

**National Research University «Higher School of Economics»
Faculty of World Economy and International Affairs
School of World Economy**

**X Annual Conference on the Global Economy
“World Economy in Turbulent Times”**

**Sergei Shatalov
28 November 2022**

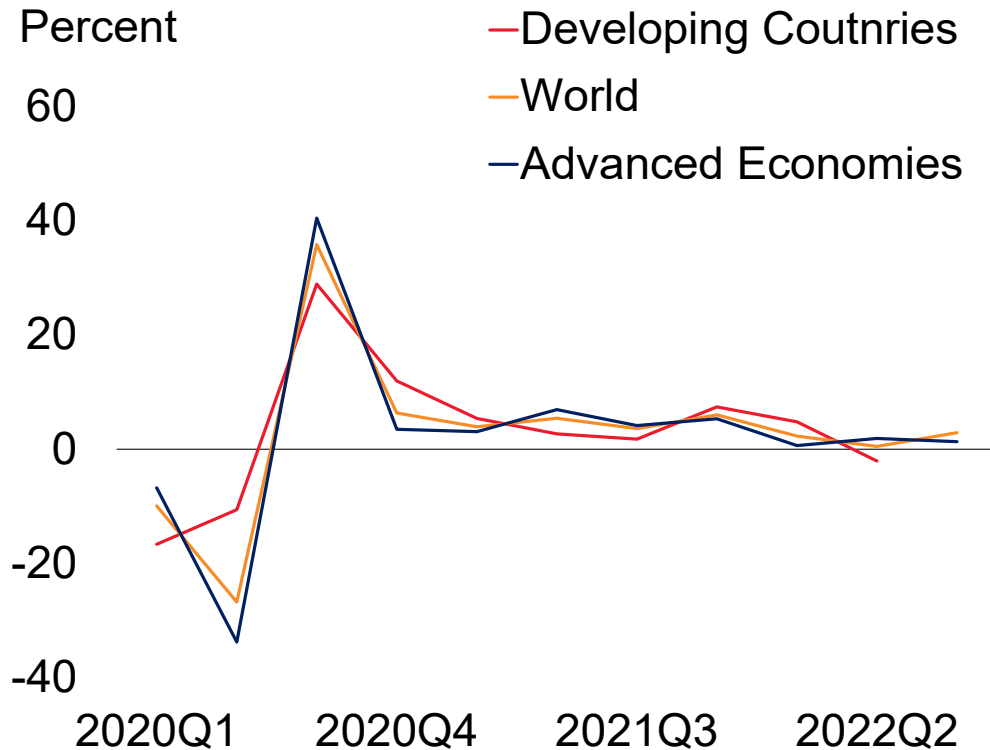
**MOUNTING RISKS OF THE GLOBAL RECESSION
AND THE OUTLOOK FOR THE DEVELOPING WORLD**

Global Economic Activity

Economic data are mixed: slightly better-than-expected GDP outturns for 2022Q3, but worsening of leading indicators

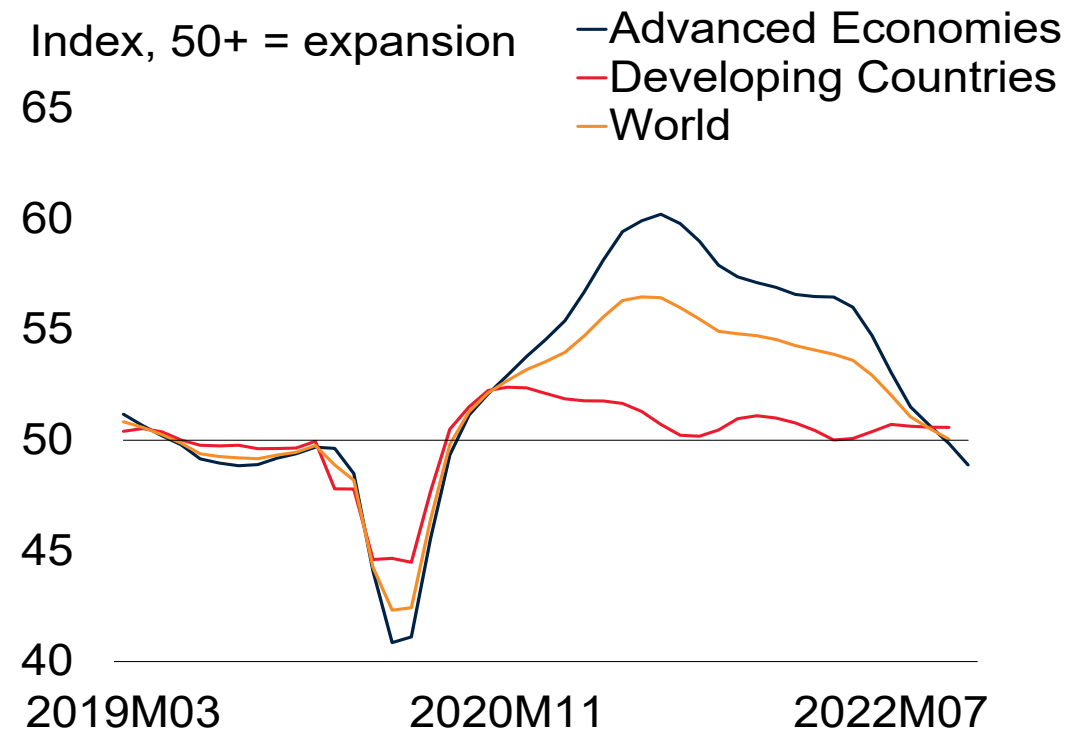
GDP growth

(q/q saar)



Global PMI

(index, 50+ = expansion)

