

Centre for the New Economy and Society

# Chief Economists Outlook

May 2022



## BRIEFING ON WORLD ECONOMIC FORUM CHIEF ECONOMISTS OUTLOOK

MAY 2022

A project implemented by  
GFA Consulting Group GmbH  
Centre for European Policy Studies  
DMI Associates



## Purpose

The Chief Economists Outlook, May 2022 is based on the latest policy developments and 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 outline 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 the COVID-19 pandemic and geopolitical events.

## 2022 Economic Shocks and Growth Estimates

### 2022 Additional Shocks Affecting Economies:

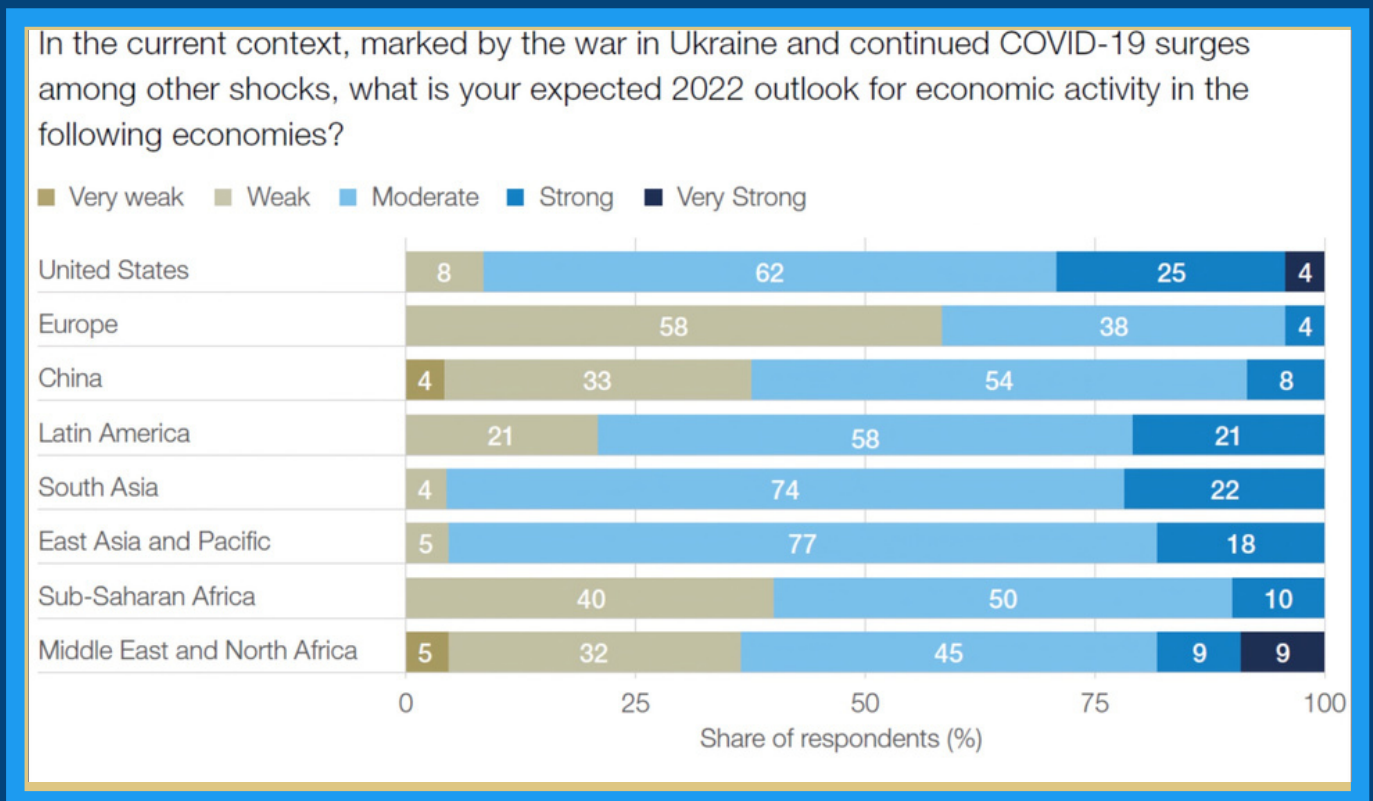
- The ongoing health consequences of the pandemic
- The conflict in Ukraine
- Exacerbated inflationary pressures from disruptions to commodities and food supplies
- Oil and gas price shocks are complicating the balance between energy security and the transition to greener energy sources
- Rising food and commodity prices are threatening lives and affecting the cost of living across the world.
- Concerns over debt sustainability capital flight and currency depreciation in low- and middle-income countries are on the rise as monetary policy in major economies is tightened.

