

# 13<sup>TH</sup> UNCTAD Debt Management Conference

UNITED NATIONS CONFERENCE TRADE AND DEVELOPMENT

Relief, Restructuring and Recovery: Dealing with Debt in Times of  
Global Crisis

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## Addressing Debt Vulnerabilities

by

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UNITED NATIONS  
UNCTAD

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

# Addressing Debt Vulnerabilities

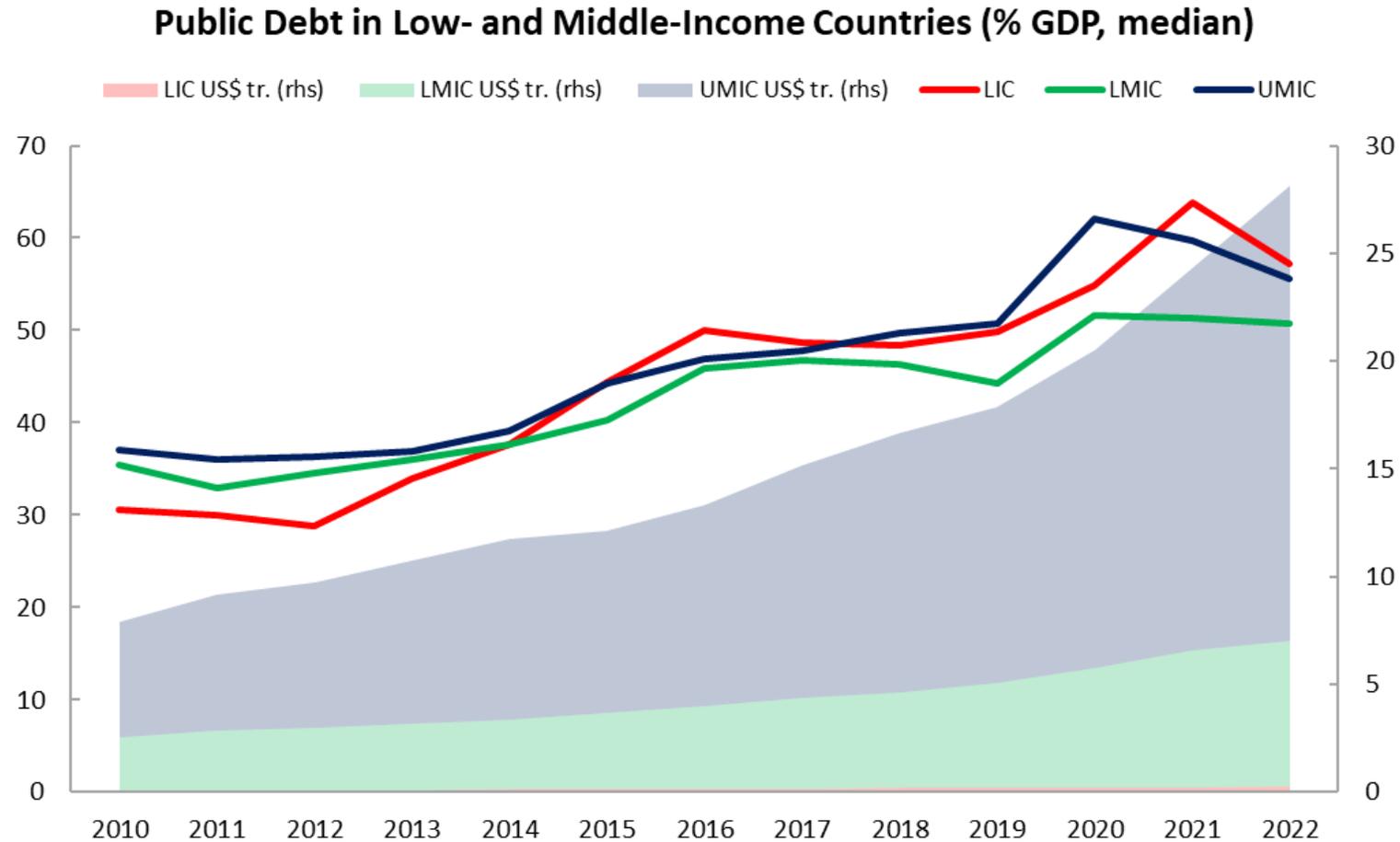
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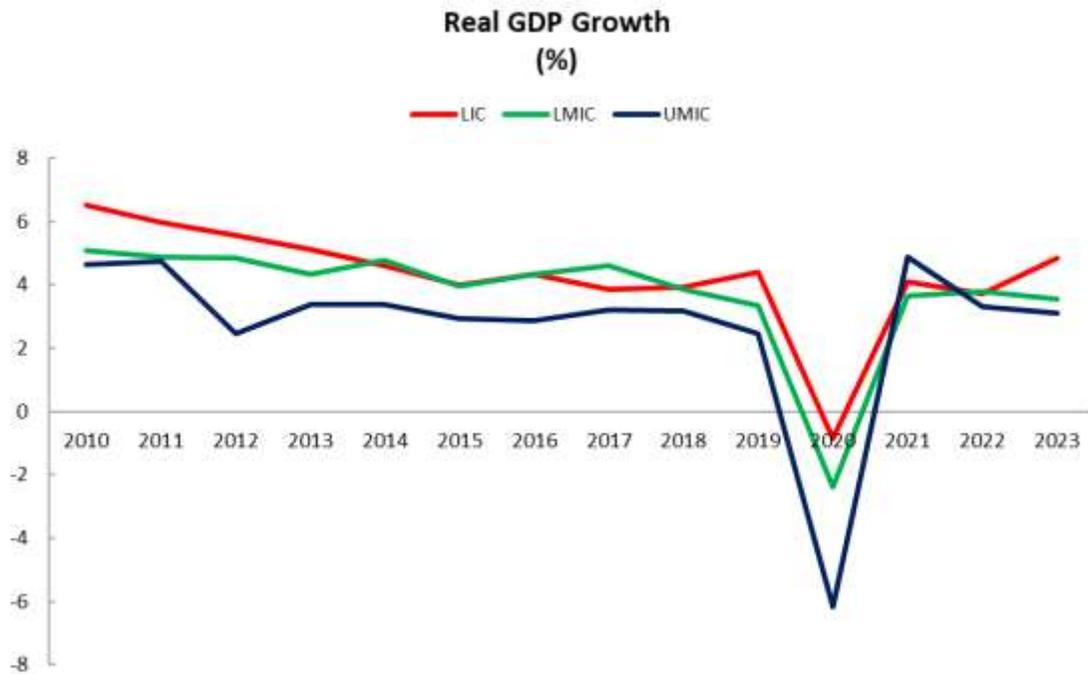
# PUBLIC DEBT VULNERABILITIES HAVE REACHED MULTI-YEAR HIGHS...



