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Jean-Claude Trichet, President of the Académie des sciences morales et politiques, former President of the European Central Bank, Honorary Governor of the Banque de France

I think the next speaker is Pierre Jacquet, so Pierre you have the floor.

Pierre Jacquet, Professor of Economics at the *École nationale des ponts et chaussées* (ENPC), member of the *Cercle des Économistes*

Thank you Jean-Claude. Let me focus on another pathology of the international financial system, which is a bridge between what Bertrand and others say, that there is a lack of money going to developing countries right now and the fact that a few years ago there was a lot of money going to developing countries. The bridge is called debt and I think that this pathology of the international system is the risk of emergence of a new debt crisis with considerable impact, especially for countries in Africa, but not only. The situation is a bit similar to the 1980s, we had an influx of money into these countries and that corresponded to the recycling of excess liquidity in rich countries in search of higher potential returns and then we had a number of shocks, and of course the shocks are covid, the economic slowdown in developed countries, inflation, rising uncertainty, the drying up of new funds, depreciation of currencies against the Dollar and so on. Therefore as a result the burden of the debt service, which is still lower than historical records, has significantly increased, especially in sub-Saharan Africa, not only, and in Latin America.

Let me also mention the net transfer to IDA countries, that is net financing inflows minus debt service have turned negative in the face of a rising need to engage into strategies of green growth strategies, to fund the energy transition, to reach the SDGs and so on. Right now about 30 countries or more are considered to be in a high risk of debt distress.

Second point, there are three differences with the earlier debt problems, one is that much of this debt is now held by the private sector and multilateral institutions, but the big new thing is the private sector, all of the private sector, and that has been a major tendency in the evolution of debt. I will come back later to the implications of that.

Second, which is linked to it, much of it is a shift from loans to bonds, with an interesting fact which is bonds do not carry the same risk of systemic event than loans and therefore when there is a problem the incentives to act are even lower and then we all know that the incentives to solve debt problems have always been quite weak. It is even weaker when you have bonds because bonds are a private thing, not a collective issue. Therefore that is one of the difficulties.

The third difference is the considerable rise in non-DAC creditors, especially China. In sub-Saharan Africa China now holds close to 60% of bilateral public and publicly guaranteed debt. China has become the first bilateral creditor of developing countries. The implications are



mounting obstacles to prompt an effective resolution of debt crises and we see that every day, we take commitments, we have nice frameworks, but implementing those frameworks has become increasingly difficult. Therefore ineffective crisis resolution.

My third and final point is that we are again addressing this debt issue in a crisis resolution mode as I said, this crisis resolution mode is not effective, it is very slow. However again we are doing what we did in the past, we have a crisis, we try to solve it, it takes too long but in the end we will do something. I think it is time to move to more crisis anticipation, it is not really prevention but the idea that we should prepare for the next crisis, this is the nature of capitalist financial flows, there are excesses followed by excessive disillusion. It has always been the case and we have not been able to integrate that in the approaches, strategies and instruments. I would suggest that there needs to be more thinking about how to make ex-ante debt restructuring mechanism more automatic. It is complex, it requires to distinguish between proper and improper use of borrowed funds, it requires to distinguish between liquidity crisis and solvency crisis, but I think the risk of debt distress in the face of exogeneous shocks need to be androgenize.

There are many ways to do it, one is to go back to the proposal made by Anne Kruger a long time ago to create debt restructuring, sovereign debt restructuring mechanism, the SDRM, which never floated very far but I think it is a very important idea and suggestion. It could be androgenized in debt contract, it could be also androgenized through contingent debt instruments and I think that is one aspect of financial innovation that could be quite promising. Therefore my point is that the time has come to spend energy on a more lasting debt management framework which is really lacking today. Thank you.

Jean-Claude Trichet

Thank you very much Pierre. You are absolutely right in mentioning the fact that China is not a member of the Paris Club and that as far as governments are concerned it is an enormous hole in the system and I cannot resist to hope that China will understand at a certain moment that it is time to join some kind of I would say global mechanism. I am a little bit more skeptical on Anne Kruger proposal but we will discuss that.