Middle-Income Country Issues: HLPF

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I will make three points in my remarks today.

First, middle income countries have suffered a large shock as a result of the COVID-19 pandemic. Their GDP for this year and next is about 8.6% below what it was expected to be when projections were made in the October issue of the IMF's World Economic Outlook. Growth is now expected to average about 3.4% per year, not far off the pre-COVID trend, but the level of income will not recover to its previous path. By comparison, the GDP level in advanced economies is roughly the same as was projected in 2019. In other words, the advanced economies have suffered a temporary shock but have now recovered, while developing countries have suffered a seemingly permanent shock.

Without accelerating economic growth, there is little hope that middle-income countries will make serious progress towards the SDGs.

Second, there is now a huge growth opportunity for middle income countries afforded by technological advances in clean energy and by digitization. On average, the private and public sectors in middle-income countries should be spending about 5-10% of GDP more on energy transitions, land use system change, adaptation and resilience, nature preservation, and human capital, amounting to about $2.7 trillion more than in 2019, even when excluding China. These investments are both economically efficient and socially desirable for the countries themselves and would have important spill-over benefits for the rest of the world. Over time, such investments could halve the cost of power in developing countries from around 10c per KwH to 5c per KwH providing a huge supply boost to GDP growth that would reinforce the demand-side boost that would be generated through higher investment levels.

There are many obstacles that currently prevent such investments from taking place. Among the most important are lack of fiscal space and the high cost of capital faced by middle-income countries whose creditworthiness has deteriorated in the aftermath of COVID-19.

Without access to long-term capital at affordable interest rates, middle-income countries will not find it economically viable to undertake the large transformations in their energy and land use systems that are needed. In most middle-income countries, the double-digit interest rates faced by governments and private business encourage them to choose fossil-fuel options for energy expansion if there is no offsetting aid.

My third point is that middle-income countries will therefore need significant international support to undertake the investments needed to make progress on the SDGs. They cannot rely on private capital markets alone. 50 out of 86 developing countries with a bond credit rating have seen their ratings downgraded by at least one of the major agencies since the start of the pandemic. A further 14 have had the ratings outlook downgraded. 8 middle-income countries are in default and another 4 have reached an agreement with creditors following a default since 2019.

This is why the best solution for middle-income countries lies in a major expansion of lending by the multilateral development banks who provide the long maturities and affordable interest rates that are needed. There is now considerable discussion about MDB reform. It has featured prominently in the Bridgetown Initiative, the Secretary-General's SDG Stimulus Plan, the World Bank evolution roadmap, the Paris Summit and is now in the G20 Finance Ministers' meetings. My work suggests that a growth path financed by official agencies will improve the creditworthiness of middle-income countries even though the impact would be to raise debt/GDP levels by a modest amount.

If middle-income countries can build a sound project pipeline and undertake needed structural reforms to improve the efficiency and impact of investments, if the international community supports this by encouraging an expansion of MDB lending, and if MDBs in turn reform themselves to become more client-responsive, then middle-income countries could make very significant progress towards all the SDGs.

Thank you,