INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-1

Statement by Mr. Sunak
United Kingdom

Statement by Rishi Sunak
Chancellor of the Exchequer, H.M. Treasury, United Kingdom
On behalf of the United Kingdom

Global economy and policy responses

1. We are facing a global health and economic crisis on an unprecedented scale. The Covid-19 outbreak is taking a tragic toll on the lives of our citizens, our health systems, and our economies. The necessary measures to reduce the health impact of the virus have resulted in the shutting down of large sections of the global economy, which will cause a global recession this year. Continued uncertainty over how the virus will evolve makes it difficult to predict when global growth will rebound. Policymakers have responded with unprecedented monetary and fiscal action, to support households and businesses through the necessary disruption and to maintain the conditions for an economic rebound once restrictions on economic activity can be eased. We must continue to work together to respond to the crisis, support the most vulnerable countries and ultimately build a sustainable recovery.

UK response

2. In the UK, I have pledged to do whatever it takes to support people, businesses and the economy. The UK authorities have announced an ambitious package, unprecedented in the history of the UK, and utilising an array of fiscal and monetary measures to protect people's jobs, incomes, businesses, and help people stay in their homes. The Bank of England has cut its base rate to the historic low of 0.1%, expanded its holding of UK government and corporate bonds, made loans available to businesses and reduced the countercyclical buffer rate to 0%.

IMF role

3. There has never been a more critical and challenging time for the international community to work together to respond to the deep global health and economic crisis unfolding before us. The IMF has a crucial role in responding to this crisis through its surveillance,

lending, and capacity development roles. The Fund's role at the centre of the global financial safety net is unique. It must be ready to quickly deploy substantial resources to help stabilise the global economy and alleviate liquidity constraints, and to support its most vulnerable members. I strongly welcome the actions the Fund has taken so far to respond to the crisis, including mobilising additional emergency financing and considering new instruments. The IMF should continue to prioritise responding to the impacts of the pandemic and support its membership, including through:

- **Surveillance**: The Fund's surveillance has a key role to play in providing clear messages about the outlook of the global economy and informing policy decisions. Its analysis and policy advice should help members deal with the different macroeconomic challenges posed by the crisis. In conditions of unprecedented uncertainty, it is important the IMF communicates effectively and continues to update its forecasts in a clear and timely way.
- **IMF resources:** I welcome the IMF standing ready to mobilise its existing $1trn lending capacity to help its members fight the pandemic and to stabilise the global economy. An unprecedented level of financing requests could put pressure on existing Fund resources, and I would therefore encourage the IMF to keep resources under review. The crisis has highlighted the continued need for a well-resourced, quota-based IMF at the centre of the Global Financial Safety Net and we should therefore ensure that both the General Resource Account (GRA) and Poverty Reduction and Growth Trust (PRGT) are well resourced to support countries that need it most and support economic recovery after the crisis.
- **Lending toolkit:** The Fund's lending tools will be key to provide financial support to member countries to respond to and recover from the crisis. We must ensure that the toolkit is adapted to respond to this crisis and is supporting those with the greatest needs. I therefore welcome the recent agreement to double access limits on the Fund's emergency financing instruments. This will ensure that the most vulnerable can meet immediate financing needs. More broadly, we should ensure that the Fund's enhanced toolkit complements those available through other International Financial Institutions, so that support can be made available to the most vulnerable

countries where needed, including the poorest and those with unsustainable debt.

- **Debt relief:** To avoid damage to the global economy and to prevent waves of re-infection, we must work to alleviate the fiscal pressures facing affected countries, including those with high levels of sovereign debt. The Catastrophe Containment and Relief Trust is a crucial tool to support the poorest countries. This is why the UK has committed up to £150m to its replenishment. I welcome recent pledges made by other IMF members and I encourage others to join this effort. I also support efforts by official creditors, working through the G20 and Paris Club, to explore provision of debt service relief to the most vulnerable countries.
- **Liquidity tools**: I support the IMF in exploring further measures to boost liquidity across the membership and supplement the long-term global need for reserve assets, without adding to already high debt burdens. In particular, I support the Fund in developing proposals for a new short-term liquidity line to help tackle capital flow volatility. I also encourage the Fund to keep other options under review, including the possibility of a Special Drawing Rights allocation.
- **International Organisation coordination:** I ask the IMF to work closely with other International Organisations to enhance their policy and operational response to the crisis and to ensure that resources get to where they are most needed.
- **Capacity Development:** The Fund's capacity development will be key to supporting its membership through the crisis. The IMF should continue to offer technical assistance to help vulnerable countries implement sound macroeconomic policies to mitigate the impacts of the pandemic.

4. The current crisis has highlighted the importance of the Fund's work on wider issues such as capital flows and debt sustainability. Capital outflows from emerging markets as a result of the pandemic have been the largest on record and emphasise the need for an Integrated Policy Framework. There is a clear need for the Fund to provide a coherent framework for an effective policy mix to a range of shocks as emerging and developing

countries respond to the Covid-19 crisis. The Fund must also continue to work with borrowers and creditors to promote debt transparency and sustainability, and recognise that further sovereign debt vulnerabilities may emerge as the secondary impacts of Covid-19 develop.

5. The Fund should always focus on the biggest challenges faced by its membership, so it is right that its current priority is responding to Covid-19. In due course, the Fund must return to its work on other critical challenges such as inequality and climate change. I welcome the Fund's recent focus on climate change, and its work to systematically integrate climate change into its core activities, including its global, regional and national surveillance. I encourage the Fund to continue its support to members to fulfil their commitments under the Paris Agreement and support a successful COP26 summit next year. As we move towards recovery from the impacts of Covid-19, the Fund's role in these areas will be critical to our efforts to rebuild towards a more resilient, greener and more sustainable global economy.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-2

Statement by Mr. Dombrovskis
European Commission

Statement of Vice President Valdis Dombrovskis and Commissioner Paolo Gentiloni to the International Monetary and Financial Committee on behalf of the European Commission

Washington, 16 April 2020

The coronavirus outbreak has evolved into a global pandemic; it is a human tragedy and a health crisis. The virus does not discriminate between people and it does not know borders. This historic crisis therefore requires a fast, massive and coordinated global response. Our first and common priority should be to deal with the COVID-19 pandemic, to limit its impact on people and the economy, to draw lessons for the future, and to prepare our strategies for recovery. The necessary health and safety policy measures being adopted to stem the spread of the virus and the change in behaviour in the general public required by these measures are disrupting the global economy. The global economic outlook remains very uncertain as the outbreak and spread of the coronavirus Covid-19 has triggered a collapse in oil and commodity prices and financial market turmoil. Although the health crisis is intrinsically of a transitory nature, it has pushed the global economy into recession.

The EU is determined to do whatever it takes to effectively address the healthcare crisis and the economic challenge caused by the spread of coronavirus and to restore confidence and support a rapid recovery. The European Commission and the EU Member States are working together to ensure that health systems have all the resources they need, both financially and in terms of material, that affected companies have all the liquidity they need, and that the jobs and incomes of affected workers as well as self-employed are protected.

The EU has, as immediate reaction, put together a set of forceful measures at national and EU level while setting a framework for further actions to respond to developments and to support the economic recovery. EU Member States as of 3 April have already decided initial fiscal measures of more than 3% of GDP for 2020 to support the economy, in addition to the impact of automatic stabilisers which are very sizable and should work fully. The Member States and the EU have, so far, committed to provide liquidity facilities of more than 16% of GDP, consisting of public guarantee schemes and deferred tax payments. These figures could become much larger going forward. The EU also agreed to activate the general escape clause of the Stability and Growth Pact, as it considers that a severe economic downturn is underway in the EU. This will allow a coordinated and differentiated fiscal response that, together with the support of monetary policy, will help to reduce the negative economic impact of the COVID-19 outbreak and will support the recovery when it is over. We also adopted a State Aid Temporary Framework to use the full flexibility foreseen under State aid rules to support the economy in the context of the COVID-19 outbreak. Furthermore, specific schemes and increased flexibility were set up to redirect all available structural funds to respond to the economic fallout of the COVID-19 outbreak.

Beyond measures directly targeted at addressing the healthcare crisis, measures at EU level include significant additional expenditure and liquidity mobilised from the EU budget and the European Investment Bank (EIB). The Eurogroup on 9 April agreed to three additional safety nets, for workers, businesses and public finances, which together add up to half a trillion of euros, and a plan for the recovery to ensure we grow together once the virus is behind us. Ministers agreed on the need to establish, for the duration of the emergency, a temporary loan-based instrument to protect employment, for up to EUR 100 billion in total, based on the proposal by the Commission for a temporary Support mitigating Unemployment Risks in Emergency (SURE). We will also use Commission and EIB Group instruments to enhance programmes for guaranteeing bank credits to SMEs and provide additional financing for SMEs and midcaps. The EIB Group will create a pan-European guarantee fund of EUR 25 billion, to support EUR 200 billion of financing for companies with a focus on SMEs. Ministers also proposed to establish a Pandemic Crisis Support, based on the existing Enhanced Conditions Credit Line (ECCL) of the European Stability Mechanism available to all euro area Member States during these times of crisis. Access granted will be 2% of the respective Member's GDP as of end 2019, as a benchmark. It was also agreed to work on a Recovery Fund to prepare and support the recovery, providing funding through the EU budget to programmes designed to kick-start the economy in line with European priorities and ensuring EU solidarity with the most affected member states. This complements the package of monetary and supervisory policy measures taken by the ECB in March, including the €750 billion Pandemic Emergency Purchase Programme (PEPP).

At present, we should ensure that trade and investment flows are not disrupted. We very much welcome the statement adopted by G20 Trade and Investment Ministers on 30 March. Maintaining open trade flows and avoiding the disruption of global value chains is crucial. Proportionality, time-limitation and transparency, via the WTO, of any necessary emergency measure affecting essential goods were among the actions proposed by the EU and should help to tackle the immediate COVID-19 crisis.

We look forward to an early G20 agreement on other actions proposed by the EU on tariff relief on COVID-19 related products and on export finance, as well as the removal, in line with WTO rules, of tariffs and other import restrictions introduced before the pandemic and a moratorium on new unilateral tariffs. More than ever, we have to deescalate the ongoing trade tensions that were weighing negatively on global economic growth and delineate trade policies that can sustain the economic recovery post-crisis. The EU will pursue its active engagement in the process of reform and modernization of the WTO to improve its negotiating, monitoring and dispute settlement functions. It is particularly urgent to restore the functioning of the WTO Appellate Body.

The COVID-19 crisis calls for a coordinated global response and multilateral solutions to support especially vulnerable countries. The EU will focus in its team Europe approach on (i) emergency response to the immediate health crisis, (ii) strengthen the partner countries' health systems and (iii) address the socio-economic consequences. We also welcome the available existing emergency financing facilities of the IMF including the Rapid Credit Facility and the Rapid Financing Instrument and the IMF Catastrophe Containment and Relief Trust to swiftly deliver the appropriate international financial assistance to emerging markets and developing countries to cope with the challenges, including liquidity and debt-relief measures.

Beyond the ongoing crisis response, we are working on all the necessary measures to help the economy recover and to go back to sustainable and inclusive growth once the coronavirus has receded. The crisis offers an opportunity to make a shift. Climate change is a global challenge requiring a coordinated global response. Its economic consequences are being felt and the cost of inaction is increasing, as is the risk of insufficient action. The European Green Deal and its Investment Plan, as well as the upcoming sustainable finance strategy can play an important role in accelerating the recovery from the negative economic shock caused by the current health emergency. We will need to act decisively and invest in innovation and research, redesign our economy, and update our industrial policy with the aim of putting Europe on a new path of sustainable and inclusive growth.

We need to give the highest priority to finding a global solution to the taxation of the digital economy. We look forward to an ambitious, fair, effective, and workable global solution and will redouble our efforts towards a consensus-based solution to deliver this global goal. Together with our international partners, we have to conclude this work by 2020.

Further progress in Economic and Monetary Union deepening in particular on the Banking Union, the Capital Markets Union, the European Stability Mechanism reform and a Budgetary Instrument for Convergence and Competitiveness can boost market confidence in the currently challenging economic environment.

The European Union fully supports the commitment by the IMFC and G20 Leaders to a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net. This is particularly essential at a time of exceptional uncertainty and downside risks. We welcome the agreement to double the New Arrangement to Borrow (NAB) and invite all NAB participants to ratify the increase as soon as possible. EU Member States and National Central Banks that provided bilateral credit lines to the IMF are willing to participate in the new round of bilateral borrowing agreements, subject to the completion of domestic approval procedures. We expect similar assurances to be given by lenders outside of the EU.

The EU formulated its global response strategy on 8 April to support partner countries in the fight against the coronavirus pandemic in a "Team Europe" approach. The objective is to combine resources from the EU, its Member States and European financial institutions, in particular the EIB and the European Bank for Reconstruction and Development (EBRD).

As regards the IMF's work on the Comprehensive Surveillance Review, we believe that the Fund's definition of economic and social sustainability should in future also include climate change which should become part and parcel of Article IV reviews given that this issue has become macrocritical. As regards the IMF's work on the Financial Sector Assessment Program (FSAP), a closer integration of the findings and recommendations in the Article IV reports seems warranted. Euro area FSAPs on a regular basis and at the same frequency as for jurisdictions with systemically important financial sectors should parallel the arrangements for surveillance of euro area monetary and exchange rate policies based on the existing commitment by G20 members, including the EU, to seek such regular assessments.

We also welcome the IMF staff initiative to review and enrich its Debt Sustainability Analysis framework for Market Access Countries. We welcome a convergence of approaches between the European and IMF frameworks on debt sustainability to facilitate the establishment of a common diagnosis on debt sustainability.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-3

Statement by Mr. Barkindo
OPEC

Statement by

HE Mohammad Sanusi Barkindo

Secretary General

Organization of the Petroleum Exporting Countries (OPEC)

to the

International Monetary and Financial Committee (IMFC)

Meeting of Ministers and Governors

Virtual Meeting

April 2020

The **Organization of the Petroleum Exporting Countries** would like to update the distinguished delegates to the **International Monetary and Finance Committee (IMFC)** on current oil market conditions and developments.

The global oil market showed relative stability and ended 2019 on a positive note, despite economic headwinds and high uncertainties regarding ongoing trade disputes, Brexit and geopolitical developments throughout the year. At the beginning of 2020, there were signals that the economy would rebound from the slowdown in the second half of the previous year, with global economic activity, including global trade and industrial production, expected to pick up. Furthermore, despite strong growth in non-OPEC production, the global oil market remained well balanced, owing to the strong conformity of OPEC and participating non-OPEC producing countries in the **Declaration of Cooperation (DoC)** of an exceptionally high 145% in 2019, which played a major role in improving oil market conditions and market stability.

However, instead of the expected pick-up in activity in 2020, the global economy and, consequently, the global oil market are drawn into one of the most severe crises in recent history, caused by the **COVID-19** pandemic. Countries around the world have virtually shut down, imposing travel restrictions and mandating social-distancing measures in an effort to contain the pandemic. These measures have not only severely affected global economic growth, they have also caused a historic demand shock in the oil market, which has led to extreme volatility in oil prices. Concerns about this grave oil market imbalance, which would inevitably lead to massive global oil stock overhangs in coming months, led to oil prices dropping significantly in late March to below $20/b and reach the lowest levels in nearly 18 years. Oil prices lost about two-thirds of their value over 1Q20.

Given current market conditions and the massive oil demand destruction so far, OPEC, together with other producing countries participating in the DoC, held an **Extraordinary Ministerial Meeting** on **9 April 2020** to address the huge market volatility and fast growing global oil imbalance, taking an immediate decision to avoid further deterioration in the market. The agreement to once again adjust production is expected to be implemented as of 1 May, necessitating a further revision of the non-OPEC supply and supply/demand balance outlook for the rest of the year in the days and weeks to come. Furthermore, the Meeting welcomed the strong support of other producing countries and states participating in the Meeting to make voluntary contributions and called for comprehensive international cooperation to stabilize the global oil market and prevent extensive and lasting damage to the oil industry.

Following global economic growth of **2.9%** in **2019**, the world economy is forecast to face a severe recession in **2020**, declining by **1.1%**. Despite slight signs of improvement at the beginning of the year, expectations for global economic growth were burdened by the carry-over of weak 4Q19 data in several key economies, which has been significantly worsened by the strong impact of the COVID-19 pandemic. Economic developments in times of COVID-19 are proving to be unique. Contrary to comparable economic shocks, the global economy is witnessing a combination of a supply and a demand shock, together with severe disruption in the financial markets. Moreover, the impact of COVID-19 is exacerbated by high global debt levels, the ongoing general slowdown in world trade, as well as challenges in manufacturing caused by slowing capital expenditure in some key economies and by the global deceleration of the automotive industry. The underlying key assumption for the 2020 GDP growth forecast is that the impact of COVID-19 related developments outside China will be felt most in 2Q20, when world GDP is expected to contract by at least 8%.

Therefore, most regions are forecast to see a slowdown through 2Q20, recovering only towards the second half of 3Q20. China's trajectory is forecast to see a sharp deceleration in 1Q20, and to a lesser extent in 2Q20, before recovering in 2H20. By 4Q20, global activity is assumed to have almost normalized. Nevertheless, depending on future developments, further downside risk remains.

Positively, the sharp downturn is counter-balanced by unprecedented government-led stimulus measures designed to offset the negative economic consequences. Based on OPEC Secretariat estimates, the global stimulus measures in the form of **fiscal and monetary stimulus**, including guarantees, amount to around **US$15 trillion**, or about **17%** of **global GDP**, and constitute the largest stimulus efforts ever undertaken.

Importantly, the fast growing imbalance in oil markets is also taking a significant toll on global economic growth. Therefore, a recovery in the oil sector may provide further support to global economic development.

Within the **OECD** group of countries, the **US** is forecast to experience a strong contraction in 2Q20, following a lesser decline in 1Q20. While the considerable fiscal and monetary stimulus measures will provide a good base for recovery in 2H20, growth is forecast to decline by **3.5%** in **2020**, following growth of **2.3%** in **2019**. An even larger decline is seen in the **Euro-zone**, where economic activity is forecast to fall by **6.0%** in **2020**, compared to growth of **1.2%** in **2019**. Following a largely declining Euro-zone economy in 1H20, fiscal and monetary measures are expected to support a recovery in 2H20. **Japan** is forecast to decline by **3.3%** in **2020**, comparing to growth of **0.7%** in **2019**. After the government's sales tax increase in 4Q19, the economy experienced negative growth in 4Q19 and now faces additional rising challenges amid the COVID-19 crisis. A stimulus package of up to 20% of Japan's GDP will counterbalance some of the downside in 1H20 and support growth in 2H20.

COVID-19 is also expected to take its toll on **emerging markets**. While **China** has been particularly affected since the beginning of the year, the situation now seems to be under control. Following growth of **6.1%** in **2019**, Chinas' **2020** GDP is forecast to grow by **1.5%**, mainly due to a sharp contraction in 1Q20. A tender recovery should materialise in 2Q20, before the rebound accelerates in 2H20. While **India** was less impacted during the first two months of the year, the negative economic impact of COVID-19 will increase going into 2Q20. With a recovery forecast in 2H20, growth in **2020** is forecast at **2.7%**. Similarly in **Brazil**, economic growth is forecast to show a significant contraction in 1H20, with some recovery in 2H20 leading to a y-o-y decline of **1.6%** in **2020**. **Russia's** economy is forecast to decline by **0.3%** in **2020**, not only due to COVID-19, but also because of the considerable decline in oil prices. Depending on near-term developments in the oil market, the Russian economy is forecast to recover in 2H20, after an expected considerable contraction in the first two quarters of the year.

World oil demand in 2019 grew by a lower-than-expected **0.83 mb/d**. Both the OECD and non-OECD regions saw weaker y-o-y growth due to softer economic growth in 1H19, as well as warmer weather in the Northern Hemisphere in 4Q19.

In stark contrast to earlier expectations, **global oil demand** in **2020** is now forecast to fall by as much as **6.8 mb/d** y-o-y, due to the global COVID-19 pandemic and its impact on transportation and industrial fuels. Oil demand is expected to suffer the most in the first half of the year and shrink by more than 10 mb/d, and to recover somewhat in 2H20.

In **OECD Americas**, oil demand in 2020 is projected to drop significantly y-o-y. Government measures to reduce the spread of the pandemic are expected to have a significant negative impact on transportation fuels, particularly gasoline. In **OECD Europe**, oil demand is also projected to decline, especially for transportation and industrial fuels, with jet fuel experiencing the largest impact. In **OECD Asia Pacific,** contracting y-o-y oil demand in both Japan and South Korea is expected to be exacerbated by the impact of COVID-19 in 1Q20. Similar to OECD Europe, demand for transportation and industrial fuels, including petrochemical feedstock, will suffer particularly in 1H20, with some improvement anticipated in 2H20. Nevertheless, overall demand is expected to be deeply in the negative. Jet fuel is forecast to be significantly hit in 2020, as along with diesel and fuel oil, in light of reduced economic activity.

In the **non-OECD**, oil demand growth in **China** is forecast to show a y-o-y decline. Jet fuel demand was affected in 1Q20 because of reduced air travel, while gasoline will be impacted by a decline in kilometres driven. Industrial fuels and petrochemical feedstock will also face serious challenges going forward, with growth very much dependent on the extent of the rebound during 2H20. In **Other Asia**, oil demand is also projected to decline y-o-y, with the transportation and industrial sectors projected to be impacted the most due to government measures to prevent the spread of the pandemic. In **Latin America**, growth in oil demand is also forecast to be slower y-o-y, driven by an expected slowdown in economic growth and the impact of COVID-19. Industrial fuels, led by diesel, are projected to decline, followed by transportation fuels, particularly gasoline. In the **Middle East**, oil demand is projected to contract y-o-y in 2020, mainly as a result of slower economic expectations and the restrictions placed on individual mobility in an attempt to contain COVID-19.

In **2019**, **non-OPEC liquids supply** (including processing gains) is estimated to have grown by **1.99 mb/d** y-o-y. The US, Brazil, Canada, Russia, Australia and China were the main growth drivers, while Mexico and Norway saw the largest declines. Though non-OPEC supply in 2019 was challenged by infrastructure constraints in Texas and Alberta, growth was supported by production ramp ups in Brazil, Australia and the new giant oil field in Norway in 4Q19.

For **2020**, COVID-19, the ensuing global economic recession and oil demand destruction are forecast to impact **world oil supply** substantially. Oil companies have announced reductions in planned capital expenditure amid sharp declines in oil price levels. Global E&P spending for 2020 is forecast to drop by 20% and now estimated at $450 billion, the lowest level in 13 years. Before the COVID-19 pandemic, upstream investment was expected to remain flat y-o-y. Non-OPEC liquids supply (including processing gains) for 2020 was revised lower by around **1.6 mb/d** from previous estimations and was expected to grow by **0.16 mb/d**. These numbers, however, will require further revisions as the outcome of the recent meeting and agreement unfolds and begin to take effect. Given the fluidity of ongoing developments, the non-OPEC supply forecast for **2020** faces a large amount of uncertainty, mainly with regard to oil demand, oil price levels and spending by E&P companies.

Meanwhile, **OPEC NGLs and non-conventional liquids** are estimated to have grown by 0.04 mb/d in 2019, to average 4.79 mb/d, and are forecast to grow by 0.04 mb/d in 2020 to average 4.83 mb/d. In March 2020, **OPEC crude oil production** increased by **843 tb/d** to average **28.62 mb/d**, according to secondary sources.

OECD commercial oil stocks rose by **5.6 mb** m-o-m in February 2020 to stand at **2,945 mb**. This was **64.3 mb** higher than the same time one year ago and **24.7 mb** above the latest five-year average. Within components, crude stocks fell by **6.1 mb**, while product stocks rose by **11.7 mb** m-o-m.

In closing, **OPEC** would like to take this opportunity to reaffirm its long-standing commitment to supporting oil market stability for the mutual benefit of consuming and producing nations, thus contributing significantly to the health of the global economy. The historic success of the **Declaration of Cooperation** has underscored the Organization's leadership in ensuring a **stable and constructive environment** in which future energy requirements can be met. Given the current global crisis brought on by the COVID-19 pandemic, the need for international coordination has become ever more apparent. OPEC reiterates its commitment to spearhead the joint efforts in re-establishing healthy oil market fundamentals and restoring balance to the oil market in support of the global economy.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Revised Statement No. 41-4

Statement by Mr. Scholz
Germany

Statement by Mr. Olaf Scholz

Minister of Finance of the Federal Republic of Germany

to the International Monetary and Financial Committee

Washington, April 16, 2020

I. Global Economy and Financial Markets

Global Economy and Europe

The global spread of COVID-19 is first and foremost a human tragedy that has hit humankind without warning. It also casts a dark shadow over the world economy. Around the globe, governments, central banks and regulators are taking the measures necessary to mitigate economic effects of the COVID-19 pandemic as much as possible.

As individual countries, our responses have been forceful. Now is the time for us to prove that we stand together as a global community. Disputes should be put aside, including in the area of trade. International cooperation is essential in effectively managing this pandemic and its economic fallout. In this crisis, one simple truth has become clearer than ever: we depend on each other. Narrow self-interest will not help us. Solidarity will.

This economic downturn highlights the importance for governments to generate sufficient resources in order to cope with crises. Therefore, our work on corporate taxation and the commitment to agree on a global solution for corporate tax reform this year remains important.

To counter the economic impact of the pandemic at the European level, Ministers of Finance acted together in solidarity. They agreed on a crisis response consisting of three elements. First, the European Investment Bank (EIB) Group works on creating a pan-European guarantee fund, which could support EUR 200 bn of financing for companies throughout the EU, with a focus on SMEs. Second, to protect workers and employment, a temporary EU instrument supporting member states will be established that can grant loans on favorable terms of up to EUR 100 bn. Third, to make use of and adapt existing safety nets in the euro area and the EU, the European Stability Mechanism (ESM) is going to establish a Pandemic Crisis Support, based on the existing ECCL precautionary credit line, with a volume of up to 2% of 2019 GDP as a benchmark (potentially more than EUR 200 bn overall). Ministers of Finance also agreed to activate the general escape clause of the EU fiscal framework. This clause was put in place precisely for this kind of severe economic downturn in the Union as a whole. It allows European countries to undertake the necessary fiscal measures well beyond the budgetary requirements that would apply in non-crisis times. The Commission has issued a temporary state-aid framework to facilitate public support to companies, aimed at mitigating the impact of the crisis on the private sector. Measures taken at the European level also include a €37 bn investment initiative for health care systems, SMEs and other vulnerable parts of the economy. The ECB has launched a Pandemic Emergency Purchase Programme (PEPP), with an overall volume of €750 bn.

Germany

Over and above the efforts to stabilize the economy, our priority is to slow the spread of the virus and to ensure the best-possible medical care for those in need. Therefore, the German Government is significantly stepping up financing for hospitals, also creating capacity to treat some COVID-19-patients from severely affected neighboring countries.

The crisis is affecting all sectors of the German economy. The labor market is increasingly under pressure. The eventual magnitude of the economic impact is highly uncertain and depends on the further course of the pandemic.

We have put in place a comprehensive package of measures to support the economy in a decisive and targeted manner. The short-time work scheme helps to protect people's jobs and incomes. We are deploying our fiscal capacity to provide immediate financial assistance to private households, the self-employed, small and medium-sized businesses and larger companies. Credit programs provided by Germany's development bank KfW have been expanded, backed by federal guarantees. Targeted tax measures provide additional liquidity for firms and individuals. An immediate assistance program provides grants to small businesses fast and efficiently. To enable large-scale support measures and strengthen companies' equity if needed, the federal government has set up a comprehensive stabilization fund. Fiscal measures so far add up to well over 10 percent of GDP.

Financial Sector

The large uncertainty regarding the duration and impact of the shock, the economic impact of measures to contain the pandemic and the depth and length of the recession also affect financial market participants. Fortunately, prudent financial regulation and supervision as well as macroprudential policy have made the financial sector more resilient. We will use the existing flexibility of the regulatory framework to the extent necessary to deal with this extraordinary situation. Germany's swift fiscal measures aim at supporting real sector firms and households through tailored programs thereby also reducing uncertainty for financial sector participants. Ultimately, this will help to avoid a spread of the crisis to the banking sector and to ensure financial stability. Going forward, it will be essential to continue to monitor closely the stability of the banking sector and the financial system as a whole, nationally, on the European level, and globally. Germany is determined to respond effectively to any serious risks to financial stability.

II. International Financial Architecture and IMF Policies

We are facing the most severe crisis since the inception of the Bretton Woods system. There are three priorities now. Firstly, we need to address urgent liquidity needs before they become solvency problems. Secondly, we should help dampen the magnitude and alleviate the effects of the massive capital outflows that affect emerging economies. Thirdly, we must not leave the more vulnerable countries to their own fate.

Germany strongly welcomes and supports the pivotal role that the IMF – in close cooperation with the World Bank and other relevant institutions – plays in addressing the unprecedented challenges of the COVID-19 pandemic for its member countries and the world economy.

The comprehensive, flexible and well-proven set of current lending instruments enables the IMF to respond to the crisis quickly, by providing targeted financial assistance and its comprehensive expertise to countries in need. We welcome that the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) were temporarily strengthened and several disbursements have already been made. In addition, we support exploring further adjustments to the IMF's toolkit for the current crisis as necessary and appropriate, and advise to focus on solutions that can be achieved quickly. Time is of the essence now. At the same time, it is important that governance issues are adequately addressed, so that emergency financing benefits those in need.

With the agreement on an IMF resource package at the 2019 Annual Meetings, the IMFC has set a solid basis for maintaining a strong, quota-based and adequately resourced IMF to preserve its role in the Global Financial Safety Net. Germany stands firmly by its commitments to contribute to this package. The Deutsche Bundesbank has already notified the Fund of its consent to the revised NAB decision including the doubling of its NAB credit line and is ready to sign its new temporary Bilateral Borrowing Agreement in due course. We encourage other participants to expedite their approval.

Germany is also open to discuss a moderate general SDR allocation. We are worried about emerging market capital outflows at an unprecedented scale. Our efforts to mitigate outflows should also involve the private sector. Therefore, we have suggested that the IMF, together with other IOs, invite private sector financial actors to join forces with IOs and national authorities to dampen capital outflows.

In addition, Germany, like many other members, continues to support low income countries in particular through dedicated initiatives. We plan to participate in the IMF/WBG initiative of a debt moratorium that helps the poorest countries redirect resources to fund health systems and to stabilize their economies. We are also committed to contribute up to 80 million EUR to the IMF's Catastrophe Containment and Relief Trust to help the poorest countries reduce their debt obligations.

Apart from financial assistance, the IMF will need to focus on its surveillance mandate even more strongly in the years to come, making use of the lessons learned in the current crisis for strengthening economic and financial resilience of economies. The pending Comprehensive Surveillance Review (CSR) and the Review of Financial Sector Assessment Programs (FSAPs) are key in this regard. Moreover, addressing sovereign debt issues, including on a more forward-looking basis, will be a pivotal task for the Fund in the aftermath of the crisis. Germany therefore continues to strongly support the work on the IMF-WBG multipronged approach for addressing emerging debt vulnerabilities and enhancing debt transparency, which has become even more important.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Revised Statement No. 41-5

Statement by Mr. Le Maire
France

International Monetary and Financial Committee – April 16, 2020

Statement by Bruno LE MAIRE, Minister for Economy and Finance

FRANCE

I wish to begin by congratulating the International Monetary Fund and its Managing Director for their quick and intense mobilization since the beginning of this crisis. More than ever, we need a reactive and fully-committed IMF to deliver the appropriate response to this unprecedented crisis.

The Covid-19 pandemic is first and foremost a human tragedy and a global health emergency. This is why health measures have been implemented across all regions of the world to help those affected by the virus and protect lives. In the meantime, these exceptional but necessary measures are strongly affecting the global economy as they require lockdowns, widespread closures and the partial or complete shutdown of some economic activities. **Our collective responsibility is now to mitigate the negative impact of these measures on all aspects of our economies, in particular jobs and businesses, and to ensure a quick recovery.**

To do so, we need the coordinated implementation of national, regional and international measures.

In France, we are fully mobilized and determined to take all necessary measures, whatever their cost, in order to protect the health of our people and businesses, the productive capital of our economy, and the income and jobs of workers.

Since the beginning of the crisis, the French Government has implemented strong measures to contain the spread of the pandemic in order to minimize the risk of overloading healthcare infrastructures. On 16 March 2020, President Macron announced the start of a containment mechanism to restrict people's movement to the bare essential, hence heavily reducing interpersonal contacts and contagion risks. A comprehensive set of fiscal measures has also been taken to strengthen the means to fight the pandemic.

These measures have proved their efficiency on both the health and economic fields.

Financial and logistical support provided to the healthcare system has been significantly increased, in particular for orders of medicines, respirators and masks.

To support the French companies affected by the crisis and prevent bankruptcies, the Government has implemented several layers of economic measures, among which the postponement of direct taxes and social contributions, exceptional direct tax rebates, a massive scheme of State-guaranteed liquidity loans to companies for an amount of EUR 300 billion and a solidarity fund which will enable the payment of tax-free aid to the smallest businesses.

To protect jobs and households' income, France has extended massively its short-time work compensation scheme, which benefits domestic workers and childcare assistants in particular. Furthermore, eligibility for social rights (income of active solidarity, disability allowances) will be extended during the period of containment.

At the European level, we agreed, on 9 April 2020, on an exceptional emergency package to support our economies and strengthen solidarity with the most affected countries. This is a very important step forward in our economic response to the Covid-19 and it shows that Europe is standing up to face the seriousness of the situation. **Our plan is based on four pillars.**

First, to strengthen the safety area, we have agreed to establish **a Pandemic Crisis Support for Euro area Member States**, based on an existing precautionary credit line of the ESM, which will be adjusted in light of this specific crisis. Access granted will be 2% of the respective Member's GDP as of end-2019, as a benchmark. The credit line will be available until the COVID 19 crisis is over. **For non-Euro area Member States, the EU Balance of Payments Facility can provide financial support**. It should be applied in a way that duly takes into account the special circumstances of the current crisis.

Second, **the EIB Group will create a pan-European guarantee fund of EUR 25 billion**, which could support EUR 200 billion of financing for companies with a focus on SMEs.

Third, this plan provides a **support to EU citizens, through an EU legislative instrument to protect primarily workers and jobs through partial-work and some health-related measures on the labor market**. This instrument will establish a financial assistance in the form of loans granted on favorable terms from the EU to Member States, of up to EUR 100 billion in total, for the duration of the crisis.

Fourth, the EU will work on **a Recovery Fund to prepare and support the economic recovery**, providing funding through the EU budget to programs designed to kick-start the economy in line with European priorities and ensuring EU solidarity with the most affected Member states.

France has pushed a lot for this exceptional emergency package and further work will be done before the European Council scheduled on 23 April 2020.

At the international level, a lot has already been implemented but work remains to be done.

In addition to the health crisis, all countries are faced with an unprecedented combination of supply and demand shocks, causing a sharp decline in the economic activity. Today, the global economy is simultaneously coping with deeply depressed global demand, constrained labor supply and industrial output, heavy disruptions in global supply chains, international trade and capital flows, and stressed financial markets. As a consequence, the global output will contract severely in 2020 and many countries will enter into recession. Let's not forget that this decline in activity follows a year of worldwide economic slowdown, aggravated by persistent trade and geopolitical tensions.

In this context, the emerging markets and developing economies (EMDCs) are particularly vulnerable. Before the virus outbreak, several EMDCs, especially in Africa, were characterized by a lack of adequate infrastructure, a high level of indebtedness and fragile health systems, hence jeopardizing their capacity to absorb soaring intensive care needs resulting from the pandemic. Moreover, because they are deeply integrated into global supply chains, with international trade accounting for a significant share of their total revenues, some EMDCs are coping with a sharp decline in foreign revenues, as a result of heightened price volatility and plummeting revenues from the tourism industry. EMDCs are also facing unprecedented capital outflows. With significant and immediate financing needs to manage the health crisis and enact a much needed stimulus, developing economies in particular are facing foreign exchange constraints. Recent sharp currency depreciations following the outbreak highly increase the cost of debt service, as well as the cost of imports necessary for their industrial activity.

The IMF has a key role to play in order to close the financing gap for emerging markets and developing countries that could be up to USD 2,5 Trillion, according to its own estimate.

First of all, it is urgent to make full use of the toolkit of the IMF and to scale it up when needed. I welcome the decision taken by the Fund to increase the access to IMF financing and streamline procedures. I particularly welcome the temporary doubling of the access to emergency instruments (rapid financing instrument and rapid credit facility).

The scale of the crisis also calls for creative thinking and the reflections engaged on new channels of actions are going in the right direction.

France supports the idea of a new allocation of *Special Drawing Rights* (SDRs) in the range of USD 500 billion. It was a success in 2009 to provide liquidity and it would send a strong signal to markets. More importantly, it would be a powerful instrument to help low-income developing countries tackle the crisis, by providing them with an extra USD 16 billion that would be decisive in their fight.

The IMF should have a special focus on and pay a specific attention to low-income developing countries that face a public health and economic crisis. **A quick replenishment of the *Poverty Reduction and Growth Trust*, complementary to a new SDR allocation, is a rapid and efficient way to mobilize to the maximum extent possible the financing instruments that exist.** France is ready to increase its contribution.

I also consider very important and support the contemplated introduction of a short term liquidity instrument at the IMF, to help countries with very strong fundamentals and policies. The design of this new instrument had been under consideration in the past, and now is really the time for decision.

Finally, France supports very strongly the temporary suspension of debt service payment for the poorest countries. France, who chairs the Paris Club and co-chairs with Korea the "G20 International Financial Architecture Working Group ", where G20 discussions on debt-related issues have been handled in the last few weeks, has played a pivotal role, alongside the key role played by the Saudi G20 Presidency, in helping creditor countries converge on a common term sheet for this initiative. France is committed to following up and monitoring closely the implementation of this debt service suspension initiative, and to help ensure that the strong creditors coordination that is needed to deliver adequately is maintained in the implementation phase. The next step to this initiative will be, once the world economic outlook will have stabilized, to undertake an in-depth assessment of the economic and financial situation of each beneficiary countries, and to initiate as appropriate possible debt relieves for some countries, on a case by case basis and through a multilateral framework.

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In conclusion, this unprecedented crisis will have long term impacts on our societies and our economies. This is why we must rethink the world we live in accordingly, by tackling the urgent global challenges we are facing beyond this pandemic: the reduction of inequalities, a fairer taxation and environmental sustainability, are in particular key objectives we should accelerate our work on.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-6

Statement by Mr. Ryder
International Labour Organization

Statement by Mr Guy Ryder, Director-General, International Labour Organization, to the International Monetary and Financial Committee

Washington D.C., 16 April 2020

Summary

The human dimensions of the COVID-19 pandemic are devastating. Recovery requires an immediate human-centred response through global solidarity.

Fighting the health crisis, which remains our first priority, has caused a simultaneous economic and social crisis. Full or partial lockdown measures, necessary to stem the pandemic are now affecting almost 2.7 billion workers, representing around 81 per cent of the world's workforce.

Businesses across a range of economic sectors are facing catastrophic losses, which threaten their operations and solvency, especially among smaller enterprises, while millions of workers are vulnerable to income loss and layoffs. The impact on income-generating activities is particularly strong for unprotected workers and those in the informal economy.

As of 1 April 2020, the ILO's new global estimates indicate that working hours will decline by 6.7 per cent in the second quarter of 2020, which is equivalent to 195 million full-time workers. The final tally of annual job losses in 2020 will depend on the evolution of the pandemic and the measures taken to mitigate its impact.

Policy responses need to focus on providing immediate relief to workers and enterprises in order to protect businesses and livelihoods, particularly in hard-hit sectors and in developing countries, thus ensuring the conditions for a prompt, job-rich recovery once the pandemic is under control.

The employment and social impact of the COVID-19 pandemic

The human dimensions of the COVID-19 pandemic are devastating. The unprecedented shock to economies and labour markets, together with the tragic loss of life due directly to COVID-19, makes this the worst crisis since the Second World War.

Employment losses are dramatic

Workplace closures have increased so rapidly in recent weeks that 81 per cent of the global workforce lives in countries with mandatory or recommended closures. In upper-middle-income countries, this represents 87 per cent of the workforce and 70 per cent in high-income countries. COVID-19 is now also impacting the developing world where capacities and resources to respond to the crisis are severely constrained.

