CHAPTER 1

POLICIES TO SUPPORT PEOPLE DURING THE COVID-19 PANDEMIC

Introduction

The COVID-19 pandemic has struck amid a preexisting sluggish global growth outlook, historically low nominal interest rates, and low inflation. The pandemic has elevated the need for fiscal policy action to an unprecedented level. For some countries, however, high debt levels and tightening financing conditions are constraining the policy response. But whereas in other economic downturns a key goal of fiscal policy is to stimulate demand, this crisis is like no other—and in its early stages the primary objectives are to boost resources for health care and to provide emergency lifelines to people and firms.

The global economy is expected to contract sharply in 2020 by –3 percent, much worse than during the 2008–09 financial crisis, owing to the ongoing health crisis and its economic and financial ramifications (Chapter 1 of the April 2020 *World Economic Outlook*). The pandemic is causing local, regional, and global supply disruptions; local and sectoral demand repercussions; and confidence effects holding back demand. Social distancing efforts necessary to contain the spread of the virus have curtailed demand, particularly in tourism, travel, and hospitality services, and have imposed even larger costs on livelihoods and output. Consumer and business confidence has fallen. Commodity prices have declined as a result of both lower global demand and a decision in early March 2020 by large oil producers to increase supply. Financing has become more costly and scarce for firms and some sovereigns. Disrupted supply and weakened demand adversely affect employment and growth, reduce government revenues, and put further strains on countries' public finances, with elevated debt and associated vulnerabilities constraining the scope for fiscal support for many countries.

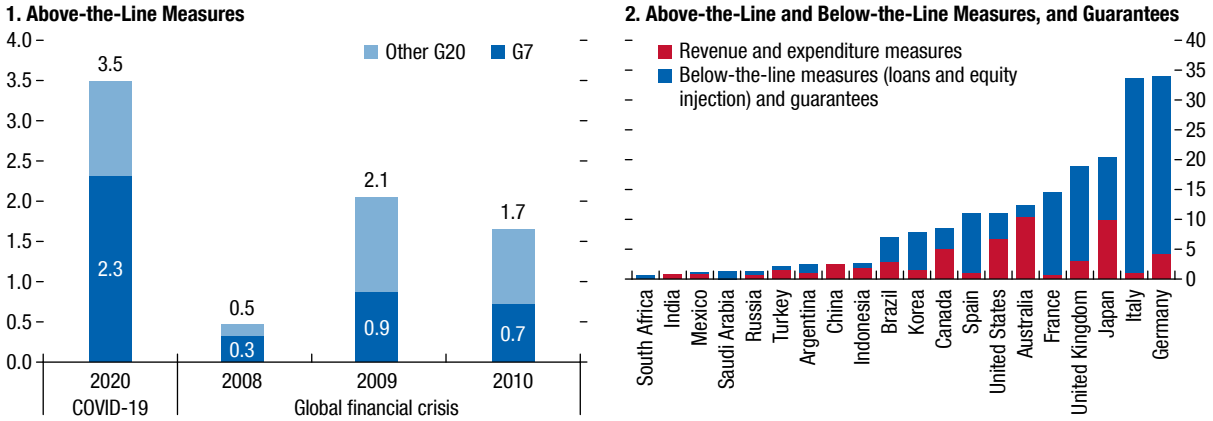
Swift and concerted government responses are needed to mitigate the health and economic effects of the coronavirus outbreak, and fiscal policies play a key role. The Group of Twenty (G20) economies have already provided sizable fiscal support through revenue and spending measures of 3.5 percent of GDP on average, as of April 8, 2020, in response to the pandemic. This amount is higher than the stimulus during the global financial crisis that began in 2008. In addition, massive packages of public-sector liquidity support, including loans and guarantees, each above 10 percent of GDP in *France, Germany*, *Italy*, *Japan*, and the *United Kingdom*, were announced to support financial and nonfinancial firms, including small and medium-sized enterprises (Figure 1.1). At the global level, spending and revenue measures amount to $3.3 trillion and loans, equity injections, and guarantees total $4.5 trillion. Box 1.1 summarizes how various types of fiscal support can have different implications for public finances in the near term and beyond. Key goals of these actions should be to save lives by containing the spread of the disease and treating those who are infected, and to protect people and viable firms from the economic fallout, including by providing unemployment benefits, wage subsidies, income support, and social assistance, as well as limiting layoffs and bankruptcies in affected firms, areas, and sectors. These actions could prevent a health crisis from generating long-lasting demand weaknesses and reducing the well-being of people.

The first policy priority is to fully accommodate spending on health and emergency services. This calls for global coordination to support countries with limited health capacity, including by providing medical supplies and expertise, grants, and concessional emergency financing. Large, timely, temporary, and targeted fiscal measures are needed to protect the most-affected people and viable firms, including in hard-to-reach informal sectors. Such support is likely to provide the most effective cushion to output and essential consumption because it alleviates the drop in incomes for people with limited savings and reduces the likelihood of bankruptcies.[1] Collectively, these measures amount to a sizable emergency lifeline, but the main policy goal during the virus containment and mitigation phases is not to boost demand but rather to preserve the web of economic relationships between employers

[1]The need for discretionary measures would be sizable, albeit lower, all else being equal, for countries with stronger existing automatic stabilizers and social safety nets.

Figure 1.1. G20 Fiscal Response to the COVID-19 Pandemic and the Global Financial Crisis
(Percent of G20 GDP, left panel; percent of national GDP, right panel)

Countries are providing sizable fiscal support in response to the COVID-19 pandemic.



Sources: IMF 2009a; IMF 2009b; national authorities; and IMF staff estimates as of April 8, 2020.
Note: Panel 1 includes above-the-line spending and revenue measures only, weighted by GDP in PPP-adjusted current US dollars. Panel 2 adds below-the-line measures (loans, equity injections) and government guarantees to revenue and expenditure measures adopted in 2020. These are presented in the same panel for ease of reference but are not additive; see Box 1.1 and Special Feature Online Annex 1.1. The decomposition between loans and guarantees is based on available information as of April 8, 2020. G7 = Group of Seven; G20 = Group of Twenty; PPP = purchasing power parity.

and employees, producers and consumers, and lenders and borrowers. Given their large fiscal costs, these measures should be embedded in a medium-term fiscal framework. Measures that are not included in revenue or expense, such as government guarantees of business loans, should be transparently managed and recorded to mitigate potential fiscal risks. As the virus is contained and people return to work, a broad-based fiscal stimulus becomes more effective. Depending on access to markets and the availability of fiscal space, such broad-based fiscal stimulus could facilitate the recovery.

Recent Fiscal Developments and Outlook

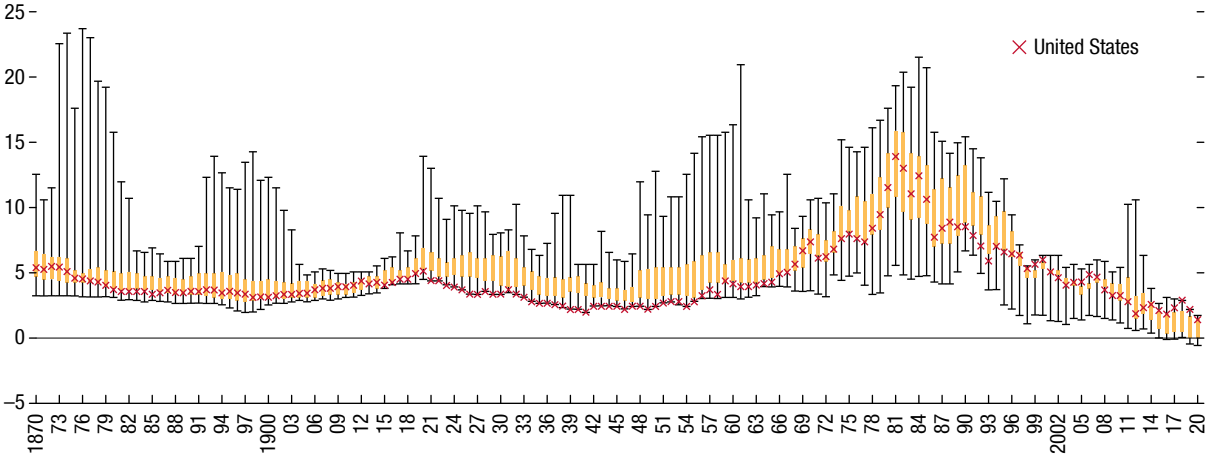
The scope, desirability, and effectiveness of fiscal policy in response to the COVID-19 crisis, and even more so during the recovery stage, are influenced by interest rates, inflation, and debt levels.

- *Low nominal interest rates:* Low rates shift the balance of cyclical demand support toward fiscal policy as the effective lower bound on monetary policy rates binds more frequently (Chapter 2).[2] Many governments can borrow at historically low rates—one-fifth of global bonds traded in negative territory at the end of 2019 (Figure 1.2). Interest rates are expected to remain low in the core advanced economies for a long period (Chapter 1 of the April 2020 *Global Financial Stability Report*), including after the virus-related shutdowns end. However, for many frontier and emerging markets (and, at times, some advanced economies), borrowing costs have risen sharply and have become more volatile since the coronavirus began spreading globally.
- *High public debt*: Global debt (public and private) reached $188 trillion (226 percent of GDP) in 2018, according to the IMF Global Debt Database. Average public debt of advanced economies had plateaued at about 100 percent of GDP in the 2010s, compared with 74 percent in 2007, and is now set to rise substantially as a result of the crisis. Meanwhile, it had steadily risen in emerging market and developing economies (Figure 1.3). High debt and rising debt service costs make it more difficult to conduct countercyclical fiscal policies. Likewise, as access to financing has become challenging for firms, and as the public sector steps in with loans and guarantees, related fiscal risks have risen.
- *Slow growth and low inflation:* Even prior to the current global recession, the real growth rate of GDP per capita had been subdued in

[2]Nonetheless, at the current juncture, synchronized and significant actions by large central banks, including rate reductions where possible, liquidity facilities, swap lines, and unconventional tools, have helped reduce systemic stress and lower sovereign spreads (Chapter 1 of the April 2020 *World Economic Outlook*).

Figure 1.2. Major Advanced Economies: 10-Year Government Bond Yields
(Percent)

Market interest rates are at their historical lows and negative in several advanced economies.



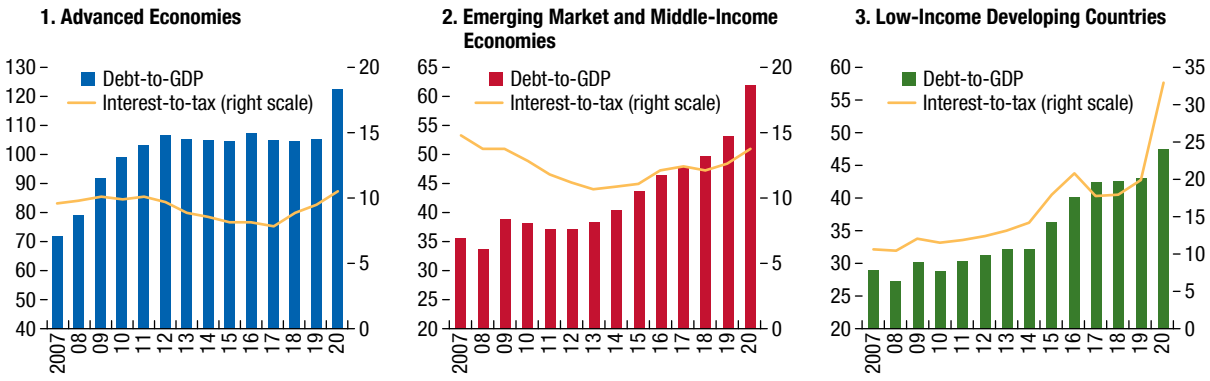
Sources: Jordà-Schularick-Taylor Macrohistory database (Jordà and others 2019); and IMF staff calculations.
Note: The sample includes Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The figure shows the interquartile range (yellow bars) and the 10th and 90th percentiles (whiskers). Red markers signify the United States. Data for 2020 are through the end of March.

advanced economies, and had declined in emerging market and middle-income economies since 2013. There has also been a trend decline in public-investment-to-GDP ratios in advanced economies, and the growth rate of investment per capita in emerging market and developing economies has been slow (Figure 1.4). Moreover, inflation is below targets in two-thirds of inflation-targeting countries. Since the onset of the pandemic and the sharp fall in commodity prices, inflation and inflation expectations have registered further declines in many economies.

