

World Economic Situation and Prospects as of mid-2020

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Summary

Against the backdrop of a raging and devastating pandemic, the world economy is projected to shrink by 3.2 per cent in 2020. Under the baseline scenario, GDP growth in developed countries will plunge to –5.0 per cent in 2020, while output of developing countries will shrink by 0.7 per cent. The projected cumulative output losses during 2020 and 2021—nearly \$8.5 trillion—will wipe out nearly all output gains of the previous four years. The pandemic has unleashed a health and economic crisis unprecedented in scope and magnitude. Lockdowns and the closing of national borders enforced by governments have paralyzed economic activities across the board, laying off millions of workers worldwide. Governments across the world are rolling out fiscal stimulus measures—equivalent overall to roughly 10 per cent of the world GDP—to fight the pandemic and minimize the impact of a catastrophic economic downturn.

While both new infections and COVID-19-related death have slowed down in recent weeks, uncertainties persist about the future course of the pandemic and its economic and social consequences. Torn between saving lives and saving the economy, some governments are already beginning to cautiously lift restrictions with a view to jumpstart their economies. The pace and sequence of recovery from the crisis will largely depend on the efficacy of public health and fiscal measures, containing the spread of the virus, minimizing risks of reinfection, protecting jobs and income and restoring consumer confidence.

Absent quick breakthroughs in vaccine development and treatment, the post COVID-19 world will likely be vastly different. The possibility of a slow recovery and prolonged economic slump—with rising poverty and inequality—looms large. A modest rebound—mostly recovering lost output—is expected for 2021. Large fiscal deficits and high levels of public debt will pose significant challenges to many developing countries, particularly commodity-dependent economies and small island developing States, amid falling trade and tourism revenues and remittances. Stronger development cooperation—supporting efforts to contain the pandemic and extending economic and financial assistance to countries hardest hit by the crisis—will remain critical for accelerating recovery and putting the world back on the trajectory of sustainable development.

* The present document updates World Economic Situation and Prospects 2020 (United Nations publication, Sales No. E.20.II.C.1), released in January 2020.

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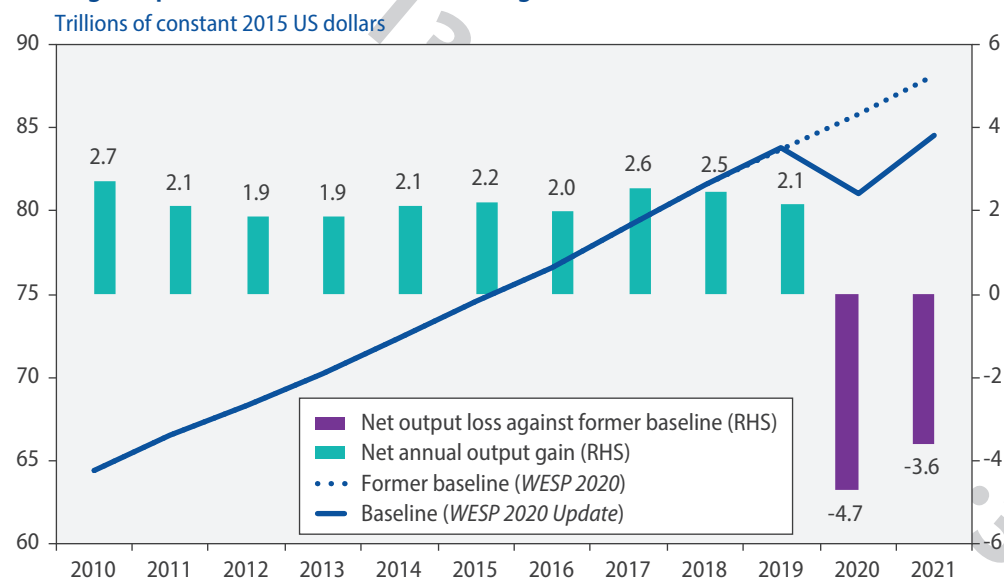
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Global macroeconomic trends

Global overview

The COVID-19 pandemic has paralyzed large parts of the global economy, sharply restricting economic activities, increasing uncertainties and unleashing a recession unseen since the Great Depression. Global gross domestic product (GDP) is forecast to shrink by 3.2 per cent in 2020, with only a gradual recovery of lost output projected for 2021. Cumulatively, the world economy is expected to lose nearly \$8.5 trillion in output in 2020 and 2021 (Figure 1), nearly wiping out the cumulative output gains of the previous four years.

Figure 1
World gross product, level and annual changes, 2010–2021



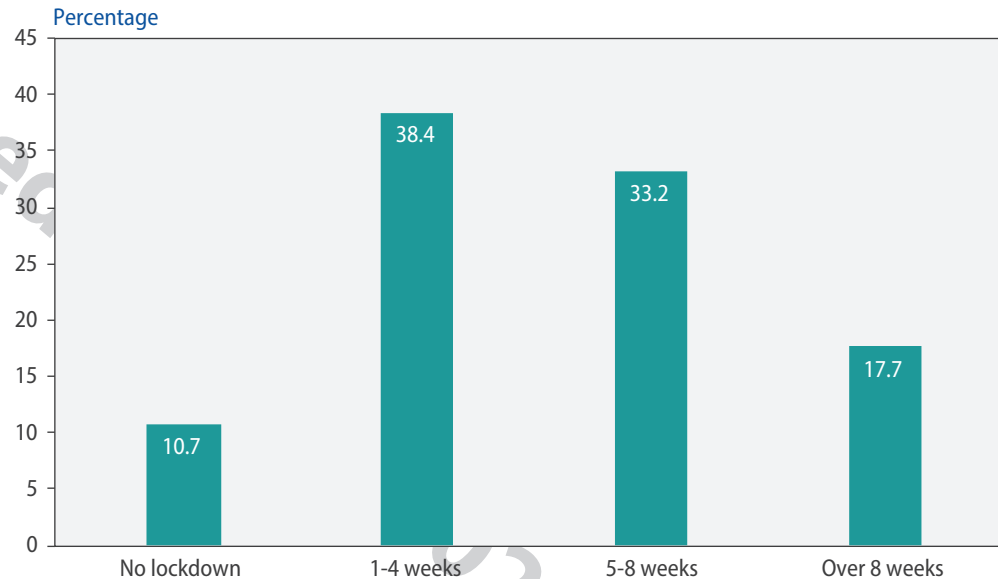
Source: UN DESA, based on scenarios produced with the World Economic Forecasting Model (WEFM).

The pandemic has spread to nearly every country in less than three months, killing over 200,000 by end-April 2020. With no effective vaccine and treatment, most countries have relied on social distancing and stay-at-home measures to slow the spread of the virus. Nearly 90 per cent of the world economy came under some form of lockdown measures by mid-April (Figure 2). As many as 100 countries have closed national borders—the most severe restrictions on movements of people and goods in recorded history—disrupting supply and slashing global demand for goods and services. The demand for oil and other commodities has fallen sharply, as transportation, air travel and manufacturing have come to a virtual standstill in many economies. While the pandemic spread rapidly in East Asia, Europe and the United States of America, shutting down economic activities, many developing countries, though not directly hit by the pandemic, are already suffering severe economic pains.

Financial markets in developed countries experienced extreme volatility, as uncertainties persisted and early efforts to contain the pandemic fell short of market expectations. Central banks in developed countries responded with interest rate cuts and asset purchases to inject liquidity, sustain credit flows and stabilize equity and bond

prices. Increased risk aversion among investors triggered large capital outflows from many large developing economies, leading to large currency depreciations and tighter credit conditions.

Figure 2

Share of world GDP under lockdown, by duration

Source: UN DESA, based on Oxford COVID-19 Government Response Tracker and ACAPS COVID-19 Government Measures Database.

The unprecedented and simultaneous shock to global demand and supply have rendered millions unemployed in the span of just a few weeks. Governments in developed economies have rushed to provide some financial relief—unemployment benefits, grants and loans—to households and businesses most affected by the collapse of economic activities. Millions in both developed and developing countries face the ominous prospect of falling back into poverty. Declining growth and rising poverty during the crisis and recovery period will likely increase income and wealth inequality, undermine social cohesion, and breed further discontent and instability around the world.

