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Summary of interactive thematic round table 6

Debt management solutions supporting trade and development

1. The round table was chaired by H.E. I Gusti Agung Wesaka Puja, Ambassador of Indonesia. Mr. Ellias E. Ngalande, Executive Director, Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), acted as the moderator of the debate, and the panellists were H.E. Mr. Hakon Gulbrandsen, Secretary of State for Development, Deputy Minister, Norway; Mr. Sinan Al-Shabibi, Governor, Central Bank of Iraq, and Mr. Jürgen Zattler, Deputy Director-General, Multilateral and European Development Policy, Trade; Ministry for Economic Cooperation and Development, Germany.

2. While the debt situation of developing countries had generally improved in recent years as a result of debt relief and a favourable external economic environment for most debtor countries, the current episode of financial turmoil had shown how fragile those conditions were. With the worsening of the global economic situation, there was a real danger that the debt situation could deteriorate again. Therefore, longer-term debt sustainability and continued progress towards the Millennium Development Goals (MDGs) required further progress in debt management. Moreover, debtor countries had to strengthen their fiscal and financial systems and donor countries had to fully honour their commitments with regard to official development assistance (ODA). UNCTAD should continue its work on debt and development finance issues, including the provision of technical cooperation in debt management.

3. Debt relief under the heavily indebted poor countries (HIPC) programme and the Multilateral Debt Relief Initiative had been beneficial to numerous developing countries, many of them in sub-Saharan Africa. Those benefits had been supported by ODA flows and increased foreign direct investment (FDI), partly in response to policy reforms and greater macroeconomic stability.

4. One panellist gave a detailed account of the origins of the debt problem of Iraq and the unusually favourable terms of debt relief from which that country had benefited to put it back on a track of external debt sustainability.

5. Debt management remained a critical instrument to ensure debt sustainability and to achieve the MDGs, in particular in the light of ongoing changes in the debt structure of many developing economies and also because increased investment in social sectors with low returns on investment might be at the expense of investment in the productive sector, where returns were typically higher.

6. The composition of the external debt was considered to be as important as its level, and debt management strategies should aim at avoiding currency and maturity mismatches. Moreover, the debt situation of a country was closely related to its growth performance. As external borrowing had to lead to an increase in the export capacity of a country, it was essential that external loans be used for productive investment.

7. The increase in domestic debt was highlighted as a key development that required special attention, given the risks involved. One particular challenge was the lack of reliable data on domestic debt.

8. In addition to the link between growth and debt sustainability, it was also important to recognize the systemic aspect that net repayment of external debt always required a current account surplus of the debtor country with a current account deficit of the creditor country as its counterpart, a point often overlooked by policymakers.

9. Debt management had to be designed in such a way that it factored in the possibility of external shocks. In that connection, terms of trade in Africa were four times as volatile as in the developed countries, mainly as a result of sharp fluctuations in primary commodity prices.

10. Lending terms had to be fully transparent, and debt should be considered as not only as a financial but also a moral issue. To avoid a repetition of debt crises, lenders had to follow the principle of responsible lending, assessing the borrowers' situation before granting a loan. Norway, as a major donor supporting UNCTAD's Debt Management Financial and Analysis System (DMFAS) programme, gave particular attention to the problem of odious debt. Appropriate debt management was not enough to cope with the external debt situation: also necessary were good governance and anti-corruption measures, mobilization of domestic resources, and a supportive macroeconomic environment.

11. The different stakeholders should identify ways and means to improve transparency in lending conditions. The IMF/World Bank Debt Sustainability Framework (DSF) could be very useful for the purposes of a debt transparency initiative that would allow for better coordination of lending policies.

12. The DSF, a useful tool, could be developed further to better reflect the investments undertaken with external credit; to better integrate exogenous shocks into debt sustainability analysis; to link the analysis of external debt with that of domestic public debt; and to reflect dynamically the quality of domestic institutions. Input from all stakeholders was necessary to ensure the further development of the DSF in those and other directions.

13. With a view to achieving the MDGs, debt relief could be expanded to all developing countries, without penalizing countries that had managed to avoid major debt service problems. Innovative international lending instruments were needed to mitigate the impact of exogenous shocks. Moreover, there was a lack of coordination among users, donors and providers of debt management capacity programmes.

14. There was broad agreement on the usefulness of the DMFAS programme and UNCTAD's support for capacity-building in debt management. That support,

together with UNCTAD's analytical work, should be strengthened further. UNCTAD could help in developing instruments to assess the vulnerability of different actors and instruments, which in some cases might also require stronger supervision; in designing better financing instruments and measures to control destabilizing capital inflows; in assessing risks; and in advising on macroeconomic policies to promote productive investment and growth.