

**Statement by the Secretary-General of UNCTAD to the G-24 Finance Ministers and
Central Bank Governors' Meeting
Washington DC, 13 October 2020**

Policies supporting recovery and resilience beyond COVID-19

In our last statement to the G-24 Finance Ministers and Central Bank Governors', dated April 2020, we discussed our early expectations about the impact of the Covid-19 pandemic on the global economy and the channels through which this would affect the developing world. We called for swift action "to address the looming financing gap which many developing countries are now imminently facing", including the expansive (and unconditional) use of Special Drawing Rights to meet liquidity shortages in these countries, debt moratoria and relief programmes, as well as a commitment by all DAC donor States "to honour their collective commitment and deliver Official Development Aid (ODA) to developing countries in full and unconditionally."

UNCTAD's most recent *Trade and Development Report* now indicates that, assuming properly targeted policy responses during 2020, world output will fall by 4.3 per cent this year, followed by a 4.1 per cent expansion in 2021. This foresees a slightly less steep contraction of world output in 2020 than expected by the IMF, but also a more muted recovery in 2021. In the developing world, the hardest-hit region is Latin America and the Caribbean, registering a 7.6 per cent contraction in output growth in 2020, followed by Africa (-3.0 per cent) and Asia (-0.9 per cent).

If these estimates materialize, this would mean a loss of around US\$ 6 trillion in world income in 2020, relative to pre-Covid-19 trends of the average growth rate of the world economy – approximately the equivalent of the current size of the economies of Argentina, Brazil and Mexico taken together. By end 2021, even with recovery, the loss would amount to US\$ 12 trillion compared to where we expected to be before the pandemic struck.

With domestic activity contracting almost everywhere, global trade is reported to have dropped 17.7 per cent by May 2020 compared to May 2019, foreign direct investment is expected to shrink by around 40 per cent this year, and remittances by around 20 per cent or US\$ 100 billion. Hence, even if an effective vaccine is quickly found and made widely available, the severity of the crisis will prevent income from quickly returning to previous growth trends.

This poses unprecedented challenges to developing countries. While advanced countries are seeing the highest absolute falls in output for now (in some countries in double-digit figures in 2020), the greatest economic and social damage will be in developing countries, where levels of informality are high, health and social protection systems often weaker and commodities and tourism remain major sources of much needed foreign exchange. It is expected that between 90 million and 120 million people will be pushed into extreme poverty in the developing world, with close to 300 million facing food insecurity.

This situation is even more critical, where the fiscal spaces of many developing countries, including G-24 countries, have been squeezed by rising debt pressures which were already apparent prior to the pandemic. This is the legacy of years of a sluggish global recovery from the Global Financial Crisis and of decades of capital account liberalisation and financial deregulation that have turned developing country debt from a developmental policy tool into a speculative financial asset, with external borrowing relying more strongly on private, rather than bilateral and multilateral creditors. In this context, volatile investor sentiment, shortened maturities and greater rollover risks, in combination with high commodity price fluctuations have substantively increased debt and financial vulnerabilities. As a result, not only had developing country external debt already more than doubled since 2008 to reach record levels of US\$ 10 trillion at end-2019, but the costs of servicing this debt also steadily increased with developing countries paying, on average, 14.6 per cent of their export revenues and many countries well over a quarter of their government revenues to meet external debt obligations. UNCTAD estimates that developing countries face a wall of repayments on their external public and publicly guaranteed debt in the region of US\$ 2.7 trillion to US\$ 3.4 trillion in 2020 and 2021 only. At the same time, the ability of developing countries to self-insure against exogenous shocks and increased market risk through international reserve cushions had already weakened well before the current crisis, with the ratio of reserves to short-term external debt halving from its peak in 2009 at 544 per cent to 279 per cent in 2019.

While advanced countries have been able to mount emergency fiscal packages in the trillions of dollars over the past few months, most developing countries face suffocating limitations on their ability to bridge huge and rising liquidity shortages on their own. Developing countries remain dependent on hard currency incomes and have to negotiate the adverse impacts of global economic volatility on their balance-of-payments constraints, their management of exchange rate fluctuation and of international reserves as well as their continued access to international financial markets, where relevant.

In addition, their tax revenues are regularly plundered through cross-border tax evasion and avoidance by large players, depriving, for example Africa of around US\$ 89 billion annually, according to UNCTAD's recently released *Economic Development in Africa Report*.

This calls for drastic and coordinated action not only to combat the pandemic in the short term, but to put the global economy on a footing for long-term recovery, a more equal and greener expansion, and to support a resilient path to structural transformation in developing countries. This requires, first and foremost, to learn the lessons of the past. Global debt-to-GDP ratios, that have already jumped by around 10 percentage points to 331 per cent of global GDP in the first few months of the pandemic, are set to rise further in 2020. But debt per se is not the problem. What matters is how the eventual return to lower levels of indebtedness is managed: If building back better is to have any real meaning, a quick return to 'expansionary austerity' policies adopted in the aftermath of the Global Financial Crisis must be avoided at all costs. What is more, what is needed is a big public investment push with effective international support and coordination, and with recovery and reform, at both the national and international levels, going hand in hand.