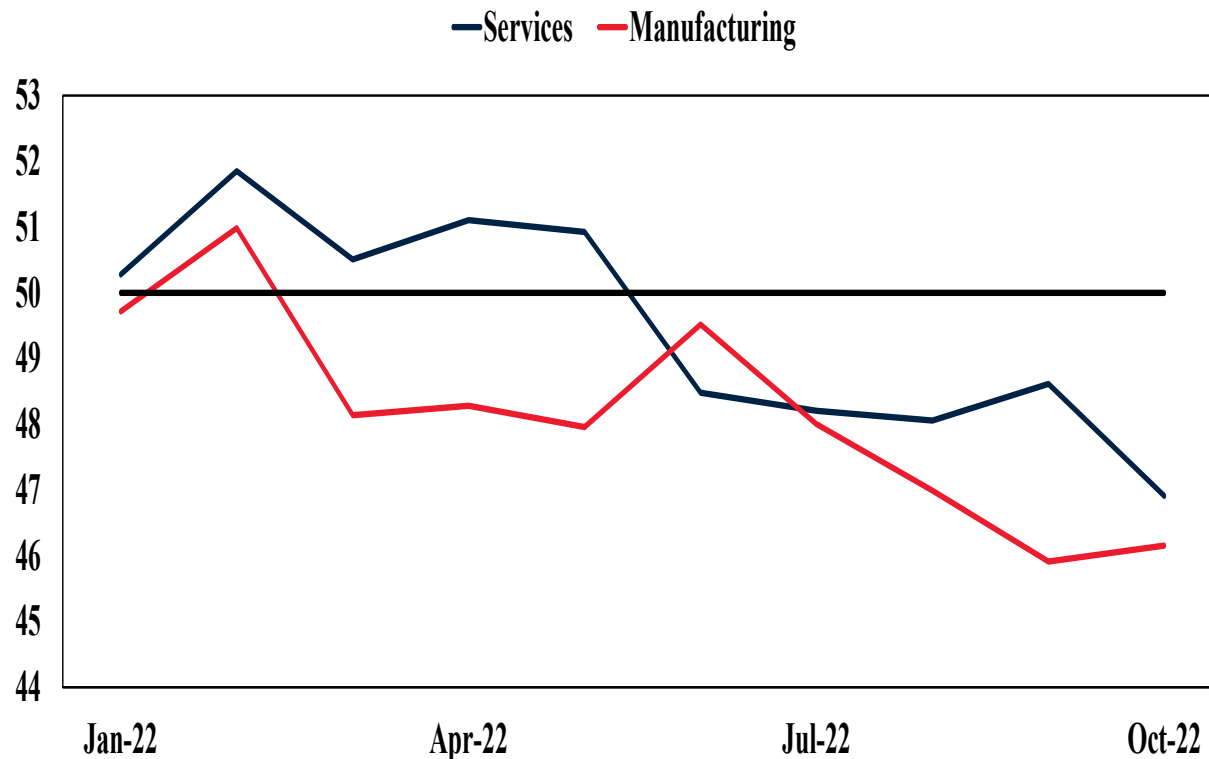


Global Trade and Inflation

Broad-based slowdown in global trade growth; inflation remains high

Global PMI new export orders

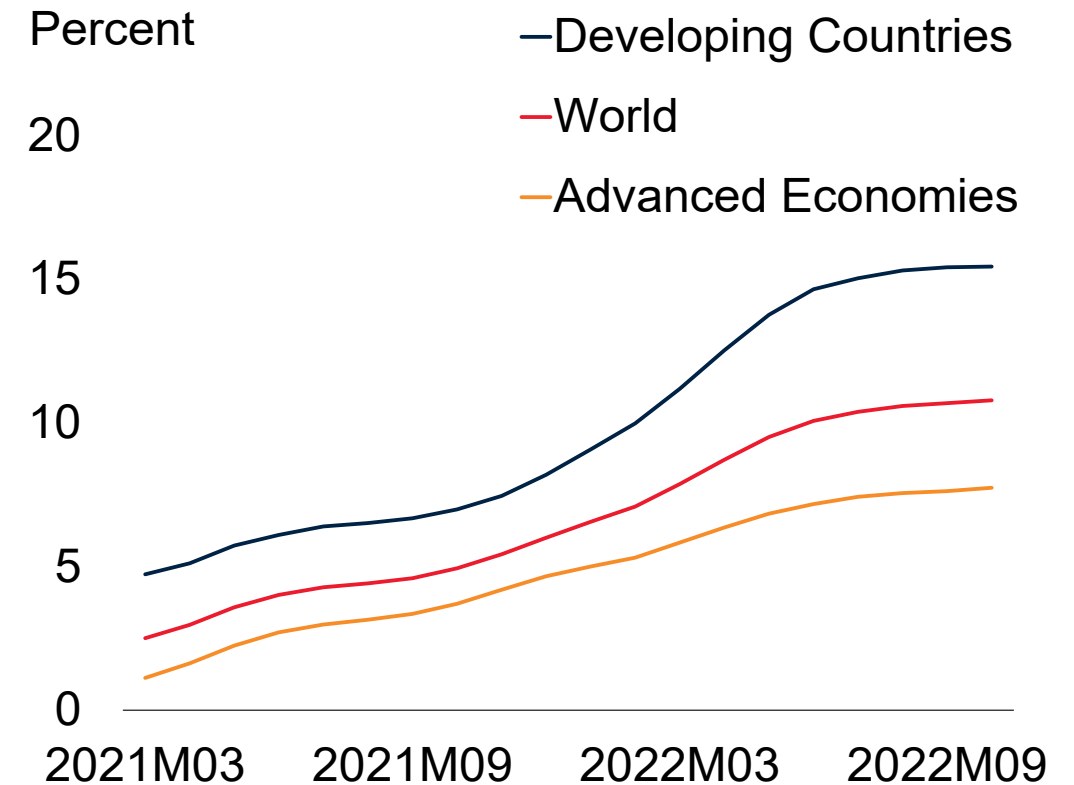
(Index, 50+ = expansion)



Source: World Bank staff estimates.

Global Inflation

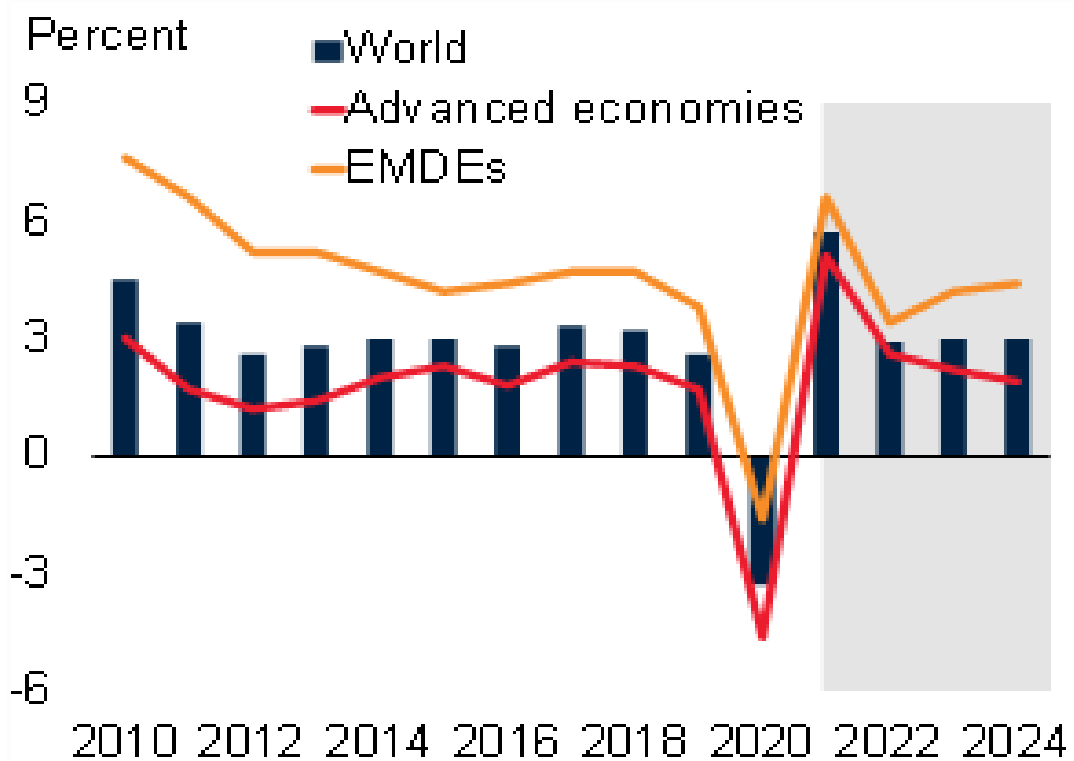
(Index, 50+ = expansion)



