

Fiscal Policy in the COVID-19 Pandemic: Brown or green?

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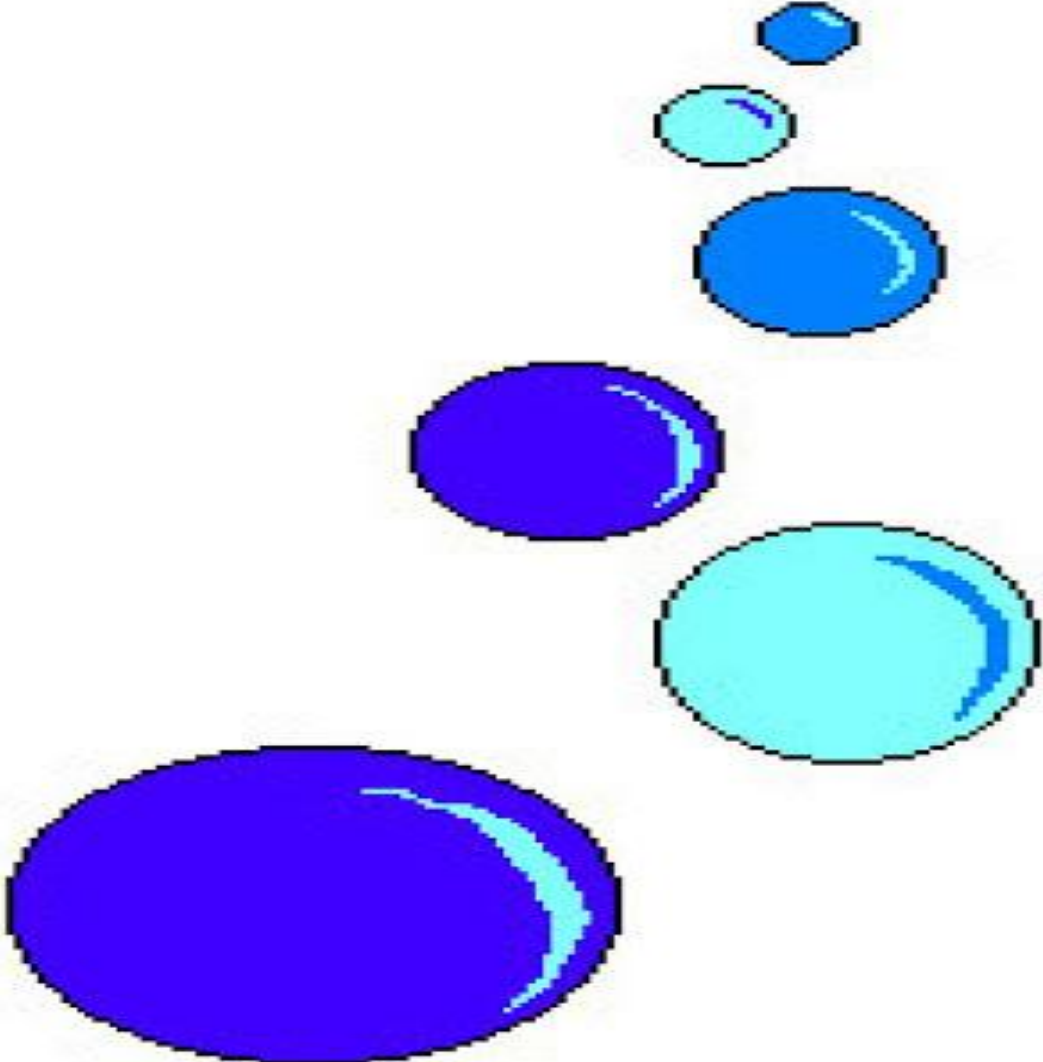
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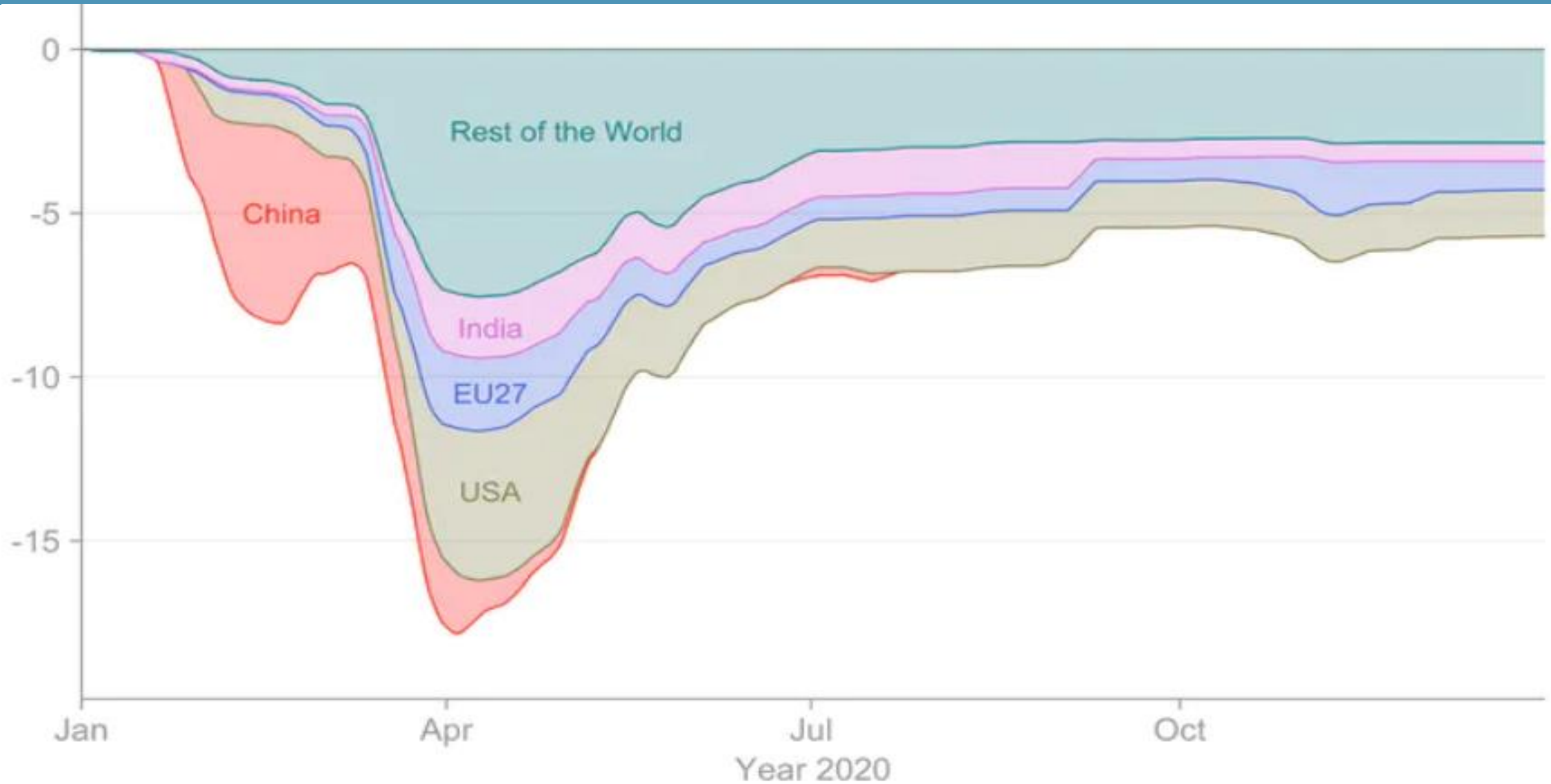
Outline

