RESEARCH

# World Economic Outlook

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# A Crisis Like No Other

- Speed and size of decline in activity

- Composition of output decline
  – Typical recession: sharp contraction in investment, consumption of durables (both trade intensive). Consumption more resilient
  – This downturn: collapse in consumption of contact-intensive services (travel, hospitality, arts and entertainment, restaurants).

- Importance of voluntary lockdowns and social distancing

- Extraordinary nature of the policy response

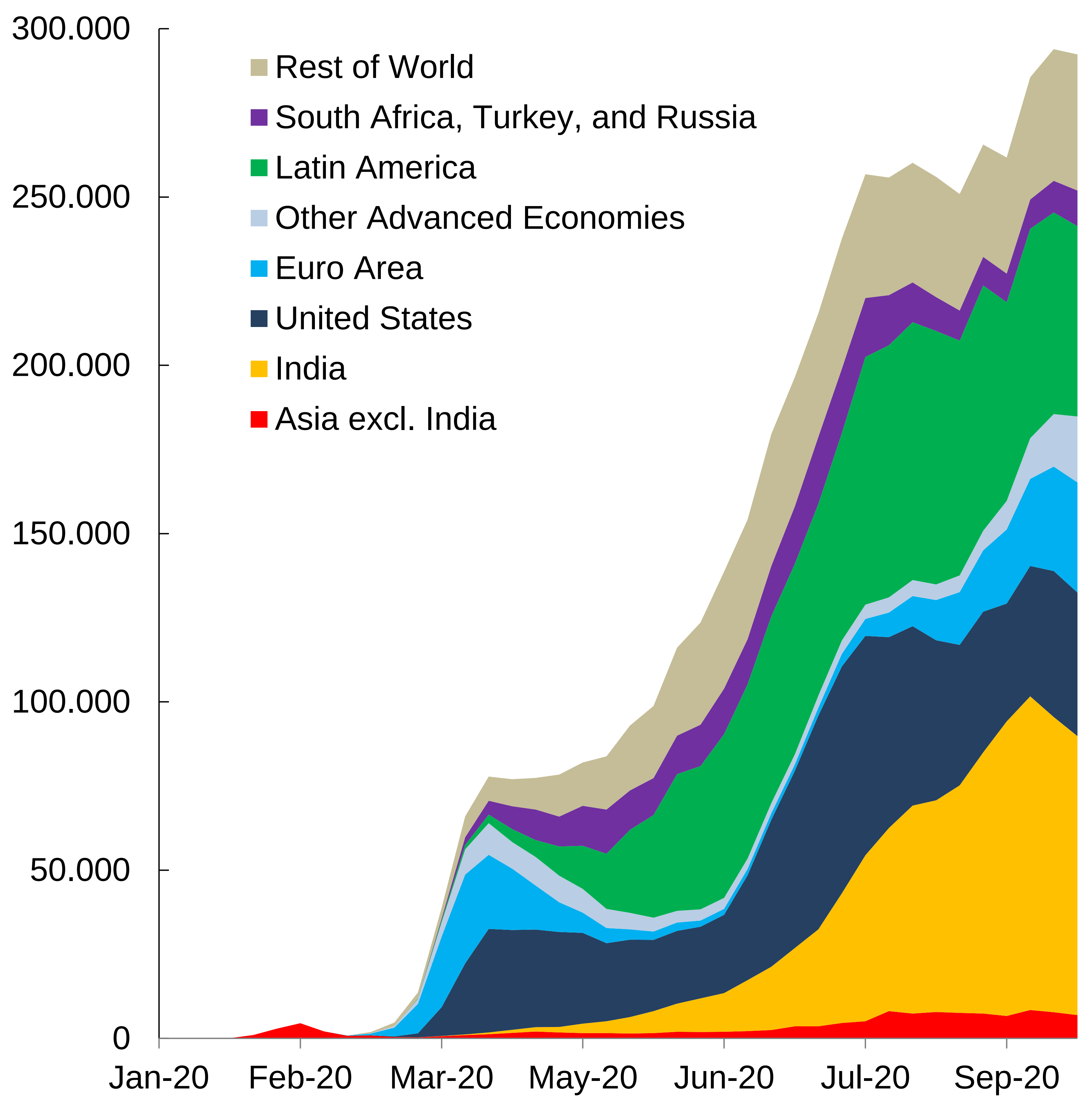
- Extreme uncertainty (epidemic; economic; geopolitical; social)

# Recent developments

- Contraction in the 2nd quarter of 2020 slightly less severe than expected
- Signs of a strong pickup in activity in the 3rd quarter….but recovery still partial
- Improvements in most advanced economies (but still deep recessions)
- Some emerging economies (eg India) experiencing very severe contractions
- In China instead the economy has recovered more strongly
- Financial markets have remained optimistic…..
- ….But caseloads are rising worldwide

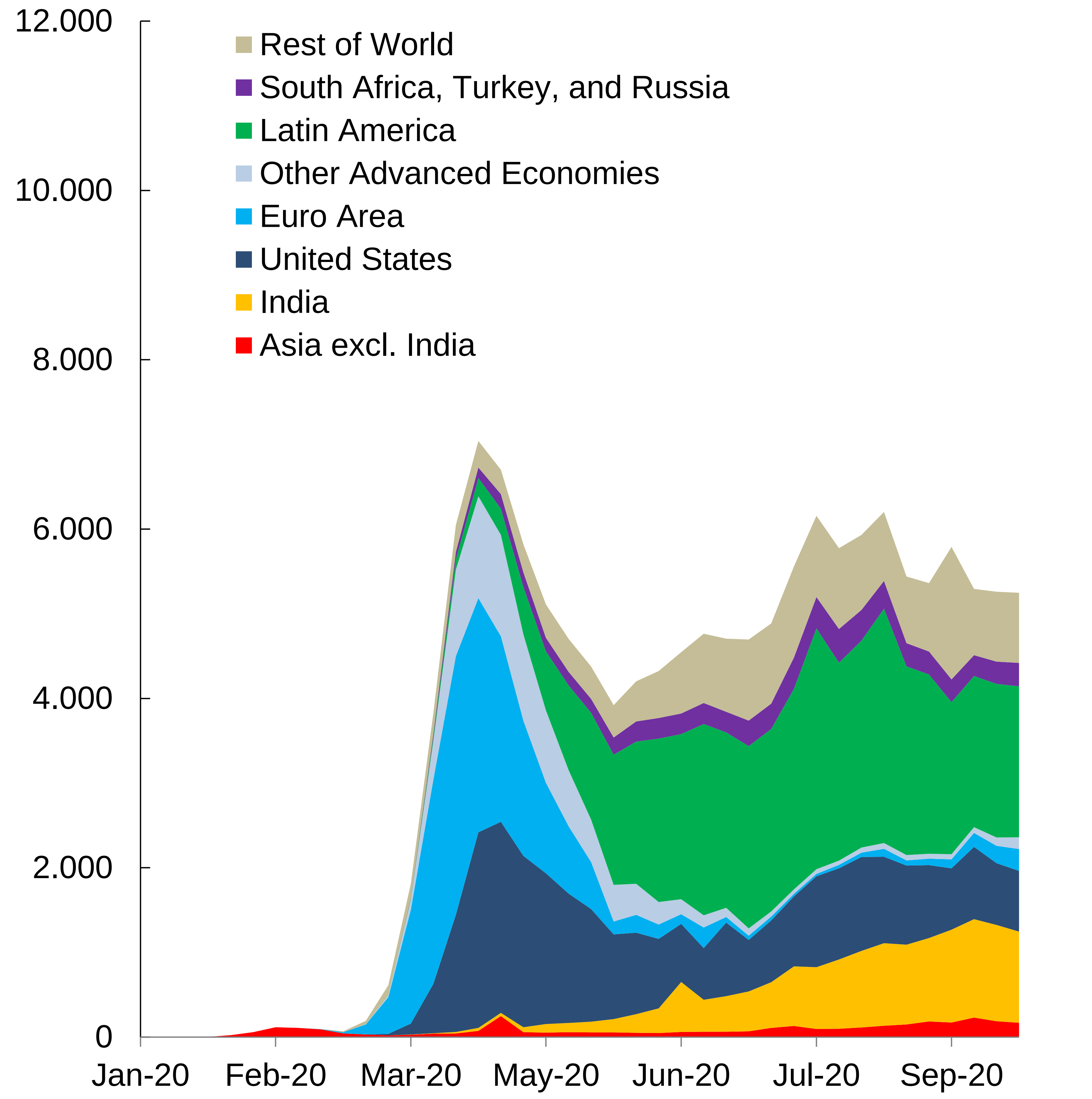
# The pandemic continues to spread and reopening stalls

