## BOX 1.1 How has the pandemic made the fourth wave of debt more dangerous?

*The COVID-19 global recession and economic policy response have triggered a surge in debt levels in emerging market and developing economies (EMDEs). Even before the pandemic, however, a rapid buildup in these economies—dubbed the "fourth wave" of debt accumulation—had raised concerns about debt sustainability and the possibility of financial crisis. The pandemic has made the fourth wave even more dangerous by exacerbating debt-related risks. The global community needs to act rapidly and forcefully to make sure the fourth wave does not end with a string of debt crises in EMDEs, as earlier waves did.*

### Introduction

The COVID-19 pandemic has triggered a massive increase in global debt levels, including in emerging market and developing economies (EMDEs). Among EMDEs, government debt is expected to increase by 9 percentage points of GDP in 2020—its largest increase since the late 1980s when EMDEs saw a series of debt crises. The jump in government debt has been broad-based, with a large increase in all regions and all major EMDEs.[a] Private sector debt is also expected to rise sharply as firms deal with the fallout of the global recession.

Even before the pandemic, however, debt in EMDEs had risen to record levels (Kose, Nagle et al. 2020). Starting in 2010, a new wave of global debt accumulation was underway, with the largest, fastest, and most broad-based increase in global debt in five decades, led by EMDEs. Total debt in EMDEs reached 176 percent of GDP in 2019, driven by private debt which rose to 123 percent of GDP. The rapid increase in debt was a major cause of concern, as similar previous waves of debt have ended with widespread financial crises, such as the Latin American debt crisis in the 1980s, and the East Asia financial crisis in the late 1990s.

The pandemic has further exacerbated the debt-related risks in EMDEs. Against this backdrop, this box addresses the following questions:

- What was the status of the fourth wave before the pandemic?
- Why is the fourth wave even more dangerous now?
- What are the risks of inaction?
- What new policy challenges has the pandemic created?

The box updates earlier work on the risks associated with the debt buildup over the past decade (Kose, Nagle et al. 2020). It expands this work by examining in greater detail the challenges of debt resolution in the current context, drawing on lessons from past restructurings.

### Prior to the pandemic: The fourth wave of debt accumulation

Prior to the COVID-19 pandemic, starting in 2010, a fourth wave of global debt accumulation was underway, with the largest, fastest, and most broad-based increase in global debt in five decades. Global debt had risen to a record high 230 percent of GDP in 2019 and government debt to a record 83 percent of GDP. In EMDEs, total debt had reached 176 percent of GDP, led by private debt which rose to 123 percent of GDP. This increase was mainly, but not solely, driven by China: in about 80 percent of EMDEs, debt was higher in 2019 than in 2010 and, in a half of them, 20 percentage points of GDP higher.

This wave was preceded by three previous debt waves since the 1970s, all of which ended with widespread financial crises. The first global wave of debt spanned the 1970s and 1980s, with borrowing by governments in Latin America and in low-income countries, particularly in sub-Saharan Africa. This wave saw a series of financial crises in the early 1980s. The second wave ran from 1990 until the early 2000s as banks and corporations in East Asia and the Pacific and governments in Europe and Central Asia borrowed heavily, and ended with a series of crises in these regions in 1997-2001. The third wave was a runup in private sector borrowing in Europe and Central Asia (as well as in advanced economies), which ended when the global financial crisis disrupted bank financing in 2007-09 and tipped many economies into sharp recessions.

The fourth wave of debt shared several features with the previous three waves: a low interest rate environment and the emergence of new financial instruments or financial market actors. Of particular concern was that the fourth wave had seen a protracted period of weak investment and slowing growth despite surging debt (chapter 3, box 3.2). In other respects, the fourth wave differed from its

Note: This box was prepared by Ayhan Kose, Peter Nagle, Franziska Ohnsorge, and Naotaka Sugawara.

[a] South Asia has seen the steepest increases, with India's government debt expected to rise by 17 percentage points of GDP amid a severe output contraction of more than 9 percent.

