

IMF warns global economy could be permanently scarred

By: Martin Crutsinger

October 15 2020

WASHINGTON (AP) — The global economy’s recovery from the pandemic recession is tentative and uneven and “marked by significant uncertainty” as confirmed coronavirus cases spread in many countries, international finance ministers warned Thursday.

The policy-setting panel of the 189-nation International Monetary Fund concluded a virtual meeting Thursday with a joint statement that warned of permanent damage from the worst global downturn since the Great Depression of the 1930s unless countries are given further economic support.

“This is a crisis like no other,” Kristalina Georgieva, the IMF’s managing director, said at a closing news conference. “It calls for steps to enable a recovery like no other.”

The IMF panel urged the G-20 to go further and adopt at a meeting next month a framework for managing the crushing debt burdens of many low-income countries. International aid groups say rich nations should not merely suspend debt payments but forgive large chunks of debt that are leaving poor countries unable to devote their limited resources to health care and other urgent needs during the pandemic.

The fall meetings of the IMF and its sister lending organization, the World Bank, were held virtually against a grim backdrop of the damage the pandemic has inflicted on the world. In its economic outlook, the IMF forecast that global growth would shrink 4.4% this year, which would mark the worst downturn since the Great Depression. And the World Bank forecast that the pandemic could send an additional 114 million people into extreme poverty, defined as living on less than \$1.90 a day.

Eric LeCompte, executive director of the international aid group Jubilee USA Network, said more debt relief and other steps must be taken.

“Wealthy countries, who are making decisions for the entire world about the crisis, are more insulated from the extreme shocks,” LeCompte said. “Nearly 90% of all global stimulus was spent in wealthy countries and less than 3% in developing countries.”

Asked how the failure of U.S. officials to approve more support could affect the global economy, Georgieva told reporters that the decisive action taken in the spring had offered critically needed aid that had spillover effects for the global economy.

“Don’t cut the lifelines,” she said.



Eric LeCompte Addresses United Nations on COVID-19 Crisis Recovery

Featuring: Eric LeCompte

June 2, 2020

The coronavirus wreaks havoc around the globe and induces a global economic crisis on par with the Great Depression. Our calls for debt cancellation, relief and increased aid are needed to meet the \$2.5 trillion initial IMF estimate to address the crisis in developing countries. The UN Conference on Trade and Development estimates that \$5 to \$7 trillion dollars was needed already to meet the Sustainable Development Goals.

Due to the crisis, according to UN agencies, 265 million people face famine and 40 to 60 million people will be pushed into extreme poverty. The International Labor Organization says 300 million jobs will be lost.

Job loss, unemployment and poverty are recipes for social unrest, conflict, terrorism, inequality and financial crisis. Dealing with this current crisis requires additional spending to protect health, workers and save lives.

African Finance Ministers representing many Middle-Income Countries, call for \$44 billion in debt relief just for African countries as a short-term measure to this crisis. Current measures enacted by the IMF and G20 for all of the 73 poorest countries that qualify, may amount to \$22 billion. Most of these poorest countries had less than 50 critical care units for millions of people. Some have zero. These debt relief measures do not include "Middle-Income" developing countries, home to 62 % of the world's poor. It does not bind private lenders and more than half of countries that qualify are refusing the terms or afraid of the market consequences for accepting relief.

Debt relief measures which include debt cancellation, debt payment moratoriums or standstills and debt restructuring are critical, but alone will not be enough to deal with this profound crisis.

The effects of the crisis will be more long lasting in developing countries than in advanced economies. Measures must be put in place to evaluate debt sustainability and cancel debt payments into 2021 and possibly 2022 and beyond - if not even fuller elimination of debt stocks. Debt relief must be broadened to more countries that need it. Longer-term, we must implement the debt policies from the Addis Ababa Action Agenda and the 2014 and 2015 UN General Assembly efforts on improving debt restructuring and embracing a global bankruptcy process. In order to emerge from this crisis with resilience, ensure economic and debt sustainability and be able to access future revenue streams, we must move forward agreements now that curb tax evasion and avoidance and corruption.

To meet this current crisis we must count our response not in the billions, but the trillions.

It's why we must access global financial reserves, or the Special Drawing Rights and allocate the use of these reserves to developing countries. We did this after the 2008 financial crisis and now we need to do it again. Estimates of need range from \$1 to \$4 trillion.

Caribbean Islands to African nations, need to access these revenue streams, aid and relief - so they can pass their own "stimulus" or bridge financing plans to survive the crisis and ensure funds are available to meet the Sustainable Development Goals.

One of the strongest calls from the Financing for Development Addis Ababa Action Agenda was to implement rules on responsible lending and borrowing. While we've seen progress with the G20's Operational Guidelines for Sustainable Financing, we still lack binding rules. These common sense laws of debtor and creditor responsibility and public budget transparency should be enshrined as part of our international financial architecture.

