

12th UNCTAD Debt Management Conference

Making debt work for development

18–20 November 2019

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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

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The unfolding debt crisis in developing countries revisited: Overview and recent trends

by

Dr. Stephanie Blankenburg

Head, Debt and Development Finance Branch, UNCTAD

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.





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MAKING DEBT WORK
AGAIN FOR
DEVELOPMENT:

CURRENT PITFALLS AND
CHALLENGES AHEAD

Stephanie Blankenburg

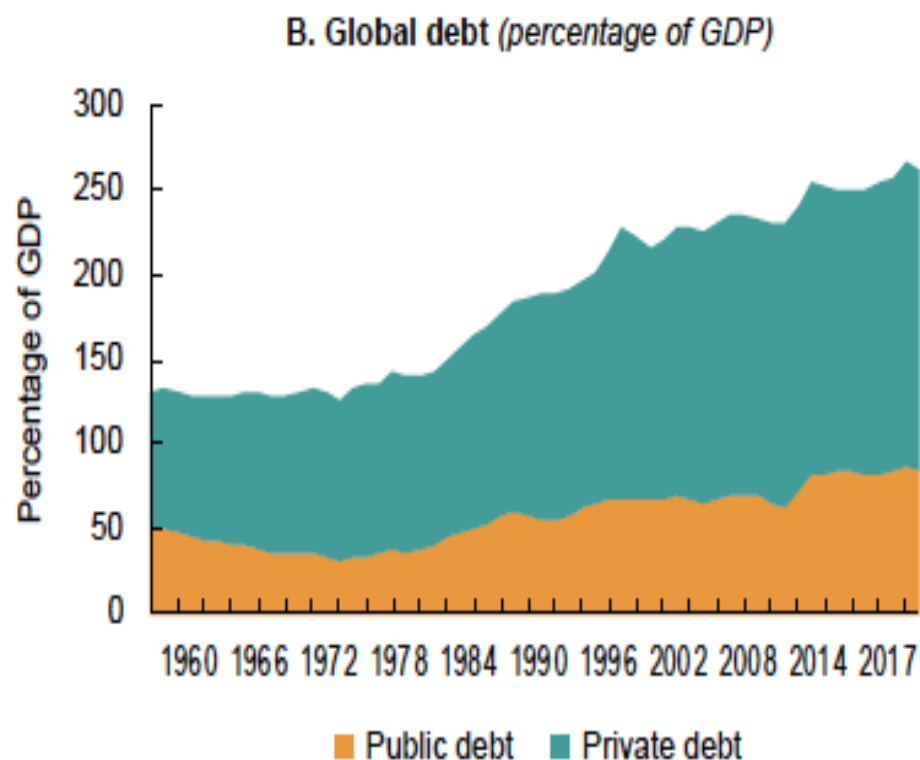
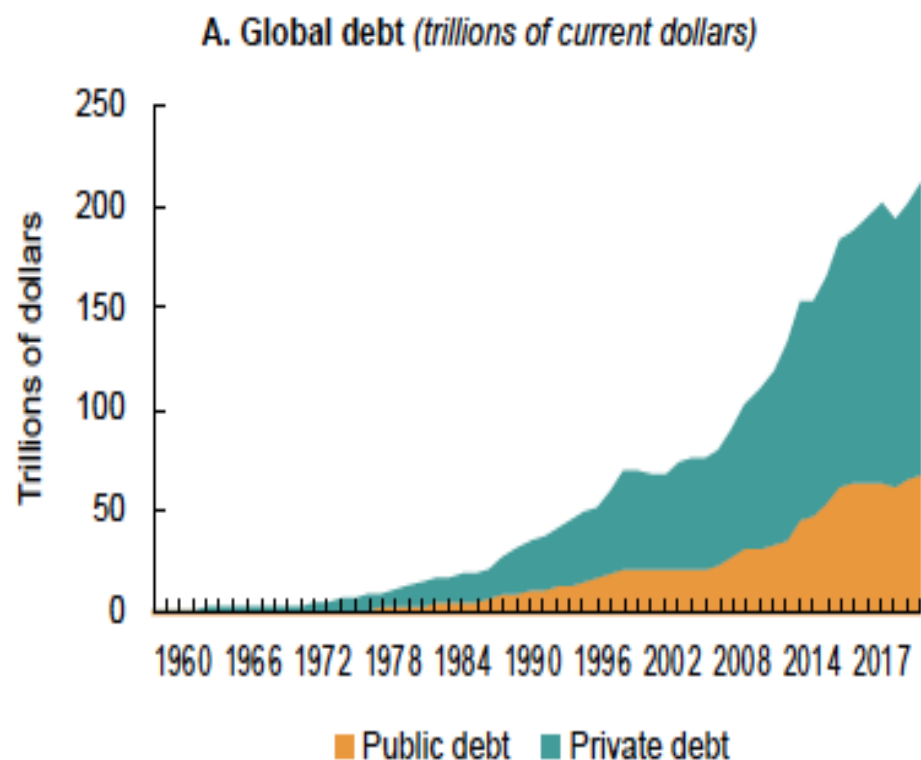
Debt & Development Finance
Branch, Division on Globalization
and Development Strategies