**BOX 1.1 How has the pandemic made the fourth wave of debt more dangerous? (*continued*)**

predecessors: policy frameworks were stronger in some EMDEs and debt in advanced economies was broadly flat.

Yet, even before the pandemic, there was no room for complacency. Previous crises had frequently been triggered by exogenous shocks that resulted in a sharp increase in investor risk aversion and sudden stops of capital flows. Global growth slowdowns were often catalysts for crises.

## Implications of the pandemic for debt-related risks

The pandemic has made the fourth wave of debt even more dangerous by increasing its risky features. The sheer magnitude and speed of the debt buildup heightens the risk that not all of it will be used for productive purposes. For now, unprecedented monetary policy accommodation has calmed financial markets, reduced borrowing costs, and supported credit extension. However, amid the economic disruption caused by the pandemic, historically low global interest rates may conceal solvency problems that will surface in the next episode of financial stress or capital outflows. In addition, recent policy moves may erode some of the improvements that have occurred in EMEs in monetary, financial and fiscal policy frameworks, central bank credibility, and fiscal sustainability (Kose and Ohnsorge 2019, chapters 3 and 4).

**Size and speed of increase in debt.** As a result of sharp output collapses combined with unprecedented policy stimulus, debt-to-GDP ratios are set to rapidly reach new highs. Global government debt is expected to reach 99 percent of GDP for the first time on record in 2020 (figure B1.1.1). Among EMDEs, total debt had already risen by about 7 percentage points of GDP each year prior to the crisis; in 2020, government debt alone is expected to rise by 9 percentage points of GDP, while corporate indebtedness is also likely to sharply increase.[b]

**Low global interest rates.** At the onset of the pandemic, financial markets came under considerable strain, with sharply rising sovereign bond spreads for highly indebted EMDEs, a historic flight to safety, and record capital outflows from EMDEs (World Bank 2020d). Financial conditions have since eased due to unprecedented central bank easing in major advanced economies. All major advanced economy central banks launched or expanded asset purchase programs, and several EMDE central banks have joined them (chapter 4). Real policy rates are negative in advanced economies, as in the first wave of debt.

**Policy frameworks**. While necessary to soften the impact of the pandemic-induced recession, some recent policy moves may erode policy frameworks.

- *Central bank credibility.* Monetary, financial, and fiscal policy frameworks in EMDEs improved significantly in the 2000s, helping these countries weather the global recession of 2009 and bouts of volatility over the subsequent decade (Kose and Ohnsorge 2019). In 2020, several EMDE central banks expanded their remit by starting asset purchase programs to stabilize financial markets (Arslan, Drehmann, and Hofmann 2020; IMF 2020a). While appropriate in the midst of a deep recession, the prolonged use of these tools could dampen investor confidence and risk de-anchoring inflation expectations if central bank credibility is undermined by extended funding of large fiscal deficits (chapter 4).

- *Credibility of fiscal rules.* In the face of unprecedented fiscal stimulus requirements, fiscal rules risk being eroded. Many fiscal rules have escape clauses intended to be invoked in time of major economic stress, and a large number of countries have already activated these clauses as a result of the pandemic (Budina et al. 2012; IMF 2020b). It is important, however, that the use of this flexibility is temporary and transparent. While exact timelines for a return to normal will vary, clear communication will be critical: if countries fail to reverse their path to these escape clauses as the recovery gains traction, investors may begin to question the long-term sustainability of government finances.

**Changes in financial markets.** With the onset of COVID-19, several new developments have spurred financial market activity in the midst of a collapse in output: the reach of central banks into new financial market segments has broadened; governments have heavily encouraged credit extension; and regulators and supervisors have eased restrictions.

