Center for Strategic and International Studies

Online Event

"Debt and A New Common Framework"

RECORDING DATE:

Friday, November 20, 2020 at 11:00 a.m. EST

FEATURING:

Brent McIntosh,

Under Secretary for International Affairs, U.S. Department of Treasury

CSIS EXPERTS:

Mark Sobel,

Senior Advisor (Non-resident), Economics Program, CSIS; U.S. Chairman, OMFIF; Former Deputy Assistant Secretary, U.S. Department of the Treasury

Stephanie Segal,

Senior Fellow, Economics Program, CSIS

Transcript By
Superior Transcriptions LLC
www.superiortranscriptions.com

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

Stephanie Segal: Good morning and thanks for joining us today for an event on the common framework for debt treatments beyond the Debt Service Suspension Initiative. We're very happy to welcome back Brent McIntosh, Treasury undersecretary for international affairs, for today's discussion.

And I'd also like to thank Mark Sobel for joining us this morning. Mark is U.S. chairman for OMFIF. He's also a senior advisor to the Economics Program, and a long-time Treasury veteran who worked on many debt issues.

So looking forward to the conversation. And thanks again to Brent for joining us.

Brent McIntosh: Delighted to be here, Stephanie. It's always a pleasure to be with distinguished Treasury alumni. So it's a pleasure to be with you and Mark. And I would also say thanks to CSIS for sponsoring this. It's a timely and important topic.

Stephanie Segal: It is indeed. And so the title itself – there's a lot in the title. A common framework for debt treatments beyond the Debt Service Suspension Initiative. So I think, just as a first question to you, it would be helpful to provide some of the context here, the backdrop of the fiscal and debt situation in many low and even middle-income countries in the context of the COVID-19 pandemic. And maybe from that backdrop just speaking a bit about what came next with the DSSI, and how we got to the announcement last Friday, which was agreement among G-20 finance ministers on this common framework.

Brent McIntosh: Yeah, it's a great point. The title has a lot of terms in it that we've spent a great deal of time working on with our G-20 counterparts, but that will not be familiar to a lot of people around the world. So let me unpack it a little bit. The pandemic has clearly exposed a lot of debt vulnerabilities in countries around the world, where they've built up over time but the pandemic presented them with a situation where they were – they had a choice between paying creditors and boosting spending to address the health and economic consequences of the pandemic, and responding in a timely fashion.

And so many of them even faced heightened medium-term debt sustainability issues because of the pandemic. So in response, David Malpass from the World Bank and Kristalina Georgieva from the IMF in the spring proposed that low-income countries be able to voluntarily request the suspension of all official bilateral debt service payments, which was a process that – they proposed it, we in the United States were supportive of that because we thought it would be beneficial for pandemic response.

And so we worked – as we conveniently had the G-7 presidency this year – so we worked with our G-7 counterparts to say that the G-7 would be in support of such an initiative, as long as we could get the G-20 countries on board. And then – so then it was taken to the G-20 and the Paris Club, where such debt work is done. And ultimately in the spring we agreed to suspend – allow countries to suspend official bilateral debt service payments from the point of the agreement until the end of this year.

We then last month extended the DSSI, Debt Service Suspension Initiative, until June 30th of 2021, because when we initially conceived of the initiative we thought that we would be further past the pandemic's effect at this point and, realizing we're not, believed it was worthwhile to extend that initiative.

To put it in context, as of this month 46 countries have – eligible countries have requested suspension of their debt-service payments, resulting in over $5 billion of deferred payments, which has provided liquidity relief that has helped with facilitating higher pandemic response spending in those countries.

We recognize, though, that the initiative had some shortcomings. For one, there was a lack of full participation by some creditors. And in particular there is some concern about full participation by some Chinese creditors.

And secondly, there was a lack of participation from the private sector. We had been hopeful for voluntary participation from the private sector. It didn't come to pass, based on a variety of factors, I think, including concerns about countries not wanting to seek private-creditor participation because of the credit-rating and market-access effects it might have.

And so there was no private-sector credit participation, which led us to look at what else could be done with regard to countries that had real debt-sustainability issues. And given the scope of the pandemic, we thought that there were countries that, in addition to just having their debt-service payments suspended for a period of time, were going to need actual debt reduction, debt relief that goes beyond what the DSSI provides for.

