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Joint Statement by Mr. Buisse, Mr. Chodos, Mr. Mouminah, Mr. Ray, Ms. Riach, and Mr. Villar on Fund's Pandemic Response: Options for Lending to Support Members During the Next Stage of the Crisis (Preliminary) Executive Board Meeting September 25, 2020

We thank staff for the rich paper on how best to respond to the needs of the membership during the COVID pandemic. The pandemic is a crisis like no other, it has triggered supply and demand shocks, created an unprecedented, deep, synchronized global downturn and significant uncertainty remains. This exceptional situation necessitates exceptional action.

We therefore agree that Fund lending does require changes to effectively help members address BoP problems arising from the pandemic. The priority is for the Fund to have the tools it needs and while that may be possible through a new window in an existing facility, we believe that establishing a temporary Pandemic Support Facility is the best option. This is because it will ensure that the Fund considers and makes active decisions at the outset on the appropriate level of program flexibility and safeguards in this higher risk, highly uncertain environment. This is necessary to maintain the Fund's credibility as lender of last resort and to protect its resources. The additional flexibility that will be afforded to members throughout this uncertainty would be best ringfenced through a Pandemic Support Facility. A new facility designed for exceptional times would also help to overcome existing stigma of requesting Fund financing through existing tools. We do not think leaving the existing toolkit unchanged is an option because it would mean that those difficult decisions would be made in a piecemeal way as each country program and reviews are negotiated and discussed at the Board. This would make it harder to ensure that countries benefit from Fund resources in an evenhanded manner and risks undermining the integrity of the existing lending toolkit and the credibility of Funds' lending practices. In that sense, relying on the existing toolkit in the face of an unprecedented crisis and in a context of large uncertainty would cause a reputational risk.

We agree with staff that the pandemic poses unique challenges to the Fund’s lending operations because it will not always be possible to identify the structural reforms that are necessary to address a country’s BoP problems which may be temporary or may be permanent depending on how the crisis unfolds. This is logically the case for those countries that did not have structural issues that created BoP problems prior to the crisis. For these countries it will be very difficult to identify the optimal policy response until the effects of the ongoing crisis abate. We agree that it is in those circumstances that a temporary Pandemic Support Facility with all the safeguards outlined in the paper is the best way to serve the membership whilst managing the financial and reputational risks to the Fund. Conversely, we would expect that there may be a different set of considerations for a country that had fiscal and external imbalances going into the crisis and for which structural gaps had already been identified by authorities and country teams prior to the crisis. In this case the country would need to receive support with appropriate conditionality to implement structural reforms necessary to address their original imbalances as well as those that may have arisen from or been exacerbated by the pandemic. Such structural measures are essential to prepare the ground for a strong recovery and, when implemented as conditions allow, are compatible with the short-run stabilization objective and institutional capacity as outlined in the report. *Can staff confirm that this is the way they envisage a temporary pandemic support facility being used? Does this fit with current demand for a new facility?*

We agree that the Fund needs to tolerate higher risks in its pandemic-related lending operations. We think the three safeguards set out in the paper are important to manage those risks. A clear commitment from the member to cooperate with the Fund to find a solution to its BoP difficulties is critical alongside an explicit commitment by the authorities to broaden the macro-adjustment and structural reform components of the program beyond those set out at the outset as clarity emerges on the extent of reforms needed. Alongside those safeguards, we also believe that the flexibility in repayments and conditionality granted by the new facility should be clearly understood by countries as temporary with a reversal to the normal toolkit once the crisis passed. We agree that access generally should not exceed normal limits at the outset of the program, however we do believe that any previous emergency financing should be considered as additional given the external and extraordinary nature of the shock. *Could staff confirm whether they believe access limits will be a constraint for the countries that qualify for the new facility?* We welcome enhanced monitoring through more frequent debt sustainability analysis, greater focus on debt operations and more use of reprofiling under normal access where debt is sustainable but not with a high probability. We also agree that the mismatch between meeting the likely BoP need with front loading of financing and the potential delay in being able to properly diagnose the appropriate policy response reinforces the need for the Fund to serve a catalytic role in financing and that there needs to be risk sharing with other creditors in every case where support is provided through the temporary pandemic support facility.

In the next stage of the crisis it will be as important as ever that the Fund works closely with its members to meet their financing needs whilst sustaining its fight against

corruption and the misuse of much needed financial support. Although not mentioned in the paper, governance-related conditionality should be included when vulnerabilities are critical to achieving the goals of the member's program as per the 2018 Framework on Enhanced Engagement on Governance. The establishment of a Pandemic Support Facility could help the Fund to reinforce with public messaging the importance it places on these issues and its commitment to implementing these measures in an evenhanded manner.

The Fund needs to have the right facilities and the necessary resources to provide needed support for all its members in these exceptional times, including the necessary support for low income countries and fragile states. We think a temporary pandemic support facility is the best way to support the membership through this crisis and keep the current lending toolkit intact. We also agree that there is a need to consider a similar PRGT instrument in the context of the upcoming review of concessional lending and recognize that we also need to find solutions to address PRGT financing constraints as part of this.