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Statement by Mr. Mojarrad, Mr. El Qorchi, Mr. Ahmed, Mr. Badsi, and Mr. Nadali on World Economic Outlook; Global Financial Stability Report; Fiscal Monitor (Preliminary) Executive Board Meeting September 30, 2020

World Economic Outlook

The COVID-19 pandemic will leave deep economic and social scars. The economic and social divides that existed before the crisis—particularly income and gender inequality—have been compounded by the crisis. The crisis would have been much deeper had it not been for the preemptive, aggressive and synchronized policy response, mainly by the leading economies with the support of international institutions including the Fund.

While signs of optimism are emerging, it is important to bear in mind that the pandemic is still evolving, and its path is still uncertain and depends on the prospects of developing a safe and effective vaccine. The possibility of a strong second wave of the pandemic should not be underestimated, and complete lockdown may not be politically feasible. Considering these uncertainties, staff's "upside" and "downside" scenarios are reasonable. *Has staff considered an even worse scenario consistent with a serious second wave and all out lockdowns?*

Containing the pandemic is still of a highest priority. While the focus has been on developing and manufacturing a safe vaccine, less attention has been paid to its global distribution, accessibility, and affordability. Since no country is safe if the virus is spreading, external financial and logistical support will be critical to ensure that the vaccine is available widely, including for poorest countries. In this context, restrictions on trade and payments related to essential medical supplies are incomprehensible. We believe that multilateral cooperation is the most effective way to prepare for the next global health crisis.

Mitigating the economic and financial fallout entailed a large fiscal cost and a significant rise in indebtedness. The lockdowns and safety measures have been instrumental in the fight against the virus (Chapter 2), but it is important that reopening of the economies is carefully planned. Fund staff is expected to play an important role in advising members on unwinding the emergency measures and putting in place policies consistent with long-term growth, and fiscal and debt sustainability.

Moving beyond the immediate crisis, we agree with staff on policy priorities: putting back the economy on a durable growth track, protecting the vulnerable, addressing economic and social inequalities, and building up human capital. In AEs, the challenge is to enhance potential growth, reallocate resources efficiently, and ensure that future economic gains are shared evenly.

The challenges faced by EMs and DCs vary considerably across countries. Ensuring market access is one of the key priorities for EMs. DCs, and especially LIDCs many already burdened by high debt, are facing formidable challenges that they cannot overcome on their own. The pandemic has particularly hit hard countries highly dependent on tourism and inward remittances, and has created a new wave of economic migrants. In addition, the high level of informality in some countries has increased poverty as large segments of the population are outside the coverage of government support. Debt relief, timely and adequate provision of grants, and concessional financing are the lifeline of these countries' recovery, poverty alleviation, and economic development. The Fund has also an important role to play by providing financial support and policy advice.

The pandemic and the sharp collapse of international oil prices sent a double-shock wave through oil exporting countries, causing significant economic downturn and a sharp rise in their twin deficits. They interrupted their diversification efforts, with ripple effects on countries reliant on them for trade, tourism, and remittances. The strong collective response of OPEC+ countries in the early stages of the crisis helped to stabilize the oil market and sustain its partial recovery. *In Chapters 1 and 3, OPEC and OPEC+ have been used interchangeably with "fossil fuel producers". We request staff to make this distinction clear.*

Global cooperation in trade and technology has lifted hundreds of millions out of poverty in the past few decades. We urge all members to support a rules-based multilateral trading system, and the leading economies to resolve their bilateral trade and technology frictions, for the good of the world economy and of all its citizens.

Global Financial Stability Report

We are broadly in agreement with the GFSR assessment of the global financial conditions, outlook, risks, and policy priorities as well as the suggested monetary and financial policies roadmap after the Great Lockdown. We concur that countries suffering from pre-existing financial fragilities will face headwinds for recovery.

We note positively that the near-term global financial stability risks have presently receded. We welcome the extraordinary actions taken by many central banks to ease monetary policy, and provide ample liquidity to financial institutions and markets. We also welcome the flow of credit to households and firms by setting up emergency facilities. The considerable easing of financial conditions since late March has prevented a financial crisis and cushioned the economic impact of the pandemic. However, while aggregate portfolios have recovered from their March lows, about half of EMs continue to experience capital outflows.

Increased vulnerabilities in the nonfinancial corporate sector, due to rising firms' indebtedness, have intensified financial stability concerns in many countries. Premature withdrawal of policy support could jeopardize the success achieved so far in broadly meeting the nonfinancial corporate sector's liquidity and funding needs.

