

Remarks by Acting Under Secretary of International Affairs at the U.S. Department of the Treasury, Andy Baukol, at the Center for Strategic and International Studies

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Thank you to CSIS and the Gates Foundation for hosting me and our distinguished panelists today. It's a particular honor for me to address this esteemed panel.

The Commission's new report puts a proper frame on the challenges we face as policymakers at this juncture of the recovery. Just a few weeks ago, finance ministers and central bank governors from around the world gathered with the leadership of the IMF and World Bank to address this same question: how to support the most vulnerable and poorest countries through their protracted recoveries from the pandemic and avoid a permanent divergence in the global economy.

The sobering path of the virus in India recently and the need for another round of lockdowns in Europe remind us that we are, as the IMF puts it, in a "race between the virus and the vaccines" with human lives on the line.

Most advanced countries and some large emerging markets have had the means to support their economies with fiscal and monetary measures while pursuing a solution to the health issue. And, like the United States, these countries have had greater access to vaccines.

Of course, we are not out of the woods yet. The global recovery is still uneven, and uncertainty over the path of the virus remains high. For major economies, a key takeaway from the last crisis is that we should avoid withdrawing policy support too early and should look to pursue further fiscal and financial policy actions to secure a robust recovery.

Here in the United States, we are poised to have a strong recovery, due in part to substantial fiscal support and a relatively fast vaccine rollout. We have enacted a \$1.9 trillion stimulus package in the American Rescue Plan that is providing states, cities, families, and small businesses with the resources they need to build back better. The Administration has proposed a \$2 trillion package of fiscal support to make a once-in-a-century investment in U.S. infrastructure. This infrastructure plan would reconstruct our ailing roads and bridges while promoting green investments and new jobs.

And, last night, the President outlined proposals in the American Family Plan to help support the middle class, promote labor force participation, and invest in human capital.

We are also creating more fiscal space domestically by reforming our tax code.

The Administration proposal would eliminate incentives to offshore investment, reduce profit shifting, counter tax competition on corporate rates including through a strong global minimum tax on multinational corporations, and provide tax preferences for clean energy production. Importantly, the revenue from these reforms will be used to make essential investments in infrastructure, R&D, manufacturing, and more to boost the long-term competitiveness of the U.S. economy.

Thanks to our bold domestic actions, the IMF now estimates that GDP in the United States will surpass pre-pandemic levels by the first half of this year, faster than just about any other major economy. One wise policy maker once said that in addition to a sound substantive policy package, we need to be able to summarize the plan on a bumper sticker. I think the bumper sticker for these U.S. efforts is “build back better,” a phrase that is also used internationally among our partners.

That said, we should recognize that many middle- and low-income countries are in a different place. They lack the ability to undertake a strong fiscal expansion to support their economies and people through this crisis and are constrained in their ability to obtain vaccines.

To give a sense of the need: last year, low-income countries and emerging markets deployed about 2 and 6 percent of GDP in fiscal measures on average, compared with an average of 24 percent in advanced economies. The IMF estimates that low-income countries alone will need to deploy around \$200 billion over the next five years just to fight the pandemic—and similar amounts, if not more, to sustain economic growth and recovery. The high and growing debt burden in many low-income countries is further limiting the ability to respond to the crisis. Many countries, especially those in Africa, are at heightened risk of debt distress.

Without further international action to support low-income countries, we risk a stark divergence in economic growth prospects for advanced economies versus low-income and developing countries. The result would be a deeper and longer-lasting crisis, with mounting problems of indebtedness, more entrenched poverty, and growing inequality. Embedded in recovery efforts, we have an interest in helping countries pursue sustainable and inclusive growth and strengthen long-term resilience. Our response will not be fully successful if we end up just where we were before.

We are working with our bilateral partners, the G7, G20, and international institutions to ensure that countries around the world have the resources they need to fight the pandemic and build public health infrastructure to prevent future crises. Our toolkit includes: financial support to address the

virus directly, such as through the COVID-19 Vaccines Global Access (COVAX) Facility; robust support from the IMF and multilateral development banks; bilateral economic and technical assistance; and debt relief where necessary.

