Fiscal support to the recovery and long-term challenges

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Rebound or Recovery?

Real per capita GDP: 1980-2021, 194 countries

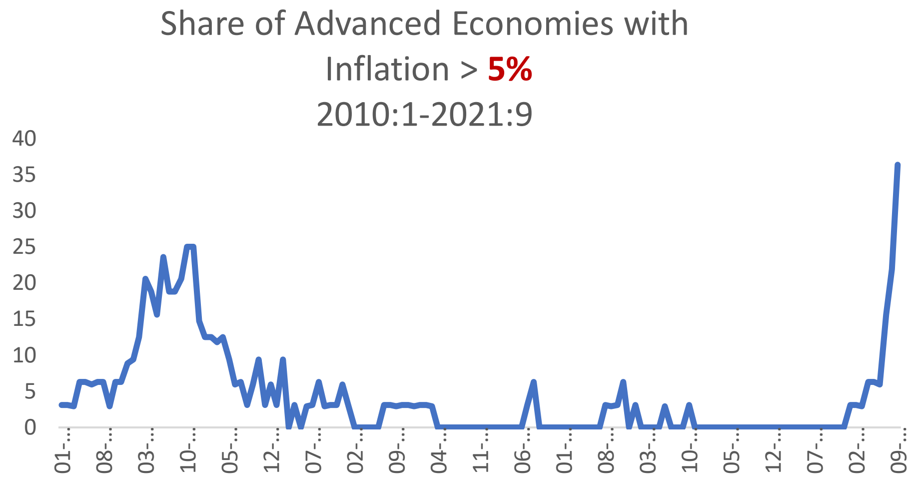
Rebound or recovery form COVID-19 shock?

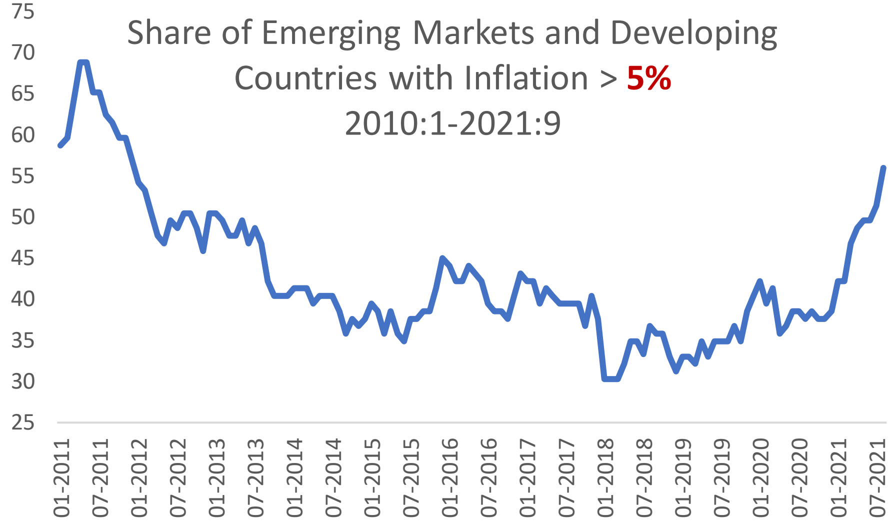
	Advanced		Middle-income		Low-income	
	Number	Share (%)	Number	Share (%)	Number	Share (%)
2021>2019	15	40.5	36	27.5	6	23.1
2021 <2019	22	59.5	95	72.5	20	76.9
Total	37	100.0	131	100.0	26	100.0

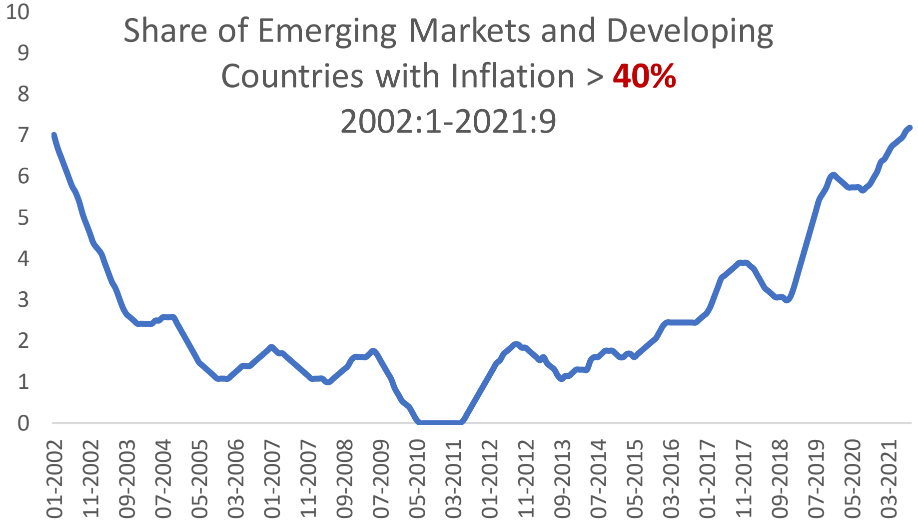
but for many countries the income slowdown preceeded COVID-19…