The employment impacts of COVID-19 are unprecedented. Lockdowns and other measures have impacted employment directly and on a greater scale than predicted at the start of the pandemic. ILO global estimates released on April 7 show an unprecedented reduction in economic activity and working time. Working hours will decline in the current quarter by around 6.7 per cent, which is equivalent to 195 million full-time jobs (assuming a 48-hour working week). This implies that many workers across the globe will face an income loss and a greater poverty risk. The greatest decline is expected in upper-middle-income countries, but the impact is comparable across all income groups.

Forecasts for global unemployment over 2020 will depend on the economic recovery as well as on the effectiveness of the policy response to boost labour demand. As it stands, there is a high risk that the increase in the global number of unemployed at the end of 2020 will be significantly higher than our initial projection released on 19 March of 25 million additional unemployed resulting from the COVID19 crisis. At the end of 2019, 188 million people were unemployed globally and another 285 million people were underemployed or marginally attached to the labour market.

The impact on the 2 billion workers who were informally employed and the 630 million workers who did not earn enough to lift themselves and their families out of extreme or moderate poverty[1] worldwide before the pandemic will similarly depend on the speed of

[1] Defined as them earning less than US$3.20 per day in purchasing power parity terms.

the recovery as well as on the effectiveness of policy responses to effectively protect their lives and support their livelihoods and incomes.

Specific sectors are most at risk

Most lost working hours and jobs will occur in a few hard-hit sectors. The ILO estimates that 1.25 billion workers – almost 38 per cent of the global workforce – are employed in sectors that are the most severely affected by the lockdowns, quarantines and social distancing. These most at risk sectors are wholesale and retail trade, accommodation and food service, manufacturing and real estate, business and administrative activities. Workers in these sectors are facing a drastic reduction in working hours, wage cuts and layoffs.

The wholesale and retail trade sector represents the largest employment share globally with 482 million workers. Workers in this sector are typically low-paid and unprotected by unemployment or sickness benefits. Faced with no income replacement, these informal workers will continue working, putting their health at risk to feed their families, increasing the spread of the virus and deepening poverty and inequality. As the virus is spreading rapidly in a number of developing countries with high shares of informality, the challenge is daunting. In India, about 400 million workers in the informal economy are at risk of falling deeper into poverty because of the crisis.

The policy response to the COVID-19 pandemic

Immediate steps

Policy responses are needed along four interrelated pillars.

First, **stimulating the economy and labour demand by using all macroeconomic tools at our disposal**. The international community's call to support aggregate demand through accommodative monetary policy and coordinated fiscal policies is timely and welcome, and needs to seek to replicate the success of the G20's coordinated policy response to the global financial and economic crisis in 2009. Public expenditure to invest in health systems is crucial in building resilience against COVID-19, but also offers an opportunity to create decent jobs in a sector with large decent work deficits.

We strongly support the joint call by the IMF and World Bank for bilateral creditors to suspend debt payments from IDA countries on request, beginning right now. The poorest countries among us should not be forced to choose between honoring their debt obligations and protecting their people, who comprise two thirds of those living in extreme poverty. Global solidarity requires such urgent action.

The first wave of stimulus is not enough. We will need macro policies that build toward the medium-term recovery. Direct government intervention will be needed after the most acute health emergency and containment phase. The effect on commodity prices, capital flows and disruptions in trade and supply chains will affect the capacity of many countries to recover better. Therefore, international financial support and coordinated fiscal and monetary policies will be absolutely essential to support the global recovery to the benefit of the weakest as well as the strongest economies.

Second, **supporting enterprises, jobs and incomes**. As governments assemble their fiscal stimulus packages, they should strive for a judicious balance in assigning proportionate financial support to enterprises to retain workers, as well as income support and employment services to those who have lost their jobs and who were without work before the crisis began.

Enterprises – the global engine of jobs and growth – need immediate relief in this survival phase. We cannot recover from the crisis if we allow enterprise failure on a large-scale, with its attendant effects on the workforce.

Enterprises need temporary relief from a range of financial obligations as well as a moratorium on rent and other capital costs. Employment retention schemes, including short-time work arrangements and partial unemployment benefits have been put in place in a number of countries. Stimulus packages should continue to provide subsidies for employment retention. These packages must include large infusions of cash and credit, delivered swiftly to support business continuity. Digital delivery mechanisms can help with speed and timing, including to the smallest of enterprises and those in the informal economy. Credit institutions should reschedule payments and offer loans at very low or no interest.

While that is essential to prevent a devastating scale of enterprise collapse, at the same time, current packages must also prioritise the provision of income support for all workers.

Social spending, particularly on targeted transfers and automatic stabilizers, such as unemployment benefits, must be prioritised in each country's stimulus package. The positive role of social protection to mitigate the negative fallouts from shocks is well proven, and this crisis has confirmed social protection's vital role as a social buffer and economic stabiliser. Both developed and developing countries need more flexibility for deficit financing and concessional international borrowing to support investments in social protection systems. In more advanced countries, even though the social protection systems have financial buffers in place to absorb increased expenditure and reduced revenue in a case of a crisis, the magnitude of the current crisis might require the allocation of significant additional funding to ensure continuity of benefits and services to all those who need them. In countries that do not yet have sufficiently solid health and social protection systems in place, further efforts will be necessary to ensure an immediate crisis response, and temporary external support may be required to safeguard the necessary investments in health, education and social protection.

Third, **protecting workers in the workplace**. During the pandemic we have come to rely on millions of dedicated workers in health care and essential services who continue to report to work each day despite the risks to their own well-being. About 70 per cent of those workers are women. We must protect them in the workplace through strong occupational safety and health measures, starting with rapid provision of adequate personal protective equipment. This requires equally rapid adaptation of our supply chains to manufacture what we need.

All workers, employers and their families should be protected from the health risks of COVID-19. With less than two-thirds of all countries having a social insurance and/or social assistance scheme in place providing sickness benefits, the ill are often forced to choose between endangering personal and public health and paying their bills. It is therefore crucial to enhance universal access to collectively-financed health services for all, including uninsured workers and their families, and to expand access to collectively-financed paid sick leave, sickness benefits, and parental/care leave to ensure income security for those who are sick, quarantined or caring for children, elderly or other family members.

Whenever possible, protecting workers means encouraging appropriate flexible working arrangements, such as teleworking. These adaptations of working arrangements need to respect fundamental principles and rights at work, including non-discrimination, and must be designed and implemented in dialogue with employers' and workers' representatives.

Fourth, **utilising social dialogue for solutions**. Building confidence through trust and dialogue is crucial to make policy measures effective. We know from experience in earlier crises that social dialogue results in strong, consensus-driven policy responses and ensure they serve those who most need them.

But these measures are just a first step.

Medium-term steps

The labour market and social outcomes of the recovery crucially depend on the effectiveness of national and global responses in supporting aggregate and labour demand in the medium term.

Experiences from previous crises show that the first signs of recovery are often accompanied by calls for austerity and fiscal consolidation. When the immediate health crisis subsides, it is imperative that countries continue their support to enterprises, especially micro-, small and medium ones, expand their labour market interventions to get people back into work and sustain social protection measures and social spending. This will ensure that people are protected against the adverse economic and social consequences that might materialise with a time lag, as well as any future crises.

The COVID-19 crisis has revealed the extent of decent work deficits worldwide: the devastating consequences of gaps in social protection coverage, including for part-time, temporary and self-employed workers; the precarious situation of many micro-, small and medium enterprises; and the weaknesses of global supply chains, including the consequences for those who work across those chains.

The crisis has expedited much needed reforms by encouraging numerous governments to extend social protection to uncovered groups, release liquidity constraints for SMEs and rely on social dialogue for effective solutions. These are important steps towards promoting decent work.

Recovering differently - people and planet at the centre

Socially just societies

The crisis has uncovered the huge decent work deficits that still prevail in 2020 and shown how vulnerable millions of working people are when a crisis hits. From self-employed workers in high income countries and day labourers in low income ones to nurses and care workers with low wages and difficult working conditions, labour rights, social protection and social dialogue have been brought back to the fore. This calls for reaffirming the principles of social solidarity that underpin universal social protection and its centrality to ensuring socially just societies. This calls for ensuring universal rights for all workers, independently of their employment status. We must continue to rely on dialogue with trade unions and employers' organisation to arrive at solutions that put people first. We cannot afford to erode the progress toward human-centred responses made during the crisis.

Environmentally sustainable societies

The crisis is also showing us that we can live and work differently. As lockdowns impose on people to stay at home, air and noise pollution have decreased. Global carbon emissions could fall by 4 per cent in 2020[2]. As fishing and mining are put to a halt, natural resources are left untouched and fauna and flora are regaining ground. The crisis demonstrated that habits and behaviours can change. It is also teaching us that our economic system, by fuelling inequalities, is making the impact of the pandemic on people worse.

Instead of reverting to our previous models, as we re-start let us examine the possibilities to do so in a new direction. We need a human-centred recovery agenda. We must aim to build back better so that our new systems are safer, fairer and more sustainable than those that allowed this crisis to happen and more effective in cushioning the consequences of future crises on people around the globe. This will require global solidarity and an unrelenting commitment to protect everyone. We are only as strong as the most vulnerable among us.

[2] However, to prevent 1.5 ˚C of warming, the world would need to cut emissions by 6 per cent every year for the next decade. See: https://www.technologyreview.com/2020/04/10/999230/we-halted-the-global-economy-and-emissions-still-wont-decline-as-much-as-we-need/

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-7

Statement by Mr. Benabderrahmane
Algeria

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

Statement to the IMFC by Mr. Aimene Benabderrahmane
Governor of the Bank of Algeria

Speaking on behalf of Afghanistan, Algeria, Ghana, Iran, Libya, Morocco, Pakistan, and Tunisia

Thursday, April 16, 2020

On behalf of the authorities of countries in our constituency, I would like to extend my deep sympathy for the loss of lives and human suffering to countries hit by the COVID-19 outbreak. This crisis is like no other and no country is immune. We are facing a common enemy that can only be defeated by our joint effort.

Since our last IMFC virtual meeting, the pandemic has continued to take a devastating toll worldwide and on multiple fronts. The April 2020 WEO has slashed this year's economic growth projections significantly across the board. The great 2020 recession is expected to be deeper and more broad-based than the 2008–2009 GFC, and the outlook is clouded by extreme uncertainty and significant downside risks. The expectations are for a quick, almost symmetrical, V-shape recovery. While that is what we hope for, we should be prepared for a longer and less symmetrical recovery and be cognizant of the crisis' permanent scars on the world economy, trade and supply chains. The immediate priority is, however, saving lives and eradicating the pandemic globally. The loss of life is permanent, while the economic and financial fallout can be addressed by proportional and tailored policy response and enhanced global cooperation. We welcome the early policy actions of leading economies that are expected to have significant positive spillovers; greater coordination and synchronization would also amplify their global impact.

The authorities of countries in our constituency are sparing no efforts to contain the spread of the virus and address its attendant acute health crisis. Our authorities have also initiated stimulus packages to temper the crisis' immediate impact on economic activity and employment, protect the vulnerable population, and set the stage for a sustained inclusive recovery. The oil exporting countries in our constituency are additionally hard hit by the collapse of international oil prices. Large swings in oil prices create uncertainty and benefit neither the oil exporters nor the oil importers in the long run.

The impact of the crisis on low-income countries (LICs) —many already burdened by high debt and poverty—has been profound. These countries will need—more urgently and on a larger scale than before—concessionary financing, grants and debt relief to help them through the crisis and beyond. The plight of the fragile and conflicted-affected states, some with no recourse to IMF resources, is particularly concerning. We urge the international community to step up its humanitarian support and help meet the cost of refugees and internally displaced.

The IMF is central to the global effort to combat the crisis. The Fund moved quickly to streamline its internal processes and doubled the access limits of its emergency financing facilities during the crisis, thus sending a strong signal of its readiness to help members through the crisis. A number of our constituency members have already accessed the IMF's emergency quick-disbursing facilities and we expect our other constituency members, that have already applied, will also access IMF funding in the coming weeks. Under these extraordinary conditions, IMF emergency financing should be available to all members in an evenhanded manner and without exceptions.

In an environment of extreme uncertainty, the IMF's resource envelope should be sufficiently large to deal effectively with this still-unfolding crisis. We welcome enhancements to the Catastrophe Containment and Relief Trust to alleviate debt service pressures on LICs and call on the IMF to step up discussions on a short-term liquidity line instrument. The recent doubling of the New Arrangements to Borrow and the new round of Bilateral Borrowing Agreements were important milestones. A temporary increase of access limits for other IMF facilities would be appropriate in view of members' large financing needs. We also call for a substantial SDR allocation to boost global liquidity by supplementing members' foreign reserves, as was done in the last crisis. IMF quotas are the principal source of IMF resources. We strongly support revisiting, at an early date, the adequacy of IMF quotas and continuing the process of IMF governance reform under the 16^{th} General Review of Quotas.

We endorse the Managing Director's focused Global Policy Agenda—appropriately themed on "Exceptional Times - Exceptional Action"—calling for immediate measures to slow the spread of the virus, strengthen the resilience of national health systems, and mitigate the economic fallout from the pandemic. We strongly support the Managing Director's call for greater global cooperation for restoring global growth and trade, and for members to avoid trade restrictions on medical supplies and other essentials that save precious lives during this truly global threat. It is important that the humanitarian dimension of this crisis is kept in full sight as we focus on common good.

Finally, our authorities extend their deep gratitude to Fund management and staff for their swift action, and for their dedicated and tireless efforts to help the membership through this crisis.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-8

Statement by Mr. Frydenberg
Australia

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

STATEMENT BY THE HON. JOSH FRYDENBERG MP

TREASURER

(AUSTRALIA)

ON BEHALF OF THE ASIA AND THE PACIFIC CONSTITUENCY

Outlook

We are in the middle of a crisis like no other. This pandemic is leading to the most challenging economic and financial circumstances since the Great Depression.

Our first priority is to fight the virus and minimize the tragic loss of life. Quick, strong and coordinated action now will minimize the permanent human and economic damage.

The global economy will contract sharply this year, as a result of the severe disruptions in economic activity and stressed financial conditions. Emerging market and low-income countries are particularly vulnerable as they are coping with unprepared health systems, unparalleled capital outflows, foreign exchange shortages and a high debt burden.

Global growth is expected to recover in 2021. But there are a number of risks to the outlook regarding the significant uncertainty about the path of the virus, the effectiveness of containment measures and the timing of treatments and vaccines.

There is also uncertainty about the potential for lasting effects on supply, or through financial disruption, trade spillovers, confidence effects and extended risk aversion. Under such an adverse scenario the impact on global growth could be significantly worse.

Policy response

It is vital that all policy tools are deployed as rapidly as possible to protect the global economy from lasting damage from the pandemic. Strong international cooperation will be critical.

The priority is to continue to focus on financing the global health response, maintaining financial stability, minimizing job losses, keeping businesses going, and ensuring the basic needs of the global population are met.

There have been significant fiscal actions from many countries to support health systems and affected households and firms.

Central banks globally have taken bold and decisive actions by easing monetary policy, purchasing a range of assets and providing liquidity to the financial system in an effort to lean against the stressed financial conditions and to maintain the flow of credit to the economy.

As we move out of the immediacy of the crisis, the lifting of travel, transport and production restrictions should be coordinated when the time is right. Countries should embrace fiscal actions that will stimulate a rebound in business activity and get people back to work. We must support low-income countries, including in the Pacific, to do the same so that the recovery is shared equally. Monetary policy should remain accommodative as long as necessary. Acting together means that the global economy and individual countries will recover more strongly and more quickly.

We need a robust long-term recovery plan to address new and pre-existing vulnerabilities and inefficiencies. Fiscal stimulus, while essential to respond to the crisis, will mean greater debt and more vulnerabilities. In time we will need credible and ambitious structural reform plans that lift productivity and participation and support a return to global economic prosperity.

Coordinated and sustained multilateral action is key to restoring global growth. Global supply chains must be kept open, particularly for vital medical supplies, and restrictions on trade and investment due to necessary health measures need to be temporary, targeted and consistent with WTO rules.

Role of the Fund in Supporting Members

We support further strengthening of the global financial safety net to promote a resilient international monetary and financial system, including by enhancing the Fund’s lending toolkit and continuing collaboration with regional financing arrangements.

The Fund must ensure that it is in a position to provide quick and effective balance of payments support to all members. We welcome the Fund’s swift decision to temporarily double access limits to emergency financing through the Rapid Credit Facility and Rapid Financing Instrument. We also welcome the coordinated efforts on debt service relief to the poorest and most vulnerable countries.

We also need to support all countries that are particularly vulnerable. The unprecedented capital outflows from emerging markets highlights the importance of liquidity. We strongly support the addition of a short-term liquidity facility to the Fund’s toolkit and welcome the possibility of a general Special Drawing Rights allocation.

In addition to providing financial support to members facing balance of payments problems, the Fund has an important role to play in advising members through ongoing surveillance, policy advice and capacity development. The Fund should stand ready to revise and publish its forecasts more frequently than usual, based on material changes in the global outlook. The policy tracker is a useful tool that enables sharing of information, and the Fund should continue to provide practical and tailored policy advice on the macroeconomic implications of the outbreak and policy options to stabilize economies, taking into account members' absorptive capacity. We look forward to a renewed capacity development strategy as the Fund navigates the changing global landscape and potential for reduced international travel.

We welcome the Fund focusing its efforts on the crisis at this time. As we move beyond the immediate health crisis from the pandemic, the Fund should continue to work toward a global recovery, resilience and sustainability. Member countries will be facing various challenges as a result of the crisis, including debt vulnerabilities, unemployment and low interest rates, and the Fund should be at the forefront of providing advice and assistance to the membership to deal with these issues. We look forward to the Fund finalizing the review of debt sustainability analysis for market access countries and analysing debt sustainability more generally given the important role this plays in Fund lending. The Fund needs to continue to learn from lessons from past crises, including the implications of 'lower for longer', analyze potential new monetary policy tools, and consider how and when to unwind fiscal stimulus measures.

As global risks and vulnerabilities are elevated, it is important that we ensure an adequately resourced global financial safety net with a strong and credible Fund at the center. We are committed to revisiting the adequacy of quotas and continuing the process of Fund governance reform under the 16th General Review of Quotas.

The decision to double the New Arrangements to Borrow and secure a further round of Bilateral Borrowing Agreements beyond 2020 is welcome and will ensure that the Fund's current resource envelope will be maintained.

We also support an urgent assessment of the adequacy of the Fund's resources, given the potential demands in the current crisis. If more resources are required, the Fund should explore all options and approach Governors quickly.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-9

Statement by Mr. Maurer
Switzerland

On behalf of
Republic of Azerbaijan, Republic of Kazakhstan, Kyrgyz Republic, Republic of Poland,
Republic of Serbia, Switzerland, Republic of Tajikistan, Turkmenistan,
and Republic of Uzbekistan

International Monetary and Financial Committee, April 16, 2020

Statement by Mr. Ueli Maurer, Minister of Finance of Switzerland on behalf of Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

We thank the Managing Director for her *Global Policy Agenda*. The agenda captures well the immense challenges the world faces in dealing with the COVID-19 pandemic. We share the view that mitigating the economic fallout of the pandemic is now the Fund's top priority. In this vein, we welcome the Fund's prompt action and leadership. Effective international cooperation to contain the crisis is paramount, and we agree that strong and globally coordinated measures are needed. At the same time, we must be mindful to make the measures temporary and allow them to bridge to a sustainable growth path.

Global setting and policy priorities

We broadly share the Fund's global growth outlook and concur that risks are on the downside. Making a precise forecast amid very fluid and highly uncertain circumstances is extremely difficult. What matters at the current juncture is clarity on the assumptions underlying the baseline scenario, including on the length and severity of the pandemic and the impact of policy responses. Moreover, working with alternative scenarios that take the currently large uncertainty around forecasts into account is warranted.

We agree that a combination of well-targeted policy measures is necessary to mitigate the economic downturn. In this regard, transparency is important, and we see merit in close coordination of policy responses. Fiscal measures should be carefully designed to target households and sectors that are most affected by the crisis. At the same time, we underline that these measures should be temporary. A clear exit strategy will be critical to minimize the cost to the economy and avoid future vulnerabilities. The use of automatic stabilizers will also help shoulder part of the burden. Monetary policy plays a key role in addressing the significant tightening of financial conditions and in providing the necessary liquidity. Moreover, coordinated action by central banks has been key to ease strains in global funding markets, thereby helping to mitigate the effects on the supply of credit to households and businesses.

Furthermore, the banking system can make important contributions too, e.g. by providing bridge financing to companies, especially SMEs, many of which face short-term challenges. At the same time, banks are taking increased risks on their balance sheets. While they should be allowed to make use of current flexibility within regulatory frameworks, this is no time for weakening existing or agreed rules and regulations. Policymakers should thus explore policies to ensure financial stability, also in the medium term.

The Fund's role

The IMF is playing a critical role in helping the membership weather this crisis, together with other international institutions, such as the World Bank and the World Health Organization (WHO). We would like to express our sincere gratitude to staff and management for their tireless efforts in the current difficult circumstances.

As demonstrated in the past, the Fund is well prepared for crises and has the necessary means to help its members through its surveillance, lending, and capacity development (CD) channels. Rapid deployment of assistance under existing tools is of the essence, in particular for the many countries that have already requested financial assistance. Here, the temporary increase in access limits for the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF) provides important relief. The temporary addition of the Short-Term Liquidity Line (SLL) to the lending toolkit with the aim of delivering a stronger and more effective policy response is welcome. At the same time, we underscore the critical importance of having strong safeguards in place, including timely reviews, as the proposed SLL goes beyond the Fund's traditional mandate.

COVID-19 is having a severe impact on low-income countries (LICs). These countries face urgent and unprecedented financing needs, which creates high demand for Fund resources. While we take comfort in the Fund's assessment that GRA resources remain adequate, we are less sanguine as regards PRGT loan resources. We stress the importance of discussing the implications of the imminent increase in demand for PRGT resources, given the need to provide the membership with sufficient time to consider contributions. In this context, we also highlight that the self-sustainability of the trust should be maintained. Switzerland is examining the augmentation of its PRGT loan contributions. PRGT supported programs should help countries to exit smoothly from the crisis and to follow policies that are sustainable and growth-friendly.

We share the view that the Catastrophe Containment and Relief Trust (CCRT) needs to be adequately funded to support members that lack essential capacities. Switzerland stands ready to consider a contribution, subject to national procedures. We also support the international call on official bilateral creditors to temporarily suspend debt service payments of IDA and PRGT-eligible countries. At the same time, we underscore the importance that this initiative be strictly time-bound and equitable across eligible countries.

We agree on the need for reprioritizing the work agenda to make space for crisis-related activities. Nevertheless, the Fund must also help members look ahead so that the measures taken provide a bridge to a sustainable recovery. Timely and effective macro and financial sector surveillance, and CD are critical to this end.

Moreover, progress on debt transparency is imperative, as is progress on achieving debt sustainability as soon as our economies start to recover. Against the background of mounting debt and fiscal vulnerabilities already before the crisis, the Fund's ongoing work on the debt agenda remains key. We look forward to the conclusion of the Review of the Debt Sustainability Framework for Market Access Countries and the Review of the Debt Limits Policy. Likewise, the continued efforts by the Fund, together with the World Bank, to implement the "multipronged approach" to address public debt vulnerabilities are welcome.

We welcome the progress on the Comprehensive Surveillance Review (CSR) and its aim to increase traction and add value for members, including through country-specific tailoring of policy advice. The work on the CSR will be key to enhance the relevance of Fund surveillance and policy advice. We also look forward to the completion of the FSAP Review. While FSAPs are highly valuable and useful exercises, they are also rather resource intensive. Hence, it is important to further improve the impact and efficiency of these assessments.

The Fund's ongoing efforts to integrate its three functions (surveillance, lending, CD) go in the right direction and are consistent with the ongoing CSR. In the same vein, the country-centered approach is welcome; it strengthens the coherence of Fund interventions and better leverages lending and surveillance for CD. Furthermore, we welcome the decision to establish a new Regional Technical Assistance Center for the Caucasus, Central Asia, and Mongolia (CCAMTAC). Based on tailor-made Fund advice, the Center will contribute to the strengthening of macroeconomic capacities and support regional cooperation.

Multilateral cooperation

The global pandemic requires coordinated and sustained multilateral cooperation, including by avoiding further trade restrictions. The importance of international trade is currently underlined by the vital need to ensure the availability and affordability of indispensable medicines and medical products. Hence, international efforts to promote the benefits of open and transparent trade policies, and to strengthen the rules-based multilateral trading system, should be accelerated. An orderly and predictable process to resolve trade disputes constitutes the core of the multilateral trading system and is key to enhance confidence and support growth.

We support the Fund's ongoing work in providing even-handed and multilaterally consistent assessment of external positions, including the further methodological refinements of the underlying external balance assessment methodology. In particular, the links between the current account, demographics, and pension systems deserve further consideration. Moreover, we appreciate the Fund's efforts in taking due account of country-specific factors in assessing external sector positions.

IMF resources and governance

We reaffirm our commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the global financial safety net. To this end, we are committed to contribute to the swift implementation of the agreed Fund resources and governance package. The doubling of the New Arrangements to Borrow (NAB) combined with a new round of Bilateral Borrowing Agreements (BBAs) beyond 2020 will maintain the Fund's current resource envelope, which is of critical importance at the current juncture. Switzerland and Poland are contributing to the NAB and are ready to participate in the new round of BBAs.

Looking ahead at the 16th General Review of Quotas, we underline the importance of ensuring the primary role of quotas in IMF resources and realigning quotas of the currently most underrepresented members. In this respect, we stress the importance of not unduly prejudicing the outcome of the upcoming 16th Review. The current quota formula continues to deliver the intended outcomes, while an increased concentration of voting power would fail to appropriately reflect the diversity of the Fund's membership.

IMF operations

We welcome the conclusion of the Comprehensive Compensation and Benefits Review (CCBR) and are confident that the outcome of this review preserves the status of the IMF as an employer that continues to attract high-quality and dedicated staff, while bringing about necessary improvements and modernization.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-10

Statement by Mr. Santiprabhob
Thailand

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

IMFC Statement by Mr. Veerathai Santiprabhob
Governor, Bank of Thailand

International Monetary and Financial Committee
April 16, 2020

On behalf of the constituency representing Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, the Philippines, Singapore, Thailand, Tonga, and Vietnam

Introduction

The Coronavirus Disease 2019 (COVID-19) pandemic is an unprecedented health and economic crisis. Unlike the 2008 Global Financial Crisis (GFC), the current crisis is a unique shock that incurs significant costs, with looming shadow of deep recession and highly uncertain outlook. This has in turn led to financial market turmoil with sharp drops in oil and asset prices, and significantly tightened liquidity conditions. Emerging market economies (EMEs) in particular have been hit hard with unprecedented capital outflows that are much larger and more volatile than those experienced during the GFC.

Nations, therefore, must continue to respond forcefully, utilizing every possible tools in their arsenal to contain the outbreak, protect the livelihood of the people, restore the functioning of economy, and safeguard financial stability. Against this backdrop, the Fund is well-positioned to help its members navigate this critical juncture. Time is of the essence, and the Fund must act quickly and decisively in the global efforts to contain the crisis and minimize long-term economic damage.

Regional Prospects and Policy Responses

The COVID-19 outbreak and necessary containment measures are taking a heavy toll on most, if not all, economies in our constituency. Authorities have marked down their growth forecasts with several larger economies in our constituency projected to record sizeable negative output growth in 2020—the first in many decades.

Authorities have responded forcefully with extraordinary monetary and fiscal stimulus packages to support households, businesses, and markets through these difficult times.

- Fiscal spending is targeted to ensure adequate medical supplies and equipments and to provide financial relief to those affected. Cash grants, tax breaks, wage subsidies, debt repayment holidays, and concessional loans are provided to affected households and businesses, particularly small- and medium-sized enterprises (SMEs), to cope with income losses and help businesses retain their workforce.
- Central banks have pursued aggressive monetary easing, with policy rates falling to historical lows in some countries and significant liquidity injection. Reserve requirements

have been reduced in some jurisdictions. Exchange rate flexibility has remained an important first line of defense against shocks for the region. At the same time, some central banks have also stepped in to intervene in the foreign exchange markets, provide USD liquidity and stabilize bond markets to ensure orderly market functioning and safeguard financial stability amid heightened volatilities in the global financial markets.

- Financial regulators and supervisors have allowed greater flexibility in prudential regulations to enable financial institutions to support their customers effectively during this difficult period. For instance, regulatory relief and adjustments to capital and liquidity requirements were implemented to support banks' lending to affected customers, while the implementation of the final set of Basel III reforms has been deferred to ease operational burden.

We hope that the crisis containment measures would succeed and that a recovery will eventually follow on the back of our sound macroeconomic fundamentals.

Policy Priorities for the Fund

We truly commend the Fund's strong leadership in proactively stepping up efforts to preserve the international monetary system. We applaud the Fund's management and staff for working tirelessly to provide timely support to member countries. In this regard, we endorse the Managing Director's Global Policy Agenda that rightly prioritizes emergency and concessional lending while providing tailored policy advice to assist members during the global pandemic, where international cooperation and solidarity are most needed.

Heightened demand for financial support calls for the Fund to adapt its lending facilities to meet the needs of its members, especially for those facing immediate financing challenges. We welcome the enhanced flexibility of the Rapid Credit Facility and Rapid Financial Instrument, in swift response to the surge in demand. The temporary increase in the access limits for these two facilities as well as the streamlined approval and disbursement procedures will ensure that vulnerable EMEs and low-income countries will be well-supported in a timely manner to cope with the COVID-19 outbreak and its economic impact. We fully support the enhancements to the Catastrophe Containment and Relief Trust (CCRT), which will enable the Fund to provide immediate debt service relief for the most vulnerable members. To this end, we call on the Fund to closely monitor the adequacy of the Poverty Reduction and Growth Trust and support the Fund to explore possibilities for a new round of SDR allocation with the aim of providing unconditional financial resources to the most vulnerable members.

Meanwhile, the effort by the Fund to review its liquidity facilities to support members facing abrupt outflows is also commendable. Liquidity swaps among major central banks have proven useful in providing assurances during stressed periods. However, their limited availability to a handful of countries leaves a large portion of EMEs uncovered. In this regard, we strongly support the Fund in establishing the Short-term Liquidity Line (SLL). The SLL would fill an important gap in the Global Financial Safety Net (GFSN) for small open economies and could complement the existing Flexible Credit Line and Precautionary Liquidity Line by providing a short-term liquidity backstop that can be deployed rapidly, and is not encumbered by conditionality and stigma. The advantages offered by the SLL is in line with members' call for the Fund to be swift and flexible in this crisis and would prove invaluable during normal times. Hence, we recommend that the SLL be a permanent feature of the international monetary system.

In parallel with the Fund's financial support, we see the merit for the Fund to step up engagement with private sector creditors to explore options for effective debt resolution framework. Should the pandemic prolong and put more financial stress on member countries, having debt resolution and restructuring mechanisms in place could help maintain the orderly functioning of financial markets and limit severe losses to member countries.

Importantly, we view that ongoing efforts to enhance the Fund's lending toolkit must be complemented by efforts to augment the Fund's resources. We welcome the progress made to maintain the Fund's resource envelope through a doubling of the New Arrangements to Borrow (NAB) and a new round of Bilateral Borrowing Agreements (BBAs). Subject to domestic approval, NAB participants in our constituency stand ready to double their contribution while creditors of the 2016 BBAs are committed to taking part in the new round of BBAs. That said, we believe that these borrowing arrangements cannot, and should not, substitute a quota increase which would put the Fund's resources on a more permanent footing and is imperative to advancing necessary governance reforms at the Fund. We underscore the importance of having a strong quota-based Fund at the center of the GFSN and thus look forward to a constructive discussion and timely completion of the 16th General Review of Quota. We also encourage the Fund to step up efforts to deepen its collaboration with regional financing arrangements, including our region's Chiang Mai Initiative Multilateralization.

On surveillance and policy advice, we appreciate the Fund's hard work in putting together the Global Policy Tracker. Disseminating country experiences in responding to the COVID-19 outbreak could support policy coordination between countries. The Fund must also look beyond the immediate crisis and consider the appropriate course of policy actions that members should take to secure long-term macroeconomic stability and resilience.

Given high uncertainties clouding over the pandemic as stages of outbreak differ across countries, members are looking to the Fund for greater clarity on the global economic outlook – an area where the Fund could provide more frequent updates to help inform policymaking. It is encouraging to see the Fund engaging closely with other International Financial Institutions and the World Health Organization to highlight the importance of both protecting public health and preventing deep economic pain and social disruptions. It is imperative that the Fund puts itself as the bridge between the medical and the economic policymaking worlds.

Lastly, this pandemic provides an invaluable opportunity for the Fund to develop a deeper understanding of the benefits and limitations of different policy tools for dealing

with large capital outflows, complementing its ongoing work on the Integrated Policy Framework (IPF). At this critical juncture where challenges are not only multi-faceted but also extreme, we welcome the Fund's policy advice for authorities to deploy all available tools, including FX interventions (FXI) and capital flow management (CFM) measures, to tackle market volatilities and a deep downturn. Such tools are no longer confined to only one policy, one target; they instead complement one another and are considered as tools of one package.

Conclusion

This extremely difficult time calls for extraordinary actions and solidarity. Amid the highly uncertain outlook, the global economy today is at a crossroad with the recovery path depending on our policy actions in combatting the impact of this pandemic. While frontline medical staff have been saving lives from the disease, it is the duty of policymakers to also protect livelihood, not from the virus itself but from the resulting economic impact. A swift recovery would only be possible if economic fallout and long-lasting structural damage of the crisis could be mitigated. The Fund, through its roles at the center of the GFSN, will be the key to support the global efforts to combat the COVID-19 outbreak and secure a way forward for a more resilient and sustainable global economy.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-11

Statement by Mr. Mboweni
South Africa

On behalf of
Angola, Botswana, Burundi, The State of Eritrea, Kingdom of Eswatini,
The Federal Democratic Republic of Ethiopia, The Gambia, Kenya,
Kingdom of Lesotho, Liberia, Malawi, Republic of Mozambique, Namibia,
Nigeria, Sierra Leone, Somalia, South Africa, Republic of South Sudan, Sudan,
United Republic of Tanzania, Uganda, Zambia, and Zimbabwe

INTERNATIONAL MONETARY FUND
AFRICA GROUP ONE CONSTITUENCY (AfG1)

International Monetary and Financial Committee
Forty-First Meeting
April 16, 2020

Statement by Honorable Mr. T.T. Mboweni, Minister of Finance for South Africa
On behalf of Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, Republic of South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

We express our deepest sympathies on the extensive loss of lives due to the COVID-19 pandemic.

1. After registering 2.9 percent growth in 2019, the global economy is projected to contract significantly in 2020, following the outbreak of the Coronavirus disease (COVID-19). The ensuing contagion triggered a far-reaching health, economic, and financial crisis. Measures adopted to contain the spread of the pandemic have affected labor markets and mobility, with profound effects on business activity in sectors such as travel, hospitality, entertainment, and tourism. In parallel, the pandemic has resulted in the disruption of supply chains, business closures, job losses, and a sharp contraction in aggregate demand. Emerging and frontier market economies are facing significant risks characterized by an unprecedented and sharp reversal of portfolio flows, tightening global financial conditions, commodity price deflation, and exchange rate pressures.

2. Looking ahead, global growth is expected to rebound into positive territory in 2021. This forecast is, however, subject to great uncertainty, with the rebound conditioned on the pandemic fading in the second half of 2020, allowing for the gradual rollback of containment measures and restoration of consumer and investor confidence. It is also predicated on the effectiveness of policy instruments (where there is space) to prevent widespread firm bankruptcies, protracted job losses, and systemic financial strains.

3. In view of the enormous challenges facing the global economy, we endorse the key messages from the flagship reports on the need for carefully calibrated domestic measures alongside internationally coordinated policy actions, to limit negative outcomes. In particular, we concur on the need to focus policy actions on containing the virus and protecting lives through investment in short- to long-term human and economic health. We also support the coordinated scaling up of fiscal, monetary, and financial market measures, as necessary. In view of the exceptional circumstances, we urge the Fund to deploy all available policy tools to reduce contagion, boost confidence, restore growth, and reduce unemployment. Economic policies should be geared towards moderating the impact of the decline in activity and averting a severe contraction, while supporting economic recovery once the pandemic fades. Meanwhile, tailored exit strategies to rollback containment measures and revert to prudent pre- crisis policies will be essential.

4. We note that economic activity in Sub-Saharan Africa (SSA) is expected to decline considerably, with 3.1 percent growth in 2019 turning into recession in 2020, the first region-wide contraction since 1992. The spread of the Coronavirus presents real and serious setbacks to recent efforts to eradicate poverty, inequality and underdevelopment. At the same time, the collapse in international oil prices, underpinned by the sharp contraction in global oil demand since January, has diminished near-term growth prospects for oil exporters. Given that the channels of economic vulnerability differ across countries in the region, we underscore the need for tailored, and focused Fund support aimed at protecting vulnerable households and businesses, including the informal sector and small and medium-sized enterprises (SMEs). We also support the Fund's continued policy guidance on exchange rates and capital flow management. Mitigating the downside risks associated with capital flow reversals, and the decline in commodity revenues remains essential.

Supporting Growth in Sub-Saharan Africa

5. Within the constraints of limited policy space in many SSA countries, the crisis response by authorities has been swift. At the same time, the measures introduced to contain the impact of the pandemic on livelihoods and the economy have further exacerbated existing fiscal and debt vulnerabilities. We, therefore, call for additional support from the international community and development partners to bolster the fight against the pandemic and limit its economic and social effects. We view the reorientation of the work of international financial institutions towards the immediate priorities affecting the global economy, as warranted. In this regard, we welcome the Fund's crisis response package, aimed at enhancing the effectiveness of emergency financing facilities used to respond to the urgent needs of emerging market and developing countries (EMDCs) that face immediate financing needs induced by COVID-19 pandemic. Specifically, we welcome the temporary doubling of access limits under the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI). Furthermore, we support enhancements to the Catastrophe Containment and Relief Trust (CCRT) to adapt it to current circumstances. Relatedly, proactive fundraising efforts to replenish the CCRT and the PRGT, are important to ensure the adequacy and self-sustainability of concessional resources.

6. In view of the severe liquidity challenges facing EMDCs, we emphasize the need for additional Fund support. Within this context, we express our strong support for a general SDR allocation, given the magnitude and impact of the COVID-19 crisis, far surpassing that of the global financial crisis of 2008. Such broad-based support would help provide non-debt -creating support, including availing resources to fragile states that cannot access concessional and grant resources, boosting reserve positions, and reducing the demand for Fund resources. We also urge the Fund to continue assessing the adequacy of its lending toolkit, including by exploring the viability of introducing short-term liquidity instruments such as the Short-term Liquidity Line (SLL).

7. Considering that many countries in SSA lack adequate capacity to effectively deal with the crisis owing to elevated debt vulnerabilities, limited policy space, inadequate social safety nets, and weak health systems, we welcome multilateral collaboration to address common challenges. Innovative approaches to assist countries to raise external grants and concessional finance will be essential. In addition, we support the call for debt relief for poor and vulnerable members, noting that the challenges are particularly acute among fragile and conflict-affected countries. In this connection, we welcome the calls by the IMF and the World Bank for a time-bound moratorium on debt service obligations, including to official bilateral creditors. The temporary suspension of debt service payments would help in creating fiscal space required to fight the pandemic. Our authorities commit to responsible deployment of these resources. In addition, our authorities will continue to leverage Fund technical support to further strengthen their governance, transparency, and accountability frameworks. It will also be particularly helpful for the Fund to enhance the use of tailored digital platforms for capacity development, where feasible.

8. We also call on the international community to facilitate the flow of medical supplies to SSA during these exceptional times, in addition to supporting the expansion of local and regional manufacturing capacity to meet the increased need for medical supplies.

