Editorial

More than a year into the COVID-19 pandemic the human and economic tolls have been extraordinary. The crisis saw economic life slow considerably, with sharp contractions in GDP across nations. Considerable countercyclical monetary and fiscal policy responses have since helped many economies to rebound, and largely avoided compounding economic and financial crises onto a global health crisis. Such ambitious interventions were necessary, but did not come without a cost. The 2021 OECD Sovereign Borrowing Outlook explores the impact on sovereign borrowing needs and borrowing conditions.

The pandemic's impact on public finances has been much worse than the 2008-09 financial crisis. OECD governments borrowed USD 18 trillion from the markets in 2020, up 60% compared to the previous year. This is the highest single-year increase in recent history, and nearly double the rise recorded during the 2008 financial crisis. These governments are expected to borrow at slightly above these levels again in 2021.

Despite the large and unexpected expansion in the supply of government securities, the cost of borrowing remained low after the initial stages of the crisis, aided in large part by aggressive policy easing from central banks. Nearly 80% of fixed-rate government bonds were issued with less than 1% yield in 2020 in OECD countries, compared to 37% in 2019, and several government bonds fell deeper into negative territory. As a result of asset purchase programmes, central banks have become the single largest creditor in the majority of OECD countries, holding around 45% of the outstanding government bonds in Japan and Sweden and more than 20% in most EU countries and the United States.

Central bank interventions also helped alleviate funding conditions in emerging market (EM) economies, where the COVID-19 shock initially caused sharp capital flow fluctuations. EM sovereign debt issuance in the market reached USD 3.4 trillion in 2020, 35% higher than the historical average. Debt offerings from middle-income countries enjoyed strong demand, while low-income countries, many with pre-existing high debt levels and shallow local currency bond markets, decreased their already low level of market based funding. The international financial community's efforts, through various facilities including the Debt Service Suspension Initiative, have helped to ease liquidity constraints and prevent a potential debt crisis.

Beyond the immediate impact on funding needs, the legacy of the crisis will cast a long shadow on public finances. The upsurge in debt issuance by governments in the wake of the crisis has increased amount of debt to be repaid or refinanced in the future. Increased borrowing, combined with economic contraction, has pushed debt-to-GDP ratios to record highs in many countries. Central government marketable debt-to-GDP ratio for the OECD area is set to rise by 16 percentage points in 2020 and at least 4 percentage points in 2021.

Looking ahead, the shape of the recovery is uncertain and will likely be uneven, depending not only on the speed of vaccination, but also on the use of monetary and fiscal policy tools – and this uncertainty flows through to the outlook for sovereign borrowing. A number of risk factors could put pressure on sovereign funding conditions, including rising inflation expectations and divergent recoveries between advanced and emerging market economies, which could shift global financial risk appetite.

In this context, greater attention to sovereign refinancing risk is needed, and this Outlook offers guidance and policy recommendations to support the prudent management of public debt under such challenging conditions. Specific measures include the lengthening maturities and smoothing out of concentrations in debt service obligations to limit short-term refinancing risk and limit potential future issuance volatility. Countries that can access market funding would benefit from lengthening debt maturities and building-up contingency buffers through pre-financing programmes. Those with limited or no market access will continue to require official sector grants and loans to ease their financing constraints.

Improving public debt transparency will also be important, and to this end the OECD's newly launched Debt Transparency Initiative will collect, analyse, and report on the debt levels of low-income countries in alignment with the Institute of International Finance's Voluntary Principles on Debt Transparency. The project will shed new light on bilateral lending to low-income countries by providing stakeholders with more comprehensive and accurate public debt data, which will, in turn, help them accurately assess sovereign indebtedness.

Greg Medcraft
Director, OECD Directorate for Financial and Enterprise Affairs

From:
OECD Sovereign Borrowing Outlook 2021

Access the complete publication at:
https://doi.org/10.1787/48828791-en

Please cite this chapter as:

OECD (2021), “Editorial”, in *OECD Sovereign Borrowing Outlook 2021*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/001b7105-en

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at http://www.oecd.org/termsandconditions.

OECD