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Statement by Ms. Grynspan
UNCTAD

Statement by Rebeca Grynspan, Secretary-General, UNCTAD to the International Monetary and Financial Committee

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The war in Ukraine is producing damaging cascading effects in a world economy already battered by COVID-19 and climate change, with particularly alarming impacts on developing countries. Recent projections by UNCTAD estimate that the world economy will be a full percentage point of GDP growth lower than expected due to the war, which is severely disrupting already tight food, energy, and financial markets.

Ukraine and the Russian Federation provide approximately 26 per cent of the world's exports of wheat and barley, 13 percent of maize, and over half of sunflower oil. At the same time, the Russian Federation is the world's top natural gas exporter, and second-largest oil exporter. Together, neighbouring Belarus and the Russian Federation also export around a fifth of the world's fertilizers.

As a result of the war, commodity prices are reaching record highs across the board. On the 8th of April 2022, the United Nations Food and Agriculture Organization (FAO) published its third consecutive record food price index. Food prices are more than a third higher than this time last year and have never been this high since FAO started recording them. Crude oil, gas and fertilizer prices have doubled or more over the past 12 months, and in the case of oil have increased by over 50 per cent since the start of 2022.

Vulnerable populations in developing countries are particularly exposed to these price swings, as they dedicate the larger share of their income to food and energy. The world's poorest countries tend to be net food importers and export and import restrictions on trade can further exacerbate rising food prices. At current price levels, FAO worst-case estimates of increases in undernourishment and food insecurity are highly likely. In an environment of already high levels of socioeconomic stress due to the impacts of COVID-19, the rise in food prices threatens knock-on effects of social and political unrest.

Ongoing disruptions in global supply chains and financial markets further complicate current outlooks. Freight costs even before the war started where at multiples of their historical averages, complicating rerouting efforts and increasing consumer prices and import costs across the board. Furthermore, globally inflation has been rising, in many cases to levels not see in decades forcing many central banks to signal sooner- than-expected increases in interest rates, leading to higher debt servicing costs for the developing world. According to the UN's Financing for Sustainable Development Report 2022, "60 per cent of least developed and other low-income countries are already at high risk of, or in, debt distress."

The global growth landscape in the absence of policy changes

After two years of pandemic-induced anxiety and uncertainty, the first quarter of 2022 has not marked a new dawn for the global economy that many had hoped to see.

The war in Ukraine has exposed and exaggerated a series of existing threats to a sustained recovery: tightening monetary policy, particularly in advanced economies, shrinking fiscal space, particularly in developing countries, supply bottlenecks, across the global corporate landscape; and climate destabilization, where rising energy prices may lead to calls for increased supply of fossil fuels.

UNCTAD's latest global update, 'Tapering in a Time of Conflict'[1], highlights the current situation of the world economy and its growth prospects. Global growth, measured in constant United States dollars at market exchange rates, is expected to decelerate from 5.6 per cent in 2021 to 2.6 per cent in 2022 (Table 1). Of the 3-point drop, two percentage points are due to structural and policy factors pre-dating the war and one percentage point, amounting to approximately $1 trillion in foregone income, is due to the war. This assumes that the trade restrictions, the sanctions, and the supply chain disruptions will last through 2022.

Hardly any country will be immune from the deterioration of global growth prospects, although a few may benefit from higher prices and demand for their commodity exports. On the other hand, developing economies that were in a precarious situation due to debt obligations, supply shocks and term-of-trade and exchange rate swings, will see their economic performance deteriorate even further.

Sub-Saharan Africa is still affected by low rates of vaccination, Latin America and tourism-dependent countries in South-East Asia are still under stress, and China – having made an early and fast recovery – now faces setbacks that may impact global trade and economic performance in other parts of Asia. The reversal of policy stimuli is a main trigger of monetary tightening in many developing countries, either in anticipation of capital flight or to tackle domestic inflationary pressures (Figure 1). The other trigger, discussed below, is the uncertainty caused by the war in Ukraine.

The uneven pattern of economic recovery has determined its fragility: the high levels of corporate and government debt run up after the GFC and during the pandemic subject developed and developing economies to different constraints. The former, which issue reserve currencies and are strongly

[1] UNCTAD (2022). Tapering in a time of conflict. https://unctad.org/system/files/official-document/tdr2021-update1_en.pdf

