

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



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Debt is back on the policy agenda

Bloomberg

Why Poor Nations Now Face a Pandemic Debt Crunch

February 4, 2022



Is the IMF ready for the next emerging market debt crisis?

BY DESMOND LACHMAN, OPINION CONTRIBUTOR — 01/15/22 03:00 PM EST
THE VIEWS EXPRESSED BY CONTRIBUTORS ARE THEIR OWN AND NOT THE VIEW OF THE HILL

January 15, 2022

World Bank's Malpass says poor country risks grow as debt relief delayed January 11, 2022

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

By *Shabtai Gold* // 15 February 2022

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The Covid aftermath requires sovereign debt restructuring

Better mechanisms are needed to help Sri Lanka, Zambia and others resolve their debts

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February 15, 2022

A Mountain of Debt

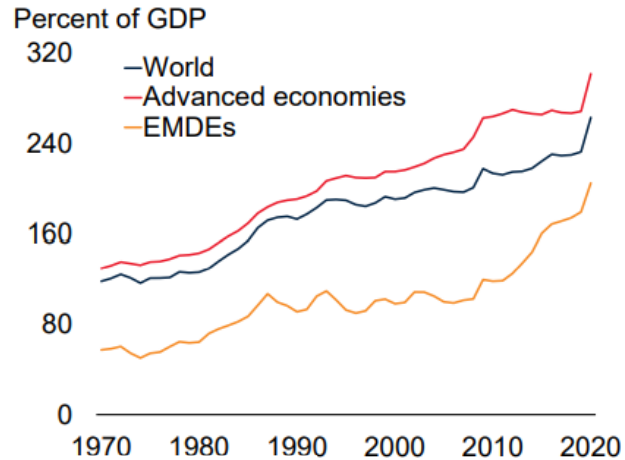
Navigating the Legacy of the Pandemic

*M. Ayhan Kose
Franziska Ohnsorge
Naotaka Sugawara*

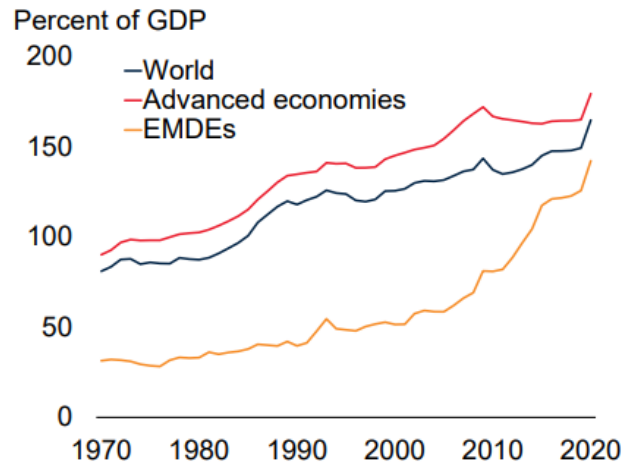
