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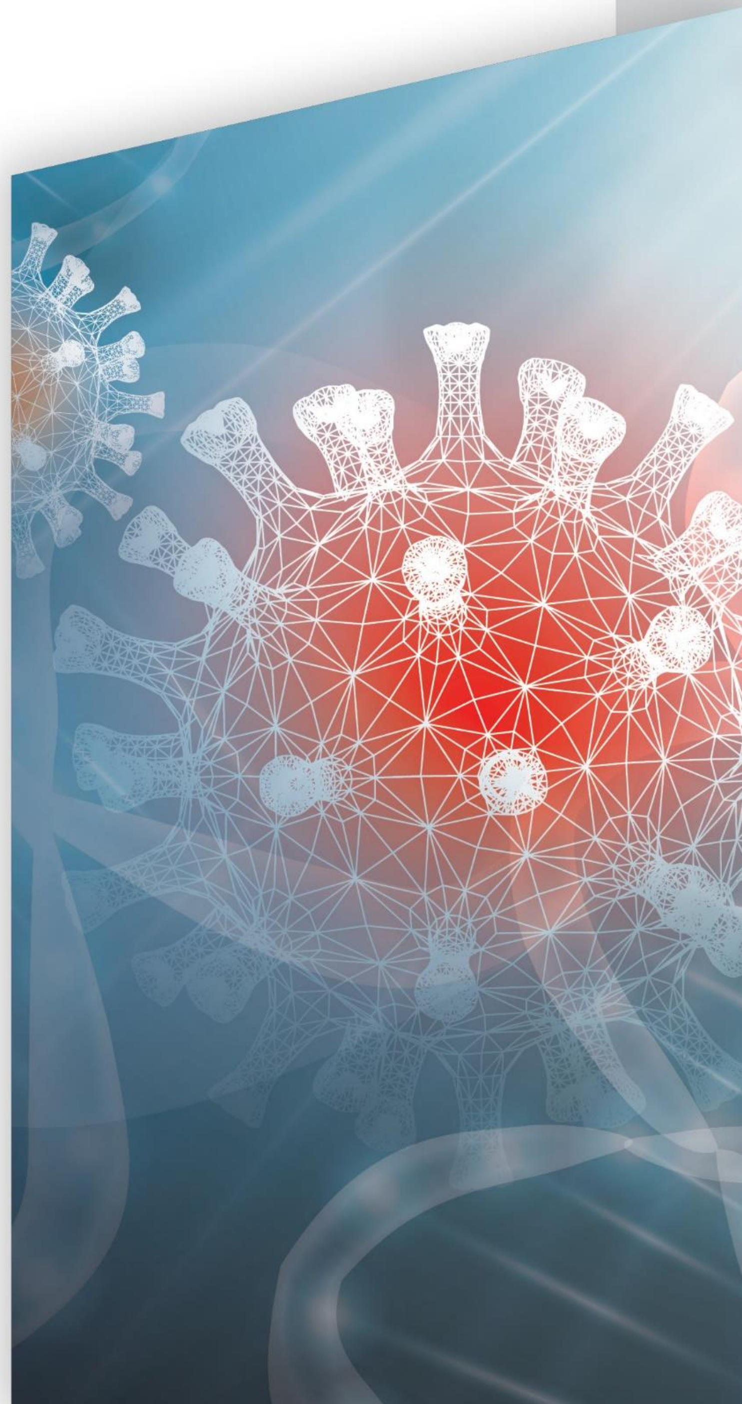

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Global Financial Safety Nets, SDRs and Sustainable Development Finance: Can the options on the table deliver needed fiscal space?

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About the COVID-19 Response and Recovery project

This paper is an output from the project "Response and Recovery: Mobilising financial resources for development in the time of COVID-19", which is co-ordinated by the Debt and Development Finance Branch of UNCTAD and jointly implemented with ECA, ECLAC and ESCAP. This project is one of the five UN Development Account short-term projects launched in May 2020 in response to the COVID-19 crisis.

The project aims to enable low-income and middle-income developing countries (LICs and MICs) from Africa, Asia-Pacific, and Latin America and the Caribbean to diagnose their macro-financial, fiscal, external financial and debt fragilities in the global context, and design appropriate and innovative policy responses to the COVID-19 pandemic leading toward recoveries aligned with the achievement of the Sustainable Development Goals (SDGs).

