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Statement by Mr. Mouminah, Mr. Alkhareif, Mr. Keshava, Mr. Abalala, Mr. Rawah, and Ms. Alzamel on World Economic Outlook; Global Financial Stability Report; Fiscal Monitor
(Preliminary)
Executive Board Meeting
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We thank staff for the comprehensive set of flagship reports, and we reiterate our call to maintain the focus of Fund work on the most pressing issues pertaining to the COVID-19 crisis. We would like to raise the following points.

World Economic Outlook

1. **We welcome the upward revision of the global growth projection for 2020, mainly reflecting better-than-anticipated Q2 GDP outturns.** However, uncertainty remains high and growth across countries remains uneven given the wide differences in the pace of recovery. Using scenario analysis is particularly useful in this uncertain global environment, and we thank staff for the analysis in Box 1. *Since COVID-19 shock has adversely impacted economic activity and labor-force participation across economies, could staff comment on the structural impact of the crisis, including on consumer behavior as well as de-urbanization trends driven by many firms' decision to move away from commercial properties in large urban centers?* Separately, we take note of the PPP revision in Box 1.1, which has impacted the calculation of aggregate growth rates. Notably, global growth is expected to be slightly lower because of the reduction in the relative weight of the fastest-growing regions. *Can staff comment on their communication plan about the updated PPP weights and its global growth implications?*

2. **It is concerning that the crisis has reversed the progress in alleviating global poverty in the past few decades and will increase inequality.** Unlike the GFC, the job

losses during COVID-19 crisis have been concentrated among low-skilled labor. As rightly pointed out in Chapter 2 of the WEO, the effects of lockdowns have been uneven, with larger impact on the mobility of women and younger cohorts. With the expected income losses, poverty is projected to rise significantly. Moreover, the high informality in the labor market and low coverage of social protection programs remain a key policy challenge in many countries especially LICs. Under the Saudi G20 Presidency, a strong focus has been put on policies that enhance access to opportunities for all, especially for women and youth. Particularly, the Saudi G20 Presidency aims at enhancing efforts to create high quality jobs and adapt to the changing patterns of work resulting from this crisis and technological progress while ensuring adaptability of social protection schemes to these changes. To this end, the G20 has recently developed a **Menu of Policy Options** that countries can draw from to enhance access to opportunities for all. We encourage staff to reference this menu in the flagship reports given its high relevance to the Fund work and its importance to other members during this crisis.

3. **We cannot overemphasize the need to pay closer attention to the mounting debt vulnerabilities.** The COVID-19 crisis has significantly worsened fiscal positions and public debt is expected to increase significantly in many countries, including LICs. In this connection, the G20 under the Saudi Presidency has launched its Debt Service Suspension initiative (DSSI) to free up fiscal resources for the poorest countries during this crisis. A time-bound extension is under consideration to ensure that the countries continue to receive the needed liquidity support. The Fund has a key role to play in this area by catalyzing global cooperation and providing the necessary support to foster greater private sector participation in the DSSI. We urge the Fund to focus its efforts on fostering debt sustainability, including by expediting its work on the multi-pronged approach in collaboration with the World Bank. as increasing number of countries will face daunting debt-sustainability challenges. In particular, the Fund should step up its support by providing more tailored-policy advice and capacity development particularly in debt management. We also look forward to timely completion of the ongoing reviews of the Debt Sustainability Analysis for Market Access Countries and the Debt Limits Policy.

4. **We broadly share staff's views on the policy priorities.** We concur that the immediate dual priority is to ensure adequate resources for healthcare systems and to limit the economic damage. At the same time, fiscal space is limited in many countries and policymakers are faced with difficult tradeoffs. Here, we agree that fiscal rules should be relaxed where they may constrain action to achieve a more inclusive and durable recovery. As economies recover, public and private investments should be geared toward boosting productivity and inclusiveness, including of women and youth .

5. **Strong multilateral cooperation is paramount to resolve the health crisis and ensure lasting economic recovery.** Indeed, further global cooperation is needed to develop affordable treatments and vaccines that can be distributed worldwide. The Saudi G20 Presidency is determined to support the global efforts to fight the health and economic crisis. More recently, the G20 Finance and Health Ministers issued a joint statement on the COVID-19 response, in which they emphasized the importance of taking forward their collective action to accelerate the research, development, manufacturing and distribution of COVID-19 diagnostics, therapeutics and vaccines, including through the Access to COVID-19 Tools Accelerator (ACT-A) initiative and its COVAX facility and voluntary licensing of intellectual property. The aim is to support equitable and affordable access for all, which is key to overcoming the pandemic and supporting global economic recovery.

