



Abrams M.E. Tagem

World Development Report  
2022: Discussion

**BOFIT/UNU-WIDER Conference on  
Debt and innovative finance in  
developing countries**



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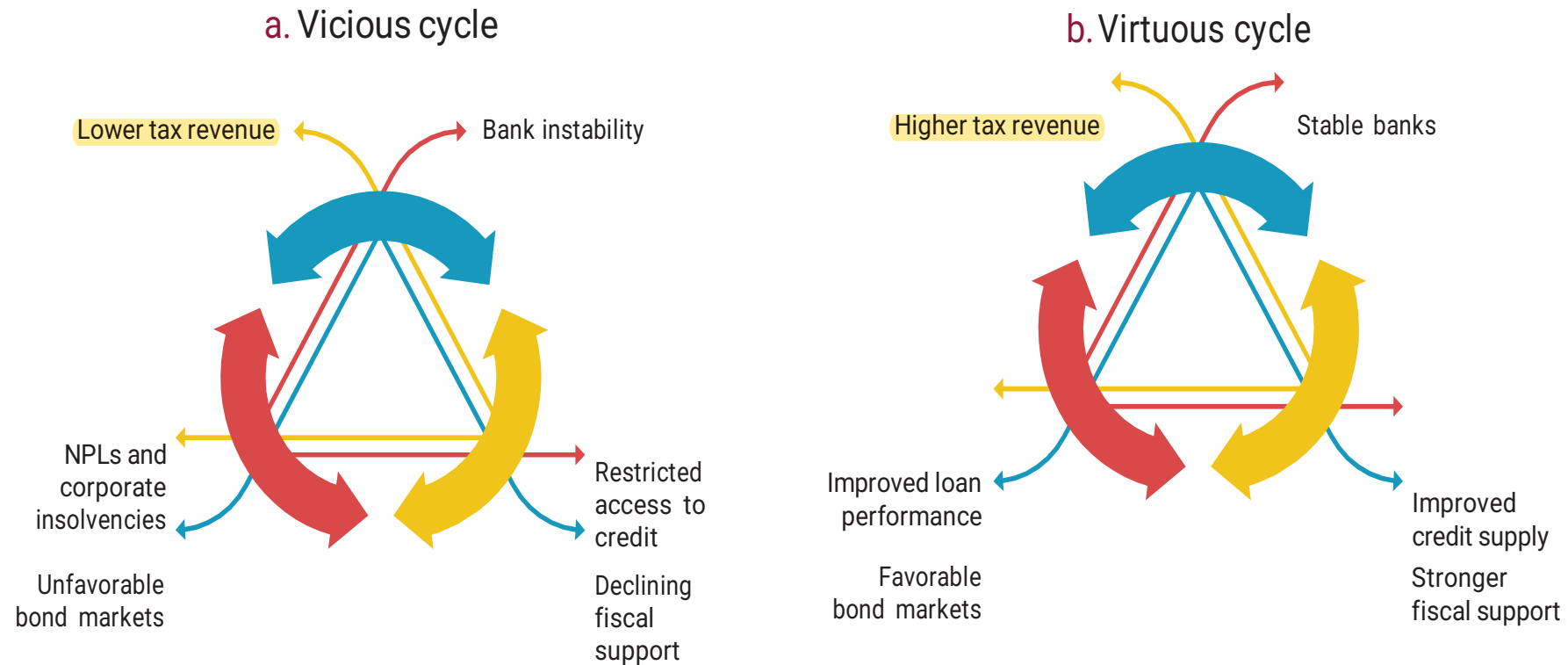
# Structure of the discussion

- Uniqueness of the COVID-19 pandemic
- Interconnections between sectors
- Recommendations
  - Managing increased levels of sovereign debt
- Medium-term fiscal reform plan

# Unique pandemic

- Economic activity contracted in more than 90 percent of countries
- Financial instability (more NPLs); over-indebtedness among households and businesses; reduced access to credit; rising sovereign debt (debt distress, larger external debt)
- Various policy responses, ranging from fiscal to financial sector policies
- The efficiency of responses depended crucially on **pre-existing strengths of the respective economies**

