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**Statement by Mr. Raghani and Mr. Alle 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 their informative report and for their proposals of lending options to support member countries during the next stage of the multilayered COVID-19 crisis. This discussion follows and complements earlier engagement on the three-stage lending strategy aimed at adjusting Fund assistance to the three phases of the pandemic, containment, stabilization and recovery. We welcome staff detailed analysis on the new challenges posed to the Fund toolkit as well as the implications of the different reform options. We wish to highlight the following points.

Pandemic and special BOP needs

We concur with staff that the evolving and uncertain nature of the pandemic shock creates a two-part BoP problem; an actual one stemming from falling export receipts and external financing, and a potential BoP problem associated with the uncertainty surrounding the pandemic and its longer-term effects. This poses challenges to traditional policy responses and instruments. In such a context, we share the view that Fund lending will need to be flexible enough to tailor the policy response to the severity of the crisis in member countries, notably introducing new features and modalities to the instruments while safeguarding Fund resources amid heightened risks.

Policy response and program modalities

We are of the view that the effectiveness of the policy response under Fund-supported programs going forward, hinges on the capacity to adapt to the “new normal” brought about by the pandemic. Many parameters have changed for countries seeking IMF support to address the effects of the pandemic, including policy priorities, the sequencing of reforms and even the capacity to implement a Fund arrangement. Therefore, emphasis should be put on the following aspects of the policy response and program modalities:

- Early efforts to assist countries should focus on macroeconomic stabilization with adequate frontloaded financing; structural reforms should then kick in as domestic and global conditions signal recovery from the pandemic;
- The gradual broadening of content of policies and conditionality is critical to help countries recover implementation capacity, restore reform appetite and address the structural causes of BoP needs as the economy recovers from the early effects of the pandemic and uncertainty abates;
- A review-centric conditionality implying a greater use of indicative targets (ITs) and fewer QPCs in the initial stages of the program is welcome and is consistent with the stabilization-structural reform path discussed above;
- The consideration of temporary “unconventional policies” is critical to give room for maneuver to policymakers in the face of manifold challenges and dwindling policy space.

Reform options

As regards the different lending options, we would like to first, stress our attachment to the imperative of meeting member countries’ needs in these unprecedented times, while safeguarding Fund’s resources. We welcome staff open-minded stance in reminding that the options presented are not mutually exclusive. It is important to adopt flexibility on this front too, thus broadening the toolkit to address the effects of the pandemic with the best instruments possible.

That said, considering all the pros and cons presented, our preference goes to Option 3 and Option 4 for the following reasons:

Option 3 - Establishing a Temporary “Pandemic Window” Under the EFF - while providing a pandemic window, that is a framework tailored to addressing the special challenges associated with the pandemic, would leave the total number of instruments unchanged. It will build on existing instruments and therefore reduce the learning period for policymakers, compared with Option 4. The transition will be particularly smooth for countries already implementing EFF or ECF-supported programs.

Option 4 - Establishing a Temporary Pandemic Support Facility – would have the advantage of a full-fledged facility designed exclusively to respond to the once-in-a-century COVID-19 shock. As such, its design features will better fit the challenges posed by the pandemic and provide the appropriate responses. It will also have a good signaling effect and follow the tradition of instruments tailored to address similar shocks like natural disasters and climate-related shocks. *However, we wonder whether it would not take too long to be designed,*

garner support and be effective, whereas countries face pressing BoP needs? Staff comments are welcome.

We take good note of the fact that this discussion is being coordinated with the concessional lending reforms and the work on PRGT funding needs and options. *However, given the schedule of the discussions on the latter issues, we wonder whether this would not delay further lending options for LICs, especially under Option 4 of a new PSF? We would appreciate staff comments.*