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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 20/37-1

9:45 a.m., April 7, 2020

1. World Economic Outlook; Global Financial Stability Report; Fiscal Monitor

Documents: EBS/20/16; EBS/20/18; EBS/20/23; and Sup. 1; EBS/20/31; EBS/20/32; SM/20/68; SM/20/83; and Sup. 1; SM/20/84; and Sup. 1; SM/20/85; SM/20/90

Staff: Gopinath, RES; Adrian, MCM; Gaspar and Mauro ,FAD

Length: 2 hours, 56 minutes

Executive Board Attendance

K. Georgieva, Chair

Executive Directors	Alternate Executive Directors
D. Mahlinza (AE)	
M. Raghani (AF)	
	B. Lischinsky (AG)
N. Ray (AP)	
A. Bevilaqua (BR)	
Z. Jin (CC)	
L. Villar (CE)	
L. Levonian (CO)	
R. Kaya (EC)	
A. Buisse (FF)	
	K. Merk (GR)
S. Bhalla (IN)	
D. Fanizza (IT)	
T. Tanaka (JA)	
J. Mojarrad (MD)	
H. Beblawi (MI)	
A. De Lannoy (NE)	
M. Poso (NO)	
A. Mozhin (RU)	
M. Mouminah (SA)	
A. Mahasandana (ST)	
P. Inderbinen (SZ)	
S. Riach (UK)	
M. Rosen (US)	

J. Lin, Secretary
J. Morco / O. Vongthieres, Summing Up Officers
E. Mannefred / R. Smith Yee / V. Sola, Board Operations Officers
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
African Department: P. NDiaye, C. Purfield. Asia and Pacific Department: H. Berger, J. Ostry. Communications Department: A. Ranck, G. Rice, C. Rosenberg. Corporate Services and Facilities: J. Lester. European Central Bank: R. Rueffer. European Department: J. Decressin, E. Detragiache. Fiscal Affairs Department: D. Amaglobeli, W. Lam, V. Louca Rabaca Gaspar, P. Mauro, P. Medas, C. Pattillo. Finance Department: T. Krueger,

A. Tweedie, O. Unteroberdoerster. Human Resources Department: K. Kochhar. Institute for Capacity Development: S. Coorey. Independent Evaluation Office: C. Collyns. Information Technology Department: E. Anderson. Legal Department: K. Christopherson Puh. Middle East and Central Asia Department: A. Al-Eyd, B. Joshi. Monetary and Capital Markets Department: T. Adrian, S. Antoshin, A. Ilyina, W. Kerry, F. Natalucci, E. Papageorgiou, M. Qureshi, C. Raddatz Kiefer. Office of Budget and Planning: A. Schimmelpfennig. Office of the Managing Director: M. Furusawa, J. John, M. Jones, A. Kammer, G. Okamoto, C. Oner, A. Sayeh, M. Schrader, T. Zhang. Office of Risk Management: V. Arora. Research Department: J. Bluedorn, M. Chivakul, G. Gopinath, D. Kirti, G. Milesi-Ferretti, M. Nabar, D. Sandri, A. Spilimbergo. Secretary's Department: H. Al-Atrash, S. Bhatia, P. Cirillo, S. Kalra, C. McDonald. Strategy, Policy, and Review Department: R. Duttagupta, M. Kaufman, P. Koeva Brooks, H. Poirson, H. Ward. Statistics Department: G. Quiros Romero. World Bank Group: M. Kose. Western Hemisphere Department: P. Alonso-Gamo, N. Chalk. WTO staff: .M. Auboin. Alternate Executive Director: R. Alkhareif (SA), A. Andrianarivelo (AF), S. Benk (EC), K. Chikada (JA), M. El Qorchi (MD), P. Fachada (BR), S. Geadah (MI), A. Guerra (CE), N. Heo (AP), I. Mannathoko (AE), P. Moreno (CE), L. Palei (RU), V. Rashkovan (NE), D. Ronicle (UK), P. Rozan (FF), B. Saraiva (BR), J. Sigurgeirsson (NO), F. Sylla (AF), K. Tan (ST), P. Trabinski (SZ), C. White (AP). Senior Advisors to Executive Directors: W. Abdelati (MI), K. Badsi (MD), M. Choueiri (MI), J. Damgaard (NO), A. Ekelund (NO), R. Farber (US), F. Fuentes (BR), M. Gilliot (FF), R. Goyal (IN), L. Johnson (AP), S. Keshava (SA), Y. Liu (CC), Z. Mahyuddin (ST), M. Maidi (AE), L. Marek (EC), R. Morales (AG), W. Nakunyada (AE), R. N'Sonde (AF), S. Potapov (RU), C. Quaglierini (IT), C. Sassanpour (MD), M. Sidi Bouna (AF), T. Sitima-wina (AE), F. Spadafora (IT), G. Vasishtha (CO), L. Voinea (NE), J. Weil (CO). Advisors to Executive Directors: M. Albert (FF), D. Andreicut (UK), O. Bayar (EC), L. Cerami (IT), T. Chrimes (UK), V. Djokovic (SZ), S. Evjen (NO), A. Grohovsky (US), H. Koh (GR), T. Manchev (NE), M. Mehmedi (EC), M. Merhi (MI), P. Mooney (CO), C. Moreno (AG), G. Nadali (MD), T. Nagase (JA), D. Shestakov (RU), M. Shimada (JA), B. Singh (IN), D. Vogel (AG), Y. Zhao (CC), J. Al Saud (SA), J. Barroso (BR), T. Herold (GR), A. Tola (SZ).

1. WORLD ECONOMIC OUTLOOK; GLOBAL FINANCIAL STABILITY REPORT; FISCAL MONITOR

Mr. Rosen, Mr. Farber, Ms. Pollard, Ms. Crane, Mr. Grohovsky, Ms. Senich and Mr. Shenai submitted the following statement:

Overview: We are in the midst of a crisis unlike any we have experienced in our lifetimes. This crisis particularly challenges us as economists as it is not simply an economic crisis. The effects on some member countries are similar to that of a war, yet this is not an enemy with which one can negotiate. The global pandemic is at its core a health crisis, devastating families and communities. It is also an economic crisis, shutting down our economies, turning major cities into ghost towns, and destroying jobs with unprecedented speed. The policy response to the crisis has also been exceptional, and although the projected global contraction is dreadful, the damage would be far worse without these countermeasures. Further, we appreciate the documents' recognition that while the containment measures are causing severe economic disruptions the failure to act would have longer lasting negative effects.

We appreciate the coordinated focus of the flagship documents and acknowledge the monumental difficulty of the task that staff have faced: they essentially have been asked to prepare a damage assessment and rebuilding plan while in the middle of a storm. However, given the overlap in themes and policy advice, we would have preferred a single document with chapters covering the current situation, the policy responses, and issues for consideration during the recovery. Figure 1.9.3 in the GFSR, for example, provides an excellent visual insight into the uncertainty around the WEO forecast.

Economic Projections: The WEO forecast is striking although not unexpected given the data and outside forecasts we have seen. The slowdown is occurring across the world and the impact will be felt by all. Staff rightly notes the extreme uncertainties about all aspects of the outlook: the course of the pandemic, its impact on our economies, and the efficacy of the policy response. We agree. To paraphrase Churchill, it is not clear whether we are at the beginning of the end or the end of the beginning.

In our view, the baseline may give the impression that once the health crisis has abated individuals and businesses will resume their normal routines as if the intervening months were all a bad dream. Thus, we appreciate the inclusion of a downside scenario while urging staff to continue to highlight and account for the extreme uncertainty we all face. Even if the public health outcomes envisioned in the WEO baseline are achieved, the recovery could be weaker as highlighted in the downside scenario. Our policymakers and health officials are exerting maximum efforts toward successful containment of the

virus in the coming weeks, to prevent further severe outbreaks around the world, and adopting policies aimed at limiting any lingering effects on consumer and business behavior or confidence. Yet as policymakers, while we hope for the best, we must plan now for what to do if the battle proves more challenging. In this regard, we appreciated the GFSR's discussion of the likelihood of longer-term effects as credit losses mount, leveraged investors face increasing liquidity and solvency pressures, and emerging and frontier markets continue to be shutout from external borrowing.

Our policymakers and our global institutions will need to remain hyper-vigilant and act in innovative ways if the outlook worsens. The crisis has unfolded with a speed that few of us could have imagined. The WEO forecast for 2020 growth has declined by almost 7 basis points per day since January. The situation continues to evolve at a speed that challenges our ability to comprehend. Thus, we call on the staff to provide frequent updates to the global projections over the coming months as developments unfold. Frequent shorter updates of the global outlook that are not bound by the usual strictures of the quarterly WEO outlooks would help our policymakers. Rather than a central scenario with baseline assumptions that may soon become outdated, the Fund could provide a range of scenarios in line with the range of uncertainty highlighted in Figure 1.9.3 in the GFSR. Additional downside scenarios that include varying oil projections and assessments of the scale of policy responses to date would also be useful.

Policy Responses – Domestic: The flagships helpfully document the extensive actions taken to date by our authorities to limit the fallout from the pandemic, highlighting a range of fiscal, monetary, and financial sector policies. The WEO, for example, rightfully highlights the importance of measures to support business continuity to prevent scarring. Measures must be tailored to the current crisis rather than to a traditional downturn. Policy actions should aim to preserve employment, support the industries most affected, assist small and medium size enterprises, and defer debt payments for borrowers whose businesses or homes might otherwise be lost en masse, while maintaining the functioning of financial markets and reducing systemic risks.

We appreciate the GFSR's note that while "it is not possible to fully assess the effectiveness of policies implemented so far" there are signs of improvement in market sentiment. Similar preliminary analysis of the effects on the real economy would be useful, as while our authorities have put unprecedented policy measures in place almost overnight, we would all benefit from a clear-eyed assessment of their sufficiency and efficacy.

We found the policy frameworks discussed in the GFSR and the FM helpful and reiterate our point that combining the three documents would provide a more useful discussion of the outlook and policy responses. We

agree with the FM that fiscal policy in the near-term should be data-driven based on the health trajectory of COVID-19. Country authorities should not hesitate to deploy additional significant measures quickly, as needed, to tackle the health crisis and help support the economy through the downturn. The dispersion of capacity to intervene to forestall household and firm-level liquidity and solvency stress underscores the importance of members with ample fiscal space needing to carry the load on counter-cyclical stimulus. Relatedly, we support the WEO's recommendation for European support to supplement national efforts given the exogenous common shock.

The FM and GFSR address policy responses across income groups and we think that more of this could be incorporated into the WEO, which focuses primarily on advanced economies. Fund policy advice tailored to emerging markets and developing countries is critical during this period. We agree with the FM that many large emerging markets should ease fiscal policy. We call on countries with fiscal space that have not used it to take measures to support workers and businesses to prevent long-term disruptions to incomes and the economy.

We welcome the GFSR's guiding principles for financial sector policies and the discussion of how emerging and frontier markets can address external pressures. We agree that exchange rate flexibility should be used while recognizing that FX interventions may be needed to reduce excessive volatility or ease illiquidity. We also recognize that given the extensive outflows of capital, countries may need to use temporary capital flow management measures (CFMs) as part of their policy package, noting that the measures ought to be removed when the crisis abates. We would be interested in how emerging insights from the IPF can be used to provide advice to emerging markets, including whether countries should allow reserves to dip below the reserve adequacy metric (RAM) levels during the crisis.

Policy Responses – Multilateral: We think that the discussion of the multilateral policy response should be expanded. For example, the GFSR underlined the importance of cooperation among jurisdictions, but for the most part neglected to highlight activities already underway, such as policy response information sharing at the Financial Stability Board, and the agreement of the BCBS to delay the final round of Basel III implementation. We would welcome recognition of these efforts as well as encouragement to build upon them.

Secondly, the WEO and the GFSR call on central banks to expand swap lines as a way to improve international liquidity. The swap lines that the Federal Reserve has extended are best suited to address short-term strains in particular dollar funding markets. They are not well suited to provide general cross-border liquidity for long periods of time or for meeting balance of payment needs. These goals are more suited to IMF financing. We also note

that there is no discussion of the role of regional financial arrangements (RFAs). Could staff provide some analysis of how RFAs are and should be responding to the crisis and how these can complement actions by central banks and the IFIs?

Finally, the expansion of the CCRT and the effort by official bilateral creditors to provide a moratorium on debt payments to the poorest are helpful, but we also would like to see a discussion of how the IMF, the World Bank and regional development banks are working together to ameliorate the effects of the crisis, particularly on low-income countries. It is important for these institutions to work together to support member countries in a way that minimizes the risks to both debt sustainability and longer-term development outcomes.

Recovery: During the eventual recovery certain targeted measures will need to be scaled back. Nevertheless, the reversal of some policies should not be confused with the premature withdrawal of economic support. The WEO rightly notes that past recoveries have been hindered by impaired balance sheets and debt overhangs. However, we have also seen the negative results when policymakers turn too quickly to fiscal consolidation and withdrawal of monetary support. Both the flagships and the Fund's public communication should avoid giving the impression that measures should be removed quickly as opposed to being condition-based and state-dependent. Additionally, countries with fiscal space must be prepared to deploy large scale investment packages to help reflate the economy, boost employment, and make up for the decline in investment that is currently taking place. As Figure 1.6 in the WEO indicates, under current projections advanced economies may take nearly two years simply to get back to their Q1 2019 level.

While we fully support the extensive use of fiscal measures, the FM rightly highlights that we will need eventually to address any negative effects of these measures on debt levels. We agree with the FM that transparency in communication, budget execution, and in the eventual withdrawal of stimulus will be paramount to maintain public trust during this challenging period. Preserving market access, particularly among emerging market and developing countries, will require close consultation with stakeholders, who will likely seek credible strategies for medium-term debt reduction. Going forward, it will be important to ensure that the crisis does not catalyze fiscal crises in members with lower debt carrying capacity. Fund engagement on post-crisis reform plans will be essential to ensuring debt sustainability as members rebuild fiscal balances after the crisis.

An Uncertain Future: The COVID-19 pandemic has shaken our institutions and our personal security. There is a risk that it will create long-lasting negative effects as, for example, fear remains of a re-emergence of this or other viruses and as households limit expenditures to rebuild or

increase savings as concerns about job security remain. IMF staff expertise should be directed to studying the likely behavioral and structural effects of the crisis and how policy makers can best respond to limit the risk of a prolonged global stagnation. We will need to think creatively about how to help countries struggling with debt burdens from the crisis while strengthening their public health systems. This will require cooperation among economists and health officials to determine how to improve global public health to prevent future outbreaks. We are likely to face challenging times ahead but working together we can find solutions to improve our lives and those of future generations.

Mr. Ray submitted the following statement:

There is only one issue on most authorities' minds right now – COVID-19. We thank management and staff for a set of flagship documents which focus on staff's view of the impact of COVID-19 – to date and looking ahead – together with current and recommended policy responses. The Fund has a critical role providing both forecasts and policy advice as a global public good. While we would have preferred to see an assessment released ahead of the traditional timetable of the Spring meetings, the projections will help the membership assess fast-moving developments and create support for strong policy actions.

That said, the documents are long, dense and repetitive. In this extraordinary moment, one concise, integrated document might have been more helpful to authorities.

OUTLOOK

This crisis is unlike anything else seen in our lifetimes – a health crisis that has necessarily prompted a sudden economic stop that has cascaded with great speed and severity into runaway unemployment and steep income declines, plummeting business profits and widespread workplace closures, and rising liquidity and default risks. And the sudden disruption in real activity has dealt an unprecedented blow to confidence and global financial markets. By comparison, the GFC unfolded in slow motion.

Forecasting is always a thankless task. But with so much uncertainty surrounding the path of the COVID-19 pandemic, forecasting now is especially difficult. Hindsight is bound to show that we got some things wrong. It is also highly likely that the forecasts will date quickly given how quickly the global situation is evolving. The Fund should stand ready to revise and publish its forecasts more frequently than usual, based on material changes in the outlook. This will help ensure that the Fund remains at the center of global economic surveillance. A similar argument can be made in

respect of the GFSR, though again, we wonder whether integrated updates could be published, more akin to surveillance notes.

In this context we also consider scenarios to be an essential tool. Figure 1.9 of the GFSR illustrates the uncertainties around the WEO baseline and while past Board discussions have noted difficulties in interpreting small changes in the growth forecast density produced by the growth at risk framework, it now illustrates well the sharp shift in near-term downside risks relative to the October 2019 GFSR. Almost all of the distribution points to negative global growth.

We note that the baseline WEO scenario makes two assumptions that could prove to be optimistic – first, that economies battling a major outbreak will only need to implement strong containment measures for eight weeks before gradually relaxing them in the second half of 2020; and secondly, that emerging markets and developing countries do not face outbreaks as severe as those in Europe and the US. Are these assumptions underpinned by epidemiological advice?

It is striking how much of the WEO's focus is on advanced economies, compared with the more balanced approach in the GFSR. If some of the downside scenario for emerging markets and developing countries were to materialize in 2020 and potentially 2021, would staff's policy advice change? One particular risk for some members of this Chair is that borders remain closed for an extended period. The Seychelles, for example, is forecast to be the hardest hit sub-Saharan African country because of its reliance on tourism. An assumption that tourism will bounce back in 2021 seems brave. What assumption have staff used on border closures?

For the Pacific, for example, the forecast growth impact from the external shock may not be the main concern in the face of a risk of a tremendous public health emergency. Donors are acutely conscious of this and trying to help.

The GFSR presents a stark picture of how this event has affected financial markets, and flags the potential that a further tightening of financial conditions exposes financial vulnerabilities in banks and other financial institutions. The impact on emerging markets has been particularly sharp, with an unprecedented reversal in portfolio capital flows and the broadest reversal in capital flows since the GFC. As staff stress, it is the speed as much as the magnitude of the shock that is so stressful. Developments in emerging markets could well have implications for the Fund's operations.

POLICY ACTIONS – FROM CRISIS RESPONSE TO ECONOMIC RECOVERY

We agree that the immediate priority is to fight the virus and save lives, by supporting and bolstering health systems to provide care for the sick, and by containing the spread of the virus through social distancing measures. Bold, quick action on the public health crisis will also minimize the economic costs.

Fiscal policy

Beyond this, on the fiscal side, large, timely, targeted and temporary measures aimed at preserving the existing web of economic relationships during the containment phase, particularly labor-force attachment and firm solvency, are being widely adopted and sensibly so. One issue for countries with less fiscal space, including some in this constituency, will be the challenge of continuing to finance such measures if extended or subsequent rounds of containment are required. It is also worth starting to consider now how policy should respond once people are able to move freely again. Given the uncertainties, it is likely that being prepared with flexible and potentially targeted measures may continue to be necessary. The recovery phase may well need to be tailored. Do staff think that broad public works style stimulus measures may be needed in certain circumstances? Is the policy mix in the recovery phase going to vary across advanced, emerging and developing economies? One lesson from the post-GFC experience is not to shift to austerity too soon.

Longer term, the current episode has illustrated that there has been underinvestment in some public health systems. Rebuilding medical stockpiles and strengthening public health systems in those countries will be a priority for the post-crisis period.

Monetary and financial policy

On the monetary and financial policy side, extraordinary actions by central banks to support liquidity have helped maintain the flow of credit to the real economy and have significantly contributed to a tentative stabilization in markets. These responses as “buyers of last resort” are appropriate in view of the nature of the shock. But experience since the GFC illustrates that such interventions can be difficult to unwind. We would welcome staff views on this.

We note that broad asset price declines due to COVID-19 have not reached the magnitudes seen in 2008–09. But we also note that the risky credit market segments—high-yield bonds, leveraged loans, and private debt have reached $9 trillion globally. Financial strains remain unaddressed in these

risky credit market segments, while investment grade bond spreads have declined thanks to central bank asset purchases. As the recession bites, credit rating agencies will likely downgrade many firms to sub-investment grade, which could further weigh on real activities. Further advice would be welcome on how authorities can balance reducing the severity of recession with preserving market discipline and safeguarding financial stability, and on what implications there might be for rating agencies?

We encourage staff to consider the policy options that would be available to address more adverse scenarios. As highlighted in the recent MCM blog, under a more severe scenario, additional tools may be needed, and some banking systems may need to be recapitalized or restructured. In the same vein, regulatory forbearances taken by many to stabilize the market need to be reassessed going forward, probably through work with the FSB. We consider that it is crucial to maintain a balance between supporting economic activity and safeguarding financial stability and share the concern of staff that financial institutions could act as an amplifier should the crisis deepen further. As the GFSR explains, widespread distress of financial institutions could cause a permanent scarring of balance sheets, which may delay the recovery. Work done since the GFC to strengthen resolution and recovery toolkits could be substantially tested for the first time.

Structural policies

It is possible that COVID-19 will lead to enduring changes to the global economy, with the scale and timing of impact of the pandemic disrupting global trade and global value chains in multiple geographies. The Fund needs to be at the forefront of providing policy guidance and advice on collective actions to be taken by the membership to support the reopening of borders and the resumption of trade and capital flows. The pandemic could lead to behavioral changes by households and businesses that have structural implications, for example, permanently lower levels of international travel, or a long period of higher savings rates but low investment. For some of the membership, for example, small tourism-dependent countries, the impacts could be large and enduring. The Fund should be considering innovative advice in such circumstances.

Mr. Fanizza, Ms. Quaglierini, Mr. Spadafora, Ms. Cerami, Ms. Korinthios and Ms. Mateus submitted the following statement:

We thank and commend staff for producing a set of excellent flagships under the current difficult circumstances. We broadly share the macroeconomic scenario depicted in the WEO and welcome the clear policy response and priority setting stated in the Fiscal Monitor. We share the call for cooperative solutions in finding therapies for the COVID-19, just as much as for cooperation in policy action. We recommend a closer integration of the

policy advice across the three flagships, which read a bit as separate pieces without a common vision. We would suggest the WEO follow the language used on the Fiscal Monitor to set priorities: the issue now is not demand management in response to ordinary supply and demand shocks. We found the GFSR quite useful, but we fail to understand the rationale behind the staff's position against easing provisioning requirements. More in general, we would have appreciated it if the flagships could shed some light on two key policy issues. First, how the projected large increases in the fiscal deficits should be best financed, and whether Advanced Economies could benefit from exploring alternatives to the current reliance on unconventional monetary policy. Second, how the remarkable increase in government spending could change the metrics for assessing debt sustainability, particularly if the fight against the pandemic must continue beyond 2020.

World Economic Outlook

Overall, we miss the sense of urgency and exceptionality that the current juncture requires. The COVID-19 pandemic threatens the very mechanisms that allow market economies to operate. We believe that monetary, fiscal, and financial policies should focus on responding to this threat, which is different from standard demand management to counter ordinary demand and supply shocks.

These are exceptional times. Building a credible baseline scenario is certainly a difficult task under the circumstances. The proposed scenario seems plausible, though assuming an 8-week-only "shutdown" period may look too benign for several countries.

The pandemic has put into question the traditional distinction of policy measures between demand- and supply-side. The key message of the flagships should be that policy makers need to do whatever it takes to save lives, address the health emergency, and preserve the web of economic relations until the emergency ends. We think that the Fiscal Monitor sets the priorities right and skillfully describes them.

The whole membership is being hit hard by the health emergency: advanced, emerging and developing countries alike; each group with its own specificities. Advanced countries are sharply affected by the pandemic, including the European ones. We have reservations on a narrative emphasizing large capital outflows from emerging countries only. The Fund must support the Emerging Market and Developing economies with policy advice and financial resources. At the same time, the policy dilemmas facing advanced economies should not be placed on the back burner.

We would have appreciated a broader discussion of common policy responses and the ways to implement them, which constitutes the main policy

dilemma. We believe the Fund should not ignore the ongoing European discussion on how to best finance the much-needed spending. We think the Fund could do that without necessarily taking sides, but just highlighting benefits and costs of the different policy options. Diplomatically ignoring this issue risks greatly diminishing the relevance of the Fund policy advice. In fact, we are concerned that the reference to a possible "European support" (p. 17) to countries particularly hit by the pandemic could be interpreted as implicitly supporting the use of the existing mechanisms and ruling out the possibility of establishing new tools – including issuance of common special securities – which has been favored by three countries in our constituency.

The chapter does not recognize all the efforts made by European countries through the provision of liquidity and credit guarantees and loan restructuring. We would appreciate it if these measures could be mentioned on p. 15.

We believe that the staff's idea that renegotiations of bank loans should be done "without lowering loan classification and provisioning standards" (p. 15) is inappropriate under the current exceptional context. Instead, we fully support the many regulatory authorities that have eased provisioning standards, as illustrated by Table 1.1 in the GFSR.

The crisis will raise public debt levels substantially in 2020 and it is quite likely that additional interventions may be needed to support the recovery. We would need to review the concept of debt sustainability and rethink the metrics of debt sustainability.

We believe Italy should be included among the countries that the report lists in its summary as having adopted a swift and sizable fiscal response. In fact, Italian authorities have enacted a timely and targeted package. The flagships convey a picture of Italy's policy package that is not fully aligned with that in the IMF Policy Tracker. We request the flagships to reflect the information that is available in the Tracker, including the emphasis on liquidity measures, which are quite sizable for Italy.

Fiscal Monitor

We like the main message from the FM. The pandemic has elevated the need for fiscal policy action to an unprecedented level, calling for a swift, large, and coordinated fiscal response to save lives, alleviate its economic costs, and prevent long-lasting damages. While we understand the importance of formulating this response within a medium-term fiscal framework, one should acknowledge that the pandemic will have a lasting impact on the framework's anchors that will imply substantially higher government debt-to-GDP ratios for long. We agree with staff that the lack of fiscal space should not constrain fiscal policy, at least in the short term.

We agree on the two-stage approach to fiscal response, where the immediate measures should aim at saving lives and livelihoods, through timely, temporary and targeted measures to protect the most affected households and firms, while a broad-based, coordinated fiscal stimulus will become more effective once the pandemic ends. In the initial phase, increased spending on health and emergency measures should be fully accommodated independently of fiscal space. Furthermore, immediate fiscal measures are needed to mitigate the economic consequences of social distancing and shutdown on supply, demand and confidence.

Most advanced and emerging economies have already introduced a wide range of expenditure revenue and liquidity-support measures. We appreciate staff's efforts to timely collect, classify, and analyze data on policy responses across member countries. The Fiscal Monitor provides a valuable preliminary overview of fiscal measures, facilitating cross-country comparisons, informed analysis, and assessment. However, we would welcome more clarity on the criteria used to select, classify, and aggregate the data underlying some charts (e.g. Fig. 1.1).

We emphasize the importance of "targeted, temporary, and progressive" fiscal measures. As member countries struggle to swiftly channel help, particularly liquidity support, to most constrained households and viable businesses to prevent layoffs and permanent loss of production and exits from supply chains, we encourage staff to further study available options and identify best practices for policy advice.

We fully share staff's concerns about the response capacity of low-income developing countries, with limited health infrastructure and tight financing conditions. Global efforts to provide aid and emergency financing will be needed to contain the spread of the disease.

Global Financial Stability Report

We agree with staff that the prompt response from central banks and regulatory authorities, has effectively exploited the toolkit developed in the aftermath of the GFC. This response has proved essential to support fiscal policy action to address the emergency and to provide the needed liquidity to households and firms in difficulty. The main challenge is to avoid that the liquidity crisis morphs into a solvency crisis that could harm the financial sector and jeopardize the chances for a future recovery. We would like to stress the importance of avoiding that prudential regulation has a procyclical impact by fully implementing the counter-cyclical mechanisms embedded in regulation and using judgement and flexibility in enforcing capital and provisioning requirements.

We support the report's analyses and policy recommendations, although we believe the call on policymakers to choose a balance between preserving financial stability and limiting the damage to productive activity constitutes a false trade off. Under the current circumstances, a cascade of defaults by viable borrowers – and the ensuing depletion of skills, knowledge, capital and productive capacity — constitutes a major threat to the stability of financial intermediaries and the economy at large, a key channel by which short-term temporary difficulties may turn into longer-term permanent damages.

A major policy mistake would be to leave monetary policy as the main game in town. Fiscal policy must act as a powerful circuit-breaker. Markets' doubts on governments' resolve to break the liquidity-solvency link would negatively affect financial conditions and may trigger a doom loop between the real economy and the financial sector.

We could not find specific reference to the role of rating agencies, despite the fact that they were subject to extensive scrutiny and regulatory review in the aftermath of the GFC. They were criticized for acting too slowly (asset-back securities continued to be rated AAA for too long) and for conflict of interests (that remain largely unresolved). What about today? How well are their credit models performing in a pandemic? Should rating agencies be encouraged to maintain their negative outlooks instead of downgrading immediately, until there is more clarity about the impact of the pandemic on the financial strength of the issuer? Alternatively, should supervisors suspend rules requiring minimum rating thresholds for some institutional investors, thereby mitigating the risk of fire sales?

Should the Fund at least add the "new" benchmark reference rates if not entirely replace LIBOR? The October 2019 GFSR identified the unpreparedness to the transition to alternative risk-free interest rate benchmarks as a potential risk to financial stability (issue discussed extensively in Box 1.3.). Yet, the Fund still relies exclusively on the LIBOR for the analysis of short-term funding markets.

Mr. Mouminah and Mr. Alkhareif submitted the following statement:

We thank staff for the well-focused set of flagship reports and informative analytical work. We very much appreciate the high-quality work on global surveillance, particularly during this challenging period. Since we broadly share staff's assessment of the global economy and the outlook as well as their policy recommendations, we would like to confine our comments to a few issues.

The COVID-19 pandemic has inflicted enormous human costs and will cause a global recession in 2020. We offer our deepest sympathies and

condolences to all affected people around the world from the pandemic. We take note of the staff's assessment that the global economy is expected to contract sharply this year by 2.9 percent, driven by the broad-based health crisis and the resulting severe disruptions in economic activity. Unemployment has risen considerably, and financial conditions have significantly tightened. We are also concerned by the reversal of portfolio flows from emerging markets. Looking ahead, the uncertainty is extremely high and risks to the outlook are on the downside, as the pandemic could last more longer than assumed in the baseline. Here, we take note of staff's analysis in Scenario Box, which in fact seems quite plausible given the heightened uncertainty about the duration of the containment measures. In such scenario, EMDEs will especially be severely impacted and hence we urge the Fund to stand ready to provide timely policy advice and financial support, where needed. The Fund should also focus on ensuring effective communication throughout this challenging period, with a view to restore confidence and strengthen traction of its policy advice.

Against this backdrop, we share staff's views that the policy response needs to be commensurate with the challenge. The priority is to save lives and to support those most affected by COVID-19. Well-targeted fiscal, monetary, and financial-sector measures should be pursued to preserve lives and restore macroeconomic stability. Indeed, adequate resources should be made available to ensure well-functioning health systems and social programs, including through reprioritization of spending. Countries with strong social protection systems should allow automatic stabilizers to fully operate and channel additional support through social safety net programs as needed. In this regard, staff has rightly emphasized the need to enhance the responsiveness of automatic stabilizers to adverse shocks. We agree that reliance on monetary policy alone for additional countercyclical actions in this challenging environment carries substantial risks, including those related to financial stability and potential threats to central bank independence. We also share staff's view that reducing rollover risks should be prioritized should external funding disruptions become prolonged and market access is limited. Since many EMDEs have no or limited fiscal space, we would have appreciated more coverage in the WEO on the targeted fiscal measures that can be implemented in fiscally-constrained countries. We look forward to continued focus on this health crisis, including on the required policies for securing a swift recovery once the pandemic subsides.

Strong multilateral cooperation is essential to tame the pandemic and ensure lasting recovery. We are encouraged by the ongoing multilateral cooperation to defeat the COVID-19 pandemic, including by the Group of Twenty (G20). The Saudi G20 Presidency convened an Extraordinary Leaders' Summit to ensure a well-coordinated response to the COVID-19 pandemic, and as rightly mentioned in the Fiscal Monitor, the G20 economies have provided sizable fiscal support of around 3 percent of GDP, on average,

as of end-March 2020, which is higher than the stimulus during the global financial crisis. We consider that the Fund has an important role through its policy advice, capacity development, and financial assistance where needed. To this end, we take positive note of the Fund's efforts, including through rapid-disbursing emergency financing. We welcome the IMF Policy Tracker on responses to COVID-19, which includes 193 economies. We also welcome the Fund's close collaboration with other international institutions and encourage continued efforts in this area. Notably, efforts should focus on addressing the growing financing needs and debt vulnerabilities, especially for LICs. Pursuing prudent debt management practices and adopting strong debt management frameworks would be important to mitigate any debt sustainability risks.

The top priority in Saudi Arabia is to protect citizens and residents. Numerous measures have been implemented to help address the health risks triggered by the COVID-19 outbreak. To ease the economic impact on affected household and businesses, Saudi Arabia has launched well-targeted fiscal, monetary and financial measures of SAR 120 billion, around 4% of GDP. More recently, the government has earmarked SAR 9 billion to protect employment of citizens in the private sector affected by COVID-19. Various measures have been put in place to ensure continued support from banks and finance companies to the private sector, while being mindful of the financial stability implications. Indeed, banks are well-positioned to face the current crisis given their strong capital and ample liquidity in the system. On the global front, Saudi Arabia fully supports the ongoing efforts to address the COVID-19 risks. The Kingdom has provided financial contributions to the World Health Organization and stands ready to help implement global measures to minimize the spread of COVID-19.

Mr. Mahlinza, Ms. Mannathoko, Ms. Maidi, Mr. Nakunyada and Mr. Sitima-wina submitted the following statement:

We thank staff for the comprehensive set of reports, which appropriately focus on the repercussions of the COVID-19 pandemic, with unprecedented implications for the global economy. Global growth is expected to sharply decline into recession in 2020, reflecting significant shocks as a result of containment measures, including national shutdowns, giving rise to the disruption of supply chains, declines in external demand, and commodity price shocks. Given the magnitude of the crisis, coordinated global action is critical, while at the national level, consistent fiscal, monetary, and financial sector policies should be deployed to moderate the negative effects of the economic fallout and preserve lives.

World Economic Outlook

While we note that the global economy will contract sharply by 2.9 percent in 2020, we are less optimistic about the projected rebound in 2021. The WEO rightly acknowledges the uncertainty around the forecasts, highlighting such factors as the pathway of the pandemic, the intensity and efficacy of containment efforts, and the extent of supply disruptions, which make projections complex. However, given that the fallout could be far worse than during the global financial crisis, which saw a more gradual recovery, we wonder if the expected pace of recovery may be overly optimistic. Staff comments are welcome. That said, we welcome the Scenario Box which provides an illustration of a protracted recovery, indicating that more widespread and longer-lived containment measures would reduce global growth by 6 percent in 2020 and 3 percent in 2021. We found this assessment useful as it helps to manage expectations about the anticipated recovery.

We concur that the immediate policy response should focus on containing the economic fallout from the outbreak by increasing health care expenditure while adopting measures to reduce contagion. In this vein, we welcome the steps taken by the authorities thus far to contain the spread of the virus. We positively note that advanced economies (AEs) and emerging market and developing economies (EMDEs) have swiftly implemented targeted policy measures to maintain economic relationships during the shutdown, including through appropriate monetary easing and fiscal stimulus. Nevertheless, we wonder if staff intends to assess the effectiveness of these policy responses with a view to drawing important lessons.

Furthermore, we are concerned that prior to COVID-19, low-income countries (LICs) were already facing constrained fiscal buffers and high public debt, thus making it difficult for them to cope with the shock. Against this background, we support the call for a concerted multilateral response to support national responses. In this context, we welcome the joint call from the Fund and the World Bank to strengthen collaborative efforts in helping vulnerable countries to tackle the pandemic. At the same time, we welcome the announcement by other international multilateral institutions to avail multi-billion-dollar packages and facilities to lessen the economic and social impact of the pandemic on sub-Saharan Africa (SSA) and other developing regions.

For SSA economies, we note that growth is expected to decline sharply to -1.3 percent in 2020, largely underpinned by contraction of economic activity in Nigeria and South Africa, with growth projected at -3.4 and -5.4 percent, respectively. At the same time, the collapse in international oil prices diminished near term growth prospects for oil exporters. Given that the channels of economic vulnerability differ across countries in this region, the impact of the pandemic will be felt differently. In this respect, policymakers will need to implement targeted and country-specific measures to help affected households and businesses.

Global Financial Stability Report

We observe that global financial markets have been significantly impacted by the economic crisis induced by COVID-19, culminating in a flight to safe assets, a sharp tightening of financial conditions, and general dislocation of markets. Considering these challenging conditions, we welcome the bold and decisive actions by major central banks to relax regulatory requirements and ease monetary policy, including cutting policy rates to near zero and using asset purchases to inject liquidity into the financial system. That said, we emphasize the need for policy measures to address heightened risks in high-yield corporate bonds, leveraged loans, and private debt.

We note with concern the unprecedented and sharp reversal of portfolio flows in emerging market and frontier economies. Alongside the collapse in oil prices and increased global risk aversion, the sell-off in emerging and frontier markets has triggered sizeable exchange rate depreciation, especially among commodity exporters. Against this background, we endorse the temporary and appropriate use of capital flow management (CFM) measures as part of a broad policy package, noting that CFMs should not substitute for warranted macroeconomic policy adjustments. At the same time, we support the deployment of macro prudential policy (MPP) measures while allowing exchange rate flexibility to help address the destabilizing effects of the largest portfolio flow reversal on record. The effective reduction of broader capital flow disruptions, however, requires international coordination. That said, we note that the banking sector is facing a strong test despite progress made in building liquidity and capital buffers in the context of financial regulatory reforms. Could staff clarify the extent to which emerging banking sector vulnerabilities are linked to outstanding reforms?

We appreciate the instrumental role played by central bank swap lines in partially alleviating the liquidity challenges in emerging and frontier markets. This follows the deterioration in market liquidity conditions and the sudden drying up of sovereign bond markets. Within this context, we underscore the need for the Fund to deploy the necessary instruments to provide additional liquidity and avert a solvency crisis in emerging market and frontier economies. Importantly, an assessment of the adequacy of the various layers of the global financial safety net (GFSN) to deal with the current crisis is warranted. At the same time, we emphasize the need for a general SDR allocation to boost reserve positions in emerging market and developing economies.

Considering that many frontier economies and LICs entered the COVID-19 crisis with weaker initial conditions, the tightening financial conditions, commodity price declines, and exchange rate pressures, have

generated significant strains. Specifically, highly leveraged economies with upcoming bond redemptions, and limited policy space, will face rollover risks and may need debt restructuring operations. Further, negative spillovers on remittances, tourism, and commodity revenues, at a time when health expenditures are being ramped up to combat the epidemic, compounds fiscal and debt vulnerabilities among the world's poorest countries. This underlines the need to mitigate the health impact of COVID-19 on the stability of the global financial system.

Fiscal Monitor

We appreciate the Fiscal Monitor's focus on the critical role that fiscal policy should play in response to COVID-19 and welcome the call for urgent, comprehensive and coordinated global action to contain the impact on the global economy and assist low income and developing countries (LIDCs). LICs face sizeable financing constraints and need to deal with large health emergency challenges due to underdeveloped health care systems and limited capacity while addressing the economic fallout from the pandemic. In this regard, the mobilization of adequate grant financing would be important to fill the financing gap and help to avert a reversal of social and economic gains made thus far.

The pandemic necessitates unprecedented fiscal action to save lives, protect households most affected by the crisis, and maintain economic relationships. Considering that automatic stabilizers are less effective in many LIDCs given the under-developed fiscal institutions, we support the need to mitigate the impact of the economic fallout, through targeted interventions to cushion vulnerable households and firms. In this regard, we underscore the importance of preserving essential public services such as energy, utilities, transport and communications. We also emphasize the need for continued Fund policy guidance to manage the delicate balance between stimulating economic activity and preserving price and financial stability, amidst sharp output contraction.

Given the envisaged large-scale public support, good governance, transparency, and effective management of fiscal risks will be important. At the same time, as noted in the report, LIDCs face significant institutional and capacity constraints at multiple levels, including in the roll out of well targeted interventions. In this respect, efforts in capacity building will need to be sustained.

As we respond to the virus, we must hope for the best but prepare for the worst. Given the uncertainty on the severity and duration of the pandemic, and its effects on the global economy, we underscore the importance of flexibility in program design and related conditionality. Fiscal deficits and debt dynamics were already a challenge for many countries in 2019 and an

extended COVID-19 crisis could place extreme demands on LIDCs. Under these circumstances, consideration must be given to planning ahead and ensuring an adequate and accessible financial safety net for LIDCs.

Preparing exit strategies from the exceptional measures introduced during the crisis will be important for all countries. In this regard, assistance in developing exit strategies that would be required when the pressures of the crisis abate, will be beneficial. Once economies recover, striking a balance between addressing development needs and safeguarding debt sustainability, including through raising domestic revenues, improving the efficiency of spending, and facilitating private sector activity would remain key in LIDCs. In the meantime, a clear and consistent communication strategy that stresses the temporary nature of support measures can help manage stakeholder expectations.

Ms. Mahasandana, Mr. Tan, Mr. Abenoja, Mr. Mahyuddin, Ms. Susiandri and Ms. Yoe submitted the following statement:

We thank staff for the reports and the high quality analysis. The flagship publications are not only important for delivering timely economic, financial and fiscal assessments, but also a key communication tool for the Fund during this unprecedented crisis.

We broadly share the assessment of the global outlook and risks, as well as the policy priorities, and offer the following comments for emphasis.

WEO

We agree that uncertainty and downside risks dominate the outlook, even though the baseline projections already paint a grim picture of the 2020 growth outlook. With many countries at varying stages of the outbreak, the baseline assumption that the global pandemic will fade in the second half of the year to allow lifting of containment measures with limited adjustment seems somewhat optimistic. We therefore welcome the use of the Scenario Box to illustrate the economic impact of a worst-case scenario. What would be the policy advice to countries with limited policy space to support economic activities if the economic downturn turn out to be broader, longer lasting and deeper.

In the worst-case scenario, how would the unemployment situation look like and what would be the corresponding policy advice? Can staff also comment on the risk of jobless recovery, given that behavioral changes and the gradual unwinding of containment measures could delay hiring in the recovery period?

As economic growth could plunge deeper in the worst-case scenario, we are concerned about the impact on potential output. To what extent would potential output be shifted downward? And what will be the impact on the recovery path, particularly on the medium-term global outlook? What are the key policy imperatives beyond rapid recovery to help bring back income per capita to the original path? Staff's comments are welcome.

We see greater scope to enhance communication in the flagships to emphasize the need for multilateral cooperation. Risks of supply chain disruptions and trade restrictions on key supplies could affect countries' ability to contain the health crisis and have spillover effects to the rest of the world — the Fund can play a greater role in analyzing the impact and highlighting the associated risks. Similarly, on the need to provide multilateral assistance for financially constrained countries, the Fund can gain more traction by highlighting the impact on the global economy if such assistance was not forthcoming.

We also welcome timely revision of the economic assessment and regular updates on the policy tracker in response to the COVID-19 as the pandemic progresses. Staff should stand ready to revise the economic forecast and to communicate to the public in a succinct and timely manner to help reduce uncertainty for policymakers and financial markets. We also encourage the Fund to take advantage of its surveillance capabilities and cross-country experiences to provide policy advice that is better tailored to the stage of the outbreak that the country is in. We think this can help policymakers to better time and calibrate their policy response based on the pathway of the pandemic.

Although the immediate crisis calls for strong monetary accommodation and fiscal expansion, policymakers should still be mindful of the spillover effects and the long-term implications of their policy response. We call on the Fund to play a more active role in pointing or mapping out these "blind spots" and intertemporal trade-offs as policymakers deal with the immediate impact of the crisis. For instance, policymakers may have undertaken unconventional monetary policy (UMP) without full consideration of how to exit or unwind the UMP when the pandemic fades, and this could pose financial stability risks in the longer term. In this regard, can staff highlight some of the financial stability and long-term considerations that policymakers need to be mindful of when responding to the crisis. We are also interested to hear staff's view on the risks or unintended consequences that emerging market economies (EMEs) could face if they pursue zero lower bound policy or UMP.

GFSR

As noted in the GFSR, there are salient differences between this crisis and the global financial crisis (GFC), which in turn have implications on the policy response needed. First, we agree that banks may still act as a shock amplifier with many of them generally more resilient with stronger capital and liquidity buffers than before. Comparatively, financial stability risks stemming from the non-bank sector cannot be understated and warrant closer monitoring more than ever. Second, policymakers have also less monetary and macroprudential policy space at the start of the crisis. Third, the severity and complexity of this crisis as compared to the GFC could be larger due to the broader health, social and economic fallout. All in all, these differences complicate and accentuate the policy challenge at hand to balance between supporting near-term economic activity and not adding to financial stability risks or downside risks down the road.

We see greater scope for differentiation across the EMEs in the GFSR analysis. While there could be common factors driving capital outflows from EMEs, the composition of capital outflows, the impact of or resilience to the outflows, and the corresponding policy response differ across EMEs. For instance, Asia may be better able to weather this global storm, given the stronger fundamentals, improved regulatory and supervisory regimes, enhanced policy frameworks, lower external vulnerabilities and still-available policy space. We welcome staff's comments and suggest showing Figure 1.8, panel 2, left as the nonresident portfolio flows relative to the aggregate GDP by regions.

EMEs should be able to deploy a wider set of policy tools to manage the exchange rate pressures and large capital outflows. We agree that exchange rate flexibility should be used to facilitate orderly adjustment, however, in the face of disorderly market adjustments, the use of foreign exchange intervention (FXI) and temporary capital flows management measures (CFMs) may be necessary to maintain macroeconomic and financial stability. In this regard, we welcome the policy advice in the GFSR. We also agree that macroprudential policy measures (MPMs) should be considered to complement the set of measures.

Have resident outflows been significant so far to exacerbate the impact of nonresident flows on domestic financial markets? How would the policy options change under such circumstances?

This crisis underscores the need for a more durable solution to address protracted US dollar funding market strains. A tightening of US dollar funding conditions in recent months has triggered spillovers to EMEs, as they have limited ability to turn to other sources of US dollar funding — as highlighted in the Oct 2019 GFSR. While the opening of swap lines by the US Fed to

foreign central banks including a few from emerging markets has helped to ease the strains somewhat, structural fragilities in the US short term dollar funding markets as highlighted in the online annex continue to lie at the heart of the problem. We welcome further discussion on the role of central banks as lenders of last resort in providing US dollar liquidity especially in times of market disorder The Fund's proposals on short-term liquidity swap (SLS) and a swap-like facility are possible tools to help address the USD liquidity issues especially for EMEs. Staff's comments are appreciated.

FM

We welcome the comprehensive fiscal policy priorities highlighted in the report but encourage the Fund to provide more tailored policy advice in their bilateral engagement for countries with limited or no policy space, highlighting policy options available to them or 'policies of least regrets'.

The widespread economic fallout from the pandemic necessitates a strong policy response and large emergency spending. As such, we share the view that domestic legal frameworks should allow budget modification so that the existing fiscal rules can be suspended temporarily to provide timely, temporary and targeted support in this challenging time. This must be supported by clear communication from the authorities. However, once the situation improves, fiscal discipline must be restored with credible but more ambitious medium-term fiscal consolidation plans. However strong fiscal expansion in the current period could potentially reduce the government's ability to address structural reforms. Do staff see the risk of a delay in the structural reform agenda, particularly in EMEs, which could affect the speed of recovery in the post-outbreak period?

Mr. Poso, Mr. Damgaard and Mr. Evjen submitted the following statement:

We thank staff for the set of flagship reports and highly appreciate their efforts to analyze the global economic, financial, and fiscal outlook in an extremely challenging environment. The COVID-19 pandemic has inflicted high and rising human costs worldwide and has already had a dramatic impact on the global economy. We broadly share staff's analysis of the global outlook, the overall assessment regarding financial stability risks, and the fiscal challenges. We would like to offer the following comments for emphasis.

In the baseline scenario, the global economy will face a recession in 2020 far worse than during the 2008-2009 financial crisis. The baseline projections illustrate the severe impact on economic activity stemming from the COVID-19 induced health crisis. Nevertheless, there is a clear risk that the assumptions underlying the baseline may be on the optimistic side. Hence, we appreciate that staff has provided an alternative scenario to factor in the

extreme uncertainty around the global growth forecasts, particularly on the downward side. The Scenario Box illustrates that we could see a global recession much worse than under the baseline. In any case, sizable targeted policies complemented with broader stimulus at the national level will be required. Effective policies are essential to contain the outbreak and dampen the economic impact. Many countries have already implemented significant economic measures, and we appreciate staff's work on the IMF Policy tracker on responses to COVID-19. This is a valuable tool for disseminating timely information about countries' economic responses and facilitating international cooperation.

Regarding the baseline growth projections for EMDEs in 2020 (-2.0 percent excluding China), the fall in economic activity seems rather small considering the external demand shock, tightening of global financial conditions, the fall in commodity prices, and possible containment measures due to the spread of COVID-19. Can staff elaborate on the underlying assumptions?

We note that China maintains a positive growth rate in 2020 while the advanced economies, which are its main export markets, are projected to decline by more than 6 percent. In addition, the restrictive measures to fight the pandemic in advanced economies are following China with a two-month lag, which means that in addition to itself suffering from the restrictive measures in Q1 2020, China will also be hit hard by a decline in foreign demand in Q2 2020 when the advanced economies will mostly be at a standstill. Thus, the recovery in China is perhaps more likely to be U-shaped than V-shaped. We would appreciate if staff could elaborate on this, as well as provide their q-o-q growth rate projections for China.

As a result of the containment measures, job losses in advanced economies have been occurring at an alarming rate in the past few weeks. Many of these may be short-term layoffs but some jobs may be lost permanently. Staff's projections for unemployment rates in 2021 reflect very stark differences across countries. Some, like the US, have a significant and persistent increase in unemployment while some others, like Germany and the UK, have much milder effects. Could staff elaborate on the assumptions behind the unemployment numbers?

Given the speed of developments in the health crisis and in the economic disruptions, use of non-conventional data sources can provide a more real-time picture of the state of the economy. The use of big data and other technical advancements could be explored. Also, as countries are experiencing the peak of the epidemic at different times, those countries at an earlier stage in the process, like China and South Korea, could give early indications about the path to recovery for those coming some weeks or months

behind. Could staff elaborate what kind of data they are using to monitor and evaluate global and individual country developments?

The immediate priority should be to save lives and contain the economic fallout from the COVID-19 outbreak, especially by increasing health care expenditures to strengthen the capacity and resources of the health sector. At the same time, measures to reduce contagion should be adopted. Economic policies will also need to cushion the impact of the decline in activity on people, firms, and the financial system; reduce persistent scarring effects from the unavoidable severe slowdown; and ensure that the economic recovery can begin quickly once the pandemic fades. Automatic stabilizers and enhanced social safety nets should do their part. As stated in the report, different countries have different sizes of the public sector and different social security ambitions, which will affect both the need for additional discretionary policy and the overall effect of the crisis on the public finances. When comparing the size of fiscal policy measures to meet the crisis between countries, it is important that these calculations also include the automatic stabilizers or semi-automatic effects. Could staff include this information in Figure 1.1 (right panel) of the Fiscal Monitor?

The necessary and extensive fiscal responses to the pandemic will have an unavoidable impact on public finances. While this is not the time to focus on fiscal consolidation, attention should be given to transparency and efficiency of spending. In this context, we strongly encourage countries to ensure that their public financial management and anti-corruption frameworks comply with best international practices and request technical assistance from the Fund if needed. Moreover, this sudden and extreme shock to the global economy serves as a sobering reminder of the importance of building buffers during good times. Economies with fiscal space should now use it forcefully to stem the economic impact from the pandemic.

We welcome central banks' aggressive responses to the sudden stop in real activity and the rapidly tightening financial conditions. Monetary policy and liquidity measures play a crucial role in helping financial markets functioning. The broad international response helps generate the space for emerging markets and developing countries to use monetary policy to respond to domestic cyclical conditions. As noted in the report, the recent activation of central bank swap lines and the introduction of FIMA repo facility improve access to international liquidity. We agree that countries with flexible exchange rates should allow them to adjust as needed, intervening under disorderly market conditions to limit financial stress. For countries facing sudden and destabilizing reversals of external financing, temporary capital flow measures on outflows could be used, provided they do not substitute for warranted policy actions. Could staff provide information about countries that have used capital flow measures and whether they see more scope for such measures in this crisis?

Monetary policy measures have eased liquidity in some segments, including corporate debt and commercial paper markets, but not in riskier credit markets. Global US dollar markets conditions tightened but have since been somewhat alleviated by Fed Swap lines and other facilities. Central bank measures to support the corporate sector appear to have improved market functioning and eased near-term liquidity stress in certain segments. However, because no direct support has been provided to the risky credit markets so far, credit markets have shown signs of bifurcation. Should financial conditions deteriorate further, and credit downgrades and defaults rise meaningfully, staff advices that authorities may consider extending their support to risky credit markets. How does the IMF think these additional measures to risky corporates should be implemented as central banks usually have restrictions to invest in sub-investment grade assets?

We agree with the presented guiding principles for financial sector policy actions, where a delicate balance needs to be found between large scale support to economic activity and maintaining the stability and soundness of the financial system. Specifically, related to the banking sector loan renegotiations and forbearance should be encouraged, while at the same time maintaining the standards for assessing the quality of the loans and applying prudential accounting treatment of credit loss. Furthermore, existing capital and liquidity buffers should be used to absorb financial costs. As many of the measures presented are generally already in place in many jurisdictions, could the IMF bring forward any additional options for policy makers?

Broad-based policy stimulus is necessary to contain long lasting effects on growth. Under current circumstances, with lockdowns, social distancing, and other necessary measures to contain the spread of the coronavirus, the immediate effects of monetary policy easing on private demand are expected to be more limited than normally. Nevertheless, the easing will play an important role in getting the activity back on track as the containment measures are gradually lifted. A swift return of spending and economic activity is important to curb job losses and bankruptcies, which can have long lasting impact on potential output. As monetary policy will have limited impact on spending in the short term, fiscal policy plays a central role in containing the downturn through, for example, infrastructure investment, although also fiscal policy will most likely be more effective in stimulating spending after the outbreak recedes and containment efforts are scaled back.

Global cooperation and coordination are paramount to address the global nature of the shock and leverage the impact of national action. It is crucial that the membership stands united in the fight against the COVID-19 pandemic. We need to work together to suppress the spread of the virus and resuscitate the economy. Trade restrictions (particularly on medicines and other essential supplies) should be avoided. Cooperation is particularly

important in the race to develop a vaccine and effective treatments. Without cooperation and coordination, we risk an unnecessary protracted global recession and human costs. To this end, recent signs of improved cooperation between the larger economies is encouraging. International exchange of best practices and experiences about spread of virus and efficiency of pandemic prevention measures is crucial to stop the spread and limit the economic impact. Poorer countries will require the support of the international community to cope with the health and economic crisis. Close cooperation between the IMF, the World Bank, the WHO, and other international institutions is of essence in helping these countries.

We strongly support the IMF's timely response to the quickly unfolding global crisis. We agree that countries confronting the twin crises of health and external funding shocks may need bilateral or multilateral assistance to ensure that health spending is not compromised in their difficult adjustment process. In our view, key priorities for supporting Low Income Countries in this phase of the crisis are to increase access levels for the emergency financing facilities, gather more funds for the CCRT in order to be able to provide relief for the poorest members' near-term debt service payments to the IMF, strengthening the ability to provide crisis funding from the PRGT while maintaining the self-sustainability of the Trust, and ensure that the Fund continues to play a strong catalytic role. At the same time, we stress that the uptake of emergency funding must not compromise the sustainability of the individual borrower's debt situation, in line with all new Fund financing.

Mr. Buisse, Mr. Rozan, Ms. Gilliot, Ms. Albert and Mr. Sode submitted the following statement:

We thank staff for the quality of these flagship reports, rewritten under severe constraints. In this current volatile and uncertain environment, policymakers need more than ever qualitative macroeconomic projections and carefully crafted policy recommendations. In this regard, we value the scenario approach chosen by staff and broadly agree with the main policy recommendations. This said, key parameters determining the shape of the crisis and subsequent recovery remain highly uncertain at this stage, and regular updates will be needed before July. At this stage, the WEO appears to assume a somewhat slow recovery in 2021, in particular in Europe. Could staff elaborate if it reflects an underlying permanent output loss or just a protracted rebound?

This unprecedented crisis calls for swift, ambitious and well-designed policy responses.

Faced with an unprecedented combination of health crisis and economic recession, countries should swiftly implement policy measures to

limit its human, economic and financial toll. In a context of extreme uncertainty in the assumptions of the baseline scenario, this policy response should be guided by key principles: (i) prioritize measures to limit the contagion of the pandemic and support health systems, (ii) protect people, notably the most vulnerable, by maintaining an appropriate level of income, (iii) protect jobs by promoting partial employment measures to avoid labor market hysteresis, (iv) protect companies affected by the crisis to prevent temporary liquidity issues from evolving into solvency ones, while avoiding moral hazard.

In advanced economies, an expansionary and coordinated policy-mix is essential to cushion the impact of the crisis on people, firms and the financial system. We fully agree of the need of a large and appropriate combination of fiscal, monetary and financial sector policies to limit the consequences of the crisis on activity and mitigate its impact on financial stability. We also agree that fiscal policy will have the first role, but actions by central banks should keep on finding the ways to help finance it at reasonable terms. Restoring confidence, both for economic agents and financial markets is also crucial. Coordination among countries on the policy mix will be key.

Central banks have reacted swiftly and in a decisive manner including through further monetary easing, support to firms, SMEs, liquidity provision, and helping smooth the functioning of short-term funding markets. As underscored by staff, supervisors have also been innovative in relaxing constraints on regulatory requirements and macroprudential policies in a timely manner. Central banks and supervisory authorities should stand ready to do more while prioritizing segments according to their function in the economy and the financial sector. While gaps can be filled, in particular in the macroprudential policy field, adjustments in other areas like capital and liquidity buffers, liquidity provision and support to credit risk markets should be carefully contemplated and calibrated, in coordination with the relevant international standard-setters.

Fiscal policy is going to play a major role to support individuals and companies, and we agree with the key policy message that at this current phase of the epidemic, fiscal measures need to be targeted, temporary and progressive. Existing automatic stabilizers are essential but need to be complemented by additional discretionary measures. Countries should prioritize immediate support to the health sector, income support for the most vulnerable, as well as measures to protect jobs and viable companies. Countries with ample fiscal space should not hesitate to use it. Measures to help large companies should be conditional on preserving jobs and limiting CEO compensation, dividends, and stock repurchases. In the US, it is essential to protect people who are losing their jobs and ensure them access to health care services. In Europe, measures taken by the ECB and swift reaction of national fiscal policies, allowed by the activation of the exceptional

circumstances clause of the fiscal compact, constitute a historic effort. EU solidarity instruments to support member states' healthcare system have been mobilized. Given the exogenous nature of the shock and its potential negative economic consequences over the medium term, it is also essential that Europe introduces common tools to finance the recovery. The repetition of the GFC's aftermath, with a double-dip recession in Europe, must be avoided.

If some emerging countries have buffers to accommodate the crisis, weaker emerging countries and many LICs face the prospect of a brutal economic shock. Drop in external demand, currency depreciation, tightening in financial condition and large capital outflows, fall in oil prices are the major external shocks which can dramatically exacerbate the direct impact of the health crisis. Many emerging countries are more resilient now than in the past and have the capacity to deal with the crisis thanks to appropriate level of reserves, a flexible exchange rate and stronger macroeconomic policy and macroprudential frameworks. As in advanced economies, fiscal measures should be carefully calibrated according to each country's fiscal space. Where possible, countries which have monetary space could decrease the interest rate and consider unconventional measures. However, in vulnerable emerging and developing countries immediate fiscal measures will are needed but will encounter resource constraints. Countries which are highly exposed to foreign currencies debt or high borrowing costs, with high debt rollovers this year, as well as oil producers, will be particularly hit. When possible, flexibility of the exchange rate should be the main shock absorber, but it will likely not be enough. A broader extension of swap lines for emerging market central banks, as mentioned in the WEO, could also be helpful. We share staff's opinion regarding the possibility of temporary capital flow measures, provided they do not substitute for warranted policy actions. Could staff describe more precisely the different options countries have regarding the use of capital controls in the current context, with the type and criteria for calibrating? In fragile countries heavily affected by the crisis, and which are characterized by a weaker health system, constrained fiscal space and capacities and underdeveloped financial markets, the help of the international community will be essential. The importance of remittances and informality, and the absence of social safety nets, will have a particularly high toll on poverty. Finally, regarding specific cases of countries under sanctions, measures must be rapidly taken to ensure the delivery of vital medical supplies.

A global response by the IMF and other IFIs is needed to help EMDCs and low-income countries (LICs) to fight the crisis.

This epidemic is global in nature and will only be overcome through a global response. The IMF will play a key role in this regard. We strongly support the mobilization of the emergency financing facilities and the decision to increase access limits of these instruments. We encourage staff to swiftly organize the fundraising for the PRGT, to have the necessary firepower, both

in the crisis and in the recovery phases, as many countries will need to have successor programs. We strongly support a general allocation of SDR to support global liquidity and the extension of the IMF toolkit through the creation of an additional instrument similar to the SLS discussed in 2017.

The IMF should carefully calibrate its communication and continue to closely work with the international community to coordinate a global response. Given short term liquidity issues arising in LICs, we support the idea of a debt moratorium. France will actively promote the coordination of a debt service relief in 2020, targeted at the poorest countries, where all creditors, including multilaterals, would participate. Policy coordination among IFIs and other multilateral institutions is crucial. It will help to ensure healthcare provision for all, provide an effective global stimulus with positive spillovers, help contain capital outflows, and thus contribute more quickly to the macroeconomic stabilization and recovery. The G20 and G7 will have a key role to play in this regard.

It is essential to prepare the recovery by limiting hysteresis effects and adopting sustainable and resilient growth models.

While the world is facing a short-term crisis, it is essential that measures taken today also form the basis for a sound recovery tomorrow. We fully support the message from the reports that the sequencing and timing of policy support is key: while stimulus measures are containing the amplification of the shock now, temporary income and liquidity support will have to be scaled back as lockdown measures are gradually lifted and growth recovers. They should be replaced by more traditional measures to boost demand with a focus on job creation and investment aimed at a sustainable recovery. However, on the financial side, attention should be given to repairing private sector balance sheets through loan restructuring and swift recognition of non-performing loans. A balanced approach of the accounting treatment of credit losses in the banking sector and efficient bankruptcy procedures should be conducted efficiently.

Building a more sustainable and resilient model post-crisis will have to be based on at least two guiding principles: First, the protection of the most vulnerable will have to be ramped-up especially as the crisis will have the biggest and longest-lasting impact on them. Women are among the most exposed and measures should take into account this dimension. Demand for public expenditures in the health sector and more generally in human capital could be much higher after the crisis. Coupled with high level of public debt, this will call for domestic revenue mobilization and (politically complex) expenditure prioritization and ensuring that tax systems are progressive. Second, efforts to tackle climate change should not be rolled back or put on the back burner and should be intensified. We feel that it would have been worth mentioning in all first chapters' reports at least. While we painfully

discover that the welfare costs of a pandemic are huge, the short- and long-term consequences of persistent climate change could be even more dramatic. The current crisis also demonstrates that the predominant role of oil has even more than in the past exacerbated risks for oil producers but also for financial markets, which underlines again the importance to diversify more quickly our energy mix. Maintaining a high level of ambition for our climate objectives, even in the recovery phase, is thus crucial.

Finally, even stronger international cooperation will remain an absolute necessity to ensure a sustainable and inclusive recovery, as we define what the "new normal" will be. Active international cooperation will be especially needed in the field of trade, finance, tax, health and climate change.

Mr. Chodos, Mr. Lischinsky, Mr. Dips, Mr. Morales, Mr. Corvalan Mendoza, Ms. Moreno and Mr. Vogel submitted the following statement:

The unprecedented COVID-19 pandemic has severely hit the world and humankind, affecting multiple dimensions of economic activity and social life. Countries have reacted introducing harsh but necessary containment measures that are having a sizable economic and financial impact on their societies. Unfortunately, a greater effort appears necessary to mitigate the impact of the crisis and to minimize its consequences in the medium and long term. Against this backdrop, we believe that the Fund has a crucial role to play, not only by providing financial support and technical assistance, but also by preparing robust analytical work to guide the advice to country authorities.

The analytical work involved in this World Economic Outlook Report (WEO) exercise is especially complicated in the current circumstances of extreme uncertainty and sharp declines in output and key prices, that make it difficult to rely on precise assumptions. Given these very atypical circumstances, we wonder if the situation would have merited a different approach regarding the WEO's projections, for instance, by indicating ranges rather than point values. We believe that the Fund should recognize the current limitations to conduct its usual analysis in the face of the scope and the extent of this exceptional crisis and consider presenting a range. In the same vein, given the difficulty of taking into consideration idiosyncratic factors that counteract the pandemic effects, region-wide projections should be presented, opening up to individual projections for larger economies.

Given all these difficulties, we congratulate staff for its efforts to put together the analytical work underpinning the WEO. The analysis comprises a clear picture of the global crisis and related responses and risks, and clearly illustrates the unique nature of the crisis triggered by the global pandemic. The WEO evaluates the channels through which the crisis propagates, impacting on both the supply and the demand side of countries' economies, and elaborates on some of the factors that affect them related to expectations

and behavioral aspects. We fully agree that the depth of the crisis will be unparalleled. The magnitude of the global recession projected in the report for this year is far worse than the 2008/2009 global financial crisis, with a projected global GDP of -2.9 percent for 2020 versus 0.1 percent in 2009. Furthermore, the WEO shows an exceptional synchronized recession, with only eleven member countries projected to avoid an economic contraction in 2020. Even in these cases, countries would experience sizable corrections compared with past projections.

