Monetary and Macroeconomic Policies
At the Crossroads

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Unprecedented joint monetary-fiscal support in response to the pandemic...

Current policy rates 1/
(share of countries, as of July 2021)

- Record low policy rates
- Low policy rates

Fiscal stimulus: GFC vs COVID-19
(percent of 2008-10 and 2020 GDP resp.)

Sovereign asset purchases from Mar 2020 to March 2021 2/
(percent of net issuances)

Sources: BIS; Bloomberg, L.P.; national authorities; Haver Analytics; IMF, World Economic Outlook; and IMF staff calculations.

1/ "Low" policy rates means in the bottom 10th percentile of the country’s distribution of policy rates, since 2004.
2/ Includes purchases through primary and secondary market. EMs use 2020 data.
...has crucially helped limit output losses...

**GDP level**

*(index; 2019=100)*

- July 21 WEO USA
- Jan 20 WEO USA
- July 21 WEO EA
- Jan 20 WEO EA

**Medium term per capita income loss 1/**

*(percent deviation from pre-crisis trend)*

<table>
<thead>
<tr>
<th>Region</th>
<th>2024 Projection from July 2021 WEO</th>
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</tr>
</thead>
<tbody>
<tr>
<td>AEs</td>
<td>1.0</td>
<td>3.8</td>
</tr>
<tr>
<td>EMDEs excl. China</td>
<td>-1.3</td>
<td>-0.6</td>
</tr>
<tr>
<td>Emerging Europe</td>
<td>-6.1</td>
<td></td>
</tr>
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</table>

Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

1/ Per capita real GDP (2017 purchasing-power-parity dollars) is used in the calculations. Pre-crisis trend comes from the January 2020 projection and medium-term is 2024 projection from July 2021 WEO.
...but triggered inflation and debt concerns

**GDP level and core inflation 1/**

*(percent deviation)*

**Long-run inflation expectations 2/**

*(percent per year)*

Sources: Haver Analytics; Consensus Economics; IMF, *World Economic Outlook*; and IMF staff calculations.

1/ countries with stars(*) use projections.

2/ Long-run inflation expectations are 6-10 years ahead.
Inflation pressures have transitory features, but with upside risks

Sources: Haver Analytics; IMF, July 2021 World Economic Outlook; and IMF staff calculations.

1/ For goods: HICP non-energy industrial goods for EA and CPI-U, commodities less food and energy for the US.
Easy policies have fueled asset prices

**Corporate bond spreads 1/**
(basis points)

**Cumulative real housing price change over the past 18 months**
(as of 2021q1)

**Downside risk scenario:** New infection wave in EMs + faster MP normalization in AEs
(percent deviation from baseline)

Sources: ECB; Haver; Deutsche Bank survey (left chart); Bloomberg Finance L.P.; IMF; Organization for Economic Co-operation and Development; Eurostat; U.S. Bureau of Economic Analysis; IMF, *World Economic Outlook*; and IMF staff calculations.

1/ Spreads between high yield and investment grade corporate bond index.
Labor market improvement is slower than economic recovery

Total employment
(index; Dec. 2019=100)

Sources: IMF, Global Data Source; Haver Analytics; and IMF staff calculations.
Note: Based on countries with available seasonally adjusted monthly series.
Investments needed in decarbonization and human capital

**Recovery spending by country 1/ (percent of 2020 GDP estimate)**

- Non-green recovery spending
- Green recovery spending

**Effect of a global minimum carbon price (billions of tons of CO₂)**

- Baseline
- NDCs
- Six country $25/50/75 carbon price floor

**School closures and enrollment (percent of students)**

- Closed
- Fully open
- Partially open
- Academic break

Sources: UNESCO; Global Recovery Observatory 2021; IMF World Economic Outlook; and IMF staff calculations.

1/ As of May 24, 2021. Funds that have been given a designated purpose by the EU but have not yet been allocated to a member country are counted under EU spending.
### Status of 7 Key Broad Actions Identified in the IMF Pandemic Proposal (as of August 2021)

