CENTRE FOR ECONOMIC POLICY RESEARCH

CEPR

July 2020

# Averting Catastrophic Debt Crises in Developing Countries

## Extraordinary challenges call for extraordinary measures

Joseph Stiglitz and Hamid Rashid*

Columbia University

## I. Introduction

The world is facing two highly correlated risks of a devastating pandemic and a rapidly unfolding economic crisis. Fighting the pandemic required governments around the world to impose lockdowns and restrict economic activities for several months, which made an economic crisis all but inevitable. Developed economies – rolling out large stimulus measures – will likely survive the economic tsunami, though even they will be hard hit. The fate of developing economies is less certain. A third risk – an impending debt crisis – hangs like a Damocles' Sword over the developing countries.[1]

Notwithstanding the magnitude of the economic and health challenges, developing countries can still avoid a crippling debt crisis with extraordinary measures. The consequences of a debt crisis at any time are devastating. Latin America's lost decade is generally attributed to that region's debt crisis; the Greek debt crisis – plunging the country into a half-decade long recession – is yet another example. But as part of, and in the aftermath of, the pandemic the effects could be far worse, especially for the afflicted countries that are home to 70% of the world's poor. Many of them are fragile economies. A balance of payments problem – say, from a decrease in export earnings precipitated by Covid-19 – will easily catapult them into a debt crisis. A full-blown debt crisis will inevitably force painful cuts in government spending, including on health, education and other social sectors. Such spending cuts will lead to years of low growth and high unemployment.

The United Nations has described vividly the magnitude of the problem. More than half of countries worldwide – and two-thirds of the world's population – will suffer the consequences of inaction. Stagnation and high unemployment in developing countries will push 140 million more into extreme poverty, breeding discontent and instability and wiping out years of development. Their recovery from what the United

* The views expressed here do not reflect the views of the United Nations or its member states

1 Many of them are also facing yet another risk. The United Nations Secretary General recently warned against the worst food crisis in 50 years (Guardian, 2020).

Nations (UNDESA, 2020) and the IMF (2020) predict will be an unprecedented global slowdown will take years.

The potential political consequences are obvious: there will be unrest, and in some countries, with ethnic and other fractures, civil strife.[2] But these problems will have global consequences. Political unrest often spills out across borders. Discontent, unrest, instability and conflicts will spread within and across countries. These dire economic consequences will not spare the developed economies. Millions in Africa, South and Central America and South Asia – desperate to find jobs – will begin to leave their countries *en masse* and overwhelm the border walls of the rich countries Europe and North America. A costly migration crisis will divert attention away from the climate crisis. A perpetual cycle of crises could become the new reality.

The credibility of the multilateral system will indubitably be tarnished, with millions suffering the consequences of an *avoidable* debt crisis. Almost surely, and deservedly, the global financial structure and the democracies of the West will get part of the blame for failing to prevent the catastrophe. The international community has recognised the gravity and the urgency. The United Nations has called for immediate debt relief for the least developed countries and other low-income countries in debt distress (United Nations, 2020). The G20 has rightly called for a moratorium on debt servicing for low- and middle-income countries (G20, 2020). But beyond the calls, there is little progress. The stay on *official* debt for the poorest countries that they called for was a beginning, but just a beginning; it didn't deal with private debt, it didn't deal with the debts of emerging markets, and it didn't deal with the restructuring of debt that will be required. The likelihood of a calamitous debt crisis continues to tick like a time bomb.

One hundred years ago, during another global pandemic, John Maynard Keynes warned the world against the risk of the unsustainable debt burden that the victorious powers imposed on Germany in Versailles. His warnings were prescient. Between the two world wars, European countries – both those who won the war and those who lost – were saddled with unsustainable war debt. A highly profitable – but perilous – global financial system emerged during the Roaring Twenties. The United States – the largest creditor at the time – supplied huge sums of credit to Germany so that it could repay its war debt to the United Kingdom, France, Belgium, the Netherlands and others. These debtor countries then used the German debt payment to pay down their own debt to the United States. As the Roaring Twenties came to an end and the world economy plunged into the Great Depression, nearly 70 governments met in London in 1933 to discuss the path to recovery. The United Kingdom – the most heavily indebted country at that time – urged for debt relief, but the United States prevailed in keeping the issue off the table. The London conference failed (Eichengreen et al, 1990) and the sufferings of the Great Depression lingered. It took another devastating war to put the world on the path of recovery.

There is no need for a war to get us out of the current debt crisis. But we must forge global collective action. Unless we address the unsustainable debt burden of the developing countries, a dystopian future will become a reality. Forcing developing countries to make $130 billion in debt service payments this year is tantamount to squeezing water out of stone. Pre-emptive measures to prevent a cascading debt crisis in these economies will save the world billions of dollars in humanitarian assistance, peacekeeping and peacebuilding operations in the near term.

2 There is a long list of such countries, including Cote d'Ivoire, Kenya, Uganda and Sri Lanka.

The current crisis presents a unique opportunity to address the systemic problem of excessive debt burdens of developing countries. In this Policy Insight, we focus on the high cost of sovereign debts owed to private creditors, who often find it advantageous to block timely and orderly debt restructuring and stand to gain from a debt crisis. It is time to jump start the sovereign debt restructuring workout mechanism, as envisaged in the UN General Assembly resolution that 136 countries adopted in 2015.[3] A rules-based, fair and equitable sovereign debt workout mechanism will ensure orderly restructuring of sovereign debt and prevent the rule of the jungle where the strongest survives. But it will take months, if not years, to put in place such a system. The debt crisis – and its devastating fallout – will not wait. We must act now to find a comprehensive solution to the immediate problem.

This Policy Insight includes four sections. In the first, we describe the nature of the current debt problem, identifying some of the factors that led so many developing countries and emerging markets to such a precarious position in which they are so vulnerable to the shock of the pandemic. In the second, we explain why urgent actions are needed and why current proposals, mostly entailing debt standstills, will not suffice. In the third, we consider a number of alternative proposals to reduce debt burdens, including encouraging and enforcing comprehensive standstills and debt restructurings. We suggest one in particular that has not received sufficient attention – bond buybacks. In the fourth section, we discuss some measures that might be taken to prevent future debt crises.



## II. The gathering storms of a debt crisis

### AN ASSESSMENT OF THE CURRENT SITUATION

The past decade – since the Great Recession in 2009 – saw a more than doubling of the external debt of 111 low- and middle-income countries that are not members of the G20.[4] Nearly two-third of these countries are highly dependent on commodities exports. The total external debt of governments in these countries – generally referred to as public and publicly guaranteed (PPG) or sovereign debt – increased from $600 billion in 2008 to $1.3 trillion in 2018 (**Figure 1**). For context, their total PPG debt increased by only 30% during 1990-2008.

Total private non-guaranteed (PNG) debt – that is, borrowing by private corporations and banks from foreign creditors – increased from $520 billion in 2008 to $880 billion in 2018. Servicing of public and private sector external debt of these countries is expected to reach 8% of their GDP in 2020.

While a few large emerging economies managed to issue international debt denominated in local currency, almost all of the borrowing of the other developing countries is denominated in dollars or other hard currencies.[5] Thus, they rely on export earnings and remittances to generate the hard currency they need to service the debt.

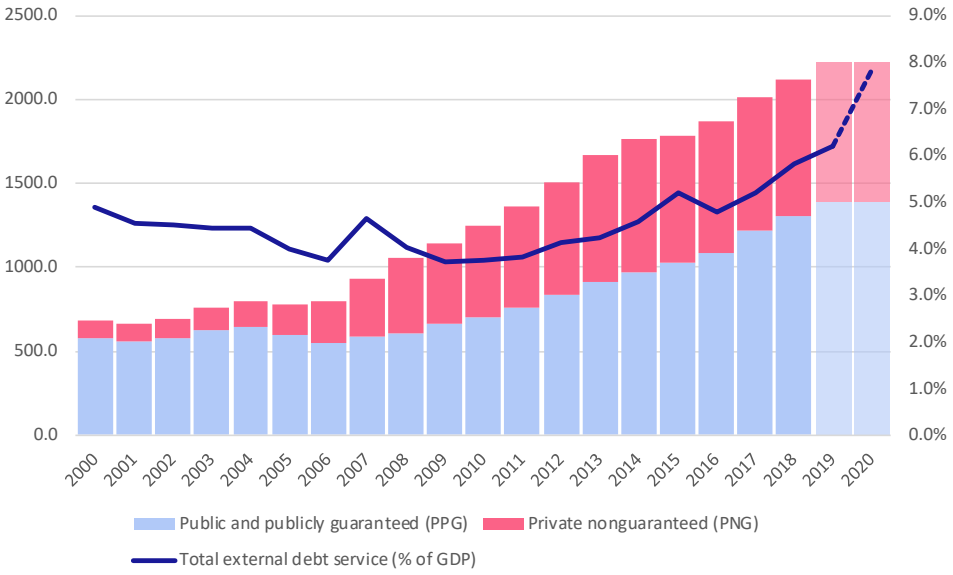


3 Only six countries – Canada, Germany, Israel, Japan, United Kingdom and the United states – voted against the resolution (see https://digitallibrary.un.org/record/820120?ln=en). The UN resolution was a follow-up to the Report of the Commission of Experts on Reforms of the International Monetary and Financial System appointed by the President of the United Nations General Assembly (Stiglitz, 2010).

4 This also obviously also excludes those countries with no data on external debt

5 Only 5.5% of the debt of the 59 low- and middle-income countries that had outstanding international bonds as of Q1 2020 was in domestic currency (Source: Bank for International Settlements, "Debt securities issues and amounts outstanding, by residence and nationality of issuer").

**Figure 1** External debt stock and servicing burden of 111 low- and middle-income countries, 2000-2020 (LHS: billion US$; RHS: % of GDP)




*Source*: International Debt Statistics and the World Development Indicators.

*Note*: Data for 2019-2020 are estimates

Most alarmingly, sovereign debt owed to private creditors increased nearly three-fold during the past decade, from $186 billion in 2008 to $535 billion in 2018. Nearly 90% of this is sovereign bonds. Seven years ago, we warned against the risks of excessive public borrowing from private creditors, particularly in sub-Saharan Africa (Stiglitz and Rashid, 2013).[6] As quantitative easing in advanced countries injected trillions of dollars of liquidity, more money became available at more attractive terms. Many African governments began to issue sovereign bonds to raise money in the international capital market. By 2013, ten sub-Saharan governments had issued sovereign bonds worth $8.1 billion. A number of these countries – Côte d'Ivoire, Ghana, Senegal and Zambia, among others – had received debt relief under the Heavily Indebted Poor Countries (HIPC) initiative less than a decade earlier.[7] We thought it was reckless and irrational, because servicing these high-cost bonds would require still more borrowing and put these countries in debt shackles. We wondered, "*are shortsighted financial markets, working with shortsighted governments, laying the groundwork for the world's next debt crisis?*" During the next seven years, African governments – many of them rated below investment grades – issued over $90 billion in sovereign bonds. Clearly, our warnings did not stop the borrowing spree.

