Opinion Global Economy
Private sector should join poor countries’ debt relief plan

The G20 has suspended government payments to free up money to fight the pandemic

MOHAMMED AL-JADAAN

Mohammed Al-Jadaan at a G20 meeting of finance ministers and central bank governors in the Saudi capital Riyadh in February © AFP via Getty Images

Mohammed Al-Jadaan
The Covid-19 pandemic is an unprecedented human tragedy, disrupting millions of lives. Nations have been pushed to shut their borders and impose lockdowns, and we are faced with extraordinary uncertainty about the depth and duration of this global crisis.

The G20 was established precisely to develop collective action in such circumstances. These countries’ leaders have agreed to inject an unprecedented $7tn — the largest ever stimulus — into the global economy with targeted fiscal economic measures and guarantees.

This has been complemented by timely action by G20 central banks that provides much-needed liquidity and support to the flow of credit to households and businesses, and by the IMF and World Bank that are providing financial assistance to countries in need.

Yet more must be done. The impact of coronavirus on developing nations with weak health systems and economies less able to cope could be devastating. The UN estimates that in Africa alone the virus could kill 300,000 people, and the IMF estimates that the continent needs $114bn in 2020 to spend on health and social services.

That is why the G20 recently agreed on a time-bound suspension of debt service payments for the poorest countries. Some 77 countries — including all those eligible for International Development Association credits — will benefit, ensuring they can focus tens of billions of dollars on fighting the pandemic. All bilateral official creditors are participating in this initiative, using a common term sheet, and the multilateral development banks are being encouraged to join. Private creditors should now do the right thing and follow suit.

Since the 2008 crisis, the global financial system has, through an improved regulatory environment and the actions of the banks themselves, become much stronger and able to withstand shocks. With stronger balance sheets and tighter regulatory compliance, the financial services system seems able to withstand the challenges of Covid19-

The global financial services sector was valued at more than $22tn last year, indicating its economic importance.
Private institutions are owed an estimated $18bn, or 40 per cent of the government debt service payments due from the world's poorest nations this year. If those creditors were willing to suspend even half that amount, that would make $9bn available for those countries to address the impact of Covid-19, whilst each nation negotiates individual terms regarding its debts.

We were encouraged that immediately following the recent G20 meeting, the Institute of International Finance, the industry's global association, said it had “recommended that private creditors voluntarily grant IDA-eligible countries, upon request, debt payment forbearance for a fixed period of time — similar to what the official sector has announced today”.

Just as the world rallied to support the financial services industry in 2008 and 2009, financial institutions and other private creditors should follow the G20's example and consider what assistance and support they can now provide to the most vulnerable in the world.

Indeed, many private creditors have indicated to us that they are seriously considering debt suspension, and we urge them to deliver on those intentions sooner rather than later.

We as government leaders are aware that this has to be voluntary. We should avoid imposing anything on the private investors, as it may distort markets and limit future demand for emerging market debt from the private sector. But we strongly encourage them to do so. We are also committed to working with those seeking a solution to this issue rapidly. The G20 stands ready to take further action to help resolve any issues.

Private creditors should show the same willingness to provide a debt repayment moratorium as the G20 has shown. Governments cannot dictate these terms but the need is immediate.

We are all in this together and that requires all of us to play our part, however small. Individuals are staying at home; frontline health workers are bravely treating those who are sick and national governments are injecting funds to protect jobs and livelihoods. Private creditors can and should join the G20 and suspend debt payments so developing nations can focus their resources on fighting this pandemic.

Major financial institutions have a role in fostering the world's recovery from this crisis. Now is the time to show that they can and will play their part.