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**Statement by Mr. Bhalla, Ms. Indraratna, Mr. Goyal, Mr. Natarajan, and Mr. Singh on
The Managing Director's Statement on the Work Program of the Executive Board
(Preliminary)
Executive Board Meeting
December 10, 2020**

1. We broadly agree with the key priorities outlined in the Fall 2020 Work Program as articulated in the Managing Director's statement with a focus on restoring confidence to foster jobs and economic growth, assisting the most vulnerable members, supporting a transformational recovery, governance reform, and ensuring Fund's resource adequacy. As the Fund has to deal with multifarious challenges ranging from advising countries on coping with Covid-19 to devising strategies in response to long-term scarring effects, **there is a need to identify a clear hierarchy of the near-term, medium-term, and long-term challenges and accordingly assign the priorities and resources of the Fund** for achieving these outcomes.
2. **WEO:** We agree with the proposed focus of the WEO on restoring employment and economic growth. With unprecedented challenges to macroeconomic management, WEO may need to explore how long the accommodative macroeconomic policy stance needs to continue. Extraordinary accommodative policies adopted to protect the lives and livelihood of the population has not only severely impacted the fiscal situation and increased debt vulnerability, but financial stability is also becoming a concern across the globe. WEO can provide analytical policy guidance for the normalization of macro policies to impart economic stability while ensuring sustained economic recovery.
3. **GFSR:** The GFSR should focus on the near-term priority of assessing the macro-financial risks posed by the pandemic, dissect the nature of the risk as durable versus transitory, and common risks versus the country or sector-specific risks and advise the membership on how to prudently respond to such risks. Given the strong sectoral divergence in the effects of the Covid-19 shock, the protracted effects would need to be monitored to detect the asset quality stress in specific

sectors and the jurisdictions which are highly dependent on contact-intensive sectors and could take longer to recover in an uneven recovery scenario. While we appreciate the GFSR's proposed focus on challenges in the corporate sector, it would be more insightful if the GFSR focusses on a granular analysis of differential effects on large and small enterprises. As we all understand that the SMEs and micro-enterprises have been the worst affected due to disruption of supply chains, lack of access to liquidity and financing, it would be interesting to understand how much risk it might have posed to the financial sector. Though we recognize that such an analysis could be constrained by the lack of availability of data.

4. **Fiscal Monitor:** The advocacy role played by the Fund in supporting stimulus measures and sharing of knowledge across the membership has been timely and useful. Going forward, additional fiscal support measures are expected to be taken by members depending on their capacity and necessity. The focus of the Fund should continue to play this advocacy role while closely monitoring the macro-economic stability. The fund can share knowledge and provide analytical support in an important and specific area including debt, remittances, public investment, and social support.
5. **Public Debt:** Public debt is growing dramatically in most countries causing high stress on debt sustainability in many of them. We agree that the Fund should continue to assess the impact of the implementation of the G-20 Debt Service Reduction Initiative on the debt sustainability of the beneficiary countries. It is also important to undertake a continuous assessment of debt sustainability of emerging markets with market access. We expect the forthcoming review of the debt sustainability framework of market access countries in the context of COVID-19 can provide a robust understanding of this key issue and its medium-to-long-term manifestation.
6. **Climate Change:** Climate change is the most challenging issue we are facing and is an area that has multifaceted dimensions. We need further analysis and studies to grasp the complexities of how countries may deal with the mitigation and adaptation challenges, given great divergence in their domestic financial, social and political-economy setting and constraints. While a deeper analysis and understanding of the climate change issues in multilateral surveillance should be encouraged to disseminate the knowledge, as the international climate change mitigation and adaptation regime are already under the mandate of the UNFCCC, it may not be appropriate to set up a parallel bilateral surveillance mechanism for monitoring, assessment, categorization of countries, outside the thematic Multilateral Environment Agreement. Thus, it should be driven by the authorities on a purely voluntary basis.
7. **IMF Advice on Capital Flows:** We welcome the priority placed on the review of the Fund's Institutional View (IV) on capital flows in the Board Work program. The recent research vis-a-vis the Integrated Policy Framework (IPF) and country experiences have brought into focus several issues relating to the IV framework and

IMF advice on capital flow management. Against this background, the IEO has conducted an in-depth evaluation of IMF advice on capital flows and put forward recommendations. We broadly support the recommendations to build up monitoring, analysis, and research and strengthening multilateral cooperation on policy issues affecting capital flows and look forward to the implementation of these recommendations at the forthcoming review of the IV scheduled for next year.

8. **Lending Activities and Temporary Access:** The temporary increase in access limits of emergency financing tools has helped many members to avail timely financial support in the aftermath of the pandemic. Since these are temporary measures, a frequent review is required to ascertain their effectiveness in helping members and safeguards. Fund has been proactive and agile in responding to members' needs during this exceptional crisis. Beyond these temporary measures, resumption of regular lending activities can help to provide a better assessment of member needs and respond with an appropriate medium-to-long-term support measure. Safeguards measures in these time-tested lending tools can help to address the risk to the Fund and members and mitigate them.
9. **The 16th general review of quotas (GRQ):** Efforts need to be front-loaded so that the 16th GRQ can be concluded within the envisaged time frame. The focus should essentially remain on the adequacy of fund resources, governance reforms, and the realignment of quota shares. To achieve a substantial reduction in the out-of-lineness, there is a need to give more prominence to formula-based selective and ad-hoc methods, as was done during the 14th GRQ. The equi-proportional increases under realignment would leave the existing quota shares unchanged. We would welcome work on a new quota formula that could achieve broad-based consensus among the membership.
10. **Enterprise risk management:** Lending initiatives taken during the pandemic to support the membership following the Fund's mandate have helped mitigate strategic and reputational risks to the institution. However, the provision of emergency financing at a faster pace with limited ex-post conditionality has brought about a higher level of enterprise-wide risks that need to be managed. This has involved a trade-off in risks and a prioritization of difficult choices in the Fund's decision-making process. Against this backdrop, **we welcome the focus of the Board Work Program on a review of the Temporary Increase in Fund Access Limits**, giving due consideration to any resultant enterprise risks that need to be managed. We also support **discussions on the Debt Sustainability Framework for Market Access Countries and Restructuring of Sovereign Domestic Debt to mitigate lending risks** as debt vulnerabilities have risen with increased borrowings. Moreover, the uncertainty associated with the duration and the extent of the pandemic has elevated risks to the adequacy of Fund resources. In this context, we welcome the periodic updates for the demand for Fund resources in the work program, and discussions on the 16th GRQ, the Fund's Liquidity Position, and Concessional Financing and Policies. We also welcome the focus of the Board's work program on risks to other

core areas such as surveillance and capacity development and look forward to discussions on mitigating risks in these areas through policies such as the **Comprehensive Surveillance Review and the FSAP Review and the Implementation of CD Priorities**. Meanwhile, the Fund has also adjusted its internal policies to respond nimbly to crisis-related priorities which have elevated operational risks. In this regard, we appreciate the regular risk updates to the Board along with proposed mitigation measures. **We await the recommendations of the OIA Audit of the Fund's Enterprise Risk Management Framework to guide the next steps in advancing risk management and the ORM's risk management roadmap.**