

***Global Economic Prospects***  
**January 2021**

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**WORLD BANK GROUP**

**Equitable Growth, Finance & Institutions**

**Prospects Group**

# Four Questions

- 1 What are near-term growth prospects?** *Subdued global recovery in 2021. Forecast downgrades in most EMDEs and LICs. Risks tilted to the downside.*
- 2 How has COVID-19 increased debt-related risks?** *Sharp increase in debt and low growth eroding debt service capacity; new risks to policy frameworks.*
- 3 How has COVID-19 worsened growth prospects for the 2020s?** *More pronounced potential growth slowdown over the 2020s; another decade of repeated growth disappointments likely.*
- 4 What are policy priorities?** *Addressing the health crisis; providing relief for vulnerable populations; easing debt burdens; undertaking reforms to rekindle robust, sustainable and equitable growth; enhancing global cooperation to tackle global challenges, including climate change, trade and finance.*

\* **EMDEs = Emerging Market and Developing Economies**

# Four Questions

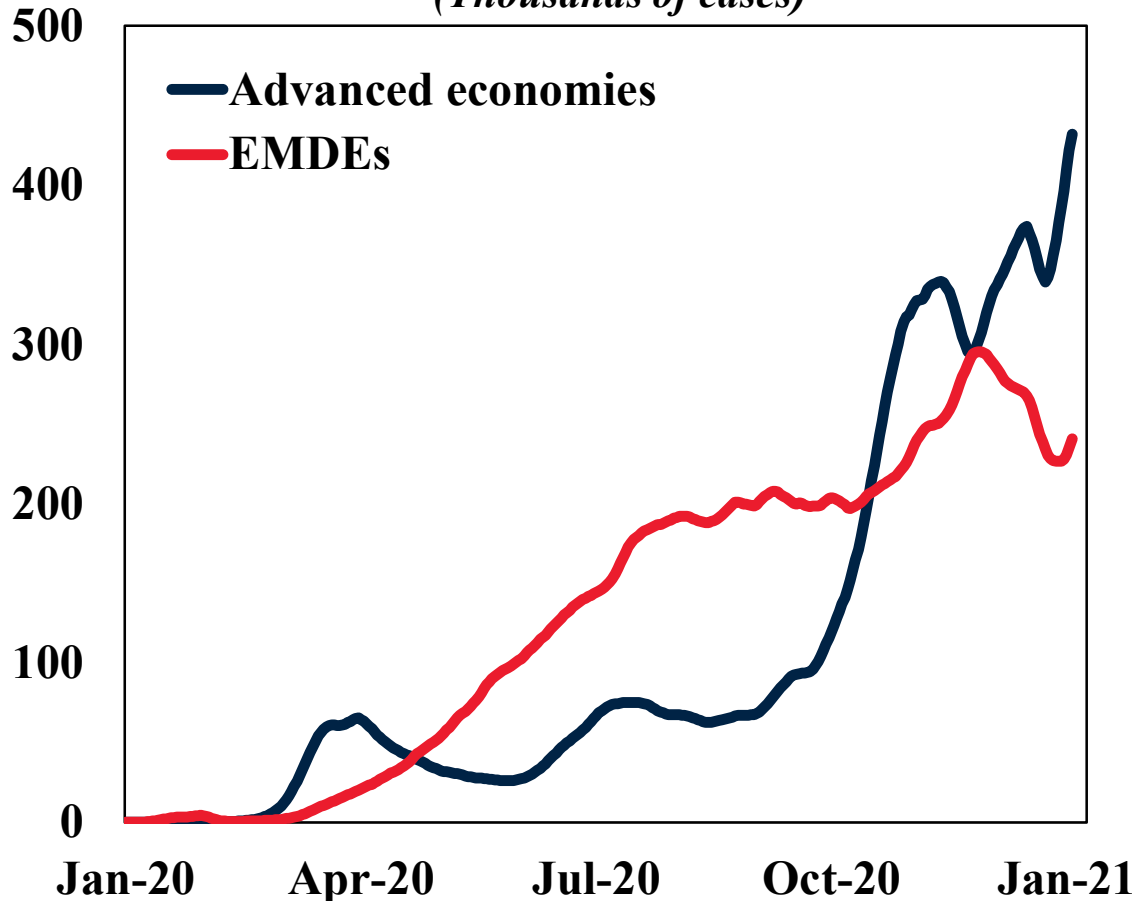
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**What are near-term growth prospects?** *Subdued global recovery in 2021. Forecast downgrades in most EMDEs and LICs. Risks tilted to the downside.*

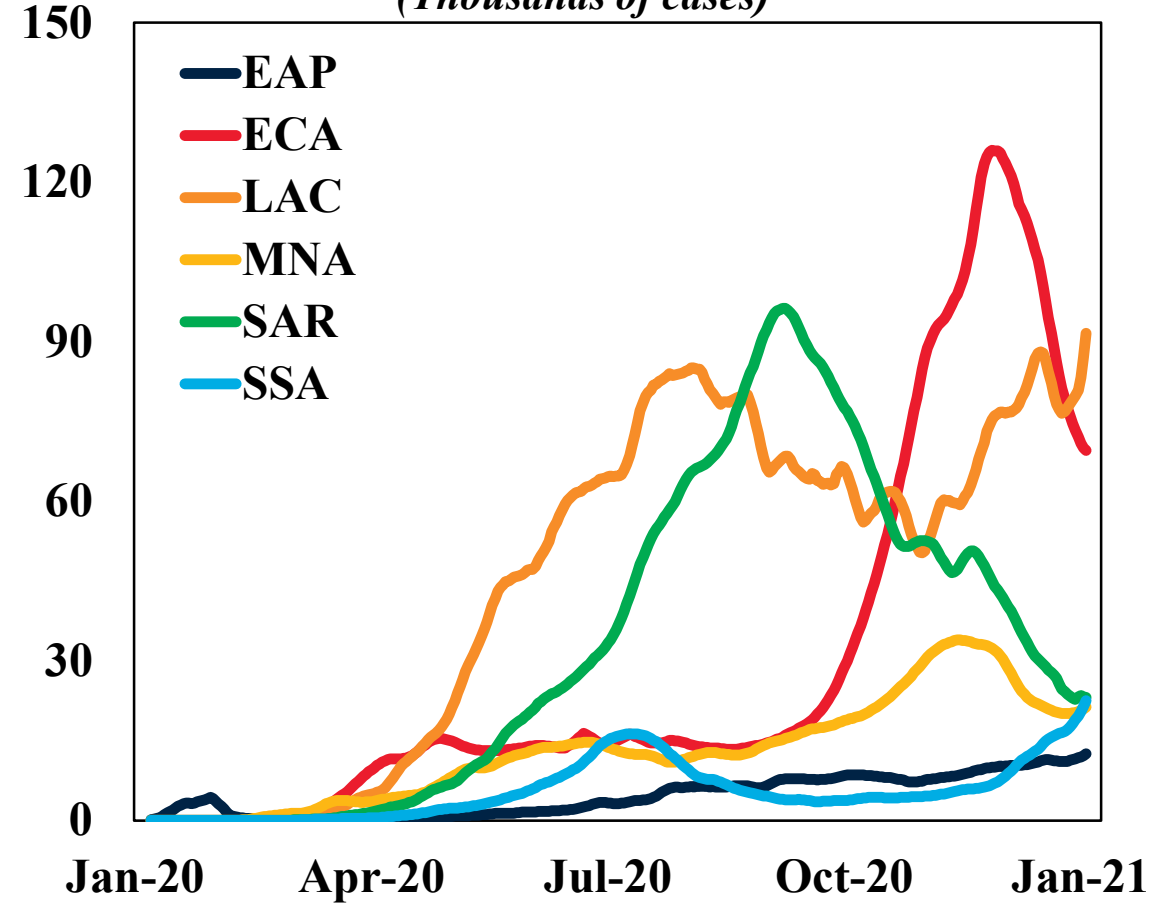
# Spread of COVID-19

## Another Wave Underway

Daily confirmed new COVID-19 cases  
(Thousands of cases)



Daily confirmed new COVID-19 cases in EMDEs, by region  
(Thousands of cases)

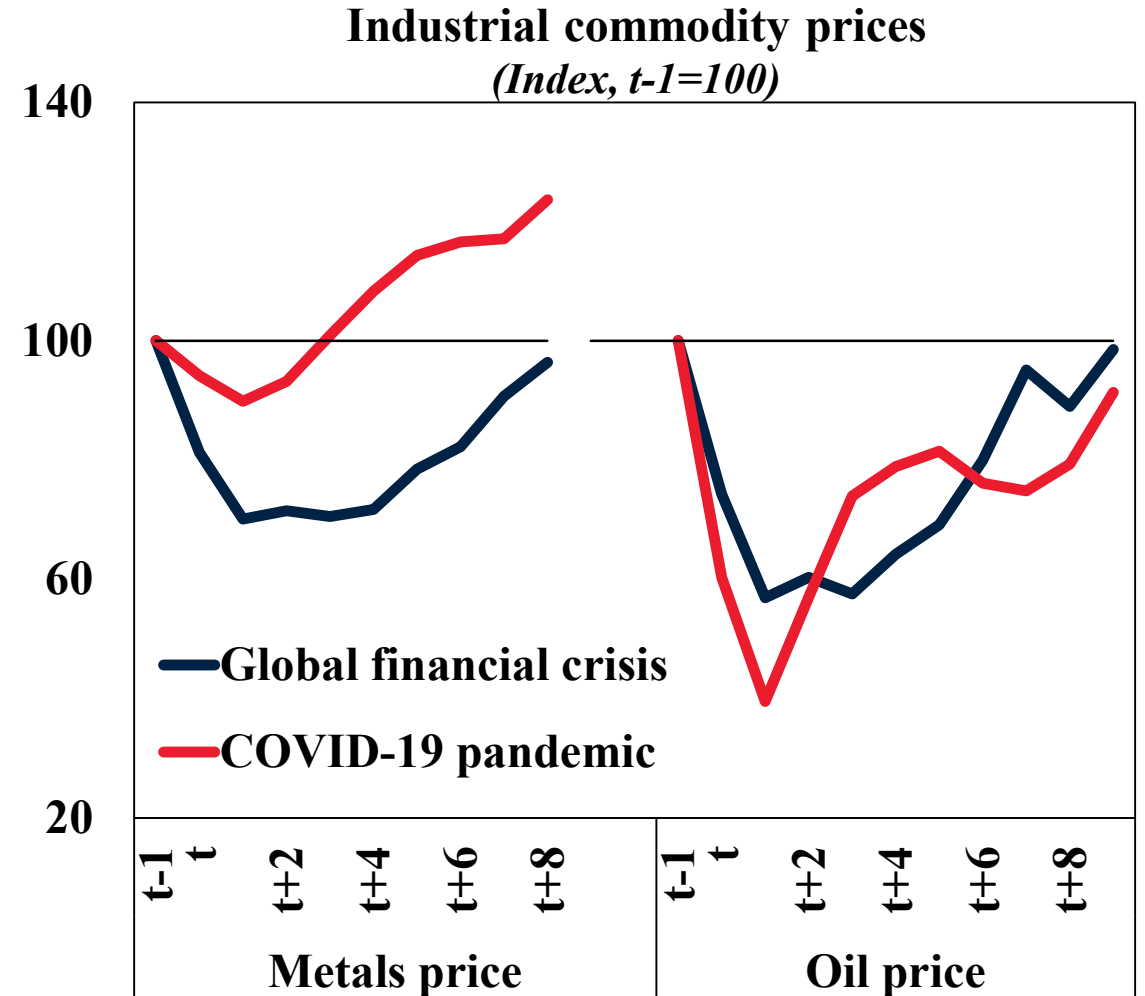
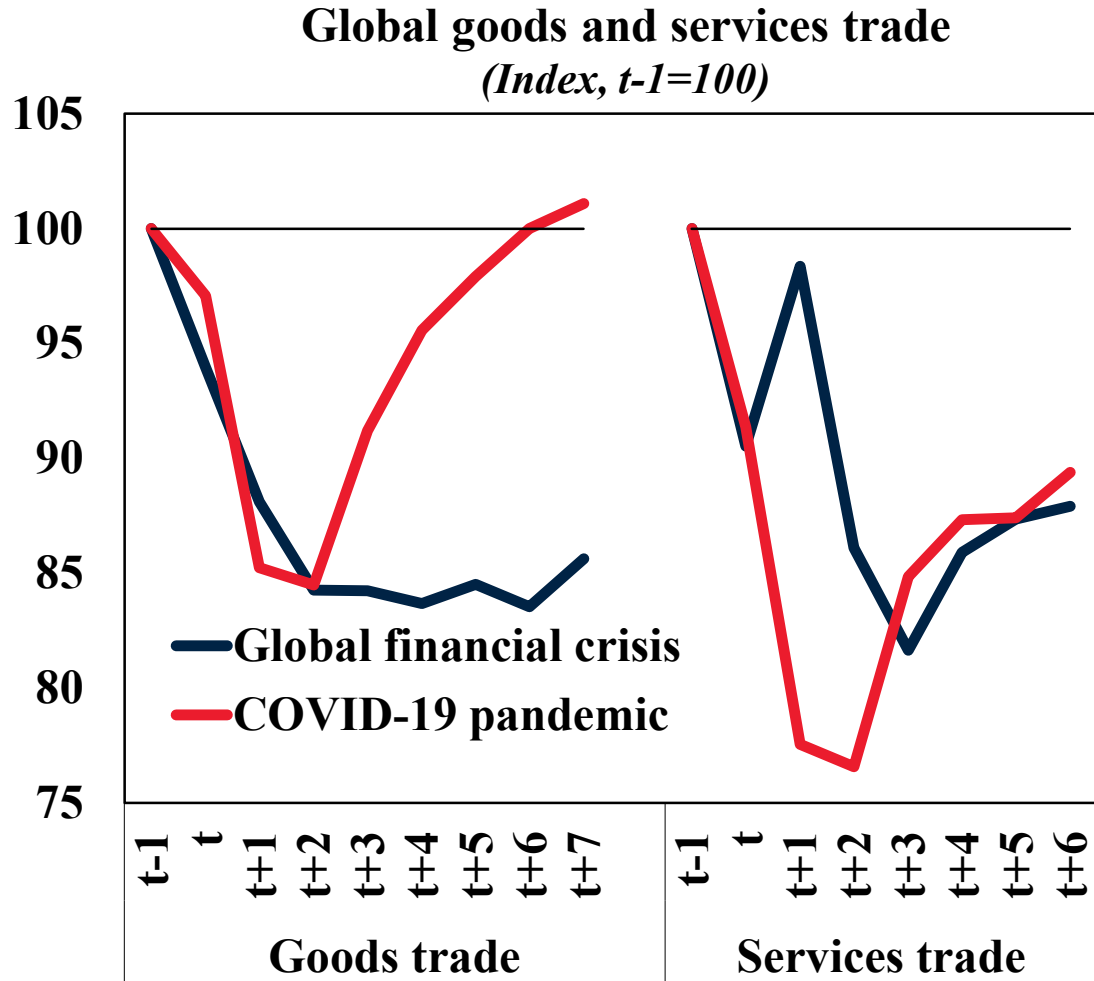


