

# IMF EXECUTIVE BOARD ACTIVITIES



**June-September 2020**



Office of the Executive Director for Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen.

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## The IMF goes LIVE!

Check out the IMF's one stop website to get video feedback on policy information through seminars, conferences, and discussions in real time.

### Six Charts on Social Spending in the Middle East and Central Asia



September 29, 2020  
By Christoph Duenwald, Anastasia Guscina, and Koshy Mathai, IMF Middle East and Central Asia Department

Education, health, and poverty indicators in the Middle East and Central Asia have improved substantially over the past two decades. The rate of progress, however, has slowed, and these indicators remain weaker than in global peers. The level of social spending also is lower, though to a lesser degree.

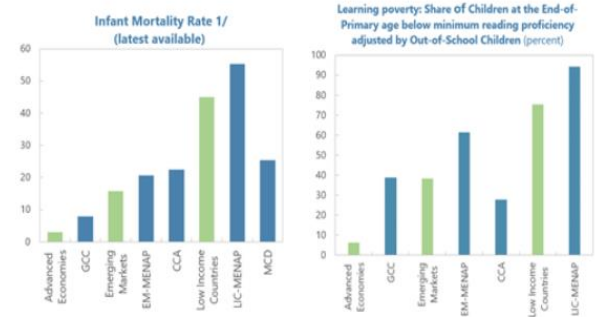
The COVID-19 pandemic has brought the challenge of improving socioeconomic outcomes into stark relief. Our new paper finds that raising the level of social spending and improving the efficiency of that spending (getting more out from what's put in) can each play an important role. The latter critically depends on strengthening institutions and improving governance and transparency.

Our main findings are illustrated in the following six charts.

1. *Socioeconomic outcomes are weaker than in other regions.* This holds across sub-regional country groupings and for indicators of education, health, and poverty/inequality.

### Relatively weak socioeconomic outcomes

Many countries in the Middle East and Central Asia face pressing social issues such as high infant mortality and poor educational attainment.



Sources: The Human Capital Project; World Development Indicators, Learning Poverty (October 2019); World Bank and UNESCO Institute of Statistics; and IMF staff calculations.

1/ Number of deaths in the first year of life per 1,000 live births.

Note: GCC= Countries of the Gulf Cooperation Council; MCD= Middle East and Central Asia region; CCA= Countries in the Caucasus and Central Asia; EM-MENAP= Emerging Markets in the Middle East, North Africa, Afghanistan, and Pakistan; LIC-MENAP= Low Income Countries in the Middle East, North Africa, Afghanistan, and Pakistan.

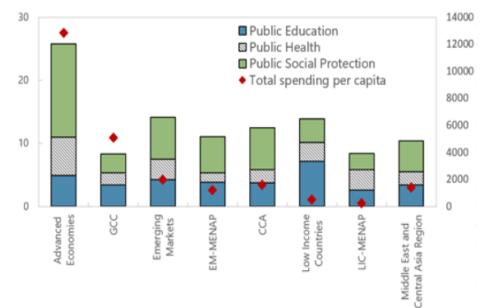
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2. *Social spending is also lower than in other regions, though to a lesser degree.* This is true across country groupings and regardless of whether one looks at per capita spending or spending relative to GDP.

### Relatively low social spending

Governments in the Middle East and Central Asia devote 10.4 percent of GDP on average to social spending, compared to a global emerging market average of 14.2 percent.

(left hand: percent of GDP, 2017 or latest available; right hand: total spending per capita (PPP, constant 2011 international \$))



Sources: World Bank ASPIRE Database, World Bank "Education Statistics", World Health Organization "Global Health Expenditures Database", IMF World Economic Outlook, IMF FAD Expenditure Assessment Tool, and IMF staff calculations.

Note: GCC = Countries of the Gulf Cooperation Council; EM-MENAP = Emerging Markets in the Middle East, North Africa, Afghanistan, and Pakistan; CCA = Countries in the Caucasus and Central Asia; LIC-MENAP = Low Income Countries in the Middle East, North Africa, Afghanistan, and Pakistan.

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3. *Social spending can improve socioeconomic outcomes.* We find a positive and statistically significant relationship between social spending and socioeconomic

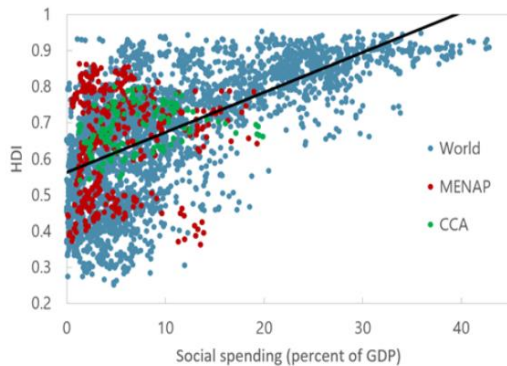


outcomes, proxied in this chart by the Human Development Index.

### Spending and socioeconomic outcomes

Social spending can improve people's lives.

(Annual data)



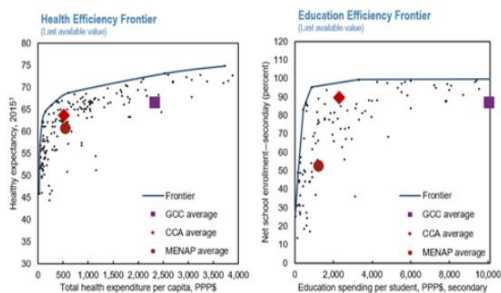
Sources: World Development Indicators, World Bank ASPIRE Database, and IMF staff calculations and estimates. Note: Based on annual data, 1990 – 2017. HDI: Human Development Index. Fixed effects regression. Controls include inflation, trade to GDP, credit to GDP, urbanization, GDP per capita, and government effectiveness index. MENAP= Middle East, North Africa, Afghanistan, and Pakistan; CCA= Countries in the Caucasus and Central Asia.

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4. *The efficiency of social spending is relatively low in the Middle East and Central Asia. Countries in the region have room to improve in terms of the effectiveness with which social spending delivers improvements in socioeconomic outcomes.*

### Room to raise efficiency

There is scope to increase efficiency in many countries in the Middle East and Central Asia.



Sources: IMF FAD Expenditure Assessment Tool (EAT), World Bank, and World Health Organization. Note: 1Healthy life expectancy (HALE) is a measure of health expectancy that applies disability weights to health states to compute the equivalent number of years of life expected to be lived in full health. Frontier = the best outcome that countries can achieve for any level of spending. The vertical distance by which countries fall short of this frontier is taken as a measure of their inefficiency. GCC= Countries of the Gulf Cooperation Council; CCA= Countries in the Caucasus and Central Asia; MENAP= Middle East, North Africa, Afghanistan, and Pakistan.

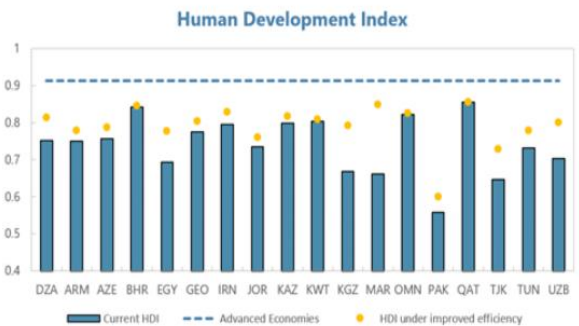
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5. *Even without increasing outlays, boosting the efficiency of social spending would help significantly improve socioeconomic outcomes. If the region could bring its social spending efficiency to the average*

efficiency level of advanced economies, even without any extra spending, it could close one-third of the Human Development Index outcome gap.

### Efficiency and socioeconomic outcomes

People's lives can be improved through more efficient social spending.



Sources: UNDP, World Development Indicators, and IMF staff calculations. Note: 2018 or latest available value.

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6. *Stronger institutions are critical to raising spending efficiency. There is a strong correlation between spending efficiency and indicators of institutional quality, such as government effectiveness, the control of corruption, and the rule of law. Stronger transparency and accountability over the use of public resources minimizes wasteful spending and promotes efficiency.*

### Strengthening institutions to support people

In the Middle East and Central Asia, when institutions are stronger, social spending can be more efficient, and socioeconomic outcomes improved.



Sources: World Governance Indicators, Herrera and Ouedraogo (2018), and IMF staff calculations. Note: 2018 or latest available value, DEA Score = Data Envelopment Analysis; CCA= Countries in the Caucasus and Central Asia, MENAP= Middle East, North Africa, Afghanistan, and Pakistan.

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## Opening Remarks by IMF Managing Director Kristalina Georgieva at the Saudi G20 Presidency-IMF Forum on “Enhancing Access to Opportunities in Arab Countries”



*Kristalina Georgieva, IMF -Managing Director*

*September 30, 2020*

Assalamu alaikum!

Thank you, Minister Aljadaan, for your leadership during the Saudi G20 presidency, and for your partnership to create this timely high-level event.

COVID makes increasing access to opportunity more urgent.

Minister, governors, distinguished colleagues, it is a privilege to join you today.

I would first like to extend my heartfelt condolences to the people of Kuwait. It was with great sadness that I learned of the death of His Highness Amir Sheikh Sabah Al-Sabah. He was a great statesman and will be sadly missed.

Access to opportunity is an issue of deep importance, including for the Fund. It is an issue that Sheikh Sabah cared about deeply. And it is even more important during the COVID-19 crisis, which is hitting those who already lacked opportunity the hardest.

How do we fight the pandemic and help the most vulnerable when budgets are stretched so thin?

By following the Arabic proverb, "Do not delay the work of today for tomorrow."

Key policy action areas include social spending, youth and women's employment, and closing digital divides

We must act today because the region and the world are at a transformative moment—while we face headwinds from the pandemic, we have at least some tailwinds from continued spending to fight the pandemic, and the accelerated digital transformation taking place worldwide.

Decisions made now will affect the lives of more than 420 million Arabs for years and decades to come. Preparing them for a rapidly changing global economy is the work of today, and it must not be delayed. Action in three areas will help increase access to opportunity.

First, improve health, education and social safety nets. This can be paid for by progressive taxation of both income, and property and goods. Better prioritization of spending and increased efficiency will also help. Fewer children will die preventable deaths. More girls will learn to read. Fewer people will live in poverty.

Despite much progress, health and education outcomes in this region are not as good as those in similar countries elsewhere. There is an “efficiency gap.” But if Arab countries get greater value for the money they are already spending, the IMF estimates the Arab world could close a third of the health and education gap without any new spending.

That said, some Arab countries are spending effectively, including in their response to the pandemic.

Take Jordan's initial COVID response, which included a quick lockdown with widespread affordable testing, and steps to reduce economic harm. These included immediate tax relief to companies, and cash support for vulnerable daily wage workers.

And when you look at COVID testing, the UAE and Bahrain are among the very best in the world.

Second, increase employment of young people and women. Addressing skills mismatches, removing gender-based restrictions, and strengthening childcare and other supports will help.

Saudi Arabia has made notable progress in this area. In just two years, the percent of Saudi women in work or seeking work has risen substantially. The Kingdom has introduced workplace anti-discrimination legislation and banned pay discrimination based on gender, age, and other irrelevant factors. Smart enforcement of these measures will ultimately determine success. And

additional measures are needed. But important progress is being made.

And the third area to act without delay: close digital divides.

More and more, access to the internet is access to health, education, to commerce, to financial and government services and benefits.

In short, access to the internet is access to opportunity.

Investment is needed in both the physical and human elements of digital infrastructure—training coders and engineers, in addition to installing fiber and towers. The benefits of digital access are clear: Morocco, for instance, is providing cash benefits to 85 percent of eligible informal workers using mobile phones.

