BANKING ON KNOWLEDGE

Recent reflections on global economies

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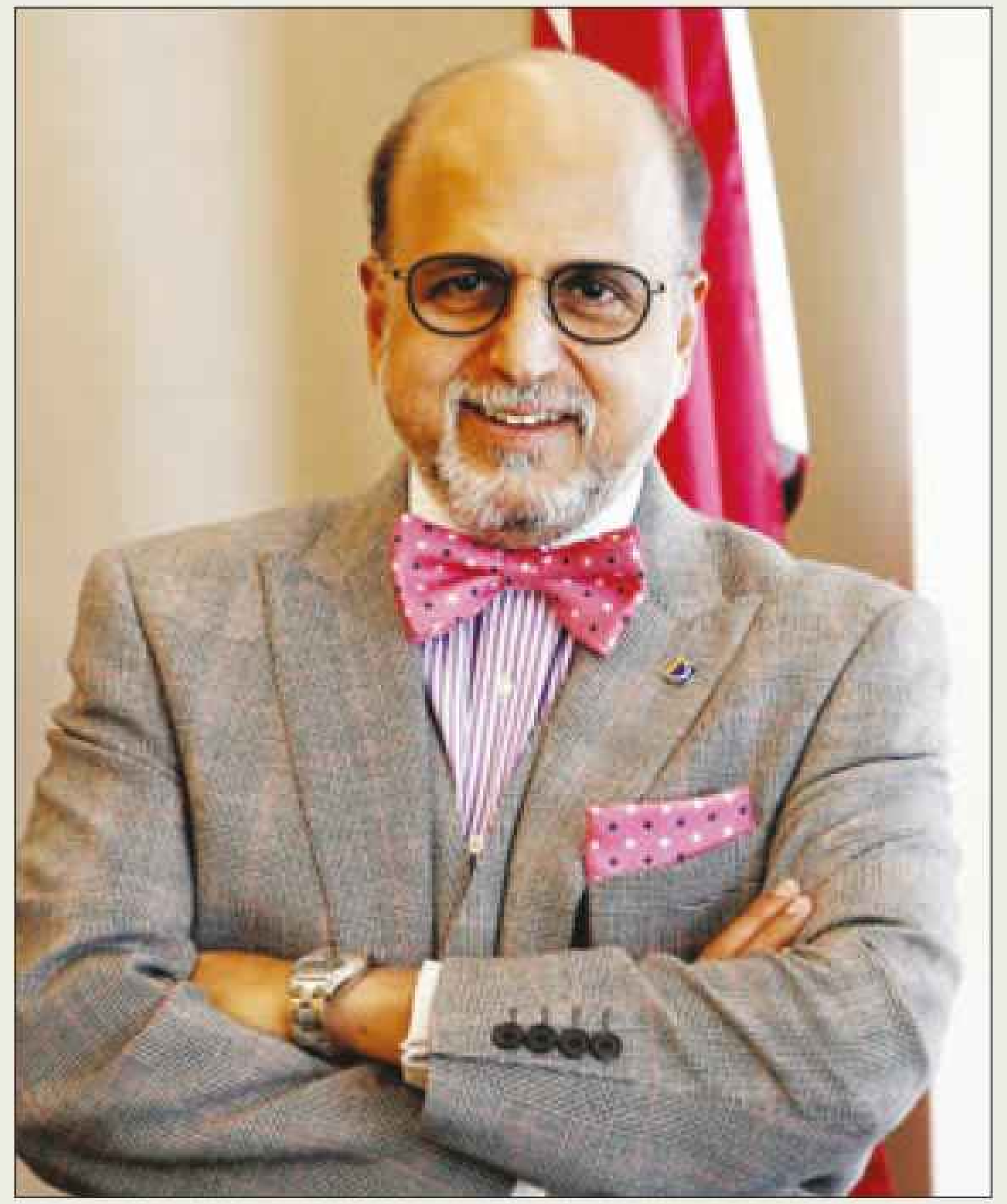

The Covid-19 pandemic has triggered the most severe recession in nearly a century and is causing enormous damage to people's health, jobs and well-being, according to the OECD's latest Economic Outlook in June 2020.

