

Global Economic Prospects

June 2020

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EFI - Prospects Group

June 2020

Global Economic Prospects – June 2020

- Global Outlook – Pandemic, Recession: The Global Economy in Crisis
- Regional Outlooks
- *How Deep Will the COVID-19 Recession Be?*
- *How does informality aggravate the impact of COVID-19?*
- *Lasting Scars of the COVID-19 Pandemic*
- *Adding Fuel to the Fire: Cheap Oil in the Pandemic*
- *Regional Macroeconomic Implications of COVID-19*

* *EMDEs = Emerging Market and Developing Economies*

Four Questions

- 1 What are global growth prospects in the near-term?** *Deepest and most synchronized global recession since WW II. First EMDE recession on record. Risks tilted to the downside.*
- 2 What is the global growth impact of cheap oil?** *Marginal impact on global growth early in the recovery. Sharp downturn in oil-exporting EMDEs.*
- 3 What are the likely long-term implications of COVID-19?** *Weaker potential output, investment, and productivity over the long term.*
- 4 What are policy priorities?** *Addressing the immediate health crisis; Pursuing reforms to reignite growth; Enhancing debt and investment transparency; Coordinating policies globally.*

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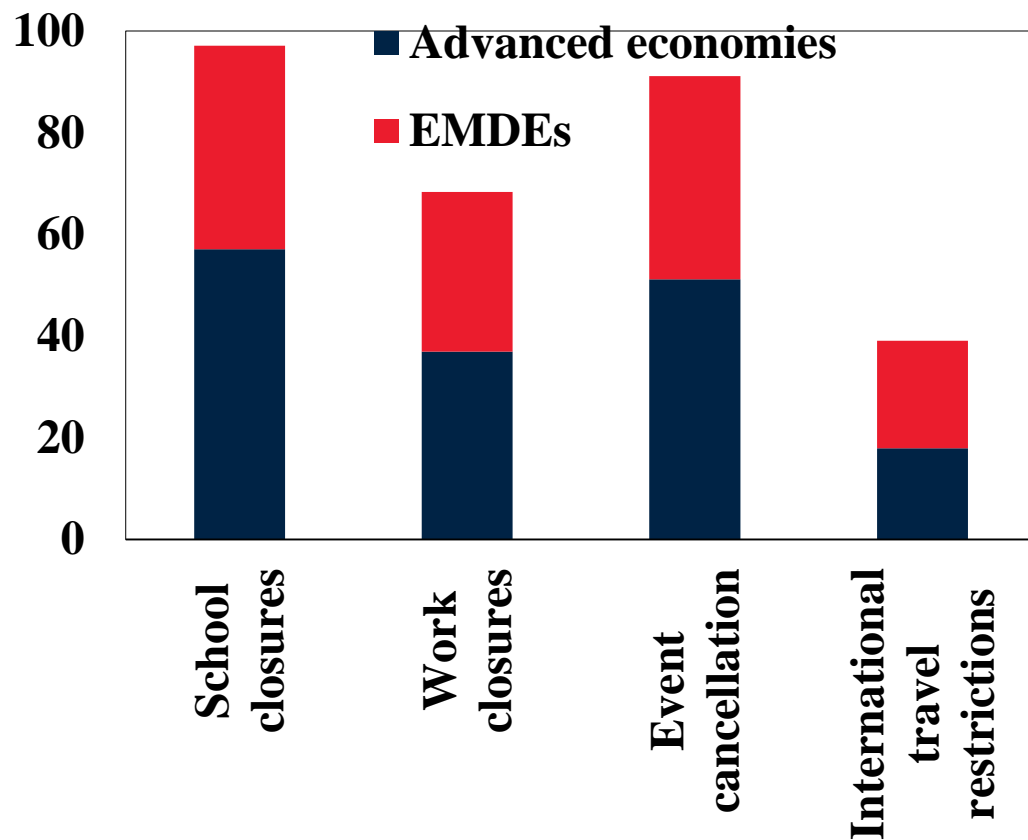
Four Questions

1 **What are global growth prospects in the near-term?** *Deepest and most synchronized global recession since WW II. First EMDE recession on record. Risks tilted to the downside.*

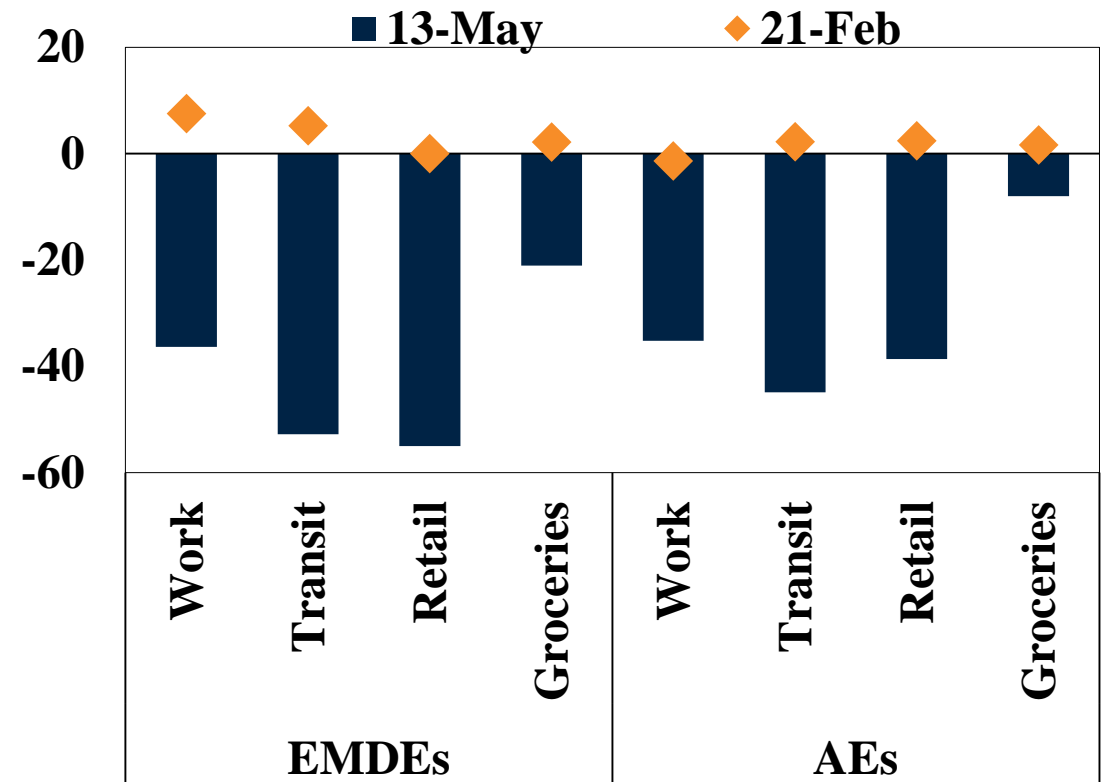
Policies to Stem the Pandemic

Unprecedented Measures, Unprecedented Behaviours

Share of global GDP affected by restrictions
(Percent of global GDP)



Mobility indicators
(Percent deviation from baseline)



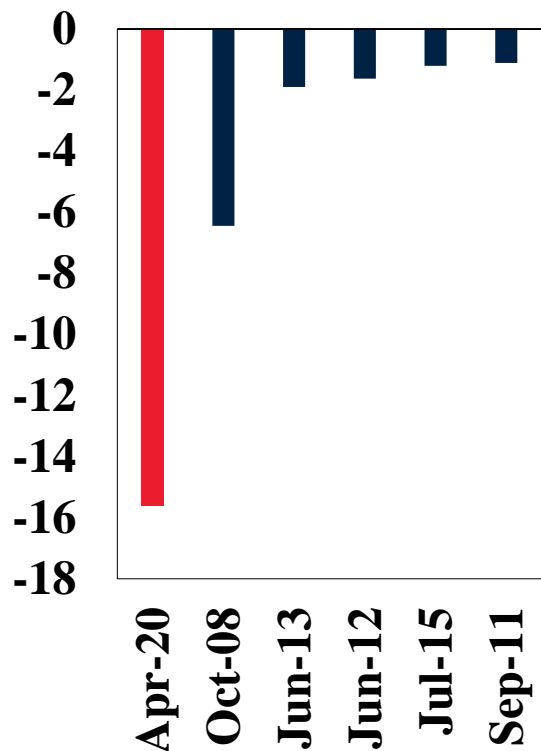
Source: Google Mobility tracker; Oxford university; World Bank.

Left Panel. Figure shows share of GDP accounted for by economies with restrictions. Restrictions are counted if required (i.e., not only recommended) and, for school and work closures, if applied across all levels and sectors, respectively. Travel restrictions are counted if they entail a ban on arrivals from all regions or a total border closure. Data is for April 1, 2020. Right panel: GDP-weighted averages (at 2010 prices and market exchange rates). Weekly averages for weeks ending May 13 and February 21.

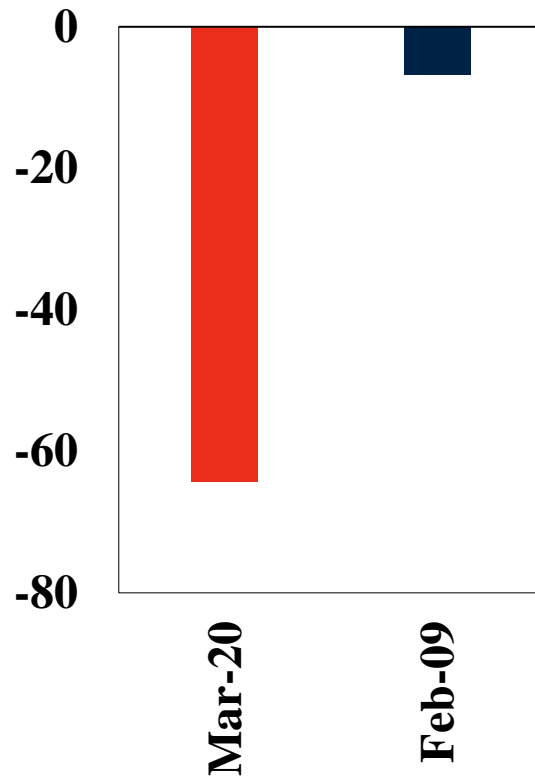
Activity, Trade, and Commodities

Collapse in Activity and Trade; Plunge in Commodity Prices

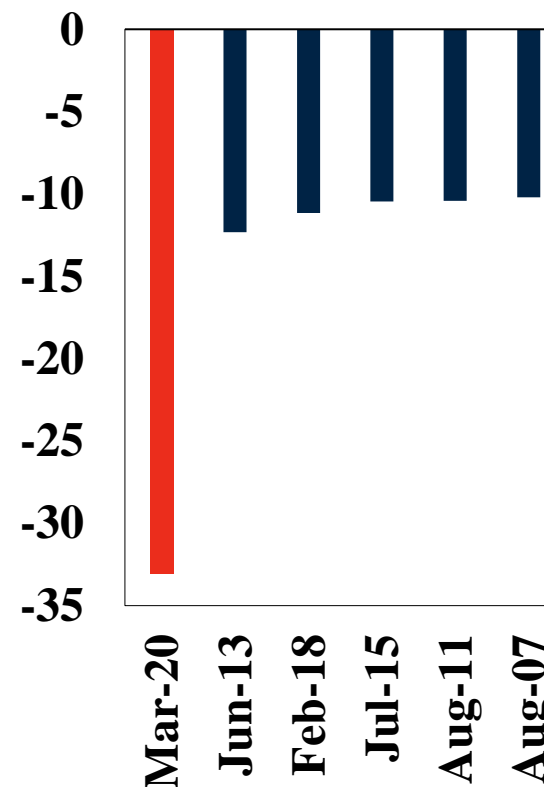
Steepest one-month falls in new export orders since 2000
(Change in index)