Fund Policies

9. Beyond the crisis, we emphasize the need for renewed Fund commitment to a focus on emerging macro-critical issues, including debt management, capital flow management, the integrated policy framework, climate change, inequality, diversity and inclusion, and fintech, to support economic recovery efforts and ensure a resilient and sustainable global economy. More importantly, efforts should be made to build resilience to ensure that SSA is better prepared for future shocks.

Fund Resource, Governance and Voice

10. Recognizing the current uncertainties, especially the duration of the pandemic and its magnitude, we welcome a doubling of the New Arrangements to Borrow (NAB) and the new round of temporary Bilateral Borrowing Agreements (BBAs) beyond 2020. We urge NAB and BBA creditors to expedite their domestic ratification processes. That said, we also welcome the Fund's commitment to ensuring the adequacy of Fund resources, including effecting reforms under the 16th General Review of Quotas. We reiterate the need for an adequately resourced and quota-based Fund, to preserve its role at the center of the global financial safety net (GFSN). We also restate the need to prioritize outstanding governance obligations consistent with previous commitments by the IMFC to realign quota shares to reflect countries' relative positions in the global economy. Furthermore, we reiterate the need to protect the voice and representation of the poorest members of the Fund and repeat our call for a third chair for Sub-Saharan Africa on the IMF Board.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-12

Statement by Mr. Guzmán
Argentina

On behalf of
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

Statement by Governor Martín Guzmán, Minister of Economy of Argentina

On behalf of the Southern Cone Constituency

(Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay)

Global Developments

The unprecedented COVID-19 pandemic has severely hit the world and humankind, affecting multiple dimensions of economic activity and social life. Countries worldwide have reacted introducing harsh but necessary containment measures that are having a sizable economic and financial impact on their societies. Unfortunately, a greater effort appears necessary to mitigate the impact of the crisis and to minimize its consequences in the medium and long term. Against this backdrop, we believe that the IMF has a crucial role to play, not only by providing financial support and technical assistance, but also by preparing robust analytical work to guide its advice to country authorities.

The analytical work involved in the World Economic Outlook (WEO) is especially complicated given the current circumstances of extreme uncertainty and sharp declines in output and key prices, which make it difficult to rely on precise assumptions. In these very atypical circumstances, we wonder if the situation would have merited a different approach regarding the WEO's projections, for instance, by indicating ranges rather than point values. It should be recognized that there are current limitations to conduct its usual analysis in the face of the scope and the extent of this exceptional crisis and consider presenting a range. Given the difficulty of taking into consideration idiosyncratic factors that counteract the effects of the pandemic, region-wide projections should be presented, opening up to individual projections for larger economies.

With all these difficulties, we congratulate staff for its effort in putting together the analytical work underpinning the WEO. The analysis comprises a clear picture of the global crisis and related responses and risks, and clearly illustrates the unique nature of the events triggered by the global pandemic. The WEO evaluates the channels through which the crisis propagates, impacting on both the supply and the demand side of countries' economies and elaborates on expectations and behavioral aspects that affect them. We fully agree that the depth of the crisis will be unparalleled. The magnitude of the global recession projected by the report for this year is far worse than the 2008/2009 global financial crisis: a global rate of GDP growth of -2.9 percent for 2020 versus a global rate of GDP growth of 0.1 percent in 2009. Furthermore, the WEO shows an exceptional synchronized recession, with only 11 member countries projected to avoid an economic contraction in 2020. Even in these cases, countries would experience sizable corrections compared with past projections.

We are convinced that the Fund has a critical role in providing key messages through proper communication, especially in this environment of extremely heightened uncertainty. In fact, one of the most relevant and recurrent words that appears in the report is "uncertainty", as it rightly underscores the "extreme uncertainty" that surrounds the crisis and the assumptions behind the WEO's baseline scenario. Many factors surrounding these assumptions are definitively out of our area of expertise, primarily the pathway of the pandemic, the progress in finding a vaccine, the effectiveness of therapies, the intensity and the hardly predictable effectiveness, and the duration of the containment and mitigation measures, among others.

Under these circumstances, it is clear that there are significant risks of an even worse outcome; and for this reason, the report elaborates an alternative scenario that departs from the baseline in three areas closely associated with the evolution of the pandemic. Looking at both scenarios, we find it very difficult to discern whether the baseline scenario is more likely to materialize than the alternative one. Some of the outlines of the baseline scenario are based on the path followed in China during the first quarter of the year, with a sharp decline followed by a gradual recovery. However, not only is China's recovery not fully assured, but also the impact of the ongoing shock in different countries will depend on idiosyncratic factors and countries' particular circumstances, including the size and effectiveness of the desirable and targeted policies that countries follow to respond to the COVID-19 shock.

A key driver of the recovery, but hard to predict, will be the success of the containment measures and, therefore, the gradual lifting of the lockdown. In that regard, it is important to note that the countries in our chair show promising signs in decreasing the pace of contagion, with different degrees of non-pharmacological containment within the region. In addition, the current situation in many of them is a partial lockdown, meaning that key economic sectors are still functioning.

We agree with staff that policy makers face a dual objective, namely supporting economic activity and safeguarding financial stability. Against this unprecedented challenge presented by the COVID-19 pandemic, financial markets have reacted abruptly, with high degree of synchronicity, and against a background of elevated uncertainty, as noted in the Global Financial Stability Report (GFSR). Asset price movements have been amplified and financial conditions quickly tightened, while market liquidity has deteriorated. The plummeting of oil prices has added to global volatility, which has reached levels much higher than those observed during the European banking crisis.

The sudden stop of economic activity hit emerging markets hard, which have seen their currencies depreciate, has been associated with sizeable capital outflows in some regions (particularly SE Asia). Nevertheless, Latin America has been relatively more resilient. Chile and Peru for example, with a large presence of non-resident investors in the local market and large domestic institutional investors, have not experienced significant outflows. The countries in our chair that are facing relatively larger impacts of the pandemic have taken bold measures on the fiscal, monetary, and financial fronts, against the background of sound financial systems. Liquidity risk and reinforcing the credit channel are concerns at the international level that are shared by our countries. Chile and Peru have recently decreased the monetary policy rate 125 and 100 basis points, respectively, and together with Argentina, have implemented a series of measures to support the liquidity in local financing markets. Our authorities are closely monitoring eventual cash flow shortages in the corporate sector, as well as investment funds, which are a concern. Measures on the monetary and financial front are being taken amidst sizable fiscal stimulus. Peru (7 percent of GDP), Chile (4.7 percent of GDP), and Paraguay (2.5 percent of GDP), show the strongest fiscal response, followed by Argentina, with a fiscal package that amounts to 1 percent of GDP.

Fiscal policy, more than ever, is playing a central role in helping prevent the amplification of the pandemic and contain a plausibly prolonged damage on activity and employment because of the shutdown, as highlighted in the Fiscal Monitor (FM). Actions should be swift, timely, and involve large scale measures. These actions should be targeted to providing support to small and medium enterprises facing cash-flow problems, as well as state-owned enterprises operating in key sectors. They should also aim at protecting household income—including direct cash transfers, tax measures, and safeguarding jobs by replenishing the unemployment insurance mechanisms—and, most importantly, financing health spending on testing and treatment, as well as the necessary medical equipment.

International Collaboration and IMF Policies

More generally, and this may be the most critical message that we would like to convey, global problems of this kind and magnitude require global solutions, international cooperation, and coordination. As noted, several times in the reports, the crisis is affecting the whole world, with very few exceptions. Advanced economies have much more economic and financial space to face the pandemic and its consequences. Low-income countries, as well as emerging and developing economies, are generally in weaker positions to face it. In addition, we commend the efforts deployed by the Fund so far, but we encourage it to redouble efforts to better and further assist its member countries, not only through financial assistance and capacity development, but also by being innovative, flexible, and creative in designing alternatives aimed at alleviating the burden of countries in this difficult period.

The Fund must coordinate, participate, and sustain multilateral actions as required. Strong multilateral action is critical, not only to coordinate global fiscal and monetary stimulus, but also to synchronize health issues, such as production of and financing for medical equipment and kits and for prevention and treatment. We support the Fund’s continued work towards economic recovery, resilience, and sustainability. We are confident that the role of the Fund on macro-critical issues, such as man-made climate change, is substantive.

IMF Governance

The Fund´s lending facilities are adapting very quickly to the membership’s needs. Changes to access ceilings of the Rapid Credit Facility and the Rapid Financing Instrument have been introduced and a new instrument the Short-term Liquidity Line is in the process of being adopted. It is imperative that all IMF country-members be considered for financial support on humanitarian grounds. We welcome the high-speed procedures to give response to the more than 80 financial requirements of the membership. We also ask the IMF to continue discussions for a general SDR allocation to increase international liquidity.

We agree with and support the Managing Director´s Global Policy Agenda and the IMF Work Agenda and Operations, and the actions to help members improve their policies to respond to the crisis and create the conditions for recovery. As this crisis requires an aggressive fiscal response, this will increase public debt levels, augmenting debt vulnerabilities in many countries. Thus, the Fund must support countries in resolving unsustainable debt situations while containing debt vulnerabilities. Furthermore, the Fund should continue examining recent challenges in sovereign debt resolution, as planned. We support the joint IMF-WB initiative to provide debt service relief for the poorest countries so they can successfully deal with the impact of Covid-19.

Social spending policies, to reach the poor and the informal sectors, should be emphasized, as well as policies to improve income and wealth distribution at country and at global level. We hope that the 16th General Review of Quotas really ensures that the process of governance reform will continue.

Southern Cone Countries

Argentina

The Difficult Economic and Financial Situation the Country Inherited

In December 2019 a new administration took office with the country in a very fragile economic and financial situation:

- Inflation was at a record annual level of 53.8 percent last year and the credibility of monetary policy was severely affected, after a series of failed experiments that included the establishment and abandonment of an inflation-targeting regime.

- The public debt was running at a record high in both amount and maturity concentration. This year alone capital payments represented the equivalent of USD 48,968 million, plus USD 14,838 million in interest payments, around 16 percent of GDP.

- Tax policy severely decreased the collection capacity of the public sector, particularly after the 2017 tax reform. Between 2015 and 2019 tax revenues decreased 2.6 percent of GDP and total income of the national public sector excluding extraordinary items decreased 2.8 percent of GDP.

- Fiscal consolidation came from a severe adjustment in spending, which fell by 5.5 percent of GDP, affecting the state's operation. 60 percent of public works was paralyzed and the debt of the national government to public works was equivalent to more than USD 580 million.

- GDP accumulated two successive years of decline, industrial activity has not grown in more than 19 months and idle capacity was close to 40 percent of installed capacity.

- Unemployment was running at 9.7 percent and in 2015-2019 more than 250,000 jobs were lost in the private sector.

- The poverty rate rose to 35.5 percent, almost 10 million people, while extreme poverty reached 8 percent, with 2.2 million people.

Policy Strategy – Achieving Sustainability

The new government is firmly committed to restoring the Argentine economy to a sustainable path. The economic program aims at addressing Argentina's macroeconomic challenges. The program relies on a pragmatic and flexible approach, taking into consideration the country's binding constraints. Economic policy is guided by the overarching objective of establishing a sustained trend of economic growth and, on that basis, addressing the social ills that have been afflicting the country. That implies breaking the recurrent pattern of stop and go, booms and busts, illusions, and broken promises that have so painfully characterized Argentina. The consequent process of lengthening decision horizons, public and private, must bridge a transition, starting from a present state where attention is focused on the very immediate future, as the economy was already in the midst of a crisis when the global shock hit.

The current strategy is focused on flexibly managing immediate urgencies as they arise in this uncertain context, while keeping a longer-term perspective. The policy approach recognizes the requirement to attend to the ultimately complementary demands for macroeconomic stabilization, productive development, especially regarding the supply of internationally traded goods, and social inclusiveness, while dealing with the tradeoffs that will arise along the way. Flexibility with a clear longer-run purpose will also be the criterion here.

By achieving clear and realistic policy objectives, Argentina will provide a stable macroeconomic environment, which will in turn enable longer-term investments and sustained growth. In addition, ongoing developments related to the Covid-19 outbreak highlight the importance of policy flexibility in the face of an uncertain world.

Macroeconomic Scenarios

The macroeconomic scenarios that we have calibrated reflect the necessary conditions for a sound economic recovery, factoring in appropriate buffers to address any further domestic or external shocks. These scenarios also reflect what the government considers socially supportable.

i. A steady-state real growth rate between 1.5 percent and 2 percent.

ii. The growth scenarios are consistent with a trend of growth in exports corresponding to a trade balance in the range of 1.4 percent to 1.9 percent of GDP in the medium term.

iii. This scenario proposes a gradual fiscal consolidation compatible with a shift in the composition of expenditures toward greater public investment as well as higher fiscal revenue. The steady-state primary balance is consistent with the parameters of economic recovery.

iv. The Covid-19 outbreak will critically impact the economy, notably owing to the “social distancing” measures put in place across the globe, including in Argentina. Measures to address this crisis have been adopted in line with international standards and aim at protecting the most vulnerable factions of the population and economic sectors. Estimates of the impact of Covid-19 on the economy are still in preparation.

The policy measures of the new administration are part of a comprehensive program to resolve imbalances and redefine priorities to alleviate the situation of those who are most vulnerable taking into account macroeconomic consistency. In this context of high uncertainty and vulnerabilities, Argentina prioritizes the strengthening of social safety nets, the avoidance of a disorderly debt crisis, and the initiation of a fiscal consolidation compatible with a disinflation process.

Strengthening the Social Safety Net

In December 2019, a set of policies was put in place to strengthen transfer programs for the lower-income population and avoid an increase in unemployment of the most vulnerable sectors in the labor market.

A minimum and uniform salary increase for workers in relation to dependency on the private sector and the state sector, and the armed and security forces, was established. Retirees received an emergency bonus, provided in the months of January and December, and an extraordinary subsidy, after which 18.8 percent increase in minimum pensions was granted, free access to essential medicines was guaranteed, and interest rates of their loans were dropped along with suspension of fees. Interest rates for credit cards were decreased.

Tax moratorium for SMEs, self-employees, and non-profit entities was established and a new line of credit was arranged for SMEs. Double compensation for dismissals without cause was decreed. The Care Pricing Program, which includes wholesale sales, which was also extended to school products, was relaunched. A temporary freezing of rates, suspension of toll increases, suspension of increases in public transportation, and suspension of fuel increases were arranged. A Health Emergency was declared which allowed the rapid release of more than 12 million vaccines that had been held for months at Customs. An 8 percent reduction in drug prices in commercial pharmacies was also agreed.

All these relief measures currently in place have improved the situation of the poor after the former government policies sharply increased social problems for a large percent of the population. The pandemic and the subsequent lockdown imposed by the current government, which has almost stopped economic activity, has proved that all these measures had to be reinforced.

Economic Policies to Deal with the Pandemic

Argentina took early action to contain the virus by imposing a strict lockdown. Economic policy measures taken so far entail a fiscal stimulus, the amount of which will be conditional on the length and impact of the quarantine.

i. Households relying on informal activities, domestic workers, or the self-employed that have suffered income losses will receive a one-off bonus in April. Additional conditional cash transfers to poor families include a one-off bonus targeting retirees and non-contributory pension beneficiaries with minimum pensions.

ii. Public food programs are being expanded.

iii. In sectors critically affected by the lockdown, such as entertainment, transport, restaurants, and hotels, the government will pay part of the salaries and exempt employers from social security contributions. Unemployment insurances have been reinforced for those workers who have been dismissed without fair cause during this period.

iv. Public banks will support private companies with subsidized credit for up to 180 days.

v. Public investment will be boosted by an increase of 40 percent in the budget allocation for capital expenditures.

Fiscal Consolidation Path Compatible with a Disinflation Process

i. The tax policy (including the measures embedded in the Solidarity Law) aims at contributing to fiscal sustainability by strengthening tax resources, without neglecting the objectives of equity.

ii. Progressive taxes on external transactions have been strengthened. The legislation introduced a special tax applicable to certain foreign exchange transactions. The reduction in property tax rates was eliminated and an over-tax has been introduced, taxing the holding of assets abroad. For the internal tax on motor vehicles, ranges were introduced for the sale price, with higher rates being imposed on high-end and luxury imported cars.

iii. The reduction in employer contributions has been postponed (considering it had no effect on job creation) but favorable changes have been implemented for SMEs.

iv. Tax on financial transactions has been eliminated to encourage savings in pesos.

v. Measures have been implemented to improve tax compliance. A Facility Plan for SMEs has been established to encourage card payments. A cash withdrawal tax has also been introduced.

vi. On expenditures, a review process of relevant policies has been initiated. The government is currently devising a new indexation formula based on the principle of shared growth and consistent with the macroeconomic framework presented by the Minister of Economy.

vii. Public utility price policies are one of the tools to converge towards a sustainable disinflation path. Price-wage agreements should be consistent with competitiveness and inflation objectives. The Central Bank of Argentina has been following a strategy of persistent reduction in interest rates consistent with the comprehensive macroeconomic strategy that aims at productive reactivation and a gradual and persistent disinflation.

viii. On the horizon, the goal is to reduce the inflation rate to a single digit, below 5 percent per year, and to minimize monetary financing, recovering the use of monetary policy for macroeconomic stabilization purposes. In the transition towards fiscal balance, the public sector will prudently resort, in a decreasing manner, to central bank financing. Fostering demand for peso-denominated assets is a high priority.

ix. Capital account regulation is a necessary instrument in times of emergency. The current regulations will be to a large extent maintained in the early phase of the recovery program. The goal is to ease those regulations in an orderly way. Foreign exchange reserve accumulation targets are a necessary condition for achieving that goal.

Providing an Orderly Resolution to the Debt Crisis

i. The government has passed a set of key legislative tools to resolve the debt situation in an orderly manner: (i) the “Solidarity Law” has authorized the Executive Branch to perform all necessary acts to recover and ensure the sustainability of Argentina’s public debt; and (ii) the “Debt Sustainability Bill” has authorized the government to engage with Argentina’s creditors to restore the sustainability of its external public debt, based on the principles of good faith, transparency, and equal treatment.

ii. The government has also been authorized to issue debt securities to the Central Bank for an amount of up to USD 4,571 billion in exchange for reserves to be used to service Argentina’s foreign currency-denominated debt obligations.

iii. At the end of January 2020, the Ministry of Economy published a timeline of actions to manage the process of restoring the sustainability of external public debt.

iv. At the beginning of March, the restructuring perimeter of the private debt in foreign currency was defined by decree and the Ministry of Economy was authorized to carry out the necessary debt operations to resolve the current situation.

v. On peso-denominated debt, the government has made significant progress since December 2019. The new administration started to issue short-term bills (the so called “Lebads”) linked to the BADLAR rate, enabling the government to roll over peso debt at sustainable rates while lengthening maturities. In that regard, the government has successfully swapped approximately USD 5 billion of peso-denominated debt. These operations have reduced the outstanding peso-denominated obligations for 2020 with private sector from USD 19 billion to USD 12.4 billion (decrease of 35 percent). Additionally, interest rates decreased sharply in primary debt issues from 73.55 percent in July 2019 (the last peso-denominated instruments issue carried out by the previous administration) to 35 percent in March 2020.

vi. IMF staff have visited Argentina twice and exchanged views with the Argentine authorities on their macroeconomic plans and policies. After completing the first mission, IMF staff publicly evaluated that Argentina's public debt is not sustainable and that actions are required to re-establish sustainability with high probability.

vii. After completing the second mission and at the request of the Argentine authorities, IMF staff produced and disseminated a technical report on debt sustainability analyzing the actions required to restore the sustainability of public debt with high probability. This note presented a feasible medium-term macroeconomic framework and the gross financing needs, including debt service in foreign currency that the Argentine economy can sustain in the coming years.

Bolivia

Bolivia closed 2019 after going through a political and social crisis, initiated by a series of fraud allegations during the October 2019 presidential elections. This caused citizen mobilization and blockades that completely paralyzed most of the country for 21 days, resulting in the resignation of the former president and his subsequent departure from the country. Following the constitutional line of succession, the new acting president took office in November 2019 with the mandates to pacify the country and to call, in the shortest possible time, new elections, thus reestablishing social order and restoring the country's economic stability.

Bolivia's economy slowed down in 2019. The new transitional government gradually begun the fiscal adjustment, through rigorous control and prioritization of spending, hence halting projections of the fiscal deficit of around 9 percent of GDP and closing 2019 with a deficit of 7.2 percent of GDP, improving the 8.1 percent of 2018. Preliminary macroeconomic figures from 2019 show that the current account deficit reached 3.4 percent of GDP, year-end inflation averaged 1.47 percent, and real GDP growth slowed to 2.2 percent.

As several countries impacted by COVID-19, a contraction is expected in Bolivia's economy for 2020 (-3.4 percent) with a rapid recovery in 2021 (3.7 percent), and with the same trend in 2022 (3.4 percent). Bolivia's perspectives for 2020 are affected by the deep social and economic impact caused by the pandemic, which demands taking emergency measures to protect the population.

The financial system faced a brief but significant period of withdrawal of deposits, in addition to a growing demand for foreign currency during the 2019 crisis. The adequate intervention of the Central Bank of Bolivia, the installation of the new government, and the soundness of the financial system allowed for an almost immediate reversal of the fall of deposits and their return to the system.

Although it is expected to continue with the correction in the medium term, the challenges imposed by the current scenario immediately demand the execution of highly expansive spending measures and policies to establish social protection networks for the most vulnerable. The aim is to preserve human lives, protect the most needed, while preparing a long-term development plan to return to the path of growth that has characterized Bolivia for more than three decades, which will be implemented as soon as the effects of the spread of the virus have been mitigated.

Aware of internal weaknesses and in order to avoid the immediate collapse of the health system, the authorities have implemented a series of mitigation measures and policies to contain the spread of the virus, protect the population, and ensure the stability of the financial system.

Chile

1. Overview

As in many countries, Chile's economy has significantly weakened under the impact of the COVID-19 pandemic. This has overshadowed the recovery after the social unrest that hit the economy in the last quarter of 2019.

The government started preparations to face the virus well in advance of its arrival and adopted non-pharmacological containment measures immediately after the first confirmed case. Social distancing, suspension of classes, border closures, sanitary barriers, and territorial quarantines have curtailed contagion and fatalities at a cost estimated at 12-15 percent of monthly GDP per month. This is about half the OECD estimate given the more targeted nature of containment measures in Chile. These measures should last during most of the second quarter, followed by a gradual roll out in the third quarter. As a result, GDP is expected to contract between 1.5 and 2.5 percent in 2020, concurrent with a world recession. After starting to recover in the second half of 2020, the economy should grow between 3.75 percent and 4.75 percent in 2021, converging to trend growth of 3-4 percent in 2022. To secure this outcome, the authorities have taken major social, fiscal, monetary and regulatory measures, aimed at supporting firms and jobs during the emergency.

As a small open commodity-exporting economy, Chile is affected by the global crisis through various channels: First, a significant drop in trade flows, including those from China and its trading partners and the world recession, plus the fall in commodity prices.

Second, through tighter financial conditions. The global increase in risk perception and large adjustments in financial prices limit access to external financing. Against this background, sound policies and Chile's institutional framework have facilitated continued access to international capital markets on favorable terms motivating various central banks—including the Central Bank of Chile (CBC)—to take action to ensure the proper functioning of the markets. Among other measures, the CBC adapted the operations of the liquidity programs that have been applied since November 2019, incorporated corporate bonds as eligible collateral for all CBC's liquidity operations in pesos, and launched the purchase of bank bonds from participants in the open market operation system, for the UF equivalent of up to USD 4 billion. In the last CBC's Monetary Policy Meeting, the limit was raised to up to USD 8 billion. Additionally, for the remaining balance, —USD 5.5 billion—the term restriction on eligible instruments was eliminated. To facilitate access to credit for individuals and companies, especially smaller ones, the CBC established the *Conditional Financing Facility* (FCIC) granting 4-year loans to banks at the minimum Monetary Policy Rate (currently at 0.5 percent), which grows with refinancing and credit operations to corporates and households. The facility starts with a basic grant equivalent to 3 percent of the bank´s loan portfolio, which can expand to 15 percent with the lending-multiplier. This mechanism combines with a broad government guarantee program for SMEs.

A third transmission channel is business and consumer expectations, which affect investment and consumption. Both were already at pessimistic levels and a reversal now seems unlikely. A special survey carried out by the CBC revealed a significant deterioration in the outlook for employment and activity. Incoming information reveals that layoffs are already taking place, mainly affecting workers without a formal contract, with fixed-term contracts, or with less seniority in their jobs.

During this period, the currency has depreciated, the stock market has fallen significantly, sovereign risk spreads have widened, and long-term interest rates have risen moderately. Unlike massive outflows in other emerging market economies, capital outflows have been contained due to confidence of foreign investors and the weight of domestic institutional investors. Chile's ability to contain economic deterioration will depend on—but not exclusively—the depth and duration of containment policies, which so far have been gradual; the degree of distortion in global production chains, and the support given to the corporate sector to withstand the drastic erosion of companies' income. The mining sector has not been hit severely, as the spread of the virus has been particularly mild in the mining regions in the North. While investment projects have been suspended, operations are continuing, albeit with special protection measures for workers.

Markets positively assess the strong macroeconomic fundamentals of the Chilean economy, the key role of the flexible exchange rate regime that allows it to act as a shock absorber, and the swift and bold fiscal and monetary policy response to the social and pandemic crises. The authorities are committed to continuing support based on the deep-rooted, credible, and rule-based fiscal and monetary policy frameworks, the availability of sovereign buffers and CBC international reserves, coupled with a sound and adequately capitalized financial system that allows for efficient monetary policy transmission.

2. Macroeconomic Forecasts

The legacy of the 2019 social unrest in some sectors provides a weaker starting point to face the sanitary emergency. The CBC's most recent forecast was made under even greater uncertainty than that at the end of last year. The -2.5 and -1.5 percent range assumes that by the third quarter of this year sanitary measures will be eased and the recovery of the economy will begin.

On the external front, the expected lower growth of Chile's trading partners will have an impact, but it should not significantly hurt non-mining GDP given its lower elasticity to world GDP. Chile's main trading partner, China, is reactivating before others, with a likely pick up in infrastructure investment, which is intensive in copper, Chile´s main export to that country. In fact, while the fall in copper prices is having a negative effect, it has been mostly through the financial rather than the trade channel, which seems less hurt despite the crisis.

In 2021, GDP activity will increase between 3.75 and 4.75 percent, while in 2022, between 3 and 4 percent. This assumes some relaxation of the restrictive measures towards the second half of the year, large-scale investment projects reinstated, and the institutional channeling of the social crisis reducing uncertainty and avoiding new episodes of violence, effective fiscal stimulus measures, the expansionary stance of monetary policy, and credit markets functioning normally. However, the economy may disappoint if the control of the sanitary emergency and the containment measures around the world last longer than expected and if the significant financial needs of agents are not met by the supply of credit. Such scenarios would imply solvency problems and bankruptcies, with a greater loss of jobs and a slower recovery for the next two years.

3. Inflation and Monetary Policy

In the current juncture, medium-term inflationary pressures have been significantly reduced. The 2019 year-end inflation was 3 percent (2.5 percent excluding food and fuel components), thus convergence to the 3 percent target requires monetary policy to remain in this highly expansionary position for an extended period. Consequently, on top of the extraordinary liquidity provision measures already in place, in March the CBC reduced the monetary policy rate by 125 basis points, to 0.5 percent—its estimated effective lower bound—and signaled it would keep it at that level for a long time. If growth were to deteriorate below expectations in 2021-22, the CBC would assess the need to use instruments that go beyond the usual management of monetary policy, giving priority to financial stability considerations.

4. Fiscal Policy

In March, the Chilean government announced an Economic Emergency Plan that involves resources of up to USD 11.75 billion (roughly 4.7 percent of GDP). This fiscal package follows other extraordinary fiscal measures of up to USD 5.5 billion that were announced in December 2019, in the aftermath of the social unrest. The Plan includes a comprehensive set of measures to safeguard health, protect household incomes and jobs, and transitory policy measures that free up working capital to the private sector.

To protect jobs and boost consumption, new legislation allows companies to reduce their wage bill by transitorily suspending the worker-employer relationship, with workers' wages paid out from the Unemployment Insurance Fund. In addition, to alleviate income and liquidity constraints, roughly 2.7 million informal workers will receive an extraordinary cash transfer from the government and a new municipal fund will help small and medium enterprises. These additional measures could inject up to 2 percent of GDP in the second quarter of the year. Also, the government has postponed a series of tax payments, which were due in the second quarter, while advancing tax refunds through the next few months. These measures will inject almost 2.4 percent of annual GDP in the economy, mostly in the second quarter, but will automatically roll back over the next 12 months.

More recently, the government has announced a broad guarantee scheme for micro, small and medium enterprises, covering up to 85 percent of loans to cover cash shortfalls. Bank loans will be funded by the CBC FCIC, will be conditional on commercial banks rolling over short-term debt repayments, and supported by regulatory adjustments.

In the use of its policy room, Chile's government could introduce new measures as the economic situation may require. The government maintains stable access to funding in domestic and international capital markets anchored in a relatively low gross public debt, sizable sovereign wealth funds, and a solid track record of fiscal discipline. Still, the impact of these measures on the fiscal accounts could be significant, while public revenues will fall along with the economy and international copper prices. Prudent fiscal policy is a signature of public management and will continue to be so as the government is committed to maintaining debt sustainability and compliance with the fiscal rule, as long as the global crisis permits.

5. Final Remarks

Chile faces this juncture with important strengths. First, its health system is competent in epidemiological management, more professionalized and equipped than most countries in the region. The number of COVID-19 tests applied is high and growing, allowing to isolate the confirmed and potentially infected cases. Second, Chile has built economic buffers over the years thanks to prudent monetary and fiscal policies. Thus, Chile has more fiscal, monetary, and financial policy space than other countries. Third, the social protection system has the means to quickly reach low-income households, and workers at risk of losing their jobs.

Thanks to its strong economic policy framework Chile is one of the countries that has responded more quickly and forcefully by adopting measures to contain and mitigate the economic impact of COVID-19. In the case of the CBC, this translates into the adoption of more than ten measures to increase the monetary stimulus, strengthen credit, and reduce financial volatility—a fact that has been recognized by the markets. So, Chilean asset prices have deteriorated less than those of other comparable economies. The coordination between economic institutions grown vigorously, in order to align regulations and incentives so that credit flows to the companies and households that need it the most. The challenges faced by policy makers require intensifying this coordination, including a response from the banking system to measure up to the circumstances.

Paraguay

In 2019, the Paraguayan economy was significantly affected by the deterioration of weather conditions. A drought substantially reduced agricultural production, especially soybean, which also led to a weakening of some branches of the manufacturing sector and other sectors linked to agriculture. At the same time, a drought in the area of the Paraná River basin, on the Brazilian side, severely influenced the generation of electricity from binational hydroelectric dams. Subsequently, the floods registered towards the second half of the second quarter negatively impacted livestock and construction sectors.

Additionally, external shocks, such as the drop in commodity prices and the deterioration of the global and regional environment, exacerbated the effects of climate shocks. In the first half of 2019, the soybean price fell 11 percent compared to the same period in 2018. In addition, the weakness of regional economies, especially the Argentinian economy, reduced the dynamics of trade across borders and sectors linked to tourism.

In this context, growth forecasts for the annual GDP were revised downwards substantially throughout 2019. After an initial forecast of 4.0 percent of annual growth, the latest revision in December 2019 was 0.2 percent.

For 2020, the first forecast showed an expansion of 4.1 percent, mainly explained by the recovery of agriculture, electricity generation, manufacturing and construction, while it was expected that the services sector would record a better performance than 2019. On the expenditure side, an upturn in private consumption and investment was expected, as well as a positive contribution from net exports. Furthermore, the data observed in the first months of 2020 was consistent with the estimated projection. However, this estimate currently has a significant downside risk given the latest events related to the Coronavirus outbreak. In recent days, the global and regional economic outlook has become even more uncertain, affecting financial markets, the real economy, and employment. This situation has generated a scenario of greater uncertainty regarding the length of social isolation measures and their consequent impact on economic activity. Thereby, fiscal and monetary policies will be crucial to lessen the negative impact on households and firms.

Regarding prices, total inflation and its trend measures registered low rates during 2019. At the end of the year, the annual variation of the Consumer Price Index (CPI) was 2.8 percent, standing at the lower zone of the tolerance range of 4.0 percent +/- 2 percentage points (between 2 percent and 6 percent). Likewise, in the first months of 2020, inflation remained low. The average year-on-year inflation for January through March was 2.6 percent.

Given the lower inflationary pressures, as well as the evolution of economic activity and domestic demand indicators in 2019, the Central Bank of Paraguay (BCP) considered it appropriate to relax the monetary policy stance, lowering the reference rate by 25 basis points in the meetings of February, March, July, August, and September. Thus, the reference rate went down from 5.25 percent to 4.00 percent annually, keeping at that level until the end of the year.

The nominal exchange rate of Paraguay exhibited a similar behavior to the dynamics observed at the regional context in 2019. As of December 2019, the Paraguayan guaraní depreciated by 8.5 percent vis-à-vis the U.S. dollar, in annual terms. The participation of the BCP in the exchange market has been limited to the attenuation of sharp volatilities of the exchange rate, without shifting the trend in market fundamentals. As of February 2020, the Paraguayan guaraní depreciated around 0.9 percent year-on-year against the U.S. dollar. On the other hand, Net International Reserves (NIR) stand at consistent liquidity levels to face any sudden fluctuations in the exchange rate. As of December 2019, the NIR reached USD 8.0 billion, while in March 2020, it totaled USD 8.6 billion (21 percent of GDP).

As for public finances, the fragile performance of economic activity and domestic demand in 2019 was reflected in a drop in tax revenues, from imports. The fiscal deficit of 2019 was around 2.9 percent of GDP; however, this fiscal result was also largely explained by a significant increase in public investment, which reached around 3.0 percent of GDP.

Regarding the credit situation, despite the lower dynamism of economic activity, total credit granted to the private sector maintained a significant growth rate in 2019, increasing 9.2 percent in annual terms. Loans in local currency expanded by 14.0 percent year-on-year, while loans in foreign currency registered a year-on-year change of -0.6 percent. In February 2020, total credit expanded 5.3 percent annually, driven by the 10.2 percent annual growth of loans in local currency, and partially attenuated by the -2.3 percent annual change of loans in foreign currency.

Financial intermediaries are maintaining their financial soundness indicators at adequate levels, despite the weaker economic activity observed during the first half of 2019. In this context, the government implemented a set of measures to boost the economy, including a package of transitory financial measures to support the most affected sectors. As regards the regulatory framework, the scope of supervision of the BCP has been extended to include individuals and/or legal entities that operate in the credit market with their own resources or from third parties without taking deposits. Likewise, there was a relevant change in the Consumer and User Defense Law to enhance the transparency of the Total Cost of Credit. It should be noted that in December 2019, following the recommendations of FATF-GAFILAT, the government enacted a series of laws to deal with money laundering, terrorist financing, and organized crime. On the other hand, some bills that are still being studied are: the creation and regulation of the Credit Bureaus, Protection of Personal Data, Crowdfunding, Exchange Brokers, and the modifications of the Charter Law of the National Institute of Cooperatives (INCOOP) and the Cooperatives Law, Factoring, among others. In addition, the Executive Branch presented a package of laws to the National Congress that aims to contribute to improving the business climate in Paraguay, including the Secured Property Project, Resolution of Insolvency, and the recently enacted Simplified Share Companies Act.

Given the confirmation of Coronavirus cases (COVID-19) in Paraguay, the health authorities promptly promoted some isolation measures to decrease the rate of infection. In this context, the government immediately launched a series of economic actions to alleviate the economic impact on families and businesses. The promulgation of a National Emergency Law must be highlighted. This will allow the government to contract loans of up to USD 1.6 billion (4 percent of GDP). These resources will be allocated especially to the health sector (USD 515 million) and social protection (USD 408 million), while the remaining amount will be used for the operation of the State, for transitory subsidies of some public services and for loans to Micro, Small and Medium-sized Enterprises (MSMEs).

Likewise, a series of monetary and financial measures were implemented by the BCP to mitigate the economic impact. In March, the Monetary Policy Committee (CPM) decided to reduce the monetary policy rate (MPR) by 25 basis points in a first meeting, 50 basis points in an extraordinary meeting, and 100 basis points in a second extraordinary meeting, accumulating a reduction of 175 basis points of the MPR, placing it at 2.25 percent annually.

Moreover, in order to provide liquidity to the financial system, the BCP made available an important part of the legal reserve requirement in national currency (MN) and foreign currency (ME) for an amount equivalent to USD 740 million. Likewise, it created a liquidity window called the Special Credit Facility (FCE) for a value of USD 760 million, which will be particularly focused on meeting financing needs of MSMEs. Together, these two measures amount to around 4 percent of GDP. Other measures that will also facilitate liquidity have been the reduction of the penalty rates for the cancellation of Letters of Monetary Regulation (LRM) and the cut of interest rates from short-term liquidity facilities.

Regarding the flexibilization measures of financial conditions, the BCP issued a resolution that will allow the interruption in the calculation of default for renewals, refinancing, or restructuring of loans, in order to avoid the deterioration of clients' credit ratings, allowing them to continue to access to credit. Another resolution issued refers to the extension of the term for the sale of foreclosed assets, which will enable financial entities to carry out the transaction under more favorable economic conditions and maintain the value of assets.

Peru

Economic Performance

In 2019 growth decelerated to 2.2 percent, in part due to temporary supply shocks (which affected primary sectors) and lower public investment. Still, Peru achieved 21 years of continuous expansion, the longest since 1921 and among the longest in the LAC region. Average growth was 4.9 percent in the last two decades, twice the LAC average. Inflation in Peru has been one of the lowest and less volatile in LAC since 2001 (2.6 percent in 2001-2019). In 2019 inflation was 1.9 percent, close to the center of the target range (1 percent-3 percent) of the Central Reserve Bank of Peru (BCRP).

The current account deficit in 2019 was 1.5 percent, below the previous 10-year average (2.8 percent of GDP) and continued to be sustainable and fully financed by long-term capital inflows. The fiscal deficit reached 1.6 percent of GDP in 2019, from 2.3 percent in 2018. This reduction was due to both higher revenues and lower expenditures. Public debt as of 2019 reached 26.8 percent of GDP, one of the lowest in the region. For its part, the BCRP reduced its monetary policy rate by 0.50 percentage points in 2019, from 2.75 percent to 2.25 percent. Credit to the private sector increased 6.9 percent in 2019, mainly due to higher consumption and mortgage loans (12.8 percent and 9.0 percent, respectively), in line with the expansionary monetary policy stance. As a consequence, the credit-to-GDP ratio reached 43.2 percent, a considerable improvement in financial deepening since the beginning of the century (24.8 percent in 2001).

In 2020, due to the spread of COVID-19, a temporary national lockdown was declared from March 16 to April 12. In this context, the BCRP has taken measures to reduce the cost of financing and prevent the disruption of the payments system: lowering the monetary policy rate by 200 bps to 0.25 percent (its historical minimum) in March and April; providing liquidity to the financial system (through longer-maturity repo operations); and easing reserve requirements (thereby releasing 0.3 percent of GDP to financial institutions). Furthermore, the BCRP aims to reduce exchange rate volatility and has extended the limits for additional reserve requirements in domestic currency associated with the use of financial derivative instruments. The BCRP maintains an expansionary stance in a context of anchored inflation expectations and growth below potential and will continue to take the necessary steps to support the payments system and the credit channel. Altogether, the government has announced a package of fiscal measures amounting to 12 percent of GDP (USD 27.2 billion). This package includes a loan program (up to USD 8.9 billion) with government guarantees and liquidity provided by the BCRP through repo operations to support working capital financing and the payments chain.

Additionally, the BCRP maintains an FX buffer of around six times the country's short-term obligations and 30 percent of GDP thanks to a precautionary accumulation of international reserves. With sound fundamentals and high FX reserves, Peru's external position is one of the strongest among emerging market economies. This enables the authorities to considerably limit the risks from exogenous financial shocks.

Peru's strong and coordinated fiscal and monetary policy response was possible as a result of solid macroeconomic fundamentals, including low debt ratios, one the largest fiscal spaces in Latin America, and significant external buffers relative to peers. In a context of unprecedented challenges, the country's solid policy management over the past three decades is being validated.

