Executive Board Minutes 20/95-2

September 25, 2020–2:30 p.m.

Fund's Pandemic Response—Lending Options to Support Members During the Next Stage of the Crisis

Documents: SM/20/141 and Sup. 1

Staff: Krueger, FIN; Liu, LEG; Koeva Brooks and Culiuc, SPR

Length: 2 hours 24 minutes

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CEDA OGADA
Secretary

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[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Transparency Policy and Open Archives Policy.

THE CHAIR'S SUMMING UP

Executive Directors welcomed the opportunity to discuss the Fund's lending options to support members during the next stage of the Covid-19 pandemic crisis. They recognized the unprecedented magnitude of the crisis and the challenges it poses to Fund lending. They agreed that, following the swift temporary enhancement of emergency financing and its wide deployment early in the pandemic, the focus during the stabilization and recovery stages should shift to upper credit tranche-quality programs, tailored to the unique nature of the pandemic and associated uncertainty. While recognizing that higher risk tolerance is inevitable to help address members' balance of payments needs, Directors emphasized the importance of mitigating these risks with additional safeguards.

Directors broadly endorsed a number of considerations and approaches to deliver the necessary flexibility in Fund-supported programs in light of the exceptional uncertainty, while also ensuring evenhandedness in the use of Fund resources by the membership. They noted that such programs are likely to comprise two broad phases: macroeconomic stabilization in the initial phase, focused on supporting domestic demand and key structural reforms; followed by a more comprehensive adjustment to resolve balance of payments difficulties. Directors noted that uncertainty related to the longer-term effects of the pandemic may warrant a gradual broadening of the policy agenda and conditionality under the program, with an appropriate prioritization and sequencing of reforms, while remaining consistent with the guidelines on conditionality. They generally saw merit in greater use of indicative targets and fewer quantitative performance criteria in the initial stages, and a shift to their broader use as uncertainty abates. However, a few Directors cautioned that such a review-centric approach should not lead to a weakening of conditionality. Directors also supported greater use of contingency planning.

Directors underscored the importance of ensuring the catalytic role of Fund financing and safeguarding Fund resources. They called for close scrutiny of public debt sustainability and broadly supported the focus on debt operations where needed. They also called for securing strong commitment by the member to cooperate with the Fund to find a solution to its balance of payments difficulties, and to broaden the policy and reform agenda as more clarity emerges on the extent of needed adjustments and reforms. Directors also stressed the need to ensure the transparent use of Fund resources.

Directors expressed a variety of views on the role of structural reforms in the design and implementation of Fund-supported programs. They agreed that structural reforms critical to program success should be included from the early stages of the program. Many Directors favored a gradual broadening of structural conditionality given uncertainties and institutional capacity considerations. Other Directors stressed the importance of early structural reforms, including where the pandemic had exposed new weaknesses and amplified pre-existing ones.

Many Directors highlighted the need to include governance and anti-corruption reforms early on, where these are critical to the success of the program.

In considering options for carrying out Fund lending during the pandemic crisis, Directors underlined the importance of preserving the coherence of the existing lending toolkit. To that end, they noted that the exceptional flexibility in program design and the additional safeguards necessary to mitigate the related risks should be limited to the duration of the pandemic. They also emphasized the need to choose the instrument appropriate for each country's circumstance. Directors generally viewed that, while emergency financing would remain available for qualifying members, the next phase of the crisis will call for the use of tailored Fund-supported programs with upper credit tranche conditionality.

Directors expressed a range of views on the options involving Fund arrangements, acknowledging their potential advantages and drawbacks. Many Directors favored, or were open to, the establishment of a temporary Pandemic Support Facility (PSF), on grounds of its design tailored to the pandemic-related balance of payments needs, its ability to ringfence the existing lending toolkit, and its scope to mitigate stigma associated with Fund lending. However, many other Directors questioned the potential demand for a new facility, preferring to avoid even a temporary proliferation of lending instruments, and noted that the existing lending toolkit offers sufficient flexibility to incorporate desirable features and safeguards in current exceptional circumstances. Most Directors were also open to further consideration of creating a temporary pandemic window under the Extended Fund Facility (EFF), with adequate safeguards and a clearly-defined sunset clause. They recognized that such a window would serve members with clear structural adjustment needs, requiring well-prioritized and appropriately sequenced structural reforms to address balance of payments problems over both the short and medium term. Some Directors would not rule out the need for a second round of emergency financing.

On balance, Directors remained open to further engagement, with a view to building sufficient support for possible reforms to the lending toolkit and assessing the potential demand for the temporary facility. Recognizing that time is critical during the synchronized global downturn, Directors generally considered it practical to rely for now on the flexibility under the existing lending toolkit and policies, while work continues on exploring the feasibility of establishing a temporary pandemic window under the EFF or a new PSF that could attract broad support. Directors looked forward to discussing possible options with similar flexibility and safeguards under the PRGT as part of the ongoing review of concessional lending and funding needs.

EXECUTIVE BOARD ATTENDANCE[2]

K. Georgieva, Chair

Executive Directors	Alternate Executive Directors
I. Mannathoko (AE)	
A. Andrianarivelo (AF)	
	R. Morales (AG), Temporary
	C. White (AP)
A. Bevilaqua (BR)	
	Z. Zhang (CC)
	P. Moreno (CE)
L. Levonian (CO)	
D. Palotai (EC)	
A. Buisse (FF)	
R. von Kleist (GR)	
S. Bhalla (IN)	
D. Fanizza (IT)	
T. Tanaka (JA)	
M. El Qorchi (MD)	
	W. Abdelati (MI), Temporary
	V. Rashkovan (NE)
M. Poso (NO)	
A. Mozhin (RU)	
M. Mouminah (SA)	
A. Mahasandana (ST)	
	P. Trabinski (SZ)
S. Riach (UK)	
M. Rosen (US)	

C. McDonald, Acting Secretary
O. Vongthieres, Summing Up Officer
L. Briamonte/D. Jiang, Board Operations Officers
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: M. Goodman, M. Kamel Farid Mohamed Farid, V. Kramarenko, H. Teferra. Asia and Pacific Department: A. Gulde, L. Jaramillo Mayor, M. Nozaki. Communications Department: W. Amr, N. Ismail, A. Kumar, P. Kunzel, J. Lundgren,

[2] For countries in each constituency, please see the Constituency Codes in the annex.

O. Stankova. Corporate Services and Facilities: B. Christensen. European Central Bank: K. Nikolaou, R. Rueffer. European Department: D. McGettigan, C. Noumon. Fiscal Affairs Department: O. Akanbi. Finance Department: G. Fernandez, N. Ferreira Souza Sobrinho, C. Gust, H. Hatanpaeae, T. Krueger, C. Mumssen, Z. Murgasova, M. Nkusu-Mulumba, A. Tweedie**.** Institute for Capacity Development: M. Erbenova, R. Nord, L. Redifer. Independent Evaluation Office: C. Collyns, C. Rustomjee. Legal Department: A. Aly, M. Henriquez, K. Kwak, Y. Liu, G. Rosenberg, R. Weeks-Brown. Middle East and Central Asia Department: N. Porter. Monetary and Capital Markets Department: M. Savastano. Research Department: P. Koeva Brooks. Secretary's Department: M. Mehmedi. Strategy, Policy, and Review Department: L. Antoun de Almeida, A. Culiuc, M. Fisher, P. Garcia Martinez, B. Joshi, L. Kohler, H. Lin, N. Meads, S. Nolan, C. Pazarbasioglu Dutz, N. Shenai, D. Singh, N. Suryakumar, R. Turk, D. Zakharova, J. Ziegler. Statistics Department: L. Lusinyan, P. Tumbarello. Western Hemisphere Department: P. Alonso-Gamo, C. Oner, E. Perez Ruiz. Executive Directors: A. Andrianarivelo (AF), S. Chodos (AG), I. Mannathoko (AE), D. Palotai (EC), E. Shortino (US). Alternate Executive Directors: K. Chikada (JA), M. El Qorchi (MD), F. Fuentes (BR), S. Geadah (MI), A. Guerra (CE), Y. Indraratna (IN), C. Just (EC), W. Nakunyada (AE), F. O'Brolchain (CO), O. Odonye (AE), L. Palei (RU), M. Peter (SZ), D. Ronicle (UK), P. Rozan (FF), B. Saraiva (BR), J. Sigurgeirsson (NO), F. Sylla (AF). Senior Advisors to Executive Directors: S. Ahmed (MD), M. Alle (AF), K. Badsi (MD), M. Choueiri (MI), J. Damgaard (NO), A. Ekelund (NO), R. Farber (US), M. Gilliot (FF), R. Goyal (IN), L. Johnson (AP), S. Keshava (SA), B. Lischinsky (AG), L. Marek (EC), Z. Mohammed (BR), S. Naka (JA), C. Quaglierini (IT), F. Spadafora (IT), N. Thiruvenkadam (IN), G. Vasishtha (CO), J. Weil (CO), B. Yoo (AP), M. Zhunusbekova (SZ). Advisors to Executive Directors: P. Al-Riffai (MI), A. Arevalo Arroyo (CE), M. Bangrim Kibassim (AF), S. Belhaj (MD), Campbell (UK), E. Cartagena Guardado (CE), D. Cools (NE), R. Edwards (CO), D. Fadhel (MI), K. Florestal (BR), J. Garang (AE), J. Hanson (NE), Z. Huang (CC), T. Iona (AP), G. Khurelbaatar (AP), Y. Kikucji (JA), A. Korinthios (IT), M. Merhi (MI), P. Mooney (CO), R. Moral Betere (CE), A. Nainda (AE), L. Nankunda (AF), K. Nelson (UK), E. Ondo Bile (AF), A. Ribeiro Mateus (IT), M. Shimada (JA), B. Singh (IN), I. Skrivere (NO), D. Susiandri (ST), J. Yoo (AP), A. Zaborovskiy (EC), J. Al Saud (SA), F. Lopez (CE).

DISCUSSION RECORD[3]

The Chair:

Today, we have for discussion, the Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis. All Directors submitted gray statements. I also want to recognize the staff for engaging in outreach to Director's offices.

We all recognize that we face an extraordinary crisis, a crisis like no other, and that we have acted rapidly, responding to the needs of our members so far. Directors have done their part to equip the Fund in this first phase of the crisis with the capacity to respond. Directors enhanced our emergency lending and helped us provide debt service relief to the poorest members, and worked tirelessly to approve the emergency financing and the more regular type of lending that we have been coming with to the Board.

What we know today is that the crisis will take some time to retreat, even if we are to have a medical solution in the next weeks or months in the form of vaccines or treatments, even if we are to rapidly scale up testing and the provision of health services. We already recognize that the recovery is going to be, in 2021, only partial--it is uneven, and it is uncertain--and what that means, especially for countries that have limited or no access to markets. In light of the recommendations we sent--please support health services, the economy, and vulnerable people until there is a durable exit from the health crisis--in light of this advice, countries will be striving to bring financial capacity to bear.

In addition, we also recognize that the crisis offers an opportunity to not only adjust to the shifting structure of the economy but to proactively support the economy toward achieving robust and sustainable growth in the future--meaning that a few parts of the economy, especially the knowledge economy, will demand more support; a few parts will demand support for this transition.

If we are to look objectively, as Directors have done in their gray statements, into the next months and years, the surge in demand for Fund resources we have experienced is very likely to continue. And the question is: Are we fully equipped to meet that surge? In terms of financial capacity for the General Resources Account (GRA) countries, at this point in time, I have

[3] Edited for clarity.

confidence that we are well equipped. As Mr. von Kleist often reminds us, the Fund has stepped up on a much sounder financial base as a result of the decisions taken by our shareholders. We still have a 730 billion lending capacity.

When it comes down to the concessional lending capabilities--we will be discussing that in due time--we are in a tighter place, and this is why we are engaging with the Board, to make sure that our Poverty Reduction and Growth Trust (PRGT) capacity is strong and that, going forward, we have the necessary resources for subsidies to make it work.

But then we need to ask ourselves: Do we have the instruments that are appropriate for what is likely to come with the next phase to serve the membership? We asked this question diligently, and how we answer it during the discussion today is in the Board's hands and is the objective of this meeting.

Where we think we are likely to go is as follows--and I saw in the gray statements that, broadly speaking, there is a common foundation for today's discussion.

One, some Directors believe that we might be able to--and should continue to provide emergency financing in a second round. But many--and I would say, I see the merits of this view--recognize that the shock that justifies emergency financing, this first shock is now behind us. Therefore, we should move more toward lending that supports our countries to have strong policies and institutions--in other words, to support their forward-moving posture in terms of development. In other words, as option 1, we have a second round of emergency financing, but the emergency financing of the kind we do, with very limited engagement, at this point, when we are already more than half a year into this crisis, has less utility for the members.

And that takes us to: What is the problem we are trying to solve? The problem we are trying to solve is that we are going to likely see countries in need of longer maturities because of the investments they have to make in the structural adjustments that this crisis accelerates. A few of these countries might have other structural problems, and a few may not have the traditional structural problems that take us to longer maturities. To put it very simply, we may have a Stand-By Arrangement (SBA) type of country in need of Extended Fund Facility (EFF) type of maturities. And to respond to this, we have proposed different options. We can massively use flexibility. It would help but not in cases when objectively countries are going to take a couple of

years to adjust their economies and, therefore, the necessary maturity, a longer maturity will be missing.

We can take the EFF and see whether we can temporarily have a window with a very clear exit strategy that is skewed toward this rather unique moment of structural adjustment to shifts in the economy that the pandemic accelerates. And some of you have seen this as a good option. Or we could go for establishing a pandemic facility with somewhat longer maturities designed to support countries in this very unique time and phase of the crisis.

In any case--and I cannot stress this strongly enough--we are thinking of engagements that improve the ability of countries to have a sound insolvency framework, to have balance sheet repairs, to improve their governance, to improve their transparency, and to move forward with public financial management (PFM) reforms. That is at the heart of what we do with countries to support them in having a strong foundation for growth.

We are very open to the discussion. I took my time to read carefully the gray statements and to look at the signals that the Board is sending us. And I was highly impressed by the quality of Director's comments in the gray statements but, above all, by this unity we have, that it is now the right time to discuss how best the Fund can serve the membership in this second phase of the crisis.

The Deputy Director of the Strategy, Policy, and Review Department (Ms. Koeva Brooks):

I will pick up a few questions that were not answered in the technical answers that Board received. I will cover most of them, and then my colleague Ms. Liu will address a legal issue that Directors had raised.

The three areas that I am going to talk about are as follows: First, I will talk about and respond to questions regarding safeguards. Second, I will elaborate on and cover the questions related to debt reprofiling. Finally, we will answer the question on the pipeline of programs, which we see at the moment.

Let me start with the question of safeguards. There were actually quite a few of them, with various nuances. The way we understood the question is, essentially: How should we think about deploying additional safeguards in the

period ahead? Should we use some of the safeguards that we proposed in option 4, perhaps also in option 3? And more generally, what is our approach?

The general answer to this and the overarching answer is that we should think of safeguards only in conjunction with the balance of payments need that we are trying to address, as well as the modalities and the reforms that are being considered in the particular facility.

When it came to option 4, for the pandemic facility, we thought that additional safeguards were needed in order to mitigate the risks associated with this notion that it is hard at the beginning to have a complete diagnosis of the situation; therefore, there was going to be a gradual broadening of the scope of the conditionality, where the policy agenda cannot be fully articulated. So, safeguards, like a prohibition on repeated use or assumptions--presumptions of even phasing and normal access were appropriate in that setup.

When it comes to option 3, the safeguards that would be appropriate for that option would depend on the specifics of how we think about that pandemic window. In cases where the structural agenda is set up to resolve underlying structural issues that are very clear or well known, then we are in the world where, in a way, it is much closer to our conventional approach to doing programs. Or if we think that there is no reason to have this broadening of the agenda and the structural agenda is comprehensive from the beginning, we are going to be in that type of setup, where the rationale for additional safeguards is correspondingly lower. In fact, one could think that introducing additional safeguards, relative to where we are now, could risk reducing the flexibility, which we are seeking with our approach.

Many of the additional safeguards that we put forward in the paper in option 4 can be and are often deployed on a case-by-case basis, in line with the guidelines for conditionality and our other existing policies.

The second issue I wanted to talk about is related to debt reprofiling in normal access cases. The paper states that when debt sustainability is uncertain--and it is hard to establish in the current environment--debt reprofiling could be a useful option, including in normal access cases. At the same time, we also point out that any debt operation would need to be considered on a case-by-case basis, underpinned by a comprehensive analysis of the costs and benefits. The implementation of this would go through the normal Board-approved program process, which we have as part of the way we put together programs. This isn't new. It is a part of our current policy. It

is stated in the last Review of Conditionality. The most recent example of us exercising that option and having that example is Mongolia from 2017.

The last question I wanted to cover is: what is the pipeline of programs that we have at the moment? We are in the process of addressing about 30 or 36, to be precise, requests for Fund financing. These are evenly split between emergency financing and upper-credit tranche (UCT) type of programs; 17 requests for emergency financing and 17 requests for UCT program, of which two are for augmentation. The other two are about staff-monitored programs (SMPs), which are being put together in order to establish a track record. In addition, there have been informal inquiries from countries; but at this stage, we cannot say anything more specific than this.

The Deputy General Counsel of the Legal Department (Ms. Liu):

A question was raised on whether the Fund could retroactively lengthen the maximum repurchase period on purchases under an arrangement that was already approved by the Board; for instance, to match the proposed longer repurchase period under the Pandemic Support Facility (PSF).

As a legal matter, the Articles of Agreement authorize the Fund, with an 85 percent majority of total voting power, to lengthen the maximum repurchase period of purchases within the credit tranche. Any such extended repurchase period must apply to all members of the Fund. It is important to point out that the Fund has never exercised this authority.

As a practical matter, as mentioned in the responses to technical questions, if a country started with an SBA and then, in light of the developments, the SBA turns out to not be really adequate to resolve the member's balance of payments problems, then the country may cancel the arrangement and request an EFF arrangement with a longer repurchase period provided all the relevant conditions are met.

Ms. Riach:

As I have said before, I find it conceptually helpful to think about the three stages of Fund support during the current crisis. I also thought that the options for the suggested next steps were set out very clearly.

As the Managing Director has said, it is clear from reading Directors' gray statements that there is a great deal that we all agree on. No matter the exact shape of the toolkit, most of us agree that program conditions will need

to be more flexible and well-tailored to the current circumstances. The priority is to ensure that the Fund has the tools that we need to support all members, including the most vulnerable.

Emergency Fund financing has been essential in providing rapid support to a broad range of countries during the first stage of the crisis, but we agree with other Directors that the time has now come to shift the focus to UCT-quality programs to support countries as we move into the stabilization and recovery phases. In this context, we note the finding in the draft Fiscal Monitor that, in many emerging markets and especially in low-income countries, financing constraints have been binding in designing their pandemic response and that official support to alleviate the health impacts of the pandemic have been overwhelmed by the financing needs. The Fund must continue to step up to support those countries, while preserving the integrity of the toolkit and acting as a catalyst for broader international support.

Given the unique shape of the current crisis and, in particular, the enormous ongoing uncertainty about how the health and economic consequences will play out, our view is that, as we move into the next stage of Fund support, UCT programs will have to look somewhat different from those we would traditionally expect. As the Managing Director has said, many countries will need longer-term support. In particular, we believe that staff should have increased flexibility to tailor conditionality to individual country needs. In a few cases, the balance of payments needs may be entirely triggered by the size of the external shock and there may not be a significant need for structural reform. In other cases, the scale of the shock is so great that deep structural reform is not realistic during the first stage of reform. In such circumstances, we do not believe that it is in the interest either of the borrowing country or of the Fund's credibility to artificially construct unrealistic structural conditions which are not appropriate in the current circumstances or are likely to be radically changed over the course of the program.

While our default position remains that structural reforms play an important role in program design, in the current circumstances, we recognize that there may well be country cases where conditionality in the first stage is better focused on short-term stabilization and social protection.

On this, we found the staff's clarification in response to the questions to be very helpful, where they make clear that countries that have balance of payments needs caused mainly by factors other than the pandemic would be

best served by an existing instrument, whilst countries with no pre-pandemic imbalances may be better served by the proposed Pandemic Support Facility.

We agree with other Directors that any change to the lending tools needs to match the demands of the membership now; but recognizing the uncertainty around the path of the pandemic, we have to accept that whatever we design now may need to be further adjusted in the months ahead.

We are convinced that staff have identified a group of countries which need Fund support now and that do not have pre-pandemic imbalances. As we set out in our gray statement, we believe that the best way to support this group would be through a new pandemic facility; but like other Directors, we also believe that similar results could be achieved through a pandemic-specific window in an existing facility. We are keen to see a way forward on the lending strategy agreed expeditiously and are, therefore, happy to be flexible on the exact shape of the solution.

Finally, on PRGT financing, we appreciate the staff's confirmation that there will be a Board discussion in November on the low-income country (LICs) facilities review and the review of concessional financing. We continue to believe that it is critical that support for PRGT countries is well resourced.

The Chair:

I want to assure the Board that we prioritized the PRGT because we see that many PRGT-eligible countries are in particularly difficult situations. So, we will have a dedicated discussion.

Mr. Rashkovan:

We issued an extensive gray statement, but I would still like to make several points for emphasis.

I fully agree with Chair, that the Fund did a lot in the last months to address the crisis like no other, and also more to follow, while we go through other stages of the crisis. So, let me thank Chair again for her leadership in these exceptional times and thank the Board for supporting many countries, including several countries in my constituency.

At the same time, like Ms. Riach, we believe and share the view with several other Directors, that in the current phase of the crisis, our lending

strategy should start shifting toward UCT-quality programs. We fully support the notion that these programs should be tailored to the nature of the crisis and to the current circumstances. We particularly agree with the need to develop contingency plans. We think that our toolkit allows for such a tailored approach. If a country is without structural weaknesses, we have the SBA, and the countries with structural vulnerabilities can make use of the EFF. We discussed it with staff too and stated it in our gray statement.