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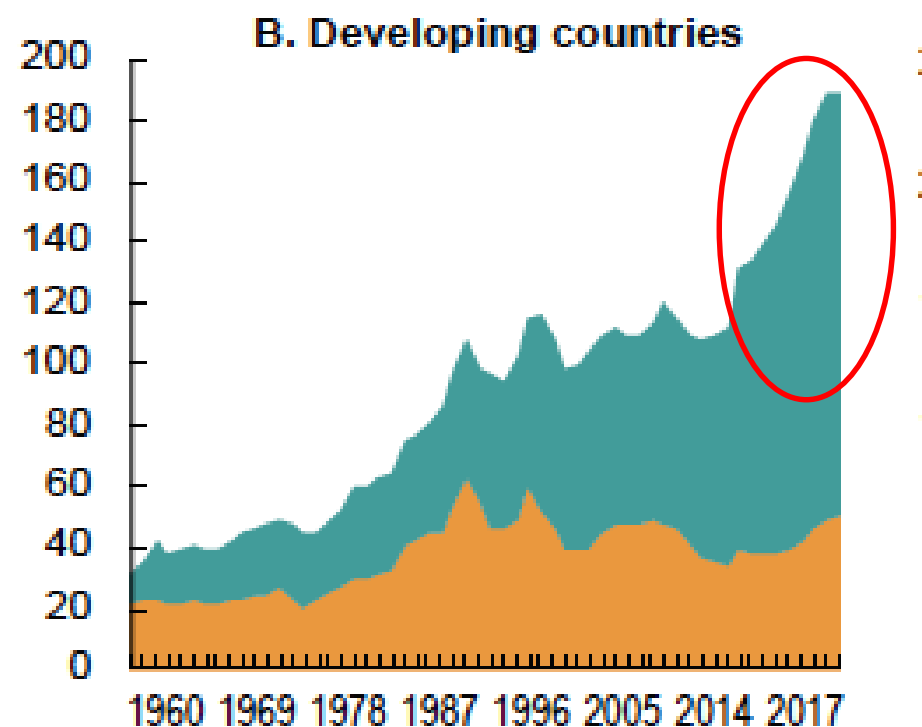
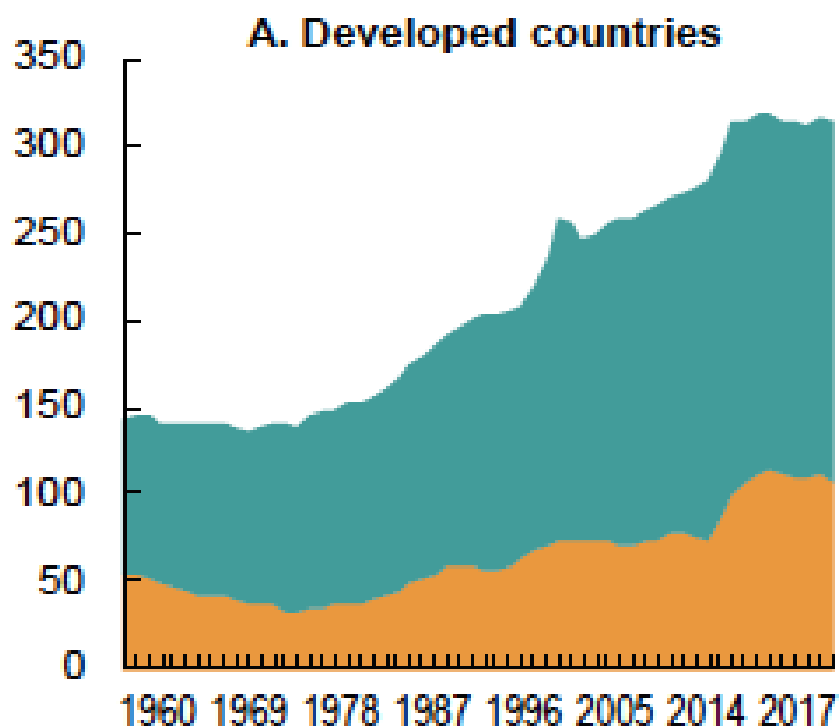
CURRENT PITFALLS FROM A GLOBAL PERSPECTIVE

Global debt stocks stand at \$213 trillion in 2017, up from \$152 in 2008 and \$16 trillion in 1980. As a share of GDP, global debt reaches 262 % in 2017, compared to 240% in 2008 and 140% in 1980.



CURRENT PITFALLS FROM A GLOBAL PERSPECTIVE

Total debt, developed and developing countries, 1960–2017 (Percentage of GDP)



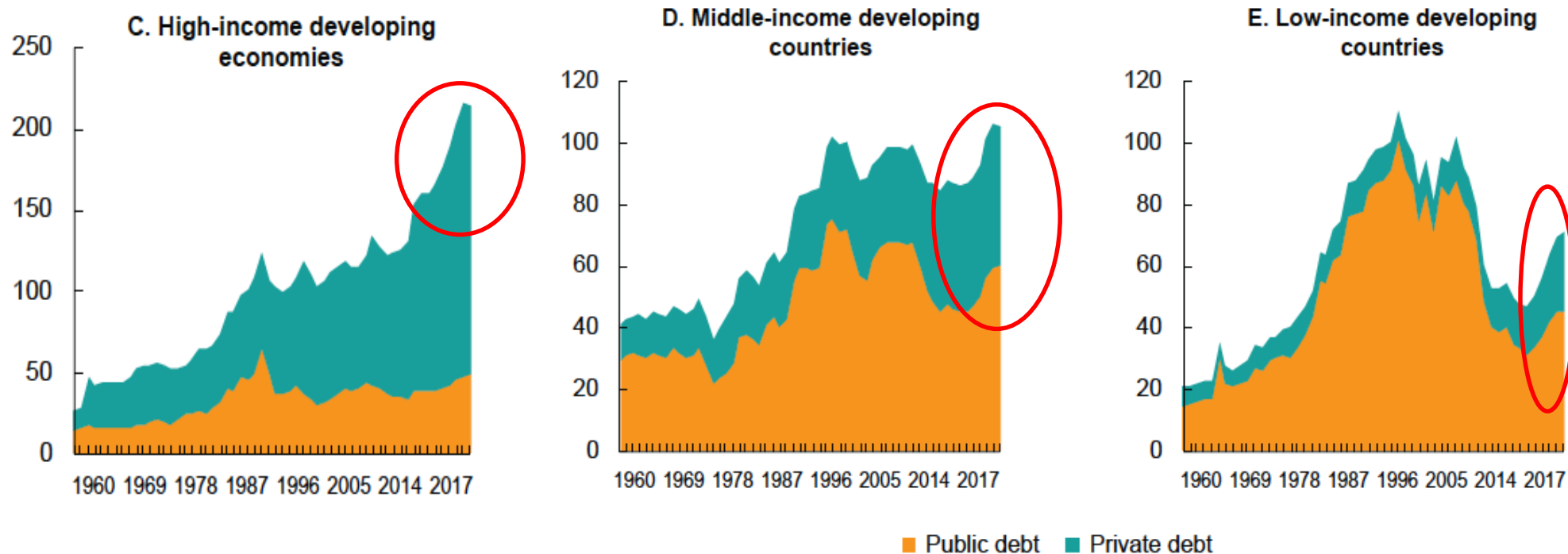
Explosion of private debt/privatised credit creation since the early 1980:

