The BoC-BoE Sovereign Default Database: What’s New in 2020?

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Overview

- Disclaimer
- What is the BoC-BoE sovereign default database?
- What does it look like?
- Why is it needed?
- How is it compiled?
- What trends does it highlight?
- What’s new this year? How might the database further evolve?
- Default prospects 2020-2025

Views of the authors do not necessarily reflect those of the Bank of Canada and the Bank of England.
About the BoC-BoE Database

- A time series (starting in 1960) covering all types of sovereign (and other fiscally autonomous territory) debt owed to official and private creditors identified as being in default.
- Data—23k+ entries—is compiled county-by-county, aggregated globally, and updated annually in nominal U.S. dollars.
- Data and associate research is downloadable and available online at the BoC and BoE websites:
  - https://www.bankofengland.co.uk/statistics/research-datasets and https://www.bankofcanada.ca/2020/06/staff-analytical-note-2020-13/
- First developed by me and colleagues at the Bank of Canada and published in 2014 and since then compiled in partnership with the Bank of England.
### Database of Sovereign Defaults

**Last Update: 19-Aug-2019**

#### A. Summary Data

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#### Default Rates (%)

- % of all Sovereigns: 47.4, 45.1, 47.5, 47.5, 49.1, 44.5, 45.5, 43.5, 43.5, 39.7
- % of Paris Club Debt: 14.3, 15.2, 11.6, 16.0, 11.6, 14.4, 11.3, 11.2, 8.6, 10.8
- % of World Public Debt: 0.4, 0.4, 0.3, 0.3, 0.8, 0.9, 0.4, 0.4, 0.3, 0.6
- % of World GDP: 0.3, 0.3, 0.2, 0.7, 0.7, 0.7, 0.3, 0.3, 0.3, 0.5

#### Total Number of Sovereigns

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#### Outstanding Paris Club Debt (US$bil)

- 2002: 340
- 2003: 353
- 2004: 414
- 2005: 396
- 2006: 373
- 2007: 304
- 2008: 315
- 2009: 312

#### Gross World Public Debt (US$bil)

- 2002: 45110
- 2003: 50774
- 2004: 57117
- 2005: 59432
- 2006: 40114
- 2007: 62060
- 2008: 59556
- 2009: 62756
- 2010: 65476
- 2011: 69410

#### Gross World Product (US$bil)

- 2002: 60394
- 2003: 66025
- 2004: 73245
- 2005: 74605
- 2006: 76777
- 2007: 78852
- 2008: 74688
- 2009: 75735
- 2010: 80146
- 2011: 84740

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**What does it look like (1)?**
### B. Sovereign Debt in default (US$ mil)

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Why a Sovereign Default Database?

- Other sovereign default datasets in the public domain typically are point-in-time and focus on *market* debt.
- The BoC-BoE database is the *only* database covering all types of sovereign debt in default and their evolution over time, including obligations due *official creditors*.
- Thus, it gives a truly comprehensive picture to help analysis of the economic and financial impacts of sovereign defaults.
How is the Database compiled?

- We use a *broad* default definition, i.e. both payment defaults and changes in payment terms that result in NPV creditor losses.
- Our information comes mainly from public sources – MLIs, the Paris Club, other bilateral official creditors, CRAs, private creditors, debt-distressed governments, the media, think tanks, and academic research papers.
- A key building block is annual IBRD data on loan arrears to official and private creditors, which we treat as residuals after deducting defaulted debt due, e.g., the Paris Club, China, bond and bank creditors.
Key trends

- Global default footprint still low, @ 0.4% of global public debt in 2019, down from 0.5% in 2018, and vs. a peak in 1990 of 6.1%.
- 2019 outcome mainly reflects Greece’s big restructuring of debt owed official EU creditors (US$111 billion) in 2018 dropping out of the total.
- By value, the default distribution remains highly skewed: in 2019 the top 3 governments (Puerto Rico, Venezuela and Sudan) accounted for about 59% of total debt in default, and the top 10 for 88%.
- The data help highlight strains on the Paris Club-led contractual approach to debt workouts.
- The Club’s share of all official debt in default has fallen from 40% to 25% over the past decade. The share involving defaults on loans from other bilateral official creditors—notably China, India and the Gulf states—has grown.

• For many sovereigns, defaults recur or persist over long periods. The DRC, Zimbabwe, Sudan, Yemen, and Cuba are examples but there are others (see also slide 10).
• Wars, revolutions, weak governance the main drivers.
• External efforts to strengthen debt management in LICs have had limited impact. We simply don’t have all the tools to tackle these issues!
China v Paris Club Data

Default data for China’s official loans—including for the first time last year—is available since 2000.

- Data is partial, point-in-time, mainly debtor disclosures of debt write-downs or restructurings, not ongoing arrears.
- Earliest data mainly reflects HIPC debt relief.
- There are similar issues with Paris Club debt in default, where data is usually disclosed only when debt is restructured, and public reporting by members of arrears is also limited.

