

The global economy is expected to shrink by 3% this year

The Economist, The global economy is expected to shrink by 3% this year

Source: https://www.economist.com/graphic-detail/2020/04/14/the-global-economy-is-expected-to-shrink-by-3-this-year?fsrc=scn/fb/te/bl/ed/dailycharttheglobaleconomyisexpectedtoshrinkby3thisyeargraphicdetail&fbclid=IwAR2n4pmBRI5y-gkceaY8npXdzU_P9SwKcu29g6xwKfCHm9Agyc49xOzHZf4

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Poor countries are especially ill equipped to deal with the sharp contraction



BACK IN JANUARY the International Monetary Fund (IMF) was predicting that the global economy would grow at a “sluggish” pace of 3.3% in 2020. How rosy that now seems. In its latest World Economic Outlook (a twice-yearly report) published on April 14th, the IMF forecasts that output will shrink by 3% this year as a result of the covid-19 pandemic. If the fund is anywhere near the mark, this would be the first decline since 2009.

The downturn this time will be much deeper. In 2009, during the global financial crisis, world GDP fell by only -0.1%, as emerging economies continued to expand. This time the IMF reckons that a large share of countries—accounting for about 70% of global GDP in purchasing-power-parity terms—will fall into recession. Output in advanced economies is expected to shrink by 6.1% in 2020; in poorer countries it is forecast to fall by 1%.

Growth will bounce back once the pandemic passes: the fund expects rich countries to grow by 4.5%, and poorer ones by 6.6%, in 2021. But this could still prove optimistic. The fund warns that the fate of the world economy depends on a long list of unpredictable factors, including the pathway of the pandemic and the intensity of containment efforts. Disruption to supply chains could linger, say if firms making intermediate goods are forced to close permanently. Or tighter financial conditions could impede access to credit. Consumers, meanwhile, might avoid shopping malls long after the threat has passed.

To mitigate the damage, rich countries around the world have enacted huge stimulus packages. Poorer ones have done less—not helped by the flood of capital that has gushed out of their financial systems in recent weeks as investors have sought the safety of rich-world assets. A central question is whether governments have done enough to ensure a robust recovery once economies start to reopen. Expect central bankers and finance ministers to ponder precisely this at pow-wows of the G20 and IMF, which are to be held virtually later this week.