Government of Pakistan
Ministry of Economic Affairs

# Global and Regional Economic Overview

# 2021

# Preface

Alhamdulillah, despite the COVID-19 pandemic Pakistan's economy performed impressively in comparison to other countries of the region. This has only been possible due to the visionary leadership of Prime Minister Imran Khan, entailing a comprehensive policy during these hard times. We have beaten the economic projections made by various international agencies.

For the first time, Ministry of Economic Affairs has prepared the '**Global and Regional Economic Overview 2021**' and this report will be published after every six months. This report presents a comparative analysis of economic performances of major developed and developing countries. The analysis is primarily based on the reports of IMF, World Bank, Asian Development Bank and various research studies conducted during FY2020-21. Overall, this report provides guidelines for policy makers to dovetail policies with emerging trends of 2021.

I am confident that this document will serve as a source of valuable information for all stakeholders including parliamentarians, policy makers, academia, international development partners, and the citizens of Pakistan.

I take this as an opportunity to appreciate hard work done by Mr. Noor Ahmed, Secretary Economic Affairs Division and his team.

Suggestions for further improvements are highly appreciated.

Omer Ayub Khan
Minister for Economic Affairs,
Islamabad, 30th June, 2021

# Table of Contents

## List of Tables



## List of Figures

# Summary

World economies had shown signs of recovery towards the end of 2019, however, coronavirus pandemic (COVID-19) dashed away these hopes in 2020. During 2020, this pandemic infected millions and spread at a surprising speed. In order to contain the impact of COVID-19, governments have taken different mitigation measures including lockdowns, closure of schools, and travel restrictions. These measures have badly affected the economic activities and created disruptions in financial and commodity markets, global trade, supply chains, travel and tourism. Resultantly, world economy has contracted by 3.3 percent in 2020.

Although partial recovery started after May 2020 but second and third wave of COVID 19 in India and many other developing countries is halting the economic recovery. Yet most of the economists are optimistic about economic recovery in 2021. It is forecasted that World GDP will grow at 6.0 percent in 2021 and 4.4 percent in 2022. Economic growth of advanced economies has considerably declined from an expansion of 1.6 percent in 2019 to a contraction of 4.7 percent in 2020. However, economic growth is expected to bounce back at 5.1 percent in 2021 and 3.6 percent in 2022.

The pandemic and the associated disruptions in global spillovers have significantly halted the economic progress in majority of developing economies. These economies also faced extraordinary external headwinds in the form of distortion in global supply chains, commodity prices and tourism. It is pertinent to mention that vaccine procurement data suggest that for most of the population in developing countries, vaccination may not be available to larger segment of the society in 2021. Consequently, in comparison to advanced economies, lockdowns and containment measures may be needed more frequently in 2021and 2022. Therefore, it is projected that developing economies will grow at 6.7 percent in 2021 and 5.0 percent in 2022.

In South Asia, nationwide lockdowns have curtailed consumption. Industrial and services activities have sharply fallen across the region. Growth in the region was contracted by 6.0 percent in 2020. However, it is expected that economic growth will accelerate in 2021 and economic growth is forecasted to be 9.5% in 2021.

# Chapter 1

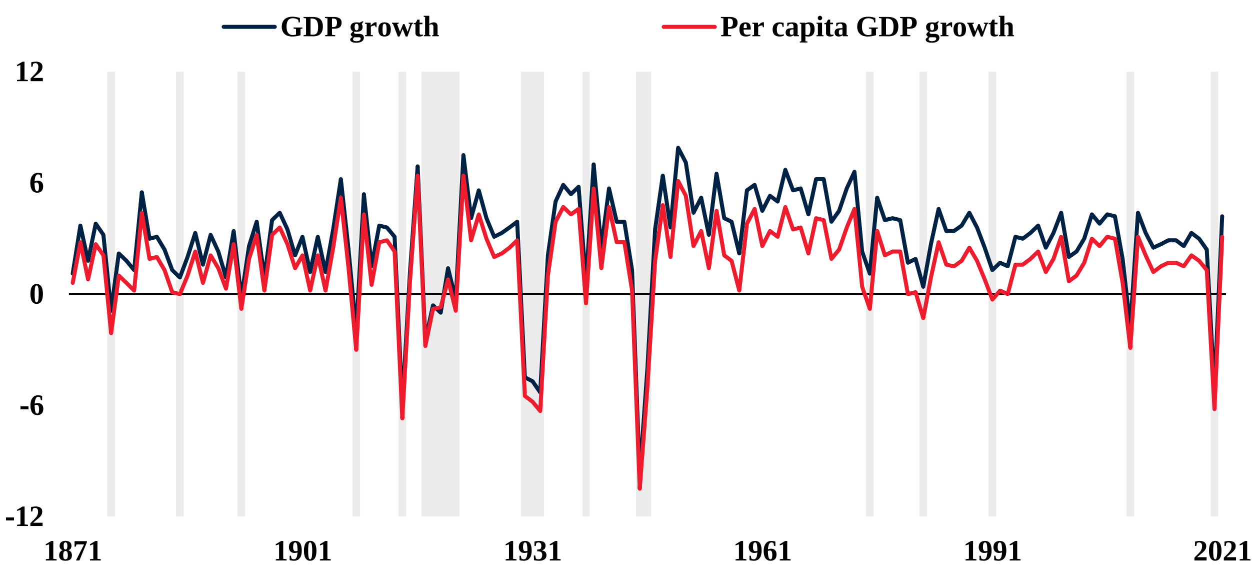
# Introduction

Global economic activities were softened during 2019 due to the escalating tensions between the USA and China on multiple fronts, downturn in electronics, weak domestic investment, distress among the OPEC countries and widespread social unrest. Consequently, World GDP growth decelerated from 3.5 percent in 2018 to 2.8 percent in 2019[1]. However, owing to recovery in electronics sector and progress towards "phase one trade agreement" between the United States and the China, world economies showed signs of recovery towards the end of 2019; world trade and manufacturing had shown an upward trend after several months. However, the hopes of recovery faded out due to corona virus disease (COVID-19) in 2020. In order to contain the impact of COVID 19, governments have taken different mitigation measures including closure of schools, lockdowns and travel restrictions. These measures had reduced the levels of consumption and investment, and restricted labor supply and production.

After one year into the COVID-19 pandemic, the accumulating human toll continues to raise concerns. As on 9th June 2021, there have been 173 million cases reported globally[2] and death toll has crossed 3.7 million mark. Although the growing vaccine coverage lifts sentiment, yet health and human toll is already large and continues to grow.

The pandemic was one of the largest economic shocks to the world economy after the Great Depression of 1930s and end of World War-II in 1945. The per capita GDP have contracted in large number of countries in 2020[3] (**see Figure 1**).

