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BRIEFING NOTE

WEEK AHEAD:
ECB, BoC, and BoJ serve as appetizers for US election

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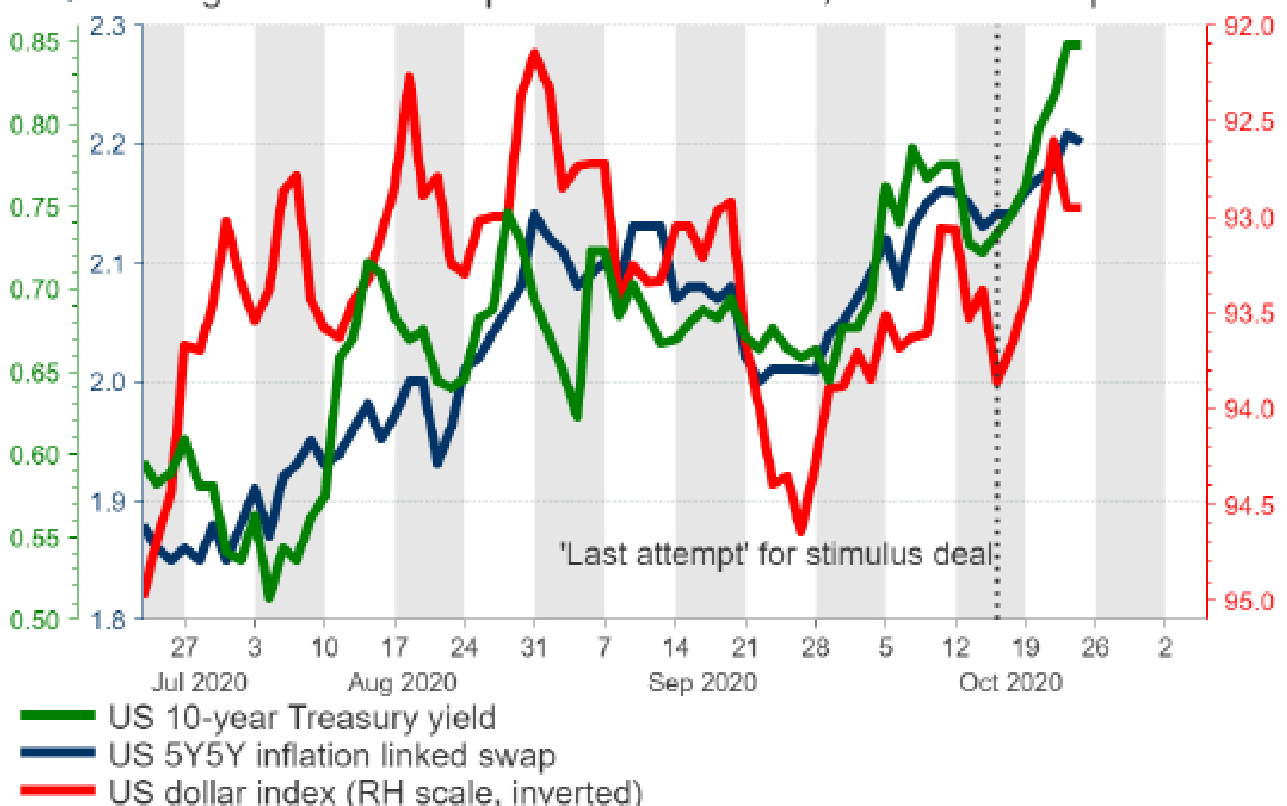
With less than two weeks to go until the US election, markets are on red alert as opinion polls in key battleground states have tightened. In the meantime, there are three central bank meetings and a ton of data to keep things exciting. The ECB could steal the show by opening the door for more stimulus, to negate the risk of a double-dip recession as the virus rampages through Europe. The Banks of Canada and Japan will meet too, third-quarter GDP is out in America, the Brexit saga continues, and most of the tech world reports earnings.

Dollar focused on stimulus, stocks on election

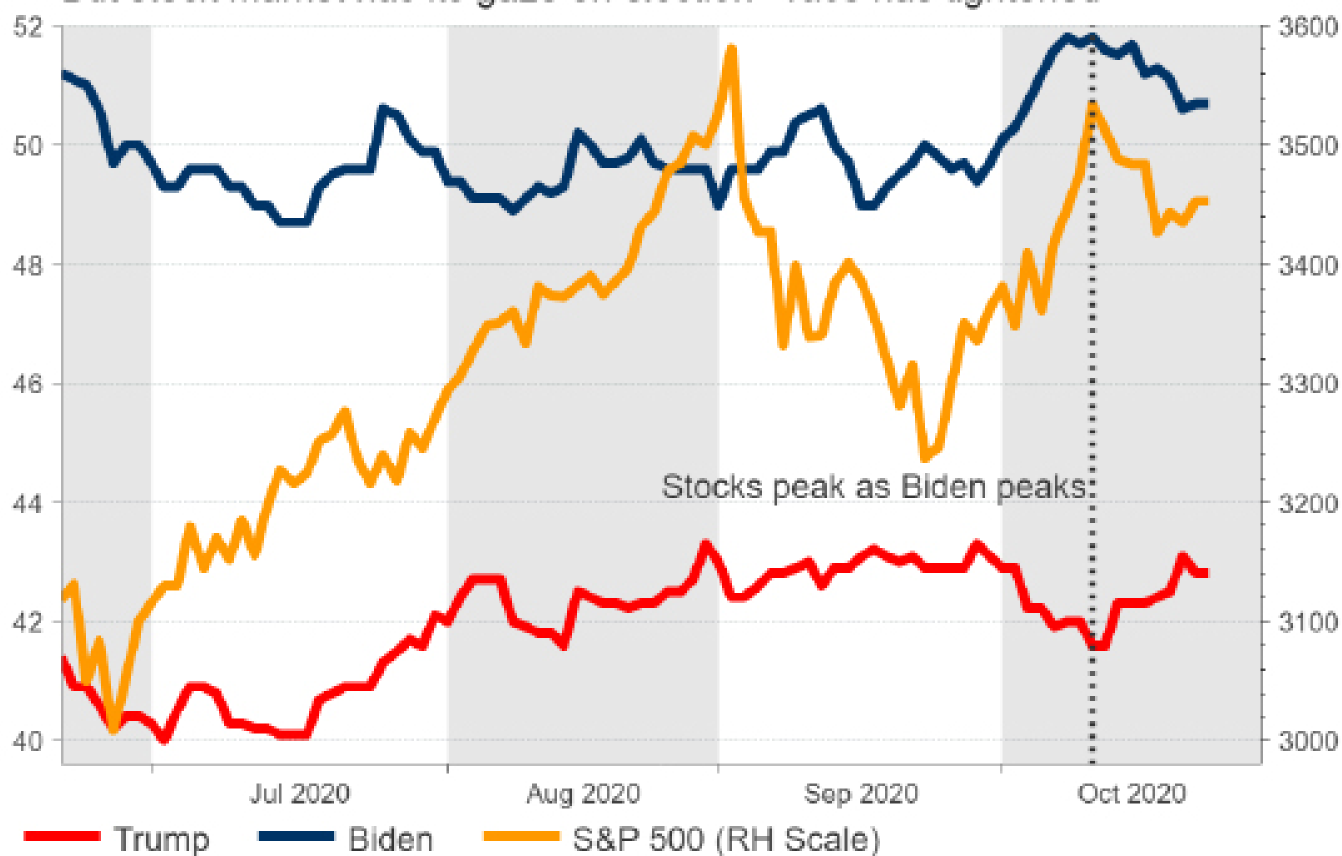
The FX and bond markets were on the same page this week, both pricing in higher chances of a US stimulus deal, but the stock market did not play along. Signs that the negotiations are making progress and that a large relief package could pass after the election saw investors dump the dollar and Treasuries, on expectations that this will leave a gaping hole in public finances and lift inflation a little.

Yet, the enthusiasm wasn't enough to boost the stock market, which seems petrified by election polls. Biden is still leading Trump by a comfortable margin, but the gap is narrowing, especially in key battleground states like Florida and Pennsylvania. This raises the risk of a contested election that ends up disputed in the courts, and more importantly, makes a divided Congress more likely. That could drastically reduce the odds of any future aid packages passing next year, if anything goes wrong.



