T20 Statement for the G20 Economy and Finance Ministerial Meeting
Venice, 9-10 July 2021

Overview

The COVID-19 pandemic has undermined the stability of the international financial architecture while exacerbating existing issues within the global financial system. On the one hand, it has pushed public debt levels around the world to historic high. In the G7 advanced economies, the debt-to-GDP ratio will reach 138% in 2021. In emerging Asian markets, this ratio will get almost to 72%, while in Latin American and the Caribbean and Sub-Saharan Africa, it will inflate up to 75,6% and 56% respectively. These figures mean significant pressures, especially on developing and middle-income countries which are already at risk of debt distress. The G20 and international financial institutions should help these economies avoid a new debt crisis.

The Group has continued along the path undertaken under the Saudi Presidency in 2020 regarding the debt issue. It has extended the Debt Service Suspension Initiative (DSSI) until December 2021 and operationalised the Common Framework for Debt Treatment beyond the DSSI. It has also asked the International Monetary Fund (IMF) a new allocation of Special Drawing Rights (SDRs) amounting up to $650 billion.

On the other hand, the pandemic has accelerated existing trends that will change our financial system. Among them, digitalisation. Digital monies are on the rise: Bitcoin's market capitalisation has overcome $1 billion. The risks for monetary stability posed by these new monies have brought central banks to design strategies to keep control over payments and assert the role of national currencies. Another key trend is climate change, which is strictly related to financial stability. Economic losses on a global level due to natural catastrophe events amounted to $190 billion in 2020. There is a proven link between climate vulnerability and sovereign debt.

The G20 acknowledged the key role finance plays in fostering the green transition and tackling climate change by establishing the Sustainable Finance Working Group. It also intends to cope with the challenges posed by the digitalisation of the economy by finding a consensus-based solution on international taxation and promoting financial inclusion.

Building on these actions, the Think20 (T20), the engagement group of the G20 which brings together think-tanks, universities and other research centres, is working to produce practical policy-proposals for G20 decision makers. The Task Force on International Finance believes that the G20 has a crucial role to play in making sure that the recovery from the pandemic increases the resilience of the international financial architecture.

The T20 calls G20 Economy and Finance Ministers and Central Bank Governors to take action with respect to the following proposals in respective policy areas:

Debt relief and global capital flows

On debt relief of developing and low-income countries, we recommend the creation of two new facilities, to go very much beyond the current arrangements to suspend servicing of debt by very poor countries. A Countercyclical Sovereign Financial Mechanism to provide cheaper access to international debt markets and allow for automatic reduction of debt burden and servicing costs, and a World Recovery Fund to allow emerging countries to swap existing debt with new debt at better conditions with an underlying project as collateral (possibly connected to ESG targets). Debt relief should not involve low-income and developing countries only, though, since many middle-income countries are part of the problem, too. Existing measures (such as the DSSI) should be extended to them. Furthermore, we recommend that the private sector is brought to the table regarding debt relief: one way to do so would be the creation of a central credit facility to implement a debt standstill. Countries ought to be protected against lawsuits through legal means, such as the UN Security Council Immunity Shield, an executive order by the US President and the UK Parliament, or the doctrine of Necessity under Article 25 of the International Law Commission's Articles on Responsibility of States for Internationally Wrongful Acts.

On the theme of global capital flows, their transparency and the need of avoiding corruption, the T20 is being actively involved in the G20 work by participating in the Anti-Corruption WG meetings. We recommend an update of the IMF framework of capital flow management measures. An important proposal is also to work towards the adoption of a globally accepted definition of State-Owned Multinational Enterprises with a clear regulation for the disclosure of their information. The Legal Entity Identifier mandated by the G20 and overseen by the Global Legal Entity Identifier Foundation should be made mandatory for all cross-border transactions undertaken by State-Owned Multinationals.

Potential threats to financial stability: digitalisation and climate change

On digital money and finance, we recommend that G20 leader develop an agenda for a prudent transition towards the digital age. They should also impulse a Global Digital Governance Compact for a responsible and inclusive digital economy. The G20 should set up a Digital Money and Finance Working Group to perform the analysis of new digital instruments and procedures. A Forum on Token Economy and Blockchain is also recommended to improve the knowledge of the token economy.

Our recommendations also look at the new sources of potential financial instability, specifically climate change. The T20 urges the IMF to integrate climate risk analysis in its surveillance and open a new financing window for climate efforts. National government budgetary instruments should also be developed for climate risks. Since pandemics have showed the risks they pose to the global financial architecture, we recommend offering insurance against pandemics through a possible pilot project.

A phasing-out strategy for the recovery

A key point on the G20 agenda should be dedicated to the phase-out of the current extraordinary economic measures. They need a neat increase in the quality and quantity of global macroeconomic coordination, which must also be transparent in such a way as to earn credibility by financial markets. In fact, without transparent coordination between monetary authorities, current expectations of inflation and interest rate policies could seriously endanger financial stability with the worst consequences burdening the weakest countries and, inside each country, the weakest agents. The G20 should be active in promoting this coordination by monitoring central banks' extraterritorial actions through an international body like the Bank of International Settlements or the Financial Stability Board. Also, the Group should require that central banks in G20 countries set regular schedule for communications to avoid a sharp turn of market expectations caused by divergent policy moves.

Conclusion

After the pandemic, it is key to avoid that we move from the COVID-induced economic crisis to a new financial crisis. The T20, through its Task Force on International Finance, calls G20 Economy and Finance Ministers for a renewed commitment to address this challenge by designing, and swiftly implementing, policy measures aimed to support countries at risk of debt distress, involve the private sector in debt relief, create innovative facilities to ensure debt sustainability, get ready for the digital money revolution, give climate risk analysis the due relevance considering its impacts on the financial architecture, monitor central banks activities that have extraterritorial impacts, and ensure transparency in capital flows especially when it comes to activities by State-Owned Multinational Enterprises.