On December 9th, 2024, the Pontifical Academy of Social Sciences (PASS) and Initiative for Policy Dialogue (IPD) published proposals for international financial architecture reforms that would promote debt sustainability in countries across the Global South.

Pope Francis has named debt resolution as one of the Church's foremost priorities for its upcoming Jubilee Year of 2025.

In Vatican City in June 2024, IPD and PASS convened leaders of financial institutions, academic experts, civil society advocates, and religious figures to discuss potential solutions to the growing global debt crisis. Experts analyzed potential reforms that are ever-more urgent: In many countries, debt crises—or the fear of potential default and crisis— mean governments are not cutting on the most critical investments in healthcare, education, climate adaption, and other forms of development.

The PASS/IPD statement published today outlines the tangible proposals for reform developed as a result of the conference in Vatican City.

There is no international mechanism for the resolution of sovereign debt crises, nothing equivalent to domestic corporate bankruptcy codes. Under current international financial frameworks, international financial institutions may end up bailing out private lenders when debts are unsustainable rather than demanding debt restructurings that restore debt sustainability and ensuring the financing they provide is used for investments in sustainable development. At the PASS/IPD conference, Pope Francis called for an international mechanism for sovereign debt restructuring, and encouraged financial leaders to "follow an international code of conduct with ethical standards that can guide dialogue between parties."

During the Jubilee Year of 2025, IPD and PASS, with the support of other academic think tanks and NGOs, will work together to advance proposals for reforms to the international financial architecture for enabling sustainable financing and thereby facilitate critical investments in healthcare, education, and the green energy transition.

Key Background Information:

- After the 2008 financial crisis, private capital managers looking for high yields outside the US provided high interest rate, short-term maturity financing to developing nations. Because of the short maturities and high interest rates, that financing generally did not foster stable development and instead led to mounting debts for many governments across the Global South.
- Data from UNTCTAD shows that more than 54 countries spend more than 10% of their tax revenues on interest payments on their debt.
- 3.3 billion people live in countries that spend more on debt service than on health, and 2.1 billion people live in countries that spend more on debt service than on education.
- The Covid-19 pandemic and the war in Ukraine were massive shocks to the global economy and the resulting monetary policy adopted by more developed nations, including high interest rates, worsened debt distress in many developing nations.

Proposals for reform published today by IPD and PASS would:

- Avoid that the financing from multinational development banks is used to amortize debts with private lenders when they do not provide refinancing in the bad economic times.

- Promote countercyclical economic policies in times of debt distress.
- Promote sustainable financing.
- Foster equitable, transparent debt sustainability analyses and sustainable debt restructurings.
- Change New York State sovereign debt law to promote more efficient and equitable borrowing/lending and debt restructuring practices.

The proposals are described in the full IPD/PASS statement here.