



# International Monetary Fund

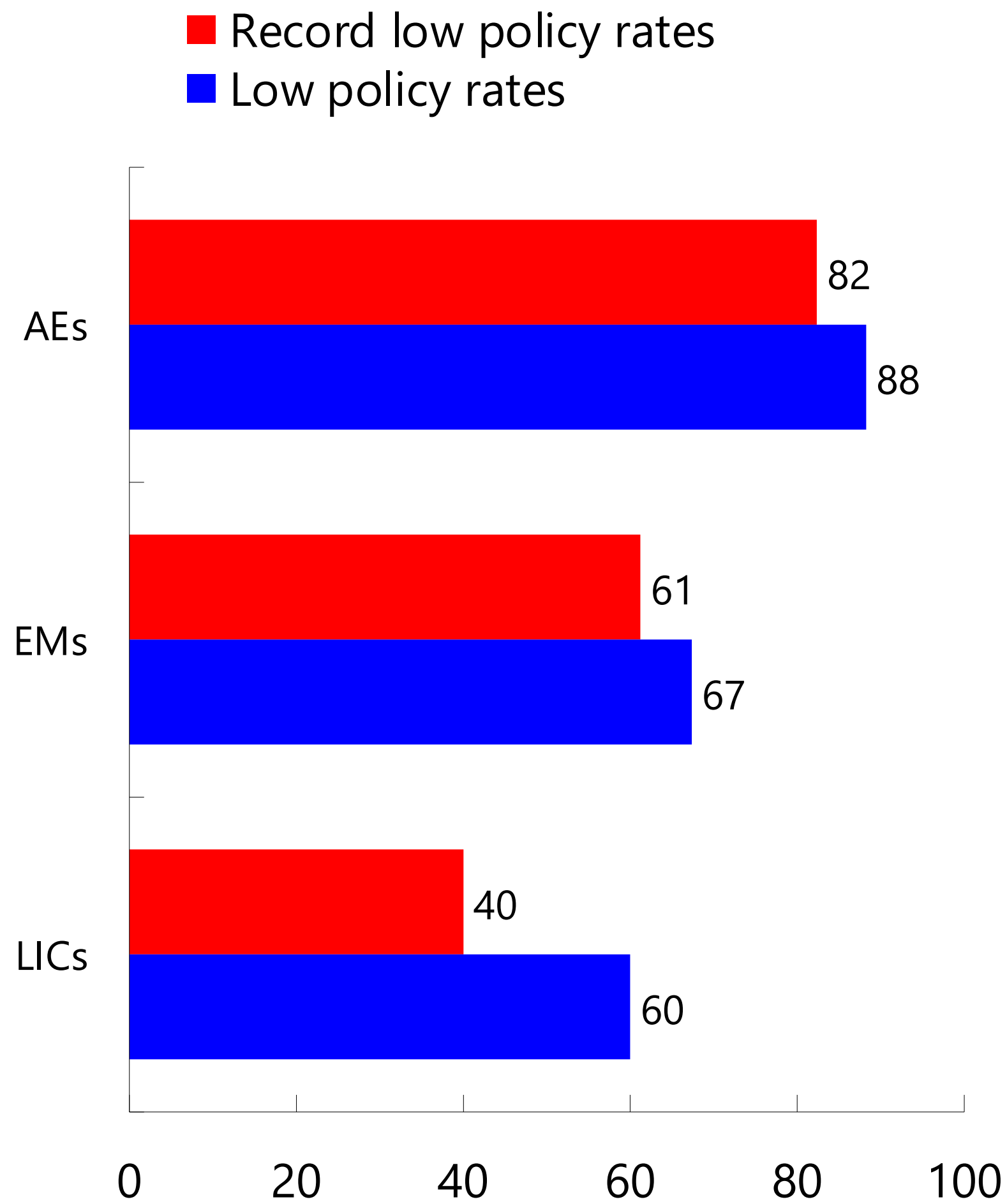
Sept 2, 2021

## Monetary and Macroeconomic Policies At the Crossroads

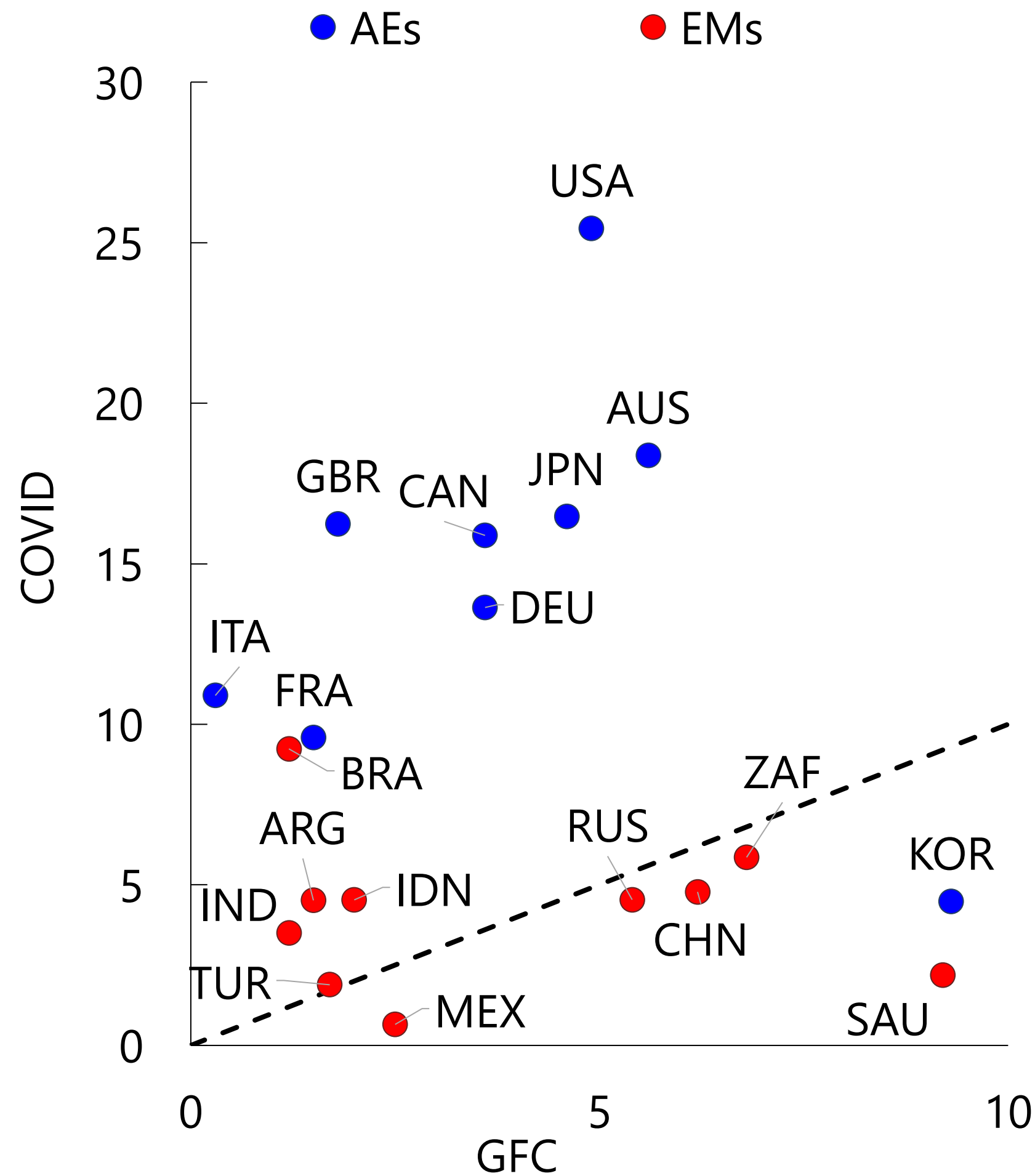
*Gita Gopinath*  
*Economic Counsellor*  
*International Monetary Fund*

