

# **Global Economy and Small States:** *Overlapping Crises, Multiple Challenges*

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**WORLD BANK GROUP**  
Equitable Growth, Finance & Institutions

# Two Questions

1

What are near-term growth prospects for small states?

2

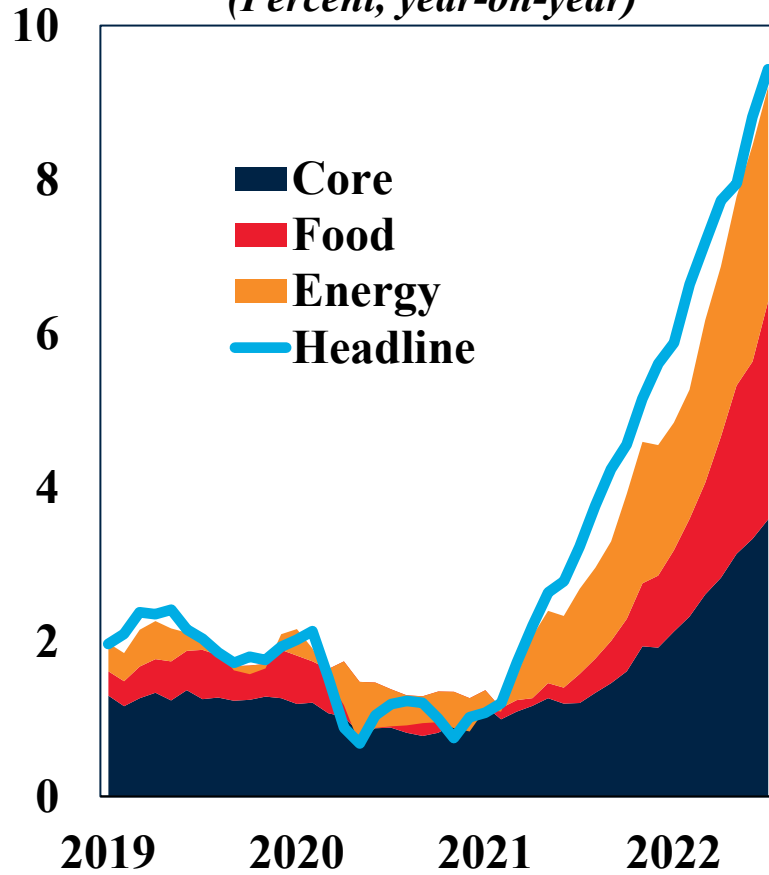
What are the main risks?