Sources: Our World in Data; World Bank.

Note: EAP, ECA, LAC, MNA, SAR, and SSA refer to, respectively, East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa. Figure shows 7-day moving average of cases by date of case reporting. Sample includes 36 advanced economies and 147 EMDEs, consisting of 18 EAP, 22 ECA, 32 LAC, 19 MNA, 8 SAR, and 48 SSA. Last observation is January 10, 2021.

# Global Trade and Commodity Markets

*Partial Recoveries; Continued Weakness in Pandemic-Affected Sectors*



Sources: World Bank *Pink Sheet*; CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; World Bank; World Trade Organization.

Note: For global financial crisis,  $t$  = November 2008; for COVID-19,  $t$  = March 2020. Left Panel. Goods trade is in real terms from the CPB Netherlands Bureau for Economic Policy Analysis, whereas services trade is in values from the WTO. Right Panel. Oil price is an unweighted average of Brent, West Texas Intermediate, and Dubai prices. Last data point for December 2020.

# Global Growth Forecasts

## *Subdued Recovery from the Global Recession*

### GDP growth (Percent)

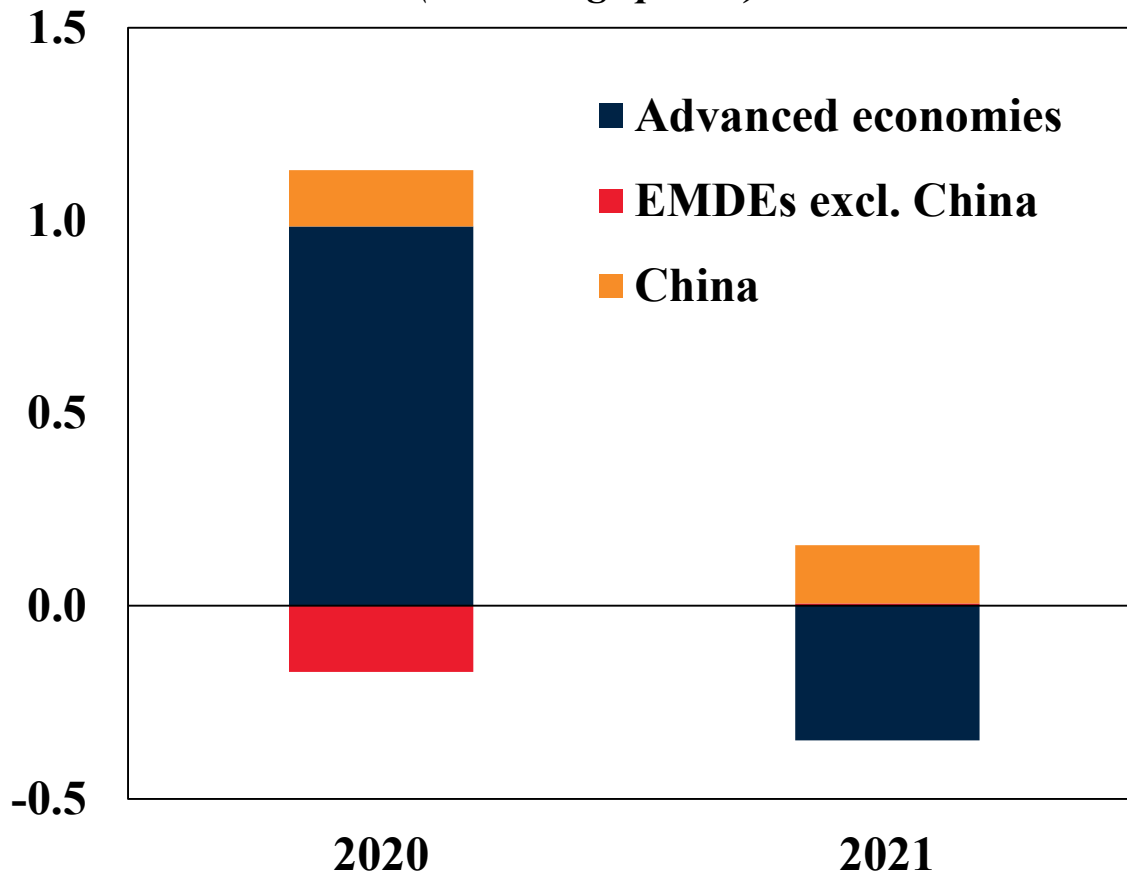
	GDP growth (Percent)			<i>Change from June 2020</i>	
	2012-19	2020f	2021f	2020	2021
<b>World</b>	2.8	-4.3	4.0	0.9	-0.2
<b>Advanced economies</b>	1.8	-5.4	3.3	1.6	-0.6
<b>EMDEs</b>	4.3	-2.6	5.0	-0.1	0.4
<b>East Asia and Pacific</b>	6.6	0.9	7.4	0.4	0.8
<b>Europe and Central Asia</b>	2.8	-2.9	3.3	1.8	-0.3
<b>Latin America and the Caribbean</b>	1.4	-6.9	3.7	0.3	0.9
<b>Middle East and North Africa</b>	2.4	-5.0	2.1	-0.8	-0.2
<b>South Asia</b>	6.4	-6.7	3.3	-4.0	0.5
<b>Sub-Saharan Africa</b>	3.2	-3.7	2.7	-0.9	-0.4

Source: World Bank.  
Note: f refers to forecasts.

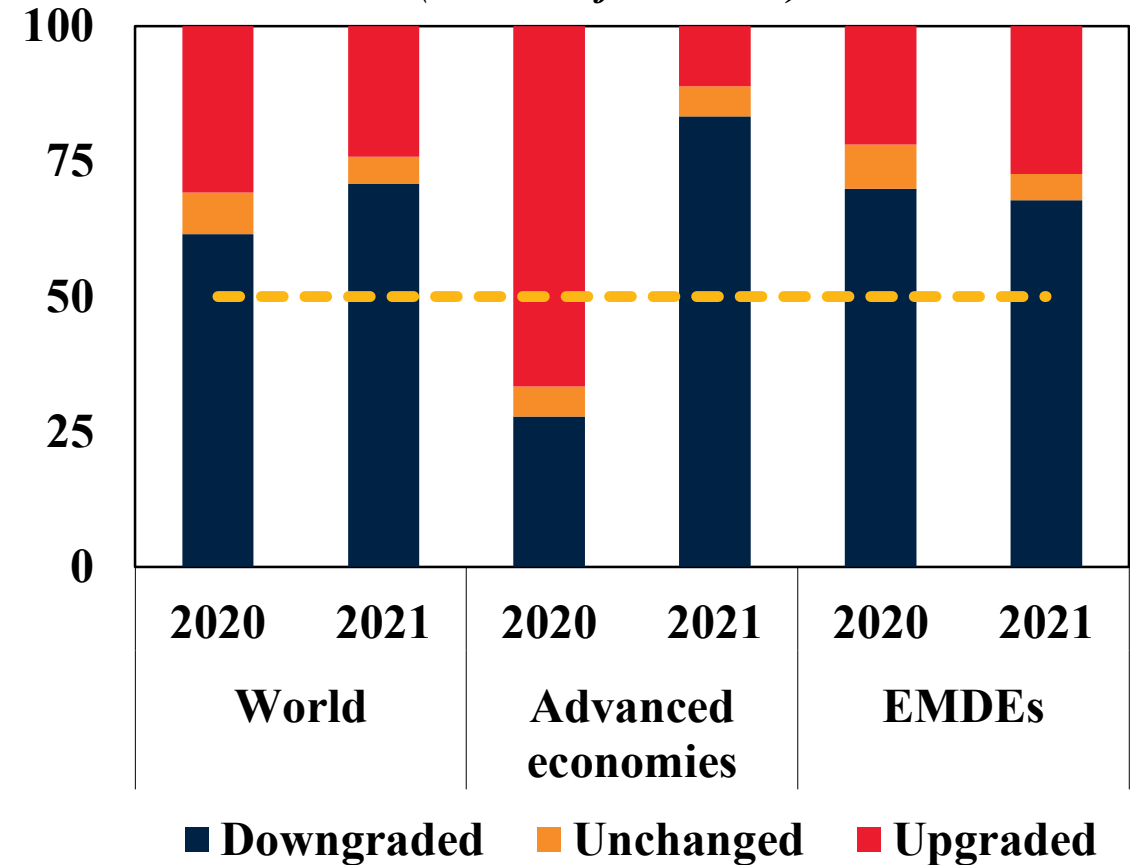
# Growth Forecasts since June

## *Weaker For Most Economies*

Contributions to forecast revisions for global growth  
(Percentage points)



Countries with growth forecast revisions  
(Percent of countries)