The pandemic and its economic consequences will cause a major increase in fiscal deficits and public debt ratios across countries (Figure 1.5). Under the baseline

Figure 1.3. General Government Gross-Debt-to-GDP and Interest-Expenditure-to-Tax-Revenue Ratios, 2007–20
(Percent)

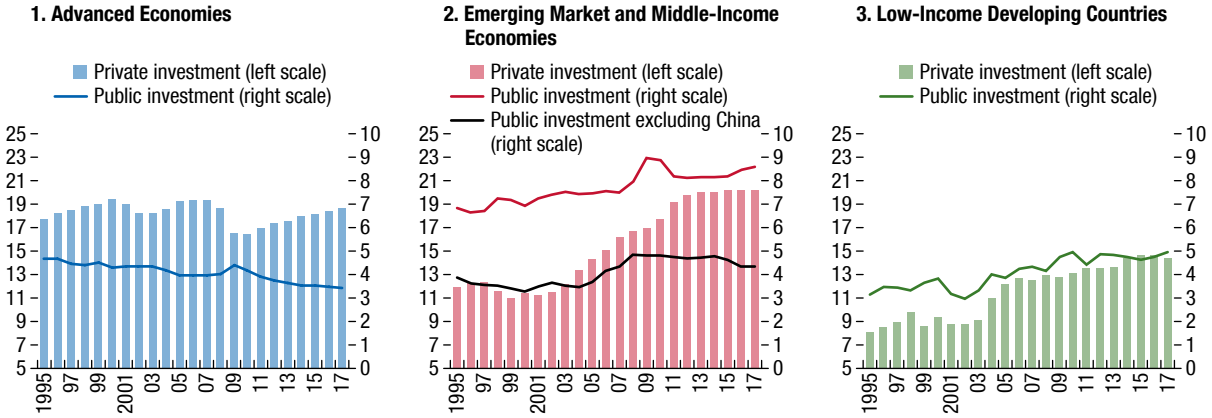
Public debt vulnerabilities persist.



Source: IMF, World Economic Outlook database.
Note: Interest-to-tax ratios are weighted averages among countries in the income group. The rise in the average interest-to-tax ratio of low-income developing countries in 2020 is largely driven by a few countries, such as Nigeria and Zambia, that are expected to experience sizable increases in their ratios.

Figure 1.4. Public and Private Investment, 1995–2017
(Percent of GDP)

Before the pandemic crisis, public investment had been declining in advanced economies and was growing slowly in emerging market and middle-income economies and low-income developing countries.



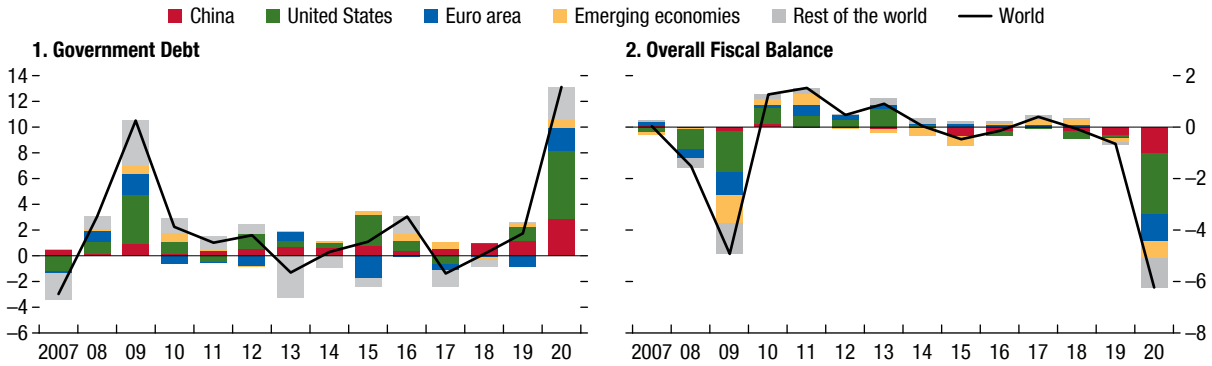
Source: IMF, Investment and Capital Dataset.

scenario in the April 2020 *World Economic Outlook*, the COVID-19 pandemic is assumed to have a large negative effect on economic activity. Consequently, government revenues, including customs, will fall as activity and trade decline. The experience of the global financial crisis and past epidemics suggests that revenues fall even more sharply than output, as people and firms struggle to comply with their tax obligations (Sancak, Velloso, and Xing 2010). Moreover, spending on health and support to people, firms, and sectors is being ramped up to mitigate the health and economic effects of COVID-19. Fiscal positions in 2020, therefore, are set to become significantly more expansionary across all three country groups (advanced economies, emerging market and middle-income economies, and low-income developing countries) compared with the fiscal outturns at the end of 2019. Overall fiscal deficits are expected to widen more in advanced economies, partly reflecting a more pronounced projected economic contraction in advanced economies than in emerging market and developing economies (April 2020 *World Economic Outlook*, Table 1.1). Global debt is estimated to increase by 13 percentage points to reach 96.4 percent of GDP in 2020 (Table 1.2).

Another notable development is a further widening of sovereign and corporate spreads, with a decline

Figure 1.5. Contribution to the Change in Global Government Debt and Deficits, 2007–20
(Percent of GDP)

A major increase in fiscal deficits and public debt ratios is expected across the world.



Source: IMF, World Economic Outlook database.

Table 1.1. General Government Fiscal Overall Balance, 2012–20
(Percent of GDP)

									Projections
	2012	2013	2014	2015	2016	2017	2018	2019	2020
World	**–3.8**	**–2.9**	**–2.9**	**–3.3**	**–3.4**	**–3.0**	**–3.1**	**–3.7**	**–9.9**
Advanced Economies	**–5.5**	**–3.7**	**–3.1**	**–2.6**	**–2.6**	**–2.3**	**–2.6**	**–3.0**	**–10.7**
United States[1]	–8.0	–4.6	–4.0	–3.6	–4.3	–4.5	–5.7	–5.8	–15.4
Euro Area	–3.7	–3.0	–2.5	–2.0	–1.4	–0.9	–0.5	–0.7	–7.5
France	–5.0	–4.1	–3.9	–3.6	–3.5	–2.8	–2.3	–3.0	–9.2
Germany	0.0	0.0	0.6	0.9	1.2	1.2	1.9	1.4	–5.5
Italy	–2.9	–2.9	–3.0	–2.6	–2.4	–2.4	–2.2	–1.6	–8.3
Spain[2]	–10.7	–7.0	–5.9	–5.2	–4.3	–3.0	–2.5	–2.6	–9.5
Japan	–8.6	–7.9	–5.6	–3.8	–3.7	–3.1	–2.4	–2.8	–7.1
United Kingdom	–7.6	–5.5	–5.6	–4.6	–3.3	–2.5	–2.2	–2.1	–8.3
Canada	–2.5	–1.5	0.2	–0.1	–0.5	–0.1	–0.4	–0.4	–11.8
Others	0.4	0.2	0.2	0.1	0.7	1.4	1.4	0.0	–5.3
Emerging Market and Middle-Income Economies	**–0.9**	**–1.5**	**–2.5**	**–4.4**	**–4.8**	**–4.1**	**–3.8**	**–4.8**	**–9.1**
Excluding MENAP Oil Producers	–1.9	–2.3	–2.7	–4.0	–4.4	–4.0	–4.0	–5.0	–9.0
Asia	–1.6	–1.8	–1.9	–3.3	–3.9	–4.0	–4.5	–6.0	–9.9
China	–0.3	–0.8	–0.9	–2.8	–3.7	–3.8	–4.7	–6.4	–11.2
India	–7.5	–7.0	–7.1	–7.2	–7.1	–6.4	–6.3	–7.4	–7.4
Europe	–0.7	–1.5	–1.4	–2.7	–2.9	–1.8	0.4	–0.7	–6.1
Russia	0.4	–1.2	–1.1	–3.4	–3.7	–1.5	2.9	1.9	–4.8
Latin America	–2.9	–3.2	–5.0	–6.8	–6.2	–5.4	–5.2	–4.0	–6.7
Brazil	–2.5	–3.0	–6.0	–10.3	–9.0	–7.9	–7.2	–6.0	–9.3
Mexico	–3.7	–3.7	–4.5	–4.0	–2.8	–1.1	–2.2	–2.3	–4.2
MENAP	5.6	3.9	–1.5	–8.5	–9.6	–5.8	–2.9	–3.8	–9.8
Saudi Arabia	11.9	5.6	–3.5	–15.8	–17.2	–9.2	–5.9	–4.5	–12.6
South Africa	–4.4	–4.3	–4.3	–4.8	–4.1	–4.4	–4.1	–6.3	–13.3
Low-Income Developing Countries	**–2.0**	**–3.3**	**–3.2**	**–3.8**	**–3.7**	**–3.6**	**–3.8**	**–4.1**	**–5.7**
Nigeria	0.2	–2.3	–2.1	–3.2	–4.0	–5.4	–4.3	–5.0	–6.4
Oil Producers	**1.6**	**0.4**	**–1.1**	**–4.2**	**–4.6**	**–2.6**	**–0.6**	**–1.0**	**–7.6**
Memorandum									
World Output (percent)	3.5	3.5	3.6	3.5	3.4	3.9	3.6	2.9	–3.0

Source: IMF staff estimates and projections.

Note: All country averages are weighted by nominal GDP converted to US dollars (adjusted by purchasing power parity only for world output) at average market exchange rates in the years indicated and based on data availability. Projections are based on IMF staff assessments of current policies. In many countries, 2020 data are still preliminary. For country-specific details, see "Data and Conventions" and Tables A, B, C, and D in the Methodological and Statistical Appendix. MENAP = Middle East, North Africa, and Pakistan.

[1] For cross-country comparability, expenditure and fiscal balances of the United States are adjusted to exclude the imputed interest on unfunded pension liabilities and the imputed compensation of employees, which are counted as expenditures under the 2008 System of National Accounts (2008 SNA) adopted by the United States but not in countries that have not yet adopted the 2008 SNA. Data for the United States in this table may thus differ from data published by the US Bureau of Economic Analysis.

[2] Including financial sector support.

in borrowing costs for sovereigns that are considered to be safe and a simultaneous sell-off of assets that are perceived as risky. Spreads in many advanced and emerging market economies have risen sharply since the declaration of COVID-19 as a global health emergency by the World Health Organization in late January 2020. Many emerging market and middle-income economies have experienced portfolio flow reversals. Before the first outbreak of COVID-19 in late December 2019, effective nominal interest rates (that is, the average interest paid on existing public debt) were below 2 percent in more than one-third of advanced economies, and in a smaller share (one-tenth) of emerging market and developing economies (Figure 1.6). Those rates are expected to fall further in safe haven countries (for example, the *United States, Japan, Germany*). However, given high levels of public debt—at 83 percent of global GDP in 2019—and large gross financing needs in several countries, the risk of a surge in refinancing costs persists (Figure 1.7). The lengthened residual maturity of debt in advanced economies is a mitigating factor (which increased from six to nearly eight years over the past decade at the general government level). The median residual maturity of

Table 1.2. General Government Debt, 2012–20

(Percent of GDP)

