



International Monetary Fund

January 2021 WEO Update

World Economic Outlook

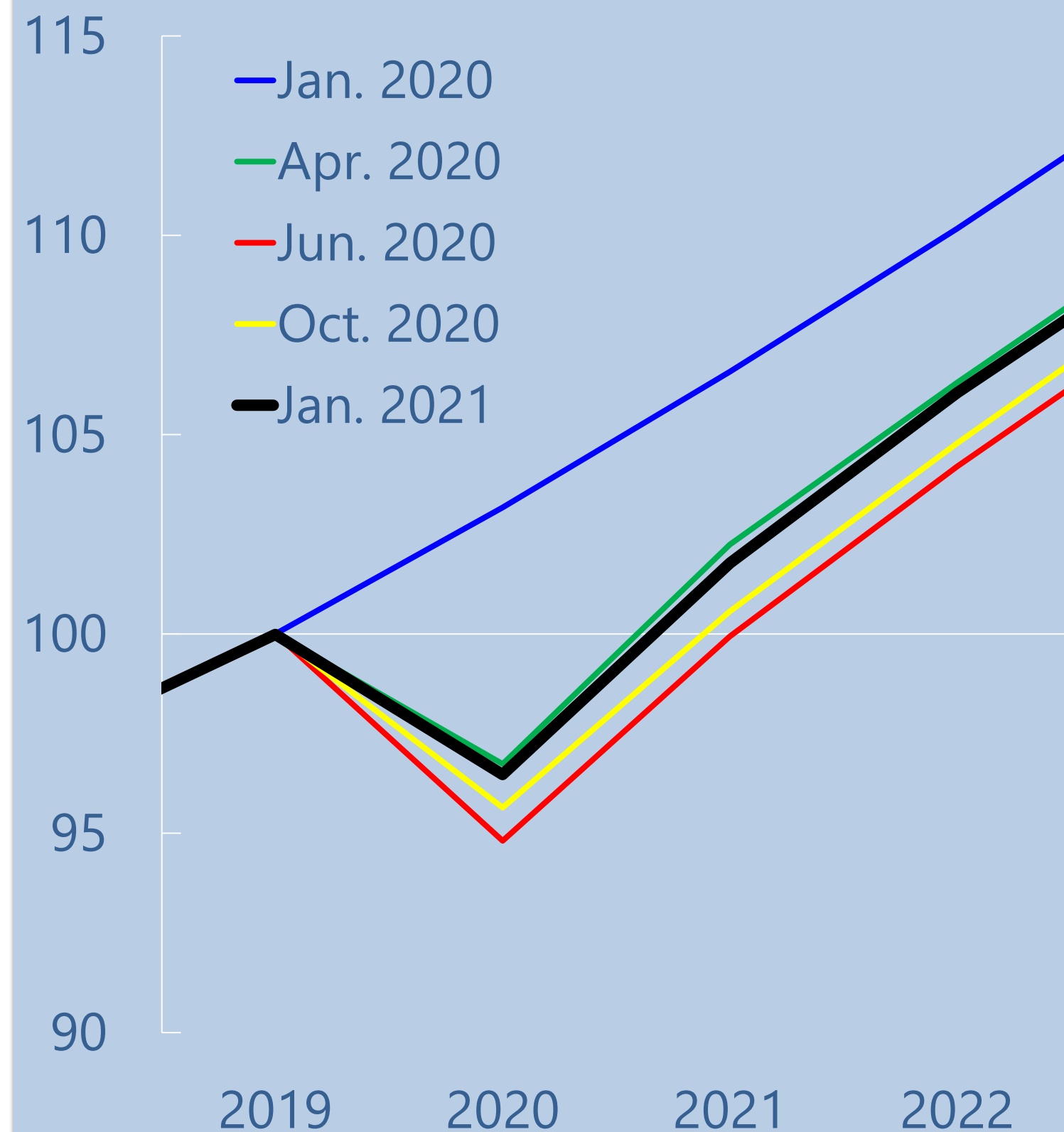
February 24, 2021

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Research Department

An Incomplete Recovery Amid Exceptional Uncertainty

Output

Incomplete recovery



Risks

Tremendous uncertainty

- **Upside: More vaccine success; additional fiscal support**
- **Downside: delays in vaccinations, virus mutations, stronger lockdowns, tighter financial conditions**
- **Geopolitical tensions and social unrest could escalate**
- **Prolonged decline in activity leads to scarring**

Policies

Ensure a sustained recovery

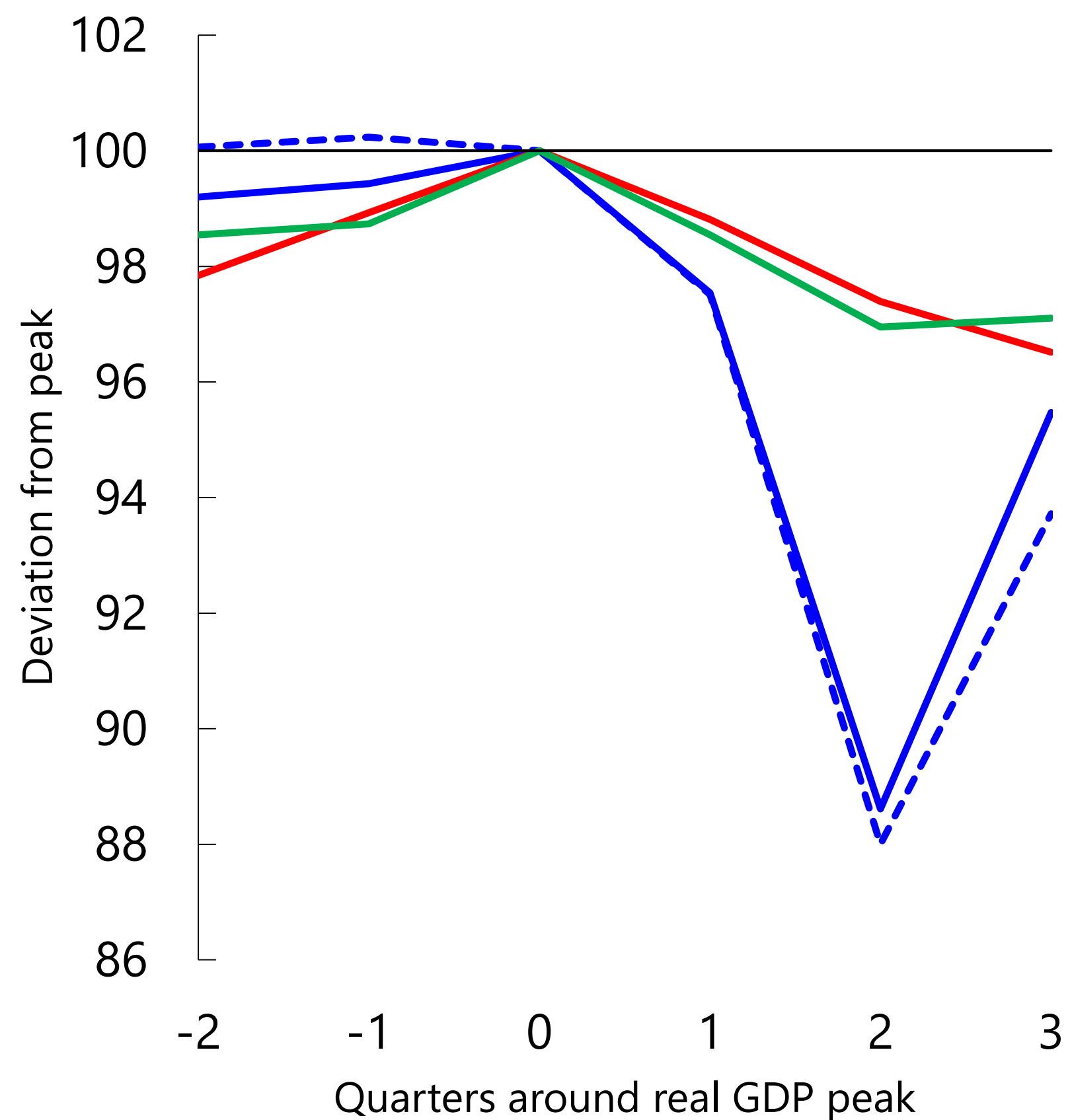
- **Accelerate universal vaccine rollout**
- **Avoid premature withdrawal of lifelines where contagion is high. Gradually shift to support reallocation of resources.**
- **Fiscal and monetary support should be maintained where debt sustainability and inflation are not at risk**
- **Foster inclusive, green recovery**
- **International support for vulnerable economies**