**Figure 1. Global Economic Growth**




Source: **Kose et al (2020)**

[1] IMF (2020)
[2] World Health Organization
[3] Kose et al (2020)

Since 1870, the world economy has experienced 14 global recessions. First global recession occurred in 1876, then in 1885, 1893, 1908, 1914, 1917-21, 1930-32, 1938, 1945-46, 1975, 1982, 1991, 2009, and in 2020. In each of these episodes, there was a contraction in global real per capita GDP. COVID-19 recession will result in 6.2 percent decline (Kose, 2020 estimates at very beginning of the pandemic) in the world per capita GDP, making it the deepest global recession since 1945-46 (see **Figure 1**). Amongst the 14 global recession episodes of the past 150 years, it would rank as the fourth deepest, after the 1914, 1930-32, and 1945-46 episodes[4]. The current recession is unique as it is the only recession since 1870 that have been triggered by a pandemic. However, it is expected that the recession will last only one year and per capita GDP growth will turn positive in 2021.

After COVID 19, almost all regions had experienced negative growth in 2020. There are, however, substantial differences across the economies, reflecting the evolution of the pandemic and the effectiveness of containment strategies; variation in economic structure (e.g. reliance on tourism and oil); dependency on external financial flows e.g. remittances and FDI. In China, growth has been projected at 2.3 percent in 2020, supported in part by policy stimulus. India's economy has contracted by 8.0 percent in 2020 following a longer period of lockdown and slower recovery. In Latin America, the economies of Brazil and Mexico are contracted by 4.1 and 8.2 percent, respectively, in 2020. The disruptions due to the pandemic, as well as significantly lower disposable income for oil exporters after the dramatic fuel price decline have caused recessions in Russia (-3.1 percent), Saudi Arabia (-4.1 percent) and Nigeria (-1.8 percent)[5].

In countries with high shares of informal employment, lockdowns have led to joblessness. Moreover, with widespread school closures in about 150 countries, the United Nations Educational, Scientific and Cultural Organization (UNESCO) estimates that close to 1.2 billion school children (about 70 percent of the global total) has been affected worldwide. The situation has had acute negative impact on low-income households worldwide. The fraction of the world's population living in extreme poverty — on less than $1.90 a day — had fallen below 10 percent in recent years (from more than 35 percent in 1990). IMF foresees that progress on poverty reduction is imperiled by the COVID-19 crisis.

This report is divided into five chapters. After introduction, chapter 2 discusses the global economic scenario in 2021. Chapter 3 covers economic situation of major developed countries, chapter 4 illustrates the economic situation of selected developing countries of Asia followed by discussion on the economic development of South Asian countries in Chapter 5. The report concludes on emerging trends in 2021.

---

[4]Kose et al. (2020)
[5] IMF (2021)

# Chapter 2

# Global Economic Conditions

Lockdowns and restrictions on various business activities to contain spread of the COVID-19 had slowed down the economic activities. However, the gradual start of economic activities paved the way for a partial recovery after May 2020[6]. The global GDP had contracted by 3.3 percent in 2020. Despite the second and the third waves of COVID-19, the vaccination drive is taking momentum in most of the countries. Accordingly, most of the economists are optimistic about economic recovery in 2021. It is forecasted that World GDP will grow at 6.0 percent in 2021.

## 2.1 Global Trade

Typically in comparison to GDP, trade is more volatile and tends to decline sharply in times of crisis[7]. The production delays and border controls have severely affected global trade. Measures adopted by different economies to slow outbreak of pandemic have delayed supply of critical inputs used in the electronics and automotive industries[8]. Similarly collapse of air traffic has increased air shipment costs affecting industries that rely on timely delivery of intermediate goods. The COVID-19 has led to a steep decline in tourism sector, which accounts for 6.5 percent of global exports of goods and services.

The sharp fall in activities during March-June 2020 period had resulted in contraction in global trade volume of about 10.4 percent. However, a gradual recovery started after May 2020 as controls were lifted, travel returned to more typical levels, and manufacturers started rebuilding inventories. The recovery was shabby due to second wave of Covid 19, as well as the length of time that it will take to restore confidence and to replace bankrupted firms. International air travel may take a longer time to re-attain the levels of recent years, as businesses and tourists make fundamental reassessments of trade-off between foreign trips and infection risks, airlines reduce passenger loads to increase spacing and governments maintain tighter border controls. World trade is expected to grow around 8.4 percent in 2021. Summarized position of selected world trade related indicators is highlighted in **Table 1**:

**Table 1. Summary of World Trade**

(Growth rates in %age)

| **Indicators** | **Actual** | | **Projection** | |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| Volume of World Trade | 0.90 | -8.5 | 8.4 | 6.5 |
| **Exports** | | | | |
| - Advanced Economies | 1.3 | -9.5 | 7.9 | 6.4 |
| - Emerging Market and Developing Economies | 0.5 | -5.7 | 7.6 | 6.0 |
| **Imports** | | | | |
| - Advanced Economies | 1.7 | -9.1 | 9.1 | 6.4 |
| - Emerging Market and Developing Economies | -1.0 | -8.6 | 9.0 | 7.4 |

Source: **World Economic Outlook 2021**

[6]Baldwin and Weder di Mauro (2020), Boissay et al (2020), Eichenbaum et al (2020), Gourinchas (2020)
[7]Freund (2009), Bussière et al. (2013), Bems et al.(2010) , Kose and Terrones (2015)
[8]Haren and Simchi-Levi (2020), Baldwin and Tomiura (2020)

Rebound in global trade volumes in 2021 and 2022 provides a great opportunity to Pakistan to increase its exports.

## 2.2 Commodity Markets

Most commodity prices in 2020 have declined because of a sharp fall in global demand[9]. The crude oil prices fell almost 70 percent from late January to mid-April. This decline in oil prices was comparatively larger than the 2008 global recessions or September 11, 2001 attacks. However, oil prices increased by 39 percent between August 2020 and February 2021 on positive news regarding development of vaccine. Overall, oil prices are expected to average around $41.6 per barrel in 2020 and $64.0 per barrel in 2021 and $65.0 per barrel in 2022. Prices of different commodities are summarized in Table 2:

**Table 2. Prices of Different Commodities**

| | | | | (US$ per ton) |
|---|---|---|---|---|
| **Commodities** | **2019** | **2020** | **2021** | **2022** |
| - Crude oil (USD per barrel) | 64.2 | 41.6 | 64.0 | 65.0 |
| - Wheat | 214.1 | 216.9 | 218.8 | 222.4 |
| - Rice | 426.5 | 436.3 | 431.8 | 434.1 |
| - Edible oil | 764.9 | 775.7 | 800.0 | 818.9 |
| - Sugar | 384.4 | 398.9 | 394.4 | 403.7 |
| - Cotton | 1,702.3 | 1,656.6 | 1659.8 | 1680.7 |
| - Fertilizer | 261.4 | 261.5 | 265.4 | 268.8 |

Source: **OECD Database**

The second half of 2020 saw a surge in prices of many staple crops, including wheat, corn, soybeans, and palm oil, reversing an earlier trend of stable or declining prices over the first months of the pandemic when large global supplies and weaker demand weighed on prices. During 2020 prices of edible oil, wheat, rice and sugar has significantly increased in comparison to 2019. The increasing trend in the prices of these commodities is projected to be continued in 2021 and 2022. However, prices of cotton and fertilizer declined in 2020 but projected to increase in 2021 onwards. Increase in commodity prices worldwide will have inflationary implications for Pakistan, since we largely depend on imports.

