

Global Economic Outlook:



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Outlook and Policy Meeting

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THE OHIO STATE UNIVERSITY

COLLEGE OF FOOD, AGRICULTURAL,
AND ENVIRONMENTAL SCIENCES

Global Economic Outlook

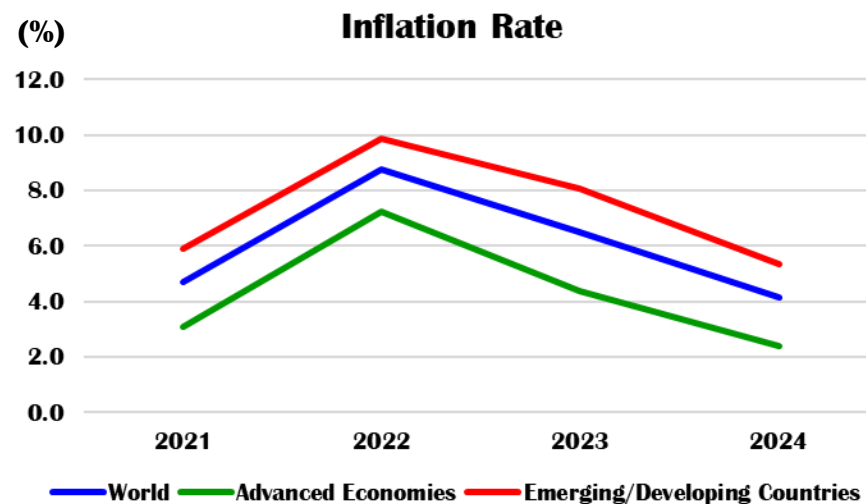
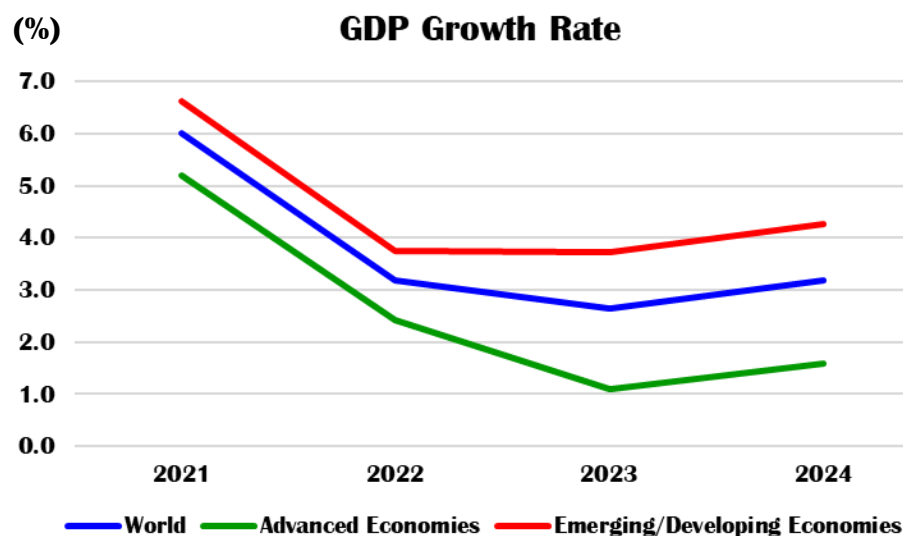
◆ Key features:

- **Inflation at multidecade high – tight monetary policy and declining fiscal support**
- **Russia's ongoing war in Ukraine – disruptive politically and economically**
- **Despite moderation, pandemic still affecting economic activity – notably in China**
- **Heatwaves and droughts disrupting commodity production and prices**

Growth, Inflation and Trade: 2023

- ◆ **Global growth: 2.7% (6% in 2021)**
- ◆ **Advanced economy growth: 1.1% (5.2% in 2021)**
- ◆ **Emerging economy growth: 3.7% (6.6% in 2021)**
- ◆ **Global inflation expected to peak at 8.8% in 2022, falling to 4.1% in 2024**
- ◆ **Upward inflation revisions mostly for advanced economies such as US and EU**
- ◆ **Global trade growth: 2.5% (10.1% in 2021)**

