G-24 Technical Group Meeting
10-11 March 2014
Luxor, Egypt

SUMMARY REPORT

On March 10-11, 2014, the Government of Egypt hosted the G-24 Technical Group Meeting in Luxor. Over the course of two days, participants discussed issues that are of particular relevance to the Group and reflect key strategic priorities for the year. The sessions focused on three topics: recent developments in **the global economy** and the implications for emerging markets and developing countries (EMDCs), **financing for development**, particularly vis-à-vis the post-2015 development agenda and the important issue of infrastructure financing, and **debt and debt sustainability**, which has been a central concern for the Group since the onset of the financial crisis, and which is particularly relevant following the recent review by the IMF of its debt restructuring policies and practices. In addition, a **special briefing** was provided by the Egyptian Ministry of Finance **on the economic implications and challenges of the transition in Egypt**, as well as the ongoing policy actions aimed to ensure the country is on a path towards prosperity for all. The presentations prepared and content of the discussions will provide a strong basis for the Group's 91st Ministerial meeting in April and the shaping of the ongoing work program.

The Global Economy

Five years after the financial crisis, uncertainty and risk in the global economy persist. Growth remains subdued, although performance has varied across countries and regions. Advanced economies (AEs) have showed signs of improvement, with fewer downside risks; yet, prospects remain fragile. According to Yilmaz Akyüz, Chief Economist of the South Center, underlying global challenges have been left unresolved by the post-crisis policy responses employed by AEs. He argued that the policy actions of the U.S. and European Union were insufficiently bold and relied too heavily on ultra-easy monetary policy, fostering uncertainty and impeding both demand and global growth.

Despite many EMDCs having implemented successful countercyclical macroeconomic policies in the immediate aftermath of the crisis, many have been left in a more vulnerable position as a result of significant widening of their current account deficits and limited fiscal space. Falling commodity prices and capital flow volatility, in the context of aggravated systemic problems such as widening inequality, declining wage shares, financial instability, and redistributed trade imbalances, will likely lead to a more challenging environment in the medium term.

Although tapering has created immediate difficulties, Mr. Akyüz stressed that the full effects of monetary policy normalization have yet to be felt, and it is likely that more uncertainty and turbulence lies ahead. He also argued that commodity price trends and financing conditions will be less favorable than before the crisis. It will therefore be crucial for EMDCs, including G-24 members, to be prepared to respond to short-term uncertainties and a more challenging external environment, with greater emphasis on strengthening fundamentals, accelerating productivity growth and expanding domestic markets.

Yet, as pointed out by Alex Izuerita, Senior Economic Affairs Officer at UNCTAD's Division on Globalization and Development Strategies, there is no simple prescription for achieving this end, given the heterogeneity across EMDC economies. By examining a typology of global policy responses and growth scenarios, he outlined the difficulty associated with achieving a balanced, sustainable recovery. At a minimum, it has become clear that fiscal policy must not be driven by austerity alone. So, too, has the quest for export competitiveness been called into question. Instead it will be critical for EMDCs to pursue growth-maximization objectives and promote further financial development to preserve global financial stability. This involves, inter alia, a focus on employment, productivity and inclusion, as the G-24 has emphasized strongly in recent years.

During the discussion, participants delved further into the issues raised during the presentations. It was noted that, while exceptionally favorable global conditions helped fuel EMDC growth in the pre-crisis period, growth performance has also been underpinned by strengthening macro and micro fundamentals, including improved savings and investment rates. EMDCs remain vulnerable, however, to volatile external conditions and lack the access to the debt and liquidity resources available to many AEs. Going forward, it will be crucial for EMDCs to rebalance domestic and external drivers of growth and rebuild buffers to external shocks. In the meantime, it will also be important for global safety net structures to be bolstered, in order to assist those countries not yet able to deal with profound shock impacts.

Participants repeatedly underscored the enormous diversity amongst EMDC countries. One commenter emphasized that the growth story of low-income countries (LICs), especially those in Sub-Saharan Africa, must be separated from the wider EMDC picture. He pointed out that there is limited understanding of the exact sources of growth and factors behind success or failure in these countries, as evident in the uncertainty surrounding projections on prospects. It was suggested that a closer, more structural approach should be taken in assessing those low-income and Sub-Saharan African countries that have performed unusually well on a sustained basis, which could then underpin broader, more supportive advice regarding growth performance in LICs.

Another commenter suggested that consistency of policies is the most critical factor in reducing poverty and improving growth. In the case of Peru, for example, decades of consistent policies led to increased private consumption and wage share growth, which drove strong growth performance.

