

The great lockdown: Worst economic downturn since the great depression



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The world has changed dramatically in the three months since our last update of the World Economic Outlook in January. A rare disaster, a coronavirus pandemic, has resulted in a tragically large number of human lives being lost. As countries implement necessary quarantines and social distancing practices to contain the pandemic, the world has been put in a Great Lockdown. The magnitude and speed of collapse in activity that has followed is unlike anything experienced in our lifetimes.

This is a crisis like no other, and there is substantial uncertainty about its impact on people's lives and livelihoods. A lot depends on the epidemiology of the virus, the effectiveness of containment measures, and the development of therapeutics and vaccines, all of which are hard to predict. In addition, many countries now face multiple crises—a health crisis, a financial crisis, and a collapse in commodity prices, which interact in complex ways. Policymakers are providing unprecedented support to households, firms, and financial markets, and, while this is crucial for a strong recovery, there is considerable uncertainty about what the economic landscape will look

like when we emerge from this lockdown.

Under the assumption that the pandemic and required containment peaks in the second quarter for most countries in the world, and recedes in the second half of this year, in the April World Economic Outlook we project global growth in 2020 to fall to -3 percent. This is a downgrade of 6.3 percentage points from January 2020, a major revision over a very short period. This makes the Great Lockdown the worst recession since the Great Depression, and far worse than the Global Financial Crisis.

Assuming the pandemic fades in the second half of 2020 and that policy actions taken around the world are effective in preventing widespread firm bankruptcies, extended job losses, and system-wide financial strains, we project global growth in 2021 to rebound to 5.8 percent.

This recovery in 2021 is only partial as the level of economic activity is projected to remain below the level we had projected for 2021, before the virus hit. The cumulative loss to global GDP over 2020 and 2021 from the pandemic crisis could be around 9 trillion dollars, greater than the economies of Japan and Germany, combined.

This is a truly global crisis as no country is spared. Countries reliant on tourism, travel, hospitality, and entertainment for their growth are experiencing particularly large disruptions. Emerging

market and developing economies face additional challenges with unprecedented reversals in capital flows as global risk appetite wanes, and currency pressures, while coping with weaker health systems, and more limited fiscal space to provide support. Moreover, several economies entered this crisis in a vulnerable state with sluggish growth and high debt levels.

For the first time since the Great Depression both advanced economies and emerging market and developing economies are in recession. For this year, growth in advanced economies is projected at -6.1 percent. Emerging market and developing economies with normal growth levels well above advanced economies are also projected to have negative growth rates of -1.0 percent in 2020, and -2.2 percent if you exclude China. Income per capita is projected to shrink for over 170 countries. Both advanced economies and emerging market and developing economies are expected to partially recover in 2021.

Alternative adverse scenarios

What I have described is a baseline scenario but, given the extreme uncertainty around the duration and intensity of the health crisis, we also explore alternative, more adverse scenarios. The pandemic may not recede in the second half of this year, leading to longer durations of containment,

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worsening financial conditions, and further breakdowns of global supply chains. In such cases, global GDP would fall even further: an additional 3 percent in 2020 if the pandemic is more protracted this year, while, if the pandemic continues into 2021, it may fall next year by an additional 8 percent compared to our baseline scenario.

Exceptional policy actions

Flattening the spread of COVID-19 using lockdowns allows health systems to cope with the disease, which then permits a resumption of economic activity. In this sense, there is no trade-off between saving lives and saving livelihoods. Countries should continue to spend generously on their health systems, perform widespread testing, and refrain from trade restric-

tions on medical supplies. A global effort must ensure that when therapies and vaccines are developed both rich and poor nations alike have immediate access.

While the economy is shut down, policymakers will need to ensure that people are able to meet their needs and that businesses can pick up once the acute phases of the pandemic pass. The large, timely, and targeted, fiscal, monetary, and financial policies already taken by many policymakers—including credit guarantees, liquidity facilities, loan forbearance, expanded unemployment insurance, enhanced benefits, and tax relief—have been lifelines to households and businesses. This support should continue throughout the containment phase to minimize persistent scars that could emerge from subdued investment and job losses in this severe downturn.

Policymakers must also plan for the recovery. As containment measures come off, policies should shift swiftly to supporting demand, incentivizing firm hiring, and repairing balance sheets in the private and public sector to aid the recovery. Fiscal stimulus that is coordinated across countries with fiscal space will magnify the benefit for all economies. Moratoria on debt repayments and debt restructuring may need to be continued during the recovery phase.

Multilateral cooperation is vital to the health of the global recovery. To support needed spending in developing countries, bilateral creditors and international finan-

cial institutions should provide concessional financing and debt relief. The international community and establishment should ensure that the world is not damaged by further productivity.

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There are some lessons that this health crisis teaches. Countries are succeeding in containing the virus using social distancing practices, contact tracing, and self-isolation and treatments and are recovering faster than expected.

In the meantime, managing economic uncertainty comes next. Communicating the scale and speed of the recovery and international responses need to be deployed, and speeded up as new data become available. The courageous actions of doctors, nurses and other policymakers all over the world are helping us so we can jointly overcome this crisis.

The other global health c

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In the United States, a woman called the National Domestic Violence Hotline after her husband threatened to kick her out if she started coughing. An immunosuppressed man had his hand sanitizer hidden by his girlfriend. A British woman had been experiencing physical violence and mental abuse from her partner for six months, but it worsened considerably during the lockdown. She is now staying in a domestic violence shelter.

Domestic violence is not a new problem. The Center for Disease Control reports that 25% of women and 10% of men in America have experienced physical or sexual violence from a partner at some point. Approximately half of the adult population in the United States will experience verbal abuse from a partner in their lifetime. And domestic violence is not limited to intimate partner violence: around 1 in 10 Americans over the age of 60 have experienced domestic abuse or

maltreatment, while an average of 4 - 5 children die each day from child abuse in the United States alone.

Yet coronavirus has created unique and unprecedented problems for victims of domestic violence. With more than a third of the global population told to stay at home, individuals are forced to spend more time than ever with their abusers. Rates of violence go up both when families spend more time together and in the wake of economic instability. We are currently experiencing unparalleled levels of both.

The effect is clear: rates of domestic violence have increased. In Wuhan, one of the first cities to implement a lockdown, a police station recorded a threefold increase in the number of domestic violence cases in February compared to last year. Since the implementation of national self-quarantine policies, the British National Domestic Abuse Helpline received 25% more calls and Australians made 75% more internet searches for domestic violence



A rare sight: an empty Times Square. New Yorkers have been told to stay home to contain the spread of coronavirus.