Economic Activity: Q3 Surprised on Upside; Q4 Backsliding

Real GDP 1/

(index; pre-recession peak = 100)

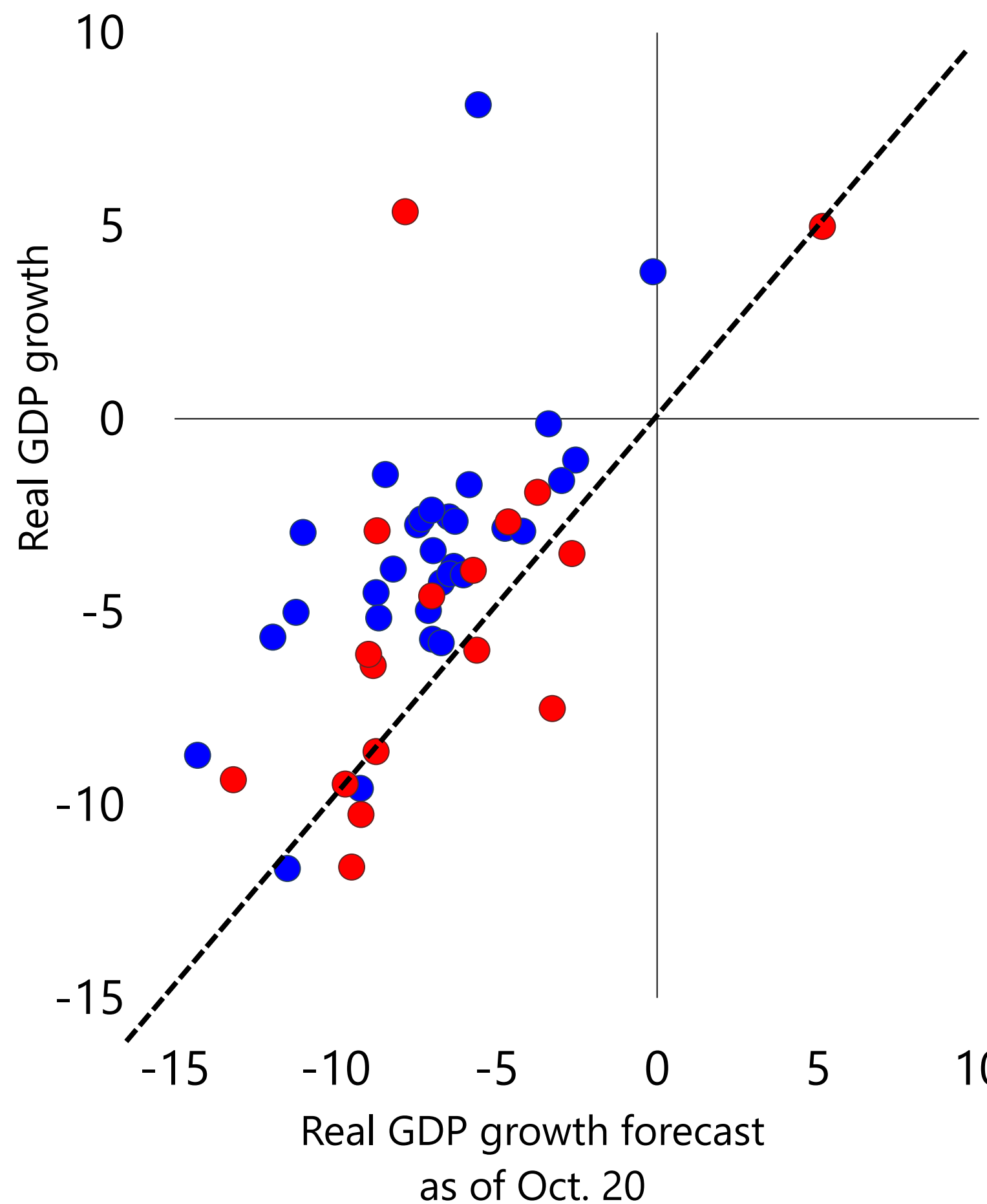
- Great Lockdown, AEs
- - Great Lockdown, EMs
- Great Financial Crisis
- Other recessions



Q3 growth surprise

(percent; dotted line indicate 45 degrees)

