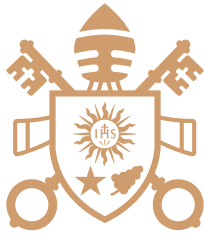


WORKSHOP ON

ADDRESSING THE DEBT CRISIS IN THE GLOBAL SOUTH



Wednesday, June 5, 2024
Casina Pio IV, Vatican City



“Relieving the burden of debt that today affects a large number of countries and communities is a profoundly human gesture that can help people to develop and to have access to vaccines, health, education and jobs.”

Letter of the Holy Father to the participants
in the 2021 Spring Meetings of the World Bank Group
and International Monetary Fund, 8 April 2021

Concept Note

Debt distress in the Global South has been mounting. The Covid-19 pandemic resulted in sharp increases in public debt across the globe, but the most vulnerable countries have been the ones that have faced the most negative consequences. The International Monetary Fund (IMF) estimates that as of February 29th, of the 68 Low Income Countries for which the Fund conducts Debt Sustainability Analysis, nine are in debt distress, and 51 are in high or moderate risk of debt distress. The United Nations (UN) reports that 19 developing countries are spending more on debt interest than on education and 45 more on debt interest than on health. While Covid-19 was first and foremost a global health crisis, its economic fallout is uneven and has disproportionately affected the developing world.

The origins of the current increase in debt fragilities can be traced back to before the Covid-19 pandemic. As is almost always the case, to understand debt fragilities in the Global South, it is critical to look at the monetary policies in the North. In 2008, the advanced economies responded to the financial crisis by creating massive amounts of liquidity that became global, which in turn led to sharp increases in borrowing and lending around the world. The developing world was then more fragile to the consequences of a shock like the pandemic.

Pope Francis had already warned in 2021 that *"Relieving the burden of debt that today affects a large number of countries and communities is a profoundly human gesture that can help people to develop and to have access to vaccines, health, education and jobs."*¹ In saying this, he made it clear that debt is not only a political and economic issue, but a deeply moral issue, and how we deal with this mounting debt in the developing world will have profound effects on the lives and wellbeing of millions living in the afflicted countries. He was, in a sense, echoing what *Saint John Paul II* had earlier said, when celebrating the World Day of Peace in

1998, that what was needed was "a globalization *in solidarity*, a globalization *that leaves no one out*".² As faith communities celebrate the next official Jubilee year in 2025, there is a growing emphasis on calling for transformation processes to deal with inequality as demanded by scripture.

More recently, the war in Ukraine caused an economic shock that led to increases in global inflation, and central banks from advanced economies responded with very significant interest rate hikes, resulting in the tightening of financial conditions worldwide. This meant that refinancing the debts became more expensive, or, in the absence of access to financing from official sources, just impossible for a number of countries, whose ranks keep increasing as time goes by. Not surprisingly, we are seeing a new wave of sovereign debt distress and restructurings. At the same time, in many countries, international financial official institutions provide positive net financing at the same time that there is negative net financing from other creditors, including private and official bilateral creditors, in what might be viewed as "hidden bailouts".

Addressing unsustainable sovereign debt burdens is a necessary condition for restoring growth in countries suffering debt crises as well as for economic, social, and political stability. Unsustainable sovereign debts destabilize economies, leading to increases in unemployment, poverty, and inequality. Those consequences are long-lasting, as unemployed workers lose capabilities, children grow up in more difficult environments, and societal distrust rises. Forcing the payment of unsustainable debts may also entail reductions in critical public spendings for economic and social development, such as those in health, education, and public infrastructure, which have further adverse long-term consequences for social development.

¹ Message of His Holiness Pope Francis to the World Bank Group and the International Monetary Fund <https://www.vatican.va/content/francesco/en/events/event.dir.html/content/vaticanevents/en/2021/4/8/lettera-bancamondiale.html>

² St John Paul II. For the Celebration of the XXXI World Day of Peace, January 1, 1998. https://www.vatican.va/content/john-paul-ii/es/messages/peace/documents/hf_jp-ii_mes_08121997_xxxi-world-day-for-peace.html

John Paul II's call was aligned with Christian Churches celebrating Jubilee 2000 or the 2000th Anniversary of the birth of Jesus Christ. His call was alluding to the Hebrew and Christian scriptures calling for a continuing process for debt relief. The Pope was joined by Jewish, Muslim and a host of Christian leaders. As a result of the call more than a \$130 billion dollars of debt relief was won for developing countries. The religious groups would gather nearly 30 million petitions to the G7.

