



International Monetary Fund

October 29, 2020

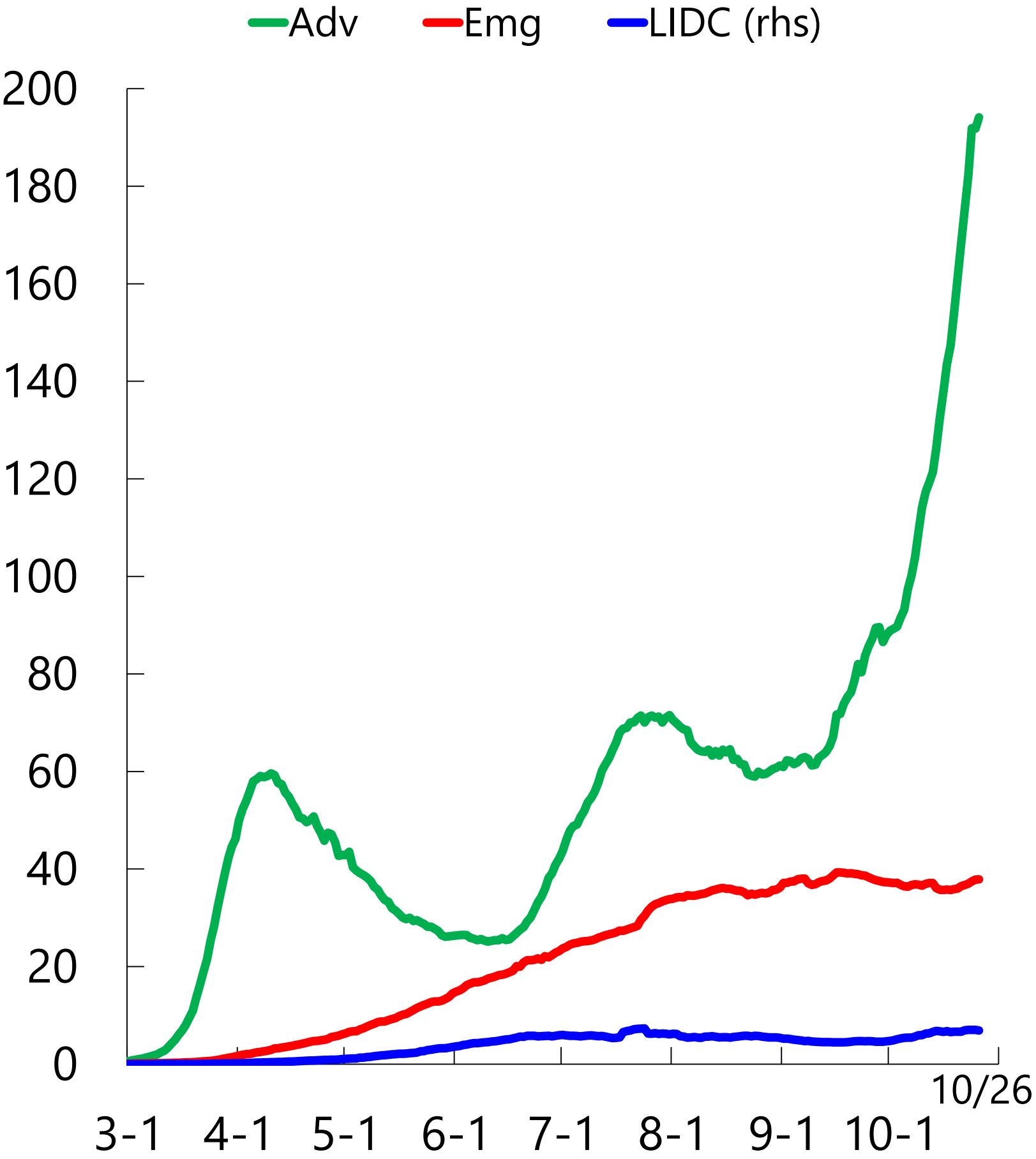
Outlook for the World Economy: Long, Uneven, Uncertain Ascent

Gita Gopinath
Economic Counsellor

Rising COVID-19 cases in EMs, Second Waves, Reopening stalls

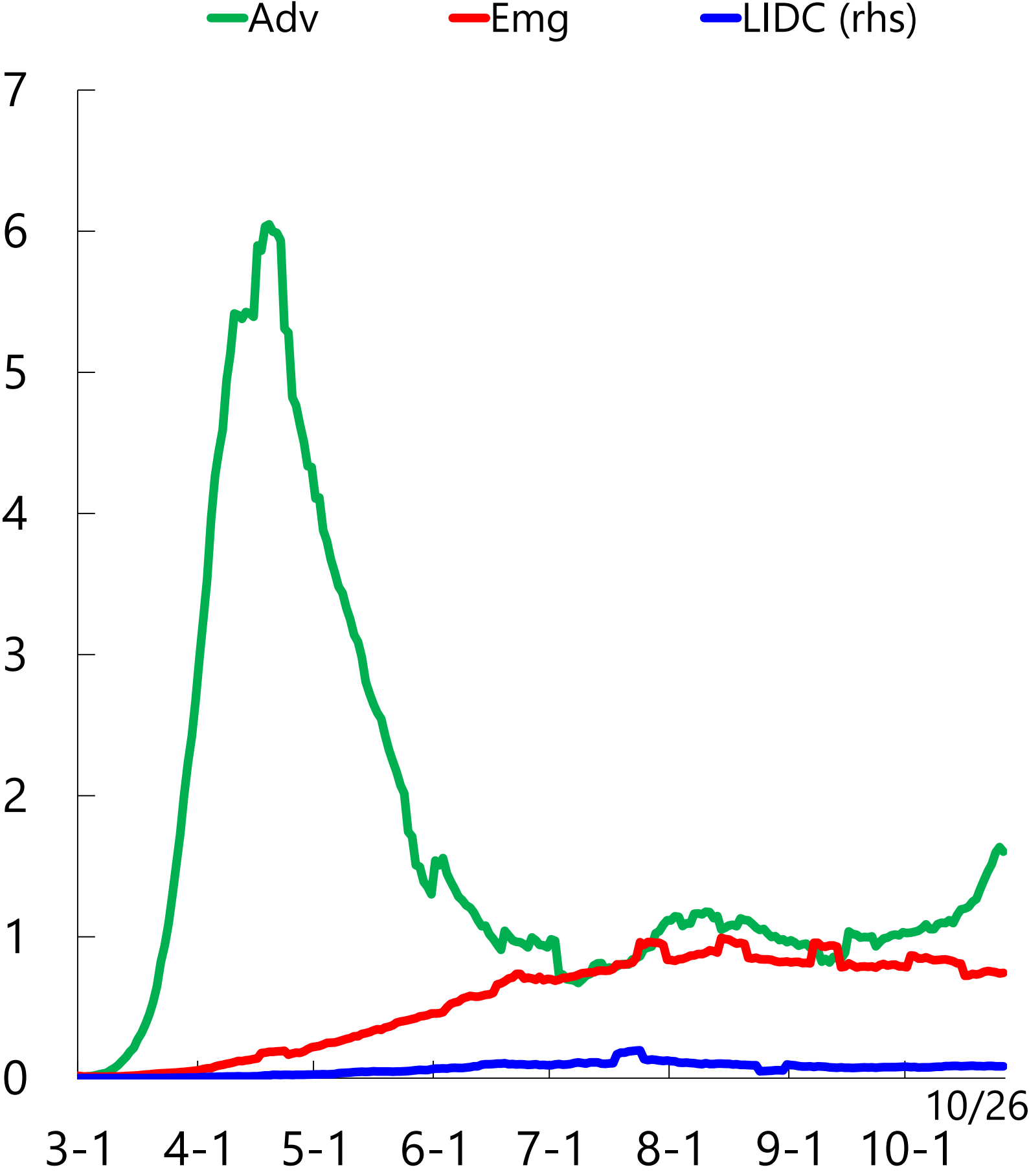
New cases

(per million population)



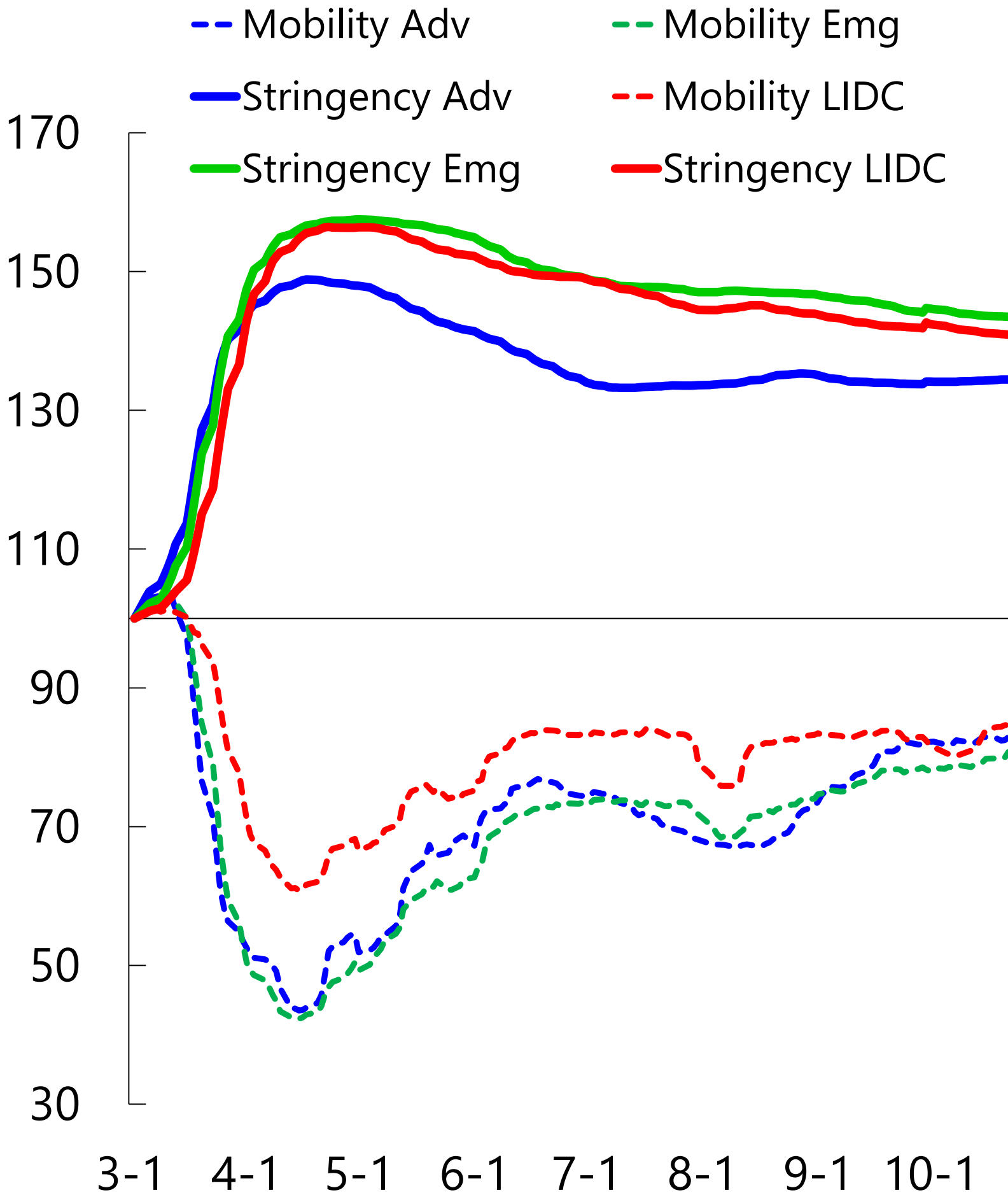
New deaths

(per million population)



Strictness of containment policy and mobility

(index; March 1 = 100; 7 day moving average)

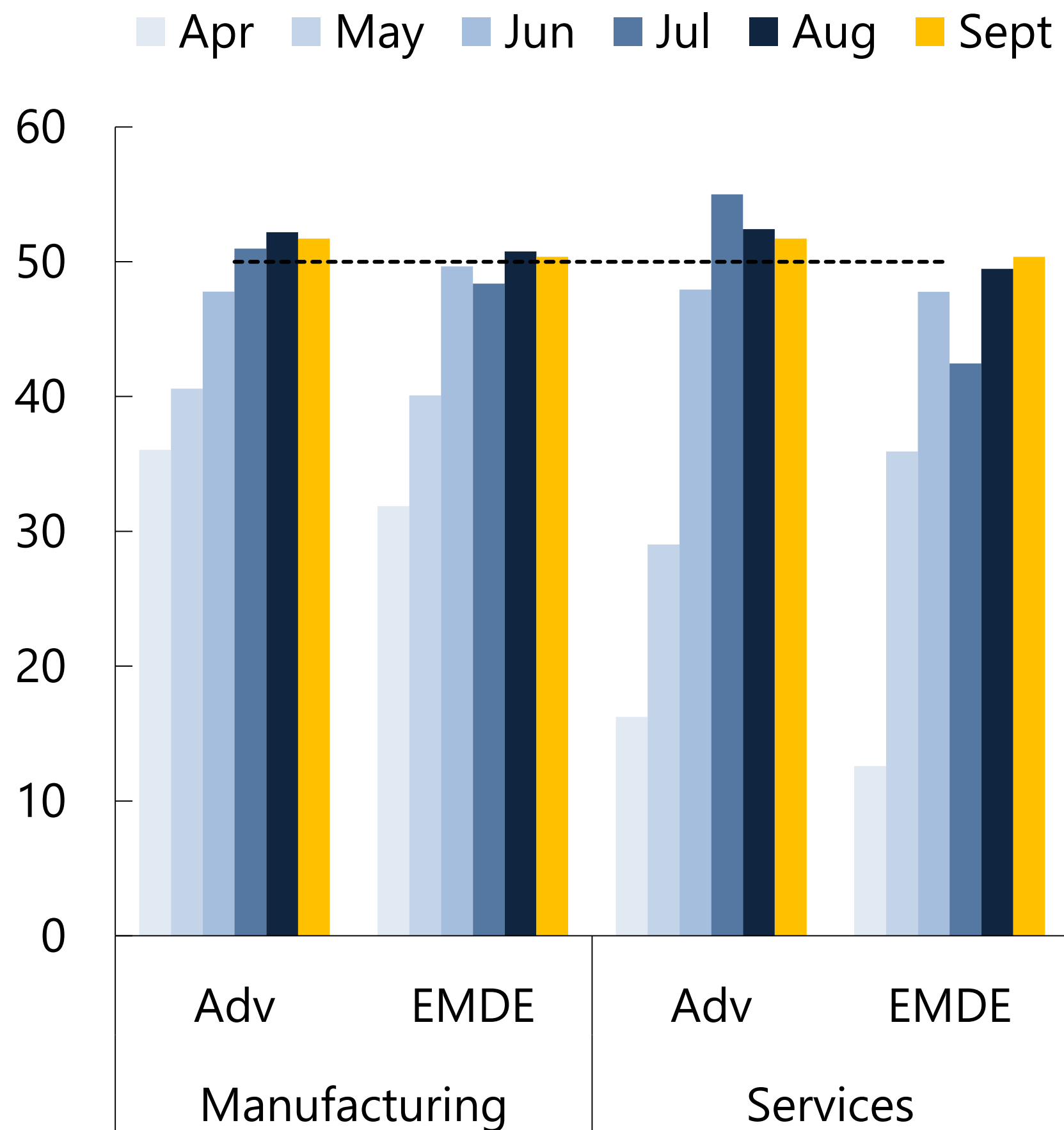


Sources: Ourworldindata Organization; OxCGRT; and IMF staff calculations.

Recovery underway but signs of setbacks

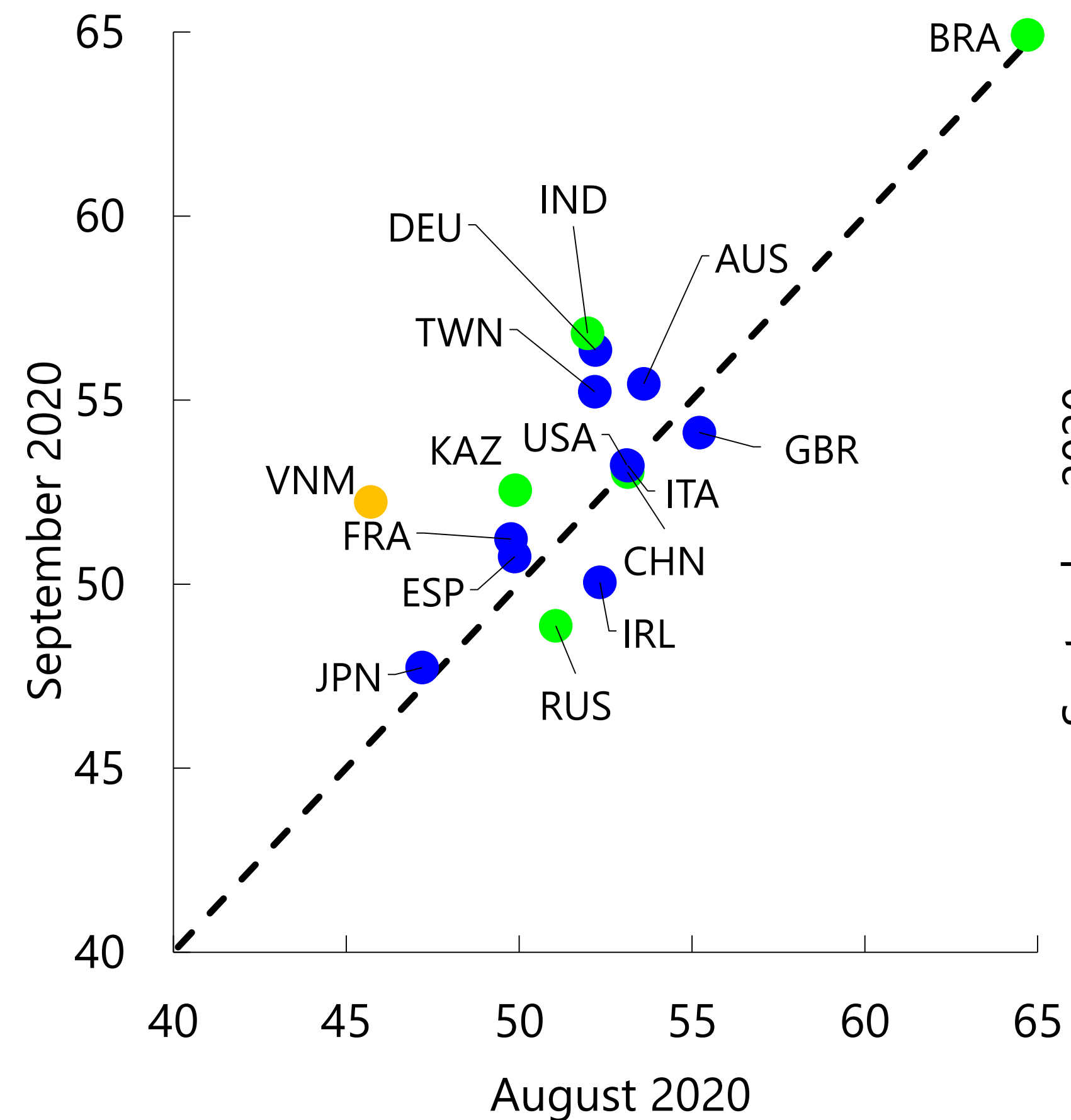
PMIs

(median; index; >50 = expansion; sa)



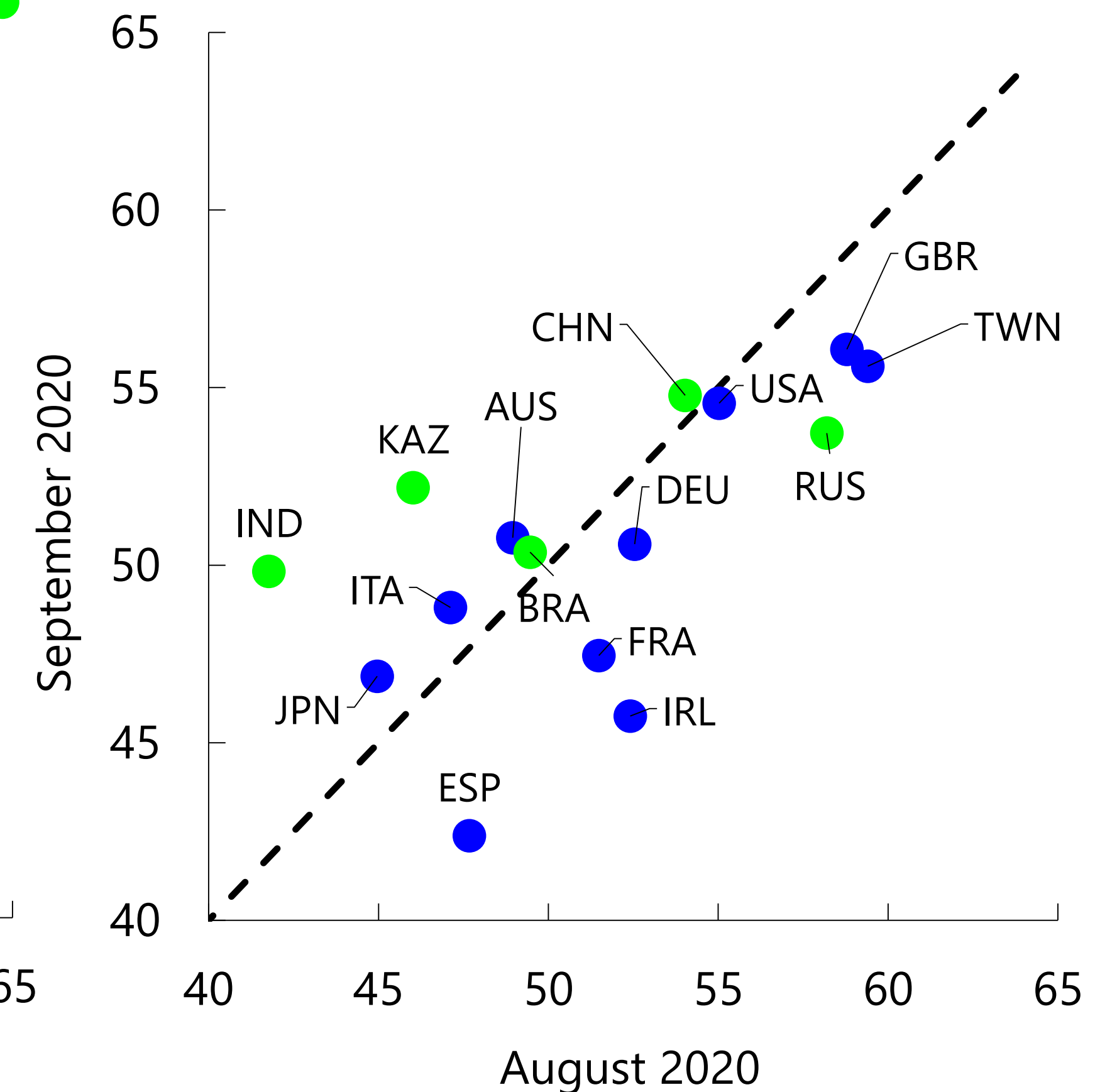
PMI manufacturing

(index; >50 = expansion; sa)