REINFORCING THE GLOBAL HEALTH ARCHITECTURE

Our first order of business is to stop the virus by ensuring that vaccinations, testing, and therapeutics are available as widely as possible.

Low-income countries may not achieve widespread vaccine coverage until 2023 or 2024. More work and funding are needed to address manufacturing shortages, secure vaccine purchases, and finance and facilitate domestic vaccine drives. This disparity puts the health and economic well-being of all countries at risk, and as an international community, we need to find global solutions to vaccinating the rest of the world.

The United States is working with our partners to increase vaccine supplies and explore options to share excess vaccines. At Treasury in particular, we are working to make sure that a lack of financing does not become an obstacle to global vaccination, and that countries are prepared to get shots into arms as soon as the vaccine is available.

The multilateral development banks are key to this effort. We are urging the World Bank to use its leadership and convening role to support timely access to vaccines, particularly for the poorest countries. We have also committed \$4 billion to the COVAX initiative to help finance vaccine access globally, and we are urging others to increase their support.

One takeaway for us has been the need to think more long-term about ways to reinforce the global health architecture and its preparedness and response capacities. In that vein, we are looking at ways in which both finance and health authorities can partner together to strengthen coordination and accountability in the global health architecture to prevent and effectively respond to future outbreaks.

LEVERAGING THE INTERNATIONAL FINANCIAL ARCHITECTURE FOR LMICS

Multilaterally, we are considering how to efficiently leverage the resources of international financial institutions to promote a sustainable recovery for the poorest countries.

Already, the IMF and the multilateral development banks have responded with speed and magnitude to stem the immediate impacts of the crisis. Last year, the IMF provided about \$110 billion to 86

countries, including \$55 billion in precautionary programs. The MDBs provided over \$155 billion, a record amount, with the World Bank using over half of its financing over the past year to support emergency operations and address the social and economic response to the crisis.

We should make efficient use of the strengths of these existing tools, while being both flexible and pragmatic in thinking about potential improvements to the toolkit.

We are taking steps to enhance the concessional assistance tools of the IMF and World Bank. For low-income countries, the Poverty Reduction and Growth Trust (PRGT) at the IMF has provided substantial financing to support crisis response, with lending last year surpassing that of the previous 10 years combined. We strongly support continuing the PRGT's robust support for countries with the greatest need, and we expect that many countries will require longer-term engagements with the Fund as they move from emergency financing into full-fledged IMF programs. This increased level of lending, in turn, will require increased support from donors, and we are currently looking to provide a U.S. contribution for this purpose and are encouraging others to do the same.

At the World Bank, we have supported the frontloading of grant and concessional loan assistance from the International Development Association (IDA) to help countries address the immediate health crisis, extend social safety nets, purchase and distribute vaccines, and support critical fiscal expenditures. This frontloading will allow IDA to commit more than \$40 billion this fiscal year and maintain similarly elevated levels into next year. We have joined other donors in accelerating by a year the negotiations for the next IDA replenishment to prevent a sharp drop-off in IDA support just as recovery is starting to take off in the poorest countries. These resources will be critical in supporting a greener, more resilient, more inclusive, and more sustainable recovery.

CREATING FISCAL SPACE IN LMICS

The crisis has not ended the importance of prior international initiatives on developing countries improving domestic revenue mobilization. A number of countries in the developing world have quite low revenues as a share of their economies, limiting their ability to deal with social needs and public investments.

Bilaterally, Treasury is providing technical assistance to counterparts in developing and transitional countries as they deal with plummeting revenues and rising fiscal needs. This includes helping Finance Ministries better raise and manage resources through improved public financial management.

Yet, the massive impact of the pandemic on countries' deficits and debts demands a unique and powerful response. We are making efforts to help low-income countries free up fiscal space that they can then direct toward public health investments and the recovery ahead.

SDR

At the IMF, we support issuing \$650 billion in Special Drawing Rights (SDRs) to augment global reserves. The SDR is an international reserve asset that will increase buffers for all IMF members and give low-income countries the additional liquidity and potential fiscal space for greater spending on vaccines and healthcare.

