

Interest rates, E, K-flows and Capital Markets

✦ Debt

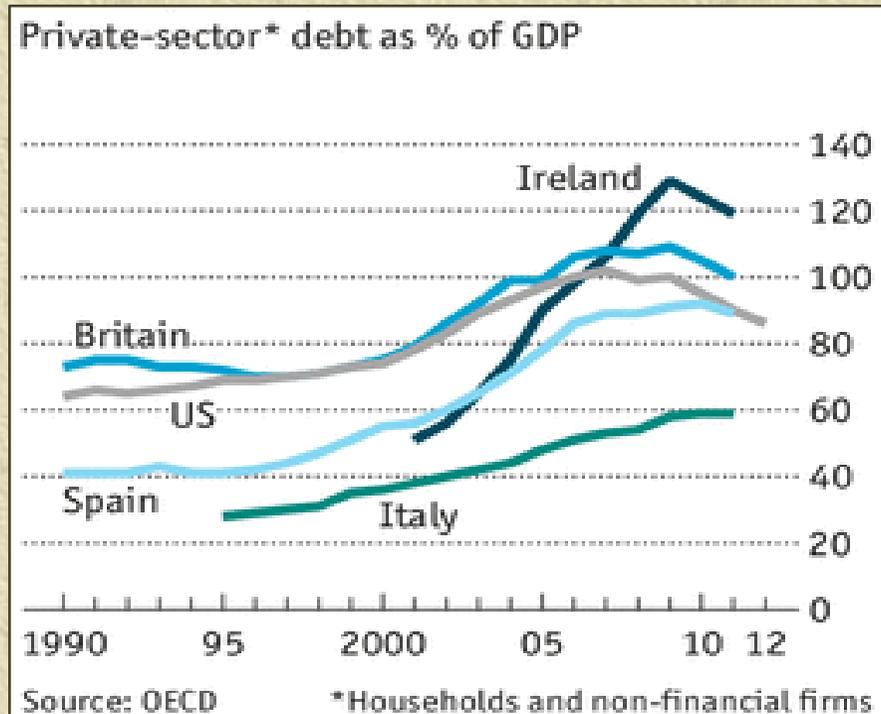
- ◆ Basics on debt
- ◆ Dangers of debt
- ◆ Trends
 - Debt ↑ from 246% of global GDP in 2000 to 286% of GDP in 2015
 - For every \$ of new output, the world puts out more than \$1 debt

Macro models have given little importance to debt/default even as credit grows faster than GDP

https://www.economist.com/content/global_debt_clock

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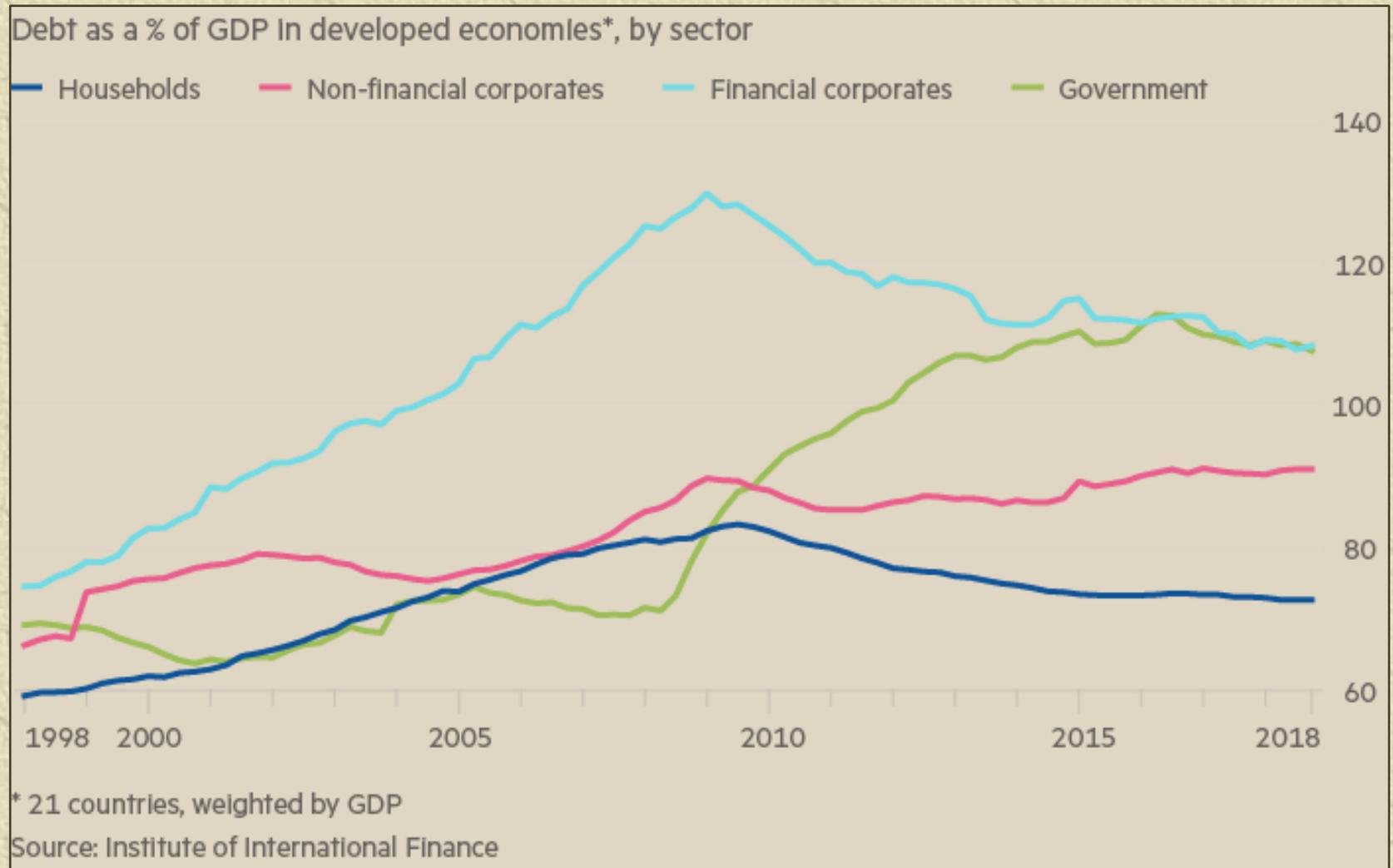
- ◆ Developed economies, during GFC



