared back in all regions and almost three-quarters of respondents now consider a global recession to be at least somewhat likely. This darkening of mood is in line with consensus forecasts. For example, in July the IMF trimmed 0.4 and 0.7 percentage points from its global growth forecasts for 2022 and 2023, to 3.2% and 2.9%, respectively.2

Figure 1. Global recession outlook
How likely is a global recession in 2023?

![Graph showing the share of respondents (%) for different likelihood of a global recession in 2023.]

Note: The numbers in the graphs may not add up to 100% because figures have been rounded up/down.
Source: Chief Economists Survey, August 2022

On a disaggregated basis, our survey again highlighted Europe and China as being weak points in the global growth outlook this year. Almost nine out of ten respondents expect growth in Europe to be weak or very weak. This is unsurprising given the headwinds facing the region, including the ongoing war in Ukraine, high inflation and threats to energy supplies ahead of a potentially extremely challenging winter.3 Respondents are marginally less pessimistic about China’s growth prospects, with 67% expecting weak or very weak growth in 2022, but concerns about the country’s real estate sector and its COVID-19 restrictions continue to cast a shadow on the growth outlook.4

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2 IMF, July 2022.
3 See European Investment Bank, June 2022 for a detailed analysis of the war’s impact on the European recovery.
4 Sano and Cheng, September 2022.
Moving into 2023, there is a notable divergence in respondents’ expectations for Europe and China. A slight, further weakening of growth is expected in Europe, whereas there is a marked increase in the proportion of respondents expecting a pick-up to moderate growth or better in China. The projected improvement in China in 2023 also diverges from the expected trajectory for the United States: more than 60% of respondents expect moderate growth or better in the US this year, but less than half as many are as optimistic for 2023. A key driver of this slowdown is the likely continuation of monetary tightening in the US, which we discuss in the next section.

Elsewhere in the world, our survey points to a broadly positive outlook for full-year growth in 2022 across most regions. The Middle East and North Africa (MENA) region looks set to perform particularly well, with around 71% of respondents expecting growth to be moderate or better, in line with the strong year enjoyed by the region’s many energy exporters. For example, Saudi Arabia experienced record growth in the first half of 2022, and the IMF expects it to record GDP growth of 7.6% for the full year. The outlook for MENA remains broadly positive in 2023, with an unchanged proportion of respondents expecting moderate growth or better, but there is a sharp reduction in the proportion expecting growth to be strong or very strong (from 47% to 12%).

In South Asia, the vast majority of respondents expect moderate growth in both 2022 and 2023, but there is an uptick (from 7% to 20%) in the proportion suggesting growth will be weak. A more pronounced version of this trend is recorded in Central Asia, where the proportion expecting weak growth doubles from 20% to 40%, while in sub-Saharan Africa the large majority (43%) expecting weak growth in 2022 becomes a solid majority (60%) in 2023. By contrast, respondents are modestly more upbeat about Latin America’s prospects next year than this year, with a small increase in the proportion (from 50% to 56%) expecting moderate growth.

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5 Mati and Rehman, August 2022 and IMF, September 2022.

### Figure 2. Economic growth

What is your expectation for economic growth in the following geographies for years 2022 and 2023?