## 2.3 Financial Markets

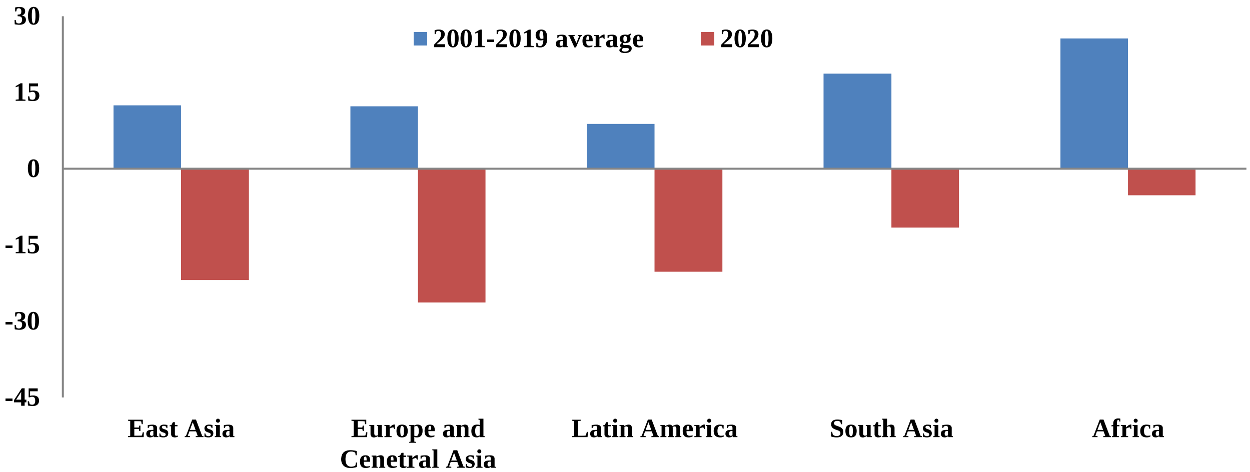
At the start of crisis, financial markets of Developing and Emerging market economies have suffered from record capital outflows. To contain financial stress, central banks injected liquidity into financial markets by providing credit to large investment companies, expanding the range of assets they recognize as guarantee[10]. To alleviate the sharp rise in demand for U.S. dollars for currency hedging and dollar-denominated debt financing, the Federal Reserve provided access to its U.S. dollar liquidity swap arrangements to a larger group of countries, including Brazil, Mexico, and the Republic of Korea[11]. It has successfully prevented severe liquidity crisis in

[9]World Bank 2020a
[10]Hördahl and Shim (2020)
[11]Avdjiev et al.(2020)

developing countries. Nonetheless, financial conditions remain fragile for many market participants. Many developing countries have experienced significant pressures on their currencies, with depreciations broadly correlated with current account deficits[12]. Pakistan luckily escaped both currency depreciation and current account deficit.

A comparative analysis of growth in FDI before and after COVID-19 is summarized in **Figure 2.** It reveals that foreign direct investment in many countries is expected to fall considerably around the world.

**Figure 2. Projected Change in FDI**




Source: **Institute for International Finance, IMF**

Remittances — the largest source of foreign exchange earnings — have also contracted sharply as travel restrictions and widespread losses of service sector jobs discouraged labor migration and weighed on incomes of migrant workers[13].

The debt accumulated in response to the pandemic may have long term impact on growth. Higher debt service costs must be financed through higher taxes, additional borrowing or by a reduction in other expenditures. In circumstances of scarce domestic savings and limited access to foreign funds, additional borrowing may crowd out private investment putting negative impact on economic growth. Forecasts for UK, USA and EU interest rates are summarized in **Table 3**:

**Table 3. Interest Rates (Percent)**

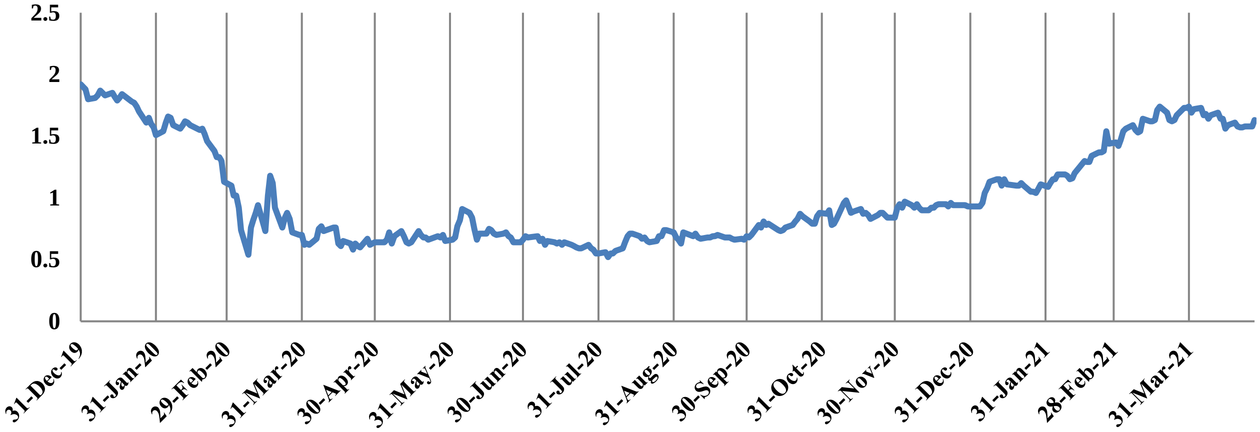
| Interest rates | Country | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| - Long-term Interest Rate | UK | 0.936 | 0.353 | 0.251 | 0.251 |
| | USA | 2.144 | 0.842 | 0.795 | 0.970 |
| | EU | 0.385 | 0.05 | -0.046 | -0.045 |
| | | | | | |
| - Short-term Interest Rate | UK | 0.808 | 0.304 | 0.077 | 0.077 |
| | USA | 2.338 | 0.605 | 0.200 | 0.200 |
| | EU | -0.356 | -0.420 | -0.500 | -0.500 |

Source: **OECD Database**

[12]World Bank (2020b)
[13]World Bank (2020c)

During financial crises as was in 2008, the US Treasuries has been viewed as most liquid and safest asset in the world. Therefore, their prices rose during the crisis as markets rushed to purchase these relatively secure assets. However, during the COVID-19 crisis USA Treasuries fell sharply after February 2020 **(see Figure 3)** and started to increase after August 2020.

