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Corporate Distress Due to Impact of Covid-19: The G30 Urges Swift, Measured Policies Aimed at Restoring Corporate Health

WASHINGTON—December 14, 2020: The Group of Thirty (G30) today published, *Reviving and Restructuring the Corporate Sector Post-Covid: Designing Public Policy Interventions*. The report commends the broad-based governmental actions initially taken to support the economy, citizens, and the corporate sector during the Covid pandemic. However, structural changes in our economies due to the pandemic, and growing corporate solvency challenges, require a new mix of policy responses and tools. The report urges governments to move away from broad support and toward more targeted measures, enabling the reallocation of resources needed for economies to emerge from the crisis fitter and stronger.

In jurisdictions with strong private financial institutions and deep capital markets, this means mobilizing various mechanisms, tools, and markets to prioritize financial restructuring, with policymakers administering additional support where necessary. Key to this process will be to identify and support firms that will be viable in the post-pandemic economy, while repurposing the resources of those that will not. The report offers a framework to guide policymakers in this task. If comprehensive action is taken early, corporate distress will not hold back the return to sustained growth.

Mario Draghi, Co-Chair of the G30 Working Group on Corporate Sector Revitalization and Former President of the European Central Bank, warned: “Policymakers need to act urgently, as the emerging solvency crisis is already eroding the underlying strength of the business sector in many countries. The problem is worse than it appears on the surface, as massive liquidity support, and the sheer confusion caused by the unprecedented nature of this crisis, are masking the full extent of the problem. We have a cliff edge of insolvencies, especially of small-and-medium-sized enterprises, coming in many sectors and jurisdictions, as support programs run off and existing net worth is eaten up by losses.”

The report’s recommendations cover key universal principles, a set of policy tools, and a decision framework that should inform the policy response tailored to local conditions. The core principles include focusing on the long-term health of the corporate sector, the productive use of resources, and preventing collateral damage.

A balance needs to be struck to support firms which are viable exiting the pandemic, while ensuring the banking system remains fit and able to give credit to households and corporates and support the economic recovery. **Dr. Draghi** stressed: “We need to focus on preserving the capacity of the financial system to sustain lending and on offsetting unintended consequences for the financial system and banks’ stability.”

Raghuram Rajan, Co-Chair of the G30 Working Group on Corporate Sector Revitalization, Professor of Finance at the Chicago Booth School of Business, and Former Governor of the Reserve Bank of India, stated: “Policymakers should act urgently through carefully targeted support tools that adapt to the new

realities of business instead of relying on the status quo. The duration of the pandemic forces us to focus on structural issues and solvency, rather than on buying time through a focus on liquidity. Government intervention is best focused on addressing market failures, and to managing the pace of the needed creative destruction.”

Given concerns over fiscal constraints, the report recommends allowing market forces to play a role while preventing substantial social costs through policy intervention where required. Other key points include taking advantage of private sector capacities where they exist, in order to leverage scarce public resources, as well as making use of private sector expertise to evaluate the viability of businesses.

Dr. Rajan added: “If corporations are helped, governments will be tempted to impose conditions that promote social objectives such as greening of the economy. It is important that any such conditions should be synergistic with corporate recovery.”

Dr. Draghi and Dr. Rajan co-chaired the study, with a working group of eight G30 members. **Douglas Elliott**, of Oliver Wyman, and **Victoria Ivashina**, of Harvard Business School, served as Project Directors, supported by a drafting team from Oliver Wyman including Andrew Bailey and Sofia Price.

Tharman Shanmugaratnam, Chairman of the Group of Thirty, commented: “We are past the emergency phase of economic policy response to Covid-19, and policymakers will increasingly have to make hard choices so that we do not hamper industry restructuring, and lay the foundation for job creation suited to new realities. This report led by Mario Draghi and Raghuram Rajan aims to inform such choices, so that we come out of Covid-19 fitter and stronger.”

Douglas Elliott commented: “The report lays out ten core principles for policymakers to consider when judging the appropriateness of policy mechanisms and tools, we hope these are useful as governments enter and navigate this next particularly fraught solvency phase of the pandemic-induced economic crisis.”

Victoria Ivashina noted: “We lay out numerous ways to address this crisis, from equity injections, to quasi-equity, to bankruptcy adjustments, to pandemic insurance. The precise makeup and composition of the tools used in each country will vary, but the goal is the same: to weather the coming corporate solvency crisis while ensuring the prudent use of limited public resources.”

To receive a copy of the *Reviving and Restructuring the Corporate Sector Post-Covid: Designing Public Policy Interventions* report, please contact G30 Press Officer Melissa Golding, +1 571-236-2820, pressoffice@group30.org.

On December 14, 2020, at 9:00am EST, the G30 hosted a live webinar launch of the report with Mario Draghi, Raghuram Rajan, Douglas Elliott, and Victoria Ivashina. A link to the webinar recording is available on the G30 website, www.group30.org.

The Group of Thirty is an independent global body comprised of senior representatives of the public and private sectors and academia. The Group aims to deepen understanding of international economic and financial issues, to explore the international repercussions of decisions taken in the public and private sectors, and to examine the choices available to market practitioners and to policymakers. The Group was established in 1978, and is led by Jacob A. Frenkel, Chairman of the Board of Trustees, and Tharman Shanmugaratnam, Chairman of the Group.

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