IEO
Independent Evaluation Office
of the International Monetary Fund

BACKGROUND PAPER

BP/23-01/08

The IMF's Engagement with Asia and Pacific Countries During the Pandemic

Susan Schadler and Joshua Wojnilower

Address. 700 19th Street, N.W., Washington, D.C. 20431, U.S.A. Telephone. +1 202 623 8623 Fax. +1 202 623 9990 Email. ieo@imf.org Website. ieo.imf.org

 BP/23-01/08

IEO Background Paper
Independent Evaluation Office
of the International Monetary Fund

The IMF's Engagement with Asia and Pacific Countries During the Pandemic[*]

Prepared by Susan Schadler[†] and Joshua Wojnilower[‡]

February 2, 2023

[*] We are grateful for inputs and editorial suggestions from Chris Towe.

[†] Consultant, Independent Evaluation Office of the IMF.

[‡] Economist, Independent Evaluation Office of the IMF.

Contents

Page

ABBREVIATIONS

ADB	Asian Development Bank
APD	Asia and Pacific Department (IMF)
ASEAN	Association of Southeast Asian Nations
BOM	Bank of Mongolia
BOP	Balance of Payments
EF	Emergency Financing
EFF	Extended Fund Facility
FDI	Foreign Direct Investment
GIR	Gross International Reserves
IFI	International Financial Institution
LOI	Letter of Intent
NAO	National Audit Office (Mongolia)
NPL	Non-Performing Loan
OECD	Organization for Economic Co-operation and Development
PBOC	People’s Bank of China
RCF	Rapid Credit Facility
REO	Regional Economic Outlook
RFI	Rapid Financing Instrument
RMG	Ready-Made Garment
SPR	Strategy, Policy, and Review Department (IMF)
UCT	Upper Credit Tranche
WEO	World Economic Outlook

EXECUTIVE SUMMARY

This paper assesses the IMF's engagement with countries covered by the Asia and Pacific Department (APD) during the COVID-19 pandemic, focusing on the period from January 2020 to April 2021. The paper briefly describes the Fund's overall engagement with the region and then reviews the experience of two countries that received emergency financing (EF): Bangladesh and Mongolia.

The region's take-up of EF was, from a global perspective, comparatively small. This, partly reflected the fact that many countries had access to other sources of financing, including from other International Financial Institutions (IFIs) and bilateral lenders, which were less expensive, included fewer conditions, and carried less stigma. Only nine of the 30 emerging market and developing economies in the region received EF and, since most of the countries receiving assistance were relatively small, the total amount was only $2.2 billion (compared to a global total of $31.8 billion). For these countries, however, EF was negotiated quickly, and access usually was provided up to Fund-wide limits, consistent with the Fund's overall strategy.

Relations with other IFIs, especially the Asian Development Bank (ADB) and World Bank, appear to have been effective. The IMF wrote a substantial number of assessment letters at the request of other multilaterals. ADB staff noted that the IMF was "unusually helpful" in providing assessment letters and spoke highly of the "timeliness" with which the letters were provided. The IMF's financing and assessment letters may have played a useful catalytic role in supporting the ability of member countries to tap additional financing, even when the Fund itself was not providing financing.

In Bangladesh and Mongolia, the Fund's financing was appreciated greatly. Fund resources, however, accounted for only a small share of balance of payments (BOP) financing as other lenders—the ADB, World Bank and bilateral lenders—also provided considerable support. Unsurprisingly, the pandemic led to some erosion of earlier reform efforts, especially in the banking sector where the pandemic, together with policy responses, likely increased already high levels of non-performing loans (NPLs) and reduced the capital adequacy of some banks. Fund staff was limited in their ability to prevent this backsliding given the absence of most conditionality in the EF framework. Fund staff could have insisted on prior actions to reduce the risks of such outcomes, but such actions would have likely led to somewhat slower disbursement of EF. However, such steps may not have helped much and would have been inconsistent with the Fund's broader strategy to move quickly with EF.

Overall, while the framework for provision of EF worked quite well, some changes might improve the Fund's effectiveness in lending in future emergency situations. One possibility would be to increase the use of prior actions or tranched disbursements to better balance the need for rapid financing with measures that promote macro-financial stability and reduce repayment risks. Additionally, the IMF could review the current list of governance safeguards to ensure that commitments are verifiable and that IMF staff have the expertise to monitor them.

I. INTRODUCTION

1. **Purpose.** This paper assesses the IMF's engagement with countries covered by the Asia and Pacific Department (APD) during the pandemic, drawing in particular on the experience of Bangladesh and Mongolia, two countries that received such financing early in the pandemic. The paper also briefly describes APD's broader strategy for helping the region secure adequate financial support and its overall engagement with the region, including its policy advice over the course of the pandemic.

2. **Evaluation period and sources.** The focus of the assessment is on the period from January 2020 to April 2021. For the two country cases, the narrative is based on internal documents provided by APD, interviews with the IMF mission chiefs during 2020–21, several country team members (including resident representatives), senior reviewers within APD and the Strategy, Policy and Review (SPR) Department, and country authorities. We also interviewed APD senior staff who were involved in crafting the department's strategy and financing decisions, staff who put together APD's Regional Economic Outlook (REO) reports, and Executive Directors and their advisors.

3. **Structure.** Section II summarizes developments in the region during the pandemic and APD's response to helping countries through policy advice and financing.[1] Sections III and IV present the case studies, including our assessment of IMF performance in each case. Section V draws common lessons from the experience.

II. IMF'S ENGAGEMENT WITH THE REGION

A. Developments and Policy Response

4. **Pre-pandemic conditions.** The Asia-Pacific region comprises a very diverse set of countries, including low-income and conflict-affected states, small island states, large emerging economies, and advanced economies. Prior to the pandemic, the region was the world's fastest growing, contributing two-thirds of global growth. However, APD's October 2019 REO projected that regional growth would moderate in 2019 and 2020, owing to the effect of trade disputes and policy uncertainty on investment and manufacturing, with risks skewed to the downside (IMF, 2019). Countries were advised to proactively use structural policies to "lay the foundation for high, inclusive, and environmentally sustainable economic growth in the medium term."

5. **Onset of the pandemic.** The Asia-Pacific region was the initial epicenter for the pandemic. In an April 2020 briefing to the Fund's Board, APD provided a detailed and strong warning that COVID-19 was going to significantly derail the earlier growth outlook (IMF, 2020a). Although the policy response within the region was seen to be very supportive, staff expected

[1] The Fund's capacity development and technical assistance work during the pandemic are covered in a separate IEO evaluation (IEO, 2022) and summarized in a background paper for this evaluation (Batini and Wojnilower, 2023).