We believe that the Fund has a critical role in providing key messages through proper communication, especially in this environment of extremely heightened uncertainty. In fact, one of the most relevant and recurrent words that appears in the report is "uncertainty", as the report rightly underscores the "extreme uncertainty" that surrounds the crisis and the assumptions behind the WEO's baseline scenario, highlighting that many factors surrounding these assumptions are definitively out of our area of expertise, chiefly the pathway of the pandemic, the progress in finding a vaccine, the effectiveness of therapies, the intensity, and the hardly predictable effectiveness and duration of the containment and mitigation measures, among others.

Under these circumstances, it is clear that there are significant risks of an even worse outcome; and for this reason, the report elaborates an alternative scenario that departs from the baseline in three areas that are closely associated with the evolution of the pandemic. Looking at both scenarios, we find it very difficult to discern whether the baseline scenario is more likely to materialize than the alternative one. The report indicates that some of the patterns of the baseline scenario are based on the path followed in China during the first quarter of the year, with a sharp decline followed by a gradual recovery. However, not only is China's recovery not fully assured, but the impact of the ongoing shock in different countries will depend on idiosyncratic factors and countries' particular circumstances, including the size and effectiveness of the desirable and targeted policies that countries follow to respond to the COVID-19 shock.

A key driver of the recovery which, as mentioned earlier is hard to predict, will be the success of the containment measures and, therefore, the gradual lifting of the lockdown. In that regard, it is important to note that the countries in our chair show promising signs in decreasing the pace of contagion, with different degrees of non-pharmacological containment within the region. In addition, the current situation in many of them is a partial lockdown, meaning that key economic sectors are still functioning. Could staff comment how these idiosyncratic situations weigh on country projections?

We agree with staff that policy makers face a double objective, namely supporting economic activity and safeguarding financial stability. Against this

unprecedented challenge presented by the COVID-19 pandemic, financial markets have reacted abruptly, with a high degree of synchronicity, and against a background of elevated uncertainty, as noted in the Global Financial Stability Report (GFSR). Asset price movements have been amplified and financial conditions quickly tightened, while market liquidity has deteriorated. The plummeting of oil prices added to global volatility, which has reached levels much higher than those observed during the European banking crisis, as measured by the VIX index.

As previously mentioned, scarcity of available information and more importantly its unreliability, are fueling flight-to-safety behavior, targeting liquid assets. If the external pressure persists, it will test Latin America's capacity to sustain the positive gains accumulated in previous decades. well-crafted communication strategies will be required both from the side of Fund and from our authorities, to inform the public how sizable the global recession will be over the course of this year, including in our countries. Moreover, a correction of this magnitude occurs in a short period of time, namely three months (since the January 2020 WEO Update), which, in conjunction with the actual figure is a strong sign of alert that may have an unpredictable negative impact on financial markets. The already elevated level of uncertainty will be a challenge for global policy makers. Not to mention when our authorities are attempting to measure the impact on each country's GDP in such a short period of time, with scarce information. This is an additional reason to consider the use of a confidence interval around the point projection of GDP, taking into consideration financial uncertainty. We understand that the growth-at-risk exercise could also be used as a complement to a fan chart projection based on uncertain financial conditions. Could staff provide a qualitative assessment of how sensitive the width of the band could be with respect to international financial conditions, counteracted by idiosyncratic containment measures?

The sudden stop of economic activity has hit emerging markets hard, which have seen their currencies depreciate, and in some regions, capital outflows have been sizable. Nevertheless, Latin America has been relatively more resilient. Chile and Peru for example, with a large presence of non-resident investors in the local market, and large domestic institutional investors, have not experienced significant outflows. Markets are still open for sovereign and private issuance (e.g. Panama), even though the spreads are significantly higher. The countries in our chair that are facing relatively larger impacts of the pandemic have taken bold measures on the fiscal, monetary, and financial fronts, against the background of sound financial systems. Liquidity risk and reinforcing the credit channel are concerns at the international level, which are shared by our countries. Chile and Peru have recently decreased the monetary policy rate 125 and 100 basis points, respectively, and together with Argentina, have implemented a series of measures to support the liquidity in local financing markets. Eventual cash

flow shortages in the corporate sector, as well as investment funds, are a concern that our authorities are closely monitoring. Measures on the monetary and financial front are being taken amidst sizable fiscal stimulus. Peru (7 percent of GDP), Chile (4.7 percent of GDP), and Paraguay (2.5 percent of GDP), show the strongest fiscal response, followed by Argentina, with a fiscal package that amounts to 1 percent of GDP. As discussed in previous GFSRs, asset managers present high vulnerabilities. For the time being, the observed outflows, which have been massive for investment funds, are still smaller than their cash buffers. Nevertheless, if redemptions accelerate, they may be forced to sell high-quality liquid assets, amplifying the decline in prices. Central bank purchases of corporate bonds are a liquidity management mechanism, which, if there are no legal constraints for its implementation, can complement other liquidity facilities.

Banks could act as an amplifier should the crisis deepen further. Financial vulnerabilities, in particularly in the Euro Area and China, appear as a concern (Figure 1.10) but banks in other regions hold higher capital buffers than in the global financial crisis. We echo staff in the assessment that these buffers, combined with enhanced regulation and coordination amongst supervisors, will allow banks to absorb losses and better manage liquidity pressures. Central banks are also in better shape to provide the needed liquidity and support the credit channel. The exposure to real estate debt is high, so the recent widening of commercial-backed securities is a development that should be closely monitored.

Fiscal policy, more than ever, is playing a central role in helping to prevent the amplification of the pandemic and contain plausibly prolonged damage on activity and employment because of the shutdown, as highlighted in the Fiscal Monitor Report (FM). Actions should be swift, timely, and involve large scale measures. They should be targeted to providing support to small and medium enterprises facing cash-flow problems, as well as state-owned enterprises operating in key sectors; protecting household income—including direct transfers, tax measures, and replenishing of the unemployment insurance mechanisms—and; most importantly, financing health spending on testing and treatment, as well as the necessary medical equipment.

The above measures will negatively impact fiscal balances and public debt levels. We take note that some countries are starting from a position that presents vulnerabilities, including emerging markets and developing economies. Nevertheless, extraordinary times call for extraordinary measures, and above all, a humanitarian crisis must be avoided. The countries in our constituency have responded with strong fiscal efforts and are committed to continue monitoring the unveiling of the disease and assessing the alternatives to react to new developments. When the pandemic crisis starts to recede and shutdown measures are gradually lifted, the economy will start to pick up.

However, not all sectors will go back to their pre-crisis dynamism, as social distancing would likely be a concern, as public crowded places (e.g. shopping malls) are likely to be avoided. Hence, even though we agree that restoring fiscal discipline is important, the Fund's public communication should avoid giving the impression that measures should be removed quickly as opposed to being condition-based and state-dependent.

Poor countries with weaker health infrastructures, and which rely heavily on remittances and tourism, will be more negatively affected as related flows will be deeply hit by the pandemic. For countries with limited fiscal space, weak public finance management, and no market access, conditional financing is of the essence. We welcome the Fund's strong commitment towards channeling financing assistance to the most poor and vulnerable countries. The efforts by management and staff in expediting the financial request procedures, relaxing access conditions, and calling for donors to replenish the PRGT and CCRT, are commendable.

The sharp drop in most commodity prices further complicates the outlook for commodity exporters. Fiscal revenues will fall sharply as the effect of lower prices compounds with the negative impact of lower activity on tax revenues. Activity will be further depressed as well, since the commodity sector represents a significant share of GDP, and the current account balance will also take a toll. In many countries, the financial channel will also operate strongly and consequently the drop of commodity prices would reinforce the loss of value of the domestic currency, negatively affecting the stock market as expectations of future growth weaken, leading to capital outflows.

Countries are experiencing downward pressures on inflation and significant reductions in inflation expectations because of the sharp economic slowdown. In addition, lower commodity and oil prices would also weigh on lower inflation. The downward effect is most likely going to counteract the passthrough effect of currency depreciation. In this regard, the tradeoff that monetary authorities face is less of an issue and monetary easing can be implemented as needed, complementing fiscal efforts. For instance, providing liquidity and sustaining the credit channels would allow banks to continue lending to firms and households, alleviating cash-flow and disposable income constraints.

More generally and perhaps the most critical message that we would like to convey is that global problems of this kind and magnitude require global solutions. As noted several times in the reports, the crisis is affecting the whole world, with very few exceptions. Advanced economies have much more economic and financial resources to face the pandemic and its consequences. Nevertheless, low-income countries, as well as emerging and developing economies, are generally in weaker positions to face it. In

addition, we encourage the Fund to redouble its efforts to better and further assist its member countries, not only through financial assistance, but also by being innovative and creative in designing alternatives aimed at alleviating the burden of countries in this difficult period.

Mr. De Lannoy, Mr. Jost, Mr. Voinea and Mr. Manchev submitted the following statement:

We thank staff for their hard work during this challenging period. The spread and pace of the COVID-19 pandemic has caught many of us off-guard. The Fund's research and policy recommendations will be crucial in dealing with the economic and social fallout.

General observations

Once the immediate impact of the pandemic is addressed, strong policy actions will be required to avoid the outbreak of zoonotic diseases. Scientists have warned of the risks of zoonotic diseases like Ebola, SARS, and now COVID-19, and their transmission through wildlife trafficking and the lack of adequate hygiene standards. The scale of the economic and social impact of COVID-19 is unprecedented and highlights our vulnerability to such pandemics in a highly integrated and globalized world.

The unprecedented economic and social impact of the COVID-19 pandemic leads to important uncertainties in the projections presented in the WEO, GFSR and Fiscal Monitor. The Fund and its membership will need to continue monitoring the developments and adapt their responses accordingly. Despite the uncertainties, several indicators and initial projections point to severe economic, financial and fiscal risks, some of which are already materializing.

Significant fiscal efforts will be required to respond to scenarios not encountered on this scale in recent history, and to avoid permanent damage to our economies and social structures. In order to maximize the positive impact of policy actions and minimize fiscal costs, we agree with staff that it is vital to implement well-designed and targeted policies. Given the depth of the global crisis, some policies may require out-of-the-box thinking. We also underline that international coordination and cooperation will be crucial to overcome this global crisis.

Finally, the economic and social impact of COVID-19 has highlighted the importance of adequate investments in health care and social security systems, as well as the need for buffers in both the private and public sectors to deal with shocks. Following the Global Financial Crisis, banks have been asked to increase capital levels and buffers. Many companies in the private sector requesting government support or laying off employees as a result of

the COVID-19 pandemic have distributed dividends or bought own shares for significant amounts. To avoid that profits are privatized in good times, and the losses are nationalized in times of a crisis, higher buffers do deal with (exogeneous) shocks should be contemplated and built over time.

World Economic Outlook

The baseline scenario presented by staff shows that a V-shape recovery remains possible in light of the strong policy measures that countries have put in place. At the same time, the downside risks are substantial. Most private sector forecasts seem to have moved from a V-shaped recovery to a more protracted downturn. Our authorities too are increasingly taking into account less benign scenarios in which we find ourselves in a global recession.

A precise identification of the various economic shocks and their transmission channels and spillovers are warranted. We see three key challenges for a rebound in global activity.

First, supply chains and transportation links have been disrupted worldwide. The distributional effects between sectors and regions need to be recognized and properly addressed. The spread and pace of the COVID-19 pandemic varies from region to region, and sometimes even from country to country. Even when economic activity picks up in one region or country, the rebound will be hindered by supply chain and transportation challenges in other regions or countries.

Second, not all activity will return to its pre-crisis levels as a result of bankruptcies and/or strategic decisions (e.g. not restoring less profitable activities).

Third, the impact on households due to (partial) loss of income and governments due to the cost of the measures taken and its implications for debt sustainability, will have longer-time consequences for consumption and investment.

Could staff clarify whether the analysis considered market indicators as proxies to project economic growth, trends in global trade, and employment? Could staff elaborate on under what circumstances the scenario in which more widespread and longer-lived COVID-19 containment measures are needed would become the baseline scenario?

Global Financial Stability Report

We share staff's views that the systemic shock as a result of the COVID-19 pandemic is different than during the Global Financial Crisis. The

systemic shock did not originate in the financial sector, nor was it the result of a specific market failure. To mitigate the economic and social impact, non-financial companies and employment need to be supported, which makes this crisis more complex and more costly than rescuing the financial sector during the Global Financial Crisis.

The GFSR mainly focuses on the short-term crisis implications and solutions. More widespread and longer-lived COVID-19 containment measures, however, may turn existing liquidity problems into widespread solvency problems. Financial market conditions are tightening at a moment when financing gaps are increasing worldwide. As mentioned earlier, we see important challenges for activity to rebound. This may have an important impact on natural interest rates and asset prices, including in the real estate sector, for a longer period of time, with negative reinforcing effects on the financial sector. Staff comments on the magnitude of the impact on interest rates and asset prices in the mid-long run are welcome.

We broadly agree with the analysis on risks and conclusions, but we believe the following two points require further consideration:

The GFSR recommends EMDEs to allow their currency to depreciate in order to deal with external pressures. As a general recommendation we support this view. At the same time, it is important to avoid overshooting, which would complicate the recovery and add to the economic and social strains. It also exacerbates the problem of highly dollarized or euroized economies by increasing debt burdens and possibly triggering a fire-sale of local currency bonds.

The GFSR argues that risks are higher for countries with banking sectors with an important home bias in holding large shares of government bonds. One of the important lessons of the Global Financial Crisis was the feedback loop between banks and sovereigns as a result of inter alia the negative consequences of a zero-risk weighting for government bonds and the absence of concentration limits. This exacerbated the crisis in several countries. At the same time, in certain instances an important holding of government bonds by the local banks would provide a cushion against market volatility and capital outflows if the share of international investors would have been higher. In many countries it also helps the transmission of monetary policy.

Fiscal Monitor

We share staff's very sobering assessment on the severe economic effects, ample fiscal risks and serious challenges that lie ahead. The pace and uncertainty of developments add to the difficulties in devising appropriate fiscal policies. We agree with staff that for many countries the starting point

of this external shock was already precarious, which adds to the urgency to take swift, bold and well-targeted measures. Going forward, it will be important to continue taking sound policy steps considering medium- and long-term repercussions. We fully agree with staff that the size of the impact on public finances will be in function of the forthcoming policy response. Even if there is no one-size-fits-all solution, the Fund's advice and research is of vital importance for both the short and medium-term.

Priority spending should focus on addressing the economic and social impact of the COVID-19 pandemic. Targeted measures are needed to assist those affected by the crisis. Many of our Constituency members have implemented measures as a first response, in line with the recommendations contained in the Fiscal Monitor, including government-funded paid sick and family leave, targeted transfers, unemployment benefits, wage subsidies, deferral of tax payments and/or state guarantees. At the same time, we concur with staff that such measures come at a high cost and that policy actions will be needed in the months ahead to ensure that fiscal and financial policies remain sustainable.

Staff's call for a reprioritization of expenditures following the initial shock in emerging market and developing economies also holds for advanced economies. At the same time, we support staff's call to assist those parts of the membership with limited capacities, in order to enable them to more effectively tackle the crisis, both now and later on.

Ms. Riach, Mr. Ronicle, Ms. Andreicut, Mr. Chrimes and Ms. Nelson submitted the following statement:

The IMF's surveillance and policy advice matters most when it is most difficult: when its membership is facing uncertain and challenging events. We recognize staff's hard work against a rapidly evolving external environment. This statement sets out our view of what has happened, what may happen next, and what the Fund and its membership therefore need to do. It considers what works well in these draft documents, where our main concerns lie, and suggestions for addressing those concerns. The clarity, coherence and tone of the message the Fund puts out is particularly important. The format of the flagships will have a big impact here. How economic projections are framed, and what the documents state or imply about policy responses so far, matters.

WHAT HAS HAPPENED?

The world is in the midst of a global health emergency. The pandemic and measures necessary to tackle it involve severe negative economic consequences. The Fund is right to stress the primacy of the health response – and the economic consequences of not taking the health emergency seriously.

The public health shock has surged through China, much of western Europe, and the US over the first quarter, and is now reported in more or less every country globally. In those economies where the virus has already taken root, its impacts and the associated health policy response have already had major economic impacts. PMI and unemployment-related data begin to show the magnitude of the economic shock.

From here, the public health shock looks likely to take off to a similar extent in emerging markets and low-income countries.

The outbreak triggered market volatility and a significant tightening in global financial conditions. Volatility in advanced economies has dropped in response to policy action, which has also offset some of the tightening. But some markets remain impaired, and many emerging and frontier markets have lost market access and have seen record capital outflows, eroding policy space. The collapse in global demand has driven down commodity prices, compounded in oil markets by increases in supply, eating up policy space in commodity exporters.

Particularly in advanced economies, massive economic policy action has been taken to help mitigate the impact of public health interventions, bridging across to the recovery. This action has spanned monetary, fiscal and financial policies, including some extraordinary measures. Fiscal policy has been loosened, both generally and in ways specifically designed to target those most affected. Monetary policy has been deployed similarly, to provide stimulus and targeted liquidity support. We are also seeing dividends from the more robust financial stability frameworks put in place after the Global Financial Crisis (higher capital and liquidity ratios, enhanced supervision, macroprudential frameworks, along with in-built flexibility to respond to shocks) – helping ensure the financial system continues to provide credit. We welcome the prudential relief provided thus far and the ongoing regulatory policy coordination.

But while most authorities now seem to accept the primacy of the health emergency in the near term, there is a clear trade-off between the scale and duration of health interventions and the impact on the economy, and that will only grow the longer containment measures remain in place. What advice can staff offer on getting this balance right?

WHAT MIGHT HAPPEN NEXT?

The set of shocks hitting the global economy will create an unavoidable, deep and rapid deterioration in economic activity in the near term. The magnitude of that deterioration is inherently uncertain, and while the flagships generally do a good job of making this clear, consistency of tone is crucial.

We are concerned that there is too much focus on point estimates from the baseline scenario in the WEO, given the uncertainty and data challenges in putting together this forecast. To this end, the assertion in the first paragraph of the WEO that "the pandemic will cause the global economy to contract by 2.9% in 2020" may be unhelpfully definitive and should be caveated. We would find more consideration of ranges and alternative scenarios helpful. Nevertheless, early data give some indications of the potential scale of economic impact, and the WEO's 2020 projections for advanced economies are in the range of plausible outcomes, if perhaps towards the optimistic end.

The great unknown – and our greatest concern with the Fund's assessment of advanced economies – is what exit from containment strategies will look like. This is not a normal economic shock: governments have shut down large swathes of their economies, which does not happen in "normal" recessions. The nature and scale of economic policy responses has also been different. The reports do not do enough to unpack this, and risk drawing too heavily on recent crisis experiences, most notably the Global Financial Crisis. In particular, more graduated detail on the implications of longer containment policies (including for scarring), and analysis on how authorities should therefore approach exit strategies, would be helpful to policymakers.

Our base case is that the shock is temporary, and – as noted in the documents – has been met in many advanced economies by strong and swift policy responses largely aligned with staff's proposals. This includes measures to try to minimize permanent scarring effects – an important focus of UK efforts. Staff rightly flag scarring as a concern, though the reports offer limited insights to policymakers on how to prevent it. If economic policy actions work as intended and the outbreak can be contained within the second quarter of 2020, with an unwinding over the rest of the year, then exit could mean a strong and rapid rebound, particularly in those countries with the most robust health systems and the greatest policy space. The 4% of GDP gap projected for end-2021 relative to the pre-COVID-19 baselines in advanced economies looks large against those assumptions. How quickly do staff anticipate that gap closing beyond 2021? What is assumed on scarring in the baseline, and why? Will the WEO database – a key resource – offer full five-year forecasts as usual, and if so, what insights will it offer?

Meanwhile, at least on the basis of recorded cases, the outbreak is in its early stages in many emerging markets and low-income countries. Cases may rise sharply. The public health interventions adopted by advanced economies may not be the most effective or credible ones for emerging and developing economies, where economic life, institutional strength and the epidemiology of the epidemic could all be very different. Many of these countries face a "perfect storm": a complex layering of health, financial and commodity price shocks; poorer information, weaker capacity and lower

policy space (in both health and economic terms); and thus an even more challenging set of trade-offs.

Given all of this, we fear the WEO baseline for many of these countries looks too optimistic, with less severe reversals than their advanced economy peers, despite the additional challenges they face. Underplaying the risks to more vulnerable economies could have severe implications. We would welcome more explanation about why staff see less severe downwards revisions to projections for many emerging and developing economies, relative to advanced economies and China.

We also note that for many emerging and developing economies – in sub-Saharan Africa, India and much of Latin America, for example – fiscal positions show only limited deterioration (from admittedly weak starting positions) in the projections. Elaboration on what is driving this part of the forecast would be welcome.

Across the board, while there may be some upside scenarios, we agree that risks to the 2020 baseline forecast are clearly tilted to the downside, in particular because:

From an epidemiological perspective, we do not know how long containment measures will need to last, how straightforward they will be to relax, or whether they'll need to be introduced in response to successive waves

From an economic perspective, we do not know how much damage we can prevent, with unemployment already rising sharply in some places in spite of strong policy actions. Nor do we know the extent to which pre-existing vulnerabilities (e.g. high public debt and corporate leverage) will amplify the downturn and/or hamper the recovery.

WHAT DO WE NEED TO DO?

A single and coherent global perspective in the flagships, properly tailored to acknowledge the different needs of the membership, is an important part of getting the communications right. We would have preferred a single document to help deliver clarity of message. In whatever format, it is important that the most important messages and most helpful detail from the GFSR (e.g. the analysis of challenges faced by emerging markets) and the largely excellent Fiscal Monitor are reflected in the WEO. In particular, the WEO needs to better reflect concerns about debt and external positions, especially in emerging and developing economies, not least as this can represent a constraint on what financing support the Fund is able to offer. We also consider that the GFSR language can be improved to better highlight the

robust framework provided by the global post-crisis reforms in dealing with the crisis and the importance of continued global cooperation in this area.

The Fund's basic framework for members is right: i) support health interventions; ii) preserve the economy ("bridging"); iii) support a recovery. Much of the detail, particularly in the GFSR and the Fiscal Monitor is helpful. But some of the proposed timings are confusing. The flagships seem to suggest that policies for recovery can wait. But given the complexity of planning these well (e.g. infrastructure spending) and policy lags (e.g. 18-24 months for monetary policy), many recovery policies need to be implemented now, alongside targeted bridging measures to provide immediate support.

The analysis in the flagships offers policymakers only limited guidance on what deviations from the central baseline set out here might mean, beyond the binary, more prolonged scenario presented in the supplementary box. Helping policymakers interpret the triggers and implications of shifts from the baseline scenario – and whether this should change the broader policy mix – should be a priority for the Fund's surveillance. For example, what are the impacts to the 2020 baseline if longer containment periods than those assumed here are required, without jumping straight to the more prolonged scenario? If this more nuanced advice cannot be done for these flagships, it needs to be part of the follow-up.

Recovery would be further supported by responding to the challenges that were previously damaging the global economy, such as rolling back trade barriers, tackling climate risks, and a renewed push on structural reforms. The back of the Fiscal Monitor rightly picks out some of this. It should not distract from the primary focus of the reports, but is an important message.

In addition, suggested policy actions in the flagships are heavily skewed towards advanced economies (particularly in the WEO), where there is policy space and capacity to administer significant health and economic measures quickly. The policymakers with the weakest toolkits and facing the biggest constraints – those with the most pressing need for advice – receive the least from these flagships. The discussion of some emerging market policy tools (particularly capital flow measures and foreign exchange intervention) is largely confined to the GFSR. And there is little advice for low-income countries. Can we draw on other health emergencies (most notably Ebola), previous commodity price shocks (such as 2014), and tightenings in financial conditions (e.g. the Asian Financial Crisis and the "Taper Tantrum") – without falling into the trap of seeing this unique crisis through the lens of these more contained past experiences – to provide more granular, targeted advice across the full membership? How should low-income countries, and donors, respond to uncertainties around ODA flows at the same time as low-income countries' own domestic resources are facing unprecedented pressures? How can poorer economies safeguard the hard-won gains of recent

years? How can the informal sector be supported? What can countries do when safety nets are weak?

We also consider that it is essential for the Fund to get the right messages across on financial market developments and the policy response to the outbreak. In this context, we judge that the GFSR coverage of the banking sector comes across as too negative. The GFSR should set out clearly that banks today are in a much better position than during the Global Financial Crisis. This includes higher capital and liquidity ratios, a stronger macro-prudential framework as well as regular stress tests. Banks are therefore much better placed today to absorb shocks and continue lending to the real economy. We would caution against an over-reliance on banks' market valuations when judging bank capitalisation. Price-to-book figures may not be an appropriate indicator of asset quality. We are not witnessing a re-run of the Global Financial Crisis. The financial sector is not the source of the problem and must be part of the solution.

The strong position banks are in today is a direct consequence of the robust post-crisis financial architecture. The GFSR should acknowledge this and stress the importance of maintaining common international standards and avoiding market fragmentation. Going forward, it will be important to continue using the flexibility built into the regulatory framework. The GFSR should also note that where implementation timelines are adjusted, this should be done without adjusting the underlying substance of reforms. Finally, we also consider that there is scope for fine-tuning some of the key GFSR messages to ensure alignment with recent developments, particularly on the regulatory front (e.g. the April 3rd Basel Committee announcement on additional prudential measures to alleviate the impact of COVID-19).

The flagships should be the assessment that underpins the Fund's response to COVID-19. This leads to six key summary considerations:

Given the unusual challenges in building projections, and the inherent high uncertainty, the flagships should avoid over-emphasizing point projections in its baseline scenario. They should also offer more insight to policymakers on what deviations from that baseline – in particular if containment policies remain in place for longer than assumed here – might mean.

The flagships should not undermine the (in our view, strong) case for an IMF focus on emerging markets and low-income countries in the current crisis. As currently drafted, many emerging and developing economies seem to fare better than their advanced economy counterparts in the projections. There is limited policy advice tailored to challenges facing emerging and developing economies and it is not sufficiently prominent.

The flagships need to place a balanced focus on limits to policy space. While this needs to be carefully communicated, it would support the immediate priority of deploying (and enhancing) the rapid instruments.

The flagships may need to more prominently emphasize the constraints indebtedness imposes. This would help justify the focus on enhancements to the CCRT and plans like the "COVID-19 Debt Initiative".

The flagships could also better illustrate the scale of external vulnerabilities. This would demonstrate the need for greater use of precautionary instruments, the introduction of an SLS-style instrument, and the potential benefits of a new SDR allocation (even if this might take time to deliver).

If the $2.5tn estimated financing need for emerging and developing economies over 2020 is underpinned by economic projections that seem potentially overly optimistic, we should consider the implications this may have for the adequacy of PRGT and GRA resources.

Finally, looking beyond this set of flagship documents, we need to consider how the Fund's surveillance role should adapt to best serve the membership in the current crisis. Given the acute uncertainties, there is a need to keep the membership informed of the Fund's evolving assessment on a more regular basis than the standard WEO cycle. We would welcome staff perspectives on how best to deliver this ambition.

Mr. Villar, Mr. Guerra, Mr. Moreno, Ms. Arevalo Arroyo, Mr. Montero and Ms. Mulas submitted the following statement:

We thank staff for an excellent set of reports that comprehensively cover the economic outlook, the financial markets conditions and policy challenges, and the huge fiscal dilemmas under this unprecedented crisis.

We welcome the WEO approach of, first, emphasizing the need to forcefully tackle the health emergency and, second, providing a baseline economic scenario, while subject to high uncertainty. Managing expectations is a central element in addressing the economic impact of the COVID-19 crisis, and the Fund plays a key role as the reference institution for providing global and countries' outlook.

We would highlight two main messages that should come out of the outlook:

(i) We welcome the WEO baseline approach—sharp fall in 2020 and rapid recovery in 2021—while signaling at the same time its extreme uncertainty, as reflected in the scenario box with more widespread and

longer-lived COVID19 containment measures. We will have the opportunity in the WEO update in July to have a better assessment of the costs of the virus and of the policies to contain it, as well as of the mitigating impact of the policies to sustain the economy.

(ii) We also think that it is important to avoid any messages that could be interpreted as trade-off between health and the economy. Here, we would welcome a more explicit language on the lack of a trade-off along the lines of the MD's public communications.

On policy recommendations, we would like to see:

(i) A bolder approach on policies for the recovery phase. Beyond the initial liquidity response, which must be in the form of a blanket funding support to citizens and firms, in the recovery phase balance sheet repair will be crucial to prevent a permanent destruction of productive capacity, and therefore of the fiscal base. This will require the public sector to deploy its balance sheet, including careful bail outs of non-financial corporations, as it is doubtful that the private sector will be able to absorb the cleanup on its own. This issue will require further analysis in the next WEO, so that the process does not create permanent fiscal problems or moral hazard and wrong incentive issues. At this stage, we would welcome a stronger language signaling it, which can be largely done through cross references to the Fiscal Monitor chapter.

(ii) A stronger language on multilateral cooperation. The emergency lending reforms to be approved this week should be included in the WEO publication, and there is also scope to include a call for the convenience of a new SDR emission and of a multilateral short-term liquidity facility (parallel to the current reference to the debt initiative, which has not been approved yet). Amidst a more volatile and uncertain environment, the IMF has to remain a trusted advisor to the membership, providing not only tailored policy advice but also the right toolkit in order to fill the missing gaps in the GFSN, in particular for emerging markets. Also, we miss a stronger call in the report for the stabilization of the oil market.

The Global Financial Stability Report rightly stresses that the COVID-19 crisis has hit the financial markets at unprecedented speed and will also have longer-term effects. Interest rates in developed economies will be lower for a longer period than previously thought, while international financial conditions for emerging and developing economies will be tighter and more volatile, and public debt levels will be higher in both AE and EMDE.

On financial sector policies

The discussion would benefit from a clearer rationale in terms of trade-offs among monetary, financial and fiscal policies. For instance, we feel that the recommendation to expand central bank facilities to risky credit markets along with other measures to support the flow of credit to the broader economy (p. 30) responds to a very clear goal, but may lack a deeper discussion on the trade-off between doing it as a central bank policy or as a government institution policy (v.gr. with a credit guarantee fund). Also, it is of the outmost importance to make a careful analysis of the interaction of these policy fronts given the differences between advanced financial systems and other economies.

On financial policy measures, we miss a more comprehensive discussion on the pros and cons of exercising regulatory flexibility before incurring in regulatory forbearance. Regulatory flexibility is key to ensure that the financial sector is able to support the real sector, while preserving financial stability. The measures announced by the ECB on March 20th are a good example of this flexibility. It would be useful to further discuss the conditions under which regulatory forbearance may be warranted. Also, for many economies, competent authorities do not have enough macroprudential buffers, while in other cases this flexibility may be the main prudential tool available.

On liquidity provision by central banks, we note the elevated stress levels in global US dollar funding markets. The US FED has reacted swiftly and forcefully by deploying swap lines and repo facilities. We would invite staff to elaborate on potential additional measures to address global liquidity needs and on the role the IMF can play in this global provision of hard currencies for emerging economies. We believe the discussion on a short-term liquidity facility for emerging economies should be done swiftly.

The necessary policy measures in advanced economies will be reflected in the short-term in an important increase in public debt levels as percentage of GDP. In the medium term, this may lead to the bifurcation of domestic financial markets where riskier non-financial agents do not receive enough financial access. This will call for a deep analysis of who is providing funding in these risky segments and what would it be the best policy response in this regard.

The situation in emerging market and developing economies is extremely complicated, as illustrated by the increase in the number of distressed sovereign issuers. These economies enter this crisis more levered than in 2008. This may lead to a rise in debt restructurings, which could test existing debt resolution frameworks. We call on staff to elaborate on possible loopholes in the current debt resolution frameworks. Also, it will be very important for the IMF to coordinate an international forceful response to the problems that emerging markets and developing economies are facing because

of the disruptions in trade financing and decrease in access to corresponding banking relations.

One of the possible consequences that the COVID-19 crisis might have is that it could further reduce the use of cash. This will have implications for central banks' balance sheets, in particular in emerging market economies, and calls for more attention to the topic of resilience of payments systems. Staff's comments are welcome.

On the Fiscal Monitor, we fully agree that fiscal tools play a prominent role to address the impact of the COVID-19 crisis and that their first and common priority in the short run is to save lives and to increase research and development funding for vaccines and medicines. But it is also equally important to adopt fiscal policies to minimize the economic and social damage from the pandemic. Targeted, temporary and vigorous measures are needed to protect workers and businesses—especially SMEs—and shield the vulnerable through adequate social protection. Therefore, a flexible approach needs to prevail regarding fiscal rules and targets, including in program countries, not only during the crisis period, but also during the post-crisis to ensure a sustainable economic recovery. These necessary measures will entail major increases in public deficits and debt levels, which should be embedded in the medium-term fiscal framework and understood within a flexible approach to the fiscal space. It is also relevant to develop a clear and transparent communication strategy regarding the duration of the measures to help manage expectations.

Staff's advice needs to be country-specific and include political economy considerations. We find particularly interesting and valuable for our authorities the principles to be considered in the design of spending, as well as tax and liquidity measures for supporting firms and households. Our authorities are currently undertaking immediate and vigorous measures to support our economies in a swiftly way. Guidance from staff is particularly appreciated as they could share best practices and highlight the impact of the different measures available for each country. However, there is no one-size-fit-all approach and several country-specific factors, including political economy considerations, should be factored in. We welcome the emphasis in the chapter of the need for adequate debt management and transparency.

Mr. Inderbinen and Mr. Tola submitted the following statement:

We thank staff for a focused and very valuable set of documents. We also appreciate the sharing of country experiences through the policy tracker. The Fund's economic analysis, policy advice, and knowledge sharing are useful for member authorities to shape their policy responses to the economic and financial fallout from the COVID-19 outbreak.

We broadly share the Fund's global growth outlook and concur that risks are on the downside. Making a precise forecast amid very fluid and highly uncertain circumstances is extremely difficult. What matters at the current juncture is clarity on the assumptions underlying the baseline scenario, including about the length and severity of the outbreak and the impact of policy responses. We also welcome the presentation of an alternative scenario to highlight the currently large uncertainty around forecasts.

We fully agree that immediate policy responses should be timely, temporary and targeted and support the notion that near-term policy measures should aim at securing resources for the health system and limit the propagation of the health crisis to economic activity. Monetary policy plays a key role in addressing the significant tightening of financial conditions and providing the necessary liquidity. Furthermore, fiscal measures are required to deliver a substantial support to the most exposed households and businesses. Measures need to be timely and targeted, but also temporary with a clear exit strategy, to minimize the cost to the economy and avoid increasing existing, or creating new, vulnerabilities. In this respect, it is imperative that the stability of the financial system be preserved to support the recovery once it sets in. We agree that banks make use of flexibility within existing regulatory frameworks, but also stress that this is no time for weakening existing or agreed rules and regulations.

International cooperation is essential to upgrade the response to the spread of the virus, and to mitigate its human, economic and financial fallout. The current crisis highlights the significant benefits of a multilateral approach to addressing the common challenges, including support for countries with weak health systems, also to slow the global spread of the virus. Extensive exchange of information via the mandated international institutions, financial assistance, and avoidance of trade restrictions (especially on medical supplies) are prime examples of common actions needed to overcome immediate challenges and to support exit and recovery.

The Fund plays a crucial role including in providing timely and reliable information on global economic and financial market developments. Information on fiscal, monetary and financial policies to mitigate the impact of the virus outbreak is also critical. We appreciate staff's valuable efforts to keep the Board and the membership abreast of developments, and we would welcome further briefings as the crisis unfolds further. We also see merit in a more frequent publication of crisis-focused WEO and GFSR Updates in the coming months.

Looking beyond the immediate crisis, the Fund will play an important role in providing policy advice for the recovery. It is most likely that debt levels will be higher, private balance sheets weaker, and policy space reduced.

The priority will be to reinforce the resilience of our economic and financial systems. This crisis has highlighted the merits of counter-cyclical policies and strong policy buffers in preparing for a downturn. On a more general level, the exit from extraordinary policy measures should remain an integral part of their design.

Finally, we would like to note that unlike what is suggested in the WEO-Statistical Appendix, the Swiss fiscal rule allows for a substantial discretionary expansion in the case of a severe downturn. Switzerland has already lined up fiscal measures that amount to over 60 bn USD, or around 8.5 percent of GDP.

Mr. Mojarrad, Mr. El Qorchi, Mr. Sassanpour and Mr. Nadali submitted the following statement:

We thank staff for succinct and focused flagship reports. We also express our deep appreciation to management and staff for their tireless efforts to help the membership through this crisis. The IMF's outstanding staff have proven themselves many times over in the past few weeks. We are in broad agreement with staff's assessment and policy priorities.

World Economic Outlook

The severe economic and financial ramifications of concurrent destruction of supply of, and demand for, output in such a short span of time are truly unprecedented. Given the extreme uncertainty around the forecasts, however, we believe it is prudent to err on the side of caution. While we hope for the symmetrical V-shape baseline scenario, we should be prepared for an asymmetrical V-shape recovery followed by a period of suboptimal growth, or even a U-shape scenario. The staff's baseline scenario is predicated on the assumption that the pandemic will be fading in the second half of the year. Is this also the view of the World Health Organization and other expert bodies? As broadly recognized, and reflected in the report, the most effective policy response to the pandemic is a combination of containment, lasting improvements in healthcare infrastructure, and an all-out effort to find a medical remedy. Loss of life is permanent, whereas the economic fallout, regardless of its severity and duration, can be addressed with country-specific policies, synchronized actions on the part of leading economies, and multilateral efforts.

The report correctly focuses on the economic and financial impacts of the pandemic in this year and next. The debate on its transitory versus more permanent impacts on global activity is still unfolding. We should appreciate views on how the wide spread of the pandemic on ill-prepared poorer countries and its likely more durable effects might affect the global economic growth and recovery.

We agree with staff that policy responses of leading economies have been timely and appropriate, in most cases fiscal policy targeting affected households and businesses to complement broader stimulus at the national level. We note from Figure 1.7 that the G20+ economic policy implementation in social areas has been lagging and welcome staff comments. The unwinding of measures as the pandemic recedes should be carefully calibrated on clear evidence that the recovery is firmly underway. Even then, as the supply shock fades, the fiscal policy should be nimble and focus on measures that continue to strengthen demand. As long as the pace of the recovery is uncertain, a premature removal of stimulus may leave permanent economic scars. Similarly, as we move through uncharted waters, the leading economies should stand ready to strengthen their policy response should a worse-case scenario materialize. The short-term impact of large fiscal stimulus on public debt and its implications for the financial markets, in our view, are of secondary importance at this juncture. Moreover, we agree that once the pandemic is contained and shutdowns end, broad-based fiscal stimulus—considering the available fiscal space and financing constraints—could facilitate the recovery.

The timing and scale of monetary easing in response to the crisis by leading central banks has been broadly appropriate, but as the scope for conventional policy is limited, greater recourse is being made to unconventional monetary policy (UMP) tools. An assessment of the margin for maneuver and efficacy of UMP at this juncture would be useful. What lessons have we learned from the use of UMP in the last crisis that we could apply in the present one, notwithstanding the different nature of the two crises?

The oil exporting countries have been particularly hard hit given the collapse of international oil prices, reflecting both demand and supply factors. The medium-and-longer term impact of the crisis on the oil market is however debatable. Interestingly, over the medium term, oil prices in the futures markets converge to roughly the same pre-crisis range (Fig 1.SF.3, panel 2). In recent years, the increase in global demand for oil has been met largely by the rising price-sensitive shale-oil output that benefited from higher real oil prices in the past decade. Many shale-oil producers, especially in the United States, are now facing insolvency and bankruptcy due to significantly tighter credit conditions in addition to the sizable drop in oil prices. As a result, the nature of the oil market may be different post-crisis, with the OPEC countries regaining their market stabilizing role. Staff comments are welcome.

The impact of the crisis on low-income countries—many already burdened by high debt and difficult social conditions and now facing collapsing commodity exports—has been profound and wide-ranging. These countries will need—more urgently and on a larger scale than before—

concessional financing, grants, and debt relief to see them through the crisis and beyond. They also need continued multilateral assistance to upgrade their health infrastructure as well as other social indicators consistent with their SDGs.

We strongly endorse staff's emphasis on multilateral cooperation to assist countries hardest hit by the pandemic, including by avoiding trade and financing restrictions particularly on medicines and other essential supplies. It is time for humanity to rise above politics and it is incumbent on all of us to focus on the common good. In staff's words: "no country is safe from the pandemic as long as transmission occurs elsewhere". Therefore, the priority is to focus on eradicating the pandemic globally.

Global Financial Stability Report

Like the WEO, the GFSR is also providing a sobering account of recent developments and prospects in global financial markets. Notably, emerging and frontier market economies are facing the perfect storm of an unprecedented combination of external shocks. These countries are also experiencing the largest reversal in portfolio flows on record. Their prospects are also worrisome since many of them have not yet seen the full impacts of the COVID-19 pandemic and of the expected global recession. At the same time, there are clear indications about increased global risk aversion, with spreads on emerging markets sovereign bonds increasing to 700 basis points, the highest level since the global financial crisis.

As it is usually the case in crisis situations, central banks reacted quickly to the rapid and globally broad-based policy response. Decisive monetary policy actions were taken by cutting policy rates and providing additional liquidity to banking systems. Similarly, regulatory authorities have implemented a range of financial policy measures aimed at safeguarding financial stability. Interestingly, staff refers in ¶41 to some central banks setting an upper limit on the costs of credit and we would be interested in knowing the effectiveness of such a policy, usually disapproved by the Fund.

While much has been done by central banks, we agree with staff that it is difficult to assess the effectiveness of the policies implemented so far and therefore policy adjustment and additional measures may be needed, although room for maneuver may be limited, particularly for countries lacking fiscal space.

This may be particularly the case for emerging and frontier market economies, characterized by weaker initial conditions than in 2008, because of their higher reliance on foreign financing and limited policy space. Staff refers to the possibility of a rise in debt restructuring and/or introduction of capital outflow management measures, as part of a broad policy package. In this

regard, staff cautions about a rise in debt restructuring that could test existing debt resolution frameworks and we would be interested in knowing how the Fund could proactively address such concerns and what role the Fund could play in this area, given its macro-criticality.

Fiscal Monitor

The FM depicts a grim picture of the alarming human cost of COVID-19 pandemic and the massive adverse impact on output and public finances. It illustrates the important role fiscal policy can play to save lives and support the projected recovery. This is especially the case where monetary policy rates are at or near their lower bounds. However, fiscal balances and public debt ratios across all three country groups (AE, EM, and LIDC) will deteriorate. Notwithstanding the uncertainties, could staff compare the average interest rate growth differentials (r-g) and their relative adverse impacts on the debt dynamics of the three country groups in the near term? The IMF-WB debt sustainability assessments show an increase in the number of LIDC in debt distress or at high risk to 25 countries (44 percent) in 2019. What are the expectations for 2020-21?

Targeted and temporary fiscal policy response, building on the existing social safety nets, and embedded in a medium-term fiscal framework, is more likely to succeed in both containing and mitigating the pandemic and safeguarding medium-term fiscal and debt sustainability. However, high debt levels, tighter financing conditions, lower commodity export revenues, and capital flows stoppages constrain the policy response by many EMDC. In this context, we welcome Fund's increased rapid financing for EMDC as well as IMF-WB call on official bilateral creditors to suspend debt payments from countries below the IDA's operational threshold.

The FM offers sound principles that provide guidance on the design of spending, tax, and liquidity support measures. Given the urgency and widespread need to rapidly deploy relief to liquidity-constrained households, unconditional direct cash transfers are suggested as complement to other targeted social protection spending. Could staff indicate to what extent unconditional transfers have been used in the current crisis vis-à-vis conditional transfers?

Over time, tax and expenditure policies should be enhanced, social safety nets strengthened, and healthcare systems upgraded. Appropriately paced, growth-friendly fiscal consolidation should then help narrow fiscal deficits and place debt on a declining path, which in the case of LIDC needs to be complemented by additional financing from donors and IFIs.

Ms. Levonian, Ms. McKiernan and Ms. Vasishtha submitted the following statement:

We thank staff for the well-written set of Flagship reports and for their tireless efforts to update forecasts in the fast-changing environment. We broadly agree with the staff's assessment of the global economic outlook and risks, as well as the policy prescriptions.

The COVID-19 pandemic is causing unprecedented suffering and disruption across the Fund's membership, with the health crisis now having turned into a financial, economic and fiscal crisis. Against this backdrop, we think the Flagships generally strike the right tone in raising significant concerns, while acknowledging the extreme uncertainty around the outlook. With global growth projected to contract in 2020 and with limited policy space in many countries, the Fund's communication should continue to convey the sense of urgency around the need for multilateral and domestic policies to focus on containing the immediate health and medical crises, preventing a further slowdown in growth and strengthening future resilience. The current conjuncture also calls for strengthened international cooperation to address shared challenges resulting from the COVID-19 pandemic. Further, we welcome staff's emphasis on policies for the recovery phase and agree that the success of the recovery will depend critically on policies undertaken during the crisis.

In what follows, we offer some specific comments on each of the three Flagship chapters.

World Economic Outlook

We broadly agree with the main messages of the WEO and staff's assessment of the significant uncertainty around the timing, shape and scale of the future recovery. The baseline scenario involves a contraction in global growth that is much worse than the Global Financial Crisis (GFC), with all regions projected to experience a significant slowdown or contraction in economic activity. The breakdown of the OPEC+ agreement has compounded the impact of the deteriorating economic outlook on commodity prices, which in turn is expected to weigh heavily on oil and other commodity exporters. The report rightly emphasizes the extreme uncertainty around the baseline outlook as the nature of the shock is significantly different from past economic downturns and its multi-layered economic impact depends on a complex interaction of several factors.

While we acknowledge that forecasting growth is particularly challenging in the current environment, we wonder whether some of the assumptions underpinning the baseline projections may be too optimistic? For instance, what is the basis for assuming that economies experiencing

significant outbreaks will implement containment measures for eight weeks followed by a gradual relaxation of restrictions?

Likewise, we note that, in the baseline scenario, emerging Asia is the only region that is projected to experience growth in 2020, albeit at a much lower rate than in the January WEO Update. We wonder whether staff's projection for emerging Asia may be too optimistic (even when abstracting from China) given the region's vulnerability to global supply chain disruptions, the unprecedented portfolio outflows etc.? We were also struck by the assumption that EMDCs face less severe outbreaks than those in advanced economies. We would welcome further elaboration on the assumptions underlying the baseline projections for emerging Asia, bearing in mind the high volatility around Emerging Asian economies' forecasts in earlier WEOs/WEMDs.

We were disappointed by the absence of any discussion on the impact of the pandemic on the outlook for small states, particularly tourism-dependent island states including those in the Caribbean region. Global travel restrictions have put a sudden stop on tourism in these economies resulting a significant loss of revenues in addition to the macroeconomic implications of local outbreaks. Many of these countries are particularly vulnerable to natural disasters, with the next hurricane season soon approaching. It is very important that we support our poorest and most vulnerable members during this crisis.

Despite the significant downgrade to the outlook for 2020, risks are severely tilted to the downside in light of factors such as an uncertain trajectory of the virus, financial vulnerabilities, trade tensions, geopolitical risks, and rising inequality. The financial and economic implications of the pandemic could turn out to be more severe and protracted than incorporated in the baseline, testing the limits of macroeconomic policies. In particular, the assumption of loss of working days due to containment policies (8 percent in 2020 in worst-affected countries; 5 percent in others) appeared very optimistic. The pace of the projected recovery in 2021 could also be much weaker than expected if, for instance, the easing back of tighter financial conditions in the second half of 2020 doesn't happen as assumed. The Scenario Box illustrates the severity of such a scenario, although the developments of recent weeks make it look more like the baseline. Could staff elaborate on how the Fund's policy advice would need to change if such a scenario were to materialize? Also, given the fast-changing environment, when do staff envisage updating forecasts? Could staff provide further explanations for the assumptions used for the early stages of the recovery and its projected shape and drivers?

Effective and decisive national policy actions along with strong multilateral cooperation are essential to avert worst outcomes. We agree that

the immediate priority should be to contain the fallout from the pandemic, especially by increasing health expenditures to strengthen health care systems and adopt measures to minimize contagion. Strong multilateral cooperation – including avoiding trade restrictions, particularly on medical supplies – is essential to mitigate the effects of the pandemic and for channeling aid to countries with weak health systems. Countries urgently need to work together to slow the spread of the virus and develop a vaccine.

We welcome the emphasis on policies for the recovery phase. Special targeted measures employed during the shutdown will need to be scaled back and it will be important to ensure that debt overhang does not weigh on activity. We agree that broad fiscal and monetary stimulus, where space permits, would be most effective to boost spending in the recovery phase. At the same time, lessons learned from other crises – including the GFC – should be stressed, including the risks of unwinding stimulus too soon and underinvestment in public infrastructure.

Global Financial Stability Report

Global financial markets have reacted sharply to the rapidly deteriorating economic outlook and elevated uncertainty. There has been a large sell-off in equity markets and safe-haven bond yields have declined. Conditions in the corporate credit markets have deteriorated sharply and pressure on the banking system is growing. Many emerging and developing countries are facing urgent and unprecedented financing needs driven by a complex combination of shocks. Portfolio flows to emerging market have experienced a reversal of historical magnitudes.

Wide-ranging monetary, financial, and fiscal policy measures seem to have calmed markets somewhat for the time being, but we need to be prepared for a return of extreme risk aversion. Central banks in several major economies have undertaken a series of rate cuts, liquidity support actions, and large-scale asset purchase programs in response to the tightening in financial conditions. Nevertheless, the significant tightening in financial conditions will further dampen activity in the near term, which in turn could worsen the direct macroeconomic impact of the crisis. At the same time, the economic implications of the health crisis and the associated containment measures are just beginning to show in the data, for example in jobless claims numbers. Given the unprecedented nature of the global shock and the significant uncertainty, market sentiment could turn even more negative if there is perception that policymakers may be approaching the limits of policy space. In a severely strained scenario, such as that outlined in WEO Scenario analysis box, the policy playbook may need to be reworked substantially as some banking systems may come under severe stress. The GFSR could make a closer link to the WEO scenario box by better acknowledging the extreme uncertainty around how the pandemic will play out in terms of the length and

depth of the economic effects. This essentially influences the various channels through which financial stability effects play out.

Overall, wide-ranging reforms undertaken since the GFC have made the financial system better-positioned to withstand shocks and ensure market functioning, but vulnerabilities remain. While banking systems are in general well capitalized, the non-banking sector remains a source of concern. New forms of financial intermediaries, such as bond funds and leveraged loan houses, have been thriving on large issuance of high-yield bonds, emerging market debt, and leveraged loans. Such instruments have not witnessed a crisis yet and there is significant uncertainty around their resilience.

We concur with staff that financial vulnerabilities have been elevated in some systemically important economies even before the pandemic. Notably, sovereign debt vulnerabilities remain significantly higher than during the GFC. The current sovereign debt landscape underscores the need to strengthen debt transparency in line with Fund and World Bank advice. Second, non-financial corporate debt vulnerabilities are also a growing concern, as highlighted in the debt-at risk-analysis in the October 2019 GFSR. If this develops into a significant solvency issue, default rates could be much higher than in previous crises, which could have repercussions across the global financial system. We reiterate the need to develop additional tools, including macroprudential, for dealing with these vulnerabilities, particularly related to rising corporate debt funded by non-bank lenders, deteriorating credit quality, and leveraged loans.

Paragraph 46 notes that the regulatory and supervisory responses to deal with the impact of the pandemic would need to maintain the balance between preserving financial stability, maintaining soundness of financial institutions, and supporting economic activity. There should be some acknowledgement upfront that this balance or tradeoff is substantially different in a crisis situation than in normal times. Optimal macroprudential policy requires substantial easing of microprudential rules during a crisis, as staff rightly note.

We agree with staff that emerging markets should manage external pressures by allowing their exchange rate to depreciate. Exchange rate intervention and/or temporary capital flow measures may be needed to curtail disorderly exchange rate movements or significant capital outflow pressures. However, such measures should not be substitutes for warranted macroeconomic policy actions.

Fiscal Monitor

We welcome the Fiscal Monitor's emphasis on the role of fiscal policy in saving lives and the scope of targeted fiscal measures to reduce the

likelihood of a deep, long-lasting economic slump. The pandemic and its macroeconomic implications will result in a major increase in fiscal deficits and public debt ratios compared to previous projections. As such, the substantial fiscal measures being implemented should be embedded in medium-term fiscal frameworks to ensure resources are used efficiently. Further, the impact of targeted fiscal measures will be greater if they are accompanied by monetary accommodation and financial safeguards.

We would have appreciated a greater focus in the Fiscal Monitor on the global debt landscape and vulnerabilities. High debt and rising debt service costs make it more challenging to conduct countercyclical fiscal policies in the current crisis. Moreover, fiscal risks are on the rise as access to financing has become more challenging for firms and the public sector is providing loans and guarantees.

The potential impact of the pandemic on public finances further reinforces the need for improving debt management and transparency. Greater emphasis is needed on managing fiscal costs and risks associated with the evolving complexity of public debt structures as well as the rising share of external and non-concessional financing.

Upcoming Analytical Chapters

We strongly support management's decision to publish the Flagship chapters in a staggered fashion to better focus the Fund's analysis and communications on COVID-19. We appreciate staff's efforts to revise the analytical chapters in light of the circumstances. These revisions should ensure that the analytical pieces speak directly to the most important issue on everyone's minds.

Mr. Bevilaqua, Mr. Fachada, Mr. Saraiva, Mr. Fuentes and Mr. Barroso submitted the following statement:

The world economy is facing an unprecedented, multi-pronged shock that is still evolving. While growth projections are being sharply revised downward, they remain embedded in enormous uncertainty. Vigorous policy responses have been taken at the national and international level to cope both with the COVID-19 outbreak and its economic consequences. We praise the swift and deep engagement of policy makers around the globe to take such bold health and economic policy actions to protect the life and wellbeing of the world population. However, the battle is still taking place and the near and medium-term outlook is one of heightened uncertainty that requires continuous monitoring and possibly additional policy actions.

Indeed, the real economy is suffering an extremely powerful blow and financial markets have been extraordinarily volatile. This unprecedented turn

of events required, under just a few weeks, a sweeping revision of global growth forecasts and underlying risk assessment. We thank staff for rising to the challenge. It is exactly at these moments that careful and informed economic analysis is most valuable.

Financial markets and leading economic data point to a severe, synchronized recession this year. We agree with staff that policy action so far, even though sizable and crucial to contain the amplification of the shock, is not effective in boosting aggregate demand during a near-global shutdown. It does, however, provide a bridge to facilitate the recovery phase. The baseline in the flagship reports suggests a severe contraction—deeper than during the 2008-09 financial crisis—with a relatively fast recovery, even though by the end of 2021 activity would still be below the previous trend. Under current assumptions, could staff estimate the permanent output loss for the global economy, with respect to the pre-pandemic trend?

Sizable and targeted fiscal policy support is an essential response to the COVID-19 outbreak. We welcome the informative assessment on the role of fiscal policy in responding to the pandemic in the Fiscal Monitor (FM). In this respect, we fully support the focus on fighting the spread of the virus as the first policy priority by expanding health emergency services, intensify testing, acquire medical supplies and equipment, and enforce social distancing and other containment measures. Considering that the pandemic has emerged in a context characterized by relatively slow global growth and limited fiscal space in many economies, the appropriate policy options will vary across countries. Under these circumstances, fiscal spending reprioritization, use of automatic stabilizers, and access to adequate financing will be critical to fund relief packages and provide timely financial support to liquidity-constrained households and businesses in order to accommodate the shock and avoid protracted damage to the economy. In particular, the abrupt disruption in economic activity has prompted a rapid increase in unemployment that will require active policy attention to support social stability and economic flows. At this juncture, public debt burden concerns should be balanced with the need to provide swift and effective responses to the pandemic and support the economy. That said, governments should carefully monitor public spending to secure effectiveness and transparency.

The baseline assumptions in the flagship reports seem reasonable, albeit qualified with high uncertainty and risks tilted to the downside. According to the baseline, the pandemic would fade in the second half of the year, easing financial conditions and restoring confidence. Policies would prevent widespread bankruptcies, mitigating job losses and avoiding systemic events. Emerging market and developing economies would face less severe COVID-19 outbreaks than advanced economies. Fiscal support would continue throughout the recovery phase to nudge firms and households back into economic activity. However, weakening the assumptions about the

duration and size of containment measures could double the severity of the recession. Could staff clarify the exact assumptions on duration for this stressed scenario?

It is however not clear how the global economy would cope with shutdown measures having to be extended, even if scattered, over the second half of 2020. The extent of support necessary from fiscal authorities might be overwhelming in some economies and monetary authorities might face limited policy effectiveness. The longer the economic pain of the pandemic, the less plausible a fast recovery scenario, and so the more likely are events of widespread bankruptcies and systemic failures in financial intermediation markets. Therefore, contingency plans need to be worked out along the lines suggested by staff as developments are closely monitored.

It is crucial to continually scrutinize financial markets for signs of stress in time to implement targeted and coordinated measures to counter systemic events. Staff points out that financial markets were extremely buoyant just before the pandemic, leaving many segments vulnerable to the downturn. Asset management liquidity buffers could be under pressure; leveraged firms are losing market access; banks appear well capitalized to face a 2008-09 level of financial stress but could struggle with larger shocks. In extreme scenarios, further backstop from fiscal authorities might be required along with extraordinary support from monetary authorities.

Unprecedented capital outflows from emerging market and developing economies raise similar concerns. Some emerging market economies have large stocks of international reserves and access to temporary swap lines or repurchase agreements with the Federal Reserve or the European Central Bank. This allows them to ease monetary policy with less concern for the ensuing pressure on outflows. However, there is certainly space for further international policy coordination to address economies with low level of reserves and less access to convertible currencies swap lines. This could include a large allocation of SDRs and the establishment of a IMF short-term liquidity line, on top of the ongoing increase in access to rapid financing facilities (RFI/RCF). The unprecedented and compounded nature of the shock (combining dimensions such as health, commodity prices, risk aversion, disruption of global value chains, and global recession) raises to record levels the challenges faced by emerging markets and developing economies. It is telling that many have already requested access to IMF emergency assistance while they have been so far less impacted by the pandemic than advanced economies.

Continued fiscal support is critical to manage the sizable downside risks, especially for emerging markets and developing economies. The risks identified in the FM emanate from a very complex and highly uncertain outlook, that could potentially hinder economic recovery and deteriorate public finances further. Despite the mutually reinforcing nature of these risks,

concentrating on containing the spread of the pandemic and avoiding repeated outbreaks is essential for future recovery and to regain confidence. This is crucial in developing and low-income economies, where the combination of limited testing and weak healthcare systems could result in significant human and economic losses.

It is important to assess the effectiveness and efficiency of the key economic policies being adopted since further support might still be necessary. In the case of financial market policies, staff suggests that there is a divergence between asset classes affected and not affected by some policies. Swap lines appear to have been particularly effective in realigning exchange rate trends. In the case of real sector policies, it will be extremely important to monitor the impact of the transfer policies on the recipients along crucial variables such as employment.

Further policy support will be necessary in the recovery phase. As pointed out by staff, this is the point where fiscal and monetary policy will be most effective in boosting aggregate demand. The concrete suggestions could be better elaborated by staff, keeping in mind their effectiveness in boosting employment, household spending, and private investment. It might be important to explore bridging policies, such as a mix of wage reduction and quasi-unemployment benefits with the benefits extending into the recovery phase. As scarce fiscal and monetary space is already being used in the initial phases of the pandemic, their effectiveness will probably be limited in the recovery phase. Monetary policy will face challenges in keeping inflation expectations anchored in the post-pandemic environment, as offsetting factors play out. Finally, we agree that moving forward it is important to increase cooperation in health issues and the investment in pandemic preparedness on a global level, in order to preserve the benefits of strong global interconnections.

Mr. Tanaka, Mr. Chikada, Mr. Harada, Mr. Nagase and Mr. Shimada submitted the following statement:

We thank staff for the set of comprehensive the Flagship Publications well focused on the analysis of the impact of the COVID-19 pandemic and possible policy responses to the crisis.

In this crisis, the outbreak of the coronavirus has not only had a negative impact on the real economy by causing lockdowns, restrictions on mobility, reduction of labor supply and supply chain disruptions, but are also affecting fiscal and financial conditions of each country and global financial markets.

Under this difficult circumstance, we believe that the Fund should conduct comprehensive and cross-cutting analysis on the impact of the

pandemic on the member countries, utilizing its macroeconomics expertise and provide consistent policy advice and strong message to the world than ever to help them combat the crisis and give confidence to them. On this point, we commend staff for their hard effort to make the three Flagship Publications as one product and one policy advice package based on well-coordinated analyses despite the current remote working environment and uncertain situation.

We urge staff to make careful and courteous communication to the market and public when they publish these reports, including explaining clearly the ambiguity of the assumptions of the projection. While we understand the importance of sharing an objective outlook when we are facing crisis, we recognize that the assumptions of the projection of this time are subject to high uncertainty given the nature of the pandemic itself. For instance, if the staff emphasize only the overly pessimistic scenario and give a negative surprise to the financial markets and risk sentiment, there is a risk that financial market conditions will deteriorate further.

In addition, we request staff to continue their effort and update the information to the Board and member countries regularly. For example, it would be worth considering that the July 2020 World Economic and Market Developments update and October 2020 Flagship Reports will be in the similar format with this time. Of course, more frequent (informal) update including the latest information on the policy response of member countries are welcome. We also appreciate the efforts of making and updating the Policy Tracker on the Fund's website by COM and area departments. We would like staff to consider how to further improve the communication of the Fund, while working closely with the Board and authorities of the member countries.

World Economic Outlook

COVID-19 pandemic will have a severe impact on global economy, and urgent counter measures are needed. We take note that the World Economic Outlook projection of the world has been revised down to -2.9 percent, by -6.2 percent from that of the 2020 January update. As the staff points out, in light of the current situation that the economic activity has been shrinking worldwide due to the COVID-19 pandemic, the member countries need to continue to implement policies expeditiously to save lives and support firms to minimize the negative impact of the crisis.

Based on this understanding, the Government of Japan has decided to introduce multiple economic measures, including utilization of ¥26 trillion (about 4.8 percent of GDP) December 2019 stimulus package and two emergency response packages (on February 13 and March 10), for a total amount of ¥446 billion (0.1 percent of GDP) to tackle the crisis. Moreover, in

addition to these measures, Prime Minister Abe announced to adopt a set of urgent economic measures with supplementary budget, including all of fiscal, finance, and tax policies to combat COVID-19 on March 28. This package will consists of following five pillars; i) Preventing the spread of COVID-19 infection, improvement of the medical system and developing curative medicine, ii) Maintaining employment and businesses, including the SMEs, iii) Supporting quick recovery of economic activities after the crisis, with a focus on service industries, iv) Developing resilient economic structure, including improvement of supply-chain and expanding the use of ICT, and v) Preparation for the future pandemic, including the establishment of the reserve fund for measures to address COVID-19. This package will be the largest emergency economic measures ever adopted by the Government of Japan, which exceeds the size of the one adopted to respond the GFC in 2009, and will address the devastating effects of the current crisis. This economic measure will be determined by the Cabinet very soon. To avoid misunderstanding by the market and other countries in the current unprecedented crisis, we request the staff to appropriately reflect the contents and effects of it in the Flagship Reports before its publication

More elaboration on risk analysis on the impact of the crisis is warranted. According to the baseline assumption of the report, the world economy is expected to go into recession in 2020 and will recover gradually in 2021. On the other hand, we also take note of the risk scenario considering the high uncertainty of this crisis. Regarding this point, we would like the staff to elaborate the basis and precondition of major countries' projections in more detail. For example, to what extent has staff included effects of the ongoing and possible further tightening of financial condition and deterioration of financial intermediary function in the projection? In addition, how long the staff assumed that the lockdowns will last in each country? Moreover, if the lockdowns will last longer than initially expected by staff, how will it affect the growth rates?

Attention should be paid not only to the advanced economies where the number of patients has increased rapidly, but also to emerging countries and developing countries. We noted the fact that impact of the crisis on the growth rate of the emerging countries and developing countries are relatively smaller than that of the advanced countries. However, as the staff pointed out in the previous Board Meetings, in general, these countries can easily be affected by the pandemic both directly and indirectly due to their weak medical system and various vulnerabilities, including their dependence on the commodity exports and capital inflows. Indeed, we hear that more than 90 countries are already asking support for the Fund so far. On this point, we would like to hear staff's view on the impact of the crisis on the emerging countries and developing countries and their outlook more in detail.

As Japan has repeatedly explained, additional contributions to the CCRT will give LICs faced with urgent liquidity challenges the breathing space amid the crisis, and to help the world economy stabilize and recover. Japan already has expressed its plan to make an additional contribution of $100 million to the CCRT in the form of a readily usable cash. We would like staff to include this fact in WEO and GFSR, since this number can be published by the date of the publication of the reports. We expect other member countries to make contributions to the CCRT as well.