Source: Oct 2022 WEO.

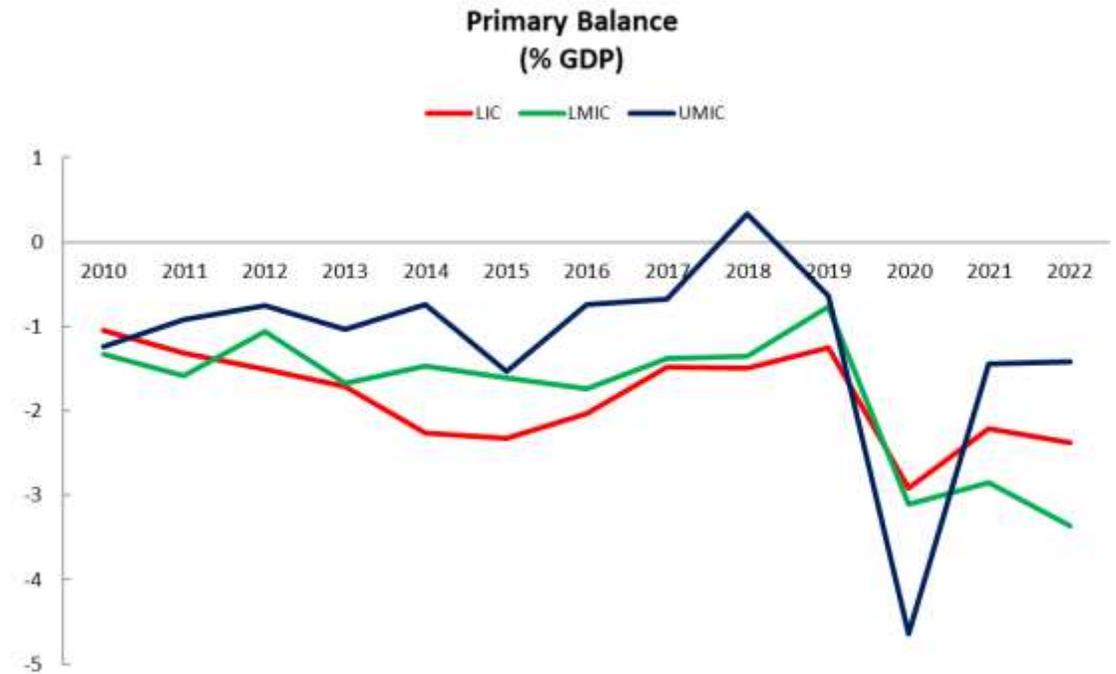
*Public debt increased already significantly before the onset of the COVID-19 pandemic, which then further worsened debt dynamics.*