- **The impact of Covid-19 lockdown measures on carbon emissions**
 - Cleaner air, lower emissions
- **Are we building-back better?**
 - Evidence from tax and spending policies during the rescue phase
 - Evidence from stimulus packages: neutral, brown and green using data from the Oxford based Global recovery Observatory (GRO)
 - Insight from energy markets.
- **Are we moving towards a low-carbon transition?**

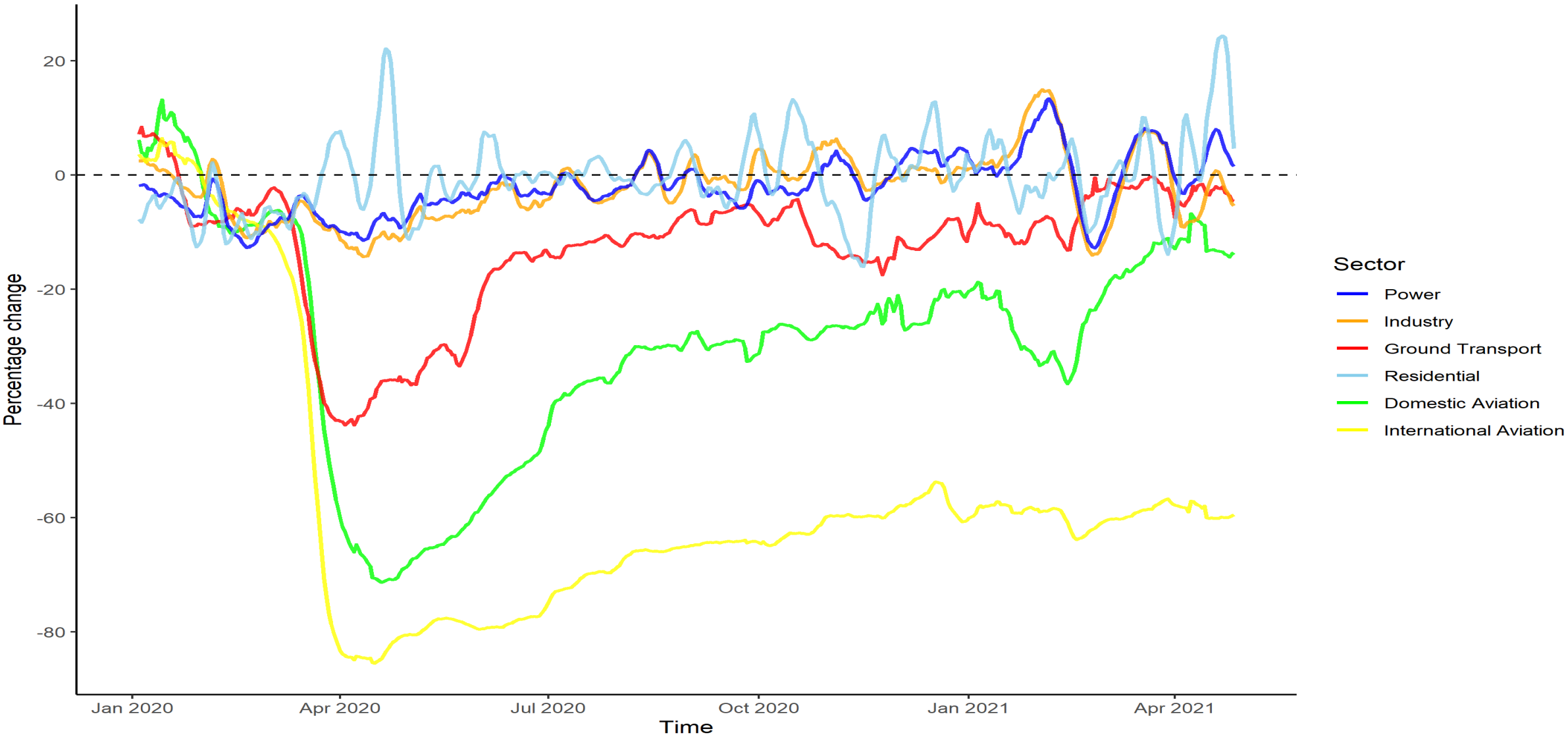
The impact of Covid-19 lockdown measures on carbon emissions



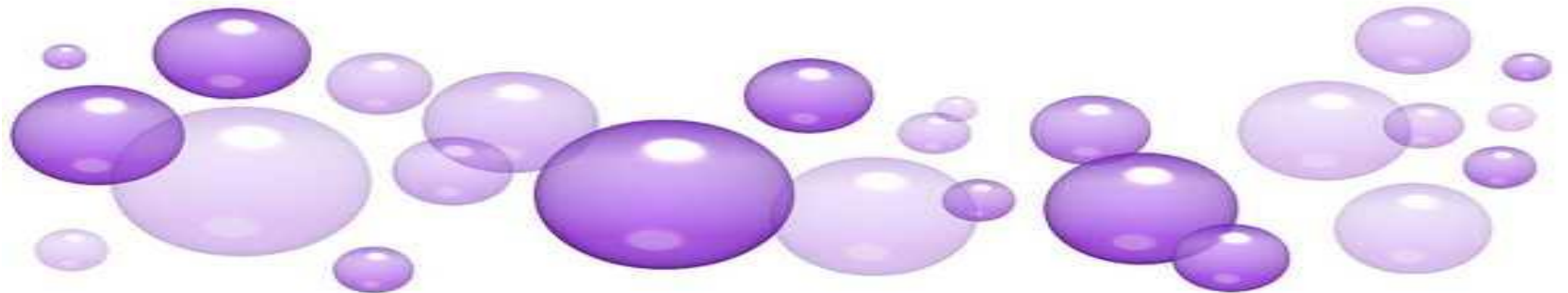
CO2 emissions dropped – temporarily



Global carbon emissions from the transport sectors collapsed



Are we building-back better?



