



Transcript of IMF podcast:

Unprecedented Fiscal Response to an Unprecedented Crisis

Vitor Gaspar:

From the viewpoint of the Fiscal Monitor, the crucial aspect of COVID-19 is that governments all around the world moved quickly and decisively with fiscal action at an unprecedented scale.

Vitor Gaspar:

I'm Vitor Gaspar and I'm the Director of the department that produces the Fiscal Monitor, one of the flagships of the IMF. The Fiscal Monitor documents fiscal support in the world of about \$12 trillion. But what's next in terms of fiscal policy? The Fiscal Monitor calls on governments not to pull the plug too soon, while making sure that they benefit from favorable conditions for treasury financing.

Bruce Edwards:

Welcome to this podcast produced by the International Monetary Fund, I'm Bruce Edwards. Seven months after the World Health Organization declared a global pandemic, more than a million people have died of the disease and trillions of dollars have been spent in an effort to contain its devastating impact on economies across the globe. The latest Fiscal Monitor looks at what governments can do in the different phases of the pandemic to reduce the impact of the recession. Vitor Gaspar heads the semiannual publication. He says the massive fiscal support provided since the start of the crisis has been effective at saving lives and livelihoods and needs to continue.

Bruce Edwards:

So, incredible amounts of money have been put toward supporting people and businesses since the beginning of the lockdowns in April, and with so much money being spent so quickly, how do you ensure that these funds are actually getting to the right places?

Vitor Gaspar:

So, you may recall, Bruce, that in the spring, we were very much pushing the catchphrase, do whatever it takes to contain COVID-19, but make sure to keep the receipts. That message really speaks to your question. It is crucial to act quickly and decisively, but at the same time, it's very

important to keep an eye on the medium to long term, and guarantee appropriate transparency and accountability. As a matter of fact, it is totally justified to reinforce the processes that ensure transparency and accountability, because obviously with such enormous amounts at stake, with such a speed in disbursement, the risks and vulnerabilities to good governance are much more significant than usual.

Bruce Edwards:

Absolutely. And deficits meanwhile are growing and debt reaching or expected to reach at least 100% of GDP for the first time ever. Is it still too early right now to start worrying about the legacy of these support measures?

Vitor Gaspar:

It is very important, as you emphasize Bruce, to be aware of legacies and preexisting conditions. In the Fiscal Monitor, we do stress that all countries around the world face long-term public finance challenges of different natures, of very different natures as you move around the world, but they all would be well-advised to look at public finance issues in the context of a medium to long-term fiscal framework. They need all of them, a medium to long-term fiscal strategy. Think about countries in the advanced world that benefit from very easy financing conditions. Even those countries that can finance huge amounts of public sector bonds in the financial markets, even those countries face very important long-term challenges in public finances associated with population aging. And of course, in the other extreme, you have countries that are the poorest in the world and face binding financing constraints today. These countries need to make tough choices, they face very tough trade-offs and of course, for them, it is crucial also to take a medium to long-term view associated with the challenges of development and the priority that should be given to the Sustainable Development Goals.

Bruce Edwards:

And you do lay out the various fiscal strategies in the report and based on what phase of the pandemic these countries are in, but really, it's not too clear at this point what phase we are in. It's a bit of a roller coaster ride. What should the fiscal strategy be right now?

Vitor Gaspar:

Right now we believe that the priority should be to avoid premature withdrawal of fiscal support. That is important to sustain economic recovery. That is important to avoid a long-term scarring. Of course, the extent to which different countries can follow this advice depends on the financing constraints that they face. If a country is already facing rationing in capital markets, if a country is already facing sharply increasing costs of financing, that country has to be particularly prudent and must meet the urgent needs that COVID-19 creates by doing more with less, by reprioritization. And in some cases, the help from the international community is necessary through grants, through loans, through other instruments. But clearly the priority now is still very much to support the economy, to support households, to support firms, to support the short run adjustment. But as time goes by, priorities do change and what can be done in terms of economics and finance depends on what is going on concerning COVID-19.

Vitor Gaspar:

The priority of health, the priority of fighting the epidemic is still very much on. As the situation evolves, the policy options evolve with it and the various trade-offs in the various stages are well identified in the Fiscal Monitor. But you're right, Bruce, we don't have a clear blueprint. These various phases do not necessarily have to operate chronologically. One may go from more advanced phases to earlier stages. And so it's very important to keep alert, to keep flexible and to be ready to adapt policies to the needs of the situation.