Growth and Inflation Forecast

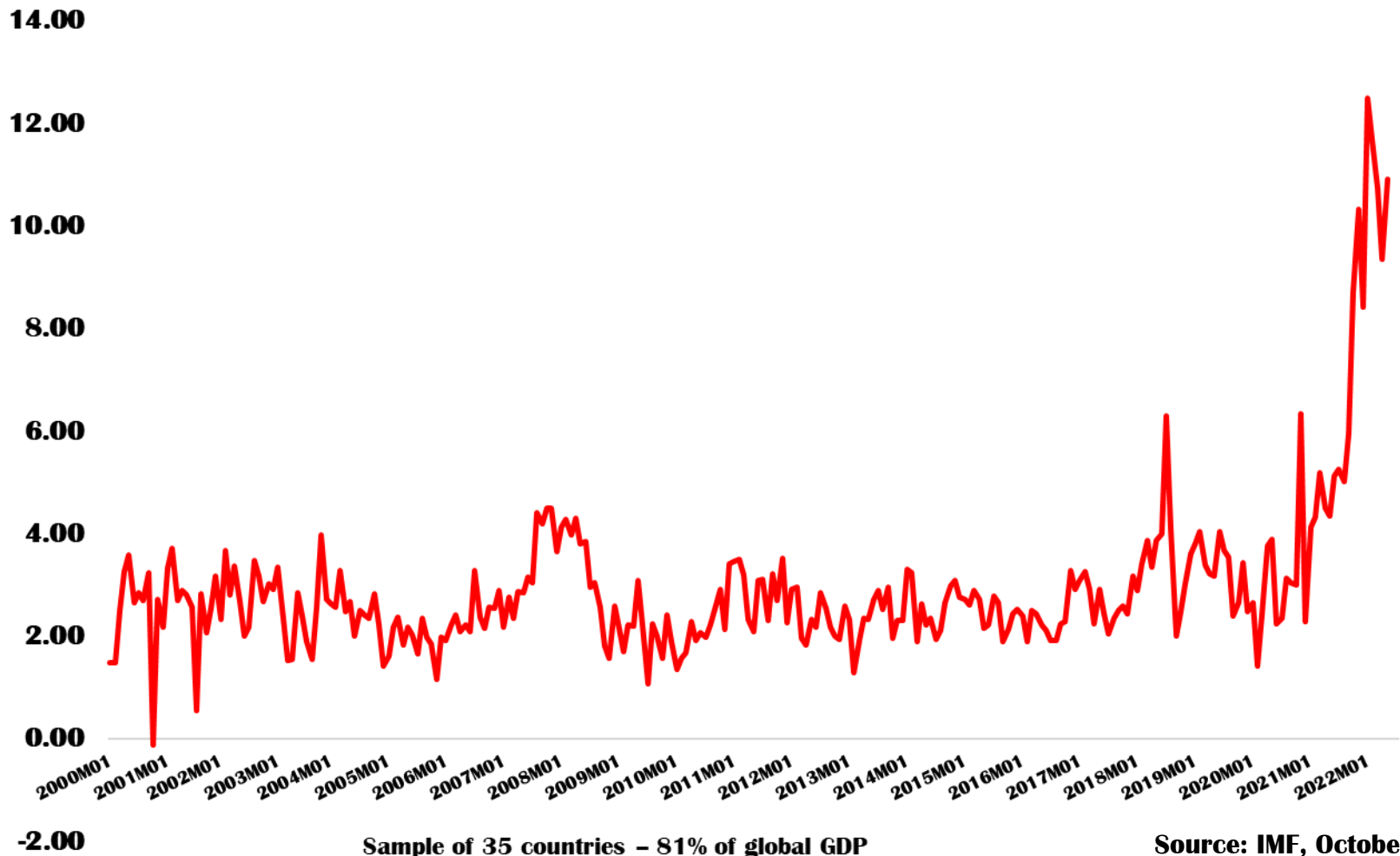


Factors Affecting Outlook

- ◆ Inflation risen faster and more persistently than expected – central banks have rapidly lifted rates**
- ◆ War in Ukraine having significant impact on natural gas exports to and prices in EU**
- ◆ Pandemic still affecting global economic outlook especially in China**
- ◆ Despite agreement on Black Sea grain exports, global food prices remain high**

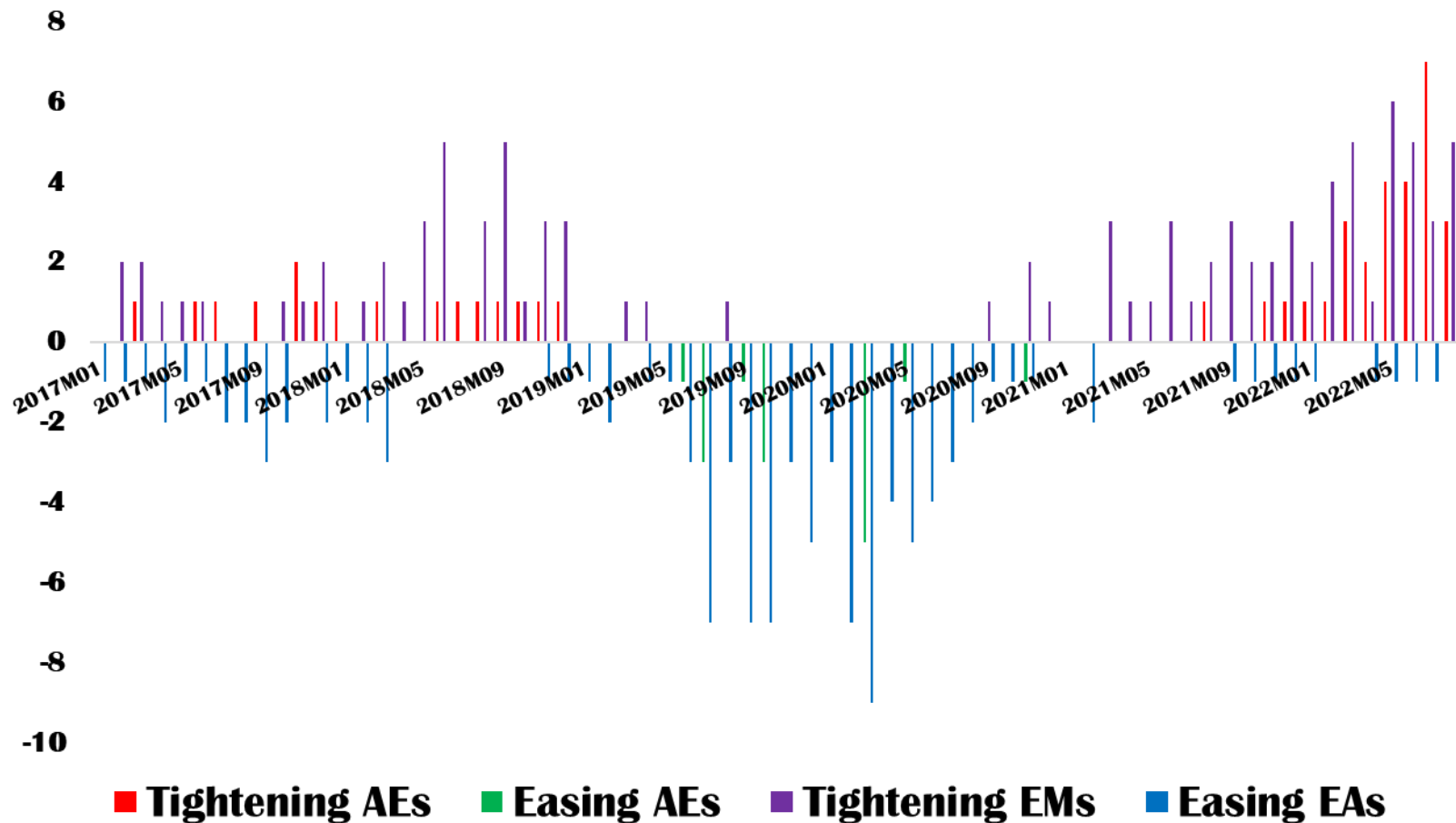
Core Inflation

Mean Core Inflation (Annualized %)