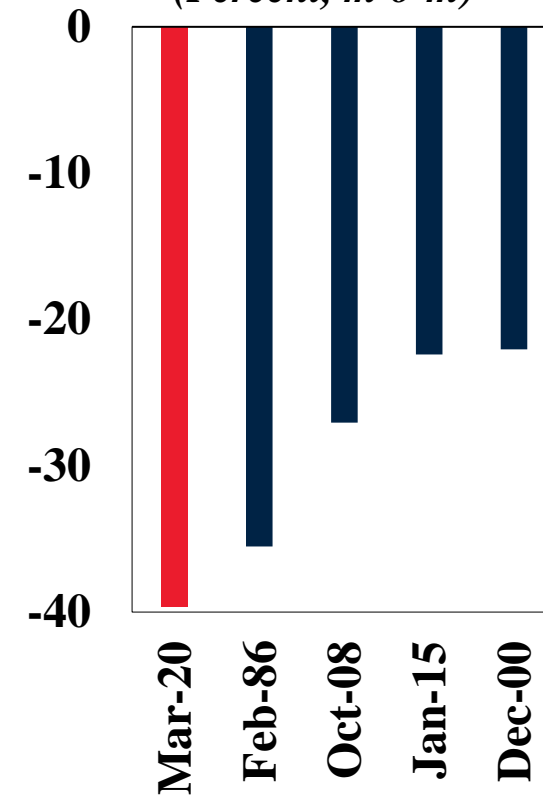
Steepest declines in tourist arrival since 2006
(Percent, y-o-y)



Lowest weekly net portfolio inflows to EMDEs since 2005
(Billions of U.S. dollars)



Steepest one-month oil price falls since 1960
(Percent, m-o-m)

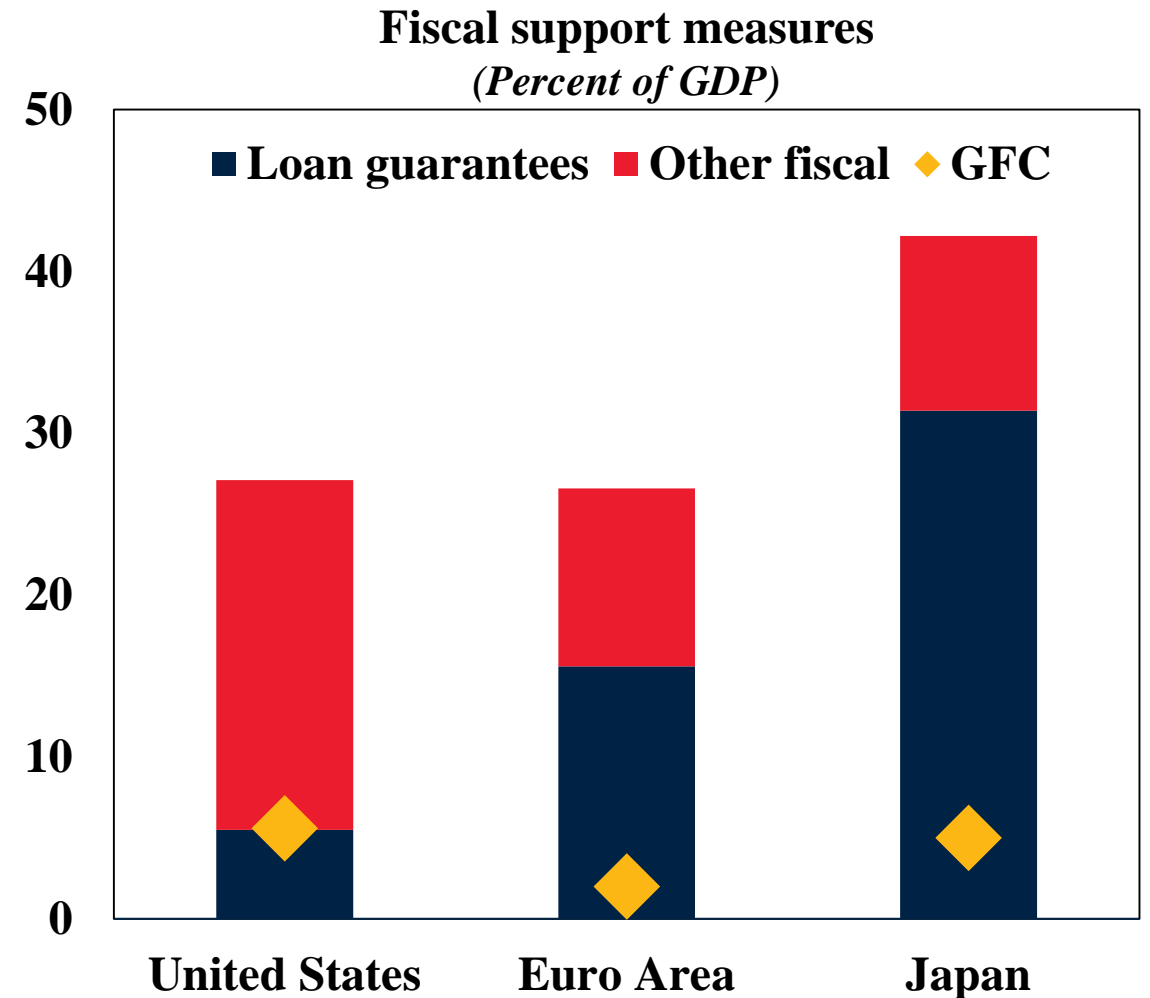
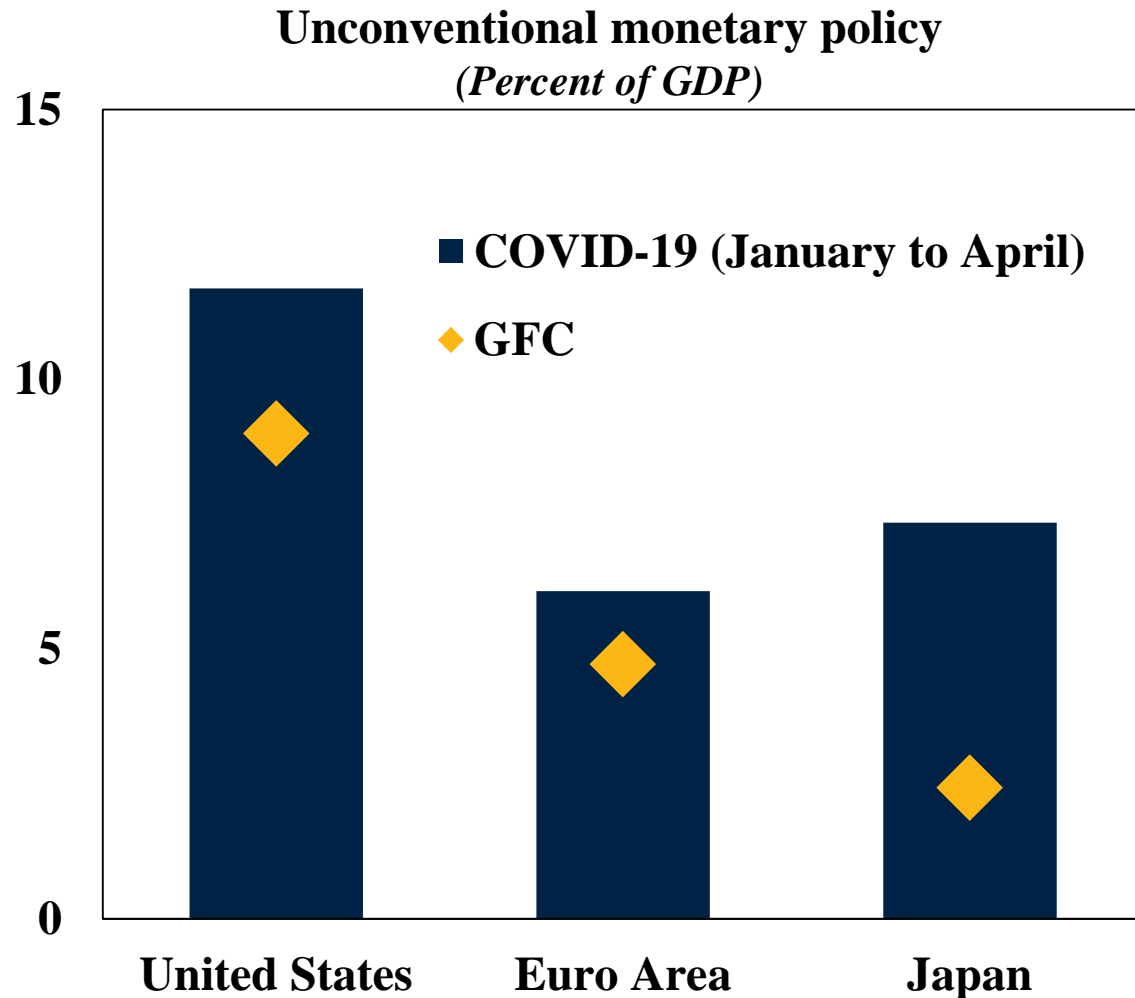


Source: Haver Analytics, Institute of International Finance; Institute of Shipping Economics and Logistics, World Bank.

Note: Consecutive months or weeks not show. EMDE = emerging market and developing economies. Left panel: Data only available from 2010. Figure only considers changes that are accompanied by declines below the threshold of 50, which indicates a contraction, and dates that are at least six months apart. Consecutive months not shown. Data only available from 2010. Figure only considers changes that are accompanied by declines below the threshold of 50, which indicates a contraction. Center left panel: Year-on-year growth. Monthly data only available from January 2005. Center right panel: One-week sum of net daily purchases of EMDE stocks and bonds by non-residents (as published by the Institute for International Finance) for 20 EMDEs. Data only available from 2005. Chart only considers dates that are at least six weeks apart. Right panel: Data for the European Brent spot price.

Policy Responses in Major Advanced Economies

Unprecedented Measures



Source: Bloomberg, European Central Bank, International Monetary Fund, World Bank.

Left Panel. COVID-19 reflects recently increases in central bank balance sheets since January 2020 and are expressed as a share of 2019 nominal GDP. GFC refers to global financial crisis and reflects the increase in central bank balance sheets between August 2008 and December 2009 as a share of 2008 nominal GDP. Last observation is April 2020. Right Panel. Total of measures either planned or under consideration as of May 17, 2020. Share of 2019 nominal GDP. GFC indicates fiscal measures implemented over the period 2008-09.