For us, still, the question remains if there is a gap between those two instruments. The staff knows the need for a longer repurchase period for countries that would otherwise be best served by an SBA, and it was also commented on today. However, countries that experience a V-shaped recovery will likely be able to service the SBA repurchase schedule. We only see a possible case of a pandemic window if we can clearly identify the countries that would qualify for the window. In the answers to the technical questions, the staff states that only 17 member countries had disbursing GRA or blended arrangements prior to the crisis, suggesting that all other members would qualify for a pandemic window or facility. However, in most countries, the crisis will result in a permanent loss in GDP levels. In many of them, the crisis exposed and amplified structural weaknesses, which would be best addressed with GDP-enhancing reforms under an EFF in order to ensure a strong recovery. We also discussed it yesterday during the retreat.

For us, the question remains: For which countries do we need to establish a new facility? We know that Mr. Rosen, Ms. Levonian, Mr. von Kleist, Mr. Tanaka, Mr. Zhang, and Mr. Pösö also raised this question.

Like Mr. Trabinski, we see a risk of facility shopping if a new window or facility would have weaker conditions than an SBA or EFF.

Like Mr. Rosen, Ms. Levonian, Mr. Zhang, and other colleagues, we are not in favor of back-loading reforms, even if, in a situation of uncertainty, the implementation of sequenced and prioritized reforms will be important for a sustained recovery and, again, for sure, with a tailor-made approach for the countries.

In any case, we would expect the window in the EFF to be subject to the safeguards--and it was already commented on today by Ms. Koeva Brooks on these safeguards that were mentioned for the pandemic facility, such as quarterly reviews, higher Debt Sustainability Analysis (DSA) frequency, and presumed normal access. We would also propose a shorter sunset clause. In general, we agree on the importance of rigorous Debt Sustainability Analyses

and support the application of an early debt reprofiling when debt sustainability is uncertain.

Finally, we have some reservation about the suggested press release. The release lists all policy options in the paper, including those for which little or no support exists. We would suggest refraining from issuing the release in this form until we agree on the policies.

Mr. Mouminah:

We thank staff for their continuous response to the membership's needs by exploring all possible options and for thinking outside the box. This has to be commended. Because we do not want to move forward with the same toolkit, expecting to have the same results that we had, because it is different.

We issued a comprehensive joint gray statement with five other Directors, wherein we supported the changes to the existing lending toolkit to effectively help members address their exceptional balance of payments needs.

But despite the emergence of some positive news, this crisis is far from over. Hence, we should not be complacent. While we absolutely recognize the flexibility in the existing toolkit, which has served us very well, it was not designed for a pandemic shock, which has created a deep global economic downturn and unprecedented uncertainty. Therefore, while it is reasonable to question whether the toolkit should be adjusted or if there is a better alternative, we reiterate the importance of remaining flexible and realistic in our approach, as mentioned by Managing Director and other speakers before me.

Following these general remarks, I would like to emphasize that we prefer creating a specific facility for the pandemic period for the following reasons.

It would be customized to address exceptional balance of payments needs since it is precisely designed for this type of crisis. Clearly ring-fenced, which would also protect the seal of approval that is associated with the Fund's traditional workhorse facilities. It provides the right balance between flexibility and adequate safeguards which are extremely important to maintain the Fund's credibility and protect its resources. It also accommodates additional features, such as normal access and higher scrutiny on debt

sustainability, which is extremely needed amidst heightened debt vulnerabilities.

On structural conditionality, like Ms. Riach and others, we stress that the structural conditionality should be focused, well sequenced, and appropriately flexible, supported by institutional capacity. Here, we welcome the indication that the focus on the reforms in the early period will mean strengthening financial safety net, corporate and household debt resolution framework, and governance reform and mitigation risks of misuse of resources provided or catalyzed by the Fund. We also share Mr. Pösö's view, that the size of the support should be properly calibrated to the country-specific balance of payments needs, with consideration to the member's repayment capacity.

Now, if we could not get enough support for the pandemic facility, and since our ultimate goal is to fill the gap in the existing toolkit, we are open to consider the pandemic window under the EFF and look forward to discussing similar options under the PRGT as part of the upcoming review of concessional spending.

I want to conclude by saying, yes, we may need to lean forward, but this is needed during this truly unprecedented crisis. We call this crisis a crisis like no other, a crisis that made many countries deploy unprecedented fiscal and monetary policies. So, I am urging everyone just to lean forward.

With that, I look forward to hearing from my other colleagues to reach together the best possible option to address members' acute needs.

Mr. Tanaka:

We support option 4, which establishes a new Pandemic Support Facility, PSF. As we issued a green statement, rather than a gray statement, to explain our position in detail, we will provide the following supportive comments.

First of all, from the early stage of the crisis, the Fund has been supporting the membership countries promptly and flexibly, under the Managing Director's leadership and the management and staff's strenuous efforts. In the next stage of the crisis, the Fund should continue to play an important role as the center of the global financial safety net, as the Managing Director stressed in her opening remarks.

Second, we reiterate the importance for the membership countries to shift toward UCT-quality programs, even under the pandemic situations. This is particularly important for the countries with debt issues to promote debt restructuring. We should encourage the membership countries to seek UCT-quality programs suitable under the current situation by establishing the PSF. The PSF would allow greater flexibility on program design for a country affected by the pandemic, while we preserve the ring-fencing of its effects upon the existing SBA and the EFF. Having said that, while we would extend our supportive message for the logical necessity, we have underscored a new facility should be needs-driven. As seen in the case of the Short-term Liquidity Line (SLL) which has not been applied, we should grasp the real substantial needs and potential demand for such a new facility.

The other issue for consideration is how to incorporate the necessary structural reforms. We fully agree with staff on the necessity to prioritize and streamline structural reforms. On the other hand, if we assume that the crisis will be an opportunity for reform, necessary reforms should be incorporated from the start of the program. In connection to that, and not limited to a new facility, we emphasize the importance of the integration or a further stronger linkage between lending and capacity development (CD). In particular, CD should be conducted for countries to effectively achieve conditionalities of UCT programs, where the existing integration or a linkage between lending and CD could be enhanced to a more strategic stage. Staff's consideration would be appreciated.

Lastly, we have concerns regarding the draft press release circulated this morning. The wording of the press release should be more general, such as: The Board started its discussion on various options for membership countries to further tackle the COVID-19 crisis, to avoid unnecessary expectations or pressures from the outside on any specific option.

The Chair:

On the SLL, we have not yet had a request, but it does not mean that we do not need it. The extension of swap lines by major central banks, the Fed, in particular, but others as well gave space to countries that was not there when we put forward the SLL.

First, we do not know at what point these swap lines might be withdrawn. At some point, there could be a shift. Second, we do not know how countries with Flexible Credit Lines may move out of them. Having the SLL is a positive development.

At some point, we might want to reflect on whether we have not been too stringent in the size of the SLL. I am not reopening that discussion. I just want to say that we should not prejudge whether this tool in our toolbox has value because we will see in the months and years what exactly the demand is for it.

Ms. Levonian:

Let me start by saying that I agree with much of the staff's paper. As others have said, we need to shift toward UCT-quality programs that can begin to address deep macro imbalances and structural weaknesses. We need to incentivize members to come to terms with the solvency issues, rather than to kick the can down the road with liquidity relief. And we need to be more flexible in our approach to lending, including by taking a more review-centric approach.

But a central question that the Board was asked to weigh in on is whether the toolkit needs to be changed. Our answer would be, not necessarily. As we stated in our joint gray statement with Mr. Rosen, we think that the current toolkit is flexible enough to respond to the membership's needs in this crisis. We are also concerned about taking kind of a "field of dreams" approach to the toolkit and hope that "if we build it, they will come."

I dropped all my comments about the SLL, so I will not talk about it.

I know staff's responses to the questions. But a greater assurance for the need and the expected take-up would be helpful, and a further staff comment on that would be appreciated.

But, we are prepared to be pragmatic. If the staff are convinced that we will do irreparable harm to the toolkit if we leave EFFs and SBAs to meet the membership's needs, then we would be prepared to support a permutation of option 3. Our views on this point are very much aligned with those expressed by Mr. Rashkovan, Mr. Cools, and Mr. Hanson in their gray statement.

Structural vulnerabilities will inevitably be part of the balance of payments problems that the Fund needs to address: Why make the presumption that we should wait to address them? Rather, let's leave open the flexibility to back-load structural reforms in situations where they cannot be diagnosed accurately at the outset. To us, such an approach would strike the right balance between protecting the integrity of the toolkit, ensuring that the

Fund is responsive, and not missing a window of opportunity to make important structural changes.

I also want to say that we do not support a second round of unconditional financing at a higher level of access, as contemplated by option 1. That would not be constructive in the bigger picture. However, we should not stigmatize emergency lending at a time when the virus continues to spread in many parts of the globe. Tourism continues to be nearly nonexistent, and many economies are still expected to contract sharply in the second half of this year.

Finally, like Mr. Tanaka, the news release and the language in the news release gave us some cause for concern. We were not sure why there were options in it when a few of the options are clearly not the ones that most of the Board supports. I appreciate that management and staff would look at the language in the press release.

Mr. Rosen:

We issued a comprehensive gray statement with Ms. Levonian, and I would like to emphasize a few key points.

First, we appreciate the paper's acknowledgement that we should shift away from emergency financing, barring another shock. With the acute part of the crisis behind us, now is the appropriate time to shift toward more structured programs.

Second, we appreciate the staff's intention to be flexible during this time. Between the massive volatility in economic data and virtual missions, we know that the current environment is difficult for staff to operate in, and we cannot assume that it will be business as usual, as well articulated this afternoon by Managing Director.

Having said that, we enter this crisis with a toolkit that has been tested over many decades and which was designed to work in many different and even extreme scenarios. We, therefore, think that the current toolkit is sufficient to address the needs of the membership. SBAs can be used in countries that entered the pandemic in a decent position and where stabilization is the overwhelming priority. EFFs can be used for those members with clear structural needs. Strong performing economies looking for precautionary assistance can tap the Flexible Credit Line (FCL), the

Precautionary and Liquidity Line (PLL), or the new SLL. Technical assistance can help countries with capacity constraints.

We can also support shifting temporarily to fewer performance criteria (PCs) in programs, provided a few key measures remain in place. Most importantly, right now, the greater use of debt reprofilings and debt restructurings, where debt is not sustainable with a high probability, which is the key to enabling Fund programs to go forward right now in many cases, and to a more review-centric approach with more frequent reviews.

Structural reforms can be streamlined, which should generally be the case anyway. However, we would not support eliminating structural reforms from programs, including in the near-term, as structural challenges have increased and will hinder any recovery if they are not addressed.

In our view, the toolkit can handle these adjustments; but if staff genuinely think they cannot avoid doing damage to the toolkit with these adjustments, we could support the EFF pandemic window with a few changes, including increased safeguards, which we elaborated on in our gray statement. We would not be in favor of a new facility at this time.

We also think it is important that any changes to lending are tied to a discussion about risk management. As risks to the Fund's resources are currently heightened, it is ever-more critical that we enhance the Fund's risk management functions. In this regard, I am very glad to see the Board's discussion of the Office of Internal Audit and Inspection (OIA) report on risk is now on our agenda.

Finally, I want to thank Managing Director for the comments related to the press release, which are very much appreciated.

Mr. Pösö:

In order to agree on the preferred lending option, we would also need to agree on the underlying analysis.

On the areas of agreement with staff's assessment, I would point to the need for flexibility and contingency plans. The pandemic has clearly created unprecedented uncertainty, which would justify a more review-centric approach with quantitative performance criteria (QPCs) only for certain critical variables. In addition, contingency planning seems like an appropriate way to prepare to change course, if necessary. We also appreciate the staff's

work on proposing additional safeguards to contain the increased risks that we are likely to take due to the expected increase in Fund lending.

Our main difference with the staff's analysis relates to structural reforms. Like Mr. Rashkovan, Mr. Tanaka, Ms. Levonian, Mr. Rosen, and several other Directors in their gray statements, we do not agree that the structural agenda should be back-loaded. The Fund would do a great disservice to its members if it compromised on policy ambition.

The pandemic has created new vulnerabilities and has amplified existing ones in many economies so that immediate action will be required to strengthen foundations. A reform push in such areas as governance, domestic revenue mobilization, finance, and trade would surely be possible if, for instance, reforms in the labor and product markets are not seen possible in the current circumstances. Therefore, on the lending options, we are not convinced of the need for a new facility. We think that the current toolkit has the flexibility that is needed during this time of crisis. Moreover, it could be applied immediately and would not cause programs to be postponed, like further discussions on a new facility would do. However, as a compromise, we could be open to consider a pandemic window under the EFF but without the back-loading of structural reforms.

Lastly, I would like to follow up on the point made by Mr. Rashkovan, Mr. Tanaka, and Ms. Levonian, on the draft press release. I wonder whether this issue is ready for external communication yet. Frankly, I cannot immediately see any gains from issuing a press release today. Considering the differing views in the Board, I would rather focus first on reaching a consensus and communicate the decision, if and when we have reached it.

The Chair:

As I said, I am very open to agreeing at the end of the meeting to our strategy for communicating or not communicating. What matters to me is for us to serve the membership, to come to the right decision. This discussion is helping us to steer that way.

Mr. Moreno:

The paper is very useful in providing the pros and cons of the different alternatives.

We favor option 4, as we expressed in our joint gray statement with five other constituencies, but let me focus on three areas that are central in the discussion.

First: What is it that we are missing in our lending toolkit? If we take a step back to the global financial crisis, the main challenge back then was to front-load the resources and insure against exogenous shocks. We doubled access limits, reviewed exceptional access, and created precautionary facilities. Now, we are facing the deepest recession since the IMF was actually founded, so we should respond again. Hopefully it will be a temporary crisis, but we are still under very high uncertainty, including on the shape of the recovery path. The main challenge for countries is having enough fiscal space to support the economy and lead it to a sustainable recovery. Our role here is to provide the space and time for our member countries. This mainly translates into longer repayment periods for those countries that need it.

Second, there is the issue of the nature of conditionality and particularly for structural conditions. There is a broad agreement that conditionality should remain strong. There is no question about it. It is key for program success and in safeguarding the Fund's resources. There is also an agreement on the need to foster structural reforms, and they should certainly be part of conditionality, as they are key for program success. I echo Mr. Rosen and Mr. Pösö. But the pandemic poses two main challenges for structural reforms. First, there is an issue of timing, the most pressing challenge is to support the economy and the recovery path. Second, there is an issue of design, the pandemic accentuates the need for the careful medium-term design of reforms, not only in terms of productivity but also in terms of a greener and more inclusive and equitable growth. These considerations call for a flexible approach and review-centric conditionality.

Third, there is the issue of signaling and the Fund's role. Under the very uncertain outlook, signaling and communication is not a minor thing and can play a central role in the recovery because it can foster confidence. So far, the Fund has reacted quickly in the containment phase, but we should not be complacent, and we still have to deliver in the recovery phase. Here, frankly, in terms of our reputational image, we are lagging behind the big packages of major economies for the European Union. We also need to deliver as the lender of last resort and given our role as the center of the global financial safety net.

Let me share two thoughts in terms of signaling.

First, on the label of a new pandemic facility, it can go a long way in fostering confidence through communication by signaling that the Fund is adequately responding to its member countries' needs. It would be like our own sort of "whatever it takes." We did it in 2009, and we should do it again.

In terms of facility shopping, this issue of whether or not, the countries will have a negative signaling if they do not get the pandemic facility but, instead, get the EFF. This is not the right comparison. As you put it at the beginning, the right comparison for the new facility is not the EFF but an SBA. It will be an SBA with longer repayment periods. And this message should be clearly conveyed, if we were to approve it. Of course, the SBA has the problem that its repayment periods are linked to the Articles of Agreement and we cannot change them.

Finally, just to highlight it we would favor a similar facility for PRGT financing. We look forward to the review of concessional lending.

On SLL, since Managing Director mentioned it, I cannot refrain myself. It is not only an issue of size, in our view; it is also of moving to Precautionary Credit Line (PCL) eligibility.

Ms. Mahasandana:

Like Mr. Mouminah, we find this discussion timely to address and upgrade the Fund's lending operations so it can best support its membership as the crisis continues to evolve.

The views of the chairs are quite diverse on the preferred options, and we recognize that each side in this discussion has raised important considerations. We issued a gray statement, and we will limit our comments to three points.

First, as many Directors have highlighted, we also recognize the importance of infusing appropriate flexibility in the Fund's lending facilities to effectively respond to the evolving needs of the members, given the highly exceptional and uncertain environment. The Fund already has a wide arsenal of lending facilities, but they would not be sufficient by themselves to achieve an appropriate level of program flexibility, while safeguarding the integrity and coherence of the Fund's existing lending practices. Thus, we support the staff's proposal to further enhance the existing program modalities by considering the pros and cons of new features, including a gradual adjustment of policy content and conditionality, a long repurchase period, review-centric

monitoring of quantitative conditionality, and other features, as proposed in the report.

Furthermore, like many chairs have emphasized, structural reform remains a core component of the Fund's arrangements in building a solid foundation for economic recovery. As much as it is feasible, structural adjustments need to be included in the program.

This leads me to my second point. We are of the view that establishing a temporary pandemic window under the existing EFF, designed to incorporate the desirable features to complement the inherent focus on the structural reform of the EFF, would help to fulfill members' needs in the coming period. We believe that a window under the EFF that allows a gradual updating of the policy content and conditionality will be beneficial for the members.

The full diagnostics of the structural reform needs may not always be apparent at the beginning of the program, when uncertainty remains high. Thus, it is appropriate to fine tune the structural agenda as the uncertainty abates. Members are also better served by the EFF pandemic window, which is a relatively straightforward option that can be implemented in a more timely and efficient manner, as well as with relatively lower operational risks.

Third, we would like to underscore the need to expedite this process and come up with a lending strategy that can best serve the membership. Therefore, we are open for further discussions on the refinements to the proposal that will best reflect the consensus of the Board. We urge the staff to report to the Board as soon as possible, with the most suitable proposal, taking into account the views and comments from today's Board discussion. The staff's clarification on the next steps would be appreciated.

Lastly, we would like to echo Mr. Tanaka and Ms. Levonian regarding the press release, the specific language in the press release, and appreciate Madam Chair's comments to look into it. Also, we agree with Managing Director's comments on the SLL, that we should not prejudge the demand for the SLL going forward. We look forward to discussing the refinements and adjustments of this facility in the future.

Mr. Bevilaqua:

My views were detailed in the gray statement we issued, so I will just touch on three points for emphasis.

First, like Mr. Buissé, Mr. Chodos, Mr. Mouminah, Mr. Ray, Ms. Riach, and Mr. Villar, I agree that the Fund's lending toolkit does require changes to effectively help members address balance of payments problems arising from the COVID-19 pandemic. The staff makes a convincing case that high uncertainty and heightened downside risks may call for front-loaded access and a flexible approach to reforms, given priority to those that are critical for a strong and inclusive recovery. In fact, I remain cautiously optimistic: there is a reasonable chance that several countries may experience a faster recovery, especially if a vaccine becomes available soon. In any case, the focused sequencing and the pace of structural adjustments required for different countries may not be clear now and most likely will not be entirely known at the time that UCT-quality programs are approved for many countries. Therefore, we certainly need flexible instruments to deal with the next phase of the crisis.

Nevertheless--and this is my second point--perhaps resonating with the concerns expressed by Mr. Rosen, Ms. Levonian, and others, we should strive to avoid designing highly specific facilities, which could lead to a proliferation. The problem is not that the new facility will not be adequately ring-fenced. On the contrary, we are afraid that it could be too ring-fenced. Conceivably, we could be missing an opportunity to learn and improve our permanent lending toolkit, adapting it to real emergencies of global or perhaps regional scale.

To be clear, our existing emergency facilities--the RFI and RCF--proved extremely useful but not nearly enough, given the proportions of the crisis. They have been designed for localized, relatively small shocks like natural disasters. For a global emergency, we should be able to adapt our toolkit, triggering some form of emergency mode, like several countries do with their own budgets and macroeconomic frameworks when they face an overwhelming exogenous shock, often requesting congressional approval for that.

This brings me to my third point. Our preferred solution would be adapting the EFF, the facility that comes the closest to the required features to perform this emergency mode growth for countries seeking UCT-quality programs. This solution will have the advantage of creating an adequately ring-fenced precedent. Although the special pandemic window under the EFF will eventually be closed by a sunset clause, it would, in principle, be possible to resurrect emergency EFFs, always with Board approval for entering into

emergency mode whenever similar situations emerge. And let's hope that it will not happen any time soon.

That said, given the prevailing uncertainty, it is premature to rule out a new round of emergency financing through RFIs and RCFs, even as we fully agree with our colleagues that UCT-level arrangements are superior. We could support option 2 as well, as long as we could ensure that it makes effective use of the embedded flexibility in our existing toolkit, but it runs the risk of becoming an erratic approach, jeopardizing evenhandedness.

Finally, although we clearly prefer option 3, we would not stand in the way of a consensus around option 4, if it gathers more support.

Finally--I cannot resist--as Mr. Moreno mentioned, we need to understand much better the reasons behind the fact that the SLL has not been demanded by any of our members in the context of a crisis like no other.

Mr. Buissé:

I can associate myself very much with Ms. Riach's comments, as well as those of Messrs. Mouminah, Tanaka, and Moreno today. We very much welcome the staff's efforts to have a strategic and ambitious view of the lending challenges ahead and how to address them. We are living through an unprecedented crisis, where radical uncertainty prevails. We need to work on macro stabilization processes and prepare for the aftermath of the crisis. Let me make a couple of comments.

First, as we now need to move away from emergency financing--and I agree with colleagues on that--and in a context of deep uncertainty, there is a clear case for nimbleness and flexibility though within a well-established and evenhanded lending framework. Therefore, I see a lot of merit in the staff's push for adapting the program conditionality as the situation evolves to front-load financing and to push for a longer repurchase period, as well as to have review-centric conditionality. All of this should reduce the high level of risks that the Fund will have to manage anyhow.

