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**Statement by Ms. Mannathoko, Mr. Nakunyada, Mr. Odonye, Mr. Ismail, Ms. Maudi,
and Mr. Sitima-wina on World Economic Outlook; Global Financial Stability Report;
Fiscal Monitor
(Preliminary)
Executive Board Meeting
March 25, 2021**

1. We thank staff for the comprehensive set of flagship reports, providing valuable analysis to the membership and informing the direction global policy as countries work towards exiting from the crisis and investing in the future.

World Economic Outlook

2. **While the improvement in the global economic outlook driven by the recovery in large economies, is good news as it will resuscitate global demand, we are concerned at the divergent path of countries in poorer regions such as Sub-Saharan Africa (SSA).** Advanced economies have suffered much smaller per capita income declines than poorer regions and have seen less scarring post-COVID, than was recorded in the wake of the global financial crisis; whereas the reverse holds for poorer regions such as SSA where scarring is significantly higher this time around. While poorer countries were on a path of income convergence with advanced economies leading up to 2019, that has now been reversed. Various staff reports indicate that economic development in poorer regions is likely to be set back several years, with higher poverty and food insecurity, larger human capital losses and further digital divergence. Thus, prospects of recovery remain uneven with high uncertainty for many emerging market and developing economies, due to uneven access to vaccines, limited policy space and affordable financing, and pre-existing vulnerabilities.
3. **It is critical that international cooperation on supply of affordable vaccines is strengthened, and production capacity in SSA is enhanced.** Countries in the region are in their second and third COVID-19 waves, propelled by new variants of the virus, with rising death rates, alongside delays in accessing vaccines. The duration of the crisis is a concern. In addition to further international efforts to make available affordable

redistributed (excess) vaccines, support towards boosting vaccine manufacturing capabilities on the African continent would help to ensure a steadier supply of COVID-19 vaccines to meet regional demand. One plant among five potential SSA centers, estimates an initial \$200 million would be required to start upgrades to manufacturing capacity for full COVID-19 vaccine production capability in Africa (www.theafricareport.com, Feb.22, 2021).

4. **Strong international coordination is still needed to ensure an inclusive global financial safety net, and effective debt and trade architectures.** A coordinated effort supported by innovative instruments, is necessary to support an inclusive recovery and to address long standing pre-pandemic vulnerabilities, related to climate change, SDGs, debt and more recently, trade protectionism. While we welcome a new SDR allocation that will provide developing countries with much needed liquidity to support stabilization and recovery, and urge broad support in this regard, their allocated shares of SDRs (based on quotas) are small, and will need to be augmented through long-term solutions to development financing and debt challenges.
5. **We welcome the analysis on output losses for countries reliant on commodity and tourism exports, as these are both major sources of foreign exchange in many of our countries.** We thank staff in particular for the interesting special feature on commodities, including the analysis on food insecurity. As indicated, timely vaccine rollout will be critical to enable commodity exporters to re-establish production at a level that can optimize benefits from the recovery in commodity prices. At the same time, we note that subdued global food production has led to increases in food prices that are expected to force large segments of the population below the extreme poverty threshold, with disproportionate impacts on youth, women and children, worsening inequality. Therefore, policies for recovery need to target youth and women alongside low-skill and informal workers, including in the adoption of climate-resilient production methods in agriculture to mitigate against food insecurity. Strengthening social safety nets also remains a necessity. Tourism dependent economies in the SSA region, as elsewhere have also been hard hit. Those dependent on both commodities and tourism, doubly so. Policies for recovery also need to guide such economies in rebuilding safe tourism.
6. **Tailoring and sequencing policies to the various stages of the pandemic and ensuring a smooth transition out of exceptional support to firms remains essential.** Despite the improved global outlook, output and incomes in emerging market and developing countries (EMDEs) including low income countries (LICs), will remain below the pre-pandemic level for a while. We therefore agree with the need to sustain policy measures guarding against a steep rise in bankruptcies and financial stress. Policy support needed to ensure a more resilient recovery for the EMDEs and LICs will however, continue to be constrained by limited fiscal space and the large share of informality, necessitating broadened social programs such as unemployment insurance and targeted cash transfers.
7. **Policy solutions should be designed around digitalization as much as possible.** Given the surge in the use of online platforms and teleworking during the pandemic, the

associated opportunity and economic costs for businesses, workers, and students, of limited access to the requisite digital infrastructure, point to the importance of bridging the digital divide and the need to accelerate digital transformation in developing countries. In this regard, we welcome emphasis on digital infrastructure as a critical element to facilitate the recovery.

