Chapter 2

Economic Recovery Requires Global Efforts

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Economic Recovery Requires Global Efforts

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1. Introduction

The coronavirus disease (COVID-19) is a wake-up call for the world. From its emergence in December 2019 to mid-February 2022, almost 500 million COVID-19 cases and 5.8 million deaths worldwide had been confirmed. The pandemic and prolonged uncertainties have increased unemployment, poverty, and inequality. The worldwide unemployment rate has risen from 5.43% to 6.37%, disproportionately affecting lower middle-income countries, women, youth, and less educated groups of the population (ILO, 2021). The pandemic is estimated to have pushed about half a billion people or 8% of the world's population into poverty (Summer, Joy, and Ortiz-Juarez, 2020), including 88 –115 million who have been sent into extreme poverty (World Bank, 2021). COVID-19 exacerbates pre-existing inequalities, as the poverty impacts of the pandemic have been distributed very unequally. This will be amplified in the near future due to food price inflation and pandemic-related disruptions to education, which disproportionately affect the poor.

COVID-19 is also expected to create long-term impacts (*scarring effects*) on human capital and productivity due to learning losses. Increased unemployment and poverty may persist in the long term as it will be very difficult to reintegrate currently unemployed people in the labour market since their skills will have become obsolete and they will be crowded out by fresh graduates (Ing and Basri, 2022). To mitigate the effects of the pandemic, governments around the world have launched major fiscal and monetary stimulus measures. Yet, individual country efforts will be nothing without global coordination, commitments, and enforcement. Moreover, the war in Ukraine will have major economic repercussions worldwide that will aggravate the post-pandemic recovery.

Section 2 describes government interventions in the health sector, as well as fiscal and monetary stimuli. Section 3 presents fiscal and monetary stimulus exit strategy scenarios. Section 4 draws policy recommendations.

2. Government Interventions

The economic crisis triggered by COVID-19 forced governments and central banks all over the world to implement fiscal and monetary stimulus policies and programmes. The global economic policy theme quickly became 'do whatever it takes' (Blanchard, 2020). Most central banks engaged in large-scale market purchases of government debt, thereby easing the financial terms on which governments could borrow. Most governments have issued new public debt to fund fiscal stimulus programmes, which have focused on the healthcare sector, social welfare programmes, and assistance for small and medium-sized enterprises (SMEs).

2.1. Health Sector Interventions

Economic and health conditions are strongly interdependent – hence, a global economic recovery entails a global health recovery. Box 2.1 highlights one of the issues in combating the COVID-19 pandemic, i.e., access to vaccines (which may also occur in future pandemics).

Box 2.1: Worldwide Access to Vaccines

- **COVID-19 vaccine production:** Vaccine manufacturing and R&D are highly concentrated in 13 HICs and UMICs. Raw material production and manufacturing supply chains for vaccines are also dominated by a few countries, mostly HICs and UMICs. Bottlenecks to increased global vaccine production include inadequate investment in R&D, vaccine manufacturing, technology, logistics, human capital, and lack of an enabling environment for innovation. Global coordination is required to remove the bottlenecks and create a global conducive environment to enabling substantial technology transfer to support recent attempts at promoting regional manufacturing hubs in LMICs.
- **Worldwide allocation of vaccines:** HICs absorb 7.3 billion or 42% of confirmed COVID-19 vaccine purchases but are only home to 15% of the world population. LICs and LMICs, where 52% of the world population lives, have only been able to procure 25% of the total vaccine production. This vaccine imbalance is exacerbated by the failure of (mostly) HICs and UMICs to meet their vaccine donation pledges. By 7 February 2022, only 921 million of the pledged 2.2 billion doses of vaccines had been delivered (Duke Global Health Innovation Center, 2022a). Global coordination is needed in terms of distribution to ensure that all vaccines and life-saving medicines for contagious diseases are available and can be accessed worldwide.
- **IPR of vaccines**: More than 100 countries (including the United States) have supported a waiver of the WTO TRIPS agreement on patents to ensure universal and affordable access to COVID-19 vaccines and worldwide production. Yet, some countries (mostly European Union member states) oppose this proposal (EESC, 2021) as it perceived that it may undermine the incentives to produce medicines or vaccines. Global commitments and enforcement are needed for vaccine producers to use voluntary licensing, contracted production, and proactive technology transfer to diversify manufacturing across the globe.
- **Financing:** The total financing required by LICs and LMICs to vaccinate 70% of their populations is estimated to be US$ 55 billion (WHO, 2021). For LICs and LMICs with limited fiscal space and increased indebtedness, this financing gap needs to be covered by government financing or external sources through grants or concessional loans from multilateral development banks. It is important not only to secure the pledged funds, but also to ensure that the disbursement goes to the ones who need it most.

