XII ANNUAL CONFERENCE ON THE GLOBAL ECONOMY “CHALLENGES OF CATCH - UP: EMERGING COUNTRIES IN THE GLOBAL ECONOMY”
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Sovereign debt in high interest rate era

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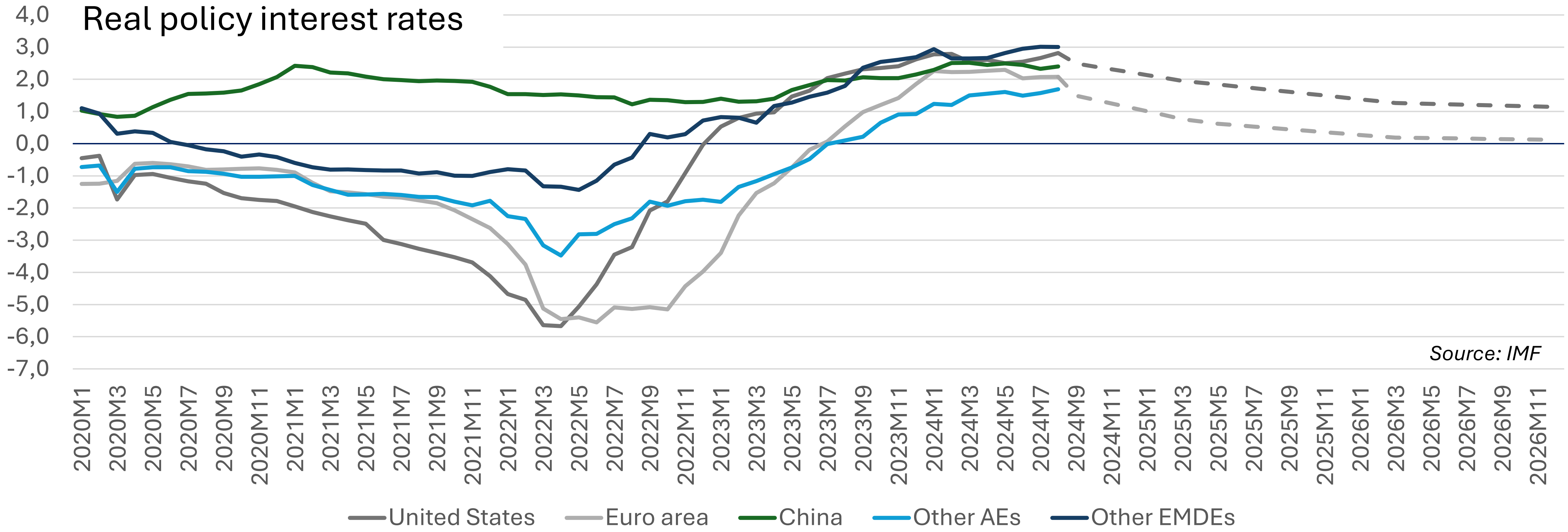
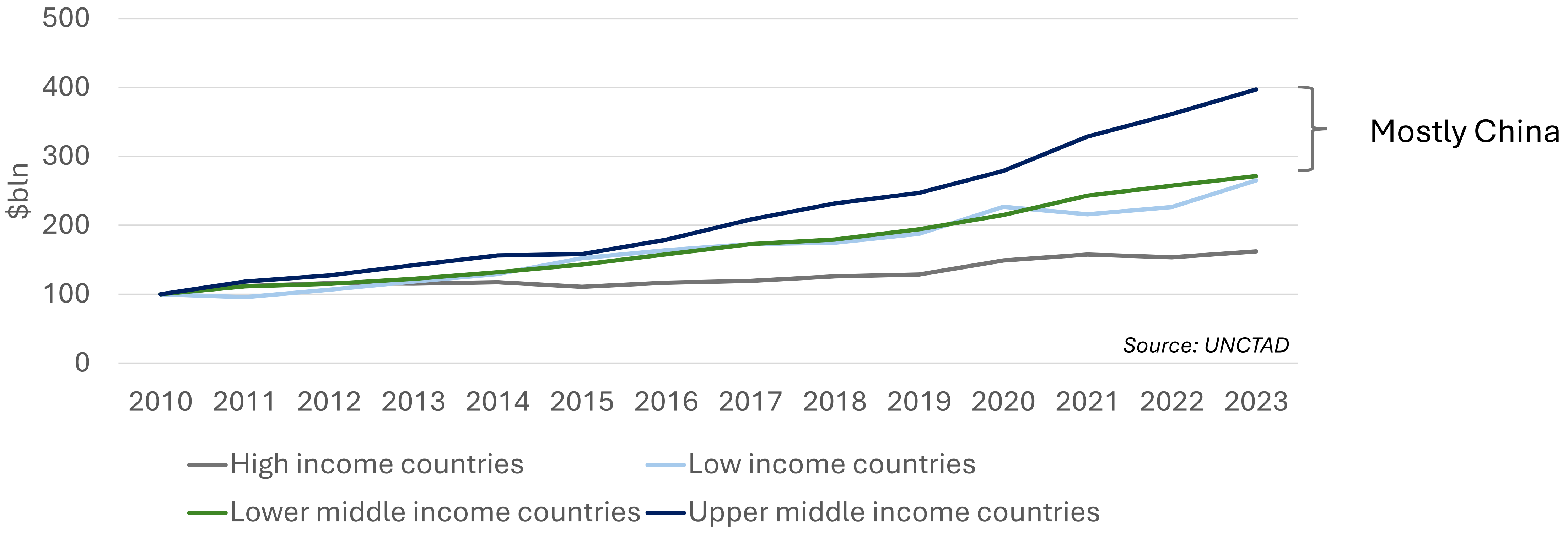
High-interest era is here



