

Recovery from the Pandemic Crisis: Balancing Short-Term and Long-Term Concerns

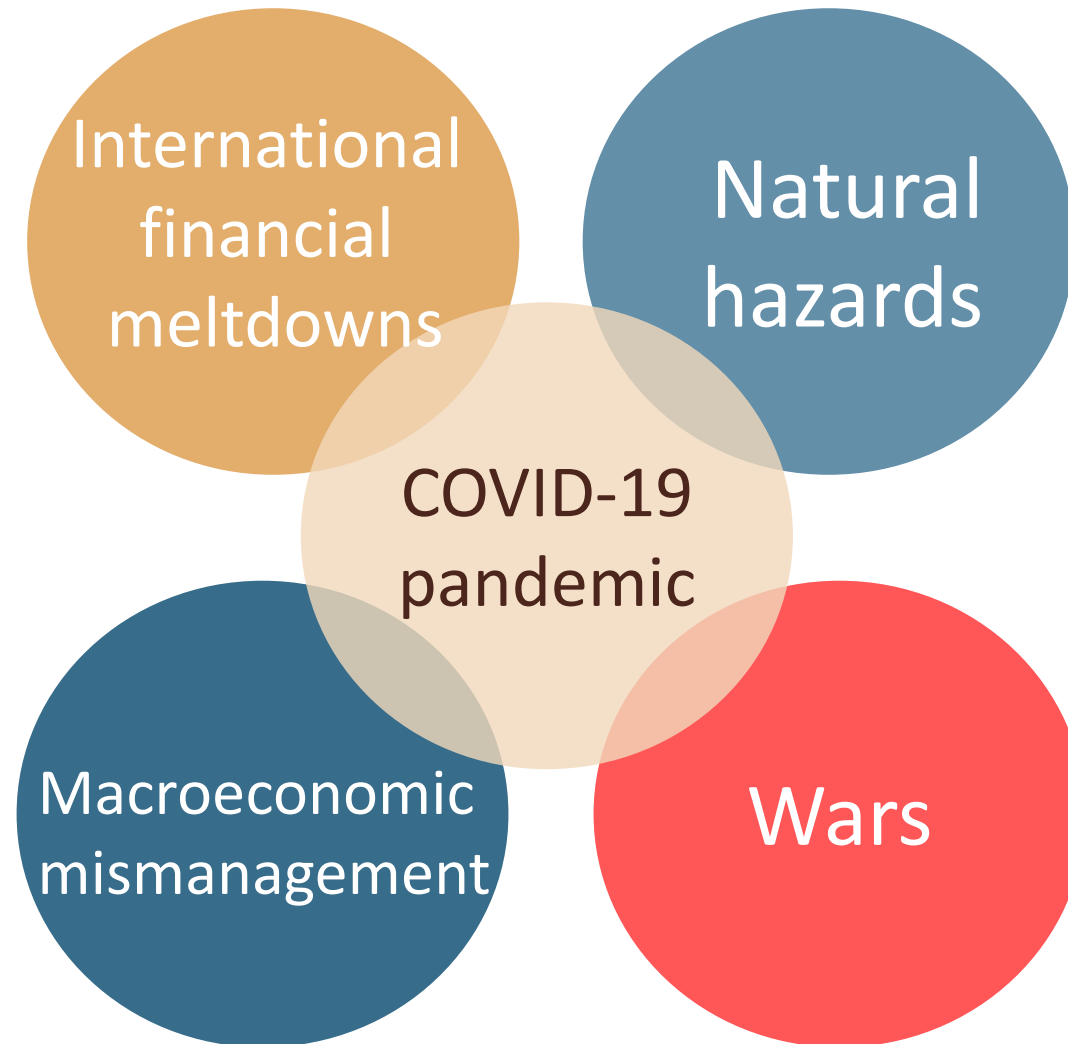
Norman Loayza, Apurva Sanghi, Lina Shaharuddin, Lucie Wuester
November 2020



The crisis

A crisis like no other

The COVID-19 pandemic crisis shares some similarities with other crises:



A taxonomy of crises and associated shocks

Types of crises	Characteristics of shocks							
	Mechanism		Scope		Duration		Certainty	
	Supply	Demand	Domestic/ Regional	Global	Short	Long	Uncertain	Very uncertain
Pandemics	X	X	X	X		X		X
Wars	X	X	X			X		X
Macroeconomic crisis (e.g. hyperinflation)		X	X			X		X
International financial crises		X		X	X		X	
Natural hazards	X		X		X		X	

Source: Authors' formulation.

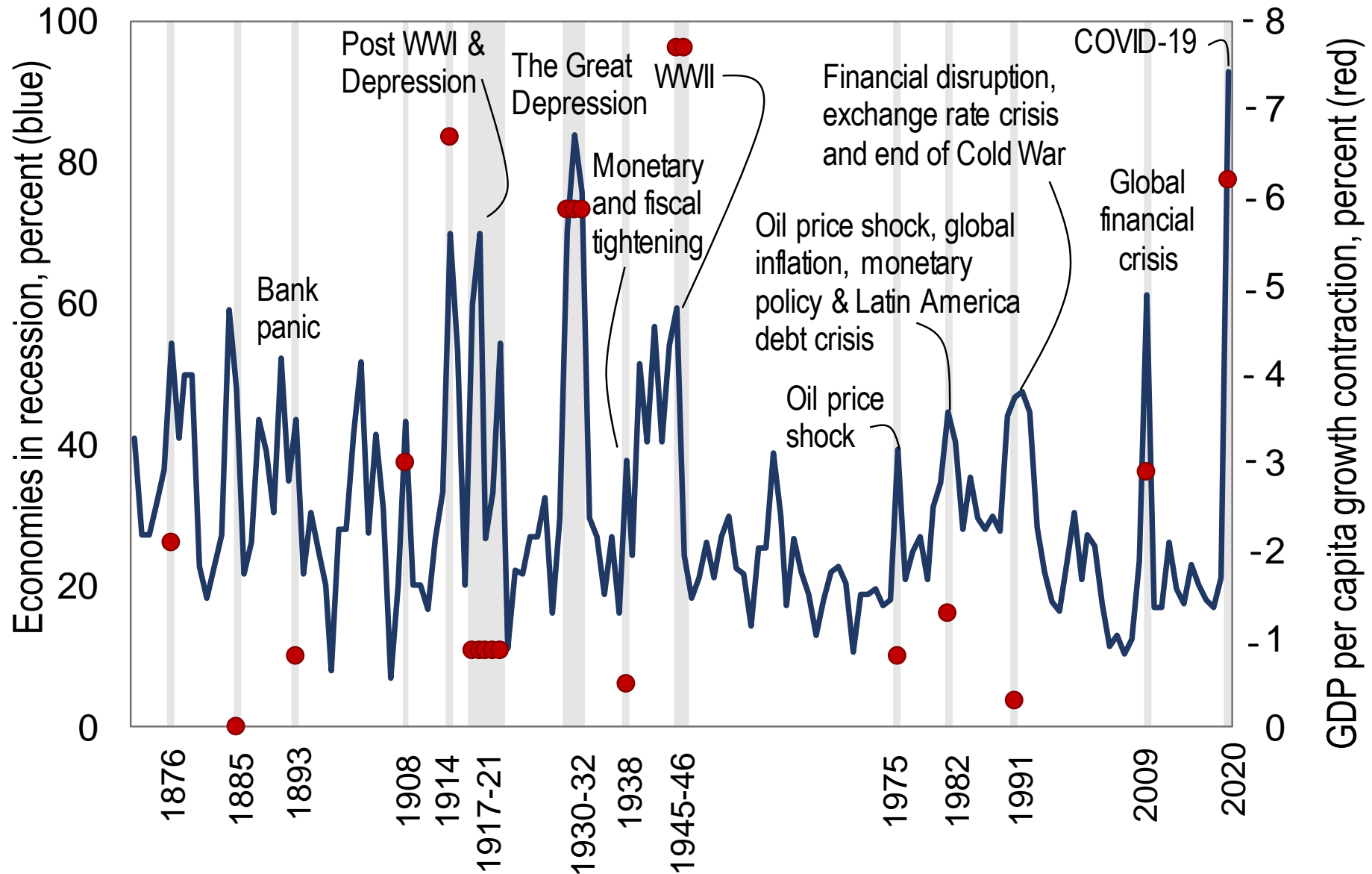
A taxonomy of crises and associated shocks

However, this pandemic crisis combines the worst features of all these crises:

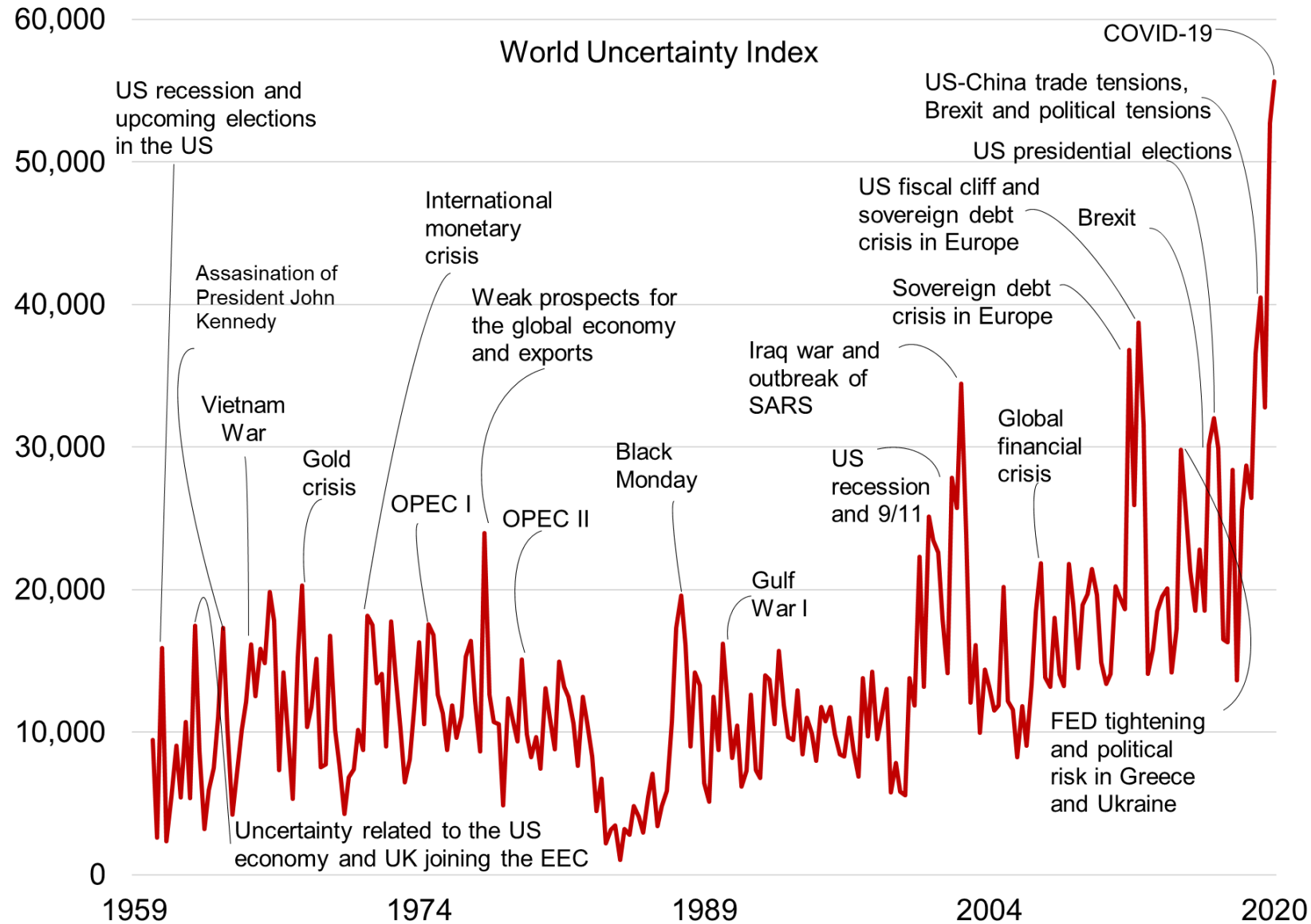
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Crisis severity and growth contractions, 1871–2020



Crisis severity and global uncertainty, 1959–2020



Source: Reproduced from Ahir, Bloom, and Furceri 2018

A crisis like no other

It is the most adverse peacetime shock in over a century

Global Economic Prospects, World Bank 2020

The projected recovery

Comparing the global financial crisis of 2009 with the pandemic crisis of 2020



The decline in global GDP growth projected for 2020 is **three times worse** than the corresponding decline in 2009



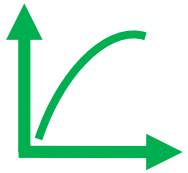
In 2009, three large regions –East Asia & Pacific, South Asia, and Sub-Saharan Africa– had little or no decline in growth. In 2020, **all regions** around the world will suffer a contraction

Growth projections: rebound may not be recovery

Recovery after the crises:



After the GFC, a **large increase** in global and regional GDP growth occurred right away, with only advanced countries experiencing a sluggish bounce back

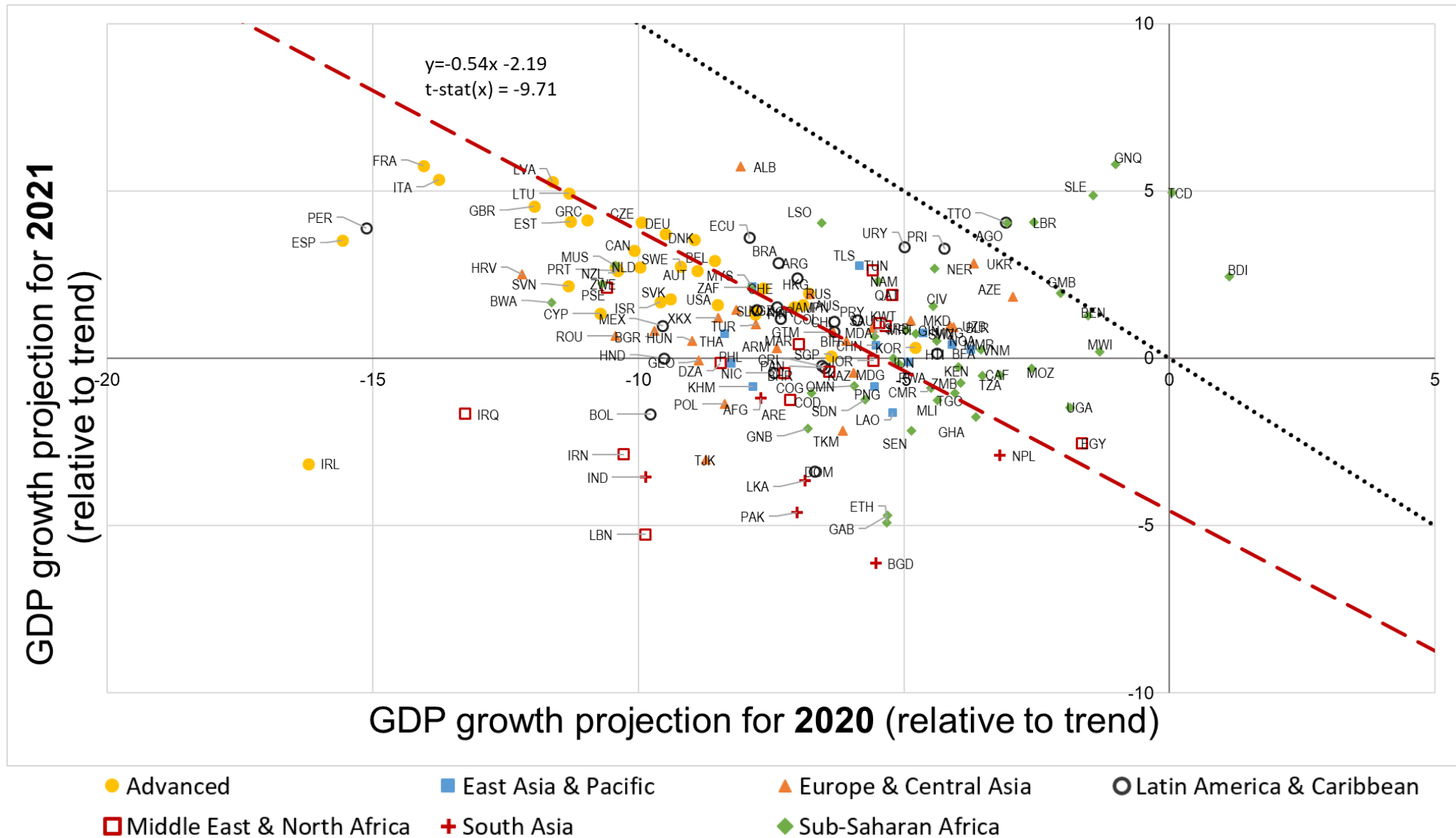


In contrast, the recovery for 2021 is projected to be much **less strong**, regaining only a fraction of what was lost



Countries that experience a **larger contraction** in 2020 are projected to have **larger expansions** during 2021

Projected GDP Growth Contraction and Recovery for the Pandemic Crisis



The constraints and drivers of recovery

The inescapable facts shaping the recovery

Public health concerns will remain paramount

- Economic activity will remain **depressed** as long as the threat of the disease is present
- Smart mitigation strategies can **minimize losses**, but many government have failed to implement them