Economist, "The dangers of debt: Lending weight", Schools brief, 14 Sep 2013, pp. 66-7.

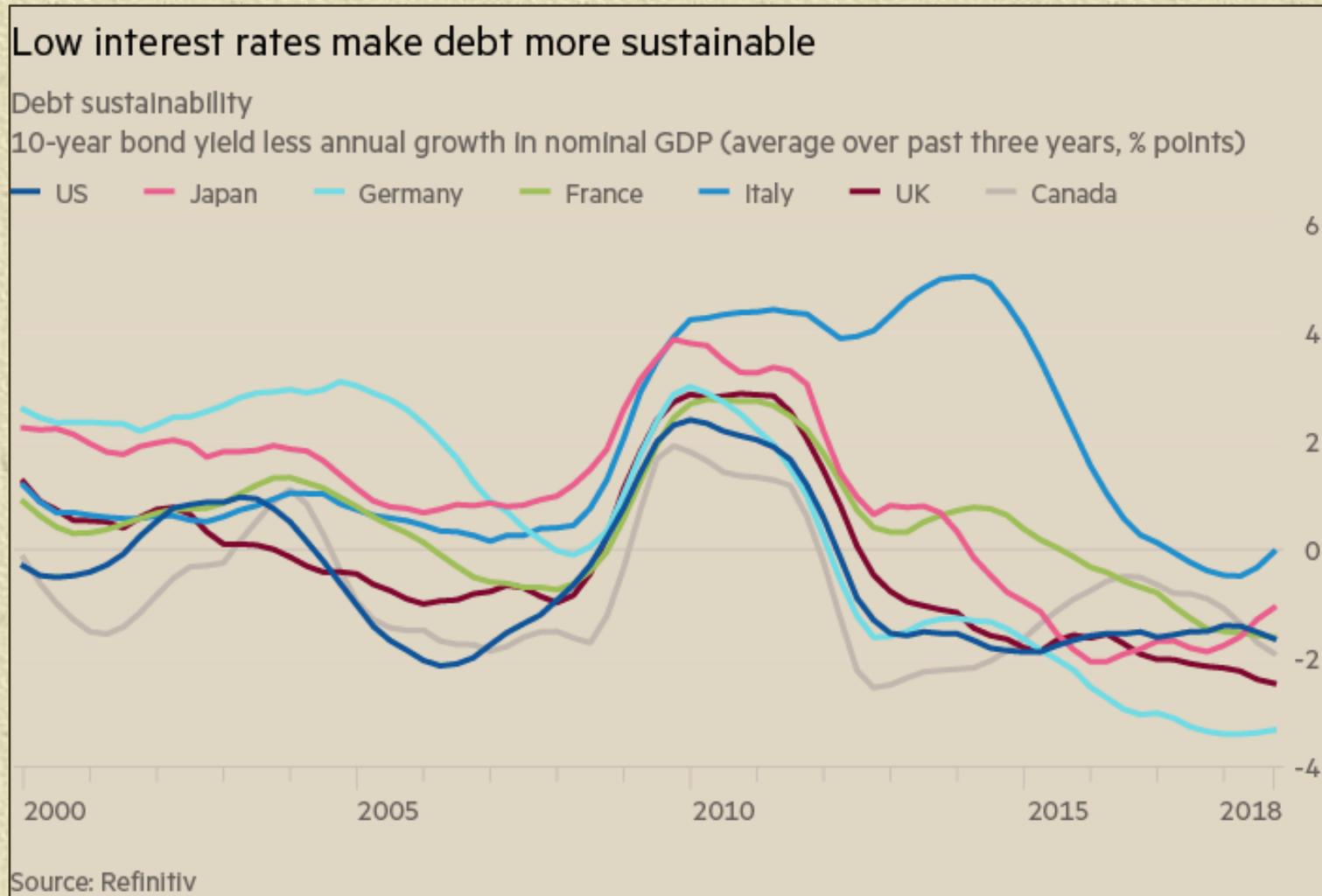
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◆ Debt levels, by type



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◆ Debt relative to GDP growth

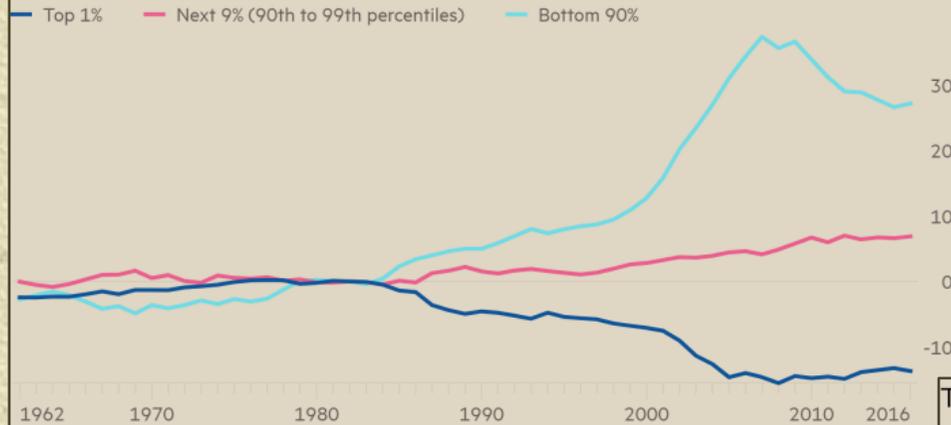


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◆ Debt and inequality

The US rich have become much bigger creditors, while the rest have become much bigger net debtors.

