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MACROECONOMICS | WORLD

HOW LIKELY IS A GLOBAL RECESSION IN 2022–2023?

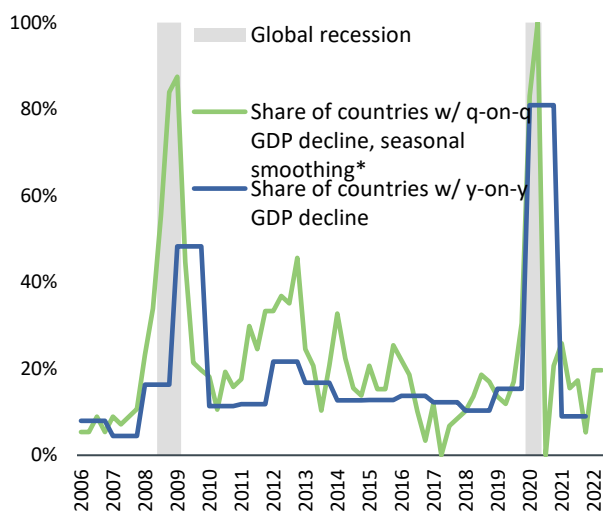
Preliminary indicators have partly appeared already. Could this time ‘be different’?

There is no commonly accepted definition of global recession. ACRA uses the definition from the paper “Global Recessions” by M. Kose, N. Sugawara and M. Terrones — a global recession is a decline in real annual GDP per capita combined with a decline in other indicators of economic activity (industrial production, employment, energy consumption, etc.). According to this definition, there have been five global recessions over the past 70 years (Table 1).

In H2 2022, Russia has faced significant trade and financial barriers that are higher than at any time in the past few decades. At the same time, the performance of the global economy continues to be a significant factor in the internal situation. The potential of demand for Russian export goods and the potential of their prices will largely depend on the situation in the global market.

In 2021, the process of recovery of global demand after the pandemic faced a delayed recovery in supply, as a result of which global inflation intensified. In 2022, having gone through several new global supply shocks, the global economy entered a phase of interest rate growth, i.e., a cooling of consumer and investment demand. When this happens in a rather wide range of countries, the world usually faces either a global recession or a smaller-scale and shorter drop in real GDP. **Global recessions are dangerous as they often have longer-term and more serious consequences** for the economic welfare of the populations of a large number of countries (so-called scarring) and most strongly impact the financial sector.

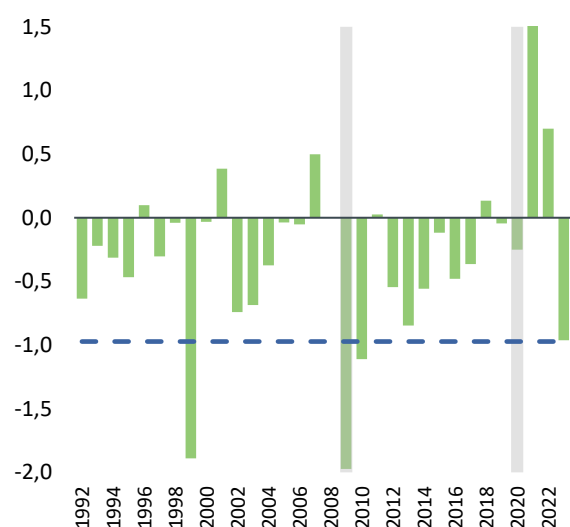
Figure 1. Share of countries where real GDP is declining



* For a limited number of countries that promptly provide quarterly data.

Sources: national statistical agencies, IMF, ACRA

Figure 2. Difference in forecasts for growth rates of the global economy for two years and a year before the period of interest



Sources: IMF, ACRA

Hereinafter, XXXX:Y means quarter Y of year XXXX.