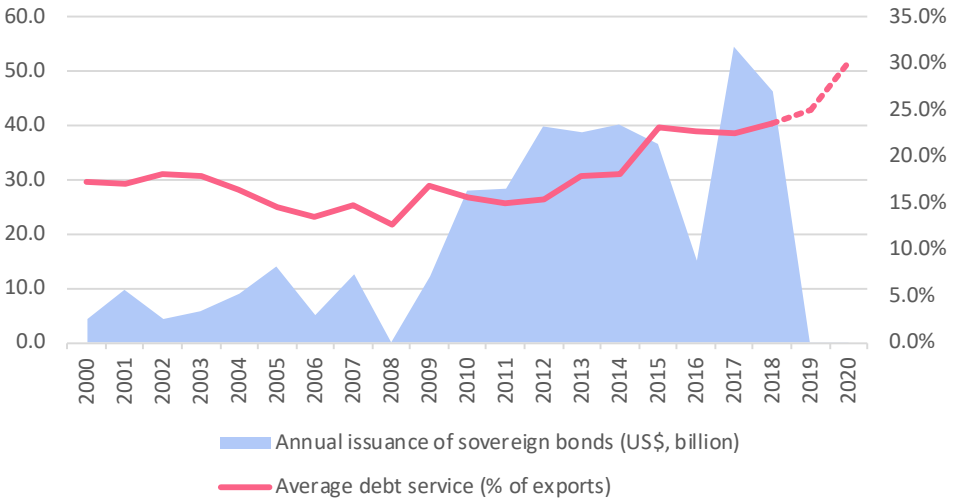
The borrowing extravaganza with sovereign bonds has not been exclusive to sub-Saharan Africa. Commodity-dependent governments elsewhere – Ecuador, Peru, Colombia, Jordan, Lao PDR or Mongolia – issued billions of dollars of sovereign bonds. Non-commodity exporters – Philippines, Sri Lanka or the Dominican Republic – also joined the bandwagon. During the past decade, 58 low- and middle-income countries issued sovereign bonds, most of them for the first time. Collectively, they now owe over $480 billion to private bondholders. The remaining $55 billion are bank loans owed to

6 Borrowing from private creditors is much more expensive, more likely to face problems with rollovers (the infamous 'sudden stop'), and is typically far more difficult to restructure – illustrated by the difficulties Argentina is facing in the midst of the current pandemic, in contrast to the cooperation the country has received from the IMF.

7 The HIPC and the Multilateral Debt Relief Initiative provided $100 billion in debt relief to developing countries, including 31 in Africa. Clearly, the HIPC did not solve the systemic problem of excessive debt burden. If anything, the initiative, by temporarily reducing debt servicing burden, opened up fiscal space for these governments to borrow from private creditors, who often jump the ship at the first sign of trouble (see the discussion below).

commercial banks and other private lenders. More than 70% of these sovereign bonds were issued during the past ten years (**Figure 2**).

**Figure 2** Annual issuance of sovereign bonds (LHS, in US$ billion) and average debt servicing burden as % of exports (RHS)




*Source*: International Debt Statistics, the World Bank

*Note:* Data for 2019-2020 are estimates

Countries that borrowed with sovereign bonds saw their annual public debt servicing burden – interest plus principal repayment – increase from $47 billion in 2008 to $117 billion in 2018. At the same time, more than two-thirds of these countries saw their ratio of tax revenue to GDP decline during the past decade.[8] In Angola, for example, the tax revenue to GDP ratio has declined by over 16% since 2008. Countries that did not issue sovereign bonds experienced a less dramatic increase in debt servicing, from $6.3 billion in 2008 to $10.9 billion in 2018.

Export revenues are the main source of foreign exchange for these countries to service their external debt (other than by borrowing more).[9] Latest forecasts[10] from the WTO and UNCTAD suggest developing countries will experience at least 20% decline in exports this year, given that commodity prices have declined by nearly 30% since January 2020. For reference, exports from developing countries declined by about only 5% during the Great Recession in 2009.

Many of these countries serviced their external debt – and avoided a debt crisis – by rolling over existing debt and taking on new debt. Mongolia's debt service, for example, was more than its total export revenue in 2018 (**Figure 3**). It did not face a debt crisis because it could borrow. The external debt of these countries remained manageable so long as the external borrowing window remained open for them. Abundant liquidity in the international capital market – not economic fundamentals – ensured that countries like Mongolia, Lebanon, Montenegro or Sri Lanka did not default. But as soon as the pandemic hit the world economy, the faucet of new debt flows stopped, capital quickly flowed back to developed economies, and many of these countries are

8 The tax-to-GDP data are available for 42 low- and middle-income countries that issued sovereign bonds (from the World Development Indicators of the World Bank), of which 27 countries experienced a decline in their ratios during 2008-2019, with falls of three percentage points or more in a large number of countries.

9 For a number of countries remittances, which have been badly hit by pandemic, are a key source of foreign exchange. Remittances account for more than 15% of the GDP of Tajikistan, Lebanon, Jamaica, Senegal, Honduras, Guatemala and El Salvador.

10 The WTO expects world trade to fall by between 13% and 32% in 2020; UNCTAD (2020b) predicts a 20% fall in world trade.

now on the verge of default. Ecuador and Lebanon are already in default and Gabon, Mozambique, Suriname and Zambia, among many others, may soon follow suit.

**Table 1** Debt stock burdens of low and middle-income countries

| 2018 | Countries with outstanding sovereign bonds | Countries with no sovereign bonds |
|---|---|---|
| Number of countries | 58 | 53 |
| Number of countries with private sector external debt | 53 | 29 |
| **a. Total external debt stock ($, billion)** | 1,791.3 | 329.8 |
| **Public and publicly guaranteed debt stock** | 1,091.6 | 209.5 |
| *Of which,* | | |
| Multilateral | 338.3 | 90.4 |
| Bilateral | 258.4 | 78.5 |
| Private creditors, of which | 494.9 | 40.6 |
| Sovereign bonds | 476.4 | 0 |
| Private external debt stock | 699.7 | 120.3 |
| **b. Total external debt servicing ($, billion)** | 273.7 | 34.6 |
| Public and pubicly guaranteed debt servicing | 116.8 | 10.9 |
| *Of which,* | | |
| Multilateral | 29.4 | 4.5 |
| Bilateral | 25.2 | 4.4 |
| Private creditors | 62.2 | 1 |
| Total repayment of principal | 75.4 | 6.4 |
| Debt service on private sector debt | 156.9 | 23.7 |
| Total repayment of principal | 148 | 6.1 |
| **c. Average ratios (%)** | | |
| External debt to GNI | 62.9 | 42.5 |
| Debt servicing to GDP | 8.2 | 5.4 |
| Debt servicing to exports | 23.6 | 11.5 |

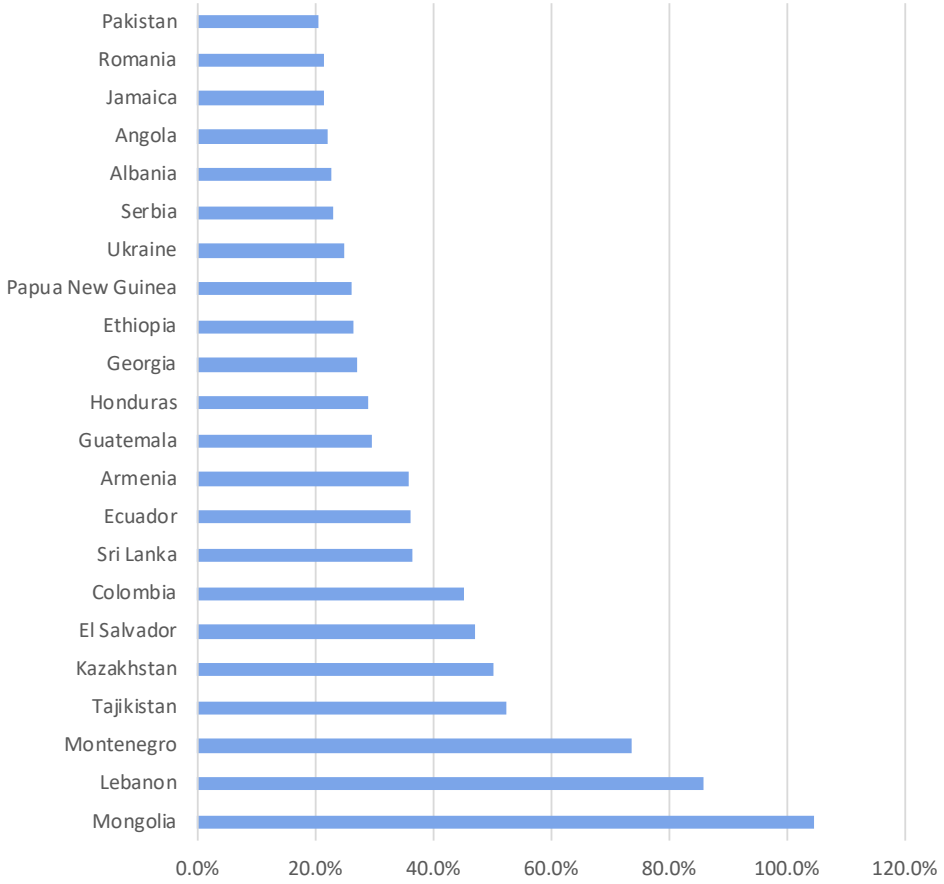
*Source*: The World Development Indicators and the International Debt Statistics

As export earnings and remittances diminish, countries will have to turn to foreign reserves to service their debt. But as **Figure 4** points out, there are many countries whose total debt servicing burden – i.e., servicing of both public and private sector debt – exceeded 40% of their reserves before the pandemic. A run on reserves, which is increasingly likely, will put their currencies, which have already depreciated by 15% or more since the beginning of 2020, into a downward spiral.[11] A depreciated currency, of course, makes it all the more difficult for them to meet their dollar-denominated commitments.

The falling exports and contraction of economic activities at home are translating into sharp declines in fiscal revenue at a time when governments are hard pressed to increase health and social sector spending to fight the pandemic. Against the backdrop of tightened international capital, a 'sudden stop' in new lending (or rolling-over of existing debt) and mounting fiscal challenges, governments countries will still need to service $130 billion in interest and principal repayment in 2020. About half of this ($65 billion) must be paid to private bondholders. Thus, the critical issue on which this Policy Insight focuses is how best to manage the debt owed to private creditors.