6. **We encourage the Fund to pursue a more balanced approach on climate change, both in terms of the timing and coverage, as well as to enhance collaboration with other international organizations (IOs) that have the right expertise in this area.** Here, we would like to stress the following points:

- **Timing:** While we strongly support the global efforts on climate change, including through the Saudi G20 Presidency which puts climate change on top of its agenda, we feel that the timing in terms of Fund priorities is not right. Almost all countries are grappling with the COVID-19 crisis and rightly focused on fighting the crisis to protect human lives and restore macroeconomic stability. The Fund should spare no efforts to help its members during this crisis by devoting all of its resources (financial and human capital) towards accelerating global recovery and safeguarding financial stability by providing technical analysis and advice in its core areas of expertise that also takes into account country-specific circumstances given the wide differences in countries' responses to the crisis. In this context, we hoped that the Flagship reports, including analytical chapters, would focus only on the COVID-19 crisis rather than on the long-term goal of reducing emissions. This would have given a strong signal that the Fund is fully focused on fighting this crisis to benefit the membership.

- **Coverage:** Given its near-universal membership, we believe that the Fund should take a more holistic approach that takes into account the alternative policy options available on climate change. In this context, we positively note staff's efforts in covering different options beyond carbon taxation. Indeed, it is important that the Fund explores all possible options that include both market and non-market measures. Given the wide differences across countries with regard to their stage of development, we encourage the Fund to carefully examine the implications of its climate-related work and policy advice on its members, especially EMs & LICs. In particular, mitigation is not costless and can prove unaffordable, especially for LIDCs facing resource constraints. The Saudi G20 Presidency is working toward developing comprehensive approaches to manage emissions in all sectors and improving synergies between adoption and mitigation actions.

- **Carbon (taxation) pricing:** We disagree with the call to increase carbon pricing. Carbon pricing is stacked against resource-rich countries, and all negative spillovers from such distortive policy tool should be internalized in our analysis. It is also regressive since the burden falls disproportionately more on LICs and poorer segments of the population, raising serious political economy issues. We encourage staff to further acknowledge the shortcomings of carbon pricing. Instead of carbon taxes, we suggest the Fund to focus on countries' pledges under their "Nationally Determined Contributions (NDCs)" which should be the basis for any action to mitigate climate change. Hence, we ask staff to make the necessary changes in the flagship reports prior to publications (particularly in Chapter 3 of the WEO), to ensure a well-balanced approach toward climate change.

- **Relatedly, we caution the Fund against suggesting "joint action" on a carbon pricing floor among major emitting countries.** We do not see the merit of a carbon price floor at the international level. We believe that it is up to each country to determine how it pursues domestic public policy to meet mitigation pledges considering the short and long-term trade-offs they perceive between alternative national development priorities and budget constraints. In practice, there are many problems in internationalizing national carbon prices, let alone the difficulties in harmonizing national with regional prices.

- **Negative emission technologies** are very important in achieving emission reduction. Regardless of the source (agriculture, livestock, energy, among all other sectors and gases), they transform the emission challenges into vast opportunities that help create jobs, spur innovation, advance growth, and address climate change. We very much welcome staff's reference to the carbon capture and storage. We believe that carbon capture, use and storage (CCUS) can play a key role in achieving prosperity and sustainable development. In particular, CCUS is a central part of efforts to achieve net zero emissions while reliably meeting the energy needs of billions of people for decades to come. Achieving climate goals by closing the loop in a circular carbon economy is an innovative concept that can be explored, and the Kingdom has taken key steps in this area. We recommend staff to take into account the role of technologies in addressing climate change.

- **Diversification:** Relatedly, we encourage staff to reflect in their analyses the diversification efforts by some commodity exporters, including Saudi Arabia, which should help strengthen economic resilience more than envisaged in the report (i.e., Fig. 3.9 in Chapter 3).

- **Collaboration with other IOs:** We strongly encourage the Fund to ensure closer cooperation and coordination with other international organizations that have the right expertise in climate change. For example, we note from Chapter 3 of the WEO that the Fund's estimate of global energy subsidies in 2015 was $5.3 trillion, based on Coady & others (2015). However, in the same year the World Bank, which has much greater expertise on climate change issues, estimated that the global cost of energy subsidies was $500 billion (Kojima and Koplow (2015)). According to the IEO, the presentation of different numbers created confusion among stakeholders, reducing the joint impact of the two products. We therefore ask staff to report the World Bank estimate in Chapter 3 as well. In addition, many countries have implemented bold energy price reforms since 2015, we see merit in acknowledging such efforts and drawing on the key lessons learned in Chapter 3.

