

Global Economic Outlook

Dean's Council meeting,
September 29, 2021

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The current economic outlook -- Summary

- Global GDP is projected to grow by 5.7% in 2021 & 4.5% in 2022
 - OECD *Economic Outlook*, September 22, 2021.
- Advanced countries are recovering well from sharp 2020 recession.
- But large output & employment gaps remain in many countries.
- Particularly in Emerging-Market & Developing Economies (EMDEs)
 - vaccination rates are low,
 - and debt levels are worrisome.
- A variety of risks threaten the outlook.

The US & Europe are recovering well from the 2020 recession.

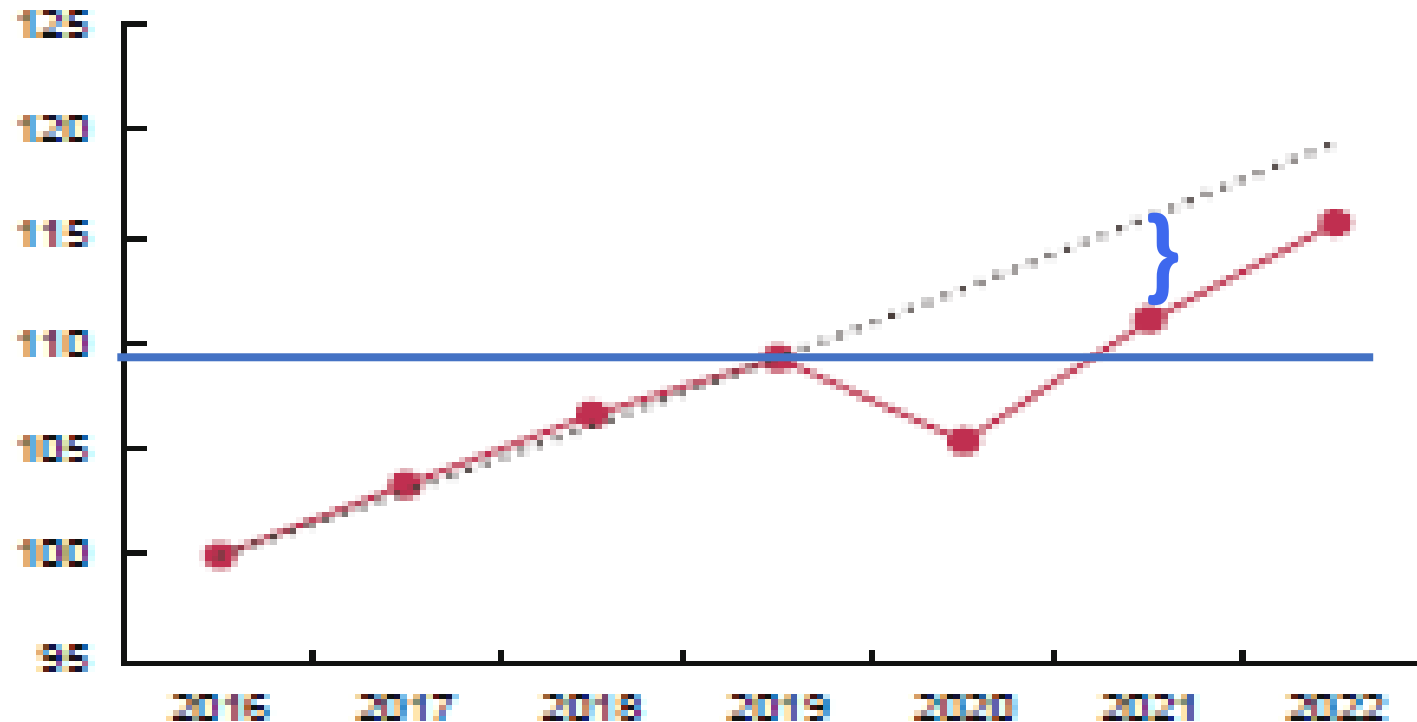
As has China, so far.

GDP growth Y-o-y % changes	2020	2021 projections	2022 projections
World	-3.4	5.7	4.5
US	-3.4	6.0	3.9
Euro area	-6.5	5.3	4.6
UK	-9.8	6.7	5.2
Japan	-4.6	2.5	2.1
China	2.3	8.5	5.8

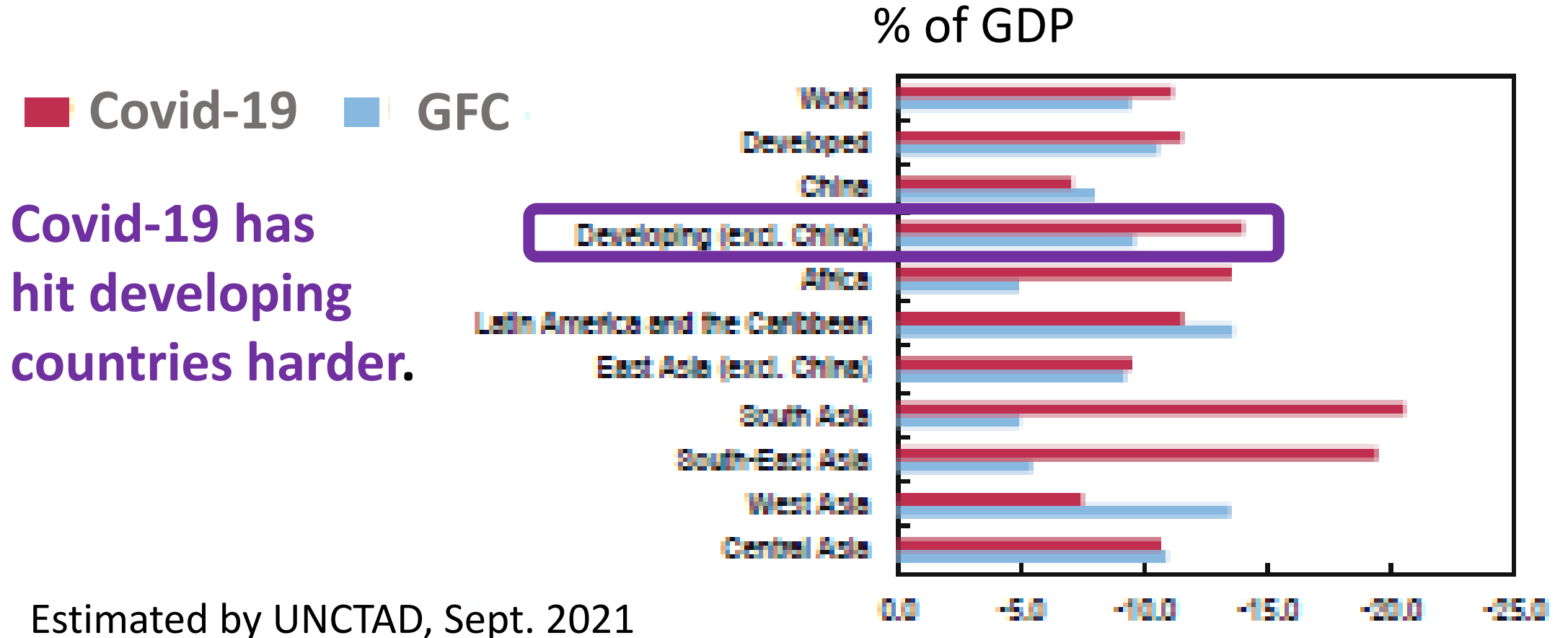
OECD *Economic Outlook*, Sept.2021

Global GDP has now surpassed its pre-pandemic level.
But is still 3½ % lower than projected before the pandemic.*

World output level, 2016–2022
(Index numbers, 2016 = 100)



Economic impact of Covid crisis, 2020-21, vs. Global Financial Crisis, 2009-10.