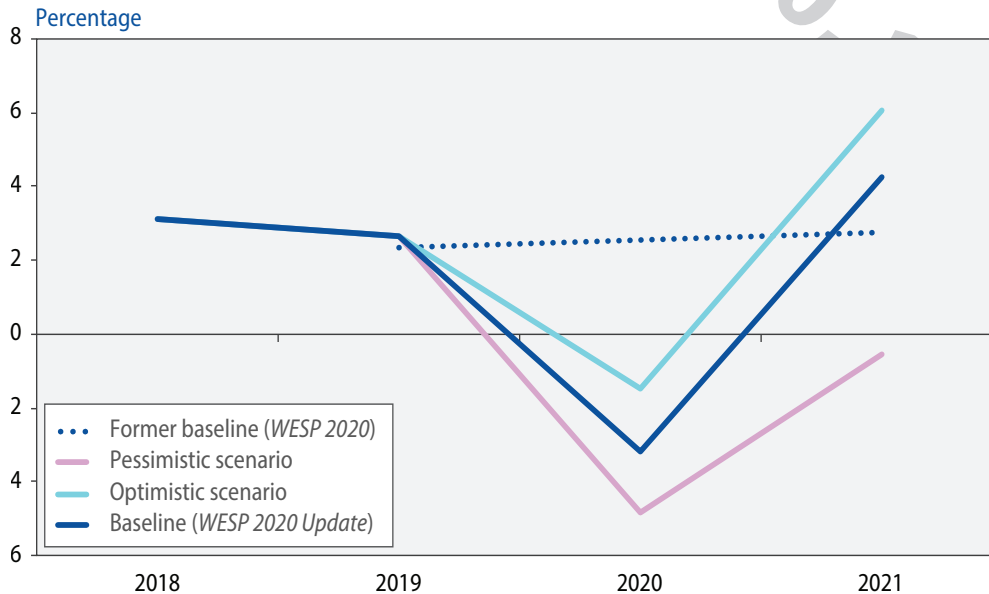
The current crisis presents difficult choices and trade-offs to policymakers. Seeking to strike a delicate balance between saving lives and saving jobs, Governments are grappling with measures to minimize the economic impacts of the pandemic. Fiscal stimulus measures, while necessary to protect income and wealth and prevent bankruptcies, are unlikely to revive aggregate demand, as opportunities to consume many goods and services remain limited. Even with income protection, households are unlikely to be able to enjoy travel, restaurant meals, sporting events and public recreation in the foreseeable future. While this may increase household savings rates, it will do little to stimulate investment and growth. High levels of liquidity injected by central banks into the financial system will boost asset prices, but productive investments may remain low, as they did during the decade following the global financial crisis in 2008. Furthermore, fiscal and monetary measures in developed economies may have unintended—even adverse—spillover effects on developing economies, triggering capital outflows and tightening credit conditions. Robust international coordination will remain critical, not only to contain the pandemic but also to assist countries hardest hit by the crisis and minimize negative spillover effects. The duration and severity of the pandemic—and its socioeconomic fallouts—will determine whether the world will be back to the pre-crisis normal economic activities or embrace a new normal in coming years.

Scenarios and regional outlook

The baseline scenario assumes that ongoing lockdown measures will significantly slow the spread of the disease before the end of the second quarter. Most countries, including major developed and developing economies, will start reopening their economies gradually after an initial period of four to eight weeks, although some form of social distancing will remain in place. In this scenario, global economic activities will pick up steam from the third quarter onwards, with fiscal and monetary stimulus successfully resuscitating demand. Higher levels of unemployment and negative balance sheet effects will, however, limit the strength of the recovery. Following a contraction of 3.2 per cent in 2020, global output is expected to grow by 4.1 per cent in 2021 (Figure 3).

In a pessimistic scenario, major economies will face a second wave of the pandemic later this year, requiring them to extend lockdowns and enforce restrictions on economic activities until early 2021. Under these assumptions, global economic output would plunge steeply by 4.9 per cent in 2020, followed by a meagre 0.5 per cent growth in 2021. In the more optimistic scenario, on the other hand, earlier-than-expected success in combating the pandemic—enhanced testing, tracing and treatment options and signals of breakthroughs in vaccine development—will lead to more complete relaxation of restrictions before the end of the second quarter. This will revive aggregate demand in the second half of 2020, allowing a shallower contraction of 1.4 per cent of world output in 2020 and a more robust rebound of 6.1 per cent in 2021.

Figure 3
Global growth scenarios, 2020–2021

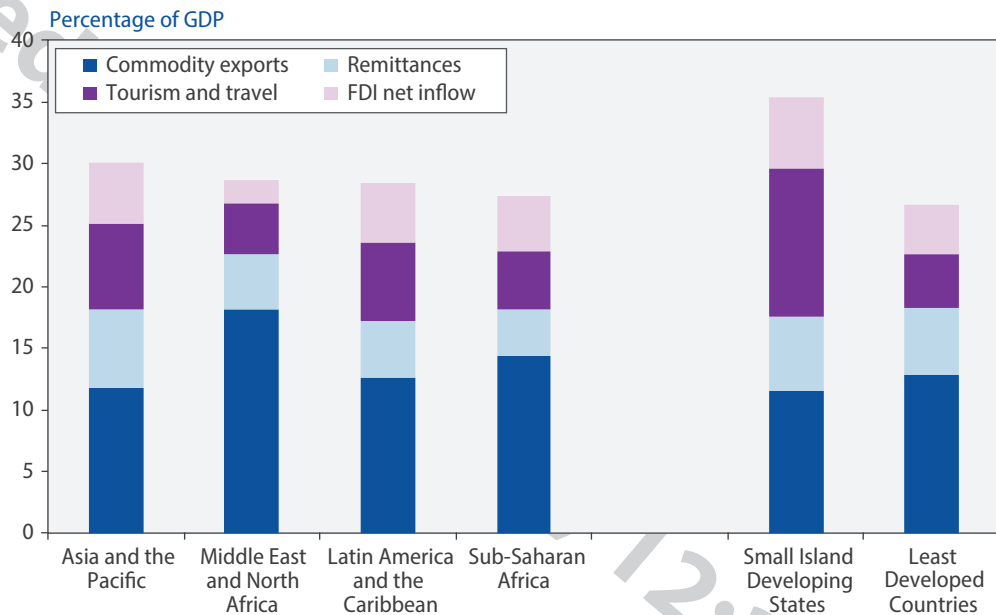


Source: UN DESA, based on scenarios produced with the World Economic Forecasting Model (WEFM).

Under the baseline scenario, developed countries will see their economic output contract by 5.0 per cent in 2020. The decline will be most severe in Europe, where GDP is projected to shrink by 5.5 per cent in 2020. The United States economy will experience a similar contraction amid massive layoffs and double-digit unemployment. In Japan, the combined effect of depressed real wages, private consumption, housing investments and exports will extend the crisis well into 2021.

According to the baseline forecast, economies of developing countries will contract by 0.7 per cent in 2020. In addition to falling domestic demand, the majority of developing countries will see sharp declines in export revenues, remittances, foreign direct investment (FDI), and official development assistance (ODA), which account for more than a quarter of their GDP before the crisis (Figure 4). For small island developing States (SIDS), external flows account for nearly 35 per cent of their GDP.¹

Figure 4
Contribution of commodity exports, remittances, tourism and travel, and FDI to GDP (2014–2018 average)



Source: UN DESA, based on data from World Bank, World Development Indicators database and World Travel and Tourism Council.

Note: Regional figures are simple averages of country-level data.

In the baseline scenario, China's growth is projected to slow to 1.7 per cent in 2020, after the country recorded its first quarter of negative growth in more than four decades. For many South and East Asian economies, exports will contract in line with supply chain disruptions and a significant slowdown in global demand. Amid sharp declines in commodity prices, economic activity is expected to decline in Africa (-1.6 per cent), Latin America and the Caribbean (-5.4 per cent), Western Asia (-3.5 per cent) and the economies in transition in Europe and Central Asia (-3.5 per cent).

Extremely commodity-dependent countries (with more than 80 per cent of export earnings derived from commodities) and SIDS—given their high dependence on highly volatile external flows—are among the most vulnerable developing countries. As was the case during the 2008–2009 crisis, SIDS economies will likely experience sharper GDP contraction than other country groups during the current crisis. In many cases, severe contractions in foreign exchange flows will exacerbate balance of payments pressures and debt distress, raising the likelihood of sovereign defaults.

¹ UNCTAD estimates that FDI flows in 2020–2021 could be 15 per cent lower than previously expected. See https://unctad.org/en/PublicationsLibrary/diaief2020d2_en.pdf?user=1653.

