A TWO-PRONGED APPROACH TO A HYPOTHETICAL GLOBAL (PRIVATE AND PUBLIC) DEBT PROBLEM:

A view from the Global South

Latindadd
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A view from the Global South

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MAIN FINDINGS

The classic rise in interest rates with a simultaneous fall in commodity prices has not occurred this time, which means that the current problem is new, followed by a slow recovery in Latin American economies.

There are two different issues that may arise during the post-COVID crisis. One has to do with private external debt and the other one, with potential sovereign debt problems. This time, there is a growing concern over private sector debt problems rather than over sovereign debt problems.

During the 2020 crisis, private debt in the world grew by 12.5% on average. In Latin America, corporate indebtedness was higher than in Asia and the G7, reaching 13%, with a much higher cost due to high interest rates, but also given its exposure to variations in exchange rates and interest rates.

Decline in corporate income in 2020, resulting from the global COVID-19 shutdown, could lead companies to experience losses, triggering defaults and leading to an increased risk and a downgrade of international credit ratings. Unlike the 1980s, Central Banks can now play a more prominent role as lenders of last resort, providing companies with liquidity to restructure their debts.

The solution proposed includes using national financial markets, so that the Central Bank could grant guarantees to bond issues carried out by companies to consolidate and pay their debts.

Governments must have enough space to restructure their loans before entering payment difficulties and thus, avoid austerity policies.

The creation of an International Board of Arbitration for Sovereign Debts (IBASD) is proposed in order to prevent major economic crises, guaranteeing the participation of all creditors.

In terms of crisis resolution, the IBASD acts as a damage control mechanism, similar to what the HIPC initiative tried to do, being able to choose between some refinancing of the debt and the complete rescheduling of it, including the possibility of one-off cancellation to all creditors.

The IBASD constitutes a pillar for a new, more democratic international financial architecture and for a stable world economy.

PRESENTATION

Global indebtedness has had a growing annual trend. After the pandemic and the crisis, all debt indicators have worsened due to different factors amid the effects of the economic collapse and its deterioration considering the risks of potential interest rate increases.

In the South, we are concerned about the situation of the public sector debt and the external debt of the corporate or private sector, in a context of slow and uneven recovery. The capacity of the most developed countries to combine their international reserves with fiscal measures has allowed them to apply anti-cyclical policies, unlike other countries in which the fiscal deficit and indebtedness have deepened.

This document addresses a review of the debt problem, including the public and the corporate sector, with a precise view on systemic inequalities, to the detriment of the borrowing countries of the South.

In the face of the greatest economic crisis in more than 100 years, different mechanisms are required to solve an unsustainable debt that plunges our countries into greater poverty and inequality, a change in the international financial architecture and the roles of international financial institutions.

Our proposal addresses, on the one hand, the mechanisms to solve the external debt of the corporate sector (large and small) through the intervention of Central Banks and, on the other hand, it proposes the implementation of an International Arbitration Tribunal on Sovereign Debt

within The United Nations Secretariat or within the UNCTAD to renegotiate the public sector external debt timely, fairly and with the participation of all creditors.

In a pandemic and crisis context, the sovereign debt needs timely damage control measures, instead of waiting for insolvency leading to austerity policies, with a perspective of contributing to the achievement of the SDGs and the climate agenda, including investment in education, health, job creation, and in policies that guarantee the exercise of economic, social and cultural rights.

INTRODUCTION

The world economy collapsed because of a supply-side shutdown and a demand-side contraction, first in Asia and then in the West. It is the first time in economic history that this phenomenon has occurred, and the effects will appear when global economic recovery gains momentum. Both the private and public sectors feel the long-run consequences. The private sector contains global firms, medium and small local firms, and households. The type of problems posed to them is essentially different from that posed to Governments, resulting from the collapse of the payments chain.

On the other hand, governments lost fiscal revenue and increased fiscal expenditures, especially towards the health sector and distributing resources out of work. The classical rise in interest rates with a simultaneous drop in raw material prices has not happened this time, so the problem faced is new. This time the private sector has significant problems as well as the Governments. Everything points to private sector debt problems being more worrisome than Sovereign debts.

In this paper, there is a revision of private sector debt in its different components, leading to a market-based mechanism to try and facilitate its economic recovery. A revision of public debt, on the other hand, has reaffirmed the need for an institutional approach with an international board of arbitration. Governments had fiscal revenue problems due to the GDP collapse and, at the same time, the need for additional public expenditure leading to more extensive than usual fiscal deficits, except for Mexico, where increased extraordinary tax revenues from out of the usual taxpayers accompanied an austerity policy. These were the larger taxpayers that had not paid in many years their official obligations. Given the complexities of official debt

and the shift in creditors, a normative approach seems better fitted. The paper has three sections. The first section revises the shape of the COVID global crisis. The second section reviews domestic private sector debt levels, possible problems and proposed solutions, and the third part looks at public debt, its likely problems and suggests workout mechanisms.

1. THE SHAPE OF THE COVID ECONOMIC CRISIS

1.1 THE ECONOMICS OF THE COVID 19 CRISIS AND SOME OLD PROBLEMS WITH NEW ACTORS

This section will review the economic dynamics of the COVID19 crisis under the following hypothesis:

1. The world economy collapsed because of a supply-side shutdown and a demand-side contraction, first in Asia and then in the West. It is the first time in economic history that this phenomenon has occurred, and its effects will appear as global economic recovery gains momentum.

2. Asia falls earlier and recovers quicker than the rest. It drops in the first quarter of 2020 and rebounds in the second quarter. The West falls in the second quarter and rebounds in the third quarter.

3. Fast-growing countries fall little and recover fast.

4. Countries that grow slowly fall more and recover slowly.

5. The recovery speed has to do with fiscal and monetary policies and the rate of investment. Chile put in the most fiscal money and grew proportionally the least. Mexico hardly invested at all and recovered 50% of the loss.

6. The open question is whether the growth will be √ a square root, square root inverted, or traditional V rebound shape.

TABLE N° 1

Nominal GDP growth by groups of countries by quarters 2020-2021								
COUNTRY	Nominal GDP, in national currency	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
ASEAN+3								
Indonesia	15.434.151.800	-3%	4%	-7%	-4%	-2%	1%	13%
Japan	539.071.600	-4%	-1%	-9%	-4%	-1%	-1%	7%
Korea, Rep. of	1.924.452.900	0%	1%	-1%	1%	1%	5%	-
Thailand	15.688.063	-7%	-1%	-15%	-8%	-5%	-2%	-
G7								
Canada	8.825.064	-5%	0%	-13%	-4%	-1%	6%	-
France	2.275.668	-6%	-4%	-14%	-3%	-2%	4%	17%
Germany	3.329.030	-3%	0%	-9%	-3%	-2%	-1%	11%
Italy	1.651.595	-8%	-5%	-17%	-4%	-5%	1%	-
Japan	539.071.600	-4%	-1%	-9%	-4%	-1%	-1%	7%
United Kingdom	-	-5%	0%	-14%	-3%	-3%	-2%	18%
United States	20.932.759	-2%	2%	-8%	-2%	-1%	2%	-
Latin America								
Argentina	27.021.238	26%	42%	12%	22%	29%	46%	-
Brazil	7.447.858	1%	5%	-7%	0%	4%	11%	-
Chile	200.512.436	2%	4%	-5%	-1%	9%	11%	25%
Colombia	-	-	5%	-15%	-	-	-	-
Costa Rica	35.983.495	-4%	3%	-8%	-6%	-3%	-2%	-
Ecuador	-	-	-2%	-13%	-11%	-	-	-
Honduras	585.734	-5%	4%	-15%	-5%	-4%	-	-
Mexico	23.122.024	-6%	1%	-18%	-5%	-1%	2%	-

Fuente: own calculations with IMF data

In Asia, countries acted quickly. About five days after the first 100 outbreaks of COVID-19, domestic restrictions were increased, according to the IMF (2020, p. 8). Malaysia, New Zealand, and the Philippines imposed complete closures for more than a month. Thailand and Vietnam closed non-essential services and allowed industrial sectors to continue operating. South Korea only issued recommendations on business closures and voluntary social distancing.