Global Financial Stability Report

8. **The unprecedented global policy response to the COVID-19 crisis that helped ease financial conditions after sharp tightening in the first quarter of 2020, has however heightened risk-taking, and increased vigilance in the financial sector supported by appropriate macroprudential policy is now required to guard against risks.** We agree that with risks rising, policy makers should take early action to allow for the lag between activation and impact of policies, by tightening macroprudential policy tools and supporting balance sheet repair as needed. Continued credit flow to firms and households has alleviated liquidity pressures and supported economic recovery in some countries; however financial stability risks have risen, reflected in the buildup of leverage and stretched asset valuations associated with excessive risk taking. The intertemporal trade-off between nurturing economic recovery and addressing elevated financial vulnerabilities could be further amplified by current credit booms, with negative feedback implications for medium-term growth prospects. This highlights the need for targeted policies that safeguard financial stability and temper risks emanating from eased financial conditions. We support tightening macroprudential policies (MPPs) to tame leverage build-ups, while strengthening borrower resilience. We however underscore the need to tailor the deployment of MPPs to country peculiarities, tackling pockets of elevated vulnerabilities, with due attention to the pace of recovery and availability of policy instruments.
9. **The divergent recovery between advanced and EMDE/LIC economies could be exacerbated should risks related to policy normalization materialize, thus vigilance is also required in navigating the transition to normalcy.** The challenge will be more acute in frontier markets and LIDCs where access to markets remains significantly limited and costly. Eventual global interest rate normalization will also pose particular risks, requiring policymakers to closely monitor portfolio flows and prudently manage debt financing and debt service which remain sensitive to interest rate movements. Policymakers should also stand ready to contain liquidity, solvency, and spillover risks. Meanwhile clear communication on policies and strategy during the transition will be needed, including on aspects such as exiting implicit loan guarantees and withdrawing policy support, once the recovery is firmly underway. *Could staff elaborate on good practice to capture zombification, considering that there are dynamics which make it hard to separate zombies from non-zombie firms?*
10. **Considering the prominence of non-bank financial institutions (NBFIs) and their increased leverage, in the absence of suitable MPPs for non-banks, it would be advisable to build buffers while close monitoring of NBFIs risks and development of tailored macroprudential tools is underway.** We also note the effects of the pandemic

on the commercial real estate sector with adverse implications for the banking sector and cross-border investment in some jurisdictions. Emerging signs of overvaluations in the sector could pose financial stability risks. It will be likely be necessary, therefore, to maintain the flow of credit and stimulate demand and recovery in the commercial real-estate sector. Strengthening supervision and tightening macro-prudential policies to contain macro-financial risks, will be important. We also note that digitalization and fintech use have accelerated due to the pandemic, across several industries, a trend that is expected to persist during the post-pandemic era. Given the pace and significance of digitalization, it might be worthwhile to highlight the financial sector and cybersecurity risks. *Staff comments are welcome.*

- 11. We agree that EMDEs and LIC frontier markets need to use still favorable financing conditions to improve the composition of their debt structure, and urge the Fund to support efforts to reduce information asymmetry challenges that have elevated the perceived risk premium for countries in regions such as SSA, raising their borrowing costs.** For deeper restructurings, we also urge an effective design and timely implementation of the G20 Common Framework, that will ensure that propitious debt operations including private sector participation can take place without costly delays for countries. We highlight that countries lacking market access will continue to need concessional assistance.

Fiscal Monitor

- 12. Grants and concessional resources will be needed to fill large financing gaps that persist in LIDCs in the face of an extended crisis.** The collapse of revenues following disruptions in economic activity has led to large fiscal deficits. Against this background, financing large deficits remains a daunting challenge amidst limited tax capacity in the context of large informal sectors and low rates of digitalization. While LIDCs are stepping up efforts to boost domestic revenue mobilization, global cooperation also remains critical to address leakages through illicit financial flows and challenges in international taxation (base erosion and profit shifting). The pre-crisis financing gap to meet the Sustainable Development Goals (SDGs) has also been worsened by the pandemic. In the absence of support, the reprioritization of spending from public investment projects towards pandemic related needs is undermining the infrastructure development needed to strengthen the business climate and draw private investments required to advance progress towards SDGs.
- 13. In the wake of the COVID-19 pandemic, policymakers in LIDCs face the delicate task of balancing risks from large and growing public and private debt against those from premature withdrawal of fiscal support, which could slow recovery and exacerbate poverty and inequality.** The pandemic has limited access to markets and restricted the ability of countries to increase revenue in the near term, resulting in the continued rise in deficits and debt levels. While fiscal adjustment efforts can contribute to debt reduction; debt relief and restructuring remain critical to minimize the likelihood of distress. Countries, therefore, rely on successful and effective outcomes from restructurings that will happen under the G20 Common Framework.

14. **Amidst the uncertainty over the duration of the pandemic – especially in developing regions where vaccines remain limited, saving lives remains a key priority.** We, therefore, welcome the Fiscal Monitor’s broad policy messages of ensuring that fiscal policy actions remain flexible and supportive of health systems, vulnerable households, and viable firms. That said, careful thought should be given to the way forward, as weaning off some beneficiaries from expanded and donor-funded social support programs that cannot be sustained without international support, could risk triggering social unrest in some countries.

15. **We concur on the need to better target and tailor support measures to countries’ administrative capacity.** This calls for added efforts to boost the institutional capacity building needed to ensure efficient delivery of public services. For LICs with little or no fiscal space, whilst the primary focus is on preserving lives and livelihoods, continued efforts to use resources in an efficient and accountable manner remain important. Enhancing public investment efficiency will also help improve public investment-to-GDP ratios that were already declining before the pandemic. Fiscal support should continue to benefit vulnerable households and firms while ensuring that highly profitable firms are appropriately taxed. Where fiscal space allows, green investments and digitalization can bolster growth.