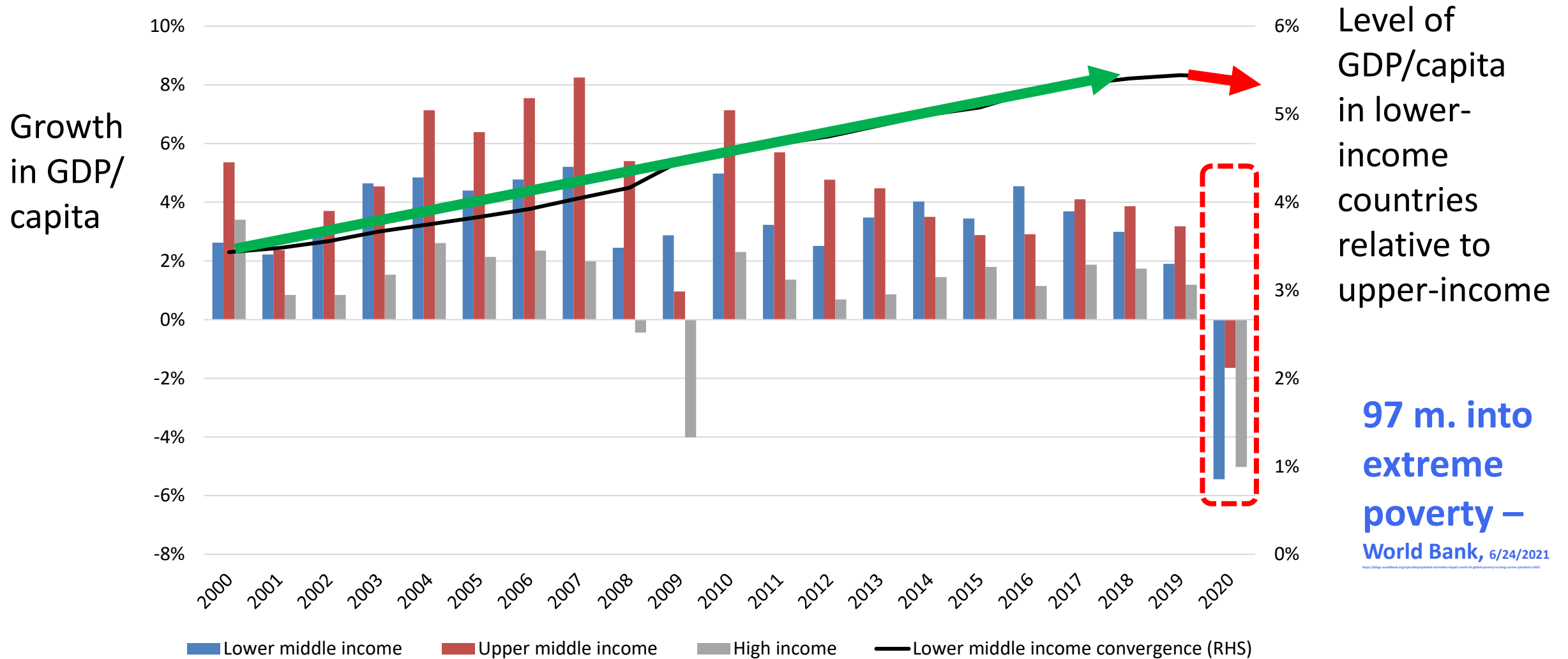


Estimated by UNCTAD, Sept. 2021

Source: UNCTAD secretariat calculations, based on official data and estimates generated by United Nations Global Policy Model.

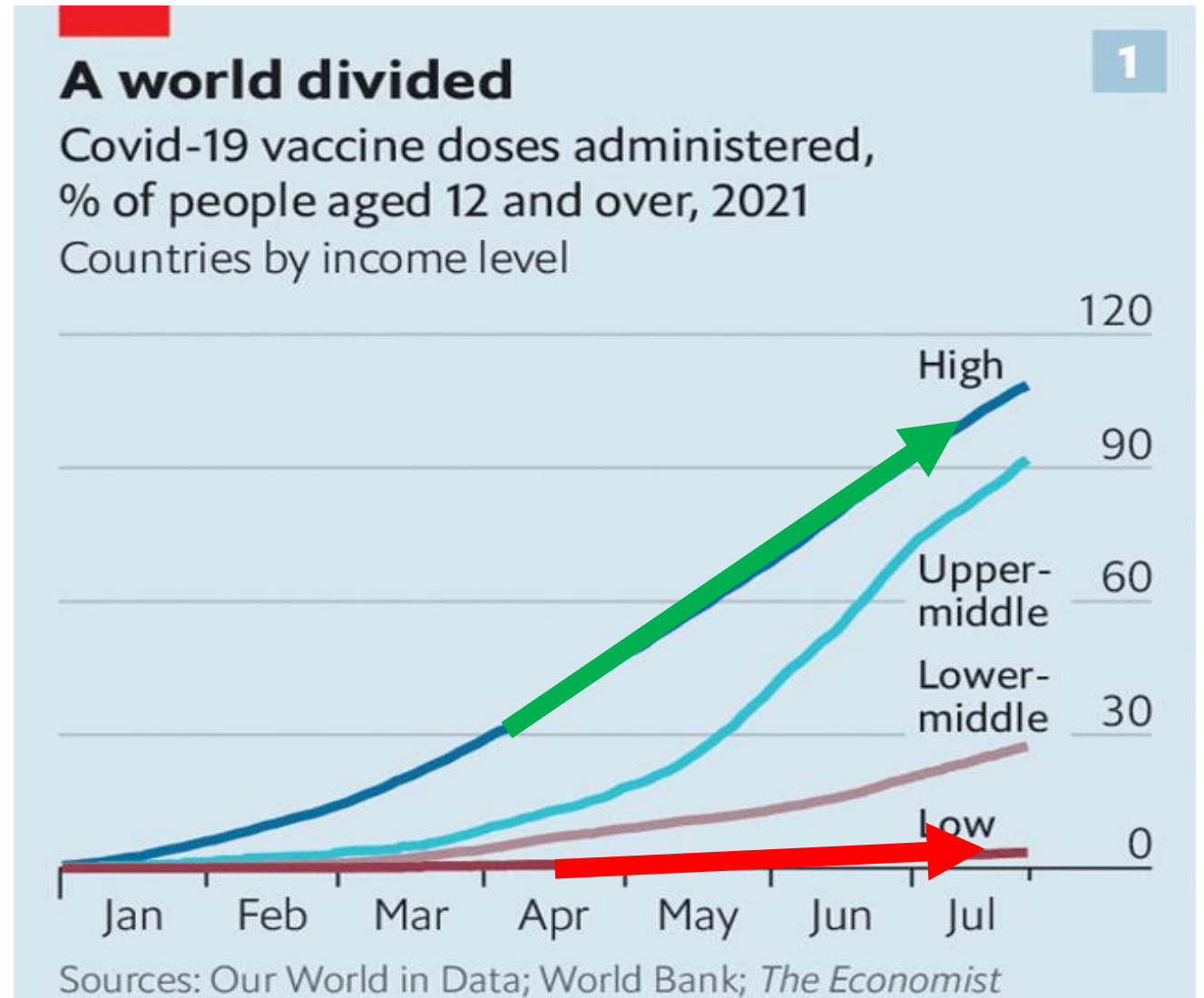
Note: Estimated loss from GFC corresponds to the accumulated income loss of 2009 and 2010, relative to 2006 to 2008 trend; and the estimated loss from Covid-19 corresponds to the accumulated income loss of 2020 and 2021, relative to 2017 to 2019 trend.