*\* EMDEs = Emerging Market and Developing Economies*

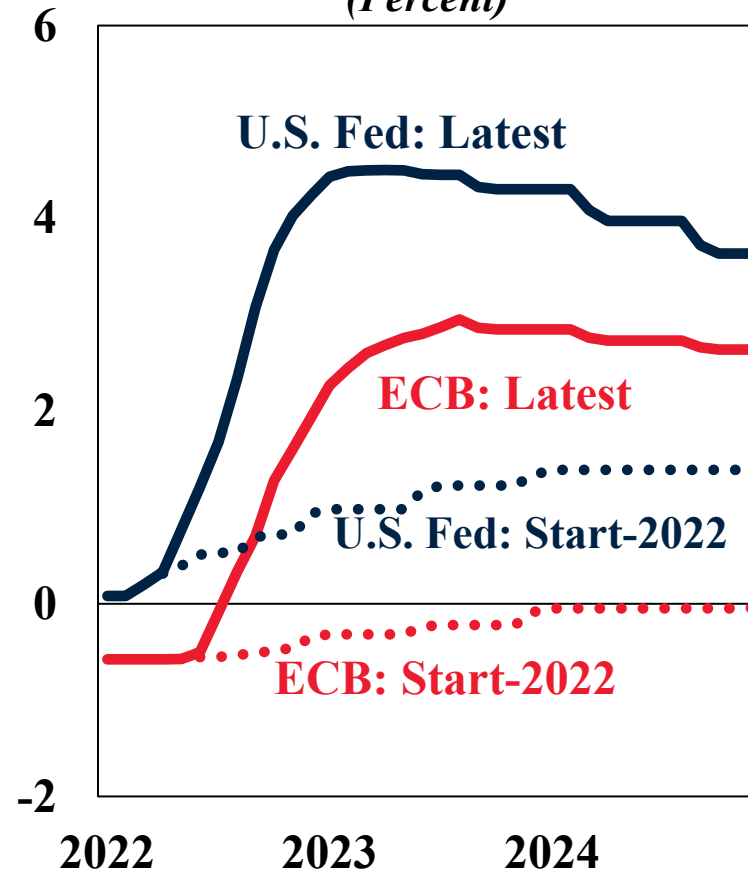
# Global Economic Environment

*Rising Inflation; Tightening Financing Conditions; Slowing Global Growth*

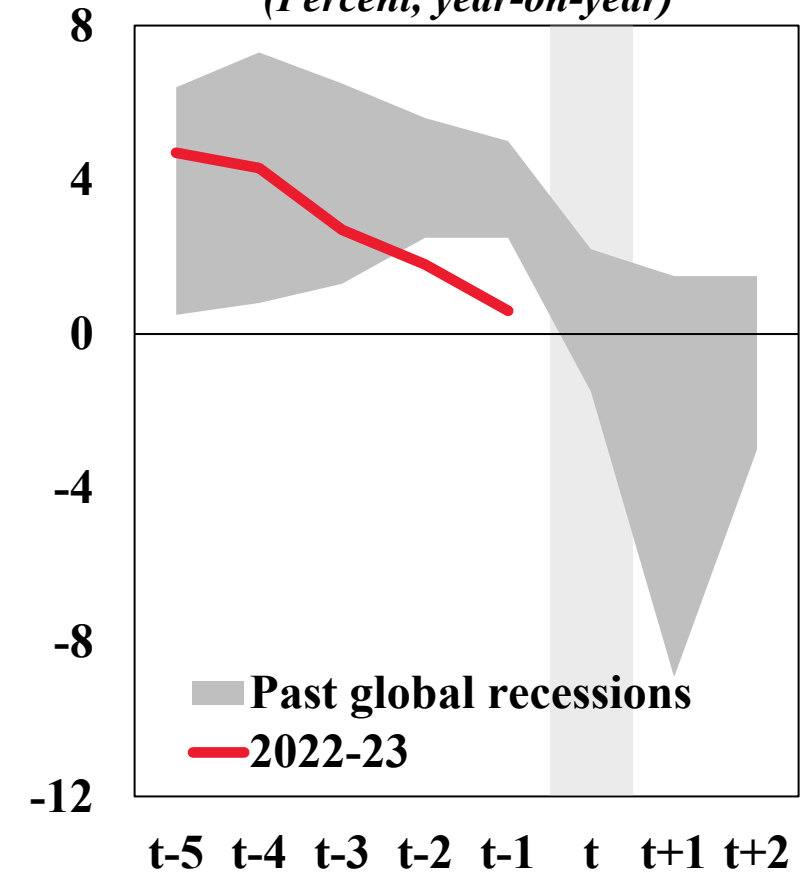
**Global inflation**  
(Percent, year-on-year)