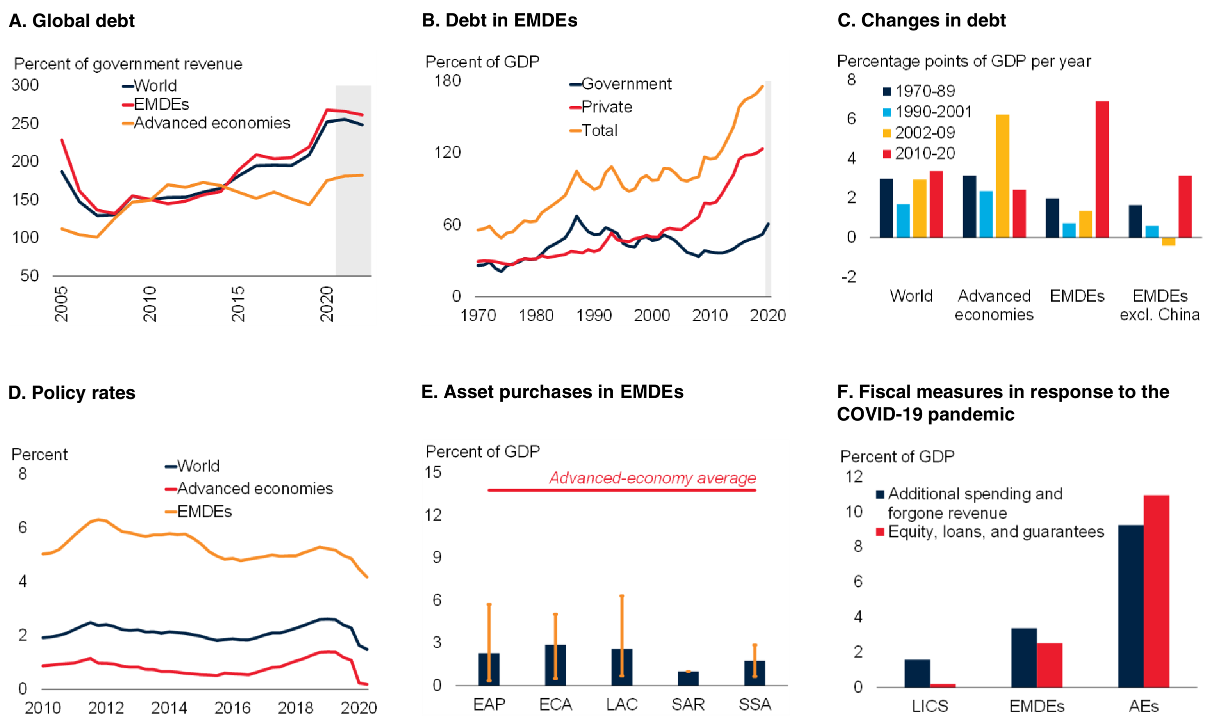
- *Central banks.* Quantitative easing by EMDE central banks has eased borrowing conditions in financial market segments that would otherwise only be indirectly affected by monetary policy rate cuts. This has ensured continued access to finance in the midst

[b] In contrast to EMDEs, total advanced economy debt was little changed during the fourth wave as private sector deleveraging was offset by a modest increase in public sector debt. However, this is expected to shift dramatically in 2020, with a sharp increase in both public and private sector debt. Government debt alone is expected to rise by 20 percentage points of GDP to 124 percent of GDP in advanced economies (IMF 2020c).

## BOX 1.1 How has the pandemic made the fourth wave of debt more dangerous? (*continued*)

### FIGURE B1.1.1 Debt and policy measures during the pandemic

*The pandemic has made the fourth wave of debt even more dangerous by strengthening its risky features. The sheer magnitude and speed of the debt buildup runs the risk that not all of it will be used for productive purposes. For now, unprecedented monetary policy accommodation has calmed financial markets, reduced borrowing costs, and supported credit extension. However, amid the economic disruption caused by the pandemic, historically low global interest rates may conceal solvency problems that will surface in the next episode of financial stress. In addition, some recent policy moves may erode central bank credibility and fiscal sustainability.*




*Sources*: Bank for International Settlements; Haver Analytics; International Monetary Fund; Kose, Nagle et al. (2020); Kose, Sugawara, and Terrones (2020); OECD; World Bank.

