Statement by the Secretary-General of UNCTAD to the G-24 Finance Ministers and Central Bank Governors' Meeting April 2023

Excellencies,

The global economy is facing a very uncertain year ahead amid cascading and cumulative crises. The international financial institutions, having provided some relief during the Covid-19 crisis, are now struggling to mitigate the negative impacts of these ongoing crises, particularly on developing countries, and to bolster resilience against future crises. It is a reminder that the international financial system needs to acknowledge the multiple dimensions of vulnerability and evolve from its current reactive stance and address systemic flaws and asymmetries.

To overcome the immediate threats facing developing countries and avoid a lost decade, we need a more equitable and agile multilateral system that addresses the needs and concerns of all countries. UNCTAD looks to the members of the G24 to work together and ensure that the voices and priorities of developing countries are fully reflected in matters of global financial governance.

As discussed further in our Trade and Development Report Update, these concerns have resurfaced with the policies adopted by advanced economies Central Banks in response to inflationary pressures. The speed and magnitude of the interest rate hikes in these economies have triggered financial instability and capital outflows from developing countries, leading to exchange rate volatility, declines in international reserves, and increased borrowing costs from both private and official sources.

In 2022, 97 developing countries experienced a currency depreciation against the US dollar, with more than a quarter greater than 10%; 81 developing countries lost US$241 billion in international reserves, equivalent to a decline of 7%, with 22 countries losing 10% or more; borrowing costs, measured through sovereign bond yields for 68 emerging markets, increased from 5.3 to 8.5% in 2022 and since 2019 the number of emerging markets with bond spreads above 1000 basis points over US Treasuries increased from 4 to 19, sixteen of which are classified as middle-income countries with limited or no access to concessional financing.

Moreover, IMF borrowing costs have increased from 1 to 4.5% over the last 15 months, which rises to 7.5% for countries paying surcharges on their outstanding loans. As a result, 52 developing countries borrowing from the IMF GRA are expected to pay an additional US$ 4.3 billion in interest to the Fund in 2023.

While the scale of distress is increasing, multilateral support to developing countries has been lagging. The contrast with the speed and scale of the response in developed economies to the collapse of a handful of banks could not be starker. In a matter of days, nearly US$ 400 billion in liquidity was provided to banks in the US and Europe. This is roughly twice the amount of SDRs received by developing countries through the general SDR allocation of 2021.

Unless developing countries have a stronger and more coordinated voice on international financial matters, billions of people will continue to endure repeated financial shocks and persistent economic stress.

In this regard, I urge the G24 to focus its attention on decisive measures to address the looming debt crisis in developing countries. In UNCTAD we are advancing a three-pronged agenda which includes establishing a multilateral debt workout mechanism, a debt registry for debt transparency, and a debt sustainability analyses that incorporate development and climate finance needs. We look to the G24 for support on this agenda.

We also need to improve access to international liquidity. For developing countries, a clear line can be traced from the scarcity of liquidity during a crisis to crippling debts and development distress. Even when temporary access to unconditional IMF lending is granted, as for some developing countries during the COVID-19 crisis, access to currency swap arrangements, either from the Fed or from any other central bank is unavailable, and most low-income countries are not a member of a Regional Fund.

More must be done to promote the idea of international liquidity as a global public good, including regular and increased allocations of SDRs on the basis of needs and independent of the IMF quota system. The United Nations Secretary General has recently proposed an SDG stimulus package that includes a request for a new general allocation of SDRs, establishment of mechanisms for their automatic issuance in times of crisis, strengthened regional mechanisms to provide liquidity as well as an ambitious MDB reform agenda. G24 support for this package would be a very important and welcome step forward.

Increasing the role of developing countries in international financial governance is not just a matter of fairness or justice. It is also essential for global economic stability and sustainable development. The challenges we face are significant, but with concerted efforts, we can create a more equitable, stable, and sustainable global financial system that serves the needs and aspirations of all countries. The G-24 is in a unique position to promote this change. UNCTAD has and will continue to support its efforts.