<table>
<thead>
<tr>
<th>Region</th>
<th>2022 Very weak</th>
<th>2022 Weak</th>
<th>2022 Moderate</th>
<th>2022 Strong</th>
<th>2022 Very strong</th>
<th>2023 Very weak</th>
<th>2023 Weak</th>
<th>2023 Moderate</th>
<th>2023 Strong</th>
<th>2023 Very strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East and North Africa</td>
<td>6</td>
<td>24</td>
<td>24</td>
<td>39</td>
<td>6</td>
<td>6</td>
<td>24</td>
<td>24</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>22</td>
<td>33</td>
<td>50</td>
<td>39</td>
<td>22</td>
<td>22</td>
<td>17</td>
<td>65</td>
<td>65</td>
<td>12</td>
</tr>
<tr>
<td>South Asia</td>
<td>17</td>
<td>24</td>
<td>67</td>
<td>65</td>
<td>17</td>
<td>17</td>
<td>24</td>
<td>65</td>
<td>65</td>
<td>12</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>6</td>
<td>24</td>
<td>53</td>
<td>47</td>
<td>6</td>
<td>6</td>
<td>24</td>
<td>53</td>
<td>47</td>
<td>6</td>
</tr>
<tr>
<td>United States</td>
<td>9</td>
<td>36</td>
<td>55</td>
<td>59</td>
<td>9</td>
<td>5</td>
<td>36</td>
<td>55</td>
<td>59</td>
<td>5</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>6</td>
<td>44</td>
<td>71</td>
<td>50</td>
<td>6</td>
<td>5</td>
<td>44</td>
<td>71</td>
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<tr>
<td>Central Asia</td>
<td>6</td>
<td>50</td>
<td>50</td>
<td>44</td>
<td>6</td>
<td>4</td>
<td>50</td>
<td>50</td>
<td>44</td>
<td>4</td>
</tr>
<tr>
<td>China</td>
<td>10</td>
<td>33</td>
<td>57</td>
<td>52</td>
<td>10</td>
<td>5</td>
<td>33</td>
<td>57</td>
<td>52</td>
<td>14</td>
</tr>
<tr>
<td>Europe</td>
<td>23</td>
<td>27</td>
<td>64</td>
<td>59</td>
<td>23</td>
<td>9</td>
<td>27</td>
<td>64</td>
<td>59</td>
<td>9</td>
</tr>
</tbody>
</table>
### Figure 3. Employment growth
What is your expectation for employment growth in the following geographies for years 2022 and 2023?

<table>
<thead>
<tr>
<th>Region</th>
<th>2022 Very weak</th>
<th>2022 Weak</th>
<th>2022 Moderate</th>
<th>2022 Strong</th>
<th>2022 Very strong</th>
<th>2023 Very weak</th>
<th>2023 Weak</th>
<th>2023 Moderate</th>
<th>2023 Strong</th>
<th>2023 Very strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>25</td>
<td>55</td>
<td>40</td>
<td>15</td>
<td>20</td>
<td>20</td>
<td>50</td>
<td>40</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>7</td>
<td>19</td>
<td>80</td>
<td>81</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>23</td>
<td>20</td>
<td>54</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>South Asia</td>
<td>7</td>
<td>20</td>
<td>87</td>
<td>80</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Central Asia</td>
<td>20</td>
<td>40</td>
<td>73</td>
<td>60</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>43</td>
<td>60</td>
<td>57</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>20</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>China</td>
<td>13</td>
<td>31</td>
<td>56</td>
<td>31</td>
<td>13</td>
<td>20</td>
<td>31</td>
<td>56</td>
<td>31</td>
<td>13</td>
</tr>
</tbody>
</table>

**Source:** Chief Economists Survey, August 2022

Our survey respondents appear somewhat more optimistic about the prospects for labour market activity than for overall economic activity. This is in line with widespread surprise about the behaviour of labour markets in recent months, particularly in the US, where the market has been running very hot.\(^6\) This is reflected in our survey results: none of our respondents expects “very strong” economic growth for the US this year, but 20% expect very strong employment growth. The picture is more ambiguous in Europe: 45% expect employment growth to be weak or very weak, but another 25% expect it to be strong. Across South Asia, East Asia and Pacific and Central Asia, large majorities of respondents expect moderate employment growth for 2022 (87%, 80% and 73%, respectively). The employment outlook worsens across most geographies next year, and Europe is the worst performer according to our survey, with 65% of respondents expecting weak or very weak employment growth. Latin America and the Caribbean, China and the Middle East and North Africa are expected to perform slightly better in 2023.

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Inflation heightens recession risks

One contributor to the weak outlook for global growth is very high rates of inflation, which have triggered a synchronized wave of sharp monetary tightening designed to curb prices, restore the credibility of central banks’ inflation-targeting framework and prevent medium-term inflation expectations becoming unanchored.\(^7\) Our survey suggests that this will likely succeed in dampening inflationary pressures over the course of 2023. However, the cost is likely to be a significantly sharper fall-off in growth rates than might otherwise have been the case, as well as significant financial strains in lower-income countries, especially those that rely on imports of energy and food and those with large debt servicing costs, as rising rates in the US tend to draw financial flows into US dollar assets.

With the exception of China and the MENA region, our survey points to continued elevated rates of inflation across the world for the remainder of 2022. This pattern is particularly stark in the US and Europe, where 93% of respondents expect inflation to remain high. The impact of current monetary tightening by the Federal Reserve (Fed) and the European Central Bank (ECB) – in early September, the latter hiked interest rates by 75 basis points, its largest ever single move – is evident in the easing of inflationary dynamics that Chief Economists expect next year: 57% and 52% of respondents expect 2023 inflation to be moderate or low in the US and Europe, respectively.

