FOREWORD

The global recovery continues but the momentum has weakened, hobbled by the pandemic. Fueled by the highly transmissible Delta variant, the recorded global COVID-19 death toll has risen close to 5 million and health risks abound, holding back a full return to normalcy. Pandemic outbreaks in critical links of global supply chains have resulted in longer-than-expected supply disruptions, further feeding inflation in many countries. Overall, risks to economic prospects have increased, and policy trade-offs have become more complex.

Compared to our July forecast, the global growth projection for 2021 has been revised down marginally to 5.9 percent and is unchanged for 2022 at 4.9 percent. This modest headline revision, however, masks large downgrades for some countries. The outlook for the low-income developing country group has darkened considerably due to worsening pandemic dynamics. The downgrade also reflects more difficult near-term prospects for the advanced economy group, in part due to supply disruptions. Partially offsetting these changes, projections for some commodity exporters have been upgraded on the back of rising commodity prices. Pandemic-related disruptions to contact-intensive sectors have caused the labor market recovery to significantly lag the output recovery in most countries.

The dangerous divergence in economic prospects across countries remains a major concern. Aggregate output for the advanced economy group is expected to regain its pre-pandemic trend path in 2022 and exceed it by 0.9 percent in 2024. By contrast, aggregate output for the emerging market and developing economy group (excluding China) is expected to remain 5.5 percent below the pre-pandemic forecast in 2024, resulting in a larger setback to improvements in their living standards.

These economic divergences are a consequence of large disparities in vaccine access and in policy support. While almost 60 percent of the population in advanced economies are fully vaccinated and some are now receiving booster shots, about 96 percent of the population in low-income countries remain unvaccinated. Emerging and developing economies, faced with tighter financing conditions and a greater risk of de-anchoring inflation expectations, are withdrawing policy support more quickly despite larger shortfalls in output.

Supply disruptions pose another policy challenge. On the one hand, pandemic outbreaks and weather disruptions have resulted in shortages of key inputs and dragged manufacturing activity lower in several countries. On the other hand, these supply shortages, alongside the release of pent-up demand and the rebound in commodity prices, have caused consumer price inflation to increase rapidly in, for example, the United States, Germany, and many emerging market and developing economies. Food prices have increased the most in low-income countries where food insecurity is most acute, adding to the burdens of poorer households and raising the risk of social unrest.

The October 2021 *Global Financial Stability Report* highlights another challenge to monetary policy from increasing risk taking in financial markets and rising fragilities in the nonbank financial institutions sector.

A principal common factor behind these complex challenges is the continued grip of the pandemic on global society. The foremost policy priority is therefore to vaccinate adequate numbers in every country and prevent more virulent virus mutations. As Chapter 1 explains, this will require the Group of Seven and Group of Twenty countries to fulfill existing dose donation pledges, coordinate with manufacturers to prioritize deliveries to COVAX in the near term, and remove trade restrictions on the flow of vaccines and its inputs. At the same time, closing the $20 billion residual gap in grants to fund testing, therapeutics, and genomic surveillance will save lives now and keep vaccines fit for purpose. Looking ahead, vaccine manufacturers and high-income countries should support the expansion of regional production of COVID-19 vaccines in developing countries through financing and technology transfer solutions.

While reducing the likelihood of a prolonged pandemic is a key immediate global priority, another urgent priority is the need to slow the rise in global temperatures and contain the growing adverse health and economic effects of climate change. As Chapter 1 details, stronger concrete commitments are needed at the upcoming United Nations Climate Change Conference (COP26). A policy strategy that encompasses an international carbon price floor adjusted to country circumstances, a green public investment and research subsidy push, and compensatory, targeted transfers to households can help advance the energy transition in an equitable way. Just as importantly, advanced countries need to deliver on their earlier promises of mobilizing $100 billion of climate financing, annually, for developing nations.

The pandemic and climate change threaten to exacerbate the economic divergences among the world's economies. Concerted multilateral effort to ensure adequate international liquidity for constrained economies, and faster implementation of the Group of Twenty common framework to restructure unsustainable debt, will help limit these divergences. Building on the historic $650 billion special drawing right allocation, the IMF is calling on countries with strong external positions to voluntarily channel their special drawing rights into the Poverty Reduction and Growth Trust. Furthermore, it is exploring the establishment of a Resilience and Sustainability Trust that would provide long-term funding to support countries' investment in sustainable growth.

At the national level, the overall policy mix should be calibrated to local pandemic and economic conditions, aiming for maximum sustainable employment while protecting the credibility of policy frameworks. With fiscal space becoming more limited in many economies, health care spending should continue to be the priority, while lifelines and transfers will need to become increasingly targeted, reinforced with retraining and support for reallocation. As health outcomes improve, policy emphasis can increasingly focus on long-term structural goals. The analysis in Chapter 3 shows that investment in basic research can have far-reaching benefits through faster productivity growth, and it is important to promote the free flow of ideas and scientific collaboration across borders.

With debt levels at record highs, all initiatives should be rooted in credible medium-term frameworks, backed by feasible revenue and expenditure measures. The October 2021 *Fiscal Monitor* demonstrates that such credibility can lower financing costs for countries and increase fiscal space in the near term.

Monetary policy will need to walk a fine line between tackling inflation and financial risks and supporting the economic recovery. We project, amid high uncertainty, that headline inflation will likely return to pre-pandemic levels by mid-2022 for the group of advanced economies and emerging and developing economies. There is, however, considerable heterogeneity across countries, with upside risks for some, such as the United States, the United Kingdom, and some emerging market and developing economies. While monetary policy can generally look through transitory increases in inflation, central banks should be prepared to act quickly if the risks of rising inflation expectations become more material in this uncharted recovery. Central banks should chart contingent actions, announce clear triggers, and act in line with that communication.

More generally, clarity and consistent actions can go a long way toward avoiding unnecessary policy accidents that roil financial markets and set back the global recovery—ranging from a failure to lift the United States debt ceiling in a timely fashion, to disorderly debt restructurings in China's property sector, and escalations in cross-border trade and technology tensions.

Recent developments have made it abundantly clear that we are all in this together and the pandemic is not over *anywhere* until it is over *everywhere*. If Covid-19 were to have a prolonged impact into the medium term, it could reduce global GDP by a cumulative $5.3 trillion over the next five years relative to our current projection. It does not have to be this way. The global community must step up efforts to ensure equitable vaccine access for every country, overcome vaccine hesitancy where there is adequate supply, and secure better economic prospects for all.

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