Growth Forecasts

Record Downgrades; First EMDE Recession since 1960

GDP growth (Percent)

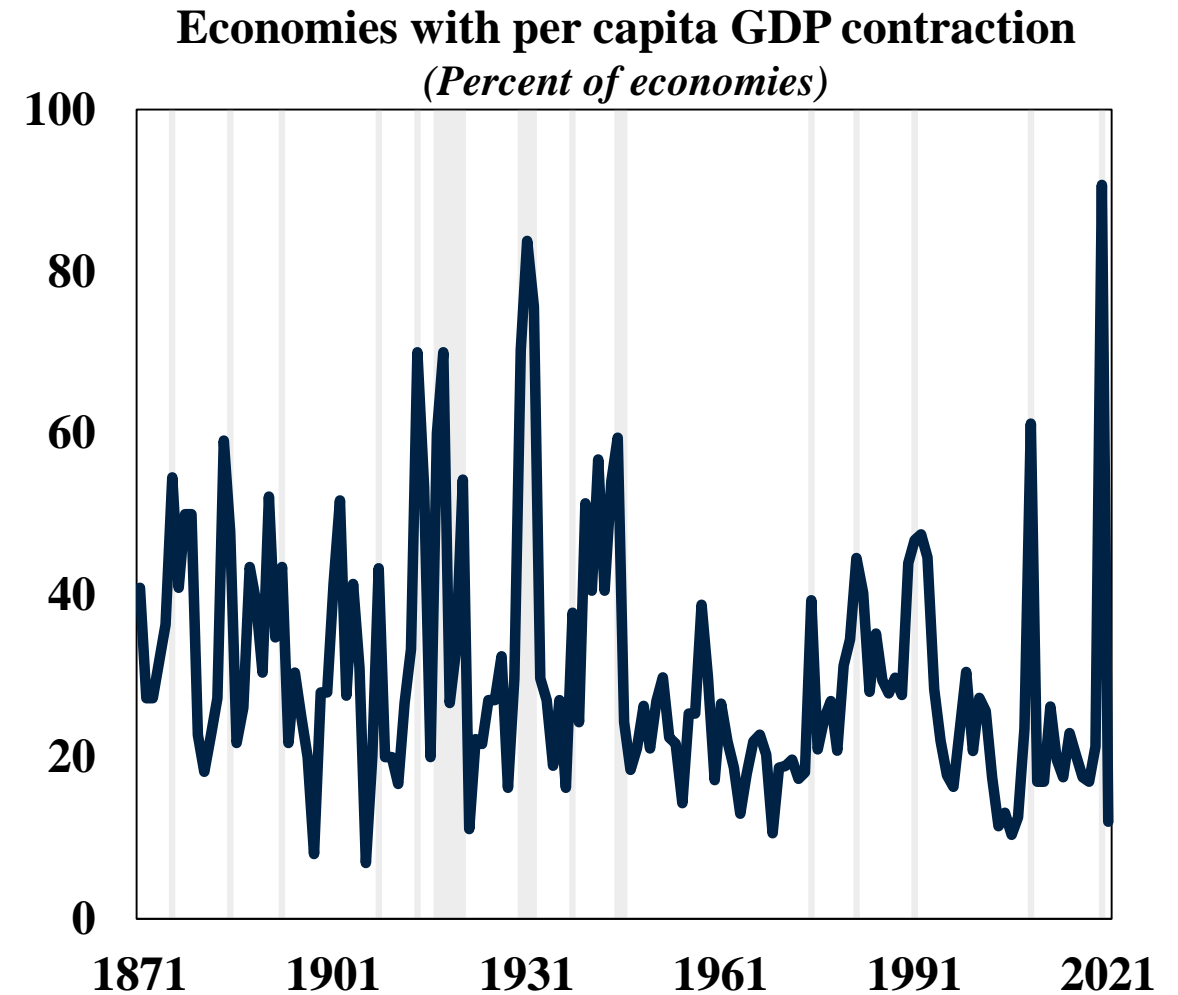
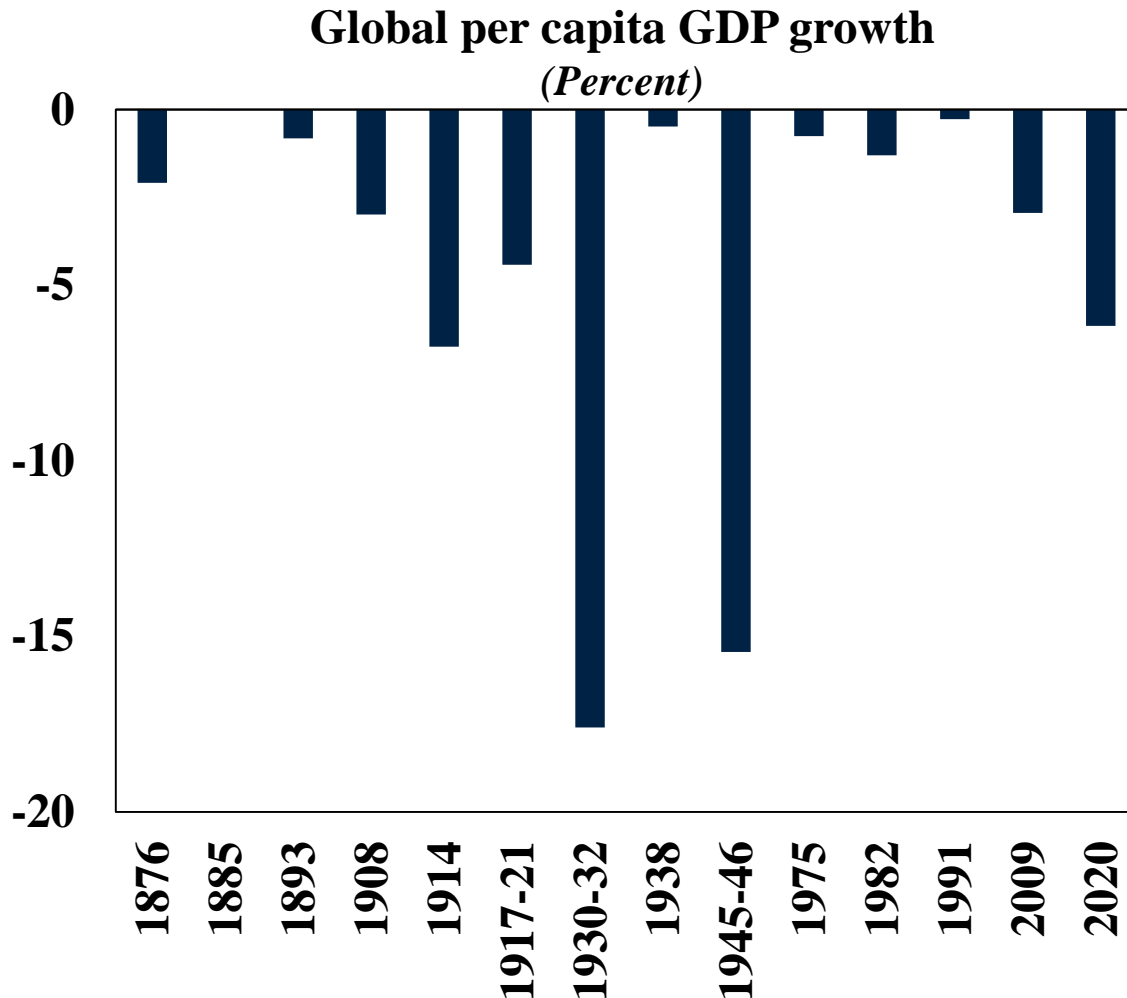
					<i>Change from January 2020</i>	
	2012-18	2019e	2020f	2021f	2020	2021
World	2.8	2.4	-5.2	4.2	-7.7	1.6
Advanced economies	1.9	1.6	-7.0	3.9	-8.4	2.4
EMDEs	4.5	3.5	-2.5	4.6	-6.6	0.3
East Asia and Pacific	6.7	5.9	0.5	6.6	-5.2	1.0
Europe and Central Asia	2.8	2.2	-4.7	3.6	-7.3	0.7
Latin America and the Caribbean	1.5	0.8	-7.2	2.8	-9.0	0.4
Middle East and North Africa	2.7	-0.2	-4.2	2.3	-6.6	-0.4
South Asia	6.7	4.7	-2.7	2.8	-8.2	-3.1
Sub-Saharan Africa	3.3	2.2	-2.8	3.1	-5.8	0.0

Source: World Bank.

Note: e and f refer to estimates and forecasts, respectively.

COVID-19 Global Recession

Deepest Since WWII; Most Synchronized on Record



Source: Bolt et al. (2018); Kose, Sugawara, and Terrones (2019, 2020); World Bank.

Note: Data for 2020-21 are forecasts. Left Panel. For multi-year episodes, the cumulative contraction is shown. The per capita growth contraction in 1885 was less than -0.1 percent. Right Panel.

Figure shows the proportion of economies in recession, defined as an annual contraction in per capita GDP. Sample includes 183 economies, though the sample size varies significantly by year.

Shaded areas refer to global recessions.

Risks

Heavily Tilted to the Downside

Risk of a deeper downturn

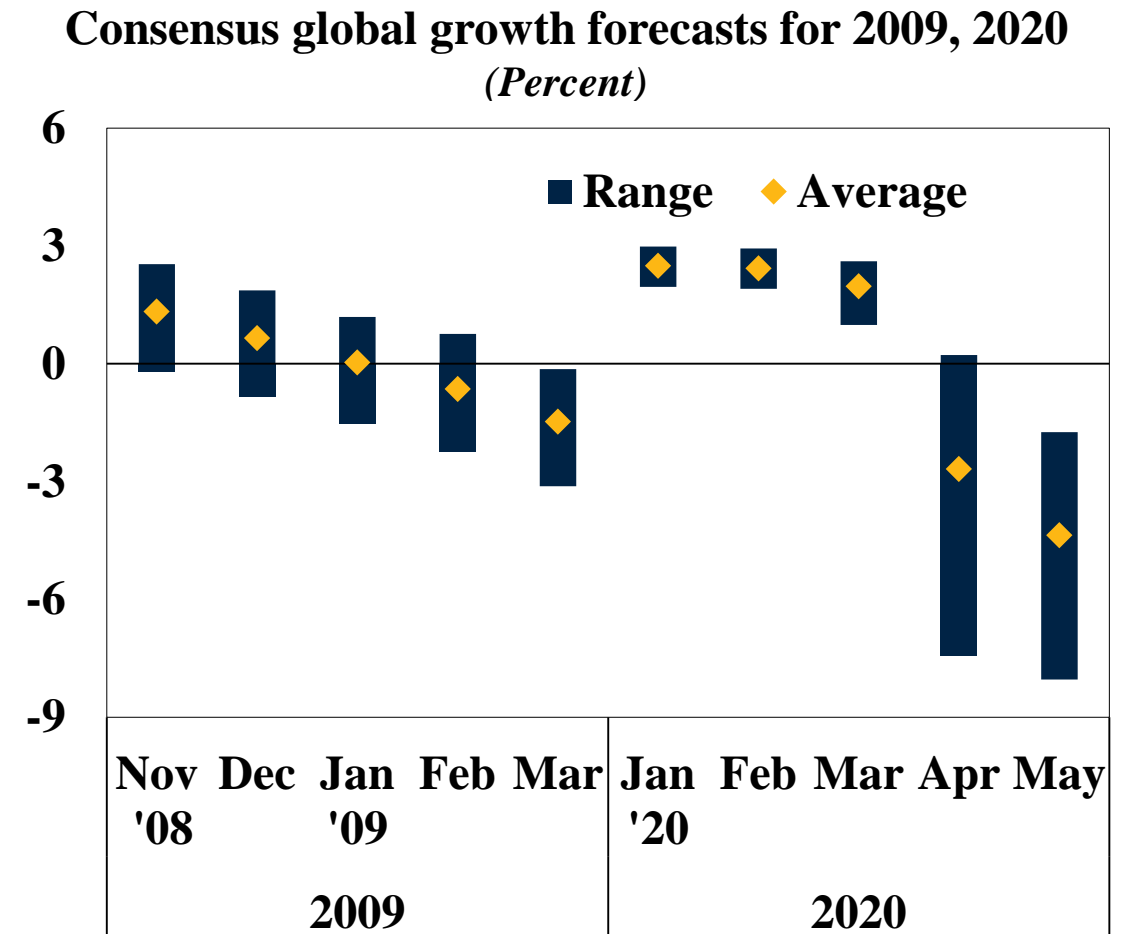
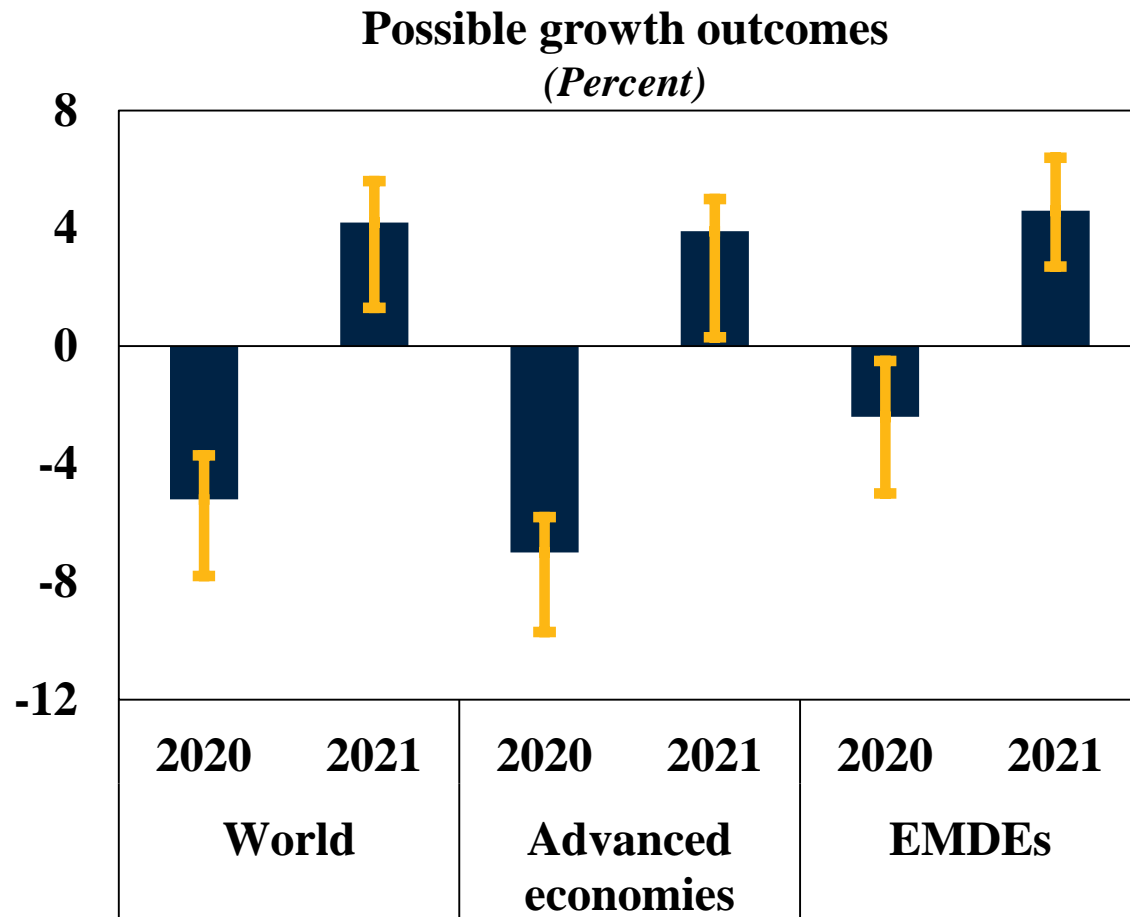
- More protracted pandemic
- Financial crises amid high debt levels
- Reescalation of trade tensions
- Limited effectiveness of policy support