**Figure 3. Ten-year Treasury Rate**




Source: **Macrotrends LLC (www.macrotrends.net)**

# Chapter 3

# Economic Situation in Developed Economies

Advanced economies saw substantial reduction in economic activities in 2020. The economic growth of these economies declined from an expansion of 1.6 percent in 2019 to a contraction of 4.7 percent in 2020. The economic growth of these economies is projected to strengthen to 5.1 percent during 2021.

After October 2020 most of the European countries are facing second wave of COVID 19 and many countries have started to impose restrictions. In advanced economies, occasional regional restrictions will likely be necessary at times to stem the progression of new strains of the virus. As the vulnerable population gets vaccinated, contact-intensive activities are expected to resume and drive a significant pickup in growth. The United States is projected to return to end-of-2019 activity levels in the first half of 2021 and Japan in the second half. In the euro area and the United Kingdom, activity is expected to remain below end-of-2019 levels until 2022. The gaps can be traced back to differences in behavioral and public health responses to infections, flexibility and adaptability of economic activity to low mobility, preexisting trends, and structural rigidities predating the crisis. Case studies of major developed economies are presented in the succeeding sections.

## 3.1 United States

The US economy is projected to contract by 3.5 percent in 2020 from the 2.2 percent growth in 2019. However, it is expected that US economy will grow at 6.4 percent in 2021 as USA government is vaccinating its population at very high pace similarly large-scale policy support is yielding positive impacts and is increasing consumers and investors confidence.

Compared to the global financial crisis, the unemployment has increased much faster. Similarly retail sales and industrial production has also fallen sharply. The collapse in oil prices has depressed investment in the highly leveraged U.S. shale oil sector. During 2020 the Federal Reserve had cut rates to near-zero and announced far-reaching measures to stabilize the financial system. The latter include unlimited purchases of U.S. government debt and mortgage-backed obligations, as well as large-scale purchases of corporate bonds and securities issued by lower levels of government (**see Table 4**).

**Table 4. Economic Indicators of USA**

| **Economic Indicators** | **2019** | **2020** | **2021** | **2022** |
|---|---|---|---|---|
| Real GDP growth rate | 2.2 | -3.5 | 6.4 | 3.5 |
| Investment | 21.0 | 21.0 | 21.6 | 21.4 |
| Gross national savings | 18.6 | 17.8 | 17.5 | 18.1 |
| Inflation | 1.8 | 1.2 | 2.3 | 2.4 |
| Imports of goods and services | 1.1 | -9.3 | 18.9 | 4.6 |
| Exports of goods and services | -0.1 | -13.0 | 10.5 | 8.3 |

| | | | | |
|---|---|---|---|---|
| Unemployment rate (%) | 3.7 | 8.1 | 5.8 | 4.2 |
| Government revenue | 30.0 | 30.3 | 30.0 | 31.2 |
| Government expenditure | 35.7 | 46.2 | 45.0 | 37.3 |
| Fiscal Balance | -5.7 | -15.8 | -15.0 | -6.1 |
| Current account balance | -2.2 | -3.1 | -3.9 | -3.1 |

Source: **World Economic Outlook**

## 3.2 Euro Area

In comparison to USA, a much deeper contraction of 6.6 percent is expected in Euro area during 2020. It is also projected that economic growth will bounce-back to 4.4 percent in 2021. As many European countries heavily rely on tourism, and the sector is almost shutdown during 2020, therefore, the recoveries in European countries are relatively slow[14]. An overview of key macroeconomic indicators of major European economies is summarized in **Table 5 (**on next page)**.**

[14] Mann (2020)

## Table 5. Economic Indicators of selected European Countries

(%age of GDP)

| | 2019 | | | 2020 | | | 2021 | | | 2022 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **UK** | **France** | **Germany** | **UK** | **France** | **Germany** | **UK** | **France** | **Germany** | **UK** | **France** | **Germany** |
| **Real GDP growth rate** | 1.4 | 1.5 | 0.6 | -9.9 | -8.2 | -4.9 | 5.3 | 5.8 | 3.6 | 5.1 | 4.2 | 3.4 |
| **Investment** | 18.3 | 24.2 | 21.4 | 17.0 | 23.7 | 20.4 | 17.4 | 24.8 | 21.5 | 18.1 | 24.6 | 21.7 |
| **Gross national savings** | 15.2 | 23.5 | 28.5 | 13.1 | 21.4 | 27.4 | 13.5 | 22.7 | 29.1 | 14.1 | 22.9 | 28.7 |
| **Inflation** | 1.8 | 1.3 | 1.4 | 0.9 | 0.5 | 0.4 | 1.5 | 1.1 | 2.2 | 1.9 | 1.2 | 1.1 |
| **Imports of goods and services** | 2.7 | 2.6 | 2.6 | -18.1 | -11.5 | -9.0 | 2.3 | 7.4 | 6.8 | 8.7 | 7.1 | 8.1 |
| **Exports of goods and services** | 2.7 | 1.8 | 1.0 | -16.7 | -16.3 | -10.2 | -2.6 | 10.5 | 8.6 | 8.3 | 7.2 | 5.8 |
| **Unemployment rate (%)** | 3.8 | 8.5 | 3.2 | 4.5 | 8.2 | 4.2 | 6.1 | 9.1 | 4.4 | 6.1 | 9.2 | 3.7 |
| **Government revenue** | 36.6 | 52.5 | 46.7 | 36.8 | 52.5 | 46.9 | 35.7 | 52.5 | 46.1 | 36.2 | 52.1 | 46.8 |
| **Government expenditure** | 38.9 | 55.5 | 45.2 | 50.3 | 62.4 | 51.1 | 47.5 | 59.7 | 51.6 | 42.5 | 56.5 | 47.3 |
| **Fiscal Balance** | -2.3 | -3.0 | 1.5 | -13.4 | -9.9 | -4.2 | -11.8 | -7.2 | -5.5 | -6.2 | -4.4 | -0.4 |
| **Current account balance** | -3.1 | -0.7 | 7.1 | -3.9 | -2.3 | 7.1 | -3.9 | -2.1 | 7.6 | -4.0 | -1.8 | 7.0 |

Source: **World Economic Outlook**

# Chapter 4

## Economic Situation in Developing Countries

The pandemic and the associated disruptions in global spillovers have significantly halted economic progress in majority of developing economies. The COVID-19 outbreaks overwhelmed healthcare systems of developing countries. These economies also faced extraordinary external headwinds in the form of disruptions in global supply chains, commodity prices and tourism. Manufacturing activity and new export orders reduced remarkably[15]. In the developing countries that rely on remittances, private consumption has fallen sharply because the migrant workers became jobless due to the decline of business activities in host countries[16].

