

The Threat of Debt

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Based on joint work with Patrick Bolton, Lee Buchheit, Pierre-Olivier Gourinchas, Mitu Gulati, Chang-Tai Hsieh, & Ugo Panizza

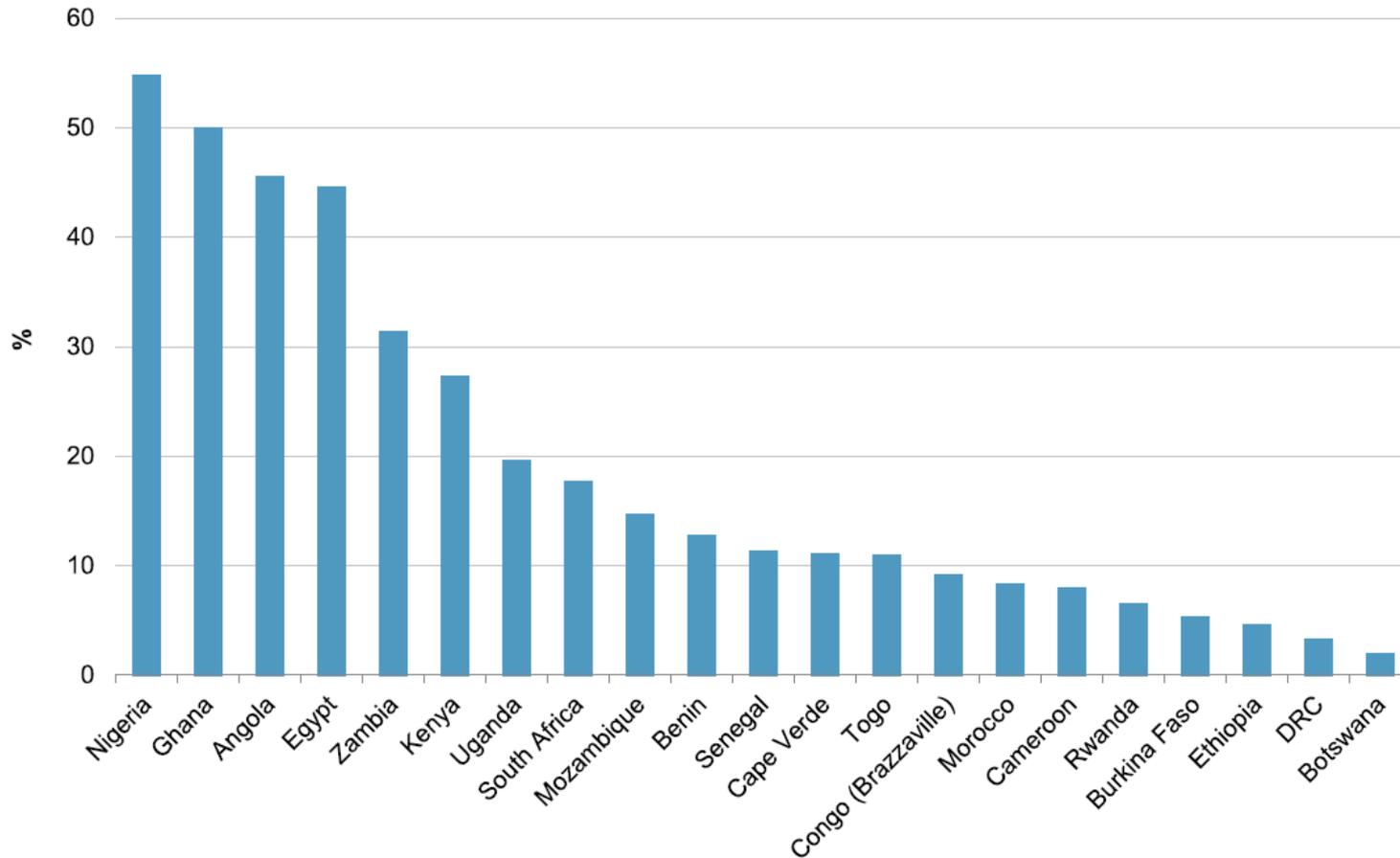
CEPR Policy Insight : Born out of Necessity