Abstract

Responding to - and recovering from - the shock of the pandemic requires enhanced capacity to diagnose fragilities, identify resources and design appropriate policy responses. Towards these aims, this policy briefing highlights two tools - the Global Financial Safety Net and the Sustainable Development Finance Assessment, both outputs of the DA-Project, which provide more information on short- and long- term financial alternatives for developing countries. In this context the role that a new SDR allocation can play is also explored.

There is no simple or single panacea to expanding fiscal space, and developing countries will need to employ a wide range of policies to return to a sustainable development path and achieve the 2030 Agenda, supported by an international community willing to address the inherent asymmetries of the international monetary and financial system, of which the SDRs are a useful, but insufficient part.

Key words: Liquidity, solvency, debt sustainability

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1. Introduction

The COVID-19 pandemic has exacerbated the economic, financial and debt vulnerabilities of low- and middle-income developing countries (LICs and MICs), leaving their economies ravaged and potentially undoing progress made toward sustainable development and the achievement of Agenda 2030. In response to the onset of the pandemic, the UN launched several development account projects including *Response and Recovery: Mobilising financial resources for development in the time of Covid-19* co-ordinated by UNCTAD and in partnership with regional commissions, ECA, ECLAC and ESCAP. Underway for just under a year, this project aims to enable member countries to diagnose their fragilities in the global and regional context and identify and design appropriate policy responses leading to recovery and a return to a sustainable development path.

The negative impact of unprecedented capital outflows was compounded in many developing countries by sharp falls in export earnings following lockdowns, the rupture of supply chains and the collapse of commodity prices. The bounce-back in trade and capital flows has by no means been evenly shared and for many developing countries the benefits of financial openness remain capricious (UNCTAD, 2020).

The calls for enhanced fiscal space are many – and within the context of the DA COVID project - we ask whether and how the financial options on the table can deliver what is needed. We begin by introducing the UNCTAD-Boston University-Freie Universität Global Financial Safety Net (GFSN) Tracker, which contains information by UN member state as to their potential access to external liquidity, i.e., to short-term finance in foreign currencies. Much attention is given to the IMF in this regard, although there is a broader though mostly uncoordinated network of possible options - including regional financial arrangements (RFA) and bilateral central bank currency swaps. The narrative here distinguishes the sources of external finance available in the short-term to address liquidity needs by country groups and regions. It also explores the role of SDRs and the potential benefit they hold for different developing country groupings. While it is clear that a new widely-anticipated SDR allocation is an important reserve enhancement, it is not a panacea. This leads to a discussion of another project output, the Sustainable Development Finance Assessment (SDFA) framework. This framework examines the external financial sustainability of developing countries – the capacity to generate revenues in foreign currency to meet the servicing requirements on the country's net external liability, i.e., the country's external solvency – that shapes the fiscal space in the medium and long run to achieve the Sustainable Development Goals (SDGs).

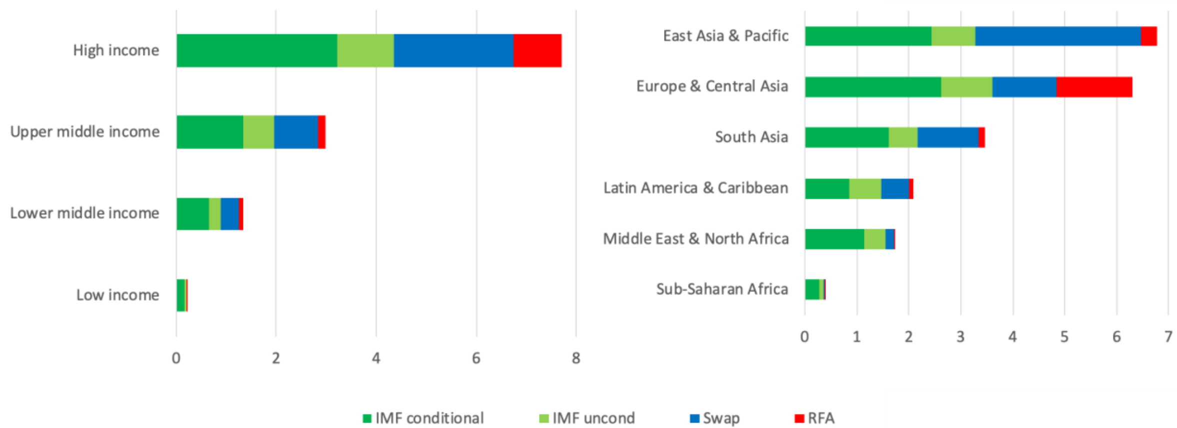
2. The Global Financial Safety Net (GFSN) Tracker