But the other thing the current crisis made clear is that the current framework for doing such debt reductions no longer really reflects the realities of government-to-government lending these days. You know, in the early 2000s, when the United States and other creditors did the Heavily Indebted Poor Countries, or HIPC, Initiative, which allowed 37 countries to get debt relief of more than $100 billion, those were – the Paris Club countries were largely the creditors in question.

But the United States and many Paris Club countries in the interim have shifted the balance of their foreign assistance from loans to grants. Grants now account, for us, the bulk of our official development assistance in the United States. Meanwhile, a number of countries that are not Paris Club participants, including especially China, have had rapidly accelerating overseas lending over the past two decades since the HIPC Initiative was – came to pass.

Our estimates now of Chinese lending range somewhere between $350 billion to a trillion dollars. We don't really have transparency into some of that, so – and China is not a member of the Paris Club. So the process by which we were working through debt treatments like this is not well suited to the current creditor array; constellation, if you will.

And so we recognized there was a need for a new framework for official debt relief that would bring in non-Paris Club creditors, including China. And bringing China to participate in a multilateral process with clear norms and expectations, we think, will help avoid some unconstructive dynamics in the debt-treatment process, holding up processes, providing insufficient relief.

And so in the context of looking at that situation, the G-7 finance ministers urged and the G-20 finance ministers and the Paris Club members developed the Common Framework, which is what we're talking about today, the Common Framework for debt treatments beyond the DSSI, which was endorsed by the G-20 finance ministers and central-bank governors just a week ago, on Friday, at an extraordinary meeting. And by extraordinary I mean out of the ordinary, but also terrific.

We had an extraordinary meeting that was not initially scheduled that the Saudi presidency hosted to address this point specifically, to bring – because it took some effort to bring everyone on board and it took beyond the point of the initially scheduled meeting at which it was done, so the Saudis put on a meeting at which we could consider the Common Framework. And all G-20 countries signed on. So we're delighted to have that in place and look forward to moving forward on it.

Stephanie Segal: Thanks, Brent. I think there's a lot in that answer. Thanks for kind of framing it for us, and let me – let me pass to Mark to follow up on some of the specifics of what you just mentioned.

Brent McIntosh: Yeah.

Mark Sobel: Great. Well, thank you for that wonderful kickoff. I want to say I'm a fan of the DSSI and the Common Framework, and I commend you for your work on it and for your work in the G-20 on it. But let me be a bit of a devil's advocate, having read the Common Framework. I mean, three things jumped out at me when I read it.

First is, will the private sector truly be in? The comparability of treatment language is positive, but credit rating agencies have told countries that if they sought DSSI treatment that could be treated as a credit event. I'm not sure if that's changed. I mean, private-sector participants often hold out. Nobody can speak for them or bind them in. So that was one thing.

The second was, coming back to China, you know, we think of China as a unitary actor. But when you go to a G-20 meeting the Central Bank and the MoF sign off on something but there are all these other entities in China – China Development Bank, China Ex-Im, state-owned enterprises, state-owned commercial banks – that have made loans and, as you said, there's a – the transparency is very bad.

So do we know enough to think China's going to play ball and is there enough transparency to, credibly, rope the Chinese in? And then the third thing that jumped out at me was that the language emphasize net present value reductions, but, as you said, in HIPC and then MDRI we eliminated – cancelled and eliminated debt. So that was about debt write downs and cancellations. And it seemed, again, that the language is very parsing. So I wasn't sure whether there were going to be write downs.

So my impression was that the Common Framework it's going to come down to implementation. Perhaps it gives you a platform to push the Chinese here and there. But until I see – until we see implementation, I wonder if the glass isn't – less than half full.

Brent McIntosh: Always a pleasure to hear your realism on these topics. Let me – let me start with what I think is the headline on this, which is that the Common Framework, in our view, is conceptually a great idea, and for all the reasons you just articulated the proof of the pudding will be in the tasting because it's one of those things where it works in theory and now we need to make it work in practice. And so for all the – all the reasons you articulated, it's going to require real concerted action and full faithful transparent participation by all creditors including, as you say, the Chinese and that includes all of the various apparatuses that are part of the Chinese government.

