Introduction of the UN SG's GA Report on Debt Sustainability and Development

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Mr. President, distinguished delegates, ladies and gentlemen, I am pleased to give you an introduction to the UN SG’s report on Debt Sustainability and Development under agenda item 17 (C).

Five years from the global financial crisis, the crisis stricken countries are not yet out of the woods. Economic recovery is happening, but it is uneven and timid. On the whole, with all the stimulus packages and expansionary monetary policies, the recovery is taking place very slowly. Public debt and, in some cases, private debt, remain very high in many countries. Unemployment rate also remains high and may probably remain high for a long period to come. Economic contraction has stopped in advanced economies, but their imports have kept falling and the ones with economy recovering taking place, their import growth has not picked up. Coupled with economic growth slowdown in some major emerging economies, the global demands are still weak. Thus rebuilding of economic buffer for low income countries has been delayed and developing countries should continue to rely mainly on domestic demand.

I would like to mention one update to the debt report which got worsened after the report was sent to the printer, namely the capital flow volatility in some major emerging economies induced by the economic recovery in the advanced economies and the talk of normalization of the interest rates. The resulted capital reversals have caused financial instability in these emerging economies.

ODA continued to be negatively impacted by the global crisis in 2012, as it contracted by 4 per cent in real terms compared to 2011. This is the second year of continued contraction of ODA following a 2 per cent drop in 2011. The reduction in ODA is attributed to the tightening of government budgets in donor countries in response to increased fiscal pressure associated with the global financial and economic crisis.
Let's briefly review the general trend of the debt situation for the developing countries as a group. 2012 marked the third consecutive year that the growth of external debt has exceeded 10 per cent following nearly a decade of average growth around 7 per cent. Long term debt represents 70 per cent of total debt stocks and is mainly owed to private creditors. The share of official long term lending to developing countries continued to decline in 2011 and 2012. At the same time the share of short term debt continued to increase from the 2011 elevated level, now constituting more than a quarter of total debt stocks, which is not very encouraging but reflecting the legacies of the global financial crisis.

In aggregate, international reserves for developing countries as a group continued to increase in 2012, although their rate of growth declined to 5 per cent in 2012, marking the lowest rate in more than a decade, mainly due to weak external demand.

The general debt situation of developing countries reveals a weakening of the economic buffer built during the good years and a worsening of debt indicators. But on the whole, for the great majority of countries, debt is manageable and the developing countries have proved to be resilient to the global crisis.

Let's have a walk around the world to see the trend in debt of the different regions:

For the Eastern European and Central Asian countries, debt to GDP ratio, already the highest of all the regions in 2011, has risen further from 39.3 to 41.1 per cent in 2012 mainly driven by an increase in short term debt. But the overall debt position is supported by holdings of foreign exchange reserves.

Total debt stocks in Sub-Saharan Africa continued to grow by 6.4 per cent, though at a slower pace than 9 per cent growth in 2010 and 2011. The region's share of total debt stocks of developing countries continued to decline largely owing to the HIPC initiative and the MDRI as well as their own economic growth.

In Latin America and the Caribbean, total debt stocks in 2012 were on the rising trend. Capital flow volatility was dramatic for some emerging economies in 2012 and 2013, from large inflows to huge reversals leading to financial instability and other complications to macroeconomic management. Caribbean economies are
very vulnerable with the exception of the commodity-producing countries. Low growth and high public debt and sometimes external debt are major problems. How to manage public and external debt in a sustainable way is a major challenge.

In East Asia and the Pacific, total debt stocks continued to grow at a high rate of roughly 19 per cent in 2012.

For the 49 LDC countries, 2012 saw the total external debt increased to an estimated 7 per cent in nominal terms compared to 2011. As a result, the ratio of debt to GDP increased in 2012 and the ratio of total debt to exports increased by almost 4%. Both debt ratios were higher than the respective ratios of developing countries. As of April 2013, there were two LDCs in debt distress (Myanmar and Sudan) and ten LDCs in high risk of debt distress (Afghanistan, Burundi, Comoros, Democratic Republic of Congo, Djibouti, the Gambia, Haiti, Kiribati, Sao Tome and Principe and Republic of Yemen).

Looking ahead, to maintain debt sustainability is a challenging job. Economic recovery will be slow in developed countries for some time to come and the emerging economies are not expected to restore their dynamic fast economic growth as they are going through structural reforms. But theirs is still a growth story.

Once unconventional policies unwind, developing countries with access to international bond markets will face particular challenges. After years of historically low global interest rates in the aftermath of the subprime crisis, borrowing costs on long term debt have started to rise. With normalization of interest rates, developing countries will find themselves in a situation of costlier financing and continued sluggish global growth. In this context, particular attention should be given to the evolution of their balance of payments positions as interest payments on debt might start increasing without a substantial improvement in their current accounts since the demand outlook in most developed markets remains uncertain. It is of particular importance for policy makers to examine the risks posed by such a scenario and adopt appropriate strategies to secure debt sustainability in the medium term.

In addition to coping with the impact of exit strategies, consideration also should be paid to debt crisis prevention and resolution, and the reform of the international
financial architecture, in order to reduce the frequency and severity of debt crisis.

Last time I mentioned that the crisis was seen as an opportunity to reform the international financial and monetary system. “Not to waste a crisis” was widely quoted at the beginning of the crisis, hoping serious reforms would take place as a result of the crisis. However, after five years, we have seen some progress but no significant progress. For years the international community has been debating the need of a debt crisis workout mechanism. The current crisis showed clearly “too little and too late” debt restructurings, or procrastinations, is becoming an even more serious problem. Costly bailouts are costly but may not restore debt sustainability. The New York second circuit court ruling on the Argentine debt showed very clearly that CACs is far from sufficient in dealing with the creditor hold out problem. Instead, with this ruling, the holdout problem is returning with a big bang and is becoming a huge issue. The past GA debt reports and resolutions have highlighted the need for the United Nations and other multilateral institutions to actively explore the need for the development of an agreed rule-based approach to sovereign debt workouts to increase predictability, transparency, fair and timely debt restructuring when required. To respond to the encouragement of the General Assembly resolutions, UNCTAD is currently taking the lead in this direction with the establishment of a Working Group on the exploration of the debt workout mechanism comprising prominent experts and stakeholders in this field including the IMF, the World Bank, the Paris Club and regional development banks, the NGOs, the private sector and so on and has started officially from February 2013 to examine options for a Mechanism.¹ An inclusive and pluralistic international working group to examine options for enhancing the international architecture for debt restructuring would be a good initiative to discuss,

¹ Members and observers of the Working Group of the UNCTAD project currently include prominent legal and economic experts, representatives from the International Monetary Fund, World Bank, Paris Club, private sector, NGOs, think tanks, labor unions, African Development Bank, Commonwealth Secretariat, Inter-Parliamentary Union, INTOSAI, Asian Development Bank, Inter-American Development Bank, and European Bank for Reconstruction and Development.
design and propose alternatives to the international community.

Maintaining debt sustainability can be encouraged by the adoption of adequate policies and standards emphasizing the prevention of debt crises. In this respect, the implementation of the Principles on Responsible Sovereign Lending and Borrowing provides a step in the right direction. Norway conducted a creditor audit based on the UNCTAD Principles in August this year, marking the start of the implementation of this set of Principles.