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Statement by Mr. Moreno, Mr. Guerra, Mr. Villar, Ms. Arevalo Arroyo, and Ms. Moral Betere on Update to the Joint WB-IMF Multipronged Approach for Addressing Debt Vulnerabilities
(Preliminary)
Executive Board Meeting
December 7, 2020

We thank staff for its comprehensive update on the IMF-WB work on the multipronged approach to assess debt vulnerabilities, as called for by the IMFC and the Development Committee.

Significant advances have taken place during the last years in addressing many of the identified gaps. Nevertheless, in the current context of stretched fiscal capacity and challenges to debt sustainability, remaining challenges have taken prominence. In fact, even after the HIPC initiative efforts, prior to the COVID-19 crisis, around half of low-income countries faced serious debt sustainability problems. Given the economic effects of the pandemic, debt vulnerabilities have deteriorated further. In this context, it is crucial to analyze and understand the set of incentives in which debtor countries operate. The way to tackle these vulnerabilities, including how to face COVID-19 related debt issues, are also related to how we plan to change this set of incentives. In this vein, the coordination efforts under the multipronged approach will have to be stepped up to address the increased challenges of the post-pandemic debt vulnerability landscape.

We fully agree that the four pillars are mutually reinforcing and should continue to guide MPA efforts. In contrast to advanced economies, where the increase in debt ratios may not call for immediate action, debt vulnerabilities in low-income countries demand a timely response. Along with the increase in debt ratios, available sources of financing for LICs are expected to be volatile and interest rates differentials may suddenly increase. Structural problems behind debt vulnerabilities, such as low implementation capacity, will restrict available solutions in the short term.

We concur that the implementation of the MPA in itself may not be enough, but welcome its ability to complement the additional emergency finance efforts carried out by the IMF and WB, as well as the initiatives that have been agreed upon by the G20 and Paris Club in 2020: the **DSSI and**

the Common Framework for sovereign debt resolution. These initiatives constitute a breakthrough and provide, not only much needed breathing space for debtors, but also, going forward, a framework for coordinating responsible lending by creditors.

Putting in place the right incentives will be instrumental for an effective strategy to enhance debt transparency. In order to further advance in debt transparency practices, the MPA should continue a comprehensive approach that includes CD to increase data provision requirements to play a bigger role in the structural reform agenda and policy objectives. Debtors and creditors should work in governance issues that hamper transparency and refrain from any confidentiality clauses. We point to the fact that information provision on the volume, terms and conditions of lending by most creditors remain limited. This will be instrumental to allow for the analysis of the adequacy of use of collateralized debt instruments on a case-by-case basis without restricting their use more generally.

Ambitions to report additional data must be measured against the capacity constraints countries may face when trying to provide these data, which have been heightened by the impact of COVID-19. Typically, countries where public debt disclosure remains particularly weak face the highest risk of debt distress, so progress is critical but complex in practice. This is in line with the importance of (and constraints faced by) capacity development activities, mentioned above. We call on the IMF and WB to continue their work on improving data provision requirements in a way that does not overburden domestic institutional capacity during the pandemic emergency. *Could staff comment on the challenges that LICs have encountered during the pandemic with the provision of debt statistics? Have there been delays in data provision? What measures have been taken by the IMF to support limited capacity for data provision during the pandemic?*

In this regard, the **proposal to extend the minimum data provision** obligation under the IMF's Articles of Agreement to include data on general government and the broader non-financial sector, which could shed light on an important source of fiscal risk, is very welcome. However, we wonder if this is feasible given that only 26 percent of LIDCs currently provide data on non-financial corporations and only 40 percent do so on general government debt. *Staff's comments are welcome.*

We concur with the recognition of the important role also played by creditors, despite the primary responsibility of borrowing countries. The use of common templates, publishing of detailed information and, in general, the fulfilment of the ***G20 Operational Guidelines on Sustainable Financing*** must be upheld. The implementation of the **IIF's voluntary principles** (private lenders) must also be supported. In this regard, it is a concern that information provision by some creditors remains limited. All creditors collectively should display a greater effort, beyond the voluntary initiatives mentioned in the paper. There should be a multilateral, collective, and transparent effort to improve sustainable lending and disclosure from the creditor side. This is especially true in the case of non-Paris Club creditor countries, which have increased their share in the creditor landscape, as explained in the paper.