**Figure 4. Inflation**

What is your expectation for inflation in the following geographies for years 2022 and 2023?

<table>
<thead>
<tr>
<th>Geographical Region</th>
<th>2022 Very Low</th>
<th>2022 Low</th>
<th>2022 Moderate</th>
<th>2022 High</th>
<th>2022 Very High</th>
<th>2023 Very Low</th>
<th>2023 Low</th>
<th>2023 Moderate</th>
<th>2023 High</th>
<th>2023 Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>7</td>
<td>52</td>
<td>93</td>
<td>43</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>7</td>
<td>47</td>
<td>93</td>
<td>47</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>14</td>
<td>35</td>
<td>86</td>
<td>59</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>27</td>
<td>40</td>
<td>73</td>
<td>53</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td>13</td>
<td>38</td>
<td>63</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Asia</td>
<td>33</td>
<td>60</td>
<td>67</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>25</td>
<td>50</td>
<td>56</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>7</td>
<td>60</td>
<td>58</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>21</td>
<td>58</td>
<td>61</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Chief Economists Survey, August 2022

\(^7\) Adrian and Natalucci, August 2022.
China is something of an outlier on inflation at present, owing in part to the growth headwinds it is facing. This can be seen in the hard data, which show annual inflation at a comparatively sedate 2.7% in July 2022.\(^8\) It is also echoed in our survey, with a greater proportion of respondents than anywhere else expecting low inflation for both 2022 (21%) and 2023 (28%). In most of the rest of the world, only a very small proportion of our respondents expect low inflation next year, but as Figure 4 illustrates, there is a clear shift from “high” to “moderate” expectations between 2022 and 2023.

There have been some tentative signs of moderation of price dynamics already taking place in the US economy, such as consumer price inflation (CPI) data for July 2022 that pointed to prices being flat on a month-on-month basis, albeit still high at 8.5% on an annual basis.\(^9\) This prompted a wave of speculation that the Fed might slow the pace of monetary tightening, but a month later, expectations whipped back in the other direction when CPI results for August surprised on the upside.\(^10\)

In short, there remains a great degree of uncertainty about the pace and trajectory of inflationary pressures and central bank responses to them. This in turn means there is an unusual degree of uncertainty over economic and financial developments more generally. Prices are being pushed up not just by high levels of aggregate demand but by a range of factors affecting crucial supplies, such as food, energy, raw materials, intermediate goods and labour. There have been dramatic revisions to inflation forecasts over the course of this year, not least because of the outbreak of war in Ukraine, which has led to spikes in prices for food and energy. For example, in January, the IMF was projecting that global inflation would peak in the first quarter of 2022 at 5.4%, whereas by August it was forecasting that the peak would be both higher and later – at 9% and in the third quarter – and that prices will still be rising by more than 4% at the end of next year.\(^11\)

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8 Organization for Economic Co-operation and Development (OECD), 2022.
Against this volatile backdrop, a key question remains how aggressively central banks will feel they need to tighten policy in order to keep inflation expectations anchored. In the Eurozone, for example, the ECB’s Consumer Expectations Survey suggests that median inflation expectations three years out are close to 3%, with mean expectations even further above the bank’s 2% target, at almost 5%. At the annual Jackson Hole gathering of central bankers in August, a series of carefully calibrated remarks suggested that central banks would err on the side of caution and maintain a hawkish policy stance. As Figure 5 illustrates, our survey shows a range of views on the likely direction of monetary policy over the next year. Very large majorities expect continued tightening in the US and Europe, while in most other regions a smaller majority expects policy to be unchanged a year from now. China is something of an outlier here. In line with the weaker growth outlook discussed above, a plurality of respondents expects monetary policy in China to loosen over the next year.

