INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-1

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 8, 2021

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

The Fund's leadership and advice in the core areas of its mandate continue to play an essential role in navigating these challenging times. Effective international cooperation as well as decisive steps on the part of members will be key for tackling divergence and moving swiftly to a sustainable path for global growth.

As vaccines are rolled out and the economic outlook improves, exceptional measures will have to be rolled back in a timely and gradual manner to make way for more sustainable policies that support growth in the medium- to long-term.

Global setting and policy priorities

The global economic outlook has improved recently, with progress in vaccinations and the announcement of significant additional fiscal support in several major economies. While the recovery should gain momentum during 2021, its speed is still highly uncertain. Risks abound, reflecting foremost the need to deal with new virus strains, structural rigidities, as well as preexisting vulnerabilities, notably high public and corporate debt levels.

In this context, policy support needs close monitoring to make sure that it is effective and targeted to specific objectives and needs. Monetary policy should continue to play a supportive role, in line with central bank mandates. Fiscal measures should be time-bound, effective, and carefully directed at the households and sectors most impacted by the crisis. At the same time, credible strategies and fiscal frameworks are needed now to prepare for the unwinding of fiscal support without endangering the recovery.

Limiting economic scarring and securing a strong and sustainable recovery also requires, with no further delay, measures to address underlying vulnerabilities. Structural reform policies that promote competition and innovation, while supporting transformation, are key. The distortive and unintended effects of prolonged policy support also need to be addressed with targeted measures to smooth the impact of the transition on the most vulnerable. We need policies that help people and businesses to adjust swiftly to changing environments, including through continuing education and vocational training.

The current situation provides an opportunity to embed sustainability considerations into the recovery, with policies that help shape a green, resilient, inclusive, and digital future. But first, we need to get the basics right: without good governance, strong public financial and investment management, and debt transparency, the impact of public investment in green projects and digital technologies risks to disappoint and it could further endanger fiscal and debt sustainability.

The Fund's crisis management

The Fund has lived up to its role as a crisis manager during the pandemic. We would like to commend staff and management for their extraordinary efforts and dedication over the past year. We count on them to ensure that the Fund builds on its strengths, even as the world changes.

The Fund was pivotal in providing rapid crisis-related relief to its members, especially those with the greatest needs. Its emergency financing facilities were instrumental in providing important breathing space. The time has come for the Fund to transition to supporting members' recovery via effective surveillance and regular programs. Such arrangements provide more than just temporary financing. They help members to address underlying structural vulnerabilities and support their longer-term stabilization and recovery efforts. Following-up on the emergency financing commitments will help in the design of regular programs in providing clear indications for program prerequisites on governance and transparency.

The Independent Evaluation Office (IEO) has rightly prioritized an evaluation of the Fund's role during the pandemic, with a particular focus on the rules, process, and impact of the Fund's emergency lending. Its independent assessment should also allow conclusions on evenhandedness, transparency, and governance safeguards and will contribute importantly to the Fund's accountability towards the membership.

SDR allocation

We join the broad consensus in support of an SDR allocation. It will send an important signal about multilateral cooperation by supporting members in addressing liquidity needs. While an SDR allocation will supplement members' existing reserve assets, it should not substitute for needed policy adjustment and, when appropriate, Fund-supported programs that address underlying structural weaknesses in a more sustainable and targeted manner. Greater transparency on the use of the allocated SDRs needs to strike a balance between the unconditional nature of the SDR and an appropriate and productive use of SDRs, without undermining their status as reserve assets.

Securing financial and debt sustainability for LICs

Low-income countries (LICs) have been particularly affected by the pandemic and will continue to face headwinds especially from an uneven rollout of vaccines and longer-standing structural challenges. Their space for fiscal and monetary responses is often limited and the pandemic could reverse important achievements with respect to economic development and poverty reduction. The upcoming Review of Concessional Financing and Policies should look very carefully and holistically at, and affirm, the role of the Fund as an anchor for predictable and sustainable macroeconomic policies.

We agree on the need for continued strong support to LICs. As part of the resource mobilization initiated a year ago, Switzerland provided a further loan in the amount of SDR 500 million to the Poverty Reduction and Growth Trust (PRGT), made CHF 25 million available to the Catastrophe Containment and Relief Trust (CCRT) and envisages to help ensure adequate subsidy funding for a sustainable PRGT.

A significant increase in concessional Fund lending beyond its catalytic role is, in our view, not the best way to support LICs. Rather, the Fund's key comparative advantage is its expertise in designing credible policy frameworks and providing policy advice. This, in turn, has helped catalyze highly concessional financing from development partners with the relevant expertise as well as flows from private sector participants that are ready to invest.

The pandemic has exacerbated pre-existing fiscal and debt vulnerabilities, which pose risks to strong and sustainable growth in many countries. We thus welcome the urgency and emphasis the Fund has put on debt-related work, notably in the context of the joint IMF-WB Multipronged Approach. Greater debt transparency is a precondition for addressing debt challenges decisively. We welcome the focus of the upcoming Review of Data Provision to the Fund for Surveillance Purposes on expanding the scope and granularity of debt and fiscal data that members are expected to provide. We also support the timely operationalization and implementation of the upgraded Sovereign Risk and Debt Sustainability Framework for Market Access Countries, as well as the Debt Limits Policy. A further extension of full debt service relief under the CCRT by six months, as originally envisaged, still requires significant additional donor pledges.

The Fund, together with the World Bank, plays a key role in the implementation of the G20-Paris Club Debt Service Suspension Initiative (DSSI) as well as in the implementation of the G20 Common Framework for Debt Treatments beyond the DSSI. We urge all members to help durably resolve debt issues, particularly by participating in the coordinated implementation of the Common Framework and by adhering to sustainable and transparent borrowing and lending practices. We look forward to further IMF-led work on enhancing the global framework for debt restructuring on a case by case basis, as well as the review of the Lending into Arrears policies. Moreover, policy advice and capacity building efforts remain essential, to support members in enhancing debt management and transparency, and improving domestic resource mobilization and investment efficiency.

Resuming and focusing the Fund's surveillance

The resumption of bilateral surveillance is crucial, including to provide policy advice for a robust recovery. We welcome the continuation of important policy reviews that are at the core of the Fund's mandate, including the Comprehensive Surveillance Review and the Review of the Financial Sector Assessment Program (FSAP). Better integrating financial surveillance into Article IV consultations will allow for a more continuous monitoring of financial sector risks in between FSAPs. While integrating climate change considerations that are relevant for macroeconomic policy into surveillance, the Fund should focus on its areas of expertise and comparative advantage. The Fund should also leverage the work of other institutions to the greatest possible extent.

Fund work on digitalization, such as the careful study of the macro-financial implications of fintech, central bank digital currencies, and other innovative financial sector entrants will provide key insights. Understanding the opportunities and risks associated with digitalization will help members put adequate policy frameworks in place, especially as international standards have yet to emerge in this area. Here too, the Fund must work closely with other institutions and fora who have relevant expertise.

We support the Fund's work to provide evenhanded and multilaterally consistent assessments of external positions. The upcoming Review of the External Balance Assessment methodology should bring refinements that take better account of members' specificities. In particular, the links between the current account, demographics, and pension systems deserve further consideration. The Fund's work on an Integrated Policy Framework has provided valuable insights and advice, also for open advanced economies facing persistently low inflation and policy interest rates near the effective lower bound. Looking ahead, this work will inform the Review of the Fund's Institutional View on the Liberalization and Management of Capital Flows.

IMF Regional Capacity Development Center for the Caucasus, Central Asia, and Mongolia

We greatly welcome the prioritization of the Caucasus, Central Asia, and Mongolia region, where the IMF Regional Capacity Development Center, CCAMTAC, has recently started its operations. We look forward to the physical opening of the Center in the course of 2021. Tailored and well-sequenced capacity development provides much needed support and significantly enhances the traction of the Fund's surveillance and lending activities. The use of a greater range of capacity development delivery modalities – virtual, online, in-person, in-country, and regional – has proven effective and could be continued post-pandemic, in an effort to enhance cost-effectiveness.

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 and look forward to the 16th General Review of Quotas. We strongly support progress on quota realignments for the currently most underrepresented members while protecting the position of the Fund's poorest ones. Considerations on the size of the Fund should be based on realistic assumptions and balanced arguments. Approaching the Board discussions on resources and governance reform as a package will help build a broad consensus.

We welcome the Fund's continued efforts to adapt to the changing needs of the membership while staying true to its mandate. We support maintaining a real flat budget. It has served the Fund well in ensuring that resources are allocated according to strategic priorities. This has also helped the Fund to lead by example in terms of budget discipline. Departing from this approach could create inefficiencies.

Closing

The Fund needs to shift its focus from being a crisis fighter to helping its members navigate swiftly to sustainable and inclusive economic recovery. Here, it can draw and build on its established strengths in promoting policies that foster economic stability, reduce vulnerability to economic and financial crises, and raise living standards.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-2

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

Statement by Minister of Finance, João Leão in his capacity as Chairman of the EU Council of Economic and Finance Ministers to the International Monetary and Financial Committee

8 April 2021

1. The global economic recovery is expected to accelerate in the second half of 2021 fuelled by a supportive macroeconomic policy mix and an expected rise in the share of vaccinated populations in advanced economies. However, the global economic outlook is subject to high uncertainty related to the path of the COVID-19 pandemic, emergence of new viral mutations and the speed of vaccination, not least in emerging market and developing economies. As stated by the European Council on 25 February, we reaffirm our solidarity with other countries and underline our determination to step up our global response to the pandemic.[1] We need to ensure affordable and equitable access to vaccines for all. In this regard, we fully support collaborative efforts, especially the Access to COVID-19 Tools Accelerator (ACT-A) initiative and its COVAX facility, and underline the need to close its financing gap. As the global community continues to face extraordinary challenges and uncertainty, efforts need to remain focused on protecting people's health and livelihoods and overcoming the crisis, with unprecedented efforts in terms of health measures, structural reforms, investment, and a comprehensive approach towards a green, digital and socially inclusive recovery.

2. Policy actions should continue to be coordinated in order to effectively address the pandemic, sustain the economy and support a sustainable recovery. Fiscal support should not be prematurely withdrawn. For the time being, and as long as the acute health emergency prevails, broad fiscal measures remain necessary to protect citizens and companies. Policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. In a second stage, once the health situation improves and restrictions ease, fiscal measures should gradually shift towards more targeted actions to promote a resilient and sustainable recovery. Once the recovery is firmly underway, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability should be pursued, while enhancing investment levels and improving the quality of public finances. Transparent and clear monetary policy communication by major central banks is important for the global economy. Reforms that strengthen the coverage, adequacy, and sustainability of health and social protection systems for all, and support a fair and inclusive recovery, should be pursued, while particular attention should be paid to budgetary measures to make the most of the opportunities stemming from the green and digital transitions.

3. Climate change is an integral and essential part of our agenda. It is a global challenge that requires an effective and coordinated response within a stronger institutional framework. The economic consequences of climate change are being felt, and the cost of inaction is steadily increasing, as is the risk of insufficient action. This affects consumers, workers, businesses, public finances, and financial markets alike. The transition towards a climate-neutral and an environmentally sustainable economy can be accelerated by economic incentives and fiscal measures. Key policies include the strategic objective for a climate-neutral economy, mobilizing sustainable finance while striving for consistency across jurisdictions, energy taxation and initiatives related to carbon pricing. The European Council agreement on the Multi-annual Financial Framework (MFF) and the recovery instrument Next Generation EU includes an overall climate target of 30% of total expenditure. The EU Member States remain committed to scaling up the mobilisation of international climate finance from a wide variety of private and public sources, instruments and channels in the context of meaningful mitigation actions and transparency on implementation. This will help support the transition towards a carbon-neutral

[1] https://www.consilium.europa.eu/en/press/press-releases/2021/02/25/statement-of-the-members-of-the-european-council-on-covid-19-and-health-25-february-2021/

global economy and alleviate the socio-economic impact of the transition.

4. For the EU, continued coordination of national fiscal policies is crucial for an effective response to the COVID-19 shock, a sustainable recovery. Against the backdrop of the general escape clause of the EU fiscal framework, which was activated in March 2020, Member States took sizeable discretionary budgetary measures at the national level amounting to around 4% of GDP in 2020, to contain the pandemic and provide support to individuals and businesses particularly affected. These supplemented the operation of automatic stabilisers, which provided around 4pps of GDP of fiscal support in 2020. Member States also put in place exceptional liquidity support of almost 19% of GDP, mainly via guarantees provided to companies and to banks to ensure the flow of credit. Overall, the euro area fiscal stance was highly expansionary in 2020. The general escape clause remains active in 2021 and could remain active also in 2022 based on current preliminary indications from the European Commission. The Eurogroup is committed to a supportive stance in the euro area 2021 and in 2022, also taking into account the fiscal stimulus stemming from the Recovery and Resilience FacilityOnce the recovery is firmly under way, Member States will address the increased public debt levels by implementing sustainable medium-term fiscal strategies, with an emphasis on improving the quality of public finances, raising investment levels and supporting the green and digital transitions.

5. Further coordinated fiscal support will be provided at the EU level. The EU has agreed a comprehensive package covering the years 2021-27. This combines a reinforced MFF with an extraordinary recovery effort funded through the Next Generation EU recovery instrument that will raise EUR 750 billion from financial markets. Together, these amount to EUR 1.8tn in 2021-27 and will help to transform the EU economy, pursue the European Green Deal, make the most of the digital revolution, and strengthen economic and financial resilience. The centre piece and biggest instrument of Next Generation EU is the Recovery and Resilience Facility, which will provide EUR 672.5 billion in financial support (EUR 360 billion in loans and EUR 312.5 billion in grants) for national investments and reforms in relation to the green and digital transitions and to boost growth potential as well as the economic and social resilience of national economies. In addition, the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) has allowed for up to EUR 100 billion loans in support of Member States' short-time work schemes and similar measures to protect jobs and workers affected by the economic fallout of the COVID-19 pandemic. Until now, the Council approved a total of EUR 90.6 billion in SURE support to 19 Member States, out of which EUR 62.5 billion was already disbursed. Furthermore, the Pan-European Guarantee Fund, created by Member States for the European Investment Bank Group, can support EUR 200 billion of financing for companies with a focus on SMEs. Finally, the Pandemic Crisis Support established by the European Stability Mechanism (ESM) makes available up to EUR 240 billion of financing to euro area Member States to support domestic financing of direct and indirect healthcare, cure, and prevention related costs due to the COVID-19 crisis.

6. By end 2020, the European Fund for Strategic Investments (EFSI) had mobilised EUR 547 billion in investment. It also recently contributed to mitigate the impact of the COVID-19 pandemic on the EU's economies. Close to one and a half million start-ups and small businesses are expected to benefit from improved access to finance. Some 70% of the expected mobilised investment comes from private resources. The InvestEU programme will build on the success of the European Fund for Strategic Investments (EFSI) and bolster investments across the European Union. It provides crucial support to companies, contributing to overcome the effects of the crisis. The overall investment to be mobilised on this basis is estimated at EUR 370 billion.

7. Trade must play its full role in the recovery from the COVID-19 pandemic and in the green and digital transformation of the economy. Making globalisation more sustainable and harnessing gains from trade for all should be the underlying driver of a reviewed EU Trade Policy. Strengthening trade stability and multilateral rules-based trade will be the central pillar of the EU's actions. Leading efforts to reform the World Trade Organization and improve the effectiveness of the multilateral framework for trade governance should be the key priority. At the same time there is a need to ensure that the international

rules are fit for today's economic realities and well equipped to respond to competitive distortions.

8. The work on the ESM reform is coming to completion, and the ratification process is under way. Moreover and since sufficient progress has been made on risk reduction. Member States participating in the Banking Union decided to bring forward the introduction of a common backstop for the Single Resolution Fund for it to be available by the beginning of 2022. Work will also continue on deepening the Capital Markets Union. On strengthening the Banking Union, including a European Deposit Insurance Scheme, we will continue to work on all elements on a consensual basis. Progress in deepening the Economic and Monetary Union, together with the Next Generation EU recovery instrument and sustainable finance, will also contribute to strengthen the international role of the euro.

IMF Policy Issues

9. In the face of the ongoing Covid-19 crisis, the IMF has demonstrated its ability to take strong and rapid measures to support its members. EU Member States support the IMF in making full use of its lending toolkit to serve members´ needs in the face of the ongoing economic fallout. The IMF should ensure that its current lending strategy is suited to the pandemic's unique nature and associated uncertainty, while safeguarding member countries' capacity to repay and ensuring the appropriate use of financial assistance through good governance. We ask international financial institutions to keep exploring additional tools, which could serve their members' needs as the crisis evolves. In this regard, we welcome the progress made on the path to a new general allocation of Special Drawing Rights, which we are willing to support on the basis of the IMF Articles of Agreement and of a detailed and convincing IMF proposal. While there are also vulnerabilities in middle income countries, low-income-countries are being hit especially hard by the crisis. Therefore, we continue to support an adequately resourced IMF Poverty Reduction and Growth Trust (PRGT) as a pivotal tool to extend concessional financing and stabilisation programmes to vulnerable countries. We also support the IMF Catastrophe Containment and Relief Trust (CCRT) to help the poorest countries face their debt obligations to the IMF and Capacity Development to help strengthening economic institutions. We reiterate that the IMF and World Bank should coordinate closely, also with other IFIs and MDBs, to ensure their measures are coherent and complementary.

10. The EU Member States continue to support the commitment by the IMFC and by 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 continues to be important at a time of exceptional uncertainty and downside risks. EU Member States welcome the implementation of the package on IMF resources and governance agreed by the IMFC at its meeting in Washington in October 2019, including the entry into force of the doubling of the New Arrangements to Borrow (NAB) and completion of domestic approval procedures for the new round of Bilateral Borrowing Agreements by most countries. We are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th General Review of Quotas, to be concluded no later than December 15, 2023.

11. We look forward to the conclusion of the IMF Comprehensive Surveillance Review and Financial Sector Assessment Program Review. The Covid-19 pandemic and its implications have made the IMF surveillance even more relevant in the next decade. In particular, the IMF decision to integrate climate change and inequality-related issues in its surveillance framework can play an important role towards making the recovery more inclusive and sustainable. The macro-critical implications of climate change mitigation, adaptation, and transition management should be integrated in the Fund's surveillance. They should feature as appropriate in all surveillance products issued by the IMF. In addition, given that the uncertainty and scarring effects associated with the pandemic will likely persist for some time, we welcome the IMF's decision to underscore the importance of addressing long-term structural challenges, such as providing universal health access, promoting digitalisation, strengthening good governance, increasing women and youth labour

market participation, and raising productivity growth. We also look forward to the upcoming review of the Institutional View on capital flows.

12. It is essential to ensure the swift and effective implementation of the G20-Paris Club Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative (DSSI), which is a major step forward toward improving our current sovereign debt restructuring international architecture. The Common Framework is instrumental to ensure strong creditors' coordination and facilitate timely and orderly debt treatments on a case-by-case basis for DSSI-eligible countries, with broad creditors' participation, including the private sector in line with the comparability of treatment. We support exploring to extend the Common Framework to middle income countries facing debt vulnerabilities, while at the same time recognizing that resources for debt relief should be prioritized for low income countries. We also welcome the progress on the G20-Paris Club DSSI and, to help to reduce liquidity pressures in low income countries, we stand ready to further extend the DSSI until end 2021, under certain conditions and subject to a thorough assessment of the IMF and WB.We are committed to continue ensuring a full and transparent implementation of the DSSI, which has been fundamental in supporting beneficiary countries by freeing up fiscal space in the short term to fund social, health, and economic measures to respond to the pandemic. In addition, debt transparency is critical for a sound assessment of debt sustainability, for debtor government accountability, and to enable informed decisions by borrowers and creditors in the context of debt relief. We renew our support to the international efforts aimed at strengthening debt transparency, in particular in low-income countries, including the update of the IMF-WB multipronged approach to help countries address emerging debt vulnerabilities, the IMF-WB proposal on a debt data reconciliation process, the organisation of a second voluntary self-assessment of the G20 Operational Guidelines for Sustainable Financing implementation, and the implementation of the IIF Voluntary Principles for Debt Transparency.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-3

Statement by Mr. Dombrovskis
European Commission

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

Washington, 8 April 2021

1. For more than one year, the COVID-19 pandemic has disrupted global economic activity and darkened the economic outlook. We are facing a historic crisis resulting from the dual health and economic emergencies caused by the pandemic. Therefore, strong international policy cooperation based on a multilateral approach is needed now more than ever. The latest European Commission forecast, issued on 11 February 2021, projects GDP to grow by 3.7% in 2021 and 3.9% in 2022 in the European Union, and by 3.8% in both years in the euro area. The European economy is expected to return to its pre-crisis level in 2022. These projections are subject to significant uncertainty and elevated risks, predominately linked to the evolution of the pandemic and to the success of vaccination campaigns. Also, Next Generation EU, the EU's recovery instrument of which the centrepiece is the Recovery and Resilience Facility, could fuel stronger growth than projected, since the envisaged funding has - for the most part - not yet been incorporated into this forecast.

2. On 17 December 2020, the EU reached a final agreement on a EUR 1.82 trillion package for a sustainable and green recovery, which includes both the EU budget for 2021-2027 and the Next Generation EU recovery instrument. Both Next Generation EU and the EU budget will help the EU recover and transform its economy in line with its major policy priorities, in particular the European Green Deal, which is the EU’s new growth strategy.

3. The centrepiece and biggest programme under Next Generation EU is the Recovery and Resilience Facility, which will provide EUR 672.5 billion (EUR 360 billion for loans and EUR 312.5 billion for grants) in financial support for investment and reforms. It will help build a more sustainable, resilient and fairer Europe for the next generation in line with the United Nations’ Sustainable Development Goals. The Recovery and Resilience Facility regulation entered into force on 19 February 2021. Expenditure financed by the Recovery and Resilience Facility will provide a significant additional fiscal impulse, and also directly finance structural reforms, which will allow Member States to enhance their productive public spending and thus create more favourable conditions for undertaking reforms aimed at addressing structural bottlenecks

4. Fiscal policy in the EU will continue to support the economy in 2021 and 2022. The decision on the deactivation or continued application of the general escape clause included in European fiscal rules should be taken as an overall assessment of the state of the economy based on quantitative criteria. Based on the European Commission 2021 winter forecast, current preliminary indications would suggest to continue applying the general escape clause in 2022 and to de-activate it as of 2023. Countries should avoid premature withdrawal of fiscal support. Support measures in EU Member States should remain timely, temporary and targeted, and pivot, once the health situation allows, from emergency relief to more targeted measures that promote the recovery and improve the fundamentals of the EU economies. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories or creating a permanent burden on public finances. The composition and quality of measures will be very important to efficiently support the economy.[1] The EU will continue to coordinate its

[1] See the new European Commission Communication on fiscal policy response to coronavirus pandemic of 3 March 2021: https://ec.europa.eu/commission/presscorner/detail/en/ip_21_884

fiscal response and differentiate its policy measures to avoid a fragmented recovery process, taking into account the state of the recovery, fiscal sustainability considerations and the need to reduce economic, social and territorial divergences. Once the recovery is firmly under way, countries should address the increased public debt levels by implementing sustainable medium-term fiscal strategies, with an emphasis on improving the quality of public finances, raising investment levels and supporting the green and digital transitions.

5. Climate change is a global challenge requiring a coordinated global response. Its economic consequences are being felt today and the cost of inaction is increasing. The European Commission has proposed an EU Climate Law to enshrine in law the objective of climate neutrality by 2050 in March 2020. In September 2020, the Commission published a plan for a higher greenhouse gas emissions reduction target of at least 55% by 2030 compared to 1990 levels. Following its endorsement by EU Member States in December 2020, the European Commission is working on its implementation through a review of the main climate and energy legislation currently scheduled for mid-2021. In addition, climate action will be mainstreamed in policies and programmes, with an overall climate target of at least 30% to be applied to the total amount of expenditure financed under the EU long-term budget and Next Generation EU. The European Commission is also working on a renewed sustainable finance strategy to be adopted in the course of 2021 to help guide private finance to be in line with our long-term ambitions.

6. We need open and fair rules-based trade to help restore growth and job creation post-COVID-19. Against this background, the European Commission's new Trade Strategy[2] unveiled on 18 February this year, pursues a course that is open, strategic and assertive, emphasising the EU's ability to make its own choices and shape the world around it through leadership and engagement, reflecting our strategic interests and values. Responding to current challenges, the Strategy prioritises a major reform of the World Trade Organization, including global commitments on trade and climate, new rules for digital trade, reinforced rules to tackle competitive distortions, and restoring its system for binding dispute settlement.

7. We all need to give the highest priority to global solutions to address the taxation of the digital economy and the remaining Base Erosion and Profit Shifting (BEPS) issues. Based on the reports on the Blueprints for Pillar 1 and Pillar 2 approved for public release by the G20/OECD Inclusive Framework on BEPS, we urge the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting to address the remaining issues with a view to reaching a global and consensus-based solution by mid-2021. We remind the G20 of its Leaders' commitment to continue cooperation for a globally fair, sustainable, and modern international tax system and reach a global and consensus-based solution on digital taxation by mid-2021.

8. The European Union continues to support 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 continues to be important at a time of exceptional uncertainty and downside risks. The EU welcomes the timely implementation of the package on IMF resources and governance agreed by the IMFC at its meeting in Washington in October 2019.

9. The ongoing COVID-19 crisis requires a continued coordinated global response with multilateral solutions to help countries in need. For this reason, the European Union has

[2] https://trade.ec.europa.eu/doclib/docs/2021/february/tradoc_159438.pdf

launched its "Team Europe" package, which combines financial resources from the EU, its Member States, and financial institutions, to support partner countries in the fight against the coronavirus pandemic and its consequences. In addition, we support the IMF in making full use of its lending facilities to address country specific needs in the face of ongoing economic fallout, in particular an adequately resourced IMF Poverty Reduction and Growth Trust (PRGT) as a pivotal tool to provide much-needed concessional financing and stabilisation programmes to vulnerable countries, and the use of the IMF Catastrophe Containment and Relief Trust (CCRT) to help the poorest countries face their debt obligations to the IMF. With the announcement of a contribution of EUR 183 million to the CCRT for 2021, the EU demonstrated its strong commitment to this instrument.

10. We appreciate the report by the IMF on macroeconomic developments and prospects in low income countries and their financing needs. We welcome the progress on the G20-Paris Club Debt Service Suspension Initiative (DSSI), including its extension, and on the implementation of the Common Framework for Debt Treatment beyond the Debt Service Suspension Initiative. We support the further extension of the DSSI until end 2021 to help reduce liquidity pressures in low income countries, subject to the assessment of the IMF and WB. We consider that, over time, the Common Framework should become the standard process for all debt restructuring cases, including in middle-income countries. We ask the IMF to keep exploring additional tools, which could serve their members' needs as the crisis evolves. In this regard, we welcome the progress made on the path to a new general allocation of Special Drawing Rights in 2021, which we are willing to support on the basis of the IMF Articles of Agreement and of a detailed and convincing IMF proposal.

11. We welcome the multilateral efforts to strengthen debt data transparency and improve debt disclosure, including the update of the IMF/WB multi-pronged approach to address debt vulnerabilities and the implementation of the IIF's Voluntary Principles for Debt Transparency. In this respect, we also support the IMF and World Bank proposal on a debt data reconciliation process.

12. Finally, the COVID-19 has reinforced the urgency of the surveillance priorities identified by the IMF Comprehensive Surveillance Review and Financial Sector Assessment Program Review. We welcome the IMF decision to factor in considerations of sustainability related to health, climate change, and inequality in its surveillance framework and encourage the IMF staff to factor in the membership of a country in a currency union, taking into full account the whole set of policy instruments used at national and supranational level to answer the pandemic crisis.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-4

Statement by Mr. Barkindo
OPEC

Statement by

Organization of the Petroleum Exporting Countries (OPEC)

to the

International Monetary and Financial Committee (IMFC)

Meeting of Ministers and Governors

Virtual Meeting

April 2021

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

Global oil market fundamentals continued to improve further in **4Q20** and **1Q21** compared with last year's slump, following the further recovery of global oil demand amid the initiation of **COVID-19** vaccinations. Countries across the world approved different vaccines and began to ease COVID-19-related mobility restrictions. The oil market was also buoyed by exceptional fiscal and monetary stimulus policies that helped in supporting economic activity. The relatively rapid recovery of oil demand in the Asia Pacific region, specifically in China and India, has bolstered the global oil demand improvement.

The oil market consolidated further amid a brightening global oil market balance outlook after **OPEC and participating non-OPEC countries in the DoC** showed exemplary cooperation, which translated into strong conformity levels regarding voluntary production adjustments. This contributed to accelerating the global oil stock drawdown, specifically floating storage, added confidence to the market and helped to improve oil market conditions.

Futures oil prices continued to rise for the third consecutive quarter in **1Q21,** with the ICE Brent averaged above $60/b. However, this upward trend in the oil market was tempered amid expectations that the global oil demand recovery will be slower than initially expected, mainly due to the resurgence of COVID-19 infections in some countries and slow global deployment of the vaccine. Furthermore, global oil stocks remain high compared with pre-COVID-19 levels.

Despite ongoing COVID-19-related challenges, the **global economy** has continued its recovery, very much supported by unprecedented fiscal and monetary stimulus. While it seemed that global economic developments were improving at the beginning of **2020**, the **COVID-19 pandemic** hit economic momentum relatively early in **1Q20**, and the growth situation remained highly volatile throughout the remainder of last year, with **world economic growth** estimated to have declined by **3.7%** in **2020.** Positively, considerable fiscal and monetary stimulus in many key regions led to a recovery in **2H20**. This is expected to gain more traction in the current year. The recently approved **$1.9 trillion fiscal stimulus bill** in the US, which comes in addition to more than $3 trillion in fiscal stimulus packages in 2020, will further support US and global economic growth. In addition, the ongoing recovery in **Asian economies** will support the global recovery, forecast at **5.1%** in **2021.**

However, the current forecast will very much depend on the near-term path of the **COVID-19 pandemic**. The base assumption of this forecast is that by the beginning of **2H21**, the pandemic will largely be contained, with the majority of the population in Western economies vaccinated and COVID-19 no longer posing a major obstacle for emerging and developing economies.

When it became evident that the COVID-19 pandemic was negatively affecting global economic growth and demand for energy, including oil, OPEC, together with its non-OPEC partners in the **DoC** took historic action to help stabilize and rebalance the oil market. The consequent oil market recovery has already provided support to the global economic recovery.

In terms of geographical breakdown, the **OECD** group of countries are forecast to grow by **4.3%** in 2021, after seeing a decline of **5%** in **2020**, lifted in particular by improving growth expectations for the **US**, but also for the Euro-zone and Japan. After reaching a contraction of **3.5%** in **2020**, US economic growth in **2021** is expected to reach **4.8%**, with further room to the upside. GDP growth of **4.3%** is forecast for the **Euro-zone** in **2021**, following a contraction of **6.8%** last year. **Japan's** GDP in **2020** is reported at a contraction of **4.9%**, while it is forecast at 3.1% for 2021.

In the **emerging economies**, **India's 2020 GDP** growth was reported at **-7.0%** and is expected to stand at **9.0%** for **2021**. Following growth of **2.3%** in **2020**, **China's GDP** is forecast to increase by **8.0%** in **2021**. Government estimates show that **Brazil's** economy contracted by **4.1%** in **2020**, while the forecast for **2021** stands at **3.0%**. After contracting by **3.1%** in **2020**, **Russia's GDP** growth is forecast to recover to **3%** in **2021**, with some further potential upside in connection with the ongoing **OPEC and non-OPEC DoC** process.

Thus, most regions are forecast to see a strong pick-up in **2021,** with the recovery forecast to gain pace towards **2H21**. Nonetheless, numerous challenges remain, including **COVID-19 variants** and the effectiveness of vaccines against these mutations. Moreover, **sovereign debt** in most economies has risen to levels at which a lift in interest rates could cause severe fiscal strain. While not imminent, a further rise in inflation, especially in the US and the Euro-zone, may cause some tightening of monetary policies, an area that will need to be monitored in the short term. Additionally, some trade-related disputes may continue.

The largest-ever losses in world oil demand of **9.6 mb/d y-o-y** occurred in **2020** as a result of the **COVID-19 pandemic**, which also prompted a relative break in the established relationship between oil demand and global economic growth. While demand for all petroleum products declined sharply, the **transportation** sector, and **aviation** in particular, was disproportionately affected. As a result, total oil demand reached **90.4 mb/d** in **2020,** with most consumption appearing in 2H20.

Within the **OECD**, all three major regions showed sharp declines in 2020, although at differing degrees. In the **Americas**, oil demand for the petrochemical sector partially offset large losses in gasoline, jet kerosene and diesel, leading to a y-o-y decline of **3.1 mb/d**. In **Europe**, lockdown measures were the most stringent and longest lasting during 2Q20 and 4Q20, leading to a decline of **1.8 mb/d** y-o-y for the year. Oil demand in the **Asia Pacific** region was the least affected, declining by only **0.7 mb/d** y-o-y.

In the **non-OECD** region, oil demand declines in 2020 were less pronounced. Following a drop in 1H20, **China's** oil demand returned to positive growth in 2H20 – supported by successful containment of the pandemic and a healthy petrochemical sector – to show a y-o-y **decline** of **0.4 mb/d**. In **India** and **Other Asia**, oil demand fell on the back of restricted mobility, particularly during 1H20, but improved thereafter.

In **2021**, world oil demand is forecast to **increase** by **5.9 mb/d**, reflecting the positive economic impact on oil demand during 2H21. Total oil demand is foreseen to reach **96.3 mb/d,** with most consumption appearing in 2H21.

Oil demand in the **OECD** region is expected to increase by **2.6 mb/d** to reach 44.6 mb/d in 2021. Oil requirements in 1H21 are anticipated to recover more slowly than initially expected, mainly due to extended measures to control **COVID-19** in parts of **Europe** and a still relatively high unemployment rate in the **US**. On the other hand, 2H21 oil demand is anticipated to reflect the expectation of a **solid economic** recovery and the positive impact of **vaccination rollouts**. **Americas** is projected to see the highest increase, on the back of recovering transportation fuels and healthy light and middle distillate requirements.

Oil demand in the **non-OECD** region is estimated to rise by **3.3 mb/d** to reach 51.6 mb/d in 2021. Demand growth is anticipated to be driven by **China**, followed by **India** and **Other Asia**. Support will be provided by a healthy recovery in **economic activity**, as well as encouraging demand from the

industrial sector and improving **transportation fuel** requirements. Demand for **petrochemical feedstock** is also forecast to support demand growth in 2021.

In **2020**, **COVID-19**, the ensuing global economic recession and oil demand reduction are forecast to have impacted **world oil supply** substantially. In 2020, non-OPEC liquids supply (including processing gains) is estimated to have declined by **2.56 mb/d** y-o-y. Russia, the US, and Canada were the main decline drivers, while Norway and Brazil saw the largest growth. Non-OPEC supply in 2020 was reduced by voluntary downward adjustments in oil production by the 10 non-OPEC participants of the **DoC**, as well as curtailments by the US, Canada, Norway and Brazil through well shut-ins. Additionally, reductions occurred in planned capital expenditure, particularly by US independent companies, amid sharp declines in oil price levels and a lack of demand during the oil market turmoil following the COVID-19 outbreak. Global **exploration and production (E&P) spending** in the oil and gas sector is now estimated to have dropped by **30% y-o-y** to **$381 billion**, the **lowest level since 2005**, while before pandemic in the primary forecast in 2019, it was expected to remain flat y-o-y. Nevertheless, the decline in non-OPEC supply for 2020 was much less than the drop in oil demand for the year.

For **2021**, despite ongoing COVID-19-related challenges, a gradual recovery in oil demand, as well as oil prices, could prompt non-OPEC producers to return shut-in wells to duty, particularly in North America, even with prevailing circumstances surrounding spending. The non-OPEC liquids supply is forecast to grow by **0.95 mb/d y-o-y**, with the main drivers expected to be **Canada** with **0.3 mb/d**, followed by the US, Norway, and Brazil. Liquids production in the 10 non-OPEC countries participating in the DoC is expected to decline by **0.02 mb/d** to average **17.17 mb/d** in **2021,** compared with a y-o-y decline of **1.3 mb/d** in **2020**. While liquids supply in the OECD is expected to grow by **0.59 mb/d in 2021**, oil production growth in non-OECD will be at **0.23 mb/d** y-o-y in the current year. The majority of this growth will come in 2H21 and represents a recovery in production from **2020**, rather than new projects. Given the fluidity of ongoing developments, the non-OPEC supply forecast for **2021** faces a large degree of uncertainty.

Meanwhile, **OPEC NGLs and non-conventional liquids** production is estimated to have declined by **0.13 mb/d in 2020**, and is forecast to grow by **0.08 mb/d** to average **5.2 mb/d in 2021**. In February 2021, OPEC crude oil production decreased by **0.65 mb/d** m-o-m, to average **24.85 mb/d**, according to secondary sources.

Total OECD commercial oil stocks fell by **11.3 mb** m-o-m in January 2021 to stand at **3,052 mb**. At this level, they were **138.7 mb** higher than the same time one year ago and **92.2 mb** above the latest five-year average, and **125.7 mb above the (2015-2019) average**

Within the components, **crude stocks fell by 17.7 mb**, while **product stocks increased m-o-m by 6.4 mb**. Total commercial oil stocks in January fell m-o-m in OECD Americas and OECD Asia Pacific, while they increased in OECD Europe.

