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Statement by Mr. Mouminah, Mr. Alhomaly, Mr. Keshava, and Ms. Al Saud on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021
(Preliminary)
Executive Board Meeting 21/32
March 26, 2021

We thank staff for the valuable insights on macroeconomic developments and prospects in low-income countries (LICs) that should inform Fund's work in its financing, catalytic, and advisory roles in the period ahead. LICs have particularly been hit by the pandemic, which is expected to reverse hard won gains to reduce poverty and inequality. Against this background, we welcome the multi-faceted response proposed by staff to cover the additional financing needs in LICs and the clear distinction set out in this paper between the emergency needs and medium-term development needs. Indeed, the complementarity between this work and other workstreams is highly welcome; and thus we look forward to the upcoming discussing on Concessional Financing and Policies.

While the emergency responses implemented jointly by the international community, including the Fund, the World Bank, and the G20, to mitigate the immediate impact of this unprecedented crisis are commendable, uncertainty remains high and LICs' medium-term economic outlook is especially concerning. Particularly, the impact of the pandemic is expected to leave long-lasting economic scarring effects, which will increase the challenges which existed before the onset of the pandemic in achieving the development objectives

We welcome the methodological note on staff's estimation of LICs' financing needs. In this connection, we welcome the holistic approach in accounting for the financing needs. Furthermore, staff has rightly differentiated between the near-term needs to mitigate the immediate impact of the crisis and the medium-term needs to reach development goals and accelerate the income convergence with AEs. Relatedly, we welcome the consideration given to materialization of risks identified in adverse scenario and the MDBs' important role, including through crowding in private investment. *Staff elaboration on the blending model to mobilize private commercial finance and its feasibility amid the current challenges is welcome.*

Sound domestic reforms are key to unleash alternative financing options without jeopardizing debt sustainability. In this context, the Fund has an important catalytic and advisory role in helping countries strengthen their governance and institutional capacity and unlock different sources of financing beyond external debt, including through promoting private sector investments, developing local capital markets, and mobilizing domestic revenue while enhancing spending efficiency. Also, the largely informal nature of LICs' economies hinders the delivery of needed support to the most vulnerable. These issues could be widely covered in the Fund's core areas of lending, surveillance and capacity development. Like Mr. Tanaka, we encourage staff to further improve effectiveness and efficiency of capacity development by promoting strategic integration with lending and surveillance as well as ensuring close collaboration with other IFIs. We also join Mr. Hilbers in welcoming staff's analysis on economic diversification in LICs as many are overly reliant on one sector.

The elevated risks of high debt distress warrant a particular focus on ensuring a path towards debt sustainability. To this end, we positively note the committed net positive transfers to DSSI-eligible countries during this difficult period and encourage LICs to take advantage of existing opportunities to ease near-term refinancing risks. Beyond the DSSI, the Common Framework for Debt Treatments should help address sovereign debt burdens and free up additional resources to cover spending needs. Here, It would also be critically important that the Fund continue to provide technical support to facilitate the debt treatment process under the Common Framework. Indeed, the significant financing needs illustrate the importance of the Fund's catalytic role. In this regard, we echo Ms. Shortino on urging the Fund to work with LICs in speeding up the restructuring of their unsustainable debt and caution against large volumes of IFI financing with their preferred creditor status as these would work against staff's recommendation to promote private investment. In addition, we welcome the progress made towards a general SDR allocation and look forward to discussing staff's further work on options of how willing member countries can channel their resources towards countries with the most need after the Spring Meetings.