



Addressing the Debt Crisis in the Global South

A Joint PASS/IDP Workshop



Debt distress in the Global South is 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, out 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 it 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.

In this regard, 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 shock 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 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.

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 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.

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 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]

[1] Message of His Holiness Pope Francis to the World Bank Group and the International Monetary Fund <https://www.bancomundial.org/es/news/statement/2021/04/07/message-of-his-holiness-pope-francis-to-the-world-bank-group-and-international-monetary-fund>

[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 continuing processes 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.

[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