Negative external shock will linger

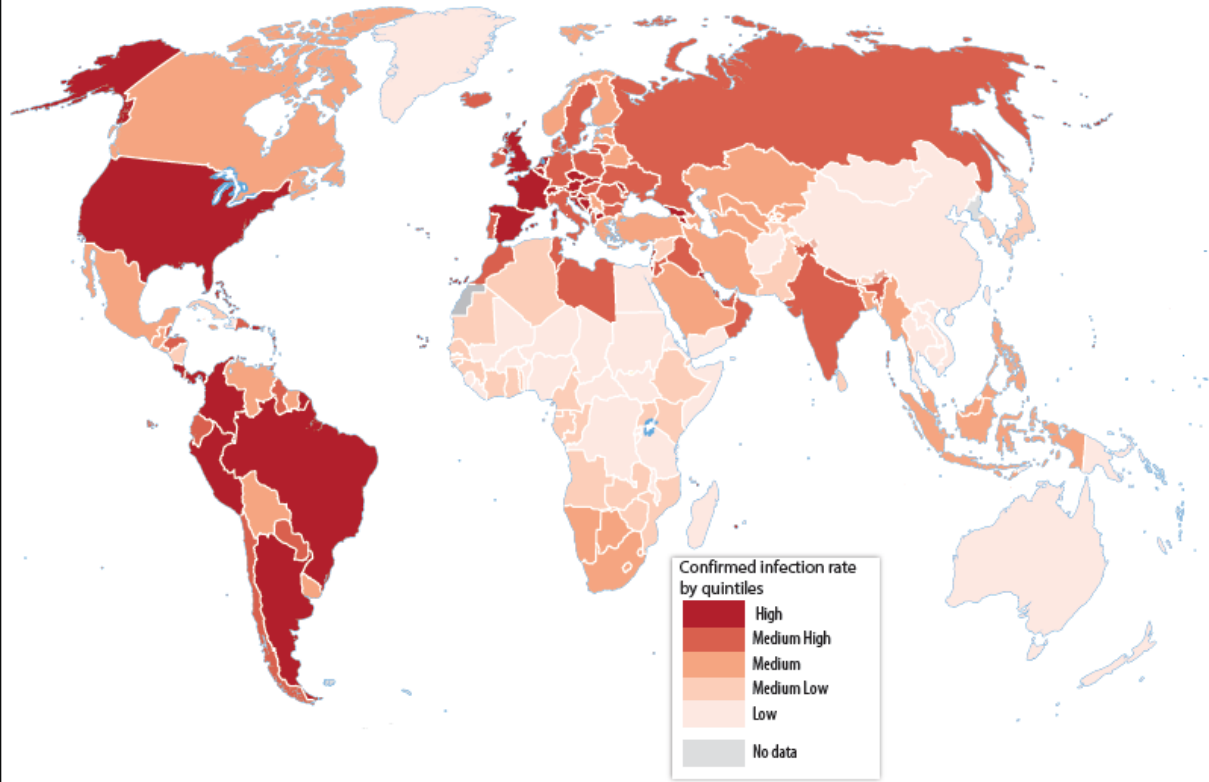


Pre-existing conditions matter

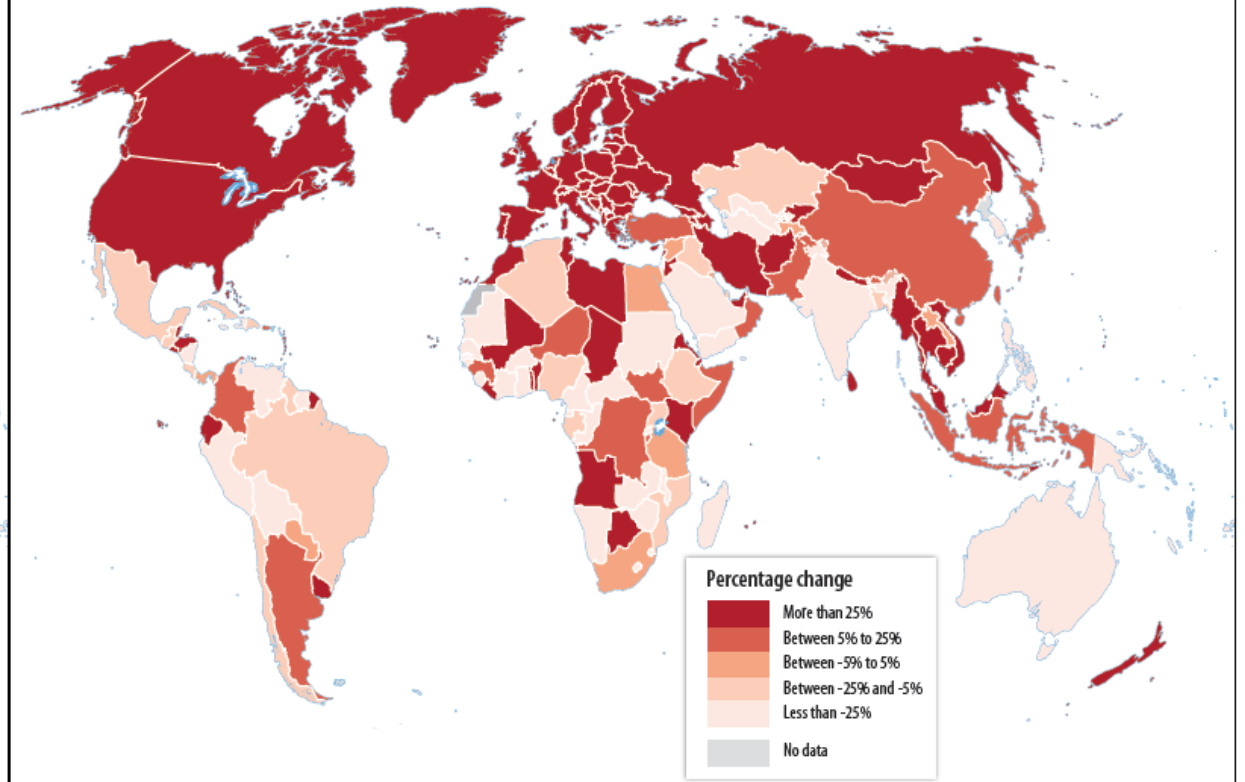


Infection Rate

Average daily in September and October



Percentage change from September to October



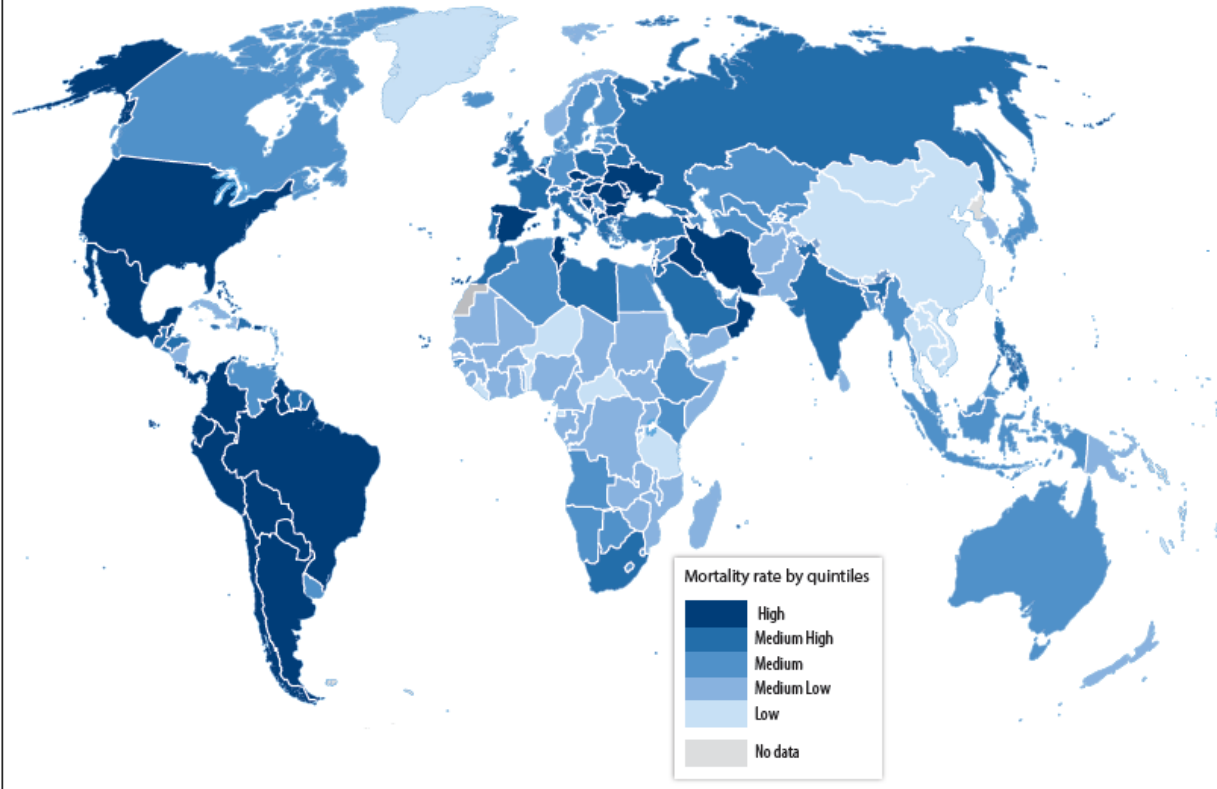
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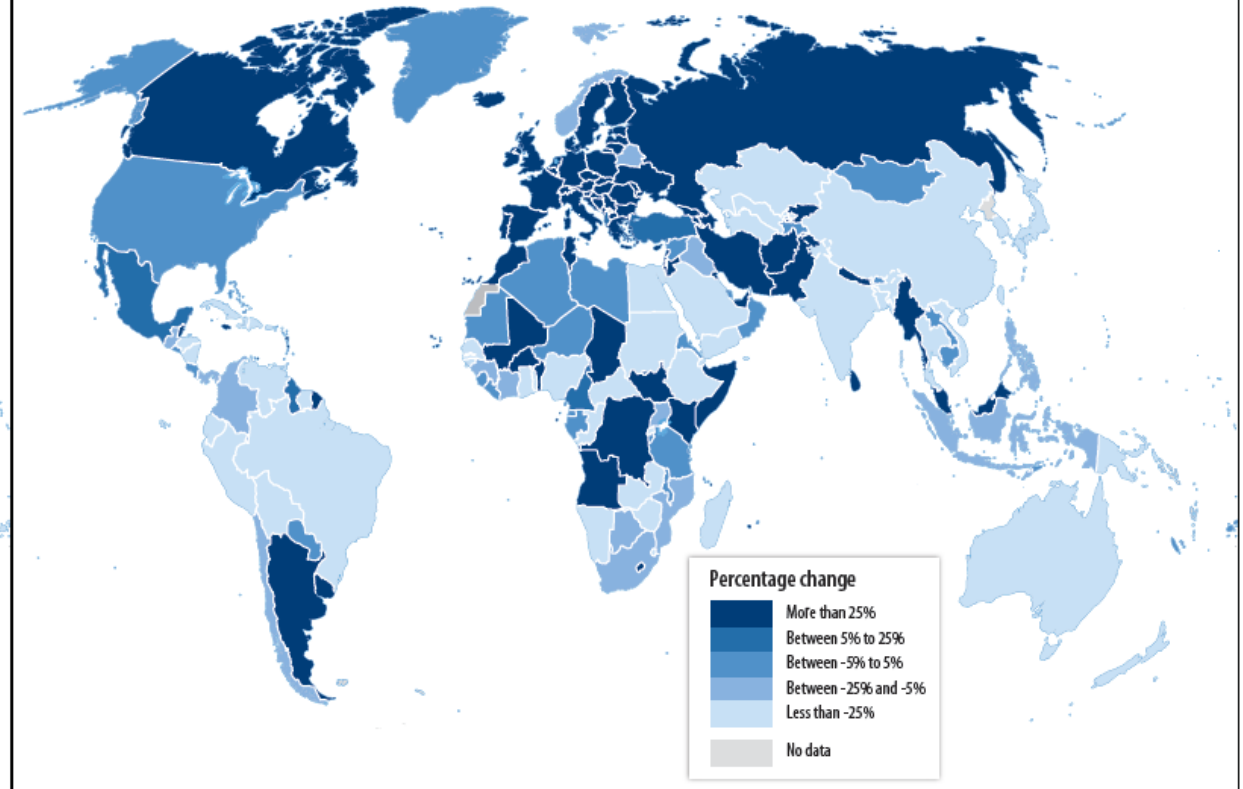
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Mortality Rate