### **How the IMF can help**

As each Arab nation works to customize policies like these to your unique needs, the IMF is here to help.

We provide policy help—both bilaterally, and through research such as our Enhancing Access to Opportunity report from May, and a paper launched yesterday on Social Spending for Inclusive Growth in the Middle East and Central Asia.

We support capacity development, to help put the research into practice.

And where needed, we provide financing. We have extended additional credit to eight Arab countries this year with total credit of \$26 billion to the region. And we are well positioned to do more.

As we prepare for Marrakesh 2021 for our Annual Meetings, we're engaging with the Arab world on how to promote a recovery that is more inclusive, and also greener, fairer, and smarter.

This is the work of today. We cannot delay.

Shukran.

## **Event of the Finance Ministers on Financing for Development in the Era of COVID-19 and Beyond**



*Kristalina Georgieva, IMF -Managing Director*

*September 8, 2020  
As prepared for delivery*

I would like to start by thanking Minister Freeland in her new role as Finance Minister. And my thanks to Finance Minister Clarke of Jamaica, and to Deputy Secretary-General Amina Mohammed.

I will focus my remarks today on two issues.

One, the outlook for the world economy. And two, the implications of this outlook for what we must collectively do.

On the outlook, since we last met in the end of May, incoming data paints a picture that is less bleak. In other words, we are seeing some signs of recovery in the world economy.


The outlook for a number of advanced economies is somewhat less bad than we anticipated. China has turned the corner and is recovering a little faster than anticipated.

And all of this is on the grounds of three important factors. First, a very strong and synchronized policy response by finance ministries, and by central banks.

A massive policy response put a floor under the world economy. This included \$11 trillion of fiscal measures. And central banks have done miracles to inject huge amounts of liquidity and support their national economies and – through spillovers – the economies of other countries. We have seen it has become easier for emerging market countries with good fundamentals to raise money.

The IMF has been part of this very strong response. Never in our history have we done so much so quickly, supporting over 80 countries through emergency financing and also





through our regular lending programs. We have now extended support of \$270 billion – out of the Fund's \$1 trillion capacity – and more than a third of this support has been provided in recent months.

The second reason the situation is better is that the world has learned to function while the pandemic is still around us. We wear masks, we socially distance and we follow protocols.

And that has allowed some rebounds. We are seeing that non-contact-dependent activities like manufacturing are doing somewhat better than expected.

Third, there are improved results in testing and treatment. And we are very hopeful to have a vaccine. So, this is on the more optimistic side.

But it is not good or positive news everywhere.

The majority of emerging markets and developing countries – excluding China – are not seeing a reversal of fortunes yet. In fact, some would see a downgrade in our projections.

And, as we know very well, small countries with tourism-dependent economies are on their knees. Countries with high debt levels are in terrible trouble, and the virus is now moving to places where health systems are weaker.

What does that mean for us? I will focus on three priorities.

One, make sure that we maintain support until we see the economy turn around.

We project a recovery that is only partial and uneven.

We are at a point when we can say that the world economy will lose \$12 trillion this year and next year.

To continue support in advanced economies, is somewhat easier. With low interest rates, it is more affordable.

For developing economies and for emerging markets with weaker fundamentals, we must all work to boost the financing that is available to them. All of us.

For the Fund, it means that we are expanding the use of existing SDRs, encouraging a shift from advanced economies towards developing economies so they can rely on strong financing capacity at the IMF on concessional terms.

Two, we have to be mindful of debt levels that are high in many emerging and developing economies – high to a point of suffocating capacity to act.

We have had the Debt Service Suspension Initiative -- a great achievement. It has to be extended and both the World Bank and the IMF are calling for a one-year extension. And we are calling for greater private sector participation.

And we have to recognize that – for some countries – this is not going to be enough, and some countries will need a restructuring to bring debt down to a sustainable level.

I call for debt transparency as a priority. If we know debt levels, then this issue is much easier to handle.

Last – but not least – we need to recognize that this crisis is telling us to build resilience for the future.

That means investing in education, digital capacity and human capital – the health systems and the social protection systems. We need to make sure the other crises in front of us – like the climate crisis – are well integrated and addressed. And we need to prevent inequality and poverty – including gender inequality – from raising their ugly heads again.

To do this, we have to take care of taxation in a way that transforms and builds resilience for the future.

Yes, it is going to be hard. Everybody on the political side knows how hard this will be. But after the global financial crisis, we built resilience in the banking sector by reforming it.

Now, we have to do it for the functioning of our economies as a whole.

Thank you very much.

## **COVID-19: Without Help, Low-Income Developing Countries Risk a Lost Decade**

*By Daniel Gurara, Stefania Fabrizio, and Johannes Wiegand*

*August 27, 2020*

While the COVID-19 crisis is sending shockwaves around the globe, low-income developing countries (LIDCs) are in a particularly difficult position to respond. LIDCs have both been hit hard by external shocks and are suffering severe domestic contractions from the spread of the virus and the lockdown measures to contain it. At the same time, limited resources and weak institutions constrain the capacity of many LIDC governments to support their economies.

Growth in LIDCs is likely to come to a standstill this year, compared to growth of 5 percent in 2019. Further, absent

a sustained international effort to support them, permanent scars are likely to harm development prospects, exacerbate inequality, and threaten to wipe out a decade of progress reducing poverty.

### Multiple shocks take a heavy toll

LIDCs entered the COVID-19 crisis in an already vulnerable position—for example, half of them suffered high public debt levels. Since March, LIDCs have been hit by an exceptional confluence of external shocks: a sharp contraction in real exports, lower export prices, especially for oil, less capital and remittances inflows, and reduced tourism receipts.

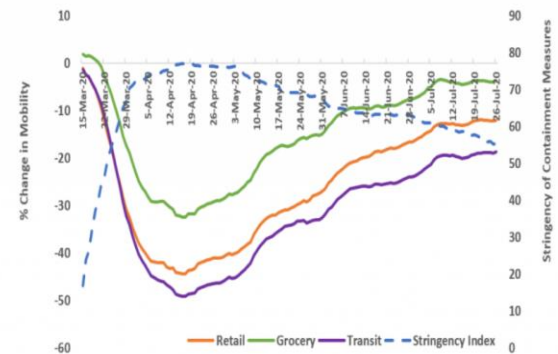
Take remittances, for example, that exceeded 5 percent of GDP in 30 (out of 59) LIDCs in 2019. Between April and May, they fell by 18 percent in Bangladesh, and by 39 percent in the Kyrgyz Republic, compared to the previous year. The repercussions are likely to be felt widely where remittances are the main source of income for many poor families.

As for the domestic impact, while the pandemic has evolved more slowly in LIDCs than in other parts of the world, it is now inflicting a sizeable toll on economic activity. Many LIDCs acted swiftly to contain the spread. From mid-March, when reported infections were still low, they put in place containment measures including international travel controls, school closures, the cancelation of public events and gathering restrictions.

Mobility—a proxy for domestic economic activity—also declined sharply, and continued to retreat as measures were broadened to include workplace closures, stay-at-home orders, and internal movement restrictions. From late April/early May, containment measures have gradually loosened and mobility has recovered, but has yet to return to pre-crisis levels.

### Containment measures and economic activity

The stringency of containment measures peaked in April.



Source: Google Mobility & Oxford COVID-19 Government Response Tracker.

Note: Mobility is a rough real-time proxy for domestic economic activity. Percentage change in mobility is relative to the median value from the 5 week period Jan 3 - Feb 6, 2020. Stringency Index is normalized between 0 and 100.

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### Managing difficult trade-offs with scarce resources

Most LIDCs cannot sustain strict containment measures for long as large segments of the population live at near subsistence levels. Large informal sectors, weak institutional capacity, and incomplete registries of the poor make it difficult to reach the needy. Further, governments have only limited fiscal resources to support them.

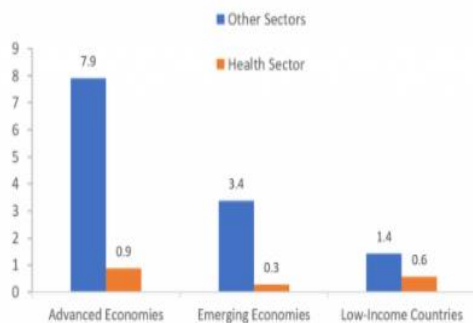
Recent surveys conducted across 20 African countries reveal that more than 70 percent of respondents risk running out of food during a lockdown that lasts more than two weeks.

Faced with such constraints, the short but sharp front-loading of containment fulfilled a critical purpose: it flattened the infection curve, while granting time to build up capacity in the health sector. Many LIDCs have followed this path: while they expended less fiscal support to their economies than advanced or emerging market economies, the share of additional spending dedicated to health has been higher.



### COVID-related fiscal support measures

Low-income developing countries could afford less fiscal support than advanced and emerging economies.  
(in % of 2020 GDP, PPP GDP-Weighted)



Source: Policy Responses to COVID-19 database (IMF).

Note: Fiscal Support refers to above-the-line or on-budget measures announced with a high likelihood of passage/implementation.

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As broad-based containment becomes difficult to sustain, LIDCs should transition to more targeted measures, including social distancing and contact tracing—Vietnam and Cambodia are good examples. Policy support should focus on supporting the most vulnerable, including the elderly, and on limiting the health crisis’s long-term fallout.

For example, protecting education is critical to ensure that the pandemic does not—as highlighted in a recent Letter to the International Community by a group of eminent persons—“create a COVID generation who loses out on schooling and whose opportunities are permanently damaged.”

Where the necessary infrastructure exists, technology can sometimes be leveraged in innovative ways. For example, to limit the spread of the virus, Rwanda is leveraging its digital finance infrastructure to discourage the use of cash. Togo employs the voter registration database to channel assistance to vulnerable groups.

### A decade of progress under threat

Despite the best efforts of LIDC governments, lasting damage seems unavoidable in the absence of more international support. Long-term “scarring”—the permanent loss of productive capacity—is a particularly worrisome prospect.

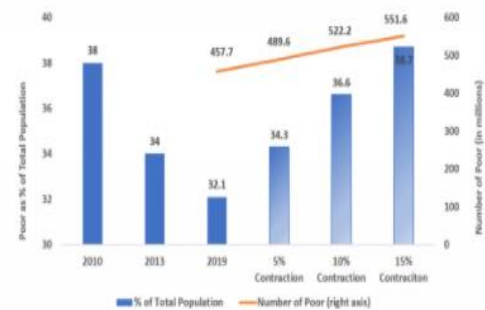
Scarring has been the legacy of past pandemics: mortality; worse health and education outcomes that depress future earnings; the depletion of savings and assets that force

firm closures—especially of small enterprises that lack access to credit—and cause irrecoverable production disruptions; and debt overhangs that depress lending to the private sector. For example, in the aftermath of the 2013 Ebola pandemic, Sierra Leone’s economy never recovered to its pre-crisis growth path.

Scarring would trigger severe setbacks to LIDCs’ development efforts, including undoing the gains in reducing poverty over the last 7 to 10 years, and exacerbating inequality, including gender inequality. The Sustainable Development Goals (SDGs) will thus be even more difficult to achieve.

### Rising levels of poverty

The crisis could push tens of millions of people back into poverty.



Source: World Bank Povcalnet.