The Global Financial Safety Net has expanded dramatically in size and complexity since the foundation of the Bretton Woods Institutions. Available external liquidity for short-term crisis prevention or backstop sums up to at least USD 3,5 trillion in 2018 (Mühlich et al., 2020). Today, the IMF is no longer alone, with Multilateral Development Banks (MDBs), Regional Financial Arrangements (RFAs) and central bank Currency Swaps (swaps), among others, playing crucial roles. RFAs, such as the Latin American Reserve Fund (FLAR), the Arab Monetary Fund, the Chiang Mai Initiative Multilateralisation, and the Eurasian Fund for Stabilization and Development, provide crucial mechanisms through which regional groups of countries mutually pledge financial support to their member economies during times of financial difficulty. Bilateral central bank instruments that began being utilized particularly in the global financial crisis 2008/2009 are increasingly dominating the landscape. In reaction to the COVID-19 economic shock, swaps accounted for at least USD 1,7 trillion of the USD 1,8 trillion loaned through the GFSN from February 2020 to March 2021. Of this, around 108 billion was sourced mainly through loans without standard conditionality of the IMF and almost USD 4 billion from the RFAs[1].

Produced by UNCTAD in partnership with the Freie Universität Berlin and Boston University, the GFSN Tracker visualizes both, potential access to external liquidity as well as actual liquidity provision on the global, regional and bilateral level for all UN member countries during the ongoing COVID-19 crisis. There is a clear income bias in the access to the GFSN (see Figure 1) – with high income and upper middle-income countries enjoying the greatest access, and lower middle-income and low-income countries relatively little. In particular, compared to other regions, South America, the Middle East and Sub-Saharan Africa suffer from lack of access to crisis response mechanisms beyond the IMF. For those countries able to make use of all elements of the GFSN, increasing lending volumes could represent an immediate enhancement of financial resources, potentially expanding fiscal space in the short-term, although incurring a liability in foreign currency.

[1] For more details, see Mühlich et al. (2021).

Figure 1. GFSB lending capacity 2020
(per cent of GDP, weighted GDP share, by income group and by region)



Source: GFSN Tracker (https://gfsntracker.com/)

Where developing countries have limited GFSN access, reliance on either the standard programs of the IMF or foreign reserves may be their only option in the event of a sudden drying-up of external liquidity, which cannot be sustained indefinitely. As discussed below, a new general allocation of SDRs by the Board of the IMF is another way of increasing the access of developing countries to external liquidity as it represents a windfall boost to these reserves, without giving rise to a short-term build-up in the country's external liability, as in the case of the GFSN.

3. Special Drawing Rights

First created by the IMF in 1969, SDRs are an international reserve asset to supplement the foreign reserves of its member countries and a potential claim on freely usable currencies of IMF members[2]. The SDR value is based on a basket of these currencies (currently the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound Sterling). It also serves as a unit of account of the IMF and other international organizations and is largely used in transactions between the IMF and member countries.

The possibility of a new allocation of SDRs has been enthusiastically anticipated at least since the onset of the COVID-19 pandemic (given that the last allocation took place in response to the Global Financial Crisis of 2008). On 7 April the G20's Finance Ministers and Central Bank Governors called on the IMF to make a new record allocation of USD 650 billion (around SDRs

[2] Indeed, it is the member countries of the SDR Department and not IMF members who can hold SDRs. But the membership of the two is now identical. Besides these countries, the SDR can be held and used by the IMF and certain official entities (international organizations and monetary institutions, including two regional funds) prescribed by the IMF and referred to as "designated holders", but not by private agents. The IMF cannot allocate SDRs to itself or to prescribed holders. Currently, prescribed holders hold less than one per cent of the total SDRs allocation (Andrews, 2020).

458 billion at the current SDR/USD exchange rate. This proposal is set to be presented to the IMF's Executive Board in June. If approved, as expected, this allocation will more than double the total stock of SDRs (currently SDRs 204 billion) and will amount to more than 2.5 times the general allocation of SDRs 183 billion in 2009[3].

