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External debt sustainability and development

Report of the Secretary-General

Summary

The present report, submitted pursuant to General Assembly resolution 73/221, provides an analysis of the recent evolution of core indicators of external debt sustainability in developing countries, against a backdrop of rising concerns about macroeconomic and financial stability in lead advanced economies. Recent initiatives by international financial institutions and the Group of 20 to enhance debt data transparency in developing countries are welcomed, and future challenges in this regard are discussed. Nevertheless, regardless of how critical such initiatives are to improved future debt management, fully implementing the 2030 Agenda for Sustainable Development without further undermining developing country debt sustainability will require more dramatic and immediate policy action by the international community, including targeted Sustainable Development Goal-related debt relief initiatives and a scaling-up of Goal-related official development assistance.

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I. The global economic context: continued fragility and friction

1. The period since the previous report on external debt sustainability and development in developing countries (A/73/180) has been marked by weakening growth prospects in advanced economies, amid continued reliance on short-term market expectations rather than robust stimuli to aggregate demand, growing macroeconomic and financial fragilities in several large developing economies and a series of devastating natural disasters in East Africa and the Caribbean.

2. Although the economy of the United States of America is expected to enter its longest expansion on record in the second half of 2019, concerns are mounting over systemic risks associated with a long but tepid and fragile expansion that is reliant on policy boosts designed to encourage short-term investor expectations, rather than a vigorous recovery of aggregate demand. At the same time, several European economies, notably Germany and Italy, as well as Canada and Japan, have experienced growth slowdowns in 2018, for reasons reflecting both domestic factors as well as weakening global aggregate demand. With annual growth in China registering at 6.6 per cent in 2018, that country's performance remained considerably more vigorous, albeit at its slowest pace in almost three decades.[1]

3. Recent stock market booms, propelled largely by continued reliance on highly accommodative monetary policies in lead economies, optimistic gross domestic product (GDP) growth forecasts by international economic organizations in the first half of 2018 and, in the case of the United States economy, financial deregulation and corporate tax cuts, have begun to tail off. Investor concerns are rising, not only over international trade frictions and potential oil price spikes in the wake of growing geopolitical tensions, but also over structural weaknesses in lead economies that impede a sustainable recovery of global aggregate demand.

4. Continued reliance on easy monetary policies in lead advanced economies has primarily fuelled low-cost borrowing by better-off households for investment in real estate and by the corporate sector for investment in speculative financial activity, such as share buy-backs, mergers and acquisitions and leveraged buy-outs. By contrast, the core real components of aggregate demand, namely, productive investment, exports, domestic consumption and public spending, have either shrunk or seen only very modest growth. That situation, alongside expansionary tendencies being led by a largely unregulated "high-tech-cum-gig economy", has reinforced rather than mitigated longer-standing trends towards a deterioration of income equalities in most advanced economies.[2]

5. Prolonged easy monetary policy and concomitant stock market appreciations have, moreover, been accompanied by a renewed rise of shadow banking, or unregulated financial intermediation. According to Moody's, for example, no less than 80 per cent of the leveraged-loan market can now be categorized as "covenant-lite", shifting risks from borrowers to investors, compared with 25 per cent before the global financial crisis.[3] More generally, the main focus of worry over systemic risks

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[1] United Nations Conference on Trade and Development (UNCTAD), "United Nations Global Policy Model", available at https://debt-and-finance.unctad.org/Pages/GPM.aspx (accessed on 9 April 2019). See also UNCTAD, *Trade and Development Report 2018: Power, Platforms and the Free Trade Delusion* (United Nations publication, Sales No. E.18.II.D.7), chap. I.D.

[2] International Monetary Fund (IMF), *Global Financial Stability Report: Vulnerabilities in a Maturing Credit Cycle* (Washington, D.C., April 2019), chap. 1; UNCTAD, *Trade and Development Report 2017: Beyond Austerity – Towards a Global New Deal* (United Nations publication, Sales No. E.17.II.D.5), chaps. II and VI; and UNCTAD, "United Nations Global Policy Model".

[3] Megan Greene and Dwight Scott, "Do leveraged loans pose a threat to the United States economy?" *Financial Times*, 11 February 2019.

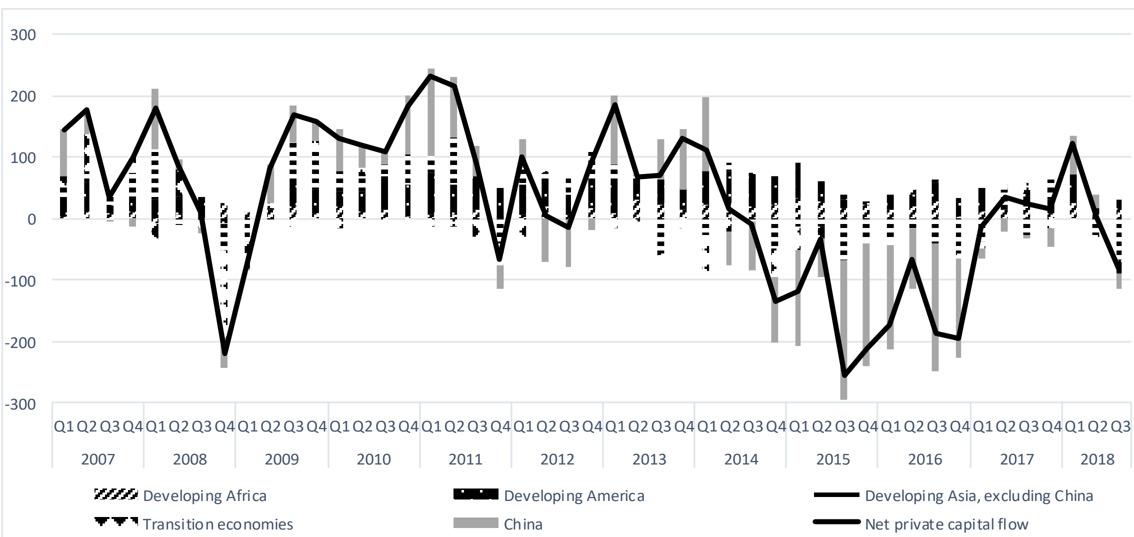
posed by explosive debt issuance and weakening credit quality has shifted to fast-rising non-financial corporate debt and to the increasingly prominent role played by non-bank intermediaries in the issuance of that debt. The International Monetary Fund (IMF) put total non-financial (household and corporate) debt in countries with systematically important financial sectors at over 250 per cent of their combined GDP at the end of 2017.[4] According to S&P Global Ratings, corporate non-financial debt has grown faster than nominal GDP for much of the past decade. Globally, 37 per cent of non-financial corporations are estimated to be highly leveraged, with gearing (or debt-to-earnings) ratios of 5 and above, 5 per cent more than in 2007, while non-investment-grade corporate bonds have quadrupled since 2008.[5]

6. Trade frictions have further rattled investor sentiments but, so far, have had only marginal effects on real GDP performances and on changes in import and export compositions in the main affected economies.[6] In addition, any recent regional trade reversals are not easily attributable to stock market jitters about trade tensions, since those reversals will also be affected by decelerating income growth, reflecting, more generally, weakening real aggregate demand and insufficiently inclusive growth.