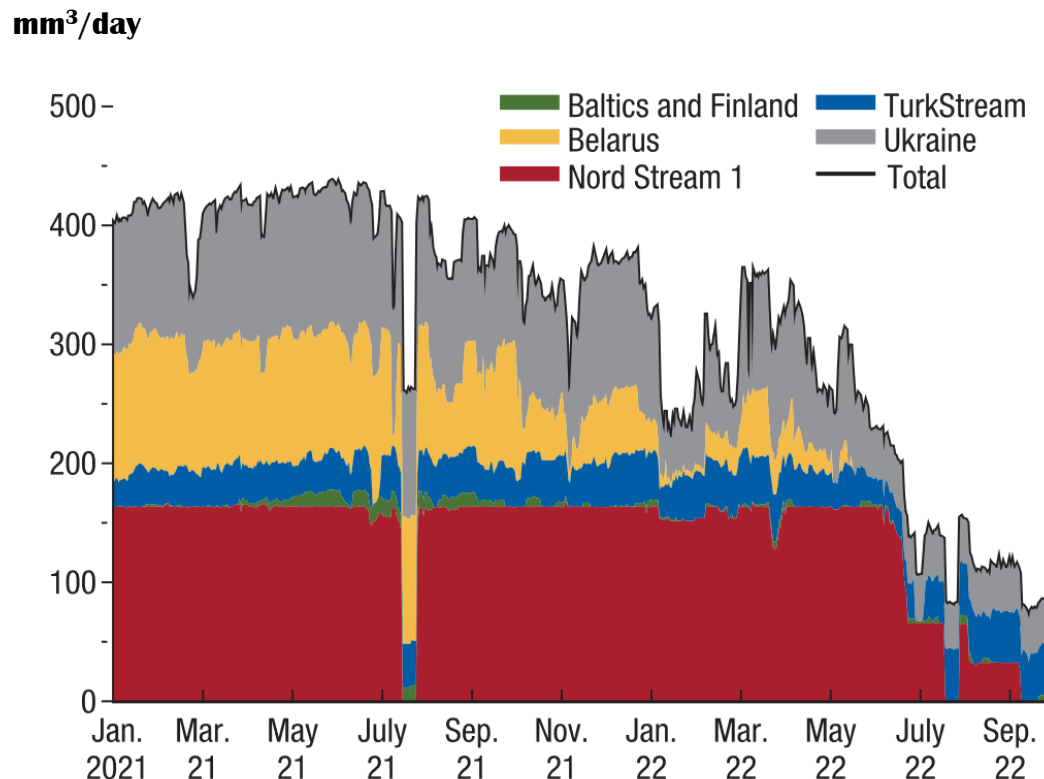


Source: IMF, October 2022

Change in Monetary Policy - G20



Russian Pipeline Gas Supplies

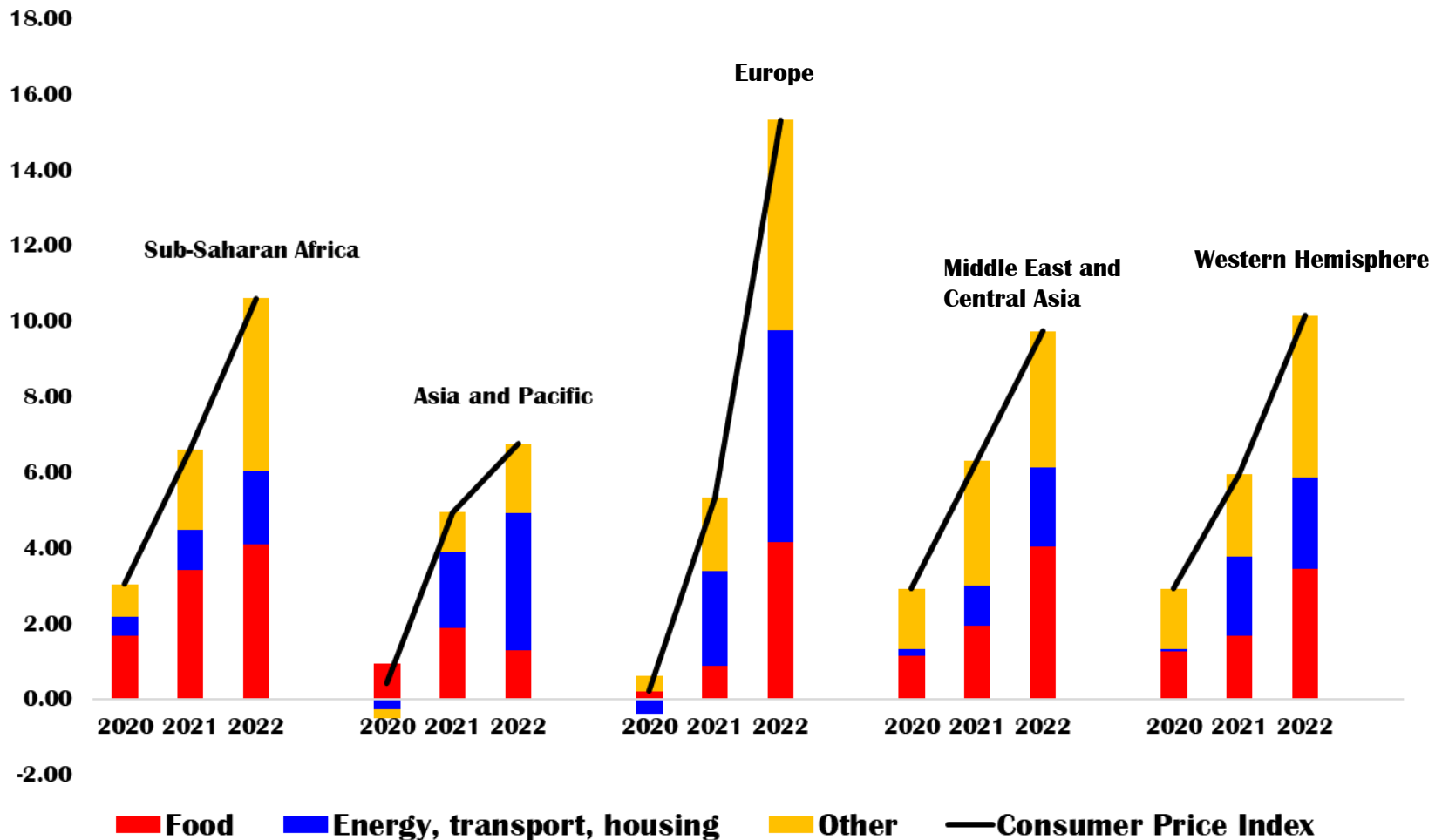


Sources: European Network of Transmission System Operators for Gas; Gas Transmission System Operator of Ukraine; and IMF staff calculations.

Note: Latest data available are for September 18, 2022. Recent data are provisional. Gas flow volumes are measured at EU border crossing points; Belarus excludes flows to Kaliningrad (Russia). EU = European Union.