Global Growth is Slowing Down

Global growth

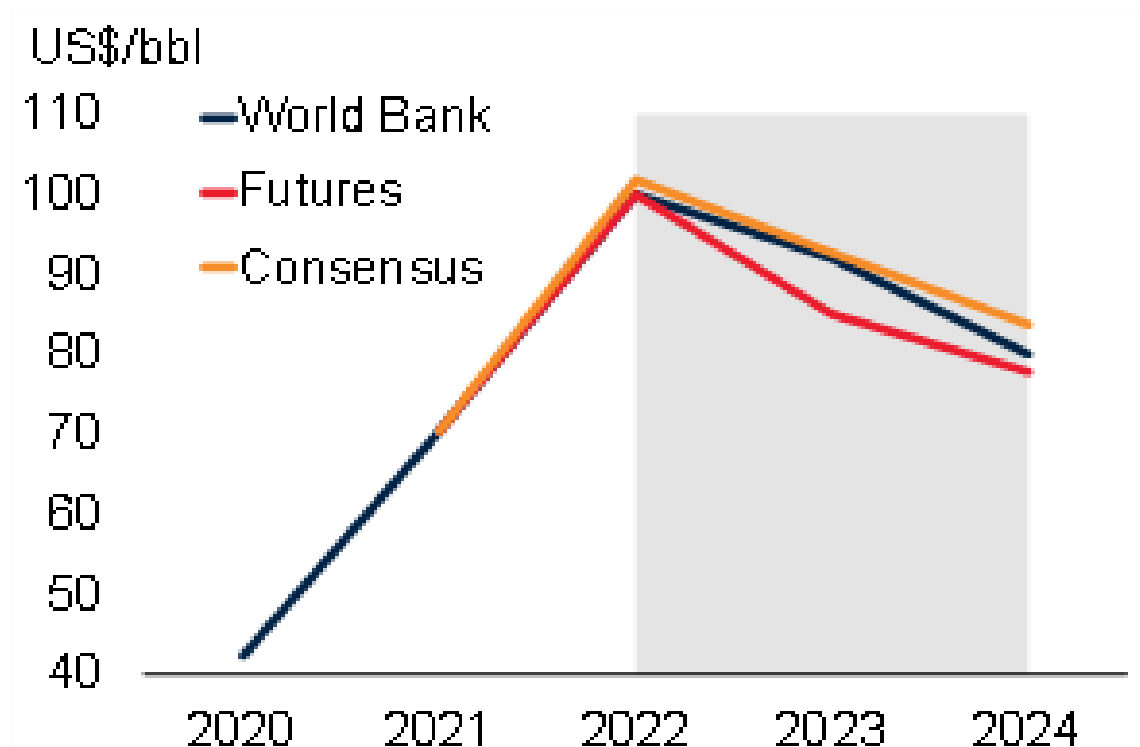
(Percent change, y/y)



Source: World Bank staff estimates.

Oil price forecasts

(US\$/bbl)



A Closer Look at Developing Countries

Broadly neutral trend in EMDEs' terms of trade conceals **large variations within the group**

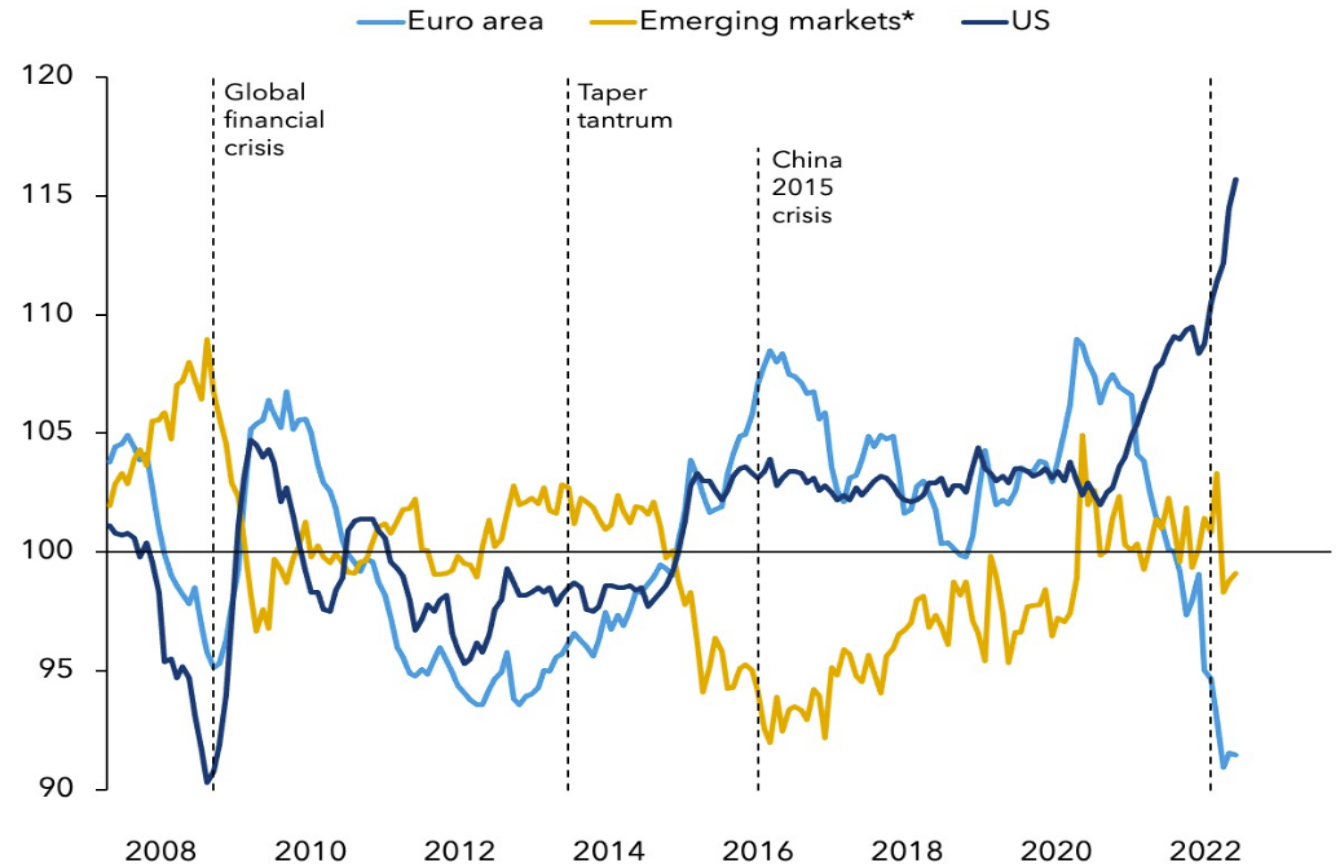
Net fuel and food *exporters* are enjoying windfall revenues...but for how long?