The proposed SDR allocation would complement existing multilateral efforts to assist countries in need and directly provide about \$21 billion worth of SDRs in liquidity support to low-income countries and over \$200 billion to other emerging market and developing countries (excluding China). We are looking to target late summer for the allocation to be made effective.

We also strongly encourage the G20 and other advanced economies to channel excess SDRs in support of recovery efforts in low-income countries, alongside continued bilateral financing. For instance, during the current crisis, several countries have used part of their existing SDR holdings to expand the IMF's concessional financing through loans to the Poverty Reduction and Growth Trust's (PRGT). Total new PRGT loan resources mobilized since the start of the crisis amount to about \$24 billion, of which about \$15 billion is from existing SDRs. We are also exploring initiatives to maximize support for low-income countries and enhance transparency in the exchange of SDRs.

DEBT RELIEF AND COMMON FRAMEWORK

Many low-income countries face heightened debt vulnerabilities. While some may only need a deferral of debt service payments to create fiscal space, others will need deeper debt relief. Providing this debt relief expeditiously will be critical to helping these countries, and in particular those in Africa, avoid a "lost decade."

The G20 and Paris Club initiative to suspend debt service (DSSI)—established at the outset of the pandemic—has provided liquidity relief to help in the fight. The G20 extended it a final time through the end of this year.

For countries facing unsustainable debt loads or heightened liquidity risks, we strongly urge them to move onto the G20 Common Framework, which is a critical new tool. The Common Framework provides a multilateral venue for countries to deal with prolonged liquidity problems and

unsustainable debt burdens in a comprehensive, fair, and transparent manner. In a reflection of how countries finance themselves today, the Common Framework brings all major official bilateral creditors, including China, to the table and requires debtor countries to seek comparable treatment from the private sector to foster fair-burden sharing.

The Common Framework is linked to an IMF program that helps ensure that debt restructuring efforts are accompanied by credible policy reforms so that low-income countries can break out of the lend-and-forgive cycle and return to sustainable growth paths.

Of course, implementation of the Common Framework will not be easy, particularly with China and other non-traditional creditors. We strongly urge all creditors to fully and transparently implement the Common Framework to avoid unnecessary delays that can prolong debt overhangs and exacerbate growth shocks.

So far, Chad, Ethiopia, and Zambia have requested treatment under the Common Framework. And we are open to extending the Framework to middle-income countries, small island developing states, and others in the future. For now, we hope the Common Framework can set a new norm of efficient multilateral debt treatment—with participation by all key creditors—that could help inform similar exercises in middle-income countries.

CREATING SPACE FOR ESSENTIAL INVESTMENTS

In addition to fighting the pandemic, low-income countries face the challenge of investing in the economic recovery ahead. Climate change poses an especially grave threat to their fiscal space and development gains, and we need to help developing countries grow and enhance resilience by meeting their climate goals along with their development objectives.

At the Leaders' Summit on Climate last week, the Administration released the first-of-its-kind U.S. International Climate Finance Plan, which lays out a strategic vision for how we plan to double our climate finance by 2024. Notably, we are pushing the MDBs to increase their own climate finance targets, including for adaptation, to mobilize higher levels of climate finance for these countries, and to phase out support for fossil fuel energy projects.

CONCLUSION

In closing, much of the Covid era can be characterized in “twos”: the twin health and economic crises we face from the pandemic; the risk of a two-speed recovery within and across countries based on divergent capabilities to contain the virus and funding for health and livelihoods; the dual fiscal need

for short-term economic support as the virus runs its course and medium-term investments in sustainable growth once the virus has passed; and the importance of multilateral efforts, in both international financial and health spheres, so that we can more ably help countries in need respond to the global health emergency and ensure the recovery is global, inclusive, and swift.

No two crises are alike. Each one tests and tempers the measures we have put in place and our resilience as an international community. At Treasury, the last 14 months of this crisis have put fresh urgency on how we can work together with our partners to enhance pandemic preparedness against future shocks.

I look forward to hearing the creative policy ideas and reflections by the panelists today. I was once told that US Treasury bureaucrats are lacking in imaginative thinking. But, former US Treasury officials do not have that problem. And UK bureaucrats are well known for their imagination. So, I expect a robust and lively exchange.



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