GROUP OF TWENTY

G-20 SURVEILLANCE NOTE

COVID-19—Impact and Policy Considerations

G-20 Finance Ministers and Central Bank Governors' Meetings
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Virtual Meeting

Prepared by Staff of the

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*Does not necessarily reflect the views of the IMF Executive Board

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EXECUTIVE SUMMARY

COVID-19 has triggered a major health emergency and a severe economic crisis. Infections are on an upward trajectory. Millions of jobs have been lost amid essential containment measures and voluntary distancing. Emerging market and developing economies face exceptional challenges given the deteriorating global economic conditions and their less equipped health systems. The pandemic is disproportionately affecting vulnerable groups, raising the specter of a humanitarian catastrophe.

A deep global recession is expected this year and the outlook is unusually uncertain. As discussed in the IMF's April 2020 World Economic Outlook, global output is likely to shrink by 3.0 percent in 2020. With the fallout expected to be concentrated in the second quarter and a gradual recovery expected thereafter, growth in 2021 would be significantly stronger. Nonetheless, uncertainty is exceptionally high, reflecting, in turn, the (intertwined) uncertainties surrounding the path of the pandemic, the duration and depth of necessary containment measures, and the effectiveness of policies in supporting economic activity and financial conditions, including by avoiding scarring.

Policymakers have taken forceful steps to curb the spread of the disease and limit the economic damage. Mobility restrictions have been adopted widely and efforts to adequately resource health systems are ongoing. Fiscal policy has been eased markedly in many countries to provide a lifeline to the most affected and vulnerable. The most significant fiscal actions have been concentrated in advanced economies, where recorded infections were quicker to mount. With some exceptions, emerging market and developing economies have so far relied on smaller fiscal packages, if any, reflecting comparatively delayed increases in infection rates and concerns about limited policy space and high debt. Monetary policy easing and financial sector policies have helped partially offset the tightening of financial conditions.

Joint action is essential to address the key remaining challenges. In most countries, vulnerable citizens are likely to need further support until containment restrictions can be lifted. However, the scope for governments to provide economic relief to their citizens is uneven. Many emerging market and developing countries are unlikely to be able to ensure adequate social protection through the crisis without the support of the global community. Joint action is imperative for reasons of human solidarity, and to hasten the end of the pandemic and secure a return to a healthy global economy more quickly. Priorities will differ during containment and recovery:

- *Containment.* Containment measures will remain crucial until pressures on health systems abate, but to be sustainable they need to be accompanied by well-targeted economic relief. Multilateral collaboration is needed to help emerging market and developing economies secure financing to combat the epidemic and save lives, and to ensure that critical medical information and supplies continue to flow across borders to where they are needed.

- *Recovery.* Joint action will be warranted to reignite trade and financial flows, address the buildup of vulnerabilities and debt burdens, and support a strong revival in global demand through well-coordinated fiscal and monetary policies.

Only forceful global policy action can arrest the pandemic and secure a strong economic recovery. Working together, the G-20 can critically help put the world back on the path to strong, sustainable, balanced, and inclusive growth.

Prepared under the supervision of Oya Celasun by a team led by Lone Christiansen and comprising Galen Sher, Eric Bang, and Shan Chen. Ilse Peirtsegaele provided administrative support.

A HEALTH EMERGENCY AND AN ECONOMIC CRISIS

The dire impact of COVID-19 is felt across the globe, with emerging market and developing economies and poor and vulnerable people facing particular challenges.

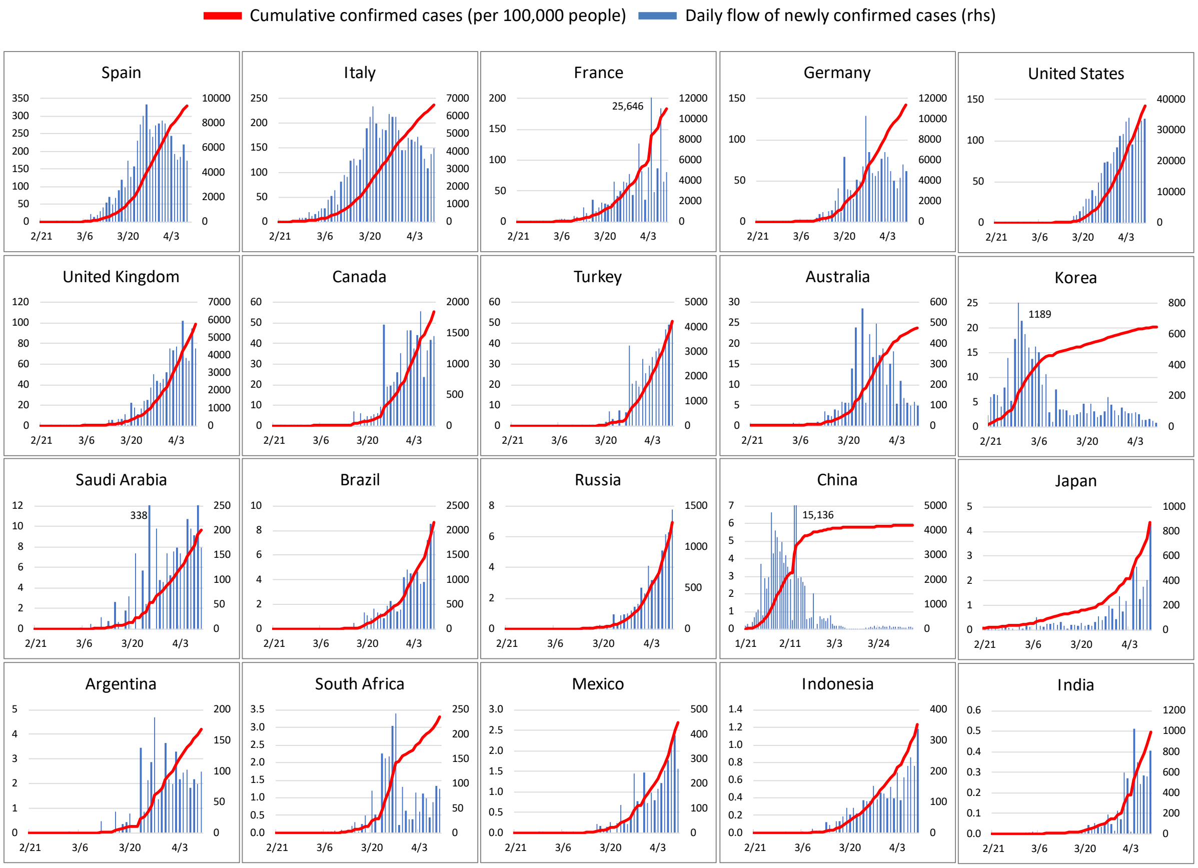
A. COVID-19 Has Triggered a Health Emergency and an Economic Crisis

1. The disease has continued to spread rapidly across the globe. The number of confirmed infections continues to rise at the global level. While infections in *China* and *Korea* may have passed their peaks and new cases in *Italy* and *Spain* appear to be stabilizing after a surge, cases remain on an upward trajectory in most economies (Figure 1). Health systems are becoming overwhelmed, leading to voluntary and forced social distancing and isolation, with increasingly deep economic impacts.