PMI service

(index; >50 = expansion; sa)

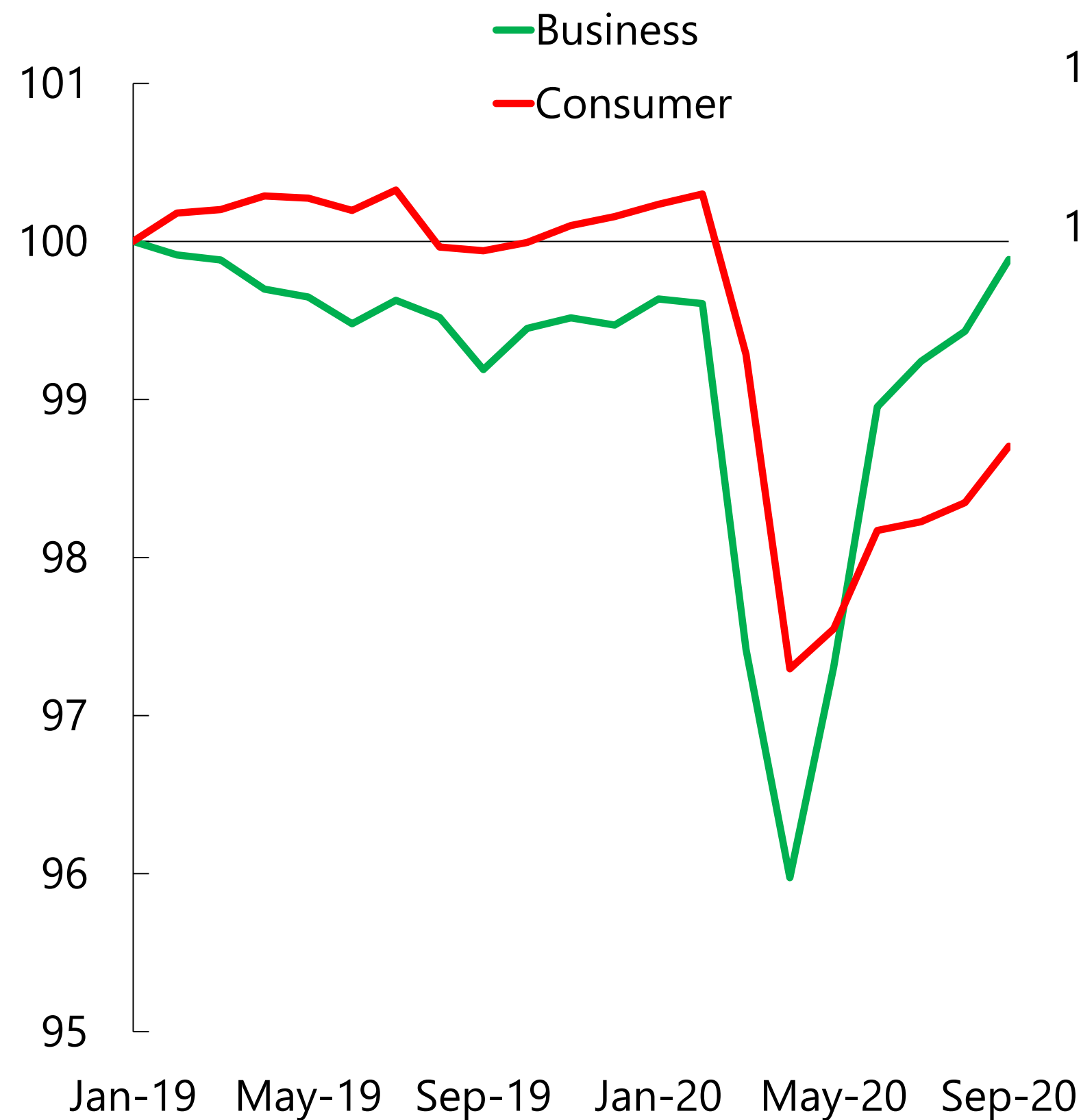


Sources: IMF, *World Economic Outlook*; IMF, *Global Data Source*; Haver Analytics; and IMF staff calculations.

Uneven recovery of sentiments and trade

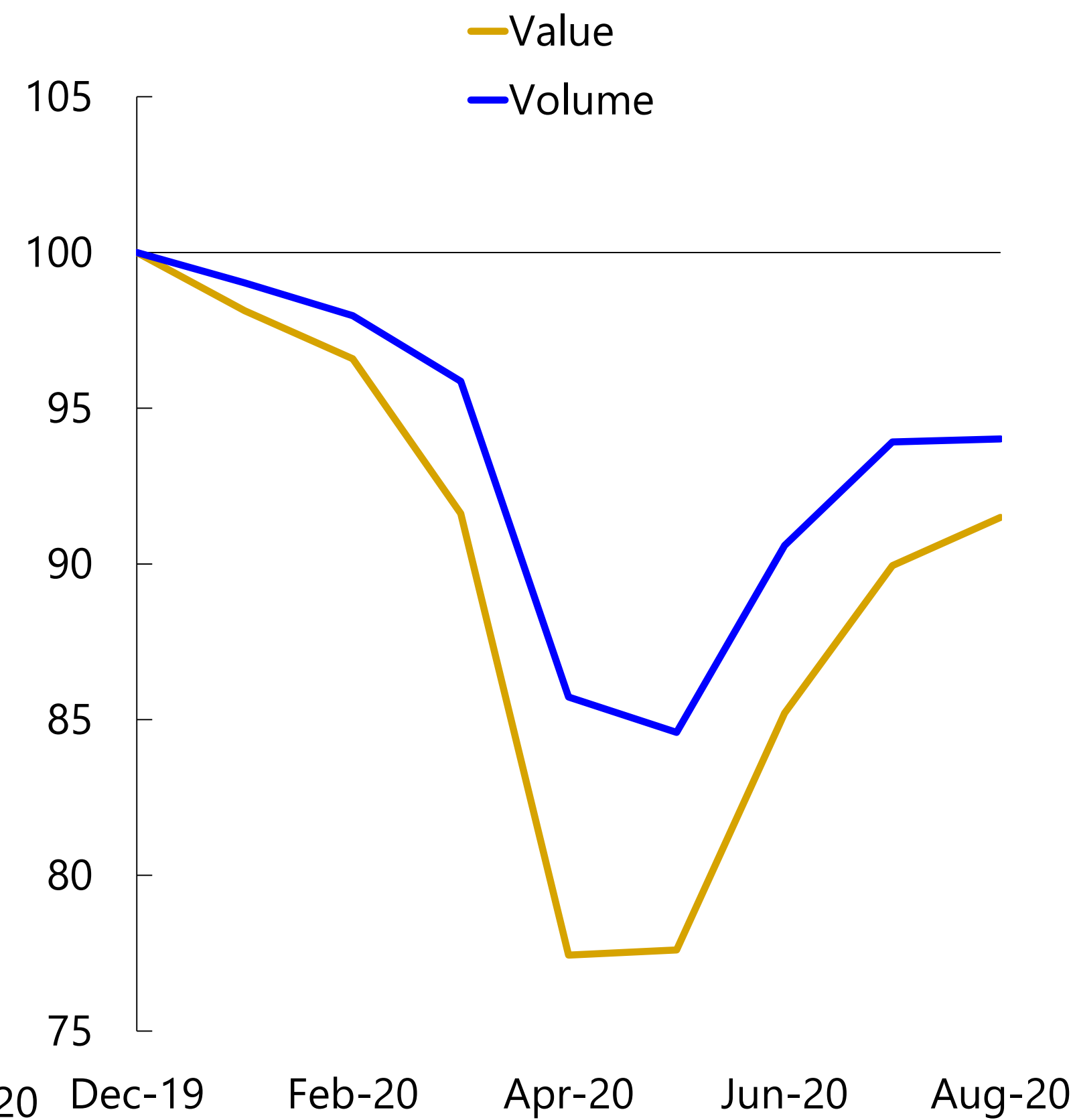
Global business and consumer sentiments 1/

(index; Jan 2019 = 100)



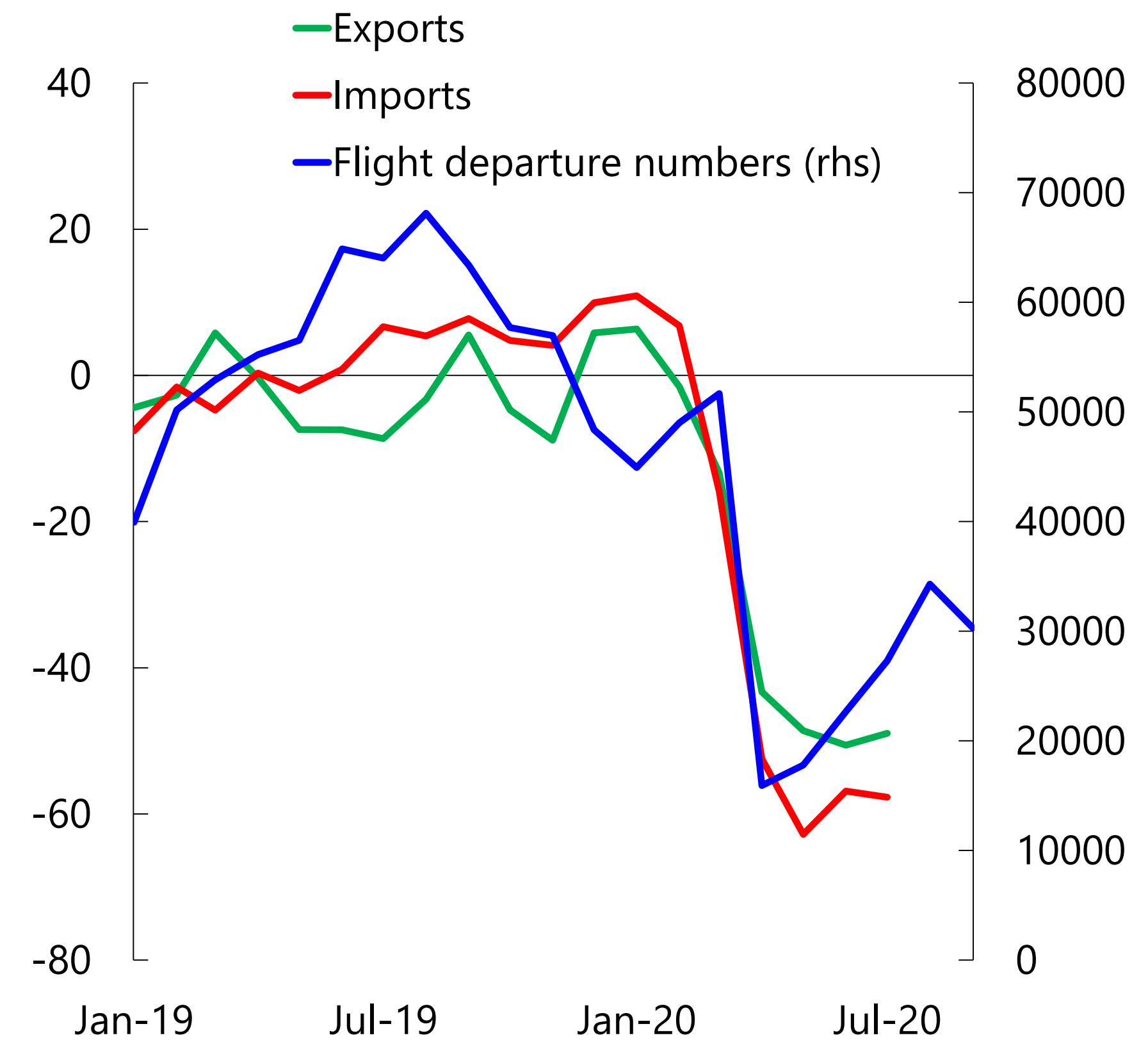
World: Merchandise imports 2/

(index; Dec 2019 = 100)



World: Service trade and international flight departure

(y/y; unless otherwise noted)



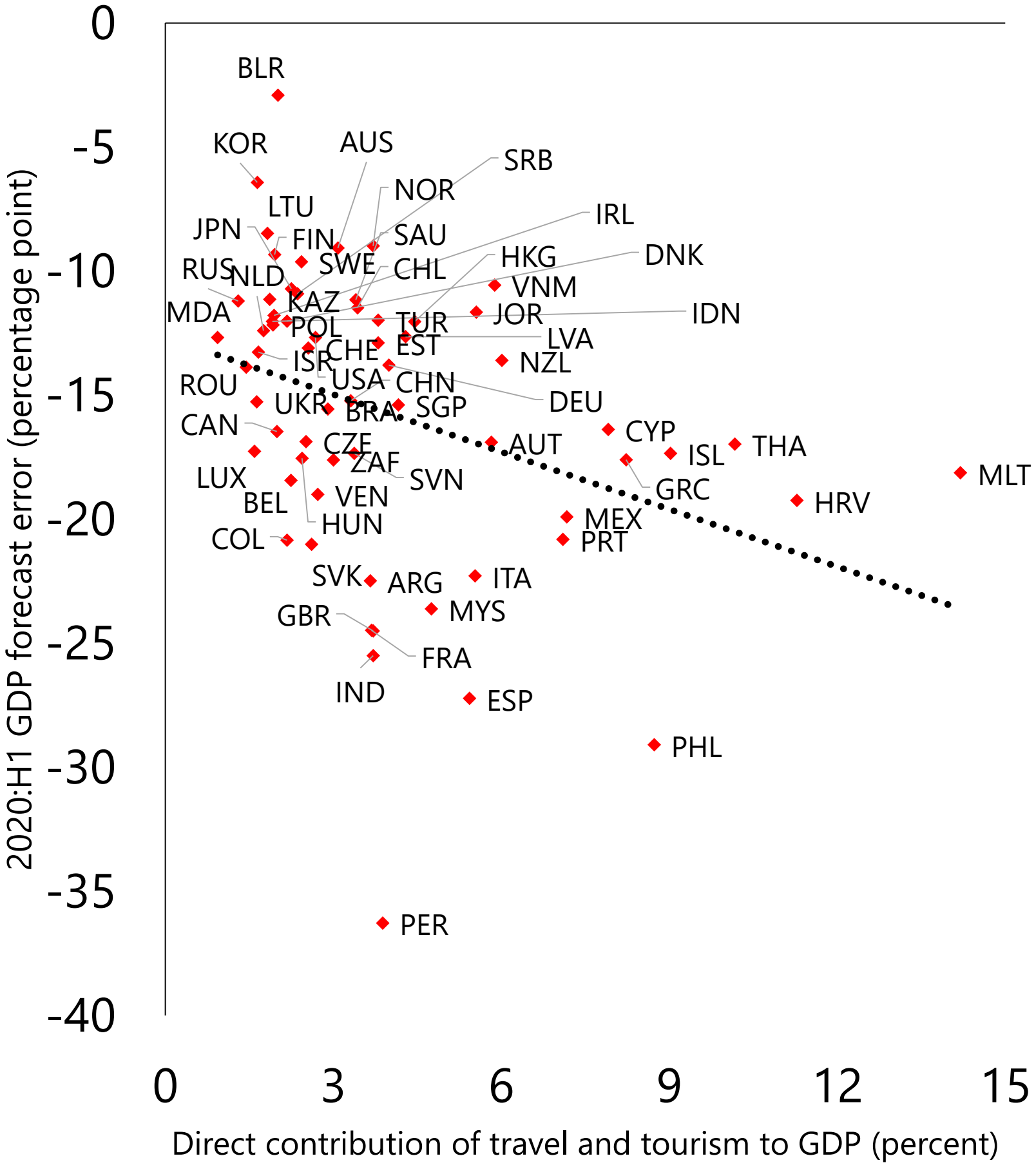
Sources: CPB World Trade Monitor; national authorities; Flightradar24; Haver Analytics; IMF, *World Economic Outlook*; IMF staff calculations.

1/ Business sentiment in manufacturing consist of AUS, CAN, EUR, GBR, KOR, JPN, SWE, USA, BRA, CHN, CZE, MEX, RUS, POL, THA, TUR, ZAF. Consumer sentiment consist of AUS, EUR, GBR, JPN, NZL, SWE, USA, ARG, BRA, CHN, CZE, IDN, KOR, MEX, POL, THA, TUR, TWN.

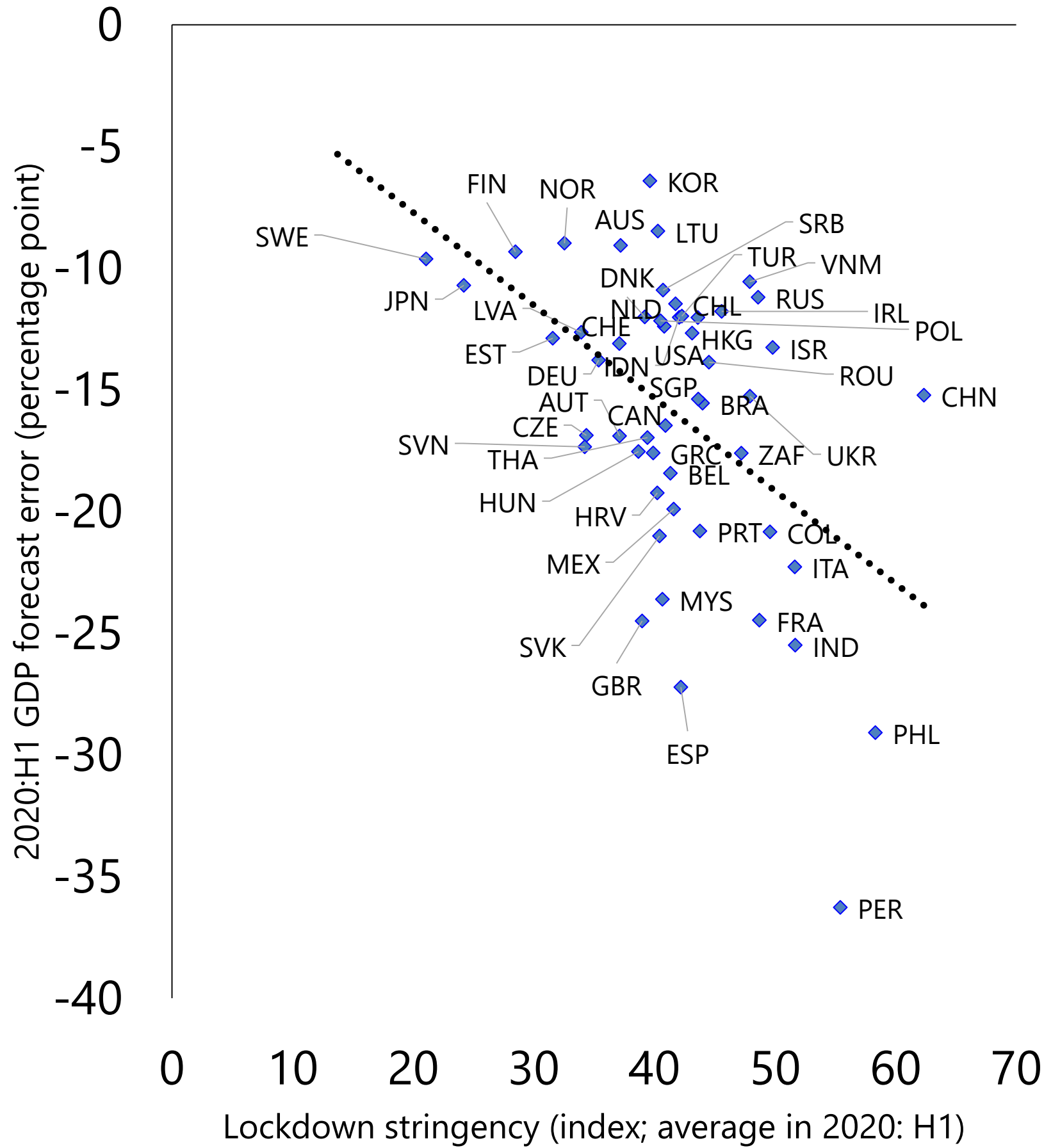
2/ July 2020 data based on CPB; August data in value based on national sources (customs) from reporting countries (resp. 84% of world trade).