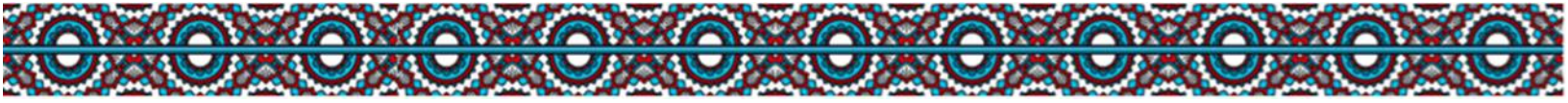
Note: Poverty line defined at 2011 PPP \$1.9/day. Scenarios are based on contraction in per capita household consumption. Figures exclude Afghanistan, Cambodia, Eritrea, and Somalia.

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### LIDCs cannot make it alone

The support of the international community is key to enable LIDCs to tackle the pandemic and recover strongly. Priorities include: (1) guaranteeing essential health supplies, including cures and vaccines when they are discovered; (2) protecting critical supply chains, especially for food and medicines; (3) avoiding protectionist measures; (4) ensuring that developing economies can finance critical spending through grants and concessional financing; (5) ensuring that LIDCs’ international liquidity needs are met, which requires International Financial Institutions to be resourced adequately; (6) reprofiling and restructuring debt to restore sustainability where needed, which, in many cases, may require relief beyond the G20/Debt Service Suspension Initiative; and (7) keeping sight of the United Nations’ SDGs, including by reassessing needs when the crisis subsides.

The COVID-19 pandemic will be defeated only when it and its socioeconomic consequences are overcome.



everywhere. Urgent action by the international community can save lives and livelihoods in LIDCs. The International Monetary Fund is doing its share: among other things, the IMF has provided emergency financing to 42 LIDCs since April. It stands ready to provide more support and help design longer-term economic programs for a sustainable recovery.

*This blog draws on joint work with Rahul Giri, Saad Quayyum, and Xin Tang, and has benefited from the assistance of Carine Meyimdji.*

## **Statement by IMF Managing Director Kristalina Georgieva on the International Conference on Support to Beirut and the Lebanese People**

*August 9, 2020  
As prepared for delivery*

Washington, DC: Ms. Kristalina Georgieva, Managing Director of the International Monetary Fund (IMF), made the following statement today at the end of the high-level “International Conference on Support to Beirut and the Lebanese People” after the August 4 explosion:

“I would like to thank French President Emmanuel Macron for bringing us together just days after the devastating explosion in Beirut and express heartfelt solidarity with the Lebanese people. It is a terrible tragedy, coming at a terrible time. Lebanon has been struggling with profound economic and social challenges, aggravated by a pandemic, but even more so by the shortage of political will to adopt and implement meaningful reforms the people of Lebanon have been calling for. This is the moment for Lebanese policymakers to unite and address the severe economic and social crisis. It is also a moment for the international community to stand by the country and its people – with urgent humanitarian assistance, and support for reforms to pull Lebanon from the brink of economic collapse.

“Over the last months we have been engaged intensely with the Lebanese authorities, as well as with civil society and the international community, on a reform package aimed at addressing the deepening crisis, strengthening governance and accountability, and restoring confidence in the economy. Unfortunately, these discussions have yet to yield results.

“We are ready to redouble our efforts. But we need unity of purpose in Lebanon—we need all institutions to come together determined to carry out much needed reforms.

“First, to restore the solvency of public finances and the soundness of the financial system. Current and future generations of Lebanese must not be saddled with more debts than they can ever repay. This is why the IMF requires debt sustainability as a condition for lending. And the financial system must be solvent—those who benefitted from past excessive returns need to share the burden of bank recapitalization, to protect the life savings of the vast majority of ordinary Lebanese depositors.

“Second, to put in place temporary safeguards to avoid continued capital outflows that would further undermine the financial system while reforms are taking hold. This includes adopting legislation to formalize capital controls in the banking system and eliminate the current multiple exchange rate system to help protect Lebanon’s international reserves while reducing rent-seeking and corruption.

“Third, upfront steps to reduce the protracted losses in many state-owned enterprises. There must be more predictability, transparency, and accountability—with comprehensive audits of key institutions, including the central bank.

“Finally, an expanded social safety net has to be in place to protect the most vulnerable people. They must not be asked to bear the brunt of this crisis.

“Commitment to these reforms will unlock billions of dollars for the benefit of the Lebanese people. This is the moment for the country’s policymakers to act decisively. We stand ready to help.”

## **Unemployment in Today’s Recession Compared to the Global Financial Crisis**

*By Ippei Shibata*

*July 23, 2020*

There has been much discussion in recent months about how workers who transitioned to working from home—and those who were deemed “essential”—are less affected by the layoffs and job losses brought on by lockdowns than are workers in “social” jobs that require closer human interaction, like restaurant workers. However, our new [IMF staff research](#) suggests that this does not tell the full story.

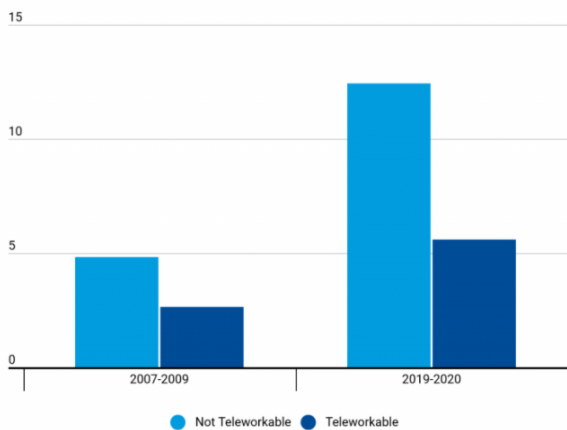
In particular, we find that while teleworkable jobs are indeed more secure than non-teleworkable occupations during the current pandemic-related recession, this pattern

has also been observed during the global financial crisis of 2007–09—meaning that something more than pandemic-related restrictions is at play.

### Unemployment and teleworking

Unemployment has increased less for teleworkable occupations during both the Global Financial Crisis and current pandemic-related recession.

(change in unemployment rate, %)



Sources: U.S. Current Population Survey, and IMF staff calculations.



As the chart shows, unemployment has increased less for teleworkable occupations during both recessions. This pattern suggests that people in teleworkable occupations tend to keep their jobs not only because they satisfy the need for social distancing and other novel requirements of the current pandemic, but also because such people tend to be more highly-skilled and educated—and hence less vulnerable to recessions.

The paper also finds that essential jobs have been less affected not only during the current recession but also during the global financial crisis. On the other hand, while social jobs have been severely affected during the current recession, they were indeed less affected during the global financial crisis.

Our research also confirms some interesting observations regarding the distributional aspects of recessions. It finds that young and low-skilled workers have always been harmed more in recessions, while women and Hispanics are more severely affected during the current recession. Women in particular are more likely to work in industries and occupations that are being affected more severely during today's recession. During both recessions, low-income workers have suffered more than top-income earners

## The COVID-19 Gender Gap

July 21, 2020

By Kristalina Georgieva, Stefania Fabrizio, Cheng Hoon Lim, and Marina M. Tavares

The COVID-19 pandemic threatens to roll back gains in women's economic opportunities, widening gender gaps that persist despite 30 years of progress.

Well-designed policies to foster recovery can mitigate the negative effects of the crisis on women and prevent further setbacks for gender equality. What is good for women is ultimately good for addressing income inequality, economic growth, and resilience.

It is crucial that policymakers adopt measures to limit the scarring effects of the pandemic on women.

Why has COVID-19 had disproportionate effects on women and their economic status? There are several reasons.

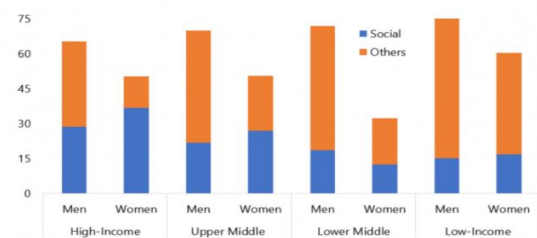
First, women are more likely than men to work in social sectors — such as services industries, retail, tourism, and hospitality — that require face-to-face interactions. These sectors are hit hardest by social distancing and mitigation measures. In the United States, unemployment among women was two percentage points higher than men between April-June 2020.

Because of the nature of their jobs, teleworking is not an option for many women. In the United States, about 54 percent of women working in social sectors cannot telework. In Brazil, it is 67 percent. In low-income countries, at most only about 12 percent of the population is able to work remotely.

### Women dominate social sectors

In most countries, women are more likely than men to be employed in social sectors jobs.

Total employment (percent)

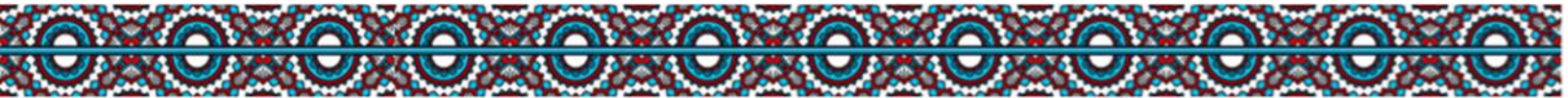


Sources: ILO and authors' calculation.

Note: Social sectors are defined as the sum of the following sectors: wholesale and retail trade, accommodation and food service activities, real estate, business and administrative activities, education, human health and social work activities, and other services.





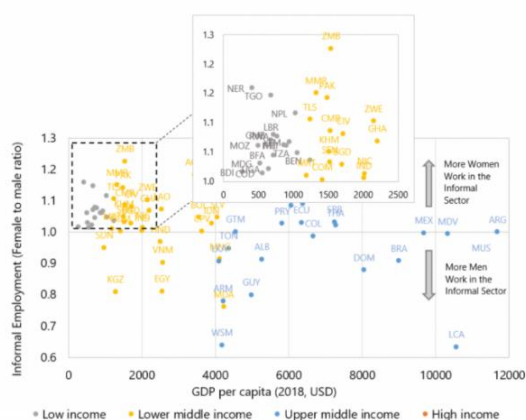


Second, women are more likely than men to be employed in the informal sector in low-income countries. Informal employment – often compensated in cash with no official oversight – leaves women with lower pay, no protection of labor laws, and no benefits such as pensions or health insurance.

The livelihoods of informal workers have been greatly affected by the COVID-19 crisis. In Colombia, women’s poverty has increased by 3.3 percent because of the shutdown in economic activities. The UN estimates that the pandemic will increase the number of people living in poverty in Latin America and the Caribbean by 15.9 million, bringing the total number of people living in poverty to 214 million, many of them women and girls.

**Informal employment for women is the norm**  
Women rely more than men on informal work in low-income countries.

Female to male informal employment share vs. GDP per capita (latest year available)



Sources: ILO STAT and World Bank Development Indicators.  
Note: Y axis is the ratio of female informal employment share over male informal employment share. Ratios above one indicate women have larger informal share than men in that country.



Third, women tend to do more unpaid household work than men, about 2.7 hours per day more to be exact. They bear the brunt of family care responsibilities resulting from shutdown measures such as school closures and precautions for vulnerable elderly parents. After shutdown measures have been lifted, women are slower to return to full employment. In Canada, the May job report shows that women’s employment increased by 1.1 percent compared with 2.4 percent for men, as childcare issues persist. Furthermore, among parents with at least one child under the age of 6, men were roughly three times more likely to have returned to work than women.

Fourth, pandemics put women at greater risk of losing human capital. In many developing countries, young girls are forced to drop out of school and work to supplement household income. According to the Malala Fund report,

the share of girls not attending school nearly tripled in Liberia after the Ebola crisis, and girls were 25 percent less likely than boys to re-enroll in Guinea. In India, since the COVID-19 lockdown went into effect, leading matrimony websites have reported 30 percent surges in new registrations as families arrange marriages to secure their daughters’ futures. Without education, these girls suffer a permanent loss of human capital, sacrificing productivity growth and perpetuating the cycle of poverty among women.