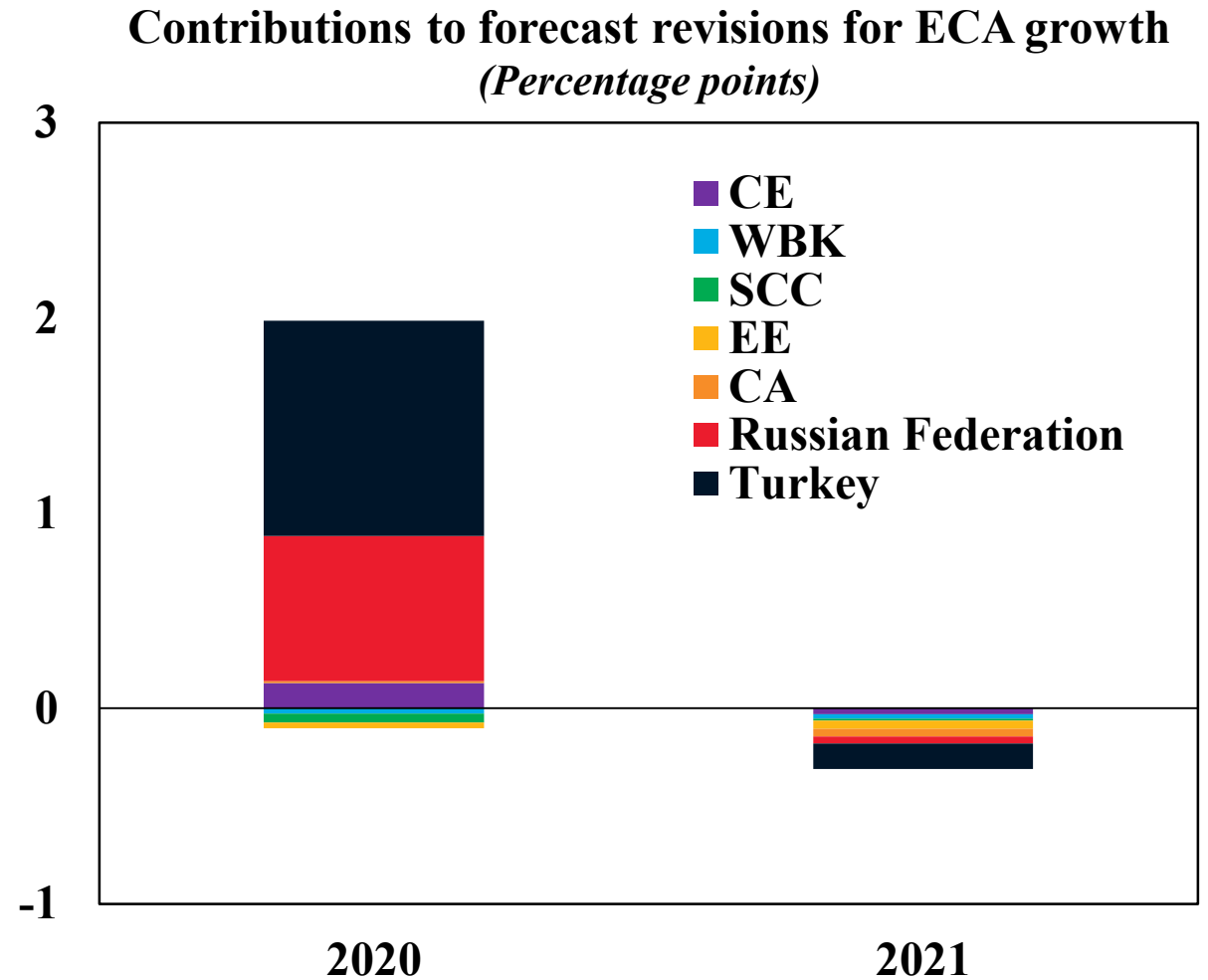
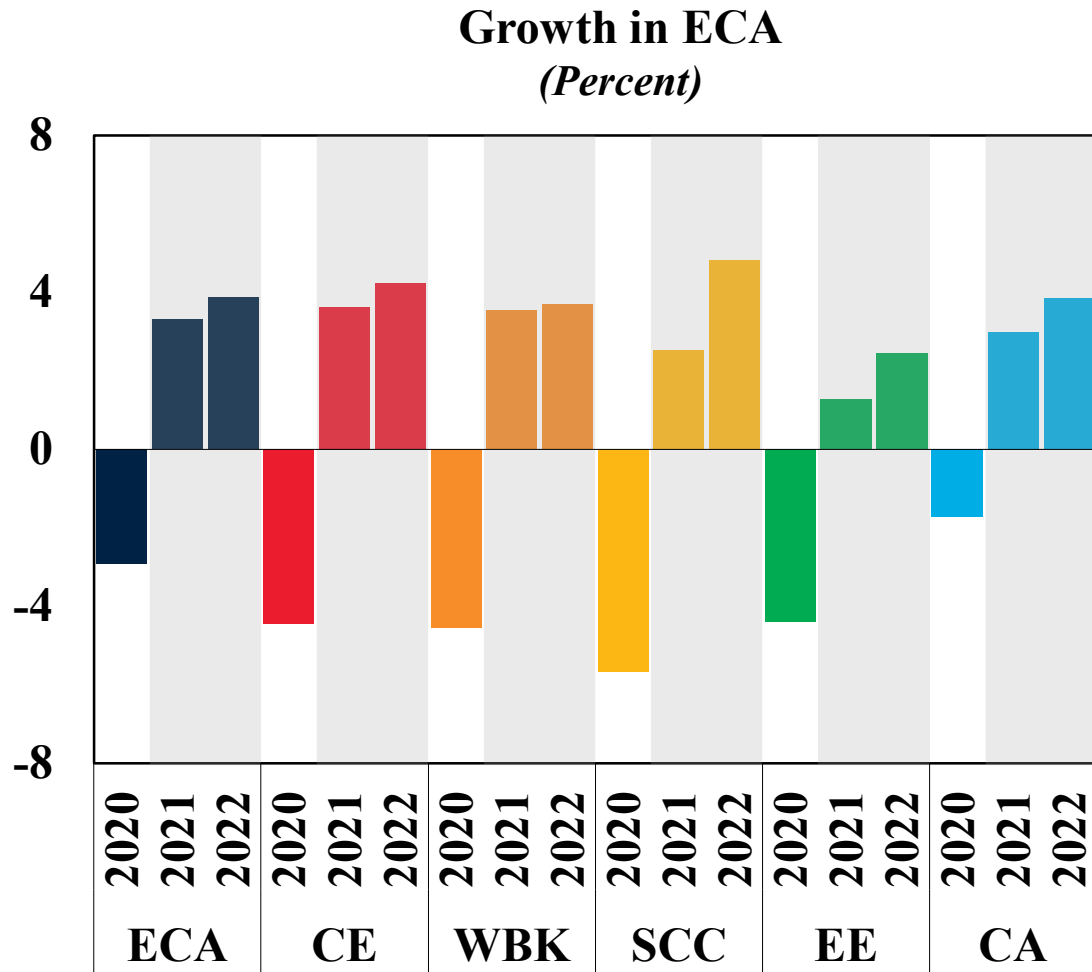


Source: World Bank.

Left Panel. Figure shows the contribution to forecast revisions relative to the June 2020 edition of the *Global Economic Prospects* report. Right Panel. Figure shows the share of EMDEs and advanced economies with forecast upgrades, downgrades, and no forecast changes since June 2020 *Global Economic Prospects* report.

# Growth Forecasts in ECA

*Recovery Dampened by Virus Resurgence and Idiosyncratic Factors*



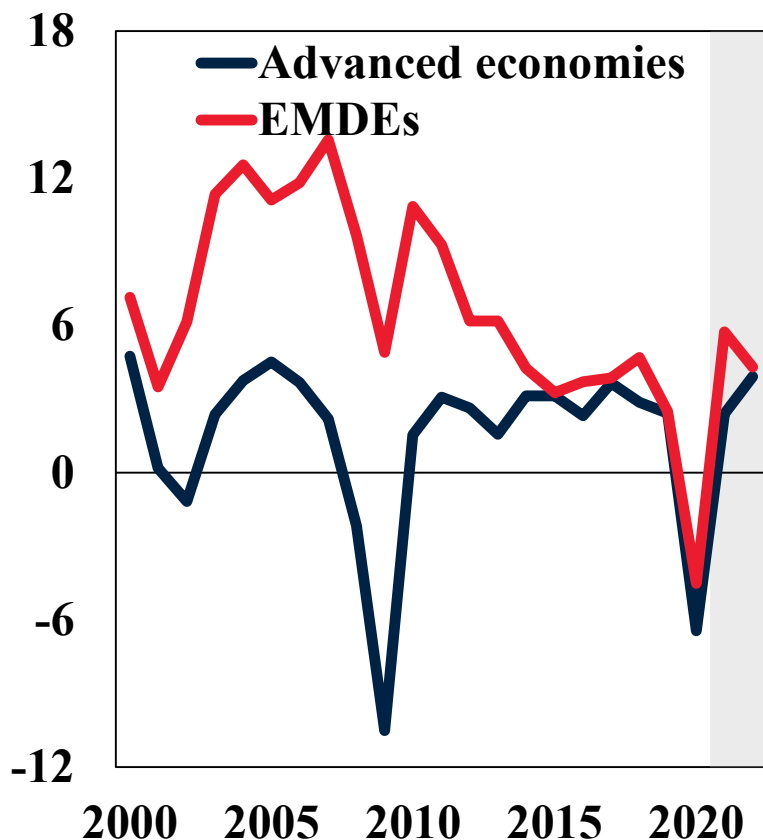
Source: World Bank.

CA = Central Asia; CE = Central Europe; ECA = Europe and Central Asia; EE = Eastern Europe; SCC = South Caucasus; WBK = Western Balkans. Left Panel. Aggregates calculated using U.S. dollar GDP per capita at 2010 prices and market exchange rates. Shaded areas indicate forecasts. Figure shows the downside scenario as presented in box 1.4. of January 2021 *Global Economic Prospects* report. Right Panel. Figure shows the contribution to forecast revisions relative to the June 2020 edition of the *Global Economic Prospects* report

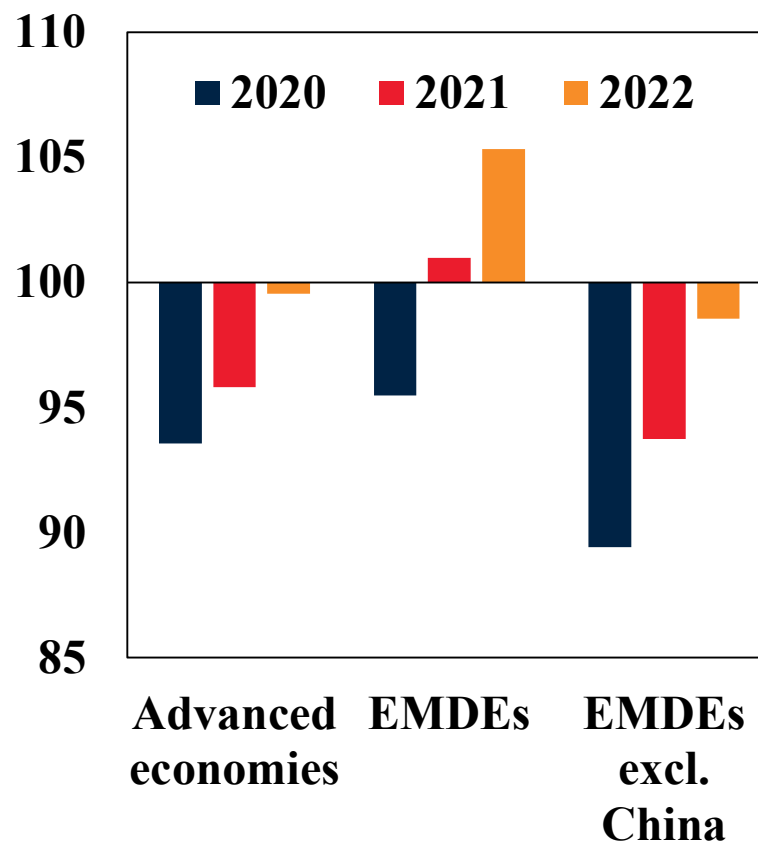
# Investment

## *Collapse After Persistent Decline*

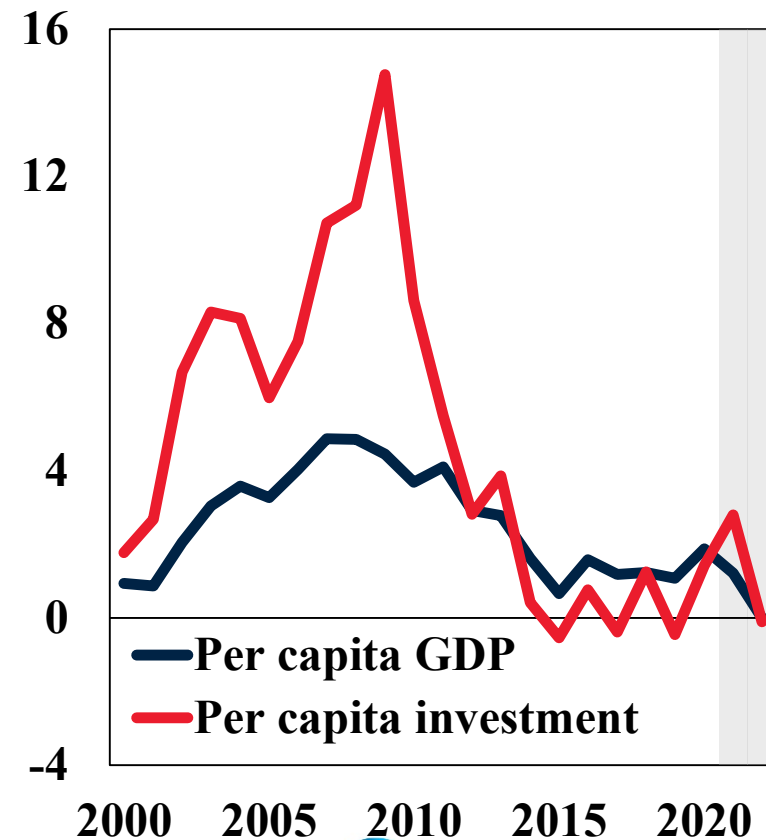
**Investment growth  
(Percent)**



**Investment levels  
(Index, 2019 = 100)**



**Differences in EMDE and advanced  
economy growth  
(Percentage points)**



Sources: Haver Analytics; World Bank.