Table I
Growth of world output, 2018–2021

	Annual percentage change				Changes from World Economic Situation and Prospects 2020 forecast	
	2018	2019 ^a	2020 ^b	2021 ^b	2020	2021
World	3.1	2.6	-3.2	4.2	-5.7	1.5
Developed economies	2.3	1.9	-5.0	3.4	-6.5	1.7
United States of America	2.9	2.3	-4.8	3.9	-6.5	2.1
Japan	0.3	0.7	-4.2	3.2	-5.1	1.9
European Union	2.1	1.8	-5.5	2.8	-7.1	1.1
Euro area	1.9	1.5	-5.8	2.9	-7.2	1.4
United Kingdom of Great Britain and Northern Ireland	1.3	1.4	-5.4	3.0	-6.6	1.2
Other developed countries	2.3	2.0	-4.8	3.5	-6.6	1.6
Economies in transition	2.8	2.2	-3.5	3.1	-5.8	0.6
South-Eastern Europe	3.9	3.4	-3.3	3.6	-6.7	0.2
Commonwealth of Independent States and Georgia	2.8	2.2	-3.5	3.0	-5.8	0.6
Russian Federation	2.3	1.3	-4.3	2.9	-6.1	0.9
Developing economies	4.3	3.7	-0.7	5.3	-4.7	1.0
Africa	3.1	3.0	-1.6	3.4	-4.8	-0.1
North Africa	3.4	3.5	-1.8	4.0	-5.4	0.3
East Africa	6.6	6.3	1.5	3.4	-4.5	-2.8
Central Africa	1.6	1.9	-1.6	3.2	-4.5	0.1
West Africa	3.2	3.3	-1.3	3.1	-4.9	-0.7
Southern Africa	0.9	-0.1	-3.5	2.7	-4.4	0.8
East and South Asia	5.7	5.0	0.8	6.4	-4.4	1.2
East Asia	5.8	5.2	1.1	6.8	-4.1	1.6
China	6.6	6.1	1.7	7.6	-4.3	1.7
South Asia	5.1	3.8	-0.6	4.4	-5.7	-0.9
India ^c	6.8	4.1	1.2	5.5	-5.4	-0.8
Western Asia	2.2	1.0	-3.5	2.6	-5.9	-0.2
Latin America and the Caribbean	0.5	-0.2	-5.4	3.1	-6.7	1.1
South America	-0.3	-0.5	-5.5	2.7	-6.6	0.7
Brazil	1.1	1.1	-5.2	2.9	-6.9	0.6
Mexico and Central America	2.3	0.6	-5.4	3.8	-7.0	1.9
Caribbean	1.8	0.3	-1.9	3.7	-7.6	0.3
Least developed countries	4.5	4.8	0.8	4.6	-4.3	-0.8
Memorandum items:						
World trade ^d	4.1	1.3	-14.6	9.4	-16.9	6.2
World output growth with purchasing power parity-based weights ^e	3.2	2.7	-2.6	4.3	-5.8	0.9

Source: UN DESA.

^a Partially estimated.

^b UN DESA forecasts.

^c Fiscal year basis.

^d Includes goods and services.

^e Based on 2010 benchmark.

Pandemic destroying jobs

The COVID-19 pandemic has led to large-scale job losses around the globe in the first two quarters of 2020. The International Labour Organization (ILO, 2020) expects that over 6.7 per cent of working hours (an equivalent of 195 million full-time workers) will be lost at the global scale in the second quarter of 2020 alone, which is worse than the job losses during the 2008–2009 crisis. Around 38 per cent of the global workforce are employed in manufacturing, hospitality, tourism, trade and transportation and other service sectors that are facing a collapse in demand, a sharp fall in revenue and potential bankruptcies.

In the United States alone, initial unemployment claims skyrocketed in March and April, reaching record highs of over 30 million by the end of April and far surpassing the level seen during the global financial crisis of 2008–2009. Even if containment measures are eased or lifted in the second quarter, the unemployment rate in the United States may still hover around 10 per cent in 2020. In many European countries, the unemployment rate is also expected to soar to double-digits, particularly in Greece, Italy and Spain where tourism and transportation sectors account for significant shares of employment. The impact on jobs and livelihoods in developing countries will likely be more severe, in the absence of unemployment insurance and social protection.

The employment effects of lockdowns are especially severe for non-essential jobs that involve proximity and physical interaction with clients. Workers in food and accommodation services, and retail and wholesale trade—more than 600 million worldwide—face high risks of income losses. In contrast, jobs that can be performed remotely—finance, professional services, and management—are less affected by lockdowns. In developing countries, informal sector jobs with no social protection are particularly vulnerable. In both developed and developing countries, lockdowns will disproportionately hurt low-skilled jobs typically performed by minorities, immigrants, women and other disadvantaged groups. The asymmetric employment effects of the pandemic—disproportionately hurting low-skilled, low-wage jobs, while leaving higher-skilled jobs less affected—will further exacerbate income inequality within and between countries.

Even if the global economy recovers quickly, the shock may accelerate the process of labour-replacing automation, especially for jobs that have been most at risk of spreading the virus. A growing share of economic activities—retail, entertainment and recreation—will likely move online. Economic activities that cannot shift online will embrace automation to reduce dependence on human labour. If public anxiety and fear about the virus persist, millions of new low-skill health monitoring, surveillance and sanitation jobs may emerge to help businesses reduce contagion risks. Notwithstanding these shifts, aggregate labour demand will likely remain depressed or even fall, and unemployment rates will remain high relative to the pre-crisis period in the near term.

Trade in goods and services

Economic pain spreading through global trade networks

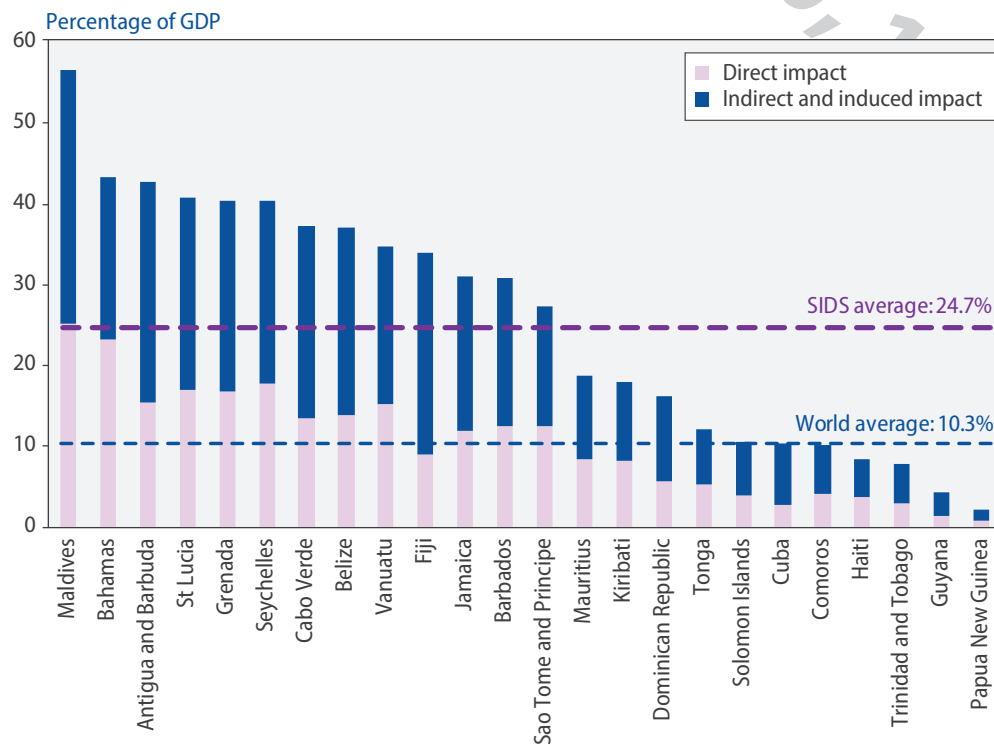
Lockdowns have significantly curbed manufacturing output in the major hubs of world trade, including in China, Germany and the United States, which collectively account for around 34 per cent of global manufacturing exports. Disruptions in major manufacturing

hubs have weakened demand for intermediate inputs, base metals and minerals, leading to sharp declines in their price. Smaller manufacturing economies—Bangladesh or Cambodia—are facing a sharp decline in exports amid falling demand in developed economies. In the baseline scenario, world trade in goods and services is forecast to contract by nearly 15 per cent in real terms in 2020.