2. The pandemic has unleashed multiple shocks on all countries: (i) necessary containment measures, enacted as a frontline defense against the spread of the virus, are restraining supply (including through closures and by disrupting global supply chains) and demand (with steep declines in tourism, recreational, and retail spending triggering massive income losses); (ii) confidence is hit, amidst vast uncertainty on the future progress of the pandemic and duration of containment efforts; (iii) financial conditions are tighter due to the decline in activity and risk appetite, with emerging markets experiencing sharp capital outflows; (iv) prices of commodities, particularly oil, are much lower, putting enormous pressure on some exporters; and (v) all countries are hit within a short interval, amplifying the impacts through cross-country spillovers.

3. The global economy is projected to fall into a severe recession this year, before regaining some strength in 2021. The IMF's April 2020 *World Economic Outlook* (WEO) projects the global economy to contract by 3.0 percent this year. This significantly sharper contraction than in 2009 reflects a downward revision from the January 2020 WEO Update of more than 6 percentage points, with sizable revisions across all G-20 economies. The projections assume that the pandemic fades in the second half of 2020 (with disruptions outside *China* concentrated in the second quarter of 2020), financial conditions ease with the containment of the pandemic, and commodity prices gradually increase in line with futures market prices at the end of March 2020. Hence, as activity is expected to begin to gradually pick up in the second half of this year, global growth is projected to turn positive in 2021 (Table 1). Nonetheless, uncertainty around the projection is much higher than usual.

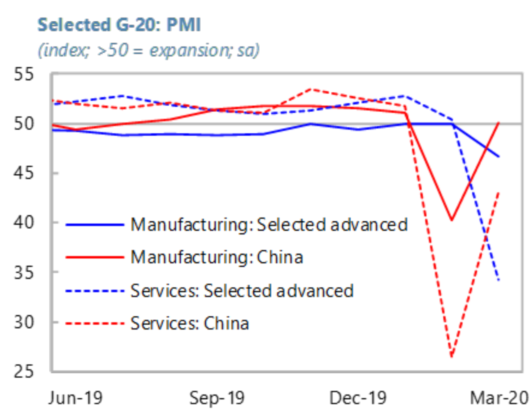
Figure 1. Total and Newly Confirmed Cases as of April 10, 2020



Sources: IMF, *World Economic Outlook*; Bloomberg, L.P.; and IMF staff calculations.
Notes: New confirmed cases reflect the change in cumulative confirmed cases. Cumulative confirmed cases are relative to populations. New cases jump in *China* (February 13) and in *France* (April 3) due to definitional changes. *China* starts on January 21. All others start on February 21. *Spain* is a permanent invitee.

4. Where necessary containment measures are in place, economic activity has ground to a halt in some sectors and job losses have accumulated at unprecedented rates. Necessary social distancing and movement restrictions have led to a rapid drying up of service activities (Box 1). As the virus and the economic pain spreads, the manufacturing sector has also been impacted. Purchasing managers' indices (PMIs) are signaling distress in major economies—although they have recently improved in *China*, where activity is gradually resuming (Figure 2). Facing forced shutdowns, shrinking demand, and tighter financing conditions, many firms have had to cut back on hours and workers. In turn, millions

Figure 2. Purchasing Managers' Indices

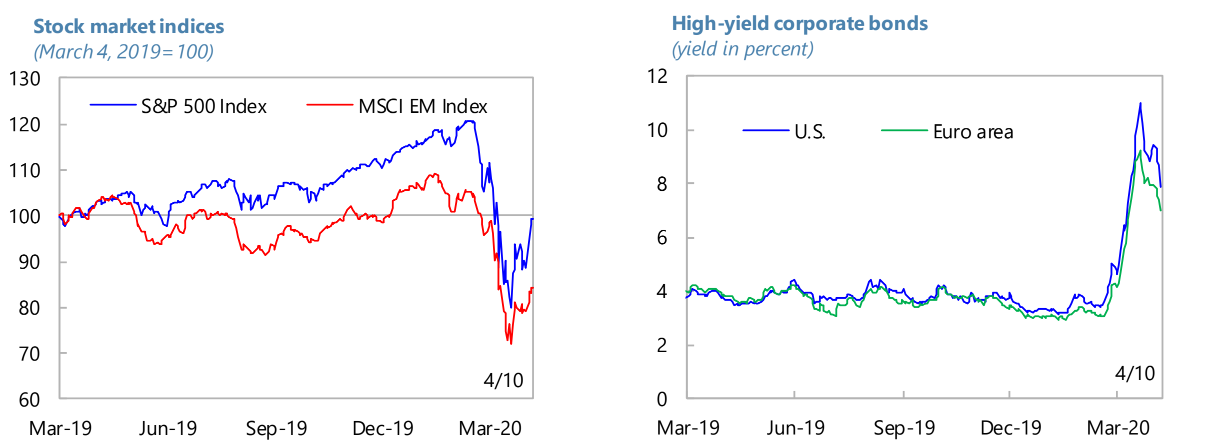


Sources: Haver Analytics; HIS Markit Managers Survey; and IMF staff calculations.
Note: Selected advanced economies include *Australia*, *euro area*, *Japan*, *United Kingdom*, and *United States*.

of people have become unemployed and many are at risk of losing their jobs. For example, in the *United States*, close to 10 million people made initial claims for unemployment insurance during the last two weeks of March—more than seven times larger than in the worst two-week period during the global financial crisis. In the *United Kingdom* and *Canada*, internet searches for information on unemployment benefits, which tend to predict higher unemployment, have also ratcheted up.