							Rev. from TDR 2021	
WORLD OUTPUT GROWTH, 2017-2022 *(Annual percentage change)*	*2017*	*2018*	*2019*	*2020*	*2021*[a]	*2022*[b]	*2021*	*2022*
World	**3.4**	**3.2**	**2.6**	**-3.4**	**5.5**	**2.5**	**+0.2**	**-1.1**
Africa	**3.3**	**3.5**	**2.8**	**-2.9**	**4.4**	**1.8**	**+1.2**	**-1.1**
North Africa (incl. South Sudan)	4.8	4.3	2.8	-4.7	6.4	2.2	**+2.2**	**-0.9**
South Africa	1.2	1.5	0.1	-6.4	4.5	0.5	**+0.4**	**-1.8**
Sub-Saharan Africa (excl. South Africa and South Suda	3.0	3.5	3.5	-1.1	3.2	1.9	**+0.7**	**-1.0**
America	2.2	2.5	1.8	-4.3	5.8	2.4	**+0.2**	**-0.5**
Latin America and the Caribbean	1.3	1.0	0.1	-7.2	6.3	2.3	**+0.8**	**-0.3**
Central America (excl. Mexico) and Caribbean	3.1	3.1	2.3	-8.4	6.6	3.5	**+2.7**	**+0.6**
Mexico	2.1	2.2	-0.2	-8.4	5.1	1.5	**-1.1**	**-1.3**
South America	0.8	0.3	-0.2	-6.6	6.7	2.4	**+1.2**	**-0.1**
of which:								
Argentina	2.8	-2.6	-2.0	-9.9	10.1	4.4	**+3.4**	**+1.5**
Brazil	1.3	1.8	1.4	-4.1	4.6	1.3	**-0.3**	**-0.5**
North America	**2.4**	**2.9**	**2.3**	**-3.5**	**5.6**	**2.4**	**-0.1**	**-0.6**
of which:								
Canada	3.0	2.4	1.9	-5.2	4.5	3.1	**-0.6**	**+0.2**
United States	2.3	2.9	2.3	-3.4	5.7	2.4	**+0.0**	**-0.6**
Asia (excl. Cyprus)	5.1	4.7	3.8	-1.1	5.9	3.7	**-0.0**	**-1.0**
Central Asia	**4.5**	**4.8**	**5.1**	**-0.2**	**4.9**	**0.2**	**+0.6**	**-2.9**
East Asia	5.2	4.8	4.1	0.3	6.4	3.9	**-0.3**	**-0.8**
of which:								
China	6.9	6.7	6.0	2.2	8.1	4.8	**-0.2**	**-0.9**
Japan	1.7	0.6	-0.2	-4.5	1.6	2.0	**-0.8**	**-0.1**
Republic of Korea	3.2	2.9	2.2	-0.9	4.0	1.6	**+0.1**	**-1.2**
South Asia	6.2	5.4	3.3	-4.7	6.1	3.6	**+0.3**	**-2.1**
of which:								
India	6.1	7.3	4.8	-7.0	7.1	4.2	**-0.1**	**-2.5**
South-East Asia	5.3	5.1	4.4	-3.9	2.5	3.4	**-1.0**	**-1.3**
of which:								
Indonesia	5.1	5.2	5.0	-2.1	3.5	4.4	**-0.1**	**-0.5**
Western Asia (excl. Cyprus)	2.5	2.4	1.5	-3.5	5.0	3.1	**+1.5**	**-0.1**
of which:								
Saudi Arabia	-0.7	2.5	0.3	-4.1	2.5	4.3	**-0.2**	**+0.9**
Turkey	7.5	3.0	0.9	1.8	8.5	2.0	**+4.6**	**-1.6**
Europe (incl. Cyprus)	2.6	2.1	1.8	-6.0	5.1	0.9	**+0.8**	**-2.1**
of which:								
European Union (EU 27)	2.8	2.1	1.8	-6.0	4.8	1.6	**+0.8**	**-1.7**
of which:								
Euro area	2.6	1.8	1.5	-6.4	4.9	1.6	**+0.8**	**-1.8**
of which:								
France	2.3	1.8	1.8	-8.0	7.0	2.3	**+1.8**	**-1.1**
Germany	2.7	1.1	1.1	-4.6	2.7	1.3	**+0.5**	**-1.9**
Italy	1.7	0.9	0.4	-8.9	6.2	1.4	**+0.7**	**-1.6**
Russian Federation	1.8	2.8	2.2	-2.7	4.6	-7.4	**+0.8**	**-9.7**
United Kingdom	2.1	1.7	1.7	-9.4	7.5	1.2	**+0.8**	**-0.9**
Oceania	2.7	2.9	2.1	-2.4	2.8	2.7	**-0.3**	**-0.1**
of which:								
Australia	2.5	2.8	1.9	-2.5	3.4	2.9	**+0.2**	**+0.1**
Memo items:								
Developed (M49, incl. Republic of Korea)	2.5	2.4	1.8	-4.5	4.9	1.7	**+0.2**	**-1.2**
Developing (M49)	4.9	4.6	3.7	-1.7	6.5	3.7	**+0.3**	**-1.0**

Source: UNCTAD secretariat calculations based on official data and estimates generated by United Nations Global Policy Model.

