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Stories August 31st, 2020 | Written by John Lorie and Theo Smid

# An Economic Recovery From COVID-19 in 2021 Is Possible – But Massive Uncertainty Remains



## Sharelines

- □ □ Atradius economists are now forecasting
- □ □ Global government stimulus measures

COVID-19 has had a devastating effect on human life. But it has also caused widespread economic upheaval for both advanced and emerging market economies as countries shut down to try to stop the spread of the virus. The U.S. for instance is set to see the **most severe economic downturn** since GDP was first

that global trade will decrease approximately 15 percent in 2020. amount to approximately 9 percent of global GDP, or around \$7.8 trillion.

□ □ □

Although stimulus measures are necessary, soaring government debt levels are also cause for concern.

tracked in the 1940s.

This means deep hardship for many **businesses** of all sizes and across all industries. Shutdowns caused many firms to entirely cease operations for a time. Now, they are grappling with plummeting demand as a result of rising unemployment and uncertainty, on top of supply chain difficulties and uncertainty as to financing resources.

### Bad Timing for a Global Crisis

Although there is no “good” time for a pandemic to strike, business conditions in 2020 were already a little shaky prior to the outbreak. At the beginning of the year, the global economy had just finished its weakest year since the Great Recession, global trade was turning sour, trade finance had become more restricted and continued uncertainty from the **U.S.-China trade war** weighed on businesses everywhere.

If the outlook was stormy at the beginning of the year, it’s now outright bleak. **Atradius economists are now forecasting** that global trade will decrease approximately 15 percent in 2020, while global GDP will decline about 5 percent. The U.S. will perform below average, with a 6.1 percent decrease in GDP – largely due to its lag in controlling the virus and subsequent record high in number of COVID-19 cases, in addition to soaring unemployment as well as pressure on incomes, leading to a drop in consumption.

### Will Government Intervention Be Enough?

Governments and central banks the world over have enacted measures to counteract the pandemic’s economic devastation. Early in the crisis, for instance, the European Central Bank put in place a **Long Term Refinancing Operations III program**, while the U.S. Federal Reserve **increased quantitative easing**.

Countries have also put together aid packages, such as the U.S. CARES Act and a number of packages from individual EU economies and the UK. Similarly, China is providing **tax relief**, state-backed credit guaranteed, and delayed loan and interest payments. Altogether, global government stimulus measures amount to approximately 9 percent of global GDP, or around \$7.8 trillion.

But will this be enough? **Atradius economists suggest not** – not unless countries also enact vigorous policies to revitalize the economy at every level. The **EU Pandemic Fund** provides a good example: the \$750 billion initiative will bestow loans and grants to the areas and sectors hardest hit by the pandemic, allowing for a more even recovery rate across the entire EU.

Although stimulus measures are necessary, soaring government debt levels are also cause for concern – even before the outbreak, many countries had worryingly high debt

levels. The most recent baseline scenario from Atradius economists has the U.S. federal budget deficit, as a proportion of GDP, increasing by more than 10 percentage points this year. The UK will fare even worse, seeing a 13 percentage point increase in deficit growth rate. China and India are the only major economies likely to maintain moderate debt ratios through the pandemic.

All that said, low interest rates will likely stick around through the end of 2021 at least – this should help offset some of the concerns over high government debt levels. Moreover, central banks like the Fed and ECB will continue purchasing government bonds, suppressing any financial market stress.

## What's Next?

While the global **economy** is under undue strain at the moment, Atradius economists predict a recovery could begin as early as this year, continuing into 2021. Our baseline scenario has global GDP rebounding by 5.7 percent in 2021, with the U.S. coming in just under that, with GDP growth of 4.2 percent.

This scenario, however, is shrouded in uncertainty and hinges on a few key assumptions:

- That researchers are able to develop a successful vaccine in the near-term
- That lockdowns will be limited throughout the remainder of the outbreak
- That oil prices will remain low
- That the U.S.-China trade war will remain at a standstill
- That the rise in financing cost for firms, if any, remains limited

Should these assumptions not play out, the global economic recession could be much worse than anticipated – contraction rates could be twice as damaging as those currently predicted, with global GDP contracting 12.2 percent in 2020 and U.S. GDP seeing a 7.9 percent drop. Recovering from a contraction of this size would be a slow, painful process, although we would expect 2021 to see similar growth rates.

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**Theo Smid** is an economist with **Atradius Economic Research**. His work focuses on business cycle analysis, insolvency predictions, thematic research and country risk analysis for the Commonwealth of Independent States. Before joining Atradius, he worked for five years in the macro-economic research team of Rabobank, focusing on business cycle analysis of the Dutch economy. He holds a master's degree in economics from Tilburg University.

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