To achieve the WHO goal of vaccinating at least 70% of the population in all countries by mid-2022, one key policy measure that the G20 can adopt is to facilitate access to vaccines (alongside medical supplies and equipment) – particularly to LMICs, which still have very low vaccination rates – through verifiable and enforceable commitments from developed countries.

Note: HIC = high-income country, IPR = intellectual property rights, LIC = low-income country, LMICs = low- and middle-income countries, R&D = research and development, TRIPS = Trade-Related Aspects of Intellectual Property Rights, UMIC = upper middle-income country, WHO = World Health Organization, WTO = World Trade Organization.

Source: Authors' compilation.

2.2. Fiscal Interventions

Fiscal responses to COVID-19 have relied on built-in stabilisers; fiscal support of the health system; direct transfers to businesses (capital injections and/or subsidies); direct support to individuals; tax cuts (deferrals, credits, and rate cuts); loans; and guarantee schemes. While the mix of these measures has been very country-specific, two patterns are visible. First, built-in stabilisers are much more important in advanced countries as they have more progressive tax structures and larger transfer schemes. Second, advanced economies have significantly larger fiscal interventions than emerging or developing economies. This section discusses the interventions of selected major economies: China, the United States (US), and the European Union (EU).

In responding to COVID-19 in 2019, China implemented a fiscal package worth almost CNY5 trillion or 4.7% of gross domestic product (GDP), as well as a bundle of off-budget measures totalling 1.3% of GDP in credit guarantees to SMEs and in fee reductions (on roads, port usage, and for electricity tariffs). Fiscal expenditure measures were geared towards prevention and containment of the pandemic, to support SMEs and secure employment. In addition, unemployment benefits were extended to include migrant workers.