- Radical liberalisation and deregulation of financial markets since the 1980s
- Rise of mega-banking (integration of commercial lending and deposit roles with speculative investment activities → universal banking)
- Rise of 'shadow-banking': Share of total global financial assets 48.2 per cent (FSB) by 2019
 - Financial innovations:
 - ✓ Securitization (bundling of loans against which asset-backed bonds can be issued; more stable fee income)
 - ✓ Credit derivatives ('insurance schemes')
 - ✓ Special purpose vehicles (off balance sheets)
 - "Sub-terranean credit system" of brokers-dealers, money market mutual funds, hedge funds and insurance corporations

Diversification of private risk, but growing systemic (public) risk

CURRENT PITFALLS FROM A DEVELOPMENTAL PERSPECTIVE

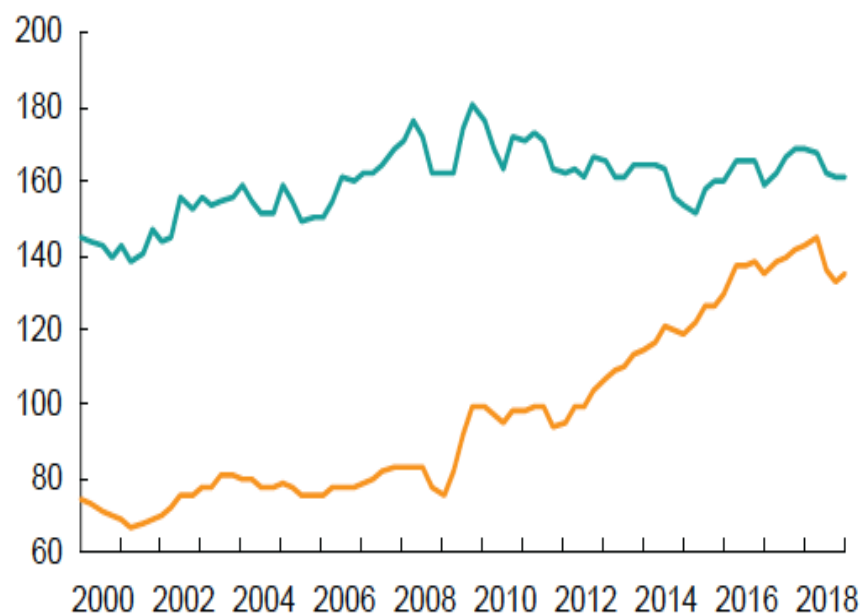
Total debt, developed and developing countries, 1960–2017 (Percentage of GDP)



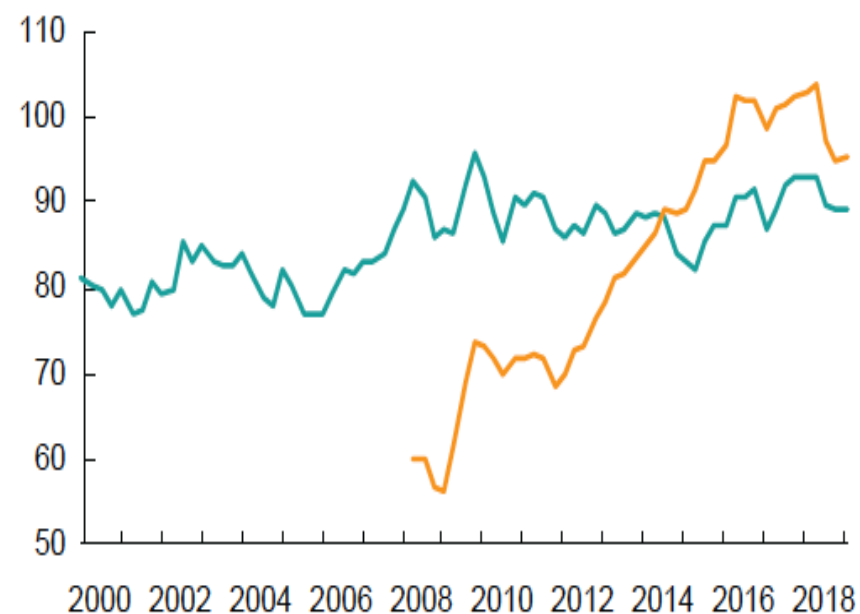
Source: UNCTAD secretariat calculations, based on IMF Global Debt Database.