We have issued a joint gray statement with several colleagues, wherein we have favored option 4, which enshrines all of these flexibilities within a clear, ring-fenced, and temporary framework. As stressed in our gray statement, a new facility designed for exceptional times would also help to overcome the existing stigma of requesting Fund financing through the

existing tools. Could the staff explain how quickly a new facility would be able to be rolled out and taken up by staff for their country engagements?

Second, in order to ensure an appropriate policy response from the Fund, following macroeconomic stabilization, it is important to ensure that well-identified and growth-friendly structural reforms are planned as soon as they are feasible. Strong front-loading should come with a strong pledge from the authorities with regard to these reforms, with, of course, sufficiently flexible timing.

Third, we would have appreciated a cross-analysis with PRGT-eligible countries, given the exceptional nature of the crisis and in the context of the upcoming review of concessional lending.

Fourth, and finally, it is important to have a very coherent approach across the institution on the next phases of the crisis. There are many interrelated pieces: the emergency access limits, the lending strategy, the PRGT financing strategy, and the DSSI and post-DSSI framework. We need consistency to ensure that everything is well timed and fits together. I will share two ideas in this regard.

First, we need to make sure that there is enough money on the table for countries that need it. We need to look at PRGT and GRA access limits again, both annual and cumulative, as discussed last July.

Second, we need to incentivize countries to move quickly toward UCT-quality programs and to not wait too long to engage with creditors on restructuring. And we need to be ready for that because, if the World Economic Outlook (WEO) projections are correct, we will face an exceptional number of UCT programs quite rapidly.

Finally, I cannot help myself, I support the question on the SLL.

Mr. Benk:

It is, indeed, a timely discussion. We welcome the different options of enhancing the Fund's lending toolkit that have been laid out with the pros and cons. These options are not mutually exclusive. Today nobody knows exactly how the pandemic will evolve, but the Fund should be prepared for a scenario of a prolonged and uneven recovery.

Demand for Fund resources will be elevated in the coming years, especially from the most vulnerable countries that already had imbalances and limited policy space before the pandemic. We are concerned, though, that among the 19 countries that have requested but have not yet received emergency financial support, 16 are first-time requests. Finding solutions on how to support the most vulnerable members should remain a priority. The Fund's emergency lending toolkit continues to be relevant, particularly if the pandemic's second wave comes this fall, which is about here.

Like many Directors, we emphasize the importance of fully using the flexibility of the existing lending tools, like SBA and EFF arrangements should be well tailored to country-specific circumstances; program design should tackle uncertainties through analyses of downside scenarios and contingency planning; and conditionality should be parsimonious and focused on the drivers of the balance of payments needs.

With this in mind, we are open to further consider option 3, with the appropriate safeguards and explicit sunset and review clauses. Moreover, as we emphasized in our gray statement, it is important to stay open-minded and ready to consider even more ambitious reforms, should such a need arise in the future. Careful communication is needed after the emergence of a broad consensus about the lending toolkit enhancement.

Finally, let me say that lending is not the only tool for the Fund to support its membership. A general SDR allocation should also remain on the agenda. The upcoming Annual Meetings will be a good opportunity to discuss these issues holistically to better serve the Fund's members.

Mr. von Kleist:

We welcome the opportunity to discuss how to ensure that Fund lending is sufficiently tailored to support member countries as the crisis develops. We thank Managing Director for thoughtful opening remarks, including the reference that the Fund, due to the membership coming together, is financially well equipped to deal with members' GRA needs, and join the call for additional donors to come forward to support the poorest members with an equitable burden sharing.

Even though I must admit that I am still confused on how many countries now in the pipeline would actually fall in the category Managing Director has described as an SBA adjustment need but EFF maturity. Please clarify it.

As underscored by us and many other chairs at the last Board meeting in July, in order to assist countries in achieving a sustainable recovery and durably addressing balance of payments needs, we need to shift, as many others have said, from the provision of emergency assistance to regular UCT-quality programs within the existing lending framework and address the crucial structural reform and adjustment needs early on in the form of well-prioritized, sequenced, and appropriate structural conditionality, and ensure that risks to the Fund's finances and reputation are appropriately mitigated by strong safeguards, including conservative assessments of a country's debt sustainability and capacity to repay.

Depending on country-specific circumstances, this calls for a differentiated approach including, where needed, feasible and realistic macro adjustments, as well as debt operations flanked by stronger risk management within the Fund, as Mr. Rosen has emphasized. Upcoming country cases which use the current toolbox demonstrates that this is feasible.

While the COVID-19 pandemic has certainly led to high uncertainty about the medium-term outlook, we do not subscribe to staff's view that the extent to which structural reforms are needed will only crystallize when this crisis abates. On the contrary, pre-existing structural weaknesses have been exposed and amplified by the crisis; for example, in public financial management frameworks, social safety net gaps, but also concerning challenges to achieving greater economic diversification. Where necessary, and expressed by many Directors during the July Board meeting on governance, program conditionality should give particular consideration to promoting good governance, anticorruption measures, better PFM frameworks and domestic resource mobilization, higher debt transparency, and better debt management, not the least to safeguard the appropriate use of the unprecedented demand for financial assistance from the international community. Such an approach would assist countries in overcoming the pressing short-term challenges and balance of payments needs, while at the same time support inclusive and sustainable growth beyond this crisis by enhancing countries' growth prospects and external positions.

By contrast, back-loading structural reform risks, undermining the outlook for a lasting recovery, and the Fund should be careful not to send this message.

While we agree on the need for more contingency planning and some flexibility in program design, in line with the heightened uncertainty, the

existing guidelines on conditionality already leave sufficient room to address these needs in crisis times. Given this assessment, we are not convinced that there is an actual need for an adaptation of existing facilities or consideration of a new instrument or a window to fill a perceived gap in the current toolkit.

Unfortunately, and as explained in detail in our gray statement, the options presented neither reflect our above-mentioned assessment of the situation, nor the views expressed by many others, including Mr. Rosen, Mr. Zhang, Mr. Mozhin, during the July Board meeting and in the gray statements for this meeting.

In a spirit of compromise, we would urge staff to undertake modifications to the proposed options to address the concerns of our chair and many other Directors--such as Ms. Levonian, Mr. Pösö, Mr. Tanaka, Mr. Rashkovan, and Mr. Trabinski--particularly regarding the back-loading of structural conditionality and firmly anchor a sunset clause.

Against this backdrop, and as Mr. Tanaka and many others, we strongly caution against issuing a press release. Mr. Pösö has made very good remarks in this context, so I do not need to add anything to this.

The Chair:

In our discussions with staff, in preparation for this meeting, one observation I made--and I believe staff recognized that--is that perhaps the use of the word "back-loading" was not the most precise choice of words because we certainly would like to help countries reposition themselves at a time when there is a significant change happening, driven by the pandemic and the response to it.

I just want to say, for the benefit of all of us, that perhaps--not intentionally--we might have created a vulnerability in the way we present what needs to be done by choosing this word. In uncertainty, one cannot deal with everything at the same time, but that does not mean that one does nothing to help countries that have stronger fundamentals.

Mr. Trabinski:

We take positive note of the proactive stance that management and staff take in thinking about the future of the IMF's lending, specifically in the situation of a potentially protracted global economic recovery and the high uncertainty. In this context, allow me to make three brief points for emphasis.

First, like many other chairs, we are of the view that the Fund's current lending toolkit is flexible enough to accommodate the financing needs of our members in the current and in the next stages of this crisis. We are not convinced about the existence of a gap in this toolkit, at least at the current juncture. We, thus, favor option 2 from those delineated by staff.

Second, like Mr. von Kleist, Mr. Rosen, Mr. Tanaka, and others, we consider structural reforms as playing a crucial role in addressing balance of payments needs and in laying the groundwork for a sustained recovery. Mr. von Kleist, just before me, made a good point, that the pandemic has exposed structural weaknesses in almost all countries. IMF programs have historically been helpful in tackling these weaknesses through structural adjustments. The pandemic crisis now provides a window of opportunity to tackle these weaknesses, with appropriately tailored and sequenced structural reforms, from the outset of every IMF program.

Third, and relatedly, we want to reiterate the importance of strengthening the catalytic role of the Fund. As Mr. Pösö, Mr. Tanaka, and others emphasized in their respective gray statements, it is strong programs which tackle the necessary structural reforms without delay that underpin, maintain, and strengthen the catalytic effects and economic prospects of Fund financing. Therefore, we would be hesitant to support lending options that would weaken the catalytic role of the Fund. We would also be interested to see further analytical work on the catalytic role of the Fund in the context of the current global pandemic.

Last but not least, while this chair strongly believes in the principle of transparency, as Mr. Pösö and others, we are wondering whether it might be premature to publish a press release at this stage.

Mr. Raghani:

We issued a gray statement, and I would like to emphasize a few points.

We are pleased that the discussion started in July on the Fund's "Lending Strategy During the Pandemic and Beyond" has led to concrete reform proposals. We commend staff for this important body of work, which should help to keep the Fund's toolkit up to the new challenges brought about by the COVID-19 shock.

After the substantial emergency assistance provided by the Fund to its membership in the early stage of the pandemic, it is critical for our institution to follow through with the appropriate support to our membership, along the lines of the three-stage lending strategy discussed in July.

Against this background, we share the staff's flexible approach to the policy response and program modalities to assist countries' transition from emergency financing to medium-term instruments, aimed at macroeconomic stabilization and the post-pandemic recovery. In that regard, we welcome and support the proposed sequencing of reforms, with an early focus on macroeconomic stabilization measures and the implementation of structural reforms at a later stage of programs. Likewise, we support gradually broadening the content of policies and conditionality and a review-centric conditionality to cope with the effects of the pandemic, including on implementation capacity.

We echo Ms. Riach's point on tailoring conditionality and assessing the need for structural reforms based on countries' circumstances. We also share the concerns expressed by several colleagues on safeguards. We welcome the staff's assurance that they will not be unduly tightened across the board.

Regarding the reform option of instruments, we remain flexible between option 3, which proposes establishing a temporary pandemic window under the EFF, and option 4, which would establish a new temporary Pandemic Support Facility. While the former could be easier to implement because it is building on an existing instrument, the latter could be better tailored to the pandemic shock and embody the signal of a genuine response by the IMF to a once-in-a-century crisis.

The choice, in the end, should take into account the imperative for having an instrument which will be ready as quick as possible, will secure enough support, be easy to implement, and be effective in helping countries build back their economies.

Finally, we would like to stress the need for a fine-tuned coordination between this work on the lending options and the concessional lending reforms, so as not to delay the next phase of the fight against the pandemic in the most vulnerable countries of the membership. We take good note of the staff's assurances in their responses to technical questions, that the Board discussion on the LIC facilities review and the review of concessional financing will start after the Annual Meetings, likely in November.

Mr. Fanizza:

Let me reiterate our position. We believe that despite the depth of the current crisis, option 2 remains a fully viable option and, in my opinion, the best one, simply because it exploits the much-needed flexibility available in the current toolkit. Of course, we need to use this flexibility, and that is the crucial point.

Firstly, we believe the current toolkit has instruments to cover both the needs related to macro stabilization and structural reforms, as well as the different repayment periods.

Secondly, the contraposition between the macro stabilization and structural reforms is a fake one. This crisis has stressed the need for structural reforms tailored to the country's conditions. Very often, structural reforms can take place only after a macroeconomic stabilization. But, if we say, first, macroeconomic stabilization and then structural reforms, we are not saying that structural reforms are not important, in fact, it is to the contrary. However, it is a problem of feasibility.

Also, we believe that we should not create a specific solution too tailored to the current circumstances. Since uncertainty remains elevated and the crisis may continue to change into something that requires other flexible solutions. We are going to change continuously facilities if we do that.

Let me also say that if there is enough consensus around option 3, we would favor it. We would be ready to consider it and support the establishment of a temporary window in both the EFF and the ECF , with the aim of preserving the symmetry between the GRA and the PRGT.

On the contrary, I am not persuaded that option 4 is the appropriate solution or the most appealing to potential users. Let me say also that implementing such an option very likely will require time. It might need, therefore, not be useful for immediate adoption.

Mr. Mojarrad:

We have issued a gray statement and broadly agree with the staff's assessment to align the lending toolkit with the evolving and uncertain nature of the pandemic shock and wish to highlight the following four points.

First, we are of the view that much can be achieved with the flexibility offered by the Fund's existing facilities, rather than to create new instruments. That said, we favor option 3 to establish a temporary pandemic window under the EFF, which is best positioned to quickly address the economic consequences of the crisis and it is a relatively straightforward reform option that implies lower operational risk and has a sufficiently long repurchase period to allow the borrowing countries to implement the structural reforms needed to address the significant medium-term economic scarring from the pandemic.

Second, in case there is a broad support in the Board to expand the lending toolkit, we can go along with option 4, to create a temporary Pandemic Support Facility that mitigates the EFF's pricing, as advantageous over other options in terms of ring-fencing, tailoring communication, and potential to reduce the stigma, and to accommodate cases where the lack of an apparent need for structural adjustment at the start of the arrangement makes the country ineligible for Fund support under the EFF.

Third, while the pandemic provides a higher risk environment for Fund lending, we note that amplified risks entailed by the proposed options appear manageable. Given the indicated safeguards, including the sunset on limits levels, we also agree that the Fund's lending is more important than ever in its 75-year history and that any residual risk under any option needs to be weighed against the risk of the Fund not taking further actions to address members' financing needs associated with the uncertainty from the crisis.

Finally, given the more stringent financing constraints faced by LICs, we look forward to broad donor support to close the PRGT subsidy resources gap? PRGT lending toolkit in response to the pandemic crisis as part of the ongoing review of concessional lending.

On the press release, we also share the view expressed by Directors for careful communication at this instant.

Ms. Abdelati:

We issued a gray statement, wherein we praised the clarity of the report and the excellent bilateral discussions. I would like to emphasize a few points and clarify our position on issues raised by other Directors.

We are convinced by the staff's arguments on the need for modifications in the approach of Fund support, given the extended duration of

the health crisis and unprecedented uncertainty. Speed and flexibility are required, whether they are part of the PSF. We strongly support options that provide for a longer repayment period and support the front-loading of financing, given the nature of the crisis. We believe option 1 is not suited for the next phase, but we agree with those who want the option to remain open for countries that have not exhausted access limits under the RFI.

Greater flexibility is needed in terms of quantitative and structural conditionality, given the high degree of uncertainty on macroeconomic outcomes and the focus of policies on supporting ailing sectors and households. We support the back-loading of structural reforms, where it makes sense. We are open to the use of review-centric conditionality, similar to the one used in the PCL, but we do not consider it as essential, so long as the staff appropriately tailor conditionality and its phasing.

The Fund needs to take greater risk. This is necessary, given its role and mandate, as it is impossible for countries to avoid higher debt vulnerabilities. Appropriate safeguards are needed to protect Fund resources, but we do not support the greater use of reprofiling in cases where debt sustainability cannot be established with high probability, but access is normal. The greater use of reprofiling could defeat the stated objective of reducing stigma. I, therefore, appreciate the remarks of Ms. Koeva Brooks at the beginning of the meeting, that all aspects would be taken into consideration when making these recommendations.

We agree with others, that additional information on demand for the facility would be useful. In the absence of such information, we remain skeptical that normal access is likely to be adequate for the majority of cases. Substantial financing from other sources also may not be as available.

I support Mr. Buissé's point on the consideration of normal and cumulative access limits. We disagree with the staff's statement, that requiring exceptions to access may be an indication of pre-existing balance of payments problems. It need not be. We would be ready to support a new PSF if a majority is secured, though our views are closest to those in the joint gray statement issued by Ms. Riach, Mr. Mouminah, and others; or we could go along with option 3, if it gains more support.

Mr. Mahlinza:

We have issued a gray statement and will just emphasize a few points.

First, like other Directors, we want to commend the Fund for the bold response in the initial phases of the pandemic. We feel we have done very well and hope that we can approach the next stages of the pandemic with the same force. We, therefore, underline the need to adapt the lending strategy to the evolving nature of the crisis. We agree that the focus should shift toward UCT-quality programs, tailored to country-specific circumstances during the next phases of the crisis. This will be important to help address the balance of payments challenges facing the membership and anchor a strong and sustainable recovery.

Second, on the options, we support the temporary introduction of a pandemic facility which will be customized to the circumstances. Like Mr. Moreno, we think this option has significant communication advantages, which are important in the current crisis. On the other hand, we see merit in preserving the integrity of the existing lending instruments, which have served the membership very well. Our overriding concern, though, is to ensure assistance that is alive to the realities faced by the membership, with the appropriate design features. Therefore, in a spirit of compromise, we could look at option 3.

Third, we support the proposed program modalities, which envisage a steady broadening of the policies and a streamlining of conditionality. We see this flexibility as important in the context of the huge uncertainty about how the pandemic would evolve. At the same time, we note the staff's readiness to support unconventional policies, where policy options are limited by narrow policy space, but would caution against setting a precedent that may reverse the hard-won gains made in policymaking and institutional capacity development.

Finally, we welcome the Fund's proposed approach to align debt operations to achieve overall program objectives. Considering the elevated vulnerabilities that may complicate debt operations, we welcome the two-step approach to securing creditor assurances. We also look forward to the forthcoming paper on sovereign debt restructuring.

Mr. Zhang:

We have issued a comprehensive gray statement, which clearly stated our view, that the Fund's ample existing lending toolkit has served members' needs well with sufficient flexibility, and we are not convinced of the need to establish a new facility. I will focus today's intervention on the following points.

First, like many other Directors, we believe that the uncertainty associated with the COVID-19 crisis should not prohibit authorities from undertaking structural reforms in the near term. On the contrary, the crisis calls for more swift action and provides a great opportunity for countries to take action.

Second, we would like to associate ourselves with Ms. Levonian and Mr. Rosen, that much of the need for change seems to be driven by communication considerations and concerns regarding the perception of the Fund by the outside, rather than a demonstrated gap in the toolkit. We underscore that the establishment of a new facility is warranted, only if it could fill gaps in the current lending toolkit and it meets members' actual needs. In our view, the reputational risk of being perceived as not being sufficiently responsive to the unprecedented crisis does not lie in continuing to use the existing lending facilities, but as a failure by the Fund to respond to the call from member countries and the international community family, including discussing the possibility of a general allocation of SDRs, as previously elaborated by Mr. Benk.

Third, we would like to echo Mr. Trabinski and Mr. Kaya, that, in practice, it will be very difficult to distinguish whether the balance of payments needs come from the pandemic or pre-existing structural weakness; no matter, creating a new facility or establishing a pandemic window under the EFF might cause a risk of facility shopping and evenhandedness.

Fourth, regarding the frequency of the DSA, we suggest finding a good balance between not overburdening the authorities and closely monitoring the evolving situation.

Finally, we share the concerns by many other previous speakers on the press release, since it might cause unnecessary expectations from the market.

Mr. Ray:

As the Managing Director said at the outset, there are a lot of things that we agree on: we are in the middle of a crisis like no other, with exceptional uncertainty. There is a general view that we need to shift to upper-credit tranche programs. Most colleagues agree, though, that given the uncertainty, program design will be difficult. And here, we need to be a little bit humble about this.

If I look at what my own authorities have done over the past six months, they have changed course several times. It is not because they did not know what they were doing, but they were responding to events as they unfolded which, as I have said in this Board many times, is an appropriate way to go in these circumstances.

Just as our lives are not normal, the Fund cannot simply use its existing tools like normal. We would tend to agree with that. Importantly, our members need our help. They are likely to need it for a long time, and they need us to help them adjust and grapple with what is a unique set of challenges. That ultimately means we need to be flexible, and we need to try to find the best option that can provide sufficient flexibility for our members.

Even on structural conditionality, which I will come to in a minute--and there are clearly mixed views--I heard a lot of support for streamlining and for review-centric conditionality. As a few Directors have pointed out, there is a lot of flexibility in the current toolkit, and I agree with that. But I also think that the toolkit did not envisage a situation--when it was designed--like we face today.

I issued a joint gray statement with five other chairs, supporting a new facility. There are a number of reasons why, in particular, I prefer it. Usually it is better to start out with a clean sheet of paper than try to bolt things onto something else or take things out. That might just reflect years of doing tax policy. This does seem to provide the best chance to ensure evenhanded treatment. And it also--it would be clearly able to be ring-fenced, which I think all of us can agree would be important.

Ms. Riach, Mr. Moreno, and Mr. Buissé all set out the case quite clearly. I am not going to repeat what they said but would associate myself with their remarks.

However, we cannot waste time, so we need an option that can be quickly implemented. It is clear that we do not, at this stage, have sufficient support for a new facility; but option 3, with a special window in the EFF, is an alternative which we could support, so long as the design features and modalities, including safeguards outlined for the PSF option, are also applied.

On structural conditionality, we can all agree that we need to have structural conditions. What seems to be the sticking point is, how many, when, and how they might be designed. So we went back and had a look at the Review of Conditionality--which was an extremely good review and is still

relatively hot off the press--and it set out that structural conditions must be both of critical importance to achieving program goals and parsimonious, and they need to be tailored. The review found --as Mr. Fanizza remarked--that we need to get the macro right. If we get the macro right, there is a reasonably high probability of program success. If we get macro wrong, then there is a very high probability of a program not being successful. And in the current circumstances, it is going to be hard enough to get the macro right.

All this suggests to me that we should be thinking particularly hard about the challenges our members are facing, how much policy bandwidth they have, how far political capital can stretch, how long it takes to implement actual reforms, and, consequently, when and what would be the most appropriate conditions to impose over time. It is not business as usual here.

If I think about a few of the members of this constituency, it is quite clear they are going to have to adjust their economies to something new. I do not think anybody at the moment knows what that "new" is, and they are facing existing balance of payments needs. The last thing that we would want to do would be to encourage or push for an unnecessary adjustment to what are significant, at least short-term reductions in both national income and revenue. We need to be very careful how we step on here. In a few cases, we do not really know what they are going to need to adjust to, other than they will need to make an adjustment.

Like other speakers, after the Managing Director spoke on SLL, I agree with her comments on it.

Mr. Bhalla:

I will summarize just three points.

First, most of the countries are in phase two of the pandemic, characterized by a reopening of economic activities. Measures required in this phase include job-intensive public investment and the building of confidence to crowd-in private investment.