Growth outturn affected by lockdown, social distancing and size of tourism sector

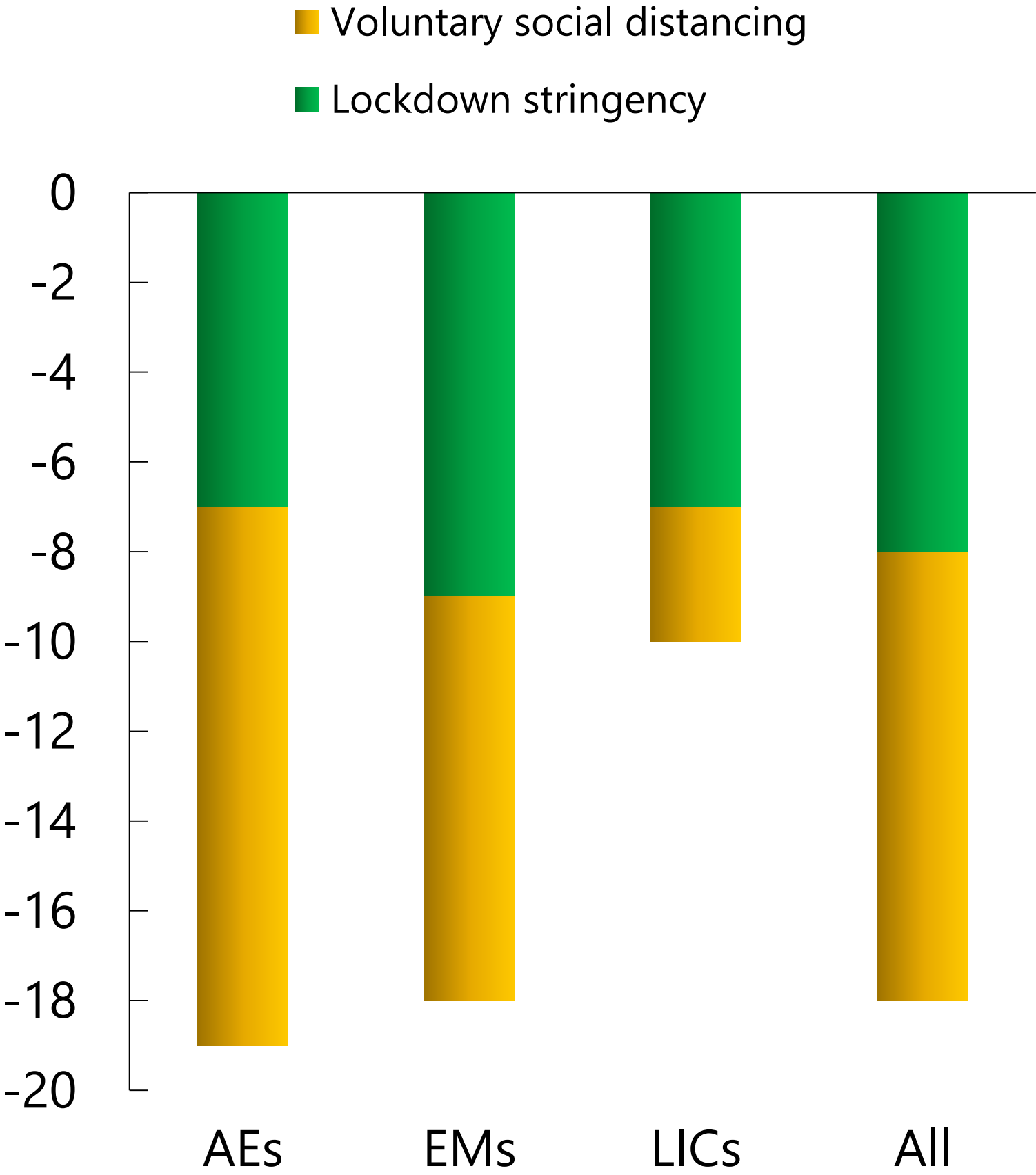
GDP forecast errors in 2020H1 and tourism contribution 1/



GDP forecast errors in 2020H1 and lockdown stringency 1/



Impact on mobility during 90 days after 1st case (percent)

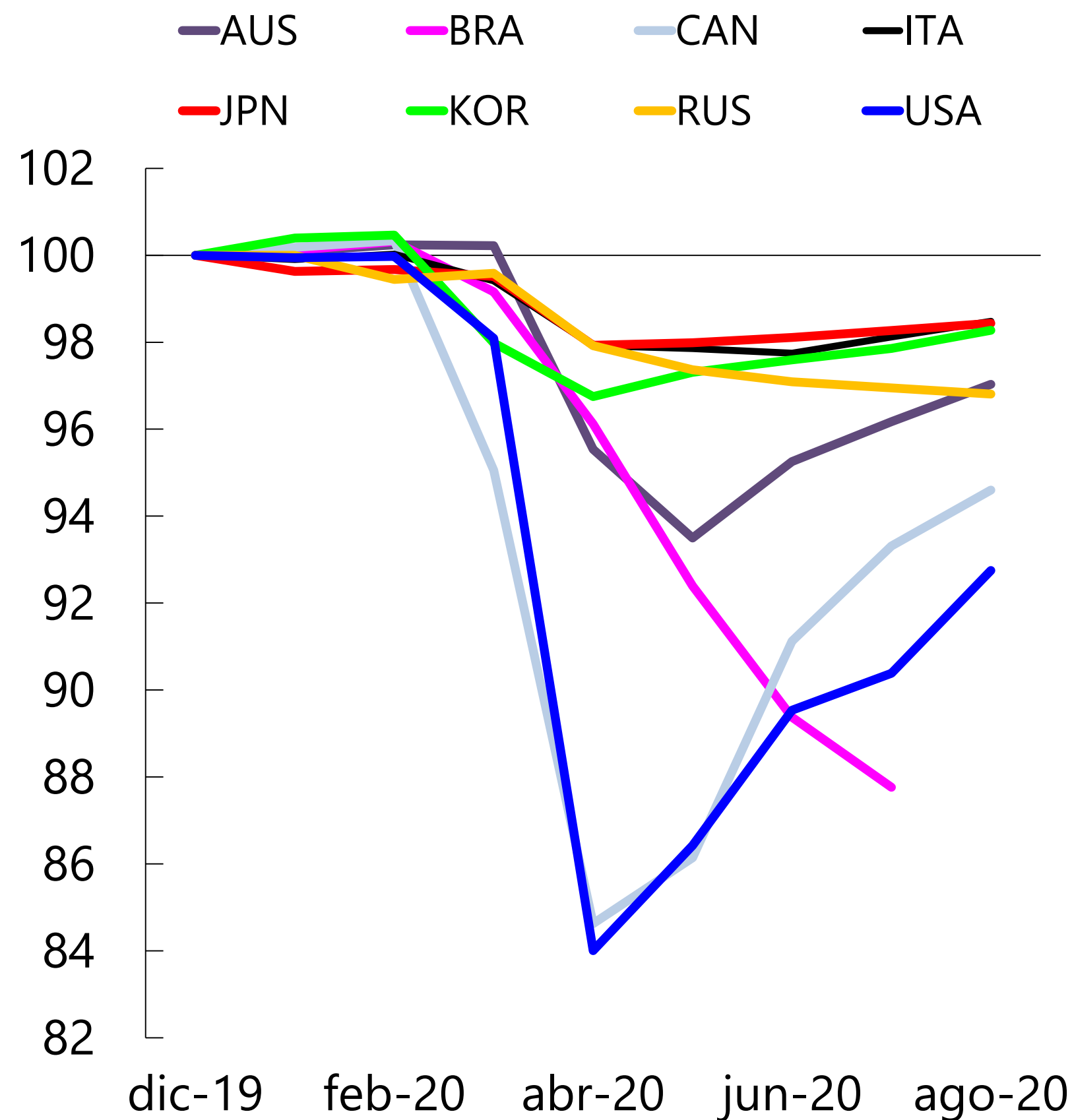


Sources: IMF, *World Economic Outlook*; UNESCO; IMF staff calculations.
1/ GDP forecast errors are defined as the deviations from January *WEO* projections for the first half of 2020 (2020:H1).

Labor market conditions remain weak

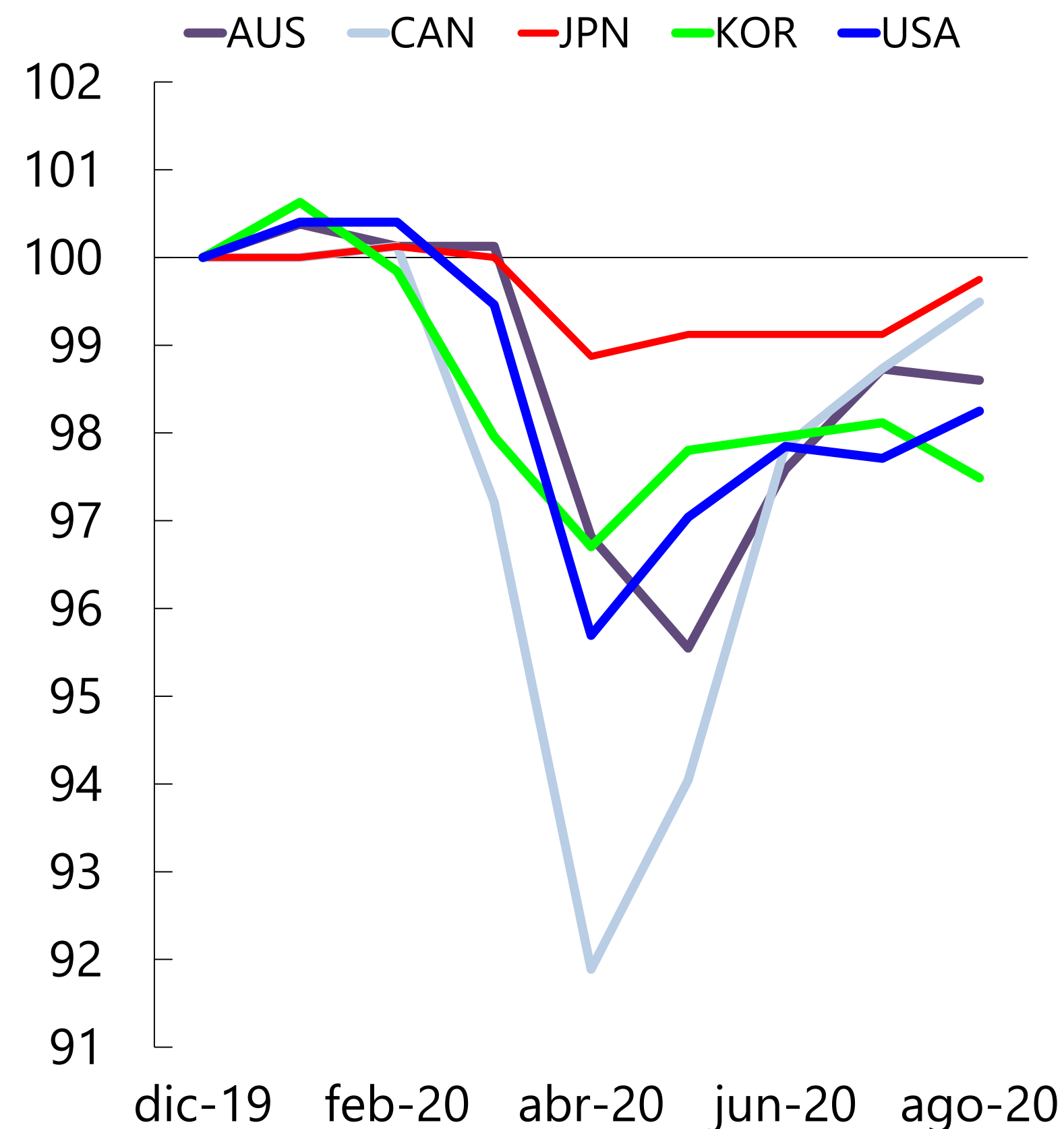
Total employment

(index; Dec. 2019=100)



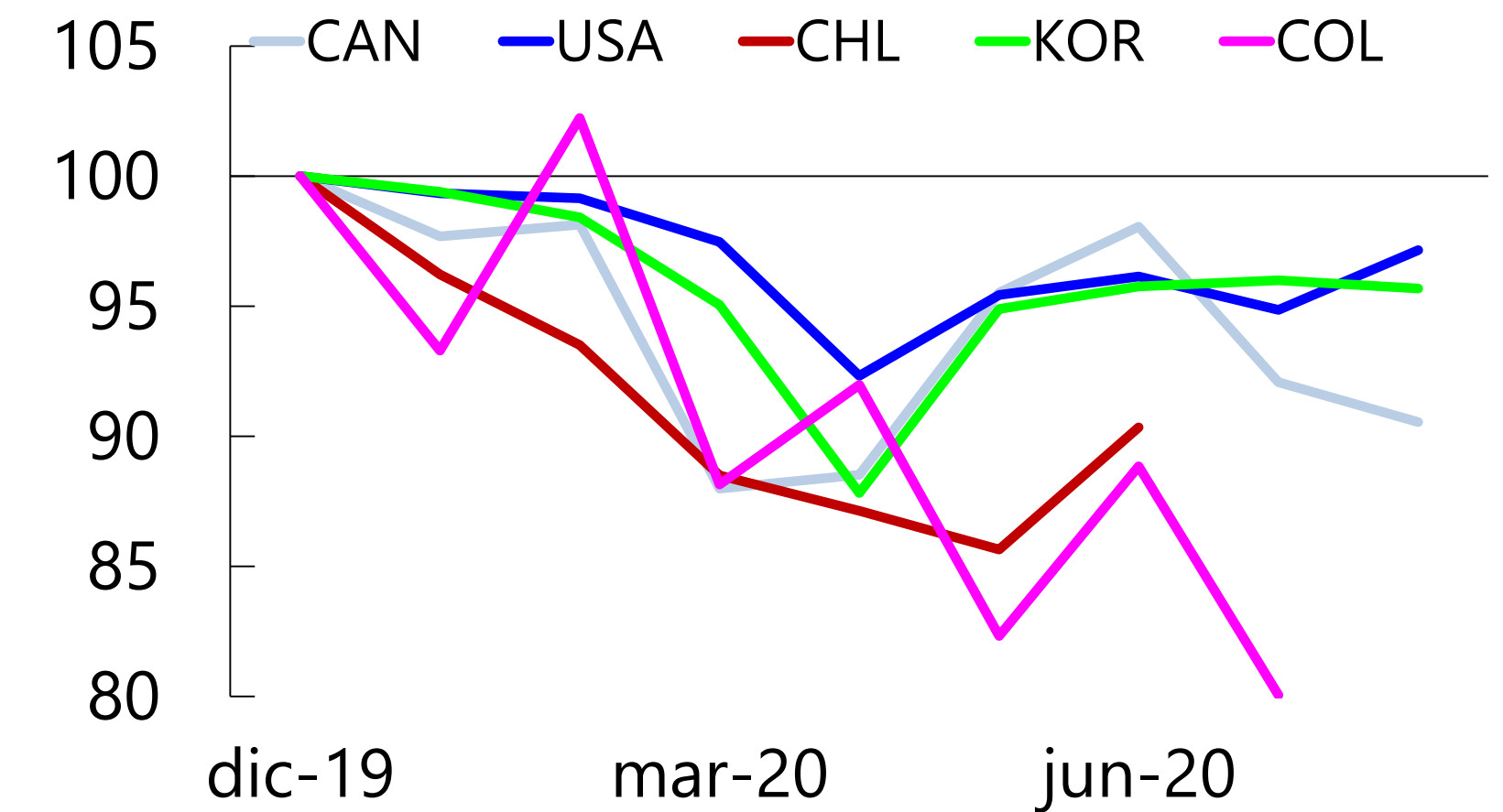
Labor force participation

(index; Dec. 2019=100; 15 to 64 Years; sa)



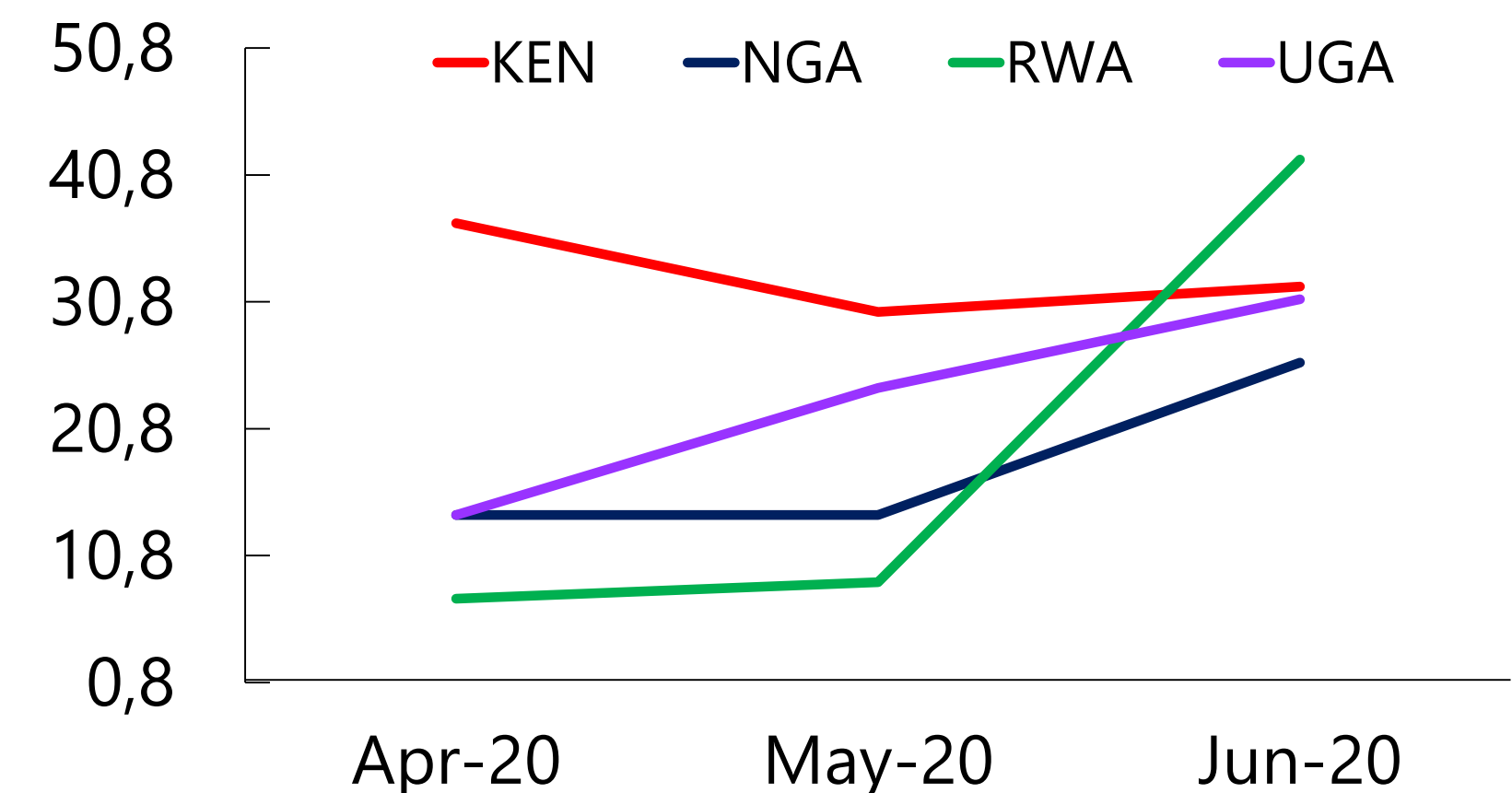
Mean weekly hours worked per employee

(index; Dec. 2019=100)



AFR: weekly hours worked per employee

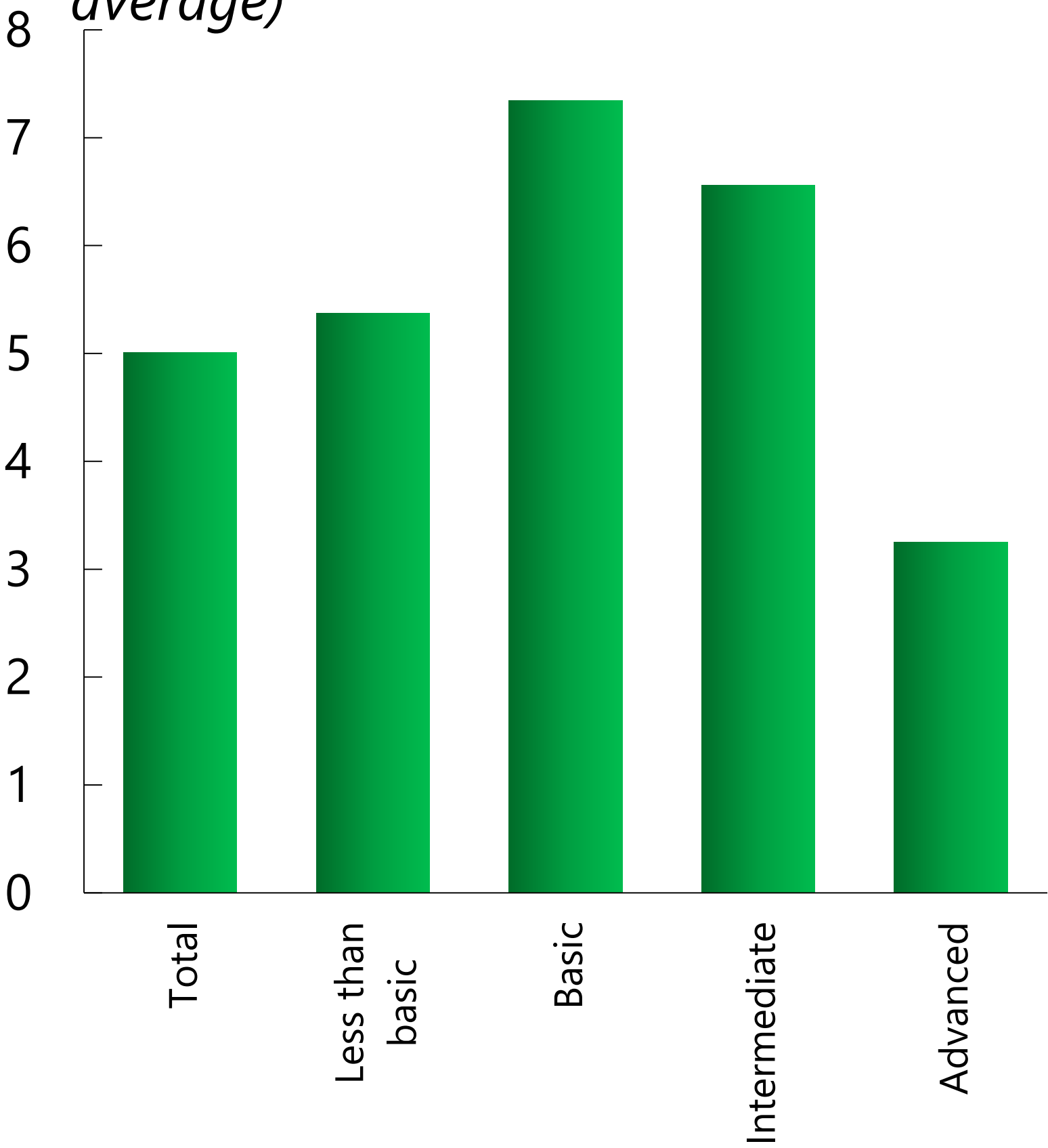
(average hours)



