



# INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

## **Forty-Second Meeting October 15, 2020**

**IMFC Statement by Angel Gurría  
Secretary-General  
OECD**



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## **2020 IMF and World Bank Annual Meetings**

### ***Written Statement to the IMFC***

**Angel Gurría**

**OECD Secretary-General**

## The Global Economic Outlook

1. **The economic outlook remains exceptionally uncertain, with the COVID-19 pandemic continuing to exert a substantial toll on economies and societies.** Global output in the second quarter of 2020 was over 10% lower than at the end of 2019, an unprecedented sudden shock in modern times, with activity dropping by more than one-fifth in some European and emerging-market economies. The extent and timing of the pandemic shock differed across the major economies, with China starting an early recovery in March, even as activity in other economies began to contract sharply. Global trade collapsed in the first half of 2020, declining by over 15%, and labour markets have been severely disrupted by reductions in working hours, job losses and enforced shutdowns of businesses. Without the prompt and effective policy support introduced in all economies to cushion the impact of the shock on household incomes and companies, the contraction in output and employment would have been substantially larger. By May 2020, job retention schemes supported about 50 million jobs across OECD economies, about ten times as many as during the 2008 Global Financial Crisis.
2. **After the initial bounce-back in many activities following the easing of confinement measures, the pace of the recovery has subsequently eased, particularly in many advanced economies.** Amongst the countries with monthly economy-wide estimates of economic activity, just over one-half of the decline in output between January and April had been restored by July, but with marked differences across sectors. Daily measures of mobility have remained below pre-pandemic levels in August and September, and survey measures of business order books have settled at levels consistent with only modest output gains. Localised lockdowns, border closures and other targeted restrictions to tackle renewed virus outbreaks are likely to have contributed to the recent moderation of the recovery. Some categories of spending have bounced back relatively quickly, particularly household spending on many durable goods, where pent-up demand accumulated whilst strict confinement measures were in force. Household spending on services, especially ones requiring close proximity between producers and customers or international travel, remains more subdued, reflecting changes in consumer behaviour and continued public health restrictions. International passenger traffic revenue in July remained over 90% lower than a year earlier, and total global commercial flight numbers in August remained around 40% below their pre-pandemic level. Corporate investment is also weak, amidst subdued demand and elevated uncertainty.

3. **Moderate global growth is set to continue amidst persisting uncertainty.** Growth prospects depend on the magnitude and duration of new COVID-19 outbreaks, the degree to which current containment measures are maintained or reinforced, the time until an effective treatment or vaccine is deployed, and the extent to which significant fiscal and monetary policy actions support demand. The September 2020 *OECD Interim Economic Outlook* projections are based on an assumption that sporadic local virus outbreaks will continue in all economies, with these being addressed by targeted local interventions rather than national lockdowns. Widespread deployment of an effective vaccine is expected to take at least another year, limiting its impact on the outlook for 2021. On this basis, global GDP is projected to decline by 4½ per cent this year, before picking up by 5% in 2021.
4. **The projected drop in global activity in 2020 is unprecedented in recent history, but smaller than expected three months ago.** This change masks considerable differences across countries. A faster rebound in China, the United States and the European economies accounts for most of the upward adjustment to global activity. China is the only major economy in which output is projected to rise in 2020, helped by the early timing of the virus outbreak, rapid control of the virus, and strong infrastructure investment. In contrast, double-digit output declines in 2020 are projected in many other emerging-market economies, including India, Mexico and South Africa, reflecting the prolonged spread of the virus, high levels of poverty and informality, and stricter confinement measures for an extended period.
5. **The risk of long-lasting costs from the pandemic remains high.** Intermittent virus outbreaks and the rising costs from a prolonged period of sub-par output are likely to constrain the momentum of the recovery through 2021. Fiscal support should continue to underpin demand, provided fiscal consolidation is avoided in 2021, but elevated uncertainty, weak confidence and job losses are likely to weigh on consumer spending and corporate investment. Many businesses in the service sectors most affected by shutdowns are likely to be insolvent if demand does not recover, with attendant job losses. Rising unemployment is also likely to increase the risk of poverty and deprivation for millions of informal workers in emerging-market economies. In most countries, the level of output at the end of 2021 is projected to remain at or below that at the end of 2019, and considerably weaker than expected prior to the pandemic. In effect, many major economies could have lost the equivalent of 4 years of per capita real income growth by 2021.