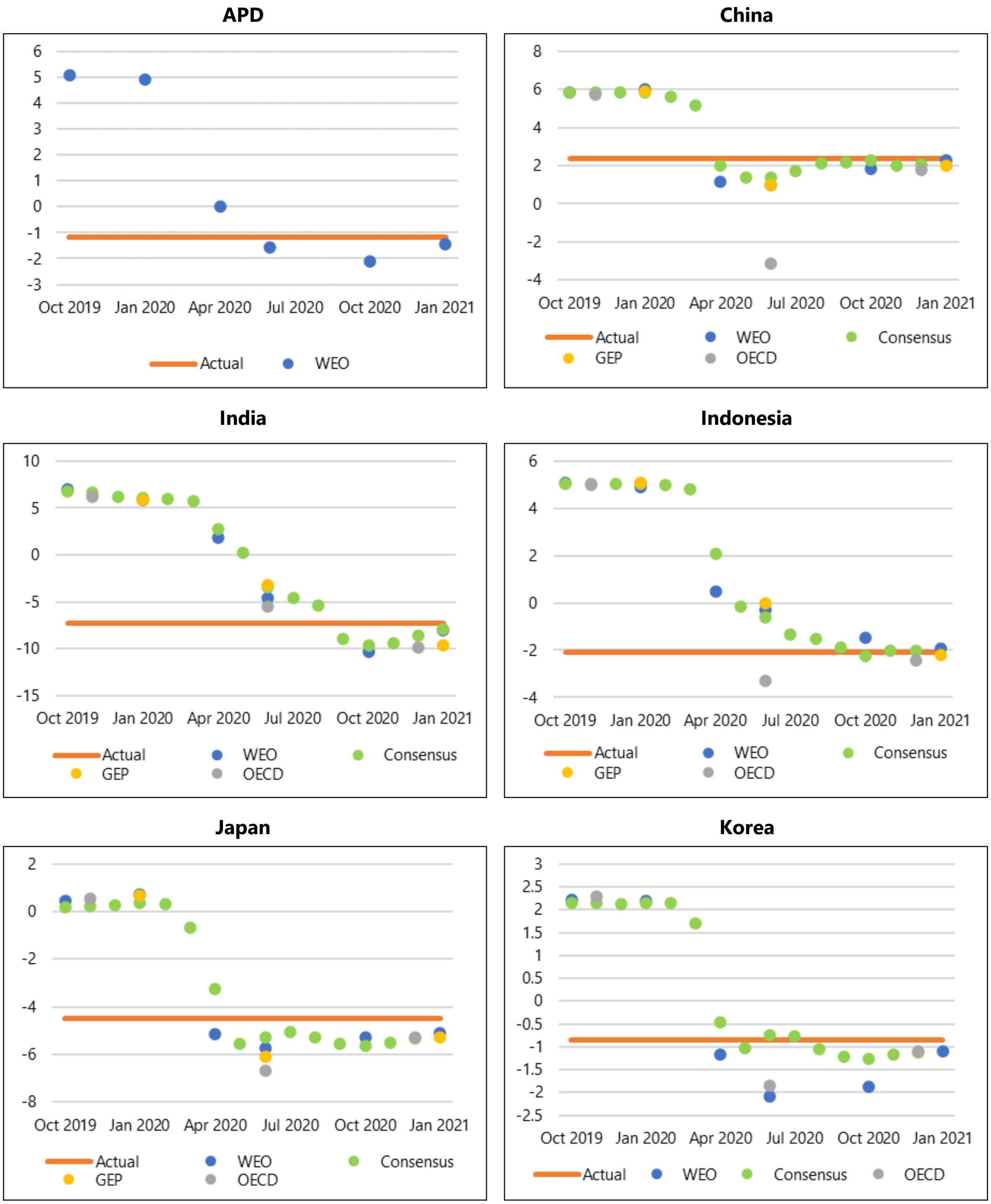
that the stimulus would be more than offset by the direct effects of the pandemic on health, by the impact of lockdowns, and by spillovers from weaker demand from other countries. APD's briefing also highlighted that lockdowns and travel restrictions would be especially damaging to the services sector and tourism; that many countries in the region were particularly vulnerable to disruptions in global supply chains; and that the region was likely to be affected by the selloff in international capital markets that followed the pandemic's onset.

6. **Growth forecasts for 2020.** In the April 2020 World Economic Outlook (WEO) forecasts, regional GDP was expected to be roughly unchanged in 2020, compared with the 5 percent increase previously expected (IMF, 2020b). Growth forecasts for China, India, Indonesia, Japan, and Korea were marked down substantially (Figure 1). As discussed in greater detail in Loungani and others (2023), in the June 2020 WEO Update, growth forecasts were reduced further for the major economies, including those in Asia, reflecting staff's dire assessment of prospects at that time (IMF, 2020e). Forecasts made by the private sector (Consensus Forecasts) and other official agencies (the World Bank and the Organization for Economic Co-operation and Development (OECD)) followed a similar trajectory, though the IMF was more pessimistic than other sources in a few cases such as Korea (Figure 1).

7. **Policy response by governments.** The Asia-Pacific region was quick to introduce significant policy measures to help cushion the effects of the pandemic. Large fiscal packages were introduced in many countries, although the size of these measures typically was lower than in advanced economies in other regions, partly owing to concerns about limited policy space. In addition, many countries, especially Japan and Korea, provided significant "below-the-line" fiscal support in the form of loan guarantees, and countries in East Asia and South Asia expanded social assistance programs significantly, using both cash and in-kind assistance. Most countries eased monetary policies, by cutting interest rates, and many of the advanced countries in the region utilized quantitative easing.

8. **Recalibration of 2020 forecasts and advice.** By mid-2020, it became clear that the region was suffering relatively low infection rates, largely owing to the stringency (and acceptance) of lockdowns and similar policies. The October 2020 REO's focus was on "navigating the recovery," though overall GDP for the region was still expected to fall in 2020 by 2 percent (IMF, 2020g). The still-significant downside risks prompted staff to call for sustained, and in some cases increased, policy stimulus. Emphasis was laid on health care and containment measures, and on increased efforts to target fiscal support "at the most vulnerable where fiscal multipliers are highest." The October 2020 REO, however, also expressed concern about rising public debt and encouraged the adoption of credible medium-term fiscal plans that would be key to securing debt sustainability (IMF, 2020g). Monetary policy should remain supportive, and care was needed to monitor private sector financial fragilities, especially where debt levels were high. Efforts also were needed to reduce the long-term scarring effects of the pandemic by keeping "workers connected to the labor force and solvent firms in business while allowing nonviable firms to exit."

Figure 1. Forecasts for Real GDP Growth in 2020
(In percent)



Sources: IMF WEO; Consensus Economics; OECD Economic Outlook, World Bank Global Economic Perspectives.

9. **2020 outcomes.** The October forecasts for real GDP growth turned out a bit too pessimistic. In the event, regional GDP fell by 1¼ percent in 2020, close to the earlier June estimate, and somewhat less than the drop in the global average (Figure 1). However, Japan, the Association of Southeast Asian Nations (ASEAN)-5 economies, and India were particularly hard hit, reflecting their exposure to global demand and supply chains, as well as the effects of stringent lockdowns. The Pacific Islands and other small states in the region were also badly affected by the collapse in tourism. China's growth slowed but still remained positive, despite being the initial epicenter of the pandemic and having imposed severe lockdown measures.

