

**EXECUTIVE  
BOARD  
MEETING**

EBS/21/107  
Correction 2

**CONFIDENTIAL**

December 20, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Catastrophe Containment and Relief Trust—Fifth Tranche of Debt Service Relief in the Context of the Covid-19 Pandemic**

Board Action: The attached corrections to EBS/21/107 (12/2/21) have been provided by the staff:

**Evident Ambiguity:** **Page 6**

**Factual Errors Not Affecting the Presentation of Staff's Analysis or Views** **Pages 4 and 8**

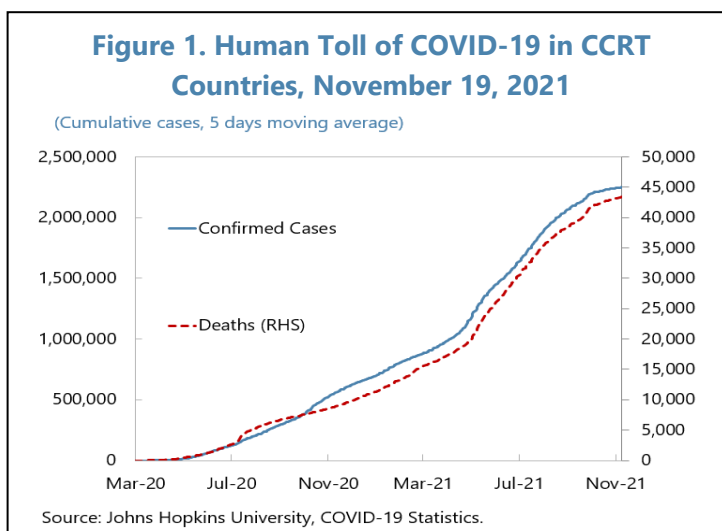
Questions: Ms. Fernandez, FIN (ext. 35902)  
Ms. Rosenberg, LEG (ext. 37790)  
Mr. Kim, SPR (ext. 34916)



## RECENT DEVELOPMENTS

### 1. The COVID-19 pandemic continues to exact a significant human and economic toll on IMF members eligible for assistance from the Catastrophe Containment and Relief Trust (CCRT).

- Human toll:** CCRT-eligible countries continue to see a high rate of new cases, while there are some signs of a slowdown, in the context of a challenging and uneven vaccine rollout. Cumulative cases have reached 2.2 million while associated deaths have exceeded 43 thousand (see Figure 1).



- Economic toll:** While the global economic recovery is continuing, divergences among country groups are expected. According to the latest WEO outlook, real GDP growth in CCRT-eligible countries is projected to remain slower than the pre-COVID forecasts in 2021 and 2022. The gap between the weak performance of the CCRT-eligible countries vis-à-vis the wider group of low-income developing countries (LIDCs) is expected to widen further in 2022 and their slower growth is in sharp contrast to the prospective solid recovery in the advanced economies (AEs) and emerging market and developing economies (EMDEs) (see Table 1), reflecting slower vaccine rollout and relatively limited policy support compared to other country groups.

**Table 1. Real GDP Growth Across IMF Member Groups (Percent)**

IMF member group	2019		2020			2021			2022		
	Actual <sup>2</sup>	Estimate <sup>2</sup>	Pre-COVID proj. <sup>1</sup>	Current proj. <sup>2</sup>	Change	Pre-COVID proj. <sup>1</sup>	Current proj. <sup>2</sup>	Change	Pre-COVID proj. <sup>1</sup>	Current proj. <sup>2</sup>	Change
CCRT	4.2	-0.5	4.9	2.9	-2.0	5.0	4.3	-0.7	5.0	4.3	-0.7
LIDCs	5.3	0.1	5.1	3.0	-2.1	5.3	5.3	0.0	5.3	5.3	0.0
EMDEs	3.7	-2.1	4.6	6.4	1.8	4.7	5.1	0.4	4.7	5.1	0.4
AEs	1.7	-4.5	1.6	5.2	3.6	1.5	4.5	3.0	1.5	4.5	3.0
Global	2.8	-3.1	3.4	5.9	2.5	3.5	4.9	1.4	3.5	4.9	1.4

Source: Staff calculations.  
<sup>1</sup> January 2020 WEO.  
<sup>2</sup> October 2021 WEO.

