



# Vatican COVID-19 Commission

## Executive summary: Economics Taskforce



### SEE: Political economy of debt relief

Bold new thinking is needed to create a fairer financial system

Developing countries are being hit by a triple economic shock of collapsing export demand, falling commodity prices and unprecedented capital flight, while also having to manage the pandemic with inadequate health systems. We are seeing more aggressive capital flight than during the Great Financial Crisis of 2008 and destructive financial feedback loops in countries already suffering financially.

Actors around the world, including the US Federal Reserve, IMF, World Bank and G20, are taking action on debt and liquidity distress; however, these actions are not enough to address an already enormous problem.

In 2015, Pope Francis addressed the United Nations in New York, calling on international agencies to develop structures to address debt. The present crisis demands a new, more concrete call.



Pope Francis has asked the Vatican COVID-19 Commission to consider the key issues arising from the pandemic, and to reflect on new socio-economic-cultural approaches that are needed to enable us to build a better future for everyone.



#### A destructive feedback loop

Developing countries have been caught in a damaging financial feedback loop unleashed by the pandemic. The global economic breakdown has reduced their export and tourist revenues, while oil and commodity prices have plummeted, depressing prices of key exports further.

### \$50 billion

The size of the IMF fund available to lend to nations in financial distress; nearly 80 have already asked for help.

### \$14 billion

The extra funding approved by the World Bank to lend to countries and corporations hit by the crisis.

### \$10 billion

The size of Argentina's dollar-denominated debt which it has announced it will no longer service until next year.

Source: Institute for Innovation and Public Purpose, University College London

More information: [www.humandevlopment.va/en/vatican-covid-19.html](http://www.humandevlopment.va/en/vatican-covid-19.html)

## JUDGE: We need to restructure finance to improve the resilience of nations and people

Patching up the flaws of the system is not a long-term solution

Academics and policy-makers have argued for **decisive action** to relieve the debt burdens of both international and domestic debt.

**The worsening global credit conditions puts developing countries in a dire financial situation as external payment obligations threaten to overwhelm their foreign currency reserves.**

While often neglected, households cannot be forgotten in these efforts. They already carry a heavy burden of debt as a result of **'debt-fuelled' capitalism**, wage stagnation and retreat of the welfare state. Indeed, personal debt is at record levels in many countries; simple mortgage freezes will only increase the weight of debt when the freeze is lifted.



We must also take a **critical stance** when assessing the role of international development organisations in creating the conditions for continued indebtedness and state retreat.

**Debt relief is realistic** and should be enacted immediately. Since 2000, 37 countries have received full debt relief due to international pressure, amounting to more than \$100 billion in relief to African economies.

However, debt relief does not change the dynamics of the international system. **Bold new thinking** and leadership is needed for approaches to create a fairer and more resilient financial system.

We must move beyond the **'globalization of indifference'** and face the challenge of sustainable development, endangered by COVID-19, with courage, solidarity and concrete solutions.

## ACT: Proposals for action

If households and corporations wind up deeper in debt after the crisis, the prospects for economic recovery will be bleak.

- **Ask** multilateral credit organizations to evaluate debt sustainability in the poorest countries.
- **Enact** extensive debt standstills and debt reductions for developing countries to help them mobilize resources to overcome the public health crisis.
- **Encourage** greater public control of financial systems in developing countries.
- **Recommend** extensive debt standstills and reductions for indebted households to avoid further burdening of vulnerable persons.
- **Use** the opportunity to rethink the principles of international trade and finance, with a focus on stimulating investment-led growth in areas that strengthen countries' productive capacity.
- **Implement** zero interest rate policy in global monetary policy.

