The Long Road To Recovery The Global Economic Outlook

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A virtual forum organized by the Davos Global Economic Forum

It is a well-known saying that seasons come and go. It is also true that the lessons from those different seasons can be sourer than before. They can also signal the coming of age in some instances. The world reels from the fallout from the COVID-19 pandemic, and after over two years of fits and starts, it is a moment of reckoning. Countries are standing up to the truth. The truth is that the pandemic and its variants will ebb and flow, but the economies must go on. Not a day goes by without the pundits giving a piece of their mind about what bodes for the billions in the world. In these unfolding global events, one clear thing is that those long-held textbook solutions are by far the ideal. Unorthodox, context-specific, domestic-relevant dynamics guide recovery solutions that show the truth in the saying "to each their own."

It is a little over two years since the COVID-19 pandemic shook the world, plunging many countries into an economic morass. The vaccine and vaccination programs have progressed satisfactorily, giving a glimmer of hope of tackling the raging pandemic and its variants. Nevertheless, it is undeniable that the pandemic has led countries to a swiveling whirlwind of hardships. Nations are living in the reality of dealing with complex economic cataclysms. From the advanced to the emerging economies to low-income developing countries, all are grappling with mooting the best possible responses, even somewhat aggressively, to achieve the envisaged economic recovery in 2022.

As gurus, intellectuals, and even spin doctors congregate to offer perspectives of a future scenario, inflation is the thorny buzzword that hurts many countries, forcing them to act decisively to curb the downturns in the new year. Inflation everywhere poses a significant threat to sustained economic growth and a strong labor market recovery. Added to this challenge is growing global government debt comprising advanced economies, emerging markets, and low-income developing countries amplifying further vulnerabilities, especially for the latter category of countries. All this occurs while countries are battling COVID infections compounded by the highly infectious Omicron variant rampaging through Europe, Australia, Asia, Africa, and the Americas.

In the United States, policymakers indicated that they were preparing to increase interest rates for the first time since the pandemic in March 2022. Nineteen countries are going through inflation at record levels in the eurozone as food prices and energy costs soar. Inflation in major advanced economies like Germany and France rose to five percent in December 2021. The Bank of England has already raised interest rates, the first developed economy. The European Central Bank (ECB) that overlooks 19 economies will be under pressure to move from its placatory approach described as a 'patient monetary policy' into a more aggressive course. However, the bank is reluctant to make any policy reversals shortly. Sri Lanka is also part of this global equation of quagmirical reality. It is crunch time for Sri Lanka, with economic woes intensifying by the day with rising prices. Just as the country was recovering from the Easter Sunday bombings in 2019, the pandemic engulfed the economy like a tsunami, forcing intermittent lockdowns that impacted many sectors. Despite the setbacks, the government and the central bank have been urging financial institutions to go easy on businesses in the form of debt moratoria. In the meantime, the central bank has been swiftly using intermittent policy maneuverings to deal with the present crunch. In an attempt to control inflation, the central bank raised interest rates to help ease pressure on the external sector as the country navigates its affairs to meet its debt obligations. Sri Lanka's pandemic recovery morass is no different from the global struggle of incredible proportions that is so dynamic that experts contend that responses have to be unique, divergent, and context-specific.

In January 2022, the Davos Global Economic Forum organized a virtual event themed Global Economic Outlook in this background of economic realities. The speakers were Paulo Guedes, Minister of the Economy for Brazil; Christine Lagarde, President of the European Central Bank; Kristalina Georgieva, Managing Director of the IMF; Sri Mulyani Indrawati, Minister of Finance for Indonesia and Kuroda Haruhiko, the Governor of the Bank of Japan to discuss the immediate and long-term actions required to stabilize the global economy and ensure a sustainable and equitable recovery.

At the onset, Geoff Cutmore, the moderator, observed that policymakers are facing a global economy in 2022 marked by divergence in growth, vaccines, and fiscal resources. He added that inequality of opportunities is today compounded not only by high inflation. High unemployment and massive debt underline the criticality of leadership and coherent policymaking. Therefore, economic growth in the future hinges on governments' responses to the rising inflation rate.

Geoff Cutmore, Anchor, CNBC.

