

A debt jubilee to tackle the Covid-19 health and economic crisis

1. What we are calling for

We, the under-signed organizations, aware of the severe impacts on hundreds of millions of people from the health, social and economic crises faced by countries in the global South as a result of Covid-19, urgently call for:

- Cancellation of all external debt payments due to be made in 2020.
- Provision of emergency additional finance which does not create debt.

All principal, interest and charges on sovereign external debt due in 2020 should be cancelled permanently, they should not accrue into the future. Cancelling debt payments is the fastest way to keep money in countries and free up resources to tackle the urgent health, social and economic crises resulting from the Covid-19 global pandemic.

2. Implementing cancellation of debt payments

Borrower governments have it within their power to stop making debt payments but they should not suffer any penalties for doing so. All lenders should therefore agree to the immediate cancellation of debt payments falling due in 2020, with no accrual of interest and charges and no penalties.

In the absence of a wider, multilaterally agreed debt cancellation, lenders should take the following steps:

- Multilateral institutions, including the IMF and World Bank, should offer an immediate cancellation of all principal, interest and charges for the remainder of 2020 for all countries in need, and most urgently for all PRGT and IDA countries.
- The IMF and World Bank should urge any country ceasing multilateral and/or bilateral debt payments to also cancel payments to private external lenders. Any new IMF and World Bank finance should be in the form of grants not loans, and require other lenders to reprofile the debt where sustainability is uncertain, or restructure their debt where it is unsustainable,¹ to help ensure money is used to support public policy priorities in response to the COVID-19 crisis, rather than to repay other lenders.
- Lender governments, both Paris Club members and others such as China, Saudi Arabia and Kuwait, should cancel all principal, interest and charges for the remainder of 2020 for all countries in need, and most urgently for all PRGT and IDA countries. Ideally a debt cancellation should be coordinated between lenders but should not wait for them all to agree.
- The G20 should support moves by any country to stop making payments on debt to private external lenders.
- Key jurisdictions, especially the UK and New York, should pass legislation to prevent any lender suing a government for stopping debt payments in 2020.
- Debt payment cancellations and additional finance should be free of economic policy conditionality promoting privatisation, deregulation and trade liberalisation. The crisis has been caused by exogenous shocks: developments over which countries in the global south had no control.
- Debt payment cancellation and additional finance should be designed specifically to bolster public expenditure targeted at protecting the rights and needs of populations, especially to maintain and increase social protection and health spending in response to COVID-19 and ensure relief goes directly to benefit those in need.

3. Resolving the debt crisis

Many countries were in debt crisis before the Covid-19 crisis began. Many more will emerge from this crisis with even higher unsustainable debts. Immediate cancellation of debt payments should therefore be linked to a more comprehensive and long-term approach to debt crisis resolution. As such, to make debt restructuring more efficient, equitable and successful we call for:

- The creation through the United Nations of a systematic, comprehensive and enforceable process for sovereign debt restructurings.²
- The IMF to introduce clear guidelines on when a debt is unsustainable, and follow its policy only to lend to countries with unsustainable debts if there is a default or debt restructuring.³

A process to make these changes must begin before the end of 2020.

4. The impacts of Covid-19

The global Covid-19 crisis has led to falls in commodity prices, an increase in future borrowing costs for global South governments⁴, and contributed to the largest ever capital outflow from developing countries.⁵ Government revenues will fall as a result, and debt payments will increase at the same time that countries need to expand healthcare and social protection in response to the crisis. Developing countries had already been facing heightened debt vulnerabilities and rising debt costs before the Covid-19 outbreak.⁶ The scale of the public health crisis and need for rapid policy responses means vital government resources must be urgently directed towards the needs of populations and not diverted to lenders. The outbreaks of Covid-19 so far show that time is essential. Governments need to have resources for decisive action today. Any delay will make the pandemic more difficult to control and a later repair of economic damage more costly, especially for borrower countries.

We estimate cancellation of external debt payments in 2020 for 69 countries⁷ classified by the IMF as Lower Income Economies and for which data is available, would save \$19.5 billion in external debt payments to bilateral and multilateral lenders in 2020, and \$6 billion in external debt payments to private lenders. If it was extended to 2021 it would save a further \$18.7 billion in multilateral and bilateral payments and \$6.2 billion in external payments to private lenders.⁸

5. Support for action on debt cancellation

African Finance Ministers have called for a suspension of all interest payments in 2020, and all principal and interest payments by fragile states.⁹ The IMF and World Bank have called for a suspension of all debt payments by the poorest countries to other governments.¹⁰ The United Nations Secretary General has called for debt restructuring, including waivers on interest payments in 2020.¹¹ Prime Minister of Pakistan Imran Khan has called for a debt write-off for his and other vulnerable countries.¹² Ecuador's Congress has also called on the government to suspend debt payments.¹³ In early March Lebanon defaulted on private external debt payments and has announced it will stop paying all foreign currency bonds.¹⁴ Ethiopian Prime Minister Abiy Ahmed Ali has called for a widespread debt write-off, with any remaining debt not payable for ten years and

References

¹ Under IMF policy if a government's debt is unsustainable a full restructuring or default on the debt is meant to take place during a loan programme. A restructuring is a change in the terms of the debt which lowers the amount a lender will receive back. If sustainability of the debt is uncertain, a reprofiling is meant to take place. This moves the date of debt payments into the future so that lenders are not effectively paid off by IMF loans.

² See *'We can work it out: 10 civil society principles for sovereign debt resolution'*

<https://eurodad.org/Entries/view/1547087/2019/09/17/We-can-work-it-out-10-civil-society-principles-for-sovereign-debt-resolution>

³ See more on this policy at https://jubileedebt.org.uk/wp-content/uploads/2019/10/IMF-policy-on-debt-restructurings_English_10.19-1.pdf

⁴ <https://jubileedebt.org.uk/uncategorized/coronavirus-worsens-debt-crisis-in-poor-countries>

⁵ <https://www.theguardian.com/world/2020/mar/23/g20-finance-ministers-talks-hampered-by-us-china-posturing-coronavirus>

⁶ <https://www.worldbank.org/en/news/press-release/2019/12/19/debt-surge-in-emerging-and-developing-economies-is-largest-fastest-in-50-years>

⁷ These are not all the countries which need debt suspension. As defined by the IMF, LIEs include 59 countries eligible for IFI concessional financing, 13 middle-income small states and four countries that have graduated from concessionality eligibility since 2010.

⁸ Research by Eurodad https://eurodad.org/debt_moratorium

⁹ <https://www.uneca.org/stories/african-finance-ministers-call-coordinated-covid-19-response-mitigate-adverse-impact>

¹⁰ <https://www.ft.com/content/6eca167c-6ec0-11ea-9bca-bf503995cd6f>

¹¹ <https://www.un.org/sg/en/content/sg/note-correspondents/2020-03-24/note-correspondents-letter-the-secretary-general-g-20-members>

¹² <https://www.brecorder.com/2020/03/17/580790/pm-wants-world-to-consider-writing-off-pakistans-debt-to-help-cope-with-coronavirus/>

¹³ <https://www.bloomberg.com/news/articles/2020-03-23/ecuador-bonds-sink-as-congress-suggests-suspending-debt-payments>

¹⁴ <https://www.nytimes.com/aponline/2020/03/23/world/middleeast/ap-ml-lebanon.html>