World Economic Outlook

A long and difficult ascent

IMF October 2020

Global Growth Outlook and Risks

- ***Near-term outlook***. Global growth is projected at **−4.4 percent in 2020**. This 0.8 percentage point above the June 2020 WEO Update forecast. The revision reflects better-than anticipated second quarter GDP outturns, mostly in advanced economies, where activity began to improve sooner than expected. This reflects the net effect of two competing factors: the upward momentum from better-than-anticipated second quarter GDP outturns versus the downdraft from persistent social distancing and stalled re-openings in the second half of the year.

- **Global growth** is projected at **5.2 percent in 2021**, a little lower than in the June 2020 WEO Update, consistent with expectations of persistent social distancing. Following the contraction in 2020 and recovery in 2021, the level of global GDP in 2021 is expected to be a modest 0.6 percent above that of 2019. The growth projections imply wide negative output gaps and elevated unemployment rates this year and in 2021 across both advanced and emerging market economies.

- **Emerging economies** will lead global growth next year. They are likely to contract 3.3% this year, a 0.2% downgrade from what the fund had projected in June, but this will be followed by 6% growth in 2021. This is above 2021 global growth forecasts and markedly higher than the 3.9% growth the fund is projecting for advanced economies. The hit to tourism, remittances and foreign debt hangs a dark cloud over emerging markets, the prospects for which "remain precarious," the report said.

- ***Medium-term outlook***. After the rebound in 2021, global growth is expected to gradually slow to about **3.5 percent into the medium term**. This implies only limited progress toward catching up to the path of economic activity for 2020–25 projected before the pandemic for both advanced and emerging market and developing economies. It is also a severe setback to the projected improvement in average living standards across all country groups.

- The pandemic will reverse the progress made since the 1990s in reducing global poverty and will increase inequality. By late September, the number of confirmed infections worldwide exceeded 33 million, with over a million deaths— up from more than 7 million infections and 400,000 deaths at the time of the June 2020 WEO Update. Close to 90 million people are expected to fall below the $1.90 a day income threshold of extreme deprivation this year. School closures pose a significant challenge to set back human capital accumulation severely.

- Outturns would have been much weaker if it weren't for unprecedented fiscal, monetary and regulatory responses that maintained disposable income for households, protected cash flow for firms, and supported credit provision. Collectively these actions have prevented a recurrence of the financial catastrophe of 2008-09.

- Spending measures announced in advanced economies amount to **more than 9 percent of GDP**, with another 11 percent in various forms of liquidity support, including equity injections, asset purchases, loans, and credit guarantees. The response in emerging market and developing economies is smaller but still sizable: about **3.5 percent of GDP** in discretionary budget measures and more than 2 percent in liquidity support.

- ***New policy initiatives have also helped lift sentiment.*** Prominent examples include **the €750 billion European Union pandemic recovery package–fund** (more than half of it grant-based) and a wide range of temporary lifeline policies worldwide. The latter have included cash transfers to affected firms and households; wage subsidies to maintain employment; expanded unemployment insurance coverage; tax deferrals; and regulatory initiatives to ease classification rules and provisioning requirements for banks' nonperforming loans, together with the release of buffers to help absorb losses.

- Central bank actions in advanced economies have involved more diverse, larger scales of asset purchases and relending facilities, supporting credit provision to a wide range of borrowers. The Federal Reserve announced changes in its monetary policy strategy, moving to a flexible average inflation target of 2 percent over time. Emerging market central banks' responses combined interest rate cuts, new relending facilities, and, for the first time in many cases, asset purchases.

- ***Risks***. The uncertainty surrounding the baseline projection is unusually large. The forecast rests on public health and economic factors that are inherently difficult to predict. Another source of uncertainty is the extent of global spillovers from soft demand, weaker tourism, and lower remittances.

- Global trade began recovering in June as lockdowns were eased. China is an important contributor. Its exports recovered from deep declines earlier in the year, supported by an earlier restart of activity and a strong pickup in external demand for medical equipment and for equipment to support the shift to remote working.

- The global economy is climbing out from the depths to which it had plummeted during the Great Lockdown in April. But with the COVID-19 pandemic continuing to spread, many countries have slowed reopening and some are reinstating partial lockdowns to protect susceptible populations.