5. Financial market conditions have tightened sharply. As described in the April 2020 *Global Financial Stability Report* (GFSR), conditions have tightened in key markets amidst the deteriorating outlook and reduced risk appetite, with the vast degree of uncertainty prompting significant volatility (Figure 3). Many equity markets around the world experienced their fastest price drop in history. Corporate bond spreads have increased markedly owing to heightened credit risk, especially for borrowers with lower creditworthiness. Bank wholesale funding costs have also risen, despite helpful offsets from central bank actions to provide liquidity, with potential knock-on effects to the cost of bank credit. Amid high demand for safe-haven currencies, the U.S. dollar has appreciated, and the cost of borrowing dollars outside the *United States* rose notably—though pressures were greatly alleviated after March 19 when the U.S. Federal Reserve expanded its swap line facilities. In general, financial markets have showed some fragile stabilization recently on policy support and signs of disease transmission slowing in some places, although liquidity remains low and volatility high. The tightening in financial markets would have been much larger if it weren't for significant policy actions by monetary authorities (in some cases complemented by fiscal backstops).

Figure 3. Financial Market Developments



Sources: Bloomberg. L.P.; and IMF staff calculations.

Box 1. Disruptions in Transport, Hospitality, Entertainment, and Retail

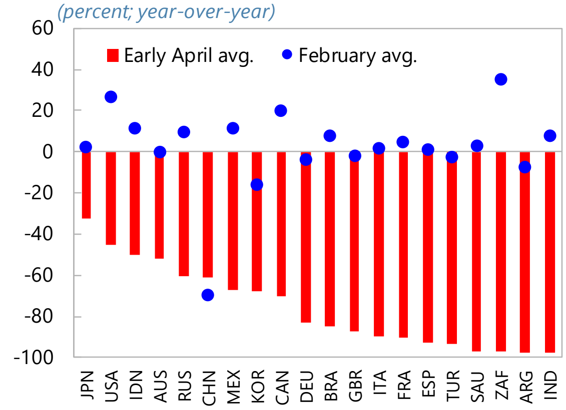
The pandemic has led to sharp declines in service activities that rely on human interaction:

- *Transport*. With passengers avoiding travel and necessary travel restrictions being put in place, flights have been cancelled. Flights in early April were down across the G-20, compared to 2019. These restrictions, along with stay-at-home orders, have also reduced road and rail transport. Road traffic congestion has fallen by half in major G-20 cities, with steeper declines in some. The drop in travel will be particularly challenging for small island developing states where tourism activities contribute 11 percent of GDP, on average.
- *Hospitality*. Social distancing and essential movement restrictions have led to a sharp drop in restaurant and hotel visits. Online restaurant bookings have almost ceased in major economies.
- *Entertainment*. Social distancing has also severely disrupted entertainment, recreation, and cultural activities. Major sporting and cultural events have been canceled. In *China*, *Italy*, and *Korea*, sales at cinemas in March dropped to about zero, while sales in *Japan*, *Turkey*, *United Kingdom*, and *United States* dropped by 60 percent on average.[1] Meanwhile, television viewership has increased in *Italy*, *Korea*, and *United States*.
- *Retail trade*. Closures of non-essential stores and social distancing is changing the nature of retail consumption and shifting it online. Products for cultural or recreational activities are particularly impacted, while sales of staples like food, personal hygiene products, and pharmaceuticals are less so.

Prolonged disruptions in these sectors could significantly drag down economic activity. In G-20 countries, the hospitality, transport, retail, and entertainment service sectors account for 26 percent of GDP and employment, on average. In addition, the prevalence of temporary employment contracts in these sectors makes workers particularly vulnerable.

Change in daily flight activity

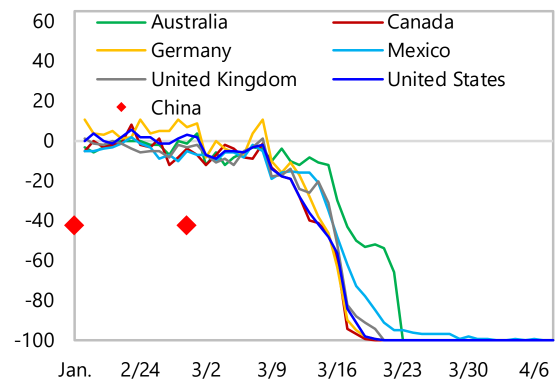
(percent; year-over-year)



Source: FlightRadar24.

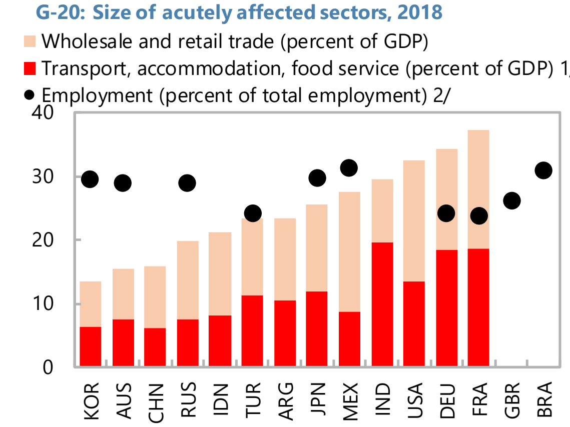
Change in restaurant bookings

(percent; year-over-year)



Source: OpenTable.

G-20: Size of acutely affected sectors, 2018



Sources: Haver Analycis; OECD; and IMF staff calculations.
1/ Includes art and entertainment activities for some countries.
2/ Affected sectors include wholesale and retail trade, transport, accommodation, food service, and art and entertainment.

