

Global Economic Prospects

HIGHLIGHTS from CHAPTER 1 THE GLOBAL OUTLOOK

Key Points

- *Global activity is forecast to expand 4 percent in 2021, below previous expectations amid a sharp resurgence of new COVID-19 cases. Global growth is expected to strengthen over the forecast horizon as pandemic-related disruptions fade and as vaccination continues.*
- *In emerging market and developing economies (EMDEs), the recovery will be uneven, with a strong rebound in China and softer-than-expected growth across most other economies as the pandemic's lingering effects continue to weigh on consumption and investment.*
- *The recovery could be even weaker than envisioned if downside risks materialize, which could exacerbate the losses in per capita income and increase in poverty.*
- *Policy makers can raise the likelihood of better outcomes while warding off worse ones through effective pandemic control and structural reforms that boost both productivity and environmental sustainability.*

Global activity: Slower-than-expected recovery amid sharp resurgence of virus. Following a collapse last year caused by the COVID-19 pandemic, global activity is forecast to expand 4 percent in 2021. The global recovery, however, has been dampened in the near term by a resurgence of new COVID-19 cases, and the majority of country forecasts have been downgraded in the last six months (figure A). Global economic activity is expected to firm over the forecast horizon as confidence, consumption, and trade gradually improve, supported by ongoing vaccination. The materialization of a number of downside risks—including a worsening of the virus, delays in vaccine procurement and distribution, and financial stress amid high debt levels—could derail the projected global recovery (figure B). Even if the recovery proceeds as envisioned in the baseline scenario, global output is expected to remain 4.4 percent below pre-pandemic projections by 2022 (figure C).

EMDE growth: Uneven near-term recovery, subdued outlook. Although aggregate EMDE growth is envisioned to firm to 5 percent in 2021 and to moderate to 4.2 percent in 2022, the improvement largely reflects China's expected rebound. Absent China, the recovery across EMDEs is anticipated to be far more muted, averaging 3.5 percent in 2021-22, as the pandemic's lingering effects continue to weigh on consumption and investment (figure D). The pandemic has also caused per capita incomes to fall in more than 90 percent of EMDEs, tipping millions back into poverty. For more than a quarter of EMDEs, the pandemic is expected to erase at least 10 years of per capita income gains—and, in about two-thirds of EMDEs, per capita incomes are projected to be lower in 2022 than they were in 2019. The pandemic has impeded future prospects for poverty reduction by adversely affecting longer-term productivity growth—the deterioration in confidence has dampened investment, and the loss in learning-adjusted school years and prolonged spells of unemployment have eroded earlier gains in human capital.

Risks to the outlook: Tilted to the downside. The expected recovery could be disrupted by the materialization of a number of risks. The spread of the virus could accelerate if pandemic-control measures fail or if there are delays in the deployment of vaccines. Prolonged economic weakness could also trigger a wave of bankruptcies; banking balance sheets could be further impaired; governments might be unable to continue providing support; and, in some circumstances, temporary bouts of

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unemployment and business shutdowns could become permanent. In the medium term, the crisis may lower global potential output as a result of lasting damage to health, education, and balance sheets. In contrast to these downside risks, effective COVID-19 management, aided by the rapid deployment of highly effective vaccines, could allow for markedly faster easing of the pandemic, triggering a sharp rise in consumer confidence and unleashing pent-up demand.

Macroeconomic policy response: Unprecedented support, to be followed by gradual unwinding.

EMDE monetary policy is likely to remain generally accommodative in the near term amid moderate inflationary pressures and expectations of prolonged expansionary monetary policy stances in advanced economies. Despite entering the crisis with high debt levels, many EMDEs have implemented unprecedented fiscal support in response to COVID-19 to protect lives and livelihoods, confront the collapse in activity, and bolster the eventual recovery. Nevertheless, relative to advanced economies, the amount of support in EMDEs has been far more limited—particularly in countries facing narrower fiscal space, such as low-income countries. In most advanced economies and EMDEs, much of the fiscal support provided last year is expected to be withdrawn, weighing on growth. Whereas deficits are generally expected to shrink over the forecast, they will nonetheless contribute to rising debt, potentially planting the seeds for future problems—particularly if borrowing is not used efficiently (figure E).

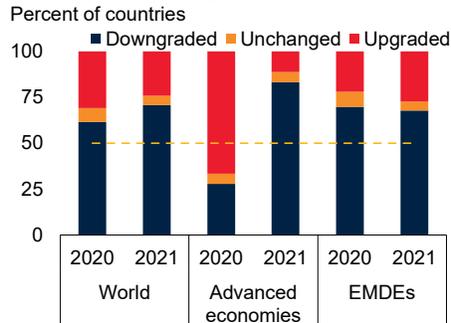
Structural policy priorities: Countering the pandemic’s lasting scars to support inclusive, sustainable growth. Beyond the necessary steps to nurture the recovery and protect vulnerable populations in the near term, decisive policy action will be essential to address the far-reaching damage from COVID-19 and ultimately mitigate its compounding effects on the ongoing structural decline in long-term growth. Measures include those that safeguard health and education, prioritize investment in digital technologies, improve governance, and enhance debt transparency. Bolstering investment in green infrastructure projects and fostering the widespread adoption of environmentally sustainable technologies can support higher growth levels while contributing to climate change mitigation. Improved governance and reduced corruption can lay the foundations for higher long-run growth (figure F). Increased debt transparency will be key to mitigate the risk of sovereign debt and financial crises, one of the most pressing threats to growth prospects. Global cooperation will be essential for supporting vulnerable populations and achieving a sustainable and inclusive global recovery. In light of substantial fiscal constraints and high debt levels, globally coordinated debt relief, predicated on debt transparency, could help many economies—particularly LICs. More broadly, deeper global collaboration will be needed to develop equitable and sustainable solutions to the world’s most pressing long-term challenges, including tackling climate change and eliminating extreme poverty.