7. In the wake of rising investor concerns about sustainable growth prospects in advanced economies and inconclusive policy signals from lead central banks as to whether or not monetary accommodation (and therefore cheap credit flows) would be maintained and, if so, would be sufficient to stave off growing structural downward risks, not only did stock market volatility rise, but net private capital flows to developing economies turned negative again (see figure I).

Figure I
Net private capital flows by region, 2007–2018

(Billions of current United States dollars)



(Footnotes on following page)

[4] IMF, *Global Financial Stability Report: A Decade after the Global Financial Crisis – Are We Safer?* (Washington, D.C., October 2018), chap. 1.

[5] S&P Global Ratings, "Global corporate leverage trends 2018: debt high, defaults low – something's gotta give", 5 February 2018, available at https://www.spratings.com/documents/20184/0/Global%20Corporate%20Leverage%20Trends%202018/ca914a58-1d3a-4ee3-9fe0-79b147751ebe. See also Susan Lund and others, "Rising corporate debt: peril or promise?", discussion paper (McKinsey Global Institute, June 2018).

[6] CPB Netherlands Bureau for Economic Policy Analysis, available at www.cpb.nl/en/node (accessed on 10 April 2019).

(Footnotes to Figure I)

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Source: United Nations Conference on Trade and Development (UNCTAD) secretariat calculations, based on data from the UNCTAD Financial Statistics Database, the IMF Balance of Payments database and national central banks.

Abbreviations: Q1, first quarter; Q2, second quarter; Q3, third quarter; Q4, fourth quarter.

8. Those private capital outflows, which come primarily, but not only, from emerging market economies, triggered currency and financial crises in several large developing economies, notably Argentina and Turkey, in 2018. Other larger developing economies, such as Brazil, India, Indonesia, Mexico and South Africa, have also struggled to contain the fallout from United States dollar appreciations, net private capital outflows and, more generally, their subjection to changing global financial conditions. Underlying domestic factors and policies vary widely, including by different degrees of vulnerability to commodity price fluctuations and of accumulation of external debt due to lasting external imbalances, but even the better-faring cases of India and Indonesia, for example, highlight the fact that even low levels of external deficit and debt are no guarantee of sufficient domestic policy space to withstand the impact of global financial instability.[7]

9. At the same time, the third consecutive season of above-average damaging Atlantic hurricanes in the Caribbean region and the utter destruction inflicted by Cyclones Idai and Kenneth on Mozambique and on neighbouring Malawi and Zimbabwe in March and April 2019 have emphasized the fact that many developing countries now face the brunt of climate change as a matter of ever-more frequent and intense natural disasters. That situation has put the spotlight, yet again, on the precarious interplay between vicious debt cycles and environmental devastation in the developing economies affected and on the dangers arising from long-term debt traps. The use of public debt and renewed external borrowing to absorb the impact of a natural disaster leads to more burdensome debt servicing and constrains both growth and the capacity to invest in long-term climate change mitigation. With each new disaster, financial vulnerabilities grow and domestic response capacities weaken.

10. In combination, those developments cast a long shadow over prospects for improved developing country external debt sustainability in the near future. That situation is all the more concerning, given that such improvements are urgently needed to meet the objectives of the 2030 Agenda for Sustainable Development.

II. Main external debt trends in developing countries, 2009–2018

11. Against that backdrop, 2018 was a year in which the external debt positions of many developing countries worsened again, and earlier fleeting hopes of potential improvements in the context of buoyant stock markets and optimistic forecasts were largely disappointed. Total external debt stocks of developing countries and economies in transition as a whole have more than doubled, rising from $4.5 trillion in 2009 to an estimated $9.7 trillion in 2018, growing at an average annual rate of 8.7 per cent over the past decade. There is little sign of any change in impetus: over the past three years alone, external debt stocks have grown at a cumulative rate of almost 20 per cent for all developing countries. Not surprisingly, the ratio of total

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[7] UNCTAD, "External shocks and financial stress post the global financial crisis: UNCTAD financial condition indicators and financial vulnerabilities in emerging markets" (2019) (UNCTAD/GDS/2018/1).

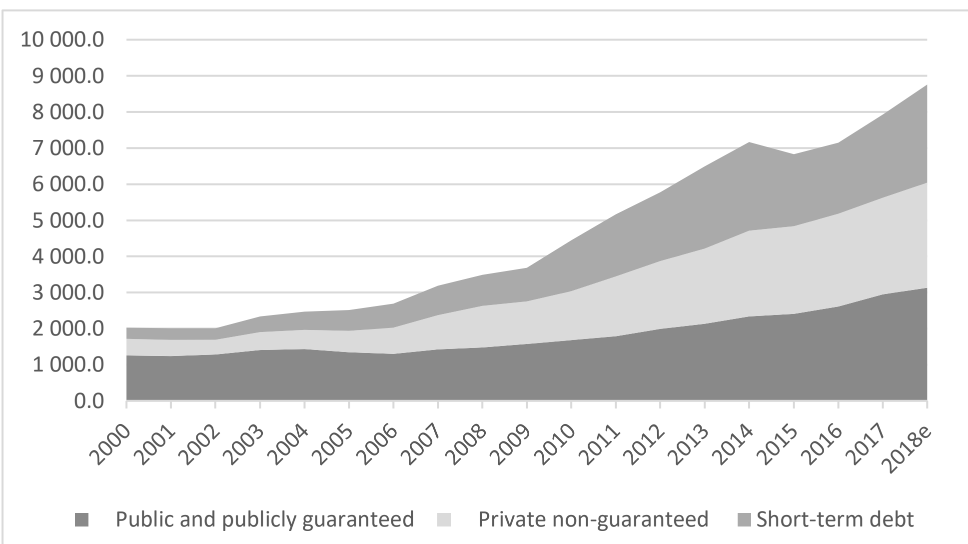
external debt to GDP has worsened, increasing to 29.1 per cent in 2018, compared with 23.3 per cent in 2011, when the indicator reached its lowest level since the start of the millennium. External debt stocks have now also overtaken export earnings, as the ratio of external debt to exports reached an average of 108.3 per cent over the past three years, compared with an average of 92.1 per cent for the decade as a whole, well above their lowest level since 2000 (63.6 per cent), just before the onset of the global financial crisis.

12. That broad picture not only varies between developing countries, but is also positively influenced by the very large developing economy of China. In 2018, China accounted for 25.5 per cent of the total external debt stocks of all developing countries, and 45.0 per cent of their combined GDP. While the country's external debt stock grew between 2009 and 2018 at a slightly higher rate than the average for all developing countries, so did its GDP. As a result, although the debt-to-GDP ratio for developing countries excluding China rose from an estimated 29.1 per cent in 2009 to 36.0 per cent in 2018, the external debt-to-GDP ratio of China itself stood at a very modest 15.1 per cent in 2018.

13. Trends in the ownership composition of that external debt, discussed in detail in previous reports (A/71/276 and A/72/253), also continued in the same direction. Long-term creditor holdings shrank to 70.3 per cent of total external debt in 2018, with now almost equal shares of public and publicly guaranteed debt (50.9 per cent) and private non-guaranteed debt (49.1 per cent). Short-term external debt accounted for 29.1 per cent of total external debt stocks in 2018, up from 15.2 per cent in 2000 (see figure II). That is a far cry from the start of the century, when long-term debt accounted for 86.2 per cent of total external debt stocks, of which three quarters was public and publicly guaranteed debt. Those changes in the composition of external debt reflect growing access to non-concessional and private capital markets across developing countries.