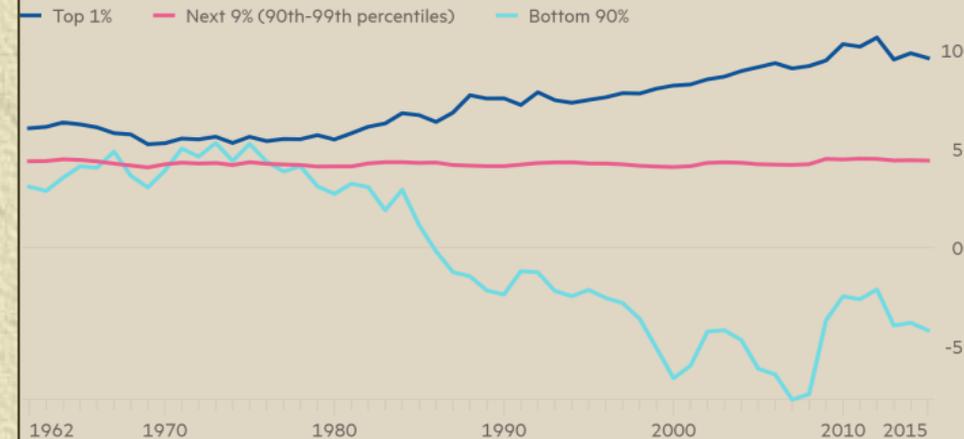
Changes in net household debt as a share of national income relative to 1982, across the US income distribution (% points)



Source: Mian, Straub & Sufi

The savings glut of the US rich has grown enormously, while the majority increasingly dissave

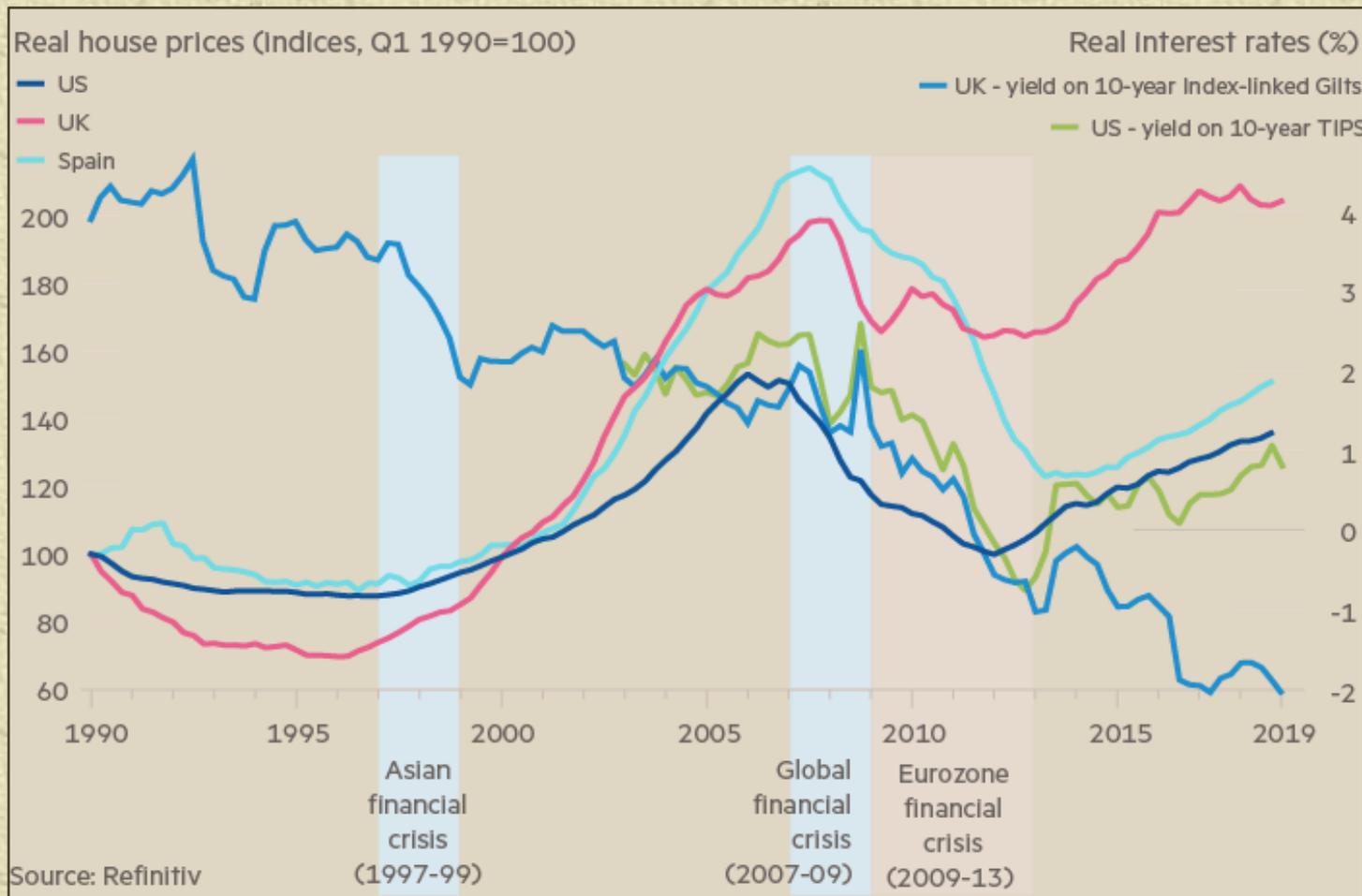
Savings of groups in the US income distribution, as a % of national income



Source: Mian, Straub & Sufi

Interest rates, E, K-flows and Capital Markets

- ◆ Before: falling i-rates, housing property boom, and credit bubble
- ◆ After: near zero rates and debt, weak growth, populist politics



Low real i-rate,
high real housing
prices.

