

Debt Sustainability Analysis and the 2030 Agenda

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“Towards post-COVID-19 resilient economies”



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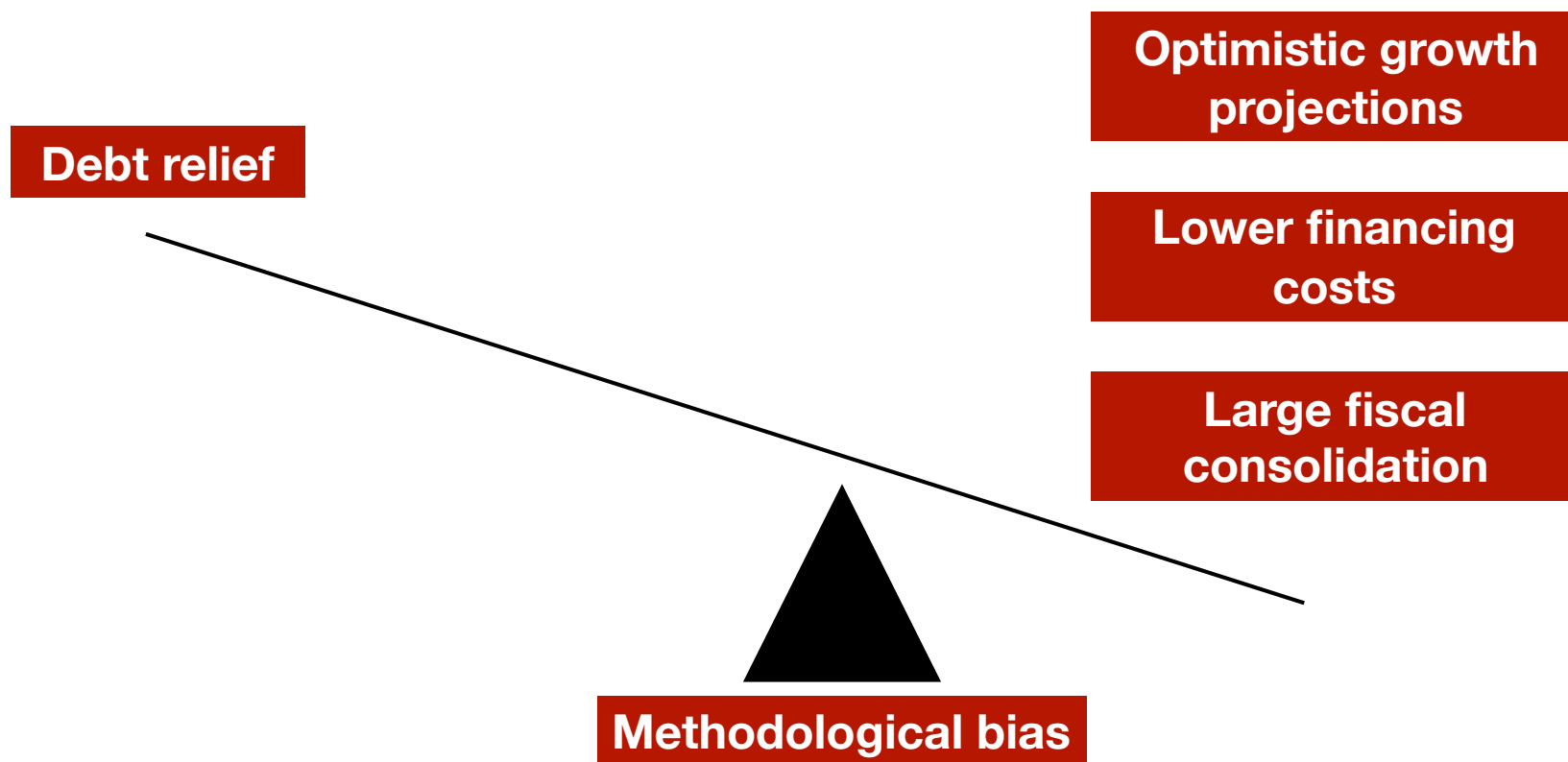
Key messages

- An inadequate multilateral response to Covid-19 coupled with an outdated debt sustainability assessment (DSA) methodology risks leaving the 2030 Agenda out of reach.
- From DSAs to debt relief to the SDGs:
 - If G20 Common Framework follows current DSA methodology:
 - Excessive and counter-productive reliance on fiscal adjustment.
 - Countries that require debt relief to finance SDGs will not be eligible.
 - Countries that are eligible for debt relief will not receive enough.
- Need to redefine debt sustainability, not as a goal per se, but relative to the post Covid-19 and 2030 Agenda financing requirements.



