

How the G20 can make the global recovery from Covid-19 more inclusive

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Key messages

- The poorest countries are experiencing a double blow to their recovery from Covid-19. They have significantly lower resources for fiscal stimulus (2% of GDP) as well as low vaccination order coverage (27% of population). This is compared to G20 counterparts whose fiscal packages reach 17% of GDP and who have already secured orders for vaccines covering 58% of their population.
- The G20 can play a significant role in promoting a more globally inclusive recovery by facilitating greater global policy coordination on: access to vaccines, debt restructuring, allocation of resources for a liquidity and sustainability facility to support low income countries, and monetary policy accommodation.
- A transfer of resources would be efficient as the cost of finance is lower in the G20, while fiscal multipliers tend to be higher in countries which have lower capital stocks and higher share of credit constrained firms and/or households.

Introduction

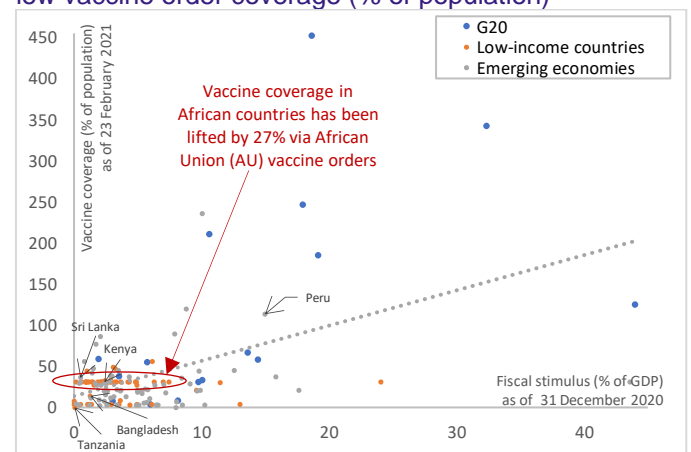
The emerging picture of recovery from Covid-19 is that of inequality – in countries like Canada, each person has been allocated almost 5 sets of Covid-19 vaccines and \$8,141 worth of government stimulus. In low-income countries (LICs) like Bangladesh, current vaccine orders only cover 14 in every 100 people, with announced fiscal stimulus equivalent to only \$26 per capita. The significantly higher level of public investment in sustainable green and digital sectors as part of Covid-19 recovery plans in advanced economies compared to LICs will further exacerbate divergent growth patterns.

This note discusses (1) the context of the poorest countries in terms of fiscal resources and access to vaccines; (2) the options for implementing fiscal measures that have higher multiplier effects in LIC contexts; and (3) the greater role for the G20 to promote a recovery that is inclusive of LICs.

1. Poorest countries face a double blow to their recovery from the pandemic with limited resources for fiscal stimulus and low access to vaccines. By the end of December 2020, G20 countries mobilised fiscal stimulus equivalent to 17.3% of GDP¹. Recent vaccine orders indicate that the G20 can cover 58% of its population. Meanwhile, LICs can only afford fiscal rescue packages worth 1.9% of GDP¹. To date, LICs have secured orders for 27% of their population, and even this would not have been possible without the help of international and regional organisations. Out of 57 LICs, 53 countries rely heavily on either (or both) Covax and African Union for vaccine orders. Southern countries which are part of the [ODI-IDRC](#) project show varying levels of vaccine coverage, ranging from 14% in Bangladesh, 31% in Kenya, 26% in Sri Lanka to 113% in Peru. [Tanzania opted out](#) of access internationally-developed vaccines.

In sub-Saharan Africa (SSA), where many LICs are located, announced fiscal rescue packages have merely increased from an estimated 1.7% of GDP in August 2020² to 2% in December 2020¹. The small size of fiscal packages have been limited by [structural vulnerabilities](#). This includes: a sharp fall in commodity prices during the first half of 2020 and a continued slack in tourism activities which have cut major traditional sources of government revenues, debt vulnerabilities ([38 out of 70 LICs](#) are at 'high risk' or already in debt distress) with increasing debt service relative to tax revenues (e.g. [exceeding 20%](#) in Kenya, Myanmar, Zambia), and finally, a limited access to international capital markets to mobilise government funding.

Figure 1. LICs have a low fiscal stimulus (% of GDP) and low vaccine order coverage (% of population)



Notes/sources: Country grouping by IMF classification. Computations are based on data of confirmed Covid-19 vaccine orders from [Duke Global Health Innovation Speedometer](#) database accessed on 23 February 2021; [Covax interim distribution list](#) as of 3 February 2021; and fiscal stimulus data as of 31 December 2020 from [IMF Fiscal Monitor January 2021 update](#); and population data from [World Development Indicators](#). Vaccine orders by AU are assumed to be distributed to AU members, weighted by population. Vaccine coverage are computed as total vaccine doses divided by two (e.g. two doses to complete vaccination), then divided by country population as of 2019.

¹ Authors' computations based on data from IMF Fiscal Monitor January 2021 update.

² [Raga and Housseini \(2020\)](#).