# ... DRIVEN BY SLOWING GROWTH AND PERSISTENT PRIMARY DEFICITS



Source: Oct 2022 WEO.

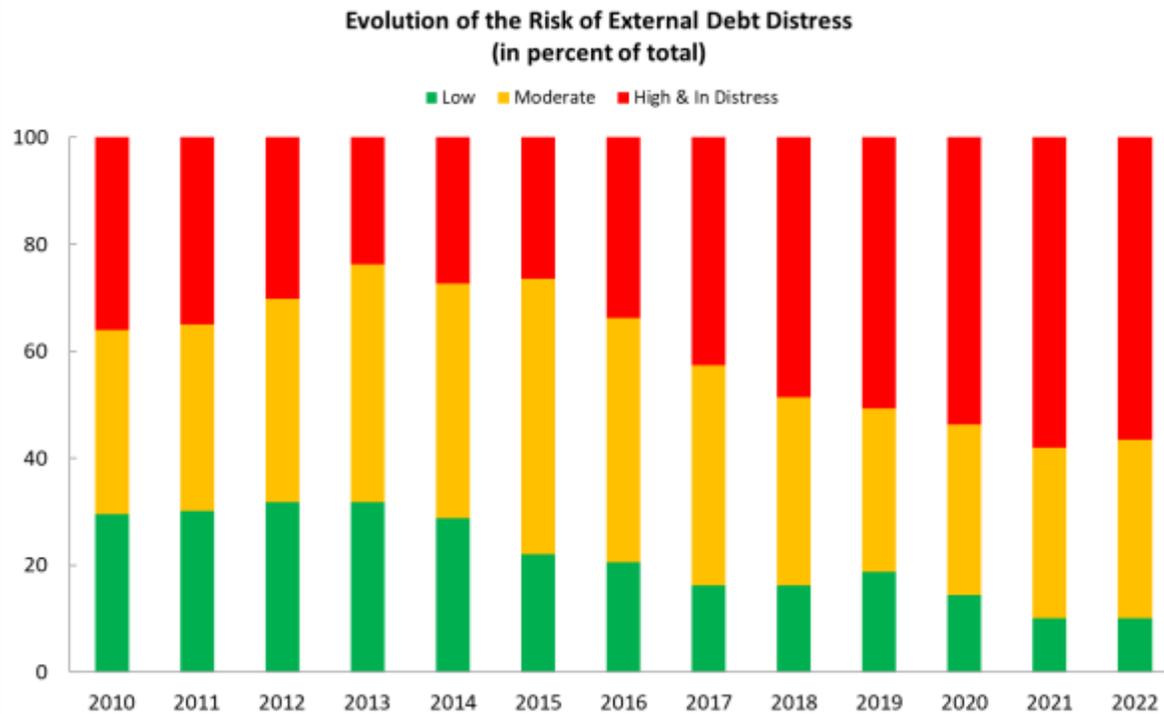
*Real GDP growth slowed in low- and middle-income countries over the past decade, worsening automatic debt dynamics...*



Source: Oct 2022 WEO.