Source: IMF, October 2022

Inflation Breakdown



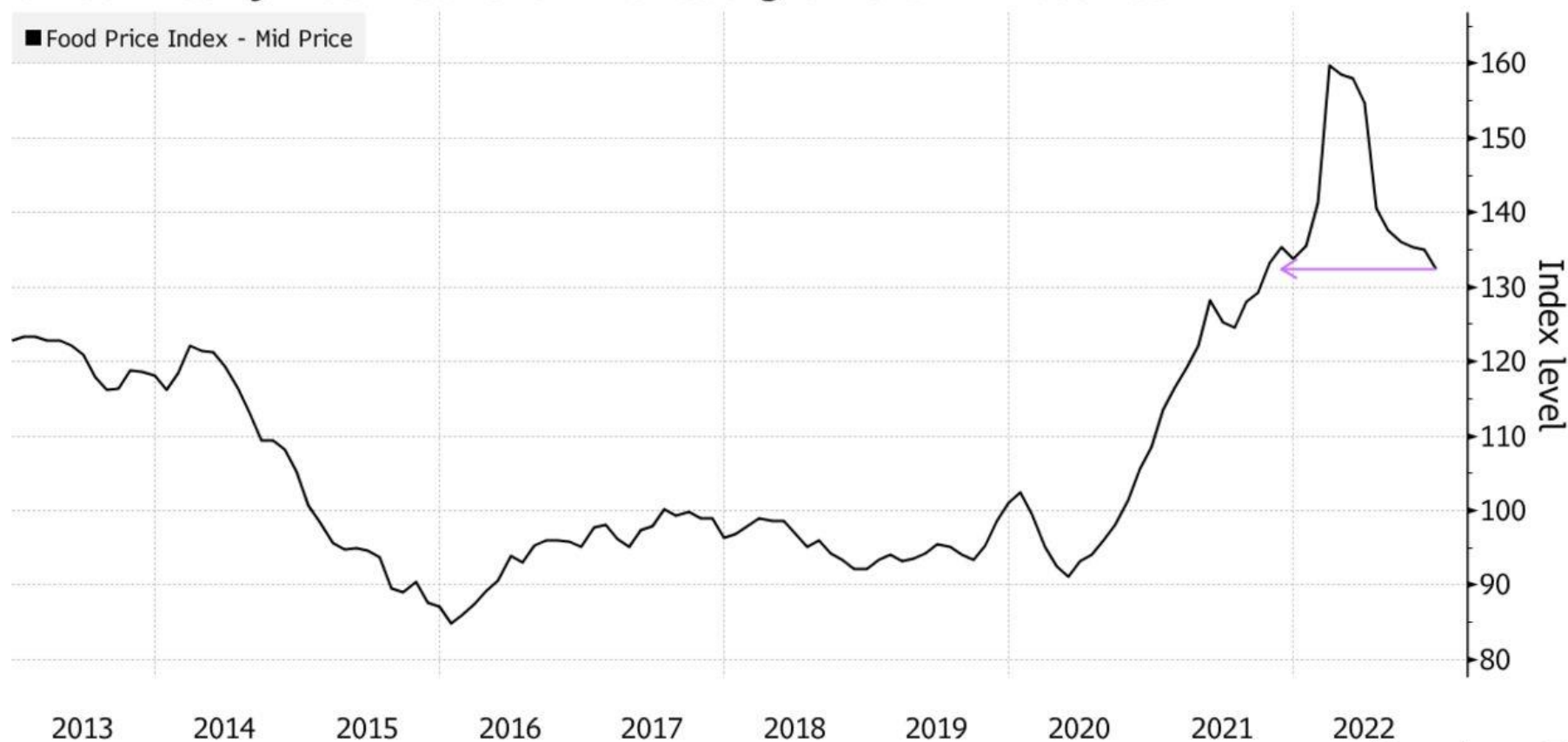
Global Food Prices

- ◆ **Commodity prices have corrected to pre-invasion levels due to improved supply conditions, Ukrainian grain export deal, and macroeconomic factors**
- ◆ **Outlook uncertain – price risk still on upside:**
 - **Stability of Ukrainian grain export deal**
 - **Potential for export restrictions**
 - **Continued drought/weather conditions**
 - **Tight stocks**
 - **Passthrough of fertilizer prices**

