STATEMENT BY THE MANAGING DIRECTOR
OF THE INTERNATIONAL MONETARY FUND

Attached for information for the Members of the Development Committee is a Statement from the Managing Director of the International Monetary Fund, Kristalina Georgieva, for the Committee’s one hundred and second meeting to be held virtually on Friday, October 16, 2020.
DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR’S WRITTEN STATEMENT

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The global economy has begun to emerge slowly from the COVID-19 crisis, but the recovery will likely be uneven, partial, prone to setbacks, and clouded by unusually large uncertainty. Emerging markets and, in particular, low-income developing countries (LIDCs) are facing an uphill battle as the effectiveness of their policy response is often hampered by limited policy space and weak institutions. Long-term scarring is a severe risk and threatens to reverse progress made to advance development and reduce poverty since the 1990s. Policymakers should do all they can to combat the health crisis and limit the economic fallout, including by cushioning income losses for people and firms. Where fiscal space is constrained, the focus should be on assisting the most vulnerable and protecting spending in areas critical for longer-term development, such as education and health. LIDCs need extensive support from the international community, however, including by guaranteeing essential health supplies, providing grants and concessional loans to ensure that countries can finance critical spending, and by reprofiling and restructuring debt where needed to restore fiscal space.

ECONOMIC OUTLOOK AND RISKS

The world economy has begun a gradual recovery after the sharp negative initial impact of the COVID-19 pandemic. Following an unprecedented slump in April, activity started to pick up in May and June as many economies started to reopen. GDP figures for the second quarter mostly surprised on the upside, owing inter alia to large-scale policy support in advanced and emerging economies and an associated easing in global financing conditions. From August, however, high case numbers in many countries and regions—including parts of the Americas, Europe, and South Asia—have slowed and/or partially reversed reopening plans, and mobility indicators—short-term proxies for economic activity—remain depressed.

The IMF’s World Economic Outlook (WEO) now projects global growth of -4.4 percent for 2020. This forecast is a bit less dire than the interim projection from June (by 0.8 percentage point). Inflation is expected to remain subdued, as contracting aggregate demand is outweighing the impact of supply chain disruptions on prices. For 2021, a partial recovery is expected with global growth of 5.2 percent (0.2 percentage point below the June projection). Continued social distancing will act as a brake on activity, especially in countries that struggle with getting the pandemic under control. Contact-intensive service sectors—including retail, hospitality, and arts and entertainment—will remain hard-hit and are expected to recover fully only once there is widespread availability of vaccines and treatments.
Uncertainty around the baseline is very large. The near-term outlook depends *inter alia* on the spread and infectiousness of the virus, the public health response, the extent of global spillovers, financial market sentiment and its impact on global capital flows, uncertainty about trade policies, the persistence of supply chain disruptions, and potential for social discontent and political instability. There are upside risks as well, including stronger-than-anticipated fiscal support and progress with COVID-19 vaccines or treatment, but the balance of risks is clearly tilted to the downside.

In *emerging markets and developing economies* (EMDEs), real GDP is projected to contract by 3.3 percent in 2020—a downward revision of 0.2 percentage point from June and of more than 2 percentage points from April. For 2021, a recovery to growth of 6.0 percent is expected. Several EMDEs have benefitted from accommodative global liquidity conditions that have triggered a decline in sovereign yields and a rekindling of portfolio flows to some emerging markets, but others still lack access to markets.

Recovery prospects within this group are highly uneven. Countries like *China* or *Vietnam*, which have been relatively successful thus far in containing the virus, may avoid real contractions in 2020 and can expect robust growth in 2021 of 7 percent or more. Other EMDEs, however—including (but not restricted to) *India*, *Brazil*, *Argentina*, *the Philippines*, and *Iraq*—grapple with high caseloads that cloud the near-term economic outlook. EMDE oil exporters, such as *Angola*, *Ecuador*, and *Nigeria*, have been heavily impacted by the decline in oil prices.