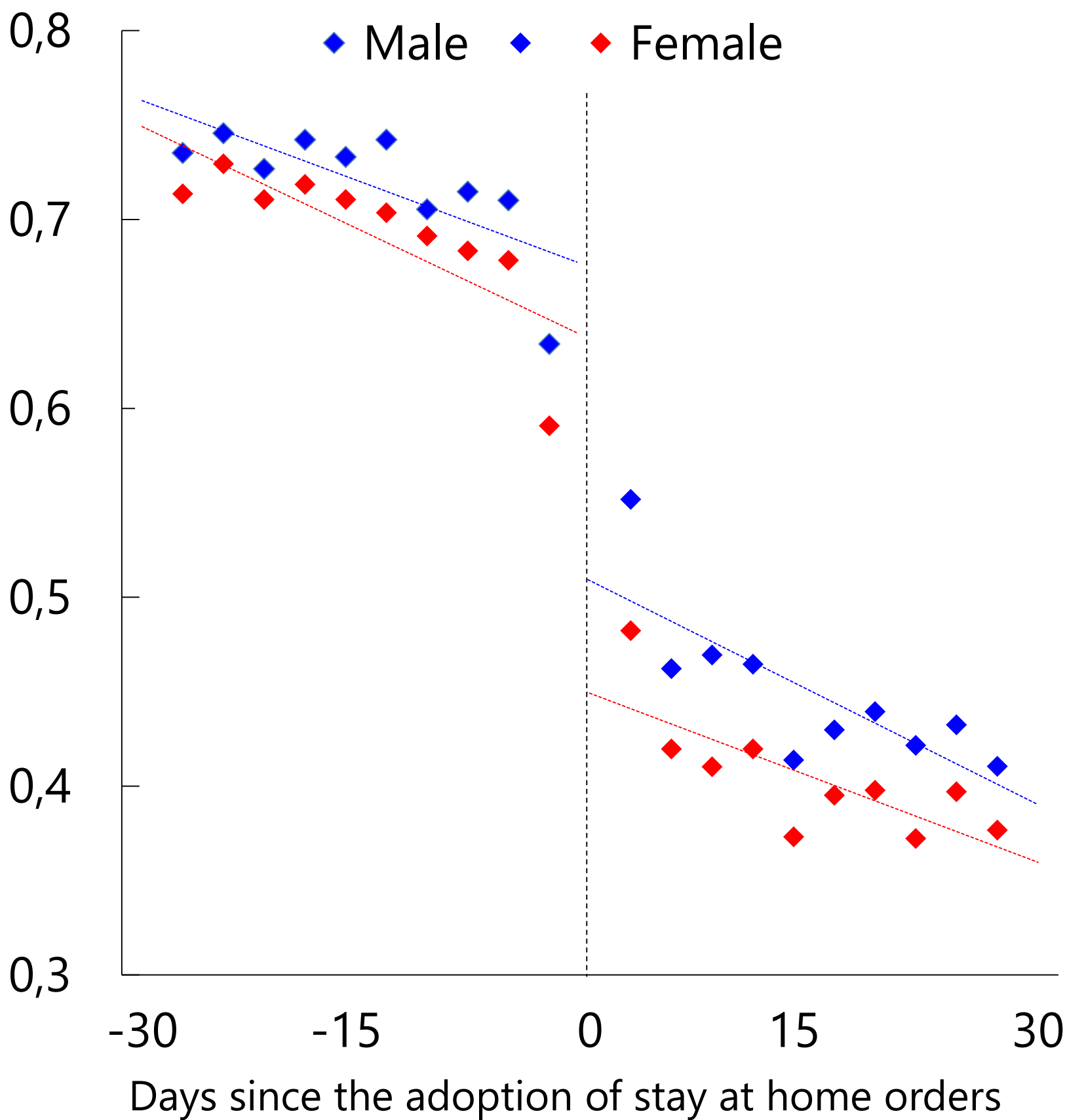
Sources: IMF, Global Data Source; ILO; <https://covid19tracker.Africa>; Haver Analytics; and IMF staff calculations.

Low and middle-skilled, and women, more adversely impacted

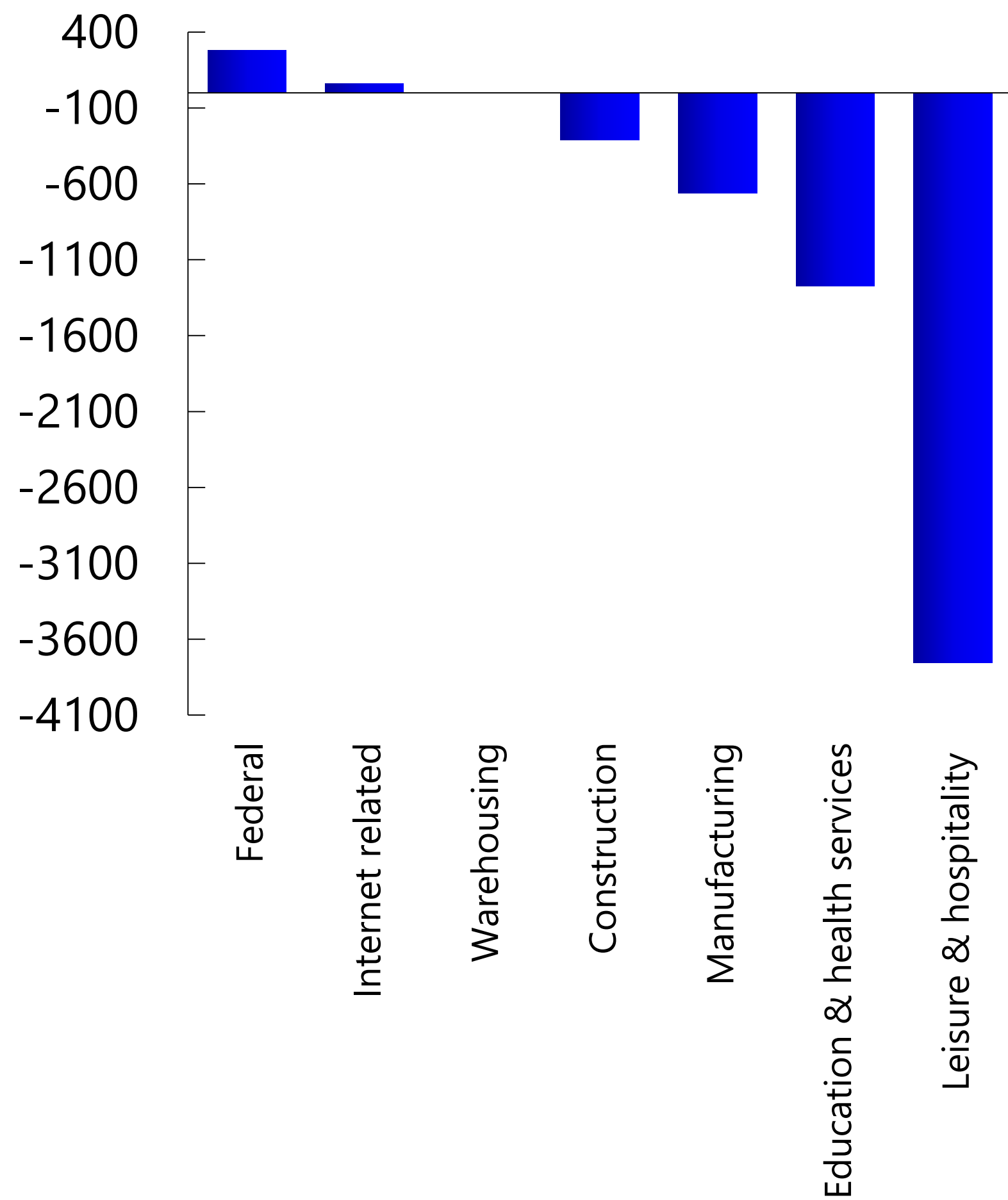
Change in unemployment rate by education 1/
(percentage points, 2020Q2 vs 2019Q4; average)



Impact of stay at home orders 2/
(percent of people moving age 25-44; estimates based on a linear interacted model)



US: Sectoral employment change 3/
(change in thousands; Sep 2020 vs Dec 2019)



Sources: ILO; Vodafone; WEO 2020 Chapter 2 and IMF staff calculations.

1/ Consist of Canada, Korea, Mexico and United States.

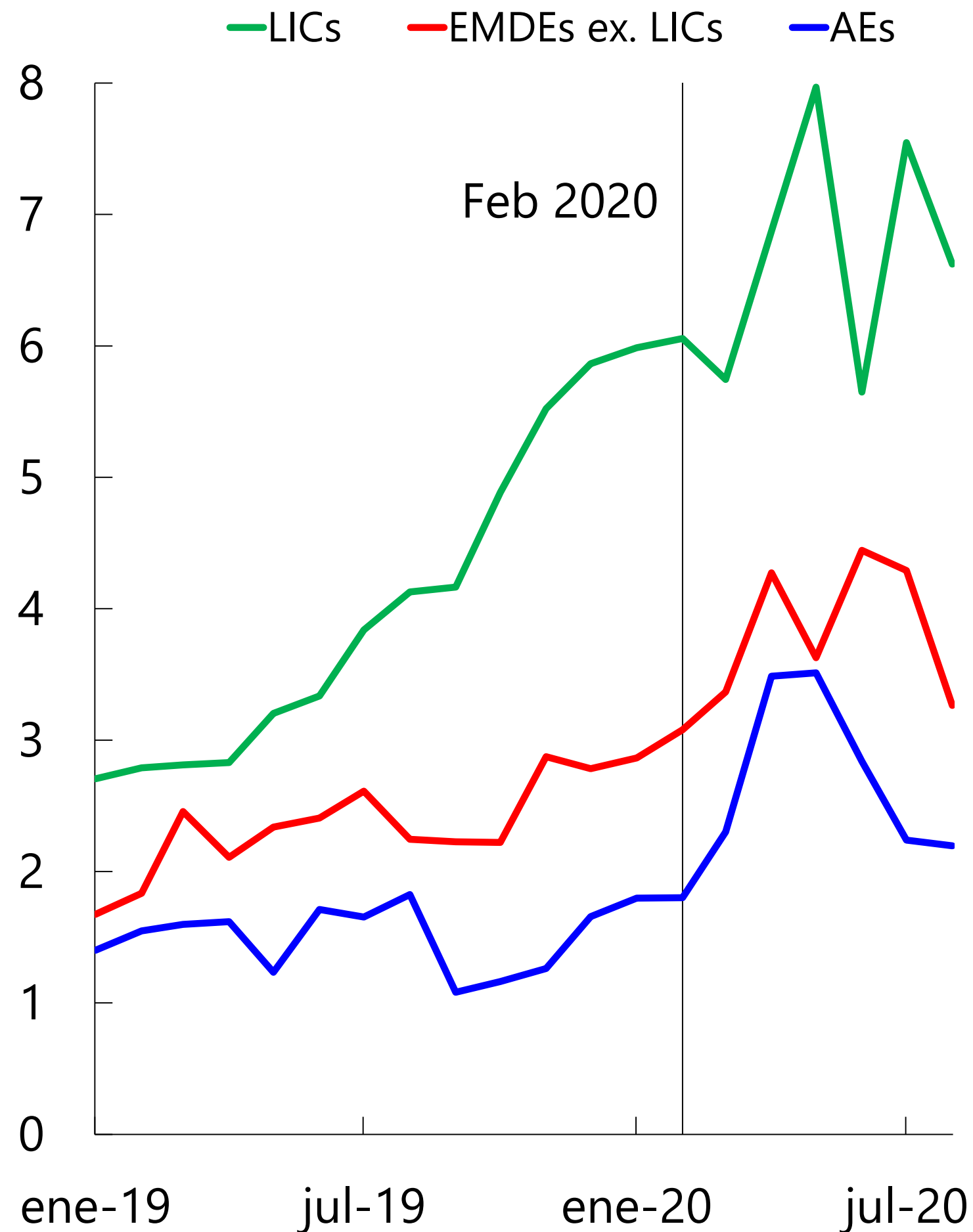
2/ Based on Vodafone data for Italy, Portugal and Spain. Binned scatter plots around the time of stay-at-home orders introduction. The series are residualized with respect to province and day-of-the-week fixed effects.

3/ Federal and Internet related is displaying Aug 2020 vs Dec 2019 due to data availability.

Inflation continues to fall in most countries

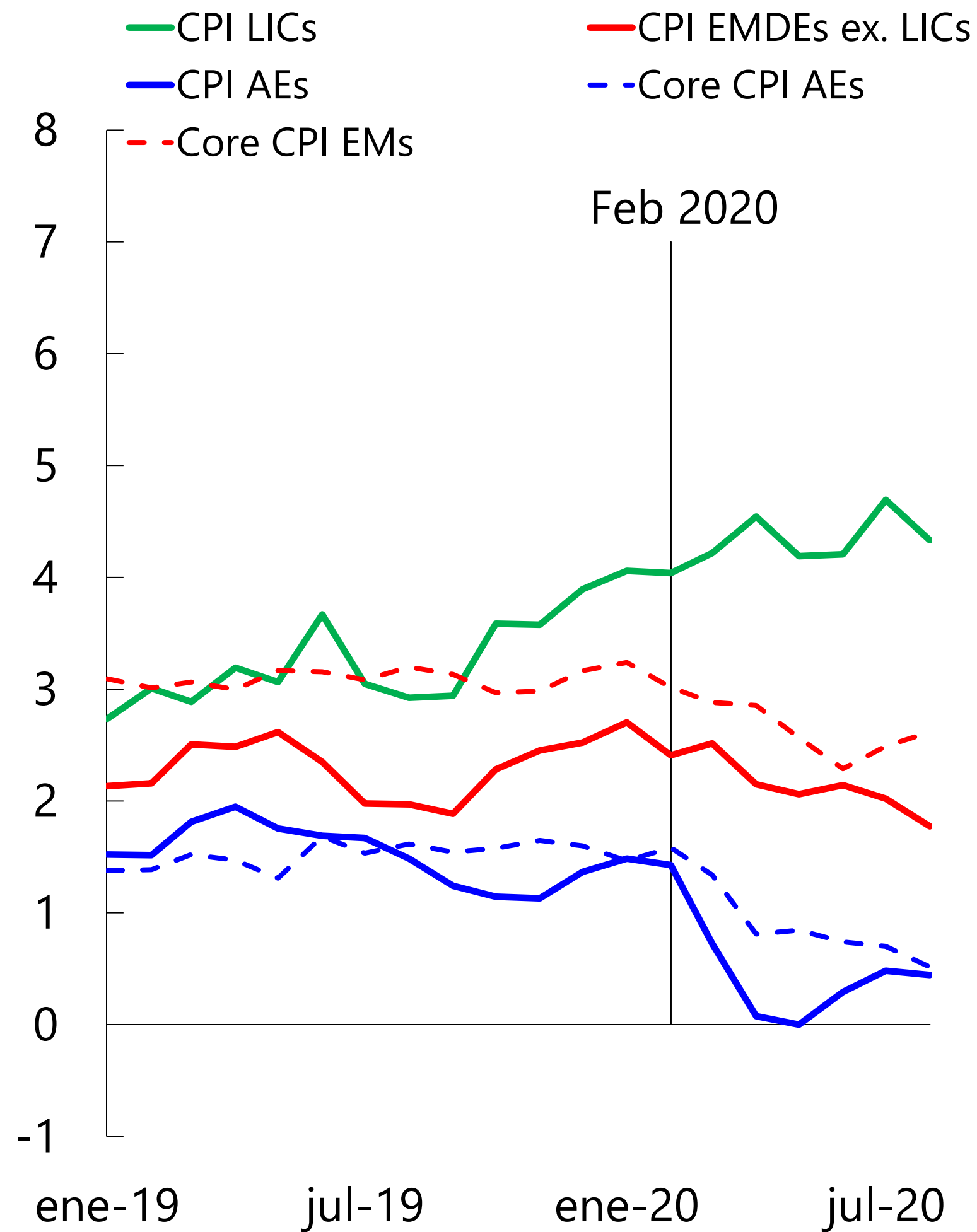
Food price inflation

(percent; yoy; median)



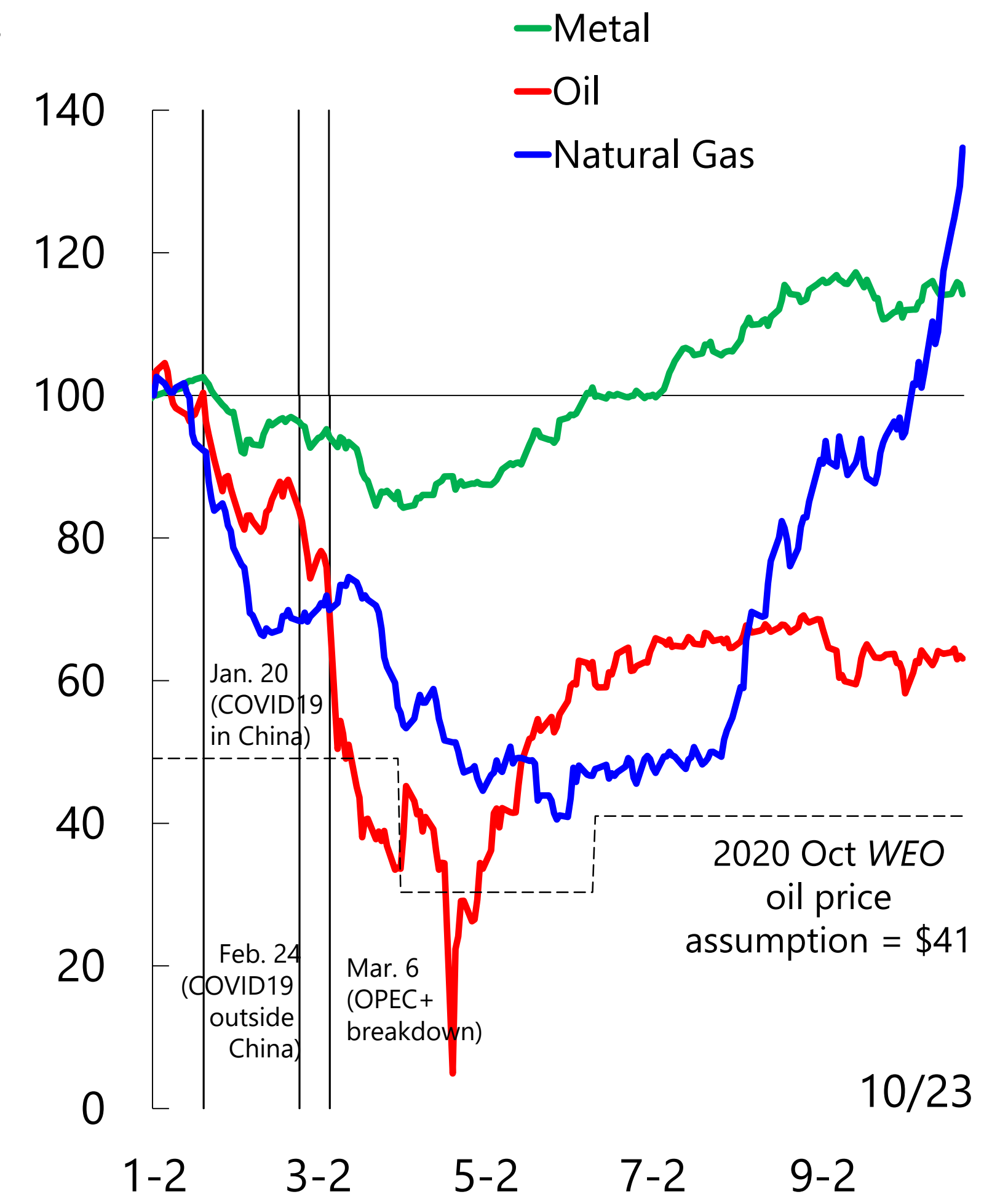
Consumer price inflation

(percent; yoy; median)



