9th UNCTAD Debt Management Conference
Geneva, 11 November 2013, Room XVIII

Opening Statement by the Secretary-General of UNCTAD

AS PREPARED FOR DELIVERY

Excellences,
Distinguished delegates,
Ladies and gentlemen,

It is a great pleasure for me to welcome all of you to the ninth UNCTAD Debt Management Conference. This biennial event provides a regular opportunity for senior policy makers to discuss emerging challenges in debt management and public finance. This year, the focus of your discussions will be on the implications of external risks on financial sustainability, the mechanisms needed to prevent debt crises, and debt management strategies.

The choice of these subjects is indeed timely. The global financial crisis in 2008 and its aftermath have brought the issue of debt sustainability squarely back to the fore of global policy debates. Of course, contrary to the 1990s, today most of the high profile cases of sovereign debt distress are in the advanced countries.

The debt situation of the developing countries, in contrast, had shown a clear trend of improvement since the late 1990s. Even the financial crisis of 2008 only slowed this positive trend, but it did not reverse it. Indeed, the average ratio of total debt to GDP for all developing and transition economies fell from about 28% in the early 2000s to about 21% in 2011. Unfortunately, however, this positive trend is now sputtering. In 2012, the average debt to GDP ratio of developing countries actually deteriorated for the first time in more than a decade, to an average of about 22%. This is in large part due to the more uncertain environment, and is a cause for vigilance.

Prior to the crisis, the world economy benefited from almost a decade of broad-based expansion. Many developing countries participated in this growth through trade. Buoyant consumer demand in developed countries enabled rapid growth of manufactured exports from many emerging economies. This in turn provided opportunities for primary commodity exports from other countries, fueling a virtuous expansionary cycle.

In this environment, developing countries managed to sharply reduce their average debt ratios. This was not due to a reduction in the stock of external public debt but rather due to rapid GDP growth. While debt continued to increase, GDP grew faster. At the same time, developing countries started accumulating large external reserves, leading to a dramatic drop of currency mismatches in their aggregate balance sheets. Having learnt their lesson from the financial crises of the 1990s, they also made progress towards altering the composition of their public debt by borrowing more domestically and less abroad. These were some of the policy buffers that helped to insulate developing countries somewhat from the financial turmoil when the financial crisis hit in 2009.

In the current, post-crisis environment, however, developing countries are facing a number of new challenges that are posing threats to debt sustainability.

Firstly, they are facing slowing growth of exports and GDP. This is in large part due to the continuing fragility of the recovery in the developed countries. The economic growth forecast for developed countries has been downgraded to 1.2 per cent, indicating that little has improved from last year's weak economic performance. Economic recovery is expected to remain modest in developed countries for some time to come. While developing countries and transition economies are still growing at faster rates, with rates estimated at 4.5 per cent and 2.5%, respectively, they are beginning to be increasingly affected by the continuing fragility in the advanced countries. As the growth of international trade slowed dramatically, developing countries have witnessed a sharp contraction of export growth.

Secondly, many developing countries are facing high unemployment levels. While they have fared relatively better than developed countries, the quality of employment has not improved with underemployment and informal sector jobs remaining as persistent structural challenges. Many countries have had to increase their fiscal expenditure to deal with the social fallout of the slowdown, and to stimulate the economy. This has diminished the fiscal space of many developing countries and increased their financing needs. At the outset of the crisis, many developing countries had a strong or balanced fiscal position, which now has greatly diminished for many. Consequently developing countries will likely find themselves in a situation of growing fiscal outlays in an environment of sluggish global economic growth, which will pose hurdles to maintaining sustainable debt. Indeed, since the outbreak of the global crisis, the total external debt stock of developing countries has grown at a faster rate. Prior to the crisis, it grew at 7% per year on average. Since 2009, however, its growth has exceeded 10% every year, and in 2012, it reached 12%.

And in this environment, developing countries also face a third challenge, namely increasingly volatile capital flows. In the aftermath of the crisis, many of these countries have seen an inflow of short-term capital, attracted by higher interest rates than were available in the major developed countries. In many cases, this inflow has created pressures for currencies of emerging market economies to appreciate, thus further weakening their export sectors. Indeed, this easy availability of capital may have contributed to additional debt.

However, as the discussion of monetary tapering in the developed countries is picking up, rates on long-term bonds have now begun to rise, causing some of these flows to reverse. The original announcement of monetary tapering in the US led to important outflows of short-term capital flows from several emerging markets, leading to currency depreciation and financial instability. Such volatility can pose additional risks for debt sustainability.

