GROUP OF TWENTY

G-20 SURVEILLANCE NOTE

G-20 Finance Ministers and Central Bank Governors' Meetings
July 9–10, 2021
Venice, Italy

Prepared by Staff of the

INTERNATIONAL MONETARY FUND*

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

July 2021

EXECUTIVE SUMMARY

Global growth has progressed broadly in line with projections, with clear signs of divergence. While economic activity is gaining steam where vaccinations proceed and policy support is strong, it remains sluggish where COVID-19 infection rates are high. Inequalities and poverty rates have worsened in many countries, with the most vulnerable groups particularly impacted, and debt levels have risen sharply. The path of the pandemic and economic activity is uncertain. Inflation has picked up recently with demand outstripping supply in a range of product markets, including commodities. A rise in inflation expectations, which have been stable so far, could prompt an earlier-than-expected tightening of monetary policy in major economies, tightening financial conditions amid an ongoing pandemic, and exacerbating growth divergence. Climate change remains unmitigated.

Immediate action by the G-20 is needed to arrest the rising human and economic toll of the pandemic. A US$50 billion IMF staff proposal, endorsed by the WHO, WTO, World Bank, and the IMF, provides clear targets, pragmatic actions, and at a feasible cost to bring about an end to the pandemic. Vaccine donations and grant pledges have been provided but much more is needed. With the pandemic still raging, it will be vital to ensure that shared doses are available for use as soon as possible and that additional upfront grant financing is provided for the funding of tests, treatments, and investments in vaccines. More than half a million lives could potentially be saved if high-risk populations globally were to gain earlier access to vaccinations. Ensuring free trade in medical inputs and supplies is also key. The G-20 should also help ensure weaker economies have access to financial liquidity, including through the operationalization of the Common Framework for Debt Treatments and support for the general allocation of Special Drawing Rights (SDR) of US$650 billion. Reforming the international trade system would help support the global recovery.

Policy support should be tailored to the stage of the crisis, avoiding abrupt transitions.

- *Monetary policy should remain accommodative in most economies, while macroprudential policies should help contain financial vulnerabilities.* Where inflation expectations are anchored, continued monetary accommodation is warranted. In economies furthest ahead in the recovery, carefully communicated policy intentions will keep inflation expectations well-anchored and avoid adverse spillovers to weaker economies. Where inflationary pressures are high and expectations not firmly anchored, monetary policy should tighten. Targeted macroprudential measures are needed to stop and reverse the rise in financial vulnerabilities amid elevated asset valuations.
- *Fiscal policy support should be tailored to the stage of the crisis and policy space.* Where infections are spreading rapidly, support for health systems and vulnerable households and businesses remain necessary. Where fiscal space is limited, existing resources should be reprioritized. Once the crisis is abating, further targeting support can help avoid hindering reallocation to expanding sectors. Efficient insolvency and restructuring regimes can help ensure that valuable resources are not held idle. As economies exit the crisis, digital and green investments can facilitate stronger, more sustainable, and more inclusive growth. Decarbonization—underpinned by carbon pricing and other measures—is necessary to avert catastrophic climate change.

Prepared under the guidance of Oya Celasun by a team led by Lone Christiansen, comprising Mehdi Benatiya Andaloussi, Ananta Dua, Philipp Engler, Chanpheng Fizzarotti, and Chao Wang. Ilse Peirtsegaele provided administrative support. G-20 Notes are available on IMF.org.

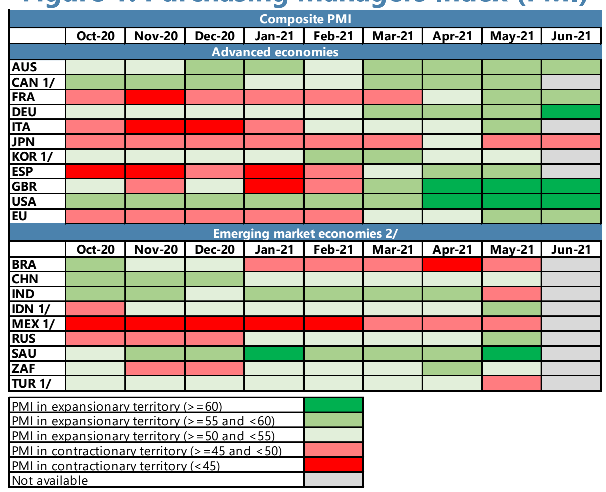
A MULTISPEED RECOVERY IS INCREASINGLY EVIDENT

Economic recoveries are progressing at multiple speeds, amid dramatic differences in vaccine availability, infection rates, and policy support. Stronger economic activity in some advanced economies has fueled asset prices, and the rapid rise in yields in early 2021 led to spillovers to emerging market economies. The pandemic path remains difficult to predict, and climate risks continue to rise.

1. Recent developments confirm projections of multispeed recoveries. On balance, recent data releases suggest that global economic activity remains broadly in line with the April *World Economic Outlook* (*WEO*) projections of 6 percent global growth this year. International trade in goods has continued to recover. Yet, indicators of activity in individual economies suggest that the trend of divergent recoveries is intensifying (Figure 1).

- *Some economies have continued to gain speed*. Activity in *China* and the *United States* has continued to outperform that in many other economies, but the recovery is also gaining speed in a few other economies. Industrial production is now close to pre-pandemic levels in many economies (e.g., *Germany*, *Italy*, *Japan*, *Spain*, *United States*) and has surpassed them in some others (e.g., *China*, *Korea*, *Turkey*). While services activity has been lagging, it has started to expand where it was possible to ease mobility restrictions (e.g., *France*, *Spain*, *United Kingdom*, *United States*). Nonetheless, high-frequency service PMI indicators remain weak in some economies (e.g., *Japan*).
- *Several economies with surging infections are struggling to support activity*. Despite normalization of industrial production in several countries, services continued to contract in the first quarter of 2021 in some economies, amid surging infections. In fact, the increase in infection rates in May, which overwhelmed health systems in some countries, led to a reduction in mobility in *Argentina*, *India*, and *Turkey* (Figure 2). Moreover, a few economies saw the latest PMI indicators in contractionary territory (e.g., *Brazil, Mexico*, *Turkey*).

