

FEATURE

The Global Economic Outlook during the COVID-19 Pandemic: A Changed World

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An empty highway in Dubai during the coronavirus pandemic. Above the highway, a sign reads "Stay Safe, Stay Home." © Mo Azizi/Shutterstock

As the health and human toll grows, the economic damage is already evident and represents the largest economic shock the world has experienced in decades.

The June 2020 [Global Economic Prospects](#) describes both the immediate and near-term outlook for the impact of the pandemic and the long-term damage it has dealt to prospects for growth. The baseline forecast envisions a 5.2 percent contraction in global GDP in 2020, using market exchange rate weights—the deepest global recession in decades, despite the extraordinary efforts of governments to counter the downturn with fiscal and monetary policy support. Over the longer horizon, the deep

recessions triggered by the pandemic are expected to leave lasting scars through lower investment, an erosion of human capital through lost work and schooling, and fragmentation of global trade and supply linkages.

For emerging market and developing countries, many of which face daunting vulnerabilities, it is critical to strengthen public health systems, address the challenges posed by informality, and implement reforms that will support strong and sustainable growth once the health crisis abates.

Historic contraction of per capita income

Advanced economies are projected to shrink 7 percent. That weakness will spill over to

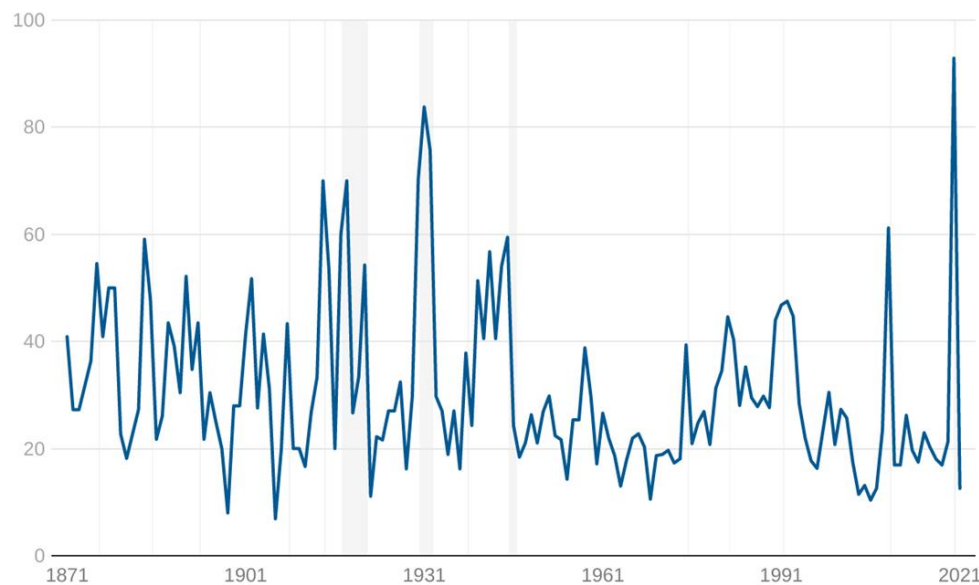
the outlook for emerging market and developing economies, who are forecast to contract by 2.5 percent as they cope with their own domestic outbreaks of the virus. This would represent the weakest showing by this group of economies in at least sixty years.

Every region is subject to substantial growth downgrades. East Asia and the Pacific will grow by a scant 0.5%. South Asia will contract by 2.7%, Sub-Saharan Africa by 2.8%, Middle East and North Africa by 4.2%, Europe and Central Asia by 4.7%, and Latin America by 7.2%. These downturns are expected to reverse years of progress toward development goals and tip tens of millions of people back into extreme poverty.

Emerging market and developing economies will be buffeted by economic

Most countries are expected to face recessions in 2020

Share of economies in recession, 1871-2021



The proportion of economies with an annual contraction in per capita GDP. Shaded areas refer to global recessions. Data for 2020-21 are forecasts.

Source: World Bank

"The crisis highlights the need for urgent action to cushion the pandemic's health and economic consequences, protect vulnerable populations, and set the stage for a lasting recovery."

headwinds from multiple quarters: pressure on weak health care systems, loss of trade and tourism, dwindling remittances, subdued capital flows, and tight financial conditions amid mounting debt. Exporters of energy or industrial commodities will be particularly hard hit. Demand for metals and transport-related commodities such as rubber and platinum used for vehicle parts has also tumbled. While agriculture markets are well supplied globally, trade

restrictions and supply chain disruptions could yet raise food security issues in some places.

A possibility of even worse outcomes

Even this bleak outlook is subject to great uncertainty and significant downside risks. The forecast assumes that the pandemic recedes in such a way that domestic mitigation measures can be lifted by mid-year in advanced economies and

later in developing countries, that adverse global spillovers ease during the second half of 2020, and that widespread financial crises are avoided. This scenario would envision global growth reviving, albeit modestly, to 4.2% in 2021.

However, this view may be optimistic. Businesses might find it hard to service debt, heightened risk aversion could lead to climbing borrowing costs, and



bankruptcies and defaults could result in financial

A worker wears a mask in Sub-Saharan Africa. © Lucian Coman/Shutterstock

crises in many countries. Under this downside scenario, global growth could shrink by almost 8% in 2020.