The quarantine and lockdown in China impacted its economy during the first quarter of 2020, as the virus started in late 2019 and lockdown measures were taken immediately. The shock arrived in the second quarter for the rest of the world. This mismatch gave some economic advantage to China, where the virus spread was quickly under control. According to the IMF (2020, p. 3), with the relaxation of sanitary measures, during the second quarter of 2020, China invested in infrastructure and furniture construction. According to De León (2020), on 28 May 2020, the Ministry of Finance injected 4.5% of GDP allocated to unemployment insurance, infrastructure, and price subsidies. From February to August 2020, the Chinese Central Bank placed 5.8 billion yuan in open market operations, which provided liquidity to the banking system. Medical supply manufacturers, SMEs, and agricultural enterprises received credit lines. All of this allowed them to get their productive machinery up and running in a short time. China had a V-shaped recovery if one looks at its quarterly real GDP growth.

The ASEAN+3 countries that recovered their total output during the first rebound were China and Vietnam, which spent 13% and 11% of their GDP on fiscal and monetary measures. The Philippines, South Korea, and Singapore followed with just over half of their recovered output. The three countries spent 4.7%, 16.6%, and 23.9%, respectively, on fiscal and monetary measures. Finally, Japan, Thailand, and Indonesia recovered less than a third in the first rebound. They spent 59%, 15.4%, and 7.6% of their GDP on fiscal and monetary measures.

With the slippage, China saw an increase in its exports, mainly of electronic products and medical and protective equipment, both important sectors during the cessation of face-to-face activities in other countries. In addition, mobile phones, semiconductors, and circuit boards are being worked on in ASEAN countries as value chains to China, accounting for half of the exports

to China. The main driver of this chain re-established production ahead of the other countries, thus forcing the rest of the economies to continue product development. ASEAN goods shipments to China grew 4.6% y/y in the lock-in months in total and between July to September of 2020, 10.5% compared to 2019, 5.6 billion dollars more.

In the G7 countries, spending was substantial compared to the rest. Italy, Germany, and Japan spent more than half of their GDP on fiscal and monetary measures to cushion and revive economic activities. While France, the UK, Canada, and the US spent between 40% and 25%. Europeans managed to revive their economic activities early.

The hardest-hit countries in the G7 were Italy, France, and England. Italy grew at an annual rate of 1.5% from 1990 to mid-2008, almost two decades. After the financial crisis, it began to decline by an average of 0.5 per cent every quarter. The impact of the bull run in 2020 in the second quarter resulted in the loss of one-sixth of its output, but because of the sizeable economic package of 7.7% of GDP, it managed to return to the levels it had between January and March 2020, the only G7 case that had a V-shaped recovery when looking at quarterly real GDP. All others look inverted √. (See graph no. x and y)

In France and England, growth from 1990 to 2008 was 2.5% per year. During the financial crisis, their GDP decline was brief. In 2009, they started their revival and resumed their limited growth level. In 2020, because of lockdowns and social distancing measures, they lost one-sixth of their production in the second quarter.

In the USA, under the Trump administration, it was decided to maintain social distancing measures, but not lockdowns as in Europe. The implementation of more severe measures was a state-by-state decision. The USA, on average, maintains a growth rate of 2.5% per year. Previous growth and stimulus packages avoided a total shutdown and prevented a more precipitous fall, as in the European economies, but record cases of contagion and deaths from the virus. US production lost about a tenth of its output, with unemployment rising from 4.4% in March to 14.7% in May 2020. In the last term, its real GDP remained below the levels of the previous year.

Fiscal measures in the G7 countries boosted their recovery. They spent the most, close to 50 % of their GDP on average compared to the rest. These large packages caused the "first rebound," i.e., Italy recovered to first-quarter levels during the third quarter of 2020, France, UK, and Canada recovered more than half, and Japan and the US less than half, measured in real terms.

The slowdown in US demand and unemployment impacted its main trading partners, especially Central America and Mexico, for remittances. In El Salvador and Honduras, remittances represent about one-fifth of their GDP, one-tenth for Guatemala and Nicaragua, and less than 5% for Belize, Costa Rica, Panama, and Mexico. The remittance of money from migrants to support their families at home eroded—the drop in employment in the US-led to a remittance decrease to Central America and south-southeast Mexico. In April 2020, during the sanitary measures applied in the USA, remittances fell 40% in El Salvador, 20% in Guatemala, with the same trend in the rest of the Central American countries, while in Mexico, the decrease was only 2%. According to Juan José Ling (2020), remittances to Mexico were maintained by the North-West region (Sonora, Chihuahua, and Baja California) because their migration process began much earlier South-East region of Mexico and Central America. The exiled northerners have more time in the US, citizenship or permanent residency, and better formal jobs.

In comparison, Latinos from Central America and Southeast Mexico work in the service sector, according to the MPI, in accommodation and food, home services, and construction. Social distancing measures held back their jobs. The slowdown in external demand (especially from the USA), remittances, and national social distancing measures made Central America the most affected region. North America lost 7.2 years of production, South America 8.3, and Central America 8.9.

Central America's economies have a close trade relationship with the US, except for Panama and Belize, as nearly half of their exports go to the US. Their shipments consist mainly of maquila textiles and animal and plant products. Migrants returned to their jobs during the third quarter of 2020, and transfers grew 15% compared to 2019. In addition to this boost, the vast US economic package increased its imports, and as a result, maquila exports from Central America, mainly

textiles, increased. The impact of the recovery of trading partners on national economies does not only apply to Central America. The early relaxation of US sanitary measures and its significant fiscal stimulus increased the demand for products in Latin American countries with strong trade partnerships. Such is the case of Central American countries, Ecuador and Mexico. The latter two countries mainly ship fuels, automotive, and electronics manufacturing to the US market. Due to the US recovery in the third quarter, Ecuador and Mexico had a significant boost of their GDP, having gotten back 21% and 53% of the lost production, respectively.

In comparison are Chile and Argentina. Chile's largest trading partner is China, which accounts for 31.8% of its exports, and the Asia-Pacific region. Exports of copper, iron, and lithium carbonate to these countries, kept its external demand stable throughout 2020. Prices were stable given low interest rates and Chinese demand. Argentina's main trading partners are Mercosur, the United States, and China, but exports declined. Its immediate shipments are soybean extraction residues, animal feed, and cereals, the most affected.

In Chile, Argentina, and the Dominican Republic, the boost provided by the economic packages, 22.2%, 11.3%, and 15.6% of GDP, respectively, strongly reactivated domestic demand at the end of 2020. There are cases such as Brazil and Peru where fiscal spending corresponded to a rapid increase in economic activity. Brazil spent 17% of its GDP on fiscal measures and cash injections and recovered 74% of lost output, while Peru spent 15.8% and rebounded 54%.

In several Latin American countries, there is no V-shaped recovery but an inverted square root recovery instead. The first impulse to recovery is external demand, mainly from the US and China, and the second impulse is much weaker, from recovered domestic consumption. Economic recovery depends on good management of external and domestic demand. For countries with previous high growth, it is easier.

2. THE IMPACT OF THE CRISIS ON DOMESTIC PRIVATE SECTOR BORROWING: A MARKET APPROACH

A review of the three groups of countries under study indicate that all showed a sharp jump in private sector borrowing on GDP ratio measured from the average 2019 ratio to the third quarter of 2020, last available uniform data. In the six Asian countries, the average leap was 11.9% more debt to GDP, with the reference being China with 10.1% and only the Republic of Korea having less corporate debt growth than its giant neighbour. The average level of corporate debt is 219.5% of GDP, with Singapore having the highest level of 349.5% of GDP and Indonesia having the least. The hypothesis here is that the complexity of the economies explains the levels. The more complex, the higher the ratio. Complexity is defined here as the number of dynamic linkages between sectors and branches inside the economy. International linkages are a measure of international credit. The greater the complexity and number of domestic linkages, the larger the number of inter-firm credit.