Risk of a slower recovery

- Lower-for-longer commodity prices
- Longer-lasting effects on households and firms
- Fragmentation and retreat from global value chains
- Larger-than-expected adverse impact on potential growth
- Social unrest
- Weaker development outcomes

Fragile Growth Prospects

Much Weaker Outcomes Possible; Large Uncertainty in Forecasts



Source: Consensus Economics, World Bank.

Left Panel. Aggregate growth rates calculated using GDP at 2010 prices and market exchange rates as weights. Bars indicate baseline scenario; vertical orange lines show downside-upside range. Baseline scenario: Three months of mitigation measures would be enough to stem the pandemic. A recovery would get underway once mitigation measures are lifted but would be hesitant. Downside scenario: Three months of stringent lockdowns would prove insufficient and another three months of mitigation would be required before the pandemic can be brought under control. Upside scenario: Mitigation measures would be lifted after three months, and all major economies would sputter back to life in the third quarter of 2020. Monetary and fiscal stimulus would remain in place and would be highly effective in supporting growth over the next 18 months. Right Panel. Consensus global growth forecasts for 2009 and 2020 in denoted months. Ranges show the minimum-maximum of growth forecasts.

Four Questions

2 **What is the global growth impact of cheap oil?** *Marginal impact on global growth early in the recovery. Sharp downturn in oil-exporting EMDEs.*

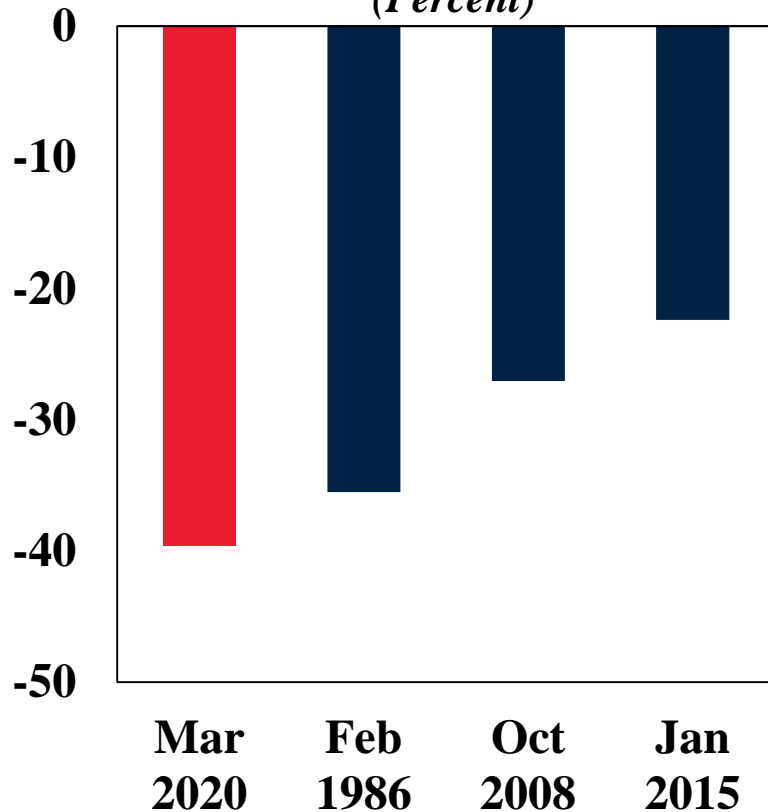
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Oil Price Plunge

Largest since 1970; Mostly Demand Driven

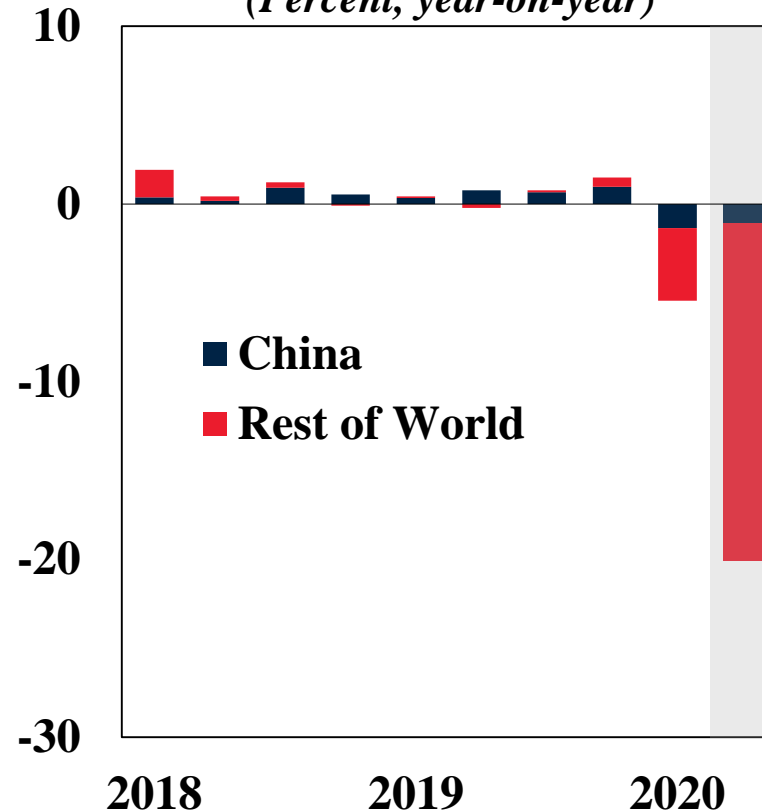
Largest one-month declines in oil prices since 1970

(Percent)



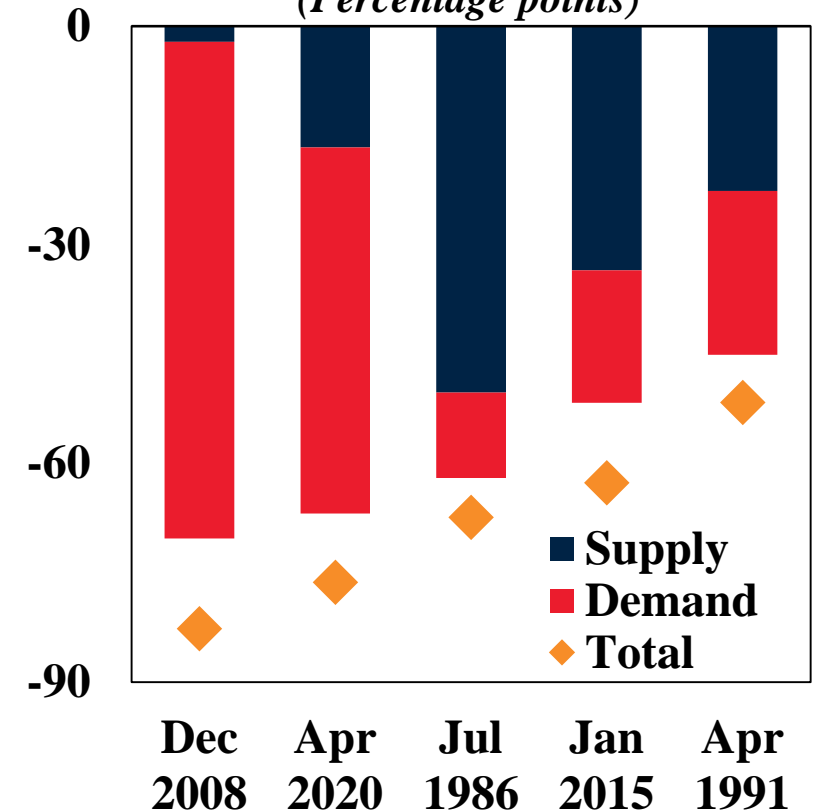
Contribution to global oil demand growth

(Percent, year-on-year)



Contribution to largest oil price declines

(Percentage points)



Source: Haver Analytics, International Energy Agency, Organization of Petroleum Exporting Countries, U.S. Energy Information Administration, World Bank.

