

Thank you for the opportunity to address the UN on this critically important topic.

Before discussing the G20 Debt Service Suspension Initiative, it's important for me to set the stage.

- The Institute of International Finance is the global association of the financial industry representing over 450 firms in approximately 70 countries.
- One of the most significant and historic roles of the IIF is to monitor and assess global debt levels. In fact, our origin story begins during the Latin America Debt Crisis of the 1980s.
- We are currently experiencing the fourth (and largest) great debt wave of the past fifty years, as a recent World Bank report notes.
- The first three all ended in crisis: Latin America in the 80s, Asia in the late 90s and the subprime and sovereign debt crisis in the 2000s.
- Over the past decade, since the Global Financial Crisis, we have witnessed an unparalleled surge in debt, including Sovereign, Corporate and Households.
- Global debt is now a staggering 322% of GDP, up 40 percentage points or \$87 trillion since 2008.
- This surge occurred in both mature and emerging markets, with the biggest drivers being Sovereigns in the mature markets and Sovereigns, Corporates and SOEs in emerging markets.
- In fact, EM debt is now 220% of GDP (\$71 trillion), up 70 points since 2009 (150%).
- We also witnessed similar trends in IDA-eligible countries. Though I will get to it in a bit, the 73 DSSI-eligible countries have total external debt estimated at approximately \$700 billion, and 46 of them have access to international commercial bond or loan markets.
- This overall debt stock has more than doubled since 2009, and private lending has jumped four-fold, mainly driven by bond holders which increased more than twelve-fold: \$5.4 to \$66.4 billion.
- During this time, another notable trend emerged. The suppliers of credit changed, and now a few key official creditors are playing an increasingly dominant role.
- Commercial creditors experienced a similar trend, though with a discernible shift from bank lending to the global capital markets as well as other forms of credit (commodity houses).
- Of course, all the facts I cite characterize the pre-COVID-19 crisis era, and I believe this debt "tsunami" will only accelerate in response to deteriorating economic conditions and fiscal expansion.

This brings me to today.

- It has been 17 weeks since the WHO declared the outbreak a “public health emergency of global concern” and approximately six weeks since the G20 announced an economic and financial response, including support for IDA-eligible countries, hit first by the demand shock to the advanced economies, and then (and now) a second, direct hit to the countries themselves.
- UN Secretary General Guterres so rightly noted that “COVID-19 has exposed the fragilities of our world – with the vulnerable suffering the most.”
- This support has come in the form of a proposed debt service suspension until the end of this year. Given the IIF’s role as trusted interlocutor and partner to the official sector, we were called upon to explore what role the private sector might play to support this noble endeavor.
- Over these weeks we have assembled an armada of the largest most active international creditors to the in-scope countries, and acted as a clearing house of ideas, commentary, inquiry, technical and legal expertise, and at times -- complaints.
- We are today (as I speak) presenting the latest iteration of our efforts – a Terms of Reference that creditors and debtors could use as a framework to facilitate private sector involvement in the DSSI -- to the G20’s International Financial Architecture Working Group.
- I am proud of what we have accomplished – this has been a successful launch. It adds clarity and can guide complex debtor and creditor negotiations. But as we move forward, it’s important to pause and reflect on what we’ve learned since this process was first launched.

Let me offer a few observations.

1. While we have over the past thirty years developed experience-honed private sector tools, protocols and instruments to work through a sovereign insolvency crisis, we lack similarly refined tools to quickly respond to the current phenomenon of debt service standstills, especially those precipitated by a catastrophic event. This is fertile ground for future work -- notably contractual, guarantee and insurance instruments. These will become ever more important given likely climate-related events in the future.
2. The heterogeneity and the distinctive features of the IDA countries and the diversity of the creditors, instruments, objectives and legal regimes, make systemic “one size fits all” responses impractical. While regarded as sub-optimal, a case-by-case framework is what we have -- and will have -- for the foreseeable future. We must embrace it.
3. Many of these countries have taken years to establish themselves as attractive destinations for international capital, capital that fueled development and that raised living standards. These countries are reliant on commercial flows for short-term liquidity, and to finance trade, intermediate goods and longer-term capital projects. These countries want to remain in good standing with creditors -- and credit rating agencies -- and maintain market access at an affordable cost of capital.

- According to our data, March witnessed historic capital outflows from IDA countries, as well as from Frontier- and Emerging Markets and yields sprinted to dire levels.
- But over the past few weeks, we have seen a reversal of flows, an impressive surge in EM bonds, including and especially among some of the struggling African economies (Angola, Gabon, Ghana), while other countries have tapped new external funding easily... often over- subscribed and at attractive yields.
- Thus, we must tread carefully so as to avoid spooking markets, triggering capital flight, downgrades, defaults (cross defaults), ejection from indices and a spike in the cost of funding.
- Accordingly, we must ask each individual country: what do you need and what do you want? And we must listen respectfully and carefully to their responses.
- In return, we should ask each of them -- and ALL creditors (both official, including non-Paris Club members, and commercial) -- for greater debt transparency.
- This crisis has brought into stark relief, the absolute need for debt transparency. Debt transparency and debt sustainability are two halves of the same whole. If there is a lack of transparency, a lack of disclosure, a lack of accountability... there will be debt sustainability problems and innocent parties will suffer.
- We are at an inflection point. Now is the time for action on debt transparency.

Conclusion

- As responsible citizens and stakeholders it is imperative that we help and support the most vulnerable during this devastating moment in our history. However, we should follow the Hippocratic Oath and pledge to “first do no harm.” It would be tragic if we ended up compounding these countries’ problems irrespective of our good intentions,
- To that end, we should ask and listen to the countries in question and recognize that continued market access and greater transparency are critical ingredients to stability, sustainability and prosperity.