Figure II
External debt stocks, all developing countries, 2000–2018

(Billions of current United States dollars)



Source: UNCTAD secretariat calculations, based on data from the World Bank, IMF and national sources.

Abbreviation: e, estimate.

14. International reserves of developing countries reached over $6.6 trillion in 2018, slightly down from $6.7 trillion in 2017. However, taken together with the rapidly rising stock of short-term debt, which grew by 18 per cent between 2017 and 2018, this resulted in a sharp decline in the ratio of international reserves to short-term debt for the group as a whole, from 305 per cent in 2017 to 260 per cent in 2018. That is far removed from peaks of over 500 per cent a decade ago and does not bode well for the capacity of developing countries to self-insure against macroeconomic shocks.

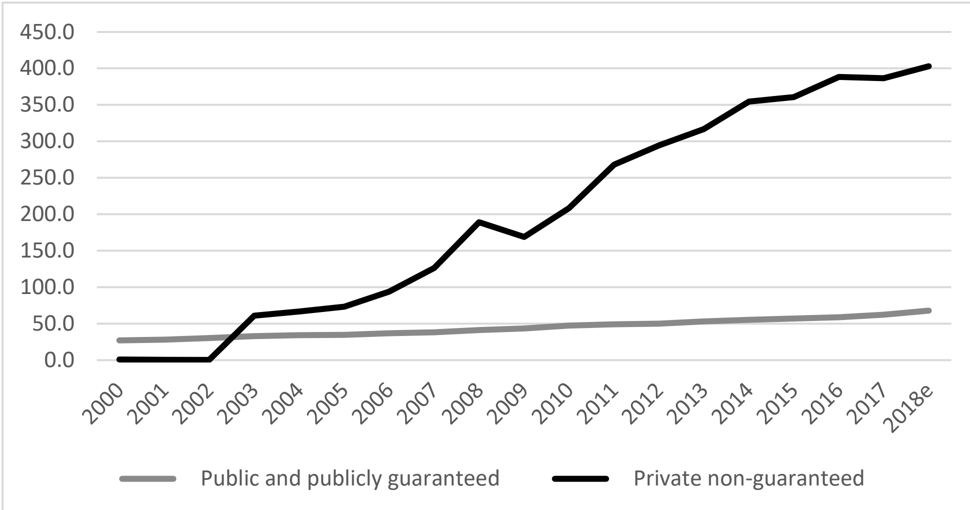
15. Rising debt ratios mean higher debt service burdens, even under favourable financing conditions, while higher exposure to market risks in the international financial market primarily means a higher volatility of debt service burdens that can include unexpected sharp hikes. For developing countries and transition economies as a whole, the debt service-to-export ratio rose from 8.1 per cent in 2008 (its lowest point since 2000) to 12.4 per cent in 2018. That represents a slight improvement since 2016, when the ratio stood at 13.4 per cent, and largely reflects a mild recovery of some commodity prices since mid-2016. Of particular concern are the sharp increases in the ratio in poorer developing economies. Thus, in the least developed countries, the debt service-to-export ratio rose from 4.2 per cent in 2008 to 10.0 per cent in 2016, falling only marginally to 9.4 per cent in 2018.[8] In sub-Saharan Africa, the ratio more than tripled, from a low of 3.8 per cent in 2011 to 11.3 per cent in 2018. Similarly, debt service costs (interest payments on public and publicly guaranteed debt) in least developed economies as a percentage of government revenue more than doubled, from 4.1 per cent in 2011 to 15.0 per cent in 2018, approaching external debt service burdens previously seen prior to the onset of the debt relief initiatives of the early 2000s.[9] Overall, the long-term trends are clear: worsening external debt levels, higher debt service costs and falling international reserves.

16. Small island developing States are of particular concern. Total external debt stocks in those economies rose 200-fold between 2000 and 2018, with a step change occurring in 2003, when external debt rose from $40 billion to $161 billion in a single year. The growth in external debt has not abated, peaking in 2018 at $742.7 billion. The share of long-term debt relative to short term debt in those States has remained relatively stable, averaging around 65 per cent in the period 2000–2018, but the ownership of long-term debt has changed profoundly, with the share of public and publicly guaranteed debt in long-term external debt falling from 97 per cent in 2000 to a mere 14 per cent in 2018 (see figure III). This shift in composition has been driven by the massive growth in private non-guaranteed debt, averaging 96 per cent per year between 2000 and 2008 and rising from $900 million in 2000 to its peak of $403 billion in 2018. Short-term debt grew very rapidly, by 40.2 per cent per year on average, in the period 2000–2008, and continued to grow, albeit at a much lower average annual rate of 8.4 per cent, between 2009 and 2018. That represented an increase of short-term debt from $7.4 billion in 2000 to $261.7 billion in 2018. Those States also underwent a sharp contraction in the ratio of international reserves to short-term debt in 2003, from which they have yet to recover. That ratio fell from a very high 1,149 per cent in 2000 to 153 per cent in 2003 and averaged 152 per cent from 2003 to 2018.

[8] For the current list of least developed countries and the criteria used to assign that status see UNCTAD, "Least developed countries (LDCs)", available at https://unctad.org/en/Pages/ALDC/Least%20Developed%20Countries/LDCs.aspx.

[9] UNCTAD secretariat calculations, based on data from the World Bank, IMF and national sources for 2019.

Figure III
External debt stocks, small island developing States, 2000–2018
(Billions of current United States dollars)



Source: UNCTAD secretariat calculations, based on data from the World Bank, IMF and national sources.
Abbreviation: e, estimate.

17. At the same time, the group of small island developing States saw a sharp rise in 2003 in its total external debt-to-GDP ratio, which increased from 19.8 per cent in 2000 to 85.6 per cent in 2003. By 2010, external debt stocks had surpassed the combined GDP of those States, with the debt-to-GDP ratio reaching 118.9 per cent for the group as a whole. The ratio of total external debt stocks to exports also increased sharply in the early years of the millennium, rising from 17.2 per cent in 2000 to 70.7 per cent by 2003, and peaking in 2016 at 114.7 per cent. Over past three years, external debt as a share of export earning has averaged 108.7 per cent. It comes as no surprise that debt service costs followed that trend. Debt service accounted for 12.2 per cent of GDP and 10.4 per cent of exports in 2018, up from 1.7 and 1.4 per cent, respectively, in 2000. Debt service on public and publicly guaranteed debt took up 18.8 per cent of government revenue in 2016 for the group as a whole, falling since then to a still-high estimated 13.5 per cent in 2018. The share of debt service on public and publicly guaranteed debt, however, has been remarkably high throughout the past two decades.

18. The specific challenges experienced by small island developing States were highlighted in the previous report. In addition to the human and social impact of devastating natural disasters, the immediate economic impact can be staggering. To cite just one example, it is estimated that Hurricane Maria caused losses of $1.37 billion in a matter of hours in Dominica, amounting to no less than 226 per cent of its 2016 GDP.[10] However shocking those immediate losses were, what is often overlooked is the need to also tackle the secondary and tertiary effects of climate change-related shocks on debt sustainability in developing economies. As shown in a study carried out in 2010 by the United Nations Conference on Trade and Development (UNCTAD) on the impact of 21 large natural disasters that struck developing countries between 1980 and 2008, such large-scale shocks can add, on average, 24 percentage points to the debt-to-GDP ratio of affected countries in the

[10] Dominica, *Post-Disaster Needs Assessment: Hurricane Maria – 18 September 2017* (15 November 2017).

three years that follow the event.[11] If the event does not lead to a rapid increase in foreign aid, that number could reach 43 percentage points.

