# Statement on Finance and Trade

Riyadh, Kingdom of Saudi Arabia, 14 April, 2020

The COVID-19 pandemic knows no boundaries, with about 1.8 million confirmed cases and over a hundred thousand deaths across 209 countries and territories. As the COVID-19 pandemic continues to spread, so do the resulting economic shockwaves. Heightened uncertainty surrounding the crisis means the full extent of the unfolding disruption remains far from clear.

It is against this backdrop that the B20 Saudi Arabia welcomes the G20‘s commitment to act swiftly to overcome this unprecedented challenge, as expressed in the Extraordinary G20 Leaders Summit Statement. More than ever, now is the time for the G20 to work together, be aligned and coordinated in addressing urgent relief measures to contain the spread of the pandemic and its socio-economic fallout.

COVID-19 has hurt the global economy by squeezing both supply and demand, causing an immediate shock to cash flows of businesses. This in turn weakens lending institutions' asset quality and solvency at a time when regulations are much tighter than before the 2008 financial crisis. The crisis also exposed the vulnerability of global trade supply chains for critical goods and services.

As such, it is now critical to put in place a global action plan to mitigate and limit the extent of the shock. This should include short-term policy actions that support the system from converting a health crisis into an economic and financial crisis, helping avoid a graver negative impact on the global economy and society. It is equally important not to lose sight of the post-crisis revival phase and to mitigate potential risks and unintended consequences arising from containment and relief measures.

In this context, the B20 proposes a set of pragmatic recommendations to the Finance Ministers and the Central Bank Governors, and the Trade and Investment Ministers in their meeting scheduled for April 15, 2020 to commit to and include in their Action Plan.

The B20 calls on the G20 to commit to the following short- to medium-term Finance and Trade measures:

1. **Support a globally-coordinated response**. COVID-19 knows no boundaries, neither in terms of medical contagion nor economic impact. Governments are implementing national monetary and fiscal measures to relieve national economies from the pandemic's burden.

- In an intricately inter-connected and co-dependent global system of finance, trade, investment, technology, and governance, the crisis should be contained with globally coordinated measures.
- The response calls for coordinated fiscal, monetary, trade, and prudential measures, and collaboration between global standard setters such as the Financial Stability Board, the Basel Committee on Banking Supervision, International Organization of Securities Commissions and the International Association of Insurance Supervisors, and multilateral institutions including the World Trade Organization, the IMF, the World Bank, and the United Nations.
- IMF supported by other multilateral institutions should track and conduct diagnostic analysis of impacts of national measures, to enable governments make informed policy decisions.
- Coordination is also needed to provide support to the world's most vulnerable economies.

2. **Continue to monitor and provide globally-coordinated support to countries with heavily-disrupted balance of payments.** In some countries, COVID-19-related trade disruptions has made an outsized impact on balance of payment. Addressing the condition and mitigating its cascading impacts requires coordination with global institutions such as the IMF and World Bank, and regional multilateral institutions.

3. **Given the importance of USD currency in financing Global Trade flows and the shortage of USD liquidity, the establishment of USD swap lines by the US** Federal Bank with 14 countries has gone a long way towards easing USD liquidity. As this crisis is systemic and global in nature, coordinated action by the central banks of many emerging markets, the IMF, World Bank and the US-Fed may be needed to address the issue of USD liquidity.

4. **Continue support for lending institutions.** This support must protect services – on both the supply side and demand side – with a particular focus on the most vulnerable MSMEs and citizens.
    - **Protecting supply.** The following measures can be taken to protect the supply of services:

- **Increase market liquidity** to strengthen business continuity through fiscal stimulus. This should be channelled to the most distressed sectors and the most vulnerable companies to ensure the survival of essential activities and make sure they remain functional.

- **Temporarily enact available flexibility mechanisms for prudential standards to encourage countercyclical measures.** This reduces the impact of the economic shock, prevents company closures, enhances customer confidence, and allows lending institutions to use the buffers put in place by post-2008 reforms. This includes**:**

    - **Utilizing capital buffers** to increase market solvency and support struggling businesses to reduce the chances of defaults.

    - **Increasing bank lending capabilities** by reducing countercyclical buffers.

    - **Boosting bank liquidity** by allowing banks to operate below their liquidity coverage ratio.

    - **Postponing stress tests and implementation of non-time-sensitive reforms** to help lending institutions respond to market needs without the risk of penalties.

    - **Managing NPLs and provisions on bank balance sheets** by rapidly evolving practices on measures to stimulate bank lending so they can adhere to regulatory requirements and risk management protocols while structurally strengthening their external funding mechanisms. For example, purchasing bank NPLs via government backed investment vehicles (at appropriate pricing), which will help them free up capital and allow for a healthier bank balance sheet to raise external financing.

    - **Relaxing the application of IFRS 9 Principles in calculating expected credit loss (ECL) and classification of borrowers into Stage 2** if businesses are impacted by COVD-19, by defining clear and fair criteria to rate borrowers based on the COVID-19 impact on their businesses.