Twenty-five years ago, there was a Jubilee of External Debt with extensive debt forgiveness. Yet here we are again, with too many countries facing too much debt. Both debtors and creditors are to blame, as Saint John Paul pointed out at the time:

*"Among the multiple causes that have led to an overwhelming foreign debt, not only the high interest rates, fruit of speculative financial policies, should be pointed out, but also the irresponsibility of some rulers who, when contracting the debt, did not sufficiently reflect on the real possibilities of payment, with the aggravating circumstance that huge sums obtained through international loans have sometimes been destined to the enrichment of specific individuals, instead of being used to support the changes necessary for the country's development."*³

However, the existing sovereign debt "system" is not working to ensure or even encourage sustainable lending and borrowing and sovereign debt crises resolution when they occur. While corporate debt is governed by the existence of a predictable legal and institutional framework, there is no multinational framework for unsustainable sovereign debts, and the absence of such a framework leads to severe inefficiencies and inequities that affect hundreds of millions of people over time around the world.

As early as 1986, the Commission for Justice and Peace stated that *"it would be useful to have an international code of conduct to guide negotiations, with certain rules of ethical value, and to make special provisions to remedy financial difficulties arising from natural catastrophes, excessive variations in the prices of indispensable raw materials (agricultural, energy, mining), and sudden fluctuations in exchange rates."*⁴

On top of these realities, IMF borrowers are also suffering the consequences of current rules which have led to marked increases in the interest rates they pay as a result of an increase in the economies that issue reserve currencies—adding to instability.

Global tensions are high. The events of the last four years have had a deeply negative impact on progress to attain the Sustainable Development

Goals (SDGs). In addition to reversing progress in global development, history also reminds us of the deeply polarizing political consequences that debt sustainability problems can have worldwide. In addition to debt troubles, the difficulties of implementing progressive taxation in the context of the current international tax architecture further undermine the financing capacity for urgently needed investments to tackle the problem of climate change, which is having deleterious economic and social consequences around the world but especially in the countries whose structures of production are more vulnerable to climate shocks. Climate change has consequences for migration, and social and political stability.

As Pope Francis points out, *"the current economic and social crisis, worsened by the scourge of external debt that paralyzes development, has affected the population and increased poverty, unemployment and social inequality, while at the same time contributing to the exploitation and abuse of our common home, to a level we could never have imagined before."* (cf. Encyclical Letter *Laudato Si'*, 44).⁵

In that context, top academic experts, high-level policymakers, officials from multilateral institutions, and religious leaders will meet at the Pontifical Academy of Social Sciences (PASS) to discuss these major problems for the global society and propose international reforms—both those dealing with existing debt burdens and those that might make a recurrence of another debt crisis such as this less likely.

*"Because real and lasting peace is only possible "from a global ethic of solidarity and cooperation at the service of a future shaped by interdependence and co-responsibility among the whole human family."*⁶

³ St John Paul II Post-Sinodal Apostolic Exhortation. The Church In America

The burden of foreign debt. 1999. https://www.vatican.va/content/john-paul-ii/es/apost_exhortations/documents/hf_jp-ii_exh_22011999_ecclesia-in-america.html

⁴ Pontifical Commission "Iustitia Et Pax" At The Service of the Human Community: An Ethical Consideration of International Debt. https://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_19861227_debito_sp.html

⁵ Message of the Holy Father Francis to the Prefect of the Dicastery for the Service of Integral Human Development on the occasion of the 25th anniversary of the "Populorum Progressio" Foundation, 13.12.2017. <https://press.vatican.va/content/salastampa/es/bollettino/pubblico/2017/12/13/mes.html>

⁶ Encyclical Letter *Fratelli tutti*. On Fraternity and Social Friendship. https://www.vatican.va/content/francesco/es/encyclicals/documents/papa-francesco_20201003_enciclica-fratelli-tutti.html#_ftn108

