Remarks by Treasury Deputy Secretary Justin Muzinich at the Paris Forum

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As prepared for delivery

Paris, France – Thank you to our hosts for enabling the rich discussion we have had today. It is clear that we share the goal of boosting strong, sustainable growth to lift living standards globally. We know that prudent use of debt can support this goal by supporting investment. However, it is concerning to see growing debt levels and rapid increases in debt service in many low-income and emerging market countries.

UNFINISHED BUSINESS

Although previous rounds of debt relief for low-income countries was the right thing to do, it seems clear we have unfinished business. Debt relief created conditions for accelerated growth for many countries. Beneficiaries adopted better economic policies, and the initiatives included the creation of debt sustainability frameworks to prevent further accumulation of unsustainable debt. All these elements were positive; however, recent trends highlight gaps in the existing framework. Opaque lending for low-quality investments could lead to a wave of potential debt crises that the existing architecture is not fully mitigating. Improvements to data and reporting are necessary to keep countries on a sustainable path and prevent the need for future rounds of debt relief.

TRANSPARENCY IS KEY

Transparency is not sufficient for good debt management, but it is necessary. Debt reporting mechanisms have not kept pace with the increased use of off-balance sheet, debt-equivalent obligations.

From our recent past, we know that countries run into difficulties when they enter into non-transparent debt obligations. In Venezuela, for example, debt-equivalent pre-paid forward sales of oil exceed published government debt. Three state owned enterprises in Mozambique, lacking any creditworthiness, took on opaque or undisclosed loans in excess of 10% of GDP. In Ecuador, an audit of the government's debt commissioned by the current government found that Official debt had risen above the legal threshold and identified "Other Obligations" not counted as official debt equal to about 10% of GDP.

Without credible disclosure, official lenders and private creditors are unable to assess credit risk properly. A full and honest representation of government obligations enhances decision-making, builds trust with creditors, and is a duty to taxpayers.

SOLUTIONS

I would like to offer four specific areas that we can collectively focus upon. You will see that we all have roles to play:

First, we should work to normalize disclosure, in order to enhance market discipline and reduce the uncertainty premium.

- This means sovereign borrowers should commit to capturing a complete picture of their debt liabilities, both at the central government level but also liabilities of state owned enterprises.

- It also means sovereign lenders can lead by making public disclosure of debt the norm. I welcome the greater attention to this concern, including at the IMF, World Bank, in the G-20, and at the International Working Group on Export Credits.

Second, we should expect full disclosure to be a part of financing packages from the international financial institutions.

- The World Bank and IMF are taking steps to strengthen policy frameworks around debt data disclosure, including their debt sustainability analysis tools. The IMF should also move forward with steps to promote the public disclosure of debt data, to help prevent market surprises.

Third, we can all provide technical assistance, if requested, to strengthen reporting capacity and practices, particularly in low-income countries.

- Bilateral donors should elevate the importance of strong fiscal management and provide targeted technical assistance. U.S. Treasury's Office of Technical Assistance continues to respond to robust demand for public debt management advice. We encourage others to focus on this area.

Fourth, an important complement to official sector transparency is private sector disclosure.

- Private sector creditors should also see the benefits of appropriate disclosure, as it lowers counterparty risk and protects their brand. We should support the International Institute for Finance's initiative and similar efforts.

We are keen to move beyond agreement that debt sustainability and transparency are important, and to work together to take concrete steps. Doing so will reduce the severity and frequency of debt crises, helping low-income countries to progress more smoothly along a development path and improve the lives of their citizens.