12 ECB, September 2022.
13 In his opening remarks to the Jackson Hole Economic Policy Symposium, Jerome Powell announced that “we must keep at it until the job is done” (Powell, August 2022).
Our survey also asked for Chief Economists’ views on the relative efficacy of different policies in terms of bringing down inflation. The results are instructive. Perhaps unsurprisingly, almost eight out of ten respondents said higher interest rates would be “effective” or “highly effective”, which is significantly higher than the corresponding figures for many other measures such as tighter fiscal policy (55%), forward guidance (52%), wait and see (30%) or price controls (16%). However, the policy measures deemed most effective (albeit by a small margin) are changes on the supply side of the economy (such as policies to ease supply chain disruptions or to boost the workforce), which 85% said would be effective or highly effective. This highlights the complexity of current inflationary dynamics, with demand-side issues being compounded by a variety of supply-side factors related, among other things, to the war in Ukraine and the recovery and readjustment of economic activity after COVID-19 disruptions.
3. The cost of living bites

Real wages continue to fall

The human toll of the unfolding crisis is severe and global, and some of the starkest responses in our latest Chief Economists Survey relate to the cost of living. In particular, respondents are near-unanimous in the view that wages will fail to keep pace with surging prices in 2022 and 2023. Around nine in ten expect real wages to decline in low-income economies during that period. The corresponding result for high-income economies is only marginally less pessimistic, with 80% expecting further falls in real wages.

Figure 7. Cost of living
Do you agree/disagree with the following statements?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Share of respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average real wages will decline in 2022-23</td>
<td></td>
</tr>
<tr>
<td>High-income economies</td>
<td>15  5  65  15</td>
</tr>
<tr>
<td>Low-income economies</td>
<td>11  68  21</td>
</tr>
<tr>
<td>Poverty will increase</td>
<td></td>
</tr>
<tr>
<td>High-income economies</td>
<td>5   35  50  10</td>
</tr>
<tr>
<td>Low-income economies</td>
<td>5   58  32</td>
</tr>
<tr>
<td>Energy price subsidies will be used to offset consumer price increases</td>
<td></td>
</tr>
<tr>
<td>High-income economies</td>
<td>5   30  65  11</td>
</tr>
<tr>
<td>Low-income economies</td>
<td>11  21  58</td>
</tr>
<tr>
<td>Food price subsidies will be used to offset consumer price increases</td>
<td></td>
</tr>
<tr>
<td>High-income economies</td>
<td>45  25  30  11</td>
</tr>
<tr>
<td>Low-income economies</td>
<td>26  58  11</td>
</tr>
<tr>
<td>Rising costs will lead to civil unrest</td>
<td></td>
</tr>
<tr>
<td>High-income economies</td>
<td>10  30  40  20</td>
</tr>
<tr>
<td>Low-income economies</td>
<td>21  79  10</td>
</tr>
</tbody>
</table>

Source: Chief Economists Survey, August 2022

Reliable wage data are patchy and subject to considerable lags, but the latest figures from around the world point to significant pressure on household incomes. This is perhaps starkest in Europe, which, as noted above, is particularly exposed to spillovers from Russia’s war in Ukraine. For example, in the first quarter of 2022, real wages across the Eurozone declined by 1.7% year on year. Excluding the economic shock from the outbreak of COVID-19 in 2020, this represents the worst hit to inflation-adjusted
wages since before the global financial crisis. Even at the height of the Eurozone crisis, real wages never declined in the Eurozone by more than one percent.

The global scale of the erosion of living standards is made clear by similar results in numerous other countries. For example, International Labour Organization data for the first quarter of 2022 point to falling real wages in Canada (down 2.4%), Mexico (down 1.6%) and Brazil (down 9.1%). The OECD projects that a range of other countries will record a fall in real wages for the full year 2022, including Australia (down 2.0%), Korea (down 1.8%) and the United States (down 0.6%). Moreover, grim as many of these latest figures are, the actual current position is inevitably worse given the dramatic intensification of inflationary pressures since the start of the year.

The continuing deterioration of household purchasing power will compound an already fraught situation for those on the lowest incomes. The World Bank expects 2022 to be the second worst year since the turn of the century in terms of global poverty, surpassed only by 2020.14 In our latest survey of Chief Economists, almost six out of ten respondents expect an increase of poverty in high-income countries, while almost nine in ten expect the same in low-income countries. It is important to note that even when inflation rates drop back from their current highs, elevated price levels will remain a challenge, particularly for those on fixed incomes. This is not just an issue for low-income countries. In the UK, for example, the central bank expects prices at the end of 2023 to be around 20% higher than two years earlier.15 Prior to this surge in prices, it had taken the preceding ten years to record a level shift of this magnitude.

Food and energy security under threat

These aggregate pressures on household purchasing power are exacerbated by the fact that some of the sharpest price increases have been recorded for food and energy: basic necessities at both an individual and societal level.

