

Global Economic Prospects
February 2021

M. Ayhan Kose and Naotaka Sugawara



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Global Economic Prospects – January 2021

- Global Outlook
- Regional Outlooks
- How has the Pandemic Made the Fourth Wave of Debt More Dangerous?
- Global Economy: Heading into a Decade of Disappointments?
- Asset Purchase Programs in Emerging Markets: Unconventional Policies, Unconventional Times

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Four Questions

- 1 **What are near-term growth prospects?** *Global recovery is underway, but its strength is uncertain. Risks tilted to the downside.*
- 2 **How has COVID-19 increased debt-related risks?** *Sharp increase in debt and low growth eroding debt service capacity; new risks to policy frameworks.*
- 3 **How has COVID-19 worsened growth prospects for the 2020s?** *More pronounced potential growth slowdown over the 2020s; another decade of repeated growth disappointments likely.*
- 4 **What are policy priorities?** *Addressing the health crisis; providing relief for vulnerable populations; easing debt burdens; undertaking reforms to rekindle robust, sustainable and equitable growth; enhancing global cooperation to tackle global challenges, including climate change, trade and finance.*

³ * **EMDEs = Emerging Market and Developing Economies**



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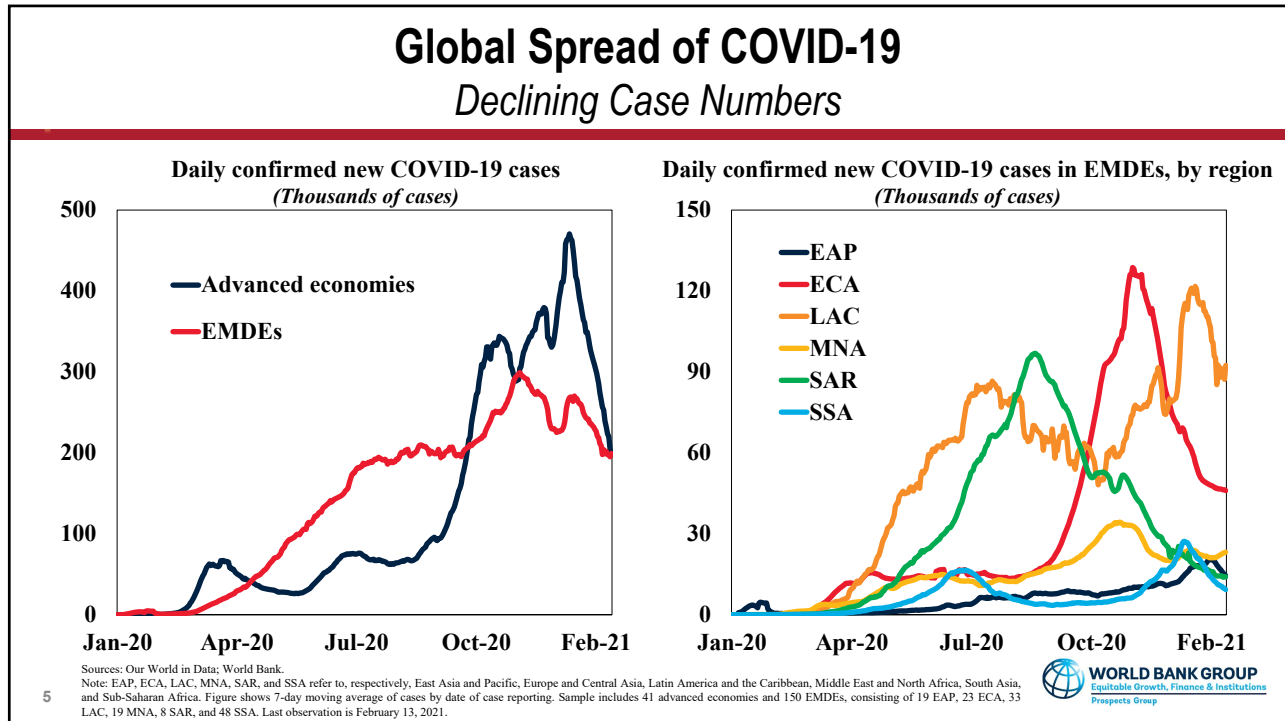
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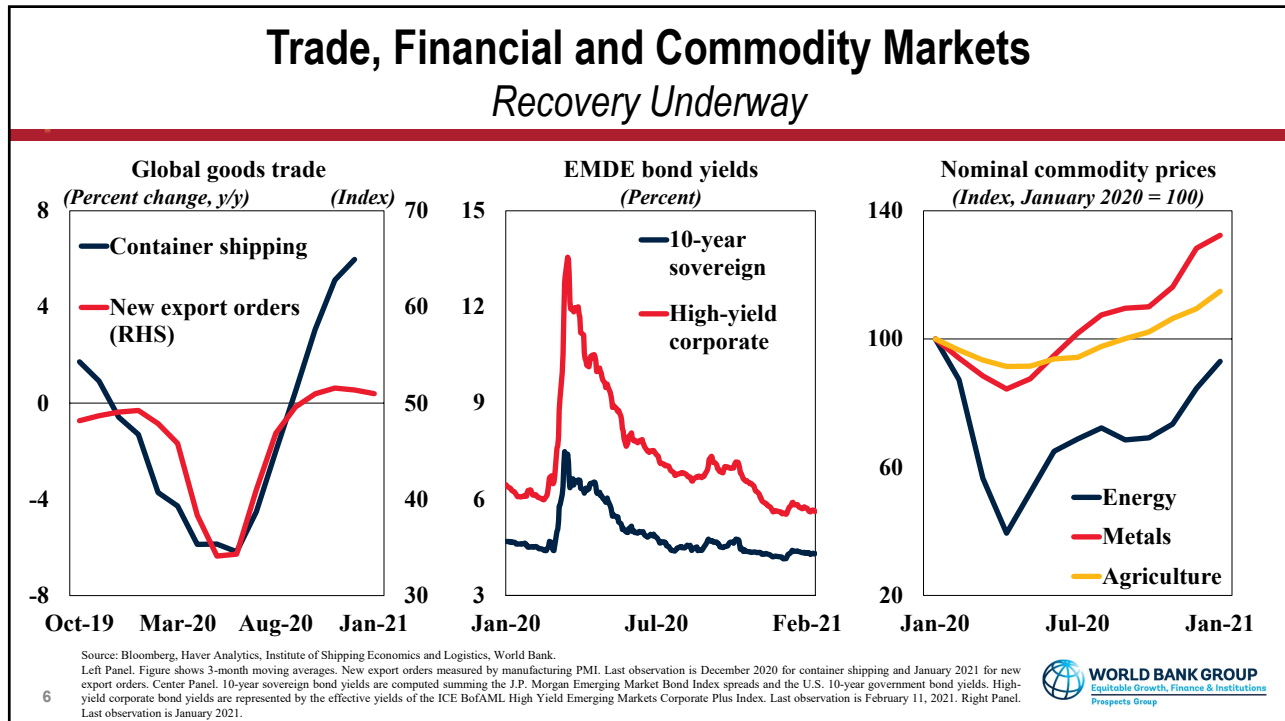
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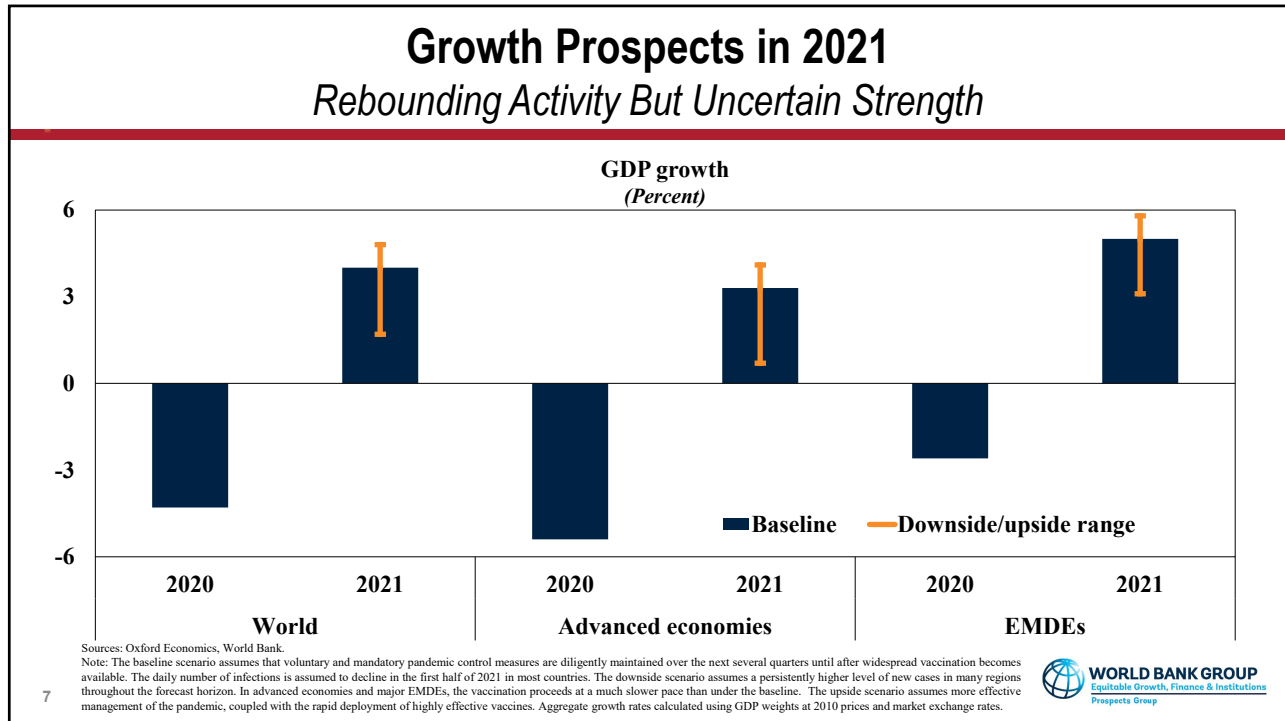
