Executive summary

A once-in-a-century crisis—a Great Disruption unleashed by a viral pandemic—hit the world economy in 2020. The pandemic spread like a forest fire, reaching every corner of the world, infecting more than 90 million and killing close to 2 million people worldwide. For several months, uncertainties and panic paralysed most economic activities in both developed and developing economies. Trade and tourism came to a grinding halt, while job and output losses exceeded levels seen in any previous crisis. In a matter of months, the number of people living in poverty increased sharply, while income and wealth inequality trended towards new highs.

The pandemic has killed close to 2 million people and counting

Governments around the world responded rapidly—and boldly—to stem the health and economic contagion of the crisis. Fiscal and monetary stimulus packages were quickly rolled out to save the economy. The crisis responses, however, entailed difficult choices between saving lives and saving livelihoods, between speed of delivery and efficiency, and between short-term costs and long-term impacts. Limited fiscal space and high levels of public debt constrained the ability of many developing countries to roll out sufficiently large stimulus packages.

The Great Disruption

The short-term economic costs of the Great Disruption do not fully account for its long-term impacts on employment, productivity and potential output. While large-scale fiscal stimulus prevented total economic collapse and supported the incomes of millions of households, there is li-0.3 (it-16.8 (t)-)1.8 (f h)-89-7e eonP Ľang B6(e 0.7 (dSB)ľMCI]TJET3)-22.3 eT.ve175.4 (h)-98u vtc337ut7us i[illegible]—enrIkene pa[illegible]inequality

The long-term impacts of the current crisis will be equally severe

There is no sustainable development without resilience and there is no resilience without sustainable development

against future crisis. There is clearly no sustainable development without resilience and there is no resilience without sustainable development. Building economic, social and environmental resilience must guide the recovery from the crisis. Economic resilience with new fiscal and debt sustainability frameworks, societal resilience with universal social protection schemes and climate resilience with greater investments in the green economy must be the building blocks of a resilient recovery. This will also require a stronger and more effective multilateral system which can complement and reinforce—not undermine—national efforts to put the world firmly on the trajectory of sustainable development.

Massive liquidity and low inflation are fueling a financial bubble

The Great Disruption choked global and domestic supply chains. But the shock to income and consumer demand outweighed the supply-side shocks. Weaker consumption and investment spending during most of the year dampened inflationary pressures around the world. Consumer price inflation is projected to remain low in 2021 as unemployment will likely remain high relative to pre-crisis level in most economies. Corrections in asset prices in financial and real estate markets would likely further dampen inflationary pressures.

While the central banks around the world have been broadly successful in injecting massive amount of liquidity and keeping long-term interest rates low, they have been less successful in meeting their inflation targets, with actual inflation falling below expectations. The environment of excessive liquidity and low inflation has allowed financial markets to underprice risks and create a massive financial bubble, which may exacerbate financial instability. Low inflation will also adversely impact the sustainability of high levels of public and private debt worldwide. As debts are typically contracted in nominal values, a lower-than-expected inflation will keep the real value of debt high. The rising real value of debt and stagnant or falling revenue will likely worsen the risks of debt defaults.

Fiscal stimulus measures prevented a Great Depression

Massive and timely fiscal responses prevented a Great Depression-like economic catastrophe worldwide. The fiscal outlays from the developed countries represented nearly 80 per cent of the $12.7 trillion of fiscal stimulus worldwide, with Germany, Japan and the United States accounting for more than 50 per cent of all the fiscal stimulus worldwide. The group of 46 least

Public finance and debt are facing unprecedented risks

The rolling out of large stimulus packages, and falling government revenues, have strained and stretched public finances worldwide. In almost one in five developing and transition economies, the government deficit is projected to reach double digits as a percentage of GDP in 2020. A slower recovery of growth will only further exacerbate fiscal deficits.

Along with growing fiscal deficits, total public debt worldwide increased by an estimated $9.9 trillion in 2020. This is the largest increase in public debt since the Second World War. Governments around the world borrowed from the future to minimize the impact of the crisis on the current generation. The current generation therefore has the responsibility to make sure that the borrowed money is well invested to ensure that the well-being of the current generation does not come at the expense of the well-being of future generations. The urgency and emergency of the current crisis cannot justify depriving those future generations of their right to enjoy prosperity. The rise in public debt should not in itself be a concern as long as additional debt expands productive capacity and stimulates growth.

Avoiding austerity is a must

Growing concerns for fiscal deficits and debt sustainability should not push Governments to-

While nearly 8 million people in the United States lost their jobs during the pandemic and the national poverty rate jumped from 9.3 per cent in June to 11.7 per cent in November 2020, the total wealth of 644 United States billionaires increased by 31.6 per cent between March

The collapse in global tourism has created an emergency for many developing countries

International travel has been hit particularly hard by the pandemic. As travel restrictions persist across the world, global tourism remains at a fraction of its pre-pandemic level. Worldwide tourist arrivals are estimated to have plunged by 70 per cent in 2020, the largest decline on record; and international tourism receipt losses are estimated to have amounted to US$ 1.1 trillion. This has created an emergency for many developing countries, especially small island

an export base of services. Moreover, servicification—i.e., the increased use, production and export of services in other sectors—can serve as a tool for the modernization of farming and manufacturing.

The global digital divide will place many developing countries fragile, owing to general uncertainty and the paralysing effect of the pandemic on economic activity. Against this background, the growth trajectory remains strongly dependent on policy support measures.

Developed economies took the hardest hit

While developed economies are forecast to see a recovery in 2021, this outlook is subject to great uncertainty. In the United States, as monetary easing continues, consumption of durable goods and residential investments continue to grow. However, other demand components, particularly corporate investments and exports, are forecast to remain weak as long as the uncertainties associated with the COVk (t t)2.6 (o)0.5 (r3 (s)0.9 (h)-8.4 (e)]TJ)-11.2 (t)-6.9s a-12.1dB,

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Africa faces the dire risk of the reversal of the development gains of recent decades

Africa has been experiencing an unprecedented economic downturn with major adverse impacts on the long-term development of the continent. Domestic lockdowns required to control the pandemic, lower external demand combined with lower commodity prices, the collapse of tourism and lower remittances have set off severe economic disruptions. Although many countries in Africa have taken action quickly to counter the spread of the pandemic, most are severely hampered by a lack of the resources needed to support health systems, protect vulnerable population groups and support the recovery. Given its magnitude and unequal effects across population groups, the current crisis is causing a rise in unemployment, poverty and inequality, which threatens to wipe out the development gains of recent decades. In addition, more difficult financing conditions and rising public debt are exposing many African countries to debt distress. The continent is forecast to see a modest recovery in 2021, but this depends on the relaxation of lockdown constraints and an improvement in trade and commodity markets.

East Asian economies fare better than others

East Asia saw a sharp deceleration in economic growth in 2020, marking the region's weakest expansion since the Asian financial crisis. Measures designed to contain domestic outbreaks, including widespread restrictions on mobility and enforced business closures, significantly curtailed household spending and investment activities. The region's investment prospects have been further dampened by heightened uncertainties and risk aversion. Large policy stimulus measures helped to offset some of these negative effects by providing support to domestic demand. However, considerable negative fallout also came from the external front, with export volumes contracting owing to supply chain disruptions and weakened global economic activities. In many parts of the region, the pandemic has caused significant setbacks to social and economic development, with a disproportionate impact on the vulnerable segments of society. The region will see a recovery in 2021, but this will be from a low base and with great uncertainty stemming from the potential for renewed lockdown measures.

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