Though the policies of EMDCs must be adapted to the conditions of each specific country, it was agreed that these strategies should not be conducted unilaterally and in isolation. Rather, international coordination will have a crucial role to play in ensuring stability and success in achieving growth aspirations. As a first step, it will be important for G-24 countries to share insights on policy approaches for accelerating productivity growth, as well as responses to the current global economic uncertainty, including the effects of tapering.

Special Briefing on Egypt in Transition: Towards Prosperity for All

During the course of the meeting, a special briefing was provided by Omneya Ramadan, Senior Economist from the Egyptian Ministry of Finance, on the unique challenges and opportunities facing Egypt currently.

Over the past three years, Egypt has been undergoing an important process of political transition. This process has had implications for the country's economy, which has struggled with social inequality, budget and balance of payments deficits, sluggish growth and rising unemployment. In order to address these challenges, the interim government adopted a reform agenda following the June 2013 power transition.

Ms. Ramadan outlined the economic reform package, which aimed to increase stability, invigorate growth and employment and address social justice concerns. Expansionary fiscal policy was implemented, so as to activate the economy, including through a stimulus package focused on public investments and infrastructure. This was accompanied by fiscal consolidation to restore confidence and macroeconomic stability, aided by external financial assistance. At the same time, structural and institutional reforms were implemented to improve the investment environment, increase revenue, rationalize expenditures, improve the labor market and enhance long-term growth prospects. Finally, initiatives were enacted to reduce poverty and achieve social equity and inclusion.

Though insufficient time has passed for the full impact of these efforts to materialize, Ms. Ramadan noted that preliminary assessments demonstrate encouraging results, with reductions in the deficit and public debt ratios as well as positive capital market performance. Expectations for improved growth and employment are optimistic in the near to medium term, as the structural and institutional reforms take hold and fiscal expansion and monetary easing continue. In the context of political stability, improved security, flourishing tourism and increased investment, a more pronounced recovery is expected by the end of the fiscal year, which will lay the foundations for Egyptian growth and prosperity in the years ahead.

Financing for Development

In the lead-up to the expiration of the Millennium Development Goals, the international community is undertaking extensive discussions on the post-2015 development agenda, anchored in the UN. The framing of this agenda has profound implications for EMDCs, and there was broad consensus during the meeting's second session regarding the need to move beyond the narrow conception of development captured within the MDGs to a more broad and ambitious development framework that includes the appropriate economic, social and environmental dimensions. At the same time, participants emphasized that this framework should be coherent and achievable, avoiding the temptation to include all possible issues of global concern.

Notwithstanding the specific parameters of the post-2015 development agenda that emerge, financing has a central role to play in ensuring that adequate, sustainable resources are available to achieve the commitments made. The UN is undertaking work on this issue, and the G-20, in collaboration with other institutions, is in the midst of a work program revolving around long-term investment financing, in which the G-24 is participating.

As G-24 Secretariat Director Amar Bhattacharya noted in his presentation, it is clear that the financing environment of today is very different from that of a decade ago at Monterrey. Substantial progress has been made on domestic resource mobilization and external debt reduction. However, at the same time, private international financing has been volatile. EMDCs have been at the forefront of a steady growth in international trade, but the international community has failed to deliver on the Doha development round. ODA has stagnated following steady increases in the previous decade and has fallen far short of the commitments made. There has been some progress on reform of the BWIs, but much more remains to be done. Progress has also been mixed on other elements of the systemic agenda including on the reform of the international financial architecture. The post-Monterrey global environment has strategic implications for the development financing agenda. For EMDCs, there are three key areas in which specific action is required in order to ensure sufficient financing can be mobilized to meet development goals: public finance, private finance and infrastructure.

First, it will be crucial for all developing countries to strengthen domestic resource mobilization and use, given the upcoming pressures to deliver on expanded social services and meet investment and inclusion priorities. As Ehtisham Ahmad, Senior Fellow at the London School of Economics and Bonn University pointed out, this will require reform of both revenue generation and expenditure at different levels of government through effective instrument design and, most importantly, improved governance and accountability. Mr. Ahmad argued that countries will need to achieve tax-to-GDP ratios at least on the order of 18 percent to meet these goals, a notion with which many participants agreed. There was also consensus that there should be an enhanced focus on an effective system of value added taxes while ensuring the progressivity of the overall tax structure. Mr. Ahmad also highlighted the pervasive lack of information at all levels of government which makes sound public finance management difficult.

Second, private finance has played a relatively modest role in long-term investment, with many sources having ebbed in the aftermath of the crisis. Increasing the impact and use of private finance will require careful evaluation the prospects and challenges associated with its mobilization, as well as development of instruments and approaches to improve intermediation of risks and utilize a wider pool of resources.

