MC2020/28007

s HM Treasury

1 Horse Guards Road
London
SW1A 2HQ

Rt Hon Sir George Howarth MP
House of Commons
London
SW1A 0AA

26 August 2020

Dear Sir George Howarth,

Thank you for your correspondence dated 9 July on behalf of your constituents, regarding International debt. The Treasury has received unprecedented amounts of correspondence since the start of the coronavirus outbreak in the UK and I am sorry for the delay so far in replying. The Chancellor of the Exchequer has asked me to write to you directly.

The COVID-19 pandemic has exacerbated the debt vulnerabilities in many low-income developing countries, which were already at worrying levels before the crisis. The UK cancelled most of our low-income developing country debt under the Heavily Indebted Poor Countries (HIPC) Initiative since its inception in the 1990s. We have been working with borrowers and creditors to promote debt sustainability and transparency, including throughout the COVID-19 crisis.

The UK is contributing up to £150m to the IMF's Catastrophe Containment and Relief Trust (CCRT) which is providing the world's poorest countries relief on IMF repayments. The UK's grant supported the IMF in agreeing to cancel debt payments for 25 eligible countries. In response to COVID-19, the international financial institutions, including the IMF and World Bank Group, have made over

$300bn of finance available for developing countries over the coming 15 months.

In April the chancellor joined the G20 counterparts to commit to suspend debt service payments from the world's poorest countries for the duration of 2020. Through the G20 Debt Service Suspension Initiative (DSSI) official creditors will provide up to US$12bn of cash flow relief in 2020 to help countries respond to the health and economic impacts of COVID-19. In the autumn, the IMF and the World Bank will share a report on the liquidity needs of DSSI-eligible countries, which will include a recommendation on whether to extend the initiative into 2021. The multilateral development banks have committed to maintaining net positive flows to the world's most vulnerable countries to supplement official efforts under the DSSI.

The DSSI provides the international community the time to assess what further assistance these countries may need, as the full economic impact becomes clearer. In the future, some countries, especially those entering the crisis with significant debt vulnerabilities, may require debt relief. If debts do require restructuring, the UK will work via the Paris Club of official creditors, guided by the analysis of the International Monetary Fund (IMF) and the World Bank to ensure these countries get the debt relief they need to return to long-term sustainable debt positions.

The G20 agreed a voluntary approach to private creditor participation partly due to concerns about borrowers' long-term financing needs. It will be important to ensure that DSSI countries do not see their access to international capital markets become too costly or restricted as mobilising private finance will be essential for crisis recovery and long-term sustainable development. Mechanisms that suspend payments to commercial creditors will need to be designed so as to avoid credit rating downgrades. In light of these risks, HM Government continues to support the G20's agreed approach and will work with partners to enable DSSI implementation. The UK is working closely with the Institute of International Finance (IIF), the primary membership body for private creditors. The IIF released Terms of Reference on 28 May to support their members' engagement with eligible borrowers.

I hope this is helpful. If you have any questions about this reply, please email public.enquiries@hmtreasury.gov.uk quoting reference MC2020/28007.

Yours sincerely,

Claire Brooke

Correspondence and Enquiry Unit
HM Treasury