<table>
<thead>
<tr>
<th>ACTIONS</th>
<th>STATUS</th>
<th>KEY PROGRESS</th>
<th>IMMEDIATE PRIORITY</th>
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</thead>
<tbody>
<tr>
<td>Procure sufficient vaccines to reach at least 60% coverage in every country (incl. by fully funding COVAX AMC and AVAT to ensure 30% coverage from each facility)</td>
<td>Nearly Done</td>
<td>COVAX funding reached $9.6 billion after COVAX AMC Summit in June '21, sufficient to meet 30% coverage; New contracts with Sinopharm and Sinovac to make 110 million doses immediately available to COVAX</td>
<td>(1) Advocate with and assist all AU countries to place sufficient orders through AVAT and COVAX to achieve the AU’s 60% target, so no country is left behind; (2) Execute the AVAT optional contract of 180 mln J&amp;I doses immediately to ensure 30% coverage to AU countries through AVAT; (3) Nudge countries with gaps to place orders as soon as possible, including through the COVAX cost sharing mechanism and utilize funding made available by MDBs; (4) Encourage countries with already-approved MDB financing to execute orders for vaccines immediately, given long lags between orders and actual deliveries</td>
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<tr>
<td>Ensure Free Cross-Border Flows of Raw Materials and Finished Vaccines &amp; Prioritize Deliveries to Countries with Low Vaccine Coverage</td>
<td>Partial Progress</td>
<td>U.S. removed Defense Production Act (DPA) Priority Rankings for three vaccines, which has helped boost production of Serum Institute of India and others</td>
<td>(1) Remove DPA priority rankings on all vaccines in the U.S.; Resume vaccine exports from Serum Institute of India (incl. to COVAX); Remove other trade barriers as identified by WTO; (2) Ensure that a much greater share of the J&amp;I vaccines fill-finished by Aspen, SA is supplied to AVAT (beyond the current split of 60/40) until vaccine coverage in African Union reaches 40%; (3) Prioritize allocations to countries with low overall vaccine coverage by moving COVAX &amp; AVAT up the vaccine producers’’ queue by swapping delivery dates with countries that have surplus, so more vaccines are delivered to countries far from the end-2021 target of 40%; (4) COVAX and AVAT to make country-specific indicative supply schedules for next months available to help countries plan and scale up their absorptive capacity</td>
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<td>Donate 1 bn Doses Before End-2021</td>
<td>Partial Progress</td>
<td>Of the 870 million doses announced by G7+, about 500 million doses is supposed to be delivered in 2021 (although delivery schedules are still uncertain), of which about 90 million has been delivered by mid-August</td>
<td>(1) Ensure low and lower-middle income countries have access to additional doses to achieve at least 10% coverage by end-September (currently the gap is estimated at 260 m for LMICs and 160 m doses for Africa), at least 40% by end-2021; (2) Convert G7 Summit pledges into accelerated up-front deliveries (and are unremarked). As of Aug 6th, only 10% of the G7 pledges have been delivered; (3) Explore options to preferentially allocate COVAX doses to AMC countries with the lowest vaccine coverage, irrespective of the source of vaccines (e.g., using overall coverage as a proxy for COVID-19 mortality risk); (5) Step up efforts to raise vaccination rate and absorptive capacity in coordination with COVAX/AVAT based on supply forecasts</td>
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<td>Make At-Risk Investment in 1 bn Doses on Behalf of LMICs to be Delivered in Early 2022</td>
<td>Partial Progress</td>
<td>As part of the U.S.-Pfizer deal, 300 million doses will be delivered to COVAX-AU in first half of 2022</td>
<td>Raise grant financing to reach 1 bn doses goal for 2022 to handle downside risks or additional demands on behalf of LMICs; at the same time COVAX should clarify their 2022 target;</td>
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<td>Scale up Genomic Surveillance and Systemic Supply Chain Surveillance</td>
<td>Partial Progress</td>
<td>On genomic surveillance: Limited progress; On supply chain surveillance: COVAX manufacturing taskforce and ACT-A working group on manufacturing established; In July CEPI launched COVAX Marketplace to match buyers and sellers of critical manufacturing supplies</td>
<td>(1) Step up efforts to enhance genomic surveillance in line with the Next-General Sequencing (NGS) Capacity Mapping by FIND and partners; (2) Build on the successful launch of the COVAX Marketplace, including by expanding the group of participants; (3) Conduct scenario planning to identify bottlenecks in supply chains of critical COVID-19 health tools ahead of time—including based on a survey of manufacturers</td>
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<td>Ensure Access to Diagnostics, Therapeutics, PPE and Prepare for Vaccine Deployment</td>
<td>Little Progress</td>
<td>Little to no new funding for diagnostics, PPE, and therapeutics has been raised in recent weeks; On vaccine delivery World Bank announced new partnership with African Union and with COVAX to collaborate on in-country delivery; WB and ADB financing reached over $4.5 bn to 50+ countries</td>
<td>(1) Urgently close funding gap for ACT-A, especially for Diagnostics, Therapeutics, &amp; PPE for which large funding needs remain unmet; (2) Urgently fund the Rapid ACT-A Delta Response (RADAR) to combat the Delta variant surge; (3) Increasing daily testing rates to at least 1 per 1000 in the short-term in LMICs and more thereafter, including by addressing the sizable ACT-A funding gap</td>
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<td>Evaluate &amp; Implement Dose Stretching Strategies (where approved)</td>
<td>Partial Progress</td>
<td>Several new trials studying dose stretching, incl. that suggest scope to optimize use of scarce vaccine supplies by adopting fractional dosing</td>
<td>In consultation with regulatory authorities explore ways to extend self life of vaccines; and give greater regulatory attention to dose stretching strategies to optimize use of scarce vaccine supplies (see SDN for various options)</td>
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Notes: Based on the IMF Staff Discussion Note “A Proposal to End the COVID-19 Pandemic” by Agarwal and Gopinath (2021), Updated August 21, 2021.