DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.

GRAY/20/2956

September 23, 2020

Statement by Mr. Mojarrad and Mr. Nadali 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 an informative paper and its outreach to our office and welcome Board's discussion of the Fund's lending options to support the membership during the next stage of the Covid-19 crisis. Notwithstanding significant uncertainty about and variation in the intensity and duration of the three stages of the pandemic from country to country, Fund's tailored and country-specific support is critical to mitigate the unprecedented adverse impact of the pandemic on lives and livelihoods and assist member countries to implement appropriate macroeconomic and possible structural reform measures as the crisis evolves from the initial containment phase to the stabilization and eventual recovery phases. **We are in broad agreement with staff analysis and suggested options** to align the lending toolkit with the evolving and uncertain nature of the pandemic crisis and wish to offer the following remarks:

1. Fund has commendably provided RFI/RCF emergency financing or augmented access under existing programs for over 80 members during the containment stage. However, there could still be significant demand for emergency lending in the months ahead, given continued pandemic-related disruption. In light of pending requests by the remaining 20 or so countries that have yet to receive Fund's emergency financing as well as likely demand from countries that received emergency support at levels less than the maximum amounts available, we expect that next week the Board will approve the six-month **extension to April 6, 2021 of temporary higher annual and cumulative access limits under RFI/RCF** emergency financing.

2. We agree with the suggested **desirable features for Fund lending during the pandemic** that depart from usual practices, including gradually broadening policy content and conditionality, longer repurchase period, frontloaded financing, contingency planning, and review-centric monitoring of quantitative conditionality, as well as some additional safeguards to Fund resources, including enhanced monitoring of key metrics for debt sustainability and capacity to repay.

3. Precautionary instruments of FCL, SLL, and PLL should continue to be used throughout all three stages to reduce risks of sudden stops and systematically destabilizing capital flow management (CFM) measures and be adapted to the new environment. Following the recently-established SLL as a liquidity backstop for members with very strong policy frameworks and fundamentals, **a similar short-term line, having qualification criteria analogous to PLL, needs to be established** to benefit a wider group of EMDCs and help minimize the risk of shocks evolving into deeper crisis.

4. The **first of the four options** presented for the lending toolkit reform, involving another round of RFIs, has been ruled out on grounds of its highest risks both to the member and to the Fund. We however reiterate that this option **remains available to countries that have not exhausted access limits under the RFI**.

5. **The second option**, involving adaptation of the existing toolkit, while accommodating some desirable features of pandemic lending, **falls short** of fully responding to the unprecedented needs of the membership, given the likely insufficient length of the SBA's repurchase schedule as well as continued stigma associated with a visibly unchanged toolkit.

6. **We favor the third option** that modifies the Extended Fund Facility (EFF) and creates a temporary window by amending paragraphs 1 and 2 of the Decision establishing the EFF. While EFF is said not to be appropriate in programs with no or very few structural reform needs at program request, it is best positioned to quickly address the economic consequences of the pandemic as it is a relatively straightforward reform option that requires little learning by both staff and member countries to design programs supported under the window and its sufficiently long repayment period would enable the borrowing country to address crisis-related structural deficiencies that could emerge at a later stage of the program.

7. **We can go along with option 4**, if there is broad support in the Board for the expansion of the lending toolkit by creating a temporary pandemic support facility (PSF) that replicates the EFF pricing and is said to have advantages over other options in terms of ringfencing, tailoring, communication, and potential to reduce stigma. We, however, would prefer PSF to have a repurchase schedule like that of the EFF. Paragraph 45 of the paper indicates that the discussed options are not mutually exclusive and that even with a new instrument available some countries may be best served by instruments discussed under other options. *We appreciate staff further clarification.*

8. Finally, given the truly global nature of the pandemic shock that affects all country groups, we agree that similar considerations apply to both GRA and PRGT instruments and that options for adapting the PRGT lending toolkit, consistent with PRGT available funding, are best explored as part of the ongoing **review of concessional lending**. We are pleased to note that the fast-track PRGT loan mobilization in recent months has exceeded its funding target and look forward to **broad donor support to cover** LIC's evolving financing needs by closing the **PRGT's subsidy gap**.