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


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Higher Debt and Lower GDP Growth Trap

Public Debt / GDP
(percentage)
Debt Stock (PPG) of Developing Countries

![Graph showing the debt stock of developing countries from 2000-2013.](image)

- **2000-2009**: 2,233 billions of dollars
- **2010**: 3,332 billions of dollars
- **2011**: 3,647 billions of dollars
- **2012**: 4,013 billions of dollars
- **2013**: 4,312 billions of dollars

Legend:
- Red: Short-term debt
- Blue: Long-term debt
Increasing Sub-Saharan Africa Sovereign Bond Issues: additional financing and additional vulnerabilities

Chart: Sub-Saharan Africa sovereign bond issues (2009 - 3Q 2014) USD millions

Source: Bloomberg, Dealogic, national sources
Emerging Economies

(Billions of U.S. dollars)

2005 2006 2007 2008 2009 2010 2011 2012 2013
Securities  Bank Claims
Increasing External Debt by Country Groups

External Debt Stocks
(billion USD)

2005 2006 2007 2008 2009 2010 2011 2012

All developing countries
Developing countries excluding BRICS
BRICS
Low-Income countries
HIPC
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 HIPC 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