	Advanced		Middle-income		Low-income	
	Number	Share (%)	Number	Share (%)	Number	Share (%)
2021=peak	13	35.1	27	20.6	3	11.5
2021 <peak	24	64.9	104	79.4	23	88.5
Total	37	100.0	131	100.0	26	100.0

Global Inflation: A complex landscape
Temporary????





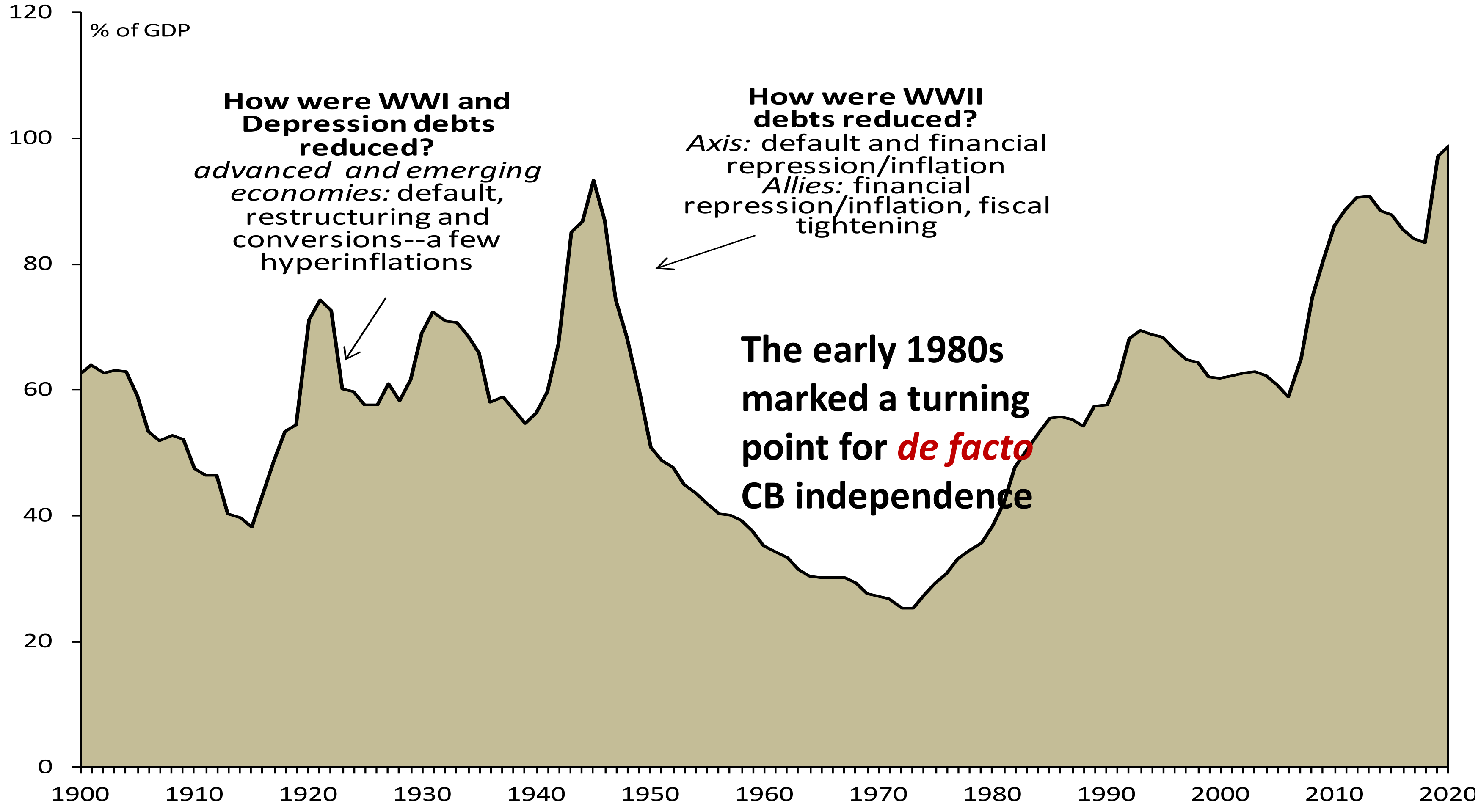


Sources: International Monetary Fund and Trading Economics