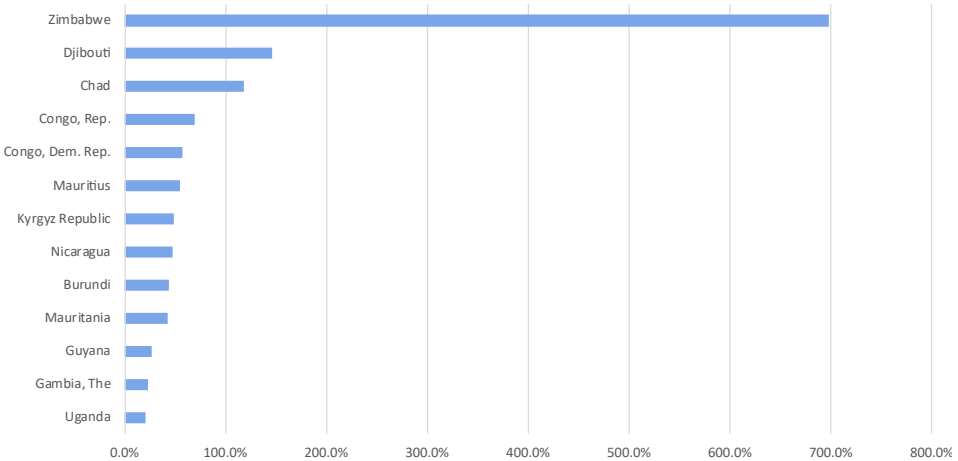
11 A run on reserves will force some countries to impose capital controls; and even though such capital controls may well be desirable, with benefits exceeding the costs, there are still costs.

**Figure 3** Debt servicing burden of selected countries that issued sovereign bonds, 2008 (% of total exports)




*Source:* The World Development Indicators, The World Bank

**Figure 4** Debt servicing burden of selected countries that did not issue sovereign bonds, 2018 (% of international reserves)




*Source*: International Debt Statistics

## BALANCE OF PAYMENTS DISEQUILIBRIA

An increase in the level of external public debt is not a problem so long it increases real output sufficiently and so long as, in the case of sovereign debt, government can capture enough of that increase to service the debt. Unfortunately, during the past decade most developing countries experienced slow economic growth. The all-commodity price index (excluding gold) declined by more than 80% in the last six years (**Figure 5**). Prices of commodities that these low- and middle-income countries export are lower today than they were in 2005. Not surprisingly, export earnings of many of these countries declined during the past decade. In fact, exports of many countries, especially in Africa, never fully recovered from the Great Recession. The success of emerging markets and developing countries as a whole masks the disparate performance of the more successful (the GDP per capita of China grew by an average of 7.3% per year during the past decade) and the least successful countries (the per capita income of two of the poorest African countries, Angola and Burundi, contracted by an average 1% a year).

**Figure 5** All-commodity price index excluding gold, January 2005 to June 2020 (2016 = 100)


Source: IMF, https://data.imf.org/?sk=471DDDF8-D8A7-499A-81BA-5B332C01F8B9

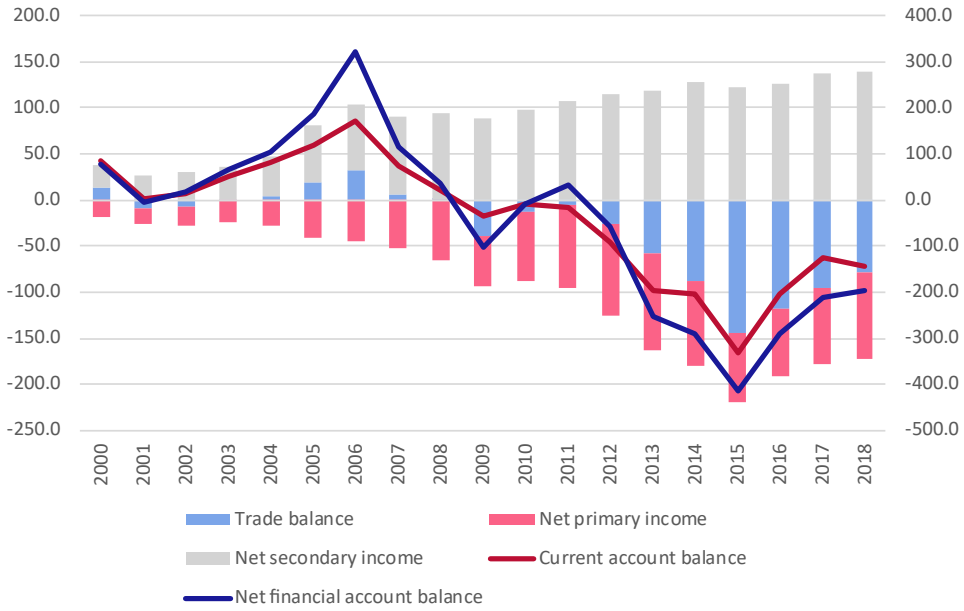
With exports declining or growing slowly, the current account balances of many low- and middle-income countries turned negative, but the foreign borrowing was used to sustain (and in some case to increase) consumption, rather than for increased investment. The growth rates of fixed investment fell from an average of 12.3% during 1999-2008 to 5.8% during 2009-2018. And while the current account deficits increased greatly after 2008, net inflows of foreign direct investment (FDI) to these developing countries remained consistently below the pre-crisis levels for the last ten years. Before the financial crisis, a majority of low- and middle-income countries were net creditors, running positive net financial account balances.[12] With persistently negative current account balances, they had to borrow from abroad year after year, indicated by the negative net financial account balance in **Figure 6**.

Because the borrowing didn't lead to more investment, the accumulation of huge sums of external debt did not increase the real output of low- and middle-income countries. Much of the borrowing was just to meet their debt obligations. The more debt they accumulated, the more they needed to borrow to service their debt. Even

12 The net financial account shows net acquisition and disposal of financial assets and liabilities. It measures how net lending to or borrowing from nonresidents is financed, and is conceptually equal to the sum of the balances on the current and capital accounts (source: World Development Indicators)

before Covid-19, many developing countries appears caught in a vicious and well-known debt-trap.

**Figure 6** Trade, current and financial account balances of low- and middle-income countries, 1990-2018 ($ billion)




*Source:* International Debt Statistics, the World Bank

## THE SOVEREIGN DEBT BUBBLE: THE ROLE OF THE CREDITOR COUNTRIES

While it is generally believed excessive liquidity and leverage caused the global financial crisis, the United States and Europe responded to the crisis by injecting more liquidity into their financial systems. Under quantitative easing (QE) measures, the Federal Reserve and the ECB added more than $4.4 trillion dollars to their balance sheets during 2008-2015 to stimulate recovery.[13] The QE – as designed – kept interest rates low and flooded financial markets with cheap money. Instead of boosting credit and investment in the US and Europe, the QE money chased equity and debt instruments in developing countries. The US' holding of emerging and developing country sovereign bonds, for example, has more than doubled since the global financial crisis.[14]

Debt crises tend to be blamed on the debtor countries. But debt contracts are voluntary arrangements and whenever a debt goes bad, the creditor is as much to blame as the debtor (indeed, in some ways more so, as the creditors are supposed to be the experts in making risk judgements and assessing capacities to repay). Moreover, there is a natural proclivity of short termism on the part of political leaders: if they can get cheap credit, they have incentives to do so. It is the creditors who are supposed to provide a check on such behaviour. That they have often failed to do so is obvious, perhaps partly because of the long history of bailouts by governments, in the past often engineered through the IMF.

13 Total assets of the Federal Reserve Board increased from $900 billion in September 2008 to $4.5 trillion in February 2015 (source: https://fred.stlouisfed.org/series/WALCL). The total assets of the European Central Bank increased by about €700 billion during December 2008 and December 2015 (source: https://www.ecb.europa.eu/pub/annual/balance/html/index.en.html)

14 Bureau of Economic Analysis, "The United States International Investment Position" (https://apps.bea.gov/itable/itable.cfm?reqid=62&step=6)

QE basically exported a debt bubble to developing countries. The bubble is popping now. If developing countries experience a prolonged recession, we may see more capital outflows – at least from those countries afflicted by Covid-19 – making their downturns even worse.

## THE PRIVATE BORROWERS AND MACROECONOMIC EXTERNALITIES

We cannot prevent recurrent debt crises in developing countries and ensure debt sustainability without addressing underlying factors that affect trade and current account balances. Current account deficits *imply* capital inflows, and in the absence of FDI, inflows typically take the form of debt. And we cannot solve the problems of chronic current account imbalances without addressing the macroeconomic externalities of debt and how borrowing affects the real exchange rate and terms of trade of the debtor.

Even in the best of times, debt contracts are imperfect as they cannot account for all possible contingencies. Payments are fixed, in spite of the fact that the country's ability to service that debt may be affected by a shock. The current crisis presents a systemic shock to debt sustainability, which needs a systemic response.

To achieve debt sustainability, we need to address three related issues:

a. the financial means of a government to meet its external debt obligations;
b. the availability of sufficient foreign currency to make the payment in dollars or euros, as stipulated in a debt contract; and
c. macroeconomic externalities of the behaviours of private debtors and creditors.

Keynes referred to the first problem as the 'payment' problem, which gets worse during an economic crisis. Governments face difficult trade-offs between spending to stimulate recovery and setting aside revenue to service their debt obligations. If debt payment is prioritised, economic recovery suffers, making it even harder for the government to collect the required fiscal revenues. Raising taxes during economic downturns can only make things worse. Matters are even worse in this pandemic, both because of the severity of the economic downturn and because servicing the debt takes away money needed to curb the pandemic.

The second challenge – the 'transfer problem' – also worsens during a crisis. While almost all of a government's revenues are collected in local currencies, its debt obligations are in dollars or euros, which become scarce during a global economic crisis such as the current one, where export earnings diminish quickly. The availability of foreign exchange to service sovereign debt of a government depends on factors, such as exports and remittance inflows, largely out of the control of the government.[15]

Externalities generated by the borrowing by private sector further exacerbate the transfer problem. In 2018, 82 of the 111 countries which are the centre of discussion of this Policy Insight had private sector external debt, up from 60 in 2008. When allowed, the domestic private sector borrows from foreign creditors without any regard for externalities of their borrowing decisions – for example, that the magnitude of the depreciation of the exchange in the event of a shock will depend on how much they

15 The one factor under the control of the country is imports. Traditionally, much of the adjustment forced on countries is through a contraction in imports, brought about at great cost through a contraction in income (i.e., through austerity).

(and other firms) borrow. There are similar externalities associated with short-term capital inflows from abroad.