3 Threats from Corona

1. Entered this crisis with high debt (some)
 - In February, ~12-15 LICs/EMs were already in default or deep debt distress
2. Sudden stop of foreign financing (at the beginning)
 - 100 countries applied for IMF programs
3. Deficit spending, income support (all)
 - About 8% deficits on average

Clearly unsustainable in some cases

Interest Payments As A Percentage Of General Government Revenue

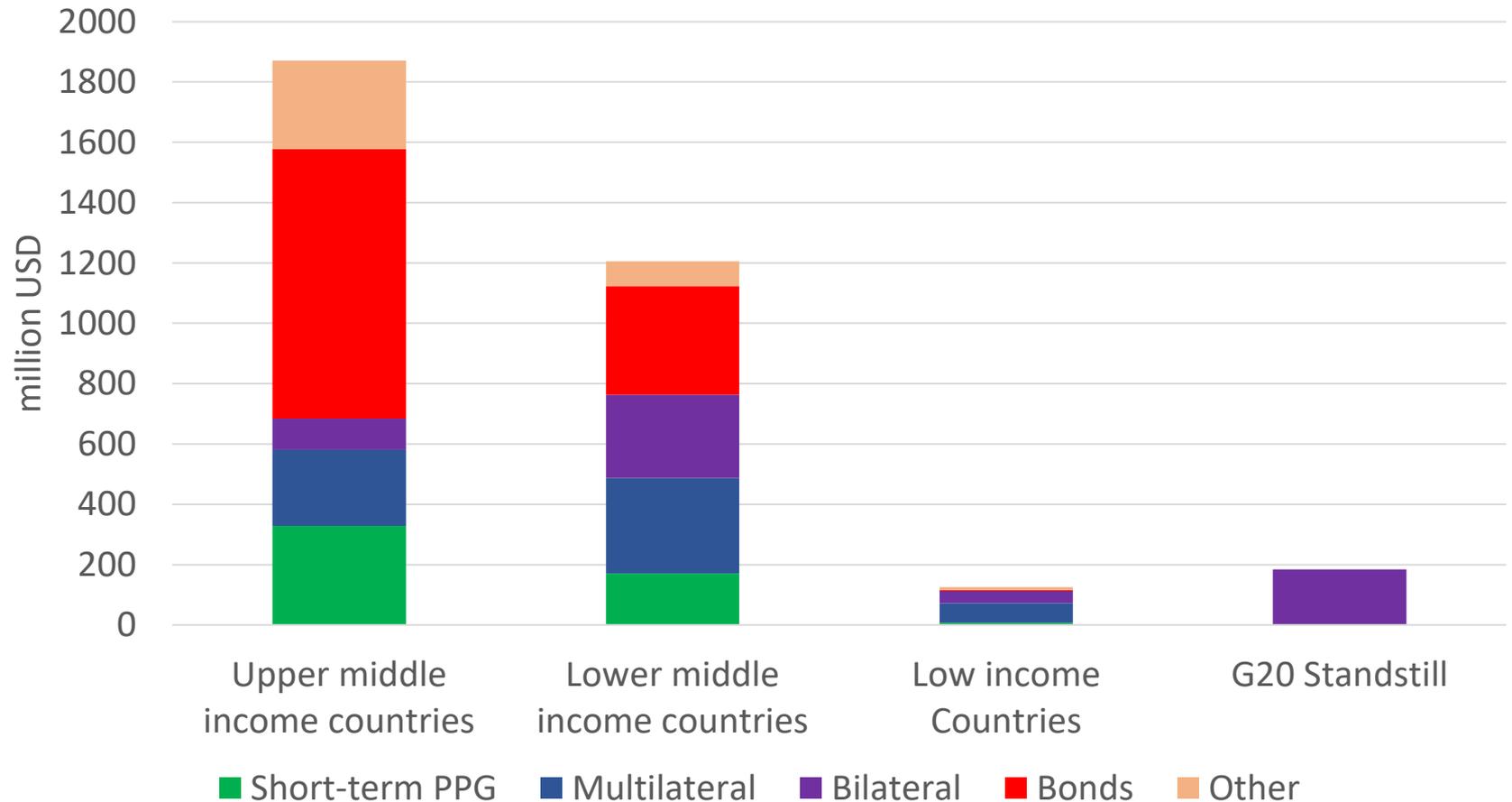


Debt Standstill from official sector

G20 Communiqué (April 15, 2020)

- We support a time-bound suspension of debt service payments for the poorest countries that request forbearance.
- We agreed on a coordinated approach with a common term sheet providing the key features for this debt service suspension initiative, which is also agreed by the Paris Club.
- All bilateral official creditors will participate in this initiative, consistent with their national laws and internal procedures.
- We call on private creditors, working through the Institute of International Finance, to participate in the initiative on comparable terms.