According to World Bank data, in July 2022 more than 125 countries recorded food price inflation in excess of 5%, including around 90% of low- and middle-income countries and more than 80% of high-income countries.16 On average, food price inflation has been highest this year in upper-middle-income countries, while the acceleration of prices has been most pronounced in high-income countries.17

There have been some encouraging headline figures pointing to an easing back of global food prices, such as five consecutive monthly declines in the Food and Agriculture Organization (FAO) Food Price Index from its March 2022 peak. However, caution is warranted. In August, the index stood at 138.0, still 7.9% higher than a year earlier and 46.8% higher than in August 2019. Moreover, the FAO index is based on US-dollar prices, so its decline since March overstates the respite felt by the many countries that have seen their currencies depreciate against the dollar in recent months. Another point to note is that high prices for energy and fertilizers this year, as well as growing water stress, are likely to feed through to higher food prices in the coming years.

14 Gerszon Mahler et al., April 2022.
16 World Bank, August 2022.
17 IMF Data, 2022.
According to our survey of Chief Economists, food security could be at risk across large swathes of the globe over the next three years. As Figure 8 demonstrates, concerns are particularly evident in relation to sub-Saharan Africa and the MENA region, but large minorities of respondents also expect food insecurity in South Asia and Central Asia. The World Food Programme recorded acute food insecurity in 53 countries (totaling around 193 million people) in 2021, and its latest projections point to a worsening situation this year, with an expected 205.1 million people expected to experience acute food insecurity in the 45 countries for which forecasts are available.

Rising concerns about food security have led to repeated instances of export restrictions, which risk exacerbating global supply disruptions. For example, in September, India, the world’s largest rice exporter, introduced a ban on exports of broken rice and a 20% export duty on other grades of rice. Given that the stability of rice prices in 2022 was instrumental in preventing a fully-fledged global food crisis, the prospect of higher rice prices could spell potential emergency conditions in already stressed regions.

Turning to the energy sector, the outlook for prices and security of supply has been equally worrisome. Natural gas prices hit record highs for the fourth consecutive month in August 2022, up 130% from the start of the year and by almost 250% year on year. While these latest increases have yet to be fully reflected

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19 Global Report on Food Crises, September 2022 Mid-Year Update.
20 Jadhav, September 2022.
21 Based on World Bank Monthly Commodity prices, September 2022.
in electricity bills and the price of goods and services, many countries are braced for very difficult winter months ahead. Europe faces a particularly challenging situation given the previous reliance of many countries in the region on Russian energy supplies that are now being withdrawn. Energy price inflation has surged in many countries, with annual increases of 140% being recorded in Estonia, for example. Even countries with little direct reliance on Russian supplies are facing major increases in energy costs owing to trends in global commodities markets.

Turmoil in the energy markets poses serious challenges to policy-makers. In the short term, the priority has been to shield households and businesses from the worst of the price increases. To this end, governments have been announcing extremely expensive support schemes of various sorts, including a UK price cap that it is estimated will cost upwards of £150 billion over the next two years. The current energy crisis also poses more structural and long-term challenges and dilemmas for policy-makers, notably related to the diversification of energy supplies away from oil and gas. It is notable that our survey respondents were split over whether the energy crisis would speed up or slow down the green transition. The optimistic case is that the crisis will force up the pace and scale of investment into renewable energy sources. The pessimistic riposte is that when faced with potential electricity blackouts, green criteria may struggle for traction in the short term at least, as can be seen in the fact that global coal consumption is set to return to an all-time high in 2022.

Figure 9. Energy transition
Given recent disruptions in global energy markets, what impact do you expect on the pace of the transition from fossil fuels in the following geographies?

Source: Chief Economists Survey, August 2022

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22 Parker, Pickard, Giles, September 2022.
23 See for example the EU’s REPowerEU plan, or the $300 billion of green investment included in the Inflation Reduction Act that was recently passed in the US.
Social unrest is on the rise

The past decade has already seen numerous instances of economic discontent feeding into febrile political dynamics, and the threat to living standards and basic necessities discussed above is likely to increase the risk of future disruption. In our survey, 79% of respondents said they expect rising costs to trigger social unrest in low-income countries, while the corresponding result for high-income countries was much lower at 20%.

The backdrop for the current cost of living crisis is one of worryingly fraying social fabrics across the world. According to the 2022 Global Peace Index, political instability is now at its highest since the global financial crisis in 2008.25 The past year saw 51 countries record a deterioration in political stability, compared to 26 recording an improvement. This gloomy picture is repeated across multiple data sources. A Civil Unrest Index produced by Verisk Maplecroft concludes that 101 countries (more than half the 198 tracked) recorded an increasing risk of social unrest between the second and third quarters of 2022, compared to just 42 that registered an improvement.26 The authors of this index explicitly link its deterioration to rising food and energy prices.