Note: Annual investment growth rates for 2020 are estimates and for 2021-22 are forecasts (shaded areas). Investment refers to gross fixed capital formation. Aggregate growth is calculated with real investment at 2010 prices and market exchange rates as weights. Sample includes 97 countries, consisting of 34 advanced economies and 63 EMDEs.

# Risks to the Global Outlook

## *Tilted to the Downside*

### **Weaker near-term recovery**

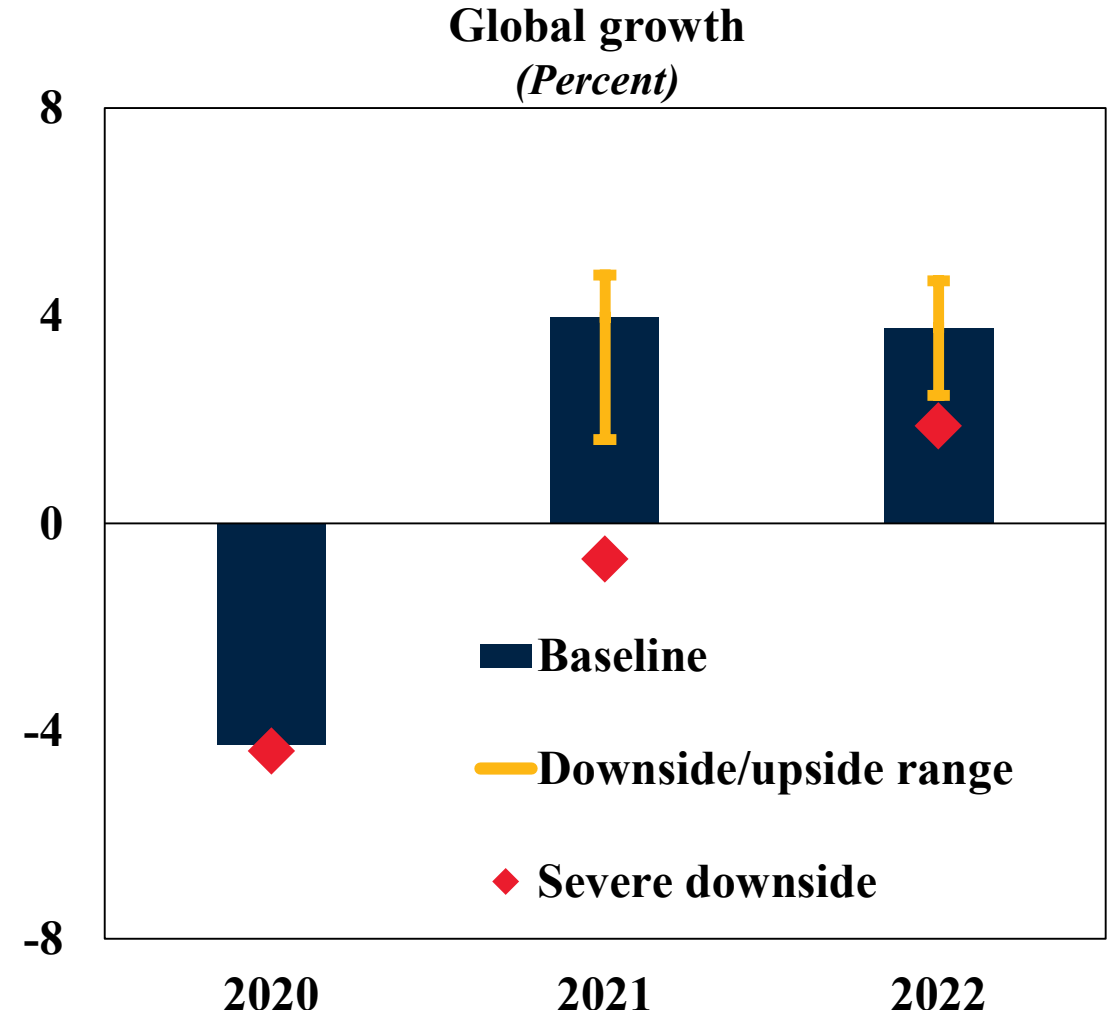
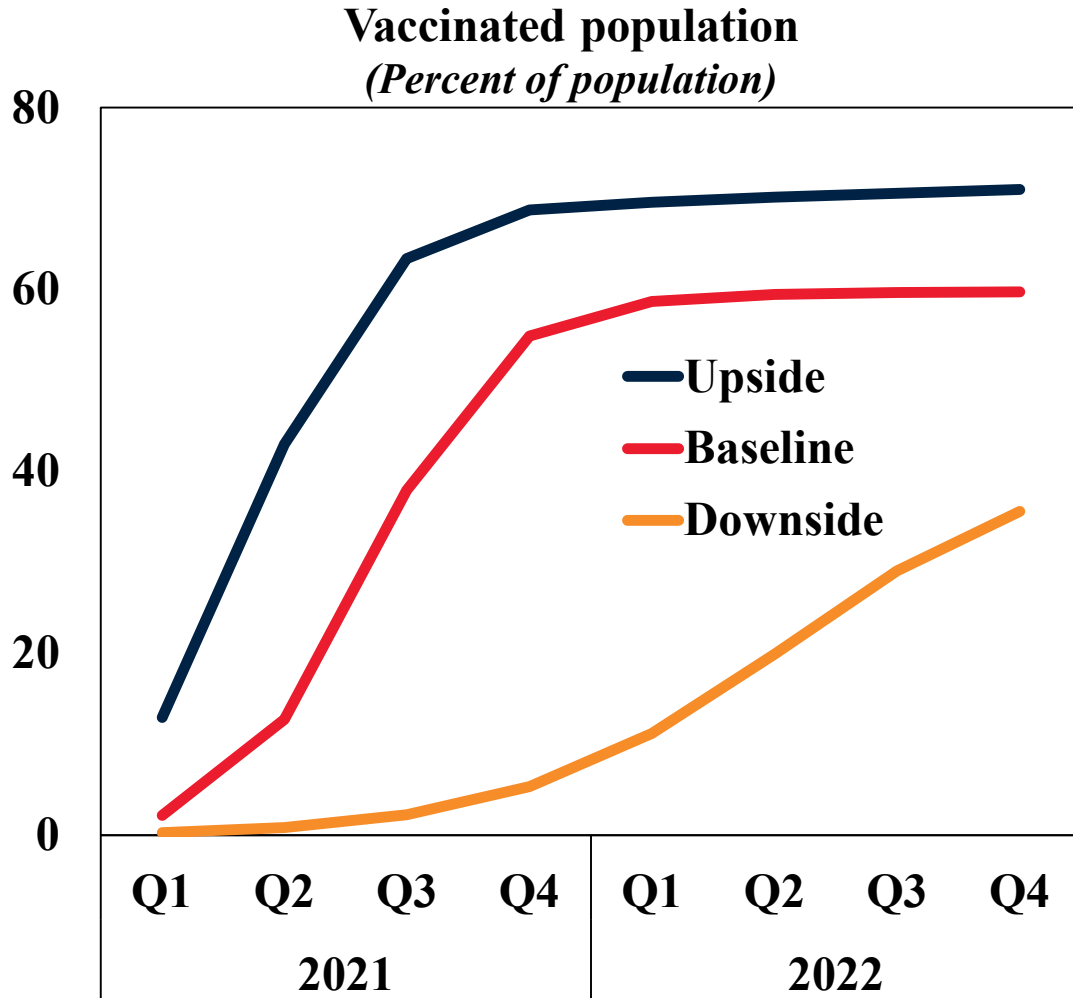
- Intensifying pandemic
- Delayed vaccine deployment
- Financial crises amid high debt levels and wave of bankruptcies
- Premature unwinding of fiscal and monetary support
- Limited effectiveness of policy support
- Intensifying food security challenges

### **More disappointing long-term growth**

- Larger-than-expected decline in potential growth
- Lasting change in household behavior away from consumption, services, tourism
- Weaker-than-expected trade and foreign investment flows
- Social unrest

# Growth Scenarios for 2021-22

*Growth Could Be Considerably Lower If Risks Materialize*



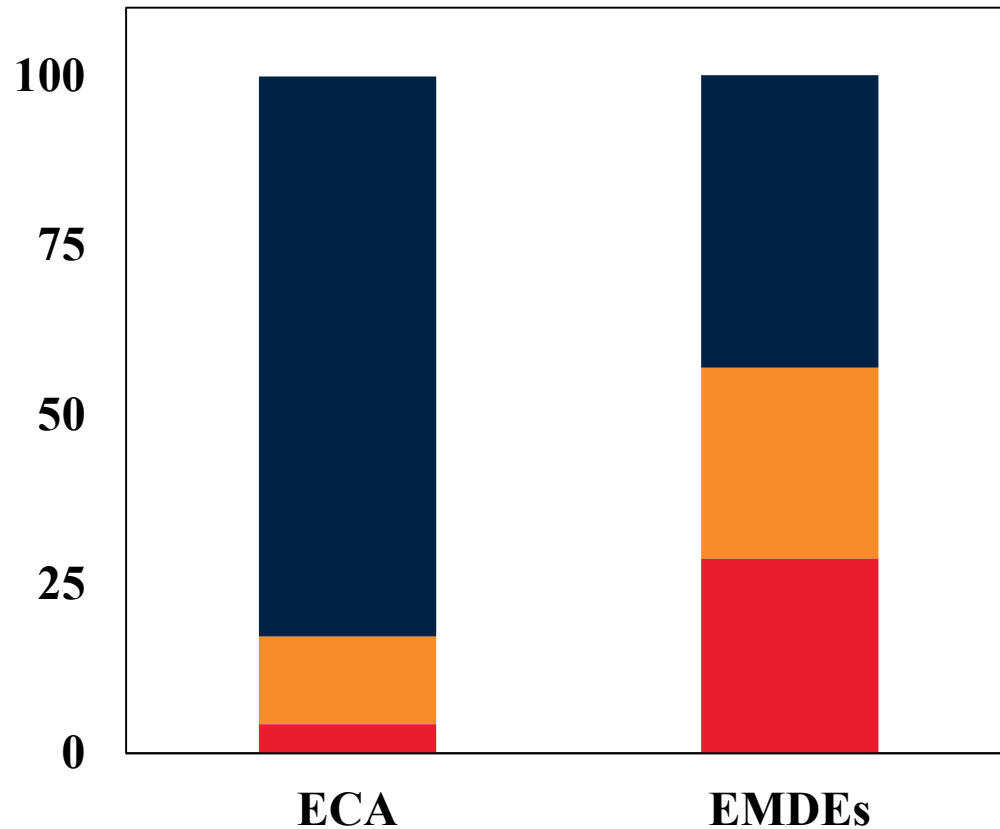
Sources: Oxford Economics; World Bank.

Left Panel. Solid lines are vaccine distribution assumptions for advanced economies and major EMDEs (China, India, and Russia). Right Panels. Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates.