Uruguay

Like all countries worldwide, Uruguay's economy is suffering the consequences of the external shock that is severely hurting the global economy, as well as the repercussions of the needed domestic measures to contain the spread of the COVID-19 pandemic in the country. The authorities have committed to devote all the needed resources and policies to successfully respond to these immense challenges. In this regard, the government has immediately deployed measures aimed at preparing the country's health system to appropriately face the pandemic, while mitigating its economic and social impact, especially on the most vulnerable sectors.

The government has undertaken fiscal and monetary measures to preserve the chain of payments and keep the economy running to the extent possible; in turn, the economy could rapidly return to its potential once the crisis is over. It is worth underscoring the measures implemented by the Ministry of Economy and Finance, the Central Bank of Uruguay, and the Ministry of Labor, among other institutions, to support small and medium-sized enterprises and the income of the most affected workers. The fast and unanimous—from all the political parties—approval in Congress of the law that created the *Fondo Solidario Covid 19* is illustrative; it reflects the cooperation and efforts of all the political parties and the soundness of the country´s institutions.

Furthermore, the Ministry of Economy and Finance, along with the Ministry of Social Affairs, has been working to mitigate the impact on the most vulnerable sectors of the society by increasing their incomes and delivering a basic basket of goods. Meanwhile, they are identifying people that lack formal social protection in order to provide the needed resources that would allow them to lessen the consequences of the current negative circumstances.

At the same time, the authorities are continuing to work on measures—announced before the eruption of this global crisis—aimed at rationalizing the public sector and recovering levels of competitiveness and investment. In the coming days, the Executive Power will send to Parliament a draft of an Urgent Consideration Law which includes some of Uruguay´s pending structural reforms: fiscal institutionality, public enterprises´ governance and management, social security reform, etc.

In sum, Uruguay is fully aware of the risks entailed by this global crisis and is decisively working to mitigate its severe impact by elaborating a consistent and dynamic set of policies that these very challenging times do require and, at the same time, is working on the recovery and medium-term agenda.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-13

Statement by Mr. Albayrak
Turkey

On behalf of
Austria, Republic of Belarus, Czech Republic, Hungary, Republic of Kosovo, Slovak Republic, Republic of Slovenia, and Turkey

IMFC Statement by Berat Albayrak,
Minister of Treasury and Finance
on Behalf of Austria, Belarus, Czech Republic, Hungary, Republic of Kosovo, Slovak Republic, Slovenia, and Turkey
at the 41st Meeting of the International Monetary and Financial Committee
Washington D.C., April 16, 2020

Global Outlook

This year the Spring Meetings are taking place at a truly extraordinary juncture as the COVID-19 pandemic has inflicted high and rising human costs worldwide. The health crisis and concomitant measures to contain the spread of the virus, are having a severe impact on economic activity. We will most likely see a recession in 2020, one which is far deeper and more broad-based than the Global Financial Crisis. We note in this regard the significant downward revision – more than 6 percentage points – in the Fund's global growth forecasts. We also take note of the expectation for a gradual recovery starting from the Q3 of this year, uplifting global growth above its trend-level in 2021. Nonetheless, we acknowledge that the factors that underlie the length and depth of economic contraction are multi-faceted, complex, and pose significant analytical difficulties in assessing the interplay between them. Therefore, we see "uncertainty" as a defining feature of macroeconomic analysis and policymaking at this juncture. On that note, the Fund, in its all communications, need to stress that none of these forecasts are definitive and all need to be taken with a grain of salt. Similarly, we encourage the Fund to develop and communicate a scenario-based approach in charting more frequent updates to the global economic outlook.

While the pandemic has spread to nearly all countries, some are at relatively more advanced stages of the contagion cycle which gives us cues about the possible course of the health- and economic-aspects of the crisis. Ultimately, the pathway of the pandemic will define the economic fallout and thus, social distancing measures that are needed to contain the spread of the virus are also a pre-requisite for a sooner, stronger and more-sustainable economic recovery. We therefore agree that there is no immediate trade-off between health and economic objectives. We support the current communication line of the Fund management to reinforce this message.

The sharp economic downturn as well as the policy-induced restrictions may lead to a prolonged period of subdued investment growth as well as disruptions to global supply chains and economic dislocations. The immediate liquidity pressures on certain sectors, may grow into broader solvency concerns that run more extensively through the economy and suppress the medium-term outlook. Against this background, we call on all countries to embrace a *whatever it takes* approach to swiftly and decisively counter the pressures on the global economy. Specifically, we agree that priority needs to be given to (1) increase the health system's capacity and contain the spread of the pandemic, and (2) shield households and vulnerable sectors from the most negative effects of the crisis – via targeted transfers and tax relief measures. The measures need to be timely, well targeted, and temporary. Timing the roll-back of the stimulus measures is a critical and state-contingent decision. Once the immediate containment phase is over, the Fund's policy advice and messaging should be carefully calibrated to inculcate this tone and caution against a premature tightening which may jeopardize the recovery prospects.

Many central banks, particularly the reserve currency issuers, have put in place bold measures to ease tensions in the financial markets, underpin systemic liquidity, and buttress broad confidence. Furthermore, steps to extend bilateral swap lines by key advanced and emerging economies have been instrumental in improving access to international liquidity across jurisdictions. We appreciate the emphasis of the Fund's flagship reports on such facilities and encourage systemic central banks to continue to widen their swap networks – in line with their respective mandates, particularly to systemic economies that do not have access to regional financing arrangements, to support global liquidity.

While the Covid-19 has unleashed a global recession, the emerging and developing countries are bearing the brunt of the pressures due to their relatively limited health capacities and macroeconomic policy space as well as the very severe capital outflows. We therefore strongly support the general call by the Fund for multilateral cooperation to consistently and transparently advance the pandemic containment efforts across all countries and to minimize economic disruptions. We also encourage the international community to ramp up its efforts toward low-income countries, including through steps to suspend and relieve the debt burden.

Finally, the Fund – despite the massive workload pressures due to soaring demand from the membership - needs to retain its surveillance focus on the recovery phase as most countries are grappling with the momentous pressures. The Fund's effective guidance and continued support will be crucial to smoothly shift gear from crisis mode to recovery mode once the immediate pressures from the pandemic are over.

Fund Issues

What we observe today in the global economy and financial markets is unprecedented in its scale and scope. Above all, it is an immense challenge for the policy makers, worldwide, to continuously assess the magnitude and transmission channels of the shock, as well as putting in place a set of policies that are timely and fit-for-purpose. The Fund, with its analytical prowess and quasi-universal coverage, has a unique role to play at this juncture in providing guidance to its members and assist them in their efforts to cope with the challenges facing them.

On the Fund's broader response to the crisis, we believe that the Managing Director's Global Policy Agenda (GPA) has appropriately put a premium on how best to respond to the Covid-19 outbreak, the great uncertainty, and the immense impact on the membership, especially on the most vulnerable and low-income countries. These are exceptional times and exceptional times call for exceptional action. On that note, we believe that the GPA highlights how the Fund is supporting the members by making its resources available to the fullest extent possible, including through the upgrade and adaptation of its lending toolkit. In this regard, we welcome the increased access limits of the Fund's emergency financing tools as well as the consideration of the new *Short-Term Liquidity Line* that is going to fill a crucial gap in the global financial safety net. We will need to review the institutional experience with this new facility and be ready to make necessary adjustments to its design modalities if it falls short of serving the intended goals. We are also open to consider exploration of additional tools, including a possible general Special Drawing Rights (SDRs) allocation.

We note the ongoing streamlining efforts to help improve the focus and timeliness of the institutional response to the fast-evolving demands from the membership. We underscore that a careful balance needs to be struck here between preserving the Executive Board oversight on crucial matters, on the one hand; and accelerating the approval processes, on the other. We also welcome the increased collaboration with international partners to ensure the coherence of individual responses as well as to benefit from synergies.

On the Fund policies, we agree that the focus should remain on advancing crisis-related activities and high-priority work-streams. In line with the GPA, work on the *Comprehensive Surveillance Review* and the *Review of the Financial Sector Assessment Program* once the crisis has subsided. With debt already at very high levels in many member countries and debt dynamics expected to deteriorate due to inevitable fiscal loosening this year, we also deem important the reviews of the *Debt Sustainability Framework for Market Access Countries* and the *Review of Debt Limits*.

We support the commitment by the IMFC and G20 to a strong, quota-based and adequately resourced IMF to preserve its role at the center of the global financial safety net. This is particularly important at a time of exceptional uncertainty and downside risks. We welcome the agreement to double the New Arrangements to Borrow (NAB) and call upon all NAB participants to ratify the increase as soon as possible. We welcome the recent approval by the U.S. to double its NAB credit line. We are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th General Review of Quotas, with the Review to be concluded by no later than December 15, 2023.

Lastly, we appreciate the emphasis on ensuring that budgetary resources are adequate to meet the increased demands on the Fund due to the crisis.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-14

Statement by Mr. Nganongo
Republic of Congo

On behalf of
Benin, Burkina Faso, Cameroon, Central African Republic, Chad,
Union of the Comoros, Democratic Republic of the Congo, Republic of Congo,
Côte d'Ivoire, Djibouti, Republic of Equatorial Guinea, Gabon,
Guinea, Guinea-Bissau, Republic of Madagascar, Mali,
Islamic Republic of Mauritania, Mauritius, Niger, Rwanda,
Democratic Republic of São Tomé and Príncipe, Senegal, and Togo

Statement by Mr. Calixte NGANONGO
Minister of Finance and Budget
(Republic of Congo)

I. Impact of COVID-19—Global Outlook and Policy Priorities

Global Outlook and Risks

1. The world is going through exceptionally challenging times with the deadly coronavirus pandemic. Human losses are staggering. The health crisis and the necessary containment measures are disrupting economic activity tremendously through direct effects as well as spillovers. Global financial markets have declined substantially, and financial conditions have tightened. We expect an unparallel negative global growth this year.

2. The unprecedented nature and size of the shock have prompted extraordinary public health measures and macroeconomic and financial responses. In advanced countries and many emerging economies and low-income countries, policy responses have been large and exceptional. However, with the extreme uncertainty associated with the projections and the risk of a more severe and prolonged coronavirus crisis, we, policymakers, should stand ready to do more on containment measures and macroeconomic policies to minimize human fatalities and preserve the prospects of a swift and sustained recovery in the aftermath of the pandemic.

A Global Challenge Requiring a Coordinated Global Response

3. We share and greatly appreciate the IMF's call for multilateral actions and solutions to effectively combat the pandemic and its socio-economic consequences. As rightly pointed out in the IMF's flagships, "*no country is safe from the pandemic as long as transmission occurs elsewhere*". Strong global cooperation is highly needed to slow the transmission of the virus; develop a vaccine and therapies; assist vulnerable countries with financing to strengthen and enable their health systems in countering the pandemic; and provide adequate global liquidity and financing.

4. Developing economies, especially low-income countries (LICs), fragile states, small states but also several middle-income countries face weak health systems and lack adequate medical supplies, testing and treatment to properly face the COVID-19 outbreak. Whereas the disease epidemic is at an early stage in those countries, one should fear the worst when and if contagion accelerates. Their efforts to fight off the crisis should be supported by adequate material, technical and financial assistance as well as capacity development.

5. Moreover, like other emerging market and developing economies (EMDEs), LICs are incurring significant economic damage through reduced domestic activity, tourism, trade and financial flows, including remittances. Real per capita output losses will be significant this

year in those countries, most notably in Sub-Saharan Africa (SSA). The economic impact of the COVID-19 is compounded by the commodity price shock in commodity-exporting economies, large capital outflows, the continued effects of climate change and, in some countries, security-related threats. The large number of LICs requesting the Fund's emergency financing, is an indication that their buffers are depleting rapidly.

Policy Priorities

6. The utmost priority everywhere should remain the reduction of contagion and the protection of human lives through continued containment measures as needed while increasing health care spending. It is also indispensable to limit the impact of the downturn on the populations, businesses and financial systems and ensure speedy post-pandemic recovery.

7. Based on these priorities, fiscal policy is the prime response tool. The necessary scaling up of health sector spending implies that large fiscal expansion is needed. Significant parts of the stimulus should be envisaged for the period following the decline of the disease when it is most effective to sustain activity as economic agents are able to move and act more.

8. Protecting vulnerable populations from loss of income and unemployment, and businesses, especially small and medium enterprises from bankruptcies is another paramount objective that fiscal policy must meet. We see merit in the fiscal measures recommended by the IMF and already undertaken in advanced economies, notably paid sick and family leaves, targeted cash transfers, unemployment benefits, wage subsidies, and deferral of tax payments.

9. On the other hand, most developing economies were facing a difficult situation prior to the COVID-19 outbreak and many are now impacted by the multiple shocks highlighted above. They may not have adequate fiscal space, which is likely to raise debt vulnerabilities to fight off the health crisis. It is therefore essential that appropriate grants and concessional financing be provided urgently to developing countries to address the fallout of the virus while preparing medium-term adjustment programs to adapt to the other shocks once the health crisis is brought under control.

10. We share the emphasis on also implementing strong and decisive monetary policies in addressing the crisis, welcome the actions already taken by many central banks, and see merit in similar measures by others where feasible. We share the view that there is a need to promote synchronized actions in monetary policy easing and liquidity provision and facilitate EMDEs' conduct of monetary policy commensurate with domestic conditions.

11. We agree that financial regulatory requirements need to be temporarily relaxed by lowering provisionally the capital adequacy ratios and helping reduce banks' losses. Banks should also be allowed to renegotiate loan repayments from distressed households and businesses while keeping credit risk under control. Governments should provide credit guarantees where possible to mitigate the rapid decline in the financial sector's credit to the economy.

12. Exchange rate flexibility where feasible can act as a shock absorber while central banks should stand ready to intervene in case of excessive exchange rate volatility. Capital flow management measures should be allowed to prevent disorderly outflows from EMDEs. In addition, there is a need to strengthen cross-border private transfers to sustain the flows of remittances by migrants in advanced countries towards developing economies, especially those relying on these flows.

II. Global Policy Agenda

13. We recognize the leadership role played by the IMF in coping with the current global crisis. We welcome its enhanced policy advice, strengthened lending toolkit and provision of debt service relief to respond quickly to members' large and urgent needs, and adaptation of the delivery of its capacity development activities to current circumstances. At the same time, the IMF is rightly advocating for multilateral approach and solutions to the crisis, including policy coordination and solidarity, the call for support to the most vulnerable members through bilateral debt service relief, and increased collaboration with other international financial institutions, multilateral development banks as well as specialized organizations. We support the Managing Director's Global Policy Agenda.

14. We encourage the Fund to swiftly complete its work on a short-term liquidity line to assist emerging markets with strong fundamentals facing liquidity pressures.

15. We commend the IMF for the recent reforms of its rapid-disbursing instruments, notably the doubling of annual access limits under the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) and fast-track provision of this support through streamlined procedures. In such exceptionally challenging circumstances, especially for LICs, it is critical to ensure that this assistance is flexible enough and cover all eligible members in need regardless of their debt vulnerability or Fund program status. We encourage the IMF in its efforts to mobilize additional resources for the Poverty Reduction and Growth Trust (PRGT) and commend countries that have announced contributions in this regard. In the same vein, an SDR allocation will help boost members' buffers while allowing contributions to the concessional trust.

16. Likewise, care should be given to expanding eligibility to the temporary debt relief under the Catastrophe Containment and Relief Trust (CCRT) to countries facing vulnerabilities beyond GNI per capita and include other criteria such as debt vulnerabilities. Moreover, significant contributions to the CCRT is essential for the success of this initiative. We commend the recent contributions and pledges from a number of donors and call on others to follow suit.

17. While we welcome the recent efforts to renew the IMF's borrowed resources under the New Arrangements to Borrow (NAB) and the Bilateral Borrowing Agreements (BBA) to ensure

that the institution is able to meet its members' needs, we continue to stress the importance of maintaining the Fund as a quota-based institution by augmenting quota resources and realigning quota shares based on a new quota formula. We also continue to emphasize the need to improve geographical diversity within IMF staff.

18. Beyond the current crisis, the IMF should continue to deepen its analysis and support to members on coping with long-term challenges, notably climate change.

COMITÉ MONÉTAIRE ET FINANCIER INTERNATIONAL

Quarante-et-unième réunion

16 avril 2020

Déclaration n° 41-14(F)

Déclaration de M. Nganongo
République du Congo

au nom de
Bénin, Burkina Faso, Cameroun, République centrafricaine,
Comores, République du Congo, République Démocratique du Congo,
Côte d'Ivoire, Djibouti, Gabon, Guinée, Guinée-Bissao,
Guinée équatoriale, République de Madagascar, Mali, Maurice,
Mauritanie, Niger, Rwanda, São Tomé et Príncipe, Sénégal,
Tchad, et Togo

Déclaration de M. Calixte NGANONGO
Ministre des Finances et du Budget
(République du Congo)

I. IMPACT DU COVID-19—PERSPECTIVES MONDIALES ET PRIORITES POLITIQUES

Perspectives mondiales et risques

1. Actuellement, le monde traverse une période extrêmement difficile en raison de la pandémie du coronavirus. Les pertes en vies humaines sont importantes. La crise sanitaire et les nécessaires mesures de confinement perturbent considérablement l'activité économique à travers des effets directs et indirects. Les marchés financiers internationaux se sont repliés significativement et les conditions financières se sont resserrées. Nous nous attendons cette année à une croissance mondiale négative sans précédent.

2. La nature et la taille sans parallèle du choc ont conduit à des mesures extraordinaires en matière de santé publique et de riposte macroéconomique et financière. Dans les pays avancés et plusieurs économies émergentes et à faible revenu, les réponses ont été de grande ampleur et exceptionnelles. Cependant, compte tenu de l'incertitude extrême qui entoure les projections et du risque d'une crise du coronavirus plus sévère et prolongée, nous, décideurs devons-nous tenir prêts à faire davantage en matière de mesures de confinement et de politiques macroéconomiques pour minimiser les décès et préserver les perspectives d'une reprise rapide et soutenue au lendemain de la pandémie.

Un défi mondial qui requiert une riposte mondiale coordonnée

3. Nous faisons notre et apprécions l'appel du FMI en faveur d'actions et solutions multilatérales pour combattre efficacement la pandémie et ses conséquences socio-économiques. Comme souligné à juste titre dans les rapports phares du FMI, « *aucun pays n'est à l'abri de la pandémie tant que la contagion se poursuit ailleurs* ». La forte coopération mondiale est hautement souhaitée pour ralentir la transmission du virus, développer un vaccin et des traitements, assister les pays vulnérables avec des financements pour renforcer et rendre efficaces contre la pandémie leurs systèmes de santé, et pourvoir de la liquidité et des financements adéquats au niveau mondial.

4. Les économies en développement, notamment les pays à faible revenu, les états fragiles, les petits états mais aussi plusieurs pays à revenu intermédiaire font face à des systèmes de santé inadéquats et qui manquent de matériel médical, de tests et de traitements pour combattre le COVID-19. Alors que la pandémie est à un stade initial sur le continent, l'on peut craindre le pire si la contagion venait à s'accélérer. Leurs efforts contre la crise sanitaire doivent être soutenus par la fourniture de matériel adéquat, une assistance technique et financière ainsi qu'un renforcement des capacités.

5. Par ailleurs, tout comme les autres économies émergentes et en développement, les pays à faible revenue subissent déjà des dommages économiques à travers une activité domestique, un tourisme, un commerce et des flux financiers, y compris les transferts des migrants, réduits. Les pertes en production réelle par habitant seront importantes cette année dans ces pays, et plus particulièrement en Afrique sub-saharienne (ASS). L'impact économique du COVID-19 est exacerbé par le choc des prix des produits de base dans les pays exportateurs de matières premières, la sortie significative des capitaux, la poursuite des effets du changement climatique et, dans certains pays, les menaces d'ordre sécuritaire. Le nombre important de pays à faible revenu requérant l'assistance d'urgence du FMI est une indication de l'épuisement rapide de leurs marges de manœuvre.

Priorités politiques

6. La priorité dans le monde devrait être la réduction de la contagion et la protection des vies humaines à travers des mesures de confinement continues partout où cela est nécessaire tout en augmentant les dépenses de santé. Il est également indispensable de limiter l'impact de la récession économique sur les populations, les entreprises et les systèmes financiers et d'assurer une reprise post-pandémique rapide.

7. Sur la base de ces priorités, la politique budgétaire demeure le principal outil de réponse. L'augmentation nécessaire des dépenses du secteur de la santé implique une forte expansion budgétaire. Des éléments importants du stimulus devraient être envisagés pour la période qui suivra le déclin du nombre de personnes affectées par la maladie, au moment où les efforts visant à soutenir l'activité économique sont les plus efficaces à mesure que les agents économiques reprennent leurs activités.

8. La protection des populations vulnérables contre les pertes de revenus et le chômage ainsi que les entreprises —particulièrement les petites et moyennes entreprises— contre les faillites, est un autre objectif primordial que la politique budgétaire se doit d'atteindre. Nous trouvons du mérite dans les mesures budgétaires recommandées par le FMI et déjà mises en œuvre dans les économies avancées, notamment les congés maladie et les congés payés aux familles, les transferts monétaires ciblés, les allocations chômage, les subventions salariales et le report des paiements d'impôts.

9. D'un autre côté, la plupart des économies en développement étaient confrontées à une situation difficile avant la pandémie de COVID-19 et nombre d'entre elles sont désormais affectées par les multiples chocs cités ci-dessus. Plusieurs de ces pays ne disposent pas d'un espace budgétaire adéquat, ce qui risque d'augmenter la vulnérabilité de leur endettement pour lutter contre la crise sanitaire. Il est donc essentiel que des subventions appropriées et des financements concessionnels soient accordés d'urgence aux pays en développement pour lutter contre les retombées du virus tout en préparant des programmes d'ajustement à moyen terme visant à s'adapter aux autres chocs une fois la crise sanitaire maîtrisée.

10. Nous partageons l’accent mis sur la nécessité de mettre en œuvre des politiques monétaires fortes et décisives pour faire face à la crise et nous nous félicitons des mesures déjà prises par de nombreuses banques centrales à cet égard. Nous estimons que des mesures similaires devraient être mises en œuvre par davantage de pays lorsque cela est possible. Nous partageons l’avis selon laquelle il est nécessaire de promouvoir des actions synchronisées en matière d’assouplissement de la politique monétaire et de fourniture de la liquidité ainsi que de faciliter la conduite de la politique monétaire par les économies émergentes et en développement en fonction des conditions intérieures.

11. Nous convenons que les exigences en matière de réglementation financière doivent être temporairement assouplies en permettant notamment une baisse provisoire des ratios d’adéquation des fonds propres afin d’aider les banques à contenir leurs pertes. Les banques devraient également être autorisées à renégocier les remboursements des emprunts des ménages et des entreprises en difficulté tout en maîtrisant le risque de crédit. Les gouvernements à leur tour devraient fournir des garanties de crédit dans la mesure du possible pour atténuer la baisse rapide du crédit du secteur financier à l’économie.

12. Dans les pays où le taux de change est flexible, cette flexibilité peut agir comme un amortisseur. Cependant, les banques centrales devraient être prêtes à intervenir en cas de volatilité excessive du taux de change. Des mesures de gestion des flux de capitaux devraient être permises pour empêcher les sorties excessives et déstabilisantes des économies émergentes et en développement. En outre, il est nécessaire de promouvoir les transferts privés transfrontaliers pour soutenir les flux de transferts de fonds des migrants des pays avancés vers les économies en développement, en particulier ceux qui dépendent de ces flux.

II. PROGRAMME D’ACTION MONDIAL

13. Nous reconnaissons le rôle de leadership joué par le FMI pour faire face à la crise mondiale actuelle. Nous nous félicitons de ses conseils stratégiques intensifiés, de ses instruments de prêt renforcés et de son allégement du service de la dette pour répondre rapidement aux besoins importants et urgents de ses membres ainsi que de l'adaptation de la mise en œuvre de ses activités de renforcement des capacités aux circonstances actuelles. Dans le même temps, le FMI plaide à juste titre pour des solutions et une approche de la crise, notamment la coordination des politiques et la solidarité, l'appel au soutien de ses membres les plus vulnérables par le biais d'un allégement bilatéral du service de la dette et une collaboration accrue avec d'autres institutions financières internationales, les banques multilatérales de développement ainsi qu’avec les organisations spécialisées. Nous appuyons le Programme d’action mondial de la Directrice générale.

14. Nous encourageons le Fonds à achever rapidement ses travaux visant à adopter une ligne de liquidité à court terme en vue d'aider les pays émergents qui disposent de fondamentaux solides et qui sont confrontés à des pressions de liquidité.

15. Nous félicitons le FMI pour les récentes réformes de ses instruments à décaissement rapide, notamment le doublement des limites d'accès annuelles au titre de la Facilité de crédit rapide (FCR) et de l'Instrument de financement rapide (IFR) ainsi que la mise à disposition accélérée de ce soutien grâce à des procédures plus écourtées. Dans de telles circonstances exceptionnellement difficiles, notamment pour les pays à faible revenu, il est essentiel de s'assurer que cette assistance est suffisamment flexible et est disponible pour tous les membres éligibles qui sont dans le besoin, indépendamment des vulnérabilités de leur dette ou de l'état du programme convenu avec le Fonds. Nous encourageons le FMI dans ses efforts visant à mobiliser des ressources supplémentaires en faveur du Fonds fiduciaire pour la réduction de la pauvreté et pour la croissance (*Poverty Reduction and Growth Trust,* PRGT) et nous félicitons les pays qui ont annoncé des contributions substantielles à cet égard. Dans cette optique, une allocation de DTS contribuera à renforcer les marges des pays membres tout en permettant des contributions à ce fonds fiduciaire pour les prêts concessionnels.

16. Par ailleurs, le FMI devrait veiller à élargir l'éligibilité à l'allégement temporaire de la dette au titre du Fonds fiduciaire pour l'assistance et la riposte aux catastrophes (*Catastrophe Containment and Relief Trust,* CCRT) en faveur d'autres pays confrontés à des vulnérabilités, au-delà du critère de revenu national brut (RNB) par habitant et inclure d'autres critères tels que la vulnérabilité de la dette. En outre, des contributions importantes au CCRT sont nécessaires pour le succès de cette initiative. Nous saluons les récentes contributions et promesses de dons annoncées par un nombre de donateurs et encourageons les autres donateurs à faire de même.

17. Tout en nous félicitant des récents efforts visant à renouveler les ressources empruntées du FMI au titre des Nouveaux accords d'emprunt (*New Arrangements to Borrow,* NAB) et des Accords d'emprunt bilatéraux (*Bilateral Borrowing Agreements,* BBA) pour garantir que l'institution est en mesure de répondre aux besoins de ses membres, nous continuons de souligner l'importance de maintenir le Fonds en tant qu'institution fondée sur les quotes-parts en augmentant les ressources en quotes-parts et en réalignant les pourcentages de quotes-parts sur la base d'une nouvelle formule de calcul. Nous continuons également de souligner la nécessité d'améliorer la diversité géographique au sein des services du FMI.

18. Au-delà de la crise actuelle, le FMI devrait continuer d'approfondir son analyse et d'appuyer ses membres pour faire face aux défis à long terme, notamment le changement climatique.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-15

Statement by Mr. Aljadaan
Saudi Arabia

Statement to
The International Monetary and Financial Committee
By
Mohammed Aljadaan
Minister of Finance
Saudi Arabia
Thursday, April 16, 2020

Global Economic Context

The humanitarian impact from the COVID-19 pandemic is significant and the global economy will face a recession in 2020 far worse than during the global financial crisis. The Kingdom of Saudi Arabia offers its deepest sympathies and condolences to all affected people. Our top priority is to save lives by providing the necessary resources for health systems and to support those most affected by COVID-19, including through spending reprioritization when fiscal space is limited. Moreover, we should employ well-targeted fiscal, monetary, and financial-sector measures to create conditions for a speedy economic recovery. Fiscal measures should be targeted, time bound, and transparent to contain fiscal risks and debt vulnerabilities.

The Saudi G20 Presidency is fostering strong multilateral cooperation to defeat the COVID-19 pandemic. The Presidency convened an Extraordinary Leaders' Summit recently to ensure a well-coordinated response to the COVID-19 pandemic. The G20 countries have injected more than $5 trillion into the global economy, as part of targeted fiscal policy, economic measures and guarantee schemes to offset the social, economic and financial impacts of the pandemic. A joint G20 action plan was put forth, which sets out the key principles guiding members' response, and we are working closely with all members and relevant international organizations to swiftly deliver appropriate international financial assistance. As the economic and financial impact of this health crisis on countries will be uneven, we urge stronger efforts to promote debt sustainability. In this context, the G20 has launched its debt service suspension initiative for the poorest countries, supported by the IMF, World Bank, and Paris Club for a time-bound suspension of debt service payments for low-income countries that request forbearance.

Recent Measures in Saudi Arabia to address COVID-19

The Kingdom's top priority is to protect its citizens and residents against the COVID-19 pandemic. The government has implemented bold measures to address the virus risks and limit its spillovers, both within the country and across its borders. Numerous fiscal, monetary and financial measures of more than SAR 120 billion, around 4% of GDP, have been approved to ease the economic impact on affected households and businesses. The government has also provided SAR 9 billion to protect employment of the nationals in the private sector, given the importance of this sector to promote economic diversification. The large size of the announced measures will help in improving confidence and safeguarding economic stability. The government is closely monitoring the situation and stands ready to provide any necessary support, if needed.

The Saudi Arabian Monetary Authority (SAMA) has also introduced a number of measures to support household and firms, while being mindful of the financial stability implications. Notably, SAMA has introduced the "Private Sector Financing Support Program" to support the private sector in the face of the COVID-19 pandemic. Indeed, banks are well-positioned to face the current crisis given their strong capital and ample liquidity in the system.

It is worth mentioning that Saudi Arabia faces this global crisis from a position of strength given its strong balance sheet, with ample reserve buffers and relatively low government debt. More recently, Credit Ratings Agencies have broadly affirmed their positive assessments about the Kingdom's strong fundamentals.

Saudi Arabia fully supports the global efforts to address the COVID-19 pandemic, including through its financial contributions to relevant international institutions such as the World Health Organization.

Global Policy Agenda

We welcome the Managing Director's Global Policy Agenda, which rightly focuses on addressing the COVID-19 pandemic. We are encouraged by the IMF's efforts in helping the membership during this challenging period, particularly through its crucial role in providing timely and reliable information on global economic and financial developments as well as through capacity development and financial assistance where needed. We welcome the Fund's Policy Tracker on responses to COVID-19, which highlights the key measure taken by Saudi Arabia along with many other members.

We welcome the focus on operationalizing the Fund's framework on engagement on social spending, especially given the disproportionate impact of the crisis on the most vulnerable segments of the population. We also welcome the planned study for the G20 Presidency, jointly with the World Bank, to help identify policies to close gaps in access to opportunities, including for social mobility. We encourage the Fund to continue its engagement with and support to the MENA region, including fragile and conflict-affected states.

The Fund is well-positioned to support its members during this crisis, supported by its $1 trillion in lending capacity. In this context, we welcome the recent decisions on the doubling of the New Arrangements to Borrow and on a new round of Bilateral Borrowing Agreements, and we encourage the Fund to engage closely with the relevant members to ensure timely implementation. We also welcome the decision to enhance access to emergency financing, including a temporary doubling of annual access limits under the Rapid Credit Facility and Rapid Financing Instrument. This will provide timely support to many Fund members, including the poorest and most vulnerable members, including in the MENA region. We support a temporary establishment of the short-term liquidity line (SLL) and welcome the efforts to provide debt service relief to the poorest and most vulnerable countries through a reformed Catastrophe Containment and Relief Trust (CCRT). Further strengthening of the Fund's coordination with other relevant international institutions is important and we encourage further efforts to enhance collaboration with the Regional Financing Arrangements, including with the Arab Monetary Fund.

Given the heightened uncertainty in face of the COVID-19 pandemic, we urge the Fund to remain agile in responding to the needs of the membership. In this regard, we urge the Fund to enhance its collaboration with the WHO and all relevant international organizations to ensure well-coordinated phasing out of the current containment measures, which hamper the recovery of the global economy. We also urge the Fund to provide all the necessary support to its members to help overcome the crisis, especially emerging market and low-income countries that are facing sharp declines in exports and large capital outflows, foreign exchange shortages, and increasing debt burdens. In this context, we support exploring additional tools to help the membership during this crisis, including through a Special Drawing Rights allocation.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-16

Statement by Ms. Kulmuni
Finland

On behalf of
Denmark, Republic of Estonia, Finland, Iceland, Republic of Latvia,
Republic of Lithuania, Norway, and Sweden

Statement by Ms. Katri Kulmuni, Finance Minister, Finland
On behalf of Denmark, Republic of Estonia, Finland, Iceland, Republic of Latvia, Republic of Lithuania, Norway, and Sweden

The severe economic disruptions resulting from the corona crisis will cause a global recession. The global nature of the pandemic calls for strengthened multilateral cooperation and coordinated policy responses to complement national action. Strong and swift economic policies are needed to support people and businesses through the crisis. We call upon the IMF to support its member countries and use its financing instruments fully and flexibly to help members in need.

Extraordinary and coordinated measures are needed to protect people and to overcome the corona and economic crisis

The Covid-19 pandemic and the resulting actions in policy and behavior are causing a major shock to the global economy. The pandemic has struck against a background of pre-existing weaknesses, elevated financial vulnerabilities and limited policy space in many countries. Getting the virus quickly under control is not only important for the health of our people - it will also help in limiting the damage to the health of the global economy. The global economy will contract sharply in 2020, but ambitious and coordinated national and global policy responses can speed up the recovery once the health crisis is overcome.

Strong, targeted, efficient and coordinated economic policy responses are essential to mitigate the impact of economic disruptions and to ensure that conditions for recovery are in place. It is important that all available policy tools are used. Fiscal measures are the first line of defense and should be targeted to the people and firms most affected. A strong and timely package of financing and guarantees for firms will help alleviate the cash flow crunch and reduce the risk of unnecessary bankruptcies and permanent layoffs. Automatic stabilizers and enhanced social safety nets should do their part. Provision of ample liquidity to the financial system and broad-based easing of monetary policy will provide important support for demand, confidence and financial conditions. Resilience of the financial sector must be safeguarded and policymakers can make use of the flexibility in prudential regulations to support the supply of credit to households and businesses. Strong multilateral cooperation and coordination is paramount to address the global nature of the shock and leverage the impact of national action. Low-income countries in particular will need the support of the international community to cope with the health and economic crisis.

In this unprecedented and urgent situation we should be mindful of our longer term objectives of avoiding debt build-up, fostering sustainable and inclusive growth, ensuring financial stability as well as allowing for structural changes. We cannot lose sight of the need to strengthen the rules-based global trading system and promote economic openness through multilateral cooperation. Furthermore, continued cooperation across nations is needed to address the urgent global challenge of climate change, including the support for an efficient and fair transition to a climate neutral economy in line with objectives of the Paris Agreement.

We support a strong response by the IMF to help its members under these exceptional circumstances

We welcome the swift response of the IMF to the Covid-19 crisis. The support of the IMF, in close cooperation with the World Bank and other international institutions, is particularly important for vulnerable countries with limited capacity to respond. The Fund should use its existing tools fully and flexibly to support its members. We support a temporary increase in access limits of the Fund's emergency financing tools, but are concerned over the adequacy and self-sustainability of PRGT resources. The Fund's FCL/PLL arrangements can work as a backstop for members meeting the qualification criteria. However, we caution against tying up a large share of the Fund's resources in precautionary arrangements, potentially crowding out disbursing lending programs. Temporarily easing low-income countries' debt-related payments through the Catastrophe Containment and Relief Trust allows them to focus their efforts on fighting the virus and its consequences. We are prepared to consider other liquidity instruments conditional on appropriate design elements. We call on the IMF to keep the membership regularly informed about the effects of the measures on the Fund's resources and on the risks to the balance sheet.

The Nordic-Baltic countries fully support the commitment of the IMFC to a strong, quota-based and adequately resourced IMF to preserve its role at the center of the global financial safety net. We believe that maintaining the current level of IMF resources is particularly important at a time of exceptional uncertainty and downside risks. Our constituency has always supported the IMF’s lending capacity when needed and it is our intention to continue to do so, as long as there is adequate burden sharing and link between financial contributions and representation. We welcome the agreement to double the New Arrangements to Borrow (NAB) and look forward to its implementation as agreed. Moreover, extending the Bilateral Borrowing Agreements (BBAs), the third line of defense, beyond 2020 will secure the Fund’s lending capacity during these difficult times.

We welcome and support the Managing Director's Global Policy Agenda. The IMF's work agenda needs to adjust as necessary to the current context with focus on the crisis response. We look forward to continue discussions on other IMF policy priorities once the virus outbreak has subsided and economic recovery is underway around the globe.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-17

Statement by Mr. Guedes
Brazil

On behalf of
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Democratic Republic of Timor-Leste, and Trinidad and Tobago

Statement by Paulo Guedes
Minister of Economy, Brazil

On behalf of the Constituency comprising Brazil, Cabo Verde Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

International Monetary and Financial Committee
April 2020

We are facing a once in a lifetime crisis. The Covid-19 pandemic threatens human lives, poses tremendous challenges to health care infrastructure and provision, and has multifaceted economic impacts. Harsh decisions are being taken by policymakers everywhere to avoid an even larger humanitarian tragedy. Policy action needs to be commensurate, timely, consistent among its several dimensions and globally cooperative. Our first objective remains to save lives, while protecting jobs, income and businesses, which will support a fast and robust recovery as soon as the pandemic is defeated.

The pandemic has a global nature and reminds us of the importance of cooperating internationally. Most, if not all countries, are being severely affected by the crisis and containing the disease in every country is a precondition to its defeat worldwide. The capacity of health systems is being tested everywhere and is a distinctively challenging constraint for developing economies. Containment measures are the first line of defense and could imply closing borders for the transit of people while contagion is still an issue. We must remain mindful of keeping the international economic flows as unobstructed as possible and refrain from protectionist measures.

Growth forecasts have been significantly revised down to a severe, synchronized recession this year. The baseline in the IMF flagship reports suggests a severe contraction – deeper than during the 2008-09 financial crisis – with a relatively fast recovery. With economic activity coming to a virtual halt as a result of the needed social distancing measures, governments are being compelled to step in to ensure that households will have access to basic income during this period of acute paralysis. Equally important is the provision of support to businesses, especially small and medium-sized, to avoid layoffs and protect jobs, creating better conditions for the recovery. Considering that the pandemic has emerged in a context of relatively slow global growth and limited fiscal space in many economies, fiscal measures must be sizable but temporary and well targeted. Accordingly, the reprioritization of fiscal spending, the use of automatic stabilizers, and guaranteeing access to adequate financing will be critical, although the appropriate specific measures will vary substantially depending on country circumstances.

Global financial markets are under enormous stress but policy action has managed to provide the needed liquidity and enhance the confidence of market participants. Financial markets were extremely buoyant immediately before the outbreak, leaving many segments vulnerable to the downturn. While financial market stress has been generalized, the pressure in certain asset classes may become critical, requiring timely measures to remove liquidity constraints and prevent systemic solvency issues. Financial sector reforms after the GFC have brought greater resilience to the banking system, whereas the priority now is to ensure that liquidity flows across the financial system and address vulnerabilities in the non-banking financial sector. Central banks and fiscal authorities have stepped in with comprehensive support measures, which have helped quell some of the worst concerns by markets, businesses and the population in general.

Measures are mostly domestic in nature but tackling the crisis in each country provides an important global public good. That said, there is certainly space for further international policy coordination, especially to address the needs of economies with low level of international reserves and less access to convertible currencies swap lines. Going forward, it is important to increase cooperation in health issues and the investment in pandemic preparedness on a global level, in order to preserve the benefits of strong global interconnectedness.

Emerging markets and developing economies (EMDEs) are facing unprecedented capital outflows. Some emerging market economies have large stocks of international reserves and access to international swap lines or repurchase agreements that allow them to cope with the outflows. However, the extraordinary and compounded nature of the shock (combining dimensions such as health, commodity prices, risk aversion, disruption of global value chains, and global recession) raises to record levels the challenges faced by EMDEs. On top of having to reallocate scarce and, in many cases, already overstretched fiscal resources to reinforce the health systems and support the economy, EMDEs are having to cope with an acute and unparalleled reversal of capital flows, the sudden drop in external demand, a dramatic plunge in commodity prices, in particular oil, and weak prospects for remittances. Many small economies are being particularly hit by the collapse in the tourism industry amid increasing challenges stemming from natural disasters and climate change.

