# WORLD ECONOMIC OUTLOOK UPDATE

## Fault Lines Widen in the Global Recovery

- *Economic prospects have diverged further across countries since the April 2021* World Economic Outlook *(WEO) forecast. Vaccine access has emerged as the principal fault line along which the global recovery splits into two blocs: those that can look forward to further normalization of activity later this year (almost all advanced economies) and those that will still face resurgent infections and rising COVID death tolls. The recovery, however, is not assured even in countries where infections are currently very low so long as the virus circulates elsewhere.*

- *The global economy is projected to grow 6.0 percent in 2021 and 4.9 percent in 2022. The 2021 global forecast is unchanged from the April 2021 WEO, but with offsetting revisions. Prospects for emerging market and developing economies have been marked down for 2021, especially for Emerging Asia. By contrast, the forecast for advanced economies is revised up. These revisions reflect pandemic developments and changes in policy support. The 0.5 percentage-point upgrade for 2022 derives largely from the forecast upgrade for advanced economies, particularly the United States, reflecting the anticipated legislation of additional fiscal support in the second half of 2021 and improved health metrics more broadly across the group.*

- *Recent price pressures for the most part reflect unusual pandemic-related developments and transitory supply-demand mismatches. Inflation is expected to return to its pre-pandemic ranges in most countries in 2022 once these disturbances work their way through prices, though uncertainty remains high. Elevated inflation is also expected in some emerging market and developing economies, related in part to high food prices. Central banks should generally look through transitory inflation pressures and avoid tightening until there is more clarity on underlying price dynamics. Clear communication from central banks on the outlook for monetary policy will be key to shaping inflation expectations and safeguarding against premature tightening of financial conditions. There is, however, a risk that transitory pressures could become more persistent and central banks may need to take preemptive action.*

- *Risks around the global baseline are to the downside. Slower-than-anticipated vaccine rollout would allow the virus to mutate further. Financial conditions could tighten rapidly, for instance from a reassessment of the monetary policy outlook in advanced economies if inflation expectations increase more rapidly than anticipated. A double hit to emerging market and developing economies from worsening pandemic dynamics and tighter external financial conditions would severely set back their recovery and drag global growth below this outlook's baseline.*

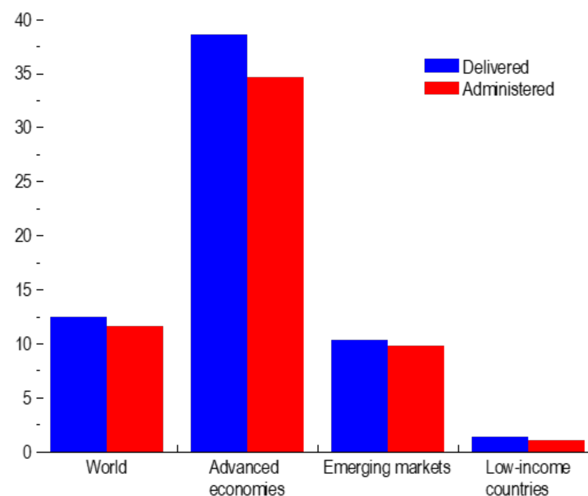
- *Multilateral action has a vital role to play in diminishing divergences and strengthening global prospects. The immediate priority is to deploy vaccines equitably worldwide. A $50 billion IMF staff proposal, jointly endorsed by the World Health Organization, World Trade Organization, and World Bank, provides clear targets and pragmatic actions at a feasible cost to end the pandemic. Financially constrained economies also need unimpeded access to international liquidity. The proposed $650 billion General Allocation of Special Drawing Rights at the IMF is set to boost reserve assets of all economies and help ease liquidity constraints. Countries also need to redouble collective efforts to reduce greenhouse gas emissions. These multilateral actions can be reinforced by national-level policies tailored to the stage of the crisis that help catalyze a sustainable, inclusive recovery. Concerted, well-directed policies can make the difference between a future of durable recoveries for all economies or one with widening fault lines—as many struggle with the health crisis while a handful see conditions normalize, albeit with the constant threat of renewed flare-ups.*

## Forces Shaping the Outlook

The pandemic has taken a turn for the worse in some parts of the world since the release of the April 2021 WEO. Meanwhile, a speedy vaccine rollout has helped bring down caseloads quickly in other regions. Economies are diverging even further, influenced by differences in the pace of vaccine rollout and policy support. However, smooth and durable recoveries are not assured even in places where infections are seemingly under control.

*Vaccines:* Close to 40 percent of the population in advanced economies has been fully vaccinated, compared with less than half that number in emerging market economies and a tiny fraction in low-income countries (Figure 1). Vaccine access is the principal fault line along which the global recovery splits into two blocs: those that can look forward to further normalization of activity later this year (almost all advanced economies) and those that will still contend with prospects of resurgent infections and rising COVID death tolls. Sub-Saharan Africa is now in the grip of a third wave, parts of Latin America continue to see high levels of new deaths, and concerns still remain about the situation in parts of South and Southeast Asia.

**Figure 1. Vaccine Courses**
*(Percent of population)*



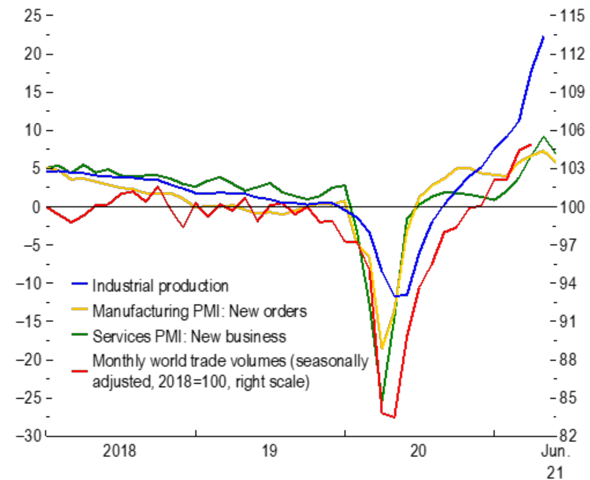

Sources: Airfinity; and IMF staff calculations.
Note: Latest data available are for July 6, 2021. Bars show the ratio of vaccine courses needed for full vaccination (two doses generally, but one dose for Johnson & Johnson and CanSino) either delivered or administered to population by WEO economy group.

*Policy support:* Further fueling the divergence is the continued impact of sizable fiscal support in the United States and new measures in other advanced economies (including France, Germany, Italy, Korea, and the United Kingdom; see the *Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic*). Many emerging market and developing economies on the other hand are looking to rebuild fiscal buffers. Some, including Brazil, Hungary, Mexico, Russia, and Turkey, have also begun normalizing monetary policy to head off upward price pressures.

*A patchy recovery shaped by new variants, aftershocks, and supply-demand mismatches:* First-quarter GDP outturns overall surprised on the upside, notably in Asia and Latin America, while renewed lockdowns in Europe led to downside surprises. High-frequency data in the second quarter

indicate the recovery is widening beyond manufacturing to services (Figure 2), especially in economies where infections are under better control.

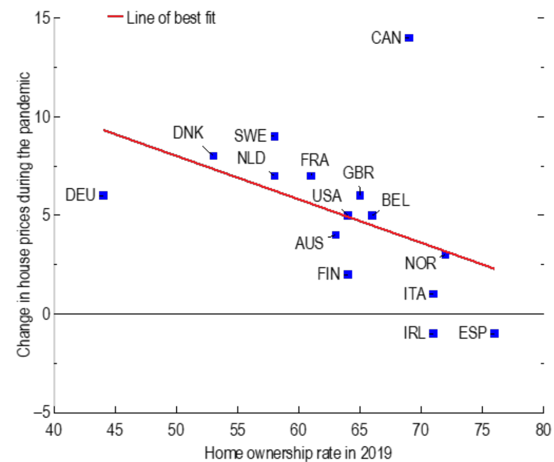
**Figure 2. Global Activity Indicators**
*(Three-month moving average, annualized percent change; deviations from 50 for PMIs, unless noted otherwise)*




Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and IMF staff estimates.
Note: PMI above 50 indicates expansion while below 50 indicates contraction. PMI = purchasing managers' index.

- *New variants:* Steady recovery is not assured anywhere so long as segments of the population remain susceptible to the virus and its mutations. Recovery has been set back severely in countries that experienced renewed waves—notably India. The United Kingdom has had to delay the final step of its economic reopening because of the spread of the delta variant, even as the vaccine rollout had helped bring down hospitalizations. China's Guangdong province imposed mobility restrictions in May following an outbreak after months of minimal new infections. Similarly, Australia reintroduced targeted lockdowns in June.

**Figure 3. House Price Acceleration and Pre-Pandemic Home Ownership Rates**
*(Percent)*




Sources: Mack and Martinez-Garcia (2011); Organisation for Economic Co-operation and Development; and IMF staff calculations.
Note: The change in real house price index is calculated between 2019:Q4 and 2020:Q4. The home ownership rate is the share of households owning a home (outright or with a mortage) pre-pandemic (2019 or previous latest year available).

- *Aftershocks:* The unprecedented convulsion in the global economy last year continues to trigger aftershocks that weigh on the recovery in some parts of the world. Empty shipping containers have been stranded in less-frequented ports alongside shortages on busier routes, contributing to increased delivery times for inputs reported in purchasing managers' surveys.

