DEBT RESTRUCTURING? DEALING WITH THE DEBT OVERHANG IN EMERGING ECONOMIES

The panel on debt restructuring, whose chair was Alicia García-Herrero, started with the speech of Atif Mian, Professor of Economics at Princeton University. He touched upon the importance of flexible exchange rate and independent monetary policy in dealing with debt and how financial openness can impinge on the value of them. The core issue is that debt denominated in dollar limits exchange rate and monetary policy, combined with the shock caused by Covid-19 accompanied by economic downturn hamper the ability to pay back. Likely slowdown in trade and external imbalances caused by financial openness call for global coordination of debt restructuring.

The next panellist Isabelle Mateos y Lago, Managing Director at Blackrock, brought the perspective of creditors. She noted that developing countries did not use their policy space to create adequate macroprudential policy, which does not mean that they do not need help. In response to the COVID- 19, the G20 announced debt service suspension initiative (DSSI) and resentment appeared toward the private sector about the lack of engagement. Most of the eligible countries have requested for debt service suspension but none of them approached their private creditors, mainly because most of those countries did not have a problem with debt sustainability. The private sector supports restoring fiscal sustainability and debt relief when it is needed but at the same time, they have to care about the retirement savings of their clients.

Following, Anna Gelpern, Professor of Law at Georgetown University, accentuated that low-income countries found themselves in an extremely uncertain situation. Their export followed a downward trend in advanced economies but on the other hand, when the situation will improve and stimuli will go away it will be harder for EMEs to borrow. Also, she addresses Isabelle point on private sector involvement. She indicated that in the past we did not see private sector postpone or reduce payments and that is why countries do not ask for debt relief now. As the current problem is not due to mismanagement of debt, as Isabella herself noticed when she spoke about the debt sustainability, but an external shock and debt problems are likely to deteriorate, Anna emphasized the importance of coordination and called for a comprehensive coordinated approach.

Also in response to Isabella, Atif noted that no size fits all and countries macroprudential policy depend on the development path of the country. He also added an important remark about financial openness as a two-edged knife and need for robust macroeconomic policies. Using the example of China he showed how the country can open up for foreign capital while being protected by macroprudential regulation. Contrarily, he gave an example of Greece, where the inflow of capital for speculative reason harmed the economy. Then, Isabelle brought ideas of GDP indexed bonds or social bonds as a solution to shifting the burden from taxpayers to the creditors in the future.

Atif replied to the question from the audience on the amplifying nature of the dollar debt underlining the importance of matching dollar liabilities to dollar assets. Loans should be taken for investments in the tradable sector to bring a return in the dollar. Allowing foreign money to come in should be targeted towards boosting productivity in the exportable sector. The panel was finished with Alicia's reflection that the situation might be blurred by stimuli and market access, thus we did not take the major steps to deal with the problem.

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