Total credit to non-financial sectors and corporations, advanced and emerging economies, 2000-2018 (Percentage of GDP)

A. Private non-financial sectors

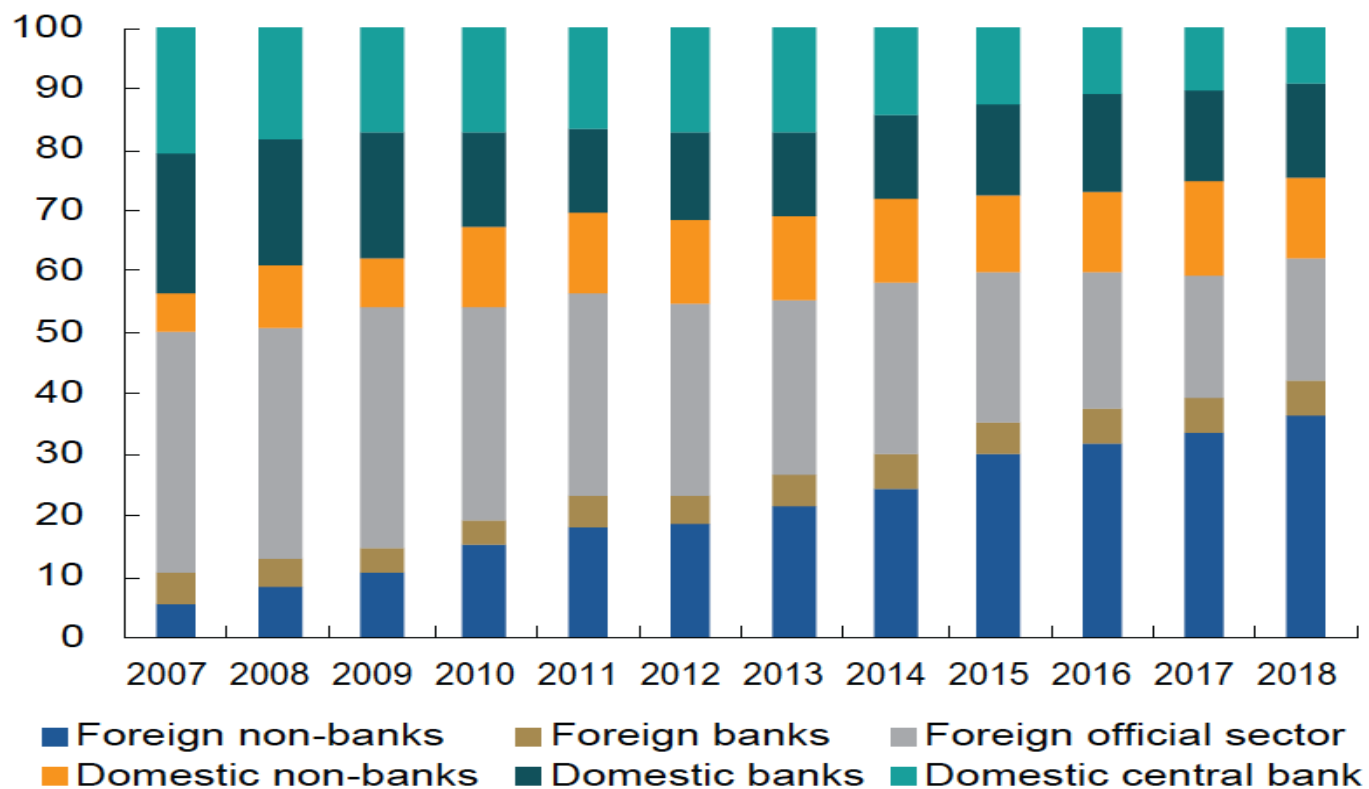


B. Non-financial corporations



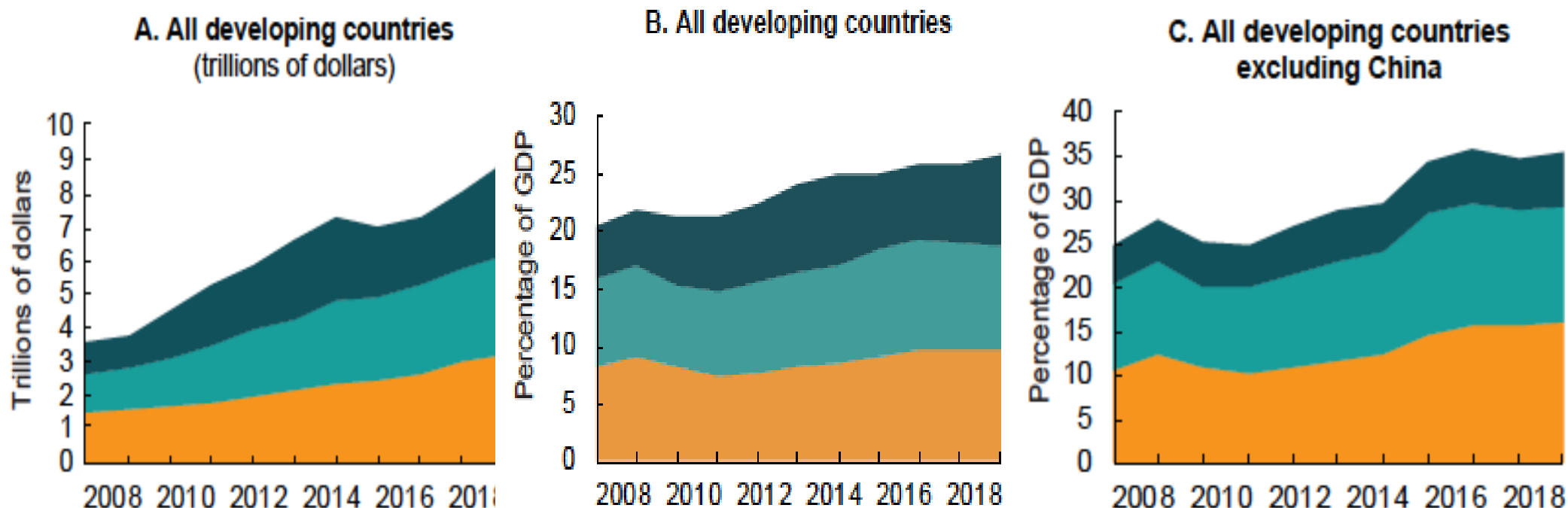
— Advanced economies — Emerging market economies