However the most important and most critical points that I will make today - is responding to the resistance of private creditors, commercial lenders and banks to participate in the G20, IMF and World Bank debt relief calls.

Long-term, we need changes in the major financial jurisdictions like the United Kingdom and New York State. For countries around the world and for US Territories like Puerto Rico, legal changes are needed in these financial jurisdictions to make debt restructuring more transparent and predictable - and too implement another strong commitment from the Addis Ababa Action Agenda, outlawing predatory "vulture" funds.

Because of the enormity of this crisis and the long-term challenges the markets could face, the fact that some private and commercial creditor blocks are not participating at the urging of the United States, the G20, the IMF and World Bank baffles the mind.

Given that this crisis could devastate all of us, poor countries and the markets, the United Nations Security Council has little choice but to act. The UN Security Council should follow its precedent in 2003 when it protected the assets of Iraq from creditor payments and now immediately make the same decision for the 73 countries that need this protection most to compel private and commercial creditors to join the G20 debt relief call. This decision would protect the assets of these countries and mandate that debt relief from official bilateral creditors is not used to pay private creditor debt.

Additionally, officials must strengthen public announcements that do more than "call" or "invite" private creditors, they must make public announcements that say they "expect" their participation in order to help compel it. We welcome stronger announcements from the World Bank's David Malpass last week. The IMF and G20 should revise their statements from April and instead of "calling" private creditors, "expect" their participation and condition public participation on the participation of private and commercial creditors. United Nations agencies should also make public announcements that "expect" private creditor participation.

These public announcements and the words we use do have legal implications.

Finally, this is not the time for creditors to use accounting gimmicks to leave countries with higher debt burdens and higher debt payment service after they received some relief.

The decisions we make now can ensure that we not only survive the health and economic impacts of the coronavirus, they can also ensure that we emerge from this crisis with more resilience. The decisions we make now, can ensure that we emerge from this crisis with the tools to stop the next crisis.

Thank-you.

BARRON'S

The World's Poor Are Drowning in Debt. Here's How to Help Them.

By: Eric LeCompte

May 8, 2020

The coronavirus is spurring the worst downturn since the Great Depression, warns the International Monetary Fund. The U.N. World Food Programme says 265 million more people now face famine.

The pandemic forces work stoppages, shuts factories, and eliminates tourism and travel. The International Labor Organization projects more than 195 million jobs lost. While governments lose revenue, they must increase spending to protect the poor and businesses.

High debts for many countries make it impossible to negotiate the corona crisis. The IMF and World Bank reported, prior to the virus, that 40% of low-income countries were already in debt crisis or held worrisome debt levels. Unsustainable debt leaves little space for countries that need to enact stimulus packages like the U.S. passed. Treasuries already lacked billions because of corruption, tax evasion, and tax avoidance.

More than 100 countries now request emergency IMF financing to deal with virus health and economic impacts.

Before Covid-19, too many health care systems were weak because of austerity policies in place to pay debt. In fact, most of the 76 poorest countries have fewer than 50 critical care units for millions of people. Some have none. Two-thirds of the world's people who live in extreme poverty call these 76 countries home.

What are the short-term solutions to bolster global health care and survive a possible economic collapse?

The IMF, World Bank, G7, G20, and U.N. are debating solutions.

While the IMF provides rapid, below market-rate loans to a growing number of countries, more resources will be needed. One answer is found in our response to the 2008 financial crisis. We accessed \$250 billion in global reserves, also known as the special drawing rights or SDRs.

There are growing calls for the IMF and G20 to allocate a trillion in new SDRs to low-income and middle-income countries. This is doable and could provide immediate resources to developing countries to strengthen health care and to pass the bridge financing needed to support workers and the poor. With few short-term options, this proved effective before and we should do it again.

We've seen other powerful short-term actions led by the U.S. Treasury, G20, IMF, and World Bank on debt relief. In April, the IMF cancelled six months of debt payments for the world's 25 poorest countries, and G20 countries agreed to stop collecting debt for 73 countries through 2020. Countries that count their budgets in the tens of millions now have \$22 billion to confront the coronavirus.

Is it enough?

African finance ministers are calling for \$44 billion in debt relief. The United Nations Conference on Trade and Development calls for a trillion dollars in debt cancellation for countries to survive.

In the absence of an actual system to globally adjudicate all types of debt, like the bankruptcy processes we have in our own domestic economies, moving forward debt restructuring in the best interest of both the lender and borrower seems challenging.