It is crucial that policymakers adopt measures to limit the scarring effects of the pandemic on women. This could entail a focus on extending income support to the vulnerable, preserving employment linkages, providing incentives to balance work and family care responsibilities, improving access to health care and family planning, and expanding support for small businesses and the self-employed. Elimination of legal barriers against women’s economic empowerment is also a priority. Some countries have moved quickly to adopt some of these policies.

- Austria, Italy, Portugal, and Slovenia have introduced a statutory right to (partially) paid leave for parents with children below a certain age, and France has expanded sick leave to parents impacted by school closures if no alternative care or work arrangements can be found.
- Latin American [women leaders](#) have established the “Coalition of Action for the Economic Empowerment of Women” as part of a wider whole-of-government effort to increase women’s participation in the post-pandemic economic recovery.
- In Togo, 65 percent of participants in a new mobile cash-transfer program are women. The program enables informal workers to receive grants of 30 percent of minimum wage.

Over the longer term, policies can be designed to tackle gender inequality by creating conditions and incentives for women to work. As discussed in a recent [blog](#), particularly effective are gender-responsive fiscal policies, such as investing in education and infrastructure, subsidizing childcare, and offering parental leave. These policies are not only crucial to lift constraints on women’s economic empowerment, they are necessary to promote an inclusive post-COVID-19 recovery.

*This blog drew from a body of work undertaken by the IMF available at the [Gender and IMF](#) page.*

## Inside Jordan's Fight to Tackle COVID-19



July 20, 2020

*In a conversation with IMF Country Focus, Jordan's Minister of Finance Mohamad Al-Ississ digs deeper into the economic impact of COVID-19 on his country, policies they've pursued to limit the fallout and protect the vulnerable, and how rapid IMF financing has softened the blow of the pandemic and allowed the government to invest in critical areas during the crisis.*

### How has COVID-19 affected Jordan's economy?

The IMF expects Jordan's economy to contract in 2020—for the first time in decades. This is particularly concerning because we had managed to grow at an average rate of 2 percent despite enduring regional and international shocks to our economy amounting to 44 percent of GDP over the past decade, and even while implementing a massive fiscal consolidation strategy. This contraction speaks volumes about the massive impact of COVID-19.

The global slowdown is also expected to impede foreign direct investment, remittances, trade, and tourism, the latter of which represented 10 percent of GDP pre-pandemic. In addition, we have over 250,000 daily wage workers affected by the lockdown and businesses facing a liquidity crunch.

I believe we have been able to turn this adversity into an opportunity. We responded to the crisis with immediate fiscal and monetary measures and, coupled with our strong underlying fundamentals including sustainable debt and a healthy financial system, boosted confidence in our economy. This led to a double-tranche Eurobond issuance that was highly oversubscribed and at competitive interest rates of 4.95 percent over 5-year maturity and 5.85 percent over 10-year maturity.

The economy has also adapted well. For instance, Jordan's stock of vibrant tech start-ups can be tapped into to facilitate business activity in the region amid limited

cross-border traveling. Moreover, the country is entering into global supply chains; not only are we self-sufficient in producing masks, but we are also exporting them.

### What measures have you taken so far to tackle the pandemic and protect the most vulnerable?

Jordan's response to COVID-19 is in line with the country's overarching principle: prioritize human safety. After only a few infections, we were one of the first countries to implement a strict lockdown. We invested in affordable and widespread testing, delivered food and necessary items to households, and lowered sales tax on key protective equipment. Consequently, we have one of the lowest numbers of per capita COVID-19 cases worldwide, and were therefore able to pursue a gradual reopening.

We also immediately established a fund to cover emergency medical outlays to ensure that our Ministry of Health has the necessary funds. We meanwhile provided temporary cash-flow relief to companies by allowing delayed payments of sales taxes and customs duties, delayed utility payments, temporarily reduced social security contributions, and supported vulnerable daily wage workers via our National Aid Fund cash transfer program.

Our Social Security Investment Fund has also enacted a wide set of policies, including in-kind transfers and benefits for the unemployed and self-employed. On the monetary side, the Central Bank of Jordan reduced policy rates, injected liquidity by reducing reserve requirements on time deposits, and eased terms of financing programs for small- and medium-sized enterprises. In addition, the government committed to compensate arrears owed to the private sector, which we are now accelerating.

### How will the new four-year, \$1.3 billion Extended Fund Facility (EFF) for Jordan be used to support the economy in this time of crisis?

Jordan's EFF program is borne out of a partnership between the Jordanian authorities and IMF staff, and focuses on growth, jobs, and social safety nets. The funds will be allocated toward financing our general budget including health, education, and social support. Although COVID-19 has pushed us to reprioritize budget expenditures, we remain committed to our home-grown program objectives.

Moving forward, we will continue to fund necessary capital expenditures to energize the economy (albeit to a lesser extent), maintain public sector wages, and strengthen social safety nets. Importantly, we remain committed to provide support to the Syrian refugees that we host. Finally, IMF lending enables us to lower our debt service



costs, which will help free up additional fiscal space for pressing priority areas.

The IMF also recently approved \$396 million in emergency assistance under the Rapid Financing Instrument (RFI) to fight COVID-19. How are you using these funds, and how will you ensure these funds are used in a transparent and accountable way?

It is at times of extreme global hardship that true partnerships show, and the IMF's prompt response to the COVID-19 crisis is a testament to both policy for the good and good fiscal policy. Our domestic revenue fell due to the lockdown even as expenditure needs expanded relentlessly. Although our domestic banking sector and the Social Security Investment Fund are healthy and capable of lending for these needs, we are cognizant that, just as our borrowing requirements have grown, so have needs of businesses and consumers. It is therefore crucial that the government looks toward external finance to avoid crowding out private sector credit.

RFI funds are being spent from our national treasury account in line with the best international standards of public financial management. For transparency, we have

## Low Internet Access Driving Inequality

June 29, 2020

By Mercedes García-Escribano

COVID-19 and the Great Lockdown triggered a mass migration from analog to digital and highlighted that access to the Internet is crucial for socioeconomic inclusion.

High-speed Internet is key for working from home, for children's education when they can't attend school in person, for telemedicine, for benefiting from social support programs, and for enabling access to financial services for everyone, especially for those living in remote areas..

Still, Internet usage remains a luxury: half of the world's population does not have access to the Internet, either through a mobile device or through fixed line broadband.

As the map in this chart of the week shows, the digital divide—the gap between those who have Internet access and those who don't—is more like a chasm, both within and between countries.

created specific budget lines for this purpose to track and report crisis-related expenditures, and have linked the emergency fund to the Treasury Single Account. The Jordanian Audit Bureau will also undertake ex-post audits of all crisis-mitigating inflows and spending, and will publish the results.

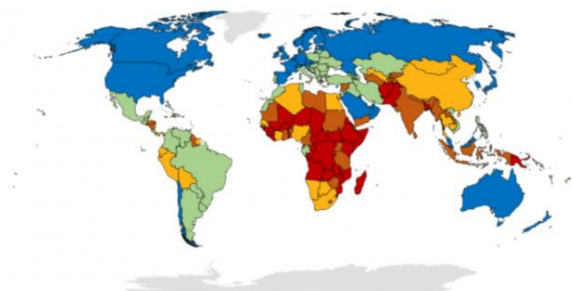
## As you deal with COVID-19, what economic, health, or social challenges are you most worried about looking ahead?

Above all else, few feel the impact of the accumulation of these crises more than the youth of the Middle East and North Africa region—a generation that has witnessed foregone opportunities in terms of jobs and education. It is critical that we channel the tech literacy and innovation of our youth, given the newfound need to work remotely. In addition, social support must be disbursed as indiscriminately as a vaccine would be in order to prevent an outbreak of negative social impacts before having to treat its symptoms. In this regard, a major concern I have is that the international community leaves global challenges such as the Syrian refugee crisis in the past, although it remains a daily reality for us in Jordan.

### Internet inequality

Less than half of the population in developing countries has Internet access.

(Internet users per 100 inhabitants)



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■ 80 to 100 users ■ 60 to 80 users ■ 20 to 40 users  
■ 40 to 60 users ■ 0 to 20 users

Source: Staff using United Nations Global SDG Database.  
Note: Data corresponds to 2018 or latest year available. Internet users refer to individuals who used the Internet from any location in the last three months.



Advanced economies like the United States, France, Germany, the United Kingdom, and Canada have the highest access rates. Big emerging economies show large disparities in the proportion of Internet users in their





populations, which range from about two-thirds in Brazil and Mexico to about one-third in India.

Countries in sub-Saharan Africa, followed by many in emerging and developing economies in Asia, are among those with the lowest access to the Internet despite being world leaders in mobile money transactions. There is also a large variation in Internet connectivity by firms in sub-Saharan Africa—only about 60 percent of businesses use email for business compared to about 85 percent in Europe and Central Asia.

### **Wider inequality**

The lack of universal and affordable access to the Internet may widen income inequality within and between countries.

*Within countries.* Income inequality and inequality of opportunity may worsen—even in advanced economies—because disadvantaged groups and people who live in rural areas have more limited Internet access. The disparity between men and women in their labor force participation, wages, and access to financial services may increase where there is a gender gap in access to the Internet. This could be the case in many emerging and developing countries where fewer women than men own a mobile phone.

*Between countries.* The relatively low Internet access might depress productivity in emerging and developing countries. IMF staff research finds that a one percentage point increase in the share of Internet users in the population raises per capita growth by 0.1–0.4 percentage points in sub-Saharan Africa. The COVID-19 pandemic demonstrates that having reliable Internet allows some businesses to continue operations amidst lockdowns, which keep economies running.

So, how can policymakers support affordable and universal access to the Internet?

Governments can foster a digital-friendly business and regulatory environment for the private sector. This can be instrumental to accelerate and finance investments in infrastructure.

Government support, for instance by ensuring the Internet investment is complemented with universal electricity access, is essential. In addition, subsidies may be needed so that all households—including disadvantaged groups and those in rural and remote areas—have access to quality Internet, and to ensure there is no digital gender gap. For example, in response to the COVID-19 crisis, the governments of El Salvador, Malaysia and Nepal have introduced Internet fee discounts or waivers.

Policies should also be geared to closing the Internet gap for firms. Broadening small businesses' access to financial products such as loans will allow these firms to undertake productive investments in information and communications

technology. Governments could also see fiscal savings from digitalization. They can lower the public cost of tax compliance through greater access to taxpayer data and improved spending efficiency, which in turn, may help financing these policies.

Given the increasing role of the Internet for the economy and for accessing public services, policies to foster an inclusive recovery must aim to tackle the digital divide within and between countries.

*Listen to the entire IMF podcast on digitalization [here](#).*

### **Facing the crisis: the role of tax in dealing with COVID-19**




*Vito Gaspar, Director, Fiscal Affairs Department*

*June 16, 2020*

COVID-19 has already infected millions of people and claimed nearly half a million lives. The sudden halts in economic activity and employment are far worse than anything on record, in depth and speed. The economies of developing countries are being harmed by drastic but very necessary measures to protect people's health, and by cross-border disruptions in supply chains, tourism, remittances, and commodity prices. The poorest and most vulnerable segments of the population are always affected disproportionately during economic downturns. This is compounded during the current crisis as the poor have fewer options to protect their health and suffer more from disruptions in public services. Recovery will not be quick, and the future will differ in important ways from the reality of only a few months ago. In times of distress, people look to governments for information, direction and protection.