Who owns developing country government debt? Composition of government debt by creditors, selected emerging and developing countries, 2007-2018



CURRENT PITFALLS FROM A DEVELOPMENTAL PERSPECTIVE

External debt, developing countries 2008-2018

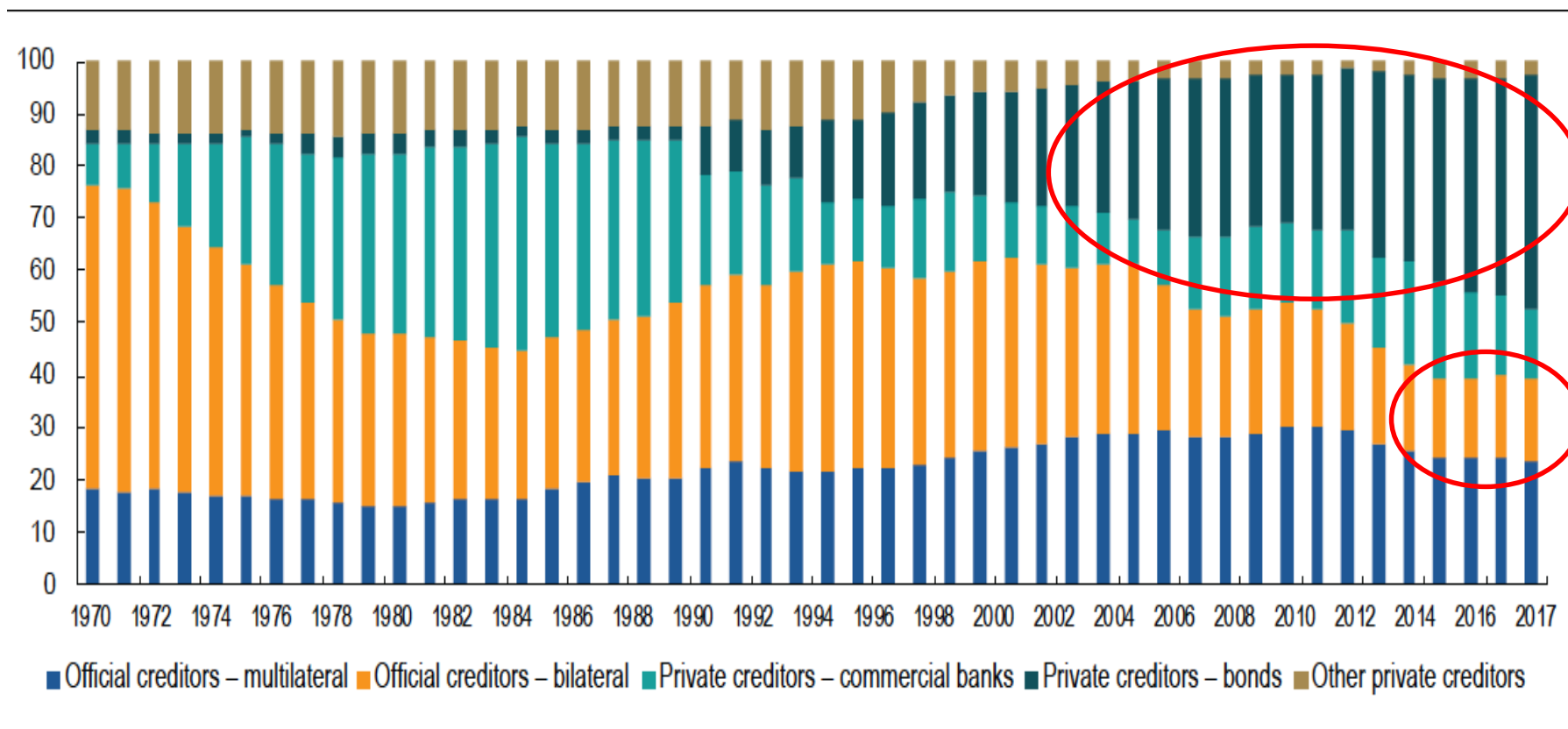


Developing country external debt also surpasses combined export earnings since 2016; long-term creditor holdings fall to 68 per cent of total external debt, shares of PPG and PNG external debt are almost equal, and short-term external debt rises to over 30 per cent in 2018. In 2000, long-term debt still accounted for 87 per cent of total external debt of developing countries, and PPG for three quarters.



