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Joint Statement by Mr. Beblawi, Mr. Mahlinza, Mr. Mojarrad, and Mr. Raghani on 2020 External Sector Report
(Preliminary)
Executive Board Meeting
July 24, 2020

1. We thank staff for the well-written External Sector Report (ESR) and broadly agree with the report's analysis and policy priorities. The following comments are for emphasis.

2. **The IMF's external assessment framework that combines the External Balance Assessment (EBA) methodology with a series of external indicators and country specific staff judgement remains appropriate**. While the ESR's focus on the world's 30 largest economies is warranted given their systemic importance, *we would welcome staff's views on extending the coverage of the report to better reflect the growing importance and market access of some EMDEs.*

3. **While we note that the global current account balance narrowed modestly in 2019, global excess deficits and surpluses remain large with concentration in key advanced economies (AEs), indicating vulnerabilities prior to the COVID-19 crisis**. Current account imbalances are projected to narrow modestly in 2020, subject to high uncertainty and large country variations, due to the contraction in global economic activity, lower commodity prices, and plummeting tourism receipts and remittances, which may take much longer to recover to their pre-crisis levels. In this context, we underscore the need for coordinated policy actions in both excessive deficit and surplus economies to rebalance the global economy.

4. **We note that the collapse of global output sharply reduced the demand for all primary commodities and amplified the pressures on the international oil market.** As a result, the commodity-exporting countries, many with limited foreign reserves cover, had to face the high health and mitigation costs of the pandemic with lower revenue. The pronounced deterioration of the current account deficits in EMDE oil exporters, however, was partly reflected in corresponding improvements in the external positions of EMDE oil importers as the latter group accounts for a relatively small share of global oil imports. At the

same time, the currencies of oil exporting EMDEs depreciated more strongly in reaction to the collapse of oil prices than those of other economic groups (Box 1.5). We therefore presume there was wide variation across oil exporters given that a number of them maintained hard currency pegs. *Staff may wish to comment*.

5. **We positively note the improvement in risk sentiment, stabilization in capital flows, and unwinding of the initial currency shifts since April 2020, supported by the exceptionally large monetary and fiscal stimuli.** In this context, we agree with staff that allowing greater exchange rate flexibility is important in facilitating adjustment to external shocks. However, policy advice in this regard should remain country specific, taking into consideration all relevant factors, including the stock of public debt denominated in foreign currency and the increasing role of dominant currencies. The capital flow management measures would be necessary when appropriately used together with complementary policies to effectively manage capital outflows and address disorderly exchange rate pressures in countries with limited foreign reserves and external financing options. It is also important to stress that for economies experiencing disruptive balance of payments pressures without access to private external financing, official financing should help ensure that health care spending is not compromised. *We would appreciate further comments on the current state of official financing and its prospect for helping meet health challenges in LIDCs*.

6. **Expatriate workers tend to be at higher risks of unemployment and wage loss during economic downturns than native workers.** The significant decline in remittances experienced during the ongoing crisis is expected to exert economic hardship on dependent households and businesses in recipient countries and could further amplify the negative impact on their income levels, poverty and inequality. In this regard, we agree with staff on the importance of adopting more inclusive social protection measures in the host economies, as well as sustaining flexibility of remittance services through appropriate incentives to remittance service providers.

7. **We remain concerned that the pandemic could cause a further retreat from trade integration as evidenced by the significant increase in trade restrictions in 2020.** We, therefore, emphasize the importance of rolling back new trade restrictions, including on pharmaceuticals and medical supplies, and refraining from using trade barriers. At the same time, the success of developing vaccines, supporting economic recovery, and addressing supply chain disruptions is also predicated on close global cooperation. To further bolster cross-border and trade integration, we underscore the need to strengthen the rules-based multilateral trade system, including through enhancing the enforceability of the WTO's commitments and dispute settlement system, as well as modernizing and strengthening the rules in the areas of subsidies, technology transfer, and e-commerce.

8. **We thank staff for the examination of the relationship between the structure of external assets and liabilities and the risks stemming from external stress episodes**. In view of the historically high stock levels of external assets and liabilities, and given that the COVID-19 pandemic has increased the probability of debt default, we stress the importance of debt restructuring, and the need for IMF technical and financial support to debtor countries, especially EMDEs with pre-existing vulnerabilities. In this context, we commend the Fund's timely response to the crisis through various lending facilities, debt relief, and

policy advice. However, given the expected rise in demand for Fund resources, we underline the need for reassessing the adequacy of IMF's resource envelope, including through a general SDR allocation with AEs using the allocation to supplement the PRGT resources. We also support staff call for a broader net of bilateral and multilateral swap lines which would further strengthen the global financial safety net and reduce financing risks across emerging market and developing economies.

9. **We note that creditor economies with high exposure to distressed assets and markets would be more prone to IIP valuation losses**. The growing number of countries with unsustainable debt levels amplifies IIP losses to creditors. In this context, we highlight the need for close monitoring of various components of external flows and IIP and addressing currency mismatches to limit the build-up of external vulnerabilities. Further research on the role and impact of valuation effects across country groups would also be valuable to better understand the inherent dynamics and improve the forecasting of the NIIP. We note that staff estimated IIP valuation effects based on the residual approach, which points to the need to strengthen data availability in this area.

10. **The alternative scenarios presented by staff in Box 1.6 are very informative**. While we hope for a faster recovery, we should be prepared for the adverse scenario and a possible second wave in early 2021. There is certainly no room for complacency and the painful lessons of the first wave should be used to steer us through the second wave, were it to occur. Staff analysis assumes second wave impacts equal to half of those in the first wave. *Would staff please elaborate on the underpinnings of this assumption?* We prefer to err on the side of caution for a number of reasons, mainly: (i) naturally, the timing, intensity, and duration of a possible second wave cannot be foreseen; (ii) the complete lockdown of economies—that proved most effective in the first wave—may be more difficult in the second wave; and (iii) the policy room to maneuver is much more limited. *Staff comments are welcome.*