



G20 GLOBAL FINANCIAL STABILITY CONFERENCE

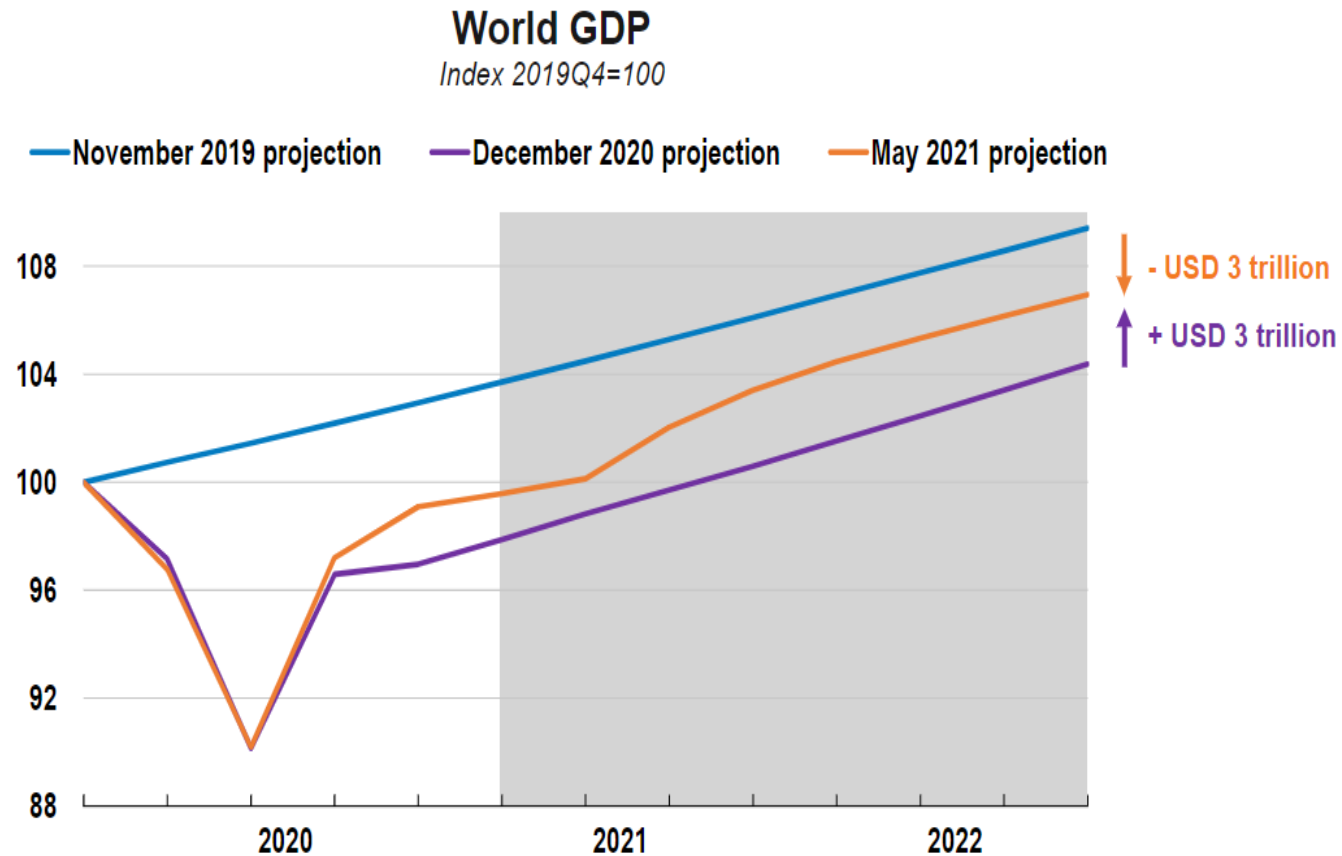
*The Implications of COVID-19 on the International Financial System
and Future Agendas*

