Panel session #2 – Addressing debt vulnerabilities

High debt vulnerabilities, notably in low-income countries, is a growing source of concern for the international community. The drivers of the debt build-up and shocks (Covid-19, energy, food security, tightening of the financial condition, etc.) vary across countries. In this context, the need for coordinated and effective debt treatments is critical.

The prevailing uncertainty in global economic and financial condition has exacerbated pre-existing debt vulnerabilities. As inflationary dynamics take hold worldwide and translate into downward pressures on exchange rates and an increase in fuel and food prices, rising global interest rates tend to amplify capital outflows and constrain access of low-income countries and emerging economies to external financing.

Debt vulnerabilities have significantly risen in Low Income Countries (LICs). This trend is particularly worrying in countries which benefited in the early 2000s from the Highly Indebted Poor Countries (HIPC). While debt vulnerabilities were already high, the Covid-19 pandemic has made the situation even more problematic, increasing pressures on already limited fiscal spaces. According to the IMF, around 60% of low-income countries are at high risk of debt distress or are already in debt distress, even if the level of debt is quite below the level reached before the HIPC initiative. The situation of some middle-income countries is also a growing source of concern. One of the main reasons is an increase in public debt, including on non-concessional terms, over the last decade.

Building on the successful implementation of the Debt Service Suspension Initiative (DSSI) which covered the period April 2020-dec2021, the G20 and Paris Club members endorsed a Common Framework for debt treatment to address Low Income Countries debt vulnerabilities in a coordinated manner. These initiatives mark an historic progress in terms of creditor coordination. In the recent months, we have seen some progress in the implementation of the Common Framework for the three requesting country (Chad, Ethiopia and Zambia), despite some delays. It is crucial to increase the momentum and to remain fully committed to the Common Framework. As endorsed by the G20 Finance Ministers, a timely, orderly and coordinated implementation of the Common Framework is essential to provide effective, and sustainable debt treatments for low-income countries.

Creditor coordination would also be warranted for middle-income countries in need of a debt treatment.

Issues to be discussed:

- What is the assessment of debt vulnerabilities?
- What can be done to address debt vulnerabilities more efficiently?
- How can we improve the implementation of the Common Framework in a timely manner and provide more clarity to eligible countries?
- How can creditor coordination be further strengthened and improved?