For low-income countries, convergence went into reverse in 2020: income per capita fell more sharply there than elsewhere.



Vaccination in low-income & lower-middle countries lags far behind the rich.

- The US & other rich countries should make vaccines more extensively available to lower-income countries.
- So long as this coronavirus runs wild anywhere, it is a danger to everyone everywhere.



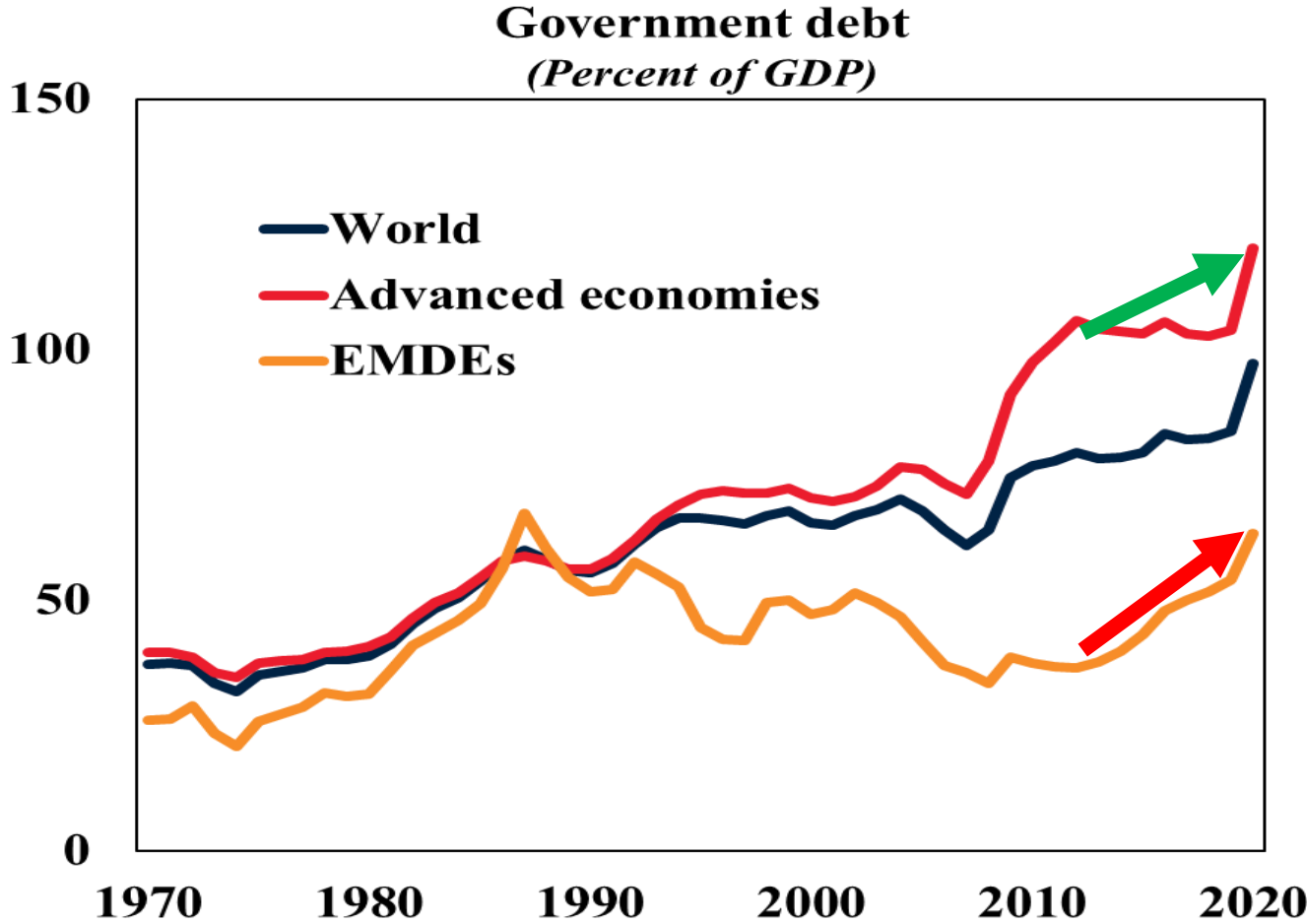
The Economist, July 31, 2021.

“The pandemic has exacerbated existing political discontent”

EM debt is vulnerable

- Governments were able to finance spending in response to pandemic.
 - Good.
- But I worry high Debt/GDP now leaves EMDEs vulnerable.
 - Why, if interest is low?
 - Because debt sustainability is vulnerable to a rise in interest rates,
 - whether from US interest rates,
 - local risk premia,
 - or both.

Government debt/GDP has risen sharply in the pandemic, in both AEs & EMDEs.



M. Ayhan Kose,
World Bank, Sept.2021

Sources: International Monetary Fund; Kose et al. (2020); Standard & Poor's; World Bank.

Left Panel. Aggregates are calculated using current GDP in U.S. dollars as a weight. Sample includes up to 191 countries—38 advanced economies and 153 EMDEs. Right Panel. Swathe indicates the evolution of government debt five years before and after four global recessions (i.e., year t): 1975, 1982, 1991, and 2009. The solid blue line indicates forecasts of government debt over the next five years, based on the IMF data. The dashed line indicates government debt forecasts by S&P for the next four years. Country samples differ slightly between the two forecasts.