A sudden drop in global tourism and travel

Lockdowns, border closings and weakened demand have led to a drastic fall in passenger air traffic and a collapse of tourism worldwide. Tourism—which employs an estimated 330 million people worldwide—is presumably the hardest hit economic sector (World Trade and Tourism Council, 2019; Rashid, Ng and Cheng, 2020). International tourist arrivals are expected to decline by 20 to 30 per cent in 2020. Sharper declines are expected for some developing countries, most notably SIDS (UNWTO, 2020). In the Bahamas, Cabo Verde, the Maldives and Vanuatu, tourism accounts for nearly 20 per cent of GDP and nearly 60 per cent of foreign exchange earnings (Figure 5). Small- and medium-sized enterprises, which make up 80 per cent of the global tourism sector, will face the brunt of the crisis. It is unlikely that the tourism sector will rebound significantly until the fear of asymptomatic spread of the virus is adequately addressed with expanded testing and breakthroughs in vaccine and treatment of COVID-19.

Figure 5
Tourism's total contribution to GDP of SIDS



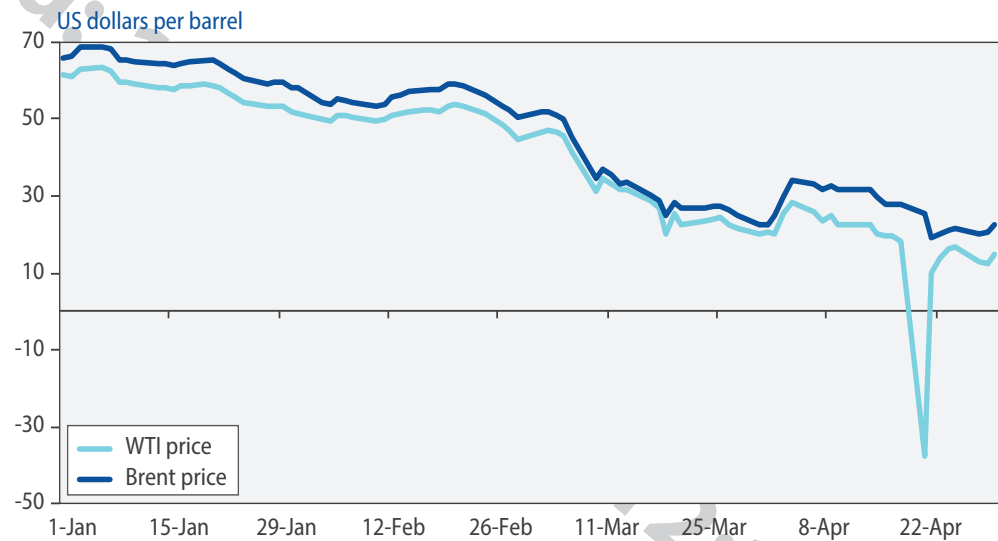
Source: World Travel & Tourism Council (WTTC).

Note: Direct impact includes the value added from accommodation, recreation, transportation, and other related sectors. Indirect impact measures the additional value added by the supply chain of these industries, while induced impact measures the additional economic impact of these industries in the rest of the economy.

Commodity prices in a free fall

Commodity prices plummeted in early 2020, as the pandemic upended global demand and supply. Crude oil prices in the United States fell into negative territory for the first time in history (Figure 6), amid falling demand, and rising inventory and storage reaching full capacities. The recent agreement between the Russian Federation and Saudi Arabia to cut output did little to prevent the extreme volatility in oil price, which signals that market participants remain unsure that demand for oil—and economic activity— will pick up anytime soon.

Figure 6
West Texas Intermediate (WTI) and Brent Front Month Futures (daily closing price)



Source: New York Mercantile Exchange.

Oil and commodity prices are likely to remain depressed in the near term, which will push many commodity-dependent economies, especially those who are already saddled with high levels of external debt, closer to an economic crisis. Falling export revenues will also constrain their ability to commit adequate financial resources to fight the pandemic, scale up health preparedness, or extend income support to households most affected by the crisis and stimulate recovery. Most commodity-dependent economies would need to brace for a long, painful recovery, while avoiding a financial crisis (Rashid, Vergara, Afonso and Pitterle, 2020).

Developing countries face mounting financing constraints

Equity, bond and currency markets experienced unprecedented volatility during March 2020, reflecting significant uncertainties in the short-run. Monetary and fiscal measures adopted by the United States and countries in Europe are yet to calm investors worldwide. While these measures increased global liquidity, financing conditions tightened, as many developing countries, especially economies with large fiscal and current account deficits and low levels of reserves, are facing significantly higher borrowing costs.

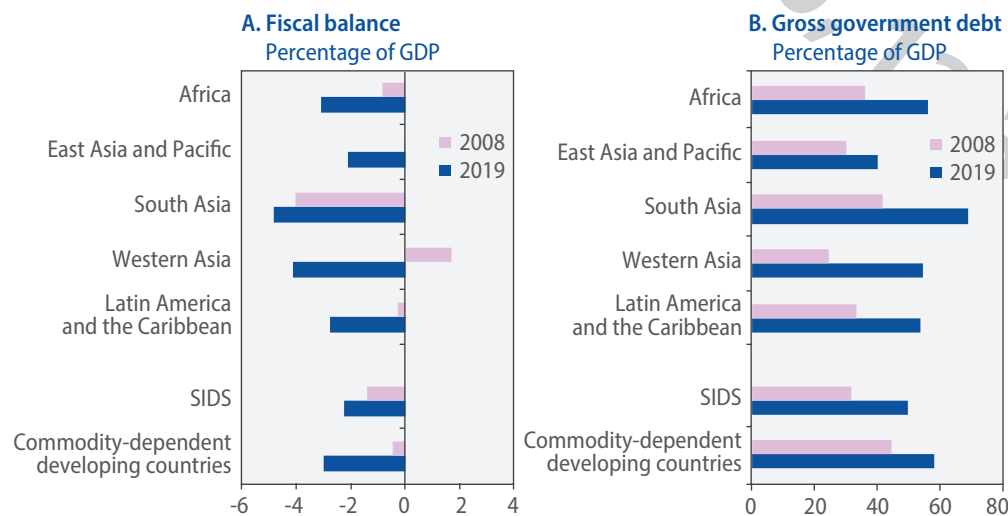
Yields on 10-year government bonds of many developing economies, including Brazil, Colombia, Nigeria and South Africa, increased by more than 2.0 percentage points, amid investor panic and increasing flight to safety. In parallel, the Brazilian real, the Mexican peso and the South African rand have depreciated by about 30 per cent against the dollar between January and March, pushing up debt-to-GDP ratios and amplifying risks of debt distress, as most of their debt is denominated in US dollars.

The fiscal cost of fighting the health crisis and implementing much-needed stimulus measures will be prohibitive for many developing countries. Many of them are in a much weaker position today to confront the crisis than they were in 2008–2009. During the period 2016–2019, developing countries grew at an average annual rate of 4 per cent, well below the 6.8 per cent in 2005–2008. The slowdown in economic activity has been much more pronounced for commodity-dependent developing countries, which recorded annual growth of only 0.6 per cent in 2016–2019, compared to 5.7 per cent in 2005–2008.

At the same time, their external financing needs are significantly larger today, with most developing countries running larger current account deficits than in 2008. Gross external financing requirements—consisting of short-term debt, amortization of medium- and long-term debt, and the current account deficit—have significantly increased, exceeding 20 per cent of GDP, for example, for Argentina, Kenya, Malaysia, South Africa, Tunisia and Turkey. For most developing countries, particularly for commodity-dependent economies, the fiscal situation is tighter now than it was in 2008 (Figure 7).

Figure 7

Fiscal indicators prior to the global financial crisis and the COVID-19 crisis



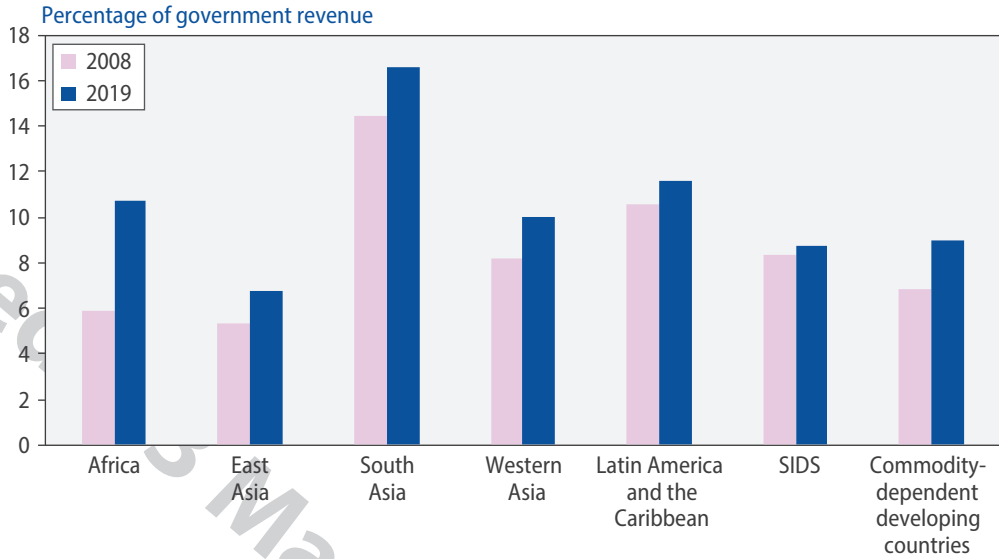
Source: UN DESA calculations, based on IMF, World Economic Outlook database.