**Interest rate expectations**  
(Percent)



**Global GDP growth**  
(Percent, year-on-year)

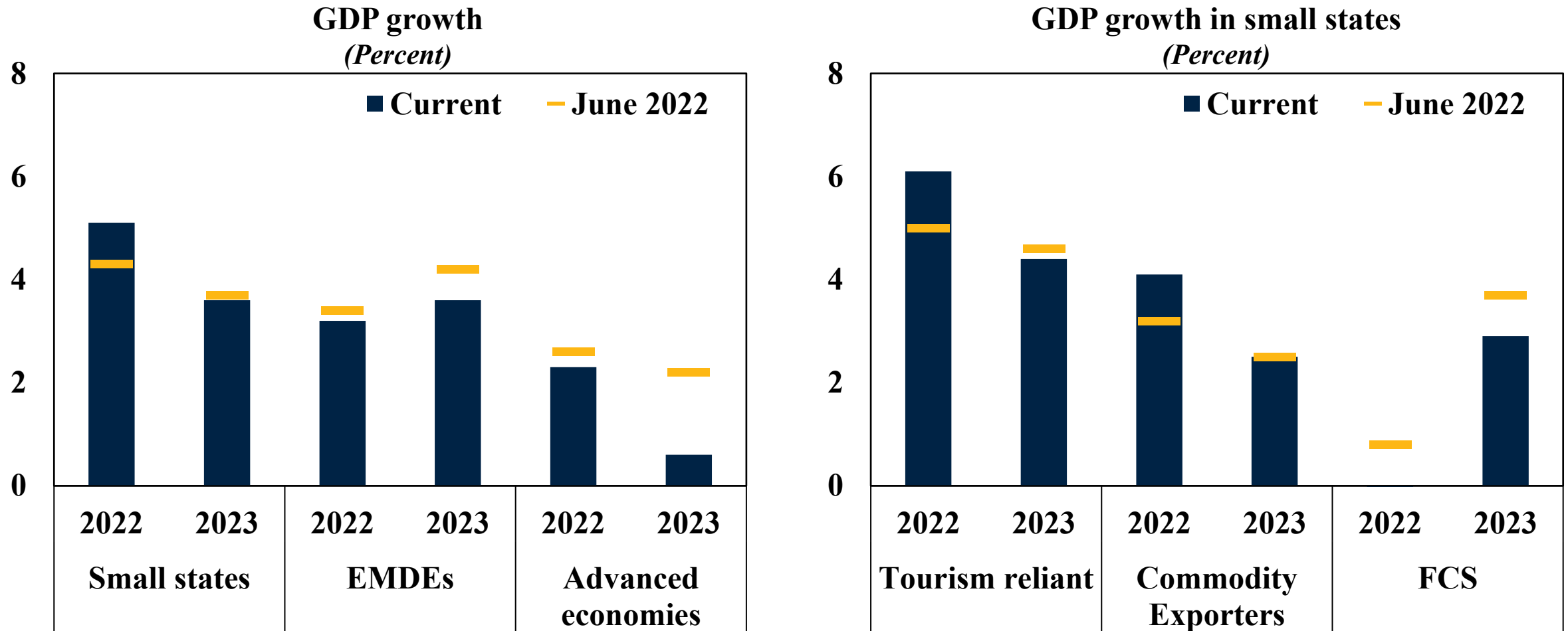


Sources: Bloomberg; Guenette, Kose, and Sugawara (2022); Haver Analytics; World Bank.

Left Panel. Median contribution of food, energy, and core inflation to headline CPI inflation. Data for 30 advanced economies and 30 EMDEs. Unexplained parts due to idiosyncratic factors including data availability and changes in consumption baskets. Center Panel. Policy rate expectations derived from futures curves. Start-2022 is December 31, 2021. Latest is September 30, 2022. Right Panel. Global GDP growth around the five global recessions (1975, 1982, 1991, 2009, and 2020) and the recent period, using quarterly data. “t” denotes the beginning of global recessions: 1974Q1, 1981Q4, 1990Q4, 2008Q3, and 2020Q1. For 2022-23, “t” is 2023Q1, and data from t-3 to t-1 are computed with consensus quarterly growth forecasts in 45 countries.