As of yet, there is no reason for alarm. The external debt situation of developing countries as a group remains manageable, even if aggregate statistics mask important differences between countries. However, these new challenges are a cause for vigilance. The lagging global economic recovery has left countries vulnerable to unexpected shocks and changes in investor sentiment, which carries important implications for managing sustainable levels of debt in the years ahead. These evolving complexities of the global economy have increased the demands placed upon debt managers to respond quickly to unexpected shocks and to actively manage risks.

In this context, we must reinforce our efforts to achieve debt sustainability and manage debt problems as they arise. The recent debt crises have demonstrated again how unsustainable sovereign debt can quickly undermine a country's ability to function, and reverse development achievements in poverty reduction, education and health, and ultimately impair the ability of countries to maintain a sustainable development path. More importantly, we have learnt that in an integrated world economy, such debt crises can quickly spread across countries.

As the frequency and severity of such debt crises have increased, and they are no longer isolated to developing countries, the need for timely, impartial and transparent resolutions of debt problems has become more acute for all countries.

Achieving this will require reforms of the international financial architecture that create more effective mechanisms for the prevention of crises as well as their timely resolution. UNCTAD has been making analytical contributions to the debates on such mechanisms:

The establishment of international norms and principles for responsible sovereign lending and borrowing is a first step towards preventing crises generated by irresponsible, imprudent or opportunistic behavior on the part of creditors and sovereign debtors.

To this end, UNCTAD has formulated a set of such principles that emphasizes the need for creditors and debtors to share responsibility for preventing unsustainable debt situations. The purpose of the Principles is to fill in a crucial gap in international sovereign financing, namely the non-existence of a set of globally agreed essential principles that cover all types of sovereign debt contracting. The Principles are meant to delineate mutual responsibilities of lenders and sovereign borrowers, for developed or developing countries alike. While the Principles do not create new rights or new obligations in international law, they do identify and systematize the basic general principles and best practices applied to sovereign lending and borrowing and elaborate the implications of these standards. In this way, through voluntary adherence to these principles by a growing number of actors, they can make a contribution to the prevention of debt crises.

But we must also improve the way we deal with debt crises when they do occur. Recent experience has shown that the absence of an agreed mechanism for debt workouts leads to legal uncertainty and protracted negotiations on debt restructurings, which exacerbate the adverse impact of crises both on the affected country and on its creditors. In this context, the international community should more actively explore a rules-based approach to sovereign debt workouts, which will increase the predictability and timely restructuring of debt when required, including fair burden sharing. New proposals and ideas are currently being advanced to reshape and bring order to the international financial system, which presents us with a moment of great opportunity. In this context UNCTAD has set up a working group to develop a debt workout mechanism that involves the participation of all stakeholders. We hope that this group can make a contribution to the global debate on this important and pressing issue.

Ladies and Gentlemen,

In addition to this work at the international level, UNCTAD has been active in supporting national debt management capacities, which are an important prerequisite for achieving debt sustainability. UNCTAD's Debt Management and Financial Analysis System (DMFAS) Programme is a leading provider of technical cooperation and advisory services in the area of debt management. The Programme has been successfully helping governments improve their capacity to manage debt, working directly with over 100 institutions in almost 70 countries to deliver practical assistance in this critical area. DMFAS is therefore an excellent example of how UNCTAD's technical cooperation can assist countries to build sustainable national capacities.

Maximizing synergies with UNCTAD's research and analytical work on debt management, the DMFAS Programme offers countries a set of concrete tools to handle the day-to-day management of public liabilities and produce reliable debt data for policy-making purposes. It focuses on providing solutions to the operational, statistical and analytical problems faced by debt management offices. This includes its state-of-the-art specialized debt management software, as well as advisory services and training activities, which have systematically evolved in accordance with new developments such as the increasing importance of managing domestic and private debt.

The DMFAS Programme and the projects on Responsible Sovereign Lending and Borrowing would not have been able to support so many countries without the support of the donor community. I take this opportunity to thank donors for their generosity and urge them and other potential donors to continue supporting UNCTAD in this important field. I would also like to extend our appreciation to the DMFAS beneficiaries for their steadily increasing cost-sharing contributions, which demonstrate the importance they place in the assistance that UNCTAD provides to them.

I now greatly look forward to your deliberations on the emerging challenges in debt management, as well as your ideas and suggestions on how we can further improve our support to developing countries in our common quest to achieve debt sustainability.

Thank you very much.