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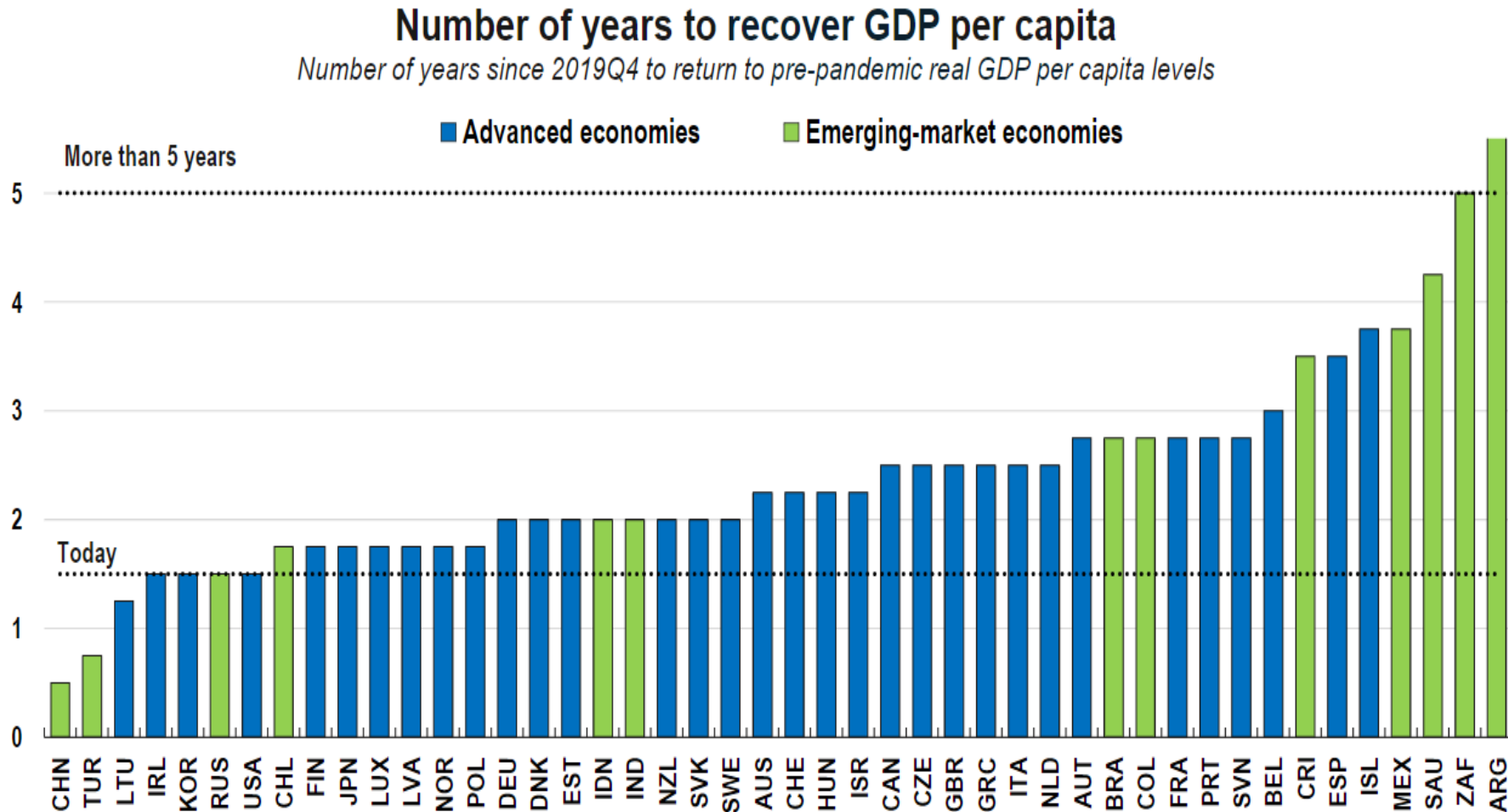


Global economic prospects are improving...





But uncertainty remains high for the recovery





Implications for of the crisis: Overview

I. Pre-COVID challenges that risk undermining a resilient recovery

II. Learning from the crisis: What worked?

III. Learning from the crisis: What can we do better?



I. Pre-COVID challenges

- We entered the COVID-19 crisis with structural weaknesses (i.e., slow productivity, persistent unemployment, inequality)
- Specific areas of concern for financial stability:
 1. Rising levels of sovereign debt;
 2. Record-high levels of corporate debt.