Essentially, the dollar is focused on the near term and is signaling that a stimulus deal will come, but Wall Street is anxious about the longer-term risk of continued political deadlock. Indeed, the correlation between stocks and election polls has strengthened, with the peak in the S&P 500 this month coming right as Biden peaked in polling, and both drifting lower since.

Correlation doesn't imply causation, but this is too striking to ignore. Investors have not forgotten the shock of 2016, so the tiniest hint that Trump could make a comeback is taken very seriously this time.



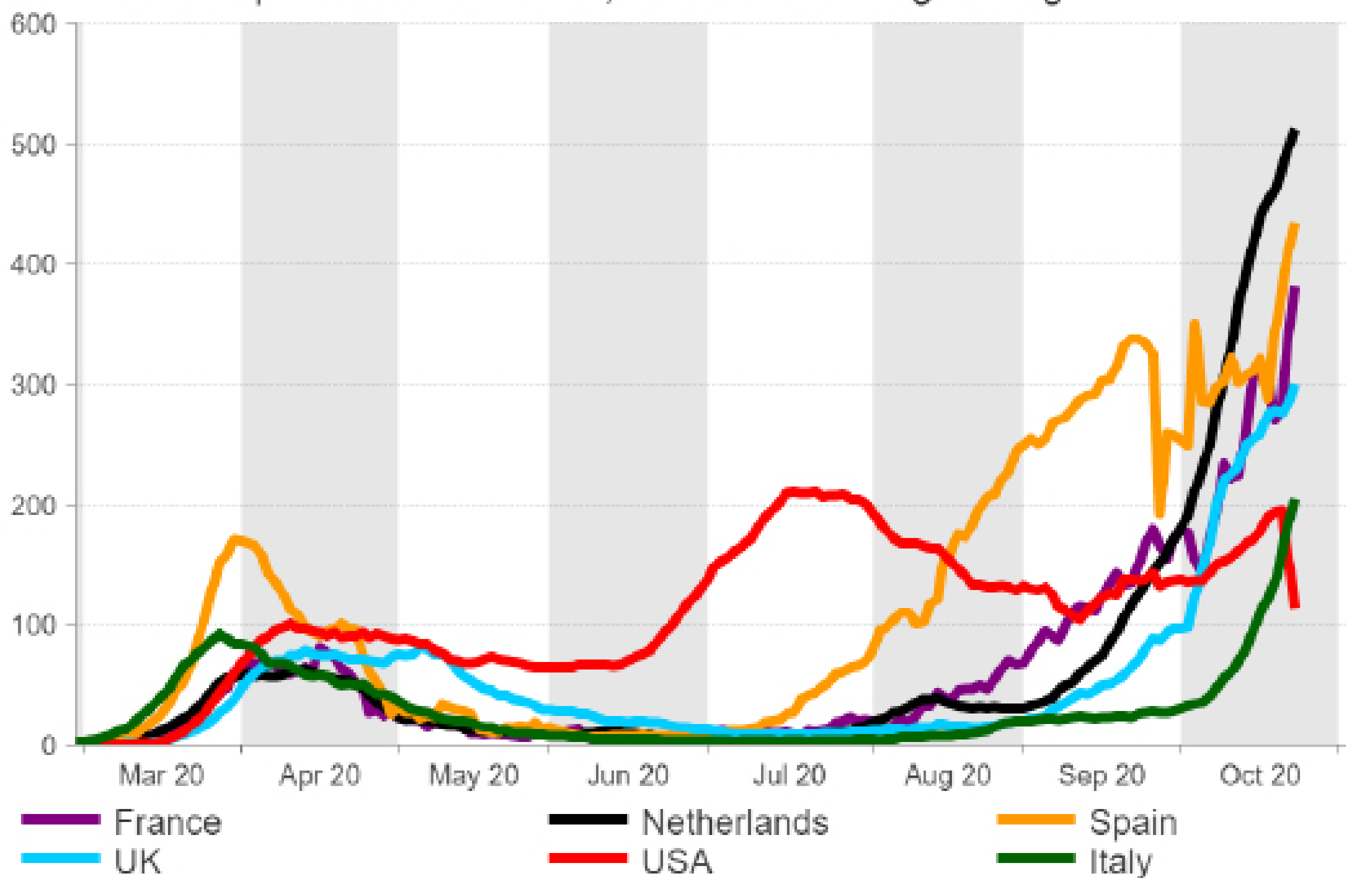
In this light, the most crucial variable over the next few days may be incoming opinion polls, as investors tend to attach greater weight to surveys conducted just before Election Day. The joker of course is how the stimulus talks play out.

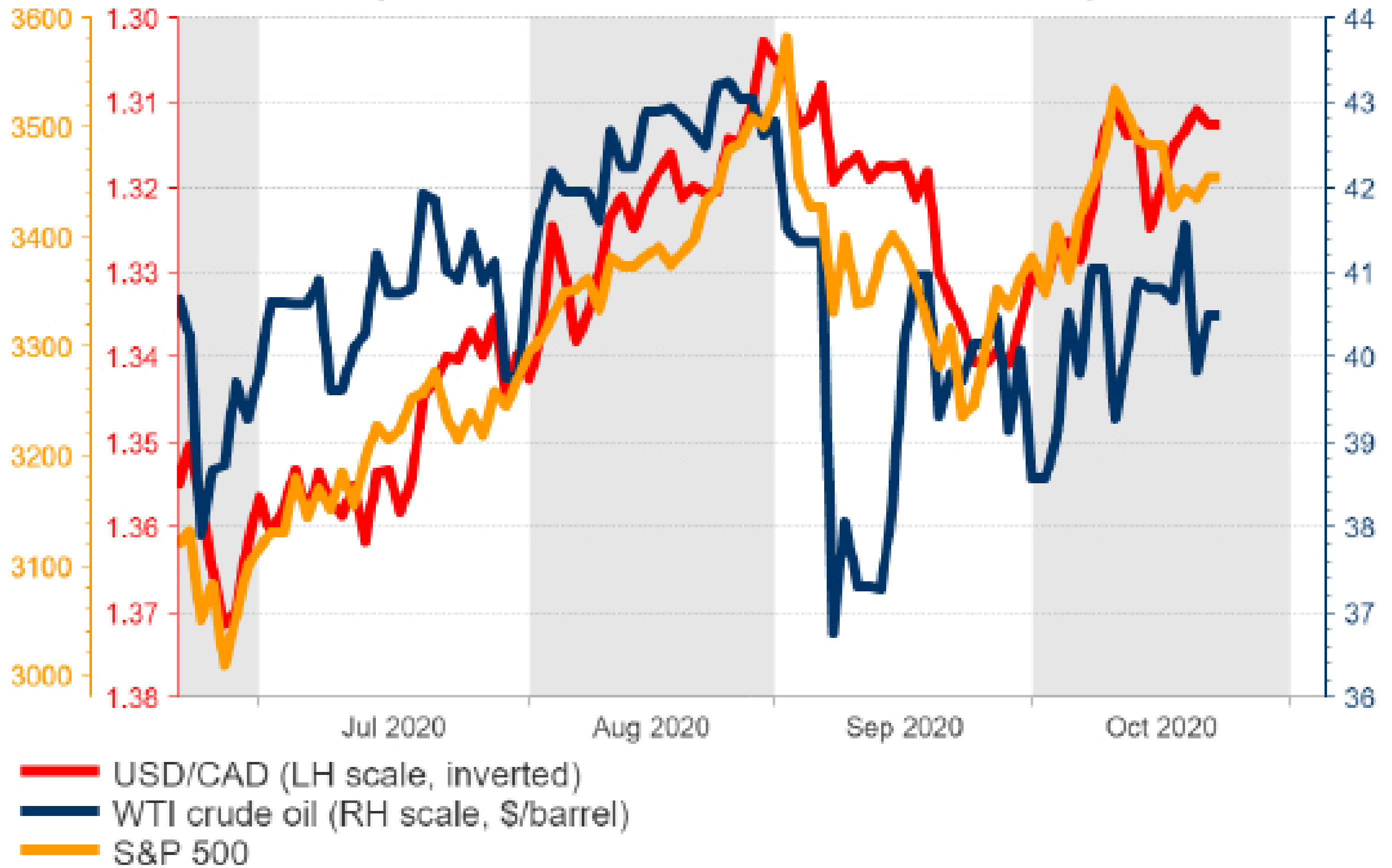
ECB likely to pave way for more easing

In Europe, storm clouds have gathered lately as the second wave of coronavirus is running rampant through the region, forcing most governments to implement partial lockdowns or outright curfews. Many businesses are therefore operating at reduced capacity and consumers have turned defensive, with google data confirming a sharp drop in mobility across the continent.