While the new SDR allocation is widely welcomed, it is simply not big enough to change the playing field. To illustrate this, we compare the external debt servicing requirements of vulnerable countries for 2021 and 2022 with the share of the SDR allocation that will accrue to each country in Figure 2. For 68 of the 73 countries eligible to the G20 Debt Suspension Initiative (DSSI), the cumulative external debt service requirements amount to USD 177,5 billion until the end of 2022, whereas the cumulative SDR allocation is USD 26,7 billion, or 15 per cent of the requirement.

To further emphasize the point of persistent vulnerability we include all DSSI countries with a highly speculative or weaker credit rating (i.e., countries that are not deemed investment grade) – some 38 countries - and find that the SDR share makes up just 13 per cent of the external financing requirement. The most precarious group is the non-DSSI MICs (12 countries) who are rated as less than investment grade. Their share of the new allocation of SDRs will amount to just under 9 per cent of the required debt servicing needs – and they do not have access to the DSSI. However necessary, the new SDR allocation is not sufficient.

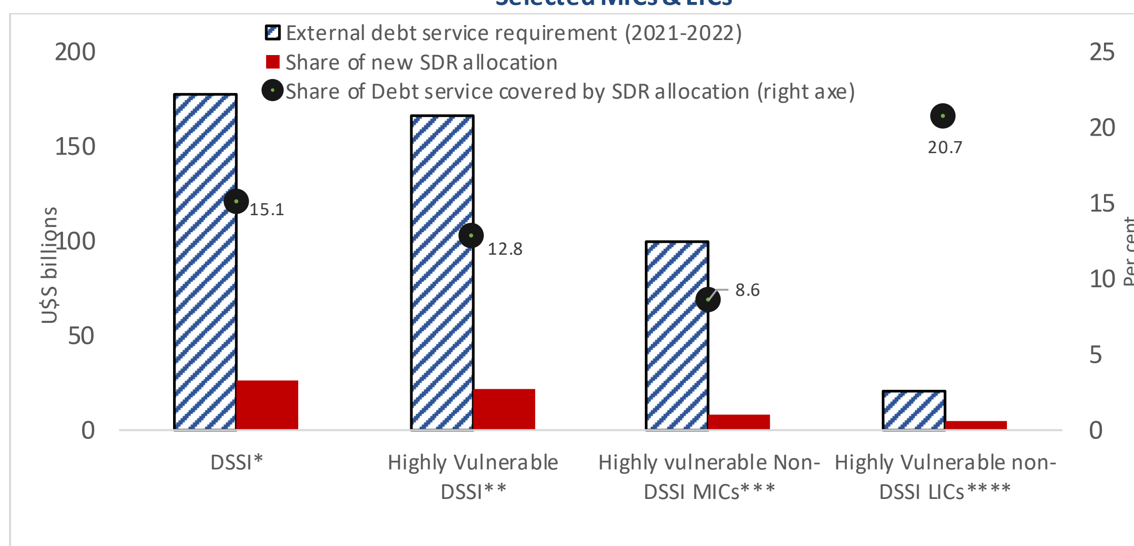
Moreover, the allocation does not automatically create the fiscal space urgently needed in LICs and MICs, but rather carries the potential to do so indirectly. As developing countries do not issue international currencies and face external constraints, greater access to unconditional external liquidity in the short term will reduce or avoid the necessity to adopt pro-cyclical policies to adjust the balance of payments. But the channels through which a new SDR allocation eases the short-term external constraint (i.e., the external liquidity situation), indirectly increasing the country's policy space (both fiscal and monetary)[4], are specific to the very singular nature of SDRs, as detailed in Box 1[5].

[3] Decisions by the Fund on general allocations of SDRs require approval of at least 85 per cent of total votes held by IMF members of which 16.5% are held by the United States. A special one-time allocation of SDR 21.5 billion took effect on September 9, 2009 to correct for the fact that members that had joined the IMF after 1981 had never received an allocation. The Articles of Agreement also allow for cancellation of SDRs, although to date there have been no cancellations. In its decisions on general allocations of SDRs, as prescribed under the Articles of Agreement, "the IMF has sought to meet the long-term global need to supplement existing reserve assets while promoting the attainment of the IMF's purposes: avoiding economic stagnation and deflation and preventing excess demand and inflation" (IMF, 2015, p.86). While the term "long-term" implies that SDR allocations are not intended to respond to cyclical or short-term economic fluctuations, the "global" refers to the fact that countries with reserve needs account for a significant share of the global economy. The IMF staff uses standard indicators of reserve adequacy to calculate these needs and recommend (or not) a general allocation (IMF, 2016).

