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Global economic recovery remains precarious – the projected rebound of 4.7 per cent will barely offset 2020 losses

Global economic outlook

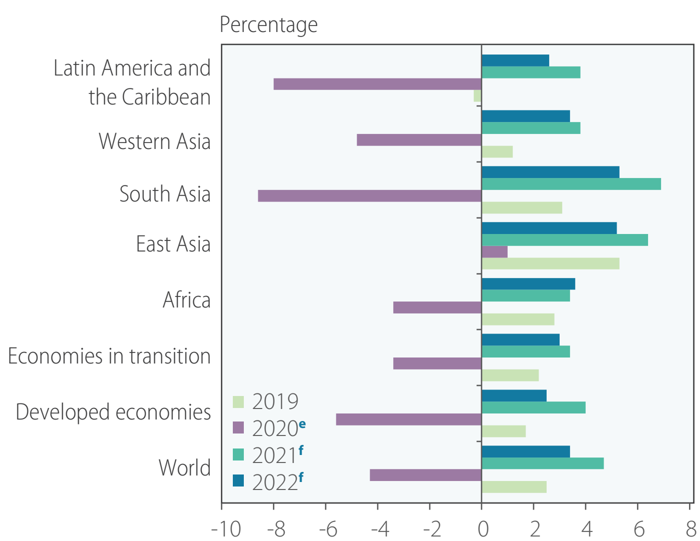
The World Economic Situation and Prospects (WESP) 2021 warns that the COVID-19 pandemic, which has delivered a heavy blow to economic activities worldwide, may exert devastating long-run socio-economic effects, unless global policy responses can ensure a robust and sustainable recovery. Those actions should comprise smart investments in economic, societal and climate resilience, revitalization of global trade, avoidance of premature austerity policies and addressing widening inequalities.

In 2020, world output shrank by 4.3 per cent, over three times more than during the global financial crisis of 2009. The modest recovery of 4.7 per cent, which is expected in 2021, would barely offset the losses sustained in 2020. The pandemic hit the developed economies the hardest, with an estimated output decline of 5.6 per cent in 2020, due to the strict and prolonged lockdown measures that were imposed in many European countries and some parts of the United States during the outbreak. The contraction was comparatively milder in the developing countries, with output shrinking by 2.5 per cent in 2020. The aggregate figure masks, however, significant regional variation (figure 1). East Asia registered positive, albeit low GDP growth in 2020, performing much better than all other developing regions. In contrast, Latin America and the Caribbean and South Asia experienced the sharpest declines in output. The least developed countries (LDCs) saw their GDP contract by 1.3 per cent in 2020.

KEY MESSAGES

- The COVID-19 pandemic delivered a heavy blow to economic activities worldwide, unleashing an employment crisis, widening inequalities and pushing 131 million additional people into poverty. Unprecedented fiscal and monetary responses have prevented total economic collapse.
- The pandemic has exposed systemic vulnerabilities of the world economy. A robust and resilient recovery will require strengthening public finances and improving debt sustainability, combating inequality and expanding social protection, and promoting climate action and environmental sustainability.
- The crisis is a stark reminder that current challenges in international trade – including the need for creating more resilient supply chains, expanding opportunities for developing countries and revitalizing the rule-based multilateral trading system – can only be addressed through global partnerships and strong multilateral frameworks.

Figure 1
Growth of world gross domestic product



Source: UN DESA, based on projections and scenarios generated by the World Economic Forecasting Model (WEFM).

The pandemic unleashed a severe employment crisis worldwide. By April 2020, full or partial lockdown measures had affected almost 2.7 billion workers, representing about 81 per cent of the global workforce. Despite some improvement later in the year, unemployment rates in most countries still remain well above pre-crisis levels (figure 2). Job and income losses have pushed an estimated 131 million additional people into poverty in 2020, many of them women, children and people from marginalized communities. Women have been hit particularly hard by the pandemic, as they make up more than 50 per cent of the workforce in labour-intensive service sectors, such as retail trade, hospitality and tourism, where working remotely is often not an option. In the United States, the national poverty rate, for example, jumped from 9.3 per cent in June to 11.7 per cent in November 2020, while the total wealth of 644 United States billionaires increased by 31.6 per from \$2.95 trillion to \$3.88 trillion. The growing income and wealth inequalities — not only in the United States but also in most regions of the world — will breed further discontent, fray social cohesion and potentially undermine recovery efforts. Reining in inequality will remain critical for steering a resilient post-crisis recovery.

