UNCTAD's approach to external debt vulnerabilities of developing countries in the wake of the COVID-19 crisis

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Outline

- Selected Reponses of the UN to the pandemic; UNCTAD's role in debt and development finance
- UNCTAD Sustainable Development Finance Assessment (SDFA)

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Selected responses to the pandemic and the role of UNCTAD in debt and development finance

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The role of the UN

- **Since inception, the UN has recognized the link between peace, security and economic well-being - Economic and Social Council (ECOSOC).**
- **Debt issues: one of the main economic themes of ECOSOC - financing economic development**
- **The UN has been a long-standing forum to advance creditor-debtor dialogue relating to sovereign debt crisis prevention and resolution**
  - Status of not being a creditor itself and of providing an inclusive and democratic space for discussion
  - One country/one vote and necessity of consensus

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The role of the UN

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- **Establishment of UNCTAD in 1964**
  - Proposed and supported by the Group of 77

- **Mandate: "to formulate principles and policies on international trade and related problems of economic development"**

- **Three pillars of UNCTAD's contribution: research, consensus building and technical assistance**

- **Debt and Development Finance Branch (DDFB) of the Division of Globalization and Development Strategies (DGDS) within UNCTAD**
  - Focal point in the United Nations on debt and development finance and related systemic and financial challenges associated with development issues

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The role of the UN

COVID-19 crisis

- **Following calls for the UN to lead an international action agenda for a durable solution to developing country external debt vulnerability beyond the COVID-19 pandemic and with a view to 2030 Agenda.**
  - Resolution A/RES/74/270 (3 April 2020): coordinated global response to the COVID-19 pandemic
  - **DA COVID-19 projects**
  - Financing for Development in the Era of COVID-19 and Beyond Initiative (FFDI), co-convened by Canada, Jamaica and the United Nations SG

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UNCTAD’s
Sustainable Development Finance Assessment (SDFA)

DA COVID-19 project: Response and Recovery – Mobilising Finance for Development in the time of COVID

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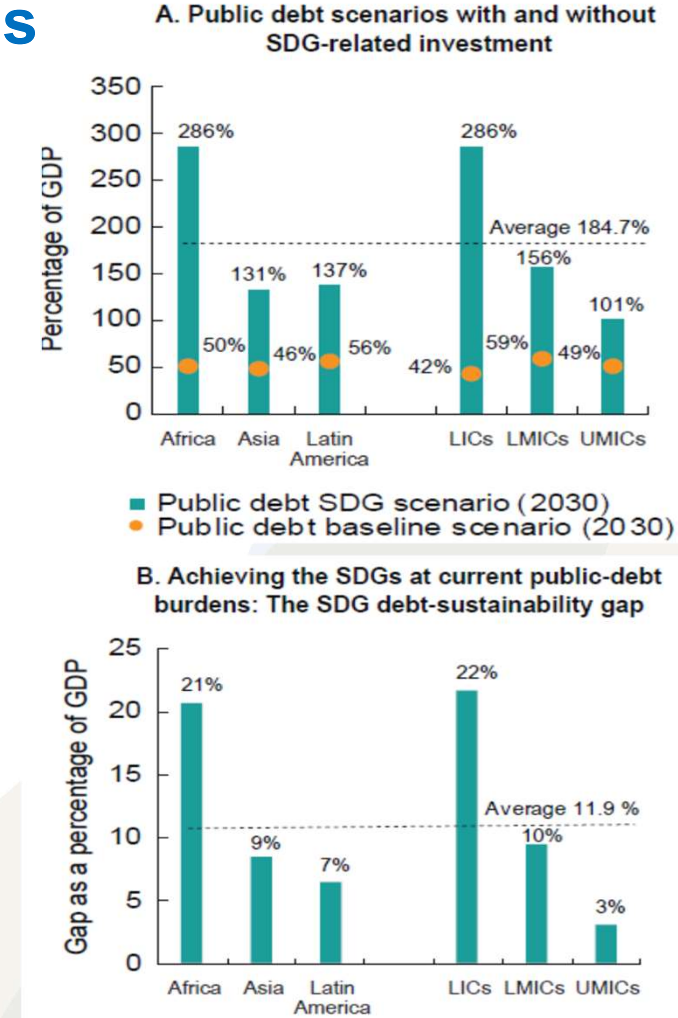
Pre-pandemic: Gap analysis
Debt Sustainability and the SDGs

30 developing countries (LICs, LMICs and UMICS) in Africa, Asia and Latin America

Reaching only the first four SDGs (no poverty, nutrition, health and quality education) by 2030 under different financing hypotheses:

1. No external financing other than existing ODA grants and loans: Average increase of ***public debt/GDP ratios from around 50 to 185 per cent by 2030*****.**
2. No external financing other than existing ODA grants and loans BUT in addition a policy that requires governments to maintain current public debt/GDP ratios: To meet SDGs 1-4 under this scenario would necessitate ***average annual growth rates of 12 per cent*****.**

Clearly, neither scenario is remotely realistic, and there are therefore strong external financing requirements, if debt sustainability is to be maintained or achieved.



