Mrs. Magdalena Andersson, Minister for Finance

April 6, 2020

IMF Spring Meetings 2020

Dear Mrs. Andersson,

We, the Nordic-Baltic civil society constituency working for the eradication of poverty, a healthy climate and just distribution of power and resources, thank you for the opportunity to comment on the Nordic-Baltic Constituency's work within the IMF and would like to raise some issues of concern ahead of the 2020 spring meetings.

Global macroeconomic implications of COVID-19

In these unusual and unexpected trying times, with regards to macroeconomic implications of the COVID-19 pandemic, the IMF and the World Bank must take a lead in supporting developing nations responding to the crisis. Before the corona-crisis, 34 out of 73 low-income countries were already in debt distress or in high risk of debt distress. With commodity prices plunging and trade grinding to a halt, indebted countries will struggle to repay their sovereign debts. The number of countries in debt distress will most likely increase rapidly without forceful intervention. We recognize the support of the Fund and the Bank for the call of African finance ministers for a moratorium on interest and principal payments as an effective measure to deal with this global crisis. We also welcome the call by the Bank and the Fund on bilateral creditors to suspend debt payments. Funds are needed for the strengthening of the capacity of underfinanced national health care systems and for strengthening social security capacity to mediate the negative effect of impending unemployment.

The IMF should concede an interest-free debt moratorium on its own lending to both low-income and emerging market economies and call on other multilateral, bilateral and private creditors to do the same. An interest free debt moratorium could free up more than $50 billion dollars in 69 debt-constrained countries. We also strongly support the IMF calling for replenishment of the Catastrophe Containment and Relief Trust. This should be accompanied by an easing of eligibility criteria to ensure the usefulness of the CCRT as a standing debt relief mechanism.

Despite these positive actions of the IMF and World Bank, it is necessary to underline that this crisis should not be utilized to further the failed policies of privatization of public goods and deregulation of economic activity, that David Malpass has called for in response to the crisis. We now see the grave consequences of years of dismantling of public healthcare and public social safety nets. In responding to this crisis, that is both a health crisis and an economic crisis, focus should be on the strengthening of state capacity to meet its citizens health and economic needs through strengthening of regulatory and economic capacity. **Emergency financing must be free of economic policy conditionality and should be given as grants.**

Temporary debt moratoria must also be followed by subsequent debt reprofiling and restructuring processes. The IMF should contribute to the enforcement of substantial haircuts to principals owed to multilateral, bilateral and private lenders in exchange for financial support to indebted countries. This should lead to a structured global debt workout mechanism under the auspices of the UN. In the event of private creditors failing to endorse a timely reprofiling, countries should be able to suspend payments. Automatic reprofiling of this sort would draw on provisions in the IMF's revised exceptional access framework, linked to situations in which assessing debt sustainability with confidence is difficult. The current volatile and uncertain economic outlook means that ascertaining the probability of debt sustainability is seriously undermined.

The Covid-19 pandemic is a global crisis, but long-term detrimental effects of the public health crisis coupled with economic contraction are likely to be significant in developing countries which lack both sufficient health care and social protection systems, and the fiscal and monetary space to counteract recession. **The IMF and World Bank should work together** to ensure that the crisis is followed by new and better policies for sustainable development, that ensure democratic and fiscal space in creating well-functioning national universal welfare systems and a healthy global climate. This should include tax reforms that increase the progressivity of taxes and thus diminish inequality. Rather than pushing countries to focus narrowly on the amount of domestic resources they can mobilize, the IMF and World Bank should underline the importance of policy coherence for development and the need to attain all the SDGs including goal number 10 on inequality.

Debt Sustainability Assessments

The major reviews of the Fund's debt policies are now more important than ever. IMF engagement with both low-income and emerging market economies is likely to increase dramatically over the coming months. Large and rapid global policy responses to help these countries fend off health and economic consequences of the Covid-19 outbreak, such as interest-free debt moratoriums, can mitigate the short- to medium-term problems. Once the pandemic crisis recedes, debt sustainability analyses (DSAs) should be used to determine the necessity for more fundamental restructuring of outstanding debt.

In the upcoming (May) discussions on staff recommendations in relation to both the *Review of Debt Sustainability Framework for Market Access Countries (MAC)* and the *Review of Debt Limits Policy*, as well as the *Update on the Joint WB-IMF Multipronged Approach for Addressing Emerging Debt Vulnerabilities*, it is crucial that the Board supports staff recommendations, and makes its own recommendations, that will substantially improve analyses and programme design.

We anticipate major updates in the MAC-framework, including several of the key elements already present in analyses for low-income countries, to improve the assessment of debt risks. The assessments should include data on debt service and interest rates, maturity and percentage of revenue collected for debt payments.

Furthermore, the debt sustainability analyses (DSAs) set the parameters for IMF programme design, and these have been overly optimistic, with the effect of serious restraints on public expenditure as a consequence. If the IMF lends into situations where debt is not sustainable, it will effectively bail out previous lenders, while the population of the debtor country is left facing extra public spending cuts and extended periods of unsustainable debt. Over the last decade, public expenditure in important sectors such as health and education has been crowded out by rapidly increasing debt servicing costs in many developing countries. **The DSAs for both low-income countries and emerging market economies *should include assessments of whether countries have the financial space to meet SDG targets and ensure basic human rights.*** The social and human cost of the Covid-19 pandemic supports the case that assessments should move beyond narrow focus on repayment capacity. The IMF and World Bank can draw on work by the UNHCR and UNCTAD in this regard.

Best wishes,

Act Svenska kyrkan
Diakonia
Fellesrådet for Afrika (NO)
ForUM for Utvikling og Miljø (NO)
Kirkens Nødhjelp (Norwegian Church Aid)
Mellemfolkeligt Samvirke (ActionAid DK)
OxfamIBIS (DK)
SLUG – Nettverk for rettferdig gjeldspolitikk (NO)
The Swedish Society for Nature Conservation

<u>Additional recipients of this letter:</u>
Mr. Mika Uolevi Pöso, Executive Director, Office of the Nordic – Baltic Consituency
Mr. Nicolai Wammen, Minister for Finance
Mr. Lars Rohde, Director of National Bank of Denmark
Mr. Jan Tore Sanner, Minister of Finance