Global Financial Stability Report

The financial system is affected by the substantial correction in risk asset prices and the economic paralysis, while as for the Global Financial Crisis (GFC), the financial system itself was the cause of crisis. We take note that the vulnerabilities are accumulated in non-financial corporate sector and sovereign sector, shown in Figure1.10. Noting that sovereign risk spilled over to the financial sector in GFC, we welcome staff opinion on whether the similar situation could happen in current juncture. Also the authorities' appropriate and decisive policy actions are indispensable to mitigate vicious cycle that the credit crunch in financial system would cause further contraction of the economy. In this regard, we would like staff to elaborate on their assessment on current risk asset prices. That is, does staff assess that more prompt and aggressive policy actions by central banks and governments have worked well to mitigate the shock, or the market participants are still optimistic and thus we are likely to see the further declines?

We take note with concern that emerging and frontier market economies are facing the perfect storm, namely the sharpest reversal in the portfolio flows in unprecedent level. Under the current environment, we have some reservation regarding staff's recommendation that exchange rate flexibility should be used as a shock absorber, considering currency depreciation is unlikely to increase the amount of exports in the global economic contraction, while it increases the foreign currencies denominated debts in local currencies basis. In this regard, we believe that well sequenced policy advice based on the phases of the current crisis is important. Staff comments are welcome. In connection to that, we note that Capital Flow Management Measures (CFMs) are mentioned as one of the policy measures as long as CFMs are implemented in transparent and temporary manner. We underscore that Institutional View (IV) provides guidance on the authorities measures against rapid capital flows exactly like current situation, and are of the view that CFMs inconsistent with IV should not be allowed in any countries.

As for the monetary policy in Japan, to address the unstable condition of global and domestic financial and capital market as well as the lessened accommodative monetary condition partly seen in the corporate financing of

SMEs, Bank of Japan (BOJ) has enhanced monetary easing. In particular, while supplying ample yen liquidity by the purchases of Japanese government bond, BOJ conducts (i) coordinated action to enhance the provision of USD liquidity with other central banks to address the tightening of global dollar funding, (ii) measures to facilitate corporate financing including the introduction of a new operation and (iii) active purchase of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs). Noting that staff mentions the possible necessity to extend the support to risky credit markets, we would like staff to elaborate more on this issue.

Fiscal Monitor

We appreciate that staff shows clear projection on the expansion of fiscal deficits and debt expansion going forward, considering countries have been increasing fiscal spending to address the pandemic. We also take note that the drop of oil prices would negatively affect the fiscal balance of oil export countries. We are of the view that debt relief called by the Fund and World Bank should include non-Paris club countries, considering that their share has been expanding in the LICs' external debt which have increased substantially.

We support the staff's opinion that fiscal policies to address the current crisis should be done through "targeted", "timely" and "temporary" measures. This policy principle can be applied not only to countries' domestic fiscal policies, but also to international support to LICs and emerging economies.

We agree with the staff's appraisal that targeted fiscal measures are needed to protect the most-affected people and viable firms from the negative impact of the COVID-19 pandemic. As mentioned, based on this understanding, the Government of Japan has decided to introduce multiple economic measures. On this point, we would like staff to include the contents and impact of the December 2019 stimulus package, which is being used to offset the adverse impact of COVID-19 on the economy, and the new package as mentioned above, accurately into the report. Especially, we understand that the Figure1.1 of the report is extremely misleading and should be revised. We have strong concern that if it would publish without revision, it could negatively affect market. We need to show the internationally coordinated actions by all countries with one voice, which means consistent explanation is indispensable among all international fora.

As staff repeatedly mentioned in the reports, international corporation and coordination are indispensable to overcome the current global crisis. We believe that the Fund should play a key role in addressing the crisis by promoting the corporation among the member countries while closely collaborating with other IFIs. To support these global efforts, the Government of Japan has already announced additional contribution to the CCRT of the

Fund and WHO and stands ready to make further contribution for combatting COVID-19.

Reform agenda should continue to be implemented. As we have expressed previously as well, we fully understand the importance of the international corporation to tackle the crisis, including the support for developing and LICs. Therefore, we have agreed the enhancement of the Fund's financing facilities such as RFI/RCF and the Debt Initiative led by the Fund and the World Bank. However, as discussed in the reports, the crisis itself and the following fiscal measures taken by governments should cause significant negative impact on the fiscal situation and debt sustainability of the member countries. Especially for developing and LICs, to secure the fiscal and financial system stability and achieve the economic growth in the future, it would be critical to show their ownership to proceed with reform agenda such as improving debt transparency, reforming the governance and conducting structural reforms, even when they are facing challenging environment. In addition, we think it would be important for staff to make granular policy recommendations in light of the difference of the speed of the spread of the crisis among each region. On this point, we would like to hear the staff's view on the balance between the response to the current crisis and the resolution for the potential challenges these countries face.

Mr. Kaya, Mr. Benk, Mr. Just, Mr. Marek, Mr. Bayar and Mr. Mehmedi submitted the following statement:

We thank staff for the well-focused set of reports. We acknowledge the significance of the uncertainties associated with the course of the COVID-19 pandemic as well as its economic fallout. What we observe today in the global economy and financial markets is unprecedented in its scope and scale. It is therefore an immense challenge for the policy makers, worldwide, to continuously assess the magnitude and transmission channels of the shock, as well as putting in place a set of policies that are timely and fit-for-purpose. The Fund, with its analytical prowess and quasi-universal coverage, has a unique role to play at this juncture in providing guidance to its members and assist them in their efforts to cope with the challenges facing them. To that effect, we appreciate staff 's assessments and forecasts which appropriately reflect a very sharp reversal in the global economic outlook. Going forward, reflecting the extremely fast-paced changes in the economic aspect of the crisis, we encourage staff to employ more scenario analyses to inform the Board and the authorities with timely updates to the outlook, risks, and policy recommendations. We believe time is of the essence in this regard and well-focused informal briefings will serve the purpose.

World Economic Outlook

We broadly concur with staff's approach and see the assumptions underlying the baseline scenario in the WEO as sensible. While the revision in global growth is substantial – with the WEO envisaging a sharp and broad-based contraction in global economic activity in 2020 - we agree that there are material risks for an even worse economic outcome. Further, the factors that underlie the length and depth of economic contraction are multi-faceted, complex, and pose significant analytical difficulties in assessing the interplay between them. Therefore, staff is encouraged to develop and communicate a scenario-based approach in charting the global economic outlook and as such, we see the dedicated discussion on more wide-spread and long-lived containment measures as a step in the right direction.

While the pandemic has spread to nearly all countries, some are at relatively more advanced stages of the contagion cycle which gives us cues about the possible course of the health- and economic-aspects of the crisis. Ultimately, the pathway of the pandemic will define the economic fallout and thus, social distancing measures that are needed to contain the spread of the virus are also a pre-requisite for a sooner, stronger and more-sustainable economic recovery. We therefore agree that there is no immediate trade-off between health and economic objectives. We support the emphasis of the WEO on this aspect as well as the current communication line of the Fund management to reinforce this message.

The sharp economic downturn as well as the policy-induced restrictions may lead to a prolonged period of subdued investment growth as well as disruptions to global supply chains and economic dislocations. The immediate liquidity pressures on certain sectors, may grow into broader solvency concerns that run more extensively through the economy and suppress the medium-term outlook. Against this background, we join staff in calling on all countries to embrace a `whatever it takes` approach to swiftly and decisively counter the pressures on the global economy. Specifically, we agree that priority needs to be given to (i) increase the health system's capacity and contain the spread of the pandemic, and (ii) shield households and firms from the most negative effects of the crisis – via targeted transfers and tax relief measures. The measures need to be timely, well targeted, and temporary. Timing the roll-back of the stimulus measures is a critical and state-contingent decision. Once the immediate containment phase is over, the Fund's policy advice and its messaging should be carefully calibrated to inculcate this tone and caution against a premature tightening which may jeopardize the recovery prospects.

Many central banks, particularly the reserve issuers, have put in place bold measures to ease tensions in the financial markets, underpin systemic liquidity, and buttress broad confidence. Furthermore, steps to extend bilateral swap lines by key advanced and emerging economies have been instrumental in improving access to international liquidity across jurisdictions. We

appreciate the emphasis in the WEO of such facilities and encourage systemic central banks to continue to widen their swap networks, particularly to countries that do not have access to regional financing arrangements, to support global liquidity.

While the COVID-19 has unleashed a global recession, the emerging and developing countries (EMDCs) are bearing the brunt of the pressures due to their relatively limited policy space as well as the very severe capital outflows. We strongly support the general call in the flagships for multilateral cooperation to consistently advance the pandemic containment efforts across all countries and to minimize economic disruptions. On a more specific point, we note that under the `prolonged stress scenario` staff envisage that the incremental decline in the respective growth outlooks would be roughly equal between the advanced and emerging market economies. Notwithstanding the generally higher dynamism of EMDCs in recovering from recessions, this time around, several factors may beset their recovery prospects. First, apart from China (and to some extent Iran), most EMDCs have not yet seen the worst of the pandemic and thus, their relatively sound standing so far may not be long-lived. Second, despite the incipient multilateral efforts, the EMDCs significantly lack the space and tools to effectively counter the immediate fallout from the pandemic. Therefore, the `scarring` effects may be more visible in this group of countries. To that effect, we would welcome more elaboration by staff on the respective growth implications under a longer-lived stress scenario.

Finally, the Fund – despite the massive workload pressures due to rising demand from the membership - needs to retain its surveillance focus on the recovery phase as most countries are grappling with the momentous pressures. The Fund's effective guidance and continued support will be crucial to smoothly shift gear from crisis mode to recovery mode once the immediate pressures from the pandemic are over.

Global Financial Stability Report

We thank staff for the Executive Summary and the first chapter of the GFSR, which aim to capture the rapidly evolving developments across different segments of the financial market, explain the main risks to financial stability, and suggest policy responses going forward. We look forward to staff's scenarios of expected developments in the forthcoming GFSR chapters. We broadly share staff's assessment and emphasize that while the current financial market turmoil was triggered by the impact of the COVID-19 pandemic on economic activity, certain vulnerabilities had been building up as already indicated in the October 2019 GFSR. The sudden repricing of risks in many emerging market economies and subsequent reversal of capital flows to "safe havens" after a period of "lower for longer" interest rates are the most significant features of the current crisis. Other risks have been amplified,

including in the banking sector, mounting liquidity pressures in the asset management segment amid the large decline in asset prices and stretched conditions in the funding markets.

The emerging and frontier markets have been severely affected by the COVID-19 outbreak. The reliance on US dollar funding and lower fiscal space to employ counter-cyclical policies, exacerbated by contingent liabilities in the SOEs sector, along with a sudden drop in oil revenues, contributed to higher risk perceptions and a rapid outflow of capital, in particular portfolio investments. The fall in emerging markets' equity prices by 30 percent since mid-January is alarming. In this regard, countries with adequate FX reserves could use them to mitigate excessive exchange rate volatility, while allowing the exchange rate to act as a shock-absorber. We note that spreads of dollar-denominated emerging market sovereign bonds rose to nearly 700 basis points by the end of March, the highest level since the global financial crisis (GFC). Therefore, to alleviate the US dollar funding pressures, bilateral and multilateral swap lines may be needed to provide liquidity to the bond markets, as well as to the banking system. Relaxation of macroprudential buffers could also mitigate the impact of the current shock on the emerging markets' banking sectors and cushion the adverse effects on the economy.

We note that while the stability of the banking sector has been significantly strengthened since the GFC through a set of regulatory reforms, and that the macroprudential toolkit of supervisors has been expanded, it is critical to be vigilant of rising risks. We stress that going forward banks' balance sheets could incur losses from weak performance of loans provided to strained households and corporates. In addition, sharply rising wholesale costs weigh on banks' financing conditions and dampen their willingness to channel credit to the real economy, despite further monetary policy easing by central banks. Additional pressure might come from large corporations having access to banks' credit lines, further stretching banks' liquidity position. While banks have built stronger capital buffers since the GFC to cover potential losses, banking sectors in many advanced economies have been dragged down by low profitability, which could weigh on their recovery, as indicated by the sharp decline in their market capitalization. Supervisors should be clear in their supervisory and regulatory expectations and prevent the build-up of risks by encouraging banks to prudently renegotiate loan terms for companies and households facing difficulties to service their debts. Where possible, banks might be encouraged to use existing liquidity and capital buffers to absorb costs of loan restructuring and should consider carefully the distribution of dividends, profits and boni and refrain from share buybacks.

The significantly stretched equity valuations prior to the COVID-19 pandemic exposed the existing fragility in the asset management sector, including high leverage and maturity and liquidity mismatches in their

portfolios. As equity prices collapsed and lost a large share of their overvaluation, asset managers might be forced to further sell assets, thereby amplifying the decline in asset prices, as seen during the GFC, which could exacerbate funds' ability to meet redemptions of fixed-income assets. The regulatory response should support the availability of liquidity management tools, including deferred redemptions. While quantitative easing in corporate bond markets can provide additional market liquidity, the asset segment of the asset purchase program should be carefully considered against the financial stability needs and reputational risk for the central banks. We emphasize that such measures can be employed when funding or market liquidity deteriorate substantially relative to normal conditions or if dealers are not able to trade assets at reasonable prices and without excessive price fluctuations.

We appreciate the focus of the GFSR on explaining the fragilities in different funding markets. We note that global financing conditions have tightened significantly, including in the commercial paper market and US dollar funding markets. Central banks have engaged in asset purchase programs targeted at a number of securities, including commercial papers, corporate bonds, and asset-backed securities. Considering that asset purchase programs through newly introduced facilities will be instrumental to ease the financing conditions, expanding the range of eligible collateral for asset purchase beyond what is accepted in normal times might be considered, while being mindful of the risk of moral hazard. Forward-guidance to market participants about the expected policy path will be critical to maintain the credibility of central banks' decisions. To alleviate the US dollar funding pressures, in particular for emerging market economies, swap lines with the US Federal Reserve could be the right policy choice, underpinned by broader international cooperation.

Fiscal Monitor

We appreciate staff's analysis on how fiscal policies can play a crucial role as part of swift and concerted government responses across the membership to mitigate the health and economic effects of the coronavirus outbreak.

The world economy will likely fall into a deep and long recession. Spending on health and emergency services and implementing timely, temporary and targeted fiscal measures to support the hard-hit population and firms, should be at the forefront of fiscal policy response. To mitigate the adverse effects of the COVID-19 pandemic on supply, demand, and confidence, countries should deploy a mix of fiscal policies, including supply-side measures such as targeted wage subsidies and transfers to workers and firms, revenue-side measures to provide temporary tax relief for people and firms, and liquidity support. Broad-based fiscal stimulus consistent with available fiscal space can help lift aggregate demand once business operations

begin to normalize. Given the large fiscal costs associated with countries' responses to the COVID-19 outbreak, we underscore that transparency, governance and accountability on fiscal risks and costs is critical. To this end, fiscal costs should be properly assessed, disclosed, and mitigated and embedded in the budget processes and medium-term fiscal frameworks.

Against the backdrop of high public debt levels and high deficits across the membership, slow growth and the low inflation environment, countries should be prudently using their fiscal spaces while ensuring their debt sustainability. The additional fiscal measures announced by the major AE are welcome. However, with EMEs facing multiple shocks and their overall average fiscal deficits expected at 8.7 percent of GDP, fiscal risks should be properly contained, and debt sustainability ensured. With the COVID-19 pandemic expected to cause severe economic consequences in LICs and overwhelming their weak health systems, we underscore that ramping up public health expenditures is the number one priority despite the limited fiscal space and vulnerable debt positions. To this end, it is imperative that aid, grants, and concessional emergency financing for the health sector and other priority spending is provided by development partners and multilateral financial institutions. This would ensure that fiscal positions do not deteriorate to unsustainable levels and that economic progress and poverty reduction can be expected.

We appreciate the focus of the FM's Chapter 3 on state-owned enterprises (SOEs), their role in the global markets, and how to use them wisely and improve their performance and efficiency to foster economic and social development. We appreciate that the chapter draws from a range of countries experiences with SOEs. We note that many SOEs are struggling to meet their policy mandates, their financial performance and labor productivity is lower than in private firms, they suffer from weak governance while fiscal costs and risks to the government are significant. Therefore, SOE reforms are essential to get the incentives right and mitigate the fiscal risks to the budget, including through ensuring greater transparency, strengthening oversight, and enforcing SOE corporate governance standards. We take note of staff's recommendation that fostering a level playing field between SOEs and private firms will require a more cooperative solution and a multilateral agreement on general principles, an approach similar to the Santiago Principles. To this end, we are wondering which IFI would be in the best position to support such an initiative.

Mr. Geadah, Ms. Abdelati, Ms. Choueiri and Ms. Merhi submitted the following statement:

We thank staff for their hard work and the personal sacrifices endured in preparing these documents under the most challenging circumstances.

The global pandemic has led to a human and economic crisis unlike any we have known. Staff's baseline scenario of a deep recession in 2020 is plausible, given the disruption in economic activity, sharp declines in export demand, and foreign exchange shortages. We are witnessing an unprecedented blow to financial markets, and emerging and frontier markets have experienced the sharpest portfolio flow reversal on record, as noted in the GFSR. The COVID-19 pandemic differs markedly from past triggers of downturns, and the initial shock is amplified through various channels. The depth and duration of the shock is still unknown, making it necessary to consider the possibility of an even deeper recession and slower recovery.

We appreciate the immense uncertainty and that the baseline is based on early indications of a severe economic fallout. On the path of the outbreak, we appreciate staff clarifications that under the baseline, the impact is concentrated mostly in the second quarter of 2020 and involves a loss of between five and eight percent of working days in 2020. The recovery and easing of financial conditions would be expected in the second half of 2020, benefiting from significant economic policy actions taken across the world. We note the large variations in the projected impact of the pandemic on growth in 2020 and 2021, which reflect variations in integration into the global economy, dependence on commodity exports, and health system capacities. Given the highly uncertain situation and the large variation in country forecasts, we suggest that staff continue to consult with country authorities and keep these projections under review, and perhaps brief the Board on a monthly basis.

Members have undertaken bold interventions, benefiting from Fund guidance on fiscal, monetary, and financial policies. The Fund has played an important role in advocating for prompt bold and decisive actions and should continue to do so. The compilation and sharing of information on measures taken by countries has also been a very useful reference. We agree on the need for heightened multilateral cooperation and to urge countries to work together on the medical front and to address the economic fallout and liquidity needs. In this regard, we very much value the Fund's advocacy for helping financially constrained or deeply impacted countries, beginning with the most vulnerable. We would like to see further work on assisting fragile states, countries hosting refugees, and emerging economies that are witnessing a funding challenges to help avoid deep scars from the pandemic.

As noted in the GFSR, notwithstanding signs of stabilization in some markets, there is a risk of a further tightening in financial conditions, which may further expose financial vulnerabilities. Central banks in several advanced and emerging market economies cut rates and launched liquidity support actions, as well as large asset purchase programs in response to the crisis. These actions will help mitigate the tightening in financial conditions. Moreover, several central banks sought to improve access to international

liquidity by enhancing existing bilateral swap lines or by establishing temporary new ones, including with four emerging market economies. Many other emerging markets are, however, affected by the crisis, and we believe that multilateral swap lines are needed to alleviate the US dollar funding pressures, as acknowledged by staff. Additional staff work on the potential size and most adequate modalities of such financing would be most useful as the Fund considers its lending toolkit. International cooperation is essential to tackle this extraordinary global crisis, as rightly emphasized by staff.

An important part of the global response to the COVID-19 pandemic has been through fiscal policy, which will be one of the greatest public finance challenges for the foreseeable future. Fiscal policies are rightly focused in the short run on directing healthcare spending to save lives and prevent the spread of the pandemic, providing disaster relief to avoid extreme suffering and protect the most vulnerable, while helping to avoid permanent damage to the economy.

The impact of the crisis on public finances is highly uncertain and will depend on the economic recovery. Most countries in our constituency have implemented fiscal, monetary, and financial measures to help address the health risks triggered by the COVID-19 outbreak. We welcome the overview of the measures adopted across selected countries in the Fiscal Monitor. As output drops and revenues fall, public debt ratios will worsen, and while some advanced economies have substantial fiscal space to provide stimulus, many emerging markets and developing countries were already struggling before the COVID-19 crisis, including some commodity exporting countries. Other countries that were also dealing with the cost of hosting refugees and displaced populations will witness further pressures on already strained budgets. For these countries, international community help to support the refugees will be crucial, as government resources will be stretched. Many low-income and fragile countries will need help in the form of grants and through adjustment programs. We agree with staff that it would be appropriate to exit from the current exceptional fiscal measures and to focus on debt sustainability, after this crisis is contained and once economies start recovering. An effective communication strategy will be important to anchor expectations and maintain public trust.

Mr. Mozhin, Mr. Palei, Mr. Potapov, Mr. Tolstikov, Mr. Biriukov and Mr. Shestakov submitted the following statement:

Global outlook and risks

The COVID-19 pandemic with its human and economic costs is likely to be devastating even with effective health and economic policies. The Great Influenza pandemic of 1918 had killed about 50 million people and, on average, had reduced per capita GDP by 6 percent. One century after this

tragedy the global community has a much greater capacity to fight the disease, but the economies are more interconnected and reliant on complex value chains. We are facing a series of sudden stops in movements of people and goods and in access to financial markets as well as collapse of demand in large sectors of the economy.

Against this background, the WEO baseline projection of global contraction at -2.9 percent in 2020 looks optimistic. The deep decline in economic activity is spread across the world, with 80 percent of economies contracting. The baseline projections are subject to extreme uncertainty and depend on many hard-to-predict factors, including the virus persistence, the medical response to the pandemic, the extent of supply chain disruptions, and shifts in spending and behavioral patterns.

The main downside risk is the pandemic lasting longer than it is assumed in the baseline scenario. The reliable vaccine will probably not be ready in the next 12-18 months, making social distancing a persistent requirement, which will continue to suppress economic activity. The economies are facing deep structural challenges in finding the new balance between face to face and on-line businesses, between young and older workers, between whole sectors not fit to social distancing. We tend to believe that, unfortunately, the illustrative protracted recovery scenario with global contraction approaching 6 percent in 2020 and growth of 3 percent in 2021 may not be the worst-case scenario. It would be prudent to hope for the best but prepare for the worst. Could staff elaborate on possible key policy measures to support economic activity, financial stability, and households in case of materialization of "more widespread and longer-lived COVID-19 containment measures" scenario?

The recession of 2020 will affect the advanced economies, emerging market economies, and low-income countries. The advanced economies are projected to face contraction of over 6 percent. For many EMDEs the COVID-19 outbreak is combined with a severe external demand shock, tightening financial conditions, lack of access to U.S. dollar liquidity, and a fall in commodity prices. These countries experience the sudden stop in capital flows of unprecedented scale, while their room for policy response is limited. The growth prospects for oil-exporting countries have significantly deteriorated, albeit oil futures indicate partial price reversal in the coming years.

Financial stability risks are likely to intensify as the health and economic crisis unfolds. The COVID-19 pandemic quickly became a trigger for destabilization in global financial and capital markets against the backdrop of substantial financial vulnerabilities accumulated over the prolonged period of low interest rates. Mispricing of risks and widespread misalignments in terms premiums, equity valuations, and corporate bond spreads had been

highlighted repeatedly in the past GFSRs. The pandemic has led to a dramatic tightening of financial conditions. Spreads have skyrocketed, especially in risky segments, such as high-yield bonds, leveraged loans, and households debt. High uncertainty and the devastating volatility have led to a flight to safety and liquidity, with yields on safe-haven bonds reaching record low levels. The COVID-19 pandemic has already resulted in the drop of equity prices by 20 percent, erasing more than $18 trillion from their value.

The global oil market is in turmoil. The scale of pandemic-related demand collapse for oil is so large that it is impossible to stabilize the oil market by production cuts limited to the OPEC+ producers. Therefore, coordinated efforts of all major oil producers are needed to regain stability in the oil market.

Policy responses

The most important immediate policy response is to secure resources for the health system. The WEO put an emphasis on the needs of hospitals, including spending on medical equipment, testing, and expanding isolation wards. It is also critically important to restore unobstructed cross-border transfers of essential medical supplies. The pandemic has no borders and, if it spreads in countries that lack resources to produce necessary materials and equipment, it will come back to countries that managed to contain it. Communications in the healthcare sector should also be improved to minimize confusing and mixed signals about the key protection measures.

We support staff's call for rules-based fiscal stimulus measures and strengthening automatic stabilizers. The progressivity of tax code and generosity of unemployment insurance programs might be strengthened. The countries might also consider direct payments or additional food assistance for the most vulnerable. These measures will prove highly effective, since those who are unlikely to work from home and therefore will be hit the hardest by the COVID-19 pandemic, are economically more vulnerable, less likely to have college degree and health insurance, and more likely to work for a small firm.

Staff call for "large, timely, temporary, and targeted" fiscal measures, but targeting is hard when the whole economy is affected. We would invite staff to elaborate on the ability of the authorities to target their measures when households are facing widespread layoffs and small businesses are affected much more than large corporates. Staff are welcome to share the successful examples of countries rapidly putting in place widespread and still targeted policies aimed at providing the small business debt relief. We agree that during the pandemic it is better to do too much rather than too little. In all countries affected by the COVID-19 pandemic fiscal policy should mount an effective response, both during the crisis and recovery phases. However, in

many countries the fiscal stimulus will stretch the debt sustainability to the limits. In the major advanced economies, where public debt is high, low interest rates may still provide some room for the increase in their debt ratio. Not all advanced economies have similar ability to increase their fiscal deficits and afford much higher debt levels. Some are facing formidable institutional barriers hampering anti-crisis policies. The risks to debt sustainability are high in many low-income developing countries and commodity exporters, for whom high debt levels, currency depreciation, and tighter financial conditions might translate into rating downgrades and rising interest expenditures.

Unconventional monetary policy tools should be deployed to ensure accommodative stance. Low interest rate environment during the last decades has diminished the scope and efficiency of conventional monetary policy tools in many economies, and the pandemic is likely to depress the natural rate of interest even lower in the upcoming decade. We agree that asset purchases, forward guidance, and negative interest rates can still play a role in countering the weak demand and mitigating negative feedback loops. Another important and so far very challenging role of monetary policy in AEs is preventing inflation expectations from de-anchoring and falling into a deflationary spiral. In the emergency situation some economies might consider large monetary-financed fiscal interventions ('helicopter money'), that should be limited in time for the duration of crisis. Faced with the sizeable depreciation shock many central banks in the EMDEs might be forced to conduct procyclical policy. How affordable is monetary easing across the EMDEs?

Mounting pressures in the corporate sector should be mitigated by targeted central bank measures and the financial sector policies. The COVID-19 crisis is exacerbating the pre-existing weaknesses among over-leveraged non-financial corporates. Borrowing costs have significantly increased for the high-yield sector. These developments lead to corporate credit rating downgrades and the worsening of earnings projections. It is particularly worrisome that the total amount of corporate bonds that were initially given an investment-grade rating but have been downgraded to high-yield status has jumped to around $150 billion over the recent weeks, exceeding the previous peak reached during the GFC. The probability of defaults has increased, with likely adverse and profound implications for the banking sector and institutional investors.

Central banks, regulators, and supervisory authorities should continue to monitor risks for banks and non-bank financial institutions. Banks are facing the large declines in their equity prices and rising wholesale funding costs, despite the steps taken by central banks to provide liquidity. The risks of credit losses on banks' lending to households and companies are very high. The weaknesses in banks' balance sheets will undermine the flow of credit to

the broader economy. While the higher levels of capital buffers can help banks absorb losses, low profitability is expected to reduce their resilience.

There is a scope for active labor market policies to diminish the long-term damage to the supply side. Many changes in employment patterns inflicted by the pandemic are likely to be highly persistent, including the shift away from restaurants and tourism sectors, greater telecommuting and social distancing, increased production within households, more job automation, and less work-related mobility towards densely populated areas. Since the highest paying occupations are among those that can be conducted from home, the labor market at the top is particularly prone to a dramatic reconfiguring.

The pandemic underscores the need for a multilateral, collaborative agenda along many policy areas. It is critical to avoid the breakdown of international trade, and scale back previously imposed tariff and nontariff measures to preserve global supply chains. The current focus on "cross-border transfers of essential medical supplies" is, in our opinion, too narrow, and the greater emphasis should be made on the de-escalation of previously instigated trade conflicts, which have reduced the resilience of the global economy to the large unforeseen shocks like the one it is experiencing now. The WTO resolution system is undermined, and the IMF needs to step up with the call for multilateral rules-based dispute resolution system to support international trade. Staff comments would be appreciated.

The role of the IMF

Unfortunately, the international community is facing the unprecedented health and economic crisis with the inefficient and fragmented Global Financial Safety Net (GFSN). Coordination between the IMF and the Regional Financing Arrangements (RFAs) remains relatively weak, while the toolkit of RFAs and their preparedness to deal with the current challenges remain underdeveloped, perhaps, with the exception of the ESM. We need to urgently discuss the challenges of global coordination and reassess the adequacy of the Fund's available resources. The headline $1 trillion number after proper adjustments may turn out to be insufficient to meet the balance of payments' needs of the IMF membership.

The existing GFSN provides inefficient insurance for many EMDEs, including some systemic and gatekeeper economies. We are very concerned about the rising external pressures on the EMDEs of unprecedented scale. Cumulative capital outflows have surpassed the levels observed at the peak of the GFC, while many major EMEs have now much less policy space. Some of them already have to undergo debt restructurings. The network of bilateral swap arrangements maintained by central banks of reserves issuing countries provides effective protection from the emergence of short-term liquidity pressures to those who have access to these BSAs. However, access to these

BSAs remains limited to only a few EMEs, it is not based on any rules, and the long-standing interest to develop a swap-like IMF instrument that can enhance liquidity provision to the global economy has not been addressed. We call for much more active use of the FCL/PLL facilities, and preparation of much more ambitious proposals to strengthen the IMF tools in order to support EMEs in the current unprecedented global environment. This is critical for avoiding a massive use of capital controls and widespread debt restructurings in these countries. In light of the strongest outflows from Emerging Asia, staff's comments on the prospects for activation of the Chiang Mai Initiative and the role of China's bilateral swap lines in the region and worldwide would be appreciated.

Mr. Raghani, Mr. Andrianarivelo, Mr. Sylla, Mr. N'Sonde, Mr. Sidi Bouna and Mr. Diakite submitted the following statement:

In these exceptionally challenging times that require our full attention, we welcome the short and focused conjunctural chapters of the three flagships as well as the discussion dedicated to these chapters.

WORLD ECONOMIC OUTLOOK

The unprecedented nature and size of the current shock have rightly prompted extraordinary public health measures and fiscal, monetary and financial policy responses. Human losses caused by the COVID-19 pandemic have been and continue to be staggering. The health crisis and the necessary containment measures are also having a tremendous impact on economic activity throughout the world through direct as well as spillover effects. The 6-percentage point downward revision to the 2020 global growth projection since last January WEO Update is unparalleled. In advanced countries and many emerging economies, policy responses have been large and exceptional.

The WEO report properly advocate the imperative for policymakers to stand ready to do more on the containment and macroeconomic policy fronts to minimize human fatalities and preserve the prospects of a swift and sustained recovery in the aftermath of the pandemic. The extreme uncertainty associated with the growth projections, especially for 2021, stems from multiple factors, including the pathway of the pandemic, the efficacy of initial policy responses, the extent of damage and repercussions, and possible behavioral shifts. This calls for close monitoring of fast-evolving developments. The predominant risk of a worse outcome than suggested by the baseline highlights the imperative to prepare for stronger and/or longer containment and deeper policy responses as needed.

We greatly appreciate the WEO's emphasis on the global "public bad" nature of the pandemic, which requires global multilateral actions and solutions. As rightly pointed out, "no country is safe from the pandemic as

long as transmission occurs elsewhere". Strong multilateral cooperation is therefore highly needed to slow the spread of the virus, develop a vaccine and therapies, assist low-income and other vulnerable countries with additional financing to support their ill-equipped health systems and counter the disease. In addition, it will be necessary to provide adequate liquidity to conduct effective monetary and financial policies everywhere.

Low-income countries' efforts to fight off the crisis should be supported by adequate medical supplies and equipment as well as substantial technical and financial assistance to strengthen their health systems. The report can also do greater justice to highlighting other shocks faced by those countries. Like other emerging markets and developing economies (EMDEs), low-income countries (LICs) are already incurring significant economic damage through reduced domestic activity, tourism, trade and financial flows, including remittances. Real per capita output losses will be significant this year in those countries, most notably in Sub-Saharan Africa. Based on the number of LICs that have requested or will request soon the Fund's emergency financing assistance, their buffers are depleting at a very high pace. The growth, fiscal and financial impacts of the COVID-19 are compounded not only by the commodity price shock in commodity-exporting economies, but also the continued effects of climate change and, in some countries notably in the Sahel, security-related threats. The report should not shy away from highlighting these persistent challenges in addition to COVID-19. The announced financing responses by the international community, including the Fund—enhanced access to emergency financing and multilateral and bilateral debt relief—go in the right direction but may need to be scaled up and broadened in scope to cover more LICs affected by multiple shocks.

Regarding policy implications going forward, we broadly agree with the priorities laid out in the report. The utmost priority should remain the reduction of the contagion and the protection of human lives through stringent and continued containment measures as long as needed, while increasing health care spending. Another priority is to limit the impact of the downturn on households, firms and financial systems and ensure speedy post-pandemic recovery. In this vein, we concur with the policy advice on substantial targeted fiscal, monetary and financial market measures (see Sections II and III below).

The specific macroeconomic and financial policies highlighted in the report are pertinent, but attention should also be paid to the situation of countries relying on non-official financial flows. We agree with the detailed fiscal support measures and the view that large parts of the stimulus should be kept for the period immediately following the disease outbreak when economic agents are able to act more. We see merit in promoting synchronized actions in monetary easing and liquidity provision to enable all

to benefit from synergies and allow EMDEs to conduct monetary policy appropriate for internal conditions. We also appreciate the recommendation to financial supervisors to promote loan renegotiations between banks and distressed households and firms while keeping credit risk under control. Nonetheless, missing from the set of policy advice is the need to lower the cost of international transfers to sustain the flows of remittances from migrants in advanced economies to developing countries.

GLOBAL FINANCIAL STABILITY REPORT

We welcome the GFSR's in-depth analysis of the impact of the COVID-19 outbreak on global financial markets which have declined abruptly and steeply and are subject to considerable uncertainty and downside risks. Financial conditions have tightened significantly around the world, which, with the unprecedented capital outflows from emerging markets, has contributed to a sizable decline in market liquidity. Furthermore, global oil prices have dropped significantly. As a result of the elevated uncertainty and the significant risk of a deeper global crisis at a time of reduced buffers and high public and private debts, among other factors, the financial sector may incur substantial losses which would further reduce the provision of credit to the economy.

We share the emphasis on implementing strong and decisive fiscal and monetary policies to address the ongoing crisis. We welcome the actions already taken by many members and see merit in similar measures in other countries where feasible. The policy packages should include, among others, adequate subsidies and tax breaks to assist borrowers who are unable to meet their mortgage payments and other loans because of the economic hardships resulting from the pandemic. Governments should also provide credit guarantees to mitigate the rapid decline in the financial sector's credit to the economy. At the same time, where inflation permits, central banks ought to reduce their key policy interest rates and expand their asset purchase programs to support the economy and ease access to liquidity.

Financial policies have, as well, an important role to play in response to the crisis, including by temporarily relaxing some of the regulatory requirements that had previously been adopted in the aftermath of the global financial crisis. In particular, banks' capital adequacy ratios should be allowed, exceptionally, to drop below regulatory minima to help reduce financial institutions' losses. In addition, banks should be encouraged by regulators to facilitate the postponement of loan repayments from borrowers affected by the crisis.

We broadly concur with the need to use exchange rate flexibility where feasible to act as a shock absorber and capital flow management to prevent disorderly outflows. Depending on country circumstances and given

the intense pressure on balance of payments, emerging market countries should consider enabling their exchange rates to depreciate while standing ready to intervene in case of excessive volatility. The introduction of capital flow management measures is also warranted at the present juncture given the sizeable and abrupt outflows of capital that many emerging market economies are experiencing.

FISCAL MONITOR

This timely edition of the Fiscal Monitor provides an insightful analysis of the role that fiscal policy should play in the response to the COVID-19 outbreak. In efforts by governments around the world to contain and mitigate the severe impact of the pandemic on people's lives, fiscal policy turns out to be their prime response tool. As noted above, priority should be to save lives by ramping up spending in the health sector on testing and treatments. We appreciate staff's highlight of the need for global coordination, notably to support countries with limited health capacity such as in Sub-Saharan Africa which includes many of the least prepared countries against the pandemic. The provision of grants and concessional financing, as well as a universally low-cost vaccine to these countries is therefore critical.

Protecting vulnerable populations from unemployment and loss of income, and businesses, especially small and medium enterprises from bankruptcies is another paramount objective that fiscal policy must meet. Whereas the COVID-19 crisis comes at a time when the world economy was slowing down, absent countercyclical fiscal measures, the public health crisis would translate into a deep and lasting recession. Therefore, we see merit in the fiscal measures recommended in the report, notably paid sick and family leaves, targeted cash transfers, unemployment benefits, wage subsidies, and deferral of tax payments. It is also important to ensure transparency in managing the inevitable fiscal costs associated with some measures such as loans and guaranties.

Policymakers must remain mindful of the need to reduce, over time, fiscal and debt vulnerabilities—by enhancing tax and expenditure policies and providing debt relief and restructuring to LICs—and strengthen medium-term growth prospects. The necessary surge in expenditures to contain the pandemic will widen fiscal deficits and debt ratios across the board in 2020 and beyond for many countries. In this regard, we agree that countries are facing the crisis from different starting points. Advanced economies generally having fiscal space should be able to run deficits longer if that is required to bring back output close to potential. In contrast, most EMDEs were facing a difficult situation prior to the COVID-19 outbreak. As many of them are now severely impacted by the combined shocks highlighted above—pandemic, fall in commodity prices, large capital outflows, climate change and security threats—they may not have adequate fiscal space to react appropriately, which

is likely to raise debt vulnerabilities to fight off the urgent health crisis. In this regard, as noted above, multilateral and bilateral debt relief and restructuring initiatives in favor of LICs announced recently are indispensable.

It is also essential that appropriate support be provided urgently to LICs in the form of grants and concessional financing to fight the epidemic, while preparing medium-term adjustment programs to adapt to the other shocks when the health crisis is brought under control. In this regard, we recognize the leadership role played by the Fund by enhancing its toolkit to respond quickly to its members' large and urgent financial needs.

Mr. Merk, Mr. Braeuer, Mr. Buetzer, Mr. Herold and Ms. Koh submitted the following statement:

We thank staff for the informative set of reports, which comes amidst a period of the COVID-19 pandemic paralyzing the global economy by an unprecedented combination of sudden, widespread and deep supply and demand shocks; undoubtedly, the magnitude of the adverse impacts of COVID-19 will be immense.

At this juncture, health policy measures and international coordination of the medical response, including R&D efforts to solve the health crisis, should have the highest priority. Free movement of goods should guarantee a better supply of critical goods than attempts at nationally self-sufficient solutions.

A significant immediate fiscal impulse to address this crisis is necessary and well-justified. Many countries have acted decisively and adopted a set of comprehensive and wide-ranging policy measures aimed at preserving production capacities and human capital to set all necessary preconditions for a swift recovery.

Central banks have enacted extraordinary measures within their mandates. These have contributed to ensure supportive financing conditions, enhance market liquidity, ensure financial stability and safeguard the function of the international monetary system. In this context, swap lines that have been enhanced or reactivated recently are also expected to contribute to global confidence and liquidity provision. It should, however, be noted that their objective is to support a smooth transmission of monetary policy in domestic markets, for example in the presence of adverse spillovers. At the same time, a credible exit from the exceptional mode is called for after the crisis. This holds true also for regulatory forbearance measures that temporarily alleviate the burden on financial institutions and help them to continue their financing activity. Once conditions permit, regulators and supervisors should fully reinstate prudential rules in accordance with their regulatory purpose.

Re-doubling the efforts to enact structural reforms, aimed at raising productivity into the medium term and reducing trade-barriers within a rules-based multilateral system should be high on the agenda in returning economies to full speed. In addition, determined actions to promote the transition towards a low-carbon economy offer additional growth opportunities.

Going forward, once containment measures are gradually lifted, future fiscal stimulus measures that are put in place must be weighed carefully against the need to preserve fiscal sustainability and to bring elevated public debt levels on a firm downward trajectory. In this context, we emphasize that a credible pursuit of sound public finances underpins the durability of the recovery.

World economic outlook

At this stage as the crisis is still unfolding, and in view of the underlying uncertainties surrounding the duration and spread of the pandemic, it is extremely difficult to cast an outlook.

We share staff's view that a sharp contraction of world GDP will be observed for the current year. Staff's baseline appears to be plausible based on the assumption of the pandemic fading in the second half of the year and remaining more contained in emerging markets and developing economies. However, risks are clearly tilted to the downside. Our understanding of the epidemiologists' consensus view is that the peak of infections has not been reached in many affected countries. Strict containment measures might therefore remain in place for longer than currently assumed which underline staff's alternative worse-case scenario.

As an upside risk, an earlier availability of a vaccine or therapy would be a game changer. In this case, a broad and non-discriminatory access worldwide would be of utmost importance, since disease control has the characteristics of a global public good. More generally, if economic agents adjust efficiently and infection rates are contained, we could also envision a swifter and more complete recovery, especially in advanced economies.

Consequently, it would be advisable to take the numerical accuracy of forecasts with a grain of salt and put more focus on laying out different scenarios.

We share staff's concern that a prolonged interruption in economic activity might have lasting consequences on future potential output. The crisis might weigh more heavily on business confidence and financial conditions. Meanwhile, the burden on public budgets will continue to increase over time, which might call into question fiscal sustainability and exacerbate these

strains. In addition, geopolitical tensions and growing tendencies to turn away from multilateralism and open markets might amplify the fallout from the crisis.

A reactivation of the global economy with complex global supply networks, once the pandemic fades is likely to cause short-term frictions. Supply-side factors might continue to constrain capacity utilization until value chains are rebuilt. On top of crisis-induced declines in industrial investment, firms attaching higher importance to redundancies and diversification within their supply chains could temporarily dampen productivity growth and increase operational costs. This could, in the long run, affect macroeconomic trends.

Region-specific remarks

Germany has taken decisive and far-ranging measures to mitigate the socio-economic impact of the COVID-19 crisis. We are fully committed to implementing the needed policy measures to protect companies and preserve jobs. On the public health side, a range of measures have been put in place to contain the spread of the virus, including travel restrictions, a ban on public gatherings, the closure of schools and non-essential businesses.

The pandemic itself and the public health measures taken to contain it have far-reaching consequences for the German economy, affecting domestic and foreign demand, and interrupting supply chains.

However, automatic stabilizers embedded in the German welfare state and tax code, monetary support from the Eurosystem, and a number of far-reaching and swift discretionary policy measures taken by the federal and state governments will at least partly offset the detrimental impact. The expanded short-time work allowance ("Kurzarbeit") helps to maintain the disposable income of employees alongside preventing large-scale layoffs and hysteresis effects. At the same time, extensive credit guarantees, targeted financial support to small businesses, and tax deferrals uphold affected companies' economic viability and bridge acute liquidity pressures. Once the pandemic fades, our authorities stand ready to assess the need for and design of additional fiscal measures to support the recovery.

Germany is also committed to working closely with our European partners in the fight against COVID-19 as this crisis underscores the need for solidarity and cooperation across borders.

Over the medium term, the IMF could potentially play a useful role – in close collaboration with the WHO and the World Bank – in advising countries on best practices to strengthen resilience against global pandemics, including through the strengthening of health care system and social safety

nets. As this crisis illustrates, a closer look at the crucial role of automatic stabilizers seems certainly warranted.

Amidst a pronounced phase of risk-off sentiments, worsening financial conditions weigh on EMEs, adding pressure to the more direct public health shock. Heavily indebted commodity exporters are particularly vulnerable to debt-related periods of economic stress caused by the spread of the virus, especially where foreign exchange reserves coverage is inadequate. This places a premium on ensuring that efforts to address the health shock are supported by judicious macroeconomic policies. In this context, we agree with the staff that in situations of destabilizing capital flows, temporary capital flow measures may appear a necessary option.

Debt levels in many developing economies have been at elevated, and in several cases acute, distress levels before the outbreak of COVID-19, placing these countries particularly at risk. We support the concerted international effort to provide, where necessary, debt service relief and emergency assistance to the poorest countries. We encourage these countries to stay in close dialogue with the Fund when it comes to implementing their response to the economic and health shock, and to make the best possible use of any financial assistance received.

As for China and the United States, we wonder about downside risks to the growth projections. Staff's comments would be appreciated.

Global Financial Stability Report

We broadly agree with staff's view on near- and medium-term risks to global financial stability. Financial stability risks have increased significantly, as the spread of the coronavirus pandemic has resulted in a very large blow to global financial markets and unearthed pre-existing weaknesses in some cases. Financial markets saw an intensified search for yield at the end of 2019 and the beginning of 2020, followed by an abrupt sell-off and flight to safety since mid-February, as coronavirus fears spread. The intensity of the sell-off reflects the severity of the coronavirus and oil price shocks and reveals the deterioration in risk appetite. Worryingly, the speed of the tightening has been unprecedented, even compared to the global financial crisis (GFC). All in all, the shift in tightening of global financial conditions implies a significant increase in downside risks to growth and financial stability. If the proper functioning of the financial system were impaired, an economic downturn would be further amplified, reducing the prospects of a swift upswing after the crisis, with possible negative implications for long-term potential growth. Therefore, we concur with staff that policymakers need to maintain a balance between safeguarding financial stability and supporting economic activity.

Market liquidity deteriorated sharply, especially in risky segments such as high-yield bonds. As noted by staff, in response to liquidity pressures, several central banks agreed to augment the provisioning of liquidity through enhancing existing or through new temporary swap lines, which has contributed to easing pressures since the end of March. Measures to safeguard liquidity could offer a relief in the short term. However, we would like to emphasize that as the duration of containment measures increases, solvency problems become more likely.

Vulnerabilities in the banking sector remain and bank profitability continues to decline. The higher levels of capital buffers built since the global financial crisis will help banks to absorb losses. However, depending on the duration of containment measures and the severity of the economic downturn, banks' capital buffers might come under considerable strain, which could impede credit supply conditions going forward. The release of counter-cyclical capital requirements and supervisory authorities' expectation for banks to postpone dividend distributions, provide additional capacity to absorb losses. Furthermore, the substantial action by central banks to provide liquidity to banks in many economies, including in repo operations, should help alleviate liquidity strains. On the borrower side, targeted fiscal measures to ensure the liquidity and solvency of the real sector will also help to reduce potential losses for banks. Nonetheless, a potential surge in credit could significantly strain capital resources of banks, thus leading banks to hoard liquidity rather than provide it to other institutions in the market. Finally, increases in bond yields for some highly indebted governments may lead to a re-emergence of the sovereign financial sector nexus in some jurisdictions.

As already emphasized in the October 2019 GFSR, high leverage in the corporate sector could exacerbate the economic downturn. Nonfinancial corporate sector vulnerabilities are significantly higher than during the GFC. Asset managers in several countries entered the crisis with higher leverage and maturity and liquidity mismatches. In the Euro Area, small and medium banks have large exposures to SMEs, and are as such significantly exposed to corporate risks. Therefore, a prolonged period of negative growth and elevated cost of funding could lead to large-scale corporate distress.

Emerging markets face a particularly severe shock, given their dependence on external funding, increased leverage and – in some cases – high reliance on commodity exports. We echo staff's call for decisive policy actions. Sovereign debt managers should put in place contingency plans for dealing with limited access to external funding markets for a prolonged period. Countries that are facing rapidly deteriorating debt dynamics, limited market access, high external financing requirements or high volatility, may need to pre-emptively and cooperatively seek a debt resolution with their creditors. Capital flow management-measures could constitute a part of a broad policy package. However, these measures cannot substitute for

warranted macroeconomic adjustments and should be transparent and temporary. Also, we observed stronger net outflows in bond markets in recent weeks, rather than in equity markets (using weekly EPFR data). That is the case in EMEs as well as in AEs. We would therefore ask staff for a renewed assessment of their statement that "Outflows from equity markets were particularly strong, given their sensitivity to the growth outlook".

We noticed that staff does not discuss contagion risks or possible spillovers in EMEs. It will be important to analyse how the shock might spread between countries and sectors in order to understand better the development of the crisis. In addition, as EMEs have been increasingly seen by investors as an asset class and investment decisions are to some extent based on group-specific aspects, it would be interesting to investigate whether even countries with stronger economic fundamentals are affected by capital outflows.

To preserve the stability of the global financial system, central banks have been the first line of defense in leaning against the tightening in financial conditions through decisive monetary policy action in line with their respective mandate. In addition, regulators and supervisory authorities have implemented a range of financial policy measures (e.g. the release of counter cyclical capital buffers). However, the aim of macroprudential policy is not crisis management, but rather to pre-emptively identify vulnerabilities, reduce risks and improve resilience.

We take note of staff's analysis on equity price misalignments, which suggests that equity valuations had become increasingly stretched since the October 2019 GFSR, with the extent of overvaluation approaching historically high levels in several countries in the last quarter of 2019. In this context, we would like to point out that in the October 2019 GFSR, staff illustrated that corporate bond spreads could widen significantly even under a GDP shock that amounts to half of the GDP decline during the GFC. Given that this risk has obviously materialized, could staff comment on a more recent estimate of its debt-at-risk assessment?

We agree with staff that the role of rating agencies will gain in importance in the coming months. Rather than some specific sovereign downgrades, a more comprehensive list of downgrades might be useful. In addition, it would be helpful to note that AEs can be downgraded as well (e.g. the UK recently). We would welcome additional staff comments.

Fiscal Monitor

We welcome the comprehensive and thoughtful considerations in the fiscal monitor. We agree that the top priority for fiscal policy is now to cope with the pandemic crisis. This includes a shield for the most–affected people

and firms. Projections for public finances are particularly uncertain at this stage. Once the health crisis recedes and the economic restrictions are loosened, a broad-based fiscal demand stimulus could be warranted. The current situation has revealed additional spending needs on health and emergency services in a number of countries. The countries with limited health care capacity in infrastructure, personnel or medical supplies cannot adequately scale up these resources in a pandemic. We agree with staff that these countries should reprioritize expenditure toward health care and that a comprehensive and coordinated global action is urgently needed to assist these countries. We welcome the IMF's call for country specific approaches depending on country specific needs, distributional challenges and fiscal space. At the same time, international coordination and considering best practices in dealing with the crisis remain essential political and economic tasks.

Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon and Mr. Singh submitted the following statement:

WORLD ECONOMIC OUTLOOK

We compliment the staff for an excellent document. It effectively analyses global prospects and risks and makes forecasts for these extremely uncertain, and unknown, times.

Though we broadly agree with the staff's assessment of prospects, risks, and policy prescriptions, we feel that the Fund should provide a more balanced set of scenarios and thereby recognizing uncertainties around the forecast. We would like to highlight a few points.

WEO forecasts a sharp downturn in global growth during 2020 in the wake of COVID-19 pandemic. In the baseline scenario, global growth has been estimated to be at -2.9 percent, much slower than even during the global financial crisis. The forecast indicates a V-shaped recovery in the subsequent year. The forecast has factored in the COVID-containment measures and their impact on economic activity. Lockdowns, quarantines, and social distancing have caused acute disruption to supply chains, production activity, services, and the financial sector.

We note that the staff forecast is conditional on the assumption that the pandemic would fade away in the second half of 2020. Admittedly, there is extreme uncertainty around underlying assumptions determining the forecast; in particular, about the intensity and the time before the virus would fade away. Hence, there are scenarios incorporating assumptions worse than the (most likely) baseline. In our view, it would be helpful if a scenario is added wherein the assumptions are better for economic growth than the "reality" contained in the baseline.

We agree with the Report in its call for extraordinary policy measures to deal with these extraordinary circumstances. While resources are being devoted for augmenting health services, countries are also taking a range of fiscal, monetary, and financial market measures (at an unprecedented scale) to curb the propagation of health emergency to economic activity. Significantly, this brings out a stark contrast between advanced and emerging market economies. While objectives of the policy are much the same, access to international liquidity is far more constrained for emerging market economies (EMEs) than for the advanced economies (AEs). The latter not only have stronger health care systems; they also enjoy considerably better access to international liquidity. This brings into focus the role of the global safety net and the role of the IMF in providing liquidity to EMEs.

On the side of risks, the EMEs would also be badly affected by COVID-19 incidence and its economic and financial fallout. There exists the possibility that an extraordinary liberal monetary stance of developed economies may spillover and cause excessive and lumpy capital inflows (in search of yield) to EMEs at times of risk-on and sudden stops or even reversals at times of risk-offs. This needs to be highlighted along with a case for international coordination.

5.Indian growth, we note, has been lowered significantly for 2020 as also is the case for all economies. Though India has been projected to grow at only 1.9 percent, it still remains the fastest-growing among the major economies. We understand that any forecast at this juncture is fraught with risk as growth would essentially depend upon the intensity, speed and duration of the pandemic. However, as we outline below, India has quite successfully implemented preventive measures, and hence, IMF may want to revisit the growth projection for India.

There are three possible policy responses to this historic pandemic – monetary, fiscal, and preventive. Regarding the conventional policy measures, India, like many other economies, has been extremely proactive, and especially regarding the vulnerable population. The government has devoted large sums for augmenting health infrastructure and has announced a relief package under Pradhan Mantri Garib Kalyan Yojana (PM policy for assistance to the poor); this package covers cash transfers and food security to poor sections of the population. Monetary policy has also eased (policy rate was cut by 75 bps), reserve requirements were reduced and the norms for lending to SMEs were liberalized.

WEO points to only limited fiscal space in India. Notably, the analytical Chapter Two makes a case for a countercyclical fiscal policy for advanced economies even in the presence of high public debt levels. It would

be desirable that this work is extended for emerging market economies to indicate how far fiscal policy may be pursued.

Preventive Measures: India has been a noticeable leader on the adequacy, and magnitude, of preventive policies. India was expected to be a major COVID hotspot. Surprisingly, even as of April 4th, India had "only" 3374 cases and 77 deaths. This low incidence was made possible by a major leadership role of India in the third policy option – prevention. The preventive measure (social distancing, school closures etc.) have led to a three-week nationwide lockdown of 1.3 billion people. Tabulation (and documentation) of containment policy measures in an Oxford University study shows India with the highest preventive policy stringency index among all countries as of March 31st, 2020. This is very creditworthy on the part of India's policy makers.

A striking feature of the pandemic is that it is heavily concentrated in Western economies, and in two EMEs – China and Iran. On preventive measures, the EMs and India do much better than the advanced economies. Is there a link? The divergence needs to be explored and mentioned in the WEO; and point to the need for preventive measures being highlighted in the WEO.

Global Financial Stability Report (GFSR)

10. We concur with the report that a combination of monetary, fiscal and financial sector policies are needed to support the stability of the global financial system. We also agree with the need for multilateral swap lines to alleviate US dollar funding pressures; however, we would add that bilateral swap lines as provided by India to SAARC countries can also help in such situations. Further, the IMF could itself explore short-term liquidity swap lines for EMEs akin to the facility it provided during the 2008-09 global financial crisis (GFC).

11. Large asset price erosion during the current crisis seems to be more sector-specific unlike the strong generalized knock-on effect as observed during the GFC. Currently, EMBI bond price spreads have risen significantly; however, the increase is much lower than that which occurred during the GFC crisis. This implies that health pandemic has not created expectations of significant insolvency or default risk; this also helps explain why there have been less outflows from EM bond markets (relative to EM equity markets). The report observes that spreads of dollar-denominated emerging market sovereign bonds rose to nearly 700 basis points (by end March). Since the impact seems to be more severe due to the sharp fall in commodity prices, it would be useful to explore how the bond spread would be altered if one considers the sub-group of non-commodity exporting EMEs. As both inflation and interest rates are likely to be lower for longer, debt servicing stress for many EMEs could remain contained.

12.The GFSR observes that nonfinancial corporate sector vulnerabilities are significantly higher now than in 2008- 09, implying that a prolonged period of negative growth and elevated cost of funding could lead to large-scale corporate distress. However, this assessment does not seem to be in consonance with a sharp recovery of the global economy in 2021, as projected in the WEO.

13.The report highlights the danger of a sharp cut back in bank lending due to liquidity strains and losses at banks as happened in 2007-08, which could exacerbate the impact of the pandemic crisis on the economy. However, Fig.1.12 in the report demonstrates that global bank funding spreads are way below that of the 2008 GFC levels, with most G20 countries' banks relatively strongly capitalized. Further, given the higher loss absorbing capacity of the banks presently than at the time of GFC along with maintenance of liquidity coverage ratio, the conjecture on potential banking crisis seems to be overplayed. Further, the credit market spreads seem to indicate that credit markets during the current health pandemic are not as severely impaired as during the GFC, which could also imply that the recovery could be much sharper once the health pandemic subsides.

14.The report states that the sharp decline in economic output and sudden increase in borrowing costs could hurt economies with limited fiscal space, high financing needs or external financing vulnerabilities, including India. It also mentions that countries like India where banks have high NPLs, significant exposures to SOEs and large holdings of government bonds are vulnerable to an intensification of the sovereign-financial sector feedback loop. In our view, depending on the initial conditions, the impact of a generalized global shock varies significantly across geographies. The central government fiscal deficit in India remains moderate and current account deficits during previous two years have remained stable at about 2 percent of GDP, which may further benefit by lower oil prices. India's reliance on external financing continues to remain limited with external debt-GDP ratio reasonable (by global standards) and import cover more than adequate (as per reserve adequacy criteria). The capital ratios of Indian banks remain strong and asset quality and profitability of commercial banks has improved after a long period of stress. The Insolvency and Bankruptcy Code in India has gained traction, enhancing resolutions. Since India's initial conditions remain strong along with a well calibrated domestic response to COVID-19, a generalized global shock will have less adverse impact vis-a-vis its' peers with weaker initial conditions.

Fiscal Monitor

15.The Fiscal Monitors Executive Summary (and Conjunctional chapter) effectively brings out the schism of a 'before and after' fiscal

framework necessitated by the pandemic. It discusses fiscal policies needed to navigate this crisis. We compliment the staff on providing a holistic view of the various contours for building economic health of countries. We do recognize that the 'next normal' which emerges may sharply diverge from those that previously shaped economies.

16.The coronavirus outbreak has first and foremost a human cost. Therefore, we are fully supportive of policy priorities aligned to health and emergency services. Governments across the globe have taken swift measures on containments, and mitigation. Comprehensive stimulus packages have targeted the preservation of incomes, aid to the unemployed, management of liquidity and moratoriums on debt. But many of our traditional metrics, essential for functional balance sheets, are now uncertain. Constraints of reduced economic activity and revenues, market uncertainty, decreased demand, public sector loans and equity injections, and the projected rise in public debt, all come with lower GDPs. We agree with the rise in Government debt levels highlighted by the staff. However, coming days will deliver more clarity in terms of country specific impacts of individual country actions taken for tackling the pandemic.

17.The Fiscal monitor has expansively explained the downside risks of the Pandemic. These include a more severe economic fallout from widespread infections and repeated outbreaks, swings in commodity prices, stress in global financial markets, and even extreme weather events. We would like to see some upsides also, especially in the face of the pandemic ebbing sooner and recovery being faster due to robust policy (monetary, fiscal, and preventive) steps. Experience has shown that supply chains do resurrect quickly; some sectors recede while others recalibrate and rebound. Inclusion of an optimistic scenario relative to baseline will thus be useful and is therefore recommended.

The draft Fiscal Monitor importantly asks for strengthening social safety nets in a responsible way. It recommends taking advantage of new digital technologies (for example Aadhaar in India and G-pay system in Kenya) which can help deliver key public services, process applications for targeted income support, and implement direct cash transfers.

Here a small point of factual correction. Aadhaar in India is not a payment system but a Unique Identification that has enabled KYC as well as e-KYC thus further enhancing financial inclusion. The base for digital payment revolution in India has been enabled through 24x7x365 day retail payments system provided by the Central Bank through a Universal Payments Interface (UPI). The UPI enables seamless transfer of funds at any time; from any bank to any bank; on mobile phones that need not necessarily be smart phones, and through the internet. This considerably mitigates the risks of

spread in pandemics situations. We would suggest that the correction be reflected in the fiscal monitor.

20.Finally, we missed a mention of the overall message emerging from the crisis - health systems, social structures and preparedness of economies, particularly in advanced countries, are not aligned to deal with a pandemic of this scale. The Fiscal Monitor has sentences as "countries with limited health care capacities"; and "Comprehensive and coordinated global action is urgently needed to assist countries that face health emergency challenges, particularly those with limited capacity and financing constraints." These and similar references are evocative of how it was before the crisis; they need to be better balanced since the COVID facts suggest that developing economies have coped better with the pandemic, unexpectedly and ceteris paribus. This contrast needs to be discussed and explored further in the flagships.

Mr. Jin, Mr. Sun, Ms. Liu, Ms. Zhao and Ms. Lok submitted the following statement:

We thank staff for the set of flagship reports focusing on COVID-19 and broadly agree with staff's assessment of the global economy and risks.

World Economic Outlook (WEO)

The current COVID-19 pandemic is having a severe impact on the global economy and outlook, reflecting shocks to both demand and supply side. The global economy in 2020 is very pessimistic, an outcome far worse than during the 2009 global financial crisis. At this critical moment, all countries should be united and work together to fight our common enemy, the COVID-19, mitigate the adverse economic impacts, and avoid a depression. We should hope for the best and prepare for the worst.

We take positive note that the growth is projected to grow strongly by 5.7% in 2021, which could help boost confidence and stabilize the world economy. Nevertheless, the more optimistic growth forecast should be conditioned on several factors, and the pace of recovery hinges crucially on policies undertaken. First, containment measures should be implemented strictly by all countries to slow the spread of the virus. Second, strong cooperation and coordination at both the bilateral and multilateral level are needed. Extraordinary and decisive measures, including monetary, fiscal, and financial should be adopted by all member countries and international institutions to forestall worse outcome. Meanwhile, scaled-up actions should be taken if the global economy further deteriorates. We share staff's view that there are huge uncertainties around the global growth forecast and therefore encourage staff to closely monitor the rapid evolving developments and update growth forecasts more frequently as needed.

Facing an unknown and deadly virus, China has taken decisive actions to fight the epidemic while overcoming a stall of the economy. By now over 90% of the manufacturing production has resumed and 80% of workers have returned to work. The hard-hit service sector, such as restaurants, are gradually recovering. The manufacturing PMI surged to 52.0 in March from a record low of 35.7 in February. The growth of GDP in the first quarter was negative. From the second quarter, GDP is expected to resume positive growth and rebound in the next three quarters is expected to more than offset the negative growth in the first quarter. However, the contraction in the world economy has formed an additional headwind. Supported by more proactive fiscal policy and accommodative monetary policy, the Chinese economy is to achieve a reasonable positive growth for the whole year of 2020.

Global Financial Stability Report (GFSR)

The COVID-19 health crisis has severely impaired economic activity, which in turn has weighed significantly on financial market sentiments, posing an unprecedented challenge to the global financial system. To mitigate risks to global financial stability and prevent negative feedback from the financial markets to the real economy, we agree with the GFSR that a forceful policy response is necessary to preserve smooth functioning of financial markets and allow the financial system to continue to facilitate economic activity. We welcome the decisive responses by central banks around the world in recent weeks to relieve market strains and provide liquidity to the financial system. While there are signs of stabilization in some market segments, the significant uncertainties surrounding the pandemic and economic outlook are likely to continue to weigh on market sentiment. At the same time, with policy rates at near or below zero levels in some economies, the policy tools available to further respond to financial market pressures may be somewhat constrained. This calls for strong actions at the multilateral level, including by the IMF, such as through a possible general SDR allocation to provide additional international reserve assets and global liquidity.

We appreciate the discussion in the GFSR on financial sector policies, which highlights the need to balance between preserving financial stability, maintaining soundness of financial institutions, and supporting economic activity. Regulatory and supervisory actions, combined with measures to provide liquidity, would help allow financial institutions to continue to play its role in extending credit to firms and households, supporting real economic activity. The IFIs should also adopt similar measures in line with the above regulatory and supervisory requirement. That said, given the nature of the current crisis, which has a more immediate impact on the real economy, we see potential merit of direct injection of funding into the firms by both public and private sources. Options for seeking equity financing rather than debt financing may also be explored.

The dire challenges facing emerging markets and low-income countries require comparable support from all parties, including multilateral, bilateral, as well as commercial creditors. A temporary suspension of debt repayments by IDA countries should be considered by not only official bilateral creditors but all creditors to fully assist these countries in tackling the challenges of the pandemic. For those countries currently facing significant capital outflows, we encourage the Fund to continue to provide sound policy advice, drawing from the Fund's Institutional View as well as insights from the ongoing work on the Integrated Policy Framework, where appropriate. While financial markets in China have remained relatively stable so far despite the COVID-19 outbreak, our authorities will continue to stay vigilant and stand ready to take additional measures as necessary to safeguard financial stability.