The European Central Bank will meet on Thursday and while no immediate action is expected, there's a strong likelihood that policymakers will adopt a more cautious tone, opening the door for new measures in December. The bloc's core inflation rate hit a record low in September, well before infections skyrocketed, and the latest PMIs suggest the recovery is running on fumes.

And yet, the euro has not reacted much so far to the risk that growth turns negative again in Q4, most likely because US stimulus speculation has been keeping the dollar under even greater pressure. That said, it may be only a matter of time until the euro has a 'reality check' moment, the catalyst for which could be the ECB.



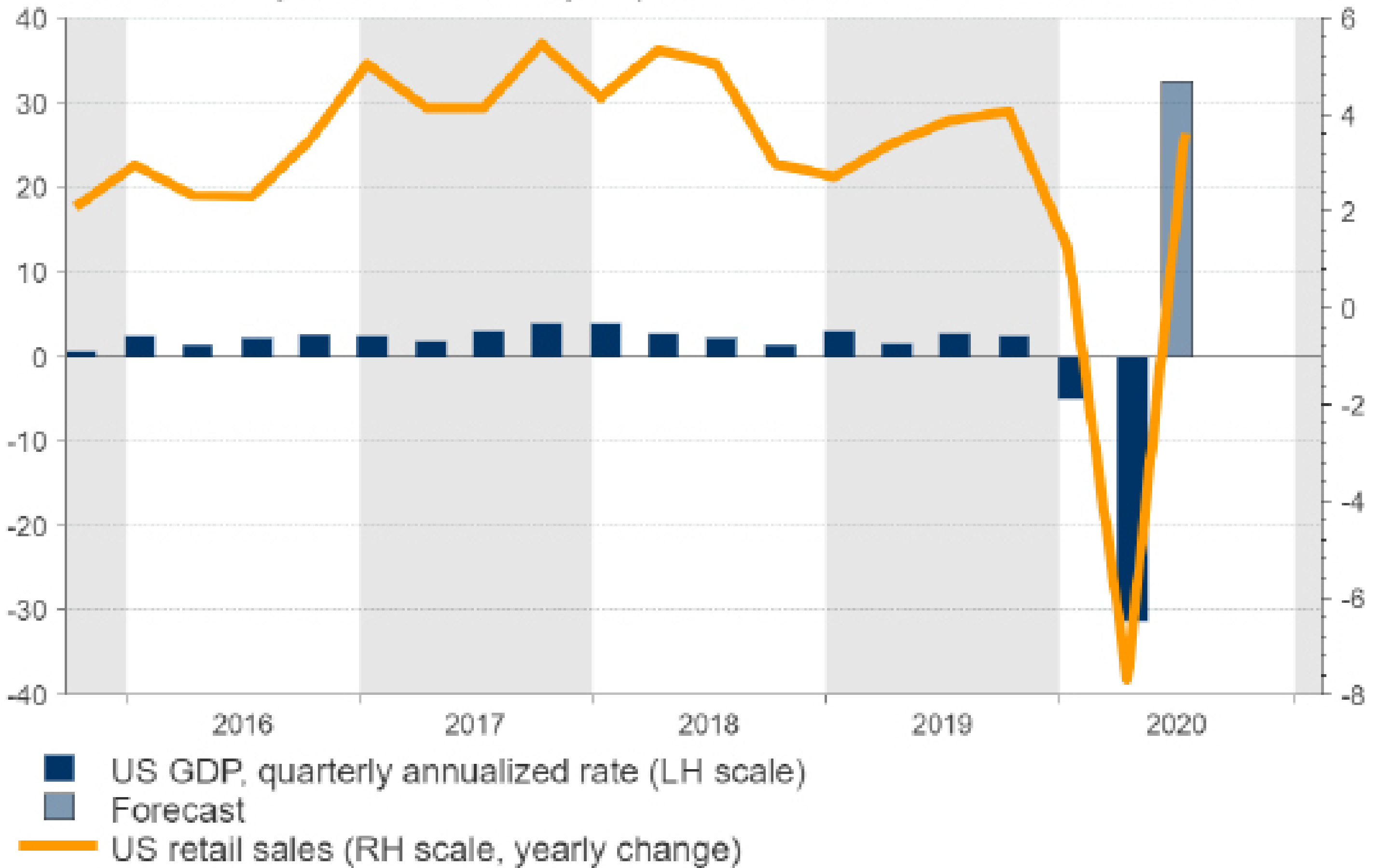


It's a huge week on the data front too. On Friday, we get the first estimate of euro area GDP for Q3 and preliminary inflation data for October. Normally, markets would focus more on the GDP numbers, but this time may be different as the Q3 growth data could already be considered outdated given how rapidly infections have surged lately.

BoC: Steady as she goes

Over in Canada, the local central bank meets on Wednesday. The economy has admittedly improved since the previous meeting, with core inflation accelerating, retail sales picking up, and the unemployment rate falling substantially. Covid infections have risen a little but remain under control.

These suggest the BoC is unlikely to act or even change its tone. Markets agree, as overnight index swaps suggest virtually no chance of a rate cut over the coming year. A neutral message by the BoC could give the loonie a boost, though any reaction is likely to be minor.



Instead, what will truly drive the Canadian currency is how stock markets perform. The loonie has a very high correlation with the S&P 500 lately, and funnily enough, very little correlation to oil prices. Hence, the US election and stimulus talks may be the most crucial elements.

BoJ: Another snooze fest

In the land of the rising sun, the Bank of Japan will decide early on Thursday and media reports suggest a downgrade of economic forecasts is coming. However, the same reports indicate this will not trigger an immediate policy response, and rightly so, as the BoJ has almost nothing left in its ammunition box.

It already has yield curve control in place and cutting rates any further into negative territory is not really an option, as this policy has faced severe backlash from both the public and financial institutions.

As for the yen, neither BoJ decisions nor economic data have any impact nowadays. Instead, the safe-haven currency may respond more to how global risk sentiment evolves, and particularly whether infections in Europe continue to soar. If so, euro/yen may be headed lower.

US GDP and a barrage of earnings in sight

In America, besides the stimulus talks and election polls, there's also the first estimate of economic growth for Q3 coming up on Thursday. The forecast is for a rebound of 32.5% in annualized terms, which although impressive, still wouldn't make up for the 31.4% plunge in Q2.

The good news is that the Atlanta Fed GDPNow model projects an even bigger rebound of 35.3%, so the risks may be tilted towards an upside surprise. Durable goods orders for September are also due Tuesday.