*Note*: AEs = advanced economies, EMDEs = emerging market and developing economies, EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, SAR = South Asia, SSA = Sub-Saharan Africa.

A.B. Aggregates are calculated using current GDP in U.S. dollars as a weight, based on data for up to 182 countries, including up to 145 EMDEs. Shaded area refers to forecasts for 2021-22; data for 2020 are estimates.

C. Rate of changes calculated as changes in total debt-to-GDP ratios over the denoted periods, divided by the number of years in each of them. Total debt is defined as a sum of government and private debt. Aggregates are calculated using current GDP in U.S. dollars as a weight. Total debt in 2020 is obtained under the assumption that it changes at the same pace as government debt in respective country groups.

D. Quarterly nominal policy rates. Aggregates are calculated using real GDP in U.S. dollars as a weight. Sample includes 123 countries, consisting of 36 advanced economies and 87 EMDEs. Last observation is 2020Q2.

E. Announced or completed purchases (where no announcement exists) relative to 2019 nominal GDP as of November 2020. Bar shows average in each region. Orange whiskers show regional range. Red line shows average of advanced economy programs launched in 2020.

F. Data are as of June 12, 2020. Country groups are weighted by GDP in purchasing power parity-adjusted current U.S. dollars. Revenue and spending measures exclude deferred taxes and advance payments.

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of the recession but this may crowd out private sector investors if sustained over a prolonged period in illiquid EMDE financial markets (chapter 4).

- *Governments.* Government support packages have encouraged continued credit extension to corporates. About 40 percent of the fiscal support from governments in EMDEs constitutes liquidity support measures such as loans, equity injections, and guarantees (IMF 2020c). Some governments have also encouraged banks to make use of available capital and liquidity buffers to support lending (Feyen et al.

**BOX 1.1 How has the pandemic made the fourth wave of debt more dangerous? (*continued*)**

2020; IMF 2020b, 2020d). While these are necessary to avoid widespread bankruptcies, they may support nonviable "zombie" firms. These contingent liabilities could eventually migrate onto government balance sheets, either in a financial crisis or, indirectly, in a period of sustained low growth (Mbaye, Moreno-Badia, and Chae 2018).

- *Bank supervision and regulation.* The global banking industry has asked regulators to relax or delay post-crisis rules on capital, liquidity, and accounting standards as a result of the pandemic, with some countries agreeing to delays or postponement of new regulations (IMF 2020c). Regulatory forbearance has increased. Unless comprehensive reporting of asset quality is assured, these measures risk eroding the transparency regulators and investors need to assess financial institutions' balance sheets.

**Use of debt.** Rising debt is less of a concern if it is used to finance growth-enhancing investments, particularly if they boost exports (World Bank 2017). During the first three waves of debt, borrowing was often used to finance productive investments. However, there are also many examples where debt was employed for less productive uses, including favoring domestic industries, or financing construction and property booms that did not raise productivity. A surge in debt without an increase in growth-enhancing investment projects is one of the factors that led to debt crises (Kose, Nagle et al. 2020, chapter 3, box 3.2). The COVID-19 pandemic has necessitated large -scale borrowing to finance many critical fiscal support measures. However, the scale and speed at which these measures were introduced creates considerable potential for diversion and misuse of funds.

## Consequences of inaction

The previous waves of debt ended with widespread financial crises. When debt resolution was protracted, growth was often slow to recover or even resulted in a lost decade of growth.

**Financial crises**. Since 1970, about half of all countries that experienced a rapid buildup of debt also experienced a financial crisis. Where debt accumulation episodes were accompanied by crises, output and investment were significantly lower even several years after the end of the episode than in countries without crises (figure B1.1.2). There is a risk that the fourth wave, like its predecessors, also ends with a major financial crisis, with some countries already experiencing debt distress. Of particular concern is that the current buildup is spread across both private and public sector debt, as well as across advanced economies, EMDEs, and LICs. Several countries eligible for International Development Association (IDA) lending are already in debt distress or are close to it.