October 2021

Global debt is reaching new heights

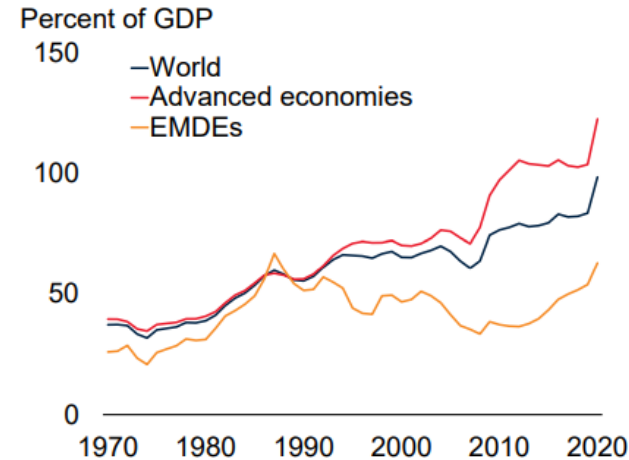
Total debt



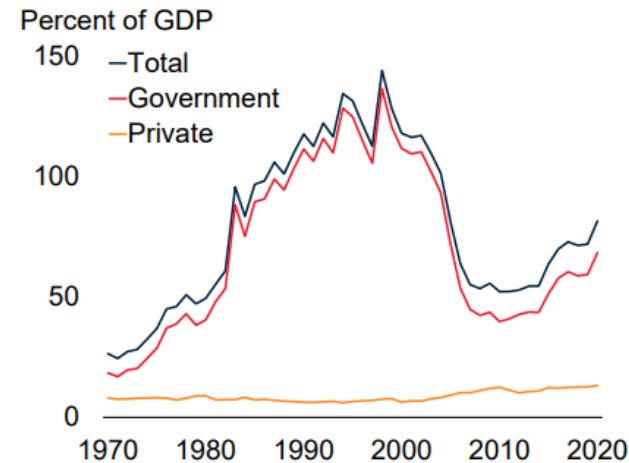
Private debt



Government debt



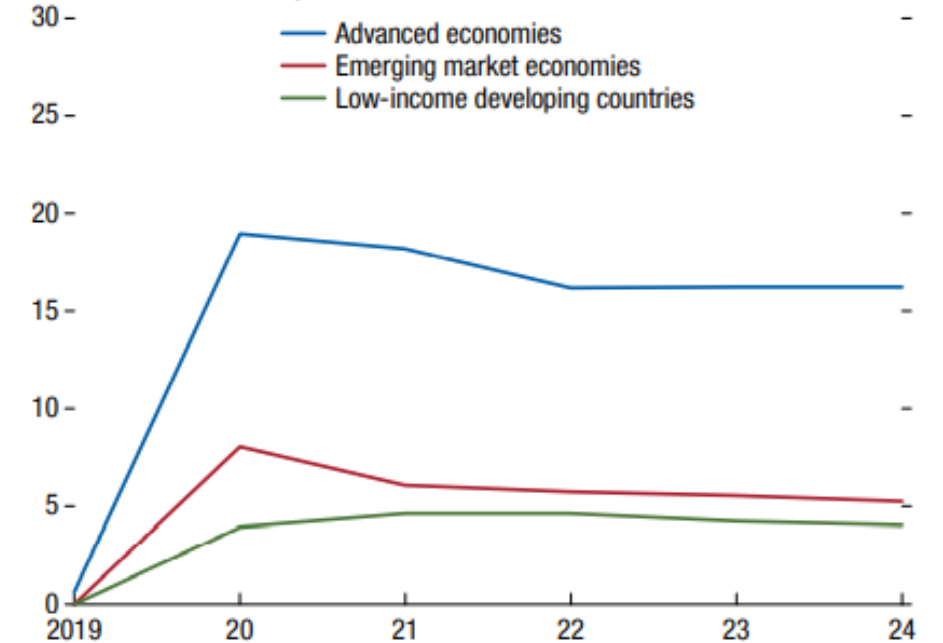
Debt in LICs



The effect of the COVID-19 pandemic on general government debt, 2019-24

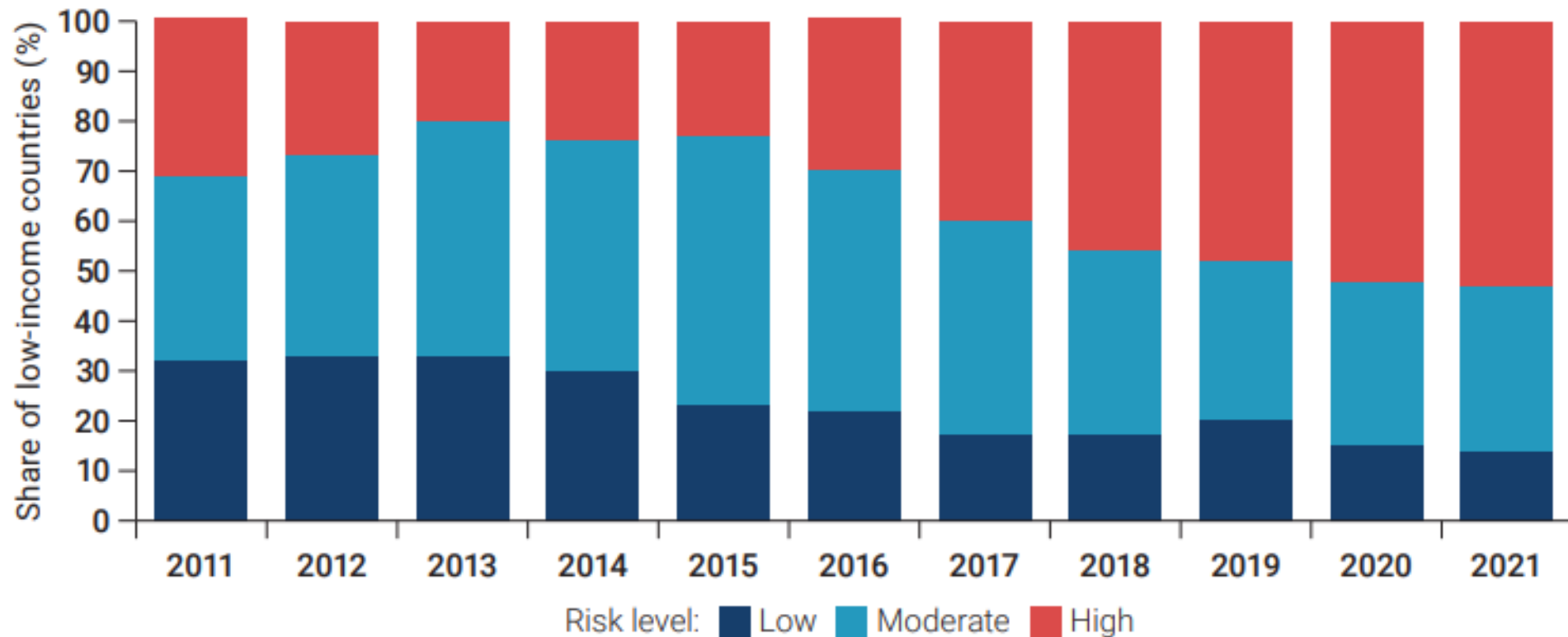
(Change relative to prepandemic projections, percent of GDP)

Government debt as a share of GDP is expected to remain high compared with levels before the pandemic.



