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Informal review session on Chapter V of the Monterrey Consensus:

“External debt”

Statement on behalf of the European Union by

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I have the honor to speak on the behalf of the European Union. *The Candidate Countries Turkey, Croatia* and the former Yugoslav Republic of Macedonia*, the Countries of the Stabilisation and Association Process and potential candidates Albania, Bosnia and Herzegovina, Montenegro, Serbia, as well as the Republic of Moldova, Armenia, and Georgia align themselves with this declaration.*

Distinguished Co-chairs,

In preparation for the Doha Review Conference – external debt and systemic issues, the European Union is organizing some internal working meetings, which are yet to take place. In addition, some other international events in the near future may bring additional contribution to the Monterrey Consensus Review process. The European Union will therefore produce a more substantial contribution on external debt and systemic issues later in the spring.

Mr. Co-facilitators,

1. Significant progress has been made in the implementation of the **Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI)**. As of December 2007, twenty three out of the forty one HIPCs had reached completion point. Nine countries were between decision and completion point, being eligible for interim debt relief. Debt-service payments have declined as a result of debt relief while pro-poor

* Croatia and the former Yugoslav Republic of Macedonia continue to be part of the Stabilisation and Association Process

expenditure programmes have continued to increase. To date, all post-completion-point HIPCs have qualified for MDRI debt relief. Together, over \$110 bio USD of debt relief was granted to the qualifying countries under HIPC and MDRI initiatives. Since 2005, EU member states have provided large amounts of debt relief, and more will be provided in accordance with our firm commitments under the MDRI. In addition, the European Commission was the first multilateral creditor to go beyond the HIPC terms with the decision of 2003 of 100% cancellation of the special loans for the Least Developed Countries eligible for HIPC Initiative. The EU believes that main goal of these initiatives should be to free up domestic resources to allow increasing spending in areas that are crucial for achieving MDGs.

2. The EU welcomes efforts to better address the debt problems of those low and lower middle income countries, which do not have access to the HIPC Initiative and MDRI. In this regard, the **Evian Approach by the Paris Club** takes into account debt sustainability considerations, to adapt its response to the financial situation of the debtor countries, and to make a contribution to the efforts to make the resolution of crises more orderly, timely and predictable.
3. The EU recognizes the importance of the **Joint World Bank–International Monetary Fund Debt Sustainability Framework (DSF)**. The forward-looking nature of the DSF allows it to serve as an “early warning system” of the potential risks of debt distress so that preventive action can be taken in time.
4. However, a number of post HIPC/MDRI challenges remain. **Maintaining debt sustainability in the long run** remains an important challenge and requires close cooperation of debtors and creditors. As the implementation of the HIPC initiative progresses, responsible borrowing and lending become an even more decisive factor in avoiding the

accumulation of unsustainable debt burdens. Several developing countries have reduced their external public debt but increased their relative share of domestic debt in their total debt burden. While this switch in debt structure substantially reduces the foreign exchange risk of public debt liabilities it also calls for a reinforcing capacity to manage the new levels of domestic debt in order to maintain the overall public debt sustainability. The latter depends, inter alia, on the economic growth, mobilization of domestic resources, export prospects of debtor countries and on the creation of an enabling international environment.

In this context, developing countries should be encouraged to develop **sound financing and debt strategies** (covering domestic and external resources and debt), which are in line with the recommendations made under the DSF and their respective national development strategy. The EU therefore welcomes the work of UNCTAD, the World Bank, the International Monetary Fund and other agencies in this area and asks them to further step up their efforts.

Efforts by debtor countries have to be complemented by **efforts of creditor countries**. There is concern that debt sustainability might continue to be put at risk by creditors granting loans of unsustainable quantity or without the required level of concessionality to low income countries.

All lenders and borrowers should include debt sustainability considerations into their lending/borrowing decisions, making the best use of the guidance provided by the DSF and following the steps undertaken by the OECD Export Credit Group. Increasing transparency of lending/borrowing decisions would be another important step which could help to prevent renewed over-indebtedness of developing countries.

5. Another challenge involves **participation of commercial and non-Paris Club official creditors**. The delivery of debt relief by non Paris-Club bilateral creditors and commercial creditors is improving but remains too low.
6. A concerted effort to encourage full creditor's participation is indispensable for reaching the initiative's objectives. The EU urges all bilateral official creditors and commercial creditors to contribute their share in the HIPC debt relief efforts.
7. The challenge stemming from aggressive **commercial creditors' lawsuits against HIPCs** has the potential to threaten the achievements of the initiative as it prevents spending resources freed by HIPC for poverty reduction. The EU pledges to refrain from selling claims to creditors which are not willing to participate fully under the HIPC initiative and urges all other creditors to do the same. The EU furthermore supports intensified efforts to discourage aggressive litigation against HIPCs.

Distinguished Co-chairs,

The Monterrey Consensus contains five important paragraphs on external debt and much has been done to implement these paragraphs. Even if important initiatives and events have unfolded since then, the importance of long term debt sustainability remains. Both lenders and borrowers must share responsibility in creating the conditions for it.

Thank you.