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To: Members of the Executive Board

From: The Secretary

Subject: **World Economic Outlook—January 2021 Update**

Board Action:

Executive Directors' **information**

Publication:

It would be appreciated if Directors could ensure that the attached final press version of the *World Economic Outlook Update* is treated as **strictly confidential** until the document is released at **8:00 a.m. on Tuesday, January 26, 2021 in Washington, D.C.**

Questions:

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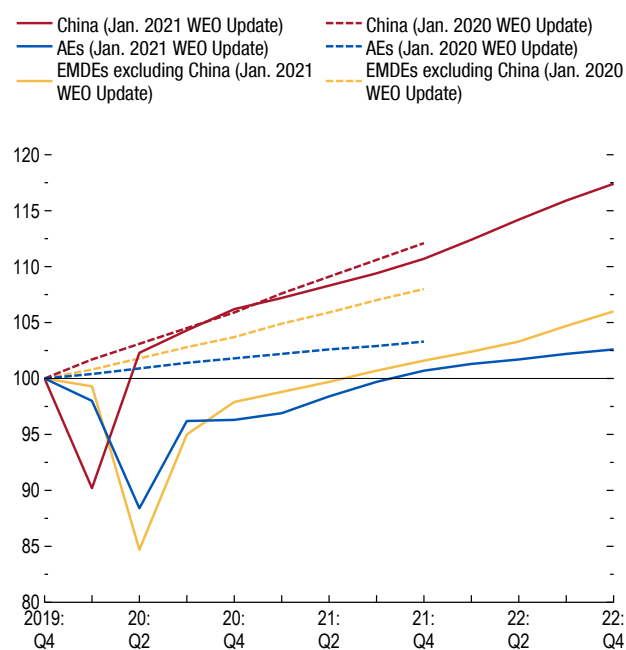
WORLD ECONOMIC OUTLOOK UPDATE

FOR RELEASE: In Washington, DC: January 26, 2021, 8:00 a.m. EST
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Policy Support and Vaccines Expected to Lift Activity

- Although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook. Amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022. The 2021 forecast is revised up 0.3 percentage point relative to the previous forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies.
- The projected growth recovery this year follows a severe collapse in 2020 that has had acute adverse impacts on women, youth, the poor, the informally employed, and those who work in contact-intensive sectors. The global growth contraction for 2020 is estimated at -3.5 percent, 0.9 percentage point higher than projected in the previous forecast (reflecting stronger-than-expected momentum in the second half of 2020).
- The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis (Figure 1).
- Policy actions should ensure effective support until the recovery is firmly underway, with an emphasis on advancing key imperatives of raising potential output, ensuring participatory growth that benefits all, and accelerating the transition to lower carbon dependence. As noted in the October 2020 World Economic Outlook (WEO), a green investment push coupled with initially moderate but steadily rising carbon prices would yield needed emissions reductions while supporting the recovery from the pandemic recession.
- Strong multilateral cooperation is required to bring the pandemic under control everywhere. Such efforts include bolstering funding for the COVAX facility to accelerate access to vaccines for all countries, ensuring universal distribution of vaccines, and facilitating access to therapeutics at affordable prices for all. Many countries, particularly low-income developing economies, entered the crisis with high debt that is set to rise further during the pandemic. The global community will need to continue working closely to ensure adequate access to international liquidity for these countries. Where sovereign debt is unsustainable, eligible countries should work with creditors to restructure their debt under the Common Framework agreed by the G20.

Figure 1. Divergent Recoveries: WEO Forecast for Advanced Economies and Emerging Market and Developing Economies
(Index, 2019:Q4 = 100)



Source: IMF staff estimates.
Note: AEs = advanced economies; EMDEs = emerging market and developing economies; WEO = World Economic Outlook.

Considerations for the Global Outlook

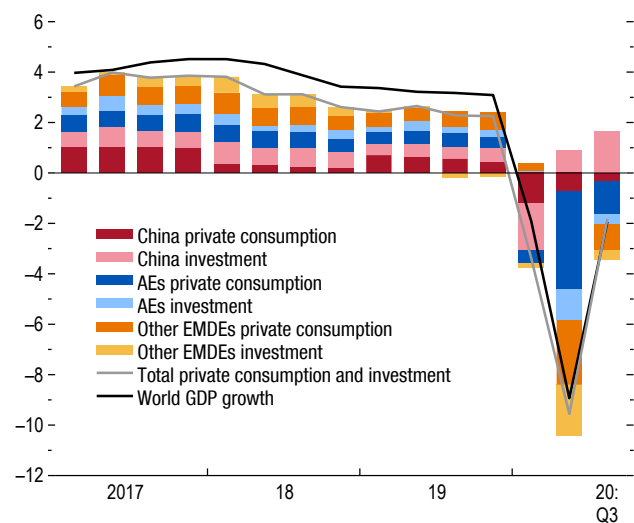
A stronger starting point for the 2021–22 forecast. Multiple vaccine approvals and the launch of vaccination in some countries in December have raised hopes of an eventual end to the pandemic. Moreover, economic data released after the October 2020 WEO forecast suggest stronger-than-projected momentum on average across regions in the second half of 2020. Despite the high and rising human toll of the pandemic, economic activity appears to be adapting to subdued contact-intensive activity with the passage of time. Finally, additional policy measures announced at the end of 2020—notably in the United States and Japan—are expected to provide further support in 2021–22 to the global economy. These developments indicate a stronger starting point for the 2021–22 global outlook than envisaged in the previous forecast.

