What the experts say: Coronavirus and the looming debt crisis

LEADING MINDS ONLINE | 1 APRIL 2021

Time is fast ticking for a looming debt crisis that threatens to crowd out social spending in many low and middle income countries and thereby potentially undermine decades of progress for children. Supported by the release of a new UNICEF policy brief on the issue, Leading Minds asked the experts how this ticking time bomb can be defused.

Another debt crisis has already begun
On top of pre-COVID debt distress, public finances are being further squeezed by COVID costs, weak tax revenues and financial inflows, and higher spending demands. Many countries spending between 15-20% of budgets on debt service are considering further reducing social spending.

Investment in human capital must be protected and strengthened
Countries that invest in human capital are better equipped to withstand crises, even this unprecedented pandemic. The progress of nations relies on sustained and significant investments in human capital through investment in children's health, education, protection and participation.

Both public and private creditors need to engage more meaningfully in debt talks
The IMF and World Bank are in debt talks on mechanisms to ease debt service suspension. More can be done to reduce the recurrent risk of unsustainable debt and spread burden sharing, including with the private sector.

WATCH THE RECORDING: YOUTUBE.COM/UNICEFINNOCENTI

LEADING MINDS
20 ONLINE 21

It is important to understand why we are in a debt crisis. There has been a three-fold increase in debt in a decade, with low interest rates encouraging international lending and borrowing.

Debt service suspension is temporary and limited in impact, and often fails to address the unsustainable nature of a country's debt stock and long-term servicing burden.

For Africa, a COVID-induced recession and a growing debt crisis could jeopardize prospects of reaping a demographic dividend this century, with millions out of school and the learning poverty rate at 87%.

Debt crises trigger talk about future responsible borrowing, but need also to promote responsible lending and burden sharing.

unicef
Office of Research-Innocenti


Bob Muchabaiwa


Annalisa Fedelino


Hamid Rashid


Joanne Bosworth

#LEADINGMINDS

UNICEF-IRC.ORG/COVID19