[4] See Paula, Fritz and Prates (2017).

[5] For other possible indirect channels, see UNCTAD (2020), Box 4.5 (p. 102-103).

Figure 2. Share of external debt servicing requirements covered by the new SDR allocation: Selected MICs & LICs



Source: World Bank, International Debt Statistics and Trading Economics (https://tradingeconomics.com/country-list/rating)

** 68 DSSI countries* ****12 Non-DSSI MICs HS or worse*

*** 38 DSSI countries (MICs and LICs) highly speculative ratings (HS) or worse* ******Non-DSSI LICs HS or worse*

Box 1: The nature of SDRs and how they can benefit Developing Countries

The nature of the allocation

It has already been said that SDRs are an international reserve asset typically held by the central bank of a country. By design SDRs are not freely traded like the US dollar, nor can SDRs be held by private holders. We use a stylised central bank balance sheet to explain how an SDR allocation could enhance the external liquidity situation of a potential recipient of a new SDR allocation (see Figure 3).

In most member countries, SDRs are part of a country's international (or foreign) reserves, along with foreign currency holdings, the country's IMF reserve position, gold and other assets. Hence, an SDR allocation represents a windfall boost to a country's reserves and is described as 'costless' because this allocation involves two elements: an increase in the IMF's SDR Department participants' allocation of SDRs (liabilities) and a matching increase in its holdings of SDRs (assets). The SDR Department pays interest on SDR holdings to each member and levies charges on SDR allocations of each member at the same rate (the SDR interest rate), netting out to zero. But the SDRs are 'cost-free' only if countries do not use their SDR allocations. The use of the SDR allocation incurs an interest charge at a non-concessional rate- with interest charged on the difference between a country's cumulative allocation of SDRs and its effective holdings[6]. The SDR allocation is a liquidity support - not wealth transfer like a grant (IMF, 2009, p.8).

[6] The SDR interest rate is determined by the three-month rate on the Treasury bills of the five currencies in which SDRs are denominated with a floor of 0.05 per cent. Currently it is at the lowest historical level, given easy monetary conditions.

Crucially, it is useful to bear in mind that SDRs are usually an asset of the country's central bank, rather than of its Treasury. Therefore, a new SDR allocation would have no direct impact on the Treasury account which is one item of the central bank's liabilities (government deposits)[7]. The central bank's liabilities will increase by the same amount of the SDR allocation because it represents a long-term foreign exchange debt liability to the participants of the IMF's SDR department[8], but charges on this liability and the interest earned on the SDR asset are the same, as explained above[9].

Figure 3. Stylised Central Bank Balance Sheet

Assets	Liabilities
1a. Foreign Reserves (claims on non-resident) ▪ **Foreign currency [1]** ▪ **IMF reserve position** ▪ **SDRs** ▪ **Gold** ▪ **Other assets**	1L. Currency in circulation 2L. Bank reserves 3L. Government deposits **4L. Open market operations** **5L. Standing facilities**
2a. Open market operations[2]	6L. Other liabilities **Long-term external liability to the participants of IMF' SDR department**
3a. Standing facilities	7L. Equity capital (own funds)

Source: UNCTAD's secretariat elaboration based on Bindseil (2004, p. 48) and Lavoie (2014, p.467).
Notes:
1. *In convertible currency, including bonds, currency and deposits.*
2. *Reverse operations (repos) and outright holdings of government securities.*
3. *Reverse operations and issuing debt certificates.*
4. *Including those to fulfil required reserves.*

[7] In some countries, as the United States, the Treasury also has accounts in commercial banks (Lavoie, 2014).

[8] The current methodology of the IMF Statistics Department (STA) is to record the SDRs allocations based on the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). According to IMF (2009, p. 3), "The rationale for the BPM6 treatment of the allocation as a long-term foreign exchange debt liability is that: (1) countries are required to pay interest to the SDR Department on the allocation they have received, and arrears arise if payments are not made, and (2) a country would be required to repay its allocation of SDRs in certain circumstances such as upon termination of its participation in the SDR Department or upon liquidation."