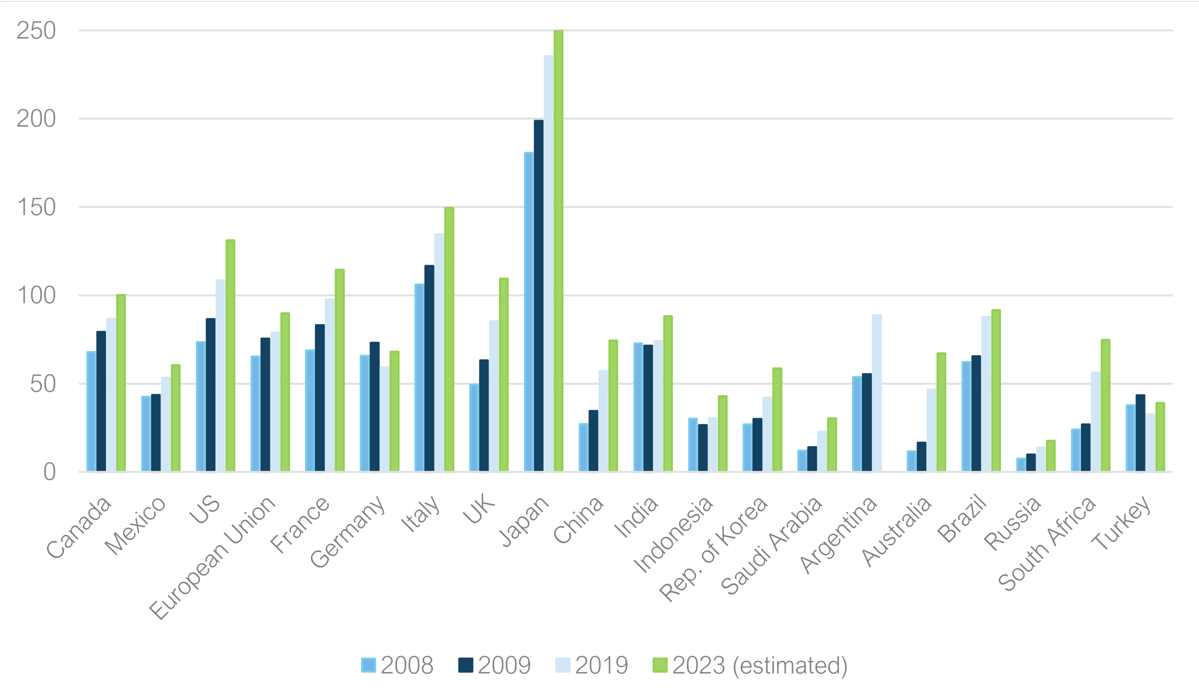
The US passed the Coronavirus Preparedness and Response Supplemental Appropriations Act and the Families First Coronavirus Response Act in March 2020, which allocated US$ 8.7 billion to fight the pandemic, including extended loan facilities for small businesses. In addition, it provided US$ 2.2 trillion (almost 10% of US GDP) under the Coronavirus Aid, Relief, and Economic Security Act (March 2020). The American Rescue Plan Act of 2021 (March 2021) provided almost US$ 1.9 trillion (8.8% of GDP) for a third stimulus check to eligible US citizens and residents, increased child tax credits, provided direct aid to states, expanded unemployment benefits, and delivered other support measures for households. It is part of the larger spending framework of the Biden administration, which includes US$ 1.2 trillion under the bipartisan Infrastructure Investment and Jobs Act (November 2021) to expand and rejuvenate ailing infrastructure.

The EU passed its 7-year budget of €1.074 billion on 21 July 2020. At the same time, EU member states created a recovery fund of €750 million – NextGenerationEU – which is financed for the first time in any significant manner by EU bonds for which member states are liable. The

NextGenerationEU scheme *could* mark a watershed event that introduces common EU debt and paves the way for a transfer union, with all the severe moral hazards that this involves for financial solidity due to eroded incentives for fiscal discipline (Schulze, 2022). If member states expect to be supported by richer, more financially disciplined member states in the future through non-refundable transfers, the financial discipline incentive for potential donor and recipient countries is severely compromised.[1]

Figure 2.1 shows that fiscal interventions have increased the debt burdens of countries significantly, but very differently and starting from very different levels. Countries like Canada, the US, France, Italy, and Japan are projected to have debt levels of 100% or more of their GDP next year. Other countries like Indonesia, the Republic of Korea, and Russia have debt levels below 50%, and for these countries an increase in indebtedness is not a reason for major concern. Of course, the currency denomination of debt is crucially important – Japan is indebted mostly to its own people while US debt is dollar-denominated so that inflation tax is ultimately an option to finance the debt. For other highly indebted countries, notably Italy, this is not an option.

Figure 2.1: Total Debt as Share of the GDP of G20 Countries (%)



EU = European Union, GDP = gross domestic product, UK = United Kingdom, US = United States.
Source: IMF (2021), *World Economic Outlook: Recovery During a Pandemic – Health Concerns, Supply Disruptions, and Price Pressures*. Washington, DC: International Monetary Fund.

Debt levels can either be reduced by increasing growth rates or by retiring outstanding debt through higher taxes or lower spending. Figure 2.1 shows to what extent this has happened since the global financial crisis: the first two bars show the increase in debt levels due to the fiscal packages from 2008 to 2009. The third bar shows the pre-pandemic level in 2019. The most

[1] In addition to the EU scheme, EU members have implemented national support packages. For Germany, see Schulze (2022).

highly indebted countries in 2009 did not use the following decade to consolidate their debt levels; instead, they increased them further – notably the US, Italy, and Japan. Less indebted countries such as the UK, China, Argentina, Brazil, and South Africa also increased their debt levels. Counter-examples are Germany, Indonesia, and India, which saw stationary or even declining debt levels. Restarting growth will be a particular challenge for countries that became highly indebted prior to the pandemic.

