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Global Burgeoning Debt: Impact on Developing Countries

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD



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Overview

- Impact of the crisis on debt sustainability and MDGs
- Increased Role of IMF in crisis response
- Debt structure and debt management matter
- Debt Moratorium for Low Income Countries and Importance of ODA





Channels of crisis transmission acknowledged now
but exact quantitative impact on debt is still not clear

- **During 2008, the dollar value of total external debt of developing and transition economies increased by \$176 billion, surpassing \$3.6 trillion at the end of the year.**





- DSA not taken into consideration of the crisis yet .
DSA by the WB were mostly undertaken in 2008.



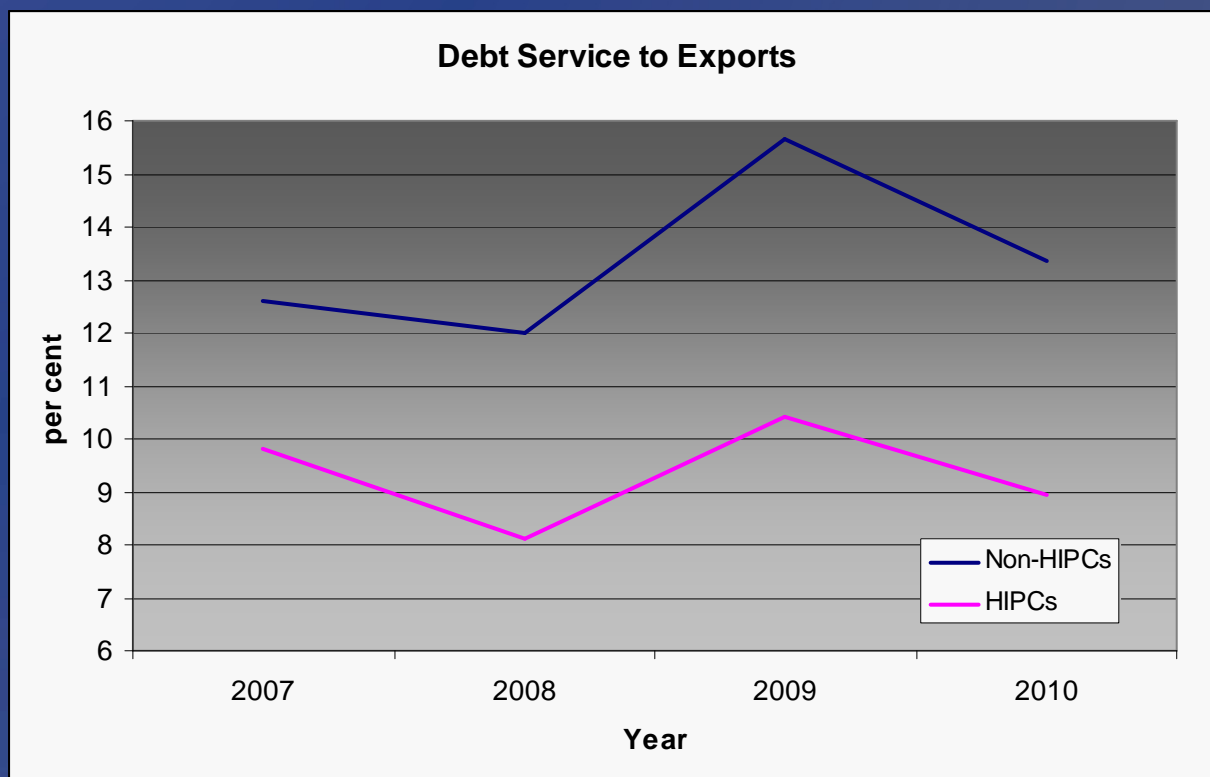


Challenges to debt sustainability

- Out of 70 PRGF-eligible countries, 35% are under high risk or in distress. As for 13 pre-completion point HIPC, 84% are under high risk or in debt distress. Overall, the crisis will worsen dramatically key macroeconomic aggregates of HIPC. 7 countries have worsened debt sustainability. Sub-Saharan Africa, Weathering the storm, IMF, Oct. 2009, p.43