OECD **commercial crude stocks** fell in January by 17.7 mb to stand at **1,501 mb**. This is **104.6 mb** higher than the same time a year ago and **46.3 mb** above the latest five-year average, as well as **61.3 mb above the (2015-2019) average**. In contrast, **total product inventories** rose by **6.4 mb** m-o-m in January to stand at **1,551 mb.** This is **34.1 mb** above the same time a year ago and **45.9 mb,** above the latest five-year average, as well as **64.3 mb above the (2015-2019) average**.

In terms of **days of forward cover,** OECD commercial stocks fell m-o-m by 1.1 days in January to stand at **69.6 days**. This is **0.2 days** below January 2020 levels and **5.5 days** above the latest five-year average, as well as **7.8 days above the (2015-2019)** average. All OECD regions were above the latest five-year averages: the Americas by **4.1 days** at **67.9 days**; Europe by **10.5 days** at **83.5 days**; and Asia Pacific by **1.6 days** at **51.3 days.**

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, as well as the global economy. In the midst of the unprecedented crisis created by the pandemic, the countries participating in the **Declaration of Cooperation** have once again demonstrated their unswerving dedication to pursue stabilization of the global oil markets. In negotiations headed by OPEC, this group of producing countries has committed to **far-reaching production adjustments** that are scheduled to last well **into 2022** in an effort to contribute to restoring healthy oil market fundamentals and once again bring forward balance to the oil market in support of the global economy.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-5

Statement by Mr. Gurría
OECD

2021 IMF and World Bank Spring Meetings

Written Statement to the IMFC

Angel Gurría

OECD Secretary-General

The Global Economic Outlook

1. **The COVID-19 pandemic has had a devastating social and economic toll, but encouraging news about the deployment and effectiveness of vaccines means that a pathway out of the crisis is now in sight**. Global GDP declined by around 3½ per cent in 2020, and OECD GDP by around 4¾ per cent, substantially larger falls than in the 2008 Global Financial Crisis. Output in some European countries and emerging-market economies declined particularly sharply, reflecting the challenges in controlling the pandemic, and the importance of travel and tourism in many economies. Other countries, particularly in the Asia-Pacific region, saw only mild output declines in 2020, helped by strong and effective public health measures to contain the pandemic. In all countries, the burden of the crisis fell disproportionately on the poorest and most vulnerable. While the economic rebound from the pandemic since mid-2020 has been faster than expected, it is far from complete. Even in countries that achieved positive year-on-year growth in 2020, notably China, output at the end of the year remained well below the levels projected prior to the pandemic. For the world as a whole, GDP was still 4% lower than expected a year earlier, representing a real income shortfall of more than USD 5 trillion.

2. **Public health measures to suppress the spread of the virus and the associated declines in mobility are now having a smaller adverse impact on activity than in the early stages of the pandemic.** Containment policies are more carefully targeted, focusing largely on service sectors with high levels of direct contact between consumers and producers. Businesses and consumers have also adapted to changes in working arrangements and sanitary restrictions. However, underlying sectoral developments are diverging. Global industrial production continues to strengthen and global trade in goods has now surpassed pre-pandemic levels, supported by strong demand for IT equipment and medical supplies. In contrast, many service sector activities and household consumption continue to be affected by ongoing health-related restrictions, and cross-border services trade remains extremely weak. Household saving rates remain well above pre-pandemic levels, providing scope for future spending, but faster progress in vaccine deployment is needed to help restore confidence and reduce precautionary saving.

3. **Labour market conditions are recovering slowly, but remain weaker than prior to the pandemic**. Across the OECD economies, almost 10 million more people are unemployed than prior to the crisis, inactivity rates have risen and aggregate employment rates have declined. Online job postings in February 2021 also remained 8% weaker than a year earlier. Women, youth and low-income workers have been particularly exposed to the risk of job losses during the pandemic. In developing countries, substantial job losses have increased poverty and deprivation for millions of people. Many jobs remain precarious. At the end of 2020 in the major economies, total hours worked in some job-rich service sectors remained 15% or more below pre-pandemic levels.

4. **The emergence of effective vaccines has improved prospects for a durable economic recovery, provided such vaccines are deployed rapidly throughout the world and supportive fiscal and monetary policies continue to underpin demand.** In the March 2021 *OECD Interim Economic Outlook*, global GDP growth was projected to strengthen to 5½ per cent in 2021 and 4% in 2022. This rebound is faster than expected three months earlier, reflecting the impetus provided by stronger economic activity in the latter half of 2020, increasing evidence of the efficacy of COVID-19 vaccines, and the demand stimulus from additional policy support put in place in many countries this year, particularly the United States. OECD analysis suggests that the American Rescue Plan of USD 1.9 trillion could raise US output by between 3-4 per cent in the first full year following implementation, and global output by around 1%. All economies benefit from stronger demand from the United States, with output rising by between ½-1 percentage point in Canada and Mexico, both close trading partners, and between ¼-½ percentage point in the euro area, Japan and China. Expectations for a stronger global recovery are also being reflected in financial and commodity markets, with US long-term bond yields and oil prices returning to their levels prior to the pandemic.

5. **Global GDP should be above the pre-pandemic level by the middle of 2021, but this hides substantial differences in the pace of the recovery across countries and the continued risks of lasting costs from the pandemic**. Vaccination campaigns are proceeding at different rates around the world, and the scale of policy support and sectoral specialisation differ considerably across economies. A handful of countries, including China, India and Turkey, have already surpassed their output levels prior to the pandemic, and the United States should soon do so as well. The economic impact of the pandemic and its aftermath also remains well-contained in many other Asia-Pacific economies, including Japan, helped by the significant regional boost from the upturn in China. A slower recovery is occurring in the major European economies, reflecting continued containment measures in the early part of 2021 and more limited fiscal support, although the acceleration of vaccine deployment should help momentum to build, particularly in the United Kingdom. Emerging-market economies in Latin America and Africa are also facing a renewed resurgence of the virus, a slow pace of vaccine deployment, limited scope for additional policy support and the continued restraints on international tourism.

6. **The distribution of risks has become more balanced in recent months, but a wide range of outcomes remains possible, depending on the evolution of the pandemic, the pace at which vaccines can be deployed, and the impact of the gradual re-opening of economies over time**. Faster progress in vaccine deployment in all countries would enable restrictions to be lifted more quickly, and provide a stronger boost to the confidence and spending of consumers and companies. In such a scenario, global output could be brought close to the path expected prior to the pandemic, with global GDP growth **raised** by around 1½ and 1 percentage point in 2021 and 2022, respectively. Slower progress in vaccine rollout and the emergence of new virus mutations resistant to existing vaccines would hit confidence, spending and employment, with global GDP growth **lowered** by 1 percentage point in 2021 and 1¼ percentage point in 2022. Output would remain below the pre-crisis path for an extended period, raising the chances of long-lasting costs from the pandemic. Real incomes in this scenario would be around USD 6 trillion lower than in the upside scenario, highlighting the huge cost of failing to ensure rapid and complete vaccination around the world.

Policy Requirements

7. **The top policy priority, both on epidemiological and economic grounds, is to ensure vaccines are produced and deployed as quickly as possible throughout the world.** This will save lives, preserve incomes and limit the damage being done to well-being. Everything necessary should be done to enhance the capacity for a faster pace of vaccinations and ensure that supplies are used fully as they become available. Failure to do so would increase the risk that new more threatening variants appear, and raise the long-lasting economic and social costs from the pandemic. The crisis will not be fully over anywhere until it is over everywhere.

8. **National policy efforts to enhance the production and delivery of vaccines must be accompanied by greater global co-operation and funding to ensure adequate and timely availability of affordable vaccines throughout the world**. Supplies of vaccines for the poorest countries, and the funds committed to the COVAX initiative, remain well below what is required if vaccinations are to be provided to all in need. The resources required to provide vaccines to lower-income countries are small compared with the gains to all countries from a stronger and faster global economic recovery. The announcement by some high-income countries that surplus vaccines will be distributed to lower-income economies is welcome, but the pace at which this will occur is uncertain. Closure of borders to limit exports of finished vaccines should be avoided, and would be self-defeating given the strong interdependencies along vaccine supply chains.

9. **Accommodative monetary policies need to be maintained in the major advanced economies to help preserve favourable financing conditions and low long-term interest rates**. Current monetary and financial policy programmes offer sufficient scope to deal with fluctuations in the recovery and any financial market volatility. Buffers exist within these programmes for emergency lending and bank lending support and the pace of asset purchases can be calibrated as required. Macroprudential tools can also be deployed to help ensure stability in financial and housing markets where asset valuations appear stretched.

10. **Transitory factors that push up headline inflation, such as higher commodity prices and temporary supply shortages in particular sectors, do not warrant changes in the monetary policy stance provided underlying price pressures remain well contained**. In the United States, strong demand growth may push up inflation to some extent, but the new flexible average inflation-targeting framework should allow this to be accommodated without immediate increases in policy interest rates. In the euro area and Japan, underlying price pressures remain subdued given softer demand and significant slack in labour and product markets. Policy interest rates have recently been raised in several emerging-market economies, including Brazil, to help limit upward pressure on inflation expectations. Such changes signal a tighter policy stance, but need not be large provided the effects of higher commodity prices on inflation can be contained and exchange rates remain stable. Enhanced currency swap lines between the major central banks could help to ensure orderly market conditions.

11. **Fiscal policy support should be contingent on the state of the economy and the pace of vaccinations, with new policy measures implemented promptly and fully if required.** The extent of fiscal support is likely to vary significantly across economies over the next two years, with substantial extra spending in the United States, and to a smaller extent Canada, Germany and Japan, but limited discretionary measures in many other economies, particularly in Europe. Nonetheless, budget deficits will remain large, and the automatic fiscal stabilisers should be allowed to operate fully. In the EU economies, intensified efforts must be made to bring forward spending from the Next Generation Recovery Fund and to fully utilise the resources available.

12. **A premature and abrupt withdrawal of support should be avoided, while economies are still fragile and growth remains hindered by containment measures and a slow pace of vaccinations**. Debt levels have risen substantially but debt-servicing costs remain low, helped by the space provided by very accommodative monetary policy. In the advanced economies, ensuring debt sustainability should increase in priority only once the recovery is firmly in place. In the emerging-market economies, fiscal support, particularly emergency income support measures, should be maintained provided market conditions remain favourable and debt sustainability is not at risk.

13. **It is of paramount importance to reach a consensus-based solution by mid-2021 on the tax challenges arising from digitalisation**. There is a unique opportunity within the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) to ensure the fair taxation of multinational companies, including digital companies. Such a deal could increase global corporate income tax revenues by up to USD 100 billion per year, a rise of around 4%, with gains for all countries. Failure to achieve a consensus-based solution would likely lead to a proliferation of uncoordinated and unilateral tax measures and damaging tax and trade disputes.

14. **Enhanced structural reform efforts are required in all countries to mitigate the adverse impact of the crisis, improve resilience against future shocks, and strengthen the prospects for sustainable and inclusive growth.** The crisis is likely to require some labour and capital reallocation, although the extent remains uncertain. Some sectors most affected by physical distancing requirements and associated changes in consumer preferences may be permanently smaller after the crisis. A lasting shift towards remote working, reduced business travel and the increasing digital delivery of services could further change the mix of jobs available and their locations. Such potential shifts accentuate longstanding pre-pandemic issues from an extended period of weak productivity growth, widening inequalities in opportunities and outcomes, and the need to adjust to the long-term challenges of digitalisation and climate change. The policies put in place to foster the recovery from COVID-19 are an opportunity to address these old and new challenges.

15. **The sequencing of reforms will be particularly important to help the recovery gain traction and maximise the gains from reforms**. Measures with a fiscal dimension, such as planned public infrastructure investments in digital networks, transportation and energy, can help support demand and be an important source of new jobs for displaced workers. Strong income support for poorer households will help to make the recovery more inclusive and boost demand, given their high marginal propensity to spend. Strengthening economic dynamism by tackling barriers to market entry, and enhancing activation and skill acquisition, will also improve labour market opportunities for all and help to foster productivity-enhancing reallocation.

16. **Continued income support for households and companies remains warranted, but needs to be carefully targeted to facilitate the necessary reallocation of labour and capital across sectors and firms.** A key challenge is to provide sufficient support for viable jobs while helping displaced workers find new jobs in other sectors or locations. Firms in sectors not subject to mandatory restrictions could be asked to bear part of the costs of short-time work schemes to help signal jobs that are more likely to remain viable, with support remaining unconditional in other sectors. Equally, governments need to balance support for ultimately viable firms who can switch back to private capital markets as the recovery progresses, with steps to phase out support for other businesses. Debt financing and credit guarantees have helped to ease immediate financial constraints, but equity-type financing would be beneficial for many businesses, including SMEs. Possible approaches could include converting some pandemic-related public loans into grants, with repayment conditional on performance and regular assessments of viability, or strengthening incentives for private sector equity financing and co-participation in public support schemes.

17. **The shift towards the use of online platforms and teleworking during the pandemic has underlined the opportunities provided by digital technologies**. Effective and well-targeted policies are required to accelerate the digital transformation of public and private sector activities and to ensure that poorer households, small firms, remote regions and lower-income countries are not left behind. Improving broadband connectivity, helping firms develop online business models, enhancing digital skills, and ensuring secure online payments and data privacy, are all reforms that would help to foster the digital transformation.

18. **Government efforts to support the recovery need to take advantage of the opportunity to accelerate the transition towards a low-carbon economy and limit the long-term threat from climate change**. Many countries, including a majority of OECD member states, have made commitments under the Paris Agreement to reduce greenhouse gas emissions and achieve long-term carbon neutrality, but concrete actions on policies are lacking. Currently, most carbon emissions are either priced too low or not priced at all, and fossil-fuel subsidies continue to be widely used. Some governments have included "green" measures in their fiscal stimulus and investment programmes in response to the pandemic, but these are typically only a small share of the overall support provided, and the balance between green and non-green spending is relatively unfavourable. In this context, the OECD is developing – under the leadership of France – the International Programme for Action on Climate (IPAC), which seeks to help countries achieve the aims of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement.

19. **A clear roadmap for the alignment of long-term price signals with environmental and climate policy objectives, including through carbon pricing, would reduce environmental policy uncertainty and improve prospects for the funding of investments in clean technologies**. Such steps would need to be accompanied by a package of compensating measures to mitigate the adverse impact on poorer households and small businesses. Fiscal support through infrastructure investment projects, including expanded and modernised electricity grids and spending on renewables, and incentives to encourage energy-efficient buildings and appliances, would help to reduce emissions and provide a source of demand and new employment opportunities.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-6

Statement by Mr. Ryder
International Labour Organization

Statement by Mr Guy Ryder, Director-General, International Labour Organization, to the IMFC

Washington D.C., April 8, 2021

Summary

- **The equivalent of an unprecedented 255 million jobs were lost** as a result of the COVID-19 pandemic. Global unemployment increased by 33 million in 2020, with the unemployment rate rising by 1.1 percentage points to 6.5 per cent while 81 million workers quit the ranks of the labour market altogether, and millions of enterprises were forced to close or sharply curtail their activities.
- **This led to a sharp increase in poverty and inequalities**. Global labour income declined by 8.3 per cent, which amounts to US$3.7 trillion, or 4.4 per cent of global GDP. The number of working people in extreme poverty (i.e. earning less than US$ 1.90 per day in PPP) increased by 31 million worldwide between 2019 and 2020, bringing the extreme working poverty rate to 7.8 per cent (up from 6.6 per cent in 2019).
- **The loss in labour income has been distributed unevenly between workers**, with youth, women and low-skilled workers seeing the sharpest drops in disposable income. The massive job losses in hard-hit sectors contrast deeply with the positive job growth evident in a number of higher skilled services sectors. This divergence increases inequality within countries, but also across countries depending on the severity of the employment impact on the hardest-hit sectors.
- **These differential effects of the crisis are likely to leave an enduring scar on the overall macroeconomic performance** of economies. If they persist for an extended period, lower labour force participation and productivity growth will reduce the growth potential of individual economies and the world economy as a whole.
- Given the uncertainties on the speed and quality of the economic recovery, ILO employment forecasts reveal **persistent global working-hour losses in 2021**, amounting to 3.0 per cent of total hours lost relative to the fourth quarter of 2019. This is equivalent to a forecasted loss of 90 million full-time jobs in 2021.
- **The world needs to invest in a human-centred recovery from the crisis and focus on achieving resilience through the pursuit of social justice**. This requires to invest in strengthening the capacities of all women and men to benefit from the opportunities of a changing world of work; strengthening the institutions of work to ensure adequate protection of all workers; and promoting full and productive employment through massive investments in the digital, green and care economies.
- **Social dialogue** between governments and employers' and workers' organizations will be essential to build the consensus needed to achieve a successful and sustainable recovery.
- **Climate change** is not only a macro-critical risk. It threatens people's livelihoods. With comprehensive and concerted policy action to address climate change, we can bring positive durable change to our well-being, create decent employment and safeguard our planet.

Economic and social outlook

An unprecedented 255 million full-time equivalent jobs lost as a result of the COVID-19 pandemic

At the start of 2020, 3 out of 4 workers were still affected by restriction measures to stop the spread of COVID-19 – close to the peak of 85 per cent reached in late July 2020. Furthermore over 430 million enterprises worldwide operate in the four economic sectors hardest hit by the crisis, and since the pandemic began have needed to cease or sharply curtail business activities for long periods.[1] As a result, 8.8 per cent of global working hours were lost in 2020 relative to the fourth quarter of 2019, the equivalent of 255 million full-time jobs. This decline in working hours translated into both employment losses – an unprecedented 114 million jobs were lost globally in 2020 relative to 2019 – and a reduction in working hours for those who remained employed, with significant variation across regions. Employment losses were highest in the Americas and lowest in Europe where job retention schemes supported reduced working hours while remaining employed. In relative terms, employment losses were higher for women than for men, and for young workers than for adult workers.[2]

These unprecedented employment losses translated in an increase in global unemployment by 33 million in 2020, with the unemployment rate rising by 1.1 percentage points to 6.5 per cent. But employment losses in 2020 translated mainly into inactivity, which increased by 81 million[3], with the global labour force participation rate decreasing by 2.2 percentage points to 58.7 per cent.

A sharp increase in poverty and inequalities reversing progress made so far

Workers have suffered large reductions in the income they receive from work. Global labour income (referring to any income related to formal or informal employment undertaken for pay or profit, but without considering any government transfer and benefits) in 2020 is estimated to have declined by 8.3 per cent, which amounts to US$3.7 trillion, or 4.4 per cent of global gross domestic product (GDP).[4] The largest labour income loss was experienced by workers in the Americas (10.3 per cent).

Those sizeable labour income losses could push households into poverty in the absence of income support measures. The IMF estimates that by 2022, close to 90 million people will have fallen below the extreme poverty threshold since the pandemic started.[5] The ILO estimates that the number of employed individuals in extreme poverty (i.e. earning less than US$ 1.90 per day in PPP) has increased by 31 million worldwide between 2019 and 2020, bringing the extreme working poverty rate to 7.8 per cent (up from 6.6 per cent in 2019). The number of moderately poor workers (i.e. earning between US$ 1.90 and 3.20) has increased by around 77 million (for a moderate working poverty rate of 14.2 per cent, up from 11.3 per cent in 2019).

The reduction in labour income has been distributed unevenly between workers, with youth, women and low-skilled workers seeing the sharpest drops in disposable income. In addition, the latest labour force survey data (up to the third quarter of 2020) reveal the contrast between massive job losses in hard-hit sectors (such as accommodation and food services, arts and culture, retail, and construction) and the positive job growth evident in a number of higher skilled services sectors (such as information and communication, and financial and insurance activities). This divergence will tend to increase inequality within countries. At the same time, there is considerable variation across countries with regard to the severity of the impact of the crisis on jobs in the hardest-hit sectors.

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[1] ILO 2020. Enabling Environment for Sustainable Enterprises and the Post-COVID-19 Rapid Response. *ILO Policy Brief* (Geneva).

[2] ILO 2021. *ILO Monitor: COVID-19 and the world of work. Seventh edition*. Updated estimates and analysis. (Geneva).

[3] Over and above the increase in inactivity due to the growth of the working-age population, which amounted to an additional 73 million inactive people in 2020.

[4] Global GDP in 2019 using 2019 market exchange rates.

[5] IMF 2021. World Economic Outlook. January update. (Washington DC).

This crisis, therefore, interacts with and exacerbates inequalities, both between and within countries. In this sense, it poses a risk of an additional dimension of economic and social scarring at the international level as manifested in slower and more uneven progress toward poverty reduction, a deceleration of convergence in income between developing and developed countries and greater obstacles to the achievement of the Sustainable Development Goals by 2030.

The differential effects of the crisis are likely to leave an enduring scar on the overall macroeconomic performance of economies as well. The crisis' disproportionate impact on youth, women, lower-skilled, and poorer workers, including with respect to their pace of skills acquisition and health status, implies a significant decrease in labour force participation and reduction in productivity growth. If they persist for an extended period, lower labour force participation and productivity growth will reduce the growth potential of individual economies and the world economy as a whole.

The outlook for global labour markets

The IMF projected 2021 global growth at 5.5 percent[6], but prospects of a stronger recovery are emerging – because of additional fiscal stimulus, especially in the U.S., and the prospects of broader vaccination.

However, given the still high uncertainty on the speed and quality of the recovery, ILO employment forecasts reveal persistent global working-hour losses in 2021, amounting to 3.0 per cent of total hours lost relative to the fourth quarter of 2019. This is equivalent to the loss of 90 million full-time jobs assuming a 48-hour working week.[7]

Labour force participation is projected to remain below 2019 levels through 2022 for countries at all levels of economic development. Productivity growth is also projected to remain lower for countries at all levels of economic development -- less than half pre-crisis level. This deceleration is projected to be most pronounced in low-income and lower-middle-income countries – on the order of 2.5 and 3 percentage points, respectively.

A bridge to a human-centred recovery and achieving resilience

Without comprehensive and concerted policy efforts, there is a very real risk that the COVID-19 crisis will leave a legacy of widened inequality and social injustice.

Policy coherence among key international institutions is needed more than ever before to stop this from happening, building on the proposals in the ILO Centenary Declaration for the Future of Work. The ILO is developing a three-pronged approach to build a post-COVID-19 world that places human beings at its centre and within our planet's resource boundaries:

1. Investing in the creation of quality work, with improved productivity, to achieve full and productive employment
2. Equipping workers and those transitioning with skills and adequate social protection
3. Strengthening the institutions of work to ensure adequate protection of all workers

[6] IMF 2021. World Economic Outlook Update. January 2021 (Washington DC).
[7] ILO 2021. ILO Monitor: COVID-19 and the World of Work. Seventh edition (Geneva).

Investing in the creation of quality work, with improved productivity, through structural transformation to achieve full and productive employment

The global economy needs urgent measures and policies that reach the real economy, all workers, including the self-employed and non-permanent, casual and informal workers, and all sustainable businesses, especially small and medium-sized enterprises (SMEs). Maintaining accommodative macroeconomic policies for full and productive employment and promoting global solidarity through support for developing countries experiencing crisis-related reductions in fiscal and monetary policy space or unsustainable external debt obligations will be key in stimulating broad-based economic growth and employment creation. Similarly, countries should be given the space to provide financial support to maintain business continuity, particularly for SMEs and sectors hardest hit by the pandemic and preserve domestic and global supply chains, provide incentives to employers to retain workers despite crisis-related reduction of business activity, including work-sharing and shorter working weeks, supported by employment retention schemes and wage subsidies, measures to support their liquidity through the temporary suspension of tax and social security contributions, as well as access to other business support measures conditioned on retention of workers. Stimulus packages should also support the provision of public employment programmes and subsidies to sustain jobs and livelihoods through the crisis, especially in lower income countries, and the implementation of measures to assist workers and employers in informal micro and small enterprises, alongside support for formal enterprises.

Stimulating investment in employment-intensive sectors, including sustainable infrastructure, the green economy, the health and care economy, and the digital economy and closing the social protection financing gap are centrally important to achieve a human-centred recovery and build resilience. These investments in inclusive and sustainable growth need, however, to be supported by investments in people and their capacities to benefit from the opportunities of a changing world of work. The needs of people must be put before debt service and repayment. Countries must be given the fiscal space to invest in education and skills, reskilling and upskilling workers to equip them for their transitions into new sectors, better and higher paying jobs, in health and social protection systems that are comprehensive, covering all life-cycle risks – COVID-19 has demonstrated, for instance, the need for unemployment protection and sickness benefits – and provide adequate and predictable benefits to allow a life in dignity, to truly enable people to navigate their uncertain lives and to invest in their human capacities and capabilities.

Equipping workers and those transitioning with skills and adequate social protection

Skills and lifelong learning

Equal opportunity to access skills and lifelong learning is more than ever a key determinant of inclusive and sustainable development. The schools and training centres' closures and the broader economic impact of the crisis have deepened some of the existing inequalities or added new aspects. Infrastructural gaps further deepen inequality in access to education and training among young people within a country and internationally. The lack of internet and devices have made it impossible for disadvantaged groups to access learning and have limited their options to update or upgrade their skills; persons with disabilities, adult learners and other categories of learners report difficulties in using technology, digital content and resources, causing drop-out and jeopardising their employability. The digital divide therefore risks widening further. Economic hardship of families as a consequence of the pandemic might also increase drop-out with a risk of pushing children into child labour. [8]

[8] ILO/UNICEF 2020. *COVID-19 and child labour* (Geneva).

Improving access and transitions for all requires coordination and integrated measures, on the basis of social dialogue between governments and employers' and workers' organizations. As transition pathways become more complex, policy responses need to expand to support people through a wider variety of options, such as inclusive training environments and programmes; flexible learning options, including information and communications technology, mobile and blended learning; career and vocational guidance and individually tailored training and pre- and post-training services; learning entitlements; active labour market policies; comprehensive and integrated social protection; and skills recognition services.

Identifying and delivering future skills is critically important to realise a human centred recovery. Addressing existing and emerging skills needs and increasing the capacity of systems to respond to them will be crucial for education and training systems to keep abreast of global challenges and turn them into opportunities. This implies rethinking and reshaping skills systems to more effectively adjust to challenges and seize opportunities. New solutions are needed to improve quality and responsiveness and ensure adequate learning opportunities throughout people's lives.

Effective models for equitable access to lifelong learning, recognition and utilization of skills need to be more actively promoted. Assessing and understanding the aspirations and potentials of individuals and the needs of vulnerable groups, promoting career guidance and outreach are valuable instruments to raise awareness about learning solutions, empower individuals to use them and for better targeting of training offers and incentives.

Financing mechanisms and incentive structures should be reviewed to ensure an integrated approach that links lifelong long learning with social protection and macroeconomic and development policies to create more sustainable financing models. Non-financial incentives, technical and administrative support should be available to help enterprises make successful and strategic use of available financing and financial incentives. At the same time public and private training providers need to be accountable for the results of their programmes, through performance based financing that also encourages increased participation of social partners at sector level within their programmes.

Social protection

Reinforcing social protection systems is critical for an inclusive recovery. Policy discussions must focus on three areas:

1. Building social protection systems, including floors, to ensure universal access to comprehensive and adequate social protection. This requires using the momentum created by COVID 19 to transition from short term emergency measures to sustainable solutions to close gaps in social protection systems. This includes policy dialogues on extending social protection to those in the informal economy, ensuring that workers in all forms of employment have access to adequate health care and income security throughout their lives, which also helps to promote transitions from the informal to the formal economy and has significant social and economic pay-offs.[9]
2. Closing financing gaps and ensuring sustainable and equitable financing of social protection, alongside health and education, is of highest priority.[10] It is essential to ensure that sectoral ministries are involved in financing discussions with Ministries of Finance; that Integrated National Financing Frameworks (INFFs) prioritize creating fiscal space for social protection; that the potential for the further expansion of contributory social protection schemes to complement tax-financed provision be harnessed; and that means be explored for financial assistance to boost (not replace) domestic resource mobilization.
3. Preparing for future shocks and transitions by reinforcing existing social protection systems to increase their capacity and resilience to respond quickly and adequately to future shocks, adapting them to ensure that they

[9] ILO (2020) Extending Social Protection to Informal Workers in the COVID-19 Crisis: Country Responses and Policy Considerations; ILO (2021) Extending Social Security Coverage to Workers in the Informal Economy: Lessons from International Experience.
[10] ILO (2020) Financing Gaps in Social Protection: Global Estimates and Strategies for Developing Countries in Light of COVID-19 and Beyond; Durán Valverde, F., J. Pacheco-Jiménez, T. Muzaffar, and H. Elizondo-Barboza (2020) Financing Gaps in Social Protection: Global Estimates and Strategies for Developing Countries in Light of COVID-19 and Beyond.

can facilitate a just transition of the economy in the light of technological progress, digital transformations and climate change, including by strengthening support to workers who lost their employment through unemployment protection and other income support, facilitating re-skilling and the transition into new employment.

The consensus around the pressing need to effectively guarantee universal social protection has been reinforced in the wake of the crucial role played by social protection to cope with the consequences of the COVID-19 pandemic. We have an opportunity today to join forces around a common paradigm that recognizes both the value and the urgency of investing in comprehensive and adequate social protection systems.[11] Building resilience requires even greater commitment and collaboration on social protection at country level between ministries and institutions responsible for social protection, including ministries of social affairs, labour, economy and finance, sectoral ministries, as well as workers' and employers' organizations. Similarly, the ILO and the IMF have a shared responsibility to improve their collaboration and act together, while duly recognizing each partner's mandate, uniqueness and value added. This will be a determining factor in building back better and turning words and good intentions into a reality of social protection for all.

Strengthening the institutions of work to ensure adequate protection of all workers

Social dialogue and wages

Social dialogue and the fundamental rights to collective bargaining and freedom of association – key institutions of work - can help to ensure that in the future all receive a fair share of the fruits of progress. The economic and employment consequences of the COVID-19 crisis are likely to continue to inflict massive downward pressure on wages. But ILO research shows that improving the legal coverage and compliance with the minimum wage and raising the level, for example, up to two thirds of the median wage, have the potential to reduce income inequality, whatever the measure of inequality used[12]. In navigating the crisis and planning for the new and better "normal" after the crisis, governments, employers and workers should therefore seek to strengthen social dialogue around wages. Appropriate wage adjustments – both minimum wages and wages above existing floors– will be required to safeguard jobs and at the same time protect the incomes of workers and their families to sustain demand and avoid deflationary situations.

Occupational Safety and Health at work

Strengthening occupational health and safety systems can save millions of lives and build resilience. More than 2.8 million people die as a result of occupational accidents or work-related diseases every year. Additionally, there are some 374 million non-fatal work-related injuries each year that result in an average of more than 4 days of absences from work. The human cost of poor occupational safety and health practices is vast and their economic cost is estimated at close to 4 per cent of global GDP each year. The COVID-19 crisis has highlighted the cardinal importance of protecting health and safety in the workplace. All development projects financed by the multilateral development banks must strive to establish sound prevention, reporting and inspection practices and to provide for maximum safety at work in line with international occupational safety and health instruments (Convention No. 155, its 2002 Protocol and Convention No. 187).

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[11] USP2030 2019. Together to Achieve Universal Social Protection by 2030 (USP2030) – A Call to Action (Geneva).
[12] ILO 2020. Global Wage Report 2020-21: Wages and minimum wages in times of COVID-19. (Geneva)

Climate action for Jobs

The International Monetary Fund has recently pledged to put climate change at the heart of its work. Managing Director Kristalina Georgieva said that "Climate resilience is a critical priority".[13] There is considerable potential for creation of decent work associated with the transition to a low-carbon sustainable development path, which will assist to minimize and manage the inevitable dislocation that will accompany it. As part of national and global policy processes, a just transition framework provides the key for adaptation measures and mitigation actions to unleash the job creation potential of a low-carbon economy.

The trillions of dollars deployed in the economic recovery process can be a driver for sustainability and decent work creation. Initial findings by the ILO and research partners[14] indicate that a green recovery scenario with investments into renewable energies, building efficiency and green transport would add some 20.5 million jobs by 2030, far more than from a similarly sized stimulus based on cutting value-added taxes which would add only 3 million new jobs.

Inaction or uncoordinated action on climate change will put jobs and productivity at risk, both from the physical consequences of global warming, such as heat stress, and the lack of policy coherence between environmental, economic and social policies.

In this context, all partners should join the UN Climate Action for Jobs Initiative. The Initiative unites global efforts on the environment and decent work and will facilitate an inclusive and sustainable recovery from the COVID-19 crisis. The Initiative aims to boost climate action by ensuring that employment and people's well-being are at the centre of the transition to a carbon-neutral and climate-resilient economy. It brings policy, technical and programmatic support to assist countries in their commitments to a just transition to achieve ambitious climate change mitigation and adaptation goals, while enhancing quality employment creation and supporting those negatively affected, thus ensuring a transition that is fair, inclusive and productive. As governments around the world plan for recovery from the COVID-19 crisis, the Initiative can help them to build back better, fostering sustainable and resilient economies with decent work. It provides countries with tools for devising and assessing investment and policy options to maximize win-wins from ambitious climate actions. This includes skills development, which is a key to unlock the job potential of greener economies and to cushion its effect on displaced workers.

Achieving coherent multilateral action in support of a human-centred recovery

A global response is required to ensure that the economic and social recovery from the crisis is as human-centred in its impact as the effects of the crisis have been. Such a response should address pre-existing world of work challenges as well as the immediate impact of the pandemic with a view to building forward better. The ILO Centenary Declaration for the Future of Work provides an internationally agreed roadmap to build back more inclusive and more resilient societies. Sustained, increased effort and investment to accelerate the implementation of this roadmap should be made a top priority of public policy and international cooperation. The ILO will take all opportunities to harness the efforts of, and promote concrete cooperation with, other international organizations in support of a human-centred recovery in line with the Centenary Declaration. It will also contribute actively to the efforts of the UN system at the national and international level to ensure delivery of the 2030 Agenda and to promote all areas of multilateral cooperation in response to the COVID-19 pandemic.

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[13] Remarks by IMF Managing Director at the Climate Adaptation Summit, January 25, 2021.

[14] CAMECON & PAGE (forthcoming). Modelling a Global Inclusive Green Economy COVID-19 Recovery Programme. Cambridge Econometrics (Cambridge).

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-7

Statement by Mr. Sanner
Norway

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

Statement by Mr. Jan Tore Sanner, Minister of Finance, Norway
On behalf of Denmark, Republic of Estonia, Finland, Iceland, Republic of Latvia, Republic of Lithuania, Norway, and Sweden

Vaccine rollouts and continued large-scale stimulus are fueling recovery, while the fight against COVID-19 continues and uncertainty prevails

1. The unprecedented policy stimulus is giving strong support to economic activity and many economies seem to be coping better with containment measures than earlier in the pandemic. Vaccine rollout will further improve the outlook. However, continued high rates of virus infections cloud the near-term outlook. The recovery is highly uncertain and likely to be asynchronous and bumpy, risking a further divergence in well-being and economic opportunities for all.

2. The *race between the virus and vaccines* continues, escalated by new virus mutations. Stopping the virus globally remains crucial, both to save lives and to reach a path of sustained economic recovery. Accelerating vaccine production and distribution at affordable prices must continue to be the top global priority. A broad-based recovery will be hampered until the virus is in retreat everywhere. It is therefore crucial to continue support for the ACT-A collaboration and its COVAX facility to ensure global distribution of vaccines and other needed Covid-19 tools.

3. *Reinvigorating multilateralism and fostering a rules-based open global trade system* will be central to ensure the recovery is both sustainable and truly global. Global recovery will suffer, if the on-going trade tensions remain unsolved. The pandemic has demonstrated the importance of the multilateral system and international cooperation. Ensuring a level playing field, open markets, and broad distribution of the benefits from globalization will be vital for both the recovery as well as the longer-term prosperity of our economies.

Targeted policy support remains essential, but with increasing focus on transition towards policies that support reallocation...

4. The *unprecedented policy response has contained the impact of the pandemic and improved the economic outlook*. Policy support must not be withdrawn prematurely, but should be well-targeted, and modified as health conditions and economic circumstances evolve. As economies open up, the transition to policy normalization and longer-term policy agendas, including an adequate focus on structural reforms, must be carefully managed. Right timing, gradual pace and agility will be key to balance support and the need for necessary adjustments and reallocations of productive resources.

5. *Timely, well-targeted and temporary fiscal support* is needed in particular to help the hardest hit sectors and the young and the low-skilled, while safeguarding fiscal sustainability in the medium and long term. Policies need be tailored to country-specific circumstances. Central banks should continue monetary policy accommodation, within their mandate, to maintain favorable financial conditions and help the recovery take a firm hold, while being aware of upside risks. Guarding central bank independence remains a central pillar for monetary policy credibility. Potential

financial stability risks amidst elevated asset valuations and high debt levels call for vigilance and appropriate financial policies.

… while redoubling the efforts to build sustainable, inclusive and stable economies

6. *Looking beyond the current crisis, climate change is the existential threat.* Greater ambition and swift action are needed to increase the price of CO2 globally, which is the most efficient way to fight climate change. The transition to a green economy needs to be supported by investing in green infrastructure, advancing structural policies to address market failures and equity considerations as well as concerted global efforts to protect biodiversity.