	2012	2013	2014	2015	2016	2017	2018	2019	Projections 2020
Gross Debt									
World	**79.6**	**78.3**	**78.6**	**79.7**	**82.7**	**81.3**	**81.5**	**83.3**	**96.4**
Advanced Economies	**106.7**	**105.2**	**104.6**	**104.2**	**106.7**	**104.5**	**103.9**	**105.2**	**122.4**
United States[1]	103.3	104.9	104.6	104.8	106.8	105.9	106.9	109.0	131.1
Euro Area	90.7	92.6	92.8	90.8	90.0	87.8	85.9	84.1	97.4
France	90.6	93.4	94.9	95.6	98.0	98.4	98.4	98.5	115.4
Germany	81.1	78.7	75.7	72.1	69.2	65.3	61.9	59.8	68.7
Italy	126.5	132.4	135.3	135.3	134.8	134.1	134.8	134.8	155.5
Spain	86.3	95.8	100.7	99.3	99.2	98.6	97.6	95.5	113.4
Japan	228.7	232.2	235.8	231.3	236.4	234.5	236.5	237.4	251.9
United Kingdom	83.2	84.2	86.2	86.9	86.8	86.2	85.7	85.4	95.7
Canada[1]	85.4	86.1	85.6	91.2	91.7	90.5	89.7	88.6	109.5
Emerging Market and Middle-Income Economies	**37.0**	**38.2**	**40.3**	**43.7**	**46.5**	**48.0**	**49.7**	**53.2**	**62.0**
Excluding MENAP Oil Producers	39.4	40.8	43.1	45.7	48.1	49.5	51.5	54.9	63.5
Asia	39.7	41.4	43.5	44.9	47.1	48.8	50.9	55.1	64.1
China	34.4	37.0	40.0	41.4	44.2	46.1	49.1	54.4	64.9
India	67.7	67.4	66.8	68.8	68.7	69.4	69.4	71.9	74.3
Europe	25.3	26.2	28.2	30.5	31.5	29.7	29.4	29.2	36.5
Russia	11.2	12.3	15.1	15.3	14.8	14.3	13.6	14.0	17.9
Latin America	47.1	47.8	50.1	53.9	57.4	62.2	66.6	70.5	78.0
Brazil[2]	62.2	60.2	62.3	72.6	78.3	83.7	87.1	89.5	98.2
Mexico	42.7	45.9	48.9	52.8	56.8	54.0	53.7	53.4	61.4
MENAP	23.4	23.5	23.4	33.0	40.6	40.3	38.8	41.9	51.2
Saudi Arabia	3.0	2.1	1.6	5.8	13.1	17.2	19.0	22.8	34.0
South Africa	41.0	44.1	47.0	49.3	51.5	53.0	56.7	62.2	77.4
Low-Income Developing Countries	**31.1**	**32.2**	**32.2**	**36.4**	**40.2**	**42.3**	**42.6**	**43.0**	**47.4**
Nigeria	17.7	18.6	17.5	20.3	23.4	25.3	27.2	29.4	35.3
Oil Producers	**31.6**	**32.3**	**33.3**	**38.9**	**42.1**	**42.5**	**42.3**	**44.2**	**54.6**
Net Debt									
World	**65.8**	**65.0**	**65.2**	**66.8**	**69.4**	**68.2**	**68.6**	**69.4**	**85.3**
Advanced Economies	**76.7**	**75.9**	**75.7**	**75.8**	**77.5**	**75.9**	**76.0**	**76.6**	**94.2**
United States[1]	80.8	81.6	81.4	81.1	82.1	82.1	83.2	84.1	107.0
Euro Area	73.2	75.7	75.9	74.7	74.3	72.2	70.5	69.1	81.3
France	80.0	83.0	85.5	86.3	89.2	89.5	89.6	89.8	106.7
Germany	59.6	58.6	55.0	52.1	49.3	45.7	42.9	41.3	49.2
Italy	114.6	120.0	122.3	123.2	122.4	122.1	122.9	123.1	142.7
Spain	71.8	80.9	85.2	85.0	86.1	84.5	82.7	81.1	97.7
Japan	145.3	144.7	146.6	146.4	152.0	149.8	153.4	154.3	168.9
United Kingdom	74.8	75.9	78.0	78.4	77.8	76.7	75.9	75.5	85.9
Canada[1]	28.9	29.7	28.5	28.4	28.7	27.9	26.5	25.9	40.7
Emerging Market and Middle-Income Economies	**22.7**	**22.9**	**24.2**	**28.6**	**34.6**	**36.0**	**36.8**	**38.3**	**45.8**
Asia	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Europe	32.0	31.6	29.6	28.8	31.0	30.1	30.7	30.6	36.9
Latin America	29.6	29.7	32.3	35.7	41.1	43.3	44.1	45.3	51.7
MENAP	–2.5	–3.4	–0.1	15.3	29.2	29.7	31.1	35.2	46.6

Source: IMF staff estimates and projections.

Note: All country averages are weighted by nominal GDP converted to US dollars (adjusted by purchasing power parity only for world output) at average market exchange rates in the years indicated and based on data availability. Projections are based on IMF staff assessments of current policies. In many countries, 2020 data are still preliminary. For country-specific details, see "Data and Conventions" and Tables A, B, C, and D in the Methodological and Statistical Appendix. MENAP = Middle East, North Africa, and Pakistan.

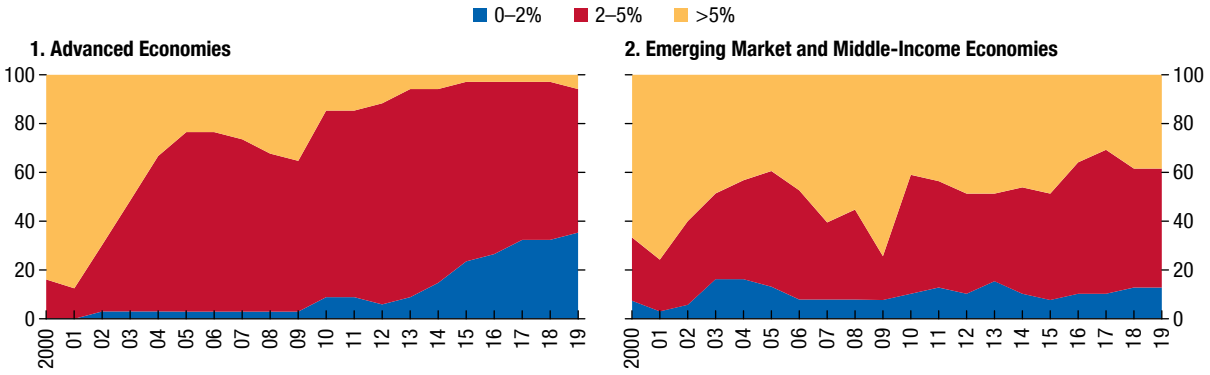
[1] For cross-economy comparability, gross and net debt levels reported by national statistical agencies for countries that have adopted the 2008 System of National Accounts (Australia, Canada, Hong Kong SAR, United States) are adjusted to exclude unfunded pension liabilities of government employees' defined-benefit pension plans.

[2] Gross debt refers to the nonfinancial public sector, excluding Eletrobras and Petrobras, and includes sovereign debt held on the balance sheet of the central bank.

Figure 1.6. Distribution of Nominal Effective Interest Rates, 2000–19

(Percent of total countries for each group)

Average interest cost has declined in many countries and is currently below 2 percent in one-third of advanced economies.



Source: IMF, World Economic Outlook database.

debt in emerging markets has declined since 2014, but remains greater than its level before the global financial crisis (Figure 1.8).

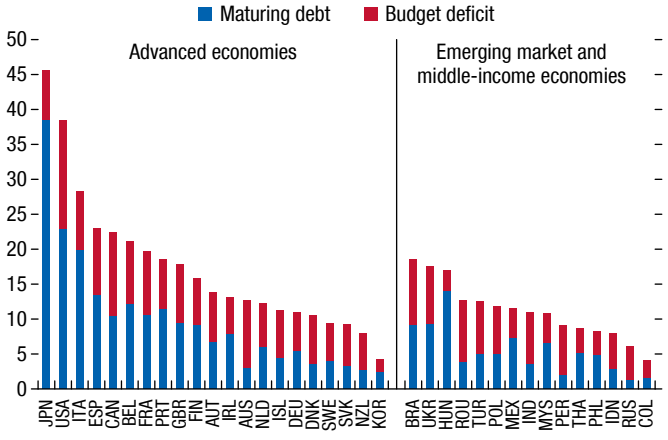
In response to the COVID-19 pandemic, many countries are allocating more fiscal resources to the health sector by increasing spending on monitoring, containment, and mitigation. On average, advanced economies have pledged an additional 0.5 percent of GDP to health care, whereas emerging market and middle-income economies have planned for an additional 0.2 percent of GDP. In low-income developing countries, health spending is likely to increase substantially from current pledges of 0.3 percent of GDP, on average. For example, it increased by 4 percentage points of GDP on average in the affected countries during the Ebola outbreak in West Africa.

Most countries are also allocating sizable additional fiscal support to other sectors to mitigate the economic fallout from the COVID-19 pandemic and the necessary social distancing policies. On the spending side, measures include extended unemployment benefits, government-funded paid sick leave, wage subsidies,

Figure 1.7. Gross Financing Needs, 2020

(Percent of GDP)

Several countries face sizable gross financing needs.

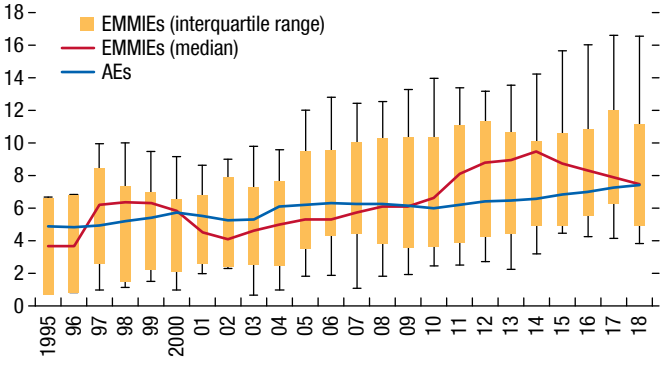


Sources: Bloomberg Finance L.P.; IMF, World Economic Outlook database; and IMF staff estimates.
Note: Data labels use International Organization for Standardization (ISO) country codes.

Figure 1.8. Average Remaining Maturity of Government Bonds, 1995–2018

(Years; median across country groups)

Governments in advanced economies have borrowed at longer terms in recent years, but those in emerging market and middle-income economies have not.



Sources: Haver Analytics; and national authorities.
Note: Boxes and whiskers indicate the interquartile ranges and 10th and 90th percentiles for emerging market and middle-income economies. AEs = advanced economies; EMMIEs = emerging market and middle-income economies.

targeted transfers to affected households and firms, and support to hard-hit sectors such as tourism, hospitality services, and travel. On the revenue side, measures include temporary deferral of corporate and personal income tax payments and social security contributions ranging from three months to one year, as well as temporary tax relief or exemptions, including on medical goods and services, for affected sectors and vulnerable firms and households (*China, France, Italy, Japan, Korea*). Special Feature Online Annex 1.1 provides a detailed overview of revenue and spending measures as well as liquidity support efforts across selected countries as of April 8, 2020. Governments plan to finance these additional fiscal measures by reprioritizing budget items; using emergency funds or buffers; frontloading existing spending plans, external aid, or grants; or undertaking additional borrowing. The following subsections discuss the recent fiscal developments and outlook by country income groups. Fiscal developments in the period ahead are highly uncertain and will depend on how severe the health crisis becomes, how long it lasts, and how it affects the economy and financial markets.

Advanced Economies: Large Fiscal Support Expected

In response to the COVID-19 pandemic, additional fiscal measures have been announced in most countries, with a weighted average of 5.9 percent of GDP among Group of Seven (G7) economies.[3] In the *United States*, in addition to health measures approved in early March, the Coronavirus Aid, Relief, and Economic Security (CARES) Act includes an unprecedented $2 trillion or almost 10 percent of GDP in tax, spending, and liquidity-support measures, including pandemic unemployment assistance to households, payroll tax deferral, and paycheck protection for small and medium-sized enterprises. In the European Union (EU), in addition to relatively large automatic stabilizers, discretionary measures taken by member states amount to 3.1 percent of EU-27 GDP. Further support is provided through the EU-level initiatives, including the coronavirus investment response to help national health sectors, businesses (through working capital or guarantees), and national short-term employment schemes. Liquidity support measures such as loans or loan guarantees to businesses are common, especially in European countries (16.7 percent of EU-27 GDP). In *Japan*, the Emergency Economic Package Against COVID-19 announced on April 7 totals ¥108 trillion (20 percent of GDP) and covers cash handouts to affected households and firms; concessional loans from public and private financial institutions; and deferral of payment of tax and social security premiums for one year. More measures are anticipated in several other countries as governments increase their support to crisis-hit economies. The cyclical effects of a sharp contraction in growth owing to COVID-19 through automatic stabilizers and lower customs revenues are expected to be very large, adversely affecting fiscal balances and debt levels.

The average overall fiscal balance in 2020 is, thus, expected to deteriorate significantly. This is on top of the fiscal easing in 2019, when more than half of the advanced economies pursued expansionary fiscal policies (Figure 1.9).[4] In the *United States*, the two-year budget deal reached in 2019 and the discretionary measures implemented in response to the pandemic will increase the overall deficit and worsen public debt dynamics. In *Korea*, the overall fiscal balance is estimated to decline by 2.8 percent of GDP through previously planned spending increases on the social safety net, job creation, and the fostering of innovation, as well as new measures to cope with the pandemic. The overall balance in most euro area economies is projected to deteriorate because of the fallout from COVID-19 and the announced emergency lifeline measures (*France, Germany*, *Italy*).