Interest rates, E, K-flows and Capital Markets

✦ Housing prices, i-rates and debt

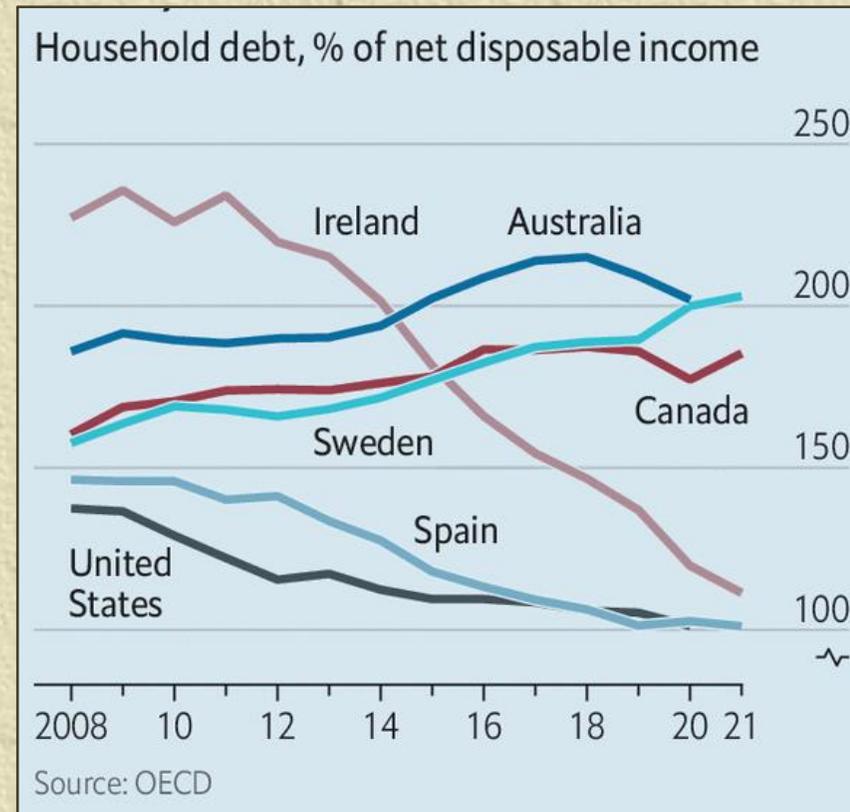
In 2022, house prices started to fall after years of growth. Australian, Canada and Sweden faced the sharpest drops. Mortgage binges fuelled by near zero i-rates left countries with enormous HH debt.

HH debt as % of disposable income was 185% in Canada, 202% in Australia and 203% in Sweden. (Norway peaked at 199% in Jan 2021.)

Debt levels shrunk in countries hurt during the GFC, including the US, Ireland and Spain.

Housing busts and recessions from debt build-up tend to be more severe. Excessive leverage makes people more vulnerable to job losses, i-rate rises, and falling house prices as during the GFC.

As central banks ↑ rates at the fastest pace in 40+ years, mortgage debt was again exposed.



Economist, “Housing prices: The coming crunch”, 26 Nov 2022, p. 65.6.

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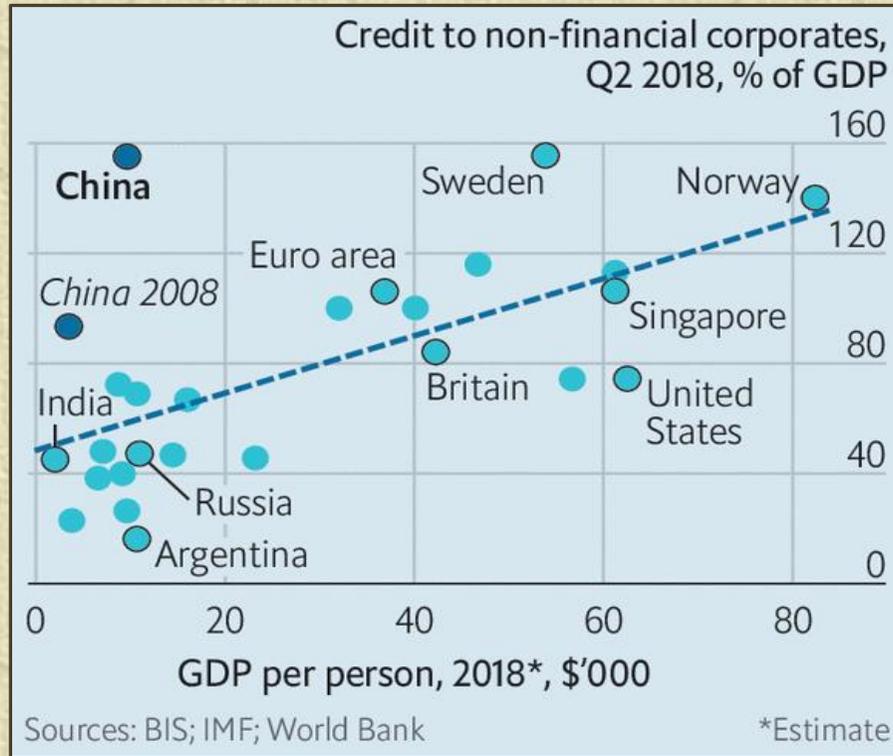
◆ Emerging market debt



Financial Times, “Investors fear Turkey is harbinger of wider crisis as easy money ends”, 14 Aug 2018, p. 19.

