



RESEARCH

World Economic Outlook

MAY 2021

Malhar Nabar
Division Chief
Research Department

Divergent Recoveries Amid High Uncertainty

Outlook

- Vaccines, policy support, adaptation to new ways of working
- COVID-19 recessions likely to leave smaller scars than the 2008 financial crisis, but EMDEs expected to suffer larger medium-term losses

Emerging divergences

- Drivers: access to vaccines/therapies, policy support, structural characteristics
- **Divergences within and across countries**
 - sectoral: manufacturing versus services
 - rising inequality: opportunity and income

Policies need to be tailored to the stage of the pandemic, strength of the recovery and structural characteristics. Strong international cooperation is vital.

- **Escaping the crisis:** prioritizing health care spending, providing well-targeted support
- **Safeguarding the recovery:** limit long-term scarring without sacrificing efficiency
- **Investing in the future:** boosting productivity, ensuring equitable gains, improving policy frameworks, addressing climate change

Growth projections: Advanced economies

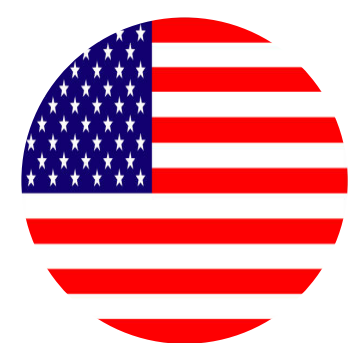
(percent change from a year earlier)



World



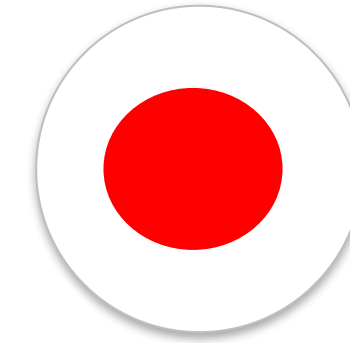
Advanced Economies



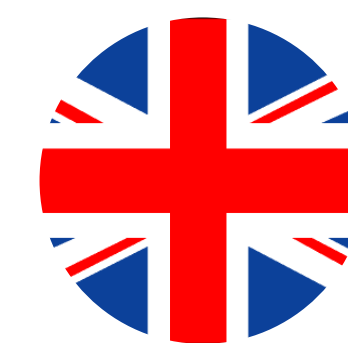
U.S.



Euro Area



Japan



U.K.



Canada



Other
Advanced
Asia

2020

-3.3

-4.7

-3.5

-6.6

-4.8

-9.9

-5.4

-1.3

Revision from
Jan. 2021

0.2

0.2

-0.1

0.6

0.3

0.1

0.1

0.2

2021

6.0

5.1

6.4

4.4

3.3

5.3

5.0

4.3

Revision from
Jan. 2021

0.5

0.8

1.3

0.2

0.2

0.8

1.4

0.7

2022

4.4

3.6

3.5

3.8

2.5

5.1

4.7

3.0

Revision from
Jan. 2021

0.2

0.5

1.0

0.2

0.1

0.1

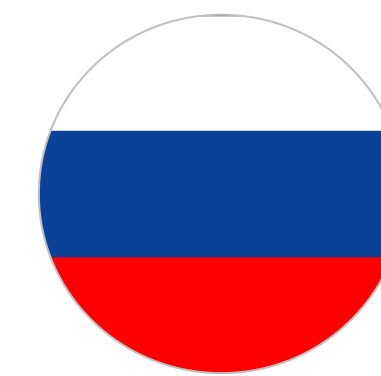
0.6

0.1

Source: IMF, *World Economic Outlook* April 2021.

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

-3.3

-2.2

2.3

-8.0

-4.1

-3.1

-3.9

0.0

Revision from
Jan. 2021

0.2

0.2

0.0

0.0

0.4

0.5

0.5

0.8

2021

6.0

6.7

8.4

12.5

3.7

3.8

4.1

4.3

Revision from
Jan. 2021

0.5

0.4

0.3

1.0

0.1

0.8

0.3

-0.8

2022

4.4

5.0

5.6

6.9

2.6

3.8

3.8

5.2

Revision from
Jan. 2021

0.2

0.0

0.0

0.1

0.0

-0.1

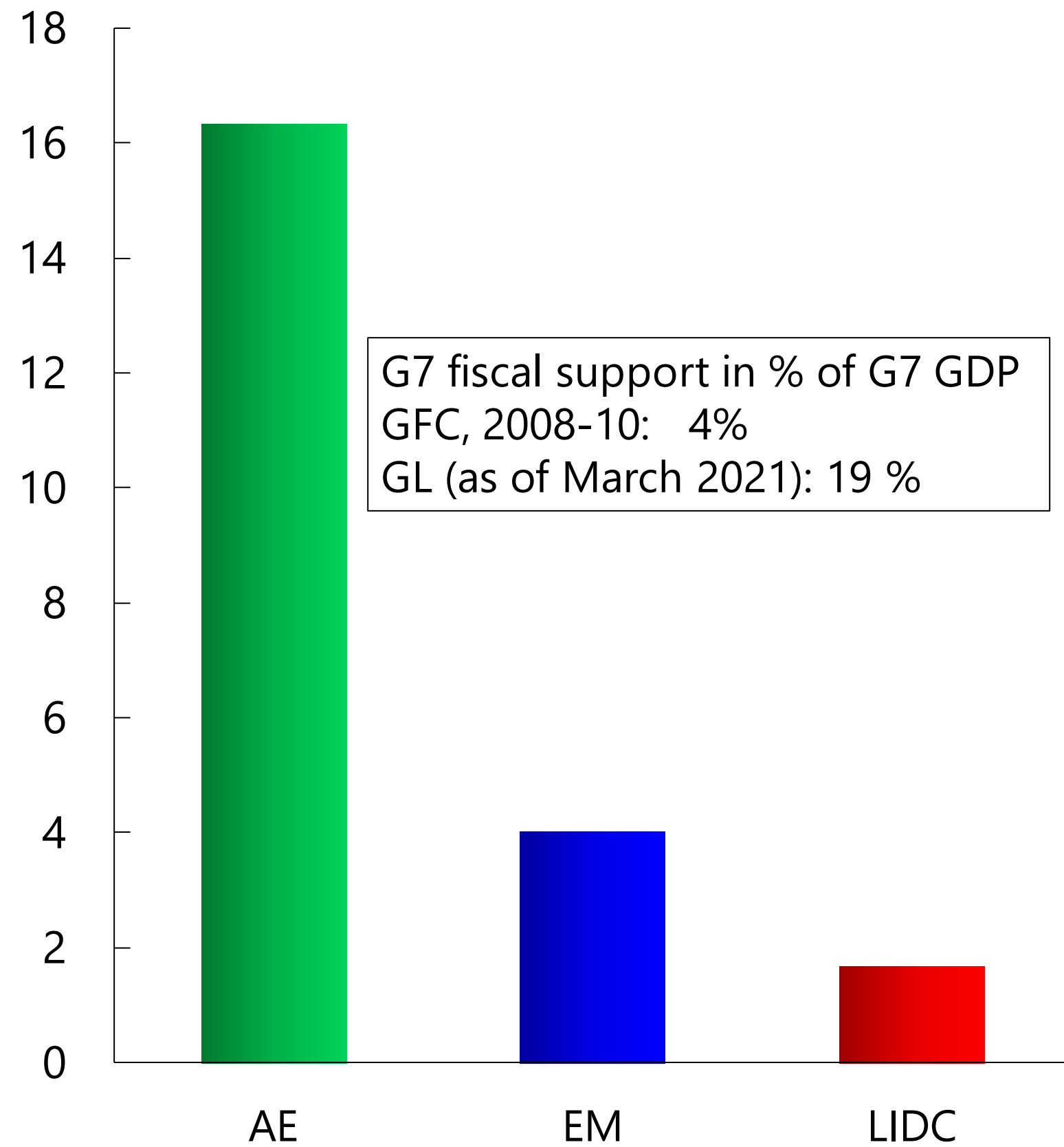
-0.2

-0.3

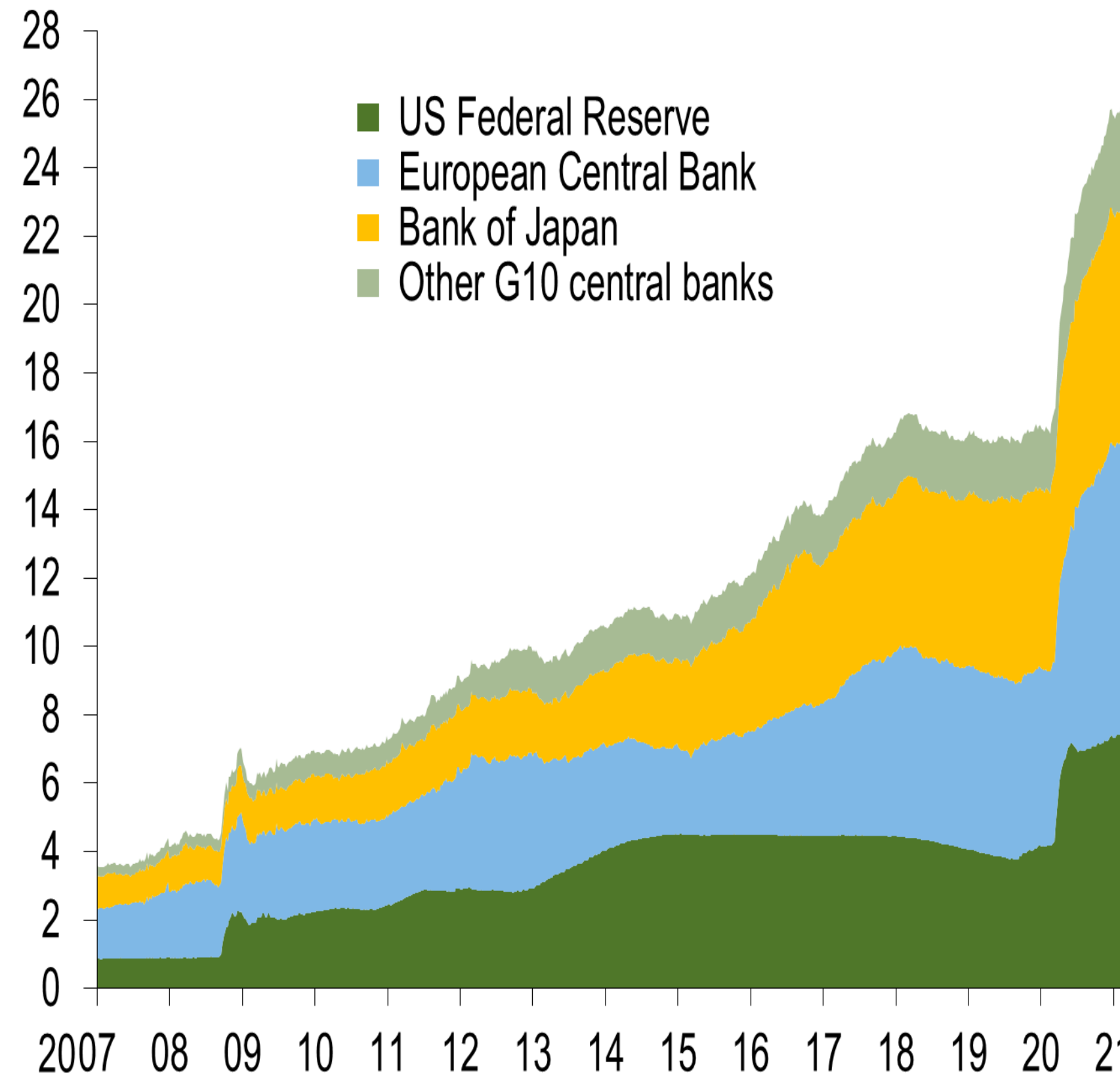
Source: IMF, *World Economic Outlook* April 2021.