# Growth Forecasts

## *Weaker Growth than Expected in June*

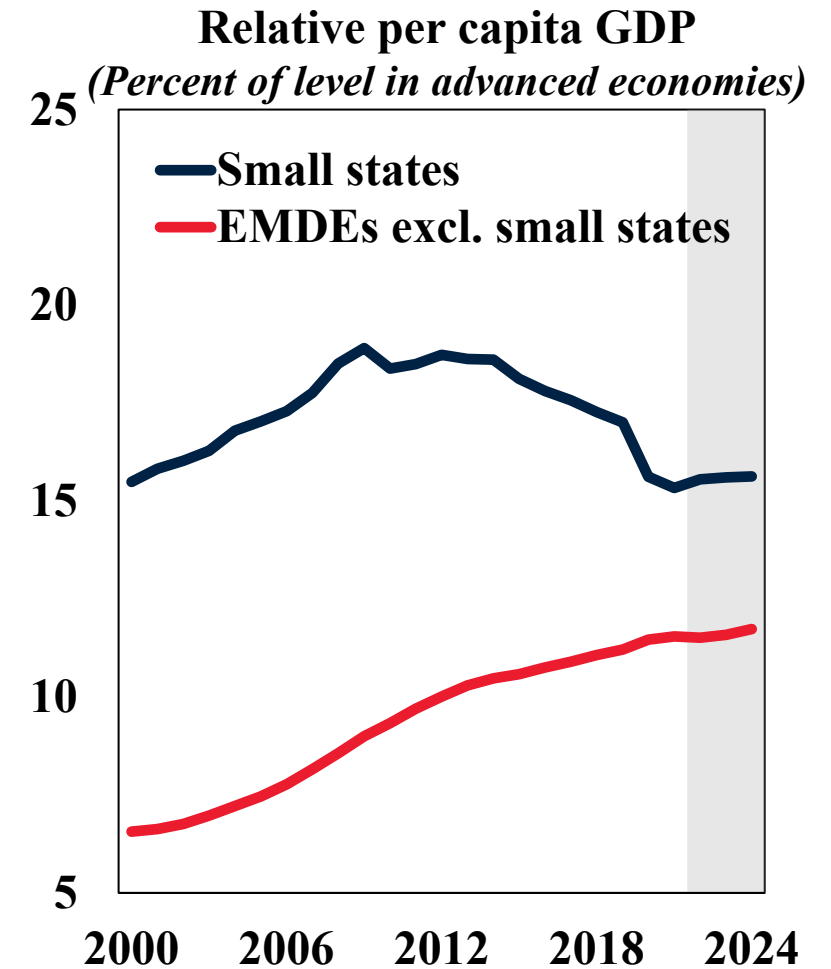
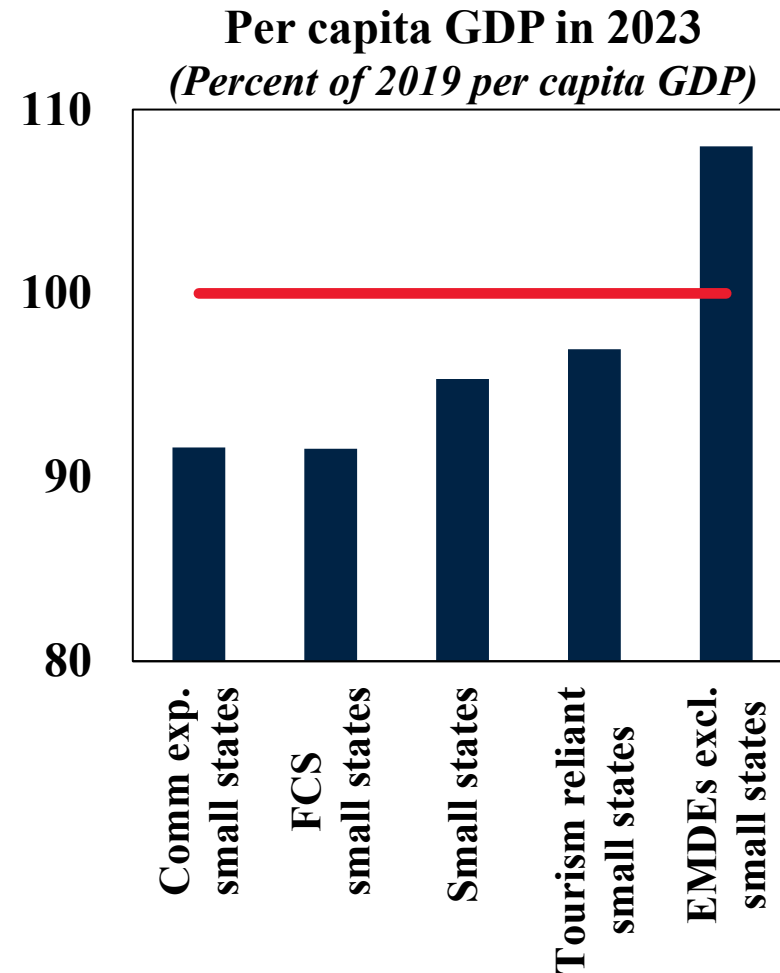
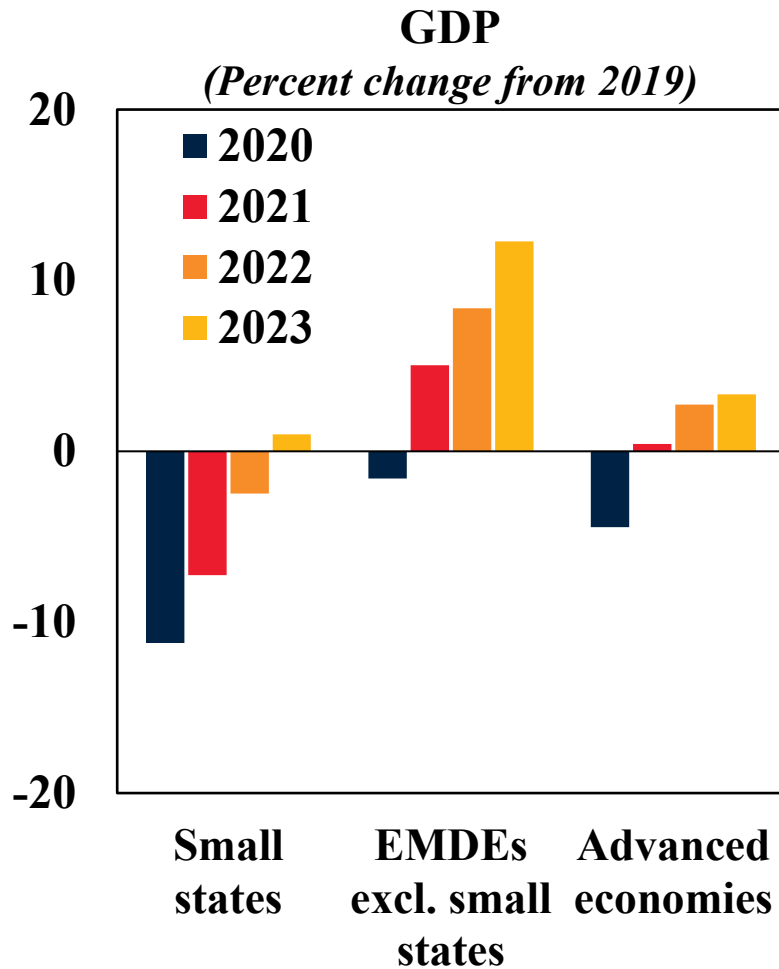