TABLE N° 2

Total credit to the non-financial sector (core debt), % of GDP							
Country	**2018**	**2019**	**2020**	**Q1 2020**	**Q2 2020**	**Q3 2020**	**Q4 2020**
Asia							
China	254.4	262.9	285.9	278.3	286.1	289.7	289.5
India	156.1	159.2	173.1	161.0	172.6	177.8	180.8
Indonesia	70.1	69.8	76.1	73.1	73.7	78.0	79.6
Korea	224.1	236.4	253.1	243.7	251.9	257.2	259.6
Singapore	271.9	300.6	327.5	306.4	324.0	332.9	346.5
Thailand	150.5	149.9	165.4	153.0	163.1	169.4	176.1
G7							
Canada	299.9	304.7	343.3	313.0	346.7	353.8	359.7
France	315.6	324.1	359.8	331.8	362.4	370.4	374.4
Germany	186.1	186.9	202.0	190.0	202.0	207.2	208.8
Italy	251.8	258.0	282.4	260.0	280.6	291.5	297.4
Japan	370.8	378.3	404.7	380.7	405.0	414.3	418.9
United Kingdom	268.6	266.3	293.9	271.4	298.7	301.1	304.4
United States	248.6	253.3	284.2	264.0	285.7	290.9	296.1
Latin America							
Argentina	115.4	117.7	125.3	115.6	123.3	128.6	133.8
Brazil	162.7	168.0	177.2	166.5	174.4	179.0	189.0
Chile	172.9	190.8	206.1	198.6	212.2	211.1	202.3
Colombia	112.2	113.0	128.2	120.5	127.3	132.1	132.7
Mexico	77.1	77.3	87.1	84.0	88.5	89.1	86.8

Source: Own elaboration with data from BIS

The G7 countries have also observed a leap by 13.1% between 2019 and the third quarter of 2020. The debt level is in the range of 317% of GDP, expressing the economic complexity of the most developed economies. The problem posed by the G7 countries not present in Asia is the dimension of the economic slump of 2020. While the Asian countries under review lost 3.4% of GDP, the G7 countries lost 6.5%, twice the proportion, and while the oriental economies hooked up to the Chinese locomotive, the Europeans hooked up to Germany. The US locomotive does not seem to pull many other countries other than Mexico and Central America, with not much strength.

TABLE N° 3

Real GDP growth rate, percentage change from the same quarter of the previous year

Country	FMI estimates	OCDE					
	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2020	Q4 2020
Asia							
China	2.3	-6.8	3.2	4.9	6.5	18.3	7.9
India	-7.3	2.9	-23.3	-7.5	0.0	1.6	20.9
Indonesia	-2.1	2.6	-5.2	-3.4	-2.2	-1.0	7.2
Korea	-0.9	1.5	-2.7	-1.0	-1.1	1.9	6.0
Singapore	-5.4	-	-	-	-	-	-
Thailand	-6.1	-	-	-	-	-	-
G7							
Canada	-5.3	-0.4	-12.6	-5.1	-3.1	0.3	12.7
France	-8.0	-5.4	-18.6	-3.6	-4.3	1.5	18.7
Germany	-4.8	-1.9	-11.3	-3.7	-2.9	-3.1	9.4
Italy	-8.9	-5.8	-18.2	-5.2	-6.5	-0.7	17.3
Japan	-4.7	-2.2	-10.1	-5.4	-0.8	-1.3	7.7
United Kingdom	-9.8	-2.2	-21.4	-8.5	-7.3	-6.1	22.2
United States	-3.5	0.6	-9.1	-2.9	-2.3	0.5	12.2
Latin America							
Argentina	-9.9	-4.8	-20.0	-10.2	-4.6	2.2	-
Brazil	-4.1	-1.5	-10.8	-3.9	-1.2	2.3	12.4
Chile	-5.8	-0.1	-13.7	-9.8	-0.1	1.3	17.2
Colombia	-6.8	0.1	-15.7	-8.2	-3.4	2.1	17.0
Mexico	-8.3	-2.0	-18.8	-8.7	-4.6	-2.7	19.5
Peru	-11.1	-	-	-	-	-	-

Source: Own elaboration with data from OECD & FMI Outlook April 2021 (July 2021 Update)

Latin America, observed through the lens of the six largest economies, had the most significant drop of all the three groups on average; 7.7% of GDP. The difference is that it has the least complex economies, so the average level of corporate debt is only 146% of GDP. An interesting factor in Latin America is that corporations borrow abroad extensively, even more than Governments. It is not the case in either Asia or the G7 countries that use the domestic financial systems. The difference in interest rates and cost of capital, much higher in Latin America than elsewhere. A possible explanation is the very high Herfindhal index that exists in the Latin American banking systems (see Acosta, 2021). The large size of the drop and the small size of the outstanding makes it less risky than in the G7 countries, the most exposed to severe financial crises, particularly Japan, France, Canada and the UK.

2.1 PRIVATE BORROWING BY TYPE OF DEBTOR

Private borrowing grew in the crisis year of 2020 in the world by an average of 12.5%—more household borrowings than corporate distributed it. Households took on money at a 20% annual growth rate in 2020 in the G7 countries, 18% in Asia and 15% in Latin America. Corporate credit grew by 9% in the G7 countries, followed by Asia also by 9%. The Latin American pattern is the opposite, where corporate borrowing grows more than in Asia but total credit to households grew more -15%- than corporate outstandings -13%-.

TABLE N° 4 A

Credit Growth 2019/3q 2020	Asia	G7	Latin America
Corporate+Households	12%	13,1%	12%
Total Credit Corporate	9%	9%	13%
Total Credit Households	18%	20%	15%

Source. BIS

TABLE N° 4 B

Credit/Gdp 2020	Asia	G7	Latin America
Corporate+Households	219.45	317.07	146.64
Total Credit Corporate	69.03	141.96	67.92
Total Credit Households	150.42	175.11	78.72
Source. BIS			

The size of this borrowing is that in the G7 countries, total private debt has a GDP ratio of 317%, distributed between 175% households and 141% corporate. In Asia, household debt is much larger than corporate debt,150% versus 69%. Latin America has a moderate household debt of 78% of GDP and a similar corporate debt of 67%.

Latin America has increased the debt-to-GDP ratio due to the fall in GDP due to Covid in 2020. The regional dynamics of indebtedness have been historically heterogeneous given the shallowness of the financial system in each country. It results from the characteristics of its productive and family-based ownership structure of companies. Domestic companies usually borrow domestically, while international companies can also supplement their debt with cheaper international credit.

Private debt accumulated since before the pandemic, and many companies can sustain these levels of indebtedness. However, in some cases, such as in Chile or Brazil, the ratio of private debt to GDP soared over a long period, showing that debt grew more than GDP and that credit has not generated the necessary dynamism in the economy. Rapid debt growth is often supported by high economic growth expectations, in some cases driven by expanding Chinese demand. These sectors, such as iron and copper mining or the production of soybeans and commodities in general, are exposed to changes in international prices, now supported by low-interest rates.

With historically low interest rates, prices are very high, but this gives a distorted picture of reality because, in the case of normalisation of interest rates, commodity prices will fall and a loss of corporate profitability and balance of payments problems.

Private debt acquired by companies' resident in a country considers both domestic and international creditors. It can be internal or external, short term and long-term loans of companies to their parent company. External private debt is mainly long-term and inter-company, which opened up the possibility for companies to bear the cost of losses at least for a while. Unless the parent company raises capital, no international company can withstand high volumes of defaulted loans from its subsidiaries and international customers for an extended period.

In Mexico, although the growth of the private debt-to-GDP ratio is somewhat limited, this is due to the low level of credit and investment observed during the last decade, accompanied by low economic growth. However, there is a possibility that inter-company debt may be higher in countries with underreporting in Mexico, Ecuador, and Peru. There is a significant presence of transnational corporations in these countries, whose inter-company transactions should appear somewhere. The average for the other countries was the approximation of what inter-company debt might be in these countries.