10. **Evolving Fund policy advice.** With growing confidence in early 2021 that recoveries within the region were in train, APD's policy advice moved squarely to the post-pandemic policy stance.[2] There remained a call for fiscal support to remain in place until private demand had recovered, a warning to avoid a too hasty and large a shift in stance, and encouragement for anchoring public debt in "credible medium-term frameworks" (Ostry, 2021). Moreover, monetary policymakers were encouraged to be "data-dependent and attendant to macroeconomic and financial stability risks." However, the department's optimism was reflected in an increased emphasis on addressing longer-term structural issues, including a call for reallocating resources toward "new dynamic (green and digital) sectors" and for policies to ensure that recoveries provided "equality of opportunity." Although growth in the region ultimately rebounded to 6.5 percent in 2021, the divergence between advanced and emerging economies expanded largely due to differences in vaccine coverage and policy support (IMF, 2021b).

B. Strategy and Financing Decisions

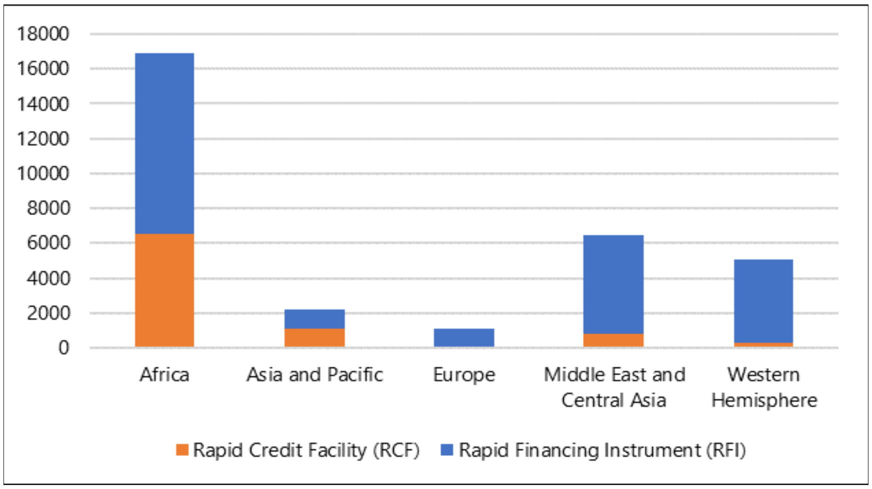
11. **The Fund's emergency support to the region.** Although APD's briefing to the Board in April 2020 anticipated substantial EF assistance, the region's take-up was comparatively limited (IMF, 2020a). Only 9 of the 30 emerging market and developing economies in the region received EF and, since most of the countries receiving assistance were relatively small, the total amount was only $2.2 billion (compared to a global total of $31.8 billion) (Figure 2). Additionally, there were no Upper Credit Tranche (UCT) disbursements to countries in the region during the evaluation period and no use of precautionary facilities either.

12. **Reasons for limited take-up:** Interviews with staff suggested that the relatively limited amount of financial assistance to the region partly reflected the fact that only two countries (Mongolia and Sri Lanka) had program engagement with the Fund immediately prior to the pandemic. It was also the case that countries had access to other sources of financing, including from other International Financial Institutions (IFIs) and bilateral lenders, which were less expensive, included fewer conditions, and carried less stigma. Moreover, other IFIs had logistical and other advantages that came with a greater regional presence. Nevertheless, the regional financial safety net—the Chiang Mai Initiative—was not used by any of its 10 members. Besides

[2] For details, see APD's April 13, 2021, IMFBlog post "After a Strong Crisis Response, Asia can Build a Fairer and Greener Future" (Ostry, 2021).

providing EF, APD placed an emphasis on the provision of technical assistance to the region, and actively sought to overcome the challenges posed by travel restrictions and large time zone differences by taking steps to improve engagement with country officials through webinars and virtual meetings.

Figure 2. The Fund's Emergency Financing by Region
(In USD millions)



Source: IMF.

13. **Access decisions.** Consistent with the Fund's overall strategy, EF was negotiated quickly, and access usually was provided up to Fund-wide limits. In six of the nine APD countries that received EF, the countries obtained the full 100 percent of quota (Figure 3). Special circumstances limited initial access to no more than 50 percent of quota in the other three cases:

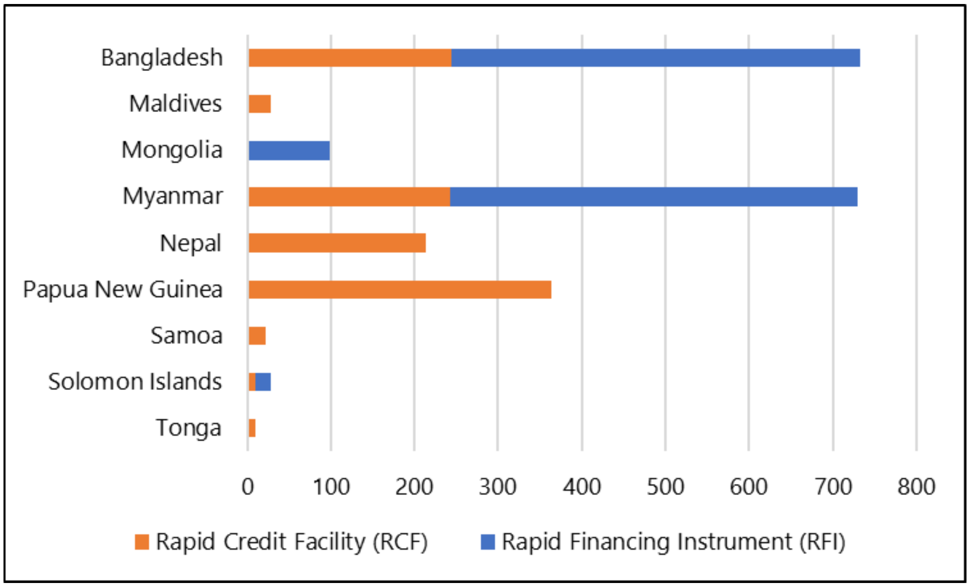
- As discussed further in Section III, Bangladesh only requested 50 percent of quota through a Rapid Credit Facility (RCF)-Rapid Financing Instrument (RFI) blend because lower cost, concessional financing was available from other sources

- Estimates of Myanmar's financing gap in June 2020 made it eligible to receive EF equivalent to only 50 percent of quota. When financing needs increased significantly in the following months, Myanmar became eligible for an additional 50 percent of quota in EF in November 2020.

- Tonga initially received only 50 percent of quota through an RCF due to the possibility of additional emergency financing needs in the short term given Tonga's large exposure to natural disasters.[3]

[3] Tonga received a second RCF disbursement (50 percent of quota) in 2022 following a major volcanic eruption and tsunami in early 2022.

Figure 3. The Fund's Emergency Financing in Asia and the Pacific
(In USD millions)



Source: IMF.

14. **Countries that did not access EF.** A sizable number of low- and middle-income countries did not access Fund financing of any sort during March 2020–December 2021. Based on discussions with APD staff, these countries can be divided as follows:

- In four cases (Bhutan, Brunei Darussalam, China, and India), the countries themselves decided that they did not need additional official external borrowing, preferring to rely on borrowing from private markets, use of international reserves, and exchange rate adjustments to meet COVID-related external financing needs.