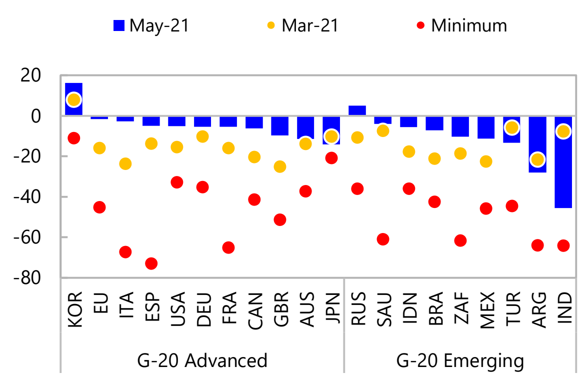
Figure 1. Purchasing Managers Index (PMI)



Sources: Haver Analytics; and IMF staff calculations.
1/ Manufacturing PMIs for CAN, IDN, KOR, MEX, and TUR.
2/ Excludes ARG due to data limitations.

Figure 2. Mobility

G-20: Google mobility
(percent deviation from pre-pandemic average)



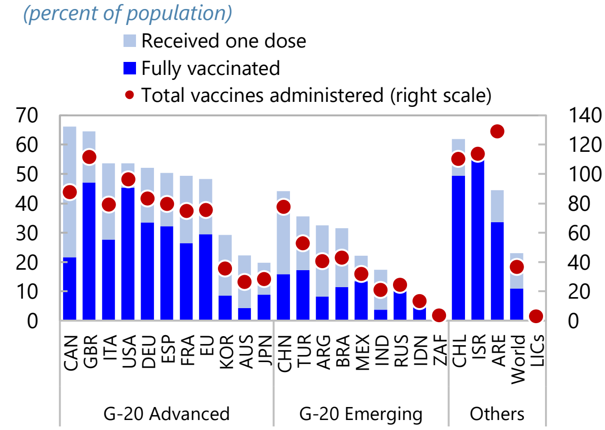
Sources: Haver Analytics; IMF staff calculations.
Note: Average of mobility indicators (grocery & pharmacy, parks, transit stations, retail and recreation, and workplaces). Pre-pandemic average: median value for corresponding day of the week, during Jan 3–Feb 6, 2020. EU: ppp-weighted average.

2. The uneven economic developments reflect diverse dynamics related to vaccinations and the evolution of the pandemic. Advanced economies have procured over 4 billion doses of vaccines—significantly more than required to vaccinate their populations. In turn, rapid progress on inoculations in a few G-20 economies have contributed to a significant reduction in infections and deaths (e.g., *United Kingdom*, *United States*). However, as the global vaccine supply remains inadequate—held back by production capacity constraints and bottlenecks in the production and distribution of inputs—vaccinations are far behind in many emerging market and developing economies (Figure 3). In several economies, new virus variants and an early lifting of social distancing measures likely contributed to infection rates remaining at devastatingly high levels and leading to surges in deaths. While the COVAX AMC facility has received US$9.6 billion in pledges from governments—allowing for the procurement of vaccines to cover close to 30 percent of AMC-eligible countries' adult populations (excluding *India*)[1] by early-2022 (about 1.8 billion doses)—the current inadequate vaccine supply is delaying deliveries to countries and, hence, inoculations. Meanwhile, infection rates in some countries in Africa are surging.

Figure 3. Global Vaccination Levels

G-20: Vaccination rate

(percent of population)



Sources: Airfinity; IMF, *World Economic Outlook*; IMF staff calc.
Note: SAU: unavailable. AUS, CHN: fully vaccinated unavailable. Data on vaccination rate retrieved on June 25, 2021. All aggregates are calculated using population weights.

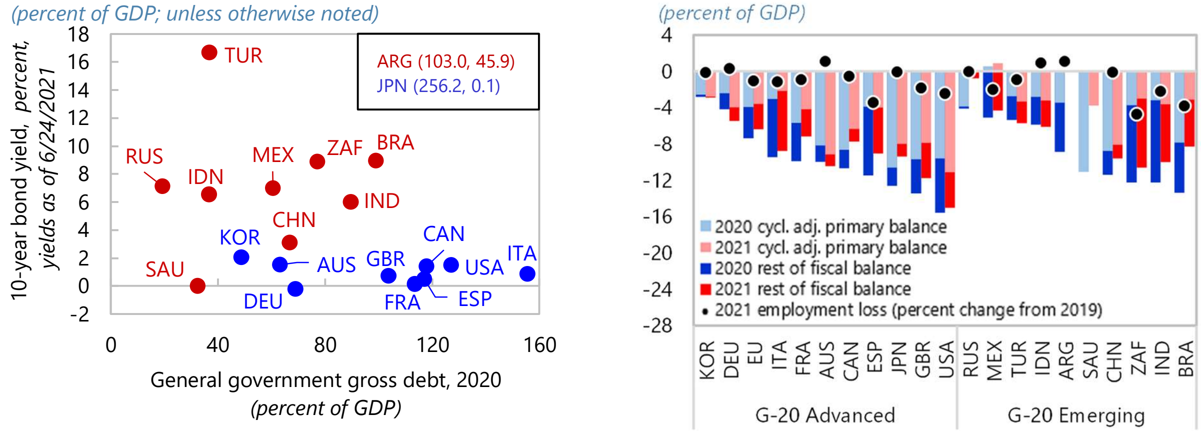
3. Policy support has also become increasingly uneven amid significant differences in fiscal space and borrowing costs. On the back of more than US$ 7 trillion in crisis-related above-the-line fiscal support (e.g., revenue and spending measures) and US$ 5½ trillion in below-the-line support by the G-20 during 2020 (of which 85 percent were provided by advanced economies), some G-20 advanced economies have been able to approve additional support since the beginning of the year, benefitting also from low interest rates (e.g., *Australia, Germany*, *United Kingdom*, *United States*). Notably, the *United States* approved the USD 1.9 trillion American Rescue Plan in March, providing support to households and state and local governments, and may have more fiscal support in the pipeline to upgrade the country's infrastructure and expand its social safety net through the American Jobs Plan and the American Families Plan. In contrast, many emerging market economies have been able to afford less fiscal support at a time when they need to stretch any remaining fiscal space over a longer horizon amid a longer wait for widespread vaccinations (Figure 4).