Note: Regional figures are median values of country-level data.

Developing country governments are spending an ever-increasing share of their revenues on interest payments, despite a decade of ultra-low interest rates in developed countries (Figure 8). An increasing share of public debt is owed to private creditors, denominated in foreign currencies, partly explaining rising debt servicing costs (Figure 9). In many countries, the interest burden has reached levels not seen since the large-scale debt write-offs of the early 2000s. Last year, seven African countries² were spending more than 20 per cent of government revenues on interest payments.

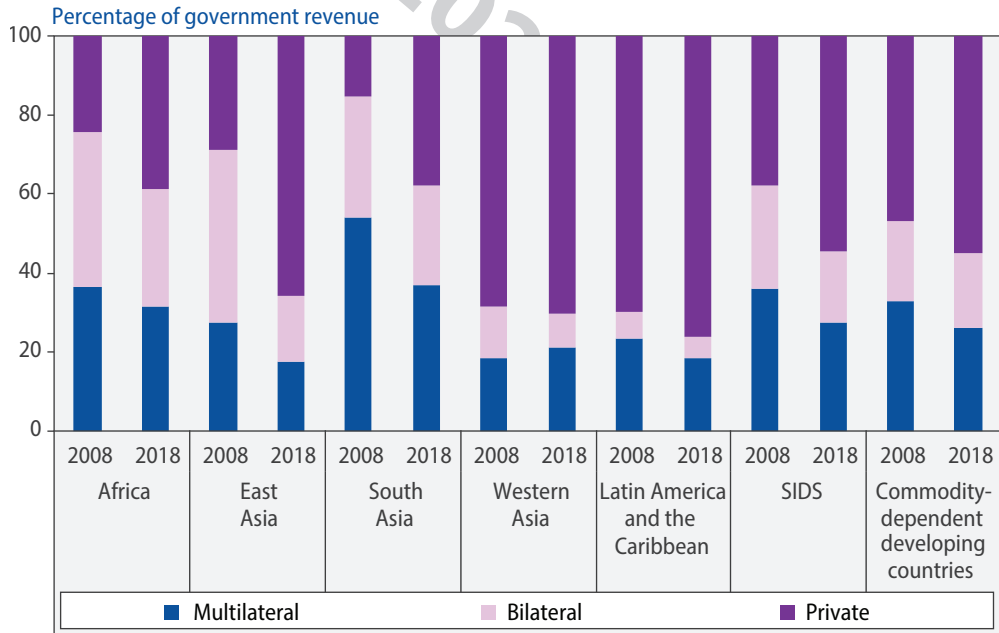
² Angola, Burundi, Egypt, Ghana, Kenya, Nigeria and Zambia.

Figure 8
Interest payments as a share of government revenue



Source: UN DESA, based on IMF, International Debt Statistics database.
Note: Regional figures are simple averages of country-level data.

Figure 9
Public and publicly-guaranteed external debt, by creditor type



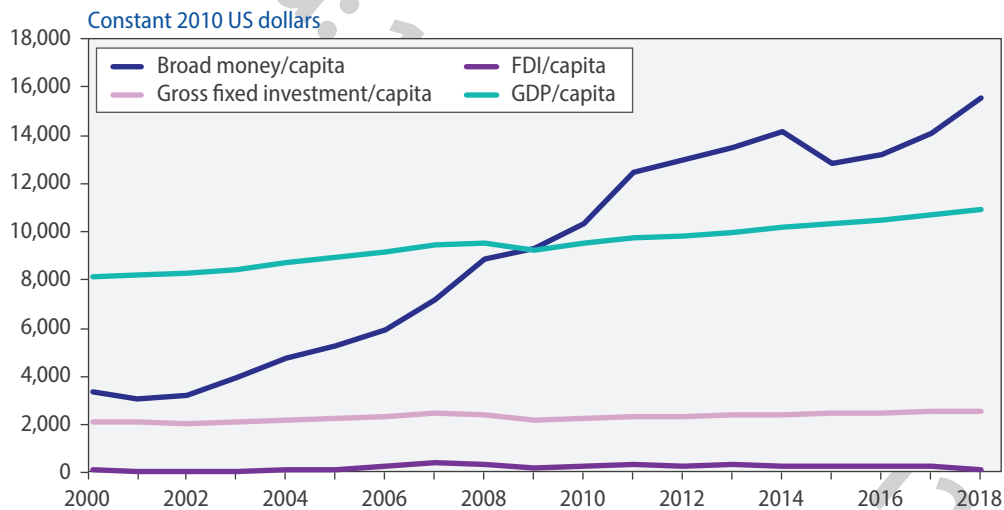
Source: UN DESA calculations, based on the World Bank's International Debt statistics database.

Rapid, bold but uneven policy responses

The pandemic has hit the world economy at a particularly difficult time. The global economy grew at an average of 2 per cent during the past 10 years, compared to an average growth rate of 4 per cent during the decade before the global financial crisis. As robust economic recovery remained elusive during the past decade, most governments accumulated fiscal deficits and higher levels of debt to stimulate economic growth.

Developed economies largely relied on monetary policy measures —near zero policy rates and quantitative easing—to steer recovery from the Great Recession of 2009. While these measures steadied financial markets, they generally failed to boost investment and growth. Global liquidity per capita increased by 116 per cent in real terms during 2007–2018, while global GDP per capita increased only 15 per cent during the same period (Figure 10). Buoyed by additional liquidity of nearly \$70 trillion, stock prices worldwide saw unprecedented increases while fixed capital formation and FDI stagnated. In real terms, per capita fixed investment increased by only 5 per cent between 2007 and 2018, while FDI per capita declined by 66 per cent.

Figure 10

Per capita liquidity (broad money), GDP, fixed investment and FDI

Source: UN calculations, based on data from World Bank, World Development Indicators database.

Most governments around the world are ramping up fiscal spending, providing cash transfers and tax relief to protect employment and income, and prevent bankruptcies of firms. Collectively, fiscal measures worldwide stand at \$9 trillion—more than 10 per cent of the 2019 total gross world product. The United States Government rolled out emergency relief packages worth over \$2.5 trillion, more than double the size of the fiscal stimulus enacted in 2009. European countries have also adopted large and multiple fiscal measures. In addition, the European Union (EU) governing bodies temporarily suspended the rules that limit budget deficits of the EU member states. Many countries in Europe have pledged to protect employment with wage-support schemes. In Japan, the Government unveiled a stimulus package worth nearly \$1 trillion (around 20 per cent of GDP), despite having a public debt to GDP ratio of more than 230 per cent, the highest in the world.

Developing countries have limited fiscal resources to address the economic impact with large relief and stimulus measures. Their fiscal space is limited, access to external finance is constrained, and their external balance is increasingly fragile. Most developing country governments are implementing fiscal stimulus between 1 and 2 per cent of GDP, and in many cases, even less than 0.5 per cent.

Monetary policy responses are complementing and reinforcing fiscal measures,

as there is less room to manoeuvre now with already low interest rates. In three months during September–December 2008, developed country central banks had cut policy rates by about 4 percentage points before hitting the zero lower bound. This time, interest rate cuts are hitting the zero lower bound after a reduction of policy rates by about 1 percentage point. The Federal Reserve in the United States (Fed) has launched an “unlimited” bond-buying programme to ensure the flow of credit in the economy. The emergency loans provided by the Fed may reach up to \$2.3 trillion. The European Central Bank (ECB) announced purchases of €750 billion in bonds in 2020 to reduce borrowing costs for the euro area governments. The Bank of Japan decided to expand its asset purchase program and provide emergency zero-interest loans to businesses short of cash. In China, the central bank, apart from cutting interest rates, decided to provide payment relief to firms especially hurt by the crisis.

Monetary conditions in major economies are expected to remain accommodative during the outlook period. However, it is unlikely that monetary measures would stimulate productive investments, without appropriate targeting of funds and requiring businesses to boost investments as a condition for receiving monetary and fiscal support.