Downside risks to the outlook

- The world could lose the race between vaccination and more dangerous coronavirus variants.
- A Fed tightening could cause investors to pull back from high-return assets in general,
 - and from the debts of EMDEs in particular,
 - leading to EM crises as in 1982, 1994, 1997, 2013, 2015, 2018.
- China could experience a financial crisis
 - due to the longstanding problem of bad loans.
 - In particular, now: Evergrande.
- Some other event, like the US going over the debt ceiling cliff, could burst the “everything bubble.”
 - Stocks
 - Bonds
 - The bubbliest assets: Meme stocks, SPACs, Cryptocurrencies, NFTs...

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Appendix

1) Growth projections including G20 countries.

OECD *Economic Outlook*, Sept.2021

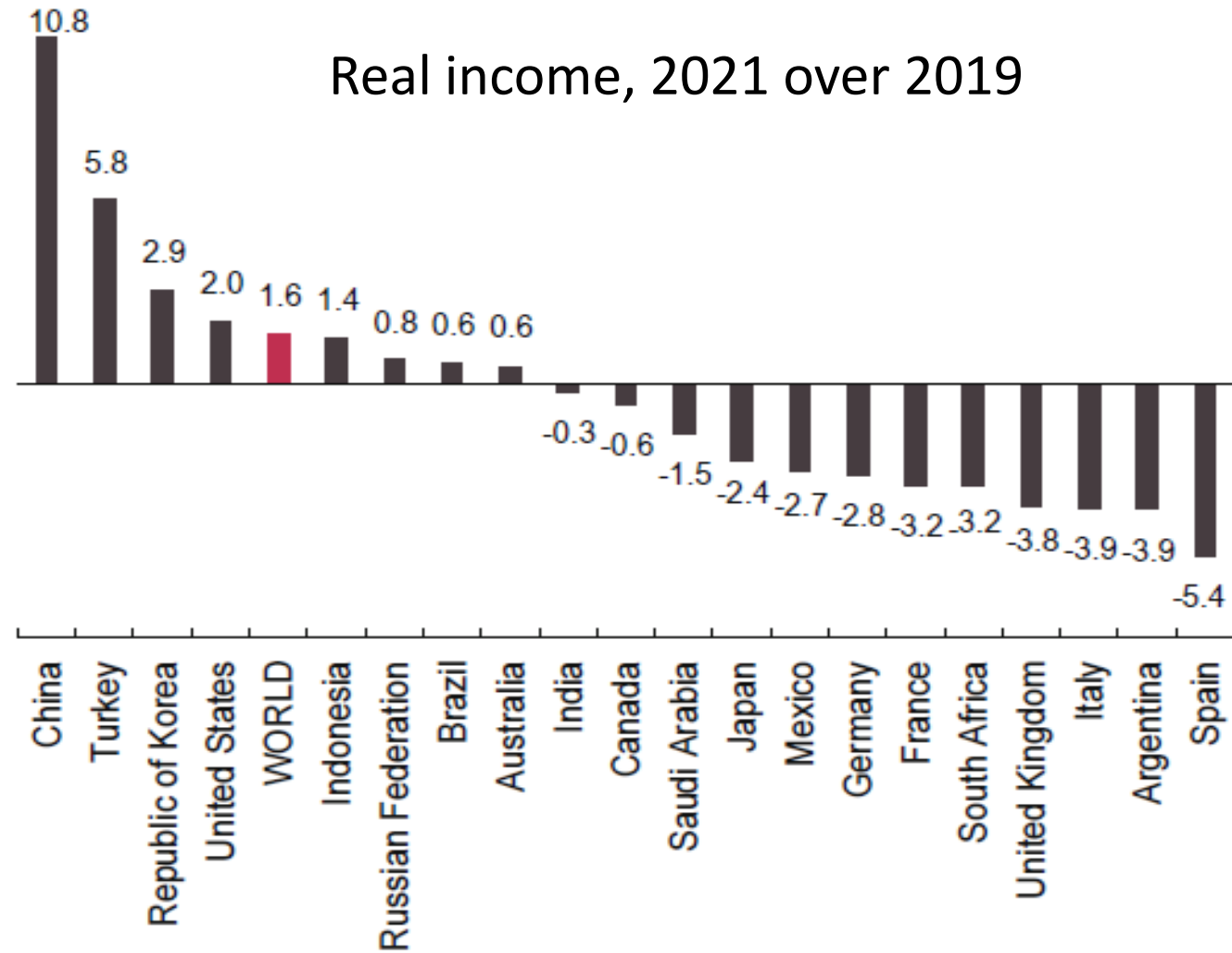
	2020	Year-on-year % change		2022	
		Interim EO projections	Difference from May EO	Interim EO projections	Difference from May EO
World	-3.4	5.7	-0.1	4.5	0.1
G20¹	-3.1	6.1	-0.2	4.8	0.1
Australia	-2.5	4.0	-1.1	3.3	-0.1
Canada	-5.3	5.4	-0.7	4.1	0.3
Euro area	-6.5	5.3	1.0	4.6	0.2
Germany	-4.9	2.9	-0.4	4.6	0.2
France	-8.0	6.3	0.5	4.0	0.0
Italy	-8.9	5.9	1.4	4.1	-0.3
Spain²	-10.8	6.8	0.9	6.6	0.3
Japan	-4.6	2.5	-0.1	2.1	0.1
Korea	-0.9	4.0	0.2	2.9	0.1
Mexico	-8.3	6.3	1.3	3.4	0.2
Turkey	1.8	8.4	2.7	3.1	-0.3
United Kingdom	-9.8	6.7	-0.5	5.2	-0.3
United States	-3.4	6.0	-0.9	3.9	0.3
Argentina	-9.9	7.6	1.5	1.9	0.1
Brazil	-4.4	5.2	1.5	2.3	-0.2
China	2.3	8.5	0.0	5.8	0.0
India³	-7.3	9.7	-0.2	7.9	-0.3
Indonesia	-2.1	3.7	-1.0	4.9	-0.2
Russia	-2.5	2.7	-0.8	3.4	0.6
Saudi Arabia	-4.1	2.3	-0.5	4.8	1.0
South Africa	-7.0	4.6	0.8	2.5	0.0

Note: Difference from May 2021 Economic Outlook in percentage points, based on rounded figures. World and G20 aggregates use moving nominal GDP weights at purchasing power parities.

1. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.
2. Spain is a permanent invitee to the G20.
3. Fiscal years, starting in April.

Growth projections for G20 countries.