[1] COVAX AMC denotes COVAX Advance Market Commitment. AMC-eligible countries include 91 low- and middle-income countries and *India*. See also https://www.gavi.org/news/media-room/world-leaders-unite-commit-global-equitable-access-covid-19-vaccines.

Figure 4. Fiscal Policy

Public debt and 10-year bond yields *(percent of GDP; unless otherwise noted)*

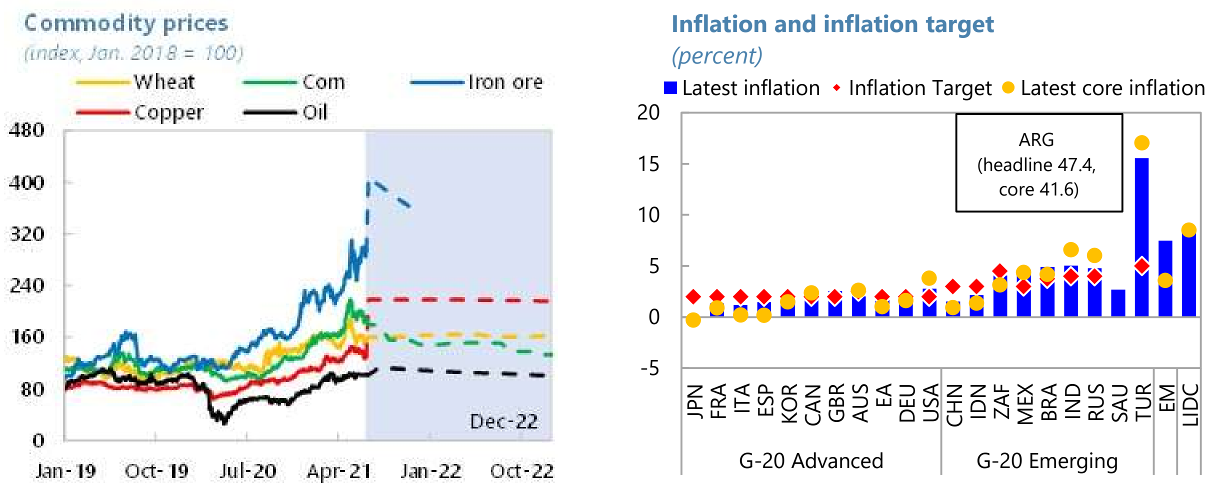
G-20: Fiscal balances *(percent of GDP)*



Sources: Bloomberg, L.P.; Haver Analytics; IMF, *World Economic Outlook,* April 2021*;* and IMF staff calculations.
Note: Sum of cyclically-adjusted primary balances and rest of fiscal balance equals overall balance. Employment data are annual. DEU: projection does not reflect the 2021 supplementary budget. SAU: bars reflect the overall fiscal balance; improvement in the fiscal deficit between 2020 and 2021 partly reflects a recovery of oil export revenues. ARG: 2021 projections not available.

4. **While inflation has picked up recently, it remains contained in most economies, despite a marked increase in commodity prices**. International food prices have soared to their highest level since 2014, including because of adverse weather events, putting millions of households at risk of food insecurity. In addition, oil and metal prices have increased somewhat faster than projected in the April *WEO*, surpassing pre-pandemic levels amid a rapid pickup in demand and lagging supply. Still, market expectations suggest commodity prices will remain contained over the next few years, suggesting only temporary impacts on inflation (Figure 5). Already in the April *WEO*, inflationary pressures were anticipated to temporarily intensify as economic recoveries and demand gain speed. In fact, since then and partly reflecting transient factors such as base effects from pandemic-induced price reductions in the previous year, production chain bottlenecks (e.g., chips, labor shortage in certain industries), and a spike in trade costs (e.g., freight rates, which rose with the strong recovery of trade, the recent blockage of the Suez Canal, and a shortage of containers), headline inflation has strengthened in several G-20 economies. Yet, even within advanced G-20 economies, inflation developments have varied, picking up somewhat more rapidly in a few economies (e.g., *United Kingdom*, *United States*) and more recently also in the e*uro area*, while it remains subdued in *Japan*. In some emerging market economies, exchange rate depreciation and domestic factors have contributed to an increase in inflation (e.g., *Argentina, Brazil, Russia, and Turkey*).