Global Food Price Correction

World Food Prices End 2022 Just Below Where They Started

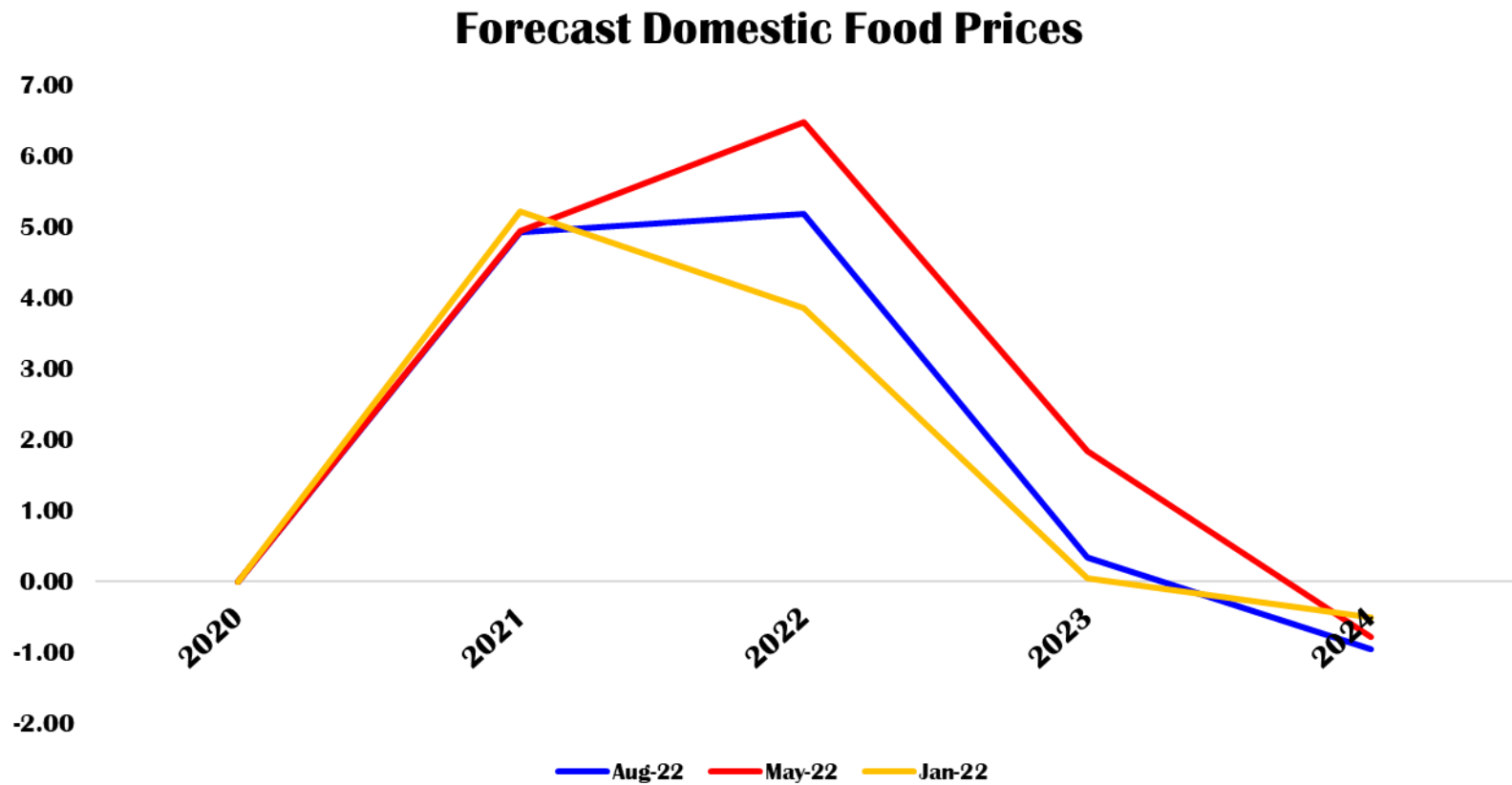
UN commodity index fell for a ninth straight month in December



