Remarks by Martín Guzmán
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As delivered

Dear members of the Paris Club Secretariat,

Thank you for the invitation to present some of the key findings and conclusions of the Jubilee Report, commissioned by Pope Francis and prepared by a Commission of more than 30 economists and legal experts led by Professor Joseph Stiglitz and myself, both members of the Pontifical Academy of Social Sciences and professors at Columbia University. The Report was launched last Friday at the Vatican, and the work now continues under the leadership of Pope Leo XIV.

Let me begin by describing what motivated this Report. Since Covid-19, and especially since the war in Ukraine, Pope Francis became increasingly concerned about the rising distress in the most vulnerable communities that was being relayed to him from across the developing world. This situation was not easing — on the contrary, it appeared to be worsening in 2023 and 2024. Alarmed by this trend, and considering that this year is a Jubilee year for the Church, Pope Francis asked us to form a Jubilee Commission of Experts with the task of producing a report that would provide both a diagnostic of the situation and a practical path toward its solution—and propose reforms to prevent another debt crisis from afflicting the world's most vulnerable countries by the next Jubilee.

The first conclusion of the Report is that there is a massive debt and development crisis affecting dozens of developing nations. In the last decade, average interest burdens in developing countries have nearly doubled. This squeeze on public finances has diverted resources away from critical investments in health, education, infrastructure, and climate adaptation. In purely economic terms, the opportunity cost is enormous; in human and social terms, it is dramatic.

All sides bear responsibility for the current debt situation. Debtor governments borrowed at too high rates and too short maturities, failed to adopt capital account regulations to deter destabilizing speculative flows, and now many are not doing all they can to resolve their debt crises—shying away from the international "fights" required to protect their citizens from excessive creditor demands. Creditors, for their part, offered financing knowing the significant risk of default and were compensated with high interest rates, and now, when those risks have materialized, are reluctant to provide the relief required to restore debt sustainability. Meanwhile, international financial institutions (IFIs)'s current lending policies are favoring delays in sustainable debt negotiations for both sides.

The Commission identifies costly delays in addressing the crisis—and their causes. The Common Framework for Debt Treatment, set up during the Covid-19 pandemic, was useful for facilitating the coordination with non–Paris Club creditors in negotiations, although only for low-income countries. Yet it has been ineffective in creating the right incentives for timely restructurings or other forms of debt exchanges required to restore sustainability. In fact, what we have seen since 2022—a year when private sector flows to low- and lower-middle-income countries turned negative—is that while IFIs continue to provide net positive financing to LLMICs, those funds end up being used de facto to repay distressed debts to private creditors—at a massive scale. This results in a de facto bailout of private creditors, financed by global taxpayers' money, while affected countries cut critical expenditures.

While it would be desirable to extend the CFDT [Common Framework] to middle income countries, what is needed is an improvement in debt restructuring processes. In some cases, extending maturities and reducing interest rates to sustainable levels can restore sustainability. In others, haircuts to the face value of the debt will be required.

While the first group—with relatively low debt stocks—is generally referred to as "illiquid" countries and the second as "insolvent" countries, the Report treats the concept of liquidity—featured in the title of this panel—and its relation to the current crisis with care. It is very hard to distinguish between liquidity and sustainability problems. Why would a debtor be unable to refinance its debts if it were firmly perceived by the market as solvent? Even if we accept the concept of a "liquidity crisis" in certain cases, we must be aware that these countries are, in reality, suffering a development crisis. One has to be careful of not minimizing the depth of the crises for developing countries or contributing to delays in addressing them by referring to the current situation as one of "liquidity challenges."

To address the current crisis, it is imperative to shift the incentives of both creditors and debtors. The Commission calls for a "no bailout from international financial institutions" condition, especially for the IMF. If a country does not halt payments of unsustainable debts, the IMF should not lend. Doing so would violate its own rules, which forbid financing unsustainable debt.

Instead, the IMF should clearly signal that it will support only those country programs in which all creditors bear their fair share of responsibility through debt treatments that adhere to rules of "comparability of treatment" that respect the preferred creditor status of the multilateral institutions that do not lend for profit, and that appropriately differentiate between debts in local and foreign currencies, given their very different impacts.

This shift would encourage meaningful creditor participation in restructuring processes and motivate governments to initiate those processes promptly. Properly designed policies of lending into arrears can support this objective.

A Jubilee Fund for the buyback of distressed debts—financed by currently unused Special Drawing Rights at the IMF or other international financial institutions, as proposed by the government of Spain during the preparations for the Fourth International Conference on Financing for Development—would also help to improve debt sustainability.

The Report also calls for a number of reforms to improve the efficiency, transparency, and equity of the international financial system, and, more fundamentally, the sustainability of credit. Transparency is a challenge on both the creditor and debtor sides, and can be enhanced through the adoption of appropriate legislation in both debtor countries and creditor jurisdictions.

In the 1980s, Latin America tragically lost a decade of development to a debt crisis. Today, the same risk looms over large parts of Africa, South Asia, and Latin America. The Jubilee Report, also supported by the Grand Imam of Al Azhar, provides the foundations for the Church’s call upon all stakeholders to recognize the economic and moral urgency we now face, and to respond with the will to act.

Thank you for your attention.

Martín Guzmán