The COVID-19 pandemic has lasted over 20 months. Today, the world is confronted with three global problems that require global action: the Great Vaccine Divide, climate change, and the Great Financing Divide.

The Great Financing Divide refers to financial constraints facing vulnerable people and countries. It links not only to fiscal policies and economic prospects around the world but also to debt developments.

Preliminary estimates from the Global Debt Database are now available. Debt—issued by governments, nonfinancial corporations, and households—in 2020 reached $226 trillion and increased by $27 trillion. Both the level and the increase in debt are unprecedented. High and growing levels of public and private debt are associated with risks to financial stability and public finances.

This increase in public debt was fully justified by the need to respond to COVID-19 and its economic, social, and financial consequences. But the increase is expected to be one-off, as documented in Chapter 1 of the Fiscal Monitor.

Advanced economies and China contributed more than 90 percent to the accumulation of worldwide debt in 2020. The remaining emerging markets and low-income developing countries contributed only around 7 percent. Constraints on financing are particularly severe for poorer countries.

Differences across country groups are evident when looking at fiscal policy and economic developments. These differences are clear not only across country groups but also within country groups. Policy advice must be tailored to the evolution of the epidemic, to economic and employment developments, and to country characteristics. Advanced economies are projected to recover to the pre-COVID growth path. Fiscal support will persist but spending and revenues will gradually approach the pre-COVID path. It is important to stress that China and the United States stand out with early and strong recoveries. In contrast, low-income developing countries are projected to suffer a persistent fall in growth relative to the pre-COVID prospects. Lower growth and shortfalls in revenues are major concerns for the eradication of extreme poverty and, more generally, from the viewpoint of sustainable and inclusive development.

Data and our forecasts suggest that the ability to issue debt at favorable terms was an important determinant of economic developments and prospects. COVID-19 highlighted the impact of the existing Great Financing Divide. We should act to prevent this from permanently hurt lower income economies growth prospects.

But what determines the degree of access to financial markets? Many factors play a role—credibility of monetary and fiscal frameworks is important everywhere. Chapter 2 discusses that countries with a high-credibility fiscal framework benefit from better bond market access. Indeed, countries with higher credibility also experience lower interest rates on sovereign bonds.

The bottom line: Fiscal responsibility pays off.

While recognizing that the international community provided critical support to alleviate fiscal vulnerabilities in low-income countries, more is needed.

The recent General Allocation of Special Drawing Rights contributes to international liquidity. This US$650 billion constitutes the largest allocation ever agreed upon. Its beneficial effects can be expounded through rechanneling from higher income economies to low-income developing countries. Options for rechanneling include increased financing for the Poverty Reduction and Growth Trust, or through a new resilience and sustainability facility. By rechanneling Special Drawing Rights in such a way, donor countries would be contributing to sustainable development and international convergence.

The expiration of the DSSI at the end of the year makes a fully functioning G20 Common Framework urgently needed.

Regarding climate change, it will be crucial for the global community to agree on concrete policy actions at the United Nations’ COP26 this November. Policy actions should include (i) an international carbon price floor adjusted to country circumstances, (ii) a green public investment program and research
subsidies, (iii) targeted transfer schemes to households adversely affected by the climate policies, (iv) advanced economies’ pledge to mobilize USD100 billion annually in climate finance to support developing nations, and (v) strengthening of the global climate information architecture (data, disclosures, taxonomies).

The Great Vaccine Divide, the Great Financing Divide, and global warming affect everyone, but especially the poorest and most vulnerable. Sustainable, inclusive, green recovery is key, and national and global policy actions must work hand in hand. Time is of the essence: it is urgent to invest for the longer term to ensure a durable and inclusive structural transformation. Financing is one of the essential keys.

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