- *Supply-demand mismatches:* These likely transitory shortages have occurred amid shifting spending patterns, for instance toward housing and work-from-home electronics. Consistent with pandemic-induced rising demand for owner-occupied housing (possibly supported in some cases by generally low mortgage rates), house prices have risen more in places with lower pre-pandemic home ownership rates (Figure 3). These shifting spending patterns and supply disruptions have generated shortages of

components, such as microchips, creating bottlenecks for example in the automotive sector.

- *Inflation pressure:* The current spikes in annual inflation in part are the result of mechanical base effects from last year's low commodity prices. Moreover, prices have increased because of the likely transient supply-demand mismatches discussed above—container freight indices for example have risen significantly since mid-2020.

*Amid these challenges, financial conditions have remained generally supportive.* Financial market sentiment has remained positive on balance given the expected global recovery (see Box 1). The overall picture from the most recent WEO has not changed materially despite a recent bout of volatility: buoyant equity markets, tight credit spreads, and healthy flows into emerging market hard currency funds. This constellation of asset prices continues to provide a generally positive lift to the baseline global outlook.

## Divergent Recoveries Expected to Continue into 2022

The baseline forecast reflects the influences of the forces discussed earlier and rests on the following key assumptions:

- *Vaccines, therapies, and the pandemic:* Local transmission of the virus is expected to be brought to low levels everywhere by the end of 2022 through a combination of better-targeted precautions and improved access to vaccines and therapies. Advanced economies are generally on track to achieve broad vaccine availability by summer 2021. Some emerging markets are assumed to get to that point later this year. Most countries are assumed to gain broad access by the end of 2022. Some countries will get to low levels of local transmission sooner than others depending on country-specific circumstances. The baseline nonetheless assumes the possibility of additional waves before vaccines are widely available.

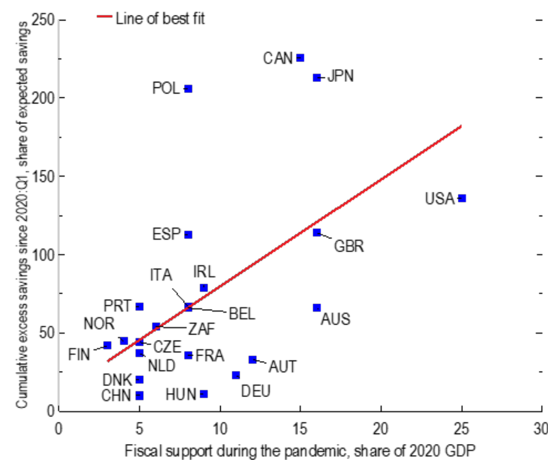
- *Fiscal policy:* The forecast assumes additional fiscal support in the United States in line with the overall cumulative size of the current administration's proposed American Jobs Plan and American Families Plan. The baseline also incorporates expected Next Generation EU grants and loans into the forecasts for those economies. As noted in Box 2, fiscal deficits in most emerging markets are projected to decline in 2021.

- *Monetary policy:* Major central banks are assumed to leave policy rates unchanged throughout the forecast horizon (end of 2022). Some emerging market central banks have begun reducing support, and more are expected to follow suit later in 2021.

- *Rising commodity prices:* Commodity prices are expected to increase at a significantly faster pace than assumed in the April 2021 WEO. Amid the strengthening global recovery, oil prices are expected to rise close to 60 percent above their low base in 2020. Non-oil commodity prices are expected to rise close to 30 percent above 2020 levels, reflecting particularly strong increases in the price of metals and food.

- *Handoff to private activity:* The buildup of excess household savings over the past five quarters of subdued contact-intensive activity and travel is a key aspect of the unprecedented downturn and rebound. As seen in Figure 4, savings tended to accumulate more in countries with larger above-the-line fiscal support to households, which buffered disposable incomes. As economies reopen, private spending is expected to pick up, financed in part by these savings. The speed at which these savings are drawn down will influence the pace of the recovery and inflation pressure. The forecast assumes a smooth handoff from extraordinary policy support to private-activity-led growth, with a gradual drawdown of excess savings. IMF staff analysis suggests a more substantial accumulation of savings in places with relatively lower pre-pandemic household saving rates, indicating some reversion to the mean and the rebuilding of household net worth, which would weigh on the immediate spending impulse.

**Figure 4. Household Savings and Government Support during the Pandemic**
*(Percent)*




Sources: Eurostat; Organisation for Economic Co-operation and Development; U.S. Bureau of Economic Analysis; and IMF staff calculations.
Note: Fiscal support includes above-the-line fiscal measures governments have announced or implemented in response to the COVID-19 pandemic between January 2020 and March 17, 2021. Cumulative excess savings are household gross savings from 2020:Q1 to 2021:Q1 or the latest quarter available, exceeding what is expected based on a linear trend calculated from 2017:Q1 to 2019:Q4 for each country. Data labels use International Organization for Standardization (ISO) country codes.

*Global growth:* The global economy is projected to grow 6.0 percent in 2021 and 4.9 percent in 2022 (Table 1). Although the 2021 forecast is unchanged from April, there are offsetting revisions across advanced economies and emerging market and developing economies reflecting differences in pandemic developments and policy shifts. The 0.5 percentage point upward revision for 2022 largely reflects anticipated additional fiscal support in the United States, with associated spillovers to the global economy.

- *Advanced economies:* Growth prospects have been revised up for 2021–22 from expected further normalization in the second half of 2021 as vaccine rollout proceeds and with additional fiscal support. The significantly improved outlook for the US economy derives from the impact of anticipated legislation boosting infrastructure investment and strengthening the social safety net in the second half of 2021. The additional support is expected to lift 2021 US GDP growth by 0.3 percentage point and 2022 growth by 1.1 percentage points, with positive spillovers to trading partners. This shift is partially offset by the forecast downgrade in 2021 for Japan, reflecting tighter restrictions in the first half of the year as caseloads picked up. Japan is anticipated to see a stronger rebound in the second half of 2021, as vaccination proceeds and the economy fully reopens, improving its growth forecast for 2022. Similar strengthening momentum is expected in France, Germany, Italy, and Spain later this year, carrying over into 2022.

