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Post COVID-19 Global Economy - Challenges and Prospects

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Global Economy

The COVID-19 pandemic has caused devastating human and economic crises and plunged the global economy into its deepest recession. This deepest recession (-5.4 percent GDP per capita decline) and the broadest too since the 1870s (more than 90 percent of all countries in recession) could imply an estimated 140 million more people will live in extreme poverty and potentially 130 million people or more into acute food insecurity. Broader societal disruptions have been similarly staggering: as many as 1.2 million additional children dying in six months due to health care disruptions, 5 810 million children still out of school as of September, and 400 million jobs lost. These are just some of the human consequences registered amid collapses in cross-border tourism (-65 percent decline during the first half of 2020), trade (around -15 percent during the first half of 2020), remittances (roughly -7 percent this year), and foreign investment into developing countries (as much as -45 percent).¹

The pandemic is expected to leave long lasting adverse effects on global economy with a likely slowdown in global growth stretching through the next decade, due to underinvestment, underemployment, and labour force declines in many advanced economies. The global economy could be heading for a decade of “growth disappointments unless policy makers put in place comprehensive reforms to improve the fundamental drivers of equitable and sustainable economic growth” (World Bank press release).

Global economy is projected to recover as the pandemic is gradually brought under control however, it is not expected to return to its pre-crisis trend. The prospects for global economy are uncertain however some growth outcomes are possible. The Global Gross Domestic Product (GDP) is estimated to have contracted 4.3 percent in 2020 and expected to expand 4 percent in 2021 but still remain more than 5 percent below pre-pandemic projections. Global GDP is expected to moderate to 3.8 percent in 2022, weighed down by the pandemic’s lasting damage to potential growth. In particular, the impact of the pandemic on investment and human capital is expected to erode growth prospects in Emerging Market and Developing Economies (EMDEs) and set back key development goals. The global recovery, which has been dampened in the near term by a resurgence of COVID-19 cases, is expected to strengthen over the forecast horizon as confidence, consumption, and trade gradually improve, supported by ongoing vaccination.²

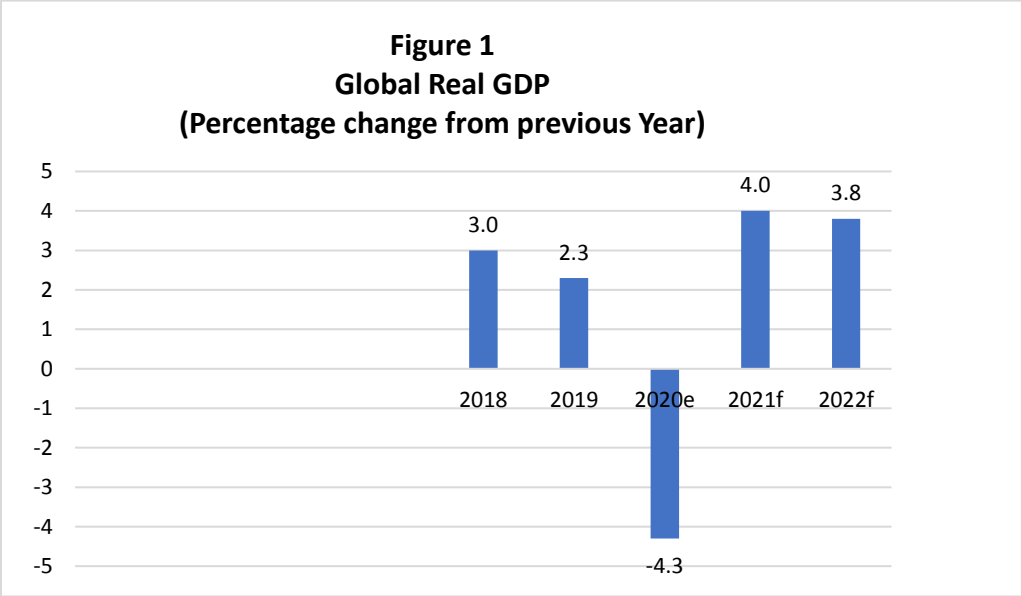
Developed Economies

The economy of developed countries experienced 5.4 percent contraction in 2020 with GDP declines in virtually all countries. GDP is expected to expand 3.3 percent in 2021 and 3.5 percent

¹ Report on “Reimagining the global economy: Building back better in a post-COVID-19 world” Tuesday, November 17, 2020

² World Bank. 2021. Global Economic Prospects, January 2021. Washington, DC: World Bank.

in 2022 depending on the improved management of the pandemic, widespread of effective vaccination, sustained monetary policy accommodation and fiscal support.



