Thank you, Francine, and thank you everyone for joining us today for the launch of this year’s World Development Report. It’s called Finance for an Equitable Recovery.

Let me begin by thanking Carmen Reinhardt and the WDR team for this timely report; and welcoming our special guests and friends Sri Mulyani, Agustín Carstens, and James Mwangi. I am very much looking forward to your discussion.

As we’re all too familiar, the COVID-19 pandemic and shutdowns have created the most significant economic crisis in almost a century. It is challenging the effectiveness of civil and institutional structures around the world and adding to fragility and violence. The result is a crisis for foreign policy and development, as well as economics.

In 2020, economic output contracted in 90 percent of countries and the global economy shrunk by 3 percent. Global poverty rates rose for the first time in more than 20 years. Inequality has worsened, both within and across countries. The poorest and most disadvantaged groups were hit hardest by the downturn and are being left behind in the recovery.

The recovery itself is uneven and faces many hurdles. Geopolitical tensions and fragility, new and existing diseases and pathogens, and COVID-19 variants are all major recovery risks. The World Bank Group works extensively on health systems around the developing world to bolster preparedness and provide a variety of surge financing tools.

Inflation will be hard to stop and hits the poor the hardest. The two primary tools being considered seem unlikely to be enough. Gradual interest rate hikes would still leave real interest rates low or negative. The second tool – tapering central bank asset purchases – still leaves huge distortions.

Under the current post-monetarist system, central banks have two other tools – financial regulatory policy, a topic of today’s discussion for developing countries – and the duration of central bank assets and government debt. The use of those two tools will be a key variable in reducing inflation.

The current global support for bond issuers continues to concentrate capital, wealth, and excess government spending in a very narrow segment of advanced economies. This comes at the expense of small businesses, slow growth in median income, and reversals in development. The misallocation leaves weakness in productive investments, job training, and the logistics needed for supply chains.

That’s not an argument for faster interest rate hikes, which themselves cause damage, especially on new businesses and developing countries. Rather, it’s an argument for governments and central banks to use their other tools at the same time.
Instead of central banks buying back and owning long duration debt, there needs to be more focus on lengthening the maturity and transparency of all levels of government debt and slowing the growth in national debt. There needs to be the same focus on debt transparency and sustainability in advanced economies that we are advocating for in poorer countries.

Similarly, it’s vital that financial regulatory policy in advanced economies recognizes the importance of working capital and trade finance – as we are doing in developing countries. Floating rate small business loans form the financial foundation of development yet will be severely disadvantaged if central banks simply rely on rate hikes to try to get ahead of inflation.

The new WDR focuses on developing countries and the interrelated economic risks and spillovers between the balance sheets of households, businesses, financial institutions, and governments; and on the central role that finance will play in supporting a recovery.

The report discusses a variety of financial fragilities and risks:

First, private debt is at a record high and credit conditions are tightening. A growing share of businesses are expecting to fall into arrears. A new wave of loan defaults would lead banks to tighten their lending standards. This is pro-cyclical, deepening the downturn. It worsens inequality, typically hitting low-income households and small businesses the hardest.

Second, sovereign debt has also spiked during the pandemic, reaching new highs for some governments as revenues plummeted and COVID-19-related expenditures soared. Surges in domestic government borrowing can crowd out lending to the private sector; misallocate capital as banks shift their lending to governments; and expose banks to concentrated sovereign risk.

As monetary policy tightens in the advanced economies, debt servicing and rollovers will become a greater burden. It’s critical that risks be uncovered and managed early. The alternative – protracted debt crises and restructurings – risks derailing growth and development for years.

To work toward more sustainable debt, a top priority is improved transparency of both public and private debt. This helps detect financial risk and enable the proactive management of debt.

On the private side, the number of non-performing loans held by banks and other financial institutions has remained below what was feared at the beginning of the crisis. This could be due to forbearance policies that governments adopted, which delayed debt repayments and relaxed accounting standards. As governments wind those measures down, we will start to see a more accurate picture of the state of balance sheets, which will help governments and others, such as the World Bank, to identify the most vulnerable groups and sectors, and plan accordingly.

To better understand sovereign debt risks, it’s critical that we have accurate information, especially regarding the contingent liabilities and hidden public debt that governments could eventually be responsible for – through state-owned companies or loss-making
concessions. We need urgent progress on debt transparency, particularly related to contract secrecy, collateralization, and escrow accounts.

From there, debtors and creditors need to think about proactive debt management through reprofiling and restructuring. There is no time to waste, given that international interest rates are still low and accessing global financial markets is still an option.

We need **effective restructuring tools both for government and private debt.** Currently, there are no predictable or orderly systems for sovereign debt restructuring, and the implementation of the G20 Common Framework is stalled.

For the medium and longer-term, continued access to finance will be critical to a robust recovery. Innovations in technology, including digital payments, will be central, especially for low-income households and medium and small enterprises.

Let me conclude by saying that I’m very pleased with the timely release of this report, and I commend it to you.

Now, we have an excellent panel here today to discuss these issues in more detail, so I will pass the floor to them to get started.