The gravity of the current moment is not lost on political leaders in many economies and several have launched bold initiatives to curb price rises or to shield their populations from the worst impacts.27 Some of these interventions will be exceptionally expensive, particularly for countries like those in Europe that are heading into winter and so will see demand for energy surge. However, in many parts of the developing world, further spending is constrained or impossible, with some governments running out of fiscal space, reducing their ability to manage the cost of living crisis, while in other countries the backdrop of tightening global monetary policy (particularly in the US) threatens a spike in debt servicing costs. In the next section, we turn to consider these dynamics.

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26 Soltvedt, September 2022.
27 Sgaravatti, Tagliapietra, Zachmann, August 2022.
4. Debt dynamics deteriorate

The current tightening of global monetary policy threatens to push more sovereign borrowers into distress as their debt-servicing costs increase. Across all regions, public debt burdens have increased significantly over the past decade, with the exceptional fiscal stimulus necessary to counter the COVID-19 crisis coming after years of accumulated borrowing while interest rates were at exceptional lows. According to the IMF, the average share of general government gross debt to GDP increased by 29.9 percentage points between 2010 and 2022 in low-income economies, and by 15.5 percentage points increase in high-income countries. In addition, a further increase in borrowing can now be expected in many countries as governments intervene in response to surging energy costs.

**Figure 10. Debt outlook**
Do you agree/disagree with the following statements?

<table>
<thead>
<tr>
<th>Statement</th>
<th>High-income economies</th>
<th>Low-income economies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Since the start of 2022, the risk of corporate debt defaults has increased significantly</td>
<td>High-income economies: Strongly disagree 32. Disagree 26. Agree 37. Strongly agree 5 Low-income economies: Strongly disagree 16. Disagree 79. Agree 5</td>
<td></td>
</tr>
<tr>
<td>Sovereign debt-servicing costs will be a significant drag on economic growth over the next three years</td>
<td>High-income economies: Strongly disagree 5. Disagree 42. Agree 11. Strongly agree 42 Low-income economies: Strongly disagree 16. Disagree 68. Agree 16. Strongly agree 16</td>
<td></td>
</tr>
<tr>
<td>Since the start of 2022, the risk of sovereign debt defaults has increased significantly</td>
<td>High-income economies: Strongly disagree 16. Disagree 42. Agree 16. Strongly agree 21 Low-income economies: Strongly disagree 5. Disagree 68. Agree 26. Strongly agree 5</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Chief Economists Survey, August 2022

Against this backdrop, our survey of Chief Economists highlights near-unanimity about the growing risks of defaults in low-income countries. There has already been one recent sovereign default in Sri Lanka, and more than 90% of respondents agree that the risk of default has increased across low-income economies. This aligns with the latest figures from the IMF, which point to 60% of low-income economies being in or at high risk of debt distress.
This marks a sharp deterioration in the position of these countries: a decade ago, the proportion in or near debt distress was just 20%. The default in Sri Lanka is therefore a wake-up call as many low-income countries face a perfect storm: already tending to have high shares of debt denominated in foreign currency, many have recently been hit by exchange-rate depreciations, while their external positions have also been weakened by adverse developments in global food and energy markets. As more countries inch towards new bailout packages, including Pakistan, Zambia and Nigeria, policy targets of the approved loans risk clashing with the immediate priorities and distracting from the measures needed to re-stabilize the economies.

By contrast, respondents are relatively sanguine about the prospect of default in high-income economies, with 26% flagging this as a risk that has increased in 2022. Instead, the survey points to greater worries among Chief Economists about the impact of debt on growth in high-income countries, with 42% expecting debt-servicing costs to exert a significant drag on growth over the next three years. This potential drag on growth can be seen in the sharp increases in bond yields this year. For example, in the first eight months of the year, the yield on UK 10-year bonds almost tripled (to 2.9%) while French yields increased more than eight-fold (to 2.2%). Again, however, low-income economies are viewed as more vulnerable here, with more than 80% of our survey respondents expecting these countries’ growth to suffer because of rising debt-servicing costs.