Covid-19: A challenging environment for DSAs

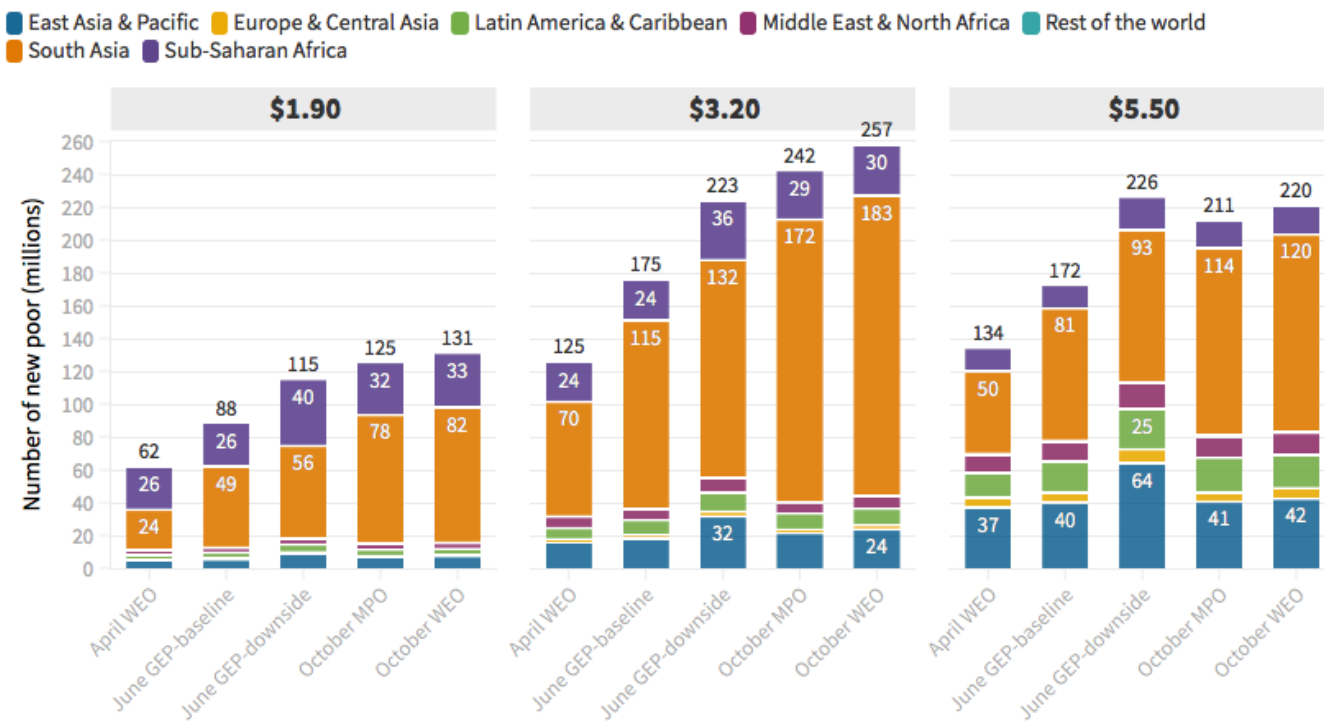
An impossible task: striking the right balance in a highly uncertain environment



DSA methodology: To what extent are governments “willing and able to sacrifice domestic objectives to meet foreign claims” (Kregel, 2007).

Consequences of growth projections in a highly uncertain environment

Figure 1: COVID-19-induced new poor in 2020, using various growth vintages



Source: World Bank (2020)

Growth projections in the aftermath of Covid-19 have been overly optimistic.

