Remarks by LDCs
at the Ambassadorial level dialogue on addressing sovereign debt distress in LDCs, LLDCs and SIDS in the time of Covid-19
Virtual Meeting
Organized by UN-OHRLLS and Kazakhstan, Chair of the Group of LLDCs in collaboration with Malawi, Chair of Group of LDCs and Belize, Chair of the Alliance of Small Island States (AOSIS)
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Excellencies
Distinguished delegates

At the outset, I would like to welcome you all to this dialogue and commend other co-organizers for their support and substantive contributions to this event.

The theme of this dialogue is very timely and highly propitious, as COVID-19 is affecting our countries at an unprecedented speed and magnitude.

Let me begin by giving you some statistics on the external debt situation of LDCs, primarily before the outbreak of COVID-19. The stock of LDC debt increased from USD 199bn in 2011 to USD 358 bn in 2018. According to IATF 2020 report, median public debt in LDCs rose from around 32 per cent in 2011 to 47 per cent of GDP in 2019. As of April 2020, 5 LDCs were classified as in debt distress while an additional 12 countries are listed at high risk of debt distress. The ratio of debt service to exports has worsened sharply, rising from 4.2 per cent in 2008 to 9.4 per cent in 2018. Commercial credit has doubled from 2010 through 2019, from 6 to 12 per cent of public external debt, which in general have higher interest rates than concessional financing. These are the stories of pre-COVID-19 era.

Now, the onslaught of COVID-19 has dramatically changed the macroeconomic situation in LDCs and the debt crises are brought to the boil. The wave of shocks coming from external and internal fronts has devastated our economies. Domestic revenue and income generation are dwindling; external earnings are plunging; while the need for public expenditure is skyrocketing to cope with the impacts of COVID-19. These factors are decimating the already stretched fiscal space of LDCs. Furthermore, during this time, the strengthening of foreign currencies is further intensifying pre-existing debt problems of LDCs. As a result, the ability of our economies to meet the existing debt commitments is in serious jeopardy. Unless our economies rebound quickly--or we get more help from the developed countries--a wave of new defaults seems inevitable.

We acknowledge various international support measures and initiatives that are recently launched to support LDCs and other vulnerable countries. We welcome the IMF’s debt service relief to 27 of the poorest countries, all of them but one are LDCs. We also appreciate the G20 Debt Service Suspension Initiative (DSSI), which covers eight-month official bilateral sovereign debt payment suspension for all LDCs and other IDA countries. The Institute of International Finance, the group of private creditors, has proposed allowing struggling governments to take a payment holiday.
These initiatives may sound lucrative, but many eligible countries are not enthusiastic to avail them due to some other consequences. For instance, they would have to pay back everything they owe at a later stage and for fear of being treated as a default, which will reduce the credit rating of the country and increase future borrowing costs. Therefore many eligible countries are now locked into a catch-22.

Under current circumstances, the Group of LDCs has prepared a statement on COVID-19 which is issued as an official document of the UN under the symbol A/74/843. In the statement, we made the following specific proposals to address the debt problem of LDCs:

First: All creditors and development partners should grant debt relief for all LDCs with immediate effect to free up liquidity and invest more in their health systems and economic recovery. This call is resonated in the IATF 2020 report, which urges that official bilateral creditors should immediately suspend debt payments from LDCs that request forbearance, and other creditors should consider similar steps or equivalent ways to provide new finance.

Second: All creditors and development partners should expand debt standstill to all LDCs, extend the period of suspension of debt service payments until the decision on debt relief is made.

Third: Official creditors should also consider debt swaps to enhance social investments and address the impact of COVID-19.

Fourth: Private and commercial creditors should join this debt cancellation and debt moratorium to avoid the public sector bailing out private creditors.

Fifth: The debt sustainability framework for LDCs should systematically take into account their structural constraints and longer-term investment requirements for the implementation of the Sustainable Development Goals.

Finally: LDCs should be provided with grants-based ODA or highly concessional ODA with a grace period of at least 10 years to meet their pandemic-related and other development needs without falling into default.

I thank you all for your kind attention.