Managing Director of the IMF, Kristalina Georgieva, observed that the response to this crisis had been anything but orthodox. The crisis diagnosis was executed correctly at the beginning of the pandemic as demand and supply shock. Fortunately, the central banks and financial authorities provided a coordinated response preventing a relapse into another Great Depression. Given that 2022 would be facing the obvious scenarios of inflation and debt, labor market issues, risks, and a continuation of the pandemic, governments' best course of action are to adopt policy flexibility while placing the mechanism on evidence data-driven agenda to communicate their responses. On the positive side, the IMF anticipates that global economic recovery will continue in 2022. On the flip-side, this course of economic recovery will be likely be put asunder and lose its momentum due to renewed growth in infections, persistent levels of inflation, and record debt levels, which stand globally at $226 trillion.


Kristalina Georgieva, Managing Director, International Monetary Fund

In the helter-skelter of inflation raging through economies, the IMF managing director pointed out that it was not the sole task of the central bankers to fight the surging inflation as it is a result of the crunch facing the demand-supply dynamics globally. Supply is still falling behind demand, which is conversely surging worldwide. Interruptions to supply chains have been a marked trend ever since the pandemic broke out, further compounded by intermittent waves of COVID-19 that resulted in the imposition of further restrictions. Soaring prices of commodities, especially food, are a significant element in the record inflation levels, attributable to climate impact and an increase in energy costs. The story of the economic fallout from the pandemic and the recovery is not as smooth as one estimates it to be, said Georgieva, who pointed to the geopolitical tensions that add further complexity to the entire scenario.

While inflation is rampant, the IMF managing director cautioned that everyone must recognize the complexity of the challenges. She pointed out that inflation is country-specific, making 2022 more challenging than 2020. In 2020 the policies were similar everywhere because globally, the fight was against a common economic standstill driven by the pandemic. In 2022, in contrast, the conditions in countries are very different, which naturally demands divergent policy initiatives. Economic recovery is complicated for governments everywhere in 2022 because it must be country-specific. Added to this complexity are the divergent responses globally to vaccinating their populations. For any reaction to be navigated and implemented, the critical element is to fight the pandemic to build response capabilities. There are 86 countries yet to meet the global target of vaccinating 40 percent of their population by the end of 2021. The IMF has urged action to prioritize deliveries to those developing economies with low vaccination rates. The divergence is glaring, with high-income countries reaching a vaccination rate of 70 percent.

In contrast, low-income countries, especially Africa, have barely passed seven percent. That may lead to future disruptions to the supply chain when some countries may be affected by movement restrictions imposed from with and outside. That again will take countries back to the problem of supply buildups to meet the surge in demand. If this were to continue, the supply shortages would result in commodity price inflation, passed onto the consumers. Going by the pronouncements of Georgieva and what the IMF has been persistently saying, continuing vaccine inequality will hinder the global economic recovery from the pandemic with “the outlook for the low-income developing country group has darkened considerably due to worsening pandemic dynamics.”

For the US preparing to hike interest rates at the next Fed meeting in March, Georgieva said that what is at stake for the US is achieving a balance between controlling inflation and unemployment and protecting the recovery process. Earlier in 2020, when the virus first hit the US, the Fed cut rates close to zero. The Fed continued to pump money into the economy by purchasing financial assets. Of greater significance in any Fed action are its implications to countries outside, especially countries with a high level of dollar-denominated debt. She said that Fed action could throw cold water on some countries on a slow recovery trajectory. Hence, the Fed must communicate its measures to prevent surprises.

The IMF's message to countries with dollar-denominated debt is to act in the present by extending maturities and addressing currency mismatches. Because when the Fed acts, it is not going to construct its interest rate policy to soothe the needs of emerging economies or low-income countries, but certainly on insular lines of fighting its inflation and maximizing the job market. The tremendous impact exerted by the largest economy in the world as the Fed met to discuss the future possibility of rate hikes had its impact soon enough. Media reported that in response, markets in Asia, especially in Japan and Korea, plunged to their lowest levels in nearly 15 months.

