



Bangor Business School – Executive Education

# Chartered Banker MBA

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*Supporting the delivery of financial services in challenging times – a new normal?*

‘The challenges for different management functions in establishing a new normal’.

A Debt Management Perspective

08 September 2022

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# Overview

- What is the New Normal?
- The debt management landscape?
- Why is inflation a problem for governments and creditors?
- What can banks do to support customers?

# What is the new normal?

## Then

- Pre-Pandemic
- Normal inflation
- Traditional delivery of financial services (dominant)
- Utilization of some financial technology for service delivery
- Some focus on ESG factors  
main focus on S and G than E (particularly climate change)

## Now

- Pandemic/Post-Pandemic
- Higher cost of living/supply chain issues
- Traditional delivery methods (less dominant)
- Financial technology utilized to a greater extent to deliver services
- Increasing importance placed on ESG factors by Government, regulators, clients. Increasing focus on all factors, focus on E accelerating.

# What is a new normal?

## Customers

- Increasing financial pressures on people (customer base)
- Increase cost of living globally. UK expected increase in energy and food.
- Reduced disposable income
- Increased interest Rates
- Increased used of high interest rate debt

## Governments

- Increasing financial pressures
- Higher Expenditure
- Lower Revenue
- Increasing interest rates
- Increased Debt
- Debt sustainability and Debt Restructuring
- Reduced capacity to implement development priorities, SDGS