Vaccine procurement data suggest that for majority of population in developing countries might not get vaccinated by 2021. Consequently, in comparison to advanced economies, lockdowns and containment measures may be needed more frequently in 2021and 2022. Therefore economic growth will remain subdued. However, in China, effective containment measures, a forceful public investment response, and central bank liquidity support have facilitated a strong recovery. Tourism-based economies face particularly difficult prospects. It was expected that economic growth in developing countries to contract by 2.2 percent in 2020.

Forecast downgrades are larger and the recessions are deeper in countries with the most severe COVID-19 outbreaks or economies that are heavily dependent on tourism (Croatia, Maldives, Seychelles, Thailand), economies deeply embedded in global value chains (Bulgaria, Mexico, Poland) and major exporters of industrial commodities (Chile, Nigeria, Russian Federation, South Africa). The economic growth is projected to rebound in 2021, supported by the expected pickup in China and a recovery of trade flows and investment. However, COVID-19 is likely to dampen long term growth prospects and productivity because in previous epidemics, investment declined by nearly 10 percent during the proceeding five years following the recession, reflecting substantial risk aversion amid heightened economic uncertainty[17]. It is projected that developing economies will grow at 6.7 percent in 2021 and 5.0 percent in 2022.

The summarized economic situation of major developing countries of South East Asia in depicted in **Table 6** (on next page):

[15]World Bank (2020d, 2020e)
[16]World Bank (2020d)
[17]World Bank (2020b)

**Table 6. Economic Indicators of Developing Countries of Asia**

(%age of GDP)

| | 2019 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | China | Indonesia | Malaysia | Vietnam | China | Indonesia | Malaysia | Vietnam |
| **Real GDP growth rate** | 5.8 | 5.0 | 4.3 | 7.0 | 2.3 | -2.1 | -5.6 | 2.9 |
| **Investment** | 43.1 | 33.8 | 21.0 | 26.6 | 43.7 | 32.4 | 19.7 | 26.4 |
| **Gross national savings** | 44.1 | 31.1 | 24.4 | 30.4 | 45.7 | 31.9 | 24.1 | 28.6 |
| **Inflation** | 2.9 | 2.8 | 0.7 | 2.8 | 2.4 | 2.0 | -1.1 | 3.2 |
| **Imports of goods and services** | -3.2 | -9.3 | -2.0 | 5.6 | -1.5 | -14.6 | -9.2 | 2.9 |
| **Exports of goods and services** | 0.8 | -6.7 | -1.1 | 6.7 | 2.0 | -3.6 | -2.4 | 2.8 |
| **Unemployment rate (%)** | 3.6 | 5.3 | 3.3 | 2.2 | 3.8 | 7.1 | 4.5 | 3.3 |
| **Government revenue** | 27.8 | 14.2 | 21.3 | 19.5 | 25.6 | 12.4 | 20.4 | 16.2 |
| **Government expenditure** | 34.1 | 16.4 | 23.5 | 22.8 | 37.0 | 18.2 | 25.4 | 21.6 |
| **Fiscal Balance** | -6.3 | -2.2 | -2.2 | -3.3 | -11.4 | -5.9 | -5.1 | -5.4 |
| **Current account balance** | 1.0 | -2.7 | 3.4 | 3.8 | 2.0 | -0.4 | 4.4 | 2.2 |

Source: **World Economic Outlook**

**Continued on next page**

| (%age of GDP) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | |
| | **China** | **Indonesia** | **Malaysia** | **Vietnam** | **China** | **Indonesia** | **Malaysia** | **Vietnam** |
| **Real GDP growth rate** | 8.4 | 4.3 | 6.5 | 6.5 | 5.6 | 5.8 | 6.0 | 7.2 |
| **Investment** | 43.7 | 32.5 | 22.5 | 28.1 | 43.6 | 32.5 | 20.7 | 28.0 |
| **Gross national savings** | 45.2 | 31.2 | 26.3 | 30.5 | 44.8 | 31.1 | 24.5 | 29.9 |
| **Inflation** | 1.2 | 2.0 | 2.0 | 3.9 | 1.9 | 3.1 | 2.0 | 3.9 |
| **Imports of goods and services** | 6.9 | 12.0 | 2.9 | 5.7 | 7.5 | 12.3 | 8.4 | 11.5 |
| **Exports of goods and services** | 6.9 | 9.1 | 6.4 | 10.2 | 4.3 | 8.9 | 0.5 | 9.9 |
| **Unemployment rate (%)** | 3.6 | 6.5 | 3.8 | 2.7 | 3.6 | 5.8 | 3.6 | 2.4 |
| **Government revenue** | 26.0 | 12.4 | 19.4 | 15.9 | 26.3 | 12.9 | 19.8 | 16.2 |
| **Government expenditure** | 35.6 | 18.5 | 23.9 | 20.6 | 35.0 | 17.3 | 23.2 | 20.5 |
| **Fiscal Balance** | -9.6 | -6.1 | -4.4 | -4.7 | -8.7 | -4.4 | -3.4 | -4.4 |
| **Current account balance** | 1.6 | -1.3 | 3.8 | 2.4 | 1.3 | -1.4 | 3.7 | 1.9 |

Source: **World Economic Outlook**

## 4.1 China

During the first quarter of 2020, GDP growth in China had contracted sharply. However, economic activities have been normalizing gradually after April 2020. In China, economic growth is estimated at 2.3 percent in 2020. It is lowest growth rate in China in past 40 years. However, economic growth will rebound in 2021, reaching 8.4 percent.

Due to the closure of businesses, the government revenue had also declined from 28 percent in 2019 to 26 percent in 2020. On the other hand public expenditure increased; as a result fiscal deficit increased from 6 percent in 2019 to 11 percent in 2020 and 10 percent in 2021. Due to early economic recovery exports has increased from 0.8 percent in 2019 to 2 percent in 2020 and 6.9 percent in 2021. However, the imports declined by around 1.5 percent in 2020 and are expected to increase by 6.9 percent in 2021. Unemployment in China has marginally increased, from 3.6 percent in 2019 to 3.8 percent in 2020, however it will revert back to 2019 levels in 2021.

## 4.2 Indonesia

The declining commodity prices and distortions in financial markets have led to severe impacts on Indonesian economy in 2020. GDP growth has contracted by 2.1 percent in 2020. However, economic recovery of 4.3 percent is expected in 2021.

Like other countries of the region, exports of goods and services contracted by 3.6 percent in 2020. It is pertinent to mention here that exports had contracted by 6.7 percent in 2019. However, in 2021 exports are projected to grow at 9.1 percent. Similarly, investment in Indonesia is expected to remain stagnant in 2021. With decline in domestic demand during 2020, imports are forecasted to fall faster than exports; it will result in small trade surplus. Imports contracted by 14.6 percent in 2020. As the imports are contracted more than the exports the current account deficit as percentage of GDP has declined from 2.7 percent in 2019 to 0.4 percent in 2020. However, current account deficit will once again widen to 1.3 percent of GDP in 2021.