So let me – let me step back a bit and talk about – fill in that a little bit why I think it is the case that the Common Framework, if we execute on it, is a step – is a meaningful step forward.

Look, our take on debt sustainability is sometimes that sustainability requires rescheduling and sometimes it requires debt reduction, and the Common Framework recognizes that countries are not in the same – different countries are in different places with regard to that. And so the Common Framework that we're using represents a shared political commitment to take case by case evaluation of each of those – each country's situation and attempt to address it in a way that is specific to that country, much as the Paris Club would have.

The Common Framework has four key components, from our perspective. One is that it anticipates that there will be IMF programs that are backed by – underpinned by credible policy reforms to help our own countries stabilize and grow their economies and return to a sustainable debt portfolio, all informed by IMF and World Bank debt-sustainability analyses, to provide clearer pictures of beneficiary countries' fiscal situation and as well as the scope of the debt relief that's necessary there.

Second component, IMF involvement to ensure the robustness of the data we receive. It's going to be essential for the reasons we've already articulated that there is robust information sharing among creditors and from borrowing countries so that we have a real transparent picture of the situation of each country.

Third, there's a commitment to fair burden sharing, which is to say fair burden sharing among all official bilateral creditors. And that means all of the various state-owned entities in China, as well as all the other official bilateral creditors, and all the other participants. As well as a commitment from the countries that are beneficiaries that they will seek treatment from private creditors that is at least as favorable, as would be done in the Paris Club. And then lastly, it's a commitment of full participation from all official bilateral creditors. And I know I said that in the context of the third component as well, but it's a fair burden sharing. And all official bilateral creditors have to participate so the taxpayers in lending countries have assurances that they're not being gamed, that no creditor is benefitting at the expense of others.

It's important to note that – in the context of your question – that all G-20 members have committed to this, to implement it in a full and transparent manner. The Chinese specifically noted in endorsing it that this was a step forward for them in deciding that they were going to participate in such a multilateral framework. And that was a heartening conversation, from our standpoint. All to say that we do have – it's great to have that commitment. It's great to have the commitment of all the G-20 members. But it is going to require us to spend time and effort and be vigilant to ensure that this is – that people participate fully, faithfully, rapidly, transparently. Otherwise, it will not be a – it will not be a success. So this is – this is perhaps the end of the beginning, but there's a lot of work to be done.

Stephanie Segal: Brent, I wonder if we could make this a bit more kind of tangible for folks in trying to understand how the common framework would actually be applied. So an example of a country that is among the DSSI-eligible countries indicates that it requires some additional support. How does that work? And I wonder, just on a specific point that you mentioned on burden sharing, there's also this question of burden sharing across official creditors, but also then private-sector involvement. So maybe in the example if you could speak to the question of private-sector involvement as well.

Brent McIntosh: Yeah. So what we would – the way we would expect this to work would be that a debtor country would facilitate the process in the context of an IMF program. So the country would already be in close discussions with the IMF staff on the details of a macroeconomic framework, including strong policy commitments that would be aimed at restoring sustainability. As part of the program preparation, we would expect that the IMF would prepare a debt sustainability analysis, the DSA, that would determine the amount of debt treatment and the depth of that treatment that would be required. And that would be country specific, case specific.

And G-20 and Paris Club creditors with a claim on the debtor country, along with any other official bilateral creditors with claims, would then form a creditor committee to coordinate and jointly negotiate the parameters of the debt treatment with the debtor country. And that would be done in an open and transparent manner. The parameters of that debt treatment would specify the amount of claims to be rescheduled or reduced during the IMF program period, and would reflect fair burden sharing among official creditors, and be recorded – that's among the official creditors and be recorded in a memorandum of understanding, or MOU, to be signed by all participating creditors as well as the debtor country.

And as part of that, the debtor country would commit to seek, from its private creditors, debt treatment as least as favorable as the one in the MOU, which is – as is done in the Paris Club. And there are ways of ensuring that that's enforced, including callbacks or otherwise. But there would be a commitment to seek at least as favorable treatment as part of this arrangement. From our perspective, one of the keys here is information sharing, because if you don't know the debt profile of a country you can't meaningfully do this process. And so in our view the debtor countries will need to provide the IMF and the World Bank, and other participating creditors, all of the necessary information and data to make a realistic assessment on the necessary debt treatment.