**Table 1. Overview of the *World Economic Outlook* Projections**
*(Percent change, unless noted otherwise)*

| | Year over Year | | | | | | Q4 over Q4 2/ | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Projections | | Difference from April 2021 WEO Projections 1/ | | | Projections | |
| | 2019 | 2020 | 2021 | 2022 | 2021 | 2022 | 2020 | 2021 | 2022 |
| **World Output** | **2.8** | **–3.2** | **6.0** | **4.9** | **0.0** | **0.5** | **–0.5** | **4.8** | **3.9** |
| **Advanced Economies** | **1.6** | **–4.6** | **5.6** | **4.4** | **0.5** | **0.8** | **–3.0** | **5.9** | **2.6** |
| United States | 2.2 | –3.5 | 7.0 | 4.9 | 0.6 | 1.4 | –2.4 | 8.0 | 2.8 |
| Euro Area | 1.3 | –6.5 | 4.6 | 4.3 | 0.2 | 0.5 | –4.7 | 4.8 | 2.7 |
| Germany | 0.6 | –4.8 | 3.6 | 4.1 | 0.0 | 0.7 | –3.3 | 4.9 | 1.4 |
| France | 1.8 | –8.0 | 5.8 | 4.2 | 0.0 | 0.0 | –4.6 | 4.5 | 2.5 |
| Italy | 0.3 | –8.9 | 4.9 | 4.2 | 0.7 | 0.6 | –6.5 | 4.7 | 2.9 |
| Spain | 2.0 | –10.8 | 6.2 | 5.8 | –0.2 | 1.1 | –8.9 | 7.4 | 2.8 |
| Japan | 0.0 | –4.7 | 2.8 | 3.0 | –0.5 | 0.5 | –1.0 | 2.2 | 1.6 |
| United Kingdom | 1.4 | –9.8 | 7.0 | 4.8 | 1.7 | –0.3 | –7.3 | 7.3 | 2.1 |
| Canada | 1.9 | –5.3 | 6.3 | 4.5 | 1.3 | –0.2 | –3.1 | 5.4 | 3.6 |
| Other Advanced Economies 3/ | 1.9 | –2.0 | 4.9 | 3.6 | 0.5 | 0.2 | –0.7 | 4.1 | 2.9 |
| **Emerging Market and Developing Economies** | **3.7** | **–2.1** | **6.3** | **5.2** | **–0.4** | **0.2** | **1.6** | **3.9** | **4.9** |
| Emerging and Developing Asia | 5.4 | –0.9 | 7.5 | 6.4 | –1.1 | 0.4 | 3.6 | 4.3 | 5.9 |
| China | 6.0 | 2.3 | 8.1 | 5.7 | –0.3 | 0.1 | 6.3 | 4.2 | 6.2 |
| India 4/ | 4.0 | –7.3 | 9.5 | 8.5 | –3.0 | 1.6 | 1.5 | 4.2 | 4.9 |
| ASEAN-5 5/ | 4.9 | –3.4 | 4.3 | 6.3 | –0.6 | 0.2 | –2.7 | 4.5 | 6.3 |
| Emerging and Developing Europe | 2.5 | –2.0 | 4.9 | 3.6 | 0.5 | –0.3 | –0.2 | 3.4 | 3.5 |
| Russia | 2.0 | –3.0 | 4.4 | 3.1 | 0.6 | –0.7 | –1.9 | 3.9 | 2.7 |
| Latin America and the Caribbean | 0.1 | –7.0 | 5.8 | 3.2 | 1.2 | 0.1 | –3.4 | 3.2 | 2.5 |
| Brazil | 1.4 | –4.1 | 5.3 | 1.9 | 1.6 | –0.7 | –1.2 | 2.2 | 1.9 |
| Mexico | –0.2 | –8.3 | 6.3 | 4.2 | 1.3 | 1.2 | –4.6 | 5.0 | 3.2 |
| Middle East and Central Asia | 1.4 | –2.6 | 4.0 | 3.7 | 0.3 | –0.1 | . . . | . . . | . . . |
| Saudi Arabia | 0.3 | –4.1 | 2.4 | 4.8 | –0.5 | 0.8 | –3.9 | 4.8 | 3.5 |
| Sub-Saharan Africa | 3.2 | –1.8 | 3.4 | 4.1 | 0.0 | 0.1 | . . . | . . . | . . . |
| Nigeria | 2.2 | –1.8 | 2.5 | 2.6 | 0.0 | 0.3 | –0.6 | 2.6 | 2.4 |
| South Africa | 0.2 | –7.0 | 4.0 | 2.2 | 0.9 | 0.2 | –4.2 | 1.2 | 3.1 |
| *Memorandum* | | | | | | | | | |
| World Growth Based on Market Exchange Rates | 2.4 | –3.6 | 6.0 | 4.6 | 0.2 | 0.5 | –1.2 | 5.2 | 3.5 |
| European Union | 1.8 | –6.0 | 4.7 | 4.4 | 0.3 | 0.5 | –4.4 | 5.1 | 2.8 |
| Middle East and North Africa | 0.8 | –3.0 | 4.1 | 3.7 | 0.1 | 0.0 | . . . | . . . | . . . |
| Emerging Market and Middle-Income Economies | 3.5 | –2.3 | 6.5 | 5.2 | –0.4 | 0.2 | 1.6 | 3.9 | 4.9 |
| Low-Income Developing Countries | 5.3 | 0.2 | 3.9 | 5.5 | –0.4 | 0.3 | . . . | . . . | . . . |
| **World Trade Volume (goods and services) 6/** | **0.9** | **–8.3** | **9.7** | **7.0** | **1.3** | **0.5** | **. . .** | **. . .** | **. . .** |
| Advanced Economies | 1.4 | –9.2 | 8.9 | 7.1 | 0.4 | 0.7 | . . . | . . . | . . . |
| Emerging Market and Developing Economies | –0.2 | –6.7 | 11.1 | 6.9 | 2.8 | 0.2 | . . . | . . . | . . . |
| **Commodity Prices (US dollars)** | | | | | | | | | |
| Oil 7/ | –10.2 | –32.7 | 56.6 | –2.6 | 14.9 | 3.7 | –27.6 | 50.8 | –6.5 |
| Nonfuel (average based on world commodity import weights) | 0.8 | 6.7 | 26.5 | –0.8 | 10.4 | 1.1 | 15.4 | 17.1 | –2.3 |
| **Consumer Prices** | | | | | | | | | |
| Advanced Economies 8/ | 1.4 | 0.7 | 2.4 | 2.1 | 0.8 | 0.4 | 0.4 | 3.0 | 1.9 |
| Emerging Market and Developing Economies 9/ | 5.1 | 5.1 | 5.4 | 4.7 | 0.5 | 0.3 | 3.2 | 5.1 | 4.1 |
| **London Interbank Offered Rate (percent)** | | | | | | | | | |
| On US Dollar Deposits (six month) | 2.3 | 0.7 | 0.3 | 0.4 | 0.0 | 0.0 | . . . | . . . | . . . |
| On Euro Deposits (three month) | –0.4 | –0.4 | –0.5 | –0.5 | 0.0 | 0.0 | . . . | . . . | . . . |
| On Japanese Yen Deposits (six month) | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | . . . | . . . | . . . |

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during May 5--June 2, 2021. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. WEO = World Economic Outlook.
1/ Difference based on rounded figures for the current and April 2021 WEO forecasts. Countries whose forecasts have been updated relative to April 2021 WEO forecasts account for approximately 80 percent of world GDP measured at purchasing-power-parity weights.
2/ For World Output, the quarterly estimates and projections account for approximately 90 percent of annual world output at purchasing-power-parity weights. For Emerging Market and Developing Economies, the quarterly estimates and projections account for approximately 80 percent of annual emerging market and developing economies' output at purchasing-power-parity weights.
3/ Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.
4/ For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.
5/ Indonesia, Malaysia, Philippines, Thailand, Vietnam.
6/ Simple average of growth rates for export and import volumes (goods and services).
7/ Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in US dollars a barrel was $41.29 in 2020; the assumed price, based on futures markets (as of June 2, 2021), is $64.68 in 2021 and $63.02 in 2022.
8/ The inflation rate for the euro area is 1.8% in 2021 and 1.3% in 2022, for Japan is --0.1% in 2021 and 0.6% in 2022, and for the United States is 4.0% in 2021 and 3.3% in 2022, respectively.
9/ Excludes Venezuela.

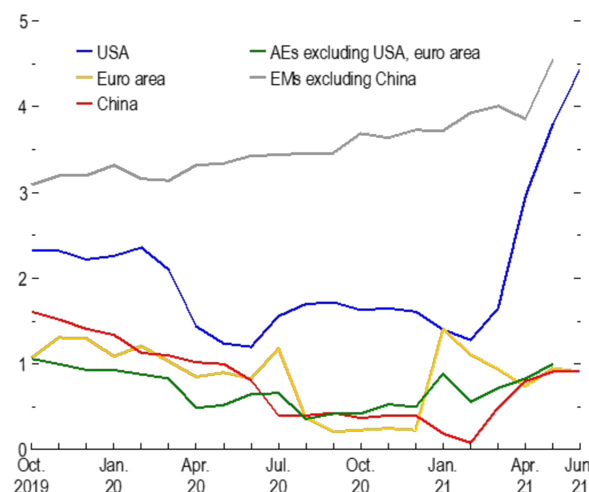
- *Emerging market and developing economies:* The forecast for the group is revised down 0.4 percentage point in 2021 compared with the April WEO, largely because of growth markdowns for emerging Asian economies. Growth prospects in India have been downgraded following the severe second COVID wave during March–May and expected slow recovery in confidence from that setback. Similar dynamics are at work in the ASEAN-5 group (Indonesia, Malaysia, Philippines, Thailand, Vietnam), where recent infection waves are causing a drag on activity. Meanwhile, China's 2021 forecast is revised down 0.3 percentage point on a scaling back of public investment and overall fiscal support. Growth forecasts for other regions have generally been revised up for 2021, largely reflecting the stronger-than-anticipated outturns in the first quarter. The forecast upgrade for Latin America and the Caribbean results mostly from upward revisions in Brazil and Mexico, reflecting better-than-expected first quarter outturns, favorable spillovers to Mexico from the improved outlook for the United States, and booming terms of trade in Brazil. Projections are revised up for the Middle East and Central Asia due to robust activity in some countries (such as Morocco and Pakistan), partially offset by downgrades of some others. In Saudi Arabia, the non-oil growth projection has been revised up, but the overall GDP forecast has been downgraded relative to the April WEO on account of subdued oil production below the OPEC+ (Organization of the Petroleum Exporting Countries, including Russia and other non-OPEC oil exporters) quota earlier in the year. The 2021 forecast for sub-Saharan Africa is unchanged relative to the April WEO, with an upgrade for South Africa following a strong positive surprise in the first quarter offset by downward revisions in other countries. The worsening pandemic developments in sub-Saharan Africa are expected to weigh on the region's recovery.
- The 2021 growth forecast for the *low-income developing country* group is marked down 0.4 percentage point, with the slow rollout of vaccines as the main factor weighing on the recovery (partially offset by stronger external demand from advanced economies). IMF staff analysis indicates that low-income developing countries will require close to $200 billion in spending to combat the pandemic and an additional $250 billion to regain their pre-pandemic convergence paths (see the IMF's *Macroeconomic Developments and Prospects in Low-Income Countries—2021*). Labor market prospects for low-skilled workers and youth continue to be relatively bleak compared with those for other demographic groups, which points to increasing inequality and higher vulnerability to a decline in incomes below extreme poverty thresholds. Close to 80 million additional people are likely to enter extreme poverty during 2020–21 compared with pre-pandemic projections.

*Global trade:* Despite near-term supply disruptions, global trade volumes are projected to expand 9.7 percent in 2021, moderating to 7.0 percent in 2022. The merchandise trade recovery is set to broaden after being initially concentrated in pandemic-related purchases, consumer durables, and medical equipment. Services trade is expected to recover more slowly, consistent with subdued cross-border travel until virus transmission declines to low levels everywhere.

## Recent Price Pressures Could Turn Persistent if Inflation Expectations Increase

*Elevated inflation in some cases, but pressures contained for the most part so far:* In some emerging market and developing economies in sub-Saharan Africa and the Middle East and Central Asia, food prices have increased significantly amid shortages and the rise in global food prices. Currency depreciation has also lifted prices of imported goods, further adding to overall inflation. Core inflation—which removes the influences of energy and food prices—however remains contained for the most part (Figure 5). The recent acceleration in core inflation in the United States (accounted for mostly by increases in prices of used cars, lumber, and air travel) also largely reflects pandemic-related disruptions rather than a rapid exhaustion of spare capacity. One-off level shifters, such as the expiration of last year's temporary value-added tax cut in Germany and the increase in the shelter component of US consumer prices as rent and mortgage moratoriums expire, have also increased inflation temporarily.