Recovery speeds vary in part based on policy support...

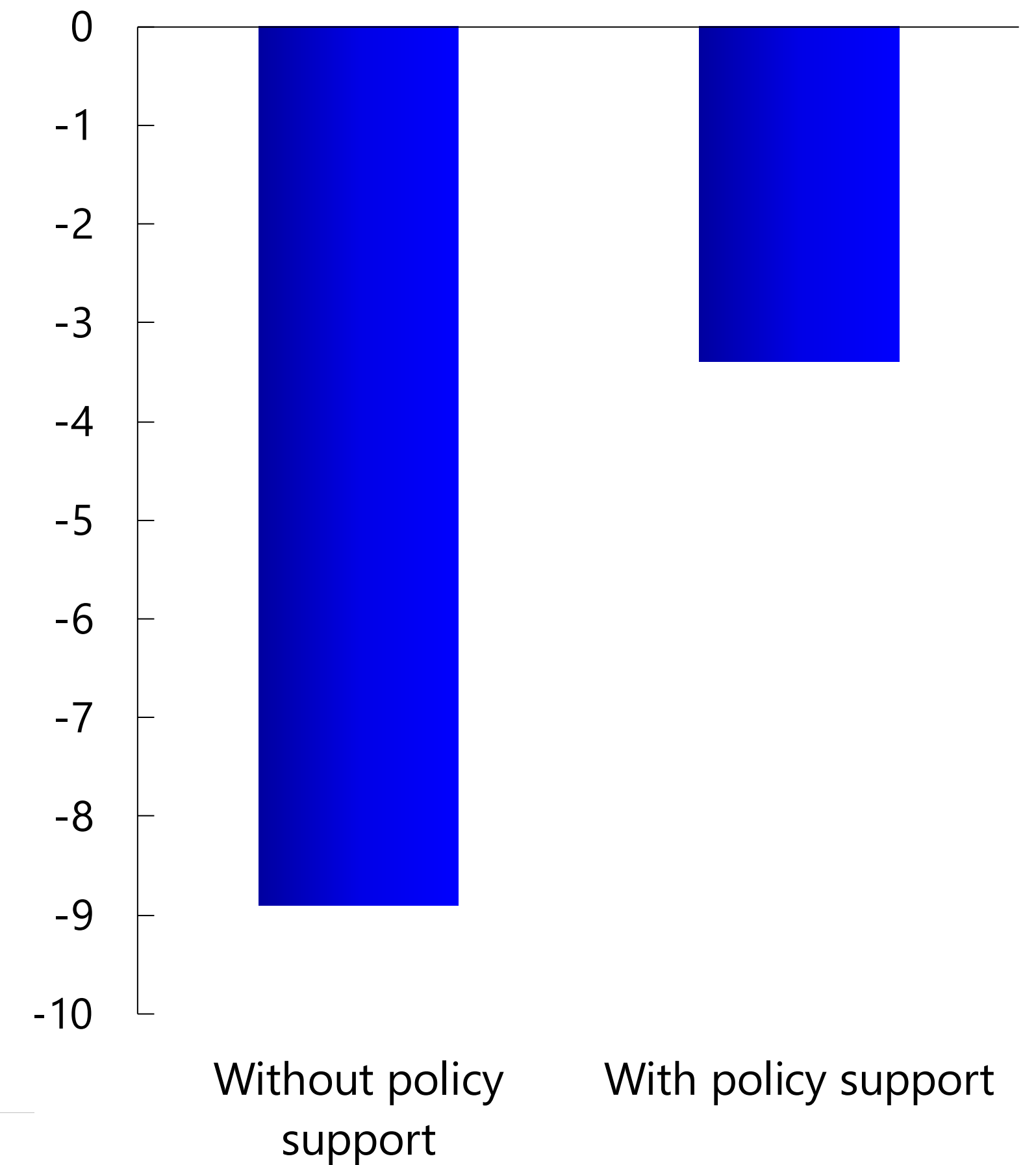
Fiscal support in response to COVID-19 1/ (percent of 2020 GDP)



Central bank support 2/ (balance sheet size in \$ trillions)



Estimated impact of policies on 2020 global real GDP growth (percent)



Sources: IMF, *Fiscal Monitor*; Central bank websites; Haver Analytics; Dealogic; IMF, *COVID-19 Policy Survey*; and IMF staff calculations.

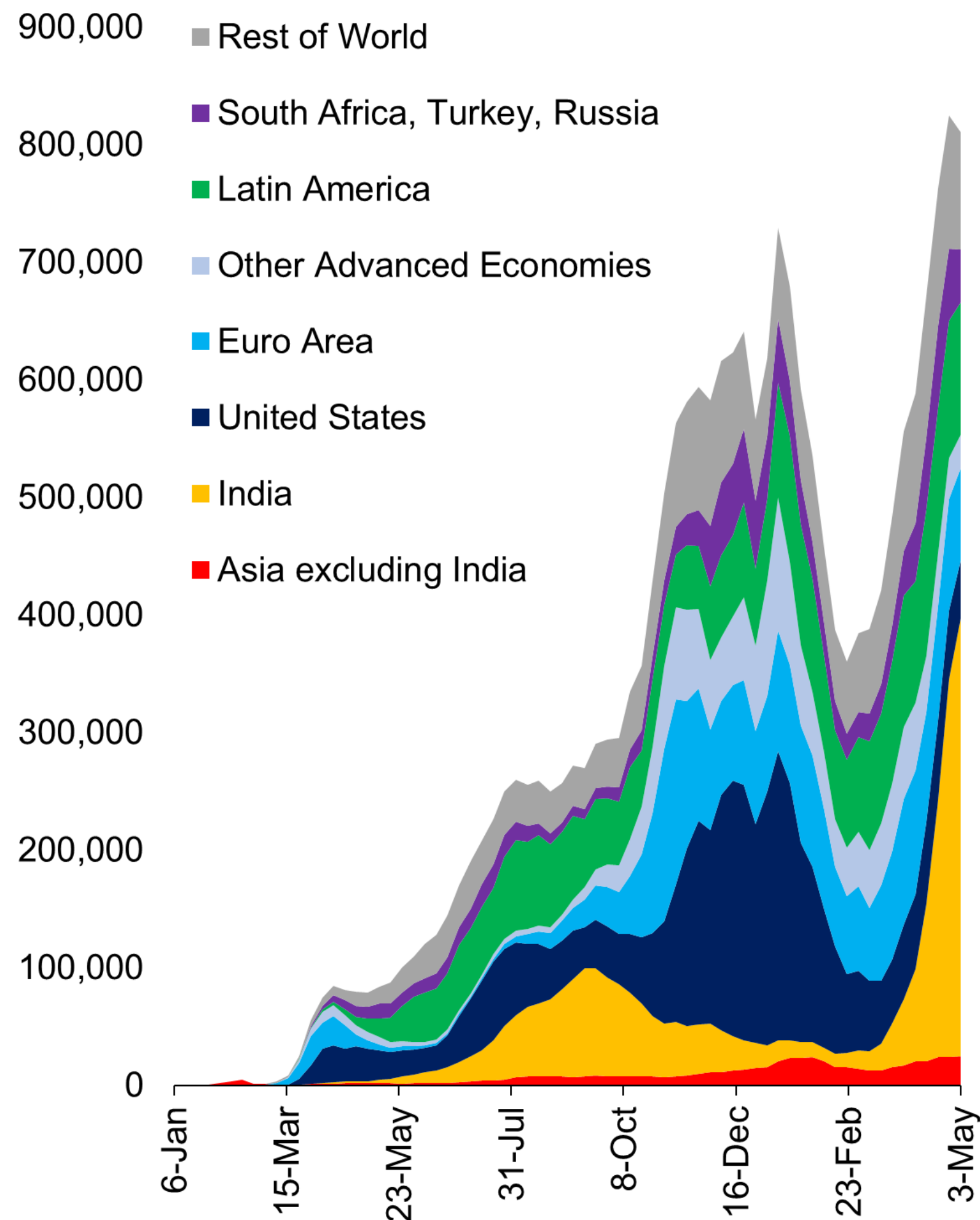
1/ Above the line measures; includes the U.S. American Recovery Plan.

2/ "Other G10 central banks" includes Bank of England, Bank of Canada, Swiss National Bank, and Sveriges Riksbank.

... and differential progress in beating back the pandemic

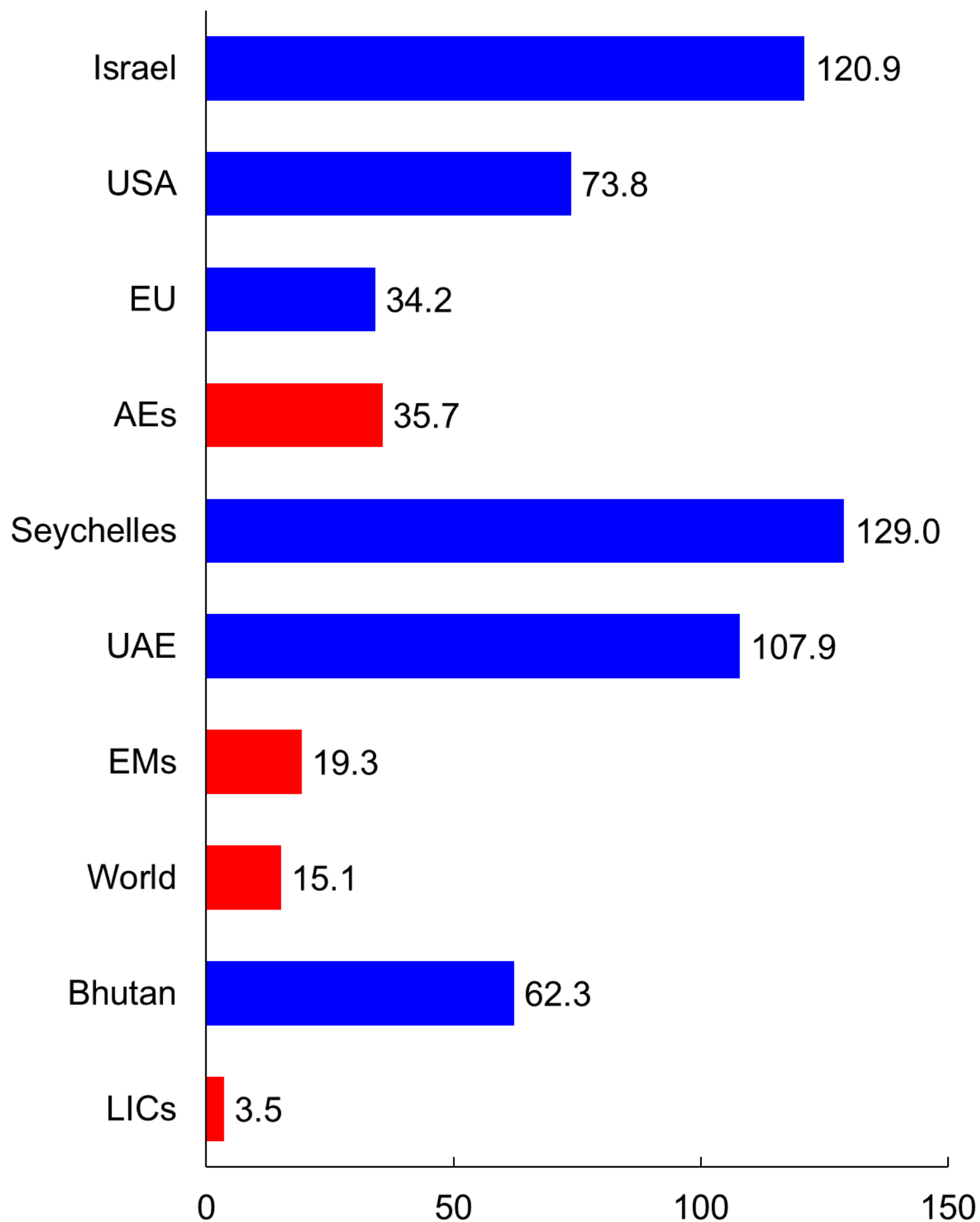
New confirmed cases

(Daily average over previous week; Latest: May 3)



