

# Life and Debt during COVID-19

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@upanizza

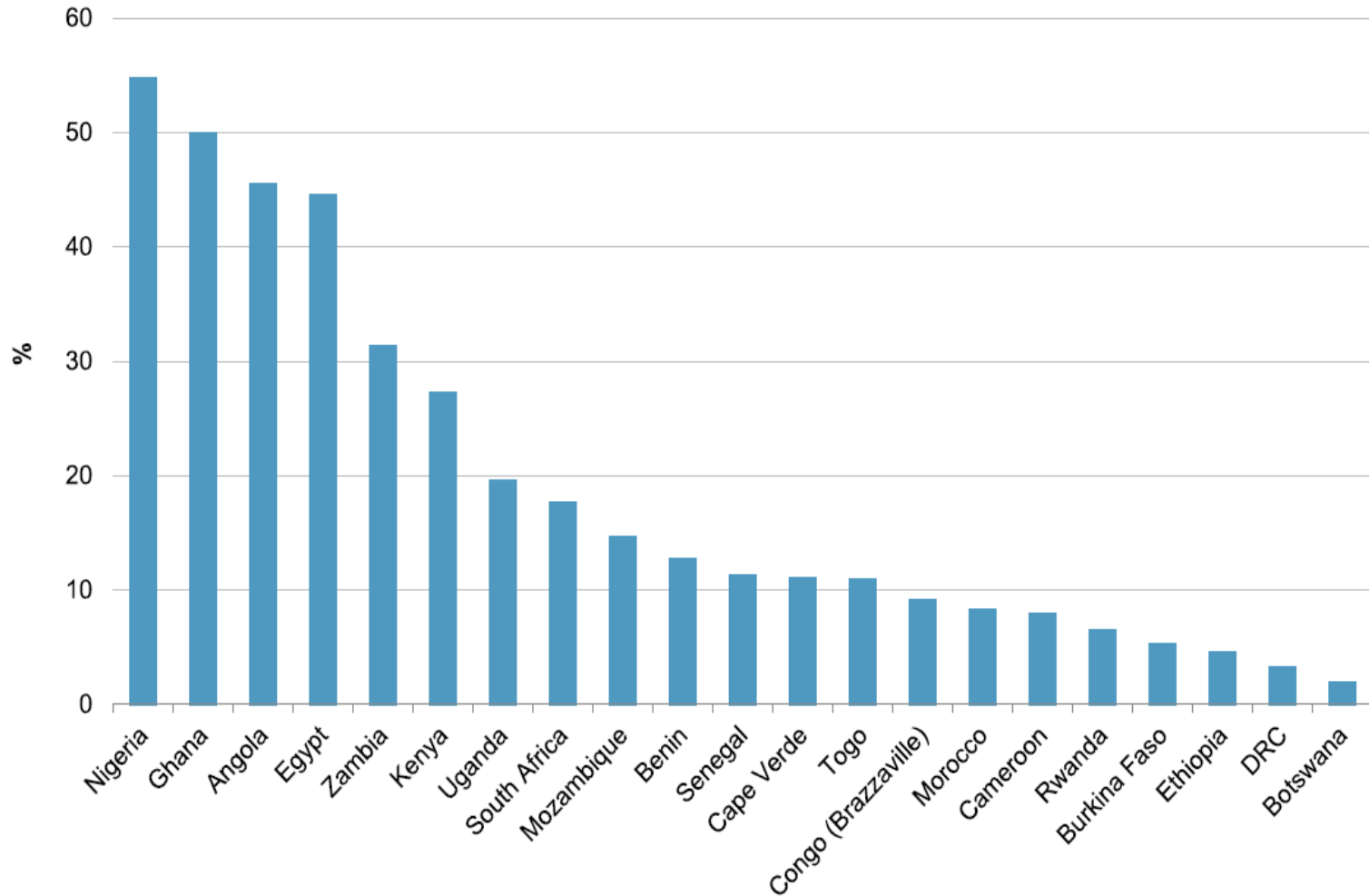


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INSTITUT DE HAUTES  
ÉTUDES INTERNATIONALES  
ET DU DÉVELOPPEMENT  
GRADUATE INSTITUTE  
OF INTERNATIONAL AND  
DEVELOPMENT STUDIES

Based on joint work with Patrick Bolton, Lee Buchheit, Pierre-Olivier Gourinchas, Mitu Gulati, Chang-Tai Hsieh, & Beatrice Weder di Mauro