Source: World Bank

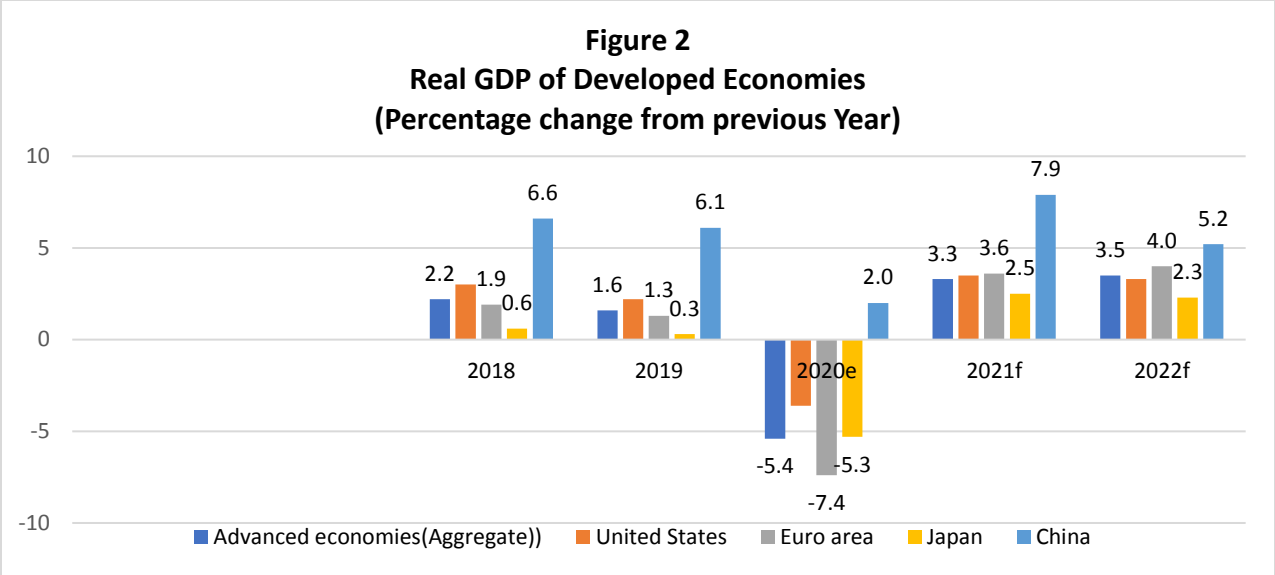
The United States (US) economic collapse in the first half of 2020 was nearly three times as large as the peak decline during the global financial crisis underscoring the depth of the recession³. Its GDP is estimated 3.6% contraction in 2020 and forecasted to increase by around 3.5 per cent in 2021. This growth is 0.5 percentage point lower than previously projected.

In the Eurozone, economy shrank by 7.4 percent in 2020 and GDP is anticipated to grow 3.6 percent in 2021. This growth is further strengthened by 4 percent in 2022 with widespread of vaccination, improved pandemic management and rising external demand particularly from China

Economy of Japan, shrank by 5.3 percent during 2020 and forecasted to expand by 2.5 percent in 2021. Growth is expected to fall down to 2.3 percent in 2022, leaving output 2.4 percent below its pre-pandemic trend.

China's economic contraction is estimated 2 percent in 2020 and expected to expand by 7.9 percent in 2021 above previous projections due to the release of pent-up demand, and moderate to 5.2 percent in 2022 as deleveraging efforts resume.