Lingering concerns. However, surging infections in late 2020 (including from new variants of the virus), renewed lockdowns, logistical problems with vaccine distribution, and uncertainty about take-up are important counterpoints to the favorable news. Much remains to be done on the health and economic policy fronts to limit persistent damage from the severe contraction of 2020 and ensure a sustained recovery.

Three questions. These developments raise three interrelated questions for the global outlook. *First*, how will restrictions needed to curb transmission affect activity in the near term before vaccines begin delivering effective society-wide protection? *Second*, how will vaccine-rollout expectations and policy support affect activity? *Third*, how will financial conditions and commodity prices evolve? The baseline forecast requires forming a view on these unknowns.

Infections and restrictions will soften momentum in early 2021. Third quarter GDP outturns mostly surprised on the upside (Australia, euro area, India, Japan, Korea, New Zealand, Turkey, United States) or were in line with expectations elsewhere (China, Mexico). Among components, private consumption rebounded the most. Investment picked up relatively slowly, except in China (Figure 2). The expenditure decompositions suggest a release of pent-up demand and adjustments to telework. Given the largely one-off nature of such spending, it is likely to dissipate once the adjustments are made. High-frequency data suggest some tapering into the fourth quarter of 2020—for example, in new orders, industrial production, and global trade (Figure 3). The US December employment report also showed the first net decline in nonfarm payrolls since April 2020. Moreover, services output remains

Figure 2. Contributions of Consumption and Investment to Global GDP Growth
(Percentage points, year over year)



Sources: Haver Analytics; and IMF staff calculations.

Note: Data cover 73.8 percent of global GDP. AEs = advanced economies; EMEs = emerging market and developing economies; investment = gross fixed capital formation.

subdued and is likely to soften further in the coming months with renewed restrictions to combat rising infections.

The softening in early 2021 is expected to give way to rising momentum in the second quarter as vaccines and therapies become more readily available, allowing contact-intensive activity to strengthen.

- *Vaccines, therapies, and containment efforts.*

The baseline assumes broad vaccine availability in advanced economies and some emerging market economies in summer 2021 and across most countries by the second half of 2022—an accelerated timeline relative to expectations at the time of the previous forecast. Vaccine rollout speed is assumed to vary across economies based on country-specific factors.

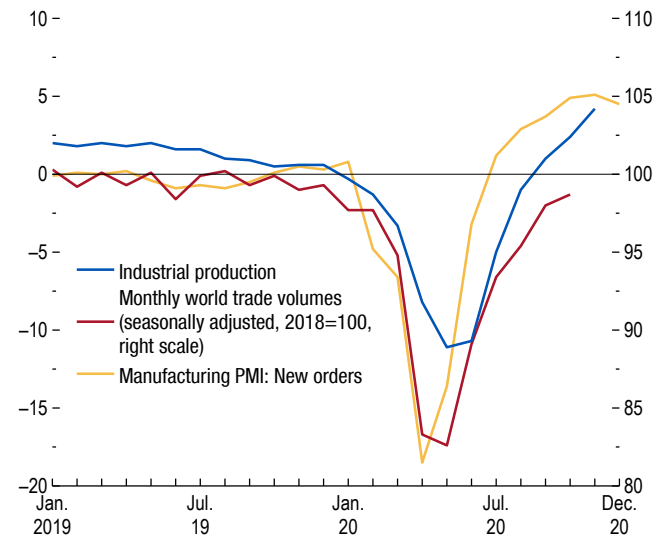
Moreover, therapies are expected to gradually become more effective and more accessible worldwide over the course of 2021–22. The baseline also assumes the possibility of lockdowns, including to contain transmission of new variants, before vaccines become widely available.

- *The path of the pandemic.* With growing vaccine availability, improved therapies, testing, and tracing, local transmission of the virus is expected to be brought to low levels everywhere by the end of 2022. Some regions and countries will get to low local transmission sooner than others depending on country-specific circumstances.
- *Additional fiscal policy support set to boost activity in some countries, but most are expected to experience lower deficits in 2021.* The sizable fiscal support announced for 2021 in some countries, including most recently in the United States and Japan, together with the unlocking of Next Generation EU funds, will help lift economic activity among advanced economies with favorable spillovers to trading partners. However, as noted in the January 2021 *Fiscal Monitor Update*, fiscal deficits in most countries are projected to decline in 2021 as revenues rise and expenditures decline automatically with the recovery.