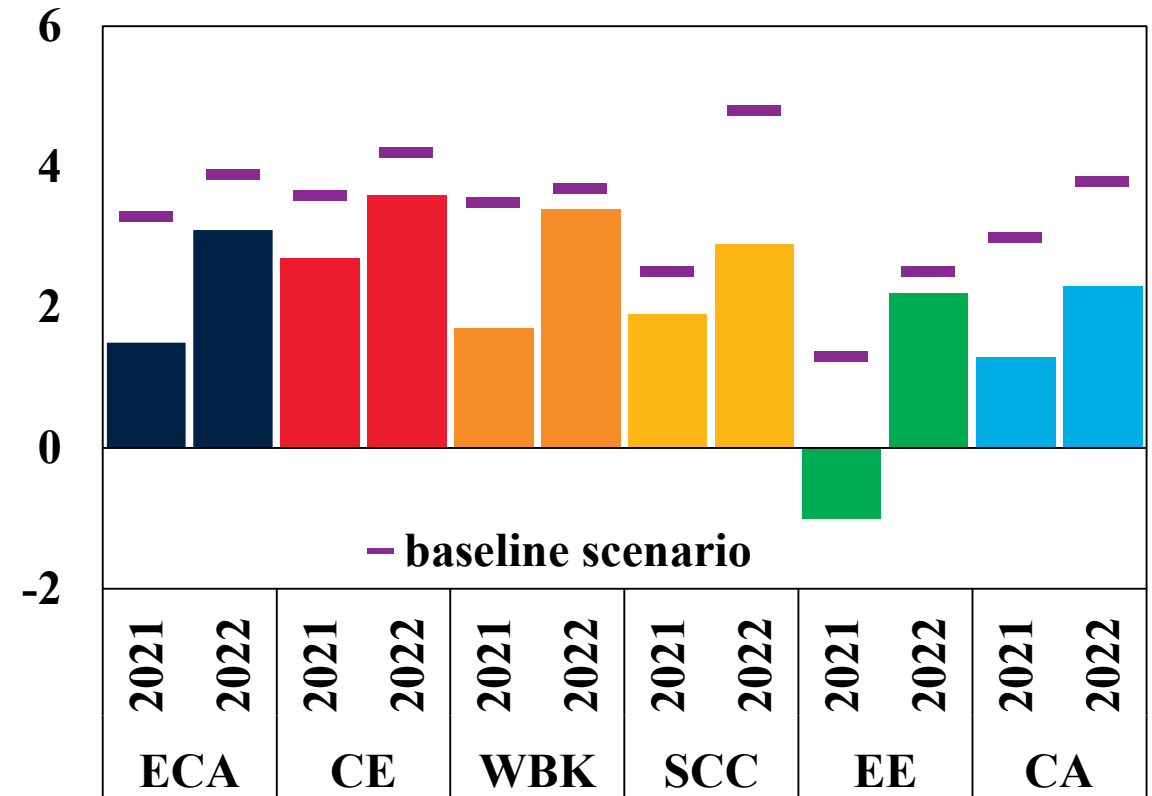
# Growth Scenarios for 2021-22 for ECA

## *Growth Could Be Considerably Lower If Risks Materialize*

**Years of per capita income gains reversed in 2020**  
*(Percent of countries)*



**Growth in a downside scenario**  
*(Percent)*



Sources: World Bank.

Note: EMDEs = emerging market and developing economies, ECA = Europe and Central Asia, CA = Central Asia; CE = Central Europe; ECA = Europe and Central Asia; EE = Eastern Europe; SCC = South Caucasus; WBK = Western Balkans. Aggregates calculated using U.S. dollar GDP per capita at 2010 prices and market exchange rates. Left Panel: Figure shows the percentage of EMDEs or ECA economies by number of years of lost per capita income gains, measured as the difference between 2020 and the latest year of per capita income that is below 2020 value over the 2000-19 period. Right panel: Figure shows growth in a downside scenario of a more persistent and intensified pandemic, as presented in box 1.4.

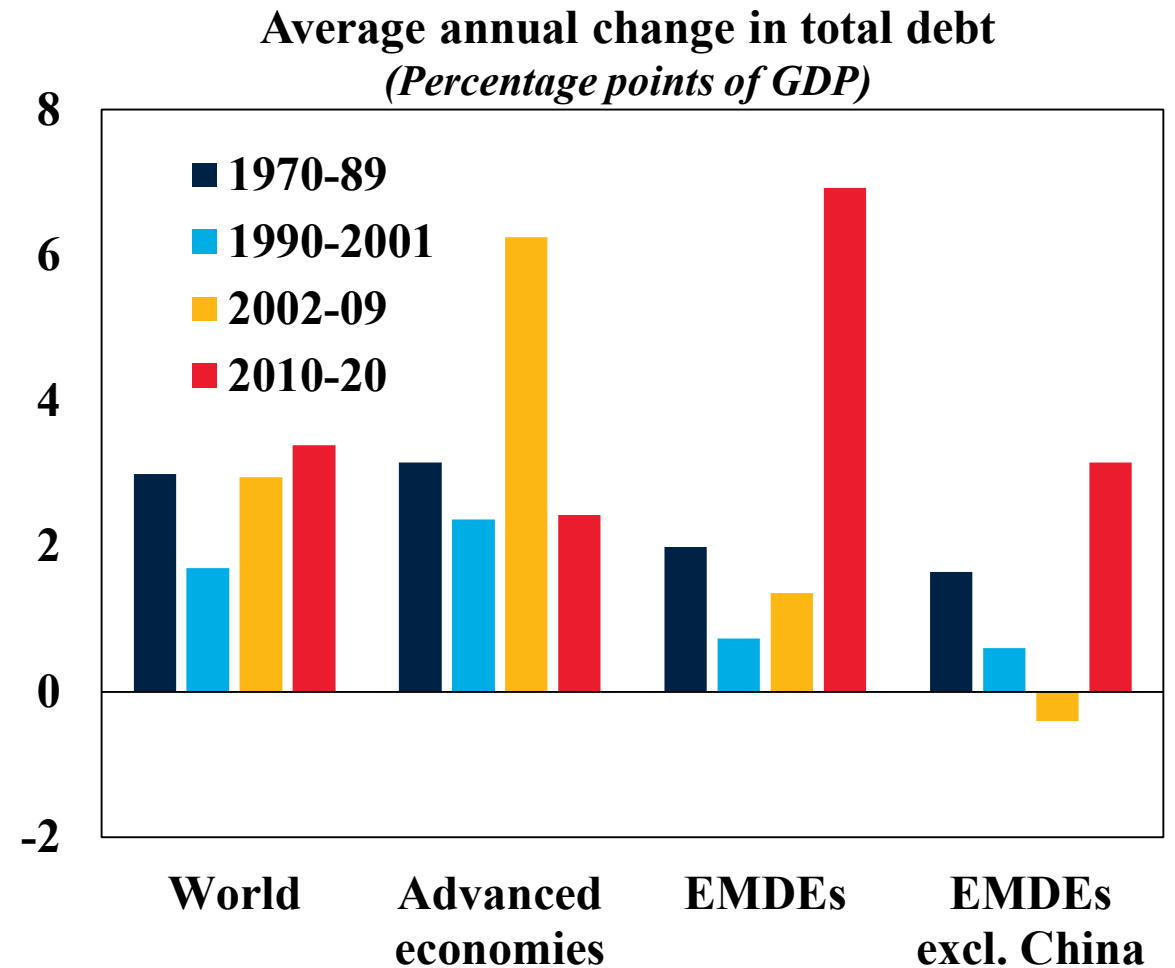
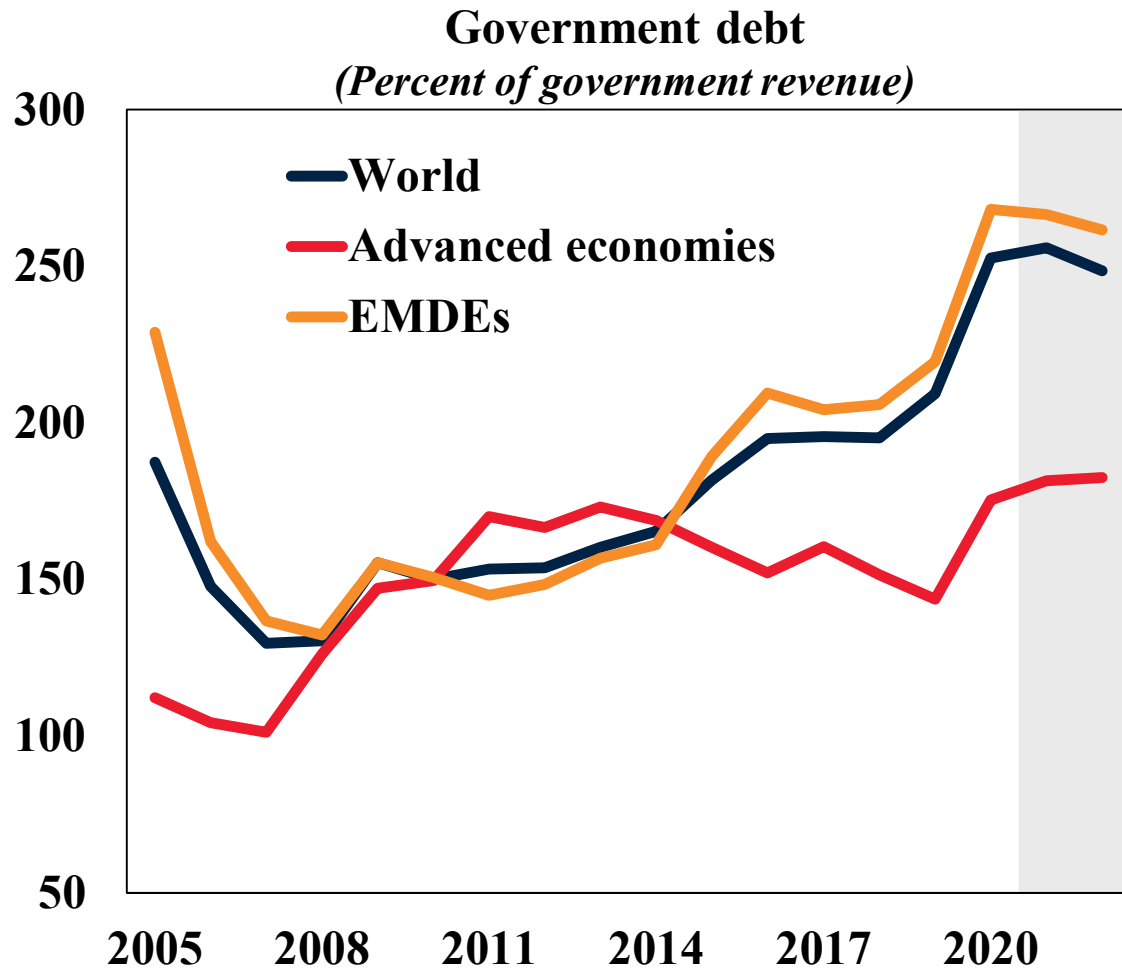
# Four Questions

**2** **How has COVID-19 increased debt-related risks?** *Sharp increase in debt and low growth eroding debt service capacity; new risks to policy frameworks.*