Average daily in September and October



Percentage change from September to October



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The inescapable facts shaping the recovery

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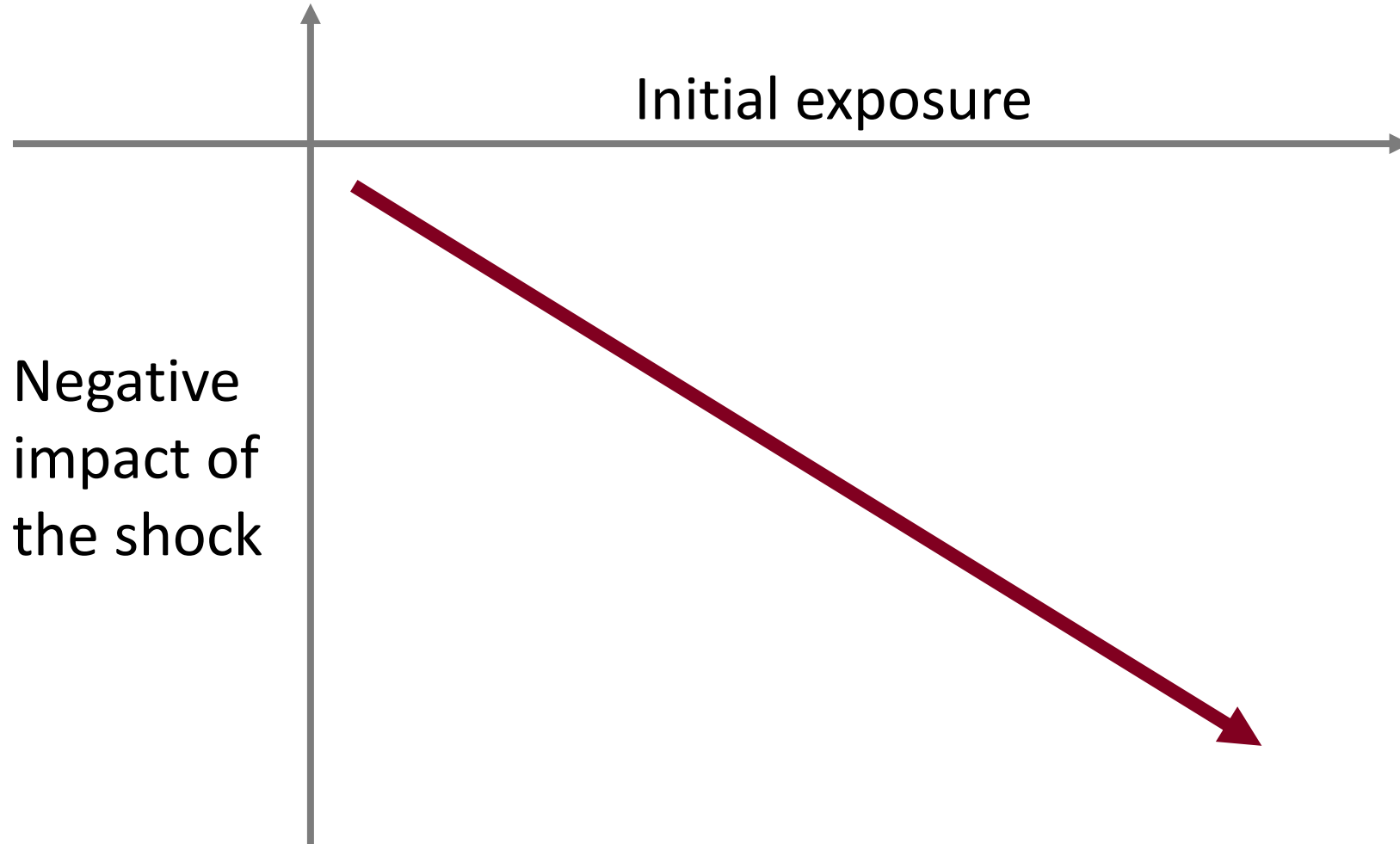
- The global response has been **chaotic and uncoordinated**
- International borders are likely to remain **restricted**
- Economic activity will stay **low and volatile**