Source: World Bank.

Left Panel. Sample includes 34 EMDE small states and 146 EMDEs. Small states include those for which the World Bank produces a growth forecast and which are eligible for World Bank Group lending, but exclude Guyana, which is in a growth boom due to rapid offshore oil industry development. Right Panel. FCS = fragile and conflict-affected. Sample includes 22 tourism-reliant, 11 commodity-reliant, and 7 FCS small states. Guyana is excluded. Tourism-reliant countries are those with inbound tourism expenditure as a share of GDP in the top quartile among 146 EMDEs. Commodity-reliant economies are those where, on average in 2017-19, either (i) total commodities exports accounted for 30 percent or more of total exports or (ii) exports of any single commodity accounted for 20 percent or more of total exports. Economies that meet these thresholds as a result of re-exports are excluded.

# Scars of the Pandemic

## Long-term Damage to Living Standards



Source: World Bank.

Left Panel. Country groups are aggregated GDP weights at average 2010-19 prices and market exchange rates. Sample includes 34 EMDE small states, 115 EMDEs excluding small states, and 37 advanced economies. Guyana is excluded. Center Panel. FCS = fragile and conflict-affected states. Horizontal line indicates 100. Sample includes 11 commodity-exporting small states, 6 FCS small states, 22 tourism-reliant small states, 34 small states, and 115 EMDEs excluding small states. Guyana is excluded. Right Panel. Sample includes 34 EMDE small states and 114 EMDEs excluding small states. Guyana is excluded. Grey area indicates forecast

# Two Questions

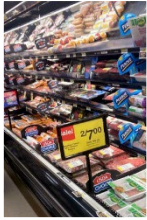
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2

What are the main risks?

