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2021

GLOBAL ECONOMIC OUTLOOK

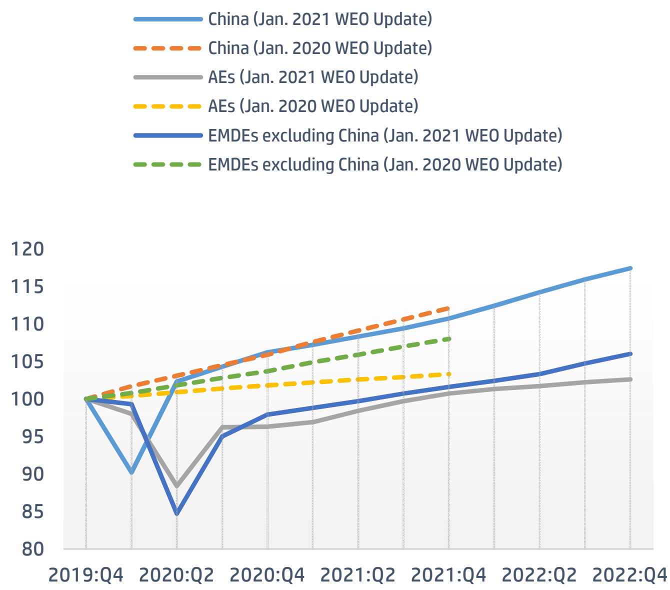
January | Report

CONTENTS

POLICY SUPPORT AND VACCINES EXPECTED TO LIFT ACTIVITY

- *Although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook. Amid exceptional uncertainty, the global economy is projected to grow 5.5 % in 2021 and 4.2 % in 2022. The 2021 forecast is revised up 0.3 %age point relative to the previous forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies.*
- *The projected growth recovery this year follows a severe collapse in 2020 that has had acute adverse impacts on women, youth, the poor, the informally employed, and those who work in contact-intensive sectors. The global growth contraction for 2020 is estimated at -3.5 %, 0.9 %age point higher than projected in the previous forecast (reflecting stronger-than-expected momentum in the second half of 2020).*
- *The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis (Figure 1).*
- *Policy actions should ensure effective support until the recovery is firmly underway, with an emphasis on advancing key imperatives of raising potential output, ensuring participatory growth that benefits all, and accelerating the transition to lower carbon dependence. As noted in the October 2020 World Economic Outlook (WEO), a green investment push coupled with initially moderate but steadily rising carbon prices would yield needed emissions reductions while supporting the recovery from the pandemic recession.*

Figure 1. Divergent Recoveries: WEO (WORLD ECONOMIC OUTLOOK) Forecast For Advanced Economies & Emerging Market & Developing Economies *(Index, 2019:Q4 = 100)*



Source: IMF estimates, World Bank Group

- *Strong multilateral cooperation is required to bring the pandemic under control everywhere. Such efforts include bolstering funding for the COVAX facility to accelerate access to vaccines for all countries, ensuring universal distribution of vaccines, and facilitating access to therapeutics at affordable prices for all. Many countries, particularly low-income developing economies, entered the crisis with high debt that is set to rise further during the pandemic. The global community will need to continue working closely to ensure adequate access to international liquidity for these countries. Where sovereign debt is unsustainable, eligible countries should work with creditors to restructure their debt under the Common Framework agreed by the G20.*

Considerations for the Global Outlook

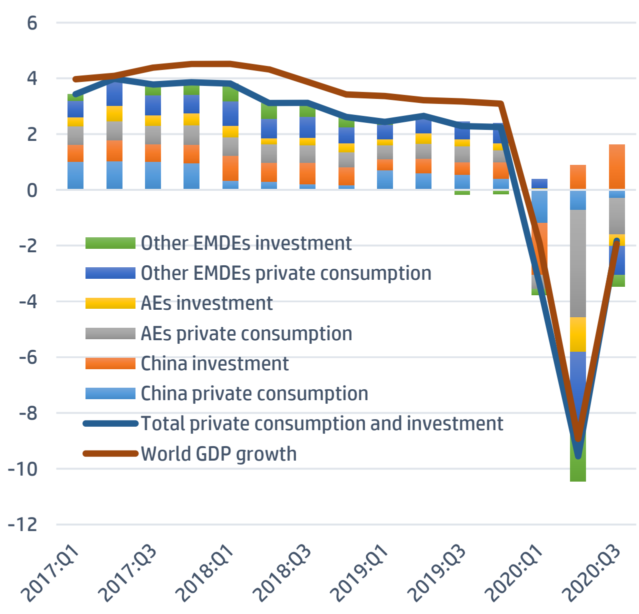
A stronger starting point for the 2021–22 forecast. Multiple vaccine approvals and the launch of vaccination in some countries in December have raised hopes of an eventual end to the pandemic. Moreover, economic data released after the October 2020 WEO (World Economic Outlook) forecast suggest stronger-than-projected momentum on average across regions in the second half of 2020. Despite the high and rising human toll of the pandemic, economic activity appears to be adapting to subdued contact-intensive activity with the passage of time. Finally, additional policy measures announced at the end of 2020—notably in the United States and Japan—are expected to provide further support in 2021–22 to the global economy. These developments indicate a stronger starting point for the 2021–22 global outlook than envisaged in the previous forecast.

Lingering concerns. However, surging infections in late 2020 (including from new variants of the virus), renewed lockdowns, logistical problems with vaccine distribution, and uncertainty about take-up are important counterpoints to the favorable news. Much remains to be done on the health and economic policy fronts to limit persistent damage from the severe contraction of 2020 and ensure a sustained recovery.

Three questions. These developments raise three interrelated questions for the global outlook. First, how will restrictions needed to curb transmission affect activity in the near term before vaccines begin delivering effective society-wide protection? Second, how will vaccine-rollout expectations and policy support affect activity? Third, how will financial conditions and commodity prices evolve? The baseline forecast requires forming a view on these unknowns.