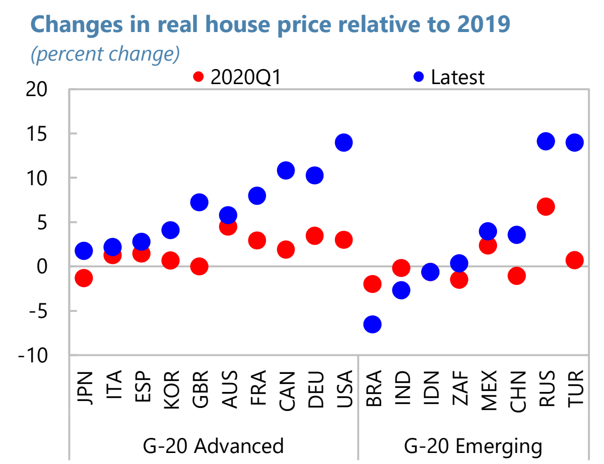
Figure 5. Inflation



Sources: Haver Analytics; IMF, *Global Data Source;* IMF, *Primary Commodity Price System;* IMF staff calculations.
Note: ARG, SAU do not have inflation targets. ZAF: targets a 3-6 percent range and de-facto focuses on the midpoint. Headline inflation data as of May 2021; core inflation data as of April. AUS: core inflation as of March 2021.The ECB targets the HICP as a medium-term objective for the euro area as a whole. The ECB objective is used for individual euro area members (DEU, ESP, FRA, ITA). ESP is a permanent invitee.

5. **Low interest rates and better recovery prospects in advanced economies continue to boost equity and real estate valuations**. Equity prices have continued to strengthen, approaching pre-pandemic levels in several G-20 economies and breaking previous records in some markets (*Japan*, *Korea*, *United States*). U.S. equity valuations may now be above levels supported by economic fundamentals.[2] In turn, overly stretched valuations may add to financial vulnerabilities. Digital currencies have also gained sharply, with the market value of the largest cryptocurrency assets surpassing the amount of US dollars in circulation. Residential real estate prices have risen markedly in several economies, reflecting factors related to both supply (low inventories, delays in new constructions, growing raw materials prices) and demand (low interest rates, available household savings). In some G-20 economies, the latest inflation-adjusted house price increases since 2019 exceeded 10 percent (*Canada, Germany*, *Russia*, *Turkey*, *United States*; Figure 6), potentially curtailing access to property to young households and first-time buyers and exacerbating wealth inequality.

Figure 6. House Prices



Sources: OECD Analytical House Price database; IMF staff calc.
Note: Latest refers to 2021Q1 for: BRA, CAN, CHN, FRA, GBR, IDN, MEX, TUR, USA, ZAF; and 2020Q4 for all other countries.

---

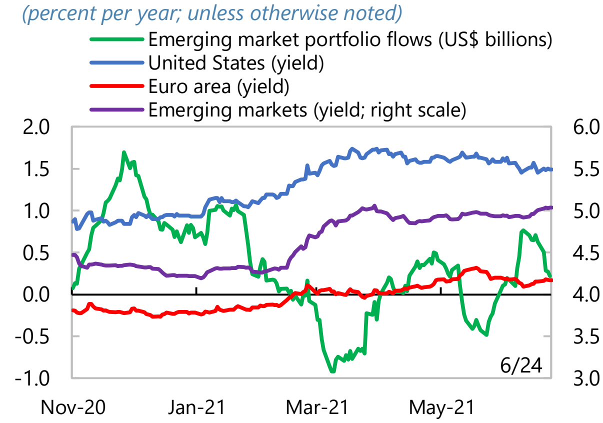
[2] IMF, 2021, Global Financial Stability Report, Chapter 1, April.

6. However, the multispeed recovery has also led to some tightening of global financial conditions as well as spillovers to emerging market economies. In February and March, the much-improved growth outlook, in particular in the *United States,* led to market speculations about an earlier end of the extraordinary monetary policy support provided by the US Federal Reserve. In turn, US yields rose rapidly in early 2021. While other advanced economies continued to see broadly accommodative financial conditions, some emerging market economies faced sudden, but temporary, capital outflows—with those with weaker fundamentals hit relatively harder (Figure 7).[3] In some economies, monetary policy authorities hiked policy interest rates, including as inflation picked up (e.g., *Brazil, Russia, Turkey*; Figure 8). However, since then, portfolio flows to emerging market economies have regained strength.

Figure 7. Spillovers

10-year bond yields and portfolio flows

(percent per year; unless otherwise noted)

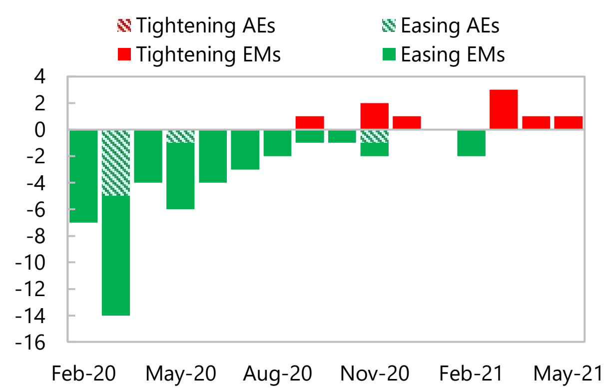


Sources: Bloomberg, L.P.; Haver Analytics; IIF; and IMF staff calculations.
Note: Euro area: PPP-weighted average across countries. Emerging market economies: JP Morgan GBI-EM Global Diversified Index. Portfolio flows are 4-week moving averages, covering 21 economies.

Figure 8. Monetary Policy

G-20: Monthly changes in monetary policy

(number of monthly net tightening/loosening in policy rates)



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

7. Within economies, people have also been unevenly impacted by the crisis. While youth unemployment rates have recently started to come down in some advanced economies after the sharp rise in 2020, they are declining less rapidly than overall unemployment and remain historically high in several economies (e.g., *Brazil*, *Canada*, *Spain*, *United States*). In several economies, women (who to a larger extent were responsible for handling increased care responsibilities) recorded unprecedented drops in labor force participation in 2020 (e.g., *Argentina*, *Brazil*, *Korea*, *Mexico*, *Italy*, *South Africa*, *Turkey*). Vulnerable households with less access to healthcare have been more exposed to the virus through jobs that require in-person contact, and low-income children have been disproportionately impacted by school closures, amid limited infrastructure to keep them engaged in educational activities. In G-20 economies, close to 60 percent of schools remained fully closed or only partially open as of end-April 2021. Moreover, after decades of progress that lowered the number of individuals in extreme poverty, the pandemic and necessary

[3] IMF, 2021, World Economic Outlook, Chapter 4, April; IMF, 2021, Global Financial Stability Report, April.