Huge stimulus spending, mostly to rescue the economy

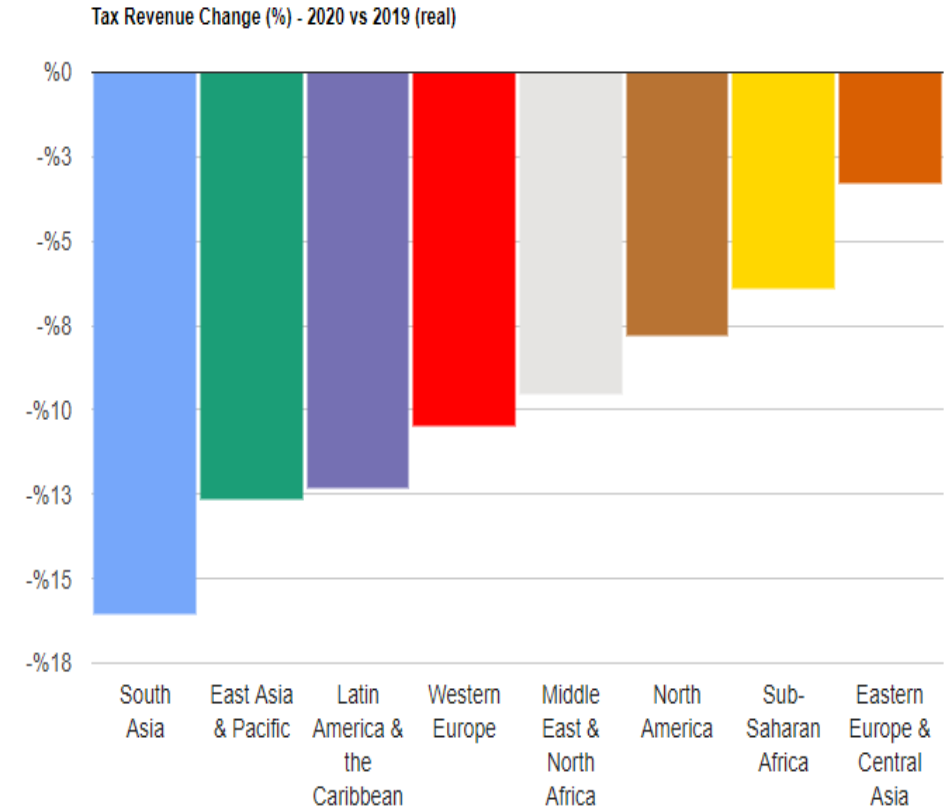
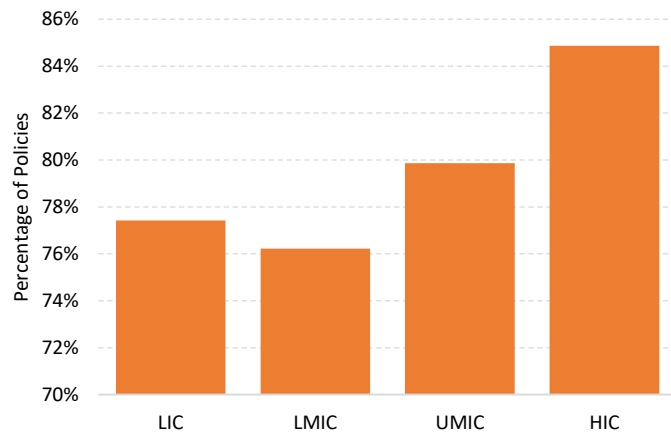


Tax revenues collapsed everywhere but advanced countries chose policies with recoverable costs

Covid has resulted in a sharp drop in tax revenue (relative to 2019), ranging from 3% for ECA to 16% for South Asia.

Advanced countries performed better in terms of choosing policies with recoverable costs.