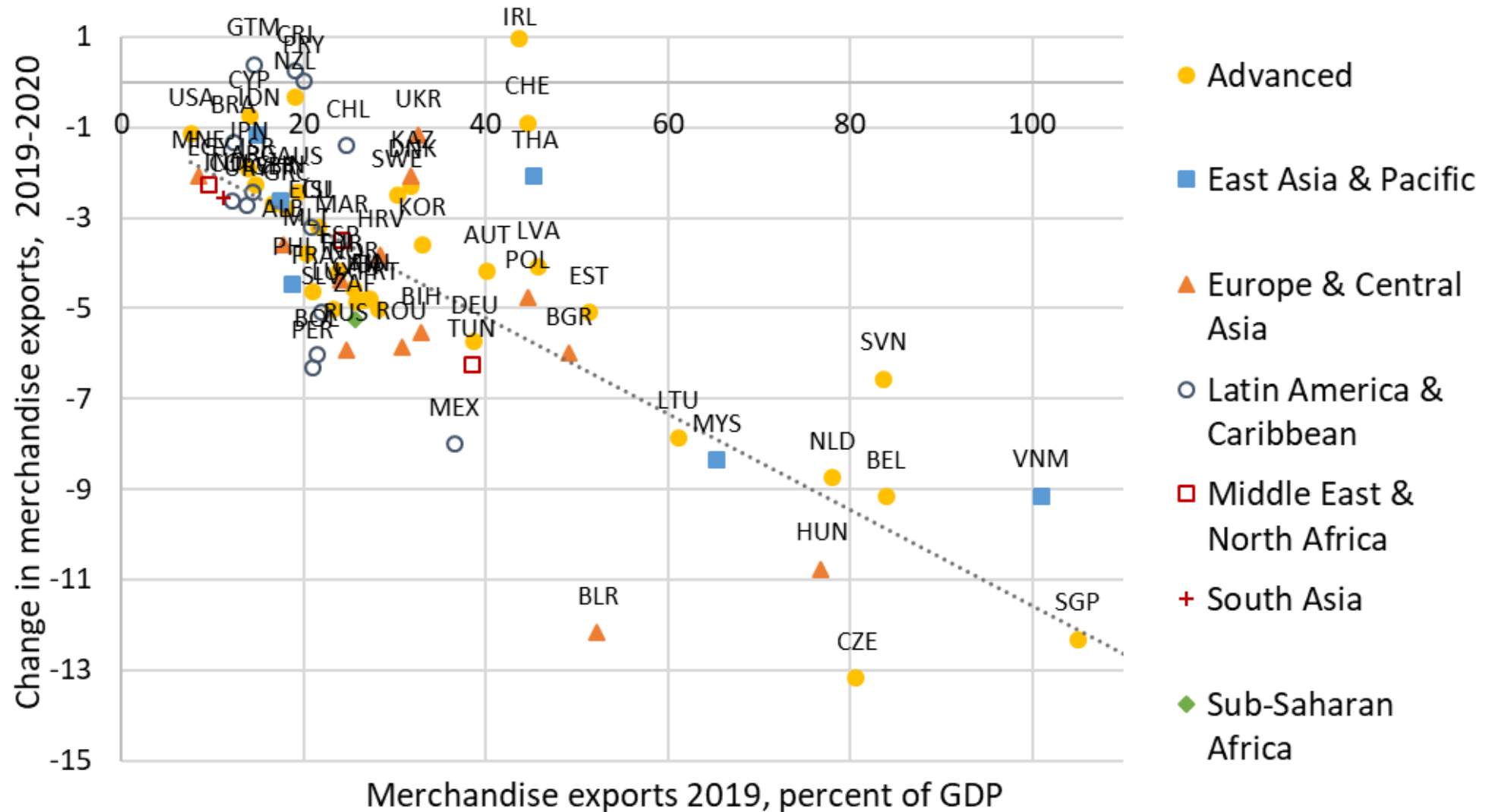
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External exposure and the impact of the pandemic shock

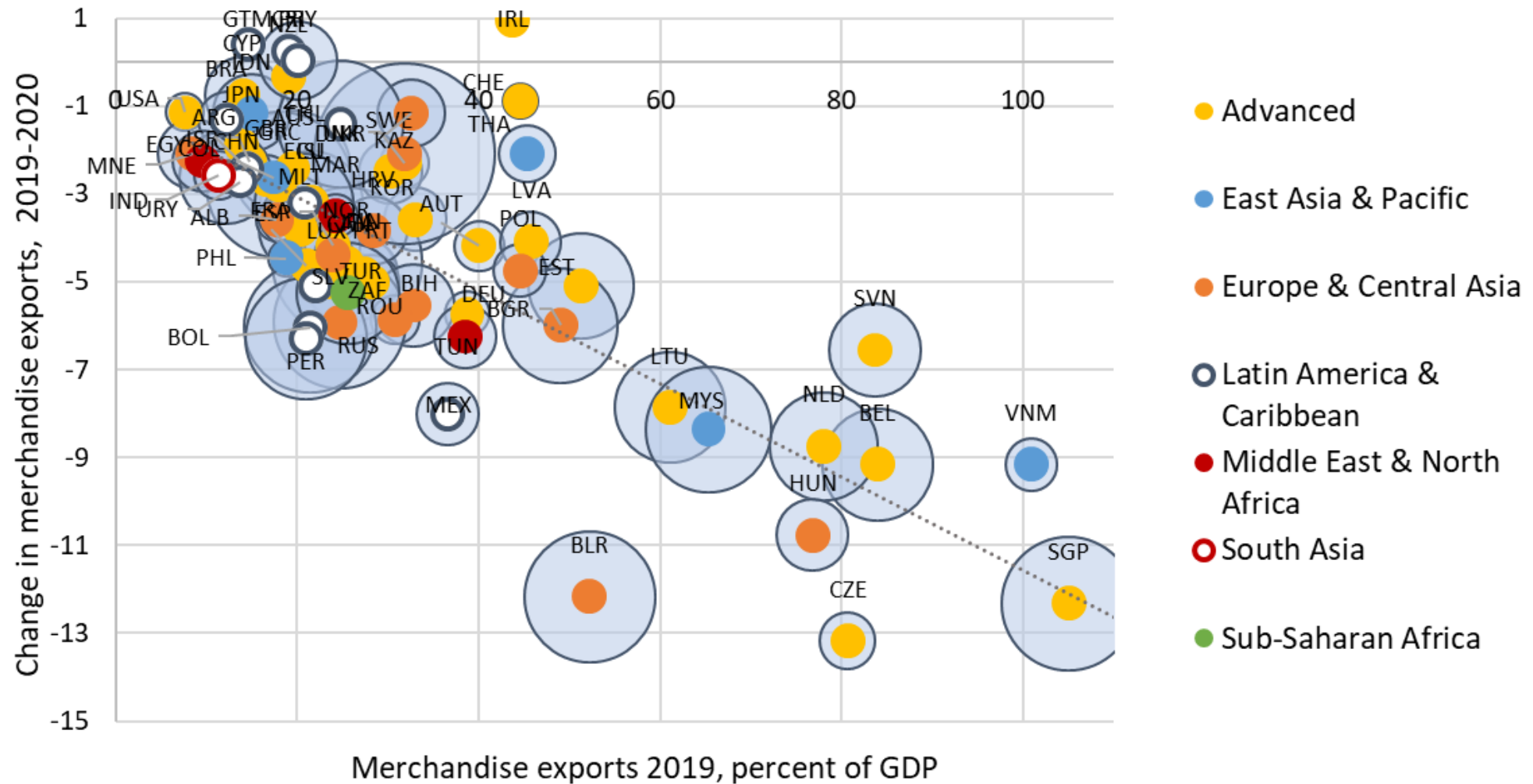


Trade disruptions lead to lower export receipts...



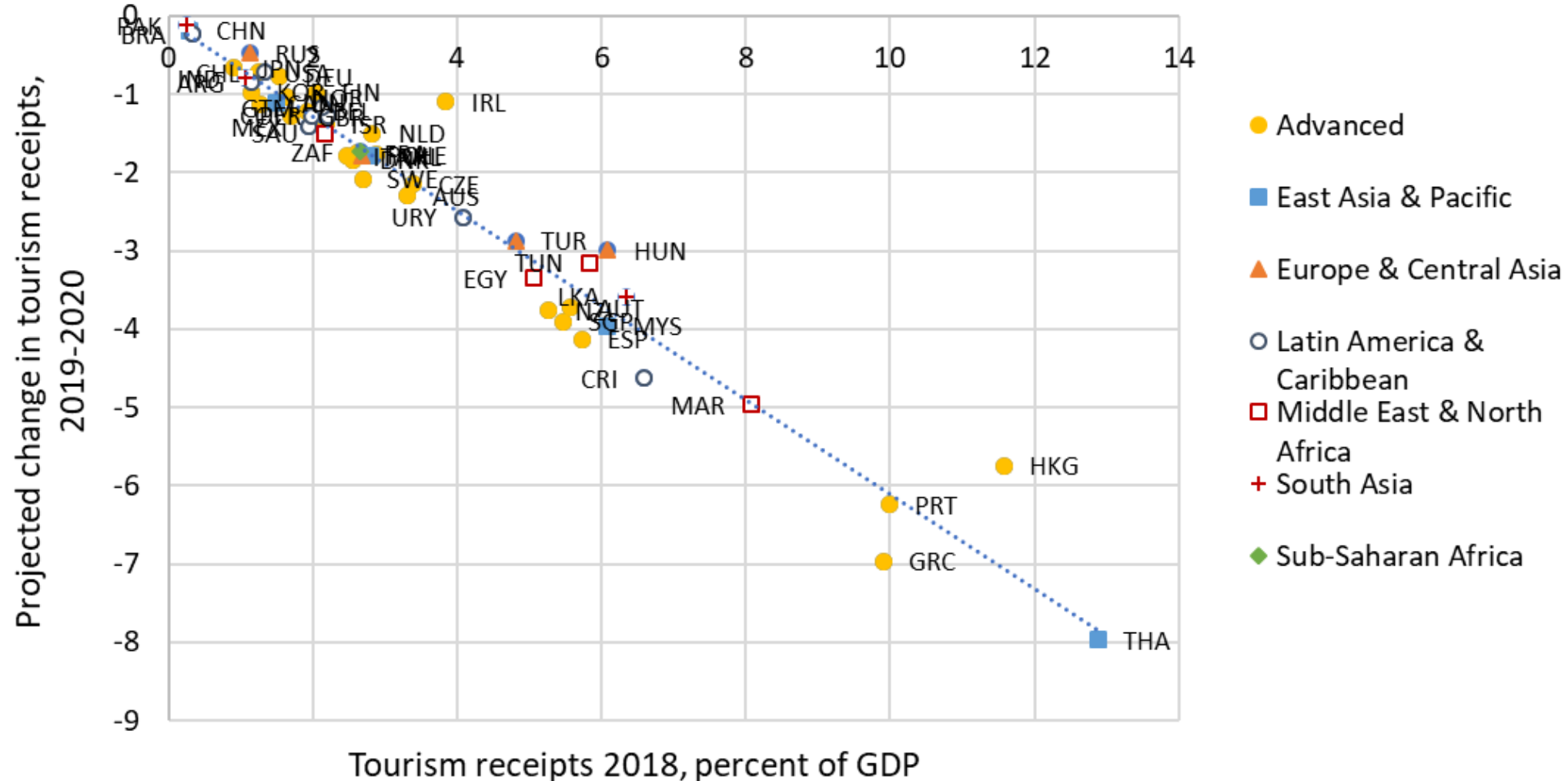
Source: World Bank 2020 World Development Indicators; World Trade Organization 2020.

