UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Debt vulnerabilities in developing countries amid cascading crises

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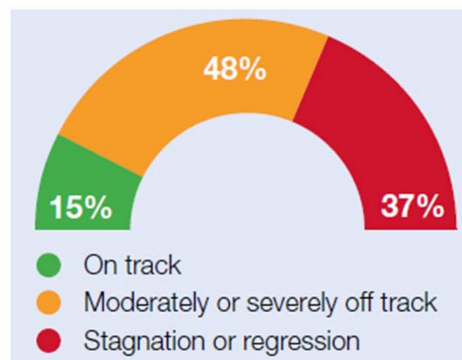
Outline

1. Developing countries’ Challenges
2. Developing countries’ debt vulnerabilities
3. Asymmetries across developing countries
4. Policy recommendations

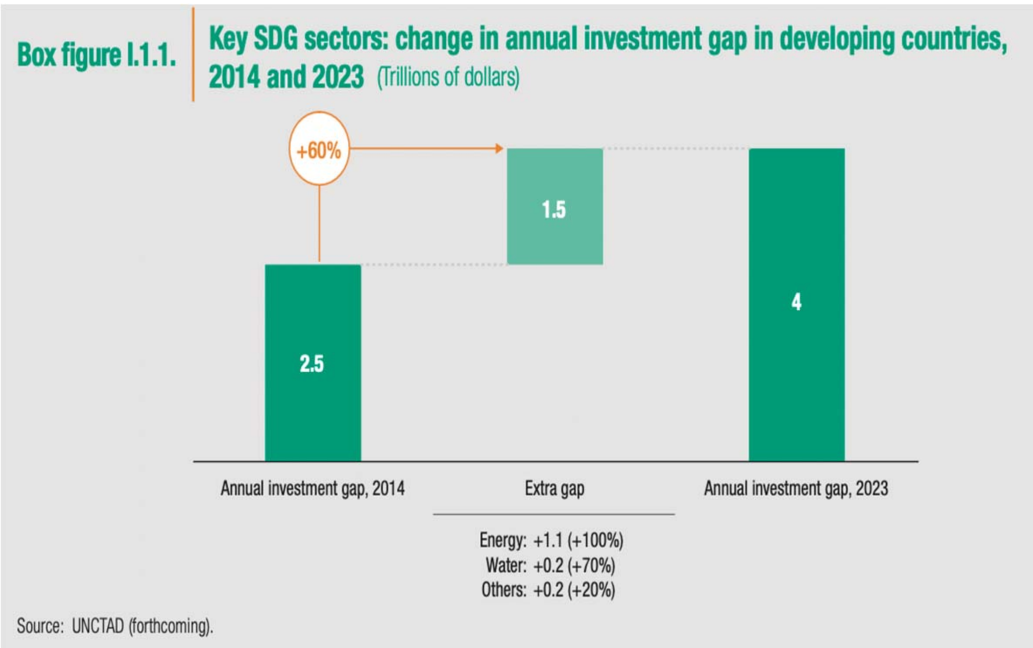
Cascading crises and the SDGs

- Cascading crises have reversed progress on the SDGs
- Greater challenges to achieve sustainable development by 2030
- At the mid-way point of the 2030 Agenda progress on the SDGs remains behind schedule.

Only 15% are due to be met

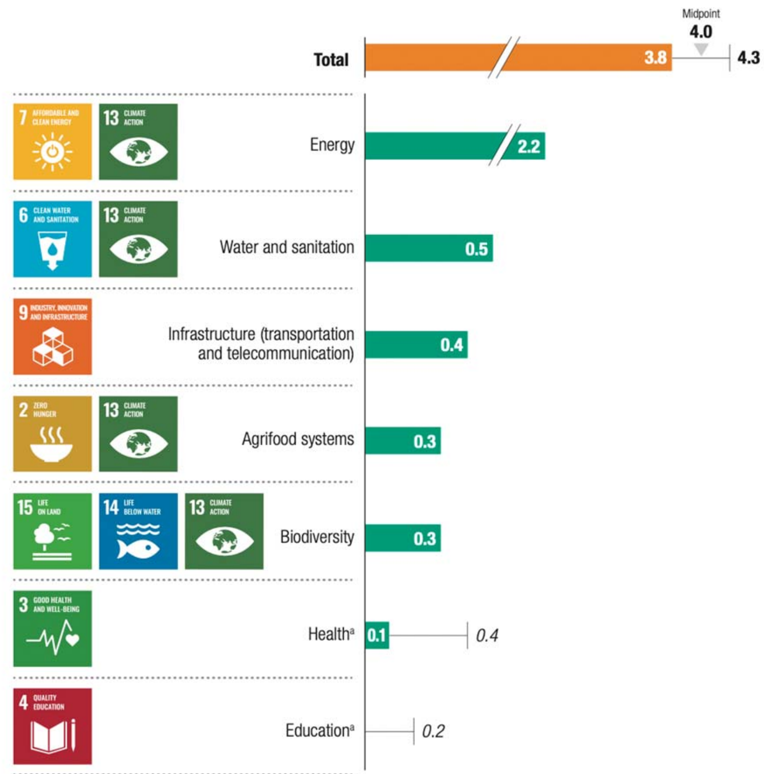


Financing gap at the mid-point of the 2030 Agenda



Source: UNCTAD, WIR, 2023, ch. 1

Figure I.14. Key SDG sectors: estimated annual investment gap in developing countries, capital expenditure, 2023–2030 (Trillions of dollars)