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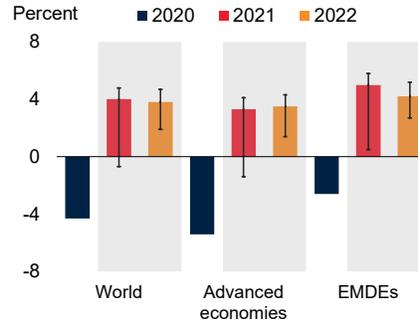
Figure: Global growth prospects and policy challenges

Although global growth is anticipated to resume in 2021, forecasts in a majority of countries have been downgraded for 2021. Growth outcomes could be far weaker if downside risks materialize. Although aggregate EMDE growth is anticipated to rise to 5 percent in 2021, this largely reflects a strong rebound in China. Unprecedented policy support and economic weakness have sharply increased already high debt levels. A concerted push toward productivity-enhancing structural reforms will be required to offset the pandemic's scarring effects.

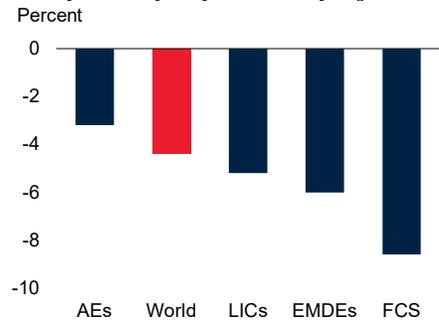
A. Countries with growth forecast revisions



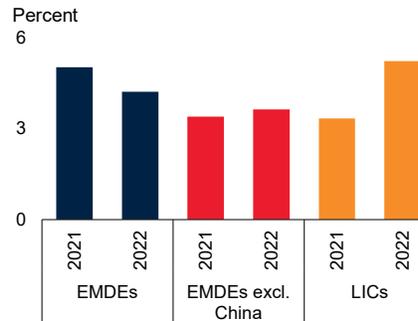
B. Possible scenarios of global growth



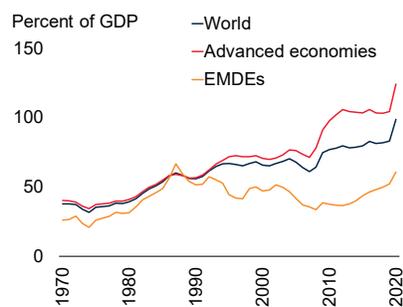
C. Gaps with pre-pandemic projections by 2022



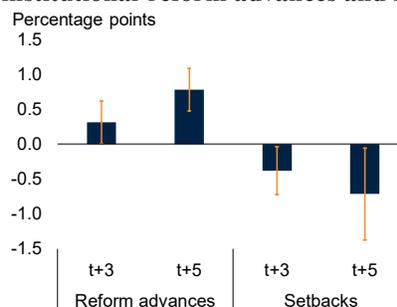
D. Growth in EMDEs



E. Government debt



F. Cumulative response of growth forecasts after institutional-reform advances and setbacks



Source: Consensus Economics; International Crisis Risk Group (database); International Monetary Fund; World Bank.

Note: AEs = advanced economies; EMDEs = emerging market and developing economies; FCS = fragile and conflict-affected situations; LICs = low-income countries. Unless otherwise noted, aggregates calculated using U.S. dollar GDP per capita at 2010 prices and market exchange rates.

A. Figure shows the share of EMDEs and advanced economies with forecast upgrades, downgrades, and no forecast changes since the June 2020 edition of the *Global Economic Prospects* report.

B. Black vertical lines show the lower and upper bounds of growth in the scenarios described in box 1.4 of the January 2021 edition of the *Global Economic Prospects* report. Shaded areas indicate forecasts.

C. Figure shows the gaps between the current projections and the forecasts released in the January 2020 edition of the *Global Economic Prospects* report.

D. Aggregates calculated using U.S. dollar GDP at 2010 prices and market exchange rates.

E. Aggregates calculated using current GDP in U.S. dollars as weights. Data for 2020 are estimates.

F. Coefficients of a local projection estimation of 10-year-ahead growth forecasts on reform advances and setbacks in 57 countries during 1990-2020. For more details, see chapter 3 in the January 2021 edition of the *Global Economic Prospects* report.

