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GRAY/20/2959

September 23, 2020

**Statement by Mr. Rashkovan, Mr. Cools, and Mr. Hanson 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 comprehensive paper offering a good understanding of the type of balance of payment problems countries are grappling with in the stabilization and recovery phases of the pandemic.

As the crisis evolves, we need to ensure that Fund lending remains tailored to the demands of the membership. We agree with staff that a focus on macroeconomic stabilization is crucial to cushion the impact of the crisis. Depending on country-specific circumstances, this calls for a differentiated approach, including, where needed, a feasible and realistic macro adjustment and possibly debt operations. Despite the uncertainty about the evolution of the crisis, we believe sequenced and prioritized growth-enhancing reforms are an important element of this policy mix and we are not in favor of backloading structural measures.

We would like to offer the following comments:

We remain to be convinced of the case to create a new lending instrument, as the Fund's current lending toolkit allows for flexibility in program design. The Fund's forecasts show that most countries will not return to their pre-crisis GDP path, as the crisis exposed and amplified pre-existing structural weaknesses. Sequenced and prioritized reforms will be important elements in the policy mix for these countries. When they request financing from the Fund, EFF arrangements with contingency plans and some flexibility in program design to account for the high degree of uncertainty would seem a good option. For those countries without structural weaknesses, the SBA would be available. We wonder which countries would be "stuck in the middle" between the EFF and the SBA. *Like Mr. Poso and Mr. Damgaard, we would be interested to hear more detail from staff about the characteristics of the intended users of a new window or instrument. For which countries without structural challenges would the SBA not be the appropriate instrument?*

If staff can make a clear case about which countries are not adequately served by the current toolkit, we would be open to consider establishing a temporary Pandemic Window under the EFF. We recognize staff's arguments that a ringfenced adaptation of the lending toolkit could make it

easier to resume normal lending practices and will facilitate communication. The design of such a pandemic window should be subject to the additional safeguards mentioned in the paper for the Pandemic Support Facility, such as quarterly reviews, higher DSA frequency, and presumed normal access. In light of the uncertainty of the duration of the crisis, we would also propose considering a shorter initial duration in the sunset clause.

Structural Reforms

While we understand that the EFF will remain the standard instrument for countries with pre-existing structural issues that caused a medium-term balance of payment problem, we are concerned that the creation of a new instrument with backloaded structural reforms will make the standard EFF a hard sell for countries with structural challenges. In result, we are concerned that backloaded conditionality would become the standard in upcoming program requests. *How does staff propose to mitigate this risk?*

We understand staff's call for more flexibility on the depth and the timing of reforms addressing structural challenges that result from the COVID-19 crisis. However, we think that for most countries, medium-term structural vulnerabilities will be part of the balance of payment problem that the Fund will be called to address. Improving debt management, revenue administration and public financial management will be even more important now, to secure a recovery from the crisis. This crisis also affects the sustainability of social security systems and exposes gaps in social safety nets. Addressing pervasive governance concerns and other structural challenges remains a priority. Postponing remediation of these challenges is not warranted, while timely implementation would support the recovery.

In light of this uncertainty about the size of the desired target group, we would argue to make use of the traditional EFF where structural challenges are diagnosed, balancing thus phasing with structural conditionalities. This default option should prevail *unless* it can be reasonably argued that the prevailing uncertainty makes an accurate diagnosis and remediation of structural challenges impossible. In that case countries could qualify for an EFF pandemic window. Such an approach would protect the Fund against reputational risk from not addressing long standing structural challenges and would limit the possibilities for shopping between a classical EFF and an EFF window. It would also strengthen the catalytic role of Fund lending.

Policy Options

The paper suggests that programs should be prepared to more readily accommodate unconventional policies, including measures that risk undermining hard-won gains in policy making and institution building, even though they might set damaging precedents, and might be hard to unwind. While we recognize that the current crisis requires to think out of the box, we find this point somewhat concerning and would *invite staff to elaborate this point further*.

Contingency Planning

We welcome the suggestion to develop contingency plans in order to deal with the high level of uncertainty. This is to be preferred over a decrease of the number of quantitative performance criteria at the start of the program. We understand that there are concerns that a wave of QPC waivers across programs in case of a downside scenario, would undermine the reputation of the Fund. However, we think that the outside world will understand that the significant uncertainty on the

trajectory of the virus has the potential to entail an increased number of waivers. Clearly anticipating the potential of increased waivers in case of a downside scenario, both in the published paper and the press release, could help preclude reputational damage.

Debt Vulnerabilities

As debt vulnerabilities have exacerbated during the crisis, rigorous DSAs should remain part and parcel of the next wave of program requests, despite the prevailing uncertainty. The capacity to repay the Fund strongly depends on debt sustainability. Programs should only be agreed on when debt is sustainable. Like Mr. Poso and Mr. Damgaard, we support the call for early reprofiling when debt sustainability is uncertain. *Could staff elaborate on when and how their proposed approaches for reprofiling would be implemented?*

Repurchase Periods

Given that staff sees the new facility or window as primarily an alternative for the SBA, it would be good if *staff could provide more information on the impact of longer repurchase periods on Funds resources and on the Forward Commitment Capacity.*

Lending Strategy other IFIs

Finally, we would appreciate if staff *could elaborate on how this new Lending Strategy sits together with strategic lending considerations by other IFIs*, most notably the World Bank. Coordination of lending strategies across IFIs would help the catalytic role of Fund lending.

PRGT

As the above considerations on structural reforms apply to PRGT countries, we agree to discuss the need for a separate window as part of the Review of Concessional Financing.