- Inflation is coming down, but it is not done deal
- High interest rates have to stay a while longer to tackle inflation down for good

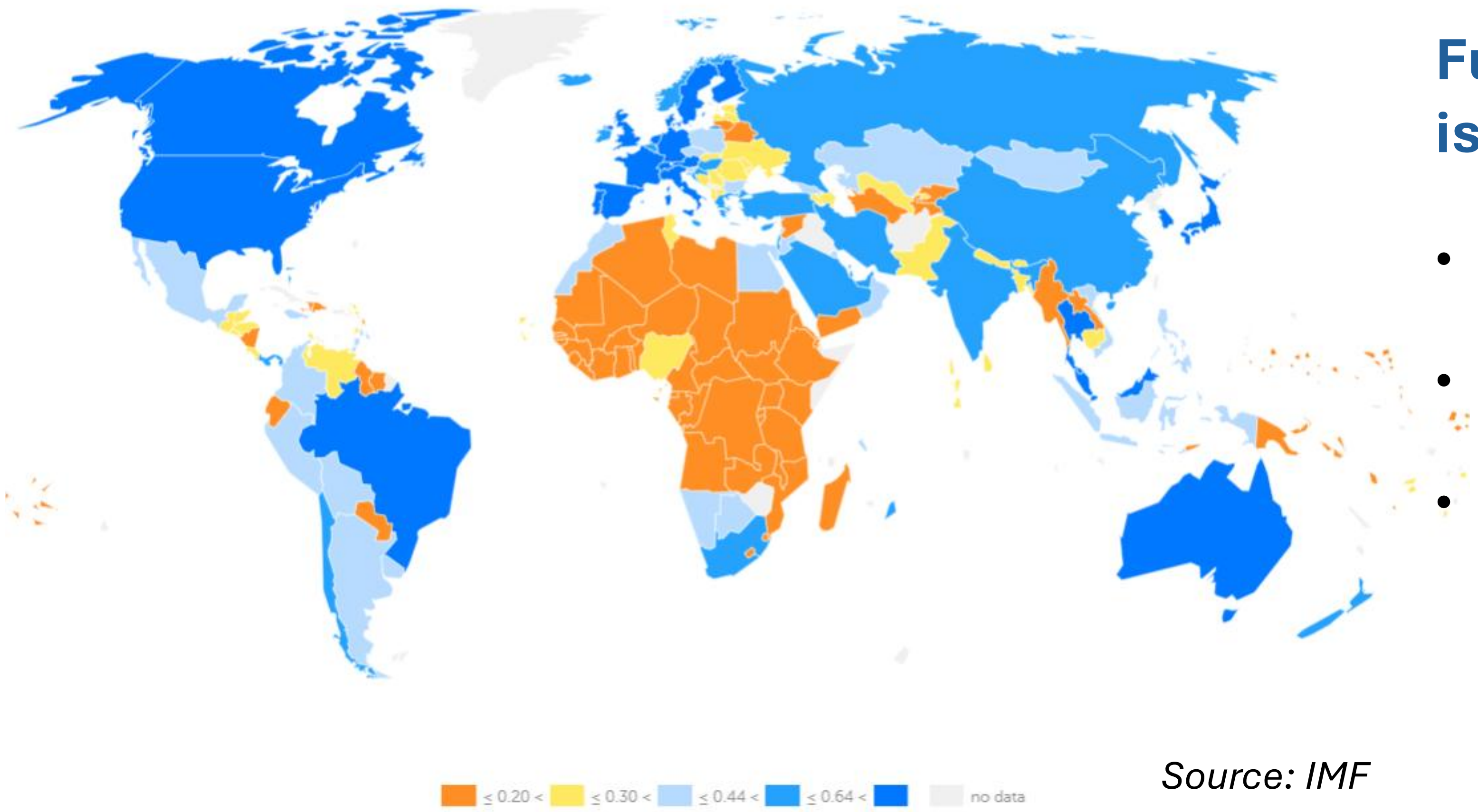
Public debt is rising faster in developing countries