Fiscal Monitor (FM)

We support that fiscal policy should play a prime role in fighting against the pandemic. At the same time, fiscal policies should be adopted in line with fiscal space, and large amount of fiscal deficits financed by excessive external debt in a low interest rate environment should be avoided to improve resilience to an inevitable capital flow reversal in the future. We therefore encourage the Fund to play a more important role in sending early warning signals for cyclical capital flows, and to ensure that macro prudential measures are in place for EMDCs. Moreover, regarding the direction of fiscal spending, we suggest taking a country specific approach. Take China as an example, we still have plenty of room to modernize and upgrade infrastructure in both urban and rural areas, such as public health facilities, 5G network, sewage system, national-wide water allocation and preservation, universal accessibility for an aging population, and connectivity in vast rural areas, etc.

On SOEs, staff's analysis is informative and heuristic. In most cases, the so-called "implicit guarantee" is market perception rather than an effective legal guarantee. Quite a number of SOEs in China have defaulted, and it could be highly risky if investors and international organizations hold this perception in doing business. Whether some protectionism against SOE's in international trade is caused by unfair business practice on the SOEs' side, or by local market protection, is an issue that should be judged by the WTO, rather than by staff of the Fund. Regarding staff's proposal that the SOEs should be fully integrated into the financial statements of the public sector, some further discussion and clarification are needed. We all know that government could hold either minority or majority shares in SOEs, it may or may not provide guarantee to the companies it participates. Given the various types of SOEs, to what extent should the various types of SOE's balance sheets be incorporated into that of the general public sector? Going forward, we encourage staff to take a comprehensive and balanced approach in

analyzing SOEs, avoid stigmatizing, and be evenhanded in treating SOEs or government participated companies across member countries.

The representative from the European Central Bank submitted the following statement:

We thank Staff for this extensive set of flagship publications, produced under adverse circumstances. The EU institutions and Member States are determined to do whatever it takes to effectively address the current challenges and to restore confidence and support a rapid recovery. They are taking a coordinated economic response to limit the spread of the virus, ensure the necessary supplies to health systems and mitigate the socio-economic repercussions of the pandemic. The commitment and dedication of IMF staff and management to deliver substantial analysis on a timely and efficient manner is commendable. We broadly agree with the main thrust of the reports regarding diagnosis and policy recommendations, and would like to make the following observations:

World Economic Outlook

We agree with Staff that uncertainty about the global outlook is exceptionally high and appreciate further elaboration of the forecast assumptions, especially as the situation rapidly evolves. Uncertainty is unprecedented given the many fundamental unknowns regarding the scale, duration and economic impact of fight against COVID-19 and the related containment measures. We agree that the baseline assumption is that the COVID-19 shock is of exogenous, transitory nature with an impact on the global economy concentrated in the first half of this year resulting in a deep global recession in 2020. We appreciate Staff efforts to quantify the path of the recovery and would be interested in further clarifications of the Staff assumptions on the projections (duration of containment measures, gradual unwinding of containment and the growth profile and engines for the early stages of recovery), especially as the baseline assumptions may quickly change.

However, we are concerned that the rebound in global economic activity in 2021 would be more incomplete, gradual and uneven across regions than the IMF projections. In particular, many countries, notably emerging and low-income countries have limited capacity to deal with the health crisis and/or limited macroeconomic policy space to preserve the fundamentals of their economies. Furthermore, in many countries the impact of the virus outbreak is currently compounded by a simultaneous commodity price shock and a sharp deterioration of financing conditions. Finally, in addition to the several reasons feeding uncertainty as described in the Staff report, the crisis may inflict structural changes in the global economy, resulting to lasting impacts on trade (for example due to potential breaks or reversals in global

supply chains that could ultimately affect global trade). In our view, these factors may result in a more protracted downturn and a depressed rebound in activity, notably in many emerging and low-income economies.

We note Staff's view that substantial targeted monetary policy measures are needed to help affected households and businesses, to provide ample liquidity to banks, and to limit the fall in economic activity and tightening financial conditions. The ECB in March decided on a marked increase in refinancing operations for banks at favourable conditions, a substantial increase in its asset purchases, including through its Pandemic Emergency Purchase Programme, and an expansion of collateral eligibility. The additional and new purchase programs, as well as the collateral expansion, directly or indirectly support liquidity conditions in European funding markets. The Governing Council will do everything necessary within its mandate and will explore all options and all contingencies to support the economy through this shock. At the same time, the ECB has also adopted bold measures on the banking supervision side, including activating capital and operational relief measures to help absorb losses and calling national macroprudential authorities to release the countercyclical capital buffers.

We agree that concerted action at the global level is vital to mitigate the effects of the crisis. We have seen an impressive speed and size of the policy response in Europe in recent days, adding to similar responses across the world. The European Countries and the EU have been taking critical fiscal measures to contain the disease, finance the health sectors, and support affected households and firms, while also working on further European solutions, in line with an ambitious and coordinated fiscal response in the EU. Such measures should safeguard against the further materialization of downside risks and aid the recovery afterwards. In addition, the ECB works collectively with other central banks on supporting the smooth functioning of US dollar and euro funding markets through our FX swap lines.

We share the view of IMF staff that economies with flexible exchange rates should allow them to adjust as needed. At the same time, excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. We reiterate in this context our commitment to market-determined exchange rates that reflect underlying economic fundamentals and to refrain from competitive devaluations.

Fiscal Monitor

We agree with the phased fiscal policy approach outlined by the IMF and the importance of fiscal space availability in determining recovery responses. Indeed, a first policy priority is to fully accommodate spending on health and emergency services while also adopting timely, temporary, and targeted fiscal measures to protect people and viable firms from the economic

fallout. Once the virus is contained a broad-based fiscal stimulus based on the availability of fiscal space could facilitate the recovery while ensuring medium-term debt sustainability. In its recommendations for the type of policies that can be adopted to ensure sustained recovery, the IMF distinguishes between economies with ample fiscal space and those with limited fiscal space. The former can take advantage of low interest rates to boost potential growth, in particular through public investment. The latter should strive to reconfigure the spending and revenue mix in order to prioritize capital spending. This is in line with the thrust of the European Commission's euro area recommendations and country-specific recommendations of recent years.

The IMF's fiscal policy advice is aligned with the EU's institutional framework, governing member states' policies and its current implementation. It should be noted that the flexibility provided by the European Commission in the implementation of the EU fiscal rules, notably the activation of the general escape clause, is in line with the IMF's recommendation to fully accommodate spending on testing and treatment, and to respond to the health crisis with "large, timely, temporary, and targeted measures". The IMF highlights that the measures taken must be "embedded in a medium-term fiscal framework". This concern is reflected in a key element of the general escape clause, i.e. that the departure from the adjustment path towards the MTO must not endanger fiscal sustainability in the medium term. Furthermore, the activation of the general escape clause only allows for temporary deviations from requirements.

The IMF report adequately stresses the exceptionally high uncertainty surrounding fiscal projections at this point. While the draft report provides point estimates of deficit and debt figures for 2020, it also highlights the high degree of uncertainty surrounding these figures. We agree with the statement in the executive summary of the report, according to which "the size of the impact on public finances is highly uncertain at this time and will depend not only on the duration of the pandemic but also on whether the economic recovery is swift or the crisis casts a long shadow". On a more technical note, we would appreciate Staff's clarifications on the varying fiscal deficit projections for the euro area for 2020 in Table 1.1 (-5.0% of GDP) of the Fiscal Monitor and Table A1 of the methodological annex (-7.5% of GDP).

Global Financial Stability Report

We agree with the main messages of the GFSR in flagging the unprecedented severity of the shocks now faced; nevertheless, we see scope for adopting a more cautionary tone given the high level of uncertainty. We overall agree with the draft report which adequately focuses on the very recent crisis episode, zooming in on various segments, markets and countries. The overall findings are broadly in line with our assessment, and provide useful

additional insights. However, a more cautionary tone might be warranted in some parts, to reflect the extreme uncertainty. For example, benchmarking to the global financial crisis, used to assess the bank capital and liquidity situation, may not account for the different nature of this crisis, in which stress in the economy is far-reaching and unprecedented, and materializes more quickly than in any past crisis.

While we concur with staff on the description of the recent evolution of banks' market valuations, we find that funding issue concerns might be overstated. Overall, we agree with the draft report's conclusion that market valuation of banks suggests that markets expect that the probability of large losses has significantly increased after the outbreak of the pandemic. Financial markets for now appear to price in a relatively temporary cessation in economic activity. More serious stress could result from a protracted lockdown scenario, particularly in a situation where bank capital positions would be at risk. According to our estimates, euro area banks have, however, sufficient capacity – on aggregate – to absorb loan losses comparable with those seen after the Global Financial Crisis. This contrasts somewhat with the picture provided by market valuations of banks which seems to primarily stem from adverse implications for operating profitability, which is already low. We also agree with the conclusion that banks may have been substantially impacted by market volatility and adverse market movements seen since the outbreak, but would like to highlight that the impact has differed considerably across bank business models. However, we find that staff's tone on funding issues for banks might be disproportionally alarmist. Unless persistent dislocations ensue, any such risks would be limited in the near term given limited rollover needs and ample central bank funding liquidity.

We agree with the GFSR's overall policy conclusions and would like to highlight that the EU/euro area pursued most of the avenues sketched out by the Fund; further, we would like to make some additional points for consideration. The policy conclusions find us in agreement and largely reflect the current policy landscape in the European Union and the euro area, as evidenced by a wide range of monetary policy measures as well as supervisory and macro-prudential measures that have been implemented with a view to enhancing the European banking sector's ability to provide needed support to the real economy. On a more international level, the aforementioned measures are complemented by coordinated central bank swap line arrangements to ease the tight conditions recently observed in the global US dollar funding market. Regarding broader policy implications, Staff could consider stepping up the language on the need to complement monetary and regulatory policy with adequate fiscal policy support, both at the national and at the supra-national level, thereby strengthening the message on the need for international cooperation. Finally, it should be noted that the report is rather silent on possible cross-border effects, such as the retrenchment of cross-border lending; more analysis of these effects would be welcome.

The Chair made the following statement:

This very important meeting will give us a chance to discuss the World Economic Outlook (WEO), the Global Financial Stability Report (GFSR), and the Fiscal Monitor (FM) at a very unusual time. We had to modify the presentation process so you can have the ability to hear the presentation at your leisure, be able to grasp exactly what the messages are. Clearly, that has worked because I see very comprehensive grays. They are very helpful for us to get to the substance of today's discussion.

The Economic Counsellor and Director of the Research Department (Ms. Gopinath) made the following statement: [1]

As you saw, the world economy is in a deep recession. This is a crisis like no other. Unlike previous crises which were triggered by collapse in real estate markets or a financial bubble, this is one that is being driven by a pandemic, something we have not seen in our lifetimes. This also means that this forecasting exercise has been quite exceptional. We have had to make projections based on very limited hard data coming out of countries and taking into account a very uncertain path in development of the shock in terms of the spread of the virus, intensity of the virus, the duration for which containment measures would need to be in place. There is tremendous uncertainty around this forecast.

Let me show you the two tables that were not in the slides that you got to see that were recorded. These are the growth projections for advanced economies (AEs) (Slide 16). You can see for the world as a whole, we are projecting that global growth will shrink by 3 percent in 2020, and then in 2021 there will be a partial recovery with growth going above trend, 5.8 percent.

To emphasize, this is a revision for 2020, a downward revision of 6.3 percentage points. For advanced economies, that is about 7.7 percentage points. You can see that for all major economies, that the downward revision is very large in magnitude, much bigger than anything we saw during the global financial crisis. This is the worst crisis since the great depression.

The next slide (Slide 17) is for emerging markets (EMs) and low-income countries (LICs). Again, we are seeing substantial revisions across the board, a downgrade of 5.5 percentage points for 2020 and an upgrade of 2 percentage points in 2021, which again tells you that there will be recovery in 2021, but it will be partial. The question that has come up is why is the downgrade for emerging markets lower than for developed

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

economies, especially given that these economies are hit much harder by external shocks, by the deterioration in global financing conditions, by the drop in commodity prices for commodity exporters, and by the spillovers from drop in external demand? The reason for it is because of what was being assumed about the severity of the crisis, of the epidemic, in several major emerging market economies.

We are not assuming that what we see is what is going to be in emerging markets. We are actually assuming that things will get worse relative to what we are seeing right now. We do not have a perfect mirror to see everything through, and even speaking to epidemiologists, there is no sense of how badly hit emerging markets will be, so this obviously is one important uncertainty around our focus. But to be clear, we are assuming a bigger hit than what we are seeing now on the ground in several emerging markets in terms of containment measures and the virus.

Let me just give you a picture that shows you the path (Slide 18). You can see that for advanced economies and emerging markets, the first quarter drop, a further drop after that for advanced economies in the second quarter because the second quarter is where we think the biggest hit will be for AEs, and then the recovery starting towards the second half of this year, but it is partial; and even until the end of 2021, we are not looking at a return back to trend. A similar story for emerging markets where there is a big hit in 2020 and then a partial recovery. It is useful to compare this crisis to the global financial crisis (GFC) in the path that the GFC took, so that is the right-hand side graph. You see the drop that we are projecting right now for this pandemic crisis, what we call the great lockdown, is much more severe than what it was for the global financial crisis. A little more of a quicker recovery than the GFC, but still as you can see, we are not talking about world recovery.

If this was a regular WEO, and we were projecting a more typical crisis, our WEO would have had a so-called fan chart, which would give you distribution of outcomes and confidence intervals around these baseline estimates. We have not done that this time, and several Directors asked about this. I would like to explain why. Making projections and coming up with distributions requires a model of historical data. This is a crisis like no other. Using a model that is fitted to historical data where there was no pandemic, in our view, would not shed that much light on the path going forward.

Secondly, this is not a financial crisis that is then generating a big real crisis. This is a massive real shock that is leading to worsening financial conditions and which is further amplifying real shock. To make projections, we have to think of questions of what we think the path of the virus is going to be, and how will containment measures work in different parts of the world. Models for this in a macro sense are quite limited. We decided to go the route

of showing scenarios where we can spell out what is being assumed about the path of the pandemic in different parts of the world, and this slide tells you that things could get worse. If you look at emerging markets, and if it is a case requiring maximum severe containment measures in emerging markets, and if you need longer-lived containment measures in both AEs and EMs because the pandemic returns in the second half of the year or spills over into 2021, we are looking at a much worse revision in global growth, which can get to -6 percent. These are two scenarios.

As we speak, we are developing further scenarios that are being built granularly using total sectoral information for different countries. I think that is the kind of model that we can use later on to give projections going forward.

The Financial Counsellor and Director of the Monetary and Capital Markets Department (Mr. Adrian) made the following statement:

The current pandemic has triggered containment measures around the world, and those containment measures imply cash flow shortages for the corporate sector, and those cash flow shortages could lead to defaults. As a result, credit spreads have widened sharply, particularly in the riskier segment, such as high yield credit. We show here U.S. high yield credit and European high yield (Slide 8). In some sectors, such as air travel or energy, spread widenings are very large by historical measures. However, outside of those sectors, the spread widening is not yet as much as during the global financial crisis. The forecast for defaults as shown on the right-hand side are high and in a pessimistic scenario would exceed what we saw in previous crises.

More broadly, financial conditions have tightened, but they are not as tight as in the global financial crisis. That reflects three things. First, it is a different crisis. This is a pandemic that is triggering an economic crisis due to containment measures. That is triggering financial stress, but the financial stress is not originating from the financial sector, so that is one key difference to 2008.

Second, there has been a very large policy response in some economies, in particular in some of the advanced economies, but also some emerging markets, and that might have put a limit to some degree. Third, we are still in early days. Hopefully we have seen the worst, but more adverse scenarios could be realized, and so we might see further deterioration of financial conditions.

Emerging markets have been hit particularly hard. These charts are about the portfolio outflows from emerging markets (Slide 10). As a share of GDP as a metric for economic activity, portfolio outflows are larger today than in the global financial crisis.

The right-hand chart shows dollar amounts for Asia, Latin America, and Eastern Europe, and the Middle East. Of course, these are the dollar amounts not weighted by GDP. Some Directors pointed out in the grays that Asia would look a little bit more favorable, weighted by GDP, and I fully agree. Of course, many of those outflows have been in terms of equity markets as investors have reallocated from risky investments to safer investments, and that has happened within economies as well as across economies.

A lot of the price adjustments, as well as the capital flow adjustments, can be interpreted in terms of heightened investor risk aversion as they are facing these dire economic outlooks. Some countries have imposed CFMs, but so far we have seen relatively few CFMs. Only a handful of countries have deployed them.

Turning to the banks, of course, over the past decade, regulators as well as the IMF within the context of the FSAPs have conducted extensive stress tests of the banking system, and banks are better capitalized today than they were ten years ago. Generally, we have found that banks are well capitalized relative to an adverse scenario. Today we are in an adverse scenario, and so my belief is that banks are well capitalized relative to that adverse scenario, but, of course, things can get worse. As Gita pointed out, we have the baseline. Today's baseline is yesterday's adverse scenario, but it could get even worse.

When we look at market prices, as is done on this chart, we can see that the market takes a fairly dim view, even compared to 2008, and I think there are three reasons for that. Number one, the baseline might be fine, but more adverse scenarios might realize.

Secondly, there are profitability challenges in some economies, and so banks today eat into the capital buffers, so capital buffers are there to be used in times of crisis; but when profitability is low, it will take a long time to replenish those capital buffers, so banks might have to restrict payouts for a long time, and that is, of course, reflected in the market prices.

Thirdly, in every country there is a weak tail of banks, and when you look at averages, that includes the weak tail of banks.

Coming to our Growth at Risk Assessment, so these are our estimated distributions for growth one year into the future when we compare the previous GFSR and today's forecast, and as always, those distributions are centered around the WEO baseline, and the distribution is calculated using a statistical approach with historical data as implied by markets. Of course, markets do incorporate forward-looking information about the economy, and

when you compare the green to the red forecast distribution, you can see that, of course, the mode has shifted with the WEO forecast, but also the variance has increased tremendously as uncertainty about the future outlook has increased. And the skewness has shifted from a right-skewed distribution to a left-skewed distribution. As a result of all of that, downside risk, as measured by the fifth percentile, has moved down very sharply.

The Director of the Fiscal Affairs Department (Mr. Gaspar) made the following statement:

As Ms. Gopinath and Mr. Adrian have both emphasized, this is an unprecedented crisis. It is a once-in-a-century pandemic. Uncertainty is elevated. Forecasts change as new information becomes available. The numbers that I will be presenting during this presentation are based on the WEO baseline as of yesterday.

When I was thinking about what would be most useful for the Board for this update given that we have distributed the presentation, speaking notes, and a video with the presentation, the priority for me was to focus on measures that countries have taken on the basis of what is immediate and urgent, and to look at the implications for debt and deficits, with an emphasis on debt, as many of you have requested in your gray statements. The immediate and urgent priorities are clear.

The first is to enable health systems to tackle the epidemic, and, second, to provide emergency relief to people and firms adversely affected by the pandemic or by the associated and indispensable containment measures. These emergency lifelines are very expensive. Mr. Adrian did refer to the counterpart on the financial side.

The totals corresponding to these measures are constantly being revised up. Policy actions with direct and immediate impact on the budget correspond, according to our latest estimates, to 2.8 trillion U.S. dollars. Loans and equity injections amount to roughly 1.7 trillion, and guarantees granted and other contingent liabilities assumed sum up to 1.8 trillion. These measures sum up to more than 6 trillion U.S. dollars, which is also more than 7.5 percent of GDP.

I want to emphasize that the total will keep going up. Yesterday, Prime Minister Abe of Japan in the context of announcing a state of emergency, also unveiled a new package of measures which is worth about 1 trillion U.S. dollars. This package of measures is not yet reflected in the measures that are quantified up to now.

One point that I want to pause to emphasize is that it is very important how one takes the measures. It is very important how one accounts for the

measures. The sheer magnitude of the action taken illustrates the whatever-it-takes approach. In an emergency, this is absolutely right, but it is crucial to keep track to maintain proper and accurate accounting, to report frequently and transparently, to enforce governance, to ensure that good governance is respected throughout, and very importantly, to allow for systematic ex-post evaluation and accountability.

Again, many of you asked about the debt landscape, and I want to give you some perspective. Budget deficits and debt will increase sharply in 2020, and the change will be larger than what took place in 2009 at the peak of the global financial crisis (Slide 8). Gross government debt in the world will jump up by more than 13 percentage points of GDP. The contrast across country groups is sharp. The number is 17 percentage points for advanced economies. Emerging market economies will see debt ratios go up by 9 percentage points of GDP, and s low-income developing countries will have an increase of 4.5 percentage points of GDP.

The changes would be even larger if one would work on the basis of the WEO's adverse scenario. Under the baseline however, it is true that there is this jump-up in 2020, but for the vast majority of countries, the debt-to-GDP ratio will start coming down in 2021.

Mr. Buisse made the following statement:

On the diagnostic, we share the fact that this is a crisis like no other and the radical uncertainty it entails. On 2020, the message I got from my authorities is to keep the assumptions very clear. Nobody knows how the next weeks will look like, so the best we can do is to have clear assumptions and derive a forecast from them. On that, the WEO is very clear. The downgraded scenarios are also badly needed. That entails, this uncertainty, that we should have regular updates, as things will evolve rapidly.

The IMF projections are more than ever a global public good. When I talked to the forecasting team in Paris, they told me, of course, in France they are doing all they can with the available data, but for the global economy, only the Fund can help provide a full-fledged exercise. Thanks again for that.

On 2021, could staff elaborate on why they forecast shows a relatively weak rebound of growth in 2021? Does it come from a continuous direct impact of containment measures? Is it linked to a durable negative confidence effect? Or is it hysteresis? We did notice the weak expected rebound in Europe. While this is not entirely coherent with the existence of strong automatic stabilizers there, I would be interested to have staff's elaboration of the reasons behind this.

Second, on emerging economies, to the opposite, I am wondering whether growth projections are not too optimistic. They will face multiple shocks at the same time. I thank Gita for the clarification in her introductory remarks. I think the message could be clarified on which countries are better prepared than before the GFC and which ones are currently the more vulnerable ones.

Third, on the fiscal projection, we understand that the staff estimates for some countries that–given the severity of the crisis–tax revenues will overreact relative to GDP, technically assuming a tax elasticity higher than 1. While this assumption is clearly possible, I would like to outline this is not always the case. For instance, in 2009 it did not hold for France.

Fourth, on the oil shock, I might be wrong, but I have the impression that the forecast incorporates a weaker positive feedback on the global economy from the low level of oil prices. It strikes me that the financial tensions created by the low oil prices seem stronger than in the past. I would be interested in staff opinion on this issue because if this is the case, I think it is a clear example of the spillover of energy mix choices and a strong signal to do more to diversify the energy mix faster.

On policies, we strongly support the main message of the report to: prioritize measures to limit contagion; protect the most vulnerable; protect jobs; protect viable companies; coordinate actions and policies; and as Mr. Gaspar said, do all this in clear and accountable manner, especially on the fiscal side. So far, the size and timing of policy responses implemented around the world have been remarkable.

Going forward, coordination of macroeconomic policies will remain essential, and I have a particular point on the fiscal and monetary policy. I noticed a very interesting graph in Mr. Gaspar's presentation on the various cases for how to finance a fiscal stimulus. The graph says that there are cases of possible monetary financing, but my guess is that there will quickly be more work and more discussions needed on these cases.

The crisis could also call for new policy instruments in Europe today. For example, while national responses are already being complemented by a number of European solidarity measures, more will need to be done to ensure long-term recovery of our economy and to the Eurogroup. My Minister would advocate for the introduction of a temporary and targeted COVID-19 response solidarity fund.

Finally, when the most severe parts of the crisis will be over, it will be essential to strengthen the recovery through timely demand support measures; however, I am convinced that the design of the stimulus will need to aim for a growth model that will be more sustainable and more resilient. This means focusing on reinforcing social safety net, bolstering strong climate objectives,

improving gender balance, and building human capital. We should not push for an old-fashioned brick-and-mortar recovery. We should put resilience at the center of the future actions which will be taken.

Mr. Bevilaqua made the following statement:

The reports have a soft pessimistic tone that shows up in the recorded presentations. Necessary containment measures prompted a steep deterioration in economic activity and massive increase in downside risks, even under somewhat benign assumptions on the progression of the pandemic. Fiscal and monetary policy responses are preventing the global economy from falling on to an even larger adversity and hopefully bridging to the recovery phase.

In the recorded presentation, Ms. Gopinath mentioned that the ability of service sector firms to survive a long lockdown is quite small. Mr Adrian mentioned that in an adverse scenario default rates will be well above the default rates of previous crises. It stands, therefore, that widespread bankruptcies, extreme job losses, and systemic events in credit markets are not off the table at all. This is, of course, all to the point, and it will be interesting to hear from the staff further comments on adverse scenarios and possible policy responses.

Nevertheless, one should be mindful that pessimistic notes would capture the public's imagination. If projections are presented in intervals, the lower end may be the one to make the headlines and feed downward expectations. Perhaps it would be wise to stick to our traditional point estimates, putting much greater emphasis on the enormous uncertainty associated with any scenarios at this point. If one were to mention probabilities at all, such as the growth-at-risk metric, it should be clear that they come from historical correlations instead of reflecting the Fund's judgments.

It is also important to put great emphasis on the policy support and how it can plausibly nurture the recovery. Policy space will be a key constraint in the mind of the public and in financial markets. It is important to stress that monetary policy supports and should continue to support fiscal action, a key message to convey to a broader audience. As policy actions by the different actors and in the different firms are taken in a cooperatively and consistent way, they could be an important scope for upside risks.

The Fund has an important role to play at this historical juncture. Looking at the data Mr. Adrian just showed us on the unprecedented reserve outflows from emerging markets and at Ms. Gopinath's growth forecast for them, both for 2020 and 2021, I believe we should quickly and effectively address the needs of economies constrained by inadequate level of reserves and low access to convertible currency swap lines. This could include a large

allocation of SDRs and the establishment of an IMF short-term liquidity line on top of the ongoing increase in access to Rapid Financing Facilities (RFIs), the RFI and the Rapid Credit Facility (RCF), taking into consideration the concerns about additionality of resources voiced by many Directors in our meeting yesterday. Enhancing the firepower of the Fund to help meet the needs of the membership under these daunting conditions is a crucial responsibility of this Board. It will be important for the Fund to try to keep ahead of the curve, preparing for the bad and for the worse and using all its power to provide financial assistance, policy advice, and capacity development (CD) to the membership.

Mr. Rosen made the following statement:

First, I want to join Mr. Ray in his gray and Mr. Buisse today in calling for the Fund to continue to provide updated projections going forward as the situation of the coronavirus develops. We know this is not the usual WEO process, but we are at a critical juncture for the global economy, and the IMF should be in the lead on global macroeconomic issues. Updates may not be needed for all countries, but we need at least more frequent top line numbers and projections for major economies. Private forecasters are able to do this, and the Fund should be able to do it as well; and we appreciate the scenario analysis undertaken, and it will be critical to continue these as the range of outcomes on the global economy is so uncertain.

Second, the projections of the data we have seen clearly require vast policy response. Overall, we support almost all the policy recommendations summarized in the presentations today. Many countries are stepping up to the challenge with a significant policy response. But other countries that have space to do so have not yet acted, and it is imperative that they take steps now to contain the spread of the virus and support employment and the industries most affected by the downturn through no fault of their own.

These actions will be both fiscal and monetary. These are not bailouts, but are instead necessary steps to support the economy while we take the public health actions needed to contain the virus, which will come at an economic cost.

Going forward, as we come out of this crisis, policy recommendations need to be tailored to country-specific issues, as not every country's issues, responses, and remedies are going to be the same.

On Regional Financing Arrangements (RFAs), we appreciate that the Fund stands ready to work with RFAs. We question why the Fund is not calling on RFAs that have not done so to provide liquidity support to members.

On our technical points, first, page 15 of the WEO mentions unlimited Fed purchases for the U.S. Treasury debt and mortgage-backed securities, as well as for the first time corporate bonds. We should be careful with this framing. While it is true that there is no dollar limit, the purchases are not open-ended, but instead are to be done in amounts necessary to ensure smooth functioning of markets; and the purchase of corporate bonds are currently limited to 300 billion U.S. dollars. That should be made clear in the text.

In the Fiscal Monitor there was a reference that U.S. foreign aid allocated to the coronavirus by Congress is 100 million U.S. dollars. This is way off. In fact, 2 billion U.S. dollars has been allocated so far, and I thank staff for agreeing to correct this error.

Finally, we welcome GFSR's highlighting of sub-investment-grade debt markets as areas of near-term liquidity concerns. We are very much looking forward to the pending chapter focusing on this area and are specifically interested in staff's views on potential policy responses, including on the efficacy of providing liquidity instead of direct purchases.

The Chair made the following statement:

I just want to add my apologies for missing the $100 million versus nearly $2 billion number, especially given that U.S. in the $2 trillion package made it possible for the NAB to be supported and other critical multilateral actions to be funded, so, of course, we will correct that.

Mr. Mojarrad made the following statement:

In view of extreme uncertainties and significant downside risks on the outreach, regular briefings of the Board would be very useful, including an informal meeting before the traditional July WEO update, as emphasized by Mr. Rosen just before me.

It is also important that the updates are publicly disseminated regularly through various channels. The reports focus on short-term economic and financial ramifications of the crisis. While appropriate at this early stage, it is important to start thinking ahead about the crisis' long-term implications and try to identify transitory versus more enduring factors that affect global growth and productivity. Maybe staff could provide an assessment by the next update.

While the health and human aspects of the crisis are in focus, let us not lose sight of its other dimensions, in particular the unprecedented steep declines in commodity prices and the significant negative economic impact on a large part of the membership.

We read the staff assessment of the oil market with great interest. We believe that the oil market that will emerge from the crisis is likely to be fundamentally different from pre-crisis. Many price-sensitive oil shale producers that met the rising global demand for oil in the last decade are facing severe financial difficulties and may not survive a long period of subdued oil prices. Post-crisis, OPEC may regain its traditional market stability and growth.

Finally, the problems facing LIDCs are particularly acute. Many of them are in debt distress or at high-risk, and the situation is likely to worsen over the next three years. Moreover, most of them have fallen behind in meeting their Sustainable Development Goals (SDGs) in health and other social areas and are, hence, particularly vulnerable to external shocks that seem to be hitting them with more frequency. It would be very difficult for these countries to withstand the crisis and its aftermath without a significant increase in grants and foreign concessional financing.

The Chair made the following statement:

We recognize the need for more frequent updates, and we will make sure that between now and when we have the next World Economic Outlook, as we advance our understanding of how the crisis evolves, we will come to you on a regular basis.

Mr. Fanizza made the following statement:

I want to stress a couple of points. The first one is that among the many gray statements that have been issued by many colleagues, there was a sense that the report was not paying enough attention to emerging market economies and too much attention to advanced economies. I had completely the opposite reaction. I felt that, rightly so, the Fund is moving quickly in support of the emerging market and developing economies and is being very reactive. Instead, I feel that it is not paying attention to the policy dilemmas facing advanced economies, which are very important. My country is bleeding, and there are many other countries that are doing that, and there are important choices to be made. We have stopped discussing Article IV consultations, but we need to use the multilateral surveillance to say something on what the authorities should do, not taking positions in the debate, but provide constructive efforts.

Let me be clear here, my authorities in this situation do not think about policies as a demand management response to shocks to supply and demand. Instead, they believe the measures they are to take are essential to maintain the market economy alive. It is a completely different approach. The web of economic and real relations in our economies is threatened. That is the real issue. They are willing to do whatever it takes. One has to do what one has to

do in these circumstances. It will cost a lot of money, no doubt. The issue is how are we going to finance that? It is not only an issue of Italy; I think it is for many countries.

So far, we have finance thanks to exceptionally loose monetary policies. We can call it whatever we want, monetary financing or whatever, but that is the reality. Thank God inflation is low, and we should explore it. It is the right thing to do. The real issue is how long can we continue to do that? Or is it better to rely on other ways of financing and how we can achieve that? This is the main issue of today. As we talk, I will say after the euro council is talking about debt. We cannot say as if nothing is happening; otherwise, we lose credibility on what we do. We have to say what are the costs of continuing with this approach, which is common not only to Europe, and without the benefits, and what will be the benefit and the cost also of choosing to issue special government securities, for instance, or other possibilities. We do not urge that the Fund takes a position, but that it provides inputs. That is my main concern.

The other point I would say to end this, because it is also important, that things, as well highlighted by the Fiscal Monitor on the debt side, are changing in an incredibly fast way. It is my impression that even the numbers put forward by the Monitor might be even too optimistic. We might have an even larger increase in the debt. So that calls for us looking back at our concept of sustainable debt. How can we go along in using the old metrics for debt sustainability in this situation? I was looking at a few RFIs proposals, documents. When I looked at the Debt Sustainability Analysis (DSA), they all claim, of course, that the debts are sustainable because it is a precondition; but when I look at the numbers, it is just a leap of faith. Now, it is right that they are doing that. I support you, I also wanted this done, but please let's not fake it.

The Chair made the following statement:

Just one point of clarification to make sure that our Board knows we are not stopping bilateral surveillance. What we are doing is we are pausing on Article IV completion and presentation to the Board, but our teams continue with bilateral surveillance and with writing, as circumstances change, policy advice that is appropriate for these changing circumstances.

Ms. Levonian made the following statement:

I have a few remarks to make, and I am going to group them into three buckets. The first is on policy advice and communications. I just want to thank staff for providing written responses to the technical questions. We would like to pick up on a point raised by others on the baseline being too optimistic. We understand that there is extreme uncertainty around the

forecast, as the report clearly notes, but we would caution that releasing a baseline that is overly optimistic without appropriate caveats could lead to policy missteps such as premature withdrawal of stimulus measures, as well as undermining the Fund's credibility. We just wanted to consider beefing up the communication around the downside scenario and acknowledging that the downside scenario is looking more like the baseline given the rapidly evolving environment. I think it would avoid setting the wrong tone potentially.

It is more important than ever for the Fund's communications to be clear and focused. The Fund should convey a clear sense of urgency for multilateral and domestic policies. The current conjuncture also calls for strengthening international cooperation to address shared challenges resulting from the pandemic. Countries urgently need to work together to slow the spread of the virus and develop a vaccine. Avoiding trade restrictions, especially on medical supplies, is essential to fight the pandemic collectively.

At the same time, the Fund should clearly highlight that while the impact of the pandemic is unprecedented, it will be temporary, and this will help to bring some calm and stability as well to the situation.

My second point is on the recovery phase. We liked the emphasis on policies for the recovery phase and agree that the success of the recovery will depend critically on policies undertaken during the crisis. It is important that the pandemic leads to long-lasting changes in the pattern of globalization and specialization, especially global trade and value chains, as well as other structural changes. I think Mr. Ray makes this point very eloquently in his gray. We are already facing some related challenges in the form of trade tensions and geopolitical risks and rising inequality.

Finally, there needs to be strong commitment from the IFIs to work together and collaborate with the G7 and G20 in developing new instruments to address financing gaps. This is needed. Like I said yesterday, so I will not go over it again, and just supporting Mr. Bevilaqua, again, we need to ensure that all members, especially the poorest and most vulnerable, are well equipped to deal with the current unprecedented challenges. I agree also with Mr. Buisse and Mr. Rosen regarding regular updates, and, Managing Director, we welcome your commitment to do exactly that.

Ms. Riach made the following statement:

As Gita as said, this is a crisis like no other, and that means we cannot have a normal set of flagship documents. While we very much appreciate the work that has gone into streamlining the documents, we do not think that enough has been done to focus [inaudible] . In fact, my authorities are concerned that the documents as currently drafted risk exacerbating problems. There is an enormous amount of useful material in the three documents and in

the presentations, but I think we need to think carefully about how we present that.

Fundamentally we are worried about two things: the headline messages that will be drawn from the documents, and the extent to which the documents provide useful input to policymakers.

On headlines, we worry that the documents cast risk giving four unhelpful messages. Firstly, spurious precision on the baseline forecast, which as Ms. Gopinath has said contains an unusually high degree of uncertainty and is not supported by the rich data we would normally have. As others said in their grays, this suggests that greater use of scenarios would be helpful. While we very much welcome the work that Ms. Gopinath has foreshadowed on scenarios, we do think we need to look again at what has been presented in the WEO. Secondly, an impression that advanced economy policy response to date has been inadequate, in particular due to the weak rebound projected for 2020-2021. Thirdly, a sense that emerging market and developing economies are somehow less of a worry than advanced economies. We do not believe that the case for this judgment is sufficiently made in the document, and we worry that it undermines the case for strengthening the Fund's crisis response to support emerging market and low-income members. Fourthly, an unbalanced picture of financial stability risks and strengths that risks a market reaction around the banking system will be unwarranted on present evidence. On what policymakers can really take from the detail, I very much agree with Mr. Fanizza on the importance of multilateral surveillance providing input to the decisions that policymakers are facing. To do that, the flagships need a more granular focus on deviations from the baseline and their implications, particularly on what happens if containment measures persist longer than eight weeks.

We need to properly explain the Fund's thinking about scarring. Why do we assume a 4 percent reduction in output in advanced economies? We need to better serve the full membership with the needs of emerging market and developing countries addressed up front in the WEO alongside those of advanced economies. The GFSR needs to recognize both progress that has been made since the global financial crisis and the ongoing policy response to the current crisis.

I appreciate that at this stage we would normally be looking at limited tweaks to the documents ahead of publication, but my authorities think that a more fundamental reshaping is needed. We therefore ask management to consider how we can ensure consistency, coherence, and clarity within the flagships and the wider Fund messaging and that they consider bringing revised documents back to the Board ahead of publication.

The Chair made the following statement:

It is a very unusual environment in which the crisis is hitting countries one after another after another; and, indeed, many developing countries have not yet experienced the degree of the health crisis that China, many parts of Europe, and now the United States are experiencing.

While we pray that they are spared, the reality is most likely there would be a next wave. So, we had China, then we had Europe, U.S., and then we might see emerging markets and developing countries hit by the health crisis that would then lead to more containment measures. We cannot predict this now with certainty, and therefore we can only operate on the basis of the assumptions that we have tried to spell out as clearly as possible. We will work even harder after this meeting to be very clear on which assumptions we are making and why, and what follows from these assumptions in terms of policy recommendations.

I take your point. We actually intend to continue to work after today's meeting, and at the end of the meeting we will come to how exactly we are going to go about it. I fully recognize what you said; that every word we write down, everything we say, we have to be extremely coherent and clear across the three flagships and with an eye on how that could help. We certainly do not want to harm the economy. We want to be sober and realistic, but we do not want to be harmful.

Mr. Mahlinza made the following statement:

Given the extraordinary times, we would have preferred the WEO to be balanced in terms of the coverage of the challenges facing emerging markets and developing economies. However, we understand that we are discussing today the executive summaries and that the analytical chapters are to be discussed later. We are hoping to see much broader coverage of LIDCs and EMDEs in the analytical chapters.

Given the dire challenges faced by LICs, especially in the wake of the pandemic, including the limited policy space and capacity, elevated debt vulnerabilities, weak health institutions, and high commodity dependence, we felt there could have been more said about those countries. In that context, granular and practical policy advice to low-income and developing countries would be important, as emphasized by Ms. Riach.

We also want to thank staff for their responses to questions. We had raised questions about the pace of the expected recovery, and other Directors had raised questions about the assumptions underpinning the forecast, and we are happy with the response by staff, which rightly notes the difficulty of forecasting under these circumstances, including the considerable uncertainty around the projections.

For us, this underscores the need for careful communication of the forecast. We also agree with Directors who have called for more frequent updates on the global projections based on material changes to the outlook.

Overall, we want to commend staff on the presentation of scenarios that illustrates a protracted recovery given that the economic fallout could be far worse than in the wake of the GFC. While the scenario indicates a gloomier global outlook, we find this assessment useful in managing expectations about the anticipated recovery.

On Sub-Saharan Africa, we note that growth will sharply contract by 1.3 percent and rebound to 4.1 percent in 2021. This reflects the significant impact of the pandemic on Nigeria and South Africa. It should, however, be noted that these economies exhibit unique characteristics, and so do the rest of the economies in the region. This region includes emerging markets, frontier economies, fragile states, oil exporters, and small states, who have the most pressing need for policy advice. In this regard, we emphasize the importance of employing targeted and country-specific policy responses to support affected households and businesses.

On the Fiscal Monitor, we welcome the attention given to LIDCs given that they face sizeable financing gaps coupled with limited healthcare systems. As noted in FAD's presentation, it is unimaginable what would happen to Sub-Saharan Africa (SSA) if a full wave would hit the region. In this context, we underscore the importance of mobilizing adequate grants and concessional financing to close the gap in countries with limited capacity to respond to the pandemic.

Further, given that a number of these economies are requesting Fund programs, we would encourage staff to ensure flexibility in program design and associated conditionalities.

Finally, multilateral cooperation will be important in efforts to control the pandemic, and as noted by other Directors, there is need to think creatively about how to help countries struggling with debt burdens from the crisis while strengthening their public health systems.

To close, while it is too early to assess the effectiveness of the policy responses, we want to emphasize the need for staff to follow up on this in the coming months. Given the nature and severity of this crisis, which is different from previous episodes, it will be important to draw lessons that can help us better face the future and strengthen resilience.

Mr. Poso made the following statement:

We broadly agree with staff's analysis on the global outlook, the overall assessment of financial stability and fiscal challenges, as well as the policy recommendations. As Mr. Fanizza also said, policy advice to advanced economies becomes now increasingly important going forward.

As Ms. Gopinath said in her introductory remarks, our traditional economic models cannot fully capture the unforeseen developments. In addition to sound judgment and experience, good and timely data is a critical factor. Thinking outside the box and using nonconventional data sources can improve the assessment of what is the state of the economy now. Forecasting this quarter and the next are now exceptionally important and exceptionally difficult.

The role of the assumptions is particularly high. The short-term growth outlook depends first and foremost on the development of the pandemic, which will define the path of containment policies. The longer the great lockdown, the deeper the recession. Given the high-level of uncertainty, there is a significant risk that the assumptions underlying the baseline may be on the optimistic side. Therefore, we highly appreciate staff's analysis in the scenario box. Further analysis of credible scenarios is much needed, and we encourage staff to continue updating this workstream frequently. I am happy to hear that staff is currently working on the scenarios.

We note that we are already on week four of eight in the baseline scenario and that the alternative scenario is becoming more realistic by the day.

On policy advice, we agree with the whatever-it-takes approach. Immediate priorities would be to save lives. Economic policies will also need to cushion the economic impact of the lockdown and reduce the scarring effects. While these responses will weigh on public finances for years to come, inaction would be even more costly.

We welcome staff's strong call for transparency and accountability in budget implementation, good governance, parliamentary scrutiny, and adequate legal basis for budget support. This sudden exogenous shock to the global economy serves as a sobering reminder of the importance of building buffers during good times.

Finally, we wonder how much information can be extracted from the breathtaking developments in the financial markets. Taking into account the growth-at-risk framework and how financial assets factor in growth prospects and inflation developments, is this financial market information and the picture it paints about the future in line with our baseline forecast?

Mr. Mouminah made the following statement:

First, it is evident that the global economy will enter a recession this year driven by the COVID-19 pandemic. The human costs are enormous, and we offer our condolences to all affected people from this pandemic. We agree with staff that uncertainty is extremely high, and the risks to the outlook are on the downside. So I join other Directors in requesting frequent updates on the projection as things evolve, and I welcome your remarks on that.

In our view, like many other Directors, the assumption that the pandemic would fade in the second half of 2020 seems a bit optimistic, especially given the high uncertainty. We therefore welcome staff analysis on the scenario box, which is quite plausible at this stage. In this context, we encourage staff to ensure careful communication about the assessment of the global outlook, including the regional and country level. Ms. Riach has highlighted clearly the potential implication of misinterpreting the report's policy advice, and that is why we believe more scenarios with clear assumption will be helpful and will be very useful for policymakers, and I thank you, Managing Director, for your commitment to continue working on this.

It is important to restore confidence and strengthen the traction of the Fund's policy. Another point on this also was raised by Mr. Ray in his gray, which is the vicious cycle of credit rating agencies, and we take note of the staff answer, but again we encourage staff to take into consideration the implications of the Fund advice on countries' ratings, particularly during crisis time. Again, this vicious cycle of downgrading of certain countries with the implication of higher spreads and then more debt, costly debt, for these countries and more, again, this is currently very critical. We question the use of rating agencies at this point in times of crisis. I believe they work very well in good times.

The second point, which is on the policy response. We agree the priority is to save lives and support those most affected by COVID-19. We agree that well-targeted fiscal, monetary, and financial sector measures are needed to preserve life and restore macroeconomic stability. Staff has rightly emphasized the need for enhanced responsiveness of automatic stabilizers to adverse shocks. With strong existing automatic stabilizers and social safety nets, discretionary measures will be obviously very important.

Like Mr. Mahlinza and other Directors, we feel that the WEO focused more on advanced economies rather than EMEs and LICs, and since many of these countries have no or limited fiscal space, we would have appreciated more coverage of the targeted fiscal measures that can be implemented in fiscally constrained countries.

Finally, the Fund should put more emphasis on the social spending policies that are highly useful for policymakers during the health crisis. Collaboration with the World Bank and other relevant international organizations (IOs) is critical in this area to ensure tailored policy advice.

We agree with staff that once the health crisis is won, all countries need to put their fiscal positions back on a sustainable path and reduce debt vulnerabilities, as debt levels will rise substantially.

The Chair made the following statement:

There have been many very good comments and some clear coalescence in views of many Executive Directors. We value your views and, on the side of management, have the same very consistent position.

Mr. Bhalla made the following statement:

As all of us are facing unknown uncertainties, there is a great divergence in the views on what the future will bring. Neither economists nor statisticians have yet to come up with a term for unknown uncertainties, and it is doubtful that we can come up with an adequate description in words, let alone in statistical nomenclature. This is a background all of us faced when we commented on the IMF flagship reports.

I first want to commend the staff for producing not just excellent, but excellent reports in these trying circumstances and environment. The efforts of the staff are even more noteworthy because they have been bold in their forecasts. The boldness is apparent through two prisms: First, the baseline is higher than that expected by most institutional experts. Second, the boldness comes out with widespread disagreement among a large number of my fellow Directors, as reflected in the grays and some of the comments made earlier. Most believe that the central forecast for 2021, the mean expectation or the baseline forecast, is too optimistic.

I am in the unusual position of agreeing much more with the staff than with my fellow Directors. I am sure once the crisis is over, I will get back to agreeing more with the Directors. For now, I want to congratulate the staff for their bold statistics again. We do not know if they will be right. No one knows. The reasoning and analytics behind any forecast is most important, and the IMF analytics behind the forecast are of a very high order. That is why I think that the IMF should generate a better-than-baseline scenario just for the sake of completeness, if not much else.

Now to some constructive suggestions. There is not enough discussion in the reports on the third policy pillar, prevention, nor enough on the reality

that as of today the EMs have much lower transmission of the virus than the advanced economies. Why is this the case? Is the incidence low today because of early and extreme containment measures, as in the lockdown in India? Will EMs observe the same exponential trajectory as some advanced economies in the future? Depending on our best guesses and analytics, the future can look very different. If EMs' incidences expand at a faster rate than predicted, then the baseline scenario will be too optimistic. Or is the incidence of the virus in EMs lower because of higher average temperature or great exposure to malaria in the past? These are also unknowns, but we can put a number to this uncertainty, which is what I would like the WEO to do.

Finally, two points about the EM versus the advanced economy experience are noteworthy. First, EM bond spreads have widened considerably less today than during the great financial crisis. Second, the magnitude of fiscal response in EMs to date has been considerably less than those observed in the advanced economies. Both observations support the staff's baseline forecast, but only time will tell whether they are right, and we are all anxiously awaiting he time to do that.

Mr. De Lannoy made the following statement:

On the WEO, the unprecedented economic and social impacts of the COVID-19 pandemic leads to important uncertainties in the projections presented in the flagships. Like Ms. Levonian, Mr. Mouminah, and others, we believe that the baseline scenario as presented in the WEO seems benign. Additional more adverse scenarios would have been useful, as they may soon become the reality on the ground. A further clarification of the underlying assumption would be useful to better interpret the projections.

On the GFSR, we concur with staff that the most important contribution for central banks is to contain a potential amplification of the shock as a consequence of an undue procyclical tightening of financial conditions in an environment of extreme market volatility and unanticipated substantial fiscal impulse. Vulnerabilities in the real estate sector are increasing and require further monitoring. With the economic consequences of the pandemic becoming more and more severe every day, the risk of property price corrections increases at a time when the debt servicing capacity of households and corporates is strongly affected.

On the Fiscal Monitor, the emergency support measures introduced globally will have a considerable impact on public debt levels. Looking beyond the flagship reports, Fund advice will be needed on weighing the benefits of any fiscally induced relaunch package against the risk of unsustainable public finances in the longer run and exit strategies, including the scaling back of government guarantees and equity stakes.

We also found the comparison of the U.S. and European measures in the Fiscal Monitor on page 8 to be somewhat misleading. U.S. measures are estimated at around 10 percent of GDP, while those taken by the European Commission at 0.3 percent of GDP. First of all, these measures come on top of considerable fiscal efforts by individual E.U. member states. Second, some of the measures introduced by the U.S., such as paid sick leave, have been in place in Europe for decades. We would, therefore, have liked a further elaboration and quantification of the considerable role of automatic stabilizers, which do not show up as new measures but play an important role in supporting the economy in this crisis.

Mr. Raghani made the following statement:

The presentations are very consistent and in line with the three reports circulated last week. They are appropriately focused, as they address an exceptional challenge, which requires our full attention.

The reports do a great job in conveying the message that this pandemic is a true public threat. Unfortunately, no country is safe as the virus transmission continues somewhere in the globe. This requires multilateral actions and solutions. We are in line with the policy recommendations presented, which are straightforward and pertinent, but we would like to make a few brief comments.

First, fiscal policy stands out as a primary response tool; however, where fiscal space and health capacity are limited, such as in Sub-Saharan Africa, global coordination in providing grants, concessional financing, and debt relief is essential.

Second, financial policies have also an important role to play in response to the crisis, including by temporarily relaxing some of the regulatory requirements that have been adopted in the aftermath of the global financial crisis.

Third, the use of capital flow management measures is indispensable to prevent disorderly outflows from emerging on countries' economies.

Fourth, greater attention should be paid to the situation of economies relying on remittances, which is important to sustain the flows of remittances from migrants in advanced economies to developing countries by lowering the cost of international transfers.

Finally, related to the last point on the Fund's actively supporting member countries, it is also important to prepare a medium-term adjustment program to adapt to the aftermath of the shock. The macroeconomic framework is in effect, and ongoing Fund-supported programs have to be

reviewed to reflect the sharp deterioration in economic conditions and outlook. A change in program design is in order, notably on the fiscal debt and foreign reserves objectives.

Mr. Tanaka made the following statement:

We commend staff for their hard efforts to make the three flagship publications as one product and one policy advice package based on well-coordinated analysis despite the current remote working environment. We also appreciate the efforts of making and updating the policy tracker by COM and area departments.

This crisis, the outbreak of coronavirus, has not only had a negative impact on the real economy, but also affecting commodity markets, fiscal conditions of each country, and global financial markets.

As Vitor kindly introduced, today the Japanese government decided on coronavirus emergency measures, which include five-pillar initiatives with a total size of 1 trillion U.S. dollars, amounting to 20 percent of GDP, consolidating the previous emergency response measures on Friday. The measures consist of: first, developing preemptive measures; second, protecting the employment and sustained business continuity; third, recovering economic activities through public-private efforts as the next phase; fourth, developing a resilient economic structure; and, fifth, preparing for the future.

The government expands the volume of concessional loan facilities, interest-rate free, without collateral, primarily for SMEs affected by coronavirus through the Japan Financial Corporation and other institutions. Also, the government will also make it possible for SMEs to receive loans with the same condition on local financial institutions, such as local banks.

At this juncture, the Figure 1.1 of the Fiscal Monitor report, I ask Vitor and staff for the graph to be revised accordingly to reflect our new economic package. We have strong concern that if it is published without revision, it could negatively affect markets. This is crucial for the Fund communication for accuracy of information to the rest of the world.

As for the monetary policy in Japan, Bank of Japan has enhanced monetary easing, in particular while supplying ample yen liquidity by the purchases of Japanese government bonds, BoJ conducts first coordinated actions with other central banks to address the tightening of global dollar funding; second, measures to facilitate corporate financing; and, third, active purchase of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

Coronavirus pandemic will have a severe impact on emerging countries as well as leading economic players. Especially we have concern on the movement of LICs severely affected by the global movements.

The Japanese pledge for additional contribution to the CCRT will give LICs fiscal space to tackle this crisis. As to the communication, I am delighted to transmit the amount of the contribution of 100 million to the CCRT can be open to public now. We would like staff to include this figure in the WEO and GFSR. We expect other member countries to make contributions to the CCRT as well. Having said our strong regret of Fiscal Monitor graph and CCRT matters, we would like staff to make careful communication to the market and public, recognizing that the assumptions of projection at this time are subject to high uncertainty given the nature of the pandemic itself. We should keep or further improve communication of the Fund while working closely with the Board and the authorities of member countries when latest rapidly changing information on world economy and policy response of member countries are updated on a frequent basis.

The Chair made the following statement:

We will update the report to reflect the very substantial package Japan announced, which is important for Japan, but also by boosting the Japanese economy, important for Asia and for the rest of the world. Again, I want to thank Japan for being so committed in solidarity with the low-income countries. It is, indeed, a testing moment for everyone, but especially weakest members.

Mr. Ray made the following statement:

On the forecast, I could only agree with Ms. Riach about the risk of spurious accuracy here; and publishing forecasts through the decimal point in this environment, at the best of times I question it, but certainly in this environment, I do wonder about it. Like many other colleagues, I do worry that the forecasts are on the benign side, especially for emerging markets and low-income countries.

On emerging markets, I would have appreciated seeing what the profile in the forecast is excluding China, and China is such a big weight in the emerging market basket and is probably on a different path, and I would have appreciated a profile excluding China.

All that said, I understand as forecasters that you sort of go with the way you think you are now because it is hard enough to work that out most of the time, but in this particular situation, if you do that, then you need to be ready to revise your view quickly; and like many of us have said, the Fund

needs to, management and staff, think about how they could update these forecasts in a useful manner.

Looking at the forecasts across many of the smaller economies, I was struck by the variation in the view on 2021. I do worry because all of us worry about the big countries when we are coming up with global forecast for good reasons. If I look at the smaller countries, for some there is snapback with growth way above potential in 2021, while for others there is just a return merely to potential; and in those cases that might be implying a large permanent loss to output, and it is not clear to me, it is not obvious to me just glancing through the numbers, why the differences might be there.

One thing that we stressed in our gray is, the particular issue in this chair, is the impact of tourism on tourism-dependent small states where the forecasts look like relatively very large hits in 2020 and then huge snapbacks in 2021, and I do wonder how realistic they are.

Turning to emerging markets, as others have said, the focus in the WEO and advanced economies is striking. I do think that emerging markets and low-income and developing countries are likely to face much more challenging policy choices. For example, just around how to support large informal sectors. There is an emphasis for some emerging markets on exchange rates and floating exchange rates, which coming from an Australian, we would normally support, but in a global shock, the exchange rate channel is likely to be somewhat muted, and I think that whereas on the other hand, fiscal policy has a greater chance to work.

On fiscal policy, there is a premium on nimbleness, and here some more nuanced advice, especially for those with limited fiscal space, might be a bit more helpful.

Turning to what to do next, the charts in the Fiscal Monitor and in Vitor's presentation on above- and below-the-line fiscal measures are very helpful, and thank you for that. Although, Vitor, I would say please do not say off-budget, because it does suggest a free lunch to a minister. This morning's split that Vitor provided was also very valuable, and I think keeping on doing that is very helpful.

Looking ahead, navigating the recovery phase could be challenging, and I think there are two views I have seen. One, I might say, is the blank chart view that we need to wait and see what scarring might be coming our way and then deploy fiscal measures quickly. Then we have in what I might call the Riach/Ronicle that was in Ms. Riach's gray, is that lags are long, and so we need to act now. I would be interested in staff's view on that sort of split.

If we are to avoid scarring, the lessons are you go hard, and you go early. But the critical question is on what do you go? In the global financial crisis, it was relatively easy. You went to households, but in this situation, it is more likely that you are going to go through corporates and small and medium enterprises.

Turning to communication, most of the time my authorities care very little about what the Fund says. I have work closely with the past eleven Australian treasurers, and only one of them has ever looked at the WEO. Indeed, he called me ten days ago to ask why the Fund had not published, and I thought that was a very good question. My current authorities did ask the Fund to publish early. As Mr. Buisse stressed, it is not so much about their own forecasts. They have got plenty of resources to do that. It is because the Fund is the only authoritative view on what everyone in the world's outlook looks like, and that is what they really were looking for.

I thought Ms. Riach's caution around messaging is something that I would encourage management to think very carefully about. What Mr. Tanaka just pointed out about publishing charts on packages, fiscal packages, so I think we have to be careful here. As Mr. De Lannoy said, there are automatic stabilizers in place, and so just looking at the new policy measures is actually not taking account of the whole of the fiscal support that is being provided, and it would be useful to think about that.

On the documentation itself, my views on this are well-known, but to be blunt, particularly in this case, I would prefer the Fund's view to reach policymakers, or at least the senior officials who are advising those policymakers, undiluted. The reality is that when you have a lot of documentation, what happens is a relatively junior, inexperienced official filters the material that is going up the line; and that I think in this particular circumstance is unfortunate because talking to senior officials and ministers, they are wrestling with the situation as it unfolds, and they would value to see the authoritative view, and they are not going to see it with documents that are this long and dense.

The Chair made the following statement:

On your last point, we had a long discussion internally. We did trim down significantly the volume put forward, and then we thought we would produce a somewhat more elaborate executive summary than normally. The problem going any further is that there would be many who would be actually curious to know what is behind what we are publishing, what are the assumptions, why these assumptions; so we wrestled with this, and here we are. We will still try to have a more elaborate executive summary than the usual one we publish, and hopefully that will help with the very legitimate concern you are putting forward.

Mr. Merk made the following statement:

We are already in the middle of an adverse scenario, to take up on the wording of Mr. Adrian, and I understood from remarks this morning that it could become worse, but we hope for the best.

Many countries have acted decisively and adopted wide-ranging policy measures aimed at protecting the health of the population and preserving production capacity and human capital and mitigating the socioeconomic impact of COVID-19. We positively note that the WEO and the Fiscal Monitor reflect the scale of the discretionary measures taken in Germany well. In addition, we would like to underline the importance of automatic stabilizers embedded in the German and other European countries' welfare state and tax codes. Mr. De Lannoy made that point, and Mr. Ray as well.

As the GFSR shows, high leverage in the corporate sector could exacerbate the economic downturn, and depending on the severity of the downturn, banks' capital buffers might come under considerable strain, which could impede credit supply conditions going forward. Nevertheless, the higher levels of capital buffers built since the global financial crisis will help us to cope with the crisis.

Lastly, we note the flagship's call for country-specific approaches depending on country-specific needs. That is a well-taken point. At the same time, international coordination and considering best practices in dealing with the crisis are essential.

Mr. Jin made the following statement:

First, the nature and impact of this pandemic is unprecedented, borderless, and truly global. All countries are victims. No country will be safe until every country is safe.

Secondly, a global issue needs a global solution. This is not the last issue that will require a global solution. What we need to do is to mobilize a coordinated international response and greatly improve and strengthen global governance that is inclusive, considerate, and involves all stakeholders. Basic trust between countries and people is essential for any global solution. All attempts to look for partial and isolated solutions will fail and very likely be destructive and tragic. A spirit of internationalism is absolutely critical.

At the same time, every country must do their homework with their greatest effort. While we strive to combat the pandemic, visionary considerations is necessary for the aftermath of the current crisis. Our reactions today will shape the spirit and the framework of international

economic and financial cooperation in the future. Countries should promote understanding and trust, share information, implement mutually supportive policies, and refrain from restrictions that would hinder trade, especially the flow of medical and other essential supplies.

On the international level, the multilateral organizations, national governments, and private sectors need to coordinate and work together to maximize support to countries and peoples in need. The fact that over 90 countries have approached the Fund for assistance clearly demonstrates the importance of multilateral support in times of crisis. The substantial financing needs also call for stronger support from member countries and better cooperation among IFIs and the development partners, as they cannot be met by any of them alone.

Thirdly, we have noted the WEO growth projections with member countries. Our own observation and assessment suggests that there are more positive elements in the current Chinese economy. On the one hand, China has been adopting a policy framework aimed at strictly containing the epidemic while preserving and resuming production simultaneously. Epidemic control in China continues to improve while production and way of life are resuming normal steadily. Currently, production and operation has been resumed about 90 percent. Employment has been resumed about 80 percent. While the outbreak has had a large impact on the economy in the first quarter, given the sizeable and highly integrated domestic market, domestic demand is now the primary driver accounting for more than 90 percent of China's GDP growth.

China has also been implementing its Phase 1 trade agreement with the United States, opening up its market, and fulfilling its commitment in the global value chain. We will be able to minimize the impact of a global slowdown on China.

Lastly, regarding SOE reform, we hope the staff report can make a more comprehensive introduction and the discussion on the significant progress in market-oriented SOE reform in China.

Ms. Mahasandana made the following statement:

First, on the Fund surveillance, we strongly encourage the Fund to provide timely updates on the global outlook and share country experience. I would echo Mr. Ray that the Fund has a critical role in providing timely forecast and tailored policy advice as a global public good, especially in such uncertain times. Forecast under different scenarios and underlying assumption should be clearly communicated, along with the more granular assessment so as to shift the focus from one single projection number to a whole picture surrounding the number.

Like other Directors, we view that more regular updates to the flagship and policy tracker would help policymakers make sense of the rapid developments. Clear, succinct, and timely communication of the Fund publication expect to contribute positively in building market confidence amidst a period of high uncertainty.

Next, I have two comments on the Fund advice. One, we welcome the design of the Fund policy advice in two phases, the containment and stabilization phase and the recovery phase. Both phases are equally important and interrelated. Effective containment with the right policy to boost economy will aid a quick recovery. Conversely, protracted pandemic will require more extensive policy to revive the economy. Moreover, the right timing of this policy will also help countries balance between premature withdrawal, as noted by Mr. Rosen, and restoring fiscal and debt sustainability in the medium term, as noted by Mr. Merk in their grays.

It will also remind us to think ahead about fostering growth in the recovery phase even as the immediate focus is on crisis response.

Two, policy advice for emerging markets and low-income countries, as well as small islands, that should be better improved and tailored. For example, on the emerging market capital outflows, we associate our comments with Mr. Tanaka and Mr. Ray that external adjustment through balance sheet adjustment would dominate the trade channel given that global demand has fallen significantly. Would the findings from the IPF provide insight for emerging markets to manage the outflows? For low-income countries with limited policy space, what options are available for them to manage immediate crisis while preparing for recovery? Further analysis on the outlook, on overseas worker remittance, and policy indication would also be helpful.

Finally, on the Fund's role as lender of last resort, central banks are playing a crucial role in providing liquidity to backstop the domestic financial system. In the same way, the Fund must step up its role as lender of last resort to the global financial system. We look forward to the SLS proposal to address U.S. dollar and liquidity needs. We also encourage staff to explore a general SDR allocation like in 2009. Moreover, the Fund plays a bigger role in instilling certainty and confidence when market sentiments are fragile.

Mr. Villar made the following statement:

We welcome the approach of the three documents of emphasizing the urgent need of tackling the health emergency and avoiding any message that could be interpreted as a tradeoff between health and the economy. However, an even more explicit language in this direction may be required along the lines of several recent MD's public communications. We also welcome the

idea of providing a baseline economic scenario while subject to high uncertainty, as reflected in the scenario box, with more widespread and long-lived virus containment measures.

We have some concerns, however, with communication, especially with regards to references to vulnerabilities in specific countries, such as the ones included in Figure 1.16 of the GFSR. Managing expectations is a central element in the IMF's role, and a careful communication strategy is key. While acknowledging the facts that risks are clearly to the downside, we also have to be mindful that the growth forecasts of more independent analysts are still higher than the IMF projections. Given the relevance on the credibility of the IMF, this will move the distribution of the forecast and may trigger negative reactions in a world of extremely high uncertainty and very sensitive capital flows. IMF communication in these cases is, of course, required, but it should be managed carefully so that the uncertainty is stressed, and dire projections are understood as a call for swift actions to address the emergency.

With regards to policy recommendations, we found extremely useful the guidelines for fiscal policy in the Fiscal Monitor, and for financial regulation flexibility, the GFSR, both of which highlight the importance of transparency. However, we missed in the three documents a stronger language on multilateral cooperation and on the specific role that can be played by the IMF, especially in the recovery phase after the short-term deployment of rapid disbursement facilities. For instance, the publications could expand on the convenience of a new SDR emission and of a multilateral Short-Term Liquidity Facility as mechanisms that will be required to support EMDEs in the recovery phase.

A final comment on financial set of policies. We share the arguments of the GFSR in favor of regulatory flexibility. However, we feel that the discussion will benefit from a clearer rationale in terms of tradeoffs among monetary, financial, and fiscal policies. For instance, we feel that the recommendation to expand central bank facilities to risky credit markets responds to a worthy goal of supporting the flow of credit to the broader economy. However, we lack a deeper discussion on the tradeoff between doing that with central bank policies rather than with government institutions, such as credit guarantee funds. Bringing the central banks to deal with risky assets may be a dangerous step, but it is not required if there are alternative instruments that may be better suited to fulfill the same goals.