# Interconnections across sectors



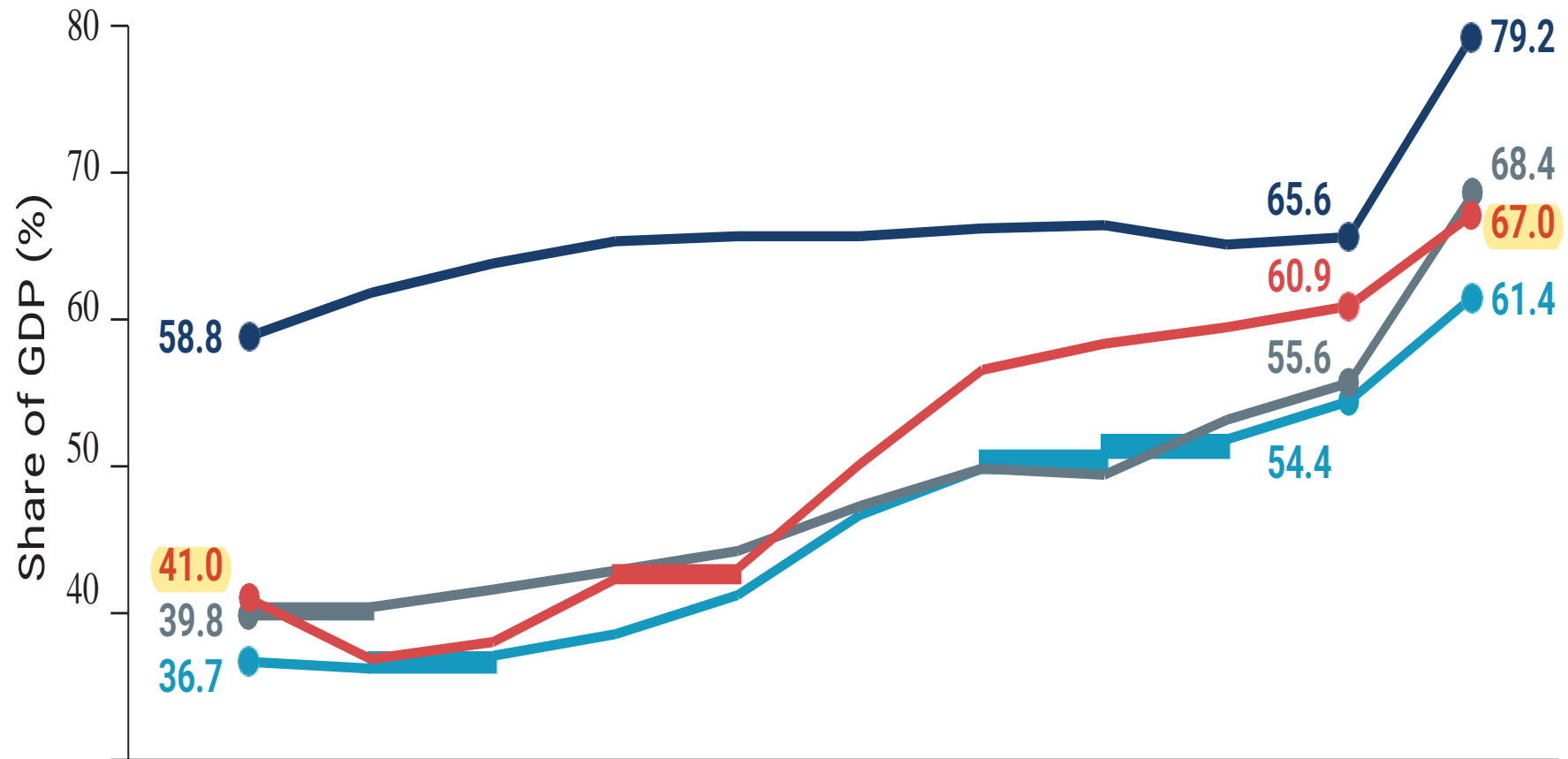
# Recommendations

- Managing and reducing loan distress
- Improving the legal (in)solvency status
- Ensuring continued access to finance
- **Managing increased levels of sovereign debt**

# Sovereign debt (1)

- Debt/GDP ratios were high even before the pandemic
- Increased debt levels, particularly external debt (composition)
  - Bilateral debt, multilateral debt, Eurobonds (creating other risks such as interest rate, exchange rate, as well as rollover risks)
- High risks of debt distress in sub-Saharan Africa (SSA) prior to the pandemic but exacerbated by pandemic-related spending
- G20 Common Framework for debt restructuring; Debt Service Suspension Initiative (DSSI)

# Sovereign debt (2)



# Sovereign debt (3)

- Soaring debt service costs across countries and much higher in low-income countries
  - Reduces funds available for spending (exacerbating inequalities)
- Debt restructuring crucial and IMF/World Bank provide DSA
- Common Framework and DSSI
  - Common Framework can coordinate rescheduling for countries with sustainable debt, but persistent liquidity needs
  - Coordination among creditors (even private creditors) is important



# Medium-term fiscal reform plan

- Creating more fiscal space to deal with scarring effects of the pandemic
  - (1) Managing soaring debt stocks (discussed above)
  - (2) Prioritization and efficiency gains of spending
  - (3) Domestic revenue mobilization (tax policy and administration reform)

# Improving efficiency of government spending

- Improve public investment efficiency and the quality of public procurement
- Digital PFM solutions (fiscal transparency portals and digital procurement platforms)
- Constant auditing of government processes and spending; beneficial ownership
- Transparency; accountability and good governance

# Tax policy and administration reform

- Target undertaxed bases (excises, property, capital income) and explore untapped tax bases (carbon emissions [GHGs], digital economy)
- Increase the fairness and progressivity of existing tax systems, especially capital income.
- Rethink international tax rules to stop avoidance by MNEs for HNWIs
- Develop tax policy to meet other broader objectives (climate change, health,
- Improve facilitation and enforcement in tax administrations



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