



Transcript of IMF podcast:

World Economic Outlook: Divergent Recoveries

Malhar Nabar:

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Bruce Edwards:

Welcome to this podcast produced by the International Monetary Fund. Today, we look at the new World Economic Outlook, and the mark COVID-19 has made.

Malhar Nabar:

The other channel is of course the longer people stay out of employment, there's a risk that it becomes harder for them to re-engage with the workforce. And so we see exit from the workforce and diminished labor force participation. That's another channel of scarring.

Malhar Nabar:

My name is Malhar Nabar, and I head the team that produces the World Economic Outlook in the IMF's Research Department.

Bruce Edwards:

Global prospects are looking better than they were a year ago at the start of the pandemic, the IMF's latest World Economic Outlook places growth at 6% for 2021 compared to 2020's unprecedented contraction of -3.3%. But recovery is by and large vaccine-dependent. And the lack of access to vaccines is making recovery hard to imagine for some countries while others are well on their way. Malhar Nabar, heads the WEO, as it's known, he says these divergent recoveries are a big concern.

Bruce Edwards:

We were talking about the widening gap between rich and poor people and countries long before the pandemic hit. What is it about the nature of this crisis that's exacerbating this divergence to the extent that this new outlook says it is?

Malhar Nabar:

Well, what's unique about this crisis is that it's a common health shock of a kind that we haven't seen in over a century and it's affecting all countries, but the pace at which countries are coming

out of this varies considerably. And the variation in recovery speeds has a lot to do with, of course, the severity of the pandemic to begin with, but the disruptions that it's created in the economies, the strength of the policy responses that have been put in place to cushion the impact and to place the economies on the recovery path, and now, crucially, the speed of vaccine rollout.

Malhar Nabar:

So what we're seeing is a common health shock that affected everybody, a synchronized downturn last year and now countries emerging out of that at different paces, depending on the space that they have to respond in terms of policies and also their ability to procure vaccines. The ones that have been able to procure more vaccines, more doses are seeing faster recovery prospects than the others that have not been able to procure vaccines. And that's what's really unique about the divergent recovery speeds coming out of this crisis compared to what we've seen in the past.

Bruce Edwards:

And so growth prospects, as you lay out in the Outlook, are significantly higher than last October's WEO. And it's thanks partly to economies in a few countries showing signs of picking up, but is there a risk that too quick a recovery in the advanced economies could actually hinder the recovery in developing countries and emerging markets?

Malhar Nabar:

Well, first of all, a strong recovery in advanced economies is generally a good development for emerging market developing economies because that helps the exports that they send to the advanced economies when there's stronger demand coming from the external environment. The issue is the reaction of interest rates, the way interest rates evolve, the way markets, pricing, expectations about the policy responses that they expect from the advanced economies central banks, and what could happen at times is a very rapid increase in interest rates in advanced economies that then creates financing difficulties for emerging market economies, as portfolios rebalance, as capital flows out of emerging markets and moves back to advanced economies.

Malhar Nabar:

So the crucial factor here is the speed at which these interest rates go up, the long-term borrowing costs go up. And generally, when these interest rate increases happen in the context of good news, by that I mean, good developments in advanced economies, that tends to generally help emerging market economies because of the favorable effects through global trade. But if the increases in interest rates happen at a very rapid pace because of very sudden shifts in market expectations about the pace of normalization of monetary policy in advanced economies, that could pose difficulties for some emerging market and developing economies, especially those that have very large borrowing in foreign currency and those that are very limited trade links to the advanced economies.

Bruce Edwards:

And so how do you assure a truly global recovery when countries have their own specific challenges and agendas? I mean, how do you slow down the recovery, or perhaps put the brakes on in some countries without slowing the overall recovery down?

Malhar Nabar:

Well, what's interesting is that even with the differences in countries' circumstances, there is a commonality, a shared set of priorities across countries. And first and foremost, it's crucial to beat back this pandemic globally. And that means prioritizing health spending on vaccines, on therapies to ensure that we reach herd immunity in every country. But at the same time to also support the economy, to cushion the impact of this crisis on the economy, by offering targeted support to those who are worst affected by this crisis. But going forward as the recovery takes hold, as the pandemic is beaten back, as labor market conditions normalize, to shift that focus

away from job retention schemes to reallocation, to incentivize hiring through hiring credits, for example, through tax expensing of depreciable assets and that helps boost investment. All of these help create jobs and move the economy back to a more normal mode of functioning that we were all accustomed to before this pandemic hit.

Malhar Nabar:

Some countries are better placed to do this than others, because they have more policy space to provide that kind of support, and we've already seen this over the past year. And therefore, it's crucial that the multilateral response needs to help those countries that have limited policy space get back to a recovery path, to ensure that they have unimpeded access to international liquidity, to ensure that they have access to vaccines and treatments on an equitable footing. All of these are key priorities to ensure that all countries come out of this pandemic and get back on strong recovery paths.

Bruce Edwards:

And the report warns of scarring from increased debt, bankruptcies in the future from the pandemic, and rising poverty levels- more than 95 million people have fallen into poverty during the pandemic, how much will it cost to mitigate the long-term effects of the crisis and where will the financing come from?

Malhar Nabar:

Well, I think it's important to acknowledge that there's a lot of uncertainty about the recovery path, how long this will take. And therefore, the costs associated with the recovery are also uncertain. We have estimates on what it would take for low-income countries to fill financing gaps, the shortfalls that they have both in terms of combating the health crisis, but also then getting back onto the path of convergence that they were on before the pandemic. But all those estimates are subject to uncertainty because it really depends a lot on the nature of the recovery that we'll see. What is important at this point really is to, as you mentioned, on these channels of scarring, is to keep an eye on these channels of scarring and ensure that we don't have persistent damages to our economies in the aftermath of this unprecedented health crisis.

Malhar Nabar:

By that, I mean, two things. Well, you brought up bankruptcies, that's clearly a very important aspect of this. We've seen bankruptcies contained so far because of the extraordinary measures that were put in place, debt moratoria and the like, to forestall some of these developments that would typically have occurred in a deep recession. But as these emergency measures are scaled back, there is a risk that we might see firms that are in illiquid situations forced into closures and we see a spike in the exit of firms. That's one channel. The other channel is of course, the longer people stay out of employment, there's a risk that it becomes harder for them to re-engage with the workforce, and so we see exit from the workforce and diminished labor force participation. That's another channel of scarring.

Malhar Nabar:

And I want to emphasize one key aspect of this crisis, which is also unique and that is also going to have long lasting consequences, is the aftermath of all these school closures that we've had. We've had children staying home from school for many months in many countries, in low income developing countries, even more so than in advanced economies. And the substitutes by way of virtual learning have been far more limited in low income developing country contexts. What this means of course, is lost instruction time translates into weaker earnings prospects at the individual level. It translates into weaker productivity at the aggregate level, and that's another key important of channel of scarring that we have to watch. So policymakers need to address these aspects, remedial measures for the lost instruction time, ensuring that we don't have a wave of bankruptcies and firm exits, and to deal with that in an orderly fashion. And also to ensure that workers remain engaged with the workforce, that we don't see large exits from the

labor force going forward.

Bruce Edwards:

Malhar Nabar, Division Chief for the IMF's Research Department. Thanks so much for this.

Malhar Nabar:

Thanks for having me.

Bruce Edwards:

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