- ***Labor market***. According to the ILO, the global reduction in work hours in the second quarter of 2020 compared with the fourth quarter of 2019 was equivalent to **the loss of 400 million full-time jobs**, deepening from equivalent 155 million full-time jobs lost in the first quarter. Women in the labor force, particularly those informally employed, have been disproportionately affected by the pandemic: 42 percent of informally employed women work in severely affected sectors of the economy, compared with about 32 percent of men in informal employment.

- ***Inflation.*** While prices of medical supplies increased and commodity prices lifted from their April trough, the effects of weak aggregate demand appear to have outweighed the impact of supply interruptions. In sequential terms, inflation in advanced economies remains below pre-pandemic levels. In emerging market and developing economies inflation declined sharply in the initial stages of the pandemic, although it has since picked up in some countries (India, for example, reflecting supply disruptions and a rise in food prices).

- Price pressures could increase due to the release of pent-up demand as consumers might increase spending on items that they had been forced to delay consuming because of lockdowns. They could also increase due to higher production costs from persistent supply disruptions. The credibility of monetary policy frameworks can also affect price developments. Credibility can suffer where central banks are regarded as conducting monetary policy to keep government borrowing costs low rather than to ensure price stability ("fiscal dominance"). In those contexts, inflation expectations can increase very quickly once governments begin running large fiscal deficits.

- Counterbalancing such forces are those that will weigh on demand. These include a persistent increase in consumers' precautionary saving prompted by higher perceived risk of joblessness and falling sick; transfers of purchasing power to lenders with lower propensities to spend as borrowers service the high debt incurred during the pandemic; and concerns about the limits of monetary policy's ability to stimulate demand (particularly in advanced economies), which cause inflation expectations to slide and lead to disinflation.

- In line with the subdued outlook for activity, inflation is expected to remain relatively low over the forecast horizon. Inflation in the advanced economy group is projected at 0.8 percent in 2020, rising to 1.6 percent in 2021 as the recovery gains hold, and broadly stabilizing thereafter at 1.9 percent. In the emerging market and developing economy group, inflation is projected at 5 percent this year, declining to 4.7 percent next year, and moderating thereafter to 4 percent over the medium term, below the historical average for the group.

- ***A unique recession***. The downturn triggered by the COVID-19 pandemic has been **very different from past recessions**. In previous downturns, service-oriented sectors have tended to suffer smaller growth declines than manufacturing. In the current crisis, the public health response needed to slow transmission, together with behavioral changes, has meant **that service sectors** reliant on face-to-face interactions—particularly wholesale and retail trade, hospitality, and arts and entertainment—**have seen larger contractions** than manufacturing. The scale of disruption indicates that, without a vaccine and effective therapies to combat the virus, such sectors face a particularly difficult path back to any semblance of normalcy.

- ***Trade Flows***. **Global trade growth is projected to weaken significantly**. Global trade is expected to contract by over 10 percent this year—a pace similar to during the global financial crisis in 2009, despite the contraction in activity being much more pronounced this year. The current recession reflects a particularly sharp contraction in contact-intensive sectors with much smaller trade intensity than manufacturing, which generally contracts sharply in recessions as demand for capital goods and consumer durables plummets. As noted in the 2020 External Sector Report, the expected decline in trade volumes largely reflects weak final demand from consumers and firms in the synchronized global downturn. Trade restrictions (for example on medical supplies) and supply chain disruptions are expected to play limited roles in accounting for the collapse.

- **The baseline projection assumes that social distancing will continue into 2021 but will subsequently fade over time as vaccine coverage expands and therapies improve.**