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

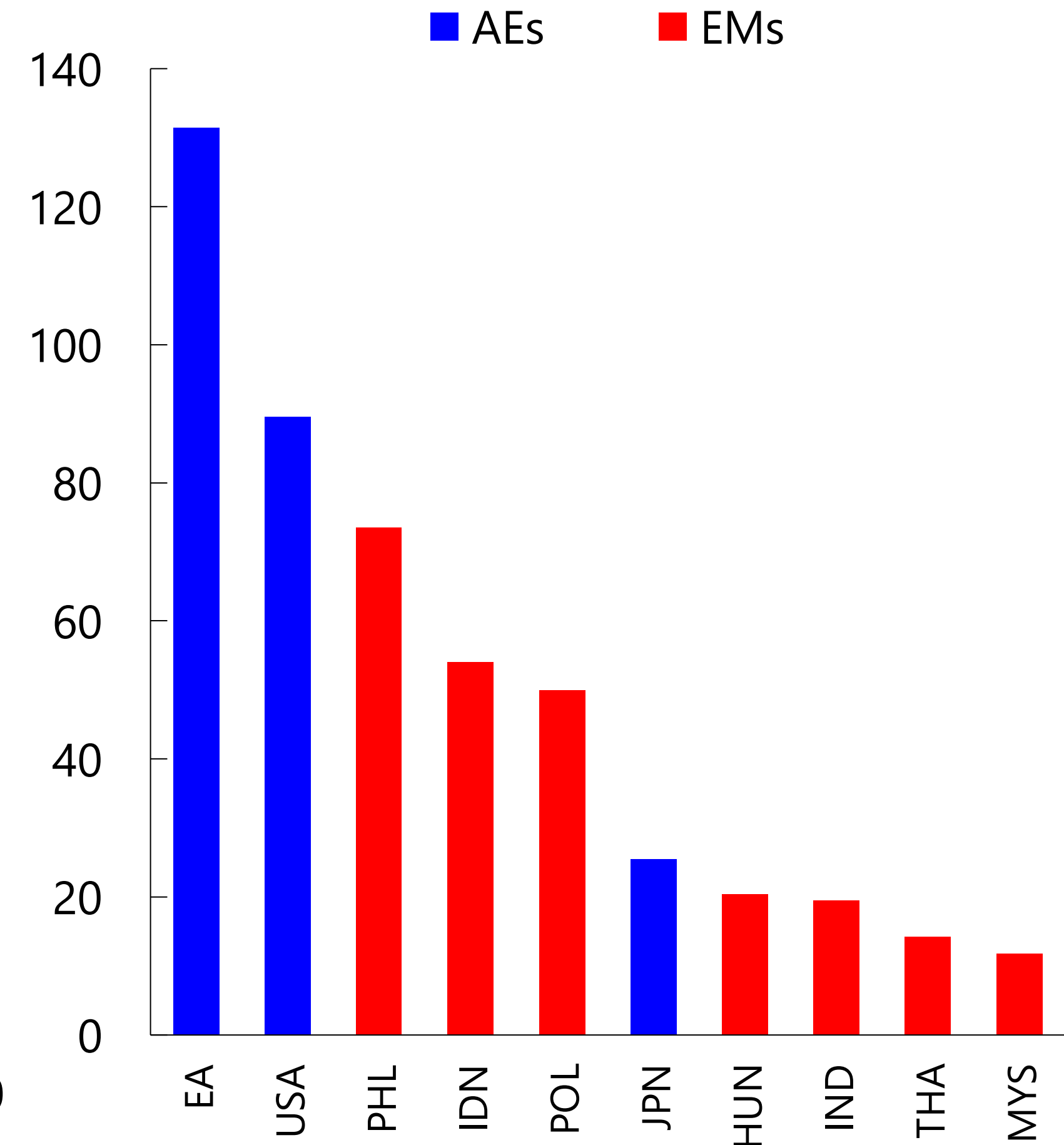
**Current policy rates 1/**  
(share of countries, as of July 2021)



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



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



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

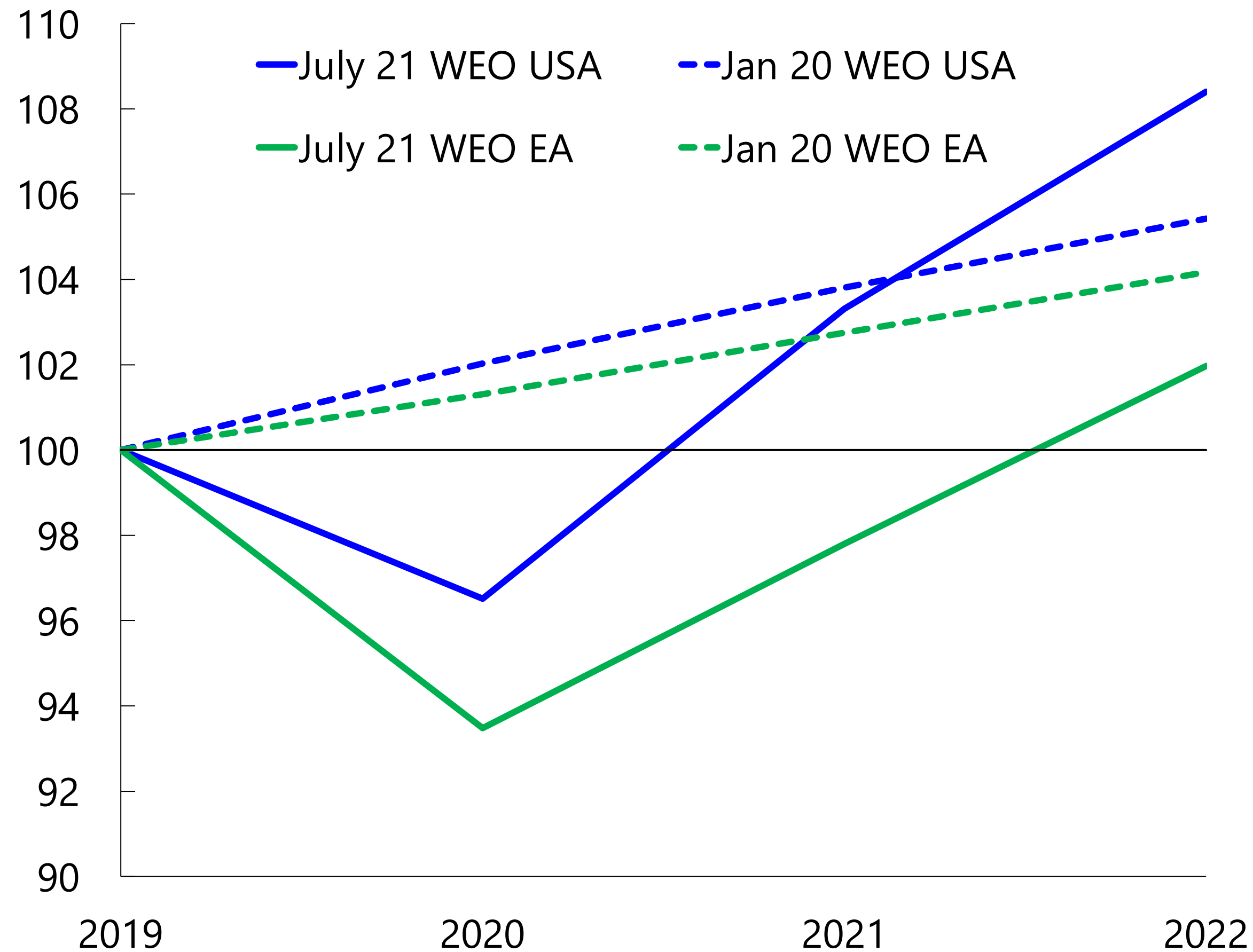
1/ "Low" policy rates means in the bottom 10th percentile of the country's distribution of policy rates, since 2004.

2/ Includes purchases through primary and secondary market. EMs use 2020 data.