**Protracted resolution**. During the first wave of debt, widespread sovereign debt defaults in Latin America and LICs in the early 1980s took many years to be resolved, with debt continuing to rise after the initial default. Debt relief only occurred in Latin America with the Brady Plan in 1989, while in LICs, meaningful debt relief did not occur until the Heavily Indebted Poor Countries (HIPC) initiative and Multilateral Debt Relief Initiative (MDRI) in 1996 and 2005, respectively. In contrast, during the second and third waves of debt, which mainly involved the private sector, debt resolution occurred more rapidly, but at a substantial cost to governments that frequently assisted through bank recapitalization and other support schemes.

**Lost decade of growth**. Prolonged periods of debt restructuring were associated with a lost decade of growth in Latin America and, in LICs, negative per capita income growth over several years. The COVID-19 pandemic is likely to deepen and prolong a slowdown in output, productivity, and investment growth that has been underway for a decade (chapter 3).[c] Weak growth will further increase debt burdens and erode borrowers' ability to service debt. For some countries in debt distress, the economic outlook may only improve once debt relief via debt write-offs occurs, rather than rescheduling (Reinhart and Trebesch 2016). Preemptive debt restructurings have generally been associated with better macroeconomic outcomes rather than restructurings that occur after a default has occurred (Asonuma et al. 2020).

## New policy challenges

Several countries, particularly low-income countries, are already in, or at risk of, debt distress (IMF 2020e). In addition, the characteristics of the debt buildup of the fourth wave also raise new challenges and again highlight the major difficulties in achieving lasting debt relief.

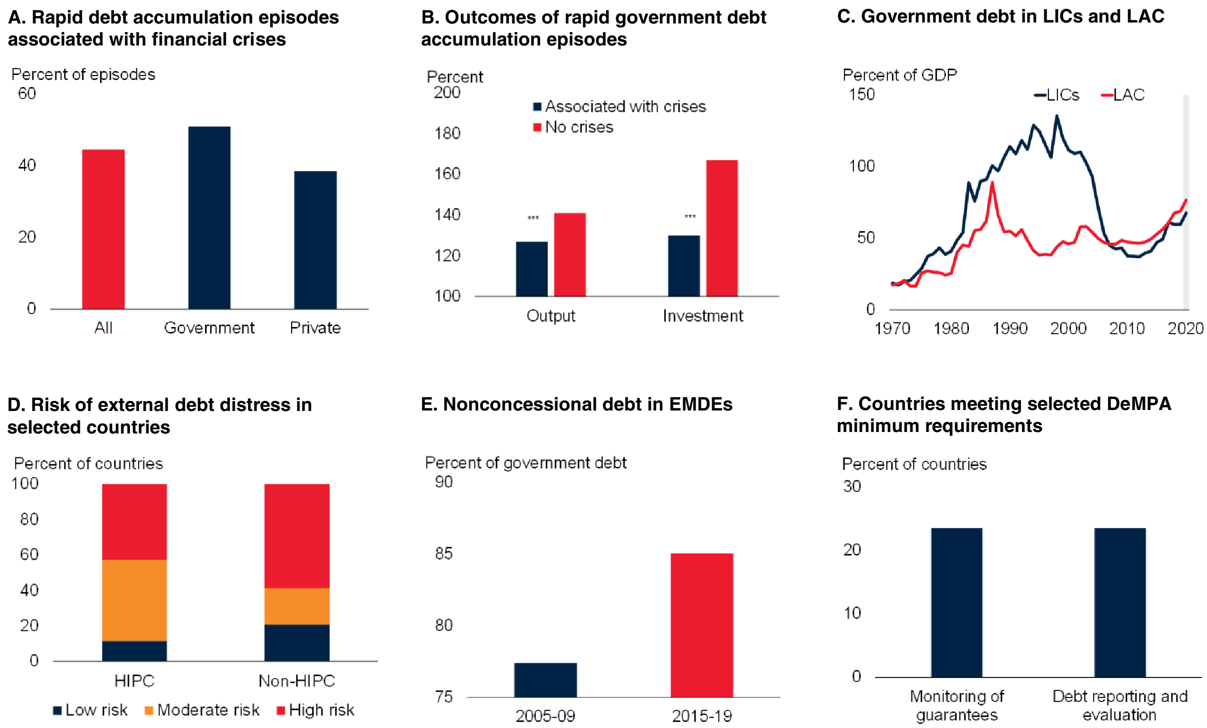
**Debt service costs.** Many countries, particularly LICs, face large debt-servicing costs, with several already in debt distress. Debt service standstills can provide a temporary solution by providing breathing room to continue critical spending while allowing time for a comprehensive