Infections and restrictions will soften momentum in early 2021. Third quarter GDP outturns mostly surprised on the upside (Australia, euro area, India, Japan, Korea, New Zealand, Turkey, United States) or were in line with expectations elsewhere (China, Mexico). Among components, private consumption rebounded the most. Investment picked up relatively slowly, except in China (Figure 2).

Figure 2. Contributions of Consumption & Investment to Global GDP Growth *(Percentage Points, Year over Year)*



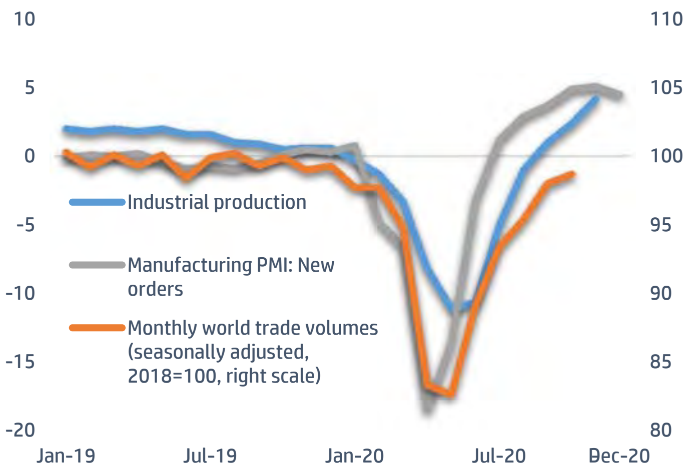
Source: Haver Analytics, IMF estimates

The expenditure decompositions suggest a release of pent-up demand and adjustments to telework. Given the largely one-off nature of such spending, it is likely to dissipate once the adjustments are made. High-frequency data suggest some tapering into the fourth quarter of 2020—for example, in new orders, industrial production, and global trade (Figure 3). The US December employment report also showed the first net decline in nonfarm payrolls since April 2020. Moreover, services output remains subdued and is likely to soften further in the coming months with renewed restrictions to combat rising infections.

The softening in early 2021 is expected to give way to rising momentum in the second quarter as vaccines and therapies become more readily available, allowing contact-intensive activity to strengthen.

- *Vaccines, therapies, and containment efforts.* The baseline assumes broad vaccine availability in advanced economies and some emerging market economies in summer 2021 and across most countries by the second half of 2022— an accelerated timeline relative to expectations at the time of the previous forecast. Vaccine rollout speed is assumed to vary across economies based on country-specific factors. Moreover, therapies are expected to gradually become more effective and more accessible worldwide over the course of 2021–22. The baseline also assumes the possibility of lockdowns, including to contain transmission of new variants, before vaccines become widely available.

Figure 3.Global Activity Indicators *Three-month moving average, annualized percent change; deviations from 50 for manufacturing PMI, unless noted otherwise)*



Source: IMF estimates, Markit Economics, Haver Analytics, World Bank Group

- *The path of the pandemic.* With growing vaccine availability, improved therapies, testing, and tracing, local transmission of the virus is expected to be brought to low levels everywhere by the end of 2022. Some regions and countries will get to low local transmission sooner than others depending on country-specific circumstances.
- *Additional fiscal policy support set to boost activity in some countries, but most are expected to experience lower deficits in 2021.* The sizable fiscal support announced for 2021 in some countries, including most recently in the United States and Japan, together with the unlocking of Next Generation EU funds, will help lift economic activity among advanced economies with favorable spillovers to trading partners. However, as noted in the January 2021 Fiscal Monitor Update, fiscal deficits in most countries are projected to decline in 2021 as revenues rise and expenditures decline automatically with the recovery.

Supportive financial conditions. Major central banks are assumed to maintain their current policy rate settings throughout the forecast horizon to the end of 2022. As a result, financial conditions are expected to remain broadly at current levels for advanced economies while gradually improving for emerging market and developing economies. Within this latter group, differentiation between investment-grade sovereigns (who have been able to issue external debt in large amounts in 2020) and high-yield borrowers (many of whom are constrained in their ability to take on additional debt and until recently have not accessed international markets during the pandemic) is expected to subside as the recovery takes hold. As noted in the January 2021 Global Financial Stability Report Update, markets remain upbeat about prospects for 2021, banking on continued policy support.

Rising commodity prices. Reflecting the projected global recovery, oil prices are expected to rise in 2021 just over 20 % from the low base for 2020, but will still remain well below their average for 2019. Non-oil commodity prices are also expected to increase with those of metals, in particular, projected to accelerate strongly in 2021.

	Estimate		Projections	
	2019	2020	2021	2022
World Output	**2.8**	**-3.5**	**5.5**	**4.2**
Advanced Economies	**1.6**	**-4.9**	**4.3**	**3.1**
United States	2.2	-3.4	5.1	2.5
Euro Area	1.3	-7.2	4.2	3.6
Emerging Market & Developing Economies	**3.6**	**-2.4**	**6.3**	**5.0**
Emerging and Developing Asia	5.4	-1.1	8.3	5.9
China	6.0	2.3	8.1	5.6
India	4.2	-8.0	11.5	6.8
Emerging and Developing Europe	2.2	-2.8	4.0	3.9
Russia	1.3	-3.6	3.0	3.9
Latin America and the Caribbean	0.2	-7.4	4.1	2.9
Brazil	1.4	-40.5	3.6	2.6
Mexico	-0.1	-80.5	4.3	2.5
The Middle East and Central Asia	1.4	-3.2	3.0	4.2
Saudi Arabia	0.3	-3.9	2.8	4.0
Sub-Saharan Africa	3.2	-2.6	3.2	3.9
Nigeria	2.2	-3.2	1.5	2.5
South Africa	0.2	-7.5	2.8	1.4
Memorandum				
Low-Income Developing Countries	5.3	-0.8	5.1	5.5
World Growth Based on Market Exchange	2.4	-3.8	5.1	3.8
World Trade Volume (goods & services)	**1.0**	**-9.6**	**8.1**	**6.3**
Advanced Economies	1.4	-10.1	7.5	6.1
Emerging Market & Developing Economies	0.3	-8.9	9.2	6.7
Commodity Prices(US dollars)				
Oil	-10.2	-32.7	21.2	-2.4
Consumer Prices				
Advanced Economies	1.4	0.7	1.3	1.5
Emerging Market & Developing Economies	5.1	5.0	4.2	4.2

Source: IMF estimates, World Bank Group

Global Growth Set to Strengthen in the Second Half of 2021

The baseline forecast follows from the assumptions listed in the previous section.