- Low-income countries don’t borrow in the local currency on the national market
- World Bank (2022): “About 60 percent of IDA-eligible countries are assessed at **high risk of debt distress** or are already in debt distress”

Countries entry high-interest era with different access to capital

Financial Development Index, 2021



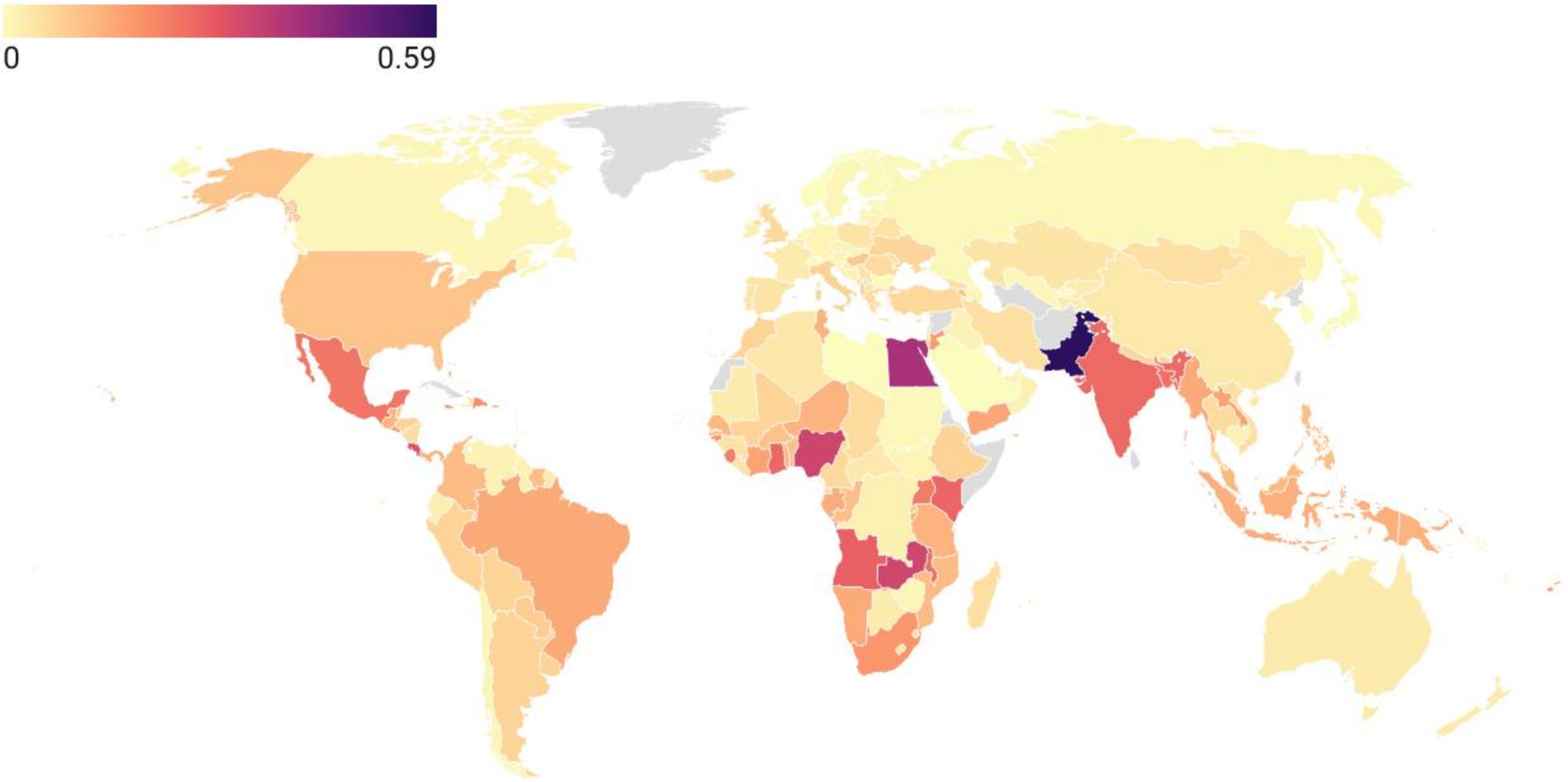
Source: IMF

