Statement by the Secretary-General of UNCTAD to the G-24 Finance Ministers and Central Bank Governors' Meeting October 2022

At the Spring Meetings, UNCTAD warned about the risks posed by a "perfect storm" of compounding crises battering developing countries. The stark economic, social and political consequences of an uneven Covid-19 pandemic recovery, the worsening climate crisis, and the ongoing conflict in Ukraine have continued, indeed intensified, over the last months. In contrast, a concerted multilateral response to these compounding challenges is yet to take a definite shape. Failure to act has left the most vulnerable countries and people to respond by themselves to a growing number of threats.

Thanks to the efforts of the United Nations Global Crisis Response Group (GCRG) we can evaluate these threats in real time. The information being gathered is alarming. UNDP estimates that an additional 71 million people could have already been pushed into poverty. Despite the positive impact on international food prices of the UN Black Sea Grain Initiative, almost 350 million people are acutely food insecure (up from 135 million before the pandemic) according to the World Food Programme. Extreme climate events in recent months disrupted the lives of hundreds of millions of people. This includes those affected by heat waves and droughts in China and India, catastrophic floods in Pakistan and South Africa and an above-normal Atlantic hurricane season in the Caribbean. For the first time in history, the UNDP Human Development Index has declined for two consecutive years. Failure to mobilize the resources we have with the tools we already possess may well cause a further decline of this index in 2022.

This is an unprecedented developmental crisis. The reason why is not a mystery. The capacity of developing countries to respond to the myriad of daunting challenges they face is constrained by an increasingly unstable and unequal world. Unless we put in place ambitious multilateral solutions, developing countries will continue to fall behind in an increasingly hostile world.

Our Trade and Development Report (TDR) 2022 has warned that policy decisions in advanced economies are increasing the vulnerabilities of developing countries. In effect, they are pushing the world towards global recession. Our projections points to a global growth of 2.5 per cent in 2022 that will slow farther to 2.2 per cent in 2023 – both figures are smaller than average annual growth rate of the three last decades. This will leave real GDP still below the pre-pandemic trend by the end of next year. Average growth rate in developing countries will drop below 3 per cent (1.7 per cent in 2022 and

1.0 in 2023) as it did in the lost decade of the 1980s. By comparison, average annual growth in developing countries was almost 6 per cent in the 1990s and in the 2000s. And all the risks are on the downside.

G24 countries are in the eye of this perfect storm:

- Faced with policy rate increases in advanced economies, central banks in G24 countries implemented a total of 55 hikes in the first seven months of 2022. This represents the largest episode of synchronized monetary policy tightening in G24 countries in recent history.
- A dollar that keeps strengthening increases both the cost of vital food and fuel imports as well as that of external financing. The median nominal exchange rate against the US dollar of G24 countries has depreciated by nearly 11 per cent in 2022. 14 G24 countries have experienced depreciations greater than this figure.
- External financing costs have risen in tandem. The median yield of external sovereign bonds of G24 countries has increased by 272 basis points in 2022 -an increase of 55 per cent with respect to their levels at the beginning of the year. At least 11 G24 countries have yields of 10 per cent or higher, precluding their access to international financial markets.
- Capital flight is draining international reserves at an alarming pace. G24 reserves declined by US$ 302 billion in the first seven months of 2022. This is more than twice the US$ 134 billion that G24 countries received through the IMF SDR allocation in 2021 and equivalent to a loss of nearly US$ 1.5 billion per day.

The outlook is grim but there remain reasons for hope. Just a few weeks ago, at the United Nations General Assembly, we had the opportunity to listen to the proposals put forward by G24 leaders to address this crisis that ranged from calls for a new global financial compact, debt relief and a climate resilient development financing architecture. Yet, if developing countries are to succeed in pushing this agenda forward, they must raise their voice in unison.