Supportive financial conditions. Major central banks are assumed to maintain their current policy rate settings throughout the forecast horizon to the end of 2022. As a result, financial conditions are expected to remain broadly at current levels for advanced economies while gradually improving for emerging market and developing economies. Within this latter group, differentiation between investment-grade sovereigns (who have been able to issue external debt in large amounts in 2020) and high-yield borrowers (many of whom are constrained in their ability to take on additional debt and until recently have not accessed international markets during the

Figure 3. Global Activity Indicators

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



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

Note: PMI = purchasing managers' index.

pandemic) is expected to subside as the recovery takes hold. As noted in the January 2021 *Global Financial Stability Report Update*, markets remain upbeat about prospects for 2021, banking on continued policy support.

Rising commodity prices. Reflecting the projected global recovery, oil prices are expected to rise in 2021 just over 20 percent from the low base for 2020, but will still remain well below their average for 2019. Non-oil commodity prices are also expected to increase with those of metals, in particular, projected to accelerate strongly in 2021.

Table 1. Overview of the World Economic Outlook Projections

(Percent change, unless noted otherwise)

| | Year over Year | | | | | | Q4 over Q4 2/ | | |
|---|----------------|-------------|-------------|------------|---|-------------|---------------|------------|-------------|
| | Estimate | | Projections | | Difference from October 2020 WEO Projections 1/ | | Estimate | | Projections |
| | 2019 | 2020 | 2021 | 2022 | 2021 | 2022 | 2020 | 2021 | 2022 |
| World Output | 2.8 | -3.5 | 5.5 | 4.2 | 0.3 | 0.0 | -1.4 | 4.2 | 3.7 |
| Advanced Economies | 1.6 | -4.9 | 4.3 | 3.1 | 0.4 | 0.2 | -3.9 | 4.6 | 1.9 |
| United States | 2.2 | -3.4 | 5.1 | 2.5 | 2.0 | -0.4 | -2.1 | 4.0 | 2.0 |
| Euro Area | 1.3 | -7.2 | 4.2 | 3.6 | -1.0 | 0.5 | -6.8 | 5.8 | 2.0 |
| Germany | 0.6 | -5.4 | 3.5 | 3.1 | -0.7 | 0.0 | -5.3 | 5.2 | 1.7 |
| France | 1.5 | -9.0 | 5.5 | 4.1 | -0.5 | 1.2 | -8.2 | 7.4 | 2.0 |
| Italy | 0.3 | -9.2 | 3.0 | 3.6 | -2.2 | 1.0 | -8.3 | 4.2 | 2.3 |
| Spain | 2.0 | -11.1 | 5.9 | 4.7 | -1.3 | 0.2 | -9.8 | 7.1 | 2.0 |
| Japan | 0.3 | -5.1 | 3.1 | 2.4 | 0.8 | 0.7 | -2.3 | 2.7 | 1.6 |
| United Kingdom | 1.4 | -10.0 | 4.5 | 5.0 | -1.4 | 1.8 | -8.3 | 6.0 | 1.9 |
| Canada | 1.9 | -5.5 | 3.6 | 4.1 | -1.6 | 0.7 | -4.0 | 3.7 | 2.7 |
