Global Economic Prospects

HIGHLIGHTS from CHAPTER 1
PANDEMIC, RECESSION: THE GLOBAL ECONOMY IN CRISIS

Key Points

- *The COVID-19 pandemic is expected to result in a 5.2 percent contraction in global GDP in 2020—the deepest global recession in eight decades, despite unprecedented policy support.*
- *Per capita incomes in the vast majority of emerging market and developing economies (EMDEs) are expected to shrink this year, tipping many millions back into poverty.*
- *The pandemic highlights the urgent need for health and economic policy action, including global cooperation, to cushion its consequences, protect vulnerable populations, and improve countries' capacity to prevent and cope with similar events in the future.*
- *Once the health crisis abates, structural reforms that enable strong and sustainable growth will be needed to attenuate the lasting effect of the pandemic on potential output.*

Global activity: Unprecedented health and economic crisis. The COVID-19 pandemic has spread with astonishing speed to every part of the world and infected millions (Figure A). The health and human toll is already large and continues to grow. The pandemic represents the largest economic shock the world economy has witnessed in decades, causing a collapse in global activity (Figure B). In all, the pandemic is expected to plunge a majority of countries into recession this year, with per capita output contracting in the largest fraction of countries since 1870 (Figure C).

EMDE growth: Falling activity, rising poverty. Due to adverse global spillovers and the disruptions associated with their own domestic outbreaks, EMDE GDP is forecast to contract by 2.5 percent in 2020. This would be well below the previous trough in EMDE growth of 0.9 percent in 1982, and the lowest rate since at least 1960, the earliest year with available aggregate data. EMDEs with large domestic COVID-19 outbreaks and limited health care capacity; that are deeply integrated in global value chains; that are heavily dependent on foreign financing; and that rely extensively on international trade, commodity exports, and tourism are likely to suffer disproportionately. Commodity-exporting EMDEs will be hard hit by adverse spillovers from sharply weaker growth in China, and by the collapse in global commodity demand, especially for oil. With more than 90 percent of EMDEs expected to experience contractions in per capita incomes this year, many millions are likely to fall back into poverty.

Policy response: Unprecedented support. Many countries have provided large-scale macroeconomic support to alleviate the economic blow of the pandemic. Central banks in both advanced economies and EMDEs have cut policy rates and taken other far-reaching steps to provide liquidity and to maintain investor confidence (Figure D). The fiscal policy support that has been announced already far exceeds that enacted during the 2008-09 global financial crisis. In EMDEs with wider fiscal space, the policy response has been markedly greater than in those more constrained by higher debt levels (Figure E). For many energy-exporting EMDEs, fiscal balances are deteriorating as oil prices have fallen below fiscal breakeven prices. Elevated debt burdens in some low- and middle-income countries also underscore the need for temporary debt relief.

Risks to the outlook: Alternative scenarios `amid elevated uncertainty. Since uncertainty around the baseline forecasts remains exceptionally high, alternative scenarios help illustrate the range of plausible global growth outcomes in the near term. If COVID-19 outbreaks persist longer than expected, restrictions on movement and interactions may have to be maintained or reintroduced, prolonging the disruptions to domestic activity and further setting back confidence. Disruptions to activity would weaken businesses' ability to remain in operation and service their debt, while the increase in risk aversion could raise interest rates for higher-risk borrowers. With debt levels already at historic highs, this could lead to cascading defaults and financial crises across many economies. Under a downside scenario, global growth would shrink almost 8 percent in 2020. The recovery that follows would be markedly sluggish, hampered by severely impaired balance sheets, heightened financial market stress, and widespread bankruptcies in EMDEs. In an upside scenario, a sharp economic rebound would begin promptly if pandemic-control measures could be largely lifted in the near term, and fiscal and monetary policy responses succeed in supporting consumer and investor confidence. However, even in this upside scenario, the contraction in global activity this year would be close to 4 percent—more than twice as deep as during the global recession of 2009.