LICs will need help

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



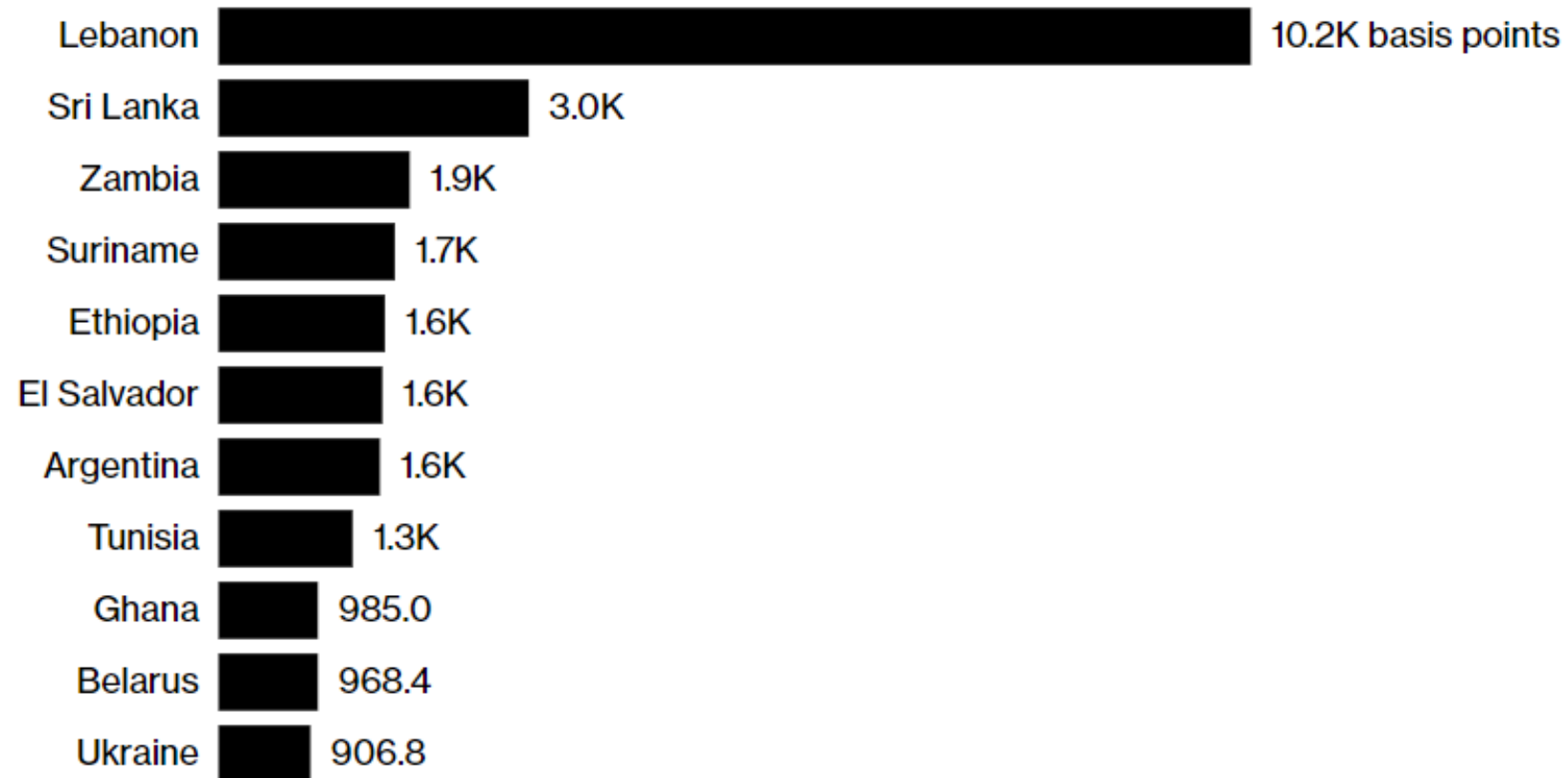
Source: World Bank, World Development Report 2022

