

Addressing the Debt Crisis in the Global South

Pontifical Academy of Social Sciences, Vatican

Date: Wednesday, June 5, 2024

Concept Note

Debt distress in the Global South has been mounting. The Covid-19 pandemic resulted in a sharp increase in public debt across the globe, but the most vulnerable countries have faced the most negative consequences. The International Monetary Fund (IMF) estimates that as of February 29th, of the 68 Low Income Countries for which the Fund conducts Debt Sustainability Analysis, nine are in debt distress, and 51 are in high or moderate risk of debt distress. The United Nations (UN) reports that 19 developing countries are spending more on debt interest than on education and 45 more on debt interest than on health. While Covid-19 was first and foremost a global health crisis, its economic fallout is uneven and has disproportionately affected the developing world.

The origins of the current increase in debt fragilities can be traced back to before the pandemic. And to understand debt fragilities in the Global South, it is critical to look at the monetary policies in the North. In 2008, the advanced economies responded to the financial crisis by creating massive amounts of liquidity that became global, which in turn led to sharp increases in borrowing and lending around the world. The developing world was then more vulnerable to the consequences of a shock like the pandemic.

Pope Francis had already warned in 2021 that "*Relieving the burden of debt that today affects a large number of countries and communities is a profoundly human gesture that can help people to develop and to have access to vaccines, health, education and jobs.*"¹ He made it clear that debt is not only a political and economic issue, but a deeply moral issue, and how we deal with this mounting debt in the developing world will have a profound effect on the lives and wellbeing of millions living in the afflicted countries. He was, in a sense, echoing what *Saint John Paul II* had said earlier, when celebrating the World Day of Peace in 1998, that what was needed was "a globalization *in solidarity*, a globalization *that leaves no one out*".² As faith communities celebrate the next official

¹ Message of His Holiness Pope Francis to the World Bank Group and the International Monetary Fund <https://www.bancomundial.org/es/news/statement/2021/04/07/message-of-his-holiness-pope-francis-to-the-world-bank-group-and-international-monetary-fund>

² St JOHN PAUL II. For the Celebration of the XXXI World Day of Peace, January 1, 1998. https://www.vatican.va/content/john-paul-ii/es/messages/peace/documents/hf_jp-ii_mes_08121997_xxxi-world-day-for-peace.html

John Paul II's call was aligned with Christian Churches celebrating Jubilee 2000 or the 2000th Anniversary of the birth of Jesus Christ. His call was alluding to the Hebrew and Christian scriptures calling for a

Jubilee year in 2025, there is a growing emphasis on calling for transformation processes to deal with inequality as demanded by scripture.

More recently, the war in Ukraine caused an economic shock that led to increases in global inflation, and central banks in advanced economies responded with significant interest rate hikes, which resulted in the tightening of financial conditions worldwide. This meant that refinancing the debts became more expensive, or, in the absence of access to financing from official sources, impossible for a number of countries, whose ranks keep increasing as time goes by. Not surprisingly, we are seeing a new wave of sovereign debt distress and restructurings. At the same time, in many countries international financial official institutions provide positive net financing while there is negative net financing from other creditors, including private and official bilateral creditors, in what might be viewed as “hidden bailouts”.

Addressing unsustainable sovereign debt burdens is a necessary condition for restoring growth in countries suffering debt crises as well as for economic, social, and political stability. Unsustainable sovereign debts destabilize economies, leading to increases in unemployment, poverty, and inequality. Those consequences are long-lasting, as unemployed workers lose capabilities, children grow up in more difficult environments, and societal distrust rises. Forcing the payment of unsustainable debts may also entail reductions in critical public spendings for economic and social development, such as for healthcare, education, and public infrastructure. This creates additional adverse long-term consequences for social development.