- Another 15 countries (Cambodia, Fiji, Indonesia, Kiribati, Malaysia, Marshall Islands, Micronesia, Nauru, Palau, Philippines, Thailand, Timor Leste, Tuvalu, Vanuatu, and Vietnam) preferred to rely on other official sources like the World Bank and other multilateral development banks and did not request EF from the Fund.

- As for the remaining two cases, Sri Lanka was not provided access because the country was judged by Fund staff not to satisfy criteria for EF related to debt sustainability and Lao P.D.R. did not have an active relationship with the Fund and did not request access.

15. **Safeguards assessment and governance safeguards.** In addition to the standard safeguards assessment to ensure that the country's central bank is able to manage the IMF resources it receives and provide reliable information, the Letters of Intent (LOIs) for EF requests contained the following governance safeguards: (i) to publish COVID-related public procurement contracts and to secure ex post validation of delivery; (ii) to collect and publish the names of awarded companies and their beneficial owners; (iii) to publish information on COVID-related

government spending; and (iv) to undertake an independent audit of COVID-related spending, and to publish those results (IMF, 2021a). In interviews, APD staff expressed some concern about the uneven application of governance safeguards across countries. Since it took the IMF some time to enhance its attention to COVID-related governance protections, requests for EF in March and April 2020 generally included fewer governance commitments than requests from May 2020 onwards (Kincaid, Cohen-Setton, and Li, 2023). Staff were also worried that some of the requirements—i.e., with regard to assessing beneficial ownership—exposed the Fund to reputational risks since they were not within the Fund's area of expertise and/or were not possible to verify.

16. **Relationship with partner agencies.** Relations with other IFIs, including the World Bank, Asian Development Bank (ADB), and Chiang Mai Initiative, appear to have been effective. ADB staff interviewed noted there was a lot of collaboration on the ground but it "could have been better at higher levels." APD was frequently asked to provide assessment letters to these other bodies to help support their lending programs within the region, including for many countries not using IMF financing. ADB staff interviewed confirmed that the IMF was "unusually helpful" in providing assessment letters and spoke highly of the "timeliness" with which the letters were provided. In total, the IMF provided assessment letters to the ADB for 20 APD countries during 2020 and 9 APD countries in 2021 (Table 1). Separately, the IMF provided assessment letters to the Asian Infrastructure Investment Bank (AIIB) and the World Bank for several APD countries during 2020 and 2021 (Table 1).

Table 1. IMF Assessment Letters for APD Countries, 2020–21

	Asian Development Bank	Asian Infrastructure Investment Bank	World Bank
2020	Bangladesh, Bhutan, China, Fiji, India, Indonesia, Kiribati, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, Palau, Philippines, Solomon Islands, Thailand, Tonga, Tuvalu, Vanuatu	Bangladesh, Fiji, Indonesia, Philippines, Thailand	Bangladesh, Bhutan, Fiji, India, Indonesia, Kiribati, Nepal, Philippines, Tonga, Vietnam
2021	Bangladesh, Bhutan, Cambodia, India, Indonesia, Palau, Papua New Guinea, Philippines, Tonga	Bangladesh	Bangladesh, Bhutan, India, Indonesia, Nepal, Papua New Guinea, Philippines, Solomon Islands, Tonga

Source: IMF.
Note: The IMF also provided assessment letters to the ADB, AIIB, and WB for non-APD countries. Those countries are not listed.

III. BANGLADESH

A. Background and Economic Developments

17. **Pre-pandemic conditions.** Bangladesh enjoyed average GDP growth close to 7 percent in the decade leading up to the pandemic. This robust growth was due largely to the success of the ready-made garment (RMG) sector and aided by significant flows of remittances. Inflation had averaged under 6 percent. The authorities consistently were conservative on fiscal policy,

resulting in a public debt-to-GDP ratio of 31 percent in 2019 (Table 2). Modest current account deficits were readily financed by concessional financing, though the government aimed to put in place conditions to enable it to tap the market. An extended credit facility during 2012–15 had supported structural reforms, but staff continued to press for tax policies to address chronically low revenues and measures to address weaknesses in the banking sector, especially non-performing loans (NPLs) in state-owned banks. Reserves were at a comfortable six months of imports at end-2019.

Table 2. Bangladesh: Selected Economic Indicators

	FY2019 Actual[1]	FY2020 Projections Pre-COVID[2]	FY2020 Projections May Program[3]	FY2020 June WEO	FY2020 Actual[1]	FY2021 Actual[1]	FY2022 Estimates[1]
GDP growth (Percent)	7.9	7.4	3.8	-1.9	3.4	6.9	6.4
Inflation (Percent)	5.5	5.5	5.7	5.4	5.6	5.6	6.2
Budget balance (Percent GDP)	-5.4	-4.8	-6.3	-6.3	-4.8	-3.6	-5.1
Government debt (Percent GDP)	31.1	35.3	39.1	39	34.1	35.5	36.3
Current account balance (Percent GDP)	-1.3	-2.1	-2.2	-2.7	-1.5	-1.1	-3.7
External public debt (Percent GDP)	13	14.5	16.0	14.9	14.2	15.0	15.5
Official reserves (USD billions)	32.7	33.4	30.7	27.7	36.0	46.4	36.0

Source: IMF.
Note: Fiscal year ends on June 30. For example, FY2020 ended on June 30, 2020.
[1] WEO database, July 2022.
[2] WEO database, January 2020.
[3] Staff Report for RFI/RCF Request (IMF, 2020c).

18. **Impact of the pandemic.** Early concerns about the health effects of the pandemic prompted the government to declare a general holiday, closing most public and private workplaces during late-March through end-May 2020. More stringent lockdowns were imposed in parts of the capital, Dhaka, and as a precautionary measure in Rohingya refugee camps. These measures were partly responsible for the relatively low initial infection and death rates, and manageable demands on hospitals, but took a toll on economic activity—in the fourth quarter of FY2020 (i.e., by June 2020), exports contracted sharply, driven by a drop in RMG orders, and remittances fell significantly.

19. **Initial staff projections.** Staff projections contained in the May 2020 RCF-RFI request documents envisaged a drop in GDP growth to 3.8 percent in FY2020 recovering to 5.7 percent in FY2021, with sharp drops in activity anticipated to occur in the last quarter of FY2020 and first quarter of FY2021 (IMF, 2020c) (Table 2). All components of demand were expected to be weak, with exports expected to be hit hardest. In April 2020, exports contracted by 83 percent year-on-year following only a slight decline through the first three quarters of FY2020. Despite a projected weakening of imports and stable terms of trade, the current account deficit was projected to rise sharply and reach 3.5 percent of GDP in FY2021.

20. **Concerns.** The lender community and RMG manufacturers put strong pressure on the authorities to implement supportive macroeconomic policies. A particular concern of lenders was the Rohingya refugee camps, where a COVID outbreak would have been devastating. RMG manufacturers, alarmed about a rash of canceled orders at the beginning of the pandemic, urged the government to take measures to support to the sector. Interlocutors described the authorities as feeling more confident that they could handle the situation, in part due to Bangladesh's long experience in dealing with crises involving refugees and floods.