Still, in the short term there are signs that political will is growing to relieve more debt. The IMF and World Bank closed their April meetings with a historical bang, committing to look at debt relief for middle-income countries and other countries that might need it as the crisis deepens. The G20 and IMF called all other types of creditors (banks, private and commercial) to negotiate debt payment suspensions. Again, the challenge is that without the formal bankruptcy that we have in our home countries, you can't make sure every debt holder comes to the party.

However, in the short term, the IMF, G7, and G20 can make decisions that move us toward more predictable bankruptcy-like processes. The G7 countries house the financial jurisdictions that arbitrate most of the world's private sovereign debt. Changes to laws in New York and London can ensure private creditors accept invitations to debt-settlement soirees.

If we treat the 2020 debt-payment moratorium for 73 countries like the first phase of bankruptcy, we have breathing space to figure out if it's possible to pay debts, strengthen health care, and reduce child poverty. The IMF committed to review debt problems. June and July G7 and G20 meetings can set the stage to relieve and restructure debt. These meetings are the opportunity to review the need for further debt relief for the developing middle-income countries as well.

After past crises, we've flirted with global, comprehensive bankruptcy processes.

In the aftermath of the Asian financial crisis in the early 2000s, the U.S. Treasury and IMF supported a bankruptcy process known as the Sovereign Debt Resolution Mechanism that failed to be implemented. As we recovered from the 2008 financial crisis and wrestled with financial crises in Argentina and Greece, world leaders briefly again entertained a process. The United Nations General Assembly even passed a bankruptcy process in 2014, but it wasn't binding.

The father of modern economics, Adam Smith, advocated for such a process. Pope Francis supports this arbitration mechanism.

There were moments when we learned the lesson of exporting bankruptcy beyond our domestic borders. The 1953 London Accord brought all stakeholders together to restructure Germany's debt in a process fair to creditors and debtors, a process creating the path for one of the strongest economies that ever existed. While never adequately used, super bankruptcy measures were passed for Puerto Rico by the Republican-led Congress in 2016.

My organization, Jubilee USA Network, has won more than \$130 billion of debt relief for developing economies since the early 2000s to increase social spending on health and education. Many of those same countries were again in debt crisis before this pandemic hit. Our name, Jubilee, comes from scripture sacred to Jews and Christians about a continual promised process, beyond debt relief to ensure that in times of peace or crisis, we all are protected from having too little or too much.

As we plan to emerge from this crisis, with wisdom to prevent the next crisis, will we move beyond debt relief and accept the promise of Jubilee?

Eric LeCompte is the executive director of Jubilee USA Network.



As World Bank pushes others on debt relief, it doesn't participate

By: Adva Saldinger

October 19, 2020

WASHINGTON — While the World Bank has been vocal about pushing bilateral and private creditors to take stronger action to provide debt relief, it maintains that it shouldn't be part of existing debt suspension initiatives.

The world's lowest-income countries owe the World Bank about \$4 billion in debt service payments this year, and some advocates argue that since funding is critical, the World Bank should at least consider suspending those payments to provide additional liquidity. This comes amid concerns that the World Bank's COVID-19 response is too slow and may not be reaching the most vulnerable.

"Accelerating the flow of funds to the world's poorest countries is a great move and can reduce the collateral impact of the pandemic in key sectors such as health and education, but the poorest countries also urgently need the liquidity that debt service suspension provides," Gayle Smith, the president and CEO of the ONE Campaign said in a statement.

"By failing to suspend debt service payments, the World Bank is taking a tool off the table at a time when the world's poorest countries — just like wealthier nations — need to stabilize their economies and respond to the pandemic," Smith said.

Between April and September, the World Bank disbursed more than \$8 billion in financing for the poorest countries participating in the G-20 Debt Service Suspension Initiative, including \$2.6 billion in grants, a World Bank spokesperson said to Devex in an email. The World Bank is providing grants, near zero interest loans and loans with a long maturity which are critical for highly-indebted countries, the spokesperson said.

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The World Bank's Development Committee Communique released Friday issued a similar message calling on MDBs to go further, explore additional proposals for COVID-19 emergency financing, strengthen the quality of debt data, and improve debt disclosure.

"Amid high public debt levels, shrinking economies, and rising fiscal pressures, we recognize that debt treatments beyond the DSSI may be required on a case-by-case basis," the development communique also said.

Earlier this week the G-20 agreed "in principle" to a common framework for debt treatments, and will work on details of a process for handling debt reductions and restructuring at a meeting in November.

Even if the World Bank is not participating in debt service suspension, as conversations move ahead about broader debt restructuring or forgiveness, multilateral development banks including the World Bank "need to be part of a debt reduction process like the private sector does," Eric LeCompte, executive director of Jubilee USA Network, told Devex.

"If we really want a comprehensive solution all debt needs to be on the table for relief and restructuring," he said.