[9] Under Article V, Section 1, each member is to deal with the Fund only through its fiscal agent, and the Fund is to deal with the member only with or through the same agent. As in most countries the Central Bank (i.e., the country's monetary authority) is the entity that acts as a member's fiscal agency, the SDR allocation and holdings are on its balance sheet. However, in a few countries, they are on the fiscal authority's balance sheet (IMF, 2009).

Benefits of SDRs

So how can developing countries benefit from a new SDR allocation? Four options are explored below – two related to SDRs as a held-asset (usually referred as to “unused”) and two to the use of SDRs - beginning with the most passive, which still carries some benefit[10].

1. The most straightforward and direct benefit is to simply hold SDRs as a costless asset on the balance sheet of the central bank. In the case of developing countries, the held SDRs have several possible benefits. For example, as a country’s reserve assets are boosted relative to its short-term debt, this would enhance the country’s external liquidity position. It may also lead to a lower sovereign risk and a positive revision of its rating as foreign investors and credit rating agencies take into account enhanced reserves in their portfolio allocations and assessments, respectively. Therefore, an increased SDR allocation will potentially lead to greater access to and lower cost of foreign financing, including external sovereign debt, and could also avoid a sell-off of domestic sovereign debt by non-resident investors that would have negative fallouts on the fiscal and monetary policy space.

2. As the SDR allocation will bolster the foreign reserve position of the country’s central bank, the held SDRs may free up other foreign reserves’ assets – such as foreign exchange holdings – to protect the country’s currency during times of sudden stops or outflows of foreign capital through interventions in the currency market. While SDRs were created to support the management of the Bretton Woods fixed exchange rate system, it is well-known that in the post-Bretton Woods regime, developing countries accumulate foreign exchange reserves as a form of self-insurance to face the boom and bust of speculative capital flows and contain their adverse effects. A key-adverse effect of outflows is the associated currency depreciation that increases the value in domestic currency of external debt (denominated in international currencies). A depreciation will therefore absorb a greater share of government’s revenues to service official external debt. The ability to curb a depreciation with the liquidity backstop that foreign reserves provide means that the country’s fiscal space is not undermined to the same extent. Where a depreciation could also lead to inflationary pressures given the greater pass-through of exchange rate changes to domestic prices in these economies, requiring a rise in the policy rate, boosted foreign reserves could also preserve the policy space to adopt counter-cyclical monetary policies in times of external shocks, such as the COVID-19 pandemic.

3. Countries could use SDRs in transactions with the IMF. The SDR is used extensively in transactions and operations between IMF members and the General Resources Account. In practice, the majority of purchases, repurchases, and loan drawings and repayments tend to be made in currencies, whereas charges, remuneration, interest on loans, and the reserve asset portion of quota payments tend to be paid in SDRs. Currently, quota payments correspond to 14 percent of the total allocation and repayments of Fund programs to 12 percent. Conversely, the IMF generally offers SDRs as an alternative to currencies in lending operations and transactions with members. This use of the SDRs frees-up foreign currency that would need to be disbursed in fund-related operations.

4. As a potential claim on freely usable currencies of IMF members, developing countries could sell SDRs to meet a balance of payments need[11]. Therefore, when used in this sense, SDRs can provide a

[10] The benefits are the same when the Treasury is the official owner of foreign reserves. The only difference refers to which institution (Central Bank or Treasury) receives the profits or bear the losses of the management of the foreign reserves, including the use of SDRs.

[11] The Articles of Agreement authorize the exchange of SDRs for currency among participants, but the Executive Board exercised its power to authorize other operations in 1979 and 1980 by permitting a broad range of operations among SDR Department participants and prescribed holders, including loans, pledges, donations, swaps, and forward operations. Yet, the bulk of SDR transactions consist of spot sales and purchases of SDRs against freely usable currencies (IMF, 2015).

country with both unconditional and (currently) low-cost liquidity in foreign currency as countries that hold less than their cumulative allocations must pay the SDR interest on the shortfall, as aforementioned[12]. Equivalently, the SDR buyers that end up with SDRs holdings greater than their cumulative allocations will receive the SDR interest rate on the excess. Countries may conduct such transactions bilaterally with any country or prescribed holder. However, in practice, since 1987 such transactions are usually made through a market in SDRs coordinated by the IMF through voluntary trading arrangements (VTAs) to buy and sell SDRs with a group of countries and one prescribed holder (so-called market makers)[13]. According to Plant (2020), by May 2020, low-income and lower-middle-income countries had used 58 per cent and 52 per cent of their current allocation of SDRs, respectively, compared to 18 per cent for upper-middle-income countries and 4 per cent for high-income countries[14].