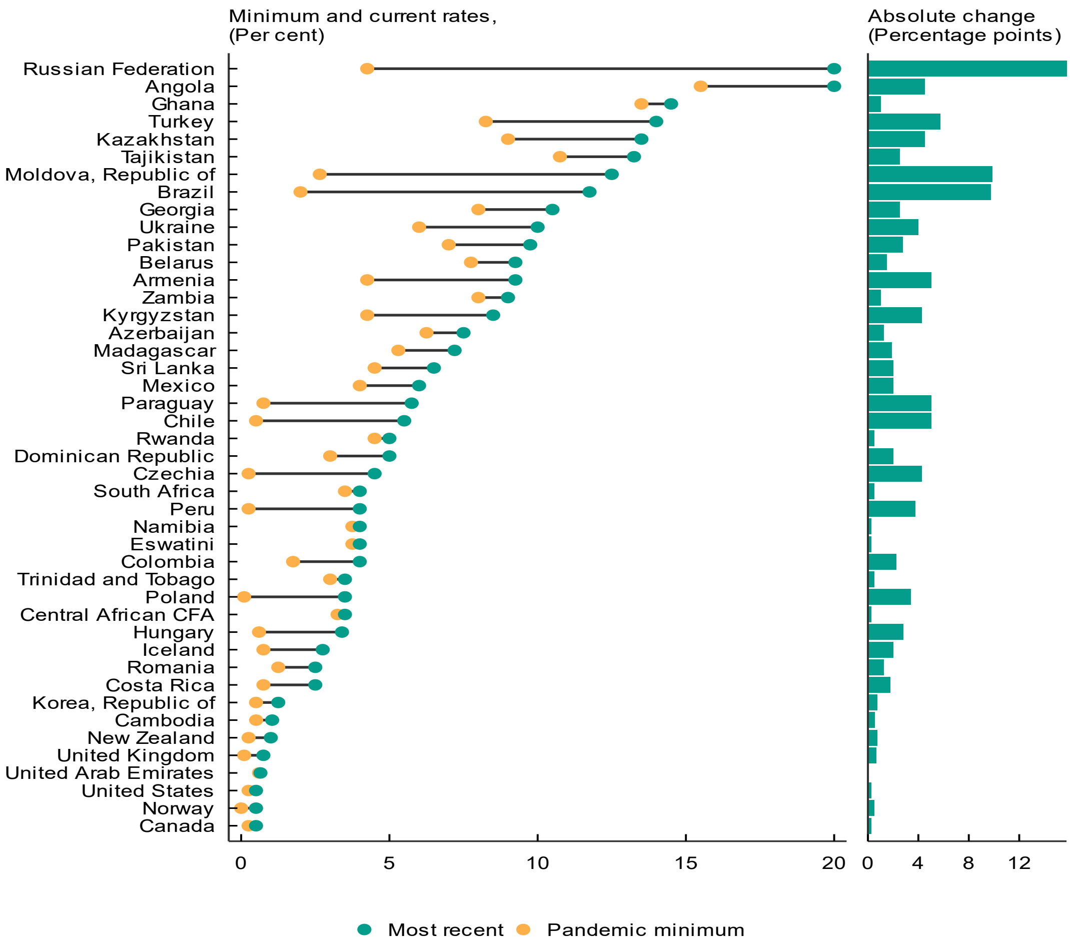
Note: Calculations for country aggregates are based on GDP at constant 2015 dollars.

a Actual data for Japan, United Kingdom, United States, France, Germany, Italy, Nigeria, South Africa, Mexico, Argentina, Brazil, China, Repu

b Forecasts.

integrated in global bond, stock and commodity markets, will be able to make the necessary spending adjustments, provided that asset prices do not decrease, even though income distribution and welfare are under stress and exert downward pressure on aggregate demand. Developing economies, not enjoying the privilege of reserve currencies, are vulnerable to exchange rate moves, weak capital inflows, high debt services[2], financial instability, greater inflationary pressures and deteriorating trade performance.

Figure 1 Policy interest rates
(Pandemic minimum and current rates)



Source: UNCTAD secretariat calculations based on Refinitiv data.
Note: Policy rates as of 17 March 2022.

[2] Developing countries' capacity to service their external debt deteriorated during the first year of the pandemic. The external-debt-to-export ratio increased in 121 out of 127 developing countries for which data exist between 2019 and 2020, while in 51 countries this indicator stood above 250 percent in 2020, which lies above the risk threshold of 240 per cent used by the IMF for the low-income countries in its Debt Sustainability Framework (DSF). From this data it can be estimated that developing countries would need US$ 310 billion to meet external public debt service requirements in 2022.