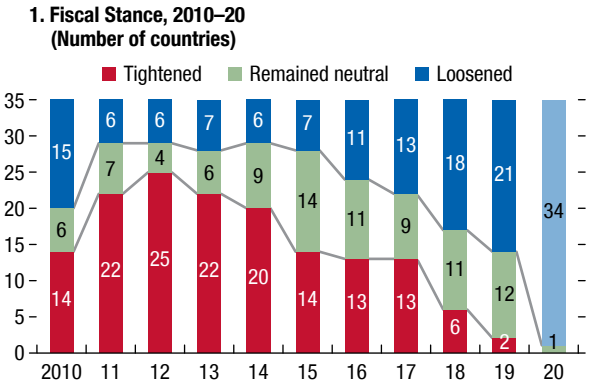
Although the macroeconomic effects of the pandemic are uncertain and the size of discretionary fiscal policy responses to COVID-19 may still rise, they will affect the overall balance and public-debt-to-GDP ratios over the medium term. For example, the pandemic will have an impact on the projected fiscal adjustment in *Japan*, where the increase in the

[3]The exact size often depends on usage, such as extended unemployment benefits or income support for short-time work, and many governments have indicated they intend to maintain measures as long as needed or further expand them. Thus, estimates of announced packages are preliminary.

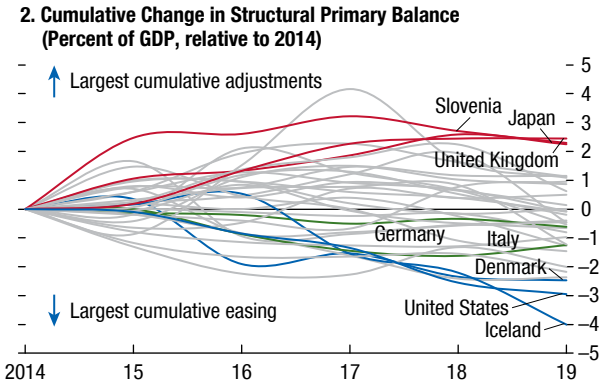
[4]A neutral fiscal stance is defined as a change in the structural primary balance (that is, adjusting the primary balance for the economic cycle and other one-off factors) between –0.25 and 0.25 of a percentage point of potential GDP in a year. Any change above 0.25 (below –0.25) of a percentage point is defined as fiscal tightening/contraction (loosening/expansion). Moderately expansionary (contractionary) refers to a decrease (increase) between 0.25 and 0.5 of a percentage point. The aggregate fiscal stance for each income group is calculated as the $GDP-weighted average of fiscal stances in individual economies.

Figure 1.9. Fiscal Developments in Advanced Economies

Fiscal policies have eased in 2019 and are expected to be expansionary in most advanced economies in 2020.



Fiscal policies continued to ease in half of advanced economies over 2014–19.



Sources: IMF, World Economic Outlook database; and IMF staff estimates.

consumption tax rate in October 2019, along with the expiring stimulus measures, were expected to reduce primary deficits over the medium term. In the *United Kingdom*, in addition to measures aimed at the health crisis, the fiscal year 2020/21 budget projects a substantial fiscal easing over the medium term (by 1 percentage point of GDP on average over the next five years relative to the previous fiscal path), including a planned increase in net public investment from 2 to 3 percent of GDP. Meanwhile, the weighted-average public-debt ratio of advanced economies, which rose modestly to 105 percent of GDP in 2019, is projected to rise over the medium term. Debt dynamics in some countries are subject to risks and hinge on interest rates remaining low.

Emerging Market and Middle-Income Economies: Facing Multiple Shocks

In 2020, the average overall deficit of emerging market and middle-income economies is projected to ease further to 9.1 percent of GDP from 4.8 percent in 2019, reflecting the recession and lower commodity prices, tighter financing conditions, and discretionary fiscal policy reactions to the COVID-19 pandemic (Figure 1.10).[5] The estimated fiscal easing in 2020, among non-oil exporters, is particularly large in some countries such as *Chile* and *China*. In response to the social unrest last year, *Chile* launched a stimulus package consisting of infrastructure investment, social pensions, and support programs for vulnerable groups and small and medium-sized enterprises. In response to COVID-19, this package was complemented by additional fiscal measures, including health spending, tax payment delays, and unemployment benefits. *China* has increased spending to mitigate the health effects of the pandemic, accelerated unemployment insurance disbursement to support households, and provided temporary tax relief and deferral of tax payments for businesses in affected sectors and regions. *China* is also expected to use its fiscal space to provide significant additional support for the recovery and reorient the economy toward a higher-quality growth path.

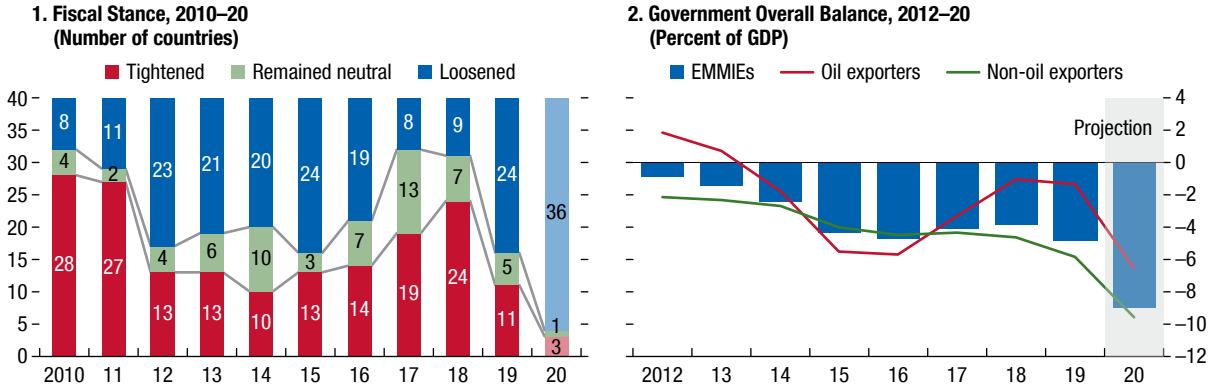
In the fiscal year 2020/21 budget, *India* announced a reduction in personal income tax rates with a rationalization of exemptions. In March 2020, the government announced a fiscal support package (0.8 percent of GDP) to cushion the COVID-19 impact, including cash transfers, an insurance cover to medical workers, and steps to strengthen food security. In *Brazil*, the government implemented pension reform in 2019 and submitted a reform package to Congress that aims at making the budget less rigid, reforming fiscal decentralization rules, and releasing earmarked spending to lower public debt. In response to the pandemic, *Brazil* expanded cash transfers to low-income households and provided temporary tax relief, amounting to 2.9 percent of GDP (partly from reallocations within the

[5]The average headline fiscal deficit rose by 1 percentage point of GDP to 4.8 percent in 2019, reversing the decline of similar magnitude over 2016–18. With higher deficits in two-thirds of economies, the average government-debt-to-GDP ratio reached 54 percent of GDP in 2019 (up 3 percentage points from 2018 and 17 percentage points from 2012).

Figure 1.10. Fiscal Developments in Emerging Market and Middle-Income Economies

Overall deficits increased in 2019, reversing the consolidation trends of previous years, and are expected to rise further for more countries in 2020.

Fiscal deficits are projected to increase in 2020.



Sources: IMF, World Economic Outlook database; and IMF staff estimates.
Note: EMMIEs = emerging market and middle-income economies.

current budget). In response to COVID-19, fiscal measures were also announced in *Indonesia* (1.8 percent of GDP), *Turkey* (1.6 percent of GDP), and *Malaysia* (2.8 percent of GDP).

Over the medium term, the fall in oil prices, partly owing to the COVID-19 outbreak, will weigh on the fiscal balance of oil-exporting countries. In *Saudi Arabia*, the fiscal deficit is expected to widen further because of lower oil revenues (despite an increase in oil production). Several oil-exporting countries were set to resume their fiscal adjustments after the 2019 pause through tax policy and administration reforms (including *Mexico*), but this may no longer be the case given the fall in oil prices. Emerging market and middle-income economies' average government debt was projected to remain on an upward trajectory. The rise in public debt across all countries will be substantially higher than previously projected as a result of the effects of and responses to COVID-19.

Low-Income Developing Countries: Navigating the Pandemic with High Debt

The average debt ratio of low-income developing countries remained stable at 43 percent of GDP over 2017–19 after an increase of 9 percentage points over the previous five years. In some cases, this increase in debt partly reflected borrowing to finance investment in infrastructure (*Ethiopia, Kenya*). Looking ahead, however, financing the development agenda in a sustainable way could become more challenging, considering the already-high debt levels and given (at least in the short term) potential revenue losses and spending needs arising from the COVID-19 pandemic.

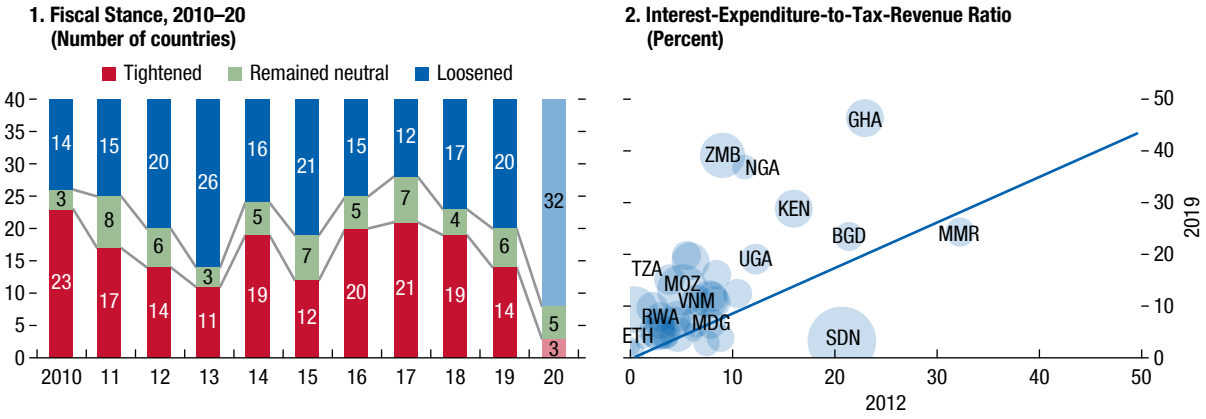
Half of low-income developing countries have seen their tax-to-GDP ratios increase by more than 3.7 percent of GDP since 2000. But over the past five years, tax revenues grew in line with GDP, and in many economies revenue gains have not offset the declining trend in external grants as a share of GDP. In addition, the halving of commodity prices since 2014 and the sharp oil price decline in early 2020 are having an adverse impact on revenues that is projected to be long-lasting for several large commodity exporters. At the same time, interest expenditures are on the rise, reflecting higher debt levels, currency depreciation, tighter financing conditions, and a growing share of borrowing on nonconcessional terms. These trends imply a squeeze in fiscal resources available for primary spending.

The average overall fiscal deficit in low-income developing countries increased by 0.4 of a percentage point of GDP to 4.1 percent in 2019. The easing was largely driven by oil-exporting countries (*Nigeria*, *Papua New Guinea*), reflecting lower oil prices and spending rigidities. For non-oil exporters, fiscal deficits rose moderately in 2019 to 4 percent of GDP. These averages mask important cross-country differences. Because of a

Figure 1.11. Fiscal Developments in Low-Income Developing Countries

Fiscal policy was eased in 2019, and a large number of countries are expected to ease further in 2020.

The ratio of interest expenditure to tax revenue has increased in most low-income developing countries relative to 2012.



Sources: IMF, World Economic Outlook database; and IMF staff estimates.
Note: Data labels in panel 2 use International Organization for Standardization (ISO) country codes.

range of factors, fiscal balances declined by 1.4 percentage points of GDP in *Chad* (higher investment, wages, subsidies, and transfers) and *Moldova* (shortfall in revenues that was more than offset by spending restraints). Natural disasters and instability (*Haiti*, *Yemen*) also led to higher fiscal deficits. On the other hand, *Burkina Faso* and *Nicaragua* consolidated their fiscal balances by more than 1 percentage point of GDP in response to the need to contain debt increases, mitigate the sharp decline in revenue collections, or comply with the regional fiscal rule. Overall, more than one-third of low-income developing countries contained or reduced the size of their fiscal deficits in 2019.