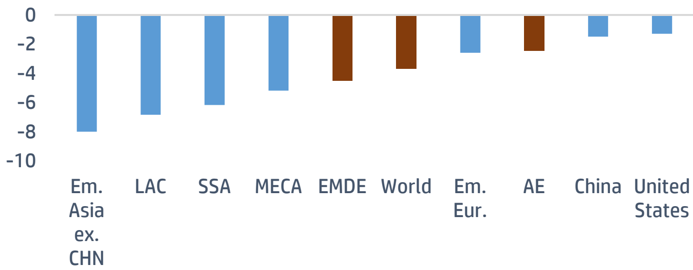
Global growth. After an estimated 3.5 % contraction in 2020, the global economy is projected to grow 5.5 % in 2021 and 4.2 % in 2022 (Table 1). The estimate for 2020 is 0.9 %age point higher than projected in the October WEO (World Economic Outlook) forecast. This reflects the stronger than- expected recovery on average across regions in the second half of the year. The 2021 growth forecast is revised up 0.3 %age point, reflecting additional policy support in a few large economies and expectations of a vaccine-powered strengthening of activity later in the year, which outweigh the drag on near-term momentum due to rising infections. The upgrade is particularly large for the advanced economy group, reflecting additional fiscal support—mostly in the United States and Japan—together with expectations of earlier widespread vaccine availability compared to the emerging market and developing economy group.

Global trade. Consistent with recovery in global activity, global trade volumes are forecast to grow about 8 % in 2021, before moderating to 6 % in 2022. Services trade is expected to recover more slowly than merchandise volumes, however, which is consistent with subdued cross-border tourism and business travel until transmission declines everywhere.

Inflation. Even with the anticipated recovery in 2021–22, output gaps are not expected to close until after 2022. Consistent with persistent negative output gaps, inflation is expected to remain subdued during 21–22.

Figure 4. GDP Losses Relative to Pre-COVID by Region

(Current Projected 2022 Level Relative to Pre-COVID (January 2020 WEO (Forecast, Percent Difference)



Source: IMF estimates, World Bank, International Crisis Risk Group

In advanced economies it is projected to remain generally below central bank targets at 1.5 %. Among emerging market and developing economies inflation is projected just over 4 %, which is lower than the historical average of the group.

Differentiated and Diverging Recoveries

An incomplete and uneven recovery. Global activity will remain well below the pre- COVID, January 2020 WEO (World Economic Outlook) projections through the forecast horizon (Figure 4). The strength of the projected recovery varies across countries, depending on the severity of the health crisis, the extent of domestic disruptions to activity (related to the structure of the economy and its reliance on contact-intensive sectors), the exposure to cross-border spillovers, and—importantly— the effectiveness of policy support to limit persistent damage.

- *Advanced economies,* in general, have been able to provide expansive fiscal support to households and firms (direct tax and spending measures as well as equity injections, loans, and guarantees), and central banks have reinforced this with expanded asset purchase programs, funding-for-lending facilities, and, for some, interest rate cuts. Reflecting the strong policy support and the anticipated widespread availability of vaccines in summer 2021, the projected output loss compared with the pre-COVID forecast is relatively smaller for advanced economies than other countries. Recovery paths vary within the group, with the US and Japan projected to regain end-2019 activity levels in the second half of 2021, while in the euro area and the United Kingdom activity is expected to remain below end-2019 levels into 2022. The wide divergence reflects to an important extent differences across countries in behavioral and public health responses to infections, flexibility and adaptability of economic activity to low mobility, preexisting trends, and structural rigidities entering the crisis. The 2021 forecast for the United States is revised up 2 %age points relative to the October 2020 WEO (World Economic Outlook) projection, reflecting carryover from the strong momentum in the second half of 2020 and additional support from the December 2020 fiscal package. Similarly, the 0.8 %age point upward revision to Japan's 2021 forecast is largely because of the additional boost from the fiscal measures introduced at the end of 2020. These upgrades are partially offset by downward revisions to the 2021 forecast for the euro area reflecting an observed softening of activity toward the end of 2020, which is anticipated to continue into early 2021 amid rising infections and renewed lockdowns.

- *Emerging market and developing economies* are also projected to trace diverging recovery paths. Considerable differentiation is expected between China—where effective containment measures, a forceful public investment response, and central bank liquidity support have facilitated a strong recovery—and other economies. Oil exporters and tourism-based economies within the group face particularly difficult prospects considering the expected slow normalization of cross-border travel and the subdued outlook for oil prices. As noted in the October 2020 WEO (World Economic Outlook), the pandemic is expected to reverse the progress made in poverty reduction across the past two decades. Close to 90 million people are likely to fall below the extreme poverty threshold during 2020–21. Across regions, vulnerabilities, economic structure, and pre-crisis growth trends, together with the severity of the pandemic and the size of the policy response to combat the fallout, shape recovery profiles. Notable revisions to the forecast include the one for India (2.7 %age points for 2021), reflecting carryover from a stronger-than-expected recovery in 2020 after lockdowns were eased.