So, you know, this is a situation where we would urge those countries that have unsustainable debt loans to participate here. Mark referenced earlier concerns about credit ratings. When we look at the situation for countries that have truly unsustainable debt burdens, the problem – their credit ratings frequently already reflect the likelihood of unsustainable debt burdens. And so we think on the whole engaging in this process will be credit-positive for countries, although, you know, they're – obviously, it's not going to get them there immediately. It'll take some time. But we do think that it was – it's unlikely to have a meaningful detriment to their credit ratings beyond the fundamental fact of the unsustainability of their debt.

So all to say that there's – the devil's in the details on all these – all this work, but we do think that the structure, from our perspective, is one that makes sense. In our view, it's an improvement on the existing developing-country debt landscape and the existing architecture for evaluating that in that it brings in – all official bilateral creditors are participants in this process, and in that it pushes for equitable burden-sharing across all bilateral official creditors as well as the private sector in a framework that a lot of countries, not just the Paris Club, are committed to.

Stephanie Segal: Thanks, Brent. I'm going to pass back to Mark.

Let me remind folks. We're getting some questions in from the audience. We will try and save a few minutes toward the end to ask some of these audience questions, so please go ahead and submit those.

Mark, over to you.

Mark Sobel: Thank you. Just having listened to the previous two questions, I'm still intrigued about whether the private sector will truly be bound in and whether there will be holdout problems.

But turning more generally to the crisis and the international financial institutions, clearly the DSSI and the Common Framework relate to the IFIs' work. The Fund – the IMF is seeking additional resources for low-income country lending, including grant funding for its lending and debt-relief facility. For emerging markets, there are concerns about a wave of sovereign debt restructurings and that the case-by-case approach may not suffice to get these done in a timely and orderly manner. In terms of balance sheets, and not counting the new IMF flexible credit line lending, I think the Fund's put out about $50 billion so far since the outbreak of the crisis, which some have said is a small number given the context. Masood Ahmed at the Center for Global Development recently wrote the World Bank is being parsimonious in its lending.

So I was wondering how you felt. Is more needed for low-income countries? Are you worried about a sovereign debt-restructuring wave? And should the Fund and Bank be doing more to expand their balance sheets? And Stephanie always wants me to ask about SDR allocations.

Brent McIntosh: Right. Thanks. Let me – let me take all those and remind me to come back to SDRs if I – if I forgot it.

In our view, the IFIs – the international financial institutions – have done a commendable job in responding quickly here. Having been working with them hand in hand since the onset of the pandemic, I can – I can attest to the speed and rigor with which they have moved and the dedication that they've put in while, you know, coping with the same set of challenges the rest of us are all coping with. So they are doing, in my view, a tremendous job.

Look, is there always room for strengthening? Yes, there's always room for strengthening. There's always room for better policy advice to countries, to better coordination among the international financial institutions. Inevitably, that's true. We strive to improve on those things.

Our view is that the IMF's response to the crisis and the World Bank's response to the crisis have both been robust and rapid. The IMF has extended emergency and precautionary financing to 81 countries and debt-service relief to 29 countries. We still believe the IMF has sufficient resources. It's got a big balance sheet which is usable. It hasn't yet activated the new arrangements to borrow, which is the second line of resources for the IMF, but could do so if necessary.

I do think that there is a need for additional assistance to poorer countries, and the IMF is seeking resources to assist with those efforts through both the Catastrophe Containment Trust that they have, as well as the pandemic-response one. And the U.S. – here the administration is exploring whether there are ways that we can assist with that. This requires approval in the administration as well as on the Hill. But there are things that can be done there.

I will say the multilateral development banks, including the World Bank, have been very focused on helping countries respond to both the health-related consequences and the economic knock-on effects from that. We think that, as they do that, they need to continue to focus as well on their long-term development goals.

We do think we have seen innovative ideas out of the multilateral development banks. For example, the World Bank has a more than $10 billion initiative designed to assist, on a case-by-case basis, with distribution and access to vaccines, which is, I think, an innovative and thoughtful role that the World Bank can play, and we're very supportive of that effort.