### 2022 Economic Growth Estimates:

- GDP in Emerging and Developing Europe (including Russia and Ukraine) will contract by 2.9% in 2022 and expand by 1.3% in 2023
- Euro area GDP growth in 2022 of 2.8%
- **The Middle East and Central Asia - the negative impact is expected to come mainly via food price transmission, while net oil exporters may benefit from higher energy prices, with average growth for the region projected to be 4.6%**
- Sub-Saharan Africa – average growth of 3.8%, significantly affected by higher food prices
- Emerging and developing Asia 5.4%; heavily dependent on China's economy, expected to grow by 4.4%
- US growth 3.7%
- Latin American economies are 2.5% on average.

# In Europe, the economic outlook is expected to be weak, in the MENA region it is moderate

Figure 1. Expected economic activity outlook 2022 by economy and region

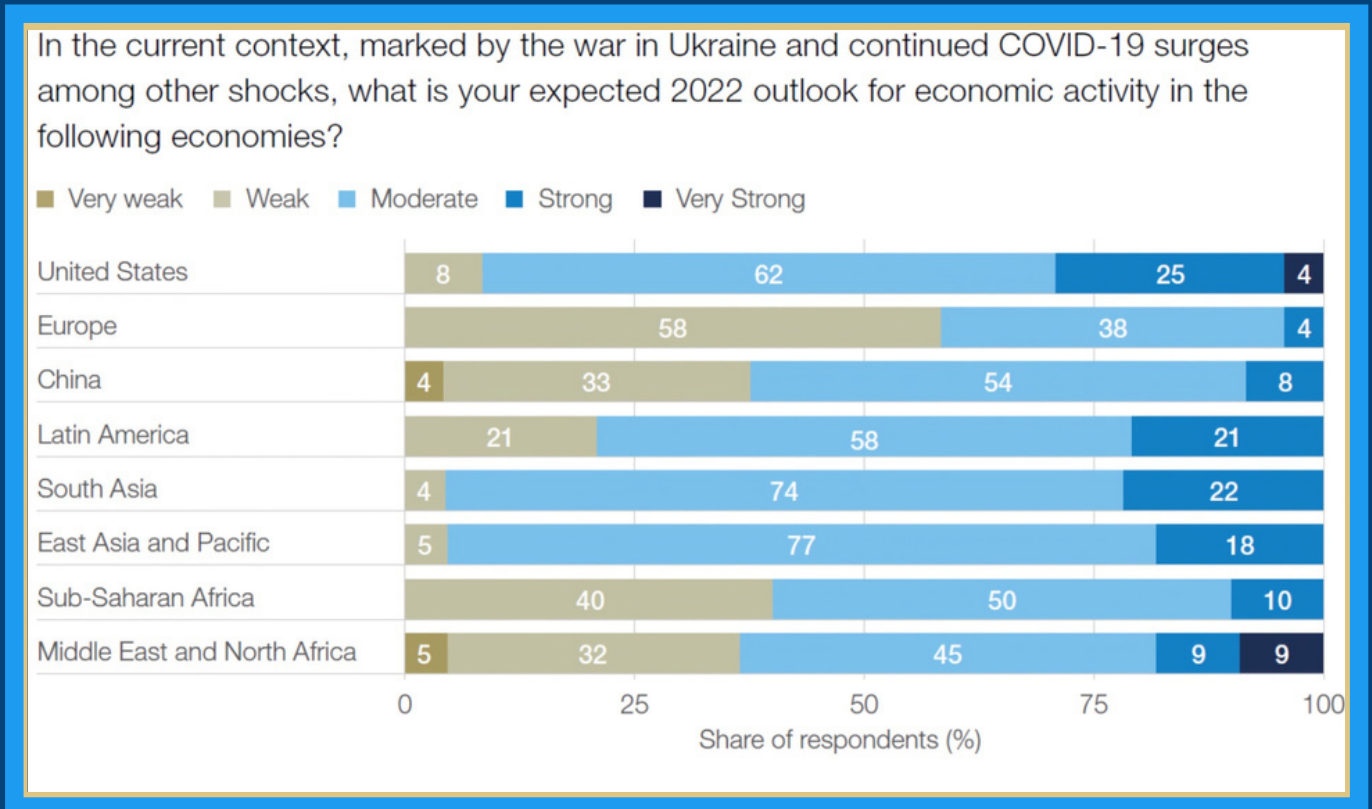


**Note:** The numbers in the graphs may not add up to 100% as figures have been rounded up/down.

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

# Inflation expectations are highest for the US, followed by Europe and Latin America

Figure 2. Inflation



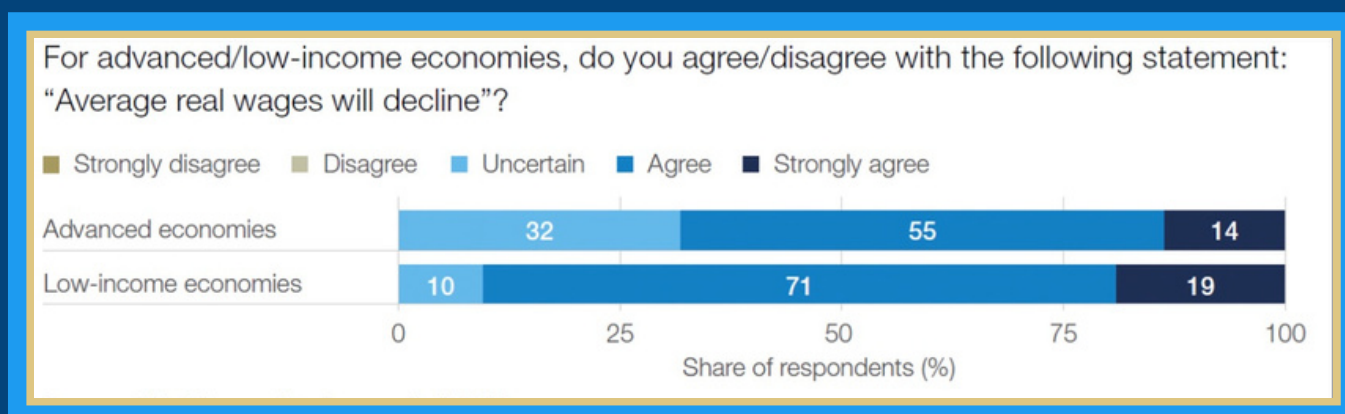
**Source:** Chief Economists Survey, April 2022

## Average real wages are expected to decline

The effect of the war in Ukraine is expected to be stronger for oil and gas prices this year, while food prices could be affected for longer.

The IMF projects a 1.8 percentage point increase in inflation for advanced economies (to 5.7%) and a 2.8 percentage point increase in emerging markets and developing economies (to 8.7%).

