EXECUTIVE SUMMARY

The COVID-19 pandemic has struck against the backdrop of a preexisting sluggish global growth outlook, with low inflation and nominal interest rates. The pandemic has elevated the need for fiscal policy action to an unprecedented level. This issue of the *Fiscal Monitor* discusses the role of fiscal policy to save lives, protect the most-affected people and firms from income losses, unemployment, and bankruptcies, and reduce the likelihood that the pandemic results in a deep, long-lasting slump.

The human cost of the pandemic has intensified at an alarming rate, and the impact on output and public finances is projected to be massive. Government responses should be swift, concerted, and commensurate with the severity of the health crisis, with fiscal tools taking a prime role. The first priority, saving lives, requires fully accommodating spending on testing and treatment, which calls for global coordination—including support to countries with limited health capacity, through grants and concessional financing and the development of a universally low-cost vaccine. Saving lives also requires social distancing—a key component of collective protection domestically and globally—which imposes even larger costs through lower output, lower tax revenues, and the need to protect the most-affected people and firms. This can be done through large, timely, temporary, and targeted measures, such as government-funded paid sick and family leave, transfers, unemployment benefits, wage subsidies, and deferral of tax payments. Likewise, liquidity support to firms can reduce the risk of bankruptcies.

The COVID-19 outbreak and its financial and economic consequences will cause a major increase in fiscal deficits and public debt ratios compared with previous projections. As output drops, revenue will fall even more sharply (revenue is projected to be 2.5 percent of global GDP lower in the baseline scenario for 2020 than what was projected in the October 2019 *Fiscal Monitor*). The necessary health expenditure and the tax and spending measures to support people and firms will also have direct fiscal costs, currently estimated at $3.3 trillion globally. In addition, although public sector loans and equity injections ($1.8 trillion) and guarantees and other contingent liabilities ($2.7 trillion) can support financial and nonfinancial enterprises, they also create fiscal risks.

Based on policy responses to date, fiscal balances in 2020 are expected to deteriorate in almost all countries, with sizable estimated expansions in the *United States*, *China*, and several European and other Asian economies. Although a sizable increase in deficits this year is necessary and appropriate for many countries, the starting position in some cases presents vulnerabilities (global public debt was 83 percent of GDP in 2019). The situation is more concerning for emerging market and developing economies that face multiple shocks that include the pandemic, an abrupt worsening in financing conditions, weak external demand, and (for commodity exporters) lower commodity prices. Even after the global community's efforts to alleviate such financing constraints, these countries will need to reprioritize expenditure toward the health sector while safeguarding key public services (transport, energy, communications) and social protection.

The size of the impact of COVID-19 on public finances is highly uncertain at this time and will depend not only on the duration of the pandemic but also on whether the economic recovery is swift or the crisis casts a long shadow. As public sector support is provided on an extraordinary scale, including vehicles such as loans and guarantees, transparency is crucial to manage fiscal risks. As countries contain the pandemic and shutdowns end, broad-based, coordinated fiscal stimulus—depending on countries' financing constraints—will become a more effective tool to foster the recovery. Exit from the exceptional measures introduced during the crisis will also be appropriate. Once economies recover, achieving progress on ensuring debt sustainability will be needed.