As UNCTAD argues in its most recent *Trade and Development Report*, such a sustained fiscal expansion will be self-financing in developed economies, who can borrow at close to zero interest or below, without inflationary impacts, if oriented to productive investment in new greening technologies, and leveraging technological progress for social inclusion and the provision of universal public services. On the back of a

publicly-led robust expansion of aggregate demand, rising investment in real economic activities and green transformation, rising incomes and a more equal income distribution, debt levels as a share of GDP will soon begin to fall again. The alternative is a “90 percent economy” that is smaller, more fragile, more unequal, and less innovative than its pre-Covid-19 equivalent.

Not only logic, but also history urges us to take this path. While the failure of expansionary austerity in the past 10 years is fresh in our memory, it is often forgotten that this policy consensus underwent its first clinical trials during the “lost decade” of the 1980s in the developing world.

It goes without saying that commensurate multilateral support is necessary to pursue government-led fiscal expansions and development strategies that avoid liquidity crises turning into serial sovereign defaults, and that look beyond temporary stabilization to sustainable development and the achievement of the 2030 Agenda.

Yet, so far, such support is lacking. While the IMF and the World Bank have provided enhanced lending facilities for developing country members to help deal with the crisis quite substantively and very promptly, these are debt-creating financing instruments and though involving fewer conditionalities and a faster approval process, in the case of the Fund, eligibility still depends on familiar (and arguably under current conditions restrictive) criteria and policy conditionalities. The G20 Debt Service Suspension Initiative (DSSI), while welcome, has so far provided short-term fiscal breathing space, of US\$ 5.4 billion in deferred bilateral debt obligations to 43 out of 73 eligible poorer developing countries. This is, at best, a drop in their financing bucket, and swap lines from leading Central Banks continue to reach only very few developing countries.

This needs to change and change fast. There is no shortage of policy options, as for example, a range of substantive policy proposals emanating from the High-level initiative on Financing for Development in the Era of COVID-19 and Beyond, co-convened by the Prime Ministers of Canada and Jamaica and the Secretary-General, demonstrates. UNCTAD’s own proposals include the following:

1. In the short-run and to alleviate immediate balance of payment pressures, expansive use should be made of Special Drawing Rights (SDRs), through a relocation of unused SDRs in developed economies to developing countries, as well as through a sizeable fresh allocation that ensures that at least US\$ 1 trillion in SDR reach the developing world soon.
2. Extended debt moratoria, that last well beyond 2020, include all vulnerable developing countries independently of their income status and extend their scope to bring on board private as well as multilateral creditors, Given the wide reach of private credit rating agencies and their decisive role in either facilitating or hampering progress on debt moratoria and relief, we suggest that the time has come to proactively engage with the establishment of a publicly controlled credit rating agency. Beyond debt moratoria, debt cancellations will have to be considered systematically over the next year.
3. A Marshall Plan for global health recovery could provide a more dedicated framework for building future resilience. If the donor community met the 0.7 per cent of GNI Official Development Assistance (ODA) target for the next two years that would generate something in the order of

\$380bn above current commitments. An additional \$220bn mobilized by the network of multilateral and regional financing institutions could complete a \$600bn support package over the next 18 to 20 months. The money should be dispersed largely as grants but with some room for zero interest loans, the precise mixture determined as the emergency response evolves.

4. The lending capacity of multilateral development banks should be boosted. This new lending could, for example, come from existing shareholders redirecting environmentally damaging subsidies, for example for fossil fuels and industrial agriculture, to the capital base of these institutions, or from more innovative sources, such as a financial transaction tax, and augmented by borrowing on international capital markets, with a measured relaxing of their fidelity to financial sobriety. In return, these institutions should reassess their policy conditionalities in line with a more sustainable and inclusive development agenda.
5. Properly regulated international financial markets. Volatile international capital flows generate cycles that increase the financial fragility of receiving countries, especially in the developing world. Insulating measures, including capital controls, will need to be country specific, determined by the nature and degree of a country's financial openness and by the institutional set-up of its financial system.
6. Comprehensive international tax reforms to avoid a race to the bottom in tax matters are urgently needed to increase cross-border tax transparency and developing countries' voice in this regard. This extends, in particular, to the improved international governance of extractive industries and of international rules for the taxation of digital services and sectors.
7. Finally, a global sovereign debt authority, independent of either (institutional or private) creditor or debtor interests, should be established to address debt cancellations and reprofiling in a systematic fashion and to correct the manifold flaws in the current handling of sovereign debt restructuring. These have come under a glaring spotlight during the current crisis, including the crippling fragmentation and complexity of existing procedures, the potentially extraordinary powers of hold-out creditors to sabotage restructurings, and the resultant inefficacy of crisis resolutions. UNCTAD is currently working on the details of such an authority.

The COVID-19 pandemic has not only exposed the fractures and frailties of national health, economic and financial systems, it also puts into sharp relief the fault lines of our corresponding multilateral systems. But from these difficult times emerges one silver lining: the crisis has created palpable awareness of the need for countries to work together. The High-level initiative on Financing for Development in the Era of COVID-19 and Beyond, is a case in point, providing countries not only the opportunity to voice their concerns but also a fora for building consensus around bold policy options for the wider international community to pursue.

The United Nations, including UNCTAD, continues to provide democratic fora for all its members. We need to stand together now to ensure that the pandemic does not push the world and, in particular, developing countries, into another lost decade that puts the 2030 Agenda even further out of reach.