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◆ China and debt



China's accumulation of physical K underpinned by cheap land (for development), tax breaks and low-cost L.

Role of debt in the strategy:

- Preferential access to credit from the beginning (state banks to state firms)
- GFC slowed X-led growth and fiscal stimulus was a response.
 - Local officials ran up debt;
 - Land was seized for development;
 - building boom and infrastructure investment

2008-19: Debt ↑, 150% to 250% of GDP

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✦ EME debt

Economist, “Next in Line”,
Briefing on debt in
developing countries, 2 May
2020, 54-55.

Rout 66

Selected emerging economies ranked on four measures of financial strength

1=strongest

Strongest Weakest

Country (with rank)	Public debt % of GDP, 2020*	Foreign debt % of GDP, 2020*	Cost of borrow- ing [†]	Reserve cover [‡]
1 Botswana	Dark Blue	Dark Blue	Dark Blue	Dark Blue
2 Taiwan	Light Blue	Dark Blue	Dark Blue	Dark Blue
3 South Korea	Light Blue	Dark Blue	Dark Blue	Dark Blue
4 Peru	Light Blue	Dark Blue	Dark Blue	Dark Blue
5 Russia	Dark Blue	Light Blue	Dark Blue	Dark Blue
6 Philippines	Light Blue	Dark Blue	Dark Blue	Dark Blue
7 Thailand	Light Blue	Dark Blue	Dark Blue	Dark Blue
8 Saudi Arabia	Light Blue	Dark Blue	Dark Blue	Dark Blue
9 Bangladesh	Light Blue	Dark Blue	Dark Blue	Dark Blue
10 China	Orange	Dark Blue	Dark Blue	Dark Blue
11 Guatemala	Dark Blue	Light Blue	Light Blue	Dark Blue
12 Vietnam	Light Blue	Dark Blue	Light Blue	Dark Blue
13 Poland	Yellow	Light Blue	Dark Blue	Light Blue
14 Nigeria	Light Blue	Dark Blue	Orange	Dark Blue
15 Trinidad & Tob.	Light Blue	Light Blue	Light Blue	Dark Blue
16 Indonesia	Light Blue	Light Blue	Dark Blue	Orange
17 UAE	Light Blue	Orange	Dark Blue	Light Blue
18 India	Orange	Dark Blue	Light Blue	Dark Blue
19 Czech Rep.	Light Blue	Orange	Dark Blue	Yellow
20 Paraguay	Light Blue	Light Blue	Light Blue	Orange
21 Bolivia	Light Blue	Light Blue	Yellow	Orange
22 Kuwait	Dark Blue	Yellow	Dark Blue	Orange
23 Azerbaijan	Dark Blue	Orange	Light Blue	Yellow
24 Ivory Coast	Light Blue	Light Blue	Yellow	Light Blue
25 Malaysia	Orange	Yellow	Dark Blue	Yellow
26 Morocco	Orange	Light Blue	Dark Blue	Light Blue
27 Romania	Light Blue	Yellow	Dark Blue	Orange
28 Mexico	Orange	Light Blue	Light Blue	Light Blue
29 Colombia	Yellow	Yellow	Light Blue	Orange
30 Brazil	Orange	Light Blue	Light Blue	Light Blue
31 Chile	Light Blue	Orange	Dark Blue	Orange
32 Dom. Rep.	Orange	Light Blue	Yellow	Yellow
33 Uruguay	Orange	Orange	Dark Blue	Light Blue

Country (with rank)	Public debt % of GDP, 2020*	Foreign debt % of GDP, 2020*	Cost of borrow- ing [†]	Reserve cover [‡]
34 Croatia	Orange	Orange	Dark Blue	Light Blue
35 Qatar	Yellow	Red	Dark Blue	Yellow
36 Kazakhstan	Dark Blue	Red	Dark Blue	Orange
37 Egypt	Orange	Light Blue	Orange	Orange
38 Namibia	Light Blue	Yellow	Yellow	Orange
39 Uganda	Light Blue	Yellow	Orange	Orange
40 Costa Rica	Yellow	Yellow	Orange	Orange
41 Ethiopia	Yellow	Light Blue	Orange	Orange
42 Kenya	Orange	Light Blue	Orange	Orange
43 Pakistan	Orange	Light Blue	Orange	Orange
44 Turkey	Light Blue	Orange	Yellow	Red
45 Iraq	Red	Light Blue	Orange	Light Blue
46 Senegal	Orange	Orange	Yellow	Orange
47 South Africa	Orange	Yellow	Light Blue	Orange
48 Ghana	Orange	Light Blue	Orange	Orange
49 Hungary	Orange	Red	Dark Blue	Orange
50 Jordan	Orange	Orange	Yellow	Orange
51 Panama	Yellow	Red	Dark Blue	Red
52 Gabon	Yellow	Yellow	Orange	Red
53 Ukraine	Orange	Yellow	Orange	Orange
54 Ecuador	Orange	Yellow	Red	Red
55 El Salvador	Orange	Orange	Orange	Orange
56 Jamaica	Orange	Red	Light Blue	Orange
57 Argentina	Orange	Orange	Red	Orange
58 Oman	Orange	Red	Orange	Orange
59 Mongolia	Orange	Red	Orange	Orange
60 Tunisia	Orange	Orange	Orange	Orange
61 Sri Lanka	Orange	Orange	Orange	Orange
62 Angola	Red	Orange	Red	Orange
63 Bahrain	Red	Red	Yellow	Red
64 Zambia	Red	Orange	Red	Red
65 Lebanon	Red	Red	Red	Orange
66 Venezuela	Red	Red	Red	Red