Policy priorities: Invest in resilience and long-term growth. Although a moderate recovery is envisioned in 2021, with global growth reaching 4.2 percent, output is not expected to return to its previously expected levels (Figure F). In many countries, deep recessions triggered by COVID-19 will likely weigh on potential output for years to come. Governments can take steps to alleviate the adverse impact of the crisis on potential output by placing a renewed emphasis on reforms that can boost long-term growth prospects. The pandemic has laid bare the weaknesses of national health care and social safety nets in many countries. It is necessary to put in place social benefit systems that can provide an effective, flexible, and efficient safety net during disasters. Such systems can be augmented by measures to deliver income support and emergency financing to vulnerable groups such as the poor, urban slum dwellers, migrants, and informal firms.

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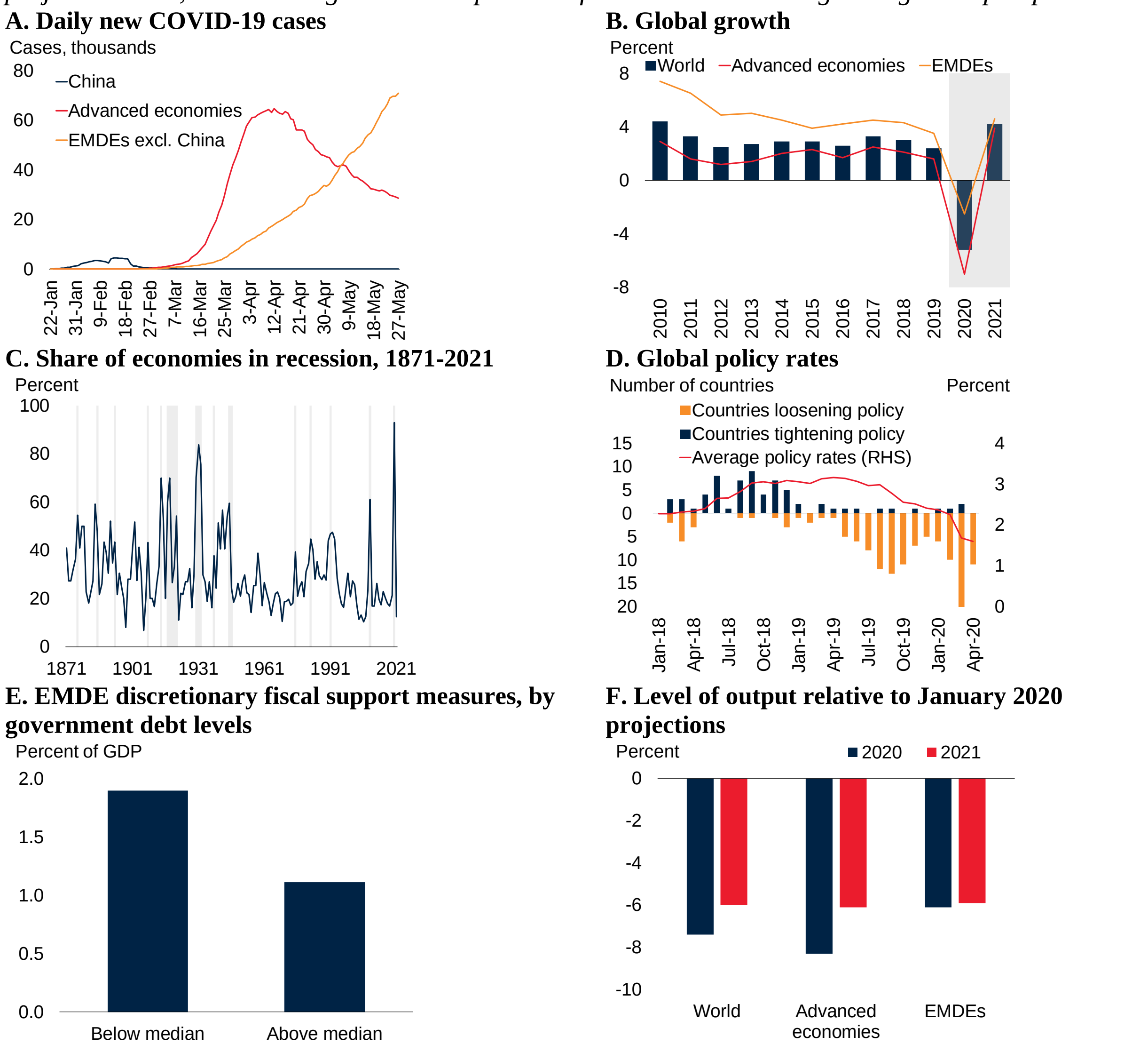
Figure: Global growth prospects and policy challenges