7. Crisis measures must be complemented with policies that support *better and more equal opportunities.* Investment in affordable, accessible and high-quality education will be crucial to mitigate the adverse effects of the pandemic on both human capital and equality. Ensuring strong social safety-nets and universal access to health services will build resilience to weather future shocks. Policies should be geared toward improving productivity through investments in infrastructure, digitalization and R&D as well as by improving global opportunities by reforming the multilateral rules-based trade system, including the WTO.

8. *Financial stability* is a prerequisite for a sustainable recovery. Risks associated with vulnerabilities related to private and public debt accumulation and stretched valuations require constant vigilance. The transition from crisis measures to policy normalization and longer-term policy goals should be managed carefully to avoid cliff-edge effects and to mitigate potential volatility in economic and financial conditions.

The IMF's policy advice plays an important role in helping members consider how and when to unwind stimulus in a still turbulent environment

9. We commend the Fund for resuming surveillance and call for continued emphasis on country level surveillance. *IMF country analysis and advice, built on cross-country experience, will be even more important* as the membership navigates prevailing uncertainty and tries to effectively calibrate the macroeconomic response. The unwinding of policy support at different speeds may spur spillovers underlining the importance of an integrated approach to stability enhancing macroeconomic policies. We call for the completion of the Comprehensive Surveillance Review and the FSAP Review allowing the surveillance framework to respond to the current environment. Strong IMF Executive Board engagement in surveillance bolsters the legitimacy, evenhandedness and traction of IMF advice.

10. The IMF has a key role in *guiding the membership toward effective carbon pricing.* We call for macro-critical implications of climate change mitigation, adaptation, and transition management to be integrated in the Fund's surveillance. Climate change considerations should be incorporated into the assessment of sustainability of external positions and public finances, including long term debt sustainability. We strongly support the recent efforts to integrate climate change mitigation analyses and advice, including implications of carbon pricing, more systematically into Article IV's and climate-related risks into FSAPs. To enhance cross-country comparison and learning from 'best practices' cooperation with Finance Minister's Coalition

and NGFS remains important. Furthermore, the IMF should promote gathering and analyzing available data to support climate policies.

The Fund is well-suited to assist its members and the lending strategy should now focus on multi-year programs to help solve members' Balance of Payments needs

11. The IMF's quick scaling up of emergency funding supported a large share of the membership in liquidity needs arising from the COVID-19 shock. With continued heightened uncertainty and possible new spurs of the virus, augmented support to the countries most affected is warranted. However, for most members in need of external financing, *multi-year full conditionality programs tailored to countries' BOP needs, debt sustainability, adjustment needs and capacity to repay will provide a stronger anchor for recovery*. Furthermore, we strongly emphasize the importance of safeguarding the revolving nature of Fund resources and their catalytic character. Appropriate conditionality, including governance and anti-corruption safeguards, continue to be of the essence.

12. *Low income countries (LICs) are bearing a heavy cost from the crisis,* in part reflecting pre-existing vulnerabilities and limited policy space. This is visible through the concentration of demand for Fund resources from LICs and their elevated external financing needs in the coming years. The IMF, together with the international community, will need to provide a well-targeted and calibrated step-up in support to meet these needs. Increased Fund involvement in providing concessional financing needs to build on a sustainable financing framework underpinned by carefully designed policies, which support the member in reaching a sustainable growth path and leverage the fundamental catalytic role of the Fund. The IMF and World Bank should coordinate closely, also with other IFIs and MDBs, to ensure their measures are coherent and complementary. The Nordic-Baltic countries' strong commitment to support LICs is confirmed by our contributions to the Poverty Reduction and Growth Trust (PRGT) and the Catastrophe Containment and Relief Trust (CCRT), in addition to our substantive international development assistance efforts.

13. *Addressing sovereign debt problems in LICs and developing the global architecture for sovereign debt restructuring is a key priority for the IMF's crisis response*. IMF lending policies should support timely and right-sized debt restructurings, while avoiding excessive migration of risks to the Fund's balance sheet. We strongly support the efforts of the IMF and others in further increasing debt transparency and comprehensive reporting. Debt transparency plays an important role in the management of fiscal risks, improving the quality of debt analysis and potential debt restructurings and enabling successful program design. Furthermore, we call for the IMF to continue playing an active role in supporting the DSSI and in the implementation of the G20/Paris Club Common Framework.

14. In these exceptional circumstances and amidst the continued uncertainty, we *support a general SDR allocation* to improve liquidity for vulnerable countries and respond to the increased longer-term reserve needs of the membership. In addition, a new SDR allocation should be accompanied by broadening of participation in the VTAs. Further, we support enhanced reporting of SDR trading and use as well as better accountability of usage of SDRs, including a thorough ex-post evaluation of the allocation.

The Nordic-Baltic countries support a strong, quota-based and adequately resourced IMF at the center of the global financial safety net

15. The global crisis underlines the *need to maintain a strong and well-resourced IMF* at the center of the global financial safety net. We welcome the implementation of the previous package on IMF resources and governance, including doubling of the New Arrangements to Borrow (NAB) and completion of the new round of Bilateral Borrowing Agreements by most countries. We are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th Quota Review within the agreed timetable. We see the current size of the IMF resource envelope as adequate in the short and medium term and are willing to support a quota increase in the 16th Quota Review that will both reinforce the primary role of quotas in IMF resources and address underrepresentation. Such a quota increase rests on a fair, rules-based and transparent distribution of quotas. The current quota formula provides a good foundation for achieving this goal.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-8

Statement by Mr. Kganyago
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 and Financial Committee
Forty- Third Meeting
April 8, 2021

Statement by Mr. Lesetja Kganyago, Governor for the South African Reserve Bank 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

The impact of the COVID-19 pandemic on the global economy has been unprecedented. The virus has taken a severe toll on human lives with disproportionate effects on vulnerable groups. The impact on our economies has been significant in the context of pre-existing vulnerabilities, including weaknesses in our health systems. Thus, the availability and even distribution of vaccines to all countries is essential to preserve human lives and achieve population immunity to lay the groundwork for a durable exit from the crisis.

The global economy is showing positive signs of recovery, supported by an unprecedented policy response. We note that GDP projections for 2021 have been revised upwards, benefiting from the optimism about vaccine production and distribution. **However, this outlook remains uncertain and uneven.** Mutations of the virus and subsequent waves of infection, amid limited vaccine access and deployment, could result in a delayed recovery. The IMF estimates that over 150 countries will see per capita incomes below pre-COVID levels and nearly 90 million people are expected to fall into extreme poverty by the end of 2021. Output losses in emerging market and developing economies (EMDEs) are expected to be higher than in advanced economies. **We are, therefore, concerned that the extent of economic divergence resulting from the COVID-19 crisis could see many countries left behind.**

Against this background, **we welcome the IMF's immediate policy priorities centered around tackling the crisis and safeguarding the recovery**. International cooperation to ensure universal access to vaccines is central to a sustainable recovery. Essentially, vaccine policy is synonymous with economic policy. Concurrently, policy efforts should remain geared to support vulnerable households and businesses until the recovery is firmly entrenched.

Sub-Saharan Africa (SSA) remains vulnerable. The regional economy is projected to rebound in 2021. However, the level of GDP growth is anticipated to be significantly lower than before the COVID-19 crisis. The contraction of the regional economy in 2020 was driven by pronounced declines in travel, trade, tourism, remittances, and capital flow reversals. Given pre-existing vulnerabilities in SSA, the COVID-19 crisis is likely to leave deep scarring effects, including on physical and human capital, worsen poverty and inequality and will contribute to digital exclusion and increased risk of social discontent. Against this background, governments in the region will prioritize structural reforms to support economic recovery, employment, and productivity; enhance resilience; lift potential growth; and promote inclusion.

The region needs to build resilience in the face of possible future external shocks. Such resilience would provide a firm foundation for the region's projected strengthening over the medium-term. The region's improved growth prospects are in contrast with the projected moderation of the global economic recovery in 2022.

We endorse the Global Policy Agenda. In particular, we welcome the IMF's efforts to tackle weaknesses in tax systems, address illicit financial flows, strengthen social safety nets and improve governance.

A strong global financial safety net remains critical to enable countries to deal with short term liquidity challenges, while putting in place policies to sustain the recovery. The IMF estimates that low-income countries (LICs) would need to deploy around US$450 billion up to 2025 to step up their response to the pandemic and build adequate reserve buffers, as well as increase investment spending that would accelerate their income convergence with advanced economies.

We call on the IMF to make the proposal for the new general SDR allocation of US$650 billion in a timely manner. Elevated health-related expenditures as well as weak revenues have created large fiscal and external financing gaps for SSA countries. Considering the large external financing needs, and the negative repercussions of the pandemic, we strongly support the proposed general Special Drawing Rights (SDR) allocation, which would augment global liquidity and support the reserve positions across the Fund membership. We also urge the IMF to explore the voluntary re-allocation of existing SDRs from members with strong external positions to benefit countries in need of liquidity, including middle-income countries (MICs).

A holistic approach is needed to restore debt sustainability. Ongoing efforts, including debt transparency and re-orienting spending towards priority investments and social protection, are essential to ensure long term fiscal and debt sustainability. To complement these efforts, countries in our region will prioritize implementation of measures to enhance domestic revenue mobilization, broaden the tax base, and improve tax administration. Multilateral cooperation and support from the international community will continue to play a vital role in dealing with debt vulnerabilities to accelerate growth and restore debt sustainability. We, therefore, endorse the Fund's approach to debt management and the multipronged approach (MPA). We encourage the IMF to continue to provide the necessary capacity development support to strengthen debt management and enhance transparency in debt recording.

We support the debt relief through the Catastrophe Containment and Relief Trust (CCRT) and the G20 Debt Service Suspension Initiative (DSSI), which unlocks resources for the poorest and most vulnerable Fund members, including the fragile and conflict-affected states, to help fight the pandemic. To this end, we welcome the extension of the DSSI and the approval of the third tranche of CCRT debt service relief for 28 CCRT-eligible members during the period from April 14, 2021 through October 15, 2021. We look forward to the expeditious operationalization of the Common Framework for Debt Treatments beyond the DSSI. At the same time, we encourage the full participation of private creditors, in a way that moderates adverse market and credit rating agency reactions. We call for increased multilateral efforts to improve the architecture for sovereign debt resolution to facilitate expeditious debt treatments.

We commend the Fund's swift response to provide critical support since the onset of the pandemic. We welcome the Fund's prompt provision of emergency financing, including through augmenting existing financial programs and temporarily extending modified access limits, to create additional fiscal space to tackle the pandemic. We draw attention to the role of precautionary financing instruments in helping eligible countries deal with external tail risks.

In this context, we urge the Fund to ensure timely adaptation of its lending toolkit to the evolving needs of LICs and MICs during the recovery. We also want to encourage the IMF to explore non-traditional and predictable funding options to boost the Poverty Reduction and Growth Trust's (PRGT) resources as well as to deploy more resources towards capacity development. We look forward to the review of the Fund's concessional lending capacity, including more permanent reforms of PRGT facilities.

Fund surveillance plays a critical role at both a bilateral and multilateral level in identifying risks and considering policy priorities and trade-offs. We, therefore, welcome initiatives to strengthen the Fund's surveillance toolkit, including the integration of capacity development into surveillance. Over the past year, IMF surveillance deepened our understanding of policy risks related to the spread of the COVID-19 pandemic and we value tailored policy advise provided by Fund staff. We welcome the resumption of Article IV consultations and prioritization of the completion of the Comprehensive Surveillance Review in mid-2021. To mitigate financial risks among all countries, the IMF should enhance analysis of the financial system in bilateral surveillance, including in LICs.

Given that the crisis has exacerbated tax revenue challenges in EMDEs and LICs, we welcome the agenda on revenue mobilization, including the resumption of work on illicit flows. The Fund's policy advice on the application of the Institutional View (IV), and the Integrated Policy Framework (IPF) tools, is also a critical workstream in the context of volatile capital flows. We welcome the IMF's focus on fostering knowledge sharing and multilateralism, and support the work with partners to enhance cross-border payments. Going forward, augmenting policy effectiveness and enhancing access to finance for the informal sector, including for small and medium-sized enterprises (SMEs), youth, women, and low-skilled workers will require sustained technical assistance support.

We recognize that risks from climate change are of increasing concern and agree that transition to a low carbon economy will help build resilience in our economies. Global cooperative efforts are, therefore, required to mitigate climate change and assist vulnerable countries with adaptation costs. In this regard, the availability of adequate, credible and predictable climate finance is critical to ensure that EMDEs deliver on climate action. Our approach to climate change must be consistent with the principles of the Paris Agreement. We welcome the IMF's efforts to strengthen surveillance to help us understand adjustment costs to a low-carbon future and the macro-critical implications of climate change, taking into account country differences. Appropriate technical assistance and capacity development will, however, remain important for countries in SSA, especially oil producers and those dependent on coal for electricity production.

The COVID-19 pandemic has highlighted the importance of multilateral cooperation in buttressing the global economic recovery. Therefore, we remain committed to upholding a rules-based multilateral trading system that builds resilience in global supply chains and strengthens international investment. To this end, resolving trade tensions should be prioritized. Furthermore, we call for global cooperation to promote broader connectivity, particularly in digitalization, which has the potential to contribute to productivity and inclusion.

Even as we get through this crisis, we should guard against complacency. We need to ensure that the Fund remains adequately resourced, to preserve its role at the center of the global financial safety net. The Fund remains the primary safety net for many African economies. We call on the Fund to complete the 16th General Review of Quotas (GRQ) no later than December 15, 2023. Constructive consultations on governance reforms and quota increases and realignments should proceed as planned to ensure credibility, reduce dependence on borrowed resources and ensure that the Fund remains a quota-based institution. Finally, we reiterate the longstanding call for a third chair for SSA at the Executive Board to strengthen our representation at the Fund.

Recruitment, retention and promotion of staff, from under-represented regions, including SSA, remain important. We call for sustained efforts to achieve the 2025 Diversity benchmarks to ensure increased gender and regional diversity.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-9

Statement by Mr. Fadli
Algeria

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

Statement by Mr. Rosthom Fadli

Governor of the Bank of Algeria

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

The COVID-19 crisis has taken a heavy economic toll and caused tragic loss of lives and immense human suffering. No country has been spared. The synchronized, forceful, and timely global policy response prevented a worse outcome, but the damage has been still very significant and widespread. The recovery is gaining momentum, though its course and pace are highly dependent on the dynamics of the pandemic. The pandemic's long term scarring effects are also still uncertain. The crisis has exacted a heavy toll on the low-income countries (LICs), in many cases reversing, in a matter of few short months, their hard-earned gains achieved over decades in alleviating poverty and improving social conditions. The vulnerable groups—youth, women, low skill labor and workers in the informal sector—have been hardest hit. The crisis has pushed millions of people into extreme poverty and severe food insecurity in addition to millions already suffering.

Saving lives is still the highest priority. Multiple waves of the virus and its still uncontrolled spread in some regions pose serious threats to the global fight against the pandemic and further loss of lives. The slow and uneven vaccine rollout, even in some advanced economies, and its very limited availability in the LICs are matters of serious concern. Enabling global access to effective and affordable vaccines is a global responsibility, and an ethical and moral issue.

We support the Managing Director's Global Policy Agenda (GPA) and its well-placed focus on creating conditions for a safe exit from the crisis followed by a sustained, strong and inclusive global economic recovery. We welcome the GPA's recognition of difficult challenges facing many developing countries in pursuing their development and social objectives, while facing severe financing constraint and high debt. We further welcome the increasing IMF emphasis on middle-income countries as many face stalled growth and large financing needs in tighter market conditions.

Our constituency is a heterogeneous group of countries and a mix of fragile and conflict-affected states, middle-income and frontier economies, and oil exporting countries. The crisis has severely impacted all countries of our constituency. Our authorities reacted swiftly to the crisis and implemented measures to alleviate its impact on lives and livelihoods, with some of our members benefitting from Fund emergency and/or Upper Credit Tranche (UCT) facilities. The economic recovery is gradually taking shape in our constituency, but at varying pace and degrees. The rebound of international oil prices provided welcome relief to oil exporters in our constituency, but financing pressures continue to persist, and economic diversification challenges remain. The oil importing countries in our constituency continue to face large fiscal and external imbalances and soaring public debt, although an upside surprise in remittance inflows has provided some relief.

The recovery of the LICs, most already beset by fragilities, is further constrained by the lack of fiscal space, elevated debt levels, declining aid and limited access to financing. While welcoming the ongoing international efforts to assist the LICs, including through debt service relief from the

IMF and the World Bank and the G20-led DSSI, we strongly believe that a broader international participation, including by private creditors, is critical given the LIC's debt vulnerabilities and the uncertainties that threaten their medium-term economic viability. The fragile states and countries afflicted by conflict and those hosting refugees in the MENAP+ region deserve close attention and timely and commensurate response by the international community.

The IMF's nimble and proportional response to the crisis, including through an expansion of its toolkit and higher access limits, provided a critical lifeline for members facing large financing needs. The crisis is still evolving and there is still need for emergency support. The requests of some 40 members are still pending, including that of a major country in our constituency. In this regard, we would like to reiterate our call on the Fund to ensure that its financial support, policy advice, and capacity development are available to all members in an evenhanded manner without exception. We support the IMF in scaling-up its work on the macro-critical implications of climate change, digitalization, poverty alleviation, youth employment, and inclusiveness in general.

We look forward to the successful conclusion of a new general SDR allocation of US$650 billion and encourage the Fund to work on options for voluntary reallocations of SDRs for the benefit of poorer members. We welcome the doubling of the New Arrangements to Borrow, as well as the renewal of the Bilateral Borrowing Agreements to meet the members' high and growing overall demand for Fund resources and the shift towards UCT arrangements. We welcome the work on the 16th General Review of Quotas and reaffirm our commitment to a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-10

Statement by Mr. Van Peteghem
Belgium

On behalf of
Principality of Andorra, 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. Vincent Van Peteghem
Deputy Prime Minister and Minister of Finance, Belgium
on behalf of
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, the Netherlands, North Macedonia, Romania, and Ukraine
April 8, 2021

<u>Global economic context, prospects and policies</u>

After a strong rebound in the third quarter of 2020, the recovery lost steam towards the end of the year. A resurgence of COVID-19 infections and the emergence of new, more contagious variants of the virus triggered the reintroduction or tightening of containment measures in many countries, further hampering economic activity. The subsequent economic slowdown was not as severe as during the first wave of the pandemic, owing to better preparedness, changing behavior and more targeted containment measures. Economic activity remained depressed during the early months of 2021 with containment measures still in place.

However, the fast development of vaccines has brightened the outlook beyond the near term. With vaccine roll-out in most advanced economies and some emerging economies under way, the vaccination of vulnerable populations is expected to ease pressure on health systems, enabling a gradual removal of containment measures which will give impetus to the recovery. With vaccines projected to become broadly available by the summer in most advanced economies and some emerging economies and supported by ongoing fiscal stimulus, the recovery is expected to firm up in the second half of 2021.

At the same time, the vigor of the global recovery looks to be highly uneven, depending on progress with the vaccination campaigns, future fiscal trajectories and spillover effects. Uncertainty also remains high, with risks predominantly linked to the success of the vaccination campaigns and the development of the virus. Emerging market and developing economies can provide less fiscal support and have on average been hit harder by the pandemic. Moreover, they are expected to take longer to gain access to adequate vaccines and vaccinate their populations as well as to return to pre-pandemic levels of economic activity. The prospect of such an uneven recovery would also have significant implications for developed economies due to economic interdependence and an inequitable roll-out of vaccines increases the risk of new and potentially more resistant virus mutations. Multilateral initiatives promoting more universal access to vaccines and treatments as well as access to financial assistance for the most vulnerable economies will be crucial in order to avoid a long-lasting reversal of progress towards their sustainable development goals and a new decade of debt crises.

Any premature withdrawal of support measures should be avoided, but continued support should be well-targeted towards affected businesses and households, tailored to the stage of the recovery, and take into account medium-term fiscal sustainability. Once consumption and investment opportunities are no longer hampered by the virus and confidence has been restored, the large savings buffers that have been built up during the pandemic could boost demand. As the recovery firms up, temporary support measures should give way to forward-looking measures aimed at a strong and sustainable recovery with the implementation of social and economic recovery plans. Structural reforms as well as public and private investments in infrastructure, digitalization, energy transition, healthcare and education will boost the economy, create jobs and lift productivity. **In the medium term, sustainable fiscal policies** are also warranted in view of population ageing and the need to rebuild buffers to absorb future shocks. This is particularly important for countries which entered this crisis with already high debt levels, as it cannot be assumed that interest rates will remain permanently low and in themselves ensure that debt remains on a sustainable path.

Exiting support policies in a timely manner is also imperative in order to encourage the fluid reallocation of resources. In the acute phase of the coronavirus crisis, the principal risk was that, owing to a lack of adequate support, too much of the production potential and associated employment would be lost with the disappearance of viable businesses. Once the economy is out of this danger zone, however, another risk will emerge; namely that of excessive and inefficient support to artificially ensure the survival of unviable businesses and jobs. A delay in the reallocation of capital and labor would not only entail budgetary costs, but it would also lead to a recovery that is neither vigorous nor sustainable if it relies on so-called zombie firms. However, allowing zombies to fail while ensuring a sound level of economic activity and employment requires a speedy reallocation of capital and labor between firms. Priority for policymakers is to ensure that the necessary transitions will be easier, by raising the efficiency of insolvency procedures, stimulating entrepreneurship, encouraging innovation, and improving the adaptability of the labor market.

The post-pandemic recovery provides an opportunity to accelerate the transition to a more digital and green economy. Climate change in particular is a systemic threat and measures to reduce carbon emissions as well as policies that strengthen climate adaptation and mitigation form an integral part of a sustainable and resilient economic recovery. While further unlocking the potential of the digital economy, implications for inclusion and taxation should be taken into account. Public investment has a major role to play in providing the necessary infrastructure for a green and digital economy. Governments also need to facilitate and encourage private sector involvement, as the private sector will have to be involved in the investment efforts. The best way to get the most optimal results in this respect is to ensure consistency and synergy between private and public investment projects.

The fallout of the pandemic has been very uneven for different social groups, with the most adverse impact born by women, school-going youth, the low-skilled, new entrants to the labor market, the informally employed, and those who work in contact-intensive sectors. These groups warrant special attention from policymakers so as to ensure an inclusive recovery.

Trade must play its full role in the recovery from the pandemic and in the green and digital transformations of the economy. To make globalization more sustainable and resilient to competitive distortions, adaptations to the international rulebook that governs trade are needed. A reformed and more effective World Trade Organization must remain at the heart of the multilateral rules-based trading system.

<u>The Fund's role and institutional issues</u>

Navigating its entire membership towards a safe exit from the crisis and securing a transformational recovery, the Fund continues to play a central role in supporting the membership through tailored policy advice and surveillance, lending and capacity development. We support the ambition of the IMF to recast itself, within its mandate, to keep tackling urgent challenges in an ever-changing world.

General SDR allocation

We support a new general allocation of Special Drawing Rights (SDR) by the Fund, which would provide liquidity on a global scale, while also demonstrating our strong commitment to multilateral cooperation.

We look forward to a detailed proposal that touches upon technical modalities, such as options to improve transparency around SDR transactions and guidance on the appropriate use of SDRs by all countries. We are in favor of expanding the number of participating countries in the Voluntary Trading Arrangements to ensure appropriate burden-sharing.

Debt situation in low-income countries

While many developing and emerging economies already experienced debt vulnerabilities before the start of the pandemic, the pandemic has accelerated the pervasiveness and severity of debt problems in these countries. For many developing economies debt vulnerabilities have not (yet) translated into solvency problems, in part due to easy financing conditions, the response of international financial institutions and the suspension of debt service payments by official creditors, Yet given the uncertain outlook, the risk of debt distress materializing in a number of developing economies remains high. Against this background, we very much welcome the Fund's ambitious work program on debt and in particular further progress in the implementation of the joint World Bank and IMF multipronged approach to reduce public debt vulnerabilities in low-income countries (LICs).

Effective multilateral cooperation is required to address this renewed debt challenge. We remain committed to supporting fully transparent implementation of the G20 Debt Service Suspension Initiative (DSSI). At the same time, it is of the utmost importance that the resolution of structural debt vulnerabilities is not postponed. Tailored upper credit tranche-quality lending programs can be instrumental in addressing debt vulnerabilities.

The Common Framework for Debt Treatments beyond the DSSI has a key role to play in facilitating timely and orderly debt treatment for DSSI-eligible countries. In that respect, we attach particular importance to the consistent application of time-tested rules and principles developed by the Paris Club, such as the comparability of treatment amongst creditors (private and official), debt disclosure and transparency. We call on the IMF to contribute to a swift and effective implementation of the Common Framework.

We welcome the IMF's analysis of external financing needs for low-income countries and the review of concessional financing, including a financing strategy for the Poverty Reduction and Growth Trust (PRGT), to scale up efforts to support vulnerable countries that were the hardest hit by the crisis. At the same time, we invite the IMF to keep a holistic view of all initiatives taken by the IMF and by other IFIs to support LICs and to assess their possible combined effect, thereby keeping true to its catalytic role.

Lending strategy

We commend the Fund for stepping up its efforts last year to support vulnerable countries through emergency financing. As the economic and health situation evolves, however, IMF's lending has to evolve as well towards the Fund's more standard lending programs. In this respect, we welcome the Global Policy Agenda's reference to the shift in lending to upper credit tranche-quality lending programs. These programs are in fact more suitable to the needs of countries during the recovery phase and include more governance safeguards.

Climate change

Climate change is a huge challenge for the entire Fund membership. We recognize all the IMF is already doing in this domain. We encourage the IMF to further step up its efforts to provide guidance on the macroeconomic and financial challenges related to this issue, including mitigation and adaptation policies, and transition management. We believe that these elements should further be integrated into the Fund's surveillance and all other Fund activities. We welcome the first steps taken on this front. The recovery from the current crisis needs to be sustainable, fiscally as well as environmentally friendly. The greener the recovery from this crisis, the stronger, more resilient, and more sustainable it will be.

In resetting a growth trajectory that is sustainable going forward, it is critical to properly assess the economic impact of climate risks and the measures required to adapt to and mitigate them. We are therefore convinced that the Fund, with its broad membership, has a crucial role in providing guidance towards a green recovery, while monitoring potential risks. Furthermore, the Fund should collaborate closely with other organizations in order to leverage their expertise, within their respective mandates, thereby avoiding overlaps.

Quota and Resources

We welcome the conclusion of the process that led to the doubling of the New Arrangements to Borrow (NAB) and the new round of bilateral borrowing agreements (BBA) on January 1, 2021. Our Constituency will work constructively towards the completion of the 16th general review of quota (GRQ).

We reiterate our support for an adequately resourced, quota-based IMF at the center of the global financial safety net. Our support is fortified by the shocks to the economy due to the consequences of the pandemic that remain difficult to predict. However, as IMF resources are not unlimited, the IMF should use them prudently by supporting timely debt reprofiling and/or restructuring when needed, avoiding excessively large precautionary loans for extended periods of time with no clear exit strategy, and catalyzing other (private) financing.

Social and governance issues

We continue to support the Fund's engagement on social and governance issues, including its efforts to further operationalize the framework on social spending. Acknowledging that the responsibility for governance issues lies first and foremost with the national authorities, we believe that there is scope to further strengthen the messages and specific actions to tackle corruption, where relevant, through the main modes of Fund engagement (programs, surveillance and technical assistance). The Fund can thus continue to play a key role in promoting policies that contribute to sustainable and inclusive growth.

Surveillance

We underline the importance of candid and agile, focused, and timely surveillance as a crucial contribution to crisis prevention and strengthening countries' resilience, thereby increasing the relevance and traction of the Fund's advice.

We agree that the Fund's core set of policies (i.e. exchange rate, monetary, fiscal and financial sector policies) should continue to be appropriately covered in all reports and Board discussions, while emerging issues should be selected on the basis of their macro-critical significance.

As we observe divergence between the financial sector and the real economy, we need to ensure that the health and economic crises, including the (rising) debt developments in various sectors, do not turn into a financial crisis. For this reason, we reiterate the importance of the IMF's Financial Sector Assessment Programs (FSAPs), which should be conducted frequently for countries with a systemically important financial sector. We look forward to proposals for further integration of FSAP recommendations into Article IV Consultations. In addition, we would also want to include climate-related financial risks structurally in the Fund's surveillance framework.

Support for members

Within our Constituency, Armenia, Georgia, and Ukraine are currently engaged in SBA or EFF arrangements with the Fund, while Moldova reached staff-level agreement on an ECF/EFF arrangement on July 27, 2020. In addition, Bosnia and Herzegovina, North Macedonia, Moldova, and Montenegro benefit from emergency liquidity support through the RFI and RCF. The members of our Constituency merit continued support from the Fund and the international community in responding to the economic impact of COVID-19 and in achieving their broader policy goals.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-11

Statement by Mr. Hong
Republic of Korea

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. NAM-KI HONG
DEPUTY PRIME MINISTER AND MINISTER OF ECONOMY AND FINANCE
(REPUBLIC OF KOREA)
ON BEHALF OF THE ASIA AND THE PACIFIC CONSTITUENCY

Global Outlook and Risk

The global economy is recovering from the pandemic more quickly than previously expected thanks to extensive policy support and rapid progress in vaccine development.

However, the pathway to global recovery will be divergent across countries due to uneven access to vaccines, varying policy space, different economic structures, and pre-existing vulnerabilities. Within countries, certain groups such as the youth, women, and low-skilled workers and contact-intensive sectors are being disproportionately impacted. These divergences could be exacerbated by the digital divide as the pandemic is accelerating the transition towards a digital economy.

The outlook is highly uncertain, primarily associated with the path of the pandemic as well as the speed and extent of vaccination developments. The extent of economic scarring, and how this links to preexisting vulnerabilities, is still a big unknown.

Risks to financial stability from excessive risk-taking and stretched valuations are rising partly on the back of continued monetary easing. Rising interest rates in line with faster recovery in advanced economies could pose significant risks to global financial conditions and capital flows into emerging markets and developing economies.

Policy Response

The key priority continues to be to overcome the immediate health crisis everywhere. Strong international cooperation is necessary for adequate vaccine production, and widespread and equitable distribution of vaccines. There is no public investment that will bring a higher return than vaccines at present.

Macroeconomic policies need to strike a balance between focusing on safely exiting the crisis in the short term and, in the medium term, avoiding scarring and addressing structural issues including developing new growth engines and driving the transition towards green, digital and inclusive economies, while safeguarding financial stability.

Fiscal policy should remain supportive to help vulnerable households and viable firms in a targeted manner, where possible, within credible medium-term frameworks until recovery takes hold. As the recovery gets under way, policymakers need to make every effort to pursue transformative policies to boost digital and green investment, raise productivity, and promote inclusive growth, with positive spillovers provided to trading partners.

Monetary policy should remain accommodative, in line with central banks' mandates. Clear forward guidance and communication from advanced economy central banks will be critical to minimize adverse spillovers to the rest of the world. Countries should remain vigilant to rising risks, with macroprudential policy tools being used preemptively to avoid a legacy of vulnerabilities and limit systemic financial risks.

We must step up support to low-income countries (LICs) and small developing states, including in the Pacific, so that the recovery is shared equally. High quality grants and concessional financing are critical for these members that have limited or no access to markets.

As the world emerges from the enforced isolation of the pandemic, it will be important to return to rebuilding support for multilateral frameworks, especially in global trade. We continue to support an open, transparent, and rules-based trading system under the World Trade Organization.

Role of the IMF in Supporting Members

We support the Fund's efforts to help members navigate a durable exit from the crisis and to nimbly adapt to deliver on its mandate in a rapidly changing world.

We are pleased that the Fund is moving ahead with decisions on a general SDR allocation which will provide much needed liquidity to many emerging and developing economies. The new allocation may not be a silver bullet, but it is still powerful. The impact of the allocation could be further enhanced through well-coordinated structures to redirect the SDR holdings of countries with strong external positions on a voluntary basis to the most vulnerable members.

We welcome the Fund's support to help members transition to full-fledged UCT programs after the initial wave of emergency assistance. We are supportive of scaling up the Fund's capacity for concessional lending to LICs and look forward to comprehensive and constructive discussions on the review of the Fund's concessional financing. Further enhancement to and diversification of the Fund's lending toolkit may need to be explored so that it responds to members' growing financing needs as well as ongoing lessons from the pandemic. Given the changing shape and size of the lending portfolio, the Fund's operations should be bolstered by enhanced enterprise risk management.

With many difficult choices and trade-offs ahead for members, the Fund's policy advice will play a critical role. Advice must be granular and tailored to individual member's circumstances, such as macroeconomic policy mix, available policy space, the structure of the economy, financial market conditions, and the starting point for individual members. We highlight the importance of integrating surveillance, lending, and capacity development (CD). This is particularly true for small and fragile states with weak absorptive capacity, including those in the Pacific, where high-quality policy advice, hand in hand with strong and effective CD support, is extremely valued. Building on the experience with virtual CD during the pandemic, virtual delivery should continue to complement the in-person approach going forward.

We support the Fund sharpening its macroeconomic tools for effective surveillance and upgrading policy advice. We look forward to the Fund finalizing the Comprehensive Surveillance Review and the review of the Financial Sector Assessment Program. We expect these reviews will help the Fund step up work on the macro-critical implications of emerging areas such as climate change, digitalization, and inclusive growth, within its mandate. We also look forward to the forthcoming 2021 review of the Fund's Institutional View on the Liberalization and Management of Capital Flows, informed by the work on the Integrated Policy Framework and the IEO evaluation of the Fund's advice on capital flows. This up-to-date review allows members to benefit from the appropriate use of policy tools to secure macroeconomic and financial stability in the face of volatile capital flows. In addition, the Fund needs to assist many members who are in uncharted territory with unconventional monetary policy (UMP), including the interactions between the UMP tools and spillovers from their use.

We welcome the Fund's work on advancing the debt agenda as we anticipate a significant increase in debt vulnerabilities. Debt transparency and vulnerabilities must be closely monitored, and members should be assisted as needed to implement efficient debt restructuring. While the G20 DSSI and Common Framework will assist LICs, should debt issues extend to middle-income countries, the Fund and the international community will need to be ready to respond.

It is necessary for the Fund to have close collaboration with other international financial institutions and leverage the expertise of others, especially the World Bank Group. Key policy areas for cooperation include debt treatment, macro-financial surveillance, climate change, digitalization, and human capital investment.

We welcome the effectiveness of the doubling of the New Arrangement to Borrow and the new round of bilateral borrowing agreements with the participation of Korea, Australia, and New Zealand in our constituency. As global risks and vulnerabilities are elevated, it is important that the Fund should remain a strong, quota-based, and adequately resourced institution at the center of the global financial safety net. We are committed to constructive discussions on the adequacy of quotas and Fund's governance reform under the 16th General Review of Quotas with the aim to conclude by December 15, 2023.

We support that the IMF constantly strives to promote greater inclusion and diversity reflecting its status as a global institution.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-12

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 2021

Our deepest sympathies go to the families of Covid-19 victims and to those suffering from the hardships of this tragic pandemic.

Positive results from decisive policy action but uneven recovery

Decisive policy action has mitigated the impact of the pandemic and led to widespread upside revisions to growth. Growth in 2020 surprised some international organizations on the upside, however, it should not be totally unexpected. By mid-2020, the scale and forcefulness of the policy responses by advanced and emerging market economies indicated a reversal of the initial sharp downturn that followed the shock. Additional fiscal stimuli in key advanced economies and progress in vaccination suggest stronger global growth in 2021 than initially expected. Large output gaps and subdued inflation have led central banks to signal a protracted accommodative monetary policy stance in major advanced economies. However, market perceptions of fiscal and inflationary risks and related repricing of financial assets could lead to a more challenging environment for emerging market economies.

While there is reason for cautious optimism, the recovery has been uneven and subject to high uncertainty. That said, we see countries mostly improving at different paces rather than diverging. For sure, existing policy space, structural features, prevalence of new virus variants and speed of vaccine rollout are important factors behind the diverse pace of recovery in different parts of the world. On the other hand, factors that have contributed to a steeper downfall, could help on the way up. For instance, developing countries with large contact-intensive informal labor markets were particularly affected, but flexibility in those sectors could lead to a stronger response, as we overcome the pandemic.

Equitable access to vaccines to foster quick and worldwide vaccination is the highest-return investment globally. The availability and pace of vaccination is a key factor to accelerate recovery and, hence, fiscal rebalancing. Different paces of vaccine rollout magnify asymmetries between countries, with developing, especially low-income, countries facing greater challenges. Therefore, international cooperation is key to ensure that vaccines become adequately available in every country. We call on the public and private sectors, as well as multilateral organizations and bilateral cooperation to help bridge the financing and distribution gaps, including by incentivizing technology transfer and voluntary licensing of intellectual property.

Easy financial conditions have been key to lessen the fallout from the shock but fed into rising vulnerabilities. Leverage ratios have continued to increase to historically high levels with loose financial conditions and could threaten financial stability. As policies remain accommodative, financial stability must be closely monitored, and prudential frameworks strengthened. Liquidity support has helped keep solvent firms afloat, protecting jobs and averting scarring. However, letting go of nonviable firms, which is part of the cleansing process in a recovery, will be complicated by the high exposure of the financial sector to those companies.

