

2022 Financing for Sustainable Development Report

Thematic Chapter Concept Note

The COVID-19 pandemic has exacerbated challenges to global economic and sustainable development prospects, imperiling chances of achieving the SDGs. Across countries, this unprecedented health and economic crisis has worsened pre-existing macroeconomic and structural vulnerabilities. While some countries have been able to take advantage of the protracted period of low interest rates to finance their pandemic response and build back better, others have essentially been locked out of global capital markets.

There is a grave danger of a sharply diverging world, with some countries recovering on the back of broad vaccine rollouts, strong stimulus measures and digital acceleration, while many others are at risk of sinking deeper into a cycle of unsustainable debt, austerity, unemployment, poverty and hunger. They potentially face a lost decade for sustainable development.

The economic impact of the pandemic is aggravating an already weak global environment. Even prior to the outbreak of the pandemic, the world economy was fraught with significant uncertainties and challenges. Weak investment since the 2008 global financial crisis contributed to a protracted slowdown in productivity growth, particularly among developing countries. Globally, there has been a sharp rise in corporate and public debt burdens, which not only weighs on productive investment, but also increases financial stability risks. In addition, the increased frequency and intensity of climate-related shocks is affecting some of the world's most vulnerable economies, exacerbating inequality between countries. Within countries, the widening of socioeconomic inequalities is posing a serious threat to sustainable development.

In response to the pandemic, many developed economies not only introduced large-scale policy stimulus measures, but also expanded their macroeconomic policy toolkits. A reappraisal of fiscal policies included strong countercyclical responses focused on both social protection and boosting long-term public investment. On the monetary policy front, several major central banks – mostly in developed, but also in some developing countries -- have further experimented with new policy tools, including embarking on asset purchases that account for climate risks. However, many developing countries have been constrained in their ability to use macroeconomic policies to achieve sustainable development objectives.

On the monetary front, developing country policymakers are confronted with interconnected challenges: low growth, rising inflationary pressures (in part owing to rising food prices) and potential spillover effects of policy changes in major developed economies. As the US Fed is preparing to taper its asset purchases, a tightening of global financial conditions poses a significant risk for developing countries, especially those with high levels of debt and large external financing needs. In many cases, tightening of domestic monetary policies could undermine a still fragile recovery.

Against this backdrop, there are growing discussions over how macroeconomic policies in developing countries can play a more effective role in promoting a more resilient, inclusive, and sustainable recovery, including through the integration of sustainable development considerations into fiscal, monetary, and financial policy frameworks. Consideration should also be given to the international frameworks needed to support sustainable-development-aligned national macroeconomic policies. Of particular interest are

potential international policy and/or institutions innovations that can provide more space for developing countries to invest in pandemic response and achieving the SDGs, including climate action.

The thematic chapter of the *2022 Financing for Sustainable Development Report (FSDR)* will focus on options for fiscally constrained developing countries, many of which have high debt burdens, to continue to fight the pandemic and invest in sustainable development. The chapter will be tightly integrated with the FSDR chapters on debt sustainability and systemic issues, which cover the provision of adequate liquidity, monetary policy developments, and financial policies. Throughout the chapter, there will be a strong emphasis on the interlinkages between economic and social factors, as well as climate and other environmental factors. It will explore both national level options, and those that require international support or facilitation.

DRAFT