Figure 3. Real wages



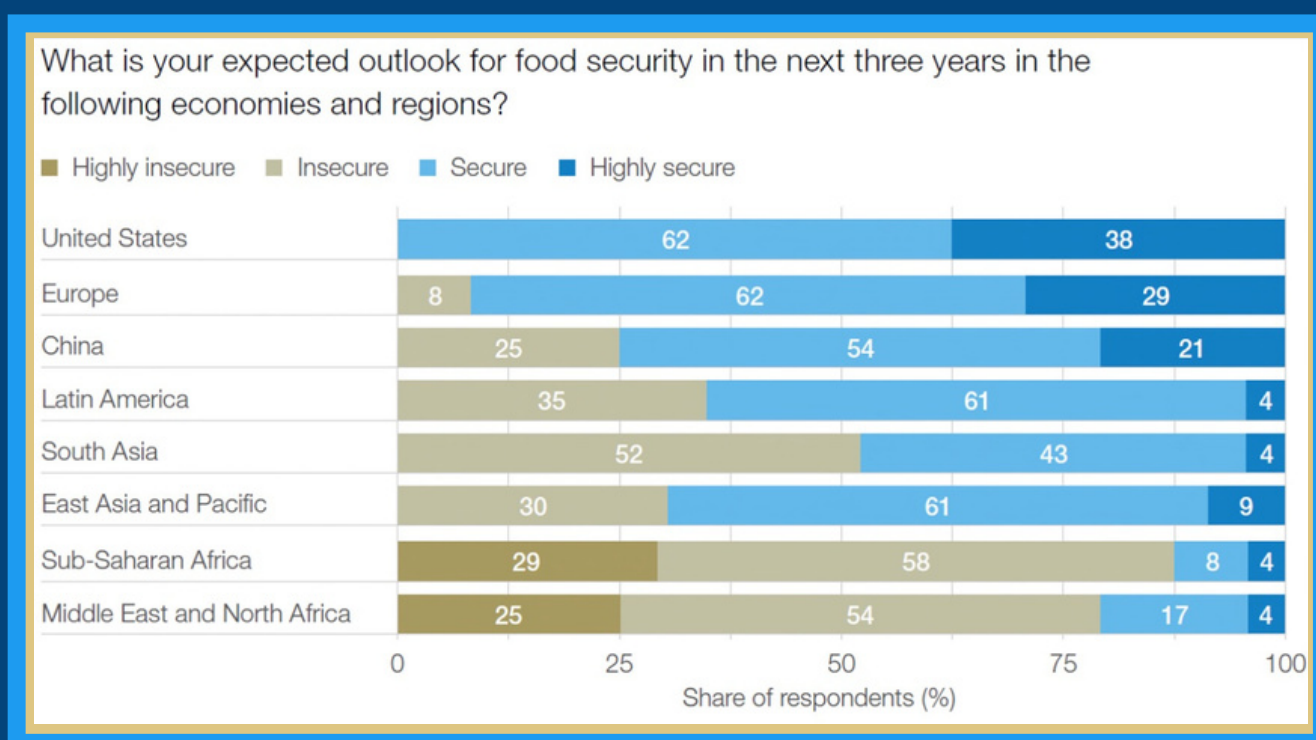
**Source:** Chief Economists Survey, April 2022

## Food insecurity expected to increase in Middle East and North Africa

### Survey opinions:

In their food security outlook for the next three years, survey respondents are divided over South Asia's prospects but united in their expectation of a highly insecure environment in sub-Saharan Africa and in the Middle East and North Africa. Food import dependencies are set to strain national budgets in countries trying to maintain current coverage of food subsidies.

Figure 4. Food security



Source: Chief Economists Survey, April 2022

## More localization, diversification, and politicization of supply chains

Global supply chains have been increasingly redrawn over the past years, including through Brexit, the deep impact of the global pandemic, and the fallout and uncertainty from the war in Ukraine. Amid fears of continued shocks, both **governments and business are rethinking their approach to exposure, self-sufficiency, and security in trade and production relationships.**

**Multinational corporations have multiple strategies at their disposal** to reconfigure their corporate structures and prepare their supply chains for an increasingly volatile future.

