Sixty Seventh Sovereign Debt News Update: G20 finance leaders meet to discuss debt restructuring for distressed economies

By:

The African Sovereign Debt Justice Network

March 8, 2023

The meeting of G20 Finance Ministers and Central Bank Governors, which started on Tuesday, 22, ended on Saturday, 25 February 2023, in the Nandi Hills Summer Retreat, Bengaluru, India, where world finance leaders discussed the heavy debt profile of developing countries. A central talking point of the discussion was unblocking debt restructuring for distressed economies. However, the Group of 20 (G20) nations were divided over restructuring debt for distressed economies.

The IMF Managing Director, Kristalina Georgieva, highlighted the importance of strengthening the existing debt infrastructure during the summit. She noted *that sovereign debt vulnerabilities, already elevated before the pandemic, have been exacerbated by the shocks stemming from Covid-19 and Russia's war* *against Ukraine. This is particularly the case for developing and low-income countries with very limited policy space and huge development needs. It is, therefore, imperative for the G20 to strengthen the debt architecture*.

While acknowledging the recent setbacks associated with the G20 Common framework and how these challenges have raised concerns about the utility of the Framework for African countries, Georgieva announced the planned next steps of action for the IMF through the Common. In her view, the Common Framework, " *delivered a debt operation for Chad. It is now critical to complete Zambia's debt restructuring, establish a Creditor Committee for Ghana, and advance work with Ethiopia*." She also used the opportunity to reiterate the focus of the Global Sovereign Debt Roundtable (GSDR) which brings together official, old, new, and private creditors and debtor countries to discuss critical issues that can facilitate the debt resolution process. Georgieva admitted that " *about 15 percent of low-income countries are in debt distress and another 45 percent are at high risk of debt distress. Among emerging economies, about 25 percent are at high risk and are facing "default-like" borrowing spreads… some emerging and developing economies will also require additional financial support. So, a well-resourced global financial safety net, with the IMF at its center, is more important than ever*".

Further discussions of the GSDR panel, which includes major bilateral creditors including China, India and the G7 countries as well as several debtor countries, are expected to continue at the IMF and World Bank spring meetings in April 2023. So far the GSDR excludes civil society participation and so far appears to be creditor dominated and directed.

At the February G20 Finance Ministers and Central Bankers meeting, China, the world's largest bilateral creditor, asked the group of big economies to conduct a *fair, objective and in-depth analysis of the causes of global debt issues* as clamour grows for lenders to take a significant haircut or accept losses on loans. China's role in the G20 Common Framework was expected to feature considerably in the February 25, 2023 talks. Pressure has been building on China and other nations to take a significant haircut in loans given to struggling developing nations. While the United States has repeatedly criticized China over what it considers "foot-dragging" on debt relief for dozens of low-and middle-income countries. China has consistently criticized multilateral lenders for not taking haircuts on loans extended to debtor countries while being asked to do so on credit it has extended bilaterally.

Officials from Ghana and Zambia anxiously await assurances from China that it would be willing to offer debt-restructuring support, as such assurance is a prerequisite to using the Common Framework to receive further assistance from the IMF. While Zambia owed Beijing nearly $6 billion of total external debt of $17 billion at the end of 2021, according to government data, Ghana owes China $1.7 billion, according to the International Institute of Finance, a financial services trade association focussed on emerging markets. This confirms China's status as a significant stakeholder in how the debt crisis may be effectively resolved, or at the minimum, carefully managed.

Chinese lenders account for 12 percent of Africa's private and public external debt, which increased more than fivefold to $696 billion from 2000 to 2020. This situation is projected to worsen over 2023, limiting the ability of African nations to raise the necessary finance to deliver broader social improvements for their populations and respond to climate change. While it has been argued that China may not be solely responsible for global debt distress, there is a consensus that China is vital to finding a solution, particularly in Africa.

In a related development, the United Nations Development Programme (UNDP) has lent its voice to discussions around solving the global debt crises. It noted that developing economies could save hundreds of billions if the world commits to restricting existing debt. This was proposed in a Policy Brief released by the Programme. In the brief – '*Building Blocks Out of The Crisis*' – the UNDP identifies 52 low and middle-income developing economies either in debt distress or at high risk of debt distress, accounting for more than 40 percent of the world's poorest people. It shows how a 30 percent haircut on their public external debt stock in 2021 could help save up to $148 billion in debt service payments over eight years.

A 'haircut' of 30%, or $191 billion, on the 2021 external debt of the 52 most "debt vulnerable" nations, it argues, could reduce their combined debt service bill by $66.4 billion to private creditors, $44.2 billion to multilateral lenders and $38.9 billion to bilateral lenders by 2029, the UNDP said in its report.

While the G20 meetings might have come and gone, observers are keenly monitoring China, the IMF and other multilateral and bilateral creditors to see if they match all the promises with actions or if this is another routine summit with no measurable goals.

View online: Sixty Seventh Sovereign Debt News Update: G20 finance leaders meet to discuss debt restructuring for distressed economies

Provided by Afronomicslaw