**Figure 5. Core Inflation**
*(Annual percent change)*




Sources: Haver Analytics; and IMF staff calculations.
Note: AEs = advanced economies; EMs = emerging market economies.

*Wage growth broadly stable so far:* Despite a recent uptick in wage growth in the United States, wages of individuals—observed 12 months apart in the Atlanta Federal Reserve's Wage Growth Tracker—do not indicate broader pressure in the labor market. Data from Canada, Spain, and the United Kingdom show similar patterns of broadly stable wage growth this year.

*Inflation outlook:* In most cases inflation should subside to its pre-pandemic ranges in 2022 once the transitory disturbances work their way through prices. This judgment rests on three pillars: even with diminished participation rates, labor market slack remains substantial (albeit with reported shortages and hiring difficulties in sectors such as hospitality and travel); inflation expectations are well anchored; and structural factors that have lowered the sensitivity of prices to changes in slack are still expected to operate as before (some have possibly intensified—for example, automation). However, inflation is expected to remain elevated into 2022 in some emerging market and developing economies, related in part to continued food price pressures and lagged passthrough from higher oil prices for importers.

*A key question for the outlook is how inflation expectations will evolve in this context.* Many factors are at work in this uncharted recovery from an unprecedented recession, including accelerating demand running up against temporary supply shortages and logistical bottlenecks; rising commodity prices; still-substantial fiscal support and accommodative monetary policy; and excess household savings that will likely be drawn down going forward with reopening. Amid fears that these transitory pressures turn more persistent, the combination of these factors could

cause an increase in medium-term inflation expectations (which for now appear to be anchored near central bank targets across most economies). Clear central bank communications on their interpretation of inflation drivers and on the monetary policy outlook will continue to be critical to shaping these expectations.

## Risks Tilt to the Downside

Uncertainty surrounding the global baseline remains high, primarily related to the prospects of emerging market and developing economies. Although growth could turn out to be stronger than projected, downside risks dominate in the near term.

On the *upside*, better global cooperation on vaccines could help prevent renewed waves of infection and the emergence of new variants, end the health crisis sooner than assumed, and allow for faster normalization of activity, particularly among emerging market and developing economies. Moreover, a sooner-than-anticipated end to the health crisis could lead to a faster-than-expected release of excess savings by households, higher confidence, and more front-loaded investment spending by firms.

On the *downside*, growth would be weaker than projected if logistical hurdles in procuring and distributing vaccines in emerging market and developing economies lead to an even slower pace of vaccination than assumed. Such delays would allow new variants to spread, with possibly higher risks of breakthrough infections among vaccinated populations. Moreover, households' excess savings may be released more gradually if they remain worried about employment prospects and income security, weighing on aggregate spending.

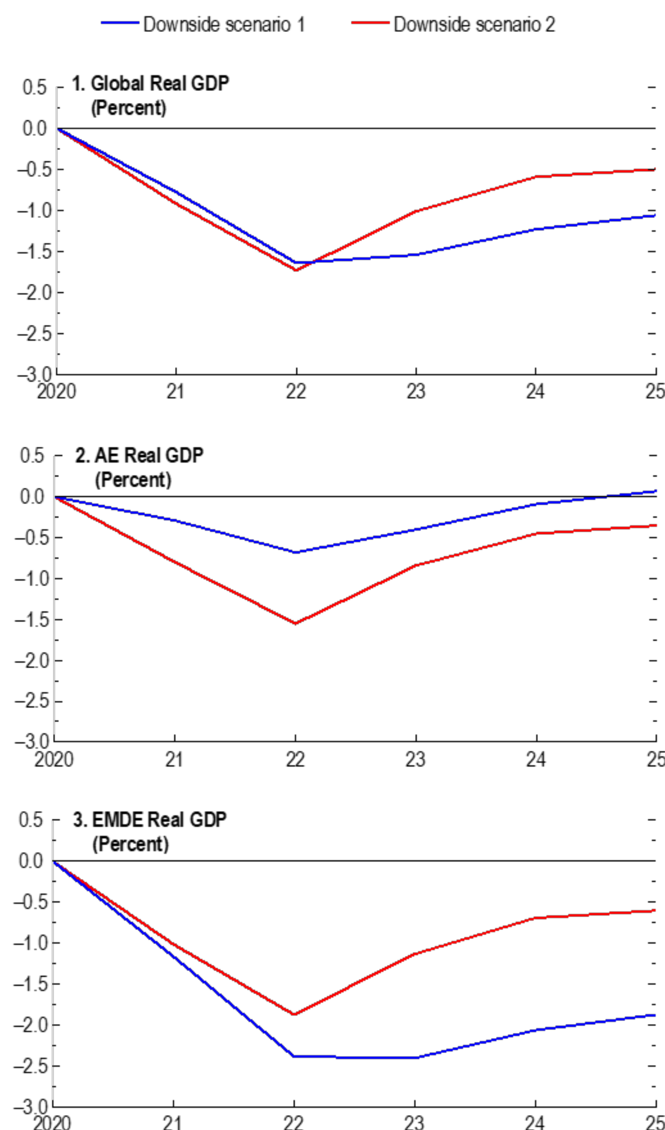
Beyond pandemic-related factors, the assumed fiscal impulse in the United States may be weaker than expected if legislated infrastructure and family support packages turn out smaller than announced or if the multiplier effect on activity is weaker than assumed. This would lead to lower US growth than in the baseline, with smaller spillovers to trading partners.

Growth could also disappoint relative to the baseline if financial conditions were to tighten abruptly, for instance if inflationary pressures persist longer than expected and lead to another reassessment of the monetary policy outlook (for example, in the United States); corporate bankruptcies tick up markedly; or price corrections in segments such as crypto assets trigger broader sell-offs. Emerging market and developing economies in particular could face a double hit from tighter external financial conditions and the worsening health crisis, further widening the fault lines in the global recovery. Weaker growth would in turn further adversely affect debt dynamics and compound fiscal risks.

Finally, social unrest, geopolitical tensions, cyberattacks on critical infrastructure, or weather-related natural disasters—which have increased in frequency and intensity due to climate change—could further weigh on the recovery.

*Scenario analysis:* Two important downside risks related to the evolution of the pandemic are explored in alternative scenarios that combine analysis from epidemiological models inspired by the canonical susceptible-infectious-recovered (SIR) model and the IMF's G20 Model. The first focuses on emerging market and developing economies; the second considers the risk that new variants could also pose for advanced economies (Figure 6).

**Figure 6. Alternative Evolutions in the Fight against the COVID-19 Virus**
*(Deviation from baseline)*




Source: IMF, G20 Model simulations.
Note: AE = advanced economy; EMDE = emerging market and developing economy.

In the *first scenario*, new variants are assumed to lead to a new infection wave in emerging market and developing economies in the second half of 2021. Vaccine supply is assumed to increase only gradually as assumed in the baseline. Required mobility constraints slow activity in the second half of 2021 and early 2022. Moreover, inflation pressure in advanced economies turns out to be more persistent than expected, and monetary normalization occurs faster than assumed in the baseline. Financial conditions for emerging market and developing economies tighten as global long-term interest rates rise and spreads increase significantly with investor concerns about these regions' prospects. Advanced economies experience negative spillovers via trade. Relative to the baseline projection, global output declines by roughly ¾ percent in 2021 and by more than 1½ percent in 2022. Although output starts recovering beyond 2022, the slower growth and appreciably tighter financial conditions for emerging market and developing economies lead to more bankruptcies, and global output is roughly 1 percent below baseline by 2025. The cumulative cost in lost global output by 2025 is roughly $4½ trillion. Emerging market and developing economies bear the brunt of the impact with a loss of roughly $3½ trillion.

In the *second scenario*, it is assumed that new more infectious variants pose risks not just to those countries with low vaccination rates, but also to many advanced economies where vaccine

hesitancy has already or could, moving forward, slow the pace of vaccinations. The scenario explores the implications of the emergence of a super-contagious virus variant and its potential impact on epidemiological and economic outcomes in emerging market and developing as well as advanced economies. The main assumptions are that this new variant is 50 percent more contagious than the alpha variant, that vaccine efficacy remains the same against this new virus strain, and that vaccines will be deployed as expected in the baseline, but that vaccine hesitancy will eventually limit the number of people being vaccinated. Further, it is assumed that increased infection rates lead to lower mobility even in many advanced economies and that the relationship between mobility and activity is the same as observed during the last quarter of 2020 and the first quarter of 2021.[1] In countries with high vaccination coverage, such as the United Kingdom and Canada, the impact would be mild; meanwhile countries lagging in vaccination, such as India and Indonesia, would suffer the most among G20 economies. The protracted weakness in activity is assumed to inflict persistent damage on economies' supply capacity. Global growth in 2021 and 2022 is more than 0.8 percentage point weaker than in the baseline. GDP growth in emerging market and developing economies is roughly 1 percentage point below baseline in 2021 and 2022. Meanwhile, vaccine hesitancy and global spillovers cost advanced economies about ¾ percentage point of GDP growth in 2021 and 2022. By 2025, global output is still roughly ½ percent below baseline, but the cumulative loss by 2025 is very similar to what it is in the first scenario, at just under $4½ trillion. However, the distribution of losses is different—advanced economies account for a larger share, with a cumulative loss of more than $2½ trillion.

## Effective Multilateral Action Needed to Arrest Divergence

Considering the significant downside risks and shared objectives across countries to suppress the pandemic globally, multilateral action has a vital role to play in strengthening global prospects and narrowing divergences.