<u>Brazil: revamping the tools to sustain a strong recovery</u>

Brazil's economy rebounded sharply in the second semester of 2020. Fiscal, monetary, and financial policy support dampened the massive shock and laid the ground for a strong recovery. Given the comprehensive and coordinated policy response, labor market adjustment took place mostly in the informal sector, while savings and credit expanded. This augurs well for a quick pick up in economic activity as the restrictions imposed by the pandemic dissipate. However, the new wave of Covid-19 casts higher than usual uncertainty and stress to the current scenario. Nonetheless, formal job creation posted a record 260 thousand for the month of January and the economy is projected to grow 3.2 percent this year.

With the recent Covid-19 upsurge, the new round of income support to the most vulnerable was tied to structural fiscal discipline measures. The emergency assistance was reinstated together with a constitutional amendment to re-anchor the fiscal accounts and ensure a downward path for public debt over the medium term. According to the new framework, among other measures, when certain triggers are activated, public sector wages and hiring are frozen at the federal, state, and municipal levels. Broad parliamentary support was gathered for this approach in which emergency assistance was unleashed together with stronger rules to rein in public expenditures. Hence, fiscal support and the protection of the vulnerable population came alongside measures to preserve fiscal sustainability.

After providing extraordinary monetary stimulus for quite some time, the central bank (BCB) started a process of partial normalization of monetary policy. The sustained increase in commodity prices and exchange rate depreciation, accompanied by the rebound in economic activity and the formal labor market have led to an upward adjustment in inflation and inflation expectations. Fulfilling its mandate, the central bank has raised the policy rate to ensure inflation and inflation expectations remain within target for the relevant horizon for monetary policy. Even with the recent policy rate hike, monetary policy remains very accommodative. Moreover, the financial sector, which was very well positioned when the crisis struck, has shown remarkable resilience.

Meanwhile, the market-friendly reform agenda to unleash Brazil's growth potential proceeds resolutely. In addition to the pension reform and the constitutional emergency amendment which tightened the fiscal framework, Congress recently approved the central bank independence law, after 20 years of failed legislative attempts. The broad-based transformational agenda covers diverse initiatives, several of them already implemented, including an efficiency-enhancing tax reform, de-earmarking and decentralizing expenditures, privatizations, further flexibilization of the labor market, and new regulatory frameworks for natural gas, cabotage, sanitation, and foreign exchange market, the latter in line with OECD principles. Furthermore, an extensive agenda of red tape removal and ease of doing business continues to make important progress.

In a nutshell, the approach to boost sustainable and inclusive growth in Brazil is three-pronged: intensifying mass vaccination, providing short-term fiscal support coupled with medium-term fiscal consolidation, and proceeding with pro-market reforms.

<u>The IMF at the center of the global financial safety net</u>

We welcome the broad support that has been mustered for a substantial general allocation of SDRs and commend the leadership of the Managing Director in this process. This injection of liquidity will help the membership by complementing international reserves and providing additional and timely leeway for Covid-related spending. Our focus now is to ensure that this allocation is successfully completed as quickly as possible. In the meantime, we urge the Fund to explore ways in which SDR holdings of countries with strong external positions could be channeled, under adequate safeguards, to complement Fund resources in support of reform efforts by low-income countries as well as small and medium-sized middle-income countries, the so-called "forgotten middle."

The Fund raised to the challenges posed by this unprecedented crisis. The initial response was focused on providing emergency assistance, with the notable approval of 85 emergency arrangements since the outset of the crisis. As we move to the stabilization and recovery stages of the pandemic, IMF support is transitioning toward programs to support macroeconomic stability and structural reforms. This healthy move, however, requires some adjustments in the way the IMF does business.

While we applaud the temporary increases in access limits to Fund facilities, more needs to be done to meet the needs of the Fund's most vulnerable members. One piece of the puzzle is to revamp the PRGT. We welcome the ambitious proposals being considered by the Executive Board to harmonize PRGT and GRA limits, increasing the level of financial support to PRGT-eligible countries and heightening the quality of Fund engagement with those counties. Of course, reforms need to be matched by funding arrangements to ensure the sustainability and financial soundness of the PRGT trust. We are open to consider a comprehensive funding package, in which the donor contributions would be complemented by mechanisms to mobilize Fund's own resources, including by promoting a new round of gold sales.

Small and medium-sized middle-income countries are among the most vulnerable part of the membership. They are generally not eligible to the PRGT, but they usually have constrained access to international capital markets and limited technical capacity. Also, a sizable portion of the world's poor live in those countries. They were hard hit by the pandemic, with their progress toward meeting the SDGs suffering a significant setback. Moreover, many of them are particularly susceptible to natural disasters, which have become more frequent and intense with climate change. Those countries are natural candidates to become beneficiaries of an effort to channel SDRs to complement IMF-supported programs.

The close policy dialogue with country authorities in well-tailored surveillance is among the most valued service the Fund offers to the membership. The richness of surveillance lies on its country-specificity and in the cross-country institutional knowledge that is unique to the Fund. Global consistency of bilateral surveillance should result from successive iterations, reflecting deep analysis of country-specific circumstances and features. It should never be imposed by a top-down approach. Rather, it should entail nuanced and candid policy advice that is reflected in both IMF country and cross-country outlets.

Traction of IMF policy advice would be much enhanced by focusing on the areas where the institution has a long and well-established expertise and on where it cannot be replaced on par by others. The magnitude of the challenges faced by the membership on fiscal, monetary, external, and financial policies is enormous. Other issues can be brought into the scope of surveillance, but only through the lenses of their macroeconomic dimensions. Such focused approach is of the essence to ensure that the limited IMF resources are employed where they can yield the most and where the Fund does not have any close substitute.

Finally, the Fund's effectiveness and legitimacy hinges on a successful conclusion of the 16th General Review of Quotas (GRQ) in line with previous commitments. We welcome the timely completion of the doubling of the NAB and the new round of bilateral borrowing agreements. We commend the countries that participate in both initiatives. However, the quota-based nature of the Fund needs to be restored, by relying again mostly on own rather than borrowed resources. Moreover, the Fund's size should be commensurate with the bulk of the risks facing the global economy, which implies a substantial increase in the current size of the Fund, as preliminarily shown by staff. Also, the 16th GRQ must deliver on the decade-long quota and governance commitments, which call for quota shares to better reflect the economic weight of its members, while protecting its poorest and smallest members. We welcome the initial discussions and look forward to a successful and early conclusion of the 16th GRQ.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-13

Statement by Ms. Mohd Yunus
Malaysia

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 Nor Shamsiah Mohd Yunus
Governor, Central Bank of Malaysia

International Monetary and Financial Committee April 8, 2021

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

We express our sympathies for the loss of lives as a result of the COVID-19 pandemic.

Global and Regional Outlook

1. The better-than-expected global economic recovery prospect is testament to the unprecedented and swift macroeconomic policy actions by authorities globally. Moving forward, the increasing unevenness of the recovery across countries, economic sectors and demographics, calls for more targeted policy responses, as well as stronger international cooperation.

2. SEAVG economies have shown encouraging signs of recovery beginning the second half of 2020. As with the rest of the world, however, there remains uncertainty on the outlook, with growing risk of divergence across SEAVG economies, and uneven recovery across different sectors and economic groups within countries. Contact-intensive sectors, and economies dependent on tourism and remittances, continue to be negatively impacted. SEAVG economies remain susceptible to the high uncertainty surrounding the pandemic given potential mutation and new variants, efficacy of vaccines and rollout challenges, as well as spillover risks arising from continued trade tension and potential disorderly policy withdrawal which could result in volatile capital flows and increase in risk premia.

3. The fragile and uneven recovery highlights the importance of designing prudent exit strategies that will ensure a sustainable and inclusive economic recovery. Continued support from the Fund and the international community remains vital for many countries.

Roles and Priorities of the Fund

Safeguarding the International Monetary System

4. We welcome the Fund's efforts in safeguarding the international monetary system, particularly through rapid and large financial support to its membership. The Fund should continue to play a meaningful role in facilitating policy coordination at the global level through robust surveillance and sound policy advice. In addition, we support the proposal for a general Special Drawing Rights (SDRs) allocation to supplement existing global reserves and address members' short-term liquidity needs at a time when most members continue to face prolonged uncertainties from the pandemic. We also welcome the Fund's effort to explore options for members with strong financial positions to deploy their SDRs to support vulnerable and low income countries (LICs). Beyond a general SDR allocation, it is crucial for the Fund to continue strengthening the global financial safety net, including through strong cooperation with other regional financing arrangements.

Supporting vulnerable members in light of the divergence in economic recovery

5. We commend the Fund's swift support to its most vulnerable members since the onset of the pandemic. We support the Fund's efforts to flexibly tailor its lending toolkit to meet the evolving needs of members and prioritize efforts to support the LICs, small states, and fragile economies by ensuring adequate financing resources, continuous capacity development, and policy advice that are practical and relevant to each member's domestic circumstances.

6. We support the Fund's work in advancing the debt agenda given the rise in debt vulnerabilities during the pandemic. These include enhancing debt transparency, facilitating debt restructuring, and ensuring debt sustainability. Close monitoring of debt vulnerabilities, continued implementation of the joint work with the World Bank on the Multipronged

Approach for addressing debt vulnerabilities and the Fund's role in the implementation of the G20 Common Framework for Debt Treatments and G20 Debt Service Suspension Initiative (DSSI) will help members better manage increasing sovereign debt risks. Besides sovereign debt, we also encourage the Fund to support members in addressing corporate, small and medium enterprise (SME) and household indebtedness through the Fund's policy advice and technical assistance.

Fund surveillance and policy advice (IPF)

7. To ensure a safe-exit and sustainable recovery from the crisis, the Fund needs to deliver robust surveillance and pragmatic policy advice. As the pace of recovery remains uncertain and many members still struggle with the economic impact of the pandemic, the Fund should continue to play its role in ensuring that unwinding of existing policy measures are not done prematurely or in a disorderly manner.

8. We welcome the Fund's increased recognition of the need for policymakers, particularly those in the emerging economies, to have a broader policy toolkit at their disposal. The Fund's work on the integrated policy framework (IPF) would be instrumental to ensure that Fund advice remains practical, flexible, and country specific, guided by a robust framework that considers policy efficacy, trade-offs, and suitability. We also welcome the upcoming review of the Institutional View on the Liberalization and Management of Capital Flows that will further complement the operationalization of the IPF and provide practical guidance for assessing the effectiveness and appropriateness of capital flow management measures.

9. The Fund's role to advocate for a durable resolution of trade tensions and strengthen the rules-based multilateral system remains key to support sustainable investment and international trade. We welcome the important role of the Fund to provide a robust assessment on global imbalances and support further improvement to the EBA methodology. At the same time, the Fund should continue to recognize that a multilaterally-consistent and model-based approach has its limitations and care must be taken in interpreting the model results. The strategy for addressing imbalances should center on the structural factors driving the imbalances instead of focusing primarily on exchange rate policies.

Supporting a sustainable recovery

10. We welcome the Fund's agenda to facilitate members' efforts to secure transformational recovery, particularly on macro critical areas related to climate change, digitalization, and inclusive growth. We support the Fund's role in assessing the macro-financial impact of these areas and working closely with other international partners to avoid duplication of work and to maximize synergy moving forward. The Fund can play an important role to increase global preparedness to manage climate-related risks and facilitate orderly transition. The different stages of development across the membership, as well as country specificities and constraints, should be taken into account when providing climate-related policy advice.

Fund resources and Governance

11. The pandemic has highlighted the need for the Fund to better prepare for a truly global shock. We welcome the Independent Evaluation Office's plan for a two-stage review of the Fund's crisis response to the pandemic. A timely completion of quota and governance reforms under the 16th General Review of Quota by end-2023 will also be crucial to strengthen the credibility, legitimacy, and effectiveness of the Fund. We continue to see scope for a realignment of quota share of dynamic economies, particularly emerging markets and developing countries, to better reflect their growing relative positions in the global economy, while protecting the representation of the poorest members.

12. Beyond quota reforms, the global pandemic has increased the urgency for the Fund to re-assess its resources in a comprehensive manner. Given the uncertainty surrounding the extent of economic scarring and the impact of unprecedented policy responses following the pandemic, assessment on potential demand for Fund resources cannot be business as usual. The IMF should also explore more innovative options to strengthen its financial capacity to enhance its ability to meet the financing needs of the membership.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-14

Statement by Mr. Matolcsy
Hungary

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

Statement by György Matolcsy,

Governor of the Central Bank of Hungary

on Behalf of Austria, Belarus, Czech Republic, Hungary, Republic of Kosovo,

Slovak Republic, Slovenia, and Turkey

at the 43rd Meeting of the International Monetary and Financial Committee

Washington D.C., April 8, 2021

Global outlook

The global economy is expected to recover markedly in 2021 after the COVID-19 pandemic led to a historic economic contraction in 2020. The path of economic recovery still depends heavily on the evolution of the pandemic which has presented unprecedented challenges both for societies and economies, creating severe hardships across the world. Although the massive fiscal and monetary responses helped lessen the financial impact and prevented an even more severe economic depression, the economic situation remains fragile, surrounded by a high degree of uncertainty.

Vaccination is the primary policy tool to exit from the crisis. Thus, the international community should redouble its efforts to help enable widespread and rapid vaccination campaigns across the world in an affordable and fair manner. It is key to strengthen dialogue with the manufacturers, facilitate the scale-up of production capacity, enhance the transparency of production, bolster financing for delivery, as well as aid the wider acceptance of vaccines proven to be safe and effective.

Meanwhile, authorities should also enhance their efforts to prevent the projected divergence in the economic recovery. In this vein, there is still a need to maintain the carefully calibrated stimulus measures until the recovery is on a firmer footing. We note with concern that the convergence in per capita GDPs is expected to halt in a wide range of emerging markets and developing countries, as the crisis has resulted in substantial output losses. We stress the need for targeted policy measures, while considering that the structural characteristics and policy space of these countries, as well as their exposures to the pandemic, differ significantly. Under these circumstances, the economic prospects of middle and low-income developing countries deserve special attention. Meanwhile, policymakers should consider the different stages of the pandemic requiring different approaches to economic policy and explore how to restore livelihoods. Bold and decisive actions need to be taken to pave the way for sustainable development.

The authorities need to strike a delicate balance between further targeted fiscal stimulus in the near term and preserving debt sustainability when implementing ambitious development plans over the medium term. In this environment, restoring economic growth paths and boosting growth potential remain accorded priorities. We urge governments to use active labor market policies more widely to support job creation, paying closer attention to women, the youth, contact-intensive sectors, and low-skilled workers whose employment opportunities have been disproportionately affected by the pandemic. In addition to job retention measures, authorities should also facilitate the reallocation of labor towards fast-growing prosperous economic sectors, such as digitalization and the green economy, with the help of trainings and other targeted labor market programs. In a low-for-long interest rate environment, we also encourage taking advantage of the high multiplier effects of public investments. In many countries, more resources have been allocated to the development plans than ever before; therefore, it is critical to ensure that these resources will be used wisely to finance projects in productive areas that serve the future. Otherwise, the risks of over-indebtedness will materialize in several countries. As the pandemic recedes and the recovery takes hold, steps should be taken to ensure medium-term fiscal sustainability in a growth-friendly manner. It is crucial that support measures increasingly focus on viable firms that are also able to sustainably restructure their activities. Tax reforms can provide a good opportunity to sustainably increase revenue mobilization, improve the effectiveness of tax collection, and reduce the size of the informal sector. Beyond that, the authorities should not lose sight of the need to transform their economies, and tackle risks stemming from the buildup of fiscal vulnerabilities. Strengthening debt management must be a priority on governments' agendas, especially after global public debt approached 100 percent of GDP in 2020.

Maintaining the accommodative monetary policy stance across a wide range of countries is also warranted, while further policy measures may be also needed to prevent the accumulation of financial vulnerabilities. It would be important to avoid an early tightening of global financial conditions; as such, central banks in major advanced economies should pay due attention to their policy decisions' spillover effects. Unconventional monetary policy tools continue to have a central role in safeguarding price and financial stability, as well as to promoting recovery, with particular attention to targeted liquidity and lending programs. The withdrawal of forbearance and other supportive measures needs to be gradual to keep emerging cliff-edge effects in check. Relatedly, the active use of macroprudential tools is also key to strengthen the resilience of the financial systems. Although the banking industry entered this crisis with stronger capital and liquidity positions, the risk management framework needs to be improved to be able to withstand potential losses from loans currently under moratoria and rebuild buffers.

Strengthening international cooperation remains vital to tackling the global health crisis, safeguarding macroeconomic stability, and laying the foundation for a sustainable recovery. Strong cooperation is also required to strengthen the international monetary and financial system, resolve trade disputes, and prepare societies for increasing the proliferation of digital money. Meanwhile, the international community must also better coordinate and scale up its efforts to tackle the most pressing challenges of today, including those posed by climate change.

Fund issues

The IMF must not only preserve its role at the center of the global financial safety net (GFSN), but also enhance its efforts to support the membership in a rapidly changing world. In this regard, the Managing Director's Global Policy Agenda appropriately reflects on the short- and medium-term challenges facing the global economy, as well as how the Fund can help its members safely exit the crisis and counter divergence risks. We also concur with the near-term goal to deploy all available tools to support the recovery efforts while recognizing that countries are navigating different stages of the crisis. We thank management and staff for delivering on the IMF's mandate during these exceptionally complex times.

The pandemic has adversely affected reserve positions and substantially raised external financing needs in most countries. We call on the IMF to make a proposal on a new general allocation of Special Drawing Rights (SDR) aimed at supplementing existing reserve

assets to preserve the stability of the international monetary system and meet long-term global needs. The new general SDR allocation will be a decisive step in the IMF's operations to alleviate the pressing external financing needs in many countries and bolster the GFSN's resilience. At the same time, it is important to improve the transparency of reporting and use of SDRs and explore the possibility of voluntary post-allocation use of SDRs, e.g. for the Poverty Reduction and Growth Trust (PRGT).

The IMF must continue to play a key role in supporting the low-income and most vulnerable countries' efforts to overcome the crisis. The Fund provided an unprecedented level of emergency assistance to its membership in 2020, and now needs to prepare for the greater use of upper credit tranche-quality arrangements. In this context, the IMF should also review the reform opportunities for the PRGT and the potential modifications to concessional financing and policies while encouraging broad-based burden-sharing and restoring the self-sustainability of the Trust. We also welcome the third tranche of debt relief provided by the Catastrophe Containment and Relief Trust. Relatedly, we underscore the importance of advancing the IMF's debt agenda with the focus on strengthening debt transparency, assessing debt sustainability and debt restructuring needs. While the potential extension of the G20's Debt Service Suspension Initiative (DSSI) could be an important step to further relieve the debt burden of low-income countries, we also stress the need for a more permanent solution to these debt issues. In this context, the extension could bridge the time until the Common Framework for debt treatments is further operationalized, to facilitate addressing the debt challenges of DSSI-eligible countries. With the aim of improving debt sustainability, we also call for the private sector's participation in the initiatives on comparable terms and encourage the countries that benefit from these initiatives to seek fully fledged IMF programs. However, we believe that the key to dealing with debt problems lies in the steadfast implementation of growth-enhancing reforms. We also encourage the Fund to pay due attention to emerging markets, especially those with larger external financing needs, considering that the pandemic has posed new obstacles to escaping the middle-income trap.

We continue to encourage the IMF to ramp up and strengthen its surveillance activity, and deepen dialogue with the authorities. This core activity of the IMF is particularly important in the current fast-changing environment to be able to deliver tailored policy advice to members navigating the pandemic's various stages. We take positive note that the IMF's capacity development delivery has adapted swiftly to the new work environment (and all members who have requested financial assistance have also received capacity development support). We continue to underscore the importance of the greater integration of capacity development with surveillance and lending, while paying increasing attention to the specific areas of growth that could help recovery efforts. Beyond that, the IMF also needs to continue its modernization efforts to build agility and resilience. We also encourage the IMF to increase collaboration with the World Bank and other multilateral organizations in line with their respective mandates.

The IMF faces crucial strategic decisions, not only in terms of how to support its members in their efforts to address the pandemic's socio-economic impacts, but also to reflect on the long-term shifts in the global economy, primarily those related to the digital and green transformations. However, before the IMF decides how to appropriately meet the current needs of the membership, a thorough assessment will be essential to define how emerging topics can be systematically integrated into the institution's core activities. In this vein, we would be cautious in reviewing the IMF's lending toolkit, including to facilitate global structural transformation, and stress that any expansion of the Fund's remit must not come at the expense of its core mandate. The IMF should put a premium on areas of macro-critical importance and strengthen its collaboration with other institutions on emerging issues. The Fund should focus on how fiscal policy can contribute to the transition to lower emissions, on the protection of those adversely affected by decarbonization, as well as on how to prepare the international monetary system for the rise of digital money. These perspectives should be considered when determining the appropriate resource envelope without compromising adequate resources for the Fund's core activities.

In view of the unprecedented challenges and elevated uncertainty, it is essential that the IMF remains adequately resourced at the center of the GFSN, while maintaining its quota-based operation. We welcome the doubling of the New Arrangements to Borrow (NAB) and the new round of Bilateral Borrowing Agreements (BBA) which entered into force this January, maintaining the IMF's lending capacity at an appropriate level. While expanded NAB and BBAs are important backstops for Fund resources, we recognize that they are not substitutes for quota increase and hence we attach the utmost importance to the Sixteenth General Review of Quotas and the process of governance reform. Therefore, we also welcome the initial discussions on the adequacy of IMF resources and look forward to the first progress report by the time of the Annual Meetings towards concluding the Sixteenth Review end-2023.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-15

Statement by Mr. Aljadaan
Saudi Arabia

Statement to The International Monetary and Financial Committee
By
Mohammed Aljadaan
Minister of Finance and Acting Minister of Economy and Planning
Saudi Arabia
April 2021

Global Economic Context

A year ago, the global economy was hit hard by a crisis like no other, and the world subsequently entered a period of extreme uncertainty. Today, the international community stands at a critical juncture as it continues to grapple with the devastating health and socioeconomic consequences of the COVID-19 pandemic. We are beginning to see signs of economic recovery and slowdown in the spread of the virus. However, downside risks remain significant, including those arising from renewed virus outbreaks. On the health front, the development of safe and effective vaccines has given the world hope in beating the virus and returning to normalcy. On the economic front, the forceful policy response to the pandemic has helped in avoiding deeper global economic downturn and in mitigating economic hardship and job loss. I commend IMF's swift response to the COVID-19 pandemic with unprecedented support to member countries through emergency financing and policy advice. Going forward, we must turn this crisis into an opportunity and invest in stronger and more inclusive growth for the benefit of all.

The continuous improvement in the global economic outlook is encouraging. However, widespread and equitable access to vaccines worldwide is key to address divergent paths to recovery. In this unprecedented global health crisis, we see that countries are still required to maintain their policy support, where warranted, to mitigate economic scarring and support the recovery. Given that limited fiscal space is a key challenge in many countries, fiscal support measures should be targeted towards the most affected sectors and firms. While easy financial conditions continue to support the recovery, financial stability risks need to be closely monitored while striking the right balance between supporting the economy and safeguarding the stability of the global financial system.

Multilateral cooperation is key to overcome the health crisis and ensure lasting economic recovery. We've witnessed the impact of global cooperation and coordination on fiscal and monetary support, which helped avoid a deeper economic recession last year. Building on that, the international community must come together and act swiftly in contributing more to the funding of the COVAX facility and ensuring accelerated access to vaccines. Indeed, the world will not be safe from the COVID-19 pandemic unless everyone is safe in every part of the world. The G20, under the Saudi Presidency, called for equitable and affordable access to safe and effective COVID-19 vaccines, diagnostics, and therapeutics for all. Saudi Arabia, on its part, remains fully committed to supporting these efforts and has pledged 500 million US dollars to muster international efforts to fight the pandemic. Further, global trade that is more open and less restrictive would be instrumental in ensuring a faster and more resilient recovery. Hence, facilitating the supply of health products and vaccines and its free movements across borders should be the immediate priority to fight the pandemic worldwide and exit the crisis, and more importantly to prevent the risk of new and more infectious mutations.

The Saudi Economy: from Containment to Sustainable and Inclusive Recovery

Strong economic fundamentals together with the forceful and wide-ranging containment and support measures allowed Saudi Arabia to hold up strongly against the pandemic fallout. In addition to a notable reduction in unemployment rate after slight increase, economic activity picked up strongly in the second half of last year, following a robust rebound in non-oil sector growth. This has been made possible thanks to the effective measures taken by the government of Saudi Arabia to address the pandemic. In view of the uncertainty surrounding the COVID-19 and the risks associated with it, the Kingdom is firmly committed to continue implementing targeted health and supportive macroeconomic policies to protect lives and livelihoods and support recovery as highlighted in the 2021 Budget Statement. Among others, targeted social benefits and subsides will continue to be prioritized through reform of the social protection system. Also, it is worth mentioning that in recognition of the importance of continued global solidarity and cooperation in combatting the pandemic, Saudi Arabia stands ready to continue to build on the noteworthy achievements of the Kingdom's G20 presidency.

Saudi Arabia remains committed to advance its structural reform agenda towards a more sustainable and inclusive growth, guided by Vision 2030 and the newly announced Green Initiatives. Over the past few years, several milestones have been realized following the implementation of initiatives under the thirteen Vision Realization Programs (VRPs), including structural, economic and fiscal reforms. Aside from stimulating economic growth, especially for the private sector, these efforts have helped greatly in supporting economic resilience during the health crisis, including through the advancements made on the digital infrastructure. Looking ahead, the Kingdom remains determined to achieve stronger economic diversification and spur job creation. To this end, Saudi Arabia will continue to strengthen the role of the private sector. This will be supported by the launch of an ambitious program "**Shareek**", which envisages investments amounting to SR12 trillion ($3.2 trillion) covering the period until 2030. Other priorities include further improving the business climate and facilitating new investment opportunities in various sectors, including manufacturing, telecom, digital transformation, tourism, entertainment, infrastructure and logistic services. In addition, Saudi Arabia remains committed to addressing the climate change challenges at the national, regional, and international levels. At the national and regional levels, Saudi Arabia has recently launched two new green initiatives: the Saudi Green Initiative and the Middle East Green Initiative, with the aim of combating climate change, protecting coral reefs, reducing land degradation and strengthening the role of Saudi Arabia in the green era.

Global Policy Agenda (GPA)

We welcome the Managing Director's GPA. We agree that the global economic outlook is marked by high uncertainty and great divergence. We need to remain vigilant and responsive to mitigate downside risks and proactively address current and preexisting challenges. The IMF's response has been critical since the onset of this pandemic. We welcome deployment of the Fund's resources to combat the virus outbreak and look forward to further advancing work on the global recovery. We also take positive note of the work on exploring reforms of the Fund's facilities for providing financial support to low-income countries (LICs) in response to the extraordinary situation that these countries face in the coming years.

Given the elevated risks for high debt distress in many countries, we should remain focused on addressing the more urgent concerns of these countries and ensure a path towards debt sustainability. In this spirt, we would like to express our appreciation to the IMF and WBG for the support provided to the G20 DSSI and Common Framework for Debt Treatments beyond the DSSI, including the committed net positive transfers to DSSI-eligible countries during this difficult period. On the DSSI, we are pleased that this emergency response continues to provide breathing space for the poorest countries and support greater transparency of public debt. Given the continued liquidity pressure, we support a six-month extension of the DSSI through December 2021 to help eligible countries meet their enlarged financing needs and fight poverty. However, solvency risks need be tackled through deeper debt treatments and longer-term structural approaches. The Common Framework provides much-needed platform for coordination among creditors to facilitate timely and orderly debt treatments for beneficiary countries on a case-by-case basis while ensuring fair burden sharing. To this end, it is critical to implement the Common Framework swiftly and effectively. Here, we underscore the important role of the IMF and WBG in the implementation phase, as the restructuring will be based on an IMF-WBG Debt Sustainability Analysis (DSA) and consistent with the parameters of an IMF-supported upper credit tranche (UTC) program. In addition, we call on the IMF and WBG to enhance their communication with eligible countries as well as the broader public to clarify the nature of the Common Framework and the DSSI. The G20 has also a critical role to play in this area, and we call on the private sector, when requested by eligible countries, to take part in the DSSI on comparable terms. In this context, we reaffirm Saudi Arabia's commitment to actively engage with all stakeholders, including eligible countries, other creditors, and international organizations to help in implementing the G20 Common Framework effectively. More broadly, advancing the implementation of the joint IMF/WB multipronged approach for addressing debt vulnerabilities remains a priority.

Against this background, we encourage more reprioritization of the Fund's budgetary resources and human capital towards the debt agenda, which is a core area for the Fund. Relatedly, the capacity development agenda needs to focus on addressing elevated risks associated with the rising public debt levels and building institutional capacity in key areas such as domestic revenue mobilization, sovereign debt management, domestic capital markets development, and economic diversification.

More generally, the IMF should also prioritize its work on sustainable and inclusive economic growth, covering all three dimensions of sustainable development, economic, social and environmental. Here, the Fund should look at sustainable recovery by covering all these dimensions rather than having a narrow focus on one of these aspects. In addition, given the uneven recovery and the disproportionate impact on youth, women, low-skilled workers, and contact-intensive sectors, we support the planned work on inclusive growth. This is emphasized by the uneven access to COVID-19 vaccines in many emerging and developing economies. In this respect, we strongly encourage the Fund to continue building on the extensive work done under the G20 Saudi Presidency on enhancing access to opportunities for the benefit of all.

Where macro-critical, we envisage a role for the Fund in advancing the agreed global agenda on climate change, in line with its mandate and in cooperation with relevant international organizations, consistent with the Paris Agreement (PA) and the sustainable development goals' integrated framework. Absent international cooperation, efforts to combat climate change will not be sufficient to yield the desired results and can even be counterproductive. In this regard, the Fund's climate strategy must adopt a broad-based and inclusive approach that includes all sectors and all greenhouse gases (GHGs), and should further consider the G20 endorsed Circular Carbon Economy (CCE) approach with its 4 Rs framework (Reduce, Reuse, Recycle and Remove), which integrates system efficiency and national circumstances into consideration and aim to provide a sustainable, pragmatic and cost-effective approach to mitigating or neutralizing carbon emissions. In addition, the Fund should closely follow developments related to new and clean energy sources, including the use of hydrogen, Carbon Capture, Utilization, and Storage (CCUS), among other technologies and the role they will play in an orderly transition and enabling hydrocarbons to become more environmentally sustainable. Working with the WBG on this topic can't be overemphasized given the expertise they have developed over many years. Also, on the same note, we are concerned about the possible duplication of work with our international partners such as the FSB's work on disclosures, and emphasize that each international organization, including the Fund, should base its work in line with its mandate and comparative advantage.

Finally, we consider that a general SDR allocation of US$650 billion will serve the global economy very well in the context of the unprecedented shock of the Covid-19 to meet the long-term global need to supplement reserves. In this context, we look forward to a concreate proposal for a new SDR allocation to supplement existing reserves and bolster global financial resilience.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-16

Statement by Mr. Le Maire
France

International Monetary and Financial Committee – April 8, 2021

Statement by Bruno LE MAIRE, Minister of the Economy, Finance and the Recovery

FRANCE

The International Monetary Fund and its Managing Director have demonstrated their strong and much-needed leadership since the outbreak of the pandemic. As the world is entering a new stage of the crisis, in a context of an uncertain and uneven recovery, the IMF action will continue to be essential to accompany countries through a smooth transition towards a strong and sustainable recovery. For countries that continue to face financing pressures, and in particular the IMF's most vulnerable members, transition from emergency answers to longer and larger full-fledged programs will be essential. The crisis has increased the risk of divergence between those countries that have the means to support their economy and those that do not. The former have every chance of benefitting from a clear rebound. The latter are likely to see their economy collapse. In this regard, the IMF cannot afford to fall short of its membership's needs. **I welcome the emerging consensus on a new SDR allocation but the IMF will also have to deliver on an ambitious review of its concessional financing**.

I therefore call for close stronger coordination and policy actions to support an inclusive economic rebound and addressing growing inequalities within our societies, between our businesses and among countries.

The COVID-19 crisis caused a historic decline in global economic activity in 2020, and while recovery is underway, the speed of the rebound vary significantly across countries. Global output contracted by 3.4 % in 2020, a decrease significantly larger than during the Global Financial Crisis with possible scarring effects on long-term growth. On health front, the rollout of vaccination campaigns has improved the medium-term outlook but access to vaccines remains uneven across countries. There also remains significant uncertainty around the outlook for the labor market, and the extent to which the productive fabric and a favorable financial environment can be preserved through the recovery. Against this background, exceptional fiscal and financial measures have been essential in supporting private consumption and limiting business failures and they will be instrumental to ensure a strong recovery, as stressed by the IMF on several occasions.

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In France, the Government strongly reacted to the pandemic with a comprehensive package of economic measures amounting to more than EUR 500 billion. France has rapidly taken action to preserve households' income and jobs, strengthen companies' liquidity and support the sectors most affected by the drop in activity: this includes a massive extension of the short-time work scheme, the creation of a solidarity fund and a state guarantee for bank loans to companies. **To supplement these emergency measures, the French Government has launched a two-year EUR 100 billion recovery plan deployed around three main pillars**: support **the transition to a carbon-free and sustainable economy**; reinforce **competitiveness** of the economy, and social and territorial **cohesion**. This exceptional recovery plan will boost activity, with a view to returning to pre-crisis activity levels in 2022, while investing in our future.

At the European level, France strongly advocated for an ambitious recovery plan to help Europe bounce back stronger than before the crisis. The EU Leaders' deal on the EU recovery plan in July 2020 was a historical breakthrough. With Next Generation EU (NGEU), the EU will raise money to invest massively in the green and digital transitions. Support is concentrated to the Member States that were the most affected by the crisis. It is now time to speed up the implementation of the Recovery and Resilience Facility to allow for a swift disbursement of the funds.

At the international level, continuous coordination and ambitious actions are needed during both the emergency and recovery phases. In 2020, the impact of the COVID-19 crisis and the policy responses have been heterogeneous across countries. A multispeed recovery is projected for 2021 and beyond.

There is therefore a risk of **divergence** between countries, resulting in a risk of scarring effect of the crisis more pronounced for already more vulnerable countries.

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Strong international cooperation is crucial throughout the different phases of the crisis, to prevent this divergence and to protect the most vulnerable. The situation of low-income countries need closer attention to help them respond to COVID-19, while maintaining adequate fiscal buffers, and to accelerate convergence towards advanced economies. To bridge the financing gap and prevent the loss of a decade of development progress on the African continent, we need all stakeholders, both public and private, to work together towards a new financing model for African countries. To this end, **<u>a Summit on Financing African economies will be held in Paris next month.</u> Its objective will be to define a new partnership approach to develop strong and sustainable financing flows for African economies and unlock the potential of the continent's strengths**. We thank the IMF for its valuable involvement in the Summit's preparation.

<u>More broadly, to address low-income countries' financing needs and debt challenges, we must design together an ambitious and comprehensive package to support them, with the IMF playing a central role.</u>

I warmly welcome the progress recently made towards a substantial, general allocation of Special Drawing Rights (SDRs) in 2021. This allocation, which France has supported since the outbreak of the crisis, would be a milestone in the package provided by the international community to vulnerable economies. An allocation of USD650 bn, almost three times the amount agreed in the context of the 2009 Global Financial crisis, is a powerful way to provide vulnerable economies with much needed financial resources, including to support vaccination programs and other urgent measures.

In addition to the direct benefits of the general allocation for vulnerable economies, advanced economies could maximize its positive effects by on-lending their SDRs. In this regard, France strongly supports new loan contributions to the Poverty Reduction and Growth Trust (PRGT) as an efficient way to scale-up concessional financing by the IMF. This should go hand-in-hand with ambitious reforms to extend concessional support by the IMF to allow adequate support to low-income countries in need**. France also advocates for a bold replenishment strategy of the PRGT subsidy account** to support this reform agenda. Such a replenishment would require the mobilization of the Fund's internal resources, including exploring the option of potential gold sales. **Alongside new contributions to the PRGT, France welcomes innovative work on other options to use SDR loans for the benefit of vulnerable economies, to accelerate their transition towards a green and sustainable recovery.**

On debt, France welcomes the final extension of the G20-Paris Club Debt Service Suspension Initiative (DSSI) until the end of 2021. Heavily indebted LICs need to **move from an emergency response to a more tailor-made approach** addressing their structural debt vulnerabilities with a fair burden sharing across all creditors, including private creditors. **The Common Framework for Debt Treatments (CF), agreed by the G20 and the Paris Club in November 2020, is the appropriate structural response to address both sustainability and liquidity pressures coming from debt vulnerabilities.** The CF facilitates a coordinated and multilateral treatment for countries eligible to the DSSI, allowing to define on a case-by-case basis the most appropriate solution, from debt rescheduling to debt relief.

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Finally, this unprecedented crisis has drawn our attention on the pressing need to collectively tackle critical global challenges. Among them, discussions around climate change and increasing inequalities have gained more traction, thus creating strong expectations of transformative actions by the international community and its institutions.

The recent months have already marked key milestones for further embedding climate-related issues into the Fund's core activities. The **macro-criticality of climate change** is well established.

Transition, **adaptation** and **mitigation** will have large economic, social and financial consequences. Distributional impact of climate change will carry major risks for poorer regions, which are likely to be more severely affected already on a short-term basis, and will do so in a context of constrained fiscal space. In particular, alongside management of transition and adaptation risks, **domestic mitigation strategies**, which entail major spillovers for the global economy, cannot afford to be left out of the surveillance scope of the IMF. This is why France welcomes recent progress of the IMF towards the **systematic assessment of domestic mitigation policies of major emitters**.

