Summary note on: Lessons learned from the debt crisis and ongoing work on sovereign debt restructuring and debt resolution mechanisms

Special joint meeting of the UN GA Second Committee and the Economic and Social Council

14 October 2014

Background

In General Assembly resolution 68/202 of 20 December 2013, Member States called for a special joint meeting of the Second Committee of the General Assembly and the Economic and Social Council during the 69th session to consider lessons learned from debt crises and the ongoing work on sovereign debt restructuring and debt resolution mechanisms, with the participation of relevant stakeholders. This was to build upon the special meeting of the Economic and Social Council on external debt sustainability and development, held on 23 April 2013. On 13 October 2014 the Second Committee considered the Secretary General's Report on External debt sustainability and development (A/69/167).

Opening session

The meeting was opened by **Ambassador Cardi of Italy** and **Ambassador Sajdik of Austria** in their respective capacities as Chair of the Second Committee of the General Assembly and President of ECOSOC. **Ambassador Cardi** emphasised the new urgency to address this issue as a result of the global financial crisis, and that the UN could contribute in a factual manner. He highlighted the need for more efficiency and coordination in dealing with debt crises, and that timely, effective, comprehensive and durable solutions were needed. He indicated that inclusive transparent and factual discussion with all stakeholders was paramount.

Ambassador Sajdik noted that problems related to sovereign debt are not confined to emerging markets or low income economies. Many countries in the developed world struggle with high debt

Mr. Antonio De Lecea, Principal Advisor for Economic and Financial affairs for the European Union delegation to the United States, then presented the perspective of the EU. He underscored the division between two different types of debt problems – those with mainly public creditors and those with mainly private creditors – and emphasised the progress made in debt cancellation for low-income countries where the creditors were largely in the public sector. For debt restructuring, he noted that coordination is working well in some places though there are coordination problems that endanger success in other places, and agreed that recent developments show the need for the evolution of structures. Restructuring, in his view, is not just a question of legal feasibility but also carries the risk of contagion. He indicated that the EU supports the IMF's role and leadership, including the recent work on reforming contractual language in bond issuances. From the EU experience, he emphasised three lessons learned: (1) the over-reliance on credit ratings which creates dangerous cliff effects in the international financial system and cited the new EU policy of reducing the reliance on them through regulation and supervision; (2) the need for stronger aggregation clauses in bond contracts; and (3) prevention of debt crisis is better than trying to cure one with a restructuring. He called restructuring "an extreme cure for an extreme circumstance".

Mr. Paulo Nogueira Batista, Executive Director at the IMF representing Brazil and 10 other countries, speaking on behalf of his constituency, felt that the IMF had been rendered helpless in taking action to file an amicus brief in support

Ms. Gelpern continued that debt management and debt restructuring must go together, and that both the quantity and the quality of the borrowing is important, asking whether the borrowing is legitimate. She argued that the UNCTAD principles for responsible borrowing and lending are important as a prism. She identified three problems in restructuring that need to be solved: efficiency, fairness, and legitimacy. Under efficiency she included criteria for the amount of restructuring and the timeliness of restructuring. Under fairness she emphasised burden sharing and problems of creditor fragmentation. Under legitimacy she included outcomes, participation, and the intelligibility of the process to its participants and stakeholders. In terms of solutions, she argued for a "modular framework"– a multiple part system that addressed each of the problems with specific solutions. She argued that the world should not obsess about the form of solutions (contractual approach vs. statutory approach), but needs to work on the three problems and design modules that can resolve them.

Major discussion points

In the interactive discussion, the representative from Belgium asked Paulo Nogueira Batista what he thought the UN should focus on as distinct from the IMF. Mr. Batista explained that the main difficulty is for the official sector to deal with the overwhelming power of private finance to generate instability and destruction. He argued that the UN needs to contribute to rebalancing the relative influence of the private sector versus the official sector and has a role to oversee the work and make sure it comes out in a comprehensive and balanced way. He acknowledged the technical expertise of the IMF, but suggested that economists are not good at balance and subtlety, so the UN has a role to make sure any solutions are balanced and fair.

The representative from Japan emphasised that Japan takes the issue seriously, but that trying to develop a multilateral system through the UN in a rushed fashion is not helpful. He argued that designing a mechanism through the UN is not realistic when the IMF may be the relevant forum. He argued that any discussion requires the participation of all experts and stakeholders.

The representative of Ethiopia agreed that the UN should have a role, and suggested that the most important forum for discussing this issue is the upcoming Third International Financing for Development conference in July 2015. Ms. Gelpern argued that the UN has an agenda setting power that can bring the issue to the forefront of discussions. She also suggested that a repository of restructuring experience can be advanced by th

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