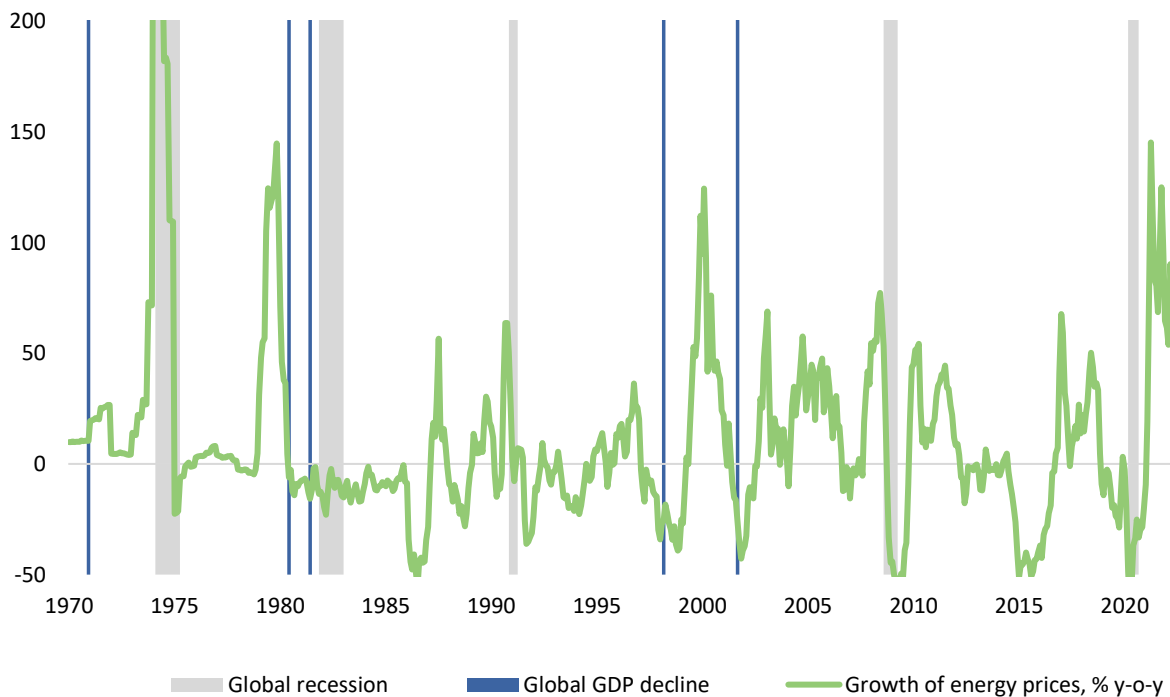
Preliminary data on national economic activity allows us to conclude that a global recession **has not yet begun in the second and third quarters of 2022** as the share of countries experiencing a decline in GDP has not increased significantly and amounted to less than 20% (*Fig. 1*). At the same time, statistics show that a recession becomes global when about 50% of countries record a reduction of per capita GDP (in annual or quarterly terms, according to PPP or market rates). However, preliminary indicators suggest that a recession is possible.

First, two of the three latest episodes of global GDP decline (1999:1 and 2009) were preceded by a **significant deterioration of global economic growth forecasts for the next year**, i.e., they were partly expected after manifestation of shocks of a financial nature. Revision of forecasts at a similar scale is also being observed now (approximately -1 pps for 2023, see *Fig. 2*), which serves as an indicator of negative expectations.

Second, at least two of the five global recessions that have occurred over the past 70 years were preceded by a **historically high increase in energy prices** (>60% per year), which was also observed in 2021–2022 (*Fig. 3*). This is an indicator of an increase in the production costs of a wide range of goods and services — an indicator of a reduction in global supply.