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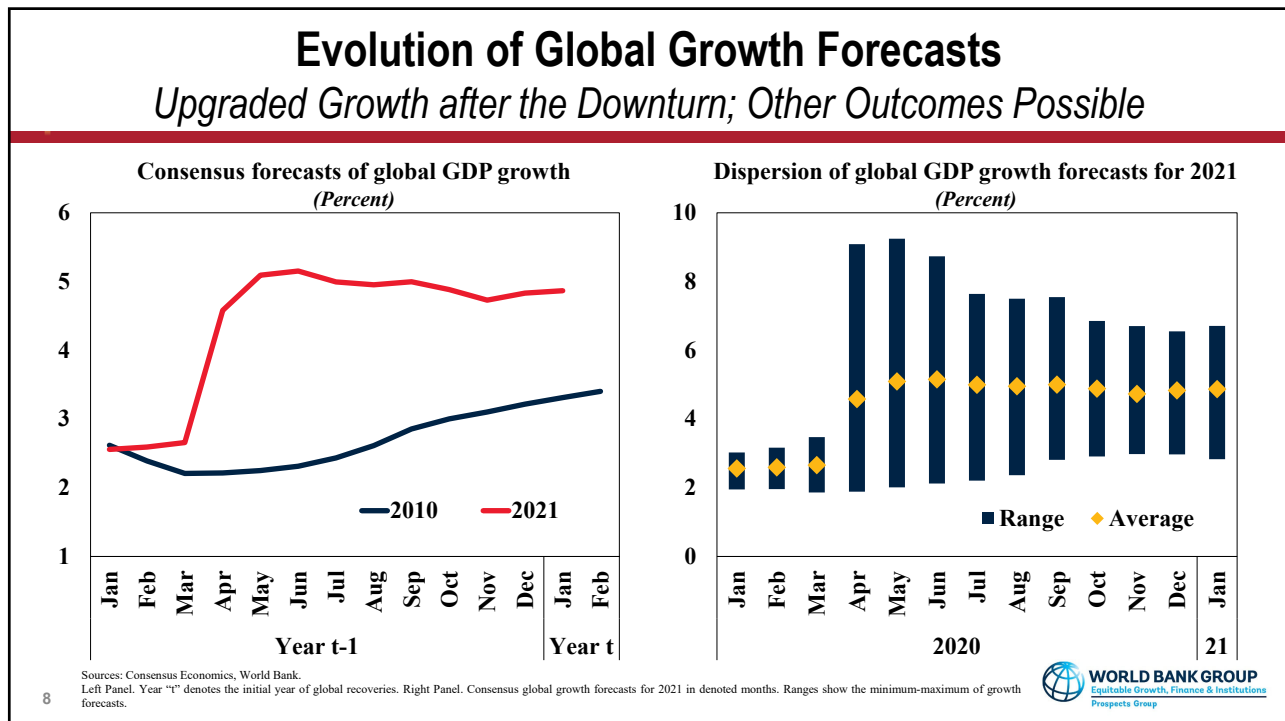
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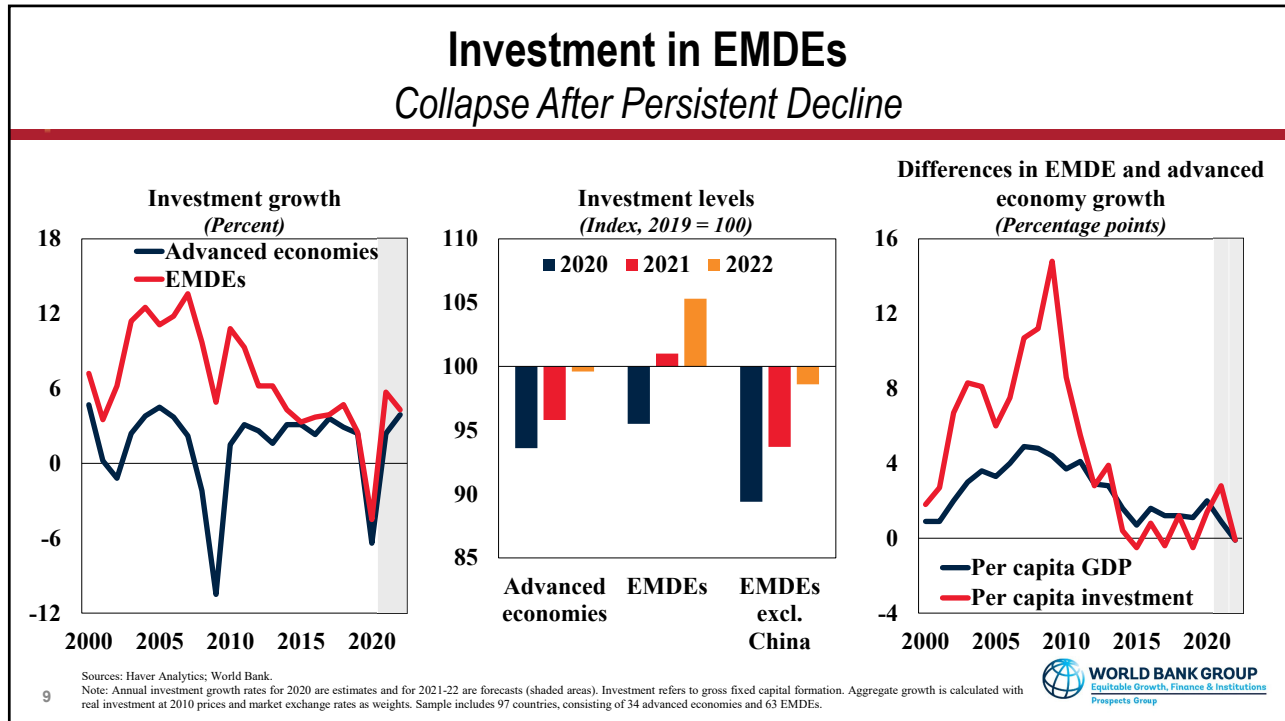
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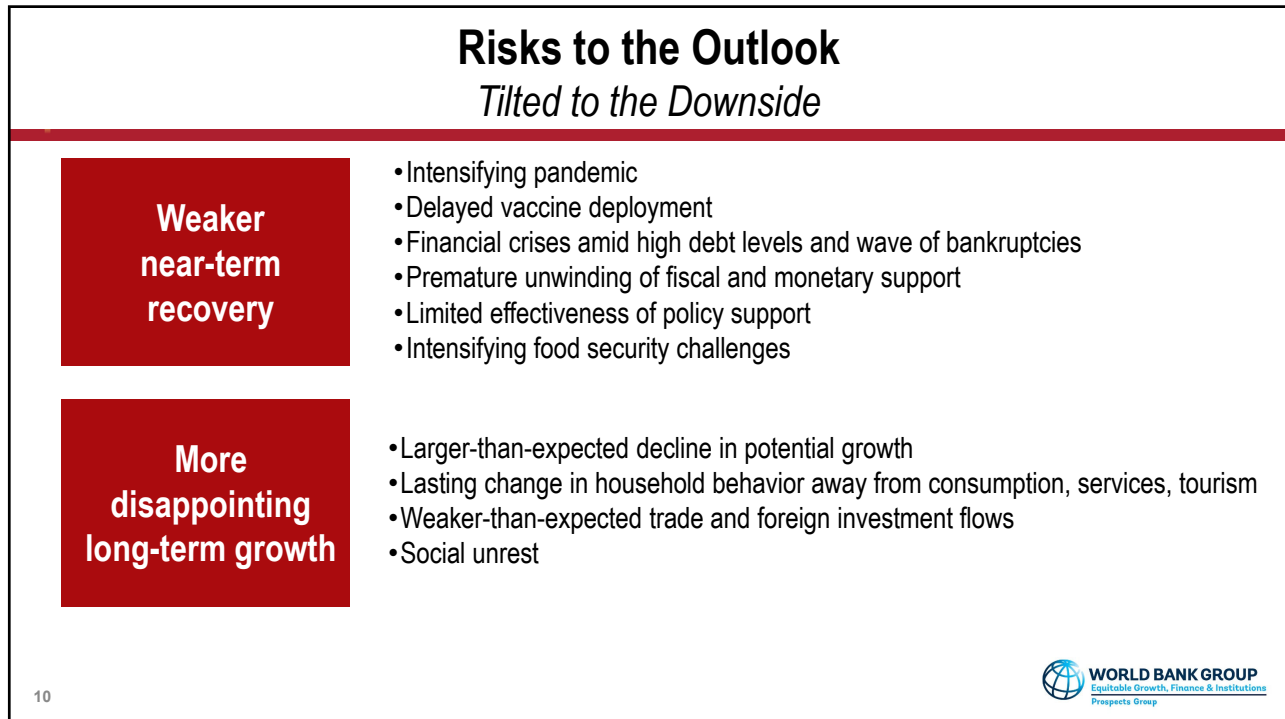
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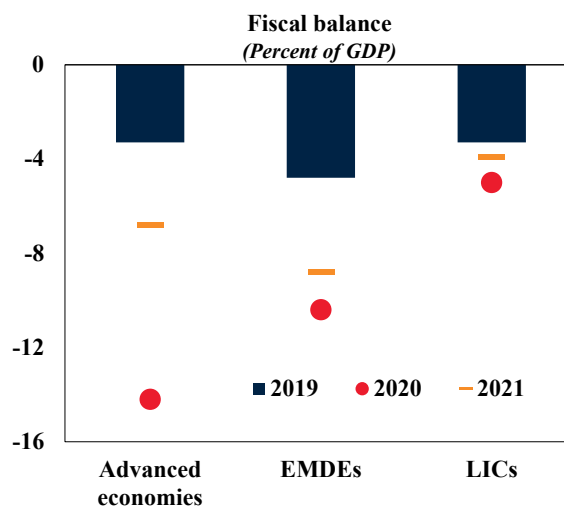
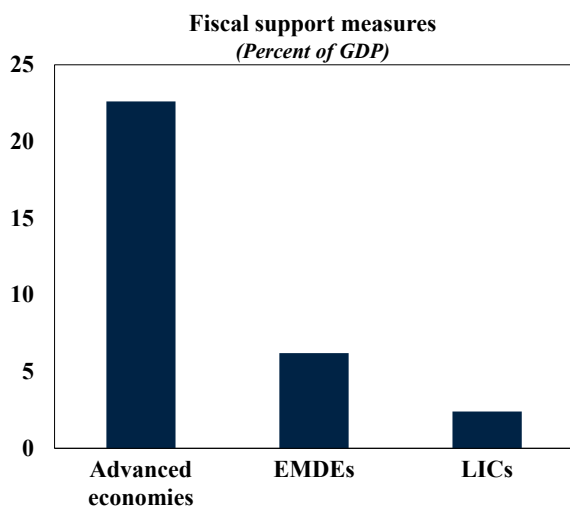
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Fiscal Support Measures Sizeable Accommodation; Large Deficits

