

Coronavirus economic impact

Global economic recovery from Covid pandemic is fragile and patchy

Risk of prolonged economic scars rising, Brookings-FT index warns, on eve of IMF and World Bank meetings



Household spending has held up with governments in richer economies replacing lost earnings with wage subsidies © Patrick T. Fallon/Bloomberg

Chris Giles in London OCTOBER 11 2020

The global economy has achieved only a fragile recovery from the depths of the coronavirus pandemic and many emerging economies are still suffering severe hardship, according to the latest [Brookings-FT tracking index](#).

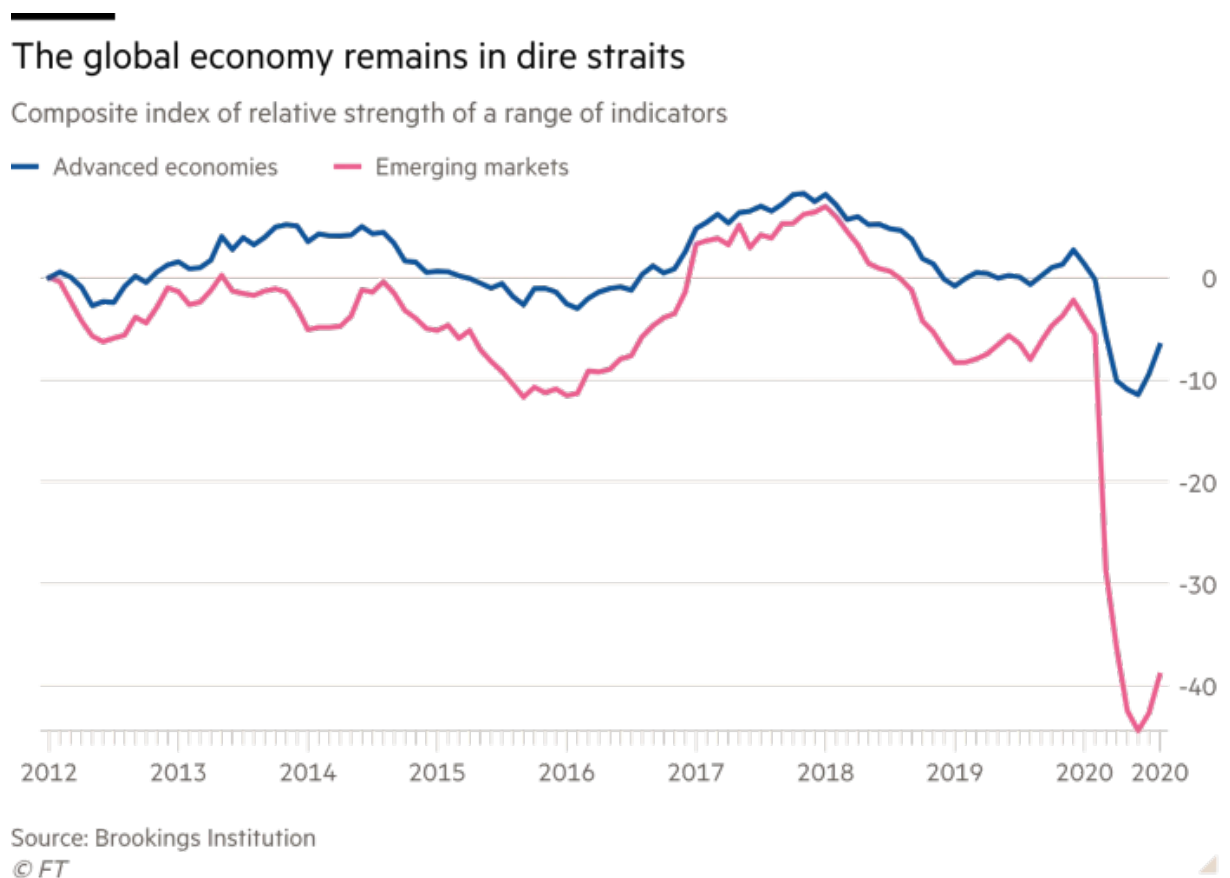
Growth in the world's largest economies has been uneven according to the index, which highlights the precarious outlook that will form the backdrop for the annual meetings of the IMF and World Bank this week.

With a second wave of coronavirus undermining efforts to return to normal, businesses', households' and investors' confidence shaken and little scope for additional monetary policy stimulus, most countries have a long way to go before output reaches pre-pandemic levels.

“A broad-based and robust recovery does not appear on the horizon,” said Professor Eswar Prasad of the Brookings Institution, adding that the “risks of substantial and long-lasting scarring effects on economies are rising”.

The meetings will be held virtually from Washington this week. Kristalina Georgieva, managing director of the IMF, said last week the recovery from the Covid-19 crisis would be, “long, uneven and uncertain. And prone to setbacks.”

