The Debt Problem of Small Vulnerable States: A Time to Act

Summary of the Panel Discussion organized
by the Financing for Development Office, UN-DESA,
during the first meeting of the Preparatory Committee for the third

that are needed in order to deal with these cases?

Ms. Attridge began by stating that small States are a very important constituent of the Commonwealth Secretariat and there is a strong belief that growing debt burdens are hampering growth prospects in these countries and exacerbating their vulnerability to exogenous shocks. Small States do not benefit from economies of scale, and are extremely dependent on globalization. In the past, the debt problems of advanced economies and low-income countries have long obscured the deep seated issues faced by small States. There is a systemic issue facing these countries and the Commonwealth Secretariat questions the appropriateness of the market-based financing model given their inherent structural vulnerabilities. Many problems in small States have resulted from external shocks and natural disasters. Traditional menus of fiscal adjustment are seen not to be working. There is need for new solutions.

Ms. Attridge remarked that there are four key challenges facing small States: (1) high debt burdens, debt defaults and the need for debt relief; (2) fiscal adjustments, weak growth patterns and threats to human development; hi Td T3 T 3(s)-1(e)4(l)-2(i)-2(m)-2(s)(al)-6e, 1w 22.30(D2-11(e)-2(s)(alm) looks at countries that have opted to re-profile their debt (extend maturities etc.) they have typically found themselves in difficulty fairly quickly. But there have been a few lessons learned, including comprehensiveness—often the burden of debt restructuring is borne by one set of creditors which w8.27/TT1 1 Tf 0.4.61bne bnleu3 -1. m(-)Te0-ed to re

Mr. Lewis responded by saying that with regards to the debt-growth connection, there will always be an academic debate about the threshold level. However, if one was to pick a number, one could state that anything higher than a debt-to-GDP ratio of 90 per cent is bad. However, that claim doesn't necessarily mean that anything below 90 per cent is good, nor does it mean that every country over the 90 per cent level will necessarily run into troubiot6hold d b t n4(c)4(t)- ea e(ho(e)44(c)4(t etc. In some ways, islands are different in terms of opportunities and vulnerabilities. The World Bank is cognizant of that fact and factors heterogeneity into its approaches to dealing with these countries. A final reiteration was also made about the fact that the World Bank is yet to see any real groundswell from the international community to reform the current debt sustainability framework.

Ms. Attridge closed by emphasizing disaster proofing resilience and fiscal and debt positions, noting that the CPIA is still the main determinant of debt carrying capacity. There is need for a stronger consideration of vulnerability to exogenous shocks. There is need to undertake a macroeconomic adjustment within a broader resilience building lens because a pure focus on fiscal adjustment can lead to growth but cuts in social spending. Finally, movement on the debt restructuring architecture issue is going to take a lot of time. It might therefore be more practical to look at access to finance for these countries.

Ms. Hurley closed by speaking about the growth-debt nexus and stated that while debt-to-GDP thresholds matter, they don’t tell the whole story because it is not only the amount of debt, but also the quality of debt that matter—what is debt being contracted for? What are the terms and conditions under which the debt was contracted? With regards to the lack of global appetite for a new debt restructuring initiative those present were reminded that the HIPC initiative was also difficult to achieve but that it came to fruition. The clear objective need for debt relief in some small States was also reiterated as was the need for an initiative similar to HIPC for small States.

Mr. Caliari closed by asking who bears the losses when things go wrong, when there are natural disasters or when countries’ trading partners are hit by external shocks, etc.? If the international community says that there is no appetite for reform, it means that debtor countries are going to continue having to bear the costs of those losses. He concluded by asking if this is the message that we want the post-2015 development agenda to send?

H.E. Mr. George Wilfred Talbot wrapped up the panel discussion by noting two key takeaways from the proceedings: the response to the debt situation of small States has been inadequate and; there is a case for more concerted attention to this issue and a need for a political response that is commensurate to the needs that exist.

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