Commodity prices

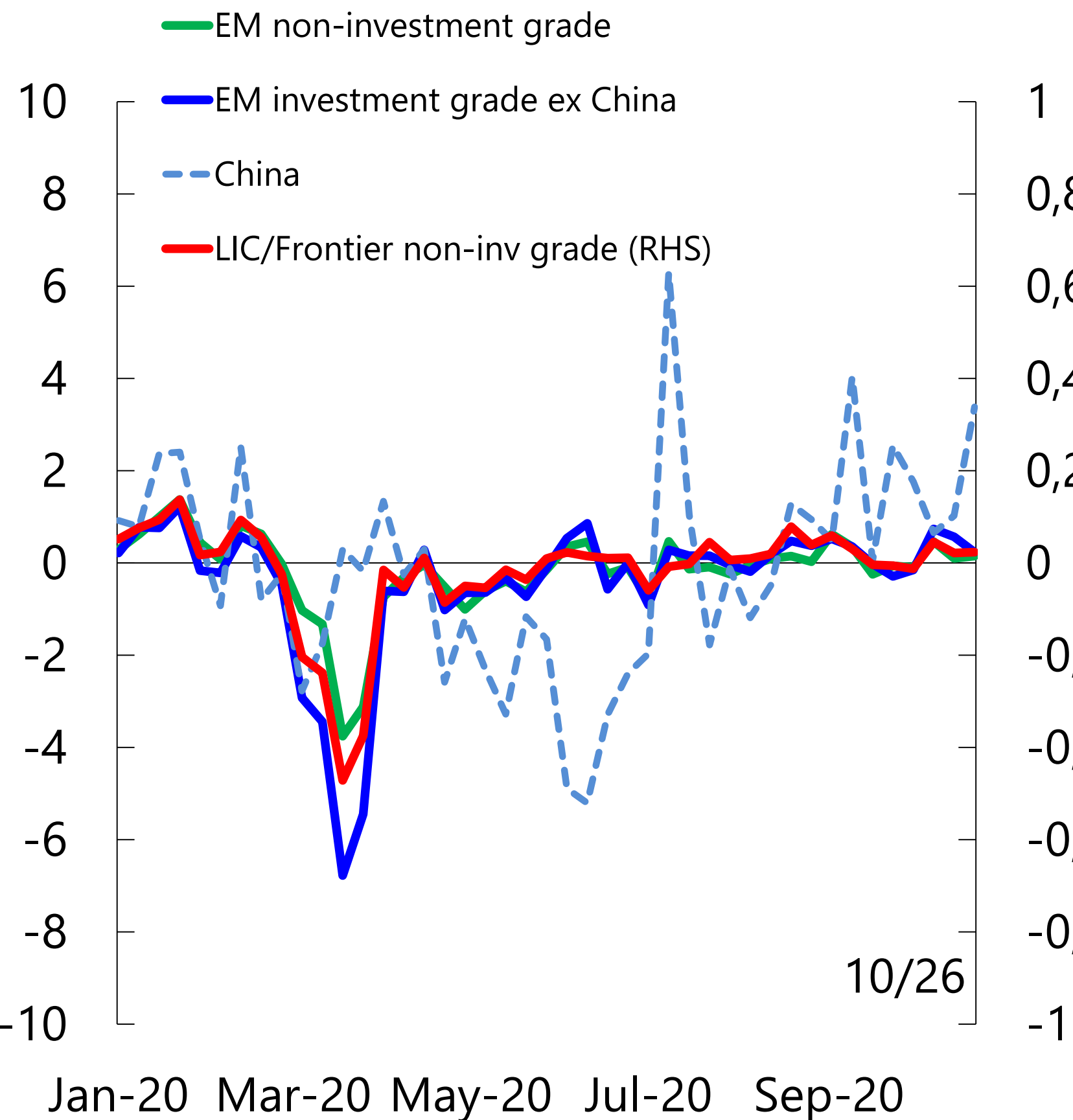
(Jan 2, 2020 = 100)



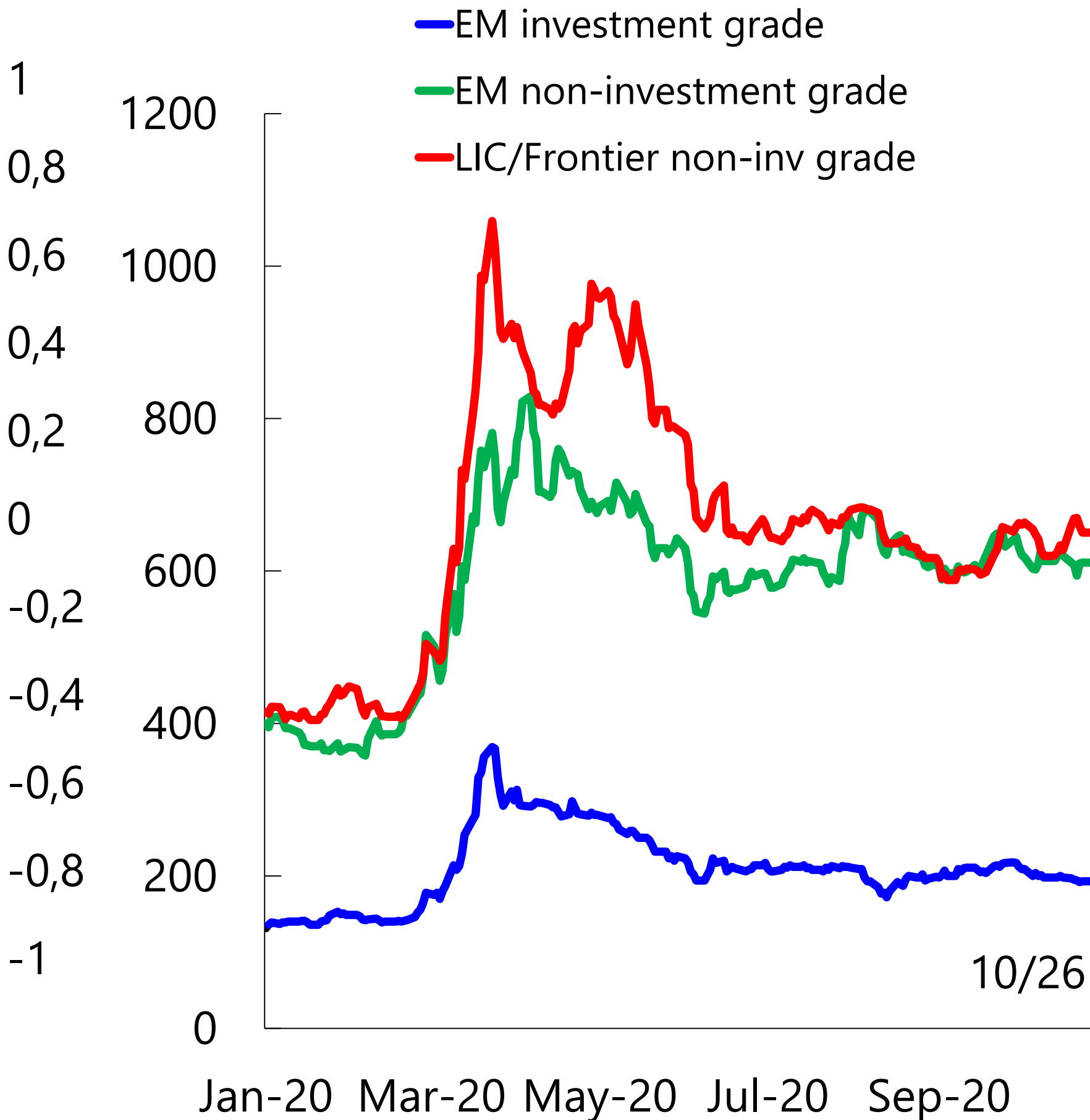
Sources: IMF, *Global Data Source*; IMF *STA CPI Database*; IMF, *Commodity database*; and IMF staff calculations.

Policies eased overall financial conditions with country differentiation

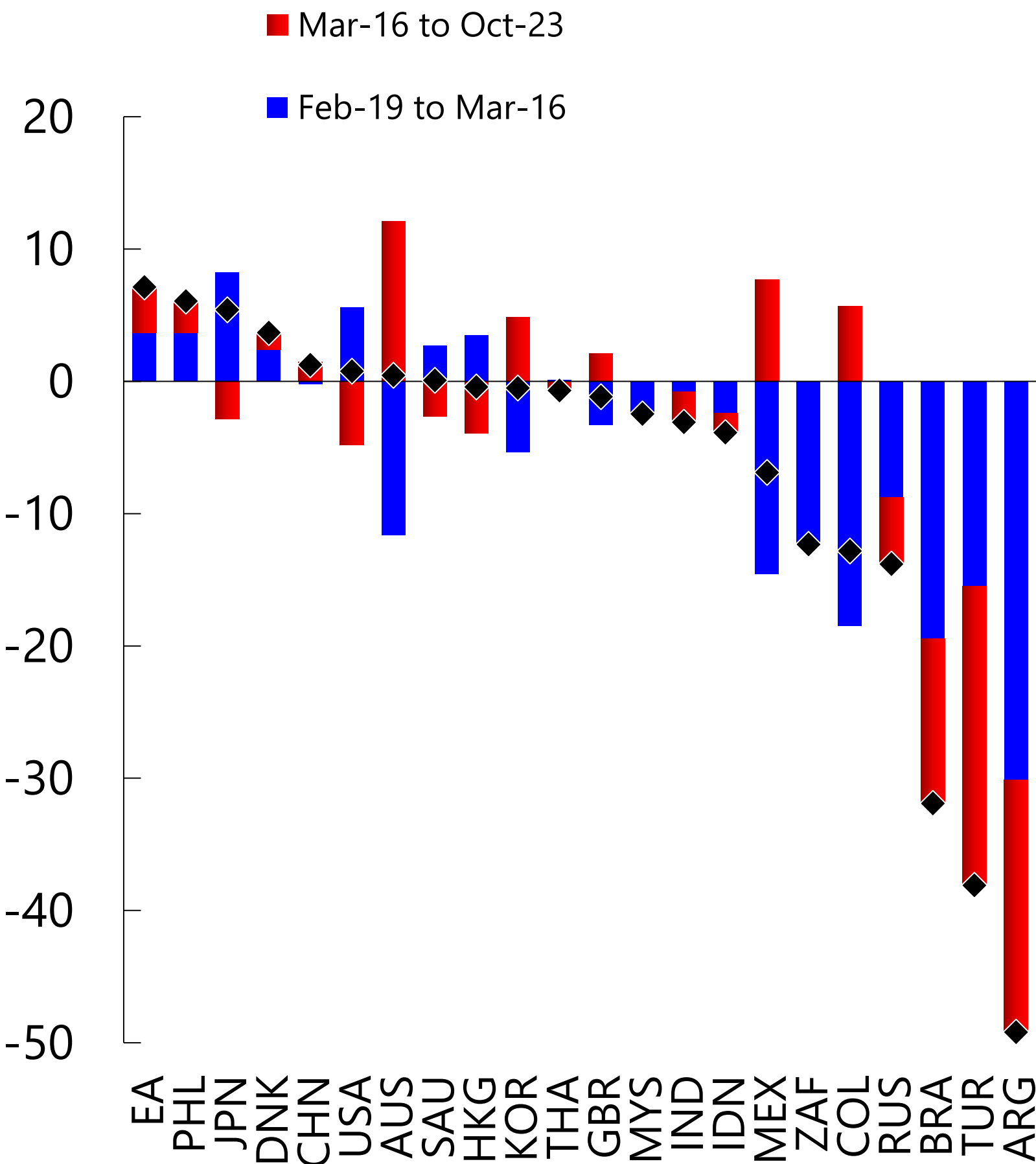
Emerging Markets: Portfolio flows 1/
(US\$ billions; EPFR)



EMBIG spread 2/
(bps; median)



Currency movements
(cumulative NEER in percent)



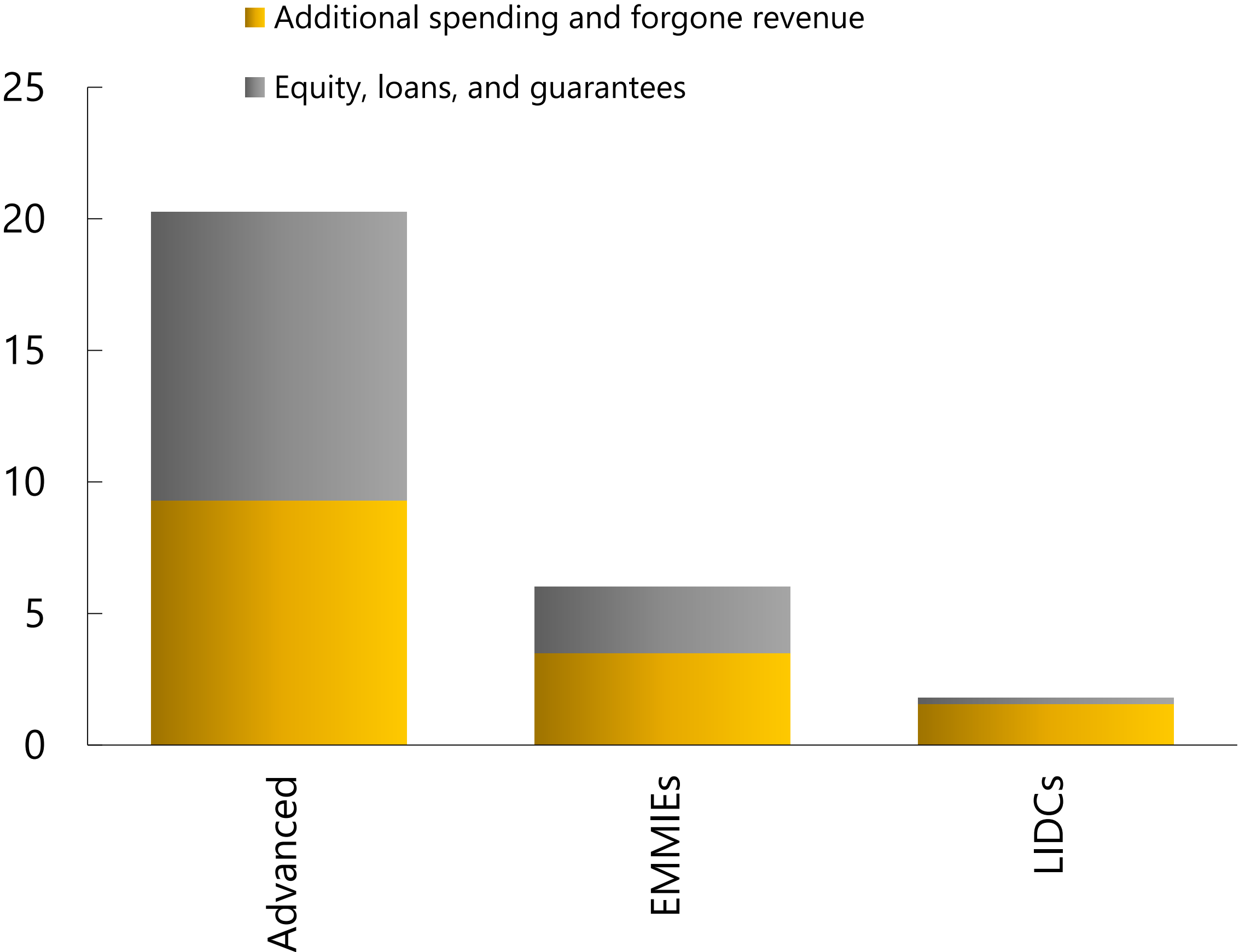
Sources: EPFR; IMF, *Global Data Source*; and IMF staff calculations.

1/ All available emerging and LIC countries in EPFR.

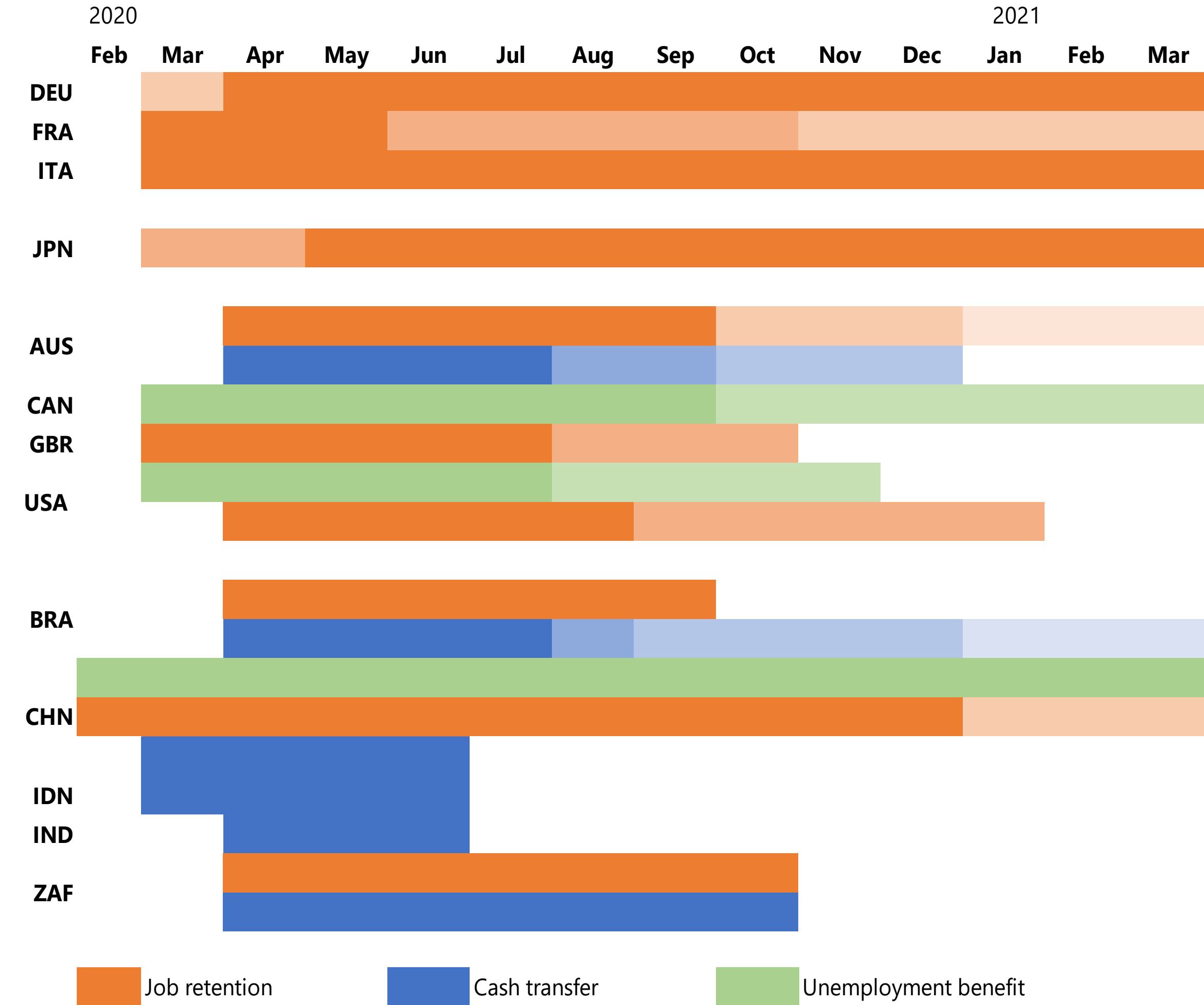
2/ EM investment grade: China, India, Indonesia, Malaysia, Chile, Mexico, Hungary, Poland, and Russia. EM non-investment grade: Brazil, Argentina, Turkey, Egypt, South Africa. LIC/Frontier non-investment grade: Nigeria, Zambia, Ghana, Kenya, and Vietnam.

Fiscal support put a floor on contraction but in some countries fading out of income support could halt the nascent recovery

Announced fiscal measures
(percent of GDP)



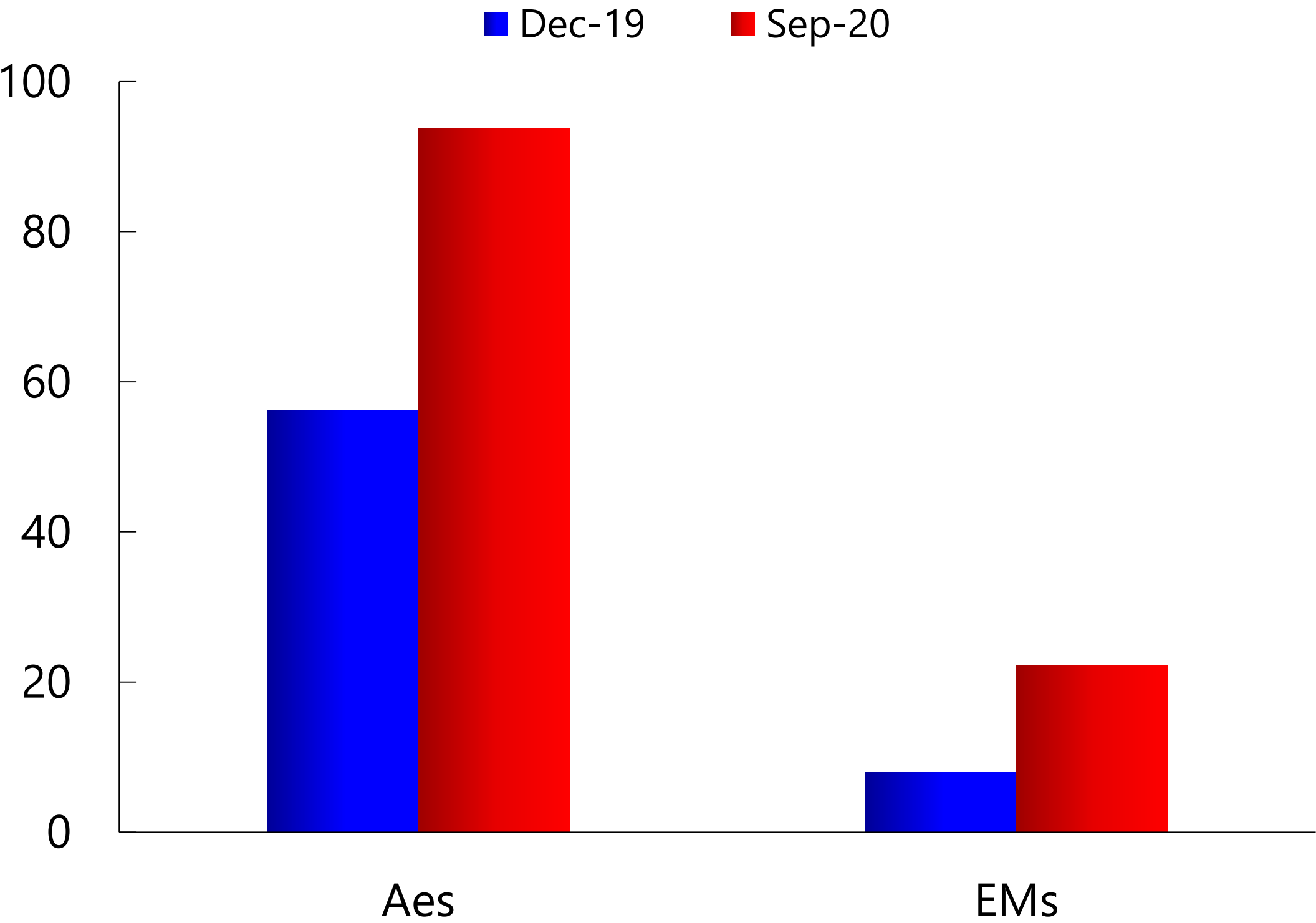
Duration of income support measures by country 1/
(months)