Source: UNCTAD (forthcoming).
Note: Investment refers to capital expenditure.
[a] The range for the health and education sectors reflects uncertainty about the size of the capital expenditure component in the total investment gap for the two sectors, for which the operational expenditure component is expected to be substantial.

Intertwined challenges

Development challenges

Climate challenges

Debt challenges

Climate and debt challenges

- Overlap extends beyond PRGT-eligible countries
- Climate-vulnerable countries pay nearly 10 per cent more in overall interest costs on international bonds
- Over half of debt upsurge in vulnerable countries stems from funding disaster recoveries

Debt-climate vicious cycle

1. Greater vulnerability to climate-related shocks
2. Heightened obstacles and exposure to the green transition

Overlap of debt and climate vulnerabilities in PRGT- eligible countries, 2023

	Low or moderate risk of debt distress	High risk or in debt distress
High environmental vulnerability	27 countries	30 countries
Low environmental vulnerability	6 countries	5 countries

Source: UNCTAD Secretariat calculations based on IMF LIC DSA country list (August 2023) and Notre Dame Gain Climate Vulnerability Index (ND-GAIN

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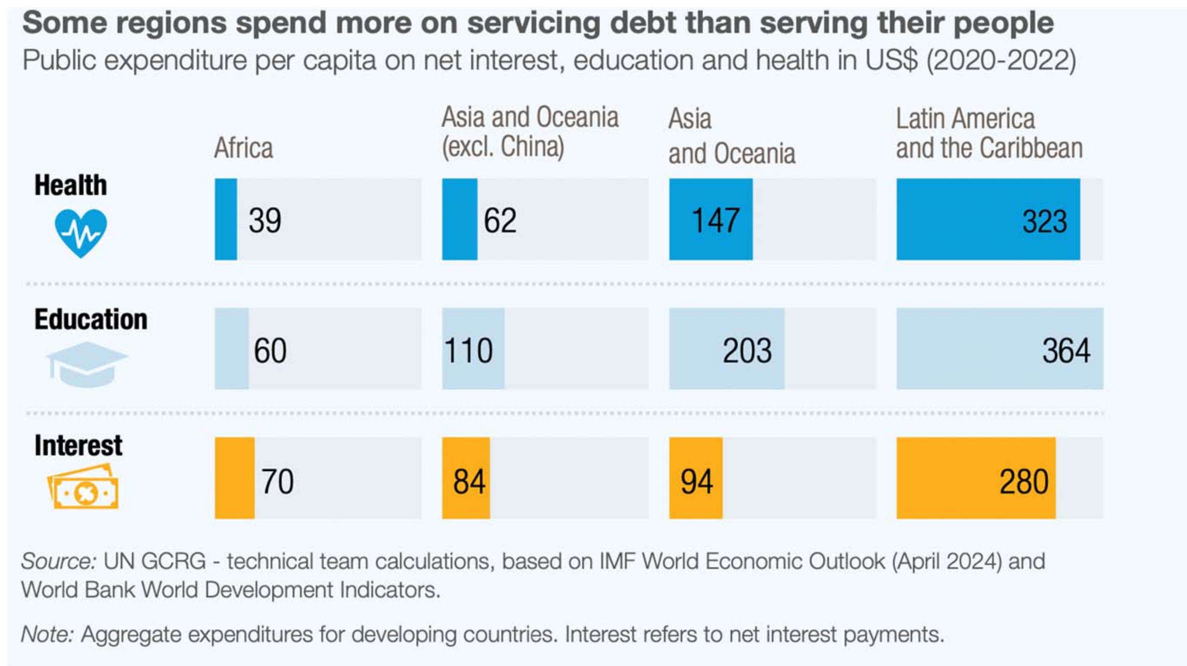
Debt vulnerabilities and development crisis

- Asymmetries of the hierarchical IMFS => High debt burdens previous to the Covid-19 pandemic
- Cascading crises
- Tightening of monetary policy in the center