In 2020, the average headline deficit is projected to widen by 1.6 percentage points of GDP, notably in oil exporters. In *Nigeria*, the gain from an increase in the value-added tax rate is estimated to only partly offset projected losses in oil revenue. Although there have been a relatively small number of verified coronavirus cases to date in low-income developing countries, a surge of infection cases similar to other economies around the world would have a massive impact on people's lives and livelihoods, and on fiscal deficits. The tightening of global financial conditions would pose further challenges to frontier markets in accessing external finance. In countries with output contractions (*Haiti*, *Nicaragua, Sudan*), fiscal balances are affected by reduced tax revenues. Even in the absence of a major virus outbreak, headline deficits are expected to widen in several countries given higher social security outlays (*Nicaragua*), subsidies (*Sudan*), security spending (*Mali*), and capital investment (*Madagascar*, *Uganda*). In several cases (*Chad*, *Ghana*), consolidation is mandated by or enforced under new fiscal rules. In *Mozambique*, investment under the postcyclone reconstruction effort continues.

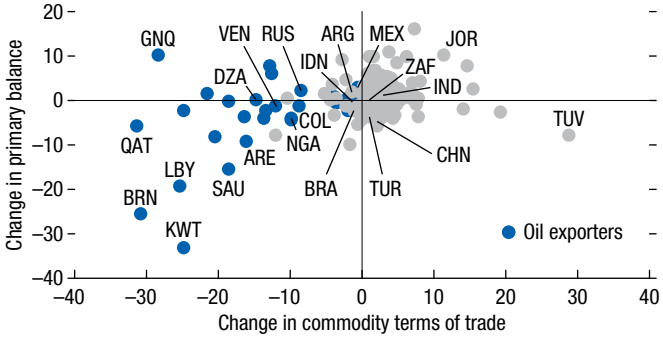
Government debt paths in low-income developing countries are subject to large uncertainty driven by the COVID-19 pandemic (Figure 1.11). For oil exporters, debt is projected to continue increasing given the fall in commodity prices. Elevated public debt levels are a source of vulnerability. According to the IMF–World Bank Debt Sustainability Assessments, the number of low-income developing countries in debt distress or classified as "at high risk" increased to 25 countries (44 percent) in 2019 (IMF 2019a). The global recession heightens vulnerabilities for this group.

Risks to the Fiscal Outlook

Downside risks include the following: (1) a more severe economic fallout from widespread infections and repeated outbreaks; (2) large swings in commodity prices; (3) prolonged stress in global financial markets; (4) renewed social unrest; and (5) extreme weather events. These risks are intertwined and could reinforce one another, exacerbating the drag on growth and

Figure 1.12. Commodity Terms of Trade and Primary Balances, 2012–19
(Percent)

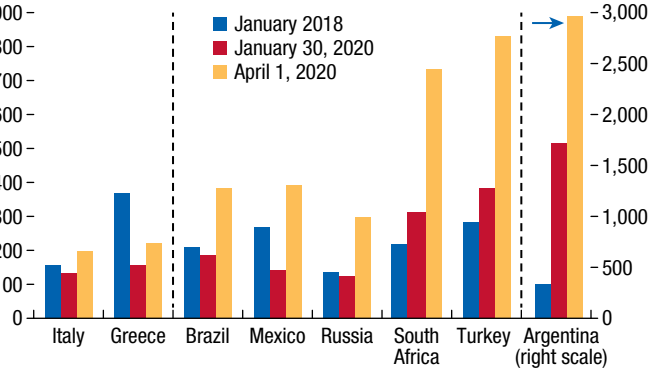
Primary deficits in large oil-exporting countries move in tandem with commodity terms of trade.



Sources: Haver Analytics; and IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes.

Figure 1.13. Sovereign Spreads
(Basis points)

Risks of a sharp rise in spreads remain in some advanced and emerging market economies.



Source: Bloomberg Finance L.P.
Note: Spreads for Italy and Greece refer to their sovereign yields over German bond yields, whereas the spreads for other countries are over the US Treasury bond yields. The World Health Organization declared COVID-19 a global health emergency on January 30, 2020, and a pandemic on March 11, 2020.

exerting negative effects on public finances (Chapter 1 of the April 2020 *World Economic Outlook*).

- *A more severe economic fallout from widespread coronavirus infections and repeated outbreaks:* The expectation of a rebound of activity in the second half of 2020, after the health emergency abates and containment measures are gradually scaled back, is subject to extreme uncertainty (Chapter 1 of the April 2020 *World Economic Outlook*). The pandemic could resurface in waves—that is, with every easing of social distancing restrictions, the infection rates could rise again, which would require re-imposition of those restrictions—bringing activity to a halt and dampening confidence further. At the same time, many emerging market and developing economies have not yet experienced widespread outbreaks—or at least they have not been detected so far given limited testing. Should they materialize, the weaker health care systems and other vulnerabilities in those economies could result in devastating human and economic effects. The impact could be intensified by declines in external demand and commodity prices, tighter financing conditions, and disruptions to supply chains. These risks would have sizable implications for the pace of recovery and public finances, raising the possibility of a debt deflation.
- *Large swings in commodity prices:* Oil prices declined by 50 percent in the first quarter of 2020. Risks to oil prices are large, stemming from both supply and demand shocks. A combination of increased oil supply and weak global demand could lead to low oil prices for a long period, worsening the public finances of many oil-exporting countries (Figure 1.12). Commodity terms-of-trade volatility could dampen the long-term growth of many countries, including commodity exporters (Cavalcanti, Mohaddes, and Raissi 2015).
- *Prolonged stress in global financial markets:* Over the past two months, markets have experienced bouts of volatility and, more recently, a run for safe assets, in part because of the ongoing COVID-19 pandemic. Increasing concerns about the economic effects of the crisis, particularly if prolonged, could trigger further deterioration of sentiment and more widespread risk-off events that expose financial vulnerabilities that have been building in a period of search for yield (Chapter 1 of the April 2020 *Global Financial Stability Report*). Such shocks could lead to higher spreads in high-debt countries, exchange rate volatility, pressures in dollar funding, and a sudden reversal of financial flows (Figure 1.13). Sustained high sovereign spreads could weigh on fiscal positions for some countries, making it more challenging to roll over debt and meet financing needs. In emerging market and developing countries, while a rising share of local currency debt in total may be beneficial, large participation by foreign investors and a lack of adequate liquidity could expose those economies to volatile spreads (Chapter 3 of the April 2020 *Global Financial Stability Report*).

- *Renewed social unrest:* In the past year, there were numerous protests in many parts of the world. Although the underlying causes of this social unrest are multifaceted and country-specific, some similarities reflect deep-rooted issues, such as poverty, inequality, erosion of trust in established institutions, and perceived lack of representation. Conventional fiscal redistribution may not quell such tensions given that protesters are not necessarily the poorest, and further redistribution could be viewed as transfers to outsiders. Box 1.2 explains some principles to reduce the risk of social unrest that reforms may trigger while recognizing that such risks cannot be eliminated. Indeed, some countries remain vulnerable to new protests, particularly if policy actions to mitigate the COVID-19 crisis are perceived as insufficient or as unfairly favoring large firms rather than people, or when those policies are withdrawn. New rounds of protests could exhaust reform momentum (for example, regarding pension or energy subsidies) and put public finances at risk.
- *Extreme weather events:* Climate change has made cold snaps and heat waves, droughts and floods, and other natural disasters more frequent and severe. These events adversely affect economic activity, impose severe humanitarian costs, inflict damage to capital stocks, and lower productivity (Kahn and others 2019; October 2019 *Fiscal Monitor*; Chapter 5 of the April 2020 *Global Financial Stability Report*). Limited global efforts to mitigate climate change and adapt to it could make these extreme events more severe, frequent, and widespread, which, in turn, may require more humanitarian assistance and higher spending on reconstruction, as well as pose risks to public finances, especially in small states with high exposure to natural disasters. Transition to low-carbon economies could result in sizable stranded assets and require significant amounts of investment for mitigation and adaptation.

Fiscal Policies across Economies

The immediate fiscal policy response to the COVID-19 pandemic should account for the particular nature of the health crisis that the global economy faces—one that affects supply, demand, and confidence—while being timely, temporary, and targeted across all levels of governments. It is important to ensure that resources are used efficiently and embedded in a medium-term fiscal framework. The need for discretionary measures is, all else being equal, lower for countries with larger existing automatic stabilizers and stronger social safety nets. The impact of targeted fiscal measures would be larger if they were accompanied by monetary accommodation (to avoid rising spreads in parts of sovereign debt markets) and financial safeguards (to reduce contingent costs to the budget). The overarching goals should be to save lives and protect households so that loss of income does not affect livelihoods, as well as to assist viable firms to prevent layoffs and permanent exits from supply chains. Otherwise, a temporary but severe health crisis could have a lasting impact on aggregate demand, supply chains, and global trade and the economy. Key challenges are to prevent health systems from becoming overloaded and to adopt comprehensive policies that reflect the evolving nature of the pandemic. Further policy action is required to position the economy for a speedy recovery once the health crisis and necessary social distancing measures recede, depending on available fiscal space. Since automatic stabilizers are less effective in low-income developing countries—given that their fiscal institutions are underdeveloped, and their financing constraints are more binding—monetary accommodation should play a larger role, especially where inflation is low.

Considering the nature of the health crisis—threatening the health and livelihoods of workers and employers globally—such actions are being taken now but should be commensurate with the economic and social fallout from the pandemic. As public support is provided on an extraordinary scale and includes vehicles such as loans and guarantees, transparency is crucial to manage fiscal risks. When countries contain the pandemic and shutdowns end, broad-based, coordinated fiscal stimulus—depending on countries' financing constraints—will become a more effective tool to foster the recovery.

Health Measures for Monitoring, Containment, and Mitigation

Additional spending needs for health and emergency services in all countries should be fully accommodated regardless of how much room a country may have in the budget. Experience from past epidemics, such as SARS, H1N1, and Ebola, shows that monitoring and containment costs are much lower than those of

mitigation and treatment (WHO 2020). Health systems could easily become overwhelmed once the virus spreads widely, amplifying the initial outbreak through social anxiety and heightened need for quarantines, particularly in emerging market and developing economies. As of April 8, 2020, most countries planned or allocated additional fiscal resources to health care to mitigate the impact of COVID-19 (amounting to 0.3 percent of GDP, on average). For example, a few advanced economies allocated resources to develop vaccines and ramped up production of medical supplies and testing kits (*euro area, Germany, Japan, Spain, United States*), while emerging market and developing economies such as *China, Côte d'Ivoire*, and *Saudi Arabia* have increased spending on monitoring and control, as well as on production of medical equipment. The potential health expenditure, however, is likely to rise significantly with the increasing number of infections.

Meeting the required health care needs quickly and sufficiently is challenging. First, countries with limited health care capacity in infrastructure (hospitals and medical facilities), personnel (doctors and nurses), or medical supplies (testing kits and ventilation equipment) cannot adequately scale up these resources in a pandemic, as shown in previous epidemics (for example, Ebola). Second, many emerging market and developing economies are facing borrowing constraints, tighter financing conditions, significantly lower revenues (customs, oil, and non-oil), and capital flows stoppages. In the near term, these countries should reprioritize expenditure toward health care while safeguarding priority spending on other social protection, capital maintenance and repair, and key public services (transport, energy, communications) to support the vulnerable and limit the detrimental impact on medium-term growth. They should also seek aid and concessional emergency financing for the health sector and budgets from development partners and multilateral financial institutions.

Comprehensive and coordinated global action is urgently needed to assist countries that face health emergencies, particularly those with limited capacity and financing constraints. Global efforts to ensure swift deployments of aid, medical resources (equipment and medical personnel), and concessional emergency financing would help contain the spread of disease. Acknowledging the need for an early coordinated response to contain the health crisis, the European Commission announced an aid package of €232 million to support the World Health Organization (WHO)'s global response plan and development of a vaccine. The US government has pledged up to $2 billion to help countries battling the virus. *Japan* has pledged ¥15 billion (about $140 million) in contributions to WHO and other international organizations. Multilateral financial institutions such as the IMF and the World Bank have committed resources to assist member countries, with a focus on low-income developing countries where health systems are the weakest and people are most vulnerable.[6] In addition, the IMF's Catastrophe Containment and Relief Trust can currently provide about $500 million in grant-based debt-service relief, including the recent $185 million pledge by the United Kingdom and $100 million provided by Japan, as immediately available resources. Official bilateral creditors have been called upon by the IMF Managing Director and the World Bank President to suspend debt payments from countries below the International Development Association's operational threshold that request forbearance while they battle the pandemic.