## Interest Payments As A Percentage Of General Government Revenue

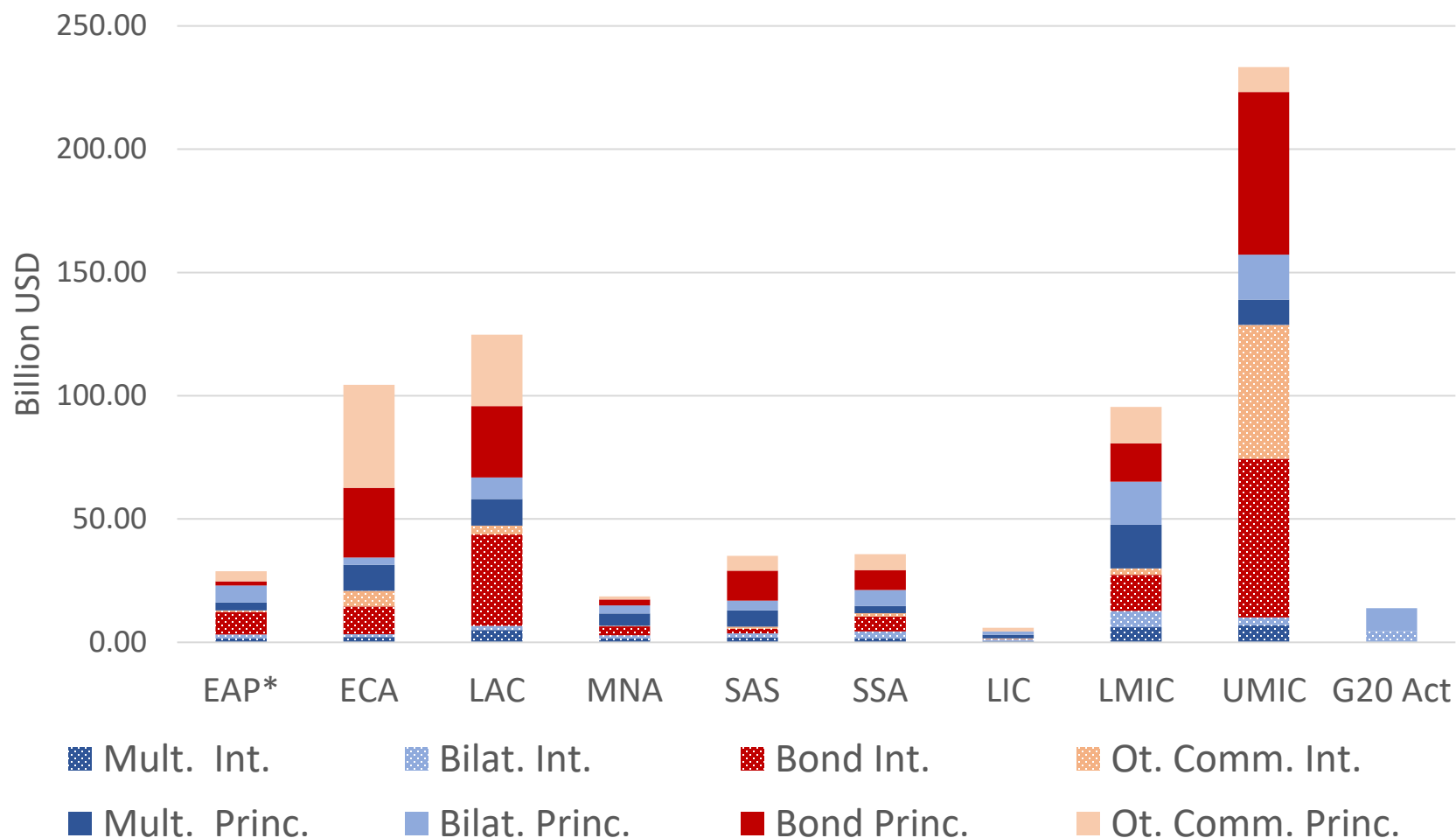


DRC--Democratic Republic of Congo. Source: S&P Global Ratings.

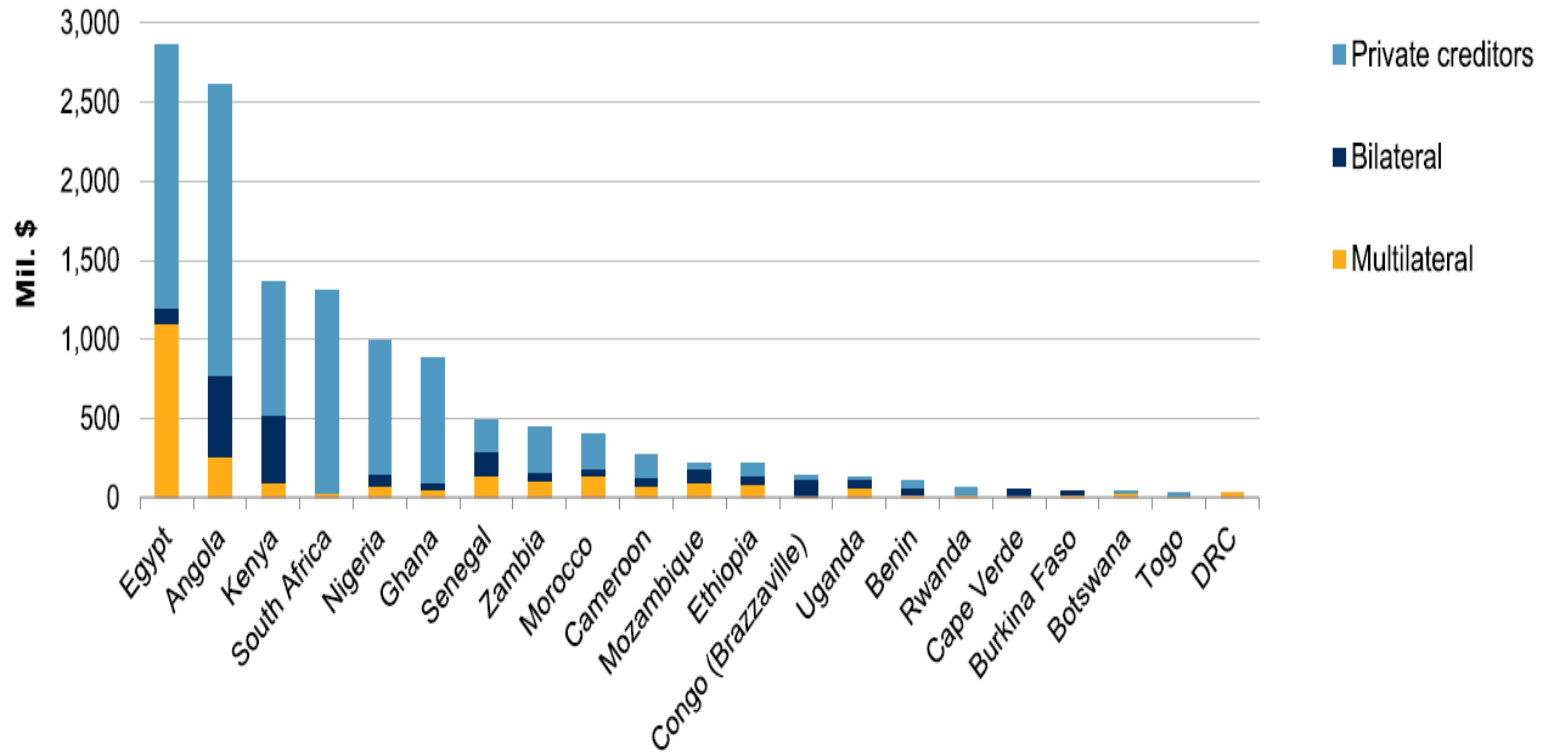
# G20 Communiqué (April 15, 2020)

