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STRICTLY CONFIDENTIAL

September 28, 2020

Statement by Mr. Beblawi, Mr. Geadah, Ms. Abdelati, Ms. Choueiri, and Ms. Merhi on World Economic Outlook; Global Financial Stability Report; Fiscal Monitor (Preliminary)
Executive Board Meeting
September 30, 2020

World Economic Outlook

1. We thank staff for an insightful set of reports that will guide the discussions on the global outlook and key messages on policies in the upcoming Annual Meetings. The membership is facing an exceptional crisis not seen in nearly a century. Bold fiscal, monetary and other policy measures were undertaken to mitigate the impact of the pandemic and have yielded positive results, reflected in the upward revisions to the forecast. Nevertheless, the outlook remains uncertain, although many countries have relaxed the more stringent containment measures, and it is likely to be an uneven and slow recovery path for many countries, with possible setbacks. While the significant upward revision, compared to the WEO's June update, is a welcome development, it suggests that we had not sufficiently taken into account country specific circumstances, and there was too much emphasis on projecting recessions of similar magnitude across country groups.

2. We recognize the heightened uncertainty surrounding the baseline projection and appreciate staff providing the additional upside and downside scenarios. We agree that social distancing will need to continue into 2021, and at least until a vaccine is widely available. The WEO assumes that the acute stage of the pandemic would not end before end-2022, and that there will be only limited progress toward catching up to the pre-pandemic path of economic activity for 2020-25 for advanced economies, as well as EMDCs. In this regard, *we would welcome staff comments on the extent of differentiation between countries, and what are the characteristics of countries that are more likely to return to that path?*

3. The impact on productivity and the adjustment costs can be significant. Sectoral reallocations may be necessary as health issues are not yet resolved, and some sectors are

more severely impacted, notably the tourism, entertainment, and other service sectors. Meanwhile, sustaining lifelines remains a necessary interim step to limit economic scarring, workers' exit from the labor force, and bankruptcies of viable firms. We agree with staff that the pandemic will compound forces that have earlier dragged productivity growth in some economies.

4. We broadly support staff's outlined policy priorities for the near- and medium-term, and the inherent challenges. Supportive monetary and fiscal policies must continue to limit economic scarring. However, many countries will be facing difficult tradeoffs between implementing measures to support growth and the further buildup of debt. We agree that the focus should be on tax and spending measures that are more likely to lift potential growth, and to the extent possible on infrastructure projects that also help move the economy to lower carbon dependence. Social spending will also need to be sustained or increased to ensure the health system can cope with the demand and to protect the most vulnerable.

5. The setback to poverty reduction and rising inequalities are of special concern, and that the progress made since 1990s might be reversed. The impact on human capital accumulation would also have important repercussions for future productivity and growth. This could be a good topic for the next WEO, to look at how countries have responded by expanding their social safety net, with durable productivity-enhancing reforms.

6. Multilateral cooperation is key to safeguard the road to recovery of the global economy. It is particularly important to maintain trade channels, diffuse trade and technology tensions, and to address rising debt vulnerabilities. Many LICs will need additional support from the international community through debt relief. We also support the WEO/GPA call for greater multilateral collaboration to deliver vaccines on a global scale, particularly to LICs with limited financial and institutional capacities. The idea of advance purchase commitments at the global level to incentivize the scaling up of productions is a welcome one, and *we would be interested to hear if this is taking place.*

World Economic Outlook Analytical Chapters

7. Drawing lessons from the pandemic response is a useful research avenue, it is timely and relevant, and we trust these will continue for some time. Staff makes a convincing case that lockdowns should be considered alongside with voluntary social distance practices. Until the infections are brought down, countries will need to continue to cushion losses for people and firms. Where sectoral reallocations seem necessary, retraining and reskilling will need to be pursued as targeted support is withdrawn.

8. In line with the call for a greener recovery, staff's analysis in Chapter 3 reviews a key global challenge to reduce carbon emissions. In addition to previous proposals for carbon pricing, we welcome the proposal to increase green investments and know these are being

pursued in some countries even as they face fiscal constraints in this environment. This is an area where joint action by the largest carbon emitters is of the highest importance.

Global Financial Stability Report

9. We appreciate the rich work presented in the *October* 2020 *Global Financial Stability Report*. We note the report's finding that short-term global financial stability risks have been contained on account of unprecedented policy responses in advanced and emerging markets economies. Nonetheless, vulnerabilities have increased; in some sectors—asset management, non-financial firms and sovereigns—representing potential headwinds for the recovery. The monetary and financial policy roadmap presented in the report is reasonable, and we support staff's view that as economies reopen, accommodative policies will be essential to sustaining the recovery. Chapter 5 appropriately stresses the need for climate policies and green investment packages to support a green recovery and the transition to a low-carbon economy.