Mr. Beblawi made the following statement:

We are witnessing an unprecedented disruption in economic activity and a blow to financial markets that differs from past triggers of downturn.

Members have undertaken bold intervention benefitting from Fund policy guidance, and many have said that they are ready to do more. There is urgent need for multilateral cooperation on every front, medical, support to global economic activity, and to address the liquidity crunch. Many low-income and fragile countries will need help in the form of loans and concessional finance. Emerging economies will be looking for possible swap arrangements.

We appreciate the Fund's rapid response with proposal to modify its lending practices. We would like to see further work on assisting fragile states and countries hosting refugees and for other EMDEs that are witnessing a funding challenge to help avoid deep scarring from the pandemic.

To meet the immediate U.S. dollar funding pressure, we echo the message of many Directors yesterday that IMF emergency assistance should be considered additional, and normal access levels need to be adjusted to make it available to countries that have an ongoing or recent program or that need follow-up program.

We appreciate the immense uncertainty with respect to the task of the outbreak and pace of recovery. Staff expects an easing of financial conditions in the second half of 2020, but there is large variation in staff projection of the impact of the pandemic on growth in 2020 and in 2021. This partly reflects variation in integration into the global economy dependence on commodity exports and the health system capacity. However, some of our countries have questions about projected growth rates, notably UAE and Egypt, and we have communicated their views to staff. Given the highly uncertain situation, we suggest that staff continue to consult with country authorities and keep these projections under view and perhaps brief the Board on a monthly basis.

Mr. Kaya made the following statement:

We are living through an unprecedented shock affecting the entire global economy, and the challenges are still evolving. Therefore, we see uncertainty as a defining feature of macroeconomic analysis and policymaking at this juncture. On that note, we appreciate the difficulty of the exercise. In all our communications, we need to stress that none of these forecasts are definitive and need to be taken with a grain of salt.

We appreciate staff's emphasis on the severity of the challenges facing many advanced, emerging market, and developing countries vis-a-vis their constrained policy spaces. Multilateral cooperation is therefore critical to underpin broader containment efforts, as well as to minimize disruptions to global supply chains and trade going forward. We strongly support the Fund's initiatives in this regard, particularly the work on instituting a swap line instrument, and expect them to remain in place until the post-pandemic

recovery is firmly entrenched. Similarly, the bilateral swap lines, which so far have been quite instrumental in addressing global liquidity, could be expanded to a broader group of countries, taking the gaps in the global financial social safety net into account.

We note that the current financial market turmoil has affected most financial market segments, albeit with different severity. We agree that focused policy response is critical to prevent the current tensions from turning into a major [inaudible]. To this end, supervisors and central banks should be clear in their regulatory expectation and ensure appropriate forward guidance. Providing liquidity to strained markets and enhanced international cooperation is warranted to address inherent risk. While a flexible policy response is essential, we should not lose sight of return to more normal times when emergency policies will need to be reevaluated and brought back.

On the fiscal side, we broadly agree that, at this juncture, the top priority for fiscal policy is to combat the COVID-19 pandemic and mitigate its adverse effects on supply, demand, and confidence, while supporting hard-hit firms and individuals and shielding the most vulnerable groups. The mix of fiscal measures should be driven by country-specific needs, the existing fiscal space, debt dynamics, distributional challenges, and institutional capacities. It is critical that fiscal costs are properly assessed, disclosed, mitigated, and embedded in the budget process and medium-term fiscal framework. We conclude that once the pandemic recedes and normality returns, a more broad-based fiscal stimulus consistent with available fiscal space can help lift aggregate demand and would be warranted.

Mr. Lischinsky made the following statement:

First, and related to the atypical circumstances in which this report has to be written, we wonder if, as other speakers, if the situation warrants a different approach to strengthen the growth projections, for instance, by indicating ranges rather than point values. Growth outcomes could significantly differ based on the duration of containment measures and could even result in a better outcome, as we hope.

In the same vein, and again based on the extreme volatility and uncertainty, a less novel approach would be to simply rescind regional aggregates and open individual estimates for larger economies. The fine degree of information that is usually needed for projections is not currently available or it is unreliable. In any case, there certainly is a case for more frequent revisions and publication of the forecast.

Second, all fiscal measures are needed and have already been implemented, including by the authorities in our chair. We take note of what Mr. Gaspar said, that this will negatively impact fiscal balances and public

debt levels, but a humanitarian crisis must be avoided; and prevention, as Mr. Bhalla said, is very important. These measures will be lifted in time as the lockdown will be gradually removed. We encourage the staff to follow case-by-case the pace of removal. We cannot overemphasize enough the importance of communication. In this regard, we echo Mr. Villar on the communication concern derived from singling out a few countries in a vulnerability graph that does not reveal all needed information to make this assessment.

Third, and perhaps the most critical message that we would like to convey, is that global problems of this kind and magnitude require global solutions and cooperation, this point was emphasized by Mr. Jin and others. Advanced economies have much more economic and financial resources to face the pandemic and its consequences. Low-income countries, as well as emerging and developing economies, are generally in a weaker position to face it. We commend the efforts deployed so far, and we encourage management and staff to redouble the efforts to better and further assist its member countries, including by designing innovative and creative alternatives aimed at alleviating the burden of countries in this difficult period.

As Mr. Mouminah, we want to emphasize social spending policies, and as Mr. Ray said, supporting large informal sectors, including with income policies that these cash allowances, most of our countries do not have automatic stabilizers as in Europe.

Mr. Inderbinen made the following statement:

We join others in thanking staff for the great efforts in preparing the reports in this unique and evolving situation on the flagships document, the severity of the crisis, and cast very helpful light on measures taken by countries to mitigate the human and economic fallout.

As a general point and as highlighted by Mr. Jin and Mr. Lischinsky just now, the crisis does highlight the significant benefits of a multilateral approach to address common challenges. Extensive exchange of information via the mandates of international institutions, financial assistance, and avoidance of trade restrictions, especially on medical supplies, are prime examples of common actions needed to overcome current challenges and support exit and recovery.

We agree that the combination of well-targeted policy measures is necessary to mitigate the downturn. Fiscal policies play a key role. Fiscal measures should be carefully designed to target households and sectors that are most affected. At the same time, we would underline that these measures should be temporary and have a clear exit strategy. This will be critical to

minimize the cost to the economy and avoid future vulnerabilities down the road.

We welcome staff's emphasis on the need for progress in ensuring debt sustainability once economies recover. As Mr. Gaspar has emphasized, the fiscal stimuli will have an important impact on fiscal positions and debt ratios across the membership. Mr. Fanizza made the important point that these numbers may actually prove overoptimistic, and as the Fiscal Monitor states, many countries have entered the crisis from a weak starting point. This does highlight the merits of countercyclical policies and strong policy buffers. One of the policy conclusions that the Fund should be emphasizing is the need to rebuild fiscal buffers once recovery takes hold. We feel that the need for eventual consolidation should accompany any call for broad fiscal stimulus to support activity.

I have some remarks more on process than on substance. We very much welcome Ms. Gopinath's clarification this morning on the use of scenarios, given the limited data for modeling. We would emphasize that clarity on the assumptions underlying, in particular, the baseline scenario but also other scenarios, is important; and more detailed descriptions, including country-by-country information, at least for the larger countries, would be helpful to this end.

Like Ms. Riach, Mr. Mahlinza, and others have emphasized, we should not lose focus of the impact of COVID-19 on emerging markets and the low-income countries. Mr. Bhalla has very eloquently pointed to the limited medical knowledge on the spread in some of these countries, but we do know that a number of emerging and low-income countries have less-well-equipped health and social security systems, and that they are also challenged, of course, by limited access to international markets.

Finally, like Mr. Buisse, Mr. Rosen, and many others, we would, of course, greatly value frequent updates on the outlook.

Mr. Mozhin made the following statement:

We have issued a long gray statement, perhaps much too long, and I have nothing to add to our written statement. So instead of repeating the statement, I would rather to tell a story. In 1998, Russia was hit by a devastating financial crisis, which was partly a contagion from the Asian financial crisis and partly reflected the domestic shortcomings. On August 17, 1998, the government announced a devaluation, a default on domestic government bonds, and a moratorium on all external debt repayments.

In late September of that year, 1998, the first draft of the World Economic Outlook was released, circulated to the Board, and the growth

projection for Russia for 1999 was -8. In the final World Economic Outlook document, the number was changed and reduced from -8 to only -5. The outcome for 1999 was 3.2—not minus—plus 3.2. The chief economist of the Fund at that time was Michael Moussa, a very well-respected economist, so there were good reasons for these mistakes in the projection.

Of course, nobody could anticipate the economy's reaction to a massive exchange rate devaluation. We have had massive spare capacities as a result of almost a decade of continuous recession. And overall, the knowledge of the Russian economy at that time was very poor.

So, from -8 to 3.2. The point I am trying to make, obviously, is that there is always an upside scenario. There are always upside risks to this scenario. What if the invention of a vaccine to address the coronavirus is developed earlier than what is expected now? Or perhaps a much more likely assumption, what if the development of testing devices emerge; the development of testing devices happen much quicker than what is expected? I hear from different parts of the world that there are already testing devices which allow to test for coronavirus very quickly, between 5 and 40 minutes, depending on the scale of infection in the body. Just imagine what the consequences of availability of such testing devices will be. Imagine the industrial plant where everybody can be tested before entering the premises, or imagine a small Caribbean island depending on tourism where all the locals can be tested regularly, and all the visitors can be tested upon arrival.

I am not asking for a more optimistic scenario or projections. What I am asking for is some language addressing the upside risks to this scenario. I believe that upside risks also exist and I think I am in the same camp as Ms. Riach, Mr. Ray, and Mr. Bhalla perhaps, and several other Board members.

The Chair made the following statement:

Not only are we operating in great uncertainty, but we are doing our work at a time when we ourselves are in a mix of containment and with the pandemic to pick up in the United States over the next week. Our staff is objective, they are doing research based on clearly defined assumptions and available data.

I do not think that you have made the life of my colleagues very easy, but I can tell you from the many discussions we have had, they embrace challenge like no one I know. Ms. Gopinath, Mr. Adrian, and Mr. Gaspar, I give the floor to you to answer the questions and the comments that have been made, and let us see how we take this to completion in the next short couple of days.

The Economic Counsellor and Director of the Research Department (Ms. Gopinath), in response to further questions and comments from Executive Directors, made the following statement:

I want to make a couple of quick remarks. We hear you about the need for more regular updates, and we thank you for your patience. I would like to flag a couple of things, especially given what has been raised.

Firstly, a decision was taken that was very important of this particular WEO given that it is about a crisis like no other, should have forecast for 189 member countries and not regions or only for the G20, which would have been easy to do from a top down approach. So, this was based on a bottom-up exercise, and it has been a herculean task making sure that the assumptions and the bottom-up work are aligned.

Mr. Rosen, Ms. Riach, and Mr. Ray particularly talked about the need for earlier messaging and more information on the forecast. I just want to flag that the relevant comparison for what we are doing is what is coming out of government agencies around the world. As you know, the U.S. Fed has not put out any forecast. They were supposed to do that in March, but they decided not to, and their next forecast is in June.

Right now, the forecast that is coming out of the U.S. is about 2 percent growth, and we are at negative 6 percent. The U.K., the most recent number we have for the U.K. that has been put out is what came out in March, and that was 1.1 percent growth, and our forecast is negative 6.5 percent for the U.K. for 2020. For Australia there is no new update that we have.

While we agree that countries know their own scenarios best and look to us for global scenarios, there is a reason why we are not seeing people put out numbers too quickly. And to come up with a global forecast, you obviously need to think of individual countries.

I want you to recognize that the sharing of information is not exactly working the way you think. I feel like we are in a better place. We are trying to understand how this crisis plays out. We have better models maybe to think ahead about getting other kinds of scenarios. We will absolutely do that. We will also absolutely make clear that the position of the forecast, that we are not saying that this is what will absolutely play out; that there is considerable uncertainty. We try to do that, but we can certainly do more of that. I certainly want to thank Mr. Bhalla for using the word bold, because in some sense I think that is the right reflection of what the staff has been dealing with.

On the other quick issues, in LICs coverage we will certainly do some more on the WEO where we highlight a little more transparently our advice on EMs and LICs. Again, the streamlining constraint was a big factor. I think

the big question coming out of this are the questions on scarring and why we think things will not come back to normal in 2021.

There are several factors to keep in mind. One is because this crisis is like no other, the impact is also just that much uncertain. Secondly, the people who are being affected are working in SMEs, small and medium enterprises; many of them are in informal sector. We are thinking more about bankruptcy concerns, solvency concerns, liquidity. So, whether the policy measures that have been put in place will get to them effectively enough to prevent scarring from happening in any substantial way is unclear.

These are things we are going to continue to work on. There were many other good questions on more nuanced advice. I think we will go into all of this, but I am just going to stop here given the limits on time.

The Financial Counsellor and Director of the Monetary and Capital Markets Department (Mr. Adrian), in response to further questions and comments from Executive Directors, made the following statement:

Concerning the GFSR, we only put out a very short version, and there are three chapters coming out in a couple of weeks: one on credit markets, one on banks, and one on emerging markets. So all these three additional chapters are extremely relevant to the current discussion and go much deeper into some of the questions that you raised. There is also one analytical chapter on climate that will come out a little bit later.

Turning to specific questions. On the banks, let me reiterate that I fully share the assessment that, of course, the banking systems in countries around the world are much better prepared this time around than ten years ago because they have more capital and more liquidity. Many of the stress tests have, indeed, shown that banks are able to withstand adverse scenarios of the rough order of magnitude that today's baseline is in the WEO. It depends a little bit on each country. Some are a little bit more adverse. Some are a little bit less adverse, but in terms of order of magnitude, we would expect that the banks can withstand this kind of baseline.

Of course, there are lots of downside risks, and so that is one risk for the banks. Secondly, there is a week tail of banks in pretty much every country, and so even if the banking systems as a whole are fine, a weak tail of banks might be hit.

Finally, when you look at market pricing, the fact that these capital buffers that are being used now have to be built up again in the context of low profitability is, of course, a challenge. And so as a result, the market prices look pretty bad for these three reasons.

One of the good things and one of the major policy advice in the current environment is that this cash flow shortfall due to the containment efforts is expected to be temporary, so many of the businesses that are shut down right now, that are not able to pay the mortgages or their loans or the interest or principal on those, they are expected to come back to business. This is exactly where loan restructuring is very useful, and that is the policy advice, is that banks restructure loans so that those loans do not become nonperforming loans but stay restructured loans, so for a time businesses stop working and stop repaying the banks, but then they restart, and they are fine from a credit point of view.

Of course, given the severity of the crisis, there will also be defaults, and this is one of the reasons for scarring that many of you have mentioned. So to the extent that defaults will happen, that might generate a lengthening of this crisis. Very rightly, government programs around the world have focused on keeping the corporate sector alive, on paying transfers to keep businesses alive, and that is very welcome. Nevertheless, there will be some defaults, and, indeed, we have seen more downgrades.

Many of you asked questions about ratings, so I do want to point out that in the 2008 crisis, the rating agencies were very bad at rating subprime mortgages. They did not have a history of rating subprime mortgages. They made many mistakes. That is very well documented in the literature. Today's crisis is more about credit risk and sovereign risk, and in those areas, rating agencies do have a much longer history and a fairly good track record. So even though the downgrades are upsetting and disturbing and feed into the adverse [inaudible] dynamics, my guess is that those models are more accurate than the subprime models ten years ago.

Concerning the sub-investment-grade sector, Mr. Rosen pointed out we are discussing in particular that there has been a lot of backstops for investment grade corporate debt but not for sub-investment grade corporate debt; and as a result, you see quite a bit of bifurcation in the pricing there. Of course, there are some government programs for the sub-investment grade sectors; but the credit risk there is, of course, much higher, and so most of the programs are aimed at the investment grade segment.

A lot of the central banks' special facilities have aimed at stabilizing the market-based financial system, so in the banks we have not seen any major distress of any major bank. But the market-based system, even though the plumbing works well, trading works well, CCPs work well, there is a lot of concern that the selloffs are very sharp, and there is a lot of illiquidity, and so a lot of the special facilities are really aimed at corporate bonds, at commercial paper markets, at funding markets, so the market-based system that is somewhat more fragile than the banking system in some sense.

So monetary policy responses have been very aggressive and very large, and I believe that this is one of the reasons why financial conditions, while they have deteriorated, they have not deteriorated as much as in the global financial crisis. It is because the policy action we have seen so far in just, in less than a month, has been in the aggregate either as large or larger than what we have seen in most countries in the global financial crisis. Massive purchase programs, massive backstops, backstops that weren't there ten years ago; so I think that really puts a containment to the deterioration of global financial conditions and tends to further downside risks to the macro economy.

In terms of these purchase programs, many countries do limit the credit risk that central banks can take, and it is the treasuries that take the credit risk, and then the central banks only take the risk component of these backstop programs; but that is not true in all countries, so there is some variance across countries what central banks can do in terms of taking credit risk.

There was one question about monetary financing. I just want to point out that there is a difference between asset purchase programs that are done in secondary markets and where funding is—which is increasing reserves, but those reserves are remunerated by interest on excess reserves. This is something very different from countries where central banks purchase in primary markets and sometimes do not pay interest on excess reserves. I just want to point out to that nuance.

In terms of emerging markets, as I said, many emerging markets have eased monetary policy. Exchange rates have devalued in many countries. There was a widening of the cross currency basis, but with the introduction of the bilateral swap lines and then the broader repo programs, there is actually quite a bit of narrowing of the swap lines in many countries—of the cross currency basis spreads in many countries, so the funding costs have come down, and that is, again, an impact on the aggressive policy actions that have been taken.

Let me finish with the growth at risk. Growth at risk basically does give you one estimate of the uncertainty around the macro forecast that is implied by financial conditions, and, of course, financial conditions do reflect expectations about the future path and in particular the uncertainty around that path. So this uncertainty is a lot larger, and, hence, downside risks as estimated by growth at risk are a lot lower.

In terms of Figure 1.16 in the case of Chile, indeed, that growth forecast has changed since we put together the slides, and that is going to be updated.

Finally, on the more frequent updates, so we updated the Board about every ten days on market developments, and we are happy to continue to give fairly frequent updates on market developments, and we are happy to optimize what exactly that frequency should be.

The Director of the Fiscal Affairs Department (Mr. Gaspar), in response to further questions and comments from Executive Directors, made the following statement:

Ms. Gopinath emphasized that the forecast was produced using a bottom-up, country-by-country process, that clearly relied very much on the contribution from area departments, and that is crucial for the Fiscal Monitor. Without having that effort, we could not have projections for deficits, projections for debt, and that is crucial for us to be able to give the granular country-specific advice that you called for. I am very pleased to say that never in my days at the Fund has the collaboration with area departments been so close, and the amount of resources that is put into that interaction has substantially increased.

In terms of our granular policy advice, I think I should also point out that yesterday for the first time in the special series on COVID-19, six FAD notes were put forward, and they are on a number of issues that you mentioned, like how to manage risks under stress, how to prepare public finance management systems to respond to emergency, what kind of tax issues arise in situations like this, and much else.

We are also pleased to say that our engagement with countries in collaboration with area departments also continues in the area of capacity development, and we want to be as agile as we possibly can by providing capacity development through virtual means and moving to very agile capacity development on demand, and we intend to continue our engagement in that regard.

Many of you also referred to the phase of recovery and the need for the policies at that point in time to be aiming at the future, sustainable, inclusive growth, to make the transition to the economies and societies that we want to have and not the economies and societies that we had in the past. That was a point that was made by Mr. Buisse right at the beginning, and it is a point that I believe is spot on.

Something that also arose was the issue of the possible optimism of a forecast on public debt. That was a point that was emphasized by Mr. Fanizza. And I want to point out that Italy is, indeed, a very good example of the type of revisions that we have in the fiscal prospects and how the time profile changes. For Italy, we have an end-of-2019 public debt level of 135 percent of GDP. We have an increase of 20 percentage points of GDP to 155 in 2020. In 2021, under the baseline, that public debt-to-GDP ratio falls to 150 percent of

GDP. This is just an extreme example of the type of pattern that we see for many other countries.

A last word on monetary financing. What we tried to do in the fiscal presentation was to look at the economic and financial substance of the operation, rather than the institutional characteristics. The crucial criterion for us was whether monetary policy was seeking actively the support from fiscal policy because of complementarities between monetary and fiscal, and between financial and fiscal. That was the perspective that we took. We probably should have avoided the expression monetary financing since it allows for an institutional interpretation that has misled many people, and we could have used clearer language.

Many Directors are absolutely correct when they say that if we would want to quantify the support that fiscal policy is giving to the economy and economic agents at this point in time, taking into account automatic stabilizers is crucial. Automatic stabilizers are much more important in Europe than in the United States, but what we wanted to focus on was on fiscal policy action, and I believe that that is a point which is made clear enough, but we will revisit the draft to avoid any possible misunderstanding.

Ms. Riach made the following statement:

Firstly, to say that in response to Mr. Ray's points about the need to have relatively short and accessible things that can go to the most senior officials, Managing Director, I very much welcomed your suggestion of having a slightly expanded executive summary which could go to them. Is it possible to have something which is of that sort, but which covers the material from all three documents? I thought some information in Mr. Gaspar's presentation on the fiscal material really helped with the policy messaging argument, so would it be possible to have one single executive summary which pulled out the key bits from both the documents and the presentations which could go to ministers? I think that would make it particularly useful.

On the substance, I wanted to react to a couple of things which the counsellors have just said. Firstly, on the scarring issue, and Ms. Gopinath's response on this, I absolutely respect what she says about the difficulty of measuring it at this point in time. But, taking the U.K. as an example—I think this is true for other European countries as well—our authorities have done a huge amount; and the measures that the authorities have put in place are very specifically targeted to address the issues that she talks about around firm insolvencies and investment and capital concerns. When I look at the forecast for the U.K, I do question whether the the hit for this year is broadly in line with what our authorities think. The ongoing hit is very different. I think if the Fund is going to stick to that, then the WEO document itself needs to give a much clearer explanation of why that is the view that the Fund has taken.

Finally, just to pick up on Mr. Adrian's point, I absolutely agree with him that most of the response you have seen so far from authorities has been very much directed at the market-based system; but I think what my authorities are saying is that it is very clear that we have had this big market response, but that has not been transmitted through to the core banking system, and I think the Fund needs to be clear about that in their messaging.

The Chair made the following statement:

Immediately after this meeting, we will take stock of this idea of putting together an executive summary that also is a chapeau for the three reports. We have not done that in the past, but it is an unusual time, and it might be a useful thing to do. However, since we have not done it, we have not discussed it, let me take stock after the meeting with Ms. Gopinath, Mr. Adrian and Mr. Gaspar to reflect on what the consolidation would mean. Are there any risks or problems if we consolidate? There should not be, but as you know, these are separate products. Putting an executive summary on top of them, we need to see how we do that. But again, Ms. Riach, this is a good suggestion.

The following summing up was issued:

Executive Directors broadly shared the assessment of the global economic outlook, risks, and policy priorities. They agreed that the outlook is dominated by the global health crisis from the COVID-19 pandemic, and the extreme uncertainty about its course, intensity, and impact. The expected sharp contraction of the global economy in 2020 is likely much worse than during the 2008–09 global financial crisis (GFC), as a significant portion of the global economy has been shut down. Directors noted that the projected global recovery in 2021 is predicated on the pandemic fading in the second half of 2020 and the effectiveness of policy actions to contain its economic fallout.

Directors agreed that, amid the exceptionally large degree of uncertainty, risks of a worse outcome predominate. Some Directors indicated their interest in additional scenario analysis, including possibly more positive developments than assumed in the baseline projections. Directors observed that the economic fallout depends on factors that interact in ways that are hard to predict, including the pathway of the pandemic, the intensity and efficacy of the necessary containment efforts, the extent of supply disruptions, and the repercussions of the substantial tightening in global financial conditions. As a result, many countries face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, and capital flow reversals. For many low-income developing countries, the challenges

have been compounded by high and rising debt levels, capacity constraints, and a collapse in commodity prices.

Directors agreed that effective policies are urgently needed to forestall worse outcomes. The immediate priority is to reduce contagion and protect lives, especially by fully accommodating additional health care expenditures to strengthen the capacity and resources of the health sector. Economic and financial policies will need to focus on supporting vulnerable people and businesses, safeguarding the financial system, and reducing scarring effects from the unavoidable severe slowdown. Directors emphasized that these supporting measures should be scaled back gradually and flexibly as the pandemic fades. Once containment measures can be lifted, policy focus will have to shift to securing a robust recovery while ensuring debt overhangs do not weigh on activity over the medium term.

Directors acknowledged that the pandemic has elevated the need for fiscal policy action to an unprecedented level. They noted in particular the need for large timely, temporary, and targeted fiscal support lifelines to protect the most-affected people and viable firms, including government-funded paid sick and family leaves, cash or in-kind transfers, unemployment benefits, wage subsidies, tax relief, and deferral of tax payments. Good governance, including transparency in budget execution and communication, is crucial to manage fiscal risks and maintain public trust. Most Directors acknowledged that broad-based, coordinated fiscal stimulus will be more effective in boosting aggregate demand during the recovery phase, mindful of the need to preserve sound public finances and debt sustainability.

Directors welcomed the extraordinary actions taken by many central banks to ease monetary policy, provide ample liquidity to financial institutions and markets, including through enhanced U.S. dollar swap lines, and maintain the flow of credit to households and firms by setting up emergency facilities. They noted that authorities could consider extending these measures to a broader range of market segments. Some Directors also called for an extension of swap lines to provide foreign currency liquidity to a broader group of countries, and a few encouraged utilizing regional financing arrangements. Directors considered that, as banks generally have larger capital and liquidity buffers now relative to the GFC, they should be encouraged to use the existing buffers to absorb losses and prudently re-negotiate loan terms for firms and individuals, using the flexibility within existing regulatory frameworks. Any regulatory relief would need to be reassessed once conditions permit.

Directors noted that the pandemic also triggered a record reversal of portfolio flows from emerging and frontier markets. They recommended, where feasible and appropriate, allowing exchange rates to act as a shock

absorber, and intervening in foreign exchange markets as needed to reduce excessive volatility and ease liquidity constraints. Macroprudential measures, and in near-crisis situations, temporary capital flow management measures may be necessary as part of the policy package and should be phased out as global financial sentiment recovers. Sovereign debt managers should also develop contingency plans to deal with limited access to external financing.

Directors underscored that both the containment and recovery will also require strong multilateral cooperation to complement national policy efforts. Global cooperation is essential to address shared challenges, especially to channel aid and medical resources to countries with weak health systems, and help financially constrained countries facing twin health and funding shocks. Directors noted that multilateral cooperation is also necessary to ensure a strong global financial safety net and better access to international liquidity across countries. They stressed the critical role for the IMF in supporting its member countries, in collaboration with other international financial institutions. Directors welcomed the IMF's crisis response package, in particular the enhancement of the emergency financing toolkit, provision of debt service relief for the poorest members, and fund-raising for the Catastrophe, Containment and Relief Trust.

APPROVAL: September 27, 2022

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

1. ***We would be interested in how emerging insights from the IPF can be used to provide advice to emerging markets, including whether countries should allow reserves to dip below the reserve adequacy metric (RAM) levels during the crisis.***

- Staff will address this at the Board meeting

2. ***Could staff provide some analysis of how RFAs are and should be responding to the crisis and how these can complement actions by central banks and the IFIs?***

- Regional Financial Arrangements (RFAs) are a crucial component of the Global Financial Safety Net (GFSN). This is especially true now with the coronavirus pandemic putting substantial demands on the Fund and other parts of the GFSN. The IMF's past collaboration with several RFAs, notably the Chiang Mai Initiative Multilateralization (CMIM) and European Stability Mechanism (ESM), has created a strong foundation for cooperation, including information sharing and prospective co-financing operations. The Fund stands ready to engage with RFAs, where appropriate and feasible, to facilitate co-financing operations to address members' balance of payments needs.

3. ***Are these assumptions underpinned by epidemiological advice?***

- This is an assumption for the baseline scenario to provide a sense of the economic fallout associated with the loss of a certain fraction of working days. The text makes clear there is considerable uncertainty around the baseline, tied to the assumptions that underpin it. As the discussion in the risk section and in the Scenario Box indicate, outcomes could differ based on the duration of containment measures.

4. ***It is striking how much of the WEO's focus is on advanced economies, compared with the more balanced approach in the GFSR. If some of the downside scenario for emerging markets and developing countries were to materialize in 2020 and potentially 2021, would staff's policy advice change? One particular risk for some members of this Chair is that borders remain closed for an extended period. The Seychelles, for example, is forecast to be the hardest hit sub-Saharan African country because of its reliance on tourism. An assumption that tourism will bounce back in 2021 seems brave. What assumption have staff used on border closures?***

- As the chapter notes, the objectives of policy (as well as the sequencing from policies in the containment phase to those in the recovery phase) are the same across advanced and emerging market and developing economies. However, the resources to achieve them are clearly more constrained in EMDEs, requiring a strong multilateral component to support their national efforts. The size of policy support will have to be

commensurate to the duration of disruption and the available domestic space, with the multilateral component adjusted accordingly.

- The assumptions on border closures – where these apply - are a part of the broader assumptions on duration of containment measures described in the text. As the discussion in the risk section and in the Scenario Box indicate, growth outcomes could differ based on the duration of containment measures.

5. We therefore welcome the use of the Scenario Box to illustrate the economic impact of a worse case scenario. What would be the policy advice to countries with limited policy space to support economic activities if the economic downturn turn out to be broader, longer lasting and deeper.In the worse case scenario, how would the unemployment situation look like and what would be the corresponding policy advice? Can staff also comment on the risk of jobless recovery, given that behavioral changes and the gradual unwinding of containment measures could delay hiring in the recovery period?

- As the chapter notes, the objectives of policy (as well as the sequencing from policies in the containment phase to those in the recovery phase) are the same across advanced and emerging market and developing economies. However, the resources to achieve them are clearly more constrained in EMDEs – requiring a strong multilateral component to support their national efforts. The size of policy support will have to be commensurate to the duration of disruption and the available domestic space, with the multilateral component adjusted accordingly.
- The 2021 recovery projected in the baseline assumes that the pandemic fades in the second half of 2020, allowing containment measures to be lifted gradually, and that policies implemented during the shutdown are effective in maintaining economic relationships, limiting the amplification of the health crisis to activity, and enabling the economy to gradually recover. As the text notes, the level of output is expected to remain below the pre-virus trend even at the end of 2021 for both advanced and emerging market and developing economies. Worse outcomes are possible, including if consumers and firms remain very cautious in their spending patterns even after containment measures are unwound (as noted in the section on policies for the recovery).

6. To what extent would potential output be shifted downward? And what will be the impact on the recovery path, particularly on the medium-term global outlook? What are the key policy imperatives beyond rapid recovery to help bring back income per capita to the original path? Staff's comments are welcome.

- There is considerable uncertainty around the baseline projection. As seen in previous recoveries from deep recessions, the scars left behind by subdued investment and job losses during the downturn could prove to be persistent. The level of output could therefore return only slowly back to the pre-virus trend. Beyond the recovery, the priorities for boosting medium-term growth outcomes vary across regions and countries depending on specific constraints (such as infrastructure gaps, skills shortages and mismatches, labor market rigidities).

7. In this regard, can staff highlight some of the financial stability and long-term considerations that policymakers need to be mindful of when responding to the crisis? We are also interested to hear staff's view on the risks or unintended consequences that emerging market economies (EMEs) could face if they pursue zero lower bound policy of UMP.

- Excessive financial risk taking is a possible side effect in the recovery phase. As was the case with the AE experience with UMP, macroprudential measures will need to address these unintended side consequences.

8. At this stage, the WEO appears to assume a somewhat slow recovery in 2021, in particular in Europe. Could staff elaborate if it reflects an underlying permanent output loss or just a protracted rebound?

- The forecast for output is persistently lower than that anticipated in January (see Figure 1.6 of the WEO). In AEs, output is expected to remain below 2019 levels until at least 2021, with an output loss of almost 4.5 percent relative to January forecasts. In EMDEs, the recovery is currently projected to be a little swifter, with growth returning to trend by late-2020 and a long-run output loss nearer 3.5 percent. Some EMs (e.g. China) will likely experience smaller permanent losses on account of aggressive policy responses. However, the uncertainties around this forecast are extremely elevated and outcomes far from the forecast are more likely than usual.

9. Could staff describe more precisely the different options countries have regarding the use of capital controls in the current context, with the type and criteria for calibrating?

- As outlined in the Fund's Institutional View on the Liberalization and Management of Capital Flows, outflow CFMs may be used in crisis or imminent crisis circumstances. In those circumstances, CFMs may help prevent an excessive depreciation of the exchange rate and/or the depletion of international reserves, and provide breathing space while fundamental policy adjustment is implemented. Introducing outflow CFMs should always be part of a broad policy package that also includes sound macroeconomic policies and structural adjustment to address the root causes of the crisis, and should not substitute for warranted policy adjustments. CFMs on outflows may include measures such as restrictions on residents' investments and transfers abroad, limitations on nonresidents' transfers abroad, or repatriation and surrender requirements on export proceeds. The specific measures to be used should be tailored to countries' specific characteristics and circumstances. To be effective, outflow CFMs should be comprehensive to prevent circumvention. They should be implemented in a transparent manner, and be temporary, being lifted once crisis conditions abate.

10. Could staff clarify whether the analysis considered market indicators as proxies to project economic growth, trends in global trade, and employment?

- Market indicators on financial conditions, futures market prices of commodities, and indices that proxy for trade volumes (for example the Baltic Dry Index) were considered in forming the projections. As the text mentions, the tight financial conditions currently in place are expected to remain broadly at these levels through the first half of the year. The oil price assumption discussed in the text, which is based on futures market pricing, is another key input into the projections.

11. Could staff elaborate on under what circumstances the scenario in which more widespread and longer-lived COVID-19 containment measures are needed would become the baseline scenario?

- There is considerable uncertainty around the baseline projections. Staff will follow closely the intensity and duration of containment measures in place and update the baseline projection in the months ahead.

12. The staff's baseline scenario is predicated on the assumption that the pandemic will be fading in the second half of the year. Is this also the view of the World Health Organization and other expert bodies?

- Many expert bodies, such as the WHO, focus primarily on policy actions to address the immediate emergency that the pandemic entails. Consistent with the baseline assumptions, many epidemiological models suggest that active cases will rise to a peak and then decline, as the epidemic is brought under control by containment measures and the increasing share of recovered people (immune) in the population. However, the future path of the pandemic is highly uncertain, reflecting persistent unknowns about the disease and its progression and potential differences in containment measures and their effectiveness across countries. Alternative paths cannot be excluded, as explored in the adverse scenario and ranges presented.

13. We should appreciate views on how the wide spread of the pandemic on ill-prepared poorer countries and its likely more durable effects might affect the global economic growth and recovery.

- If the path of the pandemic and its economic consequences are worse than expected in poorer countries, then the likelihood of scarring, permanent income losses, and an anemic eventual recovery increase. Although poorer countries tend to be economically smaller (and hence have lower weights in the global economy), their worse performance would push down global growth further and act as a significant drag going forward. It is important to get ahead of the pandemic with containment and policy support in countries where it is not yet severe to avoid such an outcome.

14. We note from Figure 1.7 that the G20+ economic policy implementation in social areas has been lagging and welcome staff comments.

- As of April 1, 90 percent of all G20+ countries have either announced or implemented discretionary social policy measures such as enhanced unemployment benefits, sick leave assistance, cash transfers, or vouchers/in-kind support. 65 percent of countries have already implemented such measures, while 25 percent have only announced them. Lack of implementation can reflect that measures were only recently announced, and details on the proposals or legislative approval are pending. Staff expects the share of countries with implemented measures will grow as details are revealed and legislative approval is secured. Existing social policies, in place before the COVID-19 outbreak, will also help.

15. What lessons have we learned from the use of UMP in the last crisis that we could apply in the present one, notwithstanding the different nature of the two crises?

- As the chapter notes, broad monetary stimulus–to the full extent possible within available space–can help limit the amplification of the shock. In some cases, where interest rates are already at the effective lower bound, this will entail unconventional monetary policy actions. During the GFC, central banks deployed more unconventional monetary policy tools, including forward guidance, large-scale financial asset purchases (quantitative and credit easing), and negative interest rates. There is broad agreement that these unconventional monetary policy tools have been effective in helping to stimulate the economy during the Great Recession. The possible side effects, including increased financial risk-taking, should be handled with macroprudential policies to contain potential financial sector vulnerabilities.

16. Many shale-oil producers, especially in the United States, are now facing insolvency and bankruptcy due to significantly tighter credit conditions in addition to the sizable drop in oil prices. As a result, the nature of the oil market may be different post-crisis, with the OPEC countries regaining their market stabilizing role. Staff comments are welcome.

- There are about 1200 independent shale oil producers in the US, producing about 8 million of barrels of oil per day, many of these producers are not financially viable at oil prices below $40. Even though part of the 2020 production has been hedged, a prolonged decline in the oil price will substantially increase the number upstream US oil and gas companies in distress, including oil services companies. A reduction in the number of shale oil companies, however, does not necessarily imply a substantial long-term reduction in oil output as profitable (oil) assets will be sold to oil majors or better capitalized shale oil producers. At the moment, futures markets indicate long-term oil prices to be at about $45 which suggest that the shale oil industry will still play a major role as oil supplier after the end of the current crisis, as it already happened after the 2014-16 oil price collapse. In absence of the shale oil contribution to supply, the expected oil price required to equilibrate the oil market would be much higher than $45. OPEC+ will still retain the role of market stabilizer has the only

group of producers with a substantial spare capacity (or ability to shut in production) that can be quickly deployed to respond to temporary oil market imbalances.

17. The baseline in the flagship reports suggests a severe contraction—deeper than during the 2008-09 financial crisis—with a relatively fast recovery, even though by the end of 2021 activity would still be below the previous trend. Under current assumptions, could staff estimate the permanent output loss for the global economy, with respect to the pre-pandemic trend?

- There is considerable uncertainty around the baseline projection. As seen in previous recoveries from deep recessions (and analyzed in previous WEOs: for example, Chapter 2 of the October 2018WEO), the scars left behind by subdued investment and job losses during the downturn could prove to be persistent. The level of output could therefore return only slowly back to the pre-virus trend.

18. However, weakening the assumptions about the duration and size of containment measures could double the severity of the recession. Could staff clarify the exact assumptions on duration for this stressed scenario?

- For the stressed scenario, the number used in the downside are broadly consistent with another 9 weeks of significant containment measures in EMs and 5 more weeks in AEs. Roughly half of that would be "strict" containment and half "moderate"

19. Second, despite the incipient multilateral efforts, the EMDCs significantly lack the space and tools to effectively counter the immediate fallout from the pandemic. Therefore, the `scarring` effects may be more visible in this group of countries. To that effect, we would welcome more elaboration by staff on the respective growth implications under a longer-lived stress scenario.

- As the scenario box indicates, the recovery path is linked to the effectiveness of policies to limit scarring. Where policy space and tools among EMDEs are relatively more limited, the scarring impact on countries in this group could be considerably larger, leading to even larger output falls relative to the pre-virus baseline than in AEs.

20. We tend to believe that, unfortunately, the illustrative protracted recovery scenario with global contraction approaching 6 percent in 2020 and growth of 3 percent in 2021 may not be the worst-case scenario. It would be prudent to hope for the best but prepare for the worst. Could staff elaborate on possible key policy measures to support economic activity, financial stability, and households in case of materialization of "more widespread and longer-lived COVID-19 containment measures" scenario?

- As the chapter notes, the objectives of policy (as well as the sequencing from policies in the containment phase to those in the recovery phase) are the same across advanced and emerging market and developing economies. However, the resources to achieve

them are clearly more constrained in EMDEs – requiring a strong multilateral component to support their national efforts. The size of policy support will have to be commensurate to the duration of disruption and the available domestic space, with the multilateral component adjusted accordingly.

21. Staff call for "large, timely, temporary, and targeted" fiscal measures, but targeting is hard when the whole economy is affected. We would invite staff to elaborate on the ability of the authorities to target their measures when households are facing widespread layoffs and small businesses are affected much more than large corporates. Staff are welcome to share the successful examples of countries rapidly putting in place widespread and still targeted policies aimed at providing the small business debt relief.

- As the text notes, to combat widespread layoffs, the United Kingdom has announced it will pay 80 percent of furloughed workers' monthly salary up to a ceiling, and Germany and France have eased and expanded firms' access to subsidized short-time work programs to preserve jobs and workers' incomes. These measures will help limit the amplification of the shock to the labor market and economic activity more broadly.

22. Faced with the sizeable depreciation shock many central banks in the EMDEs might be forced to conduct procyclical policy. How affordable is monetary easing across the EMDEs?

- As discussed in the chapter, the synchronized easing actions of large central banks help provide space for EMDE central banks to respond to domestic macroeconomic conditions. Moreover, countries with flexible exchange rates can intervene under disorderly market conditions to limit financial stress, particularly where there are large balance sheet mismatches and unhedged foreign currency liabilities. For countries facing sudden and destabilizing outflows, temporary capital flow measures on outflows could be used, provided they do not substitute for warranted policy actions.

23. The pandemic underscores the need for a multilateral, collaborative agenda along many policy areas. It is critical to avoid the breakdown of international trade, and scale back previously imposed tariff and nontariff measures to preserve global supply chains. The current focus on "cross-border transfers of essential medical supplies" is, in our opinion, too narrow, and the greater emphasis should be made on the de-escalation of previously instigated trade conflicts, which have reduced the resilience of the global economy to the large unforeseen shocks like the one it is experiencing now. The WTO resolution system is undermined, and the IMF needs to step up with the call for multilateral rules-based dispute resolution system to support international trade. Staff comments would be appreciated.

- We agree. Previous WEO reports have emphasized the importance of addressing grievances with the rules-based system and modernizing it to cover areas of emerging importance, and promptly resolving the impasse over the WTO's appellate court.

24. The existing GFSN provides inefficient insurance for many EMDEs, including some systemic and gatekeeper economies. We are very concerned about the rising external pressures on the EMDEs of unprecedented scale. Cumulative capital outflows have surpassed the levels observed at the peak of the GFC, while many major EMEs have now much less policy space. Some of them already have to undergo debt restructurings. The network of bilateral swap arrangements maintained by central banks of reserves issuing countries provides effective protection from the emergence of short-term liquidity pressures to those who have access to these BSAs. However, access to these BSAs remains limited to only a few EMEs, it is not based on any rules, and the long-standing interest to develop a swap-like IMF instrument that can enhance liquidity provision to the global economy has not been addressed. We call for much more active use of the FCL/PLL facilities, and preparation of much more ambitious proposals to strengthen the IMF tools in order to support EMEs in the current unprecedented global environment. This is critical for avoiding a massive use of capital controls and widespread debt restructurings in these countries. In light of the strongest outflows from Emerging Asia, staff's comments on the prospects for activation of the Chiang Mai Initiative and the role of China's bilateral swap lines in the region and worldwide would be appreciated.

- Regional Financial Arrangements (RFAs) are a crucial component of the Global Financial Safety Net (GFSN). This is especially true now with the coronavirus pandemic putting substantial demands on the Fund and other parts of the GFSN. The IMF's past collaboration with several RFAs, notably the Chiang Mai Initiative Multilateralization (CMIM) and European Stability Mechanism (ESM), has created a strong foundation for cooperation, including information sharing and prospective co-financing operations. The Fund stands ready to engage with RFAs, where appropriate and feasible, to facilitate co-financing operations to address members' balance of payments needs.

25. As for China and the United States, we wonder about downside risks to the growth projections. Staff's comments would be appreciated.

- Even after the severe downgrade to growth for these two economies, there is considerable uncertainty around the baseline. Growth in these two major economies could be weaker than in the baseline if the pandemic proves lasts longer than assumed (or, in the case of China, recurs), containment measures remain in place for longer, and the associated domestic disruptions are larger than currently projected. Global spillover effects would also be commensurately larger, and financial conditions would remain tighter for longer than assumed in the baseline.

26. While we note that the global economy will contract sharply by 2.9 percent in 2020, we are less optimistic about the projected rebound in 2021. The WEO rightly acknowledges the uncertainty around the forecasts, highlighting such factors as the pathway of the pandemic, the intensity and efficacy of containment efforts, and the extent of supply disruptions, which make projections complex. However, given that the fallout could be far worse than during the global financial crisis, which saw a more gradual recovery, we wonder if the expected pace of recovery may be overly optimistic. Staff comments are welcome.

- There is considerable uncertainty around the projections, as the Chapter notes in several places. Worse outcomes are clearly possible, as the risks section and Scenario Box document. As detailed in the chapter, departures from the baseline assumptions on the duration of the pandemic and containment measures; the pace at which activity normalizes after containment measures are lifted; the pace at which financial conditions ease would lead to vastly different growth outcomes than projected in the baseline (including because of the scarring effects left behind by subdued investment and job losses during the shutdown).

27. We positively note that advanced economies (AEs) and emerging market and developing economies (EMDEs) have swiftly implemented targeted policy measures to maintain economic relationships during the shutdown, including through appropriate monetary easing and fiscal stimulus. Nevertheless, we wonder if staff intends to assess the effectiveness of these policy responses with a view to drawing important lessons.

- The swift and aggressive policy actions in many countries will help limit amplification of the health shock to economic activity and the financial system, as the chapter discusses. While currently too early to assess effectiveness, this is an area we will follow closely in the months ahead.

28. Regarding the baseline growth projections for EMDEs in 2020 (-2.0 percent excluding China), the fall in economic activity seems rather small considering the external demand shock, tightening of global financial conditions, the fall in commodity prices, and possible containment measures due to the spread of COVID-19. Can staff elaborate on the underlying assumptions?

- The domestic effects of the epidemic and associated social distancing are assumed to lead to a loss of 5 percent of working days in the year for most emerging market and developing economies under the baseline scenario. The further consequences of falling external demand, tighter global financial conditions, and falling commodity prices then depend on country-specific characteristics (differences in exposure), plus the effects of policy actions (which may mitigate the negative effects). Although somewhat less than that for advanced economies under the baseline scenario, the forecast downgrade for growth in 2020 for the group of emerging market and developing economies excluding China is substantial at over five-and-a-half percentage points (compared to expectations in January 2020). That said, as noted in

the report, uncertainties are high and there is a marked risk that the outturns could be worse for the group, particularly if the epidemic were to become severe in these countries.

29. We note that China maintains a positive growth rate in 2020 while the advanced economies, which are its main export markets, are projected to decline by more than 6 percent. In addition, the restrictive measures to fight the pandemic in advanced economies are following China with a two month lag, which means that in addition to itself suffering from the restrictive measures in Q1 2020, China will also be hit hard by a decline in foreign demand in Q2 2020 when the advanced economies will mostly be at a standstill. Thus, the recovery in China is perhaps more likely to be U-shaped than V-shaped. We would appreciate if staff could elaborate on this, as well as provide their q-o-q growth rate projections for China.

- The annualized q-o-q growth rate projections for China for 2020Q1-Q4 are –39.7%, 66.9%, 12.3%, and 7.2%, respectively. For 2021Q1-Q4, q-o-q growth rates for China are 4.8%, 5.1%, 5.3%, and 5.3%, respectively.

30. Could staff elaborate on the assumptions behind the unemployment numbers?

- Unemployment rates in Germany and the UK have remained relatively low on account of swift policy responses: a short-time work scheme in Germany ("Kurzabeit") and a generous wage replacement program for temporarily laid off ("furloughed") workers in the UK. In Germany the Kurzabeit scheme was successful in keeping up employment even during the worst year of the global financial crisis.

31. Could staff elaborate what kind of data they are using to monitor and evaluate global and individual country developments?

- Besides conventional economic data at high frequency, staff is working on a range of alternative data sources to better monitor economic developments in real time. This include data on (i) flights movements, (ii) hotel bookings, (iii) SWIFT payments for international trade, and (iv) radio signals emitted by the global vessel fleet.

32. A key driver of the recovery which, as mentioned earlier is hard to predict, will be the success of the containment measures and, therefore, the gradual lifting of the lockdown. In that regard, it is important to note that the countries in our chair show promising signs in decreasing the pace of contagion, with different degrees of non-pharmacological containment within the region. In addition, the current situation in many of them is a partial lockdown, meaning that key economic sectors are still functioning. Could staff comment how these idiosyncratic situations weigh on country projections?

- The assumptions in the baseline projections reflect idiosyncratic situations. While the disruptions are assumed to be concentrated in the second quarter of 2020 for virtually all countries (with the exception of China for which they are concentrated in the first

quarter), the duration of containment effort varies across countries based on intensity of the measures (for example, cancellation of public gatherings and school closures versus stay-at-home orders and lockdowns enforced with penalties). Containment measures are assumed to stay in place for about 8 weeks in countries experiencing severe epidemics, followed by a gradual loosening of restrictions, resulting in a loss of about 8 percent of working days in 2020. Other countries are also assumed to experience disruptions to economic activity related to containment measures and social distancing, which on average are assumed to entail a loss of around 5 percent of working days in 2020 over the period of shutdown and gradual reopening.

33. But while most authorities now seem to accept the primacy of the health emergency in the near term, there is a clear trade-off between the scale and duration of health interventions and the impact on the economy, and that will only grow the longer containment measures remain in place. What advice can staff offer on getting this balance right?

- Staff will address this at the Board meeting.

34. The 4% of GDP gap projected for end-2021 relative to the pre-COVID-19 baselines in advanced economies looks large against those assumptions. How quickly do staff anticipate that gap closing beyond 2021? What is assumed on scarring in the baseline, and why? Will the WEO database – a key resource – offer full five-year forecasts as usual, and if so, what insights will it offer?

- There is considerable uncertainty around the baseline projections. The gap is projected to close slowly, with GDP levels in many advanced economies expected to remain below the pre-virus baseline into the outer years of the forecast horizon (despite a projected bounce back to above-trend growth rates next year, as was seen in 2010 following the GFC). Given the considerable uncertainty, the WEO database will only publish forecasts through 2021 in this round.

35. We would welcome more explanation about why staff see less severe downwards revisions to projections for many emerging and developing economies, relative to advanced economies and China.

- As discussed in the text, the assumptions on lost working days varies based on the severity of the epidemic and associated containment measures but countries not currently experiencing severe epidemics on average are assumed to lose 5 percent of working days in 2020. The scenario box and discussion in the risks section makes clear that EMDEs would bear a larger share of the incremental downward deviation in growth relative to the baseline if they were to impose more long-lasting containment measures than assumed in the baseline. Staff will follow the developments closely and will update the baseline as more information becomes available on the pathway of the pandemic through EMDEs.

36. We also note that for many emerging and developing economies – in sub-Saharan Africa, India and much of Latin America, for example – fiscal positions show only limited deterioration (from admittedly weak starting positions) in the projections. Elaboration on what is driving this part of the forecast would be welcome.

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37. In addition, suggested policy actions in the flagships are heavily skewed towards advanced economies (particularly in the WEO), where there is policy space and capacity to administer significant health and economic measures quickly.

- As the chapter notes, the objectives of policy (as well as the sequencing from policies in the containment phase to those in the recovery phase – albeit these phases are likely to overlap as one way gives way to the other) are the same across advanced and emerging market and developing economies, but the resources to achieve them are clearly more constrained in EMDEs – requiring a strong multilateral component to support their national efforts.

38. Finally, we would like to note that unlike what is suggested in the WEO-Statistical Appendix, the Swiss fiscal rule allows for a substantial discretionary expansion in the case of a severe downturn. Switzerland has already lined up fiscal measures that amount to over 60 bn USD, or around 8.5 percent of GDP.

- We will correct the description of the rule in the statistical appendix.

39. For instance, what is the basis for assuming that economies experiencing significant outbreaks will implement containment measures for eight weeks followed by a gradual relaxation of restrictions?

- This is an assumption for the baseline scenario to provide a sense of the economic fallout associated with the loss of a certain fraction of working days. The text makes clear there is considerable uncertainty around the baseline, tied to the assumptions that underpin it. As the discussion in the risk section and in the Scenario Box indicate, outcomes could differ based on the duration of containment measures.

40. We would welcome further elaboration on the assumptions underlying the baseline projections for emerging Asia, bearing in mind the high volatility around Emerging Asian economies' forecasts in earlier WEOs/WEMDs.

- As discussed in the text, the assumptions on lost working days varies based on the severity of the epidemic and associated containment measures, but countries not currently experiencing severe epidemics on average are assumed to lose 5 percent of working days in 2020. This applies to emerging Asia as well. The scenario box and discussion in the risks section makes clear that EMDEs would bear a larger share of the incremental downward deviation in growth relative to the baseline if they were to impose more long-lasting containment measures than assumed in the baseline.

41. The Scenario Box illustrates the severity of such a scenario, although the developments of recent weeks make it look more like the baseline. Could staff elaborate on how the Fund's policy advice would need to change if such a scenario were to materialize? Also, given the fast-changing environment, when do staff envisage updating forecasts? Could staff provide further explanations for the assumptions used for the early stages of the recovery and its projected shape and drivers?

- As the chapter notes, the objectives of policy (as well as the sequencing from policies in the containment phase to those in the recovery phase) are the same across advanced and emerging market and developing economies. However, the resources to achieve them are clearly more constrained in EMDEs – requiring a strong multilateral component to support their national efforts. The size of policy support will have to be commensurate to the duration of disruption and the available domestic space, with the multilateral component adjusted accordingly. The 2021 recovery projected in the baseline assumes that the pandemic fades in the second half of 2020, allowing containment measures to be lifted gradually, and that policies implemented during the shutdown are effective in maintaining economic relationships, limiting the amplification of the health crisis to activity, and enabling the economy to gradually recover. As the text notes, the level of output is expected to remain below the pre-virus trend even at the end of 2021 for both advanced and emerging market and developing economies.

42. Regarding this point, we would like the staff to elaborate the basis and precondition of major countries' projections in more detail. For example, to what extent has staff included effects of the ongoing and possible further tightening of financial condition and deterioration of financial intermediary function in the projection? In addition, how long the staff assumed that the lockdowns will last in each country? Moreover, if the lockdowns will last longer than initially expected by staff, how will it affect the growth rates?

- The forecast is predicated on global financial conditions remaining tight throughout the first half of 2020 with a gradual normalization later in the year as the pandemic fades in the second half of 2020. Containment measures are expected to last around 8 weeks, although variation in compliance and stringency of lockdowns across countries and over time means that loss of working days is a more easily compared cross-country measure. Depending on the strength of containment measures, countries are expected to lose between 5 and 8 percent of working days in 2020. Lengthier disruptions will clearly pull down on output further, although countries slow to exit the crisis will likely see some support from a strengthening global economy. However, the situation remains highly uncertain with further public health and economy shocks highly likely later this year.

43. On this point, we would like to hear staff's view on the impact of the crisis on the emerging countries and developing countries and their outlook more in detail.

- EMDEs are expected to contract by nearly one percent this year (and by 2 percent excluding China, where sizeable fiscal support is expected to boost the recovery). This relatively muted forecast belies considerable variation within this group with several countries continuing to grow at modest rates (India, Indonesia) but others more highly exposed to the collapse in tourism (Thailand) or commodity prices (Iran, Nigeria) likely to experience deep recessions. Likewise, activity in Latin America is likely to contract sharply.

44. ***Japan already has expressed its plan to make an additional contribution of $100 million to the CCRT in the form of a readily usable cash. We would like staff to include this fact in WEO and GFSR, since this number can be published by the date of the publication of the reports. We expect other member countries to make contributions to the CCRT as well.***

- Staff will add this detail in the report.

45. ***More in general, we would have appreciated it if the flagships could shed some light on two key policy issues. First, how the projected large increases in the fiscal deficits should be best financed, and whether Advanced Economies could benefit from exploring alternatives to the current reliance on unconventional monetary policy. Second, how the remarkable increase in government spending could change the metrics for assessing debt sustainability, particularly if the fight against the pandemic must continue beyond 2020.***

- Staff will address at the Board meeting.

46. ***The chapter does not recognize all the efforts made by European countries through the provision of liquidity and credit guarantees and loan restructuring. We would appreciate it if these measures could be mentioned on p. 15.***

- These are illustrative examples, not intended to be exhaustive. We will add further examples.

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47. ***On the monetary and financial policy side, extraordinary actions by central banks to support liquidity have helped maintain the flow of credit to the real economy and have significantly contributed to a tentative stabilization in markets. These responses as "buyers of last resort" are appropriate in view of the nature of the shock. But experience since the GFC illustrates that such interventions can be difficult to unwind. We would welcome staff views on this.***

- To be addressed in staff's oral intervention at the Board meeting

48. We note that broad asset price declines due to COVID-19 have not reached the magnitudes seen in 2008–09. But we also note that the risky credit market segments—high-yield bonds, leveraged loans, and private debt have reached $9 trillion globally. Financial strains remain unaddressed in these risky credit market segments, while investment grade bond spreads have declined thanks to central bank asset purchases. As the recession bites, credit rating agencies will likely downgrade many firms to sub-investment grade, which could further weigh on real activities. Further advice would be welcome on how authorities can balance reducing the severity of recession with preserving market discipline and safeguarding financial stability, and on what implications there might be for rating agencies?

- The section on the "guiding principles for financial sector policies" outlines the general principles that supervisors and central banks would need to follow in order to maintain the balance between preserving financial stability, maintaining soundness of financial institutions and supporting economic activity. Regarding rating agencies, the earlier recommendations on credit rating agencies (CRAs) presented in the October 2010 GFSR, still hold. In particular, CRAs are expected to meet the same rating calibration and validation standards as those required of banks that use the Basel II internal ratings-based approach. CRAs should be discouraged from over-smoothing downgrades (and upgrades), they should be transparent about their methodology and continue to provide additional information on the accuracy of their ratings.

49. We could not find specific reference to the role of rating agencies, despite the fact that they were subject to extensive scrutiny and regulatory review in the aftermath of the GFC. They were criticized for acting too slowly (asset-back securities continued to be rated AAA for too long) and for conflict of interests (that remain largely unresolved). What about today? How well are their credit models performing in a pandemic? Should rating agencies be encouraged to maintain their negative outlooks instead of downgrading immediately, until there is more clarity about the impact of the pandemic on the financial strength of the issuer? Alternatively, should supervisors suspend rules requiring minimum rating thresholds for some institutional investors, thereby mitigating the risk of fire sales?

- Please see the response to question #45. The staff is not in favor of suspending rules requiring minimum ratings thresholds for institutional investors. Credit rating agencies continue to play a crucial role in credit markets, including the CLO segment. During the COVID-19 outbreak, credit rating agencies have promptly revised up their forecasts of speculative grade defaults to recessionary levels (see e.g. Figure 1.3). That said, it is too early to provide an assessment of how well the CRAs' credit models have performed in a pandemic.

50. We note with concern the unprecedented and sharp reversal of portfolio flows in emerging market and frontier economies. Alongside the collapse in oil prices and increased global risk aversion, the sell-off in emerging and frontier markets has triggered sizeable exchange rate depreciation, especially among commodity

exporters. Against this background, we endorse the temporary and appropriate use of capital flow management (CFM) measures as part of a broad policy package, noting that CFMs should not substitute for warranted macroeconomic policy adjustments. At the same time, we support the deployment of macro prudential policy (MPP) measures while allowing exchange rate flexibility to help address the destabilizing effects of the largest portfolio flow reversal on record. The effective reduction of broader capital flow disruptions, however, requires international coordination. That said, we note that the banking sector is facing a strong test despite progress made in building liquidity and capital buffers in the context of financial regulatory reforms. Could staff clarify the extent to which emerging banking sector vulnerabilities are linked to outstanding reforms?

- Financial sector reforms have helped to strengthen the banking sector's capital and liquidity positions. As the GFSR notes, average Tier 1 capital ratios across 29 economies with large financial systems are more than 400 basis points higher than they were at the end of 2007, just before the onset of the global financial crisis. While we do not assess implementation of reforms in individual countries—this is something that is done in FSAPs—the main concern now relates to the impact that the COVID-19 pandemic could have on losses at banks. Banks could face losses on their securities, as well as credit losses on their loans to companies and households that have been impacted by the virus and the associated, necessary, containment measures.

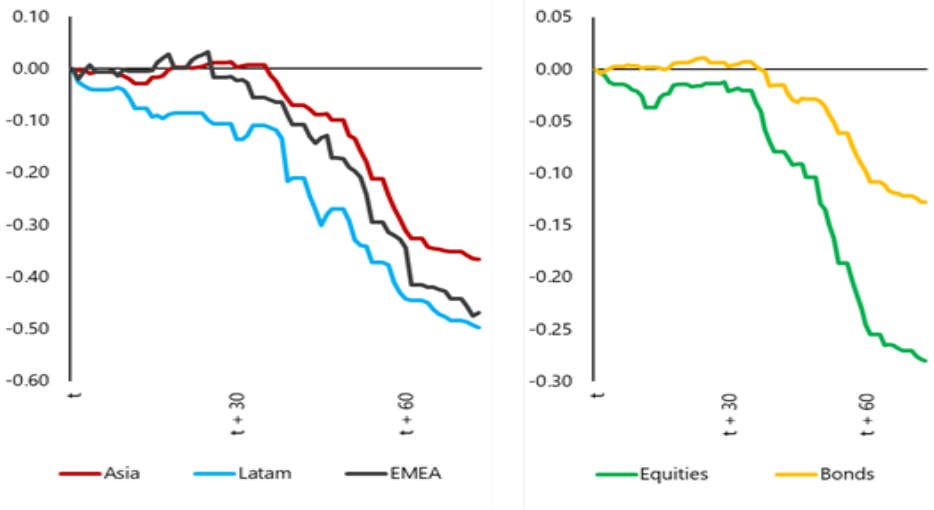
51. Although the immediate crisis calls for strong monetary accommodation and fiscal expansion, policymakers should still be mindful of the spillover effects and the long-term implications of their policy response. We call on the Fund to play a more active role in pointing or mapping out these "blind spots" and intertemporal trade-offs as policymakers deal with the immediate impact of the crisis. For instance, policymakers may have undertaken unconventional monetary policy (UMP) without full consideration of how to exit or unwind the UMP when the pandemic fades, and this could pose financial stability risks in the longer term. In this regard, can staff highlight some of the financial stability and long-term considerations that policymakers need to be mindful of when responding to the crisis. We are also interested to hear staff's view on the risks or unintended consequences that emerging market economies (EMEs) could face if they pursue zero lower bound policy or UMP.

- To be addressed in staff's oral intervention at the Board meeting

52. We see greater scope for differentiation across the EMEs in the GFSR analysis. While there could be common factors driving capital outflows from EMEs, the composition of capital outflows, the impact of or resilience to the outflows, and the corresponding policy response differ across EMEs. For instance, Asia may be better able to weather this global storm, given the stronger fundamentals, improved regulatory and supervisory regimes, enhanced policy frameworks, lower external vulnerabilities and still-available policy space. We welcome staff's comments and

suggest showing Figure 1.8, panel 2, left as the nonresident portfolio flows relative to the aggregate GDP by regions.

- Thank you for your comments and we agree on the need to differentiate between the vulnerabilities and the buffers. Figure 1.8, panel 2 is intended to highlight the recent capital flow trends across regions and asset classes, rather to serve as a vulnerability assessment. For your information however we also provide panel 2 flows scaled by GDP:



- The vulnerabilities to different type of stocks are highlighted in Figure 1.16 across major emerging and frontier markets. Paragraph 34 highlights the policy constraints. Paragraphs 35-38 explain the vulnerabilities and buffers for both EMs and frontiers.

53. Have resident outflows been significant so far to exacerbate the impact of nonresident flows on domestic financial markets? How would the policy options change under such circumstances?

- We do not yet have the high frequency data on resident outflows. Regarding CFMs for resident outflows, some examples include: Sri Lanka (tightening controls on foreign exchange outflows), Kazakhstan (halved the amount of FX local companies are allowed to buy), Philippines (temporary closure of domestic exchange), Sri Lanka (suspended outward remittances from foreign currency accounts and suspended resident outflows). In general, for cases of increased corporate FX (hedging) demand, countries have relied on more traditional responses such as auctioning NDFs and FX swaps.
- In the face of an imminent capital account crisis, the use of CFMs can help prevent a free fall of the exchange rate and provide breathing space while necessary policy adjustments are implemented. CFMs on outflows should generally be broad-based to be effective. Regarding resident outflows they may include a wide range of measures, such as restrictions on residents' investments and transfers abroad, and repatriation and surrender requirements on export proceeds.

54. This crisis underscores the need for a more durable solution to address protracted US dollar funding market strains. A tightening of US dollar funding conditions in recent months has triggered spillovers to EMEs, as they have limited ability to turn to other sources of US dollar funding — as highlighted in the Oct 2019 GFSR. While the opening of swap lines by the US Fed to foreign central banks including a few from emerging markets has helped to ease the strains somewhat, structural fragilities in the US short term dollar funding markets as highlighted in the online annex continue to lie at the heart of the problem. We welcome further discussion on the role of central banks as lenders of last resort in providing US dollar liquidity especially in times of market disorder.

- We refer directors to the upcoming discussion of the IMF facilities.

55. The Fund's proposals on short-term liquidity swap (SLS) and a swap-like facility are possible tools to help address the USD liquidity issues especially for EMEs. Staff's comments are appreciated.

- We refer directors to the upcoming discussion of the IMF facilities.