The current crisis is a global challenge that requires a global response. International tax cooperation must be part and parcel of a set of effective and well-coordinated multilateral actions to respond to the crisis. In order to expand the fiscal space, it is more urgent than ever to work together to fight tax evasion and tax avoidance, including illicit financial flows. At the same time, it has never been more important to move towards a fairer and more equitable taxation of economic activities at the global level.

Taxation is profoundly affected by the pandemic. Covid-19 will change taxation—in at least three important ways, with lasting implications. First and most immediately, taxation plays a role at this current crisis stage in helping to sustain universal access to basic goods and services through



“lifeline” measures. Vulnerability to COVID-19 and to its economic impact are very different across social groups. Taxation can help compensate for this uneven playing field—that is an additional argument for progressive taxation. In the same spirit, aggressive tax minimization by large taxpayers – however legal it may appear – will become even more intolerable to society at large. This increases the importance of, and attention to, the work on international corporate taxation now being carried on in the Inclusive Framework and the UN Tax Committee.

Second, as the economies of the world recover, taxation will also play a role. Developing countries are likely to see a significant decline in their average tax-to-GDP ratio in 2020. This will have lasting implications—after the 2008-09 global financial crisis, it took an average of eight years for revenues to recover to their pre-crisis level. Clearly those countries with limited fiscal space going into the crisis will be hit harder than those that had greater flexibility on both the fiscal and monetary sides. Much direct international financial support and debt relief will be necessary during and after the peak of the crisis, and indeed considerable emergency financing is already flowing from both the World Bank and the IMF. But it is important that we do not lose sight of the imperative to support longer-term tax capacity building, and the importance of mobilizing revenues in the aftermath of the crisis. On the other side, taxation must play a role in future macroeconomic stimulus to regain growth. Striking the appropriate balance will not be simple. Stimulus needs to be well timed and proportional with securing the additional revenues needed to restore fiscal sustainability once growth has been put on an upward path. Taxes will play a role in shaping the “new normal”. Along with affecting equality, fundamental shifts in social behaviors make the aftermath of the crisis a good moment to “green” our tax systems.

Finally, the crisis brings even more importance to the fundamental work already being carried on by many lower income countries, with assistance from the PCT partners and other international providers, to reform and build governance capacity as part of the development process. Transparency, including the monitoring of domestic revenues, aid, and the spending of both, will be critical. For this group of countries substantial efforts to build tax capacity are central to a development strategy aimed at delivering on the Sustainable Development Goals.

The PCT Partners have been closely communicating at this difficult time: Policy Notes by the partner organizations have been linked and collated on the PCT website. Assessment and guidance through these notes by the partners have proven to be largely complementary. The PCT partners will continue their work together, including through exchange of views on analytic thinking on tax structures and the impact of changes on lower income developing countries.

COVID-19 opens opportunities for moving more decisively towards sustainable and inclusive growth. Progress and prosperity open to all peoples and nations is an ideal well worth pursuing.

*A joint blog first published on the PCT website by Vitor Gaspar, Director, Fiscal Affairs Department, IMF; Navid Hanif, Director, Financing for Development Office, UN; Ceyla Pazarbasioglu, Vice President, Equitable Growth, Finance and Institutions, WBG; and Pascal Saint-Amans, Director, Centre for Tax Policy and Administration, OECD*

## Financial Frictions and Firm Informality: A General Equilibrium Perspective

The authors build a model of occupational choice with informal production and progressive income taxation. They calibrate the model to the Brazilian economy to evaluate the impact of removing financial frictions on informality. They find that financial deepening leads to a drop in the size of the informal sector (from 37 percent to 22 percent of official GDP), to an increase in measured TFP (by 4 percent), to an increase in official GDP (by 27 percent), to a decrease in tax evasion (by 17 percent) and to an increase in fiscal revenues (by 15 percent). When assessing the response of this policy at different levels of financial development, they find a non-linear relationship between the credit-to-GDP ratio on the one hand, and either the size of the informal economy, or GDP per capita on the other hand. They test these features with cross-country data and find evidence in favor of both types of non-linearity. They also investigate changes in the income tax progressivity as an alternative policy and find it to be more effective in countries with a medium to high level of financial markets development.

## COVID-19 and SME Failures

The authors estimate the impact of the COVID-19 crisis on business failures among small and medium size enterprises (SMEs) in seventeen countries using a large representative firm-level database. They use a simple model of firm cost-minimization and measure each firm's liquidity shortfall during and after COVID-19. Their framework allows for a rich combination of sectoral and aggregate supply, productivity, and demand shocks. They estimate a large increase in the failure rate of SMEs under COVID-19 of nearly 9 percentage points, absent government support. Accommodation & Food Services, Arts, Entertainment & Recreation, Education, and Other Services are among the most affected sectors. The jobs at risk due to COVID-19 related SME business failures represent 3.1 percent of private sector employment. Despite the large impact on business failures and employment, they estimate only moderate effects on the financial sector: the share of Non Performing Loans on bank balance sheets would increase by up to 11 percentage points, representing 0.3 percent of banks' assets and resulting in a 0.75 percentage point decline in the common equity Tier-1 capital ratio. They evaluate the cost and effectiveness of various policy interventions. The fiscal cost of an intervention that narrowly targets at risk firms can be modest (0.54% of GDP). However, at a similar level of effectiveness, non-targeted subsidies can be substantially more expensive (1.82% of GDP).

The results have important implications for the severity of the COVID-19 recession, the design of policies, and the speed of the recovery.

## Digital Solutions for Direct Cash Transfers in Emergencies

Experiences during previous pandemics and economic crises have shown that a range of transfer programs and modalities can be effective in protecting vulnerable households, including those in the informal sector and poorer regions.<sup>2</sup> In the wake of the COVID-19 pandemic, many governments are considering direct cash transfers to protect vulnerable households. In several developing countries, the scale of these payments is unprecedented.<sup>3</sup> For people living in extreme poverty, such cash support can be a lifeline. However, low-income developing countries (LIDCs) and emerging market economies (EMEs) often have large informal sectors,<sup>4</sup> which make it more difficult to deliver support effectively and securely.

This note focuses on how digital solutions can help governments deliver cash transfers efficiently and quickly to their intended beneficiaries, including those in the informal sector. The note offers suggestions on (i) the scope for using digital technologies to identify and validate recipients of direct cash payments; (ii) mechanisms for delivering cash payments efficiently; and (iii) streamlining public financial management (PFM) procedures for delivering these benefits/transfers fast, while ensuring transparent reporting and adequate control to prevent serious financial irregularities.<sup>5</sup> Table 1 provides a summary of the key measures suggested. A separate note focuses on policy issues related to cash transfers


## Should Inequality Factor into Central Banks' Decisions?

Inequality is increasingly a concern. Fiscal and structural policies are well-understood mitigators. However, less is known about the potential role of monetary policy. This paper investigates how inequality matters for monetary policy within a tractable Two-Agent New Keynesian model that captures important dimensions of inequality. We find some support for making inequality an explicit target for monetary policy, particularly if central banks follow standard Taylor rules.

## IT Shields: Technology Adoption and Economic Resilience during the COVID-19 Pandemic

The authors study the economic effects of information technology (IT) adoption during the COVID-19 pandemic. Using data on IT adoption covering almost three million establishments in the US, they find that technology adoption can partly shield the economy from the impact of the pandemic. In areas where firms adopted more IT the unemployment rate rose less in response to social





distancing. Their estimates imply that if the pandemic had hit the world 5 years ago, the resulting unemployment rate would have been 2 percentage points higher during April and May 2020 (16% vs. 14%), due to the lower availability of IT. Local IT adoption mitigates the labor market consequences of the pandemic for all individuals, regardless of gender and race, except those with the lowest level of educational attainment.

## **Beyond the COVID-19 Crisis: A Framework for Sustainable Government-To-Person Mobile Money Transfers**

During the 2020 pandemic, the majority of countries have provided income support to households at an unprecedented speed and scale. Social distancing measures and the large penetration of mobile phones in emerging markets and developing economies (EMDEs) have encouraged government-to-person (G2P) transfers through mobile platforms. This paper presents a comprehensive framework for sustainable money solutions in support of social assistance. The framework consists of eight building blocks that may help policymakers i) take stock and assess emergency fixes taken to scale up mobile money in a crisis context and ii) develop sustainable long-term solutions for mobile G2P transfers.

## **What are the Economic Effects of Pandemic Containment Policies? Evidence from Sweden**

This paper examines the economic effects of policies to contain Covid-19, by extracting lessons from Sweden's experience during the 'Great Lockdown'. Sweden's approach was less stringent and based more on social responsibility than legal obligations compared to European peers. First, we provide an account of Sweden's strategy and the health outcomes. Second, drawing on a range of data sources and empirical findings, our analysis of the first Covid-19 wave indicates that a less stringent strategy can soften the economic impact initially. These benefits could be eroded subsequently, due to potentially higher infection rates and a prolonged pandemic, but in Sweden's case, the evidence remains mixed in this regard, and it is premature to judge the outcome of Sweden's containment strategy. In addition, the economic effects of the containment strategy also depend on social behavior, demographics and structural features of the economy, such as the degree of export orientation, reliance on global supply chains, and malleability to remote working.

## **Destabilizing Stability? Exchange Rate Arrangements and Foreign Currency Debt**

Emerging markets (EMs) often respond to shocks by intervening in foreign exchange (FX) markets and thus

preventing full exchange rate adjustment. This response can serve to dampen the effect of shocks and increase monetary policy space but may also incentivize economic participants to increase risk taking and take on more FX debt. This paper empirically analyzes the role of exchange rate flexibility in affecting such risk taking, by using rolling correlations and difference-in-difference estimations. The results suggest that a shift towards greater exchange rate flexibility often coincides with a decline in external FX debt. The findings also highlight the importance of using complementary policies to deal with financial stability issues related to the exchange rate, such as FX-specific macroprudential policies and policies aimed at promoting financial development.

## **Socio-Economic Spillovers from Special Economic Zones: Evidence from Cambodia**

This study examines the socio-economic impact of special economic zones (SEZs) in Cambodia---a prominent place-based policy established in 2005. The paper employs a database on existing and future SEZs in Cambodia with matched household surveys at the district level and documents stylized facts on SEZs in a low-income country setting. To identify causal effects of the SEZ program, the paper (i) constructs an alternative control group including future SEZ program participants and districts adjacent to SEZ hosts; and (ii) employs a propensity score weighting technique. The study finds that entry of SEZs disproportionately benefits female workers and leads to a decline of income inequality at a district level. However, the findings also suggest that land values in SEZ districts tend to rise while wage levels remain largely unchanged relative to other districts. In addition, the paper tests for socio-economic spillovers to surrounding areas and for agglomeration effects associated with clusters of multiple SEZs.

## **Japan's Inbound Tourism Boom: Lessons for its Post-COVID-19 Revival**

In this paper, the authors review developments in Japanese inbound tourism and investigate the main determinants of its rapid growth prior to the COVID-19 pandemic. Using a panel autoregressive distributed lag (ARDL) model with data on 34 tourism source markets from 1996Q1 to 2018Q4, they find that not only tourist income and tourism-related relative prices, also visa policies have had significant impacts on Japan's inbound tourism demand in the long run. In the short run, natural disasters have had large and prolonged effects on tourism. They then derive policy implications for the post-COVID-19 revival of Japanese inbound tourism.