The crisis is also widening inequalities between and within countries. This trend is a problem for all of us because inequalities lead to unbalanced growth models, which in turn carry permanent threats to macroeconomic, social and political stability of countries. As exemplified throughout the history of the IMF, the sustainable recovery of supported countries is only possible if policy advice adequately supports inclusive growth models. **In this regard, and consistent with its mandate, the IMF needs to scale up its work towards mitigating the rise of inequalities**.

Lastly, the ongoing crisis has also reasserted the increasing weight of new technologies in our lives and in our economies. **We need to coordinate closely to build regulatory, tax and governance frameworks, both at domestic level but also on the global scale,** to ensure that the digital revolution can continue to bring progress in our lives without challenging fair competition between firms and countries, consistent with the respect of national sovereignties. Thanks to its unmatched expertise, and in good coordination with the respective mandates of other pertaining institutions, the IMF can help provide relevant guidance in this field.

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On the path to build back better the world economy, our responsibility is threefold: 1) accelerate the collective work towards the Sustainable Development Goals, 2) avoid new over-indebtedness cycles in low income countries and 3) use the recovery to prepare for the overarching social, environmental and technological challenges ahead of us. The IMF can count on the continuous support from France to achieve each of these objectives.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-17

Statement by Ms. Freeland
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 by The Honourable Chrystia Freeland
Deputy Prime Minister and Minister of Finance, 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

International Monetary and Financial Committee

April 8, 2021

More than a year into the COVID-19 pandemic, the world continues to face significant public health and economic challenges. The disproportionate impact of the pandemic on women, young people, racialized people, Indigenous peoples, and other vulnerable groups remains concerning. While encouraging progress has been made on the vaccine rollout and stabilizing the global economy, there is much more to do. The international community must continue to take action together to end the pandemic and achieve a strong, sustainable, and inclusive recovery.

Our top priority must continue to be containing the spread of COVID-19 within our respective borders and across the world. We must do more to ensure timely and widespread global access to tests, treatments, and vaccines, including by continuing to support the Access to COVID-19 Tools Accelerator and by coordinating the efforts of initiatives across various fora.

As economic policymakers, we must also be sure to maintain measures to support our economies and citizens until the health and economic situation has stabilized. In line with this internationally agreed approach, Canada is continuing to make important investments to fight and defeat COVID-19, to support Canadians through this crisis, and to support a strong economic recovery. It will be important to continue monitoring the effectiveness of our individual and collective policy response efforts, share timely information on lessons learned, and collaborate on further actions as needed.

The IMF has made invaluable contributions to the global response to the pandemic, including by approving new financing for nearly 100 countries, totaling more than US$100 billion. This has also catalyzed new financing from multilateral development banks, private sector creditors, and other sources. The IMF must work very closely with other international financial institutions to ensure that the medium-term needs of all members can be met, especially low-income countries and small states. These members continue to face very significant challenges – as has been made evident through the Financing for Development in the Era of COVID-19 and Beyond Initiative, convened by the United Nations, Canada, and Jamaica.

I am pleased to announce that Canada has finalized the process of increasing our loan commitment to the Poverty Reduction and Growth Trust (PRGT) from $2 billion to $3 billion to help ensure all financing requests by PRGT-eligible countries can be met. We look forward to planned work to further scale up the PRGT to help meet the significant medium-term financing needs, and call on the IMF to explore options for expanding PRGT eligibility. We also strongly welcome the progress being made toward a Special Drawing Rights (SDR) allocation later this year, which would provide an important boost to global liquidity, and we look forward to considering options for SDR recycling.

The IMF also has a key role to play in helping address unsustainable sovereign debt burdens, including through working closely with the World Bank to support the implementation of the Common Framework for Debt Treatments, which will be crucial to help address the growing solvency challenges many low-income countries are facing. We also strongly endorse the IMF's plans to scale up its debt management capacity building in developing countries. To support these efforts, Canada has already funded a full-time debt management advisor for the IMF's Caribbean Technical Assistance Centre, and will now provide an additional $5 million to fund full-time debt management advisors in IMF regional technical assistance centres in Africa.

As the world looks forward, we support the Fund's commitment to increase its focus on issues like climate change, inequality, and digitalization, which will be key to building stronger and more resilient economies and societies.

While the COVID-19 pandemic represents the greatest shared challenge of our generation, it also presents a unique opportunity to build a stronger, more sustainable, and inclusive global community. Together, we can achieve a brighter future for all.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-18

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, 8 April 2021

I. Global economy and financial markets

Global economy, Germany and Europe

We stand at a critical juncture in this crisis as both the global and our domestic economies provide a mixed picture. Vaccine developments give us hope, but mutations resulting in new, more infectious virus variants underscore risks. In Germany, we still have to uphold contact restrictions, but medium-term economic prospects look much brighter. The IMF's upward correction of global growth backs this assessment. The German economy has weathered the crisis fairly well so far, notably thanks to industrial production and labour market resilience.

We will continue our strong policy support to fight the crisis and to protect lives and livelihoods until the pandemic is under control and economic recovery is firmly underway. Accordingly, we will avoid a premature withdrawal of support. Our recently announced budget reflects the necessity of further fiscal support throughout this year and next year. We have also extended key SME support programmes. To reduce uncertainty, the liquidity assistance provided by the German promotional bank will be available at least until year-end, together with the guarantee and recapitalisation facilities of our economic stabilisation fund. Looking ahead, some sectors are likely to recover more slowly than others. Our support to businesses and households continues to be guided by the objectives of protecting well-diversified economic structures and preserving jobs.

Building on the experience of previous crises, Kurzarbeit (Germany's short-time work programme) has served as an effective instrument to safeguard income and jobs. The programme's simplified access and enhanced benefits will be maintained. Further measures for skills development have been introduced, along with improved incentives for training on the job and subsidies for apprenticeships. Where appropriate, we provide assistance for job transition in order to alleviate the risk of rising inequalities over the long term.

Our recovery strategy places a priority on increasing both public and private investment, notably to support a green and digital transition. We raised federal public investment spending in 2020 by about a third compared to 2019 and are maintaining this focus.

At the European level, finance ministers have acted in solidarity, with a strong commitment to the close coordination of national fiscal policies. Our overall objective has been to mitigate the impact of the Covid-19 shock and to pave the way for a swift recovery. Uncertainties remain high, so a supportive fiscal policy in the EU continues to be the right course of action. Once the recovery is firmly underway, we need to implement credible medium-term fiscal strategies that avoid cliff effects as well as permanent burdens on national budgets. Our policy focus should then shift towards supporting a sustainable recovery and increasing potential growth in member states by implementing structural reforms and targeted investments in the green and digital transition. Recovery and Resilience Facility grants will be used for this purpose as well.

To set the stage for sustainable and equitable growth, there is one clear global priority: to advance global public health by effectively containing the virus. We must act together in order to speed up vaccine production and deployment. Only a multilateral approach will enable us to overcome this pandemic. Hence, Germany is strongly committed to the ACT Accelerator and the COVAX initiative. Germany is currently the largest donor to these initiatives, with contributions totalling EUR 2.2 bn. In addition, the European Commission is contributing another EUR 1 bn to COVAX. Germany urges more countries to provide financial support to help the ACT Accelerator achieve its goal of ensuring the rapid distribution of vaccines, therapeutics and diagnostics.

Financial sector

Germany's swift policy support has successfully mitigated the economic impact of the pandemic. In addition to a wide range of fiscal measures, Germany has taken several macroprudential, regulatory and supervisory measures to ensure financial stability and dampen the negative economic effects of the pandemic. The countercyclical capital buffer was fully released to support banks' ability to finance the real economy. Furthermore, in order to ensure that banks have the capacity to absorb losses and to support the economy through lending, supervisors are calling on banks to refrain from – or at least limit – dividends and share buy-backs. These measures have helped to prevent the crisis from spreading to the banking sector and have bolstered financial stability. On top of that, the regulatory reforms that we adopted after the global financial crisis and the macroprudential policy tools that we are using have made the financial sector more resilient.

Nevertheless, the real economy still faces a high level of uncertainty. Insolvencies are still near an all-time low, partly due to a moratorium on the obligation to declare insolvency under certain circumstances. We must continue to closely monitor the stability of the banking sector and the financial system as a whole, at the national, European and global level. We welcome continued international coordination to avoid unintended cliff effects.

II. International financial architecture and IMF policies

Since the onset of the crisis, the IMF has impressively demonstrated its ability to act swiftly, support its membership and adapt flexibly to changing circumstances. The temporary crisis measures taken by the IMF, including the expanded access to its emergency financing instruments, have contributed significantly to cushioning the immediate economic effects of the pandemic. As the focus turns to stabilization and eventual recovery, extraordinary temporary measures should be gradually phased out and financial support should be shifted to regular, upper credit tranche-quality IMF programmes that address underlying problems.

Low-income countries have been hit especially hard by the pandemic, also because many entered the crisis with severe pre-existing vulnerabilities, including limited borrowing capacity and high debt levels. Against this background, we support the current review of options on how best to assist these countries in meeting their financing needs. We consider it essential to preserve the catalytic effect of IMF lending in light of its mandate and in recognition of the fact that a rising share of senior debt can put the receiving country as well as the IMF in a challenging position. The IMF is in a unique position to support its members, thanks to its technical expertise in designing credible programmes that lead towards sustainable macroeconomic positions and that help give other lenders, donors and investors the confidence to maintain or expand their financial exposure. This puts a premium on finding the appropriate mix of financial support from the IMF, other international institutions, bilateral instruments and the private sector. Germany continues to support an adequately resourced IMF Poverty Reduction and Growth Trust (PRGT) as well as the IMF Catastrophe Containment and Relief Trust (CCRT). We have made significant bilateral contributions to both since the onset of the pandemic. That said, it is critical to ensure that the funds provided are effective in achieving their goals, including support for the most vulnerable. Hence, domestic reforms that, among other things, promote good governance and fight corruption will need to be pursued vigorously. Capacity development will play a key role. The IMF should coordinate closely with the World Bank, other MDBs and development partners to ensure coherence and avoid overlaps.

We fully support the G20 debt initiatives. The Common Framework should be implemented fully and in a timely manner, with the IMF playing a key role in its operationalization in close cooperation with the World Bank. It is essential that private creditors participate at least on comparable terms as the official sector in debt treatments under the Common Framework. On this basis, we stand ready to support a final extension of the Debt Service Suspension Initiative for eligible countries until the end of 2021. At the same time, we strongly encourage the countries to make use of the benefits of an upper credit tranche IMF-supported programme. This could also pave the way for a more permanent solution of solvency problems via debt treatments under the Common Framework. Further progress on debt transparency/disclosure and stepped-up IMF technical assistance in debtor countries are a priority for ensuring more sustainable debt treatments.

We support the IMF's plan to propose a new general SDR allocation of 455 bn (approximately USD 650 bn) to address a long-term global need to supplement existing reserves. Given the sizeable volume of the envisaged allocation, we deem it important that newly allocated SDRs are not considered to be a substitute for regular, conditionality-based IMF lending programmes. We welcome the IMF's proposals to enhance the transparency of SDR transactions. To help safeguard the liquidity of SDRs and enhance international burden-sharing, we encourage countries with a strong reserve position that do not yet have a Voluntary Trading Arrangement to establish such an arrangement with the IMF. We emphasize that any on-lending of SDRs to the PRGT or a similar trust can only take place on a voluntary basis. Germany has contributed considerably to the PRGT and the CCRT via its federal budget and cannot on-lend its SDR allocations, due to domestic legal provisions.

We welcome the upcoming discussion of the Comprehensive Surveillance Review. We are in favour of strengthening surveillance as the Fund's primary contribution to crisis prevention by advising countries on how best to improve their resilience. This will set the stage for improved surveillance by the Fund in such important areas as macro-financial surveillance as well as digitalization and equitable growth. Going forward, we would encourage the Fund to place a stronger focus on the challenges caused by rising income inequality. Moreover, the IMF's surveillance activities should consistently cover climate change and mitigation issues, where macro-critical and with a particular emphasis on the size of spill-overs and country-specific vulnerabilities. In this regard, we welcome the ongoing work to refine the analytical tools that are used to support the Fund's climate-related activities – including Financial Sector Assessment Programmes and the analysis of transition risks.

Overall, we believe that the Fund's close collaboration with other organizations is crucial for leveraging expertise in line with each institution's mandate. We also support increasing gender diversity on the IMF Executive Board.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-19

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 Obaid bin 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 2021

I. The Global Economy, the Middle East and North Africa (MENA) Region, and our Constituency

1. **The global economy** is surprising on the upside owing to synchronized and exceptional fiscal and financial support efforts. Nonetheless, the COVID-19 shock will have persistent effects and will likely result in inequalities between and within countries, with vulnerable populations, including women, youth, and the elderly, being hit harder. We agree with the message in the IMF flagship documents that the policy priority is to accelerate vaccinations and distribute vaccines at fair shares and affordable cost to all countries, then to recalibrate policies according to country-specific circumstances, and to prepare short and medium-term policies to transform economies toward more sustainable and inclusive growth. Continued flexible fiscal support is needed until a durable recovery is underway, with a focus on reducing inequalities by strengthening social safety nets and improving the effectiveness and efficiency of spending on health and education. Decisive monetary policy actions eased financial conditions and helped contain financial stability risks, although they may also have unintended consequences. As monetary policy normalizes across countries in line with their asymmetric recoveries, there are growing risks of potentially significant spillovers for several emerging market and developing countries (EMDCs). If faced with sharp tightening of global financial conditions or large portfolio outflows, some EMDCs may need to resort to policy tools considered in the Integrated Policy Framework, including intervention in the currency market, as well as macroprudential and capital flow management measures. Now more than ever continued international cooperation is critically needed to overcome the pandemic and strengthen a sustainable recovery.

2. **In the MENA region**, a year after the onset of the pandemic, governments' rapid and comprehensive policy responses helped limit the progression of the virus and mitigated the impact on the most vulnerable. The recovery was stronger than expected in the second half of 2020, although it remains uneven among sectors and between countries. Debt burdens are rising across the region and could limit the scope for policy action in several countries with the required financing from domestic banks risks crowding out private sector investment. Overall, countries in MENA may see growth rates below those of other EMDCs for 2021-22, with variations across countries. In addition to domestic policy efforts, this calls for increased attention by international financial organizations, and the IMF in particular, to the needs of the region, as we will discuss in further detail in the remainder of the statement.

3. **Our constituency** includes a diverse group of countries at different stages of vaccine rollout and support to their economies; yet, all are united in their common goal of saving the lives and preserving the livelihoods of their citizens. Policy responses to the COVID-19 shock have been rapid and comprehensive. They comprised supportive fiscal and monetary measures as well as a significant expansion of targeted social programs. The policy responses helped kick-start economic activity in the second half of 2020, although the recovery is still uneven, with dependence on tourism in some of our countries being a drag on activity. Policymakers are carefully balancing the need to save lives and livelihoods, and foster the recovery, with safeguarding debt sustainability and financial stability. To achieve debt sustainability, many countries are already implementing fiscal consolidation plans anchored on a credible medium-term fiscal framework and debt management strategies. To that effect, they are improving revenue mobilization and spending efficiency to create fiscal space. Monetary authorities are also alert to financial stability risks and are carefully monitoring the banking systems' loan performance and corporate leverage. On the upside, banks in many of our member countries entered the crisis in a strong position and did not require as much financial policy response as in other regions.

4. The rebound in oil prices since the last quarter of 2020—reflecting improved global demand and the OPEC+ agreements to extend oil production cuts—is helping the recovery in our oil-producing countries. It will also support fiscal and external accounts and have confidence effects, supporting non-oil GDP.

5. The fragile and conflict-affected countries, as well as small states and countries hosting large refugee populations in our constituency, are hard-hit by the COVID-10 shock and will face daunting challenges, with deepening humanitarian concerns. These countries were able to provide a smaller response to the crisis given financing constraints. In some instances, they had to reduce their nominal expenditures compared to pre-pandemic projections despite large financing needs to achieve their Sustainable Development Goals (SDGs). These countries also face substantial vaccination costs, which will be partly met by regional cooperation initiatives. These include the UAE-based public-private partnership Hope Consortium that is striving to provide vaccine storage and distribution in the region, as well as the Dubai Vaccine Logistics Alliance that is expected to support the delivery of two billion doses of vaccines this year under COVAX.

II. Our Expectations for the IMF

6. We welcome the Managing Director's focused **Global Policy Agenda** (GPA), which lays down a comprehensive policy framework to help the most vulnerable countries and people, restore confidence, and build up economic resilience. We underscore the need for IMF work to focus on the following areas:

7. **Debt**. The IMF must continue the speed and force of its exceptional response to help members during the pandemic by upscaling its efforts to address rising debt vulnerabilities. Debt service relief through the G-20 Debt Service Suspension Initiative (DSSI) provided eligible low-

income countries members with helpful support as it redirected funds from debt repayments to immediate response to the health and socio-economic crisis. We support the IMF's role in the implementation of the G20 Common Framework and urge private sector participation to ensure its success. We support the IMF's work on the debt agenda by continuing to implement the multi-pronged approach, including by supporting greater debt transparency and further developing the dialogue on debt restructuring. We support additional work to improve the international debt architecture, as well as more transparency by creditors, bond tenants, and their policies, particularly on inter-company loans in private external debt.

8. **Middle-income countries (MICs)**. We see a strong case for a larger role for the IMF in MICs to help address their immediate and long-standing challenges. We support the creation of a new trust Fund for MICs dedicated to addressing macro-critical issues related to economic resilience and sustainability, including debt sustainability. As most MICs do not have access to swap lines or regional financing arrangements, we see an important role for the IMF, with rapid and flexible responses, to provide financial support where and when needed. The envisaged SDR allocation and a program to voluntarily reallocate SDRs from countries with a surplus to those in need would also be most helpful.

9. **Sustainability**. The GPA rightly refers to transformative policies. These should focus on preventing many member countries from retreating from hard-won progress towards the SDGs by creating jobs, promoting more equality, financial inclusion, the digitalization of the economy, and a greener economy, consistent with the goal of carbon neutrality in 2050. Work on climate change falls within the broader objective of supporting member countries in their goal towards meeting their development challenges and achieving the SDGs and must fall within the principles of the Paris agreement. In this context, we support the IMF's plan to lead the policy dialogue on the macro-financial impact of non-core emerging areas.

10. **SDR allocation**. We welcome staff's work on a general SDR allocation. Given the stark impact of the crisis in terms of setbacks and permanent scarring, we support a very substantial SDR allocation. We encourage staff to consider innovative solutions to improve the distribution of the allocation.

11. **Surveillance**. As countries focus on the recovery from the pandemic, resumption of surveillance activity will be crucial to navigate a safe exit from the crisis in a drastically changed world. We look forward to the Comprehensive Surveillance Review in Spring 2021, in particular; proposals to strengthen systemic financial risk analysis and macroprudential policy advice in Article IV consultations. We also look forward to the completion of the review of the Financial Sector Assessment Program with the World Bank and the review of the Data Standards Initiatives which will further promote data transparency.

12. **Fragile and conflict-affected states (FCS)**. Fragile and conflict-affected countries, small states, as well as countries hosting large refugee populations and dealing with large internally

displaced populations, some of which in our constituency, deserve special consideration. Humanitarian support, debt relief, and concessional finance are all too important for these countries. We look to the IMF and the international community to provide substantial support to this group—including through tailored IMF policy advice, capacity development, and additional financing, as well as through debt service relief, if needed, and through catalyzing other support. The IMF's financial support to many of these countries remains constrained, and we encourage management to evaluate different options to provide them with much-needed assistance, including setting up a donor-funded trust fund or designated lending instruments.

13. **Quota reform**. We are committed to a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net. The 16th General Quota Review provides an opportunity to ensure the primary role of quotas in IMF resources, to reduce reliance on borrowed resources, and to assess the adequacy of quotas to meet potential resource demands during the second half of this decade. We support a substantial increase in quota resources. The principles underpinning the 2008 quota reform remain valid and should continue to underpin the quota formula review in the context of the 16th Review.

14. **IMF budget.** We are concerned that the institution's administrative budget has been unchanged in real terms for the tenth consecutive year, despite a still-unfolding and extraordinary crisis. Pressures on the IMF resources and on staff are rising as the need for deeper engagement in traditional areas and in new emerging ones are crucial to help the recovery and ensure sustainability. The IMF cannot continue to operate with a flat budget in the middle of a global crisis and pandemic. We support an increase in the budget envelope to allow the institution to respond to the needs of the membership, including capacity development, in a satisfactory and timely manner.

15. **Diversity and inclusion**. We are deeply concerned about the long-standing lack of progress in regional diversity and inclusion, particularly for Arab countries. We call for accelerated efforts to strengthen the recruitment and enhance the career progression and promotion of staff from under-represented regions, notably MENA, as well as for accountability of department heads in this regard.

III. The Way Forward: The Post COVID-19 Era

16. Looking beyond just the recovery, the post-COVID-19 era requires carefully redefined policy priorities, including:

17. **First,** new models of governance that redefine the role of governments, where policymakers, in partnership with the private sector, are able to overcome the challenge of balancing the need to rebuild buffers with the long-term development needs.

18. **Second**, it is essential to pursue socially inclusive and environmentally sustainable models of growth as the only path forward in the post-COVID-19 era, where the IMF and other international organizations can support by sharing successful practices, supporting capacity building, and funding efforts.

19. **Third,** the pandemic underlined the need to accelerate digital transformation where now countries are required to develop competitive, resilient, and secure digital infrastructure as a key enabler for people's well-being, business growth and development objectives overall.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-20

Statement by Mr. Sunak
United Kingdom

IMFC Statement by Rishi Sunak

Chancellor of the Exchequer, H.M. Treasury, United Kingdom

On behalf of the United Kingdom

Global economy and policy responses

The global health and economic outlook has improved due to vaccine production and deployment as well as continued policy support. However, the crisis is still causing widespread suffering. The recovery is uneven and subject to elevated downside risks, including the spread of more contagious or vaccine-resistant new variants of the COVID-19 virus. Bringing the pandemic under control is a precondition for stable and lasting recovery, and working together to achieve this should remain our top priority.

The pandemic has threatened to exacerbate many pre-existing inequalities. Between countries and regions, the health and economic recovery is likely to progress at different speeds, as the supply of vaccines remains limited and unevenly distributed. Within countries, the crisis has disproportionately impacted disadvantaged groups and demonstrated the importance of social safety nets. Policymakers should continue to support the most vulnerable individuals and firms. At an international level, we should ensure that no country is left behind as we build a much-needed global recovery.

As a critical part of our global response, it is important that efforts to finance equitable access to COVID-19 vaccines, therapeutics and diagnostics continue, alongside work to strengthen global health security, tackling antimicrobial resistance and preparedness for future pandemics. In this regard, I reiterate the UK's support for the Access to COVID-19 Tools Accelerator (ACT-A), including £548m for the COVAX Advance Market Commitment, and call on governments to help meet the ACT-A 's significant funding gap in 2021.

In response to significant economic disruption from the crisis, policymakers have taken, and continue to take, unprecedented measures to mitigate the impact of the pandemic on business revenues and household incomes, as well as to protect the most vulnerable segments of society. It is right to remain vigilant and avoid any premature withdrawal of support measures wherever possible. In countries where there is less policy space available, international financial institutions should provide support to manage difficult trade-offs. As we move through the phases of the recovery, policy support should become more targeted to provide help where it is most needed, while allowing the economy to adjust and setting fiscal policy on a sustainable path for the long run.

As the recovery takes hold, it will be crucial to continue to work together to address shared global challenges. This will involve reinforcing growth in expanding sectors and undertaking productivity-enhancing investments that support the digital economy. It will mean striving for a green, resilient and inclusive global recovery, which will create jobs in the industries of the future while addressing the urgent and linked challenges of public health, climate change, and biodiversity loss. It will be important to continue to enhance financial resilience, including through harnessing the benefits while managing the risks associated with capital flows. We also remain committed to an open and fair international trading system that underpins our collective resilience. I support joint action to strengthen this system, including rolling back temporary trade restrictive measures and reforming the WTO so that it is fit for the 21st century.

UK response

Throughout the pandemic, the UK government has put in place a substantial package of economic support for businesses and individuals, even as measures to prevent further spread of the virus have changed.

In response to the ongoing restrictions, and the Prime Minister's roadmap to easing public health measures, I have announced further support at the recent Budget to businesses, individuals and public services, on top of our previous economic responses. These economic support measures are carefully designed to complement each other to ensure we protect jobs and livelihoods. We continue to take a flexible approach and will keep all impacts and policies under review. The UK will take a cautious approach to easing lockdown, which is guided by the data in order to avoid a surge in cases which would put unsustainable pressure on the National Health System (NHS). Decisions to move to subsequent stages of easing restrictions will be led by data rather than dates.

The cumulative government support for individuals, businesses and public services set out at Spending Review 2020 and Budget 2021 totals £352 billion across 2020-21 and 2021-22. The UK's response amounted to 16.3% of GDP as of 31 December 2020, and remains one of the largest and most comprehensive fiscal packages in the world.

I have also set out measures to strengthen the economic recovery and lay the foundations for our future economy, encouraging businesses to invest through a 'super-deduction' on taxes on capital investment and committing to a sustained rise in public investment on areas such as infrastructure. Including measures announced last March, which included a step change in capital investment, decisions taken by this government provide direct fiscal support for the economy of £407 billion over this year and next year – which is the largest peacetime support package for the economy on record.

The pandemic and the government's policy response has led to an unprecedented increase in government borrowing and debt. This is necessary and affordable in the short term, but it would not be sustainable to allow debt to continue to rise indefinitely. Measures announced at Budget 2021 also take action to strengthen the public finances once a durable recovery has taken hold. These actions will be underpinned by principles of fairness and sustainability as the government continues to invest in excellent public services and infrastructure to create future growth.

IMF role

A coordinated global response to the crisis will be key to ensuring an even recovery for all. The IMF has a critical role in ensuring that no country is left behind as we build a green and global economic recovery. I strongly support the action that the Fund has taken to date, in particular the measures it has taken to support low-income and vulnerable countries. Further steps will be key in ensuring that all members can take the necessary measures to end the health and economic crises. I support the MD's Global Policy Agenda and encourage the IMF to continue to focus on the following areas:

- **Special Drawing Rights (SDR) allocation:** I am strongly supportive of a new general SDR allocation of $650bn. This will help provide much needed liquidity directly to the IMF membership at a key moment in the recovery from the crisis. I also support the IMF developing new measures to enhance transparency and accountability in the use of SDRs. Separately, and without delaying agreement on a new allocation, I am keen that we explore options expeditiously for members with strong financial positions to voluntarily recycle some of their SDRs to support low income and vulnerable countries. This should include options to use SDRs to replenish the Fund's Poverty Reduction and Growth Trust (PRGT). I look forward to continued work with the IMF and other members to discuss these options.
- **Lending toolkit:** I commend the speed with which the Fund has provided critical financial support to member countries responding to the crisis, in particular the emergency financing which supported countries in their initial health response. The IMF's lending will continue to be central as the crisis plays out and as members move to longer-term programmes with IMF financing

supporting countries to address structural issues, make adjustments and implement institutional reforms. I encourage the Fund to keep its lending toolkit under review to ensure it is fit for purpose and I support the Fund's work to transition the bulk of its support from emergency lending into multi-year programmes. I also support keeping the demand for Fund resources under review.

- **Poverty Reduction and Growth Trust:** The Fund's concessional lending remains of utmost importance in supporting low-income countries. I commend the recently approved measures to temporarily increase and extend PRGT access limits and look forward to a broader consideration of options to reform the Fund's concessional financing toolkit. This will be an important step in providing low-income countries with the necessary borrowing space commensurate to their financing needs. I am pleased that the Fund has raised SDR 17bn of new PRGT loan resources, including the UK's loan of SDR 2bn from last year. As part of the Review of Concessional Financing and Facilities, I urge the Fund to be creative and explore all available financing options to ensure the PRGT remains well-resourced.
- **Debt:** Given the impact of the pandemic on already elevated debt levels, it is vital that the international community, including private and official sector creditors, debtors and multilateral institutions work together to improve debt sustainability and transparency. I therefore strongly welcome the Fund's continued work on sovereign debt issues, including under the joint IMF-WB Multi-Pronged Approach In particular, I am grateful for the analysis the Fund has provided to support a final extension to the G20-Paris Club Debt Service Suspension Initiative (DSSI) until the end of 2021 which, if approved by the G20, will provide additional fiscal space for low-income countries still affected by the pandemic whilst also encouraging countries to swiftly address underlying debt vulnerabilities. I also strongly welcome the Fund's continued collaboration with the World Bank to support the swift and full implementation of the Common Framework for debt treatments beyond the DSSI, which will set countries experiencing the worst debt distress on a more sustainable footing. It is vital that there is full participation in the initiative from all creditors, in both the official and private sector. However, long-term debt sustainability issues cannot be solved by the Common Framework alone. Enhanced debt transparency among all actors – lenders and borrowers – is critical, and I welcome in particular the Fund's efforts to increase technical capabilities in debtor countries.
- **Catastrophe Containment and Relief Trust:** The Catastrophe Containment and Relief Trust (CCRT) has provided debt relief to the most vulnerable countries with upcoming obligations to the IMF

since last April. The UK made a substantial early contribution to this effort. I am delighted that the third six-month tranche of CCRT debt relief has been approved and I welcome all the contributions that have made this possible. However, we remain short of the fundraising target to provide debt relief until April 2022 and we encourage more donors to step up.

- **Surveillance:** The Fund has resumed its monitoring, analysis and policy advice in recognition that this crisis has created unprecedented challenges to macroeconomic management for its members. Focused and targeted surveillance by the Fund will remain key to support members' Covid responses and near-term policy adjustments. I look forward to the Fund continuing its efforts to adapt its surveillance for the future through the conclusion of the Comprehensive Surveillance Review (CSR) and the Financial Sector Assessment Program (FSAP) Review. In particular, I welcome efforts to systematically integrate climate considerations into IMF surveillance, including increased climate mitigation coverage within Article IV reports.
- **Capacity Development:** The UK continues to be strongly supportive of the Fund's capacity development activities, providing over £30m over the period 2018-2024 . I encourage the Fund to continue adapting its technical assistance offer in the context of areas such as climate and debt, and to draw on the lessons learned from delivering capacity development virtually during the pandemic. This will help vulnerable countries mitigate the impacts of the pandemic and lay the foundations for a resilient and sustainable recovery.
- **Climate:** As we move from pandemic response to recovery, we must ensure that countries' economic policy and spending decisions support structural transformation towards greener, low-carbon and inclusive growth, to help achieve sustainable development and global climate goals. The Fund has a crucial role to play in supporting its membership to manage the macro-critical consequences of climate change, and to implement policies which support low-carbon transition. I welcome the Managing Director's ongoing focus on placing climate change issues at the heart of the Fund's work, and the Fund's support for COP26 objectives, including work towards promoting mandatory disclosures of material climate change risks. In addition to my strong support for plans to more systematically integrate climate considerations into IMF surveillance, I welcome the IMF's work on climate data, and on scaling up the focus on climate within capacity development.

Over the last year, the IMF has provided unprecedented support to its members to mitigate the impact of the crisis. Some countries are still in the midst of the crisis and the Fund needs to continue to provide appropriate support and policy advice to those members. As countries exit the pandemic, the task will be to recalibrate policies and the policy mix balancing ongoing support with rising vulnerabilities. The

Fund will need to help its members prevent economic scarring, prevent the crisis exacerbating divergence between countries, and build back better towards a greener and more resilient future. It is up to all of us to support the Fund's pivotal role in taking these next steps.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-21

Statement by Mr. Mutombo Mwana Nyembo
Democratic Republic of the 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. Déogratias Mwana Nyembo MUTOMBO
Governor of Banque Centrale du Congo
(Democratic Republic of Congo)
April 8, 2021

We wish to express our deepest sympathies for the loss of lives and the suffering caused by the Covid-19 pandemic worldwide.

I. GLOBAL OUTLOOK AND POLICY PRIORITIES

Global Outlook and Policy Priorities

The global economy is projected to rebound strongly in 2021 albeit at a various pace depending on regions, country income, and vaccine rollout. Swift and bold policy actions across all countries have helped mitigate the social and economic impact of the pandemic in 2020 and continued accommodative fiscal and monetary policies in 2021 would help increase global activity this year. Countries in general should avoid a premature withdrawal of policy support given the highly uncertain global outlook.

Over the medium-term, global growth is projected to decelerate somewhat as a result of the scarring effects of the pandemic and the impact on potential growth, as well as the net effects of demographics and human capital on the supply of labor. Despite the medium-term growth deceleration, upside risks dominate due in part to the vaccine rollout in several countries, as well as the abundant savings accumulated worldwide. That said, given the uncertain path of the pandemic and the uneven vaccine coverage —much more widespread in advanced economies than in emerging markets and low income-countries— policies moving forward should be tailored to country circumstances depending on the stage of their economic recovery.

Tackling the longer-term challenges of supporting productivity-enhancing investments and strengthening resilience to climate change while also reducing inequalities within countries will also be essential to sustain growth moving forward.

Addressing a Growing Divergence

The economic damages caused by the pandemic on emerging markets and low-income countries have been more severe than in advanced economies and are likely to be long-lasting, thus requiring strong and sustained support from the international community. Easing access to vaccines is key, and we call on continued global efforts to assist in their purchase and distribution, including through multilateral support to the COVAX initiative. This is not a morale issue but an economic and financial imperative.

Many emerging market economies and low-income countries, most notably in Africa, are experiencing major setbacks in their achievements in key social areas of recent years, as well as in their efforts to reduce poverty, as they entered the crisis with very limited fiscal space and elevated debt levels. This reduced room for maneuver has considerably hampered their efforts to fight the pandemic and protect the poor, with women and the youth being hit the hardest. The crisis, as a result, is leading to a divergence in per capita incomes between advanced economies, on the one hand, and emerging market and developing economies, on the other. While the latter should continue to actively support their economies and resume their pre-pandemic structural reforms as soon as feasible, multilateral and bilateral partners should remain closely engaged with them and support their policy efforts to put growth on a more robust and sustainable path. As advanced economies emerge more rapidly from the crisis, they should also be mindful of the impact of their policies, notably monetary policy tightening, on emerging market economies and low-income countries.

II. GLOBAL POLICY AGENDA——BOLSTERING THE RECOVERY AND COUNTERING THE DIVERGENCE

The support that the IMF has provided to the membership during these unprecedented times has been significant and should be maintained until the world economy fully recovers from the crisis. The Global Policy Agenda (GPA) adequately outlines the relevant priorities and the important areas of work that the Fund should pursue in the period ahead to help the membership exit the crisis and lay the foundations for a strong and sustained recovery. We are pleased to express our broad support to the GPA.

We continue to highly value the role of Fund surveillance in its traditional areas of intervention as well as in macro-financial analysis, and we look forward to forthcoming reviews of its surveillance toolkits, including the IMF's Institutional View on capital flows.

Given the high uncertainty and great divergence between advanced economies and emerging markets and developing countries regarding the pace of the recovery and per capita income paths, we emphasize the importance of policy coordination and strong international cooperation, including on vaccine distribution, to support a more even global recovery. Securing a transformational recovery by seizing the moment to support a green, digital, and inclusive global economy is also vital. In particular, the Fund should provide adequate support to members with less-diversified economies that embark on transformative policies to spur economic diversification and boost resilience. Low- and middle-income countries, notably those that are tourism-dependent and/or commodity exporters, have suffered disproportionally from the current crisis. These countries will require a tailored approach of Fund support that takes into account their specific circumstances and needs.

Ensuring that the membership can access adequate financing to finance their recovery efforts is crucial. Significant resources will also be needed to narrow the convergence gap and enable low-income countries to invest in priority expenditures in the areas of health, education, basic infrastructure, and social protection while preserving macroeconomic stability. Boosting domestic resources through enhanced domestic revenue mobilization is needed to create the fiscal space necessary to tackle these challenges as well as invest in digital transformation. In this regard, efforts should include promoting progressive taxation, making progress on the agenda of international taxation, and addressing illicit and tax-avoiding financial flows. It will also be critical for the international community to contribute to the massive resources required to achieve the SDGs which are to experience major setbacks due to the pandemic. We call on the IMF to continue to support the development agenda, in line with its mandate.

We welcome the temporary increases in access limits for emergency and medium-term support by the Fund to its low-income members under the Poverty Reduction and Growth Trust (PRGT) and hope that such changes could be extended, with a view to aligning them more permanently with those under the General Resource Account (GRA). Exploring more permanent reforms of the PRGT towards a substantial increase of its lending capacity, commensurate with the needs of LICs in the post Covid-19 era, should be a key priority. We welcome the broad support expressed by the membership for a new SDR allocation and we strongly advocate for a voluntary channeling of SDRs from advanced economies to support the recovery efforts of low-income countries, including by scaling up PRGT loan resources. We would also welcome the Fund to explore alternative options to increase its concessional resources, including continued bilateral contributions and internal sources of financing.

The current initiatives to address debt vulnerabilities and secure debt service relief, including the G20 Debt Service Suspension Initiative (DSSI) and the IMF's assistance under its Catastrophe Containment and Relief Trust (CCRT), are helping ease financing constraints and free up limited resources for urgent needs. However, an effective participation by private creditors to the G20's Common Framework is key to the success of the initiative, which should be made operational as swiftly as possible. A constructive dialogue with credit rating agencies to prevent unduly downgrades of debtor countries set to benefit from the Common Framework is also warranted.