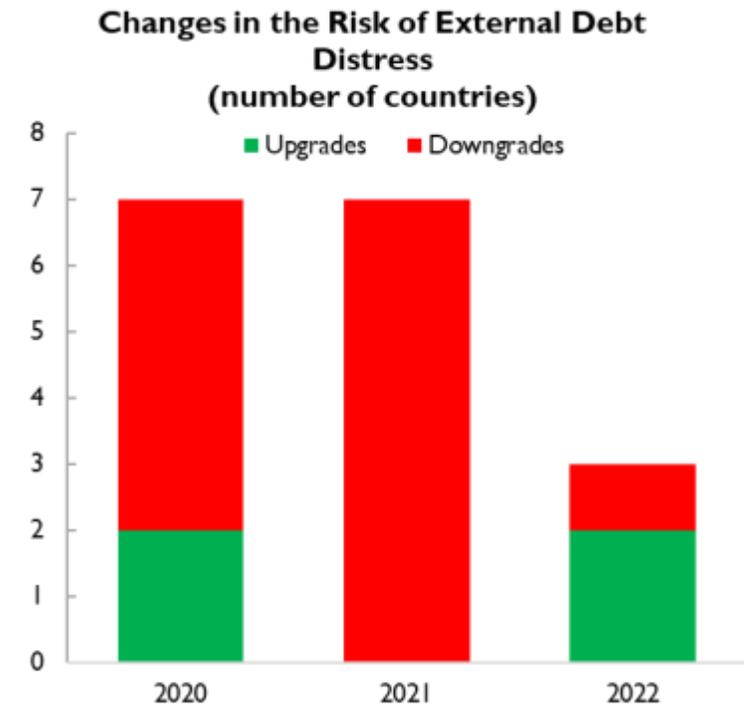
*...In addition, most countries recorded persistent primary deficits over the past decade.*

# AS A RESULT, THE RISK OF DEBT DISTRESS INCREASED...



Source: LIC DSF Database as of October 2022.

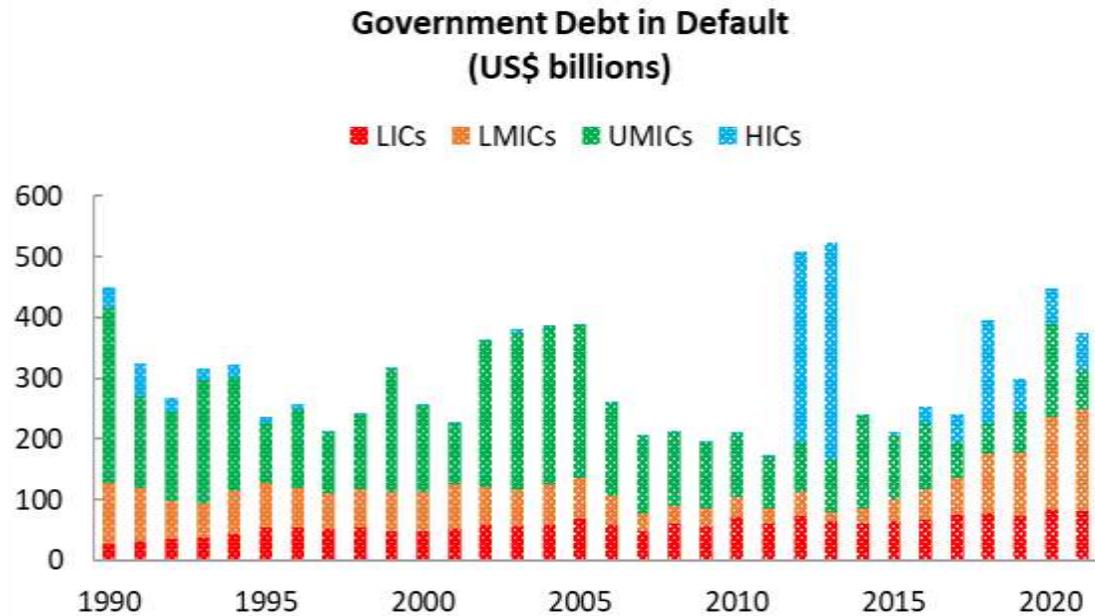
*The risk of external debt distress worsened in countries covered by the LIC DSF in line with rising debt levels. Currently, more than half of LIC DSF countries are at high risk of external debt distress or in distress.*



Source: LIC DSF Database as of October 2022.