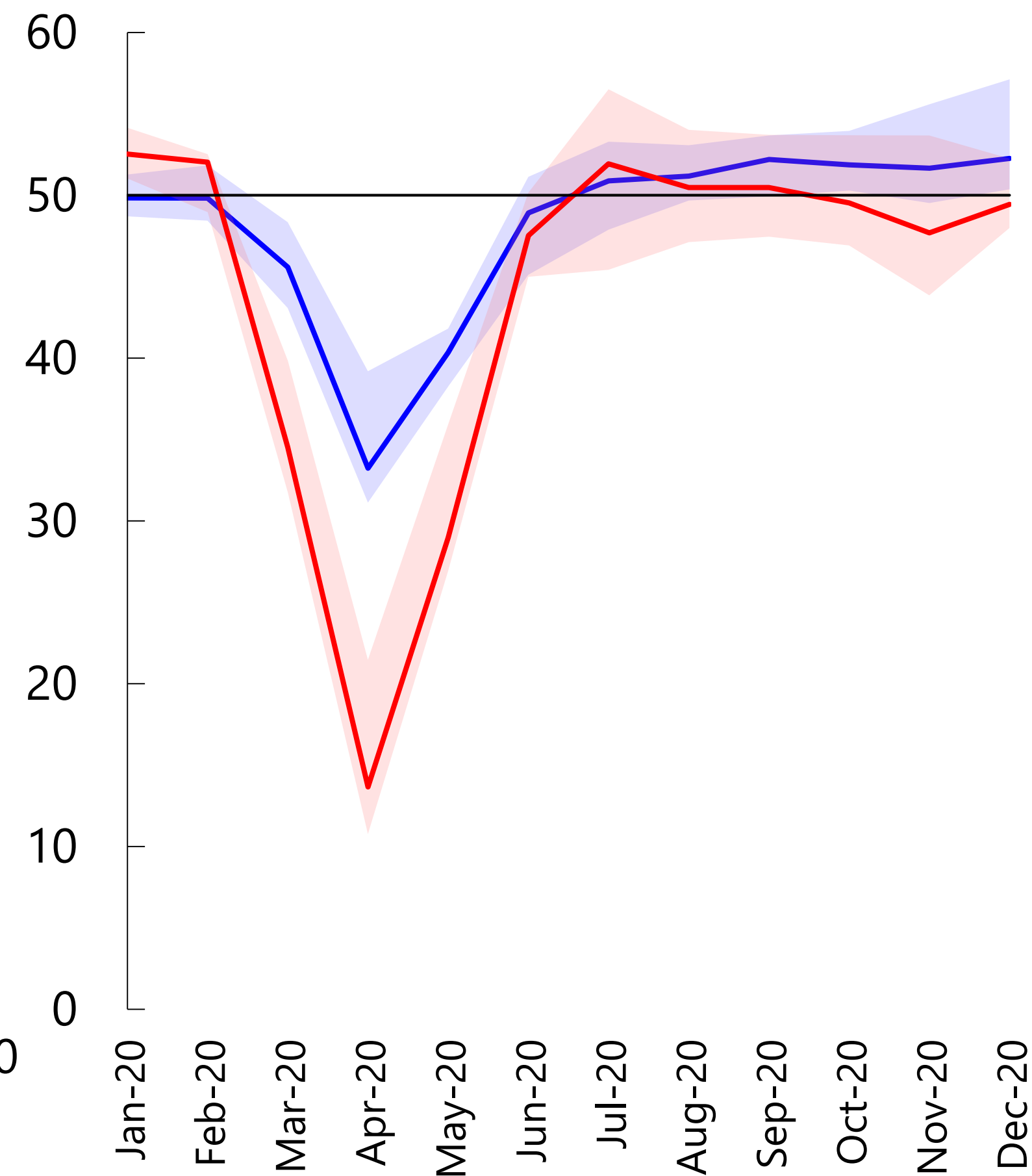
- AEs
- EMs



PMI 2/

(index; >50 = expansion)

- Manufacturing
- Services



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

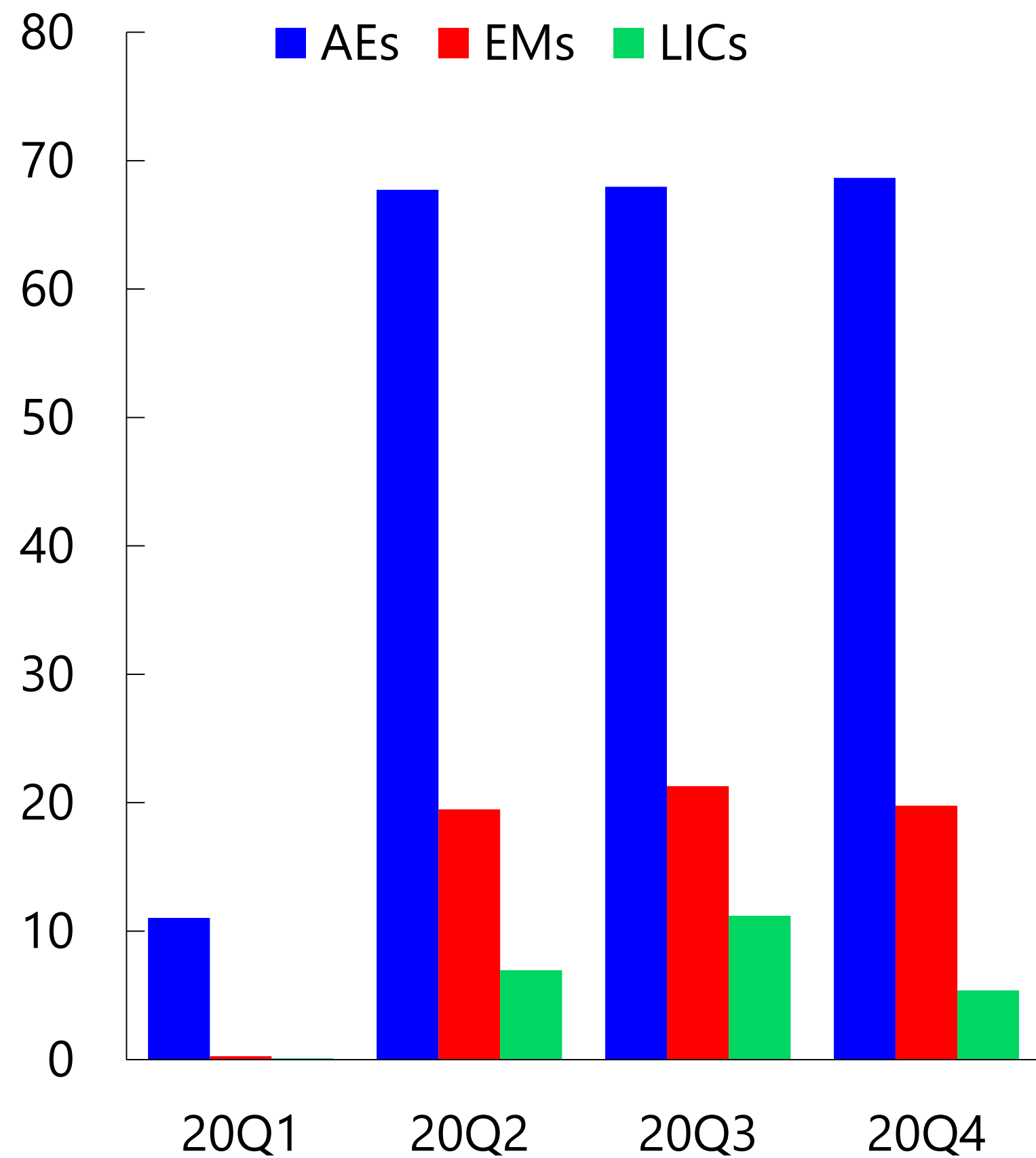
1/ Lines denote averages.

2/ Lines denote medians. Shaded areas denote interquartile ranges.