The COVID-19 pandemic has resulted in a collapse of global economic activity. The share of countries experiencing contractions in per capita GDP will reach its highest level since 1870, despite unprecedented policy support. A lack of space is constraining fiscal responses in many EMDEs. The scarring effects of the crisis mean that the recovery will be insufficient to bring output to previously projected levels, underscoring the need to pursue reforms that bolster long-term growth prospects.



Source: Bank for International Settlements; International Monetary Fund; Johns Hopkins University; World Bank.

Note: EMDEs = emerging market and developing economies.

A. Figure shows 7-day moving average of cases by date of case reporting. Last observation is May 27, 2020.

B. Shaded areas indicate forecasts. Data for 2019 are estimates. Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates.

C. Figure shows the proportion of economies in recession, defined as an annual contraction in per capita GDP.

D. Average policy rates are weighted using 2018 U.S. dollar GDP. Sample includes 13 advanced economies and the Euro Area and 21 EMDEs. Bars show the number of central banks changing their policy rate in a given month. Last observation included is April 2020.

E. Total measures either planned or under consideration as of May 28, 2020 as a share of 2019 nominal GDP. Aggregates are calculated as medians. Above (below) median indicates countries with debt-to-GDP ratios above (below) a median of 51 in 2018. Sample includes 48 EMDEs.

F. Figure shows the percent difference between the level of output in the January and June 2020 editions of *Global Economic Prospects*.

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TABLE 1.1 Real GDP[1]

(Percent change from previous year)