Net fuel and food *importers* are already hit badly

Terms of trade

The difference in terms-of-trade shocks is another factor that is helping drive movements of currencies.

(index; 2010=100)



Sources: Haver Analytics; and IMF staff calculations.

Note: *Emerging markets includes both emerging and developing economies.



Strong US Dollar Worsened the Outlook for Many EMDEs

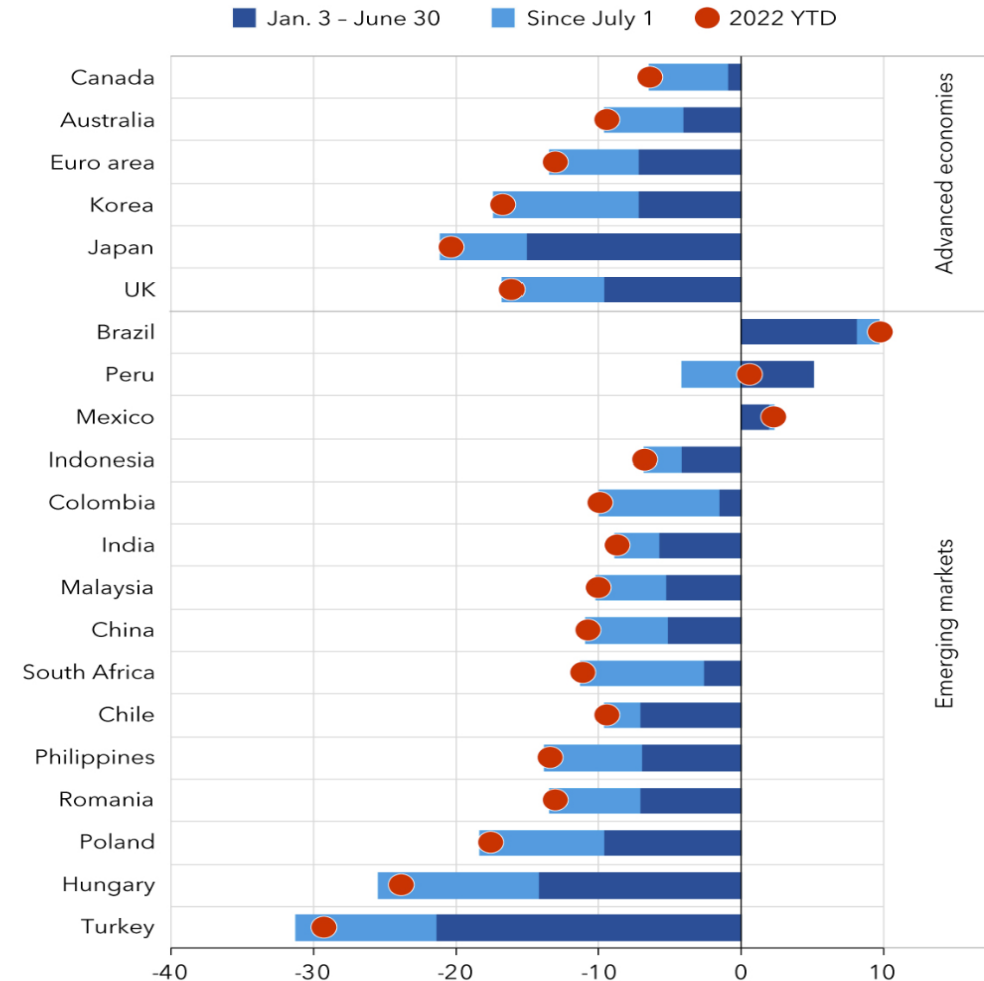
A few emerging markets (e.g., Brazil, Mexico) have started tightening ahead of the US

For many others, strong dollar brings higher financing requirements and external debt burdens, and less policy space for combating inflation

Source: IMF: GFSR, Oct.2022.

Dollar surge

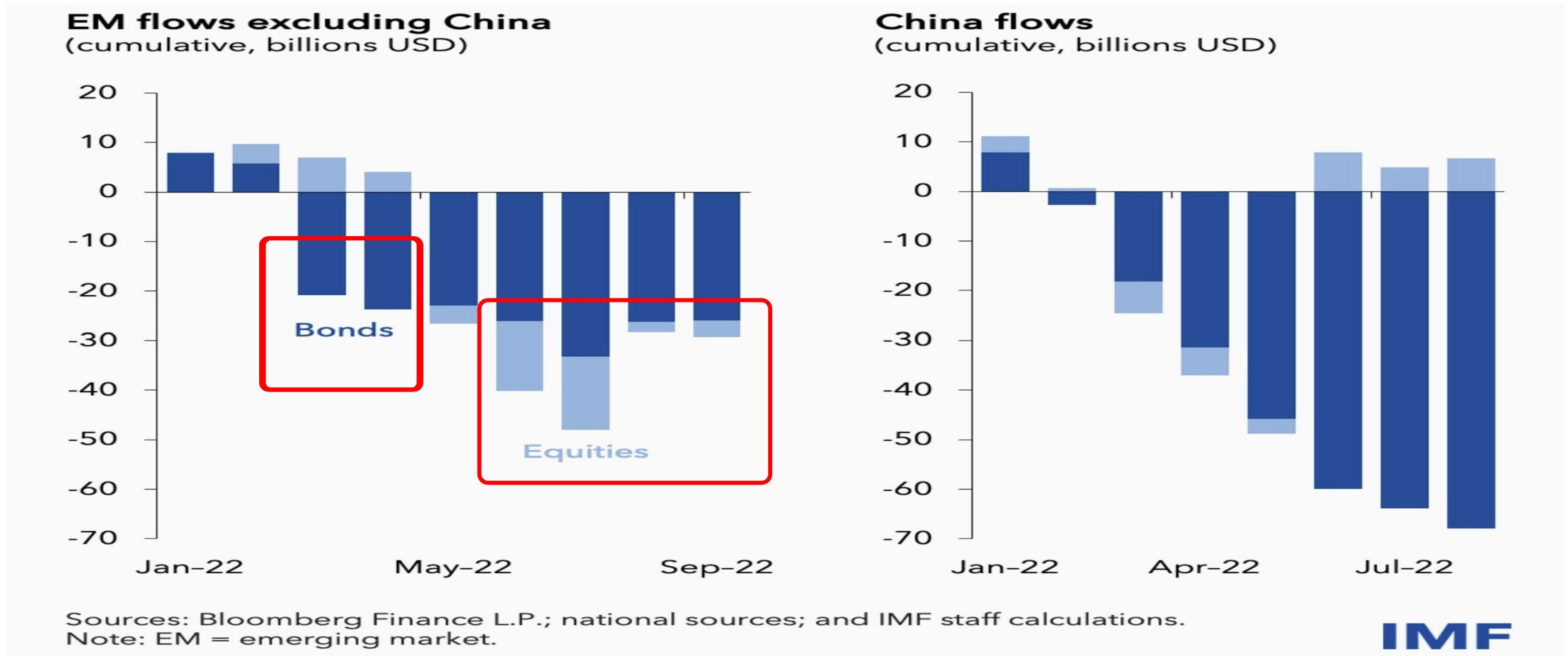
For many countries, the weakening of their currencies relative to the US dollar has made the inflation fight harder.
(exchange rates vis-à-vis US dollar, percent change)



Source: Haver Analytics and IMF staff calculations.
Note: As of October 4, 2022.

