

# CHART OF THE WEEK

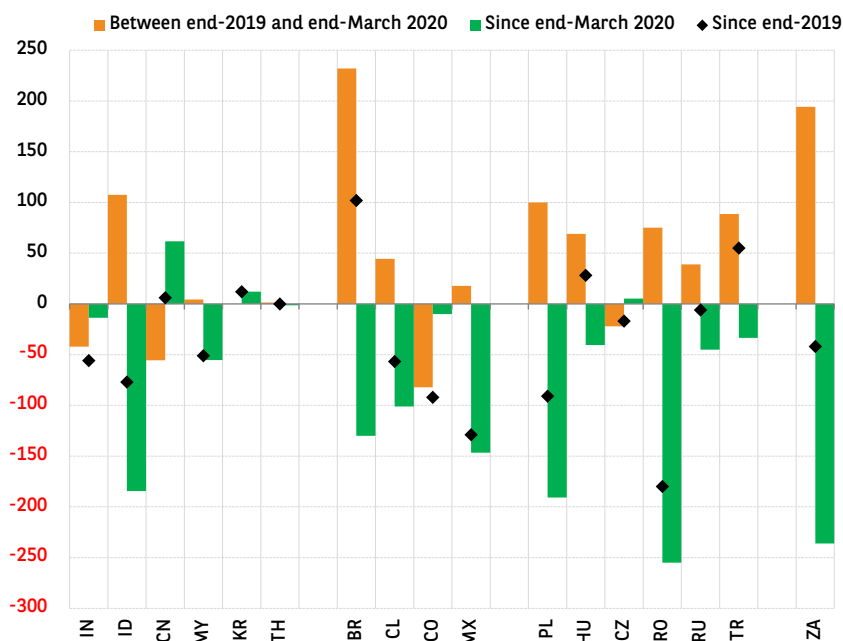


10 February 2021

## EMERGING COUNTRIES: THE COVID CRISIS HAS NOT RAISED DOMESTIC BORROWING COSTS FOR GOVERNMENTS

François Faure

Change in government domestic 10Y bond yield (basis points)



IN: India, ID: Indonesia, CN: China, MY: Malaysia, KR: South Korea, TH: Thailand, BR: Brazil, CL: Chile, CO: Colombia, MX: Mexico, PL: Poland, HU: Hungary, CZ: Czech Rep., RO: Romania, RU: Russia, TR: Turkey, ZA: South Africa

SOURCE: BLOOMBERG

Almost a year ago, the pandemic triggered a financial shock that shook the emerging countries. Since then, monetary and financing conditions have largely returned to normal. Portfolio investment even soared to record levels in the second half of 2020 in a context of a massive support from the Fed. Under this environment, for the majority of the major emerging countries, government borrowing costs in local currency are equal or lower than they were at year-end 2019. And yet swelling fiscal deficits have driven up public debt to unprecedented levels. The low cost of government borrowing can be attributed largely to the widespread easing of conventional monetary policy via policy rate cuts, and to the securities purchasing programmes adopted by many EM central banks. Yet low borrowing costs also reflect the need or obligation for banks and other domestic financial intermediaries to mobilise national savings to cover public financing needs. During this unprecedented crisis, governments have had to support their economies by using every lever possible (fiscal stimulus, state-backed loans). The rise in public debt cannot be blamed on poor fiscal management. It is normal and highly welcome that borrowing costs in the emerging countries are not higher than pre-crisis levels.

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