The World Economic Outlook (WEO) is a survey by the IMF staff published twice a year, in the spring and fall. The WEO is prepared by the IMF staff and has benefited from comments and suggestions by Executive Directors following their discussion of the report on September 27, 2021. The views expressed in this publication are those of the IMF staff and do not necessarily represent the views of the IMF’s Executive Directors or their national authorities.


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Erratum
Feb. 4, 2022
The title to Figure 2.2.2 was corrected in this PDF to “Volatility and Phillips Curve Fit for Different Measures of Underlying US Inflation.”
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“Basis points” refers to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

Data refer to calendar years, except in the case of a few countries that use fiscal years. Please refer to Table F in the Statistical Appendix, which lists the economies with exceptional reporting periods for national accounts and government finance data for each country.

For some countries, the figures for 2020 and earlier are based on estimates rather than actual outturns. Please refer to Table G in the Statistical Appendix, which lists the latest actual outturns for the indicators in the national accounts, prices, government finance, and balance of payments indicators for each country.

What is new in this publication:

- Data for Andorra have been added to the database and are included in the advanced economies group composites.

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The analysis and projections contained in the *World Economic Outlook* are integral elements of the IMF’s surveillance of economic developments and policies in its member countries, of developments in international financial markets, and of the global economic system. The survey of prospects and policies is the product of a comprehensive interdepartmental review of world economic developments, which draws primarily on information the IMF staff gathers through its consultations with member countries. These consultations are carried out in particular by the IMF’s area departments—namely, the African Department, Asia and Pacific Department, European Department, Middle East and Central Asia Department, and Western Hemisphere Department—together with the Strategy, Policy, and Review Department; the Monetary and Capital Markets Department; and the Fiscal Affairs Department.

The analysis in this report was coordinated in the Research Department under the general direction of Gita Gopinath, Economic Counsellor and Director of Research. The project was directed by Petya Koeva Brooks, Deputy Director, Research Department; and Malhar Nabar, Division Chief, Research Department.

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Joseph Procopio from the Communications Department led the editorial team for the report, with production and editorial support from Christine Ebrahimizadeh, and additional assistance from Lucy Scott Morales, James Unwin, Harold Medina, and TalentMEDIA Services.

The analysis has benefited from comments and suggestions by staff members from other IMF departments, as well as by Executive Directors following their discussion of the report on September 28, 2021. However, estimates, projections, and policy considerations are those of the IMF staff and should not be attributed to Executive Directors or to their national authorities.
The global recovery continues but the momentum has weakened, hobbled by the pandemic. Fueled by the highly transmissible Delta variant, the recorded global COVID-19 death toll has risen close to 5 million and health risks abound, holding back a full return to normalcy. Pandemic outbreaks in critical links of global supply chains have resulted in longer-than-expected supply disruptions, further feeding inflation in many countries. Overall, risks to economic prospects have increased, and policy trade-offs have become more complex.

Compared to our July forecast, the global growth projection for 2021 has been revised down marginally to 5.9 percent and is unchanged for 2022 at 4.9 percent. This modest headline revision, however, masks large downgrades for some countries. The outlook for the low-income developing country group has darkened considerably due to worsening pandemic dynamics. The downgrade also reflects more difficult near-term prospects for the advanced economy group, in part due to supply disruptions. Partially offsetting these changes, projections for some commodity exporters have been upgraded on the back of rising commodity prices. Pandemic-related disruptions to contact-intensive sectors have caused the labor market recovery to significantly lag the output recovery in most countries.

The dangerous divergence in economic prospects across countries remains a major concern. Aggregate output for the advanced economy group is expected to regain its pre-pandemic trend path in 2022 and exceed it by 0.9 percent in 2024. By contrast, aggregate output for the emerging market and developing economy group (excluding China) is expected to remain 5.5 percent below the pre-pandemic forecast in 2024, resulting in a larger setback to improvements in their living standards.

These economic divergences are a consequence of large disparities in vaccine access and in policy support. While almost 60 percent of the population in advanced economies are fully vaccinated and some are now receiving booster shots, about 96 percent of the population in low-income countries remain unvaccinated. Emerging and developing economies, faced with tighter financing conditions and a greater risk of de-anchoring inflation expectations, are withdrawing policy support more quickly despite larger shortfalls in output.

Supply disruptions pose another policy challenge. On the one hand, pandemic outbreaks and weather disruptions have resulted in shortages of key inputs and dragged manufacturing activity lower in several countries. On the other hand, these supply shortages, alongside the release of pent-up demand and the rebound in commodity prices, have caused consumer price inflation to increase rapidly in, for example, the United States, Germany, and many emerging market and developing economies. Food prices have increased the most in low-income countries where food insecurity is most acute, adding to the burdens of poorer households and raising the risk of social unrest.

The October 2021 Global Financial Stability Report highlights another challenge to monetary policy from increasing risk taking in financial markets and rising fragilities in the nonbank financial institutions sector.