Sources: EIU; IMF; JPMorgan Chase; iShares; *The Economist*;
central banks; Haver Analytics; World Bank; Finanzen.net

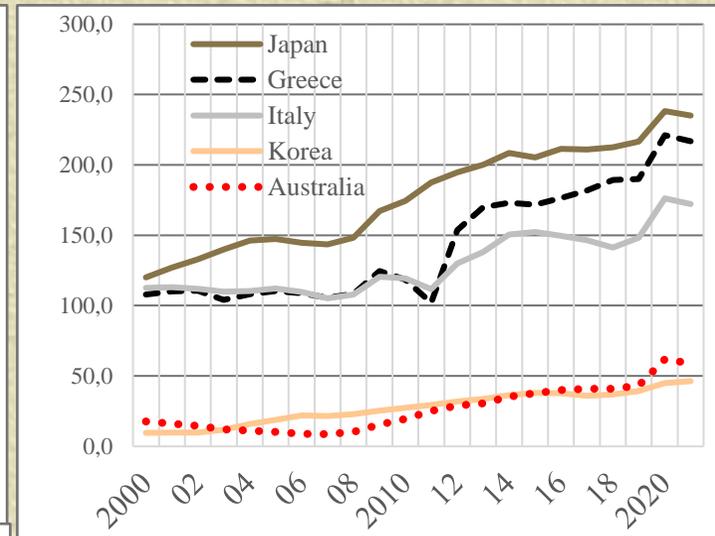
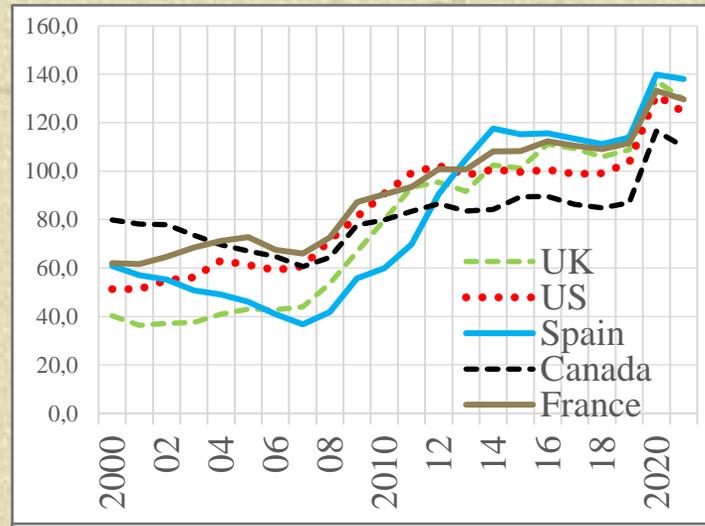
*Forecast †Yield on hard-currency bond or real yield on local bond ‡Foreign-
exchange reserves, relative to 2020 foreign-debt payments and current-account deficit

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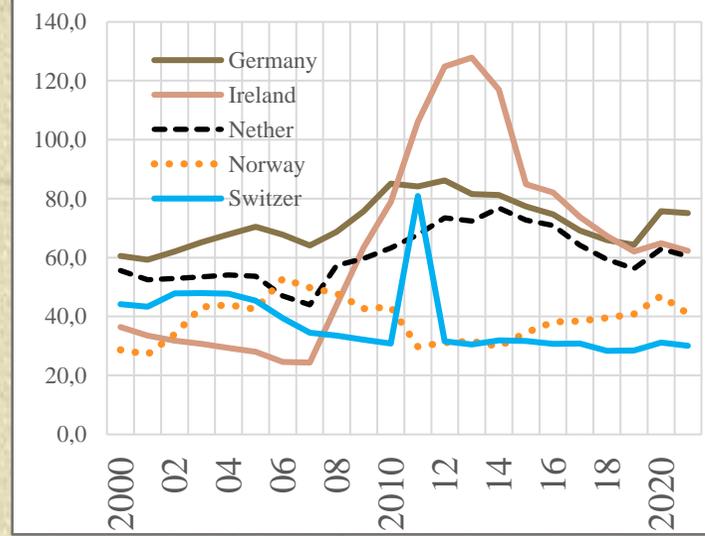
Comparison of debt

Gov't debt as % of GDP

Moderate gov't debt before GFC, spikes with GFC, stabilizes and spikes again with covid response



Moderate gov't debt before / after GFC



Upper countries: high debt before and after GFC

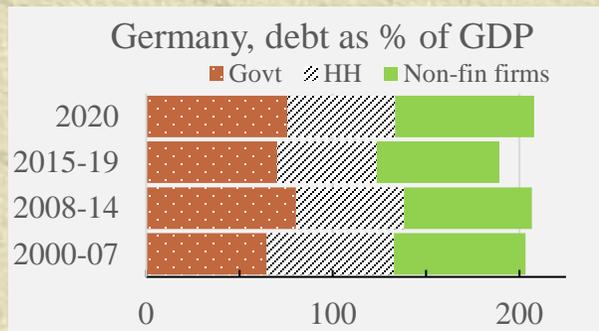
Lower countries: low debt before/after both shocks

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✦ Debt comparisons, as % of GDP, by actor across country