Chief Economists expect a substantial restructuring of supply chains in the next three years. They consider it likely or highly **likely that multinational companies will both diversify and localize their supply chains at the same time** during that period. **The realignment of global value chains along new geopolitical fault lines is also considered likely** by a large majority of respondents. In the context of supply chain reconfiguration, companies are shifting from efficiency to resilience and are expected to prioritize localization over-diversification.



## **Greater de-globalization in goods, labour and technology than in services**

The pandemic experience had **fragmented value chains, trade relationships, and financial ties.**

The repercussions from recent geopolitical events are both cementing and disrupting these trends, creating **new fault lines in physical integration** and compounding rifts in the virtual space, where spheres of US and Chinese influence have become a feature of the current system.

A majority of respondents expect **goods, technology, and labour markets to fragment further** (79%, 65%, and 54% respectively).

For services, there is a split of 43% of respondents expecting fragmentation vs. 39% expecting no change, while 17% of respondents see the potential for higher integration in the near future.

## Continued dominance of the US dollar as a global reserve currency

- The current share of US global reserves stands at 59%, followed by the euro at 20% and the yen at 5.8%.
- In the short term, the US dollar seems to be seeing an expansion, as US monetary policy tightens and interest rates rise. The economic turmoil caused by the war in Ukraine has also led investors to switch to the US dollar as a safe haven rather than shifting out of it.
- Most survey respondents expect the role of the dollar as a reserve currency to remain stable (75%) in the next three years, with only 25% seeing the role of the dollar waning.

Figure 5. US dollar outlook



Source: Chief Economists Survey, April 2022

# Choices and trade-offs for policy-makers

## Balancing the risks of inflation and contraction

- **In the case of advanced economies**, opinions are divided over whether the risks for long-term growth associated with higher inflation outweigh the risks associated with short-term contraction due to monetary tightening.
- **For low-income economies**, views on the inflation/recession trade-off are divided, although more respondents agree that the risks for long-term growth associated with higher inflation outweigh the risks associated with short-term contraction due to monetary tightening. The risks associated with higher inflation are given more weight than in the case of advanced economies.

## Balancing the risks of food, fuel, and inequality crisis with higher debt and the risk of default

- **Fiscal resources will need to be leveraged** to support the large numbers of refugees arriving in particular in Eastern Europe and, globally, to cushion price increases in necessities such as fuel, electricity, and food for the most vulnerable populations.
- Room for manoeuvre differs significantly across the major economies. **In the US, inflationary pressures constrain additional fiscal action. In China and Europe, there is more leeway for fiscal policy.**
- For advanced economies, more survey respondents **expect there to be a need for energy price subsidies than food price subsidies. For low-income economies, the vast majority feel that food price subsidies will be necessary** and more so than energy price subsidies.