A further potential concern as financing conditions become less accommodating is that countries will see their capacity to respond to crises erode. Given the succession of crises that have been buffeting the world over the past 15 years, further dramatic developments requiring large-scale fiscal intervention cannot be ruled out. For example, Europe’s energy crisis has led the EU to announce numerous public responses requiring government outlays in the region of 2% of GDP, ranging up to 3.7% of GDP in the case of Greece. The difficulty of maintaining resilience in the face of successive crises is a growing concern. In our survey, around a third of respondents said that high-income countries no longer have the fiscal space to deal with another macroeconomic shock. For low-income countries, this worry is shared by almost three-quarters of respondents.

It is also worth noting that concerns are increasing about developments in the riskier segments of the corporate bond market. Once again, our survey respondents highlight a stark divergence in the risks faced by high-income and low-income countries, with 42% of respondents pointing to an increased risk of corporate defaults in the former, compared to 84% for low-income countries. While analysts do not seem concerned about the crystallization of systemic risks in global corporate bond markets, signs of strain are increasing. For example, the credit ratings agency Fitch estimates that high-yield default rates will double next year. Similarly, the effective yields of the ICE BofA Euro and ICE BofA US high-yield indices have increased sharply this year and by the end of August were back at around the levels they had hit in the immediate aftermath of the outbreak of COVID-19 (albeit still far below the peaks reached during the global financial crisis in late 2008). In low-income countries, risks in private debt markets can intertwine with the extremely challenging public financing conditions. If this limits the ability of governments to maintain the stability of local financial markets, it can pose a threat to the development of the private sector.

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28 Gourinchas, July 2022.
30 Sgaravatti, Tagliapietra, Zachmann, August 2022.
31 Martin, August 2022.
32 FitchRatings, July 2022.
33 Federal Reserve Bank of St. Louis, September 2022.
34 Federal Reserve Bank of St. Louis, September 2022.
35 IMF, April 2022.
5. Global fragmentation deepens

Geopolitics and the global economy
To an unusual and growing extent, global macroeconomic developments are currently being shaped by geopolitical turbulence. The war in Ukraine is a proximate cause of many of the disruptions discussed in previous sections, including surging inflation, concerns around food and energy security, and the prospect of a sharp slowdown in economic activity in Europe. The geopolitical turn in the world economy predates the Russian invasion – the rivalrous evolution of the US-China relationship has had important spillovers for years – but the return of war in Europe appears to be a tipping point of sorts for the way people think about geopolitical risk.

The Chief Economists we survey are unambiguous in assigning a prominent role to geopolitical factors across a broad range of macroeconomic and financial developments in the years ahead. Almost nine out of ten expect heightened geopolitical risk to have a significant impact on global economic activity over the next three years, and only slightly fewer (85%) expect business strategies to be similarly affected. A smaller proportion of respondents (69%) expect to see geopolitical tensions affect global financial markets over the three-year horizon, but this figure remains high given the context of the last few years when there have been few signs of global markets pricing in the gradual escalation of geopolitical tension and uncertainty.

Interestingly, while respondents are clear in drawing lines of connection between geopolitical causes and economic effects, there is less agreement on the relationship in the other direction. When asked about the prospect of countries’ economic distress exacerbating geopolitical tensions, half of respondents agree this will be the case and half express uncertainty either way.

Figure 11. Geopolitics and the global economy
Do you agree/disagree with the following statements? (Over the next three years)

Source: Chief Economists Survey, August 2022
There is no shortage of recent examples lending weight to the geopolitical concerns expressed in our survey. Multiple aspects of Russia’s invasion of Ukraine have revived concerns about “weaponized interdependence”, the manipulation of deep global economic integration in the service of geopolitical goals.36 Russia’s restriction of energy supplies to Europe is one example. The wave of sanctions imposed on Russia is another, including unprecedented moves against the Russian central banks’ international reserves.37 However, it is worth noting the potential limitations of these geopolitical strategies. Europe has made swifter than expected progress in reducing its dependence on Russian energy, while sanctions against Russia have been far from universally adopted.38 Countries are also beginning to explore strategies such as “friendshoring” to minimize the vulnerability of supply chains to geopolitical disruption, particularly for critical inputs such as the semiconductors covered by the CHIPS and Science Act.39

**Businesses adapt to an unsteady global landscape**

The mounting geopolitical turmoil of recent years has profound implications for businesses across the world. In our latest survey of Chief Economists, just over two-thirds of respondents expect businesses to reconfigure their supply chains in line with new geopolitical fault lines over the next three years. Moreover, the global trends pushing in this direction are compounded by domestic political developments in many countries that are hostile to the deep global integration that has shaped international business models over a period of decades.