6. **Reflecting high uncertainty and varied developments across countries, the OECD has produced two scenarios around these projections.** On the upside, if businesses and households became more confident that a vaccine or treatment was in sight, or only mild containment measures were required to contain virus outbreaks, global GDP growth could be strengthened by around 2 percentage points in 2021, pushing it up to around 7%. This would reduce the scarring effects from the pandemic, but not eliminate them completely. On the downside, if confidence remained weak because of intensifying virus outbreaks or the need to deploy strict containment measures, household spending and business investment would weaken and global GDP growth could be 2½-3 percentage points weaker than projected in 2021. The risks in these scenarios are skewed to the downside, as a negative surprise would be more likely to induce the repricing of risk in financial markets and possible discontinuities from higher corporate bankruptcies and job losses. Other potential near-term risks, such as a premature ending of fiscal support, particularly in the United States, or a no-deal Brexit, would further check the pace of any recovery in 2021 and add to uncertainty.

### **Policy requirements**

7. **While the virus continues to spread in many regions of the world, and many countries are experiencing a resurgence of cases, countries need to plan for the recovery while coexisting with the pandemic.** Effective public health measures, and supportive macroeconomic and structural policies, are required to preserve confidence and reduce uncertainty. Stronger international co-operation is also needed to help end the pandemic more quickly and accelerate the global recovery. Faced with the challenge of fostering the recovery while containment measures remain in place and some sectors undergo structural transformations, flexible and state-contingent policy measures will be required to help preserve viable jobs and companies without impeding the reallocation of resources towards activities with the strongest growth potential.
8. **Comprehensive public health interventions remain necessary to limit and mitigate new COVID-19 outbreaks and reduce uncertainty for consumers and businesses.** A key requirement is that healthcare systems can deal with any resurgence of infections without unduly delaying necessary interventions for other patients. Governments need to maintain sufficient resources to allow large-scale test, track, trace and isolate programmes to operate effectively, and ensure adequate healthcare capacity and stocks of personal protective equipment. Mitigation measures, such as physical distancing and the widespread use of masks, also help to limit the spread of the virus. Such steps should enable targeted localised measures to be used to deal with new outbreaks rather than economy-wide confinement measures, limiting the overall economic and social costs. Nonetheless, new restrictions are likely to sap confidence and slow the pace of the economic recovery.

9. **Global co-operation and coordination are essential to tackle the COVID-19 global health challenge.** No country is able to obtain the range of products necessary to combat COVID-19 purely from domestic resources. Greater funding and multilateral efforts are needed to ensure the efficient production of medical products and allow affordable vaccines and treatments to be swiftly available everywhere. Decisions about stockpiling and health-emergency assistance in advanced economies should be designed in an inclusive way, taking into account the needs of the most vulnerable emerging-market economies and developing countries, where healthcare capacity is limited and resources are not available for significant investment.
10. **Monetary policy should remain accommodative, but must be complemented by supportive fiscal and structural policy measures.** The actions taken this year by central banks to lower policy interest rates, enhance asset purchase programmes, and undertake targeted interventions in financial market segments under stress have helped to restore confidence and stabilise financial conditions. The new flexible average inflation-targeting framework adopted by the US Federal Reserve, and the recognition that a robust job market can be sustained without necessarily causing an outbreak of inflation, are welcome and have reinforced expectations that very accommodative monetary policy will be maintained for an extended period. Many other central banks have also announced further policy easing recently, reflecting low inflation and expectations that the ongoing economic recovery will be only slow and gradual. However, already low interest rates before the pandemic and high corporate debt could reduce the effective stimulus to aggregate demand from monetary policy. Complementary fiscal and structural policy actions are thus essential to help restore confidence, aggregate demand and economic dynamism, and tackle the asymmetric impact of the pandemic across sectors and households.
11. **Fiscal policy support should be maintained, while evolving with underlying economic conditions.** Rapid and extensive fiscal support to expand healthcare capacity, preserve the incomes of workers and companies, and provide off-budget loans and guarantees has proved very effective since the pandemic began, helping to prevent an even larger economic contraction. Direct budgetary measures announced this year are estimated to amount to 15% of GDP in Japan, and between 7% and 15% of GDP in the other G7 economies. With confidence still fragile, continued fiscal support remains necessary to preserve incomes, minimise scarring effects from the pandemic, and ensure a full and durable recovery. Support is particularly needed for vulnerable groups heavily affected by the crisis and the slow recovery, such as youth, non-permanent employees, informal workers, lower-income households, and small businesses.