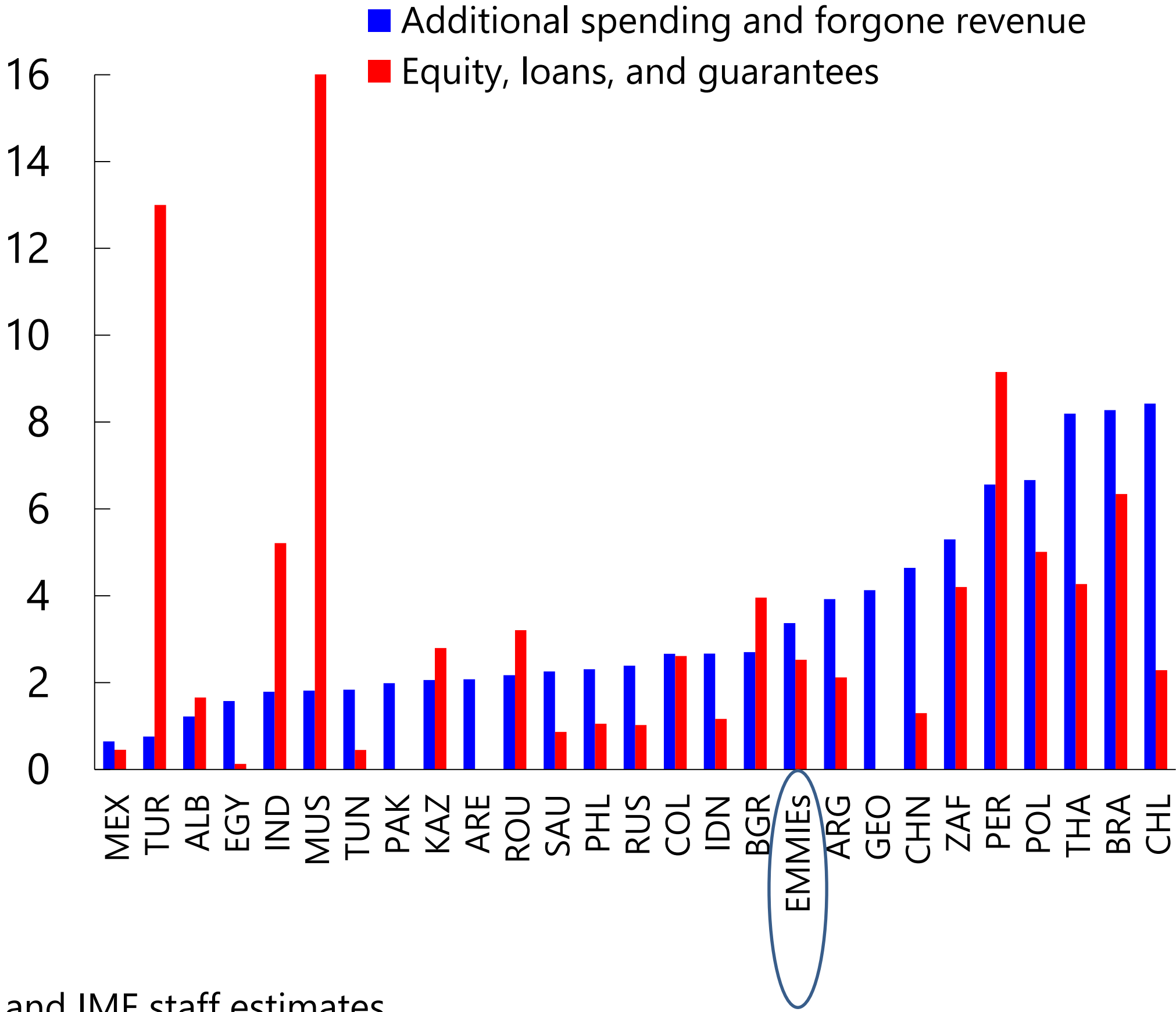
Sources: IMF, *Fiscal Monitor*; and IMF staff calculations.
1/ Cash transfer includes economic support payment, income supplement, food and electricity subsidies, social and distress grants, and emergency aid programs to households.

Significant policy easing in some EMs

Monetary policy rate: Share of countries with rate lower than 1% (percent)



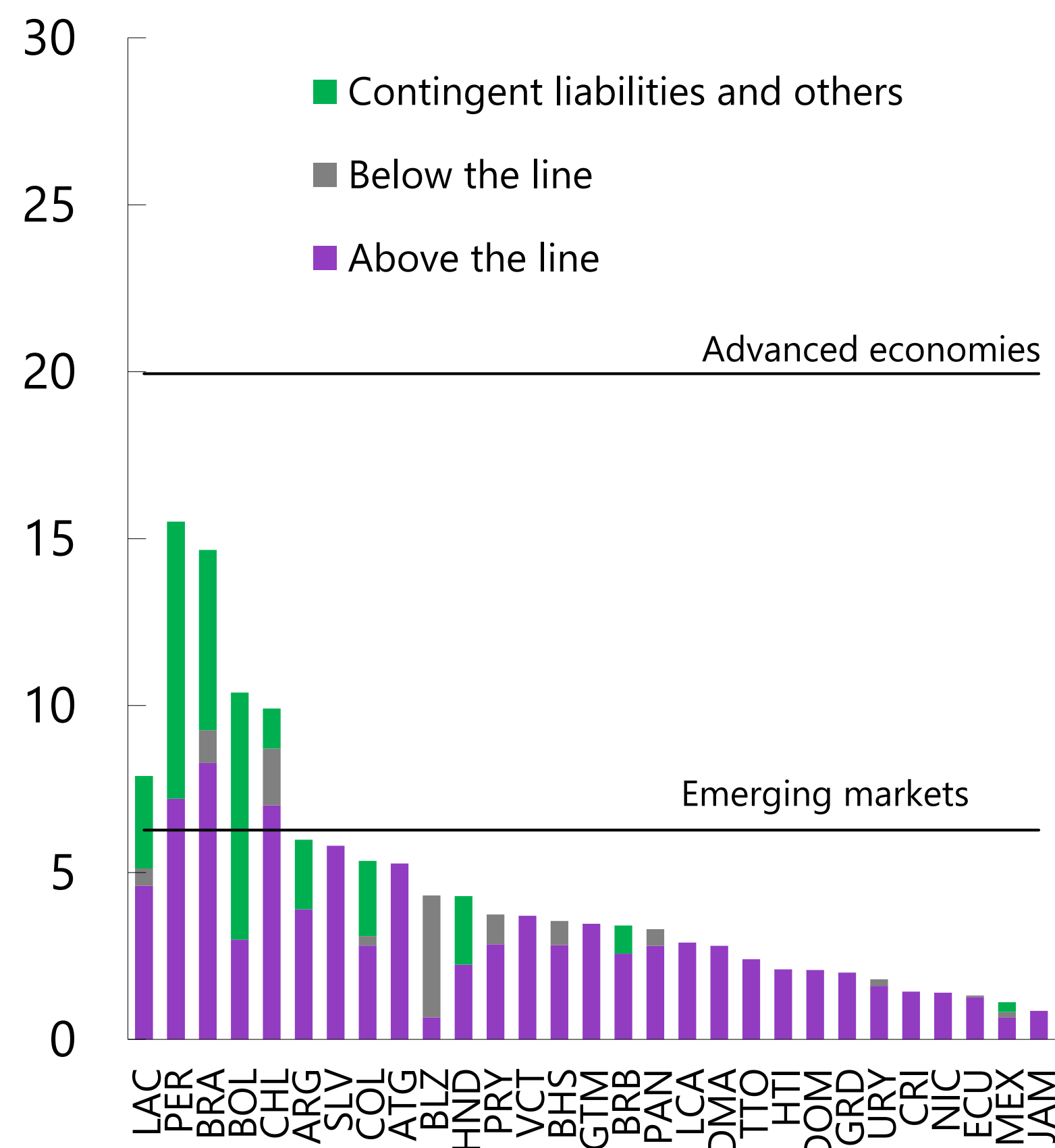
Discretionary fiscal response to the COVID-19 crisis 1/
(announced measures as of Sep. 11, 2020; percent of GDP)



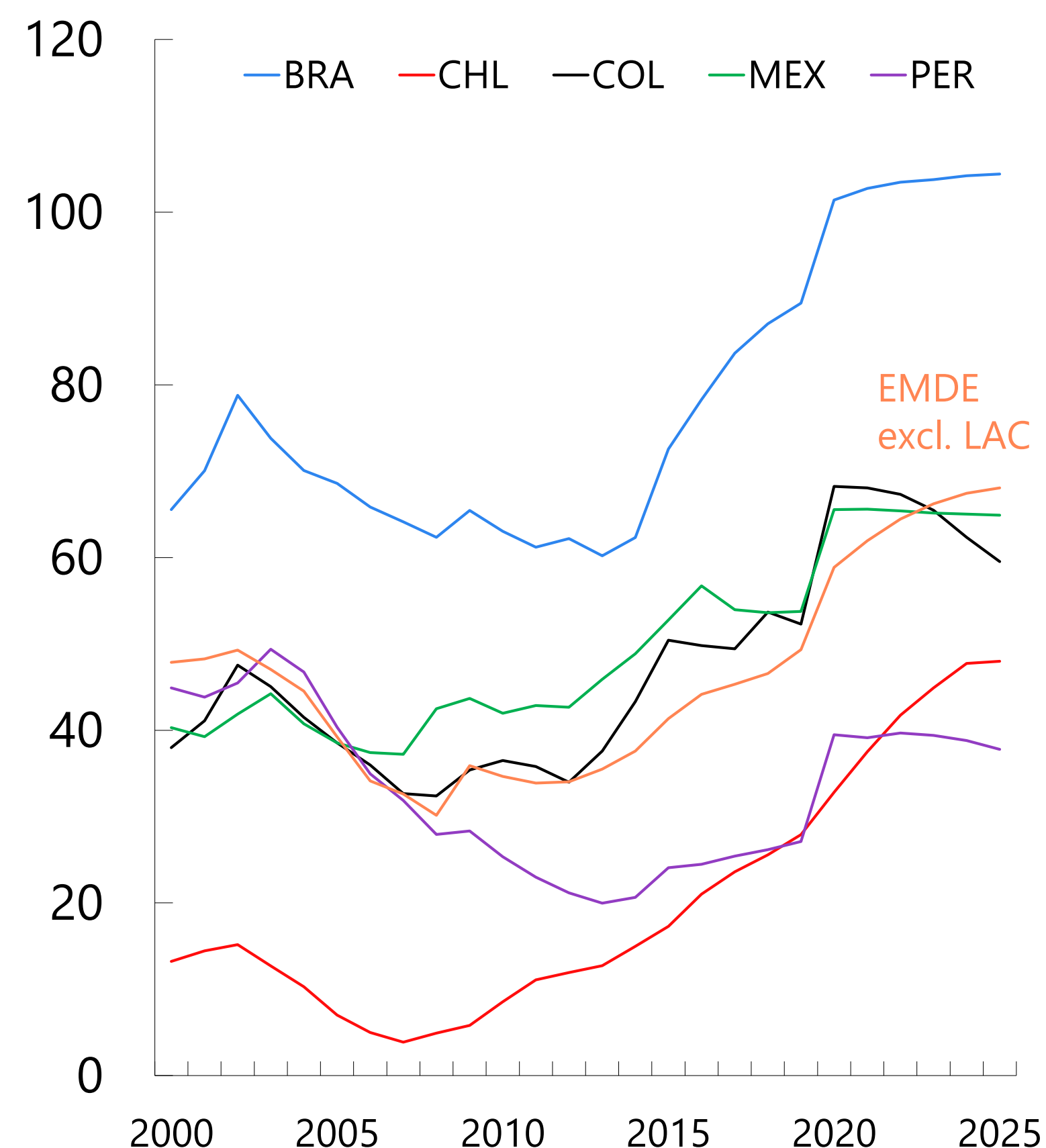
Sources: Haver, Database of Country Fiscal Measures in Response to the COVID-19 Pandemic; and IMF staff estimates.
1/ EMMIEs stands for Emerging Market and Middle - Income Economies.

LatAm: Large fiscal support in 2020 but premature withdrawal could hurt in 2021

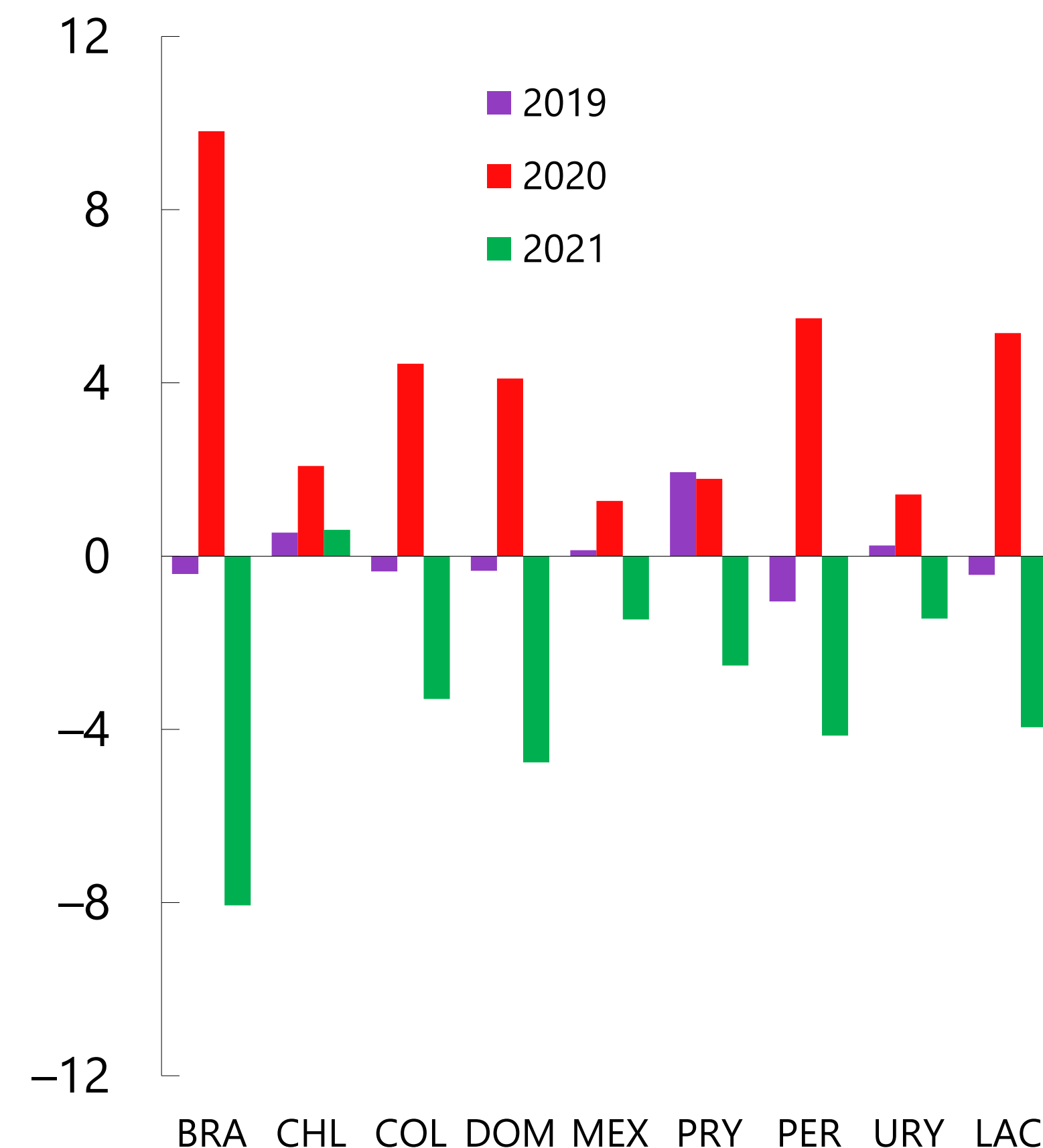
Discretionary fiscal measures 1/
(percent of GDP)



General government gross debt
(percent of GDP)



General government fiscal impulse 2/
(percentage points of GDP; +/-
=loosening/tightening)



Sources: IMF, *World Economic Outlook*; National authorities; and IMF staff calculations.

1/ Advanced economies, emerging markets, and LAC are US dollar nominal GDP-weighted averages. LAC includes countries shown in the chart. Does not include tax deferrals and anticipation of benefits, which typically have small effects on an annual basis.

2/ Change in structural primary balance. Chile refers to the change in structural non-mining primary balance. Colombia refers to the CPS change in structural non-oil primary balance.

WEO baseline assumptions

Disruptions to activity

- ⑩ Social distancing will persist into 2021, but will then decline over time as therapies and vaccine coverage improve, while local transmission is assumed to be brought to low levels everywhere by end-2022

Financial conditions and policy support

- ⑩ Financial conditions to remain approximately at current levels for both AEs and EMs
- The projection factors in the impact of the sizable fiscal countermeasures implemented so far and anticipated for the rest of the year

Commodity prices

- ⑩ Higher than April and June 2020
- Average petroleum spot prices (APSP) per barrel: \$41 in 2020 and \$43.8 in 2021. For the years thereafter, prices expected to increase toward \$48
- Non-fuel commodity prices are expected to rise faster than assumed in the April and June 2020

WEO Projections

Growth projections: Advanced economies

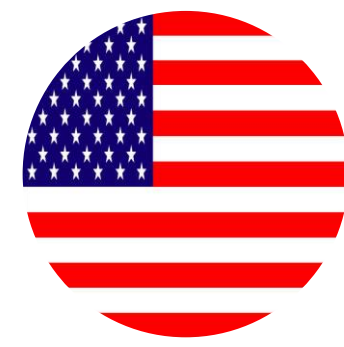
(percent change from a year earlier)



World



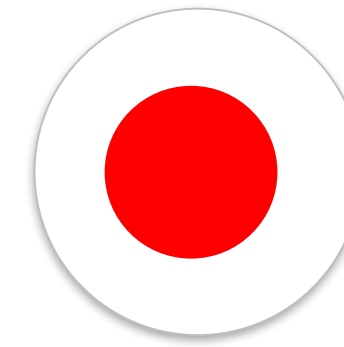
Advanced
Economies



U.S.



Euro Area



Japan



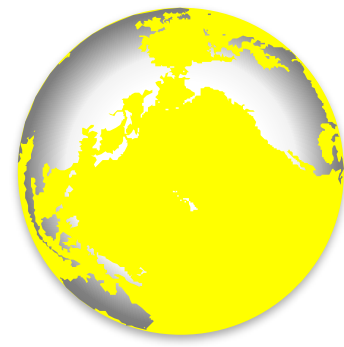
U.K.