*Global vaccine deployment:* The highest priority is to ensure rapid, worldwide access to vaccines and substantially hasten the timeline of rollout relative to the assumed baseline pace. The global community needs to vastly step up efforts to vaccinate adequate numbers of people and ensure global herd immunity. This would save lives (see the IMF July 2021 *G20 Surveillance Note*), prevent new variants from emerging, and add trillions to the global economic recovery. The IMF staff's recent proposal to end the pandemic, endorsed by the World Health Organization, World Bank, and World Trade Organization, sets a goal of vaccinating at least 40 percent of the population in every country by the end of 2021 and at least 60 percent by mid-2022, alongside ensuring adequate diagnostics and therapeutics.[2] The required up-front grant and concessional loan financing is estimated to be about $50 billion.

- *Rollout highly unequal:* As of the end of June 2021, about 3 billion doses had been administered worldwide, nearly 75 percent of those in advanced economies and China. In

[1] More details about the assumptions and the SIR model analysis underlying this scenario can be found in a forthcoming IMF working paper "A Pandemic Forecasting Framework: An Application of Risk Analysis."

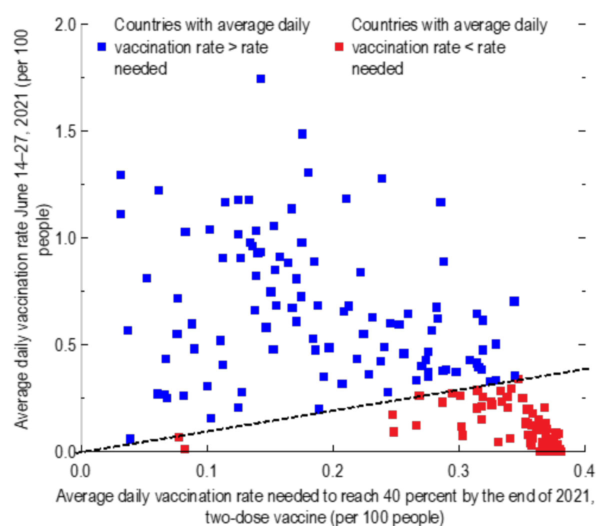
[2] See Agarwal and Gopinath, IMF SDN 2021/004.

low-income countries, less than 1 percent of the population had received one dose. Most low-income countries rely primarily on the collective vaccine procurement vehicles COVAX and the African Vaccine Acquisition Trust (AVAT), which had delivered fewer than 100 million doses to about 90 countries as of the end of June 2021.

- *The 40 and 60 percent targets:* Achieving the 40 percent vaccination target by the end of 2021 will require sustaining the growth in global vaccinations and ensuring their equitable distribution. At the end of June 2021, the pace of daily global vaccinations stood at about 40 million doses a day, with China alone accounting for more than 20 million of those daily doses. High-income countries account for 7 million doses a day. By contrast, fewer than 100,000 doses a day are being administered in low-income countries. Vaccine supplies and deliveries to low- and lower-middle-income countries must increase sharply to meet the proposal's targets. In close to half of countries recent daily vaccination rates fell below the rate needed to meet the 40 percent target by the end of 2021 (Figure 7).

- *Priority actions to ensure equitable access:* The global community has recently committed additional funding to COVAX considered adequate to cover about 30 percent of the population in 91 low-income countries. Although nearly all emerging market and developing economies are eventually expected to get to 60 percent coverage (through a combination of COVAX orders, regional arrangements such as AVAT, and bilateral deals), most deliveries will not likely take place until late 2021 or into 2022. This lag leaves large segments of the global population susceptible to the virus and increases the risk of new mutations. There is therefore an urgent need for *vaccine donations* from countries that have procured excess doses, for vaccine manufacturers to *prioritize deliveries* to low- and lower-middle-income countries, and for *elimination of export restrictions* on vaccines and raw materials. The recent Group of Seven (G7) commitment to provide about 500 million doses this year is encouraging, but more will need to be done to achieve the vaccination thresholds discussed above. A total of *1 billion doses should be shared in 2021*, of which at least 250 million should be made available by September. Investment in *additional global vaccine capacity* is needed to provide for booster doses and to build buffers against unanticipated setbacks in current production facilities. Upfront public financing and purchase commitments by the largest economies will help speed the process and incentivize additional investments along the entire supply chain, which covers raw materials, equipment for fill-and-finish facilities, and expanded storage

**Figure 7. Gaps in Vaccination Rates across Economies**
*(Percent)*




Sources: Our World in Data; and IMF staff calculations.
Note: Outliers with average above 3 are not depicted to maintain scale. Countries that have already reached 40 percent are excluded. Dashed line indicates the 45-degree line.

and distribution. Meanwhile, to *track virus mutations* and limit the health and economic burden of the pandemic, additional grant funding of about $25 billion is needed.

*Supporting financially constrained economies.* Many countries entered this crisis with high debt levels and limited resources to ramp up health and social spending. Access to international liquidity is vital to help these countries combat the crisis. The IMF's proposal for a *General Allocation of Special Drawing Rights (SDR)* equivalent to $650 billion will address a long-term global need to supplement existing reserve assets. About $275 billion of the allocation would go to emerging market and developing economies. At a time when many of these countries face difficult choices between meeting essential health and social spending needs, supporting their economies more broadly, and fulfilling obligations on external borrowing, the SDR allocation is set to ease some of the constraints and help them better manage the trade-offs. As recently endorsed by the G7, rechanneling SDRs from economies with strong external positions to the more vulnerable would further enhance the impact of the new allocation. The SDR allocation would add to existing IMF and broader multilateral efforts—such as the Debt Service Suspension Initiative—directed toward cushioning the impact of the pandemic on financially constrained economies. Where sovereign debt is unsustainable or where financing needs are very challenging, creditors should work with the countries to extend maturities, defer interest payments and amortization, or explicitly write down debt under the Common Framework agreed on by the Group of Twenty (G20). More generally, a global minimum effective corporate tax that reduces profit shifting would help increase revenue, including in emerging market and developing economies.

*Mitigating climate change:* The other major shared challenge is to reduce carbon emissions and slow the rise in global temperatures to avoid catastrophic health and economic outcomes. The economies most vulnerable to these effects are among the lowest contributors to global emissions and tend to have limited resources to combat the problem. A multipronged strategy with carbon pricing as its centerpiece—designed flexibly where necessary with alternative mechanisms that achieve equivalent emission outcomes—will be needed. Major emitters should spearhead the process toward implementing an international floor on carbon prices, differentiated by country-specific levels of development. Revenue from carbon pricing mechanisms can be used to fund compensatory transfers to those whose livelihoods are hurt by the energy transition and to boost remedial social spending to offset the adverse effects of air pollution on health and cognitive development. In parallel, a green infrastructure push and subsidies for research into green technologies are needed to hasten the move to lower carbon dependence by boosting renewable energy generation, improving battery storage technology, increasing the number of electric vehicle charging stations, and retrofitting buildings (see the June 2021 IMF *G20 Note* "Reaching Net Zero Emissions") for details on implementing these policies). As noted in Chapter 3 of the October 2020 WEO, this multipronged approach would deliver the needed emissions reductions at reasonable transitional global output costs.

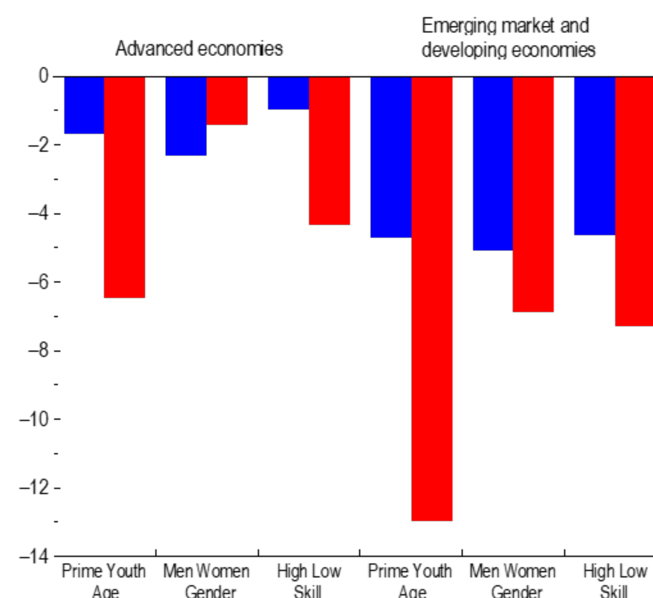
## Balancing Acts at the National Level to Strengthen the Recovery

Effective multilateral action is necessary to arrest divergences, limit adverse spillovers, and ease policy space constraints at the level of individual economies. National-level policies need to reinforce those efforts and catalyze a sustainable, inclusive recovery.

*Policies tailored to the stage of the crisis:* The April 2021 WEO outlined policies tailored to the stage of the pandemic: first, to *escape the acute crisis* by prioritizing health spending and targeted support for affected households and firms; next, to *secure the recovery* with more emphasis on broader fiscal and monetary support depending on available space, including remedial measures to reverse the setback to human capital accumulation from lockdowns; and finally to *invest in the future* by advancing long-term goals. These goals include boosting productive capacity, accelerating the transition to lower carbon dependence (while managing transition risks for carbon exporters), harnessing the benefits of digitalization, and ensuring the gains are equitably shared by strengthening social safety nets, education, and worker training. Fiscal actions should be nested within a credible medium-term fiscal framework to ensure debt remains sustainable. This tailored approach remains relevant as an overarching guiding principle for national policy actions.