Lifelines to Households and Firms Supported the Rebound

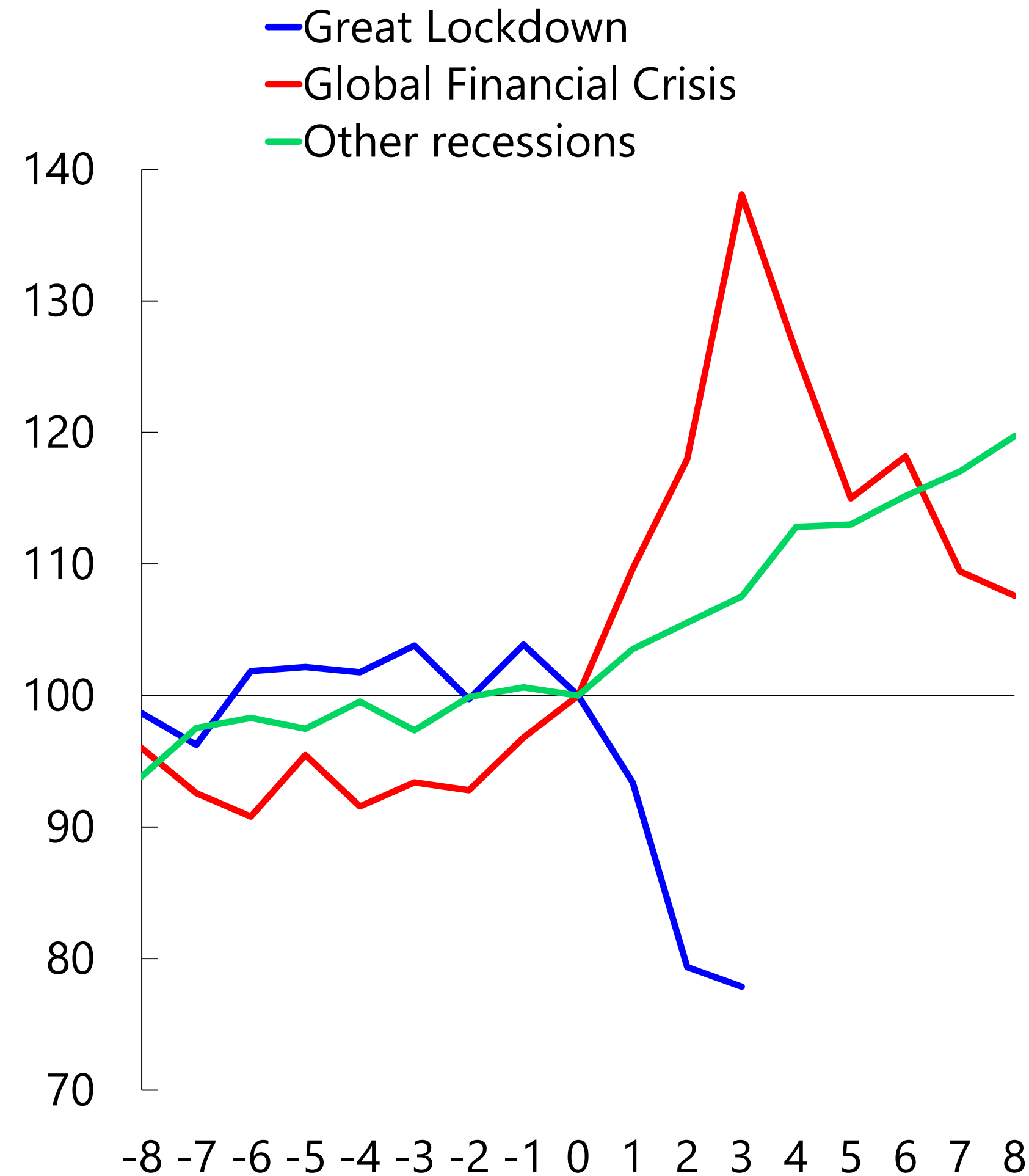
Income support

(share of countries in each income group with higher than 50% replacement income support; percent)



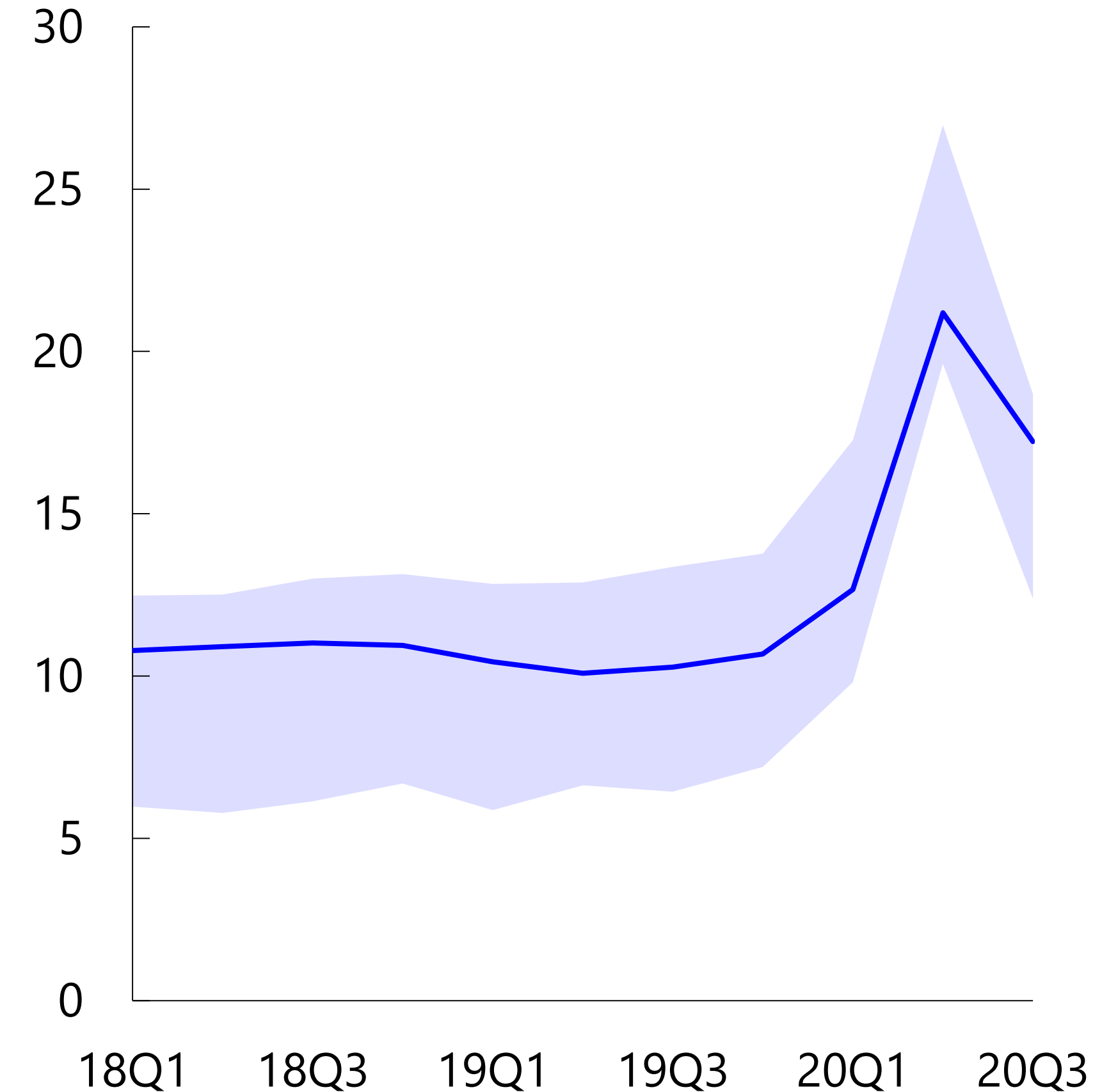
Bankruptcies

(index; last pre-recession quarter=100)



Household saving 1/

(percent of household disposable income)