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# The Fourth Wave of Debt

## Rapid Increase in Government Debt

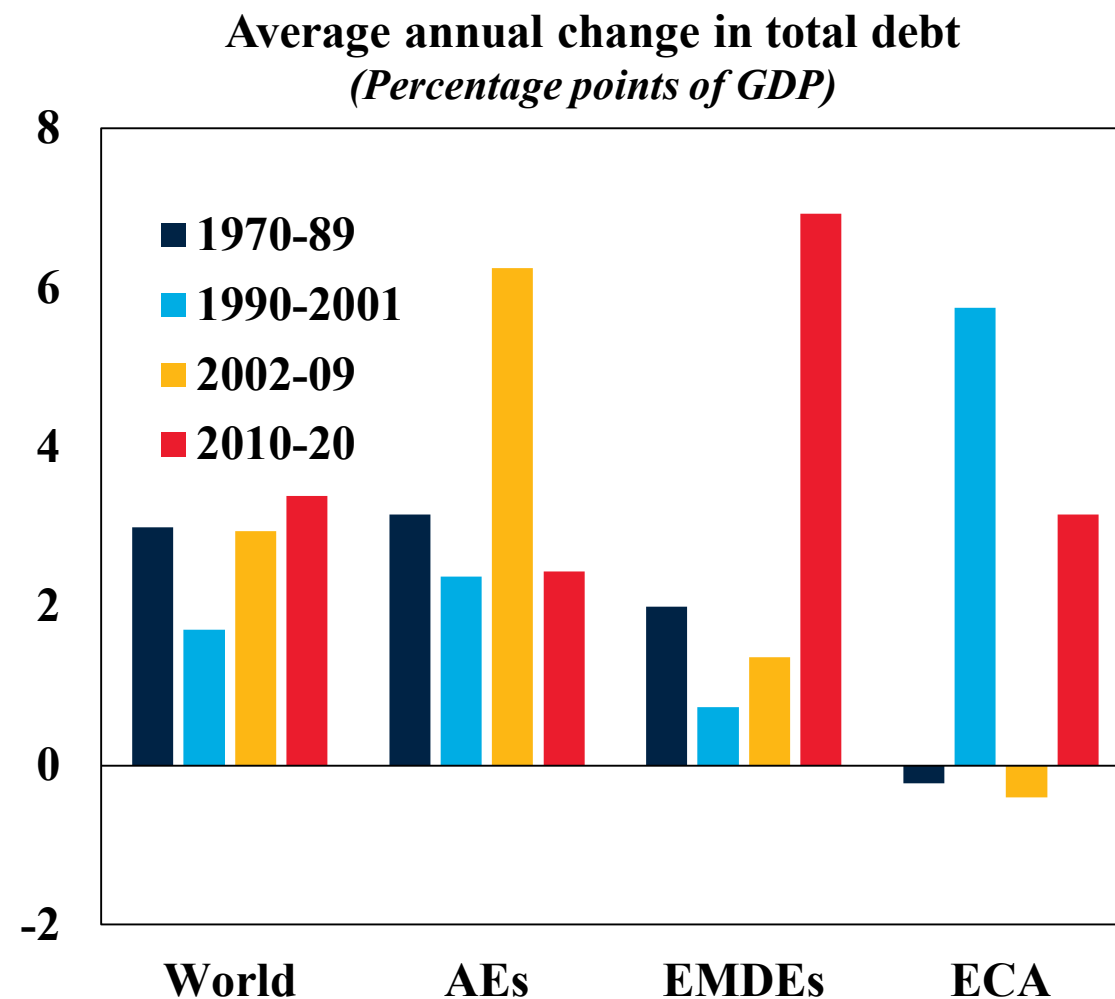
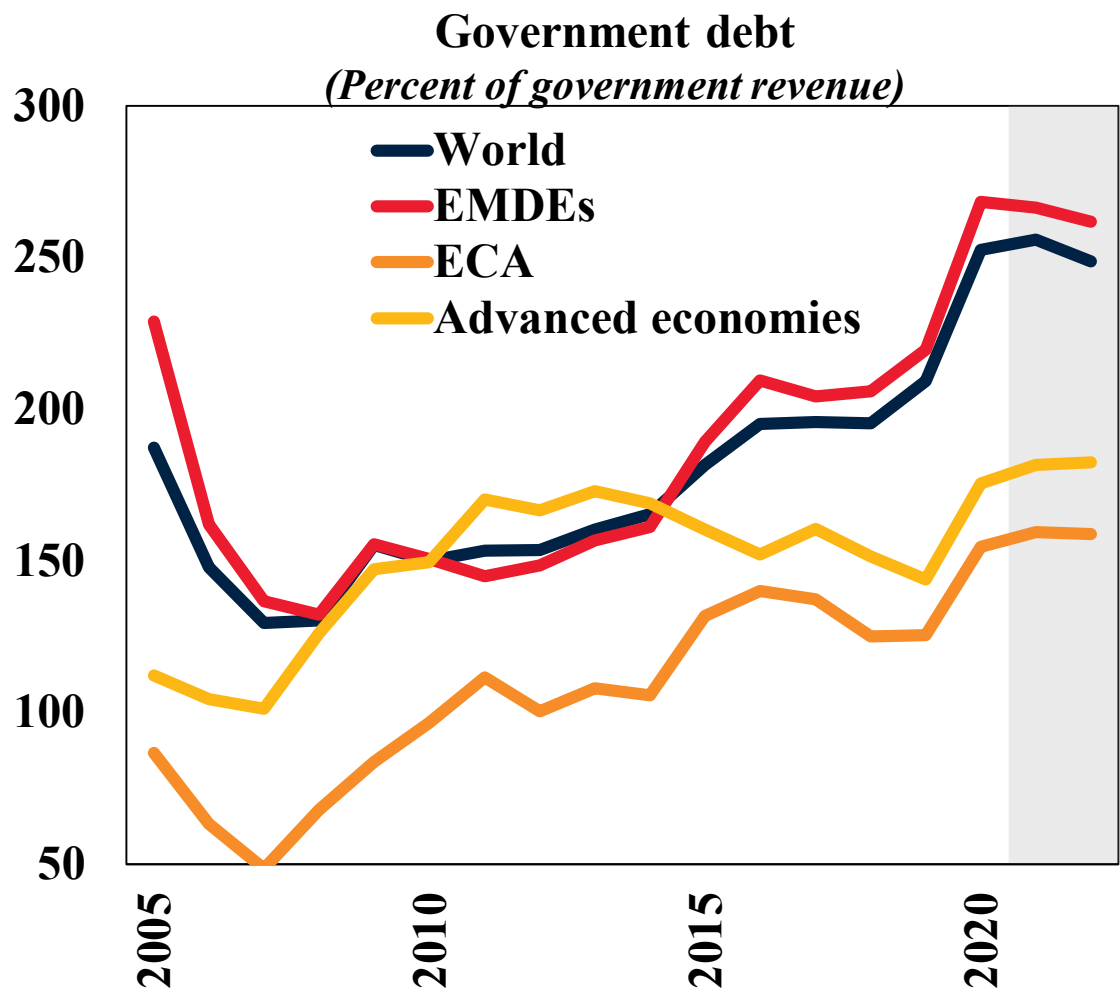


Sources: Bank for International Settlements; International Monetary Fund; Kose et al. (2020); World Bank.

Left Panel. Aggregates are calculated using current GDP in U.S. dollars as a weight, based on data for up to 182 countries, including up to 145 EMDEs. Shaded area refers to forecasts for 2021-22; data for 2020 are estimates. Right Panel. Average annual change calculated as changes in total debt-to-GDP ratios over the denoted periods, divided by the number of years in each of them. Total debt is defined as a sum of government and private debt. Aggregates are calculated using current GDP in U.S. dollars as a weight. Total debt in 2020 is obtained under the assumption that it changes at the same pace as government debt in respective country groups.

# The Fourth Wave of Debt

## Rapid Increase in Government Debt in ECA

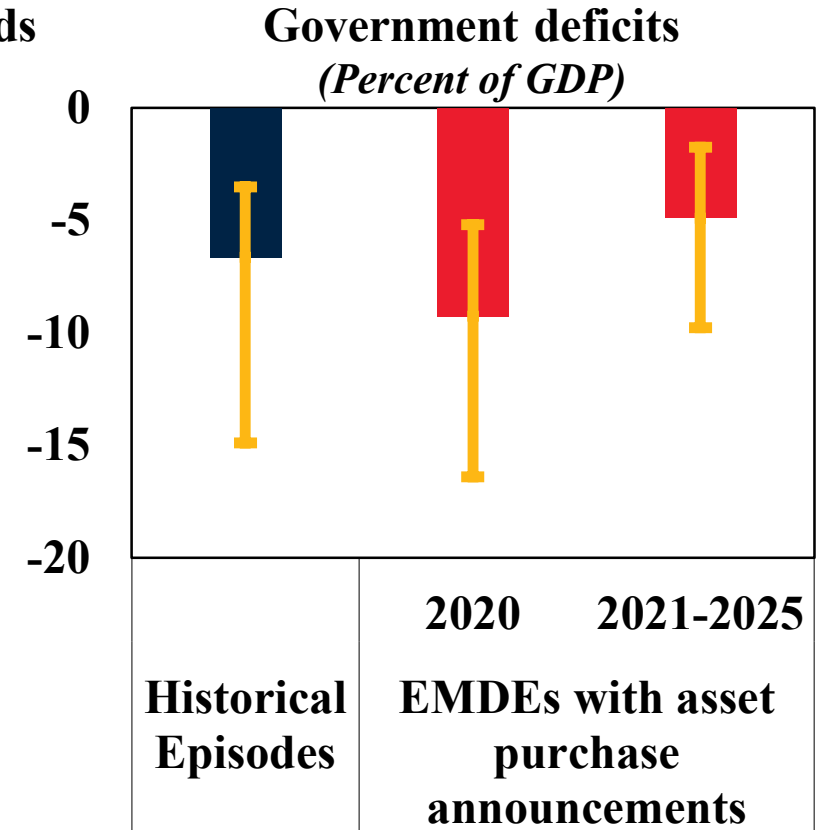
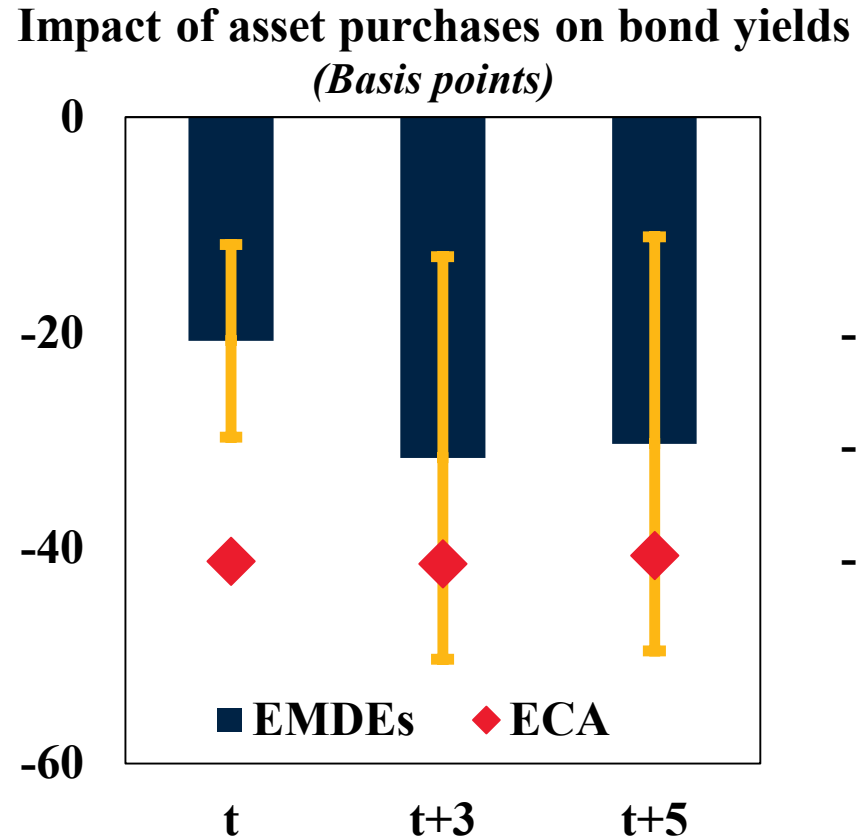
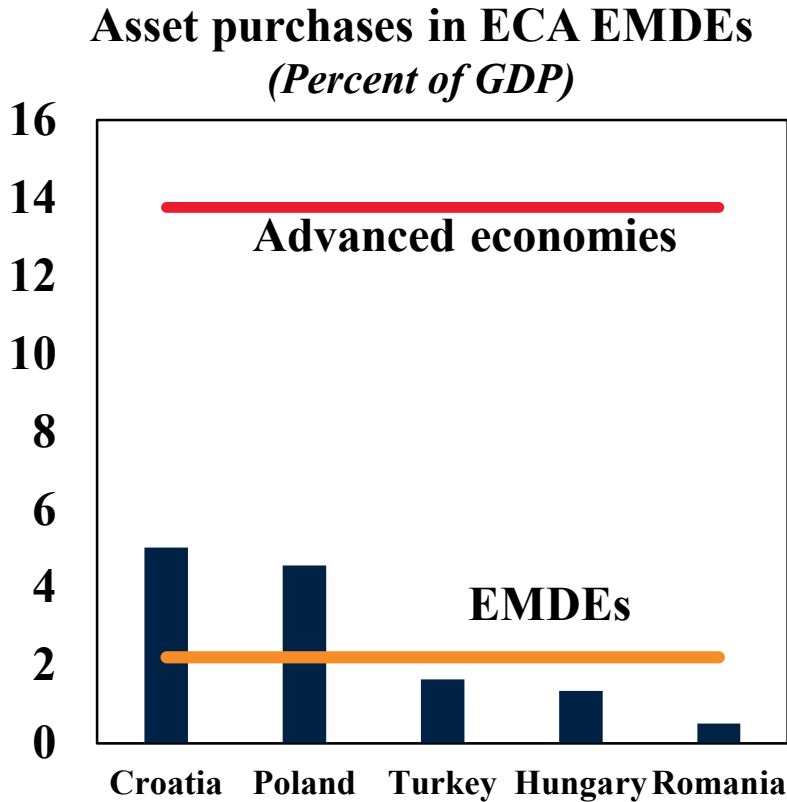


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# Asset Purchases in EMDEs

*Varying Size; Declines in Bond Yields; Concerns about Deficit Financing*



Sources: Bank for International Settlements; Haver Analytics; International Monetary Fund; Kose et al. (2020); World Bank. Note: EAP, ECA, LAC, SAR, and SSA are East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa, respectively. Left Panel. Blue bars denote unweighted regional averages of announced central bank asset purchase programs, expressed relative to nominal local-currency GDP in 2019. Yellow whiskers indicate range of programs. The ultimate size of asset purchase programs in some countries will depend on market conditions; data for these countries reflect total assets purchased up to August 13, 2020. Center Panel. Panel regression results based on daily bond yields in 26 EMDEs. 25 QE announcement in 14 EMDEs are studied. Horizontal axes indicate days after the announcements of quantitative easing ( $t = 0$ ). Standard errors are clustered by country. Blue bars indicate point estimates and yellow sticks indicate 90 percent confidence intervals. Right Panel. Historical episodes include Argentina (1989), Bolivia (1985), Brazil (1989), Peru (1990), and Turkey (1994), and are reported in the blue bars as the average of the five episodes in the 1-5 years ahead of the peak rate of inflation or debt monetization. Red bars indicate the average of EMDEs undertaking asset purchase programs since the emergence of the COVID-19 pandemic in the years indicated. Bars denote averages, whiskers denote ranges. Red bars for 2020 and 2021-25 show the average of the fiscal deficit projected in the IMF's October *World Economic Outlook* for EMDEs undertaking asset purchase programs.