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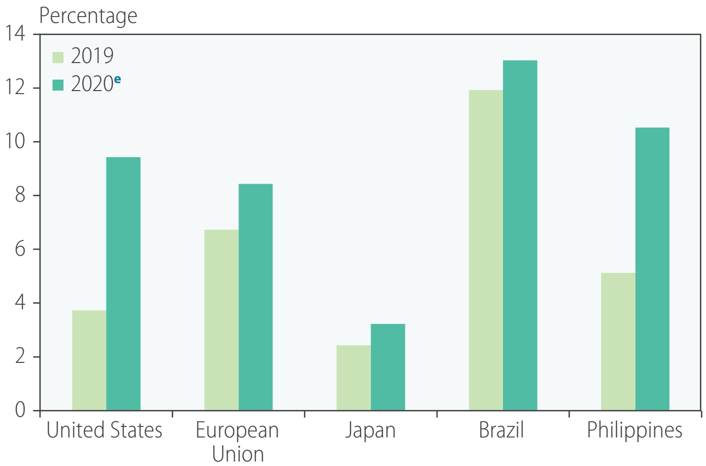
Contact email: rashid12@un.org. The full series is available from: http://www.bit.ly/wespbrief

Figure 2

Unemployment rates in selected economies



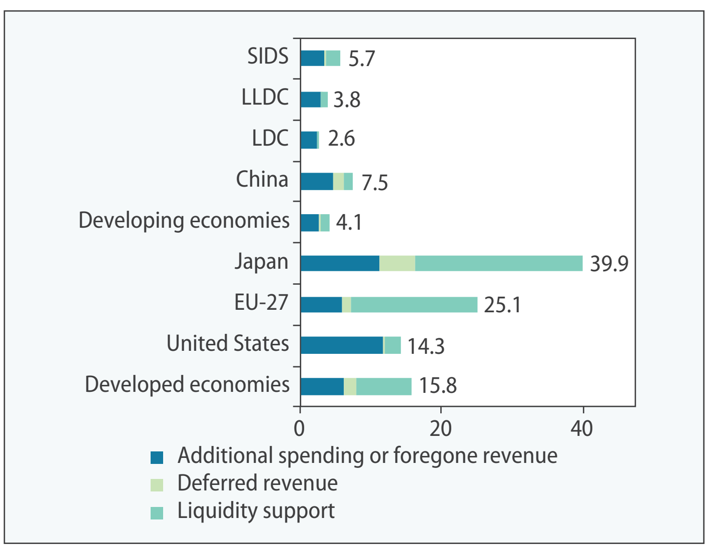
Source: UN DESA, based on national sources.
e Rates for 2020 are estimated.

The long-term consequences of the crisis will be equally severe. The pace of digitalization, automation and robotization is set to accelerate, further depressing labour demand in the medium term. While productivity will experience some growth in economic sectors embracing automation, average productivity growth will likely falter. Declining investments in fixed capital, low average productivity growth and lower labour-force participation rates are expected to weigh on potential output going forward.

Massive and timely stimulus measures, amounting to US$12.7 trillion, prevented a total collapse of the world economy and averted another Great Depression. However, stark disparities in the size of the stimulus packages (figure 3) between developed and developing countries will put them on different trajectories of recovery. The stimulus spending per capita by the developed countries has been nearly 580 times higher than that of the least developed countries (LDCs), whereas the average per capita income of the developed countries is only 30 times higher than that of the LDCs. Financing these stimulus packages entailed the largest peacetime borrowing in history, increasing public debt globally by 15 per cent. This massive rise in debt will unduly burden future generations unless a significant part is channelled into productive and sustainable investment that stimulates economic growth.

Figure 3

Fiscal response as a share of GDP (*percentage*)



Source: UN DESA based on IMF Fiscal Policy Database in Response to COVID-19 available at https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19."

The fiscal measures have been complemented by unprecedented monetary responses. Since March 2020, 92 central banks have cut policy rates a total of 241 times. Many central banks implemented additional monetary and prudential measures to boost liquidity and ensure financial stability. A number of monetary authorities also announced changes in their monetary policy frameworks to enhance policy flexibility and improve monetary transmission. As many as 30 central banks worldwide are now engaged in direct asset purchases. The US Federal Reserve announced the unlimited purchase of government-backed debt and also started to buy corporate bonds for the first time, and so did the Bank of Japan. The European Central Bank is engaged in a €1.85 trillion emergency bond-buying programme. As a result, balance sheets of the leading central banks in developed countries swelled. Meanwhile, several developing country central banks have also started their own asset purchase programmes. However, rather than stimulating productive investment, the surge in global liquidity has contributed to the under-pricing of risk in financial markets, posing a threat to longer-term financial stability.