						Percentage point differences from January 2020 projections	
	2017	2018	2019e	2020f	2021f	2020f	2021f
World	**3.3**	**3.0**	**2.4**	**-5.2**	**4.2**	**-7.7**	**1.6**
Advanced economies	**2.5**	**2.1**	**1.6**	**-7.0**	**3.9**	**-8.4**	**2.4**
United States	2.4	2.9	2.3	-6.1	4.0	-7.9	2.3
Euro Area	2.5	1.9	1.2	-9.1	4.5	-10.1	3.2
Japan	2.2	0.3	0.7	-6.1	2.5	-6.8	1.9
Emerging market and developing economies	**4.5**	**4.3**	**3.5**	**-2.5**	**4.6**	**-6.6**	**0.3**
Commodity-exporting EMDEs	2.2	2.1	1.5	-4.8	3.1	-7.4	0.2
Other EMDEs	6.1	5.7	4.8	-1.1	5.5	-6.2	0.3
Other EMDEs excluding China	5.4	4.8	3.2	-3.6	3.6	-7.6	-0.8
East Asia and Pacific	6.5	6.3	5.9	0.5	6.6	-5.2	1.0
China	6.8	6.6	6.1	1.0	6.9	-4.9	1.1
Indonesia	5.1	5.2	5.0	0.0	4.8	-5.1	-0.4
Thailand	4.1	4.2	2.4	-5.0	4.1	-7.7	1.3
Europe and Central Asia	4.1	3.3	2.2	-4.7	3.6	-7.3	0.7
Russia	1.8	2.5	1.3	-6.0	2.7	-7.6	0.9
Turkey	7.5	2.8	0.9	-3.8	5.0	-6.8	1.0
Poland	4.9	5.3	4.1	-4.2	2.8	-7.8	-0.5
Latin America and the Caribbean	1.9	1.7	0.8	-7.2	2.8	-9.0	0.4
Brazil	1.3	1.3	1.1	-8.0	2.2	-10.0	-0.3
Mexico	2.1	2.2	-0.3	-7.5	3.0	-8.7	1.2
Argentina	2.7	-2.5	-2.2	-7.3	2.1	-6.0	0.7
Middle East and North Africa	1.1	0.9	-0.2	-4.2	2.3	-6.6	-0.4
Saudi Arabia	-0.7	2.4	0.3	-3.8	2.5	-5.7	0.3
Iran	3.8	-4.7	-8.2	-5.3	2.1	-5.3	1.1
Egypt[2]	4.2	5.3	5.6	3.0	2.1	-2.8	-3.9
South Asia	6.5	6.5	4.7	-2.7	2.8	-8.2	-3.1
India[3]	7.0	6.1	4.2	-3.2	3.1	-9.0	-3.0
Pakistan[2]	5.2	5.5	1.9	-2.6	-0.2	-5.0	-3.2
Bangladesh[2]	7.3	7.9	8.2	1.6	1.0	-5.6	-6.3
Sub-Saharan Africa	2.6	2.6	2.2	-2.8	3.1	-5.8	0.0
Nigeria	0.8	1.9	2.2	-3.2	1.7	-5.3	-0.4
South Africa	1.4	0.8	0.2	-7.1	2.9	-8.0	1.6
Angola	-0.1	-2.0	-0.9	-4.0	3.1	-5.5	0.7
Memorandum items:							
Real GDP[1]							
High-income countries	2.4	2.2	1.7	-6.8	3.8	-8.3	2.3
Developing countries	4.8	4.4	3.7	-2.4	4.7	-6.7	0.2
Low-income countries	5.4	5.8	5.0	1.0	4.6	-4.4	-0.9
BRICS	5.3	5.3	4.7	-1.7	5.3	-6.6	0.4
World (2010 PPP weights)	3.9	3.6	2.9	-4.1	4.3	-7.3	1.0
World trade volume[4]	5.9	4.0	0.8	-13.4	5.3	-15.3	2.8
Commodity prices[5]							
Oil price	23.3	29.4	-10.2	-47.9	18.8	-42.5	16.9
Non-energy commodity price index	5.5	1.8	-4.2	-5.9	3.0	-6.0	1.3

Source: World Bank.

Note: PPP = purchasing power parity; e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. Country classifications and lists of emerging market and developing economies (EMDEs) are presented in Table 1.2. BRICS include: Brazil, Russia, India, China, and South Africa. Due to lack of reliable data of adequate quality, the World Bank is currently not publishing economic output, income, or growth data for Venezuela, and Venezuela is excluded from cross-country macroeconomic aggregates.

1. Headline aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates. World growth rates based on purchasing power parity (PPP) weights attribute a greater portion of global GDP to EMDEs relative to market exchange rates due to the PPP methodology, which uses an exchange rate that is calculated from the difference in the price levels of a basket of goods and services between economies.
2. GDP growth values are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. Pakistan's growth rates are based on GDP at factor cost. The column labeled 2019 refers to FY2018/19.
3. The column labeled 2018 refers to FY2018/19.
4. World trade volume of goods and non-factor services.
5. Oil is the simple average of Brent, Dubai, and West Texas Intermediate. The non-energy index is comprised of the weighted average of 39 commodities (7 metals, 5 fertilizers, 27 agricultural commodities). For additional details, please see http://www.worldbank.org/commodities.

To download the data in this table, please visit http://www.worldbank.org/gep.