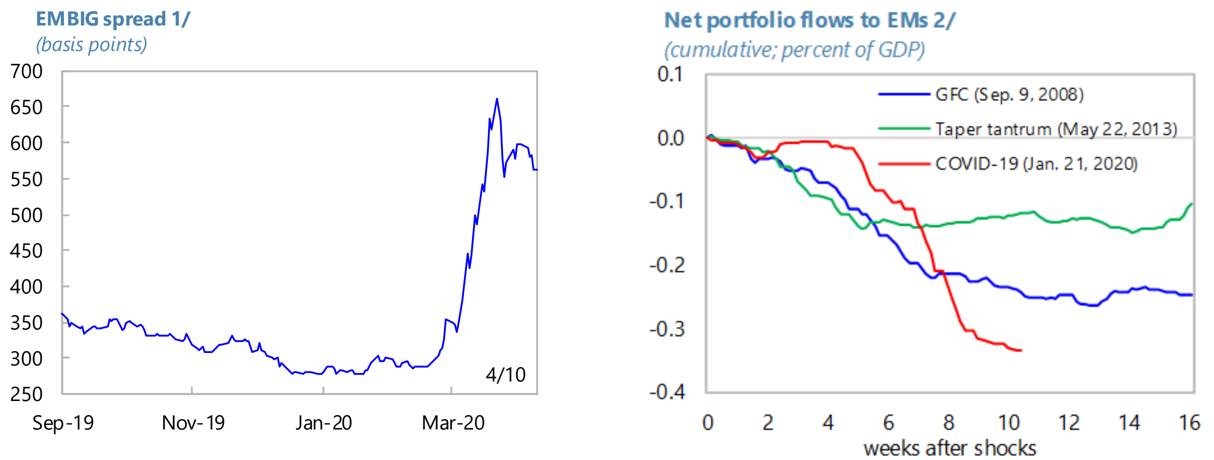
[1] Based on data reported at www.boxofficemojo.com.

6. Some emerging market and developing economies face grave challenges. With an unprecedented multiplicity of shocks hitting the global economy, emerging markets and developing economies are facing additional challenges, given their weaker health systems, more constrained macroeconomic policy space, often less-diversified economies, and in some cases high risk of debt distress. Fiscal borrowing requirements are set to escalate with lower revenues and higher spending pressures at a time when capital is flowing out and borrowing costs are rising (Figure 4). In addition, currency mismatches in some economies make large exchange rate depreciations costly.

- *Health care capacity and security is limited*. In a context where demand on health systems exceeds capacity even in many advanced economies, many emerging market and developing economies with weaker health systems are apt to face severe problems as infections rise further. The number of hospital beds and doctors are generally lower in these countries and many rely on imported medical equipment and have limited inventories.
- *Financing is tightening*. More than US$ 95 billion of portfolio capital is estimated to have flowed out of emerging market economies since January 21 when the spread of COVID-19 intensified in *China*. Amidst a portfolio outflow that is the largest on record in nominal terms and steeper than in the global financial crisis episode when measured relative to GDP, emerging market U.S. dollar sovereign bond yields have, on average, risen more than 300 basis points since the start of 2020, with some economies facing particularly large increases (e.g., *South Africa*, *Turkey*).
- *Lower commodity prices mean severe pressure on some exporters*. Oil prices have plummeted to below US$30 per barrel (a roughly 60 percent drop from levels at the start of this year) given the decline in projected global demand and after the breakdown of supply-restricting agreements among large oil producers—and prices have remained low despite a recent agreement to temporarily cut oil production. In turn, while oil-importing economies have benefitted from the decline, near-term prospects for oil-exporting countries have deteriorated significantly, with the growth rate for the group projected to drop below -4 percent in 2020.
- *Remittances are set to plummet*. As relatives abroad in formal or informal sectors are losing jobs, income losses will propagate across borders through lower remittances. In some poor or small economies heavily reliant on remittances, the impact on people and whole economies could be devastating.

7. In addition, the disease and necessary containment measures will disproportionately hurt the poor and other vulnerable groups. Workers in the informal sector of emerging market and developing economies are more likely to have their employment relationships broken by a temporary suspension of activity. A lack of savings and insurance means no ability to smooth income disruptions for the poor and vulnerable in any country. Another concern, common to many countries, is that workers in lower-skilled service sector occupations or construction workers will be disproportionately hit as they either cannot or are less able to work remotely. Moreover, around urban centers in emerging market and developing economies, the poor are often more likely to live in densely populated housing and large parts of the population have uneven access to water and healthcare, making social distancing and personal hygiene difficult. Humanitarian catastrophes, social unrest, or disillusionment and shifts towards extremist political platforms are thus very real possibilities unless policymakers can compensate displaced workers and enhance existing social safety nets.

Figure 4. Financial Market Developments



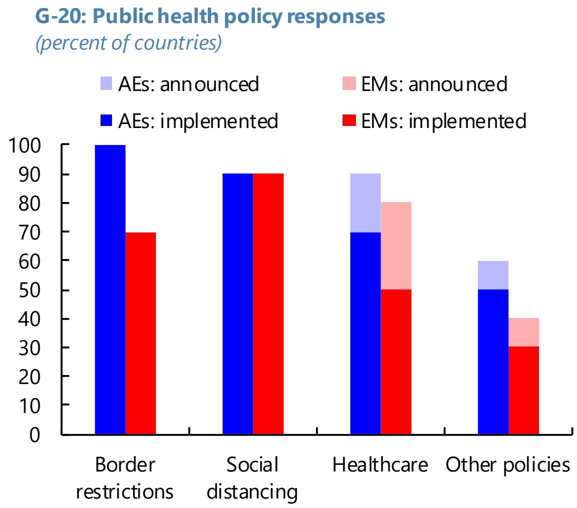
Sources: Bloomberg. L.P.; Argus, Thomson Reuters DataStream; EPFR; and IMF staff calculations.
1/ EMBI Global include: AGO, ARE, ARG, ARM, AZE, BHR, BLR, BLZ, BOL, BRA, BRB, CHL, CHN, CIV, CMR, COL, CRI, DOM, ECU, EGY, ETH, GAB, GEO, GHA, GTM, HND, HRV, HUN, IDN, IND, IRQ, JAM, JOR, KAZ, KEN, KWT, LBN, and LKA.
2/ The economies in this sample include *Brazil*, *China*, *Colombia*, *Hungary*, *India*, *Indonesia*, *Malaysia*, *Mexico*, *Pakistan*, *Philippines*, *Poland*, *Qatar*, *Saudi Arabia*, *South Africa*, *Sri Lanka*, *Taiwan Province of China*, *Thailand*, *Turkey*, *Ukraine*, *Vietnam*, and *Korea*. January 20, 2020 is the day the WHO reported the first cases of COVID-19 outside *China*. GFC denotes the global financial crisis.

