
Prepared by Indonesia G20 Presidency

Executive Summary

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The COVID-19 pandemic is a crisis like no other and has caused profound economic and social impacts globally. In response to the pandemic and its adverse impacts, countries across the globe have undertaken unprecedented levels of fiscal, monetary, and regulatory support to protect the most impacted, including individuals and businesses. The Indonesian G20 Presidency has committed to work with all G20 members and international organizations to advance effective and mutual economic cooperation to tackle common challenges facing the world’s economy to enable “Recover Together, Recover Stronger”. The recovery from the pandemic continues, albeit the pace has been slower among ongoing global challenges, which are likely to interfere with the exit from the pandemic. The war in Ukraine is weighing on the global economy and trade by exacerbating inflationary pressures (notably on food and energy prices) and slowing economic activity. Rising inflation, higher food and energy prices, supply-chain disruptions, the resurgence of new COVID-19 variants, and the economic consequences of the war in Ukraine have created a bumpy road toward recovery. The asynchronous recovery and long-lasting scars emanating from the crisis have further highlighted the critical role of the G20 to help navigate the global economy towards sustainable and inclusive recovery and a more resilient conditions.

In February 2022, G20 Finance Ministers and Central Bank Governors (FMCBG) tasked the G20 Framework Working Group (FWG) to advance the forward-looking agenda set in the G20 Action Plan. The work aims to sustain the recovery and steer the global economy toward strong, sustainable, balanced and inclusive growth through developing a voluntary and non-binding note on exit strategies to support recovery and addressing scarring effects to secure future growth. A survey was then distributed by the Indonesian G20 Presidency to G20 members, invitees and international organizations in late February 2022. In addition to all G20 members, several invitees and international organizations participated in the survey. The survey timeframe covers policies implemented following the pandemic up until the survey submission due date (22 April 2022). The survey was not specifically designed to gather information on the scarring effect and policy response to the war in Ukraine. However, as the war started during the survey period, the policy responses provided as the answers to the survey might have included the consideration of the direct implication of the war and the policy response to the war. By drawing together a key information on the experiences of G20 members in dealing with the pandemic COVID-19, this Note can be a resource that members can use, at their discretion, to inform their policy making going forward. Specifically, this G20 Presidency Note can serve as a reference of experiences on exit strategies from the policy support measures where relevant, as well as on policy instruments to overcome scarring effects due to the COVID-19 pandemic implemented in the G20 economies.

The survey depicts that G20 members have undertaken extraordinary policies to cushion the immediate impact of the pandemic and to support recovery. The policy measures range from fiscal policy and labor market support, monetary and financial sector support, as well as exchange rate and balance of payment policies. The fiscal-monetary policy mix has proved to be crucial to stabilize financial markets and prevent the COVID-19 crisis to create even worse scars. The policy mix should be well-calibrated with monetary policy continuing to normalize, while keeping inflation expectations well-anchored. Fiscal policy engages to support households and firms while moving away from broad support to a more targeted approach.

In implementing policy support, members broadly agree that policy stimulus needs to be withdrawn appropriately during the recovery, while stands ready to react to the evolving economic situation. At this
stage, ensuring a solid macroeconomic policy mix is crucial in which the various authorities operate effectively alongside one another in pursuit of their respective mandates. Several factors considered by countries when exiting the policy support are: pandemic evolution, economic recovery and stability, short-term outlook (including inflation, credit, and liquidity indicators), labor market situation and geopolitical developments. Moving forward, it will be crucial to strike a proper balance between medium-term fiscal sustainability and the stabilization consideration. Successful debt reduction strategies should focus on fiscal consolidation, the quality and composition of public finances and promoting growth. Well-targeted support for vulnerable households and firms should be designed to limit the impact of inflationary pressures including from the second-round effects. Investment and reforms to steer for green and digital transitions can mitigate the impact of the shock on GDP by supporting sustainable growth in the medium to long term.

Furthermore, while it is broadly agreed that the pandemic will create scarring, the extent of scarring is likely to vary between and within countries with larger scarring expected in EMs due to their limited policy space and pre-existing conditions prior to the pandemic. The pandemic has also caused disproportionately negative economic outcomes for some sectors and vulnerable groups. This poses a challenge to ensure an equitable recovery and avoid a buildup of imbalances. Policies ahead should identify strategies for overcoming scarring effects and ensure strong, sustainable, balanced and inclusive economic growth. Recovery is also an opportunity to foster investment and reforms toward digitalization and green technology to boost productivity which could enhance global growth. The survey’s response indicated that risks stemming from supply disruption, rising inflation, and weak investment are the top three risks to be addressed urgently in relation to scarring from the pandemic. Many members also identified labor market shift, mismatch of skills, lower firm productivity and the rise of zombie firms, and increasing inequalities as other major scarring related risks to be addressed. In terms of sectoral development, noting that some sectors are slower in the recovery process, members have implemented sector-specific policies and programs to revive them. Many members shared their experience on policies or programs to address the stagnant tourism sector, as well as accommodation and food services, transportation, and arts and entertainment industry. Some members also enhanced social benefits for vulnerable and heavily-impacted groups. Response from the survey also reiterated the importance of international cooperation to support safe exit for recovery from COVID-19 pandemic and to address the long-term impact of pandemics. Many countries mentioned that continuing international collaboration in the area of health (including access to vaccine) and gradual reopening of borders to revive trade as key.

This survey result can provide an avenue to learn from the COVID-19 crisis. This in turn can enhance future resilience and build a solid foundation to withstand future shocks. In the context to provide a reference with regard to macroeconomic policy responses to deal with the potential crisis and all the policy implications to overcome the crisis, the Note presents a dedicated section on dealing with future crisis, by highlighting several key areas to address and to pay attention to when facing an emerging crisis. This will include aspects such as early identification of the source of crisis, immediate policy responses, exit strategies from short-term policy measures, addressing scarring effect and rebuilding stronger, implementation of a policy mix, clear and timely communication, as well as international cooperation.