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## GLOBAL ECONOMIC PROSPECTS

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### Introduction

The report focuses on the world economy's collapse and recovery following the COVID-19-induced recession. The economy is witnessing a strong but uneven recovery leaving behind poor countries and vulnerable groups, with vaccination access being one of the key determinants. Policymakers will need to balance recovery with price and financial stabilization.



### Global Outlook

- The global economy shrank by 3% in 2020. It is expected to grow by 5.6 percent in 2021 but will remain 2% below the pre-pandemic projections by 2022.
- The recovery is highly uneven with the USA and China contributing a quarter of the global growth. About 90% of the advanced economies will regain pre-pandemic levels of per capita income while two-third of the emerging markets and developing economies (EMDEs) would not be able to fully unwind. Due to travel limitations, recovery will be even more difficult for low-income tourism-dependent economies.
- Advanced economies are recovering with considerable fiscal support and vaccination progress which helps limit the spread of COVID. EMDEs, on the other hand, are lagging behind due to a lack of strong macroeconomic support. New waves and variants are emerging with increased caseloads but limited vaccination coverage. About 100 million people would fall back in extreme poverty by the end of this year in EMDEs.
- The global recovery still faces the risk of the emergence of strong covid waves and financial distress due to already rising global debt levels.

### Regional outlook

- Advanced economies are swiftly rebounding, but recovery in all EMDEs is expected to be insufficient to reverse the pandemic's damages.
- South Asia is benefiting from rising commodity prices, but the recovery is being stalled by an upsurge in caseloads and a lack of vaccine coverage. Poverty is on the rise and by the end of 2021, more than half of the global poor will reside in South Asia.
- In East Asia and the Pacific, two-third of the countries will remain below pre-pandemic growth levels while China is recovering strongly.
- In the Middle East, North Africa, and Latin America the pace is less than the magnitude of contraction in 2020. While Sub-Saharan Africa will make little progress in reversing the increase in extreme poverty.

### Trade

- Global trade collapsed by 16% in 2020. Costs are soaring high owing to large shipping and logistics costs, and complex trade procedures. They are one-half higher in EMDEs due to challenging customs and poor logistics, than advanced economies which have easier border processes and better connectivity. Trade costs are roughly equivalent to 100% tariff which result in doubling the price of international goods over similar domestic goods.

- Lowering the costs can boost growth and can create a conducive business environment. Costs can be receded through reforms like streamlining trade processes and clearance requirements, digitalization, regionalization of the supply chains, diversification of suppliers and production sites, lower tariffs and trade barriers etc.

## **Inflation**

Global inflation is expected to rise this year but will remain within target ranges for advanced economies and a half of EMDEs. However, for the rest of the EMDEs, it may exceed target ranges. LICs are likely to experience rising aggregated and food price inflation threatening to exacerbate poverty and food insecurity. Further rise in global agricultural prices can add to the inflationary pressures. Protectionist measures and price subsidies would put more fiscal strain on already-debt-ridden countries.

## **Policy Response**

- International assistance can be provided for equitable vaccine access with a special focus on LICs in order to address the unequal recovery. The private sector can be brought in to diversify and improve vaccine production and distribution and avoid the protectionist trade policies that safeguard global vaccine supply chains.
- Since advanced economies have for so long implemented fiscal policy which causes inflation, they should target vulnerable populations like low-income families or the unemployed. Due to the heightened risk of insolvency and the limited ability to raise additional capital, banking health should be safeguarded.
- Inequality and poverty are likely to rise in poor and developing nations. They require expansionary monetary policy to recover, but rising inflation may force them to tighten the policy before they achieve full recovery. Reduced food insecurity can be addressed through safety net programmes and targeted social protection measures such as cash and food transfers.

**Read More:** <https://openknowledge.worldbank.org/handle/10986/35647>

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