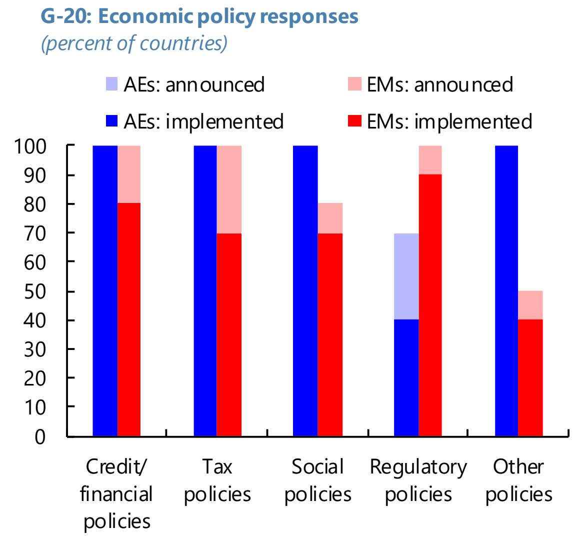
B. Policymakers have Taken Forceful Actions in Many Countries

8. Policymakers have sought to contain the spread of the virus and bolster health care system resources.[1] Most economies have restricted movement within countries and across borders and implemented social distancing measures, such as school closures, closure of non-essential businesses, and limits on the size of public gatherings (Figure 5). In addition, policymakers are working to properly resource the health care system, including by reprioritizing public spending items, requisitioning new facilities, hiring staff and volunteers, acquiring medical supplies, and funding research.

[1] Country authorities' policy actions in the areas of public health, monetary and fiscal policy, and financial supervision are detailed in the IMF's Policy Tracker (https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19).

Figure 5. Policy Actions up to April 1





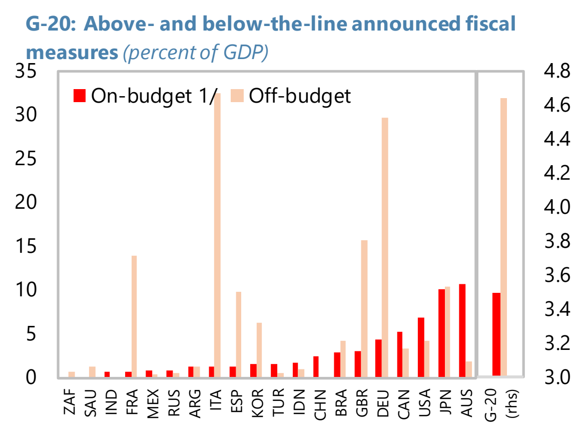
Source: IMF staff calculations.
Note: Covers G-20 countries, including *Spain*, which is a permanent invitee. Border restrictions include border closures, health screening, quarantines, additional health documentation. Social distancing includes quarantines/lockdown/curfews, school closures, limits on public gatherings, and public service closures. Healthcare policies include funding (including for the provision of medical equipment, medical staff, and facilities) and research. Other health policies include information provision and legislation. Credit/financial policies include government guarantees, loans to businesses/households from government entities, debt forbearance, and easing of credit regulation. Tax policies include tax cuts/waivers/deductions and extensions of payment deadlines. Social policies include unemployment benefits, sick leave assistance, cash transfers, and vouchers/in-kind support. Regulatory policies include price controls, employment, and trade restrictions. Other economic policies include public investments and firm subsidies. The distinction between 'announced' and 'implemented' is a judgment based on whether further steps are needed to implement a measure.

9. Authorities have deployed various tools to contain the economic fallout.

- *Fiscal policy responses have been sizable in some countries, complementing automatic stabilizers.* The amount of on-budget measures varied widely—with the median G-20 country announcing non-liquidity revenue and expenditure measures of 1.6 percent of GDP—and complemented by off-budget programs of varying type and size (Figure 6). Relief packages included loan programs, guarantees, debt forbearance, and wage subsidies to help firms facing cashflow shortfalls avoid bankruptcy and maintain jobs; targeted and untargeted cash transfers to individuals, and enhanced unemployment insurance and welfare systems to ensure people have enough income to meet their basic needs. Tax relief to firms and individuals

Figure 6. Announced Fiscal Measures

G-20: Above- and below-the-line announced fiscal measures *(percent of GDP)*



Sources: National authorities; and IMF staff calculations.
Note: Data as of April 8, 2020. G-20 average is calculated using PPP-adjusted GDP weights.
1/ On-budget measures are revenue and expenditure measures, excluding liquidity measures such as deferrals of tax or social security contributions.

was provided through rate cuts, temporary waivers, deferrals, exemptions, and accelerated rebates. For example, the *United States'* response package approved in late March comprises cash payments to 90 percent of households, food assistance, expanded unemployment benefits, support to firms in distressed sectors (e.g., airlines), payroll tax deferral, and paycheck protection for SMEs. *Germany's* fiscal response includes a short-term work subsidy, expanded childcare benefits, and public loan guarantees. *Japan's* stimulus package, announced in early April, includes transfers to affected households and firms, deferral of tax payments and social security contributions, and concessional loans from public and private financial institutions. The *United Kingdom's* response package includes paying 80 percent of the wages of all furloughed workers for 3 months, up to a ceiling. *China* provided subsidies and targeted tax cuts nationally in addition to transferring significant additional medical personnel to Hubei Province, which was particularly impacted by COVID-19.

