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COVID-19 to Plunge Global Economy into Worst Recession since World War II

Per Capita Incomes to Shrink in All Regions

WASHINGTON, June 8, 2020 — The swift and massive shock of the coronavirus pandemic and shutdown measures to contain it have plunged the global economy into a severe contraction. According to World Bank forecasts, the global economy will shrink by 5.2% this year.[1] 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. While the magnitude of disruption will vary from region to region, all EMDEs have vulnerabilities that are magnified by external shocks. Moreover, interruptions in schooling and primary healthcare access are likely to have lasting impacts on human capital development.

"This is a deeply sobering outlook, with the crisis likely to leave long-lasting scars and pose major global challenges," said **World Bank Group Vice President for Equitable Growth, Finance and Institutions, Ceyla Pazarbasioglu.** *"Our first order of business is to address the global health and economic emergency. Beyond that, the global community must unite to find ways to rebuild as robust a recovery as possible to prevent more people from falling into poverty and unemployment."*

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.

The U.S. economy is forecast to contract 6.1% this year, reflecting the disruptions associated with pandemic-control measures. Euro Area output is expected to shrink 9.1% in 2020 as widespread outbreaks took a heavy toll on activity. Japan's economy is anticipated to shrink 6.1% as preventive measures have slowed economic activity.

"The COVID-19 recession is singular in many respects and is likely to be the deepest one in advanced economies since the Second World War and the first output contraction in emerging and developing economies in at least the past six decades," said **World Bank Prospects Group Director Ayhan Kose**. *"The current episode has already seen by far the fastest and steepest downgrades in global growth forecasts on record. If the past is any guide, there may be further growth downgrades in store, implying that policymakers may need to be ready to employ additional measures to support activity."*

Analytical sections in this edition of *Global Economic Prospects* address key aspects of this historic economic shock:

- **How deep will the COVID-19 recession be?** An investigation of 183 economies over the period 1870-2021 offers a historical perspective on global recessions.
- **Scenarios of possible growth outcomes:** Near-term growth projections are subject to an unusual degree of uncertainty; alternative scenarios are examined.
- **How does informality aggravate the impact of the pandemic?** The health and economic consequences of the pandemic are likely to be worse in countries with widespread informality.
- **The outlook for low-income countries:** The pandemic is taking a heavy human and economic toll on the poorest countries.
- **Regional macroeconomic implications:** Each region is faced with its own vulnerabilities to the pandemic and the associated downturn.
- **Impact on global value chains:** Disruptions to global value chains can amplify the shocks of the pandemic on trade, production, and financial markets.
- **Lasting scars of the pandemic:** Deep recessions are likely to do long-term damage to investment, erode human capital through unemployment, and catalyze a retreat from global trade and supply linkages. (Published June 2)
- **The implications of cheap oil:** Low oil prices that are the result of an unprecedented drop in demand are unlikely to buffer the effects of the pandemic but may provide some support during a recovery. (Published June 2)

The pandemic highlights the urgent need for health and economic policy action, including global cooperation, to cushion its consequences, protect vulnerable populations, and strengthen countries' capacities to prevent and deal with similar events in the future. It is critically important for emerging market and developing economies, which are particularly vulnerable, to strengthen public health systems, address challenges posed by informality and limited safety nets, and enact reforms to generate strong and sustainable growth once the crisis passes.

Emerging market and developing economies with available fiscal space and affordable financing conditions could consider additional stimulus if the effects of the pandemic persist. This should be accompanied by measures to help credibly restore medium-term fiscal sustainability, including those that strengthen fiscal frameworks, increase domestic revenue mobilization and spending efficiency, and raise fiscal and debt transparency. The transparency of all government financial commitments, debt-like instruments and investments is a key step in creating an attractive investment climate and could make substantial progress this year.

Download the June 2020 Global Economic Prospects report.

Regional Outlooks:

East Asia and Pacific: Growth in the region is projected to fall to 0.5% in 2020, the lowest rate since 1967, reflecting disruptions caused by the pandemic. For more, see regional overview.

Europe and Central Asia: The regional economy is forecast to contract by 4.7%, with recessions in nearly all countries. For more, see regional overview.

Latin America and the Caribbean: The shocks stemming from the pandemic will cause regional economic activity to plunge by 7.2% in 2020.For more, see regional overview.

Middle East and North Africa: Economic activity in the Middle East and North Africa is forecast to contract by 4.2% as a result of the pandemic and oil market developments. For more, see regional overview

South Asia: Economic activity in the region is projected to contract by 2.7% in 2020 as pandemic mitigation measures hinder consumption and services activity and as uncertainty about the course of the pandemic chills private investment. For more, see regional overview.

Sub-Saharan Africa: Economic activity in the region is on course to contract by 2.8% in 2020, the deepest on record. For more, see regional overview.

World Bank Group COVID-19 Response

The World Bank Group, one of the largest sources of funding and knowledge for developing countries, is taking broad, fast action to help developing countries strengthen their pandemic response. We are supporting public health interventions, working to ensure the flow of critical supplies and equipment, and helping the private sector continue to operate and sustain jobs. We will be deploying up to $160 billion in financial support over 15 months to help more than 100 countries protect the poor and vulnerable, support businesses, and bolster economic recovery. This includes $50 billion of new IDA resources through grants and highly concessional loans.

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[1] Using market exchange rate weightings.

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Contacts

Mark Felsenthal
(202) 458-0051
mfelsenthal@worldbank.org

For broadcast requests:
David Young
(202) 473-4691
dyoung7@worldbank.org

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