Providing the necessary technical assistance to the membership, despite the significant challenges of the moment is crucial and is particularly vital for fragile and conflict-affected countries and small developing states. We urge the IMF to scale up its capacity development assistance to these members.

Ensuring that the IMF remains a quota-based institution, adequately resourced and at the center of the global financial safety net is even more relevant in this new environment of heightened uncertainties and tremendous challenges. This requires advancing the IMF's quota and governance reforms, with a view to completing the 16th General Review of Quotas, including a new quota formula, in a timely manner.

The IMF has continued to make some progress on staff diversity, including through the appointment and promotion of nationals from Sub-Saharan Africa. Nevertheless, more remains to be done to achieve all targets relative to underrepresented regions and aim at more ambitious targets. Further progress on this front will help make the Fund a more diverse institution that reflects the composition of its membership.

COMITÉ MONÉTAIRE ET FINANCIER INTERNATIONAL

Quarante-troisième réunion
8 avril 2021

Déclaration n° 43-21(F)

Déclaration de M. Mutombo Mwana Nyembo
République Démocratique 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. Déogratias Mwana Nyembo MUTOMBO
Gouverneur de la Banque Centrale du Congo
(République Démocratique du Congo)
8 avril 2021

Nous voudrions exprimer nos plus sincères condoléances pour les pertes en vies humaines et les souffrances causées par la pandémie de la Covid-19 à travers le monde.

I. PERSPECTIVES MONDIALES ET PRIORITES DE POLITIQUES

Perspectives Mondiales et Priorités de Politiques

L'économie mondiale devrait rebondir fortement en 2021, bien qu'à un rythme différent selon les régions, le niveau de revenu des pays et le déploiement des vaccins. Des actions de politiques rapides et audacieuses dans tous les pays ont permis d'atténuer l'impact social et économique de la pandémie en 2020 et le maintien de politiques budgétaires et monétaires accommodantes en 2021 devrait contribuer à accroître l'activité mondiale cette année. Les pays dans leur ensemble, devraient éviter un retrait prématuré des politiques de soutien économique étant donné les perspectives mondiales très incertaines.

À moyen terme, la croissance mondiale devrait connaître un certain ralentissement en raison des séquelles de la pandémie et de leur impact sur la croissance potentielle, ainsi que des effets nets démographiques sur le capital humain et sur l'offre de travail. Malgré la décélération de la croissance à moyen terme, les risques diminuent, en raison notamment du déploiement des vaccins dans plusieurs pays, ainsi que de l'abondante épargne accumulée dans le monde. Cela dit, compte tenu de l'évolution incertaine de la pandémie et de l'inégalité de la couverture vaccinale —beaucoup plus répandue dans les économies avancées que dans les marchés émergents et les pays à faible revenu—, les politiques à venir doivent être adaptées à la situation individuelle des pays, en fonction du stade de leur reprise économique.

Relever les défis à plus long terme relatifs au soutien des investissements visant à accroître la productivité et à renforcer la résilience au changement climatique tout en réduisant les inégalités au sein des pays sera également essentiel pour soutenir la croissance dans la période à venir.

Répondre à une Divergence Croissante

Les dommages économiques infligés par la pandémie aux pays émergents et aux pays à faible revenu y ont été plus durement ressentis que dans les économies avancées et sont susceptibles de perdurer, ce qui nécessite un soutien fort et continu de la communauté internationale. Un assouplissement des conditions d'accès aux vaccins est essentiel, et nous appelons à la poursuite des efforts à l'échelle mondiale afin de faciliter leur achat et leur distribution, notamment à travers l'appui multilatéral à l'initiative COVAX. Il ne s'agit pas là d'une question morale mais d'un impératif économique et financier.

Un grand nombre d'économies émergentes et de pays à faible revenu, principalement en Afrique, connaissent des revers importants par rapport aux progrès réalisés au cours des dernières années dans des domaines sociaux clés, ainsi que dans leurs efforts de réduction de la pauvreté, dû au fait qu'ils ont été affectés par la crise à un moment où leur espace budgétaire était très limité et leur endettement élevé. Cette marge de manœuvre réduite a considérablement entravé leurs efforts pour lutter contre la pandémie et pour protéger les pauvres. Les femmes et les jeunes ont été les plus durement touchés. Cette crise, par conséquent, a conduit à une divergence du revenu par habitant entre les économies avancées, d'une part, et les pays émergents et pays en développement d'autre part. Bien que ces derniers doivent continuer à soutenir activement leurs économies et relancer dès que possible leurs programmes de réformes structurelles antérieurs à la pandémie, les partenaires multilatéraux et bilatéraux doivent continuer à collaborer étroitement avec eux et soutenir leurs efforts de politiques visant à placer la croissance économique sur une trajectoire plus robuste et viable. Alors que les économies avancées sortent plus rapidement de la crise, celles-ci devraient également être attentives à l'impact de leurs politiques, notamment le resserrement de leurs politiques monétaires sur les pays émergents et les pays à faible revenu.

II. PLAN D'ACTION MONDIAL—STIMULER LA REPRISE ET PARER A LA DIVERGENCE

Le soutien que le FMI a fourni aux membres pendant cette période de difficultés sans précèdent a été important et devrait être maintenu jusqu'à ce que l'économie mondiale se remette pleinement de la crise. Le Plan d'Action Mondial décrit de manière pertinente les priorités clés et les domaines de travail importants que le FMI devrait poursuivre dans la période à venir pour aider les pays membres à sortir de la crise et jeter les bases d'une reprise solide et durable. Nous sommes heureux d'apporter notre soutien à ce plan d'action.

Nous continuons d'accorder une grande importance au rôle de la surveillance du FMI dans ses domaines d'intervention traditionnels ainsi que dans l'analyse macro-financière, et nous attendons avec intérêt les prochaines revues des outils de surveillance de l'institution, y compris le Point de vue institutionnel du FMI sur les flux de capitaux.

Compte tenu de la grande incertitude qui caractérise les perspectives de l'économie mondiale et de la divergence croissante entre les économies avancées, d'une part, et les pays émergents et les pays en développement, d'autre part, concernant à la fois le rythme de la reprise et les trajectoires du revenu par habitant, nous soulignons l'importance d'une coordination des politiques et d'une coopération internationale forte, y compris sur la distribution des vaccins, pour soutenir une reprise mondiale plus équilibrée. Assurer une transformation économique en saisissant l'opportunité de la reprise en cours pour soutenir une économie mondiale verte, numérique et inclusive est également vital. En particulier, le FMI devrait fournir un soutien adéquat aux pays membres dont les économies sont moins diversifiées et qui entreprennent des politiques de transformation susceptibles de stimuler la diversification économique et renforce leur résilience. Les pays à faible revenu ou les pays à revenu intermédiaire, notamment ceux dépendant du tourisme et/ou de l'exportation de matières premières ont souffert de manière disproportionnée de la crise actuelle. Ces pays auront besoin d'un appui du FMI qui soit adapté à leurs circonstances et besoins spécifiques.

Il est essentiel de s'assurer que les membres puissent accéder à un financement adéquat pour financer leurs efforts de redressement économique. Des ressources importantes seront également nécessaires pour réduire l'écart de convergence et permettre aux pays à faible revenu d'investir prioritairement dans les domaines de la santé, de l'éducation, des infrastructures de base et de la protection sociale tout en préservant la stabilité macroéconomique. Il est nécessaire d'accroître les ressources nationales grâce à une mobilisation accrue des recettes intérieures pour créer l'espace budgétaire nécessaire pour relever ces défis et investir dans la transformation numérique. En outre, les efforts devraient inclure la promotion d'une fiscalité progressive, la réalisation de progrès dans le domaine de la fiscalité internationale ainsi que la lutte contre les flux financiers illicites et d'optimisation fiscale. Il sera également essentiel pour la communauté internationale d'allouer des ressources importantes, nécessaires pour atteindre les Objectifs de développement durables qui connaîtront certainement des revers majeurs en raison de la pandémie. Nous appelons le FMI à continuer de soutenir l'agenda de développement, en conformité avec son mandat.

Nous nous félicitons des augmentations temporaires des limites d'accès aux ressources d'urgence et aux financements de moyen terme du FMI en faveur de ses pays membres à faible revenu au titre du Fonds fiduciaire pour la réduction de la pauvreté et pour la croissance (Fonds fiduciaire RPC). Nous espérons que ces changements pourront être prolongés afin d'assurer un alignement plus permanent de ces limites d'accès avec ceux des instruments du Compte des ressources générales (CRG). Il est prioritaire d'explorer des réformes plus pérennes du Fonds fiduciaire RPC en vue d'augmenter substantiellement sa capacité de prêt, à la mesure des besoins des pays à faible revenu dans l'ère post-Covid-19. Nous nous félicitons du large soutien exprimé par les pays membres en faveur d'une nouvelle allocation de DTS et nous plaidons fermement pour un transfert volontaire des DTS des économies avancées pour soutenir les efforts de redressement des pays à faible revenu, notamment en augmentant les ressources des prêts du Fonds fiduciaire RPC. Nous souhaiterions également que le FMI étudie d'autres options pour accroître ses ressources concessionnelles, notamment par le biais de contributions bilatérales additionnelles et de sources de financement internes.

Les initiatives actuelles visant à remédier aux vulnérabilités de la dette et à assurer un allégement du service de la dette, notamment l'Initiative de suspension du service de la dette (ISSD) du G20, et l'assistance du FMI dans le cadre de son Fonds fiduciaire d'Assistance et de Riposte contre les Catastrophes (Fonds fiduciaire ARC) contribuent à atténuer les contraintes de financement et à libérer des ressources limitées pour les besoins urgents. Cependant, une participation effective des créanciers privés au Cadre commun du G20 est cruciale pour l'efficacité de cette initiative qui doit être opérationnelle le plus rapidement possible. Il est également indispensable d'établir un dialogue constructif avec les agences de notation de crédit en vue de prévenir des déclassements indus dans la notation souveraine des pays qui pourraient bénéficier du Cadre commun.

Malgré les défis importants du moment, la poursuite de l'assistance technique nécessaire aux pays membres est cruciale, particulièrement pour les Etats fragiles, ceux affectés par des conflits et les petits États en développement. Nous exhortons le FMI à rehausser son soutien au renforcement des capacités de ces pays membres.

Dans ce nouvel environnement d'incertitudes accrues et de défis immenses, il est encore plus pertinent de faire en sorte que le FMI demeure une institution basée sur un système de quotes-parts, dotée de ressources adéquates et au centre du dispositif mondial de sécurité financière. Cela nécessite de faire progresser les réformes des quotes-parts et de la gouvernance du FMI, en vue d'achever à temps la Seizième révision générale des quotes-parts, y compris une nouvelle formule de calcul des quotes-parts.

Le FMI a continué de faire des progrès en matière de diversité de son personnel, notamment à travers la nomination et la promotion de ressortissants d'Afrique subsaharienne. Néanmoins, il reste encore beaucoup à faire pour atteindre tous les objectifs relatifs aux régions sous-représentées et pour se fixer des objectifs plus ambitieux. Des progrès supplémentaires en la matière permettraient de faire du FMI une institution plus diverse reflétant la composition de ses membres.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-22

Statement by Ms. Sitharaman
India

On behalf of
Bangladesh, Bhutan, India, Sril 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 43rd Meeting of the IMFC at the Virtual Spring Meetings 2021

April 8, 2021

Impact of COVID 19 on Global Economy

1. During the past year, the world has witnessed widespread disruptions, including loss of lives and livelihoods as well as wealth destruction. Governments and Central Banks have rolled out conventional and unconventional policy support to combat the devastating impacts of the COVID-19 pandemic.

2. Rapid production and administration of COVID-19 vaccine is critical in this war against the pandemic. India as the largest producer of vaccines in the world is prepared and willing to augment international vaccination efforts. India has mustered all its resources to ensure availability of vaccines and other medical supplies, not only for its citizens, but also to support the international community, in particular, the vulnerable developing economies. Vaccines are being provided to more than 70 countries worldwide, and medical supplies from India are reaching out to more than 100 countries. India has firmly positioned itself as a global leader in terms of COVID-19 vaccine, visible in its vaccine production capacity and also in the speed of vaccination.

3. Amidst the pandemic, the struggle to save lives and safeguard livelihoods is universal. While extraordinary policy support by governments across the globe has helped limit the adverse impact on economies, we need to be vigilant against premature withdrawal of policies. It is evident that the pace of economic recovery and the course of containment of the pandemic will vary across countries. If we are looking for a durable and sustainable recovery, coordinating efforts and combining resources is the only way forward. Undoubtedly, the IMF would have to play a key role in this endeavor.

Role of the IMF

4. The IMF has provided emergency financing to more than80 countries since the onset of the pandemic. Timely financial support helped in upgrading the health infrastructure and insulating the vulnerable from slipping below the poverty line. A multi-speed recovery leading to an early policy normalization by the advanced economies may cause spillovers and significant economic disruption in developing and low-income market economies. This would require a far stronger and resilient international financial safety net. IMF may be called upon to provide much larger support to its membership as recovery starts taking shape in the post-pandemic world.

5. The post-pandemic global economic recovery is swifter and stronger than originally anticipated due to the unprecedented policy measures taken by the Governments and the central banks. The timely support of multilateral and regional financial institutions has been critical, with the IMF performing a pivotal role. The scarring effects of the crisis may have serious long-term consequences on the durability of recovery and financial stability, particularly in low-income emerging market economies. The G20 Debt Service Suspension Initiative (DSSI) has provided substantial debt relief to more than 40 low-income countries (LICs). Similarly, the common framework for debt treatment is expected to help needy LICs in enhancing their debt sustainability. Notwithstanding these enormous responses, the IMF must intensify its efforts in meeting the challenges ahead.

6. Therefore, it is necessary that the IMF remains adequately resourced. We have contributed to New Arrangement to Borrow (NAB) and Bilateral Borrowing Arrangements(BBAs) to help maintain the IMF's resource envelope. However, we would like to reiterate that continued dependence on borrowed resources can at best be a temporary and short-term arrangement. The failure of 15th General Review of Quotas (GRQ) has been disappointing. We should move swiftly and earnestly to complete the 16th GRQ process within the stipulated timeline. Apart from augmenting permanent resources, this is required to address the long pending issue of under-representation of emerging and developing economies and dynamic economies for their meaningful engagement in the governance of this institution.

7. We have an open mind on a new general allocation of SDRs, even though it is not a substitute for structural quota and governance reforms. We observe that SDR allocations are asymmetrical, with as much as 62 percent going to advanced economies and only 3 percent to LICs. Given this, why not then proceed with a limited SDR allocation targeted at LICs? We are open to discussions on the deployment of SDRs for low-income countries (LICs) to support healthcare and economic recovery. Priority should be accorded to modalities for channeling existing stocks of SDRs to the LICs on principles that are just and have traction with the entire membership.

8. Climate, and climate change policies, are the ultimate public good. India is among the few countries which is 2 degrees compliant and has taken many decisive actions in fighting climate change, at both the government, and private levels. India is on track to meet its Paris Agreement targets – to reduce emissions by 33-35% of its Gross Domestic Product (GDP) by 2030 from 2005 levels and achieve 40% of installed power capacity from non-fossil fuels by 2030. Only six countries are on track to meet their Nationally Determined Contributions (NDCs) announced in Paris, and India is on the top of this list. The current levels of emission of Green House Gases (GHG) and other effluents in the developing countries are driven by their developmental efforts to catch up with the income levels of advanced countries.

9. The current status of global climate change/damage is a result of industrialization and economic growth at least over the past one and half centuries. Thus, there is a need for evenhandedness in the treatment of the issues and the need for an unbiased yardstick that considers the stock of emissions that is now built into the atmosphere. This means that the excess polluters (primarily the rich countries) would have to compensate (via carbon financing and technology transfers) the poor countries – and that the roads to climate control will be different for different countries. The effects of adaptation and mitigation of climate change on developing countries could be minimized, if there is the availability of adequate, credible, and predictable climate finance for the developing countries and technology transfer and availability of low-cost technology, as agreed under the United Nations Framework Convention on Climate Change (UNFCCC). The developing countries will require new investments to adequately limit their growing greenhouse gas emissions. These countries will also require substantial financial resources to protect themselves from the worsening physical and economic impacts of greenhouse gases. Private capital playing a significant role in climate change mitigation and adaptation activities will also be difficult to achieve in the near future. Thus, to help developing countries fight against climate change, there is a need to encourage the implementation of the commitments by the developed countries to mobilize USD 100 billion per annum by 2020 in letter and spirit and to scale it up further. However, significant efforts on the climate finance front are yet to be seen in resource mobilization. Developed countries have to exhibit the spirit of cooperation with developing countries in sharing the burden of climate change mitigation and adaptation.

DEVELOPMENTS IN THE CONSTITUENCY

A. BANGLADESH

10. After economic fallout from the COVID-19 pandemic which had impacted the GDP growth rate of FY20 to decelerate at 5.2 percent, significantly lower than a record high of 8.15 percent growth rate in FY19. The government and Bangladesh Bank (BB) had taken timely and appropriate fiscal and monetary measures with a hefty stimulus package of Bangladeshi Taka (BDT) 1.24 trillion (4.44 percent GDP) to stimulate economic activities. As a result, Bangladesh economy witnessed a broad-based recovery in H1FY21. Sustained activities in the agriculture sector, rebound of industrial production backed by a turnaround of exports and construction activities reaching near to the pre-pandemic levels, and restoration in service sector activities with increased people's mobility including a rush in domestic tourism points are suggesting a recovery of economic activities during the H1FY21.

11. On the demand side, the pace of economic activities supported by robust domestic demand aided by strong remittance inflows (37.3 percent H1FY21) and significant growth in consumer credit (12.6 percent in H1FY21). The recent low levels of COVID infection rate and the acceleration of vaccination program in addition to government's and BB's continued support to the economy against the pandemic are expected to help boost business confidence and economic activity, which would likely to have an expansionary effect on private credit demand in coming months. With all the protective and revival measures, it is expected that GDP growth in the coming fiscal years will attain closer to the targets of 7.40 percent in FY21 set by the government, assuming no major further disruption.

12. Headline Consumer Price Index (CPI) inflation (y-o-y annual average) stood at around 5.63% in February 2021, higher than the targeted 5.4% for FY21, reflecting a continued rise in international commodity and energy prices, an upturn in rice prices, increases in transport cost, agriculture wages, medical care, and health expenses in the recent months. Continued easy monetary condition, which intended to help rebound investment activities, presence of sizeable excess liquidity amid weak demand might have an implication on future inflation. Proper monitoring and strengthening of supply chains, particularly for essential food items is expected to contain inflation around the tolerable level for the remaining period of FY21.

13. The balance of payment witnessed a surplus of USD 6.41 billion in seven months of FY21, aided by a surplus in the current account balance to USD 2.24 billion on the back of hefty remittance inflows along with healthy inflows of FDI and medium and long-term loans. The nominal exchange rate remained broadly stable around 84.8 BDT per USD, thanks to the timely intervention of Bangladesh Bank. At the end of January 2021, foreign exchange reserves stood at USD 42.3 billion, which covers nearly 7.9 months of import payments. The government's 2.0 percent incentive has also contributed to the overall remittance income through the formal channel in recent months. However, the picture of overseas employment for Bangladesh is not so encouraging with thousands of migrants in the dark about their jobs due to the COVID-19 pandemic. This gloomy scenario in overseas employment is likely to bounce back in its normal trend as vaccination campaign is getting pace all over the world.

14. Preliminary estimated data indicate that revenue income was 4.1 percent of GDP in H1FY21, which amounted to BDT 1315.4 billion and met 34.8 percent of the annual budget target for FY21. Likewise, total budget expenditure was 5.8 percent of GDP in H1FY21, which amounted to BDT 1840.4 billion and met 32.4 percent of the annual budget target of BDT 5680.0 billion for FY21. The budget deficit is 1.7 percent of GDP H1FY21, which amounted to BDT 525.1 billion comprising domestic financing of BDT 329.1 billion and external financing of BDT 196.0 billion. The implementation of the new VAT law helped to generate higher tax revenue.

15. A general slowdown in economic activities due to the pandemic worsened the government's fiscal balances, 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 coronavirus infections. To fill up the budgetary gaps, to afford new safeguard measures due to the global COVID-19 pandemic, and to achieve sustainable and environmentally friendly economic growth, Bangladesh would require adequate external supports in softer terms (particularly from the multilateral global institutions), including inter alia for attaining some of the key United Nations Sustainable Development Goals like climate change risk mitigation and adaptation, and for larger physical infrastructure projects.

B. BHUTAN

Macroeconomic Review

16. GDP recorded a growth of 5.5 percent in 2019, compared to 3.1 percent in 2018. The growth was largely contributed by the hydropower, and education and health sectors. The commissioning of the Mangdechhu hydro power project combined with favorable hydrological conditions supported the revival of the hydropower sector from negative 14.9 percent in 2018 to 12.1 percent in 2019. However, the growth momentum is expected to dip into negative in 2020 as a result of severe economic disruption caused by the COVID-19 pandemic. The contraction of economic activities has also caused large displacement in employment, bringing disruption in the labor market. The unemployment rate declined to 2.7 percent in 2019 from 3.4 percent in the previous year. However, it is expected to increase in 2020 with rise in uncertainty of COVID-19.

17. The overall CPI inflation recorded at 7.7 percent in December 2020 compared to 2.3 percent during the same month of the previous year. The increase in the overall inflation during the period was largely contributed by the increase in prices of food (14.8%) compared to non-food (2.0%).

18. The fiscal deficit recorded at 6.2 percent of GDP in the FY 2019/20 as compared to 1.6 percent in the FY 2018/19. The higher deficit was contributed by a substantial increase in budget outlay by 28 percent, on account of a significant increase of capital budget (31%) in the FY 2019/20.

19. On the external front, Current account deficit improved to 12.2 percent of GDP in FY 2019/20 from 21.2 percent in the previous year. This was mainly on account of reduction in trade deficit and net payments of primary income, followed by growth in secondary income receipts. In the trade account, the deficit decreased by 38.1 percent, due to increase in merchandise exports of Nu 47,056.96 million, against a lower merchandise imports of Nu 64,585.92 million.

20. The gross international reserves recorded at USD 1,433.9 million as of November 2020 which is sufficient to finance 18.7 months of merchandise imports.

21. The broad money (M2) recorded a significant growth at 21.4 percent in November 2020, as compared to 7.8 percent in the previous year. Higher growth in time and transferrable deposits helped to drive the broad money supply. The net foreign assets grew by 37.8 percent in November 2020, as compared to 9.6 percent in the previous year.

Monetary measures in response to the COVID-19 Pandemic

22. The COVID-19 pandemic continues to pose unprecedented challenges globally, on both the health and economic fronts. Bhutan is truly fortunate to have His Majesty The King leading at the forefront and providing invaluable guidance and leadership to effectively manage the crisis. With the overall objective of maintaining the "hope and confidence of the people", interventions were guided by the principles of providing timely and inclusive relief support to individuals whose livelihoods were threatened by the pandemic and to ensure business continuity. Driven by such magnanimous foresight, as the pandemic reached Bhutan in March 2020, His Majesty The King set up the National Resilience Fund (NRF) of Nu 30 billion to provide the relief grants.

23. Monetary measures have been implemented to support the affected borrowers. In order to cushion the risks on the financial sector, timely monetary measures such as deferment of loan repayments, interest payment support and access to soft working capital, bridging loans and liquidity support have largely contributed to provide relief to borrowers and uninterrupted supply of credit in the economy. The monetary measures and easing of regulatory requirements in 2020 are as follows:

i) Reduction of the Cash Reserve Requirement from 10 percent to 9 percent on 17th March 2020 and further to 7 percent on 27th April 2020.
ii) Providing interest payment support.
iii) Extension of gestation period for projects under gestation.
iv) Deferment of loan repayment with 1 percent interest rate rebate for regular repayment during the deferment period.
v) Concessional term loans in the form of soft bridging loans to businesses.
vi) Release of the Capital Conservation Buffer of 2.5 percent (Nu. 25 billion) of Risk Weighted Average to increase the lending capacity of FIs.
vii) Provisioning of concessional term based working capital to wholesale distributors, tourism and related business, and manufacturing industries.
viii) Provisioning of micro loans for agriculture sector at 2 percent and for CSIs at 4 percent interest rates through the National CSI Development Bank.
ix) Implementation of the Domestic Liquidity Management System with the objective to ensure and provide undisrupted liquidity in the Banking system

C. INDIA

India's COVID response

24. World's largest COVID-19 vaccination drive is underway in India with 61.3million doses administered as on March 30, 2021. To increase the health stimulus, the vaccination capacity has been ramped up with 10,000 private hospitals under Ayushman Bharat, more than 600 private hospitals under the Central Government Health Scheme and several other private hospitals empanelled with state governments ready for deployment. While the vaccination drive remains the immediate focus, the health stimulus for the economy is not only about the COVID-19 vaccination program. The stimulus has in fact evolved into a comprehensive health care project in the country. Intensified Mission Indradhanush 3.0 launched in February 2021 for taking forward the Universal Immunisation Programme is an important pillar of the project. Budget 2021-22 has further expanded the health care project by more than doubling the health sector allocation over the previous year.

25. COVID-19 appeared to be on its way out after having peaked in September- October 2020 before surging again recently. The recent surge in COVID-19 infections is, however, largely restricted to a few states, and restrictions in terms of partial lockdowns, reduction in working hours and night curfews have been primarily local. Government of India in association with States/UTs is working on a five-fold strategy to curb the tide of new COVID cases in most affected districts via Exponential Increase in Testing, Effective Isolation and Contact Tracing of those infected, Re-invigoration of Public and Private Healthcare resources, Ensuring of COVID Appropriate Behaviour (CAB) and Targeted approach to Vaccination. As the vaccination drive continuously gains speed in India, the second wave of COVID-19 in India is expected to be short-lived. India is on the path to achieve the vaccination target of 300 million people in the next few months.

Macro-Economic Overview

26. India's GDP contraction of 24.4 per cent in Q1 of FY 2020-21 and 7.3 per cent in Q2 of FY2020-21 quarter reflect the unparalleled effect of the Covid-19 pandemic and the containment measures that were taken to control the pandemic. The contraction was consistent with the India's enforcement of one of the most stringent lockdowns as reflected in the Government Response Stringency Index measured by Oxford University.

27. Starting July, a resilient V-shaped recovery is underway, as demonstrated by the recovery in GDP growth in Q2 after the sharp decline in Q1 and a sustained resurgence in high frequency indicators. Overall movement of high frequency indicators over Q1, Q2 and Q3 indicated speedy pickup in Q2 and growing convergence to pre pandemic levels in Q3. The GDP grew by 0.4 percent in Q3 of 2020-21. As India's mobility and pandemic trends aligned and improved concomitantly, indicators like E-way bills, rail freight, GST collections and power consumption not only reached pre pandemic levels but also surpassed previous year levels.

28. Manufacturing activity continues its resurgent journey on the back of sales and output recovery and the Government's Self-Reliant India Package stimulus, thereby facilitating growth prospects and business sentiment. The beneficial wealth effect of booming equity markets are enabling consumption abilities of households with exposure to them. With rising capacity utilization, stronger demand conditions and relatively moderate costs, operating profits are rising across the board. Some services sectors like information technology, construction, real estate, finance, domestic trade and transport are gradually emerging from the shackles of the pandemic with government capital spending on roads, highways and metros, lower housing loan rates and reduced stamp duty rates benefitting the labour-intensive construction and real estate segment. Other categories of contact-sensitive services are expected to bounce back once the vaccination drive reaches a critical mass and infuses widespread macroeconomic certainty to boost consumption. The recent surge in COVID-19 cases, signifies that broad-based economic recovery is contingent on rapid vaccination and thereby containing the pandemic spread.

29. The Reserve Bank of India (RBI) undertook several conventional and unconventional measures in the wake of COVID-19. Other than conventional measures, the RBI introduced long term repo operations (LTROs) and targeted long-term repo operations (TLTROs) to augment system as well as sector-specific liquidity to meet sectoral credit needs and alleviate stress. Unlike many central banks, the RBI's asset purchases did not dilute its balance sheet and hence, did not compromise on core principles of central banking. These purchases were confined to risk-free sovereign bonds (including state government securities). The focus was to foster congenial financing conditions without jeopardizing financial stability. Further, forward guidance gained prominence in the Reserve Bank's communication strategy to realize cooperative outcomes. The commitment to ensure ample liquidity conditions supportive of recovery dispelled illiquidity fears and bolstered market sentiments.

30. After breaching the upper 6 percent tolerance threshold continuously since June 2020, CPI inflation moved below 6 percent in December 2020. The Monetary Policy Committee decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

Macro-Economic outlook

31. GDP growth is expected to be in positive territory in the second half of 2020-21, on the back of higher government expenditure, moderated contraction in private consumption and net exports emerging out of dismal retrenchment. An imminent pickup in foreign investment flows is visible.

On the supply side, agriculture and allied activities are clearly demonstrating resilience in the face of the pandemic with a normal monsoon, a bumper crop and government support. GDP growth is expected to rebound strongly in 2021-22 after a contraction by 8.0 percent in 2020-21. As per IMF projections, India is expected to grow at 11.5 percent in 2021-22, the fastest growth to be registered by any major country.

32. While India remains cognizant of the impact liberal fiscal and monetary policies may have on macro parameters, we are guarding against any premature withdrawal of stimulus. Several initiatives under the Self-Reliant Initiative, the production linked incentive scheme (PLI), and Union Budget 2021-22 with a focus on manufacturing, infrastructure, innovations, and health & well-being are intended to ensure that the recovery gainsfirm traction. Similarly, the accommodative monetary stance is being maintained till the prospects of sustained recovery are secured while closely monitoring the inflation outlook.

D. SRI LANKA

33. The Sri Lankan economy was severely challenged in 2020 with the onset of the COVID-19 pandemic. The outbreak occurred at a time when the country was experiencing low growth for a sustained period. While Sri Lanka took firm action including aggressive contact tracing, quarantining and lockdown measures to contain the spread of the first wave of the virus, second waves of infection with new variants have been more challenging to cope with the rapid transmission of the virus and an increase in the number of fatalities. The rollout of vaccines gives a glimmer of hope to curb the diffusion of the virus, however, uncertainties remain. Stringent domestic containment measures and negative spillovers from the global economic shutdown severely affected economic activity, particularly during the first wave. The government and the Central Bank implemented a series of fiscal, monetary and financial policy measures to spur economic activity and protect lives and livelihoods, while incurring health related expenditure to address the public health crisis.

Real Sector

34. The Sri Lankan economy contracted by 5.3 percent in real GDP terms during the first nine months of 2020 reflecting the adverse impact of COVID-19 pandemic measures adopted globally and domestically to halt the spread of the virus and unfavourable weather conditions experienced during the year. All sectors contributed to the deceleration in growth. Despite the positive expansion in value addition recorded in major subsectors such as wholesale and retail trade and financial services, the services sector, which accounts for nearly 60 percent of GDP, registered a negative growth of 2.6 percent largely due to the deceleration in transportation services, other personal service activities and accommodation, food and beverage activities, all of which were severely impacted by the pandemic. The industry sector with a share of around 26.5 percent of the GDP, slowed down by 9.5 percent during the first nine months of 2020, as manufacturing activities, together with construction and mining and quarrying, registered a subdued performance. The agriculture sector, accounting for 7.2 percent of GDP, decelerated by 2.5 percent largely due to contractions in value addition in growing of tea, oleaginous fruits, forestry and logging, and fishing sub-sectors, despite the substantial positive growth rates witnessed in key agricultural activities such as growing of rice, cereals and vegetables. According to Central Bank projections, the economy is expected to contract by 3.9 percent in 2020 [Annual GDP data is expected to be released by DCS on 16 March 2021] This contraction is lower than envisaged by international agencies, and reflects the resilience of the Sri Lankan economy, and the rebound in the second half of 2020.

Inflation

35. Inflation was maintained broadly within mid-single digit levels in 2020 aided by subdued demand conditions and well anchored inflation expectations, although some upward pressure was observed intermittently due to the acceleration in food prices. Headline inflation (y-o-y) as measured by the National Consumer Price Index (NCPI), remained subdued at 4.6 percent in December 2020 while the Colombo Consumer Price Index (CCPI) registered 4.2 percent during the same month. Core inflation, which shows the underlying trend in inflation, remained at moderate levels registering 4.7 percent and 3.5 percent (y-o-y) respectively in terms of the NCPI and CCPI in December 2020, reflecting subdued demand pressures and the impact of tax and price reductions of certain items. Core inflation (y-oy) in January 2021 further decelerated to 4.2 percent and 2.7 percent in terms of the NCPI and CCPI respectively.

Monetary Sector

36. The Central Bank continued its accommodative monetary policy stance, given muted inflationary pressures, lending support to the recovery process. The COVID-19 crisis dealt a severe blow to economic activity necessitating substantial policy measures to cushion the adverse impact on businesses and households affected by the pandemic. In addition to the monetary policy easing measures adopted in January 2020, the Central Bank further lowered policy interest rates, namely the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by a total of 100 basis points in March, April and May 2020. As market lending rates remained downward rigid despite these easing measures, the Central Bank lowered policy interest rates by a further 100 basis points in July 2020 to historic low levels of 4.50 percent for the SDFR and 5.50 percent in respect of the SLFR. During the year, interest rate caps were also imposed to improve the monetary policy transmission process. To ease liquidity conditions in the domestic money market, the Central Bank reduced the Statutory Reserve Ratio (SRR) by 3.00 percentage points to

2 percent on two occasions during the year. Moreover, the Bank rate, an administratively determined rate that could be used in periods of emergency, was also lowered by 300 basis points in April 2020 and allowed to automatically adjust in line with the SLFR. Accordingly, the Bank rate declined by 650 basis points during 2020. Meanwhile, the Central Bank purchased Treasury Bills from the primary market easing the financing burden of the government during the exceptional pandemic period. In addition to the above measures, the Central Bank also implemented concessionary credit schemes for small and medium enterprises along with debt moratoria for businesses and individuals affected by the pandemic.

Fiscal Performance

37. Fiscal operations in 2020 were focused on mitigating the adverse impact of the COVID-19 pandemic and supporting the revival of economic activity. Accordingly, several measures were implemented by the government since January 2020 to revitalize the economy, provide tax relief to persons and businesses affected by the pandemic and protect lives and livelihoods through social protection programs. Tax reforms aimed at revitalizing the economy entailed several tax measures 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 fiscal policy responses to the COVID-19 outbreak included the establishment of a COVID-19 Healthcare and Social Security Fund, relief measures for SMEs, extension of tax payment deadlines, cash allowances for targeted individuals and interest free advances to welfare program beneficiaries. The slowdown in economic activity due to lockdown measures, tax concessions granted, and restrictions imposed on imports significantly lowered the governments revenue mobilisation effort during the first eleven months of 2020. On the expenditure front, recurrent expenditure rose mainly due to an increase in salaries and wages and subsidies and transfers while capital expenditure reduced owing largely to the absence of budgetary provisions and lockdown conditions brought about by the COVID-19 pandemic. Despite the contraction in capital expenditure, the rise in recurrent expenditure resulted in an overall increase in expenditure for the first eleven months of 2020. The moderation in revenue and the increase in expenditure caused Key fiscal balances to deteriorate during the period under review. Domestic financing was used to bridge the fiscal gap, while reducing the reliance of the government on external financing.

External Sector

38. Sri Lanka's external sector, which was impacted severely by the COVID-19 pandemic in 2020, remained somewhat resilient, aided by policy measures implemented by the government and the Central Bank to improve the stability of the sector. The deficit in the trade account narrowed considerably by USD 2.0 billion in comparison to the previous year as the reduction in merchandise imports outpaced the decline in goods exports reflecting the impact of lower international oil prices and policy measures to curtail non-essential imports. Meanwhile, the stoppage in tourist arrivals for the most part of 2020 due to pandemic related border closures, affected tourism earnings significantly impacting adversely the services account of the BOP, although the computer services sub-sector cushioned this to some extent with its healthy expansion. Worker's remittances recovered faster than expected, recording a notable growth over the previous year. As a result the current account deficit is estimated to have improved to USD 1.1 billion in 2020 compared to USD 1.8 billion 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 2020, although in January 2021 the government securities market recorded a marginal net inflow. The government is engaged with bilateral and multilateral partners to secure additional foreign financing. Gross official reserves stood at US dollars 5.7 billion at end December 2020 and US dollars 4.6 billion at end February 2021, equivalent to 4.2 and 3.4 months of imports respectively. The Central Bank has also taken measures to reduce unwarranted volatility in the exchange rate due to excessive speculation. Mirroring these trends, the Sri Lankan rupee depreciated by 2.6 percent against the US dollar in 2020 and 5.1 percent against the US dollar up to 12th March 2021. The Central Bank has taken several measures aimed at strengthening reserves through absorbing non-debt foreign exchange inflows, while continuing to work with the government and the private sector counterparts to enhance such inflows in the period ahead. The government continued to honour all its debt service obligations and remains committed to service such obligations in the period ahead while maintaining its unblemished debt service record.

Financing Support from the IMF

39. Sri Lanka's large fiscal gap and the balance of payments need necessitate external financing. The government is in the process of obtaining such financing from friendly nations to tide over the short term challenges, while introducing necessary reforms to enhance non-debt sources of foreign exchange inflows to both the current and financial accounts of the balance of payments.