As noted in the GFSR (Chapter 3), the pace of recovery is likely to be uneven across sectors and countries. As the crisis unfolds, particularly if the recovery is delayed, corporate liquidity pressures may lead to insolvencies and SMEs will be more vulnerable than large corporates with access to capital markets. Banks now generally have larger capital and liquidity buffers relative to the Global Financial Crisis. We would therefore argue that they should be encouraged to use the existing buffers to absorb losses and accept to prudently re-negotiate loan terms for firms and individuals, using the flexibility within regulatory frameworks. Any regulatory relief would need to be reassessed once conditions permit. We agree that bank-specific mitigation policies will help reduce financial stability risks.

The GFSR has noted that many emerging and frontier market central banks used for the first time Assets Purchase Programs (APPs) to ensure the smooth functioning of bond markets and implement accommodative policies in a very low policy rates environment. The apparent success in helping reduce bond yields without risking financial stability—so far—raises a pertinent question of whether APPs should be part of emerging and frontier markets policy toolkit in future as well. *Staff views are welcome.*

We note that the pandemic also triggered a record portfolio outflows from emerging and frontier markets. *In this environment, would staff recommend that central banks allow exchange rate to act as a shock absorber and limit intervention in foreign exchange markets to reduce excessive volatility and ease liquidity constraints? What would be the appropriate timing to phase out macroprudential measures taken during the crisis?*

Fiscal Monitor

Large and timely fiscal actions deployed by many governments, as called for by the April 2020 Fiscal Monitor (FM), have helped save lives and livelihoods, and avert much worse health and economic outcomes in the membership. However, these unprecedented spending and liquidity support measures, amounting to 12 percent of global GDP, combined with a sharp output contraction and ensuing fall in revenues, have exacted a heavy toll on public finances in 2020, as reflected in the 9 percent of GDP surge in average government deficits and a record high global public debt of almost 100 percent of GDP. Fiscal deficit-to-GDP ratio in AEs is over four times higher this year and government debt-to-GDP is projected to reach 125 percent. Fiscal measures and output losses will also give rise to sizable widening of fiscal deficit and increase in public debt in both EMs and LIDCs, many of which face binding financing constraints, with almost half of LIDCs deemed to be in, or at a high risk of, debt distress.

The FM preliminary assessment of the fiscal response to the pandemic reveals that country-specific circumstances have played a key role in the vast variation in size, composition, and scope of discretionary and automatic fiscal support across countries. While fiscal policy actions have been massive in AEs, they have been constrained by financing in many EMs and, especially, LIDCs, which must also deal with large informal sectors. An important lesson learnt is that countries that put in place strong containment measures at an early stage, managed to mitigate overall negative social and economic consequences and ultimately deployed smaller fiscal packages.

We note that health and non-health measures, including cash and in-kind transfers, wage subsidies, unemployment benefits, loans and guarantees, equity injections, tax deferrals, and payment moratoria have served varying objectives and faced different trade-offs. While we agree that overextended job retention schemes and overly generous unemployment benefits could both delay the necessary job reallocations, we wonder which of these two schemes is preferable, including in terms of the eventual smaller adverse impact on the unemployment rate, if country circumstances allow for a choice to be made between the two. *Staff comments are appreciated*.

A toolkit of flexible fiscal measures to navigate through containment, stabilization, and recovery phases of the pandemic is needed, while ensuring that all pandemic-related fiscal measures are transparently deployed, adhere to good governance standards, and are fully costed. We agree that the scope for stimulus or the appropriate pace of fiscal consolidation depends on country-specific circumstances. Fiscal roadmap for the recovery rightly prescribes the use of all available tools during the containment phase, a more selective government support for viable or strategic firms during the stabilization phase, and supporting growth while ensuring debt sustainability, including by unwinding government interventions in the corporate sector, during the recovery phase.

We note with concern the setback imposed by the pandemic in the LIDCs' plans to achieve the 2030 SDGs and call on the international community to provide increased development aid and debt relief to help LIDCs achieve their adjustment and growth objectives and alleviate hunger and poverty.

Regarding climate change challenges, we support continued staff research on their economic costs. We also encourage staff to assist member countries in designing policies that mitigate their impact as part of bilateral surveillance. While little of the response to the COVID-19 shock to date has been *green*, we agree that the recovery from the current pandemic provides an opportunity to move away from the pre-crisis growth model regarding climate change and invest in a green and sustainable future. We welcome the EU's announcement of a 30 percent green spending target for its 5.5 percent of GDP stimulus package and *appreciate staff indication of the extent to which green budgeting has been introduced by the membership.*