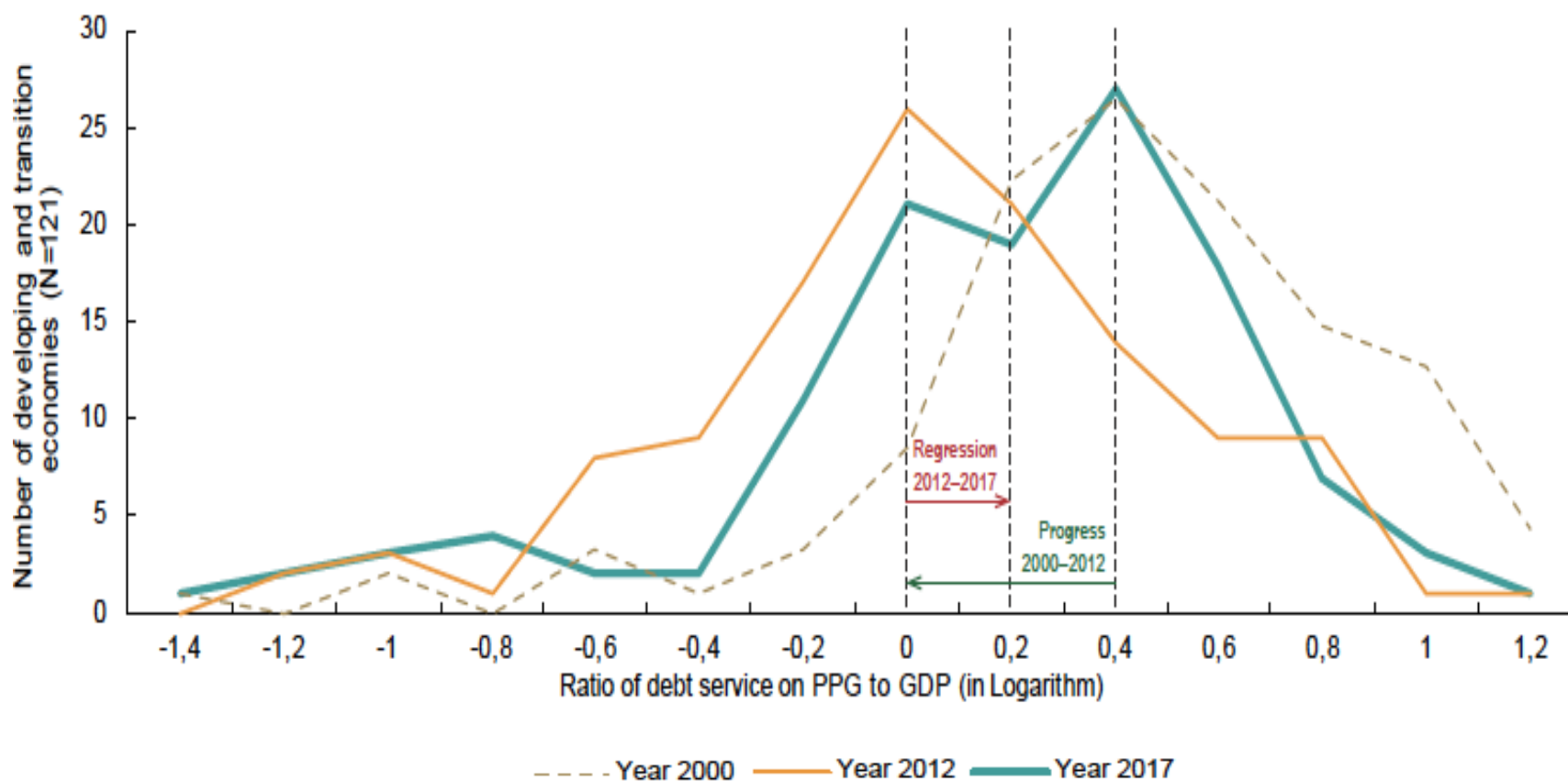
Source: UNCTAD secretariat calculations, based on World Development Indicators (WDI), IMF World Economic Outlook (WEO), Economist Intelligence Unit database (EIU) and World Bank Quarterly external debt statistics (QEDS).

The rise of sovereign bonds in developing countries, 1970-2017: Composition of long-term external public debt by creditor