And I know, from speaking to the president of the Asian Development Bank, they're thinking through a similar effort. And we look forward to working with them on formulating that effort so it can be most effective in getting the vaccine out, because we're in a situation where the best thing that can happen for the pandemic, whether it's in advanced economies or the poorest economies, is that we get a vaccine and we get past this time and we get back to robust growth.

And so when you look at the developments on the vaccine front, the very positive news we have seen, it's going to be crucial to ensure that we have distribution mechanisms in place. And so we're very positive about the work that has been done on vaccines. Assuming the results turn out the way they look like they're going to turn out, it will be nothing short of a miracle how quickly this has been done. And so the work of the MDBs to ensure that countries are able to distribute vaccine, get and distribute vaccines quickly, I think, is a very important part of their work, and innovative by the standards of their prior programs.

So we're – is there always more work to be done? Sure. Are there more innovations that could be undertaken? Sure. But we're very pleased with the work that the IMF and the multilateral development banks have done to date.

Mark Sobel: And –

Stephanie Segal: I'm glad that you – sorry, Mark. I was going to say, I was glad that you kind of emphasized the support, U.S. support, for the MDBs in supporting vaccine distribution, because, as you said, you know, the nature of the pandemic is that it's global. And getting at the root cause of it absolutely has to do with that vaccine-distribution piece.

But Mark, sorry, go ahead. I cut you off.

Mark Sobel: Well, for Stephanie, special drawing rights.

Stephanie Segal: Thanks.

Brent McIntosh: Oh, yes. I'm sorry. I should have addressed that. You know, the administration is not supportive of special-drawing-right allocation at this time. In our view it is not a targeted or effective way to get resources out to countries.

As you know, given the way special drawing rights are distributed, 70 percent of any SDR allocation would go to the G-20 countries; 3 percent would go to the lowest-income countries. Most of the G-20 countries have SDR sitting on their balance sheets unused already. And so we think it's a method that is not targeted to the problem. It's not efficient. And there are much better ways to get funds out, including through the CCRT and PRGT that we mentioned earlier that are actually targeted to the countries that need them most. And so the administration has not supported an SDR allocation for that reason. We don't think it's the most effective way to get aid out in a timely and targeted fashion.

Stephanie Segal: Yeah. Thanks, Mark, for the question, and Brent for the answer. I mean, I think one of the reasons I keep bugging Mark about this – and to me it sounds like the most compelling reasons are ones that partner that allocation then with efforts and innovation, how you get that additional support to the countries that most need it. So I'm kind of compelled by some of those solutions that look to partner those two aspects of it.

But let me ask you a question about the coverage of both DSSI and the Common Framework. So this is limited to low-income countries. So 73, I think, is the number. But a lot of the concern that you hear is also with regard to certain middle-income countries, certain emerging markets that are also clearly facing fiscal constraints and signs of distress. So can you address the prospects for maybe expanding these special treatments to a larger group of countries, including some higher-income countries?

Brent McIntosh: Yeah. I think when you look at – there are clearly going to be needs in many middle-income countries and some of the small island countries, especially those that are dependent on, for example, tourism. There is not a consensus in the G-20 for that expansion yet. It was a lot of work to get us to the consensus we have today. I would say that the United States is supportive of extending to a broader set of countries. And we would need consensus from the G-20 to do so, in the same way that the United States looks at the common framework and sees, you know, in some instances there will be a need for debt rescheduling, and in others there will be a need for debt reduction.

We think that we probably are on the end that we think there needs to be more debt reduction because there is a good deal of uncertainty – both because of the pandemic and because of the fiscal position that a lot of countries find themselves in. So we actually think that there's going to be a need for a substantial number of debt restructuring there. We're hopeful not, but when you look at it realistically you think that there probably will be. And so on that, you know, while there is not, like, a consensus among the G-20 on those questions – the expansion, the extent to which this is going to – it's going to be debt reduction versus the rescheduling – I think on the whole the United States is supportive of expansion to additional countries, as well as countries taking the step of asking for debt reduction where they think their debt burden is unsustainable.