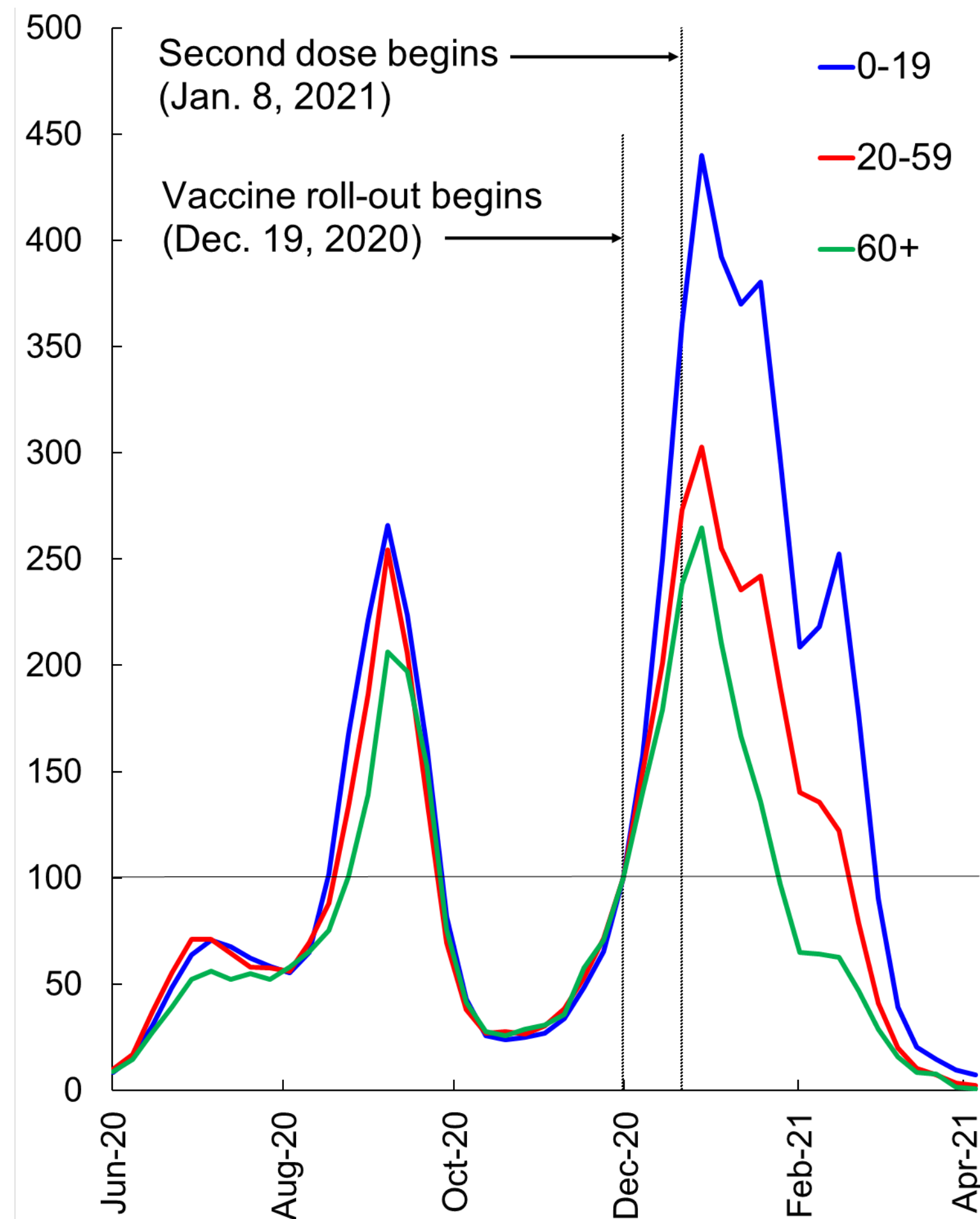
Total vaccines administered

(doses per hundred population, as of 5/3/2021)



Vaccine effectiveness

(Israel: infections before and after vaccines by age group; Dec. 19, 2020 = 100)



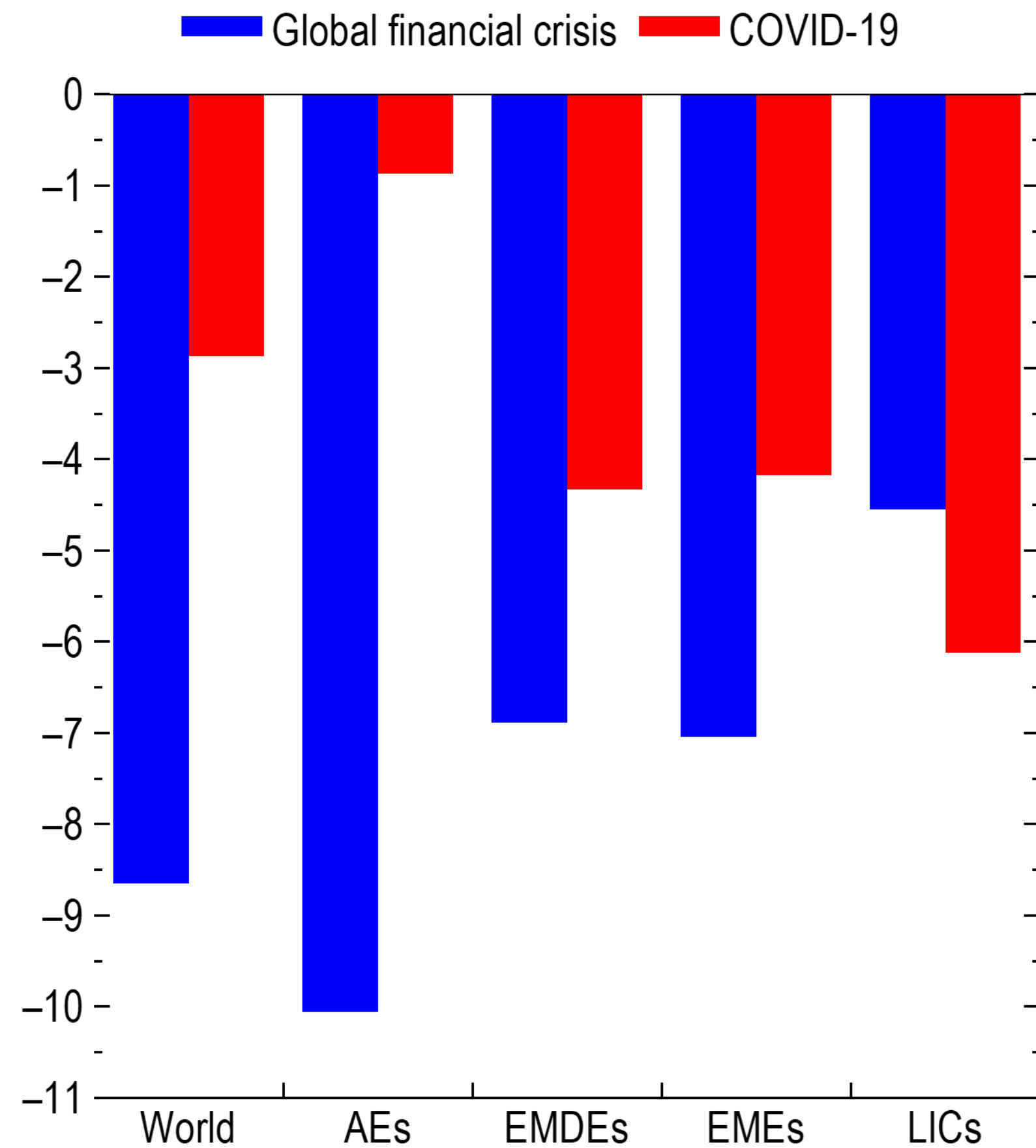
Sources: OxCGRT; Our World In Data; Israel Central Bureau of Statistics; and IMF staff calculations.

1/ Lines denote median of 7-day moving averages. Shaded areas are interquartile ranges.

Divergent recoveries, considerable persistent damage expected

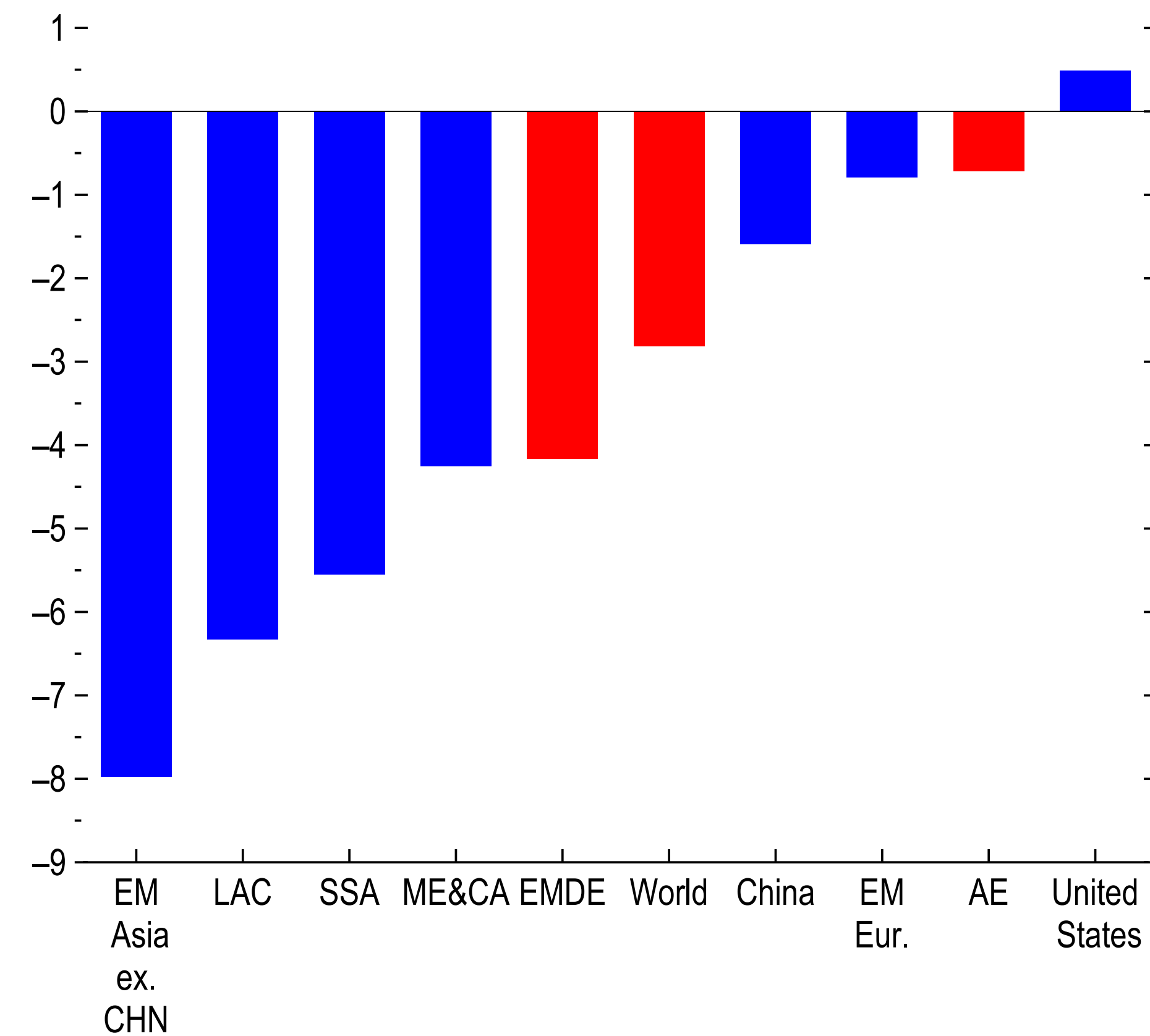
Medium-Term Output Losses

(Percent difference from precrisis forecast)



