URGENT ACTION REQUIRED TO BOLSTER DEBT SUSTAINABILITY IN DEVELOPING COUNTRIES

UNCTAD warns of fast-growing risks and vulnerabilities to developing-country debt sustainability

Geneva, Switzerland, 1 July 2016 – Following the global financial crisis and the European debt crises, a global debt wave is now threatening to engulf the developing world, UNCTAD has warned ahead of a round table discussion on debt sustainability to be held at the fourteenth session of the United Nations Conference on Trade and Development – UNCTAD 14 – taking place in Nairobi from 17 to 22 July 2016.

The event will be an important opportunity to assess the situation and discuss viable and effective policy responses to address the growing unsustainability of debt burdens in developing nations, at a time in which the international development community has also just adopted the most ambitious development agenda in history.

Implementing the 2030 Agenda for Sustainable Development over the next 15 years is estimated to come with an annual price tag of between $1.6 trillion and $3 trillion. Yet, moving beyond “business-as-usual” to a multilateral system “fit for purpose” has become increasingly challenging. The global economic recovery is still trying to find its footing, global trade remains subdued, productive investment activity is stuck in second gear and financial market instability continues. In the meantime, debt remains the main driver of global growth, with global debt levels up by an eye-popping $60 trillion since the global financial crisis in 2008.

At conservative estimates, more than 20 developing countries are either already in debt distress or close to it. In emerging markets, the key factor is external corporate debt. This has more than quadrupled over the past decade, from $4 trillion in 2004 to $18 trillion by 2014. Three of the five BRICS countries – Brazil, the Russian Federation and South Africa – may now face recession after having been hailed only a few years ago as the new engines of global economic dynamism. As the history of the 1980s and 1990s and UNCTAD analysis have repeatedly shown, the chances are that corporate debt gone bad will end up on public balance sheets. In the meanwhile, China’s overall debt now stands at just over $30 trillion or half of the increase in total debt stocks since the global financial crisis.

Many poorer developing countries, in particular in sub-Saharan Africa, bolstered by debt relief in the past and solid growth and export performances in the 2000s, have also taken advantage of cheap credit flooding international financial markets to issue sovereign bonds. In lower-income developing economies alone, international sovereign bond issuance rose from a mere $2 billion in 2009 to almost $18 billion by 2014. But what initially seemed an easy additional source of finance quickly turned into a source of concern: worsening global and local econom-
ic conditions have quickly driven up borrowing costs and debt-to-GDP ratios. In some cases, such as Ghana and Mozambique, these ratios are now reaching levels reminiscent of their indebtedness prior to the debt relief initiatives of the 1990s and early 2000s.

Further complications add to the gathering storm clouds. Many debts are hidden, for example as unregistered public guarantees of private debt, public obligations arising from public–private partnerships, subnational debt and other contingent liabilities. Domestic sovereign debt has also risen fast, in particular in poorer economies that have rapidly expanded their domestic bond markets, often with large positions taken by foreign institutional bondholders with short-term investment horizons. Last but not least, another worrying feature of this landscape is only gradually garnering attention. Across developing regions, fast expanding microfinance systems have been faltering under the weight of over–indebtedness, leading to a micro-debt crisis or threatening to do so.

These growing vulnerabilities are particularly critical for commodity-dependent developing countries that already are badly affected by the recent downswing in the commodity super-cycle. While commodity prices have modestly rebounded in the first quarter of 2016, the impact of steep price slumps in commodity markets will continue to be felt sorely in these economies as their revenue bases contract and exchange rate volatility and large currency depreciations add to economic destabilization, leading to financing strategies for development being put at substantial risk.

Since its inception over 50 years ago, UNCTAD has been at the forefront of research and policy initiatives to address developing country debt sustainability. At UNCTAD 14, this round table will bring together senior policy–makers and leading experts to promote urgent policy action and coordination for adopting decisive measures to restore debt sustainability in the developing world. Discussions will focus on the following questions: How can market-based debt instruments be improved to make developing country debt more sustainable? What is the role of the UNCTAD Principles on Responsible Sovereign Lending and Borrowing and a principles-based approach? Has the time come to discuss debt relief for the poorest economies again? What can realistically be done to facilitate a fast return to viable growth paths when things go wrong and sovereign debt restructurings become inevitable?

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