Source: UN's FAO

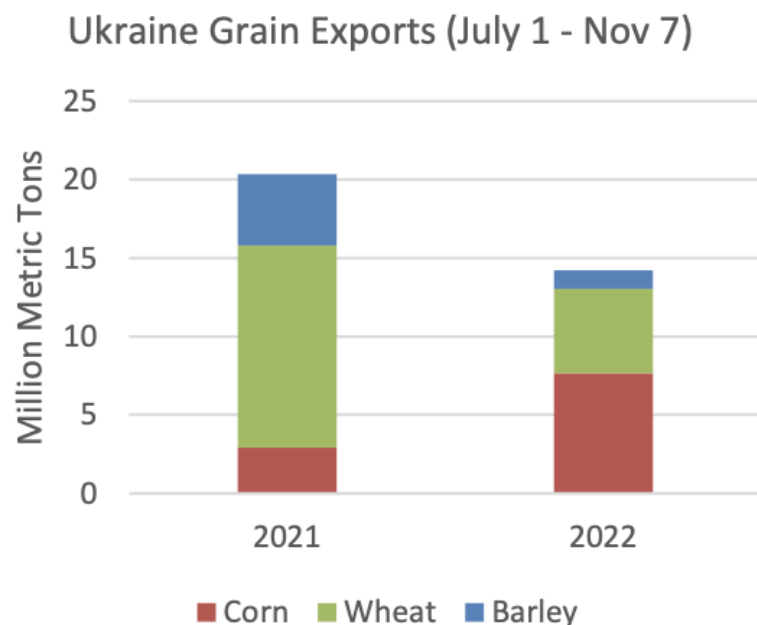
Bloomberg

Outlook for Food Prices

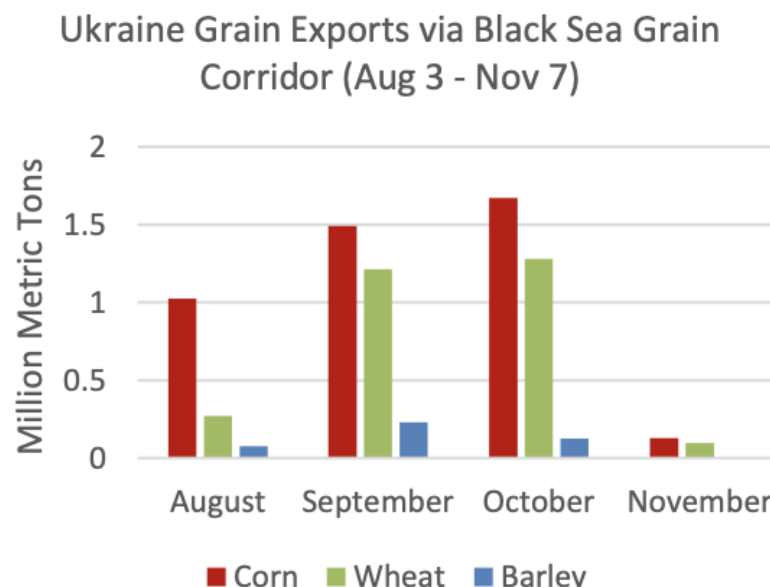


Grain Export Deal

Ukraine Grain Exports Expand via Grain Corridor but Still Lower than Prior Year



Source: Ukraine Ministry of Agriculture

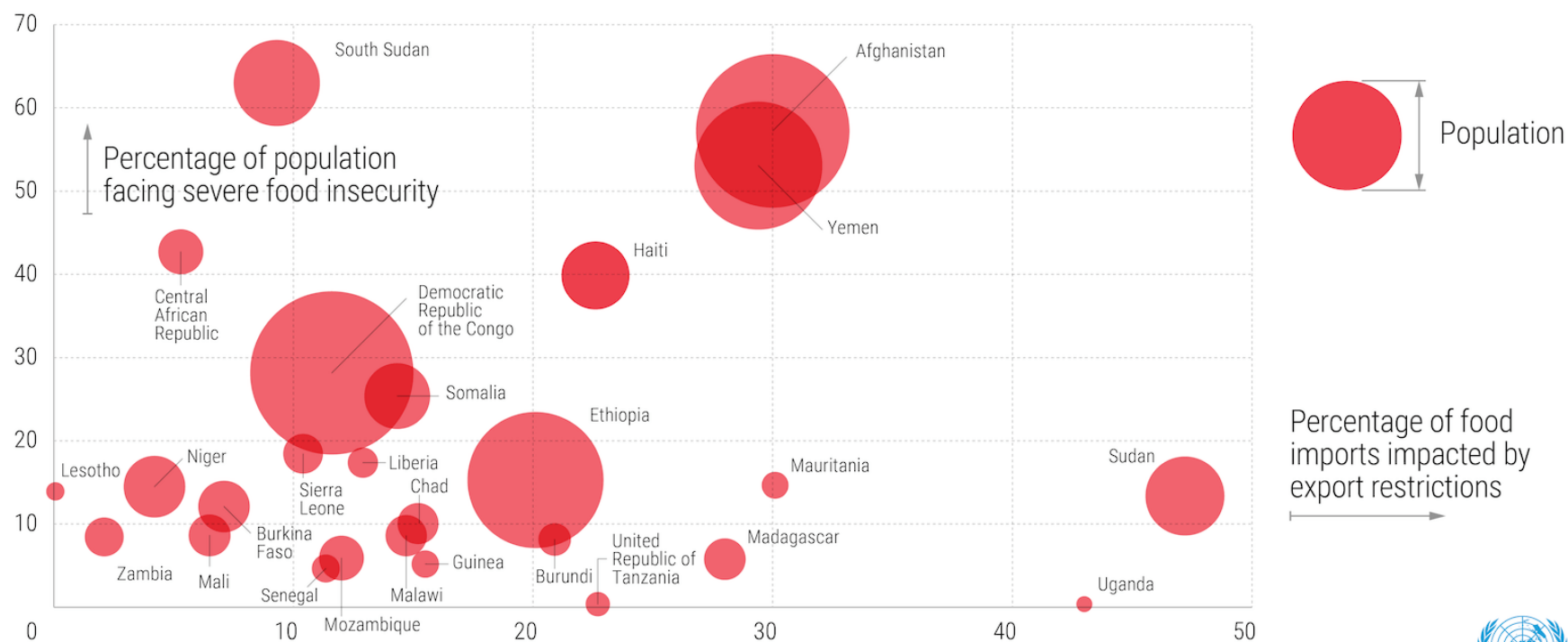


Source: Black Sea Grain Initiative website

Beggar-Thy-Neighbor Policies



Trade restrictions affect food-insecure countries



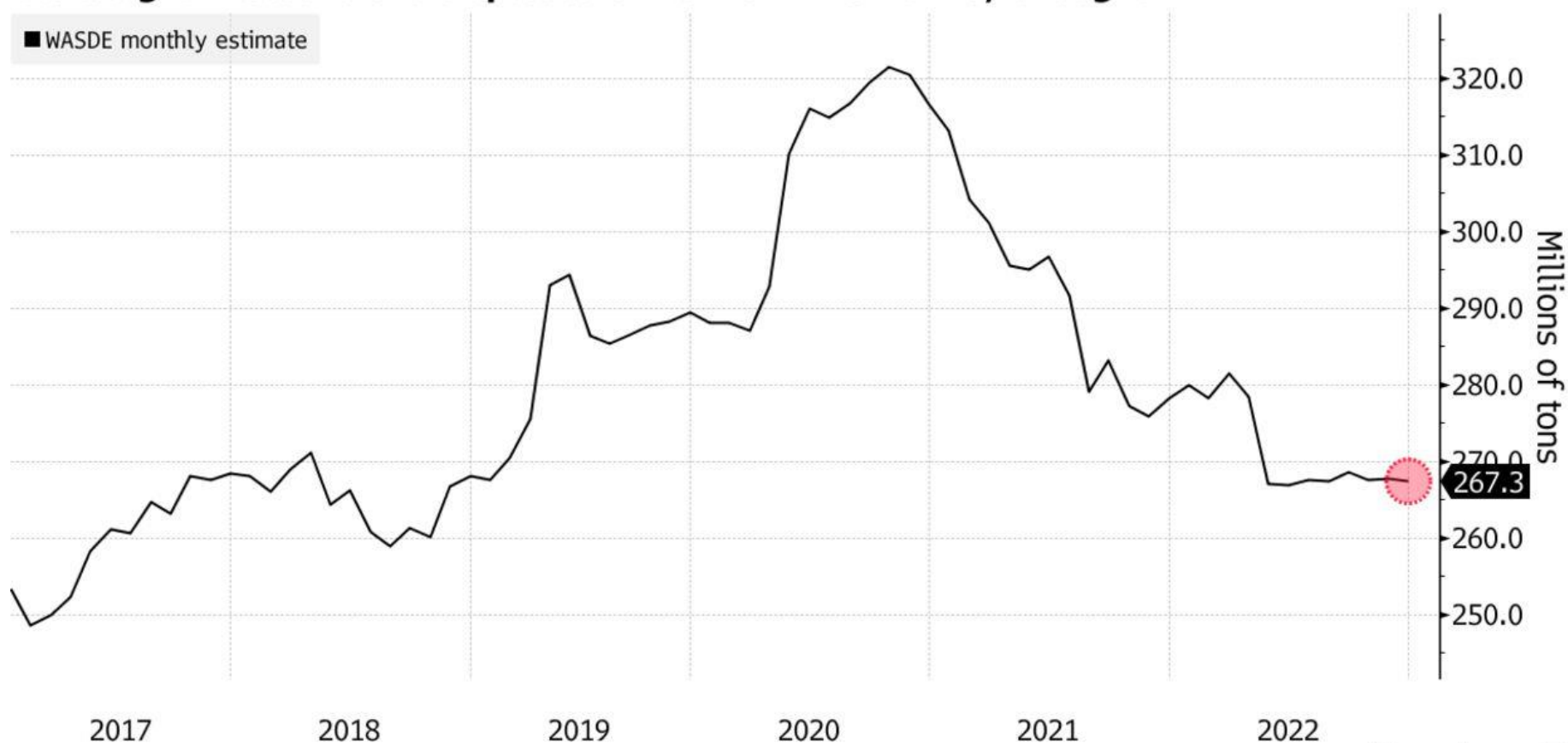
Source: UNCTAD calculations based on (1) David Laborde and Abdullah Mamun (2022). Food Export and Fertilizer Restrictions Tracker. (2) FAO (2022). Global Information and Early Warning System on Food and Agriculture (GIEWS). (3) United Nations (2019). World Population Prospects 2019. [Accessed May 2022]

Tight Stocks

Less Wheat

Global grain stocks are depleted amid war in Ukraine, drought

■ WASDE monthly estimate



Source: US Department of Agriculture

Bloomberg

Downside Risks Dominate