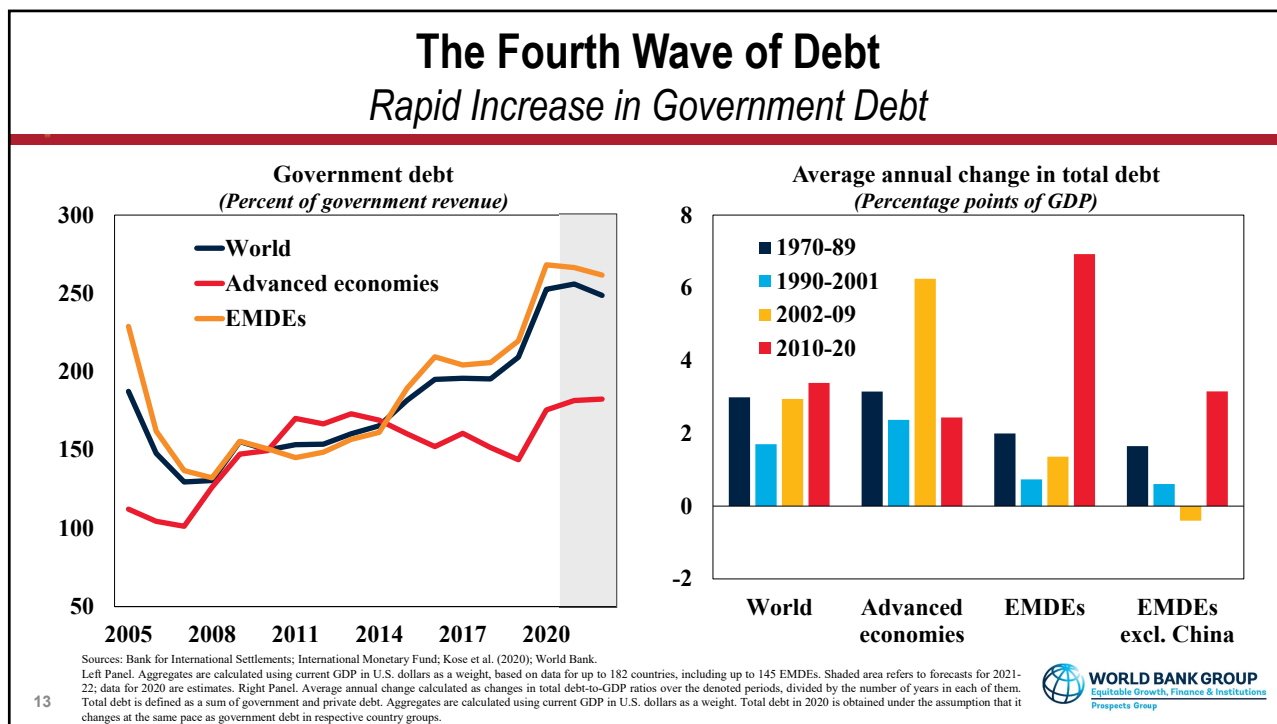


Sources: International Monetary Fund; Kose et al. (2020); World Bank.
 Left Panel. Fiscal stimulus measures are derived from the October 2020 IMF Fiscal Monitor database and include measures planned or under consideration. Aggregates are the GDP-weighted average of the total fiscal package, including discretionary revenue and expenditure measures, contingent liabilities, equity injections, and the Next Generation EU funds. Sample includes 35 advanced economies, 139 EMDEs, and 23 LICs. Right Panel. Aggregates computed with current GDP in U.S. dollars as weights.

