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“Recovery is about economy, finance, and trade”

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The COVID-19 induced crisis fell on our heads with a relative symmetry. It became global practically overnight. There has been no place to hide. But, when you look at its real impact on economies, its impact is asymmetric, and countries’ capacity to cope with the pandemic shows an even bigger asymmetry.

Circumstances in which policy makers in different parts of the world seek to ensure recovery and sustain growth differ. I would also say that simplistic political and economic ideologies do not guarantee effective recovery and sustainable growth policies. "Pragmatic" seems to be a new buzzword in policymaking.

I believe as well that the recovery’s geopolitics lies in a broad core of the economy, including finance and trade. Overall, when you look at the global economy, the news is good. We are expecting global growth around 5.6% this year. If you compare this number to all past global recessions and what happened after them, these are the best figures we have seen in 80 years.

While we may anticipate a strong rebound of the global economy this year, this is going to be a highly uneven recovery. We are looking at a tale of two recoveries, which is something we had feared. It might be good time for advanced economies but it is a bad time for emerging market and developing economies. China remains for me a big unknown for me when it comes to short and long-term growth.

Vaccination remains critical. Countries able to roll out their vaccination campaigns will see growth upgrades. Countries that have not been able to vaccinate their populations will continue to be subject to growth downgrades. Finding a global solution for the vaccine continues to be fundamental, we should not allow that the world will consist of those who have access to vaccine and those who do not. But, we neither should ignore the consequences of unfinished vaccination processes in advanced economies that can be subject to further lockdowns.

The nature of the crisis matters but the way we react to the crisis matters even more. In advanced economies, policy makers responded to its threat aggressively, with unconventional instruments, and also unprecedented scope and scale of supportive measures. We see it in the European Union, where several taboos were set aside. An EU debt instrument was established, we suspended the budgetary discipline rule, which allowed for unprecedentedly high public budget-based support measures at European and national levels; and we deployed ECB unconventional instruments.

The US – I am sure other panelists will comment on – has been much more generous with public support to its economy, society, labor market than Europe. Emerging market and developing economies released supportive measures at a rate incomparably lower than advanced economies. So, global inequalities will increase. Additionally, it is very likely that by the end of this year, we will see higher inflation at the global level. It is already there.

When you ask about risks, I would say that controlling the pandemic worldwide remains the single most important variable to make a long-term global economic recovery of this very interdependent world. If we do not control the health crisis, we cannot have an even recovery.

In a scenario when the pandemic lingers, the World Bank anticipates that activity in both advanced and emerging economies would slow sharply. That is one important risk.

A second risk would be an inadequate organization of the withdrawal of supportive measures. As supportive measures were provided mostly through public budgets and central banks instruments, it will be important to orchestrate the time and path for their withdrawal, which will not be free from risk.

We will also need the right mix of fiscal and monetary policy over time. We already see many novelties in the way central banks approach their part of responsibility. What is crucial as authorities resume de-risking and deleveraging is that they should carefully assess the growth capacity at the level of market participants.

In Europe, we are in the process of improving crisis management capacity of the banking sector, which continues to be the main source of investment funding. Improving insolvency and bank resolution frameworks would facilitate an orderly exit of weak or failing corporates and banks and free up resources for more productive activities.

On both sides of Atlantic we see issues related with supportive measures, adequate macroeconomic policy mix and strong concern about an explosion of inflationary pressures.

In China, credit support and infrastructure spending, which initially fueled much of the acceleration in investment, have slowed down. Debt defaults, including for Chinese state-owned enterprises, have continued to rise.

You ask also about opportunities and I believe that there are always opportunities when we are abandoning crisis time in a thoughtful way.

There is no other option but to exploit fully the recovery vehicle to introduce reforms that increase the resilience of financial systems, improve fiscal sustainability, and set the foundations for a green, digital, resilient, and inclusive recovery, which is exactly the path taken by the European Union.

We see that the US has chosen a similar path. This approach requires parliamentary rule making and budgetary support. It also links the international and domestic agenda. And at the core of this agenda is trade. We need to protect the world against protectionist temptations and unfair competition. There is a need to leverage trade policy to address climate change across the world. WTO reform would allow in this context to establish a global level playing field.

So, there is an opportunity to reform the global trading system. Pandemics made us think in terms of global public goods. This is the time for bringing everybody on board for a reflection on a better world. And, let me conclude by saying that to have a chance for a success we need to open policy making to the input from society and businesses.