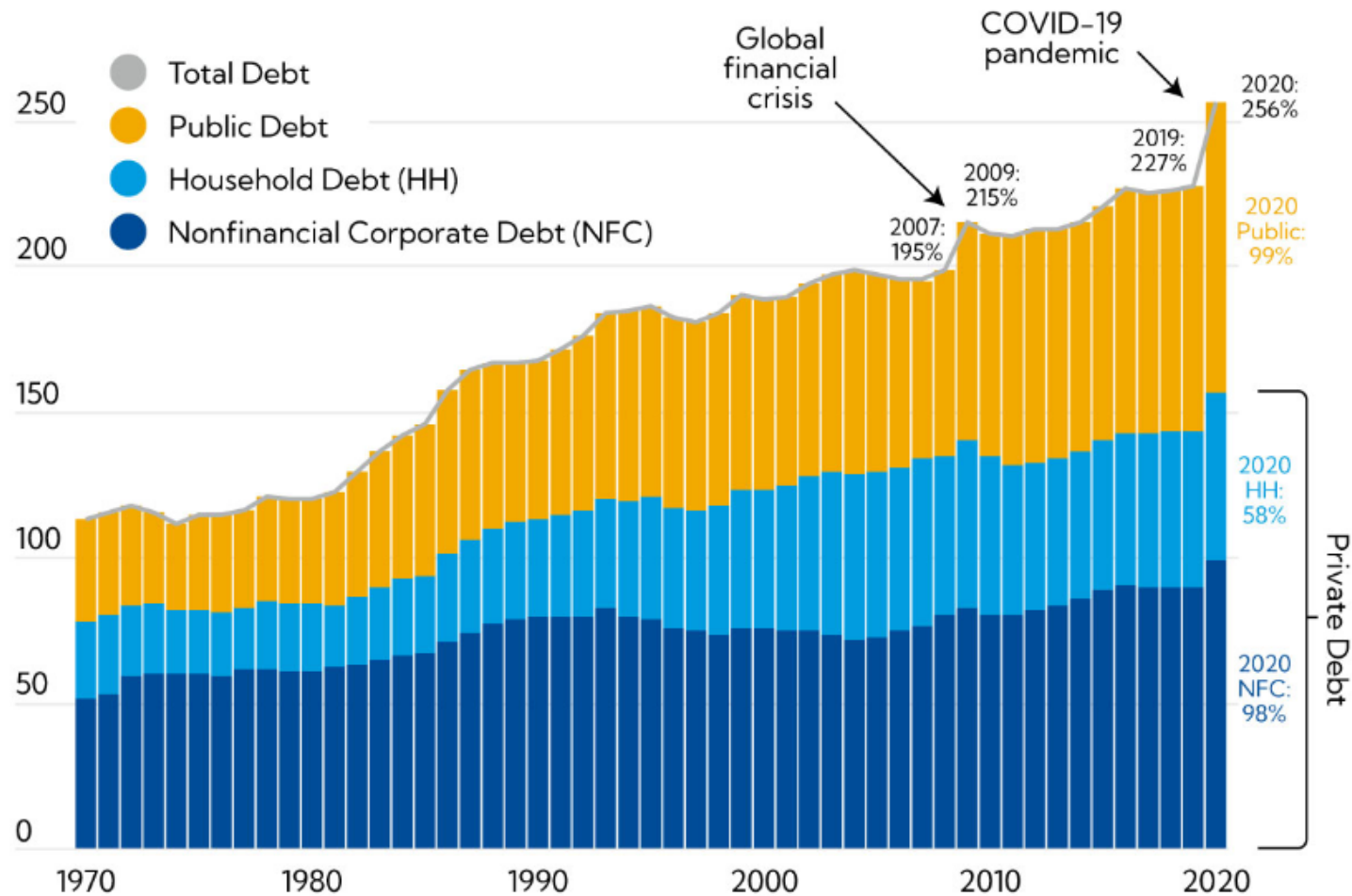
## Investors/Creditors

- Debt Defaults: NPLs, Sovereign defaults/debt restructuring
- Increased credit risk
- Increasing interest rates
- Increased regulatory requirements: risk management, climate-related risk into risk-based supervision

*.... The debt management landscape ....*

# Historic highs

In 2020, global debt experienced the largest surge in 50 years.  
(debt as a percent of GDP)

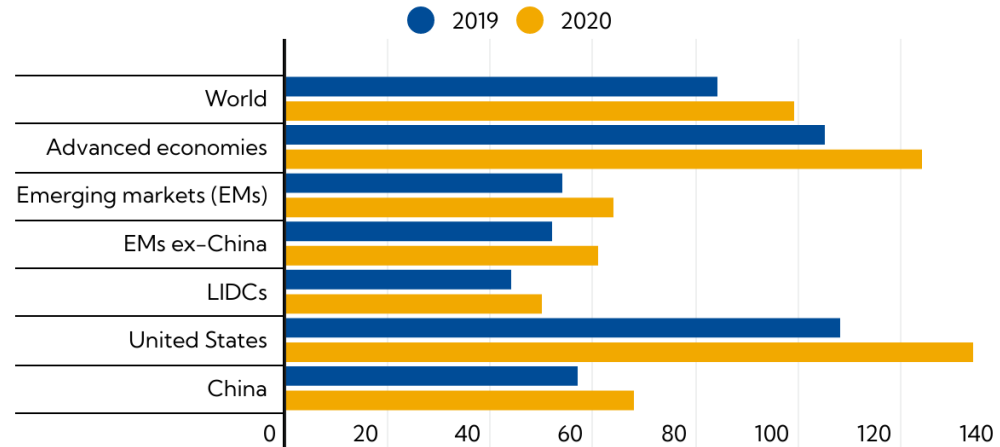


Sources: IMF Global Debt Database and IMF staff calculations.  
Note: The estimated ratios of global debt to GDP are weighted by each country's GDP in US dollars.

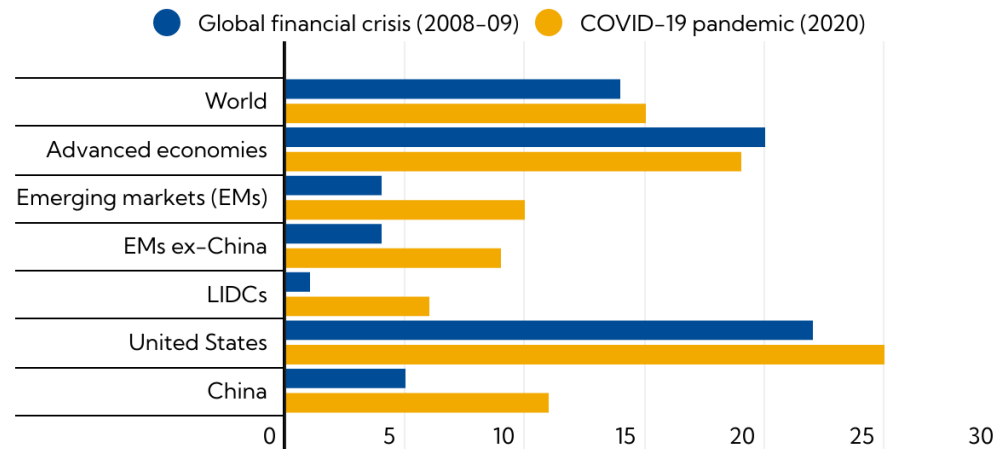
## Now versus then

Public debt soared around the world in 2020, growing faster in some regions than during the global financial crisis.  
(percent of GDP)