- **Providing a government guarantee mechanism** to critical initiatives, and recognizing these funds in the prudential and accounting frameworks, to put to use through the banking system, allowing banks to distribute funds through proven channels in a timely and seamless manner, new and partial guarantee schemes should be considered.
- **Targeted recalibration of the leverage ratio to enable banks to keep credit flowing.** This recalibration should exclude sovereign debt holdings and central bank deposits from the calculation of the ratio.

- **Sustaining demand.** Several measures can be taken to sustain demand through this disruptive period.
  - **Transfer value to the households and firms with the highest exposure** through:
    - **Supporting funding through MSME-specific packages,** such as reducing or postponing tax payment.
    - **Providing financial support to companies, particularly MSMEs, and sectors** most hit by the crisis, e.g. gastronomy, travel and tourism to help them quickly revive their businesses post-crisis.
    - **Maintaining disposable income and ease household expenses for the most vulnerable citizens** through employment-protection packages and subsidies, such as reducing the fixed cost of utilities, and distributing non-cash vouchers and basic goods.
  - **Safeguard employment through:**
    - **Relaxing labour market regulations** by temporarily subsidizing wages, training, vacations, medical-leave, or child care, supporting temporary hiring of remote labour, or relaxing certification / licensing requirements particularly for essential workers where health and safety are compromised.
    - **Redeploying jobs** by increasing match-making labour programmes, providing allowances for employee training programmes, facilitating employer to employer temporary reallocation, or rapidly re/up-

skilling, licensing, and hiring for essential workers (e.g., healthcare, truck drivers) and adjacent (e.g., childcare for essential workers) where there may be gaps.

- **Support businesses** that are highly exposed to global trade and domestic demand, and have large workforces and debt-heavy capital structures. Transferring value through a set of channels such as taxation authorities, utilities, and company registries can help these businesses stay afloat.

- **Maintain public funding to projects already in the pipeline and projects in critical sectors** such as infrastructure, to avoid a reverse impact in the future.

5. **Create a favourable fiscal and regulatory environment to ensure a strong rebound of companies** and the global economy once the pandemic subsidies. Include incentives for businesses and entrepreneurs that develop innovative solutions for sustainable and resilient health care systems and sector supply chains.

6. **Support flexible channels to execute relief and COVID-19-response-programme funding.** Fund distribution is a time-sensitive process, and launching new products takes time that is not available in the current crisis. It is therefore imperative that regulators allow variations in the financial products offered, and allow banks to use existing systems to expedite the provision of new funds.

7. **Prevent disruptions in global supply chains to enable effective crisis response in the short-term and enhance resilience in the medium-term.** Measures including the following must be taken:

   - **Refrain from taking any protective measures (including tariffs and export restrictions) against WTO rules that interfere with the global trade of goods and services** especially front-line medical and healthcare products and supplies, critical secondary supplies including fresh foods, nuclear spare parts, water purification products and services.

- **Remove tariffs on protective supplies used in the fight against COVID-19,** currently with an average tariff of 11.5% reported by the WTO.
- **Ensure availability of food to vulnerable groups of society**, which cannot access food or cannot afford it due to shutdowns preventing them from earning the needed daily wage to do so.

- **Ensure opening and servicing of infrastructure, including ports, road, rail, cargo airports, critical for the movement of goods across regions and to lockdown areas**, and ensuring that operators and their staff can speedily and safely do their work.
  - **Expedite release and clearance of goods at customs to avoid slowed down supply chains**, and work to provide up to date information on measures in place to ensure safe but speedy customs processing.
  - **Provide support to countries with fewer resources and emergency planning capacity to facilitate better crisis management** and avoid unnecessary shutdown of points along global supply chains.
  - **Ensure farmers around the world are able to sell and/or export their upcoming harvests without disruptions** to avoid further financial losses and limit global food waste.

- **Collaborate to formulate economic strategies on how to best produce, scale and distribute critical goods and services** (e.g. protective gear, ventilators and vaccinations). Such plans must also address how less developed markets can be served with critical goods and supplies.

- **Launch a dialogue post-crisis on how to make global supply chains more resilient** against future pandemics. Such assessment must also focus on support and enablement measures for the logistics sector.

8. **Enable continued global trade during the crisis via trade finance and needed investments.**

   - **Reduce the capital treatment for MSME exposures** for lending to a Risk Weight between 75 and 85 percent in line with the Basel 3 proposed regulations. This will ensure availability of trade finance to MSMEs, to support ongoing production in critical sectors and keep credit flowing.

- **Ensure continuity of existing export credit lines agreements** and provide increased ECA backed guarantees to exporters and corporates covering short-term trade exposures in case importers and buyers renege on terms of trade.

- **Allow temporary trade investments** with lower or no guarantees to companies providing essentials (medical supplies and food). This implies relaxing existing trade finance rules to facilitate contribution to the global supply chain.

We urge the G20 to develop an action plan to tackle the unfolding economic crisis keeping an eye on unintended consequences. We call for a high-level working group, including the WTO, WHO and the World Bank, to identify measures and share best practices for a stronger health care and trade system which is well-prepared to tackle future pandemics in a highly interdependent world. This must include data sharing and analysis, fast-response and continuity plans, crisis simulations, international emergency relief and post-disaster analysis. COVID-19 pandemic must be seized as an opportunity to join forces, to embrace innovation, and to prepare for a healthier, prosperous and more resilient future.