Rising debt levels:

Public debt as a % of GDP: Advanced Economies, 1900-2021

Surges in government debt have often set the stage for financial repression (FR)

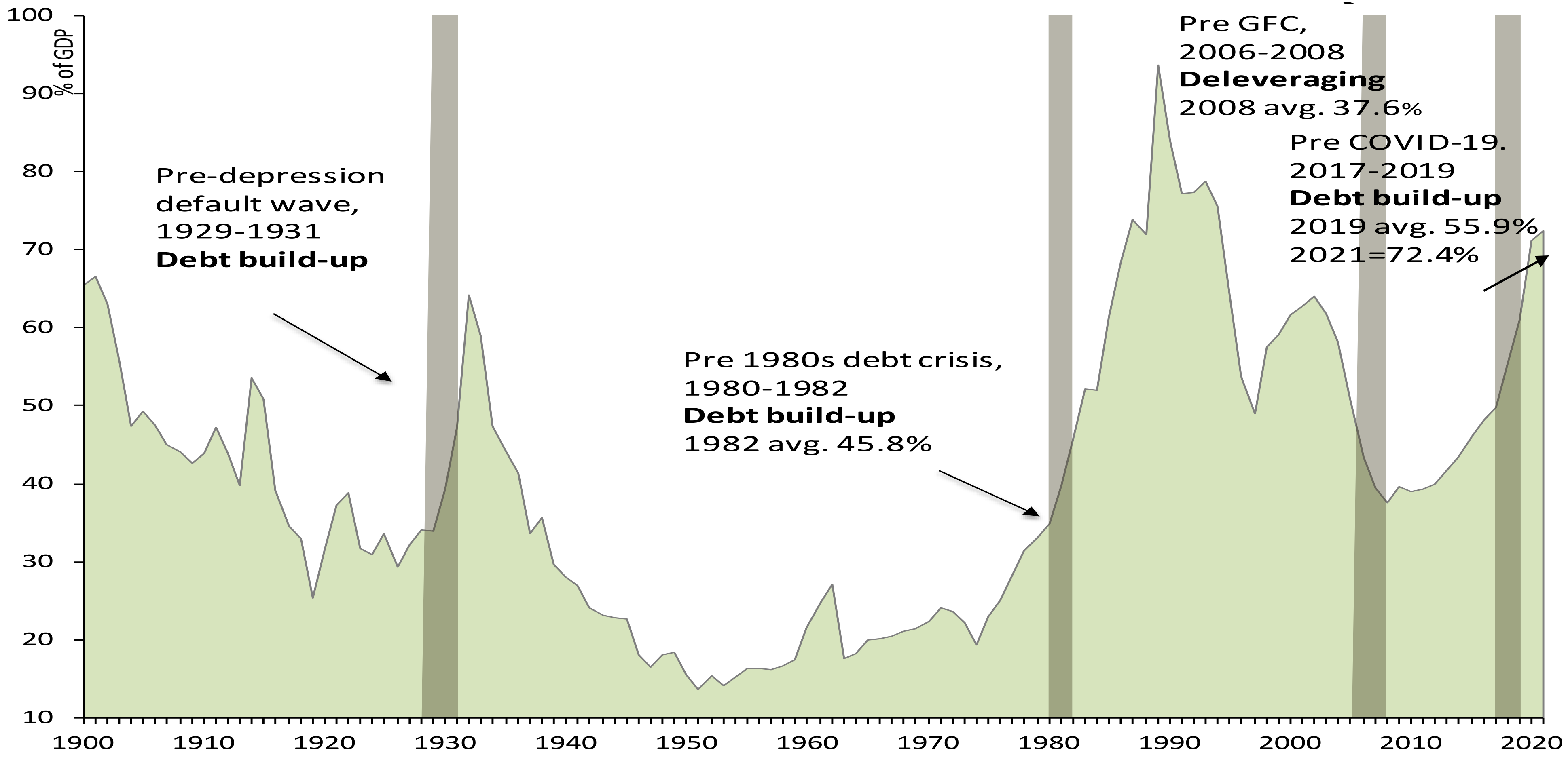


Sources: IMF, World Economic Outlook and Reinhart and Rogoff (2009, 2011) and sources cited therein.

