

Global Economic Prospects Report-2021

January 6, 2021

In news

World Bank releases Global Economic Prospects Report-2020 and expects the global economy to expand by 4% in 2021

Summary of the report

- Following a collapse last year caused by the COVID-19 pandemic, global economic output is expected to expand 4 percent in 2021 but still remain more than 5 percent below pre-pandemic projections.
- Global growth is projected 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.

TABLE 1.1 Real GDP¹

(Percent change from previous year)

Percentage point differences from June 2020 projections

	2018	2019	2020e	2021f	2022f	2020e	2021f
World	3.0	3.3	-4.3	4.0	3.8	0.8	-0.2
Advanced economies	2.0	1.8	-4.4	3.3	3.8	1.8	-0.8
United States	3.0	2.2	-3.8	3.5	3.3	2.5	-0.5
Euro area	1.9	1.3	-7.4	3.8	4.0	1.7	-0.8
Japan	0.6	0.3	-5.3	2.5	2.3	0.8	0.0
Emerging market and developing economies	4.3	5.8	-2.8	5.0	4.2	-0.1	0.4
EMDEs excluding China	3.2	2.3	-5.0	3.4	3.6	-0.7	0.1
Commodity-exporting EMDEs	2.0	1.6	-4.8	3.0	3.2	0.1	0.0
Other EMDEs	5.7	6.8	-1.3	6.1	4.8	-0.2	0.8
Other EMDEs excluding China	4.8	5.2	-5.3	3.9	4.1	-1.7	0.1
East Asia and Pacific	8.3	8.8	0.9	7.4	5.2	0.4	0.8
China	8.8	8.1	2.0	7.9	5.2	1.0	1.0
Indonesia	5.2	5.0	-2.2	4.4	4.8	-0.2	-0.4
Thailand	4.1	2.4	-6.5	4.0	4.7	-1.5	-0.1
Europe and Central Asia	3.4	2.3	-2.9	3.3	3.9	1.8	-0.3
Russian Federation	2.5	1.3	-4.0	2.8	3.0	2.0	-0.1
Turkey	3.0	0.9	-3.5	4.5	5.0	4.3	-0.5
Poland	5.4	4.8	-3.4	3.8	4.3	0.8	0.7
Latin America and the Caribbean	1.9	1.0	-6.9	3.7	2.8	0.3	0.9
Brazil	1.8	1.4	-4.5	3.0	2.9	3.5	0.8
Mexico	2.2	-0.1	-9.0	3.7	2.8	-1.5	0.7
Argentina	-2.6	-2.1	-10.8	4.9	1.9	-0.3	2.8
Middle East and North Africa	0.5	0.1	-6.0	2.1	3.1	-0.8	-0.2
Saudi Arabia	2.4	0.3	-5.4	2.0	2.2	-1.8	-0.5
Iran, Islamic Rep. ²	-8.0	-8.8	-3.7	1.5	1.7	1.8	-0.8
Egypt, Arab Rep. ²	0.3	0.8	3.8	2.7	3.8	0.8	0.8
South Asia	6.5	4.4	-6.7	3.3	3.9	-4.0	0.5
India ³	6.1	4.2	-9.6	5.4	5.2	-4.4	2.3
Pakistan ¹	5.8	1.9	-1.5	0.8	2.0	1.1	0.7
Bangladesh ¹	7.9	8.2	2.0	1.8	3.4	0.4	0.6
Sub-Saharan Africa	2.8	2.4	-3.7	2.7	3.3	-0.9	-0.4
Nigeria	1.9	2.2	-4.1	1.1	1.8	-0.8	-0.8
South Africa	0.8	0.2	-7.8	3.3	1.7	-0.7	0.4
Angola	-2.0	-2.9	-4.0	0.9	2.6	0.8	-0.2

- Although aggregate EMDE growth is envisioned to firm to an average of 4.6 percent in 2021-22, the improvement largely reflects China's expected rebound.
- Absent China, the recovery across EMDEs is anticipated to be more muted, averaging 3.5 percent in 2021-22, as the pandemic's lingering effects continue to weigh on consumption and investment.
- Despite the recovery, aggregate EMDE output in 2022 is expected to remain about 6 percent below its pre-pandemic projection.

Status of India

- As per the report, India is expected to grow at 5.4% in fiscal year 2021/22 and 5.2% in fiscal 2022/23 after an

expected contraction of 9.6% in fiscal 2020/21.

- It says that India's expected contraction in the current fiscal year is due to a sharp decline in household spending and private investment
- As per the GEP report, there was severe income loss in the informal sector which accounts for 4/5ths of employment. However, recent data indicate that recovery in manufacturing and services is gaining momentum.
- The report says that in 2021, the rebound from the low base is expected to be countered by subdued private investment growth due to financial sector weakness

Global perspective

Less severe contraction

- As per the report, the collapse in global economic activity in 2020 due to the onset of the pandemic, is estimated to have been slightly less severe than previously projected, mainly due to shallower contractions in advanced economies overall, and a more robust recovery in China.
- However, for most emerging market and developing economies, the impact was more acute than expected.

Known unknowns

- **The variables in the near-term remain "highly uncertain"** the World Bank warned, and a continuing rise in infections coupled with a delayed vaccine rollout, could limit global expansion this year to just 1.6 per cent.
- Meanwhile, in an upside scenario with successful pandemic control and a faster vaccination process, global growth could accelerate to nearly five per cent.
- In the United States, GDP, or gross domestic product, is forecast to increase by around 3.5 per cent this year, after an estimated 3.6% contraction in 2020.

- In the Eurozone, output is anticipated to grow 3.6%, following a 7.4% decline in 2020.
- Activity in Japan, which shrank by 5.3% during 2020, is forecast to grow by 2.5% in 2021.
- **Aggregate GDP in emerging market and developing economies, including China, is expected to grow 5% in 2021, after a contraction of 2.6%, according to the World Bank prospects.**

Near 8% growth forecast for China

- As per the report China's economy is expected to expand by 7.9% this year following 2% growth last year.
- Excluding China, emerging market and developing economies are forecast to expand 3.4% in 2021 after a contraction of 5% in 2020.
- **Among low income economies,** activity is projected to increase 3.3% in 2021, after a contraction of 0.9% in 2020.

Debt concerns

- The Prospects also examine how the pandemic has amplified risks around taking on increasing debt and its impact on long term growth.
- The pandemic has greatly exacerbated debt risks in emerging market and developing economies; weak growth prospects will likely further increase debt burdens and erode borrowers' ability to service debt
- The global community needs to act rapidly and forcefully to make sure the recent debt accumulation does not end with a string of debt crises. The developing world cannot afford another lost decade.

Long-lasting effects

- The pandemic is expected to leave long lasting adverse effects on global activity, the World Bank warns, 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 World Bank press release said that 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

Policy solutions by the world bank

Policymakers need to continue to sustain the recovery, gradually shifting from income support to growth-enhancing policies, the World Bank said.

Immediate policy priorities should now focus on controlling the spread of coronavirus and ensuring rapid and widespread vaccine deployment.

“To support economic recovery, authorities also need to facilitate a re-investment cycle aimed at sustainable growth that is less dependent on government debt”, the Bank advises.

In the longer run, in emerging market and developing economies, policies to improve health and education services, digital infrastructure, climate resilience, and business and governance practices will help mitigate the economic damage caused by the pandemic, reduce poverty and advance shared prosperity, while in the context of reduced public spending and elevated debt, institutional reforms to spur organic growth are particularly important.