EM Portfolio Flows: Very Fragile

CUMULATIVE MONTHLY FLOWS





Leading Vulnerability Indicators

The ability of a country to face a sudden tightening of external conditions:

- Existing external financing requirements
- External solvency position
- External liquidity position

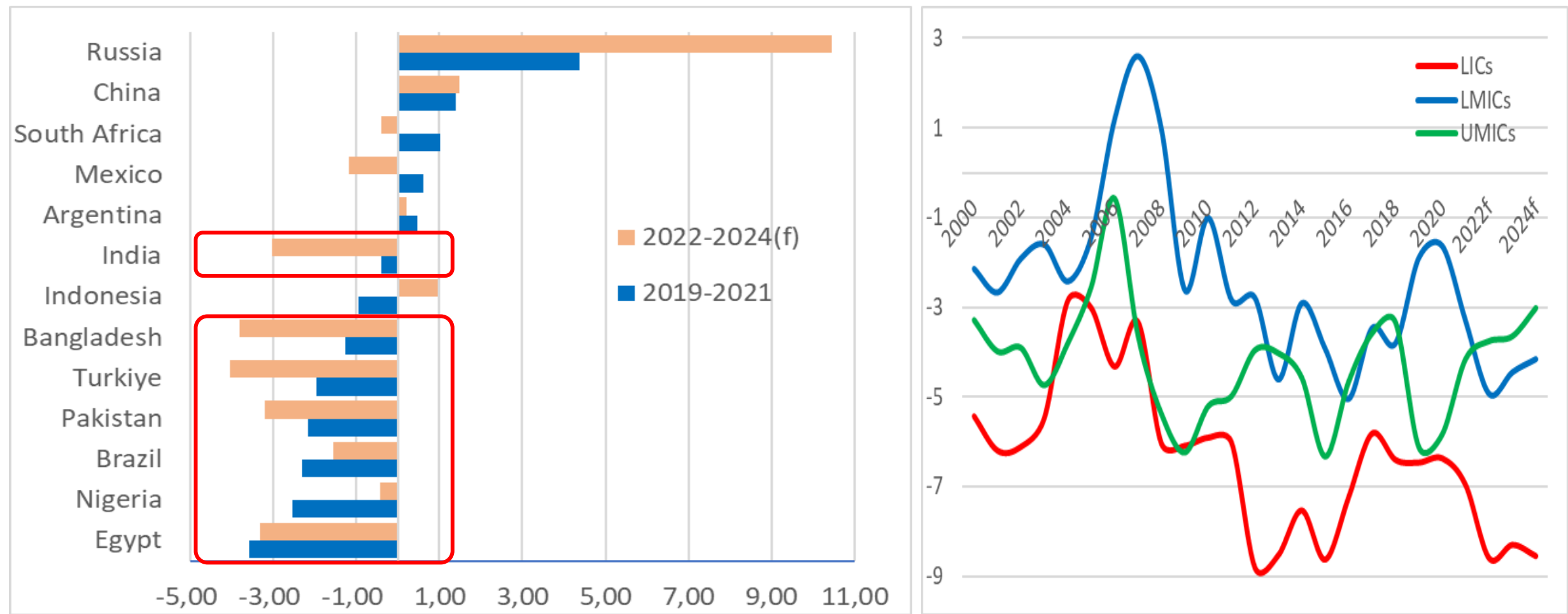
The ability of a Government to quickly and effectively implement appropriate fiscal and monetary policies in response to the shock:

- Fiscal policy constraints: consolidated fiscal deficit, government debt
- Monetary policy constraints: inflation trends (actual vs. target); financial sector vulnerabilities (portfolio quality)



EMDE's External Financing Requirements are Large and Growing

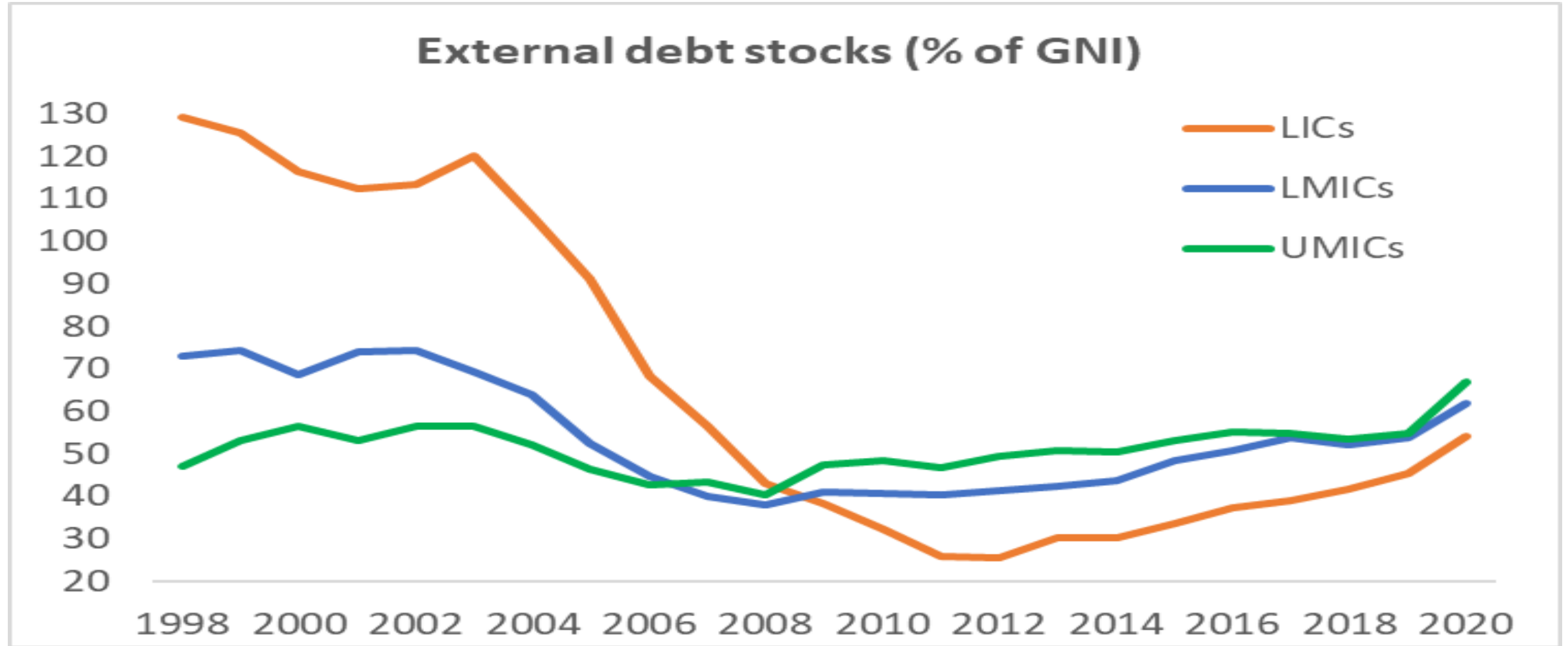
Current Account, % of GDP



Source: IMF: WEO database, oct.2022, author's calculations.