56. For countries facing sudden and destabilizing reversals of external financing, temporary capital flow measures on outflows could be used, provided they do not substitute for warranted policy actions. Could staff provide information about countries that have used capital flow measures and whether they see more scope for such measures in this crisis?

- An unprecedented combination of shocks (COVID-19 pandemic, oil price decline, reduced external demand) is likely to generate competing demands on a countries FX reserves. This can make the case for preemptive CFMs stronger than in other crises.
- Some of the main CFM/MPM measures utilized so far has been a reduction of foreign currency reserve requirements (e.g., Indonesia, Turkey), reduction FX liquidity coverage ratio (Korea), extension of realization period of export proceeds (India). Some of the most drastic measures include Philippines halt in trading in the stock exchange. Some countries have also eased restrictions e.g. India increased the limit on foreign investors in corporate bonds.

57. Monetary policy measures have eased liquidity in some segments, including corporate debt and commercial paper markets, but not in riskier credit markets. Global US dollar markets conditions tightened but have since been somewhat alleviated by Fed Swap lines and other facilities. Central bank measures to support the corporate sector appear to have improved market functioning and eased near-term liquidity stress in certain segments. However, because no direct support has been provided to the risky credit markets so far, credit markets have shown signs of bifurcation. Should financial conditions deteriorate further, and credit downgrades and defaults rise meaningfully, staff advices that authorities may consider extending their support to risky credit markets. How does the IMF think

these additional measures to risky corporates should be implemented as central banks usually have restrictions to invest in sub-investment grade assets?

- To the extent that that the goal is to maintain the flow of credit to the economy and risky segments represent a significant share of credit market, a central bank may consider measures that include a fiscal backstop so that a portion or the entirety of potential credit losses associated with the provision of liquidity to these segment may be first absorbed by the fiscal authorities.

58. We agree with the presented guiding principles for financial sector policy actions, where a delicate balance needs to be found between large scale support to economic activity and maintaining the stability and soundness of the financial system. Specifically, related to the banking sector loan renegotiations and forbearance should be encouraged, while at the same time maintaining the standards for assessing the quality of the loans and applying prudential accounting treatment of credit loss. Furthermore, existing capital and liquidity buffers should be used to absorb financial costs. As many of the measures presented are generally already in place in many jurisdictions, could the IMF bring forward any additional options for policy makers?

- To be addressed in staff's oral intervention at the Board meeting

59. We share staff's opinion regarding the possibility of temporary capital flow measures, provided they do not substitute for warranted policy actions. Could staff describe more precisely the different options countries have regarding the use of capital controls in the current context, with the type and criteria for calibrating?

- Countries can impose restrictions on either nonresident or resident flows. Some of the recently imposed measures included, for instance, a reduction of foreign currency reserve requirements (e.g., Indonesia, Turkey), reduction in FX liquidity coverage ratio (Korea) and increasing the limit on foreign investors in select asset classes (like corporate bonds in India). Some countries have also limited the outflows from residents, though measures like suspending outward remittances from foreign currency accounts (Sri Lanka) and reducing the amount of FX local companies are allowed to buy (Kazakhstan). Some of the more drastic measures included temporary closure of domestic exchanges (like Philippines and Sri Lanka).
- For more details on the types of measures and criterial for calibration please see The IMF's Institutional View on Capital Flows in Practice IMF 2019 Taxonomy of Capital Flow Management Measures

60. The GFSR mainly focuses on the short-term crisis implications and solutions. More widespread and longer-lived COVID-19 containment measures, however, may turn existing liquidity problems into widespread solvency problems. Financial market conditions are tightening at a moment when financing gaps are increasing worldwide. As mentioned earlier, we see important challenges for activity to rebound. This may have an important impact on natural interest rates and asset prices, including in the real estate sector, for a longer period of time, with negative

reinforcing effects on the financial sector. Staff comments on the magnitude of the impact on interest rates and asset prices in the mid-long run are welcome.

- At this stage, when there is substantial uncertainty about the evolution of the pandemic and the associated containment measures, it is very difficult to assess where interest rates and asset prices will be in the medium-term. Nevertheless, one way to look at this question is to use forward rates in markets. These forward rates suggest that investors expect yields on advanced economy government bonds to remain at low levels until at least the end of 2022, as shown in Figure 1.2, panel 4, where about 80 percent of bonds in large advanced economies are expected to have a yield of 1 percent or less.

61. The situation in emerging market and developing economies is extremely complicated, as illustrated by the increase in the number of distressed sovereign issuers. These economies enter this crisis more levered than in 2008. This may lead to a rise in debt restructurings, which could test existing debt resolution frameworks. We call on staff to elaborate on possible loopholes in the current debt resolution frameworks.

- One of the issues we have highlighted in the past (e.g. WEMD January 2020) is that not all EMs have adopted the "enhanced CACs" the IMF board endorsed in October 2014. This is either because countries opted not to use them (e.g. Lebanon) or because a substantial stock of debt was issued pre-2014 and does not include them (e.g. Argentina).
- This has led to differentiated market pricing between bonds based on their CACs vintage. Some investors believe that the bonds with older CACs are likely to get preferential treatment given their higher voting thresholds and the limited ability of the authorities to use aggregation clauses for them.
- Staff will continue to promote the inclusion of enhanced clauses in international sovereign bonds.

62. One of the possible consequences that the COVID-19 crisis might have is that it could further reduce the use of cash. This will have implications for central banks' balance sheets, in particular in emerging market economies, and calls for more attention to the topic of resilience of payments systems. Staff's comments are welcome.

- This is an interesting question that will require further analysis as the current crisis unfolds and more information becomes available.

63. The timing and scale of monetary easing in response to the crisis by leading central banks has been broadly appropriate, but as the scope for conventional policy is limited, greater recourse is being made to unconventional monetary policy (UMP) tools. An assessment of the margin for maneuver and efficacy of UMP at this juncture would be useful. What lessons have we learned from the use of UMP in

the last crisis that we could apply in the present one, notwithstanding the different nature of the two crises?

- To be addressed in staff's oral intervention at the Board meeting

64. Decisive monetary policy actions were taken by cutting policy rates and providing additional liquidity to banking systems. Similarly, regulatory authorities have implemented a range of financial policy measures aimed at safeguarding financial stability. Interestingly, staff refers in ¶41 to some central banks setting an upper limit on the costs of credit and we would be interested in knowing the effectiveness of such a policy, usually disapproved by the Fund.

- The main goal of these emergency facilities that have been established to support the key funding markets for investment-grade corporations is to maintain the flow of credit to the economy and lean against the tightening of financing conditions. The pricing would typically reflect priorities of policymakers that have to strike the right balance between the need to ease financial conditions/support the economy and minimize moral hazard and risks to the central bank.

65. While much has been done by central banks, we agree with staff that it is difficult to assess the effectiveness of the policies implemented so far and therefore policy adjustment and additional measures may be needed, although room for maneuver may be limited, particularly for countries lacking fiscal space. This may be particularly the case for emerging and frontier market economies, characterized by weaker initial conditions than in 2008, because of their higher reliance on foreign financing and limited policy space. Staff refers to the possibility of a rise in debt restructuring and/or introduction of capital outflow management measures, as part of a broad policy package. In this regard, staff cautions about a rise in debt restructuring that could test existing debt resolution frameworks and we would be interested in knowing how the Fund could proactively address such concerns and what role the Fund could play in this area, given its macro-criticality.

- One of the issues we have highlighted in the past (e.g. WEMD January 2020) is that not all EMs have adopted the "enhanced CACs" that the IMF board endorsed in October 2014. This is either because countries opted not to use them (e.g., Lebanon) or because a substantial stock of debt was issued pre-2014 and does not include them (e.g. Argentina).
- This has led to differentiated market pricing between bonds based on their CACs vintage. Some investors believe that the bonds with older CACs are likely to get preferential treatment given their higher voting thresholds and the limited ability of the authorities to use aggregation clauses for them.
- IMF staff encourages constructive negotiations with creditors but it does not involve itself in the process or modalities of the restructuring, which is entirely the purview of the authorities and their legal and financial advisors. Regarding this specific issue with CAC vintage it's also hard to pre-empt any policy response given that we are at

the very beginning of the restructuring processes. Staff will continue to promote the inclusion of enhanced clauses in international sovereign bonds.

- In general, if countries experience a financing gap, a debt operation that restores or preserves sustainability could be combined with a Fund-supported program to allow for short-term deficits.

66. We take note that the vulnerabilities are accumulated in non-financial corporate sector and sovereign sector, shown in Figure1.10. Noting that sovereign risk spilled over to the financial sector in GFC, we welcome staff opinion on whether the similar situation could happen in current juncture.

- We do believe there is a risk that strains among sovereigns could spill over to the financial sector. The GFSR notes that increasing sovereign bond yields on some countries with highly indebted may lead to a re-emergence of the sovereign financial sector nexus in some jurisdictions. This is one of the factors the GFSR text cites – along with potential market and credit losses at banks – that are leading to investor concerns about the banking sector.

67. Also, the authorities' appropriate and decisive policy actions are indispensable to mitigate vicious cycle that the credit crunch in financial system would cause further contraction of the economy. In this regard, we would like staff to elaborate on their assessment on current risk asset prices. That is, does staff assess that more prompt and aggressive policy actions by central banks and governments have worked well to mitigate the shock, or the market participants are still optimistic and thus we are likely to see the further declines?

- Decisive policy actions by central banks and governments have curbed extreme market price declines and market sentiment has stabilized most recently. Assessment of price mis-alignments or investor optimism is currently complicated by the ongoing revisions in earnings forecasts. Market prices can fall further if the duration and size of the shock are greater than currently expected. Policy makers should stand ready to extend the support as necessary to avoid a further hit to market confidence.

68. We take note with concern that emerging and frontier market economies are facing the perfect storm, namely the sharpest reversal in the portfolio flows in unprecedent level. Under the current environment, we have some reservation regarding staff's recommendation that exchange rate flexibility should be used as a shock absorber, considering currency depreciation is unlikely to increase the amount of exports in the global economic contraction, while it increases the foreign currencies denominated debts in local currencies basis. In this regard, we believe that well sequenced policy advice based on the phases of the current crisis is important. Staff comments are welcome.

- Country circumstances should dictate the appropriate policy choice. From the point of view of destabilizing currency moves and volatile market conditions due to sharp reversals of portfolio flows, exchange rate flexibility should be used, where feasible.

For countries with adequate reserves, exchange rate intervention can lean against market illiquidity and thus play a role in muting excessive volatility.

- The role of currency depreciation as a shock absorber needs to be evaluated against country vulnerabilities, such as the stock of FX debt (and in particular where short-term external financing needs are significant). In these cases, FX interventions should be used in countries that have adequate reserves, and interventions should be planned on the basis that the pressures arising from the current crisis might last several months or longer. Several emerging market economies have increased exchange rate interventions through tools that preserve reserves (domestic NDFs, FX swaps) which can be advisable in certain situations.

69. As for the monetary policy in Japan, to address the unstable condition of global and domestic financial and capital market as well as the lessened accommodative monetary condition partly seen in the corporate financing of SMEs, Bank of Japan(BOJ) has enhanced monetary easing. In particular, while supplying ample yen liquidity by the purchases of Japanese government bond, BOJ conducts (i) coordinated action to enhance the provision of USD liquidity with other central banks to address the tightening of global dollar funding, (ii) measures to facilitate corporate financing including the introduction of a new operation and (iii) active purchase of exchange-traded funds(ETFs) and Japan real estate investment trusts (J-REITs). Noting that staff mentions the possible necessity to extend the support to risky credit markets, we would like staff to elaborate more on this issue.

- Measures introduced to address concerns about access to credit and secondary market liquidity in corporate bond markets have improved market functioning and eased near-term liquidity stress, specifically at investment grade firms. These measures have also had indirect positive effects (through confidence channels) on the outlook for firms in the risky credit markets that have viable businesses and can survive the expected dramatic decline in revenues. However, the lack of direct support for risky credit markets may still leave significant segments of the economy vulnerable given the important and growing role of these markets in channeling funding to firms (discussed in the forthcoming Chapter 2 of the April 2020 GFSR). A significant wave of downgrades and defaults will likely translate into an significant tightening in financial conditions for a notable part of the corporate sector. If conditions deteriorate further, policymakers may consider expanding direct support to the risky credit markets to avoid corporate liquidity stress, asset fire sales, and a more protracted economic downturn.

70. Faced with the sizeable depreciation shock many central banks in the EMDEs might be forced to conduct procyclical policy. How affordable is monetary easing across the EMDEs?

- The significant easing by advanced economy central banks in response to the coronavirus pandemic introduces some monetary policy space for many emerging market economies. Due consideration should also be given to balance sheet vulnerabilities where firms with considerable FX debt may be unable to cope with

large FX depreciation, and central banks may indeed to lean against FX depreciation. Country circumstances and expected domestic prices pressures should dictate the appropriate policy choice.

71. ***Emerging markets face a particularly severe shock, given their dependence on external funding, increased leverage and – in some cases – high reliance on commodity exports. We echo staff's call for decisive policy actions. Sovereign debt managers should put in place contingency plans for dealing with limited access to external funding markets for a prolonged period. Countries that are facing rapidly deteriorating debt dynamics, limited market access, high external financing requirements or high volatility, may need to pre-emptively and cooperatively seek a debt resolution with their creditors. Capital flow management-measures could constitute a part of a broad policy package. However, these measures cannot substitute for warranted macroeconomic adjustments and should be transparent and temporary. Also, we observed stronger net outflows in bond markets in recent weeks, rather than in equity markets (using weekly EPFR data). That is the case in EMEs as well as in AEs. We would therefore ask staff for a renewed assessment of their statement that "Outflows from equity markets were particularly strong, given their sensitivity to the growth outlook".***

- We have tweaked the language to emphasize that equity outflows were affected more prominent initially, but more recently the debt flows have also come under significant pressure.
- The new sentence will now read: "Outflows from equity markets were particularly strong INITIALLY, given their sensitivity to the growth outlook. But outflows from bond markets HAVE BECOME significant MORE recently"

72. ***We take note of staff's analysis on equity price misalignments, which suggests that equity valuations had become increasingly stretched since the October 2019 GFSR, with the extent of overvaluation approaching historically high levels in several countries in the last quarter of 2019. In this context, we would like to point out that in the October 2019 GFSR, staff illustrated that corporate bond spreads could widen significantly even under a GDP shock that amounts to half of the GDP decline during the GFC. Given that this risk has obviously materialized, could staff comment on a more recent estimate of its debt-at-risk assessment?***

- The October 2019 GFSR showed that corporate vulnerabilities were already elevated in several systemically important economies. In a material downturn of half the severity of the GFC in terms of economic growth and interest costs, corporate debt-at-risk in eight major economies was estimated to rise to $19 trillion and above crisis levels in percent of total corporate debt. The downside scenario was estimated over two years, assuming a steady deterioration of revenues and interest costs. Given that market prices have already declined by half the falls in the GFC and revenues have contracted sharply, the current debt-at-risk is expected to have risen considerably. The debt-at-risk in 2021 will depend on the magnitude and duration of the shocks to market prices, cost of bank credit, and economic growth. For example,

if market prices were to recover quickly, the impact on the effective interest costs would be less pronounced given that it takes several quarters to materially reprice debt. The debt-at-risk could exceed the earlier estimate given the uneven shocks across countries and across sectors. Furthermore, the debt-at-risk is bound to increase significantly if the downside risks to growth that are discussed in the WEO materialize and the quick recovery in 2021 does not take place. In this case, the shock to GDP growth over 2 years will be considerably larger than the estimates presented in the previous GFSR.

73. We agree with staff that the role of rating agencies will gain in importance in the coming months. Rather than some specific sovereign downgrades, a more comprehensive list of downgrades might be useful. In addition, it would be helpful to note that AEs can be downgraded as well (e.g. the UK recently). We would welcome additional staff comments.

- Overall, there were there were 17 emerging and frontier market economies that were downgraded or had their outlook put on negative watch in the first quarter for 2020. For these economies, rating action typically have direct and often tangible implications for external funding costs.

74. We would be interested in how emerging insights from the IPF can be used to provide advice to emerging markets, including whether countries should allow reserves to dip below the reserve adequacy metric (RAM) levels during the crisis.

- The use of reserves would depend on the existing stock vis-a-vis the size of outflows and their expected persistence, the external position, and the overall policy response. In some cases, reserves may dip below 100 percent of the ARA metric as part of the policy response. At that point, given the heightened uncertainty about the depth and duration of the crisis, it will be important to ensure that remaining reserves are used prudently, and that macro policy settings are consistent with the appropriate use of reserve buffers.

75. Could staff provide some analysis of how RFAs are and should be responding to the crisis and how these can complement actions by central banks and the IFIs?

- Regional Financial Arrangements (RFAs) are a crucial component of the Global Financial Safety Net (GFSN). This is especially true now with the coronavirus pandemic putting substantial demands on the Fund and other parts of the GFSN. The IMF's past collaboration with several RFAs, notably the Chiang Mai Initiative Multilateralization (CMIM) and European Stability Mechanism (ESM), has created a strong foundation for cooperation, including information sharing and prospective co-financing operations. The Fund stands ready to engage with RFAs, where appropriate and feasible, to facilitate co-financing operations to address members' balance of payments needs.

76. We call for much more active use of the FCL/PLL facilities, and preparation of much more ambitious proposals to strengthen the IMF tools in order to support EMEs in the current unprecedented global environment. This is critical for avoiding a massive use of capital controls and widespread debt restructurings in these countries. In light of the strongest outflows from Emerging Asia, staff's comments on the prospects for activation of the Chiang Mai Initiative and the role of China's bilateral swap lines in the region and worldwide would be appreciated.

- We refer directors to the upcoming discussion of the IMF facilities.

Fiscal Monitor

77. We also note that for many emerging and developing economies – in sub-Saharan Africa, India and much of Latin America, for example – fiscal positions show only limited deterioration (from admittedly weak starting positions) in the projections. Elaboration on what is driving this part of the forecast would be welcome.

- A number of factors determine the impact on fiscal balances, including the ability to borrow, the size of automatic stabilizers, the amount of discretionary measures, the effects of lower commodity prices, the extent of growth swing (which is 4.4 percentage points in sub-Saharan Africa versus 7.8 percentage points in advanced economies) and a range of other country specific factors. The direct impact of the pandemic and related spending levels in many SSA LIDCs are also limited so far.

78. We positively note that advanced economies (AEs) and emerging market and developing economies (EMDEs) have swiftly implemented targeted policy measures to maintain economic relationships during the shutdown, including through appropriate monetary easing and fiscal stimulus. Nevertheless, we wonder if staff intends to assess the effectiveness of these policy responses with a view to drawing important lessons.

- Assessing the efficacy of the adopted fiscal measures requires much more information than is currently available and will be a priority for future work. FAD is working closely with country teams and authorities through capacity development to help assess effective policy responses. Nonetheless, the Fiscal Monitor lays out a few principles (see page 17) for determining appropriate extent of support and the choice of fiscal instruments to provide emergency lifelines to firms and households.

79. Reform agenda should continue to be implemented. As we have expressed previously as well, we fully understand the importance of the international corporation to tackle the crisis, including the support for developing and LICs. Therefore, we have agreed the enhancement of the Fund's financing facilities such as RFI/RCF and the Debt Initiative led by the Fund and the World Bank. However, as discussed in the reports, the crisis itself and the following fiscal measures taken by governments should cause significant negative impact on the fiscal situation and debt sustainability of the member countries. Especially for developing and LICs, to

secure the fiscal and financial system stability and achieve the economic growth in the future, it would be critical to show their ownership to proceed with reform agenda such as improving debt transparency, reforming the governance and conducting structural reforms, even when they are facing challenging environment. In addition, we think it would be important for staff to make granular policy recommendations in light of the difference of the speed of the spread of the crisis among each region. On this point, we would like to hear the staff's view on the balance between the response to the current crisis and the resolution for the potential challenges these countries face.

- At the current juncture, it is important to do whatever it takes to save lives and livelihoods. Comprehensive and coordinated global action is urgently needed to assist countries that face health emergency challenges, particularly those with limited capacity and financing constraints.
- Providing support to people and firms in a transparent manner is crucial to the effectiveness of the measures and for the authorities to mitigate fiscal risks and keep an accurate record of the scale of the challenge once the emergency abates.
- Once the health crisis has waned, as debt levels and its servicing cost to tax revenues will rise substantially, all countries need to put their fiscal positions back on a sustainable path and reduce debt vulnerabilities.

80. It is also worth starting to consider now how policy should respond once people are able to move freely again. Given the uncertainties, it is likely that being prepared with flexible and potentially targeted measures may continue to be necessary. The recovery phase may well need to be tailored. Do staff think that broad public works style stimulus measures may be needed in certain circumstances? Is the policy mix in the recovery phase going to vary across advanced, emerging and developing economies?

- In response to the pandemic, easing the eligibility criteria and loosening work requirements can help increase the coverage of social safety net programs. Once the health crisis abates and shutdowns end, public investment, public works, and other activation programs will be an effective way of stimulating aggregate demand.
- The feasibility and desirability of broad-based fiscal support depends on the scarring effects of the pandemic, the efficacy of targeted fiscal measures, and country specific circumstances, including financing constraints, the size of initial fiscal responses, and the impact of the pandemic. The recovery-phase response should be data dependent:
- Advanced economies with ample fiscal space can invest in the future: health care, research and development, and infrastructure—alongside changes to tax-benefit systems to enhance resilience to shocks. For those with limited fiscal space, policymakers should pursue the same objectives but with lower access to financing will need to strive to reconfigure their spending and revenue mix to allow for a growth-friendly spending in the recovery phase.
- Emerging market and developing economies, in general, have less fiscal room to respond given financing constraints. Monetary accommodation should play a larger

role, especially where inflation is low. Governments should improve the efficiency of public investment, and strengthen social safety nets.

81. The Fiscal Monitor provides a valuable preliminary overview of fiscal measures, facilitating cross-country comparisons, informed analysis, and assessment. However, we would welcome more clarity on the criteria used to select, classify, and aggregate the data underlying some charts (e.g. Fig. 1.1 in the Fiscal Monitor).

- Fiscal measures in the figures include revenue and spending measures as well as other liquidity support announced by the governments. Also important to note that cross-country information is not entirely comparable as some countries have larger automatic stabilizers than others, which are not fully captured by measures presented in Figure 1.1. As indicated in the Fiscal Monitor Box 1.1, different measures will have different implications for public finances now and in the future, which should be kept in mind in aggregation of different types of on and off-budget support.
- The discretionary revenue and spending measures exclude payments deferral on taxes and social security contributions. The below-the-line measures include government provision of loans (including through public corporations), equity injections, and debt assumptions that would affect the liabilities side of the government balance sheet, as well as government guarantees that may not have an immediate impact on public finances but could pose fiscal risks. Subnational guarantees, loans, and equity injections are excluded. The aggregate support is measured as weighted average of projected 2020 GDP across countries.

82. The widespread economic fallout from the pandemic necessitates a strong policy response and large emergency spending. As such, we share the view that domestic legal frameworks should allow budget modification so that the existing fiscal rules can be suspended temporarily to provide timely, temporary and targeted support in this challenging time. This must be supported by clear communication from the authorities. However, once the situation improves, fiscal discipline must be restored with credible but more ambitious medium-term fiscal consolidation plans. However strong fiscal expansion in the current period could potentially reduce the government's ability to address structural reforms. Do staff see the risk of a delay in the structural reform agenda, particularly in EMEs, which could affect the speed of recovery in the post-outbreak period?

- At the current juncture, it is important to do whatever it takes to save lives and livelihoods. However, the adopted fiscal measures should not result in long-lasting deterioration of public finances. A premium should be placed on measures that maintain links with employment and move the tax-benefit systems in desirable directions, for example mobile payments, expediting VAT refunds, and upgrading health care systems. Support must be provided while abiding with good public finance practices, including enhanced transparency. Once the COVID-19 crisis abates and shutdowns end, it is important to pursue growth-friendly policies, including structural fiscal reforms, and ensure debt sustainability.

83. When comparing the size of fiscal policy measures to meet the crisis between countries, it is important that these calculations also include the automatic stabilizers or semi-automatic effects. Could staff include this information in Figure 1.1 (right panel) of the Fiscal Monitor?

- Fiscal responses vary across economies depending on country-specific factors. The need for discretionary measures would be sizable albeit lower, other things equal, for countries with stronger existing automatic stabilizers and social safety nets.
- The tax-benefit systems (for example, through progressive income taxation) provide other important stabilization effects which are not included in the chart. Some countries rely more on existing insurance programs (unemployment benefits) and social safety net schemes (cash and in-kind transfers), while others are introducing new programs. These are included in Figure 1.1.
- Estimating the size of the automatic stabilizers is particularly difficult at the current juncture, and will be more relevant when the lockdowns end rather than in the current phase, where the priority is to provide a lifeline to people and firms. Previous estimates in the literature are often based on typical macroeconomic shocks, which are likely to change in a global pandemic with a highly-uncertain global economic outlook.

84. Notwithstanding the uncertainties, could staff compare the average interest rate growth differentials (r-g) and their relative adverse impacts on the debt dynamics of the three country groups in the near term?

- Growth is expected to deteriorate significantly across all countries while effective interest rates are more stable. As a result, the interest-growth differential is likely to increase across the board, weakening debt dynamics in the near term, but most of the action this year will come from the growth rate. This said, differences across countries in their ability to access finance will be a key determinant of their room for maneuver in policy response.

85. The IMF-WB debt sustainability assessments show an increase in the number of LIDC in debt distress or at high risk to 25 countries (44 percent) in 2019. What are the expectations for 2020-21?

- Staff will continue conducting debt sustainability assessments accounting for new developments for 2020-21, including in the context of new programs requests.

86. The FM offers sound principles that provide guidance on the design of spending, tax, and liquidity support measures. Given the urgency and widespread need to rapidly deploy relief to liquidity-constrained households, unconditional direct cash transfers are suggested as complement to other targeted social protection spending. Could staff indicate to what extent unconditional transfers have been used in the current crisis vis-à-vis conditional transfers?

- Countries are continuing to rollout new fiscal support measures, and assessing the extent to which transfers are conditional or not will require more information than is currently available. Based on preliminary estimates, targeted transfers to households are one of the most common spending measures used (Fiscal Monitor Figure 1.14), along with wage subsidies and liquidity support to firms. The Special Feature Annex provides some country examples on transfers.

87. ***Staff call for "large, timely, temporary, and targeted" fiscal measures, but targeting is hard when the whole economy is affected. We would invite staff to elaborate on the ability of the authorities to target their measures when households are facing widespread layoffs and small businesses are affected much more than large corporates. Staff are welcome to share the successful examples of countries rapidly putting in place widespread and still targeted policies aimed at providing the small business debt relief.***

- Measures should be targeted to households, so that loss of income does not prevent them from accessing necessities (e.g., food, medicine, water, and energy), and to firms to prevent layoffs, bankruptcies and permanent exits from supply chains.
- Tax measures can be targeted to the most affected sectors and individuals. This can be done either by granting certain incentives only in certain sectors (e.g., health, tourism) or relief for certain products (e.g., importation of medical supplies or priority foodstuffs), or more generally, by granting them only to firms that experience a decline in sales or profits above a certain threshold. This said, it is important to use transparent criteria in identifying recipients.
- On the spending side, making transfers or expanded benefits part of taxable income would allow clawing these back at high income levels. When this is not possible, linking new transfers to existing programs can ensure targeting. Where these are not appropriately targeted, categorical targeting, including by residence, may be appropriate. In all cases, the support would be limited in amount to what is needed to afford necessities.

88. ***On SOEs, staff's analysis is informative and heuristic. In most cases, the so-called "implicit guarantee" is market perception rather than an effective legal guarantee. Quite a number of SOEs in China have defaulted, and it could be highly risky if investors and international organizations hold this perception in doing business. Whether some protectionism against SOE's in international trade is caused by unfair business practice on the SOEs' side, or by local market protection, is an issue that should be judged by the WTO, rather than by staff of the Fund. Regarding staff's proposal that the SOEs should be fully integrated into the financial statements of the public sector, some further discussion and clarification are needed. We all know that government could hold either minority or majority shares in SOEs, it may or may not provide guarantee to the companies it participates. Given the various types of SOEs, to what extent should the various types of SOE's balance sheets be incorporated into that of the general public sector?***

- The public sector balance sheet consists of the assets and liabilities of the general government and public corporations. The Government Finance Statistics Manual (GFSM 2014) provides guidance on the classification of state-owned enterprises (SOEs) either within the general government or the public corporations sector of the public sector's balance sheet. SOEs classified as public corporations are further segmented into non-financial and financial entities based on the nature of their business. Cross holdings of assets and liabilities among and between state-owned enterprises and the general government are netted. The October 2018 Fiscal Monitor provides a conceptual framework for assembling public sector balance sheets and details on how components of the public sector balance sheet are valued and compiled.

89. Second, how the remarkable increase in government spending could change the metrics for assessing debt sustainability, particularly if the fight against the pandemic must continue beyond 2020.

- The existing MAC DSA thresholds are associated with a high rate of missed crises and false alarms, as set out in the MAC DSA review staff technical note. The latter note also shows that the proposed MAC DSA tools, which rely on continuous/probabilistic methods and take fuller account of sovereign stress drivers and country heterogeneity, offer the promise of significantly improved assessments of debt sustainability risks. In particular, the proposed tools are designed to be much less sensitive to one-time jumps in debt and deficits (as caused by COVID-19). Instead, the tools give more weight to the medium-term debt trajectory and the uncertainty around it (the case of enhanced fanchart); and to the financeability of gross financing needs, which depends, inter alia, on the size and capacity of the banking system to absorb additional government debt.

90. What can countries do when safety nets are weak?

- In countries where coverage of the existing social safety nets is typically low, there is a tradeoff between adequate support for the most needy and coverage. For countries with fiscal space, cash transfers (or some other variants such as child benefits or social pensions) may be considered for their broad coverage. For countries with limited fiscal space, in addition to strengthening the existing social safety net programs, alternative ways of supporting those not covered by existing programs could also be considered, including sector- or place-based targeting or in-kind provision of key goods and services such as health, transportation and utilities.

International Monetary Fund

April 7, 2020

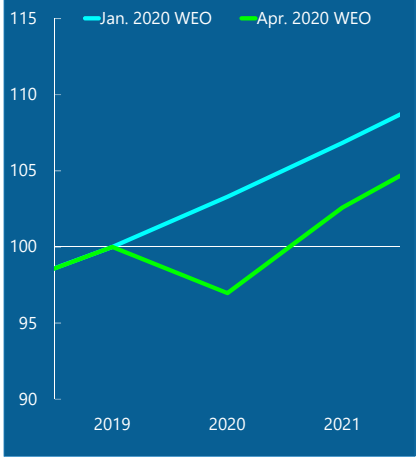
World Economic and Market Developments

Gita Gopinath
Economic Counsellor

The Great Lockdown: A crisis like no other

Growth

Contraction in GDP in 2020, partial recovery in 2021



Risks

Severe risks

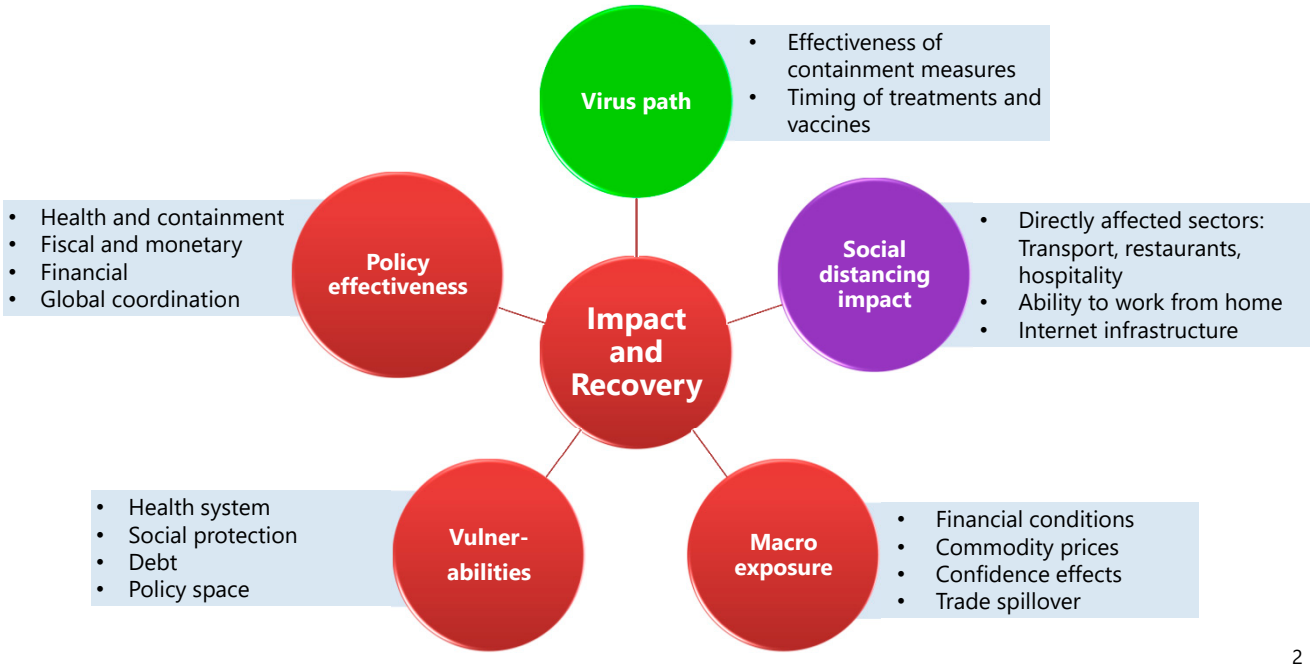
- Uncertainty on virus path, the possibility of virus mutation and required containment
- Larger outbreaks in EMDEs
- Lasting effects of supply and financial disruption, trade spillover, confidence effects, extended risk aversion

Policies

Timely, large, coordinated

- Support health systems
- Shield affected people and firms
- Reduce systemic stress, scarring
- Foster fast recovery
- International support for vulnerable countries. Strong global financial safety net

Novel challenges to estimating impact and designing policies



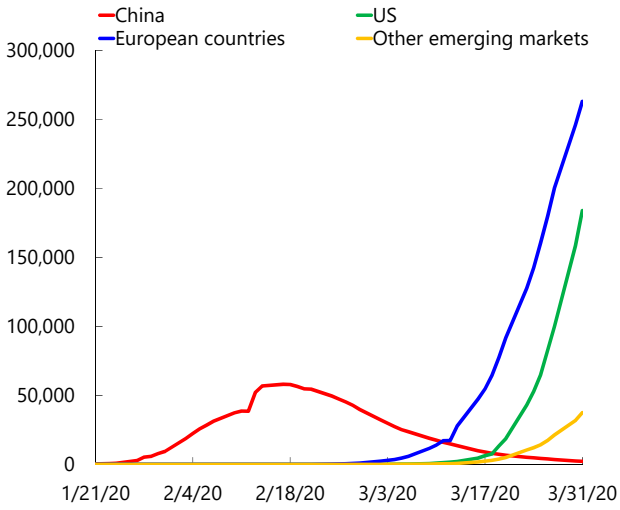
2

Virus Path

Rapid spread of COVID-19 and global rise in containment measures

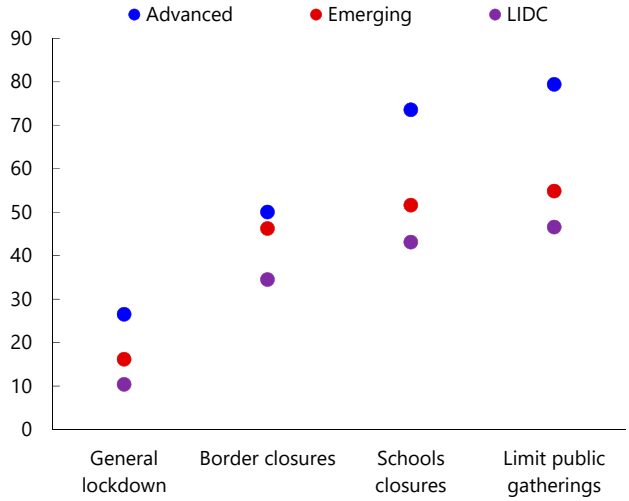
COVID-19 confirmed active cases 1/

(number)



Containment measures implemented

(share of countries with at least one measure for each category, as of March 27, 2020)

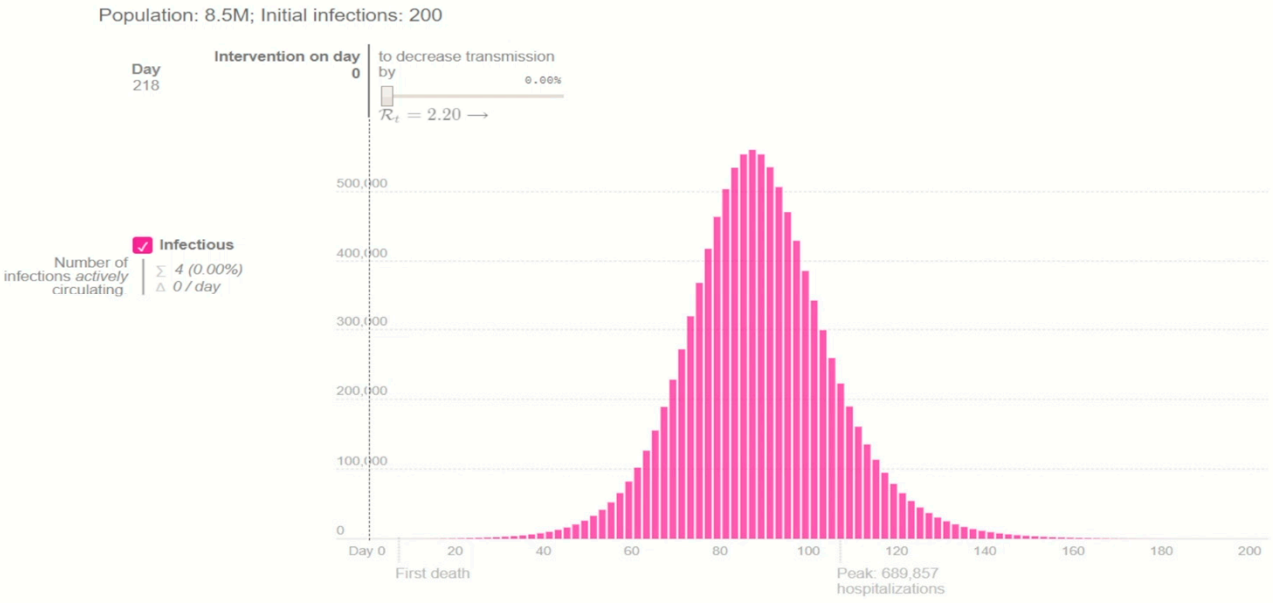


Sources: Haver Analytics; Johns Hopkins University; and IMF staff calculations.
1/ European countries includes France, Germany, Italy, Spain, and the United Kingdom. Other emerging markets includes Brazil, Chile, Ecuador, Indonesia, India, Malaysia, Mexico, Philippines, Pakistan, Russia, South Africa, Thailand, and Turkey.

3

Virus Path

Containment measures reduce stress on health systems



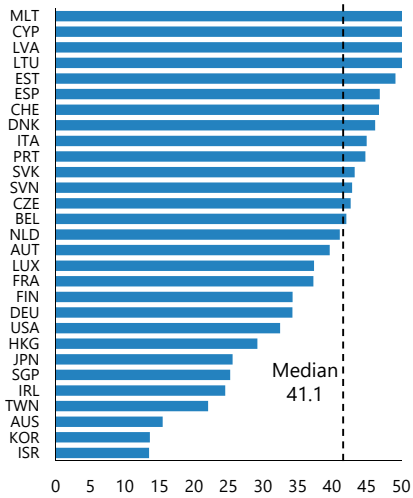
Sources: https://gabgoh.github.io/COVID/index.html and STA Data Analytics Team.

4

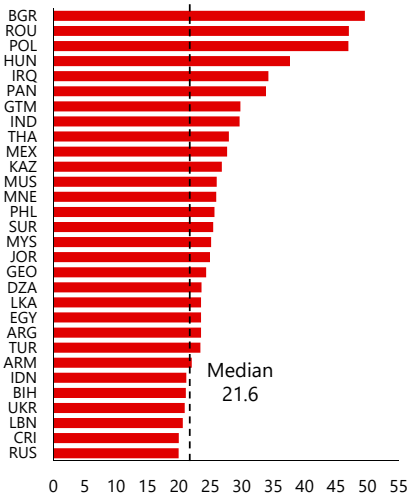
Social distancing

Directly affected service sectors are large

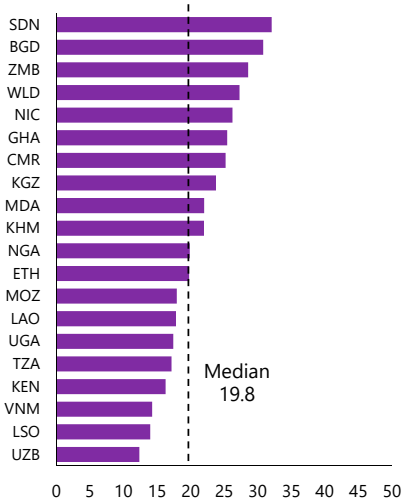
AE: Affected sectors
(percent of GDP)



EME: Affected sectors
(percent of GDP)



LIDC: Affected sectors
(percent of GDP)



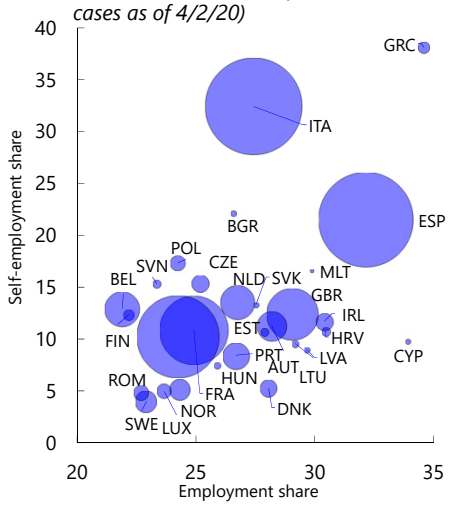
Sources: Haver Analytics; and IMF staff calculations.
Note: Affected services include wholesale and retail trade, transport, accommodation, food service, and art and entertainment activities. For some countries, art and entertainment services are not available.

5

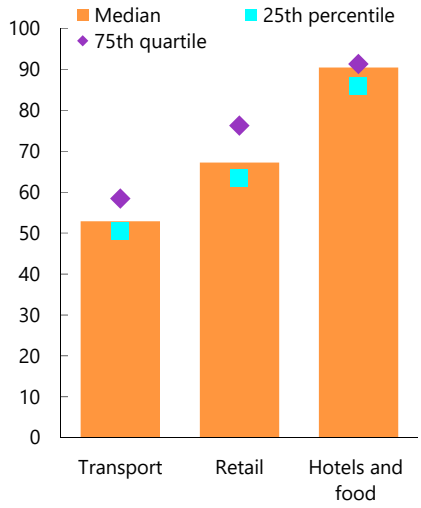
Social distancing

Vulnerable workers and firms

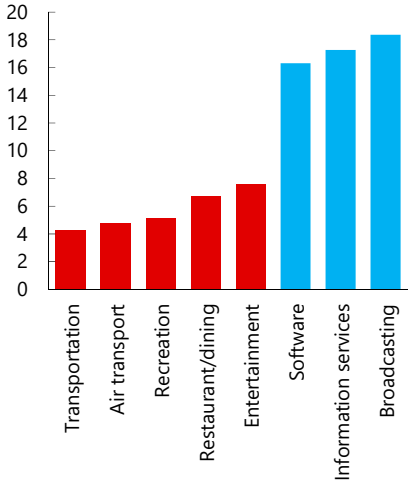
Employment in retail, transport, hotels, food, and entertainment 1/
(2017; percent; scaled by COVID-19 confirmed cases as of 4/2/20)



SME employment share by sector 2/
(percent)



Net margin by industry 3/
(percent of sales)

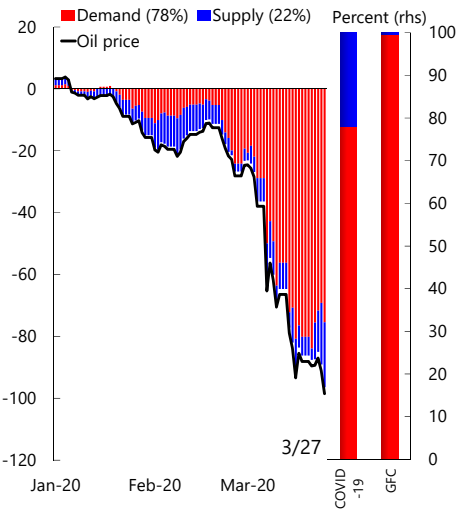


Sources: OECD; Damodaran.com; EUROSTAT; Johns Hopkins University; Haver Analytics; and IMF staff calculations.
1/ Employment in NACE G-I (wholesale and retail trade, transport, accommodation and food service activities) and R (arts, entertainment and recreation).
2/ Data for 31 OECD countries, latest year available.
3/ Net margin (net income scaled by revenue) for a global sample of firms (3,500 firms in the industries shown). Software refers to systems and applications.

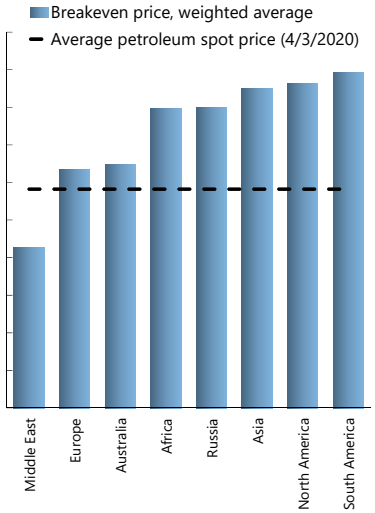
Macro

Oil price collapse and exchange rate pressure

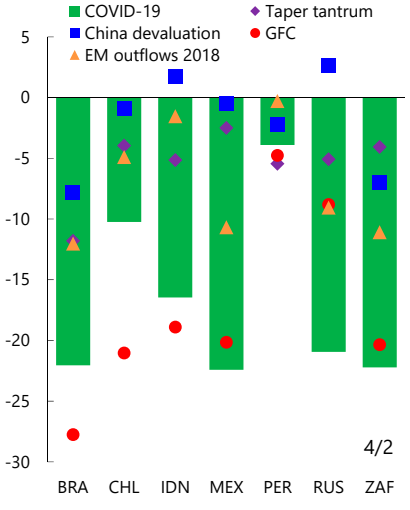
Oil price decomposition, 2020
*(log difference * 100)*



Breakeven oil price by region
(US dollar per barrel)



Commodity exporters: Exchange rates
(percent change since start of episode)

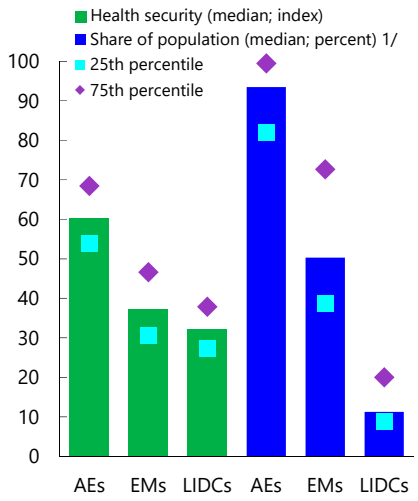


Sources: Bloomberg, L.P.; Argus; Rystad Energy; Thomson Reuters DataStream; and IMF staff calculations.
Note: Breakeven prices are based on 2017 estimates from Rystad Energy for operating projects. Average breakeven price weighted by production.

Vulner-abilities

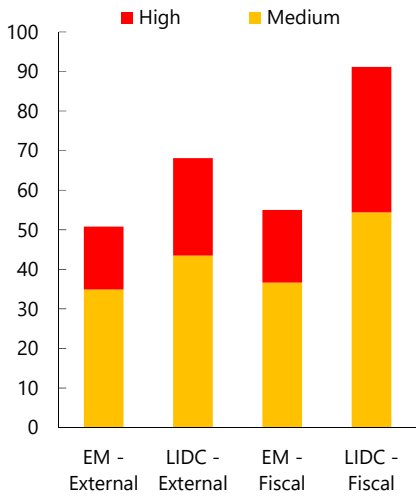
Pre-existing vulnerabilities

Health security and share of population covered by social protections



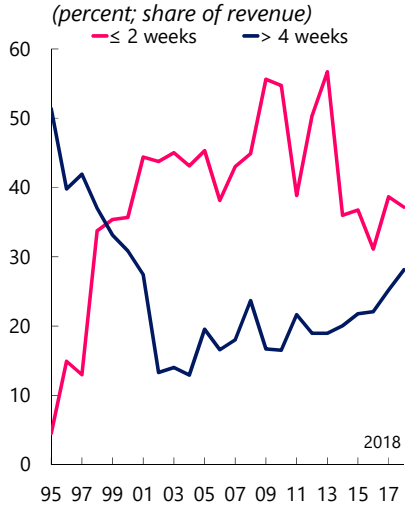
EM and LIDC: External and fiscal vulnerabilities

(percent of total countries)



Finished goods held in inventory by tech hardware firms

(percent; share of revenue)



Sources: Johns Hopkins University; ILO; IMF VE database; S&P Global Market Intelligence; Haver Analytics; and IMF staff calculations.
1/ Data for share of population are for latest year available.

8

Policy

Policy design for a pandemic crisis

	Special features	Challenges
Containment and stabilization	Timing uncertainty	• How to design policies when we don't know how long lasting this will be?
	Large real sector shock	• How to address large solvency problem? Fiscal implications?
	The usual policy transmission doesn't work	• How to reach all those affected? How to bring back supply capacity and minimize scarring?
	For EMDCs External Shock + Health Emergency	• How to fund deficits? How to deal with sudden stops? Preserve FX resources?
Recovery	• How to unwind special policies from the first stage?	
	• How to live with very high debt? How to grow out of it? Will r-g remain low? Will inflation remain low?	

9

Policy

What are the policy options?

	Health sector	Households: Liquidity	Households: Solvency	Firms: Liquidity	Firms: Solvency	Financial sector: Liquidity	Financial sector: Solvency
Containment and stabilization	Increase expenditure for health care professionals, testing, hospital capacity Rationing, price controls and regulation for hoarding	Suspend mortgage, utility payments Tax deferrals	Cash transfers Rent subsidies Unemploy-ment insurance Paid sick and family leave	Extend loan maturities Tax deferrals Asset purchase Direct credit	Equity injection Subsidy for maintaining employment Direct subsidies	Preserve market liquidity	Equity injection Government guarantee
Recovery	Continue to test A medical 'GI bill': special benefits for medical/other essential professionals who were on the frontline	Data-driven unwinding of support	Hiring subsidies Active labor market policies	Data-driven unwinding of support	Balance sheet repairs Debt restructuring Government to unwind holdings	Data-driven unwinding of support	Move NPLs off balance sheets Government to unwind holdings

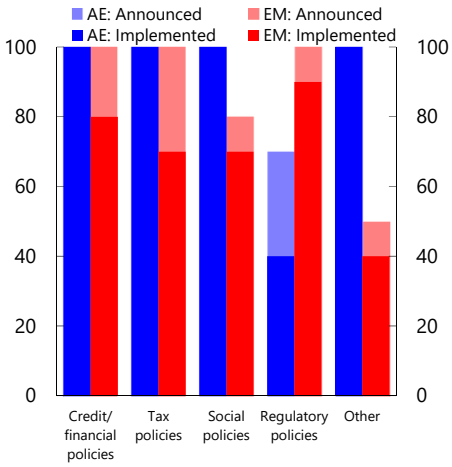
10

Policy

Swift and large policy responses

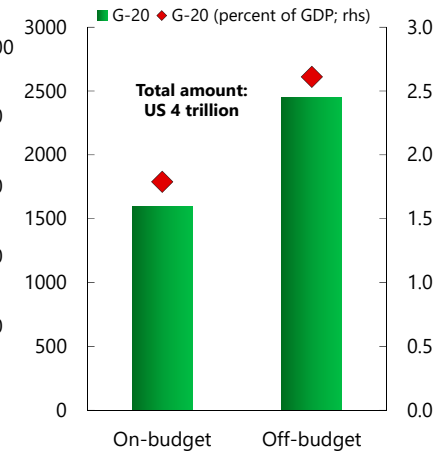
G-20+: Economic policy responses

(percent of countries)



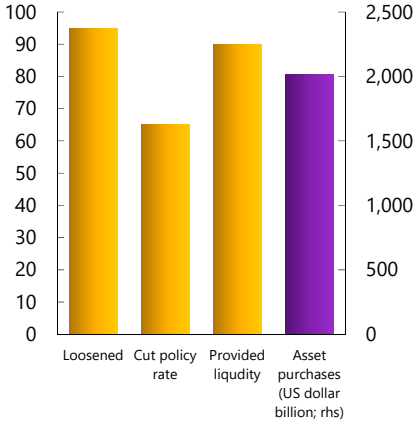
G-20+: Discretionary fiscal measures

(US dollar billion)



G-20+: Monetary policy measures

(percent of countries)



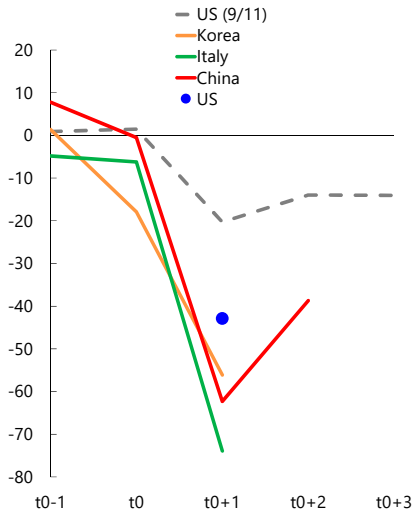
Source: IMF staff calculations.
Note: G20+ includes Spain. Policies are as of 4/1/2020. Discretionary fiscal measures shown for G-20 aggregate. Asset purchases indicates a lower bound for G-20 aggregate. Credit/financial policies include government guarantees, loans, forbearance, and easing regulation; tax policies include tax cuts/waivers/deductions/deferrals; social policies include unemployment benefits, sick leave, cash transfers; regulatory policies include price controls, employment/trade restrictions; other includes public investments and firm subsidies.

11

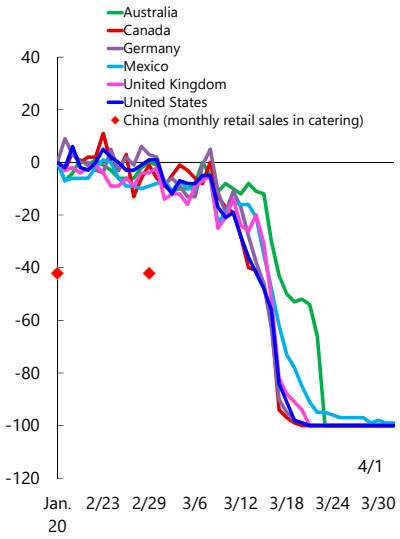
Impact

Transport, restaurant, and hospitality sectors are badly hit

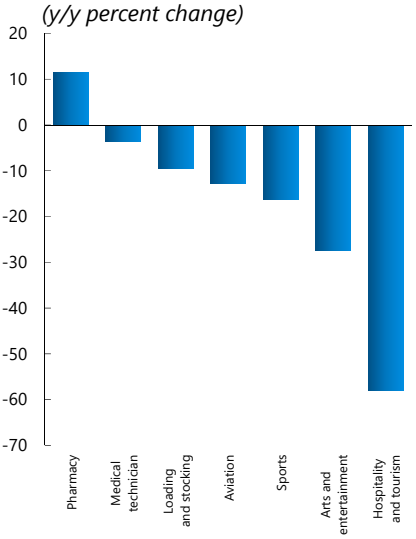
Flights 1/
(y/y percent change)



Restaurant bookings
(y/y percent change)



Job postings on Indeed on March 27
(y/y percent change)



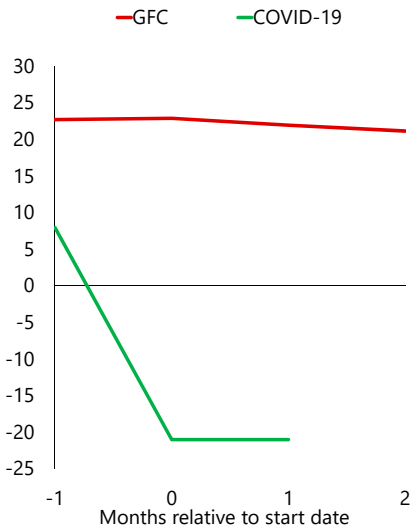
Sources: Bureau of Transportation Statistics; Haver Analytics; Indeed; OpenTable; Statista; and IMF staff estimates.
1/ For Korea, Italy, and China: number of flights for countries' airlines. For US: number of departures for U.S. airlines. US (9/11): t=0 is Aug. 2001. For Korea, Italy, and US: t0 = end Feb. 2020. For China: t0 = end Jan. 2020. The time unit is one month, except for [t0; t0+1] for Italy and Korea; and [t0+1; t)+2] for China, where the time unit is three weeks.

12

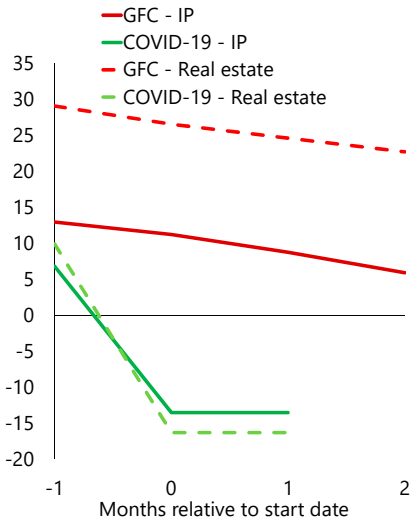
Impact

Activity indicators so far

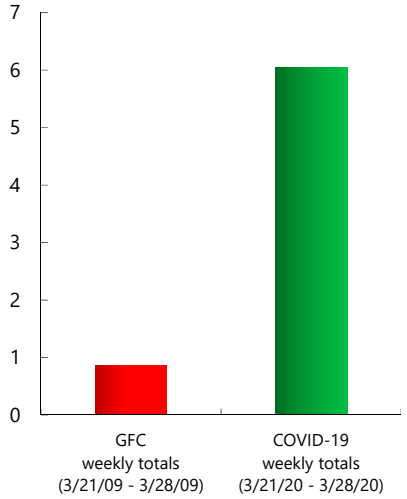
China: Retail sales
(y/y percent change)



China: Industrial production and real estate investment
(y/y percent change)



U.S. weekly jobless claims
(percent of labor force at peak level)



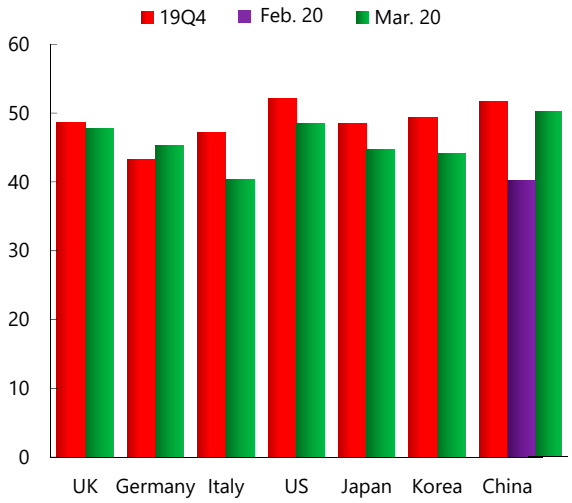
Sources: Haver Analytics; and IMF staff calculations.
Note: Specific initial shock dates by event are: COVID-19 = Coronavirus Disease 2019 (2020Q1) and GFC = Global Financial Crisis (2008Q4).

13

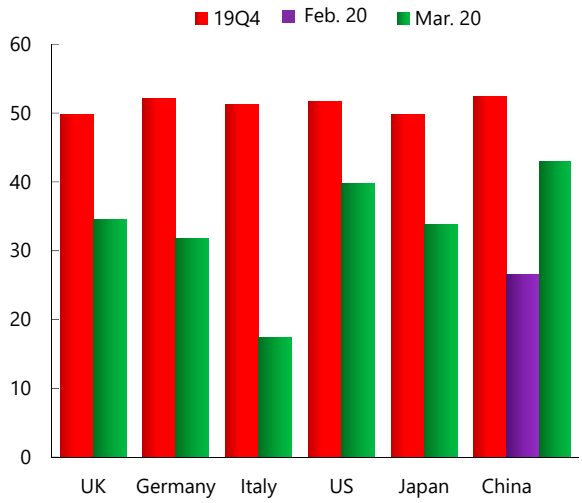
Impact

PMIs suggest severe fallout

Manufacturing PMI
(index; >50 = expansion; sa)



Services PMI
(index; >50 = expansion; sa)



Sources: IMF, *World Economic Outlook*; IMF, *Global Data Source;* and Haver Analytics.

14

WEO baseline assumptions

Pandemic

- Pandemic fades in the second half of 2020, allowing gradual lifting of containment measures

Duration of shutdown

- Countries with severe epidemics: strict containment measures in place for 8 weeks, then gradual loosening. Approx. 8% working days lost in 2020
- Other countries: Approx. 5% working days lost
- Variation across countries

Financial conditions

- Tight financial conditions for AE and EMDEs remain in place for the first half of the year
- Financial conditions ease in the second half of 2020

Commodity prices

- Based on futures market pricing at the end of March 2020, the average petroleum spot prices (APSP) per barrel: $35.6 in 2020 and $37.9 in 2021. For the years thereafter, prices expected to increase but stay below their average 2019 level ($61.4).
- Metals prices are expected to decrease 15.0 percent in 2020 and 5.6 percent in 2021. Food prices are projected to decrease 1.8 percent in 2020 and then increase 0.4 percent in 2021.

15

WEO Projections

Growth projections: Advanced economies

(percent change from a year earlier)

	World	Advanced Economies	U.S.	Euro Area	Japan	U.K.	Canada	Korea	Other Advanced Asia
2019	**2.9**	**1.7**	**2.3**	**1.2**	**0.7**	**1.4**	**1.6**	**2.0**	**1.6**
Revision from Jan. 2019	0.0	0.0	0.0	0.0	-0.3	0.1	0.1	0.1	0.2
2020	**-3.0**	**-6.1**	**-5.9**	**-7.5**	**-5.2**	**-6.5**	**-6.2**	**-1.2**	**-5.1**
Revision from Jan. 2019	-6.3	-7.7	-7.9	-8.8	-5.9	-7.9	-8.0	-3.4	-6.9
2021	**5.8**	**4.5**	**4.7**	**4.7**	**3.0**	**4.0**	**4.2**	**3.4**	**4.5**
Revision from Jan. 2019	2.4	2.9	3.0	3.3	2.5	2.5	2.4	0.7	2.0

Source: IMF, *World Economic Outlook* as of April 6, 2020.

16

Growth projections: Emerging markets and LIDCs

(percent change from a year earlier)

	World	Emerging Market and Developing Economies	China	India	Brazil	Russia	Commodity Exporting Economies	Low Income Developing Countries
2019	**2.9**	**3.7**	**6.1**	**4.2**	**1.1**	**1.3**	**1.3**	**5.1**
Revision from Jan. 2020	0.0	0.0	0.0	-0.6	-0.1	0.2	0.0	0.1
2020	**-3.0**	**-1.1**	**1.2**	**1.9**	**-5.3**	**-5.5**	**-3.4**	**0.4**
Revision from Jan. 2020	-6.3	-5.5	-4.8	-3.9	-7.5	-7.4	-6.0	-4.7
2021	**5.8**	**6.6**	**9.2**	**7.4**	**2.9**	**3.5**	**4.7**	**5.6**
Revision from Jan. 2020	2.4	2.0	3.4	0.9	0.6	1.5	1.8	0.5

Source: IMF, *World Economic Outlook* as of April 6, 2020.

