

World Economic Situation and Prospects as of mid-2020

The COVID-19 pandemic is unleashing a global economic collapse unmatched since the Great Depression

- The world economy is projected to shrink by 3.2 per cent in 2020, and only a modest rebound is expected for 2021.
- GDP in developed countries will shrink by 5.0 per cent in 2020, while developing countries will contract by 0.7 per cent in 2020.
- The projected cumulative output losses during the next two years –\$8.5 trillion – will wipe out nearly all output gains of the previous four years.
- World trade is forecast to contract by nearly 15 per cent in 2020 amid sharply reduced global demand and disruptions in global supply chains.

Lockdown measures are slowing the spread of the virus but taking a heavy toll on jobs and income worldwide

- With nearly 90 per cent of the world economy under some form of lockdown, unemployment rates have soared worldwide with more than 30 million jobs lost in the United States alone.
- The lockdowns have hit jobs in transportation, travel, retail and hospitality sector jobs the hardest, as these jobs typically require close physical proximity with clients and fellow workers.
- The drastic drop in international tourism and travel has put many small- and medium-sized enterprises – making up 80 per cent of the global tourism sector – at high risk, rendering millions jobless in many tourism-dependent economies.

The pandemic is worsening poverty and inequality

- Sweeping lockdown measures – disproportionately hurting low-skilled, low-wage jobs, while leaving higher-skilled jobs less affected – will likely contribute to worsening income inequality within and between countries.
- The massive losses of employment and income will push an additional 34.3 million additional people into extreme poverty in 2020, with African countries accounting for 56 per cent of the increase.
- In the worst-case scenario, the number of people living in extreme poverty could increase by more than 160 million by 2030.
- Further increases in poverty and inequality will undermine social cohesion and breed more discontent and instability around the world.

Fiscal measures worldwide are yet to prevent the freefall of the world economy

- Developed countries have rolled out large fiscal packages – often exceeding 10 per cent of their GDP – to minimize the economic fallout of the pandemic.
- Many developing countries – saddled with chronic fiscal deficits and high levels of public debt – are facing significant constraints in implementing sufficiently large fiscal stimulus.
- Sharp declines in external flows from export and tourism revenues, remittances and new borrowing have heightened debt distress for many developing countries, increasing the likelihood of a debt crisis.
- Stimulus measures are helping to protect income and wealth and prevent bankruptcies, but are unlikely to revive aggregate demand until the public health situation is stabilized and restrictions to economic activity are lifted.

Liquidity is necessary but not sufficient for boosting credit flows and productive investments

- Fiscal and monetary measures in developed economies have had unintended spillover effects on developing economies, triggering capital outflows, increasing sovereign bond yields and tightening credit conditions.
- Stimulus measures – injecting trillions of dollars of additional liquidity into the financial system – may stabilize and boost asset prices, but they will not necessarily boost investments in productive capacities.
- Governments that provide loans and grants to businesses will need to require them to make productive investments not only to withstand the current shock but also to create decent jobs and recover better.

A new normal may emerge as governments grapple with difficult choices

- Some governments are beginning to cautiously lift restrictions with a view to saving jobs and jumpstarting their economies.
- Absent breakthroughs in treatment and vaccine development, the possibility of a prolonged economic slump and slow recovery loom large.
- People will likely adapt to a new normal of prolonged social-distancing, fundamentally reshaping production and consumption patterns.
- Social distancing – if it remains in place – will likely accelerate automation of the production and delivery of goods and services and digitalization of economic, social and cultural interactions, with far-reaching implications for jobs and income inequality.

The COVID-19 pandemic is shaking the fundamental premise of globalization

- Trade, economic and financial integration – the tenets of globalization – have enabled the economic effects of local containment measures to quickly spill over to other countries.
- Globalization faces a critical credibility test, as many countries have restricted exports of essential goods, medical supplies and equipment at a time when countries desperately need them to fight the pandemic and save lives.
- Countries will likely retreat from globalization if global integration is perceived as only endangering public health and spreading economic risks but is not helping them to withstand an unexpected shock. This will undermine both the immediate crisis response and the longer-term sustainable development.

Stronger international cooperation an imperative

- Stronger global cooperation remains critical to contain the pandemic and extend economic and financial assistance to countries hardest hit by the crisis.
- In addition to a moratorium on debt servicing and debt reliefs, many developing countries – particularly commodity- and tourism- dependent economies – will need enhanced access to multilateral credit to meet shortfalls in external flows, stimulate growth and recover better.
- The UN has called for a three-phase approach to address debt vulnerabilities: freezing debt service for developing countries in need; considering SDG-compatible options for debt sustainability; and reforming the international debt architecture.
- The UN system can play a crucial role in identifying, steering and facilitating access to multilateral financing, ensuring resources are used to address both the pandemic in the short-term and foster sustainable development in the long-term.

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### ***About the World Economic Situation and Prospects as of mid-2020***

*The report is a mid-year update of the World Economic Situation and Prospects 2020 (United Nations publication, Sales No. E.20.II.C.1), released in January 2020.*

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