- We support a time-bound suspension of debt service payments for the poorest countries that request forbearance.
- **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.

# Expected debt service on long-term public and publicly guaranteed debt of emerging and developing countries (excluding China)

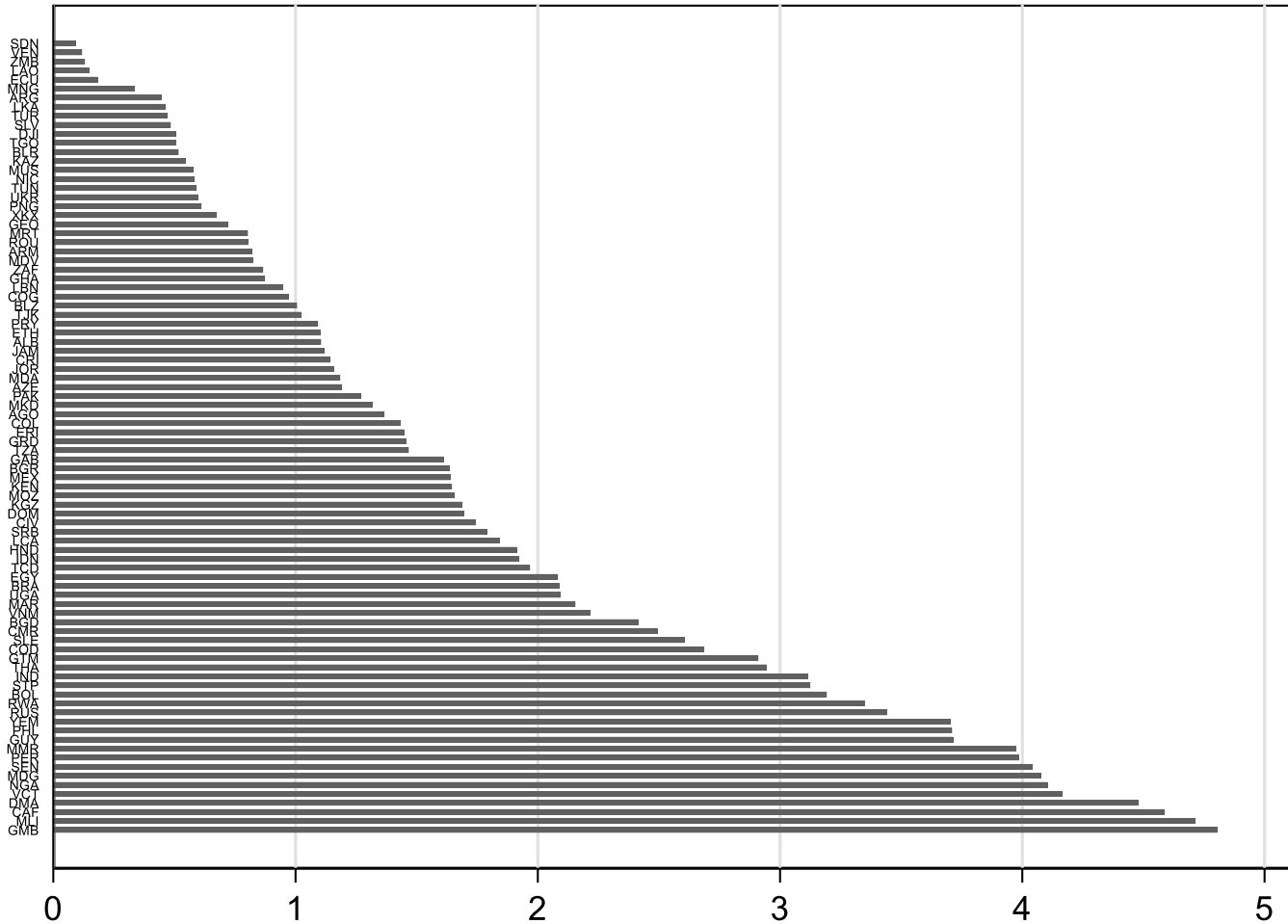


## Distribution Of External Interest Payments

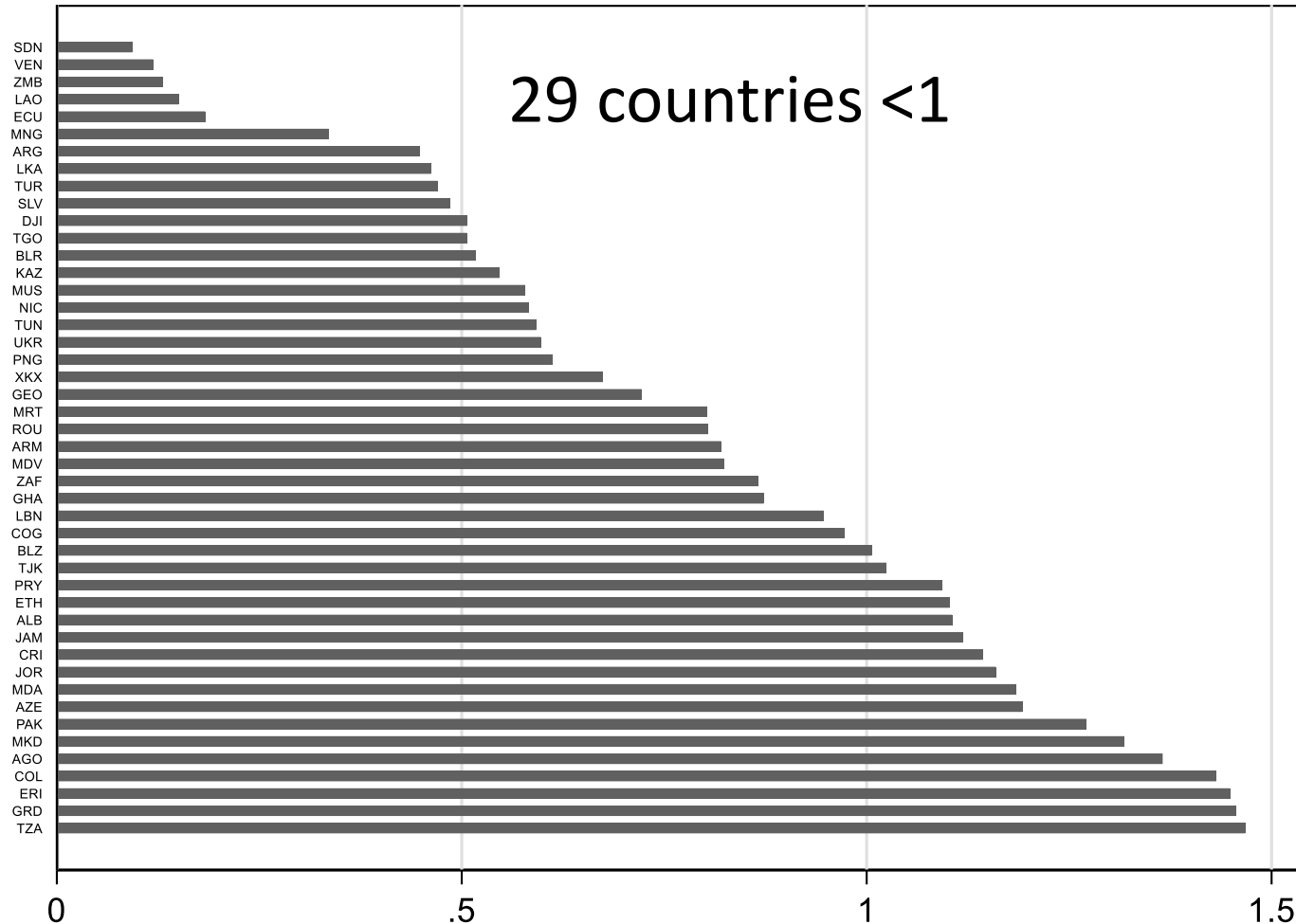


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# Reserves over debt service (back of the envelope estimations)



