The Debt Dogs that Didn’t Bark
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If global growth resumes in 2021, aided by the rollout of vaccines and the Fed’s continued commitment to ultra-low interest rates, some developing countries may be able to avoid default, because yield-hungry investors will continue to buy their bonds. But other countries will not be so lucky.

BERKELEY– Last March, when COVID-19 infected the world economy, many observers feared that emerging markets and developing countries would suffer the most, financially and otherwise. Economically, they relied on commodity exports, remittances, and tourism, all of which fell through the floor with the pandemic. There was every reason to expect a tsunami of financial crises and debt defaults.

The tsunami never arrived. Just six countries – Argentina, Ecuador, Belize, Lebanon, Suriname, and Zambia – have defaulted on their sovereign debt, and only the first two have restructured their debts.

But much like Sherlock Holmes’s dog that didn’t bark, it’s hard to know whether to be reassured or alarmed by the silence. Reassuringly, the impact of COVID-19 on developing countries, in Africa specifically, has been less than feared. Their young populations are relatively resistant to the coronavirus. Their health systems, in responding to past epidemics, have gained the public’s trust. And China’s quick recovery boosted demand for their commodity exports.

Financially as well, current conditions are surprisingly stable. In March, when the crisis erupted, emerging markets hemorrhaged capital. In April, however, the outflows tailed off, and net flows to emerging economies have been positive and growing since.

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