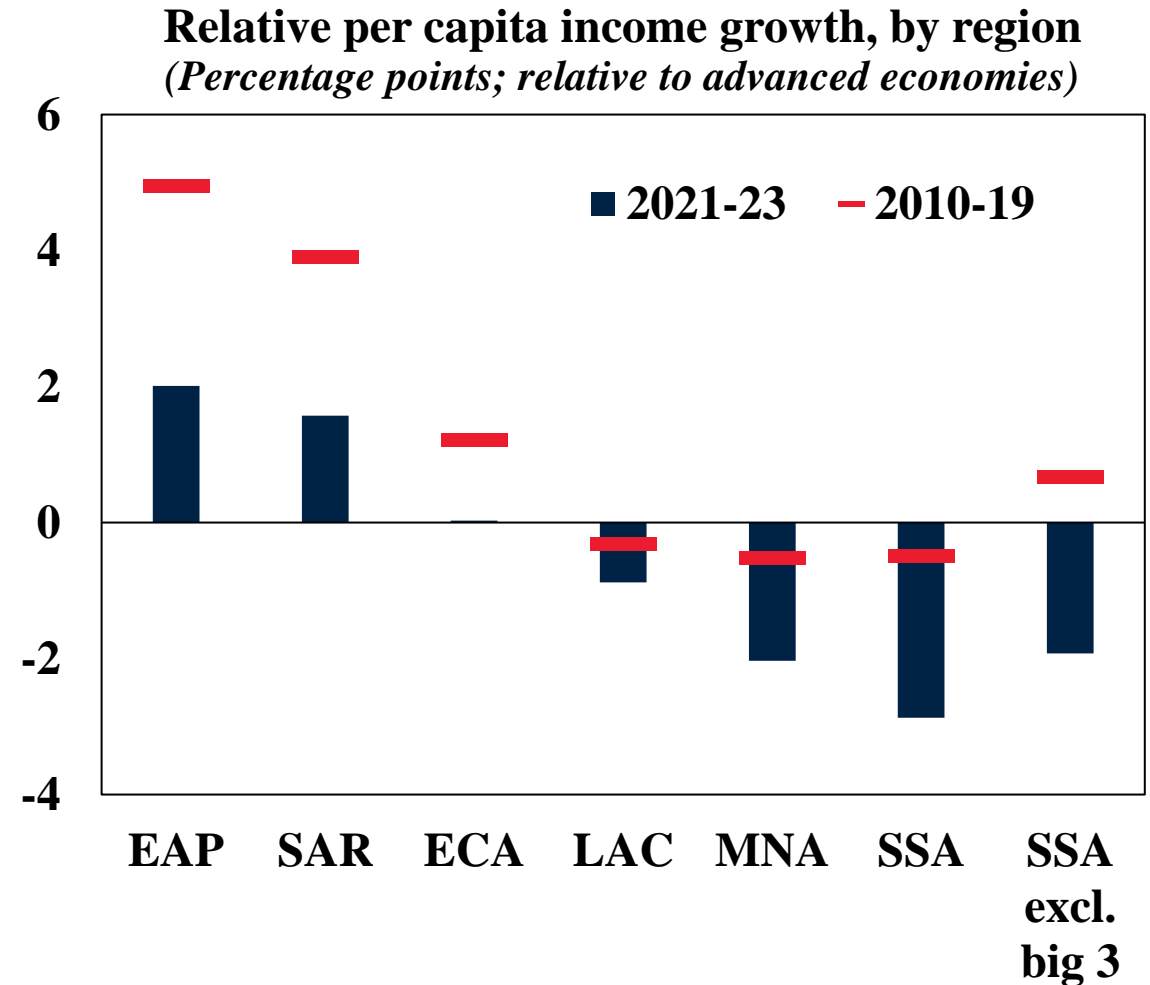
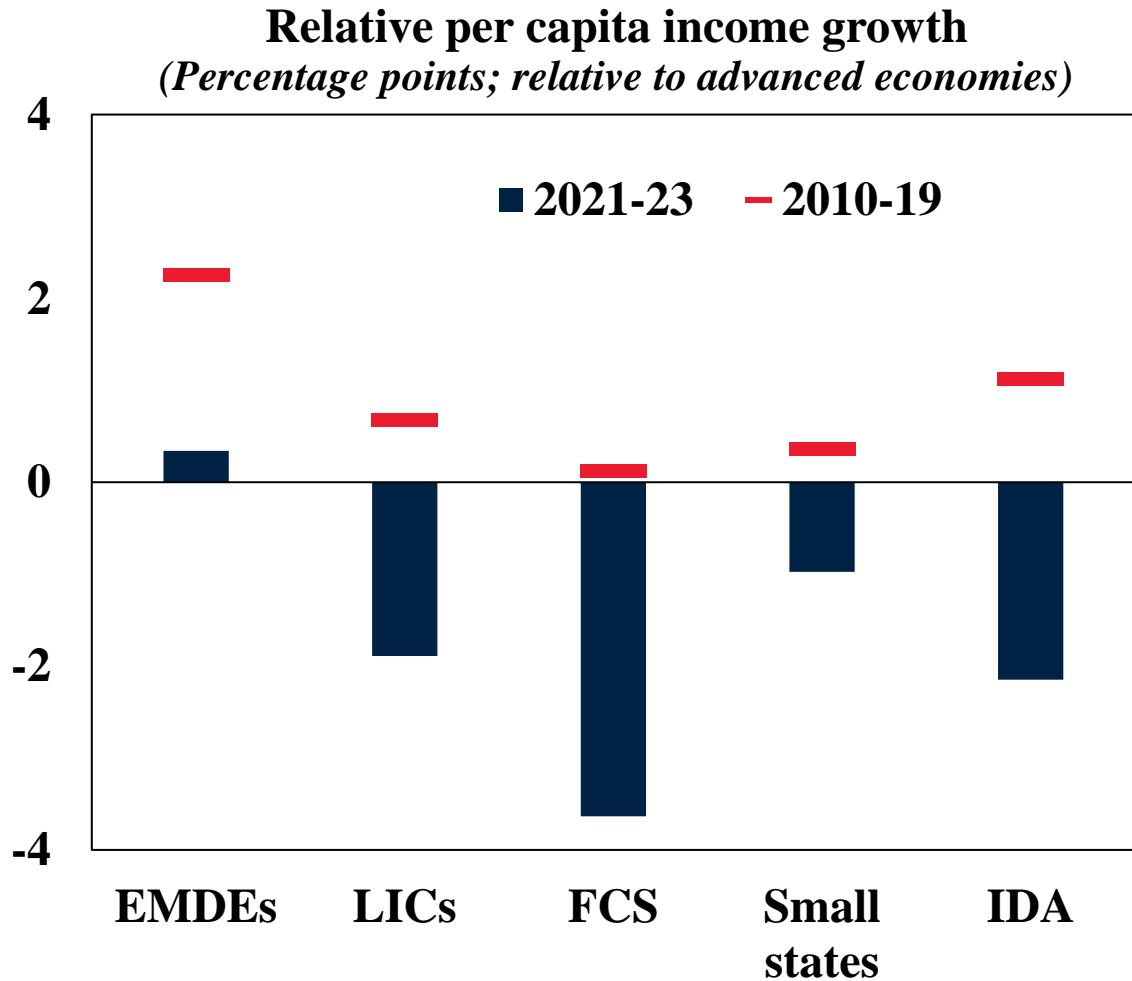
OECD *Economic Outlook*, Sept.2021



2) Catch Up with Advanced Economies

Falling Behind in LICs, FCS, Small States, LAC, MNA, & SSA

Ayhan Kose,
World Bank
Sept. 2021



Source: World Bank.