The managing director emphasized that the agency is highly concerned about the impact of the US Fed action on low-income countries, where 60 percent of them are in debt distress or in danger of debt distress, which is twice as much as in 2015. Georgieva opined that the IMF has to tread a cautionary approach in its support strategy to those countries as those countries will go into deeper murky waters of economic bedlam without international support. She warned that such countries should seek international help lest they are in dire straits. Meanwhile, China's economic slowdown is creating concern globally. China's Zero-Covid policy of attempting to eliminate the virus via public health measures such as lockdowns, mass testing, and border quarantine has led to an economic deceleration in China, a concern not only domestically but also for the rest of the world. This slowing down of the economy is primarily due to the interruptions caused by COVID and their Zero-COVID policy and the slow growth in consumption, which has not picked up in a post-pandemic scenario as much as it should have. China did contain infections for a while through the Zero-COVID policy. However, the highly transmittable Omicron variant indicates that attempts at controlling it through this policy will not be without a substantial impact on the economy. The risks to China's economy would correspondingly impact the rest of the world, owing to China's status as one of the largest resource suppliers globally.

The Eurozone – Is it a case of not getting to the stable door on time?

The eurozone consisting of 19 countries, has had its economic woes, with some advanced economies experiencing high inflation. However, the ECB has not acted aggressively. Even with core inflation of two percent, the agency has continued to pump credit into the eurozone economy and resisted any attempts at an interest rate hike.

The policy response in the eurozone is remarkable in its swiftness and magnitude. Internally, the euro area governments provided massive fiscal support and liquidity assistance to avoid massive layoffs, preserve incomes and protect businesses. The ECB complemented this with budgetary support to its member countries to battle the economic and health crisis, offering stimulus and bond purchases. Critics, however, see this easy-going attitude as unhealthy in the face of rising inflation and debt. In response, Christine Lagarde argued that the eurozone situation is context-specific. Hence the ECB response underscores the solidarity and commitment to a united approach to tackling the economic crisis arising from the pandemic. Many proponents consider the cohesive response as successful in keeping businesses and households afloat from the impact of the pandemic to a great extent.


Christine Lagarde, President, European Central Bank.

Despite all the hubris of a united approach to its pandemic response, the unprecedented level of inflation is of great concern. The core inflation in the region is at two percent, while countries like Germany and France experience inflation at five percent. Despite those record levels, Lagarde pointed out that the robust recovery that the euro area has been seeing is more than expected. Although countries' pace of recovery has been at different rhythms, the advanced economies she said have shown unprecedented progress on many fronts. The ECB president attributed this to a well-thought-out combination of monetary and fiscal policy working together to avoid disarray and massive layoffs in the labor market. She also attributed the speedy approach to the vaccine rollout, which helped mitigate the situation to a certain extent.

Lagarde is more driven to look at the factors pushing inflation higher, which could be transitory. She propositioned that one needs to look at the factors behind the numbers. For a region with low inflation for a long time, the rise indicates rising costs in a particular sector. Accordingly, the energy cost has reached higher levels marking 50 percent of all expenses. When one adds supply disruptions to this scenario, they automatically affect wages and prices. Lagarde sees a silver lining in this spectacle where wage negotiations may not be way up, at least not for the moment. As a result, she negated the possibility of a sustainable movement leading to inflation running out of control. At the same time, the projection is for energy prices to stabilize in 2022, including the supply bottlenecks, congestion at ports, and the shortage of truck drivers, leading to a gradual decline in inflation.

Meanwhile, a recent euro group meeting had discussed possible reforms to the EU's fiscal rules to deal with the pandemic-induced surge in public debt. Any reforms to fiscal laws may eventually lead to a relaxation of the Growth and Stability Pact (SGP). That, in turn, would push the ECB to a corner, disenabling it from acting on data. That would also prop up euro countries with weak debt profiles. However, Lagarde said that reforms are not critical right now. What will be vital and scrutinized by markets is the degree of consensus and the effectiveness of the rules decided ultimately by the leaders according to the proposal of the finance ministers. Agreeing on a future deal is paramount, which will provide for simple criteria and efficient rules. They should be effective in countering the impact and hopefully a fiscal capacity common to the entire euro area and possibly to the whole of Europe to respond collectively, which has served the region well in the pandemic-led crisis.

Lagarde pointed to the approving nod from the European Commission to the purchase of bonds under the Pandemic Emergency Purchase Program (PEPP), which helped eurozone governments stay afloat in the pandemic-induced crisis. That shows the region's appetite to maintain a solid and united front in its monetary and fiscal responses.