Scarring (persistent damage to supply potential). The projections continue to rely on economies adapting to social distancing until local transmission is brought to a low level. Although employment in some countries generally appears to have recovered more quickly from the trough of the recession than in previous downturns, large numbers of people are still unemployed and underemployed in many countries (in the United States, for example, there are 9 million fewer employed people than in February 2020). Moreover, as discussed in the October 2020 WEO (World Economic Outlook), the burden of the crisis has fallen unevenly across groups: workers with less education, women, youth, those in contact-intensive sectors, and those informally employed have suffered disproportionate livelihood and income losses. Country-specific labor market circumstances vary, implying different degrees of scarring. Economies that rely heavily on contact-intensive industries, commodity exporters, and those where school closures have inflicted large setbacks to human capital accumulation are particularly exposed to persistent damages to supply potential.

Risks to the Outlook

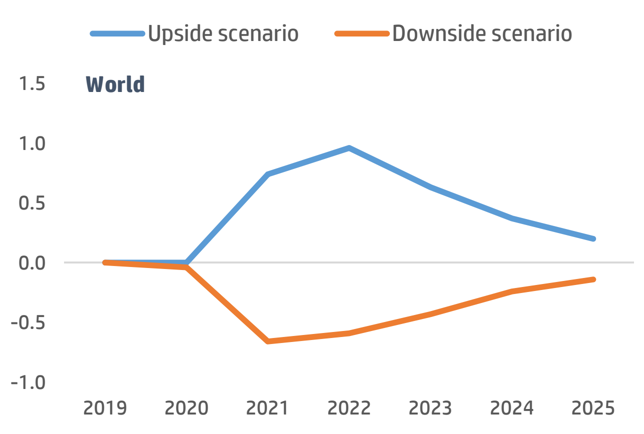
Exceptional uncertainty surrounds the baseline projection. Although new restrictions following the surge in infections (particularly in Europe) suggest growth could be weaker than projected in early 2021, other factors pull the distribution of risks in the opposite direction. Beyond the pandemic, the December agreement on the terms of the United Kingdom's exit from the European Union has eliminated a key downside risk (i.e., a "no-deal Brexit").

- *On the upside,* further favorable news on vaccine manufacture (including on those under development in emerging market economies), distribution, and effectiveness of therapies could increase expectations of a faster end to the pandemic than assumed in the baseline, boosting confidence among firms and households. This would generate stronger consumption, investment, and employment recoveries, with firms hiring and expanding capacity in anticipation of rising demand. The resulting income gains would support higher and more front-loaded spending than projected. Global growth would be stronger than in the baseline. More fiscal policy support than assumed in the baseline, with favorable spillover effects for trading partners, would further lift global activity.
- *On the downside,* growth could turn out weaker than in the baseline if the virus surge (including from new variants) proves difficult to contain, infections and deaths mount rapidly before vaccines are widely available, and voluntary distancing or lockdowns prove stronger than anticipated. Slower-than-anticipated progress on medical interventions could dampen hopes of a relatively quick exit from the pandemic and weaken confidence. Specifically, vaccine rollout could suffer delays, widespread hesitancy could hamper vaccine take-up, vaccines could deliver shorter-lived immunity than anticipated, and advances on therapies could be limited. Intensifying social unrest, including due to higher inequality and unequal access to vaccines and therapies, could further complicate the recovery. Moreover, if policy support is withdrawn before the recovery takes firm root, bankruptcies of viable but illiquid firms could mount, leading to further employment and income losses. The ensuing tighter financial conditions could increase rollover risks for vulnerable borrowers, add to the already large number of economies in debt distress (January 2021 Fiscal Monitor Update), and increase insolvencies among corporates and households (January 2021 Global Financial Stability Report Update).

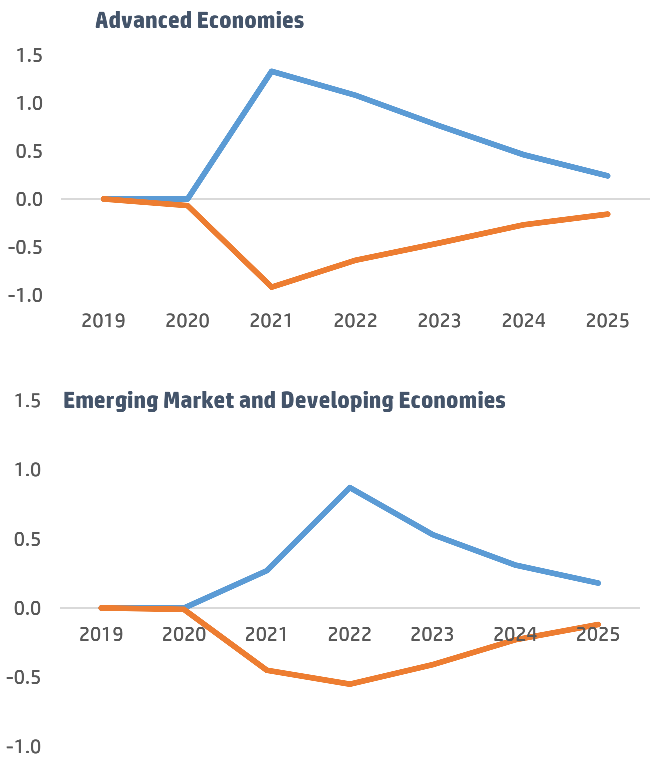
Scenario analysis. Some of these aspects are explored in two alternative scenarios using the IMF's G20 Model. Both scenarios are focused on the key uncertainties underlying the outlook: incidence of COVID infections and efficacy of vaccine rollout.