2. Fiscal multipliers are higher when targeted at credit constrained actors in countries with low capital stocks, and when supported by accommodative monetary policy. A fiscal stimulus tends to have [larger multiplier effects in times of recession](#), which makes government spending more relevant in the current global economic recession. In addition, multipliers tend to increase in size if temporarily supported by [monetary policy accommodation](#) (e.g. lower policy rates). Lessons from past empirical studies show which specific country contexts tend to increase (+) or decrease (-) multiplier effects (Table 1). For instance, the size of fiscal multipliers tends to decrease in countries with more open trade, flexible exchange rates, higher public debt, and low level of institutional efficiency and financial market development.

Table 1. Determinants of size of fiscal multiplier

| Determinants of multiplier size | Impact on size fiscal multiplier (short-run) |
|---------------------------------------------------------|-----------------------------------------------------------------------|
| Trade openness | (-) |
| Exchange rate flexibility | (-) |
| High public debt | (-) |
| Recession, financial crisis | (+) |
| Business cycle | (+) downturn > (+) normal > (+) upturn |
| Institutional quality | (+) |
| Initial level of capital stock | (-) |
| Level of credit-constrained households, informal sector | (+) |
| Monetary policy accommodation (MPA) | (+) no MPA < (+) 1-year MPA < (+) 2 years MPA |
| Economic development (by income level) | (+) in higher income > (+ or 0 or -) in LICs |
| Coverage of fiscal instruments | (+) targeted > (+) broad-based |
| Type of fiscal instruments (LICs) | (+) public consumption > (+) public investment (reversed in long-run) |

Notes/sources: Fiscal multiplier typically refers to the ratio of change in \$GDP to a change in \$Fiscal spending. Table 1 is based on cross-country studies in Asea, 2016; Auerbach and Gorodnichenko, 2013; Baum et al., 2012; Brinca et al., 2014; Coenen et al., 2010; Corsetti et al., 2012; Ilzetski et al., 2013; Karras, 2011; and Koh, 2017 cited in the literature review of fiscal multipliers in Raga, 2021(forthcoming).

Owing to public investment inefficiencies, fiscal multipliers are often lower in LICs. However, cross-country studies focused on LICs find that fiscal interventions are more effective when funding is sourced [externally](#) (e.g. aid, especially when both [absorbed and spent](#)), targeted (e.g. to the most credit constrained households and firms), and [allocated](#) to public investments.

Moreover, in the [medium to long-term](#) (i.e. after 10 years), public investment tends to have higher multiplier effects for LICs since they tend to stimulate private sector investments including in [communications](#) and [manufacturing](#) firms with higher productivity. [Estimates](#) covering LICs suggest that public investment in water, sanitation and electricity has higher multiplier effects in terms of employment, compared with that in roads, schools and hospitals. Multiplier estimates from green stimulus are limited to the context of European Union countries following the 2008 global financial crisis, where [green stimulus resulted in a multiplier of 0.6 to 1.1](#).

3. There is a need for greater global policy coordination on access to vaccines in LICs, debt restructuring and monetary policy to promote a more equitable recovery from the pandemic. [There is further room for the international community to increase the scope of assistance](#). It makes sense for the G20 to support LICs by combining low financing costs in G20 with high impact potential in LICs. To help the poorest countries concentrate their limited resources to address the impact of the pandemic, the [IMF](#) and the [World Bank](#) have made \$250 billion and \$160 billion, respectively, available for loans and/or grants to member countries. Meanwhile, the G20, through its Debt Service Suspension Initiative (DSSI), has temporarily suspended the debt service payments of [45 countries](#) until June 2021, extended from an initial grace period of December 2020. Despite availability of external grants and exceptional emergency concessional financing in many LICs, government revenues still fall short of what is needed to finance immediate health and social assistance needs in vulnerable sectors, and more so for government investments aimed at medium to long-term recovery³. Hence, there is a continuous call for the [IMF to issue new SDR allocations](#) and [reallocations](#), and [for private creditors to join the DSSI](#).

Delays in public services delivery due to limited fiscal space and lack of widespread vaccination are likely to have long-term implications for LIC economies, widening global inequalities. To address this, the G20 and international organisations should play a greater role by:

- Pushing for global debt restructuring, particularly by strongly encouraging the private sector to participate on equal terms as official creditors in the DSSI. Resources that can be saved from debt services can be spent on targeted government interventions (e.g. social protection) with an immediate impact on fiscal multipliers.
- Complementing LIC government efforts by financing [global social protection](#) and LICs' green sectors that are expected to generate employment, stimulate private investments, and increase resilience to future climate change shocks. Funds could be channelled through a [Liquidity and Sustainability Facility](#).
- With expedited vaccination roll-out and potentially faster-than-expected recovery in advanced economies, some major central banks might raise policy interest rates sooner than anticipated. Ideally, this should be clearly and gradually implemented since sharp hikes in global interest rates will have spill over effects to LICs (e.g. capital outflows, higher borrowing costs, depreciation).
- Replicating and enhancing the initiatives of UK, Canada, France, Norway and the EU in [committing vaccine surplus to LICs](#).

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³ See [IMF Fiscal Monitor January 2021 update](#) and [Raga and Housseini \(2020\)](#).