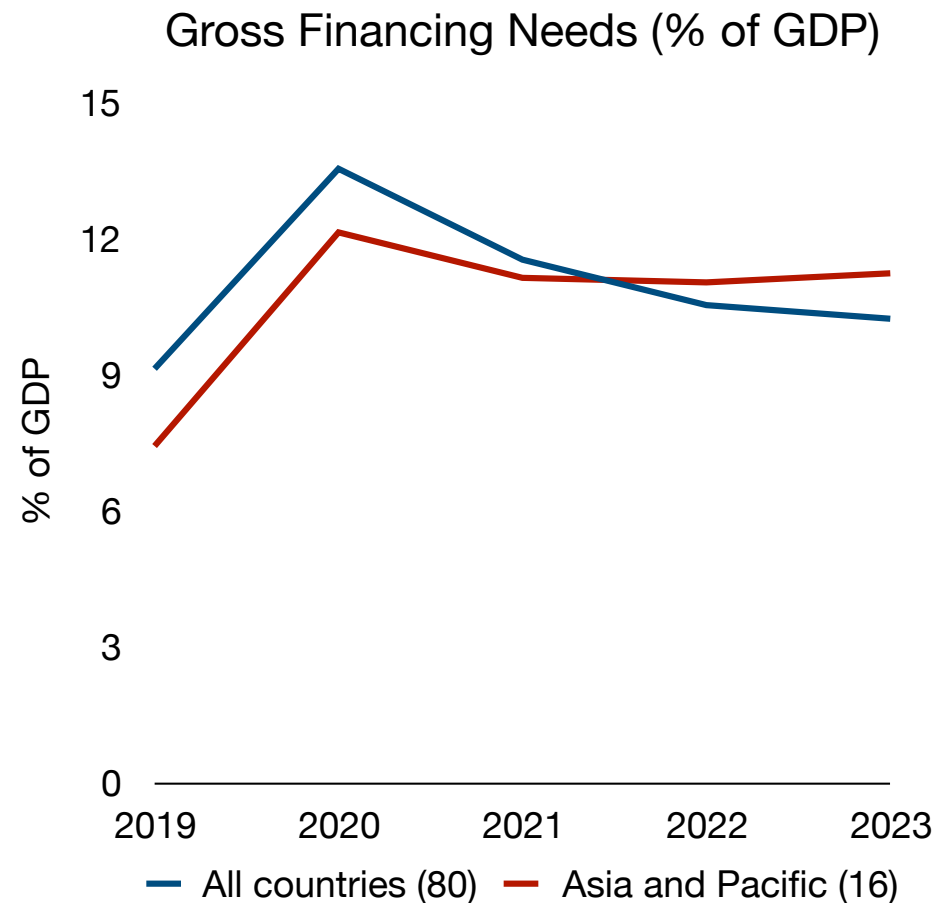
Expectations of a V-shaped recovery have reduced the required sense of urgency to tackle the crisis.

Less growth translates into higher fiscal consolidation requirements.

Covid-19 financing constraints

Crisis has substantially increased Gross Financing Needs (GFN) of developing countries. 16 countries in the Asia and Pacific region have requested IMF financial assistance. GFN in the region as expected to remain at high levels in the medium term.

Country	IMF Financial Assistance (US\$ Millions)	DSA Risk of debt distress
Bangladesh	732	Low
Maldives	29	High
Mongolia	99	Sustainable
Myanmar	357	Low
Nepal	214	Low
Papua New Guinea	364	High
Samoa	22	High
Solomon Islands	29	Moderate
Afghanistan	22	High
Armenia	175	Sustainable
Georgia	376	Sustainable
Kyrgyz Republic	242	Moderate
Mauritania	159	High
Pakistan	1386	Sustainable
Tajikistan	19	High
Uzbekistan	374	Low
Total	4599	



Source: Eurodad (2020)

Covid-19 financing constraints

Developing countries are struggling to fill their financing gap: Less and more expensive market financing (Figure 1) combined with insufficient IMF support (Figure 2).