# Risks

## *Multiple Downside Risks*



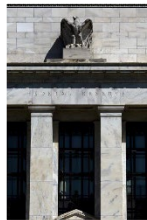
**Persistent inflation**



**Geopolitical tensions**



**Climate-related disasters**



**Unanticipated synchronous monetary tightening**



**COVID-19 outbreaks**



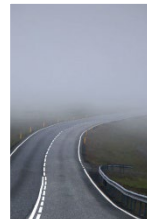
**Fragmentation of global trade, investment, and financial networks**



**Financial contagion / stress**



**Supply disruptions**



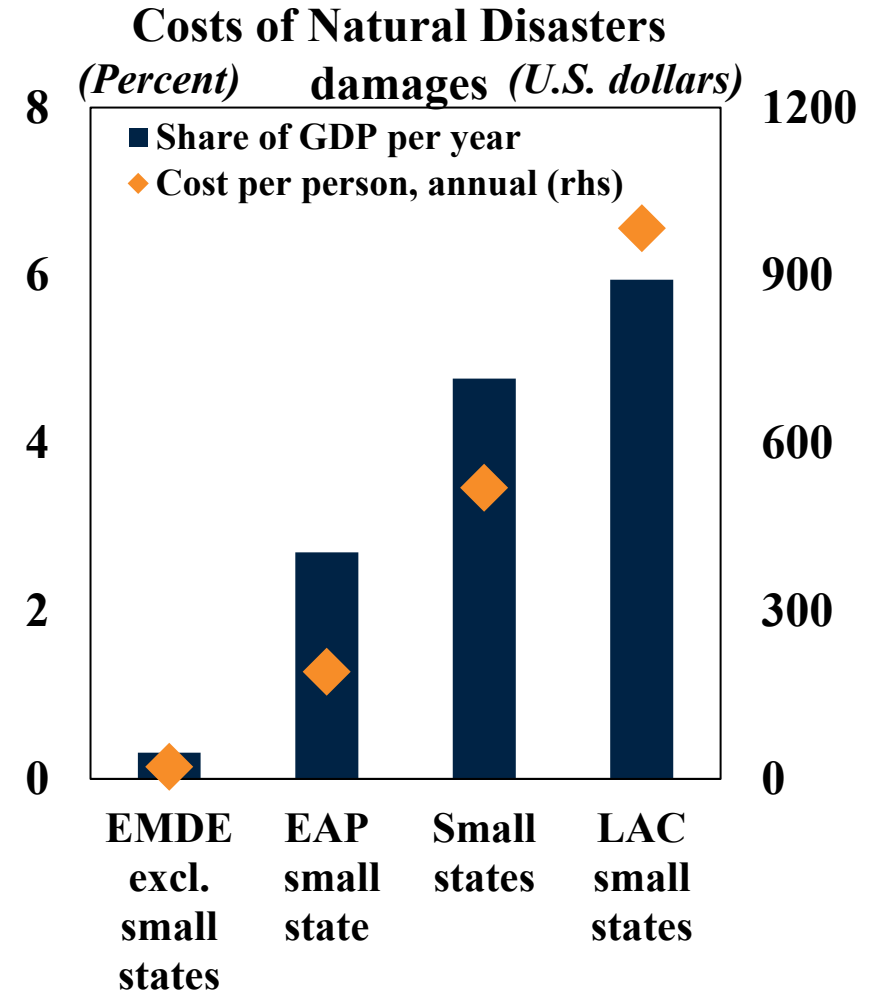
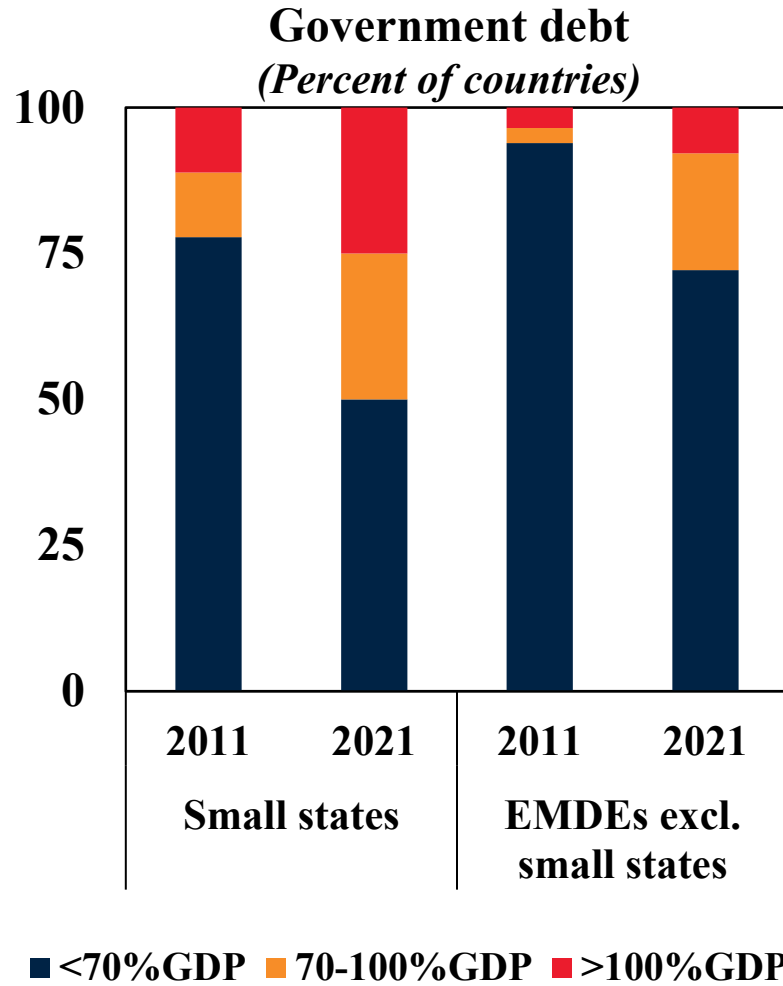
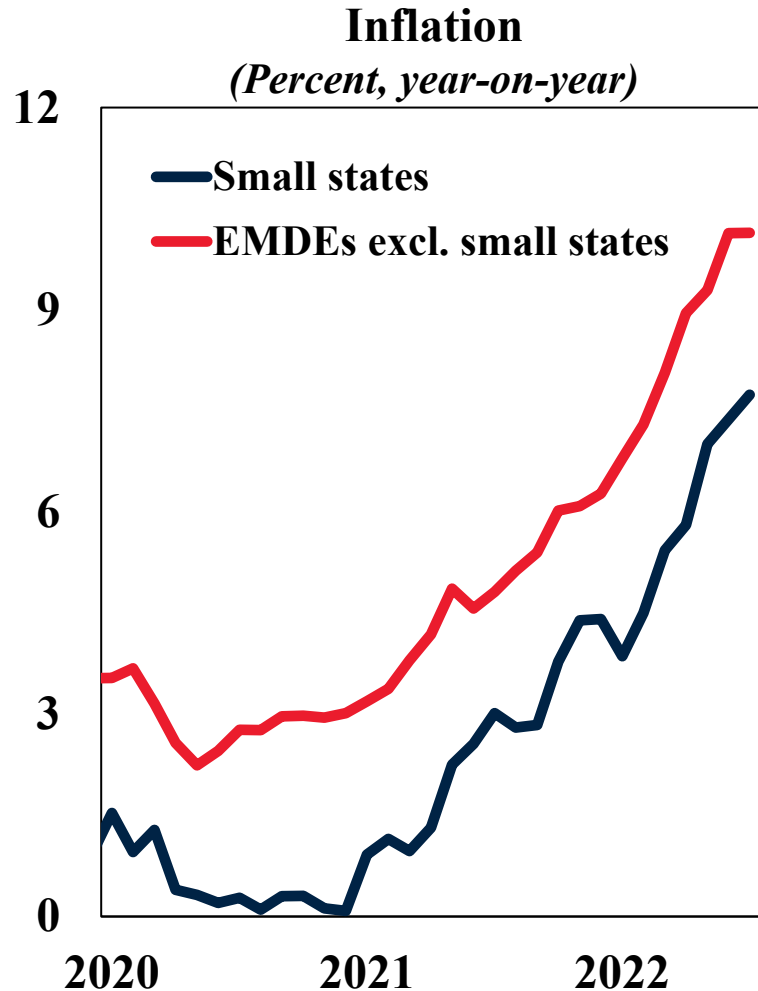
**Weaker longer-term growth prospects**



