



Webinar on “How can the EU support its partner countries to avoid and resolve debt crises?”

Perspective from the European Commission

Peter Kovacs

DG INTPA

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Introduction

- Pre-existing debt vulnerabilities in many low-income countries
- Capital outflows and loss of market access in the first half of 2020
- Market-access eased and spreads declined in the second half of 2020, but remained somewhat constrained
- External debt service falling due in 2021-25 is going to be about twice as much as the pre-crisis average (2010-19). Large external financing need.
- Extent of debt problems depend a lot on how long advanced countries maintain easy monetary conditions.
- Most importantly: huge differences among countries...

Upcoming challenges to support debt relief and debt sustainability

- Extend the DSSI until end 2021 – significant help but it was not perfect
- A lot of work on the operationalisation of the Common Framework:
 - Significant achievement for multilateral action
 - Varied creditor base  Significant coordination challenges
- Capacity building
- Transparency (IIF Voluntary Principles for Debt Transparency and G20 Operational Guidelines on Sustainable Financing) and accountability
- PFM and DRM reforms

Linking debt actions to provision of finance

- Debt relief needs to be linked with provision of sustainable finance (Global Recovery Initiative):
 - To create fiscal space for much needed investment
 - Transformation towards a green and digital economy
 - Sustainable finance has to come from public and private, domestic and external sources
 - Includes DRM, grants and loans (incl. re-thinking and scaling up multilateral finance), private investment and bond markets etc.
 - NDICI – are we able to find the right financing, policy and capacity building mix in partnership with each country?

We should act in a Team Europe spirit

General issuance of new Special Drawing Rights

- Potential new allocation
 - An addition to countries' international reserves – a buffer to withstand external shocks
- ...but...
- Only 3.2% goes to low-income countries
 - Re-allocation – most likely to increase concessional lending capacity of the IMF