# ...has crucially helped limit output losses...

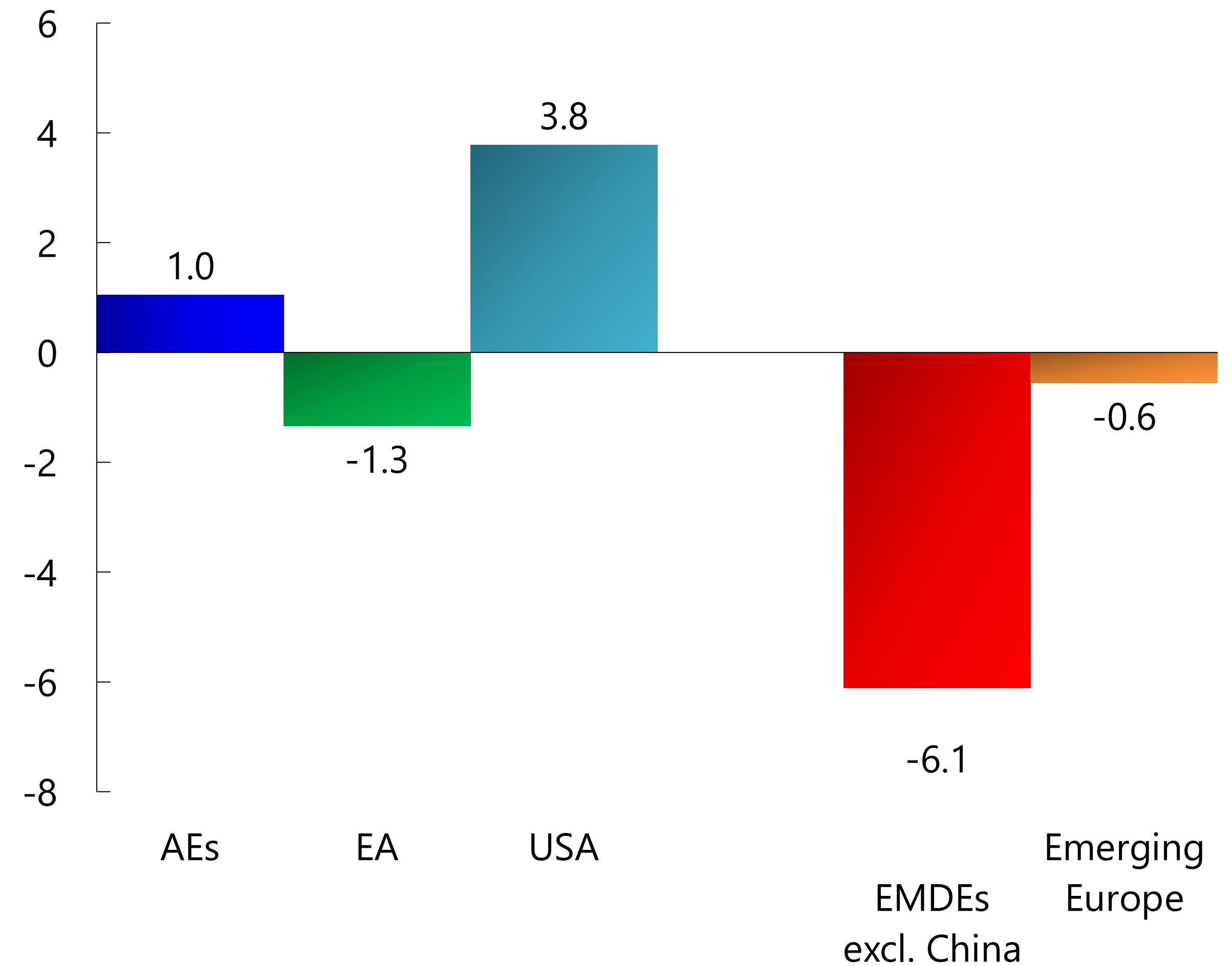
## GDP level

(index; 2019=100)



## Medium term per capita income loss 1/

(percent deviation from pre-crisis trend)