Stephanie Segal: Thanks. Could I just follow up before I hand back to Mark on his question about kind of what more from the IFCs. And in the context of, you know, who's included when we talk about treatment of debt, there is a lot of discussion not just about private sector involvement, but also involvement of the international institutions in treatment. What's your take? What's the administration's take on the appropriateness of IFC involvements?

Brent McIntosh: Yeah. We don't think it's appropriate for the IFCs to be involved. We think that their status as preferred creditors is beneficial to their operation. We think that it ought to be the members who are those who are providing the resources necessary for the debt treatments. We don't think it makes a lot of sense for the MDBs and the fund to be part of that effort. We think that that would actually harm their functioning over the long term, even if that has a sort of passing attraction these days.

Stephanie Segal: Mark, I'm going to pass over to you.

Mark Sobel: Thank you. We – IMF's real forecast in October marked up a far more downcast forecast from June for the global economy, but still estimated 4 ½ decline this year, followed by an upturn next year, that still left almost all countries behind their pre-pandemic growth levels. So we're now being hit by a second wave of the virus globally. And a vaccine may be on the way, but it's going to take a long time to get distributed around the world. So what is your view of the U.S. and global economic outlooks in light of the second wave, and the positive vaccine news? And are you on balance more downbeat?

Brent McIntosh: I would say that I try to be realistic in all these things, Mark. I would say you – there are clearly, as you note, items on both sides of this ledger. The uptick in cases and deaths, on the other hand the very positive vaccine news and some of, frankly, the economic indicators. And so I think there's a lot of uncertainty as to the way this is going to go over the coming months, but I do think it's important to recognize that it may take time to distribute a vaccine widely, but it appears that we are making greater progress on the vaccine than anyone ever anticipated six, eight months ago.

So there's uncertainty clearly in the global economy. We need to stand ready to do more to support economies that need it, in light of that uncertainty. We can't pull back from our support. But I think that it's not – I don't feel downcast about it. I think it's a situation where we need to continue to be vigilant and realistic, recognizing the items on both sides of the ledger. With regard to the United States, for reasons having to do with the rapidity of the response, we really have seen data surprising to the upside consistently over the past months. I mean, the recovery began very quickly in May after two historically bad months.

And if you look at the period after that March/April contraction, you have the unemployment rate dropping rapidly, you have 12 million jobs reclaimed, you have labor force participation ticking up. So it's not like the unemployment rate is going down because of people leaving the labor force. On the contrary, the unemployment rate is coming down at a time when labor force participation is ticking upward. So we're encouraged by the pace of the recovery, but we're also watching carefully the upsurge in cases and the potential economic consequences of that as we go forward, because we do need to persist in the efforts we're making to sustain a stronger recovery in the United States and around the world.

Stephanie Segal: If I could just pick up on that and kind of a question about the outlook. So we're leading now into the leaders' summit over the weekend, and agreement – we assume –

on the common framework itself. Are there other aspects coming out of the finance channel of the G-20 that we can expect in the leaders' summit itself? Any deliverables there?

Brent McIntosh: Yes. So in the – (laughs) – I must say, I have to give a lot of credit to my friends and counterparts in Saudi Arabia for the way they've taken what were their priorities and continued to make some progress on them while transitioning to the reality that the only thing most people are focused on right now is a – is a pandemic – is health consequences and economic consequences. They've done a very nice job of taking what was supposed to be a series of in-person meetings in Saudi Arabia focused on a variety of topics – including digital tax and the international tax system, cryptocurrencies and stable coins, and other topics – and they've put the pandemic response front and center in the G-20.

And so that has been a key aspect of what's been happening virtually in these meetings we've been holding. The pace actually has ticked upward, despite the inability to have in-person meetings. So there's been a huge amount of work at the G-20 on pandemic response on the domestic measures countries are taking, on the international response. And that will be – that portion of the finance track will be reflected, I think, in the leaders' summit this weekend, which will have a lot of focus on the impact of the pandemic, both health and economics.

The finance track has been focused, as I said, on the scope and shape of the economic response that's been put in place. And so we had a – in fact, had a finance ministers meeting this morning at 6:00, which had a very robust discussion of where we are in the pandemic, and what the priorities need to be as we shift from the Saudi presidency to the Italian presidency. And there was a consistent theme there of a need to provide continued support to our economies until the recovery is firmly established. So kudos to the Saudis for their ability to pivot and be agile in responding here.