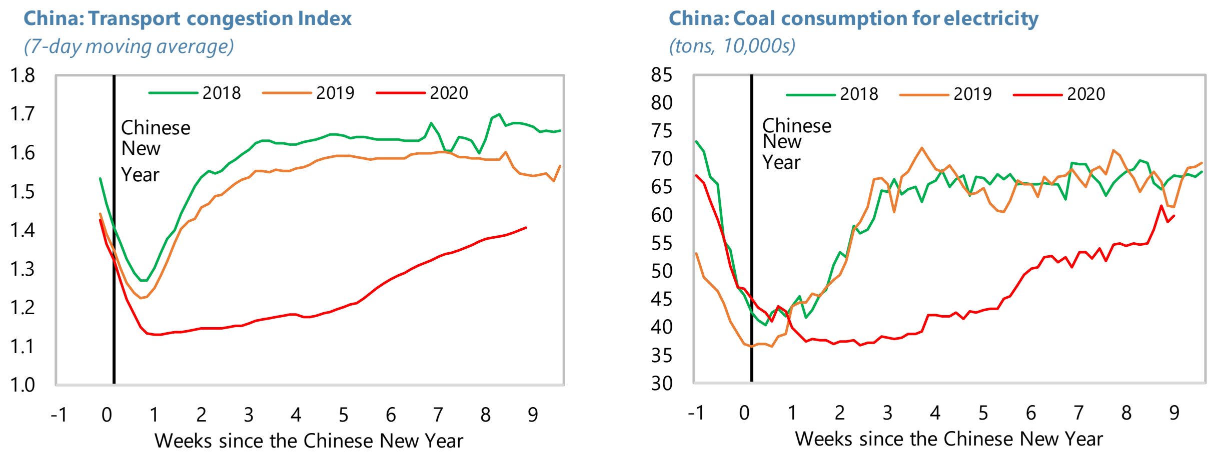
- *Major central banks took swift action.* First, they significantly eased monetary policy, including by cutting policy rates and in some cases by expanding their asset purchase programs to put downward pressure on long-term interest rates (e.g., *Australia, Brazil, Canada, euro area, India, Japan, Korea, South Africa, Turkey, United Kingdom, United States*). Second, they injected liquidity to banking systems, including by lowering bank reserve requirements, easing collateral terms, and scaling up and extending the terms of liquidity repo operations (e.g., *Australia, Brazil, Canada, China, euro area, India, Japan, Korea, Russia, South Africa, Turkey, United Kingdom, United States*). Third, several central banks agreed to participate in swap line arrangements to ameliorate the tightening in the global U.S. dollar funding market. In addition, the U.S. Federal Reserve supported access to U.S. dollar liquidity with a temporary repurchase facility open to the central banks of a broader set of economies. To enhance the liquidity and functioning of short-term funding markets as well as to maintain the flow of credit to the broader economy, several central banks launched or expanded facilities to support various market segments, including commercial paper, corporate bonds, equities, and asset-backed securities markets (e.g., *Canada, euro area, Japan, United Kingdom, United States*).
- *Foreign exchange intervention has also taken place.* Some economies with floating exchange rates have intervened in foreign exchange markets to bolster foreign currency liquidity and limit volatility (e.g., *Brazil*, *Indonesia*, *Mexico*, *Russia, Turkey*).
- *Financial sector measures have been taken.* Actions were aimed at ensuring the flow of credit to the economy while preserving financial stability (e.g., encouraging banks to use capital and liquidity buffers, loan restructuring for borrowers affected by the pandemic, clarification on provisioning requirements, introducing temporary flexibility for banks in their treatment of restructured and nonperforming exposures, and public credit guarantees).

10. Many emerging market and developing economies have provided relatively limited fiscal support, amidst a more delayed pickup in recorded infections and owing to fiscal space concerns. While some large emerging market economies have introduced sizable fiscal support (e.g., *Brazil*, *China*, *Indonesia*, *Turkey*), the median of the on-budget fiscal support package among the ten emerging market economies in the G-20 so far is 1 percent of GDP, compared with a G-20 advanced economy median of 3.7 percent of GDP. While several low-income countries have provided some fiscal support to households and firms, in many where fiscal space was very limited going into the crisis, monetary policy has helped by reducing borrowing costs and providing vital liquidity. Nonetheless, some countries may soon become overwhelmed with crisis costs and could face a difficult choice as to whether to prioritize health and essential economic support or debt service payments. Reflecting the acute challenges confronting many economies, over 90 countries across the globe are seeking rapid emergency financing from the IMF.

C. The Outlook is Extremely Uncertain

11. The experience from *China* can provide partial guidance for assessing the outlook elsewhere. In *China*—where strict movement restrictions to curb the spread of the virus began to be implemented on January 23—data for January/February showed sharp contractions in retail sales, industrial production, and fixed investment, pointing to a sharp GDP contraction in the first quarter (Figure 7). As the Chinese authorities started to gradually lift movement restrictions in mid-February, economic activity started to pick up again, as reflected in a recovery in PMIs, electricity production, road traffic, and property sales. Yet, other countries may experience longer-lasting disruptions to activity. Since *China* first experienced the outbreak, multiple additional shocks have hit the global economy (e.g., sharp tightening of financial conditions, disruptions in global value chains). In addition, the extent and effectiveness of containment measures will likely vary across countries, and many countries may not be able to reduce new infections as quickly as *China*.

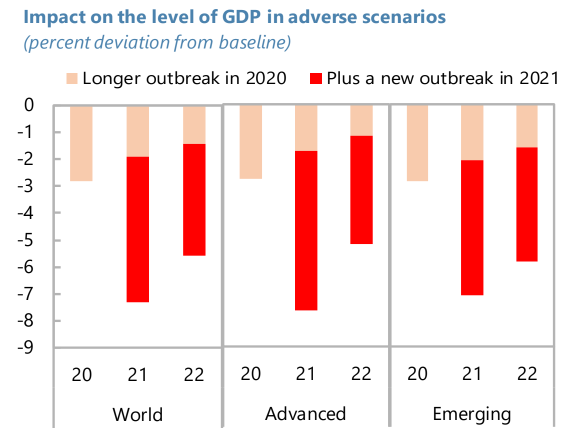
Figure 7. China: Recent Developments



Sources: Haver Analytics; Wind; and IMF staff calculations.
Note: Week 1 = first week of Chinese New Year. Transport congestion index is based on 100 cities. Chinese New Years are Feb. 12, 2020, Feb. 5, 2019, and Feb. 16, 2018.

12. The economic outlook is subject to an unusual degree of uncertainty. It is difficult to predict the evolution of the pandemic itself, which depends in part on the intensity and efficacy of containment efforts in the period ahead, as well as the time it may take for research into therapies and vaccines to bear fruit. It is also challenging to assess the evolution of confidence, financial conditions, commodity prices, and the impact of various forms of policy support. As a result, there is substantial uncertainty about the timing and shape of the global recovery. Staff simulations, using the IMF's G-20 Model, illustrate that if containment measures were to be in place for 50 percent longer than currently envisaged, global GDP would be reduced by almost 3 percent in 2020 relative to the April 2020 WEO projections (Figure 8).[2] If, in addition, containment measures fail to contain the virus and a new outbreak occurs in 2021, global GDP would be lower by more than 7 percent next year, relative to baseline projections.