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

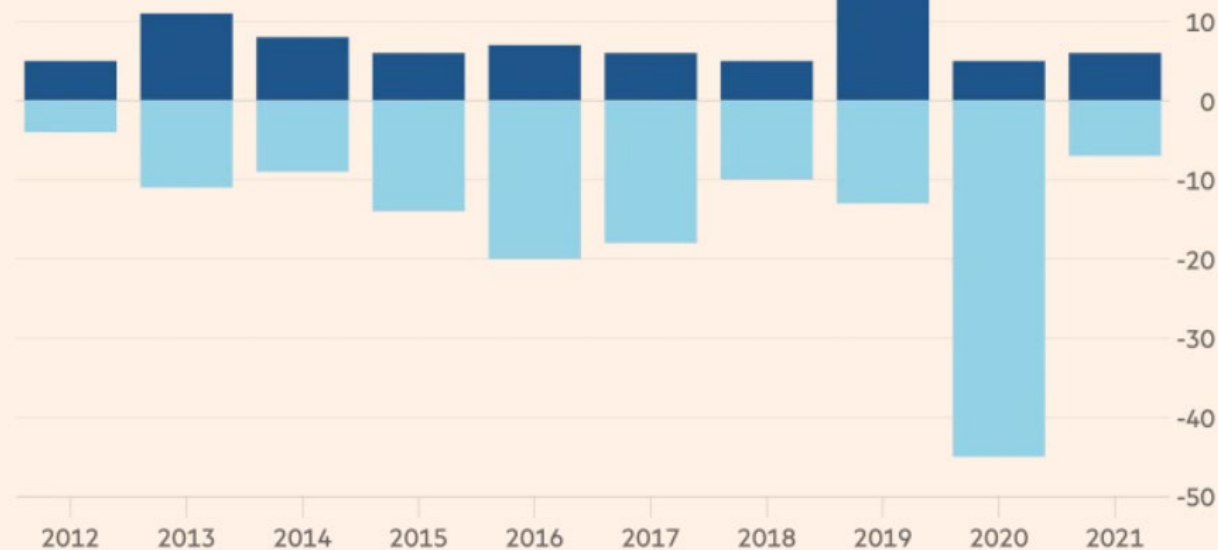


Emerging markets

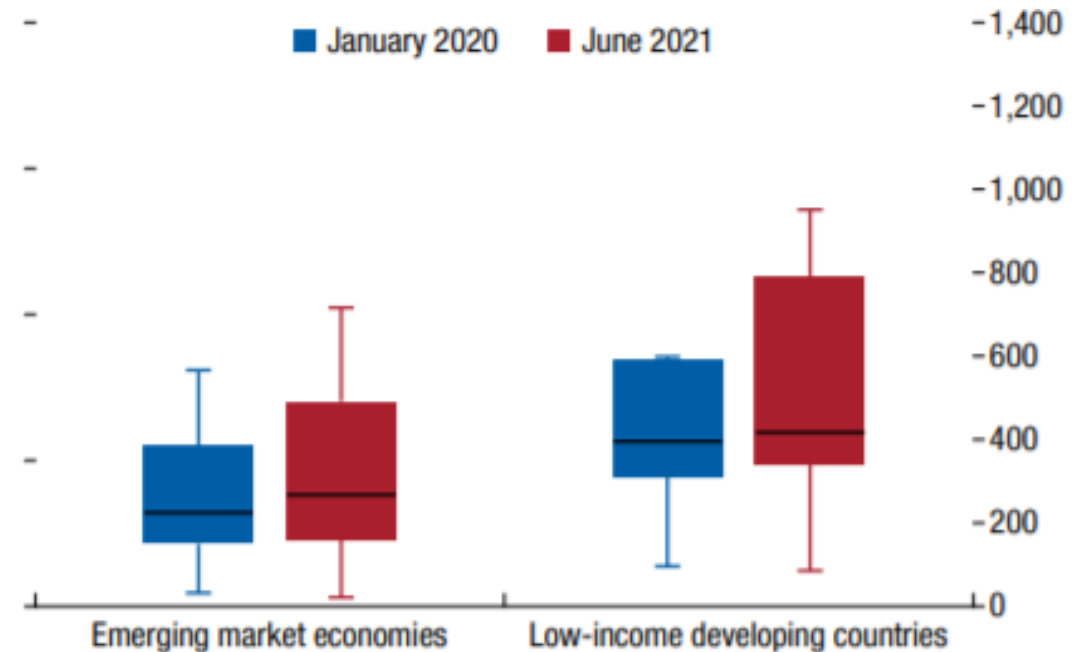
Many developing countries have seen their debt downgraded

Fitch ratings actions on emerging market sovereign debt

Upgrades Downgrades



Sovereign spreads (basis points)