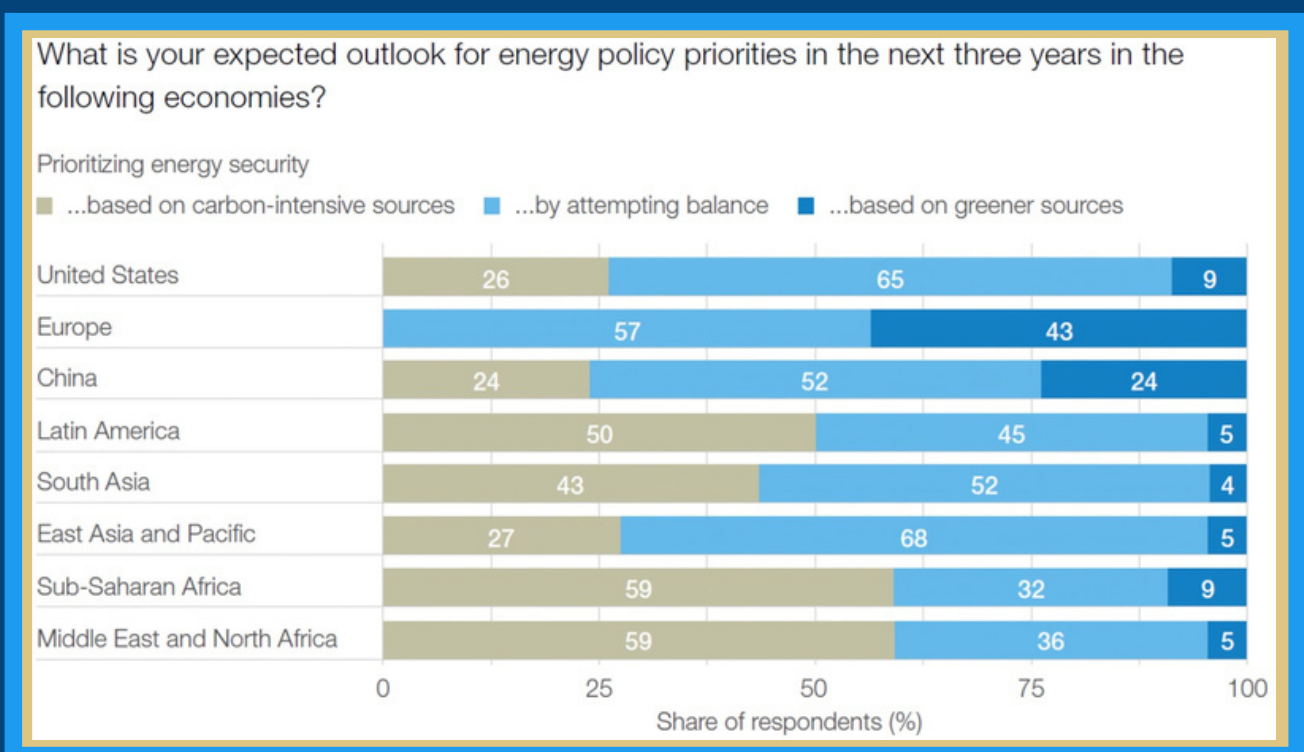
## Choices and trade-offs for policy-makers – continued.

### Balancing the risks of continued fossil fuel use against the shift to green energy

The World Bank expects energy prices to rise by more than 50% in 2022 before easing in 2023 and 2024. The price of Brent crude oil could average \$100 per barrel in 2022. All-time price records are being shattered for natural gas in Europe as well as for coal.