Building on the assessment provided by the most recent TDR, we propose actions that focus on three areas. First, reform of the international debt architecture. Second, scaling up public-led development financing. Third, strengthening the Global Financial Safety Net.

Reform of the international debt architecture

How to make sustainable development compatible with debt sustainability has been a key item on the financing for development agenda since the Monterrey Consensus in 2002. Developing country governments are now spending, on average, around 10 per cent of their revenue on servicing their external debts but in many cases the figure is over 20 per cent. However, those figures are now set to rise sharply and after two decades, multilateral actions in this area have fallen behind the increasing pace and complexity of debt challenges faced by developing countries. A simple exercise reveals the magnitude of the problem. Faced with the question of how long it would take to overcome an episode of debt distress, most government officials in this room would struggle to come up with a consistent answer. The issue is not lack of knowledge by those present. It is simply that we have a dysfunctional debt architecture which is unable to provide a clear path to address one of the most pressing problems we face today.

Thus, a reform of the international debt architecture ought to involve:

- A multilateral legal framework for debt restructuring and relief to facilitate timely and orderly debt crisis resolution with the involvement of all creditors. Participation in this framework should be incentivized through the provision of debt relief linked to a debt sustainability assessment that incorporates long-term finance needs, including for the achievement of the SDGs and the Paris Climate Agreement.
- Establishment of a publicly accessible registry of debt data for developing countries. Following the UNCTAD Principles on Responsible Sovereign Borrowing and Lending, this registry would allow the integration of data from both lenders and borrowers at the level of specific transactions. Transparency would strengthen debt management, reduce the risk of debt distress and improve access to financing.

Scale up public-led development financing

At the end of 2021, UNCTAD estimated that the cumulative development finance gap over 2020-2025 - including the achievement of the SDGs, debt amortization, capital flows and the impact of external shocks balanced against resources of general government revenue and Foreign Direct Investment (FDI) - amounted to 31 per cent of the GDP of Low-Income Countries (LICs), and 13.4 per cent of the GDP of Lower-Middle-Income Countries (LMICs). Filling this gap without increasing debt vulnerabilities of developing countries requires affordable international public finance.

Relevant actions include:

- donor countries to meet (and ideally to boost) existing Official Developing Assistance (ODA) commitments.
- Unlocking the potential of SDRs. This requires, a new SDR allocation to respond to the ongoing global crises along with the voluntary re-channeling of unused SDRs. This will require delinking the issuance of SDRs from the IMF quota system and rethinking their purpose to meet development purposes, such as achieving the SDGs and climate adaptation.
- Increasing the capitalization of MDBs and RDBs. This can include the use of re-channeled SDRs to beef up MDBs' capital base. MDBs and RDBs should also implement the G20's Independent Review of MDB's Capital Adequacy Framework.
- Using the forthcoming UN Multi-Vulnerability Index (MVI) for the allocation of development financing. The MVI should replace outdated income-based criteria for the provision of ODA and concessional financing.

Strengthen the Global Financial Safety Net

Addressing the weaknesses of the Global Financial Safety Net (GFSN) is key to preventing the buildup of financial stress. The recent decision of the IMF to establish a temporary Food Shock window is a welcome step. However, the lack of access to the GFSN for many developing countries implies a high probability that a liquidity crisis can turn into a solvency crisis. Improving access to the GFSN requires:

- Suspension of IMF surcharges is required to avoid placing additional procyclical burdens on countries requesting multilateral support. The suspension should last for at least two years and the IMF surcharge policy should be revised.
- Increase access limits to the IMF Rapid Financing Instrument (RFI) and Rapid Credit Facility (RCF). Both credit lines proved to be a valuable tool to mobilize financial support to developing countries in 2020. However, current access limits stand in the way of countries requiring additional support. These limits should be increased to provide room for additional lending.

UNCTAD stands ready to work with all of you to make this ambitious agenda a reality. The failures of yesterday must not be an obstacle to build together a better tomorrow for all of us.