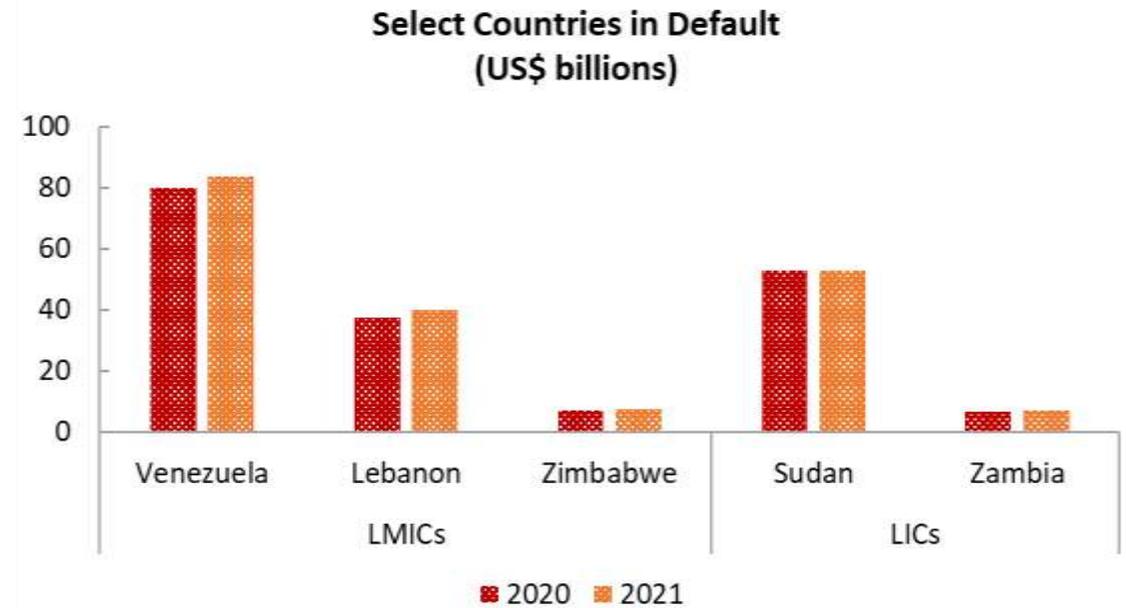
*13 countries saw their risk of external debt distress rating deteriorate since the onset of the COVID-19 crisis in March 2020.*

# ... AS DID THE AMOUNT OF GOVERNMENT DEBT IN DEFAULT



Source: BoC/BoE Sovereign Default Database.

*Government debt in default in lower-middle income countries increased from US\$ 36 billion in 2015 to US\$ 168 billion in 2021. Defaults in low-income countries reached US\$ 82 billion in 2021, higher than in high-income countries...*



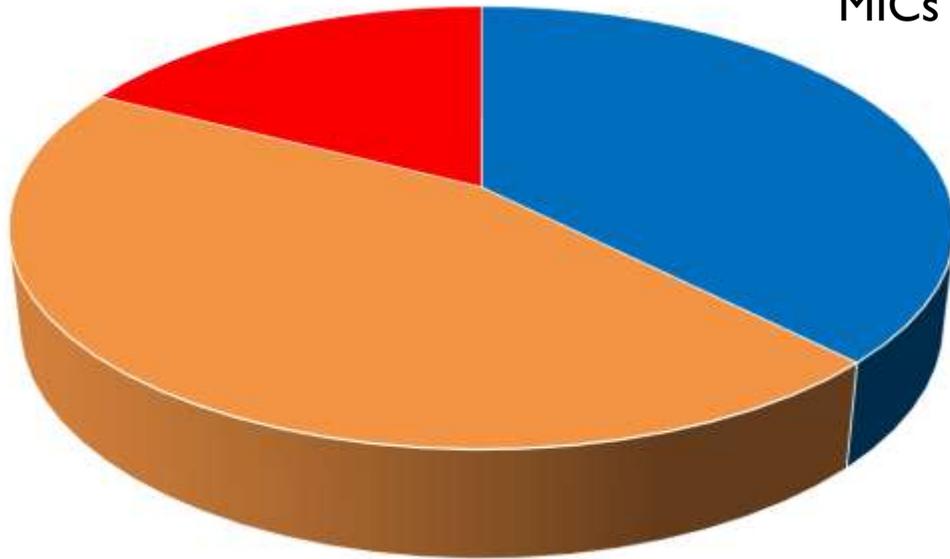
Source: BoC/BoE Sovereign Default Database.