Lagarde said that the ECB is closely monitoring the situation in the eurozone before deciding on hiking interest rates. The ECB's revised forward guidance maintains that it would not raise interest rates until the fulfillment of three conditions. One, projected inflation to be two percent in the year preceding the end of the projection horizon. Two, forecasted inflation to remain at this level until the end of the forecasts. Three, headline inflation and underlying inflation should be heading towards two percent. The reason for ECB's reluctance to raise interest rates when other countries have already or are mulling the move is because the three conditions are not yet satisfied, said Lagarde.

Moreover, Lagarde went on to add that she has to look at the market dynamics before deciding to increase interest rates. While the Fed is seriously considering hiking interest rates in March 2022, a comparison of the two markets is not prudent. The ECB head pointed out that the European market is not burdened excessively by demand, which is 30 percent higher than the pre-pandemic levels in the US. The current demand in the eurozone is just above pre-pandemic levels. Unlike in the US, the labor market in the euro area is not experiencing big numbers of resignations, while the level of employment is getting close to the pre-pandemic levels. Those two factors indicate that the US and the eurozone are not moving at the same speed and, hence the latter is unlikely to experience the same level of increases in inflation as in the US market. While core inflation in the US is at 5.5 percent, it is 2.6 percent in the euro area. Although Lagarde acknowledged that ECB's forward guidance on interest rates is somewhat complicated, it is solid. Hence, she was very confident of the bank's ability to act decisively when necessary. Meanwhile, the ECB has already phased out its asset purchases, which used to be 80 billion euros per month to 20 billion euros per month, unwinding the program by the end of March 2022

Japan's story of boosting the economy and redistributing wealth

Japan is no exception in the pandemic trajectory, having been affected by rampant levels of infection leading to closures and restrictions that resulted in disruptions to supply chains and impacts on businesses and households. In response, the government announced a $490 billion economic stimulus package in 2021 to boost the economy battered by pandemic restrictions. Japan's handout is considered too concessionary and accommodating by some. However, what underlines Prime Minister Fumio Kishida's move is a redistribution of wealth among struggling households and small businesses still burdened under the mantle of the pandemic. Despite the impact on the economy, Japan considers its pandemic response relatively successful, with around two million infections in the last three years and approximately 18,000 related deaths.


Kuroda Haruhiko, Governor, Bank of Japan

Nevertheless, the pandemic has significantly negatively impacted the Japanese economy. According to Kuroda Haruhiko, Japan's GDP for 2020 declined by 4.5 percent. In the first half of 2021, Japan's economy shrank by 0.7 percent. The driver of this decline was a combination of weak spending on consumption as infections increased, decrease in export, and production disruptions due to the supply chain issues in South East Asia. Nevertheless, the unemployment rate remained low at three percent even during the worst period of the pandemic. Since the second half of 2021, Japan's economy has improved. Of course, Japan's economy may have come under intense downward pressure due to the Omicron variant in the short run. The government predicts a 2.8 percent growth in fiscal 2021, followed by a 3.8 percent increase in fiscal 2022. But headline inflation is still only 0.5 percent, which is much lower than the seven percent in the US and five percent in some countries in Europe. Hence, Japan's central bank sees no compulsion to hike interest rates.

Three factors are influencing Japan's low inflation. The increase in demand following the opening of the economy has been somewhat subdued compared to the US and Europe. Two, Japan has maintained sufficient supplies to meet recovery in market demand as firms had workers despite the pandemic. Third, the cautious mindset of the companies from their experience from the deflation from 1998 through 2013.

Haruhiko said that the central bank is paying close attention to the price-setting behavior of companies, which has in recent times shown signs of becoming active.

The government's stimulus package injects money into struggling businesses and other areas needing a fillip. Households with children under 18 and earning below a certain amount are eligible for cash handouts, as well as pay rises for nurses and care workers. The objective of monetary handouts is to stimulate private spending to inject liquidity into the economy. However, on the downside, if such money fails to encourage an increase in expenditure and recipients hold them in deposits, it would negate the government's desired impact on the economy, which Haruhiko acknowledged could be a possibility.

Nevertheless, the government would continue its program of buttressing businesses and the citizenry through the pandemic and would not try to roll back the concessions provided to the different groups. Meanwhile, the 2022 national budget includes government spending on various fiscal investments in technological research, infrastructure, and IT. The strong growth expected in 2022 results from the country's stimulus initiatives that have helped businesses return to normal operations. Unlike the trajectory elsewhere, despite spending on large-scale stimulus measures and with 3.8 percent anticipated growth in 2022, policymakers expect the rate of inflation to remain at one percent. Hence, the governor insisted that the country continue its expansionary monetary policy, unlike other countries.