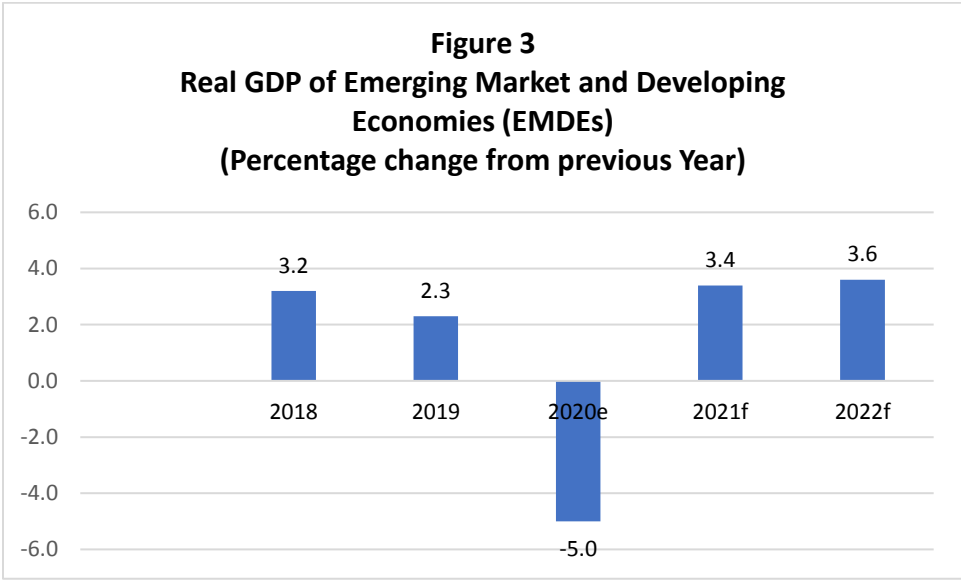
³ World Bank. 2021. Global Economic Prospects, January 2021. Washington, DC: World Bank.



Source: World Bank

Emerging Market and Developing Economies (EMDEs)

The emerging market and developing economies (EMDEs) are forecast to expand 3.4 percent in 2021 after a contraction of 5 percent in 2020. EMDE growth in 2022 is expected to remain 3.6 percent below its pre -pandemic projection. More than 90 percent EMDEs experienced fall in per capita incomes, tipping millions back into poverty.



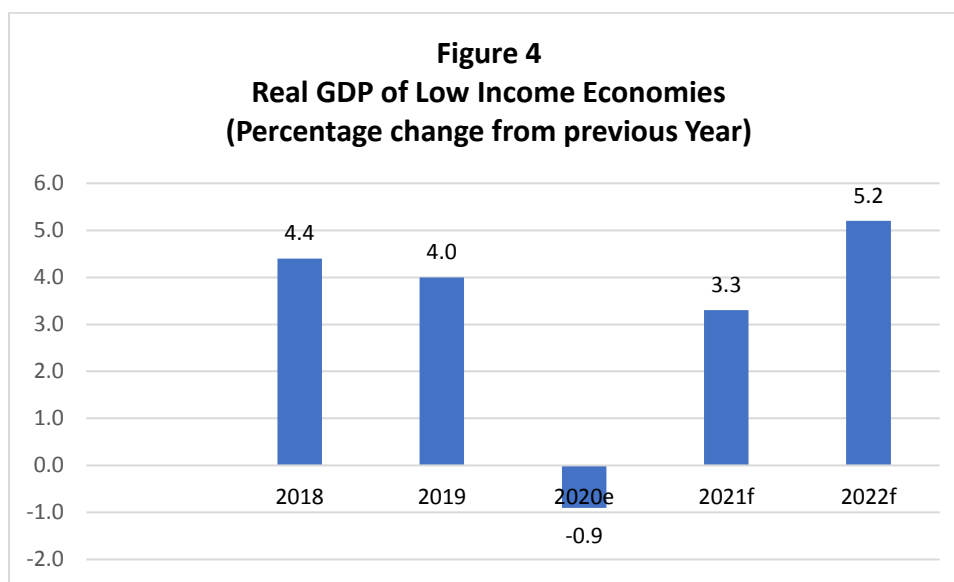
Source: World Bank

The pandemic is expected to erase at least 10 years of per capita income gains— and, in about two-thirds of EMDEs, per capita incomes are projected to be lower in 2022 than they were in 2019. After more than two decades of steady global poverty reduction, the crisis is projected to push

poverty rates back up to levels last seen in 2017. The pandemic has also impeded future prospects for poverty reduction by adversely affecting longer-term productivity growth—the deterioration in confidence has dampened investment, and the loss in learning-adjusted school years and prolonged spells of unemployment have eroded earlier gains in human capital.⁴

Low Income Economies

The pandemic has hit fragile and conflict-affected LICs particularly hard, and their recovery is set to be even more sluggish, in part because the large-scale rollout of vaccines among these economies is expected to lag that of advanced economies and major EMDEs. Low income economies are projected to increase 3.3 percent in 2021, after a contraction of 0.9% in 2020. This is the first aggregate contraction in a generation. recovery is expected to resume at a moderate pace in 2021-22, averaging 4.3 percent. Nonetheless, GDP in LICs is expected to remain 5.2 percent below its pre pandemic projections by 2022 ⁵.



