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Statement by Mr. Zhang and Mr. Huang on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for the well-written paper and bilateral outreach before the Board meeting. Ever since the pandemic outbreak, the Fund has responded to the crisis with unprecedented speed and increased flexibility. With access limits doubled, the emergency financing facilities have helped a lot of member countries to cope with initial shocks. As the pandemic moves from the containment phase to stabilization and eventually the recovery phase, we welcome the discussion on how the Fund's lending strategy should be adapted to the members' evolving needs. However, we remain to be convinced of the need to create a new facility and believe lending during the next stage should be primarily based on the use of the existing toolkit. Having said that, we would like to provide the following comments.

The Fund's ample existing toolkit have served members well since the pandemic outbreak and should be put to good use during the next stage. As the pandemic moves to the stabilization and recovery phase, the Fund's lending is expected to shift from helping members to cope with initial shocks to assisting members to achieve sustainable and balanced recovery. Although not tailored to address the Balance of Payment (BoP) problems associated with the pandemic, the existing lending facilities do have some extent of flexibility and can be adapted to accommodate some desirable features during the next stage. We agree with staff that even if the new facility is established, it should not be used as a panacea. In cases where the existing instruments are feasible and suitable, the existing instruments should be used. For example, countries with BoP difficulties stemming from pre-existing structural weaknesses would be better served by the Extended Fund Facility (EFF).

While we are open to discuss all the options, we remain to be convinced of the need for a new facility.

First, the pandemic crisis calls for swift action rather than delays on structural reforms. The Covid-19 pandemic continues to impact people's lives and the global economy, and its evolution remains uncertain. However, one thing has become clear: while reshaping consumer and business behavior, the pandemic is accelerating the digital transformation and would have significant structural implications for the global economy. In the meantime, the pandemic has also highlighted and amplified some pre-existing structural weaknesses, such as longstanding income inequality, high vulnerabilities of the poor, low efficiency in the health sector, and the need for economic diversification. Furthermore, the pandemic also provides a window of opportunity for structural reforms. For example, low oil prices during the Covid-19 presents a timely opportunity for removing fuel subsidies with limited impact on the most vulnerable group. Ensuring the appropriate use of Covid-19 related funds gives a good opportunity for strengthening overall public financial management. Given all of the above, though we agree that the full extent of structural reforms required might crystalize only as the economy enters the recovery phase, we also believe appropriately prioritized and sequenced structural reforms are necessary and doable during the stabilization phase.

Second, the establishment of a new facility is warranted only if it could fill gaps in the Global Financial Safety Net (GFSN) and meet members' actual needs that could not be satisfied by the existing toolkit. When the Board approved the introduction of the Short Liquidity Line, one of the most important reasons is that it fills a critical gap in the GFSN. *We missed a thorough discussion in the paper from the GFSN aspect. Staff's comments are welcomed*. Furthermore, we should avoid creating an instrument with no or few actual needs, which might also cause damage to the Fund's reputation. *We would appreciate staff's elaboration on the target countries of the PSF and their intention to request the new facility.*

Third, a more granular analysis of the impact on the Fund resources is required before the introduction of the proposed new facility. We take note of the argument that the net impact in the demand for Fund resources over a long period of time will be limited, since the upfront demand for Fund resources stemming from either lower stigma or the attractiveness of the program design might represent requests for use of Fund resources that would have anyway been made under the existing toolkit and policies. We would prefer to see the estimate of the upfront demand for Fund resources, i.e. the impact on the Fund resources over a short period of time.

While we see merits of some features of the proposed new facility, we also have some concerns and doubts regarding the others.

First, on the repurchase period, we take note of the argument that delaying some structural reforms and later materialization of their economic payoffs warrant a longer repurchase period. *However, it confuses us that the repayment period of the PSF (4½ to 7 years) is shorter than that of the Extended Fund Facility (EFF, 4½ to 10 years), when considering that the structural reforms could be implemented from the start of the EFF arrangement, while the structural reforms could be implemented only after a certain period of time following the start of the PSF arrangement. Staff's comments are welcomed.*

Second, on the frequency of the Debt Sustainability Analysis (DSA), we take note of staff's suggestion that DSAs could be required at the time of every review, and quarterly reviews could be required for economies with sustainable debt but with high risks of debt distress. *Could staff clarify the Fund's current policy and practice on the frequency of the DSA?* We underscore the importance of considering the countries' specific circumstances and the authorities' capacity constraints. Given the unprecedented nature of this crisis, we believe the Fund should strike a balance between providing members with much-needed financing assistance and safeguarding its own resources. Some innovative and well-calibrated resolution is required, for example the two-step approach to secure financing assurance from the official creditors.

Finally, the tremendous efforts that the Fund has made in response to the Covid-19 pandemic is widely acknowledged and highly appreciated. In our view, the reputational risk of being perceived as not being sufficiently responsive to the unprecedented crisis does not lie in continuing to use the existing lending facilities, but the failure to respond to the call from member countries and the international community timely, including discussing the possibility of a general allocation of SDR, and the overdue conclusion of the Sixteenth General Reviews of Quotas and governance reforms.