The growth outlook is especially challenging for *low-income developing countries* (LIDCs)—a subgroup of EMDEs—in particular for the medium term. For 2020, growth in LIDCs is forecast at -1.2 percent (marked down by 0.2 percentage point from June and more than 1½ percentage points from April). For 2021, the recovery, at 4.9 percent, is expected to remain below the global average. By end-2024, GDP in LIDCs is forecast to be some 6 percent lower relative to the trajectory projected before the crisis.

Many LIDCs were in vulnerable positions prior to the onset of the crisis, struggling with subdued growth, sizeable external and fiscal deficits, and elevated debt burdens. Since March, they have been hit by an extraordinary confluence of shocks: a sharp contraction in real exports, lower export prices, especially for oil, less capital and remittances inflows, reduced tourism receipts, and domestic recessions caused by the spread of the virus and containment measures taken in response.

At the same time, most LIDCs can mobilize only limited resources to support their economies. For example, while advanced economies boosted gross fiscal spending on average by 9 percent of annual GDP in response to the crisis, and emerging markets by almost 3½ percent, LIDCs could make only 1.8 percent of GDP in additional resources available, and used almost half of this to bolster health sector capacity. At the same time, the crisis is causing an average revenue loss for LIDCs of more than 2 percent of GDP in 2020, with only a gradual recovery expected in the years ahead. This puts severe strains on fiscal balances and has further increased debt vulnerabilities. In early October, the IMF-World Bank debt sustainability assessments showed almost half of LIDCs at high risk of debt distress or in debt distress already.
These developments contain serious risks. First, the prospect of unsustainable public debt burdens has increased significantly for many LIDCs. Second, reflecting insufficient policy support, many LIDCs are likely to incur scarring, i.e., a permanent loss of productive capacity. Scarring results from higher mortality, worse health and education outcomes that depress future earnings, the depletion of savings and assets that force firm closures, and debt overhangs that depress lending to the private sector. This threatens, among other things, to reverse the steady progress made since the 1990s in reducing global poverty, exacerbate inequality, and to make the 2030 Sustainable Development Goals (SDGs) much more difficult to achieve.

**POLICY PRIORITIES**

**Controlling the pandemic and cushioning the impact on the economy are key.**

Policymakers should use all levers at their disposal to combat the health crisis and mitigate the downturn. The priority in countries where infections are high or continue to rise is to slow the transmission. Economic policy should cushion income losses for people and firms, while accommodating the reallocation of resources away from contact-intensive sectors. As economies emerge from the recession, a reassessment of spending priorities will be needed, including the gradual scaling-back of crisis-related transfers.

**LIDCs should adopt targeted containment measures and strictly prioritize spending...**

In LIDCs, lengthy and recurrent lockdowns are often unenforceable, reflecting subsistence needs, the absence of comprehensive income support, and large informal sectors that limit the reach of social assistance programs. Hence, the focus should be on targeted containment measures, including social distancing and the protection of groups particularly at risk, such as the elderly.

Given limited policy space, many governments need to strictly prioritize spending, focusing on firming up health sector capacity and providing transfers to the most vulnerable households—maintaining food security is often the highest priority. Further, to the extent possible, governments should seek to protect spending that is critical for longer-term development prospects, notably on education.

**... and refrain from policies that could create long-term damage.**

To lay the groundwork for a strong and sustained recovery, governments should refrain from protectionist measures and distortionary policies that would be hard to unwind. Any support for corporations, for example, should be temporary and be extended according to transparent and equitable criteria. For LIDCs with high public debt, additional borrowing should be on highly concessional terms. A sustained effort will be needed to rebuild revenue capacity after the crisis.

Policy decisions taken now in response to the COVID-19 crisis will shape the world economy for a long time. Although much of the work in terms of promoting a green recovery lies with advanced economies and large emerging markets that account for the bulk of greenhouse gas emissions, policymakers in smaller emerging markets and LIDCs can also contribute by eliminating fuel subsidies, raising carbon prices—which would also generate fiscal revenues—and by supporting long-term sustainable investment projects.
Multilateral cooperation and extensive support from the international community are indispensable.

Given their limited resources, LIDCs need strong support from the international community to overcome the crisis and embark on a sustained recovery. Access to essential health supplies is critical, which requires keeping borders open for trade, maintaining essential supply chains, and safeguarding LIDCs’ access to vaccines and treatments when they are discovered.