Figure 1

3. Advanced Economy and Emerging Market Bond Spreads (Basis points)

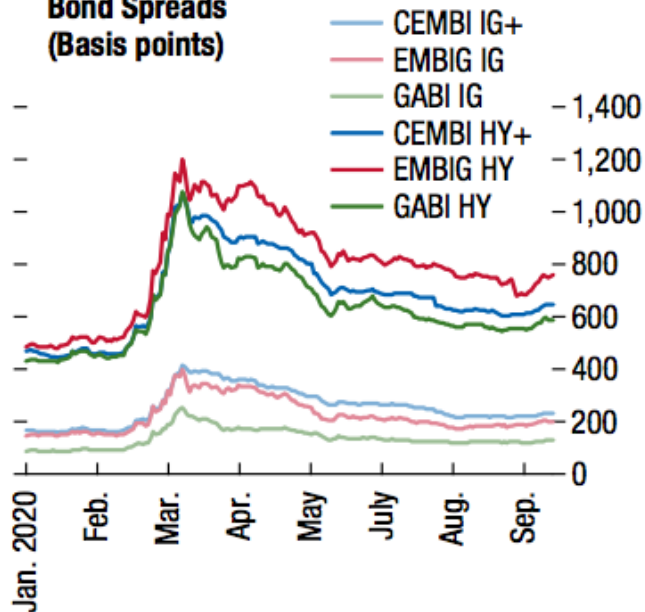
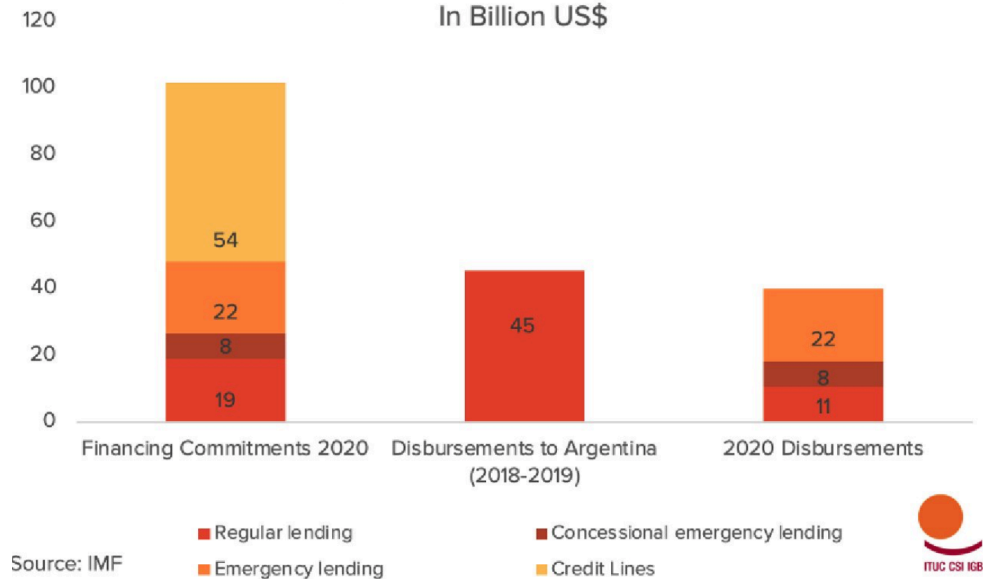


Figure 2

IMF Financing Commitments vs. Actual Disbursements In Billion US\$



Source: IMF FSR (2020), ITUC (2020)