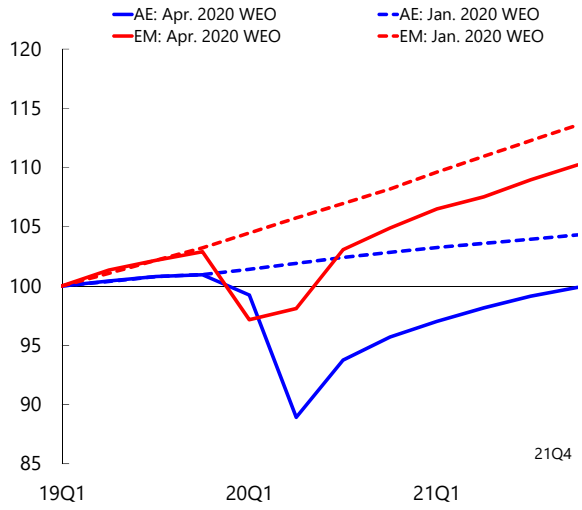
17

Impact

How bad is this crisis? (i)

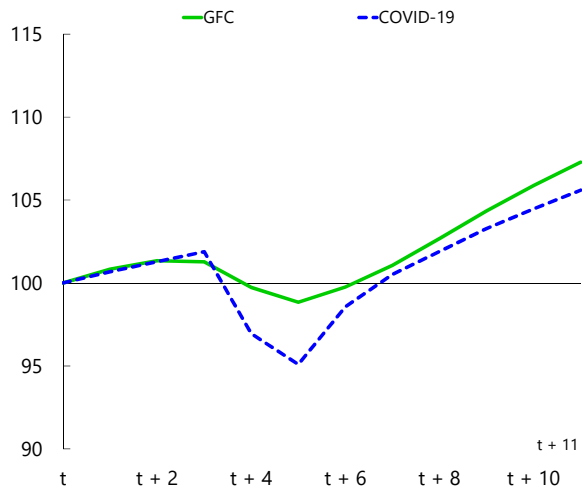
COVID-19: Real GDP

(index)



Global real GDP: April 2020 WEO and GFC

(index)



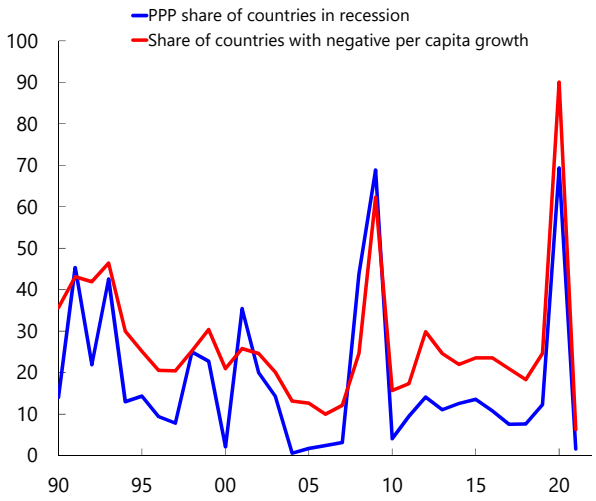
Sources: IMF, *World Economic Outlook;* and IMF staff calculations.
Note: Specific initial shock dates by event are: COVID-19 = Coronavirus Disease 2019 (2019Q1) and GFC = Global Financial Crisis (2007Q4).

18

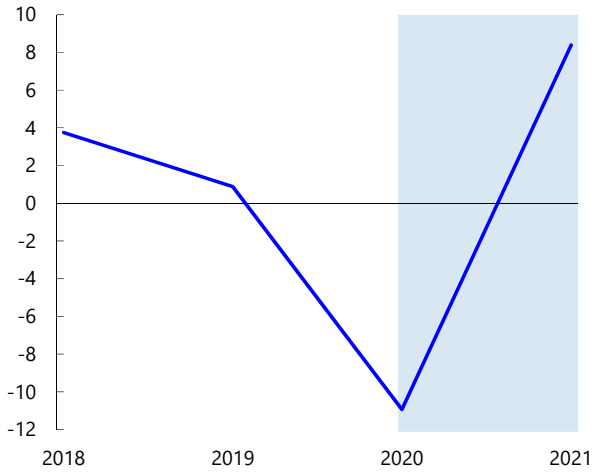
Impact

How bad is this crisis? (ii)

Countries with negative per capita growth
(percent)



World trade volume
(y/y percent change)



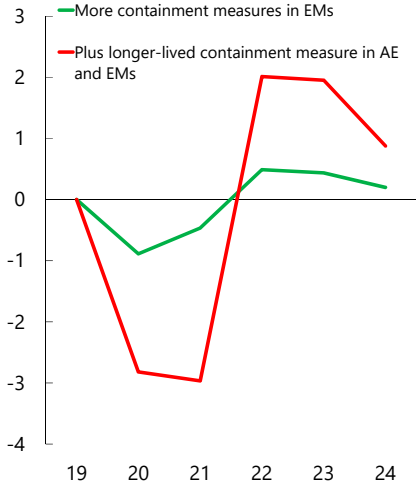
Sources: IMF, *World Economic Outlook;* and IMF staff calculations.

19

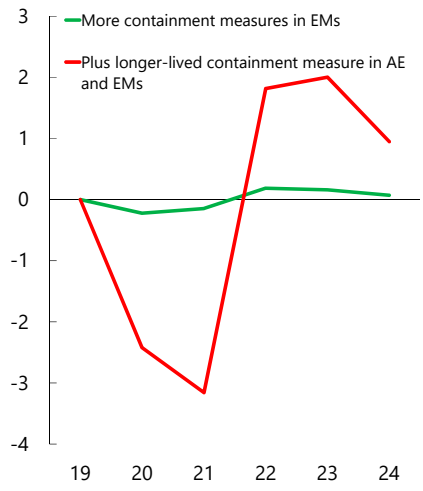
Impact

And it could get worse…

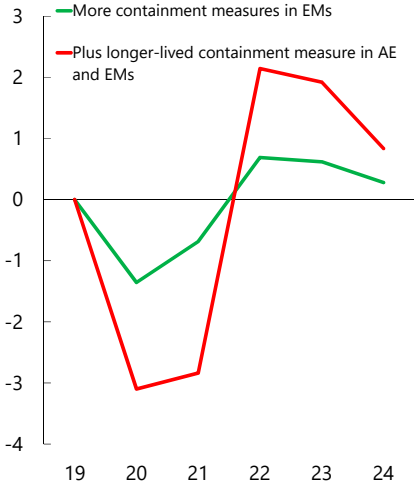
Global: Real GDP growth
(percentage point deviation from baseline)



Advanced Economies: Real GDP growth
(percentage point deviation from baseline)



Emerging Economies: Real GDP growth
(percentage point deviation from baseline)



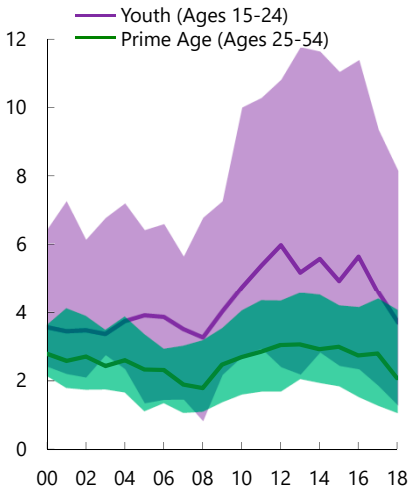
Source: IMF staff estimates.

20

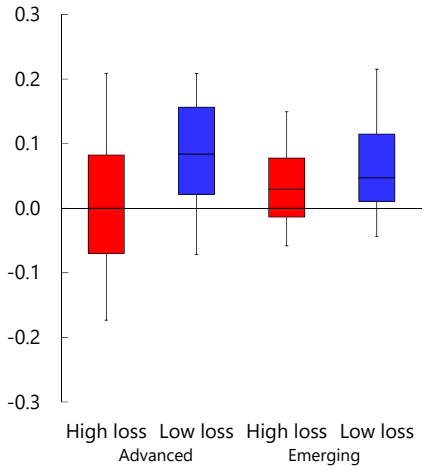
Impact

The goal is to minimize scarring effects

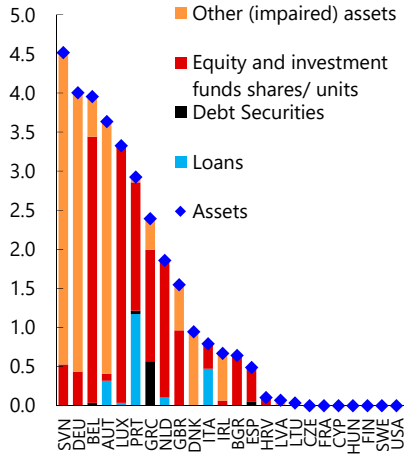
Involuntary part-time share of employment 1/
(percentage points)



Changes in R&D expenditure, by output losses and country groups 2/
(percent of GDP)



Public asset holdings in the financial sector as of 2018 3/
(percent of GDP)



Sources: OECD; National authorities; Eurostat; World Bank, *World Development Indicators database*; TARP; and IMF staff estimates.
1/ Median and interquartile range shown for temporary contracts and involuntary part-time work.
2/ Countries with above-median output losses registered slower increases in research and development expenditure shares of GDP. This was especially evident among advanced economies. The bars depict the difference in averages between 2014-16 and 2011-13. The bar chart shows the interquartile range, and lines display lesser of the maximum (minimum) and +/- 1.5 times the upper (lower) quartile range. High (low) loss indicates above (below) median losses in output relative to pre-crisis trend.
3/ Data reflect the available information as of Oct. 2019 for EU countries and as of end-2018 for the United States.

21

FAD/MCM/RES joint slide

Policy recommendations

The priority is to save lives and to implement appropriate containment measures to avoid overwhelming health systems. Controlling the pandemic requires globally coordinated actions.

Measures are needed to mitigate the economic impact of containment measures:

- **Support health systems** with more funding and prioritize health spending where space is limited
- **Shield affected people and firms** with large, timely, targeted fiscal and financial sector measures
  - Cash transfers, wage subsidies, unemployment benefits, credit guarantees
  - Supervisors: encourage prudent, temporary adjustments to bank loan terms
  - EMDCs with limited financing: prioritize key public services, social protection spending
- **Reduce systemic stress, lift confidence, and limit shock propagation** with monetary stimulus and liquidity facilities
  - EMEs: use flexible exchange rates to absorb external shocks, where feasible. FXI and temporary CFM may be needed in some cases
- **Foster recovery once business operations normalize**: coordinated fiscal stimulus, consistent with countries' financing constraints

International cooperation is essential:

- **International coordination on vaccine and testing is needed**
- **Help low health capacity countries and those with financing constraints:** expertise, equipment funded with grants, concessional loans
- **Bilateral creditors should consider debt moratoria for IDA-eligible countries**
- **Bilateral and multilateral central bank swap lines should be provided to a broader range of economies**
- **The IMF is actively supporting member countries**

International Monetary Fund

April 7, 2020

World Economic and Market Developments

Tobias Adrian

Financial Counsellor and Director
Monetary and Capital Markets Department

Markets In the Time of Coronavirus

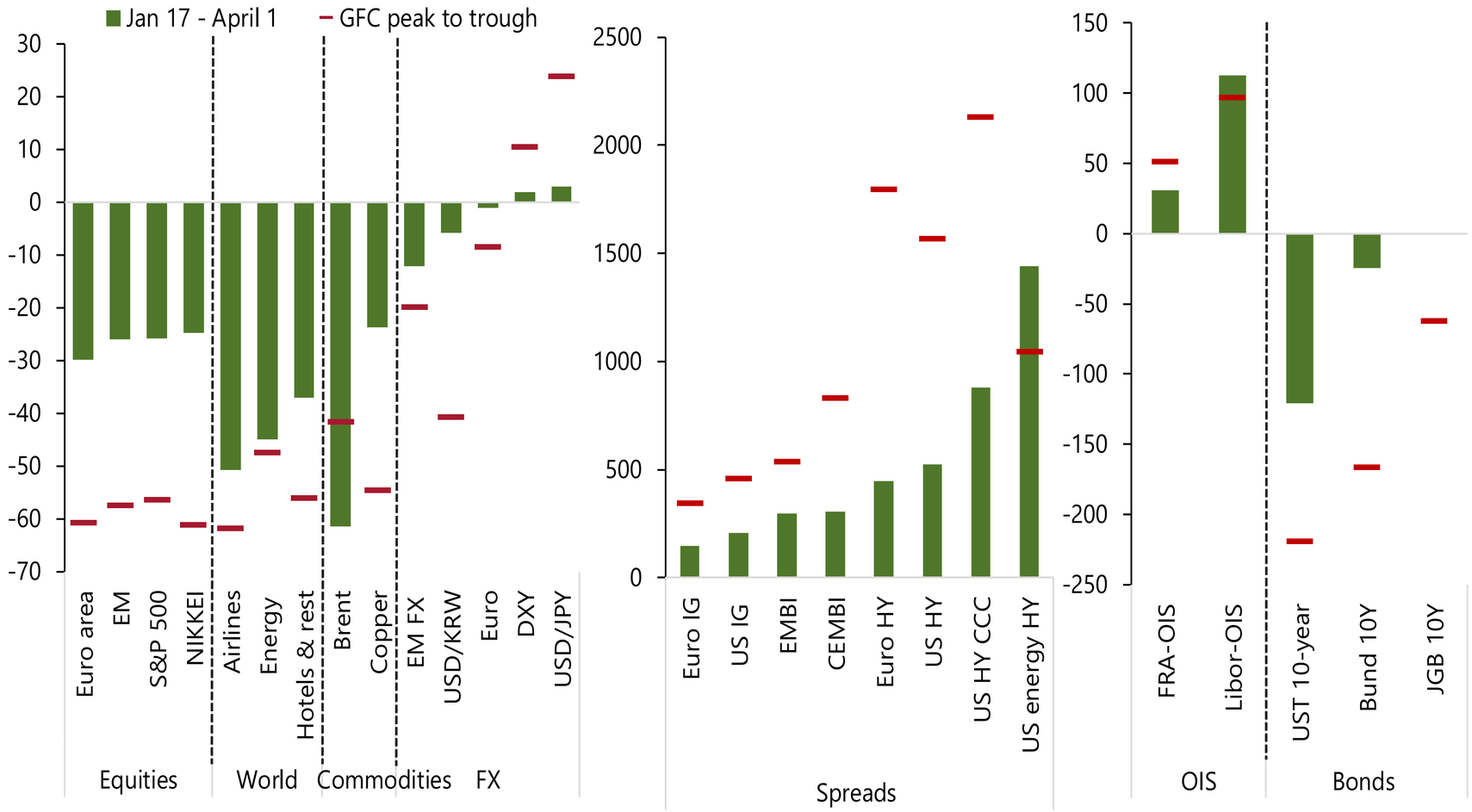
The April 2020 *Global Financial Stability Report* at a Glance

- The outbreak of the coronavirus has dealt an unprecedented blow to global financial markets
- Risk asset prices have plummeted and borrowing costs have soared, especially in risky credit markets
- Emerging and frontier markets have experienced the sharpest portfolio flow reversal on record

A Market Shock of Unprecedented Size and Speed over a Narrow Window of Time

A Precipitous Fall in Risk Asset Prices[190]

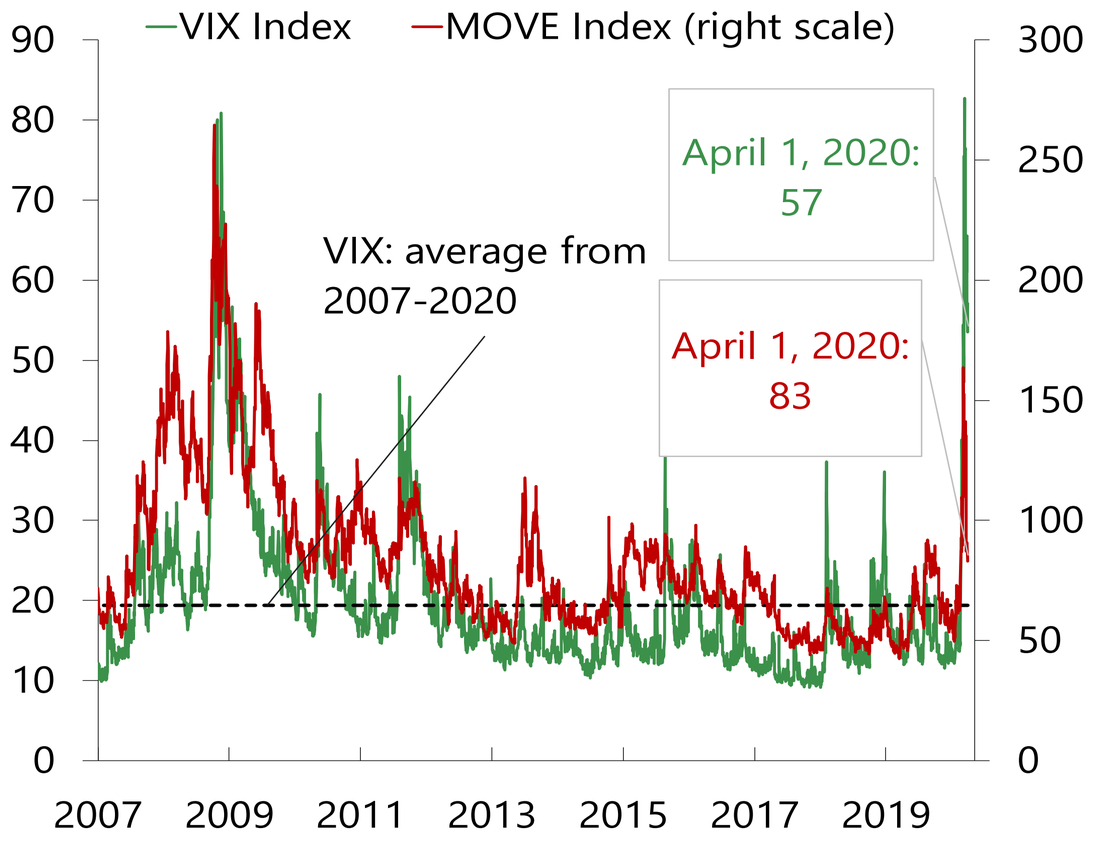
Asset Market Performance
(April 1, 2020)



Volatility Spiked, and Oil was Added to the Fire

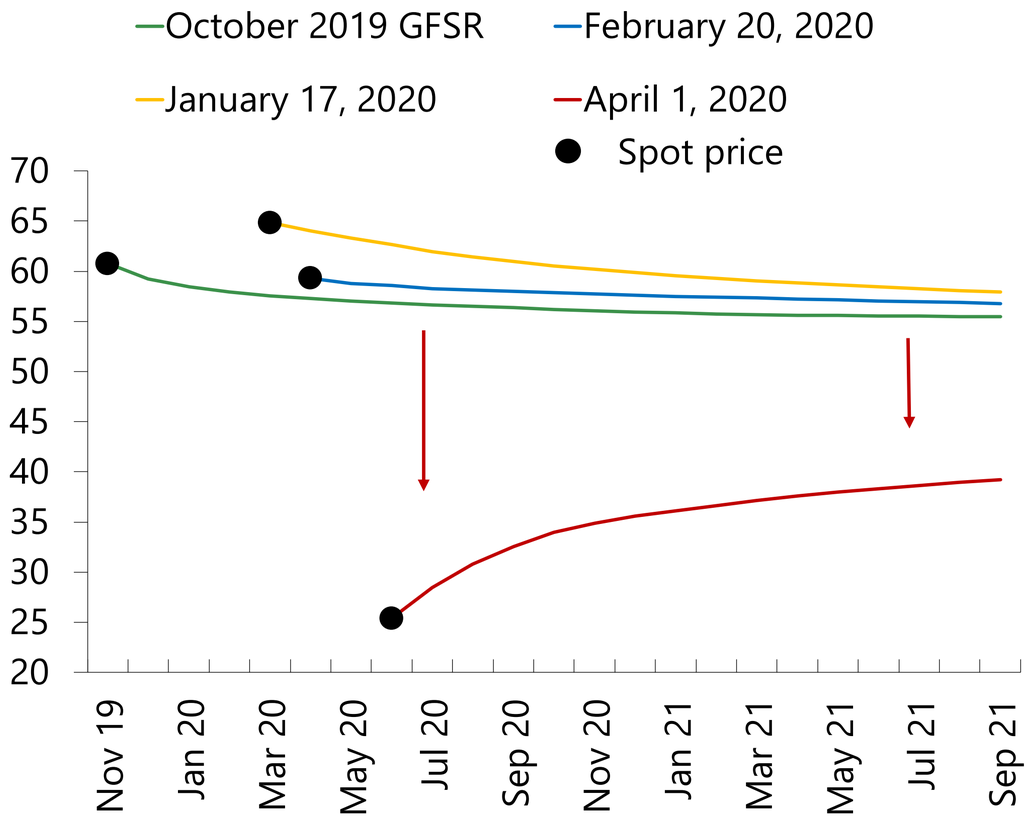
Market volatility spiked as coronavirus spread globally …

Volatility Indices
(Level in percentage points)



… while the oil prices collapsed as the OPEC deal fell apart.

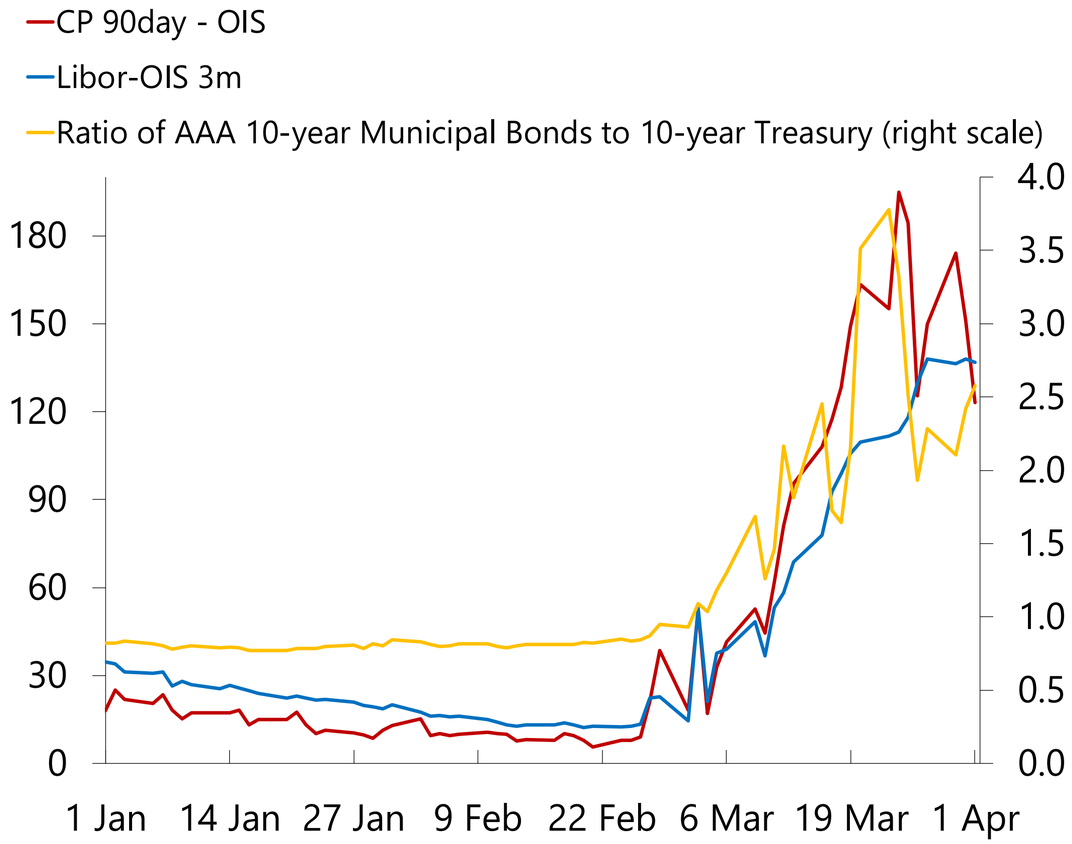
Oil: Spot and Futures Prices



Short-Term Dollar Funding Markets: Under Strain

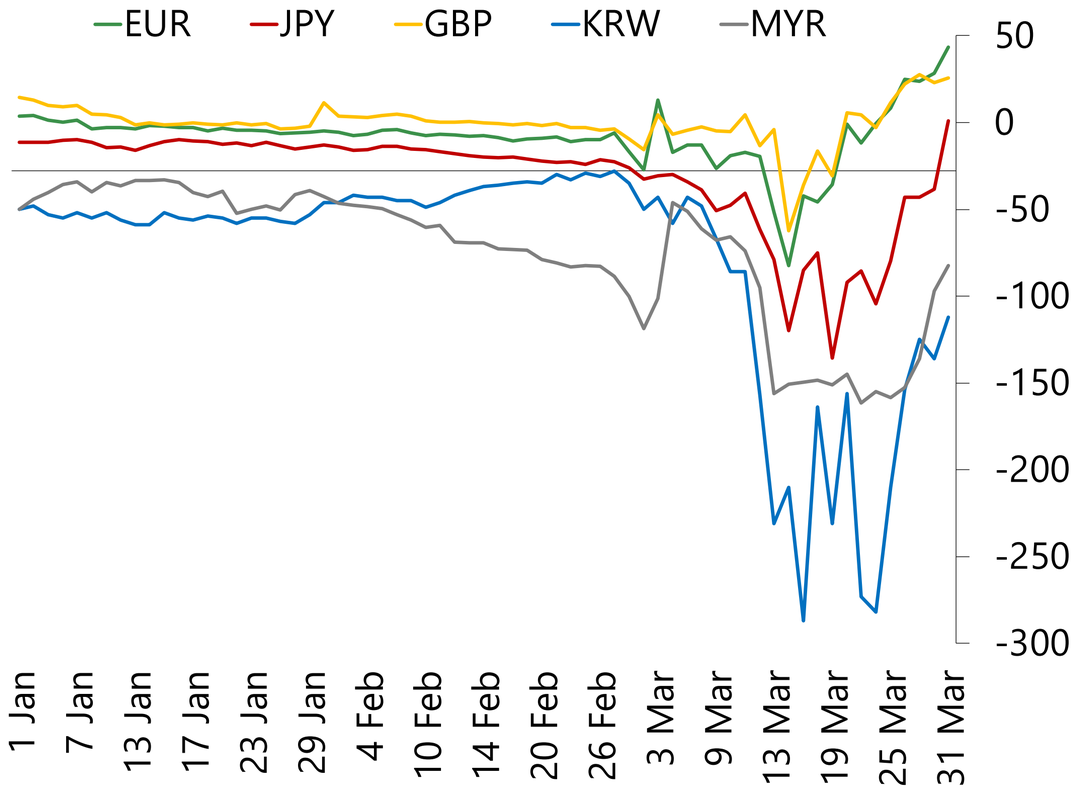
Markets froze as dealers were unable to intermediate…

Money Market Rate Spread to OIS
(Basis points, left scale)



… and the strains spilled over to the FX funding market.

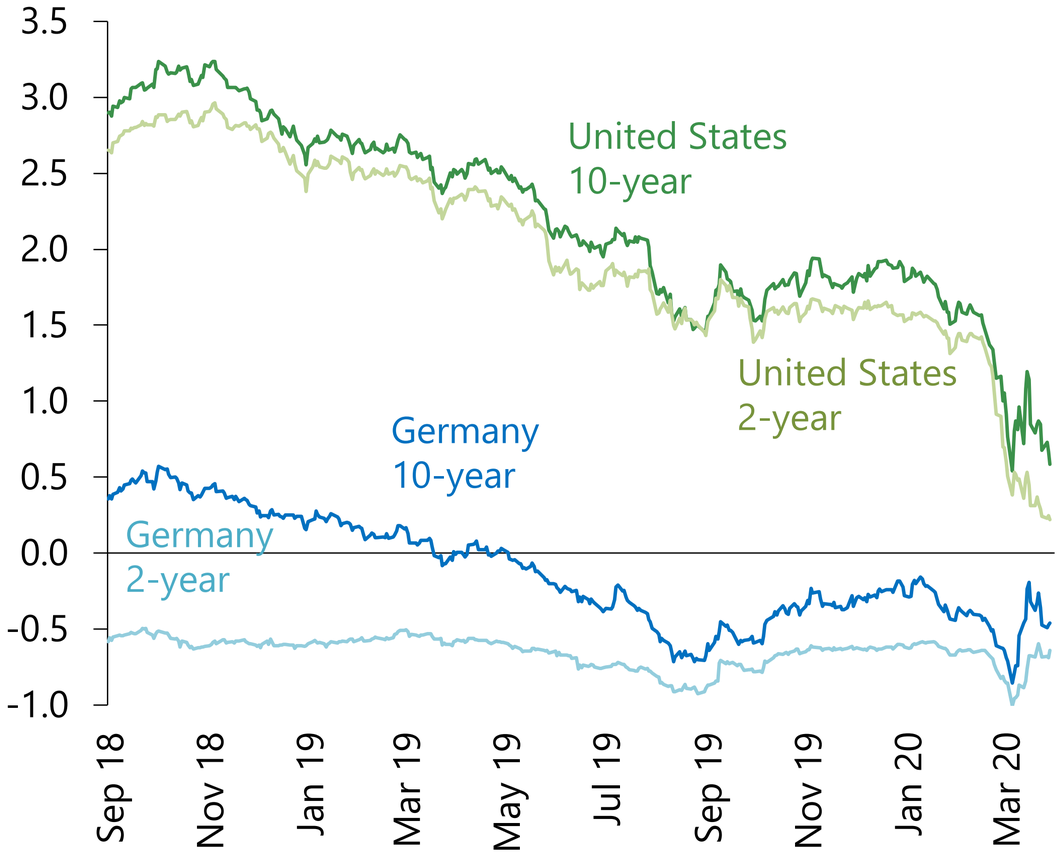
Cross-Currency Basis
(3-month swaps, basis points)



Government Bonds: Lower for Even Longer

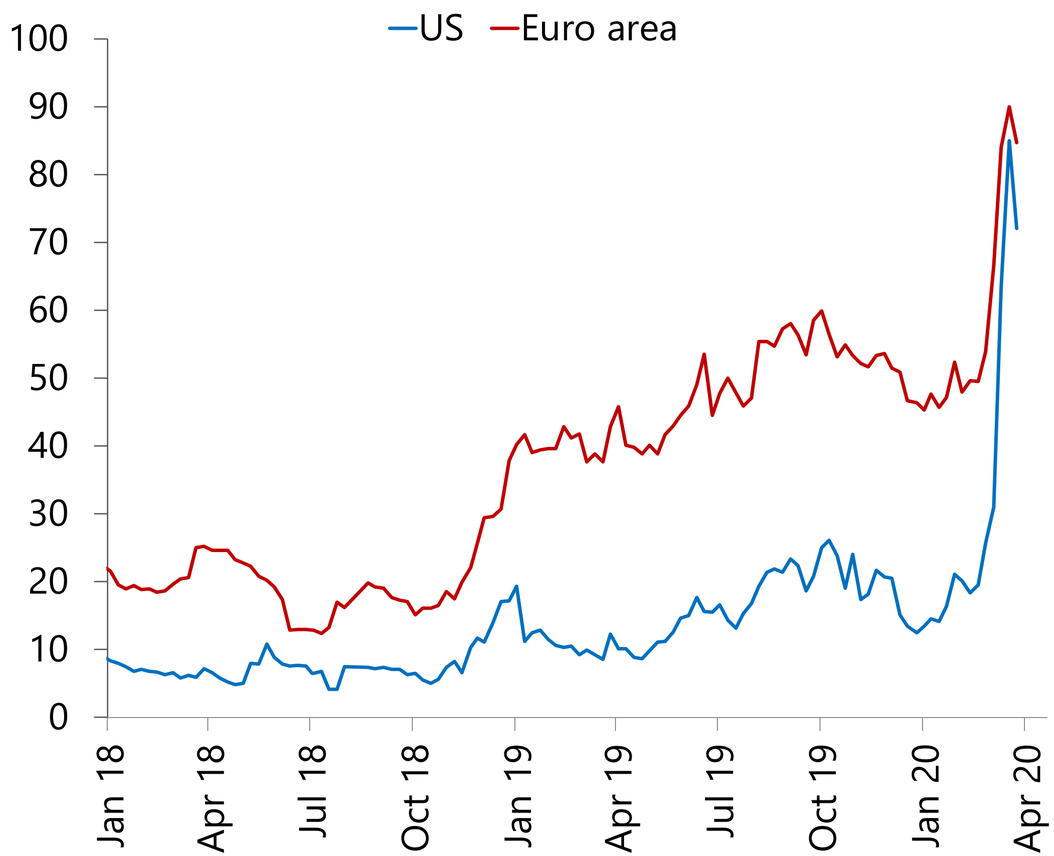
Yields collapsed on the back of lower term premia and expectations of a central bank response…

Advanced Economy Government Bond Yields
(Percent)



…as the inflation outlook deteriorated on expectations of sustained economic weakness

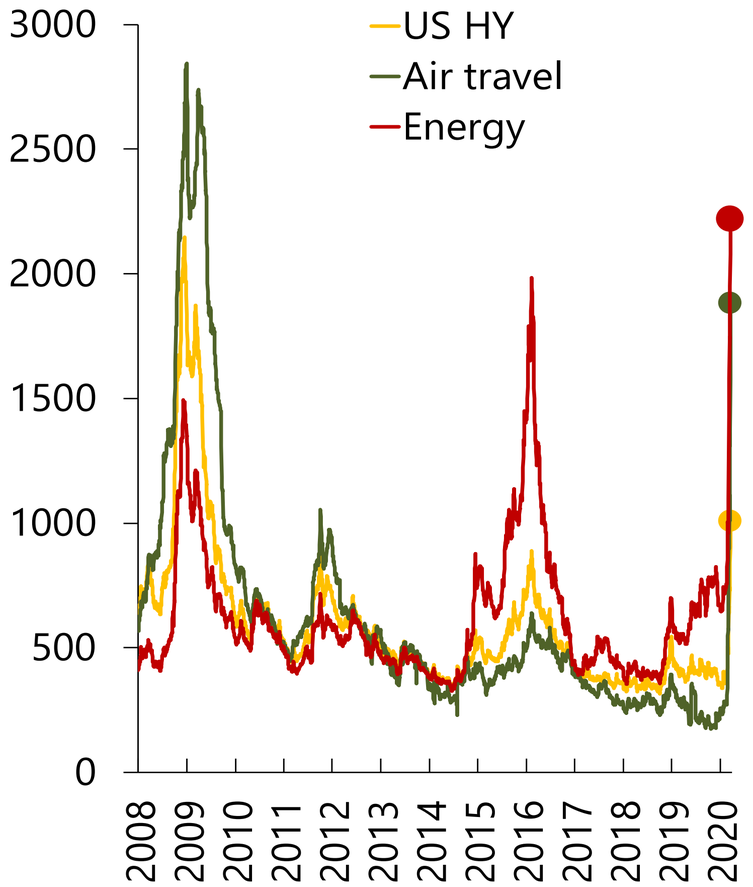
Probability of Inflation Below 1% Over 5 Year Period
(Percent)



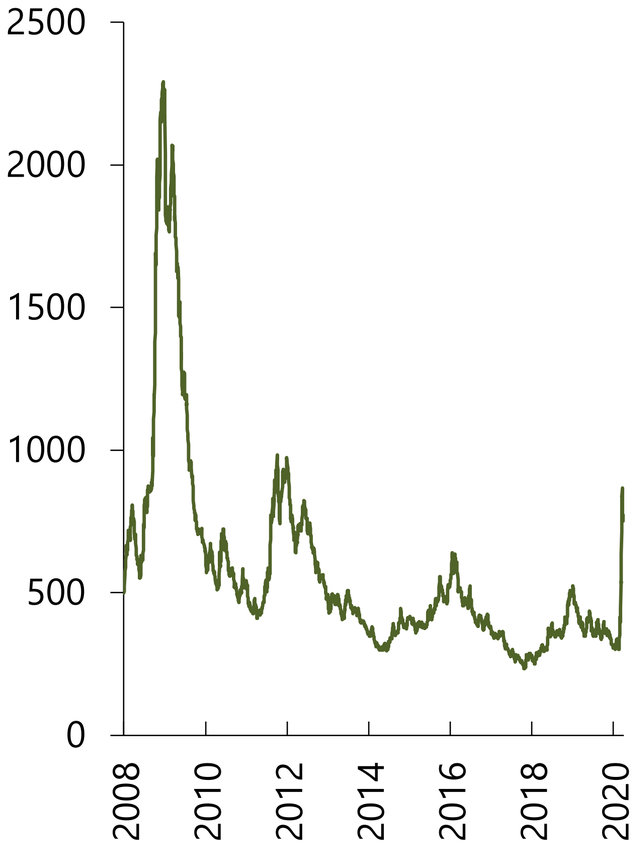
A Sharp Increase in Credit Risk in Corporate Debt Markets…

Corporate credit market spreads have widened sharply to half the levels in the GFC…

US High Yield Spreads
(Basis points)

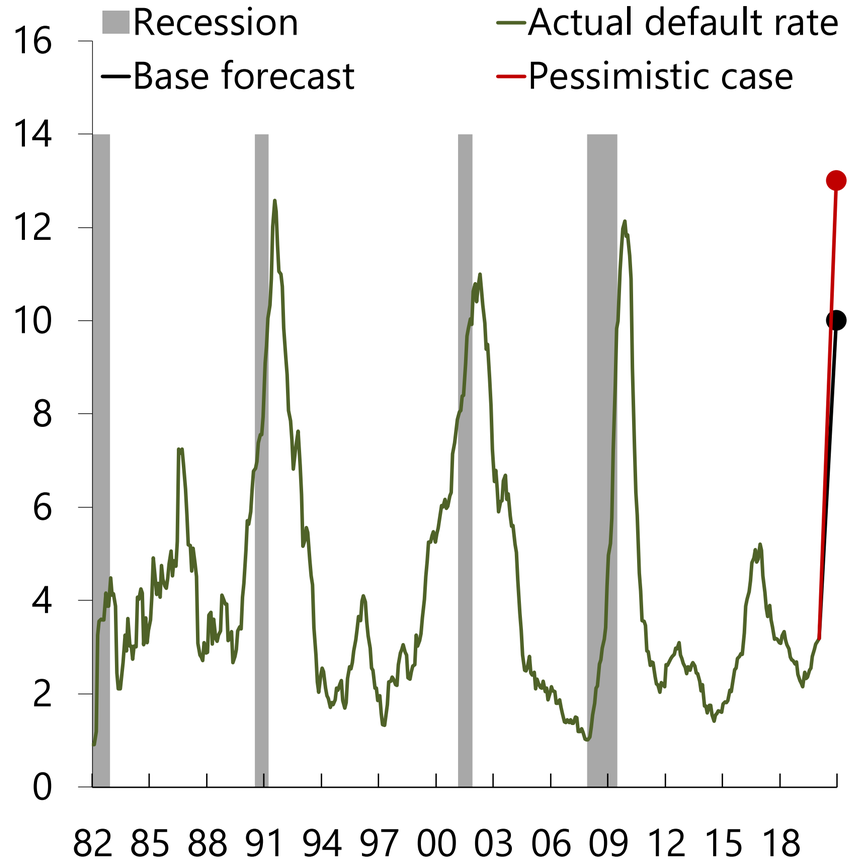


Euro High Yield Spreads
(Basis points)



…and speculative-grade default forecasts have been revised up to recessionary levels

S&P US Speculative Grade Default Rates
(Percent of issuers)

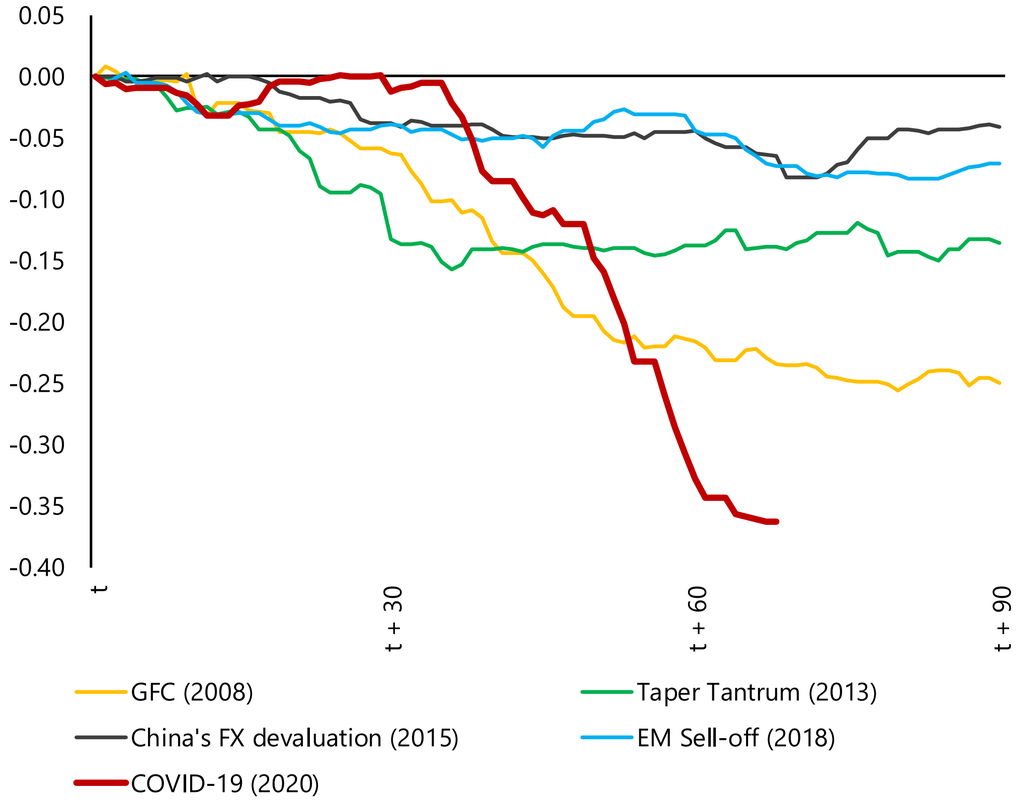


Emerging and Frontier Markets

Unprecedented Speed and Size of Emerging Market Portfolio Outflows

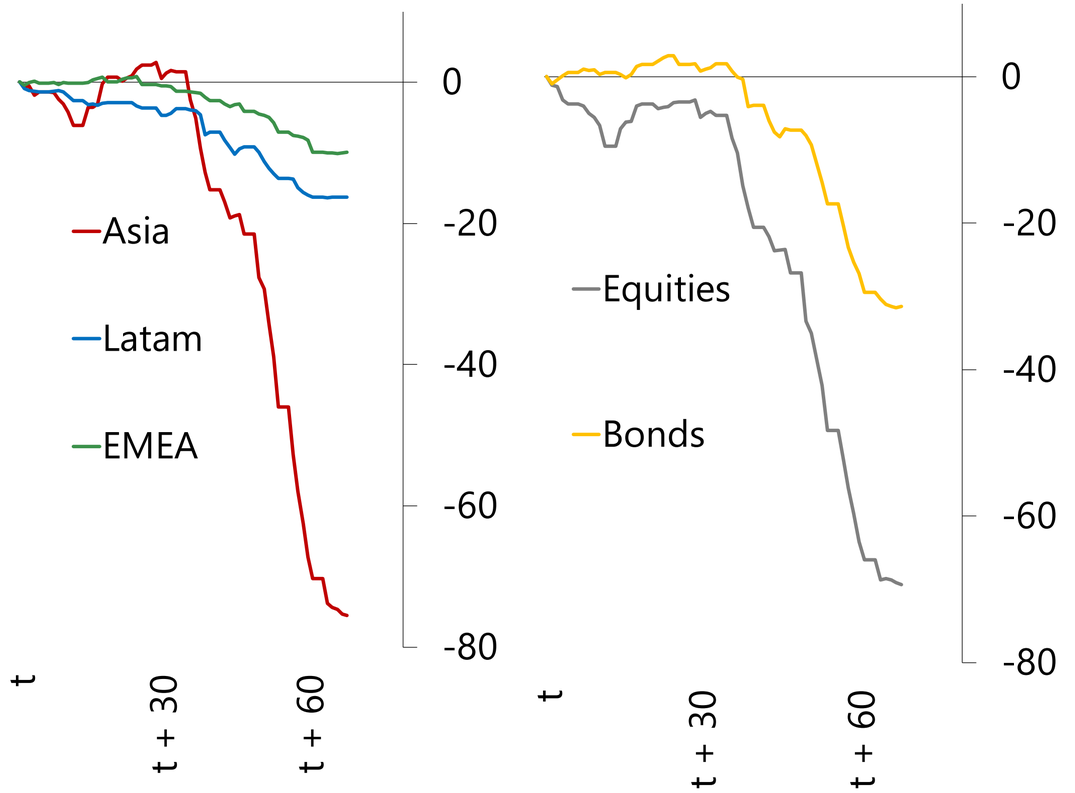
Portfolio outflows have been historically large and very fast compared to previous episodes…

Portfolio outflow episodes
(cumulative daily flows since 21 Jan, percent of GDP, total non-resident portfolio)



… particularly for some economies.

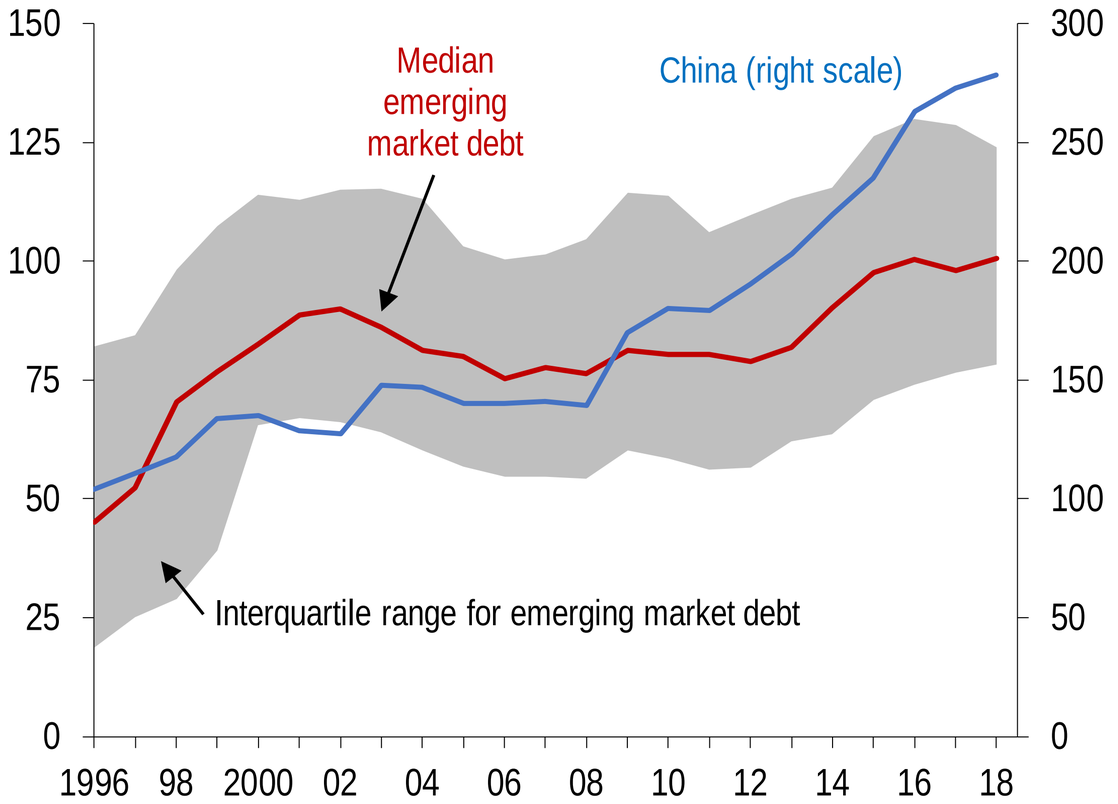
Portfolio outflow Aggregated by Regions and Asset Classes
(Billions of US dollars, based on daily observations)



Emerging Markets Are More Vulnerable Now Than During the GFC

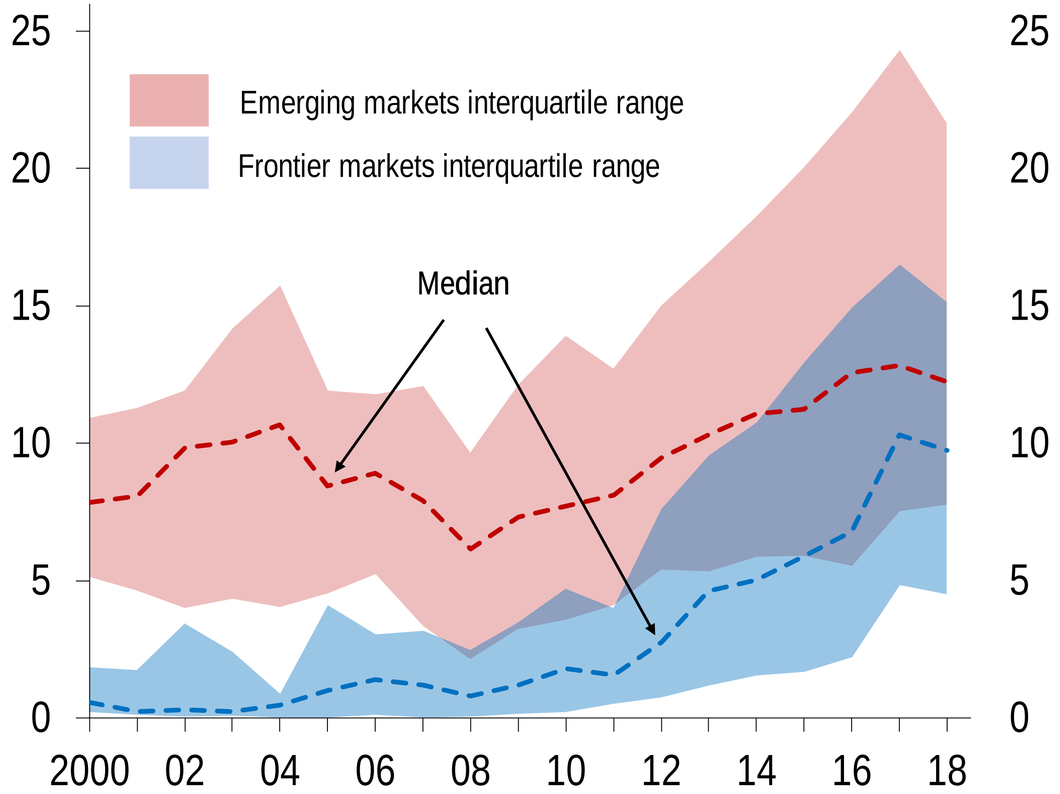
Emerging market are a lot more levered now…

Public and Private Sector Emerging Market Debt
(Percent of GDP)



… and rely a more on foreign portfolio flows

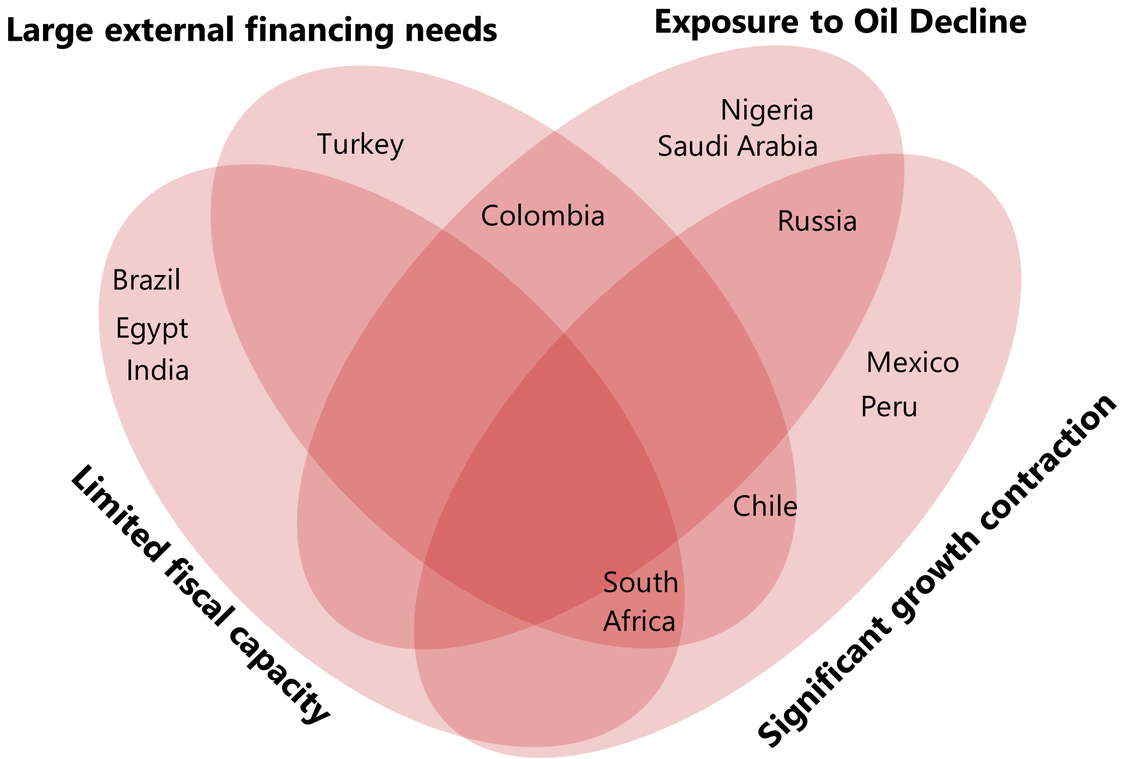
Portfolio Debt Liabilities
(Percent of GDP; international investment position)



Emerging Markets Are Undergoing a Stress Test

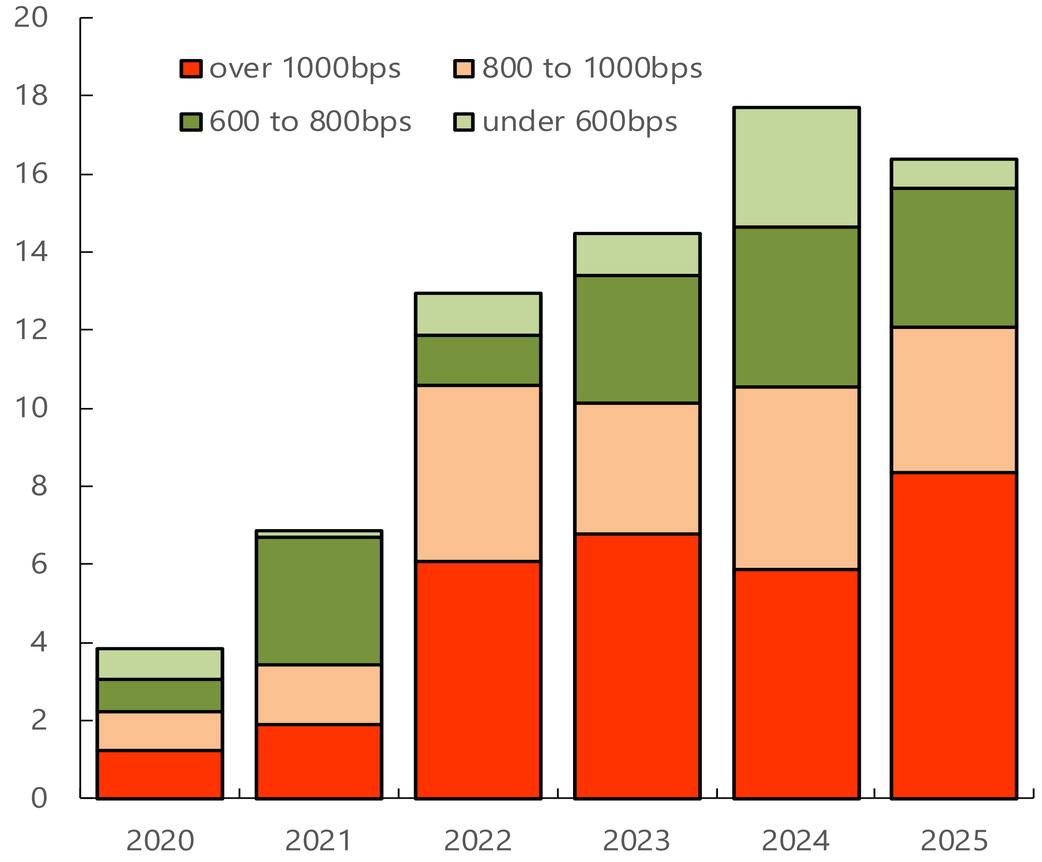
Tight financial conditions, the oil shock, and prospects of a recession can create severe risks where vulnerabilities are highest.

Key External, Fiscal, Real and Oil-Related Vulnerabilities



Frontier market bond spreads are near or at record high levels, with some facing sizable debt rollovers in the coming years.

Frontier International Bond Redemptions by Credit Spread of Issuer
(Billions of US Dollars)

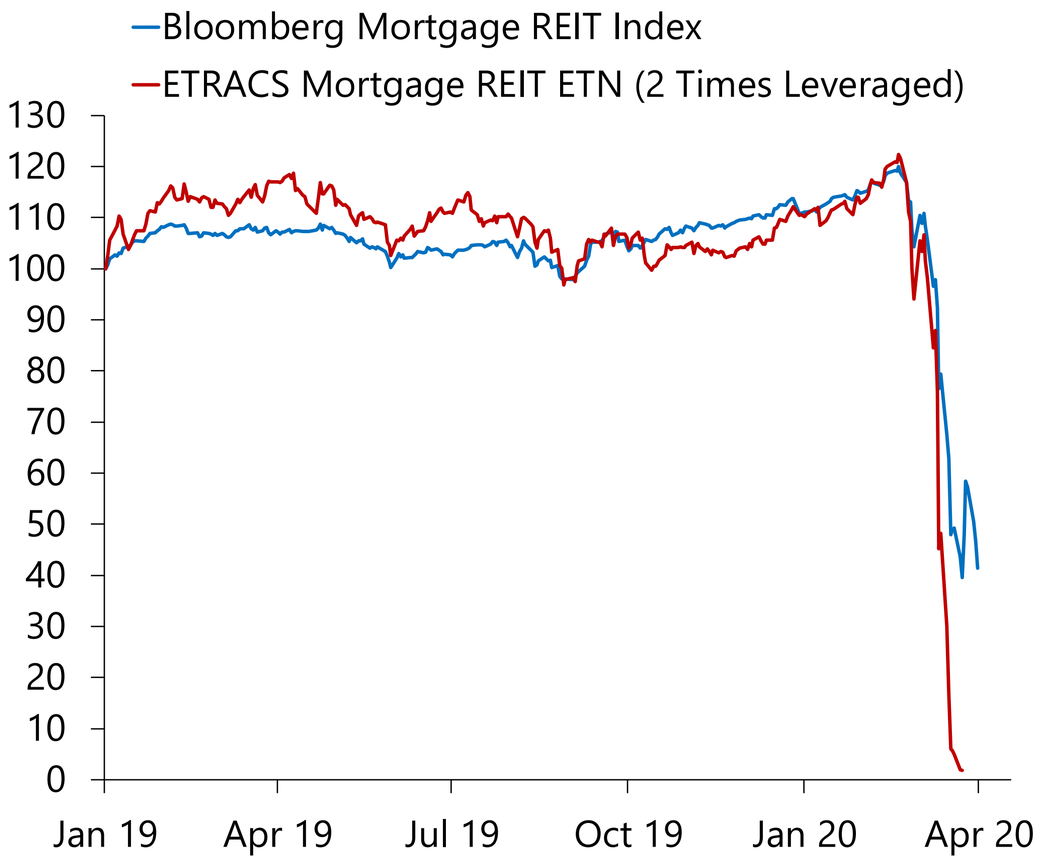


Amplification Mechanisms

Financial Deleveraging: Caught Off Guard

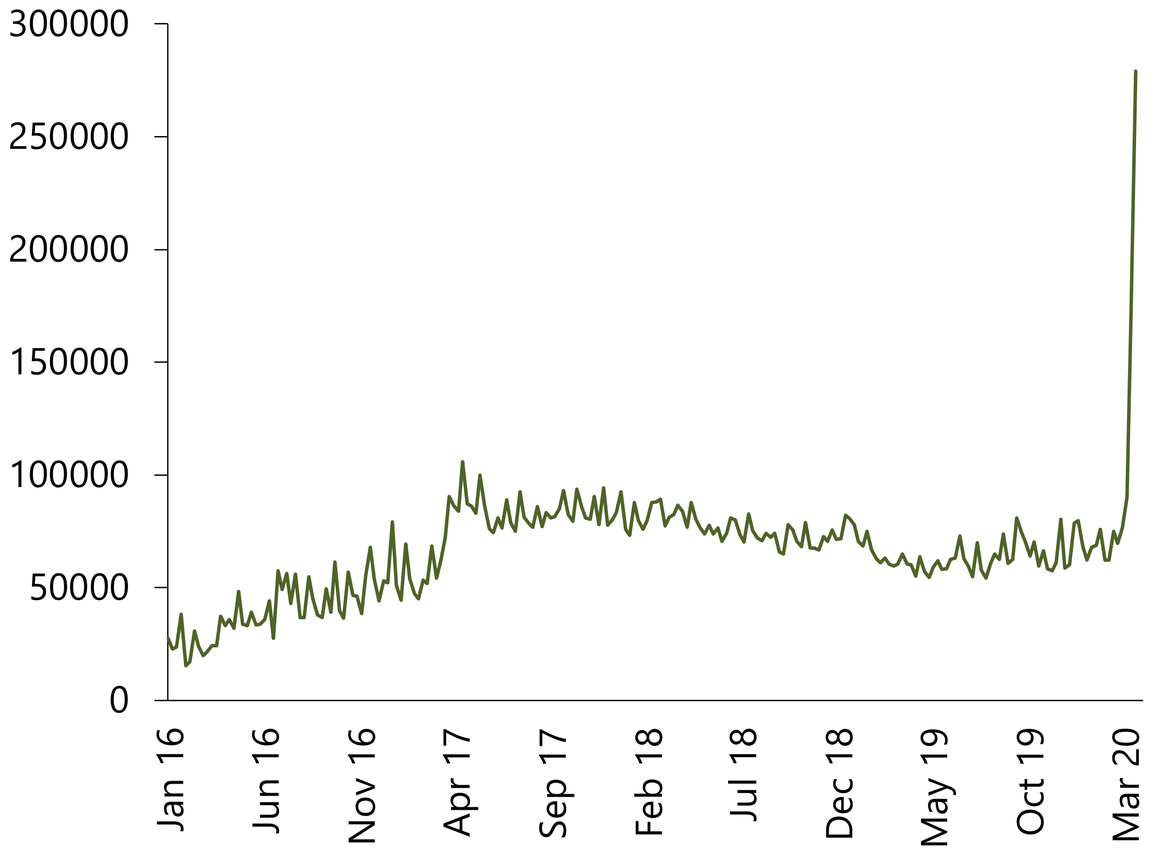
Leveraged ETN prices have seen sharp declines amid the market turmoil

Mortgage REIT and ETN Prices Indexes
(Index value)



Increased CCP balances with the Fed are an indication of increased margin calls.