| Other Advanced Economies 3/ | 1.8 | -2.5 | 3.6 | 3.1 | 0.0 | 0.0 | -2.2 | 4.5 | 1.9 |
| Emerging Market and Developing Economies | 3.6 | -2.4 | 6.3 | 5.0 | 0.3 | -0.1 | 0.9 | 3.7 | 5.4 |
| Emerging and Developing Asia | 5.4 | -1.1 | 8.3 | 5.9 | 0.3 | -0.4 | 3.2 | 3.8 | 6.4 |
| China | 6.0 | 2.3 | 8.1 | 5.6 | -0.1 | -0.2 | 6.2 | 4.2 | 6.0 |
| India 4/ | 4.2 | -8.0 | 11.5 | 6.8 | 2.7 | -1.2 | 0.6 | 1.7 | 7.8 |
| ASEAN-5 5/ | 4.9 | -3.7 | 5.2 | 6.0 | -1.0 | 0.3 | -3.2 | 5.2 | 6.1 |
| Emerging and Developing Europe | 2.2 | -2.8 | 4.0 | 3.9 | 0.1 | 0.5 | -2.7 | 4.8 | 3.0 |
| Russia | 1.3 | -3.6 | 3.0 | 3.9 | 0.2 | 1.6 | -4.6 | 5.3 | 2.6 |
| Latin America and the Caribbean | 0.2 | -7.4 | 4.1 | 2.9 | 0.5 | 0.2 | -4.8 | 2.3 | 2.8 |
| Brazil | 1.4 | -4.5 | 3.6 | 2.6 | 0.8 | 0.3 | -1.9 | 1.6 | 2.6 |
| Mexico | -0.1 | -8.5 | 4.3 | 2.5 | 0.8 | 0.2 | -5.4 | 2.2 | 2.4 |
| Middle East and Central Asia | 1.4 | -3.2 | 3.0 | 4.2 | 0.0 | 0.2 | ... | ... | ... |
| Saudi Arabia | 0.3 | -3.9 | 2.6 | 4.0 | -0.5 | 0.6 | -3.1 | 3.5 | 4.0 |
| Sub-Saharan Africa | 3.2 | -2.6 | 3.2 | 3.9 | 0.1 | -0.1 | ... | ... | ... |
| Nigeria | 2.2 | -3.2 | 1.5 | 2.5 | -0.2 | 0.0 | ... | ... | ... |
| South Africa | 0.2 | -7.5 | 2.8 | 1.4 | -0.2 | -0.1 | -6.2 | 2.8 | 0.6 |
| Memorandum | | | | | | | | | |
| Low-Income Developing Countries | 5.3 | -0.8 | 5.1 | 5.5 | 0.2 | 0.0 | ... | ... | ... |
| World Growth Based on Market Exchange Rates | 2.4 | -3.8 | 5.1 | 3.8 | 0.3 | 0.0 | -2.0 | 4.3 | 3.1 |
| World Trade Volume (goods and services) 6/ | 1.0 | -9.6 | 8.1 | 6.3 | -0.2 | 0.9 | ... | ... | ... |
| Advanced Economies | 1.4 | -10.1 | 7.5 | 6.1 | 0.4 | 1.0 | ... | ... | ... |
| Emerging Market and Developing Economies | 0.3 | -8.9 | 9.2 | 6.7 | -1.0 | 0.8 | ... | ... | ... |
| Commodity Prices (US dollars) | | | | | | | | | |
| Oil 7/ | -10.2 | -32.7 | 21.2 | -2.4 | 9.2 | -5.4 | -27.6 | 13.5 | -2.2 |
| Nonfuel (average based on world commodity import weights) | 0.8 | 6.7 | 12.8 | -1.5 | 7.7 | -2.0 | 15.4 | 2.0 | -0.1 |
| Consumer Prices | | | | | | | | | |
| Advanced Economies 8/ | 1.4 | 0.7 | 1.3 | 1.5 | -0.3 | -0.1 | 0.5 | 1.5 | 1.6 |
| Emerging Market and Developing Economies 9/ | 5.1 | 5.0 | 4.2 | 4.2 | -0.5 | -0.1 | 3.2 | 3.8 | 3.7 |
| London Interbank Offered Rate (percent) | | | | | | | | | |
| On US Dollar Deposits (six month) | 2.3 | 0.7 | 0.3 | 0.4 | -0.1 | -0.1 | ... | ... | ... |
| On Euro Deposits (three month) | -0.4 | -0.4 | -0.5 | -0.6 | 0.0 | -0.1 | ... | ... | ... |
| On Japanese Yen Deposits (six month) | 0.0 | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 | ... | ... | ... |