**Energy and food insecurity**

# Risks Confronting Small States

*Elevated Inflation; High Debt; Vulnerability to Climate Change*



Sources: EM-DAT (database); Haver Analytics; International Monetary Fund; national sources; World Bank.

Left Panel. Lines show medians. Sample includes 15 EMDE small states and 42 EMDEs excluding small states. Last observation is July 2022 for both groups. Center Panel. Sample includes 36 EMDE small states and 113 EMDEs excluding small states. Right Panel. Bars are calculated as nominal GDP-weighted averages of annual disaster damages per country per year between 1990 and 2021. Diamonds are estimated 2022 nominal GDP per capita in U.S. dollars (at market prices) for each country group, multiplied by average damages per year.



# Two Questions

1

**What are near-term growth prospects for small states?** *Growth is expected to slow as the global outlook darkens, despite an incomplete pandemic recovery. Activity in 2023 is barely expected to surpass its 2019 level.*

2

**What are the main risks?** *Multiple downside risks, including financial stress, energy and food insecurity, and climate disasters. Risk of a global recession has risen, with significant trade and financial spillovers to small states. Large external imbalances heighten small state vulnerabilities.*

# Publications by WBG - EFI - Prospects Group

## *Commodity Markets Outlook – October 26, 2022*



EQUITABLE GROWTH, FINANCE, AND INSTITUTIONS POLICY NOTE

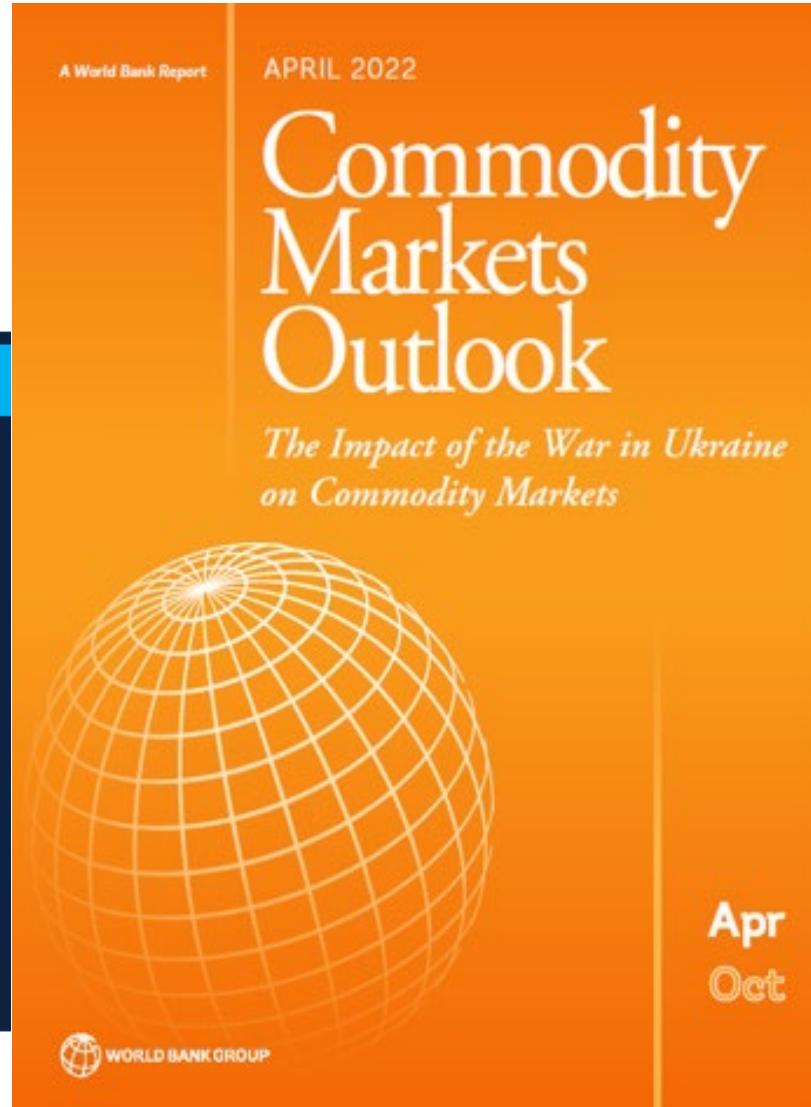
### Is a Global Recession Imminent?

Justin Damien Guénette, M. Ayhan Kose, and Naotaka Sugawara



EFI Policy Note #

SEPTEMBER 2022



# Questions & Comments

## *Thank you!*

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