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

1. We thank Staff for a comprehensive update on the Joint IMF-WB multipronged approach (MPA) to address debt vulnerabilities.

2. We see both institutions bring valuable synergies in addressing the issues related to debt vulnerabilities. We also agree with the overall approach as it recognizes the importance of concomitant progress under each pillar as they complement and reinforce each other. For instance, capacity development supports ongoing efforts towards debt transparency and the latter in turn imparts credibility to the assessment of debt risk.

3. We welcome continued efforts by the Staff on each of the four pillars of MPA. We take positive note of efforts underway towards capacity development to better manage public sector debt, and to enhance ability to efficiently record and report debt statistics. Both institutions are piloting training programs on debt management, debt reporting, and investor relations available on several training centers. Further, we also welcome proposed work on evolving tools for contingent liability analysis. There is an increase in the number of countries publishing Medium-Term Debt Management Strategy reports. Since rolling out of revised debt sustainability framework for low income countries (LIC DSF), the two institutions have together conducted 122 debt sustainability assessments (DSA).

4. There is further scope for tapping valuable synergies of the two institutions. The Report could have been more focused in identifying areas and programs where efforts need to be coordinated. There is a range of instruments, which are being used; how are these instruments being dovetailed with each other? Further, in many aspects, two institutions seem to be working in parallel. For example, the IMF undertakes Fiscal

Transparency Evaluations which focus on fiscal risks, and the World Bank conducts Fiscal Risk assessments. Similarly, there appears to be an overlap in the case of the IMF's Debt Limits Policy (DLP) and WB's Sustainable Development Finance Policy (SDFP). It would be helpful if Staff further elaborates how the activities of the two institutions are integrated and streamlined.

5. The work on debt transparency, debt sustainability framework, lending policies, and debt analysis tools has sharpened the policy advice to member countries. Efforts towards capacity development to enhance debt transparency have been most critical and noteworthy. Efficient recording, monitoring, and accurate reporting are key prerequisites for applying diagnostic tools and arriving at the credible assessment of debt sustainability. A credible debt sustainability assessment provides borrowers the right perspective about the needed policy stance to impart stability and sustainability to its economy and, by reducing uncertainty, facilitates lending decisions by the creditors.

6. Notwithstanding Staff's active engagement with the borrowing countries to provide technical and analytical guidance with scaled-up `capacity development,' success with regard to debt transparency has been relatively limited, and data gaps, particularly in vulnerable economies, have remained significant. *To what extent can it be attributed to a lack of adequate ability to appropriately record and report debt statistics? Staff may like to comment.*

7. As acknowledged in the Staff paper (paragraph 6), MPA is focused on debt-related activities rather than underlying fiscal drivers of debt accumulation. We believe debt sustainability, in a way, is just a matter of balancing sources and uses of funds. Given that sustainability is a forward-looking concept, quality of expenditure may be the most critical factor in whether debt would or not be on the desired trajectory going forward. If expenditures from borrowed resources are devoted to raise productivity and enhance capacity with expectations of adequate returns, the rise in vulnerabilities may be much lower. We believe countries need to be distinguished in terms of quality of expenditures while offering advice on debt issues. Though we observe Debt-Investment-Growth (DIG) model under debt analytical tools that consider this aspect, it perhaps needs more elaboration for integration with mainstream assessment tools.