Considerations regarding a multilateral sovereign-debt resolution mechanism

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1. Global macro environment: medium-term prospects
2. Past and future of debt, sovereign debt, and sovereign-debt crises for developing countries
3. Implications of innovations in global banking, lending markets
4. Considerations on a multilateral sovereign-debt resolution mechanism
1. Global macro environment: medium-term prospects
Potential Output Growth Headed Lower, Especially in Emerging Markets; Developed Markets Subdued

Source: IMF, Morgan Stanley Research forecasts

Taken from “Global Macro: Pros and Cons of Getting Stuck in the Middle,” Morgan Stanley Research, September 11, 2015; section entitled “Emerging-Market Drag.”
From: Euroland Has No Plan B: It Needs An Urgent Recovery Plan
by Jörg Bibow on 7 September 2015, Social Europe.
GDP Growth, 2001-14, selected countries

- Argentina
- Cabo Verde
- Belgium
- Kenya
- Vietnam
GDP Growth, 2001-14, selected SE Asian countries

- Malaysia
- Thailand
- Vietnam
- Indonesia
GDP Growth, 2001-14, selected African countries

- Central African Republic
- Angola
- Burundi
- Morocco
Export Growth, 2001-14, selected countries

- Argentina
- Cabo Verde
- Belgium
- Kenya
- Vietnam
Export Growth, 2001-14, selected African countries

- Central African Republic
- Angola
- Burundi
- Morocco

Graph showing export growth for selected African countries from 2001 to 2014.
3. Gross Public Debt

Source: IMF staff estimates.

1Euro area countries (Greece, Ireland, Italy, Portugal, Spain) with high borrowing spreads during the 2010–11 sovereign debt crisis.
2Data up to 2000 exclude the United States.
3Canada, France, Germany, Italy, Japan, United Kingdom, United States.
Two arguments for austerity macro policy in the developed economies

1. Is there a 90% threshold for sovereign debt/income?
Barry Eichengreen, *Hall of Mirrors* (2015), p. 10:
• No. Especially when borrowing is cheap and there are underemployed resources.

2. Is there evidence that austerity has expansionary macro effects?
Eichengreen, 2015, p. 10:
• No. The cases referred to in academic work are special cases, whose conditions are not now replicated.
New arguments for expansionary fiscal policy in the developed economies

1. Does expansionary fiscal policy have a multiplier greater than 1?


- Under two conditions: (a) a very deep recession, such as the US or UK experienced in 2008-09; (b) in a mild recession or under stagnation, only if there is coordinated multilateral expansionary policy.

2. Can monetary policy do it all (stimulate growth, avoid inflationary pressure)?

Claudio Borio (BIS), Richard Fisher (Federal Reserve)

- No.
Developing-economy futures under developed-country austerity policies?

1. QE continues, US/UK interest rates stay low:
   • Bubble-led growth, financial markets searching for zero-sum speculative gain
   • Financial boom-bust in developing economies

2. QE ends, interest rates raised in US, UK:
   • Financial bust in developing economies
2. Past and future of debt, sovereign debt, and sovereign-debt crises for developing countries
Gross govt debt/GDP (%), 2001-14, selected countries

- Argentina
- Belgium
- Cabo Verde
- Kenya
- Vietnam
Systematic Banking Crises: South America, Mexico
Systematic Banking Crises: US, Western Europe
Credit-to-GDP Ratio\(^2\)
(Percent)

Sources: Haver Analytics; IMF, International Financial Statistics (IFS) database; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes.
\(^1\)Deflated by two-year-ahead WEO inflation projections.
\(^2\)Credit is other depository corporations’ claims on the private sector (from IFS), except in the case of Brazil, for which private sector credit is from the Monetary Policy and Financial System Credit Operations published by Banco Central do Brasil.
Figure 8. Costliest Banking Crises Since 1970

Fiscal cost (in percent of GDP)

- Indonesia 1997: 57
- Argentina 1980: 55
- Iceland 2008: 44
- Jamaica 1998: 44
- Thailand 1997: 44
- Chile 1981: 43
- Ireland 2008: 41
- Macedonia 1993: 32
- Turkey 2000: 32
- Korea 1997: 31

Increase in debt (in percent of GDP)

- Guinea-Bissau 1996: 108
- Congo, Rep. 1992: 103
- Chile 1981: 88
- Uruguay 1991: 83
- Argentina 2001: 82
- Iceland 2008: 73
- Ireland 2008: 72
- Indiasia 1997: 68
- Tanzania 1997: 65
- Nigeria 1991: 63

Output loss (in percent of GDP)

- Kuwait 1982: 143
- Congo, DR 1991: 130
- Burundi 1994: 121
- Thailand 1997: 109
- Jordan 1999: 106
- Ireland 2008: 106
- Latvia 2008: 106
- Cameroon 1987: 102
- Lebanon 1990: 102
- Ecuador 1982: 98
Figure 5. Timing of Currency and Sovereign Debt Crises Relative to Banking Crises

(In percent of the number of banking crises)

Source: Authors' calculations.
Note: T denotes the starting year of the banking crisis.
Figure 6. Differences in the Mix of Crisis Policies

Source: Authors' calculations.
Figure 7. Output Losses for Selected Crises Episodes 1/

USA

Ireland

Germany

Mexico

Thailand

Japan

Sources: World Economic Outlook and authors’ calculations.
1/Year T equals 2007 for USA, 2008 for Ireland and Germany, 1994 for Mexico, 1997 for Thailand and Japan. GDP in T-4 is set equal to 100.
Figure 4.4. Decomposition of the Investment Slump, 2008–14
(Average percent deviation from spring 2007 forecasts)

2. Private versus Public

Sources: Consensus Economics; Haver Analytics; IMF, Fiscal Monitor database; national authorities; and IMF staff estimates.
Note: The figure presents data for 28 advanced economies: Australia, Austria, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Singapore, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom, United States.

1Euro area economies (Greece, Ireland, Italy, Portugal, Spain) with high borrowing spreads during the 2010–11 sovereign debt crisis.
3. Implications of innovations in global banking, lending markets

• Securitization ("originate to distribute" model) replacing lending ("buy to hold" model)
• Consequence: two contracts on one cash-flow as a normal state of affairs
• Result: Conflict of laws, resolved by the home country of the ultimate claim-holder
  - Brady Bonds
  - Subprime loans
  - Sovereign debt (Argentina case)
4. Considerations on a multilateral sovereign-debt resolution mechanism

- Austerity fiscal policy in developed countries will likely continue – cutting off sources of growth in developing economies
  - Commodities bust, China slowdown also factors
- Private debt levels are rising, and when trouble comes, private debt becomes public debt
- Costs of forced adjustment to meet inflexible payment requirements are high (eg, Greece)
- New legal structure of lending sets up conflict-of-laws problems that are unresolvable at the national level.