The Fund's approach should be to complement and catalyze these recovery efforts, and the best way to do this would be to activate normal lending programs. The flexibilities and safeguards in these programs, which have stood the test of time and crises, can easily be calibrated to meet individual member needs.

Second, we believe that the lending facility should be aligned with incoming economic data. Thus, the demand for additional lending needs should be reassessed dynamically, based on a changing outlook for the economy in question and the changing outlook for the global economy.

Defying gloom and doom, it is encouraging to note that some positive news is, indeed, trickling down. It has been a long wait, but it is better late than never. The fall in oil and commodity prices can have beneficial impacts on balance of payments for many oil-commodity-importing countries; and the fall in remittances, a lifeline for many poor economies, is likely to be considerably less than was previously expected. Further, it is heartening to note that the draft WEO reaches the conclusion that the forecast of GDP for 2021 is at the highest level since February 2020, and the improvement over the first pandemic forecast of April 2020 is about two percentage points across the board, poor and rich countries alike. There is a very good chance that end-2021 would be the same GDP level as end-2019--a remarkable recovery, indeed. In this the leadership of Managing Director has been critical.

Third, time-tested programs have a surprising resonance in a crisis like no other. They are easier to implement because of the knowledge and experience about these programs. Further, from a member's perspective, it may be the case that a new program would have more stigma than the existing programs. Thus, from the Fund's perspective, the existing programs may be providing adequate safeguard measures and risk mitigation mechanisms. If it is not broke, why fix it? All this suggests that a new lending facility is not urgently needed.

Mr. Mozhin:

We have issued a written statement, which will allow me to be reasonably brief.

Let me first say that the new concept introduced in terms of the three different stages of the pandemic, the COVID-19 crisis, is a very useful concept. Three stages, meaning: acute crisis, stabilization, and then recovery. Of course, the individual countries' circumstances remain very diverse.

Also, we can see the medical circumstances deteriorating. I do not know whether this should be called the second wave of the pandemic or if it is premature to use this language, but we see the numbers of infections rising in many parts of the world.

What I am trying to say is that there will certainly continue to be a need for rapid emergency assistance, including to those countries which have not yet received any financial support from the Fund. Although, what does it mean, "rapid emergency assistance," in a situation when there are quite a few members that have applied for such assistance six, seven months ago but have not received any so far? I am not sure what we mean when we say that "rapid emergency assistance" is still needed by a few members.

At the same time, I agree that, gradually, we need to transition to UCT-quality arrangements, including for the reason mentioned by many, that there are structural deficiencies, perhaps, in a great majority of members. It is important for us to keep in mind that the global economy, prior to the pandemic, was not in good shape. Maybe for the whole decade, growth rates had been rather low. Productivity growth had been almost zero. Many countries had been experiencing rapid increases in debt levels; most importantly, the public debt levels. And these were related to significant structural weaknesses or, should I say, structural deficiencies, which are important to be addressed. I support the idea that we need to transition to the UCT-type of arrangements. However, the level of uncertainty is so high that it will be very difficult to put together the traditional types of arrangements, and that is why I also agree that more flexibility will be needed

However, I have an important caveat here. What I worry about is evenhandedness. The more rigid are the rules, the better they protect the evenhandedness of the Fund's approach; and the more flexible are the rules, the higher the risks that an evenhanded approach could be disregarded. It is a very important caveat that, while moving in the direction of a more flexible approach, we do not throw away the rule of evenhandedness, which is so fundamental for the Fund.

Now coming to the options. We are always reluctant about creating new facilities--we are not happy about the proliferation of new facilities. On the other hand, the traditional existing Fund facilities provide significant room for flexibility, including for longer repayment periods, as was explained by the staff at the beginning of the meeting. However, in order to avoid a situation where the rules of the Fund could be violated or could be seen as being violated, we would accept the idea of the pandemic window under the EFF arrangement so that this additional flexibility would be kind of formally accepted and approved by the Board.

I would like to finish, like many other Board members, that we would certainly be prepared to accept the majority view in the end.

Mr. Lischinsky:

We have participated in an extensive joint gray statement, supporting option 4; but if a consensus is reached, we can support option 3. All of these options are temporary, but we also want to support more flexibility.

The Chair:

Listening carefully to the discussion, we are not making a full-fledged decision. There is still some work to be done. Therefore, publishing the paper and the summing up today is seen as premature by many Directors and I would agree with that. We will publish this paper when we come to a closure on the issues we are discussing today.

The Deputy Director of the Strategy, Policy, and Review Department (Ms. Koeva Brooks):

I will cover three issues, starting with the question that appeared several times in different variations: Who is the pandemic facility for? What exactly is the demand for that? Who do we have in mind here?

We have alluded to this in the paper, but I would like to elaborate further on this question by saying that we very much think of the countries that would, in our view, make good candidates for the pandemic facility as those that did not have pre-existing structural maladjustments and issues that caused external imbalances prior to the crisis. Therefore, it is in those cases where we thought that having a clear diagnosis, as to what the right recommendations are and what the ultimate policy agenda is going to be, is more difficult.

Normally, we would expect a few of these countries to come for SBAs. We think of a tourism-dependent economy that has been hit by this shock, and we do not know what the world is going to look like in a year or two when it comes to the tourism sector. A few of those economies had already diversified from other sectors into tourism. But, there is a lot of uncertainty here. Therefore, it is really those economies that we have in mind.

When it comes to the specific numbers, I cannot give you a number right now; but what I can say is that we have started engaging very intensively within staff and are also trying to gauge the number of countries that would be interested in this facility. And I would say the upcoming Annual Meetings

could provide an opportunity to get a better sense of the specific demand for this facility.

The second issue I wanted to cover is about the next steps. We have listened very carefully, and we will reflect on everything that we heard during the meeting today and after reading all the gray statements.

Apart from exploring further the demand for a new facility, we would also give due consideration to exploring the specifics of option 3. Again, there have been a number of ideas in that area, including we will look into the issue of safeguards and such.

The final point, I wanted to assure Board that we are trying to coordinate as closely as possible across the various work streams, including access limits and others. Actually, a few of the same people are working on these projects. I hope that it will become apparent in the meeting that Board is going to have on Monday on access limits.

The Chair:

It would be fair to say that we have reached a place of closure that is a helpful guidance to staff.

We share the view that, while emergency financing remains in our toolbox--it is there, and it might be needed again --it is exhausting its value for dealing with this crisis as we step into the next phase, which includes an uneven, fragile, and uncertain recovery. We are not excluding option 1 from use; but it is not the option that we would lean toward, given that now we know more about the crisis and that UCT-type lending is more appropriate, more helpful to countries.

Secondly, I heard very strong and universal support for using the flexibilities we have at our disposal. In other words, I did not hear any strong opposition to relying on option 2. But option 2 clearly does not entirely solve the problem we face, which is the capacity to respond to the needs of members that may have sound fundamentals but are still going through adjustments because of the pressure that comes from this crisis, and having to do so with a degree of uncertainty. Mr. Ray very well referred to the fact that advanced economies are adjusting as they respond and that flexibility in adjustment is a necessity.

That leads us to asking the staff to work on options 3 and 4 and present a decision that is clearly focused on a good elaboration of the pros and cons, the safeguards that can be applied, the practicality, and what we anticipate demand to be from our members.

We can wrap up this meeting with the sense that we have made good progress, and we are now stepping into a strategy that has two parts. Part one, we are going to expand the use of the flexibilities that we have. And part two, look into what would serve the membership best in terms of resolving the issue that remains, which is matching the support needs with the type of financing, especially the appropriate maturities.

The Chair adjourned the discussion.

ANNEX

- Gray Statements
- Staff's Responses to Executive Director's Technical Questions
- Constituency Codes

GRAY/20/2928

September 22, 2020

Joint Statement by Mr. Buisse, Mr. Chodos, Mr. Mouminah, Mr. Ray, Ms. Riach, and Mr. Villar on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis
(Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for the rich paper on how best to respond to the needs of the membership during the COVID pandemic. The pandemic is a crisis like no other, it has triggered supply and demand shocks, created an unprecedented, deep, synchronized global downturn and significant uncertainty remains. This exceptional situation necessitates exceptional action**.**

We therefore agree that Fund lending does require changes to effectively help members address BoP problems arising from the pandemic. The priority is for the Fund to have the tools it needs and while that may be possible through a new window in an existing facility, we believe that establishing a temporary Pandemic Support Facility is the best option. This is because it will ensure that the Fund considers and makes active decisions at the outset on the appropriate level of program flexibility and safeguards in this higher risk, highly uncertain environment. This is necessary to maintain the Fund's credibility as lender of last resort and to protect its resources. The additional flexibility that will be afforded to members throughout this uncertainty would be best ringfenced through a Pandemic Support Facility. A new facility designed for exceptional times would also help to overcome existing stigma of requesting Fund financing through existing tools. We do not think leaving the existing toolkit unchanged is an option because it would mean that those difficult decisions would be made in a piecemeal way as each country program and reviews are negotiated and discussed at the Board. This would make it harder to ensure that countries benefit from Fund resources in an evenhanded manner and risks undermining the integrity of the existing lending toolkit and the credibility of Funds' lending practices. In that sense, relying on the existing toolkit in the face of an unprecedented crisis and in a context of large uncertainty would cause a reputational risk.

We agree with staff that the pandemic poses unique challenges to the Fund's lending operations because it will not always be possible to identify the structural reforms that are necessary to address a country's BoP problems which may be temporary or may be permanent depending on how the crisis unfolds. This is logically the case for those countries that did not have structural issues that created BoP problems prior to the crisis. For these countries it will be very difficult to identify the optimal policy response until the effects of the ongoing crisis abate. We agree that it is in those circumstances that a temporary Pandemic Support Facility with all the safeguards outlined in the paper is the best way to serve the membership whilst managing the financial and reputational risks to the Fund. Conversely, we would expect that there may be a different set of considerations for a country that had fiscal and external imbalances going into the crisis and for which structural gaps had already been identified by authorities and country teams prior to the crisis. In this case the country would need to receive support with appropriate conditionality to implement structural reforms necessary to address their original imbalances as well as those that may have arisen from or been exacerbated by the pandemic. Such structural measures are essential to prepare the ground for a strong recovery and, when implemented as conditions allow, are compatible with the short-run stabilization objective and institutional capacity as outlined in the report. *Can staff confirm that this is the way they envisage a temporary pandemic support facility being used? Does this fit with current demand for a new facility?*

We agree that the Fund needs to tolerate higher risks in its pandemic-related lending operations. We think the three safeguards set out in the paper are important to manage those risks. A clear commitment from the member to cooperate with the Fund to find a solution to its BoP difficulties is critical alongside an explicit commitment by the authorities to broaden the macro-adjustment and structural reform components of the program beyond those set out at the outset as clarity emerges on the extent of reforms needed. Alongside those safeguards, we also believe that the flexibility in repayments and conditionality granted by the new facility should be clearly understood by countries as temporary with a reversal to the normal toolkit once the crisis passed. We agree that access generally should not exceed normal limits at the outset of the program, however we do believe that any previous emergency financing should be considered as additional given the external and extraordinary nature of the shock. *Could staff confirm whether they believe access limits will be a constraint for the countries that qualify for the new facility?* We welcome enhanced monitoring through more frequent debt sustainability analysis, greater focus on debt operations and more use of reprofiling under normal access where debt is sustainable but not with a high probability. We also agree that the mismatch between meeting the likely BoP need with front loading of financing and the potential delay in being able to properly diagnose the appropriate policy response reinforces the need for the Fund to serve a catalytic role in financing and that there needs to be risk sharing with other creditors in every case where support is provided through the temporary pandemic support facility.

In the next stage of the crisis it will be as important as ever that the Fund works closely with its members to meet their financing needs whilst sustaining its fight against

corruption and the misuse of much needed financial support. Although not mentioned in the paper, governance-related conditionality should be included when vulnerabilities are critical to achieving the goals of the member's program as per the 2018 Framework on Enhanced Engagement on Governance. The establishment of a Pandemic Support Facility could help the Fund to reinforce with public messaging the importance it places on these issues and its commitment to implementing these measures in an evenhanded manner.

The Fund needs to have the right facilities and the necessary resources to provide needed support for all its members in these exceptional times, including the necessary support for low income countries and fragile states. We think a temporary pandemic support facility is the best way to support the membership through this crisis and keep the current lending toolkit intact. We also agree that there is a need to consider a similar PRGT instrument in the context of the upcoming review of concessional lending and recognize that we also need to find solutions to address PRGT financing constraints as part of this.

GRAY/20/2929

September 22, 2020

Statement by Mr. Beblawi and Ms. Abdelati on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

Fund's Pandemic Support: Options for Lending During the Next Stage of the Crisis

We thank staff for a clearly laid-out, well-reasoned paper and well-justified proposals. We also had an excellent bilateral discussion with staff that was very helpful. Beyond a doubt, the Fund has risen to the task and acted swiftly in response to the crisis from the first emergency loan in March. This is well recognized within the Fund, the membership, and the general public. The Fund has had to act flexibly, to take on more risk commensurate with the risk-taking taken by country authorities and with the need to support members who faced sudden financing needs. The global outlook suggests that while there are signs of recovery in some countries, these are uneven, and it may take five years before countries return to the pre-pandemic growth path, with uncertainty remaining at unprecedented levels. It, therefore, makes sense to consider how the Fund can best support countries in the coming period, again in a flexible way.

We welcome taking a look at the adequacy of the lending toolkit and any warranted adjustments. We agree that while current conditionality guidelines provide sufficient flexibility to use existing facilities, with appropriate adjustments, there is merit in considering a new facility which has four desirable traits: (i) the public relations aspect of the Fund announcing it has introduced a new instrument as part of its response to the lingering impact of the pandemic; (ii) ring-fencing or protecting the standard facilities from modifications that could set a precedent—although there has always been significant variation in program design and conditionality before the pandemic; (iii) greater flexibility on program design and pace of adjustment than what is typical/expected in Fund programs; and (iv) a longer repayment period than that for the RFI and SBA, which have been available so far in countries not in need of structural reforms to correct the external imbalance.

In principle, therefore, we see merit in a new facility has merit and would be ready to support the Pandemic Support Facility. In the absence of the required majority for this new facility, we offer our views on the other options. In this regard, speed and flexibility are of the highest priority. Option 1 is clearly less desirable as it does not provide a comprehensive or flexible enough instrument to address the degree of uncertainty in diagnosing and addressing adjustment needs, so we would rule that out. The other two options are viable, with a preference for Option 3, a special window within the EFF, as it achieves the four desirable traits noted above. *We would appreciate staff clarification of the kind of modifications that would be possible without an 85% majority threshold.*

Regarding potential demand and borrowing space within normal access limits, we understand that staff identified around 30 members, and some of those have already approached the Fund. The recently issued paper on Review of Enhanced Access Limits shows that 27 countrieshave received RFI/ECF in varying degrees. *But the amount available under normal access limits will necessarily be limited--will that be sufficient to meet financing needs, or primarily rely on catalyzing other financial support.*

We caution against an extension of the safeguards policy as proposed in the paper, whether or not we create a new facility. Staff proposes the application of more stringent/conservative debt sustainability assessments and to extend the safeguards policy that would apply to countries in the case of Exceptional Access when debt is sustainable but not with high probability of programs within normal access limits. *Would this affect the majority of the identified 30 potential borrowers?* We appreciate the need to safeguard Fund resources and maintain the revolving nature of Fund credit, however, pressuring countries with market access to enter into debt operations or debt reprofiling, when they don't see the need for it, could have detrimental effects in terms of maintaining market access and increasing the stigma of Fund programs. We welcome updates of DSAs to update macro assumptions. *Has staff considered sensitivity analysis in debt sustainability assessments, that would show both a stronger and weaker DSA than the baseline— which could include contingency plans in the case the weaker scenario becomes likely?*

A small group of countries concluded a Fund program in recent months and did not have a prior balance of payments problem. *Was any thought given to extending the same longer repayment period retroactively, now that it is seen as more suitable?*

In summary, we would favor any option that provides needed flexibility in program design and conditionality, longer repayment period, speed in responding to member requests, and higher normal access limits commensurate with the financing requirements of the pandemic. We are not in favor of extending safeguards that apply to a sub-group of EA cases as this could detract from potential program requests and defeat the stated objectives or reducing stigma.

GRAY/20/2930
Revised: 9/23/20

September 22, 2020

Statement by Mr. von Kleist and Mr. Buetzer on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for a comprehensive report and welcome the ongoing work on exploring options to deal with the challenges of the current crisis for the architecture of Fund lending and the design of Fund-supported programs.

We agree on the need to ensure that Fund lending is sufficiently tailored to deal with the development of the crisis and such that member countries' needs during the next stages of the crisis are adequately addressed in line with the Fund's mandate. At the outset, we would like to recall our general remarks from the last Board meeting on "Lending Strategy During the Pandemic and Beyond" on July 1st, namely that:

(i) **shifting from the provision of emergency assistance to regular UCT-quality programs,** based on the standard requirements for Fund assistance, is an urgent priority going forward;

(ii) **addressing structural reform and adjustment needs early on has become more, not less pressing in the current crisis to achieve a sustainable recovery;**

(iii) **the Fund's risk management deserves key attention which underscores the need for maintaining appropriate safeguards, including strong conditionality, and protecting long-standing principles and norms of Fund lending**, among them the revolving character of Fund resources, the catalytic role of Fund financing, and a solid assessment of a country's debt sustainability and capacity to repay based on realistic projections.

Assessment of the current situation and existing lending framework

The Covid-19 pandemic has triggered multiple shocks, giving rise to a deep, synchronized global downturn with extraordinary high uncertainty about the medium-term outlook. Against this background, we agree with staff that cushioning the impact of the

crisis through macroeconomic stabilization is the most important policy objective at the current stage. Depending on country-specific circumstances, this calls for a differentiated approach, including, where needed, a feasible, realistic macro adjustment and possibly debt operations.

At the same time, we do not subscribe to the view that "the extent to which structural reforms are needed, and the detailed content of the reforms will crystalize, only when uncertainty about magnitude and the direction of shifts in post-pandemic equilibria abates" (para. 11). Quite to the contrary, pre-existing structural weaknesses have been exposed and amplified by the crisis, for example in public financial management (PFM), social safety net gaps, but also concerning challenges to achieving greater economic diversification.

While we agree that, depending on country specific circumstances, the full extent of structural reforms required might become clear only once the economy is well on a recovery path, we also believe that the timely implementation of appropriately prioritised and sequenced structural reforms is key for a sustained recovery. Where necessary, particular consideration should be given to promoting good governance, anti-corruption measures, better PFM frameworks, and higher debt transparency, not least to safeguard the appropriate use of unprecedented amounts of financial assistance from the international community, as also lined out in our Joint Gray on the "Update on the Implementation of the Framework for Enhanced Fund Engagement on Governance" on July 1st. Selective and well-designed structural conditionality would not only assist countries in overcoming pressing short-term challenges and BoP needs, it would also support an inclusive and sustainable recovery over the medium term by enhancing countries' growth prospects and external position.

By contrast, backloading structural reforms risks to undermine the outlook for a lasting recovery, and the Fund should be careful not to send this message. This also relates to staff's scenario of a "fully self-reversing shock", which we consider as rather unlikely.

Given this assessment, we wonder to what extent there is an actual need for an adaptation of existing facilities or consideration of a new instrument/window to fill a perceived "gap" in the current toolkit. While we agree on the need for more contingency planning and some flexibility in program design in line with the heightened uncertainty, the existing Guidelines on Conditionality already leave sufficient room to address these needs in crisis times, including though the use of adjustors, quarterly program reviews, and if need be ITs instead of QPCs. *Regarding the design feature of a "broad menu of policy options" (para. 17, last bullet), we would be interested in some specific examples of what these could be. We understand that this feature can also be accommodated under the current guidelines already.*

Staff's main rationale for the presented reform options appears to be the perceived need for a "weaker link between the strength of policies and phasing of Fund resources" (para. 18), on which we decidedly disagree. As noted above, strong policies are

of the essence to address this crisis – in particular for countries seeking Fund support. Moreover, the notion that the provision of Fund financing needs to be commensurate with the policy strength of the underlying program constitutes a central and established tenet of Fund lending and a key safety features that should not be abandoned**.**

In sum, we are not convinced that the nature of the crisis calls for a departure from the Fund's traditional lending strategy. We do not see the case for reduced policy strength and structural reform measures at the front of a Fund-supported program combined with front-loaded access and longer repurchase periods. Weakening the Fund's lending policies seems neither in line with the acceptable risk levels of Fund lending, nor conducive to achieving a sustainable recovery of program countries from the crisis.

Assessment of the proposed reform options

At this point, we are not yet in a position to identify a preferable option, also given our doubts over the need for an overhaul of the Fund's lending architecture, and the not yet fully convincing design of the presented options.

Option 1 should clearly be excluded, as it would further postpone the transition to UCT financing and thus carries unacceptable risks.

To the extent that Option 2 implies a substantial adaptation of the existing instruments along the lines suggested in the staff report, we have strong reservations. The seal of approval that is associated with the Fund's "traditional workhorse facilities" must not be undermined. Preserving their credibility and integrity over the long-term is important at the current juncture and will be even more so as we move through the different stages of the crisis.

To the extent that a broad consensus were to emerge on the need for somewhat different lending practices that cannot be met under the flexibility already included in the existing instruments, ring-fencing, and a strong link to the temporary and highly extraordinary nature of the current pandemic crisis become key requirements.

Options 3 and 4 appear broadly suited to ringfence those changes in lending practise if they are foreseen as a strictly temporary measure and underpinned by a robust Sunset / Review Clause with a high majority threshold. Automatic expiration of such a new window / instrument should be foreseen sooner than after four years, given that such a horizon would surely go beyond the current juncture of exceptionally high uncertainty invoked to justify a new instrument.

Options 3 and 4 should also be modified to address our above-mentioned concerns on structural conditionality.

At the same time, it needs to be acknowledged that creating a new window or instrument will face a difficult trade-off between maintaining sufficiently high standards for its use to prevent facility shopping and containing risks to the Fund on the one hand, and on the other hand providing an attractive instrument that is taken up by members to support a sustainable recovery.

