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Statement by Mr. Mozhin, Mr. Palei, Mr. Potapov, Mr. Tolstikov, Mr. Biriukov, and Mr. Shestakov on World Economic Outlook; Global Financial Stability Report; Fiscal Monitor
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The initial confusion and scare from the COVID-19 pandemic has been gradually replaced by a more sober and informed evaluation of the scale of the threat and its possible economic consequences. With a better understanding of the risks and a gradual return of confidence in the ability to arrest the pandemic through a mass vaccination and herd immunity, public officials can now move from indiscriminate lockdowns to much better targeted measures. According to the new WEO projections, economic activity is recovering in many countries amidst partial re-opening of the economies.

Against this background, compared to the June WEO update the baseline growth projections for 2020 have improved substantially for many major economies and, thus, for the global economy. China is once again projected to lead the way and play the role of an engine of global recovery. We also note that the projection for the U.S. GDP contraction has improved from -8.0 percent to -4.3 percent. In the euro area the contraction will remain very large, with stark differences between the North and the South, but the projections are also somewhat better. Unfortunately, in India -- one of the largest economies -- growth prospects have deteriorated sharply, while the authorities are gradually regaining control of the spread in infections. The uncertainty surrounding the 2020 projections remains large, but much less so than in April and June. For 2021, a lot will depend on the progress in development and mass production of vaccines, which looks more and more promising. The health officials' baseline scenario assumes mass availability of vaccine by the middle of next year, if not earlier. The rapid growth of technology sectors is also a silver lining on the overall dark horizon.

Despite somewhat more positive updated outlook, the overall impact of the Great Lockdown on the world economy is still devastating. This situation still calls for the continuation of proactive policy stance relying on fiscal and monetary stimulation measures as well as the regulatory forbearance. At the same time, these unprecedented policy measures aimed at mitigating the economic contraction come at a very high price. Public debts will rise to unprecedented levels, especially in advanced economies (AEs). In many countries public debts will achieve the levels that the Fund considered unsustainable only a few years ago. As a result of the pandemic and the associated policy response, public debts will jump in AEs by about 20 percent of GDP and reach about 125 percent of GDP, on average. However, it is also true that for many AEs unconventional monetary policies and expected low interest rates provide room for the increase in their public debts. During this crisis, up to 75 percent of the new public debt in major AEs was purchased by their central banks.

In this connection, it is regrettable that the comprehensive data on the evolution of the major central banks' holdings of government bonds is once again missing in the new set of the Fund's trademark reports.

We note that the current staff views on the risks associated with high public debts differ from their views taken at the height of the Global Financial Crisis. Ten years ago, the Fiscal Monitor focused on the need to bring the levels of public debts in AEs down to about 60 percent of GDP. The Fund members agreed that all the required reforms had to be completed by 2020, setting public debt levels firmly on the way to reaching the target by 2030. In the second half of the past decade the emphasis shifted to the concept of fiscal space, and the Board held many heated debates about the meaning of the concept and the reasoning behind it. The COVID-19 crisis led the world into a new reality. Today, it seems that concerns about possible consequences of high public debs for future growth, the role of the state, and many other issues are downplayed. The dominant view is that policy actions, including structural reforms and public investments in human capital and infrastructure will be effective and ensure public debt sustainability. We believe that the Fund must revisit its past logic more explicitly and, if warranted, to articulate the modified views without delays.

The Fund should also revisit its views on the unconventional monetary policies. After such policies have been actively used for more than a decade, they now seem to become the permanent policy tool for the foreseeable future. The unconventional monetary policies, including asset purchases, forward guidance, and negative interest rates, will continue to be necessary for most AEs for a long time. As we have discussed in the past, re-anchoring of inflation expectations at a level much lower than the target, in combination with prolonged reliance on UMPs, may well elevate risks to growth and debt sustainability for many years to come. The experience of Abenomics and the developments over the past decade in the euro area, unfortunately, point to the major challenges in this area.

Financial stability risks are likely to intensify going forward. Many countries have entered the crisis with elevated vulnerabilities in many sectors, including already mentioned high public and private debt, mounting pressures in the corporate sector, and suppressed risk premia. While the massive use of unconventional monetary policy tools has prevented sharp tightening of financial conditions so far, these vulnerabilities will remain a constant threat and may well increase. Chapter 4 of the GFSR offered a timely estimate of the likely effects of the deep and prolonged contraction on the banks' capital. We are encouraged that the global stress test shows that most banks will be able to withstand a combination of severe shocks.

However, it is also true that, in response to the GFC, the focus in regulatory reforms was on the banks, while more risky activities ended up in the shadow financial sector. The international community faces the challenge of expanding the perimeter of supervision and regulation without excessively harming the flexibility and innovation in the financial markets. In addition, we believe that the Fund should revive its attention to the offshore financial centers and other underregulated jurisdictions.

In the emerging market economies (EMEs) economic developments and outlook differ in terms of their ability to control the spread of infection, the scale of the economic damage from the crisis, and the availability of policy levers. We feel that the flagship reports insufficiently highlighted the differences in this group of countries. Moreover, in many parts of the reports the EMEs are lumped together with vulnerable low-income countries (LICs).