Medium-Term GDP Losses Relative to Pre-COVID-19, by Region

(Revisions to projected 2024 GDP levels between the January 2020 and April 2021 WEO forecasts, percent)



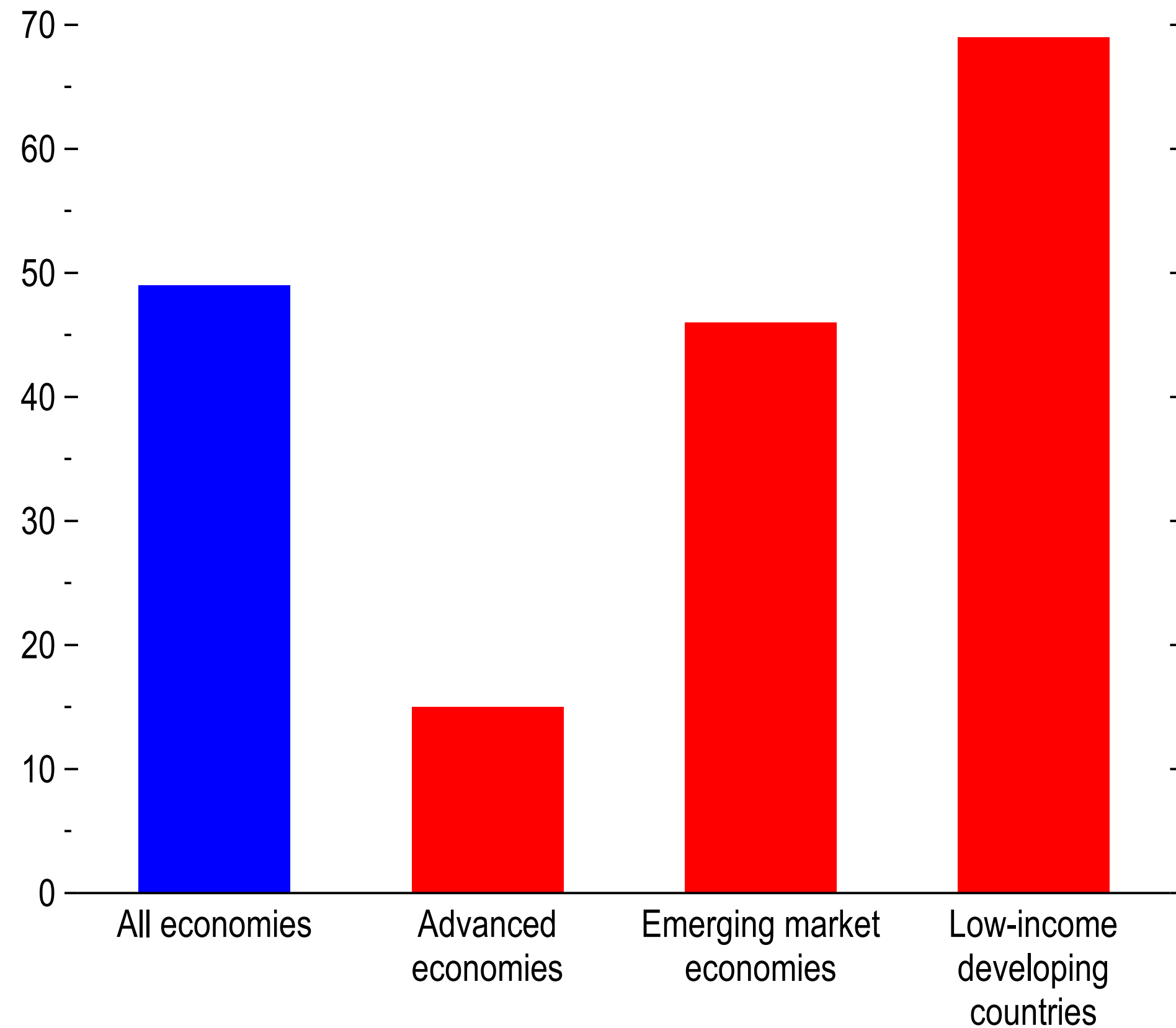
Source: IMF staff estimates.

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

1/ Bars show the difference in real output four years after the crisis and anticipated output for the same period prior to the crisis for the indicated regional group.

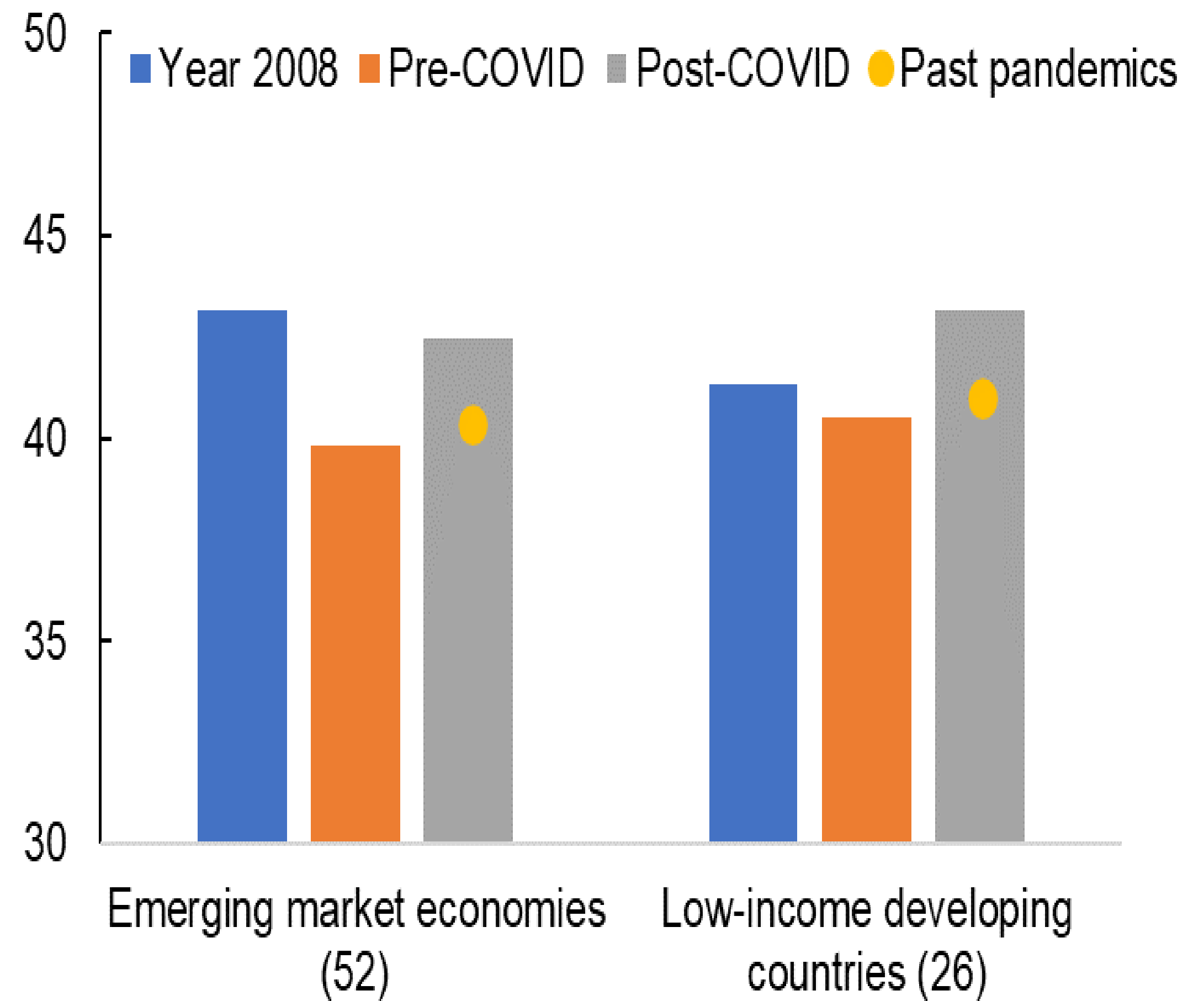
...and higher inequality expected within countries.

Global Education Losses Due to the COVID-19 Pandemic
(Average missed days of instruction in 2020)



Sources: UNESCO-UNICEF-World Bank Survey on National Education Responses to COVID-19 School Closures; and IMF staff calculations.

Income inequality
(Gini coefficients)



Sources: IMF, *World Economic Outlook*; World Bank; IFPRI, *COVID-19 Policy Survey*; and IMF staff calculations.

1/ Bars show the difference in real output four years after the crisis and anticipated output for the same period prior to the crisis for the indicated regional group.

Risks

Risks are balanced in the near term, tilted to upside further out

On the upside, the recovery could turn out to be stronger if:

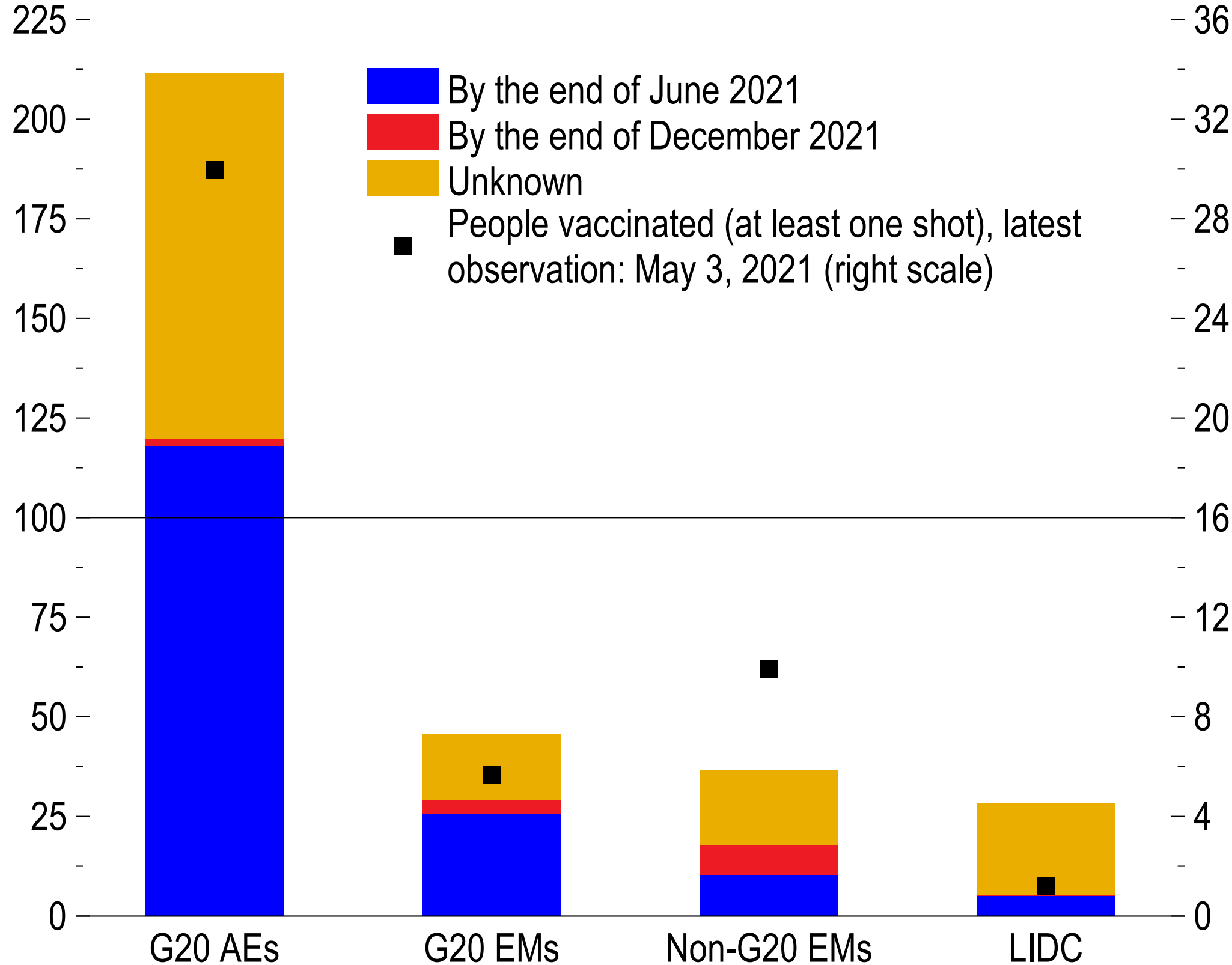
- Vaccine production and distribution proceed faster than assumed
- Policy support provides an effective bridge until vaccine-powered normalization underway
- Faster productivity growth is engendered by changes in production, distribution, and payment systems
- Rising confidence leads to more front-loaded spending, faster deployment of excess savings

Downside risks, however, remain significant:

- Delays in vaccine rollout, recurring outbreaks, prolonged pandemic
- Tightening financial conditions, liquidity shortfalls and insolvencies
- Intensifying unrest, geopolitical tensions, trade policy uncertainty, technology frictions
- Weather-related natural disasters, which have increased in intensity and frequency

High uncertainty on the path of the pandemic: race between rapid mutations and access to vaccines

Confirmed Vaccine Procurement
(Percent of population)

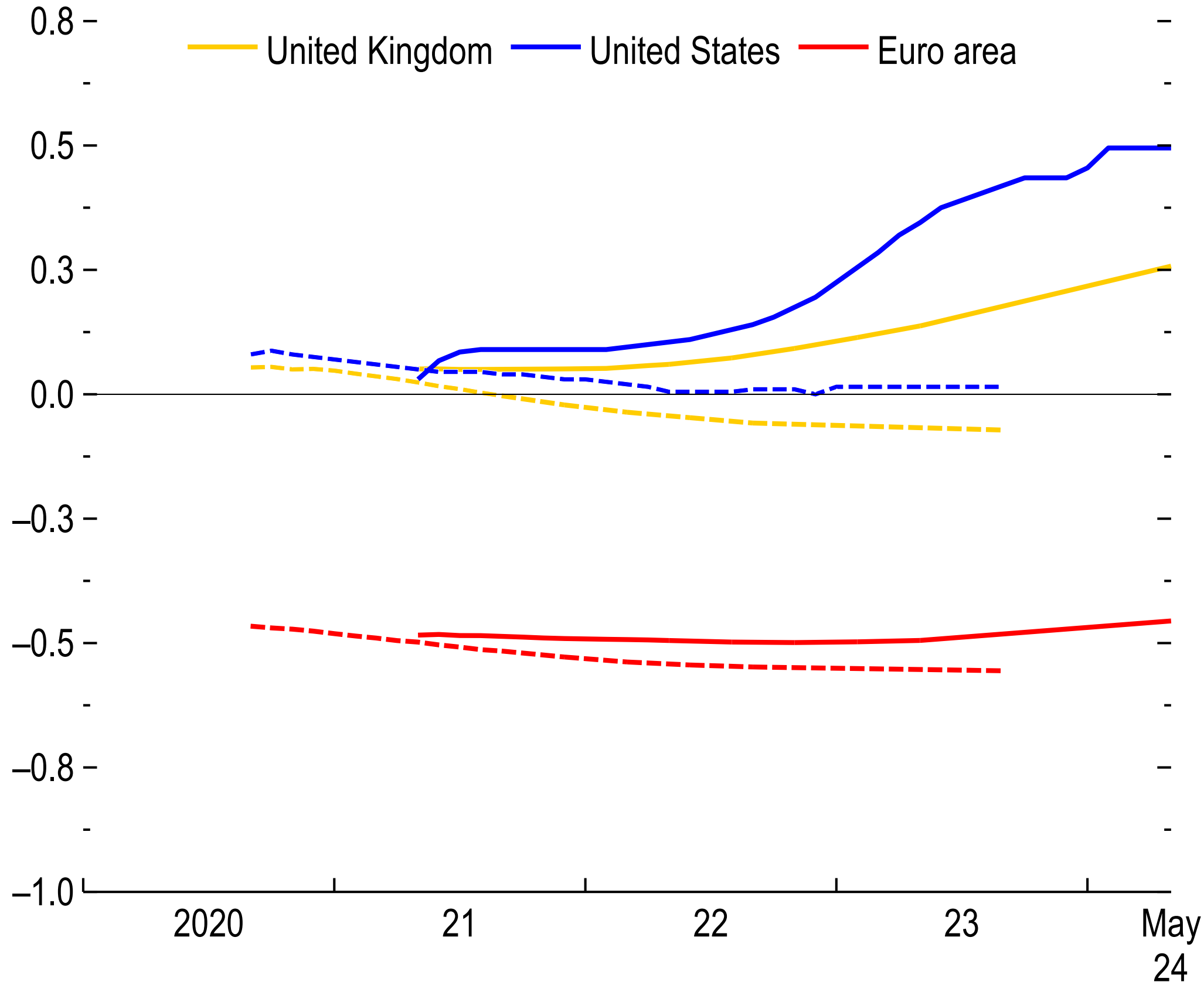


Sources: Duke Global Health Innovation Center; Johns Hopkins University COVID-19 statistics; and national government reports via *Our World in Data*.

Prospects of divergent policy stances, financial spillovers...

Policy Rate Expectations

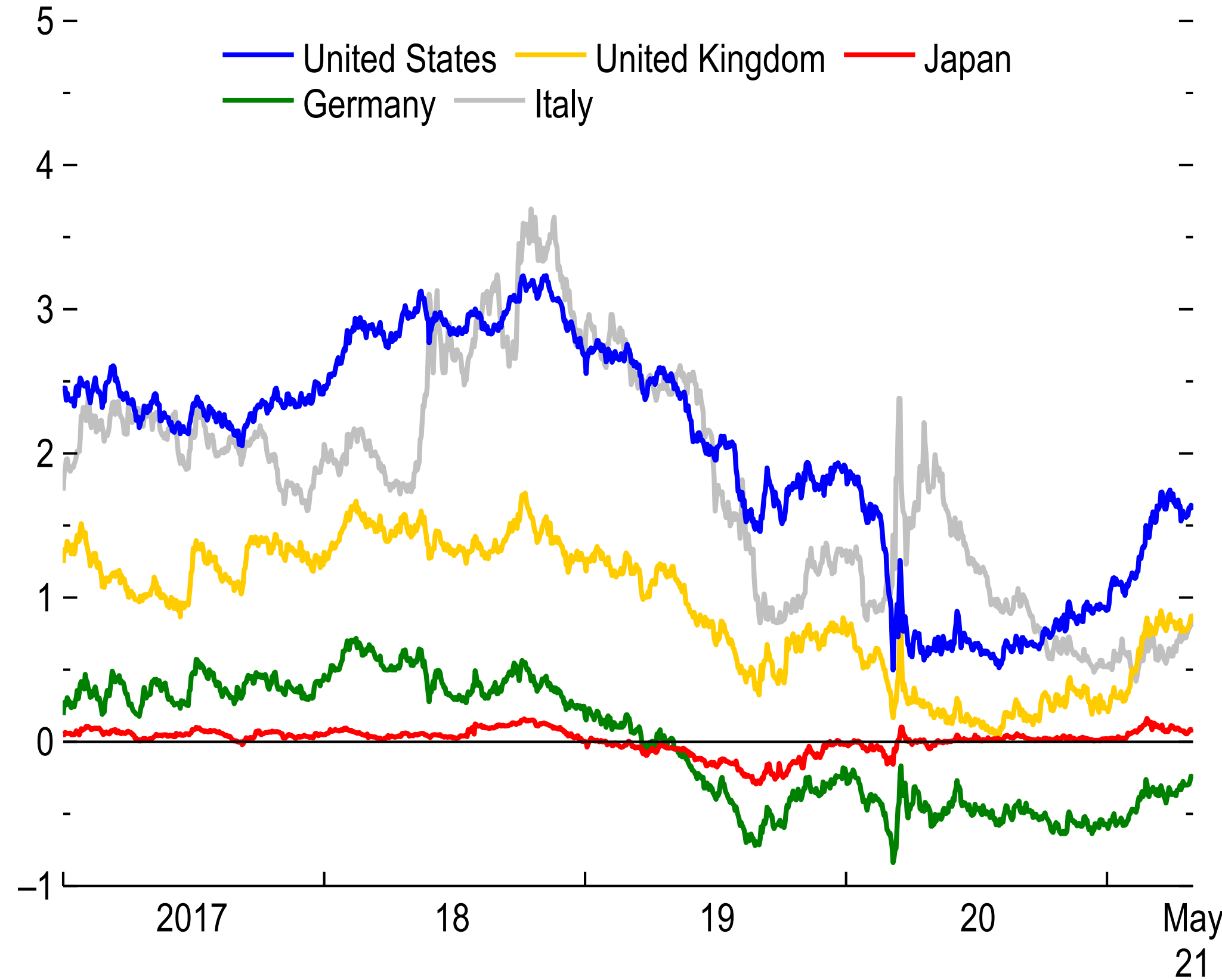
(Percent, dashed lines are from the October 2020 WEO)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

Ten-Year Government Bond Yields

(Percent)

