Ninth UNCTAD Debt Management Conference

Geneva, 11 - 13 November 2013

External Shocks, Financial Stability and Debt

by

Mrs. Yuefen Li

Head
Debt and Development Finance Branch
UNCTAD

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD
The global financial crisis as a huge and long lasting external shock

**Before the crisis:** general improvements of debt indicators by developing countries

**Since the crisis:** below prior-crisis trend. Some countries in debt distress owing to external shocks.
Developing countries’ total debt/exports
Developing countries’ total reserves/short-term debt

Developing Countries, 
International Reserves 
(*billions US$*)

International Reserves

Reserves/Short-term debt (right axis)
Public Debt in High Income countries

Public Debt in High Income Countries

- Total Debt
- Debt-to-GDP (% right axis)
Public Debt in Developing countries
International long-term private debt to developing countries

Source: Dealogic and the World Bank
Current status of economic recovery

• Advanced countries: slow and timid
• Emerging economies: lower GDP growth and high capital flow volatility
• Low income countries: low external demand and slower growth.
Debt situation

**Advanced economies**: sharp increase of debt

**Developing countries**: also increasing

**LDCs**: Both debt ratios were higher than the respective ratios of developing countries. Two LDCs in debt distress and ten LDCs in high risk of debt distress.

**Caribbean economies**: very vulnerable except commodity exporting countries.
Crisis revealed misconceptions on debt

- OECD country debt is not risk free
- Private debt should not be overlooked
- Domestic debt is not as harmless as people thought
Two challenges ahead

• Increasing short term debt

• Higher cost of debt servicing: Interest rate normalization
Avoid over borrowing when international liquidity is abundant
Debt crisis prevention and resolution

Two UNCTAD initiatives in working together with all stakeholders:

- UNCTAD Principles on Responsible Sovereign Lending and Borrowing were formulated in 2012
- Working Group on Debt Workout Mechanism in Feb. 2013
Thank you