A danger, that is particularly pronounced with option 4, is that it might actually weaken the position of countries that are not considered eligible for the new facility but instead have to resort to an EFF (or already have an EFF in place). Such countries could be perceived as "weak" whereas countries requesting the new facility could be perceived as "strong" with supposedly few structural weaknesses. The reputation of the traditional programs, which have served the membership well, could thus suffer, if those countries which were prudent enough to ask for an EFF early on would be punished, whereas latecomers would benefit. *Staff comments on this problem would be welcome.*

We would also be interested to learn more about the intended users of such a new window or instrument. In particular, if it is to exclude countries with "pre-existing imbalances" (under option 4, para. 37), we consider that it would be available for only a small proportion of the Fund's membership. At the same time, such countries without evident need for structural policy measures could be served by using SBAs first, possibly followed by a later transition to an EFF if needed in case the expected improvement in external conditions does not materialize.

Another key consideration is that the useful safety features (non-repeated use, presumption of even phasing and normal access, heightened requirements on debt sustainability) identified for Option 4 would also be accommodated under Option 3 and we would appreciate staff's comments on this.

PRGT Considerations

Lastly, we acknowledge the serious challenges faced by low-income countries in the current crisis. Concerning the PRGT and the potential need for a similar instrument, we consider that PRGT-eligible countries by their very nature already tend to display a greater need for structural reform measures, including institution building. Moreover, the objectives of PRGT-programs are different and have a stronger emphasis on growth and poverty reduction. As a result, the case for adjusting the PRGT lending framework appears weaker still.

We agree that possible options for PRGT lending are best explored as part of the review of concessional lending. Without pre-empting this debate, and as for the proposed changes to the GRA lending toolkit, we see a significant risk of facility shopping in case of a new instrument, if the criterion of "no pre-existing imbalances" is applied only loosely. Moreover, altering the architecture and balance of PRGT instruments can also have negative implications on the already fragile financing envelope. This calls for a high degree of caution, an eye on resource mobilization, and for carefully weighing advantages and drawbacks of reform options. It should also be acknowledged that there are other institutions specialized on providing support to LICs, and that these may be in a better position to provide financial assistance to address pandemic-related effects.

GRAY/20/2931

September 22, 2020

Statement by Mr. Poso and Mr. Damgaard on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for the comprehensive document on the *Fund's Pandemic Response – Lending Options to Support Members During the Next Stage of the Crisis.* We agree with staff's view on focusing on stabilization and the need to balance between supporting growth and macroeconomic adjustment, when moving from containment to recovery. Overall, we see the need for flexibility in program engagement to manage the uncertain environment, but we do not agree that addressing longer-term challenges should outright be pushed to the uncertain future.

The Fund has responded to the crisis quickly and efficiently, providing emergency and other financing to almost half of its members. **We highlight the importance of similar ambition on the policy side,** as governments are facing unprecedented challenges in finding a path out of the crisis. Instead of weakening the policy response upfront, **Fund programs should focus on policies that improve the conditions for recovery but are designed and sequenced to protect growth and equity**. Thus, program design should not compromise on policy ambition, but it should be ready to offer flexibility if/when conditions change.

Furthermore, we firmly believe that **strong programs with contingency plans and sufficient flexibility, specifically in this challenging situation, underpin and maintain the Fund's catalytic role**.

A general assumption in the document appears to be that the uncertainty created by COVID-19 will end in the near future. This could prove to be too optimistic. We call for the analysis and program design to consider the possibility of a prolonged period of uncertainty. In this context, **we highly support a risk-based approach.**

Furthermore, we think that the recovery **may not be synchronized between countries**, but it will depend on, e.g., the geographical spread of the virus, country characteristics, economic

structures, domestic policy actions, and dependency on foreign trade. Hence, we remain to be convinced that a **single solution response can be designed for the next stage of the crisis as the most optimal arrangement will vary between countries.** Instead, a good approach would be to comprehensively utilize the Fund's existing broad lending toolkit and its flexibility.

Debt sustainability issues are likely to be a prevalent challenge as the global shock continues. We missed a broader discussion of this aspect in the paper. Overall, we **call for policies to improve debt sustainability, including debt transparency, debt management capacity, and domestic revenue mobilization to be prioritized in program design** in addition to the proposed supplementary debt-related safeguards.

Lending instruments

In general, we see UCT-quality programs as a key pillar for Fund engagement. The quality of policies should be as important as the financing to strengthen the catalytic effects and economic prospects.

In addition, we missed **a more thorough discussion in the document on the option of using an SBA as a first alternative for countries, where there are no evident structural issues behind the BoP need.** The current framework allows for canceling an on-going arrangement and to apply for a new one, should conditions and underlying challenges prove worse than assumed. This makes it possible to, e.g., start with an SBA and then if assessed necessary change to an EFF. *How would this alternative compare to the pandemic window under the EFF in option 3? We would also ask staff to elaborate on the potential risks of allowing for more flexibility under the current facilities (option 2) and how this could be ring-fenced.*

We are not convinced of the need for a new facility as the current toolkit has the flexibility to adapt to both different country conditions and uncertainty in the external environment. We also remain to be convinced that a new facility would significantly reduce stigma and in this respect note that the latest addition to the Fund's toolkit has yet to be used. Furthermore, creating new instruments could lead to facility proliferation, unnecessary operational costs, and postponement of programs. *Could staff lay out a realistic timetable for developing a pandemic window under the EFF?*

We could, however, be open to consider a pandemic window under the EFF as a compromise, but without the explicit commitment to back-load the formulation of structural polices. *Could staff elaborate on how such a revised pandemic window would differ from the current EFF, and has staff assessed how large the demand for a new facility/window would be? Could staff also elaborate a bit further on the type of countries that would need funding from the new window/facility?*

Further, **we are somewhat worried that a new form of pandemic lending would generally steer financing requests towards an instrument with lighter conditions** than the usual

Fund programs, even in cases where "normal arrangements" would be more appropriate. *Does staff see this as a risk? How will the Fund be able to manage moral hazard and navigate those countries with structural problems to lending arrangements other than the pandemic window?*

We disagree with the notion of using communication as a rationale for establishing a new facility. Good communication could also be that the Fund has a well-established toolkit for a crisis. This should not be a negative thing as long as the Fund can meet the needs of the membership.

The described challenges that member countries are facing are particularly serious in many LICs, most of which primarily access Fund lending through the PRGT. To be fully able to take into account the challenges arising in the LIC context together with ensuring sustainable access to concessional funding, we agree with staff that **options for adapting these proposed policies for PRGT lending are best placed to be discussed as part of the ongoing review of concessional lending**.

Program modalities

Gradual approach: We do not support an upfront weakening of program design as this could lead to unnecessary delays and weaken recovery. However, we see merit in designing polices to fit the current situation with contingency plans and flexibility. The Fund should support the membership with policy advice that improves the conditions for recovery, but also be flexible to the changing environment.

Longer repurchase: The magnitude and uncertainty related to the current shock may compromise the capacity to repay the Fund within the expected repayment period of an SBA in some countries. However, we do not think that this is the case for all countries as recovery is likely to be heterogeneous. There is already flexibility in the current framework to change an SBA to an EFF with a longer repayment period, should external or internal conditions prove worse than initially assumed. Furthermore, we see a risk that a general approach of directing funding toward longer repurchases could compromise the principle of the revolving nature of Fund resources.

Phasing: Frontloading with limited program strength is problematic, as per very recent evidence. A strong program is the best assurance for catalyzing financing. We should not compromise on this. Promoting the catalytic role requires a credible program and solid measures to ensure debt sustainability and ability to repay the Fund.

Program reviews: Flexibility in program design requires a strong and continuous policy dialog between staff and country authorities to ensure the program stays on track and the policy program is adjusted if conditions change. We support more frequent program reviews and finding a good balance between not overburdening the authorities while supporting them in responding to the evolving situation.

State-contingent financing: We do not believe that this is necessary. If conditions change and the country meets the relevant requirements, it can ask for an augmentation under the current framework. Planning for an augmentation from the onset will just create an expectation of one. We support using the opportunity to cancel the arrangement or change it to a precautionary arrangement if conditions improve. *What is the added benefit from state-contingent financing compared to the existing ability to augment or cancel an arrangement?*

Contingency planning: Risk-/scenario-based contingency planning seems very appropriate considering the prevailing uncertainty. We would advocate for a stronger program from the onset with flexibility and contingency plans to adjust policy to different scenarios.

Review centric monitoring of quantitative conditionality: We understand the challenges related to setting QPCs in the current environment. Applying a more review-centric approach with greater use of Indicative Targets can thus overall be accepted as a short-term option to address the exceptionally high uncertainty but should be well motivated in each case. We encourage defining some critical QPCs on certain variables (e.g., level of reserves, fiscal balance, arrears), while we agree that for some variables ITs are better suited with the current high degree of uncertainty.

Broad menu of policy options: The Fund should provide cross-country analysis and best practices for crisis response to the membership. Reverting to unconventional policies may be warranted in individual cases, but the cases should be parsimonious and time-limited to address the specific unusual economic and sectoral impacts of the pandemic. Policies should be in line with Fund policy guidelines (e.g., IV) and the possible longer-term implications carefully considered. Notably, governance and transparency aspects should not be compromised to ensure scarce resources are directed effectively.

Safeguards

We thank Staff for proposing additional safeguards, which touch upon important risks inherent in the current environment. However, the implementation remains somewhat unclear. *Could staff clarify how they will be implemented? Does staff envision these measures to be obligatory for all program engagement during the pandemic?*

On specific proposals:

- **We support a general approach of normal access** but stress that access levels should continue to be based on staff's assessment of the BoP need and the member's ability to repay.
- **We strongly support enhanced debt monitoring**, including having more frequent DSAs and high frequency of reviews when debt is not sustainable with high probability. This should be complemented by program policies supporting debt sustainability.

- **We support incentives for early re-profiling when debt sustainability is questioned.** We find the proposed safeguards of applying EA criterion 2 to normal programs and the two-step approach very interesting options. *Could staff elaborate their views on the practical implementation of these proposals?*

GRAY/20/2932

September 22, 2020

Statement by Mr. Mahlinza, Mr. Nakunyada, Mr. Garang, and Ms. Nainda on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis
(Preliminary)
Executive Board Meeting
September 25, 2020

1. We thank staff for a comprehensive report that provides an assessment of lending options to support the membership during the next phases of the crisis. We consider this discussion timely as countries move from the emergency response towards stabilization and the recovery phases. We broadly support the thrust of staff's proposals and provide the following remarks for emphasis.

2. **The emergency financing provided by the Fund has been instrumental in containing the spread of the virus, however, the lending strategy should adapt to the evolving nature of the crisis.** We commend the Fund for its flexibility and agility during the early phase of the pandemic, including through augmentation of existing programs, a temporary increase in access limits, and extension of debt service moratorium to poorer member states. Going forward, we agree that the focus should shift towards UCT-quality programs to help address existing and potential balance of payments challenges facing the membership and anchor a strong and sustained recovery. To this end, we underscore the need for tailored UCT programs with streamlined conditionality, taking into account the multi-dimensional nature of the crisis.

3. **We can support the introduction of a new Pandemic Support Facility (PSF), considering the actual and potential BOP challenges occasioned by the COVID-19 crisis**. The PSF appears well-suited to providing short-term support under the circumstance as it can be structured to provide a longer repayment period, parsimonious conditionality and address stigma issues. To ensure that the proposed PSF has enough up-take, we urge staff to continue to consult widely to ascertain the appetite for such an instrument. We also see merit in maintaining the structure of the Fund's workhorse lending instruments, such as the SBA and ECF/EFF, which have served the membership well. *Further, we concur on the need to replicate the PSF under the PRGT to ensure evenhandedness. We would appreciate staff's comments on whether on-going fund-raising initiatives would be sufficient to cover such a proposal.*

4. **We support the proposed program modalities, including the steady broadening of policies and streamlining of conditionality, longer repurchase period, a review-centric approach where feasible, and contingency planning**. That said, we note that under the state-contingent financing arrangement, a member can cancel the program when the BOP conditions improve. In this context, we underline the need to maintain the reform momentum to anchor a durable and inclusive recovery, including through continued Fund engagement. On the other hand, we note staff's readiness to support unconventional policies where policy choices are limited by dwindling policy space, but remain concerned that this may set a precedence, reversing hard-won gains made in policy making and the development of institutional capacity. At the same time, we impress on the need for a careful approach to ensure the appropriate use of unconventional policies as they may be difficult to unwind.

5. **A slight increase in the Fund's risk tolerance is inevitable, considering the magnitude of the current crisis**. In this context, we emphasize that a do-nothing and inactive scenario poses even greater risks to the Fund and the global economy. Further, we are comforted that enterprise risks associated with the proposed options appear manageable but caution against complacency in ensuring adequate safeguards. To this end, we agree on the need for the continued use of standard safeguards, emphasizing capacity to repay, strong program commitment and ownership, as well as debt sustainability. We also take note that the proposed lending options will have limited effect on Fund resources. That said, we would have appreciated indicative estimates of the resource implications of the various lending options together with the potential effects on precautionary balances and the broader Fund balance sheet. *Staff comments are welcome*.

6. **In view of elevated debt vulnerabilities, we broadly welcome the Fund's proposed approach, to align debt operations to achieve the overall program objectives**. In this vein, we welcome the two-step approach to securing creditor assurances as critical, particularly in cases where elevated uncertainties complicate debt operations. We also note the benefits of debt reprofiling and resolution frameworks, including positive reaction from investors, unlocking fiscal resources, moderating the decline in growth, and reducing the likelihood for future debt restructuring. We, therefore, look forward to more concrete proposals in the forthcoming paper on sovereign debt restructuring. To this end, sustained efforts are required to enhance the international architecture for debt resolution, alongside adjustments to the Fund's debt policy framework. At the same time, we view stronger international cooperation as critical, particularly in the areas of financing and design of social protection policies, given the pandemic's effects on poverty and inequality.

7. **Finally, we emphasize the need for increased use of precautionary facilities to provide insurance against risks.** Non-disbursing facilities such as precautionary arrangements typically incentivize members with strong policy frameworks to raise buffers and build resilience to shocks. Considering the low uptake of existing precautionary arrangements, it would be worthwhile to engage the authorities to solicit views on how best to adjust the current design features of these arrangements and enhance their appeal.

GRAY/20/2933

September 23, 2020

Statement by Mr. Fanizza and Ms. Quaglierini on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for an informative paper which portrays several options. We are not persuaded by the need to establish a new temporary pandemic support facility; we encourage staff to fully exploit the available flexibility to adapt existing facilities to effectively support policy responses to the pandemic crisis. While we favor option 2, we would be open to consider combining it with option 3 that entails a dedicated window within both the existing GRA and PRGT facilities.

- The pandemic has ignited a combination of supply and demand shocks with both severe and long-lasting consequences. Despite massive policy responses and the fundamental uncertainty on the future evolution of the crisis, policy makers cannot afford treating it as a temporary shock. Thus, we believe we should not rely on a temporary new facility, as implied by option 4, which, by the way, would require substantial efforts and time to be established.

- In our view, the existing toolkit does not constitute an obstacle to an effective management of the crisis. Macroeconomic stabilization is expected to be the immediate priority for most – if not all – countries, to be accompanied by ambitious economic reform programs to address the structural challenges highlighted by the pandemic reality. The need to implement these reforms, likely to rely on major investment efforts, would generate long-term Balance-of-Payment needs that would justify financial support from the Fund through the existing EFF.

- We believe that staff's concerns in paragraph 30 are overstated: additional flexibility, transparently and temporarily justified – notably on back-loading of structural

conditionality – would not undermine established lending practices; and communication challenges can aptly be addressed.

- We remain convinced that program design should continue to be the cornerstone of the Fund's lending strategy and appreciate what is offered by option 2. In the context of the pandemic, program design should consider, among other things, longer repurchase periods, flexible disbursement schedules and possible backloading of structural measures. To remedy the possible stigma associated with Fund's programs, we could consider supporting a temporary "pandemic window" under the EFF and ECF. Such combined strategy would strengthen the available, well-tested, framework and avoid diverting scarce human resources into creating a new facility, while still maintaining all necessary safeguards.

GRAY/20/2934

September 23, 2020

Joint Statement by Ms. Levonian, Mr. Rosen, Mr. Weil, and Mr. Grohovsky on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis
(Preliminary)
Executive Board Meeting
September 25, 2020

The Fund has moved quickly to support its members as they face the COVID-19 pandemic and associated economic fallout. The economic situation is stabilizing in many countries and health authorities and the public are becoming better equipped to minimize the spread of the virus. With the acute phase of the crisis behind us, we support the proposed shift away from emergency financing and toward greater use of UCT programs that can help address imbalances, limit debt vulnerabilities, and support a resilient recovery.

The Fund's approach to lending and conditionality will need to remain flexible as we enter the stabilization phase. We agree with staff's overall perspective that no matter the approach ultimately taken by the Fund with respect to the toolkit, program conditions will need to be more flexible and tailored**.** Staff are used to dealing with uncertainty, designing conditionality based on the best data available, and applying judgement where necessary. But the very significant uncertainty regarding the medium-term global outlook will no doubt require staff to make further use of the flexibility afforded to them under existing policies to adapt Fund lending as the crisis evolves. Provided that *core* program objectives remain anchored, we are open to adopting a review-centric approach to monitoring conditionality, with greater use of indicative targets and more streamlined use of quantitative performance criteria. We have always called for far greater use of contingency planning in Fund-supported programs. This should be standard practice as opposed to a crisis response. Lastly, this more flexible approach will make it critical for the Fund to be more strategic in its approach, choosing 1-2 core policy objectives to underpin a program and working with the authorities to design a reform agenda that is prioritized and sequenced accordingly. An indiscriminate approach will not work in this environment.

Structural reforms should continue to play an important role in program design and countries' adjustment. We question staff's assertion that the uncertainty surrounding the crisis necessarily prohibits authorities from undertaking structural reforms in the near term. In fact, the crisis has likely made countries' structural needs greater than before. While we are in favor of streamlined, focused structural conditionality in the current environment, we would not support backloading these reforms as they can play an important role in boosting growth as countries exit the pandemic and act as a safeguard to Fund resources by increasing the likelihood of repayment. Again, it will be important that country specific circumstances are taken into account.

We are not convinced of the need to change the toolkit in response to the pandemic. We felt the staff report did not make a strong case regarding the existence of a gap in the Fund's lending tools. Existing policies and guidelines leave staff with significant flexibility to design conditionality that is tailored to the case at hand, and the Fund's 'workhorse' instruments, the EFF and SBA, can accommodate a range of BoP needs. This would argue in favor of continuing to use the flexibility in the existing instruments (i.e., option 2), which also has the benefit of being the most parsimonious option available. Even ring-fenced, the proposal for a new pandemic facility (option 4) raises concerns regarding toolkit proliferation leading to facility shopping and, as outlined below, is not likely to address what seems to be the root concern.

If a change were genuinely required in order to avoid distorting the existing toolkit, we would favor the EFF pandemic window (i.e., option 3), with adjustments to the current proposal. Such adjustments would need to incorporate safeguards currently proposed for the new pandemic facility, including keeping programs within normal access limits, commitments in the Letter of Intent to scale up structural reforms as conditions warrant, more frequent DSAs, and a sunset clause. We would also note that the window would need to shift from "backloading" structural reforms to "streamlining" them.

Much of the impetus for change seems to be driven by communications considerations and concerns regarding perception of the Fund rather than a demonstrated gap in the toolkit. In particular, we took note of the staff report, which lists a missed opportunity to address stigma, communication with stakeholders, and perceptions regarding the Fund's responsiveness as the main arguments against leaving the toolkit unchanged. *Does staff have market research that points to the Fund being perceived as taking a 'business as usual' approach to the crisis and generally being seen as unresponsive?* We would also underscore that there is downside risk to changing policies and facilities as a means to address stigma, as evidenced by the recent introduction of the SLL, and that changes to the toolkit should be demand driven. We would not support any changes to the toolkit absent evidence of demand

and the presence of an early adopter. *Could staff indicate whether any members have expressed interest in pursuing a pandemic facility or pandemic window in the EFF? Have members requested any other changes to make the toolkit more flexible in addressing their BoP needs?*

Regardless of how we proceed, management and staff should prioritize safeguards and risk management. The heightened use of Fund resources during this crisis requires greater steps to protect those resources, including ensuring precautionary balances are sufficient. Regarding risk management, the crisis highlights the need for an enhanced risk management function, something we have long championed. In that regard, we are disappointed that we still have not seen the OIA audit on enterprise risk management, which we expect to make recommendations that will help us mitigate risks and make better-informed decisions in this period of uncertainty and substantial lending.

We support discussing implications for the PRGT toolkit as part of the ongoing review of concessional lending.

GRAY/20/2935

September 23, 2020

Statement by Mr. Zhang and Mr. Huang on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for the well-written paper and bilateral outreach before the Board meeting. Ever since the pandemic outbreak, the Fund has responded to the crisis with unprecedented speed and increased flexibility. With access limits doubled, the emergency financing facilities have helped a lot of member countries to cope with initial shocks. As the pandemic moves from the containment phase to stabilization and eventually the recovery phase, we welcome the discussion on how the Fund's lending strategy should be adapted to the members' evolving needs. However, we remain to be convinced of the need to create a new facility and believe lending during the next stage should be primarily based on the use of the existing toolkit. Having said that, we would like to provide the following comments.

The Fund's ample existing toolkit have served members well since the pandemic outbreak and should be put to good use during the next stage. As the pandemic moves to the stabilization and recovery phase, the Fund's lending is expected to shift from helping members to cope with initial shocks to assisting members to achieve sustainable and balanced recovery. Although not tailored to address the Balance of Payment (BoP) problems associated with the pandemic, the existing lending facilities do have some extent of flexibility and can be adapted to accommodate some desirable features during the next stage. We agree with staff that even if the new facility is established, it should not be used as a panacea. In cases where the existing instruments are feasible and suitable, the existing instruments should be used. For example, countries with BoP difficulties stemming from pre-existing structural weaknesses would be better served by the Extended Fund Facility (EFF).

