Study Guide

International Monetary Fund (IMF)

elbMUN

April 23-25, 2022

Dresden, Germany

Welcome Letter

Distinguished Delegates,

As the world opens up, we are thrilled to anticipate the in-person elbMUN 2022 conference in the beautiful city of Dresden. In times like this, the need for multilateral cooperation, international diplomacy, as well as ambitious and creative policy solutions for the many challenges, seems bigger than ever. The global interdependence of political, economic and legal issues and their correlation concerning effective solutions will continue to evolve. Therefore, international organizations must adapt to an ever-changing world and constantly rethink their approaches to current problems. As Chairpersons of the International Monetary Fund, we look forward to addressing two economic topics with relevance both for the present and the future: Crypto assets and Covid-19 induced debt relief.
But before giving you guidance on how to tackle these subjects, let us briefly introduce ourselves:

We are Akshat, Viviana and Moritz, we three come from different contexts, societies, backgrounds and continents. Thus, we are looking for inclusive and academic solutions that take into consideration diversities of opinions. A little more about ourselves: Moritz is our German representative, studying international relations at the Technische Universität of Dresden. Viviana comes from Colombia, also studying international relations with two minors in economics and Government and Public Management at Universidad del Rosario, in Bogota. Last but not least, Akshat comes from India, and he is currently doing his master's degree in Advanced Materials and Processes at the University of Erlangen-Nürnberg.

We anticipate you to develop your debating skills, negotiation abilities and understanding of international economic cooperation. But above all, we want you to enjoy the conference and to have fun. Do not hesitate to reach out to us, in case you have any questions or uncertainty. As your Chairpersons, it is our prime concern that you feel prepared, confident and safe, in order to make elbMUN 2022 a great experience for all of us.

Best regards,

Akshat Sharma, Viviana Hurtado, and Moritz Ludwig

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About the International Monetary Fund