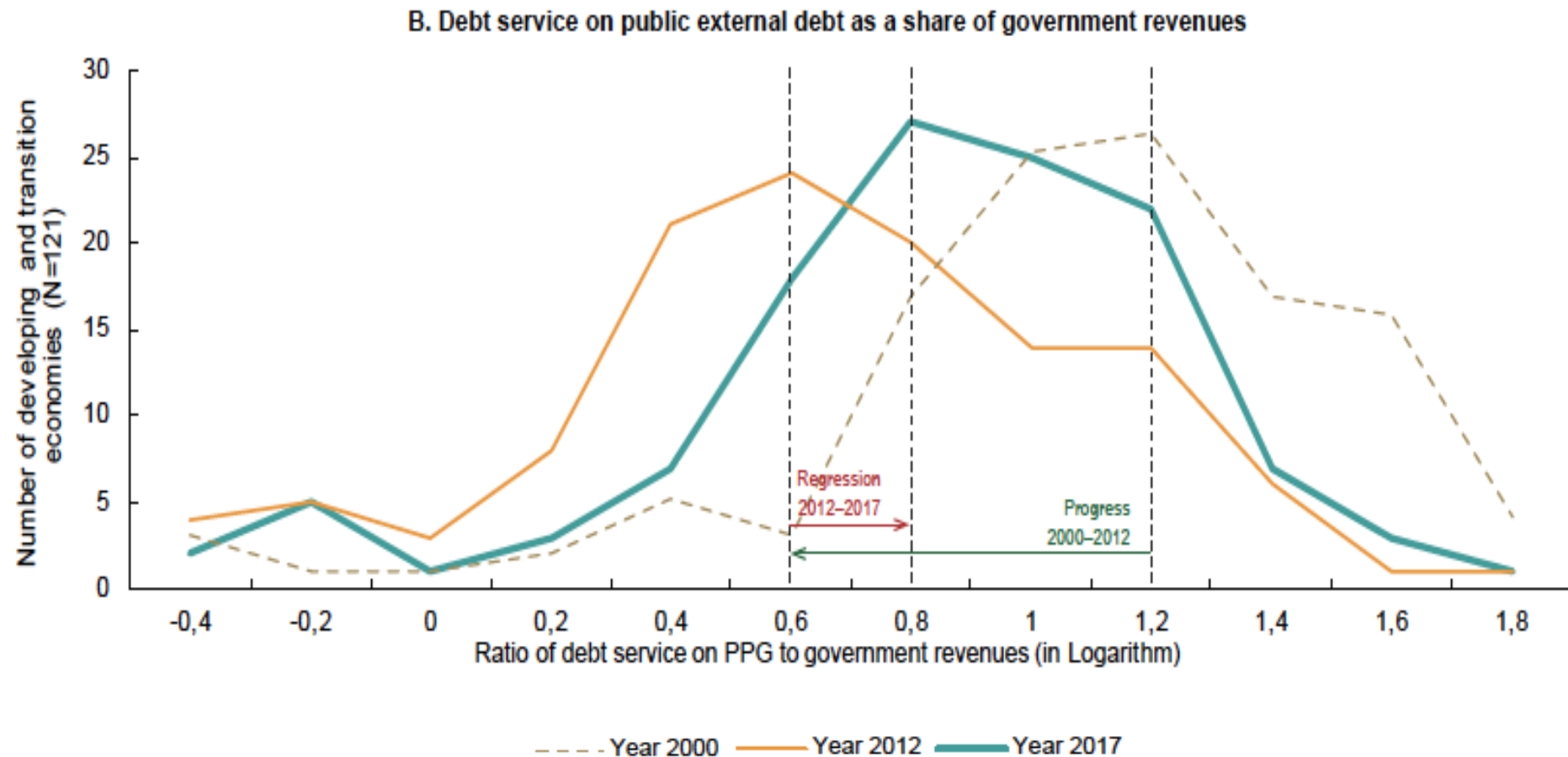


Improvements in debt service burdens are reversing: Public debt service ratios 2000, 2012, 2017

A. Debt service on public external debt as a share of GDP



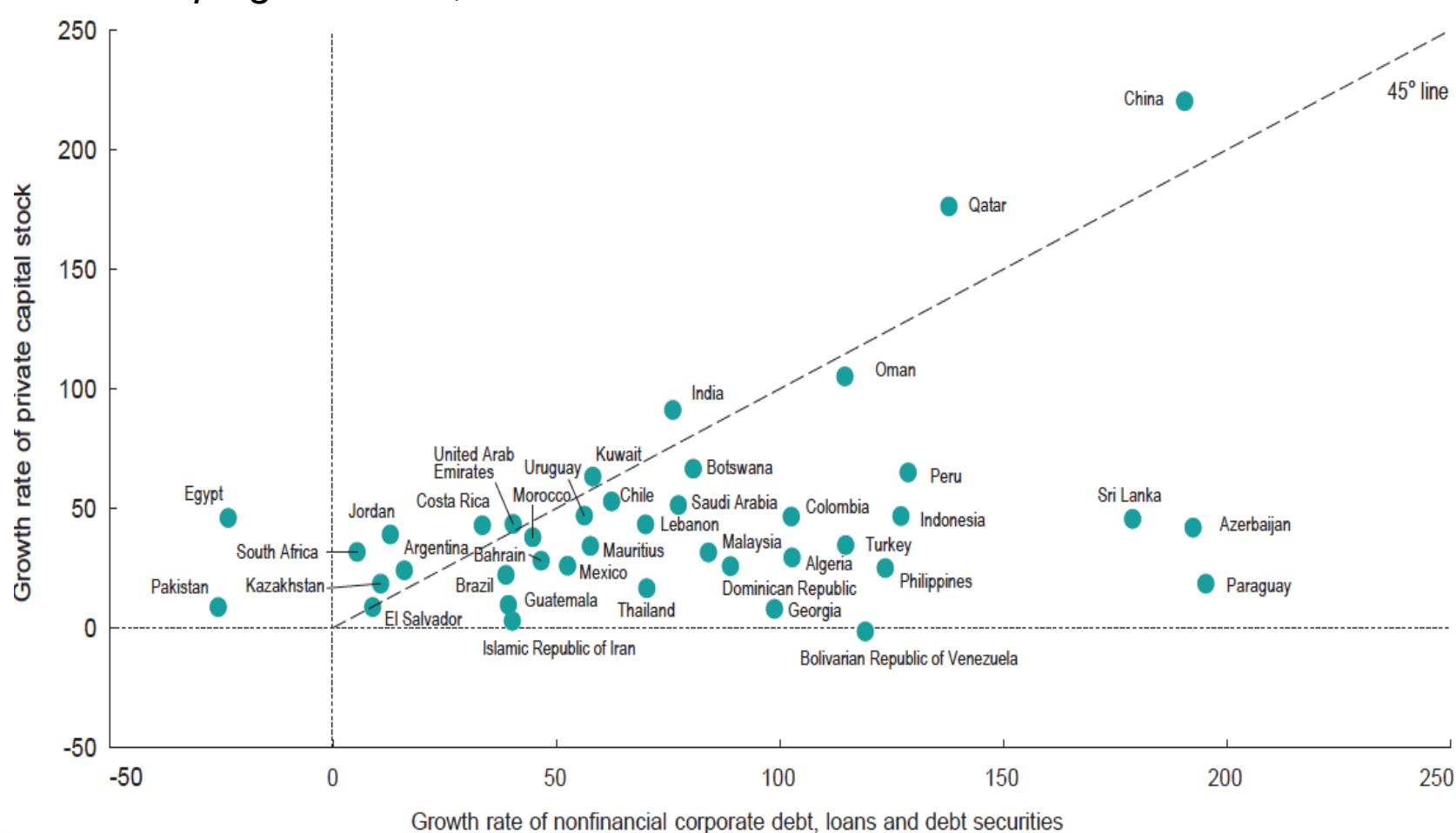
Improvements in debt service burdens are reversing: Public debt service ratios 2000, 2012, 2017



CURRENT PITFALLS FROM A DEVELOPMENTAL PERSPECTIVE

Does growing private corporate indebtedness yield developmental results?