Japan’s flexible monetary policy is working well because the public sector has incurred the country’s most significant debt in the last three years. In contrast, the private sector’s size and household debt are relatively smaller, not hurting the economy. Public sector debt in Japan is over 200 percent of the GDP. The government maintains that public sector debt would gradually decline once the country achieves a surplus by 2025. Under such circumstances, the flexible monetary policy of the central bank has fared quite well. Japan’s inflation is at 0.5 percent today. In the last eight years, the inflation rate fluctuated around one percent compared to the negative that persisted until 2013.

The governor contended that Japan’s extremely accommodating and stimulating monetary policy had worked well to reinvigorate the economy, contrary to naysayers. However, the economy is behind its targeted inflation rate of two percent. Unlike the US or Europe, Japan sees a need to continue its highly accommodative monetary policy for the time being because it expects inflation in 2022 and 2023 to be as low as one percent. Henceforth, the central bank will continue with low-interest rates and functionary monetary policy for the time being until it reaches two percent inflation, which would still be lower in comparison to global levels. The rest of the world is shuddering under the weight of rising inflation due to the pandemic. Japan is oozing a sense of confidence unlike any other. Japan is undaunted in the face of inflation because it will maintain it at low levels going into the future.

Indonesia’s strategic focus on revenue acceleration to boost recovery

A promising emerging economy and the chair of the G20, Indonesia is leading a critical global collective through a very trying period in the economic history of the world. And it is in this light that the theme ‘Recover Together, Recover Stronger’ resonates with efforts to encourage joint steps towards global economic recovery. Under the helm of President Joko Widodo, Indonesia has committed to providing inclusive, people-centered, environmentally friendly, and sustainable growth as the chair of G20. Indonesia’s position is significant in a milieu where the country, like everyone else, was a casualty of the COVID-19 pandemic, which saw record levels of infections and fatalities, but is managing an economic rebound going into 2022.


Sri Mulyani Indrawati, Minister of Finance, Ministry of Finance of Indonesia

Of course, the containment measures that followed the pandemic resulted in income loss and severely impacted many sectors. Significantly in Indonesia, taxes account for a substantial portion of government revenue, which is being touted as the elixir for its fast recovery in 2021, as opined by its Finance Minister, Sri Mulyani Indrawati. She described 2021 as exceptional due to a strong revenue growth stimulated by higher commodity and energy prices that helped increase the tax collected. In fact, for the first time in over a decade, the government had successfully reached its tax revenue target in 2021, an indication that business activities were recovering after the pandemic-driven hiatus. However, compared to other countries, there has been a decline in the prices of essential food items in Indonesia during the pandemic. Indonesia is seeing a diminishing impact of the pandemic and the economy moving forward to achieve a better growth trajectory in 2022. Many sectors, including real estate, construction, transportation, and hospitality, are on the rebound, just as the government envisages managing manufacturing, trade, and IT in a subdued and controlled pandemic era.

More than 10 percent of state revenue comes from taxes in Indonesia. The surge in revenue is due to a robust demand-driven recovery, which is encouraging given that Indonesia was severely affected by the Delta variant, said Sri Mulyani. In the third quarter of 2021, when Indonesia had imposed a strict lockdown, the authorities feared that there would be a dip in its recovery process, which was at its early stage for Indonesia. However, the overall growth in the third quarter was still at 3.7 percent, but the underlying revenue from tax continued to be extremely strong. Indonesia’s tax revenue profile in 2021 is rather interesting. The underlying data indicate that manufacturing and trade have been the two most essential contributors to tax revenue instead of commodities, which the finance minister highlighted as a testament to solid recovery and rebound of economic activity.

The central bank drew the targets for 2022 on the baseline of the achievements of 2021. The 2022 revenue target is around 105 percent from taxation, while 110 percent from other sectors. The government’s target for 2022 will be much easier to achieve as it has been calculated based on the baseline, which is below the achievements of 2021. Even if the commodity prices normalize, the country will still have a vital source of revenue from non-commodity activities. Manufacturing, trade, and IT will make significant revenue contributions. If the government manages the pandemic satisfactorily, sectors like transportation, construction, real estate, and hospitality will also recover strongly. The minister was optimistic that the 2022 revenue would continue to be strong.