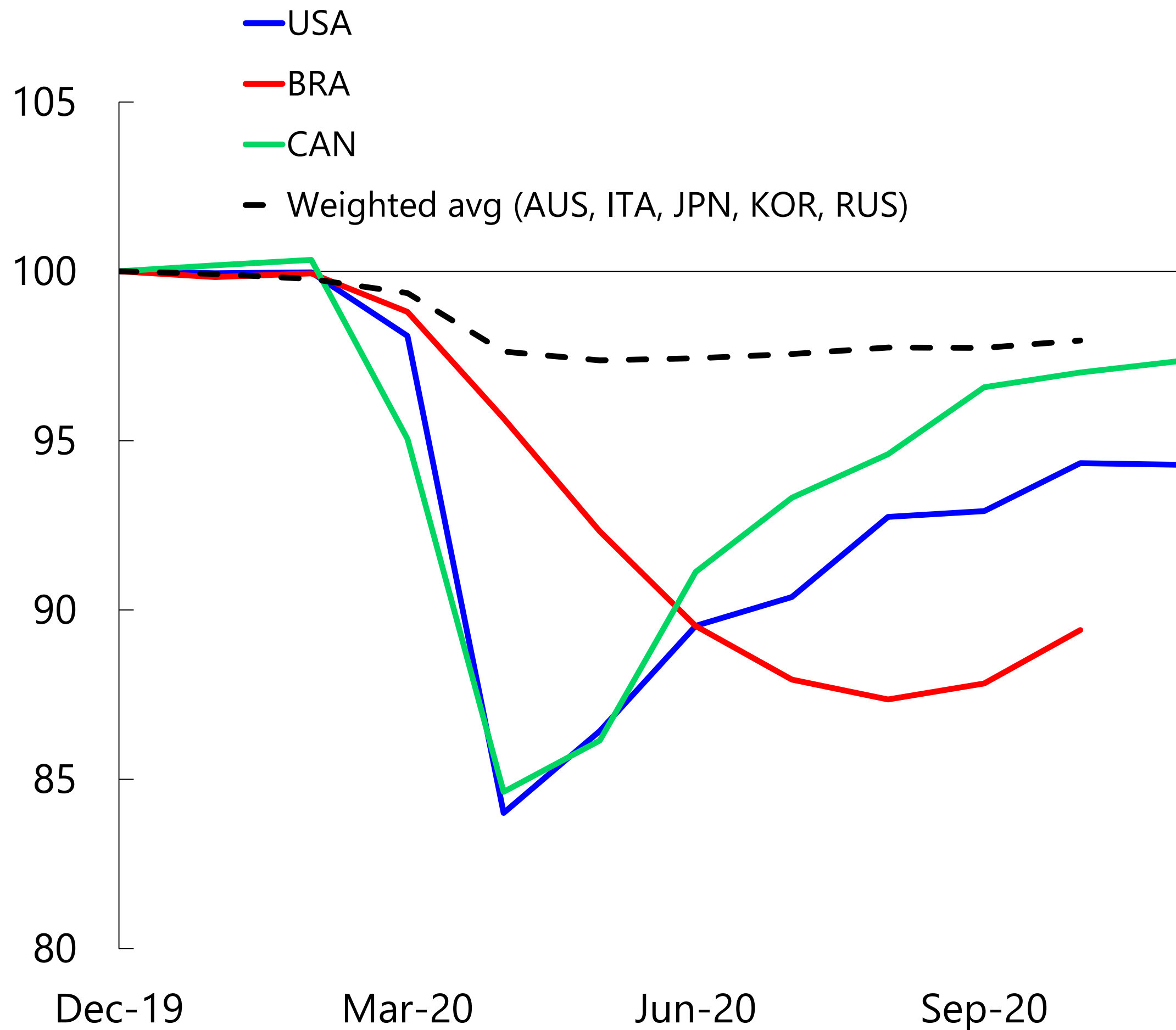


Sources: OxCGRT; CEIC; Haver Analytics; and IMF staff calculations.
1/ Lines denote medians. Shaded area denotes interquartile ranges.

Labor Market Vulnerability Remains

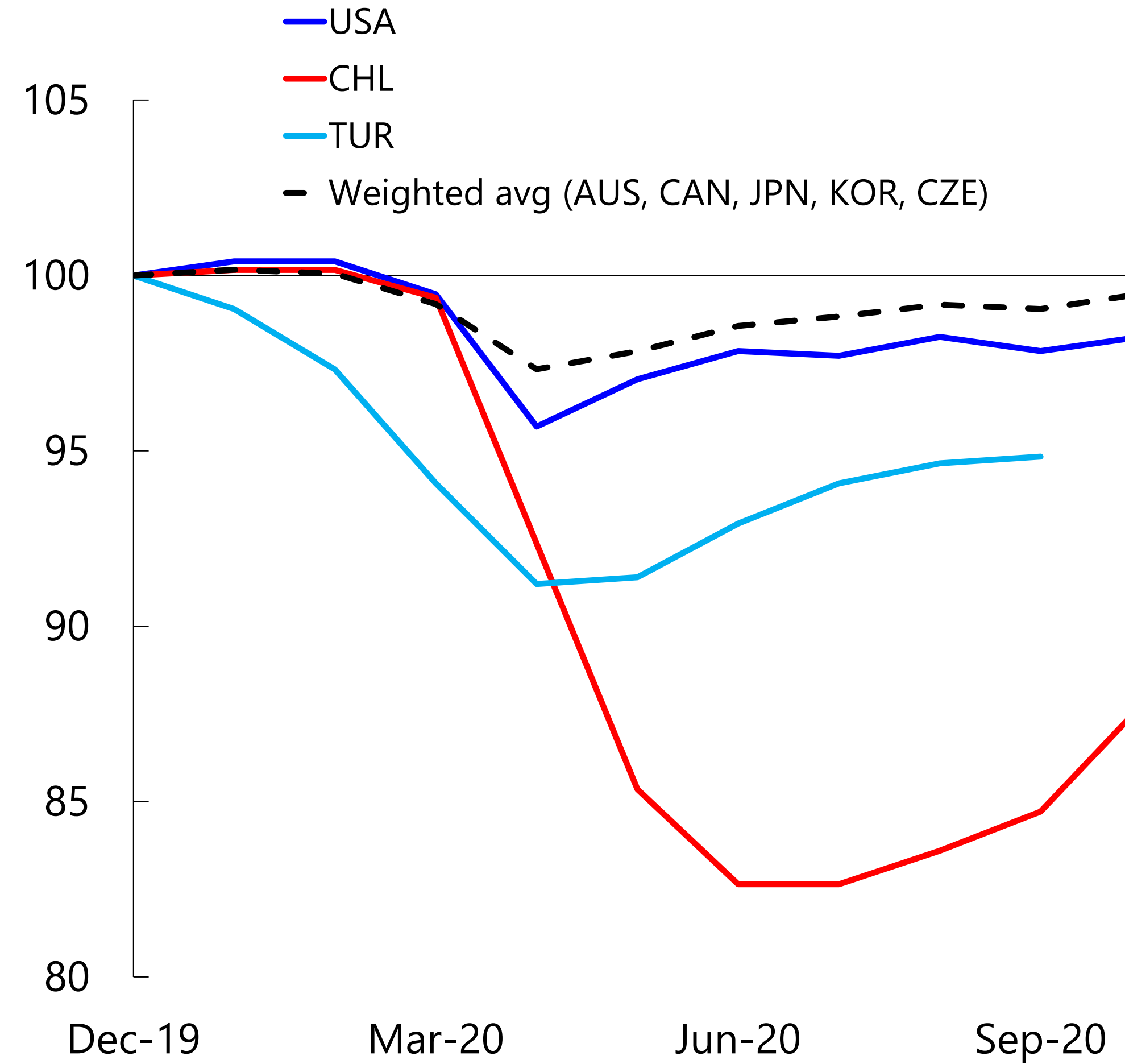
Total employment

(index; Dec. 2019=100)



Labor force participation

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



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

Note: Based on countries with available seasonally adjusted monthly series. Latest data point is November 2020.

