The unfolding debt crisis in developing countries revisited: Overview and recent trends

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Emerging Market Debt Risk: Are We Ready for the Next Crisis?

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UNCTAD Debt Management Conference
Geneva, Switzerland
18-20 November, 2019
Flawed AME Policies Prior to the Great Financial Crisis

• Failure to recognize positive supply shocks
• Asymmetric monetary policies, cycle after cycle
• Asymmetric fiscal policies, cycle after cycle
• Inadequate structural reforms
• Excessive deregulation of the financial system
Flawed AME Policies After the Great Financial Crisis

• Initial global response appropriate
• Subsequently, too much reliance on monetary policy
• Which has been unexpectedly ineffective
• Allowing dangerous side effects to build up over a decade
• Rising debt ratios are critical but also other AME “imbalances”
• That will trigger or amplify the next global downturn
Dangerous “Spillover” Effects on EMEs

• Significant capital inflows from 2004 to 2014
• Pre-crisis driven by bank “procyclicality”
• Post-crisis largely driven by the search for yield
• Strong resistance to exchange rate appreciation
• Leading to “imbalances” in EMEs and weaker structural reforms
• EMEs are now “part of the global problem”
Special Factors Aggravating EME Vulnerability

• Major expansion in corporate bond debt
• Major expansion in bond debt of SOE’s
• Risks associated with funding in dollars
• All increase vulnerability of EME sovereigns and financial institutions
• ESG goals raise the need for new finance
• Secular forces slowing EME growth
Domestic Policies Directed to Crisis Prevention

• Structural reforms in both real and financial sectors
• Better debt reporting and analysis of growing vulnerabilities
• Improve fiscal frameworks and SOE governance
• Strengthen capital flow management and macroprudential tools
International Policies Directed to Crisis Prevention

• Could the Fed take “spillovers” into account?
• Could lenders focus on EME development needs and vulnerabilities?
• Could AME regulators force them to do so?
• Could IFIs and the G20 provide better risk assessments?
• “Trust” as the basis of international cooperation and reform
Policies Directed to Crisis Management

• Will capital flight from EMEs be even more “flighty”?  
• Implying EMEs have less room for fiscal and monetary expansion
• Large FX reserves could be used to offset dollar shortfalls
• Could “swap” agreements with the Fed also help?  
• IMF needs bigger quotas and more access to “temporary” funding
Policies Directed to Crisis Resolution

• The economic case for orderly debt restructuring
• The political case for orderly debt restructuring
• Inadequate mechanisms for resolving private sector debt
• Inadequate mechanisms for resolving public sector debt
• And the difficulty of restructuring is getting worse
A Final Take Away for EME Policymakers

• A renewal of the GFC in the AME’s cannot be ruled out.
• The EMEs are increasingly vulnerable and could even be the trigger.
• Managing and resolving the crisis will not be easy.
• Good luck to all.