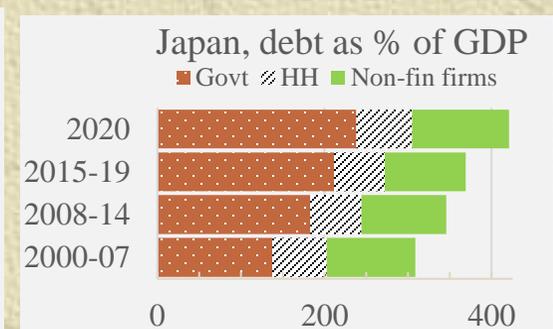
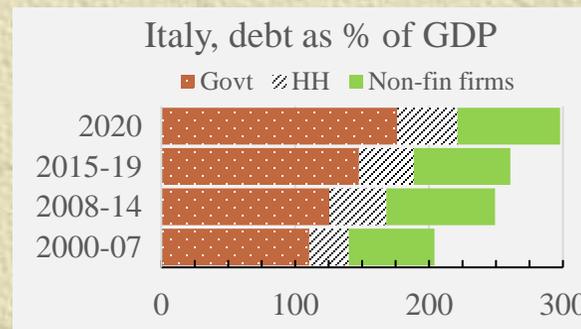
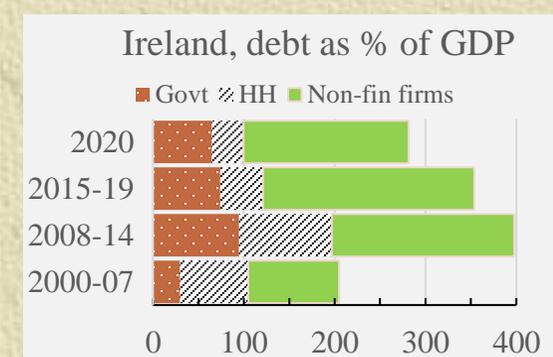
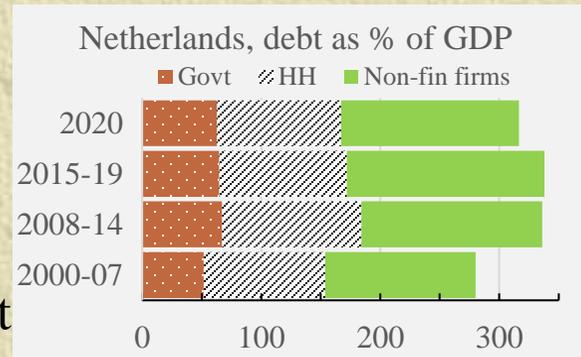
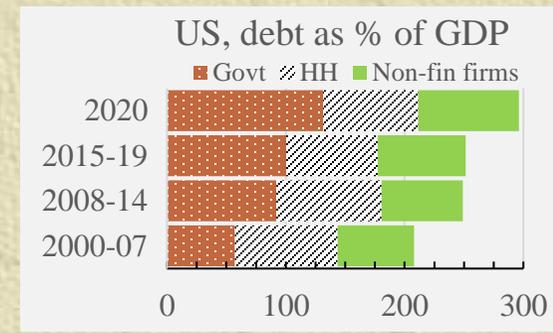
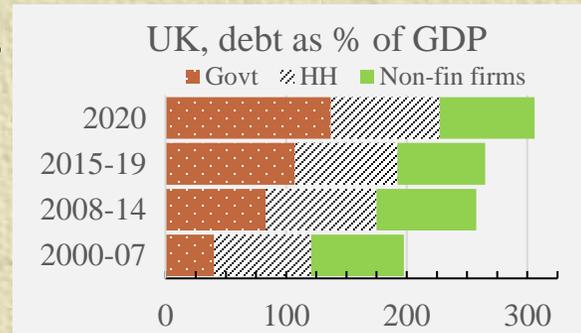
Increasing overall debt;
moderate private debt