Stephanie Segal: Well, I think we can turn to audience questions in just one second here. I did want to ask: When it comes to thinking about the outlook, kind of the ongoing crisis response, Treasury made news yesterday – and Secretary Mnuchin in particular – raising some questions about ongoing Treasury support for some of the extraordinary Fed facilities that have been so essential not just to U.S. financial stability, but really for global financial stability. So I think it fits well in the context of our conversation. Is there – is there anything you can say about kind of the direction of that fiscal support for those Fed facilities and the outlook there?

Brent McIntosh: Yeah, I would – on that, I know there's a lot of attention paid to it. I would urge people to look at Secretary Mnuchin's comments on CNBC this morning. He was on at nine this morning to discuss this topic.

His view, having been one of the people in the room negotiating the CARES Act initially that provided some of the funds for some of these – they provided funds for some of these facilities – is that those funds that were allocated under the CARES Act are not available – (inaudible, technical difficulties). He does not regard this as a grant in perpetuity. And so his perspective is that this is just a matter of congressional intent. Which is why, if you look at the letter he sent last night regarding this – the Fed facilities we're talking about, there are a series of facilities that are funded with non-CARES Act funds that he requested a continuation of. So this is – from his perspective, this is a question of what the congressional intent with regard to those funds was. It's not a – not a policy decision.

Stephanie Segal: OK. And part of, I guess, a broader theme, looking for congressional action on ongoing support for the economy.

I think we've got about 10 minutes left, so maybe we can pivot over to some of the audience questions that we've received. Mark, I'm going to give you the first selection here to choose from some of the good questions we've gotten.

Mark Sobel: Well, thank you.

In skimming through the questions, I've noticed a cluster of IMF-type questions. One is a more philosophical question about, you know, countries were hit by the pandemic. It wasn't through poor policies that they are being impacted. So I think there's a question about why do they need IMF programs. Now, I would frame it more in terms of for unsustainable countries I think they need to go to debt restructuring, but for questionably sustainable countries there is a question about the balance between liquidity and adjustment, and whether one could be more proactive in terms of liquidity support for such countries.

And then there were two other questions, one about whether the U.S. would support credit enhancements a la the Brady program. And in the IMF there were credit sweeteners for Brady enhancements at the time, and it's an idea that's circulating, and whether you had any thoughts about this.

And then another person on the IMF side was curious about whether you would support kind of SDRs for the CCRT, and I think you've partly answered that.

Brent McIntosh: Yeah. Let me take you through those in turn, Mark.

With regard to the question of why do I need an IMF program if the problem is the pandemic, I think if you look at the set of measures we're taking here – if you look at the DSSI, which is suspension of debt service to deal with the pandemic for countries where debt service is actually sustainable but for the pandemic, in those situations we're not – there's not a need for an IMF program. If you look at the Common Framework, where countries are actually saying my debt is unsustainable, in most cases that's because the debt was unsustainable and the pandemic has revealed that fact to us. And so it's important to get us in a position where we're not just – we're not Sisyphus pushing the stone up the hill over and over again, where we're actually dealing with the fundamental problem, which is not solely pandemic; it's actually a result of policy and unsustainable borrowing.

So, with regard to credit enhancement, that's not something we're thinking about right now. So I don't really have much to say on that beyond the fact that it's not something we're contemplating.

And then with regard to the use of the U.S.'s current SDRs, we're working with the Office of Management and Budget, and with their approval and the Hill's approval that could be something we would consider. But it's – it does require the administration to make a judgment to do so, and then we need approval from Congress to do it. So, you know, I know there are many people on the Hill who have expressed an interest in this and many people outside the government. So we're working with OMB to see what's possible there.

Stephanie Segal: So we've talked – in a few of the questions and the answers you've provided, Brent, we've referenced back to HIPC and MDRI and past instances of debt being forgiven once it's reached the point of unsustainability.

We received a question kind of asking about how do you finally break that cycle if – you know, if debt is forgiven to create space, but that space is then used, and ultimately the debt burden is once again unsustainable, do we need some different thinking in order to break that kind of debt and then debt-forgiveness cycle?