However, the international community also needs to ensure that LIDCs can finance critical development spending, which requires more grants and concessional financing. Further, in several countries, additional reprofiling and/or restructuring of debt will likely be needed. Official creditors will need to work together to facilitate timely and comprehensive debt resolution for countries facing unsustainable debt burdens, with comparable treatment for private creditors. Achieving the 2030 SDGs required a major effort by both LIDCs and donors already before the crisis. Once the recovery is on a safer footing, a reassessment of the time path and associated spending needs will be needed.

IMF SUPPORT

The IMF has helped EMDEs through emergency lending...

The IMF has moved swiftly and on several fronts to assist EMDEs in combatting the crisis. Support has included extending financial assistance to a large number of countries, enhancing the IMF’s lending toolkit to respond to countries’ needs, and assisting countries with debt restructuring and reprofiling.

Annual access under the IMF’s flexible emergency response facilities has been doubled temporarily; these facilities comprise the Rapid Financing Instrument available to all members, and the concessional Rapid Credit Facility for low-income countries. IMF-supported programs under the standard lending facilities—such as the Stand-By Arrangement, the Extended Credit Facility or the Extended Fund Facility—have been recalibrated and/or augmented in a number of cases. The IMF has also increased temporarily overall annual access limits under the concessional Poverty Reduction and Growth Trust (PRGT) and under the General Resources Account (GRA). As of October 5, 2020, 81 countries have received support under all lending facilities amounting to just over $100 billion since the start of the crisis. Of these, 42 are LIDCs that have received support totaling about $14.5 billion.

Mobilization of additional resources to support lending from PRGT resources is underway. A fast-track loan mobilization campaign has already secured over $21 billion to meet the surge in loan commitments and disbursements. More subsidy resources are being sought to allow for higher levels of access to concessional financing, so as to better support low-income countries as they respond to the pandemic shock. A review of PRGT financing and facilities, planned for the Fall 2020, will further discuss funding options and possible reforms to PRGT lending facilities. The IMF is also examining how to make better use of existing Special Drawing Rights (SDRs).
...and debt service relief. The IMF and the World Bank are providing extensive technical support to the G20 Debt Service Suspension Initiative (DSSI), which calls on official creditors to grant temporary debt relief to the poorest countries. The DSSI runs through end-2020, but discussions are under way to extend it into 2021. The IMF also approved 29 countries for debt service relief on obligations to the Fund under the Catastrophe Containment and Relief Trust (CCRT), with the applicable period recently extended from 6 to 12 months. Fundraising efforts are ongoing to extend this period to up to two years. More generally, the IMF is helping countries develop credible medium-term fiscal frameworks to restore market confidence and foster stronger growth and sustainable fiscal balances. In this context, the IMF will advance its work on the multi-pronged approach to address debt vulnerabilities, in collaboration with the World Bank.

Targeted surveillance and capacity development will tackle new policy challenges and react nimbly to the needs of the membership... As the IMF is resuming gradually targeted bilateral surveillance, it will strengthen analytical frameworks to focus on the pandemic, global risks, and policy responses, including the integration of high-frequency data and epidemiological modeling of COVID-19 into macroeconomic frameworks. The IMF will also advance work on the Comprehensive Surveillance Review and the Review of the Financial Sector Assessment Program (with the World Bank). Key elements for both surveillance and program work include social and governance issues, as they are often critical levers for reducing inequality and strengthening social cohesion. The IMF is also continuing its analytical work on illicit and tax-avoiding financial flows to help level the playing field within and across countries. Climate change mitigation and adaptation policies are becoming increasingly integral parts of IMF surveillance.

The IMF’s capacity development (CD) activities have also been adapted to crisis conditions, including by the launch of the Covid-19 Crisis CD Initiative to react rapidly to EMDEs’ needs.

... including fragile and small states. The IMF is enhancing its engagement with fragile and conflict-affected states, including on monetary and financial policies, revenue mobilization, and social protection, along with targeted capacity development. For small and developing states, the IMF is exploring ways to expand liquidity assistance in the event of large shocks and to support efforts to strengthen resilience to natural disasters.