### 2. To date, the Executive Board has approved four tranches of debt service relief, totaling SDR 607.5 million for all CCRT-eligible members with eligible debt service falling due to the Fund from April 14, 2020 through January 10, 2022 (Table 2).

31 member countries benefited from immediate CCRT debt service relief in the context of the COVID-19 pandemic, with four tranches approved on April 13<sup>4</sup>, 2020, October 2, 2020, April 1, 2021, and October 6, 2021. Grant resources from the CCRT were disbursed to member countries and used to effect early repayment on their eligible debt falling due to the IMF during each tranche.<sup>3</sup>

### 3. CCRT-eligible members have also benefitted from other IMF financial support and a new general SDR allocation, which became effective in August 2021.

Since the onset of the pandemic, the IMF has approved SDR 5.3 billion in financial assistance to 30 CCRT-eligible countries:

<sup>3</sup> Debt relief grants related to GRA charges are disbursed from the CCRT to effect payment on eligible charges when they become due.

7. **Given the funding shortfall, a final tranche of COVID-19 debt service relief through April 2022 would result in a significant reduction of the pre-COVID cash buffer.** As of November 30, 2021, the cash balances in the CCRT amount to SDR 150.7 million<sup>6</sup>. In the absence of new contributions, the delivery of the COVID-related debt service relief of SDR 82.1<sup>5</sup> million falling due from January 11, 2022 through April 13, 2022 would reduce the CCRT cash balance to about SDR 68.6 million, implying significant erosion of the pre-COVID cash buffer of about SDR 150 million.

8. **Significantly reducing the CCRT's cash balances would exacerbate the underfunding problem and render the Trust unable to handle a number of potential future qualifying events.** With the median outstanding credit to the Fund amongst CCRT-eligible countries estimated at about SDR 213 million, the CCRT would be significantly underfunded in the case of a debt stock relief under the PCR window, should a qualifying catastrophic disaster (QCD) materialize. The CCRT would also be unable to cover some debt service relief cases under either window, e.g., in the event of multiple natural disasters or a regional epidemic. While future disasters may generate additional donor pledges, a low cash balance is problematic since CCRT debt service relief typically needs to be disbursed immediately after qualifying disasters to avoid a situation where debt service to the Fund crowds out urgent spending or balance of payments needs.

9. **Approval of a final tranche of COVID relief would, however, still leave a small buffer to cover a very small number of potential debt service relief cases under the PCR and CC windows.** In the absence of a catastrophic natural disaster qualifying for PCR stock of debt relief and regional epidemics that qualify multiple countries for CC relief, the projected residual balance of SDR 68.6 million could cover two-year debt service relief under either window for a medium to large country case (i.e., at the 75<sup>th</sup> percentile of the distribution of potential debt relief costs), or two medium country cases (i.e., at the 50<sup>th</sup> percentile).

10. **On balance, given the pandemic's severe burden on CCRT-eligible members, staff recommends the approval of a final tranche of CCRT debt relief in conjunction with the continuation of fundraising efforts for potential future qualifying events.** The COVID-19 pandemic continues to exact a severe human and economic toll on CCRT-eligible members, putting a premium on continued CCRT debt service relief. Hence, despite the implied drawdown of the pre-COVID cash buffer and the very limited resources available for other qualifying events, staff proposes the approval of a fifth and final tranche of COVID relief to all qualified member countries with debt service falling due from January 11 to April 13, 2022, in conjunction with continued broad fundraising efforts to reduce the underfunding of the CCRT and replenish the cash buffer available to respond quickly to future shocks.