Rising debt levels:

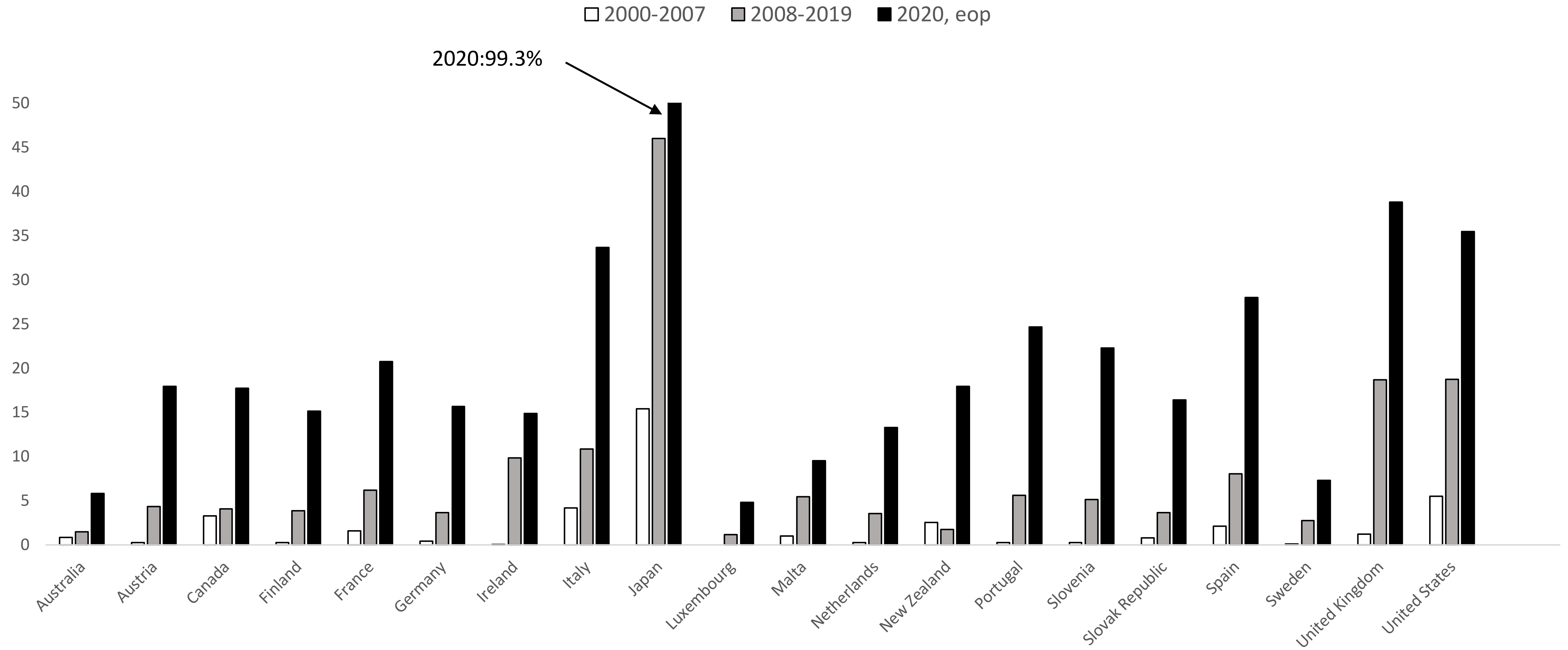
While EMDE debt levels are well below AEs, many of these countries are *Debt Intolerant* and have encountered debt crises at lower levels than those in prevailing in 2021.

