World Bank downgrades global growth forecast

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As the Omicron variant of COVID-19 rips through the world's population, the World Bank has forecast slowing global growth for 2022 as well as the following year in its *Global Economics Prospects* report issued on Tuesday.

While it was certainly not its intention, the report is an exposure of the claims by capitalist governments that no serious public health measures can be undertaken to eliminate the pandemic because they would be detrimental to the "economy."

In fact, as the figures in the report make clear, the policy of "let it rip" being pursued by virtually all governments is producing ever worsening economic conditions. No changes will be made, however, as the economy is completely subordinated to finance capital which opposes any measures that impede the accumulation of wealth in the hands of a rapacious oligarchy.

The summary of the World Bank's report on the state of the world economy reads like an indictment of the political and financial authorities responsible for economic policies.

It notes that after growing by an estimated 5.5 percent in 2021, "global growth is expected to slow markedly to 4.1 percent in 2022, reflecting continued COVID-19 flare-ups, and slow even further in 2023."

The outcome could be worse because as the report notes: "Various downside risks cloud this outlook, including simultaneous Omicron-driven economic disruptions, further supply bottlenecks, a de-anchoring of inflation expectations, financial stress, climate-related disasters, and a weakening of long-term growth drivers."

It says that the global economy is set up to experience its sharpest slowdown after an initial rebound from a global recession since at least the 1970s. Growth will decline to 3.2 percent in 2023.

In the advanced economies, the 2023 growth rate will fall to 2.3 percent as pent-up demand falls and fiscal policy support is withdrawn. The situation is worse in so-called developing countries.

In his foreword, World Bank president David Malpass writes that spending in these economies surged to record levels during the crisis, "but many countries are now facing record levels of external and domestic debt." Added to these debt-related risks, he continued, is the potential for higher interest rates as the advanced countries tighten their monetary policies.

"With fiscal and monetary policy in uncharted territory, the implications for exchange rates, inflation, debt sustainability, and economic growth are unlikely to be favourable for developing countries."

This is a vast understatement. According to the report, annual output by 2023 in all the so-called emerging market and developing economies annual output is expected to remain below the pre-pandemic trend.

With "downside risks dominating the outlook," it is expected that on a per capita basis any global recovery is expected to "leave behind those in economies that experienced the deepest contractions in 2020. Half or more of the economies in East Asia and the Pacific, Latin America and the Caribbean, and the Middle East and North Africa, and two-fifths of the economies in Sub-Saharan Africa, will still be below their 2019 per capita GDP [gross domestic product] levels by 2023."

On the inflation front, the report expects prices to continue to rise, again hitting less developed countries.

"Rising food prices will hit the poorest populations the hardest, increasing food insecurity and accentuating the pandemic's impact on income inequality," the report notes. The same also applies to the advanced countries as well where inflation in food and other basic commodities is escalating at levels not seen in four decades.

The leaders of global capitalist institutions such as the International Monetary Fund and the World Bank profess to be somehow above politics and only concerned with economic outcomes. But they always have one eye firmly fixed on the development of the class struggle.

This is giving rise to some concerns. As Malpass notes in his foreword, "booming asset prices are boosting the wealth of richer segments of society, adding to inflation" and this "divergence of fortunes is especially troubling, given the possibility of social discontent in developing countries." The same could be said of the advanced economies as well.

The forecast for advanced economies is slowing growth. After rising by 5 percent in 2021 it is expected to slow to 3.8 percent in 2023 "as the Omicron-driven pandemic resurgence weighs on activity at the start of the year, pent-up demand is gradually reduced, fiscal and monetary support is withdrawn, and supply strains ease only gradually."

In the US, the Biden administration's much-touted $1.2 trillion 10-year infrastructure plan is "expected to provide only a small boost in the near term" and the World Bank has downgraded its forecast for the American economy by 0.5 percentage points compared to previous estimates.

On China, the world's second largest economy and one of the main drivers of global growth, the report states that growth has "decelerated more markedly than previously envisioned." After reaching estimated levels of 8 percent last year, Chinese growth is expected to fall to 5.1 percent in 2022, with the estimate having been revised down by 0.3 percentage points.

"The possibility of a marked and prolonged downturn in the highly leveraged property sectors—and its potential effect on house prices, consumer spending, and local government financing—is a notable downside risk to the outlook."

After what it calls a remarkable rise in the second and third quarters of 2021, the report notes that growth in the euro area "is estimated to have slowed in the fourth quarter owing in part to a sharp resurgence of COVID-19, a persistent drag on production from supply bottleneck in economies heavily exposed to global supply chains, and sharply higher energy prices."

Growth in 2022 is expected to slow from 5.2 percent in 2021 to 4.2 percent this year and then to 2.1 percent in 2023 with the surge in natural gas and electricity prices, if sustained, posing a "notable risk to the near-term euro area outlook."

Summing up the situation for the world economy, the report notes that the projected rate of global growth will be insufficient to regain its pre-pandemic trend over the forecast horizon.

Omicron-driven pandemic resurgence could overwhelm health systems, aggravate supply bottlenecks, raise actual and expected inflation and force an earlier and sharpening tightening of monetary policy in many economies.

"These same headwinds to global growth could also trigger and be compounded by financial stress, given public and private sector balance sheet vulnerabilities."

In the longer run, the report explained, "the global economy faces the risk of a more pronounced softening of the fundamental drivers of growth."

Given the major benefits for the economy that would flow from a policy of COVID-19 elimination on a global scale, the obvious question is why is such a policy not implemented?

It is not because it is unfeasible. The "zero COVID" actions in China, home to 1.4 billion of the world's people where total deaths are just over 5,000 compared to millions of dead elsewhere show, what could be done on a global scale.

But such a policy runs into two barriers, rooted in the very structure of global capitalism itself.

First, the division of the world into rival nation-state and great powers, with competing economic agendas and political strategies makes global collaboration impossible.

Second, the profit system is not based on the production of goods and services needed to sustain society and the world's people. Insofar as these use values are produced, they are only a by-product of the essential driving force of the capitalist system—the transformation of money into ever greater amounts of money.

The very centre of this process is now the accumulation of wealth via financial parasitism and speculation on the financial markets, completely divorced from the underlying real economy. With the vast economic resources now available, a policy of global elimination based on long-established and proven public health measures could be carried out. They would come at a cost, but the real economy could be more than adequately sustained.

However, the inflated stock markets and financial system, where real power now resides, would not and this is the basis for the "let it rip" policy.

The World Bank's latest report underscores the extent of the economic disaster that has been created and establishes the necessity to fight for a socialist economy. If capitalism cannot provide the most basic requirements for public health and safety and its refusal to do so produces a growing economic crisis, then it must be replaced by a new and higher socio-economic order.