



International Monetary and Financial Committee

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**Statement by Helen Clark,
Administrator of the United Nations Development Programme and
Chair of the United Nations Development Group**

On behalf of the United Nations



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to the

International Monetary and Financial Committee

28th Meeting

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Bolstering economic recovery

The world economy continues to face significant headwinds, despite some recent positive signs in developed countries and an expected pick-up in global growth in 2014. Economic activity is projected to remain well below potential in all regions.

Job creation continues to be a major challenge in many parts of the world, especially for young people, and unemployment remains high in a large number of economies. Although the likelihood of a renewed global recession has declined, risks are still tilted towards the downside. In the euro area, considerable uncertainties remain, even as the region shows signs of stabilization. In addition, the expected reduction in global liquidity, associated with the United States Federal Reserve's impending unwinding of its asset purchase program, could put growth at risk, particularly in many emerging and developing economies.

The United Nations forecasts that the world economy will expand by 2.3 per cent in 2013 - the same sluggish pace as in 2012. The global picture, however, masks considerable regional differences. The euro area is projected to remain in recession. Emerging markets and developing countries will continue to be drivers of global economic growth, expanding at an estimated five per cent in 2013. This growth has been helped by credit booms, fueled, in part, by loose monetary policy in advanced economies. In developed countries, the real economy is being held back by continued austerity programmes, weak bank lending, and continued uncertainty.

With the global economy growing at a subdued pace, which is expected to continue in the coming years, there is a number of steps which could be taken at the international and domestic levels to support the recovery. These include measures to reinvigorate domestic demand in developed economies, tackle unemployment, promote international financial stability, improve processes for public debt restructuring, take steps to reduce inequality, and strengthen global governance. Some of these issues are detailed below for

the purpose of discussion on getting the world on track towards sustainable growth and higher levels of employment.

The importance of international monetary and financial reform

Over recent months, delays and uncertainties regarding the continuation of *unconventional monetary policies* have caused instability in financial and currency markets, particularly in emerging and developing economies. Although quantitative easing facilitated the global recovery, the policy has also had spillover effects, demonstrating the high degree of interconnectedness of economies worldwide.

Since 2008, the combination of historically low interest rates and quantitative easing in major developed countries (USA, Japan, UK) has boosted global liquidity, and contributed to portfolio reallocation and a surge in capital flows to developing countries, especially to large middle-income countries. The first announcements by the US Federal Reserve last spring, however, of an upcoming tapering of quantitative easing caused nervousness among investors and capital outflows from emerging markets, in particular those running large current account deficits.

This pressure on emerging economies was temporarily eased with the recent US Federal Reserve decision to delay unwinding the unconventional monetary policy in order to continue supporting internal demand and job creation. Nevertheless, monetary policy remains a continued source of uncertainty as investors around the world try to anticipate the timing of an exit strategy, and adjust their actions accordingly.

Intended to act as a self-insurance policy against the impact of erratic capital flows, leaders of the BRICS group of nations – Brazil, Russia, India, China, and South Africa – announced their intention to set up a \$100 billion contingent currency reserve fund. This announcement by the BRICS reflects

the growing need to manage capital flows in a more co-ordinated and effective manner.

Against this backdrop of global interdependence, the international community needs to continue its efforts to *reform the international monetary system*. A systematic approach to dealing with systemic risks and failures is needed, and the root causes of global volatility need to be addressed. In the absence of such measures, there is a risk that developing countries will continue to divert scarce public funds into contingency funds and other shock response mechanisms, rather than use these resources to fund long-term sustainable development.

Some progress has been made on global *financial and regulatory reform* to address a number of the major causes of the global financial crisis, but more needs to be done. This includes, in particular, addressing the problems of “too-big-to-fail”, increasing transparency and market integrity, filling regulatory gaps, and addressing the risks from shadow banking. More attention needs to be given to other objectives too, including strengthened financial inclusion and consumer protection.

Public debt restructuring can also help the recovery. Despite progress in some developed countries to stabilize debt ratios, sovereign debt levels remain very high in a number of others. The level of debt in many emerging economies and low-income countries is more positive, although sovereign debt problems persist in some developing countries, particularly in the Caribbean. This concern was flagged by the UN’s MDG Gap Task Force Report 2013.

High levels of debt leave countries vulnerable to interest rate increases, and provide them with limited fiscal space to tackle social issues and invest in development. The UN therefore welcomes the IMF’s recent decision to launch a discussion on *sovereign debt restructuring*, and on how to improve the debt restructuring process and make it more efficient and predictable.

High quality employment: the backbone of inclusive growth

One of the key messages to emerge from the UN-led consultations on the post-2015 development agenda is the urgent need to address the current employment crisis and lack of decent work, especially for young people.