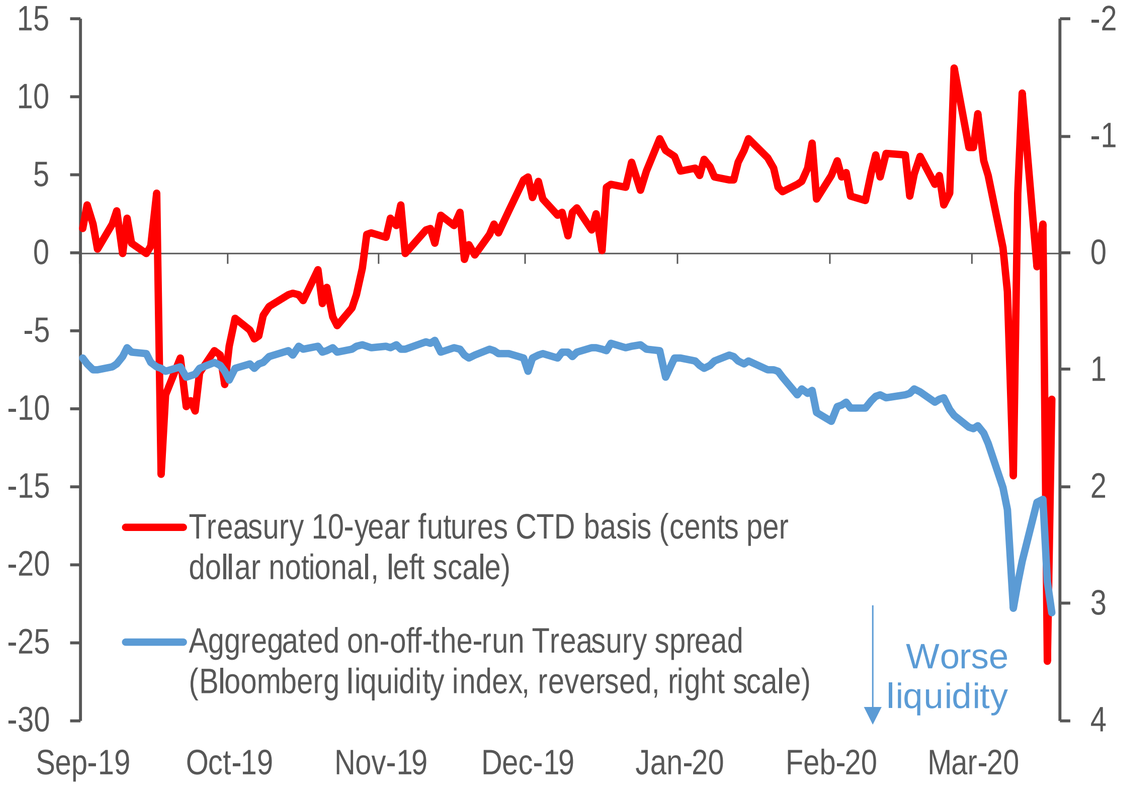
CCP, GSE and other deposits held at Federal Reserve
(US dollars)



Market Illiquidity

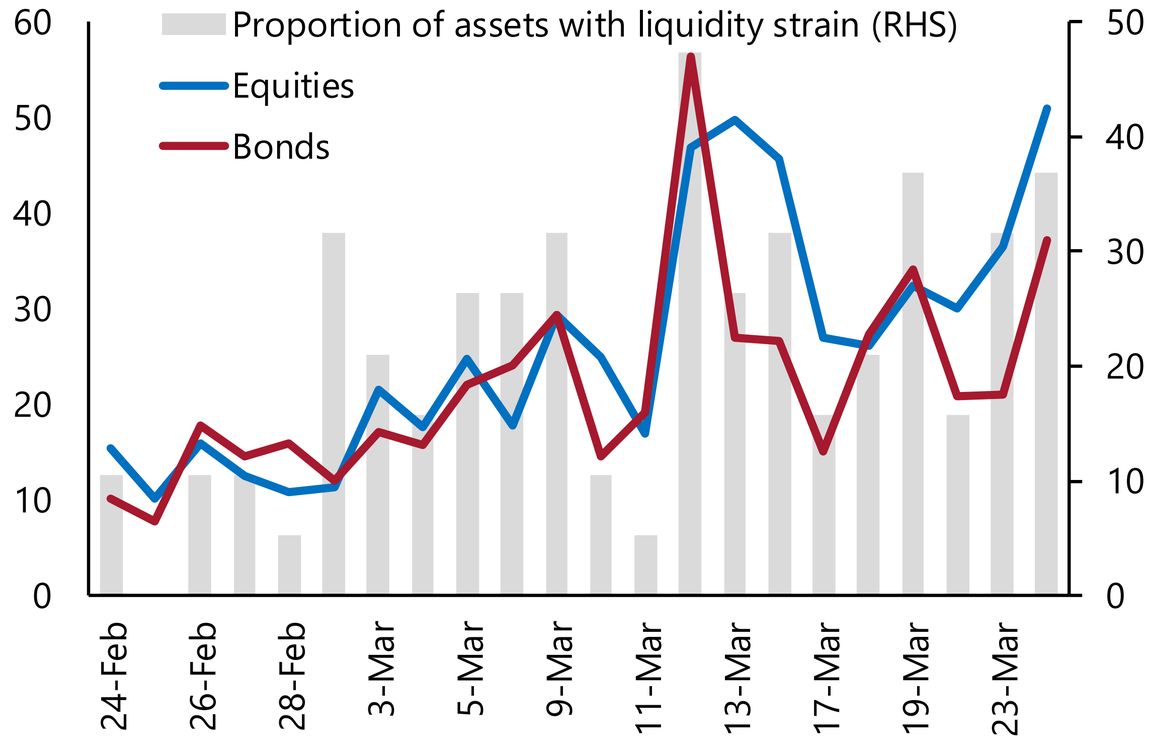
Treasury market liquidity became impaired, partly due to constrained dealer balance sheets

Aggregated Treasury On-off-the-run Spread and 10-year Treasury Futures Basis Over Cash Security



Market liquidity conditions have deteriorated across a broad range of markets

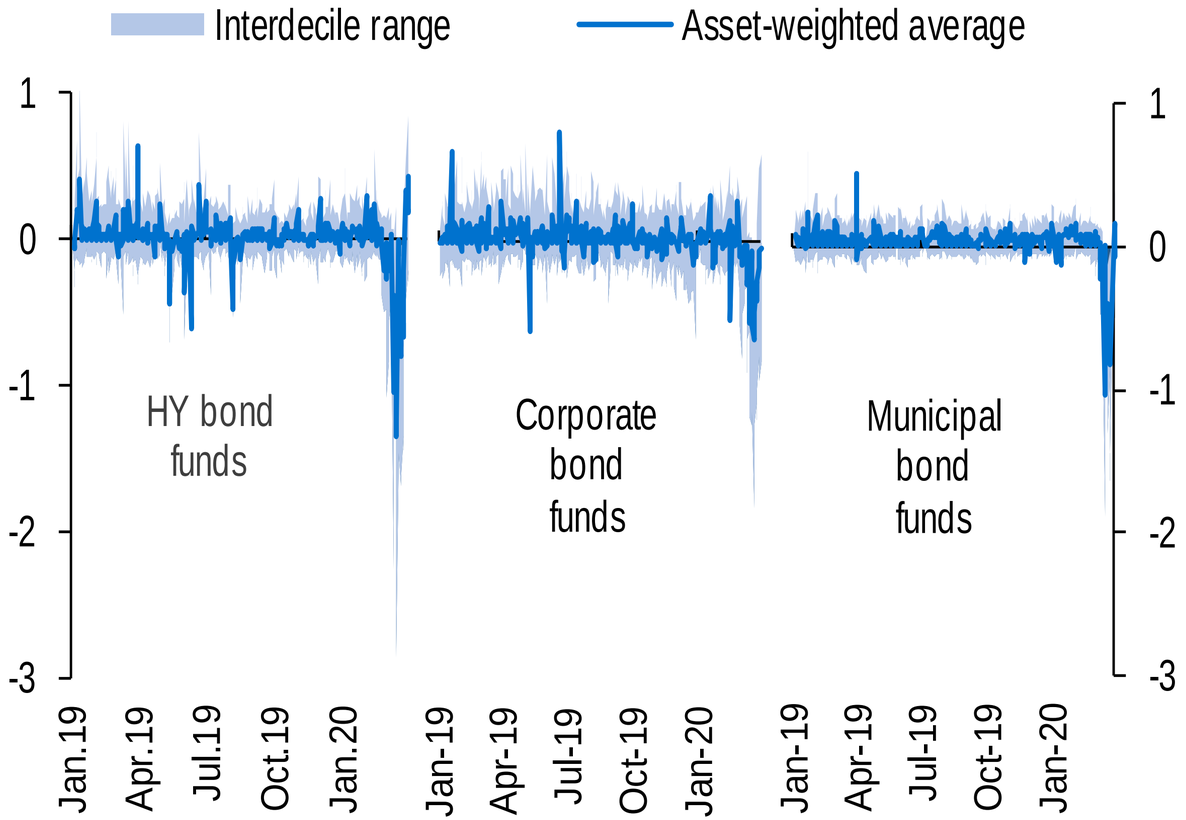
Average Proportion of Variation Explained by Jumps
(Percent)



Institutional Investors Under Pressure

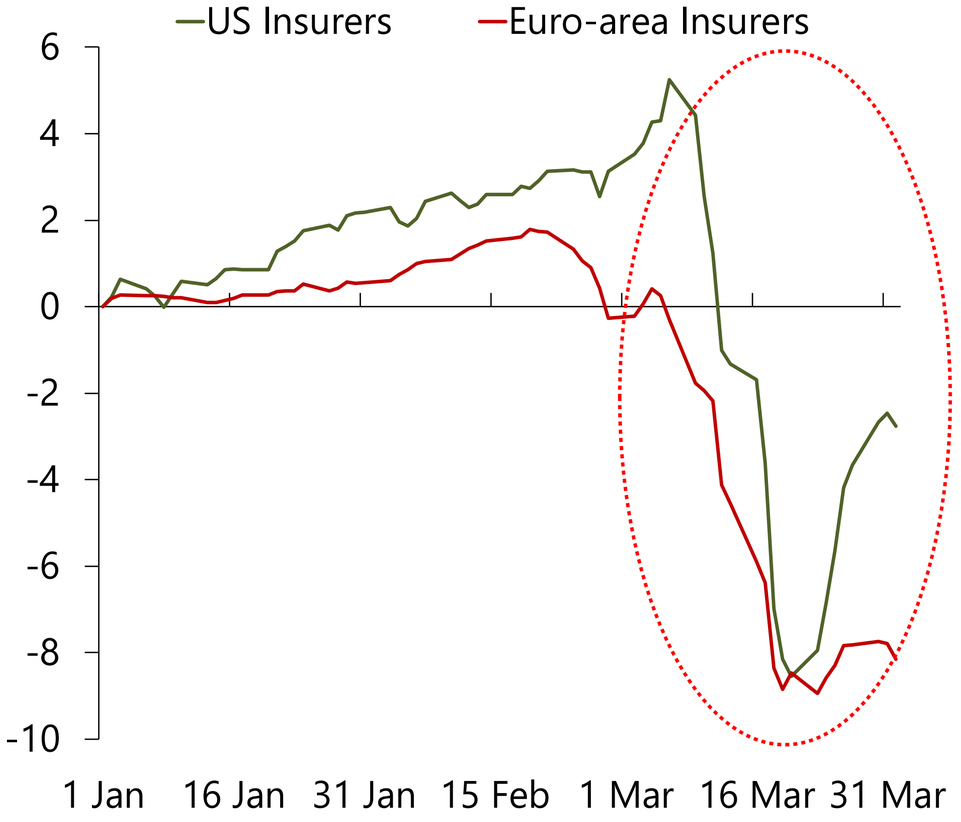
Fixed income funds facing rapidly growing outflows…

Daily fixed income fund flows
(Percent of assets)



… as traditional "buyers of last resort" also come under pressure

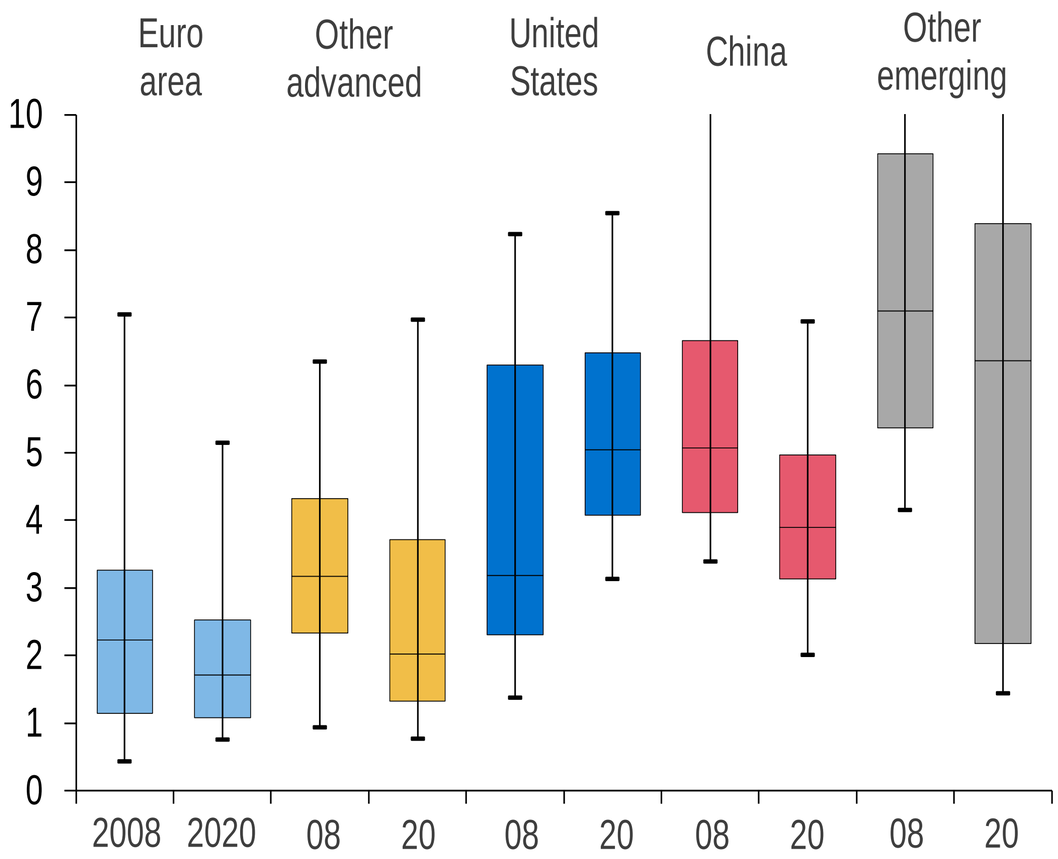
Estimated Profit and Loss of Insurance Portfolio
(Percent, Year-to-Date)



Bank Deleveraging[203]

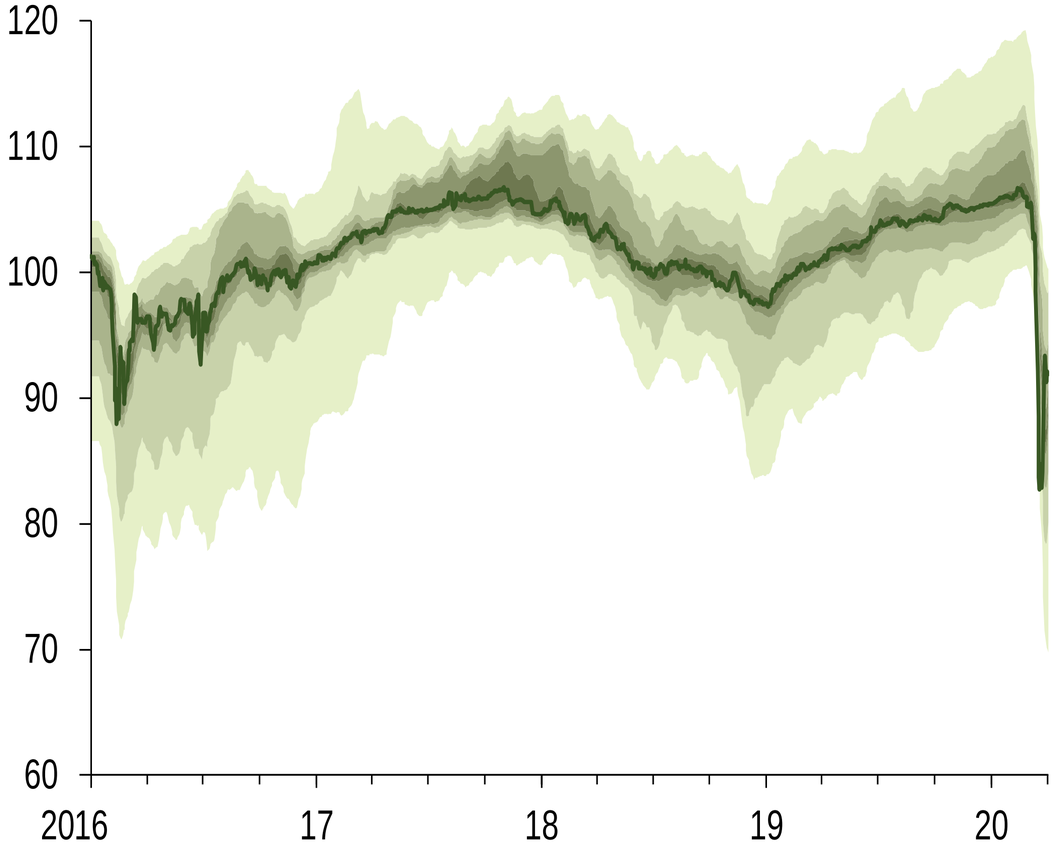
Low bank market valuations in some economies …

Market-Adjusted Bank Capitalization
(Percent)



… and falls in coco prices suggest investors remain concerned about banks' prospects.

Bank Contingent Convertible Bond Prices
(Cents on the dollar)

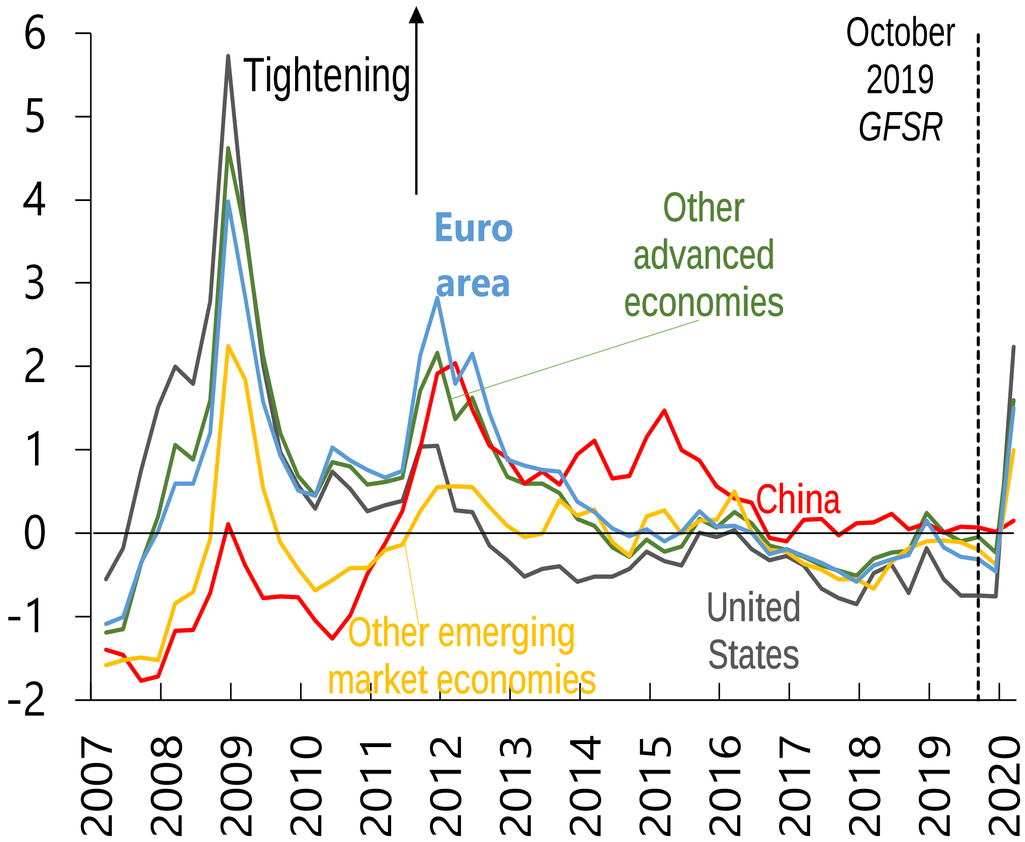


Global Financial Conditions

Financial Conditions: Getting Tighter

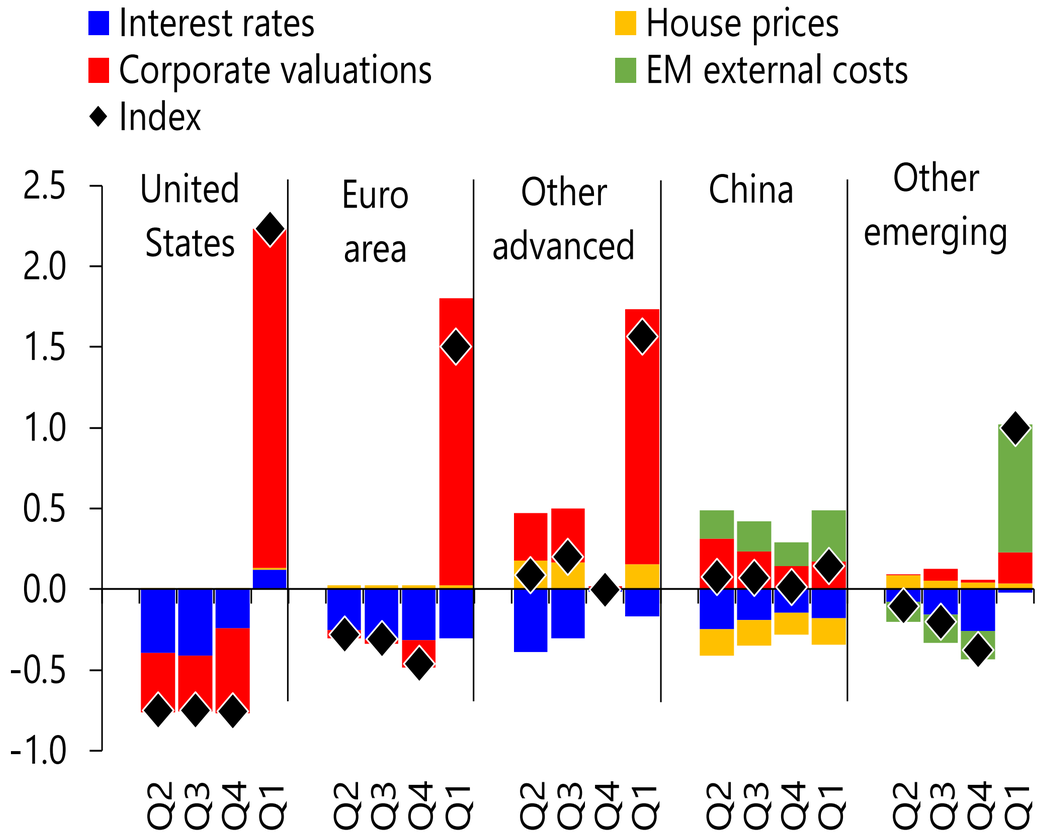
Financial conditions have tightened sharply since the October 2019 GFSR…

Global Financial Conditions Indices
(Standard deviations from mean)



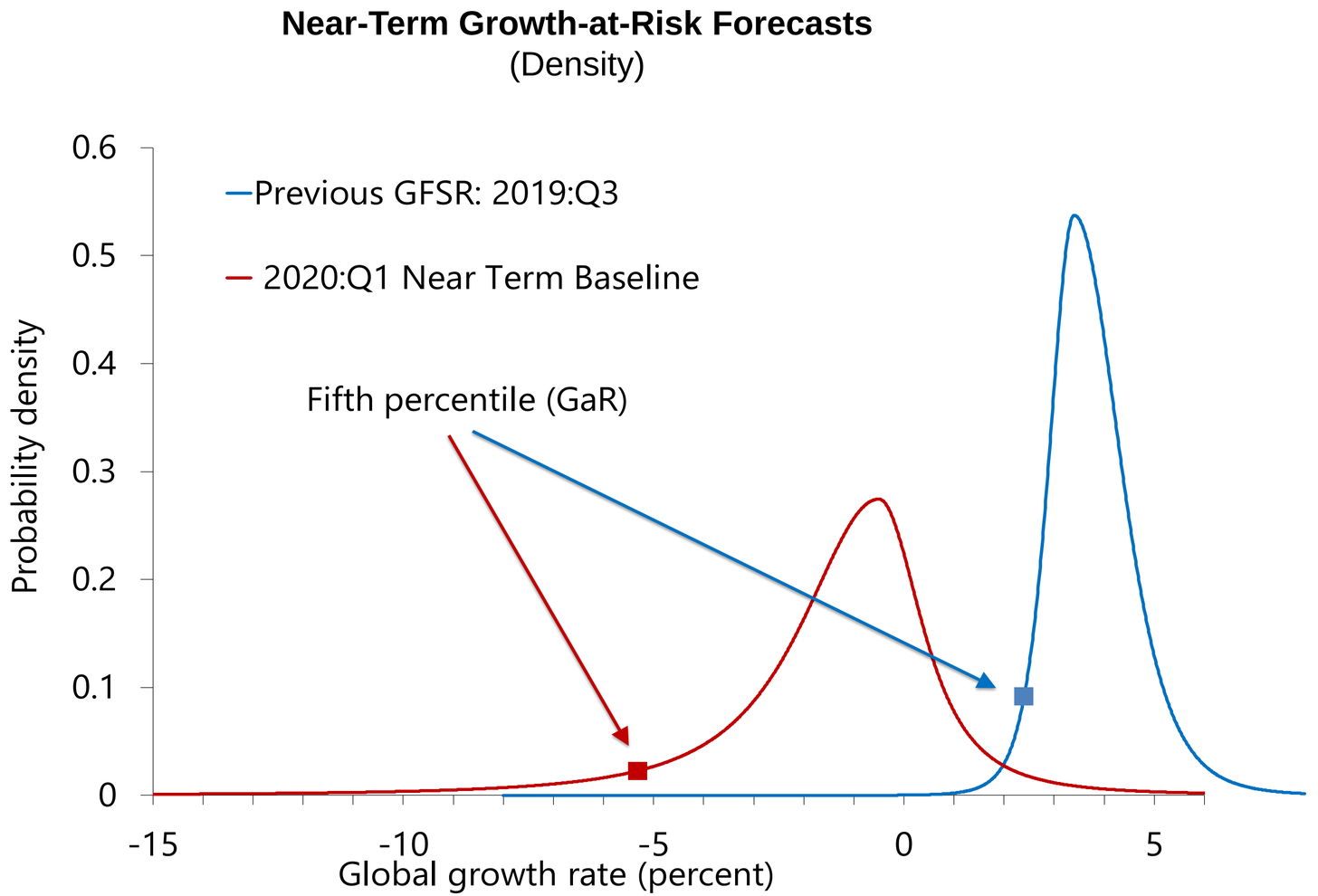
… largely driven by a significant deterioration in corporate valuations, only partially supported by lower interest rates

Key Drivers of Global Financial Conditions Indices
(Standard deviations from mean)



Global Growth-at-Risk

Downside risks to global growth have increased dramatically



Policy Recommendations

Policy recommendations

FAD/MCM/RES joint slide

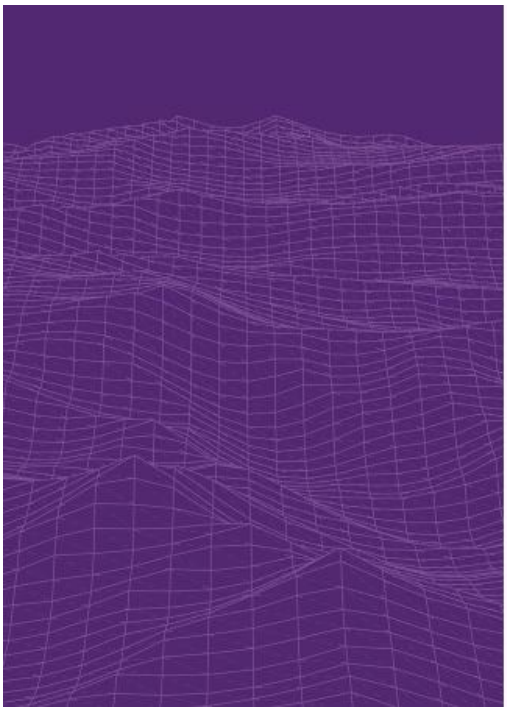
The priority is to save lives and to implement appropriate containment measures to avoid overwhelming health systems. Controlling the pandemic requires globally coordinated actions.

Measures are needed to mitigate the economic impact of containment measures:

- **Support health systems** with more funding and prioritize health spending where space is limited
- **Shield affected people and firms** with large, timely, targeted fiscal and financial sector measures
  - Cash transfers, wage subsidies, unemployment benefits, credit guarantees
  - Supervisors: encourage prudent, temporary adjustments to bank loan terms
  - EMDCs with limited financing: prioritize key public services, social protection spending
- **Reduce systemic stress, lift confidence, and limit shock propagation** with monetary stimulus and liquidity facilities
  - EMEs: use flexible exchange rates to absorb external shocks, where feasible. FXI and temporary CFM may be needed in some cases
- **Foster recovery once business operations normalize**: coordinated fiscal stimulus, consistent with countries' financing constraints

International cooperation is essential:

- **International coordination on vaccine and testing is needed**
- **Help low health capacity countries and those with financing constraints:** expertise, equipment funded with grants, concessional loans
- **Bilateral creditors consider debt moratoria for IDA-eligible countries**
- **Bilateral and multilateral central bank swap lines should be provided to a broader range of economies**
- **The IMF stands ready to help**



FISCAL AFFAIRS

WORLD ECONOMIC AND MARKET DEVELOPMENTS

APRIL 7, 2020

Vitor Gaspar
Director
Fiscal Affairs Department

Outline

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RES/MCM/FAD Policy Recommendations
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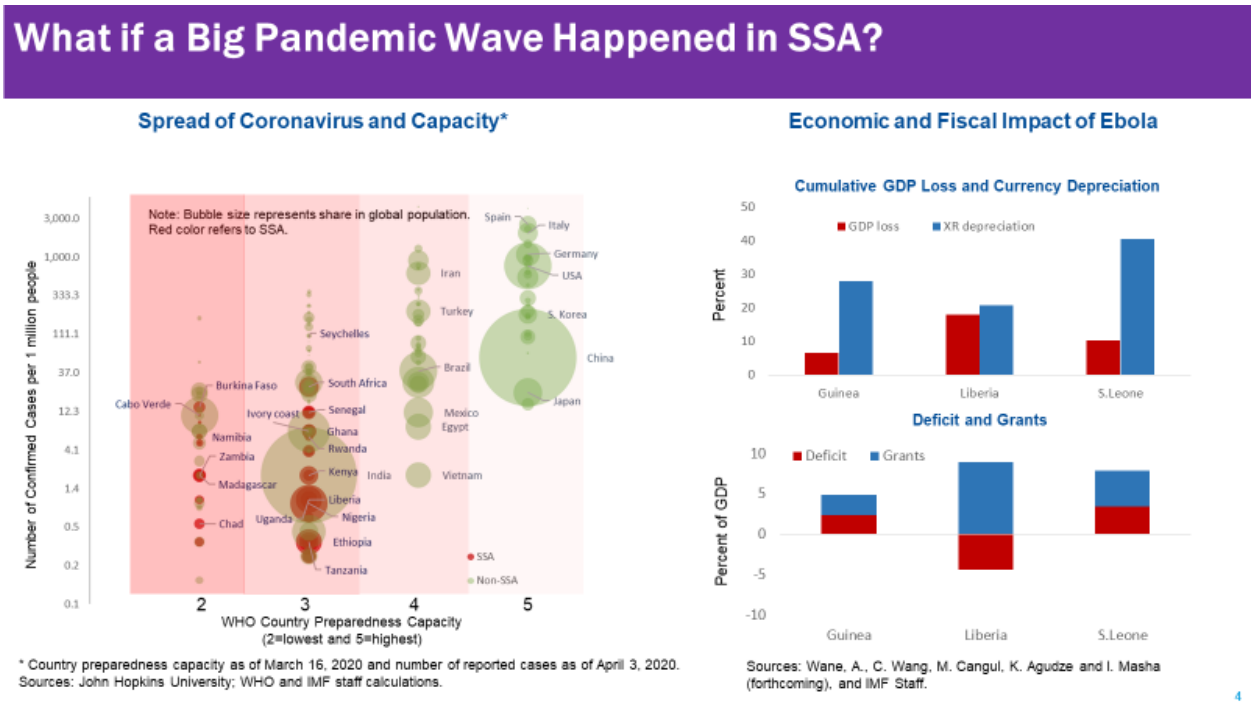
How to Make It Happen?
03
How to Do It Right?
02
Whatever It Takes
01
Global Cooperation and Coordination

Global
Cooperation
and
Coordination

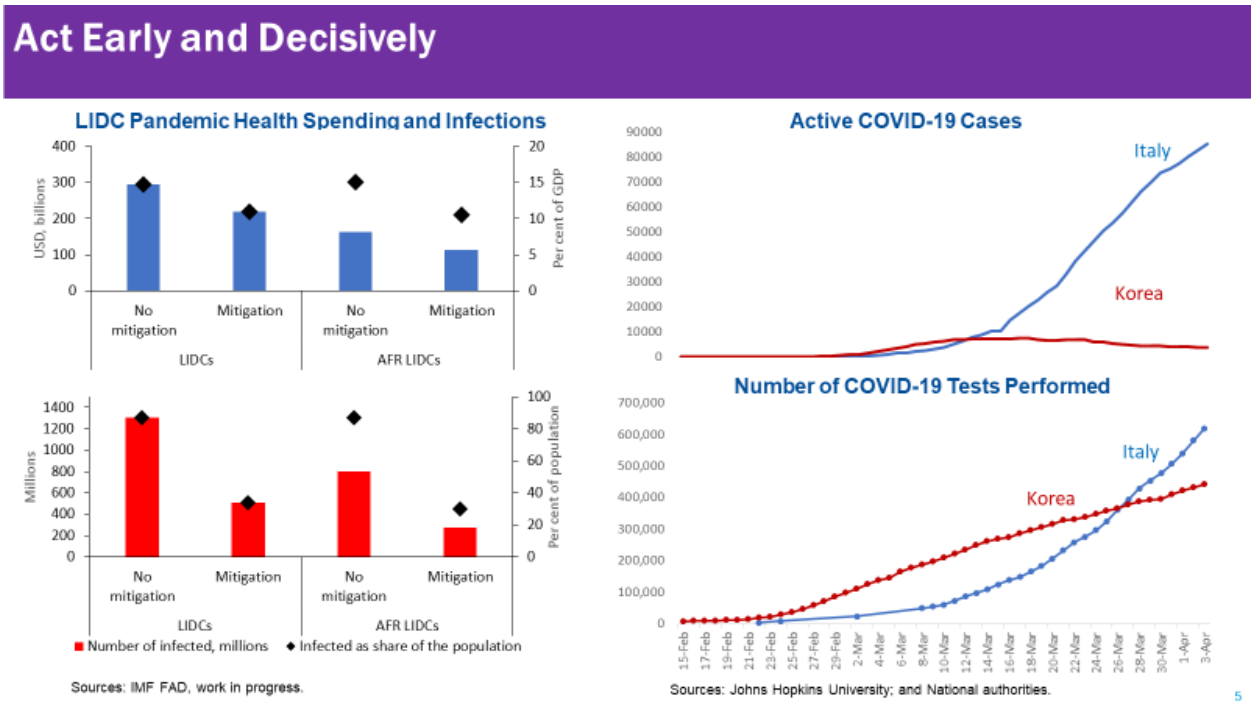


The pandemic is spreading violently across the world. It has affected all five continents. The countries that have been affected the most so far were China and the East Asia, initially, and recently the Europe and the North America. The countries affected were among those best prepared to face it (left-hand side slide).

The rest of the world has been less affected so far. That includes Sub-Saharan Africa (SSA), where according to the WHO, there are some of the countries least prepared to face the pandemic.

Earlier experience with Ebola provides us with a first pass on the magnitude of the challenge. It is enormous. Output losses ranged from 6.5 percent, in Guinea, to 18 percent in Liberia. Exchange rates depreciated sharply: from 21 percent in Liberia to 40.5 percent in Sierra Leone. Much of the contraction occurred in the formal sectors, such as tourism and mining, which are the most important for government revenues. Fiscal deficits widened substantially. Emergency grants from donors, were sizeable and showed the commitment of the international community. It also helped mitigate the impact on budgets. This outbreak is a great example of the ability of the international community to respond and help. The response even triggered important institutional progress, for example, the creation of IMF's Catastrophe and Containment Relief Trust (CCRT).

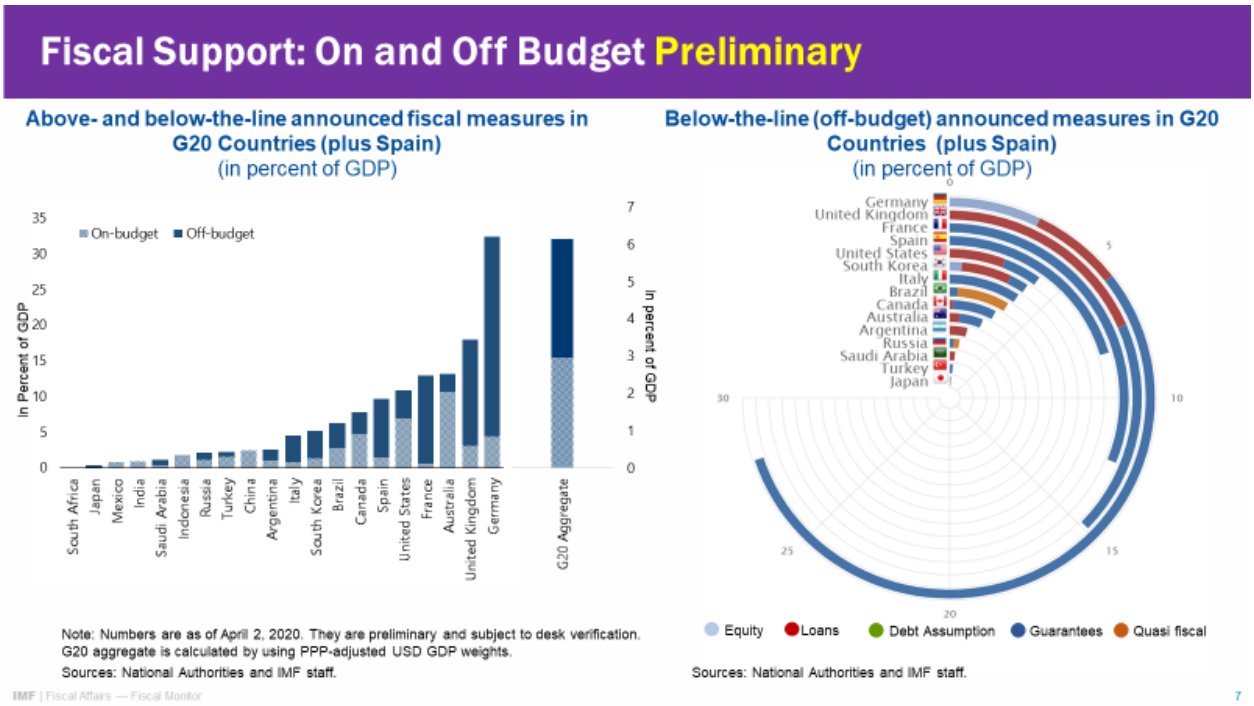
Similarly, in this crisis international coordination is critical—will return to this in the final, joint policy recommendation slide.



We estimate additional health spending that is required to respond to COVID-19. This is based on a tool developed by FAD staff using a Susceptible-Infectious-Recovered (SIR) epidemiological model of disease diffusion. Cost estimates for LIDCs range between $220 billion to $295 billion (between 11-15 percent of GDP) from no mitigation scenario to mitigation scenario—clearly there is some uncertainty associated with any estimates given uncertainty about the spread of the virus. For SSA LIDCs, the numbers are $114-$164 billion. Under a no mitigation scenario the virus could infect 1.3 billion people in LIDCs, but an effective mitigation policy could reduce this number by more than 60 percent. But the experience of Korea suggests that with early and decisive action it is possible to do much better. Containment and mitigation may also allow countries to achieve results that are better and less costly that under the mitigation scenario shown on the left-hand-side chart.

One example that points to this possibility is Korea. Acting early and decisively is key. It helps flatten the curve. Testing is central, it leads to early detection, minimizes further spread. Testing not only people who are so sick that they're hospitalized but also mild cases and even suspected cases is important. Korea and Italy, two countries with nearly the same population, offer two contrasting recent experiences. Korea tested early and in great numbers. The results were used to map the spreading of the epidemic and to design effective social distancing policies. The point here is not that the specifics of the Korea experience can be used elsewhere. But the principle of early efforts at containment and tracking of the epidemic is something that should be widely followed.

Whatever It Takes

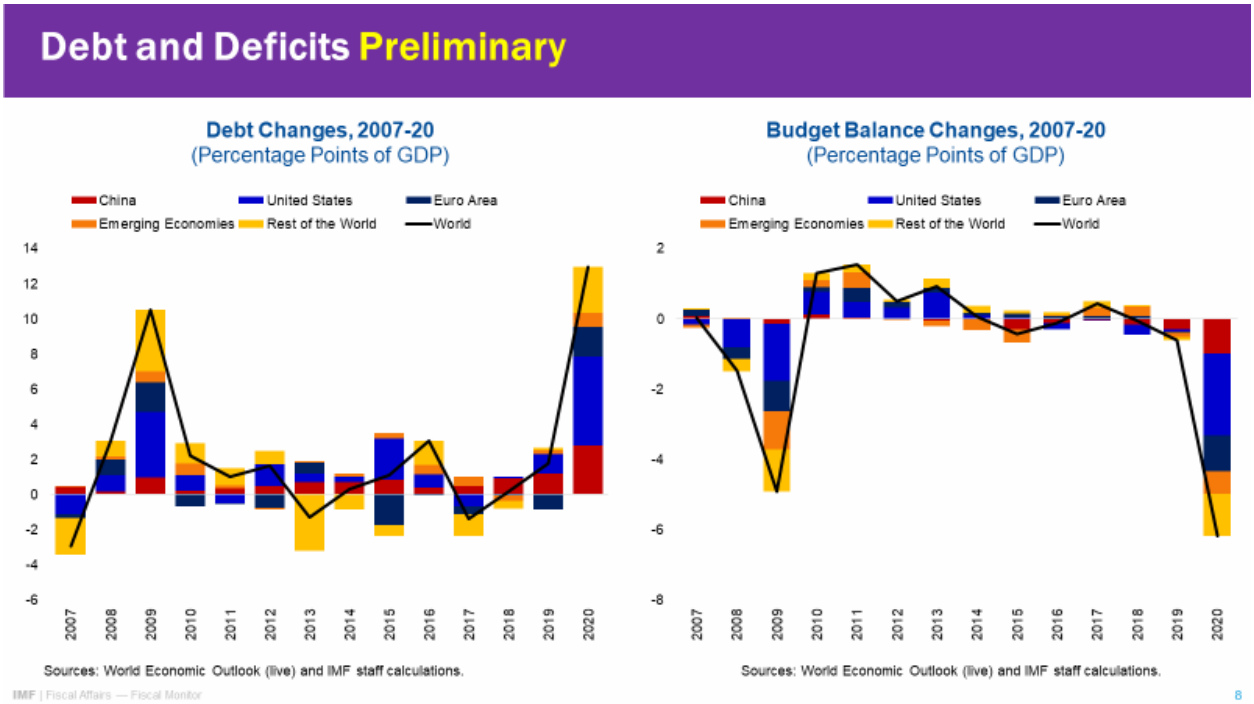


Many countries in the G7/G20 have announced fiscal measures to address the Covid-19 pandemic. Cost or budget estimates are not available for all countries and all measures yet, but the chart on the left-hand side provides a summary of available estimates. (Estimates will be evolving as time goes by and they are not additive). For example, Japan will put forward a large package of measures in the first half of April). In this and the following two slides all figures are presented as percentages of GDP. The underlying macroeconomic scenario is the WEO's baseline as available at the time of calculations.

- Overall, measures equivalent to more than 6 percent of G20 GDP were announced by G20 countries.
- Quite a few countries (Germany, the United Kingdom, France, Australia, and the United States) have announced measures worth more than 10% of GDP.
- A substantial part of the measures is off budget.
- Most of the off-budget support is in the form of guarantees. Loans and equity injections are also used.

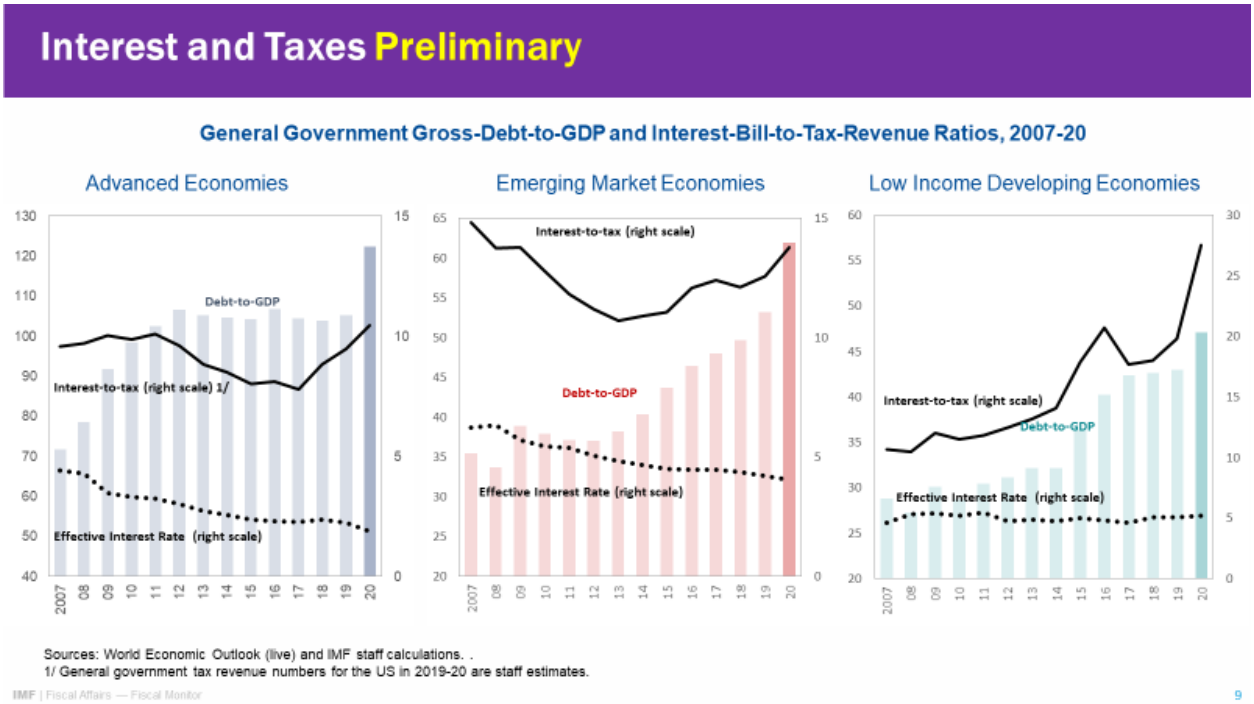
Note that these different types of fiscal support have different implications for public finances in the near term and beyond.

Also, important to note that cross-country information is not entirely comparable as some countries have larger automatic stabilizers than others, which are not captured by discretionary measures presented on this slide.



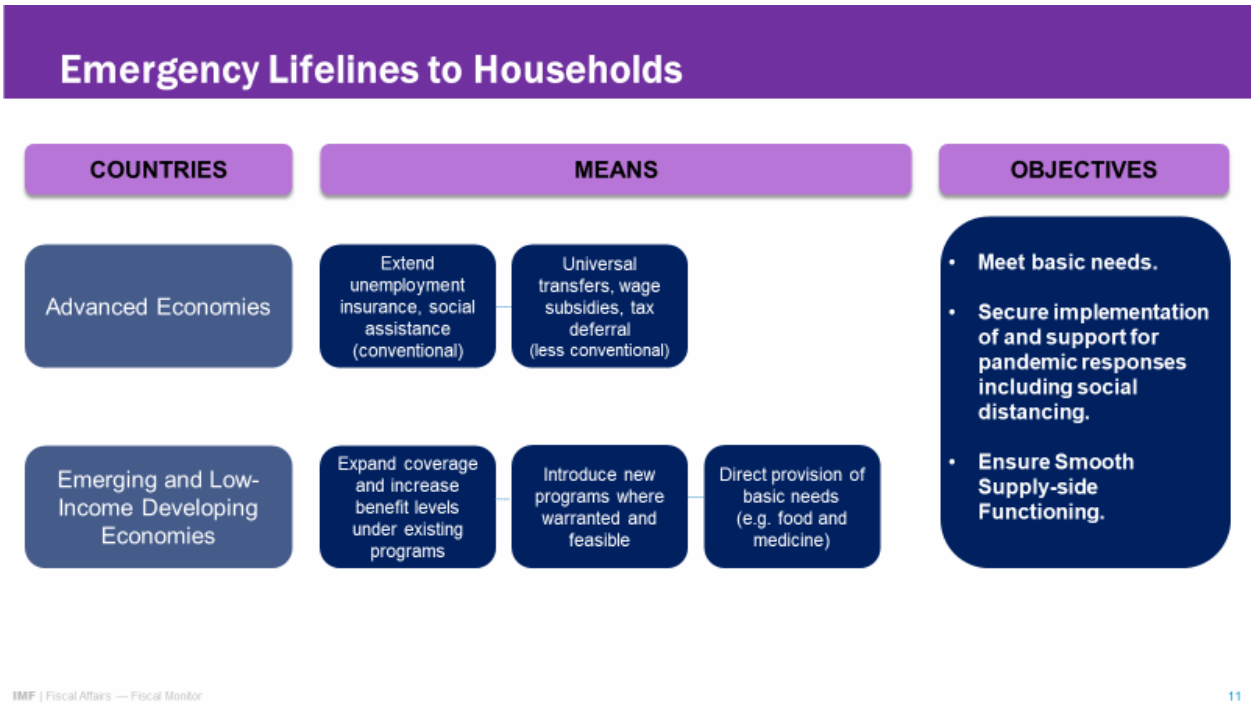
The pandemic and the associated policy response will cause a major increase in fiscal deficits and public debt ratios across countries. Government revenues will fall sharply and, likely, more than activity. That happened during Global Financial Crisis (GFC). The increase in public debt levels and budget deficits are already projected to be bigger than at the peak of the GFC in 2009.

Gross government debt in the world will jump up by more than 12 percentage points (pp) of GDP. The contrast across country groups is marked. In advance economies the public debt to GDP ratio is projected to increase by 16 pp; while for emerging markets economies it will go up by about 8 pp. In low-income developing countries the increase is about 3 pp of GDP.



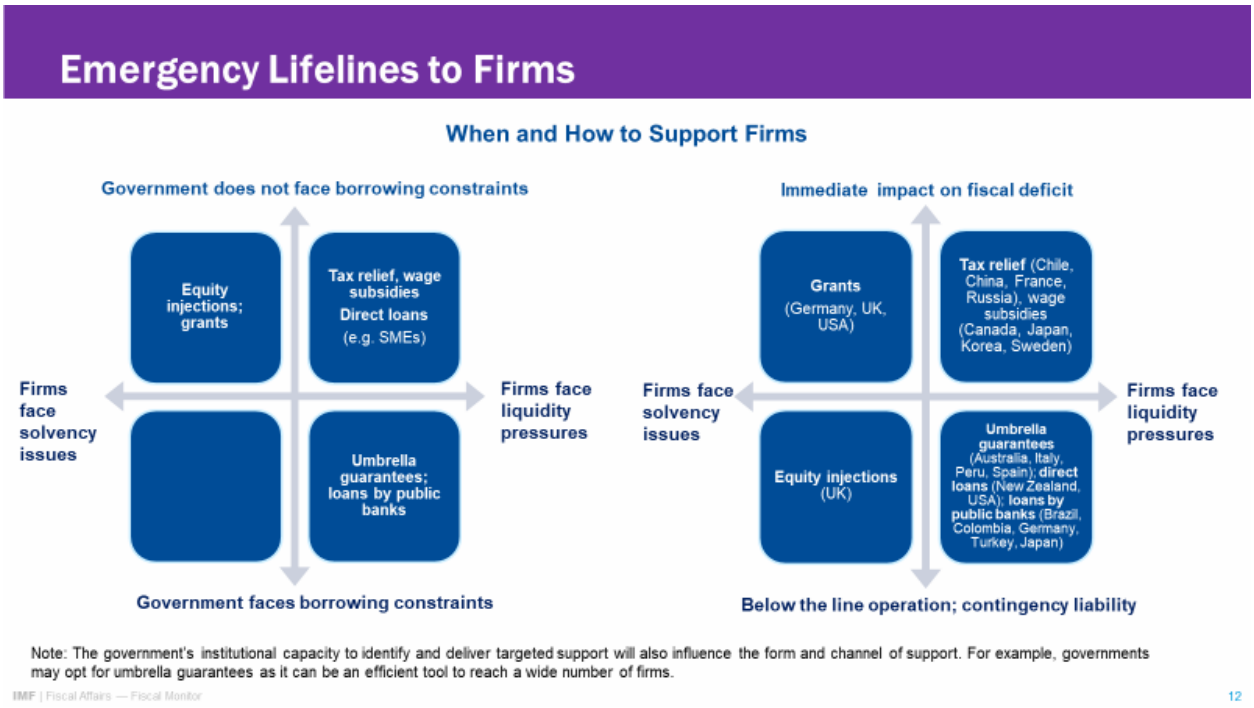
In addition to increases in public debt levels, interest-to-tax ratios are projected to rise across all country groups. The increase is expected to be particularly pronounced for LIDCs. This trend is driven by the decline in tax revenues.

How to Do It Right?



An immediate priority is to provide emergency lifelines to households.
Main objectives are to meet basic needs of people, secure implementation of and support for pandemic responses including social distancing and ensure the availability (supply) of basic goods and services.
Countries can avail themselves various instruments to support households. Advanced economies can use the existing social protection schemes, such as unemployment insurance and social assistance or resort to less conventional tools such as universal transfers (nowhere enacted). Developing countries can expand the coverage and increase benefit levels under existing programs; but where coverage is a major challenge they may resort to direct provision (including the direct distribution of food).

In response to the current pandemic, Belgium, Canada and Greece extended unemployment insurance, Australia, Germany and the United Kingdom expanded social assistance, Hong Kong and the United States used one-off transfers to households. These are only a few examples. Among emerging and low-income developing economies, Colombia, Egypt and Ukraine expanded the coverage, relaxed restrictions and increased benefit levels under existing programs. Rwanda organized food distribution to informal sector workers in Kigali identified through community-based targeting, Ghana and Kenya introduced fee waivers for electronic money transfer programs,



Public support to firms should be large, fast, targeted, and temporary. Fiscal support can help preserve employment and wages. In some cases, firms may only need limited and temporary liquidity support, whereas others may need more financial support due to solvency concerns and to avoid a disruptive bankruptcy. A key policy objective is to avoid hysteresis effects (from bankruptcies, downsizings, or asset liquidations) that would delay the recovery.

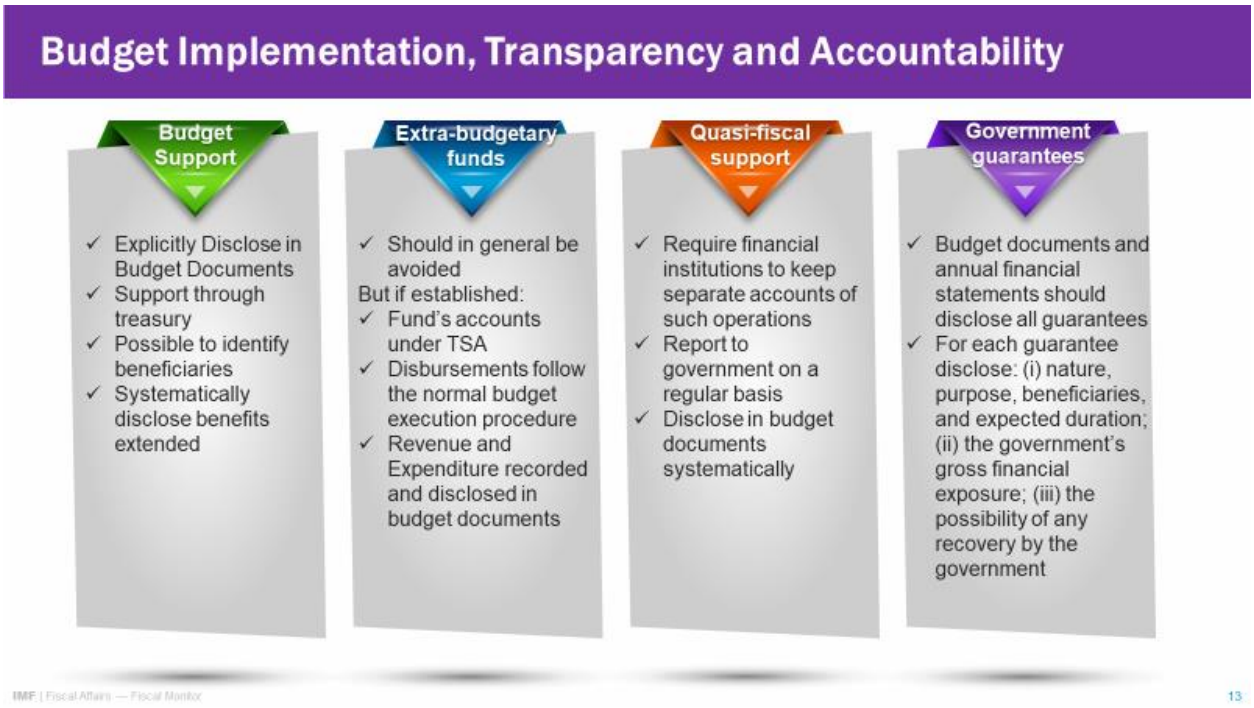
Countries are using several types of tools. The choice will depend on several factors, including the type of support the firm needs, but also the fiscal space governments have and the capacity to quickly deploy the specific type of support.

The immediate fiscal impact can also vary significantly. For example:

- many countries are providing *tax relief* and *wage subsidies*. These provide liquidity relief to firms. They have an immediate impact on the fiscal deficit.
- *Government guarantees* are being used to a significant extent. They can be very effectively and efficiently directed to groups of firms that are most affected, e.g. SMEs. The impact on the deficit is not immediate. But fiscal risks rise substantially.
- Governments may also provide directly subsidized *loans* and even *equity injections or grants*, especially for the most vulnerable and strategic firms that face the risk of insolvency. An advantage of an equity injection is that it immediately improves the balance sheet of the firm allowing the firm to continue operating and investing. It also allows the government to participate in the upside.
- State-owned commercial and development banks have, in some cases, received instructions to extend loans to vulnerable firms. In some cases, these operations involve

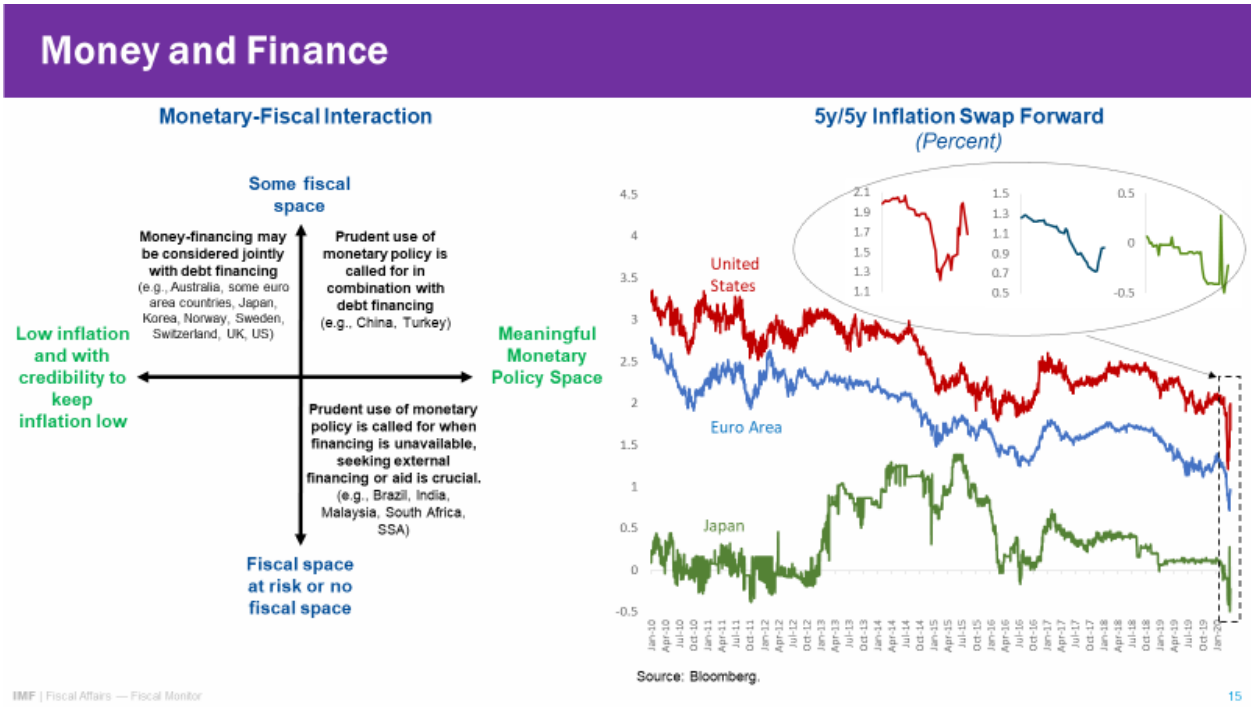
explicit guarantees from governments. But, in all cases, they involve fiscal risks for governments.

The implications for government budgets and debts can be sizable and long lasting. As such, it is crucial to ensure proper accounting and transparency. Specific safeguards are justified as part of good governance. Governments should also ensure that mechanisms are in place to control and monitor risk exposure. Ministers of Finance should have a gatekeeper function to help keep track of support provided and ensure its consistency with the overall policy goals. Oversight of the government itself is also called for. These measures can help maintain trust in governments at a time when solidarity is an important value. As countries contain the pandemic broad-based and normalization starts, exit from the exceptional measures introduced during the crisis will be appropriate.



As public sector intervention in the economy expands, it is crucial to ensure transparency and accountability. It is important to have an adequate legal basis for the budget support and transparency of the fiscal impact, and off-budget operations. Parliamentary scrutiny of fiscal measures is necessary. For example, in France, during GFC, the *Cour des Comptes* played an important role in ex post assessment of the impact of the stimulus package, producing a dedicated impact assessment report. There was strong monitoring by Parliament. To illustrate the impact of the recovery plan for citizens, the government made available information on a dedicated website by mapping projects at the territorial level. Another example of good practice during the GFC is TARP in the US.

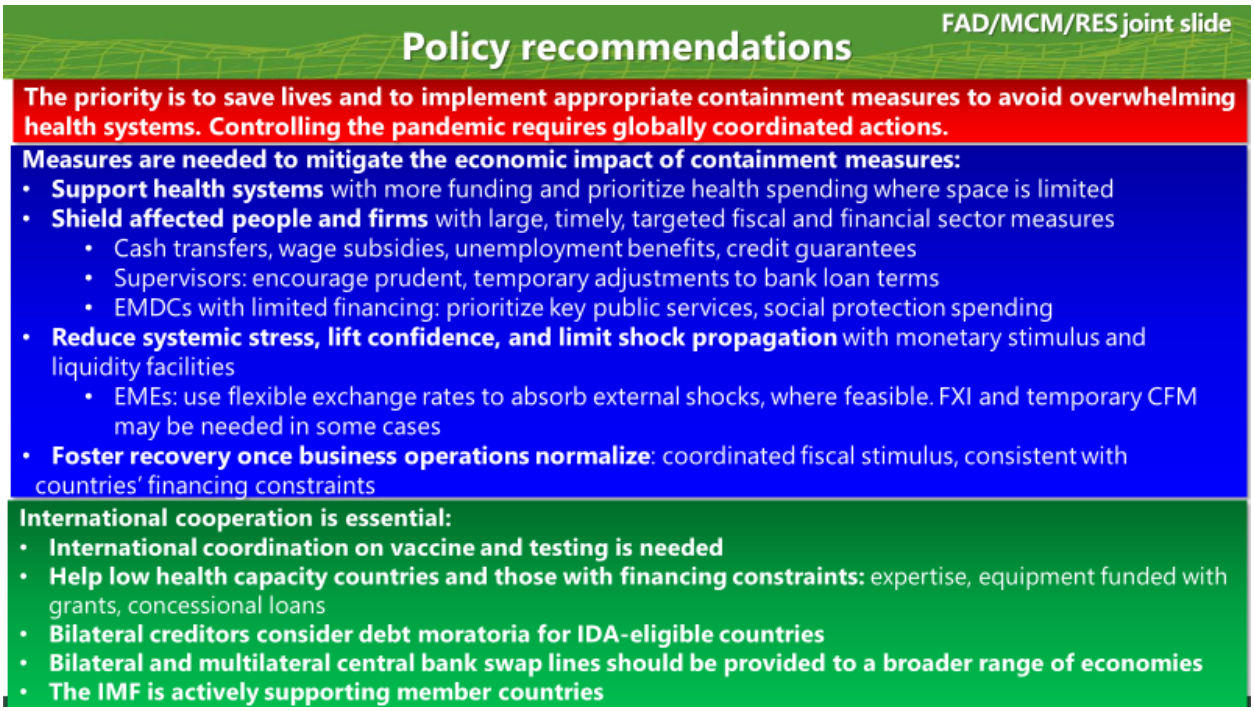
How to Finance it?



For advanced economies there is strong complementarity between fiscal, financial and monetary policies. Inflation and inflation expectations are too low. Policy interest rates are constrained by the effective lower bound. In these circumstances, monetary policy is actively seeking support from fiscal policy to sustain price and wage dynamics. There are also strong complementarities between fiscal policy and policies aimed at preserving orderly market conditions and financial stability. These conditions facilitate the financing of deficits and debt. If demand weakness dominates these conditions will persist well beyond the end of the pandemic.

These conditions do not prevail for developing economies. In these economies monetary policy is not at the effective lower bound. Inflation is higher than in advanced economies. Many of these economies are being hard hit by tightening financial conditions, capital outflows, falling economic activity, weak oil and commodity prices. These countries face constraints coming from external financing, fiscal space, monetary space. The pandemic poses very strong challenges to all these countries. The appropriate solution will be country specific. For example, countries with floating exchange rates should benefit from exchange rate flexibility. In some cases, the use of foreign exchange intervention or capital controls may be appropriate. For countries facing binding policy constraints, all options should be considered to expand the policy space. In many cases this will require seeking external support through financing and grants.

RES/MCM/FAD
Policy
Recommendations



The priority is to save lives and to implement appropriate containment measures to avoid overwhelming health systems. Controlling the pandemic requires globally coordinated actions.

Measures are needed to mitigate the economic impact of containment measures:

- Support health systems with more funding and prioritize health spending where space is limited
- Shield affected people and firms with large, timely, targeted fiscal and financial sector measures
    - Cash transfers, wage subsidies, unemployment benefits, credit guarantees
    - Supervisors: encourage prudent, temporary adjustments to bank loan terms
    - EMDCs with limited financing: prioritize key public services, social protection spending
- Reduce systemic stress, lift confidence, and limit shock propagation with monetary stimulus and liquidity facilities
    - EMEs: use flexible exchange rates to absorb external shocks, where feasible. FXI and temporary CFM may be needed in some cases
- Foster recovery once business operations normalize: coordinated fiscal stimulus, consistent with countries' financing constraints

International cooperation is essential:

- International coordination on vaccine and testing is needed
- Help low health capacity countries and those with financing constraints: expertise, equipment funded with grants, concessional loans
- Bilateral creditors consider debt moratoria for IDA-eligible countries

- Bilateral and multilateral central bank swap lines should be provided to a broader range of economies
- The IMF is Actively Supporting Member Countries