- ◆ **Policy divergence - continued strength of US\$**
- ◆ **Policy mistakes - UK's September 2022 budget**
- ◆ **Inflation persists - energy/food price shocks**
- ◆ **If Russian natural gas supplies to Europe halted – more pressure on inflation in euro area**
- ◆ **A worsening of China's real estate sector which accounts for 20% of its GDP – potential for banking sector losses**

Impact of Strong Dollar

- ❖ **Increase in US interest rates has led to financial inflows pushing up value of dollar**
- ❖ **Hurts emerging economies who rely on food and oil imports, and borrow in dollars to pay for them**
- ❖ **Impact of Russian invasion of Ukraine on food and energy prices exacerbated by rise in dollar**
- ❖ **Potential for sovereign debt crisis: some countries already in default (Sri Lanka) others in “severe stress” (Lebanon, Zambia, and Ethiopia)**

Dollar Appreciation

The Dollar Is Strong

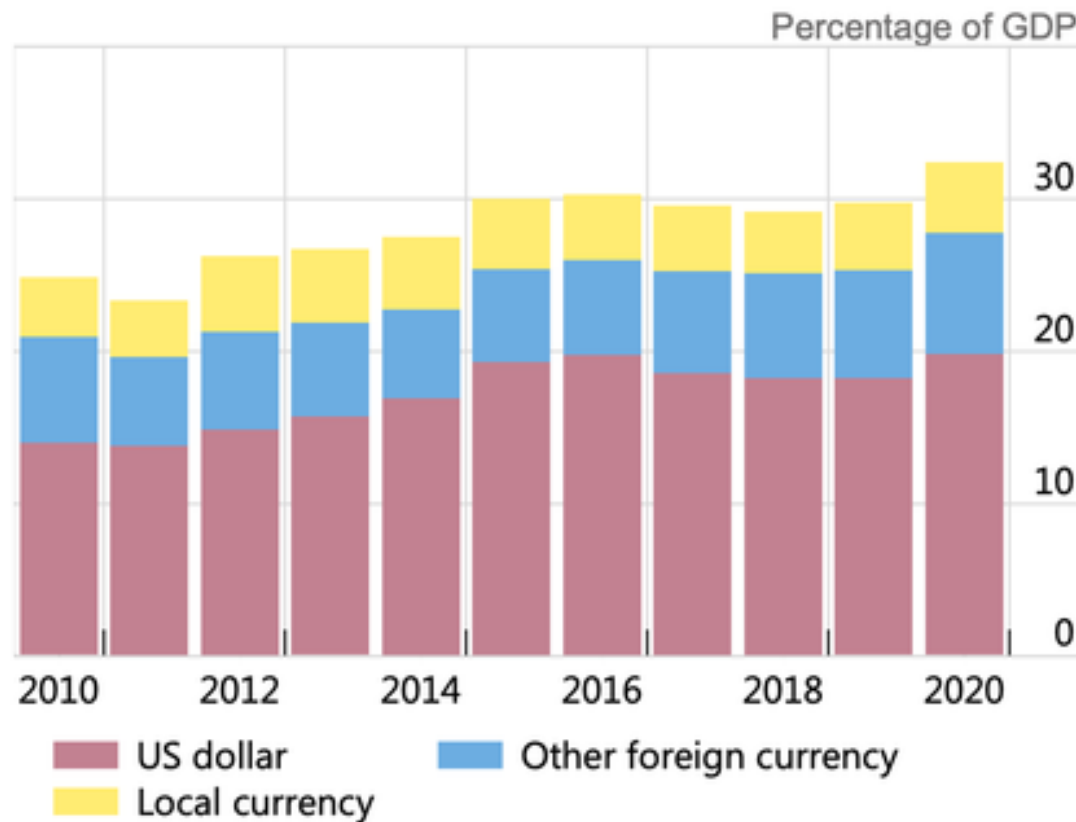
— Value of dollar against currencies of a broad group of trading partners, adjusted for inflation