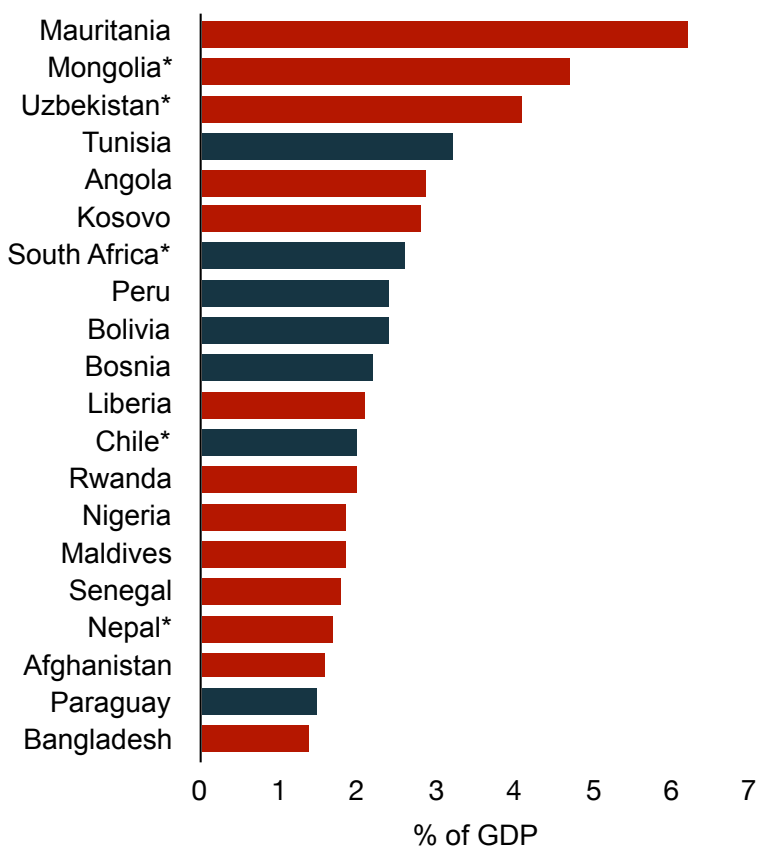
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Fiscal consolidation in IMF Covid-19 Financial Assistance

Financing constraints are forcing developing countries to implement off-setting expenditure cuts to finance their Covid-19 response in 2020.

Expenditure cuts are targeting sensitive areas (education & development).

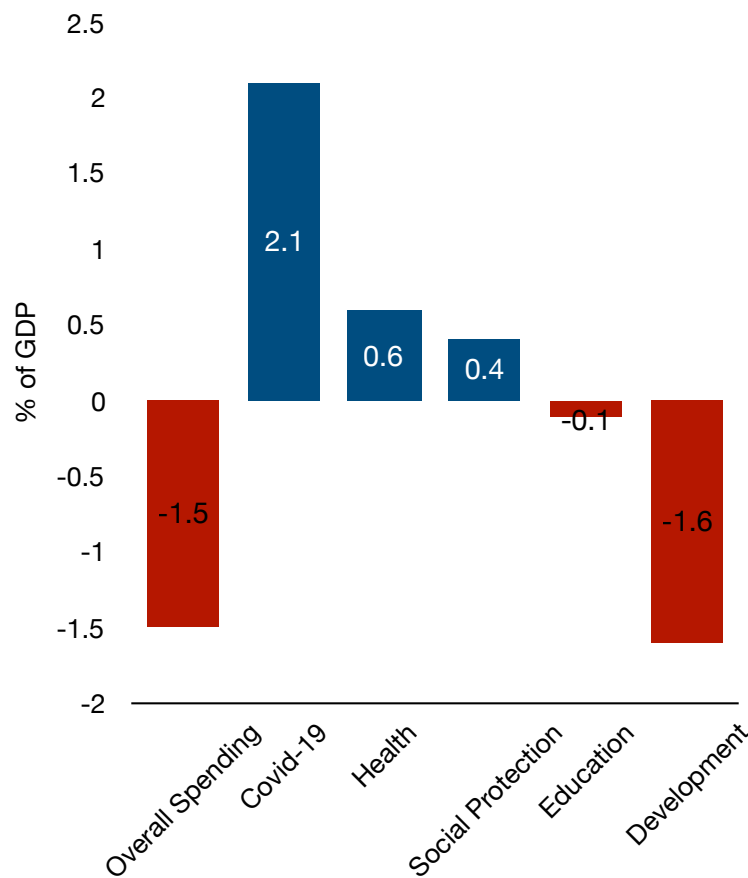
Expenditure cuts to offset Covid-19 response packages as % of GDP (2020)



Red denotes G20 DSSI eligibility

Source: Eurodad (2020)

Variations in the composition of expenditure G20 DSSI countries (2020)



Source: IMF (2020)