Looking at the speed with which the crisis has overtaken the global economy may provide a clue to how deep the recession will be. The sharp pace of global growth forecast downgrades points to the possibility of yet further downward revisions and the need for additional action by policymakers in coming months to support economic activity.

A particularly concerning aspect of the outlook is the humanitarian and economic toll the global recession will take on economies with extensive informal sectors that make up an estimated one-third of the GDP and about 70% of total employment in emerging market and developing economies. Policymakers must consider innovative measures to deliver income support to these workers and credit support to these businesses.

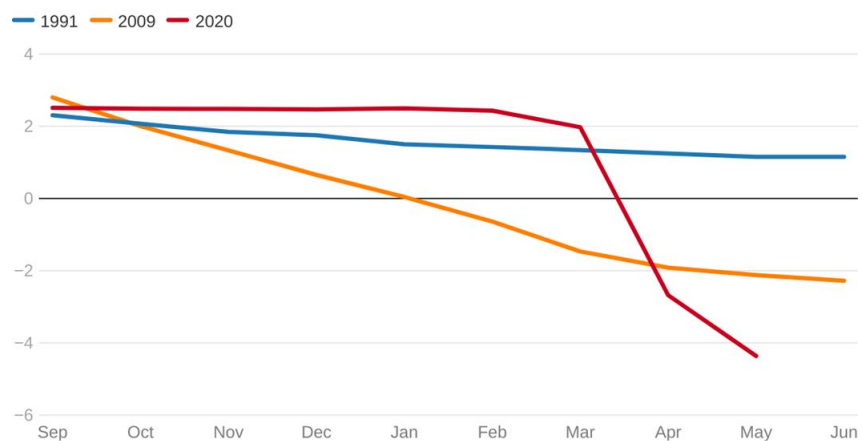
Long-term damage to potential output, productivity growth

The June 2020 *Global Economic Prospects* looks beyond the near-term outlook to what may be lingering repercussions of the deep global recession: setbacks to potential output—the level of output an economy can achieve at full capacity and full employment—and labor productivity. Efforts to contain COVID-19 in emerging and developing economies, including low-income economies with limited health care capacity, could precipitate deeper and longer recessions—exacerbating a multi-decade trend of slowing potential growth and productivity growth.

Another important feature of the current landscape is the historic collapse in oil demand and oil prices. Low oil prices are likely to provide, at best, temporary initial support to growth once restrictions to economic activity are lifted. However, even after demand recovers, adverse impacts on energy exporters may

The COVID-19 recession has seen the fastest, steepest downgrades in consensus growth projections among all global recessions since 1990

Consensus forecasts of global GDP (percent)



September to December shows forecasts made in the previous year, while January to June shows data for the current year. Data for 1991 are for advanced economies only due to data availability.

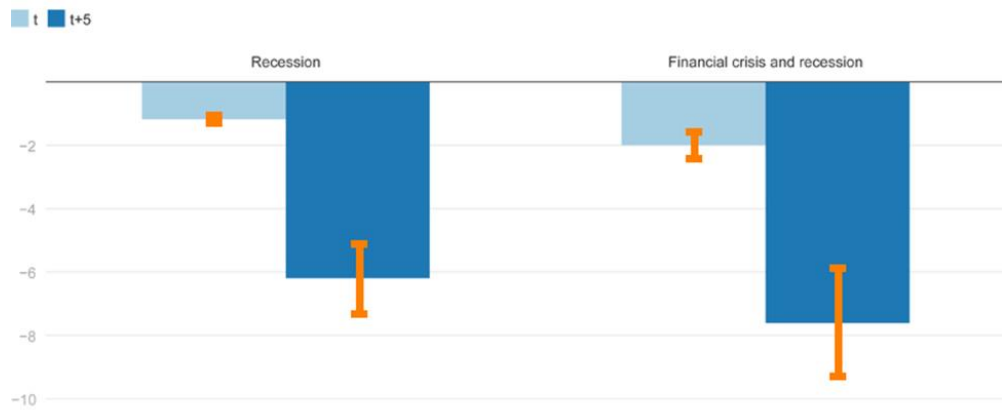
Source: Consensus Economics, World Bank

outweigh any benefits to activity in energy importers. In addition, the recent oil price plunge may provide further momentum to undertake energy subsidy reforms and deepen them once the immediate health crisis subsides.

In the face of this disquieting outlook, the immediate priority for policymakers is to address the health crisis and contain the short-term economic damage. Over the longer term, authorities need to undertake comprehensive reform programs to improve the fundamental drivers of economic growth once the crisis lifts, including support for the private sector and getting money directly to people. During the mitigation period, countries should focus on sustaining economic activity

With the recession having deep effects on potential output, reforms that bolster long-term growth prospects will be essential

Cumulative EMDE potential output response after recessions (percent)



EMDE = Emerging Market and Developing Economies. Data and methodology are detailed in Chapter 3 Box 3.1 and Annex 3.4. Charts show impulse responses for 75 EMDEs from a local projections model. Dependent variable is cumulative slowdown in potential output after a recession or financial crisis. Year *t* is the year of the event. Bars show coefficient estimates; vertical lines show 90 percent confidence bands.
Source: Ha, Kose and Ohnsorge (2019); World Bank

with support for households, firms and essential services.

Global coordination and cooperation—of the measures needed to slow the spread of the pandemic, and of the economic actions needed to alleviate the economic damage, including international support—provide the greatest chance of achieving public health goals and enabling a robust global recovery.