Global Financial Stability Report

7. **We are reassured that near-term global financial stability risks have been contained.** We also take positive note that the global banking system is well capitalized. However, vulnerabilities are rising as the economic impact of the COVID-19 shock is still unfolding, especially in the nonfinancial corporate sector where firms have been accumulating higher debt. In particular, we agree that corporate liquidity pressures can morph into insolvencies, especially if the recovery is delayed. Hence, policymakers should remain vigilant and put in place adequate safeguards to preserve financial stability. We note staff's work on the near-term growth forecast densities, which shows that the deterioration of the global economic outlook has shifted the expected 2020 distribution of global growth deeply into negative territory. In addition, the impact of the crisis has disproportionately burdened the contact-intensive sectors, especially SMEs. Therefore, we encourage staff to

deepen our research in this area, especially given the importance of these sectors for job creation and economic growth. We welcome staff analysis in Table 1.1 on the monetary and financial policy roadmap throughout the pandemic's different phases. It is also encouraging to note that capital flows to emerging markets have resumed.

8. **We welcome the detailed analysis in Chapter 2 on the Asset purchase programs (APPs) and the local stress index.** We take positive note of the findings that APPs have been effective in reducing bond yields and have not contributed to currency depreciation or immediate financial stability risks. *Here, could staff elaborate on the reasons why APPs have been relatively slow in reducing broader domestic bond market stress?* We encourage further research in this area, including by conducting detailed cost-benefit analysis that countries can utilize when considering the application of unconventional monetary policies. Separately, we are encouraged by the finding that markets are not pricing in a significant risk from DSSI participation, despite concerns about possible negative actions by the credit rating agencies. As rightly pointed out by staff, the initiative is helpful in allowing countries to better weather the outcome of the pandemic, including by freeing up scarce resources to mitigate the human and economic impact of COVID-19. The potential DSSI extension should have positive impact on investors' confidence and economic activity.

Fiscal Monitor

9. **We are encouraged by the swift and sizable fiscal actions taken to address the COVID-19 pandemic**. We concur that fiscal policy should be used flexibly to provide the needed support for health-related priorities and provide lifelines for households and firms during this challenging period. We underscore the critical role that fiscal measures can play to support the recovery, and we caution against premature withdrawal of fiscal support, especially for the most-affected households and firms. Particularly, sufficient resources should be devoted to the healthcare systems and social safety nets throughout the recovery phase. We note staff's analysis in Table 1.3 about the roadmap for fiscal policies during the different phases of the pandemic. Public investment should focus on enhancing inclusiveness and increasing productivity, with more emphasis on job creation. Investment in digital infrastructure is critical in this regard, where it can help improve connectivity and digitalization of economic activity, including among SMEs.

10. **We welcome the analysis on fiscal multipliers in the COVID-19 crisis and recovery.** We take note of staff's finding that fiscal multipliers tend to be higher during recessions and in countries with fixed exchange rate regimes. *While we understand that in normal times public investment has larger short-term multipliers than public consumption,*

taxes, or transfers, we wonder if this finding will hold during this health crisis. One would expect that in the short-term cash transfers or wage subsidy programs would lead to higher multipliers given the immediate boost to spending power. The sizable upward revision in the WEO forecasts for a number of AEs probably indicate that the multipliers from such programs are very high. Staff comments are welcome. We agree with staff that initial conditions and the unique nature of the COVID-19 crisis should be taken into account, especially the level of public debt. Staff pointed out that fiscal multipliers will be lower in phase 2 of the pandemic than in phase 3 due to supply constraints associated with social distancing policies. In this context, we see merit in providing more granular analysis about fiscal multipliers in phase 2, particularly on which policy levers would lead to the highest positive impact on economic activity. *Does FAD envisage providing such analysis in the near future given its high relevance to many countries? It could be part of the IMF Special Notes on the COVID-19. We invite staff to comment.*

11. **Finally, we take note of staff's estimates for public investment for climate change adaptation.** We agree with staff that building protection and strengthening physical assets are key to address the natural disasters and climate change risks, thereby making progress toward the Sustainability Development Goals (SDGs). We note the increase in estimated costs of adaptation, particularly for LICs and small states. It is therefore important that developed countries provide adequate financial resources to assist developing countries given their significant financial constraints. The Fund's analysis on LICs could take this issue into consideration going forward.