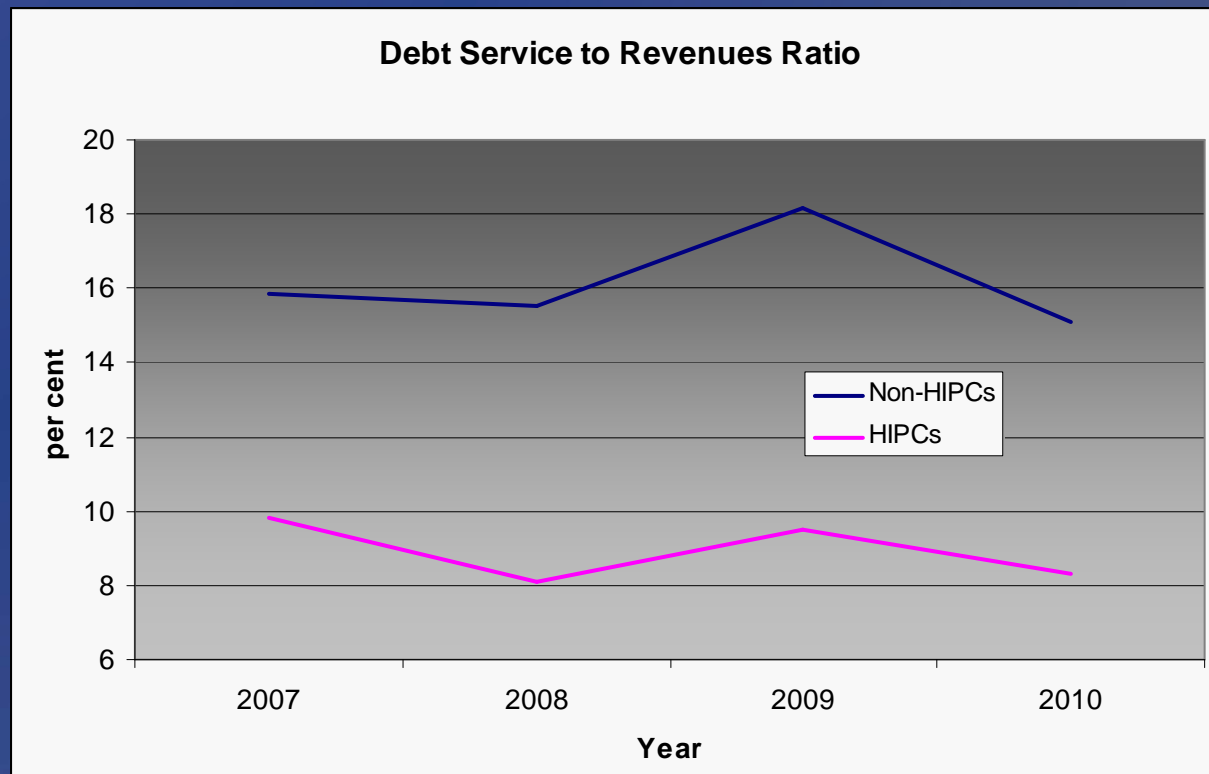


Debt Service to Export Ratio





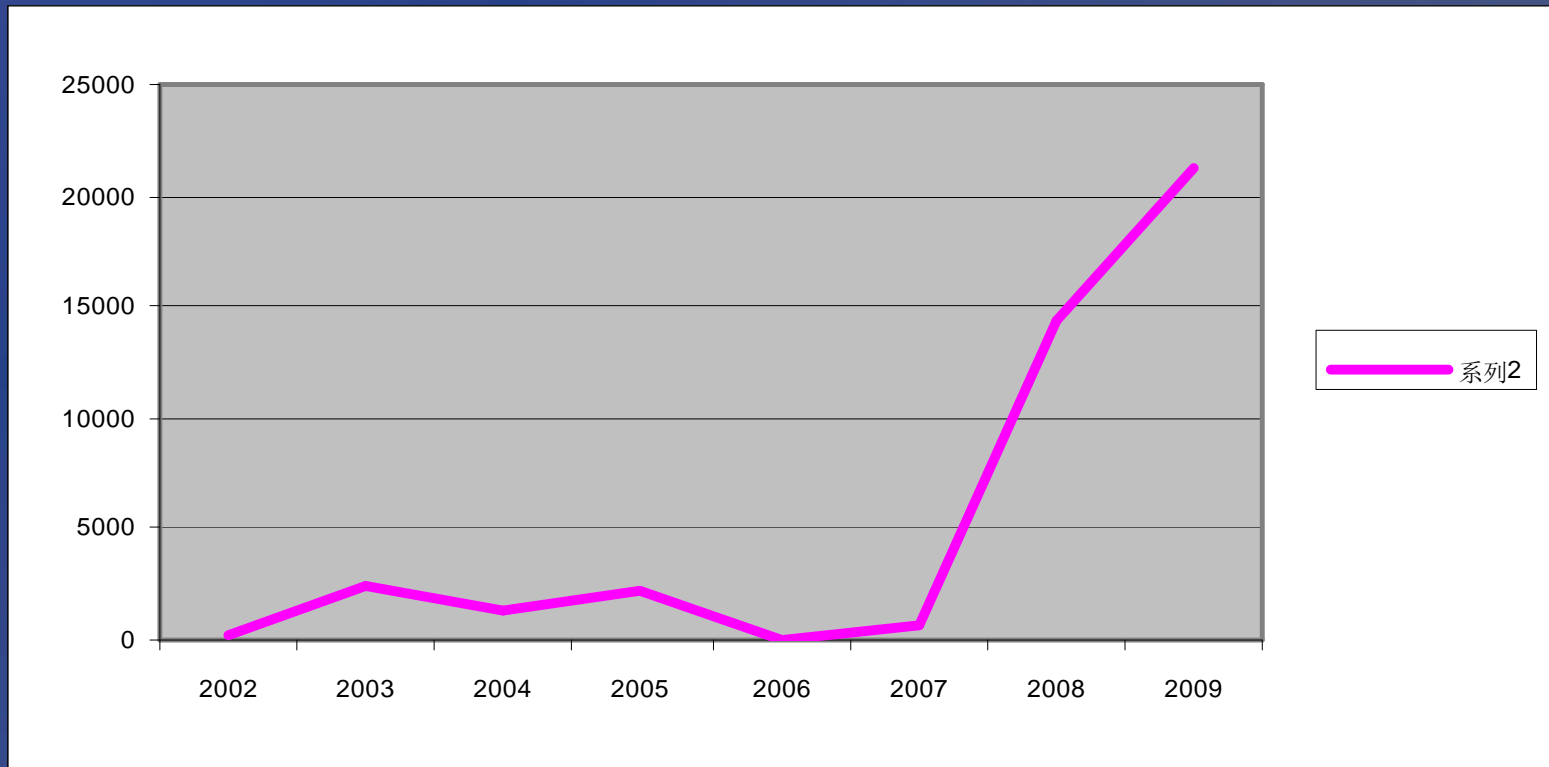
Debt Service to Revenue Ratio





More new borrowing

Increase of IMF Stand-by arrangements





Real recovery could take time

- A weaker than expected recovery in the world
- Most robust region is Asia.
- Bank credits not increasing as fast as wished. Boost bottom line is the story.





Reversal of progress toward the MDGs

- optimism of achieving them on time has waned.
- The recently released Development Committee Communiqué stated that as a result of the crisis, by end-2010, some 90 million more people risk being forced into extreme poverty, (below \$1.25 a day).





IMF is coming back to centre stage

- Not because of its good performance but because of lack of options





Avoidable and unavoidable debt crisis-problems of debt sustainability

- With this crisis there is more understanding about debt sustainability
- Avoidable: private borrowing example. Too procyclical.
- Unavoidable: LIC. External shocks (TOR, capital flows, remittances, etc) . Yet suffer from volatility of cost (irrationality of credit rating) of borrowing beyond their economic fundamentals





Why Low Debt Tolerance?

- Low tolerance to debt is driven by the fact these countries have poorly diversified economies and are excessively reliant on the exports of few commodities.

Why developing countries pay more for their borrowing?

- Not necessarily "bad fundamentals."
- There is overwhelming evidence that volatility is often driven by external factors: external demand changes, speculation, etc (current crisis)



- Debt structure matters





- Debt management matters





Support from international development community

- Scale up ODA
- More concessional lending
- Temporary debt moratorium





Thank you !