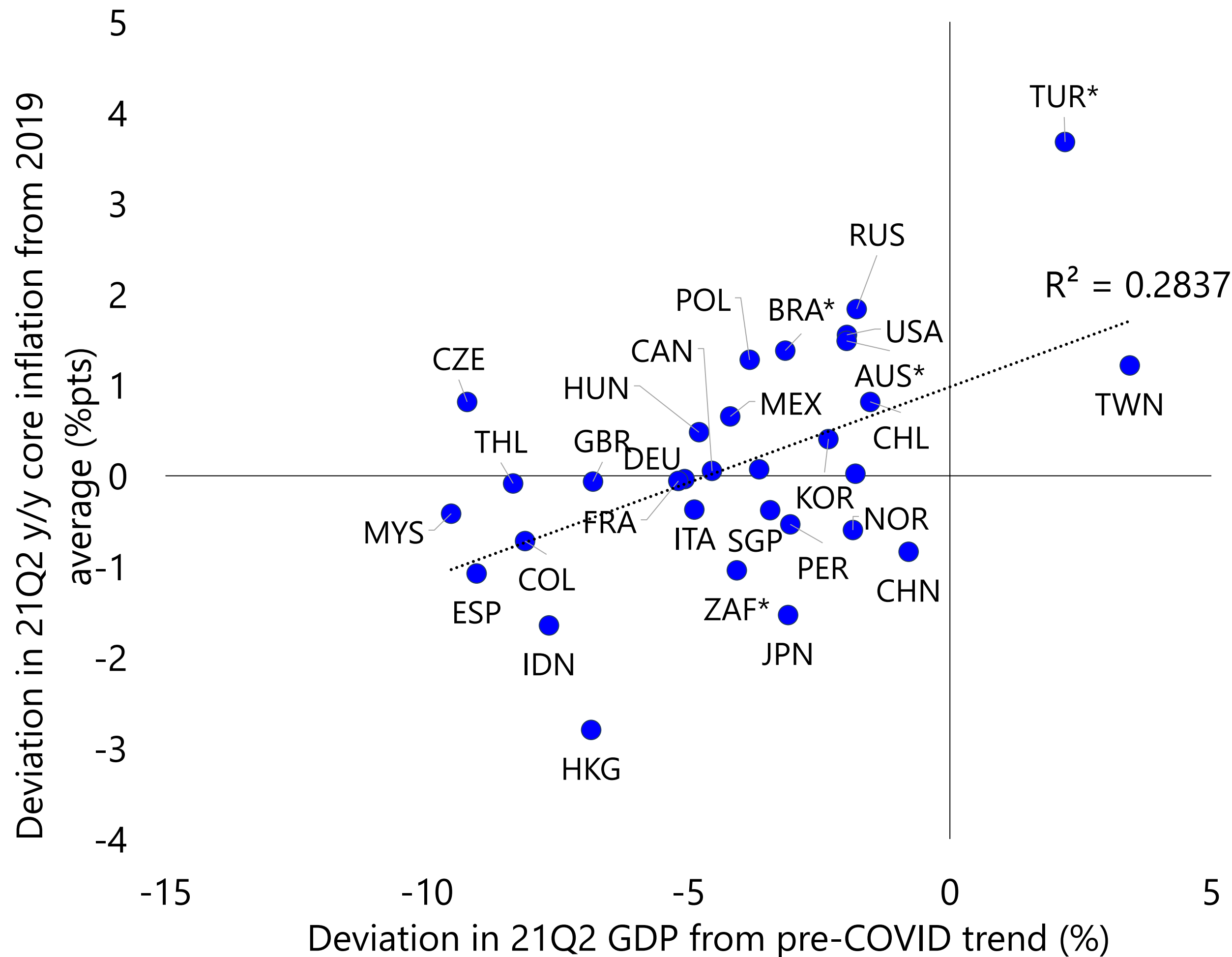


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

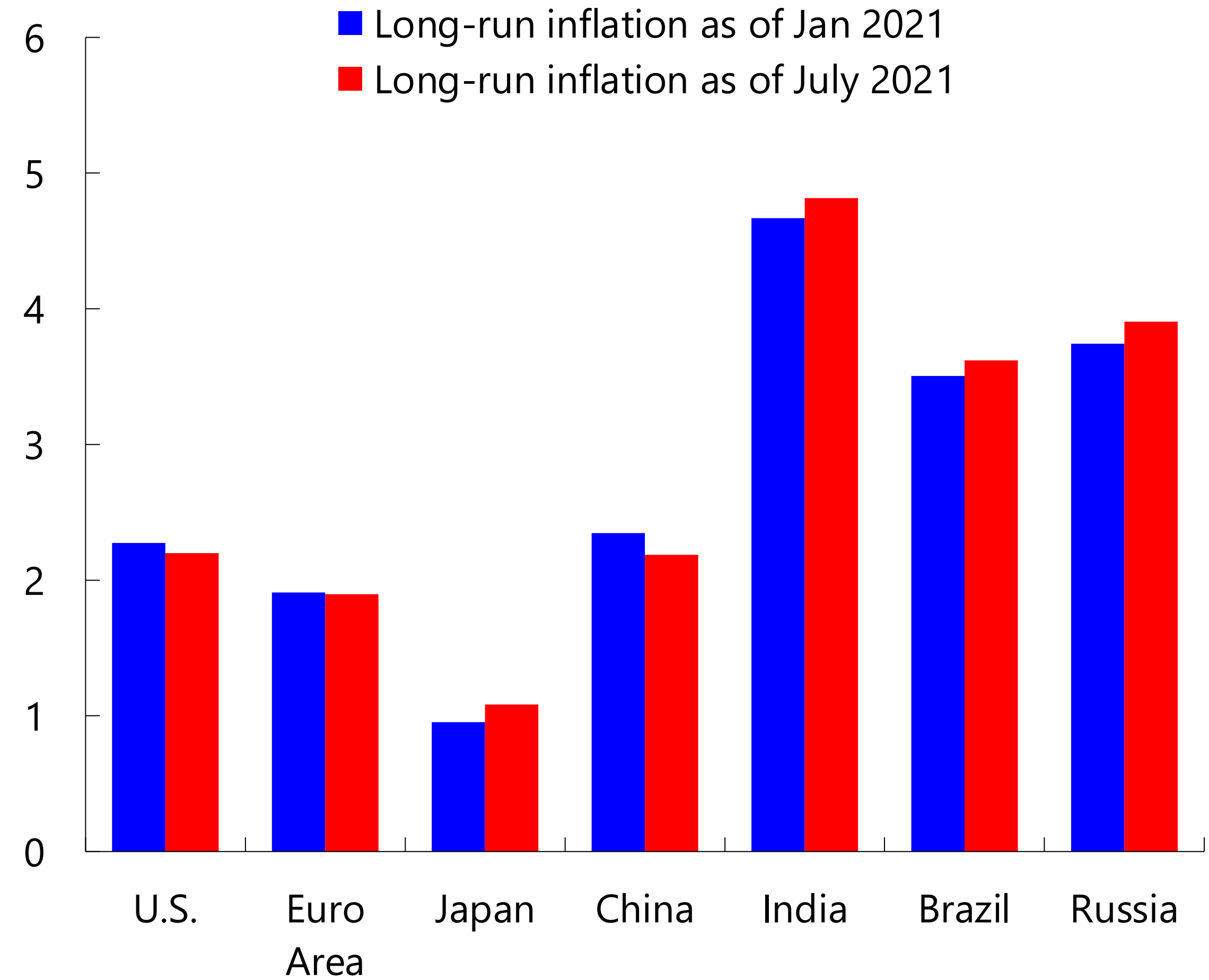
1/ Per capita real GDP (2017 purchasing-power-parity dollars) is used in the calculations. Pre-crisis trend comes from the January 2020 projection and medium-term is 2024 projection from July 2021 WEO.

# ...but triggered inflation and debt concerns

**GDP level and core inflation 1/**  
(percent deviation)



**Long-run inflation expectations 2/**  
(percent per year)



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

1/ countries with stars(\*) use projections.

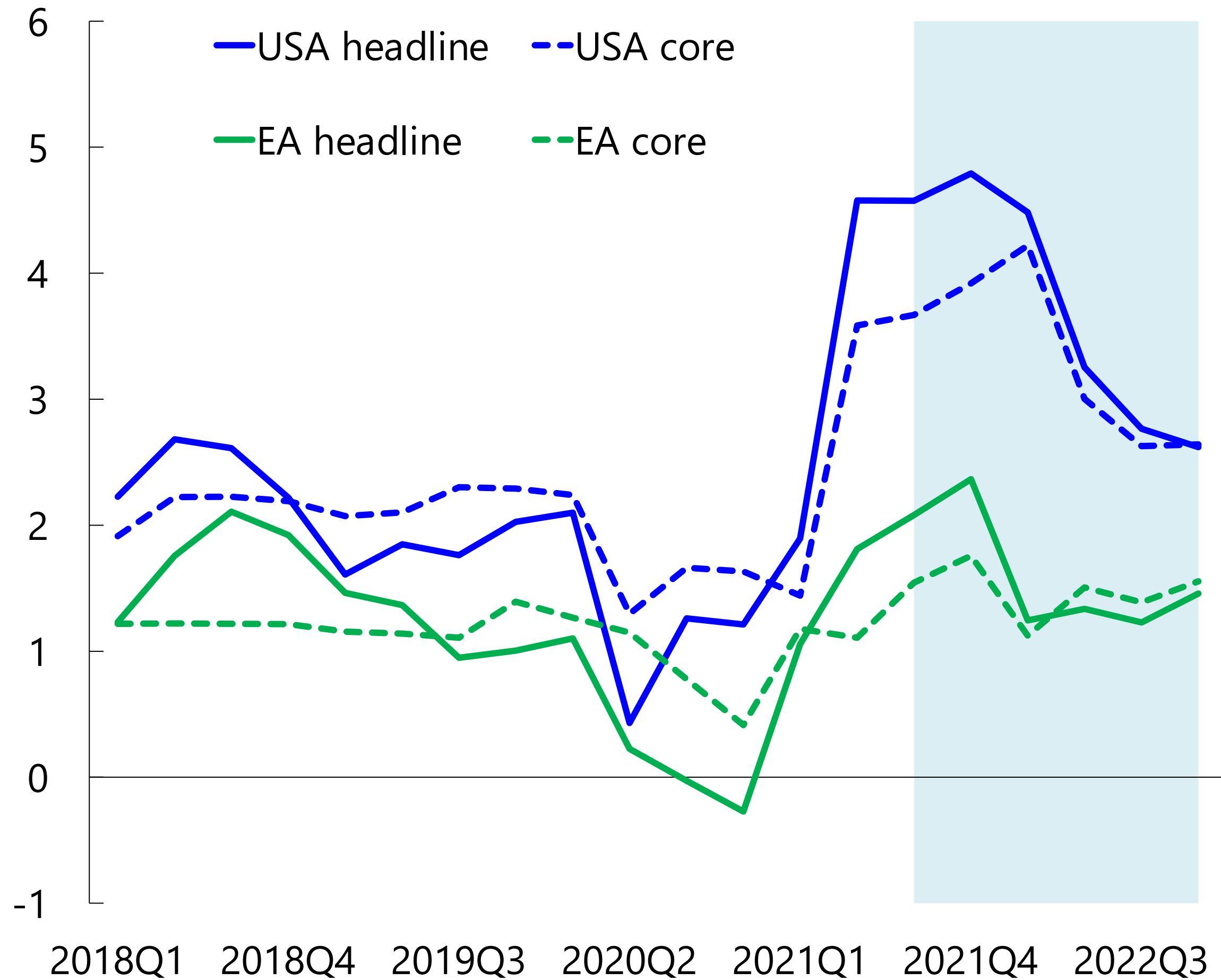
2/ Long-run inflation expectations are 6-10 years ahead.