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during October 23–November 20, 2020. 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 October 2020 WEO forecasts. Countries whose forecasts have been updated relative to October 2020 WEO forecasts account for 90 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 January 4, 2021), is \$50.03 in 2021 and \$48.82 in 2022.

8/ The inflation rate for the euro area is 0.9% in 2021 and 1.2% in 2022, for Japan is -0.1% in 2021 and 0.5% in 2022, and for the United States is 2.1% in 2021 and 2022, respectively.

9/ Excludes Venezuela.

Global Growth Set to Strengthen in the Second Half of 2021

The baseline forecast follows from the assumptions listed in the previous section.

Global growth. After an estimated 3.5 percent contraction in 2020, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022 (Table 1). The estimate for 2020 is 0.9 percentage point higher than projected in the October WEO forecast. This reflects the stronger-than-expected recovery on average across regions in the second half of the year. The 2021 growth forecast is revised up 0.3 percentage point, reflecting additional policy support in a few large economies and expectations of a vaccine-powered strengthening of activity later in the year, which outweigh the drag on near-term momentum due to rising infections. The upgrade is particularly large for the advanced economy group, reflecting additional fiscal support—mostly in the United States and Japan—together with expectations of earlier widespread vaccine availability compared to the emerging market and developing economy group.

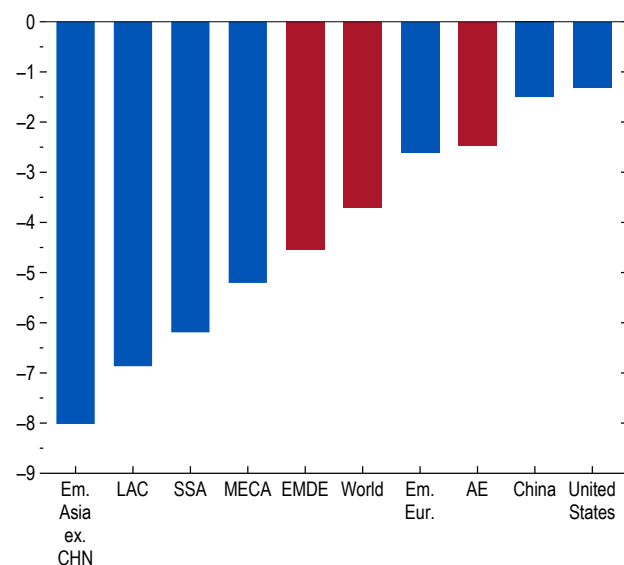
Global trade. Consistent with recovery in global activity, global trade volumes are forecast to grow about 8 percent in 2021, before moderating to 6 percent in 2022. Services trade is expected to recover more slowly than merchandise volumes, however, which is consistent with subdued cross-border tourism and business travel until transmission declines everywhere.

Inflation. Even with the anticipated recovery in 2021–22, output gaps are not expected to close until after 2022. Consistent with persistent negative output gaps, inflation is expected to remain subdued during 2021–22. In advanced economies it is projected to remain generally below central bank targets at 1.5 percent. Among emerging market and developing economies inflation is projected just over 4 percent, which is lower than the historical average of the group.

Differentiated and Diverging Recoveries

An incomplete and uneven recovery. Global activity will remain well below the pre-COVID, January 2020 WEO projections through the forecast horizon (Figure 4). The strength of the projected recovery varies across countries, depending on the severity of the health crisis, the extent of domestic disruptions to activity (related to the structure of the economy and its reliance on contact-intensive sectors), the exposure to cross-border spillovers, and—importantly—the effectiveness of policy support to limit persistent damage.

Figure 4. GDP Losses Relative to Pre-COVID by Region
(Current projected 2022 level relative to pre-COVID (January 2020 WEO) forecast, percent difference)



Source: IMF staff calculations.

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

- Advanced economies*, in general, have been able to provide expansive fiscal support to households and firms (direct tax and spending measures as well as equity injections, loans, and guarantees), and central banks have reinforced this with expanded asset purchase programs, funding-for-lending facilities, and, for some, interest rate cuts. Reflecting the strong policy support and the anticipated widespread availability of vaccines in summer 2021, the projected output loss compared with the pre-COVID forecast is relatively smaller for advanced economies than other countries. Recovery paths vary within the group, with the US and Japan projected to regain end-2019 activity levels in the second half of 2021, while in the euro area and the United Kingdom activity is expected to remain below end-2019 levels into 2022. The wide divergence reflects to an important extent differences across countries in behavioral and public health responses to infections, flexibility and adaptability of economic activity to low mobility, preexisting trends, and structural rigidities entering the crisis. The 2021 forecast for the United States is revised up 2 percentage points relative to the October 2020 WEO projection, reflecting carryover from the strong momentum in the second half of 2020 and additional support from the December 2020 fiscal package. Similarly, the 0.8 percentage point upward revision to Japan's 2021 forecast is largely because of the additional boost from the fiscal measures introduced at the end of 2020. These upgrades are partially offset by downward revisions to the 2021 forecast for the euro area reflecting an observed softening of activity toward the end of 2020, which is anticipated to continue into early 2021 amid rising infections and renewed lockdowns.
- Emerging market and developing economies* are also projected to trace diverging recovery paths. Considerable differentiation is expected between China—where effective containment measures, a forceful public investment response, and central bank liquidity support have facilitated a strong recovery—and other economies. Oil exporters and tourism-based economies within the group face particularly difficult prospects considering the expected slow normalization of cross-border travel and the subdued outlook for oil prices. As noted in the October 2020 WEO, the pandemic is expected to reverse the progress made in poverty reduction across the past two decades. Close to 90 million people are likely to fall below the extreme poverty threshold during 2020–21. Across regions, vulnerabilities, economic structure, and pre-crisis growth trends, together with the severity of the pandemic and the size of the policy response to combat the fallout, shape recovery profiles. Notable revisions to the forecast include the one for India (2.7 percentage points for 2021), reflecting carryover from a stronger-than-expected recovery in 2020 after lockdowns were eased.

Scarring (persistent damage to supply potential). The projections continue to rely on economies adapting to social distancing until local transmission is brought to a low level. Although employment in some countries generally appears to have recovered more quickly from the trough of the recession than in previous downturns, large numbers of people are still unemployed and underemployed in many countries (in the United States, for example, there are 9 million fewer employed people than in February 2020). Moreover, as discussed in the October 2020 WEO, the burden of the crisis has fallen unevenly across groups: workers with less education, women, youth, those in contact-intensive sectors, and those informally employed have suffered disproportionate livelihood and income losses. Country-specific labor market circumstances vary, implying different degrees of scarring. Economies that rely heavily on

contact-intensive industries, commodity exporters, and those where school closures have inflicted large setbacks to human capital accumulation are particularly exposed to persistent damages to supply potential.