Similarly, at the first sign of a crisis, private creditors – with exposures to both sovereign and private sector borrowers in developing countries – typically rush to take out their money, without any regard for the externalities of their actions. The quick outflows of capital trigger exchange rate depreciations.[16]

As the exchange rate depreciates, it becomes harder for the government to buy the required foreign currency and service its foreign debt obligations. An adverse dynamic can arise: a fall in the exchange rate increases both precautionary and speculative demand for foreign exchange from the private sector. The externalities of the actions of the private sector borrowers and private creditors make debt servicing more difficult and expensive for government, which must be taken into account if we are to avoid recurrent debt crisis in developing countries.

## III. Calls for urgent action and standstills

Policymakers and academics around the world have joined the call for immediate debt relief for low- and middle-income countries (Berglöf *et al.*, 2020; Okonjo-Iweala *et al.*, 2020) as we described earlier. Much of the attention has centred around a debt standstill. There have been numerous calls to waive debt repayments this year, including $44 billion from the African countries. Others have called for a market-based solution, activating collective action clauses (Gelpern *et al.*, 2020) for a one- to two-year standstill on all external-debt repayments, both interest and principal. A number of G20 members have already announced debt relief for the poorest countries for a year. The IMF has cancelled six months of debt payment for 27 poorest countries, as of June 2020.[17],

There is a strong rationale for such standstills, which apply domestically as well as internationally. While the rest of the world has been put on hold by the pandemic, financial markets have not – they continue to charge interest, and worse, those who cannot honour their obligations for serving debt may have to pay additional fees and charges. Equity demands more symmetry: as the rest of the world goes into a standstill, so should finance. One of the advantages of a debt standstill is that since the period is (assumed to be) short, the losses will be small, so the incentive to go to court rather than cooperate with a standstill will be limited.

The standstills adopted so far have, however, been of limited scope. The measures proposed by the G20 cover only 77 low- and middle -income countries, including the Least Developed Countries and countries that are eligible for the International Development Association (IDA) credits or the concessional lending window of the World Bank and the so-called 'blend' countries. According to OECD estimates, the debt servicing standstill proposed by the G20 would cover at most $16.5 billion that these countries would have paid to their bilateral creditors in 2020. This would be a respite, not debt relief, according to the OECD (2020). The G20 Agreement in April suggests that the standstill should be net present value (NPV) neutral, which means that the countries not paying the debt service in 2020 must repay the full amount

16 If there are no capital controls in place, even bonds denominated in domestic currency but issued to foreigners give rise to an externality; as the owners of the bond try to repatriate their earnings (converting, say, pesos into dollars), the exchange rate falls. The magnitude of the externality is, however, smaller, perhaps significantly so, since as the exchange rate falls, the dollar export earnings (say, to service the debt) automatically falls.

17 The face value of the cancellation is about $240 million (see https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker#CCRT).

– including accrued interests in 2020 and 2021 – over 2022-2024 (with a grace period in 2021). The accrued amount could be quite high for non-concessional loans.

The actual standstill amount could be significantly smaller, depending on the participation of the creditor and debtor countries and what debt is counted as official bilateral credit.[18] Kenya, for example, has indicated that it would not request a debt standstill under the G20 initiative, as it would curtail the country's access to non-concessional loans in the international capital market. There is no call from the G20 members to restructure and reduce the debt burden of the poorest countries.

For numerous reasons – inter-creditor equity and economic efficiency – a standstill must be comprehensive, including private creditors. A standstill involving only official creditors is unlikely to work. It would not be sufficient. It would not be politically palatable. Official creditors may rightly be concerned that their standstill would do little to help the debtor country; it would simply give them the liquidity to service the debt they owe to private creditors.[19] Furthermore, if the standstill is enforced on public debt payment only, and not on private debt payments, it will set a costly precedent. The debt of private corporations in developing countries will be deemed safer than sovereign debt, which will increase the borrowing cost of governments relative to the borrowing cost of private sector entities. It would suggest private creditors have seniority of claims over bilateral and multilateral creditors.

There is legitimate concern, however, that private creditors will not easily accept a standstill. The newly established private creditor group – the Africa Private Creditor Working Group – has already rejected the G20 call for the modest debt relief for the poorest countries in Africa.[20] It is unlikely that they will cooperate on a larger-scale debt relief. The fear is that private creditors will use every means at their disposal – including legal and political coercion – to block the standstill, even if it means total disarray.

Indeed, in the absence of strong collective action clauses and trusteeship provisions (discussed below), there are incentives for some bondholders to act as holdouts in order to get a better deal for themselves. If a group of creditors voluntarily agree to a debt standstill, other creditors and bondholders may still demand debt servicing. Many sovereign bonds include cross-default clauses, which means a technical default on one bond can qualify as default on all other outstanding debt. This can trigger acceleration, with creditors demanding immediate payment of full principal amount and accrued interests. This puts enormous power in the hands of a few recalcitrant creditors.

Given that nearly two thirds of outstanding sovereign bonds are governed by New York law and given that New York courts traditionally favour creditors (especially US creditors suing foreign governments), debt standstills may end up costing developing countries millions in legal fees and pre-judgement penalties. New York state law allows a plaintiff creditor to collect a 9% pre-judgement penalty on all overdue payment of interest (Zuckerbrod, 2017).[21] While the objective of pre-judgement interest is

18 That is, loans from independent government agencies and government owned enterprises may or may not be included under the rubric of 'official' debt.

19 There are also concerns that a standstill should apply to both portfolio and equity investors to ensure equity between creditors and investors. Allowing equity investors to take their money out, while preventing creditors from receiving debt payments, might seem perverse. In most circumstances, debtholders have seniority of claims over equity holders. But there is a difference: creditors with dollar (or foreign exchange denominated) debts impose a fixed dollar obligation on the country. Still, as equity and portfolio investors attempt to sell their assets, it depresses the market value of these assets and the exchange rate, generating significant adverse macroeconomic externalities. To address these externalities, some of capital account management may be required.

20 "Private Creditors push back against blanket debt relief for Africa", Reuters, 15 May 2020.

21 According to New York Civil Practice Law and Rules (CPLR), NY CPLR § 5004, the pre-judgement interest rate for breach of contract cases is 9% per annum, and accrues on a simple, rather than a compound, basis (see http://www.nysb.uscourts.gov/sites/default/files/opinions/147779_26_opinion.pdf).

compensatory, this 9% interest rate provides an incentive for a bondholder to sue sovereign borrowers, especially when, as now, the market interest rate is significantly lower.

Similar concerns are raised about other voluntary mechanisms. A group of economists and lawyers, for instance, have proposed the establishment of a central credit facility (CCF) for each country seeking debt relief to activate a 12-month standstill on debt services to both official and private creditors (Bolton *et al*., 2020). The CCF would allow a country seeking temporary relief to, in effect, use deferred interest payments as emergency funds to fight the pandemic. The group proposes a multilateral institution like the World Bank to manage and monitor the appropriate use of funds that debtor governments would have otherwise used to service their external debt. Such an arrangement would be of considerable benefit, if the creditors could be persuaded to cooperate. But the evidence to date is that many may not.[22]

A standstill, however designed and implemented, is just short-term palliative; these measures are, at most, band-aids for a much larger systemic problem. It must be viewed as a means to an end for achieving a sustainable solution to the systemic debt problem of developing countries. A standstill, even without interest accumulating, doesn't solve the fundamental debt problem discussed earlier; and in particular it doesn't address the fact that even debts that seemed sustainable prior to the pandemic may not be sustainable post-pandemic. The pandemic and its economic impacts will last much longer than a year. Ad-hoc and piecemeal debt relief will help delay a debt crisis but could saddle countries with even higher debt burdens. What has been done, and even what has been proposed, is insufficient.

For many developing countries, more than a standstill will be required: there is a clear need for comprehensive debt restructuring. This is true not just for the poorest countries that will be badly afflicted, but also for middle-income countries. And debt relief needs to be comprehensive, including and especially on debt these countries owe to private creditors.[23]

It is critical, both from the perspective of the debtor countries and the international community, that there be an orderly debt restructuring. In most of the cases at issue, there will be some form of debt restructuring; the key question is: will it be orderly or disorderly, and will it sufficiently protect the interest of the debtor countries? If the countries don't have the resources to pay, they won't pay. It is not, as some creditors seem to think, simply a zero-sum game. The strategy of 'too little, too late' has proven to be negative sum, with both creditors and debtors suffering. One might conclude, therefore, that 'rationality' would ensure that markets, through free bargaining, would ensure an efficient outcome. But it is well known that that is not the case. We have already noted some of the externalities associated with private debt; and these are even greater in the context of debt renegotiations. Some creditors may believe that they can grab more for themselves, through the pursuit of 'tough' bargaining stances, even if other creditors, and the debtor, lose far more than what they can gain. In general, the outcome of unbridled bargaining is not Pareto efficient.

While a standstill doesn't adequately address the long run debt problems, the time provided by the standstill can be used to restructure debt – significantly reducing debt burdens, while securing favourable terms, and helping to restore the balance

22 Perhaps more promising are the debt-for-nature swaps. In one version, for instance, debtor countries make commitments to make investments (mostly in local currency) that generate carbon credits in the future, with the carbon credits being transferred to the creditors. These provide something of value to the creditors, while alleviating the transfer problem discussed above.

23 And including quasi-public agencies, which sometimes act like private creditors.

of payment equilibrium. Ideally, such restructurings can be used to incorporate better terms and conditions for existing and new bonds – including state-contingent payment options and provisions related to trusteeship and bankruptcy procedures, such as collective action clauses. Debt restructuring typically takes an extended period of time, and it would be preferable that such restructuring be done before the country actually plunges into a crisis.

Unfortunately, as difficult as getting cooperative voluntary action in a standstill is, getting such cooperation in debt restructuring will be even more difficult, as evidenced by the ongoing and difficult negotiations that the countries currently in crisis are facing. Making matters even worse, some creditors are demanding that the newly restructured bonds contain provisions that will make future debt problems even worse (for example, weakening the collective action clauses).[24]

## IV. Achieving comprehensive debt restructurings

The previous section outlined the need for urgent and comprehensive actions that go beyond the standstills that have so far been the centre of attention, but suggested that the necessary cooperation has not been forthcoming from the private sector. Given the extraordinary challenges, developing country governments will need to deploy a combination of legal and administrative measures to activate standstills and the necessary debt restructurings. There will have to be a combination of carrots and sticks. This will require governments of debtor and creditor countries to collaborate – not just as a moral imperative, but as an economic imperative for avoiding a debt catastrophe, with its implications for peace and economic stability. It should be obvious that the developing countries and emerging markets will need to act in concert: if they negotiate bilaterally with their official and private creditors, they will likely receive insufficient relief, which will only help them postpone a debt crisis.