Agenda

WEDNESDAY, JUNE 5, 2024

7:15am	Participants arrive at the Porta del Perugino for the Papal Audience
7:45am	Audience with Pope Francis
9:00-9:30am	Breakfast Reception and Registration
9:30-10:00am	<p><i>Welcoming Remarks by</i></p> <p>Sister Helen Alford President of PASS</p> <p>H.Em. Cardinal Peter Turkson Chancellor of PASS</p> <p>Martín Guzmán Professor, Columbia University; Co-President, Initiative for Policy Dialogue; PASS Ordinary Academician</p> <p>Joseph Stiglitz Professor, Columbia University; Founder and Co-President, Initiative for Policy Dialogue; PASS Honorary Academician</p>
10:00-12:00am	<p>SESSION 1: THE DEBT SITUATION IN THE GLOBAL SOUTH</p> <p>Chair: Gustavo Béliz Executive Committee Council on International Relations, Argentina; PASS Ordinary Academician</p> <p><i>Debt distress. The perspectives from macroeconomics and capital flows: liquidity versus solvency. Defaults. Economic, social, and political consequences. The consequences for addressing climate change. The need and moral imperative for relief for sustainable recoveries and human and social development. Sustainable financing.</i></p> <p>Lead Speakers (3-5' each):</p> <p>Ishac Diwan Research Director, Finance for Development Lab, Paris School of Economics</p> <p>Markus Brunnermeier Professor, Princeton University</p> <p>Antoinette Sayeh Deputy Managing Director, International Monetary Fund</p> <p>Rebeca Grynspan Secretary-General, United Nations Conference on Trade and Development</p> <p>Iyabo Masha Director, Intergovernmental Group of Twenty-Four (G24)</p> <p>Brad Setser Senior Fellow, Council on Foreign Relations</p> <p>Discussion Among Participants</p>
12:00-1:30pm	Lunch
1:45-3:45pm	<p>SESSION 2: PROPOSALS FOR ADDRESSING THE ONGOING DEBT CRISES IN THE GLOBAL SOUTH</p> <p>Chair: Martín Guzmán Professor, Columbia University; Co-President, Initiative for Policy Dialogue; PASS Academician</p> <p><i>Debt restructurings: fairness and efficiency. The role of International Financial Institutions. How to avoid bailouts of unsustainable bonds. The problem of comparability of treatment among creditors. The IMF debt sustainability analyses. The efficiency and equity consequences of alternative policy proposals. The Encyclicals "Laudato Si" and "Fratelli Tutti" as sources of inspiration for multidimensional responses.</i></p> <p>Lead Speakers (3-5' each):</p> <p>Jay Shambaugh Under Secretary for International Affairs, U.S. Treasury Department</p> <p>Emmanuel Moulin Chief of Staff, Office of the Prime Minister of France</p> <p>Joseph Stiglitz Professor, Columbia University; Founder and Co-President, Initiative for Policy Dialogue; PASS Honorary Academician</p> <p>Reza Baqir Managing Director and Global Practice Leader of Sovereign Advisory Services, Alvarez & Marsal; Senior Fellow, Harvard Kennedy School</p> <p>Vera Songwe Senior Fellow, Global Economy and Development, Africa Growth Initiative, Brookings Institute</p> <p>H.E. Albert Muchanga Commissioner for Economic Development, Trade, Tourism, Industry and Minerals, and AU Sherpa of the G20, African Union Commission</p> <p>Discussion Among Participants</p>

3:45-4:00pm Coffee Break

4:00-6:00pm **SESSION 3: PROPOSALS OF INTERNATIONAL DEBT AND TAX REFORMS FOR SUSTAINABLE FINANCING AND DOMESTIC REFORMS TO REDUCE THE FREQUENCY, DURATION, AND COSTS OF SOVEREIGN DEBT CRISES**

Chair: **Sister Helen Alford** PASS President

Proposals for addressing the structure of incentives that leads to the “too little and too late” syndrome in sovereign debt restructuring. New York and UK legislation for sovereign debt to deal with unproductive, inefficient, and inequality-increasing speculation. Special Drawing Rights allocations and the role of the IMF. IMF policies. Ethical considerations in the design of frameworks. International mechanisms for sovereign debt restructuring. The celebration of the Jubilee 2025, an opportunity for renewed hope.

Lead Speakers (3'-5' each):

Fernando Haddad Minister of Finance, Brazil

Carlos Cuerdo Minister for Economy, Trade and Business, Spain

Eric LeCompte Executive Director, Jubilee USA Network

Lee Buchheit Honorary Professor, University of Edinburgh Law School

Nadia Calviño President, European Investment Bank

Pablo Saavedra Vice President, The Equitable Growth, Finance & Institutions Global Practice, World Bank

Alejandra Claros Secretary-General, CAF

Sebastian Ceria Founder and President, Fundar

Mahmoud Mohieldin Executive Director for the Arab States and the Maldives, International Monetary Fund

Discussion Among Participants

Closing Remarks by Sister Helen Alford, Martín Guzmán, Joseph Stiglitz, and H.Em. Cardinal Peter Turkson

Memorandum

- The meeting point for the Papal Audience is the Vatican entrance named Porta del Perugino, via della Stazione Vaticana, at 7:15AM <https://maps.app.goo.gl/fsD9WqjezSHLsrceA>
Staff will be present at Porta del Perugino to lead participants to the Audience Hall on foot. Please note that late arrivals cannot be accommodated.
- After the Papal Audience, shuttles will be available outside the Audience Hall to take participants to the Casina Pio IV.