Twenty-five years ago, there was a Jubilee of External Debt with extensive debt forgiveness. Yet here we are again, with too many countries facing too much debt. Both debtors and creditors are to blame, as Saint John Paul pointed out at the time:

*"Among the multiple causes that have led to an overwhelming foreign debt, not only the high interest rates, fruit of speculative financial policies, should be pointed out, but also the irresponsibility of some rulers who, when contracting the debt, did not sufficiently reflect on the real possibilities of payment, with the aggravating circumstance that huge sums obtained through international loans have sometimes been destined to the enrichment of specific individuals, instead of being used to support the changes necessary for the country's development."*³

However, the existing sovereign debt “system” does not ensure or even encourage sustainable lending and borrowing or sovereign debt-crises resolution. While corporate debt is governed by the existence of a predictable legal and institutional framework, there is no multinational framework for unsustainable sovereign debts, and the absence of such a framework leads to severe inefficiencies and inequities that affect hundreds of millions of people over time around the world.

continuing process for debt relief. The Pope was joined by Jewish, Muslim and a host of Christian leaders. As a result of the call more than a \$130 billion dollars of debt relief was won for developing countries. The religious groups would gather nearly 30 million petitions to the G7.

³ St John Paul II POST-SINODAL APOSTOLIC EXHORTATION. THE CHURCH IN AMERICA The burden of foreign debt. 1999. https://www.vatican.va/content/john-paul-ii/es/apost_exhortations/documents/hf_jp-ii_exh_22011999_ecclesia-in-america.html

As early as 1986, the Commission for Justice and Peace stated that "*it would be useful to have an international code of conduct to guide negotiations, with certain rules of ethical value, and to make special provisions to remedy financial difficulties arising from natural catastrophes, excessive variations in the prices of indispensable raw materials (agricultural, energy, mining), and sudden fluctuations in exchange rates.*"⁴

On top of these realities, IMF borrowers are also suffering the consequences of current rules that have led to marked increases in the interest rates they pay as a result of an increase in the economies that issue reserve currencies—adding to instability.

Global tensions are high. The events of the last four years have had a deeply negative impact on progress to attain the Sustainable Development Goals (SDGs). In addition to reversing progress in global development, history reminds us of the deeply polarizing political consequences that debt sustainability problems can have worldwide. And the difficulties of implementing progressive taxation in the context of the current international tax architecture further undermine the financing capacity for urgently needed investments to tackle the problem of climate change, which is having deleterious economic and social consequences around the world but especially in the countries whose structures of production are more vulnerable to climate shocks. Climate change has consequences for migration, and social and political stability.

As Pope Francis points out, "*the current economic and social crisis, worsened by the scourge of external debt that paralyzes development, has affected the population and increased poverty, unemployment and social inequality, while at the same time contributing to the exploitation and abuse of our common home, to a level we could never have imagined before. (cf. Encyclical Letter Laudato Si', 44).*"⁵

In this context, top academic experts, high-level policymakers, officials from multilateral institutions, and religious leaders will meet at the Pontifical Academy of Social Sciences (PASS) to discuss these major problems for the global society and propose international reforms that deal not only with existing debt burdens but reforms that might make a recurrence of another debt crisis less likely.

*"Because real and lasting peace is only possible "from a global ethic of solidarity and cooperation at the service of a future shaped by interdependence and co-responsibility among the whole human family."*⁶

⁴ PONTIFICAL COMMISSION "IUSTITIA ET PAX" AT THE SERVICE OF THE HUMAN COMMUNITY: AN ETHICAL CONSIDERATION OF INTERNATIONAL DEBT. https://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_1986_1227_debito_sp.html

⁵ Message of the Holy Father Francis to the Prefect of the Dicastery for the Service of Integral Human Development on the occasion of the 25th anniversary of the "Populorum Progressio" Foundation, 13.12.2017. <https://press.vatican.va/content/salastampa/es/bollettino/pubblico/2017/12/13/mes.html>

⁶ ENCYCLICAL LETTER FRATELLITUTTI. ON FRATERNITY AND SOCIAL FRIENDSHIP. https://www.vatican.va/content/francesco/es/encyclicals/documents/papa-francesco_20201003_enciclica-fratelli-tutti.html#_ftn108

AGENDA

9:30-10:00am: Reception and Registration

Welcoming Remarks by

- Sister Helen Alford, President of PASS
- H.Em. Cardinal Peter Turkson, Chancellor of PASS
- Martín Guzmán, Professor, Columbia University; Co-President, Initiative for Policy Dialogue; PASS Ordinary Academician
- Joseph Stiglitz, Professor, Columbia University; Founder and Co-President, Initiative for Policy Dialogue; PASS Honorary Academician

10:00-12:00am: **Session 1:** The debt situation in the Global South

Chair: Gustavo Béliz, Executive Committee Council on International Relations, Argentina; PASS Ordinary Academician

Debt distress. The perspectives from macroeconomics and capital flows: liquidity versus solvency. Defaults. Economic, social, and political consequences. The consequences for addressing climate change. The need and moral imperative for relief for sustainable recoveries and human and social development. Sustainable financing.