...with a particularly adverse effect on commodity exporters.



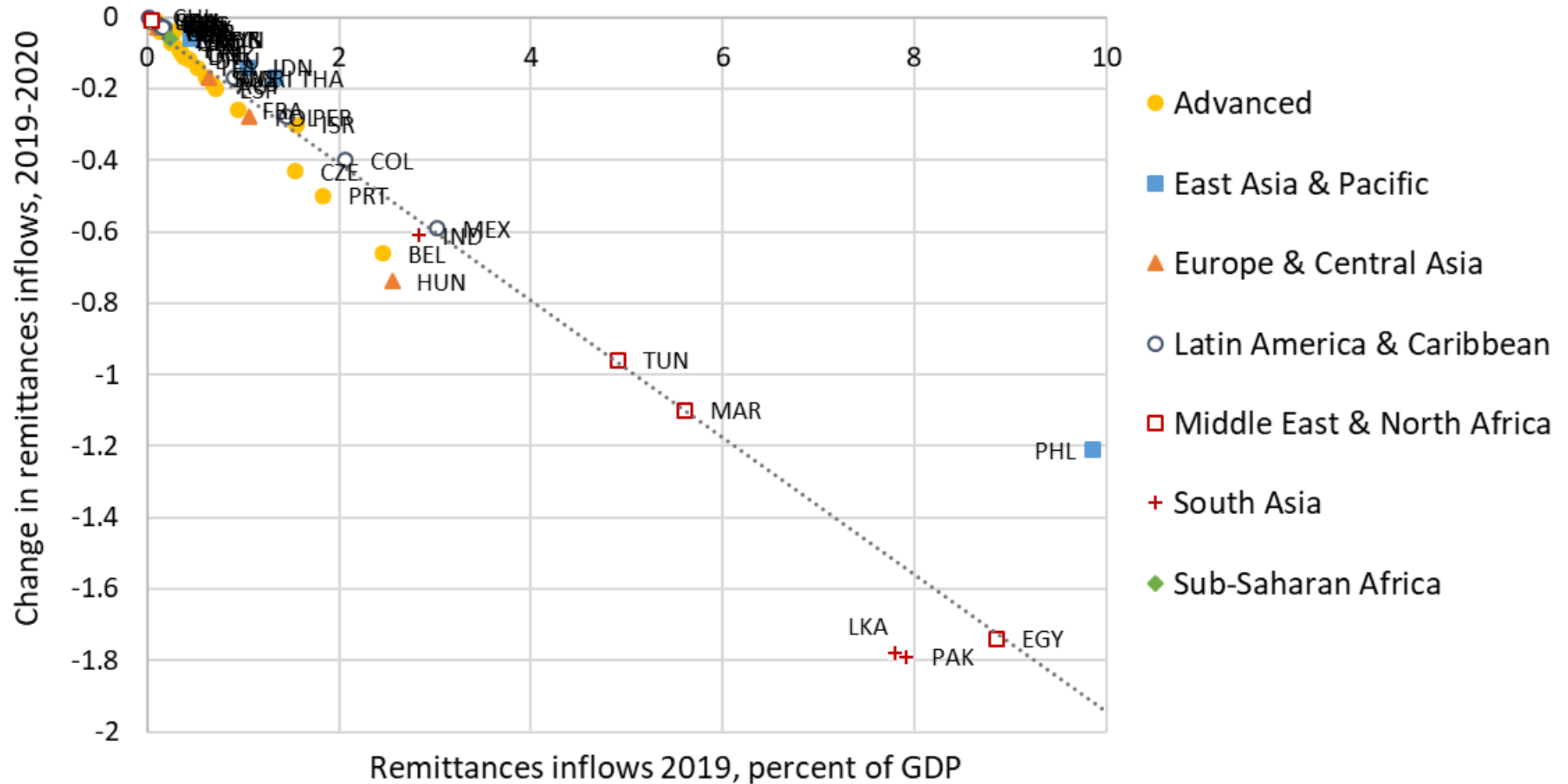
Source: World Bank 2020 World Development Indicators; World Trade Organization 2020.

Dependence on tourism brings sharp losses in this crisis, with greater vulnerabilities for small economies



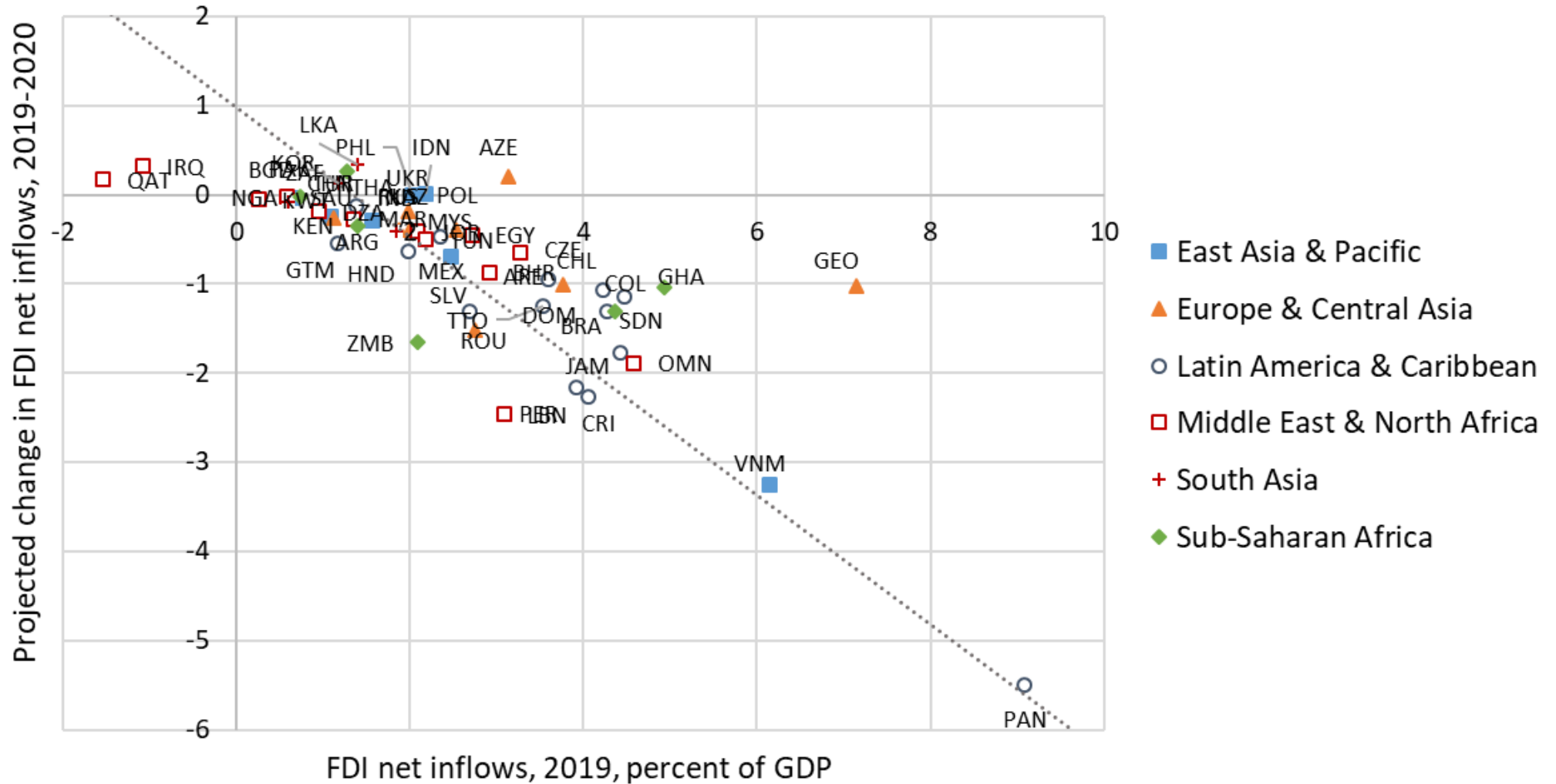
Source: IMF 2020 External Sector Report; World Bank 2020 World Development Indicators.

