

FOREWORD

One year into the COVID-19 pandemic, lives lost are approaching three million people and the number of new daily cases is still elevated, at about half million. Lockdowns, losses of employment and income, setbacks in the education of children, disruptions to routine health services, reversals in the downward trends of poverty, and food deprivation are among the consequences. The pandemic has had a disproportionate effect on poor people, youth, women, minorities, and workers without a college degree or in low-paying jobs.

The response of fiscal policy has been unprecedented in speed and size. In the COVID-19 emergency, governments used the budget promptly and decisively. In the last twelve months, countries have announced \$16 trillion in fiscal actions. Fiscal actions have enabled health systems and have provided emergency lifelines to households and firms. By doing so, fiscal policy has also mitigated the contraction in economic activity. Indeed, economic growth surprised, on the upside as 2020 unfolded, and growth forecasts for 2021 have been revised up as well. Gradually, economies and societies have improved their ability to cope with the pandemic.

In the *Fiscal Monitor*, our analysis can be organized around the theme of *A Fair Shot*. It reminds us immediately of the amazing success in the development of vaccines. Only 11 months passed from the release of the genomic sequence of the virus, by Chinese scientists, the design of the mRNA vaccines by scientists in the US and Germany, and testing and manufacture of vaccines, culminating with the first shot in the arm of a 91-year-old British woman. At the time of writing, more than half a billion people have already been vaccinated. The race to vaccination is pacing up, but progress is very uneven across countries and regions in the world. If progress in vaccination is accelerated to reach everyone, the health, economic, and social benefits would be enormous. Even a narrow focus on tax revenues identifies potential gains in excess of \$1 trillion for advanced

economies alone over the medium term. Global vaccination may well be the public project with the highest return ever identified.

At present, the evolution of COVID-19 and its fallout on economic and social developments remain highly uncertain. Policies must remain agile and respond flexibly as the situation may require. The balance between supporting people and firms, in the emergency, and facilitating a resilient, sustainable and inclusive growth through economic transformation should evolve and adapt to the evolution of COVID-19 and of its consequences.

COVID-19 is leaving behind complex legacies that will need to be tackled. First, the amount of fiscal support in 2020 was much larger than the historical norm for business cycle fluctuations. That was appropriate because COVID-19 is a health emergency. But these measures were expensive and contributed to reaching historically high debt levels. In a context of historically low interest rates, countries with stronger buffers, better access to finance, or both were able to deploy larger fiscal support. Going forward, rebuilding buffers and dealing with legacies is crucial for resilience in the event of further shocks. Medium-term frameworks and better targeting will be key for building fiscal space and better confronting trade-offs such as providing support now and providing insurance against future emergencies.

Second, countries are in different stages of COVID-19, economic and labor market conditions differ, structural characteristics—including institutions—are distinct. Hence, fiscal policy must be tailored to country-specific circumstances.

A Fair Shot is also the title of Chapter 2 of the *Fiscal Monitor*. I have argued above that giving everyone access to a COVID-19 vaccine shot may well be the best investment of all. But Chapter 2 argues further that it is crucial to give everyone a fair shot at life success. Preexisting inequalities have amplified the adverse impact of the pandemic. And, in turn, COVID-19 has aggravated inequalities. A vicious

cycle of inequality could morph into a social and political seismic crack. To reduce that risk, Chapter 2 calls for tackling inequalities in access to basic public services—health care, education, social safety—and for strengthening redistributive policies. That will, in many cases, require substantial increases in tax capacity and improvements in the efficiency of public

spending. Such strong demands on the public sector require good government. And the first requirement of good government is transparent and accountable commitment to a fair shot for all.

Vitor Gaspar
Director of the Fiscal Affairs Department