**New confirmed cases**
*(Daily average over previous week; updated Oct 2)*



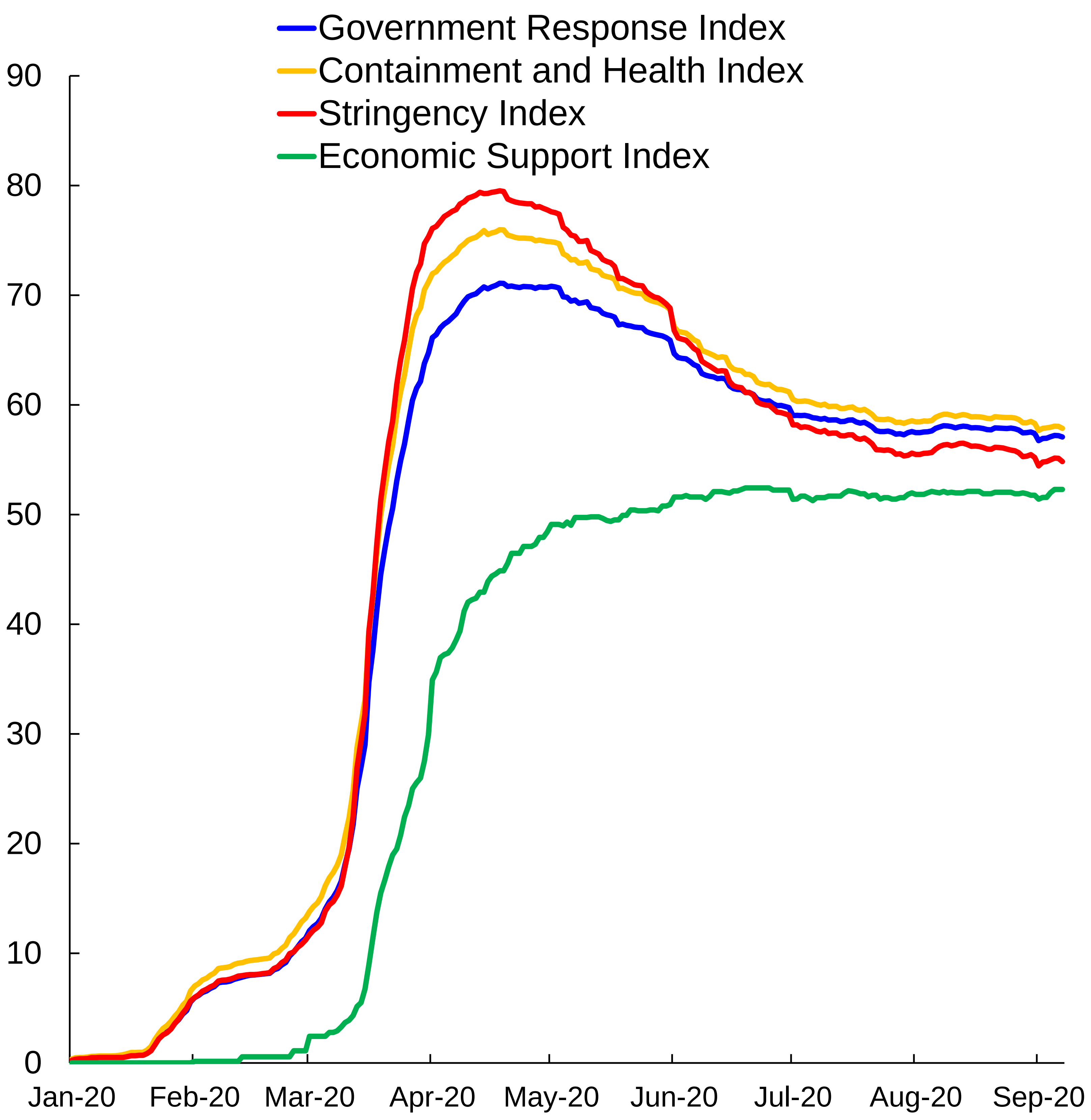

Sources: European Centre for Disease Prevention and Control and IMF staff calculations.

**New confirmed deaths**
*(Daily average over previous week; updated October 2)*




Sources: European Centre for Disease Prevention and Control and IMF staff calculations.

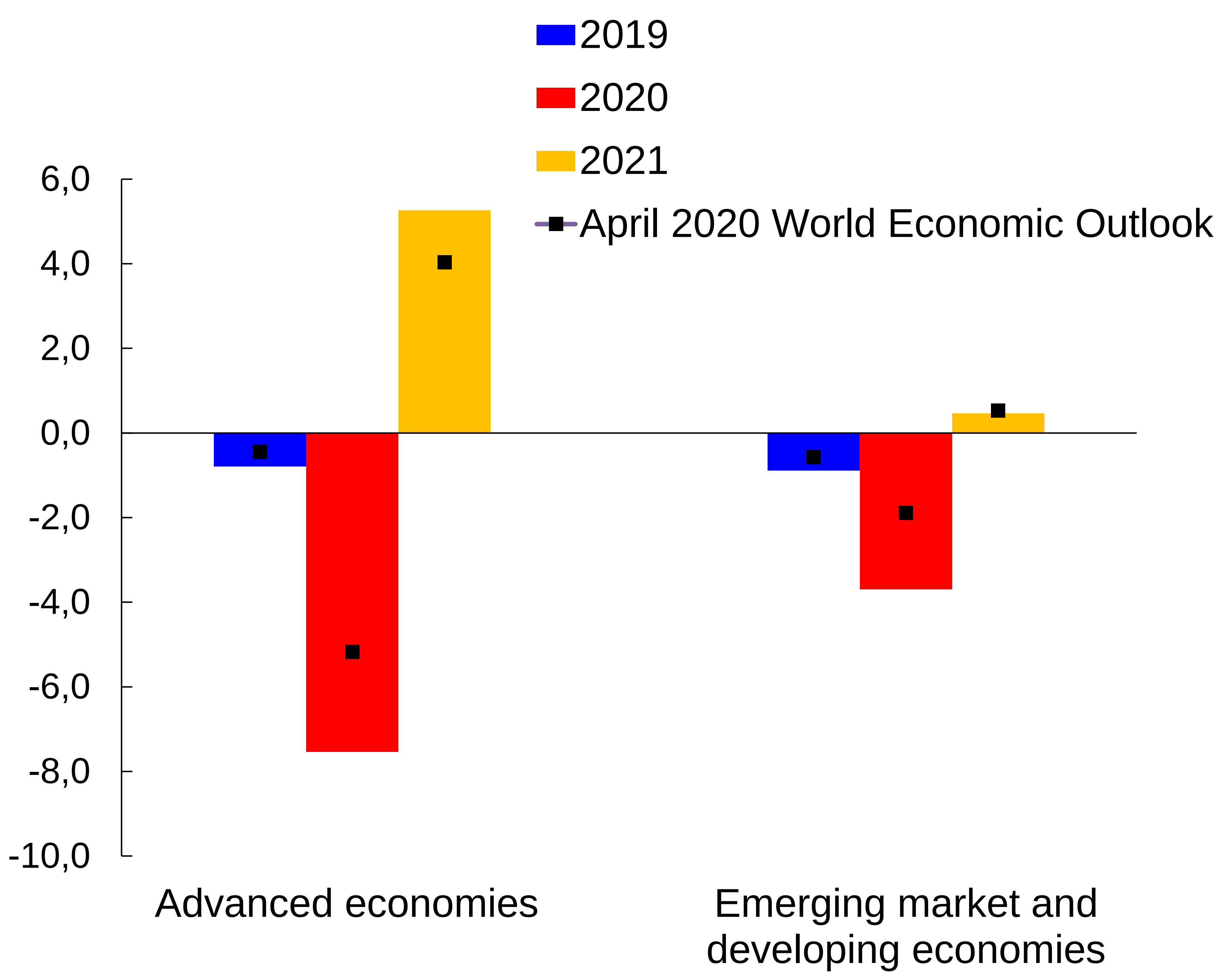
**Government Lockdowns and Economic Responses to COVID-19: Global Index**




Source: Oxford COVID-19 Government Response Tracker.

