

## FOREWORD

The world has changed dramatically in the three months since our last *World Economic Outlook* update on the global economy. A pandemic scenario had been raised as a possibility in previous economic policy discussions, but none of us had a meaningful sense of what it would look like on the ground and what it would mean for the economy. We now encounter a grim reality, where exponential growth of contagion means 100 infected individuals become 10,000 in a matter of a few days. Tragically, many human lives are being lost and the virus continues to spread rapidly across the globe. We owe a huge debt of gratitude to the medical professionals and first responders who are working tirelessly to save lives.

This crisis is like no other. First, the shock is large. The output loss associated with this health emergency and related containment measures likely dwarfs the losses that triggered the global financial crisis. Second, like in a war or a political crisis, there is continued severe uncertainty about the duration and intensity of the shock. Third, under current circumstances there is a very different role for economic policy. In normal crises, policymakers try to encourage economic activity by stimulating aggregate demand as quickly as possible. This time, the crisis is to a large extent the consequence of needed containment measures. This makes stimulating activity more challenging and, at least for the most affected sectors, undesirable.

The forecast for the global economy laid out in this report reflects our current understanding of the path of the pandemic and the public health measures required to slow the spread of the virus, protect lives, and allow health care systems to cope. In this regard, we have benefited from numerous conversations with epidemiologists, public health experts, and infectious disease specialists working on therapies for COVID-19. However, there remains considerable uncertainty around the forecast, the pandemic itself, its macroeconomic fallout, and the associated stresses in financial and commodity markets.

It is very likely that this year the global economy will experience its worst recession since the Great

Depression, surpassing that seen during the global financial crisis a decade ago. The Great Lockdown, as one might call it, is projected to shrink global growth dramatically. A partial recovery is projected for 2021, with above trend growth rates, but the level of GDP will remain below the pre-virus trend, with considerable uncertainty about the strength of the rebound. Much worse growth outcomes are possible and maybe even likely. This would follow if the pandemic and containment measures last longer, emerging and developing economies are even more severely hit, tight financial conditions persist, or if widespread scarring effects emerge due to firm closures and extended unemployment.

This crisis will need to be dealt with in two phases: a phase of containment and stabilization followed by the recovery phase. In both phases public health and economic policies have crucial roles to play. Quarantines, lockdowns, and social distancing are all critical for slowing transmission, giving the health care system time to handle the surge in demand for its services and buying time for researchers to try to develop therapies and a vaccine. These measures can help avoid an even more severe and protracted slump in activity and set the stage for economic recovery.

Increased health care spending is essential to ensure health care systems have adequate capacity and resources. Special dispensations for medical professionals—who are on the frontlines of combating the pandemic—should be considered, including, for example, education allowances for their families or generous survivor benefits.

While the economy is shut down, policymakers will need to ensure that people are able to meet their needs and that businesses can pick up once the acute phases of the pandemic pass. This requires substantial targeted fiscal, monetary, and financial measures to maintain the economic ties between workers and firms and lenders and borrowers, keeping intact the economic and financial infrastructure of society. For example, in emerging market and developing economies with large informal sectors, new digital technologies may be used to deliver targeted support. It is

encouraging that policymakers in many countries have risen to this unprecedented challenge by swiftly adopting a broad range of measures.

Broad-based stimulus and liquidity facilities to reduce systemic stress in the financial system can lift confidence and prevent an even deeper contraction in demand by limiting the amplification of the shock through the financial system and bolstering expectations for the eventual economic recovery. Here, too, the swift and significant actions by several central banks have been critical and have averted an even sharper drop in asset prices and confidence. Of particular importance has been the activation and establishment of swap lines between major central banks to provide international liquidity.

The economic landscape will be altered significantly for the duration of the crisis and possibly longer, with greater involvement of government and central banks in the economy.

Advanced economies with strong governance capacity, well-equipped health care systems, and the privilege of issuing reserve currencies are relatively better placed to weather this crisis. But several emerging market and developing economies without similar assets and confronting simultaneous health, economic, and financial crises will need help from advanced economy bilateral creditors and international financial institutions.

Multilateral cooperation will be key. In addition to sharing equipment and expertise to reinforce health care systems around the world, a global effort must ensure that when therapies and vaccines are developed for COVID-19 both rich and poor nations alike have immediate access. The international community will also need to step up financial assistance to many emerging market and developing economies. For those facing large debt repayments, debt moratoria and restructuring may need to be considered.

Finally, it is worth thinking about measures that could be adopted to prevent something like the pandemic from happening again. Improvements to the global public health infrastructure—greater and more automatic information exchange on unusual infections, earlier and more widespread deployment of

testing, building global stockpiles of personal protective equipment, and putting in place protocols for no restrictions on trade in essential supplies—could enhance the security of both public health and the global economy.

There are many reasons for optimism, despite the dire circumstances. In countries with major outbreaks, the number of new cases has come down, after strong social distancing practices were put in place. The unprecedented pace of work on treatments and vaccines also promises hope. The swift and substantial economic policy actions taken in many countries will help shield people and firms, preventing even more severe economic pain and create the conditions for the recovery.

When the world economy last faced a crisis of this magnitude in the 1930s, the absence of a multilateral lender-of-last-resort forced countries to scramble for international liquidity, adopting futile mercantilist policies in that pursuit, which further worsened the global downturn. A crucial difference in the current crisis is we have a stronger global financial safety net—with the IMF at its center—that is already actively helping vulnerable countries.

Ten years ago, the IMF's member countries boosted the Fund's resources to assist financially constrained countries during the 2008-09 global financial crisis. The IMF is again actively engaged in supporting national-level policy efforts to limit the economic damage through its lending facilities, including rapid-disbursing emergency financing. And its members are again stepping up to further strengthen the IMF's resources in what looks to be an even bigger crisis than the one we experienced a decade ago. Such efforts will go a long way toward ensuring that the global economy regains its footing after the pandemic fades, workplaces and schools reopen, job creation picks up, and consumers return to public places—in short, ensuring that we can return to our economic routines and social interactions that we took for granted not so long ago.

Gita Gopinath  
*Economic Counsellor*