

Sovereign Debt Conference

By Philip Hammond, Chancellor of the Exchequer, United Kingdom

Paris Forum

May 7, 2019

Thank you to France for organising this importance conference.

Ten years ago, the Creditor countries represented here had just forgiven billions of dollars' worth of debt as we engineered a new start for many of the most heavily indebted low-income countries in the world.

Yet ten years on we're seeing history repeat itself, with debt vulnerability growing again.

We need to be clear-eyed about how that is happening and why it is a problem.

Christine Lagarde has spoken about the financing gap for five of the SDGs.

The global financing gap for economic infrastructure alone stands at \$290bn each year.

So external financing, on a huge scale, will continue to be required.

At the same time, the world of debt and development is changing.

Borrowers have increased access to markets and face new lenders, increasingly innovative and complex terms for lending, and fragmentation in the creditor base.

So, while debt levels are not yet as high as they were in the 1990s, the challenges are potentially more complex.

And the question facing us today is: how, in this increasingly complex debt landscape, do we appropriately deliver the financing required to drive sustainable growth?

The answer to that question can't just be to say: "borrow less" – instead our message has to be "borrow smarter", while also making sure that the international lending environment facilitates that ambition.

Let me say a few words about what I mean by "borrowing smarter" – and highlight some of the actions which we will need to consider over the course of today.

ACTION 1 - EMPOWERING BORROWERS

The first step towards “smarter borrowing” is to make sure that borrowers themselves are equipped with the expertise to understand their real needs, to secure good terms and to effectively manage their debt.

Increased opportunities to borrow have provided some countries with more room to expand public spending.

But the IMF has found that, too often, that spending isn't being used to finance investment and support long-term growth - between 2010 and 2017, in half of all low-income countries, public investment actually declined, even as debt levels rose.

That is clearly not sustainable.

So the best way to achieve debt sustainability and transparency in the long-term is to empower developing economies to be effective borrowers, astute investors, and careful debt managers.

To support that ambition, the UK, along with others in this room, is now a donor to the IMF and World Bank's Debt Management Facility – providing essential technical assistance.

This builds on our support for capacity building in broader public financial management including our recently announced £46m package to support domestic resource mobilisation for long-term sustainable financing.

And as a priority, developed economies and the IFIs need to increase our financial support, ensure effective incentive frameworks, and better coordinate our technical assistance.

All of this activity needs to be matched by real political will from developing countries at the most senior levels, to ensure that increased capacity translates into real change.

ACTION TWO – DELIVERING HIGH CREDITOR STANDARDS

While debt sustainability and transparency are ultimately the responsibility of sovereign borrowers – creditors must also have responsibility.

So our second action must be to implement high creditor standards – across direct lending, trade financing, and infrastructure investment.

Over the long-term, it is clearly in the interests of borrowers and lenders to achieve a sustainable debt ecosystem.

So as official creditors we must commit to implementing internationally-agreed standards on transparency and sustainability.

I welcome the G20 work, now led by Japan, on the Operational Guidelines on Sustainable Financing and the emerging principles for Quality Infrastructure Investment which we must commit to using across all our official financing.

The same is true of the private sector.

If we are to close the global infrastructure gap, private finance will be essential and London's deep international capital markets, and specialist legal and professional expertise, mean that the UK will expect to play a major role in helping to mobilise that finance.

But the private sector also needs to take a responsible approach to ensuring its lending is sustainable and transparent.

So I urge the international community to support the work of the Institute of International Finance on promoting private sector debt transparency, I think we will hear about later today from Axel Weber.

ACTION THREE – ADAPTING TO A CHANGING DEBT LANDSCAPE

A crucial step towards “smarter borrowing” is to recognise that the world is changing around us – so our standards and practices must keep pace with an ever-more complex borrowing landscape.

That doesn't mean turning our back on innovation. Where it works well innovation in lending can bring huge benefits.

But we must also make sure that innovation in debt structures is in the interests of borrowers as well as creditors.

That means establishing standards and building protections against excessive risks, especially in novel areas like collateralised lending.

It means expanding our use of resilient and flexible instruments.

And crucially, it means developing our evidence base further – building on the work the IFIs are already doing on collateralisation.

CONCLUSION

So, that's what I mean by “smarter borrowing”.

Empowering borrowers;

Enforcing the highest standards of lending across the public and private sectors;

Embracing the opportunities, but also managing the risks of innovative lending practices.

Let me conclude with one final thought.

Whatever we do to improve the debt landscape, there will always be sovereign debtors who find themselves in distress.

When borrowers can't make repayments, creditor coordination is vital for timely and effective restructuring.

That's why the Paris Club is such an important part of the international financial architecture.

But coordination is not just important at moments of crisis.

We have an enormous task ahead of us to improve the international lending environment.

It's crucial that we work together, through forums like this one, as we look to achieve our vision of a better, more transparent and more stable international borrowing environment.

I look forward to hearing the thoughts of others in the room about how we make that happen.

Thank you.