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ECONOMY

China Growth Limits Global Economic Damage From Pandemic, IMF Says

World's gross domestic product forecast to fall by 4.4% this year, not as sharp as the 5.2% drop projected by IMF in June



World trade volumes are likely to rise by 8.3% in 2021 after falling 10.4% this year. The port of Bremerhaven, Germany, last month.

PHOTO: ALEX KRAUS/BLOOMBERG NEWS

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The global economic collapse caused by the coronavirus won't be as severe as estimated earlier, the International Monetary Fund predicted Tuesday, thanks to strong government intervention world-wide and a swift recovery in China.

The world's gross domestic product is forecast to decline by 4.4% this year, not as sharp as the 5.2% drop the IMF projected in June but still the most severe

downturn since the Great Depression. World output will grow 5.2% in 2021, down from an earlier estimate of 5.4%.

China, where the pandemic originated, will be the only major economy to grow this year, the IMF predicted. The world's No. 2 economy is forecast to expand 1.9% in 2020, compared with growth of 6.1% last year. China's growth will accelerate to 8.2% next year, the IMF said.

In a briefing, IMF Chief Economist Gita Gopinath said China was pulling up the global numbers, and without China "cumulative growth for 2020 and 2021 is negative." Its economy has already surpassed its levels of 2019, she said, but for harder-hit regions like parts of Europe or Latin America, it is "going into 2023 to return back to pre-pandemic levels."

China moved swiftly both to control the spread of the novel coronavirus and to support the economy with a combination of interest-rate cuts, credit to provincial governments and lending programs for small and medium enterprises, said Eswar Prasad, professor of trade policy at Cornell University.

"What I think has really helped is China has used that stimulus judiciously in tandem with effective virus control," Mr. Prasad said. "One lesson here is unless you control the virus, your economy is not going to have much of a recovery."

China will be the first major economy to recover mainly because it was the first to reopen, the IMF said. China's exports, a driver of growth, were helped by strong global demand for its medical supplies and equipment.

"These are difficult times, yet there are some reasons to be hopeful," Ms. Gopinath wrote in the fund's semiannual World Economic Outlook. "Testing has been ramped up, treatments are improving, and vaccine trials have proceeded at an unprecedented pace."

The IMF said the outcome would have been "much weaker if it weren't for sizable, swift and unprecedented fiscal, monetary, and regulatory responses."

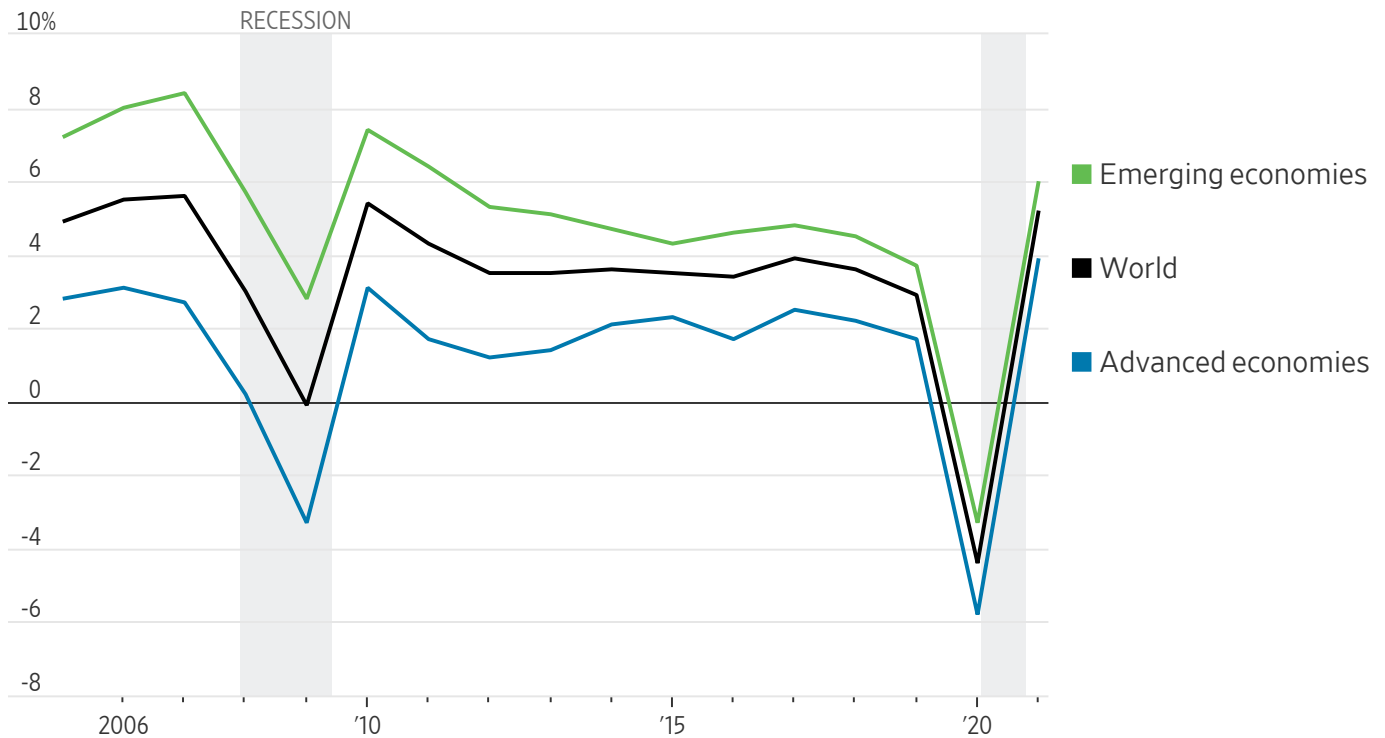
Other reasons for the improved global outlook, the IMF said, included better-than-expected performance in advanced economies in the second quarter and signs of a more rapid recovery in the third quarter. But it added a note of caution.