# Inflation pressures have transitory features, but with upside risks

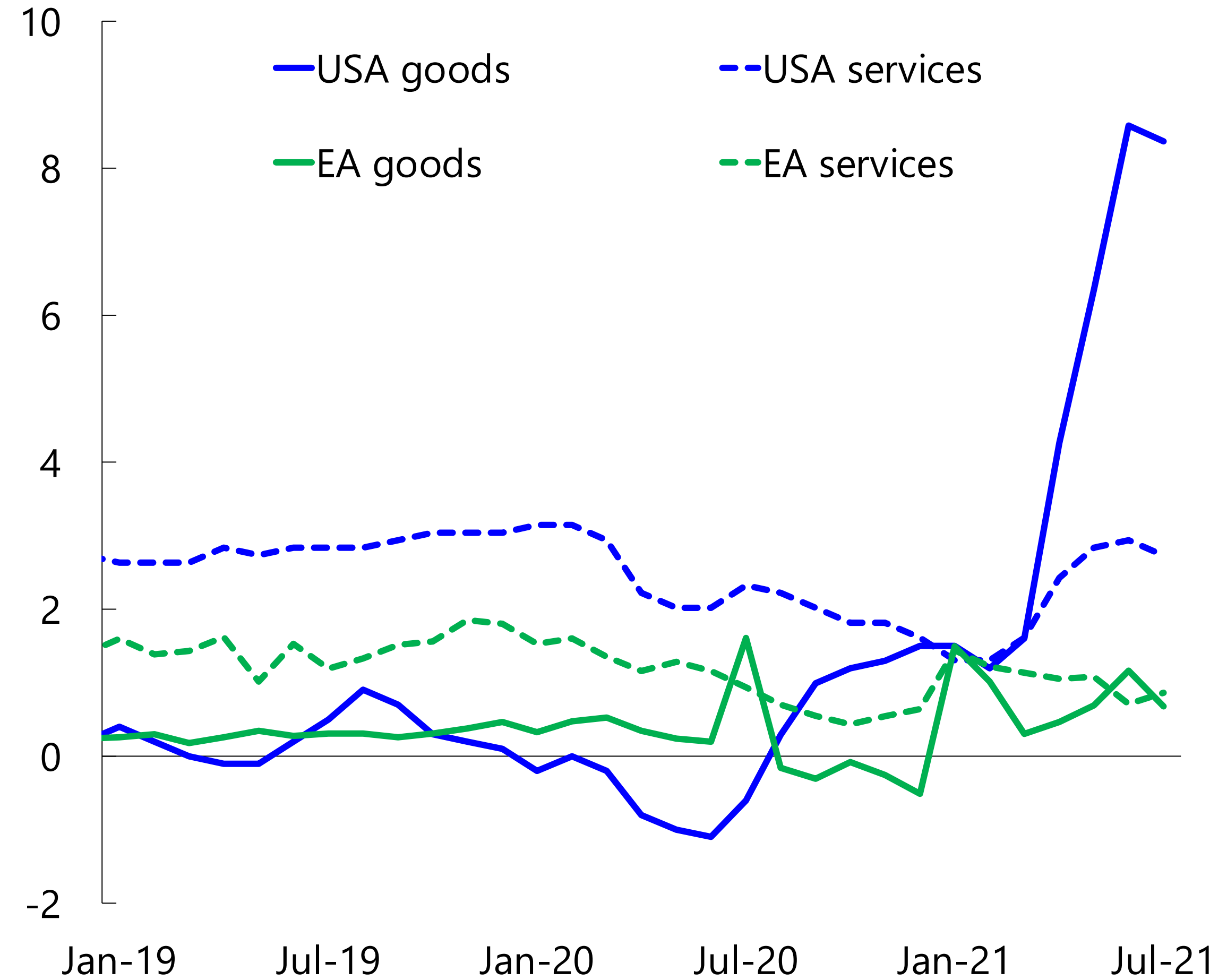
## Headline and core inflation

(percent; yoy)



## Goods and services inflation 1/

(percent; yoy)

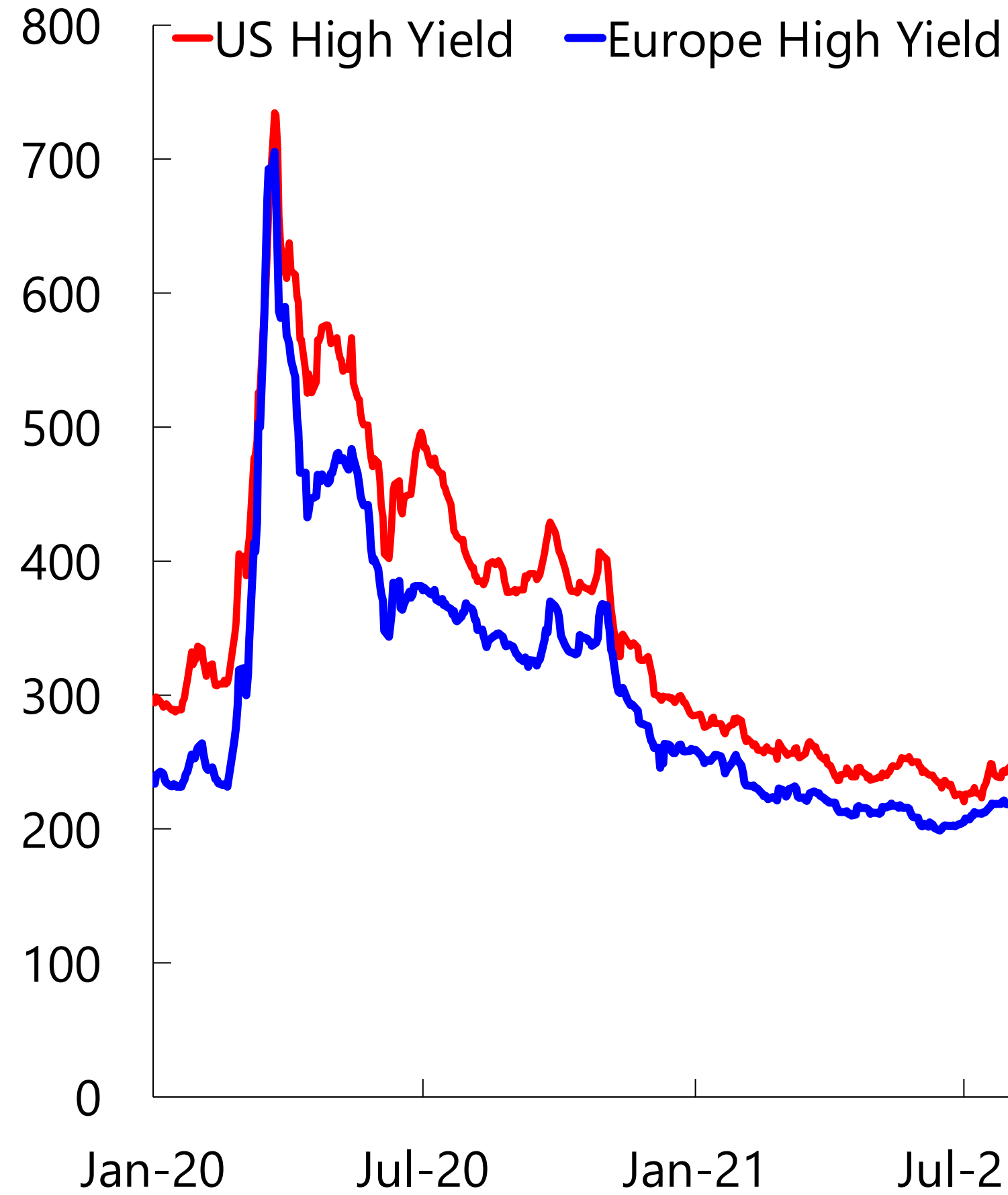


Sources: Haver Analytics; IMF, July 2021 *World Economic Outlook*; and IMF staff calculations.