*Countries are currently either in the first phase or transitioning to the second:* The recovery, however, remains far from complete even in places where output has returned or is close to returning to pre-pandemic levels, especially when viewed from the perspective of the labor market. Employment has risen from the trough of the second and third quarters of 2020 but generally remains below pre-pandemic rates (Figure 8). Moreover, the employment recovery is highly uneven, with youth and low-skilled workers across economies and women in emerging market and developing economies remaining harder hit. A combination of factors may explain why employment rates remain subdued. They include a continuation of the health crisis, which still prevents a full reopening, workers' concerns about health risks in the workplace, and firms' reluctance to hire new workers, given lingering uncertainties about the recovery. In some countries, particularly among advanced economies, transfers and unemployment insurance have effectively cushioned income losses but may have delayed reengagement.

**Figure 8. Employment Rate**
*(Average percent difference from 2019:Q4 to 2021:Q1)*




Sources: International Labour Organization; Organisation for Economic Co-operation and Development; and IMF staff calculations.
Note: The bars are derived from year fixed effects in a regression of each employment rate class on time and country fixed effects, to account for sample changes (see Karabarbounis and Neiman 2014). High skill = tertiary education and above; Low skill = post secondary, nontertiary education and below. Prime age = 25 to 54 years old; Youth = 15 to 24 years old.

*Difficult balancing acts:* Policies to complete the recovery entail a difficult balancing of objectives across the three phases, often with limited policy room for maneuver. Vaccination and hospitalization rates can offer clues as to whether an economy has moved into the second phase, thereby helping to guide the policy choices to bolster the recovery.

- *Fiscal policy* should continue to prioritize health spending, including on vaccine production and distribution infrastructure, personnel, and public health campaigns to boost take-up. Fiscal policy space to accomplish this varies across countries. In emerging market and developing economies with more limited fiscal space, reorienting spending away from untargeted subsidies and recurrent expenditures and toward health, social, and infrastructure outlays can help create some of the needed room. But many countries, particularly low-income developing countries confronting pandemic-related and broader development spending needs with limited domestic revenue sources, will need strong international support as outlined earlier. Where health metrics permit broad economic reopening, targeted lifelines, transfers, and short-time work programs can be rolled back. This will also allow broader support, including through public investment that advances the goals of the third phase of the recovery ("investing in the future"). The initiatives should be embedded in credible fiscal frameworks, for instance with preapproved revenue measures for implementation once the recovery is secure—which will require planning and careful communication to win public backing. Doing so can open up space to better manage the trade-offs between providing near-term support and keeping fiscal powder dry to combat future downturns or to meet long-term structural goals. This can be particularly helpful for countries with elevated debt levels facing fiscal risks and pressing needs to rebuild buffers.

- *Monetary policy:* Central banks should generally look through transitory inflation pressures and avoid tightening until there is more clarity on underlying price dynamics. There is however a risk that transitory pressures could become persistent and central banks may have to take preemptive action. In an unprecedented recovery of this kind, there is an even greater premium on clear communication from central banks on the outlook for monetary policy. Where the recovery is underway and vaccination is advanced, central banks can begin telegraphing their exit from extraordinary monetary support (as the Federal Reserve did in June). More generally, central banks should be prepared to move quickly if the indicators suggest the recovery is strengthening faster than expected (as the Bank of Canada did in April and July when it scaled back its asset purchase program).

- *Financial sector policies* have to execute a difficult balancing act: avoid a sudden increase in bankruptcies by unwinding support too soon yet refrain from extending the life of low-productivity "zombie" firms if support is maintained for too long. The extraordinary measures from 2020 (including credit guarantees, debt moratoriums, relaxed classification and provisioning guidelines on delinquent loans) should increasingly become more targeted; for example, by focusing on still struggling contact-intensive sectors. Policymakers should make further progress on the regulatory framework for nonbank institutions, intensify supervision, and enhance data collection on bank and corporate balance sheets. Moreover, they should also strengthen insolvency frameworks and institute or implement expedited out-of-court restructuring.

- *Preparing for tighter external financial conditions:* Tighter monetary policy in the United States can constrain the room for emerging market central banks to react to their own domestic imbalances if their currencies depreciate against the dollar, higher import prices feed into

local inflation, and the yield curve steepens. In such cases, it would be prudent to prepare for higher rates by extending debt maturities where possible, especially for those with large foreign currency borrowing, and to prevent further accumulation of balance sheet mismatches.

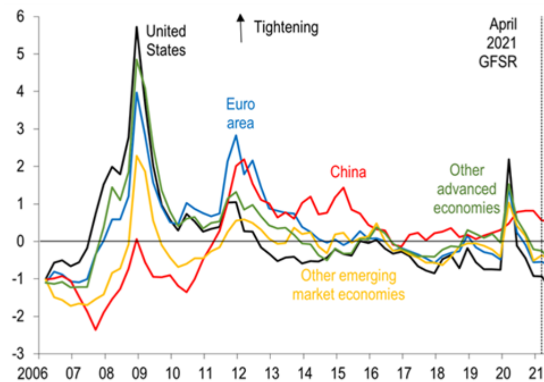
Once the health crisis is under control and economies are secure on their recovery paths, policy must increasingly focus on incentivizing shifts in employment, credit, and other inputs consistent with emerging growth opportunities (for example, digitalization or the transition to lower carbon dependence). Policies should also ensure the gains are widely and equitably shared by strengthening social safety nets, protecting vital health and education spending, and funding worker training, as well as investing in child and elder care to facilitate broader participation in the post-pandemic labor market. Financing these initiatives with more progressive taxation, closing loopholes, and reducing tax expenditures would help mitigate inequality while helping rebuild fiscal buffers for the next downturn.

The recovery is not assured until the pandemic is beaten back globally. Concerted, well-directed policy actions at the multilateral and national levels can make the difference between a future where all economies experience durable recoveries and one where fault lines widen further—as many struggle with the health crisis for an extended period while a handful see conditions normalize, albeit with the constant threat of renewed flare-ups.

# BOX 1. GLOBAL FINANCIAL CONDITIONS HAVE EASED AND REMAIN SUPPORTIVE OF GROWTH

**Financial conditions remain very accommodative—they are at around 10th percentile of the historical distribution—despite concerns about the COVID variants and fears that higher inflation may turn out to be more persistent than anticipated.** In advanced economies, especially in the United States, financial conditions have eased further, since the April 2021 *Global Financial Stability Report*, reaching levels last seen before the global financial crisis (Box Figure 1.1).[1] Such easing has been driven by rising equity valuations, tighter credit spreads, and rapidly climbing house prices. In most emerging market economies, financial conditions have changed little, as monetary policy tightening in several countries has offset gains in asset prices.

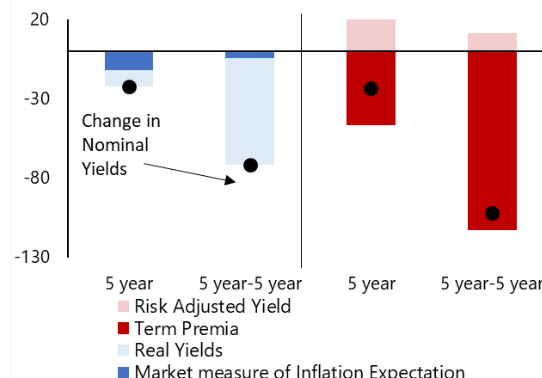
**Box Figure 1.1. Financial Conditions Indices**
*(Standard deviations from mean)*




Sources: Bloomberg Finance L.P.; Haver Analytics; and IMF staff calculations.
Note: GFSR = *Global Financial Stability Report*.

**After rising about 70 basis points through mid-March, US 10-year nominal rates have declined notably since the beginning of April amid significant volatility.** A decomposition of the move in US rates shows that the decline in 10-year rates has been largely driven by lower term premia, has been partially offset by an upward shift in the expected policy rate path following the June 2021 Federal Open Market Committee (FOMC) meeting (Figure 1.2). Indeed, investors interpret FOMC communications as more hawkish than anticipated. Real rates have also declined especially five-year real yields five years forward, suggesting that investors may have marked down expectations of US long-term growth. By contrast, market-based measures of inflation expectations have changed little. Meanwhile, rates volatility has increased, especially at shorter maturities, reflecting heightened uncertainty about the inflation outlook and concerns that the Federal Reserve may commence the policy normalization process earlier than expected. Market concerns about faster-than-anticipated rate hikes by the Federal Reserve appear to have spilled over to emerging markets, where local currency yields remain elevated. In recent

**Box Figure 1.2. Drivers of the Change in Benchmark Nominal 10-year US Treasury Note Yield**
*(Basis points)*

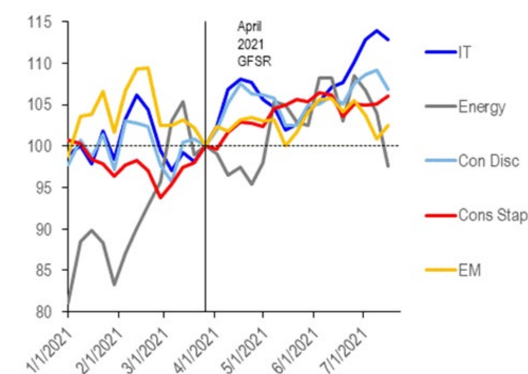



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

months, some emerging market central banks have tightened monetary policy in response to domestic inflation pressure, contributing to a rise in local currency bond yields. In addition, investors appear to be pricing in substantially higher rates over the next few years.