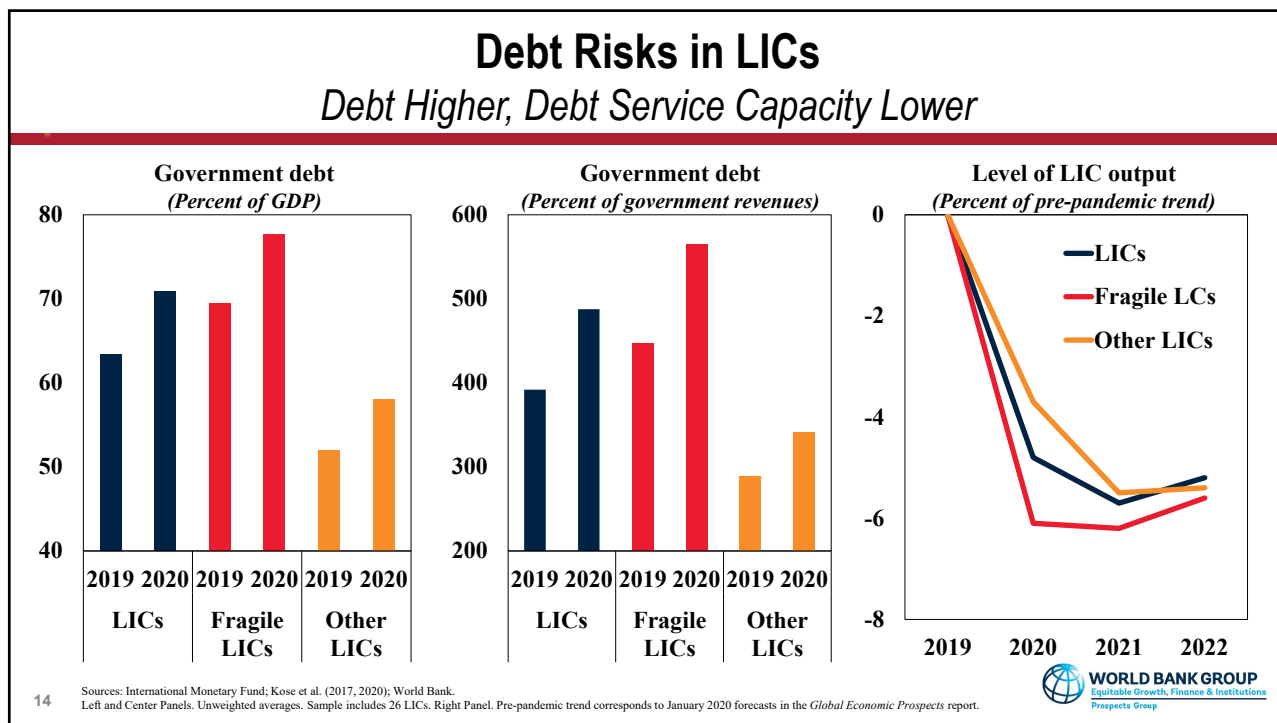


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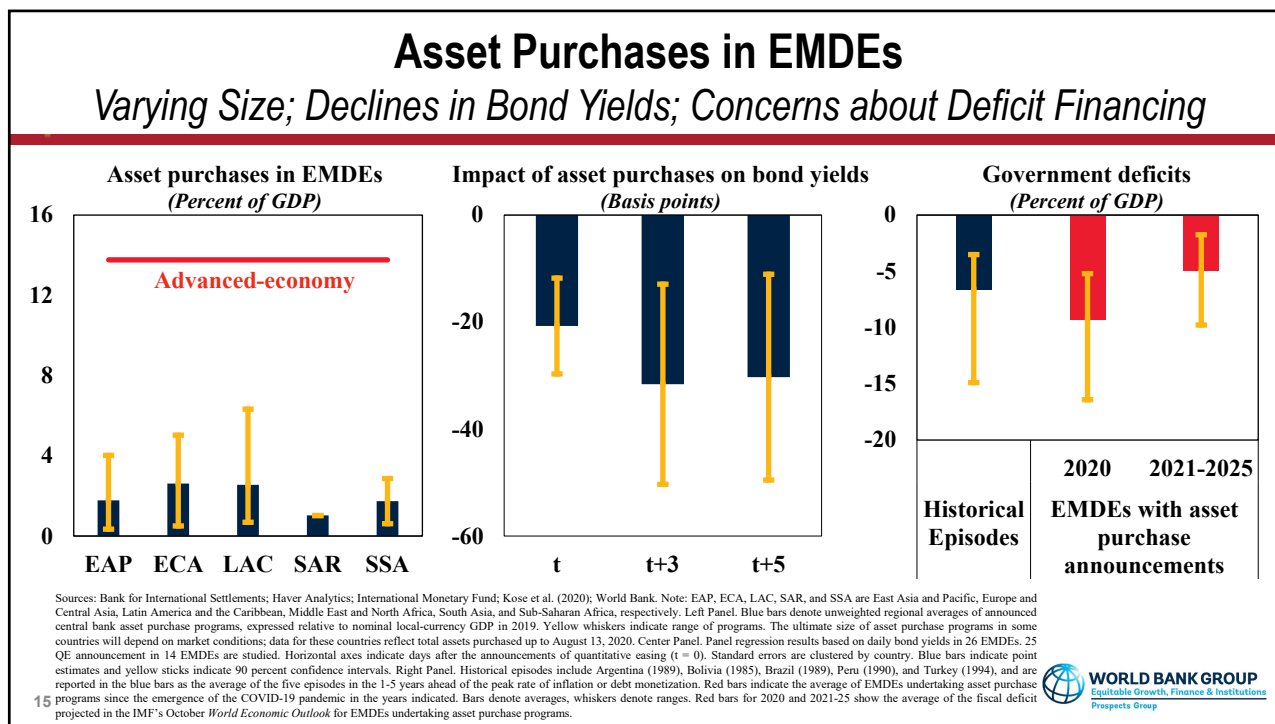
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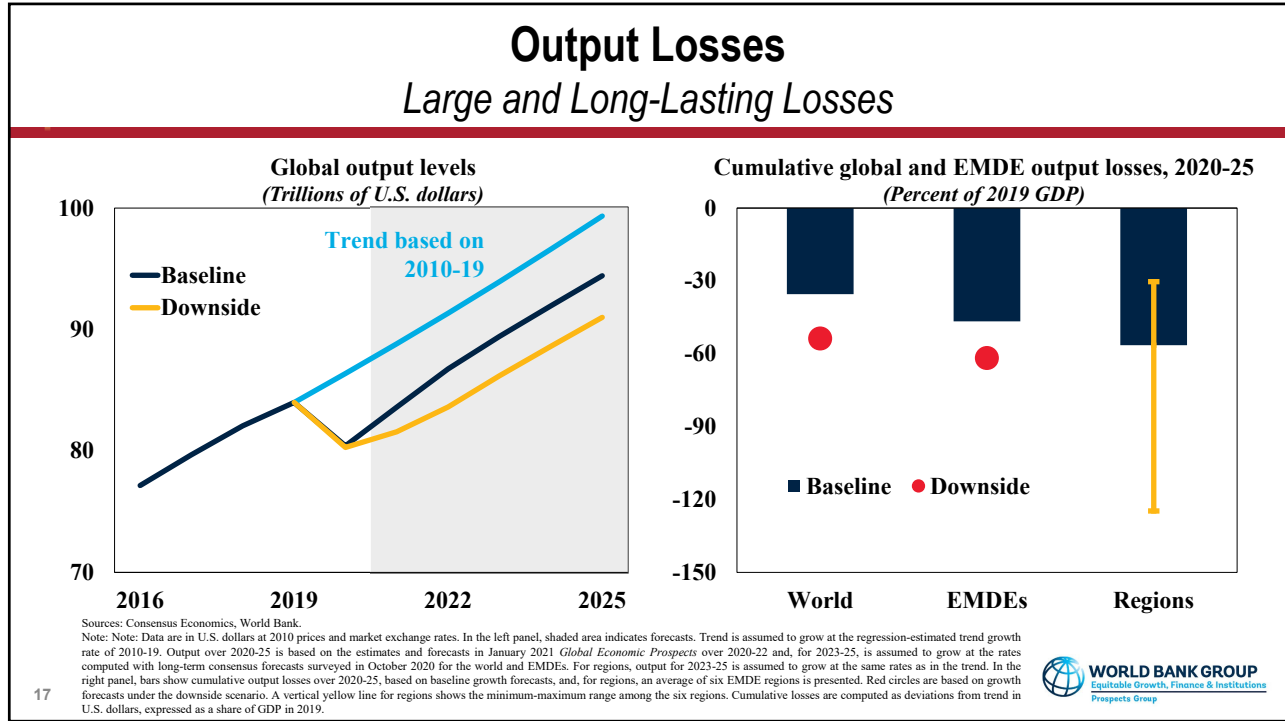
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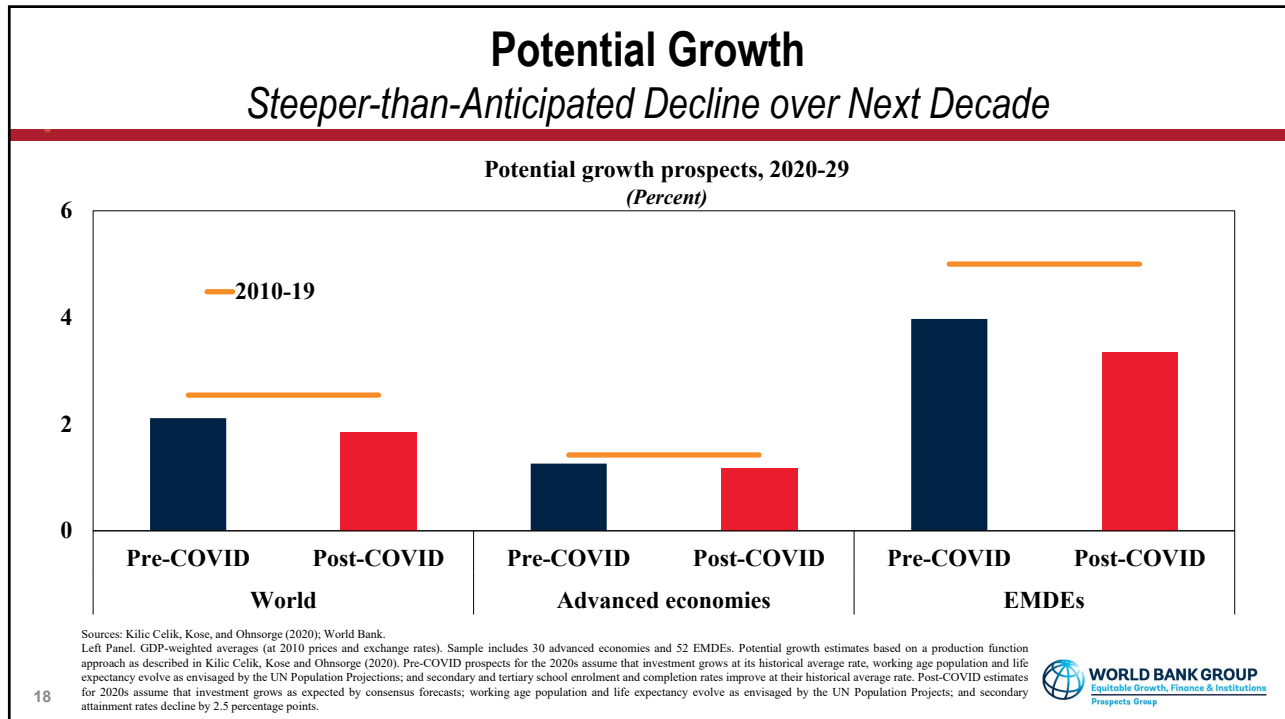
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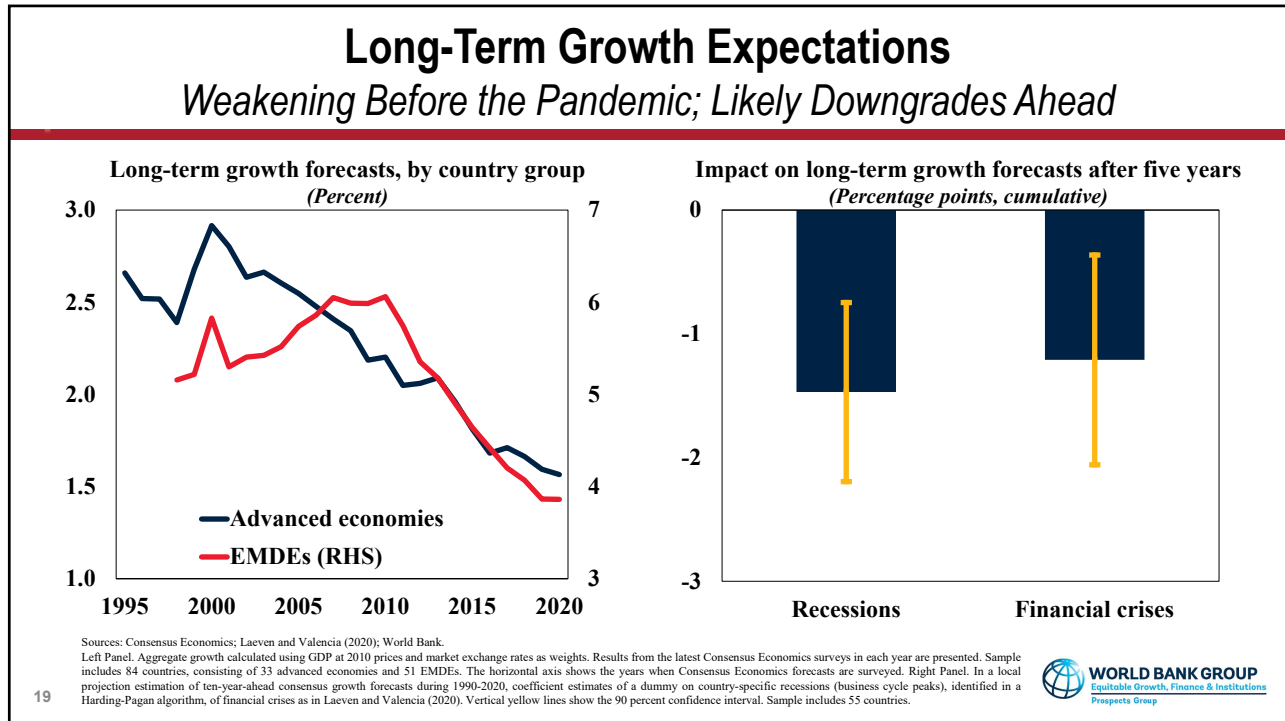
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4 **What are policy priorities?** *Addressing the health crisis; providing relief for vulnerable populations; easing debt burdens; undertaking reforms to rekindle robust, sustainable and equitable growth; enhancing global cooperation to tackle global challenges, including climate change, trade and finance.*