The crisis has exposed and exacerbated the weaknesses that persist because of the lack of progress in the implementation of the 2030 Agenda for Sustainable Development. A sustained recovery from the pandemic will depend not only on the size of the stimulus measures, and the quick rollout of vaccines, but also on the quality and efficacy of these measures to build resilience against future shocks. The economic recovery from the crisis must go well beyond restoring GDP growth and embrace improved living standards and prosperity and greater equality, including gender equality, and the improved environmental and social sustainability of economic activities.

The path to recovery and progress on SDGs will critically hinge on the ability and political commitment of countries to make sure that the crisis response builds resilience against future economic, social and climatic shocks. There is no sustainable development without resilience and there is no resilience without sustainable development. The imperatives of strengthening public finance and debt sustainability, expanding social protection and building climate resilience must inform policy choices to put the world firmly on the trajectory of sustainable development.

Emerging challenges facing global trade

The COVID-19 crisis has delivered a significant shock to trade, restricting cross-border travel, disrupting international production networks and depressing demand worldwide. Global trade in goods and services shrank by an estimated 7.6 per cent in 2020, a slightly smaller contraction than during the global financial crisis. While international travel remains at a fraction of its pre-pandemic level, global merchandise trade has been recovering since mid-2020 on the back of strong demand for electric and electronic equipment, pharmaceuticals and, especially, personal protective equipment. The recovery in merchandise trade has been led by China and other East Asian economies, which were relatively successful in containing the spread of the virus and experienced a faster-than-expected rebound in economic activities.

Beyond these short-term dynamics, the pandemic is likely to accelerate several structural shifts, which are shaping the future of the global trade landscape. These include the rise of digital technologies, the increasing significance of global trade in services, and the move towards more resilient and flexible global value chains (GVCs). By redefining comparative advantages, the changing international trade environment will have a profound impact on countries' growth prospects and their progress towards sustainable development. How global trade patterns and trade policies evolve over the coming decade will be an important determinant of progress towards achievement of all of the goals within the SDG framework.

The COVID-19 pandemic has exposed some of the critical challenges faced by the multilateral trading system as countries around the world initially resorted to unilateral trade measures to protect domestic interests. But the crisis can also serve as a catalyst for restoring confidence in the multilateral trading system and generate positive momentum for WTO reform, as the pandemic has underscored that in times of crisis, keeping trade flowing and limiting protectionist and nationalist measures are vital to ensuring the safety of lives and livelihoods.

Regional developments and outlook

DEVELOPED ECONOMIES

Northern America: despite rebound in economic activities, continued fiscal support is needed

In the United States, the economy came to a standstill in mid-March owing to lockdown measures taken to combat the COVID-19 pandemic; and the unemployment rate jumped to 14.7 per cent in April from 3.5 per cent in February. The Government, supported by the Federal Reserve, promptly responded with unprecedented stimulus packages, whose cumulative size totalled 12 per cent of GDP by the end of October, expanding income transfers to households and providing emergency loans to businesses. During the third quarter of 2020, the economy rebounded as lockdown measures were relaxed, with the consumption of goods and residential investments exceeded the pre-crisis level, and unemployment subsiding. However, the mid-year rebound fell short of the pre-crisis levels of both consumption of services and corporate investments. The fragile recovery could easily be reversed if fiscal support measures, including income transfers and loan guarantees, remain inadequate. Following a 3.9 per cent contraction in 2020, the United States economy is forecast to grow by 3.4 per cent in 2021 and 2.7 per cent in 2022.

In Canada, the economy is estimated to have contracted by 5.6 per cent in 2020 and is forecast to grow by 3.8 per cent in 2021. To alleviate the economic impact of the COVID-19 outbreak, an unprecedented fiscal stimulus package amounting to 16 per cent of GDP (included income support, loan guarantees and liquidity assistance) was implemented.

