Debt Problems are Back
(...they never really went away!)

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Debt is back on the policy agenda

Why Poor Nations Now Face a Pandemic Debt Crunch

World Bank’s Malpass says poor country risks grow as debt relief delayed

World Bank says debt crisis in lower-income nations is 'alarming'

The Covid aftermath requires sovereign debt restructuring

A Mountain of Debt
Navigating the Legacy of the Pandemic
Global debt is reaching new heights

LICs will need help

Level of risk of external debt distress, low-income countries, 2011-21

But also some emerging markets

Distressed Debt Club
Eight EMs have bonds trading at least 1,000 basis points over Treasuries

- Option-adjusted spread to U.S. Treasury curve

- Lebanon: 10.2K basis points
- Sri Lanka: 3.0K
- Zambia: 1.9K
- Suriname: 1.7K
- Ethiopia: 1.6K
- El Salvador: 1.6K
- Argentina: 1.6K
- Tunisia: 1.3K
- Ghana: 985.0
- Belarus: 968.4
- Ukraine: 906.8

Source: Poor Nations Face $35 Billion Bill as Debt Restructuring Slips | Bloomberg
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Emerging markets

Many developing countries have seen their debt downgraded

Sovereign spreads (basis points)

Source: Emerging markets - all risk and few rewards? – Financial Times; IMF Fiscal Monitor, October 2021
Emerging markets

Source: Emerging markets start the year with the good, the bad and the ugly

Reuters
Buying time: the international response in 2020-21

• The G20’s Debt Service Suspension Initiative (DSSI) deferred nearly $12 billion
• Disbursements from the IFIs, FY2020 and FY2021
  • IMF: $67 billion
  • World Bank: $115 billion
• Continued access to financial markets
  • EM sovereigns issued $235 billion in external debt in 2021, led by the Gulf and Latin America
  • In 2022, Bank of America expects $179 billion in gross external sovereign bond sales for EMs
• $650 billion SDR allocation
  • $275 billion to EMDEs and $21 billion to LICs
Risk of debt crises higher in 2022

- Continuing pandemic
- Running out of fiscal headroom
- Tightening global financial conditions
- SDR liquidity being used up
- The end of the DSSI

Source: IMF Fiscal Monitor, October 2021

Interest payments to revenues (percent)

Source: IMF Fiscal Monitor, October 2021
The Common Framework

- Introduced by the G20 in November 2020
- Attempt to bring new creditors into the picture
- Three countries undergoing: Chad, Ethiopia, Zambia
- Slow implementation, growing calls for improvement

The G20 Common Framework for Debt Treatments beyond the DSSI
Debt architecture needs an update

Public external debt of low-income countries

*US$ billion*

External debt stock of DSSI-Eligible Countries, 2011-20

*US$ billion*

Source: World Bank International Debt Statistics 2022
Improving the Common Framework

- Standstill on debt servicing as soon as countries ask for support
- Clarity on process and processing times
- Create pressure through IMF lending into arrears
- Increase transparency on sovereign debt volumes and terms
- Accelerate preparation of preliminary DSAs
- Widen the country coverage of the Framework
Beyond the Common Framework

- Procedural transparency
  - Consensus building, data transparency, incentives, capacity-building, legislative changes
- Official sector transparency
  - Option to request DSAs, secure sovereign debt registry, standards, criteria
- Incentives for private sector participation
  - Comparable treatment, full disclosure, domestic regulatory incentives, credit enhancements, rating agency methodology
- Proactive action by indebted countries
  - Debt reprofiling, preemptive negotiations, well-developed tax policy and tax administration (long-run)
- Additional financial support to maintain investments for development
  - Funding after restructuring, platforms for finance for sustainable investment, IFIs and MDBs leverage and expand resources, state-contingent bonds
- Crises preparedness
  - Boosting concessional surge capacity, pandemic support window

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Who will take this agenda forward?

• Jury is out on extent of China’s participation in multilateral process
• No owner for the Common Framework
• Political will to amend the framework for commercial lending?
• Will we act before there are accidents?