# EXECUTIVE BOARD ACTIVITIES

## Policy Items

### The IMF Executive Board Extends Immediate Debt Service Relief for 28 Eligible Low-Income Countries for Another Six Months

The Executive Board of the International Monetary Fund (IMF) approved on October 2, 2020 a second six-month tranche of debt service relief for 28 member countries under the Catastrophe Containment and Relief Trust (CCRT). This approval follows the first six-month tranche (April 14 – October 13, 2020) approved on April 13, 2020 (see Press Release No. 20/151), and enables the disbursement of grants from the CCRT for payment of eligible debt service falling due to the IMF from October 14, 2020 to April 13, 2021, estimated at SDR 161 (US\$227) million. Subject to the availability of sufficient resources in the CCRT, debt service relief could be provided for a total period of two years, through April 13, 2022, estimated at nearly SDR 680 (US\$959) million. Relief on debt service will free up scarce financial resources for vital emergency medical and other relief efforts while these members combat the impact of the COVID-19 pandemic.

In the context of the approval of the first tranche, Managing Director Kristalina Georgieva launched an urgent fundraising effort that would enable the CCRT to provide relief on debt service for up to a maximum of two years, while leaving the CCRT adequately funded for future needs. This will require a commitment of about SDR 1 billion (US\$1.4 billion). Thus far, donors have provided grant contributions totaling about SDR 360 million, including from the UK, Japan, Germany, the Netherlands, Switzerland, Norway, China, Mexico, Sweden, Bulgaria, Luxembourg, and Malta.

#### *Executive Board Assessment*

Executive Directors underscored that the COVID-19 pandemic continues to exact a serious human and economic toll on the Fund membership. In this context, Directors noted that Catastrophe Containment and Relief Trust (CCRT) grants for debt service relief on obligations to the Fund falling due during the April 14 through October 13, 2020 assisted its poorest and most vulnerable members tackle the pandemic and its repercussions.

Directors welcomed the country updates on the policy responses to the pandemic of CCRT beneficiary countries. They underscored the importance of continued follow-through on governance and transparency commitments by beneficiary countries to safeguard priority and COVID-19-related spending. Directors

concurred that countries that received the CCRT debt relief are, in the main, pursuing sensible macroeconomic policies to support stability in response to the economic fallout from the pandemic. They also agreed that resources freed up by the initial tranche of CCRT debt service relief were helping to provide emergency health, social and economic support to mitigate the impact of the pandemic on lives and livelihoods.

Directors agreed that the available resources are sufficient to finance a second six-month tranche of debt service relief under the CCRT. Accordingly, they approved grant assistance for relief for 28 of the 29 eligible members with debt service falling due during October 14, 2020 and April 13, 2021 and looked forward to bringing the proposal for the remaining one member soon.


Directors noted that the Fund has received grant pledges of just over one-third of the SDR 1 billion fundraising target and noted that available resources will need to be boosted to support the approval of future tranches. To this end, Directors welcomed the generous contributions in recent months and stressed the importance of ongoing efforts to secure additional resources for timely grant assistance in the future. Directors agreed that it would be useful to conduct a stocktaking on the CCRT before the end of the second tranche period in April 2021.

### IMF Executive Board Approves the Extension of Increased Access Limits Under the Rapid Credit Facility and Rapid Financing Instrument

In the context of the persistent impact of the pandemic, on September 28 the IMF Executive Board approved a six-month extension of the temporary increase in access limits under its emergency financing instruments, through April 6, 2021.

Against the background of urgent balance of payments needs resulting from the coronavirus pandemic, in April 2020 the IMF approved a temporary increase in access limits under its emergency financing instruments, the Rapid Financing Instrument (RFI), available to all members, and the Rapid Credit Facility (RCF), available only to low-income countries eligible for concessional financing. The limits on annual access were raised from 50 to 100 percent of quota, and the limits on cumulative access were increased from 100 to 150 percent of quota, for the six-month period through October 5, 2020. As of





August 31, 2020, sixty-nine members have received financial support through the Fund's emergency financing instruments since the onset of the pandemic, three-quarters of whom received support at the higher levels made possible by the increase in the access limits.

#### *Executive Board Assessment*

Executive Directors welcomed the review of enhanced access limits under the Fund's emergency financing instruments. They supported the proposal for a six-month extension of higher access limits under the regular window of the RFI and the exogenous shocks window of the RCF, with annual and cumulative access limits remaining at 100 percent of quota and 150 percent of quota, respectively, through April 6, 2021. There was broad agreement that the extension was justified to provide the Fund with flexibility to support urgent balance of payments needs, in the context of persistent pandemic-related economic disruptions. Directors also supported the proposal to extend the temporary suspension of the procedures for high access RCF requests through April 6, 2021.

Many Directors emphasized the importance of implementing appropriate governance safeguards to mitigate the misuse of emergency financing, and welcomed staff's guidance encouraging commitments related to audits and procurement.

Most Directors underscored that it will be important for countries to increasingly seek financial assistance under Upper Credit Tranche Fund arrangements rather than emergency financing, in line with discussions of the Lending Strategy and as the immediate economic impact of the pandemic abates.

Directors concurred that the temporary increase in access limits under emergency financing will be assessed as part of the wider review of the temporary changes in annual access limits in the GRA and PRGT introduced since the onset of pandemic, which is expected to be considered by the Executive Board by end-December 2020. Some Directors also called for a review of cumulative access limits.

### **IMF Executive Board Approves Policy Safeguards for High Levels of Combined Access to Resources from the General Resources Account and the Poverty Reduction and Growth Trust**

The Executive Board of the International Monetary Fund (IMF) approved on September 9 policy safeguards to apply when financing requests entail high levels of combined access to resources from the General Resources Account (GRA) and the Poverty Reduction and Growth Trust (PRGT). This should help ensure a

more coherent application of policy safeguards in Fund lending across the membership.

The IMF applies heightened scrutiny to requests from member countries for very high levels of access to Fund resources, "exceptional access." The criteria by which these requests for exceptional access to the Fund's general resources account (GRA) are assessed were established in 2002 and have been reviewed and adjusted over time, most recently in 2016. A related but distinct framework applicable to requests for exceptional access to the Fund's concessional resources, provided through the Poverty Reduction and Growth Trust (PRGT), was introduced in 2009.

The respective policies governing exceptional access to the GRA and the PRGT operate independently of each other. The independent operation of the two exceptional access frameworks means that PRGT-eligible countries can request access to a mix of resources from the GRA and PRGT at levels that, on a combined basis, exceed the levels that constitute exceptional access in the GRA and the PRGT, yet do not constitute exceptional access under either the GRA or the PRGT. Such requests, though large in scale, would not be subject to the scrutiny of either of the exceptional access frameworks.


The policy safeguards will apply when requests for financing entail levels of combined access to GRA and PRGT resources in excess of specified thresholds. These thresholds are set at the same levels that trigger application of the GRA exceptional access framework. The safeguards are also broadly aligned with the criteria and procedures applied in the GRA exceptional access framework.

#### *Executive Board Assessment*

Executive Directors welcomed the opportunity to discuss new policy safeguards to mitigate financial risks to the PRGT and to the GRA, respectively, that arise from a member having high combined credit from these two sources of financing. They generally agreed on the need for appropriate scrutiny for such cases, and on ensuring a more consistent application of policy safeguards in Fund lending.

Directors broadly supported the proposed policy safeguards, which would apply to any Fund member with combined access to GRA and PRGT resources that exceeds quota-based thresholds set at the same level that triggers the exceptional access framework of the GRA, and agreed that the assessment of the three criteria will apply at the time of approval of financing requests as specified in the proposed decision and at reviews in the context of arrangements. They agreed that, by introducing new policy safeguards requiring more scrutiny on requests for high combined access levels not currently covered by the Fund's exceptional access frameworks,





the new policy would help to mitigate financial risks to the PRGT and GRA, respectively.

Some Directors highlighted that the Fund should be cautious about lending exceptionally large amounts, in particular, when debt is already at high risk of distress, and particularly without debt restructuring and/or debt relief in place to restore debt sustainability. Many Directors underscored the importance of ensuring that the Fund can adequately support PRGT-eligible members, including through the use of blended concessional and non-concessional financing, and particularly during these exceptional times.

A number of Directors noted that combined high access requests – like exceptional access – are expected to be exceptional, emphasizing the catalytic role of the Fund. They also underscored that, given the financial benefits, staff should continue to advise PRGT-eligible countries to use concessional financing under the PRGT up to the applicable access limits before accessing resources in the GRA.

Many Directors expressed concern that application of the criterion that a member's policy program provides a reasonably strong prospect of success could preclude members with limited institutional capacity from accessing Fund resources in amounts above the thresholds for high combined GRA and PRGT credit. They underscored the importance of giving support and attention, in particular through capacity development, to those countries facing challenges with institutional capacity.

Some Directors emphasized the need for careful communication, which highlights that the new safeguards are not intended to constrain access to Fund resources.

## **IMF Executive Board Approves a Temporary Increase in Annual Access Limits to Financial Support**

On July 13, the Executive Board of the International Monetary Fund (IMF) approved a temporary increase in the annual limits on overall access to resources in the General Resources Account and the Poverty Reduction and Growth Trust. The severe impact of the COVID-19 pandemic on global economic conditions has resulted in an unprecedented number of member countries seeking financial support from the IMF. As of July 13, 2020, 72 countries have already received financial assistance from the IMF's emergency financing instruments since the onset of the pandemic, facilitated by the doubling of annual access limits under these facilities approved by the Executive Board on April 6. Further requests for assistance, the majority of which are likely to be met

through the IMF's regular lending instruments, are expected in the months ahead.

IMF lending is subject to an annual limit on the access to resources that a country can obtain from its general resources and a separate annual limit on access under its concessional facilities. Many of the countries that have received financial support from the IMF since the onset of the pandemic have reached, or are approaching, the relevant annual access limits. Requests for financial assistance in excess of these annual limits trigger application of the relevant exceptional access framework, where the request is subject to tighter scrutiny and can be approved only if specified criteria are met.


Given the unique circumstances created by the pandemic, the IMF's Executive Board approved temporary increases in these annual access limits, to remain in effect through April 6, 2021. This will allow member countries to obtain higher levels of financial support during this time period without triggering the application of the exceptional access framework. The existing limits on cumulative access are unaffected by this temporary change.

The Executive Board also approved the temporary suspension of the limit on the number of disbursements under the Rapid Credit Facility (RCF) through April 6, 2021. This allows emergency financing to the IMF's poorest member countries to be provided more frequently over the course of a year, provided that the combined amounts of support provided under the RCF does not exceed the annual limit on access under this facility.

### *Executive Board Assessment*

Executive Directors welcomed the opportunity to consider proposals to raise the limits on annual access to Fund resources on a temporary basis. They noted that the COVID-19 pandemic had triggered a uniquely severe synchronized shock across the global economy and an ensuing surge in requests for financial support under the Fund's emergency financing instruments. While access limits under these instruments had already been increased temporarily on April 6 as part of the Fund's COVID-19 response, Directors recognized that many countries, in seeking to contain the impact of the pandemic and to lay the basis for economic recovery, would likely need additional financial support from the Fund in the coming year.

Against this background, Directors supported increases in the annual access limits in the General Resources Account (GRA) from 145 to 245 percent of quota, and under the Poverty Reduction and Growth Trust (PRGT) from 100 percent to 150 percent of quota, on a temporary basis through April 6, 2021. They also supported a temporary increase in the exceptional annual access limit under the PRGT by 50 percent of quota to 183.33 percent



of quota for the same period. While a few Directors would have preferred more moderate increases, many other Directors would have supported a larger increase in the normal annual access limit under the PRGT, in line with the increase in the limit to access to GRA resources. Directors highlighted the need to secure sufficient subsidy resources to ensure the self-sustainability of the PRGT and looked forward to discussing possible funding options in the upcoming review of concessional financing. Directors also looked forward to the planned discussion of a policy on enhanced safeguards for high-level access to combined GRA and PRGT resources. They took note of the clarifications as to how annual access should be calculated in applying the relevant annual access limits.