WEO Baseline Assumptions

Disruptions to activity

- Possibility of lockdowns before vaccines become widely available
- Broad vaccine availability in AEs and some EMs in the summer of 2021 and across most countries by the second half of 2022

Financial conditions and policy support

- Financial conditions to remain at current levels for AEs while gradually improving for EMDEs
- Additional fiscal policy support boosts activity in some countries, but most are expected to experience lower deficits in 2021

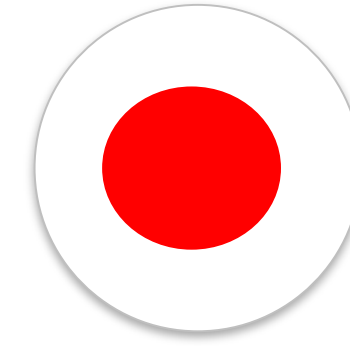
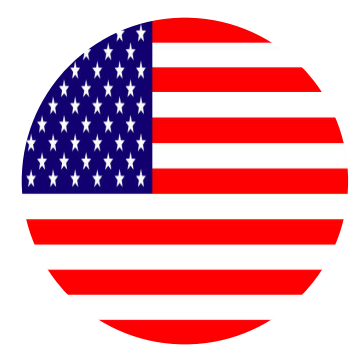
Commodity prices

- Oil prices are expected to rise in 2021 just over 20 percent from the low base for 2020, but will still remain below their average for 2019

WEO Projections

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

-3.5

-4.9

-3.4

-7.2

-5.1

-10.0

-5.5

-1.5

Revision from
Oct. 2020

0.9

0.9

0.9

1.1

0.2

-0.2

1.6

1.4

2021

5.5

4.3

5.1

4.2

3.1

4.5

3.6

3.6

Revision from
Oct. 2020

0.3

0.4

2.0

-1.0

0.8

-1.4

-1.6

0.3

2022

4.2

3.1

2.5

3.6

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Revision from
Oct. 2020

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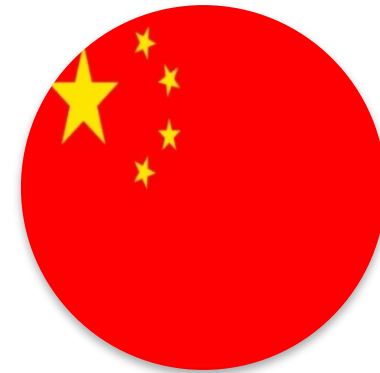
0.7

0.1

Source: IMF, *World Economic Outlook* January 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

-3.5

-2.4

2.3

-8.0

-4.5

-3.6

-4.4

-0.8

Revision from
Oct. 2020

0.9

0.9

0.4

2.3

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2021

5.5

6.3

8.1

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3.8

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Revision from
Oct. 2020

0.3

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-0.1

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2022

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Revision from
Oct. 2020

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-0.1

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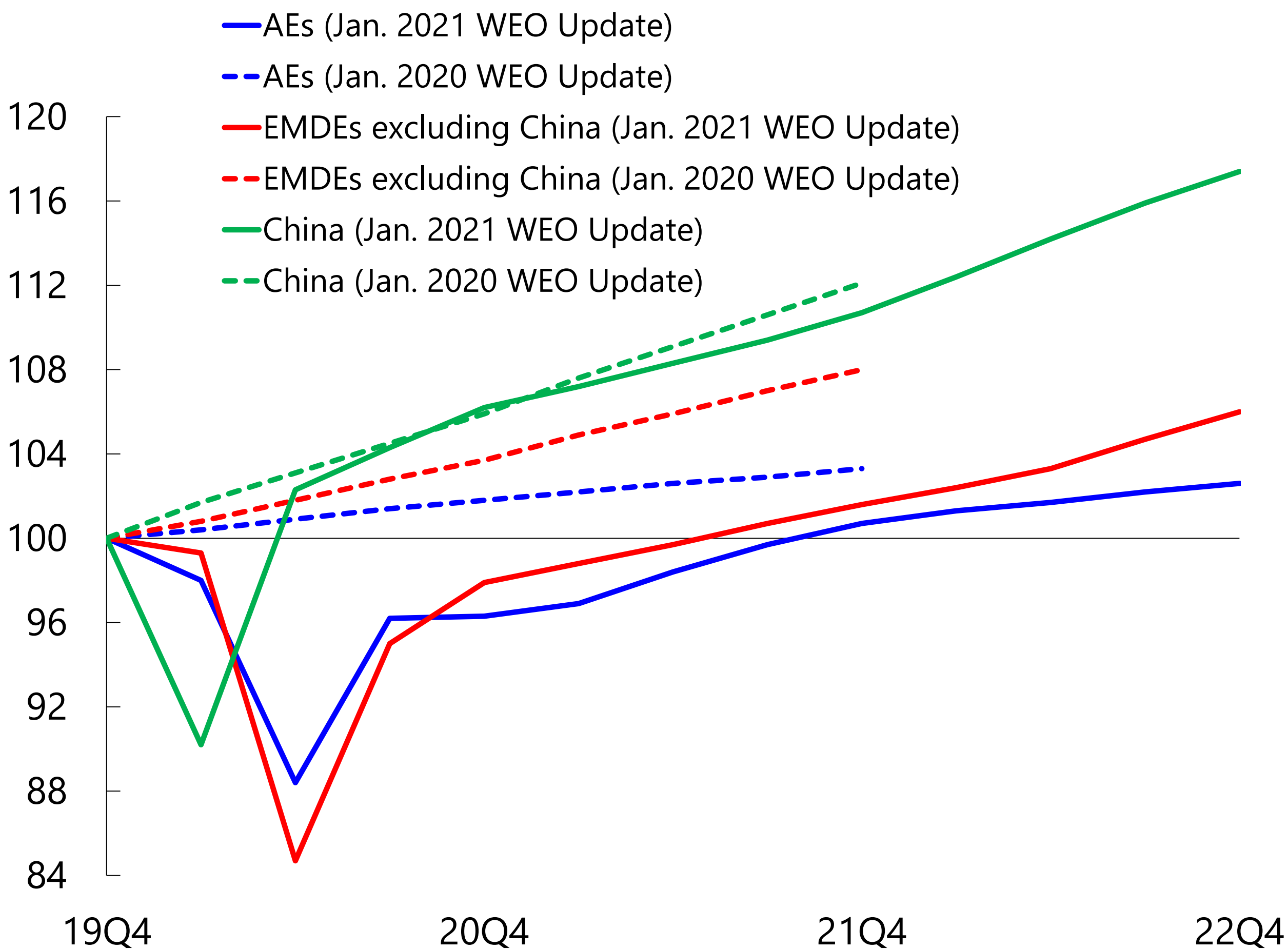
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Source: IMF, *World Economic Outlook* January 2021.

