CIVIL SOCIETY MEETING
Financing for Development in the Era of COVID-19 and Beyond
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Dialogue 2 – Global Liquidity & Financial Regulation

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The COVID-19 pandemic has brought the world to the brink of an economic crisis that was already in the making, due to the rapid increase in asset prices and debt (private and public) as well as a dramatic expansion in margin loans.

Even before the pandemic, low and negative interest rates had fostered share buy backs and mergers and acquisitions leading to unprecedented levels of capital concentration and centralization.

This economic expansion has been supported on poor regulations and financial liberalization that usually leads to crises.

Capital account liberalization attracts large capital inflows that increase the pressure on loosely regulated domestic financial systems incapable of preventing currency and maturity mismatches or effectively managing credit risks.

Now, almost ten months into the pandemic, we can see these alarming signs once again: a new rise on asset prices, such as blue-chip U.S. equities, gold, oil, platinum and crypto currencies to the levels before the lockdown, which has been mistaken as signs of economic recovery. In these few months billionaires have seen their fortunes rise by 27%.

On the other hand, many measures to cope with the pandemic have been credit based, opening the door to further instability. This, in the face of other instruments, that can better ease the financial burden of addressing the pandemic and prompt recovery in developing countries, such as the allocation of Special Drawing Rights (SDR). This solution will not just strengthen the budgets of low and middle-income countries alike -without the conditionality of debt- but will open the door for fiscally strapped donor countries to increase their support for development assistance.

The lack of regulation has also favored the rise of private entities like credit rating agencies as non-appointed regulators of the international financial system. They which continue to underplay developmental risks of non-sustainable investments, such as: environmental degradation, inequality or the rise in food prices and scarcity produced by the commodities futures market that can result in food riots and famine, among others.

In this scenario, it is always important to remember that the Bretton Woods institutions are members of the UN System and not supranational or self-governing entities, and consequently it falls under the purview of the UN and member states to assess the developmental impact that financialization has had in the past decades and its foreseeable consequences. Even more, the Covid-19 pandemic has stressed the need to build at the heart of the UN a new financial regulatory system for people and planet.