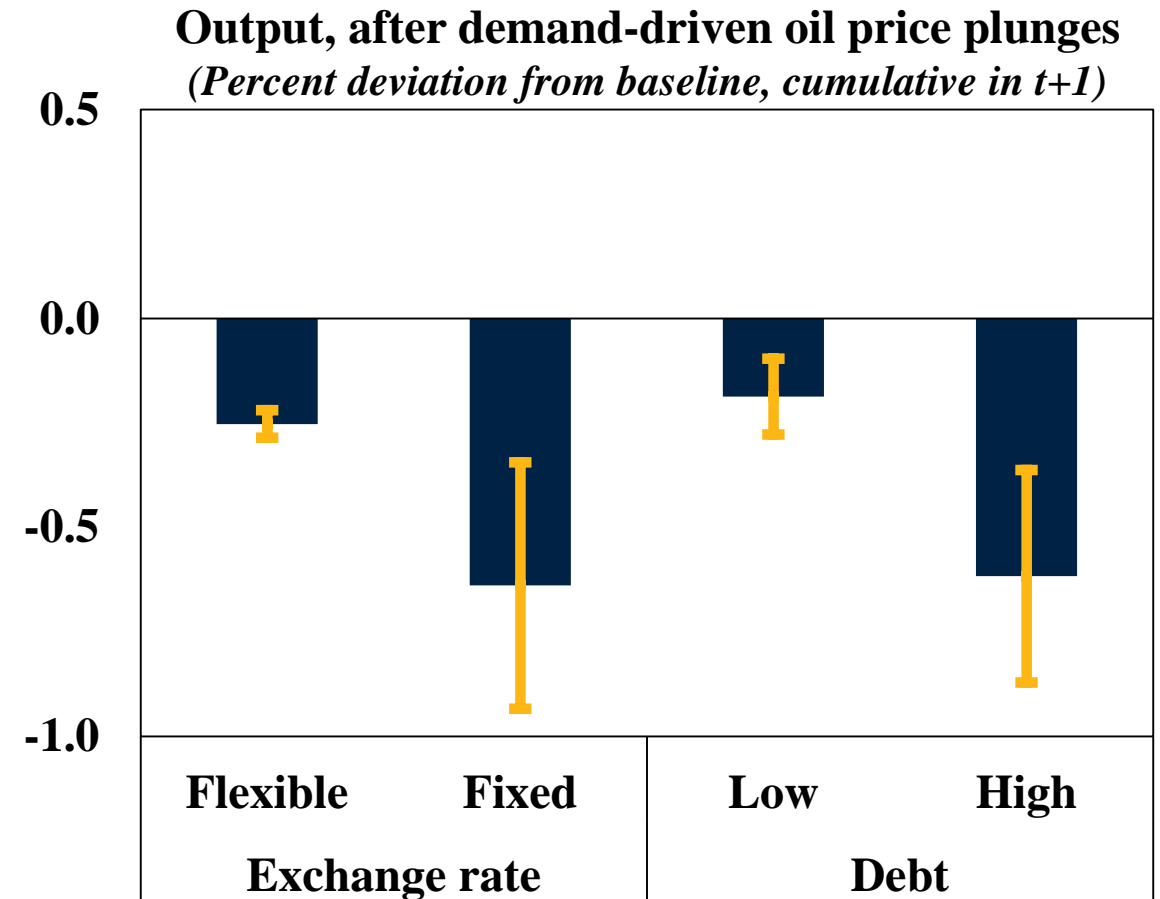
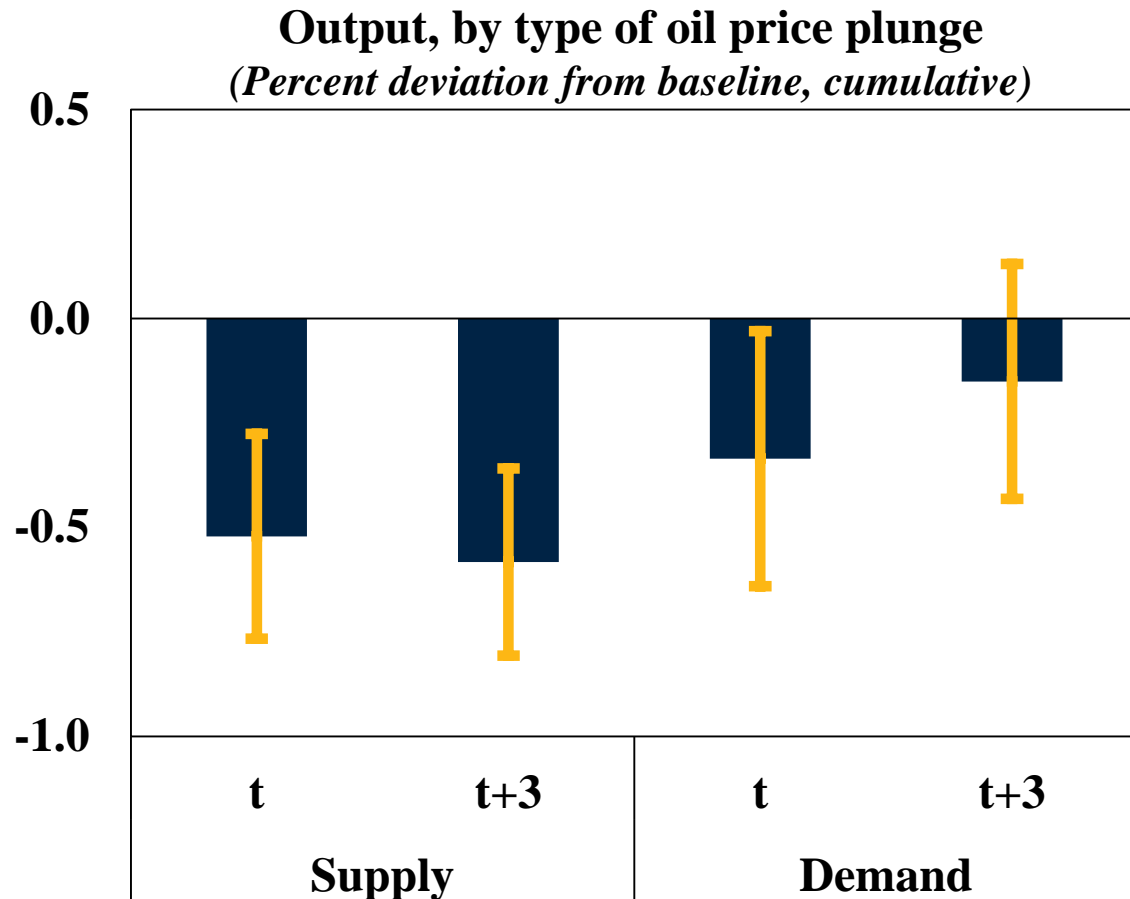
Left Panel. Figure shows the largest declines in oil prices since 1970. Dates on the horizontal axis indicate the month in which the decline occurred. Months with consecutive declines are omitted.

Center Panel. Shaded area indicates demand growth estimates by the International Energy Agency for 2020Q2. Right Panel. Figure shows the contribution to the predicted six-month change in oil prices.

Decomposition based on structural vector autoregression estimation. For each of the five episodes, only the month with the deepest six-month oil price plunge is shown, consecutive months are not presented. The gap between the total price decline and the contributions of demand and supply represents speculative demand factor.

Growth Impact of the Oil Price Plunge

Output Losses; Larger in More Exposed Exporters



Source: International Monetary Fund, World Bank.

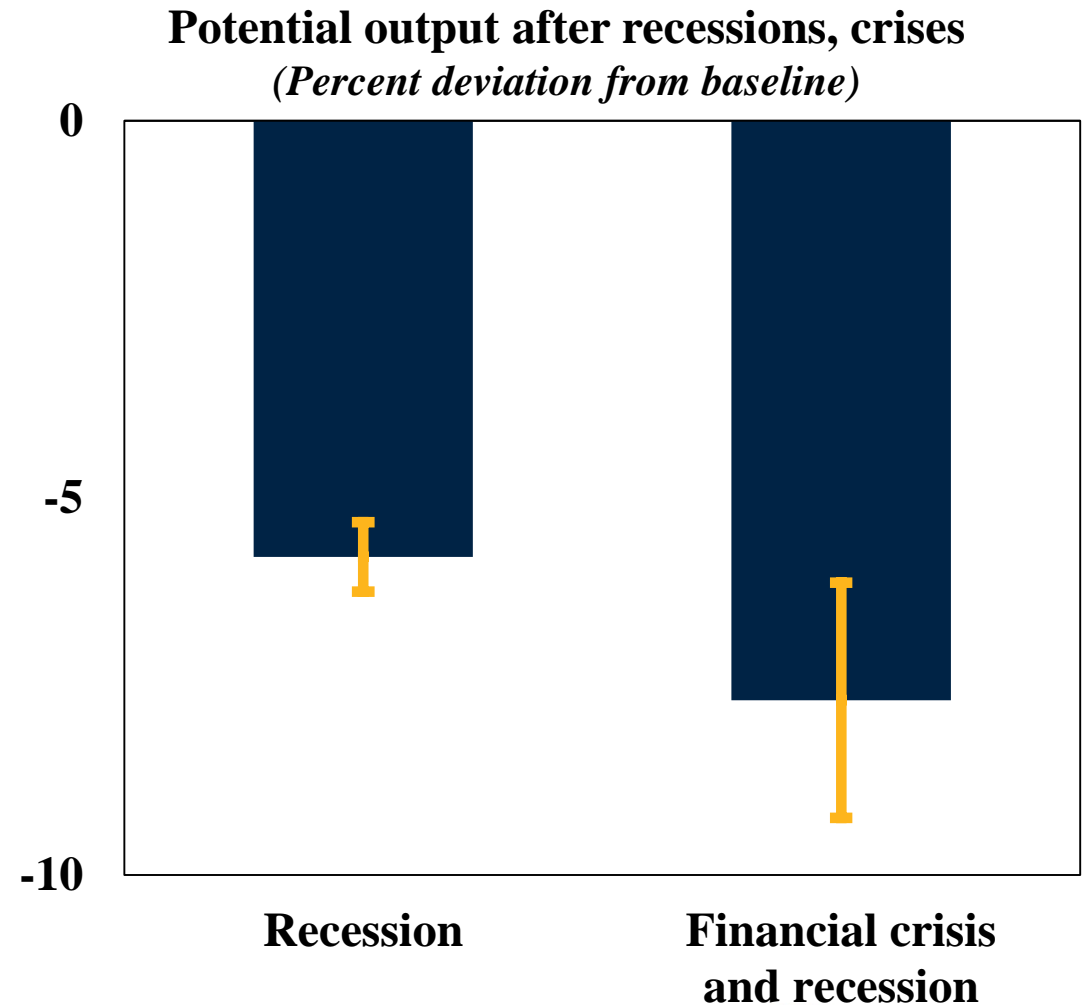
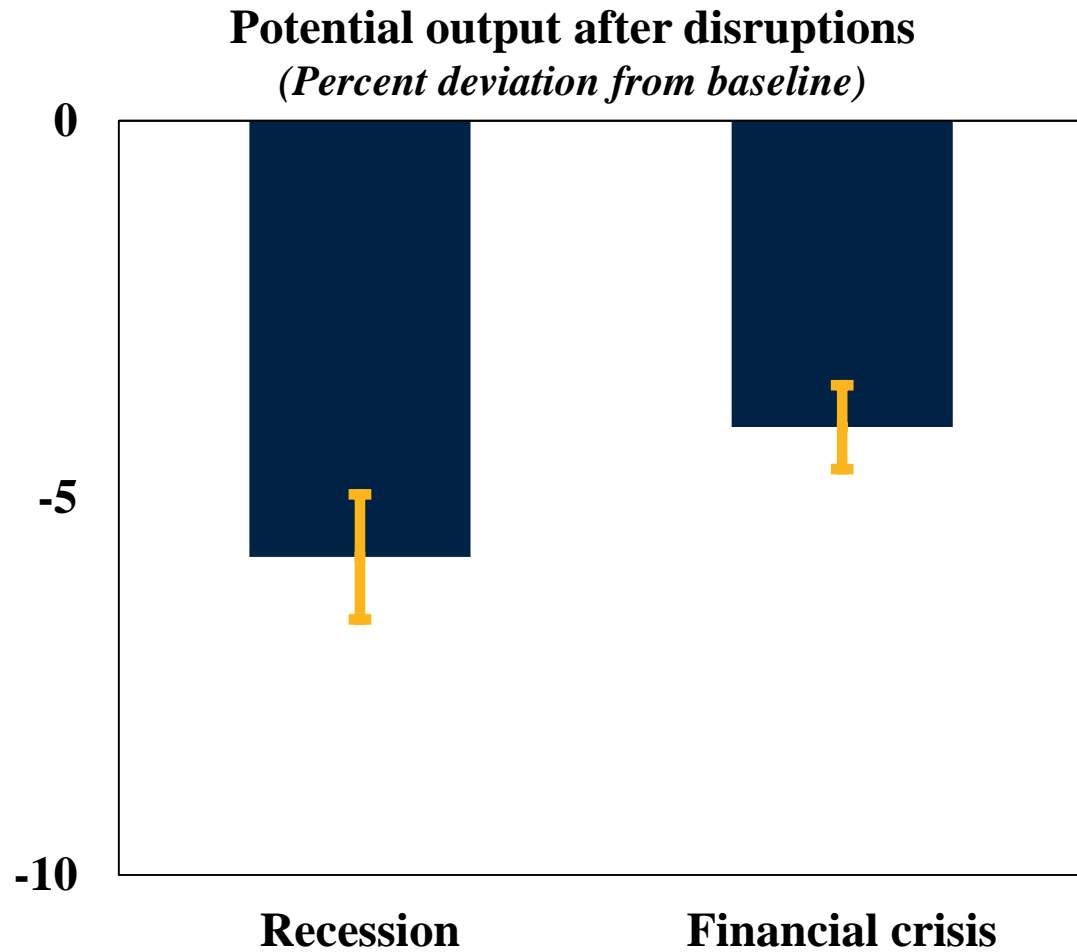
Note: Cumulative impulse responses of real output in EMDEs in response to an oil price plunge, based on a local projections model estimated for 156 EMDEs, of which 36 are energy exporters (oil, gas, or coal), for 1970-2018. Oil price plunges occur in year "t". Oil price plunges of more than 30 percent over seven months occurred in 1985-86 (supply-driven), 1990-91 (demand-driven), 1998 (demand-driven), 2001 (demand-driven), 2008-09 (demand-driven), and 2014-16 (supply-driven). Right Panel. Output declines in the year following the oil price plunge. High (low) debt is government debt above (below) 30 percent of GDP for upper-middle and lower-middle income economies and 70 percent of GDP for high-income economies. Fixed exchange rates are as defined in IMF's Annual Report on Exchange Arrangements and Restrictions. Countries are ranked 0 (no separate legal tender) to 10 (free float). "Fixed" refers to countries with either a hard or soft peg, which is denoted by a ranking of 1 to 6, while "Flexible" denotes those with rankings of 7 to 10 and includes countries with horizontal bands and other managed arrangements.