The estimated impact of these alternative developments on activity is presented in Figure 5. In the upside scenario, the level of global output increases above baseline by roughly ¾ % in 2021, widening to almost 1 % above baseline in 2022. Although vaccine rollout is assumed to occur earlier in the upside, advanced economies still receive vaccines before many emerging economies and, consequently, activity accelerates sooner in advance economies. The increase is therefore more pronounced in advanced economies in 2021 and in emerging market economies in 2022. In the downside scenario, vaccine rollout is assumed to go less smoothly than in the baseline, with widespread availability occurring later in

Figure 5. Scenario: Real GDP *(Percent deviation from baseline)*



both advanced and emerging economies and with more resistance to take-up even after vaccines become widely available. With global activity weaker, emerging vulnerable economies are also assumed to see mild increases in risk premia. However, some emerging and most advanced economy central banks are assumed to be able to prevent tightening in financial conditions. Global activity falls below baseline by roughly ¾ % in 2021 but starts to return toward baseline in 2022. Again, the deviation from the baseline is more pronounced in advanced economies in 2021 and in emerging market economies in 2022.



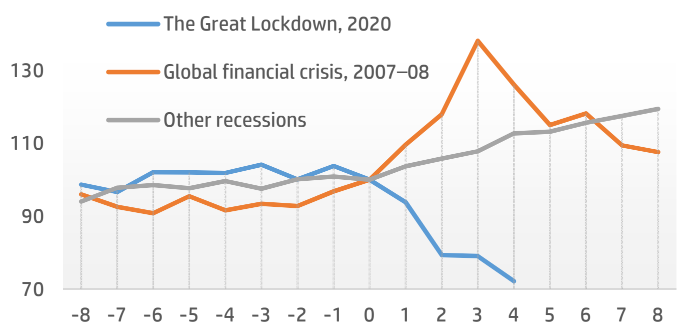
Source: IMF, G20 model simulations

Policy effectiveness during the recession. Aggressive and swift monetary, fiscal, and financial sector policies have helped prevent worse outcomes, as discussed in the October 2020 WEO (World Economic Outlook). In some cases, transfers to households quickly boosted consumer spending—in particular for those with liquidity constraints.

Transfers to firms, together with credit guarantees and funding-for-lending programs, have prevented bankruptcies that might otherwise have occurred (but also keeping some unviable firms afloat, which could put a drag on overall productivity in the future). IMF staff analysis of a sample of 13 advanced economies spanning 1990 to the COVID crisis finds that bankruptcies have actually fallen during this recession unlike during past recessions (Figure 6).

In part, this decline may also reflect moratoria on bankruptcy filings implemented in some countries. As discussed in the October 2020 WEO (World Economic Outlook), efficient corporate bankruptcy frameworks that apportion losses across investors, creditors, and owners will be central to dealing with any backlogs that may arise. Moreover, special out-of-court restructuring frameworks may need to be strengthened (or established) to expedite processing.

Figure 6. Bankruptcies *(Index, last prerecession quarter=100)*



Source: IMF, CEIC, national authorities

Policy objectives. Building on these successes, policies should ensure effective support until a vaccine-powered normalization of activity is underway and limit persistent damage from the deep recession of the past year. Policies to support the economy in the near term should also advance medium-term objectives of placing economies on paths of resilient and equitable growth. Initiatives that raise potential output, protect the vulnerable, ensure participatory growth that benefits all, and accelerate the needed transition to lower carbon dependence can help in this regard.

- *Resources for health care.* The main priority remains ensuring that health care systems are adequately resourced everywhere to beat back the pandemic globally. This means securing adequate funding for vaccine purchases and distribution, testing, therapies, personal protective equipment, and investment in health care facilities. Assistance from the international community through know-how and equipment for those with low health-care system capacity remains vital. The international community should also work closely to accelerate access to vaccines for all countries, including by bolstering funding for the COVAX facility, and by ensuring universal distribution of vaccines.

- *Economic policies to limit persistent damage.* Public health efforts should continue to be reinforced with well-designed economic policies tailored to the stage of the pandemic. Where local transmission remains high, and it is essential to slow down face-to-face interactions, lifelines should be maintained, including transfers to displaced workers and to otherwise viable firms that experience revenue losses. Where local transmission has been low and activity has begun to normalize, lifelines can be gradually rolled back by making their parameters less generous over time (for instance, under short-time work programs, a reduced government share of wages for unworked hours, complemented with hiring subsidies). Moreover, in those countries, broader stimulus should be deployed to support the recovery as needed. Priority areas include education spending to remedy the setback to human capital accumulation, digitalization to boost productivity growth, and green investment to enhance reliance on renewables and increase energy conservation. As noted in the October 2020 WEO (World Economic Oultook), a green investment push coupled with initially moderate but steadily rising carbon prices would yield needed emissions reductions while supporting the recovery from the pandemic recession.

Policies to address inequality. These efforts can be complemented with investment in retraining and reskilling programs to improve reemployment prospects for displaced workers, strengthening social assistance as needed (for example, conditional cash transfers and medical payments for low-income households), and expanding social insurance (relaxing eligibility criteria for unemployment benefits, extending the coverage of paid family and sick leave)—all of which would help address the uneven labor market impact of the crisis and curb rising inequality.

Policy space to achieve these objectives varies across countries. The constraints have already translated into significantly different responses across income groups (October 2020 WEO (World Economic Outlook) and IMF Fiscal Monitor).

- *Advanced economies* continue to enjoy extremely low borrowing costs and can use the opportunity to provide fiscal support as needed to ensure a lasting recovery. Moreover, with well-anchored inflation expectations and subdued inflation pressure across the group, monetary policy should remain accommodative until the recovery takes firm root. Such policies would also have positive spillovers for more constrained economies and lower the likelihood of disruptive portfolio shifts stemming from divergent policy stances across countries in the recovery phase.