Funding from the national market is beneficial

- External borrowing constraints are procyclical
- Funding on the national market can protect country from sudden stops
- Debt in national currency can be inflated away

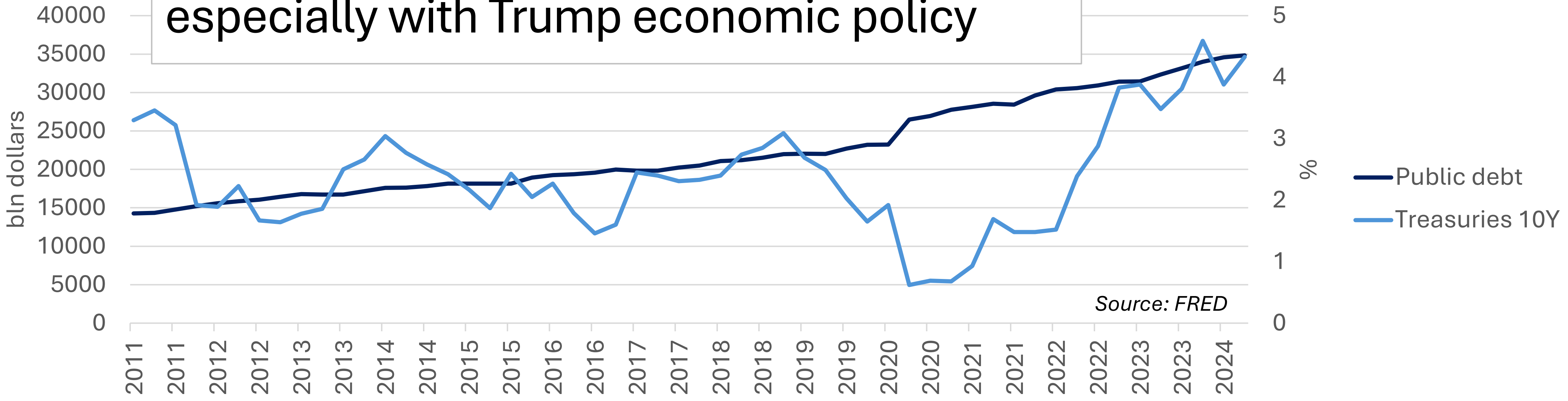
Interest payments in revenues

Difference in share of interest payments in government revenues is a concequence of inquality in access to capital markets