While we are open to discuss all the options, we remain to be convinced of the need for a new facility.

First, the pandemic crisis calls for swift action rather than delays on structural reforms. The Covid-19 pandemic continues to impact people's lives and the global economy, and its evolution remains uncertain. However, one thing has become clear: while reshaping consumer and business behavior, the pandemic is accelerating the digital transformation and would have significant structural implications for the global economy. In the meantime, the pandemic has also highlighted and amplified some pre-existing structural weaknesses, such as longstanding income inequality, high vulnerabilities of the poor, low efficiency in the health sector, and the need for economic diversification. Furthermore, the pandemic also provides a window of opportunity for structural reforms. For example, low oil prices during the Covid-19 presents a timely opportunity for removing fuel subsidies with limited impact on the most vulnerable group. Ensuring the appropriate use of Covid-19 related funds gives a good opportunity for strengthening overall public financial management. Given all of the above, though we agree that the full extent of structural reforms required might crystalize only as the economy enters the recovery phase, we also believe appropriately prioritized and sequenced structural reforms are necessary and doable during the stabilization phase.

Second, the establishment of a new facility is warranted only if it could fill gaps in the Global Financial Safety Net (GFSN) and meet members' actual needs that could not be satisfied by the existing toolkit. When the Board approved the introduction of the Short Liquidity Line, one of the most important reasons is that it fills a critical gap in the GFSN. *We missed a thorough discussion in the paper from the GFSN aspect. Staff's comments are welcomed*. Furthermore, we should avoid creating an instrument with no or few actual needs, which might also cause damage to the Fund's reputation. *We would appreciate staff's elaboration on the target countries of the PSF and their intention to request the new facility.*

Third, a more granular analysis of the impact on the Fund resources is required before the introduction of the proposed new facility. We take note of the argument that the net impact in the demand for Fund resources over a long period of time will be limited, since the upfront demand for Fund resources stemming from either lower stigma or the attractiveness of the program design might represent requests for use of Fund resources that would have anyway been made under the existing toolkit and policies. We would prefer to see the estimate of

the upfront demand for Fund resources, i.e. the impact on the Fund resources over a short period of time.

While we see merits of some features of the proposed new facility, we also have some concerns and doubts regarding the others.

First, on the repurchase period, we take note of the argument that delaying some structural reforms and later materialization of their economic payoffs warrant a longer repurchase period. *However, it confuses us that the repayment period of the PSF (4½ to 7 years) is shorter than that of the Extended Fund Facility (EFF, 4½ to 10 years), when considering that the structural reforms could be implemented from the start of the EFF arrangement, while the structural reforms could be implemented only after a certain period of time following the start of the PSF arrangement. Staff's comments are welcomed.*

Second, on the frequency of the Debt Sustainability Analysis (DSA), we take note of staff's suggestion that DSAs could be required at the time of every review, and quarterly reviews could be required for economies with sustainable debt but with high risks of debt distress. *Could staff clarify the Fund's current policy and practice on the frequency of the DSA?* We underscore the importance of considering the countries' specific circumstances and the authorities' capacity constraints. Given the unprecedented nature of this crisis, we believe the Fund should strike a balance between providing members with much-needed financing assistance and safeguarding its own resources. Some innovative and well-calibrated resolution is required, for example the two-step approach to secure financing assurance from the official creditors.

Finally, the tremendous efforts that the Fund has made in response to the Covid-19 pandemic is widely acknowledged and highly appreciated. In our view, the reputational risk of being perceived as not being sufficiently responsive to the unprecedented crisis does not lie in continuing to use the existing lending facilities, but the failure to respond to the call from member countries and the international community timely, including discussing the possibility of a general allocation of SDR, and the overdue conclusion of the Sixteenth General Reviews of Quotas and governance reforms.

GRAY/20/2940

September 23, 2020

Statement by Ms. Mahasandana, Mr. Tan, Mr. Abenoja, and Ms. Susiandri on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis
(Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for the insightful report that explores thoroughly the various lending options to support the membership in the ongoing crisis, as well as the useful outreach to our office.

The COVID-19 pandemic has triggered a multifaceted crisis, leading to a deep and synchronized downturn in the global economy. This unique health-cum-economic crisis, along with its unprecedented uncertainty, has continued to pose immense challenges to many countries across the world. **Hence, it is important for the Fund to remain nimble and responsive in helping members adapt to the evolving and uncertain nature of the crisis**.

We agree that greater flexibility is needed in the Fund's lending operations to effectively help members address the unique features of their balance of payments (BoP) needs arising from the pandemic. We note that the Fund has been reevaluating its lending practices to be more responsive to the evolving needs of its members since the early phase of the crisis. The results to date are evident from the various Fund initiatives, including the doubling of access limits under emergency financing, the increase in annual access limits, the introduction of a new precautionary facility and other debt relief initiatives. As the crisis continues to evolve, it is important to ensure sufficient flexibility remains in the Fund's lending operations that is commensurate with the highly exceptional and uncertain environment. Against this backdrop, we share staff's view to consider further refinements to existing program modalities, such as a gradual broadening of policy content and conditionality, longer repurchase period, phasing with possible frontloaded financing, more frequent program reviews, state-contingent financing, contingency planning, review-centric monitoring of quantitative conditionality and a broad menu of policy options. For this purpose, we believe that a second round of emergency lending (Option 1) or the current lending facilities (Option 2) by themselves would not be adequate in achieving

an appropriate level of program flexibility in an evenhanded manner that safeguards the integrity and coherence of the Fund's existing lending practices.

We view that establishing a temporary "pandemic window" under the EFF (Option 3) would best meet members' needs during the next stage of the crisis. Based on staff's assessment, the EFF is best positioned to address the economic consequences of the pandemic among existing instruments while the EFF "pandemic window" is a relatively straightforward reform option for both staff and member countries compared to establishing the new Pandemic Support Facility (Option 4). By building on the existing EFF and addressing the BoP problems associated with the pandemic through temporary modifications, Option 3 provides a balanced approach to tailoring programs to country specificities in light of the evolving and uncertain nature of the pandemic, as well as the need for adequate safeguards and evenhandedness. Specifically, we note staff's explanation during the outreach that the two modifications: (i) expanding the range of BoP difficulties that the EFF can address by temporarily including BoP problems associated with the pandemic and (ii) explicitly endorsing back-loaded formulation of structural policies, will enable the existing EFF to fulfill the features of pandemic lending, especially for countries that have structural BoP problems. Staff also explained that for countries with no clear structural reform needs, it might be appropriate and has been done before within the existing policies to initially deploy an SBA before switching to a program supported by an extended arrangement to address the member's structural adjustment needs once these are identified. While a new temporary Pandemic Support Facility (PSF) could technically be tailored to meet the needs of members with no structural adjustment, Option 3 also has the advantage of being implemented in a more timely and efficient manner as well as with relatively lower operational risks by maintaining the coherence of the current lending architecture and requiring only limited changes to systems. Furthermore, such instances of countries with no structural reform needs at all should not be prevalent in the current crisis that has exacerbated many pre-existing imbalances and structural weaknesses. Hence, a temporary pandemic window under Option 3 that provides for a gradually broadening policy content if warranted by the increased uncertainty created by the pandemic will be preferable. Having said that, we could consider exploring the PSF further should any major gaps were to be found that cannot be adequately closed by modifying the EFF.

We agree that the Fund should tolerate higher risks in the lending operations during the pandemic and to supplement the selected option with appropriate safeguards. It is important to strike the right balance between providing flexibility in the lending operations to meet members' needs and protecting Fund resources. In this regard, we support staff's proposal that Option 3 should come with explicit sunset and review clauses. The sunset clause, which coincides with the duration of the pandemic, would help to ringfence Option 3 in addition to the explicit provisions that set out the temporary pandemic window. We consider these features to provide adequate assurance on the clear and transparent application of the pandemic window and

the long-term integrity and coherence of the existing toolkit and lending practices. As part of the safeguards, it is also important to have guidance on the access level at the outset of the EFF pandemic window. *Should Option 3 be adopted, could staff clarify whether a presumption of normal access at program request would similarly apply?*

We concur with staff that the Fund should also explore the need for a similar instrument under the PRGT so that the Fund could enhance its support across the broad membership where necessary. As suggested by staff, it may be prudent to consider possible options for PRGT lending in the context of the wider review of concessional lending instruments given that the pandemic has affected to a large extent both emerging markets and developing countries as well as low-income countries. While the architecture of the concessional facilities may be different from that of the GRA, we note from staff that establishing a new PSF (similar to Option 4) under the PRGT would require the consent of PRGT contributors and approval by a higher voting majority.

GRAY/20/2941

September 23, 2020

Statement by Mr. Kaya, Mr. Benk, Mr. Just, and Mr. Zaborovskiy on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for the informative paper which explores different options for providing pandemic-related lending going forward. While the medium- and long-term consequences of this crisis have yet to be revealed, it is clear that even the economically strongest members are facing unprecedented challenges and are expected to be in a deep recession this year. The more vulnerable countries with pre-existing macro- and structural vulnerabilities and limited room for an appropriate policy response, will be hit hardest by the fallout from the pandemic with a dramatic reversal in living standards and growing income inequality. With this in mind, **we underscore the importance of ensuring that the Fund's toolkit remains adequate and flexible enough to help its members meet Balance of Payment (BoP) needs, including countries that are facing debt sustainability and protracted BoP challenges, which, if not addressed, could result in a severe economic disruption.** In this regard, the decision on launching a new facility or amending the existing ones should be preceded by a holistic assessment of the demand for the Fund's pandemic-related financing, including from countries that reached their normal access limits and with debt that is sustainable but not with a high probability.

Emergency lending should continue to address the urgent BoP needs of the qualifying countries in line with the existing policies. The Fund's rapid financing was instrumental to address the immediate economic fallout from the crisis, as well as to protect peoples' lives and contain the spread of the virus. However, not all countries that are qualified for the Fund's support under the emergency facilities have requested such assistance, and not all requests have been satisfied so far. Improved global financing conditions contributed to the gradual reversal of capital flows back to many emerging economies after the initial pandemic-related shock. Emergency financing for qualifying countries that have not yet fully utilized temporarily higher access limits should help mitigate the downside risks if they materialize during a potential second wave of the pandemic. Adequate safeguards for the use

of Fund resources should be in place, including the measures discussed recently for countries seeking access to Fund financial support that would lead to high levels of combined GRA-PRGT exposure. *Could staff elaborate on the demand for additional emergency financing from the membership? How many requests are in the pipeline until the end of the year?*

The flexibility incorporated in the current lending toolkit should be fully exercised for tailoring Fund-supported programs to country-specific circumstances. For countries where the underlying sources of imbalances had been known before the pandemic outbreak, the existing facilities would be instrumental to support the appropriate policy response. In those cases with stronger fundamentals before the crisis, where the sources of imbalances are unclear, a combination of a credible macroeconomic package supported by an SBA with a subsequent EFF, if structural vulnerabilities emerge, would provide the needed flexibility within the existing toolkit. Not only does this avoid facility proliferation, but it is also the easiest, fastest and least resource-intensive solution to deploy. It is also the best way to maintain a clear link between lending on one hand and conditionality and structural reforms on the other. Depending on country-specific circumstances, debt operations could also be considered.

Launching a new Pandemic Support Facility (PSF) for the limited number of qualifying countries sends a mixed signal. The COVID-19 pandemic is a truly global crisis that disproportionally hit the most vulnerable. However, the new facility targets only a sub-set of countries with stronger pre-pandemic fundamentals, while others are not qualified to use this new instrument. While there are some communication advantages in launching a PSF, justifying the qualification criteria for the new facility against the universal negative impact of the crisis may pose some challenges. Moreover, not all structural weaknesses cause BoP needs, and a degree of judgement is needed to identify the nature and drivers of a BoP gap in a particular country. Too much room for judgement may complicate the use of the facility in an evenhanded manner. The „stigma" argument in favour of a new PSF seems also overvalued. We consider any potential "stigma" to be bound with the use of IMF resources in general, rather than with specific facilities.

Should the current lending toolkit prove insufficient to address specific BoP needs created by the COVID-19 pandemic, we are open to consider more ambitious reform options under adequate safeguards. The Fund should be well-prepared to assist its members in case of a more protracted slowdown and an uneven recovery with elevated BoP needs of its member countries. Given the specificities of the current pandemic-triggered crisis, we see merit in staff's argument that a new PSF should reflect the need to ringfence features, which may be undesirable outside pandemic lending, thereby protecting the long-term integrity of the existing toolkit and lending practices. Should a possible PSF be further discussed, a more ambitious reform proposal, applicable to the broader membership under adequate safeguards and which do not compromise on policy ambition, would be important. Given that the existing PRGT facilities mirror the GRA facilities and in order to enable

blending, there is a need to harmonize solutions in the context of the upcoming review of concessional lending.

GRAY/20/2947

September 23, 2020

Statement by Mr. Bevilaqua, Mr. Fachada, Mr. Saraiva, and Mr. Antunes on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis
(Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for this insightful paper addressing the adequacy of our lending toolkit to the unprecedented nature of the crisis we are facing. We recognize that the existing lending facilities are not tailored to the membership needs at this moment and should be adjusted to meet this purpose. **Our preferred solution would be creating a pandemic window under the EFF (option 3), while keeping the possibility of a second round of RFIs (option 1), if needed, and exercising flexibility in the use of other facilities, as warranted.**

We agree with the fundamental premise of this exercise, namely that we are in unprecedented times, and that our lending toolkit, despite the potential flexibility embedded in it, is not fit to deal with a crisis like no other. Indeed, we second staff's assessment that the high level of uncertainty makes it particularly difficult to elaborate solid macroeconomic diagnoses in several cases, calling for phasing in the design of conditionality as the program evolves. The BoP impact of the crisis may be largely self-reverting for some countries if the pandemic is controlled in the next few months and international trade, tourism and remittances quickly return to their pre-COVID levels. Conversely, in other cases profound structural adjustment may be needed, particularly for those countries dependent on the export of commodities whose prices have been permanently affected by lower international demand. While many countries are expected to require frontloaded IMF support to deal with urgent BoP needs, the extent and the very nature of programs most indicated for their specific situation is likely to fall outside the typical characteristics of our existing arrangements. In this regard, option 2 taken in isolation has an important drawback, as the needed flexibility in the current instruments would have to be reassured for each and every case, opening the possibility for lack of evenhandedness and predictability.

We also see merit in most of staff's considerations about adequate policy responses and program design. Staff's outline of fiscal, monetary and financial policies most adequate to

deal with the crisis is sensible and well balanced. We agree that many structural reforms can only be adequately formulated and deployed when uncertainty recedes, and the magnitude of the required adjustment becomes clear. For that reason, we are particularly supportive of innovative proposals such as gradually broadening the content of policies and conditionality, lengthening repurchasing periods, broadening the menu of policy options, and, if required, shortening the review cycles. Such inventive features could become an accepted part of the Fund's repertory in situations where more flexibility is required to meet members' extraordinary needs. Overall, we call on staff to remain mindful of the specific manifestation of the crisis in different countries and avoid one-size-fits-all policy recommendations in upcoming UCT-quality programs as we move from the containment to stabilization and the recovery phases in our lending strategy.

The current crisis represents an opportunity to improve and update our lending practices and strategies. Our emergency financing instruments have been proved extremely useful, but not nearly ambitious enough in a context of a widespread global emergency. We underscore that additional emergency financing may be necessary in the upcoming months, therefore we should not rule out option 1 outlined in the paper, despite the heightened risks associated with it. We also understand the rationale for the creation of a new pandemic-specific facility. Indeed, this solution would allow for well-tailored program design, combined with clear ringfencing, warranted by the current once-in-a-century situation. Nevertheless, we are afraid that such strict ringfencing would prevent us from learning with the experience and evolving in the aftermath of the crisis. Most states deal with extraordinary situations by allowing for 'state of emergency' exceptions under their macroeconomic frameworks. In our view, the Fund needs a similar device. We should be able to boost and adapt out lending toolkit in emergency situations. The proposal of creating a pandemic window under the EFF comes the closest to that perspective. Ideally, the Executive Board should have the power to trigger 'emergency mode' under our GRA and PRGT facilities, whenever we face situations that overwhelm the capacity of our normal emergency financing instruments. Of course, these emergency situations would be clearly ringfenced by sunset clauses, as proposed by staff in option 4.

Considerations on the Fund's lending toolkit should be premised on the commitment to guarantee the adequacy of Fund's resources. We take note of legitimate concerns about heightened risks and the need to guarantee sound safeguards to Fund's resources. We are in favor of staff's proposals to enhance the safeguard of Fund's resources on the face of this amplified demand under uncertainty and heightened risks. At the same time, the Fund must continue to play its central role as the cornerstone of the international financial system, and this involves acting as lender of last resource when necessary. Accordingly, as the crisis evolves, guaranteeing that the Fund is adequately financed through membership quotas becomes more imperative. For that reason, we look forward to the debates under the 16th General Review of Quotas, and we see a case for anticipating its start as warranted.

GRAY/20/2949

September 23, 2020

Statement by Mr. Tanaka, Mr. Chikada, Mr. Naka, and Mr. Shimada on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis
(Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for the well-written report with lending options proposal. From the early stage of the COVID-19 crisis, the Fund has helped the membership countries, which has been facing the sudden and larger BOP needs, promptly and flexibly through many measures, including the temporary increase in access limits of emergency financings as well as annual access limits in GRA and PRGT, the establishment of SLL and the expansion of CCRT. Considering that the membership countries will continue to face difficulties in each phase of the crisis with still high uncertainty, **we welcome that the Fund will consider the expansion of its lending toolkits, including development of a new window or a new facility, to enable the Fund program to be sufficiently tailored to deal with the development of the crisis and member countries' needs in each phase of crisis.** The Fund should continue to play an important role to fight the current crisis, as the center of Global Financial Safety Net and only one international financial institution whose mandate is fighting international financial crisis though "provid[iding] the machinery for consultation and collaboration on international monetary problems".

We emphasize the importance for the membership countries to shift for UCT-quality programs going forward, particularly those with the debt issue. We are of the view that the implementation of the Fund's program should be precondition of the future debt restructuring after DSSI. In this regard, it is important to develop a new facility which would encourage such countries to seek the UCT-quality programs, by allowing necessary flexibility in program design considering the high uncertainty due to the pandemic. We should not delay the indispensable debt restructuring by overly relying on the existing facilities, which could also discourage such countries from the Fund's support.

Against these backdrops, we support the establishment of a temporary Pandemic Support Facility (PSF).

However, we share some concerns that many other chairs raised in their grays in relation to PSF. **In order to gain broader support for establishing PSF at the executive board, we would like to propose below points.**

(1) Showing clear demands and necessity for PSF

While we understand the important concept of PSF such as "gradually broadening content of policies and conditionality" and "review-centric", we would like staff to explain more on why such features are essential. In other word, we would like to know actual country examples which have difficulty in having the Fund's program under the existing toolkits and what kind of country will seek the Fund's support under PSF. Such information and analysis are essential, given developing a new facility needs certain level of staff resource (and authorities' consideration).

(2) Incorporating necessary structural reform without delay

While we agree that, depending on country specific circumstances, the full extent of structural reforms required would become clear only once the economy is well on a recovery path, we also believe that the timely implementation of appropriately focused and sequenced structural reforms is key for a sustained recovery, considering "crisis would be an opportunity to conduct reform". The Fund lending without necessary reforms would deteriorate the Fund's reputation as a catalytic lender. We therefore urge staff to explain how effectively the program under PSF would warrant "expanding the number and coverage of structural reforms and structural benchmarks (para 17)".

GRAY/20/2956

September 23, 2020

Statement by Mr. Mojarrad and Mr. Nadali on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for an informative paper and its outreach to our office and welcome Board's discussion of the Fund's lending options to support the membership during the next stage of the Covid-19 crisis. Notwithstanding significant uncertainty about and variation in the intensity and duration of the three stages of the pandemic from country to country, Fund's tailored and country-specific support is critical to mitigate the unprecedented adverse impact of the pandemic on lives and livelihoods and assist member countries to implement appropriate macroeconomic and possible structural reform measures as the crisis evolves from the initial containment phase to the stabilization and eventual recovery phases. **We are in broad agreement with staff analysis and suggested options** to align the lending toolkit with the evolving and uncertain nature of the pandemic crisis and wish to offer the following remarks:

1. Fund has commendably provided RFI/RCF emergency financing or augmented access under existing programs for over 80 members during the containment stage. However, there could still be significant demand for emergency lending in the months ahead, given continued pandemic-related disruption. In light of pending requests by the remaining 20 or so countries that have yet to receive Fund's emergency financing as well as likely demand from countries that received emergency support at levels less than the maximum amounts available, we expect that next week the Board will approve the six-month **extension to April 6, 2021 of temporary higher annual and cumulative access limits under RFI/RCF** emergency financing.

2. We agree with the suggested **desirable features for Fund lending during the pandemic** that depart from usual practices, including gradually broadening policy content and conditionality, longer repurchase period, frontloaded financing,

contingency planning, and review-centric monitoring of quantitative conditionality, as well as some additional safeguards to Fund resources, including enhanced monitoring of key metrics for debt sustainability and capacity to repay.

3. Precautionary instruments of FCL, SLL, and PLL should continue to be used throughout all three stages to reduce risks of sudden stops and systematically destabilizing capital flow management (CFM) measures and be adapted to the new environment. Following the recently-established SLL as a liquidity backstop for members with very strong policy frameworks and fundamentals, **a similar short-term line, having qualification criteria analogous to PLL, needs to be established** to benefit a wider group of EMDCs and help minimize the risk of shocks evolving into deeper crisis.

4. The **first of the four options** presented for the lending toolkit reform, involving another round of RFIs, has been ruled out on grounds of its highest risks both to the member and to the Fund. We however reiterate that this option **remains available to countries that have not exhausted access limits under the RFI**.

5. **The second option**, involving adaptation of the existing toolkit, while accommodating some desirable features of pandemic lending, **falls short** of fully responding to the unprecedented needs of the membership, given the likely insufficient length of the SBA's repurchase schedule as well as continued stigma associated with a visibly unchanged toolkit.