Directors agreed to suspend, on a temporary basis, the limit on the number of disbursements under the Rapid Credit Facility (RCF) within a 12-month period through April 6, 2021. They acknowledged that, with the temporary doubling of the limit on annual access to resources under the exogenous shocks window of the RCF, the current limit on the number of disbursements unduly constrains the flexibility with which the RCF could be used to support member countries.

Given prevailing uncertainties, Directors agreed to review the decisions adopted today before the end of 2020, taking account of the initial experience with the use of the higher access limits and of the global economic outlook at that juncture.

Directors acknowledged that possible modifications to the cumulative limits on overall access to the GRA and the PRGT would be considered in a broader discussion of the Fund's risk tolerance in the coming months. Many Directors expressed disappointment that the case for increasing these limits was not proposed for consideration in the current context, while many other Directors opposed or urged caution in considering a change that could weaken important safeguards and pose substantial risks to the Fund. Directors also recognized that these cumulative access limits do not set a ceiling on the amount of financing that a member can obtain from the Fund but rather serve as a trigger for additional scrutiny under the exceptional access framework, with the exception of hard access caps in the PRGT. Directors looked forward to an early discussion of the Fund's precautionary balances.

Directors underscored that access limits are key elements of the Fund's risk management framework, providing an important safeguard to Fund resources and preserving their revolving nature and catalytic role. They noted that, notwithstanding higher access limits to cover the pandemic period, judgment continues to be needed in determining the amount of access in individual arrangements, including in assessing the member's balance of payments need, repayment capacity, and

strength of adjustment efforts. Directors stressed the importance of enhanced scrutiny and additional safeguards for exceptional access cases. Although the increased access limits heighten risks to the Fund, many Directors pointed to potential risks from the failure of the Fund to provide adequate financial support to its members.

## **IMF Executive Board Approves New Central Bank Transparency Code**


On July 2nd, the Executive Board of the International Monetary Fund (IMF) approved the new IMF Central Bank Transparency Code (CBT). The development of the CBT follows on the Board's direction in April 2019 to update the 1999 Monetary and Financial Policies Transparency Code, and bring it in line with the recommendations of the 2017 Joint Review of the Standards and Codes Initiative, indicating the need for risk-based assessments to support policy effectiveness and address macroeconomic risks.

The accompanying paper outlines the CBT's 5-pillar framework and the proposed application of the CBT. It also notes that the CBT, its principles and the detailed practices, were developed after extensive consultation with relevant stakeholders. The preparation of the CBT benefited from guidance from a High-Level Advisory Panel, consisting of eminent former central bank governors and academics, and input from an extensive consultation process with central banks and other relevant international organizations. These engagements will help ensure that the CBT can provide strong, clear, and detailed guidance to central banks regarding their own transparency. The paper also notes the importance of the CBT for policy effectiveness and accountability in light of the wide-ranging policy measures undertaken by central bank in recent years in response to extraordinary shocks, including from the COVID-19 pandemic.

The CBT will be applicable, on a voluntary basis, to all IMF members, including less-developed economies. The modular, risk-based, and proportional set-up is well-suited to taking into account country-specific circumstances. This will also enable the CBT to serve as a tailored diagnostic tool in IMF capacity development and facilitate the voluntary use of the CBT in Financial Sector Assessment Programs and IMF surveillance, such as Article IV consultations, and in an IMF-supported program context.

### *Executive Board Assessment*

Directors welcomed the opportunity to consider the staff proposal for the Central Bank Transparency Code (CBT) and broadly endorsed its general principles. They noted that the role of central banks—in terms of expanded mandates, unconventional policy actions and complex operations—has evolved considerably in response to the



2008 financial crisis and the COVID-19 pandemic, and agreed that these changes have heightened the need for enhanced transparency.

Directors appreciated the extensive outreach by staff in the preparation of the CBT and thanked the members of the Advisory Panel for their thoughtful guidance and contributions. They noted that the CBT is a timely and useful tool for central banks to guide their transparency practices and strengthen accountability, ensuring more effective policy outcomes and better-informed dialogue with stakeholders.

Directors welcomed the voluntary nature of the CBT and its relevance for all member countries, including less-developed economies, recognizing that central banks operate in diverse environments, as highlighted in the descriptions of the range of practices for the CBT principles. They appreciated that these practices are not intended to be a tool for ranking the transparency choices of central banks and welcomed the revised practice labels.

Directors welcomed the CBT's acknowledgement of the trade-offs between transparency and the legitimate need for confidentiality, as well as the role of country-specific circumstances, including the legal and institutional frameworks, in defining these trade-offs. They

appreciated that the CBT recognizes these needs in the context of market sensitive issues, financial stability considerations, and personal data, but some saw scope for a broader definition of qualified confidentiality reasons. In the context of currency unions, a number of Directors were concerned that publishing voting behavior may have important trade-offs and noted the CBT should avoid being overly prescriptive. Directors broadly endorsed the CBT principles and description of practices related to foreign exchange management, with some Directors calling for caution regarding information disclosure in this area to avoid limiting central bank flexibility and prevent speculative transactions.

Directors supported staff carrying out CBT pilot reviews on a voluntary basis and in close cooperation with the relevant authorities, while ensuring a proper representation of Fund membership, which could then be discussed by the Board. Given the competing demands on authorities and on Fund resources considering the ongoing COVID-19 crisis, a number of Directors were of the view that the two-year timeline might need to be reconsidered.

Directors supported the notion that the CBT could serve as a useful diagnostic tool in capacity development and most thought it could be helpful for Fund surveillance, on a voluntary basis.





## Country Matters

### Surveillance

#### United States of America: 2020 Article IV Consultation

##### *Executive Board Assessment*

Executive Directors broadly agreed with the thrust of the staff appraisal. They expressed sympathy for the loss of lives and economic hardship caused by the COVID-19 pandemic. They commended the authorities for their swift, extraordinary policy response to protect livelihoods and vulnerable sectors of the economy. Directors noted that the recovery will likely be gradual and subject to significant risks and uncertainty. Amid the resurgence in COVID-19 cases, a deep economic recession, and surging unemployment, Directors underscored the need to deepen public health efforts while continuing to use all policy tools to support the recovery and mitigate the scarring effects of the pandemic on the U.S. economy and society.

Directors welcomed the range of fiscal measures to provide essential lifelines to households, businesses, the healthcare sector, and sub-national governments. They agreed that an additional sizable fiscal package would be needed to strengthen health preparedness and sufficiently boost demand, including through increased federal transfers to state and local governments. Directors recognized that, once the pandemic is fully contained, medium-term fiscal adjustment will be necessary to put debt on a downward path. They welcomed the authorities' commitment to high levels of transparency and accountability in the use of public resources.

Directors noted that the pandemic has affected low-income households disproportionately, further exacerbating poverty and inequality. They recommended gearing fiscal policy toward strengthening the social safety net, incentivizing work, expanding healthcare coverage, and broadening access to quality education.

Directors appreciated the Federal Reserve's decisive response in the early stage of the crisis, which had helped maintain the smooth functioning of financial markets, ease financial conditions, and relieve strains in global dollar funding markets. With inflation and employment likely to remain below targets for an extended period, Directors saw scope for more action, including through expanded asset purchases and more explicit forward guidance, while closely monitoring potential risks to financial stability.

Directors encouraged the U.S. authorities to reverse trade restrictions and to work constructively with partner countries to resolve trade tensions and modernize the multilateral trading system. Many Directors noted that the planned introduction of currency-based countervailing duties could increase policy uncertainty, have negative spillovers, and undermine the multilateral trading and international monetary systems.

Directors observed that the U.S. financial system has been resilient in the face of the recent economic and financial shock. They called for continued vigilance given risks from the recession, rising corporate leverage, a continued migration of activity to nonbank financial institutions, and complex interlinkages among institutions and markets. Directors emphasized the need to preserve bank capital buffers and stringency of prudential requirements, enhance macroprudential tools, intensify crisis preparedness, and address data gaps. They also recommended that the authorities consider strengthening institutional arrangements for systemic risk oversight and introducing a more explicit financial stability mandate for principal regulators.

#### IMF Board Endorses Staff-Monitored Program for Sudan

The Executive Board endorsed Sudan's Staff-Monitored Program (SMP), which was approved by the Managing Director on September 9, 2020, as meeting the Upper Credit Tranche Conditionality standard.

The government requested the SMP to establish a strong track record of policy and reform implementation—a key requirement for eventual debt relief.

The 12-month SMP will support the government's home-grown program of reforms aimed at stabilizing the economy, improving competitiveness, and strengthening governance. Washington, DC: The Executive Board of the International Monetary Fund (IMF) endorsed the Staff-Monitored Program (SMP) approved by the Managing Director on September 9, 2020 as meeting the Upper Credit Tranche Conditionality (UCT) standard. [1]

Following the Executive Board discussion, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, made the following statement:

“With the move to a transitional government, Sudan now has a window of opportunity for fundamental reforms to address major macro imbalances and lay the groundwork for inclusive growth. The transitional government has laid out a home-grown program of reforms aimed at stabilizing the economy, removing distortions, improving

competitiveness, and strengthening governance. The authorities have requested an IMF Staff-Monitored Program to establish a track record on policy and reform implementation, which is a requirement for eventual debt relief visa-vis official creditors.

“The COVID-19 pandemic has compounded the challenges facing the country. Fiscal and external imbalances are large, inflation is high at 167 percent in August and rising, and competitiveness is weak. The humanitarian situation is dire with large numbers of internally displaced people and refugees.

“Under the 12-month SMP covering July 1, 2020 – June 30, 2021, the authorities plan to continue the process of eliminating large fuel subsidies making space for greater social spending, including for the Sudan Family Support Program and health spending; the tax base will also be broadened, including through the rationalization of tax exemptions. The resulting fiscal adjustment is key to reducing monetization and inflation. The authorities also intend to take measures toward a unified market-clearing exchange rate. The removal of economic distortions together with measures to improve governance will reduce opportunities for corruption and help strengthen the business environment and competitiveness. A key element to the success of the program is sufficient donor funding to support the population through the difficult transition to a well-functioning market-based economy. Strong coordination among donors and IFIs on technical assistance to Sudan will also be important.

“Sudan’s external debt is high and with longstanding arrears which severely limit access to external borrowing. In particular, Sudan remains unable to access IMF resources because of its continued arrears to the Fund. A strong track record of macroeconomic performance and implementation of reforms, together with a comprehensive strategy of arrears clearance and debt relief supported by Sudan’s development partners, is required for addressing Sudan’s high debt overhang.”

## Use of Fund Resources

### Islamic Republic of Mauritania: Fifth Review Under the Extended Credit Facility Arrangement, Augmentation and US\$52 Million Disbursement

The COVID-19 pandemic continues to impose severe health, social, and economic hardships in Mauritania, with a 3.2 percent contraction of output expected in 2020. The authorities have responded swiftly to the shock with measures to contain the pandemic and alleviate its economic fallout. They are prioritizing health spending and targeted support to the most vulnerable households and sectors in the economy.

The IMF’s support will provide additional resources to mitigate the pandemic’s socio-economic impact and continue with institutional reforms to foster an inclusive recovery.