40. The non-availability of emergency financing from the IMF, citing debt sustainability concerns based on strict assumptions excluded many countries from access to such funding when it was 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-Third Meeting
April 8, 2021

Statement No. 43-23

Statement by Mr. Steiner
United Nations

UNITED NATIONS NATIONS UNIES

Statement by

Achim Steiner

Administrator of the United Nations Development Programme

to the

virtual Spring 2021 International Monetary and Financial Committee session

Washington, D.C.

8 April 2021

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

"We need to help Governments to invest in a strong recovery that puts us back on track to achieve the 2030 Agenda and fulfil the Paris Agreement. There have been three previous waves of debt accumulation over the past 50 years. Each ended with a debt crisis. The current wave, the fourth, has to be different."[1]

UN Secretary General Antonio Guterres

1. Global Economic Outlook

The UN expects the global economic recovery to be modest with a forecasted growth rate of 4.7% this year, barely offsetting the 4.3% contraction in 2020.[2] Downside risks are high due to uncertainties about the speed of vaccine rollouts, the spread of the virus and new strains, adequacy of policy support measures, debt problems and the stability of financial markets. In many countries, second and third waves of infections have led to renewed lockdowns and a delaying of the economic recovery, and many have not been able to sufficiently respond to the crisis by raising additional resources through existing liquidity and credit channels.

While Eastern Asia and South East Asia have fared relatively well compared to other regions, Southern Asia and Latin America and the Caribbean have witnessed a strong economic reversal. South Asian economies have faced the worst economic declines, with GDP per capita falling nearly 10 percent in 2020. Economies that are highly dependent on tourism or commodity exports have also been particularly hard hit by the sharp fall in global travel and commodity prices. To date, Sub-Saharan African GDP overall has not been the hardest hit, but per capita income losses in Sub-Saharan Africa and Latin America and the Caribbean have been among the highest. These two regions are also highly debt vulnerable, and several countries in these regions are severely constrained in their ability to provide policy support.

Despite the uneven and modest global recovery, a small group of countries powered by strong upturns in China and the United States will surpass their pre-crisis GDP levels by the end of 2021. But as we have learned from IMF's latest WEO, the group of emerging markets and developing economies (excluding China) are still likely to experience a cumulative loss in per capita income (compared to pre-pandemic trends) of as much as 20 percent from 2020-2022

[1] Source: https://www.un.org/press/en/2021/sgsm20660.doc.htm
[2] https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2021/

compared to 11% for advanced economies.[3] As a consequence the developmental impacts in terms of hunger, poverty, loss of schooling and jobs, violence against women, fragility, inequality, and social unrest will be severe.

2. Development Challenges:

Health: A race to avoid vaccine nationalism. A year after the onset of the COVID-19 pandemic, the world takes stock of the devastating impacts of the worst global public health crisis of the last century with 128.5 million confirmed cases and 2.8 million deaths worldwide.[4] National health and care systems have been pushed to their limits, while inequalities in access to health services have compounded the impacts of the pandemic on already vulnerable and marginalized communities.

The UN has from the onset of the crisis called for global solidarity and worked to place multilateral cooperation at the core of the health response to COVID-19, particularly through collaborative vaccine development and equitable scale up, distribution and access. The COVAX Facility, ACT-Accelerator, and the COVID-19 technology access pool (C-TAP) have been at the center of these efforts. As of 1 April, COVAX had confirmed supplies of 3.56 billion doses of vaccines and shipped more than 33 million vaccine doses to 74 countries, while 21.1 million doses had been donated between countries.[5]

However, despite best efforts and results achieved through COVAX, the inequity in vaccine distribution continues to grow spurred by a rise of vaccine nationalism. WHO's Director General Dr Tedros Adhanom Ghebreyesus has warned against the false sense of security from vaccine nationalism.[6] While some countries are racing to vaccinate their entire populations, including low risk groups, many middle- and low-income countries still have not been able to start their vaccine roll-out.

Not only do vaccine nationalism, lack of global solidarity and unequal access to vaccines threaten the efficient containment of transmission and response to the virus, but they also undermine countries' ability to initiate and sustain socio-economic recovery efforts and could cost an already damaged world economy up to $1.2 trillion per year.[7] This is equivalent to the

[3] https://www.imf.org/en/News/Articles/2021/03/25/sp033021-SMs2021-Curtain-Raiser
[4] As reported by WHO on 31 March: https://covid19.who.int
[5] As reported on the UNICEF Vaccine Market Dashboard on 1 April: COVID-19 Vaccine Market Dashboard | UNICEF Supply Division

[6] WHO Director-General's opening remarks at the media briefing on COVID-19 – 22 March 2021
[7] Rand. COVID-19 and the cost of vaccine nationalism. Available at: https://www.rand.org/randeurope/research/projects/cost-of-covid19-vaccine-nationalism.html

financing gap to provide basic social protection, including health care, to all (estimated in 2020 at US$1,192 billion).[8]

A historic socio-economic reversal is underway: no time to withdraw fiscal support. The economic and social costs of the COVID-19 pandemic have been unprecedented. The global economy contracted 4.3 percent in 2020, significantly more than during the 2008-9 financial crisis. Although a recovery is expected between 2021 and 2022, as fiscal support increases and vaccines become more available worldwide, this is subject to great uncertainties.[9]

Poverty has increased. It is estimated that the pandemic pushed between 119 and 124 million people into poverty around the globe in 2020.[10] With some regional variation, most of these new poor live in South Asia (60 percent) and Sub-Saharan Africa (27 percent). The recent progress in vaccination, however, will not reverse the increase in poverty. The estimates for 2021 indicate that globally there will be between 143 and 163 million more people living in poverty as a direct result of the pandemic. Together with the impacts on poverty, the COVID-19 crisis has deteriorated food security levels worldwide. An estimated 271.8 million people living in low- and middle-income countries are expected to face acute food insecurity due to the aggravating effect that the virus is having in areas also affected by conflict, natural hazards, and climate change.[11]

The pandemic has created an unparalleled crisis for jobs and incomes. Global working-hour losses are projected at 8.8 percent in the fourth quarter of 2020, relative to the same quarter of 2019, which is equivalent to 255 million full-time jobs lost.[12] The decline in working hours in 2020 reflected both reductions in working hours for those who remained employed (50 percent of total working-hours) and employment losses (114 million jobs in total, with 81 million people, especially youth, shifting into inactivity and 33 million into unemployment). COVID-19 also caused important losses in labor income. Before considering income support measures, global labor income declined by 8.3 percent, which amounts to US$3.7 trillion or 4.4 percent of global GDP. The most recent projections of the ILO indicate a continued loss in working hours of between 1.3 (optimistic scenario) and 4.6 (pessimistic scenario) percent in 2021, which corresponds to 36 to 130 million full-time equivalent jobs.

Women have been disproportionately affected by the pandemic owing to pre-existing gender gaps in various labor market outcomes, including labor force participation and wages. At the global level, the employment loss for women is estimated to be larger at 5 percent (versus 3.9 percent for men), with most of these women becoming inactive (4.3 percent) rather than

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[8] ILO (2020). Financing gaps in social protection. Global estimates and strategies for developing countries in light of the COVID-19 crisis and beyond. Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/publication/wcms_758705.pdf

[9] The most recent IMF projections suggest a global growth rate of 5.5 percent in 2021 and 4.2 percent in 2022. Source: World Economic Outlook Update, January 2021.

[10] These are estimates using the $1.90-a-day poverty line. Source: World Bank GEP, January 2021.

[11] Source: WFP Global Update on COVID-19, November 2020

[12] Source: ILO Monitor 7th Edition, January 2021 Update

unemployed (0.7 percent).[13] This result is likely compounded by the substantial increase in care demands due to the closure of childcare facilities and schools and overburdened elder and healthcare services.[14] The pandemic has also sparked a shadow epidemic of gender-based violence worldwide, both online and offline, from sexual abuse to child marriage. Emerging data shows that since the outbreak of COVID-19, violence against women and girls, and particularly domestic violence has intensified, with some countries reporting increases of 30%. Globally, 243 million women and girls aged 15-49 have been subjected to sexual and/or physical violence perpetrated by an intimate partner over the last 12 months[15].

The learning loss during the COVID-19 crisis has been enormous. At the end of September 2020, about 630 million learners, or 36 percent of the total enrolled globally, were affected by school closures.[16] UNESCO figures show that, on average, two thirds of an academic year were lost worldwide due to school closures. Furthermore, it is estimated that about 24 million children, adolescents and youth are at risk of not returning to education institutions, including day care centers, schools, and higher education institutions, among which 11 million were primary and secondary education students.[17] UNICEF figures show that recipient countries of the DSSI have managed to maintain or increase spending on health and social protection in relation to the GDP (0.6 and 0.4%, respectively), but that spending on education has been cut by 0.1%. Additionally, out of 148 countries currently reporting a decrease in budget expenditures due to COVID-19, education appears to be the most affected, with 16 countries (10.8%) reporting a decrease in education expenditure.[18]

Sustainable recovery: time to get back on track. Plummeting economic growth has reinforced existing inequalities within and between countries. These inequalities continue to be widened by the growing climate, biodiversity, and pollution crises. To ensure we are truly “building back better”, COVID-19 recovery spending must take into account long-term economic and social, as well as environmental objectives.

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[13] Source: ILO Monitor 7th Edition, January 2021 Update
[14] Report on the UN Women global response to COVID-19, February 2021
[15] UN Women, Issue Brief 2020 https://www.unwomen.org/-/media/headquarters/attachments/sections/library/publications/2020/issue-brief-covid-19-and-ending-violence-against-women-and-girls-en.pdf?la=en&vs=5006
[16] Source: UNESCO Interactive Monitoring Map at https://en.unesco.org/covid19/educationresponse
[17] Source: UNESCO COVID-19 Education Response, July 2020
[18] https://www.unicef-irc.org/publications/1193-covid-19-looming-debt-crisis-protecting-transforming-social-spending-for-inclusive-recoveries.html

The spending undertaken in 2020 – as large as it was – does not paint an encouraging picture for overall efforts thus far to build forward with green priorities. According to the report of the Global Recovery Observatory initiative[19], the world's largest fifty countries announced spending of USD14.6tn[20], of which USD1.9tn (13.0%) was directed to long-term 'recovery-type' measures and of that, USD341bn (18.0%) to green recovery initiatives. Considering total spending, only USD368bn (2.5%) was announced for green initiatives[21]. This is clearly incommensurate with the scale of the planetary crises that threaten the health, wellbeing and human rights of all people, especially those in vulnerable situations.

Announced spending as part of COVID-19 recovery packages in 2020 (in USD):

- Green energy -66.1bn (3,5% of recovery spending)
- Green transport - 86.1bn (4,5% of recovery spending)
- Green buildings - 35.2bn (1,9% of recovery spending)
- Natural capital - 56.3bn (3% of recovery spending)
- Green R&D - 28.9bn (1,5% of recovery spending)

What is more, benefits of spending are often neutralized by harms. For instance, approximately 16.0% of recovery spending may bring positive air pollution impacts, but 16.4% may act to increase net air pollution. Only 3.0% of recovery spending is deemed to have significantly positive characteristics supporting natural capital, and up to 17.1% may have a significant negative impact on natural capital, mainly through expanded road transportation and defense services.

High interest rates and unsustainable debt burdens and constraints have hampered the recovery efforts of many emerging markets and developing economies, leaving the vast majority of green recovery spending to a small group of high-income countries with relatively low borrowing costs. In 2019, for instance, 25 countries spent more on debt service than on spending on education, health, and social protection combined, with South Sudan spending as much as 11 times more on debt service than on these essential social services. [22]

With growing climate instability and environmental degradation, rising inequality, and worsening global poverty[23], it is crucial that governments build back better through a green and inclusive recovery. It will be critical for advanced economies and multilateral agencies to

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[19] 'Are We Building Back Better? Evidence from 2020 and Pathways to Inclusive Green Recovery Spending' (2021) Global Recovery Observatory - Oxford University, UNEP, IMF, GIZ. https://www.unep.org/resources/publication/are-we-building-back-better-evidence-2020-and-pathways-inclusive-green. Data available at Data Futures Platform (UNDP) https://data.undp.org/content/global-recovery-observatory/

[20] Most spending, USD11.1tn, was directed to 'rescue' type measures, intended to save lives and protect livelihoods.

[21] These figures exclude European Commission funds that have not yet been announced in member state budgets. When included, the total spending approaches USD17tn.

[22] UNICEF (2021) COVID-19 and the Looming Debt Crisis. https://www.unicef-irc.org/publications/pdf/Social-spending-series_COVID-19-and-the-looming-debt-crisis.pdf

[23] UNDP (2020) COVID-19 and Human Development: Assessing the Crisis, Envisioning the Recovery. http://hdr.undp.org/en/hdp-covid

support emerging market and developing economies in meeting their green recovery aspirations. They will require substantial concessional finance from international partners. Without it, debt constraints will restrict sustainable recovery and economic health, widening the already stark inequality between nations.

Pandemic stimulus packages are an opportunity to accelerate action. And the conversation does not stop at spending policy. Stimulus efforts need to be accompanied by reforms that address key market failures in private financial instruments and pricing externalities[24].

3. Sustainable Finance: A spotlight on debt and liquidity

COVID-19 has dramatically affected all elements of financing for development including a severe exacerbation of already high debt vulnerabilities. In developed countries unprecedented fiscal and monetary stimulus have cushioned the socio-economic impacts of the pandemic. But the capacities of many developing economies to respond continue to be limited and, consequently, the socio-economic impacts devastating.

We are witnessing a two-tiered global response. Among the most vulnerable countries, the general availability of vaccines could be many months, if not years, away. The risk of another lost decade of development and a faillure to achieve the Sustainable Development Goals (SDGs) is high and rising. To help mitigate this risk, and as called for in the *2021 Finance for Sustainable Development Report*, donors must meet their ODA commitments and provide fresh concessional financing, especially but not only for LDCs. The increasing focus of international public financing on poorest countries has deprived vulnerable middle-income countries of critical sources of counter-cyclical finance, exposing them to exogenous shocks of all sorts, whether triggered by climate change or debt crises. In addition, fully funding access to COVID-19 Tools (ACT) Accelerator is urgently needed.[25]

To change the future trajectory countries must invest in people and a risk-informed recovery, and our financial systems must be aligned with the 2030 Agenda. The SDGs, including gender and climate targets, should be the focus of recovery efforts. Tax policies should address rising inequalities and be at the center of climate policies. The crisis highlights the importance of functioning social protection systems, and countries should continue to build on the momentum gained. Development banks and SDG reporting standards and ratings-approaches should be strengthened to ensure that we measure the right things and can design policies accordingly.

Ensuring a fair international tax system, combating illicit financial flows, and revamping the multilateral trade system must also be part of our global efforts. Debt relief initiatives will need to be extended and expanded, including the critically important elaboration of a multilateral

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[24] UNEP. (2020). Building a greener recovery. https://www.greengrowthknowledge.org/guidance/building-greener-recovery-lessons-greatrecession

[25] https://developmentfinance.un.org/

framework for sovereign debt resolution. The current crisis is an opportunity for the international community to build consensus around reforms needed to avoid a global climate and biodiversity catastrophe, build resilience, and achieve the SDGs. The United Nations can serve as a unique platform to bring all the stakeholders together.

Debt vulnerabilities were already high in many developing economies when the pandemic hit. It is evident that for many countries, debt problems extend beyond what can be handled by short-term liquidity support or debt moratoria, as offered to 73 countries by the Debt Service Suspension Initiative (DSSI). The Common Framework on Debt Treatment Beyond the DSSI (CF), marks a turning point as it offers a systematic way to restructure unsustainable debt.

However, a challenge for both the DSSI and the CF is that eligibility is limited to 73 of the world's poorest countries but they do not extend to a critical number of other vulnerable economies, including some middle-income economies and small island development states (SIDS). And while the DSSI and CF both encourage private creditors to join on comparable terms, to date this has not occurred. This poses severe limitations as an increasingly significant component of external sovereign debt—amounting to 35 percent of total debt globally--comes in the form of private credit. This means that while low-income countries are largely covered by a debt standstill, middle income countries will continue to service at least a third of their external debt over the course of the pandemic. Many developing countries who are not eligible for debt suspension through the DSSI and CF have also recently taken on increasing levels of debt from private lenders and non-Paris Club Members at high borrowing costs, compounding their challenges for a recovery[26]

UN estimates suggest that little less than one third of the group of highly indebted vulnerable developing economies are not eligible for debt relief under the DSSI or CF, and that these countries account for more than two-thirds of the total estimated external public 'debt service payments at risk' from 2021 to 2025.[27] More specifically, 72 countries(60% of all developing economies evaluated) are highly debt-vulnerable, and 19 severely so. Uncertainties remain high and even in a benign recovery scenario, debt vulnerabilities are likely to stay elevated for years and not expected to return to pre-pandemic levels until 2024/2025.

In addition, none of the debt or liquidity measures adopted since the onset of the pandemic addresses the causes underlying the gradual buildup of debt that underpins the repeated global waves of debt, all of which have so far resulted in global debt crises. Without efforts and initiatives to strengthen the international debt architecture, there is a great risk that developing countries will enter a long period of debt-overhangs, but also that cycles of debt accumulation followed by global crises and lost decades will tragically keep repeating, preventing the world

[26] UNICEF (2021) COVID-19 and the Looming Debt Crisis. https://www.unicef-irc.org/publications/pdf/Social-spending-series_COVID-19-and-the-looming-debt-crisis.pdf
[27] https://www.undp.org/content/undp/en/home/librarypage/transitions-series/sovereign-debt-vulnerabilities-in-developing-economies.html

from achieving sustainable development in the long term, let alone the SDGs in the next decade.

Box 2: UN priorities on debt and liquidity

To avoid a development crisis, the world must avoid a debt crisis. The UN Secretary-General has therefore made a call to action on debt and liquidity[28], including by convening the Financing for Development in the Era of COVID-19 and Beyond Initiative (FfDI). As part of this Initiative, a Meeting with Heads of State and Government on the International Debt Architecture and Liquidity was held on 29 March, which was preceded by a policy brief that outlined concrete recommendations to survive this crisis and build back better.
With regard to liquidity, the UN commended the IMF Board on the possible new allocation of SDRs, amounting to US$650 billion and called for a reallocation of SDRs from countries with sufficient international reserves to countries facing persistent external deficits or emergency situations, including vulnerable middle-income countries, small island developing states, and conflict-affected countries. IMF member countries are also urged to consider (i) replenishing the Poverty Reduction Growth Trust (PRGT) of the IMF and (ii) establishing a new trust fund hosted by the IMF to support middle-income countries in their response and recovery efforts.

Furthermore, the G20 is strongly encouraged to: extend the DSSI at least until the end of June 2022; and include middle-income countries, in particular SIDS, conflict-affected and other vulnerable countries that have been seriously affected by the crisis; and ensure that debt relief is additional to existing concessional aid. Multilateral creditors should consider offering DSSI terms to these countries on a case-by-case basis. Bilateral G20 creditors, including hybrid lenders, should consider mechanisms to include private sector participation in the DSSI and in future debt standstills.

On debt relief the UN calls for: stakeholders to build on the Common Framework to offer legal and technical advice on options for debt and debt service relief to help countries in need depending on countries' specific circumstances and challenges; the extension of debt relief eligibility under the Common Framework to include other vulnerable countries on a case-by-case basis; and a consideration of other mechanisms that would allow countries to access the CF without creating a stigma or compromising the credit rating of the beneficiaries, including funds and other instruments within existing institutions.

Finally, the UN also calls on stakeholders to strengthen the international debt architecture, notably by (i) agreeing on a core set of principles including sustainability, transparency, and fair burden sharing among creditors and between creditors and debtors, and (ii) building on the CF to work out a more permanent and universal framework for dealing with sovereign debt resolution to address the recurring problem of "too little too late".

[28] https://unsdg.un.org/resources/liquidity-and-debt-solutions-invest-sdgs-time-act-now

4. Conclusion: A Call to Action

A year into the global COVID-19 response, the United Nations is focused on the bridge between response and recovery. To avoid continued divergence across economic, social and environmental dimensions, the UN puts forth an urgent call to action:

This is no time for austerity: The world's largest economies have mobilized a historic US$18 trillion in fiscal support (including both fiscal stimulus spending and loans and guarantees). This support has kept economies, jobs and households afloat during the pandemic. But many developing countries cannot invest in recovery and resilience, because of financing constraints. The least developed countries have spent 580 times less in per capita terms on their COVID-19 response than advanced economies. This division is starkly reflected in global access to vaccines. The work is not done until vaccines are in arms around the world and until the divergent paths of recovery correct course.

Liquidity and debt relief should be extended to all developing countries that request it: The current crisis will require the global community to provide sufficient liquidity and debt relief, so that all countries can secure a bridge to recovery and achieve the commitments made in the 2030 Agenda for Sustainable Development and the Paris Climate Agreement. Liquidity is vital to support vulnerable countries. This will mean taking the decision to issue new SDRs; extending the Debt Service Suspension Initiative to at least June 2022; and expanding it to include all vulnerable middle-income countries that request it.

The Common Framework for Debt Treatments should not exert a negative impact on the credit rating of those it is intended to help. We need joint efforts to address this. Additional, targeted debt relief and liquidity to vulnerable countries, including middle-income ones, is urgently needed and will require new funds, facilities, instruments and mechanisms. As part of strengthening the international debt architecture and addressing the underlying causes of debt buildup, the UN calls on all stakeholders to participate in a global forum for sovereign debt resolution to build consensus for new norms and standards on debt transparency and management.

A sustainable recovery requires us to get serious about a century-long commitment to sustainability: The shift to a new pathway moves far beyond climate mitigation, to a whole-of-government and whole-of-society engagement on the economic, social and environmental building blocks of the future. While each country will find the right speed and appropriate policy mix for its own circumstances, the time has come to put a price on carbon; to stop building new coal plants; to end fossil fuel subsidies; to shift the fiscal burden from taxpayers to polluters; to put gender equality at the center of our efforts; and to align public and private financial flows with the Paris Agreement commitments and the Sustainable Development Goals. Everyone must do much more. We cannot afford to miss another opportunity.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-24

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 8, 2021)

1. **The strength of global recovery will, to the large extent, depend of the speed of vaccination around the world.** At this stage, in many regions of the world the speed of vaccination remains slow, which is mainly due to the very limited availability of vaccines. This is the main factor of uncertainty regarding the strength of the global recovery and growth projections for the world economy and individual countries.

2. **We are concerned about the prospects of a multi-speed recovery leading to further income divergence.** While some high-income economies are expected to recover strongly in 2021-22, insufficient access to vaccines and limited fiscal space may constrain growth in many middle-income and low-income countries. Some emerging market economies in Europe and Asia are projected to grow faster than advanced economies. However, in many middle-income and especially low-income countries the income gap with advanced economies will increase.

3. **Accommodative fiscal and monetary policies in advanced economies have played a critical role in preventing even deeper output decline worldwide.** We all agree that premature withdrawal of fiscal and monetary stimulation is undesirable. However, the latest developments indicate that inflationary pressures may be building up against the backdrop of massive fiscal stimulus packages. Any increase in actual inflation will be accompanied by growing market interest rates and higher public debt servicing costs in advanced economies. Such tightening of global monetary conditions may lead to capital outflows and downward exchange rate pressures in emerging market economies.

4. **Emerging market economies should also avoid a premature withdrawal of fiscal and monetary support before the recovery is firmly entrenched.** However, many of them have very little fiscal and monetary space left. For quite a few such economies the continuation of fiscal and monetary accommodation is no longer feasible. These countries will have no choice but rely on positive spillovers from the rest of the world.

5. **Now is also the time to start thinking about the post-pandemic growth prospects.** In many countries – high-income, middle-income, low-income – public debt has reached a very high level, and without forceful growth-enhancing structural reforms the prospects of fiscal consolidation look very uncertain. Without structural reforms, fiscal consolidation through spending reductions or tax increases may lead to slower growth and further deterioration of public debt-to-GDP ratios.

6. **One of the major side-effects of an unprecedented fiscal and monetary support has been the rapid increase of the share of non-viable companies in many economies.** The very presence of these companies is a huge drag on productivity growth and overall growth prospects. The big challenge for many countries is to develop programs aimed at promoting a gradual exit of such non-viable companies, while preventing negative near-term consequences for growth and employment.

7. **We support the Fund's efforts to help low-income countries (LICs) mitigate the adverse implications of the Covid-19 crisis.** Many LICs faced the crisis with high debt vulnerabilities and structural impediments to growth. The Fund has significantly increased its financial assistance for these countries and played an important role in the implementation of the G20's key initiatives – the DSSI and Common Framework.

8. **The Fund's analysis points to very significant additional financing needs in LICs over the medium term.** Both domestic and multilateral actions will be needed to rebuild their buffers and enhance resilience. We call on the Fund to continue exploration of possible ways to strengthen its concessional financing, while maintaining its catalytic role and the sustainability of the PRGT framework.

9. **The new SDR allocation will assist LICs in addressing their short-term financing needs.** At the same time, it will be very important to closely monitor possible unintentional implications of the general SDR allocation. We would underline the need of ensuring smooth functioning of the VTAs market and increasing transparency of SDR operations. The general SDR allocation should not lead to further delays in the 16th General Review of Quotas.

10. **We support the intention of the Fund to focus more on climate change policies as reflected in the Managing Director's Global Policy Agenda.** We believe that the role of the Fund should be in bringing more realism – especially fiscal realism – to climate change policy discussions. The success of climate change mitigation policies will require a very high level of international cooperation, while current trends in international cooperation do not look very promising.

11. **We also support the focus in the Global Policy Agenda on issues of digitalization.** We agree that financial digitalization may significantly increase the speed and overall efficiency of payments transactions, especially of trans-border payments. We believe that the role of the Fund should be in the analysis of potential high risks associated with financial digitalization, in particular, the analysis in the area of regulatory requirements needed to prevent negative consequences to financial stability.

12. **The global economy would greatly benefit from the rapid revival of international trade.** It is vitally important that all members of the international community support the rules-

based international trading system and the crucial efforts of the World Trade Organization to defend it from protectionist policies.

13. **For the Fund to remain at the center of the global financial safety net rapid progress in quota and governance reform is needed.** Without it trust to the Fund by its own members will suffer, while the legitimacy of the Fund's Executive Board will continue to diminish.

14. **Lastly, a couple of words on Russia.** Our very strong macroeconomic frameworks and fundamentals allowed the Russian economy to meet the challenge of pandemic from the position of strength. Like many other countries, we also introduced a broad range of measures in support of both lives and livelihoods. Like many others, we are not out of the woods yet, but the pace of recovery of the Russian economy is gradually gathering momentum.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-25

Statement by Ms. Yellen
United States

Secretary Yellen Joint IMFC/DC Statement
April 2021

As we come together virtually this week, the challenges we face are historic. Most immediately is the continuing COVID-19 pandemic, which has inflicted tragic loss of life and an economic crisis. The crisis has exacerbated the trend of rising income inequality, raising concerns about a divergent path within and across countries. We also face the existential threat of climate change. We can only resolve these problems through strong international cooperation. The Biden-Harris administration is committed to working with our partners, including the International Monetary Fund (IMF) and World Bank Group (WBG), to help the world emerge from this crisis, and set the stage for more inclusive, resilient, and sustainable growth going forward.

The first order of importance is putting an end to the health crisis, which is a prerequisite to a robust economic recovery. Accordingly, the United States is making substantial progress in vaccinating our own population. And importantly we will work with partners to find global solutions to vaccinating the rest of the world. The United States has committed $4 billion to COVAX to help finance vaccine access globally, and I urge others to increase their support for this initiative. The United States will continue to work with partners to increase vaccine supplies, explore sharing excess vaccines, and make sure financing does not become an obstacle for global vaccination. The WBG will continue to be integral in securing access to vaccines for low-income and developing countries. I urge the WBG to use its leadership and convening roles to support timely access, particularly for the poorest countries, including through collaboration with COVAX, and to work toward ensuring robust, equitable, and transparent vaccination deployment. I also urge the WBG and shareholder governments to help overcome challenges to increase vaccine manufacturing capacity.

Beyond the tragic human toll, COVID-19 has also created an economic crisis. The global economic outlook has improved significantly from a year ago with substantial fiscal and monetary support from major economies. But, the job is not yet done given high uncertainty and the risk of permanent scarring. I urge major economies to not just avoid removing support too early, but to strive to provide significant amounts of new fiscal support to secure a robust recovery. To that end, the United States is implementing the $1.9 trillion American Rescue Plan (ARP), which provides support to families, small businesses, and local communities. The ARP's passage has contributed to significant upward revisions in U.S. and global growth forecasts. The United States could reach full employment as soon as next year. Going forward, President Biden has outlined another fiscal package to "build back better" by focusing on infrastructure across many areas that are partly aimed to make progress on issues like climate change and inequality.

With limited policy options and longstanding structural challenges, many developing countries have not been able to support their economies through the crisis. Without significant action, we could face a permanent divergence in the global economy. The IMF and WBG have provided much-needed emergency support to stem the immediate crisis impacts. They must continue to work closely to finance and support members' policy efforts, so their actions complement each other and underpin the international response. As we move past the initial emergency phase, I urge countries to work with the IMF and WBG to develop macroeconomic and structural reform agendas, and to seek full-fledged IMF programs where necessary. To provide support alongside these efforts, the United States supports enhancing concessional lending at the IMF and WBG, alongside G20 debt relief initiatives, and pursuing an SDR allocation.

I applaud the IMF's stepped-up deployment of resources that have created space for countries in need to fight the twin health and economic crises. For low-income countries, the Poverty Reduction and Growth Trust (PRGT) has provided substantial financing to support crisis responses, with lending last year surpassing that of the previous 10 years combined. However, low-income countries face rising needs in the coming years. I welcome efforts to ensure that PRGT lending facilities can support low-income countries' needs over the medium term, and that IMF members agree on a robust financing strategy in support of the PRGT. As countries get past the initial crisis phase, the IMF's robust surveillance work will be as important as ever to help countries plan for the recovery and monitor financial stability risks.

The IMF can also play a major role in providing support through an SDR allocation that will give a much-needed boost to global reserves. The United States supports pursuing a $650 billion SDR allocation given the global reserve need and to help provide space to fight the health and economic crises. It will be critical that any such allocation comes alongside efforts to enhance transparency and accountability around SDRs, which will give the public insight into how authorities use SDRs and help to ensure SDRs are used to restore economic stability. IMF members should also work to explore ways for major economies to reallocate SDRs to amplify support for low-income countries, for example by lending SDRs to the PRGT.

The unprecedented nature of COVID-19 has dramatically increased demand for WBG financing, particularly among the poorest countries. The United States supports the accelerated negotiation of the 20th International Development Association (IDA) replenishment to meet this demand. Additional resources will help sustain grant and concessional finance to the most vulnerable countries to support a durable recovery and consolidate development gains. Even as we move forward with that effort, it is important to stay focused on making full use of IDA's available resources and targeting them where they are needed most. I also welcome opportunities to expand and strengthen important policy work in the negotiations, particularly in areas such as climate, inclusion, resilience, and debt management and transparency.

Judicious management of WBG finances remains a focus, particularly during this era of high demands and stretched balance sheets. The International Bank for Reconstruction and Development (IBRD) has met this demand head-on, stretching its financing capacity by using tools created from the reforms that came as part of the 2018 Capital Package. The robust response from the IBRD and the International Financial Corporation to the pandemic highlights the continued value of the 2018 Capital Package and need to follow through on reforms to enhance efficiency and program resources as impactfully as possible. This includes continued progress in allocating resources towards poorer countries and focusing activities and limited resources on addressing constraints to graduation in wealthier countries with strong access to other financing sources. I urge the WBG and shareholders to focus on continued implementation of this package of reforms and to conclude the 2020 IBRD and IFC shareholding reviews.

COVID-19 has further exposed debt vulnerabilities among low-income countries as fiscal needs rose while revenues plummeted amid the economic collapse. The Debt Service Suspension

Initiative (DSSI) has provided liquidity relief to help in the fight. But that relief is only temporary, and many countries may need deeper debt treatment. Therefore, the United States supports a final DSSI extension and strongly urges countries to quickly move beyond it to what we view as a critical tool for support to low-income countries, the G20 Common Framework.

Going forward, the Common Framework provides a venue for countries to address prolonged liquidity problems and debt sustainability. Common Framework treatment requires beneficiary countries to finalize a full-fledged IMF program—to guide credible policy reforms—and enables fair burden-sharing from all official bilateral and private creditors through the comparability of treatment principle. We strongly urge all creditors to fully and transparently implement the Common Framework to avoid unnecessary delays that can prolong debt overhangs and exacerbate growth shocks. We welcome strong coordination and support from the IMF and WBG, while adhering to their respective mandates, to help this creditor-led process succeed.

Even with a full-time focus on the crisis response, we must not delay in addressing two of the greatest threats to our economies and societies—climate change and inequality.

The United States is fully committed to working with international partners to tackle climate change. President Biden has rejoined the Paris Agreement and has released a detailed plan to address the issue, including aligning financial flows with the Paris Agreement in coordination with international partners, investing in sustainable infrastructure, and creating green jobs. We also believe major economies should support developing countries to pursue economic growth in a green and sustainable way. And the IMF and WBG have key roles to play.

I ask the WBG to lead on transformative climate investments, develop tools to catalyze co-financing, and help countries manage risks and reduce emissions. This includes assistance for developing countries to increase the ambition of their adaptation and climate resilience plans in line with Paris Agreement goals. We also expect the WBG to partner with the Green Climate Fund and the Climate Investment Funds, which are important tools to meet these goals. I welcome the WBG's recent announcement that it will increase its climate co-financing target to 35 percent and that 50 percent of this will focus on adaptation. We also encourage the WBG to continue to set an aggressive agenda on climate and the green recovery, using its updated Climate Change Action Plan to further enhance climate action support.

We strongly support the IMF expanding its climate work within its mandate, including through macroeconomic surveillance, financial sector analysis, capacity development, and data provision. The IMF has a critical role in analyzing the macroeconomic and financial sector implications of climate change adaptation and global greenhouse gas emission mitigation efforts by countries.

Finally, this crisis has exacerbated inequality both within and across countries. The Biden-Harris Administration is committed to make our economy more inclusive and address long-standing income and racial inequities. I am concerned that an uneven recovery will result in a divergent growth path across countries. I welcome work underway at the IMF and WBG to tackle inequality to support inclusion and expect both institutions to be crucial partners in this fight across the globe.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-26

Statement by Mr. Yi
People's Republic of China

Statement at the Ministerial Meeting of the 43rd 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

COVID-19 has had a huge impact on the global economy. The global economy has emerged from a deep recession since the second half of 2020, thanks to the support provided by the accommodative monetary and fiscal policies in many countries, as well as the progress achieved in the development and distribution of vaccines. However, the recovery remains relatively slow and uneven. COVID-19 continues to rage across many countries and remains the major uncertainty facing the global economy in 2021.

A fair distribution of vaccines and medical supplies is key to containing COVID-19 globally and achieving sustainable recovery. Many developing countries, however, are facing difficulties in accessing vaccines, which could hinder their recovery. China is a staunch advocate for a fair distribution of vaccines and has actively participated in international cooperation on the development, production, and distribution of vaccines. China will provide 10 million doses of vaccines to the WHO's global COVAX initiative. China has provided and will offer vaccine assistance to 80 countries, and we are exporting vaccines to over 40 countries. The international community should work together to resist "vaccine nationalism," strengthen cooperation and policy coordination to fight against COVID-19, and improve the accessibility and affordability of vaccines in developing countries in a meaningful way.

In recent years, globalization has suffered from setbacks as protectionism and unilateralism are on the rise. The outbreak of COVID-19 and the ensuing recession have made the inward-looking tendencies more entrenched in some countries, damaging the industrial and supply chains around the globe. We call on all countries to work together to build consensus, eliminate trade barriers, and safeguard multilateralism. In particular, efforts should be made to maintain the normal functioning of the global supply chains and to preserve the open and rule-based multilateral trading system.

II. Economic and Financial Developments in China

China has been promoting containment measures as well as economic and social development in a well-coordinated manner, and its economy has steadily recovered. Real GDP grew by 6.5 percent year on year in the fourth quarter of 2020 and by 2.3 percent for the whole year. Since the beginning of 2021, small pockets of new outbreaks have taken place in certain areas. That said, with strong containment measures and effective macroeconomic policies in place, and partly due to the low base in the same period last year, the main economic indicators have rebounded sharply. For the first two months of this year, the total value-added of industrial enterprises above designated size increased by 35.1 percent year on year, total retail sales of consumer goods increased by 33.8 percent year on year, and fixed-asset investment grew by 35 percent year on year. Growth momentum is strengthening, imports and exports are increasing rapidly, and consumer prices and employment remain generally stable. At the same time, the vitality of market players at the micro level has continued to improve, with the manufacturing PMI and non-manufacturing business activity index staying above 50 for thirteen consecutive months.

In terms of fiscal policy, the fiscal deficit rose to more than 3.6 percent of GDP in 2020, an increase of RMB 1 trillion over 2019. Large-scale tax cuts and fee reduction amounting to RMB 2.6 trillion were introduced in 2020, relieving the burden of enterprises and helping enterprises to survive and grow in a difficult time. A mechanism was established to channel RMB 2 trillion of new central fiscal funds to end users, while provincial governments stepped up their efforts to deploy the funds. Working together, they provided abundant fiscal resources to policies that benefit firms and households at the city and county levels in a timely manner.