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Policy Priorities

Policies for Relief, Restructuring and Resilience

Saving lives threatened by the pandemic

- Support health care systems
- Accelerate vaccine deployment through global coordination

Protecting the poor and vulnerable

- Strengthen social safety nets
- Provide coordinated debt relief to poorest EMDEs

Policies

Maintaining foundations of the economy

- Assist viable firms
- Improve insolvency frameworks for speedy bankruptcy resolution
- Support aggregate demand
- Preserve financial stability

Strengthening policies and institutions

- Enhance digital infrastructure
- Invest in climate resilience
- Improve education to reverse losses during the pandemic
- Coordinate policies globally to address global challenges, including climate change, trade and finance

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Reforms to Build Back Better

Higher Investment, Better Long-Term Growth Prospects

EMDE potential growth (Percent)

Period	Baseline (Percent)	Reforms (Percent)
2010-19	~5.0	0.0
2020-29	~3.5	~0.8

Long-term growth forecasts after reforms (Percentage points)

Category	Coefficient (Percentage points)
Advances	~0.8
Setbacks	~-0.7

Sources: Consensus Economics; ICRG; Kilic Celik, Kose, and Ohnsorge (2020); World Bank.
 Left Panel. GDP-weighted average (at 2010 prices and exchange rates) for 52 EMDEs. Potential growth estimates based on a production function approach as described in Kilic Celik, Kose, and Ohnsorge (2020). Estimates for 2020s assume that investment grows as expected by consensus forecasts; working-age population and life expectancy evolve as envisaged by the UN Population Projects; and secondary attainment rates decline by 2.5 percentage points. Policy improvements scenario assumes that each country matches its own highest ten-year average investment growth and ten-year improvements in school enrolment and completion rate. Right Panel. Cumulative response of long-term growth forecasts after five years. Coefficient estimates of a local projection estimation on reform advances and setbacks are defined as years in which the average of four indicators by ICRG increases and decreases, and such changes are not unwound for at least three years. Sample includes 57 countries during 1990-2020.

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Select Publications by Prospects Group

- [Global Economic Prospects](#) – **January 2021**
(January and June)
- [Commodity Markets Outlook](#) – **April 2021**
(April and October)
- [Global Monthly](#)
- [Global Productivity](#) – **July 2020**
- [Global Waves of Debt](#) – **December 2019**
- [A Decade After the Global Recession](#) – **November 2019**



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Questions & Comments
Thanks!

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