19. Although the low-income developing countries (excluding small island developing States)[12] account for only 1.5 per cent of the GDP of all developing countries, the deterioration in debt ratios for those countries presents a micropicture of overall developing country trends over the past decade. Total external debt stocks of low-income developing countries amounted to $171 billion in 2018 – twice what it was in 2009 ($89 billion), even after the conclusion of the debt relief associated with the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative. Over the past decade, the external debt-to-GDP ratio has waxed and waned; it now stands at 35.4 per cent of GDP, having risen markedly from its relative low of 26.1 per cent in 2011. Total debt stocks are persistently larger than total export earnings, with the external debt-to-export ratio averaging 123.1 per cent of export earnings over the past decade.

20. Public and publicly guaranteed debt, which still makes up virtually all external long-term debt in low-income developing countries and over 80 per cent of their total external debt, has grown not only in quantum, but also in cost. Debt service costs of public and publicly guaranteed debt have grown at an annual average rate of 10.5 per cent per year between 2009 and 2018, compared with the average annual growth of public and publicly guaranteed debt itself of 7.7 per cent over the same period. Public and publicly guaranteed debt servicing accounted for as much as an estimated 6.8 per cent of government revenue in 2018, having grown at a rate of close to 4.5 per cent per annum for the past decade, and up from its low of 2.9 per cent in 2011. More generally, the ratio of debt servicing to GDP has doubled since 2010, rising to 1.8 per cent in 2018, and that of debt servicing to exports has risen to 6.7 per cent in 2018, from 3.6 per cent in 2010. Debt service on all external debt has grown at a rate of 13.8 per cent over the past decade (2009–2018) and 28.1 per cent in the last year. The worsening of debt indicators for low-income developing countries reflects a persistent share of short-term debt and a gradual increase in private non-guaranteed debt, as well as an increase in the quantum of public and publicly guaranteed debt. The ratio of international reserves to short-term external debt for low-income developing countries has waxed and waned as short-term debt has varied from year to year, but, overall, that ratio has declined by 16 per cent, from 581 per cent in 2009 to 488 per cent in 2018.

21. Overall, those figures indicate that, starting from a position of relative insulation from the vagaries of international financial markets, gradual financial integration, alongside reduced access to concessional public financing, is beginning to hit home. Since many low-income developing countries are also commodity-dependent developing countries, recent modest recoveries in relevant commodity prices may temporarily cushion the impact of deteriorating external depositions, but that cushion is likely to vanish at the latest when a large part of external debt in many of the countries concerned will reach maturity in a few years' time. It is, moreover, worth keeping in mind that many low-income developing countries have increasingly taken recourse to domestic public debt; as a result, total public debt burdens and servicing costs are considerably higher than those relating to external debt stocks alone.

[11] UNCTAD, "Haiti's recovery should start with cancelling its debt", Policy Briefs, No. 11 (11 January 2010).

[12] Country groups are income-based economic groups as defined under UNCTADstat classifications, available at https://unctadstat.unctad.org/EN/Classifications.html. Low-income, middle-income and high-income developing economies and economies in transition are all considered to be developing economies. Since small island developing States are discussed separately in the present report, they have been excluded from other economic groups in the textual analysis.

22. Total external debt stocks in middle-income developing countries (excluding small island developing States) grew by 8 per cent per annum over the past decade (2009–2018). This is a dramatic increase from the average growth rate of 2.4 per cent per annum for the preceding 9 years (2000–2008). Moreover, there is little sign of the trend abating, with total external debt growing by over 20 per cent since 2016. As a result, the combined external debt stock for middle-income developing countries has doubled to more than $2 trillion in 2018, from just above $1 trillion in 2009. While some may be reassured that that still only represents 26.8 per cent of their combined GDP, a far cry from their average debt-to-GDP ratios of 52.2 per cent in 2000, not only is the debt growing at a faster pace than anticipated following the relief provided by the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative,[13] but it is a more costly debt, with a shorter maturity. Both private non-guaranteed long-term debt and short-term debt make up a growing share of the external debt of those economies, representing 27.5 and 14.9 per cent, respectively, of total external debt in 2018, compared with 11.4 and 9.5 per cent, respectively, in 2000.

23. The incline towards a growing share of private creditors and shorter-term debt is reflected in high and growing debt service ratios, as well as in the decline in international reserves. Total external debt has exceeded the value of exports in the past four years, and the debt servicing relative to export earnings has averaged 13.2 per cent over the past three years. The total debt servicing bill (including private and short-term debt) has grown at a rate of 11.9 per cent per year over the last decade. The ratio of debt servicing to GDP stood 3.2 per cent in 2018, compared with 2.1 per cent in 2009. Even though the share of public and publicly guaranteed long-term debt now only makes up two thirds of long-term debt (down from 86.1 per cent in 2000 and 71.7 per cent in 2009), the debt servicing ratio on public and publicly guaranteed long-term debt accounts for 7.9 per cent of government revenue, having grown at more than 6.8 per cent per annum for the last decade. Thus, the cost of public and publicly guaranteed external debt has gradually risen for this country group, from 3.5 per cent in 2014 to over 5.8 per cent in 2018.

24. At the same time as exposure to private creditors and short-term debt has grown, the ratio of international reserves to short term debt has been on a downward trend in the past decade, falling by no less than 45 per cent, from $628 billion in 2009 to $344 billion in 2018, signalling lesser capacities to self-insure against growing systemic, as well as regional and country-specific, risks. The overall picture is one where middle-income developing countries appear to display overall signs of growing financial and debt distress, with the shift to private creditors, shorter maturities, higher debt servicing burdens and falling international reserves all suggesting that existing levels of indebtedness are placing considerable strain on those economies.

25. As explicitly recognized in paragraph 71 of the Addis Ababa Action Agenda, middle-income developing countries still face significant challenges to achieve sustainable development. Explanations have ranged from structural factors that create developmental turning points, such as upward pressures on real wages as cheap surplus labour from traditional sectors of the economy is absorbed into modern manufacturing sectors and skill bottlenecks that render climbing up the technology ladder more difficult from a certain point onwards, to more general considerations about growing obstacles to continued economic diversification in the current volatile and slow-growth global economy, combined with greater demands on the institutional and political capacities of middle-income developing countries to respond to rising investment requirements associated with late industrialization pushes. Structural

[13] Almost one fifth (11) of the 57 countries listed as middle-income countries received relief from these programmes.

stagnation in middle-income developing countries is compounded not only by protracted sluggish growth of the global economy, but also by growing maturity mismatches arising from the haphazard integration of their evolving productive and financial structures into international financial markets. The advantage of accessing a broader range of financing and debt instruments in international capital markets can be outweighed by capacity constraints in properly assessing the risks attached to those instruments and by the ineligibility of countries in this group to access concessional financing. Exclusion from such eligibility on the basis of often crude per capita income thresholds overlooks the fact that these economies remain home to the majority of the world's poor population.[14]