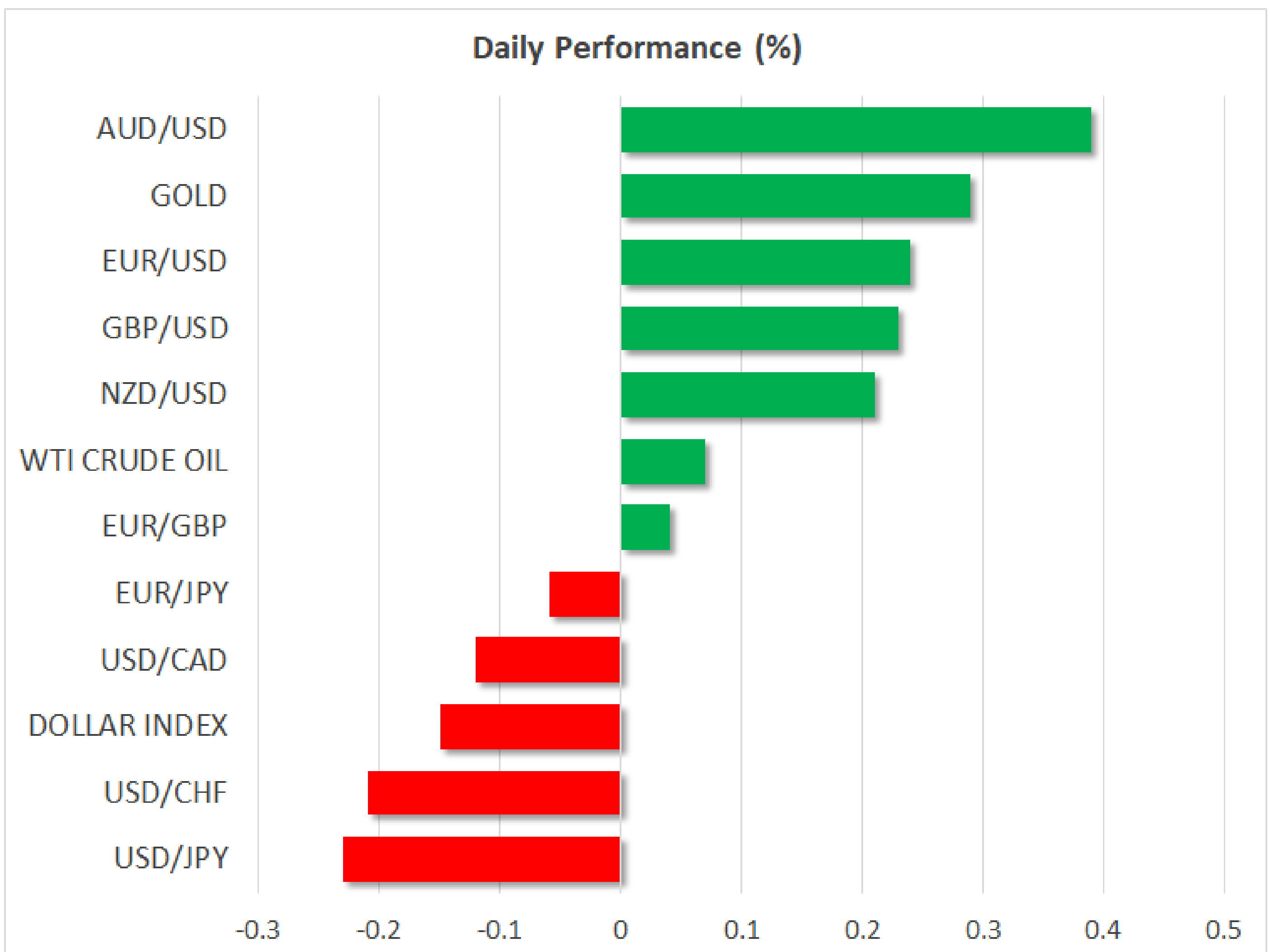
The question is whether any of this will matter for markets, to which the answer is probably not. Unless there is some huge surprise, these are unlikely to spark any major reaction. Investors have bigger fish to fry, and politics will likely overshadow economics for now.

In equities, the earnings season fires up with the likes of Apple, Amazon, Microsoft, Google, Facebook, and many others releasing their quarterly results. Given how much weight these tech titans have in the S&P 500, their results could matter not just for their own shares but for the broader market as well.

Finally, Australia's inflation stats for Q3 are out Wednesday and could be vital ahead of the RBA's November 3 meeting, where expectations for a rate cut are flying high.

MARKETS DRIFT SIDEWAYS AS US STIMULUS DEAL AWAITED

- **US stimulus deal edges closer as talks continue, investors hold tight**
- **No clear winner from final presidential debate; uncertainty adds some support to dollar**
- **Euro bounces from lows as strong manufacturing shores up flagging Eurozone recovery**



No deal yet but high hopes for more stimulus

Markets remain fixated on the stimulus talks in Washington as the week draws to a close, with the window for a deal to be struck before the November 3 election closing fast. Positive signals about the prospect of a deal from House Speaker Nancy Pelosi and the White House are eclipsing doubts about whether Republican deficit hawks that dominate the Senate would ever approve the bill being negotiated, which is thought to be in the region of $1.9 trillion.

The latest soundbites coming from Pelosi are encouraging, with the House Democratic leader yesterday saying they are "just about there" on a COVID relief deal. But Trump's top economic advisor Larry Kudlow was less optimistic, telling reporters that there were still "significant policy differences" between the two sides.

What is clear though is that even if an agreement is reached in the next day or two, it could take a while for the bill to be drafted and then voted on – something that Pelosi herself has indicated – so it's looking less and less likely that a new stimulus package will be passed before the election.

However, markets appear unfazed by the prospect of a delay and have been steadily pricing in such a scenario. As long as the two sides keep talking and the size of the package stays close to $2 trillion, risk assets should remain supported.

US stock futures inched higher on Friday on the back of those hopes, adding to yesterday's modest gains. European shares, meanwhile, opened sharply higher, as they played catchup after a sluggish week.

Dollar eases from highs but election uncertainty lingers

The US dollar recovered substantial lost ground yesterday and overnight but was still on track to end the week about 1% lower against a basket of currencies as stimulus hopes have been revived. The greenback's slide comes even as Treasury yields have rallied sharply over the past week on the prospect of a ballooning US national debt.

The soaring yields got an additional boost from better-than-expected jobless claims and housing data out of the US yesterday, which may have temporarily restored the positive relationship between the dollar and Treasury yields. Election anxiety and doubts about the stimulus deal yesterday helped the greenback climb off 7-week lows brushed mid-week.

The dollar was back under pressure on Friday, though, even if the mood continues to improve, caution ahead of the upcoming presidential election is likely to curb sharp losses.

The final debate between the presidential candidates that took place yesterday gave neither Trump nor Biden a clear edge. Hence, even though Biden is well ahead in the opinion polls and a Democratic win would guarantee a large fiscal stimulus, many traders are being forced into wait-and-see mode out of fear of being caught off-guard by another election shock.

Euro lifted despite PMIs that are nothing to shout about

After slipping earlier in the session, the euro bounced higher following the flash PMI releases, which showed the Eurozone recovery is not totally out of fuel. Manufacturing activity accelerated rapidly in October, somewhat offsetting a deeper-than-anticipated slump in services activity.

Still, overall economic activity contracted in October, suggesting the second virus wave engulfing Europe is significantly hurting businesses. But the strong performance of the manufacturing sector, which is less impacted by virus restrictions, does add hope that the recovery won't be completely derailed and that could be what is aiding the euro.

The single currency was last trading 0.2% higher, outperformed by the aussie (0.4%), which was also boosted from upbeat PMIs.

The pound was flat, however, as investors ignored robust retail sales data out of the UK while they await an update on the Brexit negotiations.

Technical Analysis – GBPUSD looks positive despite 9 red sessions

GBPUSD is paring some losses that posted in the preceding nine consecutive red days in the 4-hour chart. Over the last month, the price has been developing within an ascending channel and latest bullish action is confirmed by the RSI, which is sloping slightly up in the positive region. However, the MACD oscillator is still holding beneath the trigger line above the zero level and the red Tenkan-sen line is pointing down.

If the price continues to gain momentum the next immediate resistance could come from the 1.3175 barrier ahead of the 1.3320 barrier, taken from the peak on September 4.

Alternatively, a decline below the 20-period simple moving average (SMA) could open the door for the 40-period SMA currently at 1.3000 ahead of the upper surface Ichimoku cloud at 1.2970. A break below the upward sloping channel could meet support at the 1.2910 barrier and the 1.2800-1.2845 crucial zone.

In brief, GBPUSD is looking positive in the short-term as it is still developing in ascending channel despite the several sessions of losses.

Amazon.com to report bumper Q3 sales, even better guidance – Stock Market News

Amazon.com is set to unveil its third quarter earnings after the market close on October 29 – one of several tech titans reporting their results that day. After a spectacular earnings beat in the second quarter, the online retail behemoth could be about to treat investors with another strong set of results as the ongoing pandemic has largely kept people away from high streets and malls even as most stores have reopened.

Boost from online shift

The spring lockdowns around the world were a boon for online businesses and even more so for established brands such as Amazon. Whilst the lockdown effect is likely to have subsided in the months after May, footfall in shopping districts is nowhere near pre-pandemic levels and social distancing has only accelerated a trend that had started long before COVID-19 struck the world.