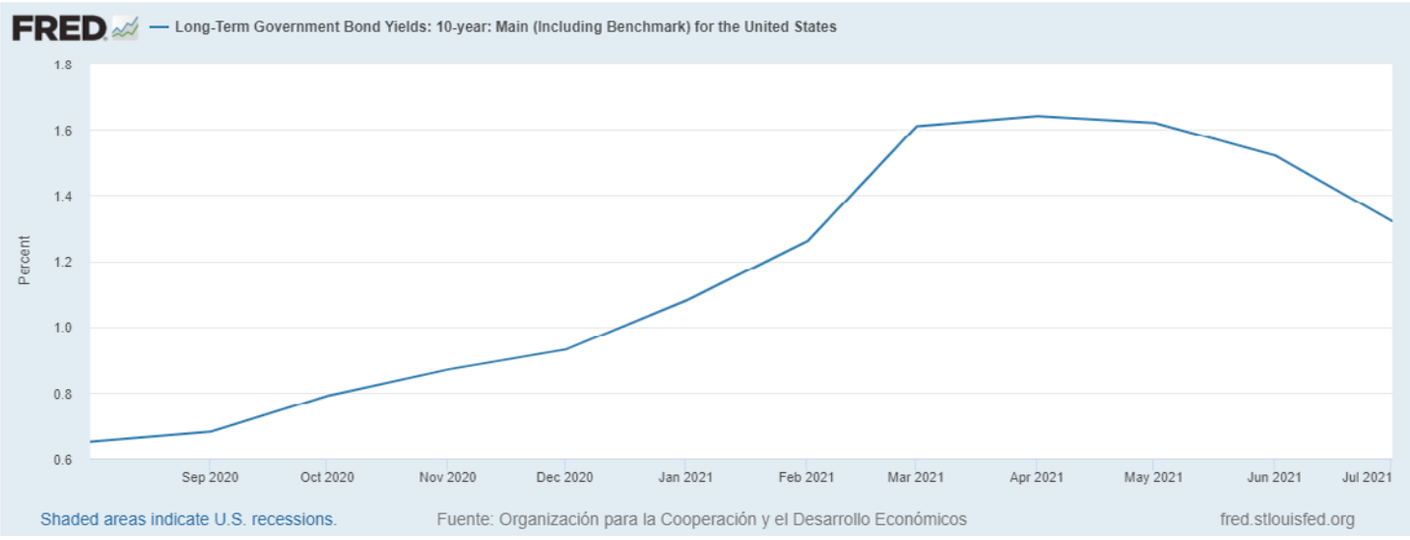
Most Latin American countries are below the average indebtedness of emerging economies at the international level, except Chile. However, they tend to increase their debt ratios, in contrast to advanced economies where a high level of debt and a relatively stable debt ratio have been observed over the last two decades and throughout the pandemic.

Private debt levels in Latin America are sustainable in the short term, as long as the Federal Reserve (Fed) keeps interest rates close to zero and commodity prices remain high. If primary exporting countries continue with accelerated indebtedness, changing the international interest rate will bring them closer to a delicate situation. The risk from mid-2023 onwards is that a scenario similar to that of the 1980s will occur: a rise in international interest rates simultaneously

with a fall in commodity prices. The Fed expects to raise the borrowing costs in 2023 from their rock-bottom levels and slow down the asset-purchasing program worth 1.4 trillion dollars a year, which could negatively affect interest rates on other longer-dated debt. More relevant, there has been a slow rise in long term interest rates since the end of 2020. (See graph No. 1)

Graph N° 1

Long term Government Bond Yields: 10 years: Main (including benchmarks)



Source: Fred, St Louis Fed. Seen on 17.9.2021

A diferencia de la década de 1980, cuando el gobierno asumió gran parte de las deudas privadas, en la década de 2020, con el entorno fiscal ajustado y el gasto de recuperación, los bancos centrales pueden desempeñar un papel más destacado como prestamistas de última instancia, proporcionando liquidez a las empresas de bancos comerciales para reestructurar sus deudas. La COVID indujo una caída en la producción que expuso al mundo a una crisis financiera derivada de la falta de ingresos de las empresas al acumular deuda privada y caída de sus ganancias. Existe fragilidad o inestabilidad financiera en la región derivada de problemas del sector privado. La evidencia muestra que la deuda externa privada es más sustancial que la deuda externa soberana en América Latina en la tercera década del siglo XXI.

Los gobiernos del G7 tomaron medidas excepcionales durante 2020 para reforzar la liquidez corporativa en respuesta a la crisis de Covid-19, lo que resultó en un aumento del apalancamiento y una expansión significativa de los balances. Por lo general, el interés de las agencias internacionales ha estado en la deuda soberana, cuyo índice ha aumentado rápidamente durante el último año, principalmente debido a la caída de la producción y levemente debido a los déficits fiscales. Sin embargo, la deuda privada en América Latina se ha emitido principalmente en el exterior, denominada en dólares, y excede la deuda pública, emitida principalmente en moneda local pero parcialmente en manos de inversionistas extranjeros.

En la región, la razón de deuda privada-pública más alta se encuentra en Chile (tabla 5). Le siguen México, Colombia y Brasil. Todos han reducido su exposición al sector privado desde 1998 pero permanecen en el rango del 100% en promedio. Se plantean dos problemas: alto riesgo de tasa de interés y alto riesgo de tipo de cambio. Las variaciones en el tipo de cambio o en las tasas de interés afectan inmediatamente el costo de la deuda debido a que los gastos operativos suben, y la rentabilidad cae inicialmente.

TABLE N° 5

Private-to-public debt ratio			
	1998-Q1	**Average**	**2020-Q4**
Argentina	114.2%	39.1%	22.9%
Brazil	118.2%	88.5%	92.7%
Chile	884.0%	684.7%	429.6%
Colombia	341.1%	135.6%	101.1%
Mexico	162.1%	120.1%	106.7%
Source: table 6			

The problem posed is that the decrease in corporate revenues in 2020, resulting from the global closure due to COVID-19, could lead to companies experiencing losses that trigger defaults. This situation leads to increases in systemic risk and risk premium and a downgrading of international credit ratings. The European Central Bank's solution is to continue buying private debt, injecting liquidity. The Fed takes the same approach. This approach is not present in Latin America's central banks.

High levels of private external debt could lead to a costly renegotiation process to reduce or restructure it. The question is whether this would be done by private agents or by the state as a guarantor of the country's economic activities. In the hypothetical case that this happened, private sector debt could become a burden on the public sector.

In 2021, the problem is not a lack of foreign exchange as in 1982, but possible corporate bankruptcies. The problems for Latin American governments arise from the limited fiscal space that countries in the region have and the debt servicing obligations they already have. In addition, there is the need to allocate resources to revive the economy and meet the priority needs of their populations.

These high levels of private external indebtedness represent a challenge for growth and exchange rate policy. While debt acquired in foreign currency requires the exchange rate to remain stable, not increase the cost, the non-primary export sector requires a depreciated exchange rate. According to the mandates of each central bank, they could make different interventions in the foreign exchange market. However, the exchange rate fluctuations seen in 2020 derived from the Fed's policy of liquidity injection in March, which on the one hand depreciated the dollar and on the other hand appreciated Latin American currencies after March.

The post-COVID 19 economic environment looks complicated. It shows a slow recovery and low growth rates. Governments and companies face the need to take on more debt to solve the complicated liquidity situation. Cooperation in an economic recovery policy between finance ministries and central banks with expansionary monetary and fiscal policies will be necessary to

restore employment and production levels. Only in this way will the conditions exist to generate the necessary fiscal revenues, service the public debt and private profits, and pay the interest on their internal and external credits. What remains as global private debt problems will have to find novel mechanisms to make them manageable. It will have the effect of further changes in the international financial architecture.

The tables above point that private external debt is as large as public for three of five countries, as are the cases of Brazil, Colombia, and Mexico. For Chile, exceptionally, private external debt is four times larger than public external debt, and for Argentina, the public debt is four times larger than private debt. The rule appears to be that public and private sector external debt are the same size except in some cases and that there is no general trend between domestic bank external debt and non-financial sector external debt. The private sector external debt range lies between an average of 28% of GDP to 128% of GDP for the twenty-two years' period between 1998 and 2020. After the 2020 crisis, it rose by an average of 20% of GDP, to a range between 24% and 164% of GDP.