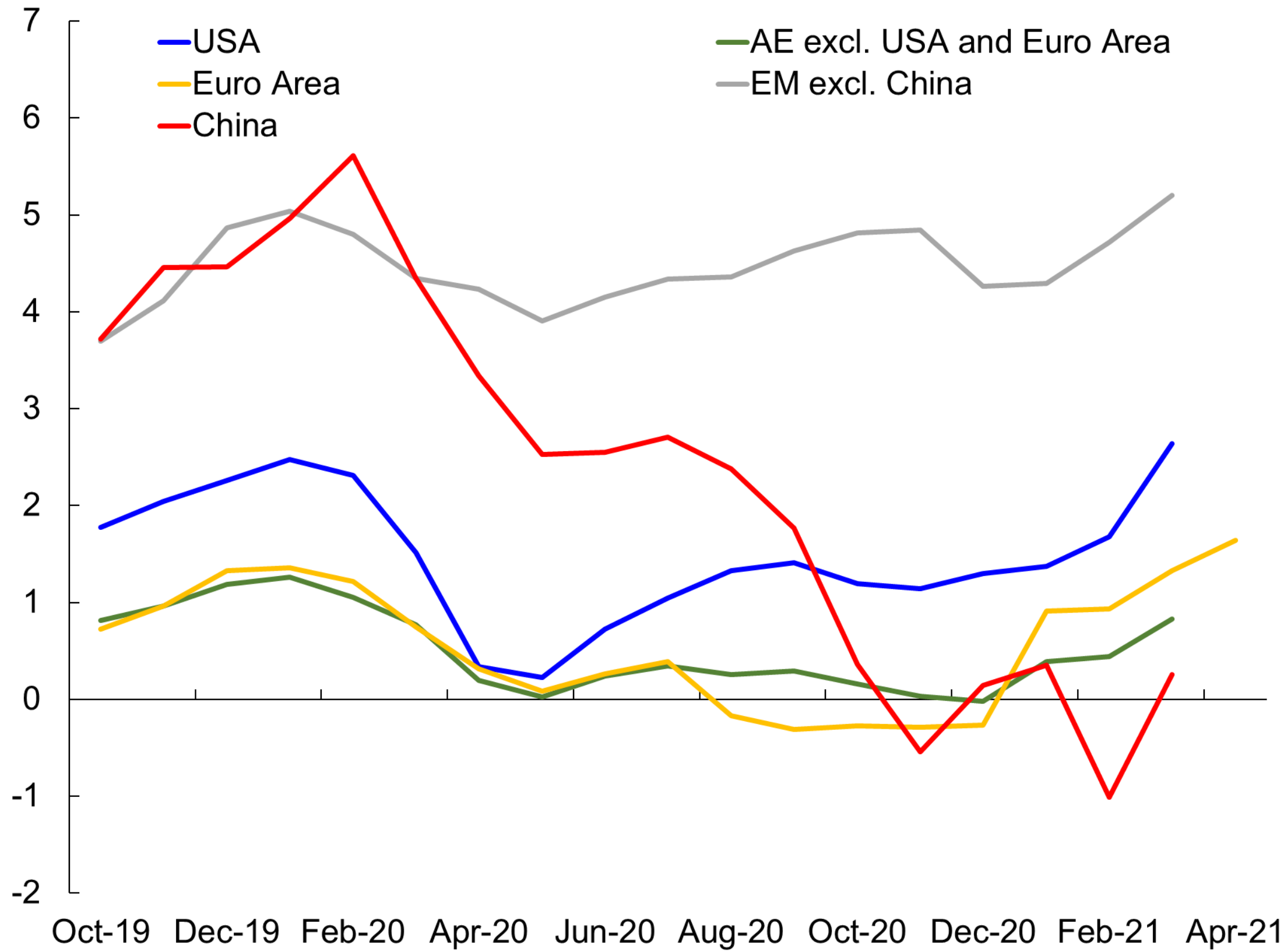


Sources: Refinitiv Datastream.

...related to divergent recovery speeds and inflation risks

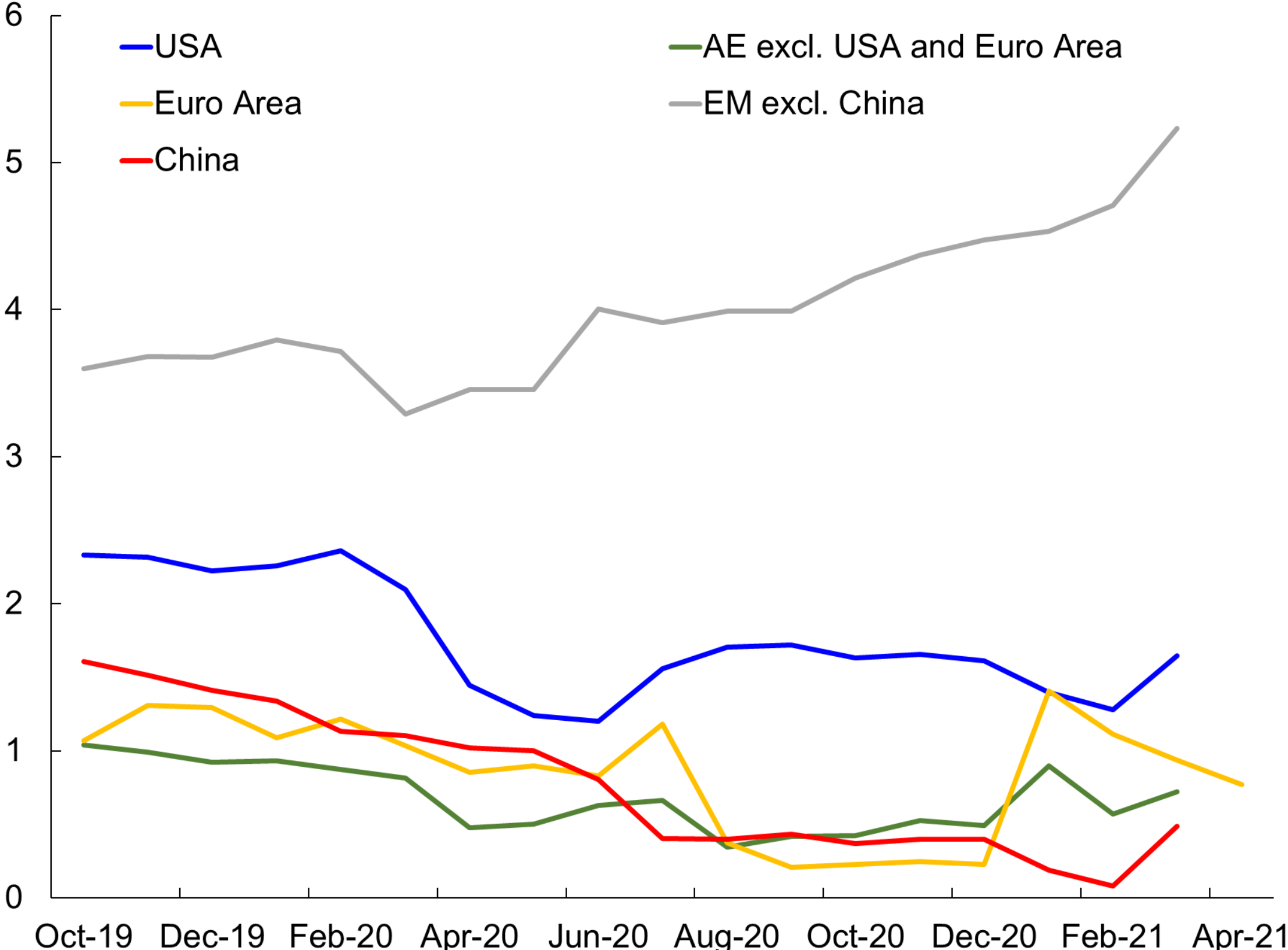
Headline Inflation

(Annual percent change)



Core Inflation

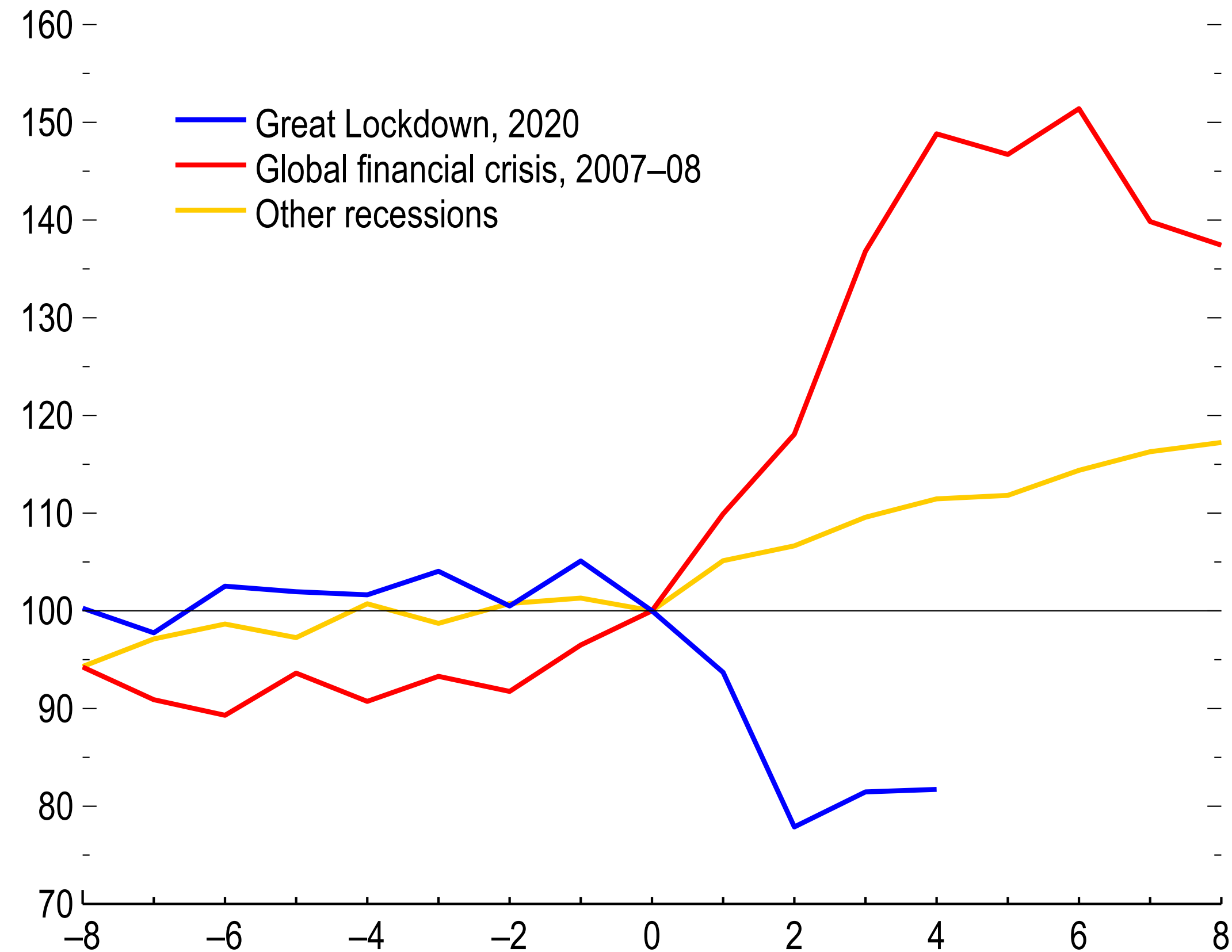
(Annual percent change)



Bankruptcies have been contained so far, but could come to the fore if support withdrawn too quickly