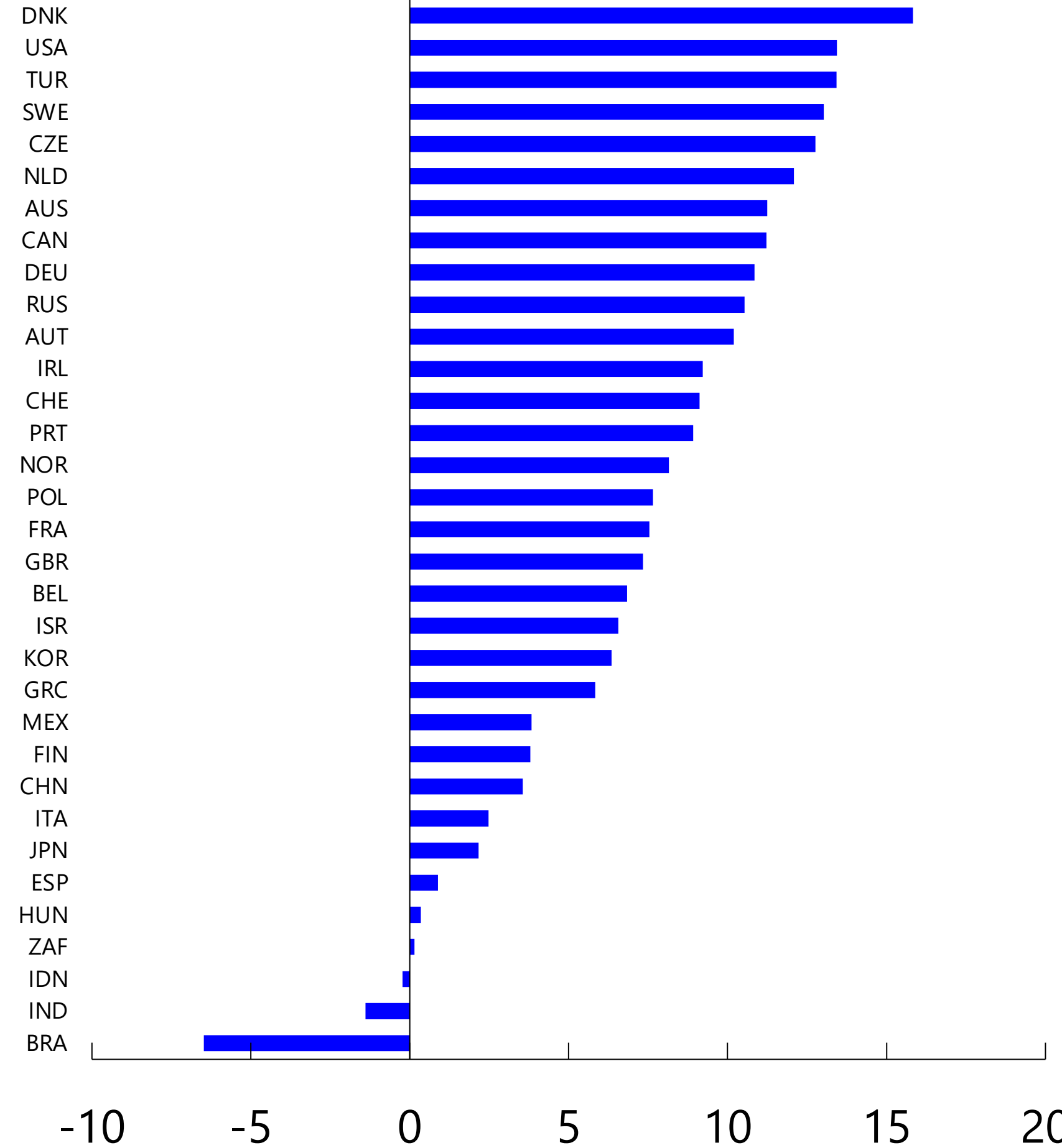
1/ For goods: HICP non-energy industrial goods for EA and CPI-U, commodities less food and energy for the US.

# Easy policies have fueled asset prices

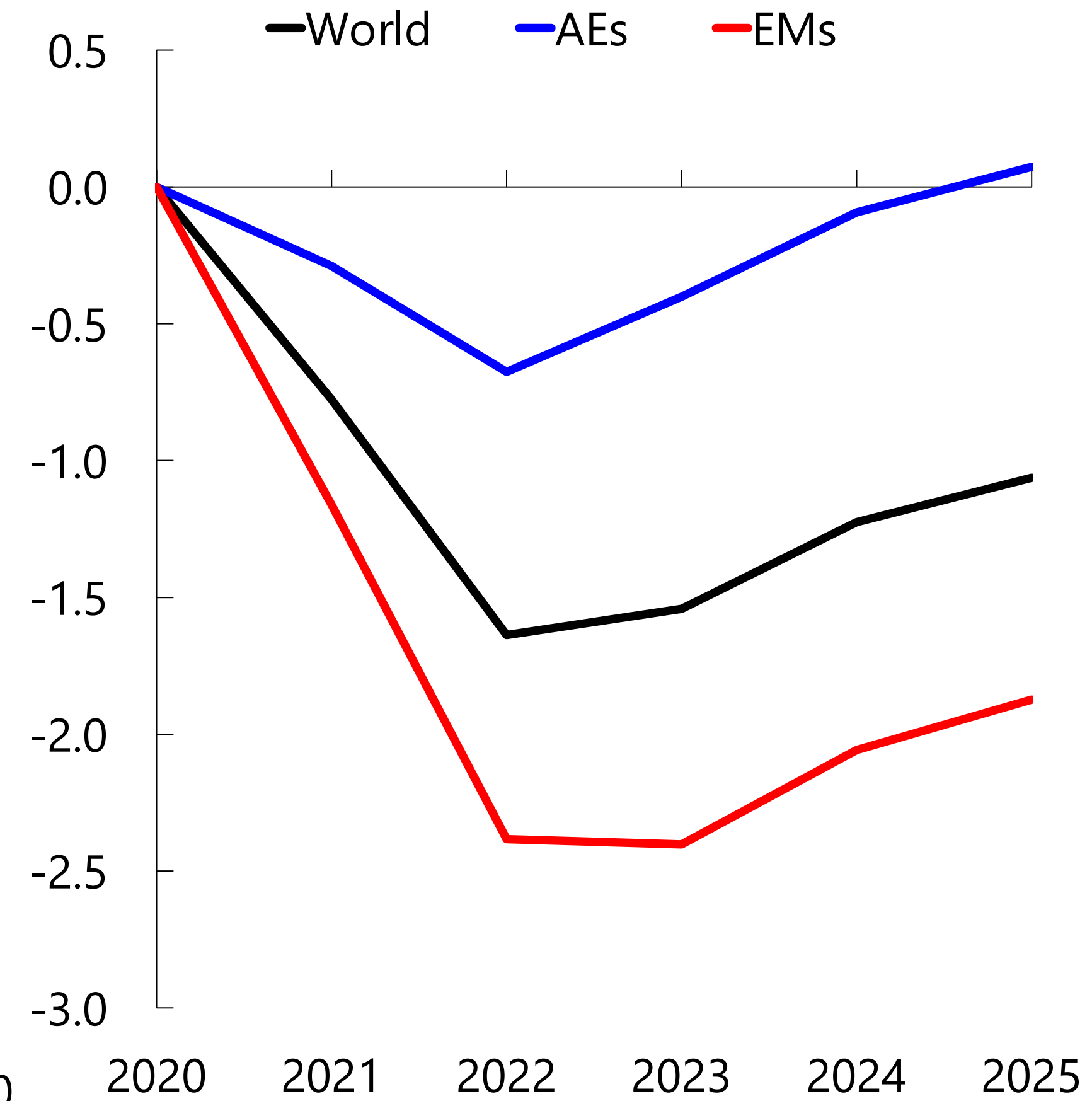
**Corporate bond spreads 1/**  
(basis points)