The world economy after COVID-19: Back to normal or a new normal?

The COVID-19 crisis demonstrates that the economic health and the public health of a country are inextricably linked and mutually reinforcing. An economy can quickly come to a standstill if public health concerns and uncertainties prevent people from participating in everyday activities. The longer the uncertainties persist, the harder it gets for an economy to return to its normal, pre-crisis trajectory. Uncertainties about the future course of the pandemic and its economic and social repercussions remain high. While lockdowns have generally slowed the spread of the virus, the public remains fearful and anxious about the possibility of a second wave of the pandemic in the coming months. There is still no breakthrough in treatment and vaccine development. Public health experts generally agree that some form of social distancing—impacting some economic activities—will need to remain in place until definitive vaccines, treatment and antibody testing become readily available to all.

If uncertainties about vaccine, testing and treatment persist, people will return to work with a high degree of caution and risk aversion, which will depress both consumption and investment. People will get used to a new lifestyle, leading to a permanent shift in demand for certain goods and services. Demand for restaurant meals, sporting events, movie theatres, live entertainment and tourism will likely remain low, while demand for existing and new online services will continue to rise dramatically. Social distancing can become the new normal, entrenching and possibly reinforcing fear, mistrust and prejudice among people, communities, societies and countries. Countries may seek to reduce interdependence, and shorten supply chains, as many may consider the potential costs of a crippling pandemic too high relative to the benefits they receive from economic integration and interdependence. The fight against the pandemic—if it continues for too long and its economic price becomes too high—will fundamentally reshape trade and globalization.

Online economy the new reality?

The crisis, amid new realities of lockdowns and social distancing, has been a boon for online retailers, social media, digital communication platforms and streaming services. Conversely, the online ride- and accommodation-sharing “gig” economy is facing sharp declines in demand. The adverse impact on the sharing economy could be long-lasting, especially if social distancing becomes the new norm (Kissler, et al., 2020), hurting the livelihood of millions employed in the gig economy worldwide. Faster digitalization and the surge of economic activities online will likely eliminate many existing jobs, while creating many new jobs in the digital economy. Net employment effect could be negative or neutral depending on the current size and scope of the digital economy and the pace, as well as permanence, of the transition to online activities.

Like in any crisis, there will be winners and losers. Firms that invested in digital technologies and training have been relatively more successful in coping with the crisis than those that did not. Most notably, the ability to work remotely has become vital to ensure business continuity. The relative operational advantage of larger firms in the digital sphere may contribute to further entrenching inequalities between large and small businesses, as many will fail during the current crisis.

There is also the risk of a widening educational divide, both within and across countries, as 120 countries closed schools and other educational facilities nationwide, with far-reaching implications for an estimated 1.25 billion children and youth. Countries with high levels of digitalization and broadband access will likely manage to minimize the impact of school closures on long-term learning. Countries with more developed digital capacities—enabling contact tracing and surveillance—may also fare better to prevent the resurgence of the pandemic.

Developed economies: fiscal consolidation or higher taxes?

In the aftermath of the crisis, most countries will face much higher levels of public debt, presenting significant macroeconomic challenges going forward. In developed economies, the environment of ultra-low interest rates is expected to continue despite record-wide fiscal deficits and a jump in public debt. As after the global financial crisis, firms and households across developed economies will likely increase net savings to repair their balance sheets. The marginal propensity to consume will remain low, despite very low interest rates, largely because spending power will remain concentrated among households at the high end of the income distribution, whose income and consumption decisions are not affected by short-term interest rates. Consumption demand at the low end of the income distribution will remain severely constrained, as their income may stagnate and even fall during the recovery period. Weak consumer demand will discourage productive investments and depress growth. Excess liquidity—not borrowed by governments and not invested by firms—will find its way into financial markets. Asset prices during the post-crisis period may follow the same path they took after the global financial crisis. This rebound in asset prices will inevitably increase income and wealth inequality in developed economies.

While low interest rates will keep debt servicing costs low, governments may pursue premature fiscal consolidation to reduce debt burdens and increase primary surpluses, especially if raising new taxes proves difficult. The crisis has shown that developed countries with a more favourable fiscal position are able to undertake larger fiscal stimulus

to minimize the economic impact of the pandemic. Germany, for example, entered the crisis with a fiscal surplus and a relatively low level of government debt. The virtue of maintaining fiscal surplus—which allows a country to tap into those surpluses during rainy days—may encourage many developed countries to prematurely roll back fiscal stimuli and pursue fiscal consolidation or even fiscal austerity. Fiscal consolidation measures typically reduce social sector spending and hurt the poor disproportionately. On the other hand, many developed economies, particularly the United States, may be required to increase taxes to fund the gnawing fiscal deficits. Economic recovery will climb a slippery slope if the additional tax burden falls largely on middle class households.

Developing countries: a debt crisis, high inflation or both?

While developed countries face domestic financing challenges, the crisis exposes the deepening external vulnerability of many developing and emerging economies that rely on external flows—trade revenues, remittances and borrowing—to finance their fiscal deficits.

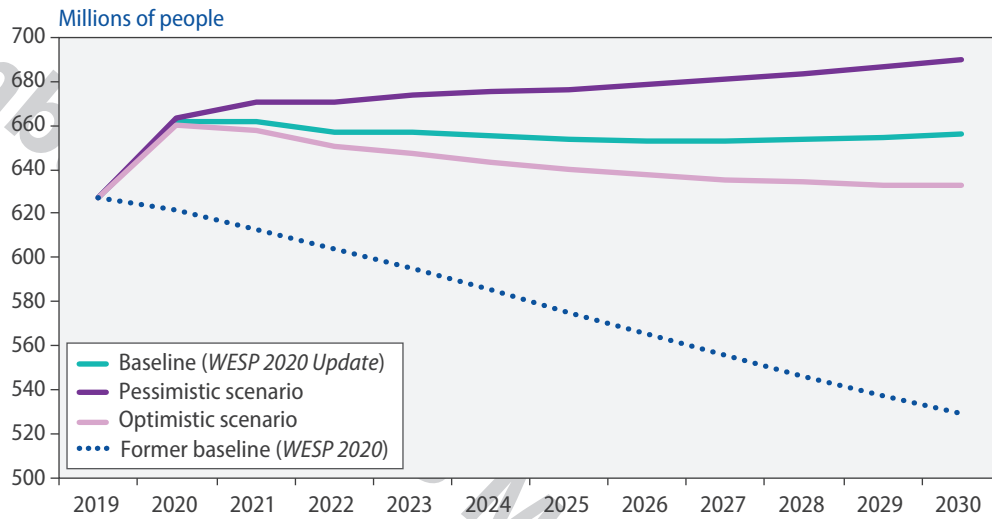
The sharp decline in revenues from commodities and tourism has severely increased the likelihood of debt distress in Africa, Latin America and the Caribbean, and Western Asia. Mongolia, one of the world's most commodity-dependent countries, has an external debt-to-GDP ratio of over 220 per cent of its GDP. The Republic of Congo, Mauritania and Mozambique have similarly high levels of external debt. In 2019, almost half of all low-income countries were either in debt distress or at a high risk of becoming so (International Monetary Fund, 2020).

Even if developing countries manage to avoid a full-blown debt crisis, some may need to monetize their debt, that is, print money to finance additional fiscal outlays to fight the pandemic. Unlike in developed economies, domestic capital markets are shallow in most developing countries, making it harder for governments to borrow without crowding out private borrowing. Excessive government borrowing from domestic banking sectors, coupled with monetization of debt, will increase inflationary pressure and depress growth. Economic growth may suffer further setbacks if global demand and external flows remain weak. A prolonged period of weak growth will exacerbate the debt burden of many developing countries.

Rising poverty and inequality

The massive losses of employment and income due to the crisis will exacerbate global poverty, especially in developing countries where unemployment insurance and other forms of social protection are minimal or non-existent. According to baseline estimates, 34.3 million additional people—including millions working in the informal sector—will fall below the extreme poverty line this year, with African countries accounting for 56 per cent of this increase. Relative to the projections presented in *World Economic Situation and Prospects 2020* in January (United Nations, 2020a), the number of people living in extreme poverty could increase by nearly 130 million by 2030. In the pessimistic scenario, this number could exceed 160 million (Figure 11). Extreme poverty and hunger could be higher if developing countries experience a period of high inflation and low growth during recovery.

Figure 11
Poverty projections



Source: UN DESA, based on projections and scenarios produced with the World Economic Forecasting Model (WEFM).

