Statement by

Arturo Herrera Gutiérrez
Secretary of Finance and Public Credit

Mexico

On behalf of Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Kingdom of Spain, and Bolivarian Republic of Venezuela
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(VIRTUAL)

1. The implications of the Coronavirus global pandemic have been more profound and the global economy’s recovery remains susceptible to reversals. The extremely high toll of the crisis continues to mount as a second wave of the pandemic is unfolding. In this context, economic forecasts have been revised upward for Advanced Economies as well as for some countries in other regions. The contraction in global output is the largest since World War II and also the most widespread since 1871. In the absence of a vaccine or proven treatment, uncertainty will remain high. If downside risks materialize, the expected recovery will extend beyond 2021.

2. Notwithstanding past warnings from authoritative voices of the risk of pandemics materializing at any moment, many public health systems have proven too fragile and meagerly prepared. Infrastructure, logistics, and even specialized human resources exhibit worrying gaps in developing and developed countries alike. This critical situation has particularly affected poor and vulnerable groups with inadequate social protection. Ethnic groups and migrants have been suffering the most.

3. During the last seven months, governments worldwide have displayed unprecedented efforts to contain the spread of the virus and its adverse economic impact. These included confinement measures, reinforcement of health systems and social protection programs, as well as unprecedented fiscal support to protect the most vulnerable and sustain productive activities, especially in high income countries, where possible monetary policy has also been expansionary. Meanwhile, the pandemic is still registering stops and starts, and in many countries additional confinement measures may be necessary despite their high social and economic costs.

4. We commend the efforts of the World Bank Group (WBG) and the International Monetary Fund (IMF) to lead the international community in the critical global actions to address the consequences of COVID. Since the outbreak of the crisis, the Bretton Woods Institutions have adopted an ambitious response effort, mobilizing and delivering an unprecedented level of resources to countries. We recognize the responsiveness and immediacy of Management and staff’s expertise and commitment under adverse conditions, beginning with the WBG’s COVID19 Rapid Response Program in April and the additional financing to the COVID19 Strategic Preparedness this October. Efforts to mobilize private investment and sustain markets in developing economies are also essential. We welcome the front loading of the WBG financing capacity, given the urgency and magnitude of the challenges. We also applaud the strategy for the COVID consequences.
5. These painful health and economic crises create momentum to re-think critical issues in international cooperation, global public goods, globalization and development. The call for strengthening our multilateral instruments and fostering international cooperation aims to stem and overcome this dual crisis and reaffirm the improvement of living standards as a global common good. The unprecedented situation presents a unique opportunity for WBG leadership to launch an in-depth, out-of-the box discussion of global public goods, where health is fundamental for safety and economic sustainability.

6. Emerging markets and developing economies (EMDEs) are much more vulnerable than originally expected, with the crisis imposing a heavy toll on our populations. Nearly 4 out of 5 new COVID cases are in EMDEs, where health systems are less prepared. The consequences for health, social arrangements, and economic activities are increasingly severe and may be prolonged depending on the specific economic structures. This is the case of Latin America and the Caribbean, which comprises mostly Middle-Income Countries (MICs). In this region several factors have exacerbated the severity of the crisis: low economic diversification coupled with high dependence on a limited number of products or services (either commodities or tourism), reliance on family remittances, high levels of informality, deep pockets of extreme poverty, and low productivity. The critical base of SMEs requires sustained support to keep them afloat and reopen once the pandemic is over. There is also a strong dependence on global trade and global value chains, both of which have fallen dramatically. Many of our economies have also faced significant capital outflows, foreign exchange instability and fading of remittances.