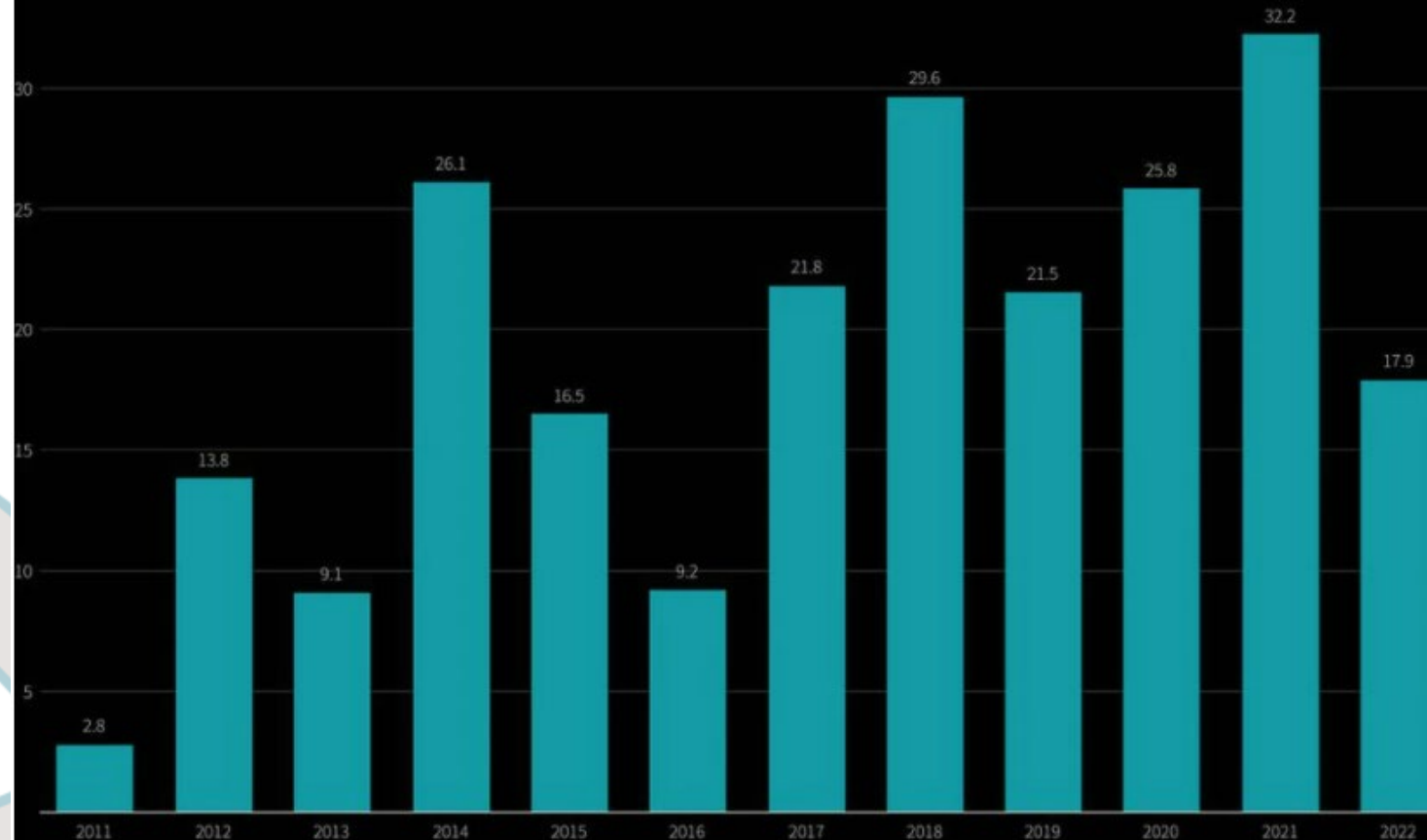


Source: Emerging markets- all risk and few rewards? – Financial Times; IMF Fiscal Monitor, October 2021

Emerging markets

Slowest January for emerging market sovereign debt issuance since 2016

amounts in billions of dollars - issuers last month included Mexico (\$5.8bln), Chile (\$4.0bln), Panama (\$2.5bln), Romania (\$2.4bln), Israel (€1.5bln), Pakistan (\$1.0bln), and Paraguay (\$0.5bln).