26. Among high-income developing countries, total external debt stocks have more than doubled since 2009, reaching $6.5 trillion in 2018, six times higher than the group's total external debt in 2000 ($1.1 trillion). Following the global financial crisis, countries in this group rapidly increased their exposure to short-term and private non-guaranteed long-term debt. Over the last decade, a number of trends can be observed. High-income developing countries have become indebted at a faster rate, short-term debt has become a larger share of external debt, private non-guaranteed debt has become the dominant component of long-term debt and the cost of servicing various components of debt has increased substantially. In terms of total external debt stocks, between 2009 and 2018, the annual average growth rate of 10.5 per cent resulted in a rising ratio of external debt to GDP for the group, reaching 28.6 per cent in 2018, up from its low of 20.9 per cent in 2008. Debt stocks also have exceeded the size of export earnings for the past three years. A step change towards short-term external debt began in 2010, and that pattern has been maintained, with a brief spike associated with the global turmoil of the "taper tantrum" that occurred in 2013,[15] when short-term debt accounted for more than 40 per cent of total external debt. In 2018, that proportion had receded only marginally, to 36 per cent of total external debt. Alongside the shift towards short-term debt, private non-guaranteed debt grew to account for 56 per cent of long-term debt, up from 36 per cent in 2000. It is for that reason that the debt servicing costs for public and publicly guaranteed debt have remained relatively stable, at 2.2 per cent of government revenue.

27. Those trends have, nevertheless, translated into rising debt servicing costs overall, with the ratio of debt service to GDP increasing to 3.5 per cent in 2018 from 1.9 per cent in 2011 and the ratio of debt service to export earnings almost doubling during the same period, from 6.2 per cent in 2011 to 11.4 per cent in 2018. As short-term debt and private non-guaranteed debt has grown alongside the rising costs of this debt, it is not surprising that high-income developing countries have had less capacity to accumulate international reserves. A collapse in the ratio of international reserves to short-term debt, from its high of 530.7 per cent in 2009 to an estimated 232.8 per cent in 2018 has accompanied the increase in indebtedness and its change in composition. For high-income developing countries, 2013 seems to have been a turning point, after which many of the larger high-income developing countries experienced a fairly drastic surge in financial stress episodes brought on by the impact of global financial instability on domestic financial conditions through a number of channels, such as capital flow reversals, commodity price and exchange rate volatility and higher exposure to external private indebtedness.[16]

[14] World Bank, "Assisting middle-income countries in their quest to turn billions to trillions", (25 October 2016).

[15] Around the second quarter of 2013, with the first announcements of the tapering of expansionary monetary policy by the Federal Reserve System of the United States, and before any tapering actually took place, investors began to pull out funds from developing countries, leading to substantial shocks to performance and deflationary policy reactions in those countries.

[16] UNCTAD, "External shocks and financial stress post the global financial crisis".

28. The transition economies reflect a different cyclical trend relative to the other groups discussed in this report, in that the total external debt stock of transition economies has been in decline since its peak of $1.14 trillion in 2013. By 2018, that total had fallen to $927.5 billion. The earlier rapid growth in total external debt stocks leading up to the financial crisis had been fuelled by a consumption boom in these economies, and external debt had continued to grow as the group encountered difficulties in refinancing its current account deficits and warding off speculative attacks on its currencies. From mid-2008 to mid-2009, seven countries in this group accessed IMF facilities and additional support from the European Union. As the group's total external debt has tapered off, it has become gradually more long-term in nature, with long-term debt comprising 86 per cent of the total external debt stock in 2018, up from 75 per cent in 2000. The share of private non-guaranteed debt in total long-term debt increased dramatically for this group, from 21 per cent in 2000 to a peak of 69 per cent in 2008, but subsequently fell to an estimated 56 per cent in 2018. Short-term debt made up about 12 per cent of total external debt in 2018, below the averages of 16 and 13 per cent for the periods 2000–2008 and 2009–2018, respectively. Those trends are reflected in the decline of average total external debt-to-GDP ratios, from 42.3 per cent in the 2000–2008 period to 40.6 per cent in the 2009–2018 period. Both the debt servicing-to-GDP and debt servicing-to-exports ratios have dropped since their respective peaks in 2015, when debt servicing accounted for 9.4 per cent of GDP and 29.4 per cent of exports. By 2018, the ratio of debt servicing to GDP had declined to a more manageable 7.6 per cent and absorbed about 21.4 per cent of export earnings. Over the past decade, there also has been an increase in the ratio of international reserves to short term debt, from an average of 299.8 per cent for the period 2000–2008 to 508.2 per cent for the period 2009–2018, peaking at an estimated 582.4 per cent in 2018.

III. Strengthening debt transparency

29. In response to rising debt vulnerabilities in developing countries amid fast-changing creditor landscapes and financial innovation in the form of proliferating complex debt instruments, IMF and the World Bank have made coordinated efforts to promote enhanced public debt transparency.[17] Those efforts are focused on low-income developing countries, on the basis of assumption that poorer developing countries are in most need of capacity-building support to enhance their debt management abilities. At the same time, the Institute of International Finance, representing the global financial industry, has developed a set of draft voluntary principles on debt transparency to promote voluntary information disclosure on debt instruments by private creditors.[18] Both initiatives have gained traction as part of the Group of 20 (G20) agenda in recent years.[19]

30. In large part, those initiatives reflect recognition of the fact that the availability of high-quality debt data is an indispensable prerequisite for the ability of national Governments and the international community to minimize the risk of debt crises and to take timely remedial action when these occur. In addition, through their new joint

[17] World Bank Group and IMF, "G20 note: strengthening public debt transparency – the role of the IMF and the World Bank", Washington, D.C., 13 June 2018. Available at http://documents.worldbank.org/curated/en/991171532695036951/Strengthening-public-debt-transparency-the-role-of-the-IMF-and-the-World-Bank-G20-note.

[18] Available at www.iif.com/Publications/ID/3387/Voluntary-Principles-For-Debt-Transparency. See also Odette Lienau, "UNCTAD comment on the Institute of International Finance draft voluntary principles for debt transparency", 10 May 2019, available at https://debt-and-finance.unctad.org/Documents/IIF_Principles_debt_transparency_UNCTAD_10_May_2019.pdf.

[19] Communiqué of the meeting of the G20 Finance Ministers and Central Bank Governors, held on 8–9 June 2019 in Fukuoka, Japan.

multi-pronged approach for addressing emerging debt vulnerabilities, IMF and the World Bank embed stronger support for strengthening capacities for downstream debt management, such as public debt reporting, recording and monitoring, into a wider surveillance programme that includes improved debt analysis and early warning systems, guidance on macrofiscal policy frameworks and the review of national debt policies by international financial institutions.[20] While the benefits, both to national Governments and with regard to external reporting to international databases, of more comprehensive, accurate and timely debt data are uncontentious, the idea of making support by the international community for enhancing debt data transparency conditional upon participation by recipients of that support in wider policy surveillance programmes might be counterproductive, if national policy space for responding to financial instabilities is reduced and the commitment by Governments to report debt data in a timely fashion is undermined.