But e-commerce isn't Amazon.com's only source of income. Its cloud business – Amazon Web Services (AWS) – has been growing in significance in recent years, generating 12% of total revenue in the June quarter. The importance of that segment is even greater when looking at profitability as AWS operates at a much higher profit margin than the online retail business, particularly the international division, which, until Q2, was still making a loss.

Looking for clues on Prime membership

However, despite the boom in cloud computing, revenue growth in AWS has slowed somewhat in 2020 as the company faces stiff competition in the sector from the likes of Microsoft's Azure and Alphabet's Google Cloud Platform. The performance of AWS will be one of the things investors will be paying most attention to along with subscription revenue from Amazon Prime.

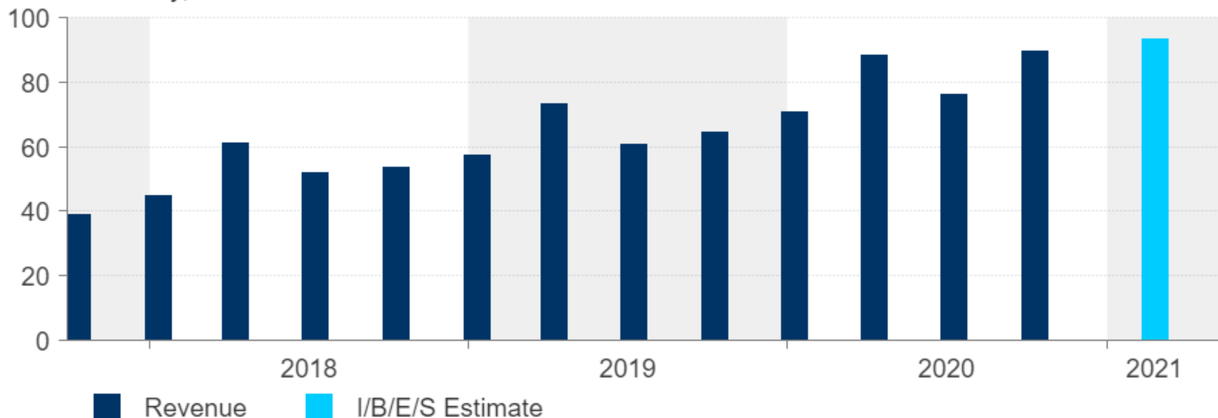
Amazon's CEO, Jeff Bezos, had said back in January that membership to the Prime service had reached the 150 million milestone. As the company doesn't regularly update investors about its subscriber numbers, income from Amazon Prime is the best guide as to how many new members the service is adding.

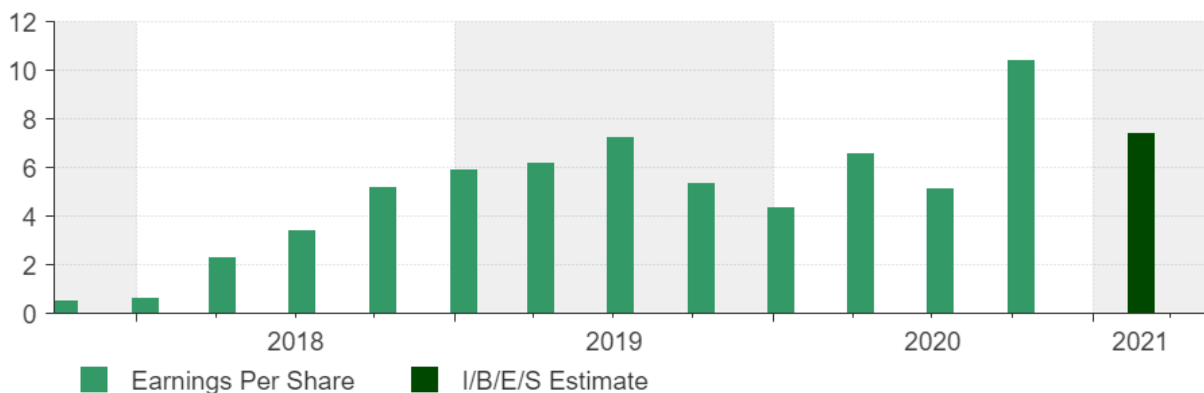
Revenue is soaring

For Q3, total revenue is expected to have jumped 32.4% year-on-year to $92.67 billion according to Refinitiv I/B/E/S estimates, up from $88.91 billion in the prior quarter. Earnings per share (EPS) is forecast at $7.29, which would represent a whopping 72.2% increase from a year ago but down from $10.30 in Q2.

Amazon.com Earnings

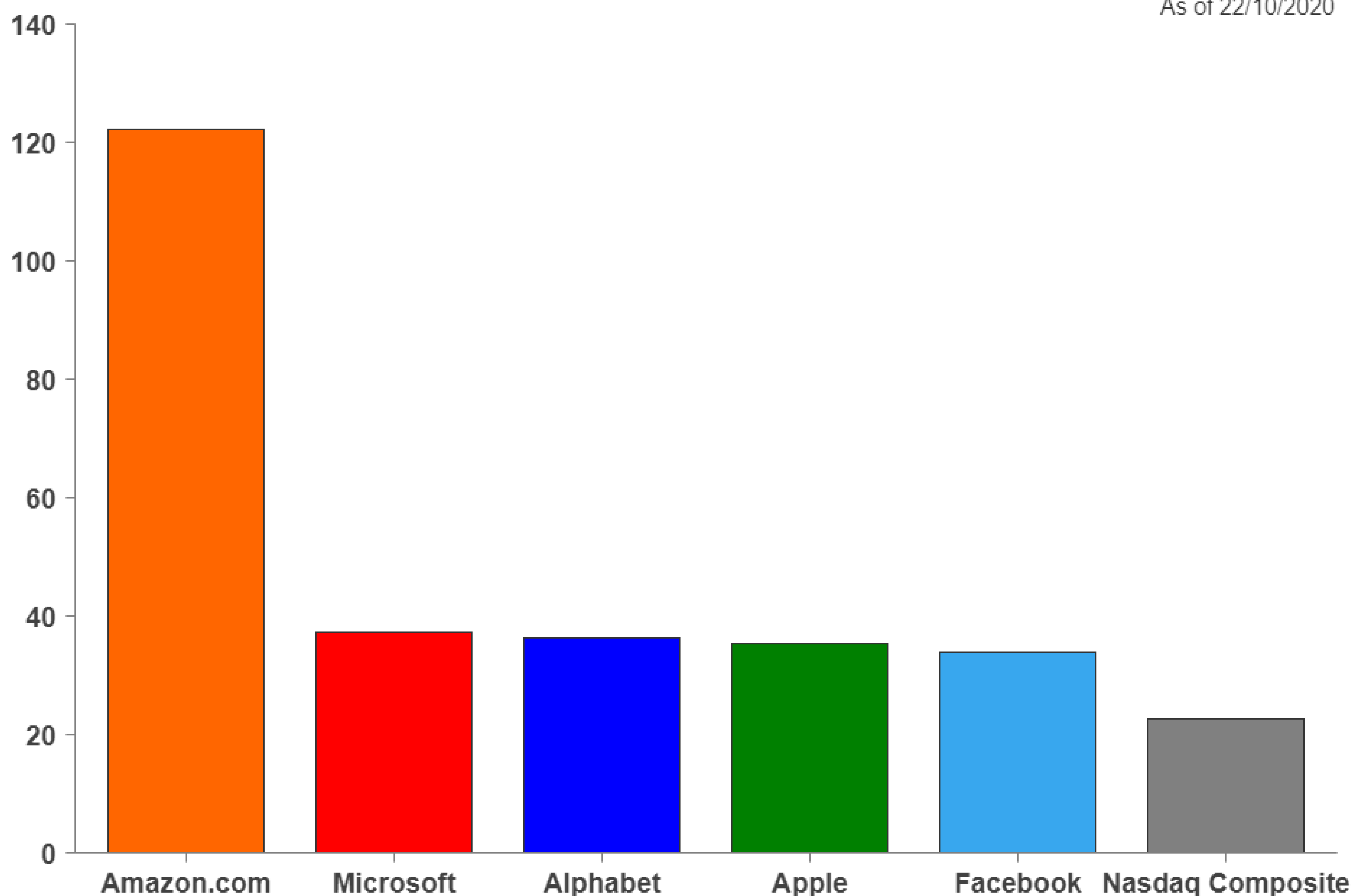
Quarterly, USD Billion





Source: Refinitiv Datastream

Amazon stock has so far had a stellar 2020, surging by more than 70% in the year to date and easily outstripping the broader tech sector; the Nasdaq Composite is up a 'mere' 28%. But the incredible share price performance also means the stock is overvalued by most metrics. Its trailing price/earnings (PE) ratio is astoundingly high, standing at 122.10 as of October 23, far above that of its main competitors, and compares with an industry mean of 17.1. The 12-month forward PE is only marginally less troubling at 73.9.