Despite the varying success in controlling the spread of the virus, many EMEs demonstrated enviable economic and financial resilience in the face of the shocks. In contrast to prior crises episodes, the authorities in many EMEs were able to embark on countercyclical monetary and fiscal policies. As it was highlighted in Chapter 2 of the GFSR, some central banks successfully employed asset purchases facilitating financial market stabilization. From this point of view, we would like to underscore that policy analyses and recommendations should be clearly differentiated in accordance with the country-specific circumstances, including the stage of the pandemic response. While most of the world economies are in the partial reopening stage, with some risks of falling back to Phase 1 if infection intensifies, a few countries have contained the pandemic and are successfully recovering for some time now -- China is the most obvious example. Countries with even lower income levels, such as Vietnam and Rwanda, also offer good lessons in how good institutions and coherent national strategies can contain the damage to the population and the economies.

Many low-income countries (LICs) do not have the capacity to offset the economic damage of COVID-19. Economic activity in the poorest countries is expected to drop by about 2.5 percent in 2020. Those countries that rely on commodity exports, tourism, and remittances face the strongest economic headwinds. Even before the pandemic, many of these countries were dealing with significant development pressures and rising fiscal risks and debt vulnerabilities. The crisis is expected to reverse the progress in poverty reduction and undermine their prospects to reach the sustainable development goals. Amid worsening solvency concerns, more countries may face unsustainable debt burdens and, therefore, debt distress.

With respect to all economies, we are concerned about vocal calls for delaying pro-growth structural reforms, including policies designed to nudge faster reallocation of resources. Permanent changes to the economy are not limited only to negative ones. In addition to lower growth potential, possible bankruptcies, and scarring, the crisis also has a silver lining. The latter part seems to attract little attention in the flagship publications. The crisis accelerated many changes that were expected to take 5-10 years and occurred in a matter of months. The move in favor of digital economy was extremely strong, as evidenced by the technology part of the S&P 500, and the experience of quite a few countries, both AEs and EMDCs. Distance learning, telehealth, digital financial services, online shopping, and all kinds of communications saw a tremendous expansion. Even if our lives normalize due to mass availability of vaccines soon, these changes are here to stay. The only question is what will be the scale of the effect from these permanent positive changes. These structural shifts already feature prominently in adjustments in many IMF members, so the discussion should not be limited to the likely policy responses in the future, but also pay attention to what has already worked in many countries. The upgraded knowledge exchange in the Fund with a broader access should play a prominent role in dissemination of best practices.

The pandemic will force us to reevaluate once again the role the state in the economy. In many countries, large-scale fiscal support, including direct subsidies, loans, guarantees, equity injections, as well as widespread regulatory forbearance, have weakened market mechanisms and substantially increased the role of the government and regulatory bodies. The effectiveness and speed of reallocation of resources, and even the future of certain sectors of the economy, may now depend on discretionary government decisions. Chapter 2 in the Fiscal Monitor touched on just one of such areas -- public investments -- where the role of the state might be more pronounced than it was before the COVID-19 crisis. In the long run public investments in pandemic preparedness, digital infrastructure, and climate change adaptation should help to build resilience. Another example of the possibly stronger role of the state could be in facilitating exit of unviable entities when market mechanisms play a weaker role. In order to reignite growth, it would be essential to gradually reduce the number of "zombie companies".

We note the WEO emphasis on the social aspects of policy response. It is entirely appropriate, since the achievements in poverty reduction and income distribution made since the Global Financial Crisis have been mostly wiped away. Tax and spending measures should ensure fair and participatory growth that protect the vulnerable. We note that the WEO urges raising progressive taxes on more affluent individuals and profitable corporates. Also, fiscal instruments could be useful in stimulating investments, including green investments, encouraging redistribution of resources towards less carbon-intensive activities.

Similarly, digital infrastructure and access to financing could contribute to rebalancing opportunities in the economies, while alleviating social tensions.

The flagship reports paid scant attention to the huge health and economic costs primarily affecting older people and to the related challenges facing the ageing societies. Staff claimed that the COVID-19 crisis most severely affected younger people, as they were the first to lose jobs and face potential life-long decline in their incomes. We believe, however, that the focus of this analysis was too narrow. The mortality rate of older people from the COVID-19 infections has been much higher than for the young. Older people constitute an overwhelming majority of one million victims of COVID-19. Given the much higher health risks, this part of the population is also facing more isolation. Moreover, the security of their pension savings may be under threat. We call on staff to rebalance somewhat the text in Chapter 2 of the WEO report.

The issue of trust in the authorities is not a new one, as it was so prominent during the policy debates at the time of the GFC. Subsequent years were marred by increasing political polarizations in many countries, both AEs and EMDEs, and the declining trust in the authorities' willingness or ability to address deeply entrenched socio-economic fault lines. We believe that the COVID-19 crisis led to further deepening of social conflicts and, in some countries, is clearly associated with the reduced trust in the authorities and doubts that the key institutions can function properly. These are very disturbing trends, as they may complicate the implementation of anti-crisis measures and subsequent reforms.

We support the Fund's call for international cooperation. Yet, it would be more powerful in light of a more comprehensive and prominent description of current challenges. The increase in international hostility, deepening of the trade, technology, and information wars, unilateral versus multilateral approaches to addressing global challenges, unfortunately, distinguish the current crisis response from the GFC. At the time of the GFC, we witnessed not just coordinated policy responses among Fund members, but also a major improvement in the international cooperation. The strengthening of the G-20, and the agreement on governance reforms at the IMF illustrated the willingness to cooperate. Today, the implementation of tax and climate initiatives depends a lot on the degree of multilateral cooperation and the ability to agree on common approaches.