31. Achieving enhanced debt data transparency in developing countries, even as a stand-alone task, is perhaps more challenging than is often recognized.[21] For public (and publicly guaranteed) debt reporting, recording and monitoring to be effective, high-level government commitment is required to ensure that legal and institutional frameworks are in place, in order to clearly define concomitant responsibilities and facilitate information flows between relevant government entities tasked with the management of public finances. In addition, Governments need to have the resources and administrative capacities to prioritize the allocation of sufficiently skilled staff to the task; they also need to have low-cost access to the technology required to adopt strong recording and monitoring systems. Lastly, those recording and monitoring systems have to continuously evolve so as to incorporate new challenges to overall debt data transparency, such as increasingly complex international and domestic debt instruments, including State-contingent bonds, collateralized debt and the monitoring of contingent liabilities, as those may arise from public-private partnerships, subnational debt (see A/72/253), the debt of large State-owned or private enterprises and extrabudgetary debt.

32. That said, debt data recording and reporting have significantly improved over the past decade. The results of Public Expenditure and Financial Accountability framework assessments indicate that, on average, since 2006, quality in those areas has significantly improved, as has the quality of public debt management systems for contracting loans and issuing guarantees. An increasing number of countries reporting to the debt databases developed by the World Bank and IMF also demonstrate progress in this regard.

33. Solutions to remaining challenges, such as extended coverage beyond central government debt to minimize undisclosed debt positions that become apparent only in situations of acute debt distress, improved timeliness in the reporting of new debt instruments, disbursements and debt servicing, the absence of automated functions for generating reports, limited access to data for reporting functions, difficulties in the consolidation of dispersed data and inadequate knowledge of and incomplete adherence to reporting standards, will need to take comprehensive account of core causes of poor debt data quality. Those causes may include weak legal and institutional frameworks, fragmented managerial structures and a lack of detailed operational risk management, irregular or incomplete data validation processes,

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[20] World Bank and IMF, "Debt vulnerabilities in emerging and low-income economies", document prepared for the meeting of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, held on 13 October 2018, Washington, D.C., 17 September 2018.

[21] For a detailed discussion, see Gerry Teeling, "Debt data transparency", background paper for the second session of the Intergovernmental Group of Experts on Financing for Development, Geneva, November 2018.

inadequate staffing and high staff turnover, insufficient connectivity of back office debt management systems with other relevant national databases and insufficient capacities and/or authority to undertake regular national debt audits.

34. There are a number of proven solutions currently available to achieve the necessary improvements, including international standards, frameworks and systems supported by IMF, the International Organization of Supreme Audit Institutions, the World Bank, the UNCTAD Debt Management and Financial Analysis System programme, the Commonwealth and regional organizations. Priority should be given to scaling up the provision of technical assistance in the downstream areas of debt recording, monitoring and reporting, with a focus on increasing understanding and awareness, providing advisory services, strengthening computerized debt recording and reporting systems and integrating those systems within the broader public finance management framework. Building sustainable institutional frameworks and staff capacity is similarly important.

35. Enhanced debt data transparency in that sense can be facilitated through tailored and targeted action plans to address identified weaknesses, as there is no one-size-fits-all solution. Providers of technical assistance should continue to ensure that their products and services are updated, in order to satisfy new requirements and in accordance with changing standards.

36. The international community could, moreover, consider establishing a global coordination mechanism to provide advice and coordination for the delivery of technical assistance in debt recording and reporting and to ensure synergies with the full spectrum of debt management. Improved coordination would facilitate the design and implementation of a comprehensive and coordinated programmatic approach to building country capacity. An initial objective could be to implement a new coordinated approach to debt data quality assessment. Establishing a regular coordination exercise among creditors and debtors to undertake systematic cross-checking of debt-related information could also help to identify data gaps.

37. Scaling up technical assistance in debt data recording and reporting and improving coordination between providers of technical assistance will require new financing. That funding would complement the funding currently available for upstream activities, such as those covered by the Debt Management Facility and similar initiatives.

IV. The 2030 Agenda and the debt sustainability gap

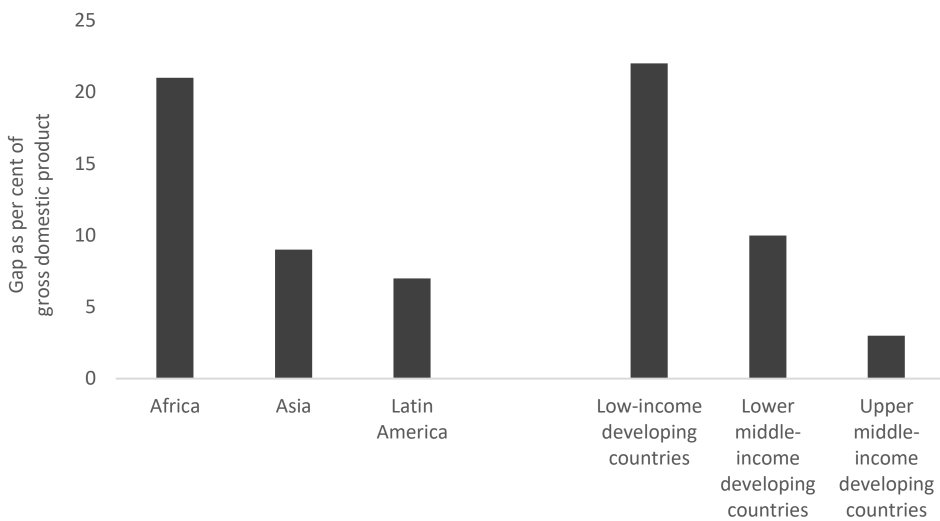
38. While enhanced debt data transparency is undoubtedly critical to improved future policy designs to address financial and debt distress, meeting the Sustainable Development Goals over the next decade will require more drastic action to mitigate debt vulnerabilities in developing countries and improve debt sustainability now.

39. To assess the extent to which the current debt vulnerabilities of developing countries may constrain their ability to achieve the Sustainable Development Goals, UNCTAD has estimated the impact of basic Goal-related investment requirements, such as the eradication of poverty and hunger and the provision of basic health care and education, on longer-term debt sustainability in 31 low- and middle-income developing countries. Following the then-Secretary-General’s proposed definition of debt sustainability as the level of debt that allowed a country to achieve the Millennium Development Goals and reach 2015 without an increase in debt ratios (see A/59/2005), the analysis was focused on ways in which at least the core elements of the 2030 Agenda could be achieved without causing an increase in the current public debt ratios of developing countries.

40. The results of the analysis suggest that meeting the basic Sustainable Development Goals would result in an increase of public debt-to-GDP ratios from around 47 per cent at present to no less than 185 per cent, on average, if current expenditure and financing patterns prevail. By contrast, to achieve those Goals by 2030 without causing an increase in existing debt-to-GDP ratios, developing economies would have to grow at an average annual rate of close to 12 per cent per year.[22]

Figure IV
The Sustainable Development Goal financing gap by region and income category, 2018

(Per cent of gross domestic product)



Source: UNCTAD secretariat calculations, based on data from national sources and estimates of Sustainable Development Goal investment requirements from various sources.

41. Clearly, such financing needs cannot be met by improved debt data transparency, debt management strategies and domestic resource mobilization alone. Neither is the mobilization of international private finance on track to facilitate this task. As shown in a recent report by the Overseas Development Institute,[23] while blended finance is growing, the amounts mobilized to date remain very limited relative to the estimated gap in Sustainable Development Goal-related financing, which is concentrated in middle-income developing countries and “hard” economic sectors, rather than in social infrastructure. Thus, without additional and upfront international support, in the form of increased official development assistance (ODA) and a coordinated multilateral effort to provide low-cost long-term development financing, developing countries across different income categories face even more serious challenges to their debt sustainability than is already the case for a growing number of them.