Note: The threshold of extreme poverty used for the projections is \$1.9 a day.

The current crisis, especially if fiscal measures fail to protect income and stimulate consumption in the near term, will exacerbate income distribution patterns and inequality. A quick recovery of asset prices, with excess liquidity chasing existing and new financial assets, will potentially divert financial resources away from productive investments, undermine growth and increase income and wealth inequality, especially in developed economies.

Globalization facing an existential crisis

The COVID-19 pandemic is shaking the fundamental premise of globalization. The mobility of people across national borders, especially via air travel, allowed the virus to spread to more than 210 countries and territories. On the other hand, deep global trade and financial linkages mean that economic effects of local lockdown measures and other restrictions quickly spilled over from one country to another, triggering a downward spiral in economic activities worldwide.

The speed and ferocity of the pandemic caught many governments off-guard, forcing them to quickly mobilize and stockpile medical supplies and equipment. At least 54 countries have introduced export restrictions on medical supplies since the beginning of 2020, as medical supplies became scarce and prices soared. The normal functioning of markets has faltered, eroding confidence in global supply chains and reinforcing scepticism about globalization. If globalization fails to ensure unrestricted movement of essential goods at fair market price, its critics score a victory.

Stronger international cooperation and more effective globalization—not less—remain critical for effectively managing this current crisis: fighting the pandemic with breakthroughs in treatment and vaccine development, limiting the economic fallout and ensuring a robust global recovery. To survive the onslaught of the pandemic and win over sceptics, globalization must deliver economic benefits not only to a few, and not only during good times, but also help those most in need—the most vulnerable people and

most vulnerable countries—during a crisis. The current crisis thus presents a litmus test for globalization and global solidarity. If global integration is perceived as only endangering public health but not providing a buffer against an unexpected shock, many countries will retreat from globalization, which will undermine both the immediate crisis response and the longer-term development prospects of countries.

Stronger international cooperation for avoiding a debt crisis

The rapid spread of the pandemic and its growing death tolls and rising economic pains have exposed the vulnerability of an increasingly inter-connected and inter-dependent world. It underscores the imperative of stronger and more effective international cooperation to harness scientific prowess, technical know-how, disaster preparedness and most importantly financial resources to help people, communities and countries most affected by the crisis.

Many developing countries, including those that are heavily dependent on commodities, tourism revenues or remittances, are unlikely to have sufficient foreign exchange to service their debt in 2020. Global cooperation is particularly urgent for avoiding a catastrophic debt crisis in many developing countries. The United Nations has called for a three-phase approach to address the debt vulnerabilities that will emerge in the aftermath of the pandemic. The first phase urges a freeze in debt service, including servicing multilateral and private creditors for all developing countries that have no access to financial markets and cannot service their debt. The second phase calls for enhanced debt sustainability compatible with Sustainable Development Goals (SDGs) achievement, creating fiscal space for resilient recovery. The third phase underscores the need for structural reforms in the international debt architecture to prevent prolonged financial and economic crises caused by debt defaults (United Nations, 2020b).

In the short run, the increased availability and rapid deployment of emergency funds to address liquidity shortages and free up fiscal space is paramount. As of mid-April, the International Monetary Fund (IMF) had already received over 90 emergency financing requests from low-income and emerging economies, which include the expanded use of the IMF's Special Drawing Rights and a moratorium on debt payments. The World Bank's plan to deploy up to \$160 billion over the coming 15 months is a step in the right direction in this regard but will fall short of the needs of these countries. Even if short-term liquidity measures are rapidly and successfully deployed, many developing countries will still need a comprehensive restructuring of their debt to stimulate growth and accelerate recovery.

The crisis presents an opportunity to “recover better”, strengthening public health systems, improving prevention and access to treatment and vaccinations, and building capacities to withstand future shocks (United Nations, 2020c). There is a greater imperative for Governments to align their response to the pandemic with the objectives and priorities of the 2030 Agenda for Sustainable Development. Recovering better will require building resilience with fiscal buffers and automatic stabilizers to withstand economic shocks, and robust social protection systems to protect the well-being of households. Fiscal stimulus packages rolled out to fight the economic crisis can be targeted to facilitate the transition to a green economy, bridge the digital divide both within and between countries, accelerate structural transformation and promote sustainable development.

Regional economic outlook

Developed economies

North America

The United States GDP is expected to contract by 4.8 per cent in 2020. As the United States imposed lockdowns and halted a range of non-essential economic activities, employers laid off millions of workers. By the end of April, about 30 million American workers—nearly 19 per cent of the civilian labour force—filed for unemployment benefits.

As the pandemic upended real economic activities and financial markets, the United States Government promptly responded with stimulus packages, totalling over \$2.5 trillion (11.4 per cent of GDP) to prevent the economic collapse. These include \$500 billion of direct support to households facing severe income losses and an additional \$320 billion, enacted in late April, to provide pay-check protection to small businesses. Despite large fiscal responses, financial markets continue to remain jittery, with asset prices showing unprecedented levels of volatility. There is mounting political pressure to reopen the economy, despite dire warnings from public health officials that the premature reopening of the economy could lead to a resurgence of infections. Most of the United States economy is expected to begin lifting restrictions in May, which adds to uncertainties about the future course of the pandemic. A prolonged economic slump in the United States will have significant negative spillover effects on the rest of the world economy, as it accounts for 12 per cent of global imports, 15 per cent of outward remittances, 20 per cent of FDI flows and 23 per cent of ODA.

The COVID-19 pandemic has hit the Canadian economy hard, which had already been weakening since the fourth quarter of 2019. In the Government's stimulus package of 193 billion Canadian dollars (8.4 per cent of GDP), more than half constitutes direct aid to households. The fiscal measures are expected to sustain domestic consumption. The economy is also negatively impacted by the plunge in oil prices.

Japan and developed Asia

Facing a 4.2 per cent contraction in output, the Japanese Government has announced a stimulus package of JPY 108 trillion (20 per cent of GDP). Although only a relatively mild rise of unemployment is expected, real wages are projected to stagnate for a prolonged period. A slow recovery is expected in 2021 as the negative impact on private consumption, private housing investments and exports persists.

The Government of Australia was quick in putting in place fiscal stimulus measures of 194 billion Australian dollars (9.7 per cent of GDP), with wage subsidies and direct income support accounting for most of the fiscal measure. The measures may not be able to prevent the economy from a multiple-quarter contraction. Moreover, the plunge in international energy and metal prices continues to hit the economy, which has been increasingly dependent on commodity exports.

Europe

Major economies in Europe—hardest hit by the pandemic—are projected to shrink by 5.5 per cent this year. European institutions and national Governments have taken significant fiscal policy measures amounting to almost 10 per cent of the region's GDP. As

an emergency measure, the EU Commission triggered the escape clause in the Stability and Growth Pact (SGP), which normally limits national fiscal deficits to 3 per cent of GDP and public debt to 60 per cent of GDP. A protracted recession in Europe could be very costly for the rest of the world economy and particularly for developing countries in Africa, as the region accounts for 25 per cent of FDI, 28 per cent of global remittance flows, 33 per cent imports of goods and services and 56 per cent of ODA.

Economies in transition

Amid falling prices of oil and other commodities and the severe disruptions to economic activities and movement of people, the aggregate GDP of the Commonwealth of Independent States (CIS) and Georgia is expected to shrink by 3.5 per cent in 2020, recovering by only 3.0 per cent in 2021. In South-Eastern Europe, which is strongly exposed to the EU and increasingly dependent on FDI from China, the aggregate GDP is expected to shrink by 3.3 per cent in 2020 and grow by 3.6 per cent in 2021.

The economy of the Russian Federation is expected to contract by over 4 per cent in 2020, since energy revenues have collapsed and economic activity has suffered serious interruptions. Moreover, fragile business confidence weighs heavily on investment, and the implementation of the National Development Projects may be delayed. Smaller countries in the Caucasus and Central Asia, linked to the Russian economy through trade and remittance channels, are suffering from mobility restrictions imposed by Kazakhstan and the Russian Federation, further exacerbating domestic labour market pressures. Remittance inflows are shrinking and the weaker rouble is reducing their purchasing power in those countries, undermining domestic consumption and, to some extent, investment. To protect jobs, income and economic activity, and to secure the stability of the heavily dollarized banking systems, virtually all countries in the region have adopted a combination of monetary and fiscal policy measures. Some energy-exporters may also utilize resources from the national wealth funds. The Russian Federation has adopted a fiscal package worth over \$20 billion in public spending and tax relief. However, this stimulus package, at less than 2 per cent of GDP, is modest. Most countries in the region are receiving support from multilateral lenders, facing balance of payments pressures and having limited room for countercyclical fiscal policy.