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TABLE 1.1 Real GDP¹
(Percent change from previous year)

	2018	2019	2020e	2021f	2022f	Percentage point differences from June 2020 projections	
						2020e	2021f
World	3.0	2.3	-4.3	4.0	3.8	0.9	-0.2
Advanced economies	2.2	1.6	-5.4	3.3	3.5	1.6	-0.6
United States	3.0	2.2	-3.6	3.5	3.3	2.5	-0.5
Euro area	1.9	1.3	-7.4	3.6	4.0	1.7	-0.9
Japan	0.6	0.3	-5.3	2.5	2.3	0.8	0.0
Emerging market and developing economies	4.3	3.6	-2.6	5.0	4.2	-0.1	0.4
EMDEs excluding China	3.2	2.3	-5.0	3.4	3.6	-0.7	0.1
Commodity-exporting EMDEs	2.0	1.6	-4.8	3.0	3.2	0.1	0.0
Other EMDEs	5.7	4.8	-1.3	6.1	4.8	-0.2	0.6
Other EMDEs excluding China	4.8	3.2	-5.3	3.9	4.1	-1.7	0.1
East Asia and Pacific	6.3	5.8	0.9	7.4	5.2	0.4	0.8
China	6.6	6.1	2.0	7.9	5.2	1.0	1.0
Indonesia	5.2	5.0	-2.2	4.4	4.8	-2.2	-0.4
Thailand	4.1	2.4	-6.5	4.0	4.7	-1.5	-0.1
Europe and Central Asia	3.4	2.3	-2.9	3.3	3.9	1.8	-0.3
Russian Federation	2.5	1.3	-4.0	2.6	3.0	2.0	-0.1
Turkey	3.0	0.9	0.5	4.5	5.0	4.3	-0.5
Poland	5.4	4.5	-3.4	3.5	4.3	0.8	0.7
Latin America and the Caribbean	1.9	1.0	-6.9	3.7	2.8	0.3	0.9
Brazil	1.8	1.4	-4.5	3.0	2.5	3.5	0.8
Mexico	2.2	-0.1	-9.0	3.7	2.6	-1.5	0.7
Argentina	-2.6	-2.1	-10.6	4.9	1.9	-3.3	2.8
Middle East and North Africa	0.5	0.1	-5.0	2.1	3.1	-0.8	-0.2
Saudi Arabia	2.4	0.3	-5.4	2.0	2.2	-1.6	-0.5
Iran, Islamic Rep. ³	-6.0	-6.8	-3.7	1.5	1.7	1.6	-0.6
Egypt, Arab Rep. ²	5.3	5.6	3.6	2.7	5.8	0.6	0.6
South Asia	6.5	4.4	-6.7	3.3	3.8	-4.0	0.5
India ³	6.1	4.2	-9.6	5.4	5.2	-6.4	2.3
Pakistan ²	5.5	1.9	-1.5	0.5	2.0	1.1	0.7
Bangladesh ²	7.9	8.2	2.0	1.6	3.4	0.4	0.6
Sub-Saharan Africa	2.6	2.4	-3.7	2.7	3.3	-0.9	-0.4
Nigeria	1.9	2.2	-4.1	1.1	1.8	-0.9	-0.6
South Africa	0.8	0.2	-7.8	3.3	1.7	-0.7	0.4
Angola	-2.0	-0.9	-4.0	0.9	3.5	0.0	-2.2
Memorandum items:							
Real GDP¹							
High-income countries	2.2	1.6	-5.4	3.2	3.5	1.4	-0.6
Developing countries	4.4	3.7	-2.3	5.2	4.3	0.1	0.5
Low-income countries	4.4	4.0	-0.9	3.3	5.2	-0.8	-0.6
BRICS	5.4	4.7	-1.1	6.1	4.5	0.6	0.8
World (2010 PPP weights) ⁴	3.6	2.8	-3.7	4.3	3.9	0.4	0.0
World trade volume ⁵	4.3	1.1	-9.5	5.0	5.1	3.9	-0.3
Commodity prices⁶							
Oil price	29.4	-10.2	-33.7	8.1	13.6	14.2	-10.7
Non-energy commodity price index	1.7	-4.2	2.2	2.4	1.3	8.1	-0.6

Source: World Bank.

1. Headline aggregate growth rates are calculated using GDP weights at 2010 prices and market exchange rates.

2. GDP growth rates 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 growth rates are calculated using purchasing power parity (PPP) weights, which attribute a greater share of global GDP to emerging market and developing economies (EMDEs) than market exchange rates.

5. World trade volume of goods and nonfactor services.

6. Oil price is the simple average of Brent, Dubai, and West Texas Intermediate prices. The non-energy index is the weighted average of 39 commodity prices (7 metals, 5 fertilizers, 27 agricultural commodities). For additional details, please see <https://www.worldbank.org/commodities>.

Note: 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 date. Country classifications and lists of EMDEs are presented in table 1.2. BRICS include: Brazil, the Russian Federation, 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 Turkmenistan and República Bolivariana de Venezuela. Turkmenistan and República Bolivariana de Venezuela are excluded from cross-country macroeconomic aggregates.

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