Figure 8. Scenario Analysis



Source: IMF, *World Economic Outlook*, April 2020.
Note: Calculations are based on the IMF's G-20 model. Please see Scenario Box in the *World Economic Outlook* for additional details.

13. Many downside risks threaten the global economy. Beyond the possibility of a more prolonged containment phase than currently assumed (including through possible recurrences of the disease), other adverse developments could play out. The eventual recovery could be more protracted than currently projected (or in the scenarios above), especially in countries with balance sheet strains or where policies fail to avert persistent large scars on capacity (e.g., through lower labor force participation, losses in human and physical capital and productivity). If containment fails, direct and indirect effects of morbidity could curtail labor supply and lead to socially costly shortages of basic goods and services. In addition, social discontent fueled by massive job and income losses resulting from the crisis could have impacts ranging from severe further economic disruption to lower public support for needed reforms to lift medium-term growth. Intensified geopolitical tensions and security risks may also result in economic and political disruption. Furthermore, an increase in the frequency or severity of natural disasters, in line with the trends observed in recent years, would cause severe economic pain during an already deep crisis, especially in small states. Cyber-attacks on critical global infrastructure, institutions, and financial systems could trigger financial instability in a context of already tight financial conditions and heightened reliance on technology. Migration pressures on advanced economies could mount after the pandemic if emerging market and developing economies

[2] Relative to the baseline, this scenario assumes that containment measures in both advanced and emerging market economies need to be imposed for 50 percent longer than assumed in the baseline. In addition, the scenarios consider that a second, but two-thirds as severe, outbreak occurs in 2021, reflecting that the initial containment efforts may not be sufficient to arrest the spread of the virus and measures need to be re-imposed. Both scenarios reflect the (i) direct impact of measures to contain the spread of the virus; (ii) tightening in financial conditions; (iii) discretionary policy measures to support incomes and ease financial conditions; and (iv) some scarring effects resulting from the economic dislocation that policy measures are unable to fully offset.

experience severe crises and feeble recoveries. Escalating protectionist actions and a substantially weakened WTO dispute resolution framework could imperil the global trade system.

JOINT ACTION NEEDED TO REACH RECOVERY FASTEST

In addition to national actions, joint action by the global community is essential for reasons of human solidarity and because of the global nature of the crisis. The pandemic must be contained everywhere before we can have a return to normalcy. Additional policy measures will likely also be needed to provide sufficient, swift, temporary, and targeted support to citizens and firms. Poorer countries rely on the international community to help ensure enough resources and financing.

14. Further national and joint policy actions are required for containment and recovery. While policymakers in many economies have already taken significant steps to help cushion the blow to livelihoods and viable firms in some countries, other countries still need to act. And additional policy responses may be needed even in countries that have taken forceful steps to date if the crisis turns out to be more severe or more prolonged than expected (e.g., as in the adverse scenarios discussed in paragraph 12). The need and ability for further action will inevitably depend on the extent of actions already taken and remaining available policy space. Notably, limited fiscal space in many emerging market and low-income countries has likely held back targeted fiscal policy support to date. In this respect, additional efforts in many parts of the world can only be done effectively with the help of the international community in providing liquidity and credit support. In the *euro area*, meaningful European support targeted at the hardest-hit countries should supplement national efforts, helping them meet financing needs arising from a very large and exogenous common shock.

15. Containment is crucial to avert a humanitarian catastrophe in the immediate term. Moreover, containment and targeted economic relief must go hand in hand. Given significant restrictions on supply and spending, traditional demand management tools (e.g., broad tax cuts and public investment) are not likely to be successful in boosting activity in the near term. Instead, timely, temporary, and targeted fiscal measures can support the livelihoods of people and help preserve otherwise viable and productive companies and the jobs they generate. Such targeted relief will help ensure the continued well-being of all citizens, support their cooperation with containment efforts, and establish the conditions for economic activity to restart more rapidly once restrictions are gradually lifted. Policies will need to be tailored to administrative capacity and the degree of informality—for instance, easing the eligibility criteria for unemployment insurance can be helpful in advanced economies, whereas the provision of cash transfers would be more feasible in less developed economies. Finally, attention must also be paid to protecting essential activities such as food production and distribution, utilities, internet access, postal services, etc., for the containment measures to succeed.

A. Joint Efforts are Essential to Contain the Crisis and Reach Stabilization

16. The world cannot stop the loss of lives to COVID-19, support the most vulnerable in the global population, and establish conditions for a strong and lasting post-crisis recovery without

forceful action by the G-20. The pandemic will not end until the virus is contained in each country. This externality makes a strong case for the international community to come together in helping emerging market and developing economies combat the disease, continuing research on vaccines and therapies, and sharing good practices that prevent new outbreaks—working together with the help of the World Health Organization in many of these areas.

- *Sharing information*. Information sharing between countries will ensure the crisis is resolved as quickly and broadly as possible. This involves sharing information on the disease, treatment protocols, medical research on therapies and vaccines, as well as on the effectiveness and efficacy of containment practices. In addition, information sharing can help countries successfully manage the lifting of containment measures—striking a good balance between avoiding a resurgence of the disease while limiting economic damage.
- *Ensuring financing for health care in all economies*. Health care capacity must be scaled up quickly across countries. Ensuring financing to support health systems in all impacted economies is vital to mitigate the effects of the disease.
- *Enabling the flow of medical supplies*. Getting medical supplies to where they are urgently needed will require countries to refrain from export restrictions. Countries may also need to take coordinated measures to bolster the supply of needed medical products and equipment globally. For example, the production by a company in *Switzerland*—one of the world's largest producers of ventilators—was disrupted when components were held back.
- *Supporting economic activity and stability*. Globally coordinated actions to ease funding pressures and continued accommodative monetary policy have been very helpful and will be important to complement further fiscal policy efforts through the crisis. When done jointly, coordinated efforts on this front can provide the highest impetus to activity and help reach stabilization faster.
- *Strengthening the global financial safety net*. International financial institutions can support member countries facing liquidity needs through lending arrangements. In this respect, multilateral action is essential to ensure enhanced funding for countries with high financing needs and to extend liquidity to more emerging market economies through bilateral and multilateral swap lines. The IMFC has provided the Fund a strong mandate to strengthen its crisis response, including enhancing access to the IMF's emergency facilities and helping members that experience foreign exchange shortages. Other important steps include the recent approval by the *United States* of a doubling of the New Arrangement to Borrow and the agreement by the IMF's Executive Board on a new round of bilateral borrowing arrangements to help secure the IMF's USD1 trillion lending capacity.