Reuters | Marc Jones
Source: JPMorgan

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

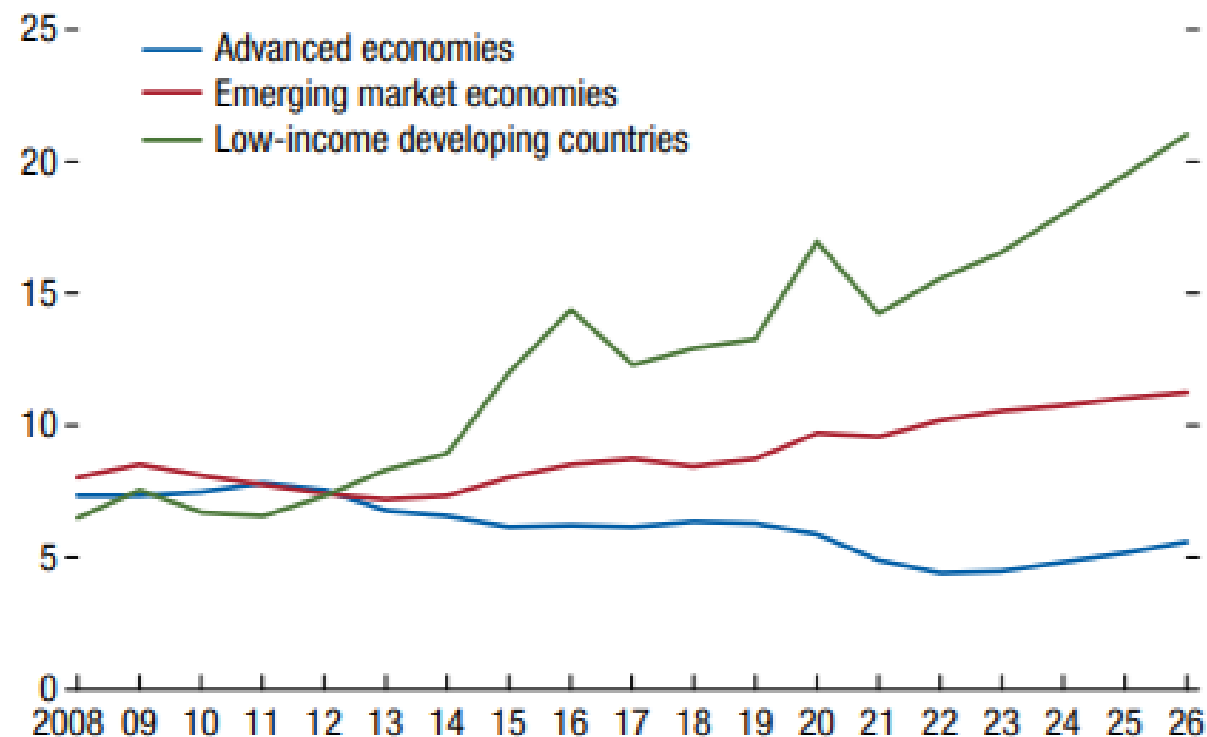
Buying time: the international response in 2020-21

- 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

Interest payments to revenues (percent)



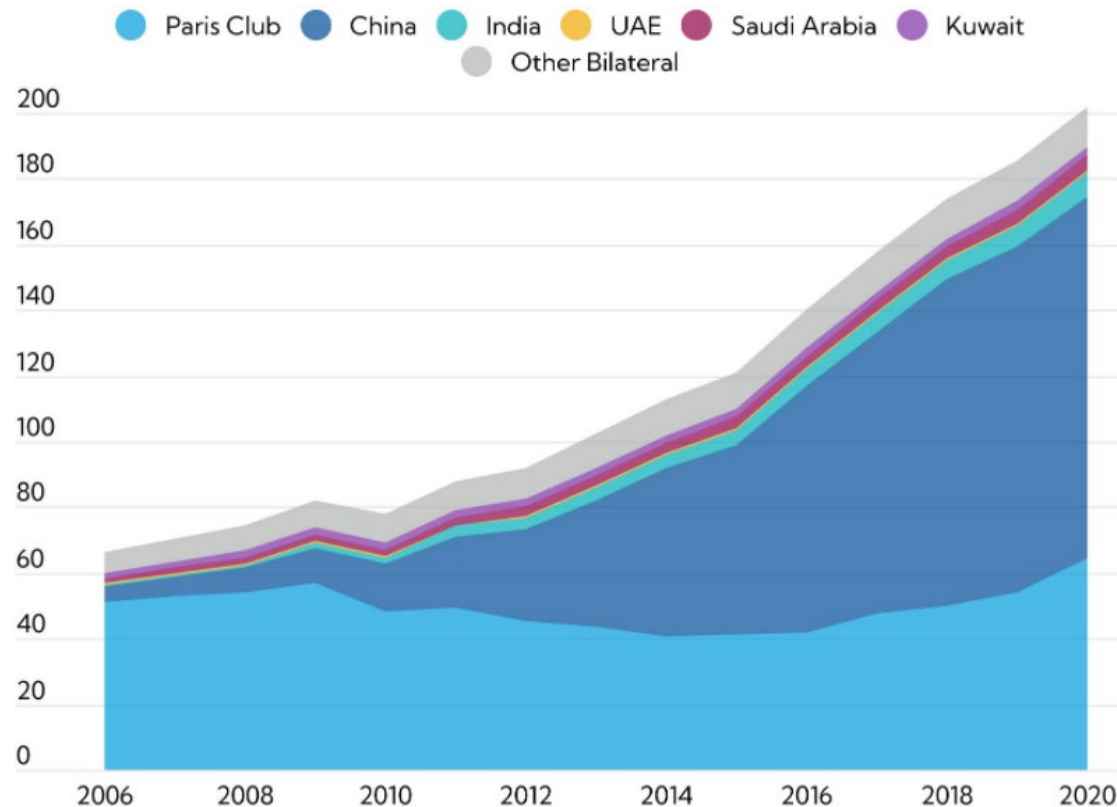
Source: IMF Fiscal Monitor, October 2021