TABLA N° 6

Non-financial sector credit as % GDP			
	1998-Q1	**Promedio**	**2020-Q4**
Argentina	17.7	13.4	12.4
Brazil	16.5	13.3	20.7
Chile	32.8	48.6	74.4
Colombia	20.8	18.5	16.1
Mexico	13.4	17.8	24.0
Banks % GDP			
	1998-Q1	**Promedio**	**2020-Q4**
Argentina	20.0	14.8	12.5
Brazil	32.2	48.3	70.2
Chile	55.6	71.8	89.7
Colombia	33.1	34.8	50.6
Mexico	20.8	15.2	20.8
General government % GDP			
	1998-Q1	**Promedio**	**2020-Q4**
Argentina	33.0	71.9	108.9
Brazil	41.2	69.6	98.1
Chile	10.0	17.6	38.2
Colombia	15.8	39.3	66.0
Mexico	21.1	27.4	42.0
Total private sector external debt % GDP			
	1998-Q1	**Promedio**	**2020-Q4**
Argentina	37.7	28.1	24.9
Brazil	48.7	61.6	90.9
Chile	88.4	120.5	164.1
Colombia	53.9	53.3	66.7
Mexico	34.2	32.9	44.8
Source: Own elaboration with BIS data			

2.2 A MARKET MECHANISM TO FACE PRIVATE-SECTOR ECONOMIC RECOVERY

An instrument to face severe debt problems while not injecting cash into the system is zero-coupon bullet debentures. Converting each private firm's debt into one or many zero-coupon bullet bonds with a one to five-year period would be a market mechanism, consolidate all the smaller debts into one colossal instrument, and give the firm time to recover until it repays the debt. The way it would work is that all private sector firms that have debts to smaller companies or banks add the amount to one large sum to know the size of the bind that would be issued.

The investment bank, or the national development bank if it were the case as in Brazil, would then issue one debenture for that amount payable in a given time, according to the estimates of the economic recovery of the firm, and it could range from one to five years in order to issue them in the local debentures market in local currency. The Central Bank would supervise the operation and guarantee it against physical collateral. The money received from the sale of the debentures would then pay all the debts in the list and keep some money for working capital. A debenture fund is required to put money into it accordingly until the debt becomes fully paid. The payment would be on the date agreed on the instrument, including interest. The explanation for the instrument is that it provides time to the firm with problems and does not require a massive Central Bank intervention which could have monetary inflationary effects such as that observed in the US in 2021. If the firm recovers the money needed to pay its debts ahead of time, it can pay them back and return to the domestic small-scale credit market. If it cannot, it complies with the debenture agreement and returns to the domestic credit market.

In the case of international private credit, the mechanism is similar only that the domestic debenture serves to purchase foreign currency to pay the external borrower, and the debtor holds from then on local currency debenture debt, thus doing away with currency risk. It, in turn, takes away currency market pressure on the exchange rate bringing in more currency stability.

2.3 LESSONS LEARNED FROM RESTRUCTURING/RENEGOTIATION PROCESSES IN LATIN AMERICAN COUNTRIES AND COUNTRIES IN OTHER REGIONS

The international system could absorb losses when necessary to avoid the depression of the then advanced economies destroyed by the Great War. The introduction of the concept of non-debt-collection was an innovation leading to debt cancellation by all involved. It undoubtedly was fuelled by the need for economic recovery from the depression and the recovery of international trade. This initiative was not retaken when faced with the depression of medium and small economies.

It is possible that the use of dispute settlement mechanisms, with financial relief instruments at hand, may stabilise the international system in times of large cyclical imbalances. From the international political economy perspective, various analytical approaches serve to understand the international institutionality and its (dis)functionality to the financial system. While a new architecture is under construction, keeping the old dysfunctional one may be more damaging than having none at all in the meantime. Conclusion: there are elements to consider substantial changes in the new architecture, despite the frontal struggle of the IFIs to maintain their power. The vanguard belongs to the investment banks (CACs) and the Bank for International Settlements with their instrumental and regulatory innovations (Basle I, II and III) reshaping the unpaid debt solutions from Government based to market-based.

Government defaults had different forms of resolution depending on the size of the domestic market. There were solutions put forward by the debtors, in the case of southern states of the United States, the allied governments of the First World War, or Germany both in the inter-war and in the second post-war period. These, however, are not applicable when debtors are smaller, less relevant in terms of market size. In most other cases, the solutions come from the creditors. There is a long list of failed approaches by the Paris Club since 1988 to deal with Government-Government debt during the 1980's debt crisis, and there is the 1980s resolution mechanism for sovereign bank debt that had the so-called "staircase effect" where debtor nations fell under the costs of refinancing. The "staircase effect" results from lending money to the debtor country to meet a specific years' payment. It raises the debt level step by step every time there is a new

round of refinancing. In the eighties, five or six rounds of refinancing were done in Latin America with the effects of increased debt levels while transferring resources from peripheral depressed economies to the central ones. [Ugarteche, 2018] That ended with the 1987 Bresser Pereira's initiative of transforming the debt into bonds, later taken up by Secretary of the Treasury Brady and now known as The Brady Plan.

2.4 LIMITATIONS OF CURRENT INTERNATIONAL FINANCIAL GOVERNANCE, THE ROLE OF THE IMF, THE PARIS CLUB'S ROLE, FINANCIAL MARKETS, SPECULATION, AND DECISION-MAKING POWER FROM OTHER JURISDICTIONS

The power structure of the international financial architecture has changed. From what was a self-regulating closed system, with the IMF at the top and commercial banks at the bottom of the hierarchy, it turned into a new structure with mass communications and information entering the scenario as well as oversized institutional investors and a leading role to academia with new theories, opinion makers and highly trained human resources.

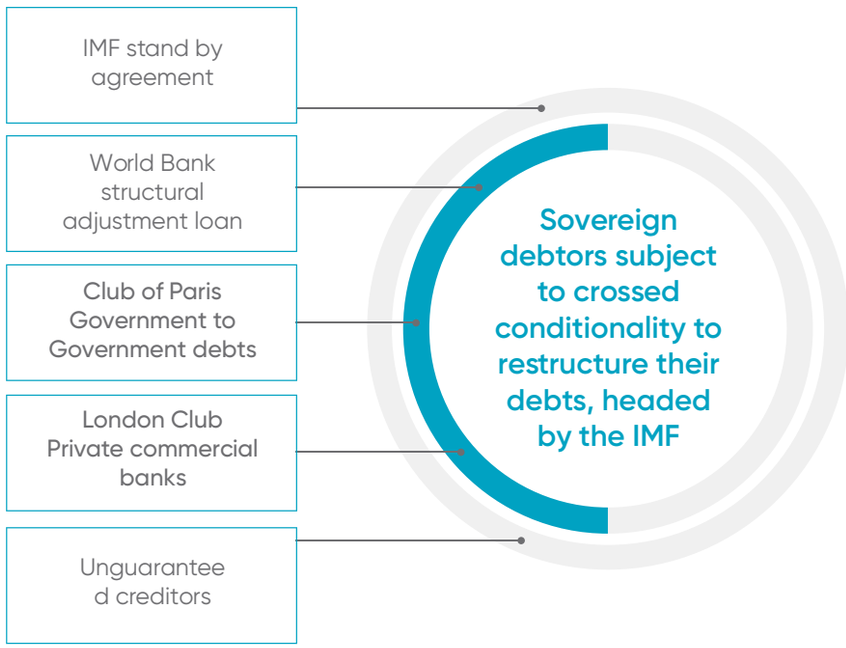
CHART N° 1

Actors in the new open interrelated international financial structure

Issues are pending from the role of the IMF. Its function as a foreign policy arm of the United States does not help its role as a stabiliser of the international economy, given the United States mostly is interested in itself against global stability. The role of the IMF as not as a lender of last resort but as a debt collector was not very promising in the 1980s. The position of economic policies only to pay back debt and not wait until there was a restoration of an economic dynamic was very unhelpful for what it should do. Crossed conditionality was the characteristic of the previous hierarchy with the condition to negotiate private bank London Club debt after having settled the Government-to-Government debt with the Club of Paris. In turn, this was possible only with structural reforms introduced with World Bank loans and conditions. Finally, this was possible only if an IMF stabilisation standby agreement was entirely in place.

