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Statement by Mr. Kaya, Mr. Benk, Mr. Just, and Mr. Zaborovskiy 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 informative paper which explores different options for providing pandemic-related lending going forward. While the medium- and long-term consequences of this crisis have yet to be revealed, it is clear that even the economically strongest members are facing unprecedented challenges and are expected to be in a deep recession this year. The more vulnerable countries with pre-existing macro- and structural vulnerabilities and limited room for an appropriate policy response, will be hit hardest by the fallout from the pandemic with a dramatic reversal in living standards and growing income inequality. With this in mind, **we underscore the importance of ensuring that the Fund's toolkit remains adequate and flexible enough to help its members meet Balance of Payment (BoP) needs, including countries that are facing debt sustainability and protracted BoP challenges, which, if not addressed, could result in a severe economic disruption.** In this regard, the decision on launching a new facility or amending the existing ones should be preceded by a holistic assessment of the demand for the Fund's pandemic-related financing, including from countries that reached their normal access limits and with debt that is sustainable but not with a high probability.

Emergency lending should continue to address the urgent BoP needs of the qualifying countries in line with the existing policies. The Fund's rapid financing was instrumental to address the immediate economic fallout from the crisis, as well as to protect peoples' lives and contain the spread of the virus. However, not all countries that are qualified for the Fund's support under the emergency facilities have requested such assistance, and not all requests have been satisfied so far. Improved global financing conditions contributed to the gradual reversal of capital flows back to many emerging economies after the initial pandemic-related shock. Emergency financing for qualifying countries that have not yet fully utilized temporarily higher access limits should help mitigate the downside risks if they materialize during a potential second wave of the pandemic. Adequate safeguards for the use of Fund resources should be in place, including the measures discussed recently for countries seeking access to Fund financial support that would lead to high levels of combined GRA-PRGT exposure. *Could staff elaborate on the demand for additional emergency financing from the membership? How many requests are in the pipeline until the end of the year?*

The flexibility incorporated in the current lending toolkit should be fully exercised for tailoring Fund-supported programs to country-specific circumstances. For countries where the underlying sources of imbalances had been known before the pandemic outbreak, the existing facilities would be instrumental to support the appropriate policy response. In those cases with stronger fundamentals before the crisis, where the sources of imbalances are unclear, a combination of a credible macroeconomic package supported by an SBA with a subsequent EFF, if structural vulnerabilities emerge, would provide the needed flexibility within the existing toolkit. Not only does this avoid facility proliferation, but it is also the easiest, fastest and least resource-intensive solution to deploy. It is also the best way to maintain a clear link between lending on one hand and conditionality and structural reforms on the other. Depending on country-specific circumstances, debt operations could also be considered.

Launching a new Pandemic Support Facility (PSF) for the limited number of qualifying countries sends a mixed signal. The COVID-19 pandemic is a truly global crisis that disproportionally hit the most vulnerable. However, the new facility targets only a sub-set of countries with stronger pre-pandemic fundamentals, while others are not qualified to use this new instrument. While there are some communication advantages in launching a PSF, justifying the qualification criteria for the new facility against the universal negative impact of the crisis may pose some challenges. Moreover, not all structural weaknesses cause BoP needs, and a degree of judgement is needed to identify the nature and drivers of a BoP gap in a particular country. Too much room for judgement may complicate the use of the facility in an evenhanded manner. The „stigma" argument in favour of a new PSF seems also overvalued. We consider any potential "stigma" to be bound with the use of IMF resources in general, rather than with specific facilities.

Should the current lending toolkit prove insufficient to address specific BoP needs created by the COVID-19 pandemic, we are open to consider more ambitious reform options under adequate safeguards. The Fund should be well-prepared to assist its members in case of a more protracted slowdown and an uneven recovery with elevated BoP needs of its member countries. Given the specificities of the current pandemic-triggered crisis, we see merit in staff's argument that a new PSF should reflect the need to ringfence features, which may be undesirable outside pandemic lending, thereby protecting the long-term integrity of the existing toolkit and lending practices. Should a possible PSF be further discussed, a more ambitious reform proposal, applicable to the broader membership under adequate safeguards and which do not compromise on policy ambition, would be important.

Given that the existing PRGT facilities mirror the GRA facilities and in order to enable blending, there is a need to harmonize solutions in the context of the upcoming review of concessional lending.