In addition to health spending, policymakers need to monitor and ensure smooth coordinated budget execution among various health and non-health agencies and across different levels of government, and expedite procurement of medical needs (makeshift hospitals, equipment, and medical supplies). National governments should continue to allocate sufficient funds for subnational governments to spend on health services or mobilize medical resources (for example, masks, medicine, disinfectants, hires and overtime hours of medical personnel) to affected locations (*China, India, Korea, United States*). Wage subsidies can be provided for medical personnel. For example, *China* and *Singapore* temporarily raised the compensation for front-line doctors, nurses, and caretakers. *Germany* has allocated €1.1 billion for development of vaccines and medicines. On the revenue side, reducing taxes or tariffs and excises on hygiene and health care goods and services is recommended (*Brazil, China, Colombia, United States*).

Governments should have a clear, timely, and transparent communication strategy to preserve (and restore, in some circumstances) public trust as well as consumer and business confidence. Other measures should also

[6]The recent doubling of access limits of the IMF's emergency financing facilities will allow the Fund to meet an expected demand of $100 billion in emergency financing, provided through the Rapid Credit Facility and the Rapid Financing Instrument, of which the former is only for low-income developing countries.

be implemented, including contingency plans (*Greece, Malaysia*) and regular media briefings from officials or health experts (*Chad, Indonesia, Romania, Vietnam*). All government services, particularly tax and customs administration, payment processors, and government benefit application centers should have a business continuity plan for providing services to citizens, taxpayers, and importers, relying as much as possible on electronic means.

Some of these health measures are administrative, while others will require budget resources and add to the fiscal cost. The legal framework should allow budget modifications to accommodate emergency spending, and these should be fully reflected in credible medium-term fiscal frameworks. Over the longer term, countries should act to improve their level of epidemic preparedness.

Temporary and Targeted Fiscal Measures to Assist Hard-Hit Individuals and Firms

Unlike a typical economic shock, the COVID-19 pandemic and the policies required to mitigate its spread have economic repercussions involving supply, demand, and confidence.

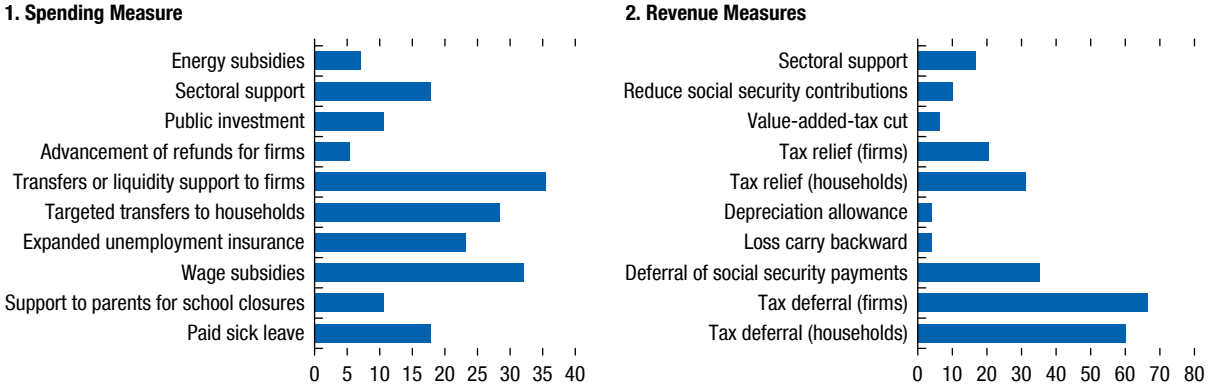
- On the supply side, necessary preventive or containment efforts inevitably involve social distancing at the local level, whereas lockdowns and quarantines reduce capacity utilization, make workers unable to do their jobs, and force businesses to reduce production. Broader disruptions to regional and global supply chains have knock-on effects, contributing to rising business costs, layoffs, and potential bankruptcies.
- On the demand side, the loss of income (from morbidity, quarantines, and unemployment), fear of contagion, and heightened uncertainty will reduce household consumption and firms' investment. The economic repercussions arising from the pandemic are not evenly shared in the economy. Workers in some sectors such as travel, tourism, and hospitality services are disproportionately affected, and low-income households tend to suffer more because they have less access to health care and limited savings. Countries or regions that rely heavily on oil revenues, tourism, and exports of goods and services are particularly vulnerable.
- The extreme uncertainty about the duration and magnitude of the COVID-19 pandemic poses a vicious cycle of dampening consumer confidence and tightening financial conditions, which could lead to job losses and cuts in investment in expectation of lower aggregate demand.

Countries are offering a range of targeted emergency lifelines (Figure 1.14), including the following:

- *Spending-side measures:* Governments are providing wage subsidies and transfers to workers and firms, as well as government-funded paid sick and family leave to those who are unwell, self-isolate, or have to stay home for childcare during school closings (*France*, *Japan*, *Korea, Singapore, Spain, United Kingdom*). Other measures include cash transfers to low-income households and temporary enhancement or extension of unemployment benefits (*Germany, Japan, United Kingdom, United States*). *Germany* has

Figure 1.14. Common Fiscal Support Measures for Non-Health Sectors in Response to COVID-19
(Percent of countries with fiscal support)

Countries are relying on a range of emergency lifelines to help hard-hit households and firms.



Sources: Announcements by national authorities; IMF Policy Tracker; and IMF staff estimates.

expanded subsidies to firms that maintain employment at reduced hours by covering employers' social security contributions for the missed hours. *Japan* and *Seychelles* have expanded subsidies to employers who maintain employment during any scale-down of operations. *Italy* has broadened its wage supplementation fund to provide income support to laid-off workers. In *Korea, Singapore*, and the *United States,* temporary direct subsidies are being provided to hard-hit businesses, including self-employed persons, to avoid sector dislocations. In *China,* planned public spending has been frontloaded, particularly on public health care, unemployment benefits, and the broader social safety net.

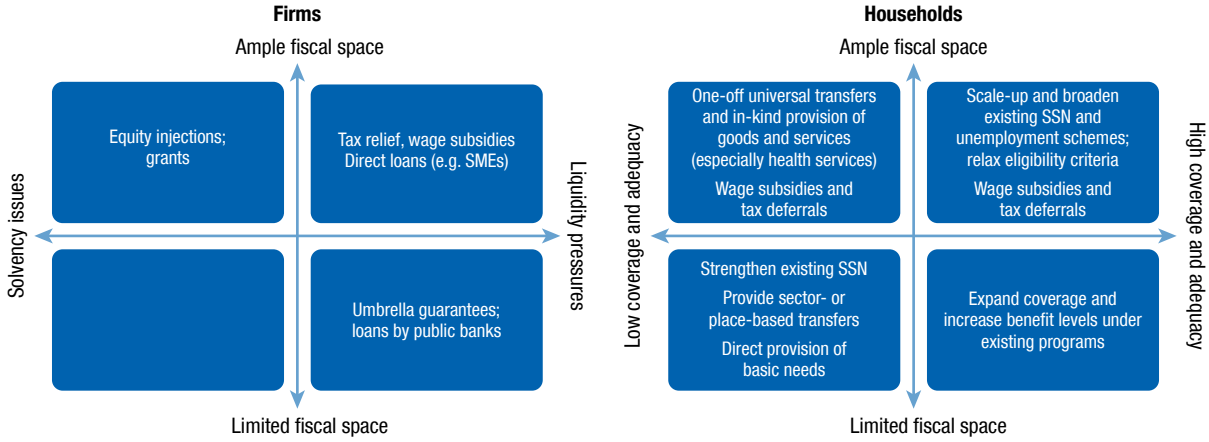
- *Revenue-side measures:* Governments can alleviate hardships by expanding loss carry-back rules to support firms' cashflow needs or provide temporary tax relief for people and firms most affected by COVID-19. Other options include postponing social security contributions and reducing advance tax payments that are based on past outcomes to reflect the new economic reality (*Madagascar*). To address supply constraints and support demand, special investment allowances for projects taking place in a given time period (for example, producing under-supplied medical equipment) or temporary value-added-tax rate cuts could be considered because they bring planned investment or spending forward in time. For example, *China* is easing the tax burden for firms in the most vulnerable regions and sectors, including transportation, tourism, and hospitality services. The *United Kingdom* adopted property tax relief for one year for small businesses in heavily hit sectors. A few countries have offered income and value-added-tax extensions to firms with cashflow shortfalls (*China*, *Eswatini, Italy*, *Japan*, *Vietnam*) or to those in affected industries or areas (*Italy, Korea*), as well as a deferral until the end of the financial year for value-added-tax payments falling due in the next quarter (*United Kingdom*). *China* has allowed value-added-tax refunds and temporarily reduced social security contribution rates for targeted firms. Both measures are part of the recommended reforms to rebalance the economy.
- *Government-supported liquidity measures:* Many workers and companies worldwide are in danger of income losses, unemployment, and closures owing to liquidity problems. In response, governments are providing cashflow support in the form of loans, umbrella guarantees, and other liquidity support. For example, *Cabo Verde, Korea, Thailand,* and the *United Kingdom* extended temporary loans to firms and households in the affected sectors. In *Australia*, the government is underwriting half of the amount of up to A$40 billion worth of unsecured loans (with a cap of A$250,000 per loan) offered by participating local lenders to small and medium-sized enterprises. At the same time, liquidity support, including government provision of loans, equity injections, and guarantees on business loans—sometimes extended through state-owned financial institutions or corporations—is now estimated to total $4.5 trillion globally and is often larger in size than the revenue and spending measures. Largest country examples include *France, Germany*, *Italy*, *Japan*, the *United Kingdom*, and the *United States*. These liquidity-support measures often occur "below the line" or involve contingent liabilities that are outside budget revenues and expenditures. Some are reflected in financing operations and raise government debt ratios, while others may not have upfront cashflow effects but nonetheless could bring fiscal risks in the future. Similar exceptional liquidity measures were used during the global financial crisis.

A number of factors are relevant for policymakers in determining the extent of support and the choice of fiscal instruments to provide emergency lifelines to firms and households (Figure 1.15):

- *Clear objectives with an emphasis on "solidarity" and equity:* A clear rationale for policy support would help evaluate the appropriateness of instruments and limit demands from vested interests. At the same time, measures should try to strengthen solidarity by not being overly restrictive in terms of eligibility, and should avoid being perceived as favoring vested interests.
- Fiscal measures should be *targeted, temporary, and progressive*. Measures should be targeted to households to maintain basic needs and to viable firms to prevent layoffs and exits from supply chains. They should be made progressive (for example, wage subsidies up to a ceiling) to ensure that lower-income households benefit more. Broad-based stimulus is less effective when physical distancing is in place.
- Tax and spending measures should be *cost-effective* and embedded in *medium-term budget frameworks*.

Figure 1.15. Some Principles for Instrument Choice in Supporting Firms and Households

The extent of support to firms and households and the choice of instruments depend on a range of factors.



Source: IMF staff.
Note: SMEs = small and medium-sized enterprises; SSN = social safety net.

They should not result in long-lasting deterioration of public finances. A premium should be placed on measures that maintain links with employment (for example, wage subsidies that can allow workers to be furloughed rather than laid off) and move the tax-benefit systems in desirable directions (for example, using mobile payments, expediting value-added-tax refunds, and upgrading health care systems).

- Measures should build on existing programs and infrastructure that enable timely support to vulnerable households and firms. The *institutional capacity* to implement targeted support to firms and households will influence the form, instruments, and channels of support. Examples include the adequacy and coverage of social safety nets and the strength of the social insurance system.
- *Financing constraints* should be taken into account in determining the scope of action.
- Fiscal costs and risks should be properly assessed and disclosed, and risk mitigation measures taken, in order to ensure *transparency, good governance, and accountability*.