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# Our Proposal—the CCF

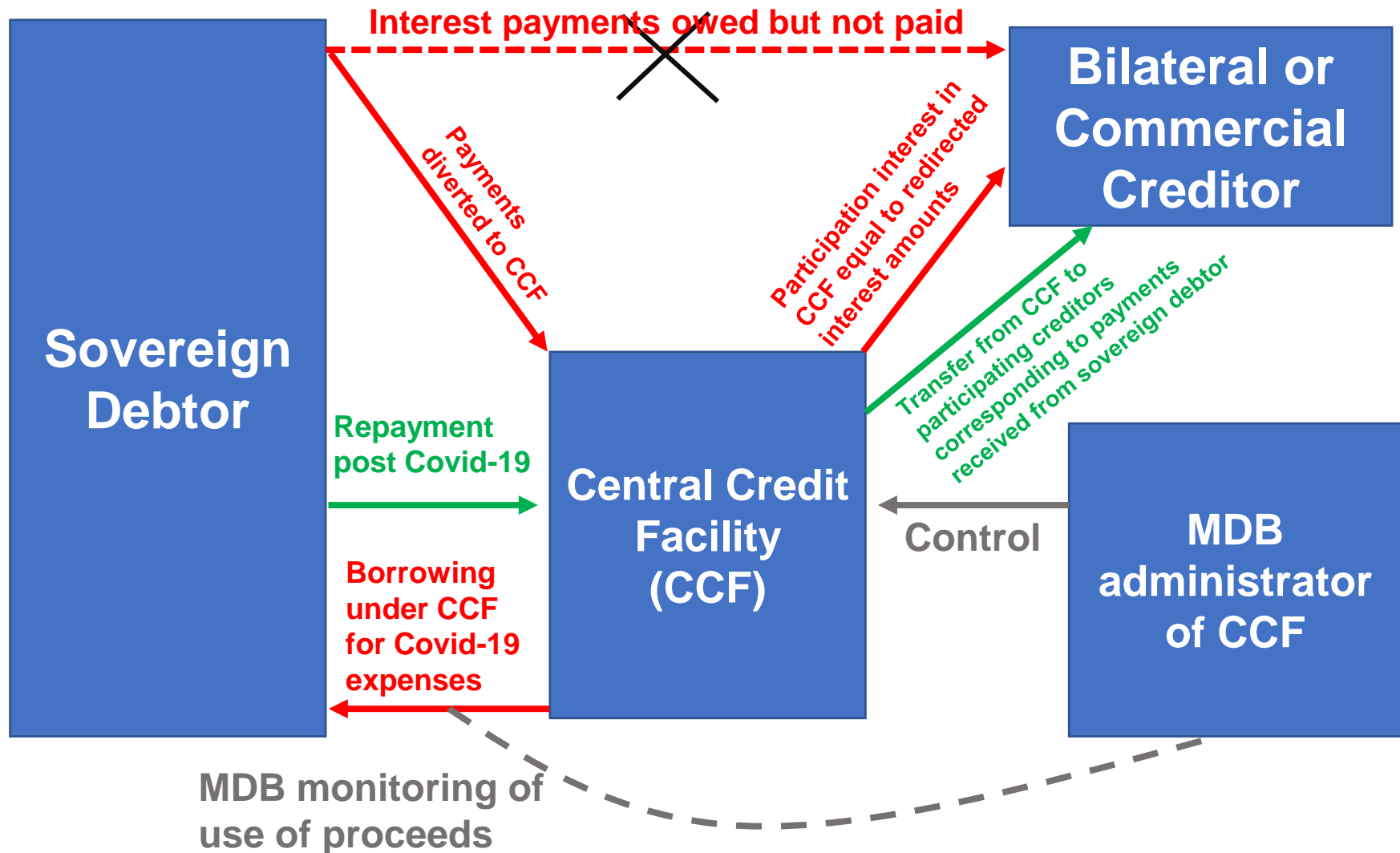
- A debtor country could open a central credit facility (CCF) with an international financial institution with preferred creditor status to deposit interest payments falling due on their existing credits for the balance of 2020 in the credit facility so that they may be redirected towards combatting the COVID-19 emergency
- Some amount (it does not have to be a large amount) of funding from one or more official sector institutions benefitting from a preferred creditor status would also be placed in the credit facility and commingled with all other funds (The intention is to bring the Credit Facility within the “halo” of preferred creditor status.)

# Our Proposal—the CCF

- The financial terms of the Credit Facility would be concessional but the expectation is that all amounts lent under the Credit Facility would eventually be repaid.
- The participating creditors would agree in advance to reinvest an amount equal to those payments in the Credit Facility for the Recipient Country concerned.

# How to reinvest interest payments in a Central Credit Facility

## Flow of Funds



# Our Proposal–Necessity

- In its public announcement of these arrangements, the G-20 could assist Recipient Countries, possibly by confirming that the Covid-19 pandemic has created for the Recipient Countries a state of “necessity” within the meaning of Article 25(1) of the Articles on State Responsibility promulgated by the International Law Commission.
  - (This exception to the rule *pacta sunt servanda* could help recipient countries defend themselves against lawsuits from non-participating creditors).
- Investors recognize that a suspension of normal debt servicing may be unavoidable
  - (a "necessity", in the language of the legal doctrine referred to above).
  - Implementing an orderly suspension of payments in such a situation may be beneficial to both the sovereign debtors and the creditors concerned.