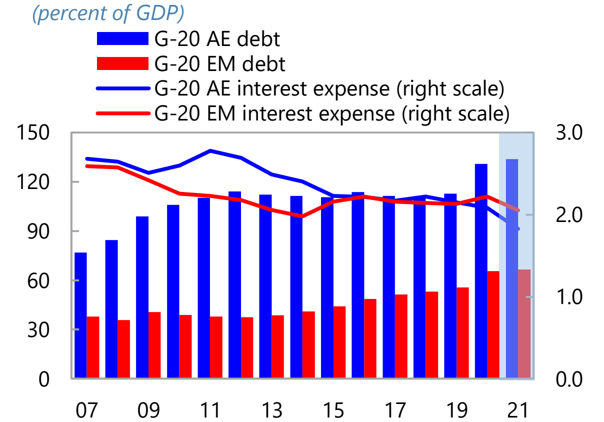
lockdowns have pushed an estimated close to 95 million individuals into extreme poverty in 2020, compared to pre-pandemic projections.

8. **Debt vulnerabilities are also rising**. The massive fiscal response that helped avoid an even worse economic crisis, combined with the drop in output, resulted in a sharp rise in sovereign debt levels. G-20 advanced economy public debt rose by 17 percentage points of GDP to 125 percent in 2020, while G-20 emerging market economy debt ratios increased by 10 percentage points to 66 percent of GDP—though favorable financing conditions kept interest expenses manageable (Figure 9). Meanwhile, non-financial corporate debt ratios jumped by 12 percentage points of GDP in G-20 economies during the first three quarters of last year, fueled by new debt issuance and the decline in GDP and earnings amid necessary lockdown measures.

Figure 9. Public Sector Debt

Interest expense and government debt

(percent of GDP)



Sources: IMF, *World Economic Outlook*, April 2021; and IMF staff calculations.

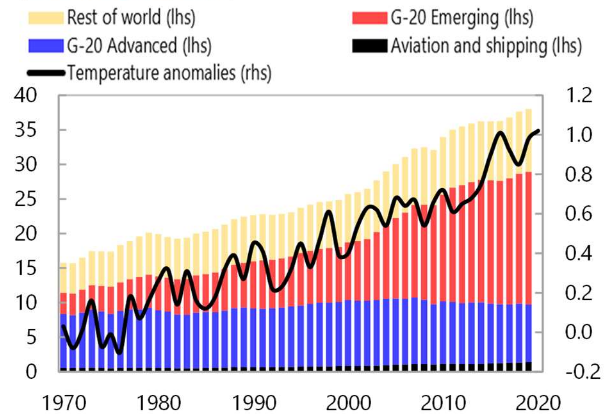
9. **The outlook continues to be impacted by significant uncertainty**. Notably, the evolution of the pandemic and progress on global vaccinations remain difficult to predict with confidence. For example, if the evolution of the pandemic is favorable, coordinated fiscal measures and the lifting of lockdown measures could release pent-up purchasing power. However, the emergence of more virulent and infectious new strains of the virus, risks of delayed vaccinations, and difficulties in taming new waves of infections could also increase the death toll and prolong the need for lockdowns and distancing measures. A further prolonged pandemic could continue to exert vastly different impacts across countries, depending on their access to vaccines, and potentially exacerbate growth divergences and slow income convergence over the medium term. Alongside, the pickup in inflation could prove more persistent than currently expected. While further fiscal support in some major advanced economies, including the *United States*, would benefit growth more broadly, it could also further fuel inflationary pressures and potentially put upward pressure on longer-term expectations, necessitating an earlier-than-expected tightening of U.S. monetary policy. In turn, this could lead to a rapid tightening of financial conditions that would hit many emerging market and developing economies particularly hard, further adding to divergence in recovery prospects and with significant challenges for those with high debt levels. The impact would be particularly severe if weaker economies are also hit with a new pandemic wave.

10. Meanwhile, other risks, including from rising inequalities and climate change, persist. Rising inequalities, perceptions of corruption, and lockdown fatigue may lead to social unrest, political upheavals, and a rise in violence, harming the growth potential. Moreover, with the global economy already vulnerable to fracturing and disintegration, an intensification of geopolitical, trade, and technology tensions would have adverse consequences for growth and inclusion. Amid all, climate risks remain unmitigated (Figure 10). In the absence of a rapid roll-out of concrete mitigation measures, global average temperatures are expected to keep rising, resulting in more frequent and intense weather events and natural disasters (e.g., heat waves, droughts, storms), which in turn would worsen population displacement, food insecurity, instability, and conflict.

Figure 10. Climate Change

Temperature anomalies and CO2 emissions

(Celsius degrees, Gtons)



Sources: EDGAR, NASA; IMF staff calculations

Note: The graph depicts the change in global surface temperature relative to 1951-1980 average global temperature, from NASA. The bars correspond to estimates of annual CO2 emissions from fossil fuel consumption, from EDGAR.

THE G-20 CAN MAKE A DIFFERENCE

A multilateral approach to vaccine sharing, vaccine funding, and investments to scale up vaccine production must be urgently put in place—on human, moral, and economic grounds. Domestically, macroeconomic policy support must be tailored to the stage of the crisis and policy space, with measures to strengthen the recovery focused on decarbonization and digital infrastructure investments.