WI-FI

- WI-FI network: **academy-guest**
- Password: **G@rdens1936**

List of Participants

Sr. Helen Alford President, The Pontifical Academy of Social Sciences
Reza Baqir Managing Director and Global Practice Leader of Sovereign Advisory Services, Alvarez & Marsal; Senior Fellow, Harvard Kennedy School
Roberto Barbieri Director General, Oxfam Italia
Gustavo Béliz Executive Committee Council on International Relations, Argentina, Ordinary Academician, The Pontifical Academy of Social Sciences
Jason Braganza Executive Director, African Forum and Network on Debt and Development
Markus Brunnermeier Professor, Princeton University
Lee Buchheit Honorary Professor, University of Edinburgh Law School
Nadia Calviño President, European Investment Bank
Roberto Manuel Carlés President, Foundation Laudato Si
Sebastián Ceria Founder and President, Fundar
Anir Chowdhury Policy Advisor, Aspire to Innovate, ICT Division/Cabinet Division, Government of Bangladesh and UNDP; Member, Prime Minister's Smart Bangladesh Task Force
Alejandra Claros Secretary-General, CAF - Development Bank of Latin America and the Caribbean
Maia Colodenco Director, Global Initiatives, Suramericana Vision
Emilce Cuda Secretary, Pontifical Commission for Latin America, Roman Curia; Ordinary Academician, The Pontifical Academy of Social Sciences
Carlos Cuerdo Minister for Economy, Trade and Business, Spain
Ishac Diwan Research Director, Finance for Development Lab, Paris School of Economics
Jamie Drummond Co-Founder, ONE; Founder, Sharing Strategies
Jayati Ghosh Professor, University of Massachusetts Amherst
Leone Gianturco Head of the Foreign Debt and Financial Cooperation Office, Ministry of the Economy and Finance, Italy
Rebeca Grynspan Secretary-General, United Nations Conference on Trade and Development
Martin Guzmán Professor, Columbia University; Co-President, Initiative for Policy Dialogue; Ordinary Academician, The Pontifical Academy of Social Sciences
Fernando Haddad Minister of Finance, Brazil
Jeffrey Hall Director of Advocacy, International Financial Institutions and Climate Justice, Open Society Foundations
Michael Hugman Global Director, Climate, Children's Investment Fund Foundation
Martin Kessler Executive Director, Finance for Development Lab, Paris School of Economics
Ewa Korczyk Lead Economist, World Bank
Eric LeCompte Executive Director, Jubilee USA Network
Jin Liqun President and Chair of the Board of Directors, Asian Infrastructure Investment Bank
Serah Makka Africa Executive Director, ONE
H.E. Florence Mangin Ambassador of France to the Holy See
Iyabo Masha Director, Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development
Mahmoud Mohieldin Executive Director for the Arab States and the Maldives, International Monetary Fund
Emmanuel Moulin Chief of Staff, Office of the Prime Minister of France
Samy Muaddi Head of Emerging Markets Fixed Income, T. Rowe Price Group
H.E. Albert Muchanga Commissioner for Economic Development, Trade, Tourism, Industry and Minerals, and AU Sherpa of the G20, African Union Commission
Binaifer Nowrojee President, Open Society Foundations
Fazia Pusterla Representative in Europe, Inter-American Development Bank Group
Rahul Rekhi Counselor for International Affairs, U.S. Department of the Treasury
H.E. Julissa Reynoso U.S. Ambassador to Spain and Andorra
Andres Miguel Rondon Special Advisor, Office of the Secretary-General, UN Trade and Development
Pablo Saavedra Vice President, The Equitable Growth, Finance and Institutions Global Practice, The World Bank
H.E. Msgr. Marcelo Sánchez Sorondo Chancellor Emeritus, The Pontifical Academy of Social Sciences
Guido Sandleris Professor, Universidad Torcuato Di Tella and Johns Hopkins University
Antoinette Sayeh IMF Deputy Managing Director
Jade Scarfe Project Manager and Communication Assistant, Development Reimagined
Jolie Schwarz Senior Program Officer, Development Policy & Finance, Bill & Melinda Gates Foundation
Daouda Sembene Founder and CEO, AfriCatalyst
Brad Setser Senior Fellow, Council on Foreign Relations
Jay Shambaugh Under Secretary for International Affairs, U.S. Department of the Treasury
Damon Silvers Senior Counsel, Jubilee USA Network; Senior Advisor, The American Federation of Labor and Congress of Industrial Organizations
Vera Songwe Senior Advisor, Bank of International Settlements (BIS); Non-Resident Senior Fellow, Brookings Institution
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Triki Thouraya Director of International Partnerships, European Investment Bank Global Directorate
H.Em. Card. Peter K.A. Turkson Chancellor, The Pontifical Academy of Social Sciences
Mark Weisbrot Co-Director, Center for Economic and Policy Research
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