Bankruptcies, Current and Past Recessions

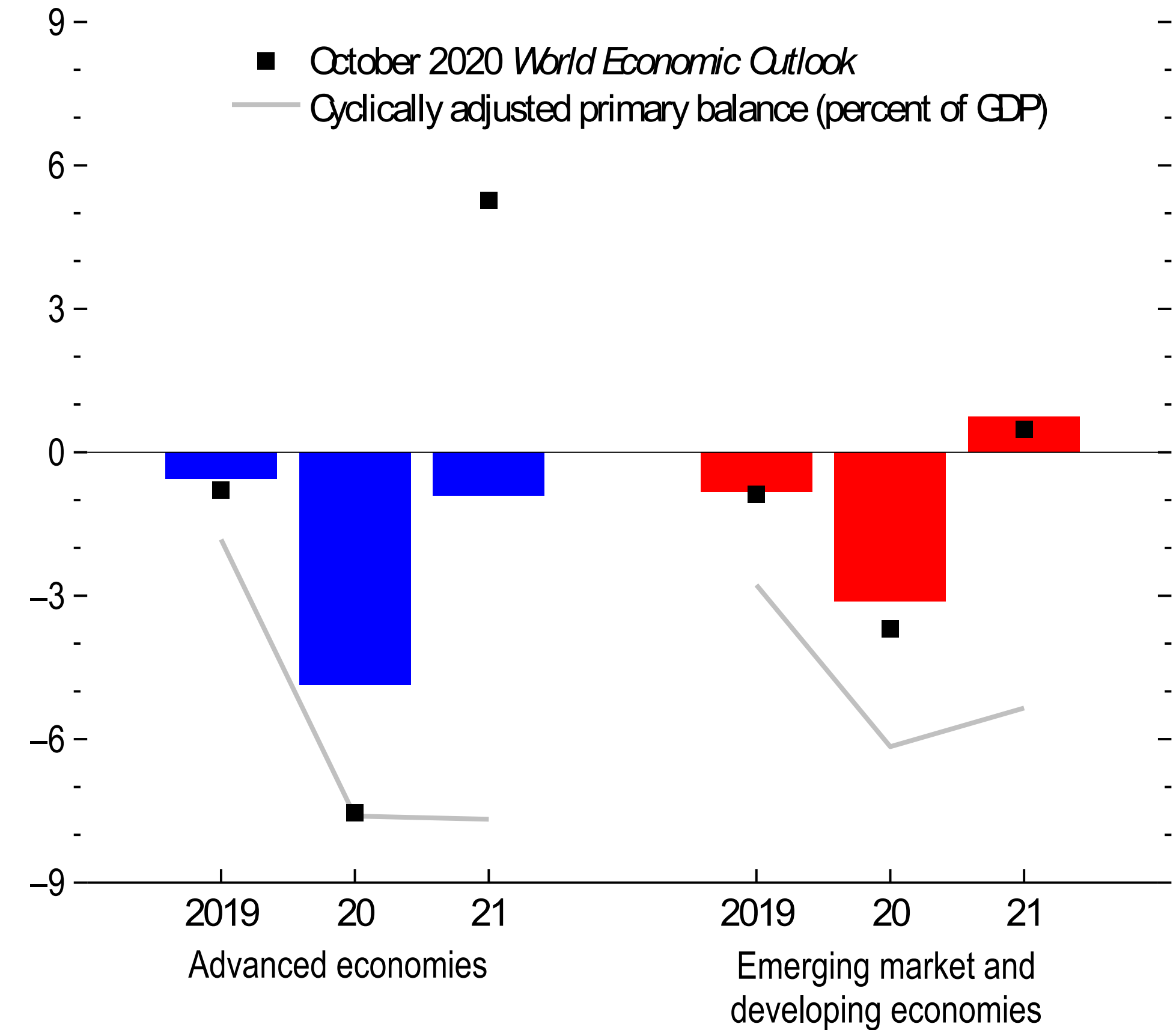
(Index, last prerecession quarter = 100; recession quarters on x-axis)



Sources: CEIC; national authorities; and IMF staff calculations.

Fiscal Stance, 2019-21

(Change in structural primary fiscal balance, percent of potential GDP)



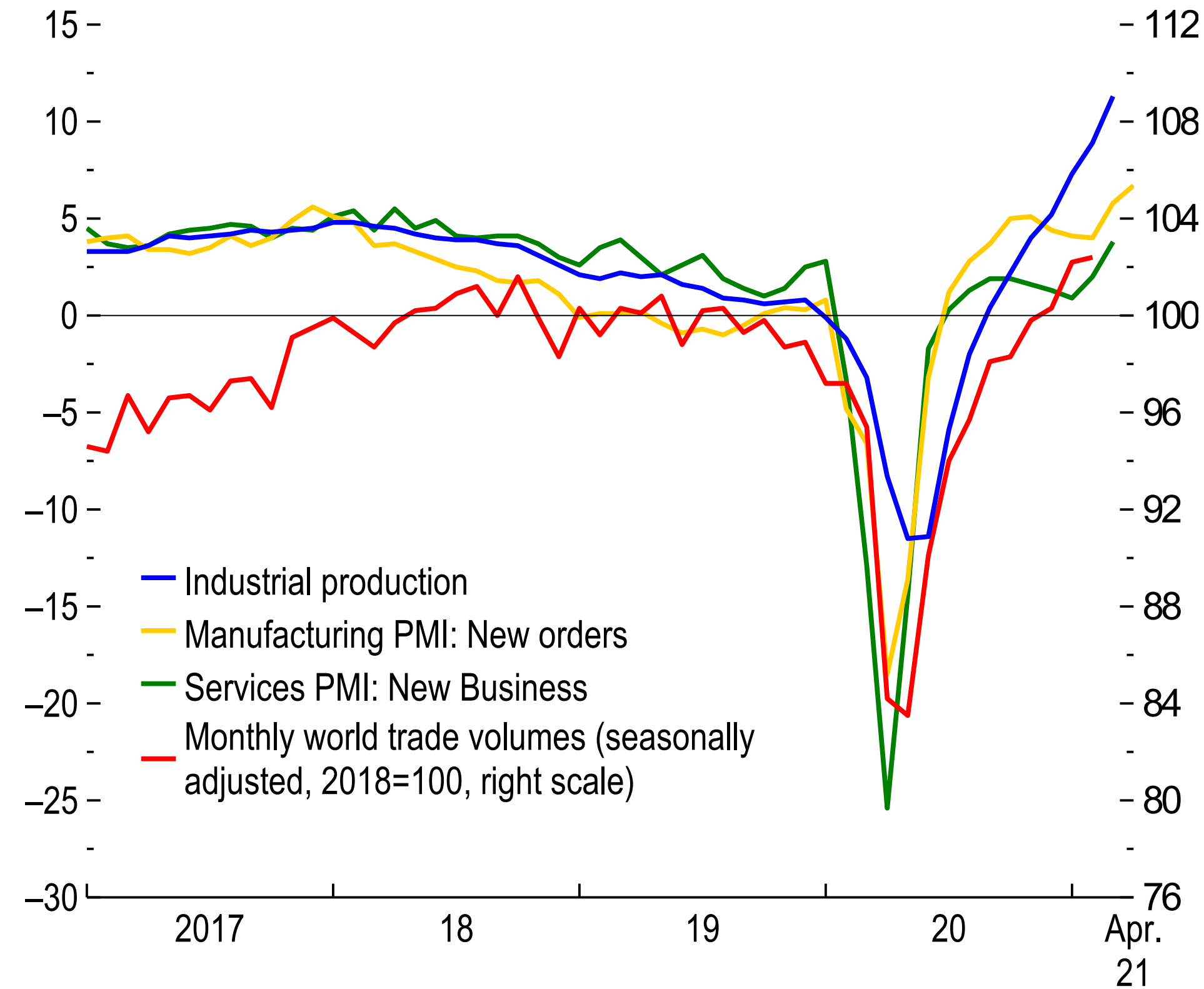
Source: IMF staff estimates.

**Incoming data after the WEO –
Key considerations for the outlook**

Manufacturing rebound continues accompanied by strong merchandise trade

Global Activity Indicators

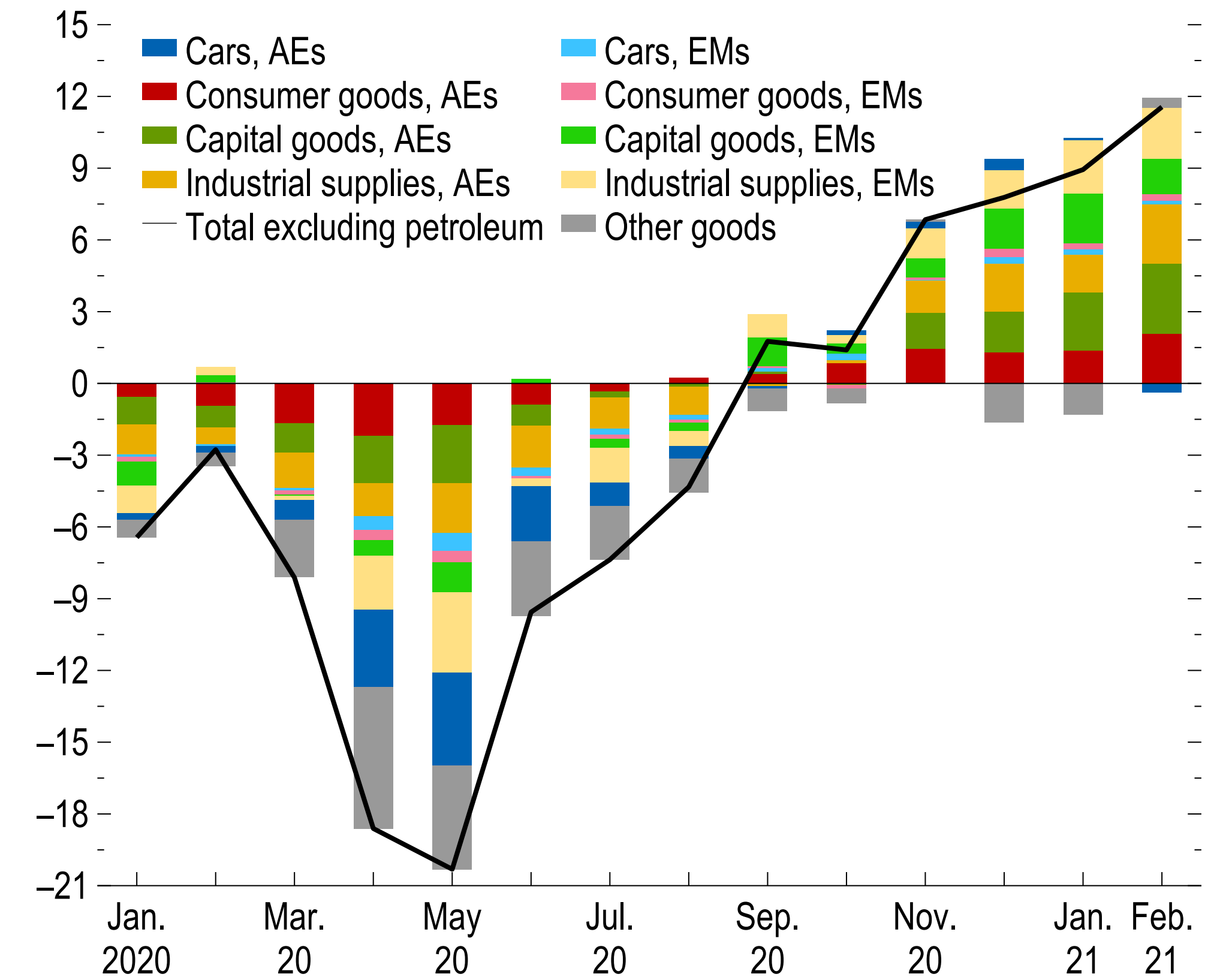
(Three-month moving average, annualized percent change; deviations from 50 for manufacturing PMI, unless noted otherwise)



Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and IMF staff estimates.