Brazil has put together a substantial policy package to fight the crisis, comprising fiscal measures of close to 10% of GDP, liquidity provision of about 17% of GDP, and other measures to support credit expansion of about 16% of GDP. Many actions to reinforce the public health system have been taken, including hiring over 5,000 doctors, increasing supply of hospital beds and medical goods, removing tariffs and prioritizing customs clearance. Low income, unemployed and informal sector workers totaling over 20 million people have already started to receive a temporary income supplement. Several other measures have been announced to support families, including the expansion of the cash-transfer program, tax deferrals, disbursements from severance funds, and anticipation of unemployment insurance for workers with wage reduction. Measures to support businesses, especially SMEs and the most affect sectors, are being implemented. A multiplicity of actions to enhance access to credit and provide liquidity to the banking system are already in effect. In sum, the country has taken truly extraordinary steps to fight the pandemic, ensure the well-functioning of the financial system and the availability of credit, as well as protect income, jobs and businesses. No Brazilian citizen will be left behind.

While engaged in a resolute fight to overcome the pandemic and its effects, Brazil is not deviating from its ambitious reform agenda. The crisis hit the country in a moment when the economy was starting to reap the benefits from the bold reforms undertaken in recent years. The Brazilian economy was converging to a new growth trend, bolstered by a comprehensive pension reform, strong commitment to fiscal discipline and transparency, privatizations, deregulation, elimination of subsidized credit and flexibilization of the labor market, among other reforms. As a result, interest rates dropped to record low levels, capital markets were thriving, and the economy was accelerating, in an environment of continuous stability of observed and expected inflation. The crisis interrupted this virtuous sequence and brought the economy to a near halt. That notwithstanding, the reform momentum will resume as soon as the situation allows us to shift the focus back from containment to our medium-term goals, which remain the same. The combination of emergency, temporary measures with structural reforms – both undertaken and in the pipeline – gives us confidence that the recovery will be stronger than currently anticipated.

The IMF has acted swiftly to sharpen its toolkit and provide financial assistance to the membership. At the center of the global financial safety net, the Fund has a pivotal role as lender of last resort and has not shied away from its responsibilities during the ongoing crisis. I commend staff, management and the Executive Board for approving higher access levels to the Rapid Financing Instrument (RFI) and Rapid Credit Facility (RCF), as well as for revamping the Catastrophe Containment and Relief Trust (CCRT) to the challenges of this crisis. In particular, I praise the diligent work of the Fund staff to deliver a fast, high-quality response to the requests of emergency assistance by nearly 100 members so far. It is now crucial to secure that the new resources are effectively additional to regular Fund assistance, not to penalize countries that were already using PRGT or GRA arrangements in support to their adjustment and reform efforts. Furthermore, the initiative by official creditors, backed by the IMF Managing Director and the World Bank President to provide temporary debt standstill for the poorest countries gives a sense of a truly global community effort in such exceptional times.

The Short-term Liquidity Line (SLL) is an ingenious addition that fills a gap in the Fund's toolkit. The SLL has meaningful innovative features and will provide liquidity for member countries with strong policies to face moderate-sized, high frequency shocks. In doing so, the facility not only supports the beneficiaries directly, but also provides positive spillovers indirectly to the world economy by strengthening incentives for good policies, enhancing financial stability and fostering a more efficient allocation of resources globally. Although tailored for normal times, the SLL will be an effective supplement to defenses for countries with strong fundamentals and policies during this crisis.

A new general allocation of SDRs would also be very helpful. This is a low-cost, low-risk mechanism that has been already tested in periods of crisis. It enhances the flow of global liquidity and is particularly useful for medium-sized and smaller economies, which do not have sufficient international reserves or access to swap lines. The Fund could also devise ways to facilitate the flow of SDRs to support countries that will benefit the most from it.

It is reassuring that we are on track to guarantee that the Fund will maintain its US$ 1 trillion lending capacity. Brazil has completed all domestic procedures to double its participation in the New Arrangements to Borrow (NAB). The Banco Central do Brasil (BCB) also stands ready to proceed with the negotiation to establish a new Bilateral Borrowing Agreement, effective January 1st, 2021. We take note of the urgent need to replenish the PRGT to enable it to face the surge in demand for IMF concessional resources and encourage the efforts to broaden the base of lenders to the Trust in this new round. That said, the crisis underscored the importance of restoring the primary role of quotas in the funding of the IMF, and we may need to anticipate the timeframe for the 16th General Review of Quotas.

Finally, I commend the Managing Director for her bold leadership at the helm of the IMF and welcome her focused and streamlined Global Policy Agenda (GPA). This is not time for “business as usual”, and our energy and resources need to be focused on how to cope with the crisis. Non-urgent, non-critical tasks should be streamlined or postponed, as outlined in the GPA.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-18

Statement by Mr. Al Tayer
United Arab Emirates

On behalf of
Kingdom of Bahrain, Arab Republic of Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Republic of Yemen

Statement by His Excellency Minister Obaid Humaid Al-Tayer,
Minister of State for Financial Affairs for the United Arab Emirates
On Behalf of Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen
International Monetary and Financial Committee
April 16, 2020

We are in the midst of a global crisis, unlike any other in our lifetime, and the Fund has risen to meet the challenge. Today we are facing a health crisis, widespread loss of livelihood, and significant disruption of economic activity. We are witnessing an unprecedented blow to financial and commodity markets; oil exporters face a dual shock; and all emerging and frontier markets have experienced the sharpest portfolio flow reversal on record. The crisis has underscored the interconnectedness of the world and the importance of effective policy coordination, in which the Fund is playing an important role. We thank the leadership and staff of the IMF for the rapid and effective response of the institution, under very difficult circumstances, to meet member's extraordinary needs.

Global outlook. The global economy is entering a deep recession, with great uncertainty surrounding the depth and duration of the downturn. It is hoped that the spread of the pandemic will be contained in 2020 and that most economies will soon commence their recovery swiftly. But uncertainty abounds, so we appreciate the immense challenge for the Fund when assessing the global outlook. It is imperative for the Fund to closely monitor fast-changing developments, consult closely with our authorities, and adjust the outlook on a timely basis. If shutdown measures are extended into the second half of 2020, the extent of support needed may overwhelm fiscal and monetary systems. Adverse scenarios and policy contingency plans will therefore need to be developed for this eventuality.

Policy reactions. Members have already undertaken bold interventions, unprecedented in magnitude and in line with the Fund's policy guidance. Leaders have said that they are ready to do more. Sizeable and targeted temporary fiscal response to the Covid-19 outbreak, while essential, is creating the greatest public finance challenges. We agree that all available policy tools must be used to maximize the health response, and stabilize social, economic, and financial conditions. The Fund's compilation of the policy matrix has been a useful resource for member countries and market participants. Our constituency countries have undertaken drastic measures to contain the outbreak and mitigate the economic fallout, most of which have been reflected in the policy matrix, and we will continue to provide updates to staff.

Our region. Economic activity in our region has been severely impacted by the Covid-19 outbreak. The region has also been impacted by developments in the oil market given the importance of the oil sector in several countries. Oil exporters have had to deal with these shocks and the ensuing contraction notwithstanding some buffers, available in varying magnitudes, to help withstand the shocks. Oil importers have been hit more strongly in terms of capital outflows and all countries are expecting a challenging situation in terms of debt obligations coming due in 2020, especially by the private sector. Forceful and wide-ranging measures have been undertaken, as it is clear that governments need to assist households and businesses, especially where there is informality, to keep them afloat and to maintain livelihoods. Countries with high public debt are limited in terms of fiscal space to undertake measures to support incomes and avoid bankruptcies. As the crisis abates, ensuring debt sustainability could become a future challenge during the recovery in some countries.

Solidarity. There is an urgent need for multilateral cooperation on every front: coordinate medical efforts, support firms and households, provide support to global economic activity, and address the liquidity crunch. Low-income and fragile countries will need considerable support in the form of grants and concessional finance. We agree with the principle that official and private creditors should help to alleviate debt burdens. The international community's help to support refugees and other fragile groups will be crucial, as hosting governments' resources will be stretched, and some communities could otherwise be particularly susceptible to a spread of the virus. We welcome the actions by major central banks to ease financing conditions and expand swap facilities. We hope to see a further expansion of swap lines and trade finance lines of credit to include more Emerging Markets and Developed Economies (EMDEs).

Fund response. We welcome the prompt doubling of access to the Fund's emergency facilities to meet members' immediate needs and facilitate urgent health spending, under the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI), the streamlining of processes, and the reform of the Catastrophe Containment and Relief Trust (CCRT), to allow debt service relief to the poorest and most vulnerable members. Some members of our constituency are carefully considering contributing to replenishment of the CCRT. We also welcome the IMF-WB efforts for further easing of debt burden on the most vulnerable countries. Nevertheless, practical solutions will be needed to support those who do not qualify for Fund support under normal lending policies, including countries with debt sustainability concerns and arrears. It is important that emergency financing is "additional" to financing under ongoing or very recent programs. Accordingly, access under the RCF/RFI should not be counted as part of normal access limits during this crisis. We commend Fund staff for processing many RCF and RFI requests promptly over the past two weeks. We call for flexible application of lending limits and eligibility criteria to ensure that emergency financing is available to all members who need it.

Additional support may be required beyond the maximum available under emergency facilities to help avoid insolvency problems and deep scars from this crisis. The Fund must play its role as the lender of last resort, as EMDEs face unprecedented funding challenges in the midst of sudden and historically high outflows. The revival of the Short-Term Liquidity Line (SLL) is a welcomed development that will serve a select category of the membership. The Fund must review remaining gaps in its lending toolkit.

Recovery. Beyond the immediate efforts to limit the fallout from the outbreak, the Fund will need to continue to provide financial support, policy advice, and capacity development to build resilience and sustainability. Countries will need to handle the challenges of fiscal and debt vulnerabilities that are being amplified during the crisis, as well as unemployment, liquidity disruptions to the private sector, and rising inequality. The Fund will need to continue its work on these macro-critical issues. Countries will need to find ways to exit from the current exceptional fiscal measures to focus on debt sustainability, after this crisis is contained and once economies start recovering**.** An effective communication strategy will be important to anchor expectations and maintain public trust, as extraordinary measures are rolled back. The crisis has tested and shown us gaps in our economic and health system infrastructure. It demonstrated the strengths and limits of our technologies, and increased awareness so we can better prepare for the future.

SDR allocation. Many countries in our constituency see an urgent need for a general SDR allocation with a magnitude at least as that of 2009, while others consider that an SDR allocation should be further explored. In addition to relieving liquidity constraints to all EMDEs, Advanced Economies could use the SDR allocation to assist in replenishing the Poverty Reduction and Growth Trust (PRGT) and CCRT to cover the needs of the poorest countries.

Quota review. It remains critical to maintain a strong, quota-based, and adequately resourced Fund at the center of the global financial safety net. The adequacy of Fund's quota resources needs to be reassessed in light of this crisis and the Fund needs to move quickly to conclude the 16^{th} General Review of quotas and the process of governance reform. The anticipated increase in the quota shares of EMDEs should not come through reductions in the quota shares of other EMDEs. We welcome the commitments and recent progress made by countries so far to double the New Arrangements to Borrow (NAB) and to renew the round of pledges under bilateral borrowing arrangements (BBAs), and would welcome timely approval by contributors.

Budgets and resources. The crisis has exposed some limitations in terms of the Fund having sufficiently experienced staff to manage a crisis of this magnitude. This should be one of the items under consideration when reviewing the Fund's budget and the ongoing compensation and benefits review. Promoting staff diversity, particularly increasing staff from unrepresented regions, remains essential.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-19

Statement by Ms. Sitharaman
India

On behalf of
Bangladesh, Bhutan, India, Sri Lanka

Statement by MS. NIRMALA SITHARAMAN, Minister of Finance and Corporate Affairs, India, and Member, International Monetary and Financial Committee (IMFC), representing the Constituency consisting of Bangladesh, Bhutan, India and Sri Lanka, to the 41st Meeting of the IMFC at the Virtual Spring Meetings 2020

April 16, 2020

A Global Covid

1. The Covid-19 led health pandemic is having a disruptive impact on global trade, economic activity and financial systems. The measures needed to halt the spread of this virus - social distancing and lockdown - are also the precise reasons for bringing the world economy to a standstill. The only solace is that we may be past the worst in many parts of the world; given relentless efforts of the world community towards supporting and reforming health systems, we may have arrived at the beginning of the end of this crisis. However, it is important that we keep our monitoring and preparedness high.

2. **Global growth in 2020** is estimated to be -2.9 percent -- much lower than even during the global financial crisis. Lockdowns, quarantines, and social distancing have caused acute disruption to supply chains, production activity, services, and the financial sector. Can this forum assist in evolving mechanisms to mitigate these risks and boost mutually beneficial engagements? To stand firm against this global emergency, we need to join forces as never before. We need to adopt a prolonged accommodative stance across economies, along with macroprudential measures. IMF has an important role in supporting the growth and stability of all members, and especially the poor and low-income economies.

3. Our **top priority** is to contain the spread of the outbreak and to equip healthcare systems with maximum resources. It is heartening to see the global community coming together to successfully combat the health crisis as never before. This health crisis underscores the need to put human beings at the centre of our vision of global prosperity and cooperation. We need to freely and openly share the benefits of medical research and development, and to develop adaptive, responsive and humane health care systems.

4. The disease knows no boundaries, and hence, our region (South Asia) in many ways has to fight the threat together. On March 15th, the **leaders of the SAARC** (South Asian Association for Regional Cooperation) countries interacted with one another through video conference to chart out a common strategy to combat COVID-19 in the region. In the spirit of collaboration, the Prime Minister of India proposed the creation of a **COVID-19 Emergency Fund** based on voluntary contributions from all the countries, with India making an initial offer of **US$ 10 million**. The fund can be used by any of the partner countries to meet the cost of immediate actions.

5. During the 2008 financial crisis, concerted global efforts and coordinated steps were necessary to accelerate the path to recovery. Lessons learnt from that collaborative effort provide a template for overcoming the current crisis. The measures required today, in order to be effective, call for more of the same – and importantly, flexibility and innovation among the countries, policymakers and institutions and with a sight on the exit as well when the pandemic ends.

6. It is heartening to note the swift response of the stakeholders to mitigate the immediate fallout of the crisis. Immediate fiscal support for the needy (food and cash transfers), expansion of healthcare services, and priority support for business, particularly small and medium, has been provided by almost all countries.

India and Covid

7. India has taken proactive and firm measures to contain the spread and limit the damage to people. Apart from the lockdown at a national level, we have taken several measures to create awareness in the population, strengthen testing facilities, and enhance medical logistics, infrastructure and supplies. To alleviate the impact on the people, particularly, the poor and needy, the government has announced a package of well-targeted measures. The key elements of the package are food, cash transfers to lower-income households, insurance coverage for workers in the healthcare sector, and income support to low-wage workers. (*Detailed note on India's multi-pronged response to Covid and its economic impact is at paragraphs 31-36*).

IMF and Covid

8. Multilateral institutions like the IMF are well-equipped to analyze the full effects of the crisis and to co-ordinate and implement an effective global response. Based on the experience of its member countries, the **IMF can develop a spectrum of possible macro-level scenarios and deploy analytical tools** to develop solutions to address country specific solutions. Appropriate policy responses require optimization of available resources, balanced trade-offs and calibrated sequencing of recovery measures.

9. The impact of the crisis varies across regions and countries. The IMF can harness its vast experience and talent pool to innovate and design solutions to address specific needs of different countries. In this context, we welcome the efforts being made to bring forward the timeline for developing an Integrated Policy Framework. IMF is also well-placed to gather, organize and **share up to-date information of the policy developments and action taken around the world**. Its policy-tracker is an effective means to communicate, co-ordinate and assist members to achieve global best practices.

10. It is well recognized that developing economies – especially **low-income countries** – are the most vulnerable. Even though the virus has spread less in these economies, they are economically impacted via lower exports, lower commodity prices, and lower tourism revenues (as a share of their respective GDPs). The various channels of support including **emergency financing** through rapid deployable facilities, and **debt service relief for the poorest and most vulnerable countries** through the Catastrophe Containment and Relief Trust would help alleviate distress to a great extent. In the context of large portfolio outflows from EMEs post Covid, a non-stigmatized **short-term liquidity line** would be a valuable instrument to inject liquidity into member countries that are otherwise strong on economic fundamentals and policies. On the **general allocation of SDR** being envisaged, there are concerns. In the current context of illiquidity and flights to cash, the efficacy of an SDR allocation is not certain, and that in the absence of a global safety net, countries rely on national reserves as the first line of defence against market turmoil and confidence crises. Consequently, extraneous demands for these reserves, not related to domestic monetary and financial stability, would be costly, and hence cannot be supported.

11. Let me turn now to my constituency, where our nations are getting affected, especially as service sectors, including hospitality, tourism and transportation have come to a grinding halt and major commodity exports are on standstill.

DEVELOPMENTS IN THE CONSTITUENCY

A. Bangladesh

12. Bangladesh's progression path of the government's pursuit of an ascending trajectory of sustained inclusive, equitable and environmentally benign economic growth and social development proceeded broadly on track during H1FY20 (July 2019-December 2019). In this period, the pace of economic activity continued its normal trend due to robust domestic demand aided by strong remittance inflows and higher government investment, while decelerated private credit growth and weak external demand suggested some moderation. The growth in the industry sector was moderated as reflected in the large and medium scale manufacturing output growth. The agriculture sector remained vibrant, supported by favorable agricultural commodity prices and timely availability of inputs and finance. Cautiously accommodative monetary and fiscal stances with inclusivity bias have helped stabilize headline (y-o-y annual average) CPI inflation at around 5.5% in February as targeted for FY20. With significant drop in international commodity and energy prices along with domestic bumper production of crop and non-crop agriculture will keep food inflation thereby general inflation well in check in the coming months.

13. Fiscal deficit (including grants) of 5.0 percent of GDP projected for FY2020 remains within its typically moderate lower single digit trend level, with more than half (2.8 percent of GDP) of it to be funded by domestic borrowing. The implementation of the new VAT law, in part helped generate increased volume of tax revenue although it still remained short of the target. The balance of payment witnessed a surplus of USD 132 million during July-Jan 2019-20, contributed by a decline in current account deficit to USD 1,516 million on the back of hefty remittance inflows along with a higher inflow in FDI coupled with somewhat healthy inflows of medium and long-term loans. However, deficit in trade balance widened to USD 9,643 million during this period, amid a decline in exports and imports by 5.3 percent and 4.4 percent, respectively. Exchange rate remains broadly competitive aided by timely intervention of Bangladesh Bank. Capital market during the first half of FY20 experienced a weak performance as reflected in price indices, market capitalization, and turnover.

14. Towards the end of calendar year 2019, the dark shadows of the hitherto wholly unknown new Covid-19 pandemic began to engulf the entire global community very rapidly, bringing in its trail deaths and disruptions on an unprecedented scale, Bangladesh too came under the cloud of the new scourge mainly via individuals from her diaspora abroad visiting home; although the pandemic's pace of expansion in Bangladesh has thus far remained relatively moderate, not going altogether out of hand yet. Like everywhere else, Bangladesh authorities too have had to adopt drastic steps like community wide extensive spells of mandatory quarantines and lockdowns to limit and contain the threat of Covid infection; bringing in its trail disruptions in domestic economic activities on massive scales. Similar disruptions in countries buying Bangladeshi exports or hosting Bangladesh workers have caused drastically adverse effect on the growth in exports and remittance inflows from Bangladeshi diaspora abroad, sapping external sector strength of the economy as well. To overcome these adverse effects, the Bangladesh authorities had no option other than to line up massive support measures to help out affected businesses and weaker population segments facing loss of work opportunities for their livelihood.

15. This abrupt worsening trend of the external sector balances was due to the global Covid-19 pandemic negatively impacting exports (most worrisomely in the key RMG sector from cancellations and deferrals of orders at hand coupled with drying up of fresh orders) and declining remittance inflows caused by widespread job losses of Bangladeshi workers in host countries abroad. Foreign exchange reserve balances are also on eroding trend due to substantial current account deficits and maturing debt service obligations of the public and private sectors. General slowdown in economic activities from these causes has also worsened pressure on government's fiscal balances, with weaker outlook of revenue growth coupled with increased expenses for emergency relief measures for businesses and for poorer population segments losing daily wages during periods under lockdowns enforced to prevent community transmission of corona virus infections.

16. Safeguarding the deficits in the external sector balances and budgetary gaps due to global Covid-19 pandemic would require immediate and adequate external supports in softer terms (particularly from the multilateral global institutions), including, *inter alia*, for attaining some of the key UN SDGs like climate change, risk mitigation and adaptation, and for larger physical infrastructure projects. Bangladesh looks forward to continuing role of the Bretton-Woods Institutions and their subsidiaries in catalyzing such external financing support.

B. Bhutan

17. Successive decline in hydro-electricity production and public investment have slowed down the growth to 3 percent in 2018 from 4.7 percent in 2017. Growth has dipped to its lowest level since 2014. The combined effect of low hydropower production and construction activities (which decreased by 8.0 percent) due to low spending by the government in capital expenditure and slowing hydropower construction activities contributed to the slippage in the growth by almost 2 percentage points in 2018. Moving forward, the projected growth, prior to Covid-19 pandemic effect for 2019 and 2020 was estimated at 5.4 percent and 6.9 percent, respectively. However, due to the effect of Covid-19 on the economy, particularly, the tourism and its allied sectors contribution to GDP is expected to significantly decline, resulting into downward revision of GDP for the consecutive year.

18. The overall CPI inflation (measured by the year-on-year change of the consumer price index) recorded at 2.28 percent in December 2019 compared to 3.10 percent during the same month of the previous year. The fall in the overall inflation during 2019 is largely contributed in moderation in the prices of non-food commodities. The trend in falling non-food prices is anticipated to continue with the fall in oil prices during the recent COVIT-19 crisis.

19. During FY 2018/19, the fiscal deficit remained within the anticipated threshold of 3 percent of GDP. Persistent drop in external grants and lowered capital investment resulted into financing of the deficit through both external and market borrowings. Although, the capital expenditure has reduced by more than 40 percent, the deficit level remained at 2 percent of GDP (Nu. 3.78 billion) at the end of March 2019. The Government Contingency Measures to combat Covid-19 will increase the re-current expenditure and further widening the fiscal gap over the medium term.

20. On the external front, both the trade and current account deficits deteriorated in FY 2018/19. The current account deficit increased from 19.5 percent of GDP in FY 2017/18 to 23.7 percent of GDP in FY 2018/19, mainly on the account of the trade deficit, which has increased to Nu. 29,880.30 million from Nu. 27,958.14 million in the previous year, driven by higher imports and fall in export of goods and services. The gross international reserves were recorded at USD 1,213.58 million as of December 2019 which is sufficient to finance 14 months of merchandise imports. The immediate and after effects of Covid-19 on external sector are yet to be assessed.

21. The broad money (M2) recorded a significant growth at 13.06 percent in December 2019, as compared to the growth of 7.75 percent in previous year. Higher growth in time and savings deposit and currency in circulation helped to drive the broad money supply in 2019. On the other hand, the positive growth trend in both net foreign assets (by 17.22 percent) and credit to private sector (by 17.85 percent) kept up the higher growth momentum in the broad money supply cushioning the economy from spillover impact of Covid-19 on domestic liquidity management.

22. Although, the current macroeconomic situation looks comfortable, the uncertainty in timeliness and amount of resources needed to combat the ongoing Covid-19 pandemic poses a deep concern, which will have strong adverse impact on our growth and employment situation. We are yet to make a clear assessment on the impact at this moment.

23. With the onset of Covid-19 pandemic, the economy remains vulnerable to both direct impact on the domestic economy and also from the spillover impact of Covid-19 originated from the regional economies, particularly related to India. Its impact on country's balance of payment, particularly in terms of managing the foreign exchange reserves becomes challenging for a small economy like Bhutan since a large portion of foreign exchange earnings are generated from tourism and its allied sectors.

24. Financial sector stability continues to be an overarching objective of the RMAB. Since the tourism and allied sector are one of the major players in the financial sector, providing necessary support in the form of conventional monetary policy measures at this point of time becomes imperative. However, if the situation prolongs, the financial institutions will be stressed, posing further challenges for maintaining the financial sector stability.

25. Bhutan has two constitutional requirements (a) meeting all re-current Government expenditure from domestic revenue and (b) foreign exchange reserves to meet 12 months of essential import coverage. With the expected decrease in domestic tax revenue collection, the rising government re-current expenditure to combat Covid-19 crisis along with increasing pressure on essential imports and on foreign exchange reserves will potentially put tremendous pressure in meeting the above Constitutional requirements.

26. Further, with exchange rate peg between Ngultrum and INR, the spillover impact of INR depreciation will have adverse impact on Bhutan's balance of payments particularly, in terms of external debt servicing denominated in foreign currency.

27. As we understand that all the International Financial Institutions (IFIs) are under tremendous pressure at the moment. It is critical to understand the ground realities of each country hit by the Covid-19. The comfort on policy guidance and financial assistance at this hour as well as moving forward provided by the IFIs will be immensely beneficial to the member countries to fight back this unprecedented crisis of the moment and rebuilding our economy on a stronger foundation.

C. India

28. After a subdued **GDP growth** estimated to be 5.0 percent in 2019-20, the outlook of growth in India was looking up but the expectations of a rebound in 2020-21 have been stifled by the Covid-19. The pandemic is **impacting economic activity directly due to lockdowns, and through second round effects operating through global trade and growth**. Due to **restrictions in travel**, disruption in shipments, and also **disruption in supply chain** caused by production lockdown outside, there is wide-ranging impact on economic activity in India. A few critical sectors like **hospitality, tourism and aviation** have already been affected by travel restrictions, and cancellation in ticketing, hotel bookings, event bookings, besides no fresh bookings. Some industrial sectors in the country such as **automobiles, agro-chemicals, electronics and pharmaceuticals** are getting affected on account of shipment difficulties and supply-chain disruptions, which could lead to inventory mismanagement at the company level.

29. Currently, uncertainty is high and eventual outcome will depend on the intensity, speed and duration of the pandemic. India initiated steps and mobilized its population at an early stage to contain the spread and has been largely successful. While these steps slowed down the domestic economic activity, the **external sector has also suffered from the disruption of supply chains**. Conditions worsened with the flight of capital to safe havens, as was also witnessed by most emerging economies.

30. **India's GDP growth** is forecast to be **1.9 percent in 2020-21**, as per IMF's estimates. This is a sharp slowdown due to exogenous shock though among the major economies, this is the fastest projected growth. Depending on the initial conditions, the impact of a generalized global shock varies significantly across geographies. The central government **fiscal deficit** remains moderate and **current account deficits** during previous two years have remained stable at about 2 percent of GDP. We do not see a major deterioration in our external and internal balance, especially as **lower oil prices** is a good offset, but we are not being complacent as external demand will fall and tightening of financial conditions can have domino effects. The upside is that India's reliance on external financing continues to remain limited with its **external debt-GDP ratio reasonable** (by global standards) and **import cover more than adequate** (as per reserve adequacy criteria). After capital infusion, the **capital ratios of Indian banks remain comfortable** and **asset quality and profitability of commercial banks has improved** (after a long period of stress). The provisioning coverage ratio of banks has improved markedly. The **Insolvency and Bankruptcy Code in India has gained traction**, enhancing resolutions. Since India's initial conditions remain strong, and because of a well calibrated domestic response to Covid-19, we expect the Indian economy to steer through the rough waters and is expected to suffer less than its peer economies with weaker initial conditions.

India's response to Covid-19

31. Given the size of our population, India could have become a major Covid hotspot. However, it is noteworthy to mention that even as of April 11th, India had 6,565 active cases and 239 deaths. From the very beginning, the Government has been taking no chances and had **launched massive efforts** to assist the health system respond effectively to the Outbreak. The Government instituted important measures which included **social distancing measures** like travel restrictions, work from and stay at home in both the public and private sectors, and direct health interventions centred on scaled up testing, screening and treatment. The Government has been mobilizing all efforts, including **allocation of resources amounting to INR 150 billion (about US$ 2 billion), for health infrastructure, protection and containment measures (personal protective equipment, ICU, ventilators), medical supplies, strengthening of labs, creation of quarantine facilities, capacity building, etc**.

32. For a country of India's size and population, the comparatively low rate has been made possible by the **leadership's initiative and voluntary participation by people in social distancing and lockdown measures** that has made prevention a relative success. On March 24th, the Prime Minister of India had announced an unprecedented **nation-wide lockdown for 21 days** in India to arrest the spread of the virus. The three-week nationwide lockdown of 1.3 billion people has been particularly helpful in breaking the tide. Tabulation (and documentation) of containment policy measures in an **Oxford University study** shows **India** with the **highest preventive policy stringency index** among all countries as of March 31st, 2020.

33. Country-wide lockdown in India has attracted willing compliance by masses despite fallouts of human hardships. Conscious of this fact, the **Government has taken steps to provide adequate support,** including **home delivery of food** to migrant agricultural labourers, industrial workers, other unorganized sector workers, older people, differently abled people, senior citizens and women during this lockdown period. **Shelter** has also been provided to homeless people for safe habitation to avoid Covid-19 spread. Besides, the Government has taken major steps in the area of **food security, life insurance, employment guarantee and direct cash and income transfers for poor**.

34. In addition to preventive measures, the two other possible policy responses to this historic pandemic are **monetary and fiscal**. **Monetary policy was eased** (policy rate was cut by 75 bps) and supplemented by far reaching **liquidity easing and credit easing measures** that included additional accommodation through **standing facilities, long-term repo**

operations (LTROs), targeted long term repo operations (TLTROs) intended to de-freeze markets for corporate bonds, commercial paper and debentures, a **moratorium on payment of instalments of term loans, deferment of interest on working capital facilities and easing up of working capital financing**. RBI also undertook **INR/USD sell-buy swaps** that stabilized foreign exchange markets. A gist of the key Monetary and Regulatory Measures is as under:

- **Policy repo rate was cut** by 75 basis points to support economic activity. Monetary Policy Committee (MPC) indicated their resolve to maintain an accommodative stance as long as it is necessary to revive growth and mitigate the impact of Covid-19 on the economy while ensuring that inflation remains within the target.
- **Reduction in the cash reserve ratio** (CRR) of all banks by 100 basis points to 3.0 percent of net demand and time liabilities (NDTL).
- Increase in the **accommodation under the marginal standing facility** (MSF) from 2 percent of the statutory liquidity ratio (SLR) to 3 percent. These measures will inject total liquidity of Rs. 3.74 trillion to the system (approximately 1.25% of GDP). As a measure to ease pressure on banks, **regulatory norms were relaxed** *viz*., deferment of Implementation of Net Stable Funding Ratio (NSFR) and of last tranche of Capital Conservation Buffer (CCB). Regulatory measures have been introduced to promote credit flows to MSMEs and the retail sector.
- **Targeted Long-Term Repo Operations** (TLTRO) for an amount up to Rs. 1000 billion to ease cash flow pressures across sectors, with liquidity availed under the scheme by banks to be deployed in investment grade corporate bonds, commercial paper and non-convertible debentures.
- **Moratorium of three months** on payment of instalments on Term Loans was extended by commercial banks (including regional rural banks, small finance banks, and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies and micro-finance institutions). Deferment of Interest on Working Capital Facilities extending by lending institutions for three months.

35. Keeping in mind the economic challenges arising from Covid-19, an **Economic Response Task Force** was set up under the Finance Minister on March 24th that take decisions regularly, based on regular interactions and feedback from all stakeholders, and analysis of all situations and dimensions. This Task Force also ensures that all steps taken to reduce the economic difficulties are effectively implemented. On March 24th, the Task Force announced several **decisions in respect of statutory and regulatory compliance matters** related to income tax, GST/ indirect tax, customs, financial services, corporate affairs, commerce and fisheries. This announcement helped alleviate the hardships faced by several sectors in adhering to the year-end compliances for various regulatory matters due to travel restrictions and lockdown.

36. Regarding the conventional policy measures, India, like many other economies, has been extremely proactive, especially with regard to the vulnerable population. On March 26th, the Task Force announced the **Prime Minister's *Garib Kalyan Yojana***, a welfare scheme for the poor, vulnerable and disadvantaged groups amounting to **INR 1,700 billion (about US$ 23 billion)** to provide various support measures. The package, *inter-alia,* includes **free health insurance to health workers; cash transfers to farmers, women and elders, free food and gas distribution for the poor with a view to compensate for the economic loss of this vulnerable population; and social security measures for affected workers in both organized and informal sectors**.

D. Sri Lanka

37. A new government assumed office in November 2019 under the leadership of His Excellency President Gotabaya Rajapaksa. The governments' economic policy strategy is aimed at reinvigorating the economy through a substantial fiscal and credit stimulus to increase aggregate demand and thereby growth. This policy strategy was adopted against the backdrop of subpar economic growth that has been a persistent feature of the Sri Lankan economy for several years and low growth in credit and monetary aggregates.

38. The Sri Lankan economy continued to grow at a sluggish pace in 2019 registering a GDP growth of 2.3 percent in real terms in comparison to 3.3 percent in 2018. Growth was largely led by the services and the industry sectors, while the agriculture sector contributed positively, although at a slower pace. The services sector, which accounts for 58.2 percent of GDP, grew by 2.3 percent in 2019 supported largely by the higher value addition in the wholesale and retail trade, telecommunication, IT, and other personal services sub-sectors. The industry sector accelerated its growth momentum to 2.7 percent in 2019 from 1.2 percent in the previous year, increasing its GDP share to 27.4 percent in 2019. Manufacturing activities, together with a recovery in construction and mining and quarrying, largely accounted for the improved performance in the industry sector. The agriculture sector, accounting for 7.4 percent of GDP, grew marginally by 0.6 percent in 2019 as key agricultural activities such as growing of rice and fishing recorded contractions in value addition.

39. Inflation was maintained within mid- single digit levels during the first nine months of 2019 although some upward pressure was witnessed thereafter due to higher food prices and the low base effect. Headline inflation (y-o-y) as measured by the National Consumer Price Index (NCPI), increased to 6.2 percent in December, 2019 while the Colombo Consumer Price Index (CCPI) registered 4.8 percent. Core inflation, which spiked in January mainly due to house rental revisions, stabilized at higher levels registering 5.2 percent and 4.8 percent (y-o-y) respectively in terms of NCPI and CCPI in December, 2019. However, core inflation currently remains below 3 percent in terms of the CCPI index reflecting subdued demand pressures.

40. Against the backdrop of well anchored inflation expectations, the Central Bank adopted an accommodative monetary policy stance in 2019 in view of the sluggish growth, deceleration in monetary and credit aggregates and the global trend in monetary policy easing. The Central Bank reduced the Statutory Reserve Ratio (SRR) by a total of 2.50 percentage points on two occasions in November, 2018 and March, 2019 to ease liquidity conditions in the domestic money market. In May, 2019, the Central Bank reduced its policy rates, namely the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 50 bps to 7.50 percent and 8.50 percent respectively, followed by another 50 bps reduction to 7 percent and 8 percent, respectively in August, 2019 to support economic activity. During the year, interest rate caps were also imposed to improve the monetary policy transmission process. In January 2020, the policy rates were reduced further by 50 bps to 6.50 percent and 7.50 percent for the SDFR and SLFR respectively, while credit support schemes were implemented to encourage domestic economic activity.

41. The fiscal performance deteriorated in 2019 as budgetary operations reflected lower revenue collections amidst a rise in government expenditure, resulting in a higher budget deficit of 6.5 percent of GDP in 2019, as against a target of 4.4 percent of GDP envisaged for the year. Revenue declined both in nominal and GDP terms in comparison to the previous year, registering 12.2 as a percentage of GDP in 2019 in comparison to 13.3 percent of GDP in the previous year. The setback in revenue mobilization was largely due to the slowdown in economic activity, policy measures imposed to curtail imports and the delayed implementation of revenue proposals in the 2019 budget. Meanwhile, government expenditure as a percentage of GDP rose to 18.7 percent of GDP from 18.6 percent in the previous year due to higher recurrent expenses on account of interest payments and subsidies and transfers. Public investment as a percentage of GDP was maintained at 4.1 percent in 2019. The expansion in the budget deficit increased the government’s debt stock in 2019.

42. A series of fiscal policy measures was announced by the new government in November 2019 to re-vitalize the economy. Tax reform measures entailed changes to direct and indirect taxes aimed at reducing the tax burden, simplifying the tax structure and creating a conducive environment for the private sector to generate economic activity, thereby boosting economic growth. A plethora of tax measures were adopted to ease the tax burden including the reduction in the VAT rate, lower income tax rates and the provision of tax incentives for identified sectors, while certain ad-hoc taxes were abolished to simplify the tax structure. Meanwhile, expenditure rationalization measures were aimed at improving public expenditure management, enhancing the financial viability of state enterprises and simplifying administrative systems and procedures to improve governance. Public investments have also been prioritized to high impact projects that have a significant economic and financial benefit to the economy.

43. Despite the occurrence of a severe shock to the economy in April 2019, Sri Lanka's external sector remained stable during the year, aided by policy measures implemented to improve the stability of the sector. Policies were adopted to curtail non-essential imports mainly by increasing tariff and margin requirements, reducing loan-to-value ratios and suspending the use of permits for vehicle imports. These policy measures, aimed at easing the pressure on the exchange rate, resulted in significant reductions in imports of gold, vehicles and non-essential items. Consequently, the trade deficit in 2019 contracted significantly driven by the substantial reduction in imports, and a marginal increase in exports. Meanwhile, the slowdown in tourism earnings and remittances adversely impacted the services account of the BOP. Nevertheless, the substantial contraction in the trade deficit enabled the current account of the BOP to record a notable surplus in 2019. In the financial account, foreign investments in the government securities market as well as the Colombo Stock Exchange (CSE) showed a net outflow in 2019. Gross official reserves stood at US dollars 7.6 billion at end December 2019 which was equivalent to 4.6 months of imports. Mirroring these trends, the Sri Lankan rupee appreciated by 0.6 percent against the US dollar in 2019. However, in March 2020, the COVID-19 outbreak adversely impacted the domestic foreign exchange market with the sharp depreciation of the Sri Lankan rupee due largely to foreign investment outflows from the government securities market.

44. Sri Lanka received the sixth tranche of the Extended Fund Facility (EFF) of the International Monetary Fund (IMF) in May 2019 after completion of the seventh review. However, commitments made under the EFF have not been fulfilled to receive the seventh tranche as the envisaged international reserve targets and fiscal targets have not been achieved.

45. Sri Lanka faces significant challenges stemming from the unfolding of the COVID-19 pandemic. The economic fallout from the pandemic will weaken the country's fiscal and external position while diminishing growth prospects in the near term. Given the high level of trade openness, Sri Lanka will be severely affected by global trade and supply chain disruptions while subdued external demand will also negatively impact the country's merchandise trade. Similarly, lower services exports, particularly tourism, and reduced remittances can exert pressure on the current account of the BOP. Capital outflows of portfolio investments will adversely impact the foreign exchange market requiring policy action by the authorities. These developments, together with tight financial conditions globally, will pressurize the external sector. Given the elevated fiscal gap, higher expenditures and lower revenue mobilization during this period of low economic activity will have adverse implications for macroeconomic stability in terms of inflation and debt sustainability. As domestic financing is limited, additional external funding is urgently needed to deal with the human and economic fallout from the pandemic situation. Against the background of COVID related restrictions on domestic activity as well, economic growth is expected to contract sharply in 2020.