Recoverability by Income Group



Advanced countries provided more liquidity and invested more than emerging markets and developing economies (EMDEs)

	Rescue Spending			Recovery Spending	
	Temporary Liquidity Measures (in %)	Temporary Life and Livelihood Measures (in %)	Temporary Tax and Payment Relief Measures (in %)	Investment Measures (in %)	Incentive Measures (in %)
Advanced	66.64	24.39	8.98	81.32	18.68
EMDEs	46.60	45.79	7.61	70.93	29.08

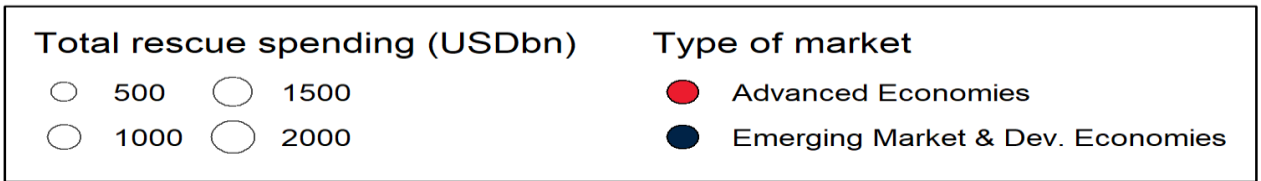
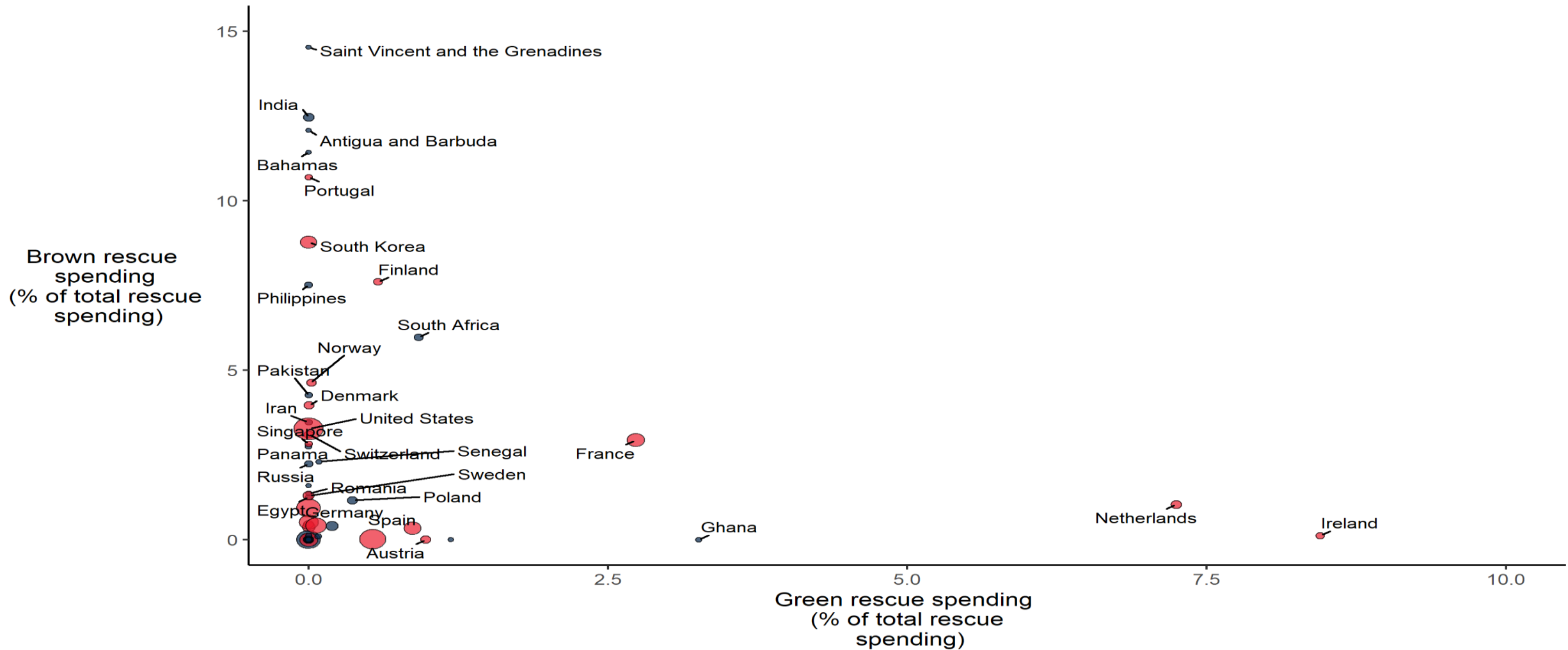
EMDES preferred policies with higher economic multipliers and speed of implementation

Share of total and recovery spending for advanced economies and EMDEs in terms of speed of implementation and long-run economic multiplier.