Europe: fallout from the pandemic is compressing economic activities

Europe has been experiencing an economic crisis of historic proportions as a consequence of the pandemic. A large number of countries implemented widespread and rigorous lockdown measures in 2020 in order to contain the spread of the pandemic. This led to a virtual standstill in large parts of the economy. Businesses — especially small businesses with fewer financial reserves — were thrown into a liquidity crisis. After a respite during the summer and signs of economic revival, many countries, including France, Germany, Italy and the United Kingdom, reintroduced various lockdown measures in the fourth quarter

In response to the crisis, the countries enacted significant fiscal policy measures, including, among others, wage support schemes, liquidity assistance and tax deferrals, with the size of those measures depending on the individual country's fiscal position. In addition, the European Union has activated the escape clause of the Stability and Growth Pact (SGP), which normally limits national fiscal deficits and public debt, loosened State-aid rules, and agreed for the first time on joint debt issuance to finance a €750 billion recovery plan. In March 2020, the European Central Bank (ECB) initiated a pandemic emergency purchase programme (PEPP) that subsequently reached a total volume of 1,850 billion euros. Following an estimated economic contraction of 7.8 per cent in 2020 (for EU-27), Europe is projected to return to positive growth of 5.2 per cent in 2021 and 2.6 per cent in 2022.

Developed Asia: linkage with developing East Asia holds the key to post-crisis recovery

Developed Asia (Japan, Australia and New Zealand) experienced an unprecedented plunge in the level of its economic activities in 2020, especially in the second quarter. In Japan, despite the roll-out of an unprecedented stimulus package, including income transfers and employment subsidies, real GDP collapsed in the second quarter. The third-quarter rebound was weak as households remained cautious; and residential and corporate investments stayed subdued despite easing financing conditions. The unemployment rate gradually rose to 3.0 per cent in September from 2.4 per cent in January. The fragile employment situation reflects weak prospects for corporate profits and wage growth; and domestic demand growth is projected to be mild. While the countries of developed Asia could afford the unprecedented fiscal stimulus packages, it is the revival of their external demand — particularly from developing East Asia and notably from China — that will make recovery solid and sustainable. East Asia is integrated in global supply chains with Japan; is Australia's largest commodity export destination, and an important market for New Zealand's tourism sector.

Among the developed Asia countries, Japan's GDP is estimated to have contracted by 5.4 per cent in 2020 and is forecast to grow by 3.0 per cent in 2021.

ECONOMIES IN TRANSITION

Commonwealth of Independent States (CIS) and Georgia: lower commodity prices compound the challenges

The outbreak of the COVID-19 pandemic has unleashed multiple shocks in the Commonwealth of Independent States (CIS) and Georgia. The disruptive effect of the lockdowns and quarantine measures was further compounded by lower commodity prices, including for important non-oil commodities exported by the CIS countries, and disruptions in labour migration and remittances. The magnitude of those declines has depended on a country's economic structure and its capacity to adopt offsetting measures, which was larger for energy-exporting countries, some of which tapped their sovereign wealth funds. Kazakhstan, in particular, implemented a stimulus package equivalent to around 9 per cent of its GDP. In the Russian Federation, by contrast, the fiscal response was more modest and funded by domestic borrowing.

The economic outlook for the region is uncertain, with downside risks predominating. A possible deterioration of asset quality and high levels of dollarization in the banking sector in many countries would constrain lending and increase risks. Geopolitical and social tensions in the region have mounted. The aggregate GDP of CIS and Georgia is estimated to have shrunk by 3.4 per cent in 2020. Only a modest recovery is expected, with growth of 3.4 per cent in 2021 and 3 per cent in 2022.

South-Eastern Europe: higher unemployment and negative fallout from trade linkages

In South-Eastern Europe, the crisis has led to an increase in unemployment from already high levels. The fallout of the pandemic in the European Union, the main destination for the region's exports and a source of investments and remittances, has depressed external demand and reduced incomes, while supply chain disruptions have dampened manufacturing production. The effects have varied across the region, depending on policy space and the level of dependency on tourism. The aggregate GDP of South-Eastern Europe, is expected to have declined by 3.8 per cent in 2020. The region is projected to see a moderate recovery with growth of 4 per cent in 2021 and 3.1 per cent in 2022.

DEVELOPING ECONOMIES

Africa: economic downturn is undermining development prospects

Africa has experienced an unprecedented economic downturn with major adverse impacts on the region's long-term development prospects. Domestic lockdowns required to control the pandemic, lower external demand, the collapse of tourism and lower remittances have caused severe economic disruptions. Although many Governments in Africa have taken quick action to counter the spread of the pandemic, most are severely hampered by a lack of the resources needed to support health systems, protect vulnerable population groups and support the recovery. Given its magnitude and unequal effects across population groups, the current crisis is causing a rise in unemployment, poverty and inequality, which threatens to wipe out the development gains of recent decades. In addition, more difficult financing conditions and rising public debt are exposing many African countries to debt distress. The continent is forecast to see a modest recovery in 2021, but this depends on the relaxation of lockdown constraints and an improvement in international trade and commodity markets. After a contraction of 3.4 per cent in 2020 — the first in 27 years and the largest on record — Africa is projected to achieve a modest recovery, with regional GDP expanding by 3.4 per cent in 2021 and 3.6 per cent in 2022.

