UK statement on II. E. Debt and debt sustainability, 13 February 2025

The UK would like this chapter to make a strong statement of ambition to strengthen the existing architecture and frameworks.

Para 47: We welcome language in the text focused on sustainable lending and transparency. Lending should not only not undermine, but in fact support a country's debt sustainability.

Para 48: We want the text to push for greater transparency over both external and domestic debt, and stronger and improved debt governance mechanisms. It will be important to ensure that new measures – for instance, new transparency initiatives – build on existing structures and do not create strain on limited debtor-country capacity.

Para 48 a): We would like to better understand proposals for developing sustainable lending principles at the UN, as we see greater value in calling for adherence to existing agreed principles (including G20 and OECD principles).

Para 48 d): We strongly support the use of measures to ensure new lending is sustainable. In this vein, we would like to see higher ambition on State Contingent Debt Clauses. We should call on all creditors to include such clauses in loan and debt contracts to facilitate debt service standstills during times of crises. We also strongly support language in the text to encourage Majority Voting Provision uptake (Para 50 c).

Para 49: We would welcome increased clarity here on the IMF/World Bank three pillar approach.

Para 50: We agree that improvements to the Common Framework are needed, particularly in terms of speed, and the text should reflect this.

Para 50 b): While we recognize the importance of Comparability of Treatment and are supportive of efforts to improve understanding in this space, we are not pursuing legislative options. We would welcome greater clarity on the value of potential development of a model law given this is a matter for individual countries to determine.

Para 50 e): We would like to see the recommendations of previously commissioned reviews of the international debt architecture before any new review is commissioned. As previously stated, we would like to see improvements to the current architecture rather than the creation of new mechanisms.

Strengthening and increasing debtor voice remains a priority for the UK. We welcome the focus on ensuring the current architecture can deal with all the challenges countries are facing, including solvency, liquidity and ensuring future debt is more sustainable, and frees up domestic resources for investment in the SDGs.

Annex A: UK language proposals on II. E. Debt and debt sustainability

Para 47: Borrowing, when prudently managed, is an important tool for financing sustainable development investments. Maintaining sustainable debt levels is the responsibility of the borrowing countries. We also acknowledge that lenders have a responsibility to lend sustainably and support a country's debt sustainability. Amid successive crises, shocks and record global debt levels, many developing countries face high borrowing costs and significant debt challenges. High debt service burdens severely constrain fiscal space for investment in sustainable development and climate action. Countries in need of debt treatments are waiting too long for restructurings, with adverse growth and development impacts. We must strengthen the debt architecture to facilitate countries to sustainably borrow and invest in sustainable development, and provide faster support to heavily indebted developing countries in need of immediate debt relief to return to a path of debt sustainability

Para 48 b): We commit to enhanced parliamentary oversight and strengthened public investment management systems, with the aim to increase transparency and accountability over domestic and external debt issuance and use. We will scale up capacity building to support developing countries strengthen transparent and accountable public investment management systems, better manage their public debt, including domestic debt, and effectively invest borrowed resources.

Para 48 b) bis: We recognize that high debt service burden and a constrained fiscal space has a disproportionate impact on women, girls and other marginalized groups. We commit to a greater integration of the macro-criticality of gender considerations into macro-economic frameworks, supporting both greater debt sustainability and improved gender outcomes.

Para 48 c): We urge the creation of a single global central debt data registry, housed in a relevant international financial institution, to harmonize debt data reporting, and the streamlining of existing debt databases of international financial institutions and organizations. This will contribute to enhanced debt transparency by both borrowing countries and creditors by improving disclosure, reporting and data reconciliation.

Para 48 d): We call on all creditors to include standardized state-contingent clauses in loan and debt contracts to facilitate debt service standstills during times of crises that are not covered by standard force majeure clauses. We commit to include such clauses in official lending. We invite the IMF in collaboration with other relevant international financial institutions to carry out analysis of obstacles and solutions to help mainstream state-contingent clauses into commercial debt contracts.

Para 48 e): We encourage official lenders to explore lending in local currencies in developing countries to address currency risks and call for technical assistance to countries in special situations for issuing local currency debt in domestic markets and global financial markets.

Para 48 f): We will strengthen efforts to curb corrupt lending and borrowing, including through fully utilizing UNCAC and exploring a UNCAC protocol that makes such contracts unenforceable.

Para 49: Rising debt service burdens and high costs of capital, exacerbated by recurrent external shocks, call for efforts to significantly lower the cost of borrowing, including more comprehensive and systematic support for countries that, while solvent, are burdened with high debt servicing costs. High sovereign borrowing costs also drive up the cost of capital for private investments, making sustainable development investments unattractive in these contexts.

Para 49 a): We appreciate ongoing efforts in this area, including the three-pillar approach proposed by the IMF and World Bank to help address liquidity challenges. We encourage official creditors to provide coordinated and enhanced liquidity and liability management support to developing countries committed to their ambitious development objectives through the use of financing tools such as guarantees, credit enhancements, debt swaps and buybacks, and legal instruments such as seniority clauses during buybacks to incentivize private creditor participation where appropriate. We also appreciate ongoing efforts to operationalize the SIDS Debt Sustainability Support Service (DSSS).

Para 49 b): We call for an institutional home within an existing facility of an international financial institution to provide such support. This strengthened facility would: coordinate liquidity support from multilateral and bilateral creditors; offer a range of financial and legal tools to facilitate or incentivize liability management and reduce the cost of capital; support scaling up debt swaps, when appropriate, and maximizing their impact, including by simplifying their design, reducing transaction costs and increasing efficiency; provide countries with technical assistance, capacity support and legal advice, including cost-benefit analysis and the effective use of financial instruments such as debt swaps and dealing with sophisticated creditors; and engage with credit rating agencies to address concerns over adverse rating impacts of official debt programs.

Para 50: Heavily indebted countries require debt treatment to restore them to a path of debt sustainability. But sovereign debt restructurings are often initiated too late and remain too slow, reflecting challenges with coordinating a diverse and changing set of creditors. The ad-hoc nature of debt resolution processes add uncertainty to the timeline and outcomes. We support an international debt architecture in which all creditors effectively participate to ensure efficient, fair, predictable, coordinated, timely and orderly restructurings, building on the call made in the Addis Ababa Action Agenda.

Para 50 a): Building on the ongoing efforts, we encourage the G20 to further strengthen the Common Framework by: expanding coordinated debt treatments to highly indebted countries which are currently ineligible; standardizing debt service suspension during negotiations; developing a user manual for debtors with clear timelines; and building common understanding on the means of assessing and ensuring comparability of treatment (CoT). We encourage debtor countries that need debt relief to actively seek debt treatments and pre-emptive debt restructuring.

Para 51: Sound and transparent analysis on sovereign debt sustainability is important for the smooth functioning and fair pricing of debt markets. Both public sector-led debt sustainability assessments and private sector credit ratings have evolved to address some of their weaknesses, but challenges remain, including in accurately assessing the risks and benefits of public policies affecting long-term debt sustainability. Private sector credit ratings of sovereigns may reinforce short-term, procyclical market reactions, undermining the ability of developing countries to borrow and invest in sustainable development. Stronger public action and regulatory efforts can ensure that credit assessments are more accurate, objective and long-term oriented.