Global Imports: Contributions, by Types of Goods and Regions

(Contribution to year-over-year percent change, percentage points; based on value in US dollars)

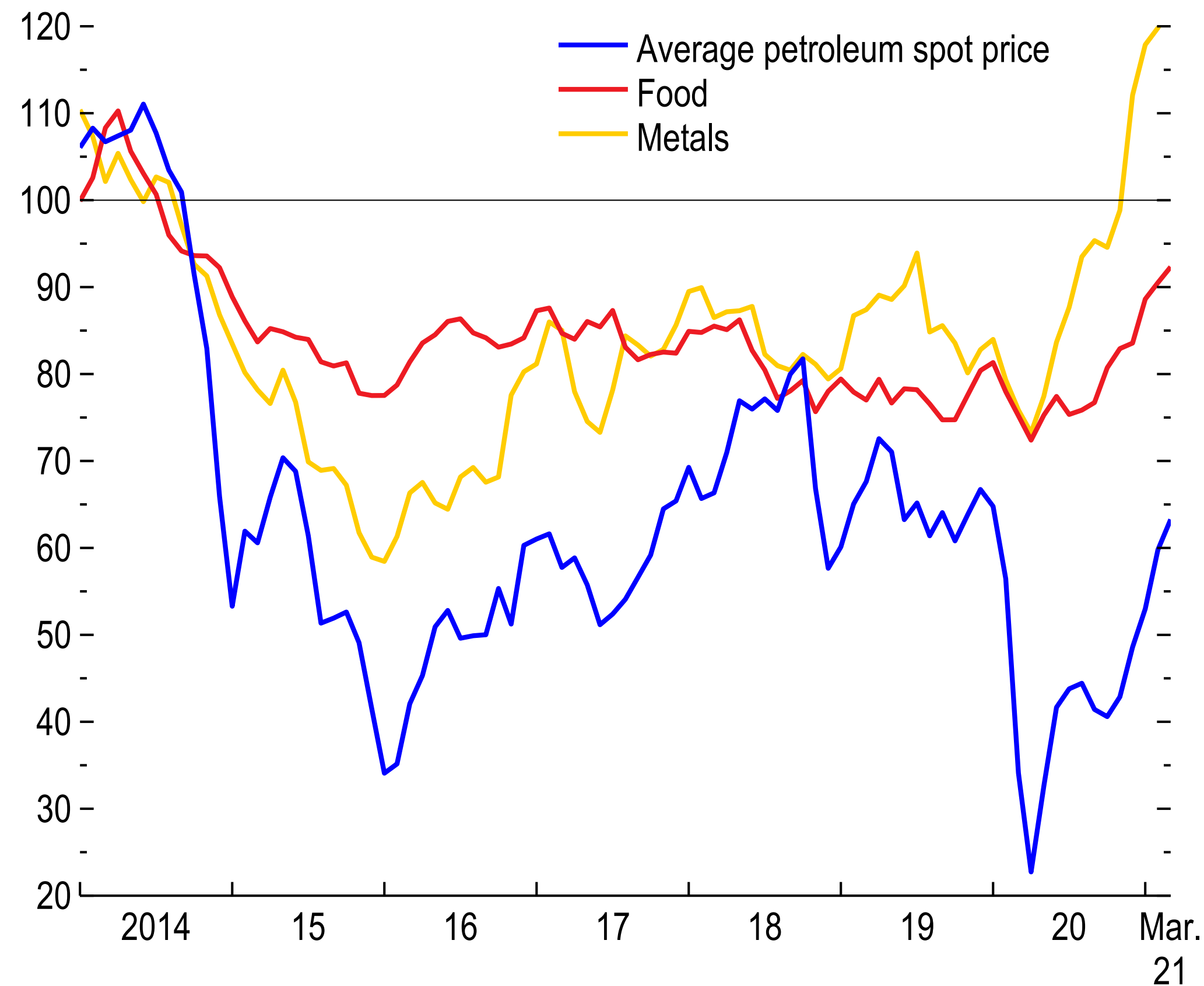


Sources: Haver Analytics; and IMF staff calculations.

Rising commodity prices, generally supportive financial conditions

Commodity Prices

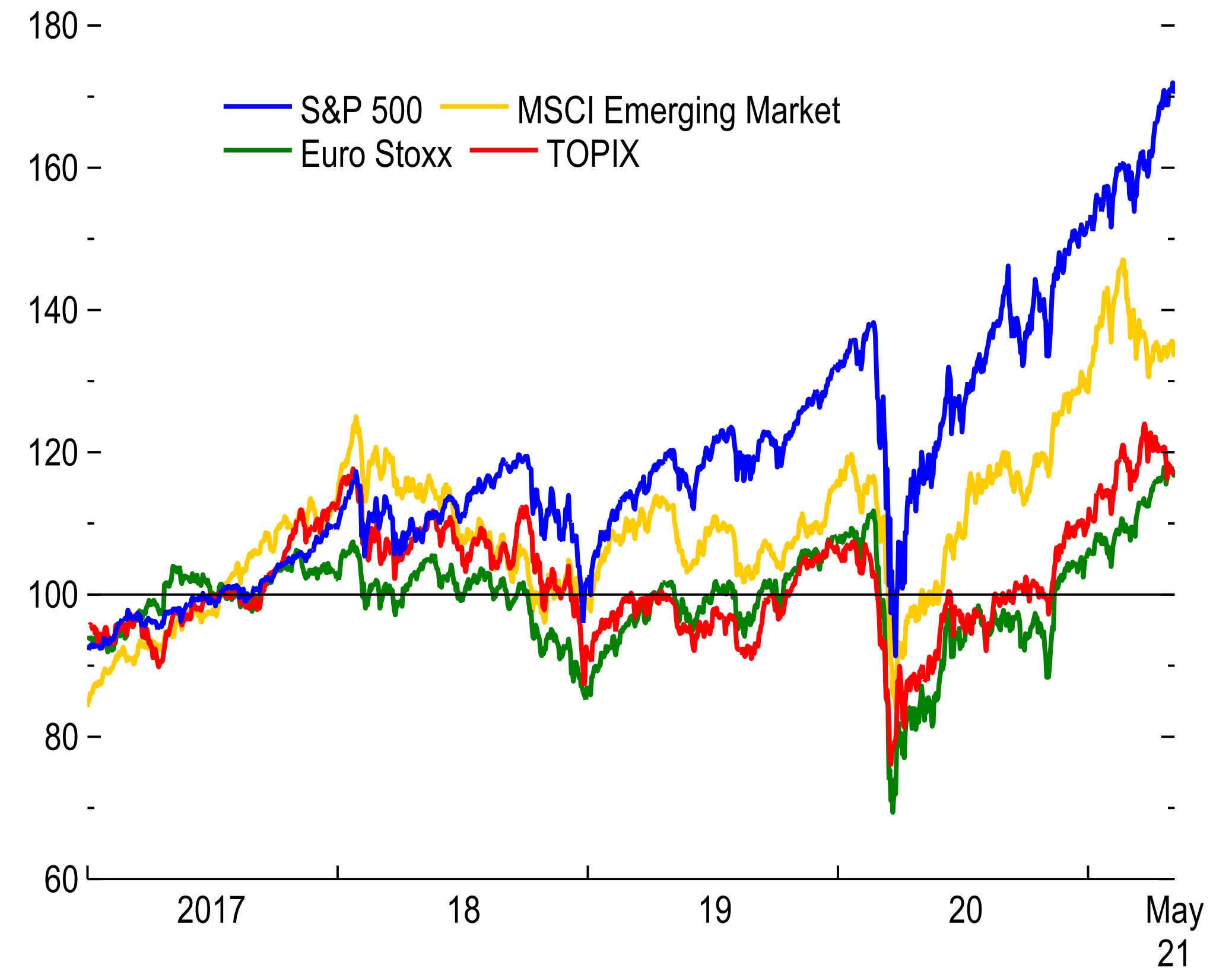
(Deflated using US consumer price index; 2014 = 100)



Sources: IMF Primary Commodity Price System; and IMF staff calculations.

Equity Markets

(Index, 2017 = 100)

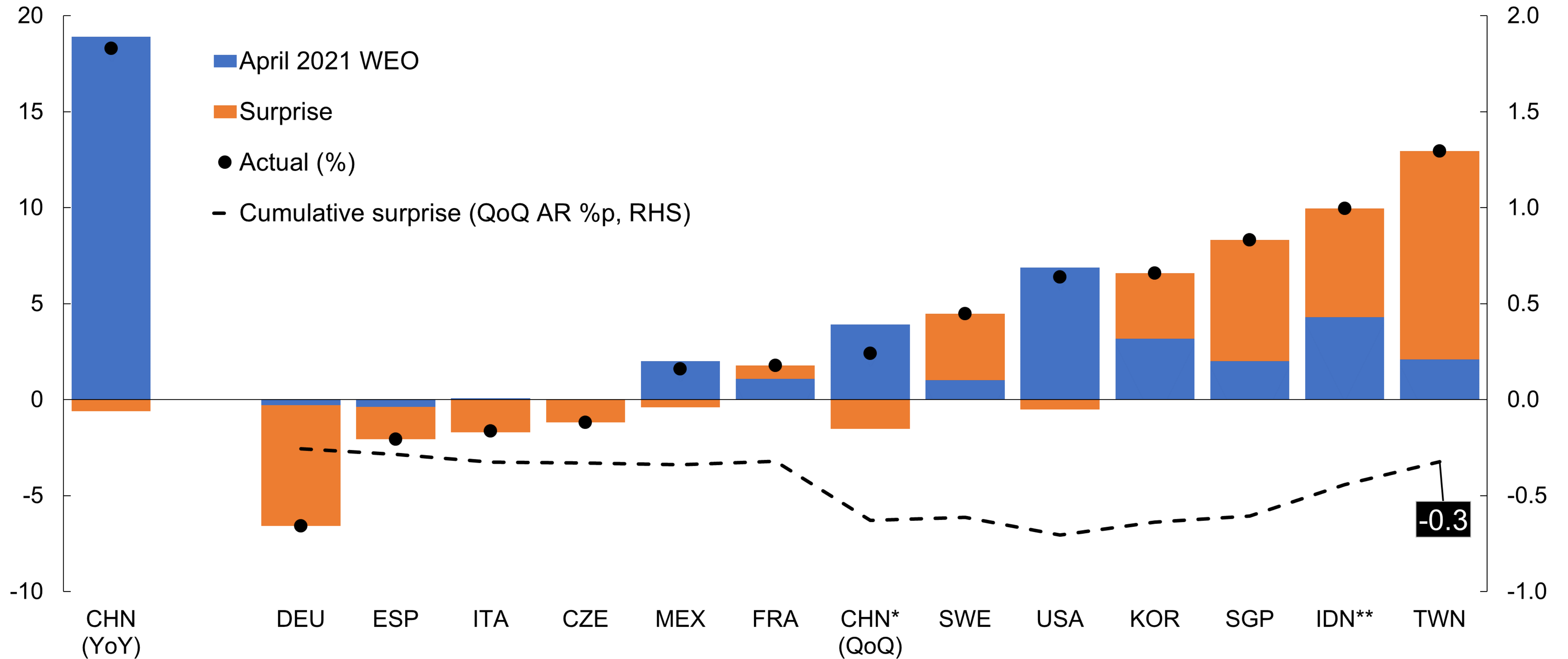


Sources: Bloomberg Finance L.P.; Haver Analytics; Refinitiv Datastream; and IMF staff calculations.

Q1 growth surprises: slightly to the downside

2021 Q1 GDP Growth Surprises

(Percentage points, annualized change)



* Staff Estimates; ** Haver Estimates

Policies to limit persistent damage and divergences

Near-term priorities

Enhance multilateral cooperation

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

National level policies: Tailored to stage of pandemic

- **Limit the damage where pandemic is accelerating.** Health care spending + targeted measures to cushion income losses.
- **Support the recovery where reopening is underway.** Calibrate unwinding of crisis response measures, facilitate resource reallocation to growing sectors, and provide support as possible. Remedial measures for reversing setback to human capital accumulation
- **Create room to accommodate elevated spending on crisis countermeasures**

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**

