

**FOR  
INFORMATION**

FO/DIS/22/119  
Correction 1

August 25, 2022

To: Members of the Executive Board

From: The Secretary

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

Board Action: The attached correction to FO/DIS/22/119 (8/5/22) has been provided by the staff:

**Typographical Errors** **Page 1**

Questions: Mr. Dohlman, SPR (ext. 39383)  
Mr. Gorbanyov, SPR (ext. 34980)  
Ms. Laws, SPR (ext. 38295)



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

Risks	Likelihood
<b>Conjunctural risks</b>	
<b>Intensifying spillovers from Russia's war in Ukraine.</b> Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	<b>High</b>
<b>Commodity price shocks.</b> A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	<b>High</b>
<b>Systemic social unrest.</b> Rising inflation, declining incomes, and worsening inequality amplify social unrest and political instability, causing capital outflows from EMDEs, slowing economic growth, and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies).	<b>High</b>
<b>De-anchoring of inflation expectations and stagflation.</b> Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	<b>Medium</b>
<p><b>Abrupt global slowdown or recession.</b> Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices.</p> <ul style="list-style-type: none"> <li>• <b>U.S.:</b> Amid persistently high inflation driven by tight labor markets, supply disruptions and continued commodity price shocks, the Fed tightens policies faster and by more than anticipated, resulting in a "hard landing", housing market correction, and a stronger U.S. dollar.</li> <li>• <b>Europe:</b> The fallout from the war in Ukraine is exacerbated by a gas shutoff by Russia, resulting in acute gas shortages and further supply disruptions, which triggers an EU recession.</li> <li>• <b>China:</b> Covid-19 lockdowns, rising geopolitical tensions, a sharper-than-expected slowdown in the property sector, or inadequate policy responses result in a sharp slowdown of economic activity.</li> <li>• <b>EMDEs:</b> Sharp tightening of global financial conditions combined with volatile commodity prices leads to spiking risk premia, widening of external imbalances and fiscal pressures, capital outflows, sudden stops, and debt and financial crises across EMDEs.</li> </ul>	<p><b>Medium</b></p> <p><b>Medium</b></p> <p><b>High</b></p> <p><b>Medium</b></p> <p><b>High</b></p>
<b>Local Covid-19 outbreaks.</b> Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	<b>Medium</b>
<b>Structural risks</b>	
<b>Deepening geo-economic fragmentation and geopolitical tensions.</b> Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	<b>High</b>
<b>Cyberthreats.</b> Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability and disrupt economic activities.	<b>Medium</b>
<b>Natural disasters related to climate change.</b> More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	<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](#).**