Risks to the Outlook

Exceptional uncertainty surrounds the baseline projection. Although new restrictions following the surge in infections (particularly in Europe) suggest growth could be weaker than projected in early 2021, other factors pull the distribution of risks in the opposite direction. Beyond the pandemic, the December agreement on the terms of the United Kingdom's exit from the European Union has eliminated a key downside risk (i.e., a “no-deal Brexit”).

- *On the upside*, further favorable news on vaccine manufacture (including on those under development in emerging market economies), distribution, and effectiveness of therapies could increase expectations of a faster end to the pandemic than assumed in the baseline, boosting confidence among firms and households. This would generate stronger consumption, investment, and employment recoveries, with firms hiring and expanding capacity in anticipation of rising demand. The resulting income gains would support higher and more front-loaded spending than projected. Global growth would be stronger than in the baseline. More fiscal policy support than assumed in the baseline, with favorable spillover effects for trading partners, would further lift global activity.
- *On the downside*, growth could turn out weaker than in the baseline if the virus surge (including from new variants) proves difficult to contain, infections and deaths mount rapidly before vaccines are widely available, and voluntary distancing or lockdowns prove stronger than anticipated. Slower-than-anticipated progress on medical interventions could dampen hopes of a relatively quick exit from the pandemic and weaken confidence. Specifically, vaccine rollout could suffer delays, widespread hesitancy could hamper vaccine take-up, vaccines could deliver shorter-lived immunity than anticipated, and advances on therapies could be limited. Intensifying social unrest, including due to higher inequality and unequal access to vaccines and therapies, could further complicate the recovery. Moreover, if policy support is withdrawn before the recovery takes firm root, bankruptcies of viable but illiquid firms could mount, leading to further employment and income losses. The ensuing tighter financial conditions could increase rollover risks for vulnerable borrowers, add to the already large number of economies in debt distress (January 2021 *Fiscal Monitor* Update), and increase insolvencies among corporates and households (January 2021 *Global Financial Stability Report* Update).

Scenario analysis. Some of these aspects are explored in two alternative scenarios using the IMF's G20 Model. Both scenarios are focused on the key uncertainties underlying the outlook: incidence of COVID infections and efficacy of vaccine rollout.

The estimated impact of these alternative developments on activity is presented in Figure 5. In the upside scenario, the level of global output increases above baseline by roughly $\frac{3}{4}$ percent in 2021, widening to almost 1 percent above baseline in 2022. Although vaccine rollout is assumed to

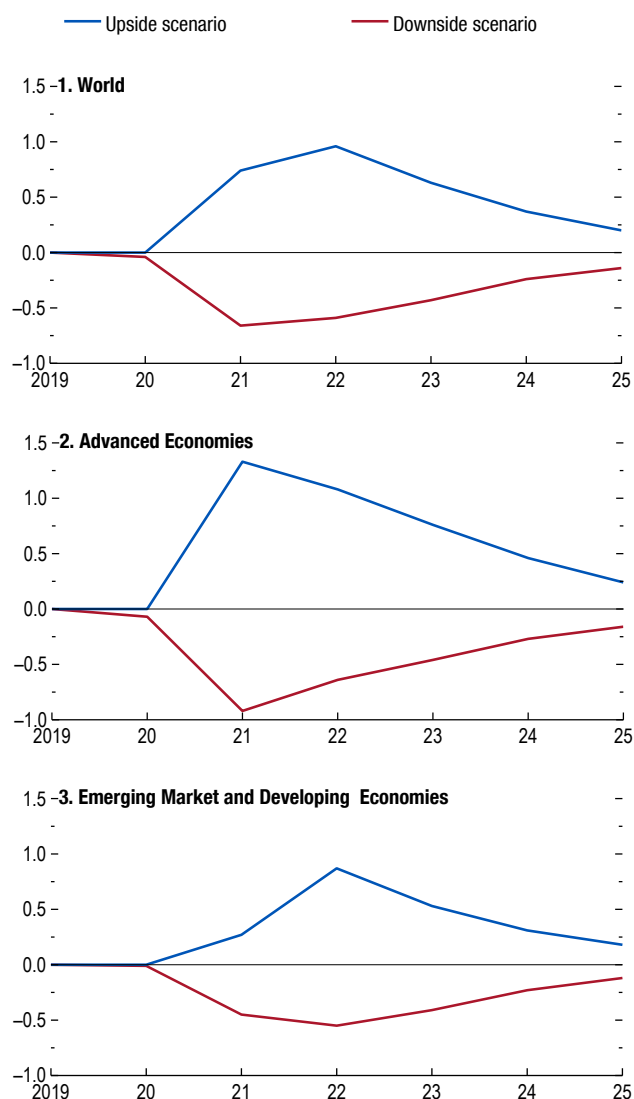
occur earlier in the upside, advanced economies still receive vaccines before many emerging economies and, consequently, activity accelerates sooner in advanced economies. The increase is therefore more pronounced in advanced economies in 2021 and in emerging market economies in 2022. In the downside scenario, vaccine rollout is assumed to go less smoothly than in the baseline, with widespread availability occurring later in both advanced and emerging economies and with more resistance to take-up even after vaccines become widely available. With global activity weaker, emerging vulnerable economies are also assumed to see mild increases in risk premia. However, some emerging and most advanced economy central banks are assumed to be able to prevent tightening in financial conditions. Global activity falls below baseline by roughly $\frac{3}{4}$ percent in 2021 but starts to return toward baseline in 2022. Again, the deviation from the baseline is more pronounced in advanced economies in 2021 and in emerging market economies in 2022.

