FOREWORD

It is one year since COVID-19 was declared a global pandemic, a year of terrible loss of lives and livelihoods. Like many around the world, the team that produces the *World Economic Outlook* has also lost loved ones to the widening reach of the pandemic. The rising human toll worldwide and the millions of people that remain unemployed are grim markers of the extreme social and economic strain that the global community still confronts.

Yet, even with high uncertainty about the path of the pandemic, a way out of this health and economic crisis is increasingly visible. Thanks to the ingenuity of the scientific community, we have multiple vaccines that can reduce the severity and frequency of infections. In parallel, adaptation to pandemic life has enabled the global economy to do well despite subdued overall mobility, leading to a stronger-than-anticipated rebound, on average, across regions. Additional fiscal support in some economies, (especially the United States)—on top of an already unprecedented fiscal response last year and continued monetary accommodation—further uplift the economic outlook.

We are now projecting a stronger recovery in 2021 and 2022 for the global economy compared to our previous forecast, with growth projected to be 6 percent in 2021 and 4.4 percent in 2022. Nonetheless, the outlook presents daunting challenges related to divergences in the speed of recovery both across and within countries and the potential for persistent economic damage from the crisis.

As Chapter 1 emphasizes, multispeed recoveries are under way in all regions and across income groups, linked to stark differences in the pace of vaccine rollout, the extent of economic policy support, and structural factors such as reliance on tourism. Among advanced economies, the United States is expected to surpass its pre-COVID GDP level this year, while many others in the group will return to their pre-COVID levels only in 2022. Similarly, among emerging market and developing economies, China had already returned to pre-COVID GDP in 2020, whereas many others are not expected to do so until well into 2023.

The divergent recovery paths are likely to create significantly wider gaps in living standards between developing countries and others, compared to pre-pandemic expectations. Cumulative per capita income losses over 2020–22, compared to pre-pandemic projections, are equivalent to 20 percent of 2019 per capita GDP in emerging markets and developing economies (excluding China), while in advanced economies the losses are expected to be relatively smaller, at 11 percent. This has reversed gains in poverty reduction, with an additional 95 million people expected to have entered the ranks of the extreme poor in 2020, and 80 million more undernourished than before.

With a fuller understanding of how the shock has transmitted across sectors and borders, and based on past experiences of deep recessions, we are now better able to assess the likely medium-term losses. Many variables—differences in initial exposure to the shock, economic structures, and policy support—inform our projections for persistent damages and scarring over the medium term, as discussed in Chapter 2. Although medium-term losses for the global economy are expected to be smaller than in the aftermath of the global financial crisis, the cross-country pattern of damages is, however, likely to be different this time, with low-income countries and emerging markets suffering more compared to the fallout from the crisis a decade earlier when advanced economies were harder hit.

These divergences, however, are not just occurring between countries but also within them. As discussed in Chapter 3 (and in the April 2021 *Fiscal Monitor*), within-country income inequality will likely increase because young workers and those with relatively lower skills remain more heavily affected in not only advanced but also emerging markets and developing economies. In the latter group of countries, female employment rates remain below that of men, exacerbating these disparities. Some of these effects reflect how the crisis has affected some sectors more than others: employment has declined to a greater extent in those sectors with larger concentrations of younger or lower-skilled workers as well as in sectors more vulnerable to automation. Because the crisis has accelerated the transformative forces of digitalization and automation, many of the jobs lost are unlikely to return, requiring worker reallocation across sectors—which itself often comes with severe earnings penalties.

A high degree of uncertainty surrounds these projections, with many possible downside and upside risks. Much still depends on the race between the virus and vaccines. Greater progress with vaccinations can uplift the forecast, while new virus variants that evade vaccines can lead to a sharp downgrade. Large divergences in recovery speeds also raise the prospect of divergent policy stances. In recent months, we have seen sharp increases in long-term interest rates, partly reflecting revised market expectations of the pace at which the US Federal Reserve will normalize policy as the growth outlook for the US economy improves. As discussed in Chapter 4 (and in the April 2021 *Global Financial Stability Report*), if such increases are orderly and reflect stronger growth expectations, then they need not pose difficulties for other countries. But if increases instead reflect a sense that advanced economy monetary policy stances will need to tighten abruptly as the recovery gathers momentum, then there could be adverse spillovers to emerging market and developing economies, particularly among those with high debt and large financing needs. This could set those economies back even further relative to advanced economies.