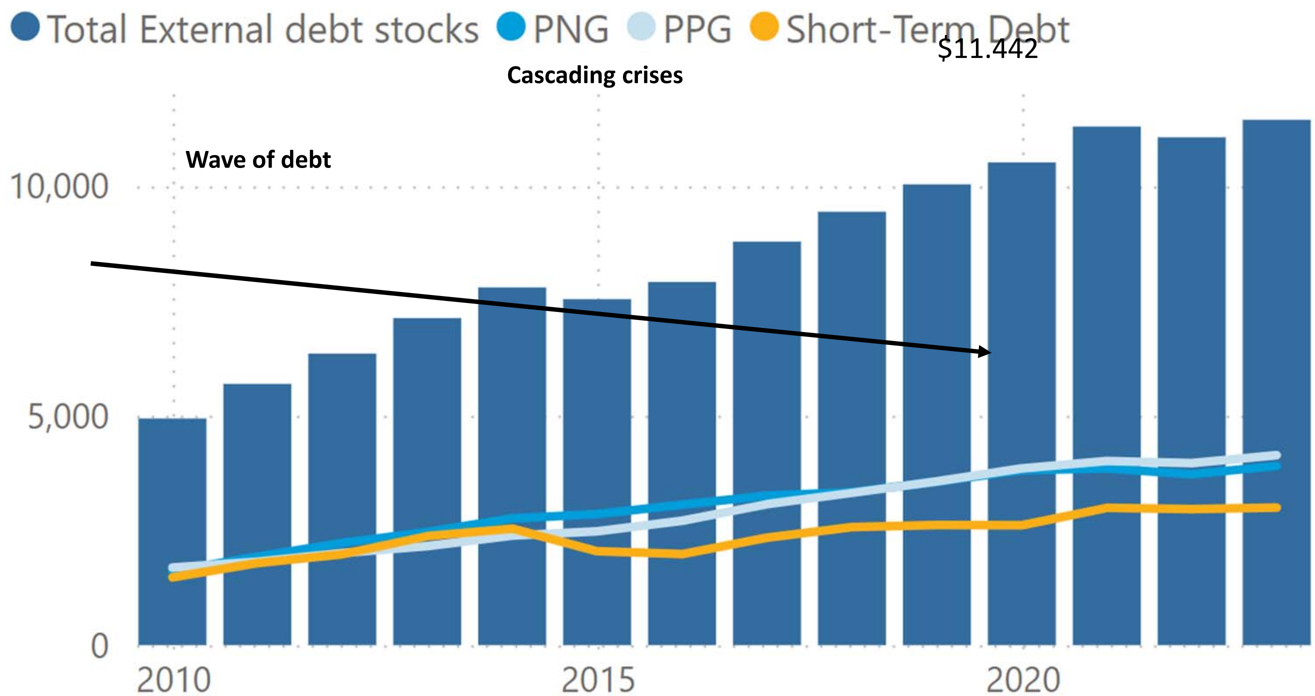
Looming debt crisis
+
Development crisis

3.3 billion people now live in countries where debt interest payments are greater than expenditure on health or education.



Debt vulnerabilities and development crisis

Debt in Developing Countries (USD, bn)



- More than double the value recorded in 2014.
- + 14% compared to 2019
- More than half PPG debt

Source: UNCTAD secretariat calculations based on WB/IDS and national sources.