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



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

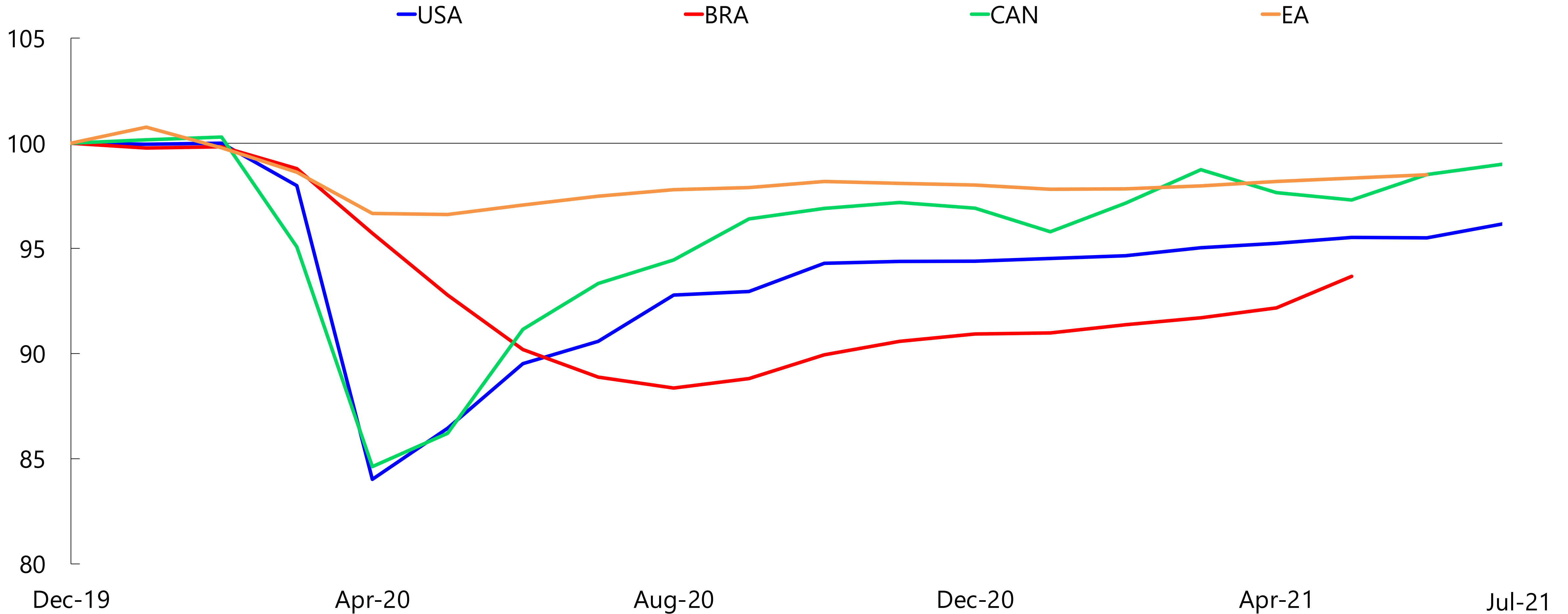


Sources: ECB; Haver; Deutsche Bank survey (left chart); Bloomberg Finance L.P.; IMF; Organization for Economic Co-operation and Development; Eurostat; U.S. Bureau of Economic Analysis; IMF, *World Economic Outlook*; and IMF staff calculations.

1/ Spreads between high yield and investment grade corporate bond index.

# Labor market improvement is slower than economic recovery

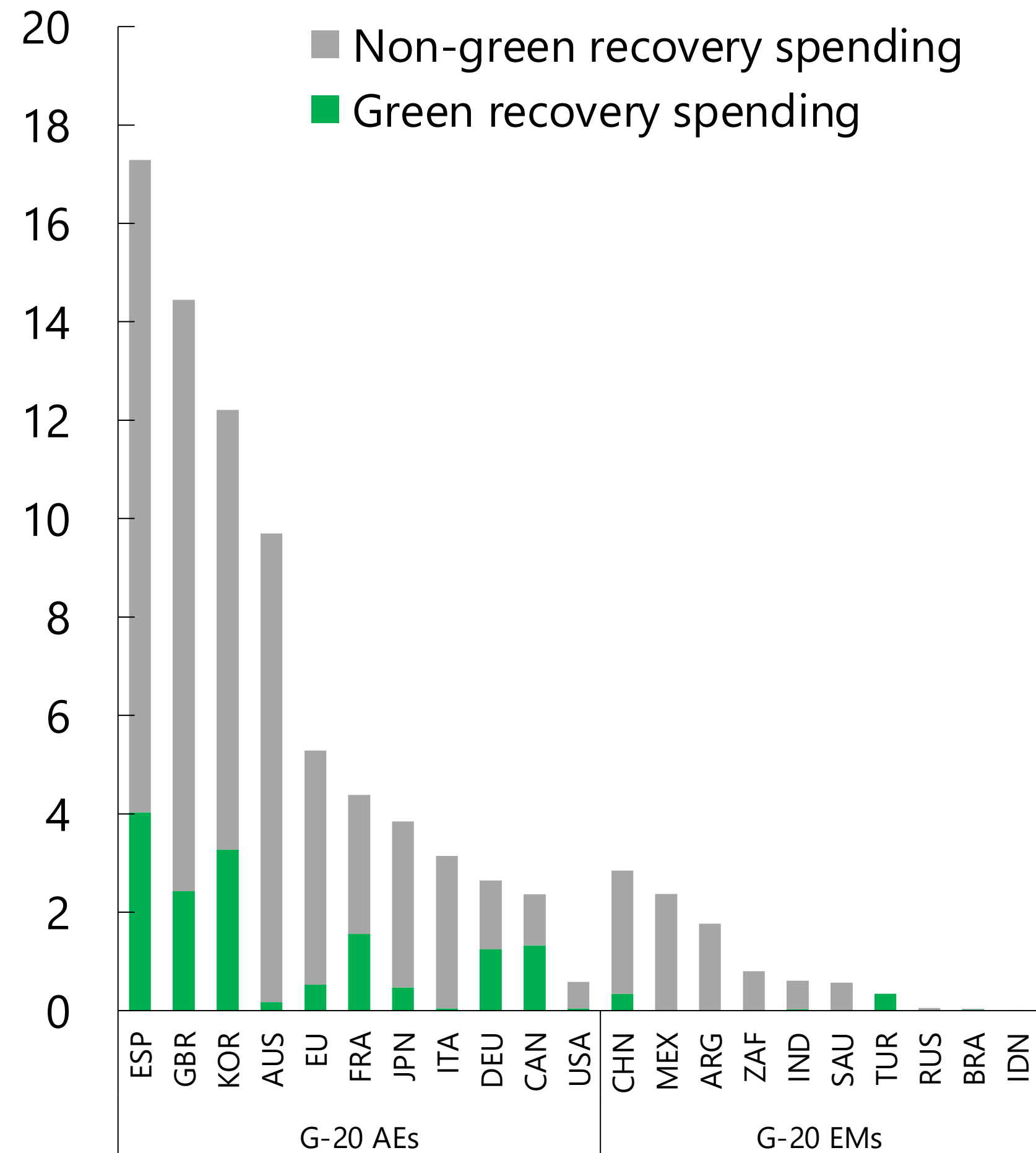
**Total employment**  
(index; Dec. 2019=100)