- *Emerging market economies* should maintain fiscal and monetary support where debt sustainability is not at risk and where inflation expectations are well anchored. Where emerging market central banks continue to deploy asset purchase programs, the objectives should be clearly communicated—in particular, their consistency with price stability mandates. Beyond policy space considerations, strategies for macroeconomic and financial stability—including exchange rate policies—will vary according to the structure of individual economies and the types of shocks they confront during recovery. In countries with deep financial markets and low balance sheet mismatches, exchange rate flexibility can effectively absorb shocks and limit resource misallocation. In countries with balance sheet vulnerabilities and market frictions, foreign exchange intervention and temporary capital flow management measures may, under some circumstances, be useful, including for enhancing the autonomy of monetary policy to respond to domestic inflation and output developments (see Adrian, Gopinath and Pazarbasioglu, 2020). These measures, however, should not substitute for needed macroeconomic adjustment.
- *Low-income developing countries* have far less policy space, and many entered this crisis with high debt that is set to rise even further during the pandemic. Support from the international community through grants, concessional loans, and debt relief will be essential to ensure that these countries are not overwhelmed by crisis costs and rising poverty.

Debt restructuring may be unavoidable for some countries. While temporary liquidity relief can help mitigate the lack of policy space, for some countries it may not be enough in situations where sovereign debt is unsustainable. In such instances, eligible countries should work with creditors to restructure their debt under the new Common Framework agreed by the G20. More generally, improving the international debt architecture to support orderly debt restructuring would benefit not only these countries but the system as a whole (see Georgieva, Pazarbasioglu, and Weeks-Brown, 2020).

Achieving a Resilient, Equitable Post-Pandemic Economy

Addressing crisis legacies. As detailed in the October 2020 WEO (World Economic Outlook), once the crisis fades, policymakers must prioritize efforts to address its likely enduring legacies—some of them an intensification of preexisting trends—including slow productivity growth, rising inequality, higher absolute numbers of people in poverty, higher debt, and a setback in human capital accumulation.

Synchronized responses to amplify policy effectiveness. A synchronized public investment push by the largest economies with fiscal space to do so can enhance effectiveness of individual actions and boost cross-border spillovers through trade linkages. Emphasizing green infrastructure and digitalization to raise productivity growth, synchronized spending would lift medium-term global output significantly more than if countries spent the same amount individually, as discussed in the November 2020 G20 Surveillance Note.

Closer multilateral cooperation. Beyond addressing issues arising directly from the pandemic, countries should also work closely to redouble climate change mitigation efforts. Moreover, closer multilateral cooperation will be needed to resolve economic issues underlying trade and technology tensions as well as gaps in the rules-based multilateral trading system.

2020 Worst Year in Tourism History with 1 Billion Fewer International Arrivals

Global tourism suffered its worst year on record in 2020, with international arrivals dropping by 74% according to the latest data from the World Tourism Organization (UNWTO). Destinations worldwide *welcomed 1 billion fewer international arrivals in 2020 than in the previous year, due to an unprecedented fall in demand and widespread travel restrictions. This compares with the 4% decline recorded during the 2009 global economic crisis.*

According to the latest UNWTO World Tourism Barometer, the collapse in international travel represents an estimated loss of USD 1.3 trillion in export revenues - more than 11 times the loss recorded during the 2009 global economic crisis. The crisis has put between 100 and 120 million direct tourism jobs at risk, many of them in small and medium-sized enterprises.

Due to the evolving nature of the pandemic, many countries are now reintroducing stricter travel restrictions. These include mandatory testing, quarantines and in some cases a complete closure of borders, all weighing on the resumption of international travel. At the same time, the gradual rollout of a COVID-19 vaccine is expected to help restore consumer confidence, contribute to the easing travel restrictions and slowly normalize travel during the year ahead.

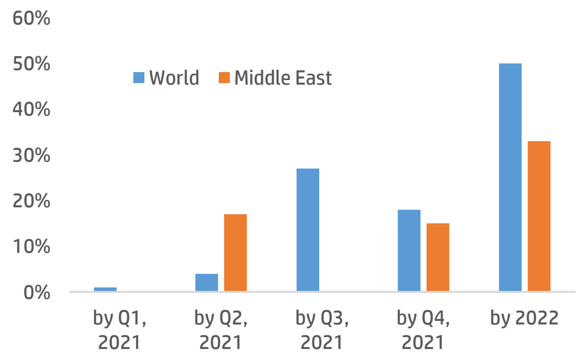
UNWTO Secretary-General Zurab Pololikashvili said: “While much has been made in making safe international travel a possibility, we are aware that the crisis is far from over. The harmonization, coordination and digitalization of COVID-19 travel-related risk reduction measures, including testing, tracing and vaccination certificates, are essential foundations to promote safe travel and prepare for the recovery of tourism once conditions allow."

Recovery outlook remains cautious

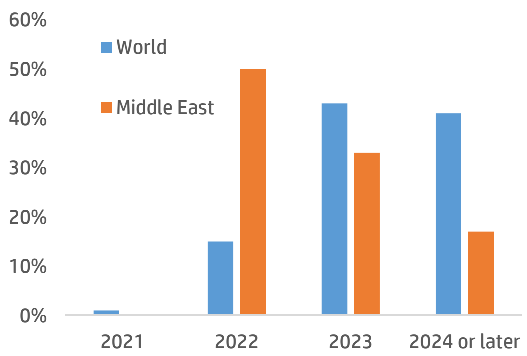
The latest UNWTO Panel of Experts survey shows a mixed outlook for 2021. Almost half of respondents (45%) envisaged better prospects for 2021 compared to last year, while 25% expect a similar performance and 30% foresee a worsening of results in 2021.

The overall prospects of a rebound in 2021 seem to have worsened. 50% of respondents now expect a rebound to occur only in 2022 as compared to 21% in October 2020. The remaining half of respondents still see a potential rebound in 2021, though below the expectations shown in the October 2020 survey (79% expected recovery in 2021). As and when tourism does restart, the UNWTO Panel of Experts foresee growing demand for open-air and nature-based tourism activities, with domestic tourism and ‘slow travel’ experiences gaining increasing interest.