Policies to Strengthen the Recovery

Policy effectiveness during the recession.

Aggressive and swift monetary, fiscal, and financial sector policies have helped prevent worse outcomes, as discussed in the October 2020 WEO. In some cases, transfers to households quickly boosted consumer spending—in particular for those with liquidity constraints.¹ Transfers to firms, together with credit guarantees and funding-for-lending programs, have prevented bankruptcies that might otherwise have occurred (but also keeping some unviable firms afloat, which could put a drag on overall productivity in the future). IMF staff analysis of a sample of 13 advanced economies spanning 1990 to the COVID crisis finds that bankruptcies have actually *fallen* during this recession unlike during past recessions (Figure 6). In part, this decline may also reflect moratoria on bankruptcy filings implemented in some countries. As discussed in the October 2020 WEO, efficient corporate

Figure 5. Scenario Figure: Real GDP
(Percent deviation from baseline)



Source: IMF, G20 Model simulations.

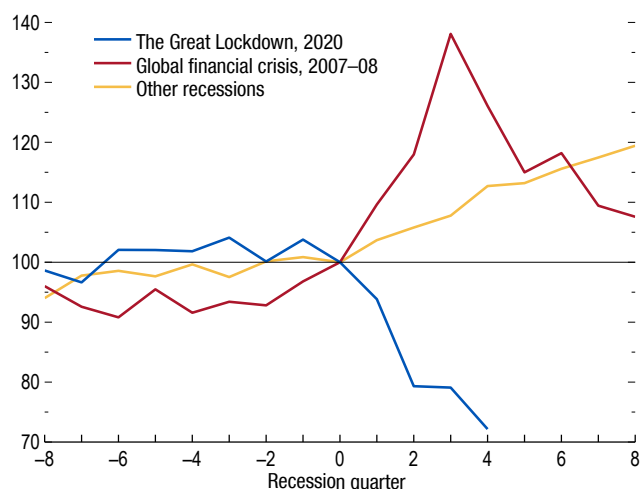
¹ For analysis on the impact of transfers in the United States, see for example: Baker et al. 2020, "Income, Liquidity, and the Consumption Response to the 2020 Economic Stimulus Payments," NBER Working Paper No. 27097; and Chetty et al. 2020 "The Economic Impacts of COVID-19: Evidence from a New Public Database Built Using Private Sector Data," NBER Working Paper No. 27431.

bankruptcy frameworks that apportion losses across investors, creditors, and owners will be central to dealing with any backlogs that may arise. Moreover, special out-of-court restructuring frameworks may need to be strengthened (or established) to expedite processing.

Policy objectives. Building on these successes, policies should ensure effective support until a vaccine-powered normalization of activity is underway and limit persistent damage from the deep recession of the past year. Policies to support the economy in the near term should also advance medium-term objectives of placing economies on paths of resilient and equitable growth. Initiatives that raise potential output, protect the vulnerable, ensure participatory growth that benefits all, and accelerate the needed transition to lower carbon dependence can help in this regard.

- *Resources for health care.* The main priority remains ensuring that health care systems are adequately resourced everywhere to beat back the pandemic globally. This means securing adequate funding for vaccine purchases and distribution, testing, therapies, personal protective equipment, and investment in health care facilities. Assistance from the international community through know-how and equipment for those with low health-care system capacity remains vital. The international community should also work closely to accelerate access to vaccines for all countries, including by bolstering funding for the COVAX facility, and by ensuring universal distribution of vaccines.
- *Economic policies to limit persistent damage.* Public health efforts should continue to be reinforced with well-designed economic policies tailored to the stage of the pandemic. Where local transmission remains high, and it is essential to slow down face-to-face interactions, lifelines should be maintained, including transfers to displaced workers and to otherwise viable firms that experience revenue losses. Where local transmission has been low and activity has begun to normalize, lifelines can be gradually rolled back by making their parameters less generous over time (for instance, under short-time work programs, a reduced government share of wages for unworked hours, complemented with hiring subsidies). Moreover, in those countries, broader stimulus should be deployed to support the recovery as needed. Priority areas include education spending to remedy the setback to human capital accumulation, digitalization to boost productivity growth, and green investment to enhance reliance on renewables and increase energy conservation. As noted in the October 2020 WEO, a green

