Introductory remarks by Taro Aso, Deputy Prime Minister and Minister of Finance, Japan

High level conference
Sustainable debt for sustainable growth:
Sound financing for development

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Minister Le Maire, Honorable Ministers and Central Bank Governors, distinguished guests, ladies and gentlemen, it is a great honor to address you all at this timely Conference on sustainable financing for development. I thank the French Ministry of the Economy and Finance for organizing this meeting. Addressing debt vulnerabilities in low-income countries, “LICs,” is one of the G20’s priorities under Japan’s Presidency. This is why we officially support this Conference. I hope that today’s discussions will provide useful inputs to the global discussions on this important issue.

Previously, LICs suffered from unmanageable debt burdens, which had accumulated since the 1980s. The international community responded to help them. Paris Club members provided 22 billion US dollars of debt relief to help 36 countries, under the HIPC Initiative agreed in the late 1990s. Multilateral institutions cancelled 42.4 billion dollars of claims under the MDRI Initiative agreed in 2005. These efforts alleviated LICs’ debt burdens and put their economies back to growth, but at enormous costs. Such episodes of debt distress should never happen again. Yet some LICs face significant debt-related challenges again today. Their public debt has risen substantially. The number of LICs assessed in debt distress or at high risk of it has doubled from 21 countries in 2013 to 42 countries in 2018.

Some of the factors behind the previous debt crisis are still relevant: an adverse external environment, weak macroeconomic management, or imprudent borrowing decisions. However, today’s crisis is not a repetition of the same problem. The financial landscape has changed fundamentally. Newcomers have appeared, such as emerging official creditors and commercial lenders. In some LICs, they have replaced Paris Club members as dominant creditors. In addition, these new lenders use complex financing instruments widely, such as collateralized sovereign loans. Moreover, these changes mean increased non-concessional lending and a lack of transparency due to insufficient data. Thus, both traditional and new factors are contributing to making LICs vulnerable to debt distress again. Therefore, we now need to combine traditional and novel approaches to address the problem.

The underlying philosophy should remain the same: any efforts should aim to help LICs lay a solid foundation for sustainable growth. This also means that LICs themselves should step up their efforts in this area, because it is they who will benefit most by doing so. For them, such efforts would lead to steady investment inflows, which are vital for their development. To this end, LICs should continue to strengthen fiscal management to address their traditional problems. At the same time, they need to make efforts on new fronts, such as broadening the coverage of debt data and identifying contingent liabilities. However, LICs' efforts alone would not suffice. Efforts by official and private creditors should also help. For instance, IDA, the World Bank's concessional lending arm, should place debt issues at the center of the ongoing discussions on its 19th Replenishment. Moreover, further efforts need to be made by broader stakeholders. This is where the G20 comes into play and promotes joint efforts.

Let me introduce you to three work streams underway within the G20. First, the G20 supports the IMF and World Bank's "multi-pronged approach." This approach consists of a wide range of work, including enhancing debt transparency, building capacity of LICs, and improving the IMF and World Bank's policies. In this approach, addressing LICs' severe capacity constraints is particularly important. To support this work, Japan has decided to make a substantial financial contribution to two trust funds for capacity development: the IMF's Data for Decision Fund and the World Bank's Debt Management Facility. Second, willing official creditors have undertaken self-assessments against the G20 Operational Guidelines for Sustainable Financing. The IMF and World Bank will prepare a stocktaking note based on the results of these self-assessments. Third, the G20 encourages private creditors to play active roles in promoting sustainable financing practices. The IIF, International Institute of Finance, is drafting its "Principles for Debt Transparency." G20 Ministers and Governors are looking forward to receiving the final IIF Principles ahead of their meeting in June. The G20 will continue to encourage joint efforts toward sustainable financing for development.

Finally, let me say a few words on multilateral coordination mechanisms to address debt issues. First, I welcome the work by the International Working Group on Export Credits to develop new global guidelines that will cover export credit agencies from emerging markets. Second, I support ongoing G20 work on building effective country platforms. They are proposed as coordination mechanisms among development partners to help governments achieve development goals, while ensuring debt sustainability. Last but not least, I stress the importance of effective creditor coordination for debt resolutions. The Paris Club has provided orderly and sustainable solutions to public debt distress. However, given the emerging financial landscape, we need to make these mechanisms serve us even better. We should broaden the participation of official creditors. We should also enhance communications with private creditors. I expect the Paris Club to take up these new challenges.

In conclusion, the global economy and development agenda are at a critical juncture. Now is the time for all key players to work together. Today’s conference is the right place to discuss what can be done. I wish you a successful conference. Thank you for your attention.