“While the global economy is coming back, the ascent will likely be long, uneven, and uncertain,” Ms. Gopinath wrote.

Growth Collapse

Though better than forecast in June, the growth outlook for 2020 is severely negative

Real GDP growth



Source: International Monetary Fund

The outlook for 2020 improved for most advanced economies and major emerging markets, including the U.S., the eurozone, Brazil and Russia. Estimates were reduced for India and Southeast Asia.

But for most advanced economies, the bounceback in 2021 won't be large enough to heal all the damage done in 2020. In the U.S., growth next year is projected at 3.1% after a 4.3% decline this year. The eurozone will expand 5.2% after shrinking 8.3%. Japan is likely to see 2.3% growth, following a 5.3% drop.

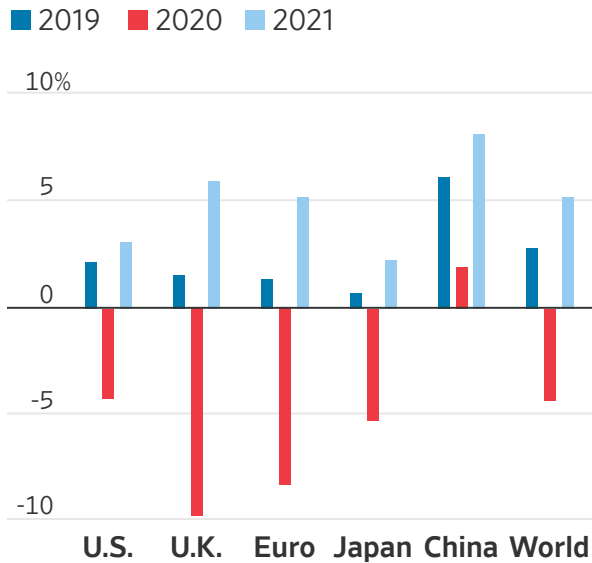
World trade volumes are likely to rise by 8.3% in 2021 after falling 10.4% this year, the IMF said.

Those figures imply that a full recovery will take several years for most countries,

Growth Outlook

For advanced economies, the snapback in growth in 2021 is forecast to be smaller than the decline in 2020

Change in real GDP



Source: International Monetary Fund

dealing “a severe setback to the projected pace of improvement in average living standards across all country groups,” the report said.

The World Bank released estimates last week showing that around 100 million people globally will be thrown into extreme poverty—defined as living on less than \$1.90 a day. The bank’s president, David Malpass, has said the crisis is also a pandemic of economic inequality.

The IMF forecasts were released as part of this week’s annual meetings of the IMF and World Bank, whose finance ministers and central bankers around the world are meeting virtually to

coordinate policies. Weathering the pandemic and dealing with the economic fallout are at the center of that agenda.

WORLD BANK AND IMF MEETINGS

Coronavirus Stimulus Spending Consensus Eludes Global Leaders

“Not only will the incidence of extreme poverty rise for the first time in over two decades, but inequality is set to increase because the crisis has disproportionately affected women, the informally employed, and those with relatively lower educational

attainment,” the IMF said.

In a separate report released Tuesday, the IMF said government spending and other steps to boost coronavirus-stricken economies have limited immediate risks to global financial stability while fueling a debt buildup that could spell trouble later.

“The Covid-19 pandemic could be a major resilience test for the global financial

system,” IMF economists wrote in the Global Financial Stability Report. “Triggers such as new virus outbreaks, policy missteps, or other shocks could interact with pre existing vulnerabilities and tip the economy into a more adverse scenario.”

Companies that borrowed heavily at low interest rates may have trouble paying their debts, the report said, increasing the risk of bankruptcies. In China, indebted local governments could limit the effectiveness of Beijing’s effort to provide credit to households and companies to counter the fallout of the pandemic, the IMF said.

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