Overview of the World Economic Outlook Projections

Table 1.1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

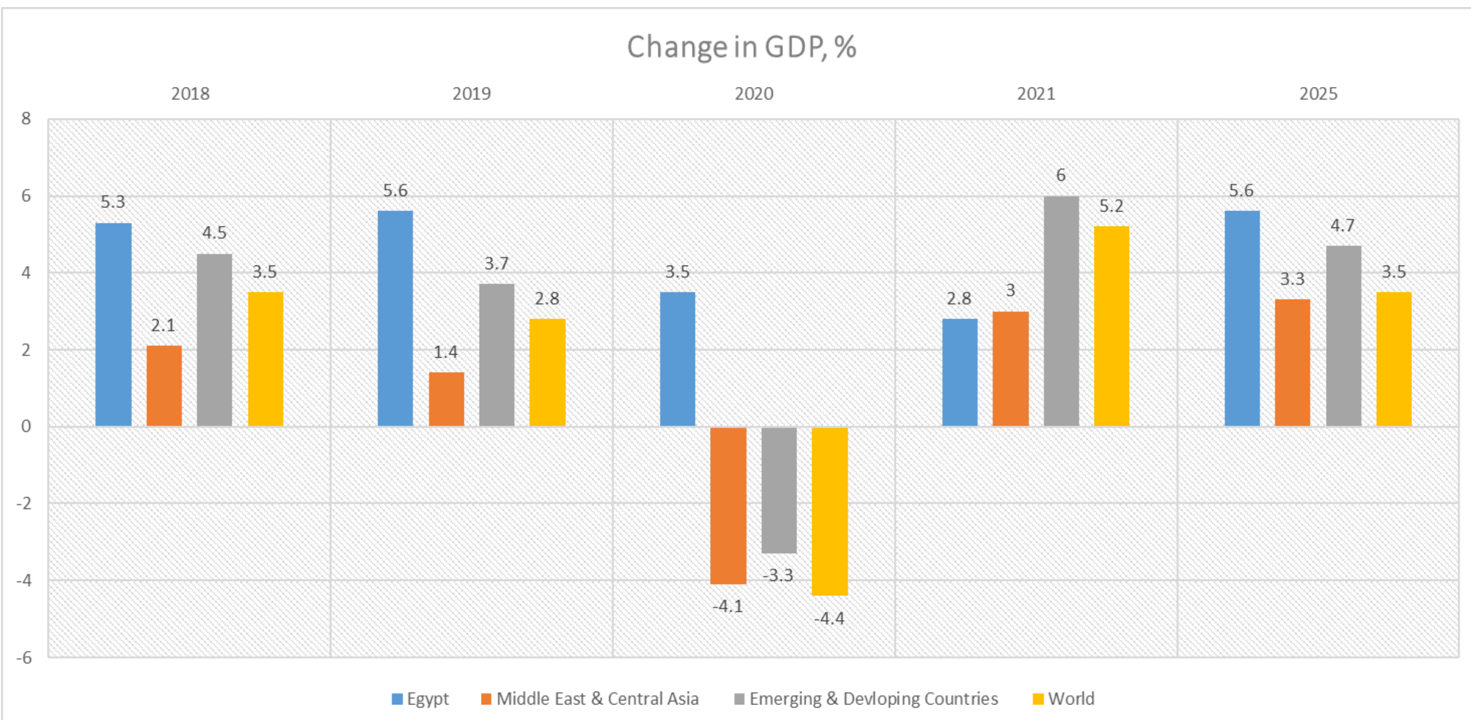
		Projections		Difference from June 2020 WEO *Update*[1]		Difference from April 2020 WEO[1]	
	2019	2020	2021	2020	2021	2020	2021
World Output	**2.8**	**–4.4**	**5.2**	**0.8**	**–0.2**	**–1.1**	**–0.5**
Advanced Economies	**1.7**	**–5.8**	**3.9**	**2.3**	**–0.9**	**0.3**	**–0.6**
United States	2.2	–4.3	3.1	3.7	–1.4	1.6	–1.6
Euro Area	1.3	–8.3	5.2	1.9	–0.8	–0.8	0.5
Germany	0.6	–6.0	4.2	1.8	–1.2	1.0	–1.0
France	1.5	–9.8	6.0	2.7	–1.3	–2.6	1.5
Italy	0.3	–10.6	5.2	2.2	–1.1	–1.5	0.4
Spain	2.0	–12.8	7.2	0.0	0.9	–4.8	2.9
Japan	0.7	–5.3	2.3	0.5	–0.1	–0.1	–0.7
United Kingdom	1.5	–9.8	5.9	0.4	–0.4	–3.3	1.9
Canada	1.7	–7.1	5.2	1.3	0.3	–0.9	1.0
Other Advanced Economies[2]	1.7	–3.8	3.6	1.1	–0.6	0.8	–1.0
Emerging Market and Developing Economies	**3.7**	**–3.3**	**6.0**	**–0.2**	**0.2**	**–2.1**	**–0.5**
Emerging and Developing Asia	5.5	–1.7	8.0	–0.9	0.6	–2.7	–0.5
China	6.1	1.9	8.2	0.9	0.0	0.7	–1.0
India[3]	4.2	–10.3	8.8	–5.8	2.8	–12.2	1.4
ASEAN-5[4]	4.9	–3.4	6.2	–1.4	0.0	–2.8	–1.5
Emerging and Developing Europe	2.1	–4.6	3.9	1.2	–0.3	0.6	–0.3
Russia	1.3	–4.1	2.8	2.5	–1.3	1.4	–0.7
Latin America and the Caribbean	0.0	–8.1	3.6	1.3	–0.1	–2.9	0.2
Brazil	1.1	–5.8	2.8	3.3	–0.8	–0.5	–0.1
Mexico	–0.3	–9.0	3.5	1.5	0.2	–2.4	0.5
Middle East and Central Asia	1.4	–4.1	3.0	0.4	–0.5	–1.3	–1.0
Saudi Arabia	0.3	–5.4	3.1	1.4	0.0	–3.1	0.2
Sub-Saharan Africa	3.2	–3.0	3.1	0.2	–0.3	–1.4	–1.0
Nigeria	2.2	–4.3	1.7	1.1	–0.9	–0.9	–0.7
South Africa	0.2	–8.0	3.0	0.0	–0.5	–2.2	–1.0
Memorandum							
Low-Income Developing Countries	5.3	–1.2	4.9	–0.2	–0.3	–1.6	–0.7
Middle East and North Africa	0.8	–5.0	3.2	0.7	–0.5	–1.8	–1.0
World Growth Based on Market Exchange Rates	2.4	–4.7	4.8	1.4	–0.5	–0.5	–0.6
World Trade Volume (goods and services)	**1.0**	**–10.4**	**8.3**	**1.5**	**0.3**	**0.6**	**–0.1**
Imports							
Advanced Economies	1.7	–11.5	7.3	1.7	0.1	0.0	–0.2
Emerging Market and Developing Economies	–0.6	–9.4	11.0	0.0	1.6	–1.2	1.9
Exports							
Advanced Economies	1.3	–11.6	7.0	2.0	–0.2	1.2	–0.4
Emerging Market and Developing Economies	0.9	–7.7	9.5	1.6	0.2	1.9	–1.5
Commodity Prices (US dollars)							
Oil[5]	–10.2	–32.1	12.0	9.0	8.2	9.9	5.7
Nonfuel (average based on world commodity import weights)	0.8	5.6	5.1	5.4	4.3	6.7	5.7
Consumer Prices							
Advanced Economies	1.4	0.8	1.6	0.5	0.5	0.3	0.1
Emerging Market and Developing Economies[6]	5.1	5.0	4.7	0.5	0.1	0.3	0.2
London Interbank Offered Rate (percent)							
On US Dollar Deposits (six month)	2.3	0.7	0.4	–0.2	–0.2	0.0	–0.2
On Euro Deposits (three month)	–0.4	–0.4	–0.5	0.0	–0.1	0.0	–0.1
On Japanese Yen Deposits (six month)	0.0	0.0	0.0	0.0	0.1	0.1	0.1