42. Figure V provides an estimate, by regional and income-based developing country groups, of public financing options and their required magnitude.

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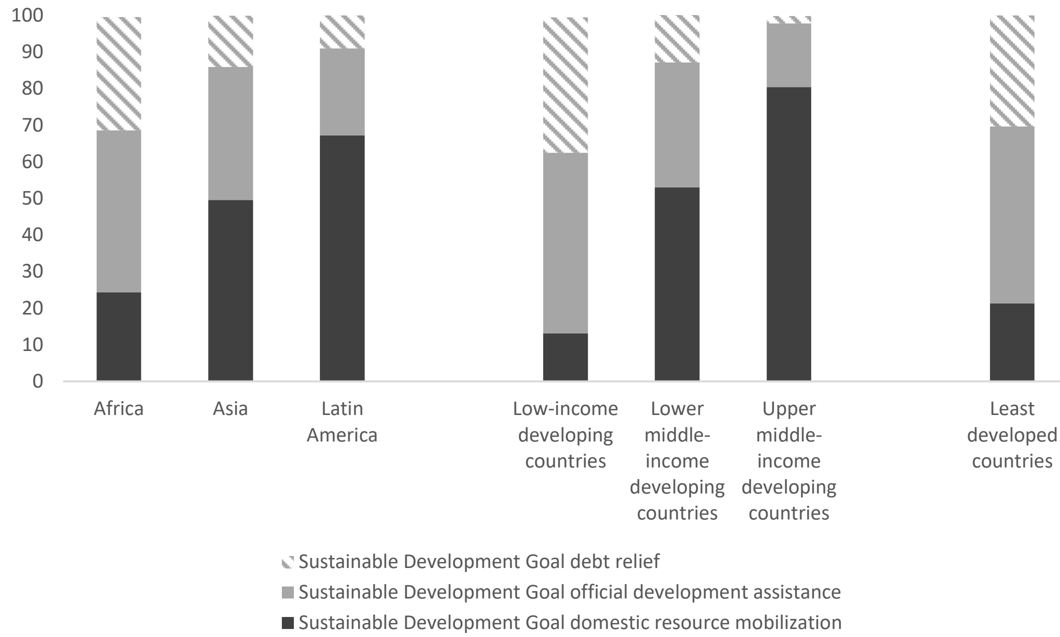
[22] For more detail, see also UNCTAD, *Trade and Development Report: Financing the Global Green New Deal* (forthcoming), chap. IV.

[23] Samantha Attridge and Lars Engen, *Blended Finance in the Poorest Countries: The Need for a Better Approach*, report (London, Overseas Development Institute, April 2019).

Figure V
Closing the debt sustainability gap: domestic and international public financing options

(Percentage)



Source: UNCTAD secretariat calculations, based on data from national sources and estimates of Sustainable Development Goal investment requirements from various sources.

43. As shown in figure 5, in the case of least developed economies, improved domestic resource mobilization would close 21.3 per cent of the Sustainable Development Goal debt sustainability gap. An additional 48.4 per cent could be closed through Goal-oriented ODA programmes, and the remaining 30.3 per cent through Goal-related debt relief programmes. Similar shares in closing the Goal-related debt sustainability gap apply to low-income developing countries and African countries. In the case of lower middle-income developing countries, improved domestic resource mobilization would help to bridge 53.1 per cent of the gap, while ODA and debt relief programmes would cover 34.1 and 12.8 per cent, respectively. Finally, for upper middle-income developing countries, improved domestic resource mobilization could go as far as covering 80.4 per cent of the cost of meeting basic Goals on time, without deteriorating debt sustainability. The remainder of the gap could be bridged by a combination of ODA (17.4 per cent) and debt relief (2.1 per cent).

V. Conclusions and policy recommendations

44. In 2018, the external debt positions of many developing countries worsened again, and earlier fleeting hopes of potential improvements in the context of buoyant stock markets and optimistic forecasts were largely disappointed. The global economic environment is characterized by growing concerns over the impact of continued reliance on accommodative monetary policies on financial stability, alongside worries about weak aggregate demand, rising inequalities and uncertainties arising from escalating trade tensions and unstable oil markets.

45. Worsening external debt positions throughout the developing world have not reached a point at which awareness of continued systemic risks and their likely further impact on developing country debt sustainability is recognized as a fully-fledged developing country debt crisis. Nevertheless, the international community should keep in mind that a wall of developing country debt will come to maturity over the next few years, and no clear coordinated policy action is in place to address the situation.

46. Recent initiatives by international financial institutions and the G20 to enhance debt data transparency are of critical importance for improved future debt management and related policy design. Further efforts in that regard should be focused on scaling up technical assistance in debt data recording and reporting, including through dedicated funding, and on establishing a global coordination mechanism to provide advice and coordination for the delivery of technical assistance in debt recording and reporting and to ensure synergies with the full spectrum of debt management. Moreover, such initiatives should not be limited to their implementation in low-income developing countries only, but should also encourage greater active participation by those countries in international policy initiatives aimed at enhancing their debt data transparency, not least with a view to ensuring the longer-term commitment of Governments to the initiatives.

47. In the meantime, in order to ensure the timely achievement of the Sustainable Development Goals while avoiding deepening debt and financial distress across developing countries, additional and more drastic international policy action should be considered as a matter of urgency, including Sustainable Development Goal-related debt relief initiatives and increased official development assistance, with a focus on Goal-related investment requirements.

Annex

External debt of developing countries

(Billions of United States dollars)

	2015	*2016*	*2017*	*2018*[a]	*2000–2008 annual growth rate*	*2009–2018 annual growth rate*	*2017–2018 growth rate*
All developing countries							
Total external debt stocks[b]	7 847.5	8 226.9	9 016.8	9 728.6	8.69%	8.86%	7.89%
Long-term debt	5 630.8	6 037.7	6 461.8	6 836.5	6.94%	8.22%	5.80%
Public and publicly guaranteed	2 730.6	2 930.7	3 298.7	3 476.4	2.27%	7.68%	5.39%
Private non-guaranteed	2 900.2	3 106.9	3 163.1	3 360.0	15.46%	8.80%	6.22%
Short-term debt	2 088.4	2 063.7	2 402.5	2 826.2	14.61%	11.80%	17.63%
Debt service	956.8	1 083.5	1 147.2	1 238.9	7.04%	7.91%	7.99%
Debt service on PPG debt	246.9	277.5	267.8	297.4	1.90%	4.50%	11.06%
Debt indicators (percentage)[c]							
Total external debt/GDP	27.3	28.6	28.7	29.1			
Total external debt/exports[d]	100.7	110.6	108.6	105.6			
Debt service/GDP	3.3	3.8	3.7	3.7			
Debt service/exports	11.2	13.4	12.7	12.4			
Reserves/short-term debt	349.6	336.8	304.7	259.2			
Debt service on PPG debt/exports	3.5	4.1	3.6	3.6			
Debt service on PPG debt/ government revenue	3.5	4.0	3.5	3.6			
High-income developing economies							
Total external debt stocks[b]	5 160.6	5 399.2	5 987.6	6 585.6	10.65%	10.51%	9.99%
Long-term debt	3 354.1	3 646.2	3 922.4	4 206.4	7.15%	9.61%	7.24%
Public and publicly guaranteed	1 419.5	1 571.7	1 766.3	1 859.9	3.27%	8.35%	5.30%
Private non-guaranteed	1 934.6	2 074.5	2 156.0	2 346.4	12.24%	10.73%	8.83%
Short-term debt	1 755.4	1 708.5	2 002.8	2 399.9	15.72%	13.20%	19.82%
Debt service	590.2	721.9	745.4	818.0	3.90%	8.77%	9.75%
Debt service on PPG debt	93.2	136.4	130.2	134.8	1.84%	3.14%	3.51%
Debt indicators (percentage)[c]							
Total external debt/GDP	26.0	27.3	27.8	28.6			
Total external debt/exports[d]	92.6	102.1	103.1	103.4			
Debt service/GDP	2.9	3.6	3.5	3.5			
Debt service/exports	9.2	12.1	11.4	11.4			
Reserves/short-term debt	328.2	315.4	278.8	232.8			
Debt service on PPG debt/exports	1.9	2.9	2.5	2.4			
Debt service on PPG debt/ government revenue	1.7	2.6	2.3	2.2			