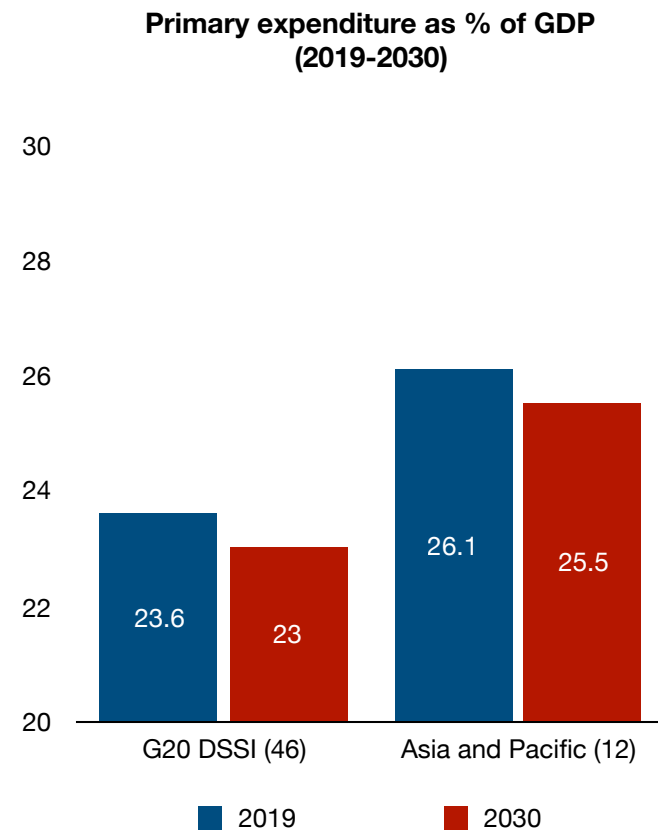
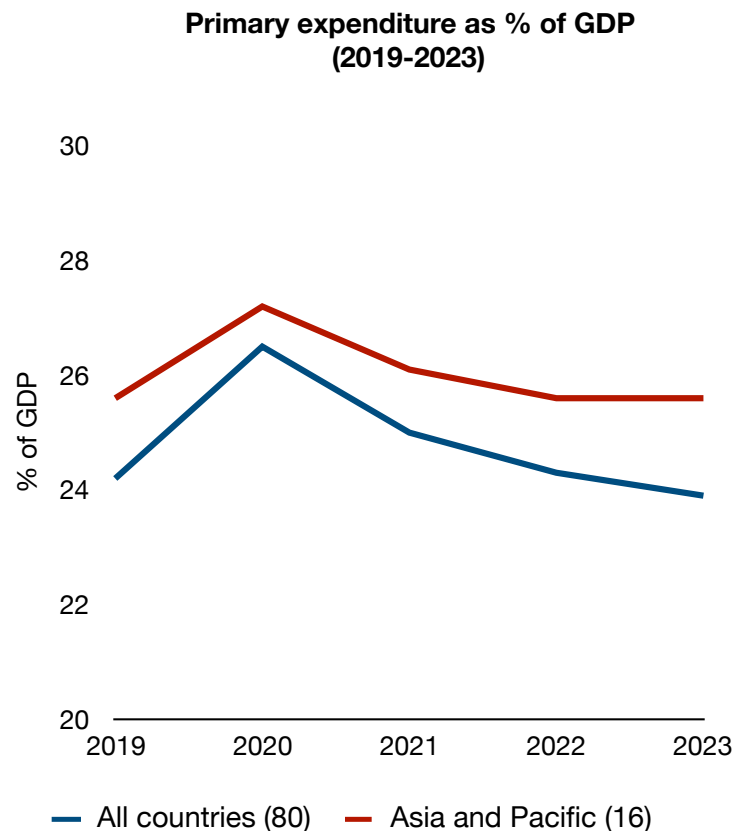


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Fiscal consolidation in IMF Covid-19 Financial Assistance

Debt sustainability is assessed on the basis of “steep and prolonged” fiscal consolidation (IMF, 2020).
Uncertain growth outlook & financing constraints will place further pressure on fiscal targets.
In a best case scenario, expenditure levels will fall below pre-crisis levels by 2023 (Figure 1)

Long term expenditure cuts are a reflection of an insufficient and inadequate multilateral response.
Expenditure cuts will leave out of reach SDGs