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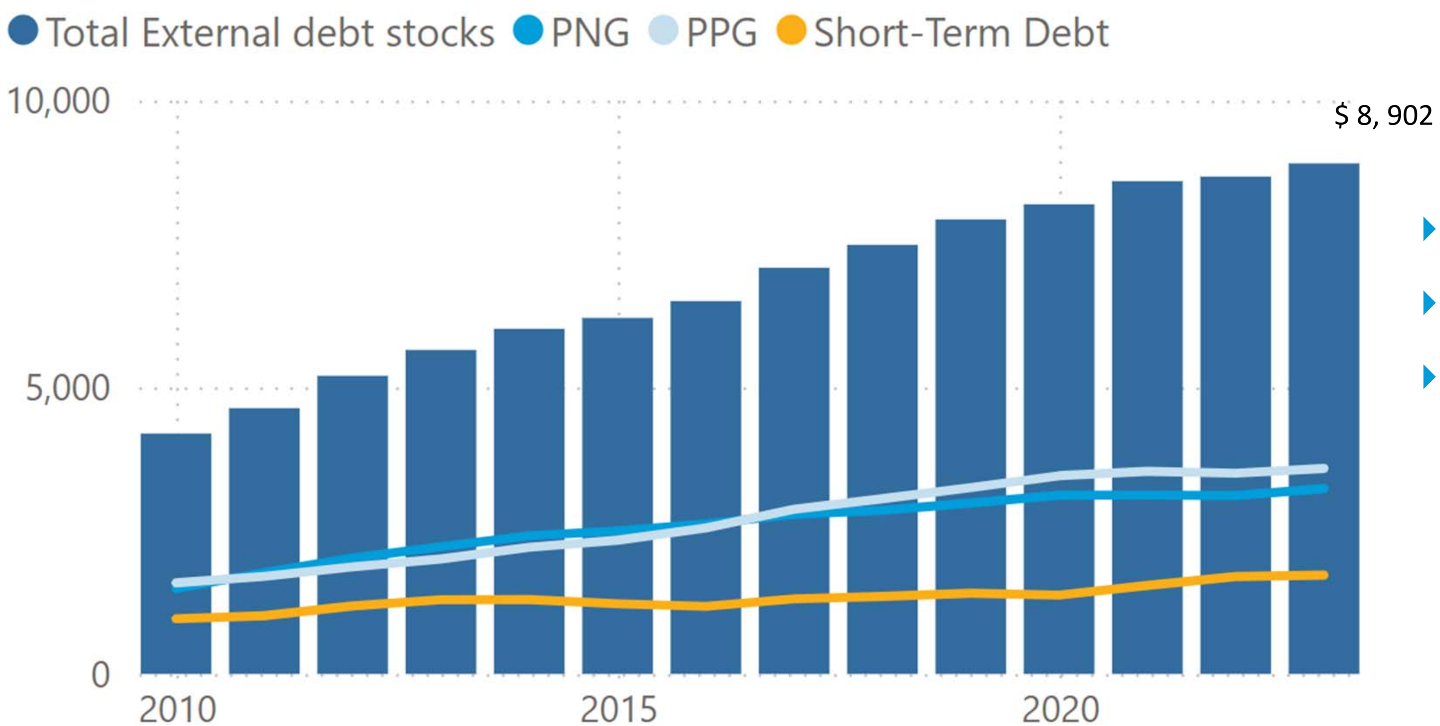
Total external debt of developing countries

Debt in Developing Countries ex. China (USD, bn)



- 1.5 the value recorded in 2014.
- + 12.3% compared to 2019
- 40.2% PPG debt

Source: UNCTAD secretariat calculations based on WB/IDS and national sources.

External solvency

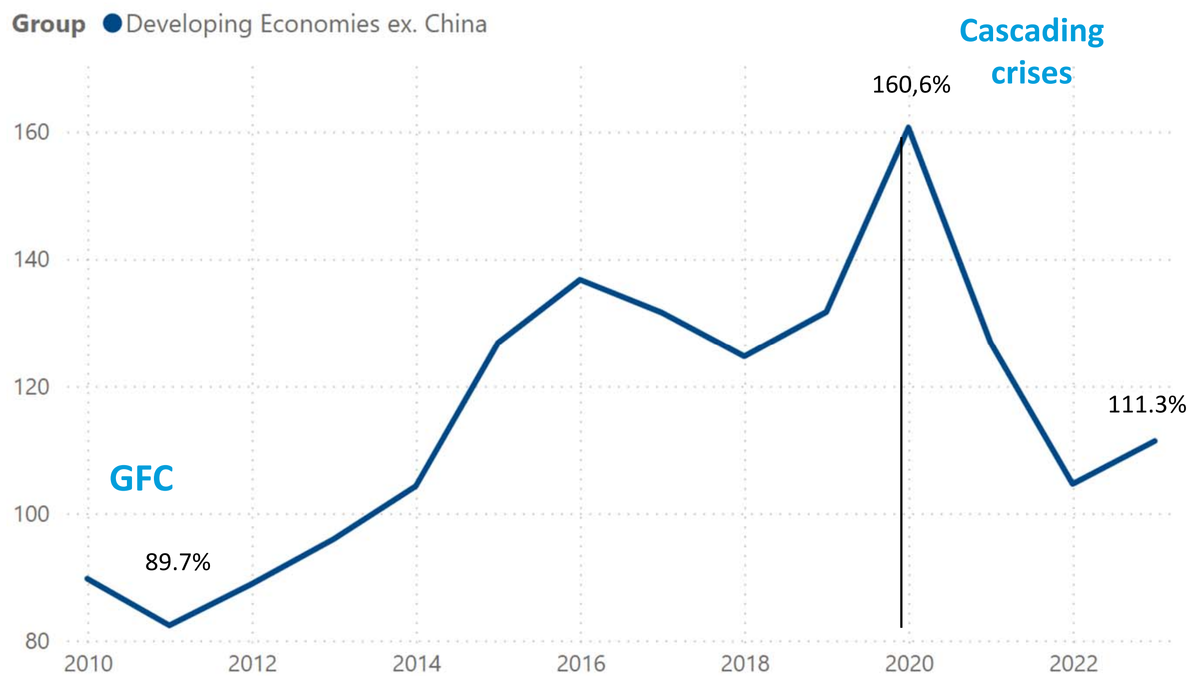
2020-2023:

- External debt: +8.7%
- Exports: +56.8

2022-2023:

- External debt: 2.6%
- Exports: -3.6%

Total External Debt/Exports (%)



External solvency

Debt burden thresholds

LIC-DSF
10% to 20%

1953 London Agreement: 5%

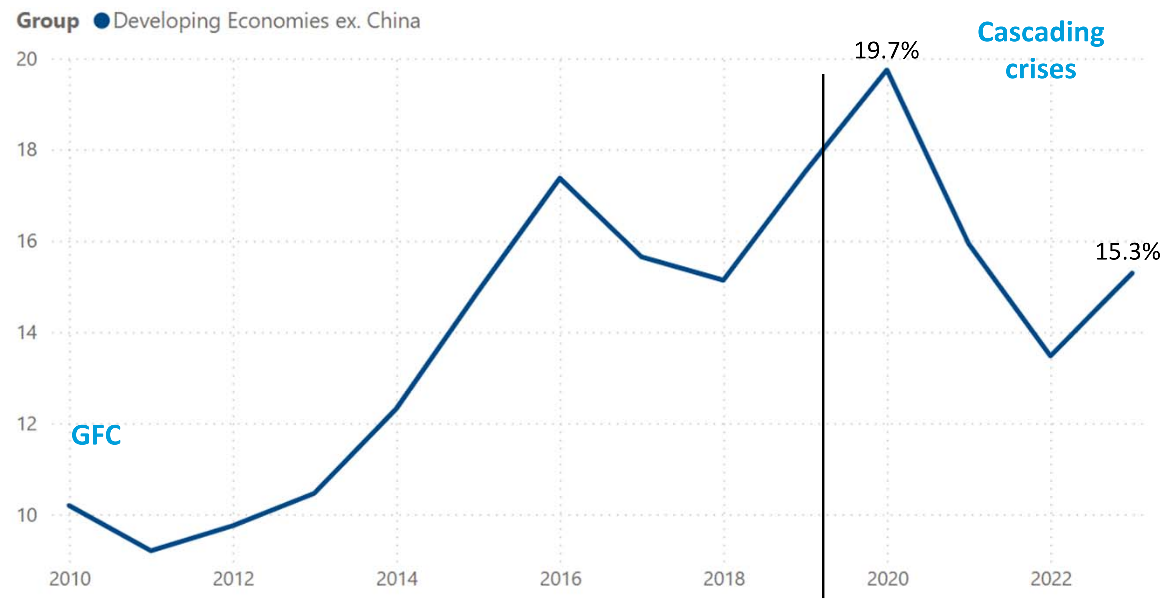
2020-2023:

- External debt service: +8.8%
- Exports: +23.5

2022-2023:

- External debt service: 9.3%
- Exports: -3.6 %

External Debt Service/Exports (%)



Public sector's external solvency

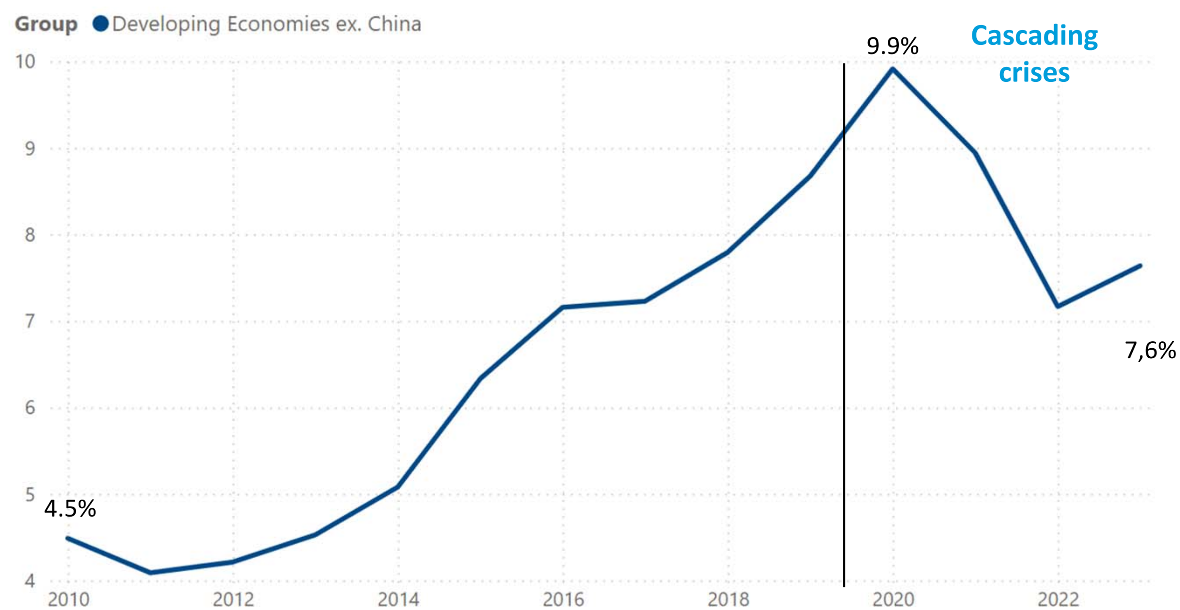
2020-2023:

- PPG debt service: +6.9%
- Gov. rev.: +46.5%

2022-2023:

- PPG debt service: +16.8%
- Gov. rev.: +5.8 %

PPG Debt Service/Government Revenue (USD, %)



External liquidity

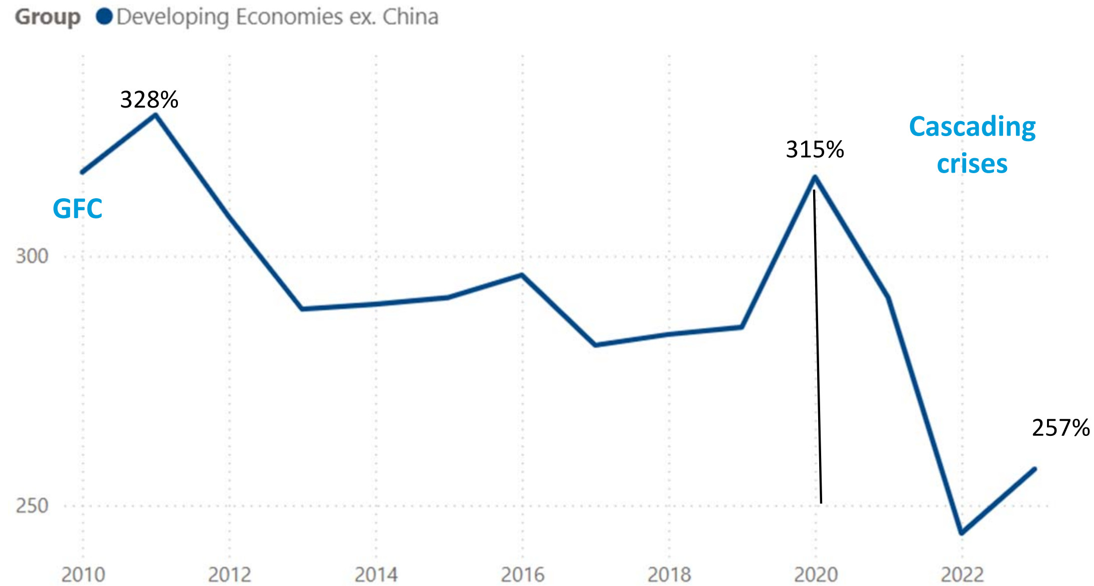
2020-2023:

- Reserves: +2.8%
- STD: +25.4%

2022-2023:

- Reserves: +6.8%
- STD: +1.5 %

Reserves/Short-term debt (%)



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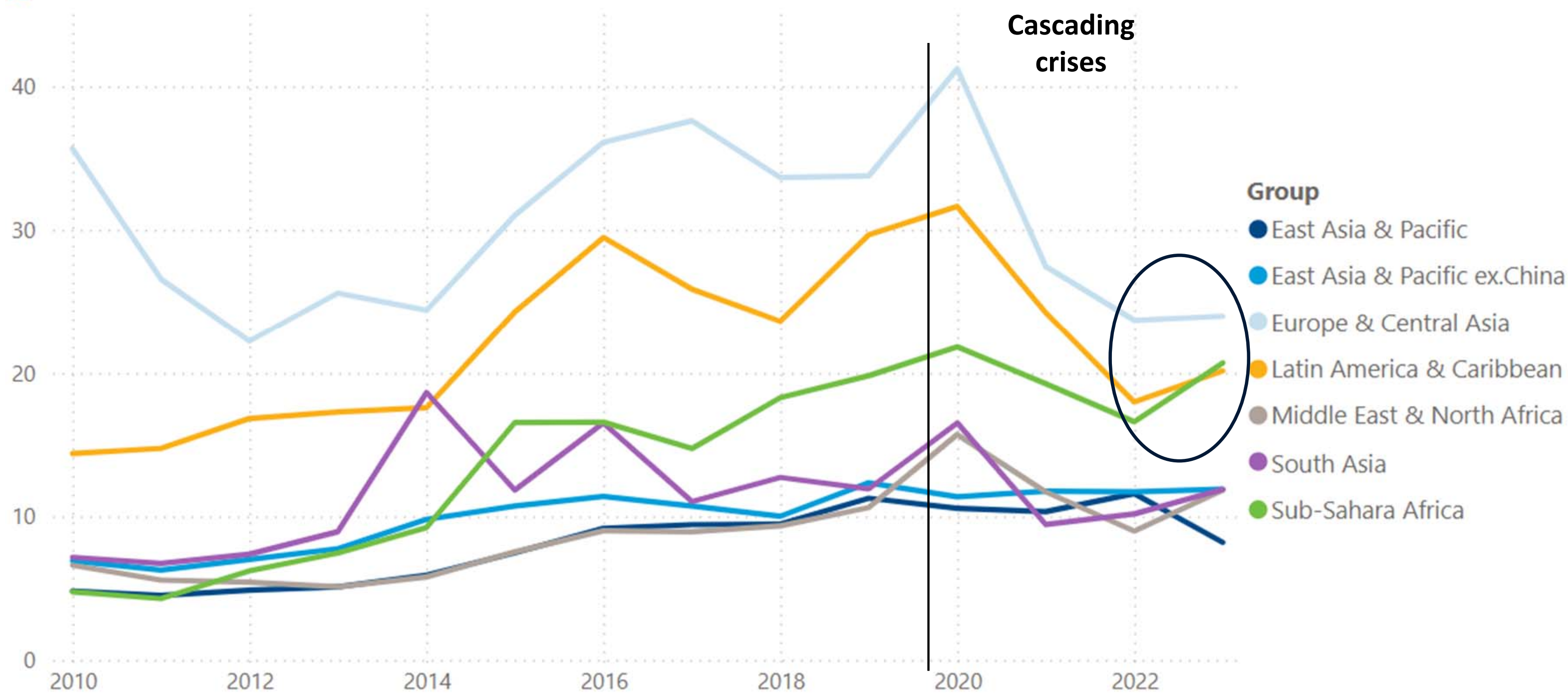
Developing regions

