World Bank warns of soaring prices and global recession

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With workers around the world already on the brink from soaring prices, a leading global financial institution has warned that prices are only going to rise further, accompanied by a significant increase in unemployment.

The World Bank has warned that the global economy is falling into a prolonged period of stagflation—lower growth and even outright contraction—lasting into the foreseeable future in its latest *World Economic Prospects* report issued on Tuesday.

In the foreword to the report, World Bank President David Malpass said: “The world economy is again in danger. It is facing high inflation and slow growth at the same time. Even if a global recession is averted, the pain of stagflation could persist for several years.”

Throughout the report, the World Bank places emphasis on the effects of the war in Ukraine in producing these conditions. But it is clear from the report itself that stagflationary trends were well underway before the outbreak of the war in February.

It has significantly reduced its forecast for global growth from 5.7 percent in 2021 to just 2.9 percent this year, a cut of nearly one-third in its forecast of 4.1 percent issued in January.

Similar forecasts of lower growth and higher inflation were made in a report by the Organization for Economic Cooperation and Development (OECD) covering the major economies issued yesterday.

The World Bank report said that despite the “negative shock” to the world economy in 2022, there was “essentially no rebound” projected for next year, with growth only expected to edge up slightly to 3 percent with many headwinds, in particular high commodity prices and continued monetary tightening—the lifting of interest rates by central banks—which is expected to persist.

Moreover, even this bleak outlook is subject to various “downside risks,” including “intensifying geopolitical tensions, growing stagflationary headwinds, rising financial instability, continuing supply strains, and worsening food security.”

In the longer term, growth is expected to remain below the levels reached in the 2010s for the rest of the decade.

The report notes that the economic recovery from the last period of stagflation in the 1970s “required steep increases in interest rates by major advanced-economy central banks to quell inflation, which triggered a global recession and a string of financial crises in EMDEs [emerging markets and developing economies].”

Under conditions where the global economy is suffering from two years of the effects of the pandemic—the refusal of capitalist governments around the world to undertake science-based public health measures to eliminate it because of their effect on stock markets—the war in Ukraine is having significant “spillover” effects.

But as the report acknowledges, these effects are “magnifying pre-existing strains from the pandemic, such as bottlenecks in global supply chains and significant increases in the price of many commodities.”

Having increased debt to fund measures taken in the pandemic, there has been a significant reduction in “policy space” to deal with the effects of the war, “exacerbating the exceedingly difficult tradeoffs policy makers face between supporting growth and controlling price pressures.”

In other words, whereas in the past, under conditions of a low-interest rate regime, governments could provide a stimulus to the economy by lifting spending through increased debt, they can no longer do so because central banks are lifting interest rates in response to inflation.

The report notes that debt was already “on an unsustainable path for many EMDEs prior to the war, and fiscal sustainability is likely to be eroded further by weaker growth prospects and higher borrowing costs.”

The World Bank report, however, does not make the essential point that the rise in interest rates will do nothing to bring down prices. Rather, it is aimed at inducing recessionary conditions to clamp down on the wage demands of workers confronted with the highest inflation in four decades, which is daily cutting their living standards.

The so-called emerging markets are being hard hit. EMDE growth is expected to almost halve in 2022, down to 3.4 percent this year compared to 6.6 percent in 2021 and well below the annual average of 4.8 percent in the period 2011–2019.

Global inflation has climbed around the world and is now well above central bank targets. At the start of the price hike in 2020 and 2021, the “conventional wisdom” advanced by central bank leaders was that inflation was “transitory.”

This happy scenario has been well and truly junked, with the

World Bank reporting that “inflation is expected to remain elevated for longer and at higher levels than previously assumed.”

The great fear of the financial authorities is that persistent inflation will lead to a drive for higher wages, and so the report warns that “central banks may be forced to tighten monetary policy more rapidly than currently expected to bring rising price pressures under control.”

The World Bank report generally falls in behind official pronouncements that the pandemic is over—contrary to all available evidence—but it is forced to acknowledge that it “could worsen due to the appearance of new, more virulent variants.”

The extent of inflation, especially in basic commodities, is highlighted by some of the estimates contained in the report.

Energy prices are forecast to rise by 52 percent in 2022, some 47 percentage points greater than previously projected. Agricultural prices are predicted to increase 18 percent this year, above previous forecasts. Fertilizer prices are expected to increase by 70 percent, as Russia is the world’s largest exporter of this commodity. Metal prices are expected to increase by 12 percent, with aluminum and nickel prices having already risen by 30 percent.

The price hikes are already being felt around in world as the costs of petrol, energy and food increase daily.

In the US, gas (petrol) prices are about to hit $5 a gallon, with similar hikes taking place around the world. Families are faced with ever increasing costs to run their cars, while rising transport costs are passed on to consumers in the form of increased prices for food and other necessary goods.

On the global food crisis, there was a telling comment by OECD chief economist Laurence Boone in the foreword to the OECD’s latest report. She wrote that the world was producing enough cereals to feed everyone, “but prices are very high.”

In its survey of the major economies, the World Bank report notes that growth is expected to “slow markedly” in 2022 to 2.6 percent. In the US, it states, “activity lost momentum” in the first half of the year. The US economy contracted at an annual rate of 1.4 percent in the first quarter—with lower growth to continue.

The growth rate for 2022 is predicted to be 2.5 percent in 2022, some 1.2 percentage points below the previous forecast, and to decline even further to 2.2 percent in 2023–2024 as a result of higher energy prices, tighter monetary conditions and additional supply problems caused by the Ukraine war.

Euro area growth is expected to be 2.5 percent this year because of additional supply shocks flowing from the war, a downward revision of 1.7 percentage points from previous forecasts.

Economic activity has slowed significantly in Japan, where growth is expected to be 1.7 percent this year, down 1.2 percentage points from previous forecasts.

China is predicted to grow by 4.3 percent this year, a downgrade of 0.8 percentage points, and then to expand by 5.2 percent in 2023.

These rates are significantly higher than all the advanced economies. This is despite all the hue and cry that China’s zero-COVID measures were inflicting major economic damage and had to be reversed no matter what the cost in infections and mass deaths if this were done. But no mention is made in the report of the inconvenient fact that zero-COVID policies have not prevented China’s economy from growing more rapidly than the Western econmies which have implemented “herd immunity” policies resulting in mass death.

Viewed within the context of the economic and financial developments of the past decade and a half, the World Bank report is a major indictment of the operation of the global capitalist system, though that, of course, was not its intention.

The outpouring of trillions of dollars by central banks following the crisis of 2008 created the conditions where, when the pandemic arrived in 2020, capitalist governments refused to undertake elimination measures lest they produce a collapse of the parasitic stock markets, bloated by ultra-cheap money.

Instead, notwithstanding some limited mitigation measures that have now been completely scrapped, they essentially let the pandemic rip while the central banks pumped still more trillions into the financial system.

But the refusal to deal with COVID-19 produced a supply chain crisis, setting off an inflationary spiral. This has been exacerbated by the US-led NATO war against Russia in Ukraine, waged to inflict a decisive defeat and carve the country up into bite size pieces for imperialist plunder.

And now, as the consequences of these policies come home to roost in the form of rapid inflation, growing financial instability and the threat of recession, capitalist governments and their central banks have initiated a war against the working class in the less developed and advanced economies alike.