21. **Fiscal policy response.** The government launched a stimulus package equivalent to about 3.6 percent of GDP focusing on support for the health sector, transfers to the vulnerable population, and support for industries affected by the pandemic. A significant portion of the spending (especially support for retention of workers) took place through bank lending at preferential rates. In interviews, Fund staff noted that they had recommended direct transfers of funds to businesses. The authorities, however, did not believe they had the capacity to implement these transfers effectively and that banks had better contacts with businesses needing support.

22. **Monetary policy.** Monetary policy was eased through a variety of measures: modest reductions in both the repo rate and cash reserve requirements, quantitative easing, increasing the advance/investment-deposit ratio, and relaxation of foreign exchange regulations for trade and non-trade transactions.

B. Engagement with the IMF

23. **May 2020 RCF-RFI.** The authorities requested EF from the Fund in May 2020. Apart from meeting the standard conditions regarding debt sustainability, capacity to repay the Fund, and a commitment not to impose new restrictions on current transactions, the arrangement included no prior actions. That said the authorities committed to a new safeguards assessment on central bank financial management as well as to undertaking an ex post auditing of COVID-19 spending and procurement processes. The arrangement for the equivalent of 50 percent of quota was approved on May 29, 2020.

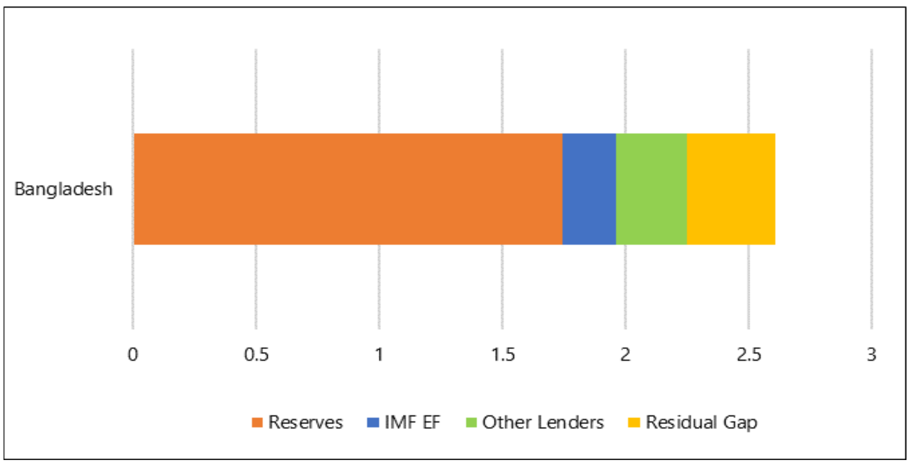
24. **Banking sector.** A Financial Sector Stability Review, conducted by the IMF in September 2019, had identified "high levels of non-performing loans (NPLs) and weak capital positions" at the state-owned banks as a prominent challenge (IMF, 2020f). At the onset of the pandemic, in March 2020, the authorities froze reclassifications and instituted a loan moratorium initially through September 2020 and ultimately through December 2020. Since the banking sector would bear the entire credit risk of the stimulus package, the RCF-RFI request stated that Bangladesh Bank would "need to monitor closely banking sector conditions given the elevated level of nonperforming loans (NPLs)" (IMF, 2020c).

25. **Access.** The authorities held discussions with several lenders while engaged with the IMF about prospects for EF. Concerned about the relatively high cost of IMF financing, the authorities requested that all Fund financing come through the RCF, on concessional terms. In line with Fund

policies on PRGT and GRA access and the applicable income criterion, staff offered a blended arrangement of one-third RCF and two-thirds RFI. The authorities agreed to blended financing because it likely would catalyze other resources, but limited their request to 50 percent of quota as other concessional lender financing was expected to be available at lower cost.

26. **Reliance on international reserves.** Large use of international reserves was assumed as the RCF-RFI request went to the Board (Figure 4). Including use of reserves, the external financing gap amounted to $8.7 billion, about 2.6 percent of GDP and 28 percent of gross international reserves (GIR). Of that need, only $1.65 billion was expected to be filled through net use of Fund resources (EF equivalent to ~$0.7 billion) and support from the World Bank and ADB ($350 million and $600 million, respectively). The limited amount of identified external financing sources meant that a sharp reduction in GIR (around $5.8 billion or 1.7 percent of GDP) was anticipated.

Figure 4. Bangladesh's Ex Ante Balance of Payments Gap
(In percent of GDP)



Source: IEO calculations based on data from the Staff Report for RCF/RFI Request (IMF, 2020c).

27. **Governance safeguards.** By the time Bangladesh's RCF-RFI was approved, the Fund had established clearer guidelines for safeguards on pandemic-related spending. The government agreed "to undergo a safeguard[s] assessment, provide Fund staff with access to its central bank's most recently completed external audit report, and authorize its external auditors to hold discussions with Fund staff" (IMF, 2020c). Moreover, to ensure that crisis resources were used transparently and effectively, the government agreed to publish reports on public procurement contracts as well as results from an audit of pandemic-related spending. The 2021 Article IV reviewed these commitments and noted the authorities had made progress (IMF, 2022). Specifically, the authorities underwent a safeguards assessment of the central bank's governance and control framework and published reports on public procurement contracts. The authorities also undertook three audits of pandemic-related spending and collected information on beneficial ownership of awarded entities, however, this information had yet to be published.

28. **Second and third waves of infection.** The second and third waves of infection (starting in November 2020 and March 2021, respectively) were relatively punishing. Despite reactivation of domestic containment measures, these waves took a far greater toll on health and the healthcare system than did the initial wave. Vaccinations—for which foreign funding was available—began in January 2021, but supply was inadequate and complete coverage of the population was expected to take two years.

29. **Economic activity.** Economic activity was largely as projected in the RCF-RFI documents—buoyed by a strong external sector but held back by slow growth of domestic demand. Exports and remittances proved far stronger than had been feared. After a sharp year-on-year contraction in March–May 2020, exports recovered rapidly in the first half of FY2021 (i.e., July–December 2020) and remained strong through the rest of the fiscal year. Remittances surged, substantially surpassing their year earlier level during FY2021. Domestic demand, although supported by remittances, counter-cyclical fiscal policy, and easy monetary policy, grew slowly, presumably owing to containment measures in the face of the pandemic's second and third waves. GDP growth recovered to 6.9 percent in FY2021 and 6.4 percent in FY2022. CPI inflation remained flat around 5.6 percent (year-on-year) at the end of FY2020 and FY2021, before rising slightly in FY2022.

30. **Financing.** Financing on both the external and fiscal accounts far exceeded expectations. Not only was the external financing need less than half of that projected, but non-foreign direct investment (FDI) inflows also were many multiples of the amounts projected reflecting the surge in remittances. The result was a very large build-up in official reserves, in contrast to the large reduction expected; reserves at end-FY2021 (i.e., June 2021) at 7½ months of imports were at a historical peak. Fiscal performance was similar. Deficits were somewhat smaller and foreign financing significantly larger than projected; domestic financing (mainly from banks) therefore was lower. With ample financing available, the authorities initially did not express interest in a follow-up UCT program.[4]

31. **External debt.** Both central government and external debt remained sustainable. With a sizable share of pandemic-related expenditure financed by concessional inflows, government debt relative to GDP rose from about 31 percent in FY2019 to 36 percent in FY2022. External debt relative to GDP also edged up slightly.

