

Challenges to Debt Sustainability for Developing Countries and the Need for a Debt Restructuring Mechanism

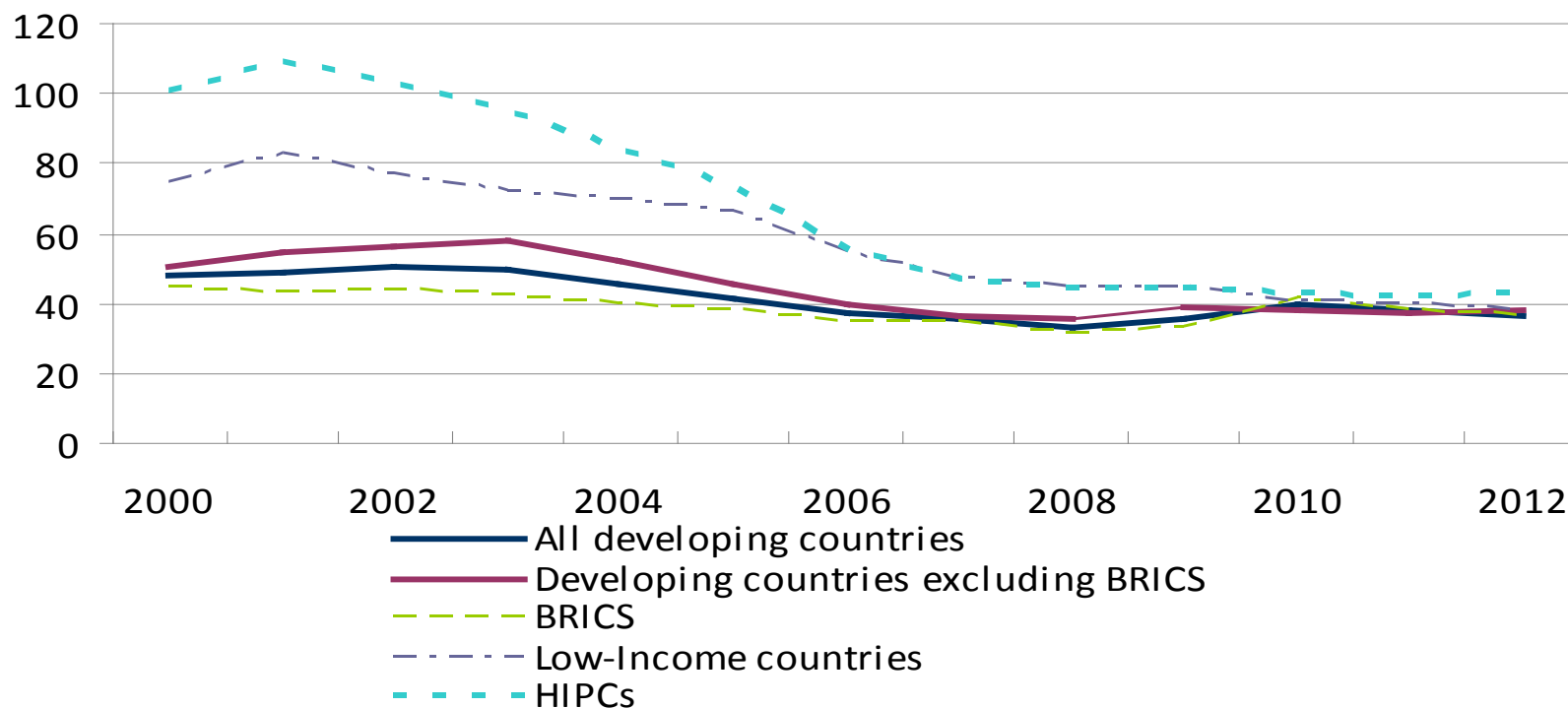
South Conference: “2015 and the South: Preparing for a Year of
Uncertainty and International Summits”, 12 March 2015, Geneva