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



China



India



Brazil



Russia



Commodity
Exporting
Economies



Low Income
Developing
Countries

2020

-4.4

-3.3

1.9

-10.3

-5.8

-4.1

-5.1

-1.2

Revision from
June 2020

0.8

-0.2

0.9

-5.8

3.3

2.5

0.8

-0.2

2021

5.2

6.0

8.2

8.8

2.8

2.8

3.9

4.9

Revision from
June 2020

-0.2

0.2

0.0

2.8

-0.8

-1.3











-0.5

-0.3

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

Growth projections: Latin America

(percent change from a year earlier)

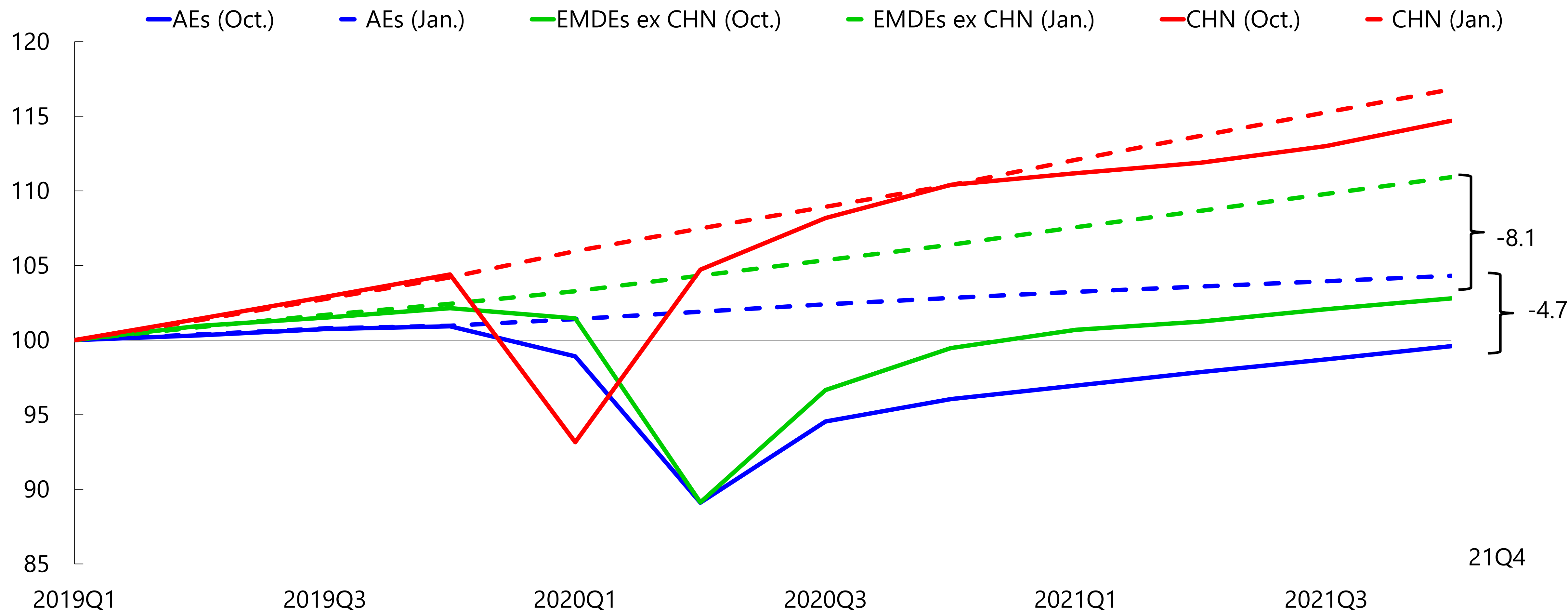
										
	Emerging Market and Developing Economies	Emerging and Developing Asia	Latin America and the Caribbean	Mexico	Argentina	Brazil	Chile	Colombia	Peru	Ecuador
2020	-3.3	-1.7	-8.1	-9.0	-11.8	-5.8	-6.0	-8.2	-13.9	-11.0
Revision from June 2020	-0.2	-0.9	1.2	1.5	-1.9	3.3	1.5	-0.4	0.0	-0.1
2021	6.0	8.0	3.6	3.5	4.9	2.8	4.5	4.0	7.3	4.8
Revision from June 2020	0.2	0.6	-0.1	0.2	1.0	-0.8	-0.5	0.0	0.8	-1.5

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

Partial recovery, Growing Divergence

Real GDP forecast, 2019-2021

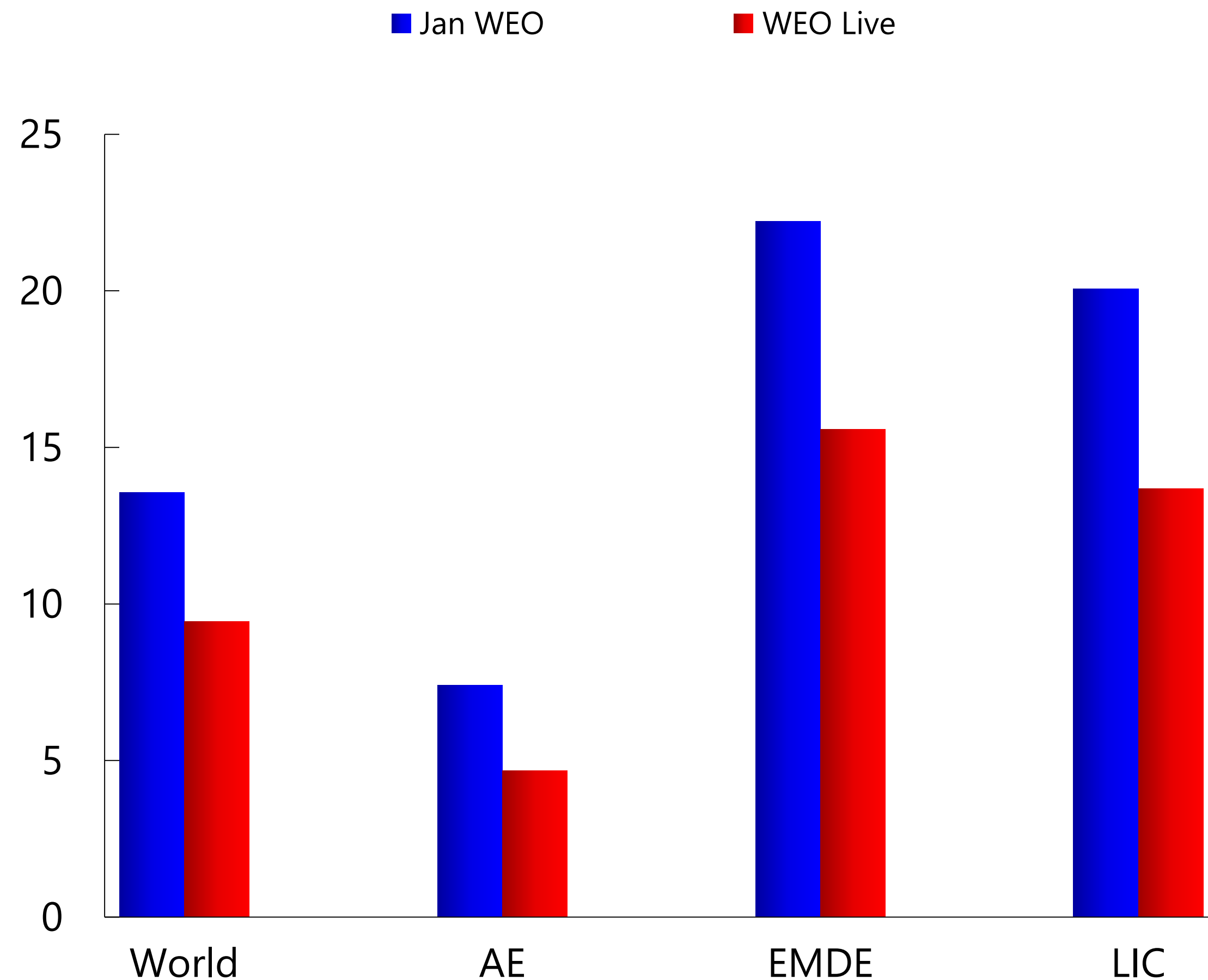
(index; 2019Q1=100)



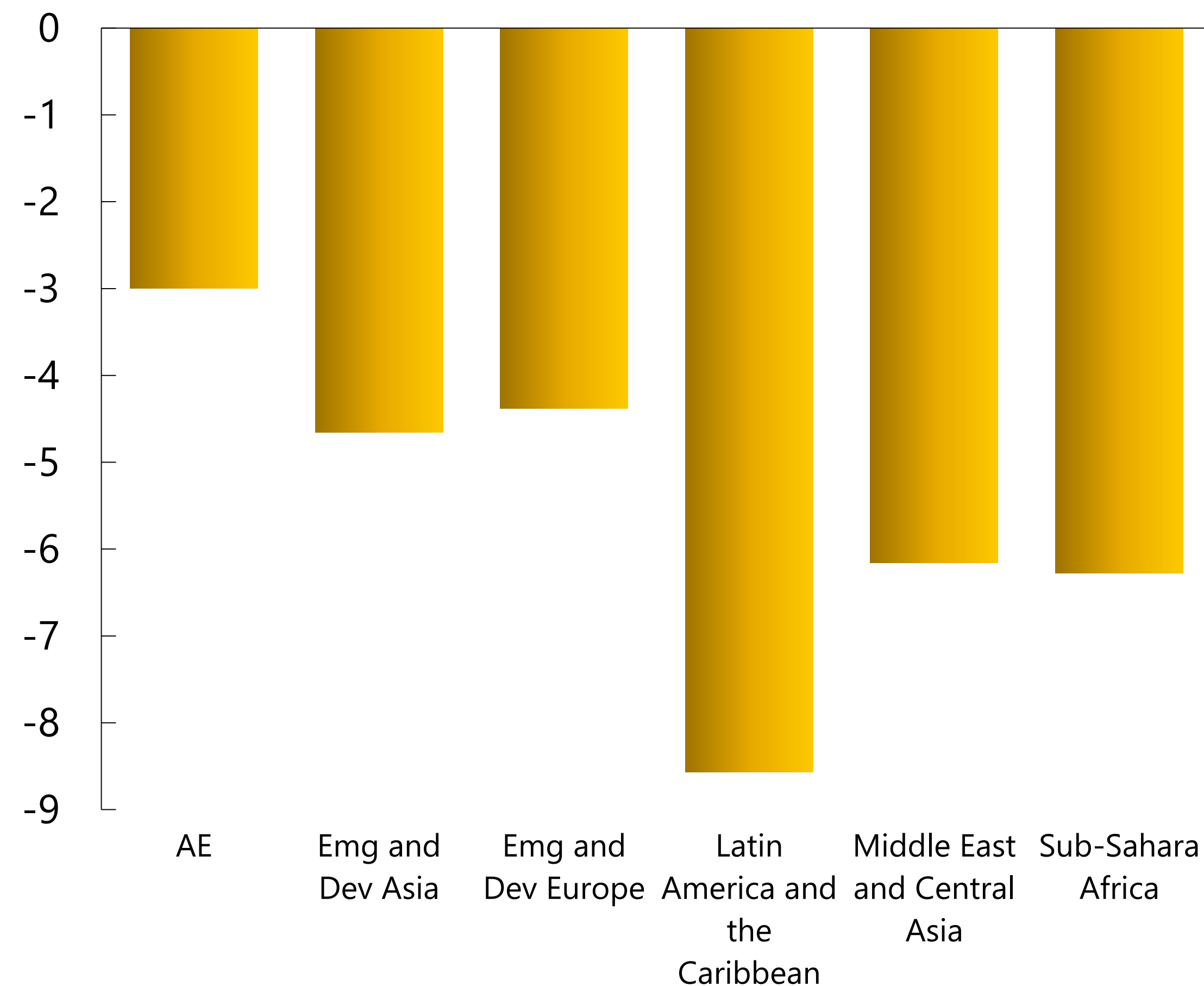
Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

Medium-term growth

Per capita GDP, cumulative growth 2019-25
(percent)



Projected 2024 GDP: Oct 2020 WEO vs Jan 2020 WEO
(difference in percent)

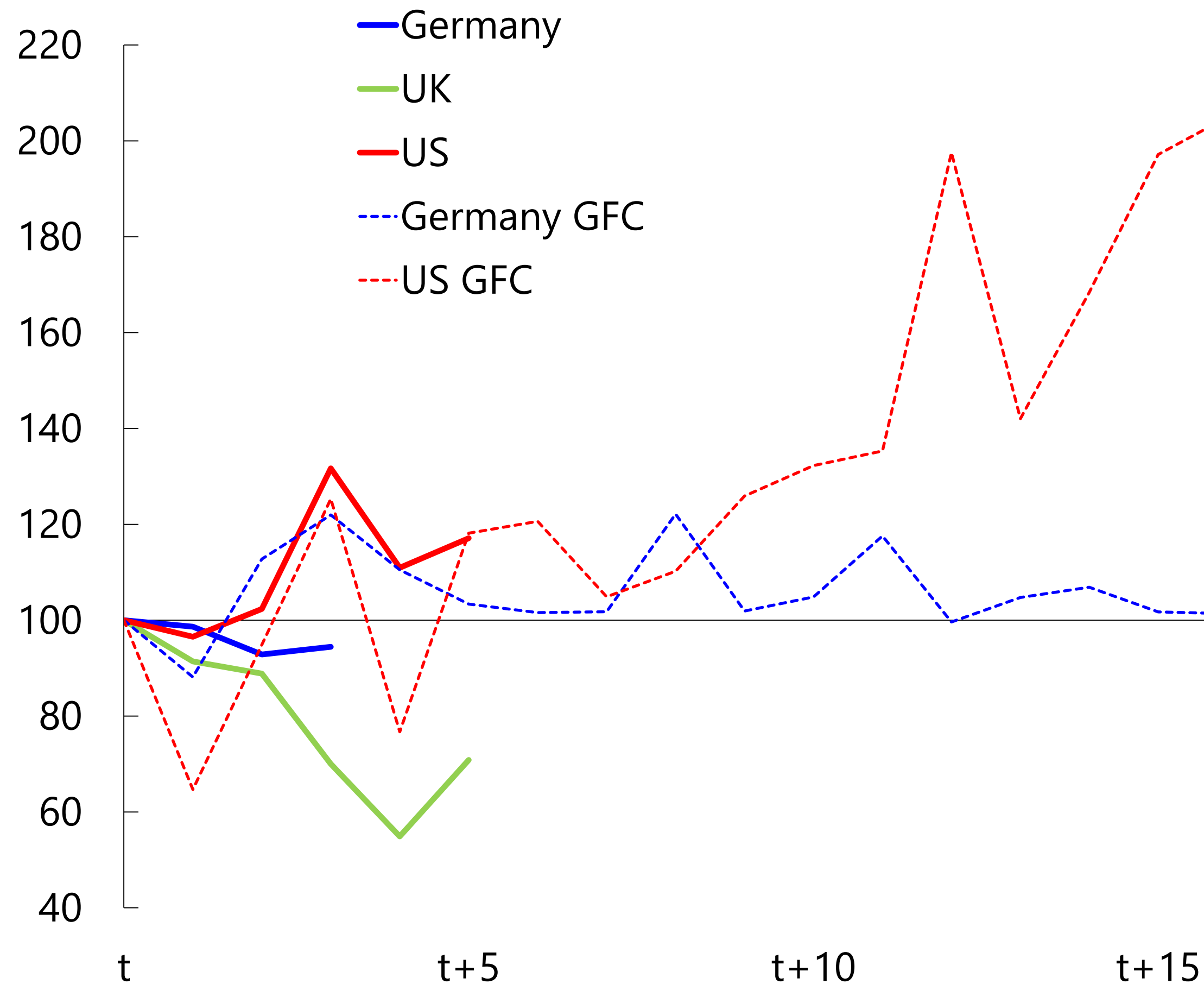


Sources: IMF, *World Economic Outlook*; and IMF staff estimates.

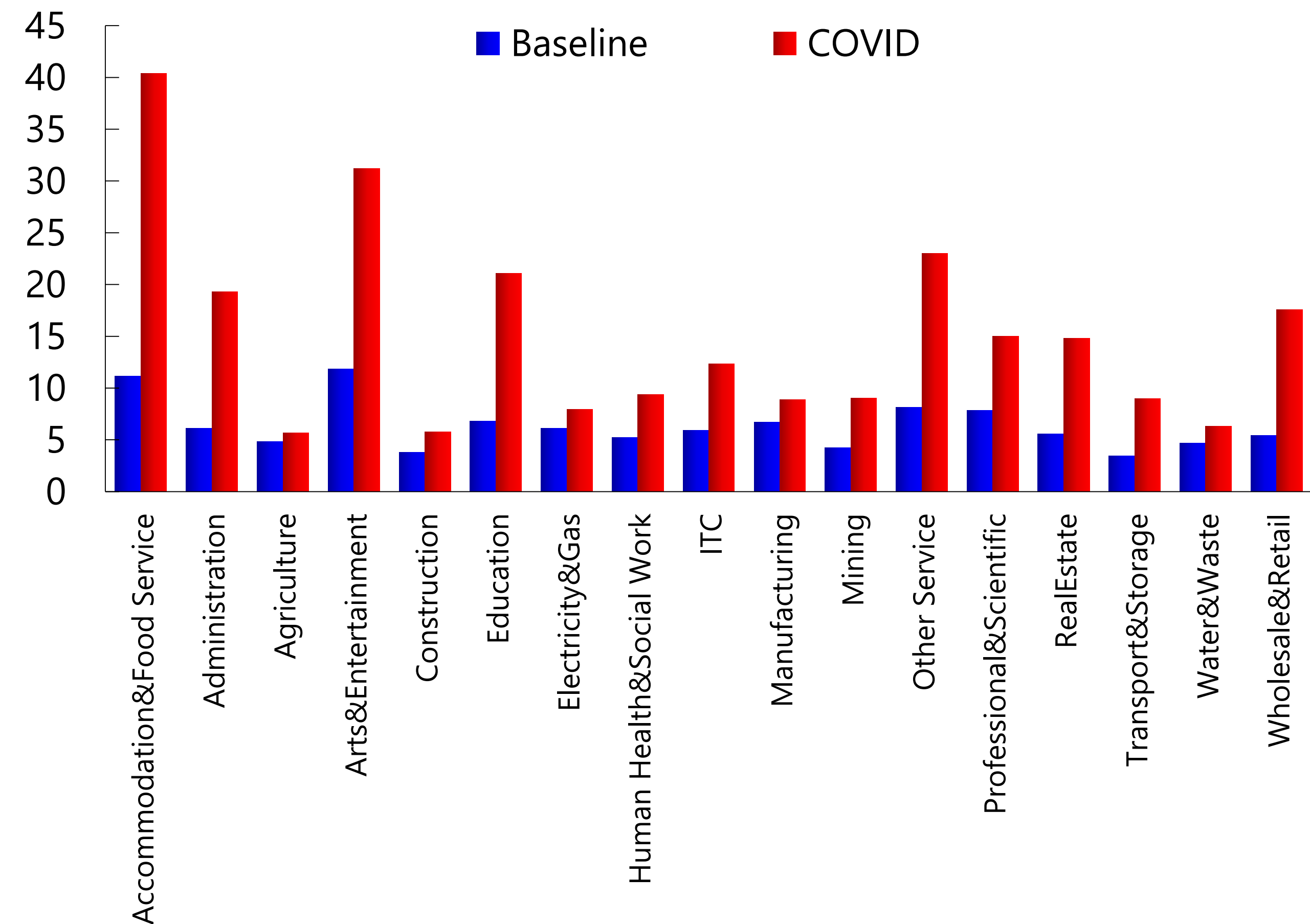
Risks

Risk of bankruptcies and jobs-at-risk

Bankruptcy filing 1/
(index; total commercial filings)



SME Job at risk 2/
(percent of private SME)



Sources: American Bankruptcy Institute; United Kingdom Insolvency Service; Germany Federal Statistics Office; CEIC; IMF VE database; and IMF staff calculations.

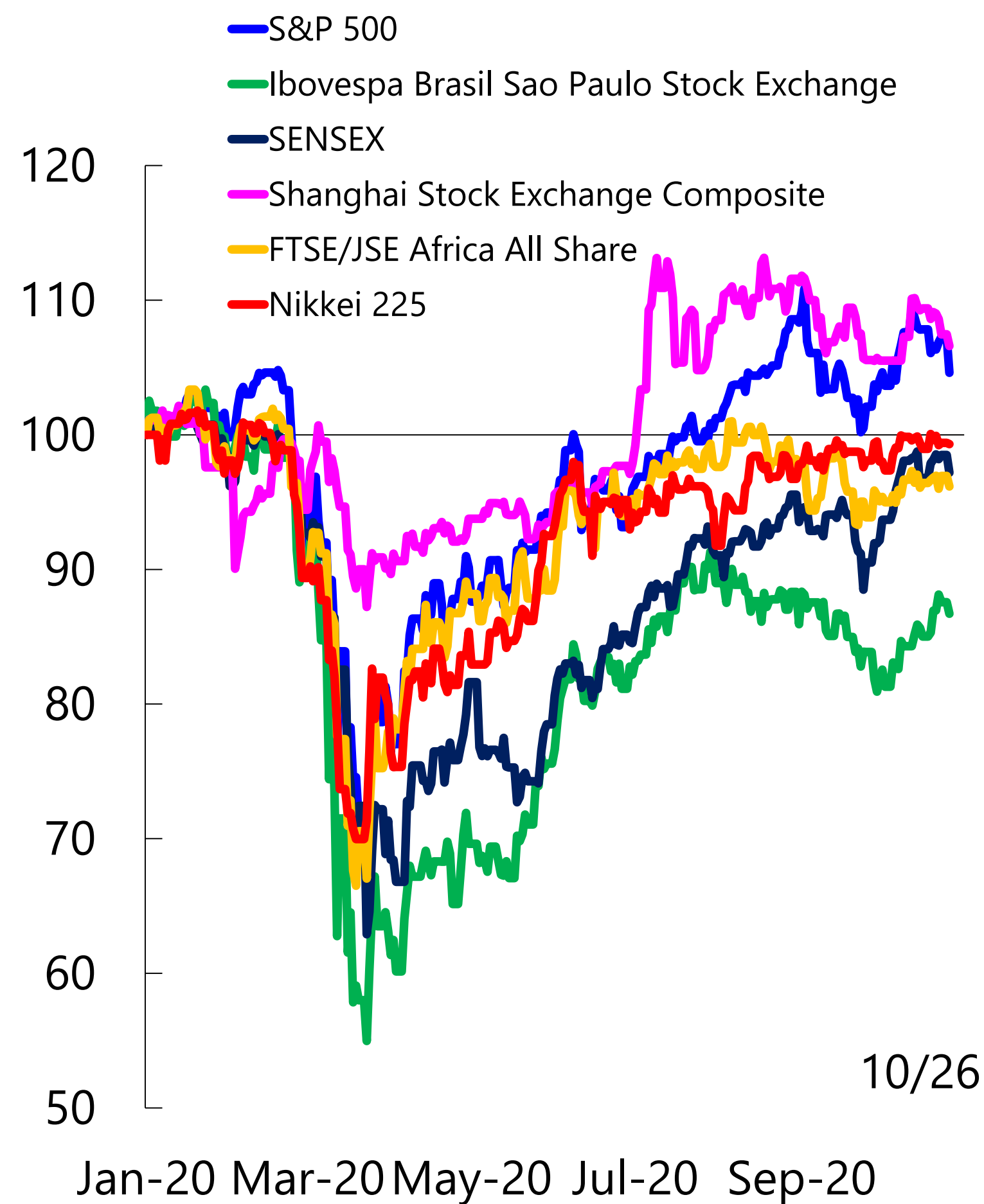
1/ US data only covers Chapter 11 filings.

2/ The share of SME jobs-at-risk are computed using the employment information firms with less than 250 employees from ORBIS database which covers 21 countries that are projected to face negative cash or negative equity at the end of 2020. The projections use the methodology developed by Gourinchas et al (2020).