# So what?

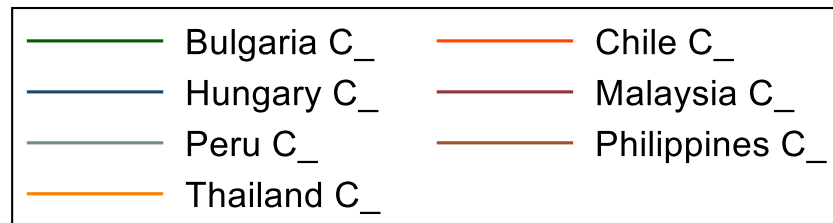
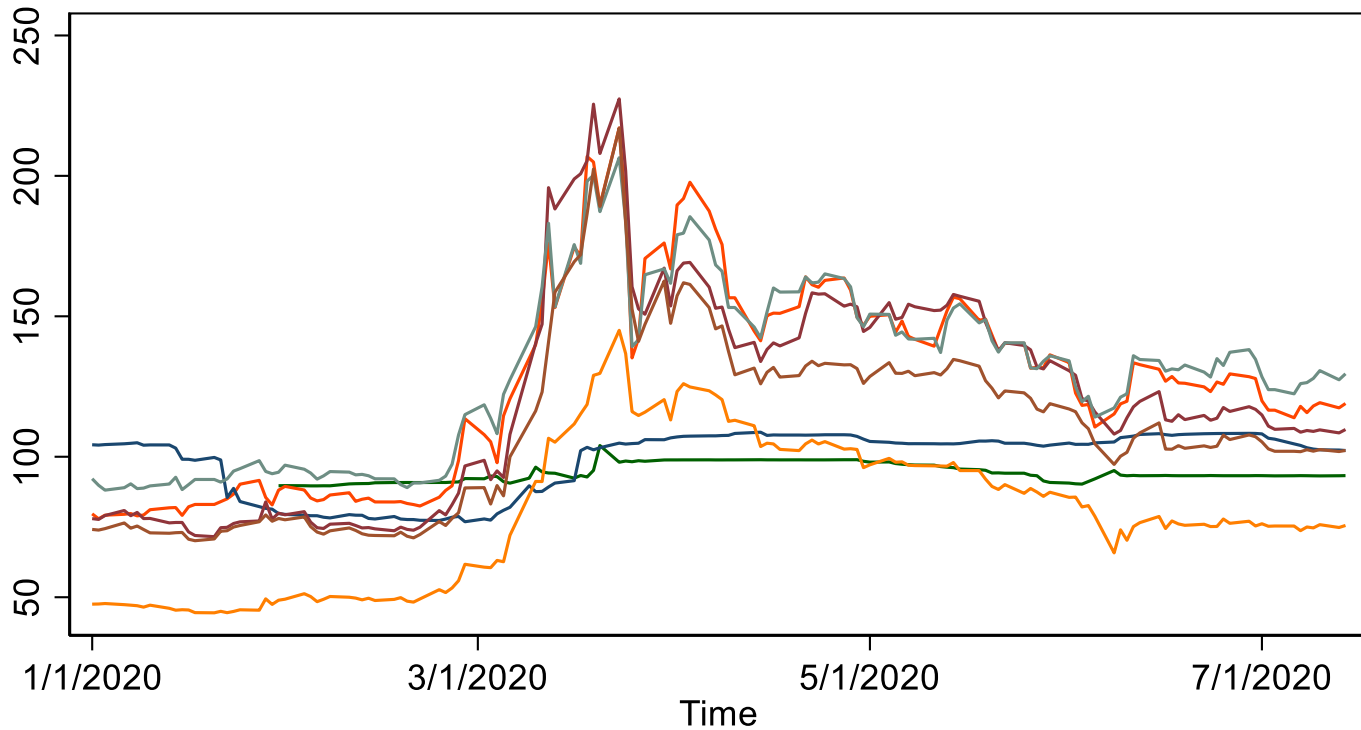


Pangloss enseignait la métaphysico–théologo–cosmolonigologie. Il prouvait admirablement qu'il n'y a point d'effet sans cause, et que, dans ce meilleur des mondes possibles, le château de monseigneur le baron était le plus beau des châteaux et madame la meilleure des baronnes possibles. «Il est démontré, disait-il, que les choses ne peuvent