A principal common factor behind these complex challenges is the continued grip of the pandemic on global society. The foremost policy priority is therefore to vaccinate adequate numbers in every country and prevent more virulent virus mutations. As Chapter 1 explains, this will require the Group of Seven and Group of Twenty countries to fulfill existing dose donation pledges, coordinate with manufacturers to prioritize deliveries to COVAX in the near term, and remove trade restrictions on the flow of vaccines and its inputs. At the same time, closing the $20 billion residual gap in grants to fund testing, therapeutics, and genomic surveillance will save lives now and keep vaccines fit for purpose. Looking ahead, vaccine manufacturers and high-income countries should support the expansion of regional production of COVID-19 vaccines in developing countries through financing and technology transfer solutions.

While reducing the likelihood of a prolonged pandemic is a key immediate global priority, another
urgent priority is the need to slow the rise in global temperatures and contain the growing adverse health and economic effects of climate change. As Chapter 1 details, stronger concrete commitments are needed at the upcoming United Nations Climate Change Conference (COP26). A policy strategy that encompasses an international carbon price floor adjusted to country circumstances, a green public investment and research subsidy push, and compensatory, targeted transfers to households can help advance the energy transition in an equitable way. Just as importantly, advanced countries need to deliver on their earlier promises of mobilizing $100 billion of climate financing, annually, for developing nations.

The pandemic and climate change threaten to exacerbate the economic divergences among the world’s economies. Concerted multilateral effort to ensure adequate international liquidity for constrained economies, and faster implementation of the Group of Twenty common framework to restructure unsustainable debt, will help limit these divergences. Building on the historic $650 billion special drawing right allocation, the IMF is calling on countries with strong external positions to voluntarily channel their special drawing rights into the Poverty Reduction and Growth Trust. Furthermore, it is exploring the establishment of a Resilience and Sustainability Trust that would provide long-term funding to support countries’ investment in sustainable growth.

At the national level, the overall policy mix should be calibrated to local pandemic and economic conditions, aiming for maximum sustainable employment while protecting the credibility of policy frameworks. With fiscal space becoming more limited in many economies, health care spending should continue to be the priority, while lifelines and transfers will need to become increasingly targeted, reinforced with retraining and support for reallocation. As health outcomes improve, policy emphasis can increasingly focus on long-term structural goals. The analysis in Chapter 3 shows that investment in basic research can have far-reaching benefits through faster productivity growth, and it is important to promote the free flow of ideas and scientific collaboration across borders.

With debt levels at record highs, all initiatives should be rooted in credible medium-term frameworks, backed by feasible revenue and expenditure measures. The October 2021 Fiscal Monitor demonstrates that such credibility can lower financing costs for countries and increase fiscal space in the near term.

Monetary policy will need to walk a fine line between tackling inflation and financial risks and supporting the economic recovery. We project, amid high uncertainty, that headline inflation will likely return to pre-pandemic levels by mid-2022 for the group of advanced economies and emerging and developing economies. There is, however, considerable heterogeneity across countries, with upside risks for some, such as the United States, the United Kingdom, and some emerging market and developing economies. While monetary policy can generally look through transitory increases in inflation, central banks should be prepared to act quickly if the risks of rising inflation expectations become more material in this uncharted recovery. Central banks should chart contingent actions, announce clear triggers, and act in line with that communication.

More generally, clarity and consistent actions can go a long way toward avoiding unnecessary policy accidents that roil financial markets and set back the global recovery—ranging from a failure to lift the United States debt ceiling in a timely fashion, to disorderly debt restructurings in China’s property sector, and escalations in cross-border trade and technology tensions.

Recent developments have made it abundantly clear that we are all in this together and the pandemic is not over anywhere until it is over everywhere. If Covid-19 were to have a prolonged impact into the medium term, it could reduce global GDP by a cumulative $5.3 trillion over the next five years relative to our current projection. It does not have to be this way. The global community must step up efforts to ensure equitable vaccine access for every country, overcome vaccine hesitancy where there is adequate supply, and secure better economic prospects for all.

Gita Gopinath
Economic Counsellor and Director of Research
The global economic recovery is continuing, even as the pandemic resurges. The fault lines opened up by COVID-19 are looking more persistent—near-term divergences are expected to leave lasting imprints on medium-term performance. Vaccine access and early policy support are the principal drivers of the gaps. Rapid spread of Delta and the threat of new variants have increased uncertainty about how quickly the pandemic can be overcome. Policy choices have become more difficult, confronting multidimensional challenges—subdued employment growth, rising inflation, food insecurity, the setback to human capital accumulation, and climate change—with limited room to maneuver.

**The forecast:** The global economy is projected to grow 5.9 percent in 2021 and 4.9 percent in 2022 (0.1 percentage point lower for 2021 than in the July 2021 *World Economic Outlook* (WEO) Update). The downward revision for 2021 reflects a downgrade for advanced economies—in part due to supply disruptions—and for low-income developing countries, largely due to worsening pandemic dynamics. This is partially offset by stronger near-term prospects among some commodity-exporting emerging market and developing economies. Employment is generally expected to continue lagging the recovery in output.