Risk of financial market reversal, geopolitical tension and debt distress

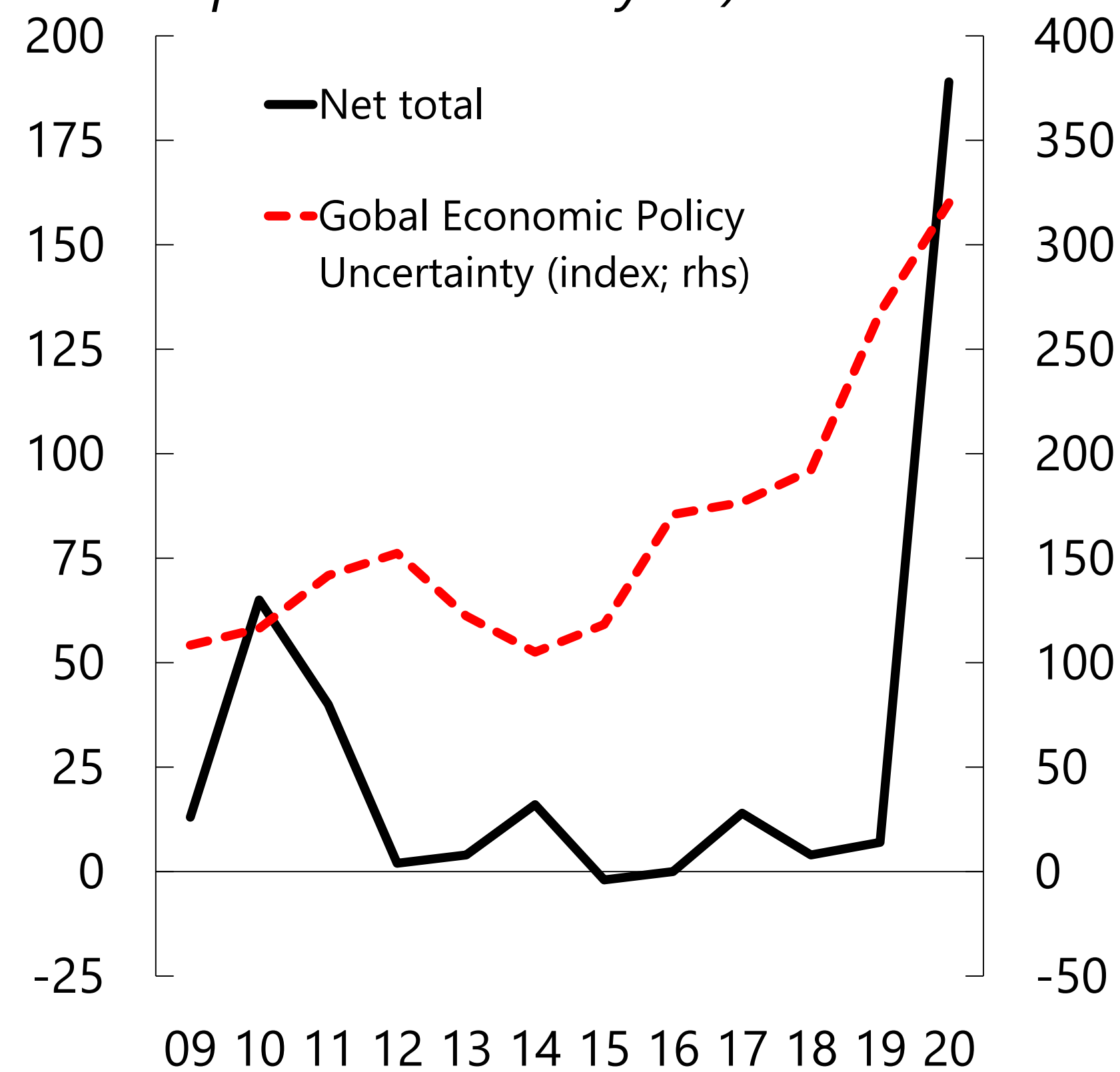
Equity market index

(Jan. 1, 2020=100)



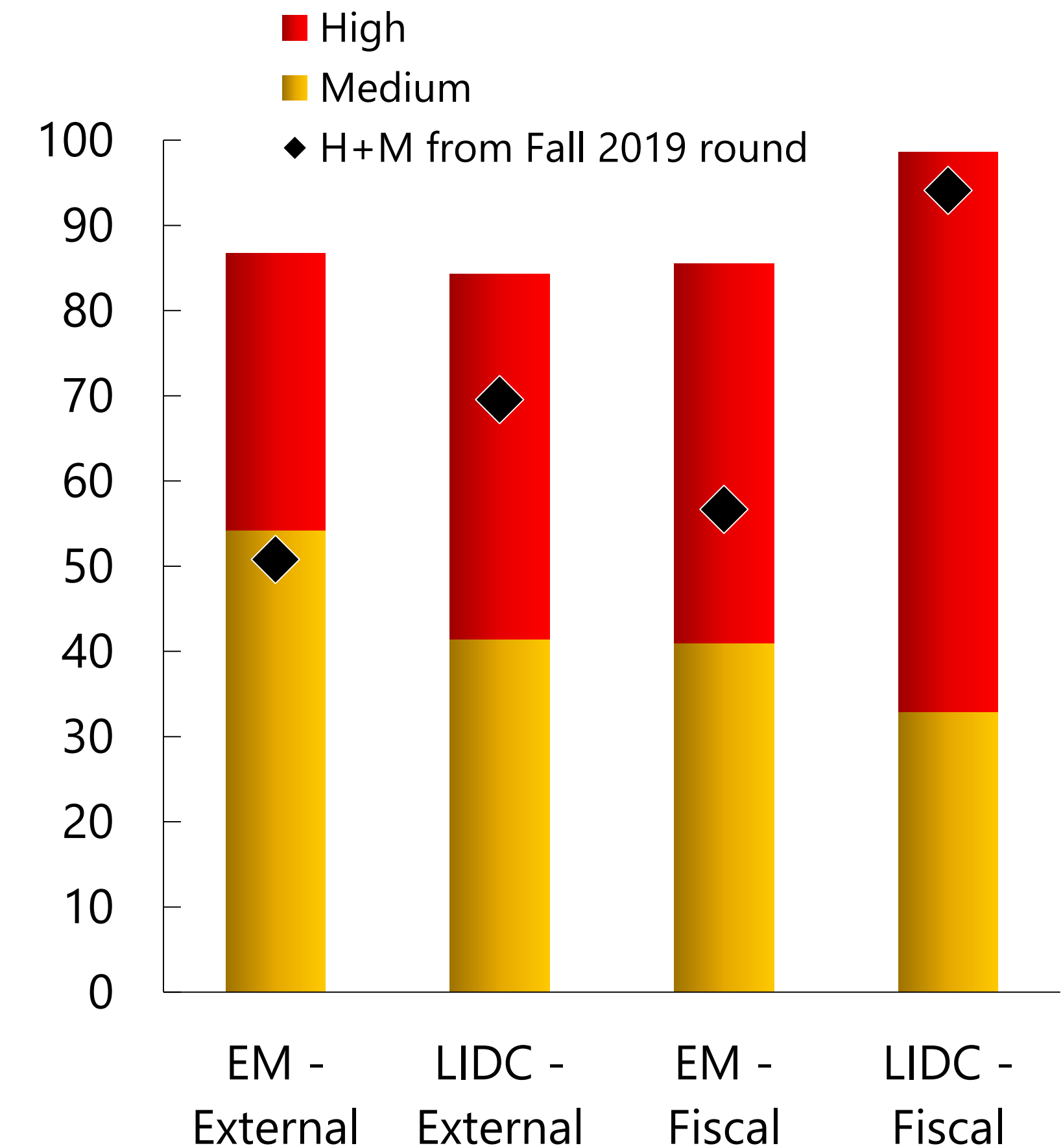
Trade restriction and policy uncertainty

(net; difference between the number of harmful and liberalizing interventions implemented each year)



EM and LIDC: External and fiscal vulnerabilities

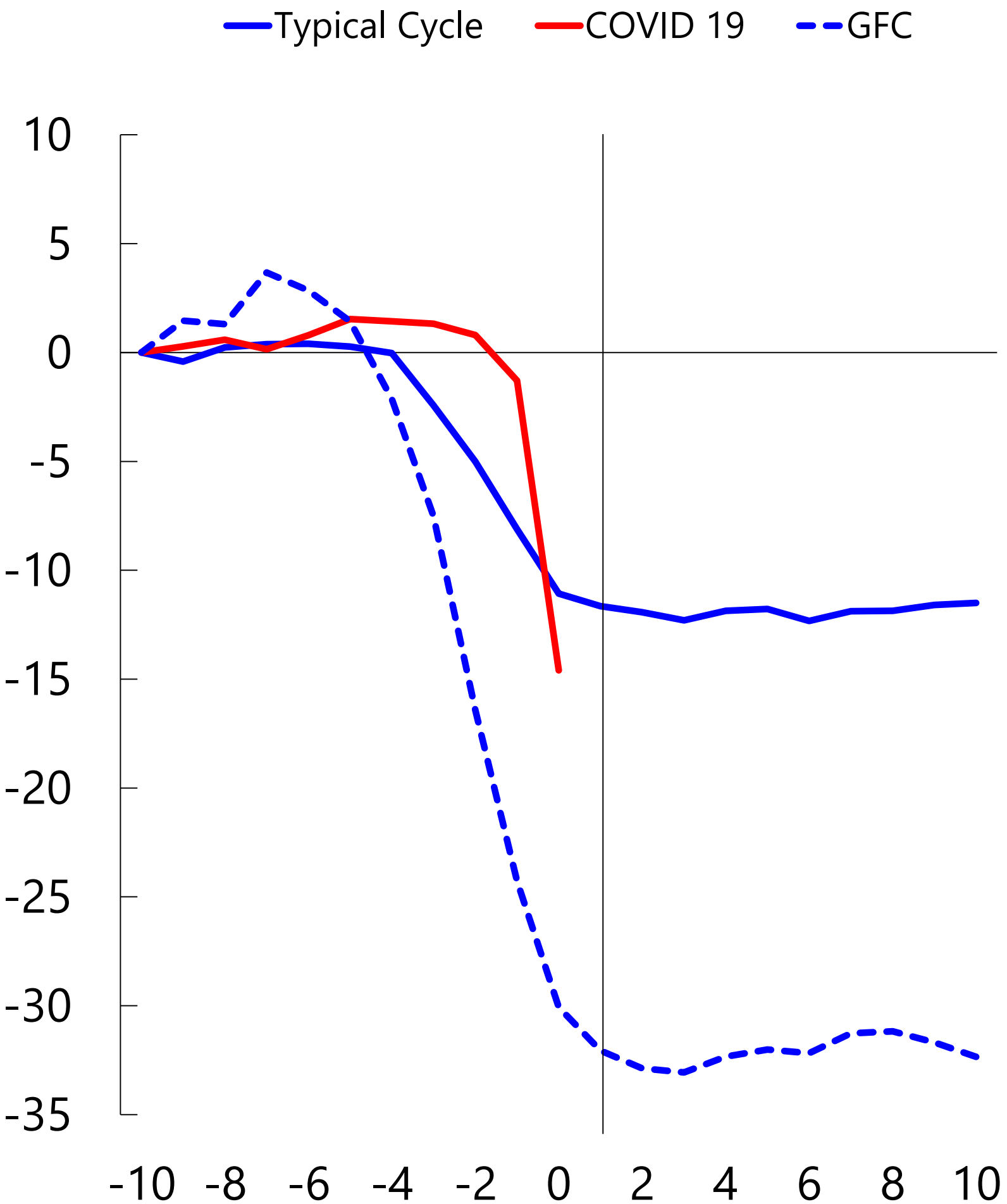
(percent of total countries)



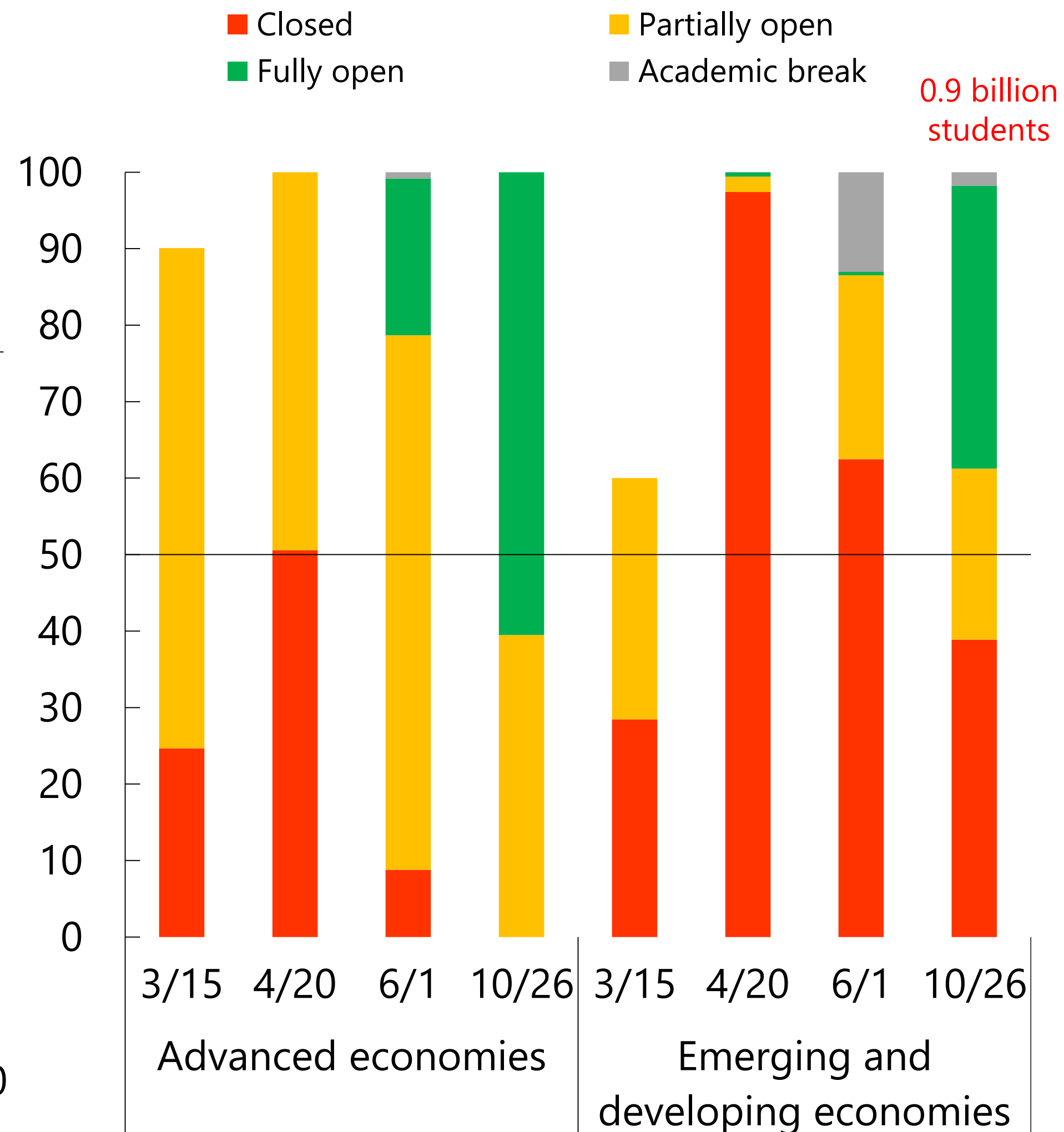
Sources: Bloomberg, L.P.; Global Trade Alert; IMF VE database and IMF staff calculations.

And prolonged weakness in investment and loss of human capital

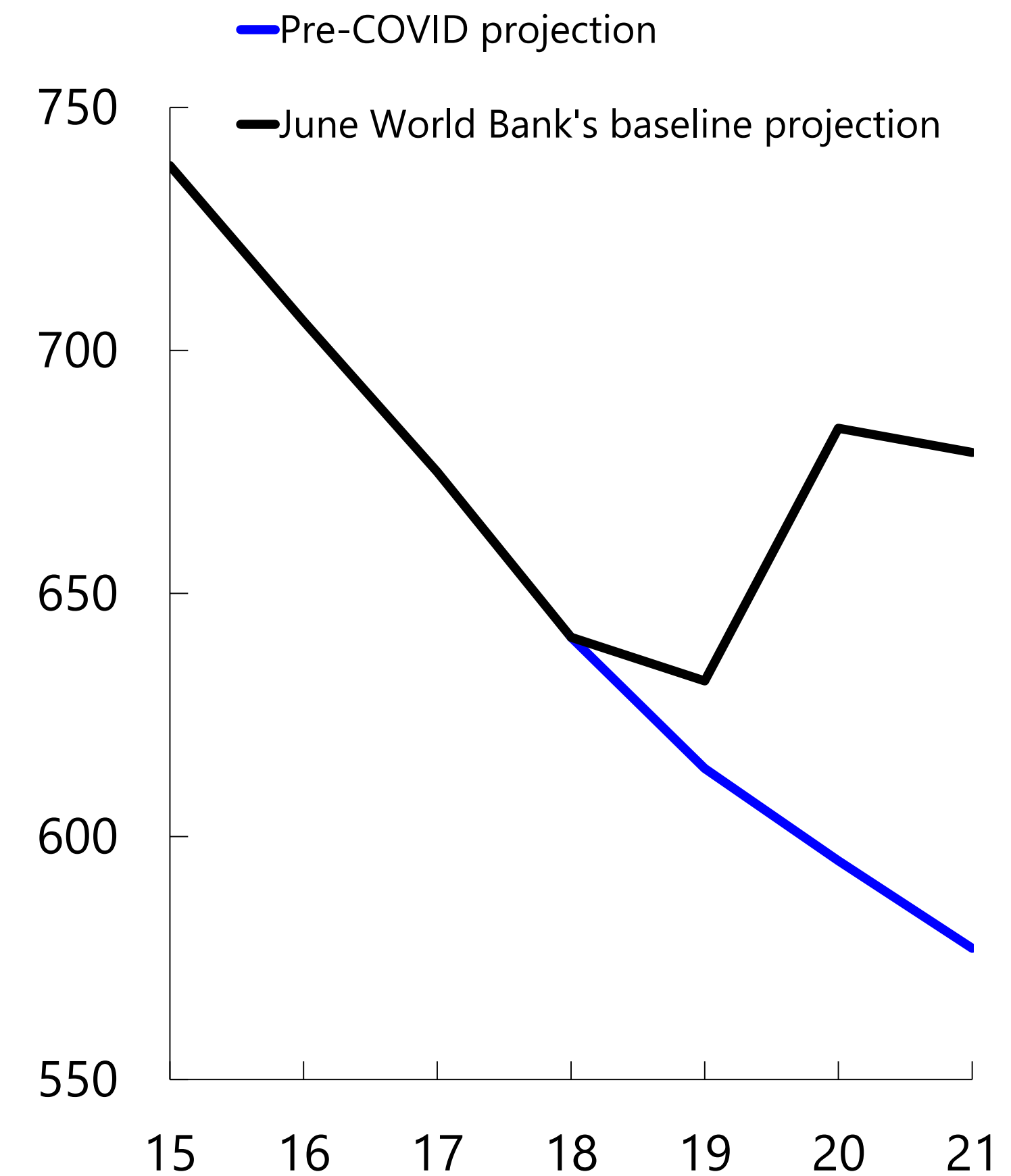
Gross fixed capital formation 1/
(percent deviation from pre-crisis trend)



School closures and enrollment
(percent of students)



The impact of COVID-19 on global extreme poverty 2/
(millions of people in extreme poverty)



Sources: IMF, *World Economic Outlook*; UNESCO; World Bank; IMF staff calculations.

1/ The typical cycle is based on 170 recession episodes from 1960s to 2006.

2/ Extreme poverty is measured as the number people living on less than \$1.9 per day.

Policy recommendations

Near-term policy priorities

Monetary, fiscal and liquidity support measures are needed at least into 2021. Premature withdrawal would be a major risk to the recovery.

- Everywhere, ensure health care systems adequately resourced
- Where pandemic is not under control: limit persistent economic damage as needed with measures such as cash transfers, wage subsidies, expanded criteria for UI benefits
- Where countries are reopening: unwind lifelines gradually after activity picks up durably, policy focus should shift to facilitating reallocation
- Limit amplification of the shock:
 - support viable but still vulnerable firms with moratoria on debt service, equity-like support, debt restructuring and efficient out-of-court workouts;
 - retraining and reskilling where feasible to allow sectoral reallocation;
 - banks to continue using capital and liquidity buffers to support credit provision;
 - maintain accommodative monetary policy support where inflation expectations are anchored and provide broad fiscal stimulus where space permits

In fiscally constrained economies, the priority is to create room to meet crisis spending needs:

- prioritize health and education spending, income support to the poor;
- reduce wasteful spending and poorly targeted subsidies.
- extend maturities on public debt and lock in low interest rates to the extent possible to reduce debt service expenses
- revenue measures: raise progressive taxes, adjust corporate taxation to ensure firms pay taxes commensurate with profitability

Policy recommendations

Enhance international cooperation

- **Health.** Fund vaccines through advance purchase commitments, plan for delivery to LICs, and support countries with limited health care capacity.
- **Financial support for countries facing high borrowing costs and rollover risks** to help close the financing gap and catalyze additional resources.
- **Debt relief, grants and access to concessional financing** for the most vulnerable countries.
- **Defuse trade, technology, geopolitical tensions.**

Policies to address medium and long-term challenges

In the medium to long-term, national policies need to address legacies and facilitate the transition to a smart, green, inclusive, and resilient growth path.

- **Address debt overhangs**
 - Recapitalize, restructure or resolve nonviable firms as needed.
 - Adopt a realistic medium-term fiscal strategy which supports development priorities and adequate fiscal risk management. In some cases, orderly sovereign debt restructuring may be needed.
 - Enhance debt transparency.
- **Counteract slowing productivity growth and supply-side damage.** Repair balance sheets, address labor market rigidities, and ensure that increasing corporate concentration does not lead to abuses of market power.
- **Facilitate new growth opportunities**
 - Encourage pro-active management of climate-related risks and green investments. Gradually increase carbon prices to reduce emissions, stave off physical risks, and strengthen fiscal finances.
 - Increase digital investment to improve productivity growth, bridge the digital divide.
 - Remedy the crisis-induced setback to human capital accumulation.
 - Enhance financial sector efficiency.
- **Pursue further financial reforms**
 - Banks: gradually rebuild buffers and reduce problem assets.
 - NBFIs: enhance the regulatory framework to address vulnerabilities exposed during COVID-19.
 - Macro- and micro-prudential policies should deal with “lower for longer” and contain risk taking.
- **Address income inequality.** Close health and education gaps, enhance social safety nets and progressive income taxation.