Four Questions

3 What are the likely long-term implications of COVID-19? *Weaker potential output, investment, and productivity over the long term.*

Potential Output after Financial Crises

Sharper Declines if Accompanied by Recessions

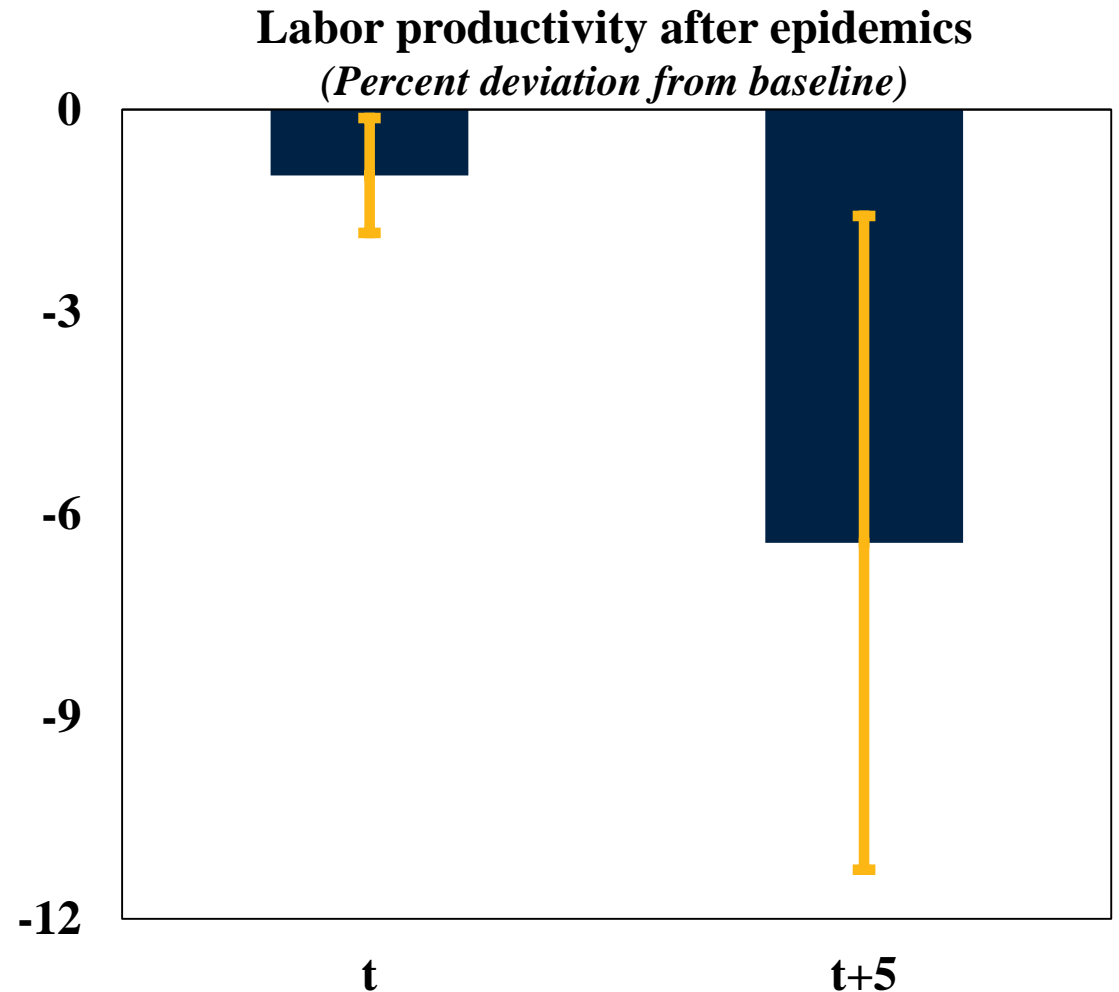
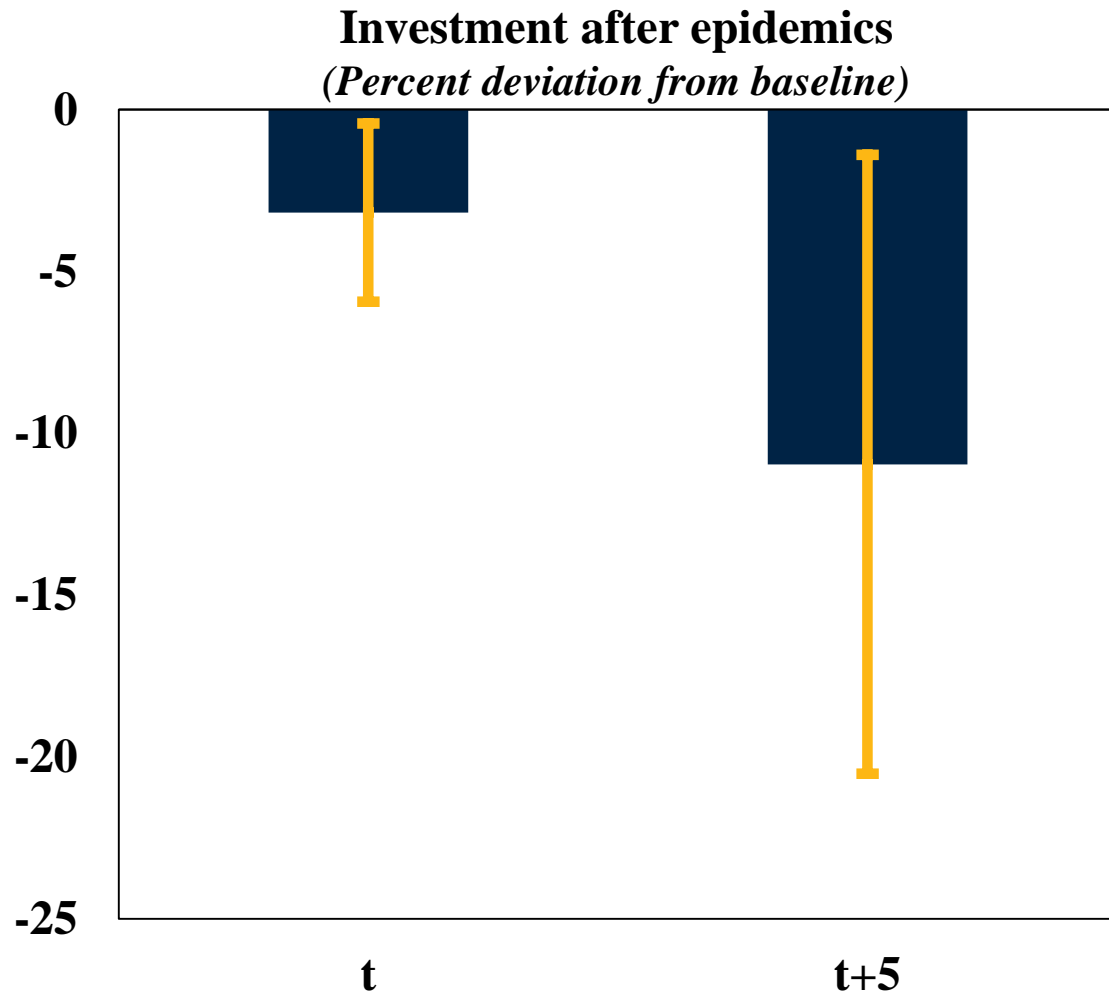


Source: Ha, Kose, and Ohnsorge (2019); World Bank.

Note: Cumulative potential output response in four years after the event, based on local projections model. 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.

