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**Statement by Mr. Mouminah, Mr. Alkhareif, and Mr. Aldrees on 2020 External Sector  
Report  
(Preliminary)  
Executive Board Meeting  
July 24, 2020**

**We thank staff for the focused 2020 External Sector Report and welcome the continued application of country-specific judgement in the assessment of external positions.** We take positive note of continued efforts to apply staff judgment transparently. As the EBA models still fall short in capturing all relevant country characteristics and potential policy distortions in some cases, we continue to underline the importance of relying on area departments to better capture country-specific knowledge and help inform staff judgement.

**We note that global excess imbalances in 2019 is only slightly less than in 2018.** Although overall global current account surpluses and deficits narrowed sharply in the aftermath of the global financial crisis, they have declined only marginally since 2013. In this connection, we recognize the inherent challenges for addressing underlying structural distortions, which have contributed to persistent excess global imbalances. We encourage the Fund to continue its focus on this issue to help address the associated vulnerabilities and policy challenges.

**The COVID-19 pandemic has significantly impacted current account balances.** The pandemic has adversely affected trade, remittances, and tourism. Global financial conditions tightened and many EMDEs experienced sudden capital flow reversals earlier this year, but conditions have eased since late March benefitting from strong policy actions. As staff rightly underlines, a more persistent tightening in global financial conditions would adversely impact a recovery in capital inflows and limit the financing of current account deficits in EMDEs. The staff's analysis also confirms that countries with high foreign-currency-denominated debt and low international reserves are more vulnerable to the shock. In this connection and given the rising global debt, we encourage staff to closely monitor the

implication of the pandemic on the external positions of countries, especially in those that are disproportionately affected by the crisis.

**We agree with staff that the near-term policy priorities should focus on the health emergency and easing the burden of infection containment measures on households and firms.** Under Saudi Arabia's G20 Presidency, the G20 members have taken immediate and exceptional measures to address the COVID-19 pandemic and its intertwined health, social and economic impacts. Particularly, they have taken unprecedented fiscal, monetary and financial stability actions in response to this crisis. They have also stepped up their support to LICs and fragile states, including through the G20 Debt Service Suspension Initiative. We also reaffirm our longstanding support for stronger global efforts to promote international trade and investments. Over the medium-term, policy reforms need to continue to avoid the build up of excessive external imbalances for both debtor and creditor countries. We agree with staff that structural policies to increase export competitiveness can support the rebalancing for economies with weaker-than-warranted external positions.

**We welcome the analyses in Chapter 2 on external stress and the international investment position.** We note the impact of high foreign-currency-denominated debt liabilities on predicting external stress in EMDEs. In this context, we underscore the importance of monitoring and containing further buildup of foreign-currency-denominated debt, including through targeted macroprudential policies. We concur with staff on the need to deepen domestic financial markets and, where relevant, seizing opportunities to strengthen international reserve buffers. For many countries, reserves remain the first line of defense against external shocks, and hence building adequate level of reserves should be promoted, taking into account country-specific characteristics.