IMF's World Economic Outlook – October 2020

October 14 , 2020 I Economics

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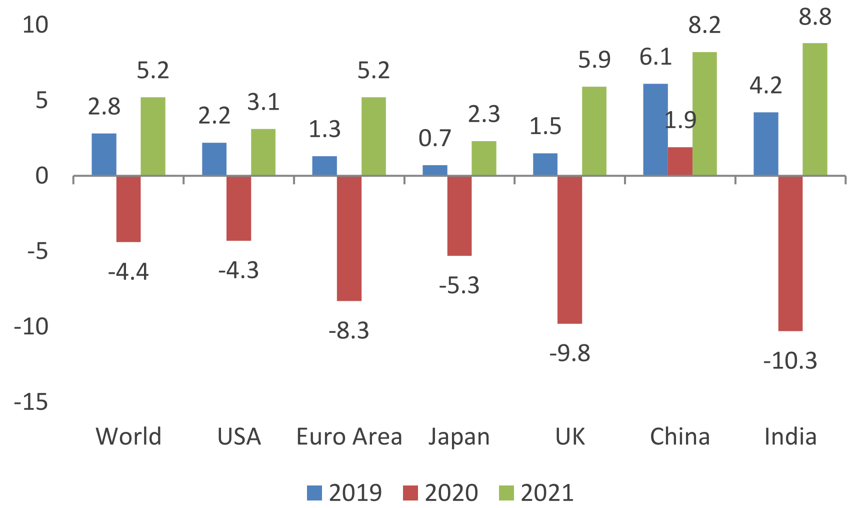
The International Monetary Fund (IMF) released its World Economic Outlook – October 2020 report where it has projected global growth to fall by 4.4% in 2020 and expect a rebound of 5.2% in 2021. **After the rebound in 2021, global growth is expected to gradually slow to about 3.5% in the medium term**. In case of India, there has been a sharp downward revision in the GDP contraction from its June projections for FY21. The IMF believes that the economy is expected to contract by 10.3% in FY21 and rebound to 8.8% in FY22.

Chart 1: IMF's Growth Outlook (%)



Note: For India, it pertains to fiscal year

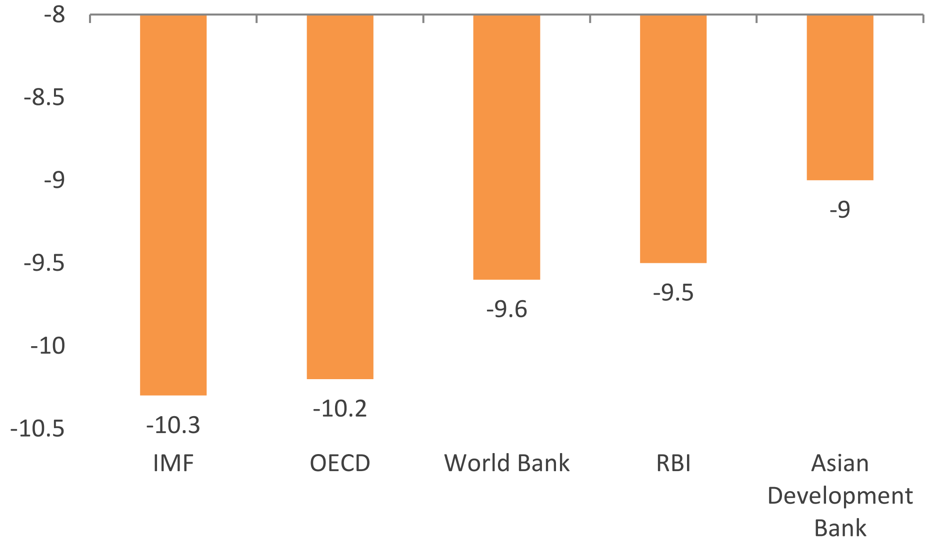
- IMF has projected **global growth** at (-) 4.4% in 2020, 0.8% stronger than the earlier projections (made in June 2020).
- Reasons for a stronger projection includes better than anticipated Q2-2020 GDP numbers. However, persistent social distancing and stalled reopening weighs on the outlook
- For 2021, **global growth** is projected at 5.2%, 0.2% lower than the earlier projection
- For **advanced economies**, GDP growth is projected to contract by - 5.8% in 2020 and recover to 3.9% in 2021.
- The improved outlook for 2020 has been on account of better than foreseen US and Euro area GDP outcomes.
- The **USA economy** is projected to contract by 4.3%, before growing at 3.1% in 2021.
- A sharper contraction of 8.3% is projected for **Euro Area** in 2020 with a growth bounce back of 5.2% in 2021