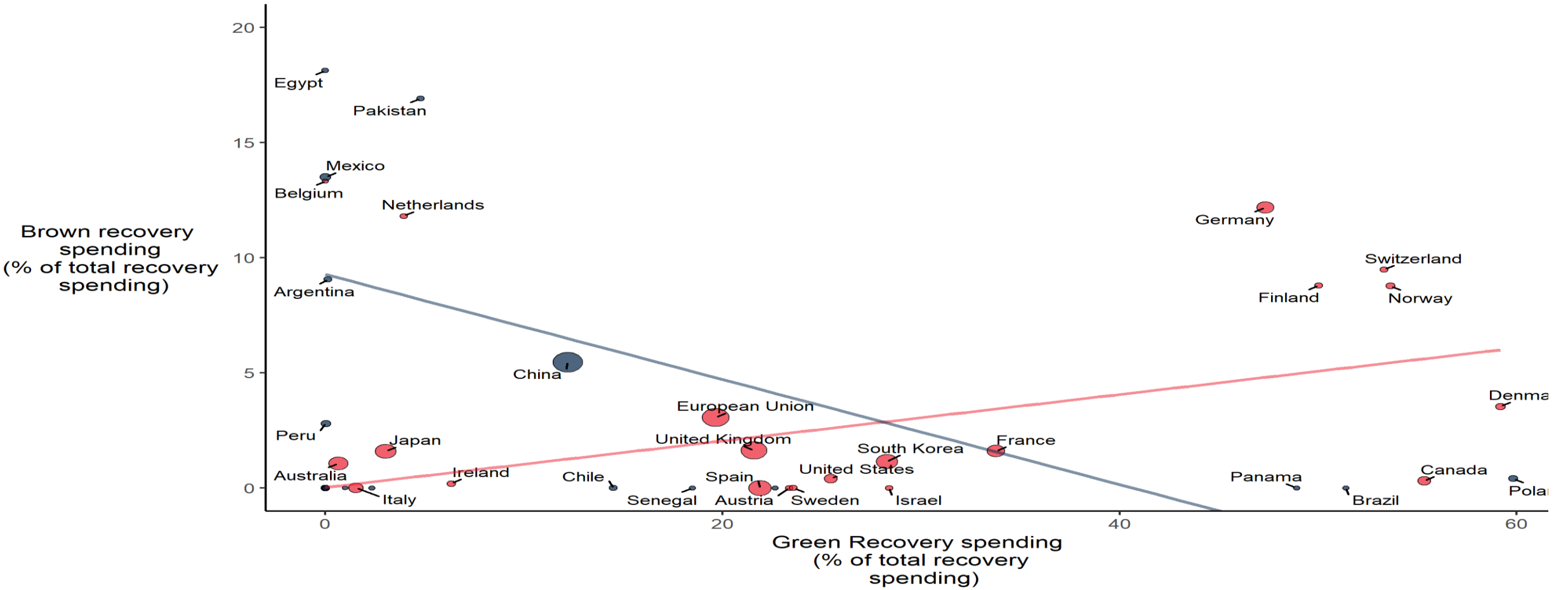
	Speed of Implementation			Long-run Economic Multiplier		
	-1	0	1	-1	0	1
	Total Spending					
Advanced	5.10 %	16.29 %	78.61 %	1.46 %	53.43 %	45.10 %
EMDEs	7.88 %	13.49 %	78.63 %	1.17 %	39.02 %	59.81 %
	Recovery Spending					
Advanced	37.47 %	50.72 %	11.81 %	0 % ²²	39.62 %	60.38 %
EMDEs	26.26 %	47.03 %	26.71 %	0 % ¹	38.43 %	61.57 %

Note: Classification follows Global Recovery Observatory Draft Methodology Document (2021), which is based on Hepburn et al. (2020). A higher score means that a policy is faster to implement or has a larger economic multiplier, respectively. Sample of 70 countries that have both positive rescue and recovery spending.