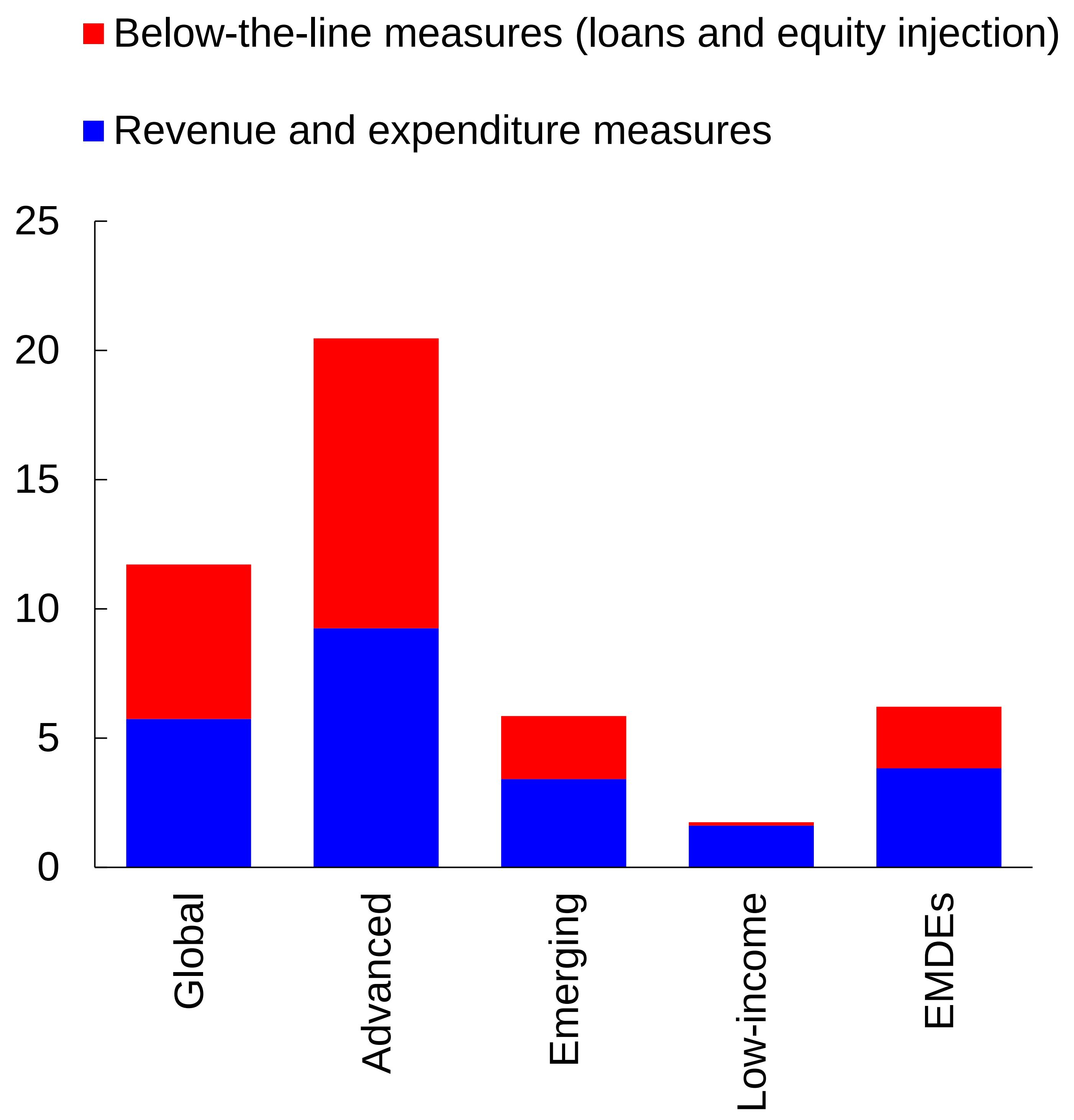
# Massive policy support has prevented worse outcomes

**Fiscal Stance, 2019–21**
*(Change in structural primary fiscal balance, percent of potential GDP)*

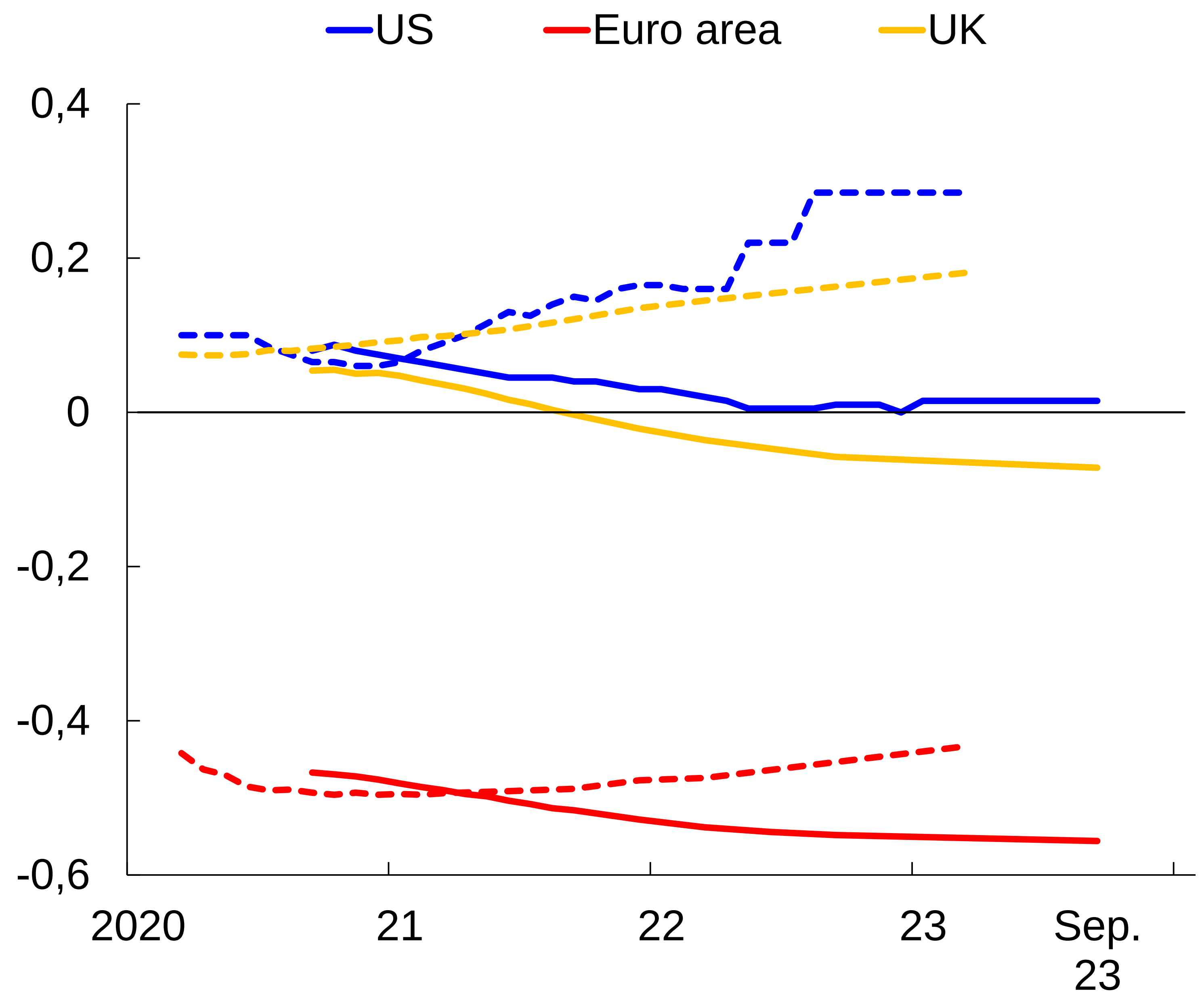



Source: IMF staff estimates.

**Announced fiscal measures**
*(Percent of GDP)*




**Policy Rate Expectations**
*(Percent; dashed lines from April 2020 WEO)*




Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: Expectations are based on the federal funds rate futures for the United States, the sterling overnight interbank average rate for the United Kingdom, and the euro interbank offered forward rate for the euro area; updated September 23, 2020.

# Considerations for the forecast

With fundamental uncertainty regarding the pandemic and associated factors, the baseline forecast rests on the following assumptions:

## Disruptions to activity

- Stronger than anticipated Q2 GDP outturn
- Social distancing will persist into 2021, but will then decline over time as therapies and vaccine coverage improve.

## Policy support and financial conditions

- The projection factors in the impact of the sizable fiscal countermeasures implemented so far and anticipated for the rest of the year
- Financial conditions to remain approximately at current levels for both AEs and EMs

## Commodity prices

- Expected to rise faster than assumed in the April and June 2020
- Average petroleum spot prices (APSP) per barrel $41 in 2020, $43.8 in 2021, and expected to increase toward $48 in years thereafter

# Growth projections:  Advanced economies

*(percent change from a year earlier)*

| | World | Advanced Economies | U.S. | Euro Area | Japan | U.K. | Canada | Korea | Other Advanced Asia |
|---|---|---|---|---|---|---|---|---|---|
| **2020** | **-4.4** | **-5.8** | **-4.3** | **-8.3** | **-5.3** | **-9.8** | **-7.1** | **-1.9** | **-3.5** |
| **Revision from June 2020** | 0.8 | 2.3 | 3.7 | 1.9 | 0.5 | 0.4 | 1.3 | 0.2 | 1.5 |
| **2021** | **5.2** | **3.9** | **3.1** | **5.2** | **2.3** | **5.9** | **5.2** | **2.9** | **3.5** |
| **Revision from June 2020** | -0.2 | -0.9 | -1.4 | -0.8 | -0.1 | -0.4 | 0.3 | -0.1 | -0.6 |

Source: IMF, *World Economic Outlook*, October 2020.

# Growth projections: Emerging markets and LIDCs

*(percent change from a year earlier)*

| | World | Emerging Market and Developing Economies | Emerging Market and Developing Economies ex. China | China | India | Brazil | Russia | Commodity Exporting Economies | Low Income Developing Countries |
|---|---|---|---|---|---|---|---|---|---|
| **2020** | **-4.4** | **-3.3** | **-5.7** | **1.9** | **-10.3** | **-5.8** | **-4.1** | **-5.1** | **-1.2** |
| **Revision from June 2020** | 0.8 | -0.2 | -0.7 | 0.9 | -5.8 | 3.3 | 2.5 | 0.8 | -0.2 |
| **2021** | **5.2** | **6.0** | **5.0** | **8.2** | **8.8** | **2.8** | **2.8** | **3.9** | **4.9** |
| **Revision from June 2020** | -0.2 | 0.2 | 0.3 | 0.0 | 2.8 | -0.8 | -1.3 | -0.5 | -0.3 |

Source: IMF, *World Economic Outlook*, October 2020.