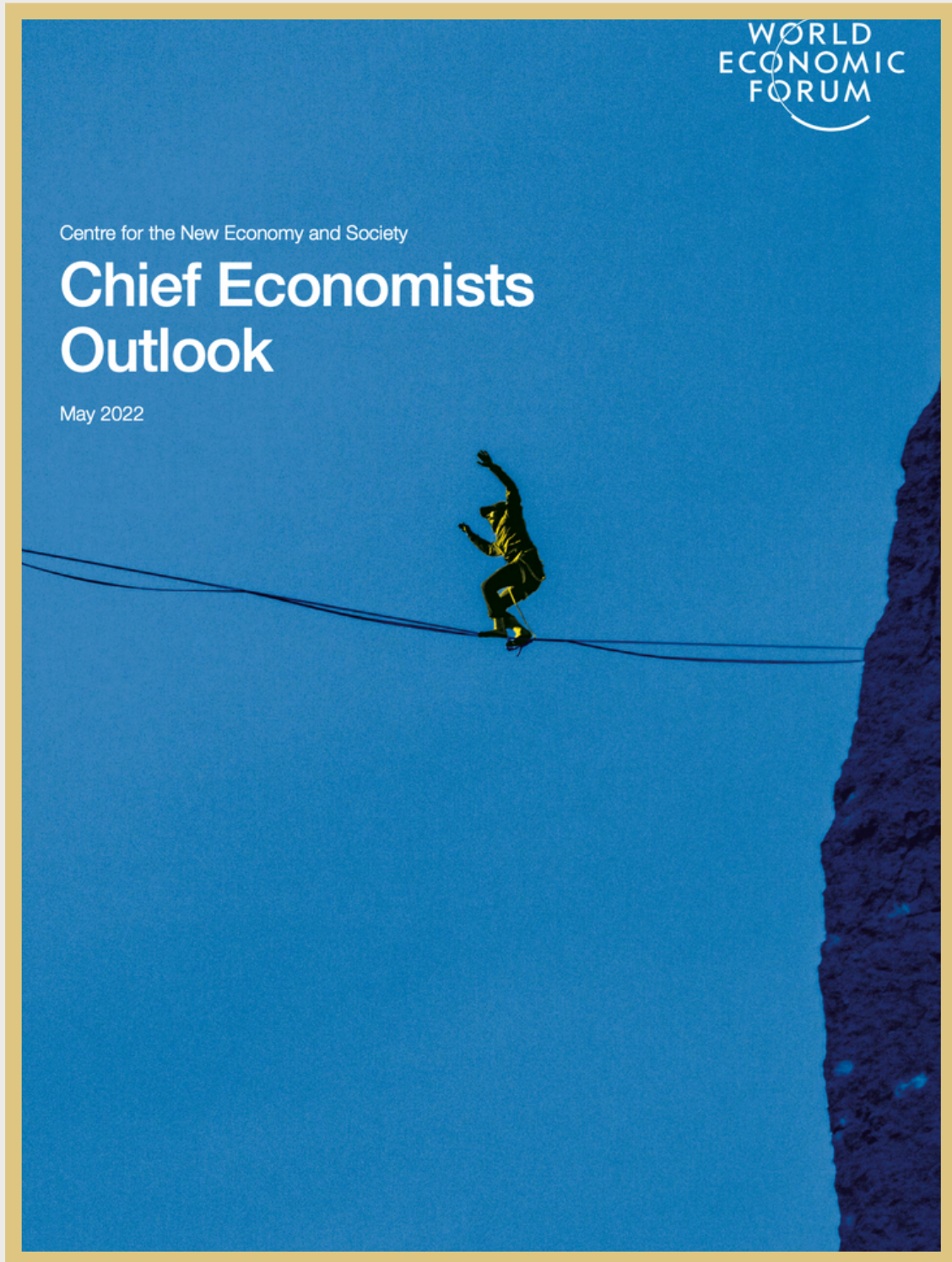
- **In the short term**, governments are limited to mitigating price shocks and guaranteeing energy security based on their current energy systems and supply dependencies.
- In the medium term, countries are faced with the challenge of maintaining energy security while transforming their energy systems to meet climate-related targets.
- In Europe, although reserves are being depleted to gain time to adjust to the new environment, the short-term cost of reducing energy dependence on Russia could be as high as €100 billion.

Figure 6. Energy policy



Source: Chief Economists Survey, April 2022

## Report & data available at:



<https://www.weforum.org/reports/chief-economists-outlook-may-2022>

# About the EU-GCC Dialogue on Economic Diversification Project

The EU-GCC Dialogue on Economic Diversification is a project funded by the European Commission Service for Foreign Policy Instruments under the Partnership Instrument.

The project contributes to stronger EU-GCC relations by supporting the GCC countries in the ongoing process of economic diversification away from hydrocarbon-dependent sectors, including by funding regular EU-GCC Business Fora.

The purpose of this project is to promote climate-friendly trade, investment, and economic affairs-related policy analysis, dialogue, and cooperation between stakeholders from the EU and GCC at both regional and country levels in the context of the GCC economic diversification process.

**For more information on the EU-GCC Dialogue Project, and to download research reports and other publications, please visit:**

[https://www.eeas.europa.eu/eeas/EUintheGCC\\_en](https://www.eeas.europa.eu/eeas/EUintheGCC_en)

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