

HIGHLIGHTS from Box 1.1: What is next? Growth scenarios beyond 2021

Key Points

- *Global growth is set to reach 5.6 percent in 2021, its strongest post-recession pace in 80 years. However, there is considerable uncertainty regarding the durability of the expansion beyond 2021.*
- *In a Faltering Recovery scenario, recurring local COVID-19 outbreaks, mounting inflation pressure and a sharp tightening of global financial conditions could derail the global recovery. Alternatively, vaccine-driven pandemic containment, reopening and rapid reforms could catalyze a strong private-sector led recovery in global output, resulting in a Sustained Expansion scenario.*
- *The precarious nature of the global recovery highlighted by these scenarios underscores the need for policy makers to take advantage of current benign global conditions to forge ahead with a comprehensive set of growth-enhancing reforms without delay.*

Baseline: Strongest post-recession rebound in 80 years. Global growth is set to reach 5.6 percent in 2021—the strongest post-recession pace in 80 years (figure A). The recovery is expected to be unusually uneven for a post-recession period, however: Over 90 percent of advanced economies are expected to regain their pre-pandemic per capita income levels in 2022, while only about one third of emerging market and developing economies (EMDEs) are expected to do the same (figure B-C). Beyond 2021, there is substantial uncertainty about the strength and durability of this anticipated upturn.

Downside scenario: A faltering recovery. The global recovery could falter once policy support is withdrawn and pent-up demand is exhausted, especially if the pandemic lingers. Sustained inflation pressures could result in a sharp tightening of financial conditions, compounded by high debt vulnerabilities. In such a scenario, activity in both advanced economies and EMDEs would slow sharply, with global growth falling to 2.7 percent in 2022 and to 2.1 percent in 2023 (figure D-F). This would leave the recovery from the COVID-19 pandemic broadly on par with the anemic recovery that followed the global financial crisis.

Upside scenario: A sustained expansion. Alternatively, the global recovery could prove more robust and broad-based than expected. The policy-supported surge in global growth in 2021, coupled with faster and more equitable global vaccination, could catalyze a self-sustaining period of rapid growth in which the private sector becomes a powerful engine of growth. Potential output growth could accelerate as a result of greater technological adoption, investment, and labor force participation. Overall, global growth would average 4.4 percent over 2022-23.

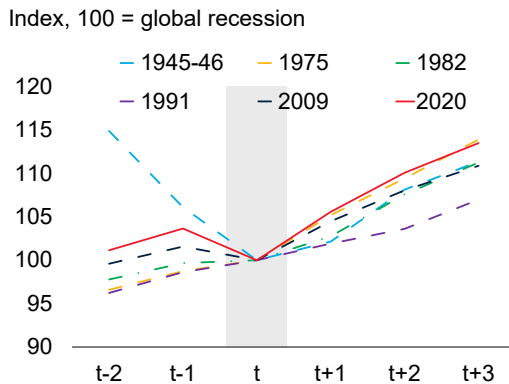
Policy implications: Take advantage of benign global conditions. To help avoid a faltering recovery, policy makers can take full advantage of the currently favorable external environment to implement reforms that increase the resilience of financial systems, improve fiscal sustainability, and set the foundations for a green, resilient, and inclusive recovery.

Global Economic Prospects

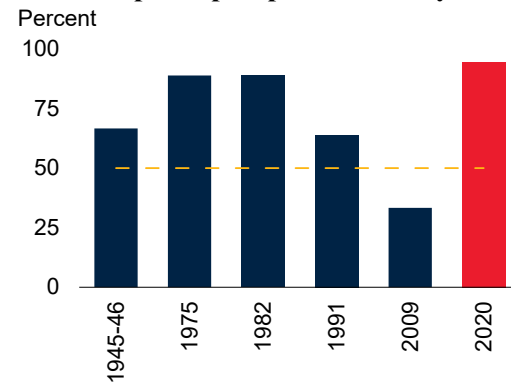
Figure 1. The COVID-19 recession and global growth

Global growth is set to reach 5.6 percent in 2021—the strongest post-recession pace in 80 years. The recovery is expected to be unusually uneven in per capita terms, with over 90 percent of advanced economies but only about one third of emerging market and developing economies expected to regain their pre-pandemic per capita income levels in 2022. The durability of growth depends on whether this year’s rebound catalyzes a durable recovery in private sector activity and potential output growth. In a “Faltering Recovery” scenario, the global recovery may prove short-lived, while in a “Sustained Expansion” scenario the recovery remains robust through 2023.