*...However, the wave of defaults has not materialized yet, as debt in default is concentrated in few countries still.*

# EMERGING MARKET & DEVELOPING COUNTRIES FACE SIGNIFICANT DEBT SERVICE PAYMENTS

DSSI-Eligible LICs and  
MICs – US\$ 200 bn.

Investment Grade Non-DSSI  
MICs – US\$ 432 bn.

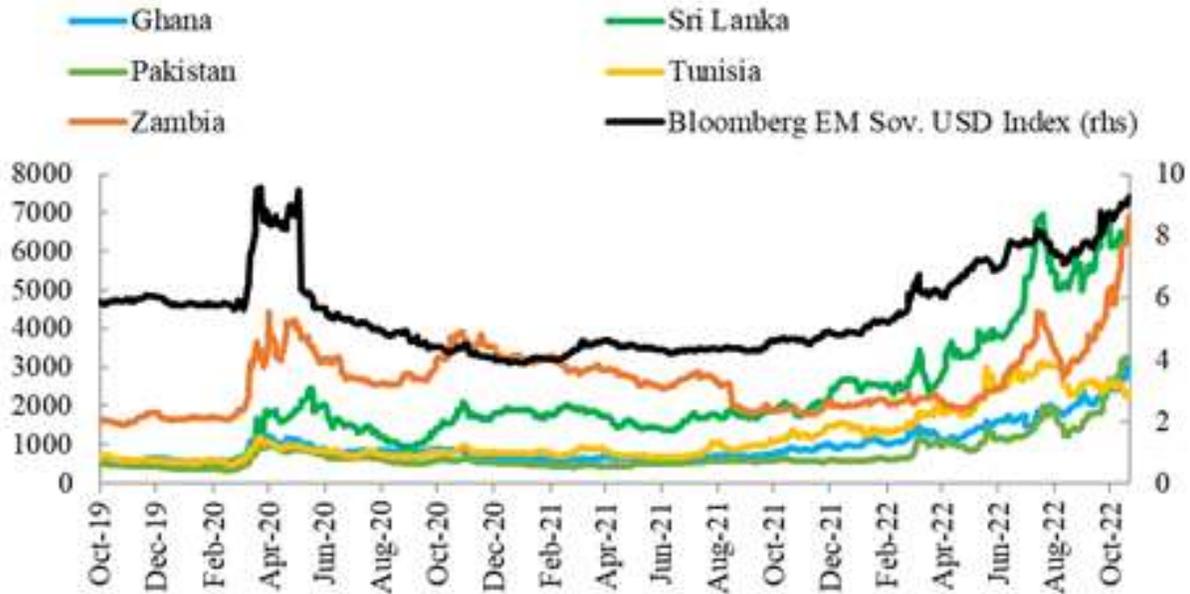


Non-Investment Grade  
Non-DSSI MICs – US\$ 517  
bn.

*Some 120 low- and middle-income countries face more than US\$ 1.1 trillion in debt service payments on public and publicly guaranteed external debt between 2023 – 2025.*