Lower tax collection has created revenue shortfall in 2020. This shortfall coupled with increased spending on stimulus package pushed the fiscal deficit to 5.9 percent of GDP in the 2020 as compared to 2.2 percent in 2019. It is expected that fiscal deficit will increase to 6.1 percent in 2021. The unemployment rate has increased from 5.3 percent in 2019 to 7.1 percent in 2021. It is expected that unemployment rate in Indonesia will be 6.5 percent in 2021.

## 4.3 Malaysia

The real GDP growth of Malaysia has contracted by 5.6 percent in 2020. However, it is expected to recover by 6.5 percent in 2021. Due to the disruptions in travel and supply chains, the exports of goods and services were contracted by 2.4 percent in 2020. However, as COVID 19 is fading, the exports are expected to recover by 6.4 percent in 2021. The low investment growth is depressing the demand of imported intermediate goods and imports also contracted by 9.2 percent in 2020. Resultantly, current account will go surplus to the extent of 4.4 percent of GDP in 2020 and 3.8 percent of GDP in 2021.

## 4.4 Vietnam

The COVID 19 outbreak affected all of Vietnam's principal trade and investment partners. The impacts on Vietnam economy are transmitted through the external shocks to both supply and demand. Real GDP Growth decelerated to 2.9 percent in 2020 from 7 percent in 2019. The economic growth is projected at 6.5 percent in 2021 and 7.2 percent in 2022.

With the sharp contraction in global trade, export growth reduced to 2.8 percent in 2020 as compared to 6.7 percent in 2019. Similarly imports also reduced to 2.9 percent in 2020 from 5.6 percent in 2019. However, it is expected that exports will recover to 10.2 percent growth in 2021 and 9.9 percent in 2022. The current account surplus decreased to 2.2 percent in 2020 from 3.8 percent in 2019.

Due to reduced tax collection from incomes and export earnings and substantial increases in spending on health care and employment funds, the fiscal deficit widened to 5.4 percent of GDP in 2020. Despite that Vietnam's drivers of economic growth remain resilient. In this regard, the dynamic private sector, growing middle-income class, domestically held enterprises and household businesses continued to play significant role in Vietnam's economic development. According to Boston Consulting Group, the middle income class in Vietnam has doubled since 2014 to 33 million, or one third of the population[18] it is one of the fastest growth in middle income class in Southeast Asia.

[18]World Development Report 2020

# Chapter 5

# Economic Situation in South Asian Countries

In South Asia, in terms of its population, smaller numbers of COVID-19 cases were reported in comparison to other regions during 2020. However, Private consumption as well as private sector economic activities have been severely affected by lockdowns. Closure of small and medium sized enterprises has resulted in substantial increase in unemployment. Due to the collapse of global demand, industrial, services and trade activities have plummeted in the region during 2020. Although tourism activities are on a path to recovery, yet considerable decline in tourist arrivals in Bhutan, Nepal, Sri Lanka and Maldives has been recorded. In these countries, tourism directly and indirectly accounts for more than two-third of GDP.

Economic growth of the region contracted by 6.0 percent in 2020[19]. However, like other regions economic recovery is expected in 2021 and it is forecasted that economic growth will be 9.5 percent in 2021. Summarized economic situation of South Asian economies is given in **Table 7** (on next page).

## 5.1 Bangladesh

COVID-19 related disruptions had severe implications for Bangladesh in 2020. In Bangladesh, growth slows downed to 3.8 percent in 2020 from 8.2 percent in 2019. However, economic growth of 5.0 percent has been forecasted for 2021.Investment as percentage of GDP was 32 percent in 2019. It declined to 28 percent in 2020 and it is forecasted to increase to 31 percent in 2021.

Bangladesh is vulnerable to supply chain disruptions, both domestic and stemming from imports of intermediate goods.  Both exports and imports contracted in 2020, mostly due to lower demand for garments intermediates and capital imports.

[19] ADB forecasts

## Table 7. Economic Indicators of Developing Countries of South Asia

(%age of GDP)

| | 2019 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Bangladesh | India | Pakistan | Sri Lanka | Bangladesh | India | Pakistan | Sri Lanka |
| **Real GDP growth rate** | 8.2 | 4.0 | 1.9 | 2.3 | 3.8 | -8.0 | -0.4 | -3.6 |
| **Investment** | 31.6 | 30.7 | 15.6 | 27.4 | 27.7 | 28.4 | 15.4 | 26.0 |
| **Gross national savings** | 29.1 | 29.8 | 10.7 | 25.2 | 26.3 | 29.4 | 14.3 | 24.6 |
| **Inflation** | 5.5 | 4.8 | 6.7 | 4.3 | 5.6 | 6.2 | 10.7 | 4.6 |
| **Imports of goods and services** | 4.4 | -4.2 | -10.0 | -8.5 | -3.4 | -15.4 | -13.1 | -19.8 |
| **Exports of goods and services** | 14.0 | -2.1 | -5.4 | -2.1 | -13.0 | -8.0 | -1.2 | -24.7 |
| **Unemployment rate (%)** | -- | -- | 4.1 | 4.8 | -- | -- | 4.5 | 5.8 |
| **Government revenue** | 10.0 | 19.6 | 13.0 | 12.6 | 9.6 | 18.7 | 15.1 | 9.6 |
| **Government expenditure** | 15.4 | 27.1 | 22.0 | 20.8 | 15.0 | 31.0 | 23.1 | 21.5 |
| **Fiscal Balance** | -5.4 | -7.4 | -9.0 | -8.2 | -5.5 | -12.3 | -8.0 | -11.9 |
| **Current account balance** | -1.7 | -0.9 | -4.9 | -2.2 | -1.5 | 1.0 | -1.1 | -1.4 |

Source: **World Economic Outlook**

**Continued on next page**

(%age of GDP)

| | 2021 | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Bangladesh | India | Pakistan | Sri Lanka | Bangladesh | India | Pakistan | Sri Lanka |
| **Real GDP growth rate** | 5.0 | 12.5 | 1.5 | 4.0 | 7.5 | 6.9 | 4.0 | 4.1 |
| **Investment** | 31.2 | 30.1 | 15.5 | 27.3 | 31.4 | 30.7 | 15.9 | 27.3 |
| **Gross national savings** | 31.5 | 28.9 | 14.0 | 25.0 | 29.7 | 29.1 | 14.1 | 25.1 |
| **Inflation** | 5.8 | 4.9 | 8.7 | 4.4 | 5.6 | 4.1 | 8.0 | 5.1 |
| **Imports of goods and services** | 3.5 | 16.7 | 6.3 | 5.5 | 10.1 | 11.0 | 7.4 | 16.1 |
| **Exports of goods and services** | 13.9 | 11.0 | 3.7 | 11.9 | 6.4 | 7.7 | 6.1 | 18.1 |
| **Unemployment rate (%)** | -- | -- | 5.0 | 5.6 | -- | -- | 4.8 | 5.5 |
| **Government revenue** | 9.2 | 19.3 | 15.8 | 10.6 | 9.6 | 19.6 | 17.0 | 11.5 |
| **Government expenditure** | 15.3 | 29.2 | 22.9 | 21.2 | 15.1 | 28.6 | 22.5 | 21.2 |
| **Fiscal Balance** | -6.0 | -10.0 | -7.1 | -10.5 | -5.5 | -9.1 | -5.5 | -9.7 |
| **Current account balance** | 0.4 | -1.2 | -1.5 | -2.3 | -1.7 | -1.6 | -1.8 | -2.2 |