Bruce Edwards:

And we spoke briefly about the legacy of this crisis, and it's not only about rising debt and

deficits, but rising poverty. How can governments focus on the severe social impact of this crisis when public finances are under such pressure?

Vitor Gaspar:

So, it's absolutely crucial to take into account the distributive impacts of the pandemic. Those materialize inside each of our societies. We have seen that the poorest segments of the population have been more affected than the rest. Young people have been hard hit, women are a segment of the population that has also suffered disproportionately-

Bruce Edwards:

Indeed.

Vitor Gaspar:

... and what is true inside each of our countries is also true across countries in the world. The poorest were the most constrained, the least equipped to cope with the consequences of COVID-19. And these priorities are urgent. These priorities have to be met with urgency and authorities in each of our countries and the international community have to rise to the challenge. As you recall, Bruce, since the spring meetings, the World Bank and the IMF have been very much arguing for the need for debt relief and the need for grants to the most vulnerable countries. And that is something that- we have documented in the Fiscal Monitor, has helped these countries that face these dramatic trade-offs that have to do with the rise of extreme poverty and the increase in, for example, the risks of malnutrition. But one should not forget the challenge associated with trying to make sure that the young in these societies continue to go to school, continue to have access to education, continue to improve, because it's very important that the next generation will be significantly more prosperous than the current one.

Bruce Edwards:

And that call for debt relief, do you think this will take on a whole other dimension as this pandemic progresses?

Vitor Gaspar:

So a lot has already been done. It has been possible to extend support in terms of our rapid financing to about 80 countries. The amounts involved are considerable. They have helped these countries in the management of the trade-offs that we have been talking about, but going forward, it is clear that more is needed. Just to recall a number, in the Fiscal Monitor, we estimate that the total number of people in situations of extreme poverty will increase this year, 2020, by 80 to 90 million people. And that already takes into account the role of social policies. And clearly, that is a dramatic development. And we want to eradicate poverty in the world- and this is the first of the Sustainable Development Goals. And this epidemic has pushed us in the wrong direction, and we need to push back.

Bruce Edwards:

So this crisis has changed a lot of things in a lot of ways. And it's likely that the post pandemic economy will be a very different one from what it was before. How do you see the role of fiscal policy in preparing for the post pandemic economy?

Vitor Gaspar:

Fiscal policy has a decisive role to play. Fiscal policy is very capable of targeting segments of the economy and segments of the population selectively. And that gives it the flexibility to adapt to a challenge as complicated, as multifaceted as COVID-19. So the epidemic is a moment of change, and it does give us the opportunity to shape that change. So we would like to see an economy- a society emerging from COVID-19, a society that is more resilient, just think about pandemics and climate change, a society that is smarter, just think about digital access to all, that is greener, because it is crucial to give priority to the fight against climate change, and more inclusive,

because we want future prosperity to benefit all.

Bruce Edwards:

And so public investment perhaps will take on an even more important role.

Vitor Gaspar:

Absolutely, Bruce. Absolutely. So public investment can help the transition to a smart and green economy. You just have to think about how much cities will be changing, for example, in Sub-Saharan Africa, the pace of change is enormous and public investment has a very important role to play. We in the Fiscal Monitor have a new argument for the opportunity of public investment. We document that in times of high uncertainty, like the one that we're living, with COVID-19, public investment has very strong impacts on economic activity, private investment, and the creation of employment. And that is so because in times of high uncertainty, public investment provides like a bridge over short to medium-term uncertainty and into the long-term. And that allows private investment to step in.

Vitor Gaspar:

So under these circumstances, there is a strong complementarity between public investment and private investment. The numbers that we provide are staggering. We show that the 1% of GDP increase in public investment in advanced and emerging market economies, leads to an increase in GDP after two years of about 2.7% of GDP, and that private investment increases by more than 10%. And more importantly, that 20 to 33 million jobs will be created directly and indirectly, Bruce.

Bruce Edwards:

Vitor Gaspar, head of the IMF's Fiscal Affairs Department, thank you so much.

Vitor Gaspar:

Thank you, Bruce.

Bruce Edwards:

Vitor Gaspar is Director of the IMF's Fiscal Affairs Department and heads the publication of the Fiscal Monitor. You can read the latest report at [imf.org](http://www.imf.org). And if you like what you're hearing, please subscribe to IMF podcasts wherever you get your podcasts, and follow us on Twitter @imf_podcast. Thanks for listening.

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