Growth is projected to be modest for most countries – notably, Italy, France, Japan, Russia, Brazil, South Africa, and the US – and for several Latin American and African countries and the euro area (IMF, 2022). Some countries, such as Indonesia, may need to increase their fiscal capacity. Fiscal consolidation needs to be measured, pre-announced, credible, and continued – especially as interest rates are set to increase. It should not be too rapid considering the ongoing pandemic and intensified international conflicts, but it should not be procrastinated either. Moreover, the current geopolitical tensions put more pressures on fiscal policy, as explained in Box 2.2.

Box 2.2: Economic Consequences of the War in Ukraine

The war in Ukraine will have major economic repercussions worldwide that will aggravate the post-pandemic recovery (depending on how the war ends and what the post-war order will look like). Crucial elements are outlined below.

- Relocation of fiscal expenditures: The war entails huge costs for the warring nations, Russia and Ukraine, and beyond. It will increase the defence spending of NATO countries in response to the heightened threat of military confrontation. The war also requires substantial emergency aid, spending on integrating refugees in the host countries, and ultimately will require massive reconstruction expenditure.

- Inflation: While the effects of discontinued trade are relatively limited, except for Russia, Ukraine, and some Eastern European countries (Felbermayr, Mahlkow, and Sandkamp, 2022), the war has had very significant repercussions on the energy and food markets, which has fuelled inflation and may create energy and food shortages, particularly countries who rely on imports from Ukraine, Russia, and Eastern European countries.

- Cost of economic sanctions: Western countries have imposed sweeping sanctions on Russia, including freezing Russian assets in foreign jurisdictions; an export ban on dual-use goods; a ban on all Russian flights from European Union, United States, United Kingdom, and Canadian airspace; the removal of major Russian banks from the SWIFT financial messaging system; and sanctions against members of the Russian elite and their foreign-held assets.

All in all, the fiscal pressures induced by the war in Ukraine will increase the budget deficits and public debts of countries involved and to some extent will affect other countries, as the current situation has limited countries' abilities to manage their fiscal and monetary stability. The war in Ukraine will also worsen disrupted supply chains and increase business risks in Europe and worldwide. All these factors will make recovery from the pandemic even more challenging.

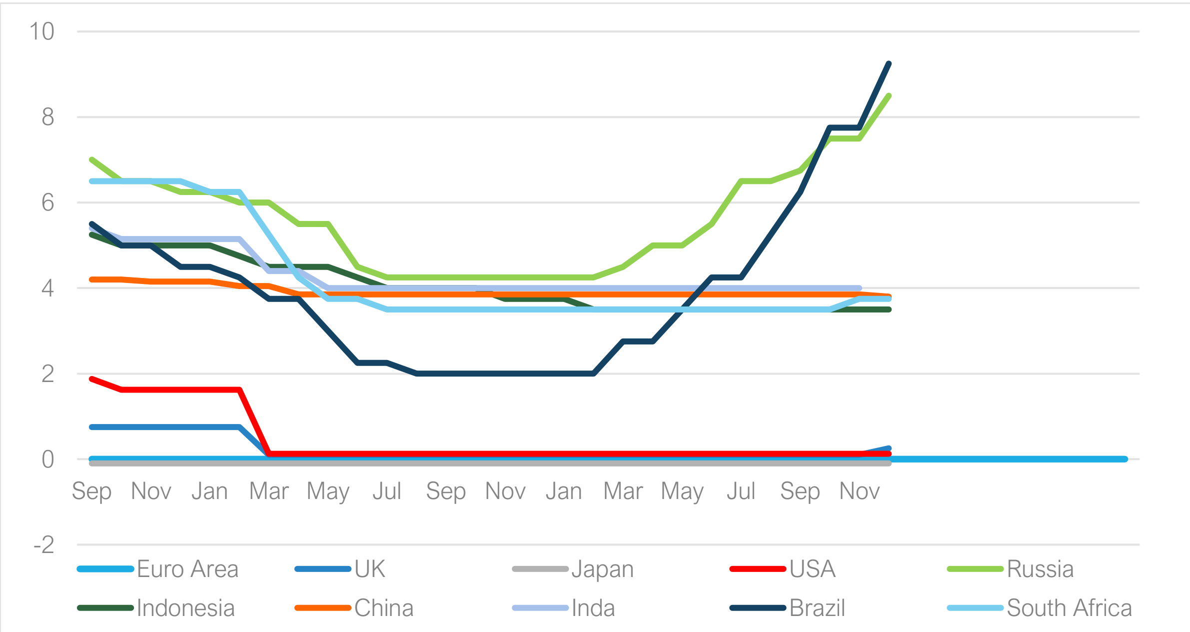
NATO = North Atlantic Treaty Organization.
Source: Authors.

