Key Note speech

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Excellences, distinguished delegates, ladies and gentlemen [...]

It is a great honor and pleasure to join all of you to deliver the key note speech to the 9th UNCTAD Debt Management Conference. I would like to express my sincere thanks to UNCTAD for organizing this grand event on such timely and pressing topics pertaining to sovereign debt.

I have no doubt that this conference will provide an opportune occasion for all of the policy makers and debt managers from around the world to convene and deliberate over the most pressing challenges facing us during these uncertain times. I see that the diverse and global representation that we have today will provide us with much fuel and fodder of an interesting and informative exchange. I am looking forward to the debates that will take place in the coming days.

Let me take this opportunity to highlight and comment on the challenges posed to developing countries in maintaining sustainable debt in the current global economic environment and emphasize the need for countries and the international community to take measures that not only mitigate the impact and chance of future crises but also to consider developing instruments and mechanisms to address debt difficulties or crises should they arise.

Debt sustainability in current global environment

It is perhaps an understatement to say that the global economy has undergone significant volatility since the outbreak of the global financial crisis in 2008. The economic contraction that was accompanied by heavy and looming uncertainties created real and significant risks to the economic growth and debt sustainability of both developed and developing countries. The weak economic recovery that we have witnessed thus far has proved to be a persistent challenge to developing countries, in particular with regard to achieving their development objectives.

The current global economic climate that we find ourselves in today is one that is characterized by slow growth and increasing interest-rate risk. The cheap sovereign financing that many countries have enjoyed in recent years may be ending as the interest rates on long-term bonds have begun to rise. This dynamic creates significant challenges for countries to manage and maintain sustainable debt levels. This is particularly true for developing countries, which have fewer sources of financing to draw from than developed countries. Moreover, developing countries have expended a significant degree of their fiscal buffers in recent years to respond and mitigate negative shocks stemming from the global financial and economic crisis. This has resulted in a diminishment of the policy space of many developing countries, which also poses a risk to the sustainability of their debt.

This scenario is further complicated by the uncertainties and low growth of advanced economies, which when coupled with ample global liquidity in search of higher returns, are also affecting the cost-risk trade-off that developing countries face in managing their debts. The abundance of global funds is compressing yield spreads making it easier for developing countries to access foreign capital. Low interest rates and the narrowing of bond spreads tend to favor a cost minimizing strategy by providing developing countries with a strong incentive to fund their debts on international markets, although there are risks to be managed in pursuing this strategy. The uncertainty surrounding the monetary policy stance of advanced economies, for instance, the timing and pace of their exit strategies, and the risks implied by their high levels of public debt could add to financial market volatility and suggest the greatest benefits from strategies aimed at minimizing risk.

Risks posed to developing countries, particularly LDCs

The crisis has inflicted huge economic costs to countries, especially the developing ones. Prior to the crisis developing countries accumulated external reserves that enabled them to first withstand large capital outflows and then respond to the global recession with varying countercyclical policies. Thus far, developing countries as a group have been noticeably resilient to the negative effects of the crisis, owing to their active policy interventions and strong economic growth prior to the crisis. The transmission of the crisis to developing countries has occurred through the real economy, which have manifested in contractions of trade, investment, remittances, and more recently in contractions of official development assistance. The weakening of these economic buffers, have made debt management an ever more challenging task.

Moreover LDCs have fewer opportunities and less sources of financing compared to other developing countries. With few exceptions, domestic debt markets are not sufficiently developed, especially in the long maturity segment, and the resources that can be raised are constrained by the limited amount of savings. Developing a domestic debt market is also costly in terms of financial and human resources. More importantly, domestic borrowing cannot fully replace external financing because LDCs must raise foreign exchange to buy foreign capital goods and equipment for investment projects. Current account imbalances suggest that foreign capital will continue to play an important role in the development of LDCs.

With the diminishing fiscal space to mitigate future shocks, developing countries are becoming increasingly vulnerable to external shocks and to the risk of renewed debt accumulation. This is particularly true for least developed countries (LDCs), a group to which Cambodia is a member.

