GRAY/20/2929

September 22, 2020

Statement by Mr. Beblawi and Ms. Abdelati 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

Fund's Pandemic Support: Options for Lending During the Next Stage of the Crisis

We thank staff for a clearly laid-out, well-reasoned paper and well-justified proposals. We also had an excellent bilateral discussion with staff that was very helpful. Beyond a doubt, the Fund has risen to the task and acted swiftly in response to the crisis from the first emergency loan in March. This is well recognized within the Fund, the membership, and the general public. The Fund has had to act flexibly, to take on more risk commensurate with the risk-taking taken by country authorities and with the need to support members who faced sudden financing needs. The global outlook suggests that while there are signs of recovery in some countries, these are uneven, and it may take five years before countries return to the pre-pandemic growth path, with uncertainty remaining at unprecedented levels. It, therefore, makes sense to consider how the Fund can best support countries in the coming period, again in a flexible way.

We welcome taking a look at the adequacy of the lending toolkit and any warranted adjustments. We agree that while current conditionality guidelines provide sufficient flexibility to use existing facilities, with appropriate adjustments, there is merit in considering a new facility which has four desirable traits: (i) the public relations aspect of the Fund announcing it has introduced a new instrument as part of its response to the lingering impact of the pandemic; (ii) ring-fencing or protecting the standard facilities from modifications that could set a precedent—although there has always been significant variation in program design and conditionality before the pandemic; (iii) greater flexibility on program design and pace of adjustment than what is typical/expected in Fund programs; and (iv) a longer repayment period than that for the RFI and SBA, which have been available so far in countries not in need of structural reforms to correct the external imbalance.

In principle, therefore, we see merit in a new facility has merit and would be ready to support the Pandemic Support Facility. In the absence of the required majority for this new facility, we offer our views on the other options. In this regard, speed and flexibility are of the highest priority. Option 1 is clearly less desirable as it does not provide a comprehensive or flexible enough instrument to address the degree of uncertainty in diagnosing and addressing adjustment needs, so we would rule that out. The other two options are viable, with a preference for Option 3, a special window within the EFF, as it achieves the four desirable traits noted above. *We would appreciate staff clarification of the kind of modifications that would be possible without an 85% majority threshold.*

Regarding potential demand and borrowing space within normal access limits, we understand that staff identified around 30 members, and some of those have already approached the Fund. The recently issued paper on Review of Enhanced Access Limits shows that 27 countrieshave received RFI/ECF in varying degrees. *But the amount available under normal access limits will necessarily be limited--will that be sufficient to meet financing needs, or primarily rely on catalyzing other financial support.*

We caution against an extension of the safeguards policy as proposed in the paper, whether or not we create a new facility. Staff proposes the application of more stringent/conservative debt sustainability assessments and to extend the safeguards policy that would apply to countries in the case of Exceptional Access when debt is sustainable but not with high probability of programs within normal access limits. *Would this affect the majority of the identified 30 potential borrowers?* We appreciate the need to safeguard Fund resources and maintain the revolving nature of Fund credit, however, pressuring countries with market access to enter into debt operations or debt reprofiling, when they don't see the need for it, could have detrimental effects in terms of maintaining market access and increasing the stigma of Fund programs. We welcome updates of DSAs to update macro assumptions. *Has staff considered sensitivity analysis in debt sustainability assessments, that would show both a stronger and weaker DSA than the baseline— which could include contingency plans in the case the weaker scenario becomes likely?*

A small group of countries concluded a Fund program in recent months and did not have a prior balance of payments problem. *Was any thought given to extending the same longer repayment period retroactively, now that it is seen as more suitable?*

In summary, we would favor any option that provides needed flexibility in program design and conditionality, longer repayment period, speed in responding to member requests, and higher normal access limits commensurate with the financing requirements of the pandemic. We are not in favor of extending safeguards that apply to a sub-group of EA cases as this could detract from potential program requests and defeat the stated objectives or reducing stigma.