Source: UNCTAD Secretariat calculations based on IMF, WEO, WDI, QEDS, FAO (2015), Stenberg et al (2017), UNESCO (2016) and national sources.

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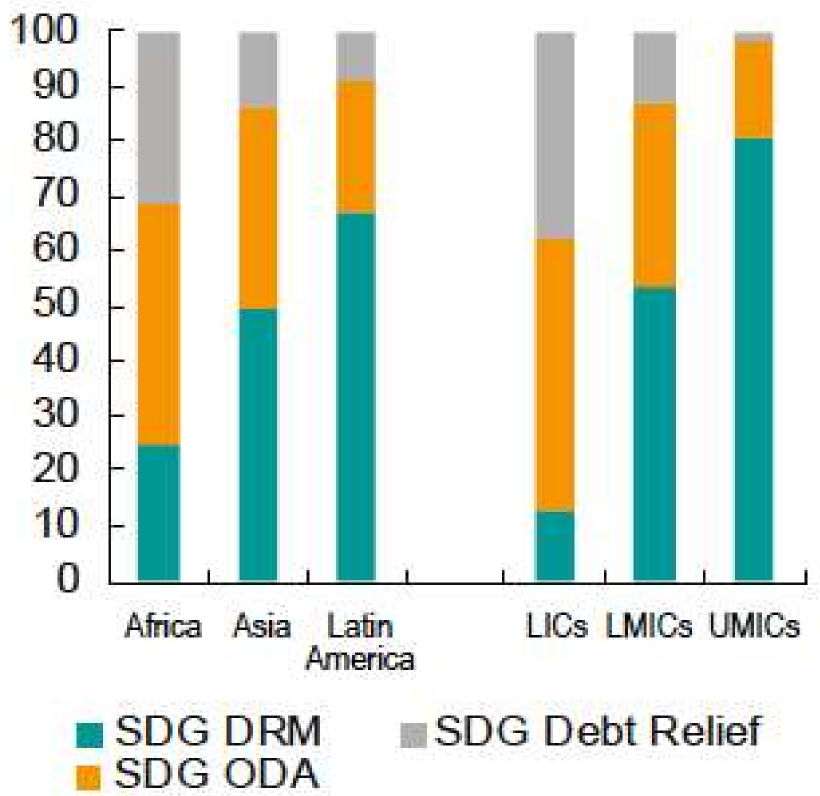
Pre-pandemic: Gap analysis
Debt Sustainability and the SDGs

C. Closing the SDG debt-sustainability gap: Domestic and multilateral financing options



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Why?

- **Our key point of departure is to analyse how countries can achieve structural transformation – together with the SDGs – within the bounds of their external position as developing countries within a financialised world.**
- **Causality runs from the external account - it's the foreign account which provides the most relevant constraint**
- **Long-run solvency, based on ability to service the stock of net external liabilities.**
- **Heterodox model - Kaldor-Thirlwall, Domar (1944) and Pasinetti (1998) and Bhering et al (2019)**

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How it differs from existing DSAs?

- Full employment assumption – changes in aggregate spending can only have a composition effect.
  - **UNCTAD SDFA**, output determined by aggregate effective demand – within bounds of external constraint
- Direction of causality – Fiscal austerity to achieve public debt sustainability is the logical conclusion of the model in the case of unsustainable external debt.
  - **UNCTAD SDFA** Causality runs from foreign account constraint that establishes an upper bound for long-term growth and, hence, for long run sustainability for public sector, and investment into SDGs. Various combinations of macroeconomic and development policies – of which fiscal austerity, is but one.

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What is the logic?

- Implementation of SDGs (1-4) *through consistent public investment*
- *External sustainability depends on the country's* ***repayment capacity (exports plus remittances)****, hence given a trade deficit, for example, the rate of growth of exports will need to be higher than the cost of servicing the net external liabilities (inverse of Net International Investment Position).*
- *Given this, the long run sustainability for the public sector and the long run growth rate can be defined (both of which are constrained by external accounts.)*
- *Finally, the growth rate is introduced into the public sector sustainability condition – which allows us to determine the policy space for SDG investment in the long run.*

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Advances of the model

- Development focus
- Includes the total foreign position
- Expands debt coverage to General Government and includes public sector assets
- Allows for SDGs to be considered explicitly, including its feedback effects.

