Editorial

The COVID-19 pandemic is the most serious global health crisis in living memory. The virus and the policies put in place to slow its spread have precipitated a dramatic decline in economic activity, and OECD economies are now facing the worst recession since the Great Depression.

OECD governments have taken wide-ranging fiscal measures, complemented by central bank responses, to mitigate the shock. The rapid expansion of healthcare capacity and large-scale assistance programmes to households and businesses have been necessary to stave off the worst effects of the pandemic on both lives and livelihoods, but these responses have impacted public finances. Fiscal balances in OECD countries are projected to deteriorate by around 8% of GDP in 2020-21 on average.

This has given rise to steep increases in borrowing needs, and this edition of the annual *OECD Sovereign Borrowing Outlook* offers the first comprehensive picture of the immediate impact of Covid-19 on public borrowing needs since the pandemic began. The gross borrowing needs of OECD governments for 2020 have increased an estimated 30% compared to pre-COVID estimates, and outstanding central government debt is expected to increase from USD 47.1 trillion in 2019 to around USD 52.7 trillion by the end of 2020, USD 3.5 trillion higher than the pre-COVID estimate.

The increase in indebtedness and borrowing needs are considerable in their scale, and certainly much larger than during the Global Financial Crisis (GFC). The fiscal balance deterioration as a percentage of GDP during the pandemic is two-and-half-times greater than that seen at the height of the GFC in 2008-09. Central government marketable debt-to-GDP ratio for the OECD area, broadly unchanged since 2014, will increase by 13.4 % in 2020, compared with an increase of 8.7% of GDP in 2009.

Amidst these fiscal developments, central bank policy has been critical in alleviating immediate concerns over debt sustainability. Highly accommodative monetary policy has served to reduce borrowing costs, and a vast majority of bonds issued across the OECD in the first five months of 2020 were sold with interest rates below 1%. Further quantitative easing, following over a decade of asset purchase programmes, has made central banks the dominant holders of domestic government bonds in several key jurisdictions, while monetary policy was instrumental in calming markets and restoring confidence during a period of turmoil in March.

At the same time many emerging markets still face a challenging financing environment, and the *Outlook* provides novel insights about the impact of the COVID-19 pandemic on debt issuance conditions for these markets. Many emerging markets have increased issuance in local currency in recent years, which has helped address foreign exchange risk. However the pandemic has weighed considerably on investor sentiment and risk appetite to date, which has already translated to a sharp reversal of capital flows. Low income and non-investment grade issuers have been particularly hard hit.

Though monetary policy conditions are generally supportive across the OECD, any increase in today’s financing needs implies higher debt repayments tomorrow. Given the surge in borrowings and resulting increase in debt redemptions, sovereign issuers must adapt borrowing operations to changing funding needs and investor demand, such as issuing new maturity lines or new types of securities, which can enable them to diversify funding resources.

At the time of publication a great deal of uncertainty remains about the course of the pandemic and its immediate and longer-term impacts. We do not know when the pandemic will end, or whether the worst of its social and economic costs are behind us. If conditions worsen governments may need to extend or create new assistance packages and may realise losses on state guarantees, which in turn will further deteriorate public finances. Sovereign issuance may increase even more from these already very high levels.

Sovereign debt offices have an important role to play in meeting the immediate financing needs of governments, in supporting well-functioning markets and in formulating long-term borrowing strategies during this crisis and beyond. This *Outlook* provides the data needed to monitor market developments and emerging risks, and provides an overview of practices and strategies across countries to best respond to recent developments and the times ahead.

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