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Developing economies of G-24 call for global action to contain risks

Oct 11, 2018 (LBO) – Concern over rising risks to emerging market economies were center stage this week as global Finance Ministers and Central Bank Governors gathered this week in Bali, Indonesia.

Bali hosted both the biannual Ministerial Meeting of the Group of Twenty-Four (G-24) developing countries and the annual meetings of the International Monetary Fund and World Bank Group officials.

“Global growth continues broadly but risks are rising for developing economies with higher oil prices, rising interest rates, high debt levels and the threat of trade war as top concerns,” said Mangala Samaraweera, Finance Minister and Chairman of the G-24.

“We urge major powers to reform and reinforce rather than discard the rules-based global trading system,” Samaraweera said.

Volatile capital flows, foreign exchange pressures, and higher borrowing costs have buffeted emerging markets as major economies have begun rolling back the very low-interest rates that have prevailed since the 2008 global financial crisis.

“There is no avoiding the fact that the market for capital is global, which means policies and interest rates in advanced economies affect emerging and developing economies,” said Julio Velarde, first vice-chair of the G-24 and Governor of the Central Reserve Bank of Peru.

“Emerging markets that restrain debt levels and maintain prudent macroeconomic policies may weather volatility better but all emerging markets are adversely affected by excessive capital flow volatility,” Velarde said.

G-24 and IMF/World Bank delegates discussed debt vulnerabilities that are rising in some developing countries, particularly low-income countries.

According to the IMF, debt as a percentage of GDP has risen from 33 percent to 47 percent in the last 5 years for low-income countries.

“Such a rapid rise in debt and rates should be a concern to both creditors and debtors, which share a responsibility to foster debt transparency and sustainability,” Samaraweera said.

In the context of recurring volatility, there are multilateral actions that could mitigate this damage to developing countries.

The G-24 reiterated the importance of a strong Global Financial Safety Net, with an adequately resourced, quota-based IMF at its center, which has the resources needed to act decisively when needed.

One-third of the IMF’s lending resources will disappear next year when bilateral financing arrangements expire.

Delegates said it is important that International Monetary Fund surveillance continues an even-handed and context-based assessment of macro-prudential and capital flow management measures, affording countries the latitude to implement appropriate measures to ensure financial stability.

G-24 delegates agreed on a number of key measures to deal with the interrelated challenges of growth and debt:

1) Trade uncertainties and financial and monetary conditions compound rising debt vulnerabilities. Improving debt sustainability depends on a supportive external trade and financial environment, timely contingency financing and the adequate flow of concessional financing for LICs – which, let us remember, has been down by almost 20 percent if we compare figures from 2013 to 2016.

2) We called for action from the IMF, WBG and multilateral partners and donors on capacity building for fiscal and debt management and sustainability and debt transparency.

3) We need to recognize the issue and try to improve the transparency around borrowing and recognize that both borrowers and lenders bear responsibility for ensuring sustainability.

4) On sovereign debt resolution, we have recognized that, with greater reliance on market-based finance, the challenges of maintaining debt sustainability and resolving sovereign debt crises evolve, and that we need a better framework to deal with such challenges.