A. Multilateral Action is Urgently Needed to End the Health Crisis

11. Immediate and sustained action is needed to facilitate the global distribution of medical supplies and vaccines to arrest the rising human toll and economic strains of the pandemic. This includes working together to ensure the rapid deployment of lifesaving equipment to virus hotspots. A recent IMF Staff Discussion Note, endorsed by the WHO, WTO, World Bank, and the IMF, estimates that financing of US$50 billion is needed to help overcome the pandemic, with a strong case for about 70 percent of the total (US$35 billion) coming from grant financing.[4] This would help save lives and add trillions to the global economy—an invaluable return to a modest investment. In this respect, financing pledges to reach COVAX's 30 percent vaccine coverage goal and dose sharing pledges by major economies of close to 1 billion doses within a year are welcome and will help meet part of the need for vaccines in poorer economies. But further multilateral action is urgently needed to vaccinate

[4] Agarwal and Gopinath, 2021, "A Proposal to End the COVID-19 Pandemic," IMF Staff Discussion Note, May. The proposal was jointly endorsed by the WHO, WTO, World Bank, and IMF. See also the World Health Organization's COVID-19 Strategic Preparedness and Response Plan.

at least 40 percent of the population in every country by end-2021 and at least 60 percent by the first half of 2022, while monitoring and insuring against downside risks to vaccine production and distribution and possible booster-shot needs arising from new variants.

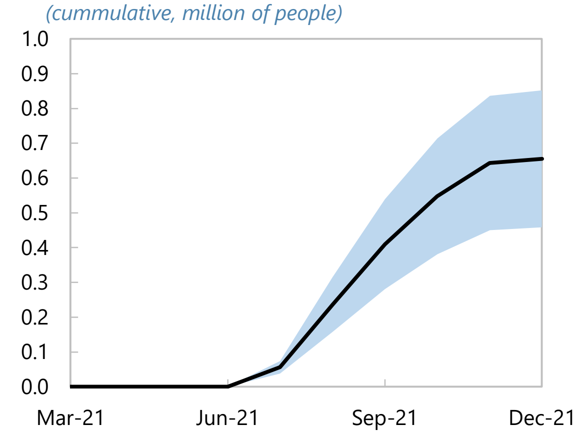
- *Ensure free cross-border flows of raw materials and finished vaccines*. Such action is essential, as restrictions are jeopardizing access to vaccines for billions of people in the developing world. In addition, the world's vaccine production capacity is highly concentrated in a few economies (e.g., *China*, *European Union*, *India*, *Japan*, *Korea, Russia, Switzerland, United Kingdom*, *United States*) and a vast majority of vaccine inputs are sourced from other vaccine producing trading partners.

- *Immediately share surplus vaccines, as vaccine supply is limited in the short run*. To reduce vaccine inequity between countries, pledged doses should be made available up front, as soon as possible. Moreover, further donations of vaccines are needed, in coordination with COVAX, to reach a total of 1 billion shared doses this year. Assuming no excess vaccines are spoiled and thereby lost, sharing 1 billion doses could fully vaccinate an additional 18 percent of the adult population in AMC-eligible countries. And hundreds of thousands of lives could be saved. For example, a scenario where sharing of surplus vaccines across countries starts as early as June 2021 when donating countries have vaccinated 50 percent of their population—allowing for the vaccination of high-risk individuals in receiving countries earlier than currently projected—suggests that between 400 and 800 thousand lives could potentially be saved globally this year (Figure 11).

Figure 11. Impact of Vaccine Sharing

Saved lives from early excess vaccine sharing

(cummulative, million of people)



Sources: Airfinity; OWID; UN; IMF staff calculations.
Note: Assessment of the order of magnitude of lives that could be saved if vaccine surplus countries share doses after vaccinating 50 percent of their populations (at which point vaccination rollout often slows) and prioritizes vaccination of high-risk populations globally. See the technical Online Annex for detailed assumptions (e.g., a potential severe third wave of infections in EMs and LICs). High-risk populations are derived from UN; vaccine projections are from Airfinity.

- *Significantly ramp up support to speed up deliveries and inoculations*. This includes support through the Access to COVID-19 Tools (ACT) Accelerator and development agencies (e.g., by boosting health systems and investing in cold chain equipment optimization platforms).

- *Increase investments in additional vaccine production capacity*. This includes a scaling-up of production of inputs and necessary equipment and would help diversify and increase production capacity.

- *Scale up systemic supply chain surveillance and genomic surveillance*. Increased transparency regarding the vaccine supply chain will be critical for assessing delivery projections and identify gaps early on. This should be prepared with the participation of multilateral agencies, vaccine developers and manufacturers, and key national governments.

- *Ensure widespread testing, sufficient therapeutics, and adequate public health measures, and prepare for vaccine deployment.*
- *Evaluate and implement (where approved) dose stretching strategies to expand effective supply.*

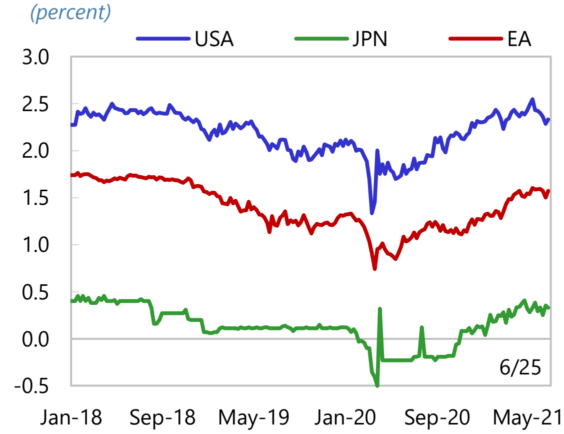
B. Domestic Support Should be Tailored to the Stage of the Crisis