ECA, LAI and ECA more vulnerables

External Debt Service/Export Revenue (%)

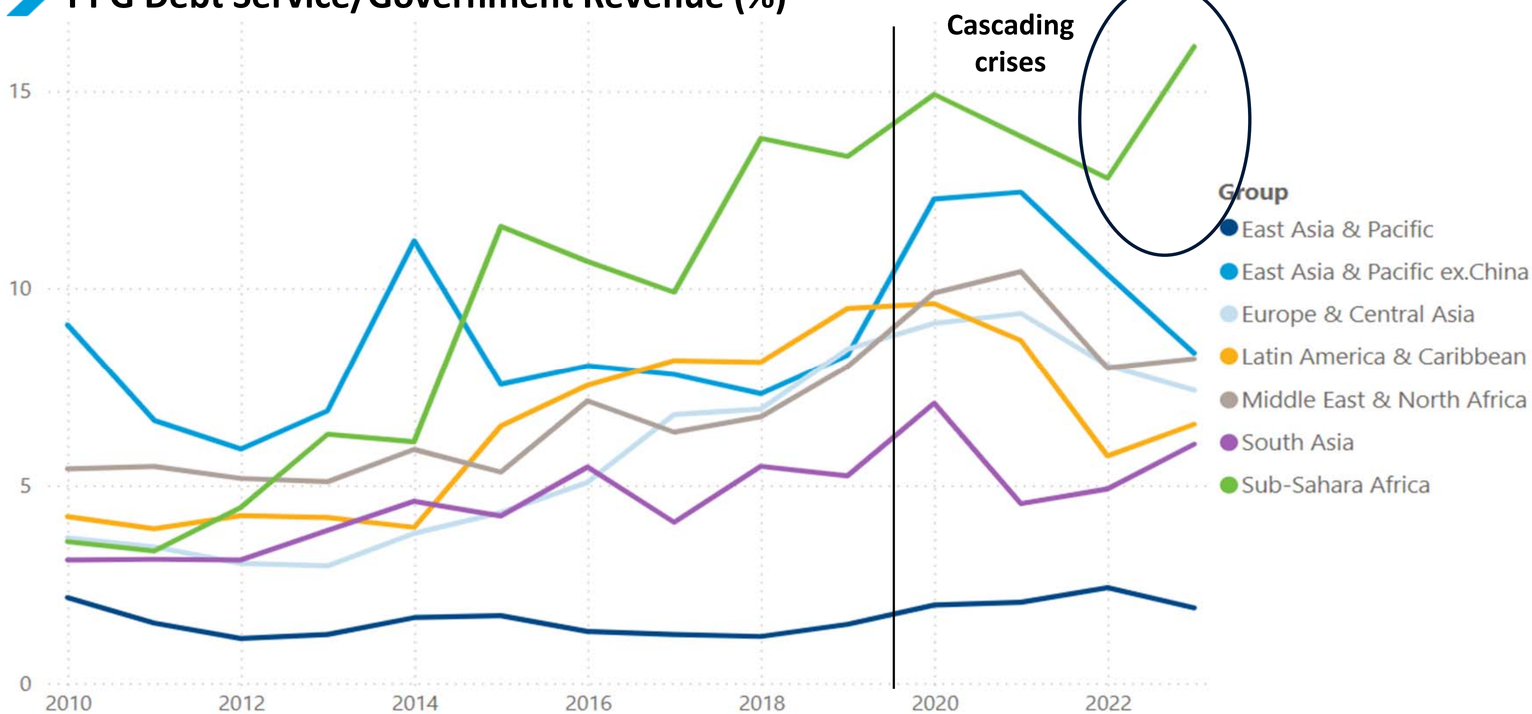


Source: UNCTAD calculations based on data from World Bank (2023a), Economist Intelligence Unit (2023) and IMF (2023a).

