GRAY/20/2932

September 22, 2020

Statement by Mr. Mahlinza, Mr. Nakunyada, Mr. Garang, and Ms. Nainda 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

1. We thank staff for a comprehensive report that provides an assessment of lending options to support the membership during the next phases of the crisis. We consider this discussion timely as countries move from the emergency response towards stabilization and the recovery phases. We broadly support the thrust of staff's proposals and provide the following remarks for emphasis.

2. **The emergency financing provided by the Fund has been instrumental in containing the spread of the virus, however, the lending strategy should adapt to the evolving nature of the crisis.** We commend the Fund for its flexibility and agility during the early phase of the pandemic, including through augmentation of existing programs, a temporary increase in access limits, and extension of debt service moratorium to poorer member states. Going forward, we agree that the focus should shift towards UCT-quality programs to help address existing and potential balance of payments challenges facing the membership and anchor a strong and sustained recovery. To this end, we underscore the need for tailored UCT programs with streamlined conditionality, taking into account the multi-dimensional nature of the crisis.

3. **We can support the introduction of a new Pandemic Support Facility (PSF), considering the actual and potential BOP challenges occasioned by the COVID-19 crisis**. The PSF appears well-suited to providing short-term support under the circumstance as it can be structured to provide a longer repayment period, parsimonious conditionality and address stigma issues. To ensure that the proposed PSF has enough up-take, we urge staff to continue to consult widely to ascertain the appetite for such an instrument. We also see merit in maintaining the structure of the Fund's workhorse lending instruments, such as the SBA and ECF/EFF, which have served the membership well. *Further, we concur on the need to replicate the PSF under the PRGT to ensure evenhandedness. We would appreciate staff's*

comments on whether on-going fund-raising initiatives would be sufficient to cover such a proposal.

4. **We support the proposed program modalities, including the steady broadening of policies and streamlining of conditionality, longer repurchase period, a review-centric approach where feasible, and contingency planning**. That said, we note that under the state-contingent financing arrangement, a member can cancel the program when the BOP conditions improve. In this context, we underline the need to maintain the reform momentum to anchor a durable and inclusive recovery, including through continued Fund engagement. On the other hand, we note staff's readiness to support unconventional policies where policy choices are limited by dwindling policy space, but remain concerned that this may set a precedence, reversing hard-won gains made in policy making and the development of institutional capacity. At the same time, we impress on the need for a careful approach to ensure the appropriate use of unconventional policies as they may be difficult to unwind.

5. **A slight increase in the Fund's risk tolerance is inevitable, considering the magnitude of the current crisis**. In this context, we emphasize that a do-nothing and inactive scenario poses even greater risks to the Fund and the global economy. Further, we are comforted that enterprise risks associated with the proposed options appear manageable but caution against complacency in ensuring adequate safeguards. To this end, we agree on the need for the continued use of standard safeguards, emphasizing capacity to repay, strong program commitment and ownership, as well as debt sustainability. We also take note that the proposed lending options will have limited effect on Fund resources. That said, we would have appreciated indicative estimates of the resource implications of the various lending options together with the potential effects on precautionary balances and the broader Fund balance sheet. *Staff comments are welcome*.

6. **In view of elevated debt vulnerabilities, we broadly welcome the Fund's proposed approach, to align debt operations to achieve the overall program objectives**. In this vein, we welcome the two-step approach to securing creditor assurances as critical, particularly in cases where elevated uncertainties complicate debt operations. We also note the benefits of debt reprofiling and resolution frameworks, including positive reaction from investors, unlocking fiscal resources, moderating the decline in growth, and reducing the likelihood for future debt restructuring. We, therefore, look forward to more concrete proposals in the forthcoming paper on sovereign debt restructuring. To this end, sustained efforts are required to enhance the international architecture for debt resolution, alongside adjustments to the Fund's debt policy framework. At the same time, we view stronger international cooperation as critical, particularly in the areas of financing and design of social protection policies, given the pandemic's effects on poverty and inequality.

7. **Finally, we emphasize the need for increased use of precautionary facilities to provide insurance against risks.** Non-disbursing facilities such as precautionary arrangements typically incentivize members with strong policy frameworks to raise buffers and build resilience to shocks. Considering the low uptake of existing precautionary arrangements, it would be worthwhile to engage the authorities to solicit views on how best to adjust the current design features of these arrangements and enhance their appeal.