The creditor countries can undertake a number of actions to support standstill measures. Most of the bonds are issued in a relatively few jurisdictions (namely, under New York and English laws), so actions by these jurisdictions can make a difference. Earlier, we referred to the 9% interest on pre-judgment interest in New York[25] that acts as a deterrent to reaching a successful debt restructuring. The Governor of New York proposed bringing the interest rate down from its current usurious level to one which better reflects the intent of providing adequate compensation for deferred payments, but the provision doing so seems to have disappeared from the budget legislation as it was enacted in April 2020, presumably as a result of the influence of creditors. There needs to be concerted efforts to bring down pre-judgement penalties to minimise the holdout problems in sovereign debt restructuring.

New York used to have a regulation (called 'Champerty') preventing the buying of bonds at deep discount with the intent of suing to recover full value. This is, of course, the business model of the vulture funds, which have played such a central role in preventing orderly debt restructurings. Under the influence of the vulture funds, New York State passed a provision exempting transactions in excess of $500,000, thus effectively exempting the vulture funds.[26]

24 For a discussion and critique of this move by seemingly responsible creditors like Blackrock, see https://www.project-syndicate.org/commentary/argentina-sovereign-debt-rules-creditors-by-joseph-e-stiglitz-et-al-2020-07

25 Pre-judgement interest was fixed at 9% in 1981 when former Federal Reserve Chairman, Paul Volcker, raised borrowing costs to stamp out inflation ("New York Lawmakers' Last-Minute Move May Cost Argentina Dearly", Bloomberg News, 27 May 2020).

26 A subsequent Court ruling broadened the scope of the exemption, saying that there did not actually have to be an actual payment of $500,000, only an obligation.

Usury provisions, regulating excessive interest rates, had long been part of legal frameworks around the world until such regulatory constraints came to be looked upon with disfavour in the era of neoliberalism. Domestically, some of the financial instability and predatory lending observed in recent decades has been attributed to the repeal of these usury constraints. Similarly, high interest rates have almost surely encouraged excessive lending internationally. Constraints on these interest rates would both have discouraged such lending and would have meant, if the lending occurred, the burden on the countries would have been reduced. (Research in economics in recent years has emphasised how in imperfectly competitive markets, such constraints can actually improve economic performance. There is evidence that the international credit market to developing countries and emerging markets is a far from perfect market, yielding excessive risk-adjusted returns.)

Finally, taxation may affect incentives. For instance, a surtax on excessive earnings (rates of return in excess of, say, 4% above the US treasury rate) and similar surcharge on excessive capital gains (say, a 7% real return per year) would discourage both high-risk lending and holdouts, though it could at the same time lead to larger decreases in bond prices in times of stress.

Perhaps the most effective way of encouraging debt restructurings in the face of a debt crisis would be to clarify the legal framework – putting into laws governing sovereign debt the kinds of understandings that are part of Chapter 9 of the US Bankruptcy Code that Congress adopted during the height of the Great Depression to protect the assets (pension funds, public assets such as hospitals, recreation centres, etc.) of local governments (municipalities) against the claims of private creditors, to ensure that public authorities could continue provide the essential public services that they provide, and to recognise the informal claimants, whose 'claims' may have equal or greater validity than the formal contractual claimants. Unlike the bankruptcy procedures designed for private borrowers, the Chapter 9 procedures give significant protection and power to public entities to restructure their debt in the public interest. The idea is simple: social obligations of a public entity – providing basic services to the citizens and honouring commitments to pensioners, among others – should have priority over financial claims of the private creditors.

Chapter 9 procedures guided the restructuring of $18 billion debt that the city of Detroit owed to bondholders, securing steep haircuts while protecting the city's assets and obligations to its pensioners. There has been calls along these lines to protect debtor country's assets from attachments by private creditors (Buchheit *et al.*, 2013), which can significantly address the 'holdout' problem.[27]

The perspectives we have just discussed can be viewed as consistent with a number of longstanding principles reviewed in the next subsection. In presenting these, we do so not from the perspective of law, but from that of economics: they are a partial substitute for the state-contingent contracts (discussed later) that would represent a better way of risk sharing between creditors and debtors.[28]

27 The United Nations Security Council adopted Resolution 1483 (22 May 2003), which encouraged the new government in Iraq to restructure the roughly $140 billion debt stock of the Saddam regime. The Resolution protected all petroleum assets and proceeds of oil sales of Iraq against "any form of attachment, garnishment, or execution", according privileges and immunities identical to those enjoyed by the United Nations itself. This allowed Iraq to receive 80% nominal write-off of its debt, including $21 billion of debt owed to private sector creditors, without any hold-out problem.

28 Indeed, not only is there an absence of a complete set of state contingent contracts, but the contracts that exist are incomplete. Many of the provisions discussed in this section can be thought of as going some ways towards 'completing contracts', in ways which enhance overall economic efficiency.

## FORCE MAJEURE, NECESSITY AND RELATED LEGAL DOCTRINES

It is reasonable for debtor countries in the current pandemic to invoke force majeure – a catchall phrase for the breaking of a contract in the presence of unforeseeable circumstances beyond the control of parties in a commercial contract. Governments clearly could not foresee the pandemic. Even if they could foresee a pandemic, they could not possibly foresee its widespread and devastating economic impacts, including those brought on by lockdowns, closure of borders and the collapse of exports and remittances.

Most sovereign bonds do not include automatic force majeure protection, which is why it has to be written in within the legal framework. Even if a force majeure clause is missing in the debt contract, a debtor can demand temporary relief on the ground of the *impossibility* or *impracticability of performance*. New York contract laws, for example, accepted the global financial crisis in 2008 as an unforeseeable event, which made the performance of a contract commercially impracticable in some court cases (Encinas, 2011). Legal experts believe that the pandemic can qualify as a force majeure event, even if a contract does not explicitly include it as such (Marmins, 2020; Weiss *et al*, 2020). The fact that most of these countries introduced a state of emergency or some form of lockdown measures to fight the pandemic can be seen as extraordinary and impractical circumstances for servicing debt.

Regardless of whether a bond contract includes force majeure clauses, a sovereign can invoke the doctrine of necessity – requiring an emergency response to an unprecedented crisis – to suspend debt payment. Some experts view that the doctrine of necessity played a role in forcing private creditors to accept 46.5% of the face value during the restructuring of Greek sovereign bonds in 2012 (Xafa, 2014).

Under the doctrine of necessity, developing country governments could temporarily suspend current and capital account convertibility, which would apply to a broader set of external flows, including payments on debt and portfolio investments. A temporary suspension of current and capital account convertibility will give some reprieve to developing countries and help to reduce the global demand for dollars, which would otherwise lead to a significant depreciation of the dollar vis-à-vis local currencies during the crisis period. This will lower the local currency cost of external debt for developing countries.

While countries can restrict capital account convertibility anytime, Article VIII, Section 2(a) of the IMF Article of Agreement stipulates, "*a member may not impose restrictions on the making of payments and transfers for current international transactions without the (prior) approval of the Fund*". Such measures are not unprecedented. In September 1998 – one year into the Asian financial crisis – Malaysia imposed a 12-month waiting period for repatriation of investment proceeds (Sundaram, 2005). It also introduced an exit tax on capital repatriation to prevent capital flight. At that time, critics of these measures warned that investors would never trust Malaysia again and that international capital would forever stay away from the country. These warnings were proved false; international investors returned to Malaysia in no time. Argentina had currency controls for most part of the 21st century until the previous government scrapped them in 2015, only to reintroduce them in September 2019. The currency controls did not prevent capital inflows into Argentina. In fact, Argentina managed to issue a 100-year 7.125% bond for $2.75 billion in 2017 – less than two years after it defaulted – which was more than three-times over-subscribed by investors.[29]

29 "Argentina sees strong demand for surprise 100-year bond", CNBC (https://www.cnbc.com/2017/06/20/argentina-sees-strong-demand-for-surprise-100-year-bond.html).

In the aftermath of the 2008 crisis, the IMF recognised the advisability of adopting "capital account management" regimes under certain circumstances (IMF, 2016). Under an IMF programme, Iceland had capital controls in place during 2008-2018 as it pushed for recovery from the global financial crisis. Cyprus introduced capital controls to minimise the fallout of the Greek debt crisis. Several large developing countries – notably Brazil, Indonesia and the Republic of Korea – have some form of capital controls aimed at stemming volatile capital flows.

The pandemic is clearly a set of circumstances under which such interventions should be considered by a wide array of countries. If many introduce such measures in concert, it will reduce the adverse signal that might result if only one or two countries were to adopt such actions. The IMF might help coordinate the appropriate set of interventions.

## REDUCING THE DEBT BURDEN BY BUYING BACK SOVEREIGN BONDS

Earlier we explained why, in spite of the seeming desirability of an orderly debt restructuring, achieving such a restructuring under current institutional arrangements is difficult. It is why, domestically, we have bankruptcy courts that sort out competing claims in an orderly way. If debt restructurings could always be done efficiently and fairly on a voluntary basis, courts would not be required; at most, what would be required is standardisation of debt contracts that would facilitate the desired debt restructurings. No country relies just on voluntary negotiations, with or without the kinds of collective action clauses that have been inserted into international debt contracts in recent years.

Most debt restructuring involves debt swaps, retiring existing debt with some reduction in face value,[30] issuing new debt often with longer maturity and lower interest rates,[31] sometimes with a grace period, sometimes paying creditors some cash up front (often with proceeds from the issuance of new bonds) and other incentives to accept the terms of the restructuring. A grace period is especially important during a major economic downturn, such as that associated with the pandemic; without a grace period, the country cannot recover (or in this case, fight the pandemic). But as we mentioned earlier, creditors often try to impose more difficult and costly provisions. For example, the restructuring of the Latin American debt in 1989 – under the Brady Pan – required the debtor countries to buy US treasuries to hold as collateral to guarantee repayment of principal. This collateral requirement implicitly increased the cost of debt for these countries, although they received some haircut on the uncollateralised debt they owed to US commercial banks. The Latin American countries used a combination of their own foreign reserves and new borrowing from the IMF to buy the collateral.

The Argentine debt restructuring in 2005 involved debt swaps, with Argentina paying 4.35% coupon interest rate for the first five years, 5.0% for years 6-10, and 8.52% for the remainder of the new 30-year bond (Congressional Research Service, 2006).

30 Although there is a decrease in face value, the market value of the new bonds is often greater than the market value of the old bonds. The restructuring enhances the country's ability to service the debt. Even the creditors benefit.

31 Because in principle the exchange bonds are supposed to be 'sustainable' – while the old bonds were not – it makes sense that the new bonds should pay lower interest. There is less risk. In valuing the new bonds versus the old, those in the financial markets often use a discount rate of 10%. For long-term bonds, such a high discount rate greatly reduces the value of any promises concerning 10 years or more into the future. It makes no economic sense. It confuses 'time' discounting and risk discounting. And the restructured debt is supposed to be sustainable, so the risk discounting in any case should be low – far lower than what the financial markets like to apply to calculate the NPV. It can be viewed as part of the public relations efforts of the creditors to make it seem as if they are taking a big haircut, when in fact they are not. This was seen most dramatically in the recent Argentine debt negotiations, where some creditors made a proposal that made it look like they were taking a significant haircut, where the present discounted value of their demands, using a reasonable interest rate, actually entailed an increase in payments by Argentina.