12. **Premature withdrawal of fiscal support in 2021 would stifle growth, as occurred in the aftermath of the global financial crisis in many countries.** Many governments have recently announced extensions to crisis-related programmes providing support to workers and companies via job-retention or furlough schemes well into 2021. Reassessing the design and balance of such measures will be necessary as the recovery progresses to ensure that support remains focused on jobs and companies that are temporarily unviable, rather than maintaining ones that are ultimately unviable.
13. **Prospects for a sustainable recovery would be strengthened if governments also stimulated aggregate demand directly through public investment.** With very low long-term interest rates, the social rate of return on public investment is likely to exceed the financing costs for many projects. Investment is particularly needed in areas with large positive externalities and where under-investment might otherwise occur due to market failures, including in health care, education, and digital and environmental infrastructure. In Europe, the Next Generation EU Recovery Plan will provide welcome support to investment, though mainly after 2021, through a mixture of grants and loans.
14. **Emergency fiscal actions, the impact of automatic fiscal stabilisers, and lower output levels are acting to raise budget deficits and debt burdens significantly in all economies, despite lower debt servicing costs.** In many economies, the government debt ratio could rise by around 15 percentage points of GDP by 2021, often to a record high. Debt sustainability is not an immediate risk, at least in advanced economies, and premature fiscal consolidation should be avoided, but debt burdens will need to be lowered eventually through higher growth and discretionary fiscal measures. Well-designed fiscal rules, and budgetary frameworks that facilitate prudent long-term planning, would help to lower fiscal vulnerabilities. Thorough reviews of government expenditure to detect efficiency savings and opportunities for cutting low-priority and ineffective expenditures would also help to create space for new spending on high-priority areas with positive impacts on the economy and well-being, such as health, skills, childcare, climate change mitigation and digital infrastructure.
15. **Many emerging-market economies and developing countries face difficult macroeconomic policy challenges.** Export revenues have tumbled, particularly from international tourism, compounding the domestic impact of the COVID-19 shock. High private and public debt also leaves some countries vulnerable to changes in market sentiment. Emerging-market economies with a credible macroeconomic policy framework, including flexible exchange rate arrangements, strong foreign asset positions and manageable exposures to foreign-currency-denominated debt, can continue to cushion the current shocks through monetary and fiscal policy easing. In others, high public debt and contingent liabilities, or a low tax base, constrain the further use of fiscal policy to support growth and incomes. This shifts the burden of economic stabilisation to monetary policy, provided inflation remains contained and financial stability is preserved.

16. **Enhanced global co-operation and coordination are essential to enable emerging-market and developing countries to cope successfully with the economic consequences of the pandemic.** The G20 has frozen bilateral government loan-interest payments for many low-income countries this year, offering a temporary respite for some vulnerable countries. However, further actions may be required, given persistent declines in sources of income and the ongoing spread of the pandemic. Preserving open borders, keeping trade and investment flowing freely, and providing the assistance necessary to help strengthen tax bases and reduce informality, would also help prevent long-lasting harm to their growth prospects.
17. **The pandemic is likely to leave long-lasting scars in many economies.** Refocusing support schemes for workers and companies over time, and accompanying these with renewed and well-targeted structural policy reforms, is essential to ensure a strong, resilient, green and inclusive recovery.
18. **Over time, the focus of national job retention schemes needs to be adjusted gradually to support workers rather than jobs.** One option is to raise the financial contributions from employers to the cost of unworked hours in these schemes, which could help to identify businesses that expect to remain viable for an extended period.
19. **Substantial additional investments in active labour market programmes, including job placement services and enhanced vocational education and training, are needed to create new opportunities for displaced workers, lower-skilled workers, and those on reduced working hours.** Accompanying reforms to reduce barriers to labour mobility, such as occupational licensing restrictions and housing market rigidities, would facilitate job reallocation and reduce the chances of persistent scarring effects. Making the labour market more inclusive will also require enhanced levels of social protection for many vulnerable groups.
20. **Government assistance for companies, including tax deferrals and guarantees, will also need to be phased out gradually as the recovery progresses to avoid supporting unviable firms for an extended period.** Possible approaches could include extending the maturity of loan guarantees, or converting pandemic-related support into public equity stakes, although care should be taken to ensure this does not distort competition. Accompanying reforms to streamline insolvency procedures and reduce barriers to market entry would further help to spur productivity-enhancing capital reallocation.

21. **Governments must seize the opportunity to “build back better”, with economic stimulus packages and recovery plans combining an emphasis on restoring growth and creating jobs with the achievement of environmental goals and objectives.** Many countries have already included measures directed at supporting the transition to greener economies as part of their recovery programmes or strategies, but more ambition is needed, with new environmental measures representing only a small share of total stimulus packages. Sector-specific financial support measures for companies should be conditional on environmental improvements where possible. Higher carbon taxes and reduced fossil fuel and agricultural subsidies would help to foster the structural changes required to meet the challenges of climate change, although compensating measures will be essential to mitigate the adverse distributional impact on poorer households and small businesses. Governments can also act directly by implementing well-designed investments in low-carbon infrastructure and making use of opportunities to support behavioural changes that may help a low-carbon transition, such as enhancing the availability of high-speed broadband in rural areas.