Rebound in international tourism



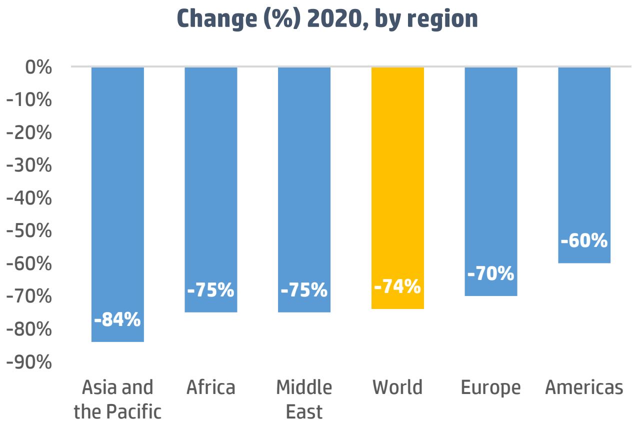
International tourism to return to pre-pandemic 2019 levels



Looking further ahead, most experts do not to see a return to pre-pandemic levels happening before 2023. In fact, 43% of respondents point to 2023, while 41% expect a return to 2019 levels will only happen in 2024 or later. UNWTO's extended scenarios for 2021-2024 indicate that it could take two-and-a-half to four years for international tourism to return to 2019 levels.

All world regions affected

Asia and the Pacific (-84%) - the first region tc highest level of travel restrictions currently in pl million fewer). The Middle East and Africa both r



Europe recorded a 70% decrease in arrivals, despite a small and short-lived revival in the summer of 2020. The region suffered the largest drop in absolute terms, with over 500 million fewer international tourists in 2020. The Americas saw a 69% decrease in international arrivals, following somewhat better results in the last quarter of the year.

Gulf economic recovery to continue in 2021

Forecasts for economic recoveries in the six-member Gulf Cooperation Council in 2021 have been trimmed while expectations for gross domestic product declines last year were mixed in a quarterly Reuters survey of analysts.

Economists in the Jan. 11-25 poll maintained their views that the hydrocarbon-dependent region's economic fortunes would turn around this year after it was hammered by the pandemic and an historic slide in the price of the GCC's main commodity.

But growth forecasts for 2021 were cut for all six countries – to varying degrees – with the UAE, Kuwait and Oman's GDP growth projections scaled back the most. Expected growth in Saudi Arabia and Qatar remained the GCC's highest.

Saudi Arabia, the region's largest economy, is expected to see GDP growth of 2.8 % this year, down from 3.1 % expected three months ago. The median forecast for its GDP contraction in 2020 improved to 4.4 % from 5.1 %. The economy is expected to grow 3.8 to 4.0 % next year.

According to Capital Economics. "The recovery in Saudi Arabia's economy will continue over the course of this year. But with oil output being ramped up only gradually and fiscal policy to remain tight, the recovery is likely to be slower than in the other Gulf States,"

The economy of the United Arab Emirates, which in the last month has seen its seven-day average COVID-19 daily cases nearly triple, is expected to grow 2.2 % this year – cut from 2.7 % growth expected three months ago.

GDP in the UAE, the region's tourism and commerce hub, was seen shrinking 6.6 % last year versus an October expectation of a 6.0 % decline. It is expected to grow 3.5 % in 2022.

Hotel occupancy and revenue per available room (RevPAR) in the UAE rose significantly last month, ending a difficult year for the sector on a brighter note – though they remained lower than pre-pandemic levels.

“With the holiday season over and travel restrictions since tightened in many countries due to surging coronavirus cases, these high figures for hotel occupancy and RevPAR are unlikely to be sustained in Q1 2021,” Emirates NBD, Dubai’s biggest lender, said in a research note.

“Depending on how quickly vaccines are rolled out, the outlook is brighter for H2 2021, particularly with Expo 2020 set to start in October 2021.”

Median forecasts for Qatar expected 2.8 % growth this year, a slight decrease from 3.0 % expected three months ago. It is likely to have shrunk 3.5 % in 2020, the smallest contraction in the Gulf and an improvement from 4.0 % contraction forecast in October. It is expected to grow 3.5 % in 2022.

Kuwait was expected to grow 2.2 % this year, down from the previous poll’s projection of 2.6 % growth. It was seen having shrunk 7.3 % in 2020 and growing 2.7 % next year. In October, analysts expected Kuwait’s 2020 GDP to contract 6.3 %.

Oman and Bahrain, the region’s weakest economies, are expected to grow 2.1 % and 2.5 % this year respectively versus forecasts of 2.5 % and 2.6 % GDP growth three months ago. Their economies were seen having contracted 5.3% % and 4.7 % respectively in 2020. Next year, Oman is expected to grow 2.7 % and Bahrain 2.9 %. “It will take another 18 months before GDP in the Gulf Cooperation Council countries rises above its pre-crisis peak,” Oxford Economics. “The expected economic scarring from the dual shock of COVID-19 and low oil prices reflects high dependence on oil, limited scope for fiscal support, challenges of expat-dominated workforces, the key role of travel and tourism in the economy, and geopolitical risks.”

Mena governments focus on long-term goals

The primary goals of policymakers in the Middle East and North Africa remain economic diversification, fiscal discipline and security

With new leaders taking office in Bahrain, Iraq, Jordan, Kuwait, Oman, Lebanon, and Tunisia in 2020, in addition to a new prime minister in Algeria in late December 2019, the new year started with a significantly changed roll call of leaders in the Middle East and North Africa (Mena) region from 12 months earlier.

Faced with deep economic challenges as a result of low oil prices and the Covid-19 pandemic, as well as rising geopolitical tensions in the Gulf and in the East Mediterranean, the introduction of new leadership could be seen as a sign of change. In reality, there will be no fundamental change in the direction of policy in the region in 2021.

The new leaders in Kuwait, Oman and Bahrain in 2020 all represent votes for stability. Meanwhile, the appointments of new prime ministers in Iraq and Lebanon, where a new approach is needed to tackle deep political and economic crises, have introduced no changes yet.

Accelerating goals

With the primary goals of governments across the region remaining firmly fixed on delivering economic diversification, maintaining strict fiscal discipline, and ensuring security, the biggest impact the new leaderships could have will be an acceleration of existing initiatives.

