G20 Finance Meet under India’s Presidency

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Why in news?

- First G20 Finance Ministers and Central Bank Governors under India’s G20 Presidency meeting began in Bengaluru.
- PM Modi addressed the meeting via video message.

How big is the issue of unsustainable debt levels in many countries?

- According to a new policy brief published by the ***United Nations Development Programme (UNDP)***,_52 low and middle-income developing economies are either in debt distress or at high risk of debt distress.
    - This accounts for more than ***40 percent of the world's poorest people***.
- 25 developing economy governments have external debt service payments higher than 20 percent of total revenue – the highest number of countries in more than 20 years.
    - **External debt** is the portion of a country's debt that is borrowed from foreign lenders, including commercial banks, governments, or international financial institutions.
    - **Debt service** refers to the money required to pay the principal and interest on an outstanding debt for a particular period of time.
- The UNDP report added that a **30 percent haircut** on their public external debt stock in 2021 could help save up to $148 billion in debt service payments over eight years.
    - Specific to debt restructuring, a haircut is the reduction of outstanding interest payments or a portion of a bond payable that will not be repaid.
    - In other words, a debt haircut refers to part of the debt being "written off".
- In December 2022, World Bank had said that the world's poorest countries owe $62 billion in annual debt service, a year-on-year increase of 35%, warning of a rising risk of defaults.
- India's neighbours Sri Lanka, Bangladesh and Pakistan have sought a bailout from the IMF over the past year due to a sharp economic slowdown caused by the Covid-19 pandemic and the Russia-Ukraine war.

What are the steps taken by the world leaders to address the issue?

- Debt restructuring along with inflation control and harnessing digital progress were also listed as crucial policy priorities by International Monetary Fund.
- **Under the G20 Presidency**, India has been pressing for ways to tackle the aggravated debt vulnerabilities facing developing nations mainly on account of the continuing geopolitical tensions and the pandemic.
- In order to help vulnerable countries, creditors are preferring to have a haircut (debt forgiveness).
- On the other hand, there are group of countries, led by China, who are using rescheduling with lower interest rates as to tool to help these vulnerable countries.

News Summary

Key highlights of the speech delivered by PM

- **Raised the issue of unsustainable debt levels in many countries**
    - PM Modi flagged the threat to financial viability of many countries from unsustainable debt levels.
- **Reform in multilateral institutions**
    - Pm Modi said trust in international financial institutions has eroded "partly because they have been slow to reform themselves".

- In this context, he called upon the custodians of the leading economies and monetary systems of the world to bring back stability, confidence and growth to the global economy.

- **Highlighted after-effects of the Covid-19 pandemic**
  - The Prime Minister said many countries, especially developing economies, are still coping with the after-effects of the Covid-19 pandemic, which delivered a once-in-a-century blow to the global economy.
- **Made a reference to the rising geopolitical tensions**
  - He also made a reference to the rising geopolitical tensions in different parts of the world, without naming the Russia-Ukraine war directly.
  - He said that due to rising geopolitical tensions in different parts of the world, there are disruptions in global supply chains.
  - Many societies are suffering due to rising prices. And, food and energy security have become major concerns across the world.
- **Attention must be given to the most vulnerable citizens**
  - PM Modi urged the G20 members to focus discussions on the most vulnerable citizens.
  - Only by creating an inclusive agenda will the global economic leadership win back the confidence of the world.
- **Highlighted role of technology in the world of Finance**
  - In the world of finance technology is increasingly dominant. During the pandemic, digital payments enabled contactless and seamless transactions.
  - PM cited India’s experience of creating a highly secure, highly trusted, and highly efficient public digital infrastructure.
  - He said that India’s digital payments ecosystem has been developed as a free public good.
  - This has radically transformed governance, financial inclusion, and ease-of-living in the country.

Q1) What is G20?

The Group of Twenty (G20) is the premier intergovernmental forum for international economic cooperation. The forum plays an important role in shaping and strengthening global architecture and governance on all major international economic issues.

Q2) What Is a Haircut in Finance?

A haircut is most commonly used when referencing the percentage difference between an asset’s market value and the amount that can be used as collateral for a loan. There is a difference between these values because market prices change over time, and the lender factors this fluctuation into their valuation and analysis for risk mitigation.

Source: At G20 finance meet, Modi calls for stability; Ukraine tensions flare | PIB | News on Air