Divergent Recoveries

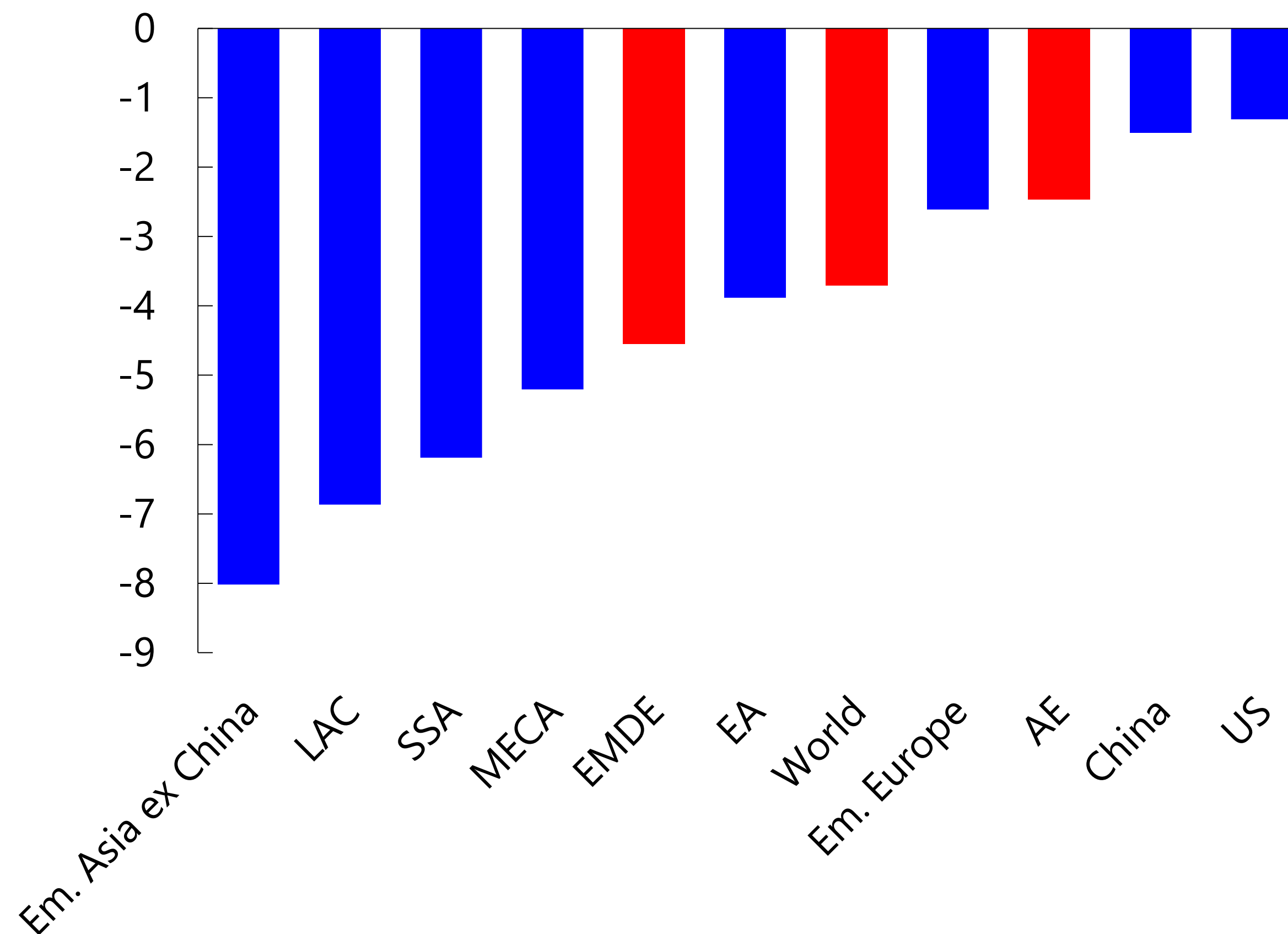
World Real GDP

(index; 2019Q4 = 100)



GDP losses relative to Pre-COVID by region 1/

(current projected 2022 level relative to pre-COVID forecast; percent difference)