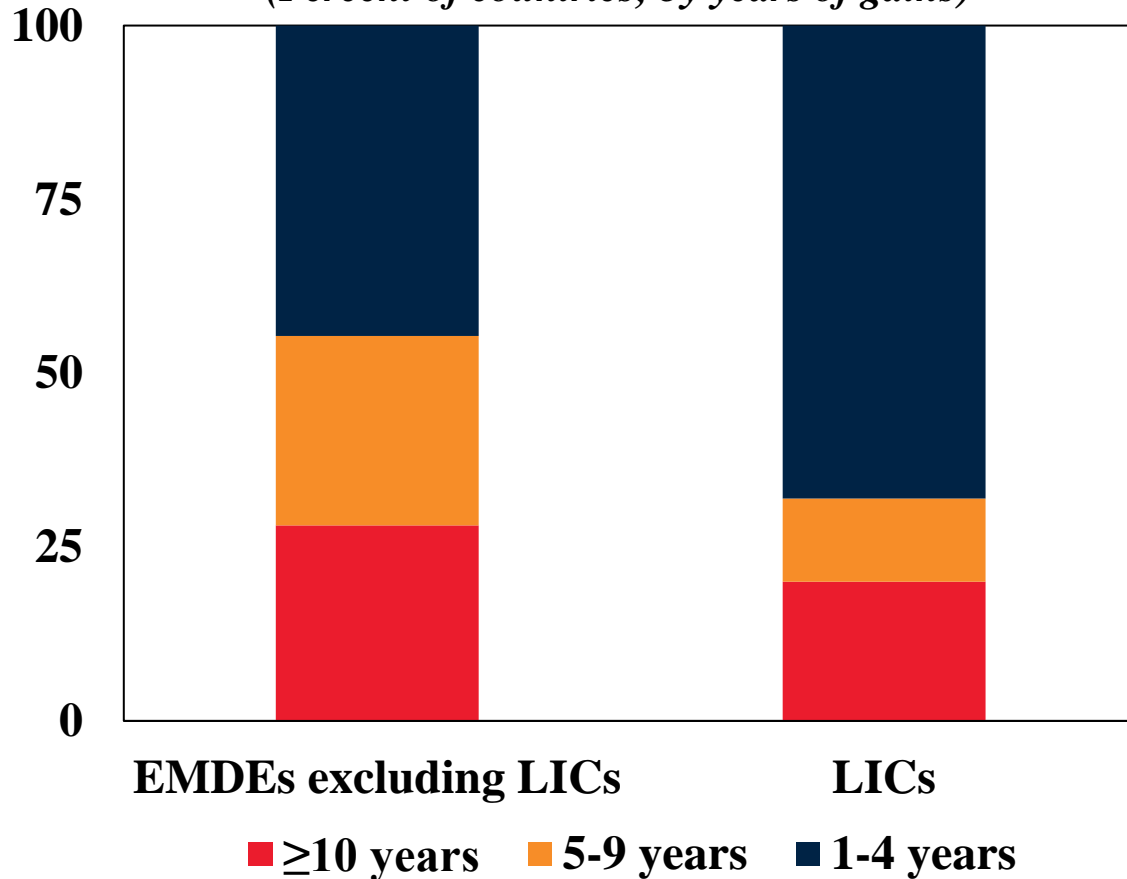
Note: LICs, FCS, IDA, EAP, ECA, LAC, MNA, SAR, and SSA refer to, respectively, low-income countries, fragile and conflict-affected situations, International Development Association, East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa. IDA includes countries eligible to IDA support, including Blend economies. Relative per capita income growth is computed as a difference in per capita GDP growth between respective EMDE groups and advanced economies, expressed in percentage points. Right Panel. SSA excluding big 3 refers to Sub-Saharan Africa excluding Angola, Nigeria, and South Africa.

3) Income and Poverty

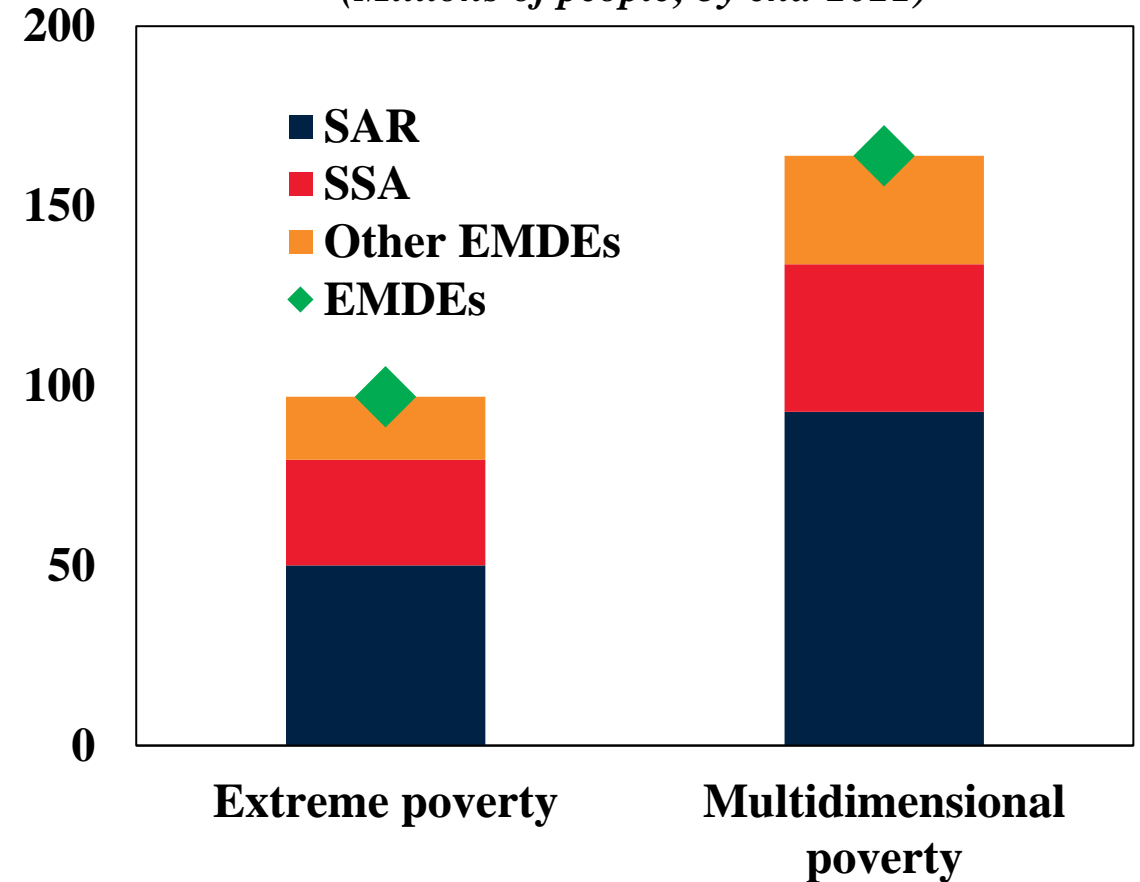
Substantial Income Losses; Significant Increase in Poverty

