General Assembly
Ad Hoc Open-ended Working Group to follow up on the issues contained in the Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development

Second meeting on
"The impact of the world financial and economic crisis on debt sustainability of developing countries"
(New York, 12 April 2010)

Informal summary by the Secretariat

Overview. The meeting was co-chaired by H.E. Mr. Morten Wetland (Norway) and H.E. Mr. Lazarous Kapambwe (Zambia), who introduced the topic based on paragraphs 15, 33 and 34 of the outcome document. The presentations by the panelists focused on the joint World Bank/IMF debt sustainability framework (DSF) for low-income countries (LICs), identifying vulnerabilities in LICs and suggesting ways forward including sustainable borrowing and lending. A case study of Poland was presented to illustrate the policies adopted by that country to help keep it on a growth path. The discussion also covered the impact of the crisis on the debt difficulties of some middle-income countries. Some delegates called for a critical analysis of the DSF for both low- and middle-income countries, as well as the international support needed for crisis prevention. Opinions varied between the proposal to establish a new framework and the call to reform the existing debt restructuring mechanisms.

Summary of the presentations by the panelists

Ms. Yuefen Li, Head, Debt and Development Finance Branch, Division on Globalization and Development Strategies, UNCTAD, gave a short assessment of the impact of the crisis on debt sustainability and discussed the need to operationalize the recommendations contained in the Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development (A/RES/63/303) related to debt sustainability. The impact of the crisis had been severe. External debt of developing and emerging market countries had increased over 2008 and 2009. Average external debt of developing and transition economies grew by more than 8%, from less than 44% to 52% in the third quarter of 2009. Low-income countries (LICs) entered the crisis in a relatively better position. However, they still faced increasing external debt and there had been a reversal in gains made by those countries. For example, Latin American and CARICOM countries had very high debt to GDP ratios. Those ratios exceeded 100% in several countries in the CARICOM region. There had also been a switch from private to public sector borrowing which was expected to continue and could lead to further challenges.

Ms. Li emphasized that the recovery ahead would likely to be slow as boom periods for commodity or financial markets were usually shorter than bust periods. The global economic crisis had raised the financing gap for developing countries because of the big drop in the world trade, volatility in commodity prices and significant falls in remittances and FDI. With some donor countries having to roll over their public debt, there would be crowding out effects that could further limit resources for developing countries. Overall, more donor support was needed for developing countries, to enable them to finance countercyclical deficits, boost investment and restore growth without increasing their public debt to unsustainable levels. The donor community should thus honor their ODA commitments despite their reduced growth prospects and increase aid effectiveness through enhanced national ownership. The HIPC initiative was a one-off initiative and it was coming to an end.

The speaker also emphasized the need for the operationalization of proposals contained in the Outcome of the Crisis Conference, such as temporary debt standstills between debtors and population. Overall, the Polish experience was positive and exemplified the need for prudent fiscal and monetary policies.

Mr. Sudarshan Gooptu, Acting Director, Economic Policy and Debt Department, World Bank, presented an overview of and the changes made to the debt sustainability framework (DSF) for low-income countries. He stressed that the DSF was just one component of long-term sustainability assessment and represented one of the many tools that were used to make policy decisions. Currently, there were 40 HIPC, 5 of which (Burundi, Central African Republic, Haiti, Republic of Congo and Afghanistan) had recently reached completion point. The debt burdens of the 35 post-decision point countries had been reduced by 80% compared to their decision point levels. The proper institutional framework was necessary to manage public debt prudently and to avoid debt distress episodes.

The DSF had an empirical foundation and the likelihood of debt distress was mainly explained by susceptibility to shocks, the level of debt burdens and the quality of policies and institutions. Debt sustainability analysis (DSA) was carried out annually, and in parallel for external debt and total public debt. Alternative scenarios were worked out based on the predictions of the DSF. The DSF was used to identify countries at high risk and determine the grant-loan mix in International Development Association (IDA) allocations for low-income countries. The framework would also take into account country-specific criteria.

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appropriate forum to introduce an internationally agreed legal framework for the orderly restructuring of sovereign debt that could be operationalized through an international body that would guarantee fair burden-sharing, evaluate the debt situation of all countries with external debt problems and propose proper levels and forms of debt relief.

The representative of Chile

clearly unsustainable. There was also a danger

Responsible borrowing and lending practices were essential. When it came to the determination of debt sustainability, national policy considerations should complement World Bank and IMF