I would like to thank UNCTAD for the invitation to participate in this panel.

The world economy is still facing the social and economic consequences of the Covid-19 pandemic, with a 2nd wave of the disease and the perspective of an incomplete recovery in many countries.

On the bright side, the fiscal and monetary response to the crisis reduced its recessive impact and many vaccines are now available, but not yet in the required scale and regional distribution.

Given this background, I would like to emphasize four points in the agenda of finance for development.

1 – The Danger of Premature Fiscal Consolidation

The first point, which was one the main messages of UNCTAD's latest TDR, is the need to avoid past mistakes, especially regarding premature fiscal consolidation.

Specifically, almost 12 years ago, when the Global Financial Crisis hit the world economy, many countries responded with expansionary monetary and fiscal policies, which in their turn reduced the impact of the recession.

There was also a substantial increase in public debt and this led to calls for fiscal consolidation as soon as 2010, just two years after the beginning of the crisis.

Fiscal consolidation started in 2011 and resulted in a slow recovery of many economies, and even to stagnation in some countries.

Monetary policy remained expansionary, with nominal interest rates close to zero and real rates in negative territory, but this proved to be insufficient to bring the economy quickly back for the recession.

In many countries, the risk of slow growth or stagnation was downplayed by the hypothesis of expansionary austerity: the idea that a deceleration of government demand would be more than compensated by an expansion of private demand. It wasn't, and we should not run the same risk now.

The Covid recession will have long-lasting results, some of them permanent, as the move to remote work and business' restructuring in many areas.

Last year, a series of disaster-relief policies worked well to fight the recession.

This year, we need reconstruction policies to expedite the recovery and promote structural change to a more sustainable growth pattern, both in social and environmental ways.

But, is it possible to adopt reconstruction policies in face of the record-high public debt ratios registered in many economies?

2 – The Fiscal and Foreign Constraints

Basic accounting tells us that the net public debt equals the expected value of future primary surpluses, that is, the government balance excluding net interest payments.

The current increase in debt ratios can therefore be matched by higher surpluses in the future and this is the origin of some calls for premature fiscal consolidation.

However, in the current situation of low real interest rates, the solvency of public finance can also come through faster economic growth after the pandemic, in what we economists call a negative "r minus g".

In other words, when the interest rate on the government debt is below the growth rate of the economy, the debt issued today may be paid or rolled over later without an increase in the government's primary balance.

Most developed nations are now in this situation and, therefore, they can adopt massive policies for economic reconstruction and progressive structural change.

The situation is not the same for most developing economies, where foreign finance is usually the binding constraint on the economy.

Specifically, for countries that neither issue international reserve currency nor have a large enough stock of international reserves, the adoption of expansionary fiscal policies to fight the Covid-19 recession may quickly turn into problems in their balance of payments.

So, at the global level, the proper fiscal response of developed economies and large emerging economies should be done together with liquidity assistance to middle and low-income countries.

There has been some initiatives in that direction, especially from the IMF, but in the same way that developed nations run the risk of premature fiscal consolidation for domestic political reasons, many developing countries run the risk of premature current-account adjustments from international financial conditions.

The IMF should therefore translate its recent policy recommendations of expansionary fiscal policies into a concrete support for this kind of actions in developing economies.

3 – What should fiscal policy do?

Monetary policy is usually the first line of action against a deep crisis because it is necessary to avoid a recession from turning into a financial meltdown.

Monetary policy is also much simpler to activate than fiscal policy, since central banks can create liquidity from nothing and let the market (banks, firms, and families) decide what to do with low interest rates.

Fiscal policy is more complicated because it is not just a macroeconomic question.

The concerns about debt sustainability tend to portrait the issue as disputes about how much the government can spend, but this is just the first aspect of the problem. It is also important and crucial to decide on what to spend.

For example, assuming that the world leaders agree in adopting expansionary policies for economic reconstruction and transformation, where should the money go? Transfers or investments? Public health or education? Industrial policies or infrastructure?

The decision is technical and political, and the answers vary depending on the country in question.

From UNCTAD's analyses and the recent world experience, it seems reasonable that fiscal expansion should concentrate in emergency income transfers to the poor, especially to those in informal jobs that do not have access to the current government social safety net.

This is more important for developing countries, but it is also an issue in advanced economies due to the impact of the pandemic on the service sector and the gig economy.

The increase in income transfers can be funded through more progressive taxation down the road, which will also require international coordination to avoid fiscal wars between tax jurisdictions.

The increase the income and wealth of the top 1% of the world population clearly shows where the government can fund its reconstruction policies. The task is not trivial and it will probably take years to be implemented, but it should anyway start now.

Fiscal reconstruction measures should also be directed to investments in infrastructure, public or private, to promote the creative destruction of current patterns of production and consumption, towards a more sustainable economy.

As UNCTAD has pointed in many of its TDRs, greed development may spark innovation, creating income and jobs even in the current scenario of expected increasing automation.

And in face of the problems revealed by the pandemic, public health is the third main candidate for fiscal initiatives, both in emergency measures as vaccination and long-term investments to increase and improve coverage of middle and low-income families.

4 – The economics of vaccination

There are now many vaccines under production and use.

The prompt recovery of the economy requires the proper response to the disease, with policies to slow down the spread of the virus and speed up the vaccination against it.

The economics of vaccination poses both a real and a financial challenge.

On the real side, it will take some time to mass produce vaccines, whichever one prefers. We are seeing this even in developed nations, which indicates that more investment and coordination is necessary to improve production and logistics.

One alternative is to be more flexible about patents and licensing, which requires government coordination and finance.

The financial challenge is to fund all the process, assuring that the vaccines reach all the population in a timely manner.

In developed countries, which have a soft or no budget constraint at the current interest rates, the financing of vaccination is more a political than an economic decision.

In contrast, for developing countries the issue involves foreign aid and finance to acquire and distribute the vaccine as soon as possible, and to create domestic capacity of production later.

The social, economic, and health perspectives for 2021 are challenging, but on the bright side, the world economy has the means to meet such challenges in a progressive way.

The main doubt is whether there will be enough political consensus to implement coordinated responses, at the domestic and international levels.

UNCTAD has been created precisely to discuss and contribute to solve this kind of issue. I wish it success in its important mission.