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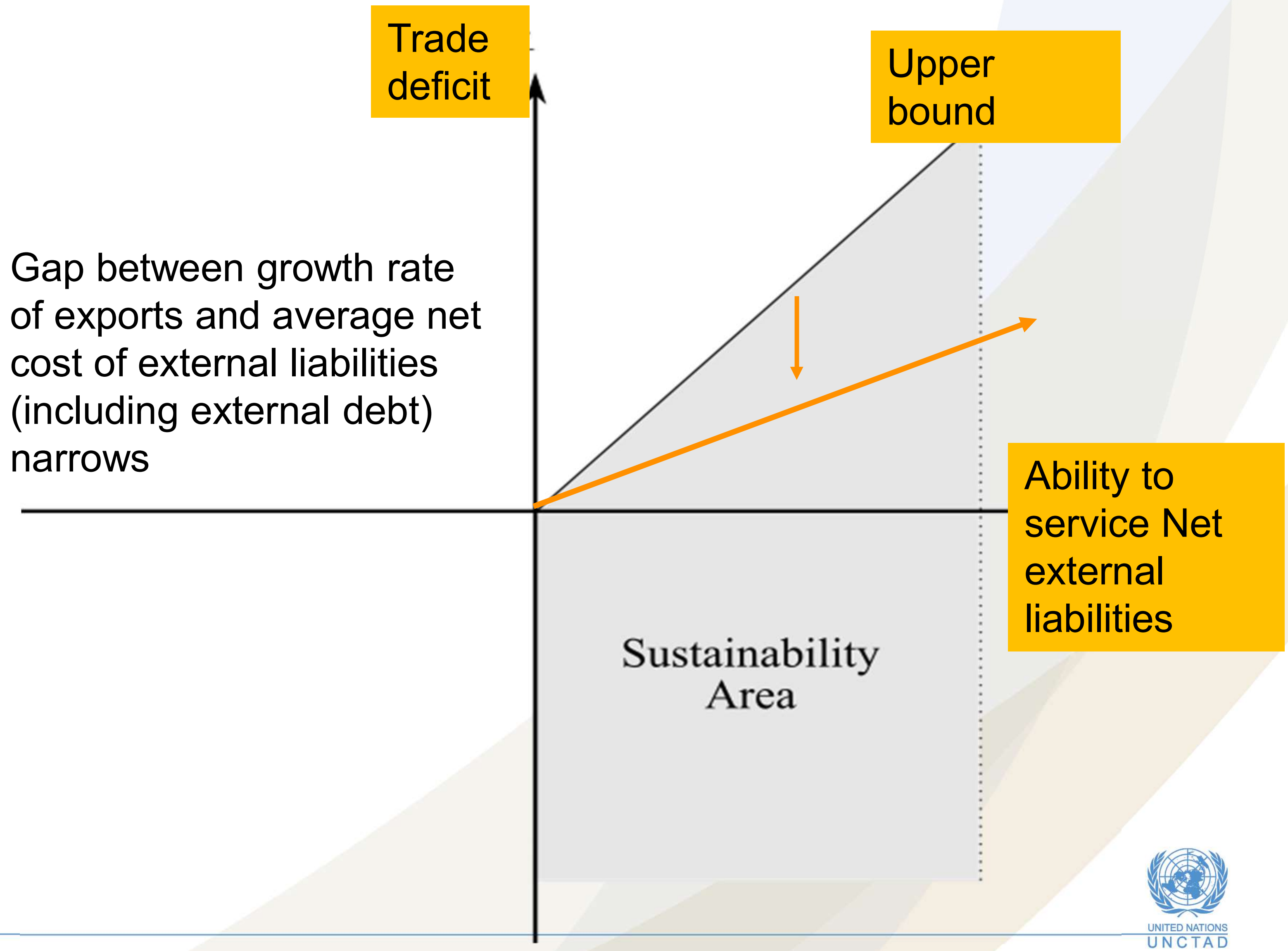
Area of External Sustainability