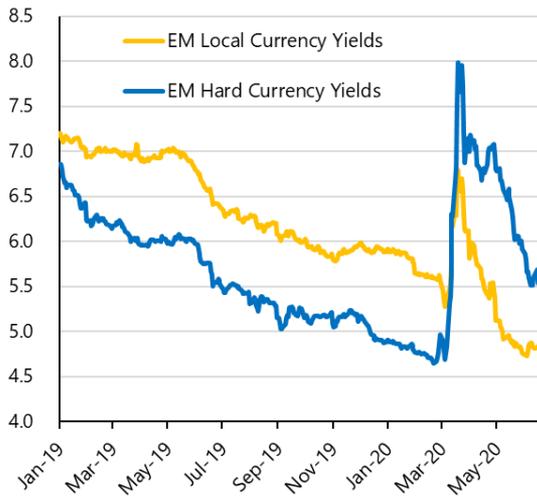
Debt standstill only for a small share of outstanding public and publicly guaranteed debt



Since March, financing conditions have improved dramatically for most EMs

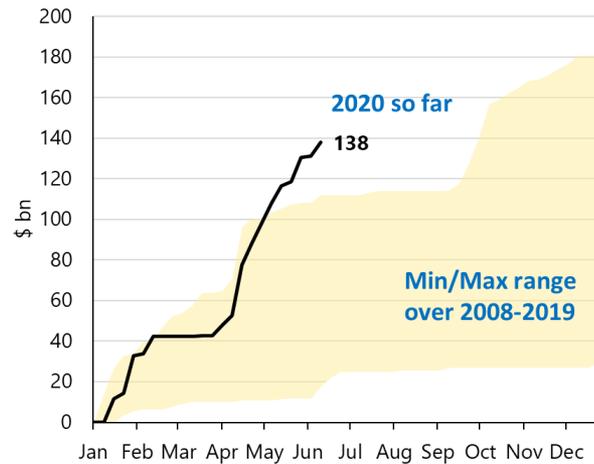
Funding costs back to mid-2019 levels on average

EM Sovereign Bond Yields
(Percent Index)



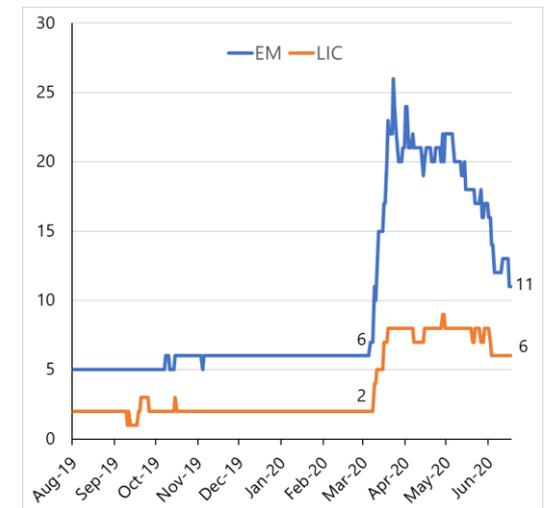
Record debt issuance

EM USD Sovereign Issuance
(Cumulative since the beginning of the year)



But some countries remain cut off from external debt markets

Number of countries with USD spreads above 750 basis points



Sources: Bloomberg, Dealogic, JP Morgan,

Graph "borrowed" from Jeromin Zettelmeyer

Will the macro-world change?

- **The GRUP Paradigm (Powell Doktrine)**
 - Low forever – risk on
 - Higher debt tolerance
 - Higher tolerance for some inflation bouts (at center)
- **Supported asset prices and capital flows**
 - Despite the drop of income
- **But there is another world view out there**

Thank you

Proposal on how to implement a temporary debt standstill

Flow of Funds