Inflated stock still a 'buy'

However, analysts are still bullish about Amazon stock, maintaining their mean recommendation of a 'buy', while the median price target has been rising steadily since May. At $3,725, the price target is well above the current share price, indicating the stock has further room to run higher before investors consider it overvalued.

Nevertheless, the stock could be susceptible to a sharp sell-off if the earnings disappoint. The price is currently trading slightly above the 23.6% Fibonacci retracement of the March-September uptrend at 3097.66. A drop below this level would open the way for the 38.2% Fibonacci at 2816.43 before heading for the 200-day moving average (MA) at 2582, which is near the 50% Fibonacci.

On the other hand, another impressive earnings beat could propel the price back above the 50-day MA at 3226, taking it within a closer range of its all-time high of 3552.25.

Spotlight on Q4 guidance

As always, however, the Q3 results might be a secondary factor for traders, with the Q4 guidance possibly attracting more interest. Following the postponement of this year's Prime Day from July to October, Q4 earnings are likely to be boosted from the popular online event. The company has already reported that third-party sales from Prime Day reached $3.5 billion and if first-party sales are equally strong, combined with Black Friday and Christmas sales, Q4 could prove to be a record-breaking quarter.

Hence, any figures that are revealed about Prime Day, as well as on Amazon Prime subscribers, could be potential stock movers.

Technical Analysis – US 100 index explores bullish breakout

The US 100 stock index (cash) resumed this week's sideways move within the 11,619 and 11,743 boundaries, represented by the 61.8% and 50% Fibonacci levels of the rally that started from 11,212, despite tumbling to a two-week low of 10,743.

The 100-period simple moving average (SMA) on the four-hour chart is currently keeping the price under control, and more importantly, near the surface of the descending channel, suggesting that this could be a make or break point for the market.

With the RSI recovering towards its 50 neutral mark and the MACD slowly gaining strength above its red signal line, downside risks seem to be fading. The fact that the price has avoided a drop towards the bottom of the channel is also favoring a positive breakout.

Yet, the bulls may not pick up steam towards the 50-period SMA (11,833) unless the price closes above the 50% Fibonacci of 11,743 and the bottom of the Ichimoku cloud. Crawling above the cloud, the index may hit a new wall around the 23.6% Fibonacci of 12,019.

Alternatively, a retest of the two-week low of 11,514 would be inevitable if the price retreats below the 61.8% Fibonacci of 11,619. In the event a steeper decline takes place, the 200-period SMA, which continues to flatten around the 78.6% Fibonacci of 11,443, could be another critical barier to watch ahead of the channel's lower band.

In brief, the US 100 stock index is looking to breach a channel on the upside, though any violation may turn more meaningful if the 11,743 border is successfully removed as well.

Technical Analysis – NZDUSD develops above MAs; bullish signals grow

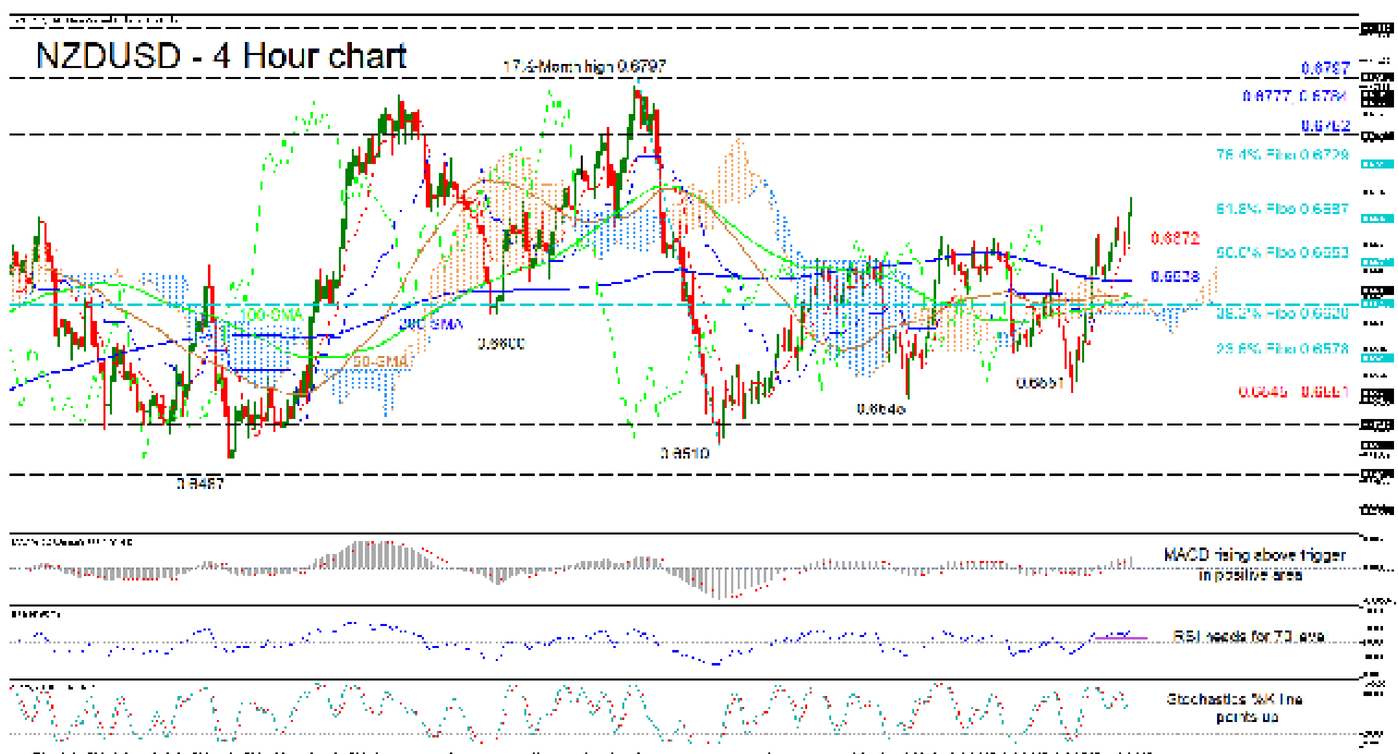
NZDUSD maintains a positive tone despite stalling slightly above the 0.6687 level, that being the 61.8% Fibonacci retracement of the down leg from 0.6797 to 0.6510. The climbing red Tenkan-sen line, which has distanced itself above its blue Kijun-sen line, is suggesting strengthening price action. Moreover, the minor upward inclines in the 50- and 100-period simple moving averages (SMAs) promote forthcoming additional advances too, and could boost this view should they cross above the 200-period SMA overhead.