Figure 6. Bankruptcies
(Index, last prerecession quarter = 100)



Sources: CEIC; national authorities; and IMF staff calculations.
Note: Data are from 13 countries with varying coverage during 1990:Q1–2020:Q3. Lines are averages across recession types, with quarter 0 the last prerecession quarter. For the Great Lockdown, quarter 0 is 2019:Q4 for all countries. For the global financial crisis, quarter 0 is the country-specific date of peak real GDP during 2007–08. Other recessions are country-specific and identified by two consecutive quarters of negative growth during 1990–2006 and 2009–19.

investment push coupled with initially moderate but steadily rising carbon prices would yield needed emissions reductions while supporting the recovery from the pandemic recession.

Policies to address inequality. These efforts can be complemented with investment in retraining and reskilling programs to improve reemployment prospects for displaced workers, strengthening social assistance as needed (for example, conditional cash transfers and medical payments for low-income households), and expanding social insurance (relaxing eligibility criteria for unemployment benefits, extending the coverage of paid family and sick leave)—all of which would help address the uneven labor market impact of the crisis and curb rising inequality.

Policy space to achieve these objectives varies across countries. The constraints have already translated into significantly different responses across income groups ([October 2020 WEO](#) and IMF [Fiscal Monitor](#)).

- *Advanced economies* continue to enjoy extremely low borrowing costs and can use the opportunity to provide fiscal support as needed to ensure a lasting recovery. Moreover, with well-anchored inflation expectations and subdued inflation pressure across the group, monetary policy should remain accommodative until the recovery takes firm root. Such policies would also have positive spillovers for more constrained economies and lower the likelihood of disruptive portfolio shifts stemming from divergent policy stances across countries in the recovery phase.
- *Emerging market economies* should maintain fiscal and monetary support where debt sustainability is not at risk and where inflation expectations are well anchored. Where emerging market central banks continue to deploy asset purchase programs, the objectives should be clearly communicated—in particular, their consistency with price stability mandates. Beyond policy space considerations, strategies for macroeconomic and financial stability—including exchange rate policies—will vary according to the structure of individual economies and the types of shocks they confront during recovery. In countries with deep financial markets and low balance sheet mismatches, exchange rate flexibility can effectively absorb shocks and limit resource misallocation. In countries with balance sheet vulnerabilities and market frictions, foreign exchange intervention and temporary capital flow management measures may, under some circumstances, be useful, including for enhancing the autonomy of monetary policy to respond to domestic inflation and output developments (see [Adrian, Gopinath and Pazarbasioglu, 2020](#)). These measures, however, should not substitute for needed macroeconomic adjustment.
- *Low-income developing countries* have far less policy space, and many entered this crisis with high debt that is set to rise even further during the pandemic. Support from the international community through grants, concessional loans, and debt relief will be essential to ensure that these countries are not overwhelmed by crisis costs and rising poverty.

Debt restructuring may be unavoidable for some countries. While temporary liquidity relief can help mitigate the lack of policy space, for some countries it may not be enough in situations where sovereign debt is unsustainable. In such instances, eligible countries should work with creditors to restructure their debt under the new Common Framework agreed by the G20. More generally, improving the international debt architecture to support orderly debt restructuring

would benefit not only these countries but the system as a whole (see [Georgieva, Pazarbasioglu, and Weeks-Brown, 2020](#)).

Achieving a Resilient, Equitable Post-Pandemic Economy

Addressing crisis legacies. As detailed in the [October 2020 WEO](#), once the crisis fades, policymakers must prioritize efforts to address its likely enduring legacies—some of them an intensification of preexisting trends—including slow productivity growth, rising inequality, higher absolute numbers of people in poverty, higher debt, and a setback in human capital accumulation.

Synchronized responses to amplify policy effectiveness. A synchronized public investment push by the largest economies with fiscal space to do so can enhance effectiveness of individual actions and boost cross-border spillovers through trade linkages. Emphasizing green infrastructure and digitalization to raise productivity growth, synchronized spending would lift medium-term global output significantly more than if countries spent the same amount individually, as discussed in the [November 2020 G20 Surveillance Note](#).

Closer multilateral cooperation. Beyond addressing issues arising directly from the pandemic, countries should also work closely to redouble climate change mitigation efforts. Moreover, closer multilateral cooperation will be needed to resolve economic issues underlying trade and technology tensions as well as gaps in the rules-based multilateral trading system.