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The Chair's Summing Up
Fund's Pandemic Response—Lending Options to Support Members During the Next Stage of the Crisis
Executive Board Meeting 20/95
September 25, 2020

Executive Directors welcomed the opportunity to discuss the Fund's lending options to support members during the next stage of the Covid-19 pandemic crisis. They recognized the unprecedented magnitude of the crisis and the challenges it poses to Fund lending. They agreed that, following the swift temporary enhancement of emergency financing and its wide deployment early in the pandemic, the focus during the stabilization and recovery stages should shift to upper credit tranche-quality programs, tailored to the unique nature of the pandemic and associated uncertainty. While recognizing that higher risk tolerance is inevitable to help address members' balance of payments needs, Directors emphasized the importance of mitigating these risks with additional safeguards.

Directors broadly endorsed a number of considerations and approaches to deliver the necessary flexibility in Fund-supported programs in light of the exceptional uncertainty, while also ensuring evenhandedness in the use of Fund resources by the membership. They noted that such programs are likely to comprise two broad phases: macroeconomic stabilization in the initial phase, focused on supporting domestic demand and key structural reforms; followed by a more comprehensive adjustment to resolve balance of payments difficulties. Directors noted that uncertainty related to the longer-term effects of the pandemic may warrant a gradual broadening of the policy agenda and conditionality under the program, with an appropriate prioritization and sequencing of reforms, while remaining consistent with the guidelines on conditionality. They generally saw merit in greater use of indicative targets and fewer quantitative performance criteria in the initial stages, and a shift to their broader use as uncertainty abates. However, a few Directors cautioned that such a review-centric approach should not lead to a weakening of conditionality. Directors also supported greater use of contingency planning.

Directors underscored the importance of ensuring the catalytic role of Fund financing and safeguarding Fund resources. They called for close scrutiny of public debt sustainability and broadly supported the focus on debt operations where needed. They also called for securing strong commitment by the member to cooperate with the Fund to find a solution to its balance of payments difficulties, and to broaden the policy and reform agenda as more clarity emerges on the extent of needed adjustments and reforms. Directors also stressed the need to ensure the transparent use of Fund resources.

Directors expressed a variety of views on the role of structural reforms in the design and implementation of Fund-supported programs. They agreed that structural reforms critical to program success should be included from the early stages of the program. Many Directors favored a gradual broadening of structural conditionality given uncertainties and institutional capacity considerations. Other Directors stressed the importance of early structural reforms, including where the pandemic had exposed new weaknesses and amplified pre-existing ones. Many Directors highlighted the need to include governance and anti-corruption reforms early on, where these are critical to the success of the program.

In considering options for carrying out Fund lending during the pandemic crisis, Directors underlined the importance of preserving the coherence of the existing lending toolkit. To that end, they noted that the exceptional flexibility in program design and the additional safeguards necessary to mitigate the related risks should be limited to the duration of the pandemic. They also emphasized the need to choose the instrument appropriate for each country's circumstance. Directors generally viewed that, while emergency financing would remain available for qualifying members, the next phase of the crisis will call for the use of tailored Fund-supported programs with upper credit tranche conditionality.

Directors expressed a range of views on the options involving Fund arrangements, acknowledging their potential advantages and drawbacks. Many Directors favored, or were open to, the establishment of a temporary Pandemic Support Facility (PSF), on grounds of its design tailored to the pandemic-related balance of payments needs, its ability to ringfence the existing lending toolkit, and its scope to mitigate stigma associated with Fund lending. However, many other Directors questioned the potential demand for a new facility, preferring to avoid even a temporary proliferation of lending instruments, and noted that the existing lending toolkit offers sufficient flexibility to incorporate desirable features and safeguards in current exceptional circumstances. Most Directors were also open to further consideration of creating a temporary pandemic window under the Extended Fund Facility (EFF), with adequate safeguards and a clearly-defined sunset clause. They recognized that such a window would serve members with clear structural adjustment needs, requiring well-prioritized and appropriately sequenced structural reforms to address balance of payments problems over both the short and medium term. Some Directors would not rule out the need for a second round of emergency financing.

On balance, Directors remained open to further engagement, with a view to building sufficient support for possible reforms to the lending toolkit and assessing the potential demand for the temporary facility. Recognizing that time is critical during the synchronized global downturn, Directors generally considered it practical to rely for now on the flexibility under the existing lending toolkit and policies, while work continues on exploring the feasibility of establishing a temporary pandemic window under the EFF or a new PSF that could attract broad support. Directors looked forward to discussing possible options with similar flexibility and safeguards under the PRGT as part of the ongoing review of concessional lending and funding needs.