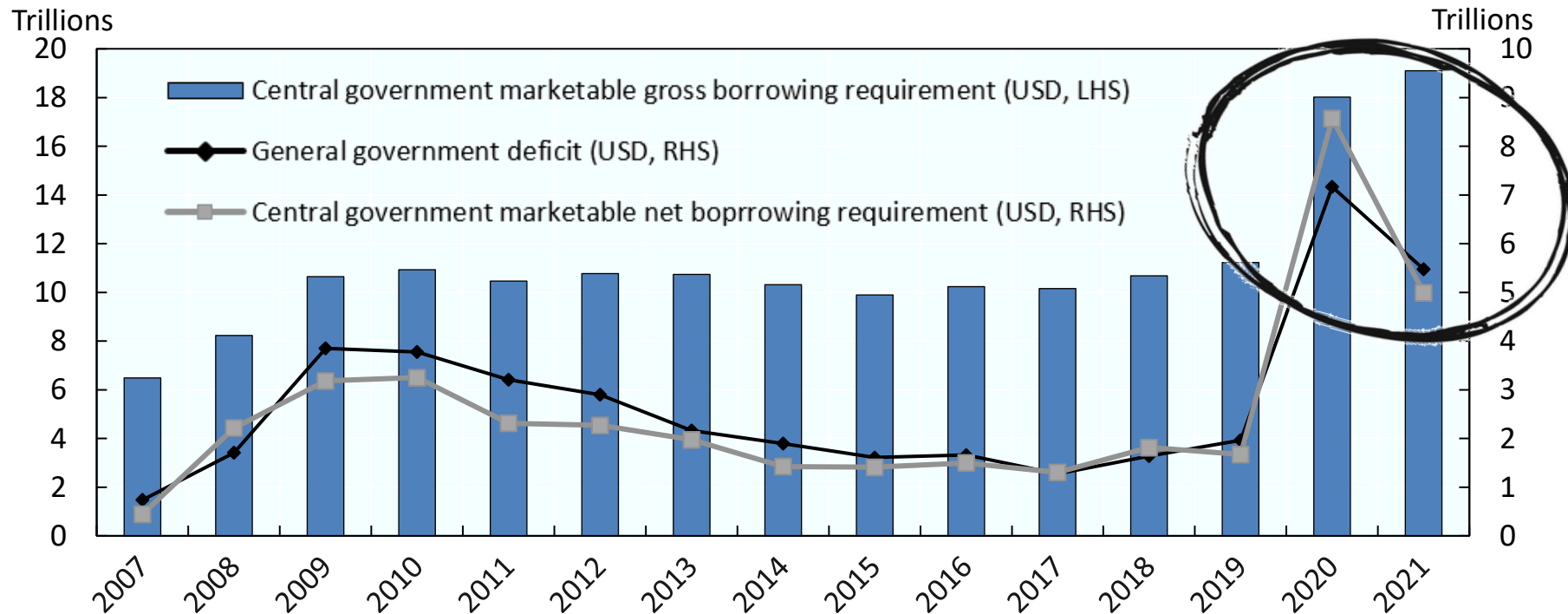


I. Pre-COVID challenges

1. Rising levels of sovereign debt

Sovereign borrowing by OECD governments hit a record high in 2020 by exceeding USD 18 trillion, up 60% compared to the previous year, and is projected to continue rising in 2021. As a result, government debt-to-GDP ratio for the OECD area hit a record in 2020.

Central government marketable borrowing and debt in OECD countries, 2007-2021



Source: OECD Sovereign Borrowing Outlook 2021

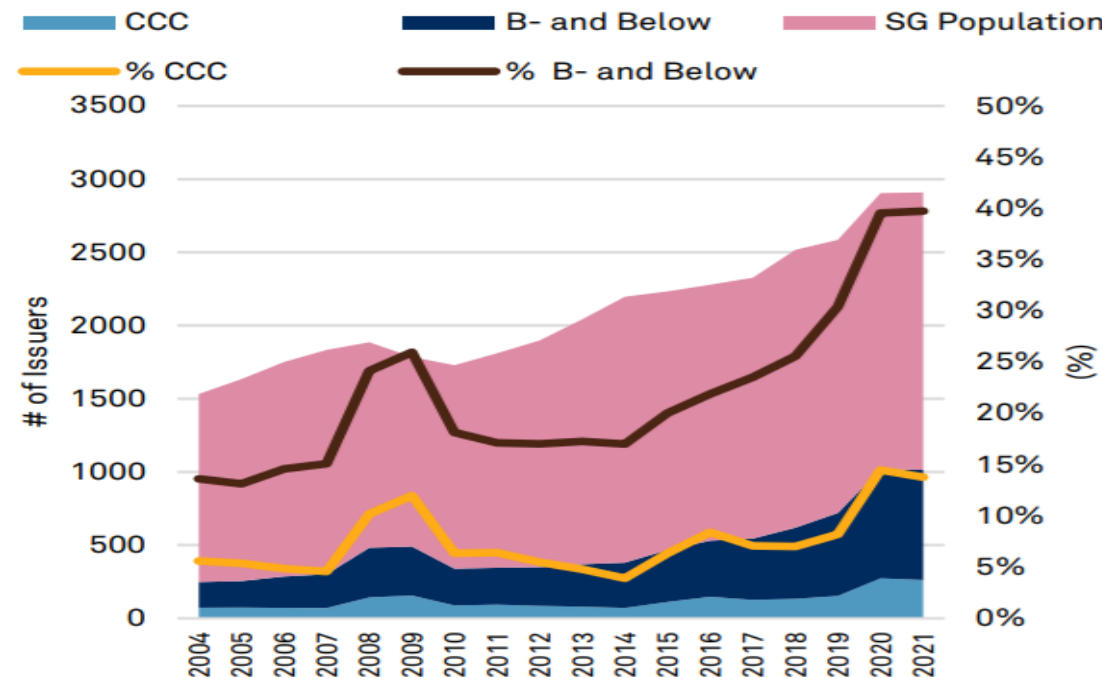


I. Pre-COVID challenges

2. Record-high levels of corporate debt

Leverage in the corporate sector is rising while debt sustainability of highly indebted firm is eroding. A slow recovery or an early withdrawal of government support could trigger additional debt delinquencies or defaults in the corporate sector.