Source: **World Economic Outlook**

However, exports contracted by 13 percent and imports by 3 percent. Resultantly, current account deficit (percent of GDP) has reduced from 1.7 percent in 2019 to 1.5 percent in 2020. With expected global growth recovery in 2021, exports are expected to grow at 14 percent in 2021. It is expected that there would be current account surplus of 0.4 percent in 2021.

The stagnation in economy had resulted in reduction in the government revenues.  On the other hand, public expenditures witnessed an increase during 2020. Resultantly, fiscal deficit in 2020 marginally increased to 5.5 percent from 5.4 percent in 2019. However fiscal deficit is forecasted to reach 6.0 percent of GDP in 2021. Inflation remained 5.5 percent in 2020 because of the higher global and regional food prices. Inflation is expected to increase further to 5.8 percent in 2021.

## 5.2 India

The national lockdown and travel restrictions constrained the economic activity and dampened consumer sentiment and investor confidence during 2020. India's GDP growth has contracted by 8.0 percent in 2020. It will rebound sharply to 12.5 percent in 2021, although second wave of COVID 19 has made these projections somehow shabby.  The investment has reduced to 28.4 percent of GDP in 2020 from 30.7 percent of GDP in 2019. However, it is expected that domestic demand will rebound strongly and growth in investment and consumption will return to 2019 levels during 2021. It is also noteworthy that India's low participation in global supply chains had helped in limiting the impact. Inflation is averaged at 6.2 percent in 2020 and forecasted to be 4.9 percent in 2021.

Exports had contracted by 8.0 percent in 2020, Imports were also contracted by 15.4 percent in 2020 because of falling oil prices and reduced net oil import bill. Resultantly, current account will turn to a surplus of 1.0 percent of GDP in 2020. However, as the global economy rebounds in 2021, exports are expected to recover and grow at the same pace as in 2016-18 period and it is expected that exports will grew at 11.0 percent of GDP in 2021.  Imports, supported by rising domestic demand and oil prices, are likely to outgrow exports in 2021. As the trade deficit widens, the current account deficit is expected to rise to 1.2 percent of GDP in 2021.

During 2020, the revenues declined whereas public expenditures increased. Resultantly, the fiscal deficit widened from 5.4 of GDP in 2019 to 12.3 percent of GDP in 2020 and it is expected to be slightly reduced to 10.0 percent of GDP in 2021.

## 5.3 Sri Lanka

Sri Lanka's prospects for economic recovery were very promising at the beginning of 2020. However, COVID-19 has faded away these prospects by lowering global growth, disrupting tourism and supply chains. Sri Lanka's real GDP has contracted by 3.6 percent in 2020. GDP growth is expected to recover to 4.0 percent in 2021.

Investment has declined to 26.0 percent of GDP in 2020, however a recovery is expected in 2021 and investment as percentage of GDP is forecasted to be 27.3 in 2021.  Despite the good public health infrastructure in Sri Lanka, public spending on health has increased in 2020. Budget deficit is expected to be 11.9 percent of GDP in 2020 and 10.5 percent of GDP in 2021.

Exports are expected to contract to 24.7 percent of GDP in 2020 mainly due to reduced sales of garments, tea and rubber products to USA and Europe. Although imports will also contract but contraction in exports will be higher. Consequently, current account deficit is expected to widen to 1.4 percent of GDP in 2020 and 2.3 percent of GDP in 2021 on forecasted improvement in exports, tourist earnings and remittances.

## 5.4 Pakistan

Like many other countries, Pakistan had also faced the negative fallout of COVID-19 on the economy. Due to well concentrated efforts of the government, the economy is affected least in comparison to other countries of region. The real GDP growth is contracted by -0.4 percent in 2020. It has been forecasted by IMF that economic growth will be 1.5 percent in 2021. However, Pakistan's economy performed beyond expectations with all major macroeconomic indicators showing positive trend amid the COVID-19 pandemic and National Accounts Committee which is the highest decision making body has calculated a robust 3.9 percent economic growth rate in 2021. It reflects the government's success in managing economy during the pandemic.

The current account deficit has narrowed sharply from 4.9 percent of GDP in 2019 to 1.1 percent in 2020 mainly because of the increased workers' remittances and reduction in the trade deficit. During 2019 Pakistan received the remittances amounting to US$ 21.7 billion which has increased to 23.1 billion in 2020[20]. The State Bank of Pakistan has reported an increase of 29 percent in workers' remittances for FY2021 (July-April) in comparison to the same period for FY2020. The current account deficit is projected to be 1.5 percent of GDP in 2021. Both exports and imports of goods and services are currently significantly higher than their respective values at the beginning of the current fiscal year. These trends reflect the foreign and domestic rebounds in economic activities. The current account balance recorded a surplus during the first ten months of the current FY. In coming months, exports of goods and services are expected to settle above the 3 billion dollars mark showing a positive trend. Depending on the trend in remittances, the current account balance may remain in surplus or approximate balance.[21]

Inflation increased by 11.1 percent on a year on year basis in April 2021 as compared to an increase of 8.5 percent in April 2020. In recent months, international oil price and food price dynamics have decelerated somewhat and the Pakistani Rupee has strengthened against the US dollar. Assuming the absence of any new supply shocks and continued Government monitoring of smooth functioning of markets in essential products, inflation is expected to continue to decelerate in the coming months as well.

The consolidated fiscal operations for the first nine months of the current fiscal year show that efficient expenditure management and an effective resource mobilization strategy helped in containing the fiscal deficit at 3.5 percent of GDP, which is lower than the level recorded in the same period last year.

[20] Statistical Supplement – Pakistan Economic Survey 2019-20, Ministry of Finance & Revenue (finance.gov.pk)
[21] Monthly Economic Update & Outlook, May 2021, Ministry of Finance & Revenue (finance.gov.pk)

# Conclusion

The COVID-19 pandemic has resulted in one of the deadliest economic shock to the world economy, causing a collapse in global economic activities. The COVID-19 recession is unique as it is the only recession since 1870 that has been triggered by a pandemic. Most of the world economies have faced contraction during 2020. The world after COVID-19 seems unlikely to soon return to the level it was before the pandemic. Many economic indicators already showing downward trends are being further bottled up by the impact of the pandemic.