The recent recovery in output growth has not brought about a comparable recovery in employment. The ILO estimates that global unemployment reached 195.4 million in 2012, up by more than three million compared to 2011, and 25.7 million above the 2007 level. Youth unemployment continues to be a serious problem in developed and developing countries alike. The quality of jobs also remains a critical issue. This is reflected in the rise in involuntary part-time employment and temporary employment.

While unemployment continues to be high in many developing countries, they also face many structural labour market challenges, such as large informal sectors; high shares of low-quality jobs; low participation rates, particularly among women; high youth unemployment; and slow productivity growth. There are also large numbers of young people in developing regions who are working poor and remain in poverty despite regular employment.

Although employment levels have remained relatively robust in some regions, such as Latin America, reversals in capital flows to this region and tighter credit conditions could have negative consequences for jobs.

To date, the recovery has been largely driven by loose monetary policy in the developed world rather than by expansionary fiscal policy. At the same time, many governments have carried out significant budget cuts to social programmes and safety nets. Greater emphasis on economic recovery spurred by expansionary fiscal policy in the short-run, while at the same time safeguarding the long-run sustainability of public finances, would increase demand, and thereby generate new jobs and reduce unemployment.

Addressing rising inequalities: critical to sustainable economic recovery

The rising inequality within many countries – developed and developing alike - is serious cause for concern. High levels of inequality have negative economic and social consequences, and are a barrier to development progress, and can undermine social cohesion and stability.

The UN-led global consultations on the post-2015 development agenda reflect a strong desire to see inequality, injustice, and insecurity in all their dimensions tackled. There is also strong recognition of the need to improve governance. The thematic consultations on inequalities stressed that national averages of progress conceal often highly uneven progress towards MDG targets. This has rendered largely invisible the situation of specific groups in certain contexts, including women and girls, people with disabilities, ethnic minorities, remote rural residents, and urban slum dwellers.

Proactive inequality-reducing policies are urgently needed as an essential part of strategies for economic recovery and resilience-building. Governments should act to reduce inequalities and promote opportunities for all through all means at their disposal.

Recent commitments by the G20 to tackle tax evasion and illicit financial flows and to support automatic exchange of tax information between countries are welcome. The international community, assisted by the International Financial Institutions and the United Nations, could build on this new consensus to advance international co-operation on taxation.

Financing for development: towards 2015 and beyond

High quality and predictable Official Development Assistance (ODA) remains vital for many of the world's poorest countries, and is critical to their MDG acceleration efforts. The recent decline in ODA is therefore serious cause for concern. Despite challenging fiscal conditions in some donor countries, it is desirable for this trend to be reversed. At the same time, those donors who, despite tough fiscal constraints, have kept their commitments are to be commended.

ODA, however, is only a part of the equation of funding for development. As highlighted in the report of the UN's High Level Panel of Eminent Persons on the Post-2015 Development Agenda, domestic resource mobilization must play a growing role. To this end, continued investment in the capacity of tax systems is critical, as are efforts to broaden the domestic tax base and build local financial markets. The international community can support these efforts through capacity building initiatives targeted, inter alia, at tax administrations.

A very important source of long-term finance for development will be private capital, coming from major pension funds, mutual funds, private corporations and other investors, including those in middle-income countries. If the global financial system is stable and well regulated, it is likely that these private capital flows will not only grow, but will also become less prone to sudden surges and stops.

Climate finance will also play an increasingly important role for developing countries pursuing sustainable development, with the Green Climate Fund (GCF) being an important vehicle through which to channel funding. It is important to make the GCF fully operational with adequate and sustained funding, in line with the commitment made at the 15th Conference of the Parties to the UNFCCC in Copenhagen in 2009 to mobilize climate finance of \$100 billion a year by 2020.

The importance of effective global governance

Global challenges are increasingly interconnected and require collective action and policy coherence. Many of the current institutions and principles for global economic governance, however, were designed in times far removed from contemporary reality.

Emerging economies and developing countries have increasing economic weight. The time has come to reflect these realities better by giving more voice and representation to them in the International Financial Institutions and in the United Nations system.

The implementation of the IMF's 2010 governance and quota reform is a key part of this, and should not be delayed longer. Ratification of the 2010 reform is therefore urgently needed, and the comprehensive review of the current quota formula must remain an objective to be achieved by January 2014.

The UN remains committed to working closely with the Bretton Woods Institutions to find solutions to urgent global challenges. The post-2015 process provides an opportunity for international reflection and debate on how, collectively, we can do what is needed to move towards a common sustainable and more prosperous future.