COVID-19 AND SOVEREIGN DEBT

As George Orwell said "If you want a vision of the future, imagine a boot stamping on a human face - forever." Well this is exactly what has happened with the onset of the corona virus pandemic and the economy at the global level. Revenues have decreased, exports have fallen, liquidity has dried up, and basically economy has crumpled. The tourism industry, airline sector, hospitality industry, and other service dependent sectors have faced a sharp downfall. There are several countries that do not have a multi-sectorial economy and depend on one sector which have been affected by Covid. These countries, have specially been affected by the pandemic because they have a Public Finance crisis along with the health crisis. And in such times sovereign debt is a big big calamity to be dealt with.

Sovereign debt also known as public debt or government debt is, in simple terms, the amount that a country has borrowed from its own citizens i.e. the public or from external sources, for example, The International Monetary Fund etc.. This system has been theoretically prevalent in the global economy since the 17th century when European Monarchs felt short at finances and borrowed from their fellow rulers with certain rate of interest which could be territories, filial relations, or surrender from wars etc.. However it has been in practise even before it came to be understood as what it is today. For example, The Medici bank which was one of the richest in the world have always been infamous for lending money to the Pope to gain access to papal accounts. Throughout centuries this system has only grown strong and complicated with development of financial institutions and banks to control these debts. In 1815, at the end of the Napoleonic wars, British government debt reached a peak of more than 200% of GDP. In 2018, the global government debt reached the equivalent of $66 trillion, or about 80% of global GDP. Today the United States of America has the highest public debt of 17,607 billion USD approximately 31%of the global debt while India has a debt of 995 billion USD which is approximately 1.8%of the global debt. And, after the rise of covid crisis the problem of repayment of debts is only increasing and rightly so it is fundamentally impossible for developing and underdeveloped countries to repay their debt. In the recent weeks 90 weeks have approached IMF for short term emergencies which is twice the no. countries that approached them after the 2008-9 crisis.

The IMF expects that the global debt stocks will take a jump by 13% of the global world product along with the fiscal balances to turn sharply negative in developing countries, to -

9.1 and -5.7 per cent of GDP in middle-income and low-income countries, respectively. The poorest of the counties will have to deal with this because along with a healthcare emergency they also have to deal with this issue of public finance. However the World Bank Group, the International Monetary Fund have announced that they will be allowing suspension of the official bilateral credit. This will help the millions of poor people and the most vulnerable of them. The world bank group, Bretton woods system countries like the unites states, japan, Australia etc., the IMF, the G7 countries which is a group of major developed countries have hinted towards helping the International Development Association(IDA) countries which are relatively poor countries like Nigeria, Rwanda, Chile, Kosovo, Samoa etc. The World Bank Group will deploy as much as $160 billion between April 2020 and June 2021. Between April and the end of June 2020, the World Bank committed $32 billion and disbursed a total of $17 billion—including $9 billion for the poorest countries. The World Bank will also make sure that the amount distributed will be used upon public health and healthcare services and not on repayment to private creditors. The countries not eligible for these helps and still under high external sovereign debts will be helped by the IMF to design customized concessional repayment plans and fiscally sustainable policies to help cover the crisis for short term and the economy in the middle and long-term. These include many middle income developing countries

Within Asia, Sri Lanka is the most distressed sovereign debt country and it exhausted its second long term financing debt from the IMF of this decade. It is in a tough situation amidst the health emergency given their external debt is about half the country's GDP and if we include private creditors it is about 90% of the GDP.

A report published by the secretary general of the United Nations suggested some approach that could be used for controlling the problem of sovereign debt crisis. It said that there should be standstill in debt service for countries with high debt burdens, debt relief for highly indebted countries and restructuring of international financial architecture.

A greater number of poor or underdeveloped or low income countries have creditors and international bonds (approximately of about 32% of the total debts). Which have been sufficient to their ongoing internal financial crisis but after the covid and the healthcare emergency these might have to resort to other borrowing needs along with the burden of repayment. As for middle income countries, they are a heterogeneous group, some have the capability to raise finance while others are in massive debt distress. For example, there are, as of now, 6 middle income island nations that are not eligible for reliefs and are under huge debt from public as well as international debts. But countries like panama were able to raise finance from international markets by the end of March just when the pandemic started.

Within India, after the collapse of the market stimuli and total lockdown, major economic activities have shut down which have led to a reduction in tax revenues and slack in generation of any sort of incomes which will lead to piling up of debts and an economic slump. It is estimated that India will have to borrow an additional Rs. 4.2 lakh Crore ($56 billion dollars) from the debt market in the current financial year- a 50% spike from the budgeted Rs. 7.2 lakh Crore. At this time the government may have to curb its finances so that the economy is back on track. But some economists argue that if the government doesn't borrow and support households and corporations the economy could even take a downturn. As of this moment, the government of India has not announced any policy measures. So at this time, we would need growth in the economy, revenues to increase and fiscal measures to be balanced and the government is expected to take decisions accordingly.

The IMF has suggested that official creditors should suspend all debt repayments as far as the crisis continues so that the countries with low income can have time to maintain fiscal balance and it should be resumed only after the pandemic is over and the emergency financial crisis with regards to healthcare and medication services are over. It is also expected that the private and unofficial lenders should also follow such measures. Along with that, countries with high indebtedness can work on debt restructuring by assessing their internal economic policies and measuring gaps and assessing what sort of adjustments can they make to repay the loan. One other factor which is of great importance here is that of timeliness and urgency, many middle income or poor countries who were dependent on remittances or tourism will be unable to pay. So in that case buying time is one resolver. One such example can be of the Korean repayment crisis in 1997-98. Similarly, participation by all sorts of creditors allowing time and extension at this hour is necessary. Market based solutions like taxation reforms, privatisation of state owned enterprises, investment liberalisation, reduction of trade barriers etc. can be used to solve the crisis. As was seen in the case of Iraq, when according to UNSC resolution 1483, a debt shield mechanism from creditors to sue the Iraqi government for sovereign debt was granted. After that Iraq was able to settle its commercial debts by debt buyback.

A major global crisis of sovereign debt amidst the corona virus pandemic will remain a greater unresolved issue if individual countries along with their respective banks and world institutions do not coordinate to tackle the problem and come up with an effective solution.

Radhey Sureka