Investment and Productivity after Epidemics

Lasting Declines

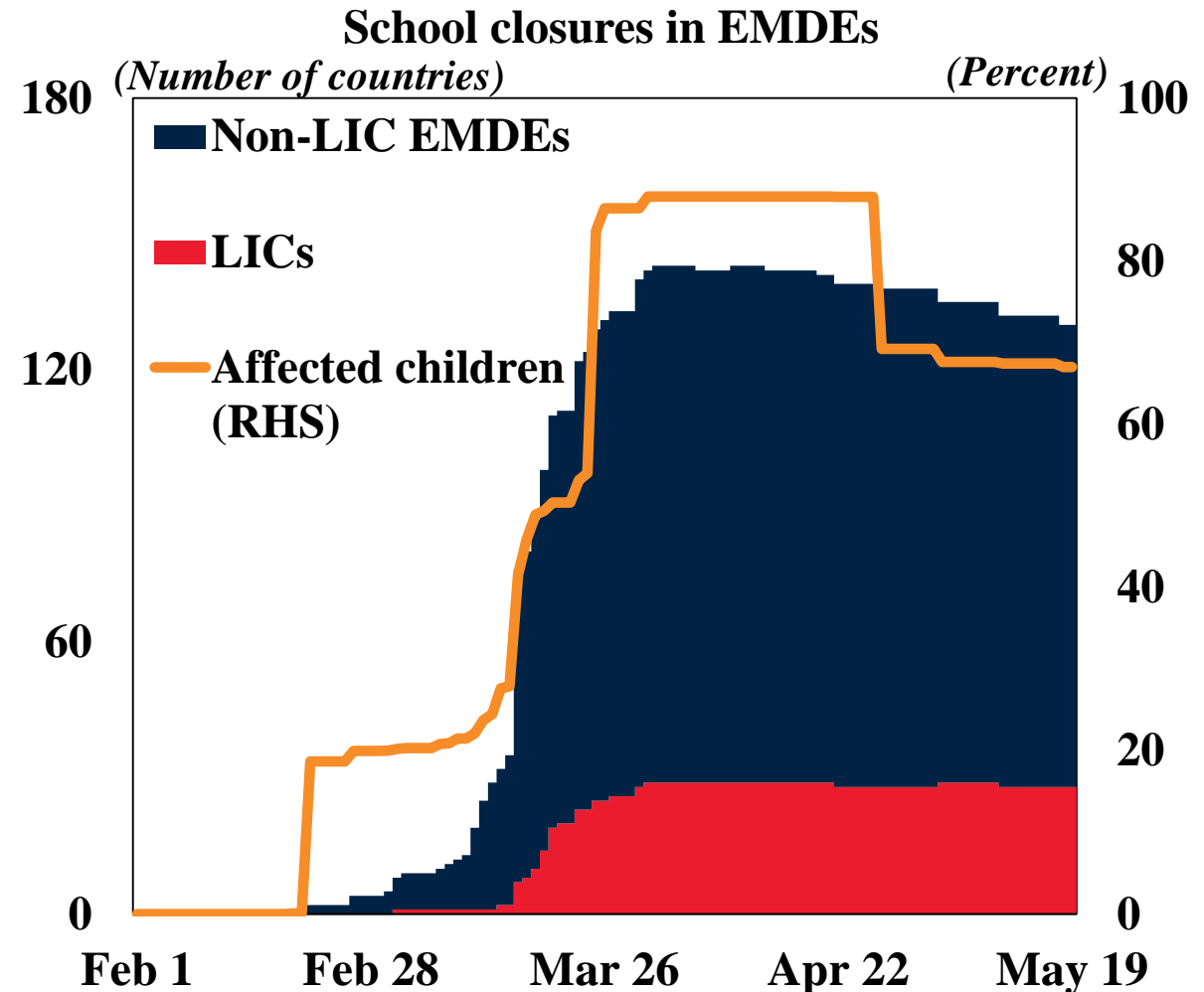
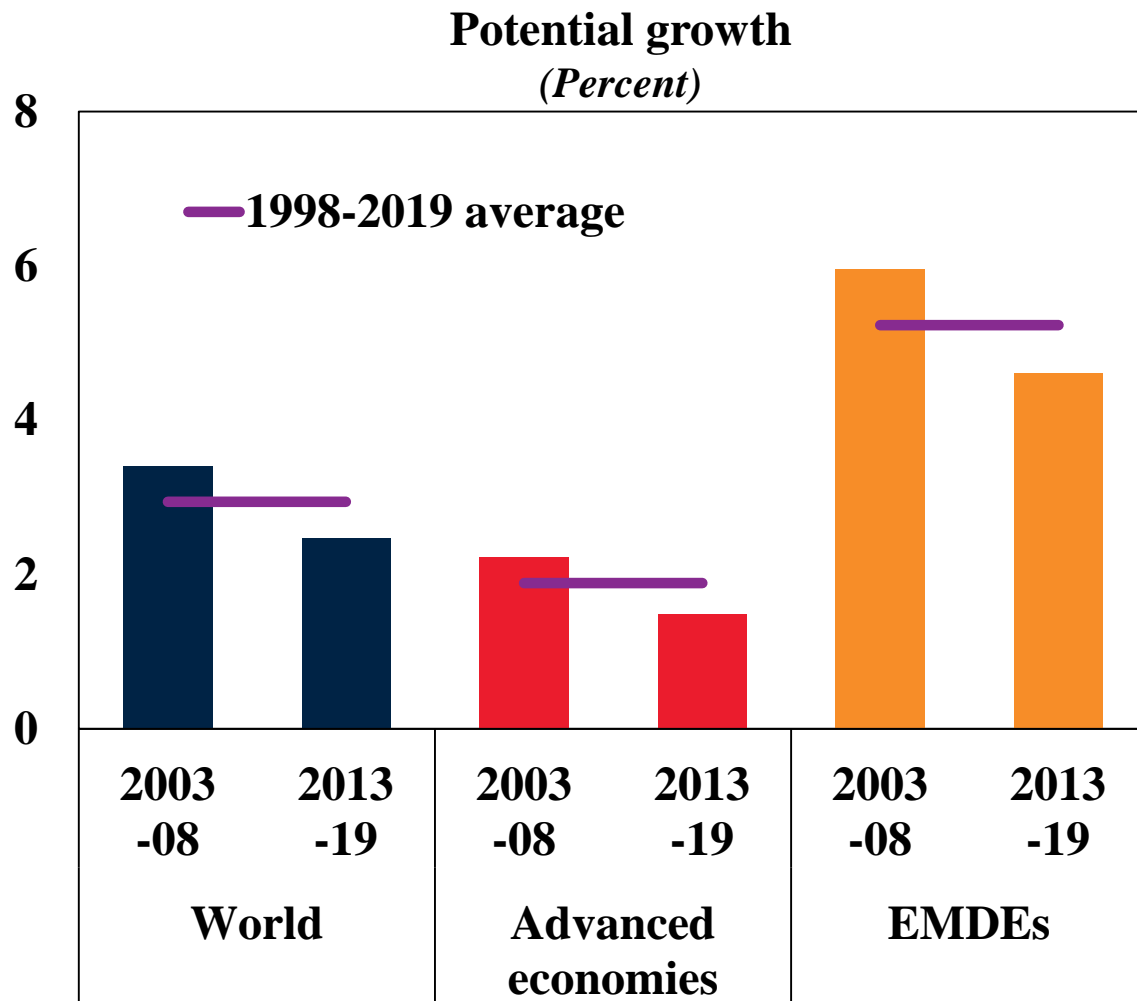


Source: World Bank.

Note: Bars show the estimated impacts of the four most severe epidemics (SARS 2002-03, MERS 2012, Ebola 2014-15, Zika 2015-16) on investment (Left Panel) and labor productivity (Right Panel) levels relative to non-affected EMDEs. H1N1 (2009), which coincided with the 2008-09 global financial crisis, is excluded to limit possible confounding effects. The sample includes 116 economies, consisting of 30 advanced economies and 86 EMDEs. Yellow whiskers show 90 percent confidence bands.

Factors Aggravating Long-Term Costs of COVID-19

Erosion of Human Capital; Slowing Potential Growth



Source: Bloomberg, UNESCO, World Bank.

Left Panel. Based on potential growth derived using production function approach. Sample includes 32 advanced economies and 55 EMDEs. GDP-weighted average. Right Panel. The number of countries that have either recommended or required school closings as part of measures to contain the domestic spread of COVID-19.

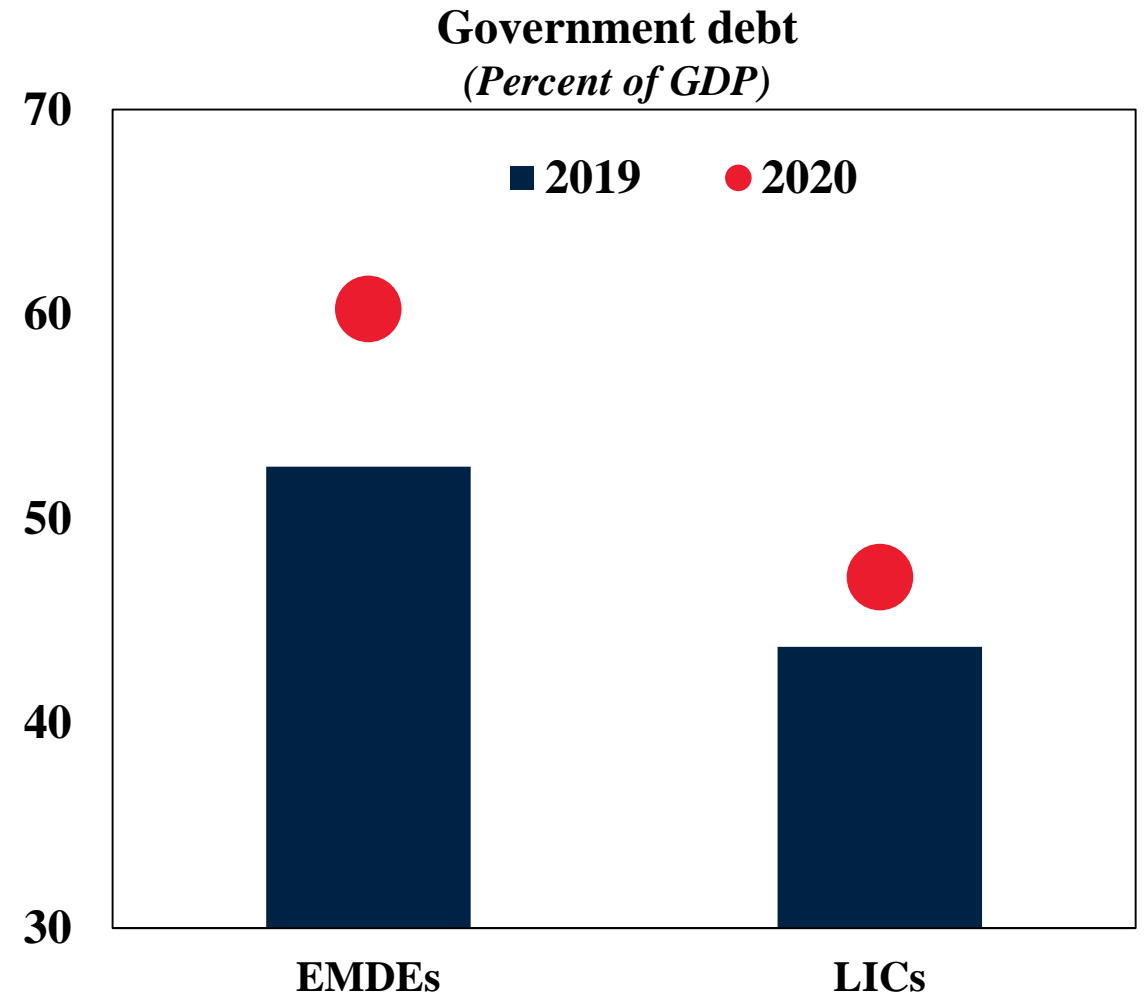
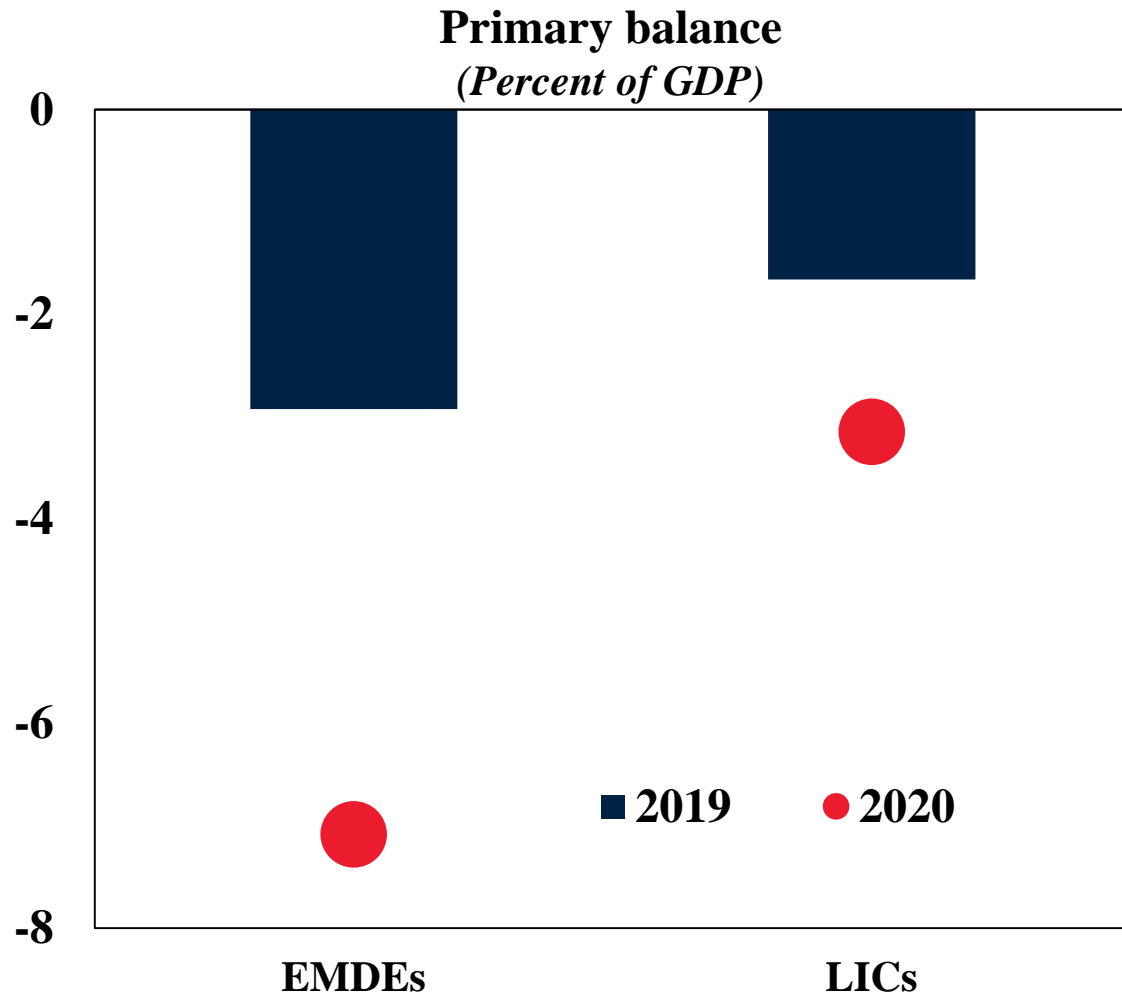
Four Questions