7. These downsides will likely have lasting economic and social impacts, threatening to reverse the hard-won advances in development goals. Poverty will increase for the first time in recent decades, and shared prosperity will also deteriorate, as the health and economic crises more severely impact the poor and vulnerable, particularly women and youth. As cited in Poverty and Shared Prosperity 2020, between 88 and 115 million additional extreme poor and nearly double the number living under the $US5.5 poverty line are estimated for 2021. We are very concerned that Upper Middle-Income Countries, which have been hit the hardest in every aspect of this crisis, are likely to host 75% of the people falling into extreme poverty. The toll in human capital is also expected to be unprecedented and long lasting, denting the growth-potential of these economies. All this applies to every income level of EMDEs, including Upper Middle-Income Countries. Millions of persons’ living standards are at risk, returning them back to poverty.

8. EMDEs have very limited room to meet these challenges with demand side policies. Fiscal space is normally very low, and high interest rates further restrict any room for maneuver, particularly when the ratio of public debt to GDP is already high. Moreover, in sharp contrast to advanced economies which enjoy reserve currencies, EMDE’s monetary policies must take a restrictive stance to counterbalance capital flight and other risks. Many emerging markets are under financial stress or have lost access to capital markets since risk premia are unaffordable. Poor countries do not have options to official finance.

9. Therefore, to remain relevant, the WBG must make bold efforts to meet the current needs of all clients. This includes leveraging its balance sheets to the fullest extent possible, since the lasting effects of this crisis will make resources beyond FY 2021 insufficient to meet the continued financing needs of its clients. The WBG should continue using its knowledge, financial capacity, and convening power to help countries meet their challenges. We commend the WBG for prioritizing support for the hardest hit countries and regions. Going forward, serving all client countries will maintain WBG’s leadership among development organizations.

10. We welcome a renewed dialogue on the best way to help countries meet emerging challenges, and we ask the WBG to prepare a robust strategy, with different scenarios and options for its engagement with clients and partners. More than ever the world needs intelligent development finance that goes beyond filling financing gaps to strategically unlock, leverage and catalyze private flows and domestic resources. The Debt Service Suspension Initiative (DSSI) has been a step in the right direction. However, there are
solvency challenges in numerous countries, especially the poor ones, that will have to be addressed, and the DSSI should not postpone the needed solutions. Transparency is a must. The World Bank and the IMF should jointly develop an action plan to help address solvency issues on a case-by-case basis. In addition, given limited public resources, coordinated actions among MDBs and bilateral donors should be reinforced, facilitating stronger public and private financing. Alternatives to better leverage the WBG’s own resources should be prioritized. In parallel, structural reforms should be at the top of the agenda in most economies, as well as new funding and innovative products especially in MICs. Here the Bank and the Fund have the great opportunity to contribute knowledge and as well as help with their convening power and financing instruments. Development Policy Financing (DPFs) have proven to be an effective tool for reform, when sizable enough for the country in question, and access to DPF’s should be expanded to countries meeting the necessary macroeconomic conditions. Finally, the Bretton Woods institutions should continue advocating for free and rules-based trade, recognizing its positive impact on value chains and development.

11. The current unprecedented challenges also call for WBG to refocus its priorities. Health must be at the top of the WBG’s agenda to diminish vulnerabilities and to accelerate the way out of this pandemic, preventing any financial crises which impose longer recoveries. While there seems to be progress towards an effective vaccine, emerging markets and developing countries may face difficulties to develop and acquire vaccines. It is critical that the vaccine reaches every single country to end the pandemic and to minimize social and economic damage. We appreciate the efforts the Bank is making to help finance the purchase and deployment of a COVID-19 vaccine. In the “new normal” where individuals and firms have to live with different degrees of lockdowns or social distancing rules, we encourage WBG support for digital access and development of its clients, as well as implementation of the Jobs and Economic Transformation (JET) agenda to create transformational jobs for service-oriented economies. The spread of digital technologies should improve services in health and education. Without any doubt, this crisis has evinced the importance of global public goods, and the WBG is positioned to guide broader coverage of this type of goods.

12. Finally, we welcome the reports about the 2020 Shareholding Review and IDA Voting Rights.