Thirdly, The channels of economic transmission of the war in Ukraine are broadly known: (i) disruption in the volume, price and origin of energy supplies; (ii) shocks to global commodity markets, especially cereals, industrial minerals and fertilizers; (iii) strategic trade restrictions; (iv) distributional effects and changes in the confidence of consumers and investors in response to imported and domestic inflation; (v) financial stress resulting from speculative movements of capital within economies and across global markets, with further effects on foreign exchange valuations; and, finally, (vi) domestic policy responses to all these effects, including any changes in interest rates and fiscal policy.

A global crisis requires a concerted global response

The multiple and successive crises developing countries are facing from climate change, COVID-19 and the impact of the war requires prompt and swift action from the International Community. While some of the needed reforms to preclude another lost decade for development will take time to implement, delaying measures to prevent a generalized debt crisis, rising levels of poverty and the growing threat of social and political instability is not acceptable. The international financial system has the instruments and the capacity to rise to the challenge of the moment. Leadership and political will can make this possible. There is no reasonable explanation for not doing so.

Countries should not only commit to protecting current shares of assistance to developing countries but to meeting their ODA pledges. Developed countries ought to ensure adequate funding for COVID-19 vaccine efforts, including ACT-A and its COVAX facility, to meet the global goal of 70 per cent vaccination coverage in all countries by the end of 2022, and to provide US$ 100 billion in climate finance already in 2022.

Debt issues need to move up the political agenda. The increase in external financing needs of developing countries because of the compounded crises calls for the provision of emergency debt relief to countries in, or at high risk of, debt distress. Early action can prevent a continued unsustainable build-up of debt in vulnerable countries before the world stumbles into the next round of debt crises.

Political will and international leadership are essential. The G20 can lead the way by reactivating the multilateral Debt Service Suspension Initiative for two years and rescheduling maturity for 2-5 years. It should also consider revising the Common Framework for Debt Treatment to provide timely debt restructuring to countries in need. This includes clarity on timelines and transparency on what debt should be covered, a debt service payment standstill, clear enforcement of comparability of treatment and the need to include private creditors and expand country eligibility beyond Low-Income-Countries.

A strong and coordinated push from the Bretton Woods Institutions together with all stakeholders will be key to advancing debt sustainability analysis that is realistic and that can provide overall estimates of the nature and magnitude of the debt relief needed. Debt relief envelopes should be designed considering financing needs for recovery, climate action and the SDGs.

There is a clear opportunity to learn from past relatively small-scale debt for nature swaps and massively scale up to comprehensive large scale debt relief linked to improved climate adaptation and mitigation, in the context of food security after war in Ukraine, as the HIPC debt relief package was linked to poverty reduction and increases in social spending. This scaling up can be achieved by a strategic approach involving all creditors, channelling debt relief through the budget to ensure greater national accountability and linking debt payments to climate and nature key performance indicators (KPIs) drawn from, for example, the Nationally Determined Contributions (NDCs) and National Biodiversity Strategy and Acton Plan (NBSAPs).

Beyond necessary reforms in the global financial system, the UN's Global Crisis Response Group, in its first briefing on the 'Global Impact of war in Ukraine on food, energy, and finance systems'[3] has offered multiple proposals that can allow for a swift and flexible response from the International Financial Institutions aligned to what the world and the most vulnerable are waiting for and desperately need.

It calls on the International Monetary Fund to increase and maintain access limits for rapid financial assistance, to increase the annual access limits to the Rapid Credit Facility and Rapid Financing Instruments to crisis-levels and extend the existing cumulative access limit to at least 2024 and suspend interest rates surcharges for at least 2 years.

The urgent operationalization of the recently created Resilience and Sustainability Trust (RST) will be essential. The announcement to make a wide number of the IMF membership eligible for the RST is a very welcome step in the right direction, but the condition to have a regular IMF programme in place to access the RST will limit its use and cause unnecessary delays. Potential solutions, such as allowing access to the RST in stages, with the first of these requiring no need of an existing IMF program, should be considered. The recycling of Special Drawing Rights (SDRs) through the RST, as well as the Poverty Reduction and Growth Trust (PRGT), can enhance IMF financing.

At the same time, the Multilateral Development Banks (MDB) should activate all available mechanisms for emergency financing with rapid disbursement of funds and minimal use of non-crisis related conditionalities. The MDBs should be encouraged to use a flexible approach to balance sheet risk

[3] United Nations (2022). 'Global Impact of war in Ukraine on food, energy, and finance systems'https://news.un.org/pages/wp-content/uploads/2022/04/UN-GCRG-Brief-1.pdf

management to leverage to the fullest extent possible their emergency lending capacity but new rounds of capital injections should also be considered including through the rechannelling of unused SDRs.

All these proposals are within the existing instruments we have at hand. The international community has the means to cushion the blow and prevent great human suffering, unacceptable increases in inequalities and the world tipping into an era of social and political unrest. The solutions and the resources are there. We now need the political will to reach them. I know it is not easy. But the world is waiting. And time is running out.