Source: IMF staff estimates.

Egypt’s Key Economic Indicators:

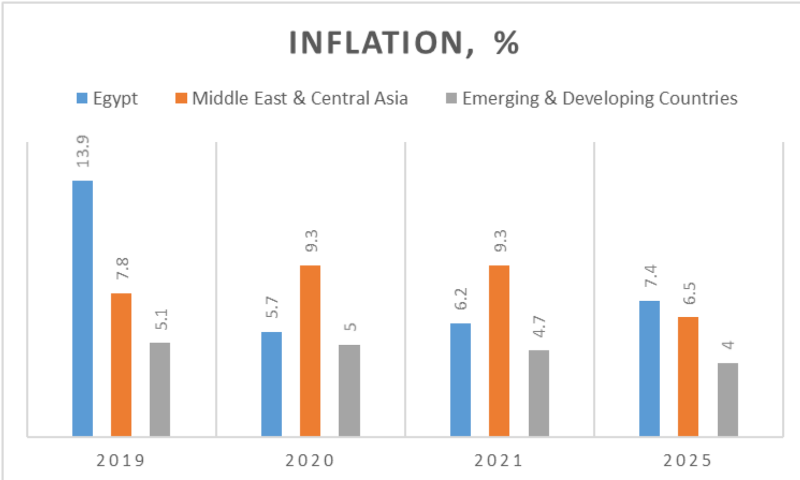
1. GDP

- The IMF **upgraded its growth forecast for Egypt to 3.5% in 2020**, from 2% in its previous forecast in June.
- The growth forecast for 2021 was kept unchanged **at 2.8%,** yet rising **to 5.8%** by 2025.
- Egypt is one of just three Middle East and Central Asia economies that will not contract this year.
- The graph below compares Egypt to the regional, developing markets, and global average, from 2018-2025.