EMDE's External Solvency Position has Weakened

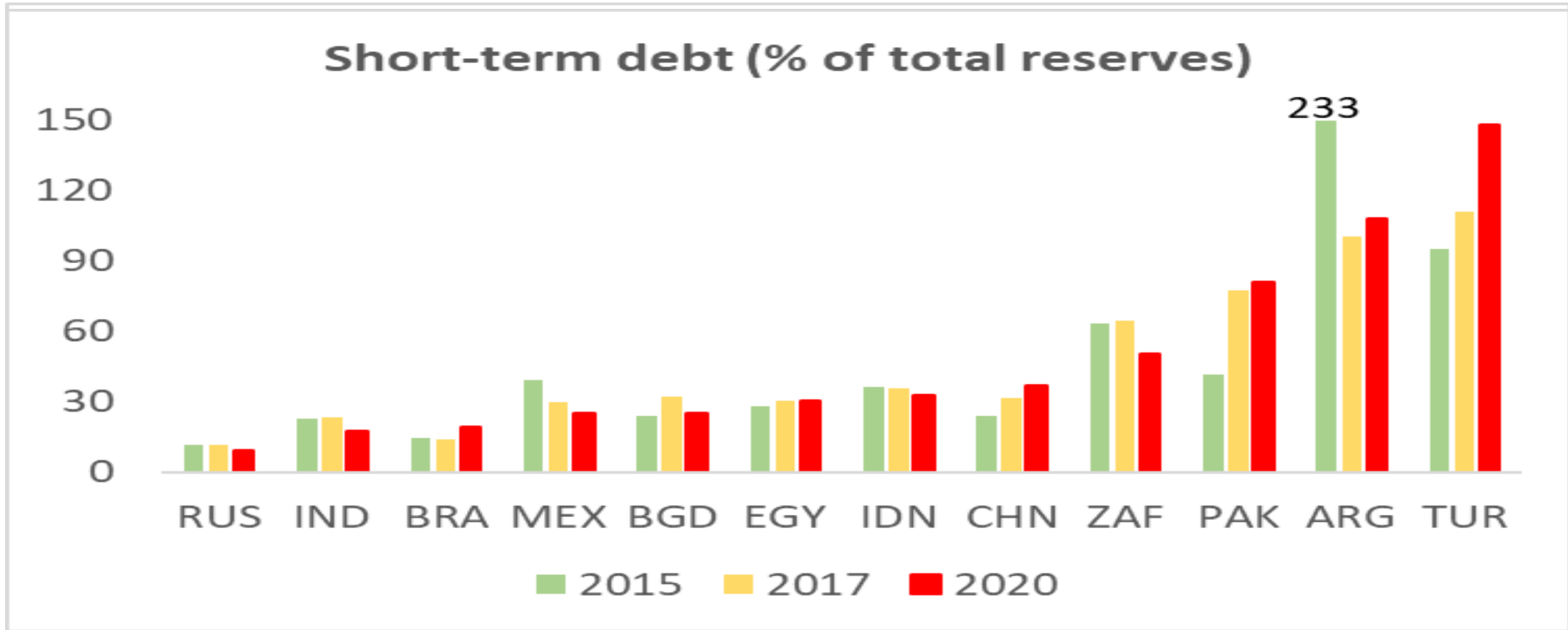


Note: data on external debt for most EMDEs are available with a two-year delay.

Source: World bank WDI database, Nov.2022, author's calculations.

In Some EMs, External Liquidity Position is Vulnerable

2021-2022 saw further deterioration



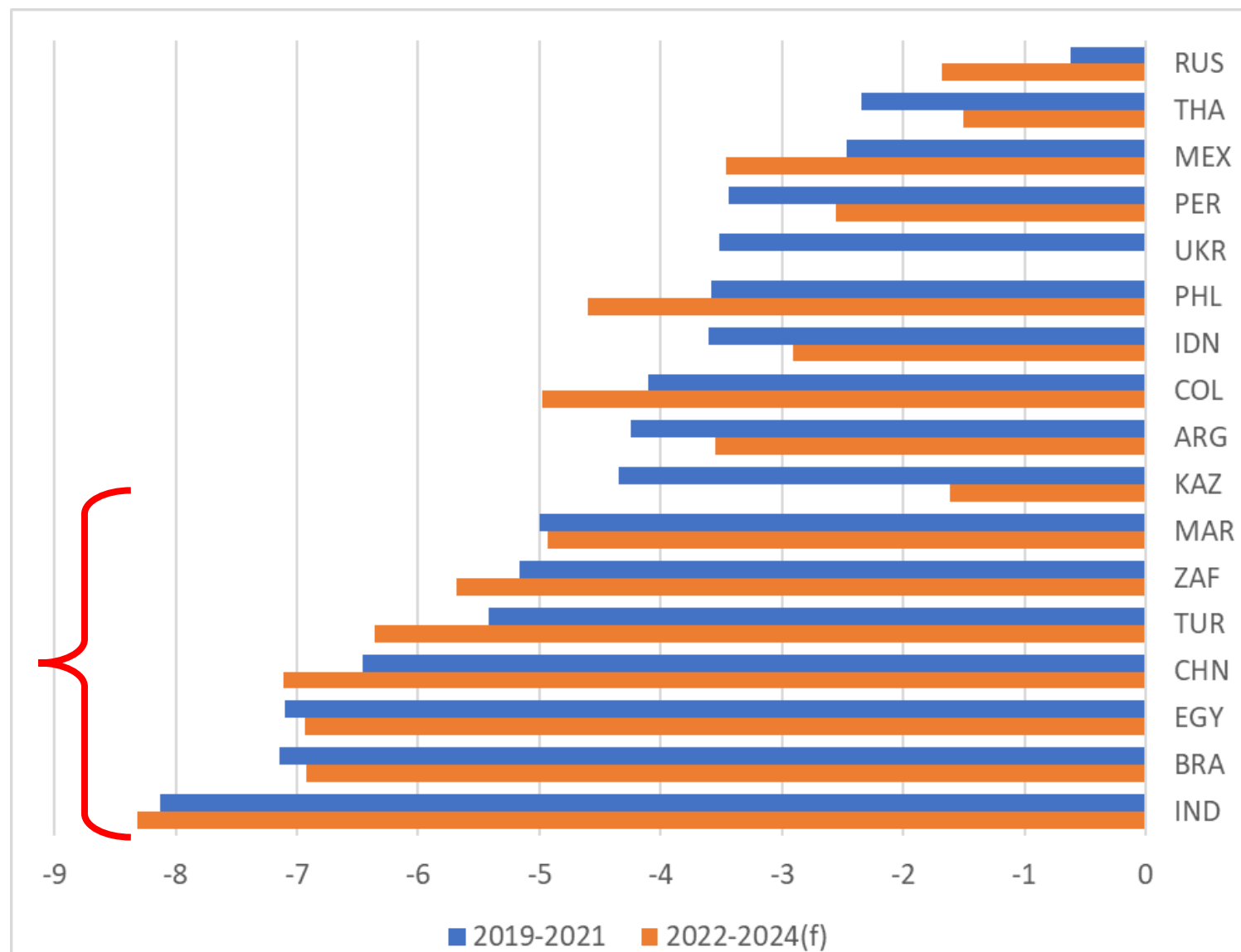
Note: data on external debt for most EMDEs are available with a two-year delay.