On a more general note, going forward we believe that the role of the IMF to set international standards for debt statistics reporting and dissemination should take more prominence in the agenda, given its catalytic role in data transparency. The IMF work on data standards and dissemination practices for debt statistics, and the timely evaluation of the adequacy of data provision should be a priority in the post COVID-19 work agenda of the IMF. We should consider this in our discussions regarding budgetary resources. *Furthermore, we believe that the Executive Board should revisit its decisions to limit the scope and comprehensiveness of ROSCs. Could staff comment on what are the principal decisions that currently limit the scope of data evaluation, including those that could potentially affect work on the assessment of the adequacy of fiscal and debt statistics?* We consider that the adequate assessment of debt statistics is a risk mitigation activity for the IMF.

Capacity development is the cornerstone to an effective strategy to reduce debt vulnerabilities in LICs and EMEs. We fully agree with the report that more efforts to address the increased complexity and volatility of debt flows are required. In this context, the potential role that adequate debt management practices can play in reducing debt vulnerabilities has become more imperative. We note with concern staff's assessment that most LICs do not meet minimum debt management standards. **We commend the effective work that the WB and the IMF have made in meeting the increased demand and variety of topics of CD activities in recent years.** CD represents not only an enabling tool for better policy practices, but it is also an instrument for the IMF to get in-depth knowledge of member countries' domestic situation. *In staff's view, what will be the major challenges for CD delivery in the post-COVID context? What measures should be taken to increase RTACs role in the provision of CD?* This is an area where WB and IMF coordination is important. *Could staff comment on what coordination efforts at the country level are being made in order to secure a more effective TA for LICs?* Finally, one area where CD collaboration among the institutions can also play an instrumental role in reducing debt vulnerabilities is the development of domestic debt markets. In this vein, we also concur with the importance of **increasing public investment efficiency and domestic resource mobilization.**

It is also important to bear in mind that IFIs, IMF and WB CD efforts tend to target only public sector civil servants at the national level. However, the **subnational public sector, as well as SOEs, also constitute important sources of vulnerabilities and grey areas of liabilities.** In that sense, some specific initiatives, such as the subnational DEMPA, are especially welcome. We would encourage staff to increase efforts in this direction.

We would also like to understand better the nature of the engagement with non-Paris Club creditors in terms of CD. The report provides little detail regarding this interaction. Since non-Paris Club creditors represent a bigger share of the creditor side, it should also be in their interest to receive training and assistance from the WBG and the IMF staff.

The steps that have already been taken by the WB and the IMF to enhance their debt analysis toolkits will be instrumental to address the challenges in the context of post-COVID. We note that the update highlights several of the work areas that have been taken to upgrade and apply these analytical tools. In this regard, we call for further work to increase coverage of debt related risks through the MAC-DSA and to step up outreach and communication strategies to support the implementation of the new framework. Going forward, we must recognize that the debt analysis toolkit will have to adapt to changing circumstances in order to ensure that is up to date and remains effective.

We look forward to the Review of Data Provision to the Fund for Surveillance Purposes next year and the possible proposals to increase the minimum on data provision obligation to the IMF. Also, we endorse the institutional agenda to upgrade debt policies to support and encourage sustainable borrowing and lending. In this regard, we look forward to the review of the IMFs DLP to strengthen debt transparency and conditionality. *Could staff update the Board on the functioning of the lending to LIC mailbox?*

While recognising that the MPA focuses strictly on debt-related actions to reduce debt vulnerabilities, it is still crucial to **highlight the importance of maintaining strong fiscal frameworks (**revenue mobilisation, spending efficiency, and growth-enhancing structural reforms.)

Finally, **we agree on the importance of monitoring the implementation of the MPA and welcome the set of indicators as well as the provision for an update in 12 months.** It will be interesting to complete the set of indicators with some more outcome-oriented ones, as progress is made in the foreseen revisions of debt policies and updating the analytical toolkit