The pandemic crisis has accelerated the pace of digital transformation, with further expansion in e-commerce and increase in the pace of adoption of telemedicine, videoconferencing, online teaching and fintech. The “digital economy” will play central role in the future economic growth models. New technologies in the form of connectivity platforms, fintechs, buy-now-pay-later digital platforms and e-health are overtaking traditional ways of doing business, pushing the boundaries of human productivity.

COVID-19 has led to a surge in e-commerce. During the lockdown businesses and consumers increasingly “went digital”, raising e-commerce’s share of global retail trade from 14% in 2019 to about 17% in 2020[22]. In Kazakhstan, the online share of retail sales increased from 5% in 2019 to 10% in 2020. Similarly in Thailand downloads of shopping apps increased by 60% in just one week during March 2020. The trend towards e-commerce uptake seen in 2020 is likely to be sustained. The countries that will harness the potential of e-commerce will be better placed to benefit from global markets for their goods and services, while those that fail to do so risk falling behind even further. Therefore building an enabling e-commerce ecosystem by establishing appropriate legal and regulatory frameworks for online transactions and security is necessary.

In the past, it was considered that ‘mega cities’ are engines of growth. In near future the emphasis will be on smart, green ‘people-centric cities’, with receding pollution levels and amplifying soothing noises of children playing. Road travelling is shifting to e-bikes, giving up gas-guzzlers. Elite mobility is being replaced with workability, public transport and footpaths.

The COVID-19 pandemic has tested the significance of global economic cooperation. The developing economies were hit early by the global economic downturn in the form of capital outflows and tightening financial conditions. However, the support they received from advanced economies remains inadequate. The volume of foreign assistance to the developing countries is expected to decline in near future.

The logistic difficulties during pandemic has caused shift away from global on time supply chains. It made future of globalization uncertain and now economists are talking about ‘de-globalization’. Yet as economic difficulties mount, the inevitable growth of nationalism and “my nation first” politics are pushing companies to localize their business operations.

---

[22] How COVID-19 triggered the digital and e-commerce turning point (15 March, 2021), United Nations Conference on Trade and Development (UNCTAD)

Remote work is likely to become more common. It is now evident that working from home is at least as productive as working in office. Remote work will remain as new norm for working environment. Economic breakthroughs for countries are possible by embracing themes that are more suitable to the local context. It is necessary that we use the new emerging themes to our advantage.

The pandemic has indeed thrown up new opportunities while posing imminent socio-economic challenges. It is crucial for developing economies to realign their policies quickly and reposition themselves to take advantage of these new opportunities.

---

## References


Avdjiev, S., E. Eren, and P. McGuire.(2020). "Dollar Funding Costs During the COVID-19 Crisis through the Lens of the FX Swap Market." BIS Bulletin, No. 1, Bank for International Settlements, Basel.

Baldwin, R., and B. Weder di Mauro, ( 2020). "Economics in the Time of COVID-19". CEPR Press VoxEU.org eBook, Center for Economic Policy Research, London

Baldwin, R., and E. Tomiura. (2020). "Linking Ahead about the Trade Impact of COVID-19." In Economics in the Time of COVID-19, edited by R. Baldwin and B. Weder di Mauro, 59-71. London: CEPR Press.

Bems, R., R. C. Johnson, and K. M. Yi.(2010). "Demand spillovers and the collapse of trade in the global recession."IMF Working Paper 10/142, International Monetary Fund, Washington, DC.

Boissay, F., D. Rees, and P. Rungcharoenkitkul. (2020). "Dealing with Covid-19: understanding the policy choices." BIS Bulletin, No. 19, Bank for International Settlements, Basel.

Bussière, M., G. Callegari, F. Ghironi, G. Sestieri, and N. Yamano. 2013. "Estimating Trade Elasticities: Demand Composition and the Trade Collapse of 2008-2009." NBER Working Paper 17712, National Bureau of Economic Research, Cambridge, MA.

Eichenbaum, M. S., S. Rebelo, and M. Trabandt. 2020. "Le Macroeconomics of Epidemics." National Bureau of Economic Research. NBER Working Paper 26882, National Bureau of Economic Research, Cambridge, MA.

FAO (Food and Agriculture Organization of the United Nations). 2020. Migrant Workers and the COVID-19 Pandemic. April. Rome: FAO.

Frankel, J. A. (2011). "How Can Commodity Exporters Make Fiscal and Monetary Policy Less Pro-cyclical?" HKS Faculty Research Working Paper, Harvard University, Cambridge, MA.

Freund, C. (2009). "Le Trade Response to Global Downturns: Historical Evidence." Policy Research Working Paper 5015, World Bank, Washington, DC.

Gourinchas, P. O. (2020). “Flattening the Pandemic and Recession Curves.” In Mitigating the COVID Economic Crisis: Act Fast and Do Whatever, edited by R. Baldwin and B. Weder di Mauro, 31-39. CEPR Press VoxEU.org eBook, Center for Economic Policy Research, London

Haren, P., and D. Simchi-Levi.(2020). "How Coronavirus Could Impact the Global Supply Chain by Mid-March." Harvard Business Review, February 28. https://hbr.org/2020/02/how-coronavirus-couldimpact- the-global-supply-chain-by-mid-march.

Hördahl, P., and I. Shim. 2020. "EME bond portfolio flows and long-term interest rates during the Covid-19 pandemic." BIS Bulletin, No. 18, Bank for International Settlements, Basel.

IMF (2020) “World Economic Outlook: A Long and Difficult Ascent” October 2020, Washington, DC

Kose, M. A., and M. E. Terrones. (2015). “Collapse and Revival: Understanding Global Recessions and Recoveries”. Washington, DC: International Monetary Fund.

Kose, M. A., N. Sugawara, and M. E. Terrones.(2020) “Global Recessions.” CEPR Discussion Paper 14397, Center for Economic Policy Research, London, U.K.

UNESCO (United Nations Educational, Scientific, and Cultural Organization). 2020. “COVID-19 Educational Disruption and Response.” Available online at https://en.unesco.org/covid19/educationresponse.

World Bank (2018). Global Economic Prospects: 8e Turning of the Tide? June 2018. Washington, DC: World Bank

World Bank (2020a). “Commodity Markets Outlook: Implications of COVID-19 for Commodities”. April. Washington, DC: World Bank.

World Bank (2020b).“Global Economic Prospects”. June 2020. Washington, DC: World Bank.

World Bank (2020c).“COVID-19 Crisis through a Migration Lens.”Migration and Development Brief 32, World Bank, Washington, DC.

World Bank (2020d). “East Asia and Pacific Economic Update: East Asia and Pacific in the Time of COVID-19. April. Washington, DC: World Bank.

World Bank (2020e). “Europe and Central Asia Economic Update: Fighting COVID-19”. April. Washington, DC: World Bank.