SU/20/48

STRICTLY CONFIDENTIAL

April 9, 2020

The Chair's Summing Up
World Economic Outlook; Global Financial Stability Report; Fiscal Monitor
Executive Board Meeting 20/37
April 7, 2020

Executive Directors broadly shared the assessment of the global economic outlook, risks, and policy priorities. They agreed that the outlook is dominated by the global health crisis from the COVID-19 pandemic, and the extreme uncertainty about its course, intensity, and impact. The expected sharp contraction of the global economy in 2020 is likely much worse than during the 2008–09 global financial crisis (GFC), as a significant portion of the global economy has been shut down. Directors noted that the projected global recovery in 2021 is predicated on the pandemic fading in the second half of 2020 and the effectiveness of policy actions to contain its economic fallout.

Directors agreed that, amid the exceptionally large degree of uncertainty, risks of a worse outcome predominate. Some Directors indicated their interest in additional scenario analysis, including possibly more positive developments than assumed in the baseline projections. Directors observed that the economic fallout depends on factors that interact in ways that are hard to predict, including the pathway of the pandemic, the intensity and efficacy of the necessary containment efforts, the extent of supply disruptions, and the repercussions of the substantial tightening in global financial conditions. As a result, many countries face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, and capital flow reversals. For many low-income developing countries, the challenges have been compounded by high and rising debt levels, capacity constraints, and a collapse in commodity prices.

Directors agreed that effective policies are urgently needed to forestall worse outcomes. The immediate priority is to reduce contagion and protect lives, especially by fully accommodating additional health care expenditures to strengthen the capacity and resources of the health sector. Economic and financial policies will need to focus on supporting vulnerable people and businesses, safeguarding the financial system, and reducing scarring effects from the unavoidable severe slowdown. Directors emphasized that these supporting measures should be scaled back gradually and flexibly as the pandemic fades. Once containment measures can be lifted, policy focus will have to shift to securing a robust recovery while ensuring debt overhangs do not weigh on activity over the medium term.

Directors acknowledged that the pandemic has elevated the need for fiscal policy action to an unprecedented level. They noted in particular the need for large timely, temporary, and targeted fiscal support lifelines to protect the most-affected people and viable firms, including government-funded paid sick and family leaves, cash or in-kind transfers, unemployment benefits, wage subsidies, tax relief, and deferral of tax payments. Good governance, including transparency in budget execution and communication, is crucial to manage fiscal risks and maintain public trust. Most Directors acknowledged that broad-based, coordinated fiscal stimulus will be more effective in boosting aggregate demand during the recovery phase, mindful of the need to preserve sound public finances and debt sustainability.

Directors welcomed the extraordinary actions taken by many central banks to ease monetary policy, provide ample liquidity to financial institutions and markets, including through enhanced U.S. dollar swap lines, and maintain the flow of credit to households and firms by setting up emergency facilities. They noted that authorities could consider extending these measures to a broader range of market segments. Some Directors also called for an extension of swap lines to provide foreign currency liquidity to a broader group of countries, and a few encouraged utilizing regional financing arrangements. Directors considered that, as banks generally have larger capital and liquidity buffers now relative to the GFC, they should be encouraged to use the existing buffers to absorb losses and prudently re-negotiate loan terms for firms and individuals, using the flexibility within existing regulatory frameworks. Any regulatory relief would need to be reassessed once conditions permit.

Directors noted that the pandemic also triggered a record reversal of portfolio flows from emerging and frontier markets. They recommended, where feasible and appropriate, allowing exchange rates to act as a shock absorber, and intervening in foreign exchange markets as needed to reduce excessive volatility and ease liquidity constraints. Macroprudential measures, and in near-crisis situations, temporary capital flow management measures may be necessary as part of the policy package and should be phased out as global financial sentiment recovers. Sovereign debt managers should also develop contingency plans to deal with limited access to external financing.

Directors underscored that both the containment and recovery will also require strong multilateral cooperation to complement national policy efforts. Global cooperation is essential to address shared challenges, especially to channel aid and medical resources to countries with weak health systems, and help financially constrained countries facing twin health and funding shocks. Directors noted that multilateral cooperation is also necessary to ensure a strong global financial safety net and better access to international liquidity across countries. They stressed the critical role for the IMF in supporting its member countries, in collaboration with other international financial institutions. Directors welcomed the IMF’s crisis response package, in particular the enhancement of the emergency financing toolkit, provision of debt service relief for the poorest members, and fund-raising for the Catastrophe, Containment and Relief Trust.