- For **emerging and developing market economies**, growth forecast at -3.3% in 2020, is 0.2% lower than the June projection.
    - Prospects for **China** are much stronger than most other countries in this group (1.9% growth in 2020 and 8.2% in 2021)
    - All emerging and developing economies are projected to contract in 2020
    - Revisions to the forecast of the **Indian economy** are much larger due to severe contraction recorded in Q1-FY21. India's economy is projected to contract by -10.3% in FY21 which is 5.8% lower than the June projections. The economy is expected to recover to 8.8% in FY22. In June 2020, IMF had projected the Indian economy to contract by 4.5% in FY21.

IMF's projections vs other institutions

IMF's projection on the Indian economic contraction in 2021 has been much sharper than estimates provides by other multi-lateral institutions like OECD (-10.2%), World Bank (-9.6%) and Asian Development Bank (-9%). The RBI has projected the fall in GDP to be around (-)9.5% in FY21 with the risks tilted to the downside.

Chart 2: IMF's projections vis-à-vis other institutions for the Indian economy in FY21 (%)



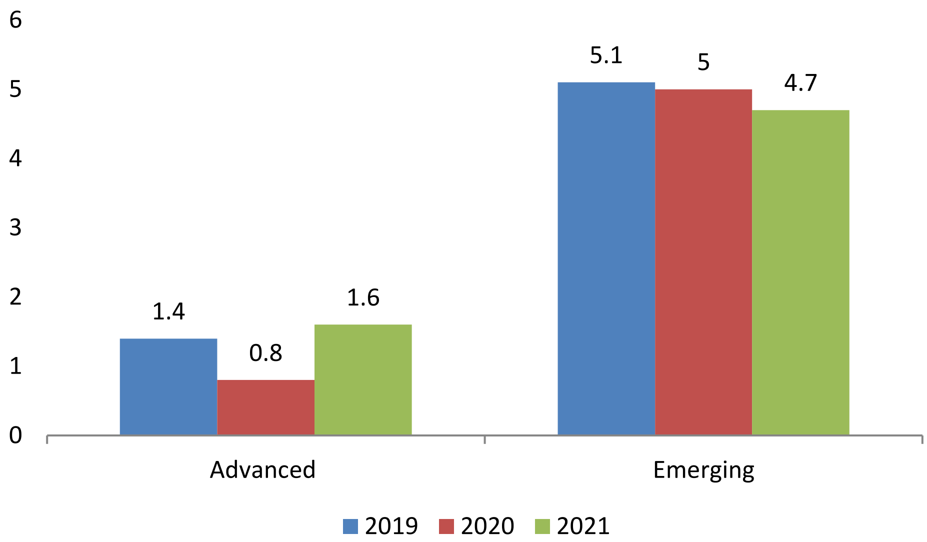
Source: IMF, OECD, World Bank, ADB, RBI

Key Highlights from IMF's World Economic Outlook:

- Pickup- in economic activities in May and June 2020 with reopening of economies led by rise in consumer discretionary spending
- Lower GDP contraction than projected in economies like China, USA and Euro Area as against sharper decline registered in India (due to sharp compression in investment and consumption), Mexico (due to spread of pandemic), Korea (soft external demand) and Philippines (weak remittances)
- Global trade is projected to contract by 10.4% in 2020 and is expected to recover to 8.3% in 2021 However, recovery in global trade with easing lockdown restrictions have been observed
- Reopening has stalled in some economies due to renewed surge in infections and governments have reinstated partial lockdowns.
- Close to 90 million people could fall below the international poverty threshold of $1.9 per day

