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Ministerial round table: Reassessing debt sustainability in the contemporary economy – risks, vulnerabilities and policy options

Summary prepared by the UNCTAD secretariat

1. During the discussion, the panellists highlighted the pressing importance of the international community addressing the risks of debt crises caused by rising levels of debt distress in developing countries.

2. In his opening remarks, the Director of the UNCTAD Division on Globalization and Development Strategies noted that debt sustainability was a serious problem that warranted urgent reflection and attention. A growing number of developing economies were now considered in or close to debt distress, which threatened to unravel the achievements of the debt relief initiatives of the 1990s and early 2000s and to undermine the ability to achieve the Sustainable Development Goals. However, the current international financial architecture was inadequate for tackling the problem.

3. The panellists examined the growing problem of unsustainable debt and discussed a range of possible solutions.

4. There was general consensus that developing country debt was rising and that debt indicators were deteriorating. While this was a global problem, it was particularly acute for those countries that had benefited from the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative. Panellists also agreed on the critical risk that debt problems posed for the achievement of the Sustainable Development Goals.

5. While debt had an indispensable role to play as a core financing instrument for productive investment and developmental transformation, there was a danger of debt being channelled into projects with weak risk-assessments.

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6. The debt landscape had changed dramatically in recent years. Panellists identified a number of new vulnerabilities that had arisen from the very fast integration of many developing economies into international financial markets, such as increased maturity and roll-over risks, interest rate and currency risks and exposure to exogenous shocks, ranging from sudden capital reversals due to policy changes in advanced economies to negative commodity price shocks. The rapid growth of private corporate debt also represented a serious risk for debt sustainability. While local currency domestic bond markets had provided opportunities to finance development while minimizing currency risk, they had also created new vulnerabilities and other risks. These factors could, in various combinations, entail sharp increases in borrowing and servicing costs. A number of panellists also noted the problematic role played by non-cooperative bondholders, or the so-called vulture funds, whose aggressive litigation tactics posed a further challenge to poor indebted countries in particular. Small island developing States were especially vulnerable.

7. In the face of this serious situation, panellists agreed on the need for the international community to act proactively in implementing the Addis Ababa Action Agenda and to take urgent action to prevent a recurrence of the debt crises of the past and to ensure that debt contributed to, rather than undermined, the achievements of the Sustainable Development Goals. One panellist stressed that debt crises must not reoccur. A few said that sovereign creditors could not afford to provide further debt relief at the levels seen in the past; others argued that the main support developing countries required was to help build their resilience to deal with more complex and volatile interactions in international financial markets and the international economy. Some advocated the use of long-term investment instruments designed to reflect local and regional specificities and incentive structures.

8. There was broad agreement that the current financial framework was inadequate for meeting the increased complexity of debt profiles. While the Debt Sustainability Framework was a useful tool for identifying basic risks of debt distress, it had a number of limitations and did not sufficiently capture new vulnerabilities. Fiscal prudence and regulatory frameworks for the effective management of debt were important. Countries needed support to build their policymaking capacity and manage their debt effectively. Further, the international community should give increased attention to building capacity for the downstream areas of debt management: debt recording, validation reporting and statistics.

9. Some representatives of civil society underlined the important role that UNCTAD had played in addressing debt issues and recommended that its mandate be strengthened during the current quadrennial session of UNCTAD. Its work on policy dialogue, technical cooperation and research analysis had produced important results, in particular the Principles on Promoting Responsible Sovereign Lending and Borrowing and the UNCTAD sovereign debt workout road map and guide. These were among the most useful tools available for preventing and effectively handing debt problems and should therefore be promoted more vigorously. UNCTAD also had an important contribution to make in identifying gaps in the international financing architecture and in building consensus on effective solutions.

10. In conclusion, participants emphasized the serious risk of a new debt crisis resulting from the growing number of countries in or close to debt distress, the new and specific vulnerabilities to debt sustainability that had arisen over the past two decades and the need for urgent action by the international community in dealing with debt problems. Further, UNCTAD played a key role in addressing debt issues and its role should be strengthened.