The Washington Post
Democracy Dies in Darkness

Global leaders warn of economic dangers as crises multiply

At the G-7 conference in Germany, finance ministers wrestle with stagflation, energy shocks, food shortages and debt crises

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Updated May 21, 2022 at 11:51 a.m. EDT | Published May 21, 2022 at 6:00 a.m. EDT

BONN, Germany — The financial leaders of the world's most powerful countries warned this week of the potential for a global economic slowdown, as the threats caused by Russia's invasion of Ukraine continued to multiply.

Globally, the war is sending energy and food prices soaring. In the United States, Britain and Europe, central banks determined to curb inflation are moving to hike interest rates, which risks pushing nations into recession. The developing world faces an emerging debt crisis on top of a growing hunger problem sparked by the war.

In the United States, as in much of the rest of the world, gasoline prices surged and stock markets plunged, with the S&P 500 index nearing a bear market, closing the week down 18 percent off its early January peak after a late Friday rally. Large retailers, including Target and Walmart, have reported worse than expected earnings and profits this week, blaming higher costs and excess inventory that piled up in response to supply chain problems.

"If I had to sum it up: more uncertainty, more inflation, less growth," François Villeroy de Galhau, the governor of the Bank of France, said of the impact of the war, at a conference here of finance minsters and central bankers from the powerful Group of Seven industrial nations.

After approving trillions of dollars in fiscal stimulus to avert the downturn caused by the coronavirus pandemic, world economic leaders are now grappling with the threat of "stagflation" — slow, or negative, economic growth, coupled with rising inflation.

The risks abroad may be even greater than in the United States, economists say. In Europe, the euro zone only grew by 0.2 percent in the first quarter of 2022, suggesting a potential slowdown. Some economies within Europe even shrank: Italy's, for example, contracted slightly in the first quarter of this year.

The war poses a more serious economic threat to Europe than to the United States, particularly given the continent's dependence on Russian energy, said Jason Furman, a former Obama administration economist. China's efforts to contain the coronavirus also continue to rattle the global economy, with the latest data from Beijing showing a major decline in retail spending and a drop in gasoline output.

Russia's economy is doing even worse since the war began, though: The White House says it expects Russia's gross domestic product to shrink by as much as 15 percent this year due to the sanctions imposed after the invasion, despite Moscow's profits from rising energy prices.

The World Bank has also warned of a “huge buildup of debt,” particularly in the poorest countries, with debt payments at their highest level in 20 years. Half of low-income countries are now categorized as being at “high risk” of debt distress, according to the Center for Global Development, a Washington-based think tank. Defaults by poorer nations could have ripple effects throughout global financial markets if creditors worldwide go unpaid.

“This is a very difficult economic situation,” Treasury Secretary Janet L. Yellen said after the conference Wednesday night. Yellen said economic shocks from the war, additional sanctions on Russia and further inflationary pressure were all possible. But she, like many European officials, still held out some hope that policymakers would be able to handle the difficult circumstances.

The global economy, particularly the United States, was projected to grow relatively quickly in 2022 before the war, creating a buffer that may help avert recession. “I think it’s conceivable there could be a soft landing,” Yellen said, referring to the potential of the Federal Reserve to cool inflation without causing a recession.

The G-7 conference yielded limited action to head off these emerging threats to the global economy. In closed-door discussions Thursday and Friday, world leaders resolved to take largely unspecified action on debt management in developing countries, global economic stability and taming inflation. Their most tangible action was to pledge roughly $20 billion in economic assistance to Ukraine.

The G-7 leaders also resolved in a joint statement to take action related to Sri Lanka’s debt crisis and alleviate food shortages. They pledged as well to keep international markets open, as some countries move to impose export controls to prevent scarce supplies of food and other goods from leaving their countries. World economic leaders in Bonn emphasized that they understood the extent of the dangers, but also acknowledged they may not be prepared to resolve them.

A senior official with the French delegation, who spoke on the condition of anonymity to describe the private meetings, said that “the implementation is too slow” and that world leaders must move faster to solve developing nations’ debt challenges.

“The situation of low-income states poses risks to global security and stability of the international financial system,” Christian Lindner, Germany’s finance minister, told reporters. “We will have to deal with the situation.”

Linder later added: “This is a risk for international financial stability, and it gets even worse if these countries get into financial difficulties [surrounding] food security in their countries.”

That hunger crisis is already painful, and it could get worse as the war drags on. More than 14 million people in Somalia, Ethiopia and Kenya — half of them children — are “on the verge of starvation,” according to the International Rescue Committee. That number is projected to rise to 20 million by mid-2022 without substantial global action.

During the G-7 meetings, American and French officials were most vocal on the need to address the hunger crisis, according to three people familiar with the meeting, who spoke on the condition of anonymity to describe the closed-door discussions.

“It’s significantly, significantly worse than it was even at the beginning of the covid recession, even though they’re not talking like it is,” said Max Lawson, head of inequality policy at Oxfam International, a humanitarian aid group. “The impact we are seeing already in the developing world is hideous and painful, and it’s happening right now.”

The pressing challenges pushed some of the Western leaders’ other aspirations to the background. Yellen, for instance, has prioritized a reordering of the international tax order to ensure that large corporations pay a global minimum tax. With that revamp stalled amid objections from Poland, it did not dominate discussions at the G-7. Similarly, aggressive action on climate change — long sought by the G-7 countries — also drew less attention at this conference. Many of these issues are expected to be discussed further when G-7 leaders meet later this year.

Eswar Prasad, a Cornell University economics professor who worked at the International Monetary Fund , said national financial leaders are increasingly alarmed by the global economic conditions, citing conversations he has had with international finance ministers and central bank officials. Of particular concern is that policymakers’ main tool to address economic shocks — additional stimulus to increase demand — is largely off the table because of high inflation and high levels of debt.

“The global economy is at a critical juncture, beset by a variety of adverse shocks,” Prasad said. “The degree of anxiety has ratcheted up enormously because increasing confidence of declining growth, adverse supply shocks and rising inflation — all of which substantially reduce the room for policy maneuvers.”

CORRECTION

An earlier version of this story incorrectly stated that economics professor Eswar Prasad had formerly worked at the Federal Reserve. He worked at the International Monetary Fund.