# Significant risks of more severe outcomes

***On the upside, the recession could turn out to be less severe if:***

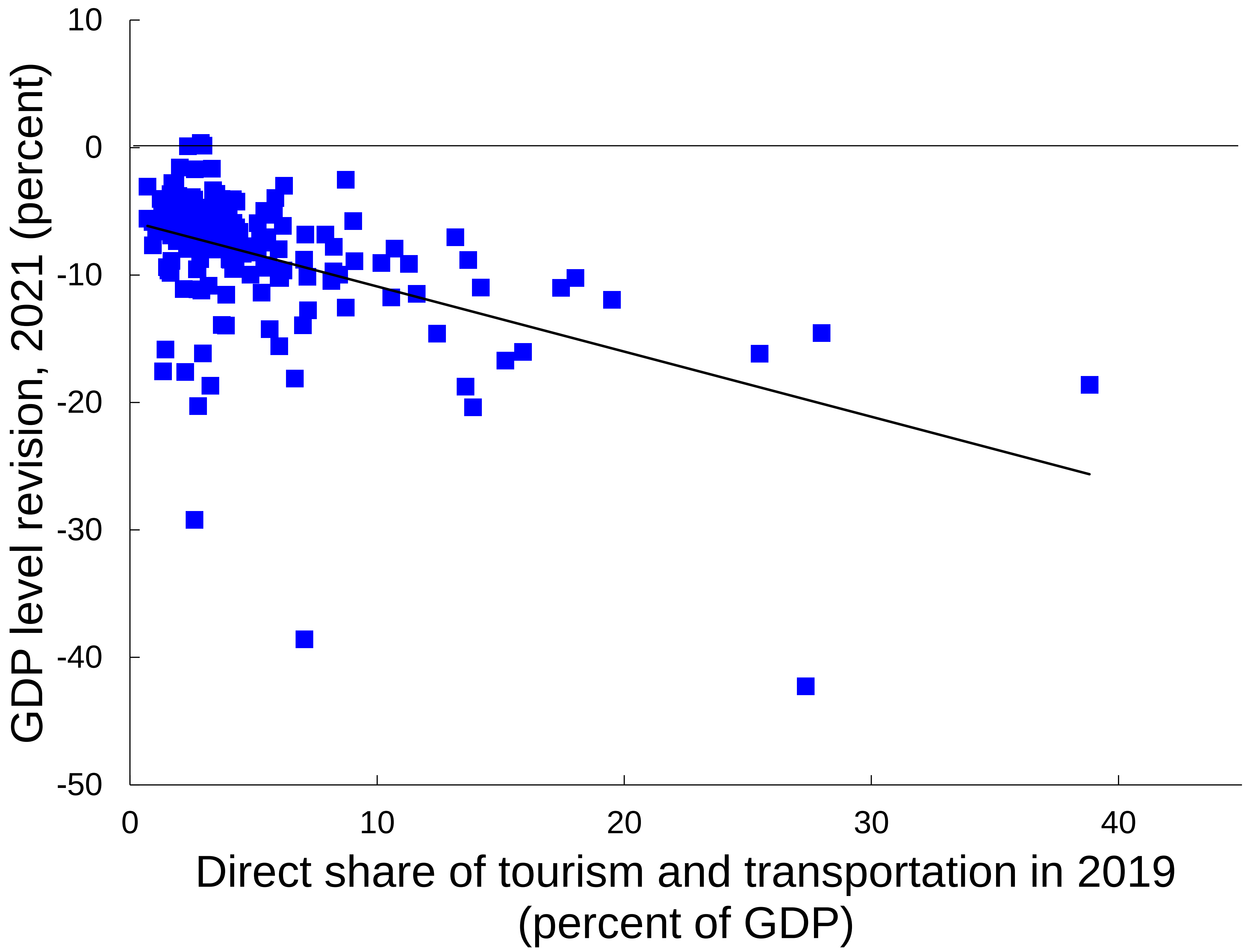
- There are extensions of fiscal countermeasures
- Faster productivity growth is engendered by changes in production, distribution, and payment systems
- Advances in therapies allow better management of infection, or a safe, effective vaccine is produced and distributed at the needed scale

***Downside risks, however, remain significant:***

- Recurring outbreaks
- Cross-border spillovers from weaker external demand
- Premature withdrawal of policy support or poor targeting of measures exacerbating misallocation
- Tightening financial conditions, liquidity shortfalls and insolvencies
- Intensifying unrest, geopolitical tensions, and trade policy uncertainty and technology frictions
- Weather-related natural disasters, which have increased in intensity and frequency

# Persistent losses reflect damage to supply potential

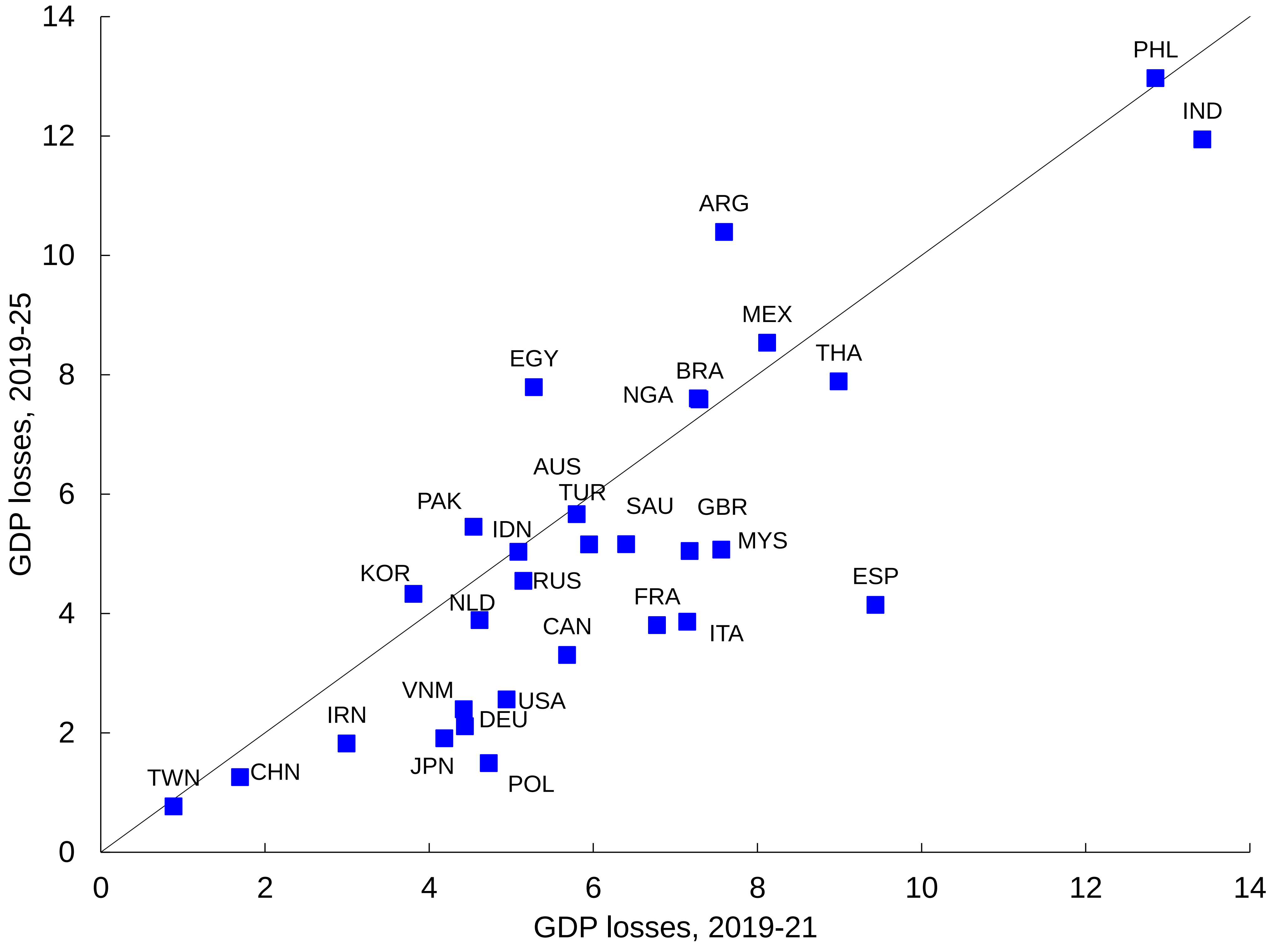
**GDP level revisions, 2021 (October 2020 vs Jan 2020 WEO) and Direct Share of Tourism and Transportation in GDP**




Source: World Travel and Tourism Council; and IMF staff estimates.