	2015	2016	2017	2018[a]	2000–2008 annual growth rate	2009–2018 annual growth rate	2017–2018 growth rate
Middle-income developing economies							
Total external debt stocks[b]	1 637.6	1 700.4	1 901.8	2 042.3	2.47%	8.01%	7.38%
Long-term debt	1 365.4	1 407.1	1 566.0	1 692.2	2.92%	8.12%	8.05%
Public and publicly guaranteed	880.0	925.6	1 054.9	1 130.5	0.71%	7.27%	7.17%
Private non-guaranteed	485.4	481.5	511.2	561.7	12.11%	10.06%	9.88%
Short-term debt	229.7	247.3	282.8	306.1	7.83%	9.11%	8.22%
Debt service	175.0	226.2	212.5	237.7	5.38%	11.86%	11.86%
Debt service on PPG debt	87.8	68.6	90.2	105.1	-0.49%	6.83%	16.54%
Debt indicators (percentage)[c]							
Total external debt/GDP	25.3	25.3	26.2	26.8			
Total external debt/exports[d]	110.3	113.7	111.5	107.4			
Debt service/GDP	2.8	3.4	3.0	3.2			
Debt service/exports	11.8	15.1	12.5	12.5			
Reserves/short-term debt	428.1	400.9	384.6	344.6			
Debt service on PPG debt/exports	6.2	4.8	5.6	5.8			
Debt service on PPG debt/government revenue	7.8	5.9	7.1	7.9			
Low-income developing economies							
Total external debt stocks[b]	138.9	146.4	163.6	173.2	-0.70%	7.32%	5.90%
Long-term debt	118.8	125.5	141.2	141.7	-0.57%	7.51%	0.38%
Public and publicly guaranteed	107.6	113.4	128.4	138.9	-0.74%	7.54%	8.15%
Private non-guaranteed	11.2	12.0	12.8	2.8	19.56%	6.01%	-77.74%
Short-term debt	11.2	12.2	12.9	12.6	-0.89%	4.88%	-2.41%
Debt service	5.8	7.8	6.7	8.6	4.87%	13.81%	28.11%
Debt service on PPG debt	4.4	4.1	4.6	5.5	1.08%	10.42%	19.51%
Debt indicators (percentage)[c]							
Total external debt/GDP	31.3	34.0	34.8	35.2			
Total external debt/exports[d]	132.4	143.8	141.9	137.1			
Debt service/GDP	1.3	1.8	1.5	1.8			
Debt service/exports	5.5	7.9	5.7	6.7			
Reserves/short-term debt	508.1	458.3	510.6	510.1			
Debt service on PPG debt/exports	4.2	3.7	3.7	4.0			
Debt service on PPG debt/government revenue	5.6	5.3	5.6	6.3			

	2015	2016	2017	2018[a]	2000–2008 annual growth rate	2009–2018 annual growth rate	2017–2018 growth rate
Transition economies							
Total external debt stocks[b]	910.4	980.8	963.8	927.5	16.77%	2.55%	-3.77%
Long-term debt	792.5	858.9	832.2	796.2	17.65%	3.09%	-4.33%
Public and publicly guaranteed	323.6	320.0	349.0	347.1	4.67%	5.78%	-0.55%
Private non-guaranteed	469.0	539.0	483.2	449.1	36.24%	1.40%	-7.05%
Short-term debt	92.0	95.8	104.0	107.7	22.61%	0.65%	3.57%
Debt service	185.7	127.6	182.6	174.5	26.53%	1.61%	-4.41%
Debt service on PPG debt	61.4	68.3	42.8	52.1	12.53%	3.62%	21.54%
Debt indicators (percentage)[c]							
Total external debt/GDP	46.0	53.5	44.3	40.2			
Total external debt/exports[d]	143.9	176.8	143.2	114.6			
Debt service/GDP	9.4	7.0	8.4	7.6			
Debt service/exports	29.4	23.0	27.1	21.6			
Reserves/short-term debt	546.2	540.3	564.2	582.4			
Debt service on PPG debt/exports	9.7	12.3	6.4	6.4			
Debt service on PPG debt/ government revenue	10.0	11.8	6.0	6.6			
Small island developing States							
Total external debt stocks[b]	618.5	672.1	696.3	742.7	32.56%	8.94%	6.66%
Long-term debt	417.8	447.4	448.5	470.9	30.15%	9.25%	4.99%
Public and publicly guaranteed	57.2	58.9	62.1	67.9	5.36%	5.09%	9.27%
Private non-guaranteed	360.7	388.4	386.4	403.0	96.44%	10.15%	4.30%
Short-term debt	193.5	216.0	238.2	261.7	40.22%	8.39%	9.85%
Debt service	62.3	71.7	72.4	75.6	37.36%	5.94%	4.52%
Debt service on PPG debt	3.5	5.7	4.5	4.8	11.78%	5.23%	7.09%
Debt indicators (percentage)[c]							
Total external debt/GDP	113.4	120.5	118.8	118.9			
Total external debt/exports[d]	102.0	114.7	110.4	107.6			
Debt service/GDP	11.5	12.9	12.4	12.2			
Debt service/exports	9.7	11.6	10.9	10.4			
Reserves/short-term debt	145.5	130.7	133.4	124.5			
Debt service on PPG debt/exports	0.6	1.0	0.7	0.7			
Debt service on PPG debt/ government revenue	10.8	18.8	13.6	13.5			

Source: United Nations Conference on Trade and Development secretariat calculations, based on data from the World Bank, the International Monetary Fund and national sources.

Note: Country groups are economic groups as defined under UNCTADstat classifications, available at https://unctadstat.unctad.org/EN/Classifications.html. The category "all developing countries" refers to countries with high-income, middle-income and low-income developing economies and those with economies in transition.

Abbreviations: GDP, gross domestic product; PPG, public and publicly guaranteed.

[a] 2018 estimates.

[b] Total debt stocks include long-term debt, short-term debt and the use of IMF credit.

[c] Data used for ratio calculations has been adjusted according to country data availability.

[d] Exports comprise goods, services and primary income that are exported.