Rescue spending: more brown than green



Recovery spending: green and brown

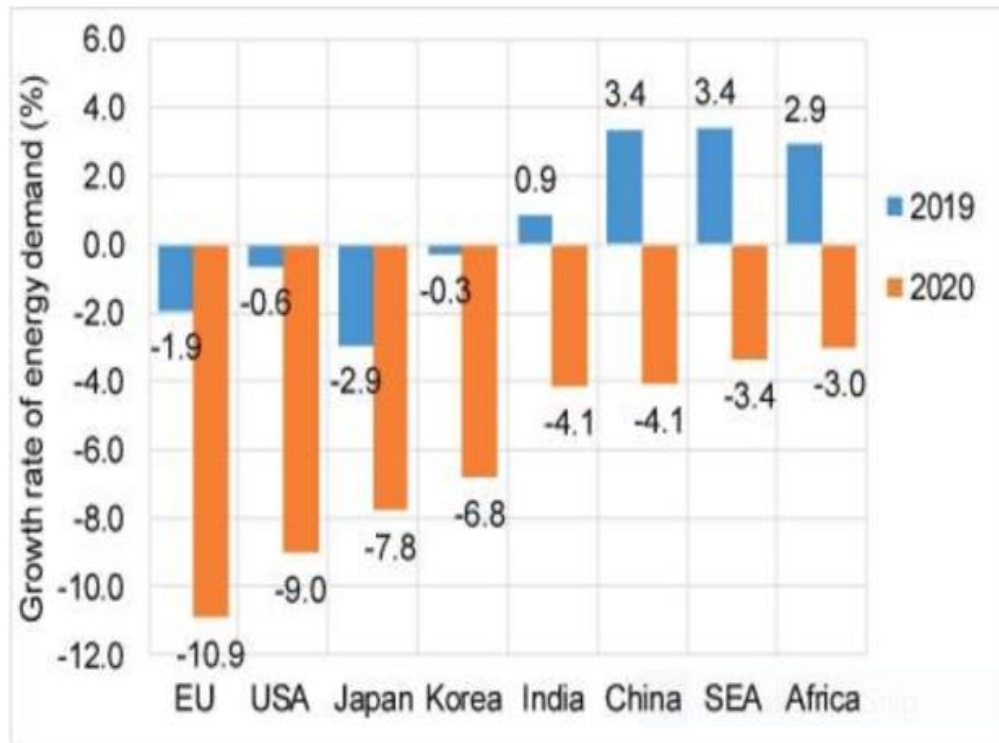


**Are we moving
towards
a low-carbon
transition?**

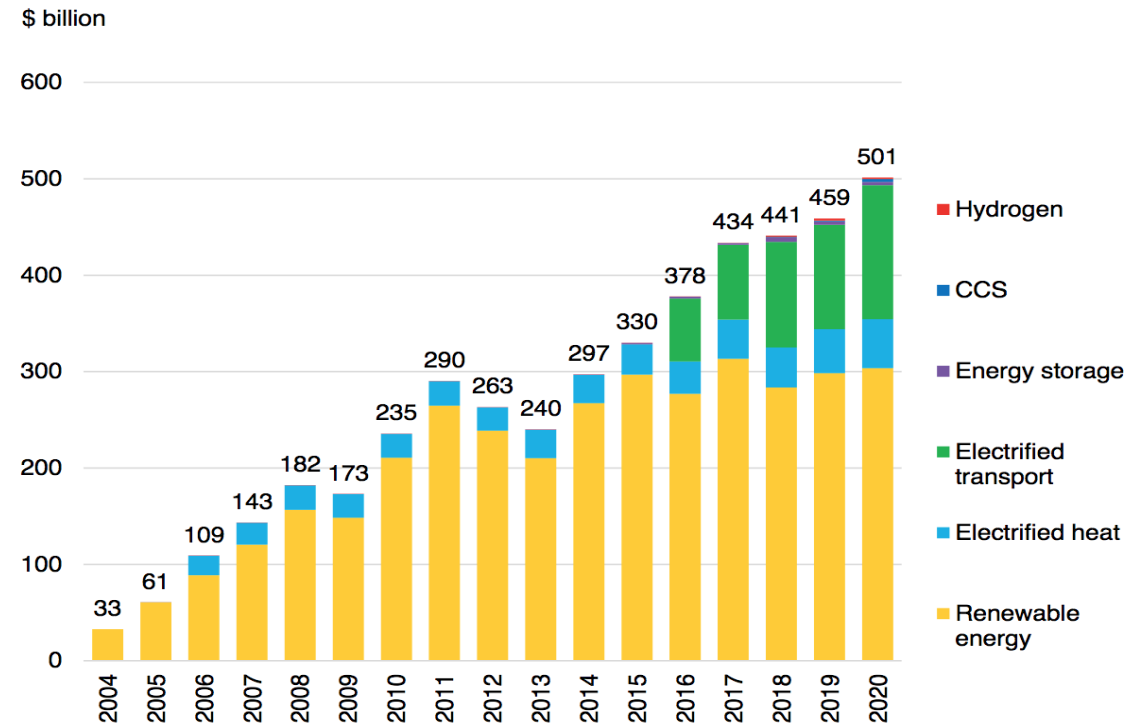


While energy demand fell, investment in clean energy continued to increase

Yearly energy demand growth rates, 2019 & 2020

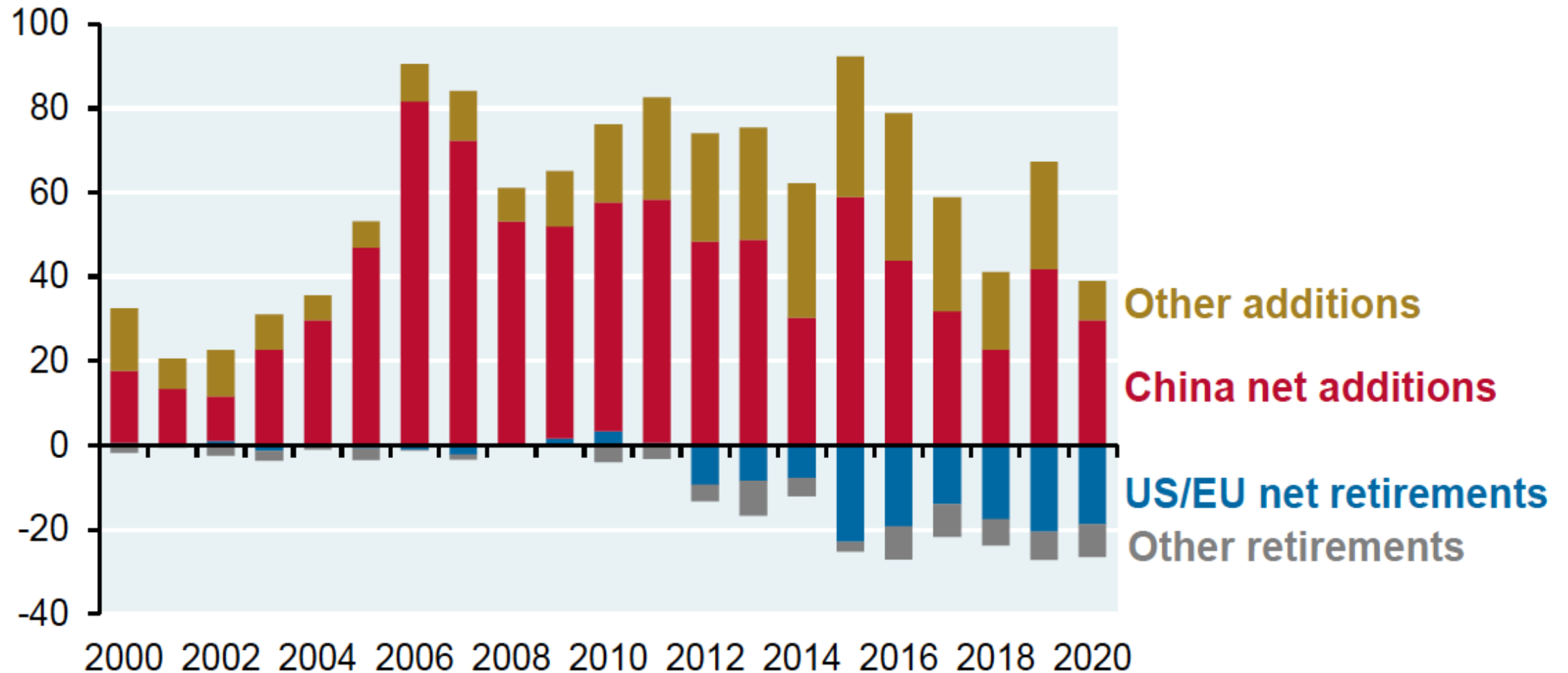


Global energy transition investment by sector



But retiring coal remains elusive

Coal capacity additions and retirements (gigawatts) in China and the rest of the world.



Covid-19: A missed opportunity for a green recovery?

- **While rescue-oriented fiscal policies have been negligible or ‘neutral’ with respect to climate and the low-carbon transition., the aggregate impact of recovery-oriented policies might have been negative.**
 - A missed opportunity or a lack of alternatives, given the path dependency of economic systems?
 - Can a crisis achieve anything more than incremental change?
- **The COVID-19 response has deepened existing energy trends**
 - Some countries – mostly in Europe – are accelerating the energy transition, but most have continued to invest in fossil fuel industries.
- **The crisis is likely to further entrench vested interests in major oil and gas producing countries**



Thank you!