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STRICTLY CONFIDENTIAL

September 28, 2020

Statement by Mr. Mahlinza, Ms. Mannathoko, Mr. Odonye, Ms. Maidi, Mr. Nakunyada, and Mr. Sitima-wina on World Economic Outlook; Global Financial Stability Report; Fiscal Monitor
(Preliminary)
Executive Board Meeting
September 30, 2020

1. We thank staff for the comprehensive set of reports, which provide a detailed assessment of the state of the global economy as well as the setbacks occasioned by the COVID-19 pandemic. Notwithstanding the nascent signs of recovery, the severe impact on the global economy and scaring suggest a longer path to the pre-pandemic growth levels.

World Economic Outlook (WEO):

2. **We positively note a slight upward revision of the 2020 growth forecast from -4.9 percent in June 2020 to -4.5 percent, reflecting signs of a partial global recovery**. Nonetheless, we recognize that the outlook is subject to significant downside risks. The WEO notes that infection rates remain high, especially in emerging and developing economies (EMDEs) and rightly acknowledges numerous risks including, the possibility of a resurgence of the virus, uncertainty regarding the length of the pandemic, the extent of global spillovers from soft demand and possible changes in financial market sentiment. Given this uncertainty, we remain cautious about the outlook as the crisis in some advanced economies (AEs) and parts of the EMDEs is still unfolding. Further, international travel, which is an important indicator of consumer confidence, remains subdued, including under the upside scenario. The report also paints a bleak picture characterized by rising unemployment and sharp increases in global poverty and inequality. While we welcome the balanced view of forecasts provided under the two scenarios, *staff comments on a possible optimism bias are nevertheless welcome.*

3. **We agree with the near-term policy actions needed to boost productivity growth to support recovery and build economic resilience.** In this regard, we welcome the robust policy responses implemented by the authorities to contain the socio-economic fallout from the pandemic. Further, we concur with the report on the need to strike the right

balance between health and economic policies. We caution against the premature withdrawal of policy support which could undermine recovery and growth. At the same time, we welcome the emphasis on the need to address elevated debt levels and restore debt sustainability, while safeguarding critical social spending to avoid further erosion of gains made on poverty, inequality, and human capital development. Looking ahead, we underscore the importance of striking an appropriate balance between policies that cushion the impact of the pandemic on the economy, while supporting the gradual implementation of structural reforms necessary to anchor a sustainable and green recovery and ensuring financial stability.

4. **We welcome the detailed analysis of the economic effects of the lockdown and the findings of a disproportionate impact on vulnerable households and economies with high levels of informality**. Due to weaker social safety net programs in developing countries, the vulnerable population tends to ignore social distancing rules as they strive to survive, which exposes them to additional health risks. In contrast, AEs have more robust health infrastructure and more policy space to provide social benefits and support teleworking. Moreover, residents in these societies can tap into personal savings to help address constraints during the early stages of the pandemic. These differences have important implications for the design of policy responses in developing and advanced economies. The report also notes the uneven effects of the lockdown across population groups, including lower income households, minorities, immigrants, women, and youths. We, therefore, support the call for targeted policy interventions, in particular to support women, and young workers who rely on informal or temporary jobs, to moderate the widening of the income inequality gap.

5. **We broadly agree on the need for multilateral cooperation, particularly in global trade and access to the vaccine to boost recovery.** In this regard, we underscore the importance of the IMF's continued support to promoting free trade. We also concur on the need for multilateral cooperation to support health care systems, development of a vaccine as well as assistance to financially constrained countries, in particular the low-income countries (LICs). Further, we agree with the sentiment that multilateral cooperation is needed to defuse trade and technology tensions between countries and address gaps in services trade rules once the crisis abates.

Global Financial Stability Report:

6. **We broadly share the thrust of staff's analysis on the near term global financial stability risks and policy priorities for subsequent phases of the COVID-19 crisis.** We note that the decisive and swift actions by major central banks have eased global financial conditions and stabilized key markets. Reflecting the impact of the policy actions taken to sustain the flow of credit to the economy, near-term global financial stability risks remain contained, while risky assets have rebounded owing to improved investor sentiment. Nevertheless, we remain concerned that global financial vulnerabilities stemming from rising corporate and household indebtedness could morph into insolvencies and undermine market stability. Considering the widespread defaults and bankruptcies, we call for vigilant monitoring of corporate debt and related financial vulnerabilities. Relatedly, we impress on the need to restructure debt to non-viable firms,

as well as credible plans to reduce problem assets. To mitigate financial vulnerabilities, policy efforts should also be directed towards maintaining accommodative monetary policy to support economic activity until the monetary objectives are achieved while keeping inflation in check.

