

**POINTS OF INTEREST TO THE COUNTRIES OF G-RÍO ON THE
FRAMEWORK OF THE CONSULTATIONS CONCERNING CHAPTER V OF
THE CONSENSUS OF MONTERREY: “EXTERNAL DEBT”**

The issue of external debt requires permanent monitoring from every party involved in financing for development. It is not a problem which may be solved once and for all; on the contrary, it represents a constant challenge. The countries of G-Río still keep in mind, the years of economic difficulty we experienced during the denominated “lost decade” of the eighties, and we believe there are lessons on the importance and the alternatives to avoid having unsustainable debt levels, such as the ones that Latin America suffered in the past, which may be useful for all.

The region has benefited, over the last few years, from a general decrease on the vulnerability related to external debt. Nevertheless, there are still some cases in which the debt levels are kept high.

The favorable conditions on this issue are a result of the strengthening of national fiscal politics, as well as the improvement of current account balances, which reduces the dependence on external savings to finance national development.

Even so, it is important to consider that the present international economic context, characterized by risks of economic deceleration, may have negative consequences on important elements to promote sustainable debt politics (cash availability on international markets and interest rates, prices of basic products, exchange rates; among others).

On the other hand, it is important to ensure that there is an inverse proportional relation between the decrease on the amount meant to cover the service and the available resources meant to cover social expenses and the fight against poverty policies. These policies include those that work towards the achievement of the internationally agreed development goals, particularly the Millenium Development Goals.

The countries of G-Río consider it is necessary to continue advancing on the search of specific solutions to the problematic faced by middle-income countries, considering that the present initiatives that collectively address the problems concerning external debt, have not entirely solved their problems.

Internal Measures

Internally, the countries in the region consider it is important to progress on the establishment of an institutional framework designed to guarantee the adequate use of the resources obtained through foreign financing, as well as the dynamics employed to obtain it (for example, the dynamic to achieve financial compromises between the different levels of the government), that fall into different national situations, and that support the national agreements and judicial and institutional processes.

On the other hand, the countries of the region consider convenient to continue progressing towards the solidification of national financial systems, including by fostering public bonds markets in national currency, as appropriate. The development of this type of markets is considered useful to reduce the vulnerability facing volatility of the international financial markets.

Foreign Creditors

The countries of G-Rio believe it is important to reaffirm the shared responsibility between creditors and borrowers in order to comply with the fact that developing countries are the main responsible ones of the achievement and maintenance of a sustainable situation on all levels, as well as on the administration of public debt.

Several countries of the region have benefited from multilateral initiatives of reduction of debt (Heavily Indebted Poor Countries, Multilateral Initiative, Paris Club), therefore, such initiatives are welcomed and it is favorably considered that other creditors, commercial as well as bilateral, support these initiatives entirely.

The role of international organisms

There is enough evidence to remark that multilateral financing has a catalytic role in terms of attraction of external resources, given that the rise of such financing is followed by increases on private credit.

During the last few years, progress has been made on the general introduction of collective action clauses on the debt contracts, with the objective of acting upon incidents of difficulty.

Nevertheless, it is considered convenient to explore mechanisms to progress on this issue from a preventive point of view. Such mechanisms may include disbursement of funds to compensate the risks of financing debt deadlines.

On the other hand, the international financial institutions are capable of exploring mechanisms to support regional initiatives of partial pooling of reserves, meant to limit the risks of public debt, and support interregional initiatives.

These institutions can also support the national efforts set to design financial innovative mechanisms with the objective of reducing the risks associated with the externalities and the costs of launching new markets, as well as attracting new investors.

The relevant international institutions inside and outside the United Nations, in coordination with the relevant regional institutions, continue supporting the building of national capacities in terms of management and debt sustainability.

Risk definition and debt sustainability

The countries of G-Rio consider it may be convenient that the policies of fiscal and debt management take into account the strengthening of sustainability, as well as the improvement on the way this is perceived by the markets.

Nevertheless, when we think that the investors' risk analysis has the objective of defining when a State may find itself in a situation of difficulty to face international commitments, we must not overlook that the nature of the risk is extremely different from the one that may be found on the private sector. The empirical experience shows that an extreme situation on the payment capacity of a country is presented as a consequence of the mechanisms of a series of serious events, in a situation of crisis.

Therefore, we must make further progress on the establishment of transparent mechanisms of risk analysis that consider the space that developing countries must keep in order to impulse the sustainable growth and move forward on the implementation of social policies, with a solid security network and transparent and balanced debt evaluation indicators.