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GRAY/20/3511

December 3, 2020

Statement by Mr. Jin, Mr. Zhang, and Ms. Zhao on Update to the Joint WB-IMF Multipronged Approach for Addressing Debt Vulnerabilities (Preliminary) Executive Board Meeting December 7, 2020

We welcome the update on the Joint IMF-WB multipronged approach to address debt vulnerabilities. The uncertainty brought by the ongoing pandemic and the changing global financing landscape further highlight the need to address debt vulnerabilities. We thank staff for their extensive efforts in promoting debt sustainability and welcome the continuous progress made in recent years. We find the thrust of the proposal generally balanced and going in the right direction, and would like to offer the following comments for emphasis.

On debt transparency, we welcome the progress made with respect to debt transparency, including broadening debt coverage, improving debt data collection and supporting creditors efforts to implement sustainable financing. Enhancing debt transparency should include both public debt and private debt, and even-handedness should be required in dealing with public debt transparency and private debt transparency. We agree that debt transparency is primarily the responsibility of the borrower. Creditors could be encouraged to disclose as much information as possible based on a voluntary rather than a compulsory basis, especially given that the IIF Principles for Debt Transparency for private lenders are also voluntary. Meanwhile, a balance should be struck between data transparency and commercial confidentiality of the debtor country. In addition, there is no one-size-fit-all debt transparency policy, and countries under the Fund/Bank's program should be subject to different transparency criteria than non-program countries.

On capacity development, we welcome the rising amount and variety of CD delivered in recent years to address the gaps in debt management. We encourage staff to develop a quantitative framework to score the debt management capacity of each country so that the effectiveness of CD could be assessed and enhanced in a more professional and objective manner. In this regard, the Debt Management Performance Assessment (DeMPA) is a right step forward, yet more needs to be done and coverage should also be expanded to cover developed countries as well, especially given that the debt management capacity is time-varying with the changing political economy.

On debt analysis tools, we take positive note that the IMF and WB are continuing to strengthen their toolkit to support debt analytical work, including the new LIC DSF that was launched in July 2018 and the ongoing MAC DSA. *Could staff elaborate on the similarities and differences between different DSA frameworks from a bigger perspective?* Meanwhile, as DSA analysis depends on some key volatile variables and thus can be time-varying, caution should be exerted in interpreting the result of DSA especially in the context of the heightened uncertainties brought by the pandemic.

Going forward, it is essential to ensure that the debt analysis framework is growth-friendly. The core to achieve this goal is to carefully analyze the growth potential brought by the debt and to adopt a balance sheet approach when conducting DSA. Based on the previous communication with staff, we understand that one difficulty in adopting the balance sheet approach is to measure the returns of project investment. While we understand the potential lack of in-house expertise in measuring project returns within the Fund, the balance-sheet approach in DSA is not a minor issue that can be avoided. Given that the public sector balance sheet (PSBS) database now covers 63 percent of the world economy, we encourage staff to start the balance sheet approach DSA from those countries as a first step and gradually expand to cover more countries. It is also one important aspect of CD to help the debtor country to effectively measure the return of the investment and to ensure that the government could share part of the returns, including not only the financial returns but also the economic returns generated by the public good. We encourage the Fund to work closely with the Bank in this area as the latter is more specialized in project assessment. The introduction of the balance sheet approach into DSA will be a major contribution to the existing framework and will help to fundamentally solve the long-term growth problem facing emerging markets, help them avoid the constant recurrence of debt crisis and help to further enhance IMF-WB collaboration.

On debt policy, debt policy needs to be both prudent and growth-oriented. It is important to strike the balance between containing the accumulation of debt and building up growth capacities. Debt policy should differentiate between debt issued for productive investment and for non-productive expenses. It is crucial to avoid unduly constraining a country's ability to use external debt to finance productive investments. Meanwhile, the debt policy needs to reflect each country's circumstances, including economic development and debt management capacity. It is also important to ensure even-handedness across the membership in the design and application of the debt policy.