The restructuring offered Argentina a 75% write-off on a net present value basis.[32] To sweeten the deal for the creditors, Argentina also offered GDP-linked warrants – paying a premium on coupon rates when its GDP growth exceeded a pre-determined level. The restructuring package gave Argentina room to grow when in needed it (i.e., in the years immediately following the crisis). Argentina quickly rebounded, with GDP growth rate averaging 8.6% during 2005-2007. By 2006, it was able to repay its loans to the IMF. Because of improved growth performance facilitated by the restructuring of the bonds in 2005, holders of these bonds are likely to receive a good deal, even with these bonds being restructured again, some 55 cents on the dollar, in the current Argentine debt restructuring workout (Setser, 2020). The second round of debt restructuring in 2010 proved costlier for Argentina, as it agreed to an 8.28% coupon rate (Hornbeck, 2013) when the benchmark interest rate on US treasuries was close to zero. The write-off on the face value of the debt was smaller than was received by Argentina in 2005.

The restructuring of Greek debt is perhaps even more instructive. In the largest ever debt restructuring, Greece issued €62 billion in new bonds and took €30 billion in new loans from European institutions and the IMF in 2012 to retire €198 billion of its old bonds. While the 53.5% haircut was large – though significantly smaller than that which Argentina received during the 2005 and 2010 restructuring – Greece was required to issue all new bonds under English law, entailing a substantial strengthening of creditor rights. For reference, 86% of Greek bonds outstanding in 2012 were governed by Greek law. The debt swap clearly favoured creditors, which prompted the Greek government to buy back their newly issued bonds in less than six months. In December 2012, Greece bought back 50% (€31.9 billion) of its €62 billion of its new bonds for only €$10.8 billion, receiving a significantly larger haircut than it received from the debt swap six months earlier.

A voluntary sovereign debt buy-back programme may thus be useful in overcoming costly holdout and coordination problems, while avoiding harsher terms that typically come with debt swaps. Debt buy-back is widespread in the corporate world (Yadav, 2019).[33] There are also some good examples of sovereign debt buy-backs besides that of Greece. In 1988, donor countries gave Bolivia, which was facing a debt crisis, $34 million so that it could buy back its sovereign debt, which had a face value of $670 million. These Bolivian debts were trading for 6 cents on the dollar in the secondary market. Using the money from donors and its own money, Bolivia bought back $302 million of its debt for $40.2 million.[34]

The experience of the Bolivian debt buy-back encouraged other sovereign debtors to follow. A number of Latin American countries repurchased Brady bonds with cash – or swapped for new debt – to reduce their debt servicing costs, reduce risks and manage their liabilities. Bond buy-backs and swaps reduced the total value of Brady bond holdings from US$154 billion in 1994 to US$10.7 billion in 2006 (Medeiros *et al.*, 2007). (These were mostly 30-year par and discount bonds that would have matured sometime around 2020.) Developing country governments have yet to use bond buy-backs as a pre-emptive strategy for averting a debt crisis.

Some critics (Bulow and Rogoff, 1988; Claessens *et al.*, 2011) have considered sovereign bond buy-backs as inefficient because they push up the price of remaining debt. Assuming market efficiency, they argue that the market price reflected the true value of these bonds, including the likelihood that they would not be paid. In their view, the

32 As noted in the previous footnote, these valuations are typically made at an unreasonable discount rate. Using more reasonable numbers yields much smaller write-offs.
33 For example, between 2004-2017, US corporations bought back $1.9 trillion of their debt.
34 The buy-back, as expected, pushed up the price of remaining Bolivian debt to 11 cents on the dollar.

buy-back artificially inflated the market price of the bond. Others have argued that buy-backs improves the bargaining power of sovereign borrowers (Rotemberg, 1991). While buy-backs typically do drive up the prices of remaining debt, this is not always the case. In the Greece buy-back described earlier, only about 50% of the creditors participated while yields on Greek bonds actually fell after the announcement.[35]

In normal times, this controversy would merit some debate. We know that credit markets are seldom efficient. Bond prices do not always reflect the fundamentals, whatever that means. Irrational exuberance and panic sell-offs often drive swings in bond prices. During these extraordinary times, bond buy-backs present a highly attractive solution, offering substantial debt relief at a relatively low cost. Moreover, a major determinant of market price is the market's subjective judgement of domestic and international politics – how much the debtor country is willing to pay and how much pressure the creditor country is able and willing to put either on the debtor country or the international institutions upon which the debtor country might be dependent, and the rationality/irrationality of market players.[36] There is no 'scientific' basis for these judgments. They are guesses, that's all; the earlier literature may have put too much store on these judgments. Subsequent research has highlighted the importance of disparities in judgements leading to situations where, say, the debtor believes he is (on average) going to pay far more than the creditor believes (on average) he is going to receive. In such situations, a reduction in indebtedness can be welfare increasing.[37,38]

## SECURING DONOR BUY-IN

New loans from the IMF and the Europe Financial Stability Fund (EFSF) enabled Greece to buy back its bonds held by private creditors, but this support from the IMF and EFSF required Greece to implement stringent austerity measures. Lower levels of spending plunged the economy into a deeper recession for several years. Greece is yet to fully recover from the debt crisis. It is important that we keep the Greek tragedy in mind, while finding ways for securing financial support for buying back sovereign bonds of developing countries.

One way of enhancing donor interest in supporting the buy-back – beyond the humanitarian concerns of the disaster that such buy-backs might avert with potential global consequences – is for the debtors to agree to spend the savings on creating and promoting global public goods. Instead of imposing self-defeating austerity measures on developing countries, the financing support for the proposed buy-back initiative could impose conditions of green and long-term investments that will boost real output. The savings from bond buy-back should not only finance public health expenditures to fight the pandemic but also contribute to minimizing climate risks, with money invested in climate change mitigation and adaptation. Recent research (e.g., Hepburn et al., 2020) has shown that such expenditures can be an effective part of pandemic rescue and recovery programmes – timely, labour intensive, with high multipliers, and delivering a large bang for the buck.

35 "Greece unveils bond buyback plan", Financial Times, 3 December.
36 Thus, different creditors may have different judgments about the likelihood of the sovereign repaying. Those who sell first are those with the most pessimistic expectations. The higher price could thus represent no more than a selection effect—and the fact that the reduction of the debt burden enhances the country's economic prospects.
37 Guzman and Stiglitz (2016) refer to this as (negative) pseudo-wealth
38 Claessens *et al.* (2011) argue than an intermediary – with significant financial power and credibility – should organize the buyback. This might make sense if the buyback was not simply a market purchase, but an offer (e.g. an offer to buy a certain amount to the lowest bidders, along the lines of the auction described below). It could attract broad participation of private creditors in the buy-back program.

## A DETAILED DESIGN PROPOSAL

There are many ways in which a coordinated effort at bond buy-backs might be organised. The following proposal puts the IMF at the centre. We propose the immediate establishment of an international facility within the IMF to buy back outstanding sovereign bonds. Developing countries – participating voluntarily and seeking to restructure their debt – will identify the sovereign bonds they would like the facility to buy back on their behalf. The IMF is perhaps the best option for managing the bond buy-back operation on behalf of the developing countries. The IMF is mandated to take such responsibility as stipulated in its Article of Agreement, "making the general resources of the Fund temporarily available to …[its members] under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity." The IMF is mandated to "shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members".

The IMF has the technical expertise to manage sovereign bond buy-backs from private creditors. Its website states that "[t]he IMF's current total resources amounting to about SDR 978 billion translate into a capacity for lending or 'firepower' of about SDR 715 billion (around US$ 1 trillion), after setting aside a liquidity buffer and considering that only resources of members with strong external position are used for lending". The IMF can also use its New Arrangements for Borrowing to fund the bond buy-backs, which would substantially reduce the likelihood of a debt crisis.[39] These funds could be supplemented by those provided by a global consortium of countries and multilateral institutions. Countries not needing their full allocation of special drawing rights (SDRs) could donate or lend them. To achieve the maximum debt reduction for a given expenditure, the bond repurchase facility may conduct an auction, announcing that it will buy back only a limited amount of bonds.[40]

The debt buy-back programme could reduce the debt burden of developing countries by a substantial amount, restoring debt sustainability and averting at least some debt crises. Obviously, the extent to which it can do so will depend on the magnitude of funds that are made available, and on the cooperation of creditors whose bonds have not been bought back to accept a debt reduction.[41]

As we suggested earlier, as a condition of this debt relief measure, countries receiving the relief should be required to invest, in local currencies, the equivalent of these savings in public health and climate change efforts.[42] The pandemic and its economic aftermath are likely to be with us at least until 2022. Countries need a grace period during which they are freed from servicing the new debt undertaken to finance the bond buyback programme, both to meet the health demands of Covid-19 and to resuscitate economies that may be devastated by the pandemic.





39 Under the New Arrangements to Borrow (NAB), the IMF can borrow SDR 365 billion, equivalent to $500 billion, from a number of member countries and institutions stand ready to lend additional resources.

40 The precise design of the auction (e.g., whether it is second-price auction, a sealed bid auction, whether the amount to be repurchased in revealed in advance) are matters that should be resolved with experts on auctions working with experts on debt markets. The Greek bond buy-back in 2012, for example, employed a Dutch auction, announcing the maximum amount of bond purchase, a timeline and a price range for accepting sales offers.

41 A bond buyback can be thought of as a partial market-based debt restructuring – paying, say, 40 cents on the dollar (the current market price) to discharge current obligations and taking on new debt (from the IMF or other official sources) of 40 cents. These new obligations need to be treated as senior debt (like 'debtor in possession' finance in a private workout); this would naturally be the case when the new money is from the IMF. While the bond buy-back makes the country's debt *more* sustainable, it still may not be sustainable. That's why other measures we've discussed in this Policy Insight need to be undertaken.

42 A mechanism will need to be in place to verify that developing countries actually invest these savings from reduced debt burden in public health and climate change.