The potential new allocation of SDRs has also ignited a debate on how a voluntary reallocation (through lending or donation) of the new SDRs and currently held SDRs from developed to developing countries could help these countries. Many proposals are on the table, spanning modalities already in use (transfer to the IMF concessional funds, the Poverty Reduction Growth Trust (PRGT) and the Catastrophe Containment and Relief Trust (CCRT)) to new modalities, such as the creation of funds outside the IMF - e.g., a COVID-19 response investment fund, a Global Vaccine Fund and a Global Social Protection Fund (Plant, 2020 and Ghosh, 2021)[15] – and of a new IMF fund to provide debt relief for MICs along the lines of the CCRT (Herman, 2020). The latter would be particularly welcome given the tiny share of the new reallocation that highly vulnerable MICs will receive, as seen above.

An even bolder option would be to link the SDR allocation with the provision of development finance that recalls proposals put forward in the 1970s, including by the United Nations (Herman, 2020). This option sheds light on the other shortcoming of the current international financial architecture – i.e., the insufficiency of affordable long-term financing to enable structural transformation in developing countries – the core problem addressed by UNCTAD's Sustainable Development Finance Framework, as detailed in the next section.

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[12]There is no obligation under current Executive Board decisions for participants to maintain any particular level of SDR holding. An earlier requirement that countries hold a certain proportion of their allocations (a so-called "reconstitution requirement") was abrogated in 1981 (IMF, 2015).

[13]IMF members with a strong balance of payments and reserves position may be designated by the IMF to purchase SDRs from members with weak external position. (For more detail see IMF, 2015).

[14]When the fiscal authority is the holder of the SDRs, it could use this option to directly reduce the sovereign external debt. But, in the case of LICs, the cost of using SDRs should be weighed against the projected cost of the available concessional financing. The SDR interest rate are currently at historical lows but has averaged about 5.5 percent over the long term (IMF, 2009).

[15]According to Plant and Andrews (2021), the creation of these funds would require major changes in the IMF's legal and policy framework (including the Articles of Agreement), hence being longer to implement as institutional hurdles would need to be withdraw.

4. The UNCTAD Sustainable Development Finance Assessment (SDFA) Framework

Many developing countries - especially the most vulnerable LICs and MICs - face not only insufficient short-term liquidity in foreign currency (which could be addressed in part by the GFSN or a new SDRs allocation), but also external solvency problems. Debt burdens that either were already unsustainable prior to the COVID-19 pandemic or that became unsustainable under its impact, constitute a major and immediate roadblock not only to economic recovery in these countries, but also to the achievement of the Sustainable Development Goals (SDGs). Therefore, in order to respond and recover from the COVID-19 crisis in a manner that is aligned with the 2030 Agenda, both the liquidity and solvency problems of the developing world must be addressed.

While the GFSN tracker provides information on short-term liquidity options, the UNCTAD SDFA framework focuses on resources necessary to enhance fiscal spaces in developing countries in the medium- and long-term to ensure that recovery strategies from the Covid-19 pandemic remain closely linked to these resource needs. The framework identifies the development finance needs of countries to achieve structural transformation through the most significant SDGs within the bounds of their external position[16] and how to make this compatible with external financial sustainability, external debt sustainability and public debt sustainability.

Taking as a point of departure the UNCTAD gap-analysis tool, which estimates the impact of achieving SDGs 1-4 on public debt sustainability of selected developing countries[17], this framework goes beyond standard debt sustainability assessment (DSAs) models to focus on development finance requirements for sustainable development, considering all sources of external financing, i.e., foreign direct investment (FDI), foreign portfolio investment and external debt (public and private).