[c] See Dieppe (2020); Kilic Celik, Kose, and Ohnsorge (2020); and Kose and Ohnsorge (2019).

## BOX 1.1 How has the pandemic made the fourth wave of debt more dangerous? (*continued*)

### FIGURE B1.1.2 Cost of inaction, new challenges

*Past episodes of rapid debt accumulation were often associated with financial crises. When debt resolution was protracted, as it was in the 1980s and 1990s in Latin America and low-income countries, growth was often slow to recover or even resulted in a lost decade of growth. At present, several countries are already in debt distress or are close to it. The rapid increase in nonconcessional debt and lack of debt transparency also raise new challenges for achieving lasting debt relief.*




*Sources*: Haver Analytics; International Monetary Fund; Kose, Nagle et al. (2020); Kose, Sugawara, and Terrones (2020); World Bank.

*Note:* EMDEs = emerging market and developing economies; HIPC = Heavily Indebted Poor Countries; LAC = Latin America and the Caribbean; LICs = low-income countries.

A. "Episodes associated with crises" are episodes of rapid debt accumulation which experienced financial crises (banking, currency, and debt crises, as in Laeven and Valencia, 2020) during or within two years after the end of episodes. For definition of episodes and sample, see Kose, Nagle et al. (2020).

B. Median for episodes with data available for at least 8 years from the beginning of the episode. Year "t" refers to the beginning of rapid government debt accumulation episodes. Episodes associated with crises are episodes of rapid debt accumulation that experienced financial crises (banking, currency, and debt crises, as in Laeven and Valencia, 2020) during or within two years after the end of episodes. "***" denotes that medians between episodes associated with crises and those with no crises are different with statistical difference at the 1 percent level, based on Wilcoxon rank-sum tests. Cumulative percent increase from t, based on real growth rates for output and investment. Government debt accumulation episodes defined as in Kose, Nagle et al. (2020).

C. Three-year moving averages. Shaded area indicates forecast for 2020.

D. Defined as in IMF (2020). Based on a sample of 69 economies with available data, as of September 30, 2020.

E. Nonconcessional external debt as a share of general government debt. Averages over the denoted periods on the horizontal axis. Median of up to 120 EMDEs, with a smaller sample size for earlier years.

F. Figure shows share of 17 LICs meeting minimum standards as defined by Debt Management Performance Assessments (DeMPA) in December 2018.

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assessment of debt sustainability that can lead to more lasting changes (Buchheit and Gulati, forthcoming). By avoiding short-term cash shortages, they can prevent a liquidity crisis becoming a solvency crisis. The External Debt Service Suspension Initiative (DDSI) is one example. As of November, 44 of the world's poorest countries have applied for the DSSI and benefited from an estimated $5.3 billion in debt service relief from official bilateral creditors, complementing emergency financing provided by the World Bank and the International Monetary Fund. However, it is critical that these policies are only temporary measures to make space until permanent solutions can be secured. Debt standstills defer payments of interest and principal, but do not reduce debt levels. During the Latin American debt crisis, repeated debt reschedulings prolonged debt crises without resolving

**BOX 1.1 How has the pandemic made the fourth wave of debt more dangerous? (*continued*)**

them, and resulted in additional debt buildup and long-term debt overhangs. In addition, there can be hurdles to implementing debt standstills. For example, only 44 of the 73 countries eligible for the DSSI have requested assistance, held back by concerns that applying for the DSSI would affect their sovereign credit rating and restrict their access to new borrowing.