2.2. Monetary Interventions

Monetary interventions were geared towards easing money supply, stabilising markets, and providing additional liquidity. Figure 2.2 illustrates central bank policy rates from 2019 to 2021. Central bank policy rates were lowered at the onset of the pandemic (if there were still spaces to do so) and either remained low throughout the period (as in most cases) or rebounded in mid-2020 as in the case of Russia or Brazil, which experience high inflation rates. More importantly, central banks provided additional liquidity through bond purchasing programmes.

The US Federal Reserve (the Fed) cut its federal funds rate in March 2020 by 1.5 percentage points and provided forward guidance that the rate would stay low until labour market and inflation targets were reached. On 15 March 2020, it started and subsequently expanded a large asset purchasing programme: from June 2020 to October 2021, it purchased US$ 80 billion in Treasury securities and US$ 40 billion of agency mortgage-backed securities every month (*quantitative easing*) with the goal of reducing long-term interest rates. In November 2021, the Fed started tapering the programme. It also initiated various other lending programmes to financial intermediaries, businesses, households, and US states. In total, the Fed purchased more than US$ 4.5 trillion in Treasury and mortgage-backed securities in the 2 years following the start of the pandemic (Milstein, Powell, and Wessel, 2021). On 16 March 2022, the Federal Open Market Committee decided to raise the funds rate by 25 basis points and expressed the intention to raise it further to almost 2% by the end of 2022 and to reduce holdings of Treasury securities as inflation is on the rise (Cox, 2022).

Figure 2.2: Central Bank Policy Rates, 2019-2021 (%)



UK = United Kingdom, US = United States.

Source: Bank of International Settlements (n.d.), BIS Statistics. https://stats.bis.org/ (accessed 10 January 2022).

The main policy rate of the European Central Bank (ECB) on the main refinancing operations was already zero at the onset of the pandemic. The ECB launched a €750 billion Pandemic Emergency Purchase Programme (PEPP) in March 2020, which was later expanded to €1.85 trillion. Under this scheme, the ECB purchased predominantly government debt but also corporate debt across the eurozone. It was successful in reducing stress, stabilising markets, providing liquidity, reducing sovereign bond yields, and signalling monetary policy intentions. The PEPP has complemented existing programmes under the Asset Purchase Programme. The PEPP will be phased out in three steps from July 2022 to March 2024 considering an increasing inflation rate (ECB, 2022).

3. Fiscal and Monetary Stimulus Exit Strategy Scenarios

Fiscal and monetary stimulus programmes have played an important role in the economic recovery, but they cannot last forever. They heighten the risk of inflation and increase government deficits. The crucial question is: when should they end and what is the strategy to ensure that there are no (or little) negative impacts on the economy?