While the primary economic goal for all governments is to get activity back to normal as quickly as possible, the priority remains on overcoming the Covid-19 health crisis. This will see continued spending on ensuring there is adequate healthcare capacity, and strict monitoring and control of cases in order to limit new waves of infection. As vaccines become available, governments will seek to acquire and distribute the treatments as quickly as possible, prioritizing the most vulnerable groups.

The ongoing focus on healthcare will continue to divert government spending away from traditional areas and will see further cuts to ministry budgets and capital spending on projects.

The need to develop infrastructure to support investment and diversification plans, while maintaining strict fiscal discipline, will see governments accelerate the privatization of state assets, and also tap private finance for government projects through public-private partnerships (PPPs). Saudi Arabia and the UAE, in particular, will see progress made on PPP projects in 2021.

Alternative funding

Governments and other project sponsors will increasingly seek new and alternative sources of funding for projects, and 2021 will see increased sovereign debt issuance on the international markets, as well as the development of local debt capital markets. Export credit finance will be an important enabler for projects, providing working capital to companies. The focus on rebalancing government finances in the face of weaker oil revenues will see increases in taxes in this year and next year, with increases in VAT levels possible, along with rising government fees in other areas.

The proposal to introduce income tax in Oman in 2022 sets a precedent in the GCC that other finance ministries are sure to be watching closely.

GCC states will continue to push the development of manufacturing capacity through the development of downstream clusters around anchor industries such as steel, aluminum and petrochemicals. In addition, the UAE and Saudi Arabia will seek to accelerate inward investment in hi-tech industries such as aerospace and defence, food and water security, biotechnology and life sciences, mobility, and clean energy.

“The drive to diversify will see growing focus on attracting foreign investment in target sectors such as manufacturing & tourism.”

A vital part of the diversification story is the need to reduce the dependence on expatriate workers and international suppliers. This will see a continuing push for higher levels of local content and employment on projects and in supply chains. Thus far, the in-country value drive has been led by the national oil companies. Increasingly, this will spread across other areas of the economy.

Foreign policy

The most significant change in policy in the region is likely to come from the US. Regional foreign policy will centre on security as the US continues its military disengagement from the region. For Arab states, particularly Saudi Arabia and the UAE, this will mean continuing efforts to exert influence on the international stage to counter the growing influence of Iran in the Gulf and Turkey in the Mediterranean. In this, close collaboration with Israel will be critical and will be increasingly done in public.

Riyadh and Abu Dhabi will also work with the US to find a diplomatic solution to the war in Yemen.

Experts look to 2021 for Mena tourism recovery

Governments across the Middle East and North Africa are working on several initiatives to bump up visitor numbers in 2021.

The impact of the Covid-19 pandemic has been felt across the Middle East and North Africa (Mena) region. Data released by the World Travel & Tourism Council (WTTC) 2020 revealed that with no changes in barriers to global travel until the end of 2020, the region will see 4.7 million jobs lost and a $175bn decline in the contribution of the travel and tourism sector to the region's GDP.

However, while there is a lot of uncertainty in the market, the Mena Hotel Market Survey conducted by Canada-based Colliers said that a recovery has started in the fourth quarter of 2020 and continue into 2021.

"We are optimistic for a steady upturn in demand across most major markets in the region this year," says James Wrenn, associate director of hospitality services for the Mena region at Colliers. "Markets such as those in the UAE with a strong focus on the international leisure segment should lead in terms of clawing back lost market demand on account of Covid-19."

Positive signs

There have been signs pointing to this upturn. Hotels in both the Middle East and Africa regions recorded their highest absolute occupancy level in October 2020 since February, according to data from US consultancy STR.

Philip Wooller, area director for the Middle East and Africa region at STR, says occupancy has been climbing steadily since October, with local carriers opening to more destinations. "We expect the region to continue showing occupancy increases during the traditionally strong winter season, especially after the recent announcement of a UK-UAE travel corridor. "While leisure demand strengthens, the next phase is the prominent return of corporate business, followed by group demand and events such as GITEX [6-10 December 2020] and Arabian Travel Market [ATM], now scheduled for the middle of May 2021."

Faster recovery

The Colliers forecast assumes a faster recovery for the UAE and Saudi markets, with the former expected to benefit from the build-up to Expo 2020, which is now expected to start in the fourth quarter of 2021.

For Saudi Arabia, the forecast in 2020 assumes restricted pilgrim access to Mecca and Medina during the Ramadan and Haj periods. Both countries are expected to continue benefiting from ongoing tourism initiatives, upcoming megaprojects and domestic tourism, according to the Colliers report.

Global Hotel Occupancy (%), 2020

38.4%

Middle East Occupancy (%), 2020

45.9%

Many cities and countries relied on domestic tourism during 2020 and the question is whether that will be enough to bolster the region's figures, and whether the trend will sustain itself over the months ahead.

"As international travel found itself in the ever-changing crossfire of quarantine rules and Covid-19 case counts in 2020, staycations became one of the primary drivers of occupancy during the pandemic," says STR's Wooller.

He adds that countries in the Middle East have done an overall good job generating the domestic demand, and the staycation boost has helped hotels in the region to move the occupancy trend in the right direction. "However, the region is a great hub of international travel and will hope to see high international demand as countries around the world start to open in the upcoming quarters," says Wooller.

According to Alex Dichter, senior partner at US-based McKinsey & Company, a full recovery in air travel demand is not expected before 2022 and could be delayed beyond 2024. This is not necessarily related to the economic fallout but to government restrictions and consumer fear, Dichter told the Future Hospitality Hybrid Summit in Saudi Arabia in October 2020.

Separating domestic from international outbound tourism, the latter will take longer to recover, said Dichter, with a lot of that driven by the closing of borders but also permanent capacity reductions in the aviation industry, where wider long-haul aircraft have been grounded.

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