**GDP losses: 2019-21 versus 2019-25**

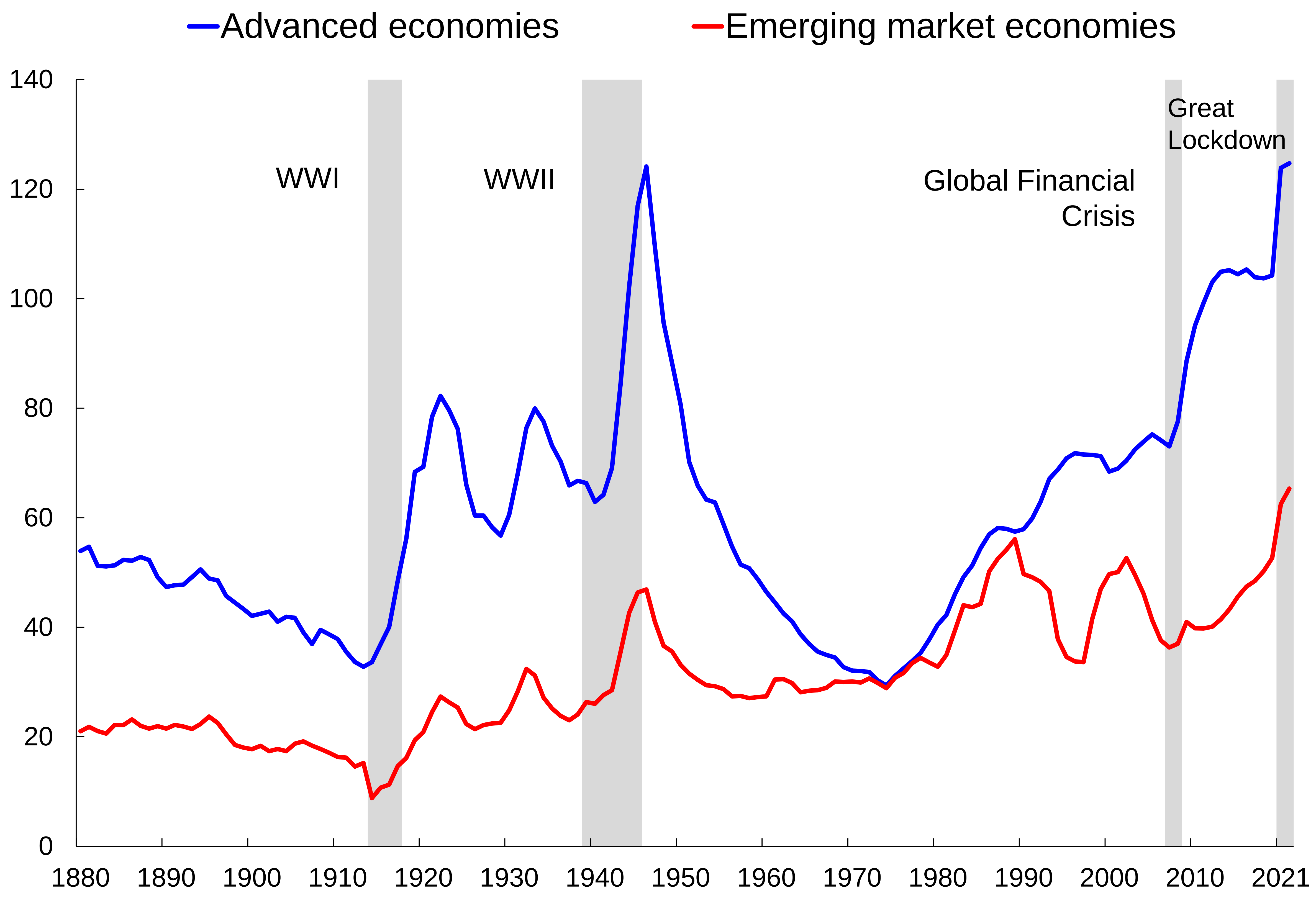
*(Percent difference between January 2020 WEO Update and October 2020 WEO projections)*




Source: IMF Staff estimates
Note: WEO = World Economic Outlook. Data labels use International Organization for Standardization (ISO) country codes.

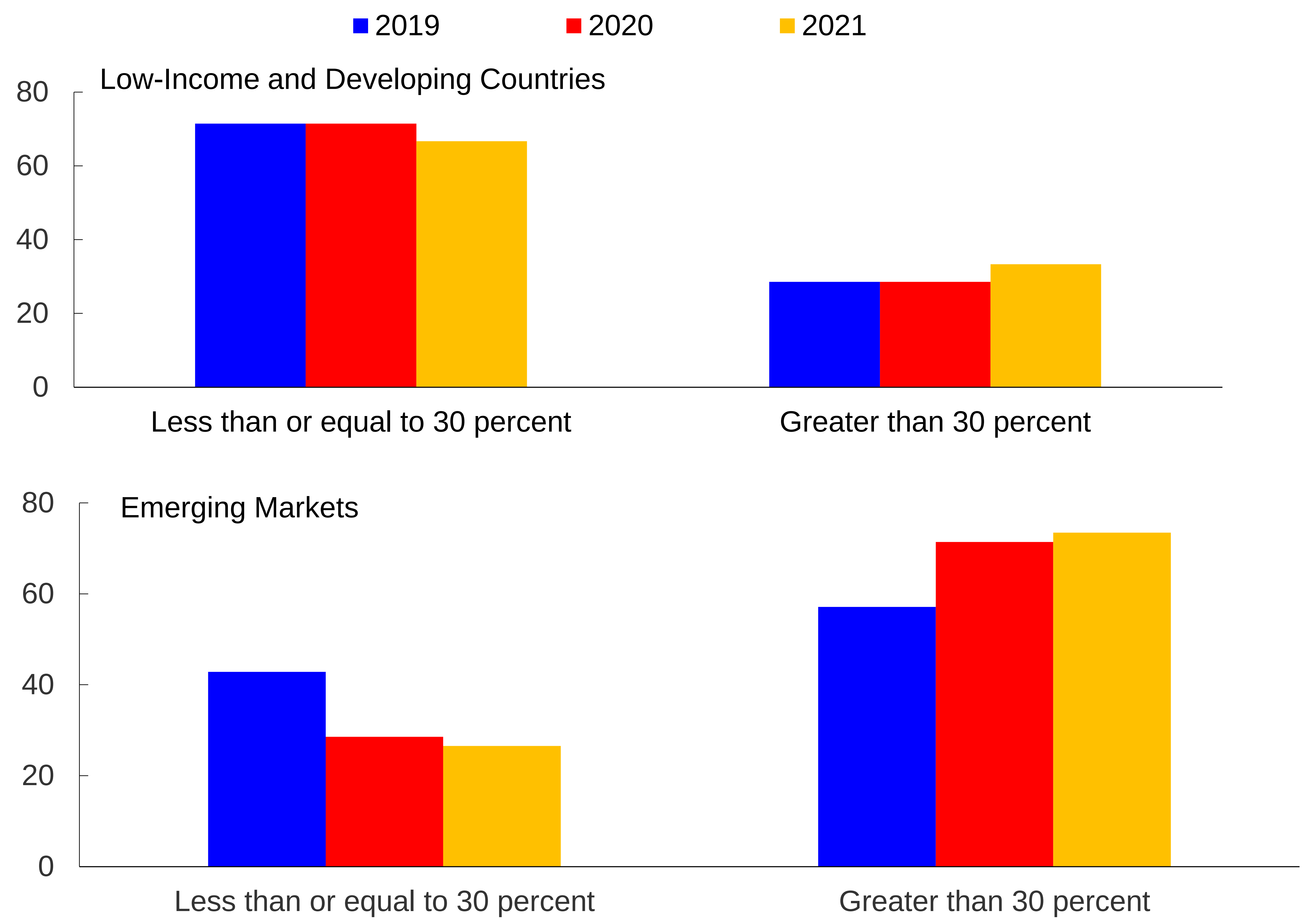
# Challenges to debt sustainability

**Historical Patterns of General Government Debt**
*(Percent of GDP)*




Source: IMF, Historical Public Debt Database; IMF, World Economic Outlook Database; Maddison Database Project; and IMF staff calculations.

**Ratio of Public Debt Service Costs to Government Tax Revenue**
*(Share of countries in group, percent)*




Source: IMF staff estimates.
Note: Shares by country groups are calculated based on countries where data is available.