In a bid to introduce a more robust tax regime, the government overhauled the tax system through a progressive taxation bill intended to boost state revenue by taxing the wealthy. It is considered a decisive legislative move to increase value-added tax, income tax rates, and a new carbon tax. The new legislation enhances taxpayers' compliance. New compliance measures include a temporary program for taxpayers to disclose their unreported assets and linking individuals' tax accounts to their identity card numbers, replacing the existing tax file number system. The government expects additional revenue of at least one percent of the GDP from those tax reforms. The country is strengthening its budget through such tax reforms to increase its tax revenue. Indonesia's fiscal deficit in 2021 was six percent, which led the government to set a target of three years to bring this number down to three percent of the GDP by 2023.

Meanwhile, in a year of recovery, the Indonesian President's much-touted structural reform agenda is seen by outsiders as resource nationalism. The President has imposed a ban on exporting several raw materials, which borders on protectionism. Given Indonesia's colonial past that saw the plundering of the nation's vast wealth of natural resources, followed by dictatorships that sold their riches abroad, there is a wide belief that the current leadership is following resource nationalism. Resource nationalism, it is feared, may distort pricing in the commodity markets and cause further inflationary pressure. The moderator posed whether resource nationalism is appropriate in a year of recovery.

In 2020 the policies were similar everywhere because globally, the fight was against a common economic standstill driven by the pandemic. In 2022, the conditions in countries are very different, which naturally demands divergent policy initiatives. What makes the job of economic recovery complicated for governments everywhere in 2022 is the fact that it has to be country-specific.

In response, the finance minister explained that while the country has a large commodity base in the upstream industries, it has not created any value addition to the Indonesian economy. That could be due to many reasons, such as investment climate, policy certainty, and sanctity of contract. The ban on exporting raw materials will stimulate investment in downstream sectors, creating jobs and leading to value-added export products. She pointed out that Indonesia is the biggest economy in ASEAN and hence cannot afford to allow an economy of such magnitude to depend on exporting raw material alone without value addition. Although abundantly blessed with natural resources, Indonesia has hitherto exported raw material extracted from the ground, scarcely available for domestic use. That has created a widening gap in its economic structure, making it vulnerable. The minister insisted that Indonesia requires substantial reforms because of its past vulnerabilities, such as the 2013 Taper Tantrum that created a gaping current account deficit, driven mainly by expensive oil imports outstripping exports. The taper tantrum scenario emphasized the fragilities in the country's economy. Therefore, President Joko Widodo's reforms should be viewed not through the narrow lens of resource nationalism but as strengthening its internal structural dynamics while accelerating industrialization by inviting foreigners to contribute to its agenda through investment. She added that there is no agenda to limit the country's vast natural resources for domestic consumption and state control. However, the continued exploitation of its abundant natural resources had not led to industrialization. Instead, the trend had only led to further buttress underdevelopment. The proposed reforms have created a great deal of furor among countries dependent on Indonesia's raw material for some major industries. In response, Sri Mulyani said that her government is currently paying close attention to the proposed policy recommendations coming from external actors.

According to research, Indonesia's short-term macro fundamentals are arguably the best among the emerging markets. However, its long-term prospects are somewhat foggy owing to a combination of domestic dynamics of structural reforms and rapid growth in wages relative to productivity.

Sustaining a solid recovery amid looming threats

Brazil's Minister of Economy, Paulo Guedes, is one upbeat man. He is basking in the victory that he claims Brazil has achieved amid the pandemic to bounce back towards economic recovery and is sustaining that strong recovery in 2022. In 2019 at Davos, financial agency stalwarts like Christine Lagarde and Kristalina Georgieva agreed that the world economies were in synchronized deceleration. The opposite was true of Latin America's largest economy. Brazil in 2019 was taking off.