Brent McIntosh: It's a great question and one that I think we always face in situations where we push through an effort to formalize debt reduction. I think we faced it post-HIPC and MDRI, and I think it's something we need to consider here. And that's one of the reasons why we believe a case-by-case treatment here is most appropriate, because it allows us to address the specific problems arising in specific countries to ensure that we're not just creating a climate in which we go from debt reduction to unsustainable debt to debt reduction to unsustainable debt. It's one of the reasons why we thought a case-by-case process was more appropriate than HIPC-type process this time around.

Mark Sobel: There seem to be a few questions about China. One relates to the Belt and Road Initiative and what the relationship is between DSSI and Common Framework. And then closely related to that is a question about whether China Development Bank and China Ex-Im should be considered official or not.

Now, to the extent that there's comparability of treatment, you would argue that they both would be bound in, whether they're private or commercial. But there still is that question about how the Chinese government views the activities of some of these state entities.

Brent McIntosh: So let me – those two questions are interrelated, obviously. The Chinese government has taken the position that the Chinese Export-Import Bank, China Ex-Im, which is a main lender under the Belt and Road Initiative, is an official bilateral creditor and so is participating in the Debt Service Suspension Initiative. They've taken the position that the China Development Bank is not an official bilateral creditor, is not an organ of state, but is a commercial creditor. And so, to the extent it participates, it's only doing so voluntarily.

We don't agree with that characterization of the latter. We don't believe that the China Development Bank is, in fact, a commercial bank, and we believe it ought to be participating fully and faithfully in the DSSI. But as you say, once there's a fair burden-sharing and comparability of treatment for the Common Framework purposes, both China Ex-Im and the China Development Bank would be expected to participate and need to participate for the Chinese to be fully and faithfully and transparently complying with the terms of the Common Framework.

And that would include – back to the first question, that would include any Belt and Road debt that has been lent by, whether China Development Bank, China Ex-Im, or other state-owned banks that are a part of the Chinese state apparatus. So we would expect that Belt and Road Initiative debt would be fully covered by both DSSI and the Common Framework.

Mark Segal: We've got time for just one other question here. And this is one that I've seen kind of floating around a bit, and it's a question about the potential for changing legal provisions in key jurisdictions, specifically the U.K. or the U.S., to protect debtor countries from litigation by commercial creditors.

So the question is what your opinion is of that kind of approach. It's one that obviously has not been taken up to this point. But what do you think?

Brent McIntosh: Yeah, I don't know that we've taken a position on that. It's obviously there are a number of different sovereigns who have an interest in that. One of them is here. And part of that is the law of various states, including especially a couple of states around the East Coast. And then the U.K. obviously has an interest in it.

I don't know that we've taken a position on whether there ought to be such changes. I could see the – I can see why people find that attractive. But I don't think we've come out in favor of that at this point.

Stephanie Segal: All right. Brent, I know we promised to let you go at 11:50 here.

Mark, I want to give you an opportunity to say any final words and then I'll close us out.

Mark Sobel: My only final word is to commend Brent for joining us today and for his frankness and transparency and being willing to engage. Thank you.

Brent McIntosh: I've been trying to participate fully, faithfully, and transparently, as I would in the DSSI and the Common Framework.

Stephanie Segal: You're setting a good example. I would like to join Mark in thanking you for providing some clarity on what has been a very, I think, complex set of actions. But I would also kind of underscore what you said, that there actually has been productive activity in the finance channel at a time when, I think, some multilateral progress has been difficult, and this looks like another step in the right direction.

I think there's still a lot of concern, as you alluded to, about the adequacy of what's been done thus far to create fiscal space in low-income and middle-income countries. So I don't think that we're necessarily done. But I do agree that this is a step in the right direction. So thank you for your work on that and for joining us this morning. And, Mark, thanks to you for offering your expertise for this conversation. Wish everybody a very happy Thanksgiving next week and wish that everyone stays safe.

Brent McIntosh: Yes, and to you as well and to our audience, and thanks for having me. It was a delight to be with you today.

Mark, Stephanie, CSIS, thanks to all of you.

Stephanie Segal: Great. Thanks so much.

Brent McIntosh: Take care.

Stephanie Segal: Bye.

(END)