

FOREWORD

On March 11, 2020, the WHO declared COVID-19 a pandemic. It has now claimed more than 1 million lives. But already in March, economic activity and financial markets were hit in a sudden and violent way. Economic policy responses were prompt. They helped restore orderly financial market conditions, eased access to financing and limited the downside adjustment in employment, economic activity, and living standards. The overall size and speed of fiscal action was unprecedented at about \$12 trillion globally, contributing to extending critical lifelines to households and firms.

More than six months into the pandemic, the *Fiscal Monitor* emphasizes the importance of not pulling the plug of fiscal support too soon, in spite of the high levels of debt prevailing worldwide. It evaluates the difficult policy trade-offs that different countries face. Finally, it makes the case for public investment.

Prior to the pandemic, public and private debt were already high and rising in most countries, reaching 225 percent of GDP in 2019, 30 percentage points above the level prevailing before the global financial crisis. Global public debt rose faster over the period, standing at 83 percent of GDP in 2019. And despite access to financing varying sharply across countries, medium- to long-term fiscal strategies were needed virtually everywhere. On one extreme, there were countries—mostly advanced economies like the United States, participants in the euro area, and Japan—benefitting from exceptionally easy financing conditions. But these also faced long-term fiscal challenges associated with the implications from population aging. On the other extreme, there were countries—often low-income developing countries, many in sub-Saharan Africa—with no access to international financial markets. These countries were facing binding constraints on their ability to put public finances and state capacity at the service of growth and development. Those limits were particularly relevant in the context of the 2030 SDGs.

In 2020, global general government debt is estimated to make an unprecedented jump up to almost

100 percent of GDP. The major increase in the primary deficit and the sharp contraction in economic activity of 4.7 percent projected in the latest *World Economic Outlook*, are the main drivers of this development. But 2020 is an exceptional year in terms of debt dynamics, and public debt is expected to stabilize to about 100 percent of GDP until 2025, benefiting from negative interest-growth differentials.

These high levels of public debt are hence not the most immediate risk. The near-term priority is to avoid premature withdrawal of fiscal support. Support should persist, at least into 2021, to sustain the recovery and to limit long-term scarring. Health and education should be given prime consideration everywhere. Fiscally constrained economies should prioritize the protection of the most vulnerable and eliminate wasteful spending. To manage the intertemporal tradeoffs in fiscal policy, a medium- to long-term fiscal framework is recommended. The intertemporal tradeoffs between short-term support and medium-term risks are also an important theme of the latest *Global Financial Stability Report*.

COVID-19 has confronted policymakers with painful and urgent trade-offs. Living standards will be falling in most of the world. We estimate that the number of people in extreme poverty will increase by 80 to 90 million. The risk of malnutrition is on the rise. Access to health and education are problematic for important segments of the population.

The international community must act with debt relief, access to grants and concessional financing—now and going forward—to help the poorest countries tackle these urgent and painful trade-offs. More broadly, confidence in the stability of the global financial system requires that international resources be available for all countries facing temporary financing challenges. That is the purpose of the lending capacity of the IMF that now stands at \$1 trillion, of which about one-fourth is already committed. For countries with unsustainable debt, options for orderly debt restructuring must be considered.

The *Fiscal Monitor* makes the case for public investment. The relevant macroeconomic context includes

very low interest rates, high precautionary savings, weak private investment, and a gradual erosion of the public capital stock over time. But the novel argument in the *Fiscal Monitor* relates to uncertainty. Investment multipliers are particularly high when macroeconomic uncertainty is elevated—and uncertainty in the current *World Economic Outlook* is “unusually large.” Under such conditions, public investment acts as a catalyst for private investment to take off.

The *Fiscal Monitor* estimates that a 1 percent of GDP increase in public investment, in advanced economies and emerging markets, has the potential to

push GDP up by 2.7 percent, private investment by 10 percent and, most importantly, to create between 20 and 33 million jobs, directly and indirectly. Investment in health and education and in digital and green infrastructure can connect people, improve economy-wide productivity, and improve resilience to climate change and future pandemics.

Fiscal policy can be a bridge to smart, resilient, sustainable, and inclusive growth.

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