Global Economic Prospects

HIGHLIGHTS from Special Focus:

Regional Macroeconomic Implications of COVID-19

Key Points

- *The rapid rise of COVID-19 cases, together with the wide range of measures to slow its spread, has led to precipitous decelerations in many EMDEs.*
- *Disruptions are likely to be more severe and protracted in those countries with larger domestic outbreaks, greater exposure to international spillovers, and larger pre-existing challenges such as informality.*
- *Many countries have avoided more adverse outcomes through sizable fiscal and monetary policy support measures.*
- *Per capita incomes in all EMDE regions are expected to contract in 2020, causing many millions to fall back into poverty.*

Lockdowns in response to the spreading pandemic. As of early June, there have been more than 6 million confirmed COVID-19 cases globally, of which almost one-half are in EMDEs (Figure 1.A). The rising number of infections in EMDEs represents a third global wave of COVID-19 outbreaks, following an initial wave in China that has largely subsided and a second wave in advanced economies that is slowing. To help mitigate the spread of the virus, most EMDEs have implemented necessary but severely disruptive measures. Traffic data show that regions with more stringent containment measures have sharply reduced workplace mobility (Figure 1.B).

Regional vulnerabilities to health and economic stress. The magnitude of the disruptions from the pandemic varies according to a variety of factors, including the scale of the domestic outbreak, the vulnerability of the economy to spillovers from global economic and financial stress, the severity of pre-existing challenges such as widespread poverty and informality, and the degree to which debt levels constrain the fiscal response.

Macroeconomic policy responses. Many countries have taken measures to support households and firms. Central banks have aggressively cut monetary policy rates, provided liquidity to help alleviate credit crunches, and deployed an arsenal of macroprudential measures to support lending (Figure 1.C). Governments have expanded social protections, provided cash transfers to households, increased access to unemployment benefits, subsidized wages, eased access to credit, provided loan guarantees, and issued vouchers or cash for critical employers and affected sectors such as tourism (Figure 1.D). However, elevated debt-to-GDP ratios and large fiscal deficits in many EMDEs is constraining their room to aggressively ease fiscal policy.

Prospects for growth, per capita incomes and poverty. Nearly 80 percent of EMDEs are expected to register negative growth this year, with the deepest regional contractions in ECA, LAC, and MNA (Figure 1.E). Per capita incomes among more than 90 percent of EMDEs are forecast to contract in 2020, which is expected to markedly affect living standards and tip millions into poverty across all EMDE regions (Figure 1.F). Downside risks to the outlook predominate for all EMDE regions and could lead to a substantially greater loss of output if they materialize. These include a longer-than-expected pandemic, financial crises, and a retreat from global value chains.

