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September 23, 2020

Statement by Ms. Mahasandana, Mr. Tan, Mr. Abenoja, and Ms. Susiandri 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 insightful report that explores thoroughly the various lending options to support the membership in the ongoing crisis, as well as the useful outreach to our office.

The COVID-19 pandemic has triggered a multifaceted crisis, leading to a deep and synchronized downturn in the global economy. This unique health-cum-economic crisis, along with its unprecedented uncertainty, has continued to pose immense challenges to many countries across the world. **Hence, it is important for the Fund to remain nimble and responsive in helping members adapt to the evolving and uncertain nature of the crisis**.

We agree that greater flexibility is needed in the Fund's lending operations to effectively help members address the unique features of their balance of payments (BoP) needs arising from the pandemic. We note that the Fund has been reevaluating its lending practices to be more responsive to the evolving needs of its members since the early phase of the crisis. The results to date are evident from the various Fund initiatives, including the doubling of access limits under emergency financing, the increase in annual access limits, the introduction of a new precautionary facility and other debt relief initiatives. As the crisis continues to evolve, it is important to ensure sufficient flexibility remains in the Fund's lending operations that is commensurate with the highly exceptional and uncertain environment. Against this backdrop, we share staff's view to consider further refinements to existing program modalities, such as a gradual broadening of policy content and conditionality, longer repurchase period, phasing with possible frontloaded financing, more frequent program reviews, state-contingent financing, contingency planning, review-centric monitoring of quantitative conditionality and a broad menu

of policy options. For this purpose, we believe that a second round of emergency lending (Option 1) or the current lending facilities (Option 2) by themselves would not be adequate in achieving an appropriate level of program flexibility in an evenhanded manner that safeguards the integrity and coherence of the Fund's existing lending practices.

We view that establishing a temporary "pandemic window" under the EFF (Option 3) would best meet members' needs during the next stage of the crisis. Based on staff's assessment, the EFF is best positioned to address the economic consequences of the pandemic among existing instruments while the EFF "pandemic window" is a relatively straightforward reform option for both staff and member countries compared to establishing the new Pandemic Support Facility (Option 4). By building on the existing EFF and addressing the BoP problems associated with the pandemic through temporary modifications, Option 3 provides a balanced approach to tailoring programs to country specificities in light of the evolving and uncertain nature of the pandemic, as well as the need for adequate safeguards and evenhandedness. Specifically, we note staff's explanation during the outreach that the two modifications: (i) expanding the range of BoP difficulties that the EFF can address by temporarily including BoP problems associated with the pandemic and (ii) explicitly endorsing back-loaded formulation of structural policies, will enable the existing EFF to fulfill the features of pandemic lending, especially for countries that have structural BoP problems. Staff also explained that for countries with no clear structural reform needs, it might be appropriate and has been done before within the existing policies to initially deploy an SBA before switching to a program supported by an extended arrangement to address the member's structural adjustment needs once these are identified. While a new temporary Pandemic Support Facility (PSF) could technically be tailored to meet the needs of members with no structural adjustment, Option 3 also has the advantage of being implemented in a more timely and efficient manner as well as with relatively lower operational risks by maintaining the coherence of the current lending architecture and requiring only limited changes to systems. Furthermore, such instances of countries with no structural reform needs at all should not be prevalent in the current crisis that has exacerbated many pre-existing imbalances and structural weaknesses. Hence, a temporary pandemic window under Option 3 that provides for a gradually broadening policy content if warranted by the increased uncertainty created by the pandemic will be preferable. Having said that, we could consider exploring the PSF further should any major gaps were to be found that cannot be adequately closed by modifying the EFF.

We agree that the Fund should tolerate higher risks in the lending operations during the pandemic and to supplement the selected option with appropriate safeguards. It is important to strike the right balance between providing flexibility in the lending operations to meet members' needs and protecting Fund resources. In this regard, we support staff's proposal that Option 3 should come with explicit sunset and review clauses. The sunset clause, which coincides with the duration of the pandemic, would help to ringfence Option 3 in addition to the

explicit provisions that set out the temporary pandemic window. We consider these features to provide adequate assurance on the clear and transparent application of the pandemic window and the long-term integrity and coherence of the existing toolkit and lending practices. As part of the safeguards, it is also important to have guidance on the access level at the outset of the EFF pandemic window. *Should Option 3 be adopted, could staff clarify whether a presumption of normal access at program request would similarly apply?*

We concur with staff that the Fund should also explore the need for a similar instrument under the PRGT so that the Fund could enhance its support across the broad membership where necessary. As suggested by staff, it may be prudent to consider possible options for PRGT lending in the context of the wider review of concessional lending instruments given that the pandemic has affected to a large extent both emerging markets and developing countries as well as low-income countries. While the architecture of the concessional facilities may be different from that of the GRA, we note from staff that establishing a new PSF (similar to Option 4) under the PRGT would require the consent of PRGT contributors and approval by a higher voting majority.