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G30 Report Urges Vigilance and Offers Plan for Sovereign Debt Sustainability

WASHINGTON—May 5, 2021: The Group of Thirty (G30) today published *Sovereign Debt and Financing for Recovery after the COVID-19 Shock: Next Steps to Build a Better Architecture*. This second and final report of the G30 Working Group concludes that slow progress on reforming debt architecture leaves the world unprepared to deal with persistent global public health and macroeconomic vulnerabilities in the coming years.

Fewer emerging and frontier market governments defaulted on their debt than had been feared at the start of the pandemic, thanks to extraordinary domestic stimulus in the advanced economies. Nonetheless, new virus mutations and rising infection rates point to the virus presenting an endemic, not temporary, threat. A new round of stimulus in the United States, high corporate leverage, and inflated asset prices create a risk of financial turbulence over the medium term. Some emerging market countries have already raised policy rates to control inflation in the face of pandemic-related supply chain disruptions and higher advanced economy bond yields.

Guillermo Ortiz, Working Group Co-Chair and former Secretary of Finance of Mexico, called for urgent action: “The ravages of the pandemic are now at the highest point in several important emerging markets, while higher inflation is resulting in policy tightening, endangering the economic recovery.” **Dr. Ortiz** stressed that the cost of inaction was unacceptable: “Low- and middle-income countries risk a lost decade of growth—for some, it is a lost generation.”

“The possibility of debt servicing difficulties is substantial in the near term,” said **Lawrence H. Summers**, Co-Chair of the G30 Working Group, “and the mechanisms put in place so far are likely inadequate to the challenges ahead.” **Dr. Summers** emphasized that continued failure to take the necessary steps to prepare for future shocks increases the risk that debt problems would not be resolved in an orderly way, “with consequences measured in hundreds of billions—if not trillions—of dollars, stalled progress in global poverty reduction, containing health threats, and mitigating climate change.”

Building on the recommendations in its October 2020 preliminary report, the Working Group recommends the following steps to build a better, more resilient sovereign debt architecture equipped to handle pandemic recovery and debt challenges to come:

- Moving beyond one-off measures to boost concessional surge capacity at multilateral development banks, including more borrowing by the International Development Association (IDA);
- An augmented pandemic support window at the International Monetary Fund (IMF), with longer repayment periods, to mobilize more of the IMF's non-concessional resources for a broader range of vulnerable countries, and building on the expected historic US\$650bn IMF SDR allocation to ensure support is channeled to where it is most urgently required.
- Expanding eligibility for the G20 Common Framework for Debt Treatments Beyond DSSI ("Common Framework") to all vulnerable low- and middle-income countries, and elaborating the application of comparability of treatment among diverse creditor groups;
- A standing consultative mechanism to ensure that the Common Framework delivers consistent, comparable relief in a transparent manner, case by case, for participating sovereign borrowers across all material creditor categories;
- Shielding payment systems from disruptive sovereign debt collection, including, if necessary, through legislation in major financial jurisdictions.
- Commitment by the G20 not to enforce debt terms that interfere with multilateral debt treatments and related comparability undertakings; and
- Ensuring that borrowing countries have robust domestic legal frameworks for debt disclosure in place as part of debt authorization, to complement multilateral and private sector debt transparency initiatives and fortify barriers to enforcement of hidden debt.

The G30 thanks Project Director **Anna Gelpern**, Professor of Law and Anne Fleming Research Professor at Georgetown Law for her extensive contribution to the report, and Project Advisor, **Joseph Gagnon**, Senior Fellow at the Peterson Institute for International Economics, and Research Assistant **Alexander Nye**, Yale Program on Financial Stability, for their support.

To receive a copy of *Sovereign Debt and Financing for Recovery after the COVID-19 Shock: Next Steps to Build a Better Architecture*, contact G30 Press Officer Melissa Golding, +1 571-236-2820, pressoffice@group30.org.

On May 5, 2021, at 10:00am EDT, the G30 hosted a live webinar launch of the report with Guillermo Ortiz, Lawrence H. Summers, and Anna Gelpern. A link to the event recording is available on the G30 website, www.group30.org.

The Group of Thirty is an independent global body comprised of economic and financial leaders from the of the public and private sectors and academia. It aims to deepen understanding of global 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 policymakers and market practitioners. 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.