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Global Economic Prospects: World Bank

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Why in News

Recently, the **World Bank** has released a **part of the Global Economic Prospects (GEP) June 2020 report**.

The report highlighted that the **Covid-19 pandemic** will be having a **“severe” short and long term** effects on **economic growth**.

Key Findings

- **Impact on Global Poverty:**

- The Covid-19 pandemic and economic shutdowns have devastated the poor around the world which is **unprecedented in modern times**.
- It has been estimated that **60 million people** could be pushed into extreme poverty in 2020. These estimates are **likely to rise further**, with the reopening of advanced economies.
- These economic lockdowns have also damaged the multiple channels, including **lower investment and innovation, erosion of the human capital** and a **retreat from global trade and supply linkages**.

It has also **lowered the potential growth and labor productivity**.

- **Emerging Market and Developing Economies (EMDEs):**

- EMDEs are **most vulnerable** and may face health crises, restrictions and external shocks like falling trade, tourism and commodity prices, as well as capital outflows.
- These countries are expected to have a **3-8% output loss** in the **short term**. But in the long **term** these countries will experience a drop in the level of output with a lowering of potential output growth.
- Growth is **likely to slow more** in **commodity-exporting EMDEs** than in commodity-importing ones.

- **Spillover Effect over EMDEs:**
 - EMDEs are also expected to witness the **spillover effects of the U.S., the Euro Area and China**, which represent **almost half of global output**.
 - As these countries are **unlikely to return** to pre-pandemic levels of output **before the end of 2021**.
- **Issue of Loan Repayments:**
 - Earlier, **G20** countries and commercial creditors had agreed to **freeze loan repayments for low income countries** (starting 1st May, 2020) till year-end. But these creditors had **not yet implemented** the same.
 - The **delay** by commercial creditors to freeze loan repayment is **deepening poverty in the debtor country**.
 - Most creditors are in advanced economies like the U.S., Europe, Japan, China and the Gulf.
- **Energy-Exporting Emerging Market and Developing Economies (EMDEs):**
 - The Energy-Exporting Emerging Market and Developing Economies (EMDEs) are facing a **dual problem** of the public health crisis with strained fiscal positions due to the recent collapse in oil revenues.
 - The **collapse in oil demand** due to the worldwide economic lockdowns and a **surge in oil inventories** have made steepest **one-month decline in oil prices** on record.
 - Additionally, the low oil prices are **unlikely to buffer** the effects of the pandemic, though it **may provide some initial support** for the global recovery.

Steps Taken

- Some of the policy choices being implemented worldwide include **greater debt transparency** to **invite new investment**.
 - Greater transparency is expected to assist borrowers, creditors and the official sector in the ongoing assessment of debt dynamics and debt sustainability.
- The economies have also **fastened their digital connectivity**, and have also implemented an **expansion of cash safety nets for the poor** which intends to limit the damage and build a stronger recovery.

Suggestions

- **Short Term Steps:**
 - **Address Health Emergencies:**
 - The countries should try to **moderate the short-term impact** of the pandemic on economic activity and employment.
 - Initially, countries need to address **health emergencies** and **secure core public services** to revive the economy.
 - **Allocation of New Capital:**
 - The worldwide economies should allow an **orderly allocation of new capital** toward sectors that would be productive in the new post-pandemic structures that emerge.
 - It has also suggested to **fasten the adjustment of the capital and labour**.
- **Long Term Steps:**
 - **Business and Governance:**
 - The economies worldwide need to implement policies such as improving the environment for business, improving governance, and enhancing the outcomes of education.
 - It also includes public health investments ,encouraging the new types of businesses, jobs and governance systems in the post-pandemic world.
 - **Financing and Productive Infrastructure.**
 - Countries need to speed litigation and the resolution of bankruptcies and reform the costly subsidies, monopolies.
 - They also need to relook into the protected state-owned enterprises that have slowed development.

Way Forward

- The pandemic and the subsequent economic shutdowns have caused a severe blow to the global economy, especially poorer countries. There is a need to **rebuild the economy**, and make growth more **robust, resilient and sustainable**.
- There is also a need to make future economies **more resilient** to such economic shocks and **capable of retaining** more **human and physical capital** during the recovery.
 - It will help to fulfill the post-pandemic need for the creation of the new types of jobs, businesses and governance systems.

Source:TH