CHART N° 2

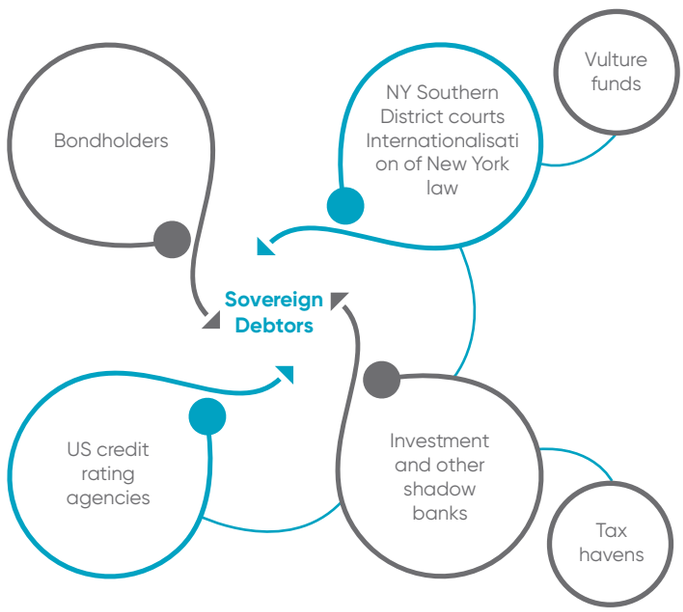
Hierarchy of the old international financial structure



Having assumed the role of money doctor it did not have initially, it became trapped by the interest of its leading members and not by the majority of its membership. The Treasury designed the IMF in 1944 when Governments were relevant and international issues supreme. The world economy transformation in the 1980s into a market economy with a reduction in the State role and a surge of the global instead of international issues changed the institution's systemic place falling prey to its policies. The new transitory design of the architecture shifted responsibilities with sovereign debtors dealing directly with bondholders and them suing the Governments in the New York southern district courts. The credit rating agencies became the bondholder agency and not the IMF directly. The place of tax havens as centres from which operations happen not to pay taxes goes straight against the purpose of the Fund with its tax division. The previous pyramid, where first there was an agreement with the IMF, then with the World Bank, later with the Club of Paris and finally the London Club, faded as commercial bank sovereign debt all but disappeared. Sovereign debtors in the 21st century relate to bondholders directly or through investment and other shadow banks. They, in turn, invest following credit rating agency recommendations. If anything goes wrong, the New York southern districts courts are in charge, and bondholders unload their investments unto more prominent investors or vulture funds.

CHART N° 3

Institutions in the new open interrelated international financial structure



3. THE IMPACT OF THE CRISIS ON PUBLIC SECTOR BORROWING: A NORMATIVE APPROACH

3.1 THE PROBLEM WITH OFFICIAL DEBT: A NORMATIVE APPROACH. SOME HISTORY

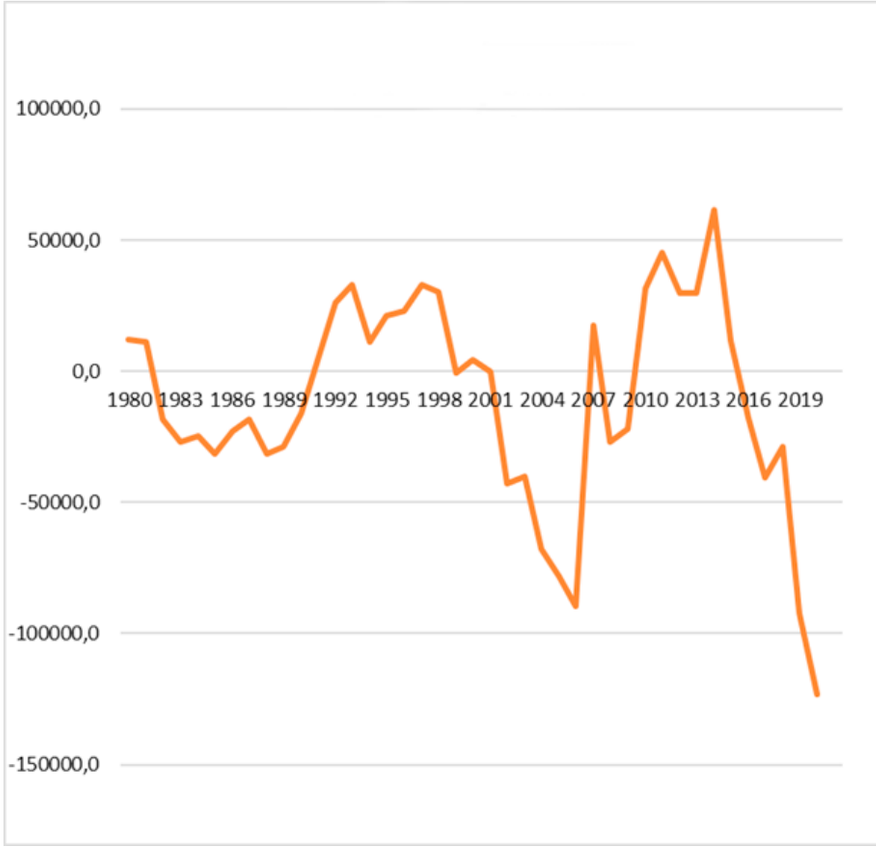
The solution for developing countries debt problems during the 1980s had at its centre the debtor's impossibility to return to the creditor's table for further negotiations. All agreements, beit of private bankers or bilateral creditors, were definitive agreements. It meant not being subject to reconsideration, refinancing, nor rescheduling. The solution's principle was to restructure the entire debt stock on the same terms by the Paris Club and the Brady Plan bonds, with a symmetrical calendar to achieve parity between creditors. IFIs do not either reschedule or refinance debts with the argument that they, in turn, borrow at the international bond markets, and it would hurt their credit ratings.

These definitive agreements had export and GDP growth projections supported with the blessings of the IMF, who provided the technical assistance and the proper recommendations. As is well known, these schemes turned out to be fruitless in the face of later events in the international economy in the 1980s and the lack of results of the economic policies recommended, and they landed in the Brady Plan for the repurchase of the debt at a discount against the issuance of FED guaranteed bonds. The average GDP growth rate in Latin America recovered from the depression of the 1980s but remained very small. At the same time, net resource transfers followed its cyclical pattern, positive in the 1990s and negative in the next decade to become positive again after 2010 and negative after 2016, with an accelerated cycle. At the same time, export

growth has not led to GDP growth at the high expected rates. The international context appears to have changed unexpectedly, with a slowdown of the US and European economies since the 1980's and faster growth in China and Asian countries after 2000.

Graph N° 2

Latin Americana Net Resourse Transfers 1980-2020 in USD



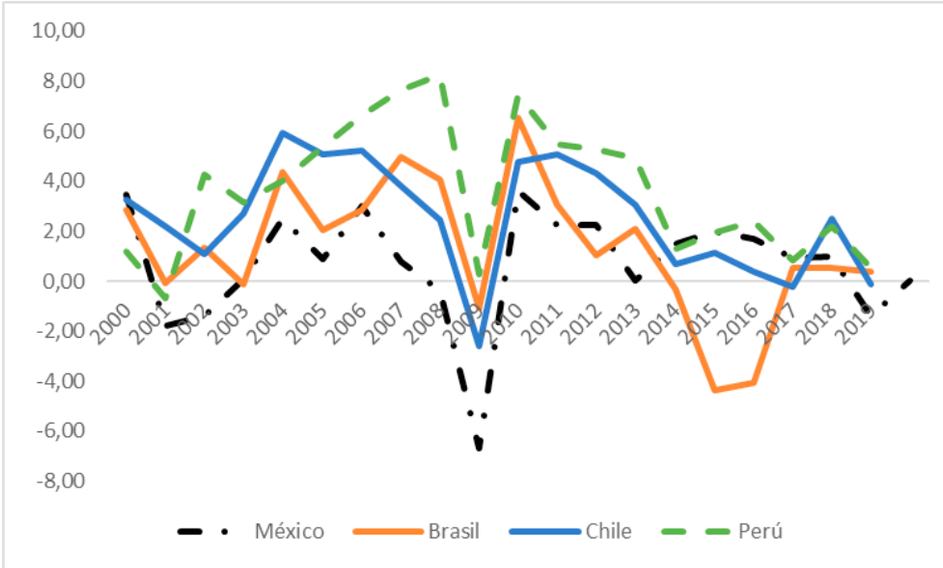
Source: ECLAC Stats

The mechanisms devised for the definitive debt solutions in the 1980s proved inadequate for an international environment as adverse as Graph 2. The overall world economic slowdown has not assisted in improving GDP growth rates in export-led open economies in Latin America, and negative net resource transfers press Governments in Latin America and elsewhere. A systemic crisis of significant dimensions was never in mind either for 2000, 2008, or 2020. The question is where to turn.

The discussion on debt payment conflict has been directed towards collective action clauses solely. Nevertheless, the resolution must include and avail all debtors, from the smallest to the major ones. The sharpest critique to the solutions sought in the early nineties is that they were flexible to export income and GDP improvement but not to their possible decrease, as in 1998-2002, 2008-2009 and 2020.