être autrement : car, tout étant fait pour une fin, tout est nécessairement pour la meilleure fin. Remarquez bien que les nez ont été faits pour porter des lunettes, aussi avons–nous des lunettes.

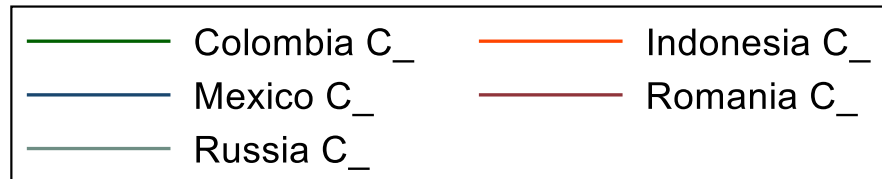
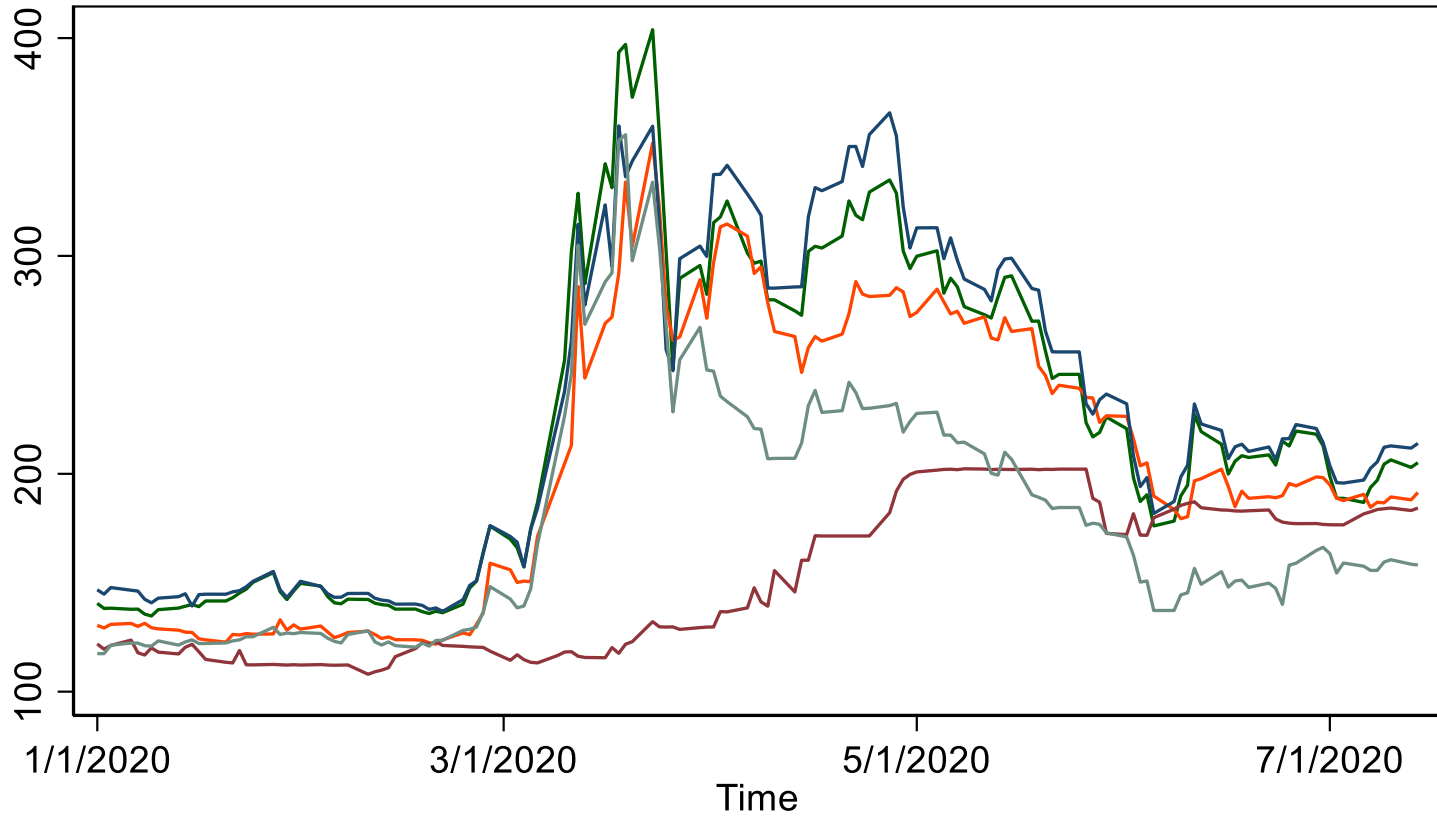
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Ceux qui ont avancé que tout est bien ont dit une sottise; il fallait dire que tout est au mieux.