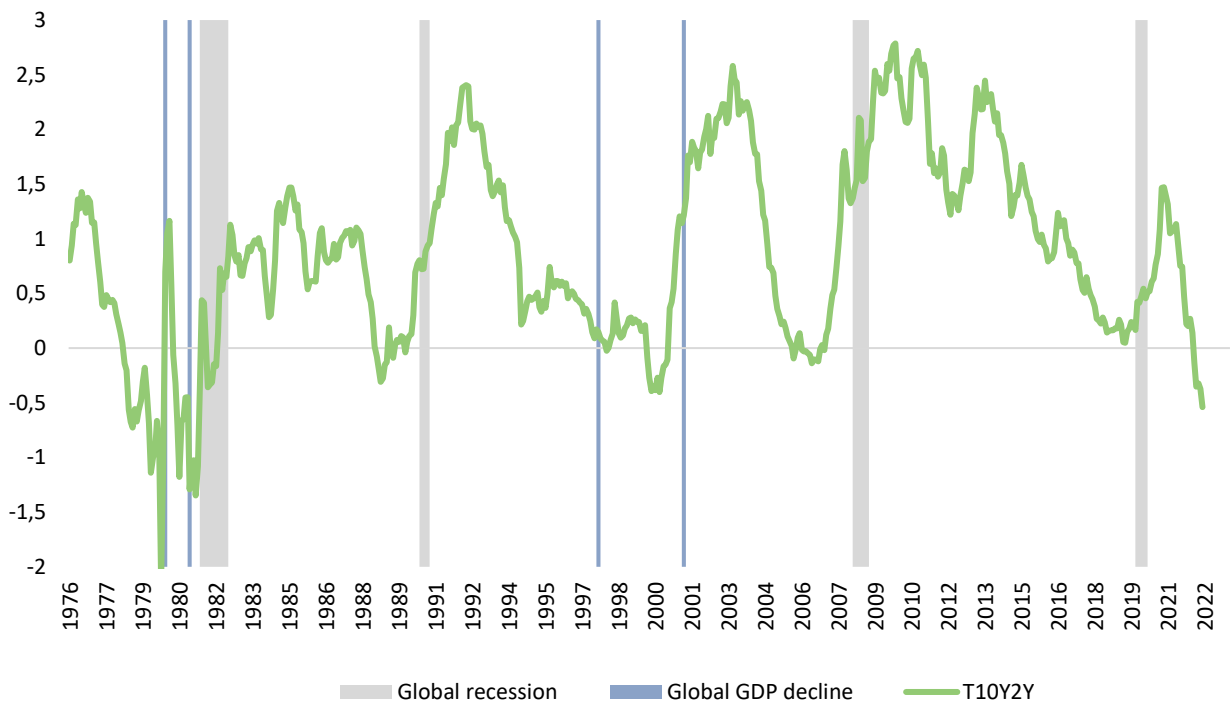
Third, the **inversion of the yield curve of dollar interest rates** with less than a two-year lag preceded seven of the last nine episodes of global GDP decline. The average monthly difference in rates on two-year and ten-year US Treasury bonds has been below -0.15 pps since July 2022 (*Fig. 4*). This means that many risks on a two-year horizon are on average considered by investors to be elevated relative to long-term equilibrium — an alternative indicator of negative expectations.

Figure 3. Rapid growth of real energy prices in most cases have a negative impact on the global economy



Sources: World Bank, ACRA

Figure 4. Inversion of the dollar yield curve*



* Spread of rates on two- and ten-year US Treasury bonds (T10Y2Y).

Sources: Federal Reserve Bank of St. Louis, ACRA

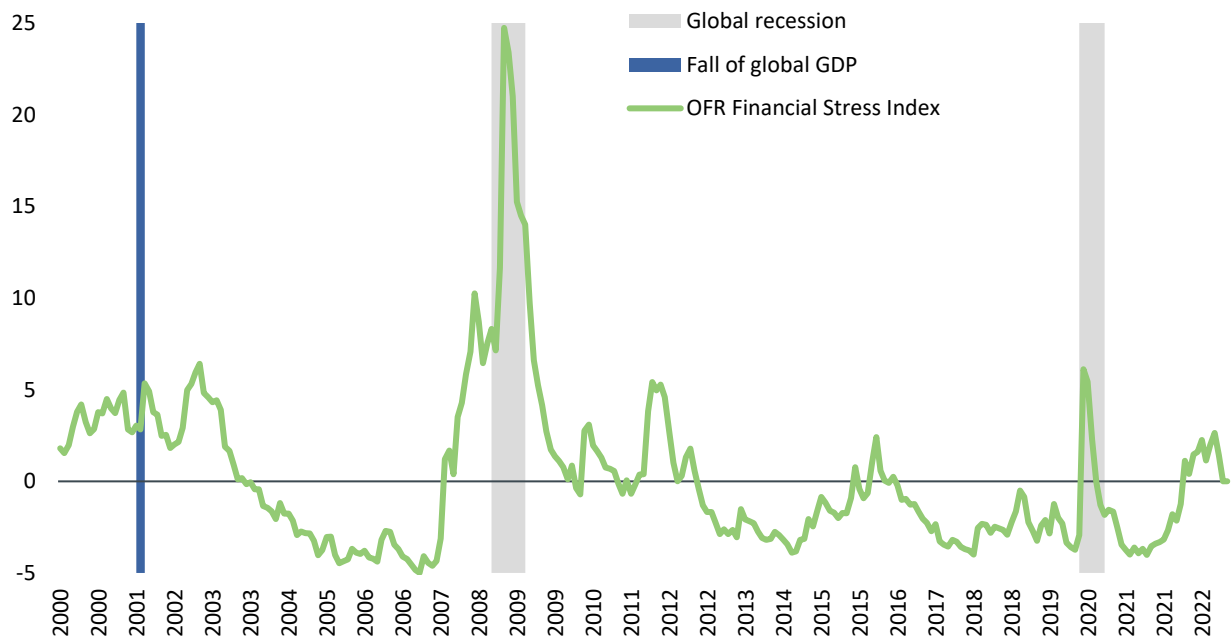
Historically, global recessions differ from short-term crises in the number of triggered preliminary indicators (*Table 1*). The fact that three of these indicators are now simultaneously showing increased risks can be considered a serious argument in favor of a possible recession in late 2022 or early 2023.