East Asia: rebound in growth expected, following weakest expansion in more than two decades

East Asia saw a sharp deceleration in economic growth in 2020, with the region recording the weakest expansion since the Asian financial crisis. Measures designed to contain domestic outbreaks, including widespread restrictions on mobility and enforced business closures, significantly curtailed household spending and investment activities. Early lockdown measures managed to quickly contain the spread of COVID-19 in China, which paved the way for a relatively quick economic recovery starting from the second quarter of 2020 — China is only major economy in the world that registered positive growth in 2020. The region's investment prospects have been further dampened by heightened uncertainties and risk aversion. Large policy stimulus measures, including infrastructure investment in China, helped to offset some of these negative effects by providing support to domestic demand. However, considerable negative fallout also came from the external front, with export volumes contracting owing to supply chain disruptions and weakened global economic activities. In many parts of the region, the pandemic has caused significant setbacks to social and economic development, with a disproportionate impact on the vulnerable segments of society. The region will see a recovery in 2021, but this will be from a low base and with great uncertainty stemming from the potential for renewed lockdown measures. After growing by an, estimated 1 per cent in 2020, East Asia's GDP is projected to expand by 6.4 per cent in 2021 and 5.2 per cent in 2022.

South Asia: progress on many SDGs has been reversed

The pandemic and the global economic crisis have left deep marks on South Asia, turning this former growth champion into the worst performing region in 2020. All economies in the region have been hit by the crisis, whose impact has been amplified and accelerated by existing vulnerabilities. These vulnerabilities were aggravated by the already weak progress on achieving the SDGs and, notably, by the weakness of the region's public health infrastructure, with low levels of public health expenditure and few physicians, nurses, midwives and hospital beds per capita. At the same time, poorly organized labour markets and the absence of a reliable social safety net have prevented Governments from implementing the effective restrictions needed to contain the spread of the pandemic, while fiscal constraints and limited economic diversification restricted Governments' manoeuvring space. As a result, the crisis has devastated livelihoods across the region, reversing many years of progress on achieving the SDGs. GDP per capita fell by nearly 10 per cent in 2020, while poverty is rising sharply, and existing inequalities are widening. Women, children, slum dwellers, migrant workers and the elderly have been hit hardest by the crisis. South Asia's aggregate GDP is estimated to have contracted by 8.6 per cent in 2020; growth in the region is forecast to rebound to 6.9 per cent in 2021, before moderating to 5.3 per cent in 2022.

Western Asia: confronting the challenges of subdued energy prices and low tourism revenues

In Western Asia, the pandemic and the subsequent mitigation measures weighed heavily on economic activities across the region. The pandemic's impact was felt most acutely in the region's high-performing tourism sector, negatively affecting accommodation, transport, and wholesale and retail trade services. At the same time, weak energy market conditions stifled revenues for commodity exporters, putting additional constraints on fiscal policy options. Economic recovery in the region will depend on global energy demand, international tourism and the extent of the recovery of domestic demand on the back of fiscal support measures. On average, Western Asia's GDP is estimated to have contracted by 4.8 per cent in 2020. A slow recovery with growth of 3.8 per cent is expected in 2021, followed by 3.4 per cent growth in 2022.

Latin America and the Caribbean: facing a fragile and uneven recovery from a deep recession

The COVID-19 pandemic has ravaged countries in Latin America and the Caribbean, exacting a heavy human toll and causing an economic contraction of historic proportions. Prolonged national lockdowns, weaker merchandise exports and a collapse in tourism undermined economic activities at a time when many countries were already struggling with severe economic, social and political difficulties. Massive job and income losses have pushed millions of people into poverty, wiping out all progress made over the past 15 years. The crisis has caused further setbacks to the achievement of the SDGs by exacerbating deep-rooted structural inequalities, for example, between formal and informal workers, and between women and men. Monetary and fiscal support measures have provided a lifeline to households and businesses. Although many countries entered the pandemic with sizeable fiscal deficits and high public debt levels, Governments have deployed considerable resources to combat the health and economic crisis. Continued fiscal support remains critical to buttress economic recovery and reduce the long-term damage from the crisis. However, the region's recovery will likely remain uneven and fragile, with significant political risks and the possibility of a debt crisis looming in several countries. After an 8 per cent contraction in 2020, regional GDP is forecast to grow by 3.8 per cent in 2021 and 2.6 per cent in 2022.