Economic recovery depends heavily on the health situation and the size of the economic stimulus (World Bank, 2021; IMF, 2021b). Countries with good access to vaccines and other health supplies and the ability to finance significant fiscal stimulus programmes, i.e., advanced economies, can recover faster than countries with limited access to vaccines and smaller fiscal stimulus programmes. This leads to asynchronous recoveries and different policy recommendations: countries with recovering economies should scale back their stimulus programmes while countries with weak economic recoveries need to continue them.[2]

This could lead to a situation for developing economies comparable to the 2013 'taper tantrum', which taught us a valuable lesson. When the Fed chose to end quantitative easing in 2013, panic ensued, resulting in the taper tantrum in which capital flowed back to the US, badly hitting emerging economies such as Indonesia, India, South Africa, Turkey, and Brazil (known at the time as the 'Fragile Five' due to their relatively high current account deficits).

Interestingly, Indonesia and India were able to handle the problem in the shortest time (about 7 months) by increasing interest rates, decreasing budget deficits, and allowing the exchange rate to depreciate. This 'stabilisation overgrowth' policy succeeded in lowering the current account deficit and stabilising the financial sector and the economy in general. Yet, such a 'stabilisation overgrowth' policy recipe is no longer applicable in the face of the current taper tantrum. The reason is that developing countries need fiscal and monetary expansion to recover, not stabilisation. A drastic withdrawal of stimulus programmes could lead to economic contractions. As a result, the debt-to-equity ratios would increase, mostly caused by lower GDP growth.

[2] The poor have been the hardest hit. This implies that the post-pandemic recovery must be more inclusive, and fiscal policy must focus more on equity, e.g., by prioritising investing in education, improving access to healthcare, and providing social welfare. As the necessary resources are limited in many developing nations, there is a greater risk for these countries if they end the stimulus programmes prematurely.

As discussed earlier, the Russia–Ukraine conflict is increasing energy, commodity, and food prices. On the one hand, rising energy and commodity prices are beneficial to resource-rich Emerging Market and Developing Economies (EMDEs). Food price increases, on the other hand, have a negative impact on vulnerable groups. Food inflation is closely related to poverty in developing countries. Food price increases may push more people into poverty. As a result, the EMDE governments must devote a greater portion of their budgets to social protection. This implies that EMDEs must maintain fiscal expansion. This will make the situation even more complicated. On the one hand, there is a need to withdraw stimulus in advanced economies, while on the other hand, an expansive fiscal policy is still required in EMDEs, particularly to protect vulnerable groups in EMDEs from the negative impact of rising food prices. The G20 has made synchronisation of these two things a priority.

For developing countries, the risk of a recurring taper tantrum is not as great as it was in 2013. First, capital outflow occurred at the start of the pandemic in April 2020, and this capital has not fully returned to emerging markets, including Indonesia. The share of foreign holders of government bonds in Indonesia decreased from 32% in April 2020 to 19% at the end of 2021. This lower reliance on external financing makes Indonesia less vulnerable than in 2013. Second, the economic contraction has already decreased production and investment. For instance, Indonesia’s imports have fallen sharply, so Indonesia’s current account deficit is smaller than in 2012–2013 even though the budget deficit has increased. Most G20 countries have relatively low current account surpluses or deficits.

Table 2.1 shows that some countries’ current account balances improved because of increased savings stemming from the pandemic (as people reduced consumption due to mobility restrictions).

Table 2.1: Current Account/GDP (%), GFCF/GDP (%), and Private Savings/GDP (%)

Country		CA	PS	I	Country		CA	PS	I
Argentina	2015	−2.7	16.8	15.6	Indonesia	2015	−2.0	31.8	32.8
	2016	−2.7	17.1	14.3		2016	−1.8	31.8	32.6
	2017	−4.8	16.8	15.1		2017	−1.6	32.8	32.2
	2018	−5.2	14.4	15.4		2018	−2.9	32.8	32.3
	2019	−0.8	17.8	14.1		2019	−2.7	32.3	32.4
	2020	0.9	19.5	13.7		2020	−0.4	32.7	31.8
	2021	1.0				2021	0.3	35.2	30.8
Brazil	2015	−3.0	20.9	18.2	South Africa	2015	−4.2	13.9	18.0
	2016	−1.4	20.9	15.6		2016	−2.6	13.9	17.4
	2017	−1.1	21.2	14.6		2017	−2.3	14.5	16.4
	2018	−2.7	20.3	15.1		2018	−3.2	13.3	15.9
	2019	−3.5	19.9	15.5		2019	−2.7	13.3	15.3