Unweighted average, 46 EMDEs 1900-2021



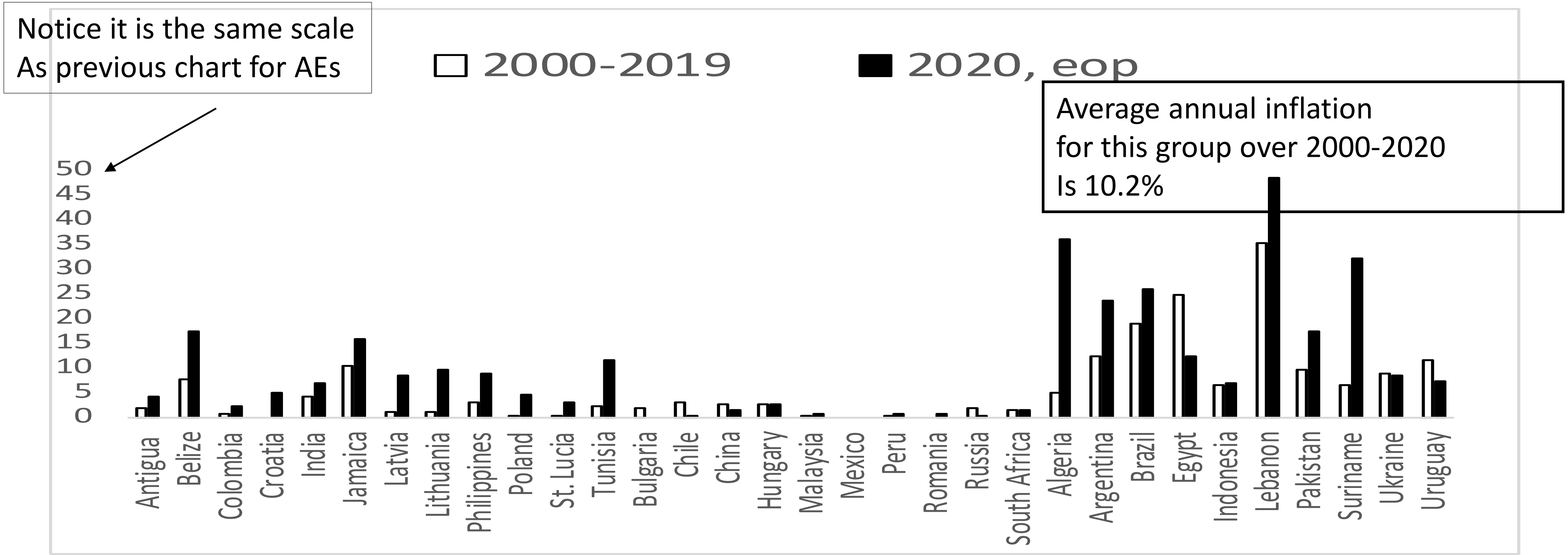
Sources: IMF, World Economic Outlook and Reinhart and Rogoff (2009, 2011) and sources cited therein

Monetization and the two-step ratchet effect: the expanding role of central bank balance sheets (% of GDP) in Advanced economies (AEs), 2000-2020



Sources: Arslanalp and Tsuda (2014a), Board of Governors of the Federal Reserve, and authors' calculations.

The list of EMDEs Central Bank balance sheets (% of GDP) with a small footprint is longer.



Sources: Arslanalp and Tsuda (2014b) and authors' calculations.

Financial repression noveau (FRN), monetization, and central banks in AEs: What is the exit strategy?

Does FR erode CB independence? Not necessarily ***de jure*** but very possibly **de facto**.

If a protracted period of low (negative) interest rates encourages risk taking and leverage (public and private), do financial stability/balance sheet concerns tilt policy (monetary and fiscal) toward continued accommodation?

If a protracted period of low (negative) interest rates fuels asset price bubbles, do "market crash" fears tilt policy toward continued accommodation?

At high levels of government debt, are CBs under greater political pressure to maintain an accommodative stance (as was the case during the aftermath of WWII)?

If there are concerns about potential sovereign insolvencies (an issue for the ECB) do such concerns tilt the bias of toward accommodation?

If large neighbors engage in FRN, is fear of floating or fear of appreciation (a la Calvo-Reinhart) bias toward policy accommodation?

Does not some combination of the above introduce (re-enforce) an **asymmetry** between easing and tightening?

It is easier to ratchet-up financial repression (or its *noveau* incarnation) than it is to exit from it. It took some years of sustained high inflation last time.

What risks does this pose for emerging markets and developing countries?