**Fragmented creditor base.** In the event of a debt crisis, its resolution will likely be more complex than earlier crises since there are many creditors with diverse motivations (international financial institutions, Paris Club bilateral lenders, non-Paris Club bilateral lenders including public owned policy institutions like the China Development Bank, and private sector lenders). The importance of bilateral non-Paris Club lenders has increased significantly, and China is now the largest official creditor to developing countries (Horn, Reinhart, and Trebesch 2020).

**Lack of debt and investment transparency.** The growing diversity of creditors and complexity of debt instruments has been associated with greater uncertainty about the level and composition of debt, as not all creditors are bound by a single set of reporting standards and loan terms are often confidential. In 2019, of the 17 LICs with available data, minimum requirements in debt recording were met by only eight, and monitoring guarantee requirements were met by only four. Due to shortcomings in accuracy, timeliness, coverage, and completeness of debt records, only four of these 17 countries met the minimum requirements for debt reporting and evaluation (Essl et al. 2019; World Bank 2019). Of 59 countries eligible for IDA borrowing, only one-third reported private sector external debt statistics (World Bank and IMF 2018). This raises the risk that public sector debt is higher in some EMDEs than reported. In addition, a lack of clarity about commitments encumbers debt restructuring negotiations, scrutiny of borrowing decisions, and efforts to ensure that borrowed funds are well spent. Debt sustainability can be undermined by policies that impose strict nondisclosure clauses on government borrowers, require major liens and collateralization, and place guaranteed debt repayments in state-owned enterprises.

**Governance shortcomings.** Many EMDEs, particularly LICs, still fall short in the strength of institutions that create distance between borrowing decisions and political pressures, as reflected in the low share of LICs that meet minimum requirements for debt administration, legal frameworks, and audit practices (World Bank 2019). This increases the risk that borrowing is excessive and not used for productive purposes.

**Global debt resolution practices.** In several dimensions, the playing field is currently tilted in favor of creditors and discourages prompt and comprehensive debt resolution. For example, financial centers that adjudicate disputes related to debt restructuring—especially New York, where two-thirds of outstanding sovereign bonds are governed—have provisions that favor hold-out bond holders. These include prejudgment penalties, large exemptions for buying bonds at steep discounts before default with the intent of suing subsequently, and modest taxes on excess capital gains (Stiglitz and Rashid 2020). While 91 percent of sovereign bond issuance since 2014 has included collective action clauses that facilitate restructuring, a large legacy stock without such clauses remains: about 50 percent of outstanding international debt does not include collective action clauses (IMF 2020e).

## Policy implications

The COVID-19 pandemic has caused a surge in debt levels and exacerbated existing debt-related risks and vulnerabilities, leading to debt distress in some countries. Debt is likely to rise further as governments and financial systems finance the recovery by facilitating the move of capital, labor, skills, and innovation to a post-pandemic economic environment. Policy makers will also need to act to prevent short-term cash flow shortages from derailing the recovery in business activity and to provide space to assess debt sustainability, as well as to consider the best approaches to resolving debt if it becomes unsustainable.

In the short term, efforts to broaden the scope of debt covered by debt service standstills, notably by including the private sector, will provide additional breathing space for countries at risk of debt distress (World Bank 2020e, f; Bolton et al. 2020; Okonjo-Iweala et al. 2020).[d] However, such solutions will only be stop-gaps while a lasting solution is found. In the past, excessive debt has been resolved in one or more of six ways: three orthodox policy choices including growth, fiscal austerity, and privatization, and three heterodox approaches including unexpected inflation, often in combination with financial repression, debt relief, and taxing wealth (Reinhart, Reinhart, and Rogoff 2015; Reinhart and Sbrancia 2015). Each of these approaches is associated with challenging trade-offs such that choices need to be carefully tailored to country circumstances.