Yuefen LI

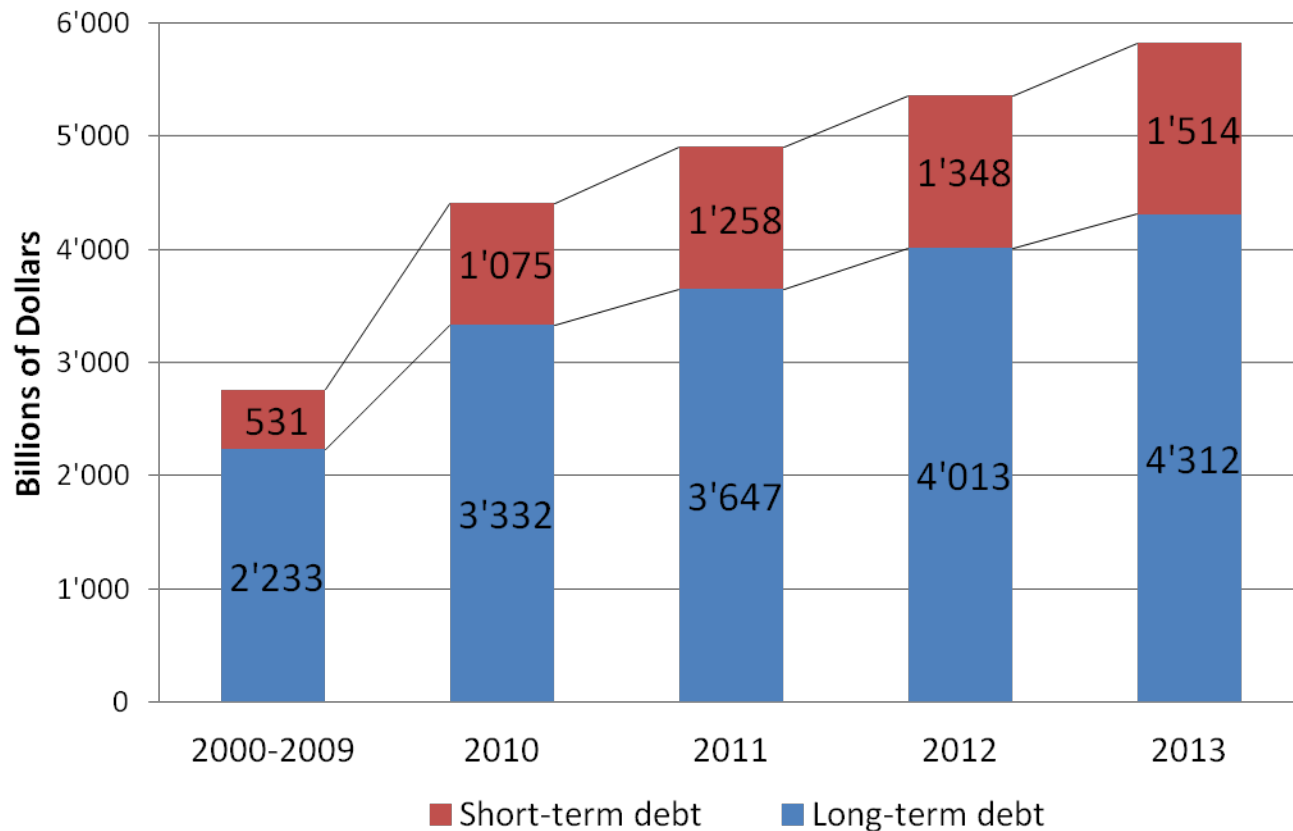
*Special Advisor on Economics and Development Finance
South Centre*