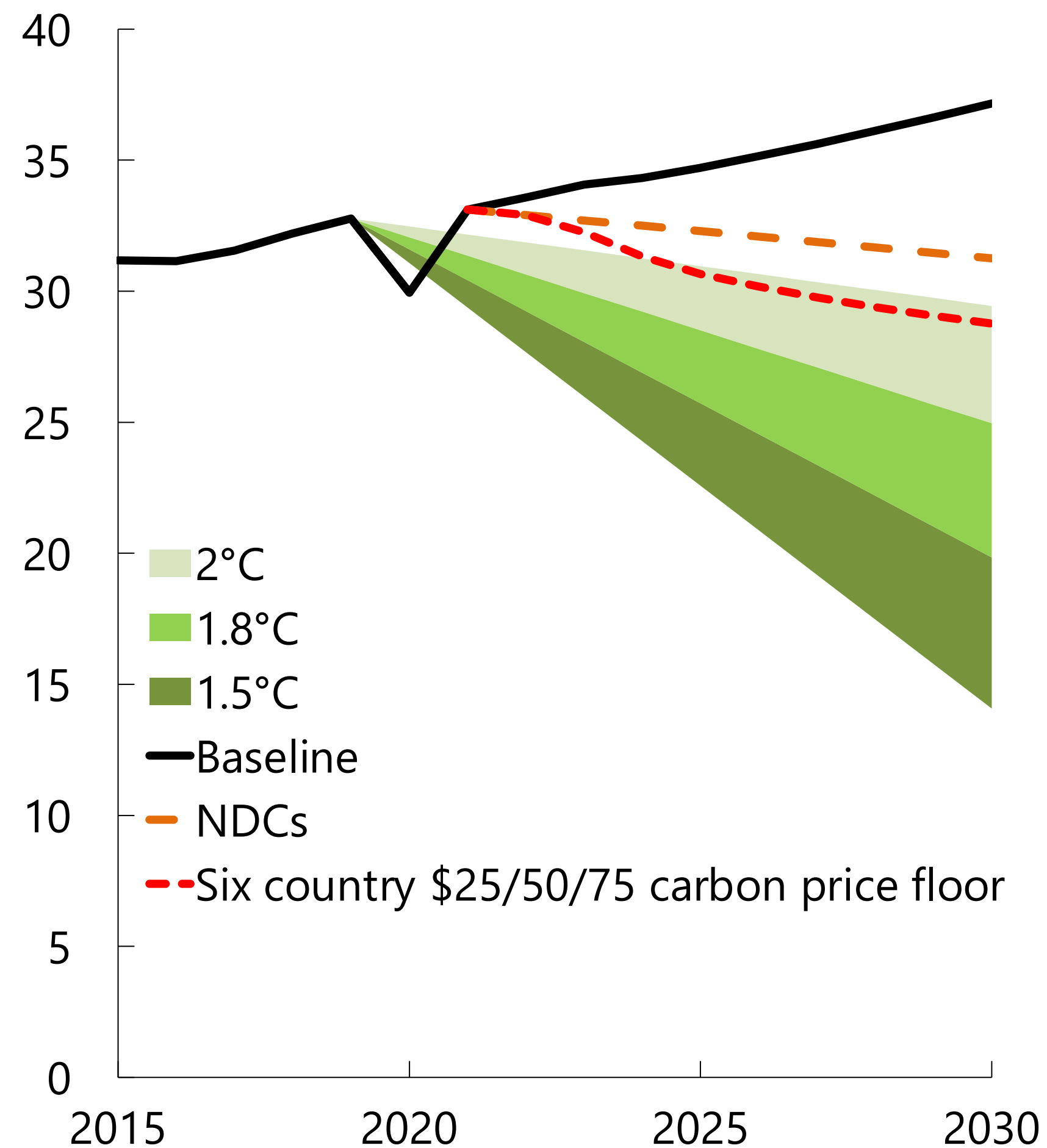
Sources: IMF, *Global Data Source*; Haver Analytics; and IMF staff calculations.  
Note: Based on countries with available seasonally adjusted monthly series.

# Investments needed in decarbonization and human capital

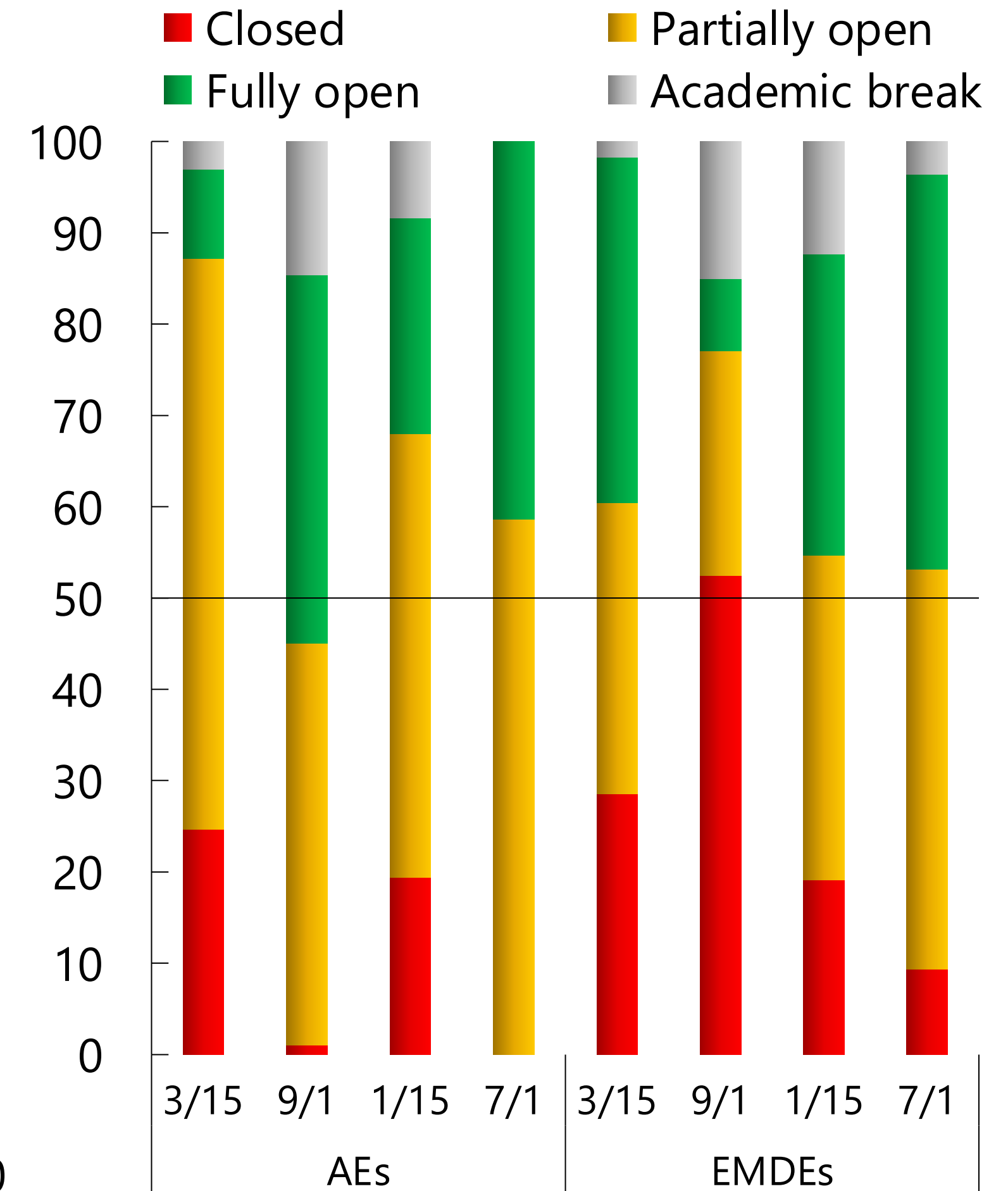
**Recovery spending by country 1/**  
(percent of 2020 GDP estimate)



**Effect of a global minimum carbon price**  
(billions of tons of CO<sub>2</sub>)



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



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

1/ As of May 24, 2021. Funds that have been given a designated purpose by the EU but have not yet been allocated to a member country are counted under EU spending.



# Status of 7 Key Broad Actions

Status of 7 Key Broad Actions Identified in the IMF Pandemic Proposal (as of August 2021)

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