Figure 1. Regional developments

The number of COVID-19 cases is rising rapidly in EMDEs, with LAC and ECA becoming the new epicenters. In response, most EMDEs have imposed necessary but economically disruptive control measures. EMDEs have embarked on unprecedented monetary policy stimulus. A broad range of fiscal stimulus programs are expected to markedly widen already-large fiscal deficits. Activity in nearly 80 percent of EMDEs is expected to contract this year, with the deepest contractions in ECA, LAC, and MNA. Sharp falls in per capita incomes are set the markedly affect living standards across all regions.
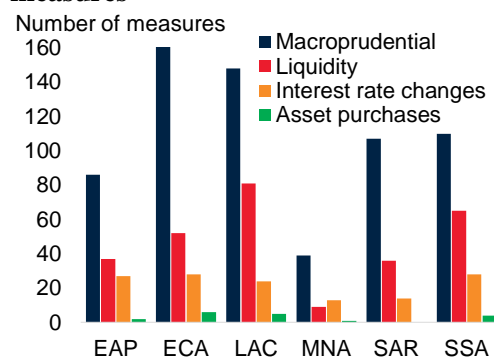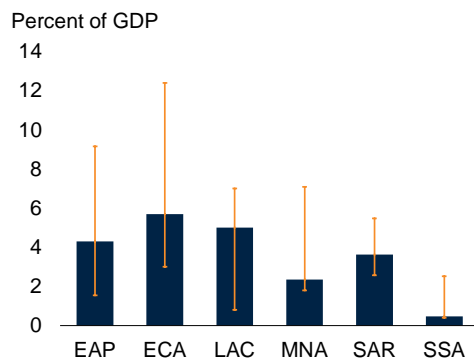
A. Confirmed cases per region
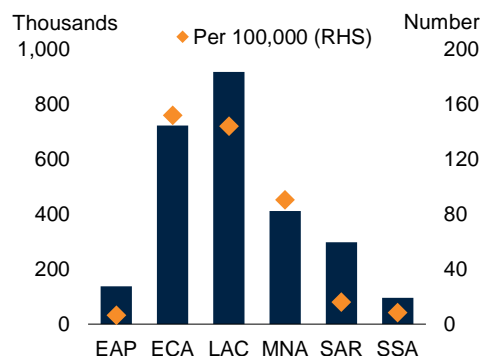
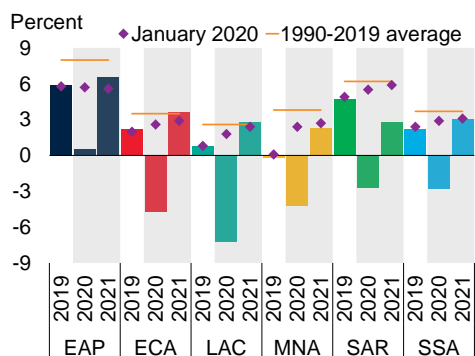**B. Stringency of government response to COVID-19 and workplace mobility**
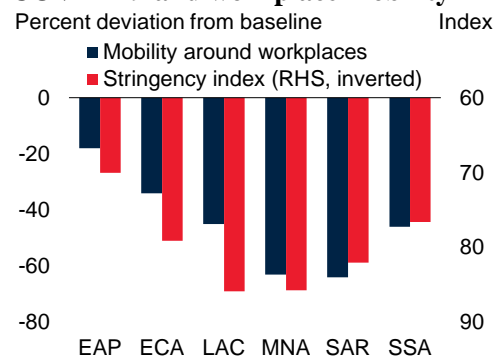
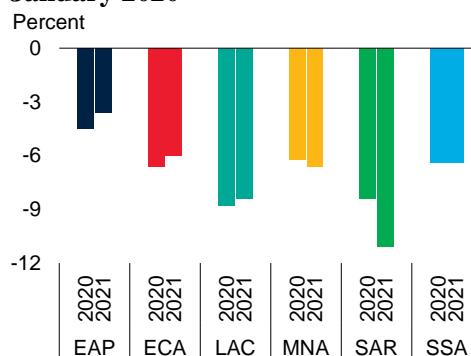**C. EMDE monetary and financial policy measures**

D. Fiscal support measures, by region

E. Regional growth

F. Level of per capita incomes relative to January 2020

Source: Haver Analytics; Google. International Monetary Fund; Johns Hopkins University; Oxford University; Our World in Data; World Bank.
A. Last observation is May 29, 2020.
B. Medians. Sample includes 18 EMDEs for mobility and 155 EMDEs for stringency. Baseline period is January 3 to February 6 2020. Last updated May 29, 2020.
C. Macroprudential includes prudential measures and measures to support borrowers. Sample includes 120 EMDEs. Last updated May 29, 2020.
D. Total of measures of fiscal support, including loan guarantees, either planned or under consideration as of May 29, 2020. Percent of 2019 nominal GDP. Bars show median, yellow whiskers indicate the interquartile range. Sample includes 45 EMDEs.
E. Bars denote latest forecast. For Europe and Central Asia, the long-term average uses data for 1995-2019 to exclude the immediate aftermath of the collapse of the Soviet Union. Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates. Shaded areas indicate forecasts.
F. Bars show the percent difference between the level of per capita GDP in the January and June 2020 editions of Global Economic Prospects.