# V. Rethinking debt sustainability

Recent attempts to enhance the debt sustainability of developing countries focused narrowly on fixing the behaviour of the debtor, that is, 'solving' what we referred to earlier as the payment and transfer problems. The standard advice on debt restructuring revolves around cutting government spending and improving fiscal balance. Only if a debtor government is more prudent – i.e., if a debtor will reduce its fiscal excesses – will debt become sustainable. Fiscal tightening has been promoted as the universal solution to avoiding a debt crisis. According to this conventional wisdom, as soon as a debtor government tightens its belt and minimises its 'payment problems', its credit ratings improve and creditors offer to lend more, which then helps the government to service its existing debt. Of course, this 'solution' seldom works: the fiscal tightening induces an economic downturn, which leads to even less government revenue, though the painful economic contraction often does lead to a reduction in imports, thus improving the balance of payments and providing foreign exchange to service the debt. But as the experience of Greece so vividly demonstrates, austerity can exacerbate a debt crisis. Besides, the idea that the problem of excessive debt could be solved by taking on more debt seems, on the face of it, odd.[43]

The solution to excessive debt is debt restructuring. The problem with debt restructurings in the past, though, is that they have typically been too little, and too late. 'Too late' because as creditors strive to avoid recognising their losses, the country is forced into a limbo situation; the extended uncertainties. They have also been 'too little', with about half of the restructurings being followed by *another* restructuring within five years.[44] (Delays often have intercreditor effects, with private creditors selling their bonds and thus escaping the consequences of their imprudent lending. A delay in restructuring Greek debt, for example, helped private creditors as they managed to off-load their holdings.)

Effective debt restructurings also have to be comprehensive – including all debt, both official and private.[45] There will obviously be a reluctance among some creditors to take a haircut if they believe that the main effect will be to provide less of a haircut to others.

There are a couple of important exceptions to this general principal. In the case of private debtors, some creditors may be senior to others, some may be more 'secured' with a collateralised asset than others.[46] In the case of sovereigns, some debt is backed by the 'full faith' of the government, while the debt of some government agencies may not be so backed.

Most importantly, the IMF and the World Bank have traditionally been given preferred creditor status, with the obligations to these institutions being fully fulfilled (though often with a delay in repayments) even when private creditors take a haircut. This longstanding presumption is (or should be) understood by private creditors when they lend to developing countries and emerging markets; it is part of the implicit contract. Accordingly, private creditors should not complain when this occurs. There are good reasons for this arrangement, the justification of which would take us beyond the

43 It is 'officially' justified on the grounds that the country is basically solvent; it faces a temporary liquidity crisis, which will be alleviated once the economy has made the necessary structural adjustments. More often than not, however, these adjustments do not suffice.

44 For a broader discussion of the problem of 'too little, too late', see Guzman *et al.* (2016).

45 An institutional impediment is the absence of any international sovereign debt framework, or any international bankruptcy court, as discussed earlier in this Policy Insight and as recommended in the Report of the Commission of Experts (Stiglitz, 2010). Making matters worse is that official and private creditor restructurings have been handled separately by the Paris and London Clubs, respectively, and the largest official creditor, China, does not participate in the Paris Club.

46 In a few cases, creditors have attempted to collateralize particular revenue streams, but whether such contractual arrangements would be recognized in a well-designed sovereign debt restructuring mechanism is problematic.

scope of this Policy Insight. Formalising this preferred creditor status would be an important part of the establishment of an international framework for sovereign debt restructuring, to which we alluded at the beginning.

## MITIGATING RISKS ASSOCIATED WITH PRIVATE CREDITORS

Any successful new debt sustainability framework needs to recognise the differential risks posed by different kinds of debt. As we discussed earlier, private sector debt and private creditors present significant macroeconomic externalities that must be taken into account. Moreover, short-term debt which has to be rolled over is a particular risk, and especially so when it is denominated in a foreign hard currency. There can be sudden stops in which financial markets refuse to roll over this debt, and this can quickly precipitate a crisis. While sudden stops can result from an inexplicable change in expectations, a shock such as the current pandemic might even rationally bring about such an adverse turn of events.

Even when debt is not short-term, the attempt by private creditors to pull their money out of a country can have severe impacts on exchange rates, with the untoward effects described earlier. On the other hand, such destabilising speculative behaviour does not arise from debt associated with the official creditors (including the multilateral institutions), although indications on their part of a reluctance to extend credits that were expected (for example, as a result of a change in politics or economics in either the creditor or debtor country) can trigger similar destabilising responses from private creditors. More importantly, lack of coordination among all creditors can result in over-indebtedness; and in some cases, the lines between official and private credits become blurry, as when governments provide insurance to private creditors (often related to exports or construction projects), which can encourage excessive indebtedness.[47]

The large increase of indebtedness to China has recently been the subject of some concern. With more than $3 trillion in international reserves, China is surely the largest creditor nation in the world. It is the largest holder of sovereign bonds of the governments of the United States, Germany, the United Kingdom and other developed countries. China is also the largest bilateral creditor to developing and emerging country governments, with outstanding credits estimated at $370 billion (Reinhart *et al.*, 2020). Nearly half of these debts are owed by governments of other developing G20 countries, including Argentina, Brazil, South Africa and Turkey. The Government of Argentina, for example, owes $17 billion to China.

Much of the recent Chinese debt has been project-related. Collateralised project-related debt poses fewer systemic risks to debt sustainability, as it often includes debt-to-equity conversion options. Such conversions may have political (including geo-political) implications and may affect long-run debt sustainability, especially if they would affect government revenue flows in future.

Debt crises have been a regular part of the global financial system ever since the era of financial market liberalisation some half a century ago. They have imposed enormous costs on the afflicted countries, and sometimes enormous costs on whole regions and the global economy. As we argued earlier, there has been a tendency for excessive indebtedness – short-sighted lenders interacting with short-sighted political processes are a toxic combination, and especially so in an era of super-low interest

47 The lines between official and private creditors becomes especially blurry in countries where banks are owned by governments. Independent government agencies also can sometimes act much like private creditors.

rates. There is no simple way of preventing such excessive indebtedness, other than to encourage greater prudence on the part of lenders. Creditor country bailouts (often engineered in the past with the assistance of the IMF) have lowered the costs of bad lending practices. So too have creditor friendly courts, which have reduced the losses that creditors would otherwise have faced, as do legal frameworks (for example, which enable creditors to get 9% pre-judgment interest, as noted earlier).

One way to reduce the likelihood of future debt crises, and their depth and duration, is to design better debt contracts and put in place a predictable and rules-based sovereign debt restructuring mechanism. In the next three sub-sections, we discuss briefly three aspects which have received considerable attention in recent years.[48]

## COLLECTIVE ACTION CLAUSES

Collective action clauses (CACs) facilitate debt restructuring by making it more difficult for 'holdouts' to prevent such restructurings – exemplified by vulture funds' behaviour not only against Argentina in the well-known court case but also against Panama, Ecuador, Peru, Cote d'Ivoire, Poland and Vietnam (Sassen, 2014). The CACs mark an improvement in sovereign debt restructuring workouts. They typically allow for a qualified majority of bondholders (75%) to change the terms and conditions of a single bond, including a standstill on payments, and make new terms binding on all bondholders. A minority of bondholders can still block a CAC-led standstill if they can muster the support of more than 25% of bondholders.

Most governments, however, have multiple series of sovereign bonds, each with separate covenants, terms and maturity structures. A debt restructuring requires a restructuring of each of these and doing so frequently raises questions of intra-creditor equity; it also gives rise to intra-creditor bargaining, precisely the kind of thing that can prevent the required overall debt restructuring. There has been innovation to address this problem across different bond issuance. Nearly half of all sovereign bonds now include aggregated CACs, which allow a qualified majority across various bond issues to amend payment terms. But because many countries still have bonds without these provisions, CACs are unlikely to resolve the problem of debt restructuring during the current pandemic – even if they might eventually do so.

## STATE-CONTINGENT DEBT CONTRACTS

A key problem with debt is that a country's obligations are fixed, even though the country's ability to meet those obligations can change dramatically, as in the course of this pandemic. Moving to state-contingent debt contracts, such as GDP-linked bonds (Shiller *et al*, 2018), where what the country has to pay is related to what it can pay, will be a step in the right direction.

The key challenge in state-contingent debt agreements is securing an agreement between creditors and borrowers on the 'state of the world' that would trigger the contingency. Some countries have issued GDP-linked bonds,[49] making bond payments contingent on the rate of GDP growth. But creditors do not always have full confidence in the GDP growth data reported by a debtor government, though the one instance

48 This list of reforms in the design of contracts is not meant to be exhaustive. Trusteeship provisions may also play an important role.

49 Costa Rica, Bulgaria, and Bosnia and Herzegovina in the 1980s and 1990s; and since then, Argentina, Greece, and Ukraine issued GDP-linked bonds. In 2014, Uruguay issued a $1 billion bond with principal and coupon payments indexed to nominal wages. But in these GDP-linked bonds, creditors only get an upside when GDP growth exceeds the pre-determined level. No sovereign bond has been issued yet with creditors accepting downside risk of lower coupon payment when GDP growth fell below the predetermined rate.

in which this has been the most concern was one where the government reported an overly high real GDP, as it tried to suppress data on the extent of inflation. While real GDP is manipulable – i.e., it is affected by government policy – using real GDP as a basis of a debt contract is typically incentive compatible, since both creditor and debtor want GDP to increase.

Export numbers, unlike GDP or inflation, are perhaps more exogenous and more easily verifiable, through data from the importing country. With debt obligations in dollars (foreign exchange), it makes sense to index debt servicing to the ability to service that debt, which depends heavily on export earnings. Similarly, developing countries – especially those dependent on commodity exports – may make debt servicing contingent on key commodity prices, which are determined by international demand. Issuing export or commodity price-indexed sovereign bonds would enhance the debt sustainability of low- and middle-income countries. This might even create an incentive for creditor countries to increase imports from these countries. The higher the volume of export, the higher will be the volume of debt servicing from low- and middle-income countries.



## SOVEREIGN BANKRUPTCY PROCEDURE

A fundamental deficiency in the global international financial architecture is the absence of a rules-based sovereign debt restructuring mechanism (Stiglitz, 2010). Many hoped that such a mechanism would not be needed, if only we had better designed contracts. That belief always seemed foolish: if that were the case, why has every country adopted a legal framework, with courts resolving disputes when creditors and the debtor cannot reach a timely agreement? Resolving disputes across borders is far more difficult than within a country, because there are often different norms, expectations and even underlying legal frameworks. If one can't just leave it to the market domestically, why should one expect that one could do so internationally? After years of working to design an optimal debt contract – or at least a collective action clause that was acceptable to both creditors and debtors and had some promise of working – in their first big test (that of Argentina), the new debt contracts are not working as hoped. Worse, the creditors are using their financial muscle to change the collective action clauses. The creditors are also demanding payments that are well beyond the levels that the IMF believes are sustainable.

The pandemic is likely to further expose the high costs of not having such a mechanism in place. The Chapter 9 bankruptcy procedures in the US – which protect municipalities and other public authorities against creditor claims while they restructure their debt – can guide us in the right direction.[50] Although similar to other bankruptcy procedures, Chapter 9 bankruptcy is significantly different. We discuss some of the more salient differences in the following paragraphs.