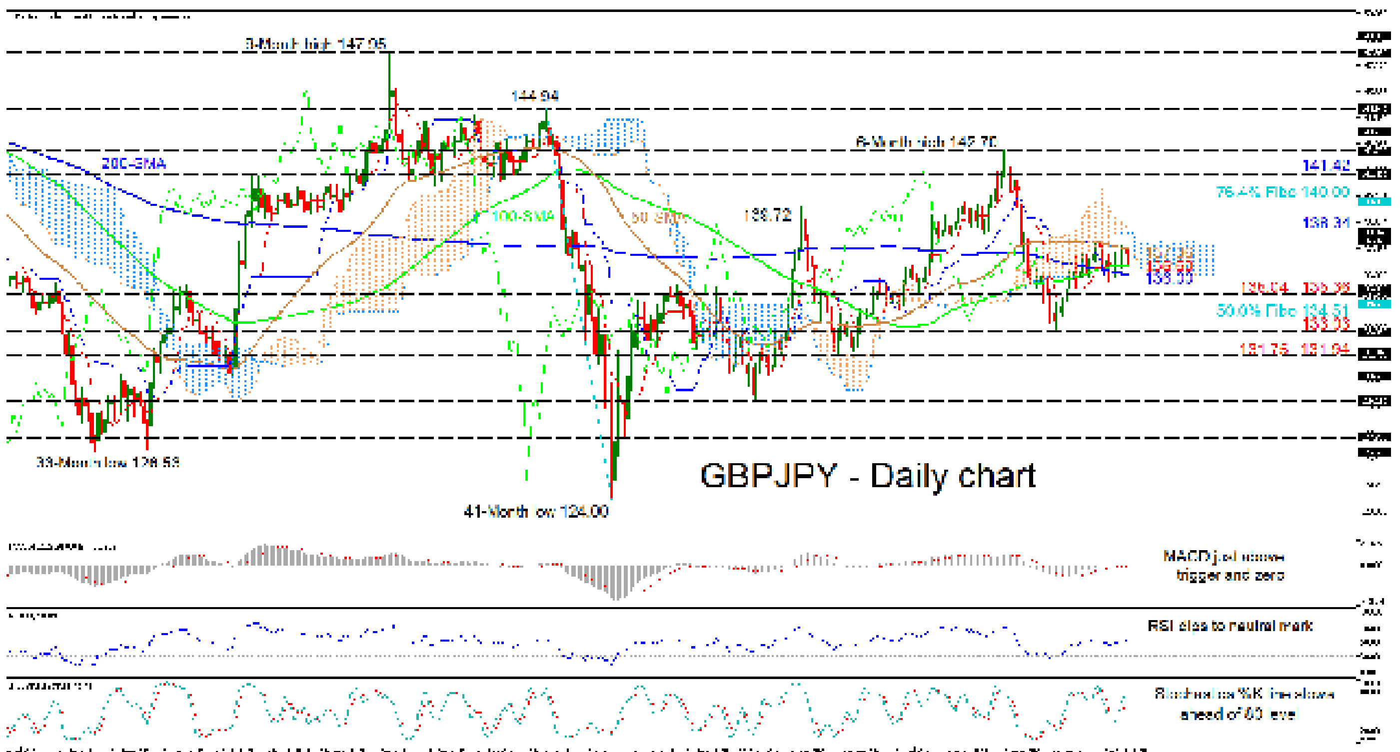
Furthermore, momentum in the short-term oscillators seems skewed to the upside. The MACD, in the positive region, is gradually hiking above its red signal line, while the RSI is hovering below the 70 level. The growing %K line has returned above its %D line, turning the oscillator positive and endorsing further strength in the pair.

To the downside, if sellers steer the price below the 61.8% Fibo of 0.6687, early obstructions could arise from the red Tenkan-sen line at 0.6672 ahead of the 50.0% Fibo of 0.6653. Slipping under this, the 200-period SMA at 0.6638 and the support section from the 0.6631 low until the 38.2% Fibo of 0.6620 may attempt to terminate the decline. Should the bears successfully dive under this zone, which includes the 50- and 100-period SMAs and the blue Kijun-sen line, as well as the cloud beneath, the pair may then deteriorate towards the 23.6% Fibo of 0.6578. Sinking deeper, a support base of 0.6545 - 0.6551 may prove key to sustaining a neutral structure.

Alternatively, if price continues to ascend, first resistance could be found at the 76.4% Fibo of 0.6729. Gaining further ground may hit the 0.6752 barrier before jumping to test the congested highs of 0.6777 and 0.6784 respectively. Another shove up may then revisit the 17½-month peak of 0.6797.

Concluding, NZDUSD' neutral-to-bullish outlook is upheld above 0.6545. Yet, the bullish tone conveyed remains intact above the SMAs and the 61.8% Fibonacci.





Technical Analysis – GBPJPY vulnerable, maintains a horizontal tone

GBPJPY has become fixed between the capping 50-day simple moving average (SMA) and the mostly flattened 100-day SMA after attempts to improve became static. The pairs push above the 200-day SMA together with the shading Ichimoku cloud overhead, are further dampening an evolving direction. Moreover, the cloud and the steadied Ichimoku lines, as well as the deteriorated bullish demeanour of the 50- and 100-day SMAs additionally endorse a directionless market.

At the moment, the short-term oscillators display momentum that is far from effective. The MACD is barely above its red trigger line and the zero threshold, while the downwards pointing RSI continues flirting with its neutral mark. On the other hand, the positive charge in the stochastic oscillator looks fragile as the %K line has stalled ahead of the 80 level.

If selling interest increases, limitations could commence from the 100-day SMA merged with the red Tenkan-sen line at 136.60 and the 200-day SMA at 136.00 beneath. A price dip underneath may encounter the support section of 135.04 - 135.36, where the blue Kijun-sen line also lies. Should losses extend past this zone and the 134.51 level, which is the 50.0% Fibonacci retracement of the down leg from 144.94 to 124.00, the pair may then challenge the 133.03 key trough. Failing to terminate the decline could highlight the region of lows of 131.94 and 131.75 from the end of June.

To the upside, immediate resistance may arise from the 50-day SMA at 137.36 and the nearby cloud's ceiling at 137.87 ahead of the 138.34 high. Triumphing above these borders may shoot the price towards the 76.4% Fibo of 140.00. A persistent climb may then test the 141.42 barrier before hitting the 6-month peak of 142.70.

In the short-term picture, GBPJPY seems to be edging into a sideways market as no directional signals are taking shape. A clear break below 133.03 or above 138.34 will set the next course.

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IMF ANNUAL REPORT 2020: EXECUTIVE SUMMARY

WORLD ECONOMIC OUTLOOK – A LONG AND DIFFICULT ASCENT

The global economy is climbing out from the depths to which it had plummeted during the Great Lockdown in April. But with the COVID-19 pan-demic continuing to spread, many countries have slowed reopening and some are reinstating partial lockdowns to protect susceptible populations. While recovery in China has been faster than expected, the global economy's long ascent back to pre-pandemic levels of activity remains prone to setbacks.

Global Growth Outlook and Risks

Near-term outlook. Global growth is projected at 4.4 percent in 2020, a less severe contraction than forecast in the June 2020 World Economic Outlook (WEO) Update. The revision reflects better- than-anticipated second quarter GDP outturns, mostly in advanced economies, where activity began to improve sooner than expected after lockdowns were scaled back in May and June, as well as indicators of a stronger recovery in the third quarter. Global growth is pro-jected at 5.2 percent in 2021, a little lower than in the June 2020 WEO Update, reflecting the more moder-ate downturn projected for 2020 and consistent with expectations of persistent social distancing. Following the contraction in 2020 and recovery in 2021, the level of global GDP in 2021 is expected to be a mod-est 0.6 percent above that of 2019. The growth pro-jections imply wide negative output gaps and elevated unemployment rates this year and in 2021 across both advanced and emerging market economies.

Medium-term outlook

After the rebound in 2021, global growth is expected to gradually slow to about 3.5 percent into the medium term. This implies only limited progress toward catching up to the path of economic activity for 2020–25 projected before the pandemic for both advanced and emerging market and developing economies. It is also a severe setback to the projected improvement in average living standards across all country groups. The pandemic will reverse the progress made since the 1990s in reducing global poverty and will increase inequality. People who rely on daily wage labor and are outside the formal safety net faced sudden income losses when mobility restrictions were imposed. Among them, migrant workers who live far from home had even less recourse to traditional support networks. Close to 90 million people could fall below the $1.90 a day income threshold of extreme deprivation this year. In addition, school closures dur-ing the pandemic pose a significant new challenge that could set back human capital accumulation severely.

The subdued outlook for medium-term growth comes with a significant projected increase in the stock of sovereign debt. Downward revisions to potential output also imply a smaller tax base over the medium term than previously envisaged, compound-ing difficulties in servicing debt obligations.

The baseline projection assumes that social distancing will continue into 2021 but will subsequently fade over time as vaccine coverage expands and therapies improve. Local transmission is assumed to be brought to low lev-els everywhere by the end of 2022. The medium-term projections also assume that economies will experi-ence scarring from the depth of the recession and the need for structural change, entailing persistent effects on potential output. These effects include adjustment costs and productivity impacts for surviving firms as they upgrade workplace safety, the amplification of the shock via firm bankruptcies, costly resource reallocation across sectors, and discouraged workers' exit from the workforce. The scarring is expected to compound forces that dragged productivity growth lower across many economies in the years leading up to the pandemic—relatively slow investment growth weighing on physical capital accumulation, more modest improvements in human capital, and slower efficiency gains in combining technology with factors of production.