Declines in remittances inflows are adding to income losses, especially in vulnerable emerging markets and developing economies



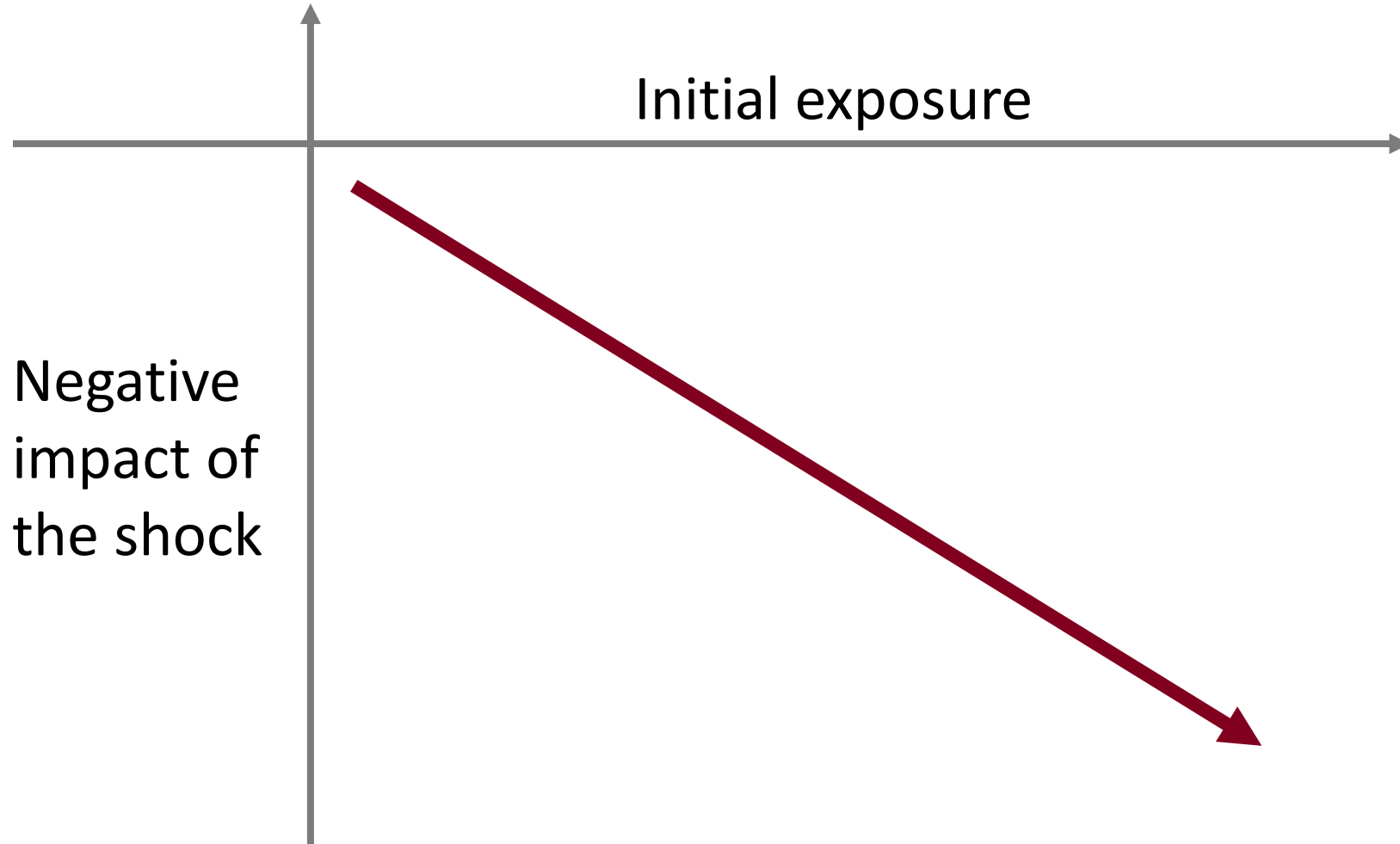
Source: IMF 2020, External Sector Report; World Bank 2020 KNOMAD; World Bank 2020 World Development Indicators.

Emerging markets and developing economies are expected to see FDI inflows decline by over 20 percent.



Source: Institute for International Finance 2020; World Bank 2020 KNOMAD; World Bank 2020 World Development Indicators.

External exposure and the impact of the pandemic shock

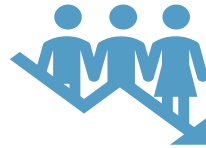


The inescapable facts shaping the recovery

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Negative external shock
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Pre-existing conditions
matter

- For developing countries:
- **Domestic:** large informality, dwindling fiscal space, and less effective public services
 - **External:** Dependence on tourism, remittances, commodity exports, and international financing



The shape of the recovery: L, W, V, K or U?

L

*Lack of
recovery*

W

*Volatile
recovery*

V

*Quick
recovery*

K

*Uneven
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U

*Gradual
recovery*

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- Countries unable to control the pandemic
- Countries squander public resources with failed mitigation and recovery attempts
- Pandemic may morph into a macroeconomic, debt, and financial crises

The shape of the recovery: L, W, V, K or U?



- Countries that use strict but unsustainable measures, leading to a cycle of openings, outbreaks, and lockdowns
- Could also be countries that are very dependent on (volatile) external conditions

The shape of the recovery: L, W, V, K or U?



- Best scenario after a shock but unlikely for most countries because of the depth and uncertainty of the crisis

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- Some people and businesses recover well and even profit
- while others face collapse and extreme poverty

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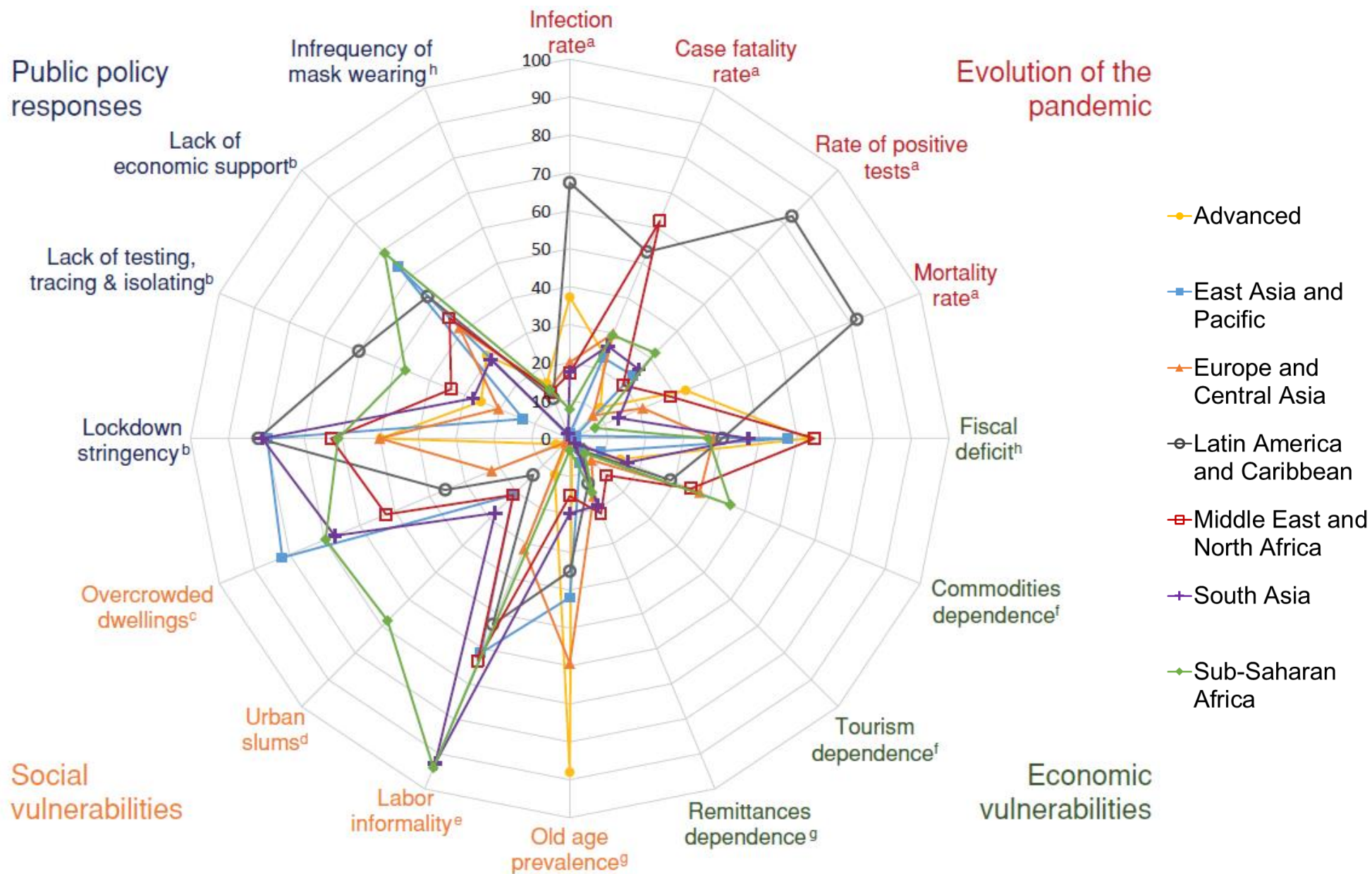
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- Most pragmatic scenario
- Recovery would occur based on resilient fundamentals, at a pace driven by the resolution of the pandemic (vaccination or effective treatment) and the normalization of global conditions

Assessing a Country's Ability to Start and Sustain a Recovery from the Pandemic Crisis



Beyond recovery: resilience

Seeking quick recovery by macro/financial stimulus?