The Common Framework

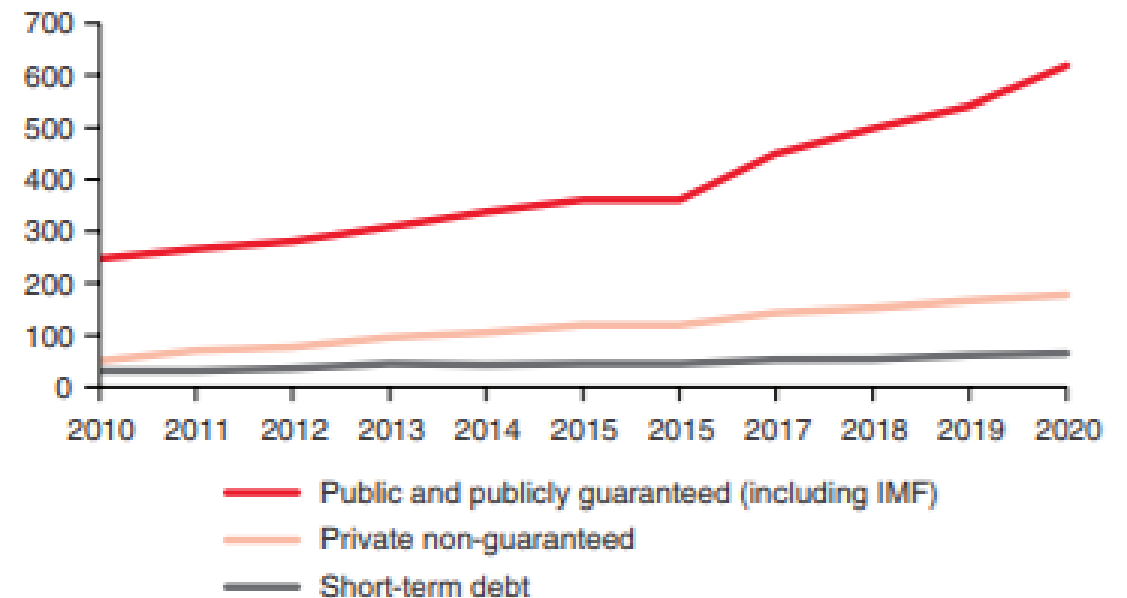


Debt architecture needs an update

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

Who will take this agenda forward?

- Jury is out on extent of China's participation in multilateral process
- No owner for the Common Framework
 - G20? The World Bank? IMF? Paris Club Secretariat?
- Political will to amend the framework for commercial lending?
- **Will we act before there are accidents?**

