ALERT

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G20 Debt Relief for Developing Countries—Less Simple than it Appears

The G-20 agreement provides immediate relief to low-income countries battling the effects of the coronavirus pandemic, but challenges remain.

The COVID-19 crisis has placed extraordinary pressures on the global financial system. The impact on developing countries—particularly in Africa—is dramatic, creating sudden and unexpected risks for states and investors. Oil exports and commodity prices have dropped precipitously, while remittances and tourism have largely dried up. On April 15, 2020, the G20 finance ministers agreed to a "time-bound suspension of debt service payments" for 77 of the world's most needy countries (the so-called IDA countries, for International Development Association). Approximately $12 billion was due for payment between May 1, 2020, and the end of the year. This "time out" only impacts sovereign credit from the G20 countries.

Not all eligible countries have agreed to this offer. Kenya, notably, has expressed concerns regarding impact on its credit ratings and ability to raise funds in the future. At the Atlantic Council on June 18, 2020, President Uhuru Kenyatta distinguished between countries needing "relief" and those needing "space," but urged a global response as a collapse would affect all.

World Bank and International Monetary Fund ("IMF") credits and loans are not part of this offer, although payment moratoria from those and other International Financial Institutions are likely. The IMF has already announced relief for 25 of its lowest-income member countries and is moving to add $18 billion to its Poverty Reduction and Growth Trust.

The G20's move does not impact private lenders. Interest payments on private debt to African nations for the remainder of 2020 are in the range of $3 billion. The Institute for International Finance is moving to coordinate the response from private lenders, and the newly established African Private Creditor Working Group represents asset managers and other impacted institutions. Considerable downstream risks remain—and may grow—assuming IDA countries manage 2020 without defaults. As during previous debt crises, funds will seek opportunities. Additionally, Chinese lenders' large exposures in Africa will come under growing pressure for restructuring.

It is in the interest of all such institutions to face these issues and challenges early. African economies need to regain their previous level of economic growth and restructure an estimated $750 billion of external debt.

Rémy Fekete
Paris

Stuart Kerr
Washington

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