11. **Staff proposes to conduct a comprehensive review of the CCRT, tentatively planned for FY23, to ensure its sustainability.** Given the enhancement of the CCRT Instrument to cover pandemics, the considerable increase of Fund lending to low-income countries during the pandemic, and the recent increase in PRGT access limits, the pre-COVID underfunding estimate of SDR 200-275

<sup>6</sup> Includes net operational income received.

### Box 1. Overview of the CCRT Instrument

The CCRT provides grants to pay debt service owed to the Fund by eligible low-income member countries that are hit by catastrophic natural disasters or battling public health disasters—such as earthquakes, epidemics, or global pandemics.<sup>1</sup> The Trust has two windows:

#### Catastrophe Containment (CC) Window

There are two alternative qualifying public health disasters (QPHD). The first concerns a life-threatening *epidemic* that has spread across several areas of the afflicted country's territory, causing significant economic disruption and creating a balance of payments need (BoP). The epidemic has the capacity to spread or is already spreading to other countries, producing or threatening significant economic disruption and loss of life. Under this QPHD, the magnitude of the economic disruption that occurred and is projected to occur in the future, based on available information including preliminary estimates, normally would cause a cumulative loss of real GDP of 10 percent or more; or a cumulative loss of revenue and increase of expenditures equivalent to at least 10 percent of GDP, measured relative to staff estimates made prior to the onset of the public health disaster.

The second QPHD concerns a life-threatening *global pandemic* that is inflicting severe economic disruption across the IMF membership and is creating BoP needs on such a scale as to warrant a concerted international effort to support the poorest and most vulnerable countries through substantial additional grant support and debt service relief.

To qualify for the support, the afflicted country should put in place appropriate macroeconomic policies to address the BoP needs created by the QPHD and the ensuing policy response and may receive *immediate debt relief* covering eligible debt service falling due to the Fund under an initial tranche not exceeding six months from the date of the qualification decision or from the date of the Executive Board determination that a global pandemic exists. Subject to resource availability, additional tranches of debt service relief may be approved to cover an overall period not exceeding two years from the date of the initial decision.

#### Post-Catastrophe Relief (PCR) Window

An eligible member country would qualify for debt flow relief under this window when a catastrophic natural disaster has directly affected normally at least one-third of the population and directly affected a large portion of the member's economy as evidenced by either a destruction of more than a quarter of the country's productive capacity or by economic damage in an amount exceeding 100 percent of the member's GDP prior to the *QCPHD*. Eligible low-income countries hit by such a catastrophic disaster would receive *temporary debt flow relief* on their debt service payments (principal and interest) to the Fund falling due in the two years following the disaster. Unlike under the CC Window, assistance under the PCR Window would not be tranching.

Full cancellation of a country's eligible debt stock to the Fund is also possible for members that qualify for debt flow relief where in addition the member has substantial BoP needs created or exacerbated by the *QCPHD* and the subsequent economic recovery efforts which are expected to persist beyond the period covered by the debt flow relief and where the resources freed up by debt stock relief are critical for meeting these needs. This would typically only be the case if, based on an updated debt sustainability analysis, the country faced a very high debt burden. Debt stock relief would be disbursed only upon determination that (i) concerted efforts exist within the international community to provide similar debt relief, which is evidenced by satisfactory assurances regarding debt relief provided by the member's official creditors whose debt together account for at least 80 percent of the member's total sovereign external debt outstanding to official creditors; (ii) the member provided assurances that it will cooperate in an effort to find solutions to its BoP problems and that it will refrain from inappropriate policies that could compound such problems; and (iii) the member has established a track record of adequate macroeconomic policies normally for a period of at least 6 months, taking into account the member's implementation capacity.

<sup>1</sup> Eligibility for CCRT assistance is limited to countries eligible for concessional borrowing under the Poverty Reduction and Growth Trust (PRGT) with per capita income below the International Development Association's (IDA) operational cutoff (currently US\$1,205) or, for small states with a population of less than 1.5 million, per capita income below twice the IDA cutoff (currently US\$2,410).