However, the trends below allow us to hope that “this time everything will be different”, and the forecast does not necessarily have to be as pessimistic as possible (possibly a growth slowdown, not a fall):

- The specific energy intensity of the world economy has at least halved since the 1970–80s (by 35% since 1990¹), so the importance of world energy prices for global output has probably decreased somewhat, as has the strength of this preliminary signal;
- Economic authorities in many countries have gained experience with countercyclical policies and are better able to dampen local demand-side crises, and they have generally become nimbler in their decision-making;
- Despite a major revision of business forecasts, global financial stress is low and not rising yet (*Fig. 5*).

¹ IEA data: <https://www.iea.org/reports/sdg7-data-and-projections/energy-intensity>

Figure 5. Global financial stress is low and hasn't grown over the past months



Sources: OFR, ACRA

Under moderately conservative assumptions, the Agency believes that the combination of events of the passing year will lead to the fact that at the end of 2022 and throughout 2023, the growth of the global economy will be at least 1.5-2 pps per year below its potential. Every fifth country, according to ACRA's estimates, either has significant risks of recession on the horizon of one quarter or is already in recession. Should systemic risks in the financial sector materialize in at least one of the largest economies, approximately the same number of countries will find themselves on the verge of economic recession. It is this condition, in ACRA's opinion, that is necessary for the onset of a global recession.

Over the next two years, even in the absence of a global recession, the growth rate of international trade will be at least 2–3 pps below the potential. Global inflation will be 5–7 pps higher than projected at the beginning of 2022, which will also push up short-term rates. Against the backdrop of historically high energy and food prices, this means additional risks of increased social tension and reduced fiscal sustainability in a number of countries. At the same time, the situation with economic activity and budgets is not uniform across regions: Central and Eastern Europe and the Baltic states face the strongest shocks, while Central Asia, the Middle East, the Caucasus, and some countries in the Americas are still doing somewhat better on average.

Table 1. Preliminary indicators of global crises

	Period	One year before the event, global growth forecasts fell by 1 pps or more	Two years or less in advance, prices for energy commodities grew by 60% or more (in real terms)	One year before the event, level of global financial stress was high	One year or less before the event, USD yield curve inverted
Global recession	1974:1 – 1975:1	?	+	?	+
	1981:4 – 1982:4	?	+	+*	+
	1990:4 – 1991:1	+*	+	-	+
	2008:3 – 2009:1	+	+	+	+
	2020:2 – 2020:4	-	-	-	-
Fall in global GDP without recession	1970:4	?	-	?	?
	1980:2	?	+	?	+
	1981:2	?	+	-*	+
	1998:1	-	-	+*	-
	2001:3	-	+	-	+
Now	2022–2023	+	+	-	+

* Expert opinion based on different data sources.

Sources: World Bank, local statistical agencies and central banks, ACRA

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