10. Chapter 2 notes that many emerging markets used foreign exchange intervention effectively as a short-term shock absorber. The chapter introduces a new *local stress index* and suggests that unconventional monetary policy measures that were adopted in many emerging market countries in response to the crisis were effective. Particularly, asset purchase programs, adopted in eighteen central banks, were successful in helping lower government bond yields and eventually reduce market stress. The sterilization of the purchases in many cases also prevented an exchange rate depreciation. Going forward, we see scope for asset purchase programs to become part of the policy toolkit of emerging markets central banks, as needed. Staff outlines a series of potential risks associated with asset purchase programs, should they be used beyond the current pandemic situation (¶21). We look forward to further assessment of lessons from experience with asset purchase programs, including country authorities' feedback, in the context of bilateral IV consultations. Emerging and frontier markets face financing challenges that may lead them into debt distress or financial instability and may require official support.

11. The deterioration in economic conditions during the crisis has already led to the highest pace of corporate bond defaults, since the global financial crisis, and there is a risk of a broader impact on the solvency of companies and households. SMEs are more vulnerable than large firms in terms of access to capital markets. Against this background, supervisors and regulators face a delicate balance between contributing to support firms and individuals that are temporarily affected by the pandemic and ensuring that financial stability is maintained. While maintaining financial stability will be challenging as the crisis unfolds, it is essential to sustain a sound and healthy financial system, and, thus, to preserve internationally agreed standards. We support the Fund's continued active engagement in the Standard Setting Bodies' work, notably through monitoring and assessing risks to financial stability and supporting policy implementation through FSAPs and technical assistance. We agree with staff that the post-pandemic financial reform agenda needs to focus on

strengthening the regulatory framework for the nonbank financial sector and stepping up prudential supervision to contain excessive risk taking in a lower for longer interest rate environment.

Fiscal Monitor

12. **We welcome staff's analysis and policy recommendations in this Monitor, which reviews the effectiveness of fiscal responses and offers a recovery roadmap from the COVID-19 crisis that has prompted an unprecedented fiscal stimulus amounting to 12 percent of global GDP.** Governments are doing "whatever it takes" to mitigate the impact of this crisis and protect lives and livelihoods. We appreciate the note that fiscal policy should be tailored to different phases of the pandemic. Countries in our constituency have been severely impacted by the COVID-19 pandemic, and the fiscal response has been swift and focused on mitigating the economic and social impact of the crisis.

13. **We acknowledge that the unprecedented fiscal response to the pandemic has led to a surge in public deficits and are not surprised that global public debt is now projected to approach 100 percent of GDP**. While some advanced economies have substantial fiscal space for the necessary fiscal stimulus, many emerging markets and developing countries are experiencing financing constraints and were already struggling before the COVID-19 crisis. We recognize the need to resume fiscal adjustment and return to a prudent trajectory for debt sustainability once the crisis abates, while continuing to support the recovery.

14. **Many low-income and fragile countries are in a very difficult position. They do not have the fiscal space to address the added challenges created by the pandemic and will need financing help from bilateral and multilateral donors**. In this context, we welcome the G20 Debt Service Suspension Initiative (DSSI) and its aim to allow IDA countries to concentrate their resources on weathering the impact of COVID-19. We also welcome the effort by the IMF and WBG in supporting the implementation of the DSSI. The debt relief, being provided by the IMF through the Catastrophe Containment and Relief Trust, is very important in order to meet increased financing needs associated with the pandemic. However, more needs to be done to prevent a large rise in poverty and income inequality, and as the paper rightly mentions "fiscal policy will have to deliver more with less." Moreover, we should also be mindful of the countries that continue to host refugees and displaced populations, and that are witnessing mounting fiscal pressures on their already strained budgets and facing financing constraints. In these countries, the international community should continue its efforts to scale-up concessional financing to strengthen host countries economic and social resilience and help meet immediate needs and access to basic rights.

15. **After the crisis is contained, we agree with staff that governments will need to foster the recovery while addressing the legacies of the crisis, including elevated private and public debt levels, high unemployment, and rising poverty**. We welcome the discussion in Chapter 2 on the appropriate role of public investment in fostering the post-pandemic recovery, creating jobs, and increasing productivity. We are of the view that post-pandemic policies should focus on tackling poverty, ensuring sustainable growth, and building resilience against future shocks. We concur with staff that spending on digital infrastructure would be essential to narrow the disparities to access information, education, and job opportunities. Finally, new investments in healthcare, social housing, and environmental protection would lay the foundation for a more resilient and inclusive economy.