# Policy priorities: near term

***Enhance multilateral cooperation***

- **Support health care systems, including funding for vaccine**
- **Provide financial support for constrained countries**

***National level policies***

- **Limit the damage where pandemic is accelerating.** Targeted measures to cushion income losses, complemented with broad monetary, financial regulatory, and fiscal responses.
- **Support the recovery where reopening is underway.** Calibrate unwinding of crisis response measures, facilitate resource reallocation to growing sectors, and provide stimulus as possible.
- **Create room to accommodate elevated spending on crisis countermeasures**
- **Seize opportunities to make recovery more equal and green**

# Policies to address medium-term challenges

***Effective multilateral cooperation***

- **Address trade and technology tensions, protect critical supply chains**
- **Collectively implement climate change mitigation commitments**

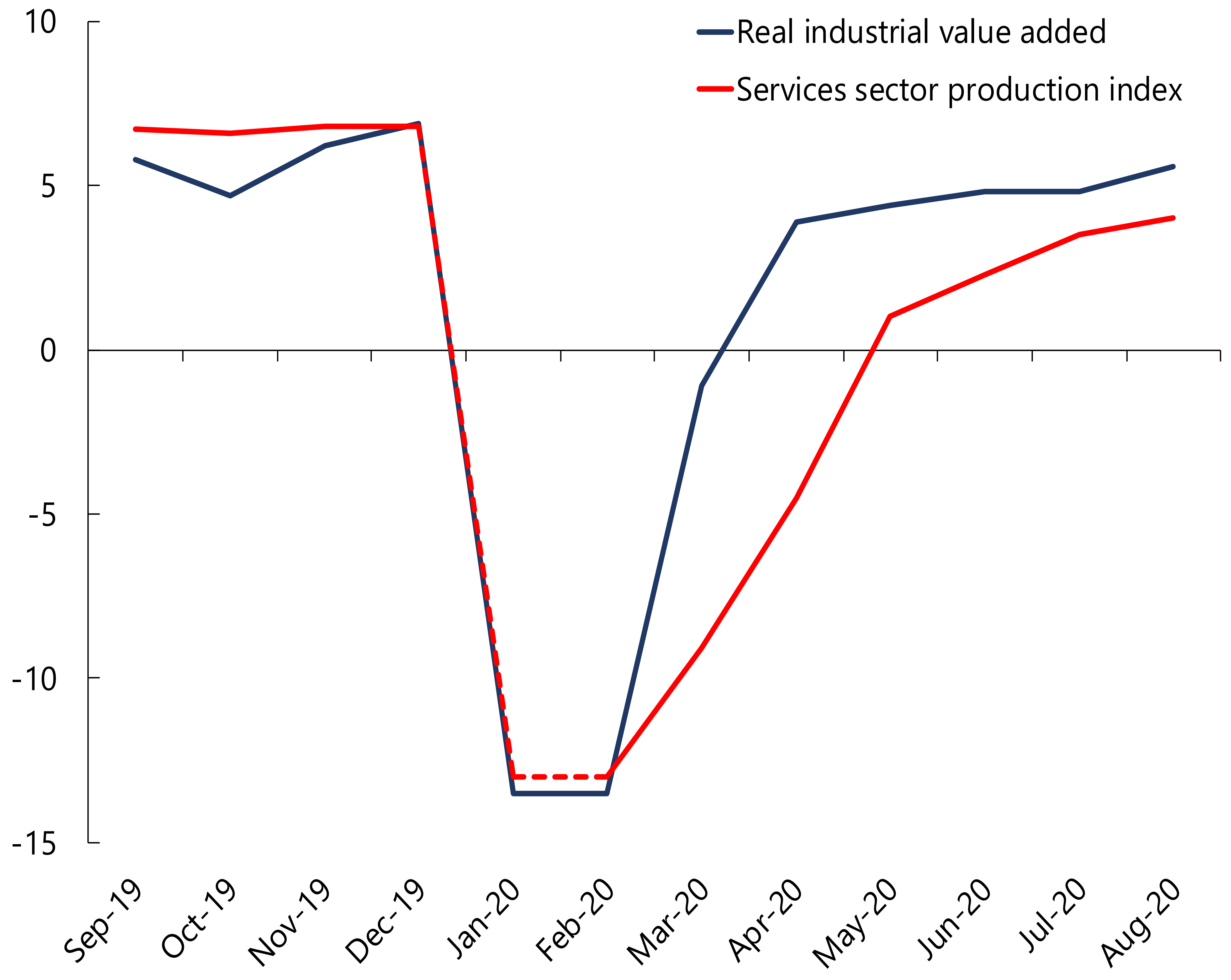
***National level policies***

- **Counteract slowing productivity growth.** Repair balance sheets; dispose of distressed debt; reduce barriers to entry and labor market rigidities; ensure small firms can compete on a level playing field.
- **Make gains more equitable.** Strengthen social assistance and insurance; invest to boost re-employment prospects for displaced workers.
- **Facilitate new growth opportunities, including to speed the transition to a low-carbon economy**
- **Boost human capital accumulation**