17. There is also an urgent need to explore how debt burdens of the poorest countries can be eased. The IMF is seeking to provide grants for immediate debt relief to the poorest and most vulnerable members. Specifically, through the Catastrophe Containment and Relief Trust (CCRT), the IMF can provide eligible countries with upfront grants for debt relief and, hence, free up resources in these countries that can be used to deal with the pandemic. The IMF's Executive Board recently approved enhancements to the CCRT to enable the provision of debt service relief to more of the IMF's poorest and most vulnerable members. In addition, the IMF is seeking to boost the CCRT funding capacity, and several members have already pledged their support. The Managing Director of the IMF and the President of the World Bank have also called for a standstill of debt service from the poorest countries to official bilateral creditors during the global economic paralysis.

B. Continued Collaboration is Needed for a Strong Recovery

18. Once the disease comes under control and constraints on activity begin to ease, continued multilateral cooperation will be vital. An effective international response will include actions to restore the normal flow of goods and finance across countries and measures to ensure a strong pickup in global demand, while addressing the expected buildup of vulnerabilities through the containment period. The priorities will be:

- *Reigniting financial flows and trade in goods*. Financial and trade integration has brought tremendous benefits to the global economy over the past several decades, though more effective domestic policies in many economies are needed to ensure that these benefits are shared more broadly. Bringing about a strong and sustained recovery requires a commitment by all economies to refrain from barriers to investment or trade in goods and services, and actions to redress any impairment to global supply chains that may occur during the crisis.
- *Ensuring a strong recovery in global demand*. Where there is fiscal space, internationally coordinated fiscal stimulus can help bolster the recovery—in particular if the recovery is slower than currently projected—and create a supportive environment for economic adjustments and balance sheet repair where needed. Coordinated efforts will not only impact national economies but also help lift global economic activity through positive cross-border spillovers and confidence effects. The demand stimulus for the recovery phase can be designed to address other key public policy goals, such as infrastructure investment for the greening of economies and adaptation to climate change.
- *Addressing the buildup in vulnerabilities*. The necessary national and international responses during the containment phase will inevitably result in higher public and private sector debt. Addressing these vulnerabilities will require collective efforts to address debt overhangs and to repair and strengthen balance sheets.
- *Maintaining anchored inflation expectations*. Amid weak demand and low oil prices, inflation may ease further in some countries. In contrast, in some other countries, high and growing levels of debt may raise inflation expectations. Ensuring strong and credible policy frameworks is therefore crucial, and a re-anchoring of inflation expectations around inflation targets might be necessary after the crisis.

19. Working closely together, the G-20 can help save lives, protect the vulnerable, and put the world economy back on the path to strong, sustainable, balanced, and inclusive growth. Policymakers across the world must stand united in the face of this emergency. Cooperation is not only important for reasons of human solidarity, but also for preventing the resurgence of disease at home in an interconnected world. Internationally coordinated efforts can have particularly large benefits, as spillovers from joint action result in additional benefits to the global economy.

Table 1. Real GDP Growth

(percent change)

	Year over Year					
			Projections (Apr. 2020)		Deviations (from Jan. 2020)	
	2018	2019	2020	2021	2020	2021
World	**3.6**	**2.9**	**-3.0**	**5.8**	**-6.3**	**2.4**
Advanced Economies	2.2	1.7	-6.1	4.5	-7.7	2.9
Euro area	1.9	1.2	-7.5	4.7	-8.8	3.3
Emerging Market and Developing Economies	4.5	3.7	-1.0	6.6	-5.4	2.0
G-20 1/	3.8	3.1	-2.8	6.1	-6.2	2.6
Advanced G-20 2/	2.1	1.7	-6.0	4.5	-7.6	3.0
Emerging G-20 3/	5.1	4.1	-0.4	7.3	-5.1	2.4
Argentina	-2.5	-2.2	-5.7	4.4	-4.4	3.0
Australia	2.7	1.8	-6.7	6.1	-9.0	3.7
Brazil	1.3	1.1	-5.3	2.9	-7.5	0.6
Canada	2.0	1.6	-6.2	4.2	-8.0	2.4
China	6.7	6.1	1.2	9.2	-4.8	3.4
France	1.7	1.3	-7.2	4.5	-8.5	3.2
Germany	1.5	0.6	-7.0	5.2	-8.1	3.8
India 4/	6.1	4.2	1.9	7.4	-3.9	0.9
Indonesia	5.2	5.0	0.5	8.2	-4.4	3.2
Italy	0.8	0.3	-9.1	4.8	-9.6	4.1
Japan	0.3	0.7	-5.2	3.0	-5.9	2.5
Korea	2.7	2.0	-1.2	3.4	-3.4	0.7
Mexico	2.1	-0.1	-6.6	3.0	-7.6	1.4
Russia	2.5	1.3	-5.5	3.5	-7.4	1.5
Saudi Arabia	2.4	0.3	-2.3	2.9	-4.2	0.7
South Africa	0.8	0.2	-5.8	4.0	-6.6	3.0
Spain 5/	2.4	2.0	-8.0	4.3	-9.6	2.7
Turkey	2.8	0.9	-5.0	5.0	-8.0	2.0
United Kingdom	1.3	1.4	-6.5	4.0	-7.9	2.5
United States	2.9	2.3	-5.9	4.7	-7.9	3.0
European Union	2.3	1.7	-7.1	4.8	-8.7	3.2

Source: IMF, *World Economic Outlook*, April 2020.
1/ G-20 aggregates exclude the European Union.
2/ Includes *Australia*, *Canada*, *France*, *Germany*, *Italy*, *Japan*, *Korea*, *United Kingdom*, and *United States*.
3/ Includes *Argentina*, *Brazil*, *China*, *India*, *Indonesia*, *Mexico*, *Russia*, *Saudi Arabia*, *South Africa*, and *Turkey*.
4/ *India's* real GDP growth rates are for the fiscal year with, for example, 2019 referring to FY2019/20 (ending March 2020).
5/ *Spain* is a permanent invitee.