Developing regions

Greater vulnerability of SSA

PPG Debt Service/Government Revenue (%)

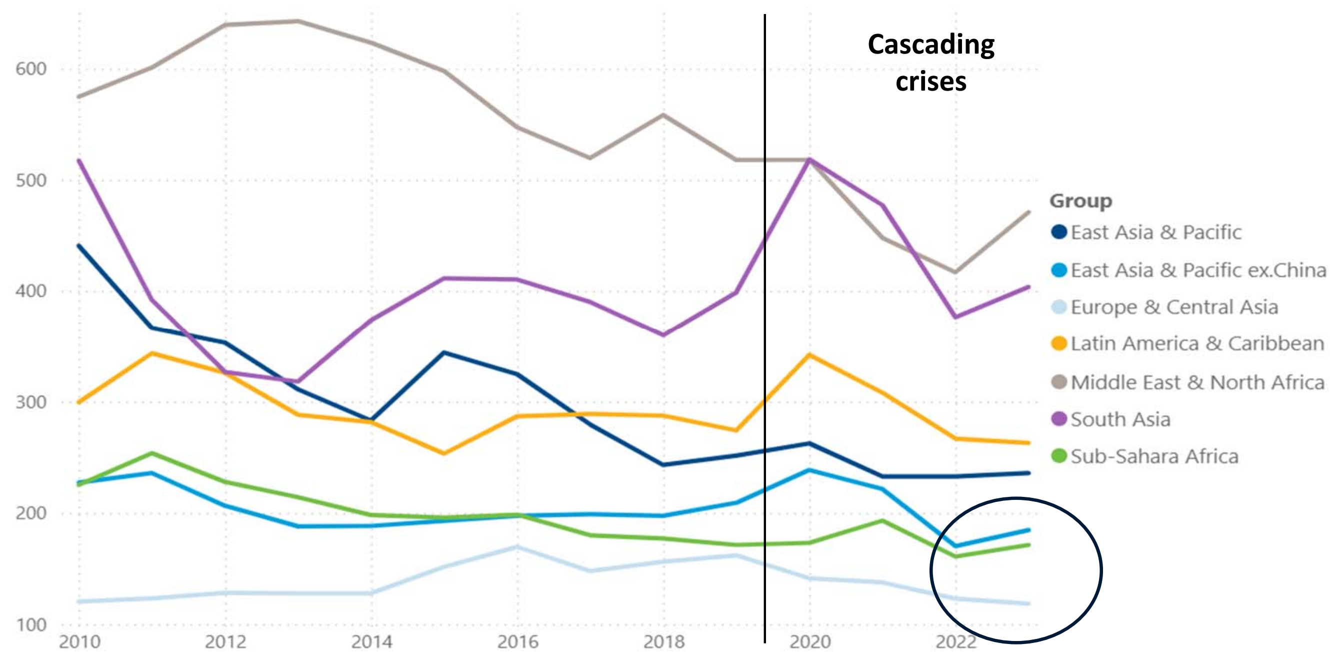


Source: UNCTAD calculations based on data from World Bank (2023a), Economist Intelligence Unit (2023) and IMF (2023a).

Developing regions

Europe & Central Asia, SSA and EAP ex. China more vulnerable

Reserves/Short term debt (%)



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Reform of the global financial architecture

UN Stimulus package

UN Summit for the Future's IFA Policy Brief

TDR (2023), part II, ch. V.

Make the system more inclusive

- Improving the participation of developing countries in the governance of the global financial architecture.

A truly Global Financial Safety Net (GFSN)

- Strengthened use of SDRs, elimination/suspension of IMF surcharges and increased quota-access windows to IMF emergency financing.

Scale-up of affordable development finance and grants

- Boost in concessional loans by MDBs/RDBs (CAC proposals and SDR rechanneling) + state-contingent clauses + bear currency risk + increase lending in local currencies + strengthened cooperation with NPB
- Ideally, increase and, at least, meet ODA and climate financing commitments
- Adopting a new criterion instead of income thresholds for eligibility to such finance (MVI)

Multilateral sovereign debt workout mechanism and the Global Debt Authority

- To provide an effective, efficient and equitable mechanism for managing debt crises in a way aligned with the development needs of developing countries.

Thank you

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