Economic data from across the world are weaker than the worst point in any previous downturn since the Brookings-FT Tracking Index for the Global Economic Recovery (Tiger) started in 2012.



The index compares indicators of real activity, financial markets and confidence with their historical averages for the global economy and for individual countries, capturing the extent to which data in the current period is normal.

It showed the recovery in advanced economies is far from complete after a historic drop in the spring, and the situation in emerging markets is much worse with indicators still far removed from normal levels.

Private sector confidence has been battered, which does not bode well for business investment and employment creation

Eswar Prasad

Even though manufacturing has recovered strongly, boosting world trade, and household spending has generally remained strong as governments in developed economies have replaced lost earnings with wage subsidies, the corporate outlook is troubled and businesses', households' and investors' confidence is low, threatening to undermine the strength of any recovery.

Prof Prasad said: "Private sector confidence has been battered, which does not bode well for business investment and employment creation."

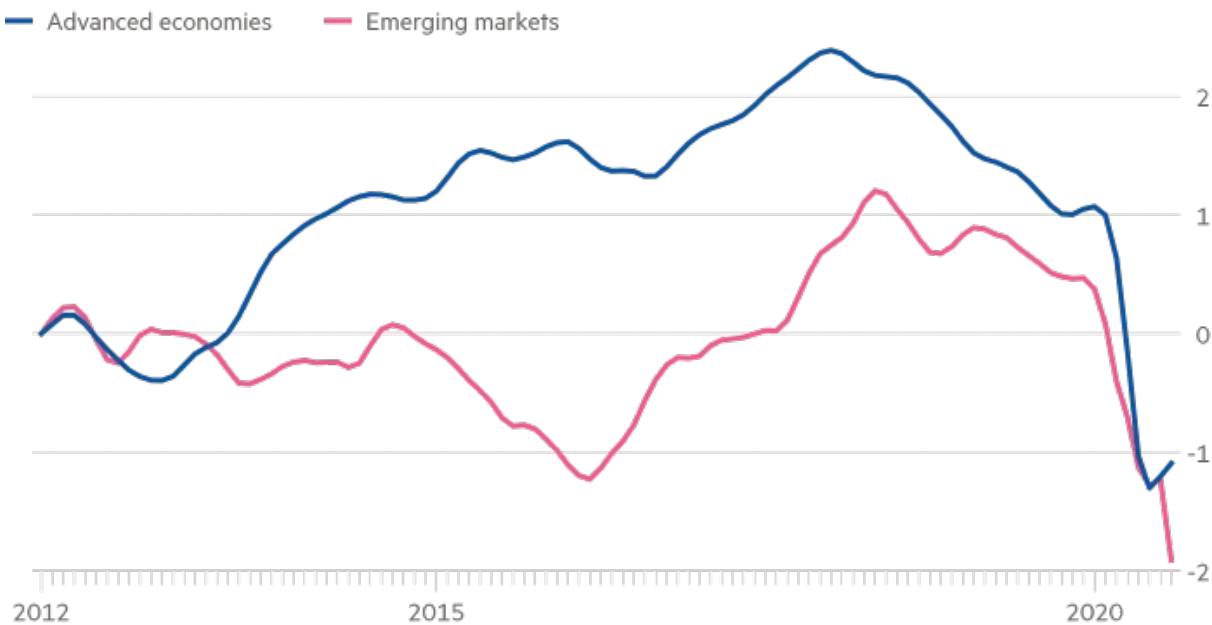
However, financial markets have been stable after the initial shock, ensuring that they did not amplify the health emergency.

Although the recovery has been tepid, the world escaped much greater harm because of the enormous use of fiscal policy, said Prof Prasad. Central banks also did what they could but monetary policy was shown to be running short of ammunition, he said, with the limits of their remaining scope for policy action becoming "increasingly apparent".

"Central banks are in peril of increasing entanglement in their economies through purchases of corporate and government bonds and direct financing of firms, which could leave them vulnerable to political pressures and threats to their independence in the future," he said.

Businesses', households' and investors' confidence has barely recovered

Index of confidence data



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The US has performed more strongly than many European countries, with unemployment falling over the summer. However its recovery slowed in recent months as the country lost control of coronavirus outbreaks and politicians fought over renewing support for unemployed households.

In addition to many of the same risks, the eurozone faces the threat of deflation; its annual rate of inflation recently turned negative. Its recovery has been patchy and linked to success in tackling the virus, with Germany performing better than Italy, Spain and France. In all countries, service sectors have taken a battering.

Latest coronavirus news



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In Asia, China is showing the strongest recovery, having regained most of the economic activity it lost when Covid-19 first struck in January and February; despite this, its performance this year will be worse than any since it opened up its economy to trade in the early 1980s.

Its success in getting rid of the virus with a harsh lockdown and subsequent reopening stands in contrast to India, which suffered many more cases and deaths, preventing the economy from functioning.

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