January 2006 = 100

Source: Federal Reserve • By The New York Times

Emerging Market Economy Debt

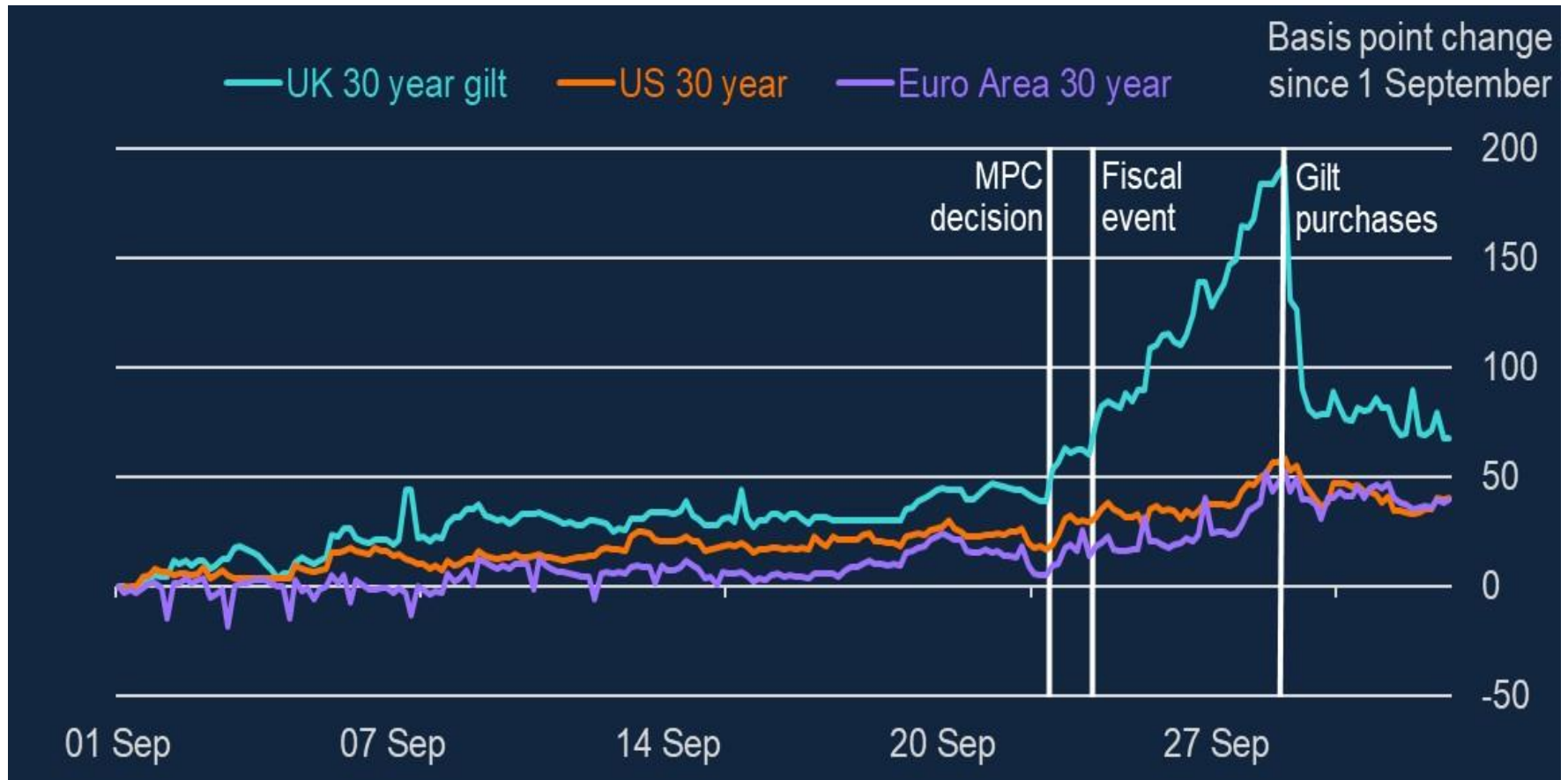


Source: Krugman, *NYT*, September 9, 2022

Policy Mistake: “Trussonomics”

- ❖ **Bond markets spooked by UK fiscal policy announcement on September 27, 2022**
- ❖ **Created serious problems in UK pension market**
- ❖ **Firms hedged against interest rate drops through “liability-driven investment” funds (LDI)**
- ❖ **When bond prices fell, counterparty had to be paid, so LDIs sold off bonds to generate cash, driving down bond prices even further**
- ❖ **Bank of England stepped in to purchase bonds**

Trussonomics.....



Source: Bank of England, October 5, 2022

Policy Mistake: “Trussonomics”

- ❖ **UK was not about to default on its debt**
- ❖ **Mistake was to announce tax cuts without being clear about matching spending cuts**
- ❖ **Uncertainty led markets to expect higher short-run interest rates, which in turn influenced price of UK bonds, and pushed down exchange rate**
- ❖ **Spillovers to stock and global bond market – generating new concerns about financial system**

From Inflation to Growth

- ◆ **Priority: control inflation/inflation expectations**
- ◆ **Path of anti-inflation policies will depend on:**
 - **Lag between costs and benefits will place pressure on central banks**
 - **Capital flows and pressure on countries with dollar-denominated debt**
 - **Coordination of monetary and fiscal policy**
 - **How most vulnerable are protected from inflation**

Some Optimism.....



“IMF chief says global economic outlook ‘less bad’ than feared”

“Kristalina Georgieva hints growth forecast could be upgraded thanks to retreating inflation, but warns against overoptimism”