Moderate overall debt



High overall debt;
moderate gov't debt

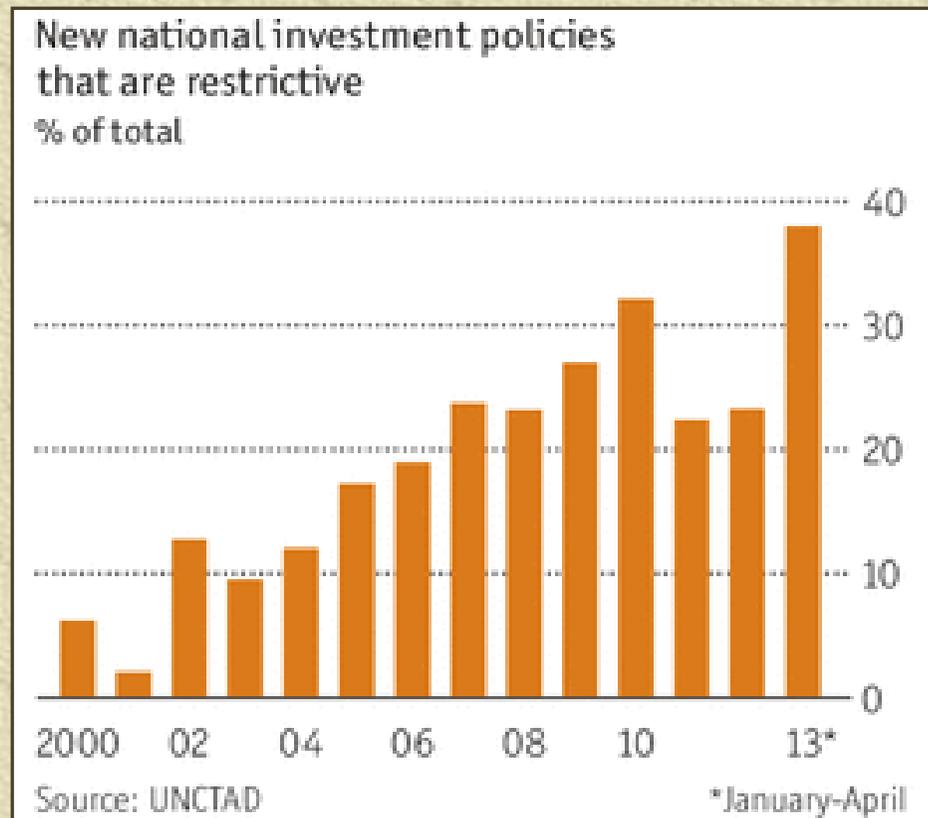
High gov't debt



Interest rates, E, K-flows and Capital Markets

✦ Capital controls

- ✦ Types and objectives
- ✦ Trends in use



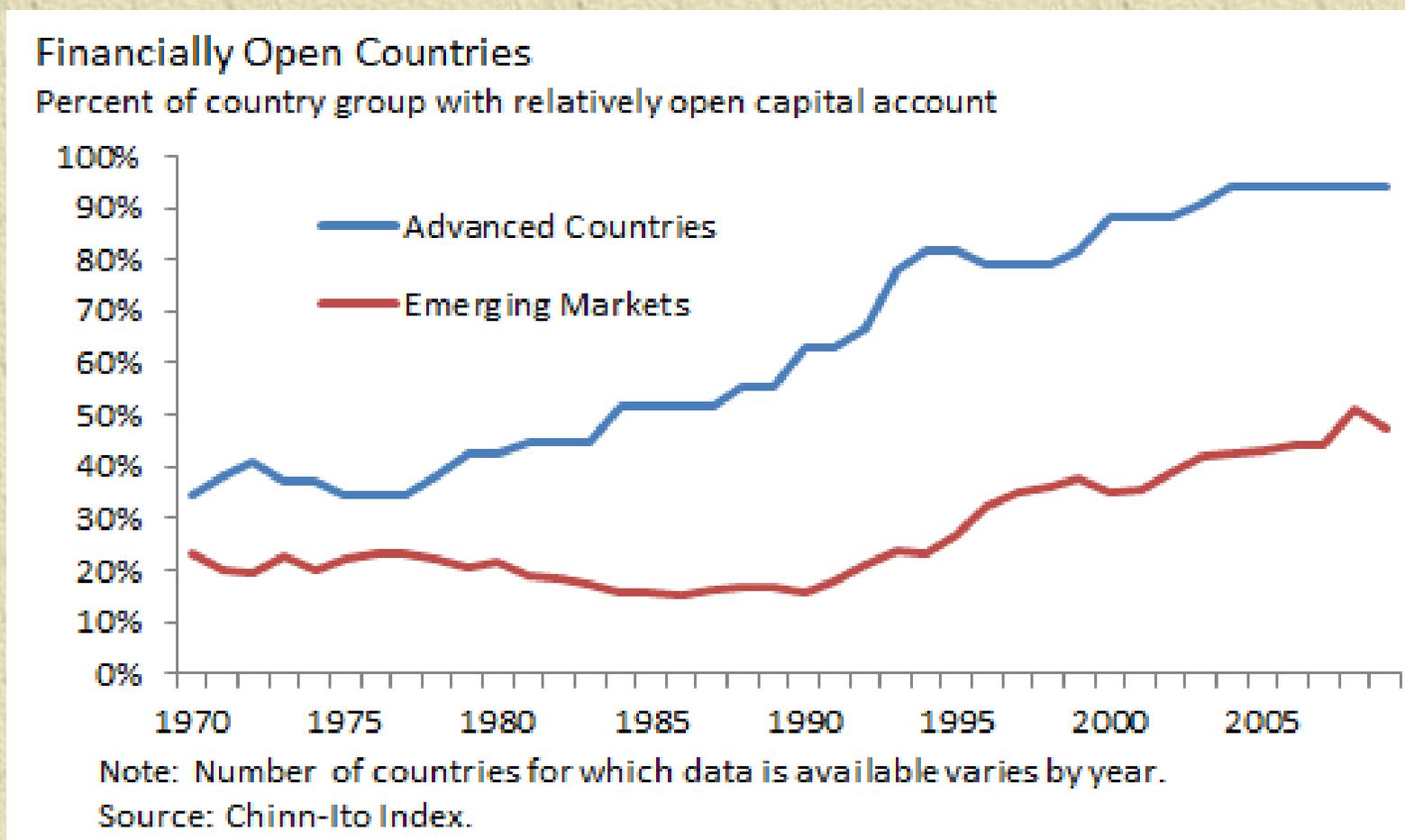
Economist, special report: World Economy, “Political pressures: a question of trust”, 12 Oct, 2013



Economist, “Capital controls: cash cowed”, 6 Apr 2013, p. 71

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- ◆ Share of countries with no controls on capital



Source: Carnegie Endowment for International Peace

<https://carnegieendowment.org/2011/06/09/why-are-capital-controls-so-popular-pub-44490>

Interest rates, E, K-flows and Capital Markets

- ◆ Capital controls as theory of the 2nd best
 - Case against liberal K mkts
 - Case against K controls
- ◆ Effectiveness of controls: Chilean model
 - 1-yr deposit on 30% of non-equity K
 - ◆ Deposit K with CB without interest
 - ◆ High tax on K-flows other than FDI, esp if short-term K-inflow
 - K-inflows must stay 1 yr – discourage hedge funds
 - Limit int'al borrowing (fc borrowing)