



## Just a little bit less bad

by Andrew Thompson

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### What happened?

The IMF has published its October [World Economic Outlook \(WEO\)](#) which tells a rather gloomy story for the global economy, and outlines an even tougher narrative for Latin America and the Caribbean (LAC).

### The details

The common thread seems to be that 2020 is going to be a little less terrible than the IMF expected back in June, while the bounce-back in 2021 on the other hand, is going to be a little less dynamic. To put that in numbers the global economy is now expected to contract by 4.4% this year (less than the fall of 5.2% expected in June) and to grow by 5.2% in 2021 (down from 5.4%). The LAC economies are expected to plunge by 8.1% this year (down from 9.4%) and to recover by 3.6% next year (vs 3.7% in June). The general explanation is that the Q2 lockdown was a little less severe than had been feared, and the recovery in advanced economies started a little earlier in Q3. But the report is still extremely cautious, saying that the long ascent back to pre-pandemic levels of activity remains “prone to setbacks”.

### Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	PROJECTIONS		
	2019	2020	2021
<b>World Output</b>	<b>2.8</b>	<b>-4.4</b>	<b>5.2</b>
<b>Advanced Economies</b>	<b>1.7</b>	<b>-5.8</b>	<b>3.9</b>
United States	2.2	-4.3	3.1
<b>Euro Area</b>	<b>1.3</b>	<b>-8.3</b>	<b>5.2</b>
Germany	0.6	-6.0	4.2
France	1.5	-9.8	6.0
Italy	0.3	-10.6	5.2
Spain	2.0	-12.8	7.2
Japan	0.7	-5.3	2.3
United Kingdom	1.5	-9.8	5.9
Canada	1.7	-7.1	5.2
<b>Other Advanced Economies</b>	<b>1.7</b>	<b>-3.8</b>	<b>3.6</b>
<b>Emerging Markets and Developing Economies</b>	<b>3.7</b>	<b>-3.3</b>	<b>6.0</b>
<b>Emerging and Developing Asia</b>	<b>5.5</b>	<b>-1.7</b>	<b>8.0</b>
China	6.1	1.9	8.2
India	4.2	-10.3	8.8
ASEAN-5	4.9	-3.4	6.2
<b>Emerging and Developing Europe</b>	<b>2.1</b>	<b>-4.6</b>	<b>3.9</b>
Russia	1.3	-4.1	2.8
<b>Latin America and the Caribbean</b>	<b>0.0</b>	<b>-8.1</b>	<b>3.6</b>
Brazil	1.1	-5.8	2.8
Mexico	-0.3	-9.0	3.5
<b>Middle East and Central Asia</b>	<b>1.4</b>	<b>-4.1</b>	<b>3.0</b>
Saudi Arabia	0.3	-5.4	3.1
<b>Sub-Saharan Africa</b>	<b>3.2</b>	<b>-3.0</b>	<b>3.1</b>
Nigeria	2.2	-4.3	1.7
South Africa	0.2	-8.0	3.0
<b>Low-Income Developing Countries</b>	<b>5.3</b>	<b>-1.2</b>	<b>4.9</b>

Source: IMF, *World Economic Outlook*, October 2020

For India, data and forecasts are presented on a fiscal year basis, with FY 2020/21 starting in April 2020. India's growth is -8.6 percent in 2020 and 6.8 percent in 2021 based on the calendar year.

The contrast between Mexico and Brazil highlights one of the dilemmas of how to respond to the crisis. Some analysts argue that, whether by accident or design, the right wing government of Brazil is doing [more to help the poor](#) than the left-wing government of Mexico. Until the end of this year Brazil is funding generous emergency payments to the poor while Mexico, worried over balancing the budget, has done very little to stimulate the economy. This year at least the IMF is predicting that partly because of this, Brazilian GDP will fall by a relatively modest 5.8%, due to its counter-cyclical fiscal stimulus, while Mexico, without any major stimulus, will see a drastic drop of 9.0%. That is of course not the end of the story. With a high debt-to-GDP ratio Brazil will have to make politically difficult spending cuts next year. Mexico on the other hand has more fiscal room to manoeuvre and could try and reflate its economy somewhere further down the line.

## What does it mean?

The twenty-twenties are not necessarily condemned to be a lost decade for the LAC countries, but the danger is real: controlling the pandemic, regaining a sustainable growth path, and beginning to reduce the debt burden is a process that will take a number of years, and a lot of political difficulty along the way.

### About the Author

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As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC's Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.

These stories are also available on Andrew's blog site, [La Rambla Research](#).