Today despite an economic deceleration in many advanced economies, Brazil's story is one of a strong return, a strong comeback accelerating its output above pre-pandemic levels. The IMF has acknowledged this remarkable feat. The agency said that "Brazil's economy has returned to pre-pandemic levels, supported by booming terms of trade and robust private sector credit growth, and one of the biggest stimulus packages in emerging markets–nearly 4 percent of GDP in emergency cash transfers alone in 2020." This feat is remarkable because Brazil was also severely impacted by the pandemic, recording the second-highest death toll in the world. Minister Guedes exuded confidence when he declared that all of Brazil's programs to stem the economic downfall from the pandemic have been successful. From the preservation of jobs, the credit programs, the direct income transfers to the mass vaccination rollout, the country is ready to tackle any emergency, even future waves. With a surfeit of vaccines, the government is prepared to manufacture Pfizer and Astra Zeneca domestically for local use and export to neighboring countries.

Brazil is probably the only country back where it was before the crisis. However, the forecasting of Brazil's debt GDP ratio of 75 percent to increase to 100 percent did not materialize. Because the government continued pursuing structural reforms in 2021, its debt GDP ratio remains at 80 percent, which is 20 percent less than the forecasting. Even the IMF projected a drop of 9.4 percent in GDP for Brazil, whereas the decline was only 3.9 percent. Guedes made a point that many were skeptical about Brazil bouncing back. Brazil had created four million new jobs and three million new forms of employment in 2021. Despite the pandemic, Brazil had managed to preserve 11 million jobs in the market. The government assisted 68 million Brazilians with direct income transfers digitally every month. Brazil has been ranked first in the Americas, before even the US and Canada, for spearheading digital governance. Brazil's digital government serves 120 million people that use public services digitally.

Guedes pointed out that there was a significant underestimation of Brazil. Despite the cynicism of Brazil's resilience, the strength of its democracy and economy, the government was focused and ready to take the shocks head-on. Brazil's response may have been unorthodox, but he insisted that it suited the domestic dynamics and has proven to be a success.

Brazil has vaccinated 75 percent of its population with two shots on the vaccine front, while 95 percent of its adult population is part of this number. Meanwhile, as the pandemic pans out, the country is practicing a safe return to work policy resulting in a strong bounce-back of the GDP. While cognizant of the rampant spread of the Omicron variant, the government is well equipped and prepared to respond aggressively with the necessary health protocols should the crisis aggravate, said the minister.

In 2020, the central bank eased fiscal and monetary policy to enable an economic recovery amid the pandemic. The central bank lowered its forecast for economic growth to 5.1 percent from 5.3 percent, ultimately achieving a gain of 4.8 percent. Interest rates remain at three to four percent. The government spent 19 percent of GDP on public expenditure in 2021, which was a stupendous 26.5 percent in 2020 as a response to the crisis, allocated specifically for the health sector. Guedes observed that although the government strategically spent heavily on tackling the pandemic, it ensured that such high expenditure remained temporary and not a permanent burden on the public coffers. The deficit too shot up from one percent of the GDP to 10.5 percent, resulting in the economy closing in 2021 with a small surplus.

Guedes described Brazil's approach as unorthodox because the country sacrificed its projected growth to focus on recovery by gradually removing monetary and fiscal constraints, which has clouted it to be ready to take future waves of infections. However, he cautioned that inflation is a real specter threatening the economies, especially the western world, and does not see it quietening any time soon. The minister stressed that it is high time for central banks to get into action. Brazil, he said, having learned its bitter lessons from inflation in the past, its central bank had moved swiftly in its response by hiking policy rates in March 2021 by 75 basis points to keep inflation in check. While the Brazilian government continues its momentum on its pandemic successes, analysts point to some trouble of sliding towards a recession due to a combination of factors and rising inflation.

The pursuit must go on

As the great unwind of monetary policy continues around the world in response to seismic scenarios stemming from the economic fallout of the pandemic, the burden is upon the central banks to strike the correct strategy about domestic compulsions. Globally as countries battle to stymie rising inflation while protecting their pandemic recovery efforts, the global stage will play out the ramifications. Adding to this complexity are geopolitical dynamics and tensions that may see more conflicts unfolding in 2022, making the recovery process harder for countries, more so for the smaller economies. However, as the saying goes, the show must go on, and so must the recovery efforts to usher in a semblance of normalcy in people’s lives.

As the IMF managing director observed in her parting remarks, no one knows what the future holds for us and the world. What is certainly known is that pandemic policy should remain a top economic policy in 2022. Unless the world responds in unison to bolster protective mechanisms, disruptions on many fronts will become the norm, and the road ahead will not be so broad. Her message to the world was to spend the billions necessary to contain COVID to gain trillions worth in output.