7. **We commend banks for building strong capital buffers that have helped weather the impact of the COVID-19 shock**. Nonetheless, we observe the tail risks that could lead to sizeable capital erosion in several economies. As such, we call for decisive measures to support bank capital and prevent further widening of capital shortfalls. We are also concerned that the risks from fragilities in the non-bank financial sector (NBFS) may further accentuate capital erosion. High leverage and the growing reach of non-banks, including in riskier segments of credit markets, should be carefully monitored, as it has the potential to transmit risks to the entire financial system. Against this backdrop, we call for efforts to strengthen the regulatory framework for non-banks and intensify prudential supervision to moderate excessive risk taking particularly in a low interest rate environment.

8. **The rise in global public debt to historic levels, on the back of fiscal stimulus packages adopted to tackle the COVID-19 pandemic, also carries financial stability risks.** We note that EMDEs are likely to face greater debt challenges with feedback loops on the risk premium and financing costs. Given the sizeable bank holdings of sovereign debt in some systemically important jurisdictions, the nascent recovery in portfolio flows to some EMDEs with strong fundamentals may unravel. Further, we note that most emerging market and frontier economies have experienced capital outflows over the past three months and may face external financing challenges and high rollover risks going forward. *Could staff elaborate on the key drivers of the continued portfolio outflows?*

Fiscal Monitor:

9. **The Fiscal Monitor notes that the pandemic has exposed major differences in the ability of countries to finance the emergency spending needed to protect lives and livelihoods.** In this context, we broadly welcome the fiscal policies outlined in the report that recognize the varied challenges in different country groupings. For many low-income and developing countries including those at high risk or in debt distress, financing constraints have been binding; and while countries received emergency support, financing gaps remained. At the same time, efforts to enhance domestic revenue mobilization have been compromised by the disruption in economic activity.

10. **Given limited fiscal space, we see merit in countries assessing the benefits, costs, and risks of different policy support measures, before deployment.** At the same time, we underscore the need to ensure full transparency and good governance before deployment of scarce fiscal resources. For LICs with little or no fiscal space, whilst the primary focus is on preserving lives and livelihoods, we encourage the efficient and accountable use of resources – including those from the international community. In this context, meaningful investment in infrastructure to support growth and Sustainable Development Goals (SDGs) can be made with scaled up support from the international community.

11. **We are in strong support of a toolkit of flexible fiscal measures to navigate lockdowns and tentative reopening, and to facilitate a post pandemic transformative recovery.** In this context, we welcome the roadmap of fiscal policies for different phases of the crisis. In particular, we underscore the importance of universal access to affordable and effective vaccines and treatment. Concerted global efforts are therefore required, to avoid further marginalization of poorer regions and a worsening of the human and economic costs of the pandemic.

12. **We concur that the pace of adjustment should be informed by country specifics in view of the varying depths of recession, poverty, unemployment and access to finance.** In this context, we encourage further analysis to inform policy advice and the sequencing of interventions. Once the pandemic is brought under control, countries with limited fiscal space would need additional official financial support and debt relief. To enable growth, countries need to protect public investment as well as transfers to lower income households, while ensuring that highly profitable firms are appropriately taxed and base erosion and phantom FDI challenges are addressed. *In this regard, could staff comment on progress with the international corporate taxation agenda including work on measures to limit impacts on low-income developing countries?*

13. **On public investment and growth, the fundamental issue for our region will be the sources and options for financing to support the recovery and related infrastructure development projects.** As the report notes, in most developing countries infrastructure investments have not kept up with needs, and public investment-to-GDP ratios were already declining before the pandemic. We, therefore, strongly support the need for a global response to this investment need, in order to avert a sustained decline in the wake of the pandemic and to help regenerate growth, reverse scarring and avoid significant reversal of progress under SDGs. We welcome the conditions presented for investment scaling up, especially the need to have a pipeline of carefully appraised projects which could be selected for financing and implemented within 24 months. We see merit in continued capacity building, including on the Fund's public investment management assessment (PIMA) framework.