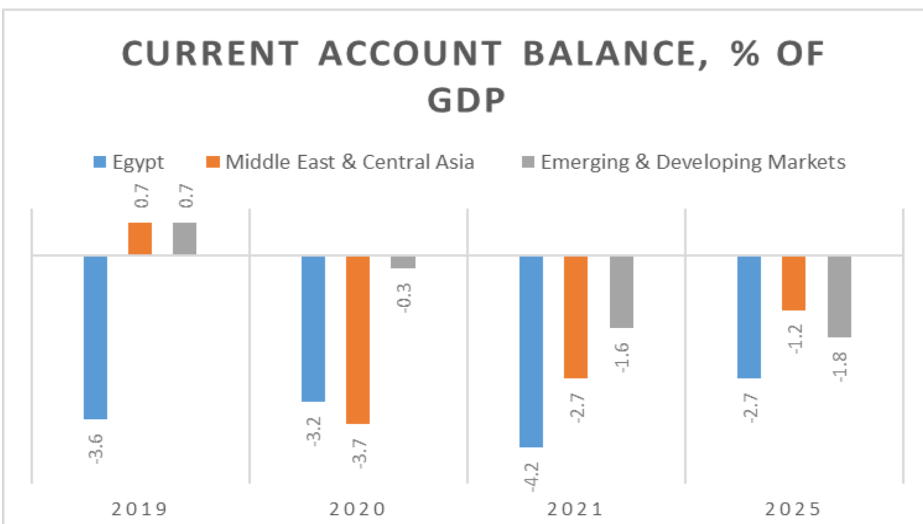
2- Consumer Prices, annual change in percentage:

- Inflation in Egypt is expected to surge to 6.2% in 2021, and then to 7.4% in 2025.
- This is indicative of an anticipated boom in domestic demand, driving up prices of key components of the consumer basket.



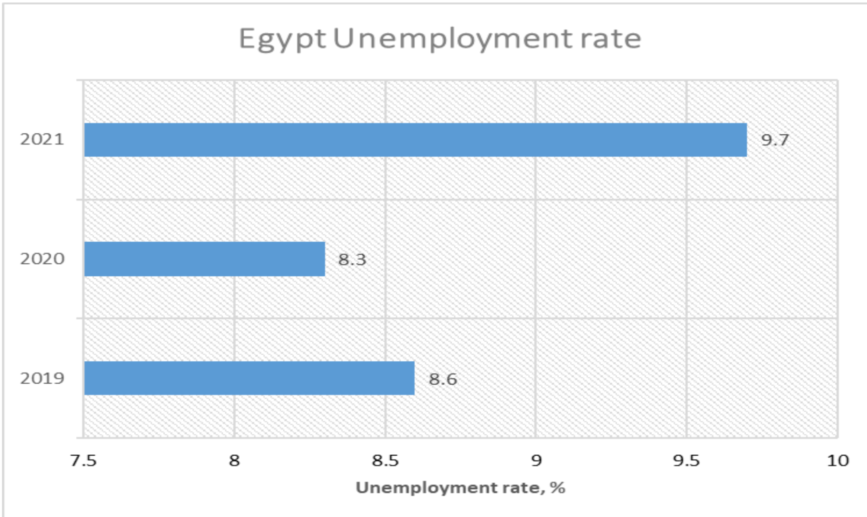
3- **<u>Current Account Balance, % of GDP:</u>**

- IMF forecasts the current account deficit to widen to 4.2% of GDP, triggered by the decrease in flows from tourism, FDI, and remittances, and exports.
- IMF also lists Egypt alongside Pakistan, Bangladesh, and the Philippines among several countries that are vulnerable to a decline in remittances flow.



4- **<u>Unemployment Rate:</u>**

- The unemployment rate is expected to reach 8.3% in 2020, yet increase to 9.7% in 2021 due to the COVID-induced business closures and financial distress.



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