Graph N° 3

GDP Growth Rate for selected countries of Latin America



Source: ECLA Stats

None of the mechanisms devised allowed the possibility of revising the legitimacy or not of the rescheduled loans. Creditors have the right to recover their loans, as long as they are legitimate and debtors not be forced into an inhumane situation. It is an old discussion washed over by time.

The proposal is to create an International Board Arbitration for Sovereign Debt to prevent as far as possible major economic crises from occurring and hurting emerging nations. Governments must have the space to restructure their loans in the context of unforeseen circumstances, like the wild NRT swings, before they enter insolvency, when liquidity issues arise, to assure stable GDP growth under the adverse context. It should become a part of debt management when market mechanisms become costlier. It is not an insolvency procedure despite having some of the same traits as standard insolvency procedures. The need for debt relief in the way of rescheduling, or debt reduction, must be faced before the Government enters payment difficulties to prevent austerity policies and massive reductions in public expenditures that lead to massive reductions in economic growth.

The proposed new architecture must include a new set of rules and institutions:

1) A universal legal code will ensure all creditors have the same rights and all debtors the same duties, with the exact enforcement mechanisms. It is analogous to what has occurred with international trade law in a process led by a UN commission called United Nations Commission on International Trade Law (UNCITRAL). Currently, international loans are signed using domestic laws of the US and UK.

2) It is clear that these problems recur. An International Board of Arbitration for Sovereign Debt replaces the Paris and London Clubs and the bondholder's committees as a new negotiation forum. It should have a small secretariat as a part of the UN system that will function regularly and serve UN member countries.

3) The IBASD Secretariat will recommend arbiters that creditors and debtors will select in exact proportions with the presidency decided by both sides in order to have an uneven number of board members. The inspiration of the IBASD lies in the Board proposed for the German debt agreement of 1952. (Hersel, 1998)

4) Collective Action clauses must be incorporated into all new instruments for the recommendations that follow to operate. These consists of clauses whereby a majority of bondholders represent all, using the Mexican precedent.

3.2 THE OBJECT OF IBASD

The object of the IBASD is twofold: to ensure stable economic growth in the debtor countries and that the costs of international instability are shared evenly by all creditors and debtors alike. Procedures for the use of such a mechanism should begin in two different scenarios:

A) Crisis prevention: When the ministry of finance of the debtor country foresees that debt payments will substantially restrict growth given some adverse external factor or an act of God, it should ask IBASD for a standstill and a restructuring. For debtor nations, a sudden rise in international interest rates as occurred in 1980-1982 when it jumped from –3.2 to + 26% would have been a good reason to prevent an imminent balance of payment crises through a complete debt renegotiation. Developing countries lost a decade of growth in the 1980s and the second decade in 2010 due to external factors. In international loans, there is no insurance against unreasonable jumps in interest rates generated by the monetary policy of any particular leading nation. Attempts made at indexing bonds to GDP growth had no success for the reason Raffer suggests.

B) Crisis resolution: Debtor nations face overhangs that surface because of the bunching of maturities or unforeseen circumstances. (e.g., massive adverse capital movements that

generate a currency depreciation or a world GDP contraction) Alternatively, any other unforeseen and unpreventable circumstance and find themselves incapable of paying.

The difference between both approaches is that the debtor country will not suffer a setback due to a debt crisis in the first and preferable case. A foreseen significant fall in exports, fiscal revenue or GDP or a sudden rise in interest rates should be sufficient to request a standstill and a complete debt restructuring or some debt refinancing.

The second case, the current post-COVID crisis, is damage control, similar to what HIPC tried to do. The IBASD may opt between some debt refinancing and the entire debt rescheduling with the prerogatives to recommend one time haircuts from all creditors. From the evidence of the 1980s, continuous refinancings result in a ladder effect and increase the cost of the debt, unnecessarily giving the creditors an additional rent at the cost of depressed economies. This rent is because the unpaid interest goes to capital in every refinancing, and creditors charge commissions on the entire amount. When done frequently, like in the 80s, the debt increases exponentially, mainly if international interest rates are high, which is usually the reason why the debt crisis comes to a head in the first place. The outlook from existing negative interest rates in 2021 is that they will rise sooner rather than later.

3.3 THE IBASD AND WHO CONFORMS TO IT

The IBASD is a Secretariat responsible for receiving the requests of debtors to restructure their international debts. This office will have a small team, is placed at the Secretary General's Office or in UNCTAD. It will work with the IMF for technical assistance in DSA's. All UN member countries belong to this in the position of debtor or creditor. It will be responsible for calling the standstills and requesting debtor protection of the sovereigns to all national jurisdictions where the debtor State has a financial conflict. It would replace the Club of Paris for official debts.

From the debtor side, no creditor should be exempt from participating in the Board. The payback solutions designed for bondholders should apply to all creditors, save the IMF.

Currently, preferential creditors take advantage of the concessions provided by other creditors at the Club of Paris, making them more capable of recovering their loans. The argument that multilateral banks finance themselves in the bond market does change their country risk from ordinary bondholders, except for the better as they have more detailed country information and less risk. Some could argue that IFIs lent countries to high-risk periods. However, WB/regional development banks lend in countries to extend major contributors' institutional and national agendas while changing the borrower's economic, social, and cultural policies. If these policy changes lead to debt failure, they should bear the weight of the mistake. The IMF is excluded as long as it remains a balance of payments finance institution and lender of last resort.

3.4 DEBT SUSTAINABILITY ANALYSIS (DSA) AND DEBTOR PROTECTION

One possibility is to start the Debt sustainability analysis (DSA) in the belief that the debtor Government cannot meet its payments. Creditors, bondholders and Governments, have little or no leeway when a debtor finds it cannot meet its payments. with parameters and thresholds according to the current total public debt landscape. Something to this effect should be used by current IMF DSAs. There needs to be a consensus on using the DSA instrument in each case, and its projections should help IBASD decide when to order a standstill. It must be borne in mind that given long-existing austerity measures, the substantial reduction of Government wages in developing economies has harmed meeting the SDG, and a sustainable debt level must help meet them.

The request for sovereign debtor protection should be via the IBASD secretariat. The lack of it gave way for the Elliot/Argentina conflict. When the secretariat, as a UN agency, demands it, UN member countries will abide. Debtor countries are sued, tried and regularly blocked under US law, as the Argentine case showed. Domestically debtor protection is simple. Internationally it is unknown because there has never been such a precedent. Usually, the debtor should seek its protection, but where? under what jurisdiction? Every one of them, domestically? Most private loans are hired via financial havens using New York or London law. Government bonds

have these features. The secretariat should demand debtors' protection in all those jurisdictions where there is credit outstanding. It is unclear in what jurisdiction the IBASD demands protection and grants it. The worst financial blocks are in the Euroclear system, which happens in New York under New York State Law and SWIFT, but others are in every country. One initial role of the IBASD secretariat, or working group, could be to demand an immediate standstill and debtor protection worldwide.

3.5 IBASD SECRETARIAT

In order to have the right to debtor protection, the IBASD convention would have to be established and signed by UN member countries who want to participate. This feature does not exist in the SDRM, the FTAP, or the Schroeder and Berensmann initiative. The US is not interested in this as they believe that international law weakens domestic law and US world power (Bolton in The New Yorker). The US has a bilateral arbitration board for debtor countries under the FTA with the Andean the Central American nations under the investment clause, yet it is insufficient. The international financial code is a long-term aspiration that will support international financial authority much as the UNCITRAL supports the WTO and international trade. IBASD is strongly related to SDRM and the Chapter 9 mechanism proposed in the FTAP. It owes to all of them and has as a significant difference the elimination of creditor preferences. No creditor in this proposal is exempt from a global rescheduling. The idea is that Governments and private creditors do not have any reason to give debt relief that will avail the payback capacities to other multilateral creditors, who profit as free riders. The financial cost will be slightly higher interest rates, but the advantages far outweigh these. Middle-income debtor countries are full of free riders that profited from the debt reduction schemes of G7 Governments and private-sector creditors. The most critical free riders have been the IFIs.