Beyond 2022 global growth is projected to moderate to about 3.3 percent over the medium term. Advanced economy output is forecast to exceed pre-pandemic medium-term projections—largely reflecting sizable anticipated further policy support in the United States that includes measures to increase potential. By contrast, persistent output losses are anticipated for the emerging market and developing economy group due to slower vaccine rollouts and generally less policy support compared to advanced economies.

**Headline inflation rates have increased rapidly in the United States and in some emerging market and developing economies.** In most cases, rising inflation reflects pandemic-related supply-demand mismatches and higher commodity prices compared to their low base from a year ago. As discussed in Chapters 1 and 2, for the most part, price pressures are expected to subside in 2022. In some emerging market and developing economies, price pressures are expected to persist because of elevated food prices, lagged effects of higher oil prices, and exchange rate depreciation lifting the prices of imported goods. However, great uncertainty surrounds inflation prospects—primarily stemming from the path of the pandemic, the duration of supply disruptions, and how inflation expectations may evolve in this environment.

**Overall, the balance of risks for growth is tilted to the downside.** The major source of concern is that more aggressive SARS-CoV-2 variants could emerge before widespread vaccination is reached. **Inflation risks are skewed to the upside and could materialize if pandemic-induced supply-demand mismatches continue longer than expected (including if the damage to supply potential turns out worse than anticipated), leading to more sustained price pressures and rising inflation expectations that prompt a faster-than-anticipated monetary normalization in advanced economies (see also the October 2021 *Global Financial Stability Report*).**

**Multilateral efforts to speed up global vaccine access, provide liquidity and debt relief to constrained economies, and mitigate and adapt to climate change remain essential.** Speeding up the vaccination of the world population remains the top policy priority, while continuing the push for widespread testing and investing in therapeutics. This would save millions of lives, help prevent the emergence of new variants, and hasten the global economic recovery. As discussed in Chapter 1, an IMF proposal lays out concrete, cost-effective steps to vaccinate at least 40 percent of the population in every country by the end of 2021 and 70 percent by
mid-2022.1 It is also crucial to ensure that financially constrained countries can continue essential spending while meeting other obligations. The IMF’s recent General Allocation of Special Drawing Rights, equivalent to $650 billion, provided much-needed international liquidity. Moreover, doubling down efforts to curb greenhouse gas emissions is critical—current actions and pledges are not enough to prevent a dangerous overheating of the planet. The international community should also resolve trade tensions and reverse the trade restrictions implemented in 2018–19, strengthen the rules-based multilateral trading system, and complete an agreement on a global minimum for corporate taxes that halts a race to the bottom and helps bolster finances to fund critical public investments.

At the national level, the policy mix should continue to be tailored to local pandemic and economic conditions, aiming for maximum sustainable employment while protecting the credibility of policy frameworks.

- **Fiscal policy:** The imperatives will depend on the stage of the pandemic (also see the October 2021 Fiscal Monitor). Health care-related spending remains the priority. As the pandemic persists and fiscal space is limited in some countries, lifelines and transfers will need to become increasingly targeted to the worst affected and provide retraining and support for reallocation. Where health metrics permit, emphasis should shift toward measures to secure the recovery and invest in longer-term structural goals.

  1The 70 percent coverage target by mid-2022 is driven by the health and economic imperatives of stopping the pandemic as rapidly as possible. This is higher than the originally proposed 60 percent target for mid-2022 given the rise of more infectious variants. The revised target is consistent with the downside risk scenario envisioned in the original $50 billion IMF staff proposal released in May 2021, under which 1 billion additional doses were designated for low- and lower-middle income countries—and is aligned with the updated World Health Organization global vaccination strategy. The national targets may need to be adjusted based on age demographics and policy developments.

  Initiatives should be embedded in medium-term frameworks with credible revenue and expenditure measures ensuring debt sustainability.

- **Monetary policy:** Although central banks can generally look through transitory inflation pressures and avoid tightening until there is more clarity on underlying price dynamics, they should be prepared to act quickly if the recovery strengthens faster than expected or risks of rising inflation expectations become tangible. In settings where inflation is rising amid still-subdued employment rates and risks of expectations de-anchoring are becoming concrete, monetary policy may need to be tightened to get ahead of price pressures, even if that delays the employment recovery. The alternative of waiting for stronger employment outcomes runs the risk that inflation increases in a self-fulfilling way, undermining the credibility of the policy framework and creating more uncertainty. A spiral of doubt could hold back private investment and lead to precisely the slower employment recovery central banks seek to avoid when holding off on policy tightening. By contrast, monetary policy can remain accommodative where inflation pressures are contained, inflation expectations are still below the central bank target, and labor market slack remains. The unprecedented conjuncture makes transparent and clear communication about the outlook for monetary policy even more critical.

- **Preparing for the post-pandemic economy:** Finally, it is important to deal with the challenges of the post-pandemic economy: reversing the pandemic-induced setback to human capital accumulation, facilitating new growth opportunities related to green technology and digitalization, reducing inequality, and ensuring sustainable public finances. Chapter 3 explores one dimension of this policy agenda—the importance of basic research investment for spurring productivity growth.