Source: World bank WDI database, Nov.2022, author's calculations.



General government structural balance, % of potential GDP

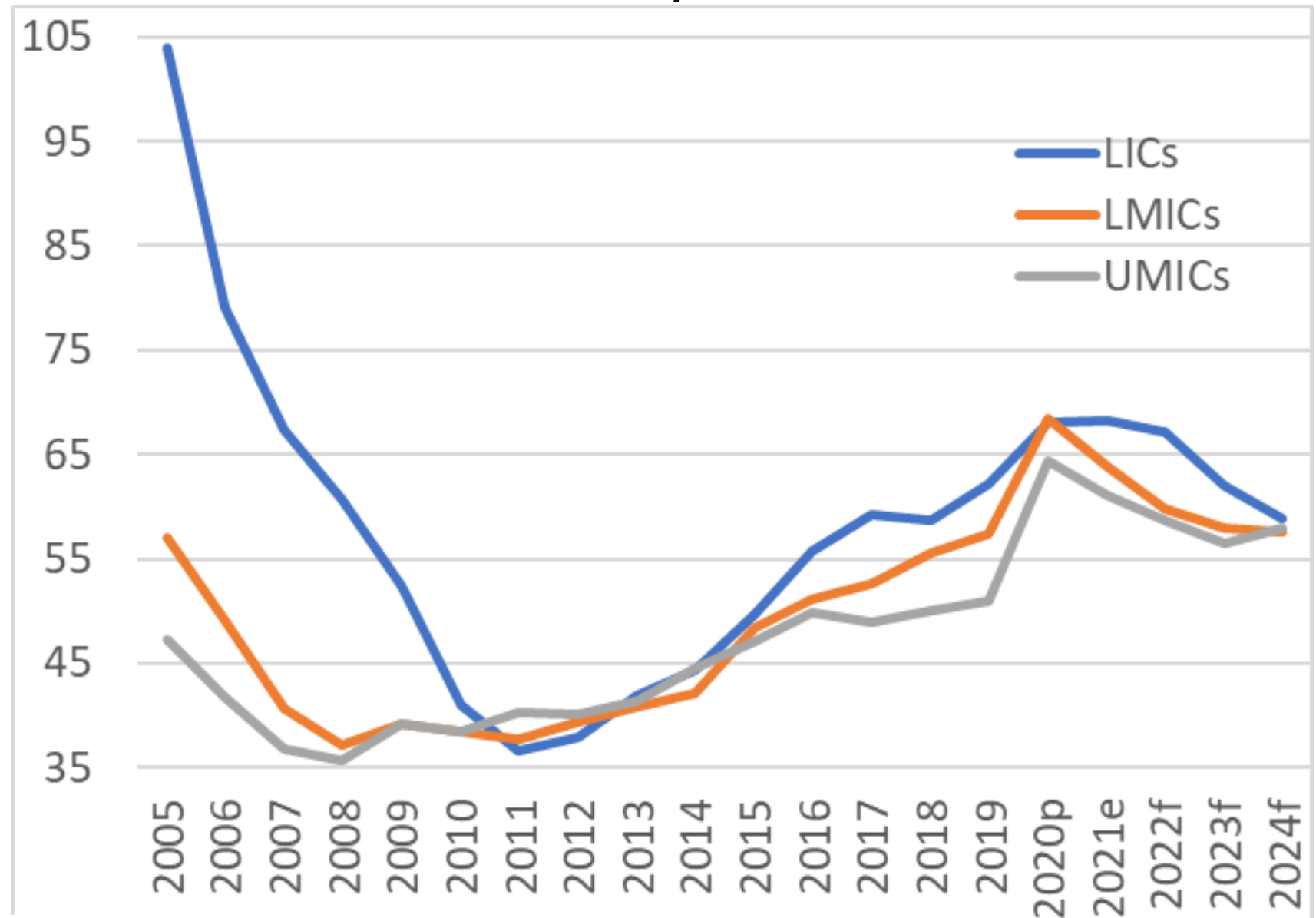
In many EMDEs, fiscal deficits are already over 5% of GDP, and are likely to widen in the absence of resolute fiscal tightening





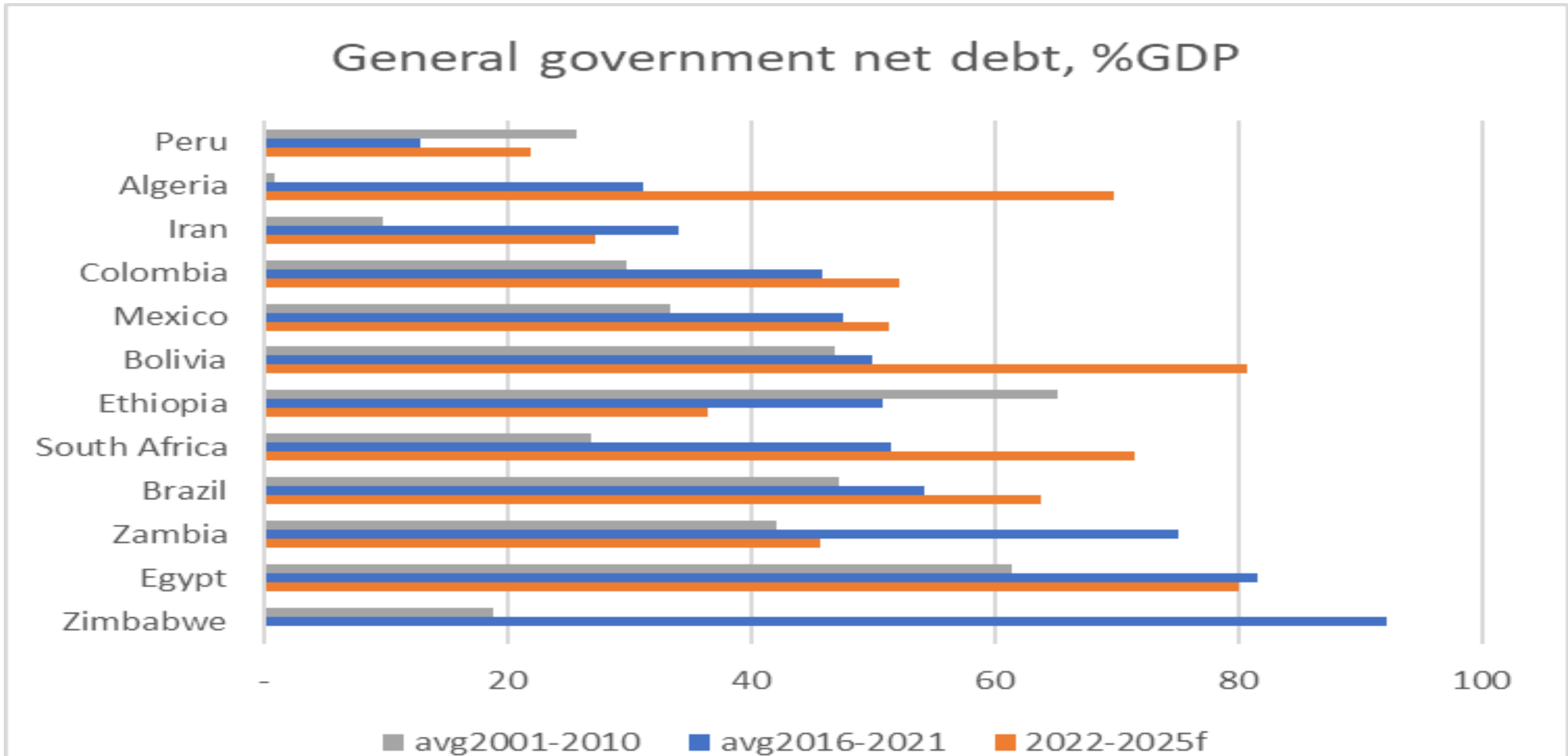
General Government Gross Debt, Percent of GDP