# Four Questions

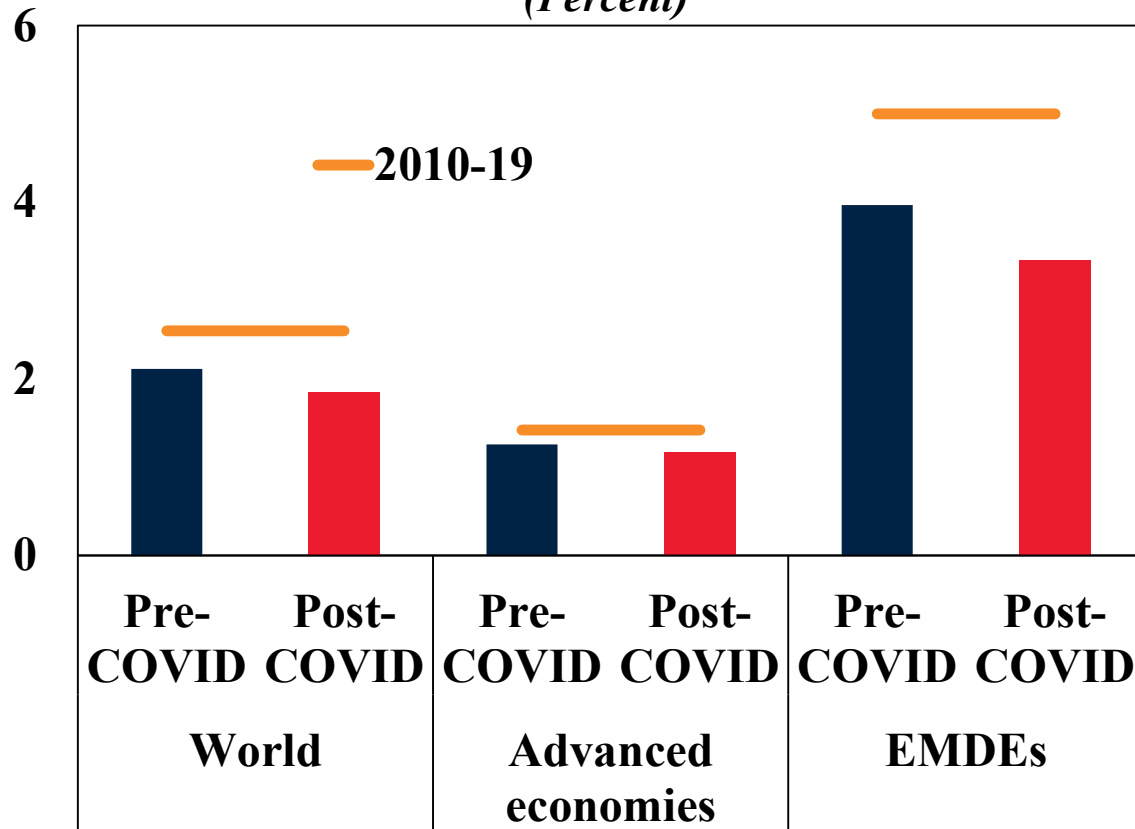
3

**How has COVID-19 worsened growth prospects for the 2020s?** *More pronounced potential growth slowdown over the 2020s; another decade of repeated growth disappointments likely.*

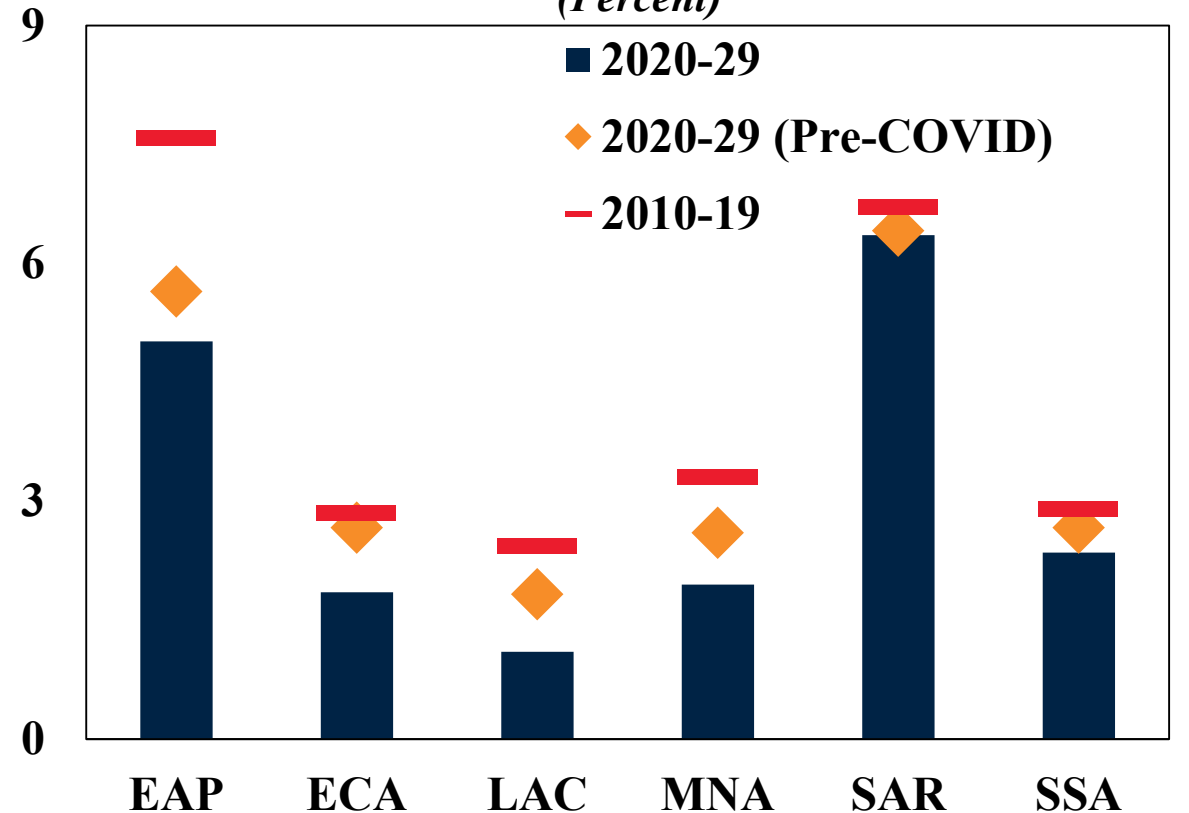
# Potential Growth

## *Steeper-than-Anticipated Decline over Next Decade*

Potential growth prospects, 2020s  
(Percent)



Potential growth prospects for the 2020s, by EMDE region  
(Percent)

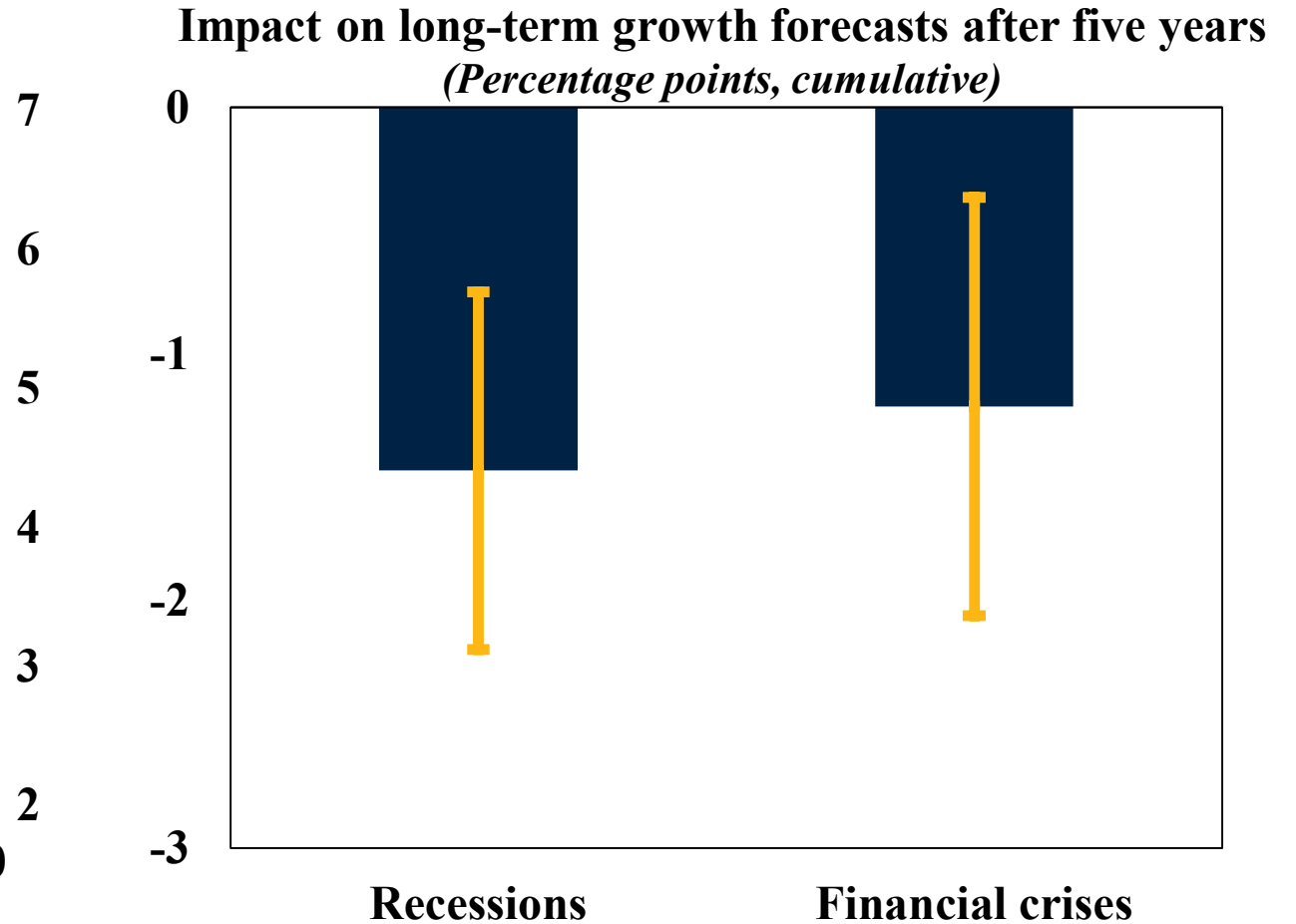
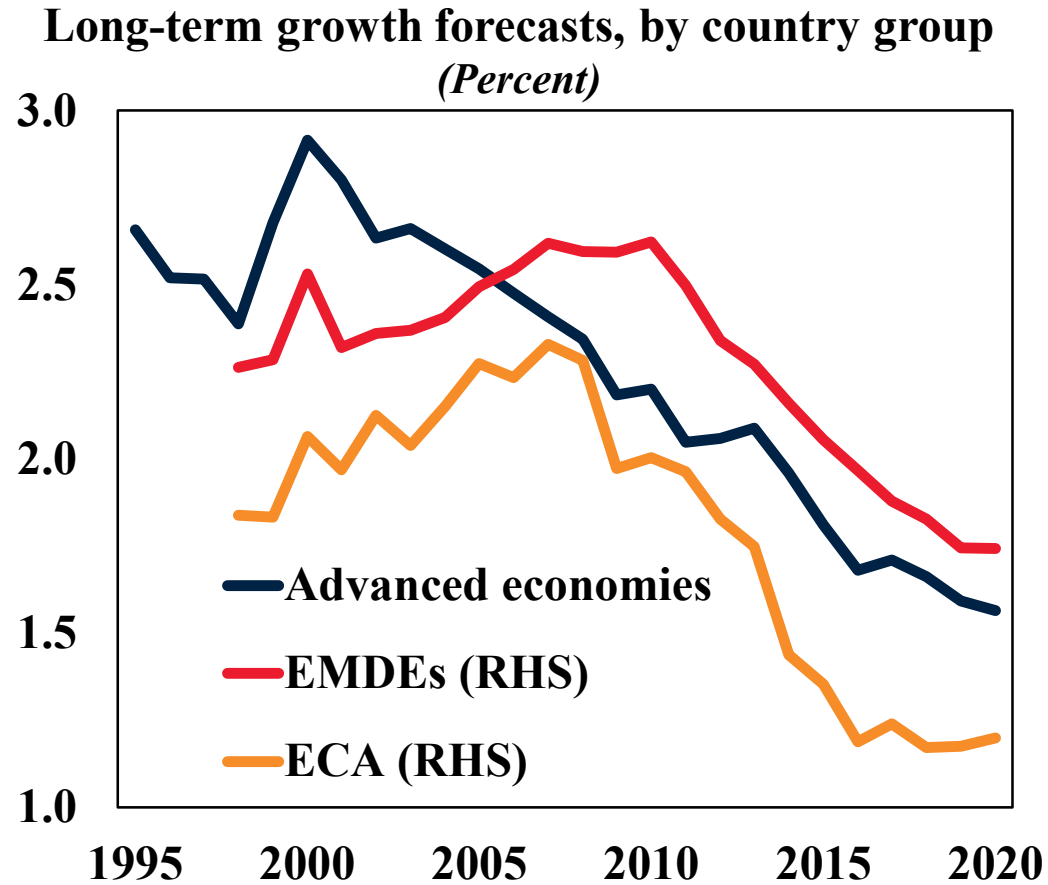