The permanent secretariat at UNCTAD could be a start. UNCTAD has a debt monitoring system and relates to mostly all central banks globally in a technical non-coercive manner. The secretariat's role would be to ensure that the debtor's rights are honoured and guaranteed and coerce those who do not comply. E.g., if Argentina could not press creditors into respecting its

debtor protection rights in the face of Judge Griesa's orders[2], smaller countries would have even less so. The secretariat would level the playing field for all debtors and creditors alike. The IBASD orders the universal standstill after the panel verifies the filing for the insolvency procedure. It does not worsen the debtor's position and clarifies that the standstill will be applied by all creditors at the same time everywhere around the world, which today is inexistent. IBASD tries to construct a global rule of law for all creditors under a procedure similar to creating an international trade law. Raffer[3] 1990 agrees with this point. There is agreement that collective action clauses are essential to prevent free riders within bondholders, but they do not reach Governments. There is no evidence that CACs raise spreads so that the concept can be extended conceptually to Government debts.

The convergence of IBASD with the other mechanisms lies in creating a board of arbitration that will work out a feasible debt repayment calendar. It is related to the DSA considerations. The SDRM is only for bondholders and private creditors, while IBASD includes all. FTAP considers all willing creditors. The IBASD should be a permanent mechanism, much like the arbitration boards derived from the 19th century British Bondholders Corporation, with a permanent window that calls for specific commissions to get organised for each case with a permanent status within the UN system. The IBASD cannot use the Paris International Chamber of Commerce system, given that it deals solely with private creditors.

Much as in the personal treatment of bank debts, the capability of debt paybacks under a long-term calendar and fixed interest cost is the base. The distribution of the weight of the

[2] Manzo, A. G. (2018). Enforceability of judgments against sovereign States: critical analysis of the NML vs. Argentina injunction. *Revista Direito* GV, 14, 682-706.

[3] El IBASD trata de construir un estado de derecho global para todos los acreedores bajo un procedimiento similar a la creación de una ley de comercio internacional. Raffer está de acuerdo con este punto. Hay acuerdo en que las cláusulas de acción colectiva son esenciales para evitar los pasajeros gratis dentro de los tenedores de bonos, pero no llegan a los gobiernos. No hay pruebas de que las CAC aumenten los diferenciales, por lo que el concepto puede extenderse conceptualmente a las deudas de los gobiernos.

debt over time is the definition of debt sustainability in its original Withers definition of 1927. This distribution should be such that the debtor can meet the fiscal and balance of payments terms. If there is agreement that debt should not be more than X per cent of the national budget and that to meet the SDG, there must be budget considerations for health, education, sanitation and infrastructure, that should be the base, considering a certain wage level. Otherwise, those expenditures would remain at the cost of depressing Government wages and assuring slow economic growth. Using very long-term instruments with fixed interest rates is the second step.

Typically, the external balance of payments side has a domestic fiscal counterpart to it. The fiscal problem happened with the COVID GDP contraction as international reserves grew, given a drop in imports. It has consequences when building the debt sustainability analysis thought from a balance of payments analysis. Debt solutions must consider the fiscal side and make tax considerations and recommendations with the SDGs in perspective. The approach that debt problems result from a balance of payments deficits and lack of international reserves is mistaken in 2020.

3.6 THE LEGITIMACY OF THE DEBT

It is an issue that has had many discussions and became a weapon in the Ecuador case, giving the country the possibility of a cheap buyback with no clear evidence of illegitimacy. However, IBASD could hire international auditing firms to revise loan documents when there is suspicion of corruption. Another approach could be that all IBASD procedures require an international loan audit if the proper domestic authorities did not already do it in the cases where the audit finds indications of corruption. Raffer suggests that it leads to a declaration that they are “null and void”.

3.7 NO CREDITOR/DEBTOR DISCRIMINATION AND THE ELIMINATION OF FREE RIDERS

Debt cancellation for the poorest countries in this approach should be immediate and unconditional given they have no payback capacity and that conditions placed on them have

further damaged their capacity to have economic development, even less to work their way towards the SDG. Negative resource transfers from countries with income levels of under 1,500 PPP dollars per capita and massive undernourishment speak of the creditors' exertion of power. While it is correct that up to 100% of multilateral debt is cancellable, the concept should be kept to all creditor categories under the same treatment until the negative net resource transfer becomes cero or positive. The conditionality should be related to economic, social and cultural rights. The SDGs is one step in that direction.

3.8 THE IBASD AND WHO CONFORMS TO IT

From the debtor side, no creditor should be exempt from participating in the Board. Currently, preferential creditors take advantage of the concessions provided by other creditors at the Club of Paris, making them more capable of recovering their loans. In a truly global world, an International Corporation of Foreign Bondholders and Creditors should exist that represents the interest of all lenders. During the early part of the 20th century, two existed, representing British bondholders and US bondholders. Those were all the categories of creditors that existed. After WWII, the Club of Paris was established for Argentina and later the London Club of bankers. Currently, Asian markets are essential and seem to be the lead bondholders and official creditors globally while no international association exists.

The opposite side should be an International Association of Debtors that would have as its prime objective the interchange of information on negotiations and the use of leverage to counterbalance the overwhelming weight of creditors. Both would give the world economy more governance and have representation at the IBASD. Other creditor parties would also name a representative at the Board, and the debtor would name as many as the other party. A civil society representative would sit on the Board for the debtor to ensure ESCR are respected, and the procedure would be in public hearings, using the Chapter IX procedures proposed by Raffer.

3.9 THE PAYBACK CONDITIONS

Helpful to the process is a debt sustainability analysis (DSA) with reasonable SDG objectives and a long-term view of the balance of payments, fiscal variables, income distribution and GDP growth. The new projected payback schedule should adjust to reasonable assumptions in the DSA, with a one-time haircut in the capital amount. That should be the adjustment variable. In this way, the debt/GDP projections would hold. Otherwise, what occurs is that year by year, debt reductions coerce the debtor little by little until the total reduction happens, but the one-time relief on total capital owed is forfeited, and the result has been prolonged growth.

The social and economic conditions placed for the rescheduling or refinancing of the debt, as the case may be, must be based on the principles of the Economic, Social and Cultural Rights charter ensuring that those goals continue receiving the advantages of the new payback calendar. Development is the only way out of a debt stranglehold, and investing in more and better education, broader health services, projects for the poor, and increased investment in sustainable infrastructure are a part of this. Redistribution policies are necessary to alleviate extreme poverty. Debt payments must not mean that the population loses its wage levels and that the people end up paying the rich nations more than they ever received, as we saw during the 1980s and part of the '90s. Debt payments must not mean that domestic savings and consumption export introduce a depression into the domestic economy or policies in the short term.

On the other hand, ESCR quantifiable goals prevent populism and the temptation to manage public expenditure without control. These conditions are required to put public expenditure on leash—the questions are who places them and how to monitor them.

TO CONCLUDE

There are two different problems poised in the post-COVID crisis. One relates with private external debt, large and small, and the other with possible Sovereign debt problems resulting from a loss of fiscal revenue. The first one needs to have a domestic solution within the domestic financial markets. The Central Bank can deal with this with a window that receives physical guarantees and issues guarantees for bullet bonds payable three to five years. It could allow businesses to consolidate their external debts intone major bind issued domestically with a Central Bank guaranty. The Central Bank would take physical guarantees in order to do this.

The Sovereign debt currently has two spaces for financial renegotiations: The Club of Paris for official debt and the Club of London for private banks. There is no Council of Foreign Bondholders of the United States nor Foreign Bondholders Protective Council. It calls for creating an International Board of Arbitration for Sovereign Debts as described above, where no creditor would shun from the agreement; neither bondholder, supplier, Governments, nor multilateral banks.

The G7 countries coordinate, allowing for countercyclical policies because they have reserve currencies and can sustain massive fiscal deficits. The rest of the world (180 countries) follow pro-cyclical policies and are pushed deeper at times of world economic slowdowns. The G7 reserve currency countries can hold massive fiscal and external deficits while the rest finance them with their surpluses, reversing the logic of richer countries financing poorer ones. This process harms the stability of developing countries and makes for an unequal world with increased income concentration.

Finally, the nature of the current world crisis, the uncertainties created, and the need for new proposals for a global world require new institutions and a new international financial architecture. An international arbitration board for sovereign debts is a kingpin for the new, more democratic international financial architecture and a stable world economy.

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