These principles can provide guidance on the design of spending, tax, and liquidity measures:

- *Spending measures:* Countries with strong social protection systems should allow automatic stabilizers to fully operate and channel additional support through social safety net programs, to the extent possible, to maximize their effects. Unemployment benefits could be enhanced as needed, for example, by extending their duration, raising benefit levels, or relaxing eligibility (*Germany, Italy, Spain, United States*). Paid sick leave, while temporary in nature, should last for a sufficiently long period commensurate with the health crisis. Although wage subsidies can help businesses retain workers, they need to have clear phase-out mechanisms. Making transfers or expanded benefits part of taxable income would allow clawbacks at higher-income levels and improve targeting. In many emerging market and developing economies with weaker social safety nets (low coverage and adequacy), linking additional transfers to existing programs and delivery channels can improve targeting. When this is not possible, especially in low-income countries, categorical targeting (based on regions, sectors, residence, age, or other criteria) is appropriate (Chapter 2). Considering the urgency and widespread need to deliver rapid relief to liquidity-constrained households, including to the self-employed and those in temporary jobs, unconditional direct cash transfers could complement other targeted social protection spending, especially in countries with ample fiscal space.
- *Revenue measures:* A reduction in taxes that are paid monthly or quarterly is more powerful than those paid after the end of the fiscal year if the aim is to address liquidity problems in a timely manner. To encourage investment in producing undersupplied

goods or services, such as medical supplies and equipment, temporary and targeted tax advantages could be used. Examples include accelerated depreciation or super-deductions for investment in health or hygiene products. In contrast, profit-based incentives (for example, reduced tax rates, tax holidays, or blanket amnesties) should be avoided because they are not linked to the expenditure effort and would disproportionately reward businesses with the greatest profits. Granting certain tax advantages only in hard-hit sectors (for example, hospitality services and tourism-dependent sectors), or to firms that experience a decline in sales or profits above a certain threshold, or to critical products (for example, importation of medical supplies or priority foodstuffs) can improve targeting. On the administrative side, depending on countries' capacity, eligibility for deferring tax payments should allow for the tax administration to deny taxpayers with a poor compliance record or those at high risk of noncompliance in order to improve efficiency. Tax filings should continue to signal that the adopted measures are temporary. To make the support timelier, administrative relief can be introduced under existing frameworks. General tax relief to boost aggregate demand is likely to be more effective when supply disruptions subside and the health crisis abates.

- *Liquidity support:* While there are merits to providing immediate liquidity support where a large number of firms and households are facing cashflow difficulties, governments should ensure that those measures are properly costed, recorded, and monitored. Business dynamism should be maintained. Liquidity support should be conditional on the duration of the pandemic in order to avoid keeping nonviable firms afloat with subsidized finance. Umbrella guarantees (for example, covering loans to small and medium-sized enterprises) are often more efficient than direct government support, as the transaction costs of distributing subsidies or loans to multiple beneficiaries are high, especially in countries with weak institutional capacity. Policymakers need to manage the associated fiscal risks, including by assessing and quantifying the potential sources and size of fiscal costs, as well as by maintaining transparency and disclosure for budgets and medium-term fiscal frameworks. These principles also apply when there is Treasury backing of central bank liquidity support. A central approval process (led by the Ministry of Finance or the cabinet) should be in place for the provision of government loans to ensure transparent ex-ante assessment and ongoing monitoring. For government guarantees of business loans, policymakers should consider partial guarantees (to ensure that debtors still have incentives to repay) and risk-based guarantee charges to limit government exposures to fiscal risks. Making provisions for expected losses and retaining the ability to recover assets are important. For example, the loan guarantee scheme for small and medium-sized enterprises in the Netherlands is limited to 75 percent of the loan value and loans with maturities of one year or less.

For low-income developing countries, ramping up public health expenditure is the number one priority irrespective of the fiscal space and debt positions. Moreover, given the large and temporary nature of the shock for most countries, some discretionary fiscal support, including to hard-to-reach households, is warranted even in countries with limited fiscal space. Automatic stabilizers, though usually small in developing countries, should be allowed to operate. Discretionary measures could include cash transfers or food subsidies to households under strain, including through digital technologies, and temporary, targeted support to hard-hit sectors (*Eswatini, Madagascar, Mauritius*). However, for oil-exporting countries that face a long-lasting shock from the decline in oil revenues (*Angola, Gabon*), priorities should be to fund health spending and combine appropriately paced growth-friendly spending adjustments with additional financing from donors and international financial institutions. Once the health crisis has waned, and as debt levels and their servicing cost to tax revenues rise substantially, all countries will need to put their fiscal positions back on a sustainable path and reduce debt vulnerabilities.

Broad-Based Fiscal Support

The expected weakening in aggregate demand from the rapidly evolving pandemic and its wider spillover effects (through trade, commodity prices, and tighter financing conditions) would in general call for broad-based fiscal support, such as economy-wide tax cuts or public investments, to drive the recovery once the health crisis recedes, especially where monetary policy rates are at or near their

effective lower bounds.[7] Such a fiscal stimulus could boost business and consumer confidence (Bachmann and Sims 2012; Guimaraes, Machado, and Ribeiro 2016). The role for early broad-based stimulus, however, is likely to be more limited at the current juncture for several reasons. First, many pockets of localized outbreaks and some national lockdowns imply that a generalized fiscal stimulus is likely less effective given disruptions to production processes and supply chains. The output multiplier effects are likely small until business activity normalizes. Second, higher health care spending and targeted expenditure and tax measures could amount to sizable support. And third, decision and implementation lags imply that a generalized fiscal stimulus would likely start to boost demand once the pandemic fades. This would call for accelerating the implementation of already-budgeted investment projects, expediting previously planned discretionary measures, and planning for more fiscal support over time depending on available fiscal space. Some discretionary fiscal easing was already enacted, or was planned for 2020, to boost subdued growth that prevailed before the COVID-19 outbreak in a number of advanced economies (*Canada*, *Germany*, *Japan*, *Korea*, *United Kingdom*) and emerging market and developing economies (*Chile*, *China*, *India*, *Uganda*). These plans should be fully executed. To facilitate economic recovery as the coronavirus is contained, governments could plan to enact, for example, temporary payroll tax cuts to incentivize firms to hire and time-bound value-added-tax reductions to bring forward consumption, as well as implement accelerated investment, repair, and maintenance initiatives (depending on the countries' financing constraints).

Broader Country-Level Policies to Ensure Sustained Economic Recovery

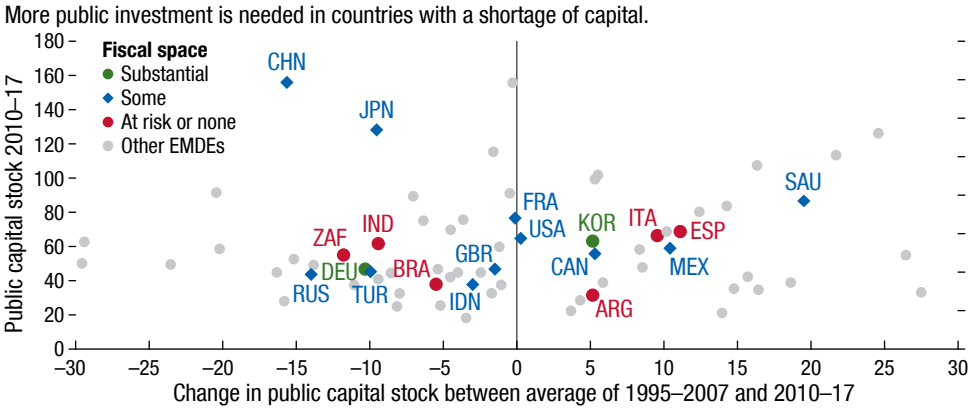
The current challenges arising from COVID-19 underscore the need to adopt, over time, broader enhancements to tax and expenditure policies that reduce vulnerabilities and boost medium-term growth. Improving social insurance schemes and safety nets can mitigate some concerns about how people would be protected in the event of a return of the current pandemic and future adverse macroeconomic shocks (Chapter 2). In high-debt countries, the pace and size of medium-term fiscal adjustment would need to be reassessed once the health crisis is over and the extent of the economic loss is better known. Any consolidation over the medium term should be appropriately paced, growth-friendly, and inclusive. Investing for the future remains an important priority for health care systems, infrastructure, low-carbon technologies, education, and research. This section discusses such recovery phase fiscal policies by country income group.

Advanced economies with ample fiscal space can take advantage of low interest rates to boost already weak potential growth by increasing spending on health care, research and development, training, and infrastructure—alongside changes to tax-benefit systems that can enhance resilience and raise productivity (*Germany*, the *Netherlands*). The case for public investment is particularly strong in countries with low or declining capital-to-GDP ratios (that is, where gross investment does not compensate for depreciation), slowing per capita capital accumulation (Figure 1.16), and weak aggregate demand. The fiscal expansion in *Korea* is expected to further foster female labor force participation and improve the social safety net (including to cushion the COVID-19 impact). To increase the automatic response of countries to shocks, unemployment insurance schemes and social safety nets should be improved to give adequate protection to vulnerable segments of the population.

Advanced economies with some or limited fiscal space should strive to reconfigure their spending and revenue mix to allow for greater capital spending (*Italy*, *United States*), particularly in sectors where the quality of public capital has deteriorated (for example, health care and transport infrastructure). For countries with large public capital stocks (*Japan*), additional investment should be selective (for example, to build resilience against pandemics and natural disasters, develop low-carbon technologies, and digitalize). In the *United States*, in addition to the resources allocated under the CARES Act, more direct demand stimulus should be put in place to bolster activity once the immediate health crisis has passed. This could include meeting well-documented federal, state, and local infrastructure

[7]Fiscal policies will likely have larger multipliers during the post-virus recovery phase given economic slack if the effective lower bound on monetary policy rates binds or monetary policy is accommodative (Auerbach and Gorodnichenko 2012, 2013; English, Erceg, and Lopez-Salido 2017; Erceg and Lindé 2014; Miyamoto, Nguyen, and Sergeyev 2018; Gali 2019), and debt remains low (Leeper, Traum, and Walker 2017; Mao and Yang, forthcoming). For countries with high debt levels, large-scale discretionary fiscal stimulus through revenue or spending measures is likely to have less expansionary effects (Ilzetzki, Mendoza, and Vegh 2013; Nickel and Tudyka 2014; Bi, Shen, and Yang 2016; Fournier 2019; Fotiou, Shen, and Yang, forthcoming).

Figure 1.16. Public Capital Stocks across Selected Countries
(Percent of GDP)



Source: IMF, Investment and Capital Dataset.
Note: Data labels use International Organization for Standardization (ISO) country codes. EMDEs = emerging market and developing economies.

needs, offering consumption vouchers to kickstart household spending, or investing to facilitate the transition to a lower-carbon economy. Additional relief can be provided to households, including further incentives to coordinate private creditors into offering delays in payments on auto, student, and credit card loans, as well as non-GSE (government-sponsored enterprise) mortgages. Moreover, once the COVID-19 crisis is over, prudent fiscal policies call for appropriately paced, inclusive, and credible adjustments to put debt ratios on a firm downward trajectory. To enhance the effectiveness of automatic stabilizers in these countries, social safety nets should be improved (*United States*).

Emerging market and developing economies' health systems generally have limited capacity, infrastructure needs that are pressing and substantially larger—with the potential to crowd in private sector investment (Eden and Kraay 2014)—and social safety nets that are relatively less developed (in coverage and adequacy) compared with advanced economies. In general, policymakers should finance development in a fiscally responsible way, improve the efficiency of public investment, and strengthen social safety nets. Taking advantage of unique identification systems (for example, Aadhaar in *India*) and new digital technologies (for example, the G-pay system in *Kenya*) can help deliver key public services, process applications for targeted income support, and implement direct cash transfers. The size of the initial fiscal support in response to the pandemic and financing constraints will determine the scope for additional fiscal action in the recovery phase. Once the COVID-19 crisis is over, high-debt countries should, in general, pursue fiscal consolidation supported by growth-friendly measures. However, the size and pace of adjustments would need to be carefully recalibrated, taking into account the full impact of the pandemic on the economy and the extent of debt vulnerabilities.