Economic Policy Response to COVID Pandemic

46. In order to combat the economic fallout arising from the COVID-19 pandemic, the government and the Central Bank put in place fiscal, monetary and financial policies. In terms of monetary policy, the accommodative stance was eased further In March, 2020 with a 25 bps reduction in both policy rates - the SDFR was lowered to 6.25 percent and the SLFR reduced to 7.25 percent. Furthermore, the SRR on rupee deposit liabilities of licensed commercial banks was lowered by 1.00 percentage point to 4 percent. In addition to these measures, the Central Bank also introduced several measures to ease the pressure on the exchange rate and prevent financial market panic due to the COVID-19 pandemic. These measures included the suspension of imports of motor vehicles and non-essential goods and the suspension of the purchase of Sri Lanka International Sovereign Bonds by licensed banks in Sri Lanka. In addition, the issuance of foreign currency notes by authorized dealers for travel purposes was reduced to a maximum of USD 5,000 per person. Restrictions on outward remittances in respect of capital transactions were also introduced in April 2020 to preserve the foreign currency reserves of the country. Furthermore, in line with the cabinet decision made to provide relief measures to businesses and individuals affected by the COVID-19 pandemic, the Central Bank of Sri Lanka established a re-financing facility for a wide range of fiscal and financial concessions, including debt moratoriums on capital and interest payments and the provision of working capital loans at concessionary interest rates.

47. The COVID-19 pandemic has put tremendous pressure on Sri Lanka's macroeconomic stability. Sri Lanka has limited fiscal space to launch widespread measures such as large-scale income support schemes to overcome the debilitating economic impact of the COVID crisis. Sri Lanka also carries a high debt burden at present. Moreover, the country is faced with a BOP crisis amidst capital outflows and loss of income from tourism and related exports. Sri Lanka's large fiscal gap and the balance of payments needs necessitate external financing. However, in the current context, emergency financing from an institution such as the IMF requires debt sustainability. This conditionality excludes many countries from access to such funding when it is really needed. The Fund needs to show flexibility in its response to the COVID crisis for countries in this situation. As these are exceptional circumstances which demand exceptional measures, the IMF must find a way to address this issue if all countries are to benefit from emergency financing schemes.

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INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-20

Statement by Mr. Azevêdo
WTO

IMF - INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE
Statement from World Trade Organization Director-General Roberto Azevêdo

APRIL 2020

The Covid-19 pandemic is the worst public health crisis in a century. It is also an economic and social crisis. To curb the spread of the virus, large sections of the world economy have been shut down. Millions of people have lost their jobs.

Global trade has been severely affected by supply and demand shocks. Complex supply chains have been disrupted by emergency factory and border closures. Social distancing measures have sharply reduced demand, as people stay home and cancel spending, while nonessential businesses close their doors. Travel and tourism have ground nearly to a halt. Remittances from overseas workers are set to decline.

The WTO recently published its forecasts for trade in 2020 and 2021. Our economists project that trade will fall steeply in every region of the world and across all sectors of the economy. Even in an optimistic scenario, we see world trade tumbling by 13% in 2020 – more than at the most acute phase of the 2008-09 crisis. If the pandemic is not brought under control, and governments fail to coordinate their economic policy responses, the decline could be 32% - or even more.

One positive message in the forecast is that a vigorous rebound is possible. The effectiveness of our response depends on two things – the speed and effectiveness with which the pandemic is brought under control, and the policy prescriptions of governments both now and in the near future.

The pandemic has cut the fuel line to the global economy. The engine has stalled. However, if the fuel line is reconnected properly, the global economy can recover rapidly. Coordination at the international level is essential for this to happen. Governments have already introduced dozens of measures related to the pandemic. The recession-fighting power of these measures will improve dramatically if coordinated properly.

Some of the trade-related measures governments have introduced since the start of the pandemic lower tariffs and facilitate trade, mostly in medical supplies. But some others limit trade, particularly exports of medical equipment and food. These risk complicating efforts to ramp up the production of much-needed medical supplies, and to ensure that equipment and food get to where they are needed. The G20 has taken positive steps. Trade ministers have committed to ensuring the continued flow of vital supplies, and to ensure that Covid-19 measures do not create unnecessary barriers to trade or to global supply chains. They have also promised to notify any trade measures to the WTO for transparency purposes.

In the longer term, as the medical emergency recedes, maintaining open and predictable flows of international trade and investment will help pave the way for economic recovery. It would allow countries to tap into each other’s growth. It would also encourage businesses and households to invest and consume – instead of saving whatever they can.

Trade is no silver bullet. But it would be a valuable complement to the fiscal and monetary measures governments have already introduced to fight this recession. This is why our ongoing cooperation with the International Monetary Fund and the World Bank is more important than ever. Working together, we can support an effective pandemic response and a strong and inclusive global recovery.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-21

Statement by Mr. Morneau
Canada

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

Statement Prepared for the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund

The Honourable Bill Morneau, Minister of Finance, Canada

The COVID-19 pandemic is the most significant global health and economic crisis of our lifetime. Although we do not know how long this crisis will persist, we do know that the human and economic costs are already large, and are increasing every day. To minimize these impacts, we must do all we can to contain and defeat the virus, and provide whatever financial support is needed to support our businesses and citizens and protect jobs.

We are facing a challenge unlike any other. To beat it, we must use exceptional measures. We must be bold, and we must use all the tools at our disposal. Many countries, including in our constituency, have already taken strong actions to contain the spread of the virus and mitigate its economic effects. For example, Canada has quickly put in place significant economic measures to support households and businesses during this crisis. We must all continually monitor the effectiveness of our measures, and work together to take further action as necessary. I strongly support the G20 Action Plan on Supporting the Global Economy Through the COVID-19 Crisis.

The IMF has a key role to play in the global economic response, given its place at the centre of the Global Financial Safety Net. It must deploy the full extent of its resources and tools toward supporting the membership and maintaining global stability. It must also work very closely with other international financial institutions as a cohesive system to address the financial needs of countries as quickly and efficiently as possible. It is particularly important that we strongly support the poorest and most vulnerable countries through this crisis, as they will face the most severe impacts. For example, many small states in the Caribbean are facing exceptional hardships, and I call on the Fund to swiftly meet their requests for emergency assistance.

The Fund and other IFIs must also continue to work to identify gaps in their tools and resources as this crisis evolves. I fully support the increases to the IMF emergency loan limits, and the changes to accelerate approval of emergency loan requests. I also support the IMF providing more liquidity to the global economy through new precautionary credit lines – including through a new Short-term Liquidity Line facility – and a new Special Drawing Right allocation.

To help ensure that the Fund's total lending capacity remains at US$1 trillion, Canada will renew its contributions to the Fund's borrowed resources very soon, and we call on other countries to do the same. We also look forward to the planned work to increase the support available for low-income countries through the Poverty Reduction and Growth Trust.

The road from containment, to stabilization, to recovery will be difficult. The international community must continue to work closely together in this fight. Canada stands with you. We will get through this together.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-22

Statement by Mr. Herrera
Mexico

On behalf of
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico,
Spain, and República Bolivariana de Venezuela

Statement by Mr. Herrera
Mexico
On behalf of
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, and
República Bolivariana de Venezuela

Defending our collective interest in an unprecedented global crisis demands coordinated actions

The membership is facing an unprecedented crisis. We send our deepest condolences and expression of sympathy for the loss of human lives caused by the Covid-19 pandemic. The global health emergency has evolved into an economic and financial crisis, which is an unprecedented challenge for all countries and our collective efforts. In addition to the immediate impact, the effects of the sudden stop in economic activity could have long-lasting implications on productivity and long-term growth. Notwithstanding the current uncertainty, it is of utmost importance to send a strong message that there is no trade-off between health and the economy. The global economic crisis cannot be solved until the health emergency is effectively addressed. Securing the well-being of our people should be the ultimate priority. The strong coordinated policy action we are taking today will set the conditions for a stronger global recovery.

Beyond the health crisis, it is crucial to place a strong focus on the multiple negative chain reactions it set in motion. The crisis is posing a major challenge to middle- and low-income countries. The interaction of a sharp decline in export demand, large capital outflows, limited health system capacity and the abrupt decrease in prices for commodity exporters make most of these countries more vulnerable. Moreover, several countries have no or little fiscal space and financial capacity to face the health and economic challenges posed in the current juncture. The IMFC has the responsibility to ensure that a comprehensive support package is delivered to help them address the crisis.

Uncertainty is also a factor that exacerbates the economic effects in the current crisis and poses potential challenges regarding international trade and global value chains. The IMF should be outspoken against unilateral measures, including protectionism, which could increase uncertainty and have disastrous effects, not only for the economic recovery but also for the wellbeing of countries that are not self-sufficient in many essential goods and commodities needed to cope with the COVID-19 crisis.

Given the multiple current challenges and their complexity, to secure the recovery from the health emergency and its economic implications, global policy coordination and cooperation should be reinforced along with international solidarity. A prompt transition into a crisis reconstruction stage will require flexibility to use all policy tools available and a resolute coordinated international effort, for which the IMF's leadership is essential. As noted in the Managing Director's *Global Policy Agenda*, this is in our collective interest as the global community is as strong as its weakest member in a global pandemic.

The prominent role of the IMF in international assistance and coordination

The IMF is playing a strategic role in coordinating and constructing a comprehensive vision for global policy actions. These coordinated efforts, with the World Bank and other international financial institutions in finding innovative actions to support our membership, have been and will continue to be significant.

We welcome the rapid response to adapt and expeditiously mobilize the current lending toolkit, by using all available instruments to provide resources to member countries to address their immediate liquidity needs. The swift approval to increase access limits of the IMF emergency facilities, the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI), is a meaningful example of the expeditious actions undertaken; the next step is to ensure that their use as additional sources of financing is not restricted. These instruments have been fundamental for countries in our constituency, including the recent approval of El Salvador's RFI arrangement. Moreover, we fully support the reform and the deployment of the Catastrophe Containment and Relief Trust (CCRT) to provide debt service relief and aid the most vulnerable countries. In addition to the CCRT, the Fund should also respond with larger Poverty Reduction and Growth Trust (PRGT) financing. We encourage efforts to continue the fundraising initiative for the PRGT to increase lending and subsidy resources to support the most vulnerable countries.

The Flexible Credit Line (FCL) is playing a strategic and effective role for our constituency in providing contingent buffers to cope with the current crisis. We support the establishment of the Short-Term Liquidity Line (SSL). We regard this instrument as a useful addition to provide predictable liquidity support to members with short-term moderate balance of payment needs, which, at the same time, might give additional flexibility to the precautionary financial framework by complementing the roles played by both the Flexible Credit Line and the Precautionary Liquidity Line.

Alongside the swift response of the Fund to meet unprecedented financing demand, we should continue to discuss the possibility of a new Special Drawing Rights (SDR) allocation. As it was the case in the global financial crisis, a new allocation will be of great significance for middle- and low-income countries. Alternatives to steer the debate could include the proposed volume of SDRs, special allocations for a specific group of countries, and innovative ways to use the current allocation. We should engage in this discussion.

An adequately resourced Fund to meet unprecedented membership demand

While we believe that the resource envelope should be primarily quota-based, we recognize the instrumental role temporary resources have played in supporting the Fund's lending capacity. In this regard, we welcome the US expeditious process to approve the New Arrangements to Borrow (NAB). In our constituency, Mexico and Spain will swiftly initiate the domestic procedures to reform the NAB and to participate in the new Bilateral Borrowing Agreements. As the IMFC, we need to send a resolute message to the international community that we will take the necessary measures to ensure the IMF is well resourced to meet its objectives. In this respect, we are ready to activate the NAB as a signal of the international commitment to guarantee that the Fund has ample and readily available resources.

As the pandemic recedes, discussion on the Adequacy of Fund Resources should be initiated. This crisis has reopened the need to reconsider the Fund's total resource envelope and its composition. Once we manage to address the current liquidity crisis with emergency lending, we will likely need to move into conventional and more comprehensive program lending. Therefore, adequate, quota-based resources could contribute to increase room for maneuver and to instill greater confidence in markets.

The IMF as a trusted advisor in times of crisis

The Fund has shown extraordinary steadfastness, leadership and flexibility to support the membership during this crisis with technical assistance, financial instruments and policy advice. During the recovery phase, increased IMF engagement will be needed to help countries tackle the legacy of the health and economic crises. The role of the Fund as a trusted advisor gains more relevance at that juncture. Tailored policy advice will be crucial to address the emergency and set the policy path to secure the recovery, build resilience and safeguard sustainability.

The policy response to the crisis

The countries in our constituency are currently focused on the contention stage of the pandemic, which is the most pressing issue in the very short run. The policies deployed in this period will be fundamental to set the basis for the recovery.

Within its strong policy framework, and making use of its fiscal and financial buffers, Mexico is implementing a comprehensive policy response to effectively support the contention efforts and deal with the economic effects of the pandemic. Implementation of the diverse policy measures has initiated, they will ensure a resolute response to the health emergency, mitigate the effects of external and internal disruptions to economic activity, protect the most vulnerable groups and support aggregate demand in the medium term. Regarding health, additional budget is allocated to carry out actions to mitigate the health emergency and care for the ill. To support the most vulnerable population, measures are underway to provide upfront social assistance to the elderly, one-million credits to small firms, and increased financing assistance to workers that have lost their jobs. To ensure domestic and international liquidity, and funding availability while preserving financial stability, the authorities have implemented diverse regulatory measures in the financial and insurance sectors. These include changes in accounting rules to ease deferral of capital and interest payments to financial institutions, and relaxation of the capital and liquidity requirements. The Central Bank has reduced its policy rate, lowered monetary policy deposit requirements and adjusted the ordinary additional liquidity facility interest rate. Furthermore, making use of the temporary US dollar liquidity arrangement with the US Federal Reserve (USD 60 bn), the authorities are implementing dollar auctions to increase the availability of US dollar financing for the private sector. Lastly, given the heightened risk scenario, we will avail by our commitment to respond actively to the rapidly changing environment.

Our full appreciation for IMF staff's work

In closing, on behalf of the authorities of our constituency, we want to commend the Managing Director, Management and Staff for their swift response, professionalism and hard work under the current extraordinary circumstances.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-23

Statement by Mr. Kituyi
UNCTAD

Statement by Dr. Mukhisa Kituyi, Secretary-General of UNCTAD, to the International Monetary and Financial Committee and Development Committee Meetings, April 2020 Washington DC

The Covid-19 crisis poses an unprecedented global threat to people's lives and livelihoods. In its wake, persistent fragilities and deep fractures, accepted as part of the new normal in the post-2009 global economy, have been visibly exposed. Calls to build a better future, beyond the immediate task of containing the pandemic and restarting economies, will have to include a hard and frank examination of the governance of the global economy.

Even before the virus began to spread worldwide, a spluttering North, a general slowdown in the South and rising levels of debt everywhere were hanging ominously over the global economy; these, combined with increased market volatility, a fractured multilateral system and mounting uncertainty, were already signalling the danger of a global recession.

Over the second half of 2019, it became increasingly clear that the global economy was entering troubled waters with slower growth across all regions and a number of economies contracting in the final quarter. Still, there was a widely shared expectation that things would gradually improve in 2020, led by the large emerging economies, with global growth returning to its potential by 2021.

With the advent of the Covid-19 pandemic, levels of uncertainty in the global economy have reached new heights. Not surprisingly, economic projections for the year 2020 vary widely. However, the picture from the still limited data currently available points to a dramatic reduction in output and incomes from the widespread shutdowns of manufacturing and services, along with sharp falls in financial markets and knock-on effects on consumer sentiment and investment confidence, international trade and commodity prices.

Global recession amidst pandemic relief measures

There is little doubt that the global economy will experience deep recessionary conditions in the first half of this year with subsequent developments contingent on the trajectory of the pandemic and the effectiveness of government relief and recovery efforts, including debt relief for developing countries.

Estimates made with the UN Global Policy Model point to a contraction of global output in the range of 1.0 to 1.5 per cent in 2020 relative to 2019, assuming optimistically that economic activity restarts in the second half of the year and financial markets begin to recover, supported by 'whatever it takes' monetary stimuli. This would imply a swing of about 4 percentage points in global growth with respect to what would have occurred if the Covid-19 crisis had not taken place.

In recent weeks, a series of relief packages have been announced by policy makers in the major developed economies and China that appear to involve more explicit support to incomes, aggregate demand and government activity than was the case with the response to the GFC. Aside from special credit lines for businesses, the critical measures include government spending on healthcare, unemployment benefits, paid sick leave and cash transfers for households. Even so, preliminary estimates suggest that only a quarter of the $5 trillion so far announced will effectively translate into higher demand for goods and services.

Policy makers in China have made several announcements about the size and nature of the stimuli in place for 2020. However, so far this has been considerably smaller than the package they implemented after the 2008 global financial crisis.

Assuming that global linkages continue to operate as normal, the measures adopted so far should soften the shock, and if the pandemic is quickly brought under control, could help bring global growth within the -0.5 to 0.5 per cent range in 2020. However, the effectiveness of government action to bring about a swift reversal in the face of unprecedented job losses and a reluctance of companies, given increasingly precarious balance sheets, to invest suggests that much will depend on the ambition of subsequent rounds of public spending. Effective coordination at the multilateral level, especially regarding the response in developing countries, will be critical if a rapid recovery is to take place .

The crisis-response measures adopted so far will have some positive impact not only on the implementing economies but on the world economy, including growth in developing countries. However, developing countries face distinct constraints, which make it significantly harder for them to adopt stimulus measures without facing strong foreign exchange pressures. And as these countries do not issue international reserve currencies, they can only ease those pressures through exports, debt accumulation or asset sales, all of which are problematic under recessionary conditions. What is more, efforts to raise exports will require significant imports of equipment, know-how and financial capital. Finally, the financial turmoil that this crisis has already triggered has caused sharp currency devaluations, making debt service and import bills far more onerous.

Thus, even with the stimuli enacted by the major economies, developing countries (excluding China) will lose significant export revenues in 2020. According to our most recent estimates, these losses will be upwards of $950 billion, owing to falls in both volumes and prices. While, at the same time, economic contraction will see imports fall in developing countries, by at least $750 billion, the additional pressure on current account balances, will see a squeezing of reserves that, in most countries have failed, over the preceding decade, to recover the levels reached before the global financial crisis.

The precarious position of developing countries

Many developing countries were already slowing down in the final quarter of last year with several entering recession. However, the speed at which the economic shock to advanced economies has spread to developing countries – in many cases in advance of the health pandemic – has been dramatic, even in comparison to the 2008 global financial crisis, resulting in widespread economic contraction.

Developing countries have suffered unprecedented capital outflows, growing bond spreads, currency depreciations and lost export earnings including from falling commodity prices, declining tourist revenues and reduced remittances. And with countries beginning to shut down in response to the health threat the economic damage seems certain to multiply many fold.

According to the IIF, since January 21st net portfolio equity and debt outflows from emerging markets have totalled close to $100bn representing the largest quarterly outflow ever from these markets. Foreign direct investment has also fallen sharply. Currencies have fallen against the dollar between 5 and 25 per cent since the beginning of this year, faster than the early months of the GFC. The prices of commodities, on which many developing countries depend for their foreign exchange, have also dropped precipitously since the crisis began. The overall price decline has so far averaged around 40 per cent, with oil dropping by over 60 per cent.

Looking ahead, there are three main channels through which the Covid-19 shock can be expected to increase the financial pressures on developing economies over the coming months.

The first is the pressure on government budgets from the public health crisis. While developed countries have the administrative capacity and, generally, the fiscal space to backstop their lockdowns and buttress their social protection systems, in developing countries sharp contractions of incomes are all but inevitable. Tighter fiscal space and weaker healthcare and social protection systems will expose developing countries to greater human and financial damage while limiting their ability to respond, triggering a potentially dangerous vicious circle. With an increasing need for imports of specialized goods and services to deal with the health crisis the balance of payments constraint can only expect to tighten further.

The second channel is through trade. Exports will not recover for some time, particularly for commodity exporters. At the same time, other items on the current account, such as remittances, royalty payments and profit outflows have already added to the financing difficulties facing many developing countries.

Importantly, the strong recovery in developing country trade that occurred in 2010 seems less likely this time. Even if the damage to global supply chains is not irreparable, as lead firms recover from the crisis they will likely have to rethink their business model, including fewer links in these chains, and with more that are closer to home. In addition, China has steadily diminished its dependence on external suppliers through an increase in domestically produced intermediate products. At the same time, there has been too little diversification of economic activity in many developing countries over the past decade – with greater commodity dependence in many countries -- leaving them more exposed than ever to new shocks and disturbances

Commodity prices have been well off their post-recovery highs since the price slump in 2016 but there seems little likelihood of the kind of pick up in prices seen between 2009 and early 2011 which was well ahead of the recovery in global output.

The third channel is financial. The flight to safety has, as noted earlier, already caused record capital outflows from emerging economies, triggering large currency depreciations against lead currencies and widening spreads. In countries with a high exposure to foreign debt, be it private or public, these trends put enormous pressure on their debt sustainability, by undermining refinancing of outstanding external debt while driving up their value in foreign currency. This comes against a background of increasing debt in many developing countries over the past decade. Total developing country debt stocks stood at 193 per cent of their combined GDP at the end of 2018, the highest on record, compared to just over 100 per cent in 2008.

On top of rising debt servicing costs since 2012, developing countries are facing a wall of repayments due on foreign-currency denominated public debt over this year and the next. The total amount of sovereign debt repayments due at the end of 2021 is $2.7 trillion ($1.62 trillion in 2020 and $1.08 trillion in 2021); of this, $562 billion are due for repayment by governments in low- and middle-income countries, with the bulk of this amount due this year ($415 billion in 2020 and $147 billion in 2021). In "normal" times, much of this debt would be rolled over, adding to future debt burdens but providing vital breathing space to honour overall obligations.

But with sudden stops to external refinancing possibilities, suspending sovereign debt repayments due over this and the next year, at the very least for low- and middle-income developing countries, is key to averting immediate and wide-spread debt crises. Clearly, the amounts that would be involved in suspending sovereign debt repayments in poorer developing countries are relatively small compared to the economic rescue packages hurriedly put together across the developed world.

Recovering better: from emergency measures to long-term reforms

Advanced economies have embarked on a dramatic change of policy direction in response to the crisis. Measures that were unthinkable just a few weeks ago have been embraced and implemented in response to the scale of the crisis. Discussion of what developing countries should and could do has, by contrast, lagged behind, and particularly when it comes to international support. That is now beginning to change.

Given the role of the dollar in the international system, the United States' Federal Reserve can extend its role as lender of last resort beyond the country's borders, although it currently does so in a selective and strategic manner. The Federal Reserve has currency swap programmes with nine Central Banks (enabling these to provide dollars to their own banking systems that lend and trade in dollars), including just three developing countries - Brazil, Mexico and Singapore. This comes as the role of the dollar in the developing world has become more central since the global financial crisis, largely due to developing countries' growing recourse to international financial markets to meet external financing needs. By the end of 2019, outstanding international debt securities - such as bonds, asset-backed securities and commercial paper issued by their governments and firms - denominated in dollars stood at $3.36 trillion, or 80 per cent of the estimated total amount of developing countries' outstanding international debt securities of $4.2 trillion.

While advanced country governments are sending checks to their citizens and opening emergency credit lines for their companies, this clearly is not an option for most developing countries which are highly dependent on access to US dollars and lack the financial infrastructure and financial fire power to follow suit.

As a matter of urgency, the international community will need to co-ordinate appropriate financial rescue packages to pre-empt a global debt crisis. These would have to include, as a minimum, the following measures:

First, a coordinated global response to liquidity shortages to address immediate financing needs. The IMF has signalled that it is willing to fully deploy its current $1 trillion lending capacity to help deal with the crisis. However, not only is this likely to prove insufficient, but current lending facilities and financing instruments are complex, tied to inappropriate conditionalities under the circumstances and therefore difficult to access quickly, in particular for developing countries. While the IMF has promised flexibility in this regard, an additional and faster avenue to address, at the very least, current liquidity shortfalls is a new allocation of ***Special Drawing Rights*** (SDRs). This system gives IMF member countries claims on other members' reserves providing hard currency liquidity at no cost for public budgets. Under current quota arrangements, this instrument heavily favours advanced countries, thus a new allocation of 730 billion SDRs ($1 trillion) should go mostly or exclusively to developing countries. This could be achieved through a new allocation of SDRs and an IMF "designated" reallocation of current and new but unused SDRs from advanced countries to poorer developing economies. The required new allocation of SDRs would, no doubt, have to be multiple times that agreed in 2009 (of 183 billion in SDR or $287 billion at the time), depending on developing countries' liquidity needs and options for a "designated" reallocation of existing and newly allocated SDRs. But this would be an appropriate response to the scale of the crisis.

Second, ***capital controls*** should be endorsed by the IMF as a necessary and fully legitimate part of any policy regime and wherever appropriate introduced to impose a small tax on inflows during booms, curtail or reduce the surge in outflows during busts, reduce illiquidity driven by sell-offs in developing country markets, and smooth the adjustment of currency and asset prices after financial shocks. Implementation should be coordinated by the IMF to avoid stigma and prevent contagion, and who, in cooperation with other appropriate international bodies, should also be tasked with lending the technical support needed to ensure their effectiveness and extending advice on complementary measure needed to deal with related disruptions.

Third, even if large liquidity injections to developing country reserve accounts stave off financial and economic meltdowns and serial sovereign defaults in developing countries, it is important to avoid that debt crises re-emerge in the longer term. Measures to this effect are ***temporary standstills*** on debt service payments, or a formal or informal agreement between a debtor and one or more of its creditors to suspend these payments for a given period of time to allow debtors to propose restructuring plans. During this time creditors cannot seek legal remedies, a critical provision to keep non-cooperative and litigious creditors (or so-called vulture funds) in check. While there has been ongoing debate about the institutional avenues to govern temporary standstills, UNCTAD continues to argue that such standstills should be triggered by the unilateral decision of debtor countries to declare their need to freeze debt repayments temporarily, and should subsequently be sanctioned by an independent panel of experts, rather than creditor organisations. While there may be little time, in the current circumstances, to create new international bodies to govern temporary standstill procedures, this would be just one of many extraordinary measures taken with unusual speed over the past months.

Fourth, and in addition to temporary standstills as a kind of emergency break, new ***debt relief programmes*** need to be agreed on as soon as possible. On 25 March, the World Bank and the IMF called on all official bilateral creditors to suspend debt payments from the world's 76 poorest economies, currently in receipt of support from the International Development Association (IDA). While a first tentative step in the right direction, more systematic, transparent and co-ordinated steps towards writing off developing country debt, based on need rather than bargaining power, are critical. As pointed out, the wall of debt repayments about to hit a large number of developing countries is unsustainable. For now, African Finance ministers have indicated that a waiver of all interest payments on their debt, estimated at $444 billion for 2020, and a possible extension to the medium-term would help to provide immediate fiscal space and liquidity to their governments. However, unless more comprehensive debt relief programmes are agreed, future redemption schedules will fast look very much worse than is the case at present. It should not be a matter of over-stretching global economic governance capacities, to design an immediate debt relief package for stricken developing countries, beginning with those already in default and, according to IMF debt sustainability assessments, at high risk of debt distress. A measure of ambition is provided by the cancellation in 1953 of half the German debts accumulated over the previous three decades and future payments made contingent on export earnings.

Fifth, Official Development Assistance (ODA) must be ring-fenced by all donor countries. Despite a majority of donors having routinely missed agreed ODA targets in the past, and despite ODA flows being spread ever more thinly across additional donor-determined objectives, ODA remains a vital source of external financing for the poorest of developing countries. Over the decade since the financial crisis an additional $2 trillion would have reached developing countries had the 0.7 per cent (of global national income) ODA target been met by DAC members. This, therefore, is the time, for donor countries to, finally, honour their collective commitment and deliver ODA to developing countries in full and unconditionally. As an extraordinary measure given the immediate situation, channelling a significant amount of the missing amount of ODA – say one quarter of that total – into a ***Marshall Plan for Health Recovery*** would be a fitting way to demonstrate the international solidarity needed to mitigate the crisis in developing countries.

As the health pandemic is brought under control and economic shocks dissipate, a more profound reassessment of the multilateral system -- promised but not delivered in 2009 -- will be needed to ensure that resilience and fairness become integral characteristics of our more interdependent world.

The current shock, coming a little more than decade after the GFC, the rampant inequalities and the fast-accelerating environmental destruction from rising global temperatures, are the wake-up call that should push all governments and international institutions to mobilize against the stresses and fractures that have produced an increasingly fragile and anxious world. Immediate steps in response to the crisis should therefore be used to signal a new beginning for global governance.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-24

Statement by Mr. Marić
EU Council of Economic and Finance Ministers

Statement by Deputy Prime Minister and Minister of Finance Zdravko Marić in his capacity as Chairman of the EU Council of Economic and Finance Ministers for the IMFC spring meeting,

16 April, 2020

1. The spread of the coronavirus is a human tragedy and a health crisis, and it is strongly affecting the global economy. The necessary health and safety policy measures being adopted to stem the spread of the virus and the change in behaviour of the general public required by these measures have deeply disrupted global demand, labour supply and industrial output, supply chains, international trade and capital flows. The global economic outlook remains very uncertain, in particular as it still remains to be seen how long the containment measures have to remain in place and how restrictive they have to be. Although the health crisis is intrinsically of a transitory nature, it has pushed the global economy into an extremely vulnerable state, with a significant risk that financial and economic stress could escalate to the point of a major recession. Facing these exceptional circumstances, we agreed that an immediate, ambitious and coordinated policy response is needed.

2. The EU is determined to do whatever it takes to effectively address the economic challenge caused by the spread of coronavirus and to restore confidence and support a rapid recovery.1 The EU has, as immediate reaction, put together a set of measures at national and EU level while setting a framework for further actions to respond to developments and to support the economic recovery. Member States have already decided initial fiscal measures of about 3% of GDP, on average, for 2020 to support the economy, in addition to the impact of automatic stabilisers which are very sizable and should work fully. Ministers of Finance, while remaining fully committed to respect the Stability and Growth Pact, also agreed to activate the general escape clause of the EU fiscal framework. This allows the EU to undertake the necessary policy coordination measures within the framework of the Stability and Growth Pact departing from the budgetary requirements that would normally apply in order to tackle the economic consequences of the pandemic, and therefore to not create permanent damage to our economies and to the medium-term sustainability of public finances. The use of the clause will ensure the needed flexibility to take all necessary measures for supporting our health and civil protection systems and to protect our economies, including through further discretionary stimulus and coordinated action, designed, as appropriate, to be timely, temporary and targeted, by Member States.

3. In addition to central bank measures, Member States have, as of 30 March, committed to provide liquidity facilities of at least 16% of GDP, consisting of public guarantee schemes and deferred tax payments. These figures could be much larger going forward. Additional temporary measures include fiscal spending targeted at containment and treatment of the disease as well as liquidity support for firms facing severe disruption and liquidity shortages, especially SMEs and firms in severely affected sectors and regions, including transport and tourism and support for affected workers to avoid employment and income losses. The EU and the Member states also agreed to take whatever further coordinated and decisive policy action is necessary, including fiscal measures, to support growth and employment. Further proposals should take into account the unprecedented nature of the COVID-19 shock affecting all our countries and our response will be stepped up, as necessary, with further action in an inclusive way, in light of developments, in order to deliver a comprehensive response.

4. Measures at EU level include a €37 billion "Corona Response Investment Initiative" directed at health care systems, SMEs, labor markets and other vulnerable parts of our economies, and making

[1] See the March 16th Eurogroup statement on policy response to COVID-19, https://www.consilium.europa.eu/en/press/press-releases/2020/03/16/statement-on-covid-19-economic-policy-response/

a further €29 billion of structural funds fully eligible for meeting these expenditures; the initiative of the Commission and the EIB group to mobilize up to €8 billion of working capital lending for European firms, backed by the EU budget with ongoing efforts to increase this amount to up to €20bn; the EIB initiative to catalyse up to € 20 billion in additional investments in SMEs and midcaps on its own balance sheet; and the package of monetary and supervisory policy measures taken by the ECB in March, including the €750 billion Pandemic Emergency Purchase Programme (PEPP). The temporary state-aid framework issued by the Commission will expedite public support to companies to mitigate the economic impact of the crisis, while ensuring the necessary level playing field in the Single Market.

5. We will coordinate appropriate border management measures aimed to protect health and ensure the availability of goods and essential services, upholding the principle of international solidarity. We recall that these measures should be targeted, proportionate, transparent and temporary. More than ever, we have to handle the ongoing trade tensions. Persistent uncertainty in trade policy as well as geopolitical and social tensions continue to weigh on global growth prospects. The G20 in Osaka has recalled the need to cooperatively handle the trade tensions. To that end, it is crucial to tackle, through multilateral rules-based solutions, any distortions that may have contributed to those tensions and to level the playing field for trade and investment. The EU will pursue its active engagement in the process of reform and modernization of the WTO to improve its negotiating, monitoring and dispute settlement functions. It is particularly urgent to restore the functioning of the WTO Appellate Body.

6. Beyond the ongoing crisis response, we are working on all the necessary measures to help the economy recover and to go back as soon as possible to sustainable and inclusive growth once the coronavirus has receded, integrating inter alia the green transition and the digital transformation, and drawing all lessons from the crisis. This will require a coordinated exit strategy, a comprehensive recovery plan and unprecedented investment.

7. Climate change, if not adequately tackled, can have a severe impact on our economies and societies. It is a global challenge that requires a coordinated global response. The economic consequences of climate change are being felt, and the cost of inaction is increasing, as is the risk of insufficient action. This affects consumers, workers, businesses, public finances and financial markets alike. As the transition towards a low-carbon and an environmentally sustainable economy relies on economic incentives and fiscal measures, Finance ministers of EU Member States will have an important role to play in this work. Key discussions include the mobilization of sustainable finance while striving for consistency across jurisdictions, the strategic long-term vision for a climate-neutral economy and initiatives related to carbon pricing, tax-like measures and taxation, including energy taxation. The EU Member States remain committed to scaling up the mobilisation of international climate finance from a wide variety of private and public sources. This will help support the transition towards a carbon-neutral global economy and to alleviate the socio-economic impact of the transition.

8. The Investment Plan for Europe has proven to be a successful tool for encouraging private investments in Member States. As of December 2019, the projects approved for financing under the European Fund for Strategic Investments (EFSI) have already mobilised close to EUR 460 billion across the entire EU. More than one million start-ups and small businesses are now expected to benefit from improved access to finance. Some 70% of the expected mobilised investment comes from private resources which is a strong crowding in effect. In implementing the initiative, strong emphasis has been put on the additionality and quality of the projects. In order to reinforce the mobilisation of private investments, policy actions both at European and Member State level are being stepped up to promote favourable framework conditions for businesses across the Single Market. Beyond traditional investment programmes related to European Structural Funds, we are currently preparing “InvestEU”, the successor of EFSI and other 13 financial instruments, which will aim at boosting private and public investment in the EU and facilitating access to financing. InvestEU

also draws some lessons from the Investment Plan for Europe, with improved geographical and sectorial coverage as well as incentive mechanisms to invest in projects with higher risk profiles and to shape private investment into greener and more social projects.

9. At the Euro Summit in December 2019, Leaders made further progress on a comprehensive package to significantly strengthen the Economic and Monetary Union (EMU). An agreement has been reached in principle, subject to the conclusion of national procedures, on the package of documents related to the reform of the European Stability Mechanism (ESM). Discussions will continue on a potential early introduction of the common backstop, ahead of the end of the transition period in 2024, provided that sufficient progress has been made on risk reduction. On strengthening the Banking Union, including a European Deposit Insurance Scheme, Finance Ministers will continue to work on all elements on a consensual basis. On the budgetary instrument for convergence and competitiveness, Finance Ministers have discussed a report on the need, the content, modalities and size of a potential Intergovernmental Agreement to top up the instrument's financing. Work will also continue on deepening the Capital Markets Union and strengthening the international role of the euro.

10. The Covid-19 crisis calls for strong and rapid international action to protect people and support our economies, especially the most vulnerable. EU Member States call on the IMF to make full use of its emergency financing facilities, including the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI), and support the IMF efforts to incorporate additional flexibility in these instruments to address country specific needs in the face of the impact of COVID-19. EU Member States are open to discuss possible additional options such as a new allocation of SDRs or the introduction of a temporary liquidity line to support liquidity under current conditions. Central bank swap lines should remain prerogative to the respective institutions in line with their mandates. We also support the IMF Catastrophe Containment and Relief Trust (CCRT) to help the poorest countries face their debt obligations to the IMF. We call on the IMF and World Bank to coordinate closely to ensure their measures are coherent and complementary. We invite the IMF and World Bank to continue work on identifying the most vulnerable countries and on estimating present and potential financing needs.

11. Against this background, the European Union fully supports the commitment by the IMFC and G20 Leaders to a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net (GFSN). This is particularly important at a time of exceptional uncertainty and downside risks. EU Member States call for the quick implementation of the package on IMF resources and governance reached by the IMFC at its meeting in Washington in October 2019. We welcome the agreement to double the New arrangements to Borrow (NAB) and call upon all NAB participants to ratify the increase as soon as possible. We welcome the recent approval by the US to double its NAB credit line. EU Member States and National Central Banks that provided bilateral credit lines to the IMF are willing to participate in the new round of Bilateral Borrowing Agreements (BBAs), subject to the completion of domestic approval procedures. We expect similar assurances to be given by lenders outside of the EU. We are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th General Review of Quotas, with the Review to be concluded by no later than December 15, 2023.

12. We also recognize that the IMF work agenda should be adapted to the new context, while ensuring that crisis response remains consistent with longer term objectives such as increasing resilience, fostering sustainable growth and fighting climate change and inequalities.

13. We welcome the ongoing Comprehensive Surveillance Review, especially proposals to better integrate multilateral spill-over analysis and macro-economic and financial surveillance. The Fund's understanding of economic and social sustainability should be enlarged, while continuing to select only issues or policies that are macro-critical. There is a strong merit in including macro-critical

considerations related to climate change in IMF Article IV and Financial Sector Assessment Programme (FSAP) reviews. We also believe that the Fund's surveillance practice should fully take account of the specificities of IMF members participating in economic and monetary unions.

14. EU Member States reiterate that a closer integration of findings and recommendations of the FSAP in the Article IV reports is warranted. EU Member States agree that, in cases where members have transferred their responsibility on policies concerning financial sector oversight to the supra-national level, a complementary but separate assessment of supranational policies at the same frequency as for jurisdictions with systemically important financial systems with involvement of national competent authorities is also warranted.

15. We also welcome the IMF staff initiative to review and enrich its Debt Sustainability Analysis framework for Market Access Countries. It would be beneficial to work towards a convergence of approaches between the European and the IMF's frameworks on debt sustainability. We look forward to more guidance on the application of staff judgement in the IMF framework, whilst recognizing the need for sufficient flexibility to cater for country-specificities.

16. We renew our support to the IMF-WBG multipronged approach for addressing emerging debt vulnerabilities. We look forward to the upcoming review of the IMF Debt Limits Policy. We encourage the IMF to continue help enhancing debt transparency and debt management capacity for both borrowers and lenders, and further integrate the challenges created by collateralized sovereign debt into the different workstreams. EU Member States also look forward to discussions on the IMF work on the Integrated Policy Framework.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-25

Statement by Mr. Siluanov
Russian Federation

On behalf of
Russian Federation and Syrian Arab Republic

STATEMENT
by the Minister of Finance of the Russian Federation,
IMF Governor for the Russian Federation
Anton Siluanov
at the IMFC Meeting of the Board of Governors of the IMF
(Washington, April 16, 2020)

Let me, first, wish everybody health and safety and express my deep regret about the tremendous loss of life worldwide.

Global Economic Outlook

The world is confronting an unprecedented healthcare and economic crisis like no other since the Second World War. On top of that, we are facing extreme uncertainty regarding the future developments.

There is a big uncertainty about the duration and intensity of the pandemic and the degree of resilience of our economies in the face of a disruption of established business practices and supply chains. Sudden stops in movements of people, as well as the collapse of demand in services and transportation sectors resulting from social distancing have already led to soaring unemployment. The next hit will come when the full effect of company closures will spread along the supply chains. All our economies rely on complex supply chains, both within and between countries, and it is impossible to predict the domino effect of any individual company closure.

Due to disruptions in the real economy, pressures in the financial sector are increasing as well. The pandemic has quickly become a trigger for the destabilization in global financial and capital markets against the backdrop of financial vulnerabilities accumulated over the prolonged period of time. This resulted in a dramatic tightening in financial conditions. High uncertainty and increased volatility provoked a flight to safety and liquidity, with yields on safe-haven bonds reaching record low levels. The emerging market economies have been hit especially hard, as capital outflows from these countries have already exceeded $100 billion.