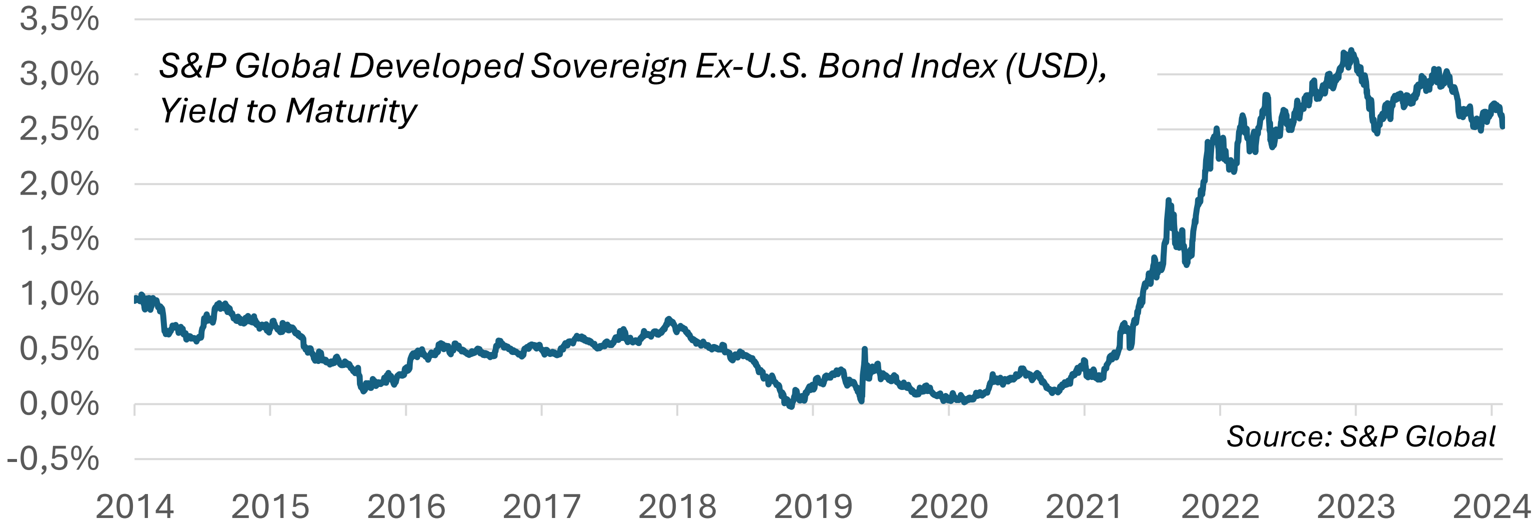


Map: Anastasia Podrugina • Source: UNCTAD • Created with Datawrapper

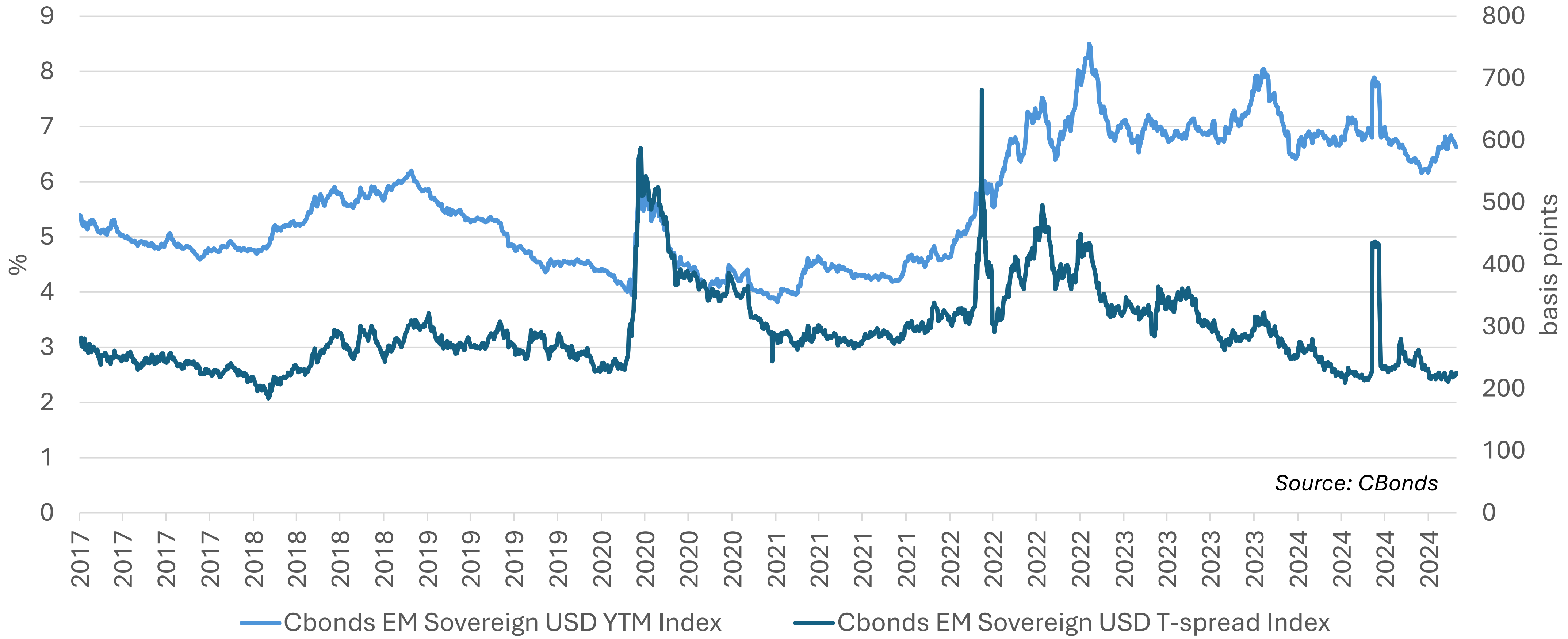
High interest rates is a problem for US, especially with Trump economic policy