6. **We favor the third option** that modifies the Extended Fund Facility (EFF) and creates a temporary window by amending paragraphs 1 and 2 of the Decision establishing the EFF. While EFF is said not to be appropriate in programs with no or very few structural reform needs at program request, it is best positioned to quickly address the economic consequences of the pandemic as it is a relatively straightforward reform option that requires little learning by both staff and member countries to design programs supported under the window and its sufficiently long repayment period would enable the borrowing country to address crisis-related structural deficiencies that could emerge at a later stage of the program.

7. **We can go along with option 4**, if there is broad support in the Board for the expansion of the lending toolkit by creating a temporary pandemic support facility (PSF) that replicates the EFF pricing and is said to have advantages over other options in terms of ringfencing, tailoring, communication, and potential to reduce stigma. We, however, would prefer PSF to have a repurchase schedule like that of the EFF. Paragraph 45 of the paper indicates that the discussed options are not mutually exclusive and that even with a new instrument available some

countries may be best served by instruments discussed under other options. *We appreciate staff further clarification.*

8. Finally, given the truly global nature of the pandemic shock that affects all country groups, we agree that similar considerations apply to both GRA and PRGT instruments and that options for adapting the PRGT lending toolkit, consistent with PRGT available funding, are best explored as part of the ongoing **review of concessional lending**. We are pleased to note that the fast-track PRGT loan mobilization in recent months has exceeded its funding target and look forward to **broad donor support to cover** LIC's evolving financing needs by closing the **PRGT's subsidy gap**.

GRAY/20/2959

September 23, 2020

Statement by Mr. Rashkovan, Mr. Cools, and Mr. Hanson on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

We thank staff for the comprehensive paper offering a good understanding of the type of balance of payment problems countries are grappling with in the stabilization and recovery phases of the pandemic.

As the crisis evolves, we need to ensure that Fund lending remains tailored to the demands of the membership. We agree with staff that a focus on macroeconomic stabilization is crucial to cushion the impact of the crisis. Depending on country-specific circumstances, this calls for a differentiated approach, including, where needed, a feasible and realistic macro adjustment and possibly debt operations. Despite the uncertainty about the evolution of the crisis, we believe sequenced and prioritized growth-enhancing reforms are an important element of this policy mix and we are not in favor of backloading structural measures.

We would like to offer the following comments:

We remain to be convinced of the case to create a new lending instrument, **as the Fund's current lending toolkit allows for flexibility in program design.** The Fund's forecasts show that most countries will not return to their pre-crisis GDP path, as the crisis exposed and amplified pre-existing structural weaknesses. Sequenced and prioritized reforms will be important elements in the policy mix for these countries. When they request financing from the Fund, EFF arrangements with contingency plans and some flexibility in program design to account for the high degree of uncertainty would seem a good option. For those countries without structural weaknesses, the SBA would be available. We wonder which countries would be "stuck in the middle" between the EFF and the SBA. *Like Mr. Poso and Mr. Damgaard, we would be interested to hear more detail from staff about the characteristics of the intended users of a new window or instrument. For which countries without structural challenges would the SBA not be the appropriate instrument?*

If staff can make a clear case about which countries are not adequately served by the current toolkit, we would be open to consider establishing a temporary Pandemic Window under the EFF. We recognize staff's arguments that a ringfenced adaptation of the lending toolkit could make it easier to resume normal lending practices and will facilitate communication. The design of such a pandemic window should be subject to the additional safeguards mentioned in the paper for the

Pandemic Support Facility, such as quarterly reviews, higher DSA frequency, and presumed normal access. In light of the uncertainty of the duration of the crisis, we would also propose considering a shorter initial duration in the sunset clause.

Structural Reforms

While we understand that the EFF will remain the standard instrument for countries with pre-existing structural issues that caused a medium-term balance of payment problem, we are concerned that the creation of a new instrument with backloaded structural reforms will make the standard EFF a hard sell for countries with structural challenges. In result, we are concerned that backloaded conditionality would become the standard in upcoming program requests. *How does staff propose to mitigate this risk?*

We understand staff's call for more flexibility on the depth and the timing of reforms addressing structural challenges that result from the COVID-19 crisis. However, we think that for most countries, medium-term structural vulnerabilities will be part of the balance of payment problem that the Fund will be called to address. Improving debt management, revenue administration and public financial management will be even more important now, to secure a recovery from the crisis. This crisis also affects the sustainability of social security systems and exposes gaps in social safety nets. Addressing pervasive governance concerns and other structural challenges remains a priority. Postponing remediation of these challenges is not warranted, while timely implementation would support the recovery.

In light of this uncertainty about the size of the desired target group, we would argue to make use of the traditional EFF where structural challenges are diagnosed, balancing thus phasing with structural conditionalities. This default option should prevail *unless* it can be reasonably argued that the prevailing uncertainty makes an accurate diagnosis and remediation of structural challenges impossible. In that case countries could qualify for an EFF pandemic window. Such an approach would protect the Fund against reputational risk from not addressing long standing structural challenges and would limit the possibilities for shopping between a classical EFF and an EFF window. It would also strengthen the catalytic role of Fund lending.

Policy Options

The paper suggests that programs should be prepared to more readily accommodate unconventional policies, including measures that risk undermining hard-won gains in policy making and institution building, even though they might set damaging precedents, and might be hard to unwind. While we recognize that the current crisis requires to think out of the box, we find this point somewhat concerning and would *invite staff to elaborate this point further*.

Contingency Planning

We welcome the suggestion to develop contingency plans in order to deal with the high level of uncertainty. This is to be preferred over a decrease of the number of quantitative performance criteria at the start of the program. We understand that there are concerns that a wave of QPC waivers across programs in case of a downside scenario, would undermine the reputation of the Fund. However, we think that the outside world will understand that the significant uncertainty on the trajectory of the virus has the potential to entail an increased number of waivers. Clearly anticipating

the potential of increased waivers in case of a downside scenario, both in the published paper and the press release, could help preclude reputational damage.

Debt Vulnerabilities

As debt vulnerabilities have exacerbated during the crisis, rigorous DSAs should remain part and parcel of the next wave of program requests, despite the prevailing uncertainty. The capacity to repay the Fund strongly depends on debt sustainability. Programs should only be agreed on when debt is sustainable. Like Mr. Poso and Mr. Damgaard, we support the call for early reprofiling when debt sustainability is uncertain. *Could staff elaborate on when and how their proposed approaches for reprofiling would be implemented?*

Repurchase Periods

Given that staff sees the new facility or window as primarily an alternative for the SBA, it would be good if *staff could provide more information on the impact of longer repurchase periods on Funds resources and on the Forward Commitment Capacity*.

Lending Strategy other IFIs

Finally, we would appreciate if staff *could elaborate on how this new Lending Strategy sits together with strategic lending considerations by other IFIs*, most notably the World Bank. Coordination of lending strategies across IFIs would help the catalytic role of Fund lending.

PRGT

As the above considerations on structural reforms apply to PRGT countries, we agree to discuss the need for a separate window as part of the Review of Concessional Financing.

GRAY/20/2963

September 23, 2020

Statement by Mr. Trabinski and Mr. Peter on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

We consider the current lending toolkit to be flexible enough to allow for adequate tailoring to the different stages of the crisis. The Fund's effective and rapid response in the early phase of the crisis has shown that it is well equipped to meet the specific needs of its members. At this juncture, we see no clear evidence to support the notion of gaps in the existing lending toolkit. Therefore, we see no strong case for creating a new pandemic facility or significantly modifying the existing instruments. Any modification of the lending toolkit should be informed by a careful review of recent experience and motivated by actual demand for such a change.

Structural reforms should not be delayed when they are required to address a balance of payments need. While macroeconomic policies among the Fund's membership will remain supportive for some time, structural adjustment in countries requesting Fund support seems hardly avoidable, and structural reforms are necessary to facilitate the transition to new economic conditions. This is particularly important for countries with pre-existing structural weaknesses. Thus, we are not convinced by the idea that a structural reform agenda should be formulated only when uncertainty abates. If Option 3 were to be supported by the Board, we would see a clear need to drop the backloading of the formulation of a structural reform agenda. We see risks—to a member and to the Fund—from postponing needed structural reforms under the proposed pandemic window or facility.

When macroeconomic stabilization is the primary focus of a Fund-supported program, the SBA is the appropriate instrument to address balance of payments needs. Such programs should have a size that is limited to this purpose. In this regard, we regret that the SBA has not been considered as a first alternative in cases where there are no clear structural factors underpinning the balance of payments need.

We see a risk of facility shopping arising from a new pandemic window or a new pandemic facility with weaker conditions. In practice, it seems very difficult to distinguish between balance of payments (BoP) needs resulting from the pandemic and more "standard" BoP needs. *Can staff comment on how one might identify in practice a pure pandemic-related need? How can it be ensured that a pandemic window or facility would be used for its intended purpose?*

We remain to be convinced about invoking communication challenges as an argument for the creation of a new facility. In this highly synchronized crisis, stigma can hardly be invoked as a reason why a member would not want to seek Fund support. Moreover, repeated changes to the lending toolkit could suggest that the Fund has been caught off guard by the crisis, thus posing a reputational risk. An alternative communication line could be a self-confident message that the Fund is well prepared and has the instruments necessary to help its members meet their financing needs, as shown in practice since March.

We have some reservations about the idea of a review-centric approach. Fund arrangements deserve robust scrutiny—even more so with temporarily higher access limits. This means applying coherently and consistently existing lending policies and safeguards. Greater use of indicative targets—and lesser use of performance criteria—must not lead to a watering down of conditionality and a weakening of the role of the Executive Board in reviewing program implementation. It is important to keep in mind that conditionality remains a key element in the Fund's risk management framework to safeguard Fund resources.

We have concerns about the proposed broad menu of policy options. The most recent draft of the Managing Director's Global Policy Agenda emphasizes the need for "catalyzing a resilient recovery". We find it hard to reconcile the need to strengthen resilience with the idea of accommodating policy measures that "may risk undermining hard-won gains in policy making and institution building, set damaging precedents, and be hard to unwind" (Staff report, p. 13). *Could staff provide specific examples of such policy measures?*

We welcome the recognition that Fund support should remain catalytic. A strong and credible program of policies and reforms is the best assurance for catalyzing funding. Introducing a pandemic window or facility could actually hinder the catalytic role of the Fund in the early phase of the next stage of the crisis, without guarantee that it will find that role again later on. Work on the catalytic role of the Fund's lending in the context of the pandemic could be useful. *Does staff see a risk of crowding-out other sources of financing, including the private sector, given the already high debt levels in some countries? Is there any ongoing work on the catalytic role of the Fund during the pandemic?*

GRAY/20/2968

September 23, 2020

Statement by Mr. Raghani and Mr. Alle on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

We thank Staff for their informative report and for their proposals of lending options to support member countries during the next stage of the multilayered COVID-19 crisis. This discussion follows and complements earlier engagement on the three-stage lending strategy aimed at adjusting Fund assistance to the three phases of the pandemic, containment, stabilization and recovery. We welcome staff detailed analysis on the new challenges posed to the Fund toolkit as well as the implications of the different reform options. We wish to highlight the following points.

Pandemic and special BOP needs

We concur with staff that the evolving and uncertain nature of the pandemic shock creates a two-part BoP problem; an actual one stemming from falling export receipts and external financing, and a potential BoP problem associated with the uncertainty surrounding the pandemic and its longer-term effects. This poses challenges to traditional policy responses and instruments. In such a context, we share the view that Fund lending will need to be flexible enough to tailor the policy response to the severity of the crisis in member countries, notably introducing new features and modalities to the instruments while safeguarding Fund resources amid heightened risks.

Policy response and program modalities

We are of the view that the effectiveness of the policy response under Fund-supported programs going forward, hinges on the capacity to adapt to the “new normal” brought about by the pandemic. Many parameters have changed for countries seeking IMF support to address the effects of the pandemic, including policy priorities, the sequencing of reforms and even the capacity to implement a Fund arrangement. Therefore, emphasis should be put on the following aspects of the policy response and program modalities:

- Early efforts to assist countries should focus on macroeconomic stabilization with adequate frontloaded financing; structural reforms should then kick in as domestic and global conditions signal recovery from the pandemic;

- The gradual broadening of content of policies and conditionality is critical to help countries recover implementation capacity, restore reform appetite and address the structural causes of BoP needs as the economy recovers from the early effects of the pandemic and uncertainty abates;

- A review-centric conditionality implying a greater use of indicative targets (ITs) and fewer QPCs in the initial stages of the program is welcome and is consistent with the stabilization-structural reform path discussed above;

- The consideration of temporary "unconventional policies" is critical to give room for maneuver to policymakers in the face of manifold challenges and dwindling policy space.

Reform options

As regards the different lending options, we would like to first, stress our attachment to the imperative of meeting member countries' needs in these unprecedented times, while safeguarding Fund's resources. We welcome staff open-minded stance in reminding that the options presented are not mutually exclusive. It is important to adopt flexibility on this front too, thus broadening the toolkit to address the effects of the pandemic with the best instruments possible.

That said, considering all the pros and cons presented, our preference goes to Option 3 and Option 4 for the following reasons:

Option 3 - Establishing a Temporary "Pandemic Window" Under the EFF - while providing a pandemic window, that is a framework tailored to addressing the special challenges associated with the pandemic, would leave the total number of instruments unchanged. It will build on existing instruments and therefore reduce the learning period for policymakers, compared with Option 4. The transition will be particularly smooth for countries already implementing EFF or ECF-supported programs.

Option 4 - Establishing a Temporary Pandemic Support Facility – would have the advantage of a full-fledged facility designed exclusively to respond to the once-in-a-century COVID-19 shock. As such, its design features will better fit the challenges posed by the pandemic and provide the appropriate responses. It will also have a good signaling effect and follow the tradition of instruments tailored to address similar shocks like natural disasters and climate-related shocks. *However, we wonder whether it would not take too long to be designed, garner support and be effective, whereas countries face pressing BoP needs? Staff comments are welcome.*

We take good note of the fact that this discussion is being coordinated with the concessional lending reforms and the work on PRGT funding needs and options. *However, given the schedule of the discussions on the latter issues, we wonder whether this would not delay further lending options for LICs, especially under Option 4 of a new PSF? We would appreciate staff comments.*

GRAY/20/2970

September 23, 2020

Statement by Mr. Mozhin and Mr. Palei on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

1. We thank staff for the comprehensive paper on the options available to tailor the Fund's response to the ongoing deep and destructive COVID-19 crisis. We agree with the presentation of many pros and cons of the four options. While sharing most of the concerns articulated in the staff paper, we believe that the Fund has an excellent track record of being flexible when using the broad range of existing facilities. On balance, we would favor Option 2 supported with upgrading the Fund's communication policy to promote success stories we already have, such as the early adjustments in the Armenian and Georgian programs. We could also go along with a significant majority of Board members favoring Option 3. At the same time, with respect to Option 3, we see a significant risk of introducing excessive rigidities under the guise of additional safeguards, and we would warn against such an approach.

2. Like many other Board members, we do not agree with the view that the uncertainty associated with the COVID-19 crisis somehow inhibits the authorities' ability to embark on structural reforms at an early stage. Quite the opposite might be true. The earlier the authorities recognize preexisting vulnerabilities and the ones augmented by the crisis, the better. While the separation of the crisis, stabilization, and recovery stages is a useful concept, these stages overlap. Accordingly, the policy response should also be comprehensive and timely.

3. From this point of view, it would be instructive to recall the policy response to the Global Financial Crisis spread from the advanced economies to the rest of the world. At the time, the Fund's advice was to devise at the early stages the medium-term reform programs in order to strengthen market confidence in response to the crises. Indeed, many countries not

only suggested such programs at the early stages, but also strived to implement them. With the benefit of hindsight, one can claim that the affected countries needed even stronger commitment to reforms and perseverance with their implementation. The authorities who embraced such an approach soon after the GFC, met the unexpected 2020 pandemic with substantial policy buffers.

4. In light of the above, we are in favor of a frontloaded analysis of macroeconomic situations in countries severely affected by the crisis, as well as structural challenges they are facing. A well sequenced implementation of reforms, with due regard to protecting vulnerable population and supporting economic activity, should be among the key priorities for the Fund and its members. Appropriate contingencies should also be a standard feature of the new generation of programs at the times of COVID-19.

5. Finally, we believe that the Fund needs to rethink its communication policy, which should be consistent with the emerging consensus among its members. Special attention should be paid not only to immediate anti-crisis measures, but also to expeditious and successful policy responses aiming at medium-term challenges.

With these remarks, we thank staff and other Board members for their thoughtful reflections on the options to strengthen the Fund's role in combatting the crisis like no other.

GRAY/20/2974

September 23, 2020

Statement by Mr. Bhalla and Mr. Natarajan on Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis (Preliminary)
Executive Board Meeting
September 25, 2020

1. We thank the staff for the informative paper which provides the various lending options. Fund has been swift in utilizing the emergency toolkit to provide urgent financial support to help the needy members adversely affected by the health and economic consequences of COVID-19 pandemic. The flexible and proactive approach in enhancing the access limits of emergency toolkits and annual access limits was suitable to manage the early phase of the pandemic.

2. As the pandemic evolves into the next phase, we agree that the lending approach needs to shift to longer engagement. This approach requires deeper understanding of the member-specific concerns and addressing their needs with appropriate program design. As many members may require substantial support, this requires prudent deployment of Fund's resources and detailed assessment of risks involved. We fully agree that ensuring the adequacy of the Fund resources and continuing governance reform should remain the key focus.

3. On the establishment of a temporary Pandemic Support facility to meet urgent financing needs, we believe that the lending facilities should be aligned with the incoming economic data. Thus, the demand for additional lending needs should be reassessed dynamically based on the changing outlook of the global economy. The global economic outlook remains hazy at the current juncture; however, defying the gloom, some positive news is trickling down.

4. The basic philosophy of the IMF paper is that the Fund needs to tolerate higher risks in its pandemic-related lending operations. We believe that the assessment of the risk has to be state-contingent. The fund has already utilized a significant part of its firepower and the Forward Commitment Capacity remains a constraint, which may then require recourse to borrowing windows - NAB and BBA. Our thinking on the issue is that since the further step-up in lending itself implies higher risk, the risk should be reflected in the form of adequate

safeguards and accountability on the part of the borrowers to preserve the scarce resource base and the future lending capacity of the Fund. *In this context, could the staff provide an assessment of demand for Fund-supported programs in terms of number of members, quantum and nature of support expected?*

5. Going forward, we agree that the program modalities should incorporate a suitable mix of fiscal, monetary and financial policies along with appropriate structural measures. Such a response is appropriate to address the emerging challenges and shift the focus to achieve macroeconomic stability and encourage speedy economic revival.

Staff's Responses to Executive Directors' Technical Questions

Fund's Pandemic Response—Lending Options to Support Members During the Next Stage of the Crisis
EBM/20/95, September 25, 2020

Staff's responses to technical and factual questions are below. Broader policy questions will be addressed in staff's oral intervention at the Board meeting.[1]

Program design and modalities

1. **Regarding potential demand and borrowing space within normal access limits, we understand that staff identified around 30 members, and some of those have already approached the Fund. The recently issued paper on Review of Enhanced Access Limits shows that 27 countries have received RFI/ECF in varying degrees.** ***But the amount available under normal access limits will necessarily be limited--will that be sufficient to meet financing needs, or primarily rely on catalyzing other financial support.***

- The catalytic role of the Fund—more important than ever—will be preserved and prioritized in all arrangement-based options. Staff assessment is that the proposed flexibility in program design, accompanied by appropriate safeguards, would be sufficient to give confidence to donors to step in and help fill any identified residual financing gap. The knowledge that access could be augmented to Exceptional Access, if the BoP need arises and the EA framework is met, should provide additional reassurances to other potential sources of financing.

2. **We thank Staff for proposing additional safeguards, which touch upon important risks inherent in the current environment. However, the implementation remains somewhat unclear.** ***Could staff clarify how they will be implemented? Does staff envision these measures to be obligatory for all program engagement during the pandemic?***

   - Staff will respond to this question during the Board meeting.

[1] EDs have requested that staff indicate those areas for which responses will be provided during staff's oral intervention in the Board. This avoids the need for EDs to repeat their questions during the discussion. In addition, staff may also indicate specifically in this document which questions they intend to address orally.

3. ***Has staff considered sensitivity analysis in debt sustainability assessments, that would show both a stronger and weaker DSA than the baseline— which could include contingency plans in the case the weaker scenario becomes likely*****?**

- Please note that the current DSA framework already provides sensitivity analysis with respect to several potential shocks. The sensitivity analysis would also be reinforced by the inclusion of an adverse scenario and contingency plan at the program request and subsequent reviews.

4. ***Could staff clarify the Fund's current policy and practice on the frequency of the DSA?***

- In accordance with the MAC and LIC DSA guidance notes, a DSA should be prepared at least once a year for program countries and at the time of the Article IV consultation for non-program countries. DSAs should be undertaken for all program requests. Thereafter, DSAs should be done on an annual basis for program countries, unless developments in the outlook for public debt warrant a more frequent analysis. However, for exceptional access countries, an updated DSA should be included in every review.

5. **We caution against an extension of the safeguards policy as proposed in the paper, whether or not we create a new facility. Staff proposes the application of more stringent/conservative debt sustainability assessments and to extend the safeguards policy that would apply to countries in the case of Exceptional Access when debt is sustainable but not with high probability of programs within normal access limits.** ***Would this affect the majority of the identified 30 potential borrowers?***

- Staff will respond to this question during the Board meeting.

6. **We support incentives for early re-profiling when debt sustainability is questioned. We find the proposed safeguards of applying EA criterion 2 to normal programs and the two-step approach very interesting options.** ***Could staff elaborate their views on the practical implementation of these proposals?***

- Staff will respond to this question during the Board meeting.

7. **Could staff elaborate on when and how their proposed approaches for reprofiling would be implemented?**

- Staff will respond to this question during the Board meeting.

8. **A small group of countries concluded a Fund program in recent months and did not have a prior balance of payments problem.** ***Was any thought given to extending the same longer repayment period retroactively, now that it is seen as more suitable?***

- Staff will respond to this question during the Board meeting.