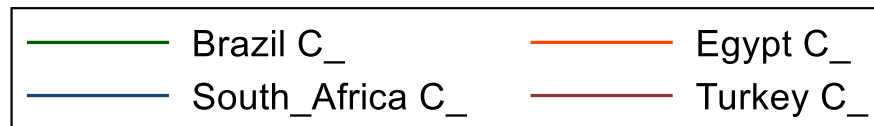
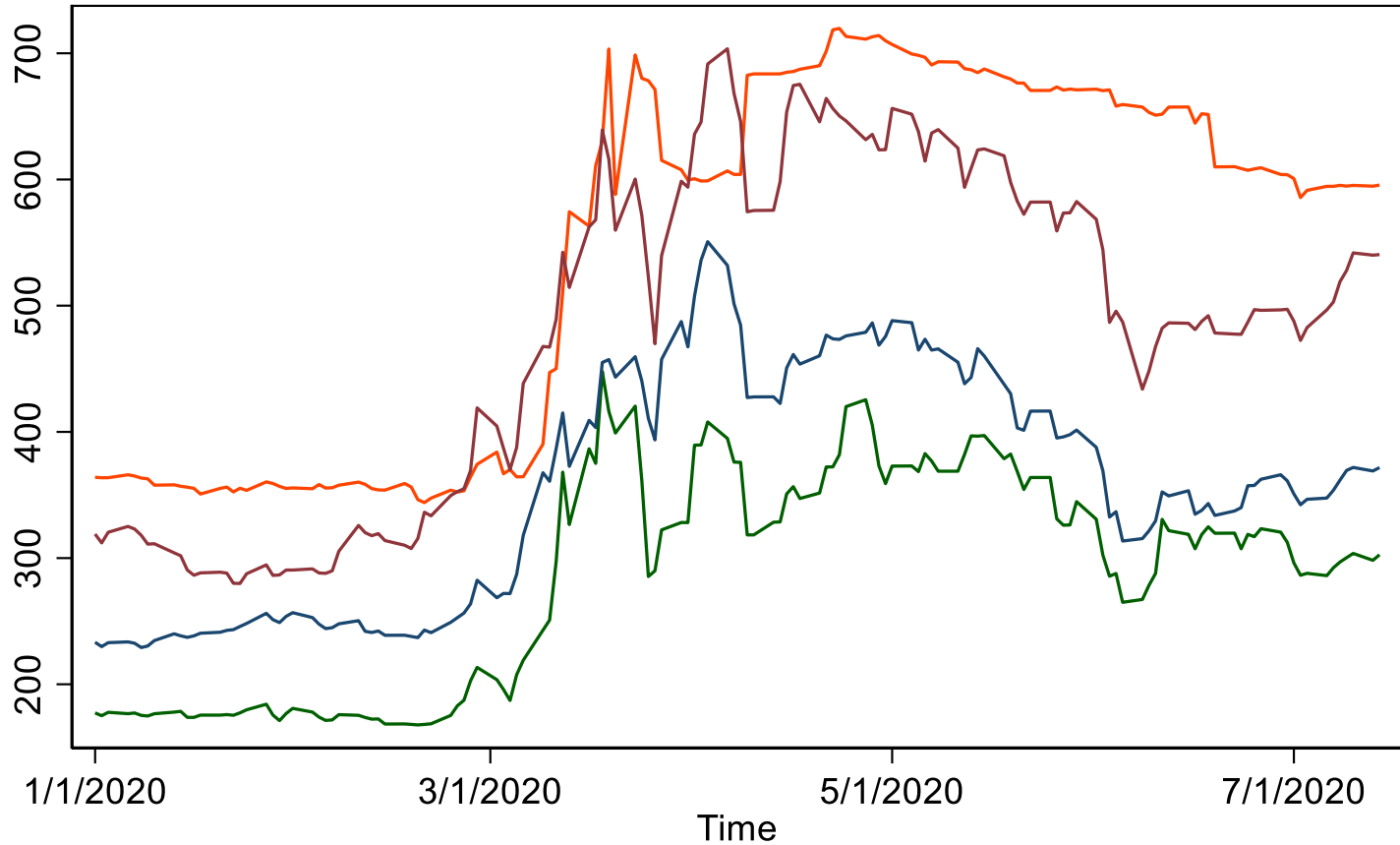
# So what?