Risks. The uncertainty surrounding the baseline projection is unusually large. The forecast rests on public health and economic factors that are inherently difficult to predict. A first layer relates to the path of the pandemic, the needed public health response, and the associated domestic activity disruptions, most notably for contact-intensive sectors. Another source of uncertainty is the extent of global spillovers from soft demand, weaker tourism, and lower remittances.

A third set of factors comprises financial market senti-ment and its implications for global capital flows. Moreover, there is uncertainty surrounding the damage to supply potential—which will depend on the per-sistence of the pandemic shock, the size and effective-ness of the policy response, and the extent of sectoral resource mismatches.

Progress with vaccines and treatments, as well as changes in the workplace and by consumers to reduce transmission, may allow activity to return more rap-idly to pre-pandemic levels than currently projected, without triggering repeated waves of infection. And an extension of fiscal countermeasures into 2021 could also lift growth above the forecast, which factors in only the measures implemented and announced so far.

However, the risk of worse growth outcomes than projected remains sizable. If the virus resurges, progress on treatments and vaccines is slower than anticipated, or countries' access to them remains unequal, eco-nomic activity could be lower than expected, with renewed social distancing and tighter lockdowns. Con-sidering the severity of the recession and the possible withdrawal of emergency support in some countries, rising bankruptcies could compound job and income losses. Deteriorating financial sentiment could trigger a sudden stop in new lending (or failure to roll over existing debt) to vulnerable economies. And cross- border spillovers from weaker external demand could amplify the impact of country-specific shocks.

Policy Priorities: Near-Term Imperatives, Medium-Term Challenges

Besides combating the deep near-term recession, policymakers have to address complex challenges to place economies on a path of higher productivity growth while ensuring that gains are shared evenly and debt remains sustainable. Many countries already face difficult trade-offs between implementing measures

to support near-term growth and avoiding a further buildup of debt that will be hard to service down the road, considering the crisis's hit to potential output. Policies to support the economy in the near term should therefore be designed with an eye to guiding economies to paths of stronger, equitable, and resilient growth.

Tax and spending measures should privilege initiatives that can help lift potential output, ensure participatory growth that benefits all, and protect the vulnerable. The additional debt incurred to finance such endeavors is more likely to pay for itself down the road by increasing the size of the economy and future tax base than if the borrowing were done to finance ill-targeted subsidies or wasteful current spending. Investments in health, education, and high-return infrastructure projects that also help move the economy to lower carbon depen-dence can further those objectives. Research spending can facilitate innovation and technology adoption—the principal drivers of long-term productivity growth. Moreover, safeguarding critical social spending can ensure that the most vulnerable are protected while also supporting near-term activity, given that the outlays will go to groups with a higher propensity to spend their disposable income than more affluent individuals. In all instances, adhering to the highest standards of debt transparency will be essential to avoid future rollover difficulties and higher sovereign risk premiums that raise borrowing costs across the economy.

Given the global nature of the shock and common challenges across countries, strong multilateral efforts are needed to fight the health and economic crisis. A key priority is funding advance purchase commitments at the global level for vaccines currently under trial to incentivize rapid scaling up of production and world-wide distribution of affordable doses (for example, by bolstering multilateral initiatives for vaccine develop-ment and manufacture, including the Coalition for Epidemic Preparedness Innovations and Gavi, the Vaccine Alliance). This is particularly important given the uncertainty and risk of failure in the search for effective and safe vaccines. A related priority is to help countries with limited health care capacity.

Beyond assistance with medical equipment and know-how, several emerging market and developing economies—in particular low-income countries—require support from the international community through debt relief, grants, and concessional financing. Where debt restructuring is needed, creditors and low-income-coun-try and emerging market borrowers should quickly agree on mutually acceptable terms. The global financial safety net can further help countries deal with external fund-ing shortfalls. Since the onset of the crisis, the IMF has expeditiously provided funding from its various lending facilities to about 80 countries at unprecedented speed.

For many countries, sustaining economic activity and helping individuals and firms most in need—while ensuring that debt remains sustainable—is a daunt-ing task, given high public debt, the spending needs triggered by the crisis, and the hit to public revenues. Governments should do all that they can to combat the health crisis and mitigate the deep downturn while being ready to adjust policy strategy as the pandemic and its impact on activity evolve. Where fiscal rules may constrain action, their temporary suspension would be warranted, combined with a commitment to a gradual consolidation path after the crisis abates to restore compliance with the rules over the medium term. Room for immediate spending needs could be created by prioritizing crisis countermeasures and reducing wasteful and poorly targeted subsidies. Extending maturities on public debt and locking in low interest rates to the extent possible would help reduce debt service and free up resources to be redirected toward crisis mitigation efforts. Although adopting new revenue

measures during the crisis will be difficult, governments may need to consider raising progressive taxes on more affluent individuals and those relatively less affected by the crisis (including increasing tax rates on higher income brackets, high-end property, capital gains, and wealth) as well as changes to corporate taxa-tion that ensure firms pay taxes commensurate with profitability. Countries should also cooperate on the design of international corporate taxation to respond to the challenges of the digital economy.

With the pandemic continuing to spread, all countries—including those where infections appear to have peaked—need to ensure that their health care systems can cope with elevated demand. This means securing adequate resources and prioritizing health care spending as needed, including on testing; contact tracing; personal protective equipment; life- saving equipment, such as ventilators; and facilities, such as emergency rooms, intensive care units, and isolation wards.

Countries where infections continue to rise need to contain the pandemic with mitigation measures that slow transmission. As Chapter 2 shows, lock-downs are effective in bringing down infections. Mitigation measures—a much-needed investment in public health—set the stage for an eventual economic recovery from the downturn brought on by mobility constraints. Economic policy in such cases should limit the damage by cushioning income losses for affected people and firms while also supporting resource real-location away from contact-intensive sectors that are likely to be constrained for an extended period of time. Retraining and reskilling should be pursued to the extent feasible so that workers can look for jobs in other sectors. Because the transition may take a while, displaced workers will need extended income support as they retrain and search for jobs. Complementing such measures, broad-based accommodative monetary and fiscal responses—where fiscal space exists—can help prevent deeper and longer- lasting downturns, even if their ability to stimulate spending is initially hampered by mobility restrictions.

As countries reopen, policies must support the recovery by gradually removing targeted support, facilitating the reallocation of workers and resources to sectors less affected by social distancing, and providing stimulus where needed to the extent possible. Some fiscal resources freed from targeted support should be redeployed to public investment—including in renewable energy, improving the efficiency of power transmission, and retrofitting buildings to reduce their carbon footprint. Moreover, as lifelines are unwound, social spending should be expanded to protect the most vulnerable where gaps exist in the safety net.

In those cases, authorities could enhance paid family and sick leave, expand eligibility for unemployment insurance, and strengthen health care benefit coverage as needed. Where inflation expectations are anchored, accommodative monetary policy can help during the transition by containing borrowing costs.

Beyond the pandemic, multilateral cooperation is needed to defuse trade and technology tensions between countries and address gaps—for instance in services trade—in the rules-based multilateral trading system. Countries must also act collectively to implement their climate change mitigation commitments. As discussed in Chapter 3, joint action—particularly by the largest emit-ters—that combines steadily rising carbon prices with a green investment push is needed to reduce emissions consistent with limiting increases in global temperature to the targets of the 2015 Paris Agreement. A broadly adopted, growth-friendly mitigation package could raise global activity through investment in green infrastructure over the near term, with modest output costs over the medium term as economies transition away from fossil fuels toward cleaner technologies. Relative to unchanged policies, such a package would significantly boost incomes in the second half of the century by avoiding damages and catastrophic risks from climate change. Moreover, health outcomes would begin to improve immediately in many countries thanks to reduced local air pollution. The global community should also take urgent steps to strengthen its defenses against calamitous health crises, for example by augmenting stockpiles of protective equipment and essential medical supplies, financing research, and ensuring adequate ongoing assistance to countries with limited health care capacity, including through support of international organizations. ■