### Public debt stock



### Changes in debt



Sources: IMF Global Debt Database and IMF staff calculations.

Note: LIDCs = Low-income developing countries.

# Why is inflation a problem for Governments and creditors?

- Balancing fiscal and monetary policies in a high debt and rising inflation environment.
- Fiscal and monetary policies worked in tandem during the pandemic.
- Monetary policy is now seeking to address inflation. Fiscal policy still seeking to address the pandemic and managing the public debt portfolios so far.
- Inflation can be seen as a debt default. Not good for creditors.
- Inflation can be seen as a debt default. Good for Government debt reduction BUT not for long can increase cost of borrowing and increase refinancing risks. And dampen economic recovery.



# Why is inflation a problem for Governments and creditors?

- Increases in Debt sustainability challenges if Growth rate < interest rate.

$$\Delta \left( \frac{B_t}{P_t Y_t} \right) = (i_t - \pi_t - g_t) \left( \frac{B_{t-1}}{P_{t-1} Y_{t-1}} \right) + \frac{G_t}{P_t Y_t} - \frac{T_t}{P_t Y_t} - \frac{\Delta H_t}{P_t Y_t}$$

Note:  $i_t - \pi_t = r_t$

Hence,

$$\Delta \left( \frac{B_t}{P_t Y_t} \right) = (r_t - g_t) \left( \frac{B_{t-1}}{P_{t-1} Y_{t-1}} \right) + \frac{G_t - T_t}{P_t Y_t} - \frac{\Delta H_t}{P_t Y_t}$$

## SIMPLE ANALYTICS:

Public Debt-to-GDP ratio will rise if:

$$r_t > g_t$$

$$G_t - T_t > 0$$

Debt sustainability requires:

$$\Delta \left( \frac{B_t}{P_t Y_t} \right) = 0$$

## Notation:

$G_t$ : Government Purchases

$T_t$ : Taxes net of Transfers ( $T_t = Taxes - Transfers$ )

$G_t - T_t$ : Primary Budget Deficit (note:  $G_t > T_t$  implies a primary budget deficit)

$B_t$ : Government Debt in Period  $t$

$i_t$ : Nominal Interest Rate

$r_t$ : Real Interest Rate

$\pi_t$ : Inflation Rate

$g_t$ : Growth Rate of Real GDP

$H_t$ : Monetary Base or High-Powered Money (Currency plus Bank Reserves)

$P_t Y_t$ : Nominal GDP

$D_t$ : Overall Budget Deficit

..... *The new normal therefore requires evolution of management functions and evolution in the delivery mode of financial services .....*

- to manage the inflation risks
- to manage increased credit risk
- to manage climate related risk
- to manage regulatory risk

# What can banks do to support customers?

- Increasing customer support to help customers improve financial literacy
- Increase product offerings to support personal financial management goals.
- Advocate and practice for more responsible lending and borrowing

# Reference Documents, Articles and Blogs

## Databases:

- IMF's Global Debt Database

## Documents:

- IMF Fiscal Monitor, October 2021
- World Bank Group, The Global Monthly, July 2022
- World Economic Outlook, July 2022

## Blogs and Articles:

- Gaspar, Medas , et al. "Global Debt Reaches a Record \$226 Trillion." IMF Staff Blog, December 15, 2021, <https://blogs.imf.org/2021/12/15/global-debt-reaches-a-record-226-trillion/#>
- Kenc, Turalay, et al. "Inflation and Sovereign Default." IMF Staff Papers, vol. 47, no. 3, 2000, pp. 366–86. JSTOR, <http://www.jstor.org/stable/3867653>. Accessed 7 Sep. 2022.



# Thank you

*Any Questions?*