Averting divergent outcomes will require, above all, resolving the health crisis everywhere. At the same time, economic policies will need to limit persistent damage, secure the recovery, and prepare for the post-COVID world, while being mindful of available policy space. Already, unprecedented economic policy actions have prevented far worse outcomes—our estimates suggest last year's severe collapse could have been about at least three times as large had it not been for the swift policy support worldwide. Many countries are now left with more limited policy space and higher debt levels than prior to the pandemic. Policies, therefore, will have to become better targeted to maintain the ability to support economic activity through this uncertain period as the race between the virus and vaccines unfolds.

A tailored approach will be necessary, with policies well calibrated to the stage of the pandemic, strength of the economic recovery, and social and economic circumstances of individual countries. As discussed in this report, while the pandemic continues, policies should prioritize health care spending—on vaccine production and distribution, treatments, health care infrastructure—together with well-targeted fiscal support to affected households and firms. As the recovery progresses and labor market conditions normalize, targeted support should be gradually scaled back to avoid sudden cliffs. More emphasis should at that point be placed on retraining and reskilling workers, together with income support as needed to help them through the transition, while in parallel expanding hiring subsidies to incentivize job creation. Expedited and streamlined bankruptcy procedures can further facilitate reallocation. Resources will need to be devoted to reverse learning losses among children who lost instructional time during the pandemic, for instance, through increased spending on education.

Once the health crisis is over, policy efforts can focus more on building resilient, inclusive, and greener economies, both to bolster the recovery and to raise potential output. The priorities should include investing in green infrastructure to help mitigate climate change, strengthening social assistance and social insurance to arrest rising inequality, introducing initiatives to boost productive capacity and adapt to a more digitalized economy, and resolving debt overhangs.

Financing these endeavors will be easier for some countries than for others. For those with limited fiscal space, improved revenue administration, greater progressivity in taxation, and reorientation of expenditures toward critical health, social, and infrastructural spending will be essential. Anchoring policies in credible medium-term frameworks and adhering to the highest standards of debt transparency would help in this regard, by containing borrowing costs and reducing fiscal risks.

On the international stage, first and foremost, countries need to work together to ensure widespread vaccinations across the world. The vaccine industry is attempting to produce three times the level of vaccines produced in a normal year. Not surprisingly, they are facing major challenges, including input supply bottlenecks. Vaccine access is also deeply iniquitous with high-income countries, with 16 percent of the world's population, having pre-purchased 50 percent of the doses. Countries will need to work together to resolve production bottlenecks, ramp up production, ensure universal access, including through funding the COVAX facility on which many low-income countries rely heavily for doses, and avoid export controls.

Policymakers should also continue to ensure adequate access to international liquidity. Major central banks should provide clear guidance on future actions with ample time to prepare to avoid taper-tantrum kinds of episodes as occurred in 2013. Low-income countries will benefit from further extending the temporary pause on debt repayments under the Debt Service Suspension Initiative and operationalizing the G20 Common Framework for orderly debt restructuring. Emerging markets and low-income countries will benefit from a new allocation of the IMF's special drawing rights and through pre-emptively availing themselves of the IMF's precautionary financing lines, such as the Flexible Credit Line and the Short-Term Liquidity Line.

Even while all eyes are on the pandemic, it is essential that progress be made on resolving trade and technology tensions. Countries should also cooperate on climate change mitigation, digitalization, modernization of international corporate taxation, and on measures to limit cross-border profit shifting, tax avoidance, and evasion.

Over the past year, we have seen significant innovations in economic policy and massively scaled-up support at the national level, particularly among advanced economies that have been able to afford these initiatives. A similarly ambitious effort is now needed at the multilateral level, on top of the considerable support provided thus far by the IMF to 85 countries during this pandemic. Without additional efforts to give all people a fair shot, cross-country gaps in living standards could widen significantly, and decades-long trends of global poverty reduction could reverse.

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