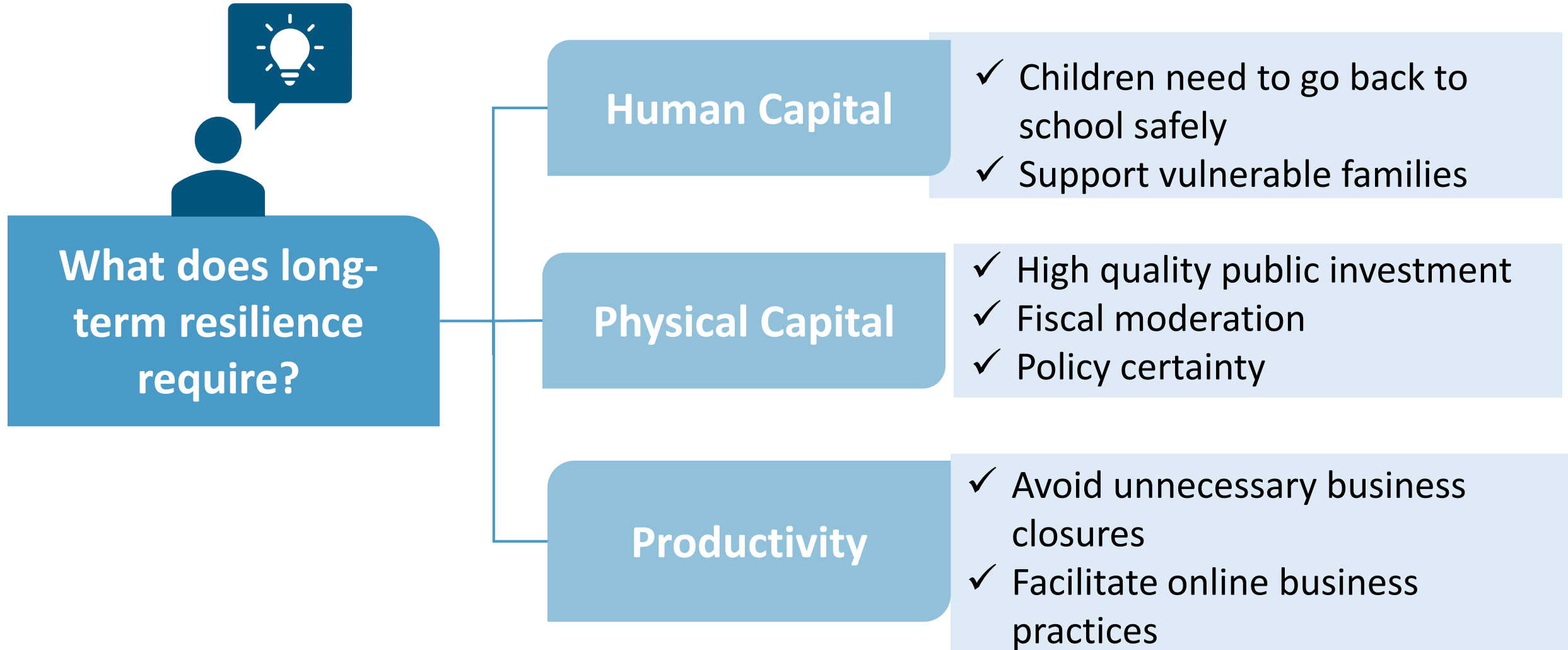
Why would the pursuit of a quick recovery be misguided?

It can lead to **repeated** waves of the pandemic

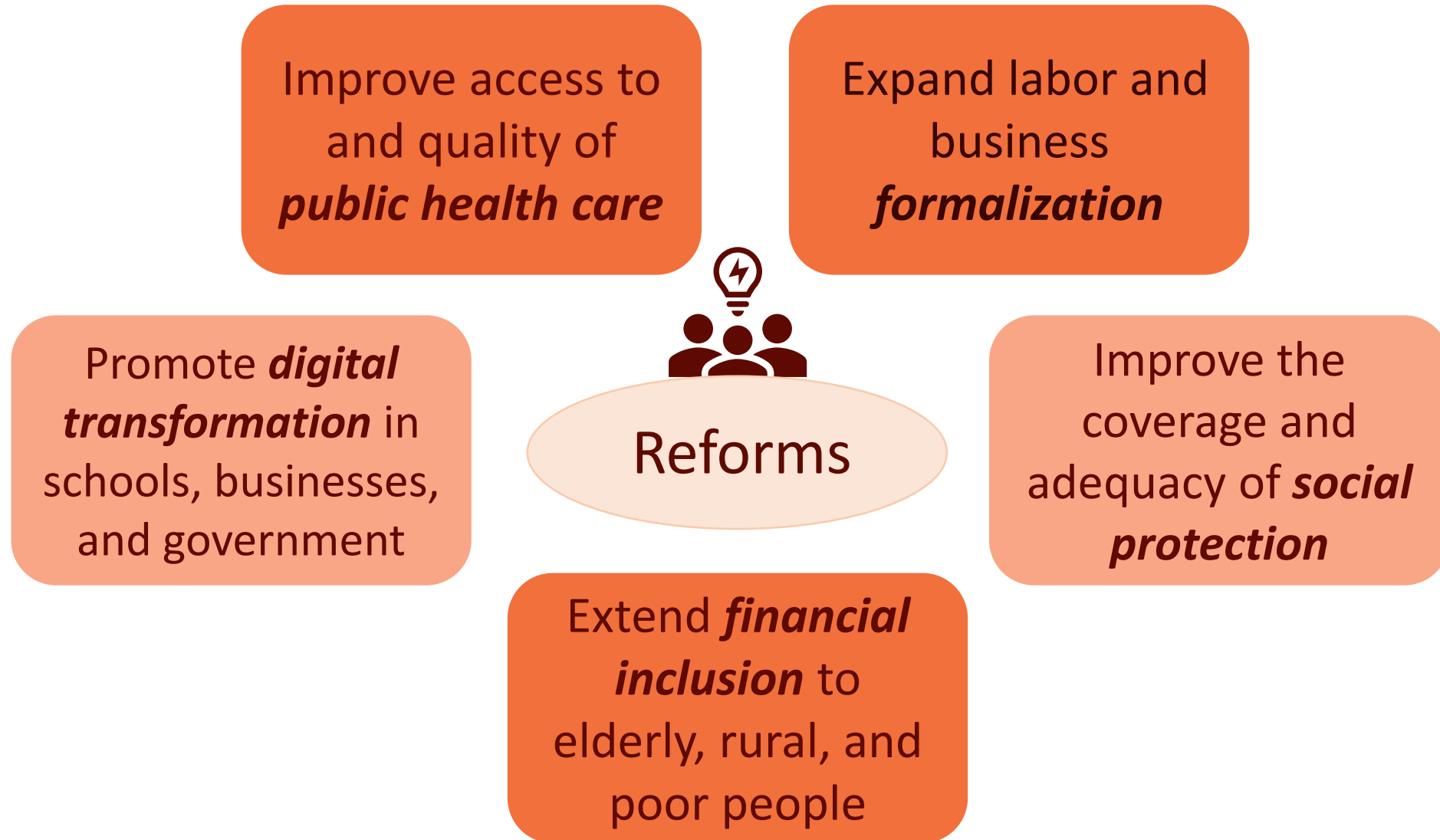
It can result in **large fiscal deficits** without a significant and steady increase in economic activity

It may transform **emergency measures** into **regular practice**: loss of central bank autonomy, lax financial regulatory policy, industrial policy?

Beyond quick recovery, long-term resilience as a goal



Conclusion: Leveraging the Crisis to Promote Necessary Reforms



Recovery from the Pandemic Crisis: Balancing Short-Term and Long-Term Concerns

<http://documents1.worldbank.org/curated/en/461391599582188306/pdf/Recovery-from-the-Pandemic-Crisis-Balancing-Short-Term-and-Long-Term-Concerns.pdf>



Thanks