Italy, Europe and the Global Recovery in 2021

Remarks by IMF Managing Director Kristalina Georgieva to Italy's National Consultation

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Buon pomeriggio ! We are at a point in our history where it is paramount to concentrate on what this crisis entails, what are the risks and opportunities a recovery will present to us, and how to bring the world together. These will be the three points on which I will concentrate.

Let me start with the crisis. We labeled it a crisis like no other, for multiple reasons. First, because it is truly global, and we have not had a global crisis like this before. By the end of 2020, 170 countries will have lower per capita incomes than at the beginning of the year—when as recently as January we projected positive growth for 160 countries. This a stunning reversal of fortunes.

Second, the nature of the crisis means it is hitting the service sector especially hard, rather than a larger hit to manufacturing as often experienced. This time, what we see is a dramatic blow to tourism, hospitality, and travel. What it means is that we have had unemployment at the somewhat lower-skilled end of the spectrum, with the likelihood for elevated joblessness for these workers for quite some time.

Third, it is unique also in terms of the enormity of the response. And I want to praise you for that—praise Italy and all the countries that in a short time vastly increased fiscal measures: 10 trillion dollars up to now, with one third of this coming from the European Union. And there has been a massive injection of liquidity and easing of conditions by major central banks, again, with the European Central Bank forcefully doing its job.

Why is this important? Because, if the economists among us remember the definition of depression is a significant reduction in output, , lasting several years . Now, with these exceptional measures, we have put a floor under the world economy, and therefore, we are reducing dramatically the risks of scarring and the longevity of this crisis.

Policy actions have also had some positive spillover effects for emerging markets. In March, emerging markets were basically shut out of access to bond issuance, creating tremendous concern about a potentially severe impact. In April and May, however, because of the scale of measures taken, primarily by advanced economies, but also by many emerging markets economies, the enormous injection of liquidity meant that emerging markets with good fundamentals could return and issue bonds. These critical financial lifelines can help countries stabilize at a time when economies are at a standstill.

It is very important to recognize that there are categories of countries that are in a very dire place. These are emerging markets with weak fundamentals and high debt levels, and low-income and fragile countries. And this is where the attention of the IMF is now concentrated.

In a short time, in six weeks, we have provided financial support to 68 countries that are desperately in need of buffers against the crisis. Never in the history of the IMF have we done so much in such a short period of time. And as you mentioned, we have also taken action to provide debt relief to our poorest members, as well as the so-called G20 debt service suspension initiative, which is intended to help provide space to respond to the crisis for 73 vulnerable countries.

The significant conventional and unconventional economic measures taken by countries reflect the weak outlook. We have to keep monitoring this, but for now—despite exceptional policy support— there are disinflationary pressures and low inflation projected for a long time, as well as very low or even negative interest rates.

We also need to recognize the potential for unintended consequences from the large-scale injection of liquidity, including a divergence between what is happening in financial markets and what is happening in the real economy.

The real economy is hit hard. We will release a new forecast on the 24 th of June and expect it to reflect the extremely challenging conditions. In April, we projected minus 3 percent for global growth in 2020. We are likely to revise downward further on the basis of incoming data, which tells us that most countries are doing worse than we had projected. A small number of countries are doing better but not enough to change the overall direction.

This is the real economy. Turning to the markets, they are almost all the way up to where they were before the pandemic. And this too is likely anchored in this sizeable injection of liquidity, which has supported the rise in asset prices. We will see how they evolve, including as developments in the real economy become more evident.

Finally, when we talk about how the crisis is evolving, you rightly put your finger on a big wound, and it is the very dramatic collapse of trade. And more worrisome is the fact that we are seeing this natural inclination—as we stay behind the walls of our houses, to stay behind our borders. There is speculation of a substantial reversal of the integration in the world economy that has benefited us so much, and I'll come later to this point.

So, where are we today? We are moving from the first phase of the crisis, which we termed "The Great Lockdown"—stop producing, stop consuming so we can deal with the enormity of the pandemic—towards reopening.

And I want to say briefly, bravo to Italy! You were the first to aggressively protect people—and by doing so protect the longer-term success of the economy—and you are now reopening in a very careful, very measured way. Three-quarters of the world is in this stage, reopening.

But I want to bring in a bit of realism: this pandemic has been, and continues to be, like dominoes falling. We have seen the impact in China, Asia, Italy, the United States, and now Brazil. We see South Asia being at high risk. We now see in Africa, including South Africa, an increase of cases. And we all know that it is not over until it is over everywhere.

How should we think about that third phase, the recovery? There are things that we know, and there are things we do not know. What is it that we know? We know that we will step into full-fledged recovery once we have a vaccine and treatments.

Fortunately—and I was blessed to be at your meeting, Prime Minister Conte, when the news on European action on vaccines was delivered— we now see a couple of companies starting trials in June and July, and the hope for a vaccine at scale by January or February.

Let’s keep fingers crossed, since it is not done until it is done, but we know this will be the most important anchor for recovery.