9. **The paper suggests that programs should be prepared to more readily accommodate unconventional policies, including measures that risk undermining hard-won gains in policy making and institution building, even though they might set damaging precedents, and might be hard to unwind. While we recognize that the current crisis requires to think out of the box, we find this point somewhat concerning and** ***would invite staff to elaborate this point further*****.**

10. **We have concerns about the proposed broad menu of policy options. The most recent draft of the Managing Director's Global Policy Agenda emphasizes the need for "catalyzing a resilient recovery". We find it hard to reconcile the need to strengthen resilience with the idea of accommodating policy measures that "may risk undermining hard-won gains in policy making and institution building, set damaging precedents, and be hard to unwind" (Staff report, p. 13).** ***Could staff provide specific examples of such policy measures?***

11. ***Regarding the design feature of a "broad menu of policy options" (para. 17, last bullet), we would be interested in some specific examples of what these could be. We understand that this feature can also be accommodated under the current guidelines already.***

- The pandemic lending strategy paper (FO/DIS/20/141) in paragraph 11, bullet three, provides additional details on this design feature. Unconventional or unorthodox policies could be required to support stabilization in rare cases given the potential depth of the crisis and after other tools have been exhausted. For example, these could include administrative measures to manage prices or distribution of critical goods, especially for the health response, to combat hoarding or ruptures of supply chains, or emergency regulatory forbearance to support more gradual repair of balance sheets. These would be considered on a case by case basis. Finally, as with other elements of program design and modalities noted in the paper, these are available under the current toolkit but may have additional relevance under the current crisis.

12. ***What is the added benefit from state-contingent financing compared to the existing ability to augment or cancel an arrangement?***

- The possibility for access augmentation and cancellation of arrangements is already provided under current Fund lending policies. The discussion in paragraph 17 is

intended to emphasize the relevance of these features for lending during the pandemic given the uncertainties regarding the depth and duration of the crisis.

13. Introducing a pandemic window or facility could actually hinder the catalytic role of the Fund in the early phase of the next stage of the crisis, without guarantee that it will find that role again later on. Work on the catalytic role of the Fund's lending in the context of the pandemic could be useful. Does staff see a risk of crowding-out other sources of financing, including the private sector, given the already high debt levels in some countries? Is there any ongoing work on the catalytic role of the Fund during the pandemic?

- The proposed recognition at the program request stage that the policy agenda may need to be later broadened should not undermine the catalytic role of the Fund. It reflects the reality that members currently face, where a comprehensive diagnosis and solution would not be feasible in today's uncertain environment . And it is the Fund's credibility—rooted in its analysis, realistic projections, balanced risk assessment—that ultimately enables the Fund's catalytic role.

14. While we understand the important concept of PSF such as "gradually broadening content of policies and conditionality" and "review-centric", we would like staff to explain more on why such features are essential.

- The unprecedented uncertainty about the persistency of the shock and the magnitude and direction of shifts in post-pandemic equilibria complicates formulating a comprehensive policy agenda at the outset of the program. When uncertainty abates, the problem—and therefore a more detailed content of needed reforms—would be expected to crystalize. Some key structural reforms—such as putting in place or strengthening insolvency regimes—may well be warranted at the outset of the program. A gradually broadening content of policies and conditionality should not necessarily imply a lean policy agenda (that would depend on the starting point of the economy), reflecting primarily a recognition that the agenda could grow and shift in the future.

- The review-centric monitoring of quantitative conditionality is also motivated by heightened uncertainty necessitating frequent and substantial revisions to macroeconomic frameworks, which in turn would render many quantitative performance criteria (QPCs) impractical to implement and could lead to an increased number of waivers being necessary.

- This problem would be mitigated by relying more on indicative targets (IT) at the initial stages of the program due to substantial uncertainties about economic trends, as provided under the Conditionality Guidelines, and gradually shifting to a broader

use of QPCs. However, the program design is expected to contain some few key QPCs from the start, such as the one on net international reserves.

Options for reform

15. ***Could staff elaborate on the demand for additional emergency financing from the membership? How many requests are in the pipeline until the end of the year?***

- Staff will respond to this question during the Board meeting.

16. ***Does staff have market research that points to the Fund being perceived as taking a 'business as usual' approach to the crisis and generally being seen as unresponsive?***

- The Fund's early response has been generally commented in positive light. A further evolution of lending policies and the toolkit, tailored to the pandemic, would build on these sentiments.

17. The current framework allows for canceling an on-going arrangement and to apply for a new one, should conditions and underlying challenges prove worse than assumed. This makes it possible to, e.g., start with an SBA and then if assessed necessary change to an EFF. ***How would this alternative compare to the pandemic window under the EFF in option 3? We would also ask staff to elaborate on the potential risks of allowing for more flexibility under the current facilities (option 2) and how this could be ring-fenced.***

- It is important to first clarify that the use of successor arrangements is never planned or agreed *ex ante*, at the time of the first arrangement request. The sequential use of SBA followed by EFF could de facto substitute for an PSF arrangement, but not for the EFF pandemic window.

- Under normal circumstances, countries with limited structural needs are best served under the SBA. For reasons discussed in the paper, the PSF would in staff's view provide a better fit in the pandemic context, but an SBA-EFF sequence could mimic it to some extent. An SBA would be approved at the outset, as it would be consistent with the limited structural agenda identified at request due to uncertainties. When the uncertainty associated with the pandemic recedes, it may become evident that the long-term effects of the pandemic are worse than originally anticipated and deeper structural reforms are required. In that case the SBA could be cancelled and be followed by a request for an Extended Arrangement (with a comprehensive reforms agenda, as uncertainty is expected to have receded).

- Countries that suffer from clear structural maladjustment from the outset (likely because they were present pre-pandemic) would normally be expected to request an EFF. This would apply equally to regular EFFs or those under the "pandemic window". There is no reason for such a country to go for an SBA at the outset, as the country and the Fund both know that resolving the BoP problem would require broad structural reforms that are best undertaken under an EFF.

- As such, the EFF (whether a regular one or one under the "pandemic window") serves a different set of countries than that targeted under the PSF (but which could also be served—even if imperfectly—by a SBA-EFF sequence in a downside scenario).

18. **Could *staff lay out a realistic timetable for developing a pandemic window under the EFF*?**

- Depending on the outcome of the Board meeting, staff intends to continue its work and further explore the different options in the period ahead. Any timetable for concluding work on a new pandemic window under the EFF would depend foremost on the time that would be needed to garner the needed support from the membership. If a window were to be established under the EFF, it could be implemented within a relatively short timeframe.

19. However, we wonder whether it [Option 4] would not take too long to be designed, to garner support and be effective, whereas countries face pressing BoP needs? *Staff comments are welcome.*

20. Should the Board task staff to further analyze the scope for establishing a new temporary facility, staff will further explore other options and revert to the Board expeditiously, once there are indications that the necessary support could be secured and that demand for such options exists. In the interim, the Fund could use flexibility under the existing lending toolkit. ***Could staff elaborate on how such a revised pandemic window would differ from the current EFF, and has staff assessed how large the demand for a new facility/window would be? Could staff also elaborate a bit further on the type of countries that would need funding from the new window/facility?***

21. We wonder which countries would be "stuck in the middle" between the EFF and the SBA. *Like Mr. Poso and Mr. Damgaard, we would be interested to hear more detail from staff about the characteristics of the intended users of a new window or instrument. For which countries without structural challenges would the SBA not be the appropriate instrument?*

- A temporary PSF would best serve countries that did not have significant balance of payments problems prior to the crisis and are expected to have limited clear structural reforms needs upfront, as it will be very difficult to identify the optimal policy response until the uncertainty associated with the pandemic abates. Such countries would normally be best served by SBAs—as discussed in the paper—the repurchase terms under the credit tranches may prove insufficiently long in the context of the pandemic.

- The EFF requires a comprehensive structural reform agenda (which justifies its longer repayment period), and would only be useful in cases of countries with BoP needs associated with structural maladjustments. This would be clearly the case of countries that had pre-pandemic structural BoP problems. The EFF would not be suitable for countries with no clear structural reform needs.

- The EFF pandemic window could explicitly allow for arrangements to be approved based on broad program objectives and a gradually broadening policy content (including for structural reforms), although EFF's already existing flexibility could accommodate it as well.

22. Further, we are somewhat worried that a new form of pandemic lending would generally steer financing requests towards an instrument with lighter conditions than the usual Fund programs, even in cases where "normal arrangements" would be more appropriate. ***Does staff see this as a risk? How will the Fund be able to manage moral hazard and navigate those countries with structural problems to lending arrangements other than the pandemic window?***

23. ***We would also be interested to learn more about the intended users of such a new window or instrument. In particular, if it is to exclude countries with "pre-existing imbalances" (under option 4, para. 37), we consider that it would be available for only a small proportion of the Fund's membership.***

24. ***Could staff indicate whether any members have expressed interest in pursuing a pandemic facility or pandemic window in the EFF? Have members requested any other changes to make the toolkit more flexible in addressing their BoP needs?***

25. Paragraph 45 of the paper indicates that the discussed options are not mutually exclusive and that even with a new instrument available some countries may be best served by instruments discussed under other options. ***We appreciate staff further clarification.***

26. In other word, we would like to know actual country examples which have difficulty in having the Fund's program under the existing toolkits and what kind of country

will seek the Fund's support under PSF. Such information and analysis are essential, given developing a new facility needs certain level of staff resource (and authorities' consideration).

27. Such structural measures are essential to prepare the ground for a strong recovery and, when implemented as conditions allow, are compatible with the short-run stabilization objective and institutional capacity as outlined in the report. *Can staff confirm that this is the way they envisage a temporary pandemic support facility being used? Does this fit with current demand for a new facility?*

28. We should avoid creating an instrument with no or few actual needs, which might also cause damage to the Fund's reputation. *We would appreciate staff's elaboration on the target countries of the PSF and their intention to request the new facility*.

29. Our thinking on the issue is that since the further stepup in lending itself implies higher risk, the risk should be reflected in the form of adequate safeguards and accountability on the part of the borrowers to preserve the scarce resource base and the future lending capacity of the Fund. *In this context, could the staff provide an assessment of demand for Fund-supported programs in terms of number of members, quantum and nature of support expected?*

- Among the countries that expressed or are likely to express interest in Fund financing, some have balance of payments problems caused mainly by factors other than the pandemic, while others had no pre-pandemic imbalances. The first group is best served by an existing instrument (likely an arrangement under the EFF), whereas the latter would, in staff's view, be ideally serviced by the proposed PSF.

- For balance of payments problems arising primarily due to factors other than the pandemic, they would be best addressed under the existing instruments, where program design is also expected to adapt to the evolving and uncertain nature of the pandemic to the extent possible. Key structural reforms that prepare the grounds for a strong and sustainable recovery should be implemented early on, but some reforms (e.g., raising labor market flexibility), while desirable for longer-term growth, could add to the short-term costs if implemented when the recovery has yet to take hold. Therefore, implementation of these reforms can be appropriately postponed to when the recovery takes hold.

- A temporary PSF would best serve countries that did not have significant structural issues that were associated with balance of payments problems prior to the crisis. Given the pervasive uncertainty associated with the pandemic, it will be very difficult to formulate a *comprehensive* optimal policy response until the effects of the ongoing crisis abate and the structural needs becomes clearer.

- In informal consultations with area departments, staff has identified a number of potential candidates. A few have already requested SBAs or are in the process of requesting them; these countries may be better served under the proposed PSF for reasons discussed in the paper (with the added benefit to the Fund of ringfencing the current toolkit). More generally, pre-pandemic, only 17members had disbursing GRA or blended arrangements (plus 5 precautionary ones), suggesting that the universe of countries without significant imbalances is not insignificant during this global pandemic.

30. ***Can staff comment on how one might identify in practice a pure pandemic-related need? How can it be ensured that a pandemic window or facility would be used for its intended purpose?***

- As all countries are affected by the pandemic, assessing whether a member's BoP problem primarily originates from sources other than the pandemic will involve a holistic approach.

- Some factors that could inform the assessment of the source of the BoP need could include: (i) existence of a pre-pandemic Fund arrangement; (ii) external imbalances identified in the last pre-pandemic Article IV; and (iii) feasibility to identify extensive structural reforms needed to resolve the BoP problem at the outset of the program. These could suggest that the problems are likely driven by factors not associated with the pandemic.

31. ***Should Option 3 be adopted, could staff clarify whether a presumption of normal access at program request would similarly apply?***

32. ***Another key consideration is that the useful safety features (non-repeated use, presumption of even phasing and normal access, heightened requirements on debt sustainability) identified for Option 4 would also be accommodated under Option 3 and we would appreciate staff's comments on this*.**

- Staff will respond to this question during the Board meeting.

33. ***Could staff confirm whether they believe access limits will be a constraint for the countries that qualify for the new facility*?**

- Annual access limits have been temporarily raised to ensure the additionality of emergency financing [, while cumulative access limits were kept unchanged as these constitute a key anchor in the Fund's risk management.] These access limits do not necessarily represent a constraint if the exceptional access framework is met. If a country would already need exceptional access at the onset of the arrangement request, it would suggest that the balance of payments problems and financing needs

may be caused by pre-existing conditions. In the latter case, an existing instrument, such as an arrangement under the EFF, may be more suitable.

34. However, it confuses us that the repayment period of the PSF (4½ to 7 years) is shorter than that of the Extended Fund Facility (EFF, 4½ to 10 years), when considering that the structural reforms could be implemented from the start of the EFF arrangement, while the structural reforms could be implemented only after a certain period of time following the start of the PSF arrangement. *Staff's comments are welcomed*.

- Since the idea is for the PSF to be used instead of SBA during the pandemic, the starting point is the SBA repurchase period. We currently expect the uncertainty to be resolved in a year or two, which means that some of the broader reforms—those related to possible pandemic-related structural maladjustments—would be phased in sometime in the 2nd year of the program. This suggests pushing the repurchase period out by 1-2 years compared to the credit tranches.

- If a country is in broad equilibrium before the crisis, staff expects that addressing its medium-term structural scarring from the pandemic should take somewhat less time than resolving deeper structural weaknesses typical in EFFs. Therefore, the PSF proposes a repayment schedule shorter than the EFF..

35. A danger, that is particularly pronounced with option 4, is that it may increase stigma for those countries that are not considered eligible for the new facility but instead have to resort to an EFF (or already have an EFF in place). Such countries could be perceived as "weak" whereas countries requesting the new facility could be perceived as "strong" with supposedly few structural weaknesses. The reputation of the traditional programs, which have served the membership well, could thus suffer, if those countries which were prudent enough to ask for an EFF early on would be punished, whereas latecomers would benefit. *Staff comments on this problem would be welcome.*

- Any stigma for countries with EFFs already in place would be limited and could be mitigated through appropriate communication when the facility is established (if approved).

- For the duration of the pandemic, the PSF is intended to temporarily serve countries that would normally request an SBA. To the extent that there is differentiation between the SBA and EFF (the former generally signaling a lighter structural agenda) that can potentially create stigma, such differentiation would be inherited also by the PSF. However, the 2018 Review on Conditionality has not uncovered any revealed prejudice against the EFF (and the share of EFFs has increased in recent years).

36. The other two options are viable, with a preference for Option 3, a special window within the EFF, as it achieves the four desirable traits noted above. ***We would appreciate staff clarification of the kind of modifications that would be possible without an 85% majority threshold.***

- The required voting majority depends on the nature of the modification to the EFF. Establishing a window under the EFF with a different BoP problem than the one being addressed under the EFF would require an 85 percent majority of the total voting power.

37. While we understand that the EFF will remain the standard instrument for countries with pre-existing structural issues that caused a medium-term balance of payment problem, we are concerned that the creation of a new instrument with backloaded structural reforms will make the standard EFF a hard sell for countries with structural challenges. In result, we are concerned that backloaded conditionality would become the standard in upcoming program requests. ***How does staff propose to mitigate this risk?***

38. The Fund lending without necessary reforms would deteriorate the Fund's reputation as a catalytic lender. We therefore urge staff to explain how effectively the program under PSF would warrant "expanding the number and coverage of structural reforms and structural benchmarks (para 17)".

- The desirable program design features and modalities during the pandemic crisis call for additional measures to safeguard Fund resources. While it is impossible to fully offset the resulting additional risks to the Fund—especially in the high-uncertainty pandemic environment—additional safeguards can help mitigate the risks. There is scope for an explicit commitment by the authorities to broaden both the macro adjustment and structural reform components of the program beyond those set out at the outset, as clarity emerges on the extent of structural reforms needed.

- The structural reform agenda will start in the stabilization phase, but could expand during the recovery phase as reform needs become clearer. The overall structural agenda has to be calibrated to the different stages of the pandemic and to country specific circumstances:

- Some reforms could be started during the macro-stabilization phase. This includes reforms focused on fixing pre-existing weaknesses clearly linked to BoP problems and that: (i) are critical to the success of the program as required under the Guidelines on Conditionality; (ii) do not exceed the institutional capacity of the member, and (iii) do not weigh down on the recovery (e.g., labor market reforms). While the reform needs would be assessed on a country-by-country basis, the expectation is that pandemic programs would generally have few reforms in this category, beyond those

focusing on strengthening the financial safety net, and corporate and household debt resolution frameworks and governance reforms aimed at mitigating risks of misuse of resources provided or catalyzed by the Fund.

- The authorities should stand ready to implement new reforms to help adjust to the new post-pandemic equilibria (once those equilibria become clear). This could include, for example, sector-specific debt resolution schemes, active labor market programs (again, focused on sectors affected on a permanent basis), comprehensive tax reforms triggered by permanent losses of traditional sources of public revenue.

39. We missed a thorough discussion in the paper from the GFSN aspect. *Staff's comments are welcomed.*

- The new facility is aimed to fill a temporary gap in the GFSN, arising from the unique challenges posed by the pandemic crisis. The dynamics of COVID-19 suggest that additional flexibility guiding structural reforms and quantitative targets is required early in the program, but that policy content and reforms are broadened and deepened as the program evolves and the shock dissipates.

- In the existing toolkit, while SBA is a standard GRA arrangement for any BoP problem, its relatively short repayment may be insufficient to ensure capacity to repay in the pandemic setting. The EFF is for addressing BoP problems that have a clear structural need upfront, but the evolving nature of the pandemic shock implies that this is very difficult to specify a comprehensive structural adjustment agenda until the uncertainty abates and the structural need becomes clearer.

- In the existing toolkit, while SBA is a standard GRA arrangement for BoP problems that do not need structural reforms, its relatively short repayment may be insufficient to ensure capacity to repay in the pandemic setting. The EFF is for addressing BoP problems that have a clear structural need upfront, but the evolving nature of the pandemic shock implies that it is very difficult to prescribe a comprehensive structural reform agenda until the uncertainty abates and the structural need becomes clearer.

Other considerations

40. *We concur on the need to replicate the PSF under the PRGT to ensure evenhandedness. We would appreciate staff's comments on whether on-going fund-raising initiatives would be sufficient to cover such a proposal.*

- Staff will respond to this question during the Board meeting.

41. We take good note of the fact that this discussion is being coordinated with the concessional lending reforms and the work on PRGT funding needs and options. However, given the schedule of the discussions on the latter issues, we wonder whether this would not delay further lending options for LICs, especially under Option 4 of a new PSF? ***We would appreciate staff comments.***

- Staff is planning an informal Board discussion after the Annual Meetings on the LIC facilities review and review of concessional financing, likely in November. This would be an opportunity to discuss also possible reforms, to the PRGT instruments.

42. **We would have appreciated indicative estimates of the resource implications of the various lending options together with the potential effects on precautionary balances and the broader Fund balance sheet.** ***Staff comments are welcome*****.**

- The discussed arrangement-based options, options 2 to 4, would likely give rise to broadly similar use of Fund resources. If they were to encourage more members to seek early Fund financial assistance considering either lower stigma, the attractiveness of greater flexibility in program design, or a longer repayment period (versus the SBA) envisaged in option 4, part of the upfront calls on Fund resources may represent requests for use of Fund resources that would have anyway been made under the existing toolkit and policies but at a later time. Overall, staff estimates that the net increase in the demand for Fund resources generated by the proposed options could be limited.

43. ***Given that staff sees the new facility or window as primarily an alternative for the SBA, it would be good if staff could provide more information on the impact of longer repurchase periods on Funds resources and on the Forward Commitment Capacity.***

- The resource impact of the longer repurchase period would depend on the post-pandemic issues facing the mix of countries that would avail themselves of a potential PSF and is not so clear-cut at this point. For example, among the countries that would avail themselves of a potential new facility, some would have otherwise used initially the SBA and eventually shifted to the EFF should their post-pandemic structural issues turn out to be significant. As the proposed repayment period under the PSF falls between the shorter SBA and the longer EFF repayment periods, the repayment period-related resource implications of the PSF would likely be limited in such cases.

44. We would appreciate if staff could elaborate on how this new Lending Strategy sits together with strategic lending considerations by other IFIs, most notably the World Bank.

- Other IFIs, including the World Bank Group (WBG), have increased their support and reprioritized their assistance to address health and social protection needs

resulting from the pandemic. For instance, the WBG has launched the COVID-19 Fast Track Facility in March 2020 to provide immediate support to assist countries coping with the health, social and economic impact of the pandemic. This facility aims also to help countries speed up the economic recovery after the containment phase.

- The WBG Covid-19 crisis response approach paper (June 2020) proposed an operational framework for crisis response through: (i) emergency support for health intervention, (ii) social response for protecting the poor and vulnerable, (iii) economic response for helping firms and financial institutions, and (iv) focused support for resilient, inclusive and sustainable recovery. The paper also noted that WBG will customize the design of response programs at the country level, including the most appropriate mix of instruments, to meet the specific needs and circumstances of each country. Many operations will combine governments' ongoing medium-term reforms with measures needed to respond to the crisis.

- Fund staff will continue to coordinate closely with other IFIs to exchange information, explore financing options, and identify reform priorities in tackling the impact of the epidemic.

Constituency Codes

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, and República Bolivariana de Venezuela

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE
Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States