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The G20 must help resolve debt crisis across the world

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The welfare of millions is at stake and India should push for stronger action on fending off debt spirals

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G20 posters displayed in Delhi Metro trains, logos and banners at prominent buildings. (AFP)

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Debt distress is not merely a macroeconomic problem. It has real socio-econom [OPEN IN APP](#) consequences in terms of heightened inequality, increased levels of poverty and growth inadequacy that can together culminate in a humanitarian crisis. According to a 2022 UNDP report, 54 developing economies which represent about 3% of the global economy but account for over half the world's poverty have been identified as facing severe debt stress. These include the 25 sub-Saharan African nations, followed by Latin American and Caribbean countries.

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debt sustainability problem by setting off an energy-and-food crisis. Amid geopolitical turmoil, these debt-ridden poor countries have faced severe food crises due to swelling import bills for wheat, rice and maize.

With so many countries reeling under food scarcity, energy shortages and high inflation, among other problems, a looming debt spiral presents a complex developmental challenge that is difficult to address and might render some economies unstable in time to come. According to World Bank data, in 2022, the world's poorest countries owed \$35 billion as debt-service payments to official and private-sector creditors, with China alone accounting for over 40% of the total dues. In this context, the West has criticized China, the world's largest bilateral creditor, and identified it as the foremost deterrent in restructuring debt service agreements for a number of debtor nations. With the welfare of millions at stake, relief of debt distress is necessary.

As India has assumed the G20 presidency at an uncertain time for the global economy, addressing debt distress, initiating action and devising a coordinated framework for relief would be a daunting endeavour. The G20 in 2020 launched a Common Framework (CF) which brought creditors such as China and India, along with the IMF, the Paris Club and the private creditors to the negotiation table. The CF intended to deal with insolvency and protracted liquidity problems, and countries such as Zambia, Chad and Ethiopia have applied to restructure their debt under the CF mechanism. But the CF has so far not been able to deliver efficient results to the few countries that have signed on so far. The G20's Debt Service Suspension Initiative (DSSI) was able to suspend \$12.9 billion in debt-service payments owed by participant countries to their creditors between May 2020 (when it began) and December 2021, by latest estimates. The DSSI, which saw 48 of the 73 eligible countries participate, has enabled a coordinated release of resources to its beneficiary countries. But we need such initiatives to be made more frequently. We also need more effective outcomes. Nonetheless, the debt composition

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For the latter, an emphasis should be laid on the development of tradable sectors, with priority given to the informal sector, lower income groups and conflict-affected regions. Targeted measures might include lifting barriers to trade, amending regulatory requirements that are discriminatory to least developed countries, and ensuring fair prices for raw material imports. Boosting trade in services is also imperative, as hospitality and tourism have borne the brunt of the pandemic.

The creditor committee for Chad under CF includes India as a member. The Chad relief package was aimed at restructuring its debt, but progress has been largely conditional on forging agreements among government creditors and private consortiums. Reports suggest that creditors have agreed that given high energy prices, Chad does not require debt relief at this time, and the initiative will be reopened as and when needed. But several other countries do not benefit from oil price surges and macroeconomic contexts vary.

In the past, long-winded negotiations for debt recasts have seen debt service payment standstills. In 2020, G20 leaders had committed support to low-income countries by lending \$100 billion of their special drawing rights to those in need, which the group should recommit to. Given CF implementation delays, the G20 must commit to quicker timelines. Difficult negotiations will need to be driven with due urgency. A \$1.4 billion three-year extended credit facility to Zambia in December 2021 had almost become uncertain because debt recast talks between China and Zambia seemed to flounder.

Lastly, the G20 could develop debt relief packages that favour green and inclusive growth, and help boost economic resilience. Resources need to be directed towards low-carbon production. This would be in line with India's G20 presidency slogan of "one earth, one family, one future".

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