

**FOR  
INFORMATION**

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To: Members of the Executive Board

From: The Secretary

Subject: **Global Risk Assessment Matrix—Update**

Board Action: Executive Directors' **information**

Publication: No, as this is an internal staff exercise

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## Global Risk Assessment Matrix (February 4, 2022)<sup>1</sup>

Risks	Likelihood
<b>Conjunctural risks</b>	
<p><b>Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar/volatile growth, with increased divergence across countries.</b> Rapidly increasing hospitalizations and deaths, due to low vaccination rates or caused by vaccine-resistant variants, force lockdowns and increased uncertainty about the course of the pandemic. Policies to cushion the economic impact are prematurely withdrawn or for many EMDEs, constrained by lack of space. In addition to declines in external demand, a reassessment of growth prospects triggers capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs, with spillovers to AEs, leading to growing divergence of economic recovery paths.</p>	<b>High</b>
<p><b>De-anchoring of inflation expectations in the U.S. and/or advanced European economies.</b> A fast recovery in demand amid a lagging supply-side response leads to a rapid de-anchoring of inflation expectations, which prompts central banks to tighten policies abruptly. The resulting sharp tightening of global financial conditions and spiking risk premia lead to currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and knock-on effects (e.g., lower commodity prices and possible contagion across EMDEs).</p>	<b>Medium (for U.S.)/ Medium/Low (for Euro area)</b>
<p><b>Extended global supply chains disruptions.</b> Persistent disruptions in the production and shipment of components caused by lockdowns and logistical bottlenecks continue until 2023. This leads to shortages of intermediate and final consumer goods, growth slowdowns, and price surges, compounded by the passthrough from currency depreciations in vulnerable countries.</p>	<b>High</b>
<p><b>Abrupt growth slowdown in China.</b> A combination of a sharper-than-expected slowdown in the property sector, more frequent Covid-19 outbreaks, and inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through financial, trade, and commodity-price channels.</p>	<b>Medium</b>
<p><b>Rising and volatile food and energy prices.</b> Commodity prices are volatile and trend up amid pent-up demand and supply disruptions, conflicts, or a bumpy transition to renewable energy sources. This leads to bouts of price and real sector volatility, including acute energy crises in some countries.</p>	<b>High</b>
<p><b>Widespread social discontent and political instability.</b> Social tensions erupt as the imposition of vaccine mandates and mobility restrictions and/or a withdrawal of pandemic-related policy support—amid increasing prices of essentials, slower growth, and rising inequality—result in higher unemployment and heavier household debt burdens. Political instability triggers capital outflows.</p>	<b>High</b>
<b>Structural risks</b>	
<p><b>Geopolitical tensions and de-globalization.</b> Intensified geopolitical tensions, security risks, and conflicts cause economic and political disruptions, disorderly migration, production reshoring, a decline in global trade, and lower investor confidence. Associated supply chain disruptions and commodity price shocks give rise to inflationary pressures.</p>	<b>High</b>
<p><b>Global information infrastructure failure.</b> A disruption in global information systems (from an unintended error, natural disaster, or knock-on effects of widespread energy shortages) and/or cyber-attacks on critical infrastructure and institutions trigger financial instability or widespread disruptions in socio-economic activities and remote work arrangements.</p>	<b>Medium</b>
<p><b>Natural disasters related to climate change.</b> Higher frequency of natural disasters cause severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.</p>	<b>Medium</b>

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon. **G-RAM operational guidance is available from the [SPR Risk Unit website](#).**