The UNCTAD SDFA framework also differs from standard DSA models because it does not draw on a routine assumption of full employment of all resources at any moment in time and place that would imply that changes in aggregate spending can only have a composition effect. In full employment models, fiscal austerity to achieve public debt sustainability is the logical conclusion of the model in the case of unsustainable external debt. In the UNCTAD SDFA framework, output is determined by aggregate effective demand – given the external constraint that establishes an upper bound for long-term growth and, hence, for long run sustainability of the public sector, and investment into the SDGs. Various combinations of macroeconomic and development policies can be employed in this framework, of which fiscal austerity is but one. This means that the causality runs from the external position to the country’s fiscal space in the medium and long-run. Moreover, while standard models use debt sustainability indicators based on gross liabilities, our framework considers both liabilities and

[16] This position has a flow dimension (balance of payments) and a stock dimension (net international investment position), as defined in the BPM6).

[17] See UNCTAD (2019), ch. 4.

the assets of the country and the public sector, resulting in indicators based on the net stock of liabilities, as detailed below.

The UNCTAD SDFA framework builds on the works of Prebisch (1949, 1951), Thirlwall (1979), Domar (1944 and 1957), Pasinetti (1998) and Bhering et al (2019) and places external financial sustainability (the country's external solvency or its ability to service the stock of net external liabilities (NELs) that includes the net external debt) at the centre of the analysis[18]. The capacity of developing countries to sustain a growth path that enables structural transformation depends on their ability to manage external liabilities, avoiding an explosive path. This problem is independent of the specific form of external liabilities. As Raúl Prebisch, the first executive director of UNCTAD, stressed, "*As the stock of foreign capital increases its financial services also grow, which will demand an increasing proportion of resources from exports, and the more the proportion of these services grows, the less there will be room for importing capital goods with these resources* (Prebisch, 1949:480, authors' translation).

Therefore, the central relationship for assessing external financial sustainability of developing countries is the ratio between the country's NELs and its repayment capacity. The latter refers to export earnings (goods and services) and immigrant remittances which are the sources of revenue in foreign currency that can be used to meet external financial service obligations (profits, dividends, and interest)[19]. This ratio is our first indicator and its path will depend on the difference between the growth rate of net external liabilities (the rate of return effectively paid on these liabilities) and that of exports earnings plus immigrant remittances. If this ratio deteriorates (i.e., increases continuously), it will become necessary to generate a trade surplus to stabilize the growth of NELs, even where previous trade deficits may have been very small and constant. In sum, the indicator of external financial sustainability will stabilise in the long run if the rate of growth of exports earnings plus immigrant remittances is greater than the net cost of external liabilities in trade deficit countries.

However, some of the components in NELs might face a constraint relative to exports. This is the case, for example, with net external debt in foreign currency. Developing countries can face both credit constraints and a sudden stop on new borrowing. Moreover, international debt obligations held in foreign currency and under foreign law have specificities in comparison to the other sources of external financing (i.e., FDI and portfolio investment). Our second indicator thus is the ratio between the country's net external debt and its repayment capacity (export earnings plus immigrant remittances).

The assessment of external financial and debt sustainability will define the long run growth trajectory subjected to balance-of-payment constraints. Finally, the Gross Domestic Product (GDP) growth rate is introduced into the public sector sustainability condition – the ratio of net public sector liabilities to GDP that is broader than the standard indicator (the ratio of the

[18]The NELs is the inverse of the net international investment position.

[19]The standard solvency indicator only considers exports earnings (Medeiros and Serrano, 2001). Our framework also includes remittances because they are an important source of foreign currency revenue for many LICs and MICs. In the case of developed countries, it is necessary to consider the net income received from abroad that is in general positive (Akyüz, 2019).

public sector gross debt to GDP) - which allows us to determine the fiscal space available for SDG investment.

5. Conclusion

Responding to - and recovering from- the shock of the COVID-19 pandemic requires enhanced capacity to diagnose fragilities, identify resources and design appropriate policy responses. Towards these aims, the policy briefing has highlighted two of the outputs of the project *Response and Recovery: Mobilising financial resources for development in the time of Covid-19*.

The GFSN tracker provides information as to the potential short-term liquidity in foreign currency accessible by developing countries and shows that there are both underserved country income groupings and regions. The SDFA framework points to the imperative of viewing medium- and longer-term fiscal space to support development from the perspective of external financial sustainability.

It is clear there is no simple or single quick-fix to expanding fiscal space, and developing countries will need to employ a wide range of policies to return to a sustainable development path and achieve the 2030 Agenda. Moreover, the international community will have to respond in many and varied ways to address the inherent asymmetries of the international monetary and financial system, of which the SDRs are a useful, but insufficient part.

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