Growth rates of private corporate debt and private capital stock, selected developing countries, 2008-2015



Source: UNCTAD secretariat calculations, based on IMF Global Debt Database and IMF Investment and Capital Stock Data

DEVELOPING COUNTRY DEBT AND THE SDGs

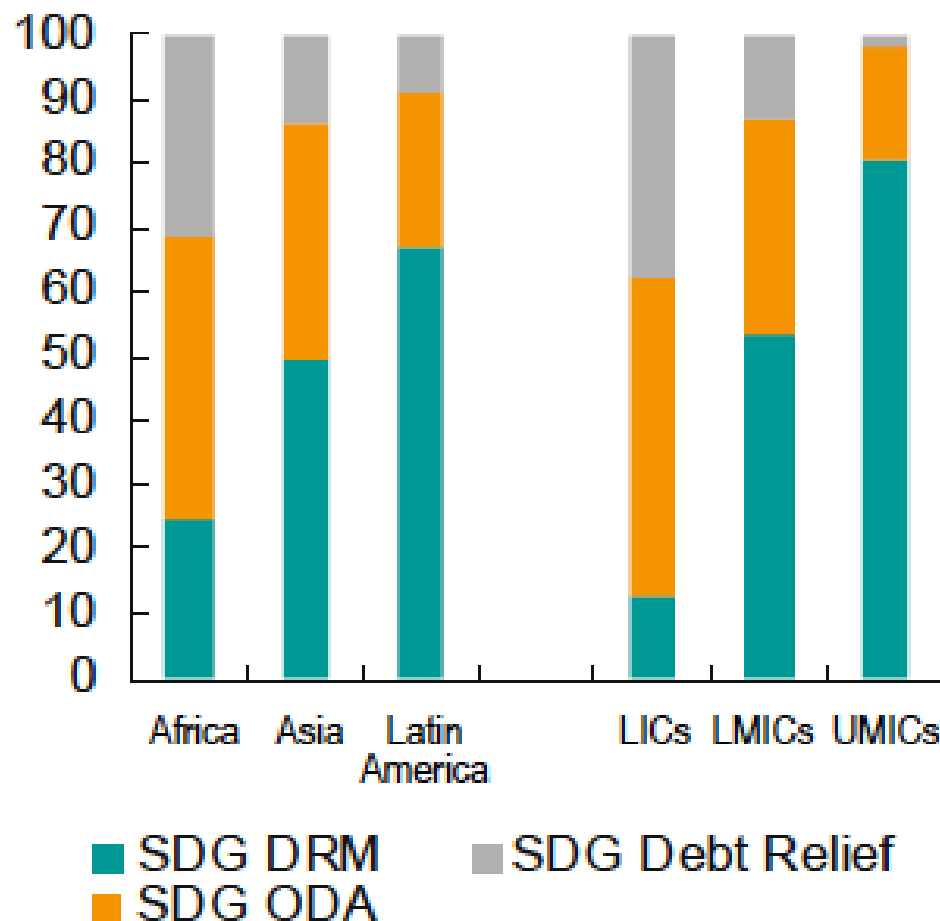
- 30 developing countries (LICs, LMICs and UMICs) in Africa, Asia and Latin America
- Attainment of the first four SDGs (eradicating poverty, nutrition, health, education) by 2030 under different assumptions
 1. No external financing other than current ODA grants:
 - Average increase of debt-to-GDP ratios from 47% at present to 185%.
 2. No external financing other than current ODA grants PLUS policy rule to maintain current debt sustainability
 - Average required annual GDP growth of 12%

Strong requirements for affordable external financing, IF current debt sustainability is to be maintained



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C. Closing the SDG debt-sustainability gap: Domestic and multilateral financing options



Source: UNCTAD secretariat calculations based on IMF WEO, WDI, QEDS, FAO (2015), Stenberg et al. (2017), UNESCO (2016) and national sources.

CHALLENGES AHEAD

- **Finding new sources of affordable and reliable long-term public development finance *in addition to blended financing*** - or the idea that developmental goals can be transformed into asset classes and that these can be de-risked through the use of public funds.
 - *Blended financing*: Possibly suitable for some higher-income developing countries, but currently raising less private finance than envisages and geared mostly towards HICs and UMICs.
- **At the global level:**
 - Expanding special drawing rights (SDRs) as a flexible and in principle unlimited financing mechanism by tying SDRs to environmental protection and developmental goals (work out country-level budget plans based on targets (SDGs) and provide IMF zero-interest loan facilities based on flexible eligibility criteria, maximum funding capacity measured by using special SDG-related and environmental SDRs that represent an indefinite potential claim on freely usable currencies)
 - Other special funds for concessional lending and grants linked to SDG-targets and replenished, for example, from honouring unfulfilled ODA commitments (amounting to \$2.7 trillion between 2002 and 2017 alone).
 - Urgently advancing more equitable, less costly and less fragmented frameworks for sovereign debt restructurings
- **At the regional level:**
 - Strengthening regional monetary and financial integration and cooperation
 - Strengthening regional public banking