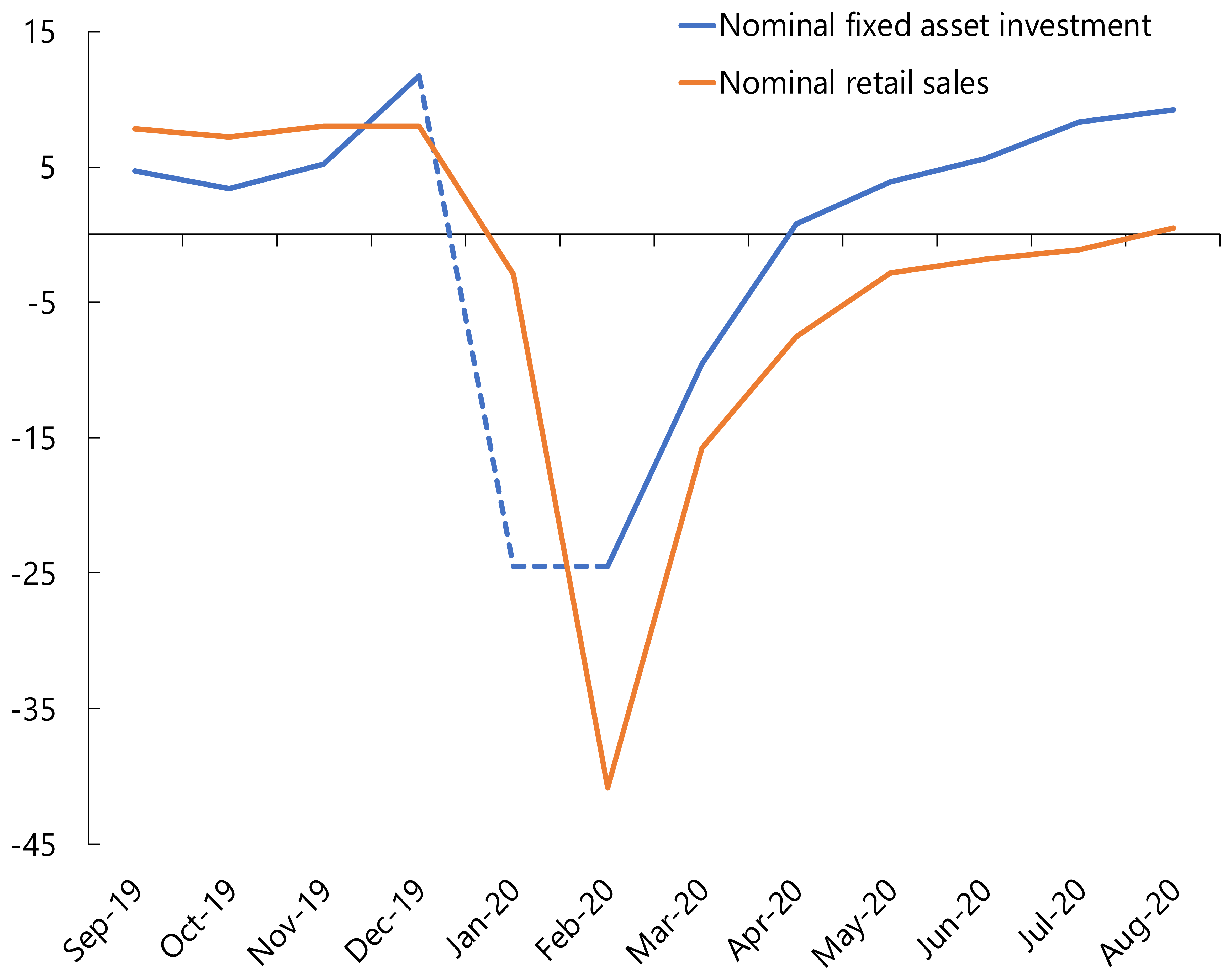
# Background slides

# China: recovery continues

## Industrial and services production
*(y/y percent change)*



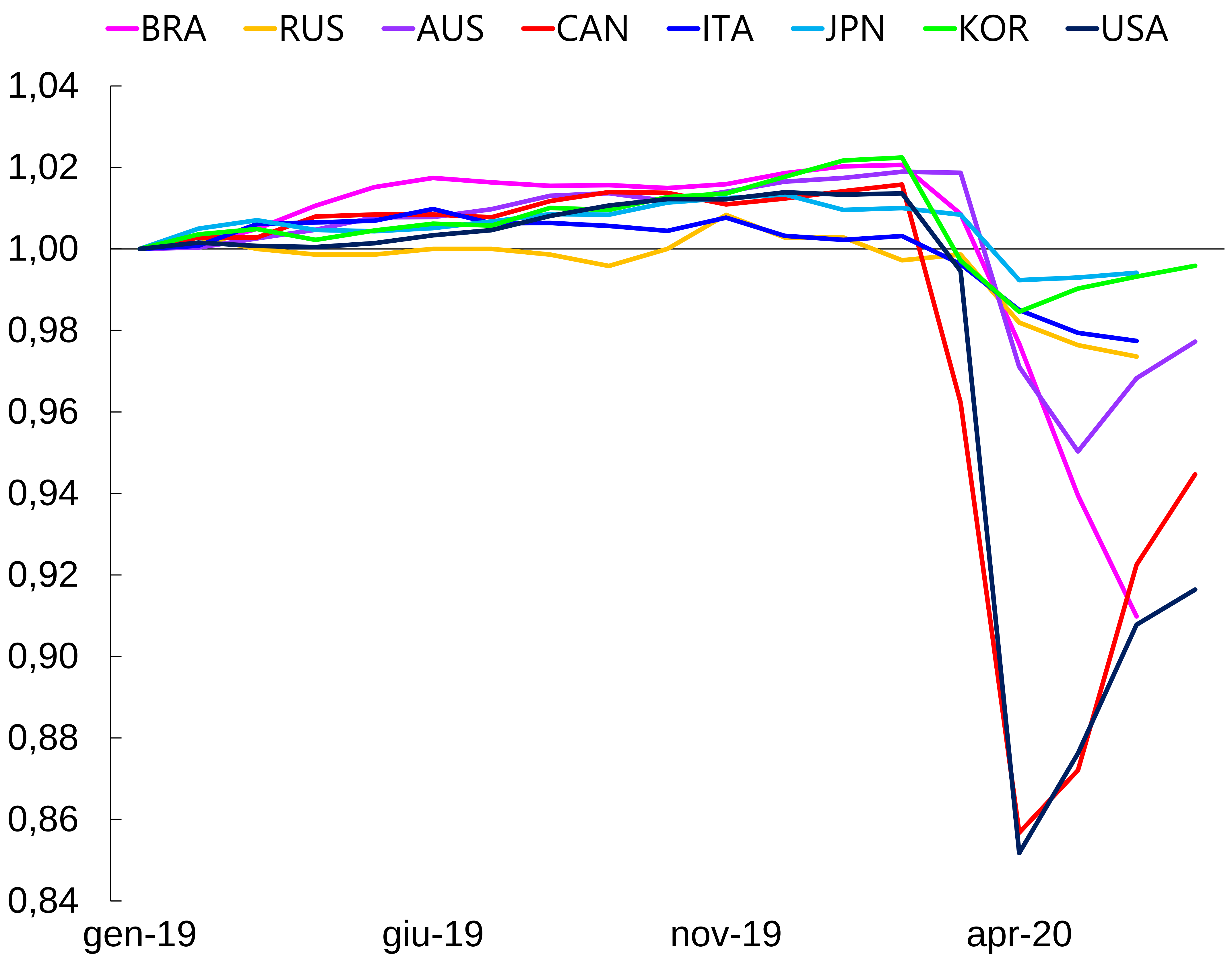

## Fixed investment and retail sales
*(y/y percent change)*



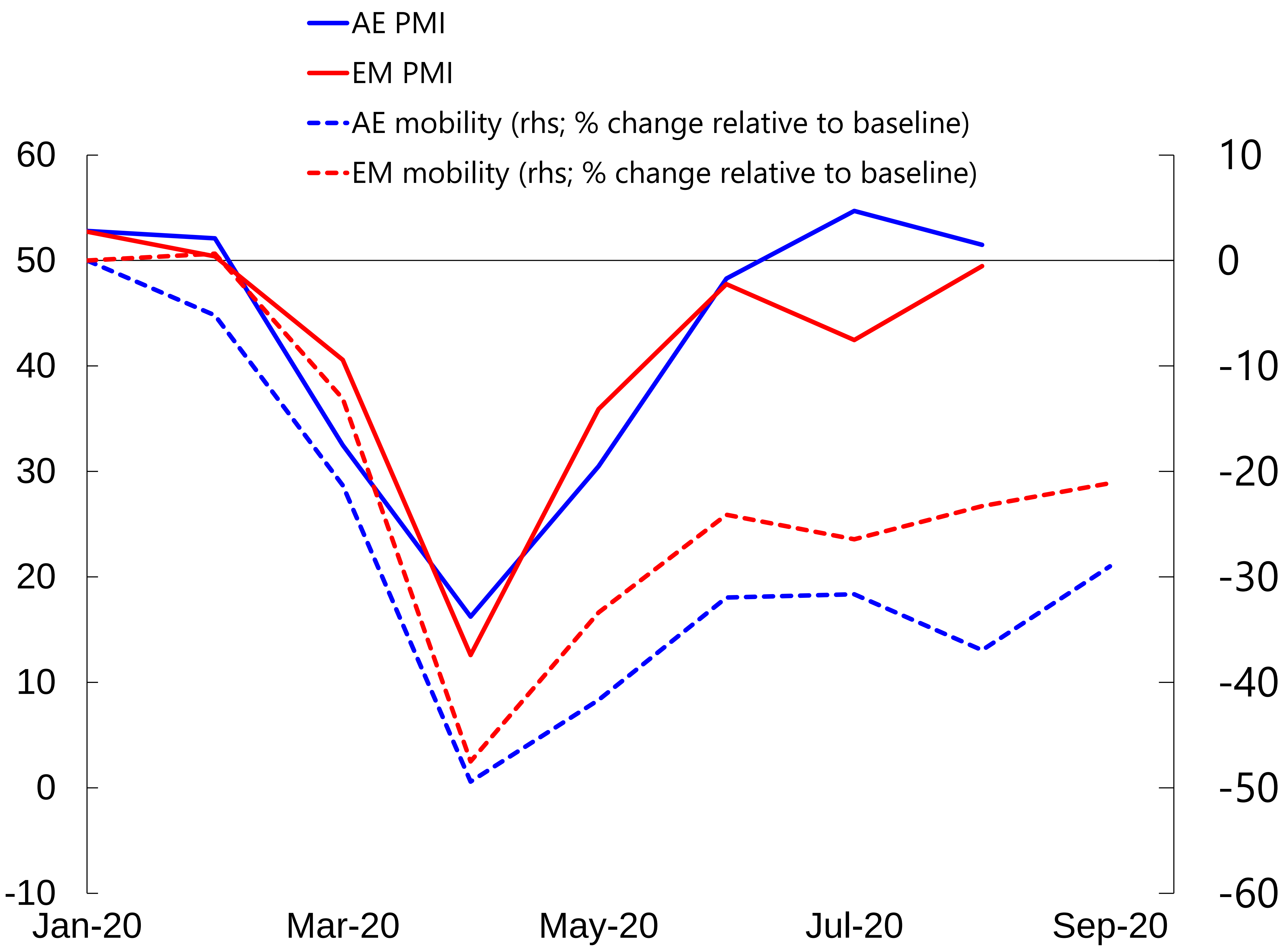

Sources: Haver Analytics and IMF staff calculations.