Sources: Kilic Celik, Kose, and Ohnsorge (2020); World Bank.

Left Panel. GDP-weighted averages (at 2010 prices and exchange rates). Sample includes 30 advanced economies and 52 EMDEs. Potential growth estimates based on a production function approach as described in Kilic Celik, Kose and Ohnsorge (2020). Pre-COVID prospects for the 2020s assume that investment grows at its historical average rate, working age population and life expectancy evolve as envisaged by the UN Population Projections; and secondary and tertiary school enrolment and completion rates improve at their historical average rate. Post-COVID estimates for 2020s assume that investment grows as expected by consensus forecasts; working age population and life expectancy evolve as envisaged by the UN Population Projects; and secondary attainment rates decline by 2.5 percentage points. Right Panel. Cumulative potential output response in four years after the event, based on local projection estimation. Bars show coefficient estimates, vertical lines show 90 percent confidence bands. The dependent variable is cumulative slowdown in potential output after the beginning of events. Sample includes 75 EMDEs.

# Long-Term Growth Expectations

*Weakening Before the Pandemic; Likely Downgrades Ahead*



Sources: Consensus Economics; Laeven and Valencia (2020); World Bank.

Left Panel. Aggregate growth calculated using GDP at 2010 prices and market exchange rates as weights. Results from the latest Consensus Economics surveys in each year are presented. Sample includes 84 countries, consisting of 33 advanced economies and 51 EMDEs. The horizontal axis shows the years when Consensus Economics forecasts are surveyed. Right Panel. In a local projection estimation of ten-year-ahead consensus growth forecasts during 1990-2020, coefficient estimates of a dummy on country-specific recessions (business cycle peaks), identified in a Harding-Pagan algorithm, of financial crises as in Laeven and Valencia (2020). Vertical yellow lines show the 90 percent confidence interval. Sample includes 55 countries.

# Four Questions

4

**What are policy priorities?** *Addressing the health crisis; providing relief for vulnerable populations; easing debt burdens; undertaking reforms to rekindle robust, sustainable and equitable growth; enhancing global cooperation to tackle global challenges, including climate change, trade and finance.*

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# Policy Priorities

## *Policies for Relief, Restructuring and Resilience*

### **Save lives threatened by the pandemic**

- Support health care systems
- Accelerate vaccine deployment through global coordination

### **Protect the poor and vulnerable**

- Strengthen social safety nets
- Provide coordinated debt relief to poorest EMDEs

## **Policies**

### **Maintain foundations of the economy**

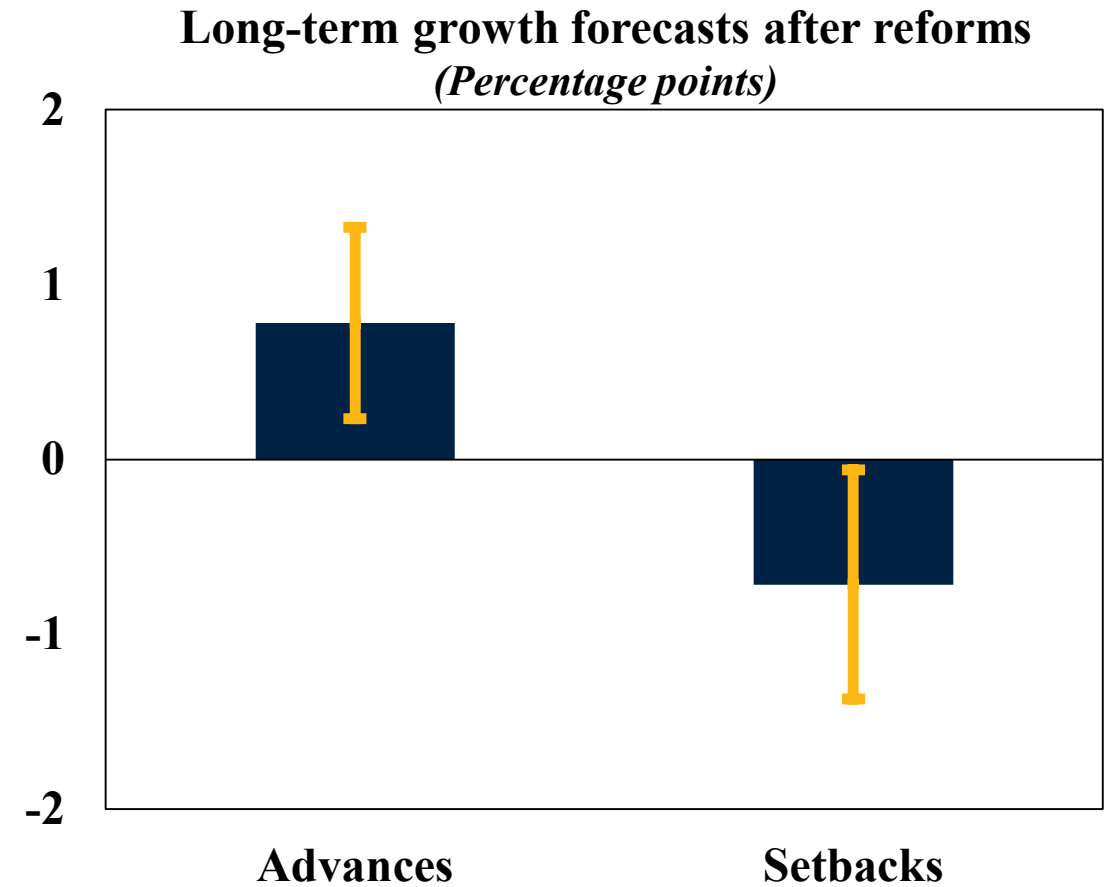
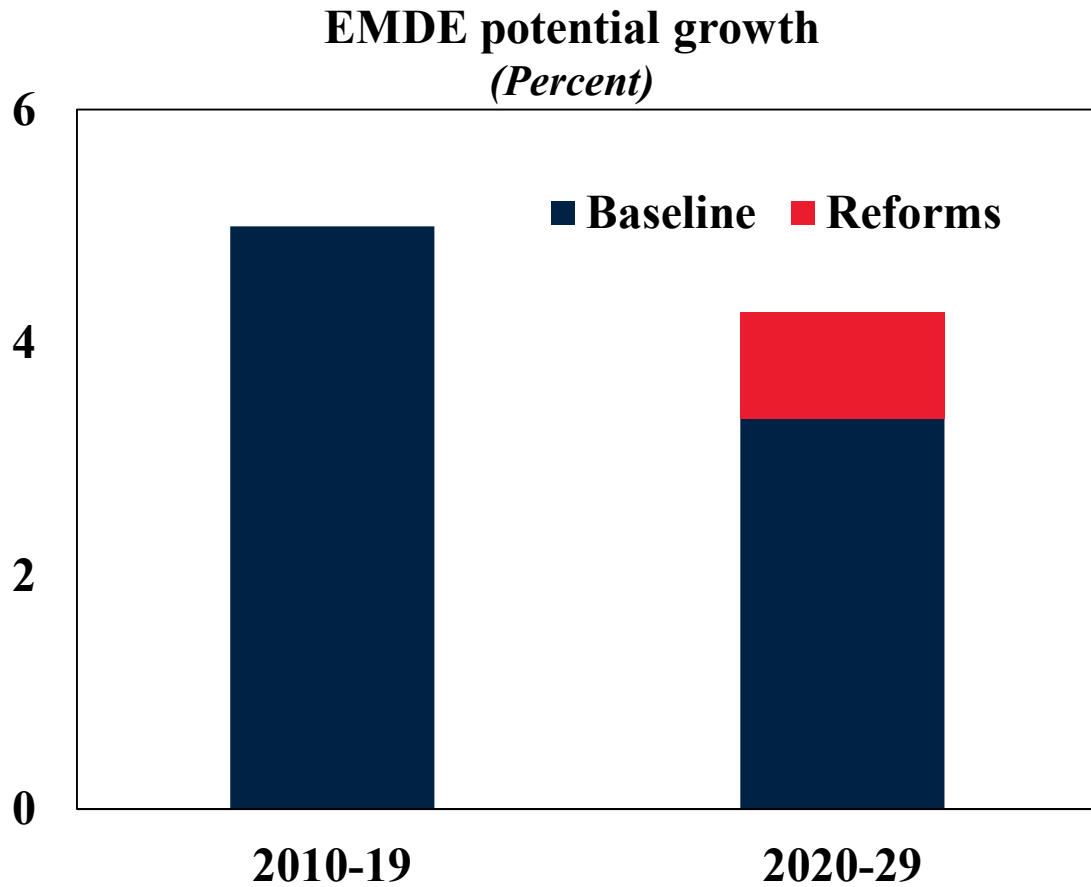
- Assist viable firms
- Improve insolvency frameworks for speedy bankruptcy resolution
- Support aggregate demand
- Preserve financial stability

### **Strengthen policies and institutions**

- Enhance digital infrastructure
- Invest in climate resilience
- Improve education to reverse losses during the pandemic
- Coordinate policies globally to address global challenges, including climate change, trade and finance

# Reforms

## Higher Investment, Better Long-Term Growth Prospects



Sources: Consensus Economics; ICRG; Kilic Celik, Kose, and Ohnsorge (2020); World Bank.

Left Panel. GDP-weighted average (at 2010 prices and exchange rates) for 52 EMDEs. Potential growth estimates based on a production function approach as described in Kilic Celik, Kose, and Ohnsorge (2020). Estimates for 2020s assume that investment grows as expected by consensus forecasts; working-age population and life expectancy evolve as envisaged by the UN Population Projects; and secondary attainment rates decline by 2.5 percentage points. Policy improvements scenario assumes that each country matches its own highest ten-year average investment growth and ten-year improvements in school enrolment and completion rate. Right Panel. Cumulative response of long-term growth forecasts after five years. Coefficient estimates of a local projection estimation on reform advances and setbacks are defined as years in which the average of four indicators by ICRG increases and decreases, and such changes are not unwound for at least three years. Sample includes 57 countries during 1990-2020.

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# Select Publications by Prospects Group

- *Global Economic Prospects* – *January 2021*  
(January and June)
- *Commodity Markets Outlook* – *October 2020*  
(April and October)
- *Global Monthly*
- *Global Productivity* – *July 2020*
- *Global Waves of Debt* – *December 2019*
- *A Decade After the Global Recession* – *November 2019*

# Questions & Comments

## *Thank you!*

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