With little prospect of a vaccine becoming widely available this year, and faced with unprecedented uncertainty, the OECD has taken the unusual step of presenting two equally likely scenarios — one in which the virus is brought under control, and one in which a second global outbreak hits before the end of 2020. If a second outbreak occurs triggering a return to lockdowns, world economic output is forecast to plummet 7.6% this year, before climbing back 2.8% in 2021. At its peak, unemployment in the OECD economies would be more than double the rate prior to the outbreaks, with little recovery in jobs next year. If a second wave of infections is avoided, global economic activity is expected to fall by 6% in 2020 and OECD unemployment to climb to 9.2% from 5.4% in 2019.

The economic impact of strict and relatively lengthy lockdowns in Europe will be particularly harsh. Euro area GDP is expected to plunge by 11.5% this year if a second wave breaks out, and by over 9% even if a second hit is avoided, while GDP in the United States will take a hit of 8.5% and 7.3% respectively, and Japan 7.3% and 6%. Emerging economies such as Brazil, Russia and South Africa, meanwhile, face particular challenges of strained health systems, adding to the difficulties caused by a collapse in commodity prices, and their economies plunging by 9.1%, 10%, and 8.2% respectively in case of a double-hit scenario, and 7.4%, 8% and 7.5% in case of a single hit. China's and India's GDPs will be relatively less affected, with a decrease of 3.7% and 7.3% respectively in case of a double hit and 2.6% and 3.7% in case of a single hit.

According to World Bank forecasts, the global economy will shrink by 5.2% this year. That would represent the deepest recession since the Second World War, with the largest fraction of economies experiencing declines in per capita output since 1870, the World Bank says in its June 2020 Global Economic Prospects. Economic activity among advanced economies is anticipated to shrink 7% in 2020 as domestic demand and supply, trade, and finance have been severely disrupted. Emerging market and developing economies (EMDEs) are expected to shrink by 2.5% this year, their first contraction as a group in at least sixty years. Per capita incomes are expected to decline by 3.6%, which will tip millions of people into extreme poverty this year. The blow is hitting hardest in countries where the pandemic has been the most severe and where there is heavy reliance on global trade, tourism, commodity exports, and external financing. Under the baseline forecast — which assumes that the pandemic recedes sufficiently to allow the lifting of domestic mitigation measures by mid-year in advanced economies and a bit later in EMDEs, that adverse global spillovers ease during the second half of the year, and that dislocations in financial markets are not long-lasting — global growth is forecast to rebound to 4.2% in 2021, as advanced economies grow 3.9% and EMDEs bounce back by 4.6%. However, the outlook is highly uncertain and downside risks are predominant, including the possibility of a more protracted pandemic, financial upheaval, and retreat from global trade and supply linkages. A downside scenario could lead the global economy to shrink by as much as 8% this year, followed by a sluggish recovery in 2021 of just over 1%, with output in EMDEs contracting by almost 5% this year.

According to WTO April 2020 outlook, World merchandise trade is set to plummet by between 13 and 32% in 2020 due to the Covid-19 pandemic.

A 2021 recovery in trade is expected, but dependent on the duration of the outbreak and the effectiveness of the policy responses. Nearly all regions will suffer double digit declines in trade volumes in 2020, with exports from North America and Asia hit hardest. Trade will likely fall steeper in sectors with complex value chains, particularly electronics and automotive products. Services trade may be most directly affected by Covid-19 through transport and travel restrictions.

Merchandise trade volume already fell by 0.1% in 2019, weighed down by trade tensions and slowing economic growth. The dollar value of world merchandise exports in 2019 fell by 3% to US$18.89tn. The value of commercial services exports rose 2% to US$6.03tn in 2019.

■ *The author is Group CEO of Doha Bank.*