Unlike the bankruptcy procedures designed for private borrowers, the Chapter 9 procedures give significant protection and power to public entities to restructure their debt in the public interest. The idea is simple: social obligations of a public entity – providing basic services to the citizens and honouring commitments to pensioners, among others – should have priority over financial claims of the private creditors.

Not surprisingly, Chapter 9 provides automatic protection of its assets and revenues against collection efforts by creditors. There is no provision in the law for liquidation



50 There is a large literature on sovereign debt restructuring mechanisms, including on the underlying economics and the applicability of the ideas underlying Chapter 9 (e.g., Stiglitz, 2010 and the references cited therein).

of the assets of the municipality and distribution of the proceeds to creditors. The rationale is stright-forward: if private creditors are allowed to liquidate the assets of a democratically constituted entity of a state, it would undermine the sovereignty of a US state as stipulated in the US Constitution. There have been calls along these lines to protect debtor countries' assets from attachments by private creditors (Buchheit *et al.*, 2013).

Creditor rights are quite limited in Chapter 9 bankruptcies. The municipality under bankruptcy protection can undertake new debt, without the consent of its creditors, to meet provide services to its citizens or meet its other financial obligations, including payment of salaries and pension. Under Chapter 9 procedures, a municipality facing difficulty in making payments is afforded considerable flexibility to initiate a bankruptcy process[51]. While it is expected to obtain the agreement of the majority of its creditors, the creditors may not propose competing debt restructuring plans. And while it is expected to make good faith efforts to negotiate debt restructuring, if certain requirements are met, the debtor's plan is binding on all creditors, including those that find the restructuring offer less than acceptable. As such, the 'holdout problem' is virtually non-existent in Chapter 9 bankruptcy procedures.[52] Within the United States, Chapter 9 has proven effective. Its procedures guided the restructuring of $18 billion debt that the city of Detroit owed to bondholders, for instance, securing steep haircuts while protecting the city's assets and obligations to its pensioners.

A debt restructuring mechanism – a sovereign bankruptcy procedure modelled on Chapter 9 provisions – should not need universal agreement and participation of all governments to become effective, so long as key creditor countries were willing to participate. So long as there is a critical mass of creditor and debtor countries joining the initiative, other countries will follow suit. As we noted earlier, in 2015, the UN General Assembly adopted a set of principles that should underlay such a framework. The framework could also facilitate rewriting the standard contracts governing sovereign debt in ways that might reduce the likelihood of over-indebtedness, and when such over indebtedness occurs, that help promote timely and equitable restructurings.

## VI. Conclusion

It will take time to establish a sovereign debt restructuring mechanism, and the pandemic is already upon us. But the process should begin now. Meanwhile, we must do what we can within the existing institutional framework to prevent and resolve the numerous debt crises that, in the absence of international action, are likely to occur. In this Policy Insight, we have proposed several policy measures to reduce the likelihood of these debt crises and the costs they impose.

There may be resistance to some of these measures by some creditors and, where these creditors have sufficient influence on their governments, from those governments as well. There are often outcries that such measures will destroy the international capital market. Lessons from the past shows that such measures do not kill markets. Investors and creditors return to the market as soon as governments manage to mitigate underlying risks. It will be no different this time. If they temper some of the excessive lending, that will almost surely be for the better. The measures we have

51 The US Courts, "Chapter 9: Bankruptcy Basics" https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/chapter-9-bankruptcy-basics

52 Interestingly, the debtor is not even required to negotiate in good faith with creditors if such negotiations are deemed impracticable or if the debtor reasonably believes that a creditor may attempt to obtain a preference through the negotiations.

proposed may in fact improve market behaviour, encouraging lenders to do a better job in assessing debt sustainability.[53]

Governments of creditor and debtor countries must remember the consequences of the dismal failure of the London debt conference in 1933 that prolonged the severity of the Great Depression for half a decade. To put the world economy back on a trajectory of growth, the world must avoid a devastating debt crisis. The cost of collective failure to avert the debt crisis will be too high for all. We know what should be done. There should be a debt standstill, and there should be comprehensive debt restructurings. This Policy Insight provides some ideas on what can be done, in a timely way, in the midst of this pandemic.

## References

Berglöf, E., G. Brown and J. Farrar (2020), "Letter to governments of the G20 nations", *VoxEU.org*, 7 April.

Bolton, P., L. Buchheit , P.-O. Gourinchas, M. Gulati, C.-T. Hsieh, U. Panizza and B. Weder di Mauro (2020), "Necessity is the mother of invention: How to implement a comprehensive debt standstill for COVID-19 in low- and middle-income countries", *VoxEU.org*, 21 April.

Buchheit, L.C., M. Gulati and I. Tirado (2013), "The Problem of Holdout Creditors in Eurozone Sovereign Debt Restructurings", paper prepared for presentation at the European University of Cyprus, 30 January.

Bulow, J. and K. Rogoff (1988), "The Buyback Boondoggle", Brookings Papers on Economic Activity 2: 675-699.

Claessens, S. and G. Dell'Ariccia (2011), "Are buybacks an efficient way to reduce sovereign debt?", *VoxEU.org*, 5 March

Congressional Research Service (2006), "Argentina's Sovereign Debt Restructuring", RL32637.

Eichengreen, B. and M. Uzan (1990), "The 1933 World Economic Conference as an instance of failed international cooperation", University of California Berkeley Working Paper No. 90-149.

Encinas, C.A. (2011), "Clause Majeure? Can a borrower use an economic downturn or economic down-turn related event to invoke the force majeure clause in its commercial real estate loan documents?", *Real Property, Trust and Estate Law Journal* 45(4): 731-776.

G20 (2020), Communiqué from the G20 Finance Ministers and Central Bank Governors Meeting, 15 April.

53 The requisite write-offs by private creditors – mostly hedge funds and pension funds managing trillions of dollars – are manageable. Besides, as we have already explained, one cannot squeeze water from a stone – the losses will be there. Much of the fight is whether they will be recognised today or, with an inadequate restructuring, at some time in the future. And as the private sector seeks to postpone the recognition of these losses, it imposes huge costs on the debtor country – again, as we have emphasised, it is a negative-sum game.

Gelpern, A., S. Hagan and A. Mazarei (2020), "Debt standstills can help vulnerable governments manage the COVID-19 crisis", Peterson Institute of International Economics, April.

Guzman, M. and J.E. Stiglitz (2016), "Pseudo-wealth and consumption fluctuations", NBER Working Paper 22838.

Guzman, M., J.A. Ocampo and J.E. Stiglitz (eds) (2016), *Too Little, Too Late: The Quest to Resolve Sovereign Debt Crises, Initiative for Policy Dialogue at Columbia*, New York: Columbia University Press.

Hepburn, C., B. O'Callaghan, N. Stern, J.E. Stiglitz and D. Zenghelis (2020), "Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?" *Oxford Review of Economic Policy*, May.

Hornbeck, J.F. (2013), "Argentina's Defaulted Sovereign Debt: Dealing with the 'Holdouts'", Congressional Research Service, 6 February.

IMF (2016), "Capital Flows - Review of Experience with Institutional Views", IMF Policy Paper, December.

IMF (2020), *World Economic Outlook Update*, *June 2020*, Washington, DC.

Marmins, D.J. (2020), "Is the Coronavirus a Force Majeure that Excuses Performance of a Contract?", American Bar Association, March.

Medeiros, C., M. Polan, and P. Ramlogan (2007), "A Primer on Sovereign Debt Buybacks and Swaps", IMF Working Paper, March.

OECD (2020), "A standstill for the poorest countries: How much is at stake?", OECD Policy Response to the Coronavirus (COVID-19), May.

Okonjo-Iweala, N. and B. Coulibaly (2020), "Africa Needs Debt Relief to Fight COVID-19, *Project Syndicate*, 9 April.

Reinhart, C., S. Horn and C. Trebesch (2020), "China's Overseas Lending", Kiel Institute for the World Economy, April.

Rotemberg, J.J. (1991), "Sovereign debt buybacks can lower bargaining costs", *Journal of International Money and Finance* 10(3): 330-348

Sassen, S. (2014), "A Short History of Vultures", *Foreign Policy*, 3 August.

Setser, B.W. (2020), "The State of Argentina's Debt Restructuring", Council on Foreign Relations, 24 June.

Shiller, R., J.D. Ostry, J. Benford and M. Joy (2018), "Sovereign GDP-linked bonds: Rationale and design", *VoxEU.org*, 16 March.

Stiglitz, J.E. (2010), *The Stiglitz Report: Reforming the International Monetary and Financial Systems in the Wake of the Global Crisis*, New York: The New Press.

Stiglitz, J.E. and H. Rashid (2013), "Sub-Saharan Africa's subprime borrowers", *Project Syndicate*, 25 June.

Sundaram, J. (2005), "Malaysia's September 1998 controls: Background, context, impacts, comparisons, implications, lessons", G-24 Discussion Paper.

*The Guardian* (2020), "World faces worst food crisis for at least 50 years, UN warns", 9 June.

United Nations (2020), "Shared Responsibility, Global Solidarity: Responding to the socio-economic impacts of COVID-19", March.

UNCTAD – United Nations Conference on Trade and Development (2020a), "The Covid-19 Shock to Developing Countries: Towards a "whatever it takes" programme for the two-thirds of the world's population being left behind", March.

UNCTAD (2020)United Nations Conference on Trade and Development (2020b), "COVID-19 triggers marked decline in global trade", 13 May (https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2369).

UNDESA – United Nations Department of Economic and Social Affairs (2020), *The World Economic Situation and Prospects*, update as of mid-2020, June.

Weiss, Paul, Rifkind, Wharton & Garrison LLP (2020), "Update: Force Majeure Under the Coronavirus (COVID-19) Pandemic", 16 March.

Xafa, M. (2014), "Sovereign Debt Crisis Management: Lessons from the 2012 Greek Debt Restructuring", CIGI Paper No. 33, June.

Yadav, Y. (2019), "Debt buybacks and myths of creditor power", University of Pennsylvania,

Zuckerbrod, A.D. (2017), "Consideration of Pre-Judgment Interest in Evaluating the Risk of Litigation", *New York Law Journal*, 1 June.

**ABOUT THE AUTHORS**

**Joseph E. Stiglitz**, a Nobel laureate in economics and University Professor at Columbia University, is Chief Economist at the Roosevelt Institute and a former senior vice president and chief economist of the World Bank. His most recent book is *People, Power, and Profits: Progressive Capitalism for an Age of Discontent*.

**Hamid Rashid** is Chief of Global Economic Monitoring at the United Nations Department of Economic and Social Affairs. Before joining the UN, he served as the Director General for Multilateral Economic Affairs at the Ministry of Foreign Affairs, Government of Bangladesh.