Washington, DC: Today, the Executive Board of the International Monetary Fund (IMF) completed the fifth review under the three-year Extended Credit Facility (ECF) arrangement for the Islamic Republic of Mauritania. The arrangement was approved on December 6, 2017 with total access of SDR 115.92 million (about US\$164 million at current exchange rates), or 90 percent of Mauritania’s quota (see Press Release No. 17/468). In completing today’s review, the Board also approved the authorities’ request for an augmentation of access of SDR 20.24 million (about US\$28.7 million or 15.7 percent of quota) to address higher-than-anticipated financing needs stemming from the COVID-19 pandemic. The augmentation brings total access under the ECF arrangement to SDR 136.16 million (about US\$193 million or 105.7 percent of quota). The completion of this review allows Mauritania to draw SDR 36.80 million (about US\$52.2 million or 28.6 percent of quota).

Earlier this year, the authorities had requested emergency support under the IMF’s Rapid Credit Facility (RCF) to help address Mauritania’s urgent balance of payments need due to the COVID-19 pandemic. On April 23, 2020, the IMF’s Executive Board approved the disbursement of SDR 95.680 million (about US\$130 million at the time or 74.3 percent of quota), thereby providing space to increase spending on health services and social protection programs and helping to catalyze additional donor support (Press Release No. 20/186).

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

“The COVID-19 pandemic continues to impose severe human, economic, and social hardships in Mauritania. Economic activity has slowed down sharply and the outlook has weakened. The overall budget deficit could widen significantly, giving rise to large balance of payments and fiscal financing needs. Risks are tilted to the downside given risks of a more protracted global and domestic COVID-19 outbreak.

“Despite the difficult environment, performance under the ECF-supported program has been strong. The authorities are implementing prudent economic policies and advancing with reforms, albeit with some delays, to ensure macroeconomic stability, foster an inclusive recovery, and reduce inequalities and poverty. Their swift response to contain and mitigate the effects of the pandemic is welcome. Prioritizing health spending and targeted support to the most vulnerable households and sectors of the economy should continue. The temporary loosening of the policy stance is justified and implementation of the national COVID-19 response plan should proceed expeditiously within the 2020 supplementary budget. The central bank



has eased monetary conditions and should continue to monitor banking sector soundness. The authorities are committed to full transparency and reporting of resources deployed for the emergency response and to publishing procurement contracts, auditing crisis-mitigation spending as soon as possible, and publishing those results.

“The authorities’ continued commitment to the medium-term objectives of the economic reform program supported by the ECF arrangement is welcome. The program aims at creating fiscal space by mobilizing domestic revenues and strengthening public financial management with a view to increasing priority spending on education, health, social protection, and infrastructure while maintaining prudent borrowing policies. The authorities should return to primary budget surpluses as soon as conditions normalize to ensure debt sustainability, given the high risk of debt distress.

“The IMF’s continued financial assistance, along with other financing from the international community, will help Mauritania respond effectively to the COVID-19 crisis by providing space to increase spending on health services and social protection programs. Further external support will be needed to close prospective financing needs next year.”

### **The Federal Democratic Republic of Ethiopia: IMF Reaches a Staff-Level Agreement for the First Review of the Extended Credit Facility-Extended Fund Facility**

The COVID-19 pandemic has created large health and social needs and had a significant negative impact on economic activity.

Program performance under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) had gotten off to a good start, but the economic impact of, and policy response to, the pandemic has required a reprioritization of the near-term macroeconomic objectives.

The IMF mission reached a staff-level agreement on measures needed to address the immediate impact of the crisis, thereby setting the stage for a strong and durable recovery, and formulating a path to achieving the authorities’ objectives under their Homegrown Economic Plan as supported by the program.

Financial support from Ethiopia’s international partners, including through debt reprofiling, will be critical to addressing the economic and social impact of the pandemic and to support ongoing reform efforts.

Washington, DC: A staff team from the International Monetary Fund (IMF), led by Sonali Jain-Chandra, held discussions with the Ethiopian authorities during a virtual mission during June 5–9, June 15–19, and July 27–31, for the first review of Ethiopia’s economic program supported by the IMF’s ECF-EFF arrangements. [1]

At the conclusion of the mission, Ms. Jain-Chandra issued the following statement:

“The Ethiopian authorities and IMF team have reached a staff-level agreement on policy measures for the completion of the first review under the ECF-EFF arrangements.

“The COVID-19 pandemic has had a significant adverse impact on Ethiopia and created serious health and economic challenges. Economic growth is estimated to have slowed considerably in 2019/20, and projected to be subdued in 2020/21, with a gradual recovery expected to begin in late 2020. The main economic impact of the pandemic is expected to fall on air transport, travel and tourism, and industrial production, due to social distancing measures and weaker external demand. Risks to the economic outlook are tilted significantly to the downside, amid uncertainty regarding the magnitude and duration of the pandemic as well as other risks including the locust infestation experienced in some parts of the country.


“In the face of the unprecedented shock, the authorities have implemented a comprehensive response through measures to contain the spread of the virus and assist vulnerable households. On the fiscal front, the supplementary budget approved in May provided resources for additional healthcare and humanitarian spending and approved fiscal relief to businesses. The National Bank of Ethiopia (NBE) provided additional liquidity to support the banking system. In support of the authorities’ pandemic response, the IMF disbursed US \$412 million of emergency financing in April through its Rapid Financing Instrument.

“While performance under the ECF-EFF program had gotten off to a good start with most end-December 2019 performance criteria met, the onset of the pandemic necessitated a reexamination of near-term macroeconomic policies.

“The program review focused on implementing an effective near-term policy response to the COVID-19 crisis, thereby setting the stage for a strong and durable recovery, and formulating a path to achieving the authorities’ development objectives supported under the program. While recognizing the need to provide support for the economy in the near term, the mission welcomes the authorities’ commitment to reverting to policies to ensure macroeconomic stability and a return to sustained inclusive growth once the pandemic abates. Reforms to strengthen domestic revenue mobilization will allow Ethiopia to meet its development objectives in a sustainable manner. The indexing of recipient benefits under existing social safety net programs will ensure an increase in support provided to the most vulnerable. The authorities’ efforts to control public sector borrowing and reform the public sector will support a continued decline of the external debt to GDP ratio. Additional debt reprofiling from external creditors would also help reduce debt vulnerabilities.

“After being allowed to rise as the pandemic struck, reserve money growth should be appropriately slowed in the second half of 2020/21 to address elevated inflation as conditions





normalize. Important steps have been taken to develop the financial sector and build a modern monetary policy framework. The adoption of a roadmap to guide reforms in support of a transition over time to a market-clearing exchange rate will help address the existing foreign exchange shortage.

“Consistent with their Homegrown Economic Reform Program, the authorities are implementing reforms to boost the role of the private sector in the economy. Adoption of the new investment law earlier this year will facilitate private investment, while reforms in the telecom sector, including progress on the issuance of two new telecom licenses, will further strengthen the business environment.

During the virtual mission, the IMF team met with Minister of Finance, Ahmed Shide; Governor of the National Bank of Ethiopia, Dr. Yinager Dessie, Commissioner of the National Planning Commission, Dr. Fitsum Assefa, other government officials, representatives of the private sector, including banks, and the international donor community. The team extends its appreciation to the authorities for their cooperation and productive discussions.”

## **Arab Republic of Egypt: IMF Executive Board Approves 12-month US\$5.2 Billion Stand-By Arrangement**

The IMF approved a 12-month Stand-by Arrangement (SBA), with total access of about US\$5.2 billion to address balance of payments financing needs arising from the COVID-19. Approval of the SBA enables the immediate disbursement of about US\$2 billion.

Structural reforms will aim to continue strengthening the frameworks for public finances, improve governance and transparency, and reduce barriers to competition to ensure a path towards sustainable and inclusive private sector-led growth.

The Executive Board of the International Monetary Fund (IMF) approved today a 12-month Stand-by Arrangement for Egypt, with access equivalent to SDR 3.76 billion (about US\$5.2 billion or 184.8 percent of quota). The new arrangement aims to help Egypt cope with challenges posed by the COVID-19 pandemic by providing Fund resources to meet Egypt’s balance of payments needs and to finance the budget deficit. The Fund-supported program would also help the authorities preserve the achievements made over the past four years, support health and social spending to protect vulnerable groups, and advance a set of key structural reforms to put Egypt on a strong footing for sustained recovery with higher and more inclusive growth and job creation over the medium term.

After a strong track record of successfully completing a home-grown economic reform program supported by the IMF’s Extended Fund Facility in 2016-2019, Egypt was one

of the fastest growing emerging markets prior to the COVID-19 outbreak. However, the significant domestic and global disruptions from the pandemic have worsened the economic outlook and reshuffled policy priorities.

The authorities’ economic policy framework, supported by the SBA, aims to maintain Egypt’s macroeconomic stability with priorities to: (i) protect necessary social and health spending while avoiding an excessive build-up of public debt; (ii) anchor inflation expectation and safeguard financial stability while maintaining a flexible exchange rate; and (iii) implement key structural reforms to strengthen transparency, governance, and competition.

The Executive Board’s approval allows for an immediate purchase of the equivalent of SDR 1.4 billion (about US\$2 billion). The remainder will be phased over two reviews.

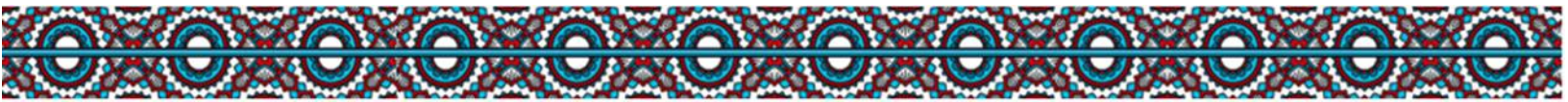
Following the Executive Board’s discussion on Egypt, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

“Over the past few years, Egypt saw strong growth, falling unemployment, moderate inflation, buildup of strong reserve buffers, and significant reduction in public debt. The authorities were looking to broaden and deepen structural reforms begun under the Extended Fund Facility, but the COVID-19 pandemic has temporarily refocused government priorities to address the economic and health crisis. The government has responded decisively to the crisis with a comprehensive package that supports health care needs, the economy, and the most affected individuals and sectors. The Central Bank of Egypt has also taken several actions to support economic activity and borrowers.

“The new Stand-By Arrangement, together with recent RFI, supports the authorities’ ongoing efforts to mitigate the economic and social impact of the crisis while maintaining macroeconomic stability and safeguarding past achievements. Together with the support of Egypt’s development partners, disbursements from the SBA will help address large financing needs.

“Policies supported by the SBA will focus on addressing the immediate crisis needs including critical spending on health, social programs to protect the most vulnerable, and assist directly affected sectors while safeguarding medium-term fiscal sustainability, anchoring inflation expectations, and preserving exchange rate flexibility. Structural reforms will aim to continue strengthening the frameworks for public finances, improve governance and transparency, and reduce barriers to competition to ensure a path towards sustainable and inclusive private sector-led growth.

“As the economic recovery takes hold, fiscal policy will need to work toward resuming the downward trajectory of public debt. The Central Bank of Egypt aims to continue to provide a stable anchor for inflation expectation and financial



stability while rebuilding reserve buffers and allowing orderly exchange rate adjustments.

"Achieving program objectives is subject to risks. At the global level, uncertainty about the severity and length of the downturn remains exceptionally high. On the domestic side, the authorities will need to continue their strong track record of steadfast policy implementation.

"Maintaining social cohesion during this crisis period will be paramount for the success of the program. Enhanced communication and transparency around the policies and their implementation will be crucial to ensure broad support for the government's reform efforts on behalf of the Egyptian people."