In terms of monetary policy, the People's Bank of China (PBC) has introduced supportive monetary policy measures in 2020. It has also guided interest rates downward in a forward-looking manner and has led the financial system to provide additional RMB 1.5 trillion to the real economy. During the year, outstanding RMB loans grew by RMB 19.6 trillion, a year-on-year increase of 12.8 percent. Two innovative tools enabling direct support for the real economy were launched, whereas outstanding "inclusive loans" to micro and small businesses (MSBs) increased by 30.3 percent year on year. Meanwhile, based on market supply and demand, the RMB exchange rate moved in both directions with enhanced flexibility. It has remained generally stable in line with its adaptive equilibrium level. The financial market is operating smoothly, with the elevated systemic financial risks well curbed and under control. By the end of 2020, the capital adequacy ratio of the banking sector stood at 14.7 percent and the non-performing loan (NPL) ratio registered 1.84 percent, both showing an improvement from early 2020.

In recent years, China has actively implemented the idea of green development and keenly promoted green finance. It has achieved positive results. By end-2020, outstanding green loans denominated in RMB and foreign currencies in China amounted to around RMB 12 trillion, ranking first in the world. Outstanding green bonds registered around RMB 800 billion, ranking second in the world. They are playing an important role in supporting the transition to a green and low-carbon economy. China also promotes international green finance cooperation through platforms such as the G20 Sustainable Finance Study Group. At the same time, China is steadily deepening the reform and opening-up of the financial sector while advancing the liberalization and facilitation of trade and investment. China has also promoted the signing of the Regional Comprehensive Economic Partnership (RCEP) and completed the negotiations on the China-EU Comprehensive Agreement on Investment (CAI).

Looking ahead, with COVID-19 still spreading across the globe, many external disruptions and uncertainties remain. Nevertheless, given that China's economy is mainly driven by domestic demand, the fundamentals underlying its endogenous growth drivers and its long run prospect of steady economic growth remain unchanged. China's recovery is expected to continue in 2021, with GDP growth projected to be over 6 percent. More than 11 million new jobs will be created in urban areas, contributing to steady growth in household income.

In 2021, China will continue to use its macro policies to provide relief to market participants. It will maintain necessary support and refrain from abruptly unwinding existing measures. It will also duly adjust and improve its policies based on evolving conditions. **The sound monetary policy will be implemented in a flexible, targeted, reasonable, and appropriate manner.** Greater importance will be attached to serving the real economy, and the financing difficulties of MSBs will be further addressed. A proper balance will be achieved between supporting the recovery and containing risks. The PBC will improve the mechanism of money supply management, properly control the valve of aggregate money supply, and keep liquidity adequate at a reasonable level. It will ensure that the growth rates of money supply and aggregate financing to the real economy (AFRE) remain basically in line with nominal economic growth and keep the macro leverage ratio generally stable. The PBC will also flexibly manage the intensity, pace, and focus of policy adjustment according to evolving circumstances. Structural monetary policy tools will play their roles in targeted liquidity provision, with more financial support to be extended to scientific and technological innovation, MSBs, and green development. The PBC will enhance the market-oriented interest rate formation and transmission mechanism, consolidate the achievements made in lowering real lending rates, so as to stabilize and reduce the overall financing costs for enterprises. The PBC will keep the RMB exchange rate generally stable in line with its adaptive equilibrium level.

The active fiscal policies will focus on quality, effectiveness, and sustainability. As COVID-19 has been effectively brought under control and the economy is gradually recovering, the fiscal deficit is projected to be reduced to around 3.2 percent of GDP and no special treasury bonds for fighting COVID-19 will be issued this year. China will continue to develop a standardized system for green finance, enhance the reporting and disclosure of relevant information, and incorporate climate change factors into the policy framework. It will also encourage financial institutions to actively address the challenges brought about from climate change and to play their full part in international cooperation on green finance.

Regarding economic developments in the Hong Kong and Macao SARs, the Hong Kong and Macao SARs recently continue to experience downward pressures on their economies, but a gradual recovery can be expected. In the Hong Kong SAR, COVID-19 has led to a contraction of GDP by 6.1 percent in 2020 given a decline in service exports, private consumption, and investment. With the boost from various measures by the Hong Kong SAR government, the economy is projected to grow by 3.5 to 5.5 percent in 2021. Meanwhile, the Macao SAR economy shrank by 56.3 percent in 2020 because of COVID-19. Service exports were weak, the unemployment rate slightly rose to 2.7 percent, and inflation eased to 1.2 percent. As the vaccines continue to roll out, containment measures can be gradually lifted. The Macao SAR's external demand can be expected to recover over time and the economy is projected to rebound with double-digit growth in 2021.

III. The Role of the IMF

The International Monetary Fund (IMF) should continue to push ahead with quota and governance reforms, which are prerequisites for the IMF to fulfill its responsibilities. China supports a strong, quota-based, and adequately resourced IMF to preserve its central role in the global financial safety net. The quota underpins not only the IMF's lending capacity, but also its representation, governance, and legitimacy. Quotas, rather than temporary funding arrangements, should be the IMF's main source of financing. In order to make this happen, all parties should take a long-term view and stick to their commitments. The Chinese authorities look forward to the timely completion of the Sixteenth General Review of Quotas, and are confident that this can produce a positive result. Quota shares should be adjusted in a meaningful way to reflect members' relative weight in the global economy and to strengthen the voice and representation of dynamic emerging markets and developing economies.

China supports the IMF's general allocation of Special Drawing Rights (SDRs) and welcomes the recent consensus reached on the SDR allocation. We hope that the Fund will come up with detailed proposals and implement them as soon as possible. At the same time, we call on the IMF to study possible options for lending the existing and new SDRs to low-income countries in order to support their recovery. In implementing the 2020 G20 Debt Service Suspension Initiative (DSSI), China has provided the largest amount of debt service suspension among G20 countries to low-income countries. Through tangible actions, China has made its contribution by supporting low-income countries as they fight against COVID-19 and address their debt vulnerabilities. Moreover, China endorsed the G20 Common Framework for Debt Treatment along with other G20 countries and is willing to work with multilateral and bilateral creditors to find a case-by-case approach to provide an effective and orderly debt treatment to distressed countries. The IMF should promote debt restructuring on the principle of comparability of treatment, particularly by commercial creditors, and support low-income countries as they respond to COVID-19.

As an important multilateral institution, the IMF should continue to enhance the effectiveness of its bilateral and multilateral surveillance. We support the IMF to continue its work in the Comprehensive Surveillance Review (CSR). We encourage the Fund to provide tailored advice to its members based on their phase of development and recovery. We also welcome the IMF to continue to focus on new trends such as digital technologies and climate change.

We support the IMF as it reviews the Institutional Views on capital flows and helps member countries to properly address the risks posed from the disorderly fluctuation of capital flows, including the spillovers to emerging markets and developing economies as a result of divergent recovery across countries.

We appreciate the timely and effective work of the IMF to help member countries respond to the crisis. As our fight against COVID-19 enters a new phase, the IMF should continue to help countries, especially where the virus is still rampant, to cope with their public health challenges. For countries where the outbreak has been gradually brought under control, the IMF should use its financial support to help them stabilize their economies and ultimately restore a sustainable recovery. The existing lending instruments of the IMF are generally adequate and flexible, and should be fully utilized. We also support the IMF to reform the lending tools related to the Poverty Reduction and Growth Trust (PRGT) to better support emerging markets and developing economies in need, particularly the low-income countries, in an appropriate and flexible manner.

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 COVID-19 and promote economic recovery. China is committed to supporting and practicing multilateralism, and follows an opening-up strategy characterized by mutually beneficial and win-win approaches. China firmly believes in dialogue and cooperation, and in the interests of promoting shared development and prosperity. The Chinese authorities will continue to work with all parties on macroeconomic policy coordination, and will jointly promote strong, sustainable, balanced, and inclusive growth worldwide.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-27

Statement by Mr. Herrera
Mexico

On behalf of
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

Statement by Mr. Arturo Herrera
Secretary of Finance of Mexico
On behalf of
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico and Spain

We express our sympathy for the loss of human lives caused by the COVID-19 pandemic. We will continue to work together with the international community to mitigate the health and economic toll and to support a strong, inclusive, and sustainable recovery.

Global outlook and recovery prospects

After the great lockdown to counter the COVID-19 crisis last year, the global economy has started to show signs of recovery. This has been possible thanks to the unprecedented national and international response put in place by the membership. Further to the substantial policy efforts, medical developments have allowed swift progress in vaccine production and rollout. However, these efforts have not been enough to ensure that all countries have access to vaccines in a timely manner. Going forward, it will be instrumental to ensure broad vaccination to end the pandemic and support the economic upswing.

While the outlook shows promise as economic prospects seem to have improved and vaccines are being deployed, the path to recovery appears uneven as uncertainty remains high and access to vaccines is not equal. In this juncture, to secure an inclusive and sustainable recovery, no member can be left behind – everyone will need to have a fair shot. If we want to achieve a truly global recovery, we must have a broad vision of the membership's needs and what is required to support it appropriately. While the pandemic has significantly increased poverty levels and deepened inequality in many countries, it is notable that most of the population that has fallen back into poverty due to this crisis live in middle-income countries (MICs). More so, MICs are still grappling to counter the virus and secure vaccines. Even after exiting the pandemic, the path to recovery will not be straightforward. MICs will face higher levels of indebtedness, limited fiscal space and even broader social gaps in the aftermath of the crisis. In order to give a fair shot to the segment of the membership that is most in need, it is of utmost importance to include MICs in these efforts and not leave them *"lost in the middle."*

The IMF's continued role in securing the recovery and avoiding divergence

While the crisis was unfolding, the Fund responded swiftly and flexibly to address the membership's needs by mobilizing financial and technical assistance in hand with timely policy advice. As the recovery takes hold, the Fund must continue to have a leadership role in the multilateral response to the challenges presented by the pandemic.

The Fund has effectively used its toolkit to support the immediate liquidity needs of the membership. For our constituency, instruments such as the emergency facilities have been fundamental as an integral aspect of the crisis response of our Central American middle-income countries. Moreover, the Flexible Credit Line has continued to play a strategic and effective role for our constituency by providing additional buffers to cope with the current crisis and beyond.

Now, as the critical stage of emergency assistance has subsided, engagement with the Fund will transition to upper credit tranche programs in order to secure the recovery and avoid divergence. Continued financial support will be crucial to help countries tackle the legacy of the health and economic crises and to boost growth.

The role of the Fund as a trusted advisor gains more relevance at this juncture. Country-specific and tailored policy advice will be fundamental in the final stages of the emergency phase and will set the policy path to secure the recovery, build resilience and safeguard sustainability in the medium term.

An approach aimed at ensuring sustainability is required to invest in the future while tackling the social gap challenges

Beyond the immediate effects of the pandemic, the scarring consequences will deepen many countries' earlier vulnerabilities and cause further divergence in their recovery prospects. Hard-won developmental gains in the past years have already been lost, which will backtrack countries in their efforts to achieve the sustainable development goals and broaden the social gaps that already existed.

To secure a truly transformational recovery, the Fund needs to support the membership with comprehensive and country-specific advice to address climate, digital, and related social challenges. We welcome the focus of the Managing Director's *Global Policy Agenda* in this regard. Resumption of bilateral surveillance is also very welcome. This, in hand with the upcoming completion of the Comprehensive Surveillance Review and the Financial Sector Assessment Program Review, will allow provision of effective advice to the membership in the post-COVID world as the recovery takes place.

Digitalization, another aspect that we consider will be crucial for the medium-term recovery prospects, as it should be a transversal element in all public policies in the future. Digital services contributed to mitigate some of the negative impacts caused by lockdowns. Thus, a genuinely transformational recovery should harness the gains from a faster than expected pace of digitalization, an unintended, but favorable, consequence of the pandemic. We welcome the Fund's focus on the benefits of digitalization for financial inclusion, and for enhancing public financial management and revenue administration through the digital transformation of governments.

Closing social gaps becomes more critical in the post-pandemic phase. A transformational recovery requires making growth truly inclusive and sustainable, particularly for low- and middle-income countries. Populations significantly affected by the crisis cannot be left behind. We thus welcome the efforts to find ways in which macroeconomic and financial policies can support the membership in addressing financial inclusion, gender and income equity, and wealth inequality.

To address the pandemic's economic scarring, the IMF should support member countries to confront their debt sustainability risks. In particular, the Fund should continue to assess countries' debt sustainability and debt restructuring needs while also providing debt service relief to the poorest members. Instrumental in this strategy will be coordinating with the World Bank to secure an effective implementation of the G20 Common Framework for debt treatments and the G20 Debt Service Suspension Initiative. Likewise, in the post-COVID world, as MICs and LICs will face increased pressures from pandemic-related public sector financing needs, the Fund should stand ready to assist these members with substantial capacity development on debt management.

The Fund should remain engaged with the membership to support their medium-term transformation efforts with adequate capacity development and technical assistance. Capacity development and technical assistance are crucial for our constituency in their relationship with the Fund. This involvement will become more relevant as our countries request and initiate upper credit tranche programs with the Fund. In this vein, we welcome the efforts to deepen the integration of CD with surveillance and lending given CD's relevance to underpin program performance. Going forward, the IMF should ensure that adequate resources are budgeted for CD and technical assistance activities, including for RTACs.

An effective and timely SDR allocation will be a strong signal of international cooperation. We support a new SDR general allocation to help countries to address the long-term liquidity needs by supplementing existing international reserves and bolster financial resilience while enhancing transparency and accountability in the reporting and use of SDRs. We regard an allocation of SDRs as a timely mechanism of international collaboration that should help avoid the risks of additional social costs and economic scarring in the aftermath of the COVID-19 pandemic. The proposed allocation of around US$650 billion is appropriate to support members in need with swift liquidity, help them boost buffers and allow a smooth adjustment according to countries' particular circumstances.

New mechanisms to support Middle-Income Countries will allow for more effective use of SDRs allocations. Our constituency fully supports the GPA in its call for exploring ways for countries with strong external positions to voluntarily on-lend their SDRs to support recovery efforts. The Fund must seize this opportunity and build upon the growing consensus for a new substantial general SDR allocation. In this vein, we believe the creation of a new dedicated vehicle should be considered to enable members in position to voluntarily lend part of their SDRs to support middle-income countries pursuing their SDGs and tackling significant vulnerabilities such as increased poverty levels, climate related risks, and refugees and displaced populations. Moreover, it could also support the objective of securing access to vaccines and their distribution.

To effectively deliver on its mandate, the IMF needs to evolve and adapt to the membership's challenges and be capable to act accordingly. As the global economy and its challenges evolve, the IMF must cover new areas of macro-critical impact to assist the membership adequately. The crisis has underscored the relevance of a strong IMF that can effectively deliver on its mandate. To support the membership going forward, the Fund needs adequate expertise and resources to have the capability and agility to act. Thus, to address the challenges of our membership, the IMF should consider an appropriate increase in budgetary resources to equip the institution with the human resources and expertise much needed after a decade of a flat real budget. Going forward, maintaining the longstanding commitment to budget discipline while fully collaborating with partners and focusing on areas of comparative advantage should be preserved.

We express our full appreciation of staff's hard work. In closing, on behalf of the authorities of our constituency, we would like to wholeheartedly commend the Managing Director, Management and Staff for their hard work and professionalism under the current extraordinary circumstances.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-28

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-third Meeting of the International Monetary and Financial Committee
(April 8th, 2021)

1. The Global Economy and the Japanese Economy

Global Economy

The global economy is recovering at a faster pace, thanks to unprecedented policy responses and the rollout of the COVID-19 vaccination campaigns. However, the recovery is uneven and divergent across countries, particularly between advanced and developing countries. Given the high uncertainty, we should remain vigilant.

To respond to downside risks, including delays in vaccine deployments, resurgence of infection, and long-lasting of scarring, we should avoid premature withdrawal of emergency support. In parallel, we should shift our policy measures from broad-based to targeted, as the recovery proceeds, promote structural transformation of economy, and tackle pre-existing structural issues.

Japanese Economy

In Japan, the infection has been controlled relatively well, with less-stringent restrictions to economic activities. Together with proactive crisis responses, economic contraction was milder, and the IMF projects that Japan's output will return to the pre-pandemic level within this year. This economic condition enables the government to take targeted short-term support, focusing on those in need such as low-income households.

Japan has been facing long-standing structural challenges such as low potential growth rate driven by acute population aging, even before the pandemic. In order to boost potential growth rate, the government has been undertaking measures to facilitate reallocation of labor and capital for green and digital transformation. These measures are included in the economic package over 73.6 trillion yen (approximately $0.7 trillion) approved last December, as well as the FY2021 Budget over 107 trillion yen (approximately $1 trillion) approved in March. We will implement these measures in a steady manner.

On monetary policy, the Bank of Japan introduced several policy actions to enhance the sustainability and nimbleness of the current policy framework (Quantitative and Qualitative Monetary Easing with Yield Curve Control). With a view to achieving the price stability target of 2 percent, the Bank will continue with powerful monetary easing under this framework.

2. Our Expectations to the IMF : Strengthening its Support to Developing Countries

Developing countries have been severely affected by the pandemic. Japan highly commends that the IMF has been playing a critical role in supporting them.

New SDR Allocation

We welcome the broad support for a new SDR allocation of $650 billion at the informal board meeting in March. We commend the IMF on making such significant progress in a short period of time. The new allocation demonstrates that the IMF is the one and only institution that can provide international liquidity swiftly in the face of crisis.

In allocating new SDRs, we welcome that specific measures will be introduced to enhance transparency and accountability in the use of SDRs. It is also important to encourage wider participation in the Voluntary Trading Arrangements (VTAs). In channeling SDRs for the benefit of low-income countries, Japan believes that the Poverty Reduction and Growth Trust (PRGT) is the best option.

Going forward, the adequacy of the IMF resources discussions should take fully into account the new SDR allocation; particularly its swift and quantitative impact on global reserves.

Debt Issues

The impact of the COVID-19 has exacerbated debt situations in developing countries. Securing debt transparency and sustainability is essential to ensure their sustainable growth.

Given the significant financing needs of developing countries, we welcome the G20 and Paris Club's agreement on the final extension of the Debt Service Suspension Initiative (DSSI). Japan expects that the extension as the final one would incentivize developing countries to move towards structural solutions of their debt issues through the Upper Credit Tranche IMF-supported programs and, as needed, debt treatments under the Common Framework.

We think it important that all creditors who are implementing the DSSI will participate in debt treatments under the Common Framework in a full and transparent manner, while other official bilateral and private creditors will fully implement debt treatments in line with the comparability principle. The Common Framework should be operationalized through launch of the Creditor Committee as early as possible.

To secure steady investment inflows to developing countries, it is critical for these countries as well as creditors and investors to have a precise picture of the debt situations in normal times. To this end, we encourage the IMF, together with the World Bank, to ensure debt data transparency and accuracy through debt data reconciliation. We also expect the IMF to accelerate its capacity building assistance to improve debt management and transparency of developing countries

PRGT and CCRT

Japan believes that the IMF, the core institution at the center of the international monetary and financial system, should be equipped with adequate tools and resources for sufficient support to low-income countries. In this context, Japan supports raising access limits and removing hard caps on exceptional access, which have been presented as options under ongoing PRGT reforms discussions. Japan looks forward to specific measures, such as strengthening the exceptional access criteria, to adequately mitigate additional risks to the IMF.

The Catastrophe Containment and Relief Trust (CCRT) has played an important role in providing debt service relief to low-income countries. However, there remains a funding gap of about $190 million to complete the scheduled assistance up to April 2022. Japan made a contribution of $100 million so far and stands ready to consider additional support. We strongly encourage other donors to contribute to this important assistance.

3. Our Expectations to the IMF : Discussion on General Resource Account (GRA)

Resource Mobilization on GRA

We welcome the effectiveness of the doubling of the New Arrangements to Borrow (NAB) and of the new round of bilateral borrowing agreements (BBAs) on January 1, 2021. Going forward, Japan supports a timely activation of the NAB and the BBAs when needed.

Japan would like to raise the following key points on the 16th General Review of Quotas (GRQ) discussions.

First, the financing gap the IMF should address varies considerably depending on the situation (non-crisis or mid-crisis) and the scale of crisis. If the IMF is to cover all financing gaps only from quota resources, member countries are required to set aside part of their reserves for quotas, even in normal time, which is not efficient for their reserve management. Therefore, Japan strongly believes that the IMF should respond to tail risks with borrowed resources, namely by the NAB and the BBAs. Such borrowed resources should be a permanent component of the IMF's resource structure.

Second, borrowed resources should be able to be activated in a flexible and agile manner to respond to tail risks without delay. Japan calls for discussions on this point.

Third, borrowed resources, and other financial resources including for the PRGT or capacity development, are voluntary financial contributions (VFCs) from member countries. To incentivize members to contribute, Japan urges the quota formula to factor in VFCs.

Cooperation with Regional Financing Arrangements

In order to function as the center of the global financial safety net (GFSN), the IMF should continue to closely cooperate with bilateral swaps and regional financing arrangements (RFAs). In this regard, we expect the operational mechanism for cooperation and collaboration between the Chiang Mai Initiative Multilateralization (CMIM) and the IMF to be further deepened, following the approval of the ad hoc amendment to the CMIM Agreement last year to make its activation smoother and swifter.

4. Our Expectations to the IMF : Other Important Policy Matters

External Balance Assessment

The External Balance Assessment (EBA) methodology is based on the proposition that assumes link between exchange rate and current account balance. However, this proposition has been losing its ground since:
- the share of income balance, which is not subject to exchange rate movements, accounts for dominant portion of current account balance, particularly in advanced economies; and
- exchange rates are increasingly affected by capital transactions, which are rapidly expanding and have little to do with current transactions.

This has been long-standing argument of Japan. We note that the latest Global Policy Agenda (GPA) includes work on review of the EBA methodology, and urge the IMF to overhaul this proposition.

Digital Currency

On Central Bank Digital Currencies (CBDCs), Japan welcomes the proposal in the GPA to ramp up its work on their implications as the core of the IMF's mandate with respect to their possible effects on the international monetary system. There are opportunities and risks associated with wide-spread cross-border use of a stablecoin or a CBDC. Developing countries should be able to weigh them from the long-term perspective. In this regard, Japan encourages the IMF to take up CBDC issues in its surveillance and capacity development activities more actively. In addition, we look forward to the IMF's report on digital money, as called upon by the G20 leaders at the Riyadh Summit.

Capacity Development

Strengthening the capacity of developing countries for debt and public financial management is indispensable to ensure debt transparency and sustainability. Japan welcomes the progress in project formulation in these areas under the COVID-19 Crisis Capacity Development Initiative, to which Japan made a contribution of $10 million.

Japan will also continue to support the World Bank's Debt Management Facility Phase III, in which the IMF also plays a role, and the Data for Decisions Fund.

Also, Japan expects the IMF to continue to collaborate with other developing partners through the Platform for Collaboration on Tax (PCT) and further strengthen technical assistance.

Staff Diversity

Lastly, well-qualified human resources have been Japan's key contribution to the IMF, in addition to financial resources and policy inputs. Global coverage of the IMF warrants staff composition to be more diversified with appropriate regional balance, which is key to promote more effective operations. Japan will continue to cooperate with and contribute to the IMF in this regard.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-29

Statement by Mr. Franco
Italy

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

Spring Meetings – April 5-11, 2021
IMFC Statement by Mr. Daniele Franco, Minister of the Economy and Finance, Italy
On behalf of Albania, Greece, Italy, Malta, Portugal, and Republic of San Marino

More than one year into the pandemic that shook the world, causing immense loss of human lives, there have been many noteworthy achievements, but significant challenges still lie ahead. The supply and demand shocks triggered by the pandemic left no country unscathed and dipped the world into a sharp recession. Policymakers actively and successfully used all the tools at their disposal to mitigate the unprecedented impact on people's lives and livelihoods. The development and rollout of vaccines has laid the groundwork for overcoming the health crisis, but **the pandemic has not yet been brought under control.**

The economic policies that have so far addressed the emergency will now have to move on to sustaining the recovery. As we overcome the health challenges, policymakers need to cautiously move their gear from managing the crisis to decisively laying the foundations for a greener, fairer, more inclusive and digital recovery. Fiscal, monetary, and financial policies need to remain supportive and complement each other, while becoming more targeted in due course.

With Italy holding the Presidency of the G-20 for the year and Portugal holding the Presidency of the Council of the European Union (EU) for the semester, we are committed to finding multilateral solutions to contribute to a broad-based global recovery, counteract diverging development trends and promote fair access to opportunities for all. Eradicating the pandemic remains the key priority. At the same time, we must deal with the economic and social impact of the crisis, which has affected countries differently, reflecting their structural features and policy space, as well as the unpredictable evolution of the pandemic. Now more than ever, global challenges – such as addressing climate change, adapting to an increasingly digitalized society, and ensuring opportunities for all – require coordinated efforts.

International cooperation should provide an equitable access to Covid-19 vaccines, regardless of countries' income. The availability of several vaccines is an outstanding scientific achievement and there is an ever-increasing share of the population being immunized against the disease. However, access to vaccines is everything but even, raising equity issues. This may undermine the effectiveness of the ongoing immunization efforts, by facilitating the propagation of new variants of the virus and threatening global recovery. Under Italy's leadership, in May the G-20 will hold a Health Summit to define guiding principles for broader vaccination campaigns. In addition, the EU strengthened its contribution to the COVAX initiative. As supply shortfalls are overcome, ensuring a rapid distribution of vaccines in all corners of the globe is the key priority.

Within the European Union, we will push ahead decisively with the implementation of the plans for recovery in 2021. After the historical agreement on the Next Generation EU in 2020, the Portuguese Presidency of the Council of the EU is striving to facilitate the implementation of the framework and the swift approval of the national Recovery and Resilience Plans. Our countries are committed to using these plans and resources to foster a green, digital and resilient transformation. We will work toward a stronger European social model to promote access to education and employment opportunities to everyone, as well as to alleviate inequalities, which have been exacerbated by the pandemic, and hit women and youth particularly hard.

We welcome the increasing alignment of goals and priorities across the international community. The G-20 will focus on strengthening the recovery from the pandemic in a way that fosters prosperity and benefits all people and our planet. As many countries face **debt pressures**, against the background of a still unfolding crisis that requires additional spending, the G-20 has agreed on a further extension of the **Debt Service Suspension Initiative** (DSSI) until the end of 2021. To alleviate the pressures on countries that may require debt restructuring, the G-20 is promoting the effective implementation of the **Common Framework** for Debt Treatments, which involves for the first time Paris Club and non-Paris Club creditors, as well as the private sector through the comparability of treatment clause. These initiatives will unfold alongside continuous effort to improve debt transparency. We expect the Fund to continue supporting this work, in the context of the multipronged approach for addressing debt vulnerabilities.

The G-20 will advance a broad and important digital agenda, endeavoring to reach an agreement on international taxation of multinational companies, including digital businesses, and working on digital financial services and cross-border payments. The Fund's analytical work in these areas can be very valuable to inform the political discussion.

The G-20 will also pursue an ambitious Green Agenda aimed to promote a worldwide fair transition towards modern, resource-efficient and competitive economies, in line with the objectives of the Paris agreement. Notably, displaying alignment of priorities among different fora, the UK and Italy will partner within the 2021 United Nations Climate Change Conference (COP26) and leverage on the respective G-7 and G-20 Presidencies. The countries in our constituency are committed to contributing to the EU's leadership in addressing climate change, through the implementation of the European Green Deal, aimed at achieving carbon neutrality by 2050 and reducing CO_2 emissions, by at least 55% by 2030 (in relation to 1990). The role of the Fund in fostering the transition to a low-carbon economy cannot be understated. The Fund should strive to better integrate climate issues into surveillance when reviewing its frameworks for surveillance and financial sector assessment. A more systematic inclusion of both climate mitigation and adaptation in bilateral surveillance can help identify costs associated with climate change and design policies aimed at facilitating the transition to lower-carbon economies and building resilience to climate change.

The role of the Fund will be as important moving forward as it has been during the first phases of the pandemic. The Fund has successfully played its role at the center of the Global Financial Safety Net, first through immediate emergency financing and then increasingly through Upper-Credit Tranche programs. Recently the Fund resumed its bilateral surveillance that will be paramount in the recovery phase. Fund's advice should help countries design policies that contribute to a greener, more digital, and more inclusive world. In addition, the Fund should continue to stand ready to lend to members in need, by flexibly deploying its toolkit to the benefit of the membership. In this regard, we appreciate the work to review the lending framework for Low Income Countries

(LICs) and to develop a more integrated strategy to support LICs and Fragile States that includes developments on the G20 DSSI and Common Framework, as well as funding from other International Financial Institutions and the private sector. We welcome the broad support expressed by the Executive Board to a new general **Special Drawing Rights** (SDR) **allocation**, to generate liquidity that can be held as reserves or channeled to where it is most needed. Finally, we remain committed to a strong, quota-based, and adequately resourced Fund and to a timely completion of the 16th General Review of Quotas.

We support increasing gender diversity in the Executive Board and look forward to working on further proposals to facilitate this process.

A greener, fairer, more inclusive, and digital recovery cannot be just a motto; it must be the true outcome of our joint contribution to the future. The time to deliver is now.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

Statement No. 43-30

Statement by Ms. Lagarde
European Central Bank

Statement by Christine Lagarde, President of the ECB, at the forty-third meeting of the International Monetary and Financial Committee

Virtual IMF Spring Meetings, 8 April 2021

Since the previous IMFC meeting in October 2020, global prospects have improved thanks to the progress made in vaccination campaigns and the forceful policy support provided to our economies. However, this brighter outlook remains subject to considerable uncertainty, also regarding the path of the pandemic and the rollout of vaccinations. We must therefore continue to stand together to address this severe global challenge. In this environment, it is crucial to refrain from withdrawing policy support prematurely, either on the monetary or fiscal side. At the same time, it is essential to push ahead with well-tailored structural measures that will facilitate the reallocation of resources over time to more viable sectors, minimise permanent scarring effects on our economies and support potential growth in the medium term.

Euro area developments and outlook

The pandemic and related containment measures will continue to adversely affect euro area economic activity in the short term. Beyond the short term, activity should pick up thanks to the lifting of confinement measures once there is broader immunity, exceptional monetary policy measures, continued fiscal policy support and a rebound in foreign demand. Overall, the risks surrounding the euro area growth outlook have become more balanced, although downside risks associated with the pandemic remain in the near term. Improving global demand, also spurred by sizeable US fiscal stimulus, and the progress in vaccination campaigns constitute upside risks.

Inflation increased sharply at the beginning of this year compared with the end of last year. The upswing reflected several factors, most of which were temporary and statistical. Headline inflation is likely to increase further in the coming months, but some volatility is expected throughout the year, and the temporary factors are expected to fade out of annual inflation rates early next year. Underlying price pressures are likely to increase somewhat this year due to current supply constraints and the recovery in domestic demand, although pressures will remain subdued overall, also reflecting low wage pressures and the past appreciation of the euro. Once the impact of the pandemic fades, the unwinding of the high level of slack, supported by accommodative fiscal and monetary policies, will contribute to a gradual increase in inflation over the medium term.

Monetary policy

In December the ECB's Governing Council decided to expand the envelope of the pandemic emergency purchase programme (PEPP) by €500 billion, to a new envelope of €1,850 billion, and committed to purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation. If favourable financing conditions can be maintained with a flow of asset purchases that does not exhaust the envelope by the envisaged end of the PEPP's net purchase phase, the envelope need not be used in full. Equally, the envelope can be recalibrated if required to maintain favourable financing conditions. In December we also extended the horizon for net purchases under the PEPP to at least the end of March 2022 and the period of reinvestment of the principal payments from maturing securities purchased under the PEPP until at least the end of 2023. In parallel, we extended the period over which very favourable terms apply to our targeted longer-term refinancing operations (TLTRO III) to June 2022, and decided to hold three additional operations under the programme before the end of the year.

At our Governing Council meeting in early March, we assessed recent changes in financing conditions against the latest ECB staff macroeconomic projections. We observed that, since the start of the year, euro area market interest rates had increased measurably on account of a global repricing in the fixed-income market. While the appropriateness of our stance is measured in terms of a broader set of financing conditions, a sizeable and persistent increase in market-based interest rates, if left unchecked, can translate into a premature tightening of financing conditions. This would have been unwarranted at a time when favourable financing conditions remain necessary to underpin economic activity and safeguard medium-term price stability. Therefore, based on the joint assessment of financing conditions and the inflation outlook, the Governing Council announced that it expects purchases under the PEPP over the second quarter of 2021 to be conducted at a significantly higher pace than during the first months of the year.

Europe's response to the coronavirus (COVID-19) shock

In the light of the economic fallout from the resurgence of the pandemic, it is absolutely crucial for monetary and fiscal policies to continue complementing each other in supporting the euro area economy. Europe's policy response to the pandemic has been swift, decisive and unprecedented, both at the national and EU levels. As regards fiscal policies, an ambitious and coordinated fiscal stance remains crucial, as a premature withdrawal of fiscal support would risk delaying the recovery and amplifying the longer-term scarring effects. National fiscal policies should thus continue to provide critical and timely support to firms and households most exposed to the pandemic and the associated containment measures. At the same time, these measures should, as much as possible, remain temporary and targeted in order to address vulnerabilities effectively and support a swift recovery without hampering structural changes in the economy. The EU's recovery instrument, the NextGenerationEU package, offers a unique opportunity to modernise the European economy and address divergences that could jeopardise the smooth functioning of the monetary union. To this end, the recovery instrument needs to be used to finance transformative and productivity-enhancing investment and promote ambitious structural policies.

Euro area banking sector developments and financial stability issues

Thanks to the strength of the public support measures, insolvencies have remained remarkably low during this period of economic weakness caused by the pandemic, notwithstanding a widespread deterioration in corporate balance sheets. At the same time, the banking sector has managed to support the economy by continuing to lend, also to the sectors most affected by the lockdown measures. Euro area banks still have robust capital and liquidity buffers, but they are facing heightened asset quality risks and their profitability remains low. Vulnerabilities in the non-bank financial sector have also increased owing to recent market developments in a context of prolonged risk-taking and deteriorating liquidity buffers. Financial system vulnerabilities remain elevated overall, as the optimism in financial markets stands at odds with weakened corporate balance sheets. Financial market vulnerabilities have increased, with recent bouts of volatility highlighting uncertainties and the potential for disorderly repricing.

Measures supporting firms and households should continue, while remaining, as much as possible, temporary and increasingly targeted in nature. It will be crucial for prudential authorities to ensure that capital buffers can be used if needed to absorb losses and support lending and avoid credit supply constraints. At the same time, banks need to be proactive in identifying and managing credit risk. As long as uncertainty remains high, we will encourage continued prudence, and have asked banks to apply extreme caution and keep distributions in the form of dividends, share buy-backs and variable remuneration below a conservative threshold. In the medium term, after the COVID-19 crisis, it will be important to look holistically at the capital framework with a view to simplifying it and removing potential obstacles to its effectiveness. The non-bank financial sector needs to be made more resilient through regulatory reforms, given the growing role of non-bank financial institutions in financing the real economy and their interlinkages with the rest of the financial system.

International crisis response

As national authorities continue to take the necessary steps to fight the pandemic, global cooperation and resource and knowledge-sharing across nations remain vital. Addressing international trade disruptions, preserving trade openness and ensuring universal access to vaccines and treatments will be of paramount importance for a durable global economic recovery.

Global cooperation has been instrumental in our response to the pandemic so far. On the central banking side, this includes the coordinated action by major central banks, including the ECB, to enhance the provision of US dollar liquidity at the onset of the crisis. In addition, the ECB's agreements on bilateral euro swap and repo line arrangements with some EU and EU neighbouring countries' central banks to prevent euro liquidity shortages from morphing into financial stability risks and to support the smooth transmission of monetary policy. Support to the most vulnerable countries, including through the G20 Debt Service Suspension Initiative and the establishment of the Common Framework for Debt Treatments, has also shown how the international community has stood together firmly to address the pandemic and its consequences.

Further international efforts will be needed to counter the effects of the pandemic, to maintain a well-functioning international monetary system and to support a global economy that is fit for the future. The ECB supports the crisis response measures taken by the IMF and welcomes the recent progress made towards a general special drawing rights (SDR) allocation. It is a strong and important signal of constructive multilateral cooperation helping the global recovery. It should be accompanied by efforts to improve transparency and underpin the exchange of

SDRs through a broader set of voluntary trading arrangements. Given the high debt levels worldwide, we are also supportive of the IMF's comprehensive work agenda on debt issues, which will continue to be a key area of work. The upcoming review of IMF surveillance is well timed to support a resilient global economic system during and after the recovery phase.

Bolstering the recovery to transform the global economy

The current pandemic provides a prime opportunity to build a more resilient future and make the changes towards what we want to see, namely a greener, more digital and more inclusive global economy. We welcome the plans to further integrate climate change-related issues into IMF surveillance. At the ECB, in the area of banking supervision, we published a guide on climate-related and environmental risks in November 2020 to explain how we expect banks to prudently manage and transparently disclose these risks under current prudential rules. We have asked banks to conduct self-assessments in the light of the guide and to draw up action plans on that basis. Then, next year, we will conduct a full supervisory review of banks' practices. As part of our ongoing monetary policy strategy review, we will examine the risks posed by climate change and how they feed into the monetary policy framework. In a similar vein, the international community has to continue to work together to enhance cross-border payment systems to make them faster, cheaper and more inclusive, and to address the opportunities and challenges of the digitalisation of finance. At the ECB, discussions are ongoing on whether to issue a digital euro to make our currency fit for the digital age, as a complement to, not a replacement for, cash.