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Statement by Mr. Palotai, Mr. Azal, Mr. Just, and Mr. Marek on Update to the Joint WB-IMF Multipronged Approach for Addressing Debt Vulnerabilities (Preliminary)
Executive Board Meeting
December 7, 2020

We thank staffs for their thorough report which is critical for the Board to keep abreast of the Fund's and World Bank's activities to enhance debt transparency in the membership, while boosting the institutions' analytical tools to monitor debt and design policies to promote debt sustainability. We welcome the joint IMF-WB regular updates on their approach to address debt vulnerabilities.

Efforts to improve debt transparency is pivotal to enhance investor confidence as well as to support debt sustainability and hold governments accountable for public spending. While non-standard debt instruments, contingent liabilities stemming from state-owned enterprises, Public-Private Partnerships and broader public sector need to be disclosed and reported to the Fund to monitor the public debt levels, transparent borrowing terms are critical to facilitate debt service management. We therefore welcome the IMF-WB Diagnostic tool on the implementation of the G20 Operational Guidelines on Sustainable Financing, which encourage official bilateral creditors to abide by sound lending practices. We positively note the Fund's role as an international standard setter for debt statistics reporting. Given that borrowers have the most accurate information on their debt profile, they should disclose all relevant debt-related information in line with the Fund's reporting standards. We look forward to the upcoming review of Data Provision for Fund surveillance.

The Medium-Term Debt Management Strategy (MTDS) is a key policy framework for keeping risks related to the authorities' debt profile under control. We positively note that the number of countries which published a MTDS gradually increased over the past years. Country-specific MTDS should facilitate debt management in the current environment of heightened capital flow reversal risks and rising fiscal pressures resulting from elevated COVID-19-related public support schemes. We therefore encourage staff to put more emphasis on MTDS in the Fund's surveillance activities, including in the expected follow-up UCT-quality program arrangements.

Capacity development is critical for boosting borrowers' ability to manage fiscal risks and perform sound debt management strategies. We note that capacity challenges remain in several areas, including for frontier economies whose risks have increased as a result of greater exposure to international debt markets. In the current restricted travel conditions new modes of capacity development delivery should be explored, including virtually. We take positive note of the emphasis on peer-to-peer learning, which could help leverage on courses already delivered and speed up dissemination of debt management expertise in various Low-Income Countries (LICs) and emerging markets regions.

Creditors should ensure that their lending is transparent and consistent with the authorities' debt sustainability. The Fund's engagement with official creditors on responsible lending and debt transparency is instrumental also to operationalize the Common Framework for Debt Treatments beyond the DSSI and support further work on the international debt architecture The Fund's outreach efforts should aim to develop a shared understanding of sustainable lending practices among a wider group of creditor countries and advise them on refraining from imposing confidentiality clauses on debtors.

Debt analysis tools are critical to inform the Fund's decision on lending and contribute to the design of debt conditionality in program arrangements. The robustness of debt analysis tools is therefore at the core of the Fund's program activities. We welcome the review of the Market Access Countries Debt Sustainability Analysis (MAC DSA) framework aiming to strengthen sovereign risk analysis, improve predictive capacity, as well as improve debt transparency and comparability at the general government level. We also encourage staff to complete another round of Debt Sustainability Frameworks for LICs, and in particular to further broaden the coverage of public sector debt and refine contingent liability stress tests for all countries.

We note positively the Fund's work on upgrading its debt policies to encourage sustainable borrowing and lending. Relying on a comprehensive and complete set of debt-related information is critical for an accurate design of debt conditionality. To this end, we encourage staff to implement the recently completed Debt Limits Policy (DLP) review for LICs and to finalize the respective guidance note. We also look forward to the Fund's paper on the resolution of domestic public debt in Q1 2021.