[d] The implementation of such an expansion would be a formidable challenge because it would involve coordination of numerous different stakeholders, including private creditors, official and multilateral creditors, and debtor countries (Gelpern, Hagan, and Mazarei 2020).

**BOX 1.1 How has the pandemic made the fourth wave of debt more dangerous? (*continued*)**

Where debt restructurings prove necessary, both creditors and debtors should aim for ambitious restructurings.[e] There is historical precedent for centrally orchestrated debt restructurings, including the London Debt Agreement of 1953; the Brady Plan in 1989-1994; and the HIPC initiative in 1996 (Guinnane 2015; Kaiser 2013; Kose, Nagle et al. 2020; Reinhart and Trebesch 2016). The Group of Twenty Common Framework that was reached in November 2020 is a step beyond the DSSI (G20 2020). The objective of the framework is to facilitate timely and orderly debt treatment for DSSI-eligible countries, and encourage broad creditor participation, including the private sector.

International financial institutions can also use lending conditionality to incentivize sovereign debtors and their creditors to aim for more ambitious restructurings (IMF 2020e). The IMF's "lending into arrears" (LIA) program, which had its origins in the Brady Plan in 1989, is one such lever (Truman 2020).[f] The LIA is conditional on a member "pursuing appropriate policies and making a "good faith effort" to reach a collaborative agreement with its private creditors," which incentivizes the debtor to reach an agreement (IMF 2013). At the same time, the program neutralizes the possibility that private sector creditors could use the IMF's "no arrears" rule as negotiating leverage over debtors (Buchheit and Lastra 2007). In addition, financial centers that adjudicate disputes related to debt restructuring could level the playing field, which is currently tilted in favor of creditors (Stiglitz and Rashid 2020).

Longer term, measures are needed to strengthen the transparency of borrowing processes, borrowing amounts and terms, and spending of borrowed funds. Improved debt transparency is associated with lower borrowing costs and improves debt management practices (Kubota and Zeufack 2020). Several countries have made progress in this regard, including increased access to data on SOE debt and collateralized loans (World Bank 2020g). However, further progress is needed, especially in the context of transparency of debt contracts. Creditors can help by refraining from confidentiality clauses, allowing borrowers to publish detailed information, and themselves disseminating data on their lending. Beyond debt transparency, reforms to make debt management more effective can be complemented by other reforms that develop the institutional capacity and good governance to identify and monitor risks as well as conduct strategic planning. For the private sector, robust corporate governance can help ensure that private debt is well-spent in support of productivity-driven growth. Measures to improve and strengthen insolvency frameworks will also be critical amid rising rates of bankruptcies.

[e] Shallow agreements that avoid face value reductions can usher in, or extend, a protracted series of modest restructurings that last for many years until a more permanent resolution is found (Kose et al. 2020).

[f] "Lending into arrears" describes the situation where the IMF extends financial assistance to a member country that is in arrears to private creditors. Ordinarily, the IMF does not lend to countries in arrears.

Fernandez-Villaverde and Jones 2020). Robust retail sales powered a rebound in the third quarter of last year, but the recovery stalled following a resurgence of COVID-19 infections (figure 1.7.C).

Rapidly diminished momentum points to a slow and challenging recovery ahead, as was the case following the global financial crisis (figure 1.7.D). Subdued demand and heightened economic uncertainty, combined with disruptions to schooling and employment, are weighing heavily on labor productivity.

Following a 5.4 percent contraction in aggregate advanced economy GDP last year—with output declines in virtually all economies—activity is forecast to expand 3.3 percent this year, in tandem with improved management of the pandemic and ongoing vaccination. Growth is then expected to edge further up to 3.5 percent in 2022, supported by widespread inoculation. Despite this recovery, the level of output by the end of the forecast horizon will remain 3.2 percent below pre-pandemic projections. This outlook is predicated on continued monetary and fiscal support.

## United States

The fall in U.S. activity 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 recession (figure 1.8.A). For 2020 as a whole, U.S. output is estimated to have fallen by