Number of lower-rated credits stand at near an all-time high



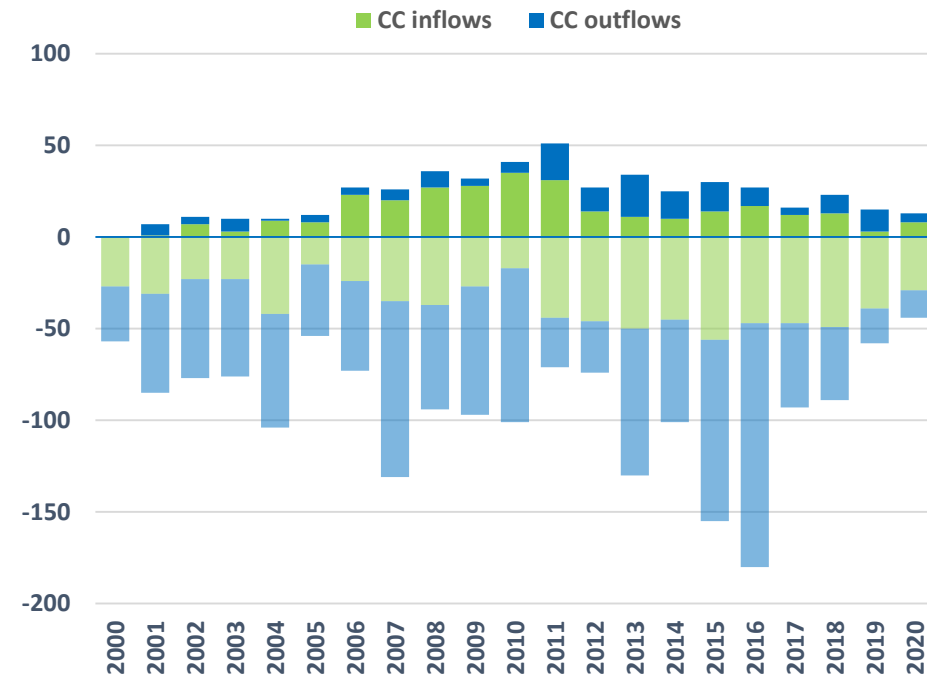
Note: US speculative grade population. Percentages shown in the right hand-scale. Source: S&P Global ratings.



II. Learning from the crisis: What worked?

- **Unprecedented monetary and fiscal stimulus**, which addressed stress in funding markets and provided support to the real economy.
- **A comprehensive approach that spanned beyond the existing crisis playbook**, including targeted support to business, households, and innovative uses of monetary policy.
- **The limited re-introduction of capital controls to stem investment outflows** (see figure).
- **A high level of global coordination and communication**, including at the G20.

Yearly adjustments of capital controls on inflows and outflows



Source: OECD Capital controls dataset (Lepers and Mehigan (2019)).
Note: Yearly count of tightening and easing adjustments of capital controls (CC) in a sample of 68 advanced and emerging economies. Negative values indicate removal or easing actions, positive values indicate introduction or tightening actions.



III. Learning from the crisis: What can we do better?

1. Reducing dangers to a post-COVID recovery

1. Governments need to ensure that greater use of equity injections is part of their crisis toolkit to support businesses.
2. Improvements to insolvency regimes are needed and should allow for more pre-insolvency flexibility.
3. Authorities need to reengage to consider how to comprehensively resolve the prospect of rising bank non-performing loans.



III. Learning from the crisis: What can we do better?

2. A greater focus on resilience and sustainability



1. Global, mandated, auditable ESG data reporting framework

Flexible and adaptable, but minimum set of data points to track and compare ESG performance, with a global data repository for ESG reporting.



2. Strengthen the regulatory environment

Guidance on data disclosure, appropriate labelling of ESG products defining long-term financial materiality to better capture slower moving environmental and social risks.



3. Incorporate ESG into government activities

For example as enterprise owners, customers and infrastructure investors.



4. Leverage existing policy instruments and standards

Existing policy standards and industry practices could already improve outcomes if fully implemented, and form a good basis for future metrics.



Thank you

OECD Directorate for Financial and Enterprise Affairs

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