Ayhan Kose,
World Bank
Sept. 2021

EMDEs with per capita income gains reversed in 2020
(Percent of countries; by years of gains)



Increase in poverty headcounts
(Millions of people; by end-2021)



Sources: Mahler et al. (2021); World Bank.

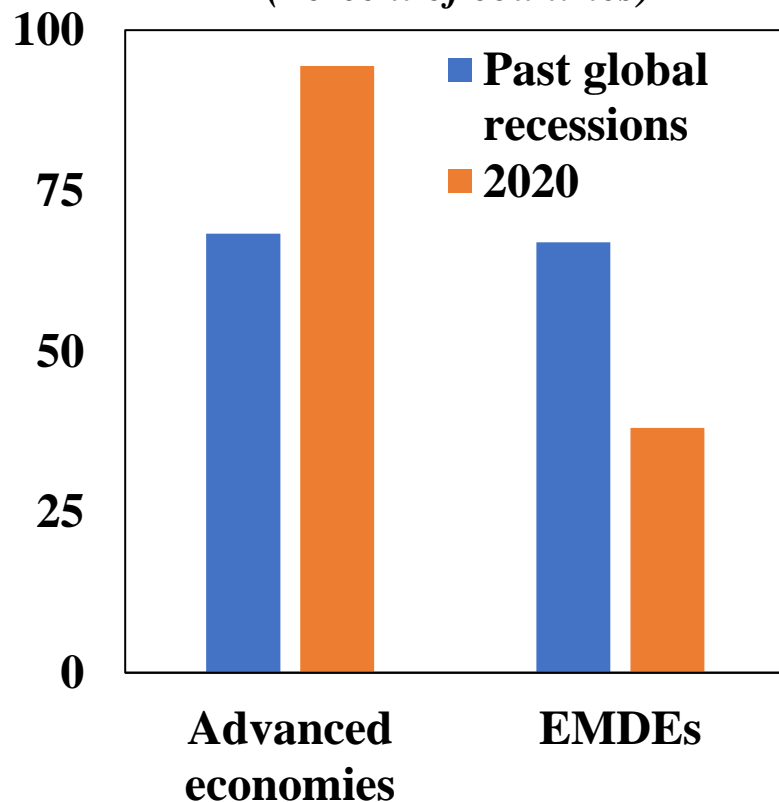
Left Panel. LICs refers to low-income countries. Figure shows percent of EMDEs by the number of years of lost per capita income gains in 2020. Right Panel. SAR and SSA refer to South Asia and Sub-Saharan Africa, respectively. Figure shows the estimated number of people pushed into poverty as a result of the pandemic. This is calculated by comparing poverty using pre- and post-pandemic growth forecasts (Lakner et al. 2020). Extreme poverty reflects the international poverty line of \$1.90/day. Multidimensional poverty also includes deprivations in health, education, and living standards (UNDP and OPHI 2020; World Bank 2020). Percent increase in multidimensional poverty as a result of the pandemic is estimated to be the same as for extreme poverty.

4) Recovery after the Pandemic

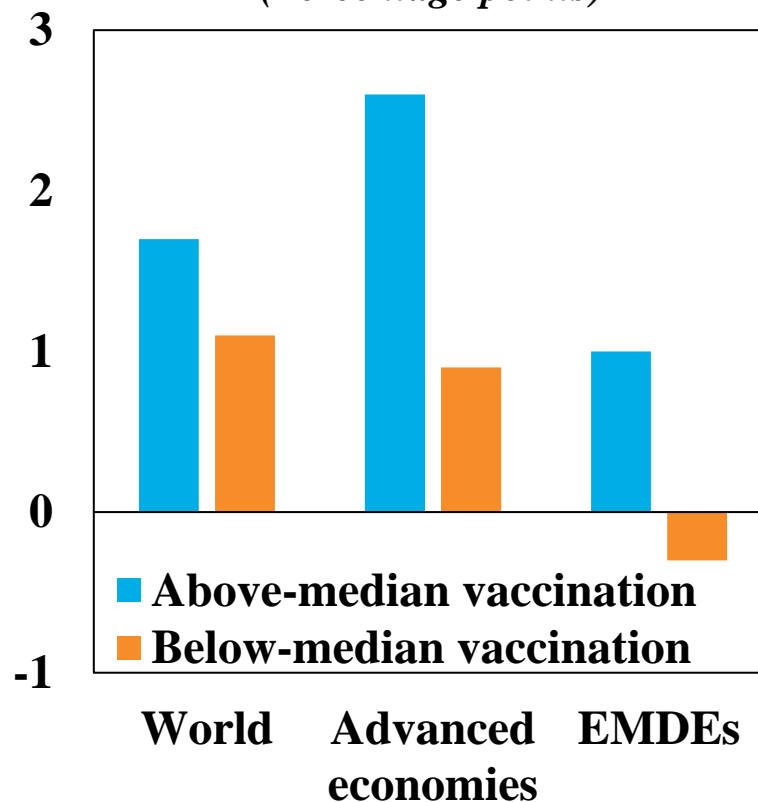
Faster Growth in Aes with Rapid Vaccination