Higher Debt and Lower GDP Growth Trap

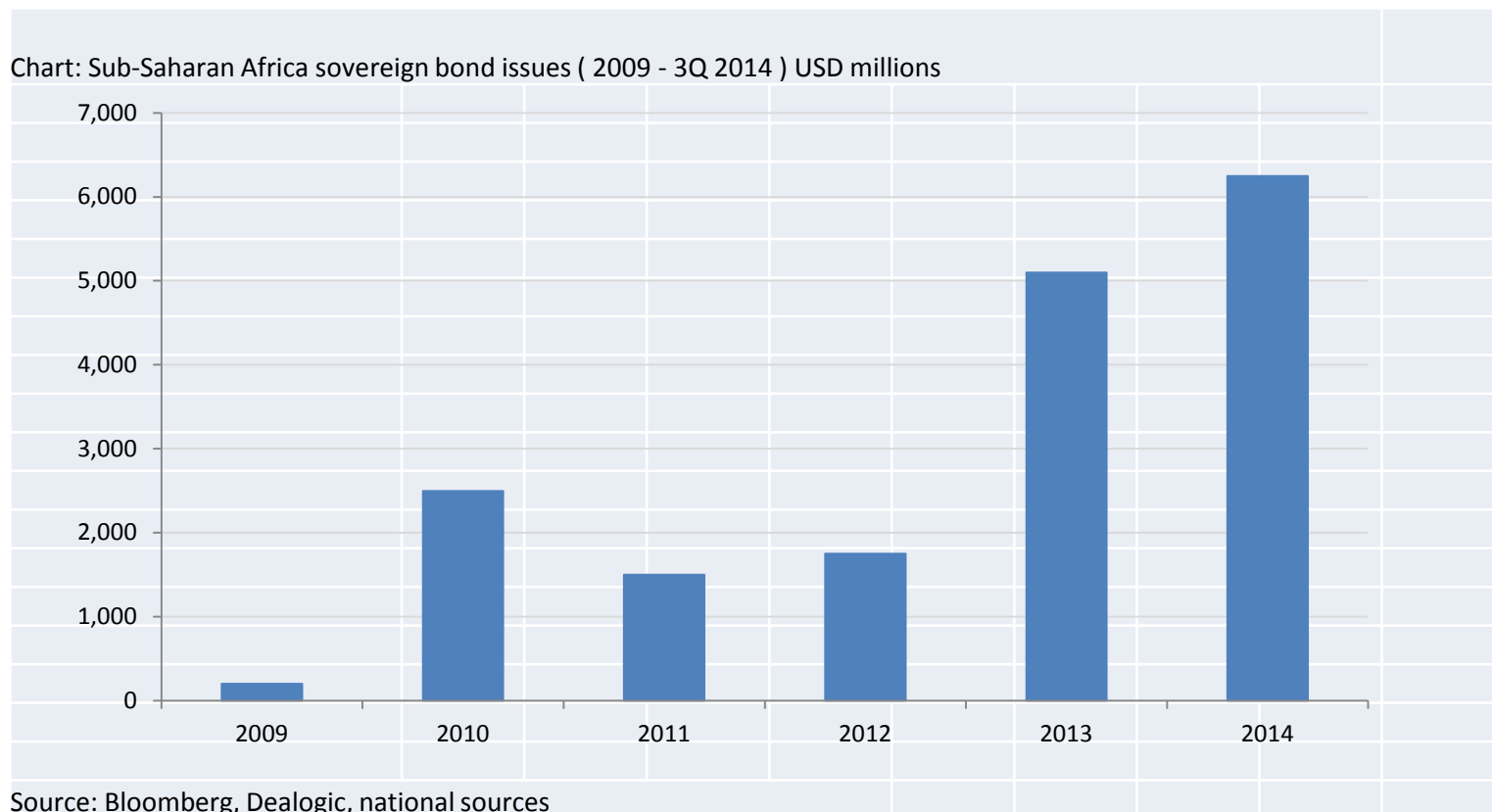
Public Debt / GDP
(percentage)