We also know we will come out on the other side with bigger deficits and higher debt. It is very likely we will see more bankruptcies and higher unemployment—some of it structural—and unfortunately, we see the risk of higher levels of poverty and inequality.

We know these risks are there. Unless we act.

We also know that we ought to pay attention to how we use the enormous injection of stimulus so that we give the economy a chance to recover and grow.

And here is an unusual message to the membership from the IMF Managing Director: please spend as much as you need. But spend carefully and keep your receipts: we don't want accountability to be lost.

And we must be careful not to withdraw the stimulus too fast if we want to ensure the recovery maintains momentum.

We know that digital is a big winner in this crisis—and some experts say the pandemic has accelerated the digital transformation by two or three years. This gives us a chance to build on this transformation for the future.

We know we are in a more risk-prone environment. As one critical example, climate change is real. We may have put it on the back burner during this crisis, but it is still with us. I tell everyone—if you don’t like the pandemic, you are not going to like the climate crisis when it comes. So, there is action to take towards a greener economy.

And we know there are ways in which we must address inequality. This was done well after the Second World War, and after this current crisis we must renew our commitment in a similar way.

Together, the whole world—including the EU, Italy and the IMF—faces a clear question. How will history judge our response to this crisis?

Will history say we presided over the great reversal that brought more poverty, more fragmentation, and less trade?

Or will history say we marshalled a great reset, and a great renewal on a massive scale?

Here, the European Union has championed a strong sense of solidarity and a strong sense that the recovery is coming.

As a former budget commissioner, I believe this is a key moment when the European dream is becoming reality because Europe is standing together to put forward a fiscal support package of the magnitude required to help countries cope with the pandemic and its economic fallout.

This is money that Europe will get from markets on the basis of its strength, and that it will distribute to member states on the basis of their needs.

And I want to say clearly – it is not just about the money. It is a chance for Europe to restart its convergence engine, which has been stalling since the global financial crisis.

It is a chance for Europe to exercise leadership. And it is a chance not to be missed.

So how do I envisage the recovery for Europe?

First, I see that Europe must take a very bold step to overcome the gap that has grown in digital. European citizens and businesses have been falling behind and this cannot continue.

We know what Europe needs to do—it needs to invest in digital skills and infrastructure, to adopt a ‘digital first’ attitude in everything, including digital government as has been done in Estonia.

Europe must take this chance and help European businesses to stay alongside their peers in the digital space—because if this moment is missed, Europe will miss out on future growth opportunities.

Secondly, it is a unique chance for Europe to continue on its pre-pandemic path towards low-carbon, climate-resilient growth. This can foster job rich growth.

We will have lots of low-skilled workers in need of jobs, so we must invest in labor-intensive programs that are also green—such as reforestation, insulating buildings, and urban renewal. These can help absorb part of the labor surplus. These investments would also help us build the businesses of tomorrow.

I have been asked—why shouldn’t countries go back to the dirty industries of the pre-pandemic era? My answer is that we should not rebuild the economy of yesterday, when we can build the economy of tomorrow.

Third, Europe has been backpedaling in terms of inequality and poverty eradication

After the Global Financial Crisis, the world strengthened the resilience of the banking system in such a way that it is much better positioned to withstand the current crisis. Today, we must strengthen the resilience of the people by investing in human capital or Europe will miss a great opportunity.

One of the most dramatic reversals in European history has been how Europe started slipping back in education.

Investing in education does not bring immediate benefits. But without radical reform and investment in education systems, no country can hope to compete effectively in the economy of tomorrow.

Governor Visco has spoken eloquently about Italy so I will not dwell on this topic. As I see it, there are five areas that Italy should address, and I believe you will do so effectively.

First, cut red tape in public administration.

Second, efficiency of investment.

Third, tax reform and tax collection for a more inclusive and equitable recovery.

Fourth, regulatory easing to improve competitiveness.

Fifth, regional disparities.

These challenges are well-known—and I urge you to take this moment as an opportunity to tackle these issues and march forward.

I will finish by expressing my high hopes for Italy’s Presidency of the G20 in 2021. Mr. Prime Minister, you will be the Chair of the G20 during the year of the recovery. You will be in the driver seat when the world will have to choose the path of more cooperation, or the path to more fragmentation.

I have confidence that you will focus on the right priorities.

First, to advance the global trade agenda. We must reform the system of global trade so it can flourish. If we do not do it and trade falls—costs will go up, incomes will go down and poverty will increase.

Second, critical legislation is needed on a global scale to tax effectively the digital sector. If the future is digital, then the tax system must be adapted.

Third, debt sustainability. We will have to be incredibly ambitious to ensure that debt does not hang heavily on the neck of the world and inhibit the global recovery, especially in those countries that have the least sustainable levels of debt.

Finally, it will be a year to revive or lose the Paris agreement and here I know you will be working closely with your partners in the UK.

I will end with some of my favorite quotes: “Fortune favors the brave”.

And it was Steve Jobs who said: “the people who are crazy enough to think they can change the world are often the ones who do.”

So, you can choose to be brave or choose to be crazy. Regardless, it is so very important that Italy steps up in this critical year of 2021.

Coraggio, Presidente.