[4] Subsequently, Bangladesh's economic recovery from the pandemic was interrupted by Russia's war in Ukraine, leading to a sharp widening of the current account deficit, decline of foreign exchange reserves, rising inflation and slowing growth. A staff-level agreement was reached in November 2022 on a 42-month arrangement of about $3.2 billion under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) as well as of about $1.3 billion under the Resilience and Sustainability Facility (RSF). The ECF/EFF blended arrangement aims to preserve macroeconomic stability and support growth. The RSF is expected to support Bangladesh's climate investment needs, catalyze climate financing, and reduce balance of payment pressures from import-intensive climate investment.

C. Assessment

32. **Overall assessment.** The authorities were appreciative of the quick disbursement of funding through the RCF-RFI. Though they asked to receive all funding through the concessional RCF, they ultimately accepted the factors that made this impossible. All told, the experience seems to have strengthened an already good relationship between the authorities and the Fund.

33. **Staff analysis and projections.** The overall assessment of the economic impact of the pandemic was fairly accurate. Though domestic activity was dented in each wave, the external sector rebounded faster and more than expected, recovering to pre-pandemic levels by mid-FY2021. This reflected, in part, fiscal support to the health sector and vulnerable parts of the population. It also reflected an overestimate of the dampening effect of the pandemic on exports and remittances, which is understandable given the difficulty in assessing how remittance inflows and the RMG markets would respond to the pandemic.

34. **Catalytic effect of IMF support.** External financing was ample, helping to avoid a run-down of reserves prior to the recent macroeconomic shock related to the war in Ukraine. Though Fund resources accounted for about 8 percent of total ex ante balance of payments (BOP) financing, other lenders—the ADB, World Bank and bilateral lenders—also contributed generously. The IMF's financial support and assessment letter may have catalyzed the ADB's financing, though Fund staff believed that financing outcomes would have been similar without IMF support given strong lender support for the country.

35. **Reform efforts.** Unsurprisingly, the pandemic led to some erosion of earlier reform efforts, especially in the banking sector where regulatory decisions likely further increased the level of NPLs. Even given the lack of ex post conditionality involved with the Fund's EF, an open question is whether greater efforts could have been made to obtain policy commitments from the authorities for the LOI. For example, government disbursement of emergency support to businesses could have been made contingent on registration with the government, with the benefit of pulling firms into the formal sector. The authorities resisted suggestions along this line and the mission team had no brief to pursue them.

IV. MONGOLIA

A. Background and Economic Developments

36. **Pre-pandemic conditions.** The Mongolia economy is highly dependent on mineral exports and on its ties to China: minerals comprise 90 percent of exports and 90 percent of exports go to China. These features produced a history of boom-bust cycles, exacerbated during 2012–16 by pro-cyclical fiscal and credit policies and an overvalued currency. An extended fund facility (EFF) approved in mid-2017 made some inroads into tackling these problems: strong fiscal revenues were channeled into surpluses; public debt dropped from nearly 90 percent of GDP in 2016 to 79 percent in 2019; GIR tripled over those years, though net reserves still hovered

around zero; and the real value of the Togrog rate fell. Large official and private inflows fed booming investment in minerals and large current account deficits. Although an EFF review stalled in early 2019 (mainly over issues related to bank supervision and recapitalization), growth remained strong, inflation low, and the fiscal account in surplus.

37. **Impact of the pandemic.** In early 2020, the government acted aggressively and successfully to contain the pandemic. Confirmed cases and deaths were exceptionally low until November when infections surged, and containment measures were renewed.

38. **Initial staff projections.** The pandemic was expected to take a substantial economic toll. Staff projections foresaw falling mineral exports to China, bottlenecks in foreign investment in a large mining project, and weak domestic demand contracting GDP by 1 percent in 2020 (IMF, 2020d) (Table 3). A recovery was expected to start mid-year. Inflation was expected to fall sharply then rise as recovery took hold. A minimal net impact on the current account balance meant that the deficit would remain about 16 percent of GDP. The authorities saw upside risks to the GDP projection.

Table 3. Mongolia: Selected Economic Indicators

	2019 Actual[1]	2020 Projections Pre-Covid[2]	2020 Projections June Program[3]	2020 June WEO	2020 Actual[1]	2021 Actual[1]
GDP growth (Percent)	5.6	5.0	-1.0	-1.0	-4.6	1.4
Inflation (Percent)	5.2	7.4	6.0	6.0	2.3	13.5
Budget balance (Percent of GDP)	0.9	-1.1	-5.2	-5.3	-9.2	-3.5
Government debt (Percent of GDP)	78.5	69.6	77.3	n/a	91.3	94.7
Current account balance (Percent of GDP)	-15.2	-12.9	-15.8	-10.2	-5.1	-13.0
External public debt (Percent of GDP)	74.4	66.5	72.0	n/a	87.9	90.6
Official reserves (USD billions)	4.3	4.5	3.3	3.7	4.5	4.4

Source: IMF.
Note: Fiscal year ends December 31.
[1] WEO database, July 2022.
[2] WEO database, January 2020.
[3] Staff Report for RFI Request (IMF, 2020d).

39. **Fiscal policy response.** The (pre-pandemic) 2020 budget had envisaged a sizable drop in the primary fiscal surplus owing to a jump in spending while revenues slowed. The immediate fiscal response to the pandemic was to redirect some 5 percent of GDP in the current and capital budgets to support vulnerable groups. Automatic stabilizers were to work through a fall in projected revenue, leaving a primary deficit of 3 percent of GDP. Staff saw the proposed stance and broad composition of expenditure as appropriate and consistent with debt sustainability (IMF, 2020d). Nevertheless, staff questioned the adequacy of health spending allocations should the pandemic turn out worse than expected.

40. **Monetary policy.** Monetary policy, significantly eased in Q1, was to remain supportive. Staff cautioned, however, against further interest rate cuts and pressed for restraint in foreign exchange market intervention, both to allow depreciation and build reserves. Staff were also

concerned about the responsibility placed on both the Bank of Mongolia (BOM) and commercial banks for a substantial share of stimulus: Parliament instructed the BOM to engage in specific quasi-fiscal activities (providing for debt relief to the elderly, subsidizing mortgages, and giving concessional loans to gold miners); for commercial banks, prudential requirements, loan classifications, and restructuring standards were eased, principal and interest payments due to banks were extended, and requirements for special capital buffers were suspended.

B. Engagement with the IMF

41. **Program discussions and political context.** In early 2020, the authorities had been discussing with staff a revival of the EFF. Although agreement on fiscal policy had been reached, the talks once again fell apart over banking system reform and restructuring. At that point, the focus of discussions switched to an RFI purchase. A general election was scheduled for June 2020. The politically sensitive EFF, which was to expire in May 2020, had become an election issue, and the government was eager to have a lending relationship with the Fund, but not to have conditionality. Thus, the authorities saw the RFI as providing both needed financing and a helpful political boost.