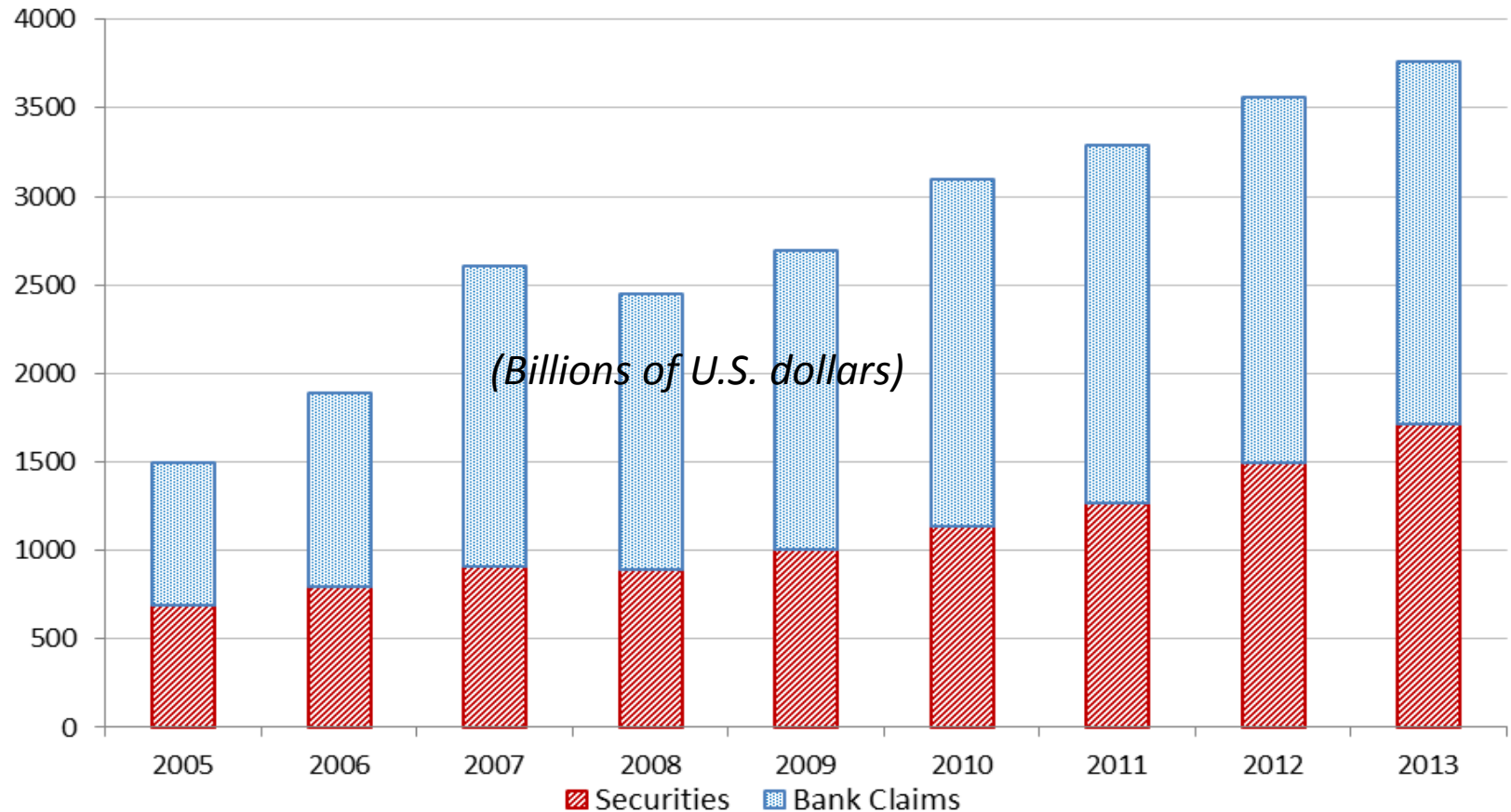
Debt Stock (PPG) of Developing Countries



Increasing Sub-Saharan Africa Sovereign Bond Issues: additional financing and additional vulnerabilities