Low-income countries' debts are above the 60% of GDP, a threshold which is often considered as unsustainable



Source: IMF: WEO database, Oct.2022, author's calculations.

EMDEs' Net Debt: the Trends are Mixed



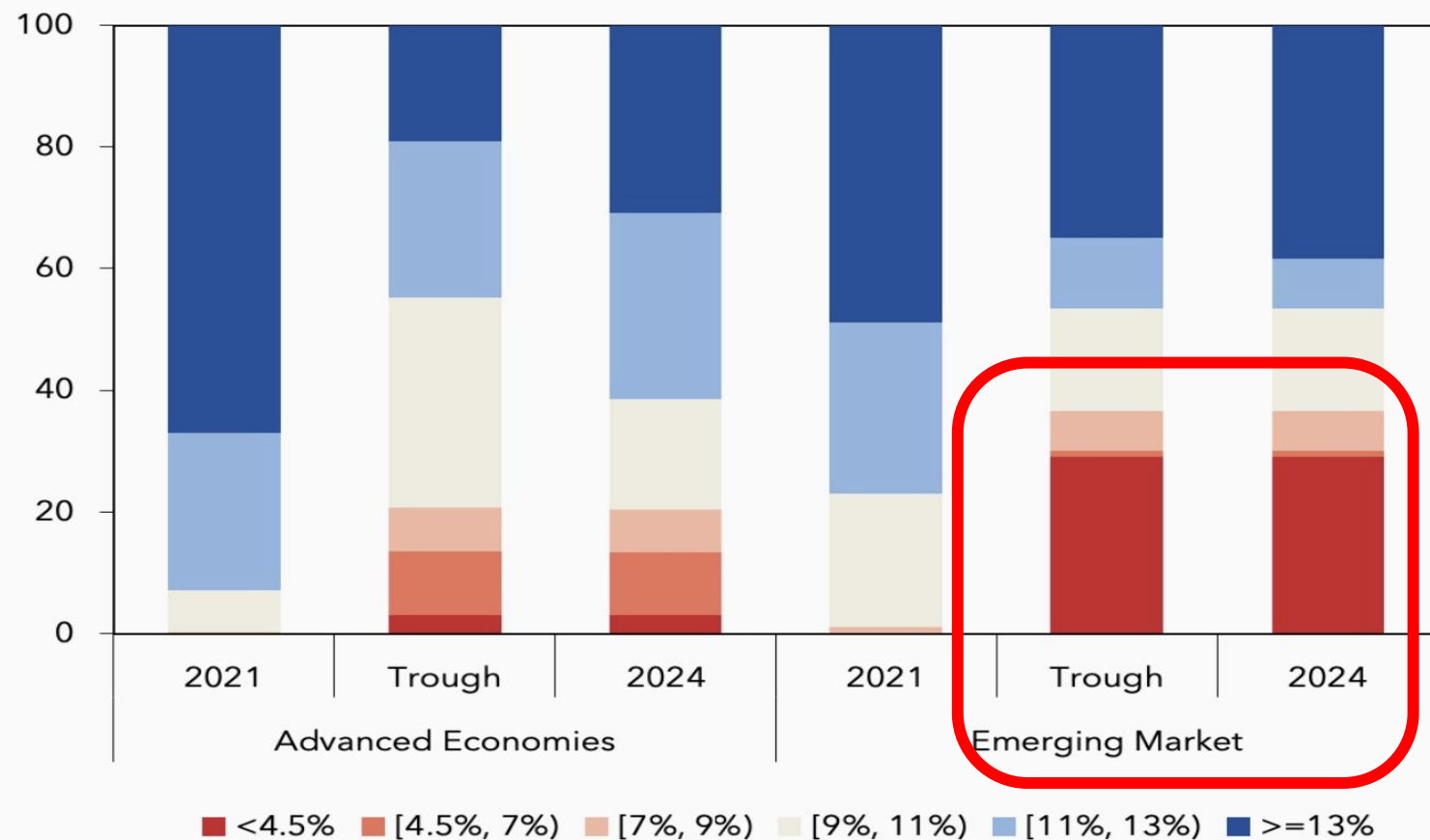
Emerging
markets' ability
to implement
adequate
monetary policies
is shrinking in the
face of financial
sector
vulnerabilities

Source: IMF: GFSR, Oct.2022.

Stress-testing lenders

About a quarter of emerging-market banks would breach capital requirements next year in a recession with high inflation.

(percent of assets)



Sources: Fitch Connect; and IMF staff calculations.

Note: The figure shows the composition of common equity Tier 1 (CET1).

GSIB = global systemically important bank.

Conclusions

- A few emerging markets have taken early steps to tighten their monetary and fiscal policies – only these seem to be well placed to weather the coming storm
- Net exporters of mineral fuels and food are doing well *so far*; their longer-term outlook depends on how deep and protracted the global recession will be
- Dozens of low-income and lower middle-income countries have large financing requirements and are approaching unsustainably high levels of external debt
- China is unlikely to play the role of the main driver of future recovery like it did after the Global Financial Crisis

Abbreviations

Country codes used: [ISO Standard](#) three-letter country codes

Country income groups are based on the [World Bank classification as of June 2022](#):

- LICs – low-income countries

- LMICs – lower middle-income countries

- UMICs – upper middle-income countries

EMDEs: Emerging Markets and Developing Countries

GFSR: IMF's Global Financial Stability Report

WEO: IMF's World Economic Outlook