Lead Speakers (3-5' each):

- Ishac Diwan, Research Director, Finance for Development Lab, Paris School of Economics
- Markus Brunnermeier, Professor, Princeton University
- Antoinette Sayeh, Deputy Managing Director, International Monetary Fund
- Rebeca Grynspan, Secretary-General, United Nations Conference on Trade and Development
- Iyabo Masha, Director, Intergovernmental Group of Twenty-Four (G24)
- Brad Setser, Senior Fellow, Council on Foreign Relations

Discussion Among Participants

12:00-1:30pm Lunch

1:45am-3:45pm: **Session 2:** Proposals for addressing the ongoing debt crises in the Global South

Chair: Martín Guzmán, Professor, Columbia University; Co-President, Initiative for Policy Dialogue; PASS Ordinary Academician

Debt restructurings: fairness and efficiency. The role of International Financial Institutions. How to avoid bailouts of unsustainable bonds. The problem of comparability

of treatment among creditors. The IMF debt sustainability analyses. The efficiency and equity consequences of alternative policy proposals. The Encyclicals “Laudato Si” and “Fratelli Tutti” as sources of inspiration for multidimensional responses.

Lead Speakers (3-5’ each):

- Jay Shambaugh, Under Secretary for International Affairs, U.S. Treasury Department
- Emmanuel Moulin, Chief of Staff, Office of the Prime Minister of France
- Joseph Stiglitz, Professor, Columbia University; Founder and Co-President, Initiative for Policy Dialogue; PASS Honorary Academician
- Reza Baqir, Managing Director and Global Practice Leader of Sovereign Advisory Services, Alvarez & Marsal
- Avinash Persaud, Special Advisor on Climate Change to the President of the Inter-American Development Bank, Inter-American Development Bank
- Vera Songwe, Senior Fellow, Global Economy and Development, Africa Growth Initiative, Brookings Institute
- H.E. Albert Muchanga, Commissioner for Economic Development, Commissioner for Trade and Industry, African Union Commission
- Mwigulu Nchemba, Minister of Finance, Tanzania

Discussion Among Participants

4:00-6:00pm: **Session 3:** Proposals of international debt and tax reforms for sustainable financing and domestic reforms to reduce the frequency, duration, and costs of sovereign debt crises

Chair: Sister Helen Alford

Proposals for addressing the structure of incentives that leads to the “too little and too late” syndrome in sovereign debt restructuring. New York and UK legislation for sovereign debt to deal with unproductive, inefficient, and inequality-increasing speculation. Special Drawing Rights allocations and the role of the IMF. IMF policies. Ethical considerations in the design of frameworks. International mechanisms for sovereign debt restructuring. The celebration of the Jubilee 2025, an opportunity for renewed hope.

Lead Speakers (3’-5’ each):

- Fernando Haddad, Minister of Finance, Brazil
- Carlos Cuerpo, Minister for Economy, Trade and Business, Spain
- Lee Buchheit, Honorary Professor, University of Edinburgh Law School
- Jin Liqun, President and Chair of the Board of Directors, Asian Infrastructure Investment Bank
- Nadia Calviño, President, European Investment Bank
- Pablo Saavedra, Vice President, The Equitable Growth, Finance & Institutions Global Practice, World Bank
- Alejandra Claros, Secretary-General, CAF
- Sebastian Ceria, Founder and President, Fundar

- Mahmoud Mohieldin, Executive Director for the Arab States and the Maldives, International Monetary Fund

Discussion Among Participants

Closing Remarks by Sister Helen Alford, Martín Guzmán, Joseph Stiglitz, and H.Em. Cardinal Peter Turkson

Kindly be informed that the program is scheduled to extend until 7:00 pm to facilitate an Audience with Pope Francis. Please be aware that the sequence of the Sessions mentioned above may be adjusted based on the timing of the Audience, which is yet to be confirmed.