Developing countries

Africa

Many countries in Africa—especially economies that are heavily dependent on commodity exports—are facing the brunt of an economic crisis even before being hit by the pandemic. At the time of writing, the continent accounts for only 0.95 per cent of confirmed cases, and 0.49 per cent of reported COVID-19 related deaths, making it the least affected continent. Despite the limited outbreak, most countries in the region have introduced stringent lockdowns and social distancing measures. Regional GDP is projected to shrink by 1.6 per cent in 2020, including economic downturns in Egypt, Nigeria and South Africa. Many economies are experiencing a major contraction of the external demand and more adverse financing conditions. In addition, the collapse in tourism is projected to severely impact Cabo Verde, Egypt, Morocco, Sao Tome and Principe and South Africa,

and the decline in remittances will affect several countries, including Comoros, Lesotho and Liberia. High levels of public debt, limited fiscal space, sharp declines in external flows, particularly export earnings, ODA and remittances, and low levels of reserves in several African economies, combined with political instability and weak security, make the region particularly vulnerable to a health and economic crisis. Given limited fiscal space, several economies are aggressively easing their monetary policies through interest rate cuts, and liquidity and credit measures to prevent crippling economic downturns.

East Asia

As the ongoing pandemic takes its toll on the global economy, East Asia's growth outlook has also deteriorated significantly. Regional GDP growth is projected to decelerate sharply from 5.2 per cent in 2019 to 1.1 per cent in 2020. A rebound in growth to 6.8 per cent is expected in 2021, but this is highly contingent on the successful containment of the virus this year. For many East Asian economies, exports are likely to contract substantially, reflecting supply chain disruptions and a significant slowdown in global demand. Across the region, widespread travel restrictions, enforced business closures, and quarantine measures will suppress consumer spending and investment activity. The region's investment prospects are further dampened by heightened risk aversion and bouts of strong financial market turbulence.

Amid a collapse in industrial production and a sharp decline in consumer spending, China's first quarter GDP contracted by 6.8 per cent compared to the same period last year. Growth in China is projected to slow markedly from 6.1 per cent in 2019 to 1.7 per cent in 2020, before rebounding to 7.6 per cent in 2021. The gradual lifting of containment measures is expected to ease production disruptions while releasing some pent-up consumer demand. However, the momentum of the recovery will be weighed down by the slump in international trade, weaker domestic labour market conditions, and the deterioration in corporate balance sheets.

The plunge in international travel will disproportionately harm the highly tourism-dependent economies in the East Asia region, including Cambodia, Thailand and the Pacific Island States. For Brunei Darussalam and Mongolia, growth prospects will be dampened by the sharp fall in global commodity prices. Meanwhile, the bleak outlook for global trade will adversely affect countries that are deeply integrated into global production networks, such as Malaysia, the Republic of Korea and Singapore.

Against this backdrop, most East Asian economies have unveiled large policy stimulus measures, which are expected to partially offset the economic fallout from the virus outbreak. Central banks have embarked on monetary easing in order to improve liquidity and credit conditions and preserve financial stability. Most policymakers have also announced a range of targeted fiscal measures, primarily to support those that have been hardest hit by the crisis. These include tax relief, cash handouts to households and soft loans to small and medium enterprises.

South Asia

The 2020 growth outlook for South Asia has deteriorated sharply. In light of this, the projected growth of GDP has been revised downward from 5.1 per cent to -0.6 per cent for 2020 and from 5.3 per cent to 4.4 per cent next year. Densely populated and ill-equipped for a public health catastrophe, the region is extremely at risk.

Policymakers across the region have, sometimes reluctantly, adopted more and more restrictions on activity to avert this threat, but this comes at a heavy economic toll. The national lockdown in India, for example, is expected to depress economic growth to just 1.2 per cent, much lower than the already disappointing growth in 2019. The Islamic Republic of Iran, meanwhile, has been doubly hit by an explosive COVID-19 outbreak and the plunge in global oil prices, perpetuating its deep recession with a continued contraction in GDP by 5.5 per cent and severely constraining the Government's ability to scale up the public policy response. The crash in international tourism following the COVID-19 outbreak greatly reduces forecast economic growth for the Maldives to a steep contraction of 4.6 per cent in 2020.

While the least developed countries in the region, Afghanistan, Bhutan and Nepal, have so far remained relatively sheltered from both the raging pandemic and the global economic turmoil, this could well be just the calm before the storm. Already, the countries have begun implementing border closures and regional or national lockdowns, but with weak administrative capacity, the effectiveness of such measures might not be sufficient. Emergency support from multilateral organizations, such as the World Bank, the Asian Development Bank and the Asian Infrastructure Investment Bank, and debt suspension pledged by the G20 are expected to somewhat alleviate short term fiscal and balance of payments pressures but the risk for macroeconomic instability remains very high.

Western Asia

Western Asia, on average, is forecast to contract by 3.5 per cent in 2020, followed by a slow recovery in 2021. The region already saw a sharp decline in economic growth in 2019, owing to weak external and domestic demand. A recovery scenario, which had been expected for 2020, was shuttered by the COVID-19 pandemic and the global economic disruptions that pushed down oil prices substantially.

The region's response to the health emergency was swift. All countries promptly put border restrictions in place to contain the COVID-19 outbreak. By the end of March, all the countries, except for Oman and Yemen, also enforced nationwide lockdowns to varying extents. However, economic policy responses to the abruptly changing external and internal conditions differ substantially. Fiscal stimulus packages were promptly announced in Bahrain, Israel, Kuwait, Qatar, Saudi Arabia, Turkey and the United Arab Emirates. Meanwhile, Jordan, Lebanon, Oman and Yemen were not able to take counter-cyclical measures due to the lack of fiscal space.

Most central banks in the region also quickly responded to the crisis by supplying liquidity to the respective banking systems. Policy rates were cut in Bahrain, Jordan, Kuwait, Qatar, Saudi Arabia, Turkey and the United Arab Emirates, following the Federal Reserve's decision to cut its policy rate. However, due to dwindling foreign reserves, central banks in Lebanon, Syria and Yemen could not take expansionary measures.

While the fiscal stimulus measures are expected to have a temporary impact, the region is forecast to suffer from a prolonged negative wealth effect from weakening financial and real estate markets. Moreover, the plunge in oil prices dampened business sentiment and consumer confidence. Unemployment is expected to rise to an alarming level in the region's non-oil producing countries, which may cause further social unrest.

Latin America and the Caribbean

The COVID-19 pandemic has taken a heavy toll on the countries in Latin America and the Caribbean. As the virus continues to spread across the region, domestic lockdowns, along with a collapse in global demand, lower commodity prices and massive financial outflows, are severely undermining economic activity. According to the baseline forecast, GDP is projected to shrink by 5.4 per cent in 2020—the largest contraction in the region's history. Average per capita income is expected to decline to the lowest level in more than a decade. With unemployment rising sharply, large numbers of people will fall into poverty. The region is expected to return to moderate growth in 2021, supported by a global economic recovery. Assuming the spread of the virus is contained in the course of 2020 and policy actions are effective in mitigating the crisis, the region's GDP is projected to grow by 3.1 per cent in 2021.

The crisis has affected the region in multiple ways. The virus outbreak has been most severe in Brazil, Ecuador and Peru. In response to the pandemic, almost all countries adopted widespread containment measures. Several governments, especially in South America, imposed partial or complete lockdowns. The negative impact of such measures on economic activity has been compounded by external factors, including slowing global demand, lower oil and metal prices, disruptions to global value chains, and falling remittances and tourism revenues. While the region's main foreign income sources have all taken a hit, access to international financing has sharply deteriorated amid heightened risk aversion and flight to safety among investors.

The economies in the Latin America and the Caribbean region have limited capacity to offset these multiple shocks through monetary and fiscal policies. Many countries entered the crisis in already weak positions, with high levels of debt, sizeable external financing needs and subdued growth prospects. Moreover, social discontent and political unrest have been widespread. Central banks have responded swiftly to the crisis by lowering policy rates and providing emergency liquidity support. At the same time, Governments have implemented a wide range of support measures to mitigate the impact of the crisis. With few exceptions (for example, Brazil, Chile and Peru), the stimulus packages are smaller than in developed economies and more targeted at vulnerable households and firms. A broad-based and robust economic recovery in the region will remain elusive unless fiscal space is expanded. This requires strong international cooperation and support from multilateral organizations, including suspension of loan payments, provision of low-interest-rate loans and debt relief.

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