**Tackling the Next Wave of Sovereign Debt Crises**
**April 10, 2019**
**3:00 p.m. to 4:00 p.m.**
**Meeting Halls A&B, HQ1-3-430A&B**

**Moderator:** **Larry Elliott**, Economics Editor, The Guardian

**Panelists:**
**David Lipton**, First Deputy Managing Director, IMF
**Fanwell Bokosi,** Executive Director, African Forum and Network on Debt and Development
**Lee Buchheit**, Legal Expert
**Odette Lienau,** Professor of Law, Cornell University, and Visiting Professor of Law, Yale University
**Romuald Wadagni**, Minister of Finance, Benin

*Recently concerns have resurfaced about rising levels of debt across advanced and emerging economies. Can the current international financial architecture provide prevention and resolution of the next wave of sovereign debt crises or does it need to be reformed?*

**Key Points:**

- **Concerns of rising sovereign debt.** *Lipton* noted that public debt is at high levels in advanced, emerging, and low-income countries. In this context, debt vulnerability deserves close attention. *Lienau* highlighted that natural disasters related to climate change may increasingly impact a country's ability to pay back its debt. *Buchheit* noted that many countries' debt stock is premised on the assumption that refinancing at a tolerable rate will be possible.

- **Challenges of dealing with sovereign debt**. *Lipton* noted that the sovereign debt market has become increasingly complex with the entry of new creditors, as well as the use of new instruments and contractual terms. There is a reluctance from both the borrowing and lending countries to create an international resolution system to deal with sovereign debt. *Wadagni* noted that the debt risk emerges when governments overpay for projects, use short-term debt to finance long-term projects and when the debt is denominated in a foreign currency. *Lienau* noted that more risks may come from the creditor fragmentation and the entry of new and non-traditional lenders. *Bokosi* stated that countries should improve their ability to detect vulnerabilities and manage debts before distress occurs.*Buchheit* argued that the current international legal system still works but the "holdout" problem remains a concern.

- **Role of IMF.** *Lipton* noted that the IMF helps countries to identify debt vulnerabilities. To improve debt sustainability, collective action clauses can help align the interests of creditors and debtors. *Bucheit* argued that the main problem is that the IMF has no way of imposing anything on countries before they ask for Fund assistance. *Lienau* noted that the IMF could help create intermediary mechanisms by establishing international standards for global debt markets.

- **Debt transparency and lender responsibility.** Panelists agreed that all creditors and debtors should be transparent on the amount and terms of the debt. *Bokosi* highlighted that governments need to establish flow limits on the debt burden, measure and limit overall debt stock, as well as establish a transparent public procurement system. *Lipton* noted that less experienced lenders need to learn from experienced lenders on the procedures for negotiating debt, accountability and burden sharing. *Lienau* noted that lenders need to decide when and where to lend and to make sure that debt remains sustainable. *Buchheit* highlighted that lenders carry the responsibility of ensuring that their loans are consistent with the laws of the debtor country.

**Quotes:**

*"We can reduce the risk of debt crises by improving the ability to spot vulnerabilities, helping countries better manage debts at an early stage, and strengthening governments' ability to raise revenue." David Lipton*

*"The current system is not fit for purpose. We are using the same instruments as in the past to tackle a situation that has changed. Civil society is calling for a new sovereign debt restructuring mechanism." Fanwell Bokosi*

*"We have a debt stock that is premised on the assumption that refinancing at a tolerable rate will be possible, and therein lies the fragility." Lee Buchheit*

*"We need transparency and anticipation: the best way to resolve an issue is to avoid it happening." Romuald Wadagni*

Contributor: Bo Zhao