Country		CA	PS	I	Country		CA	PS	I
Brazil	2020	−1.7	22.4	16.7	South Africa	2020	2.0	16.2	13.7
	2021	−1.7	22.9	19.2		2021		15.5	13.1
China	2015	2.6	44.1	42.1	Rep. of Korea	2015	7.2	38.3	29.0
	2016	1.7	43.9	41.6		2016	6.5	38.1	29.7
	2017	1.5	44.1	41.9		2017	4.6	38.0	31.5
	2018	0.2	44.5	42.8		2018	4.5	36.5	30.4
	2019	0.7	44.7	42.8		2019	3.6	36.1	30.1
	2020	1.9	46.6	42.5		2020	4.6	38.8	31.1
	2021	1.8				2021	4.9	37.0	31.4
India	2015	−1.1	32.6	29.7	Turkey	2015	−3.2	22.5	29.5
	2016	−0.6	29.8	30.0		2016	−3.1	23.1	29.1
	2017	−1.8	27.2	30.9		2017	−4.8	24.3	29.9
	2018	−2.1	32.7	30.0		2018	−2.8	27.1	29.9
	2019	−0.9	30.2	30.1		2019	0.9	27.5	25.9
	2020	0.9	36.9	23.9		2020	−5.2	26.7	27.3
	2021		22.4	32.9		2021		28.5	28.0

Note: CA = current account, GDP = gross domestic product, GFCF = gross fixed capital formation, I = investment, PS = private savings.
Source: CEIC Database (accessed February–April 2022).

As for monetary policy, quantitative easing did not cause inflation in the majority of G20 countries at first, when demand was relatively weak. Money financing is the correct step if it is done for a limited time and in a limited amount. However, when demand recovers, central banks will have to consolidate their balance sheets and pursue a more normal, tighter monetary policy to keep inflation in check. If this happens at the same time as the budget deficit is reduced, the economy will be hit hard just as it is recovering.

The pandemic has also increased the risk of non-performing loans (NPLs). So far, it has been managed by regulatory forbearance undertaken by several countries, including Indonesia, but the normalisation of banking policy will lead to rises in NPLs. A significant hike in the Fed's funds rate will create a real dilemma for many central banks in developing countries: if they do not raise their rates in line with the Fed, there is a risk of exchange rate depreciation due to capital outflows, but if rates are increased, the risk of NPLs will also increase and disrupt economic recovery.[3] Given this context, a good policy mix targeting interest rates, exchange rates, and macro-prudential policy is key.

We can learn from previous experience. In 2009, quantitative easing induced capital inflows into emerging markets, including Indonesia. Strong capital inflows led to a sharp appreciation in the exchange rate, as predicted by the Unholy Trinity of monetary policy, under the central bank's commitment to maintain free capital flows and its independent monetary policy. As a result, the

[3] The normalisation of monetary policy in the US will also increase the risk of highly leveraged companies. The combination of COVID-19, tightening liquidity from the normalisation of monetary policy in the US, and weakening exchange rates will limit the ability of businesses and the private sector in general to expand.

current account deficits worsened, exposing the country's balance of payments position to the risks associated with portfolio investment. This is exactly what occurred in the case of Indonesia. When Bank Indonesia attempted to restrain the rupiah's appreciation, the cost of borrowing increased in tandem with the widening spread between the Fed funds rate and the Bank Indonesia rate. Perhaps the government should have tightened its fiscal policy to reduce the need for financing and thus the pressure on the rupiah. However, enforcing strict fiscal policy during economic boom times is politically difficult.

