Innovative Instruments to Manage Public Debt

Concept Note for a side event at the margins of the Second ECOSOC Financing for Development Forum
Date: 24 May 2017
Time: 1:15-2:30 pm
Venue: UN Secretariat Building, Conference Room 12
Organizers: The International Monetary Fund (IMF) and the United Nations Development Programme (UNDP)

A range of shocks, including economic crises, conflicts and natural disasters can reverse hard won development gains. They can also easily weaken countries' ability to pay their debt back. In some cases (e.g. following Ebola) public creditors have responded to debt distress by easing debt repayment obligations of affected countries. Instead of ex-post responses, however, there is a strong case for scaling up innovative financial instruments, which trigger automatically downward adjustments in debt service during shocks.

This panel discussion will consider the potential of state-contingent debt instruments (SCDIs) to better manage public debt in a world of uncertainty. SCDIs link debt service payments to real world variables or events. For example, instruments can be linked to a country's GDP, to commodity prices, or to natural disasters such as hurricanes or earthquakes. This means that when times are bad – such as during an economic downturn or following a natural disaster, a government automatically receives debt relief when it is needed most. As this 'insurance' is already built into the debt contract, there is no need to undertake a procyclical and costly fiscal adjustment or a time-consuming debt restructuring.

But these instruments are not without their complications and risks. For example, sovereigns with a large stock of SCDIs may have weaker incentives to pro-actively plan and protect against risks (moral hazard problem); there could be a temptation for governments to opportunistically manipulate data (e.g. GDP data, in the case of GDP-linked bonds); and excessive risk could be transferred to the private sector holdings these instruments. By considering experience from past uses of these instruments as well as feedback from the market, the panel will explore how robust contract design and support from the official sector could help overcome some of these problems.

The moderated panel discussion will give attendees a working understanding of the benefits and complications associated with SCDIs, a perspective on the potential issuer and investor base for these instruments; and a sense of which instruments would be most appropriate for which types of countries and circumstances; there will be a special focus on small open economies vulnerable to large exogenous shocks (such as natural disasters and commodity price drops). The discussion will also provide participants with the latest thinking from global policymakers on the future of these instruments, and the resources available (including a user-friendly IMF Excel tool) to simulate their benefits and costs under a range of assumptions.

Draft Agenda:

* Opening statement by Mr. Chris Lane, IMF Special Representative to the United Nations.
* Panel Discussion moderated by Ms. Shari Spiegel, Chief, Policy Analysis & Development Branch Financing for Development Office, UN-DESA

Invited panelists:

- Mr. S. Ali Abbas, Deputy Chief, Debt Policy Division, IMF
- Mr. Mike Sylvester, IMF Executive Director's Office representing Grenada
- Head of Delegation, UN Member State (tbc)
- Mr. Tobias Meier, Vice President, Swiss Re

* Q&A

* Closing statement by Mr. Magdy Martínez-Solimán, UN Assistant Secretary-General and Director of the Bureau for Policy and Programme Support, UNDP