STATEMENT BY DR. CARLOS CORREA, EXECUTIVE DIRECTOR OF THE SOUTH CENTRE, TO THE MINISTERS AND GOVERNORS MEETING OF THE INTERGOVERNMENTAL GROUP OF TWENTY-FOUR (G24)

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At the G-24 spring meeting, an important part of the discussion was about how COVID-19 could result in a setback to the fragile recovery of the world economy from the global financial crisis. Six months later, the current international discussions are about how long the pandemic will remain unchecked and how deep the world economic recession will be. Developing countries are licking their wounds and alarmed at the big financing gap between their plummeted fiscal revenue and skyrocketing financing needs for the pandemic response. The situation is dire. The world has passed the tragic milestone of losing one million lives to the pandemic. Some of the hard-won achievements made in implementing the Millenium Development Goals (MDGs) and Sustainable Development Goals (SDGs) have been reversed. Poverty and hunger will increase for the first time since the 1990s, the number of people facing starvation may double, gender and income inequality has been further widened as a result of the pandemic.

As it often happens, the poorest countries and the poorest sections of the population have been particularly hard hit by COVID-19, not only because of the weak health system and lack of financial resources to cope with a pandemic of such a massive scale and depth, but also because of the pre-existing conditions including unprecedented high levels of public and private debt which had been worsened since the global financial crisis.

The large financing needs to save lives and livelihood and maintain economic, social and political stability go far beyond the fiscal ability of developing countries. Debt servicing has further weakened the financial position and increased human suffering. For developed countries, many have adopted "whatever it takes" policies to engage in both monetary and fiscal expansion to support their economies and people thus mitigating systemic risks. But for many developing countries, their narrow fiscal space and depleting foreign reserves would not permit them to implement the same policies of required scale. It is not surprising that just 2.5 per cent of the global fiscal stimulus has been accounted for so far by developing and emerging economies.

To respond effectively to the pandemic is an extremely costly process. It is particularly so for economies dominated by informal and cash-based sectors and for small island and other countries dependent on tourism and commodity exports. However, with economic contraction and the destruction of important growth engines like tourism and trade, the cost of fighting the pandemic has been escalating, foreign and domestic debt has been increasing while fiscal and foreign reserve positions have been weakening. Deep economic recession and explosion of public and private debt are fertile ground for debt defaults and systemic debt crisis.

Heavy debt service burden can be the last straw to break the backs of countries which have already been short of funds to respond to the pandemic. It is morally unacceptable to ask these countries to service debt while they need the money to save lives. The International Monetary Fund (IMF) and the Group of Twenty (G-20) debt service suspension initiatives are welcome but far from sufficient. They should be extended in time and expanded in country coverage to include middle income and Small Island Developing States (SIDs) with debt problems and hit by the pandemic. With the changing landscape of developing country debt, options like debt buyback and debt swaps which would not lead to rating downgrades could be considered to reduce debt burden. Debt exchange, debt reprofiling and debt restructuring could result in loss of access to capital market but allow governments to obtain deeper debt reduction. For countries in debt distress, they may have to take this road as the pandemic drags on.

Financing for development is essential for flattening the curve of COVID-19 and building back better. The pandemic is a massive exogenous shock, thus by human rights and international law, it constitutes a state of necessity for debt relief. Temporary standstills and liquidity injection are essential to provide immediate "breathing space". International financial institutions, the international community and the private sector should do their utmost to increase liquidity and fiscal support to developing countries in need. The IMF emergency fund and financing from regional and plurilateral development banks could also be used to bridge the gap. A fresh issuance of Special Drawing Rights (SDRs) and reallocation of unused SDRs from developed countries to developing countries are possible ways to increase liquidity for countries in need.

Capital control is recommended to be put in place if huge capital outflows like what happened in March and April 2020 would repeat and cause instability in the financial markets of the emerging economies.

Efforts should be made to improve the international financial architecture including a framework for debt restructuring and the reform of the IMF quota system.

Even though the world has not reached the bottom of the pandemic yet, policy makers, Civil Society Organizations (CSOs) and academia have already started to consider what would constitute the key policies for building back better and promoting a sustainable, greener and inclusive economic and social recovery.

Naturally, the immediate priority is to contain the spread of the virus and save lives and livelihood. The longer the pandemic lasts, the heavier the debt burden will be and the greater the cost of the pandemic to countries and people. Therefore, strong regional and international cooperation and solidarity are needed to end the pandemic earlier. Vaccine nationalism and an unequal access to testing, prevention and treatment technologies for COVID 19 –which should be recognized as global public goods- will be disastrous, as no country is safe until every country is safe in a pandemic**.** Commitment to multilateralism and enhancement of international cooperation are essential for combatting the pandemic. In this process, the role of the United Nations should be strengthened. The recent United Nations' initiative on the high-level debate on Financing for Development in the Era of COVID-19 and Beyond which has provided a wealth of options for pandemic response and post-pandemic recovery at the highest level has demonstrated the convening power of the United Nations in time of crisis and its resourcefulness.

Policy choices would play an important role for economic recovery. Premature fiscal tightening and reversal of expansionary macroeconomic policies could hinder smooth recovery. To return to austerity before recovery is entrenched could defeat the purpose.

The road to recovery could be long and tortuous as the devastation caused by the pandemic will leave deep scars on the world economy. Effective cooperation and solidarity are needed to address the fragilities and imbalances of the world economy laid bare by the pandemic.

I wish the G-24 Ministers and Governors' meeting success.