The healthcare crisis, output decline, and destabilization of the financial sector are creating conditions for a perfect storm. Against this background, the WEO baseline projection of global GDP contraction of 2.9 percent in 2020 looks somewhat optimistic. We would be happy to be wrong, but unfortunately, even the illustrative “protracted recovery” scenario with global contraction approaching 6 percent in 2020 may not be the worst-case scenario. It would be prudent to hope for the best but prepare for the worst.

A lot has already been done to slow down the pandemic and strengthen healthcare systems. In addition to quarantine measures, the healthcare providers received large-scale additional resources, including additional funding for medical equipment, testing devices, and expansion of hospitals and isolation wards. We welcome ongoing international cooperation on developing the vaccine. At the same time, it is critically important to develop a mechanism to ensure rapid and unobstructed flow of these resources, especially to developing countries. If the pandemic spreads to countries that lack such necessary resources, it will come back to countries that managed to contain it, further delaying their recovery.

The unprecedented fiscal stimulus has been deployed by most advanced economies in response to disruptions caused by the pandemic. Both automatic stabilizers and legislated discretionary measures to support the vulnerable groups of population and the most affected sectors of the economy will cause a dramatic increase in fiscal deficits. On top of that, in many countries large-scale loan guaranty programs and other forms of indirect support have been announced. Massive and expeditious use of fiscal power was entirely appropriate as events were unfolding rapidly. At the same time, it is important to make these support measures well-targeted as well as timely and effective.

In many countries the massive fiscal expansion will stretch public debt sustainability to the limits. The dramatic increase of fiscal deficits in 2020 will be followed by several years of very high deficits, as fiscal consolidation will unavoidably take time. Extremely low interest rates may provide some help. However, not all advanced economies may afford much higher debt levels. Fiscal risks are also high in many EMDEs, where capital outflows, currency depreciations and much tighter financial conditions may undermine debt sustainability. The absence of a fiscal space may also suffocate future economic recovery.

Central banks in the advanced economies have already reintroduced unconventional monetary policy tools. Asset purchases, forward guidance, and negative interest rates can still play a role in countering the weak demand and mitigating negative feedback loops. Another important task of monetary policy in advanced economies is to prevent a deflationary spiral during the recession. At the same time, faced with sizeable capital outflows and depreciation pressures, many emerging market economies may be forced to tighten their monetary policies or even introduce capital flows management measures. In order to avoid pro-cyclical policies as well as to address liquidity and solvency issues they may need a substantial external financial assistance, including from multilateral institutions.

Together with support measures, central banks and other regulators need to strengthen monitoring of banks and non-bank financial institutions. The uninterrupted flow of credit to the economy is critical to avoid deeper recession. Over the past decade, banks have built up capital and liquidity buffers, but the unprecedented economic shock will test their resilience. Banks are facing large decline in their equity prices, surging wholesale funding costs, and growing risks of credit losses. Timely identification and resolution of problematic financial institutions will reduce risks to the broader financial system.

As we are facing an unprecedented surge in unemployment, there is a scope for active labor market policies to reduce the long-term damage. The global quarantine experience will undoubtedly change working practices and employment patterns. This may include greater teleworking and reduced travel to offices and shopping centers, decline of tourism and other sectors. We can expect attempts to shift supply chains "closer to home", which will significantly affect the international division of labor. Countries that better address and manage these changes will be able to provide better work opportunities to their citizens.

The pandemic underscores the need for a multilateral, collaborative approach in many policy areas. At the time of global economic distress, it is critical to avoid the breakdown of international trade, and scale back previously imposed tariff and nontariff measures to preserve global supply chains. Any application of external economic and financial pressures, especially on countries, severely affected by the pandemic, should be discontinued. Taking into account the disruptive impact of the pandemic on trade and investments, we call on the IMF members to refrain from introducing any new trade restrictions, economic or financial sanctions or any other measures inconsistent with the WTO rules in the coming months.

The turmoil in the global oil market has amplified the impact of the pandemic-related shock on oil-producing countries. The drastic decline in demand for oil has been very large and severely affected the oil market conditions. Hopefully, the recently achieved agreement between the OPEC+ and other major oil producers will allow to stabilize the oil market.

The role of the IMF

Global actions are required to combat the pandemic outbreak and mitigate its devastating health and economic impact. The firepower of global and regional institutions should be fully utilized to help countries address urgent and unprecedented financing needs. We encourage all international financial institutions (IFIs), multilateral and regional development banks, as well as Regional Financing Arrangements (RFAs) to deploy the full range of instruments and toolkits to assist affected countries and create conditions for a strong recovery.

We welcome the crisis response package expeditiously worked out by the IMF. This package includes rapid and enhanced access to emergency financing on the basis of such new instruments as the Rapid Credit Facility and Rapid Financing Instrument; the creation of the new Short-term Liquidity Line (SLL) to improve liquidity provision; and the debt service relief to the poorest and most vulnerable countries through the reformed Catastrophe Containment and Relief Trust (CCRT).

The pandemic is causing an unprecedented surge in the demand for IMF resources. About 100 countries have already requested emergency financial support from the Fund. It is possible that the Fund's lending capacity of around $1 trillion may turn out to be insufficient to meet the balance of payments' needs of the IMF membership. We find it critical to maintain the adequacy of the Fund's resources. Accordingly, the acceleration of the IMF quota and governance reform under the 16th General Review of Quotas should be a priority.

We also urge the IMF to demonstrate impartiality and evenhandedness in providing financial assistance to all its members. This global crisis is a testing time for the IMF. The way it handles it will have a lasting impact on the Fund's reputation and credibility.

Russia

Russia met the beginning of the pandemic with a very strong macroeconomic position. We had a very low public debt, fiscal and current account surpluses, ample fiscal and foreign exchange reserves. Nonetheless, pressures in the Russian economy are growing. The quarantine measures will significantly affect growth prospects in the near term, while social distancing may have to continue for quite a while. In order to support the economy, we have undertaken a long list of supportive measures.

In the fiscal area, we are not planning to reduce budgetary spending despite an expected significant reduction in fiscal revenue. Moreover, we are undertaking additional spending aimed at strengthening the healthcare system and providing support to vulnerable groups of population and the most affected sectors. We have also introduced tax forbearance measures and even some tax reductions. For example, social taxes have been reduced from 30 percent to 15 percent of the wage bill, while collection of some other taxes has been postponed for 6 months. Additional measures have also been taken to support small and medium-size enterprises.

On the monetary side, inflation is expected to pick up in the near term against the background of recent currency depreciation. However, this pick up will be from a low base of 2.5 percent year-on-year in March, and it is unlikely to exceed the official 4 percent target by a wide margin, taking into account a widening output gap. Key policy rate is at 6 percent and the Central Bank of Russia (CBR) has already signaled that there is room for countercyclical monetary policy over the medium term. Another immediate priority for the CBR is to provide liquidity to the financial system to ensure its stable functioning. Both regulatory forbearance and liquidity supporting measures have already been introduced.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-26

Statement by Mr. Hoekstra
Kingdom of the Netherlands—The Netherlands

On behalf of
Republic of Armenia, Belgium, Bosnia and Herzegovina, Bulgaria,
Republic of Croatia, Cyprus, Georgia, Israel, Luxembourg,
Republic of North Macedonia, Republic of Moldova, Montenegro,
Kingdom of the Netherlands—The Netherlands, Romania, and Ukraine

Statement by Mr. Hoekstra
The Netherlands

On behalf of
Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Macedonia, Moldova, Montenegro, the Netherlands, Romania, and Ukraine

Global economic context, prospects and policies

The Constituency expresses its sympathy and solidarity with all countries and people affected by COVID-19 and offers its sincere condolences to all concerned.

These are exceptional times, not the least because the COVID-19 outbreak is causing a severe downturn and, if insufficiently addressed, could leave long term scars on the economy. The Constituency therefore welcomes the comprehensive policy measures taken to date on a national, European and global level in response to the pandemic's challenges, which are unfolding with unprecedented speed and size. Our first priority is preserving lives and to support health systems to the greatest extent possible. The Constituency affirms the need for strong and coordinated action and to do everything necessary to confront this extraordinary human and economic crisis, to restore overall confidence, in order to support a rapid recovery.

COVID-19 is causing strong negative supply and demand shocks to the global economy, combined with a rapid tightening of financial conditions. Policies taken at the national and European level focus on safeguarding the economy through measures such as providing liquidity support for affected firms, supporting households in avoiding unemployment income losses, and instilling confidence. Small and medium sized enterprises and firms in severely affected sectors in particular need their authorities' support through, for example, credit guarantees and tax deferrals or reductions. Governments can support employment by subsidizing short-term work schemes and extensions of paid sick leave. Ministers of Finance of the European Union agreed on a comprehensive package of measures to shield firms, workers and countries from the impact of COVID-19.

Central banks provide large-scale liquidity to banks and financial markets through refinancing operations and asset purchases, to secure the availability of low-cost financing for governments, businesses and households. Fortunately, global regulatory policies implemented since the global financial crisis have borne fruit, and the financial sector is in a stronger position today. Resolute additional fiscal and monetary measures and the use of flexibility in existing regulations can aid the financial sector in continuing its role in intermediating funds to the real economy.

That said, the policy responses to the COVID-19 crisis are to be timely, targeted and in place as long as required to support the economy. Automatic stabilizers, where available, are a natural first line of defense against shocks. They should operate to their fullest extent and be complemented with discretionary measures if warranted. The global shock also demonstrates a need for well-designed safety nets to protect citizens from income losses.

Coordinated and decisive policy action at the global and regional level help to reduce uncertainty, restore confidence and ensure financial stability. We need to continue to closely monitor the COVID-19's economic effects and to adapt our responses if needed to the evolving situation.

The rapid tightening of financial conditions as well as unprecedented capital outflows are of key concern to the Constituency. Emerging and developing countries are particularly vulnerable to the impact of COVID-19. They are strongly affected by the synchronised economic downturn, including through declines in tourism receipts and (commodity) exports, lower remittances and large capital outflows, which confronts them with rapidly declining foreign exchange reserve buffers and puts external debt sustainability at jeopardy. It is therefore of the utmost importance that a decisive and well-resourced IMF is at the centre of the global financial safety net, able to deploy its toolkit effectively and flexibly.

COVID-19 calls for a strong and targeted response by the IMF in collaboration with other IFIs, and we fully support the IMF in mobilizing all available tools to support countries in need, including full use of emergency financing, providing policy advice and technical assistance. We stand ready to enhance the IMF policy toolkit where necessary to help address the crisis.

The COVID-19 crisis will amplify the already existing trend of rising debt to GDP levels in LICs. In this light, we welcome in principle the debt relief initiative of the IMF and World Bank for official bilateral creditors to suspend debt payments from IDA-countries that request forbearance. We also support a strengthening of the IMF Catastrophe Containment and Relief Trust (CCRT) to help the poorest countries face their debt obligations to the IMF. The Netherlands therefore contributes EUR 25 million to the CCRT. Luxembourg is ready to contribute to the CCRT.

While the focus should now be on addressing the immediate needs, it remains important not to lose sight of the medium term and prepare the economic recovery. COVID-19 illustrates the importance of resilience to enable countries to weather shocks in the economy. At the same time, additional fiscal measures may be necessary to support the recovery. Once the implications of the COVID-19 crisis recede, a growth-friendly composition of expenditures, including investments in health care, education and innovation, as well as the design and implementation of structural reforms, should be resumed to increase resilience and raise the long-term growth capacity of our economies.

Also, a strong and robust financial sector ensures continuous access to financing for households and firms. Financial sector regulation should continue to be geared towards safeguarding financial stability, while maintaining the flexibility needed to ensure that the financial sector can continue to fulfil its role in the face of potential strong shocks to the real economy, such as the COVID-19 pandemic.

Fund policies

Against the backdrop of the shock of COVID-19 to the economy, the Fund continues to play a central role in supporting the membership through well-tailored policy advice and surveillance, lending, as well as capacity development. In addition, there is a need to step up global coordination, as many of today's pressing challenges, such as climate change, requires cross border cooperation.

Surveillance

The current CSR and FSAP reviews provide an opportunity for the Fund to upgrade its surveillance work in line with the membership's evolving needs and new risks such as the implications of technological developments, climate change and ageing societies.

The incorporation of multilateral surveillance in Article IV could be improved, including through better coverage and discussion of spillovers that may impact global stability. Many cross-cutting issues are of strategic importance to a large share of the membership. The carbon pricing tool developed in the Fiscal Monitor of October 2019 could for example be structurally embedded in Article IV surveillance.

We strongly support the deepening of financial surveillance both in the form of FSAPs and Article IVs, given the importance of the financial sector for domestic and global stability. We strongly support frequent FSAPs for a sufficiently large number of systemic countries, and would emphasize the need to also conduct FSAPs for non-systemic countries. We also welcome further integration of FSAPs into Article IV surveillance, for instance through knowledge sharing and cross-mission participation.

Climate change

Risks from climate change and from the transition to clean energy are macro-critical for the full membership. Therefore, we strongly support the systemic integration of climate-related risks into IMF surveillance. We encourage the Fund to develop further expertise and ensure sufficient capacity and resources in this area to strengthen its analytical work.

It is crucial that countries take appropriate fiscal measures to mitigate climate change, strengthen resilience to climate-induced events, and allow for sufficient budgetary space to finance these mitigation and adaptation policies. The Fund is well-placed to assess climate change mitigation and adaptation policies and analyse the economic and financial consequences of potentially disruptive energy transition paths. Climate-related risks in the financial sector should be an integral part of FSAPs. The Fund should guide authorities to boost resilience of the financial system to these risks.

Debt sustainability

As mentioned, we are concerned with the overall trend of rising debt-to-GDP levels in a broad range of low income and emerging market economies, which will be, in many cases, significantly worsened by the COVID-19 crisis. Furthermore, we welcome the Fund's efforts to strengthen its monitoring of debt sustainability. We especially look forward to the Review of the Debt Limits Policy and the MAC-DSA. The ultimate goal of such frameworks should be to help countries to get and maintain access to sustainable financing to reach the development aspirations of their populations. Particular challenges remain with respect to the increasingly complex debt composition in terms of instruments and creditors, the vulnerabilities of external foreign currency denominated debt, and debt transparency.

More generally, we support the Fund in continuing its guidance and assistance in containing debt levels in low income and emerging market economies, in particular those countries that have previously been subject to debt relief through the HIPC and other initiatives. Capacity building in debt management remains an essential element of the Fund's technical assistance programs, as well as optimizing domestic revenue mobilization and improving the effectiveness of public spending.

Furthermore, we see a continued important role for the Fund in facilitating international creditor coordination and in efforts to sustain fair burden sharing in case of debt restructurings or sovereign default. This can be achieved by promoting transparency, well-designed debt contracts and continued dialogue between all sovereign borrowers and all major creditors.

Social spending

We support the Fund's engagement on social spending and the efforts to operationalize its framework on social spending. In this way, the Fund can continue to play a key role in promoting policies that contribute to sustainable and inclusive growth.

Resources

The Constituency reiterates its support for an adequately resourced, quota-based Fund, remaining at the centre of the Global Financial Safety Net. As noted before, the current shocks to the economy and financial markets caused by COVID-19 underscore the importance of a well-resourced IMF at the centre of the Global Financial Safety Net. The Constituency calls for a timely implementation of the package on IMF resources as agreed on during the 2019 Annual Meetings.

Support from the IMF to members of the Constituency

Within our Constituency, Armenia, Bosnia and Herzegovina, Georgia and Ukraine currently benefit from financial support from the Fund, while Moldova recently successfully completed its ECF/EFF arrangements and intends to continue its engagement with the Fund. The members of our Constituency deserve continued support from the Fund and the international community in achieving their policy goals and responding adequately to the economic impact of COVID-19.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-27

Statement by Mr. Gualtieri
Italy

On behalf of
Albania, Greece, Italy, Malta, Portugal, and Republic of San Marino

Spring Meetings – April 14-17, 2020

IMFC Statement by Mr. Roberto Gualtieri, Minister of the Economy and Finance, Italy

On behalf of Albania, Greece, Italy, Malta, Portugal, and Republic of San Marino

The outbreak and rapid spread of the COVID-19 pandemic has abruptly plunged the global economy into an unprecedented crisis. Unlike past economic and financial crises, the health emergency was the trigger of the crisis and is clearly the number one priority. Our closely interconnected world means no country is immune from the virus and no economy is ring-fenced against the risk of a recession. Cooperation within and among countries must be at the core of the global fight against the virus as well as its profound humanitarian, health, social and economic consequences.

The pandemic is not an ordinary exogenous shock that can be tackled with standard solutions. Science-based containment measures consist in practicing social distancing and imposing extensive lockdowns. Left unchecked, the contagion would rapidly spread and put the health systems under severe strains risking higher human losses. Until a vaccine or a cure is developed, flattening the curve of contagion is the only way to save lives and livelihoods. Containment measures impose a heavy toll on the economy but are bearing fruit. Inaction would be unacceptable. As the IMF Managing Director rightly noted, saving lives or saving livelihoods is a false dilemma, and failing to get the virus under control would result in much bigger job losses.

Times are unprecedented and the policy response should be swift and commensurate to the challenges. Households and firms alike are severely impacted, and the necessary containment measures curtail the efficacy of traditional demand management policies. Policy makers ought to be creative and innovative in designing a comprehensive emergency package of measures to address the health emergency and preserve the web of economic relations that constitute the foundations of market economies. Our health and economic strategies should be perfectly aligned and reinforce each other. Fiscal, monetary and financial policies should all be simultaneously geared toward this overarching goal. Immediate, targeted and decisive action is vital for supporting the economy today, preserving productive capacity, and sustaining confidence, thereby preparing the economy for a speedy and sound recovery when the shutdowns end.

We have already introduced a wide range of revenue, expenditure and liquidity-support measures to strengthen the health system and protect the most affected households, sectors and firms. The monetary policy response in the euro area has been prompt and strong, and has helped ease financial conditions. European guidelines on financial regulation and supervision have also been directed to preserving the flow of credit to the economy. We stand ready to take further action as required by the rapidly evolving circumstances, and will strive for a stronger common response at the European level, which would be most effective and boost the impact of national policy actions.

At the global level, the role of the Fund at the center of the global financial safety net should be preserved and leveraged upon. First, we greatly appreciate the work of the Fund as a provider of trusted economic analysis and policy advice, both invaluable inputs in these exceptional circumstances. Second, we support the Fund's initiatives to strengthen its financing capacity and toolkit to ease the financing constraints of the most vulnerable member countries. We support endowing the Fund with additional tools to facilitate liquidity provision and countries' access to additional resources. We welcome the Fund's decision to increase the access limits to both the Rapid Financing Instrument and Rapid Credit Facility, and to establish a Short-term Liquidity Line to provide the needed financial support to countries that experience difficulties. We see merits in a new allocation of SDR and call on the IMF to further explore this opportunity. We are also considering ways to provide support to initiatives to strengthen the Poverty Reduction and Growth Trust and the Catastrophe Containment and Relief Trust.

As the focus of Fund's activity will be rightly centered on monitoring, and providing policy advice and financial support to cope with the emergency in the next months, we support the postponement of pending work on the Comprehensive Surveillance, Financial Sector Assessment Program, External Sector and Market Access Countries' Debt Sustainability Analysis Reviews. These reviews remain critical but would greatly benefit from the lessons to be learned through the current challenging times.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-28

Statement by Mr. Yi
People's Republic of China

Statement at the Ministerial Meeting of the 41st Meeting of the

International Monetary and Financial Committee (IMFC)

YI Gang, Governor of the People's Bank of China

I. Global Economic and Financial Developments

The world is sliding into recession. As the COVID-19 pandemic continues to spread across the globe, it brings heightened uncertainty and increasing downside risks to the global economy. In 2020, advanced economies and emerging markets and developing economies (EMDEs) alike are facing unprecedented economic and financial challenges.

Multilateral cooperation is essential in the fight against the pandemic. Countries need to better coordinate their public health and macroeconomic policies, so that they can respond in a more coordinated and effective way. It is also important for countries to enhance mutual trust, share information, and refrain from trade restrictions, all of which are particularly essential to ensure the provision and flow of the urgently needed medical and related supplies. At the same time, efforts should be made to maintain the normal functioning of the global supply chains and to preserve the open and rules-based multilateral trade system. Multilateral organizations, national governments, and the private sectors need to strengthen coordination and cooperation to help low-income countries in fighting the pandemic.

II. Economic and Financial Developments in China

China has adopted a two-pronged approach aimed at strictly containing the epidemic on the one hand and promoting economic and social development on the other. Through strenuous efforts by the people across the country, we have made significant progress in fighting the epidemic. Work and production have gradually resumed, and the economic and social order is being rapidly restored. Since March, more than 90 percent of production has resumed in many provinces, and the manufacturing and non-manufacturing PMIs rebounded to 52.0 and 52.3 respectively, whereas the composite PMI recovered to 53.0. As the economy is mainly driven by domestic demand, the economic impact of the COVID-19 pandemic is generally under control. China’s growth remains resilient and the benign fundamentals in the long term have not changed.

The Chinese government has introduced a series of macroeconomic measures to support the fight against the pandemic. As for monetary policy, in order to ensure reasonable and sufficient liquidity in the system, the People’s Bank of China (PBC) has cut the reserve requirement ratio three times since the outbreak, releasing RMB 1.75 trillion in long-term liquidity. Meanwhile, the PBC lowered the interest rate on excess reserves for financial institutions to 0.35 percent from 0.72 percent. In guiding rates down to reduce financing costs, the reverse repo rate in the PBC’s open market operations further dropped by 20 basis points on March 30. In total, it has declined by 30 basis points since the beginning of the year. The average rate of general loans stood at 5.48 percent in March, 0.62 percentage point lower than before the Loan Prime Rate (LPR) reform. In strengthening inclusive financial support for micro-, small- and medium- enterprises (SMEs), the PBC further increased its relending and rediscounting for small- and medium-sized banks by RMB 1 trillion, on top of the existing RMB 800 billion. In addition, temporary suspension of interest and principal repayments was also granted to those SMEs that meet certain criteria and have encountered temporary liquidity difficulties, so as to help them cope with the difficulties.

In terms of fiscal policy, the Chinese government has adopted a series of measures to help contain the epidemic and to secure people’s livelihood since the epidemic outbreak. These measures include tax relief and fee reductions, subsidized loans, and accelerated disbursement of unemployment benefits. China will also increase its fiscal deficits in an appropriate manner, issue special government bonds, and scale up local government special bonds.

With relevant supportive policies in place, China’s financial market has remained stable, and the banking system is generally resilient. At the end of March, broad money M2 registered RMB 208.09 trillion, a year-on-year increase of 10.1 percent. The stock of total social financing stood at RMB 262.24 trillion, up 11.5 percent year on year. Outstanding RMB and foreign currency-denominated loans rose to RMB 165.97 trillion, growing by

12.3 percent from the same period last year. The RMB exchange rate remains broadly stable. The RMB exchange rate against the US dollar fluctuates in both directions at around 7 and has become increasing resilient to external shocks. Despite the pressure from the epidemic on bank loans, the overall loss absorbing capacity of China's banking sector continues to be strong. By end-February, the non-performing loan ratio reached 2.08 percent, merely up 0.06 percentage point since the beginning of the year. Loan loss reserves now exceed RMB 6 trillion and the provision coverage ratio stands at 181 percent.

Looking to the future, the sound monetary policy will be made more flexible and balanced. As we enter a new phase in containing the epidemic and promoting economic development, we will readjust the pace and focus of our policy as needed, and give more weight to supporting the economic recovery. The PBC will use a variety of monetary policy tools to maintain reasonable and sufficient liquidity, and keep overall prices generally stable. The active fiscal policy will be more proactive and effective, as its quality and efficiency will be substantially improved, thus better supporting domestic demand. China will unswervingly continue its reform and opening up, further relax market access, improve the business environment, actively expand imports, and increase overseas investment. We will also promote international coordination to address the challenges from the coronavirus and to safeguard global economic and financial stability.

The Hong Kong and Macao SARs have recently experienced downward pressure on their economies, but their fundamentals remain solid for the medium and long term. In 2019, the Hong Kong SAR economy contracted by 1.2 percent year on year, the first annual decline since 2009. Multiple factors have exerted visible impact on domestic demand such as retail and tourism, exports of goods and services, and investment confidence. The COVID-19 outbreak has further added to the downward pressure on the economy, pushing unemployment rate to a nine-year high of 3.7 percent in February. The Hong Kong SAR government has rolled out a series of relief measures to support the economy and employment, which currently stand at 5 percent of the GDP and can be further increased if needed. The near-term outlook is challenging and the economic outturn for 2020 hinges on the severity and duration of the epidemic and other factors. That said, the fundamentals of the Hong Kong SAR economy remain stable in the medium and long term.

The Macao SAR economy contracted by 4.7 percent year-on-year in 2019, mainly due to the drag from service exports and investment. However, the economy remains resilient, as the unemployment rate is now below 2.0 percent, inflation falls back to 2.8 percent, and the government continues to run a fiscal surplus. With growth outlooks in different parts of the world revised downward to varying degrees due to the pandemic, it is expected that the Macao SAR will experience similar downward adjustments in 2020.

III. The Role of the IMF

The IMF should continue to push ahead with quota and governance reforms, which are a prerequisite for the IMF to effectively fulfill its mandate. China supports a strong, quota-based, and adequately resourced IMF to preserve its central role in the global financial safety net. Quotas are not only the basis of the Fund's lending capacity, but are critically relevant to its representativeness, governance structure, and legitimacy. Quotas, rather than temporary funding arrangements, should be the IMF's main source of financing. The current crisis shows again the urgent need to enhance the IMF's resources by increasing quotas. We look forward a timely positive result of the Sixteenth General Review of Quotas that can reflect members' relative position in the global economy and to strengthen the voice and representation of dynamic emerging markets and developing countries.

We appreciate the IMF's timely and productive efforts in helping its members' respond to the COVID-19 pandemic. We support the IMF for increasing the access limits of the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF), as well as introducing the Short-term Liquidity Line (SLL), with the aim of providing emergency funding to EMDEs hit by the pandemic. We also support a timely allocation of Special Drawing Rights (SDRs), which has been proved as an agile and effective measure in previous crises response.

In responding to the IMF's call, China has rapidly contributed to the Catastrophe Containment and Relief Trust (CCRT) to support the least developed countries in addressing the COVID-19 challenge. China also supports international initiatives that are widely participated by all relevant parties and aim at helping low-income countries address their financing difficulties. In providing support to low-income countries, a clear distinction should be made between short-term measures in response to the pandemic on the one hand, and medium- and long-term debt sustainability concerns on the other, so that these countries can be allowed to temporarily suspend their interest and principal repayments. All creditors, including multilateral, bilateral, and commercial, should participate to ensure its fairness.

As a multilateral institution, the IMF should continue to enhance the effectiveness of its bilateral and multilateral surveillance. We support the Fund in conducting its analysis of the Integrated Policy Framework (IPF), which will enable us to jointly consider monetary policy, exchange rate policy, macro-prudential management, and capital flow management at the same time. With the IPF in place, countries will be able to focus on coordinating various policies in order to strike an optimal balance. They can therefore adopt a holistic and consistent approach, taking into account country-specific circumstances.

The IMF should continue to play a central role in the global financial safety net, which is essential for the world to work together to fight the pandemic and promote economic growth. China is willing to strengthen cooperation with all parties, safeguard and improve international rules, and promote trade and investment liberalization and facilitation. All member countries should oppose trade protectionism, enhance global cooperation, and make globalization more open, inclusive, and balanced so that it can benefit all. We will work with relevant parties to achieve a strong and lasting recovery and promote a sustainable development of the global economy.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-29

Statement by Mr. Steiner
United Nations

United Nations Statement
to the
International Monetary and Financial Committee (IMFC) of the Board of Governors

April 16, 2020

We will not and cannot return to the world as it was before the pandemic struck. We must rebuild societies that are better, more resilient – and we must do so together.[1]
Secretary General Antonio Guterres

The unprecedented crisis triggered by the spread of the COVID-19 virus, has focused the full attention of the United Nations' System (UN) on a strategy of rapid response and recovery. In the words of the UN Secretary-General, this pandemic is the worst global crisis since World War II. The IMF's *World Economic Outlook* frames the depth of the current global economic recession as the deepest since the Great Depression.[2]

I. Introduction: The COVID Response

The UN's efforts to help save lives and protect people from the COVID-19 pandemic focus on three critical components, all led by each country's Resident Coordinator: **the health response**, coordinated by the World Health Organisation (WHO); **the humanitarian response**, coordinated by the Office for the Coordination of Humanitarian Affairs (OCHA); and **the socio-economic response**, coordinated by the UN Development Programme (UNDP) in close collaboration with all UN agencies in 162 countries and territories.

In a recent report entitled 'Shared responsibility, global solidarity: Responding to the socio-economic impacts of COVID-19", the UN Secretary-General calls for a large-scale, coordinated, comprehensive multilateral response that amounts to **at least 10 per cent of GDP**. The size of this commitment requires an open discussion about **debt relief in all developing countries** –in fragile/crisis contexts, in low and middle-income countries as well as in Small Island Developing States.

[1] https://www.un.org/en/un-coronavirus-communications-team/launch-report-socio-economic-impacts-covid-19
[2] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

While its impact will vary from country to country, Covid-19 will likely increase poverty and inequalities at a global scale. According to the UN International Labour Organization, working hours are projected to decline by 6.7% in Q2 (2020), equivalent to 195 million full-time workers, with the world losing between $860 billion to $3.4 trillion in labor income. The UN Conference on Trade and Development projects 30 to 40 per cent downward pressure on global foreign direct investment flows. The World Tourism Organization sees a 20–30 per cent decline in international arrivals. The UN Educational, Scientific and Cultural Organization forecasts that 1.5 billion students will be out of school. Inequality of access to broadband connectivity and inaccessibility of ICTs hinders effective remote participation and access to remote schooling arrangements, health information and telemedicine by all. According to the International Telecommunication Union, an estimated 3.6 billion people remain offline, with most of the unconnected living in the least developed countries.

In tackling the devastating social and economic dimensions of the crisis, the UN Secretary-General calls for a focus on the most vulnerable by designing policies that, among other things, support the provision of health and unemployment insurance and social protections while also bolstering businesses to prevent bankruptcies and job losses. The responses should aim at protecting people and planet; preserving gains across all Sustainable Development Goals (SDGs); ensuring equality; promoting transparency and collaboration; increasing solidarity; and placing the voice, rights and agency of people at the center of all efforts.

To operationalise the UN Secretary-General's report, **the UN development system has developed a socio-economic response framework** and has switched into emergency mode. A significant portion of the UN's existing portfolio of sustainable development programmes of a total of $17.8 billion across all the SDGs is being adjusted and expanded towards COVID-19 related needs, in close collaboration with programme countries, donors and partners.

II. The Socio-Economic Response

The UN's response to the socio-economic impact of the COVID-19 crisis considers a variety of interlinked dimensions that need to be addressed in an integrated manner to protect the needs and rights of people living under the duress of the pandemic, with particular focus on the most vulnerable countries, groups, and people who risk being left behind.

1. HEALTH FIRST: PROTECT AND STRENGTHEN THE HEALTH SYSTEM

Health systems are being overwhelmed by demand for services generated by the COVID-19 outbreak. When health systems collapse, both direct mortality from the outbreak and avertable mortality from vaccine and other care interventions, preventable and treatable conditions increase dramatically.

At least half of the world's population still do not have full coverage of essential health services and about 100 million people are still being pushed into extreme poverty (defined as living on 1.90 USD or less a day) because they have to pay for health care. Over 930 million people (around

12% of the world's population) spend at least 10% of their household budgets to pay for health care.[3]

Countries will need to make difficult decisions to balance the demands of responding directly to COVID-19, while simultaneously engaging in strategic planning and coordinated action to maintain essential health service delivery, mitigating the risk of system collapse. Many routine and elective services may be postponed or suspended. Establishing effective patient flow (including screening, triage, and targeted referral of COVID-19 and non-COVID-19 cases) is essential at all levels.

Countries with the weakest health systems stand before huge challenges in all these aspects. There must be immediate, targeted actions to allow countries to maintain essential lifesaving health services even as they surge to meet the spike in demand for acute care. And there must be a complementary effort on health systems recovery, preparedness and strengthening with a focus on primary health care and Universal Health Coverage (UHC). Massive investment in health will be needed for both, maintaining services and to strengthen preparedness of health systems to respond to future waves of COVID-19 and future global outbreaks.

2. PROTECT PEOPLE: SOCIAL PROTECTION AND BASIC SERVICES

The COVID-19 crisis impacts the world's poorest and most vulnerable. The crisis will devastate incomes and access to basic services with intergenerational implications for families on multidimensional poverty and inequality.

Many governments are responding to the crisis by expanding existing programmes, but 4 billion people – accounting for 71% of the world population, including 2 out of 3 children – have no or inadequate social protection to start with. Therefore, the scope of the challenges ahead requires an extraordinary scale up of the response. Those with informal or unstable employment, entrepreneurs and those working in the service industry (majority women) are most affected, with only 1 in 5 unemployed persons able to avail of unemployment benefits. Social protection responses must consider differentiated impacts of COVID-19 on vulnerable groups and women and men.

Access to social services is being curtailed either through reduction in services or in access. Key areas include: (a) Food and Nutrition: The disruption of markets impacts on the quality of diets and nutrition practices, which translate into an increase of mortality, morbidity and malnutrition among the population groups with the highest nutrition needs; (b) Education: About 90% of the total number of school children in the world have been directly affected by school closures, with an estimated 370 million school children also missing out on school meals. Adolescent girls already lack access to secondary education and are at heightened risk; (c) Water and sanitation: WASH services will be affected with public utilities potentially facing less than optimal staffing and available workforce, disrupted supply chains, and challenges in payments to support

[3] https://www.who.int/healthinfo/universal_health_coverage/report/2019/en/

functionality putting these services at grave risk of collapsing. Women-headed households are more likely to have inadequate housing, including on water and sanitation, which can increase health risks, especially in cases of overcrowding of shelters; (d) Gender-Based Violence (GBV): Quarantine and isolation policies, coupled with financial stress on families, individuals and communities, will exacerbate the conditions for women already vulnerable to domestic violence, estimated to be at least one third of all women. Care and support to GBV survivors may be disrupted when health service providers are overburdened; (e) Protection, mental health and psychosocial support: Fear, worry and acute stressors can lead to long-term consequences, coupled with diminished availability to services from social workers and case workers, leaving women and the most vulnerable exposed to violence, abuse, exploitation and neglect.

3. PROTECT JOBS AND ECONOMIC RECOVERIES

COVID-19 has plunged the world economy into a recession with deep consequences and historical levels of unemployment and deprivation. It is estimated that we could lose 25 million jobs and see losses in labour income in the range of USD 860 billion to USD 3.4 trillion[4]. Small and medium enterprises, the self-employed, daily wage earners and migrant workers are hit the hardest. Supporting income and employment for workers needs to be a core element of stimulus packages.

Most vulnerable workers are in the informal economy, with no or limited access to social protection, nor do they have the economic security to take sick leave, get treated if required, or cope with lockdown. Furthermore, new business models such as the platform and gig economy with non-standard labor-employer relationships tend to reduce benefits and protection for workers. This has created a new form of 'informal' economy which underscores the need to redefine social protection systems to guarantee universal coverage of the basic elements associated with decent work.

Women represent approximately 70 per cent of frontline workers dealing with the pandemic in the health and social sector, many of whom are migrant workers. Women are also overrepresented in some of the services sectors most impacted by the crisis, mostly lacking social protection, and will also bear a disproportionate burden in the care economy.[5] Because of pre-existing gender-based inequalities, women will likely experience more difficulty finding new jobs or entrepreneurship opportunities for their economic recovery.

Economic recovery is about protecting critical productive assets, productive units and productive networks during the crisis. Ensuring the continued or improved functioning of SMEs across sectors, including food and other essential goods and services supply chains, is of particular urgency. First, policy actions across multiple sectors and mitigation of adverse policy effects on essential services are needed to avoid disruption and permanent job losses. Second, employment crises are the harbingers of political crises. Disruptions in massive employment sectors presents

[4] (ILO 2020)
[5] https://www.unfpa.org/sites/default/files/resource-pdf/COVID-19_A_Gender_Lens_Guidance_Note.pdf

immediate existential threats to essential services that result in riots, violence and erosion of trust in institutions and governments. Third, a global economic recession will impact global population movements and hence affect countries with high levels of migration and large portions of remittances in their GDP. The return of migrants and the reduction of remittances will likely surpass the capacity of the formal and informal sectors in those countries to absorb large numbers of returnees or additional local job seekers in the local labour market.

4. THE MACROECONOMIC RESPONSE AND MULTILATERAL COORDINATION

A major global economic recession is underway, along with the possibility of a financial crisis, with major implications for vulnerable population groups and households. A large-scale fiscal and financial effort for counter-cyclical spending is urgently needed everywhere.

A three-step strategy is essential for the socio-economic response to the COVID-19 crisis. First, a rapid assessment of the potential impact of the crisis is needed in order to quantify the spending necessary to contain it. Second, an assessment of the fiscal space available to finance increased spending, as it will restrict the government's capacity for action. Third, an analysis of policy priorities and available policy measures considering both financing and implementation constraints faced by governments. The possible implications of the proposed policy measures will need to be accounted for as well.

As the UN Secretary-General has noted, "a large scale, coordinated and comprehensive multilateral response is needed now more than ever". COVID-19 is a global problem and confronting the effects of the pandemic will require global and coordinated efforts supported by regional initiatives and regional institutions. While the level and intensity of the impact of COVID-19 varies across the world, countries under sanctions may be particularly affected. Three areas of regional coordination are particularly relevant: trade policy, monetary coordination and enhanced connectivity.

5. SOCIAL COHESION AND COMMUNITY RESILENCE

The impact of COVID-19 on the life of rural and urban communities is set to be massive, particularly in poor and densely populated urban areas and slums. 1 billion people live in slums, where living conditions affect the health of the urban poor dramatically, where people are unable to self-isolate and where their livelihood depends on income from day to day work in the informal sector. [6]

The scale of the socio-economic impact of COVID19 on the urban and rural poor will largely depend on tailored solutions for these communities. This will require a close interaction between national, subnational and local Governments and communities, based on a good understanding of the specific situations of communities through local assessments, strengthen community-led

[6] https://unhabitat.org/sdg-11-synthesis-report-2018-on-cities-and-communities

advocacy and service delivery. It will also require that communities are empowered to participate in local planning and in the oversight of services.

The COVID-19 crisis also threatens social cohesion as the crisis can erode trust within society and with respect to governments. Whole-of-society approaches are essential to confront the socio-economic impacts of the crisis. Social cohesion, embedded in actors, communities and institutions, holds the society together and is critical to the achievement of the SDGs, advancing the values, norms and fundamental human rights.[7] Close attention should be paid to the impact of COVID-19 on fragile political transitions and in countries already facing a rapid deterioration of security conditions, on top of weak health systems and climate change.

The urgency of responses to the pandemic may risk setting aside existing processes of social dialogue and democratic engagement. Not only could this reverse gains made over past decades – such as in women's leadership, economic empowerment and respect for human rights -- but it would undermine an effective socio-economic response and exacerbate inequalities. Social dialogue, premised on fundamental human rights such as freedom of peaceful assembly and association, freedom of expression and the right to collective bargaining, together with civic and political dialogue, contributes to social inclusion, cohesion, protection, and upward mobility. Women, youth, migrants, civil society organizations, including faith-based organizations and local leaders, EMBOs, trade unions, and media can play a key role in facilitating dialogue and mediating through whole-of-society approaches, while ensuring that their interests are protected.

III. A focus on debt and the global financial safety net

The size of fiscal and financial stimulus needed in each country - short run measures to address the pandemic, and fiscal policy to spur demand in the medium run - is in the order of several percentage points of GDP. Yet, many developing countries, least developed and other vulnerable countries as well as many middle-income countries will be unable to raise the resources needed.

Even before the COVID-19 pandemic, global debt had reached record highs. As the UN 2020 Financing for Sustainable Development Report[8] points out, the long period of unusually low international interest rates and unprecedented levels of global liquidity associated with quantitative easing gave developing countries, including least developed countries, increased access to commercial financing. While providing much needed resources in the short term, this has also resulted in higher debt servicing costs, and heightened interest rate, exchange rate and rollover risks. Forty-four per cent of least developed countries and other low-income developing countries were already at high risk of external debt distress or already in debt distress prior to the outbreak of the pandemic.