Ayhan Kose,
World Bank
Sept. 2021

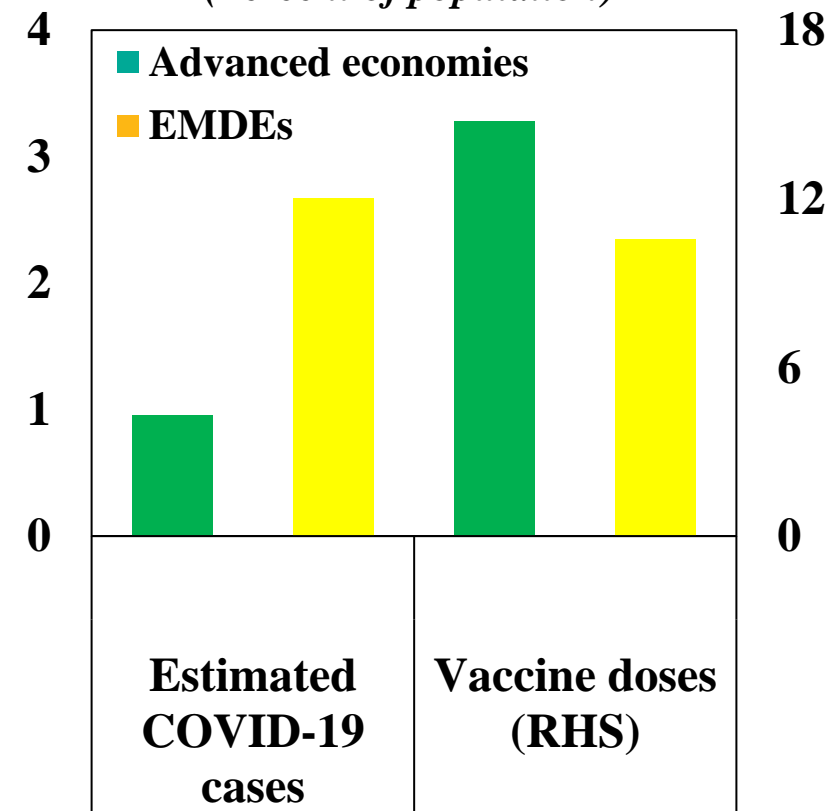
Countries exceeding pre-recession peak after two years
(Percent of countries)



Forecast revisions in 2021, by vaccination progress
(Percentage points)



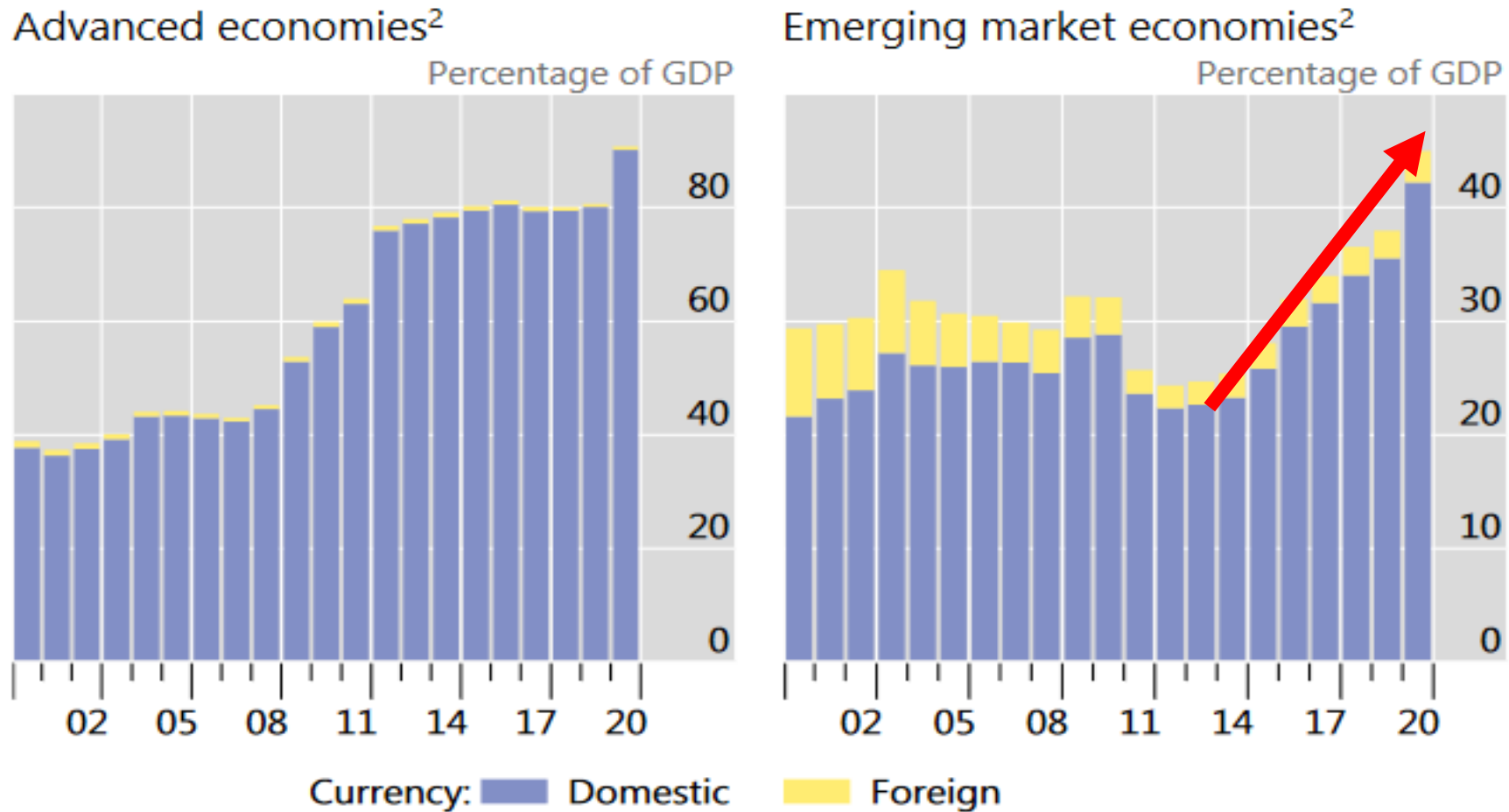
COVID-19 cases and vaccine doses, July to August
(Percent of population)



Sources: Bolt et al. (2018); Kose, Sugawara, and Terrones (2020); Our World in Data; World Bank.

Left Panel. The share of economies in which per capita income levels after two years of global recessions are above the pre-recession peaks. Bar for past global recessions shows an average share during the five previous global recessions: 1945-46, 1975, 1982, 1991, and 2009 global recessions. Center Panel. Figure shows 2020 GDP-weighted forecast revisions for countries above or below median vaccination progress in each aggregate, based on the total number of people that received at least one dose of COVID-19 vaccine per 100 people. The vaccination measure is used as a daily average over June to August (up to August 22). Sample includes 36 advanced economies and 147 EMDEs. Right Panel. Figure shows the one-month accumulation of COVID-19 cases in advanced economies and EMDEs over July 5 – August 1, as estimated by the Institute for Health Metrics and Evaluation (IHME), and vaccinations as a share of the population.

5) Government debt/GDP rose sharply in 2020, in both AEs & EMs.



Bank for International Settlements *Quarterly Review*, June 2021, p.21

Data sources: ECB Securities Issues Statistics (SEC); Dealogic; Euroclear; Thomson Reuters; Xtrakter Ltd; natl data; IMF WEO; BIS calculations.

² General government bonds outstanding aggregated across countries, as a ratio to their combined GDP.