Even though Cambodia's external debt burden is within relevant indicative thresholds under the baseline scenario, Cambodia, like other LDCs, remains sensitive and vulnerable to external shocks. The prolonged recovery from the global crisis makes maintaining the current debt ratio an arduous task for the Government.

Going forward: global economic recovery, good debt strategies, missing links

As the global economy continues to recover from the global financial crisis of 2008, it is clear that there is much work that lies ahead for both policy makers and debt managers as the road to normalization poses many risks and challenges for countries to overcome.

Recovery from the global financial and economic crisis has been slow thanks largely to the difficulty of rebalancing budgets (household, corporate and government) in advanced economies. In addition global economic growth is again decelerating and significant uncertainties and downside risks remain and pose potential threats to the recovery process. Of particular concern to many developing countries, a further slowdown in growth is likely to deepen the concerns surrounding sovereign debt levels as well as threatening the provision of ODA. These trends have important implications for debt sustainability in developing countries. Low global growth and demand have negative effects on the export revenues of developing countries. In addition, the uncertain global economic outlook dampens investment and continues to weigh on aid budgets, thus raising concerns about the predictability of development assistance in the years to come.

Looking ahead, we must recognize that maintaining debt sustainability depends upon a multitude of factors that include not only future growth, but also borrowing conditions, terms of trade, foreign exchange risk, interest rate risk, among many other considerations. Policy makers and debt managers must remain vigilant in managing risk and responding difficulties in uncertain times. This is a formidable task that can be ameliorated through actions taken at the national and international level.

Of course, addressing problems before they arise is key to maintaining sustainable sovereign debt. At the country level I cannot emphasize enough the paramount importance for countries to adopt and design good debt strategies that take into consideration i) use of borrowed funds, ii) implementation of prudent and sound debt management, iii) choice of financing sources, iv) design of an effective debt strategy, and v) engagement in responsible sovereign lending and borrowing, to name a few. Beyond adopting effective strategies countries must also engage in active asset and liability management.

As a complement to effective national strategies, the international community must reinforce its efforts to address problems when they do arise. At present it is apparent that the missing link in the global financial architecture is the absence of a sovereign debt workout mechanism. This results in debt restructurings that are characterized as being "too little and too late". The general belief that collective action clause would be capable to solve the creditor coordination problems has proved to be terribly wrong in the recent litigation against Argentina. CACs do not constitute a complete bankruptcy mechanism alone. Debt crisis resolution in Greece is also a proof of the fact that the world is not well equipped to deal with sovereign debt crisis.

It is evident that the current ad hoc patch work of international arrangement is not one that can rapidly respond to crises when they arise. As a result count

UNCTAD's work

UNCTAD's analytical work on debt issues, in particular the UN Secretary-General's report on debt issues prepared for the General Assembly, is an important contribution to the international debate on debt issues.

I am also pleased to learn that at the beginning of this year UNCTAD took the lead to set up a working group comprised of all stakeholders to examine the issues of a sovereign debt workout mechanism. The inclusive and transparent process bodes well for the initiative to come up with a framework more easily acceptable to both creditors and borrowers. With the global financial crisis and some recent events, more people have acknowledged that the lack of a debt workout mechanism is a missing link in the international financial architecture which has contributed to the "too little and too late" debt restructuring phenomenon. To redress this problem will require the participation and support of all stakeholders.

In addition, I would also like to express my appreciation for the good work of the DMFAS program. The focus of the Program is on the delivery of debt management assistance in its areas of comparative advantage, the "downstream" activities of debt management, at the national and, increasingly, subnational levels. The "downstream" activities include the maintenance of debt databases, debt data validation, debt operations, internal and external debt reporting, debt statistics and basic debt analysis, and building system links between debt management and other public finance management systems. They complement more "upstream" activities such as debt sustainability analysis supplied by other providers such as the World Bank and the IMF. Indeed, the Programme exemplifies UNCTAD's policy of cooperation with other organizations, systematically working in coordination with a broad range of providers of debt management technical assistance.

In closing, I would like to wish the 9th UNCTAD Debt Management Conference a resounding success.