As well as for other developed countries



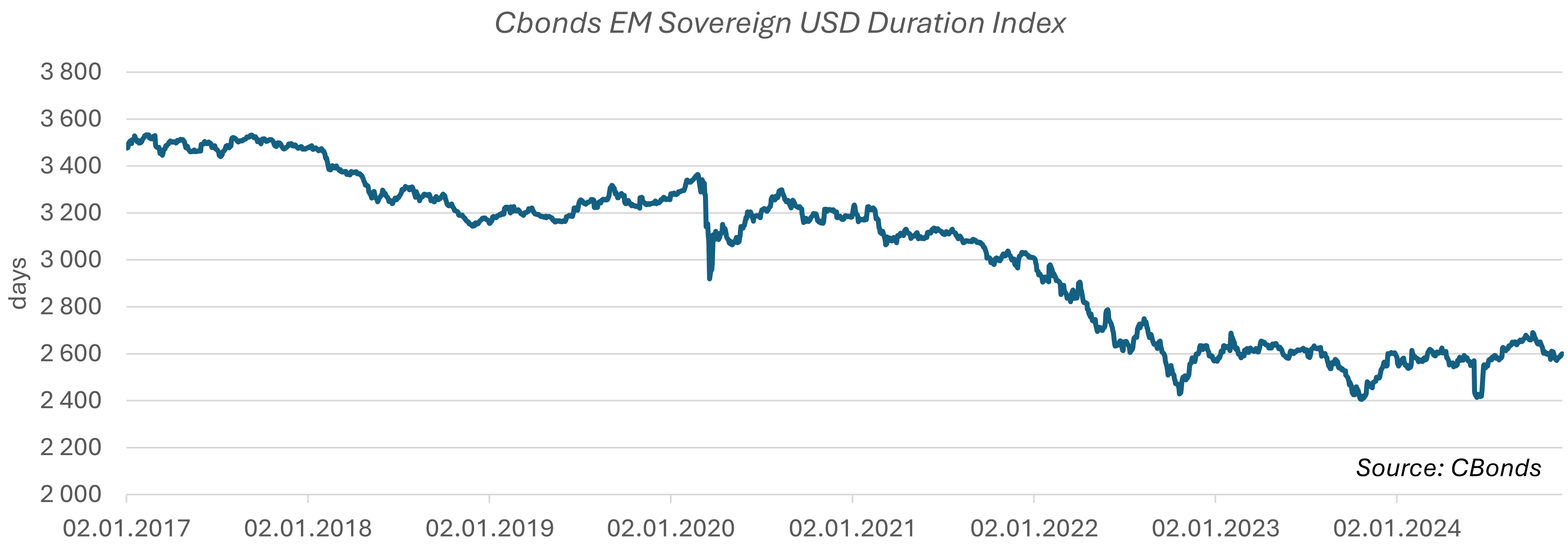
Yields on EME sovereign debt are high…



…but spreads are almost back to normal

Problem is decreasing time to refixing

“Around 40% of sovereign bonds will mature by 2026 globally”
OECD Global Debt Report 2024



Defaults

2022: Russia, Ukraine, Belarus, Lebanon, Ghana, Sri Lanka, Zambia, El Salvador, Mali

2023: Sri Lanka, El Salvador, Mozambique, Argentina, Ethiopia, Ghana

2024: **bailouts and restructurings** by IMF and other creditors (Kenya, Pakistan, Sri-Lanka, Ghana,...)

Conclusion

- **Uneven access to national capital markets** creates inequality in ability to finance government debt
- Debt in developing countries is rising and **shortening**
- For 2024 the solution is to **restructure maturing debt** with help of international financial institutions
- On the 3-5 years horizon the key factor for national financial stability is **opportunity to refinance**
- **Capital market development** is the way, not debt relief