**Global equity prices have risen largely on brightening profitability prospects despite recent anxiety about the strength of the recovery and COVID variants.** Equity indices have gained the most in the United States and Latin America, followed by Europe and emerging Asia. Despite the recent correction particularly pronounced in the energy sector, all major sectors have performed well, with lower cross-sector differentiation compared with the earlier period of the pandemic (Box Figure 1.3). Market-implied equity volatility has declined to below historical norms notwithstanding some recent gyrations.

**Box Figure 1.3. Global Equity Indices**
*(Indices; 3/26/21 = 100)*




Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: Con Disc=consumer discretionary; Cons Stap=consumer staples; EM=emerging markets; GFSR=*Global Financial Stability Report;* IT=information technology.

**Global investment-grade and high-yield corporate bond spreads have tightened to post-global financial crisis lows. While** such a tightening reflects a steady improvement in credit ratings and falling default rates, concerns have emerged lately about whether investors are being properly compensated for bearing credit risk, especially in the event of a resurgence of COVID cases. Emerging market local currency and hard currency corporate bond spreads have also generally tightened. Hard currency bond issuance by sovereigns, nonfinancial corporations, and financial firms has been robust across major regions, reflecting favorable external funding conditions and robust investor risk appetite. Hard currency bond issuance by emerging and frontier economies has also increased sharply recently, but local currency flows to emerging markets (excluding China) remain weak.

**Against a backdrop of elevated valuations in risk asset markets and rising house prices in a number of countries, and continued low volatility in equity and credit markets, a reassessment of the inflation and monetary policy outlook could result in a sudden rise of US interest rates from current low levels and a sharp tightening in financial conditions.** Such a tightening could have adverse spillover effects on emerging markets and be particularly deleterious for those countries where the recovery is still nascent, policy space is limited, and public and private sector leverage is elevated.

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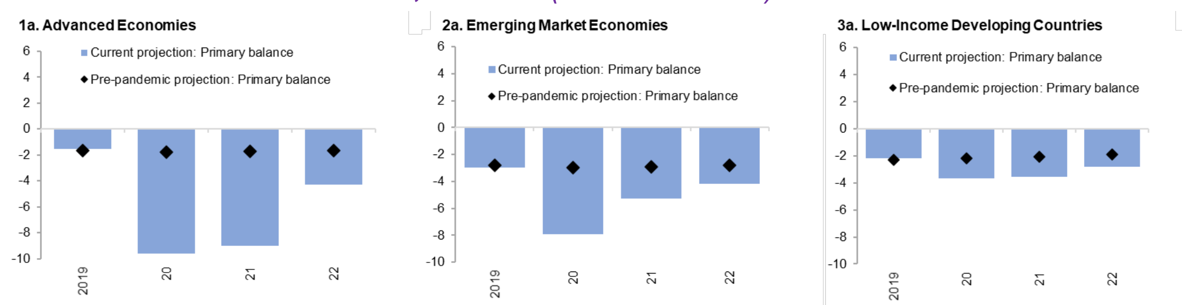
This box was prepared by Sergei Antoshin, Yingyuan Chen, Rohit Goel, and Sheheryar Malik.

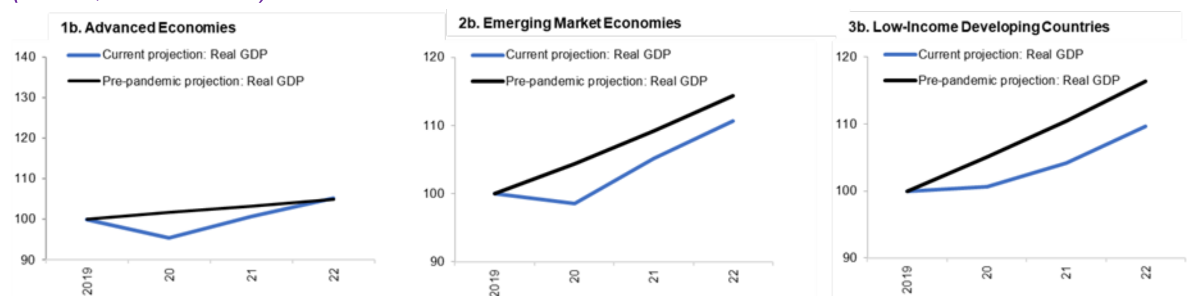
[1] The data cutoff date for the April 2021 *Global Financial Stability Report* is March 31, 2021.

Global government debt reached an unprecedented level of close to 100 percent of global GDP in 2020 and is projected to remain around that level in 2021 and 2022 (Box Table 2.1). The projected average global fiscal deficit has decreased since the April 2021 *WEO* by 0.5 percentage points to 8.8 percent of GDP in 2021, driven by lower deficit projections for the United States and China, partially offset by projected higher deficits in Europe (Germany, France, Italy). Countries with access to financing continue to provide fiscal support to their economies, amplifying the already divergent magnitude of policy responses and recoveries across income groups (Box Figure 2.1-2.2). Fiscal measures announced to fight the pandemic are estimated at $16.5 trillion as of early July 2021.[1] Whereas $4.6 trillion of Advanced Economies' (AEs) pandemic-related revenue and expenditure measures are still to be utilized in 2021 and beyond, in Emerging Market Economies and Low-Income Developing Countries (LIDCs) most measures expired in 2020.

**Box Figure 2.1. Effect of the COVID-19 Pandemic on Forecast of General Government Fiscal Balances, 2019–22** *(Percent of GDP)*




**Box Figure 2.2. Effect of the COVID-19 Pandemic on Forecast of Real GDP, 2019–22** *(Index; 100 = 2019)*




Source: IMF World Economic Outlook Database; and IMF staff calculations.
Note: The primary balance is the overall balance excluding net interest payments. Figure 2.2 excludes Lebanon, Syria, and Venezuela. Pre-pandemic projections are from the January 2020 *World Economic Outlook*.

Since the April 2021 *Fiscal Monitor*, advanced economies have continued providing fiscal support to mitigate the impact of the coronavirus pandemic and aid their recoveries. In the United States, the Biden administration has proposed two multi-year spending packages equivalent to 18 percent of 2021 GDP: the American Families Plan (US$2 trillion) and the American Jobs Plan (US$2.3 trillion).[2] While these plans continue support for vulnerable households, their main purpose is to strengthen the recovery. The American Jobs Plan also focuses on enhancing long-term growth and economic transformation by

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[1] See the *Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic* for details.

[2] The two packages are not included in the *Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic* because their final size and measures, as well as the degree to which the measures are COVID-related, remain uncertain.

building human and physical capital. The Next Generation European Union (NGEU) fund, which has a similar focus on public investment and objectives, issued its first bonds in June, raising €20 billion. In addition, some EU countries hit by new coronavirus outbreaks in late March and April 2021 approved supplementary budgets or extended fiscal support for businesses, affected workers, and the health care system (France, Germany, Italy). Moreover, liquidity support programs for businesses have been extended in several countries (for instance, Italy, Malta, Portugal). The 2021 budgets for Australia and Canada each include new multiyear support of about 5 percent of GDP for their recoveries.

Overall, fiscal deficits are projected at 9.9 percent of GDP in 2021, down 0.4 percentage points of GDP from the April 2021 *WEO* due to greater backloading of US stimulus programs, which more than offset additional COVID-19 related support in other AEs. Advanced economy debt is projected at 122.5 percent of GDP at end-2021. Future fiscal action should be anchored by credible medium-term strategies that rebuild fiscal buffers once the recovery is underway. In fact, some countries have announced medium-term plans while maintaining current support (for instance, Canada, United Kingdom).

In *emerging market economies*, the projected fiscal deficit for 2021 is 7.1 percent of GDP (0.5 percentage point smaller than in the April 2021 *WEO*). For some countries, the deficit has been lowered based on fiscal outturns in the first part of the year or growth revisions (China, South Africa). In others, additional fiscal measures have been proposed to mitigate the economic consequences of recurring infection waves (Brazil, India). Government debt is projected to rise to 65.1 percent in 2021, primarily due to China. Interest rate hikes in some countries to prevent inflation will likely lead to less fiscal policy space to support the economy. Policies should be embedded in medium-term fiscal frameworks. Those with depleted space and increased fiscal risk should give added weight to preventing disruptive debt dynamics. Countries with credible fiscal rules may be able to pursue more gradual adjustments.

In *low income developing countries,* the overall fiscal deficit in 2021 was revised up by 0.3 percentage points from the April 2021 *WEO*, mainly because of the reemergence of fuel subsidies as well as the additional COVID-19 and security related support in Nigeria. Still, at 5.2 percent of GDP, the overall fiscal deficit remains well below that of advanced and emerging market economies, reflecting financing constraints—about 60 percent of LIDCs are assessed to be at high risk of or in debt distress. The public debt-to-GDP ratio for 2021 is projected at 48.5 percent. Several LIDCs have announced an intention to restructure their debts and some have sought debt relief under the G20 Common Framework (Chad, Ethiopia, and Zambia). Once the recovery is firm, achieving debt sustainability while pursuing the United Nations Sustainable Development Goals will require raising domestic revenues, improving spending efficiency, developing medium-term fiscal frameworks, and undertaking structural reforms to facilitate private sector activity.