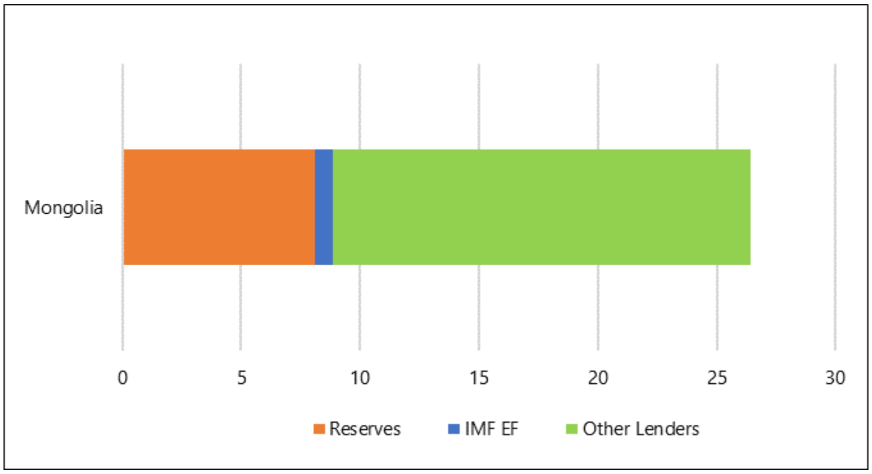
42. **May 2020 RFI.** The authorities requested EF from the Fund in May 2020. Apart from meeting the standard assurances regarding debt sustainability, capacity to repay the Fund, and a commitment not to impose new restrictions on current transactions, the arrangement included no prior actions or ex post conditionality. However, the authorities committed to undergoing a new safeguards assessment of the central bank's governance and control framework as well as ex-post auditing of COVID-19 spending and procurement processes. The disbursement for the equivalent of 100 percent of quota was approved on June 3, 2020.

43. **Banking sector concerns.** Staff viewed the Parliamentary decision to channel a significant share of social support through the BOM as inappropriate. Apart from adverse effects on transparency and the balance sheet of the BOM, these activities threatened to feed excessive credit expansion (and related loss of reserves) and to undermine BOM independence. Thus, the LOI included commitments by the authorities to: "(1) limit all quasi-fiscal activities by the BOM—including those initiatives tasked in the Anti-Pandemic Law—to MNT800 billion (2 percent of GDP); (2) stop quasi-fiscal spending starting in January 2021; and (3) fully disclose them (sic) in BOM's audited financial statements which we will publish on the BOM website" (IMF, 2020d). Neither Fund staff nor the BOM regarded these as binding commitments—and they were ultimately not adhered to. Staff, in interviews, also expressed concern about the impact of temporary financial forbearance measures on the banking sector's health. Staff felt that these measures could damage bank balance sheets and, if not reversed quickly, would represent a weakening of earlier banking reforms.

44. **Reliance on other sources of financing.** Large financing from other sources as well as a drawdown of international reserves were assumed as the RFI request went to the Board (Figure 5). The external financing gap was estimated at $3.6 billion, about 26.4 percent of GDP

and 108 percent of GIR. Of that projected external financing need, only $99 million was expected to be filled through use of Fund resources (due to the 100 percent annual access limit for EF instruments). However, prior to Board approval of the RFI, the PBOC extended its $1.7 billion swap arrangement with the BOM until 2023, thereby filling nearly half of the external financing gap while, other lenders, mainly the World Bank and ADB, were expected to contribute to filling the rest. Nevertheless, a sharp reduction in GIR (around $1.1 billion and 33 percent of GIR) also would be needed.

Figure 5. Mongolia's Ex Ante Balance of Payments Gap
(In percent of GDP)



Source: IEO calculations based on data from the Staff Report for RFI Request (IMF, 2020d).
Note: Other Lenders includes the PBOC swap line.

45. **Governance safeguards.** By the time Mongolia's RFI purchase was approved in June, the Fund had strengthened its practices for guidelines for pandemic-related governance safeguards. The BOM agreed to undergo an updated safeguards assessment, provide Fund staff with access to its most recently completed audit reports, and authorize its external auditors to hold discussions with Fund staff (IMF, 2020d). Moreover, to ensure that crisis resources were used transparently and effectively, the government agreed to publish reports on public procurement contracts, including the names of awarded companies and their beneficial owners, as well as results from an independent third-party audit of pandemic-related expenditures. The 2021 Article IV reviewed these commitments and noted the authorities had made progress (IMF, 2021c). More specifically, the authorities published reports on public procurement contracts including information about awarded companies and their beneficial owners. The National Audit Office (NAO) also undertook and published an audit of pandemic-related spending. An independent third-party audit, however, had not yet commenced.

46. **Economic outcomes.** Export receipts recovered briskly from mid-2020, but there were greater-than-expected delays in a major mining investment project. Thus, GDP dropped by 4.6 percent in 2020 (compared with 1 percent originally projected) but rose by 1.4 percent in 2021 (Table 3). Inflation, low through 2020, also returned to 6–7 percent in early 2021. The

current account deficit came in substantially lower than projected in 2020 (owing mainly to the strong mineral export receipts). But with rebounding imports for investment offsetting the strength of exports, the current account deficit more than doubled to 13 percent of GDP in 2021.

47. **Fiscal policy outcome.** The weaker-than-expected growth outcome in 2020 prompted further macroeconomic support measures by the government. Health spending needed to be topped up in mid-2020 and, with weaker-than-expected revenues, the primary fiscal deficit came in at 6.7 percent of GDP (compared to the projected 3 percent). Public debt surged to 91 percent of GDP by end-2020 and, despite a subsequent sizable fiscal correction, to 94.7 percent of GDP at end-2021, fully reversing the drop achieved during the EFF. Quasi-fiscal outlays, extended through early 2022, far exceeded those committed to in the LOI.

48. **Monetary policy and financial sector developments.** Monetary policy was eased further during the second half of 2020, allowing a substantial real depreciation of the Togrog. Some improvements in bank transparency during 2020 saw Mongolia move off the Financial Action Task Force Grey List. But the health of the banking system deteriorated on other metrics, as reflected in the overall quality and adequacy of capital and other buffers, as well as a rise in NPLs.

49. **Financing outturn.** There was an initial loss of reserves early in the crisis that was reversed during the second half of 2020 owing to the recovery of exports and lender support and restraint on foreign exchange intervention. Financing from official sources was more than adequate to fill the enlarged financing gap in 2020, and financing prospects for 2021 were good. Thus, the authorities' request in late 2020 for additional RFI support was not accommodated, both because the annual RFI access limit had been exhausted in the first purchase and because staff projections showed no further financing need.

C. Assessment

50. **Overall assessment.** The IMF played a low-key role in supporting Mongolia's response to the pandemic. The RFI at 100 percent of quota filled only a small amount of the financing need identified in May 2020, implying heavy reliance on financing from other official sources (including the extension of the PBOC swap line) and use of international reserves to fill the remaining gap. Fund staff welcomed the supportive stance of macroeconomic policies, but viewed many of the measures taken as flawed and backtracking on previous reforms to reduce underlying fiscal, financial, and external fragilities. Consistent with the Fund's approach to EF, the expression of staff concerns about these measures was reflected in policy intentions in the LOI, but not in ex post conditionality.