# Employment has begun to improve, despite depressed mobility

## Total employment
*(Index; Jan. 2019=1)*



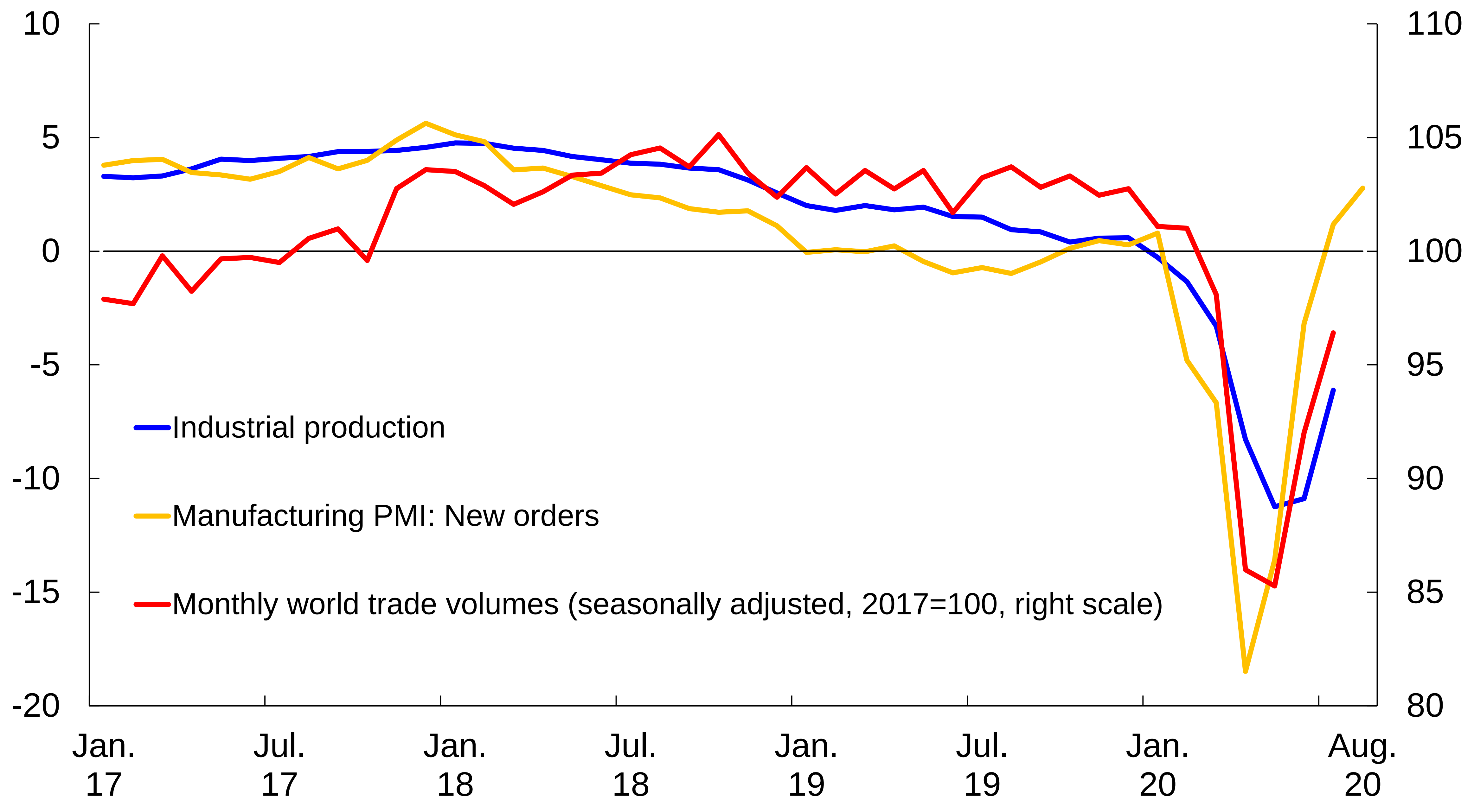

## PMI services vs. Google workplace mobility
*(Median; Index; >50 = expansion; sa)*



# Services trade hit particularly hard, but overall trade volumes are picking up

**Global Activity Indicators**

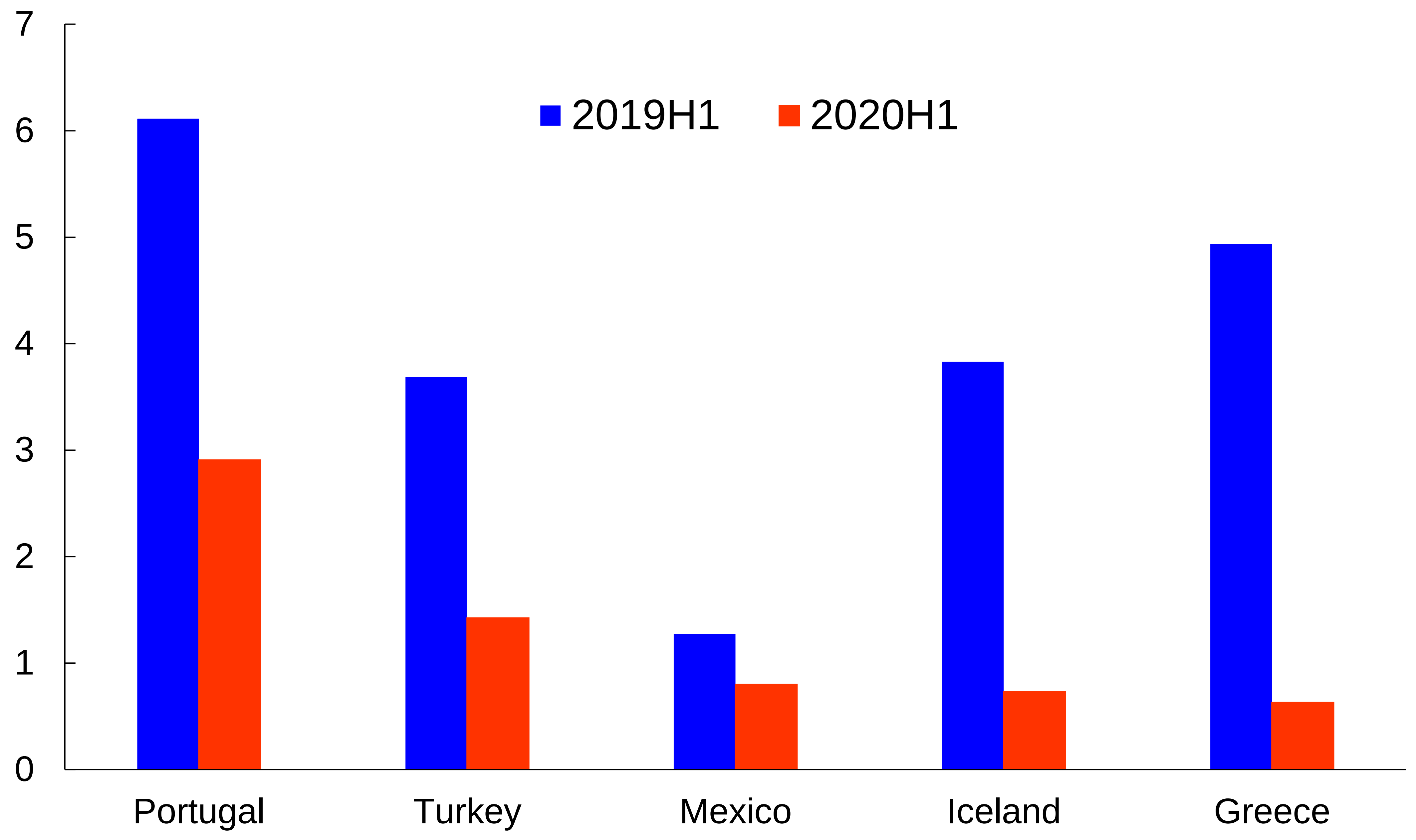
*(Three-month moving average, annualized percent change; deviations from 50 for manufacturing PMI, unless noted otherwise)*




Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and IMF staff calculations.
Note: PMI = purchasing managers’ index.

**Services Balance: Travel and Transportation**

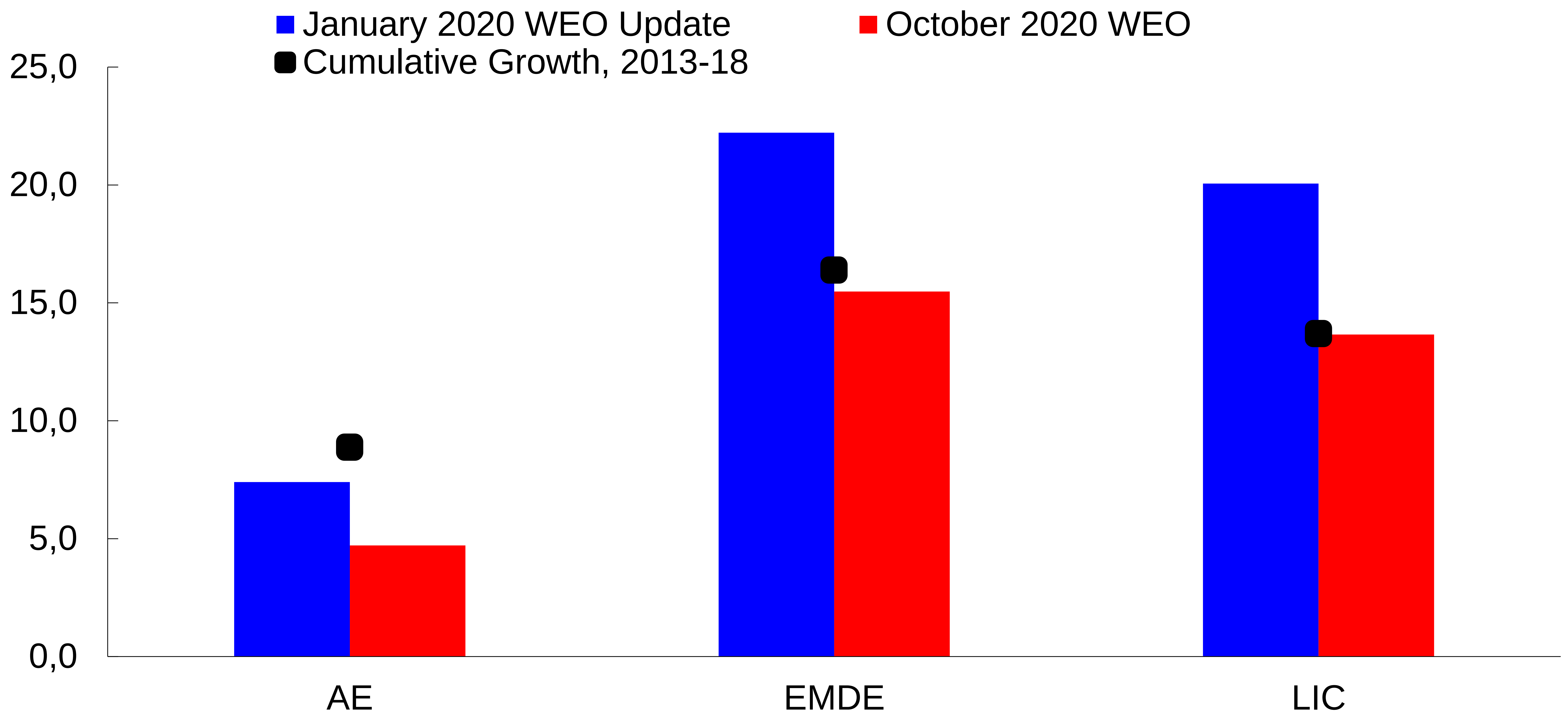
*(Percent of GDP)*




Source: IMF staff estimates.

# Severe setback to pace of improvements in living standards

**Per Capita GDP: Cumulative Growth, 2019-25**
*(Percent)*




Source: IMF staff estimates.
Note: AE = advanced economy; EMDE = emerging market and developing economy; LIC = low-income country; WEO = World Economic Outlook.