The opposite occurred during the 2013 taper tantrum, which saw capital outflows from emerging economies such as Indonesia, India, South Africa, Brazil, and Turkey. As a result, stock markets plummeted, bond yields skyrocketed, and currency values plunged. In the cases of Indonesia and India, the strategy adopted was a combination of expenditure-reducing policies such as raising interest rates and lowering the budget deficit and expenditure-switching policies such as allowing the exchange rate to depreciate to a certain extent, while maintaining macro-prudential policies. Both Indonesia and India were successful in dealing with the taper tantrum. Using the exchange rate as a shock absorber can be very costly, especially for a country like Indonesia, which was traumatised by the exchange rate devaluation caused by the 1998 Asian financial crisis, as it can instil panic. Financial stability can be maintained by combining interest rate, exchange rate, fiscal, and macro-prudential policies.

4. Policy Recommendations

First, it is crucial for the G20 to reinforce the commitment to supply/donate vaccine doses and medical supplies, expand production, and improve logistics, since the raging pandemic in low-income countries will ultimately hinder the economic recovery even of the developed world. Furthermore, this year's G20 should coordinate international travel protocols in a way that both respects health concerns and provides transparency and predictability to ensure smoother cross-border movement of goods and people.

Low-income and developing countries in particular need access to more financial resources to fund their increased health spending needs during the pandemic. Therefore, it is crucial that the G20, together with multilateral development funds and organisations, continue and expand the various support and relief schemes to combat the liquidity problems and increase the fiscal space of vulnerable countries. This support may come in various forms, such as special drawing rights (SDRs) or improved mechanisms for debt relief or standstill. For instance, until December 2021, the G20's Debt Service Suspension Initiative (DSSI) had contributed less than US$ 10 billion worth of debt service deferral (World Bank, 2022), in contrast to almost US$ 28 trillion of new debt raised globally in 2020 alone (IMF, 2021a). The G20 should also develop the work of the G20 Joint Finance-Health Task Force to include actions for preparing modalities to establish a financial facility for low- and middle-income countries (LMICs) and non-G20 members to access pandemic-related funding (in prevention, preparedness, and response), as well as the G20 Common Framework for Debt Treatments.

Second, discussing both timing and exit strategies for fiscal stimuli is vital. Fiscal policies should remain stimulative until GDP returns to pre-pandemic levels. Fiscal expansion raises the risk of rising foreign debt in many developing and emerging economies as domestic resources are insufficient. The G20 has taken steps to mitigate the risk of debt distress by establishing the DSSI. The G20 also introduced the Common Framework for Debt Treatments Beyond the DSSI (applying to International Development Association countries) in November 2021. Unfortunately, this facility is rarely used since nations requesting it must have an International Monetary Fund (IMF) programme that is backed up by policy promises to restore sustainability. The G20 needs to discuss how to ensure that this facility is effective, e.g., by expanding the eligibility criteria.

For most developing countries with limited fiscal capacity, efforts are needed to improve tax revenue, through reforms to tax administration as well as improving the quality of spending. Priorities and spending quality must be reviewed again in terms of expenditure. The allocation of state funds should be directed towards inclusive, green development. Other sectors can wait and be allocated in stages as fiscal space becomes available.

Third, the 2013 taper tantrum example demonstrates that the volatility of capital flows to emerging markets needs to be addressed, as economic recovery and therefore normalisation of monetary policy are asynchronous, which poses risks for macroeconomic stability. The G20 countries should think about the importance of a policy mix of currency rates, interest rates, and capital flow management. Independent monetary policies create harsher policy trade-offs when the capital account is open. An increase in interest rates raises the risk of NPLs. Consequently, regulatory forbearance adjustments must be made with caution, gradually, and must be well communicated.

Fourth, we see the need for developed countries to reduce economic stimulus due to the risk of inflation, but we also see the need for developing and emerging economies to maintain economic stimulus. The key question is how the G20 meeting in Indonesia can synchronise these conditions so that the exit strategy chosen does not cause instability for emerging and developing economies. The exit strategy must be communicated well – both between nations and to market players. The G20 forum is an avenue for developing and developed nations to exchange information on policy in an honest and transparent manner that will create certainty in the market.

Last, economic recovery will be much more effective and sustainable if it is conducted in a peaceful environment characterised by cooperation and peaceful exchanges.

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