4 **What are policy priorities?** *Addressing the immediate health crisis; Pursuing reforms to reignite growth; Enhancing debt and investment transparency; Coordinating policies globally.*

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Fiscal Policy in EMDEs

Wider Deficits; Higher Government Debt

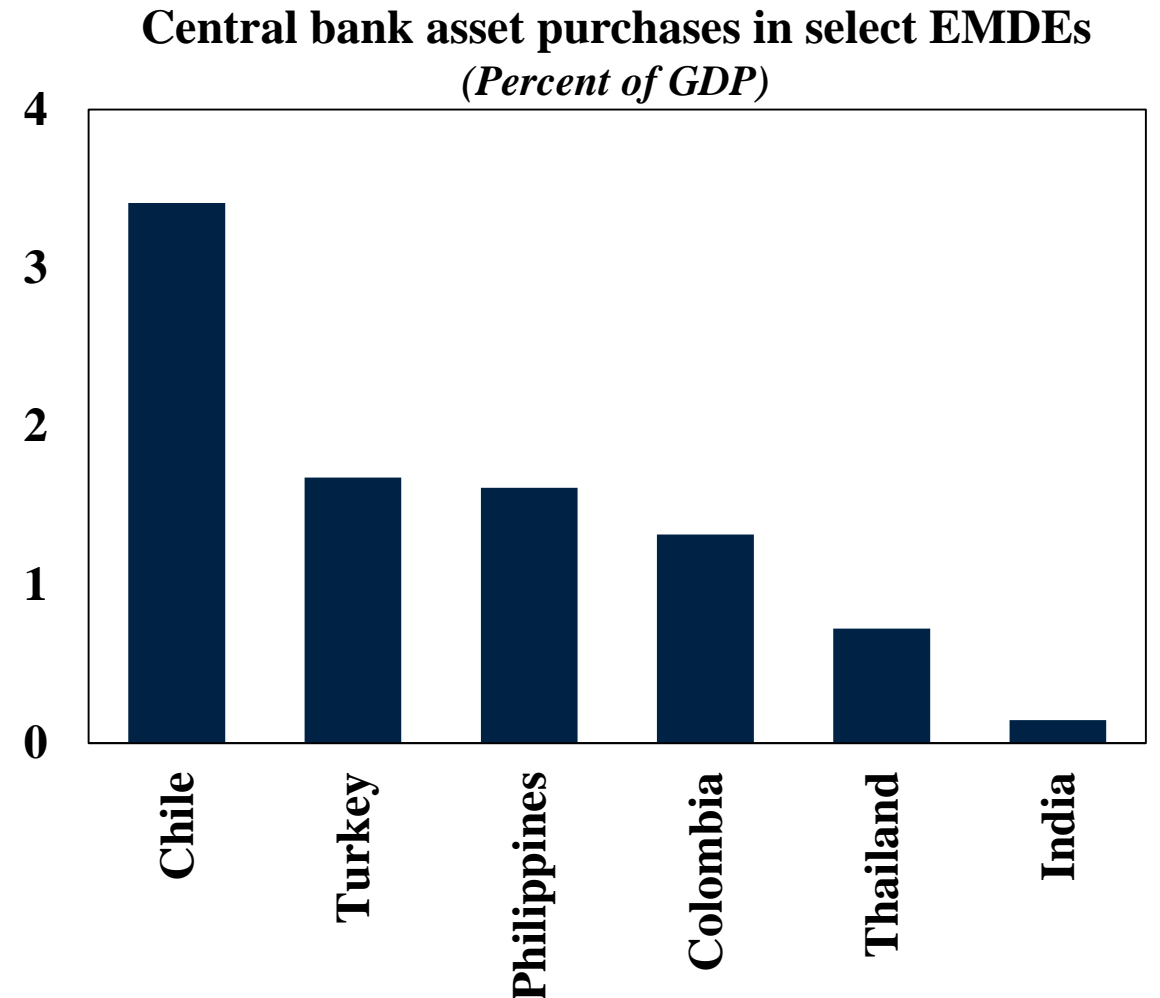
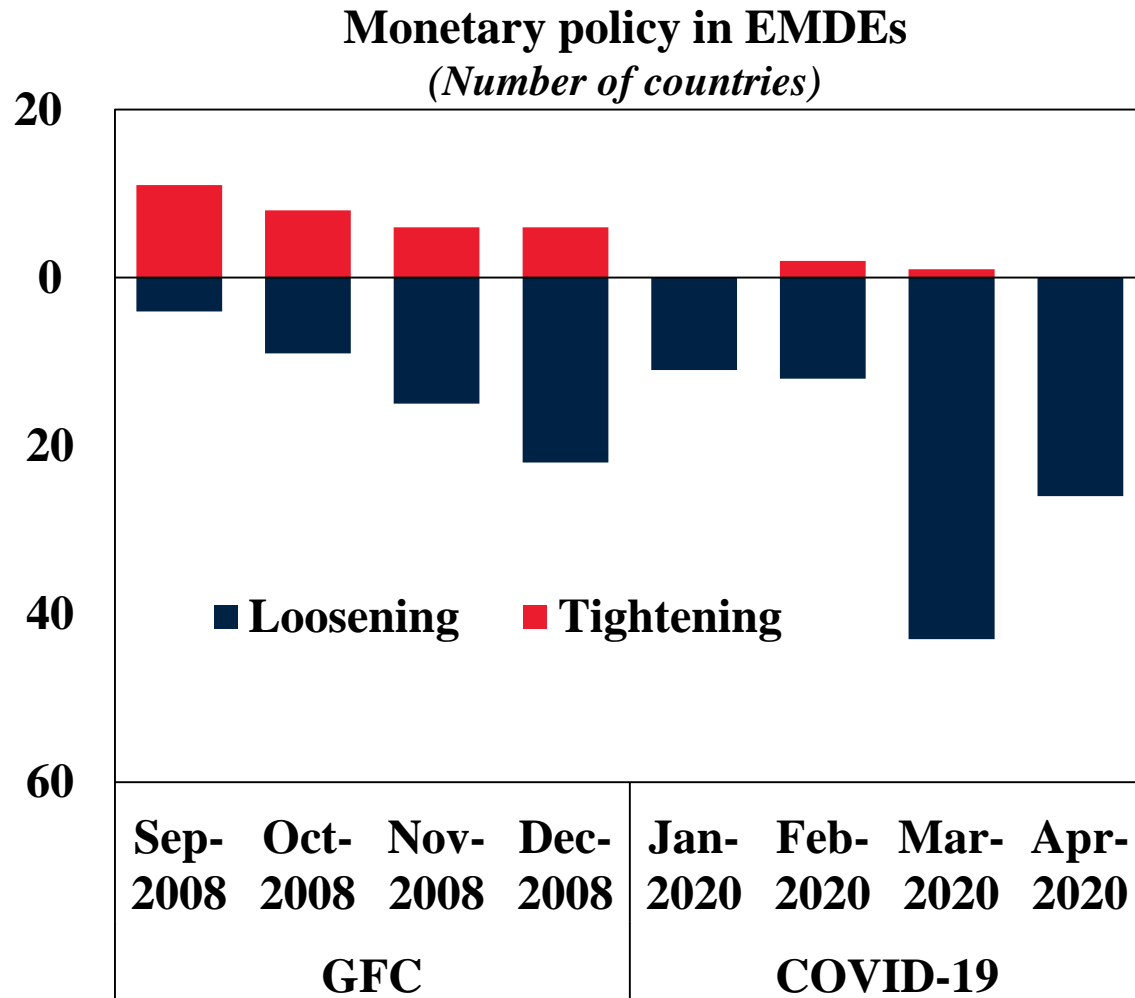


Source: International Monetary Fund; Kose et al. (2017); World Bank.

Note: Aggregates computed with current GDP in U.S. dollars as a weight. Sample includes 149 EMDEs and 28 low-income countries (LICs), as defined by the World Bank.

Monetary Policy in EMDEs

Numerous Interest Rate Cuts; Quantitative Easing Programs



Source: Haver Analytics, Institute of International Finance, World Bank.

Left Panel. GFC refers to global financial crisis. Sample includes 72 EMDEs. Last observation is April 2020. Right Panel. Announced central bank asset purchases, expressed relative to nominal local currency GDP in 2019. Other EMDEs have also announced similar programs; however, their size is dependent on market conditions (Hungary, Poland, Romania, South Africa). Last observation is May 14, 2020.

Policy Priorities

Focus on the Immediate Challenge but also Start Looking-Forward

Immediate: Dealing with the health and economic crisis

- Support healthcare systems
- Aid vulnerable groups and support viable corporates
- Coordinate policies globally to ensure smooth flow of critical goods
- Coordinate policies globally to provide debt relief to poor EMDEs

Forward-Looking: Putting in place policies for sustained long-term growth

- Improve fiscal and monetary policy frameworks
- Enhance debt and investment transparency
- Design robust financial regulation and bankruptcy procedures
- Undertake reforms to improve flexibility in product and labor markets
- Stimulate investment, improve human capital, support digital technologies, and enhance safety nets
- Strengthen institutions and governance practices
- Coordinate policies globally to address global challenges, including those related to public health and information transparency, global trade and financial system, and climate change

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Shape of the Recovery?

Many Proposed During Recessions

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Questions & Comments

Thank you!

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[EMDE vulnerabilities ...](#)

[Implications of informality for COVID-19 ...](#)

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