Still, the China and Paris Club data does highlight important trends:

- Paris Club debt in default has been stable over the past decade, much of it of longstanding (e.g., Sudan); its outstanding loans, @US$300 billion, also are static.
- Since 2010, disclosures about Chinese loans in default have been increasing, along with rising BRI lending.
- Big recently defaults involve Venezuela ($19.0 bn), Ethiopia ($3.3), Angola ($3.1), Congo ($1.6 bn), Cuba ($3.0), Sri Lanka ($1.5) Cameroon ($1.1), and Ecuador ($1.0).
- Despite criticism, not much evidence of predatory lending by China. Notably, it appears to have granted debt relief to HIPCs on terms comparable to the Paris Club’s.
- Except in scale, China’s recent lending behaviour is not unlike that of traditional official bilateral creditors; DSSI debt deferrals may be an exception.
- China evidently does not (yet) see its interests as aligned with those of the Paris Club.
- So much is at stake on how quickly China learns from its own debt restructuring experiences that multilateral approaches can deliver sustainable outcomes for both sovereign creditors and debtors.
**Shares of Public Debt in Default**

- In 2019 we included total govt debt data to analyse shares in default in more detail.
- The histogram chart shows default shares since 1960: 3,379 observations for 141 sovereigns.
- Most commonly, sovereigns “selectively” default on part of their debt.
- Reflecting this, default shares are skewed towards lower values. 72% of observations are equal to, or below, 10% of total debt. The remaining 28% range between 10 and 100%.
- Of these, 6.2% defaulted on debt between 50 and 100% of the total.
- The highest shares, 70% and above, are most often associated with sovereigns facing severe political conflict and/or economic distress.

*Source: BIS-BIS Database*
How is the Database evolving?

- Since 2018 we’ve included separate data on Chinese official loans gathered from the Centre for Global Development, Rhodium Group, IMF, debtor governments and other sources.
- We’ve also added central government debt stocks to the country data to facilitate analysis of the shares of debt in default.
- Libya is a new addition in 2019, bringing the total number of sovereigns that have defaulted since 1960 to 147.
- This year we’ve also introduced the first data on domestic arrears—e.g. late payments for goods and services. When lawfully contracted, arrears are also government obligations effectively in default, often cleared through issuance of securitised debt (see next page).
- From next year, we plan to include arrears for the years 2005-2020 and, later, for previous years—a very big project.
- Other suggestions welcome!
Our main findings:

✓ Identified arrears were sizable in 2018 at @$122 billion, 4.8% of the group’s public debt and 7.6% of their aggregate GDP.

✓ In comparison, global defaults were $396 billion; excluding Greece, they were $285 billion.

✓ So identified arrears were 31% of conventional debt in default, and excluding Greece, they were 43%.

✓ Domestic arrears are correlated with conventional defaults: over half of sovereigns in default in 2018 also had domestic arrears.

✓ The true scale of arrears in 2018 was higher. On top of these 51 cases, we’ve since spotted another 17!

✓ Looking ahead, we plan to backfill the dollar amounts of prior arrears cases in future updates of the database.

✓ We also want to determine to what extent arrears are a leading or a coincident indicator of conventional sovereign default.
Sovereign Defaults 2020-2025: How Big?

Even before COVID-19, defaults were already set to rise in 2020. My current estimate is that they will be around $800 billion, nearly 3x the level in 2019:

- Recent defaults by Argentina, Ecuador and Lebanon were already on the cards in 1Q20.
- Argentina’s and Ecuador’s workouts have been completed relatively quickly – perhaps because COVID-19 motivated bond creditors to do deals.
- Lebanon’s workout, meanwhile, is contentious domestically and likely to drag on beyond this year.
- On the downside, with COVID-19 raising questions about medium-term debt sustainability in these and other sovereigns, we’re likely to see more recurring debt restructuring cases.
- The sudden stop in 1Q2020 cross-border EM capital flows, which has only partly unwound, will also help drive defaults higher, given elevated EM-LIC debt burdens.
- Near-term IMF/WB and G20 assistance, combined with QE by AEs, can slow but not overturn, the deterioration in credit fundamentals.

Prospects in 2021-2025

- In a moderate stress scenario, the EM-LIC average credit rating falls two notches (from BB-) to single-B.
- Annual defaults could easily reach $2.5 to $3 trillion annually, @10% of developing country (ex-China) GDP, close to the crisis levels of the 1980s (see chart).

- This scenario does not include EA sovereigns. A future restructuring involving Italy (2020 debt is @ $2.6 trillion), for example, would be a huge global shock, dwarfing EM and LIC defaults, and do lasting damage to the creditworthiness of other Eurozone sovereigns.
- The potential for similar in scale to the 1980s highlights weaknesses in the multilateral framework for managing them:
  - Weak incentives doe debtor governments and creditors to act pre-emptively;
  - The reluctance of China and other new bilateral lenders to join the Paris Club;
  - The IMF’s constrained balance sheet and stretched staffing will challenge its capacity to oversee multiple restructurings involving a wide range of sovereigns and bilateral official and private creditors;
- Tackling these issues is vital to containing fallout rising sovereign financial distress.
Comments? Questions?

THE DEBT CRISIS COST ME AN ARM AND A LEG

Thank you!