12. Monetary policy should remain accommodative in most economies. Where inflation expectations remain anchored, maintaining accommodative monetary policy will help support economic activity and lift inflation toward the target (*Australia, Canada, China, euro area, Indonesia, Japan*). For economies further ahead in the recovery (e.g., *United Kingdom*, *United States*) and that are seeing a pick-up in inflation expectations towards historical averages, it will be essential to avoid a premature policy interest rate hike in response to transitory increases in inflation, which would risk halting the recovery (Figure 12). Should inflationary pressures nonetheless continue to build, a tightening of monetary policy may be warranted sooner than currently expected to keep expectations well anchored. Clear and careful communications on the intended policy strategy under different scenarios will also be key—to keep domestic inflation expectations well anchored and to avoid adverse spillovers to weaker economies. Should such spillovers nonetheless occur, flexible exchange rates should be allowed to play their shock absorbing role, while policy rate hikes can be used to help manage domestic financial conditions. Where inflationary pressures are high, a tight monetary policy stance (*Turkey*) and in some cases an overall tighter stance (*Argentina*) will be needed to rebuild confidence.

Figure 12. Market Inflation Expectations

Five- year, five- year inflation swaps

(percent)



Source: Bloomberg, L.P.

13. Where cyclical conditions permit, macroprudential policies should be employed to address pockets of vulnerabilities. Amid a prolonged period of low interest rates in advanced economies and structural change related to sectoral demand shifts, targeted macroprudential tools such as caps on leverage and higher capital requirements can help reduce downside risks to growth and financial stability related to sectoral price corrections. Where such tools are not available, as for example in parts of the nonbank financial sector, developing and implementing them are of the essence—and policymakers should consider the need for building buffers. Loan-to-value, debt-service-to-income, and loan-to-income ceilings are effective means to slow household debt accumulation and reduce mortgage defaults. Amid the increasing prevalence of crypto assets, careful regulation of such markets would also be essential. In emerging market economies that would be vulnerable to a tightening in global financial conditions, lengthening debt maturities, limiting currency mismatches, and more generally boosting financial resilience would provide valuable insurance.

Measures adopted at the onset of the pandemic to restore the proper functioning of core funding markets could gradually be rolled back where such markets have been sufficiently repaired.

14. Fiscal support should be tailored to the stage of the crisis and extent of policy space. Amid continued uncertainty around the path of the pandemic, fiscal policy will need to remain flexible and ready to act nimbly until the pandemic is brought under control globally. Moreover, it will be important to avoid a premature withdrawal of fiscal support, which could jeopardize the recovery.

- *While the virus is spreading rapidly, fiscal policy must continue to support health systems and vulnerable groups*. Where there is ample fiscal space and infection rates are high, or in the event infection rates surge again, support for health systems, households, and firms is essential to support livelihoods and limit economic scarring. Where fiscal space is limited and financing costs high, including if global financial conditions should rapidly tighten, ensuring adequate support for healthcare may require a reallocation of spending. In some economies facing tight financing conditions, short-term consolidation focused on progressive taxation and low-priority spending areas may be necessary (e.g., *Argentina)*. In this regard, the establishment of credible medium-term fiscal frameworks (e.g., plans for revenue mobilization; commitments to address weaknesses of public finances) can help enhance confidence and help set a path for rebuilding fiscal buffers at a pace contingent on the recovery.
- *Once the crisis is abating, policy support should be gradually unwound and become increasingly targeted to avoid hindering the post-pandemic economic transformation* (e.g., *United Kingdom*, *United States*). While support for firms helped avoid a sharp increase in bankruptcies, it likely also helped keep alive many non-viable firms. Hence, such support should be gradually scaled back and targeted at insolvent but viable companies.[5] Similarly, short-term work programs should be scaled back to release labor supply for growing sectors, supported by training and reskilling, while avoiding abrupt adjustments. Ensuring adequate income support during the job finding process is essential to support livelihoods. Moreover, actions will be needed to offset the toll on human capital from the interruption in schooling. Efficient insolvency and restructuring procedures can help ensure that valuable resources are not kept idle for prolonged periods; and tax incentives and well-targeted subsidies to boost R&D can help speed up digitalization and green investments, providing a boost to productivity and inclusion.

15. As economies exit the crisis, the recovery should leverage digital and green investments to facilitate strong, sustainable, and inclusive growth.

- *Leverage the opportunity to boost digitalization*. As discussed in previous G-20 surveillance notes, infrastructure investment can provide an important impetus to growth, in particular when synchronized across countries.[6] Investment in digital infrastructure such as broadband networks and provision of affordable access to telecommunications will be essential to further digitalization and productivity of small businesses and to modernize public administration. An investment push, combined with sound procurement frameworks, can also facilitate the entry of new firms. In

[5] See IMF, 2021, Global Financial Stability Report, Chapter 1, April, for a discussion of policy support for corporates.

[6] IMF, 2020, G-20 Surveillance Note, November.

addition, worker retraining and investment in digital literacy more broadly would help widen access to emerging job opportunities. In this regard, the Recovery and Resilience Facility of the *European Union* is a welcome step forward. As firms' investments in digital technology are sensitive to credit conditions, ensuring a level playing field in access to financing will help support digitalization in an inclusive way. In some economies, improvements to public investment management systems may also help facilitate higher investments. To prevent a drag on innovation and harm to economic dynamism, it will be essential to vigilantly monitor changes in market power.[7]

- *Make determined progress on the transition to net zero greenhouse gas emissions*. A significant drop in global greenhouse gas emissions during this decade requires the implementation of carbon pricing mechanisms, a green public investment push, and support for the development of green new technologies. In this respect, carbon pricing is a lower cost option than regulations and subsequent widespread subsidization to deliver the needed reductions in emissions by providing broad-based incentives to shift to cleaner technologies—and proceeds could be used to mitigate potential distributional consequences (e.g., through transfers to cushion transitional effects on jobs and purchasing power) and recycled towards green investments. G-20 economies should agree on an international carbon price floor to alleviate concerns about free-riding and limit carbon leakage, as a common minimum carbon price would help protect firms in energy-intensive and trade-exposed sectors from losing competitiveness, prevent production from shifting to countries with lower prices, and help avoid the use of complex border-carbon adjustments by countries that move ahead with carbon pricing.[8] Moreover, governments can play a key role in accelerating innovation through public procurement focused on clean technologies and by updating regulations and alleviating bottlenecks for the scaling up of new technologies. That said, accelerating the transition everywhere will require financial and technology support for low-income countries, which have faster-growing energy needs than advanced economies and more limited fiscal space to finance green investments.