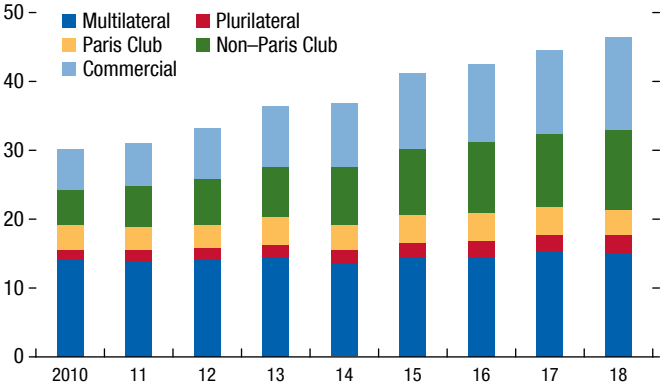
- *Among the large emerging market and middle-income economies*, additional on-budget fiscal support in *China* focusing predominantly on rebalancing and increased spending on low-income households, public health, and social safety nets is warranted should the recovery fall short even after supply constraints are removed. Refraining from off-budget, large-scale infrastructure investment remains appropriate in *China* as returns are diminishing. In *India*, the fiscal stance should be eased as needed to accommodate necessary increases in public health expenditure in response to the pandemic and shield against a more severe economic downturn, using targeted and temporary measures. Once the current economic situation improves, a more ambitious, credible medium-term fiscal consolidation path is needed to bring debt and interest expenditure down. Transparency must improve, and the practice of shifting spending off-budget must be curtailed. In *Brazil*, further easing of fiscal policy may be needed to arrest a steep deterioration in aggregate demand. However, the authorities should continue to pursue fiscal reforms and develop a medium-term fiscal framework that preserves the expenditure ceiling rule

and puts debt on a downward trajectory. Maintaining fiscal credibility is essential to restore investor confidence and attract much-needed investment once economic conditions start to normalize. *South Africa* should focus on containing the pandemic in the short term and undertaking fiscal consolidation over the medium term, accompanied by improving the efficiency of spending and implementing structural reforms. For many oil-exporting countries, the sharp fall in oil prices highlights the need for economic diversification as well as investing in low-carbon technologies.

- *Low-income developing countries* should strike a balance between addressing development needs and safeguarding debt sustainability once the health crisis wanes. Achieving this balance requires adhering to sound medium-term fiscal frameworks, raising domestic revenues, improving the efficiency of spending, and facilitating private sector activity through structural reforms and improvements in governance and the rule of law (Desruelle, Razafimahefa, and Sancak 2019). Priorities include the following:
  - *Mobilizing domestic revenues when the pandemic abates:* The average tax-to-GDP ratio of low-income developing countries is significantly lower than that of emerging market and middle-income economies. The current tax gap (the difference between potential and realized tax ratios) is large—estimated at 3–5 percent of GDP in sub-Saharan African countries (May 2018 *Regional Economic Outlook: Sub-Saharan Africa*). Although challenging, building tax capacity is needed to substantially increase government revenues over the long term—from the current median level of 15 percent of GDP—in order to facilitate efforts to meet the needs outlined in the United Nations Sustainable Development Goals (Gaspar and others 2019). Cross-country experience shows that bolstering revenue collection requires a medium-term revenue strategy in which both tax policy and revenue administration efforts are well coordinated, such as the domestic revenue mobilization strategy recently adopted in *Uganda*. Measures include implementing well-designed value-added taxes, including timely refunds; building capacity for property taxation; gradually expanding the base for corporate and personal income taxes, including by eliminating costly tax exemptions; and efficiently taxing extractive industries (IMF 2019a). Other priorities include adopting a comprehensive risk-based strategy to improve compliance, with a focus on large taxpayers (*Uganda*). These efforts should be complemented with improved governance (April 2019 *Fiscal Monitor*). Concerns that the value-added tax might be regressive are better addressed within the overall tax-benefits system by strengthening safety nets.
  - *Improving debt management and transparency:* Despite improvements in debt management and transparency in many low-income developing countries (*Cameroon, Ghana*), important gaps remain in some countries, including insufficient audits, lack of operational risk management, and incomplete coverage of debt statistics (such as those on borrowing terms and conditions of state-owned enterprises; see Chapter 2) (IMF 2019b). The likely impact of the COVID-19 pandemic on countries' public finances only reinforces the need to improve debt management and transparency. Further efforts are needed to manage risks and keep up with the evolving complexity of public debt structures and the rising share of external and nonconcessional financing (Figure 1.17). Measures include publishing regular debt reports, broadening the coverage of debt statistics, and limiting risks from contingent liabilities. Frontier economies, which have a large share of nonconcessional financing, should strengthen debt management governance (*Ghana*). These would help further develop local debt markets.

Figure 1.17. Low-Income Developing Countries: External Debt, by Creditors, 2010–18
(Percent of GDP)

The creditor base has shifted toward commercial and non–Paris Club creditors.



Sources: World Bank Debt Reporting System; and IMF staff estimates.

Box 1.1. Understanding the Implications of Different Types of Fiscal Measures for Public Finances

To address the economic and social challenges posed by the COVID-19 pandemic, governments are using fiscal measures that take various forms and have different budgetary and debt-related implications (Figure 1.1.1). Additional spending or tax cuts result in immediately higher budget deficits. Support to companies in financial trouble through loans or equity injections does not impact budgets directly but may increase debt or require additional borrowing. Guarantees do not affect deficits or debt in the near term, but they expose the government to medium- to long-term fiscal risks.

The full cost of most budgetary "above-the-line" measures is reflected in the fiscal balance, government debt, and increased borrowing needs in the short term. These measures include additional spending (for example, health services and unemployment benefits); capital grants and targeted transfers (for example, wage subsidies or direct transfers); or tax measures (for example, tax cuts or other relief) provided through standard budget channels. Deferrals of tax payments and social security contributions have a temporary effect on the deficit and debt, and aim to provide liquidity to taxpayers. Although deferrals create a financing need today, the government will eventually be repaid in the future.

"Below-the-line" measures generally involve the creation of assets, such as loans or equity in firms. Equity injections or loans to firms may have little or no upfront impact on the fiscal deficit unless they have a concessional component, but they can increase debt or reduce liquidity. Government guarantees granted to banks, firms, or households usually have no immediate upfront cost in the form of deficit or debt unless the expected cost is budgeted, but they create a contingent liability, with the government exposed to future calls on guarantees. A loan default or loss in equity would reduce the government's assets, whereas a call on a guarantee would increase public debt, as the guaranteed debt is assumed by the government. These would reduce government net worth (assets net of liabilities).

Figure 1.1.1. Likely Impact of Measures on the Government Budget and Debt

	Today		Tomorrow[1]	
	Budget Balance	Debt	Budget Balance or Net Worth	Debt
Additional spending or tax cuts	↓	↑	Unchanged	
Tax deferrals	↓	↑	↑	↓
Loans[2]	Unchanged	↑	↓ (if firm defaults)	Unchanged
Equity injections[2]	Unchanged	↑	↓ (if firm fails)	Unchanged
Guarantees[2]	Unchanged	Unchanged	↓ (if called)	↑

Source: IMF staff.
Note: All transactions are assumed to be financed through debt rather than by drawing on other government funds.
[1]Additional effect in the future rather than a combined effect with today's incurrence.
[2]If transactions are reasonably expected to have an economic rate of return. If not, treated like budgetary spending and revenue measures.

Box 1.2. A Wave of Protests: Economic Reforms and Social Unrest

An increasing number of protests have broken out during the past two years in various parts of the world, challenging governments and policymakers to understand and address the root causes of discontent. In *Ecuador*, *Haiti,* and the *Islamic Republic of Iran*, protests started when the government announced an increase in fuel prices, while protests in *France* were related to reforms of the railway system and pensions, and planned fuel tax increases, among other factors. In *Sudan,* a sharp increase in the price of bread and a shortage of fuel led to social unrest. In *Lebanon,* people took to the streets when the government announced the introduction of fees on internet-based calls, whereas in *Chile,* a small increase in public transport fares sparked social protests on much broader issues.

Protests over policy reforms—in particular, over price increases of basic goods and other fiscal measures—are not a new phenomenon (Morrisson 1996). For instance, cuts in public wages or increases in food and fuel prices sparked protests in *Burkina Faso, Ecuador*, *Nigeria,* and *Zambia* in the 1980s, and in *Gabon, Indonesia,* and the *Philippines* in the 1990s. In other cases, political rather than economic measures provoked unrest. Governments have struggled to understand the causes of protests and to design policies that could help reduce the risk of social unrest.

Common Themes: Root Causes and Triggers of Social Unrest

Each country's protests are unique, but they seem to have broad common themes. Specific measures may trigger protests, but rising tensions quickly transform social unrest into a broader critique of government policies. People take to the streets because of long-standing grievances and perceptions of mistreatment (Passarelli and Tabellini 2017). High or rising levels of poverty and inequality, particularly in countries with weak social safety nets, can contribute to unrest. Protests are also more likely in countries with histories of widespread corruption, lack of transparency in public policy, and poor service delivery. Across countries, many groups feel that they lack a voice in public matters and that they are not well represented by existing political parties or the political system. According to Piketty (2018), for example, in some Western democracies, established political parties on both the left and right have become dominated by "highly educated or merchant" elites, leaving the working class with less representation. In other regions, younger generations have been at the forefront of many recent protests, expressing their perceptions that existing policies pay scant attention to their welfare. Protests often also occur in waves, signaling a potential contagion effect, including across borders (Katz 1997; Chen, Lu, and Suen 2016). Examples include the Arab Spring in the early 2010s and the protests spreading across several countries in Latin America in 2019.

Although the long-standing challenges discussed above are multifaceted and have deep political, historical, and sociological roots, the triggers for protests are often related to specific types of economic policy measures that have commonalities across countries. Price increases for basic goods and energy products or reductions in public wages are more likely to face strong opposition because they threaten the livelihood of vulnerable segments of the population or take away important benefits from a societal group that can organize strong opposition, such as civil servants or the urban middle class. By comparison, cuts in public investment or general current expenditures entail less risk of unrest because their costs are sometimes deferred or indirectly dispersed over the entire population rather than concentrated on specific groups (Morrisson 1996). Countries could be vulnerable to new waves of social unrest, for example, if support measures are seen as insufficient to mitigate the COVID-19 crisis and its economic fallout, or as unfair by favoring the wealthy, or when those measures are later withdrawn.

Policy Design Matters

Policymakers should address the country-specific, complex root causes of discontent. In the near term, policymakers have more control over the design of policy reforms and, in this regard, cross-country experiences provide lessons on how to reduce the likelihood of triggering unrest.

- Adequate planning and a clear strategy based on analysis and on mitigation measures increase the likelihood of success, as does an electoral mandate for reform (Clements and others 2013; OECD 2009). A gradual approach that allows citizens to adapt has often proven to be more politically acceptable. In contrast, reforms are less successful if undertaken hastily in response to immediate economic pressures (OECD 2018).

Box 1.2 *(continued)*

- A reform plan should also include a strategy for overcoming opposition from interest groups, and mitigating measures for adversely affected groups, both of which are critical to building public support (Clements and others 2013; Inchauste and Victor 2017; Furceri and others 2019). Implementing mitigation measures before reforms, and publicly linking such measures to the reforms, can help demonstrate the government's commitment to protecting relevant groups. Any mitigation measure should provide adequate coverage and generosity and be visible to the relevant groups. For instance, the successful energy subsidy reform in the *Islamic Republic of Iran* in 2010 was preceded by a public information campaign accompanied by substantial and immediate cash transfers to households. In contrast, the large increase in fuel prices in November 2019, without prior notice or compensation, was met with protests because it occurred during a period of high unemployment and underlying dissatisfaction. When energy price increases triggered unrest in *Haiti* in 2018 and *Ecuador* in 2019, mitigation measures were either absent or not visible to the public, or were lacking in coverage and generosity. In *Morocco*, in contrast, the authorities phased out subsidies gradually and consulted stakeholders in 2014 before implementation of the reform, and a smoother rollout ensued.
- A far-reaching and consistent communications strategy can help build broad public support. At the current juncture, making clear that support measures to address the COVID-19 crisis are temporary could help manage expectations. More generally, the communication strategy should include consultation with those stakeholders who are affected by the reform and can influence its success (Worley, Pasquier, and Canpolat 2018).[1] The information campaign should be transparent, explain the rationale for reform and the cost of the status quo, and present mitigation measures for adversely affected groups (Clements and others 2013). For example, ahead of the 2015 introduction of the value-added tax in *The Bahamas*, the government embarked on an in-depth public information campaign and implemented mitigation measures. The public must be made aware that the status quo is costly and of how any savings from reform can be redeployed to benefit the population (for example, by scaling up education and health care spending) (Inchauste and Victor 2017; OECD 2018).
- Although these lessons are grounded in empirical evidence and cross-country experience, it is important to recognize that the factors leading to unrest remain unpredictable and depend on rapidly evolving circumstances specific to individual countries as well as on regional and global factors.

[1]See Abdallah and others (2019) for an application of a communications strategy in Colombia.

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