Source: World Bank

Formidable Economic Challenges

The global economy appears to face the following formidable challenges

- Effective pandemic management,
- Widespread vaccine dissemination,
- Strengthened infection control policies,
- Boosting preparedness for future health emergencies,

⁴ World Bank. 2021. Global Economic Prospects, January 2021. Washington, DC: World Bank.

⁵ Ibid

- Safeguard health and education,
- Budget policies,
- debt management,
- Preserving financial stability,
- Sustained support to unemployed and vulnerable households
- Food insecurity
- Investments in digital technologies and green infrastructure

Recommendations⁶

Global economy need to continue to sustain the recovery, gradually shifting from income support to growth-enhancing policies. In the longer run, increased investment in the domestic provision of health-care-related goods and services will be needed to enhance the preparedness of domestic health care systems. In addition, increased spending on epidemic preparedness measures is paramount to minimizing the human and economic costs of future health crises. Authorities need to leverage the power of mobile data to monitor and contain epidemics and assess resource and equipment needs in real time⁷.

Increased investment in infrastructure related to education can improve the quantity and quality of human capital (Francisco and Tanaka 2020; Barrett et al. 2019). Digital approaches to remote learning developed during the pandemic can also be leveraged to gradually broaden access to affordable education across EMDEs over the long term (Li and Lalani 2020) Policies that promote a secure online environment and deepen access to data, combined with an easing of regulatory barriers to market entry, can help grow a vibrant domestic information and communications technology sector⁸

Alleviating food insecurity must be a top priority. The number of people facing food crises is estimated to have doubled from 130 million to about 270 million by end-2020 (CARE 2020; WFP 2020)⁹. Ensuring the effective delivery of food assistance for those in need, in part by supporting local markets via cash transfers, could help avoid chronic malnutrition, which can permanently impair maternal and child health and learning abilities (Martins et al. 2011; WFP 2020)¹⁰. The international community can play a key role in supporting efforts to alleviate food insecurity.

⁶ Ibid

⁷ World Bank. 2020. "Saving Lives, Scaling-up Impact and Getting Back on Track." World Bank Group COVID-19 Crisis Response Approach Paper, World Bank, Washington, DC

⁸ Ibid

⁹ World food Programme 2020 " WFP Global Update on COVID-19: Growing Needs, Response to Date and What's to Come in 2021." November. World Food Programme, Rome

¹⁰World food Programme 2020: Food Assistance: Cash and In-kind." Accessed in October 23, 2020. <https://www.wfp.org/food-assistanc>

Moreover, equitable access to health care—especially for vulnerable households with reduced income—needs to be prioritized.

The social and economic consequences of green policies need to be carefully managed—particularly job losses in traditional energy industries. Governments can work with the private sector, leveraging public-private partnerships, to increase public investment. This type of government spending has large multiplier effects in countries where the stock of public capital is low (Izquierdo et al. 2019). Environmental protection policies and regulatory reform to improve energy efficiency are also vital to improving long-run climate, health, and growth¹¹. Improving governance is also urgently needed to overcome development obstacles exacerbated by the pandemic and foster an environment conducive to higher long-run growth. Social safety nets will also need to be strengthened to cushion the temporary adverse impacts on employment of productivity-enhancing reforms and accelerated investments in automation and digitalization.

The COVID-19 pandemic is a global crisis that needs a coordinated global response¹². Only once the pandemic is effectively managed in all countries will individual countries be safe from resurgence, allowing global growth outcomes to improve materially (Ghebreyesus 2020). On the health front, coordinated global efforts across governments, the private sector, and multilateral institutions in developing, producing, and disseminating COVID-19 vaccines are critically important to ensure timely and equitable access across countries and a sustained reduction in global infection rates (Weintraub, Yadav, and Berkley 2020). In particular, countries with high vaccine development and production capacity can actively participate in coordinated international approaches to vaccine dissemination, seeking to promote the affordable and equitable distribution of vaccines amongst their lower-income peers (Ghebreyesus 2020).

¹¹ IMF (International Monetary Fund). 2020g. World Economic Outlook: A Long and Difficult Ascent, October, International Monetary Fund, Washington, DC

¹² World Bank. 2020. Protecting People and Economies: Integrated Policy Responses to COVID-19. Washington, DC: World Bank.