C. Joint Action is Vital to Arrest Divergence Between Economies

16. Beyond vaccines, ensuring sufficient financial liquidity for weaker economies is essential. The pandemic has hit low-income countries hard and delayed their convergence to advanced economy income levels. Supporting these economies to avoid a further dangerous divergence will require significant financial support, including grants from bilateral donors and creditors and international financial institutions, and debt relief and rescheduling. In this regard, the Debt Service Suspension Initiative (DSSI) and its extension have provided welcome relief for more than 40 countries; and the Common Framework for Debt Treatments Beyond the DSSI (to which three countries have applied so far) should be made operational so it can effectively help coordinate needed debt reprofiling and restructuring by official and private creditors. The proposed new general allocation of SDRs of US$650 billion can help meet the global need to supplement reserves and will support the recovery efforts of all member countries. The option for countries with strong external

[7] IMF, 2021, G-20 Background Note on Boosting Productivity in the Aftermath of COVID-19, June.

[8] IMF, 2021, G-20 Background Note on Reaching Net Zero Emissions, June.

positions to voluntarily channel their SDRs can provide a further boost to vulnerable countries. In addition, poorer economies will need support to facilitate the transition to cleaner energy sources and invest in climate adaptation that renders them more resilient to climate shocks.

17. Multilateral efforts on taxation and trade reform are essential to support the recovery.

- *Action on international taxation can boost all countries' fiscal space in an equitable manner*. Progress on international taxation issues would help curb inefficient tax shifting strategies and competition on the basis of tax rates alone. Amid an increasingly digital global economy, the G-20 can help set the stage for ensuring that everyone pays their fair share, including by reforming the international taxation system, complementing the recent agreement by the G-7.[9] One key element would be a multilaterally agreed level of minimum taxation on multinational corporations in the home country (if profits are undertaxed abroad) or abroad (if profits are undertaxed in the home country).[10] Such actions, as well as transparency and accountability measures, would have the added benefit of helping to strengthen fiscal buffers and create space for essential infrastructure spending for strong, sustainable, balanced, and inclusive growth, including in developing economies that face intense tax competition.
- *Reform of the international trade system is essential for growth to be shared globally*. Amid continued trade tensions, reform of the international trade system, including WTO reform, is vital for trade to most effectively support the recovery, not least as shifts in production toward self-reliance and reorganization of supply chains would weigh on growth. The goal should be a more open, stable, and transparent trade policy.

[9] G7 Finance Ministers and Central Bank Governors' Communiqué - G7 UK Presidency 2021.

[10] IMF, 2021 Fiscal Monitor, April.

Table 1. Real GDP Growth

(annual percent change)

	Year over Year				Deviations	
			Projections (Apr. 2021)		(from Jan. 2021)	
	2019	2020	2021	2022	2021	2022
World	**2.8**	**-3.3**	**6.0**	**4.4**	**0.5**	**0.2**
Advanced Economies	1.6	-4.7	5.1	3.6	0.8	0.5
Euro area	1.3	-6.6	4.4	3.8	0.2	0.2
Emerging Market and Developing Economies	3.6	-2.2	6.7	5.0	0.4	0.0
G-20 1/	2.8	-3.1	6.6	4.4	0.7	0.2
Advanced G-20 2/	1.5	-4.8	5.3	3.5	0.9	0.5
Emerging G-20 3/	3.9	-1.6	7.7	5.2	0.4	0.1
Argentina	-2.1	-10.0	5.8	2.5	1.3	-0.2
Australia	1.9	-2.4	4.5	2.8	1.0	-0.1
Brazil	1.4	-4.1	3.7	2.6	0.1	0.0
Canada	1.9	-5.4	5.0	4.7	1.4	0.6
China	6.0	2.3	8.4	5.6	0.3	0.0
France	1.5	-8.2	5.8	4.2	0.3	0.1
Germany	0.6	-4.9	3.6	3.4	0.1	0.3
India 4/	4.0	-8.0	12.5	6.9	1.0	0.1
Indonesia	5.0	-2.1	4.3	5.8	-0.5	-0.2
Italy	0.3	-8.9	4.2	3.6	1.2	0.0
Japan	0.3	-4.8	3.3	2.5	0.2	0.1
Korea	2.0	-1.0	3.6	2.8	0.5	-0.1
Mexico	-0.1	-8.2	5.0	3.0	0.7	0.5
Russia	2.0	-3.1	3.8	3.8	0.8	-0.1
Saudi Arabia	0.3	-4.1	2.9	4.0	0.3	0.0
South Africa	0.2	-7.0	3.1	2.0	0.3	0.6
Spain 5/	2.0	-11.0	6.4	4.7	0.5	0.0
Turkey	0.9	1.8	6.0	3.5	0.0	0.0
United Kingdom	1.4	-9.9	5.3	5.1	0.8	0.1
United States	2.2	-3.5	6.4	3.5	1.3	1.0
European Union	1.7	-6.1	4.4	3.9	0.3	0.2

Source: IMF, *World Economic Outlook,* April 2021 and January 2021 Update.
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/ For *India*, data and forecasts are presented on a fiscal year basis, with FY 2020/21 starting in April 2020.
5/ *Spain* is a permanent invitee.