Finally, it will be necessary to recognize the importance of infrastructure, where the financing needs are perhaps the most enormous, and where the challenges of public and private financing intersect. Addressing the large and growing financing deficits will be crucial for growth and development, inclusion, urbanization and climate resilience. Yet, the existing financing architecture is not sufficiently capable of meeting this challenge. Development banks at the international, regional and national levels will have an important role to play; strengthening these institutions will require renewed political momentum. While it was noted that ODA"s role in financing infrastructure is likely to be modest, it will remain important for some countries however, especially those in the most difficult political and economic circumstances.

Looking ahead at this juncture, it will be crucial for the Group to build on this discussion and establish how the perspective of Finance Ministers and Central Bank Governors can contribute to shaping the post-2015 development agenda and the systemic dimensions of sustainable financing. Partnership with the wider community of developing countries, including with the G-77, will be important in this regard.

Debt and Debt Sustainability

Given the less favorable economic environment and higher borrowing costs, the global debt sustainability outlook has clearly deteriorated as a result of the financial crisis, with some countries at high risk of debt distress, especially AEs. As a result, there has been a renewed focus on debt sustainability and measures to address sovereign debt crises, not only within institutions such as the IMF and the World Bank, but within individual G-24 countries. Discussion during the last session of the TGM revolved around the implications of these changes for EMDCs.

Analisa Bala, Policy Advisor of the G-24 Secretariat, framed the session by describing the improved debt situation of many EMDCs relative to AEs, which has been driven in part by strong growth performance. She noted, nonetheless, that some EMDCs, particularly LICs and Caribbean countries, will need to adopt an unconventional mix of policy responses to address their unique debt challenges and development requirements. Yuefen Li, Head of Debt and Development Finance at UNCTAD, provided further insight into EMDC debt issues, noting that despite the long-term improvements in debt levels, this trend has broadly slowed since the crisis. For a number of countries that received debt relief under the HIPC initiative, the trend is even more concerning, with high debt-to-GDP ratios having reemerged across a relatively short post-relief timeframe. It was suggested by participants that this development reflects the importance of ensuring debt vulnerabilities are monitored and managed responsibly.

Given the increasing concerns about growth and the attention focused on achieving debt sustainability amongst EMDCs, Ms. Bala outlined a range of approaches for debt reduction, including fiscal adjustment, improved access to concessional financing by introducing vulnerability as a criterion for eligibility, innovative loan mechanisms to allow for a suspension of debt service in times of shock, debt for climate change swaps, regional pooling arrangements and debt restructuring. Ms. Li also gave an overview of the ongoing debate on sovereign debt workout mechanisms. She stressed the need, above all, for timely action, and discussed the opportunities and challenges regarding the IMF’s role in any debt restructuring efforts, given the 2010 modification to the IMF’s lending policy for severe debt situations. In this regard, a number of participants emphasized the importance of engagement by the Fund with international stakeholders, including the UN.

IMF Alternate Executive Director Woury Diallo discussed the implications of the proposed changes to the IMF’s debt ceiling on non-concessional financing for low-income countries. He called attention to the need for a more nuanced approach, which would recognize the unique requirements of LICs. Though the IMF-World Bank Debt Sustainability Framework was recently reviewed to recognize the impact of public investment on growth, for LICs, it is crucial that the policy on debt limits is equally flexible, in order to support similar growth-oriented objectives and avoid the excessive intrusiveness that has characterized approaches to date.

Sergio Chodos, Alternative Executive Direction in the IMF, gave an overview of Argentina’s debt restructuring experience and provided a briefing on the ongoing litigation with holdout creditors. He stressed that the upcoming U.S. Supreme Court case of NML vs. Argentina has systemic relevance and potentially profound implications for all EMDCs. The 2012 U.S. Appeals Court decision to allow hedge funds to enforce bond repayment through international litigation calls into question the integrity of Argentina’s entire debt restructuring process, and, more broadly, would dilute the efficacy of pari pasu clauses and the principles of sovereign immunity, potentially undermining all future sovereign debt restructuring efforts.

The uncertain global economic environment driven by the impending normalization of exceptional monetary policy in major AEs, together with external financial fragility in many EMDCs, will have implications for debt, vulnerability and growth in the coming months and years. For this reason, participants underscored the importance of proactive engagement by the G-24 with relevant stakeholders and institutions, especially in the discussions taking place in the IMF on the debt sustainability framework and debt ceiling, in IDA on non-concessional borrowing policies, in the G-20 on sustainable lending, and in the UN on the issue of debt restructuring more broadly. On the basis of this engagement, and subsequent discussions in the Group, the G-24 will be able to develop clear, collective priorities to drive the year’s work on debt and debt sustainability, including during April’s Ministerial meeting.