With COVID-19 and related global economic and commodity price shocks, particularly the drop in oil prices, these risks are now materializing, putting significant pressure on debt sustainability

[7] Cite "*Whole societies must come together*". (UN, 31 March, 2020)
[8] https://www.un.org/development/desa/publications/2020-financing-for-sustainable-development-report.html

in many countries. Debt risks have been compounded by capital outflows from emerging market countries. As of April, investors had removed over $80 billion from emerging markets. Similarly, credit spreads on emerging market sovereign bonds more than doubled to reach a post-financial-crisis peak. The capital outflow has led to a dramatic decline in emerging market currencies. Given that a significant share of developing country public debt is in foreign currencies, mainly in US dollars, this will lead to a substantial increase in external debt servicing and refinancing costs for both corporations and governments.

In these extraordinary circumstances, resources to implement countercyclical measures and finance emergency health measures will be severely constrained in many countries. They will not be able to adequately respond to the health risks, let alone the economic and financial shocks associated with COVID-19. This calls for urgent action.

- ***Provide debt relief***

Suspension of service payments on the official bilateral debt of the poorest countries, as proposed by the International Monetary Fund and World Bank, is a critical and indispensable first step. But it does not go far enough in light of the unprecedented scale of the crisis. It leaves out many middle-income countries and Small Island Developing States that will likely be unable to repay debt servicing, while addressing the impacts of COVID-19. It does not address the risk that for many countries, the crisis has likely led to a solvency crisis that a temporary suspension of payments will not address. And it remains silent on the medium-term challenges of raising sufficient financing for recovery and getting back on track to meet the SDGs.

First, the standstill should be extended to all creditors. Commercial and multilateral creditors should be brought on board as soon as feasible. This will require new measures – for example, steps will have to be taken to curtail the ability of non-cooperative creditors to sue for payment when suspension has been agreed by the international community. But this moment demands bold leadership, with which these challenges can be overcome.

Second, the standstill ought to be extended to all developing countries that request forbearance, including to middle-income countries. Many of them, particularly commodity exporters, or those dependent on tourism for foreign exchange earnings, are in precarious positions and should not be asked, at this moment, to forego crisis response to meet financial obligations. At the same time, those that continue to have access to financial markets should be encouraged and supported to make use of them, in order to avoid a freeze of financial access for all developing countries.

Third, an initial debt moratorium should be a starting point for discussions of a more comprehensive assessment of debt sustainability and SDG achievement. At the multilateral level, efforts should be redoubled to establish a fair and effective mechanism to address sovereign debt restructurings in a coordinated and comprehensive manner, and through shared debtor and creditor responsibilities.

- ***Provide adequate liquidity and resources:***

There are several immediate steps the international community can take to strengthen the global financial safety net in the near term. First, it should support the IMF to increase its total lending resources in order to respond to the increasing number of countries requesting emergency funds. As much of this increase as possible should come through quota-based resources. Donors should increase contributions to the IMF's Poverty Reduction and Growth Trust and Catastrophe Containment and Relief Trust to finance concessional help during this crisis, to complement increases in ODA. A sizable issuance of Special Drawing Rights, for example in the order of $1 trillion by the IMF would provide international liquidity for all countries and help ease the credit crunch being experienced as a results of large capital outflows. Countries that do not need to make use of their allocation can lend them back to the IMF to bolster its liquidity and the resources available for lending.

An increase in central bank bilateral swap lines can help countries manage foreign exchange needs, particularly for US dollar liquidity. The US Federal Reserve has expanded the set of countries that are offered swap lines to 14 (mainly developed) countries. Central banks should consider extending such arrangements to additional countries in need.

The debilitating financial volatility experienced by developing countries yet again at the time of crisis, suggests the need to more fundamentally rethink the design of the international financial system. It is time to consider an architecture that would better prevent crises with a greater management of global liquidity, regular use of capital account management measures in all countries, and stronger global financial safety nets. The United Nations is willing to convene key players to move this forward.

IV. Next Steps

The pandemic has reminded us, in the starkest way possible, of the price we pay for weaknesses in health systems, social protections and public services. It has underscored and exacerbated inequalities, above all gender inequality, laying bare the way in which the formal economy has been sustained on the back of invisible and unpaid care labour. It has highlighted ongoing human rights challenges, including stigma and violence against women.

Building a better, post-pandemic future will require social and economic interventions today that build greater resilience tomorrow. To be resilient, COVID-19 recovery efforts must be part of the solution to climate change – the 'other' global crisis facing this generation. They must accelerate rather than undermine decarbonization, the protection of natural capital, social equality and inclusion, the realization of human rights for everyone, and strong, capable governments and institutions – all critical, systemic elements to avoiding such an outbreak again.

Rather than being put aside as aspirational in a time of crisis, the SDGs offer a framework for a fair and sustainable transition, as they recognize the interconnected nature of all life on this planet. Beyond the socio-economic frame of the current response, the role the environment and natural capital will play in the path to recovery is a policy choice that warrants further elaboration, as do good governance, gender equality and empowerment, and the protection and promotion of human rights for all.

As the UN Secretary-General report avers, we need to “build back better”. A large-scale, coordinated and comprehensive multilateral response is needed now more than ever. The COVID-19 crisis is a global problem and confronting the effects of the pandemic will require global and coordinated efforts supported by regional and sub-regional collaboration.

The UN is fully mobilized. It will make full use of its programmatic assets, contribute through actions that enable and empower, and through words that connect and protect – with the SDGs as compass. It is also establishing a new Multi-Partner Trust Fund for COVID19 Response and Recovery. The collective know-how of the UN’s Country Teams is operational and mobilized to implement this strategy over the next 12 to 18 months, led by Resident Coordinators in 162 countries and territories, and supported by a global and regional network of expertise and experience.

There will be no return to the “old normal”. The massive fiscal and financial repurposing made by governments in these weeks and months, including the redirection of fossil fuel subsidies to aid the response, are a glimpse of the future. They suggest that the status quo and business-as-usual are policy choices, not inevitable constraints on sustainable development.

Recovering from this pandemic must not come at the expense of tackling others. We need to do everything possible to ensure that our efforts to support countries ravaged by Covid-19 do not divert resources from existing crises – addressing the needs of refugees and other vulnerable groups; tackling the global climate emergency; ending violence against women and girls; and putting an end to discrimination in all its forms. *How* stimulus plans are implemented matters to what this recovery will look like. The global recovery needs to be fair; it needs to be green, and above all, it must be inclusive.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
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Statement by Mr. Gurría
OECD

2020 IMF and World Bank Spring Meetings

Written Statement to the IMFC

Angel Gurría
OECD Secretary-General

The Global Economic Outlook

1. **The coronavirus pandemic is a public health crisis without precedent in living memory, and continues to result in widespread loss of life and severe human suffering.** A large part of the world economy is facing increasingly stringent containment measures as governments take all necessary steps to contain the spread of the virus and save lives. Activity in many sectors has been shut down completely, travel and mobility have been curtailed, confidence has been eroded and financial conditions have tightened abruptly. Many economies are now experiencing the largest single economic downturn since the Great Depression in the 1930s.

2. **The exact scale of the economic shock arising from the implementation of containment measures is extremely difficult to quantify, but it is clear that many economies are experiencing sharp and sudden contractions in output, spending and employment.** Illustrative estimates by the OECD, based on an analysis of sectoral output and consumption patterns across advanced and emerging-market countries, suggest that around one-quarter of the economy could be shut down in many countries as containment measures take effect, with consumers' expenditure potentially cut back by around one-third. This implies a decline in annual GDP growth of 2 percentage points for each month that strict containment measures continue. If the shutdown continues for three months, with no offsetting factors, annual GDP growth could be between 4-6 percentage points lower than it otherwise might have been. Changes of this speed and magnitude have few precedents and far outweigh anything experienced during the Global Financial Crisis in 2008-09. Tourism provides a clear illustration of the large potential costs of shutdowns in particular sectors. This sector contributes directly, on average, 4.4% of GDP and 6.9% of employment in OECD countries. Preliminary OECD estimates suggest that the COVID-19 impact could result in a decline of 45% in international tourism in 2020. This could rise to 70% if the recovery is delayed until September.

3. **Moreover, such estimates cover only the initial direct impact in the sectors involved and do not take into account any additional indirect impacts that may arise.** The eventual implications for annual GDP growth will depend on many factors, including the magnitude and duration of national shutdowns, the extent of reduced demand for goods and services in other parts of the economy, and the speed at which the significant fiscal and monetary policy support put in place by governments and monetary authorities takes effect. A slow recovery, with confinement measures eased only gradually, would inevitably raise the costs for annual growth in 2020 well beyond the initial impact of the shock. Existing vulnerabilities, such as high corporate debt and its declining quality, and trade tensions between major economies, could also deepen the downturn and slow any subsequent recovery.

4. **Early data are already making clear that the economic and social costs of the pandemic will be large:**

- Events in China provided a preliminary illustration of the economic impact of the stringent containment measures that successfully halted the spread of the epidemic. Industrial production in January and February was 13% lower than a year earlier and fixed investment declined by one-quarter. Even a few weeks after containment measures began to be eased cautiously, many parts of the economy are not yet back to normal.

- Business survey measures in the past month have also revealed large and sudden declines in output and incoming orders around the world. Such declines have been especially marked in service sectors and in the hardest-hit European economies, Italy and Spain, illustrating the scale of the economic shock induced by the necessary measures taken to control the epidemic.

- The direct impact on people's livelihoods has also been immediate and severe, particularly among the most vulnerable groups in society. The coronavirus pandemic thus risks exacerbating inequalities of income, wealth and opportunities, which were already pervasive and widening in many countries. Many of the most affected service sectors are employment-intensive, with workers, many of them women, often on low pay. Unemployment claims and applications for short-time work schemes have soared, reflecting job losses and reduced work hours. In the United States, the number of new unemployment claims in the last week of March and again in the first week of April were almost ten times the size of that in the previous worst week recorded, in 1982.

- Financial markets remain fragile. The rapid spread of the pandemic and the strict confinement measures adopted by governments have prompted massive declines in financial asset prices and a spike in volatility, with some markets ceasing to function properly. Rapid and sweeping responses by central banks, including the activation of international liquidity lines, have helped to restore some stability. Nonetheless, equity prices remain 20-30 per cent below mid-January levels and equity price volatility remains close to the levels seen in 2009. Long-term government bond yields have declined substantially in many advanced economies, reflecting monetary policy easing and a flight to safety, but spreads have risen on many emerging-market government bonds, amidst sizeable capital outflows and a substantial appreciation of the US dollar. Corporate bond spreads have also risen, particularly for the lowest rated corporate borrowers, with rising risks of downgrades in ratings on many existing bonds as the recession deepens due to the high level of indebtedness and the declines in credit quality seen in recent years.

- Many emerging-market economies and developing countries, particularly commodity producers, are experiencing considerable difficulties due to the dual health and economic crisis. The impact of the coronavirus pandemic is extremely challenging, with health systems often lacking the resources required to respond effectively. Plummeting commodity prices, weak external demand and capital outflows have compounded this challenge, leaving countries with rising difficulties in servicing dollar-denominated public and external debt.

5. **Given the unprecedented events that are unfolding, it is too early to be confident in setting out new projections for economic growth.** It seems likely that global growth will be negative in the first half of 2020, but there is little certainty about the subsequent outlook. The next *OECD Economic Outlook*, due out in June, will set out scenarios for how global economic developments may evolve. A gradual recovery could get underway in the latter half of 2020, but equally the coronavirus pandemic might last for an extended period if confinement strategies prove ineffective or health systems do not have sufficient capacity. Difficult decisions are required about the best way to ease confinement measures, with possible differences between sectors, workers, regions and age groups. The coronavirus pandemic could also return towards the end of the year after the easing of confinement measures, particularly as it will take time to develop effective treatments and vaccine.

6. **Governments and monetary authorities have reacted quickly to the crisis and provided large and wide-ranging support to bolster health sectors and cushion the impact of the economic downturn for workers and companies.** More measures are required to deal fully with the current health crisis, mitigate the economic downturn, restore confidence and protect the most vulnerable in societies. Policymakers also need to prepare for the possibility of a deeper or renewed outbreak of the coronavirus pandemic. Deeper international co-operation and coordination are essential to tackle the crisis effectively, address the underlying vulnerabilities that result, and rebuild economies in a sustainable and inclusive manner.

7. **Government efforts to support the economic recovery are essential, but careful choices are required to ensure that they are consistent with the actions needed to limit the long-term threat from climate change and support vulnerable people and communities**. Existing environmental standards should not be rolled back during the recovery and sector-specific financial support measures should be conditional on environmental improvements where possible. Governments also need to avoid the mistakes made in the aftermath of the Global Financial Crisis. Support should be focused on all aspects of people's lives, especially the vulnerable in society. Integrating these distributional aspects into policy responses is essential to prevent inequalities from widening further and to ensure a durable recovery for all.

Risks

8. **The sharp slowdown in economic activity raises risks that bankruptcies of non-financial companies could rise substantially, especially if the downturn proves protracted.** This will have negative effects on creditors, including banks. Financial stress has already intensified in the high-yield corporate bond market in the United States and the euro area, with the cost of market financing increasing abruptly to levels last seen in 2009. A surge in corporate defaults could occur over the next 12 months, especially in sectors hard hit by confinement measures and amongst highly indebted corporates. Further sell-offs of corporate bonds are likely if some of the bonds issued in recent years just above the non-investment grade are downgraded, as some institutional investors would be bound by regulation to sell these bonds. Banks are much better prepared to weather a recession than in 2008 but will still be adversely affected. Bank equity prices have declined sharply in many advanced economies since mid-January bank, credit default swap spreads have increased, and bank price-to-book values have declined significantly. Weaker bank earnings and rising non-performing loans, in the low-growth and low-interest environment, will constrain banks' willingness to lend in spite of monetary policy support.

9. **Emerging-market economies and developing countries remain highly vulnerable to the global recession and the coronavirus pandemic.** To a varying degree, they are heavily dependent on demand from advanced economies and China, and exposed to exchange rate risks. Many have high public and external debt, limited room for policy accommodation, and will find it difficult to deal with the pandemic given less developed health care sectors and social safety nets. Commodity producers with limited financial buffers are likely to be particularly affected. Risk perceptions with respect to emerging-market economies and developing countries have deteriorated rapidly, with yield spreads rising to 2009 levels, especially in Latin America, record portfolio capital outflows and downgrades of sovereign bonds.

10. **Global trade is being hit hard by the economic downturn.** Disruptions to supply chains as key producers shut down, and the rapid collapse of international travel and tourism, will spread the costs of the crisis throughout an increasingly interconnected world. In this extremely challenging context, there are risks that additional restrictions could arise on trade and investment, harming essential supply chains still further. Many countries cannot produce all the essential goods they need to be able to deal with these disruptions and restrictions effectively. Export restrictions on agro-food products are counterproductive for food security. Over 40 countries have also introduced restrictions on exports of medical supplies, although many others have either lowered tariffs or committed to keep supply chains open. These measures add to the trade tensions that were already a key factor behind the weakness of the global economy before the coronavirus outbreak and will result in allocative inefficiencies that reduce growth prospects further.

<u>Policy Requirements</u>

11. **Global co-operation and coordination is essential to tackle the severe challenges all countries are facing.** Acting together creates positive spillovers that will be more effective for each country than if they acted alone. Joint measures are required to enhance the production of medical infrastructure, equipment and supplies, and to ensure that affordable vaccines and treatments are widely and swiftly available wherever needed. Co-operation to lower trade tensions and offer debt relief is also vital to mitigate the damage to activity, ensure financial stability, support low-income economies and help restore confidence. And all countries must ensure that support for households and companies is provided on a timely basis through cash transfers, tax deferrals and loan guarantees, as is being done in many countries, with appropriate safeguards to ensure that this gradually fades once a recovery starts.

12. **Health systems are facing their most serious crisis in a century.** Containing and mitigating the spread and infection rate of the coronavirus is essential to reduce the pressure on health systems to manageable levels, provide effective patient care and reduce the incidence of infections. Key policy priorities include: ensuring access of the vulnerable to diagnostics and treatment; providing all resources necessary to strengthen the capacity of health systems; leveraging digital solutions and data to improve surveillance and care; and enhancing research into new diagnostics, treatments and vaccines. International co-operation and coordination via the G20 and other global fora is essential to track the spread of the pandemic, share information on effective containment and treatment interventions, ensure the smooth functioning of cross-border medical supply chains, and enhance joint research efforts.

13. **Many central banks have aggressively cut policy interest rates, committed to buy large amounts of sovereign and private assets, and implemented numerous measures to support liquidity in the financial sector and boost bank lending to businesses and households, including via special programmes and easing of prudential regulation.** The US Federal Reserve has also expanded currency swap lines with key central banks. All these measures should help ease stress in financial markets in the short-run and subsequently support the economic recovery. They also offer flexibility to deal with any return of financial market panic in many countries, which could occur if the duration and effects of confinement restrictions are greater than expected or if significant outbreaks of the epidemic occur in new countries. Risks remain, however, that some emerging-market economies and developing countries could still face liquidity shortages. The key objective for all central banks will be to prevent a systemic financial meltdown triggered by confinement-induced financial stress, especially in vulnerable sectors.

14. **Governments have announced and started implementing various support programmes.** Measures with direct impact on budget balances include extra spending on the healthcare sector, income support measures to individuals (mainly via wage subsidies to laid-off workers and the self-employed, temporary expanded unemployment benefits, exceptional support for child or other care needs, and expanded sick leave), and reductions in tax and social security contributions. In addition, many governments have deferred taxes and social security contributions for individuals and firms, and provided extensive state loan guarantees for private borrowers. Moratoria on interest payments and rents have also been announced in some countries. In the G20 economies, the value of all these measures is estimated to be over USD 5 trillion (5% of G20 GDP in 2019). Large direct stimulus measures have been announced in Japan and the United States, potentially amounting to around 6% and 7% of GDP in 2020, respectively. In many other countries, the largest part of the fiscal measures taken is accounted for by sizeable loan guarantees (amounting to around 15% of GDP in the United Kingdom and Spain, and over 25% of GDP in Germany). Additional expansions of fiscal programmes are already planned in several large economies.

15. **The main benefit of monetary and fiscal stimulus, together with automatic fiscal stabilisers, during the duration of confinement will be to support household incomes and liquidity in the economy, and to prevent the liquidity stress morphing into a widespread solvency crisis.** During this period, standard monetary and fiscal multipliers will likely be small, given containment restrictions for many economic activities and heightened economic uncertainty. Lifting of the containment restrictions will make the stimulus and automatic stabilisers more effective.

16. **If the crisis persists due to a recurrence of the pandemic and confinement measures, the onus for supporting and reviving the economy will be increasingly on fiscal policy, as room for lowering interest rates has been largely exhausted.** Central banks should maintain a low cost of borrowing, ensure the proper functioning of financial markets and minimise the risks of financial turmoil. This may require increased purchases of government bonds and private assets, or the more widespread adoption of yield curve control. The past and announced purchases of government bonds by central banks effectively monetise part of government debt if central banks maintain these bonds on their balance sheets and keep the remuneration of excess reserves low.

17. **In the euro area, fiscal challenges in some countries hard-hit by the pandemic may require finding new solutions to prevent the escalation of debt crises that could undermine the integrity of the euro area.** Possible solutions could involve expanded financing from the European Stability Mechanism (ESM), removing the ECB capital key rule for sovereign bond purchases so it can act a lender of last resort, and issuance of European debt instruments. All options are difficult politically but co-operation is essential to find a solution that enhances the European project in the longer term. In addition, a more prolonged suspension of some fiscal rules may be necessary to prevent the mistakes made in the aftermath of the 2008 crisis, with excessively rapid fiscal consolidation.

18. **Policymakers also need to take coordinated action to keep trade and investment flowing freely and ensure the functioning of essential supply chains.** The rapid spread of the coronavirus has raised the prospects of a reversal in globalisation as companies seek to mitigate risks of disruption in supply chains. Such re-shoring could have important adverse implications for global efficiency and inequality, as well as international trade and prices, eroding gains in living standards arising from the exploitation of comparative advantages. Confidence-building measures, such as strengthening the rules-based international trading system, as well as other forms of international co-operation, are essential to address these challenges.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-31

Statement by Mr. Aso
Japan

Statement by the Honorable ASO Taro
Deputy Prime Minister of Japan and Governor of the IMF for Japan
at the Forty-First Meeting of the International Monetary and Financial Committee
(April 16th, 2020)

1. The Global outbreak of the Novel Corona Virus (COVID-19)

First of all, I would like to express my deepest sympathies to all who have lost their lives from the COVID-19, and hope that those infected will recover soon. Also, I express my profound respect to all those who are fighting against this unprecedented crisis, including medical workers and experts.

2. The Global Economy and the Japanese Economy

Global Economy

Due to the spread of the COVID-19, the global economy has been facing a rapid slowdown. Travel restrictions and output suspension have to be imposed in order to contain the spread of the virus, causing multifaceted effects, including their global spillovers through the disruption of global value chains, capital outflows and weak consumption due to the uncertainties ahead. These global phenomena have dampened the global outlook in an incomparable manner and increased volatility in financial markets with the uncertain outlook for the containment of the epidemic.

Emerging economies and developing countries (EMDCs) are facing severe impacts from capital outflows and a sharp decline of commodity prices, particularly oil prices. In this situation, it is urgent that these countries quickly contain this health crisis, mitigate the impacts on economies and financial stability, and maintain debt sustainability.

The IMF members should now show the spirit of international cooperation, in close coordination with one another, and deploy all possible policy measures to fight against this unprecedented crisis.

The Japanese Economy

Japan is not an exception in this crisis. The economy is extremely depressed and put under severe conditions. Domestic demands that used to support the recovery including private consumption are showing weakness and capital investment remains flat.

Under these circumstances, in the recognition that efforts to prevent the spread of the COVID-19 are important for the economy, the government of Japan approved the Emergency Economic Package totaling approximately USD 1 trillion on April 7th, which fully mobilizes bold fiscal, monetary and tax measures, compiling a new supplementary budget, without being constrained by past practices. Consolidating with the comprehensive economic package approved last December and other measures, this package consists of two phases: the “emergency support phase,” which strongly implement early containment of the outbreak and protects employment, businesses and daily lives, and the “V-shaped recovery phase,” which aims to stimulate demand and promote social innovations after the crisis. Japan will also facilitate, through emergency support by the Japan Bank for International Cooperation (JBIC) and the Japan International Cooperation Agency (JICA), overseas business of Japanese companies and help developing countries maintain and revitalize their local economic activities and supply chains.

3. Our Expectations for the IMF

An objective and reliable analysis and policy advice

A timely and proper understanding and analysis on the situation and appropriate policy advice for EMDCs are essential for effective crisis responses. In this regard, Japan welcomes the Fund's analysis and policy advice about the impacts on the global economy of the spread of the COVID-19, including its World Economic Outlook (WEO). Hereafter, given the current crisis, we expect the Fund to conduct more frequent and timely analyses on countries' outlook for balance of payments and debt sustainability in particular as a basis in providing financial support for developing countries.

Emergency Liquidity Support for EMDCs

Overcoming the current crisis requires the rapid implementation of "fast" and "adequate" support. In this regard, Japan supports the following measures by the IMF:

First, it is crucial for the global economy and stability of financial markets to put an early end to the spread of the COVID-19. In this context, it is of particular importance to ensure that poor and vulnerable countries have vital financing to take critical medical responses. Therefore, Japan strongly supports liquidity provision by the IMF to these countries through its Catastrophe Containment and Relief Trust, and has contributed USD 100 million as immediately available resources. We urge further contributions by other countries.

Second, low-income countries (LICs) need to secure immediate short-term liquidity to ensure medical and health spending to protect the poor and vulnerable. Japan welcomes the initiative for a time-bound suspension of debt service payments with broad participation by all bilateral official creditors. We greatly expect that these beneficiary countries will achieve robust recovery after the crisis through the IMF and World Bank Group's timely and reliable analyses on debt sustainability and provision of necessary advice, while enhancing debt transparency in these countries during this suspension period.

Third, in order to provide emergency financing for broader EMDCs to meet their prospective imminent needs, Japan welcomes the recent approval by the Executive Board of the temporary augmentation of the IMF's emergency facilities, the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI). We need to meet the funding needs expected to increase according to this revision. Responding to the earnest request by Managing Director Kristalina Georgieva, Japan is aiming at doubling its contribution to the Poverty Reduction and Growth Trust (PRGT) from the current SDR 3.6 billion. Japan will make available the first SDR 1.8 billion immediately. We call for other member countries to follow quickly, and Japan will match an additional SDR 1.8 billion with their contributions.

Lastly, we note that even economically sound countries could face negative impacts from highly volatile swing of financial flows. To effectively cope with such situations, Japan welcomes the recent establishment of the Short-term Liquidity Line (SLL), allowing for a rapid access to liquidity as needed.

The IMF's Roles in the Future Economic Recovery

We consider it essential for the IMF to further prioritize and streamline its workstreams with a view to responding effectively to future crises like the one caused by the COVID-19 pandemic, the resulting disruption of economies, and tightening of financial conditions. In particular, Japan expects the IMF to play the following three roles in preparation for the future recovery phase of global economy.

(1) Surveillance and Policy Advice

It is essential to draw lessons and enhance its surveillance capability through assessing and identifying vulnerabilities in balance of payments and economic structure that the COVID-19 outbreak has revealed. Also, we need to give careful consideration to how environmental and climate change issues should be treated in the IMF in terms of macro-criticality.

(2) Lending

In order for the Fund to function as the center of the global financial safety net (GFSN), It is critical for the Fund to closely cooperate with other institutions playing important roles in the GFSN, including foreign reserves, bilateral swaps, and regional financing arrangements (RFAs).

In addition, we welcome the completion of the fifteenth General Review of Quotas (GRQ) and reiterate the importance for each member to proceed its domestic procedures to complete the doubling of the New Agreements to Borrow (NAB) and a new round of Bilateral Borrowing Agreements (BBAs). Japan has completed its domestic procedure for NAB and is finalizing the BBA. As the current crisis has revealed, rapid and flexible borrowing resources play an important role, and thus should be integrated in the Fund's resources as a major funding source with due recognition in its governance structure.

(3) Capacity Development

The initiative of a time-bound suspension of debt service payments by all bilateral official creditors should be used as an important opportunity for poor and vulnerable countries to ensure debt transparency and sustainability. Regarding the debt issues, as Japan has long been advocating, it is essential to enhance domestic revenue mobilization including tax, and Japan expects the Fund to collaborate with other developing partners through the Platform for Collaboration on Tax (PCT) and further strengthen technical assistance. I believe that these efforts will improve fiscal resilience of developing countries against future crises.

In addition, Japan has been actively supporting the IMF by providing not only financial resources and policy input, but also well-qualified human resources. It is critically important for the IMF to enhance its efforts to diversify its staff nationality, with special focus on regional balance, given the wide range of services provided to the diverse membership. We will continue to provide these contributions in a more proactive manner.

Finally, we are in the middle of an unprecedented crisis worse than the Global Financial Crisis in 2008. It is an immediate challenge for us to cooperate in implementing rapid emergency economic, fiscal and monetary measures as needed. The IMF is a central institution for international monetary cooperation, and Japan will continue to contribute to the crisis response and the recovery of the global economy.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-32

Statement by Mr. Mnuchin
United States

Secretary Mnuchin's Joint IMFC and Development Committee Statement
April 2020

The IMF and World Bank Spring Meetings provide an important opportunity to hold discussions on the acute challenges that the COVID-19 pandemic poses to the global economy. With global growth now projected to contract by close to 3 percent this year, it is critical that we all do our part to respond to the immediate health crisis and lay the groundwork to restore growth. The IMF and World Bank Group have a key role to play in this response, including by supporting countries' health systems and fiscal efforts, delivering immediate balance of payments and budget support assistance, providing timely economic analysis, and offering technical advice and capacity development.

The United States has responded to this crisis with bold fiscal and monetary actions, providing an unprecedented level of fiscal stimulus of more than $2 trillion, most notably through the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The CARES Act provides direct support to hardworking Americans through Economic Impact Payments, which will begin reaching people in the coming days, and launches the Paycheck Protection Program to help keep half of our private sector workforce—those who work for small businesses—on the payroll. We are working rapidly to provide assistance to airlines, cargo companies, and businesses that are critical for national security. Treasury is also working closely with the Federal Reserve to take aggressive action to support the American economy, including by rapidly establishing a variety of emergency lending facilities to ensure financial markets continue to function. We are committed to doing everything in our power to alleviate short-term economic distress and to re-invigorate the American economy once this crisis has passed.

The COVID-19 crisis has resulted in a sharp slowdown of the global economy and an extremely uncertain outlook due to the lack of a clear path for resolution of this pandemic. With most projections pointing toward a deep but brief shock, there is an urgent need for all members to deploy extraordinary fiscal and monetary actions to contain the fallout of the outbreak and limit long-term damage to economies, laying the foundation for a strong recovery. Further, we must all stand ready to accelerate and expand our policy actions if needed as circumstances evolve. It is also critical that we work together to mitigate the financial sector risks posed by the COVID-19 pandemic, and to this end we welcome the national efforts and the collective efforts of the Financial Stability Board.

The IMF and World Bank Group must continue to play a key role in assisting members through this crisis with advice, capacity development, and financing. The IMF has taken positive steps to strengthen its toolkit and enable a more rapid, flexible response to the crisis, including with increased access for its emergency financing instruments, streamlined procedures to approve new programs, and discussions around the launch of a new Short-term Liquidity Line instrument. We welcome that the IMF has already begun deploying its $1 trillion in resources through approvals of Rapid Financing Instruments for a range of countries, with more to come in the coming weeks and months. As the crisis evolves, we should continue to maximize the availability of the IMF's lending resources.

The World Bank Group has quickly set forth a robust plan to use the full range of its tools and its ample financial capacity to support recipient countries in their fight against this health and economic crisis. We welcome the swift work by the Bank to approve an initial $14 billion COVID-19 response package. The package includes a Multiphase Programmatic Approach under which the World Bank has already begun delivering urgent health sector projects aimed at combatting the spread and mitigating the effects of COVID-19 in all recipient countries, as well as International Finance Corporation (IFC) investments in trade finance, working capital, and companies in the real sector supporting the response. More broadly, we fully support the World Bank Group's aim to increase its assistance volumes substantially to support further economic and social response and recovery efforts over the next 15 months. This significant capacity reflects the financing and reform implementation associated with the 2018 capital increase package and record Nineteenth Replenishment of the International Development Association (IDA-19).

This robust response by the IMF and World Bank Group would not be possible without the committed support of its shareholders. The United States Congress recently approved a doubling of our participation in the New Arrangements to Borrow, which will allow the IMF to maintain its current resource levels for some years to come. We are pleased that the United States Congress also authorized over $3 billion for the U.S. contribution to IDA-19, as well as support for the $5.5 billion IFC capital increase, in the CARES Act.

Low income countries (LICs) will face extraordinary needs in this crisis. Weak health systems, limited fiscal space, and a collapse in access to foreign income have severely limited LICs' options to respond to COVID-19. IMF emergency financing, including the concessional Rapid Credit Facility, and World Bank health sector support are appropriately the leading edge of international assistance. Creditors should also do their part, and we therefore strongly support that official bilateral creditors in the G20 and Paris Club will provide a time-bound suspension of debt service payments for the poorest countries. Voluntary participation by private creditors should also be explored. As part of this initiative we expect that both beneficiaries and creditors would enhance disclosure of public and publicly guaranteed debt, which will allow for the IMF and World Bank to conduct comprehensive, updated analyses of debt sustainability during the suspension period, paving the way for further action on debt as needed. Going forward, all creditors should provide credit consistent with the IMF and World Bank's Debt Sustainability Framework.

We recognize that a number of IMF members support a general SDR allocation to the membership. In our view, an SDR allocation is not an effective tool to respond to urgent needs. Almost 70 percent of an allocation would be provided to G20 countries, most of which do not need and would not use additional SDRs to respond to the crisis. By contrast, all low income countries, including those facing urgent balance of payments needs, would receive just

3 percent of any allocation. A better, more targeted approach would be for members to enhance IMF support to low income countries by providing grants to the Catastrophe Containment and Relief Trust (CCRT) and through new grants and loans to the Poverty Reduction Growth Trust (PRGT). Advanced economies could also explore using their existing SDRs to bolster PRGT resources or otherwise support low income countries. The Administration is currently exploring a U.S. contribution to the PRGT and CCRT.

Even as the IMF and World Bank adapt in response to this crisis, we should be careful that both institutions maintain a focus on their core mandate. For the IMF, this means maintaining a focus on issues such as macroeconomic analysis and surveillance, debt sustainability and transparency, and financial sector assessments, including through the upcoming reviews of the Market Access Country Debt Sustainability Analysis, the Comprehensive Surveillance Review and Financial Sector Assessment Program. Issues with longer-term macroeconomic implications, such as climate risk and financial technology, should be limited and prioritized within the IMF's broader workload and consistent with its mandate. For the World Bank Group, this means quickly delivering high quality assistance, while at the same time maintaining the highest possible standards for accountability and transparency, quality procurement, and environmental and social safeguards. Critically, the World Bank Board must continue to exercise strong, responsible oversight of operations, while balancing the need for a timely operational response to the crisis. Both the IMF and World Bank Group must also evaluate the effectiveness of their responses and apply lessons learned in preparing for future crises.

I look forward to working closely with the IMF and World Bank leadership in their continued response to this crisis.

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INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-33

Statement by Ms. Lagarde
European Central Bank

Statement by Christine Lagarde, President of the ECB, at the forty-first meeting of the International Monetary and Financial Committee, virtual meeting, 16 April 2020

The coronavirus (COVID-19) pandemic is a truly global challenge. Countries all around the world are having to deal with its severe human and economic consequences. In the euro area, we have taken decisive action to mitigate the impact of the crisis over recent weeks. However, a global challenge of this nature also needs to be met with global solutions.

Euro area developments and outlook

In the euro area, incoming economic data, particularly recent survey results, have started to show unprecedented falls, pointing to a large contraction in output in the euro area, as well as to rapidly deteriorating labour markets. Uncertainty is sharply elevated and will remain high, making it extremely difficult to predict the likely extent and duration of the imminent recession and subsequent recovery. Inflation is currently low, largely reflecting the recent sharp decline in energy prices. Looking ahead, headline inflation is expected to decline further in the near term, while the implications of the coronavirus crisis for inflation over the medium term are surrounded by high uncertainty.

Latest monetary policy decisions

Against the background of a profoundly weaker economic outlook for the euro area as well as deteriorating and more fragmented financial conditions, the ECB's Governing Council took bold and decisive policy action in March to combat the negative effects of the coronavirus shock in order to counter the serious risks to the monetary policy transmission mechanism, the outlook for the euro area and price stability.

In order to prevent financing conditions from tightening and exacerbating the downturn, we sizeably stepped up our asset purchases. We scaled up our net asset purchases under the existing Asset Purchase Programme (APP) and launched the Pandemic Emergency Purchase Programme (PEPP), a new temporary asset purchase programme for private and public sector securities. Overall, asset purchases will add a total amount of €1.1 trillion to our portfolio by the end of 2020. To target our purchases to the specific shock and contingency at hand, we expanded the range of eligible assets under the corporate sector purchase programme to include non-financial commercial paper. Moreover, purchases under the PEPP will be made in a flexible manner, thereby allowing the distribution of purchases to vary over time, across asset classes and jurisdictions to ensure the smooth transmission of monetary policy to those sectors and regions that need it most.

To protect the continued flow of credit to the real economy, considerably more favourable terms will apply to all TLTRO III operations[1] outstanding between June 2020 to June 2021. In particular, this should benefit lending to small and medium-sized enterprises.

We have also introduced additional longer-term refinancing operations (LTROs) to ensure that there is sufficient liquidity in the financial system. This should support banks in the current phase of heightened uncertainty.

Finally, we have taken a number of collateral easing measures to ensure that banks have sufficient collateral to participate in the Eurosystem's liquidity operations.[2] We have increased our risk tolerance to support bank funding against loans to corporates and households. This will be achieved by expanding the use of credit claims as collateral and through a general reduction in collateral valuation haircuts.

The Governing Council is committed to doing everything necessary within its mandate to help the euro area through this crisis. It is fully prepared to increase the size of its asset purchase programmes and adjust their composition, by as much as necessary and for as long as needed. It will explore all options and all contingencies to support the economy through this shock.

Euro area banking sector developments

Thanks to the efforts made after the global financial crisis, euro area banks now have more robust capital and liquidity positions than they did in 2008, with sufficient capacity to absorb loan losses similar to those seen in the wake of that crisis. Together with national authorities, we have also taken supervisory and macroprudential measures to enhance the euro area banking sector's ability to absorb losses and provide necessary support to the real economy. The possibility of operating below the level of capital defined by the Pillar 2 Guidance, as well as the immediate implementation of rules on the composition of Pillar 2 Requirements under the new Capital Requirements Directive V, will provide capital relief of €120 billion that

[1] Targeted Longer-Term Refinancing Operations, offering banks long-term funding at attractive conditions, to preserve favourable borrowing conditions for banks and stimulate bank lending to the real economy. The interest rate applied is linked to the participating banks' lending patterns.

[2] Further information on the APP, the LTROs and TLROs can be found here, on the PEPP here and on the collateral easing measures here.

will enable banks to finance loans to households, small businesses and corporate customers. Through the release of countercyclical capital buffers, systemic risk buffers and buffers for systemically important institutions, macroprudential measures are contributing a further €22 billion of capital. We have also recommended that banks neither pay dividends nor buy back shares until at least October 2020, a move which would retain approximately €30 billion of capital. The current measures imply using the flexibility that is built into the existing framework in order to help the banking sector weather these difficult economic circumstances. We remain committed to fully implementing the Basel standards under the revised timeline. We are by no means backtracking on the progress in strengthening the regulatory and supervisory framework that has been made since the previous financial crisis. With regard to future actions, the ECB is continuously monitoring developments – also from a macroprudential perspective – and assessing the need for additional steps, including the further release of buffers or measures to support their usability.

We also continue to closely monitor non-bank financial institutions. Some investment funds have been experiencing significant outflows since the outbreak of market volatility, but the ECB's recent policy actions have helped to improve conditions. In particular, following our decision to expand private sector asset purchases to non-financial commercial paper, outflows from euro area money market funds have been stemmed. These events also emphasise the importance of extending macroprudential frameworks beyond banking over the medium term.

European responses to the coronavirus shock

Fiscal and structural policies should be targeted at enhancing the European countries' capacity to deal with the economic and social impact of the coronavirus pandemic and to support the subsequent economic recovery. We welcome the initiatives already taken by European governments and European institutions to ensure sufficient healthcare resources and to provide support to affected companies and employees. These will help in securing employment and safeguarding the survival of productive firms. We also welcome the provision of credit guarantees. Such actions should help to complement and reinforce the unprecedented monetary policy measures taken by the ECB's Governing Council in response to the crisis.

International responses to the coronavirus shock

As national authorities take the necessary steps to fight the pandemic, global cooperation and resource sharing across nations remain vital. Addressing international trade disruptions, preserving trade openness and assuring the flow of vital medical supplies and other goods and services across borders is of paramount importance in helping to contain the economic fallout from the outbreak.

Further international efforts will be needed to counter the consequences of the outbreak and spread of the coronavirus. The ECB supports the crisis-response measures by the IMF, notably the adjustments to its emergency lending toolkit and the creation of a short-term liquidity line for countries with strong macroeconomic fundamentals. We are also open to exploring a possible new special drawing rights (SDR) allocation for all IMF members. The October 2019 package on IMF resources needs to be implemented speedily to help maintain the IMF's lending capacity of USD 1 trillion.

Major central banks, including the ECB, have taken coordinated action to enhance the provision of US dollar liquidity. The ECB has also agreed to swap line arrangements with some EU central banks to provide euro liquidity and is assessing further requests for euro-providing swap lines in line with its mandate.

Going forward the international community will need to cooperate closely, learn from each other with respect to the effectiveness of the various policy responses, share information and coordinate policy actions, also when lifting containment measures, so as to help bring about a swift return to sustainable global growth and preserve an open global economy.