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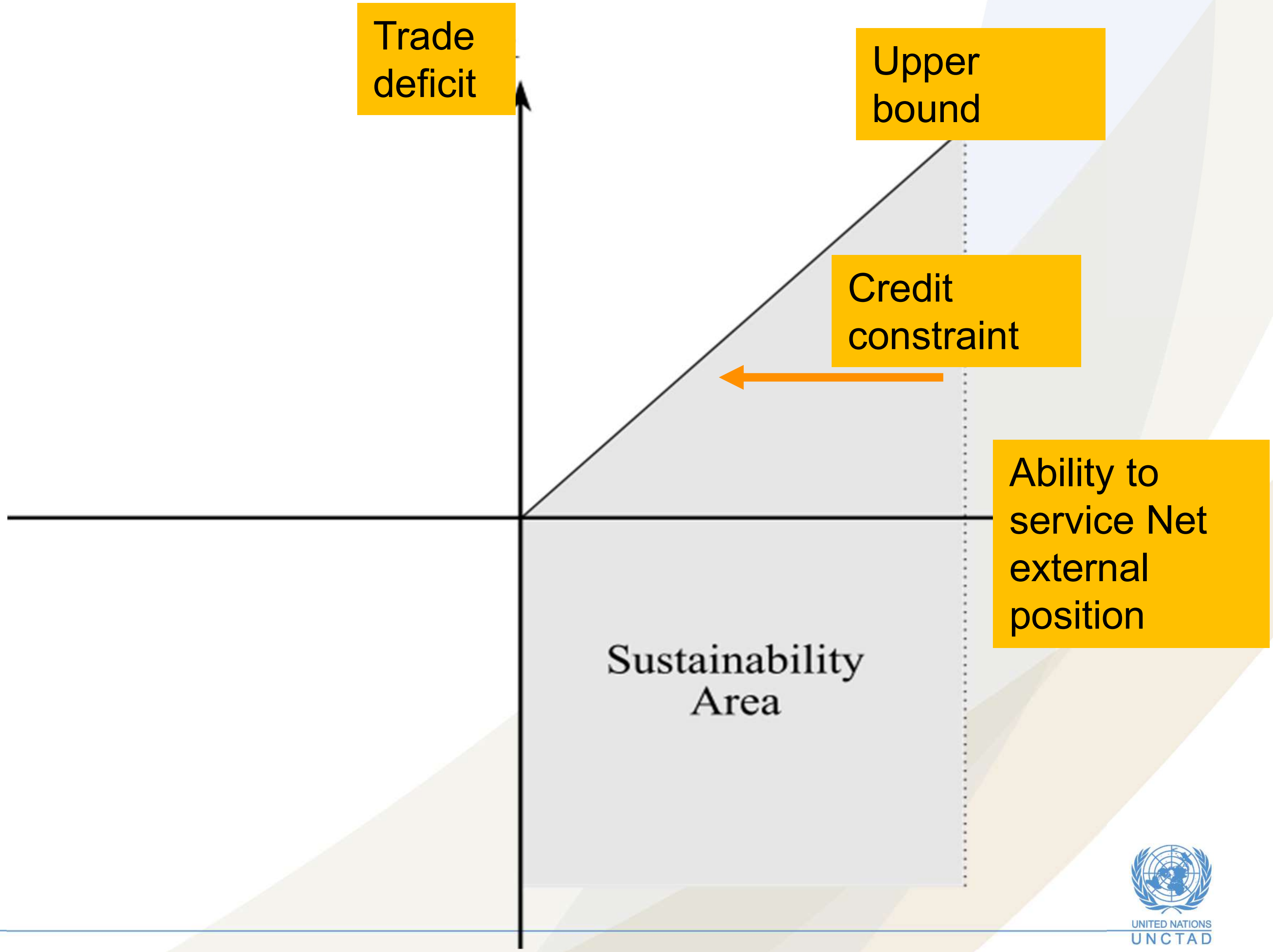
Area of External Sustainability



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Where to from here?

- Work in progress - In the process of testing the model on a small group of LICs and MICs.
- Part of a larger project with ECA, ECLAC and ESCAP
- Broad ranging project, examining liquidity matters – including a Global Financial Safety Net Tracker - Global Policy Model, Macroprudential policies, innovative financial instruments and fiscal responses
- Planning to extend this further in 2022 to a group of vulnerable non-commonwealth SIDS with focus on climate-related SDGs

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References

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Pasinetti, L. (1998). The myth (or folly) of the 3% deficit/GDP Maastricht ‘parameter’, *Cambridge Journal of Economics*, Volume 22, Issue 1, January 1998, Pages 103–116.

Thirlwall, A.P. (2011), ‘Balance of payments constrained growth models: history and overview,’ PSL Quarterly Review, 64(259), 307–351.

THANK YOU

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