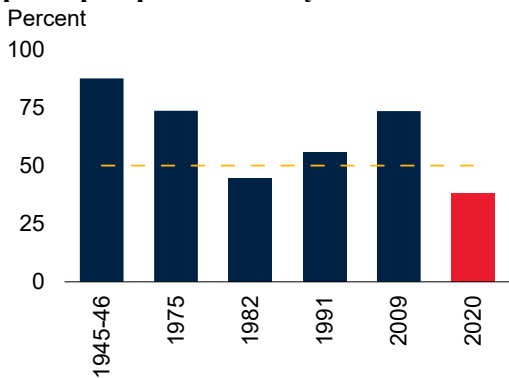
A. Global output recoveries over history



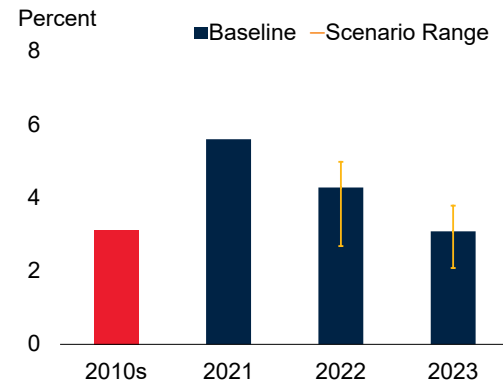
B. Share of advanced economies exceeding pre-recession per capita peaks after 2 years



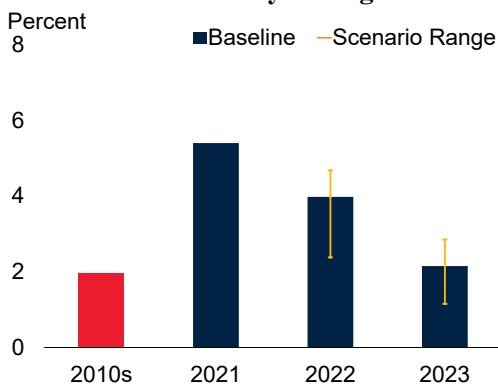
C. Share of EMDEs exceeding pre-recession per capita peaks after 2 years



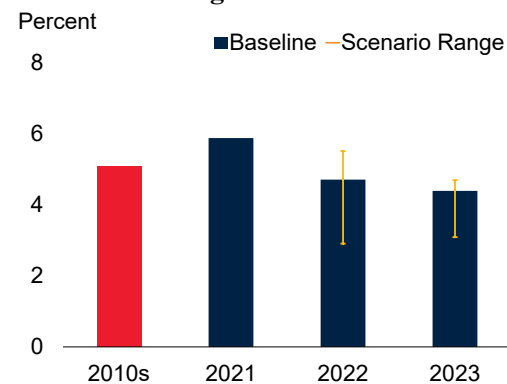
D. World GDP Growth



E. Advanced-economy GDP growth



F. EMDE GDP growth



Source: Bolt et al. (2018); Haver Analytics; Kose, Sugawara, and Terrones (2020); Oxford Economics; UN Population Projections; World Bank. A.-C Lines show global recession episodes. Multiple years are used when the global recession lasted for more than one year. Data for 2021-23 used in the “2020” episode are forecasts.

B.-C. Dashed yellow line is 50 percent.

D.-F. Red bars show average of 2010-2019 GDP growth. Blue bars show baseline data from Global Economic Prospects June 2021 database. Yellow whiskers indicate the scenario ranges from Oxford Global Economic Model simulations compared to the baseline scenario.