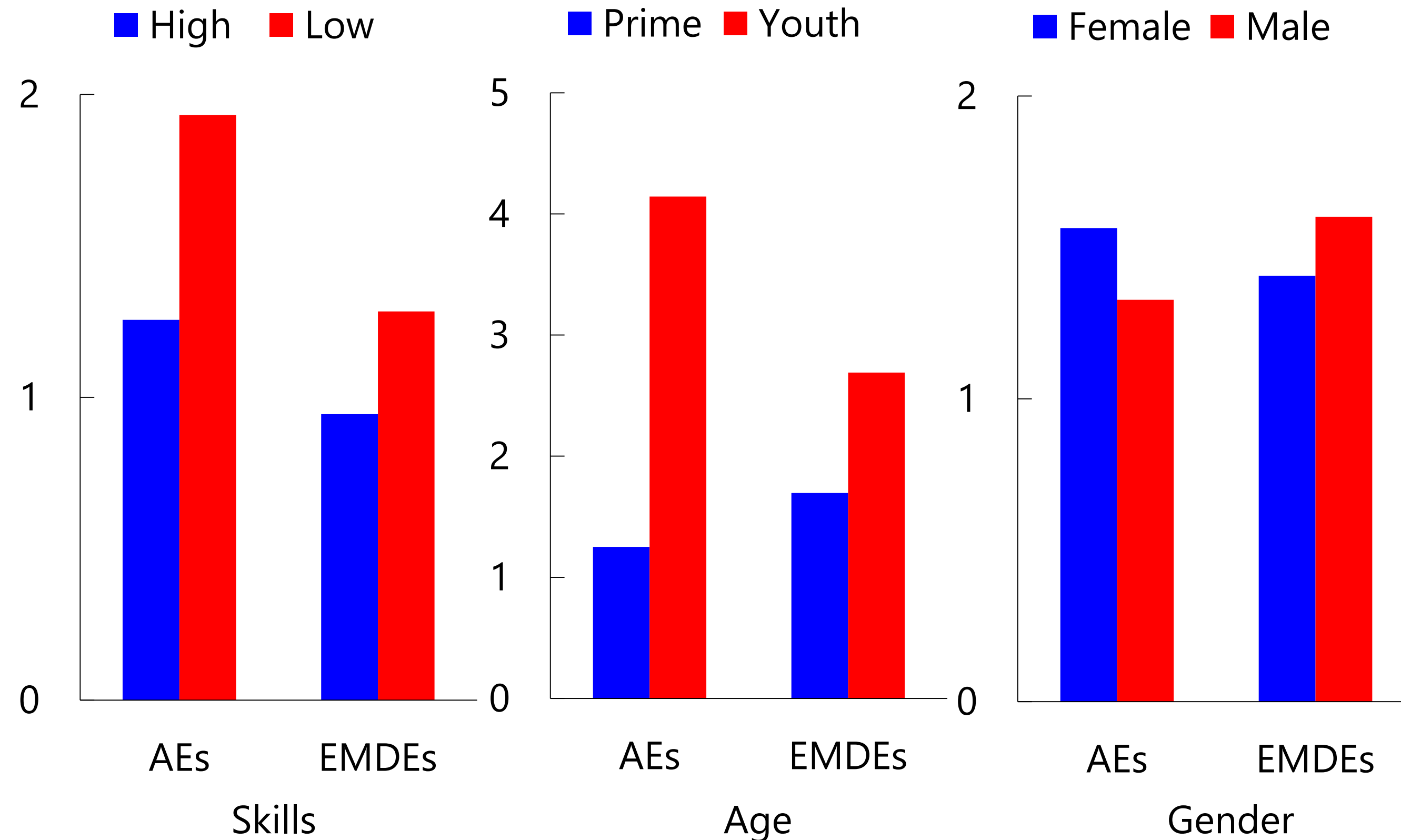


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

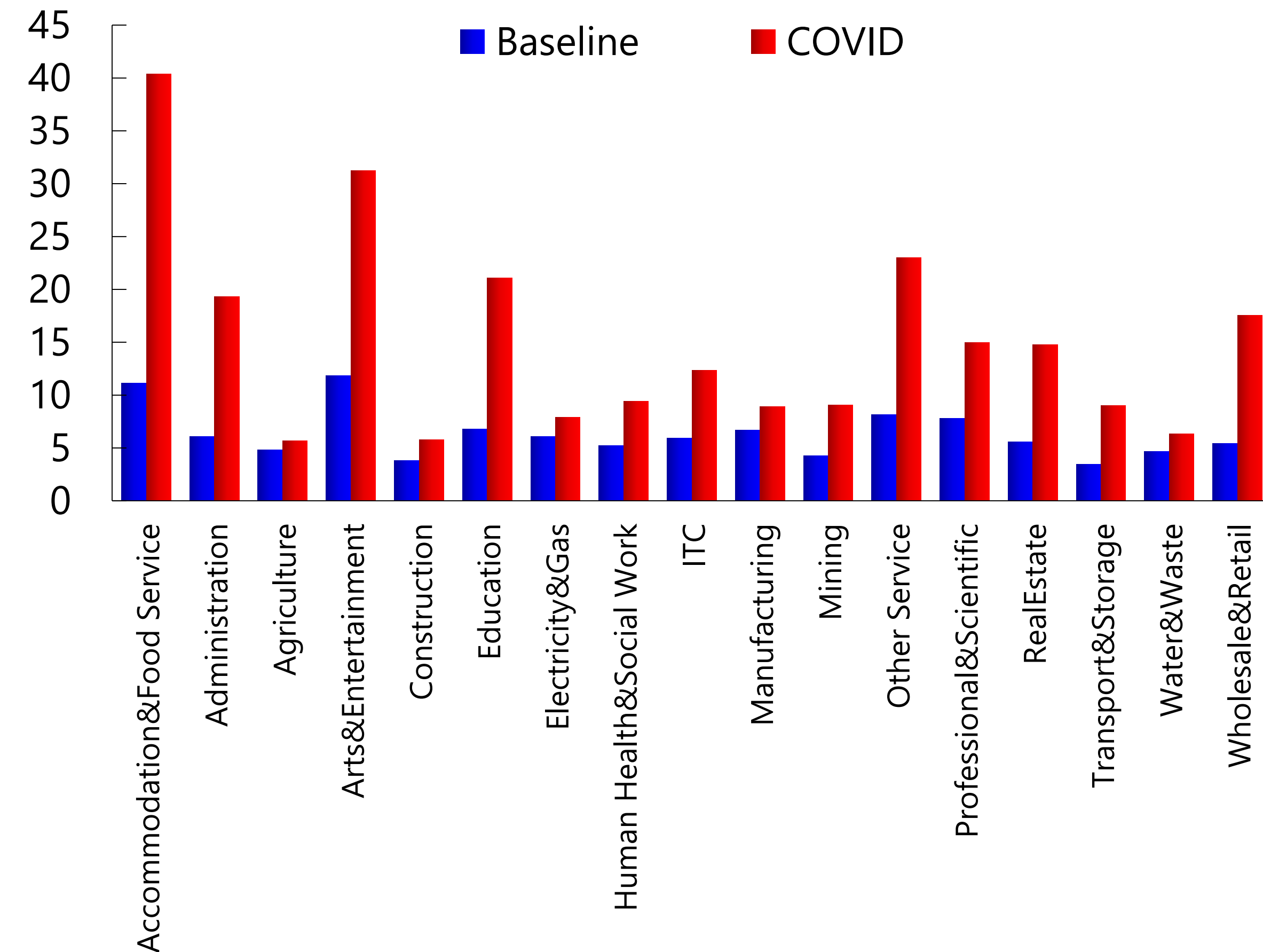
1/ AE = advanced economies; Em. Asia ex China = emerging and developing Asia ex. China; Em. Eur. = emerging and developing Europe; EMDE = emerging market and developing economies; LAC = Latin America and the Caribbean; MECA = Middle East and Central Asia; SSA = sub-Saharan Africa.

Within-Country Divergence

Change in unemployment rates across economic groups 1/
(percentage points)



SME Jobs at risk 2/
(percent of private SMEs)



Sources: ILO; ORBIS; and IMF staff calculations.

1/ Average changes in unemployment calculated from the normalized time fixed effects from a regression of the variable on country and time fixed effects to account for sample coverage changes.

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).

Policy Recommendations

Effective and more targeted support

- Expedite vaccinations. Ensure well resourced health care systems.
- Avoid premature withdrawal of lifelines where local transmission remains high.
- Roll back gradually lifelines where local transmission has been low, and activity has begun to normalize.

Achieve a resilient and equitable post-pandemic economy

- *Advanced economies:* Fiscal and monetary policies should continue to be supportive while keeping financial stability risks from materializing.
- *Emerging and frontier markets:* Fiscal and monetary support should be maintained where debt sustainability is not a concern and inflation risks are contained.
- Address slow productivity growth, rising inequality and higher poverty, and the setback to human capital accumulation.

Policy Recommendations

Address crisis legacies and maintain financial stability

- Address elevated debt level and associated risks once the pandemic is under control.
- Supplement corporate bankruptcy frameworks by a fast-track process and special out-of-court restructuring frameworks to expedite processing bankruptcies.
- Enhance the regulatory framework to address nonbank financial sector's vulnerabilities.
- Strengthen prudential supervision to contain excessive risk-taking in a lower for longer environment.

Enhance international cooperation

- Ensure universal vaccination at affordable prices to all countries, including by bolstering funding for the COVAX facility.
- Debt relief, grants and access to concessional financing for low income developing countries to ensure they are not overwhelmed by crisis costs and rising poverty levels.
- A synchronized green public investment push by the economies with fiscal space can generate employment and has welcome cross-border spillovers for trade and climate.
- Intensify efforts to implement climate change mitigation commitments.