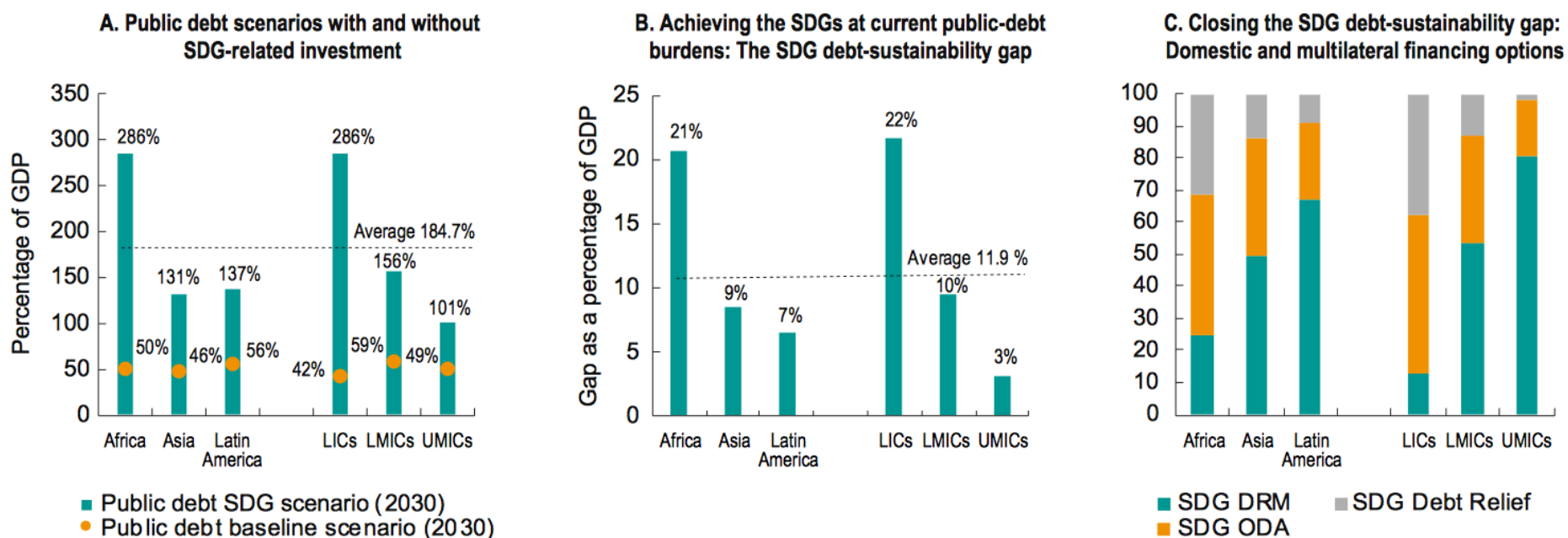
Source: Eurodad (2020)

An alternative approach to debt sustainability

Need to redefine debt sustainability, not as a goal per se, but relative to the post Covid-19 and 2030 Agenda financing requirements.

2030 Agenda as a common responsibility: Need for DRM supported by ODA and extensive debt relief.

FIGURE 4.10 Developing-country debt sustainability and the SDGs



Source: UNCTAD (2019)



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Conclusions

Need for a stronger response: IMF program targets undermines the provision of basic public services, increases income and gender inequality and hampers growth prospects. Additional measures are required. These include, among others, a new allocation of Special Drawing Rights (SDR), increases in Official Development Assistance (ODA), and the establishment of effective global governance to tackle tax avoidance, evasion, illicit financial flows and sovereign debt workout mechanism.

Need a review of the IMF DSA methodology: it forces countries to abandon the active pursuit of the 2030 Agenda and the commitments of the Paris Agreement on Climate Change in order to meet creditor claims. Post Covid-19 debt relief needs cannot be assessed under this premise. A review of the methodology is needed. DSA's must explicitly incorporate countries' long-term financing needs to pursue the SDGs, climate goals, human rights and gender equality commitments.

Develop a post-Covid-19 debt relief and sustainability initiative: IMF lending coupled with G20 DSSI simply postpones the inevitable acknowledgement of the unsustainable nature of debts in many countries across the world. Debt sustainability consistent with the SDGs and human rights can be achieved through an ambitious process of debt relief, including extensive debt cancellation. Relief must be granted to all countries in need and assessed with respect to their development financing requirements.



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Questions and comments:

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