# So what?



# So what?



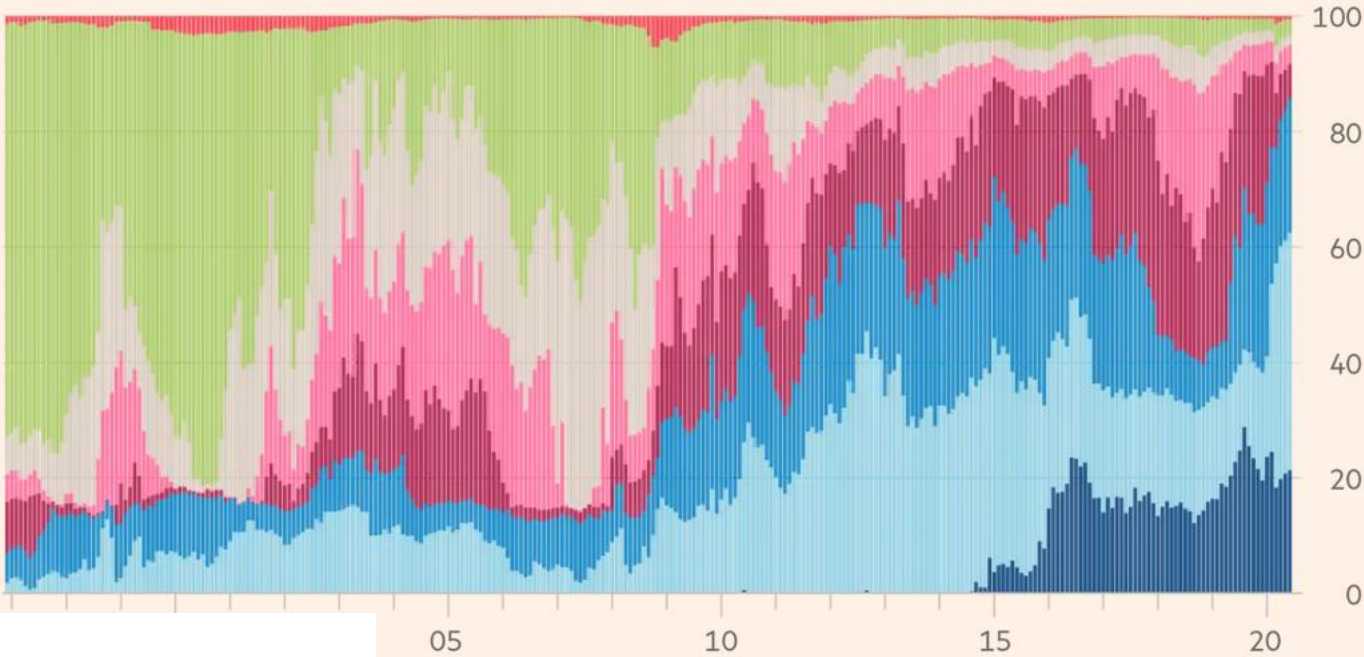


# Favorable financial conditions are fragile!

Giant pool of low-yielding debt pushes investors into riskier assets

% share of bond market

■ Sub-zero yield ■ 0-1% ■ 1-2% ■ 2-3% ■ 3-4% ■ 4-5% ■ 5-10% ■ Over 10%



# Background Material

- ***Foreign Affairs*** (Bolton et al): How to Prevent a Sovereign Debt Disaster
  - <https://www.foreignaffairs.com/articles/world/2020-06-04/how-prevent-sovereign-debt-disaster>
- ***Project Syndicate*** (Bolton et al.): The Necessity of a Global Debt Standstill that Works
  - <https://www.project-syndicate.org/commentary/covid19-debt-standstill-must-include-all-private-creditors-by-patrick-bolton-et-al-2020-04?barrier=accesspaylog>
- ***CEPR and VoxEU*** (Bolton et al.):
  - **Born out of necessity**
    - [https://cepr.org/sites/default/files/policy\\_insights/PolicyInsight103.pdf](https://cepr.org/sites/default/files/policy_insights/PolicyInsight103.pdf)
  - **Necessity is the mother of invention: How to implement a comprehensive debt standstill for COVID-19 in low- and middle-income countries**
    - <https://voxeu.org/article/debt-standstill-covid-19-low-and-middle-income-countries>
  - **Sovereign debt standstills: An update**
    - <https://voxeu.org/article/sovereign-debt-standstills-update>
- **On Odious debt**
  - ***Project Syndicate*** (Hausmann and Panizza): Odiousness Ratings for Public Debt
    - <https://www.project-syndicate.org/commentary/odiousness-ratings-public-debt-by-ricardo-hausmann-and-ugo-panizza-2017-08?barrier=accesspaylog>
  - **Gulati and Panizza: Alternative Solutions to the Odious Debt Problem**
    - <https://ideas.repec.org/p/gii/giihei/heidwp02-2020.html>

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