As part of preparing medium-term fiscal plans, countries should undertake an analysis of risks and mitigation measures. This is important given lower buffers, an uncertain outlook, and fiscal vulnerabilities including COVID-19 loans and credit guarantees to firms that could be realized over several years. As with growth, risks across countries also diverge. Countries, particularly those with high debt and non-reserve currencies, will have less room to maneuver if global interest rates rise more than expected.

## Box Table 2.1. General Government Fiscal Balance and Gross Debt, 2018–21

| | Overall Fiscal Balance | | | | | | Gross Debt | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Current Projections | | Difference from April 2021 WEO Projections | | | | Current Projections | | Difference from April 2021 WEO Projections |
| | 2018 | 2019 | 2020 | 2021 | 2020 | 2021 | 2018 | 2019 | 2020 | 2021 | 2020 | 2021 |
| **World** | -3.0 | -3.7 | -10.3 | -8.8 | 0.5 | 0.5 | 82.3 | 83.7 | 98.7 | 98.8 | 1.4 | -0.1 |
| **Group of Twenty (G20)** | -3.6 | -4.3 | -11.3 | -9.7 | 0.5 | 0.6 | 89.7 | 91.5 | 108.4 | 108.7 | 1.8 | 0.2 |
| **Advanced Economies** | -2.5 | -3.0 | -10.9 | -9.9 | 0.8 | 0.4 | 102.5 | 103.7 | 122.8 | 122.5 | 2.7 | 0.0 |
| Advanced G20 | -3.1 | -3.6 | -11.8 | -11.0 | 0.8 | 0.6 | 111.2 | 112.7 | 133.9 | 133.5 | 3.0 | -0.2 |
| United States[1,3] | -5.4 | -5.7 | -14.7 | -13.3 | 1.1 | 1.8 | 106.6 | 108.2 | 133.6 | 134.5 | 6.5 | 1.7 |
| Euro Area | -0.5 | -0.6 | -7.2 | -7.9 | 0.4 | -1.2 | 85.8 | 84.0 | 98.0 | 100.1 | 1.2 | 1.9 |
| Germany | 1.8 | 1.5 | -4.5 | -7.2 | -0.3 | -1.8 | 61.8 | 59.7 | 69.7 | 73.0 | 0.8 | 2.7 |
| France | -2.3 | -3.1 | -9.2 | -9.3 | 0.7 | -2.1 | 98.0 | 97.6 | 115.1 | 117.2 | 1.6 | 2.0 |
| Italy | -2.2 | -1.6 | -9.5 | -11.1 | 0.0 | -2.3 | 134.4 | 134.6 | 155.8 | 157.8 | 0.2 | 0.6 |
| Spain[2] | -2.5 | -2.9 | -11.0 | -8.6 | 0.5 | 0.4 | 97.4 | 95.5 | 120.0 | 120.1 | 2.9 | 1.8 |
| Japan | -2.7 | -3.1 | -10.7 | -9.2 | 1.9 | 0.2 | 232.5 | 235.5 | 254.6 | 256.5 | -1.6 | 0.0 |
| United Kingdom | -2.2 | -2.3 | -13.5 | -11.7 | 0.0 | 0.0 | 85.8 | 85.2 | 103.7 | 107.0 | 0.1 | -0.2 |
| Canada[3] | 0.3 | 0.5 | -10.9 | -7.4 | -0.2 | 0.4 | 88.8 | 86.8 | 117.8 | 111.0 | 0.0 | -5.3 |
| Australia[4] | -1.3 | -4.4 | -9.6 | -8.7 | 0.3 | 1.7 | 41.7 | 46.6 | 58.1 | 62.6 | -5.0 | -9.5 |
| Korea | 2.6 | 0.4 | -2.2 | -2.9 | 0.6 | 0.0 | 40.0 | 42.1 | 47.9 | 51.8 | -0.8 | -1.3 |
| **Emerging Market Economies** | -3.8 | -4.7 | -9.7 | -7.1 | 0.1 | 0.5 | 52.5 | 54.8 | 64.0 | 65.1 | -0.3 | 0.0 |
| Excluding MENAP Oil Producers | -3.9 | -4.9 | -9.8 | -7.3 | 0.1 | 0.6 | 54.3 | 56.3 | 66.0 | 67.6 | -0.1 | 0.5 |
| Emerging G20 | -4.3 | -5.4 | -10.3 | -7.5 | 0.1 | 0.8 | 53.3 | 55.9 | 65.4 | 67.2 | -0.2 | 0.5 |
| Asia | -4.5 | -5.9 | -10.8 | -8.5 | 0.1 | 0.8 | 54.4 | 57.3 | 67.3 | 71.0 | -0.4 | 1.1 |
| China | -4.7 | -6.3 | -11.2 | -8.3 | 0.2 | 1.3 | 53.8 | 57.1 | 66.3 | 70.3 | -0.5 | 0.7 |
| India | -6.3 | -7.4 | -12.8 | -11.3 | -0.5 | -1.3 | 70.2 | 73.9 | 89.4 | 90.1 | -0.2 | 3.5 |
| Indonesia | -1.8 | -2.2 | -5.9 | -6.2 | 0.0 | 0.0 | 30.4 | 30.6 | 36.6 | 41.9 | 0.0 | 0.5 |
| Europe | 0.3 | -0.7 | -5.6 | -3.7 | 0.3 | -0.2 | 29.7 | 29.2 | 37.9 | 37.5 | 0.3 | 0.5 |
| Russia | 2.9 | 1.9 | -4.0 | -1.1 | 0.1 | -0.3 | 13.6 | 13.8 | 19.3 | 18.0 | -0.1 | -0.1 |
| Turkey | -3.8 | -5.6 | -5.3 | -5.9 | 0.1 | -0.2 | 30.2 | 32.6 | 39.5 | 40.2 | 2.7 | 3.1 |
| Latin America | -5.1 | -4.1 | -8.8 | -5.3 | 0.0 | 0.4 | 67.5 | 68.4 | 78.3 | 73.5 | 0.6 | -2.4 |
| Brazil[5] | -7.1 | -5.9 | -13.4 | -6.3 | 0.0 | 2.0 | 85.6 | 87.7 | 98.9 | 91.8 | 0.0 | -6.6 |
| Mexico | -2.2 | -2.3 | -4.5 | -3.3 | 0.1 | 0.1 | 53.6 | 53.3 | 61.0 | 59.9 | 0.4 | -0.6 |
| MENAP | -2.7 | -3.9 | -9.7 | -5.7 | 0.2 | 0.0 | 44.1 | 49.0 | 54.9 | 50.7 | -1.6 | -3.0 |
| Saudi Arabia | -5.9 | -4.5 | -11.3 | -3.5 | -0.2 | 0.3 | 19.0 | 22.8 | 32.5 | 30.0 | 0.1 | -1.0 |
| South Africa | -4.1 | -5.3 | -12.0 | -9.2 | 0.2 | 1.3 | 56.7 | 62.2 | 77.1 | 77.5 | 0.0 | -3.3 |
| **Low-Income Developing Countries** | -3.4 | -3.8 | -5.5 | -5.2 | 0.0 | -0.3 | 42.7 | 44.2 | 49.0 | 48.5 | -0.5 | -0.1 |
| Nigeria | -4.3 | -4.7 | -5.8 | -5.5 | 0.1 | -1.2 | 27.7 | 29.2 | 35.0 | 32.9 | -0.1 | 0.9 |
| **Oil Producers** | 0.0 | -0.5 | -8.3 | -4.5 | 0.0 | -0.2 | 44.1 | 45.5 | 57.9 | 54.7 | -0.9 | -1.5 |
| **Memorandum** | | | | | | | | | | | | |
| World Output (percent) | 3.6 | 2.8 | -3.2 | 6.0 | 0.1 | 0.0 | | | | | | |

Source: IMF staff estimates and projections.
Note: All country averages are weighted by nominal GDP converted to US dollars (adjusted by purchasing power parity only for world output) at average market exchange rates in the years indicated and based on data availability. Projections are based on IMF staff assessments of current policies. In many countries, 2020 data are still preliminary. For country-specific details, see "Data and Conventions" and Tables A, B, C, and D in the April 2020 *Fiscal Monitor* Methodological and Statistical Appendix. MENAP = Middle East, North Africa, and Pakistan; WEO = *World Economic Outlook*.
[1] For cross-country comparability, expenditure and fiscal balances of the United States are adjusted to exclude the imputed interest on unfunded pension liabilities and the imputed compensation of employees, which are counted as expenditures under the 2008 System of National Accounts (2008 SNA) adopted by the United States but not in countries that have not yet adopted the 2008 SNA. Data for the United States in this table may thus differ from data published by the US Bureau of Economic Analysis.
[2] Including financial sector support.
[3] For cross-economy comparability, gross debt levels reported by national statistical agencies for countries that have adopted the 2008 System of National Accounts (Australia, Canada, Hong Kong SAR, United States) are adjusted to exclude unfunded pension liabilities of government employees' defined-benefit pension plans.
[4] The underlying projection does not reflect impacts of the most recent lockdowns in Australia, and subsequent fiscal measures announced by the Commonwealth and the New South Wales governments. Projections for 2020 are based on actual estimates for the fiscal year 2019-20 and IMF staff projections for the fiscal year 2020-21 (ended June 2021). Gross debt is based on the market value.
[5] Gross debt refers to the nonfinancial public sector, excluding Eletrobras and Petrobras, and includes sovereign debt held by the central bank.