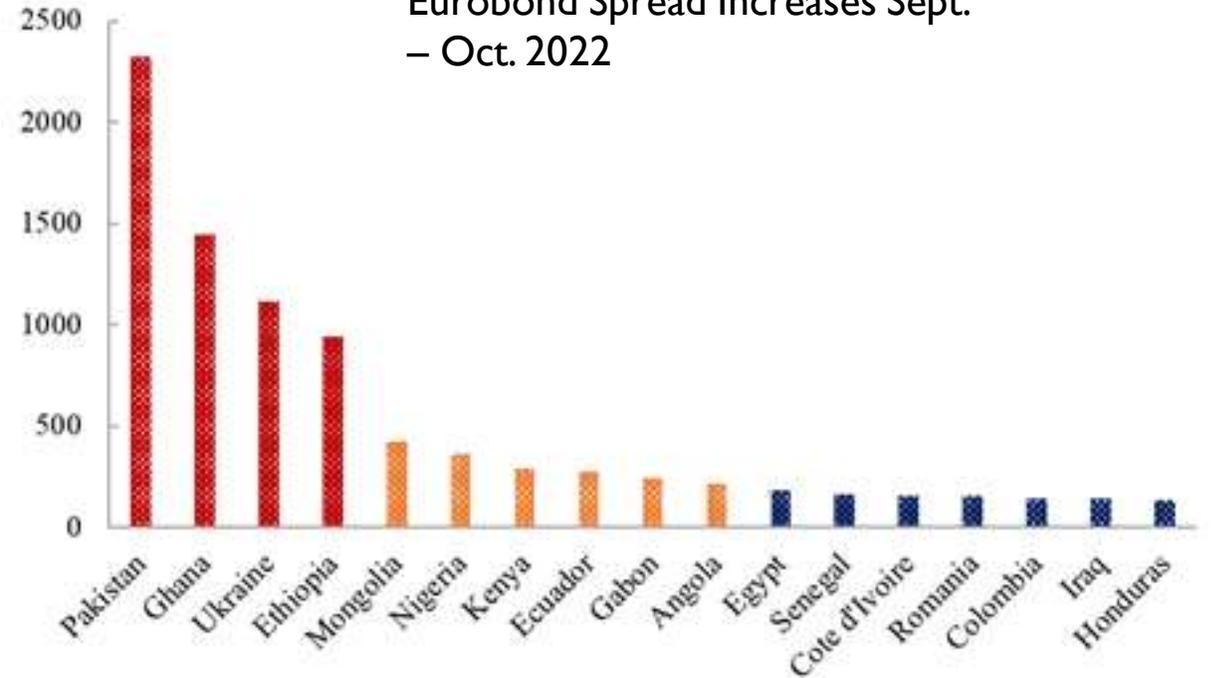
# REFINANCING RISKS HAVE INCREASED

LIC and MIC Spreads (Bps.)



Source: Bloomberg.

Eurobond Spread Increases Sept. – Oct. 2022



Source: Bloomberg.

*Widening spreads increase the borrowing costs of many low- and middle-income countries, increasing refinancing risks. Some have effectively lost access to markets.*

# COMMON FRAMEWORK FOR DEBT TREATMENTS BEYOND THE DSSI

## KEY FEATURES

**Endorsed by the G20 and the Paris Club to facilitate timely and orderly debt treatment for DSSI-eligible countries**

Need for debt treatment and required restructuring envelope based on an IMF-WBG Debt Sustainability Analysis (DSA)

Consistent with the parameters of an “upper credit tranche” (UCT) IMF-supported program (>100% of quota per year or cumulative >300% of quota)

**To qualify for a CF debt treatment, countries must either have**

Unsustainable debt, which limits access to official or private financing, or large external financing needs, in excess of financing from the IMF, World Bank, and other sources

**The CF mandates that the debtor seek comparable treatment by other official bilateral and private sector creditors**

# BUT THE COMMON FRAMEWORK HAS NOT FULLY DELIVERED YET

- Slow progress with the current CF countries
- Coordination issues among creditors
- Unwillingness to request an IMF UCT program with associated conditionality (e.g., owing to political cycle)
- Access to alternative sources of financing / draw down existing buffers
- Choose to accumulate arrears and engage in bilateral discussions on a debt treatment
- Feel uncertain about whether the CF will work for them
- Fear of loss of international market access or significant increase in borrowing cost and risk
- Some may benefit from the recent rise in oil prices and some commodity prices which can provide relief to the fiscal and external accounts

# OPTIONS FOR THE WAY FORWARD

- **Greater clarity needed on the steps and timeline of debt treatment**

Timely formation of the CC and provision of financing assurances, guidelines for the work of the CC, clear steps in the CF process, guidelines to address the lack of debt transparency, and early engagement of official creditors with the debtor and with private creditors, more effective participation by private sector creditors and creditor of large bilateral debt

- **Introduction of a debt service suspension for the duration of the negotiation** G20 commitment to a debt service standstill on official obligations for countries requesting a CF debt treatment.

- **Transparent assessment of the CoT.** Official bilateral creditors should provide more clarity on how CoT will be effectively enforced, beyond the parameters already included in the CF. Clear rules for the enforcing comparability of treatment to facilitate agreements between debtors and creditors.

- **Expanding the eligibility for CF treatment beyond the DSSI eligible**

Small islands and other vulnerable systemic middle-income countries

**THANK YOU**