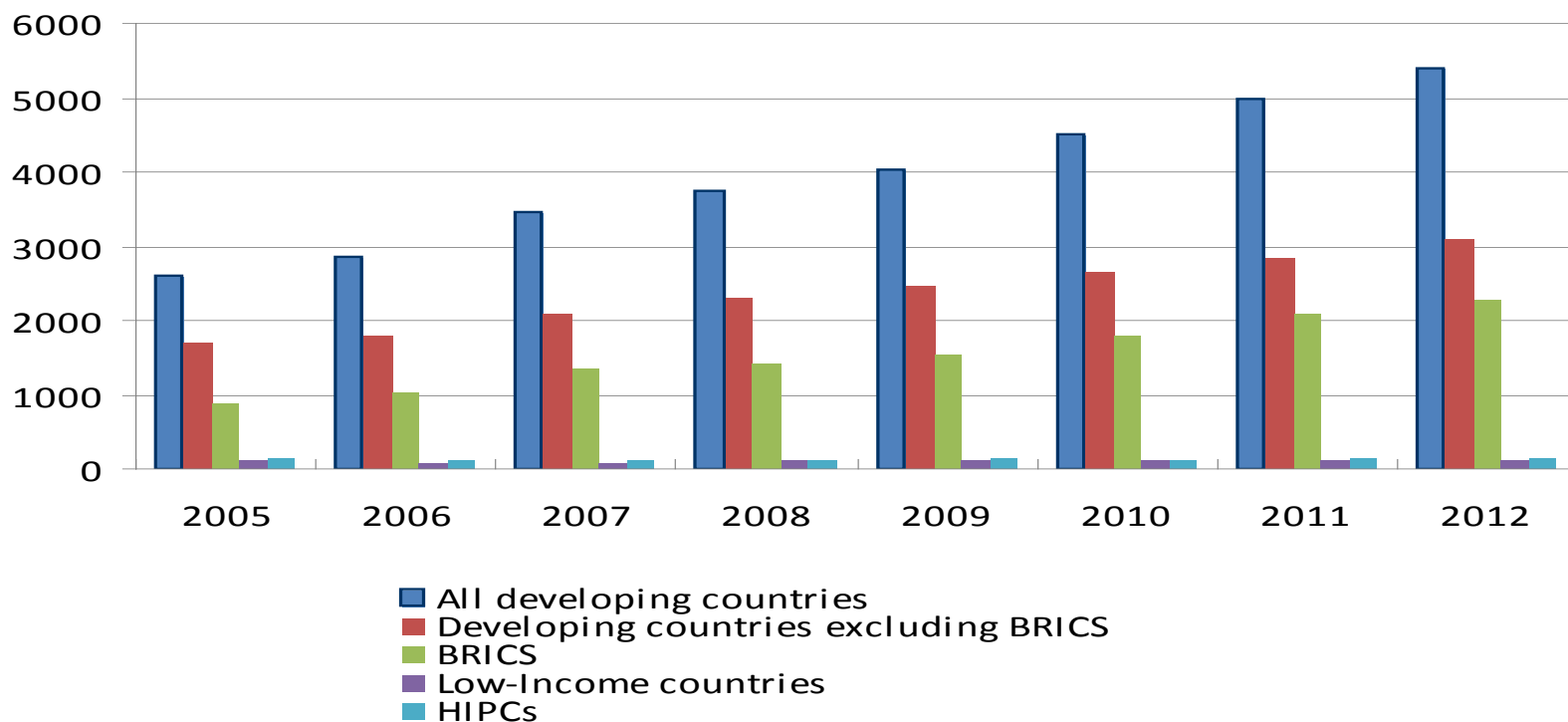


Emerging Economies



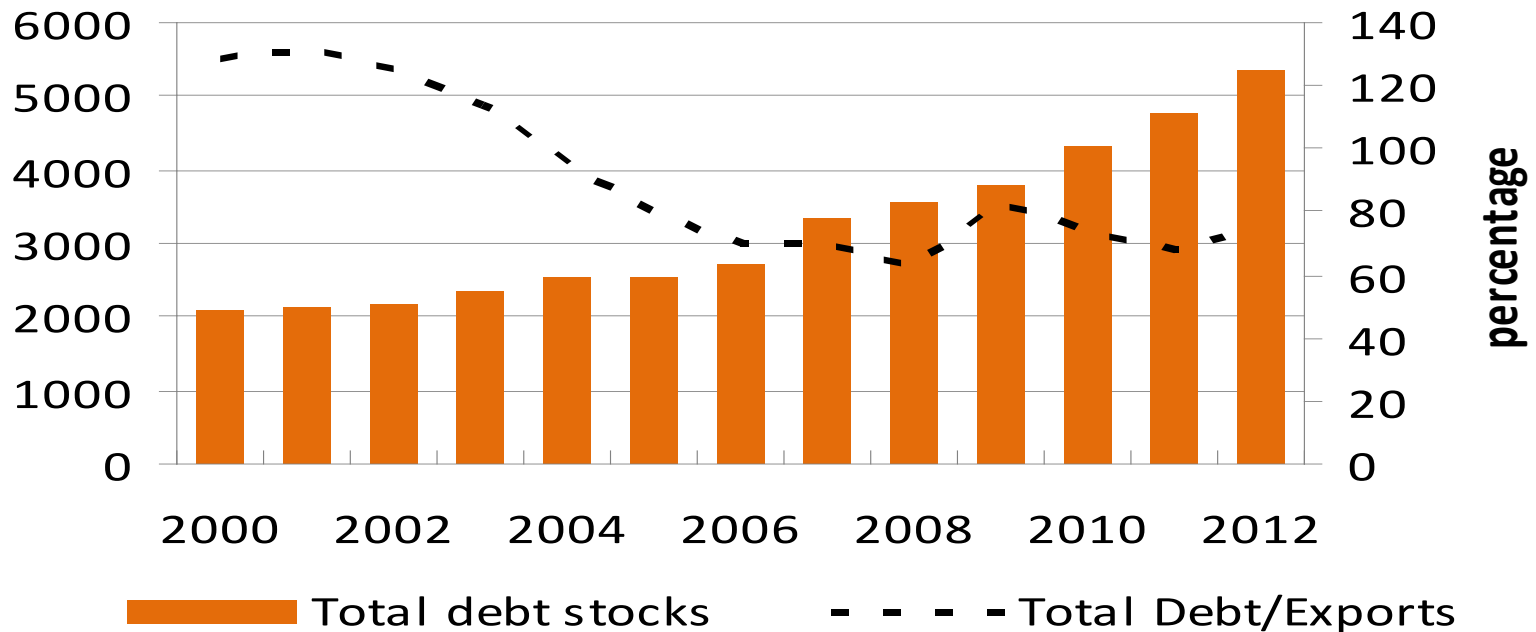
Increasing External Debt by Country Groups

External Debt Stocks
(billion USD)