- Barring the rise in prices of medical supplies and commodity prices, weak aggregate demand has outweighed the impact of supply interruptions, thus keeping inflation low in advanced economies. In case of emerging economies, inflation declined sharply in the initial stages but has picked up in some countries like India (due to supply disruptions)
- Inflation in the advanced economies is projected to remain low in 2020 but register a pick-up in 2021. On other hand, emerging economies will see only a gradual moderation in inflation in 2020 and 2021

Chart 3: Inflation in advanced economies vs emerging economies (%)



- **Unique slowdown:** In previous downturns, service oriented sectors tended to suffer smaller growth declines compared with manufacturing sector. In the current crisis, the slow-down has been sharper in case of service sector – particularly wholesale and retail trade, hospitality, art and entertainment.
- **Massive policy support:** Both fiscal and monetary support has prevented worse outcomes at the global level.

% of GDP	Discretionary budget measures	Liquidity support
Advanced economies	9%	11%
Emerging market economies	3.5%	2%

- **New policy initiatives have helped lift sentiments**
  - European Union pandemic recovery package fund of €750 bn
  - Temporary relief lifelines like cash and in-kind transfers to affected firms and households, wage subsidies, expanded unemployment insurance, tax deferrals among others
  - Central bank actions in advanced economies have included more diverse, large scale asset purchases and relending facilities, supporting credit provision to a wide range of borrowers.
  - Emerging central bank announcements included interest rate cuts, new relending facilities and asset purchases in some countries
- **Financial markets** have generally continued to ease:
  - **Equity markets** in advanced economies have mostly regained (and in some cases exceeded) their levels from the start of the year
  - **Equity markets** in emerging economies have generally firmed up since June
  - **Sovereign bond yields** are broadly unchanged or have declined further since June

- Corporate bond spreads have dropped further
  - (continued) **Corporate bond spreads** have dropped further
- A significant projected increase in the stock of sovereign debt is likely. A small tax base due to downward revisions in potential output will compound difficulties in servicing debt obligations. **Sovereign debt to GDP** projected are:
  - **Advanced economies** – 125% of GDP (20 percentage points increase)
  - **Emerging economies** – 65% of GDP (10 percentage points increase)
- Remittances flows have contracted sharply during the early lockdown but have shown signs of recovery

Upside and Downside to global economy

Upside	Downside
Recession could turn out to be less severe	Country specific lockdowns due to virus resurgence
Extension of fiscal measures	Premature withdrawal of policy support
Faster productivity growth	Tightening financial conditions
Advances in therapies and production of safe and effective vaccine	Liquidity shortfalls and insolvencies
	Intensifying social unrests
	Geo-political tensions
	Trade policy uncertainties
	Weather related natural disasters

Analysis of "The Great Lockdown"

The IMF finds that adoption of lockdowns was an important factor in the recession, but voluntary social distancing in response to rising infections also contributed very substantially to the economic contraction.

Key takeaways:

- Data shows that more stringent lockdowns are correlated with sharper economic contraction.
- The analysis suggests that lockdowns and voluntary social distancing played an important role in driving the economic recession. Given the important role played by voluntary social distancing in economic recession, lifting lockdowns is unlikely to rapidly bring economic activity back to potential.
- Easing lockdowns has a positive impact on mobility but the impact is weak. Therefore economies will continue to operate below potential till health risks persists.
- Therefore, policy-makers should be careful in withdrawing policy support too quickly
- However, lockdowns can reduce COVID-19 infections substantially , especially if they are introduced early in a country's epidemic and are sufficiently tight.
- Despite short term economic costs, lockdowns may pave way to a faster economic recovery by containing the spread of the virus.

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