51. **Pragmatic response.** The staff's decision to tolerate policies that reversed some of the earlier progress that had been made toward macroeconomic stability was a pragmatic response to the urgent needs of the pandemic and consistent with the Fund's broader strategy. Specifically, the substantial increase in the public debt ratio and, the use of international reserves early in the crisis were a sensible use of buffers. But this came at a cost: macro imbalances increased sharply, the banking sector weakened and commitments to phase out the BOM's quasi-fiscal activities were not observed.

52. **Catalytic effect of IMF support.** External financing was ample. Though Fund resources accounted for only about 3 percent of total BOP financing, other lenders—the ADB, World Bank, and China, in particular (via its swap line)—contributed generously. The IMF's financial support and assessment letters may have catalyzed other financing, although Fund staff believed financing outcomes would have been similar without IMF support.

53. **Reform efforts.** The use of poorly targeted social spending programs and non-transparent quasi-fiscal measures were poor policy choices. Specifically, the child support credit, which staff had long recognized as wasteful, was a significant conduit for pandemic relief; the BOM was pressed into quasi-fiscal activities that undermined transparency and its independence (in part evidenced by the negative capital position of the BOM by end-2021); and the mandate for banks to practice forbearance is likely to have worsened significantly already weak balance sheets and capital adequacy in some banks. Fund staff raised concerns about these issues but had limited scope to incentivize change given the absence of ex post conditionality attached to RFI resources. Moreover, disagreements between the authorities and the IMF about whether and how to address banking sector issues have led to a lack of interest on both sides for a follow-on UCT arrangement.

V. CONCLUSIONS

54. **Timely and well-appreciated help.** The Fund came to the aid of a number of low- and middle-income Asia-Pacific countries, at a time of critical need, with financing and policy advice well suited to the situation of the pandemic, although the share of countries using EF was low compared to other regions and none used UCT financing.

55. **Collaboration and catalytic role.** Relations with other IFIs, especially the ADB and World Bank, appear to have been effective. The IMF wrote a substantial number of assessment letters at the request of other multilaterals. ADB staff interviewed confirmed that the IMF was "unusually helpful" in providing assessment letters and spoke highly of the "timeliness" with which the letters were provided. The IMF's financing and assessment letters may have played a useful catalytic role in the ability of member countries to tap additional financing, particularly in the absence of Fund financial involvement. In the cases of Bangladesh and Mongolia, however, Fund staff felt that financing outcomes would have been similar even without the IMF's involvement given strong lender or bilateral support.

56. **Level of financing.** While the Fund's financing and potentially catalytic role were appreciated greatly by country authorities, most of the APD countries that received EF would have requested a higher level of access had it been available. In practice, however, other sources of financing were available, and most countries were able to avoid the substantial rundown of international reserves initially projected.

57. **Reform efforts.** Unsurprisingly, the pandemic led to some erosion of earlier reform efforts in a number of countries. For Bangladesh and Mongolia, this was particularly true in the banking sector where policies likely further increased the level of NPLs and reduced the capital adequacy of some banks. Fund staff was limited in their ability to prevent this backsliding given the lack of ex post conditionality in the EF framework. Fund staff potentially could have insisted on prior actions to address their concerns. However, such steps may not have helped much and would have been inconsistent with the Fund's broader strategy to move quickly with EF financing. Any hope that these concerns would be addressed in subsequent UCT arrangements also has not come to fruition, since presently most APD countries do not have interest in IMF UCT financing.[5]

Lessons

58. The framework of provision of EF worked quite well, but some consideration should be given to reviewing it to improve the Fund's ability to help member countries during future emergency situations. One possibility would be to increase the use of prior actions or tranched disbursements to better balance the need for rapid financing with measures that encourage sustainable macro-financial stability and thus reduce repayment risks.

59. Second, the application of governance safeguards could be improved. As noted in Kincaid, Cohen-Setton, and Li (2023), the use of governance safeguards was strengthened over time. APD staff, nevertheless, expressed concerns that it was not easy for low-income countries to meet or sometimes even understand fully what safeguards were being requested. Incorporation of such commitments could pose a reputational cost for the Fund if staff is unable to verify the accuracy of information provided. The IMF therefore should review the current list of governance safeguards to ensure that commitments are verifiable and that IMF staff have the expertise to monitor them.

[5] To date, only Nepal has agreed to a subsequent UCT arrangement. An Extended Credit Facility arrangement was approved on January 12, 2022.

References

Batini, Nicoletta, and Joshua Wojnilower, 2023, "The IMF's Institutional Response to the Pandemic," IEO Background Paper No. BP/23-01/05 (Washington: International Monetary Fund).

Independent Evaluation Office of the International Monetary Fund (IEO), 2022, *The IMF and Capacity Development* (Washington: International Monetary Fund).

International Monetary Fund, 2019, "Caught in Prolonged Uncertainty: Challenges and Opportunities for Asia," Asia and Pacific Regional Economic Outlook, October (Washington).

_______, 2020a, "Growth Derailed," APD Spring 2020 Informal Board Presentation, April 10 (Washington).

_______, 2020b, *World Economic Outlook: The Great Lockdown,* April (Washington).

_______, 2020c, "Bangladesh—Requests for Disbursement Under the Rapid Credit Facility and Purchase Under the Rapid Financing Instrument," IMF Country Report No. 20/187, June (Washington).

_______, 2020d, "Mongolia—Request for Purchase Under the Rapid Financing Instrument," IMF Country Report No. 20/205, June (Washington).

_______, 2020e, *World Economic Outlook Update: A Crisis Like No Other, An Uncertain Recovery,* June (Washington).

_______, 2020f, "Bangladesh—Financial Sector Stability Review," Monetary and Capital Markets Department, September (Washington).

_______, 2020g, "Navigating the Pandemic: A Multispeed Recovery in Asia," Asia and Pacific Regional Economic Outlook, October (Washington).

_______, 2021a, "Informal Session (to Brief): Governance Measures in Crisis-Related Spending," March (Washington).

_______, 2021b, "Navigating Waves of New Variants: Pandemic Resurgence Slows the Recovery," Asia and Pacific Regional Economic Outlook, October (Washington).

_______, 2021c, "Mongolia—2021 Article IV Consultation," IMF Country Report No. 21/251, November (Washington).

_______, 2022, "Bangladesh—2021 Article IV Consultation," IMF Country Report No. 22/71, March (Washington).

Kincaid, G. Russell, Jérémie Cohen-Setton, and Jiakun Li, 2023, "Operational Aspects of IMF Financing in Response to the COVID-19 Pandemic," IEO Background Paper No. BP/23-01/02 (Washington: International Monetary Fund).

Loungani, Prakash, and others, 2023, "The IMF's Forecasting and Policy Advice Formulation Processes During the Pandemic," IEO Background Paper No. BP/23-01/03 (Washington: International Monetary Fund).

Ocampo, Jose Antonio, and others, 2023, "The IMF's Response to the Pandemic: Strategy and Collaboration with Partners," IEO Background Paper No. BP/23-01/04 (Washington: International Monetary Fund).

Ostry, Jonathan D., 2021, "After a Strong Crisis Response, Asia Can Build a Fairer and Greener Future," IMFBlog, April 13. https://blogs.imf.org/2021/04/13/after-a-strong-crisis-response-asia-can-build-a-fairer-and-greener-future/