**Figure 12. Globalization**

What is your expectation for global economic integration in the next three years in the following areas?

<table>
<thead>
<tr>
<th>Services</th>
<th>Finance</th>
<th>Labour</th>
<th>Goods</th>
<th>Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Much higher fragmentation</td>
<td>- Higher fragmentation</td>
<td>- Stable</td>
<td>- Higher integration</td>
<td>- Much higher integration</td>
</tr>
<tr>
<td>11</td>
<td>47</td>
<td>21</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>47</td>
<td>42</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>55</td>
<td>25</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>60</td>
<td>20</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>75</td>
<td>15</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Chief Economists Survey, August 2022

37 US Department of the Treasury; February 2022.
38 Figures from March suggest that the countries sanctioning Russia accounted for 61% of global GDP but just 16% of global population.
Figure 13. Supply chains

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

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>5%</td>
</tr>
<tr>
<td>Disagree</td>
<td>15%</td>
</tr>
<tr>
<td>Uncertain</td>
<td>50%</td>
</tr>
<tr>
<td>Agree</td>
<td>30%</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>5%</td>
</tr>
<tr>
<td>No major changes and “wait and see” approach</td>
<td>10%</td>
</tr>
<tr>
<td>Align shift of supply chains with new geopolitical faultlines</td>
<td>5%</td>
</tr>
<tr>
<td>Adopt a strategy of greater global diversification of supply chains</td>
<td>25%</td>
</tr>
<tr>
<td>Adopt a strategy of greater localization of supply chains</td>
<td>65%</td>
</tr>
</tbody>
</table>

These shifts have been evident for some time. Last year, our community of chief economists were already pointing to deglobalization as the most significant trend reversal in the global economy.40 In our latest survey, we can see a more detailed picture emerge in response to questions about the trajectory of global integration across five dimensions: goods, services, labour, technology and finance. A majority of respondents expect fragmentation to increase across all of these areas, but the strongest consensus is on technology (80% of respondents) and goods (70%). There is a less conclusive split for services, labour and finance, with 58%, 60% and 52%, respectively, expecting further fragmentation of markets.

There are small proportions of respondents who expect a revival of global integration in the years ahead across each of the five dimensions. Services and labour are viewed as the most likely candidates, although this may reflect their comparatively fragmented starting point, which leaves considerable scope for improvement.

Hard data suggest that the initial spike in short-term concerns about deglobalization in the wake of the Ukraine invasion may be easing. For example, freight rates for shipping containers have decreased by almost 50% from their peak in late 2021,41 while a Global Supply Chain Pressure Index produced by the New York Federal Reserve also fell by 50% between January and July 2022.42 However, among our community of Chief Economists, 85% of respondents do not expect businesses to “wait and see” as a viable response to global developments. This is a significant increase from 57% in our last survey, which was conducted in April, and our latest results point to strong expectations that businesses will pursue strategies of supply chain diversification (80%) and localization (also 80%) over the next three years, with long-term implications for costs to consumers.

Source: Chief Economists Survey, August 2022

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41 Romei, August 2022.
42 Global Supply Chain Pressure Index, August 2022.
6. Looking ahead

The immediate outlook for the global economy and for much of the world’s population is dark. The challenges captured in our latest survey of Chief Economists and outlined in this report are daunting. They will test the resilience of economies and societies and exact a punishing human toll. They will also create more pressure for public- and private-sector leaders to act to resolve these urgent matters. Leaders will need to be vigilant on mitigating, and distribute as fairly as possible the economic pain that lies ahead and ensure as much as possible to align and coordinate decisions, both within countries and between them.

However, even as a lot of bandwidth will rightly be devoted to short-term crisis responses in the months ahead, attention must be maintained on the medium- and long-term horizons. Critical focus areas include investments in the sectors that will lead to higher living standards and sustainable growth, investments in the education and skills that will produce flourishing workforces, investments to improve food and energy security in the future, and investments to build resilience, capability and agility in public and corporate governance to respond to future crises. This mindset of investing in the future – even in the midst of short-term crises – will determine the long-term systemic health of our societies for generations to come. If the wave of crises that has washed over the world since the turn of the century teaches us anything, it is that we neglect a vision for future-preparedness at our peril.
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Contributors

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