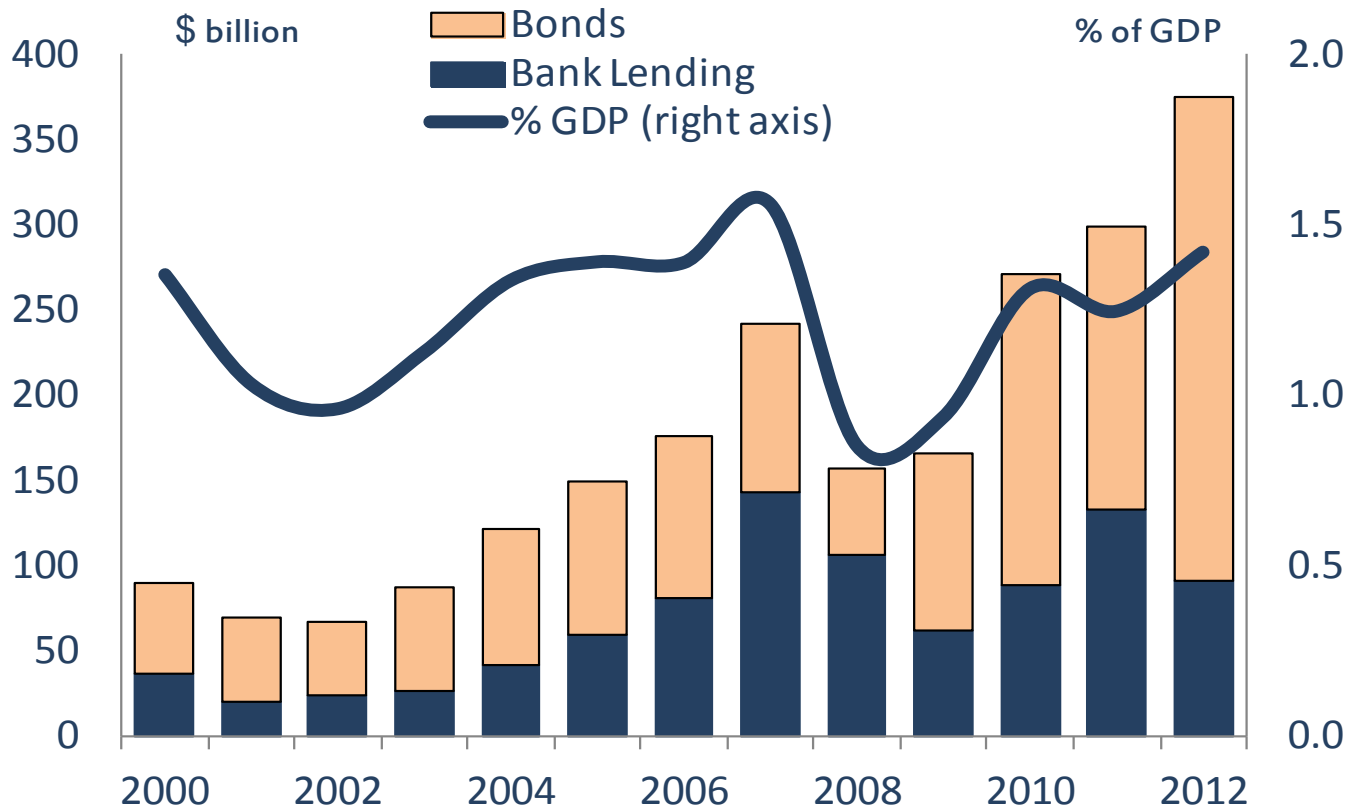


Developing countries' total debt/exports

**Developing Countries,
Total External Debt**
(billions US\$)



International long-term private debt to developing countries



Source: Dealogic and the World Bank

Challenges of HIPCs in maintaining debt sustainability

- 2 pre-completions point countries in debt distress
- 6 CP countries in high risks of debt distress
- 22 CP countries in moderate risks of debt distress

The UN General Assembly process

The establishment of the *Ad Hoc Committee on a Multilateral Legal Framework for Sovereign Debt Restructuring Processes* in the UN General Assembly constitutes a big step forward for the international debate on the sovereign debt restructuring mechanism.

Polemic Debate

- Improvements of debt contracts are welcoming but far from sufficient
- A legal framework is necessary

Complementarities between contractual and statutory approaches

- When debt contracts are better designed, debt servicing can be better self-enforced, thus less probability of the need for debt restructuring

Limitations of the contractual approach

- **1. Inability to address some fundamental and systemic problems facing sovereign debt restructuring like procrastination or “too late and too little”**
- **2. Legal forum fragmentation**
- **3. Lack of comprehensiveness in debt restructuring**
- **4. Problem of interim financing,**
- **5. Incremental contractual improvements take decades to phase in fully**
- **6. Super CACS may not be able to protect countries with small quantities of bonds**

Can we wait for years for strengthened contracts to take effect?

- **Improvements of debt contracts cannot benefit existing outstanding bonds which are stuck with old terms**
- **Countries with limited amount of bonds would continue to be exposed to attacks by vulture fund**

- Greater convergence on the need for a sovereign debt restructuring mechanism since 2008;
- The centre of the international debate has shifted to “options for moving forward”.

Thank you