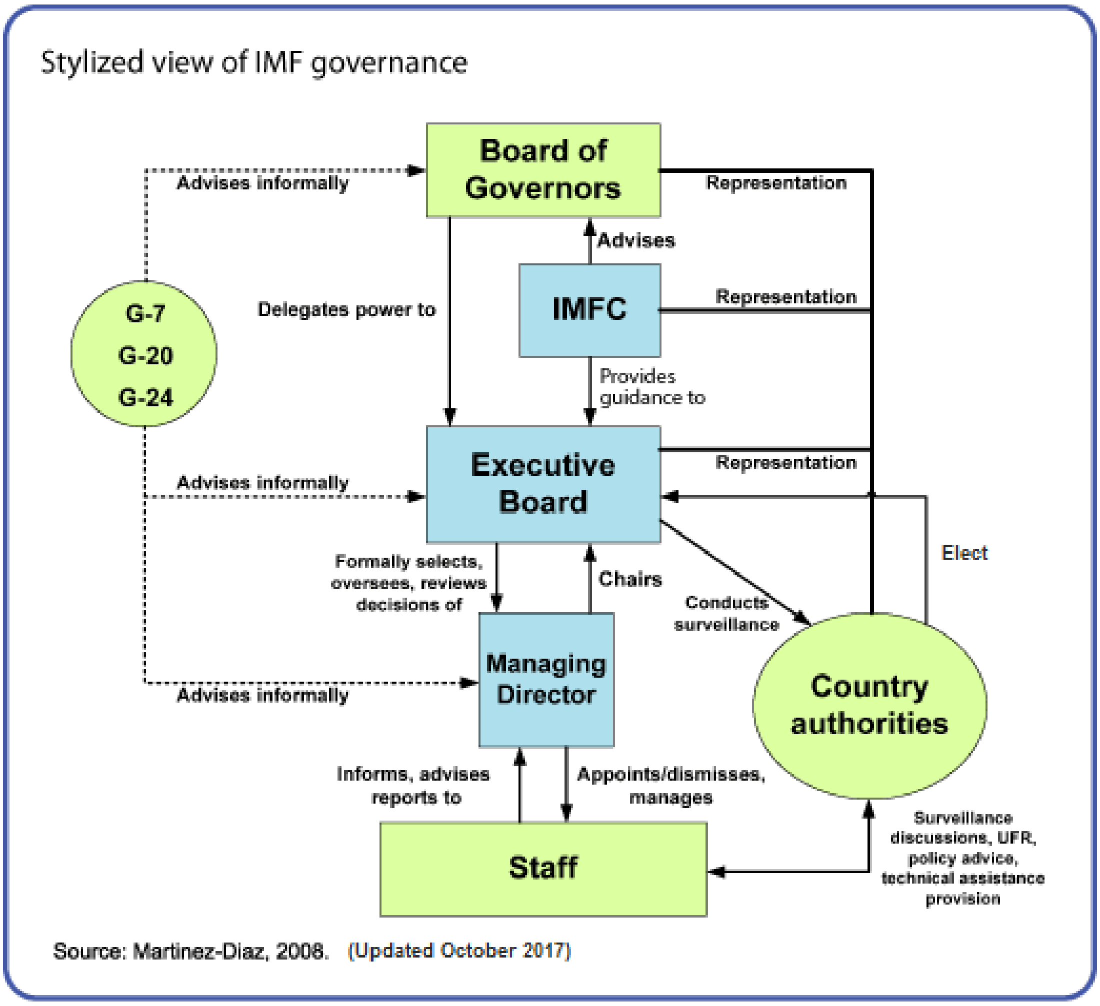
Purpose, Members

The International Monetary Fund (IMF) was conceived at the Bretton Woods Conference in 1944, along with the World Bank. It currently has 190 member countries and is headquartered at Washington D.C. The overarching aim of the IMF is to promote economic cooperation and stability in the international monetary system, the system of exchange rates and international payments.[1] In addition, the IMF is governed by the IMF Articles of Agreement.

According to the IMF, its primary purposes include the following:

- Promote international monetary cooperation;
- Facilitate the expansion and balanced growth of international trade;
- Promote exchange stability;
- Assist in the establishment of a multilateral system of payments; and
- Make resources available (with adequate safeguards) to members experiencing balance-of-payments difficulties

Organization of the International Monetary Fund



[1] https://www.imf.org/en/About/Factsheets/IMF-at-a-Glance

The IMF's highest decision-making body is the Board of Governors with each member country represented by one governor, usually the minister of finance or the governor of the central bank. The Board of Governors holds all powers of the IMF but may delegate most powers to the Executive Board. It meets once a year. The countries' voting powers depend on their quota shares.[2] Functions that remain within the Board are the approval of quota increases, special drawing right allocations, the admission and withdrawal of memberships, the election and appointment of executive directors, and the amendments to and interpretation of the IMF's Articles of Agreement.[3]

The International Monetary and Financial Committee (IMFC) and the Joint IMF-World Bank Development Committee are the two ministerial organs that advise the Board. The IMFC consists of 24 governors, mirroring structurally the Executive Board and thus representing all 190 member countries. It meets twice a year to discuss global economic challenges and the direction of the IMF's work. Joint communiqués portray the IMFC's views and guide the IMF. The Committee operates by consensus. Moreover, the Development Committee advises the Boards of Governors of the IMF and the World Bank on matters of economic development in emerging and developing countries and aims at forming intergovernmental consensus on development issues. It also has 24 members.[4]

In the Executive Board, 24 Directors elected by member countries and groups of countries, and the Managing Director meet frequently to manage the daily work of the IMF.[5] This includes annual health checks of member countries' economies and global economic policy issues. Usually, decisions represent a consensus. If formal votes are taken, members' quota determines their voting power. The Board's views are published in a "Summing Up" document.[6] Other IMF organs include the Managing Director and the Deputy Managing Directors, functional and Special Services Departments, Area Departments, and Support Services.[7]

As delegate of the elbMUN 2022 conference, you will be part of the Executive Board, even if the IMFC would be responsible for dealing with the regulation and supervision of crypto assets and cryptocurrencies. In the Rules of Procedure, you can find the detailed voting procedure adapted for this conference.

Scope of the IMF

The International Monetary Fund has different functions, from which its scope is understood. One of its tasks, and probably the most important one is the capability of lending economic resources to the States in need. "The IMF assists countries hit by crises by providing them financial support to create breathing room as they implement adjustment policies to restore economic stability and growth".[8] Notwithstanding, the usage of lending may also take place as a precautionary means in order to prevent possible crises. The lending procedure usually comes along with "a set of corrective policy actions".

On the other hand, the second function that the IMF has is regarding surveillance. The last one is focused on overseeing the international monetary system and monitoring the economic and

[2] https://www.imf.org/en/About/executive-board/members-quotas
[3] https://www.imf.org/external/about/govstruct.htm
[4] https://www.imf.org/external/about/govstruct.htm
[5] https://www.imf.org/en/About/executive-board/eds-voting-power
[6] https://www.imf.org/external/about/govstruct.htm
[7] https://www.imf.org/en/About/Organization-Chart
[8] https://www.imf.org/external/pubs/ft/bop/2019/pdf/Clarification0422.pdf

financial policies of the members of the organization. Last but not least, the International Monetary Fund is in charge of carrying out capacity development. One example is the European Union:

> The EU is the IMF's second largest capacity development partner and has contributed about US$330 million in funding since 2006 to help developing countries reach the SDGs. These capacity development efforts help countries achieve their growth and development objectives and contribute strongly to their progress toward their Sustainable Development Goals (SDGs).[9]

[9] https://www.imf.org/external/pubs/ft/bop/2019/pdf/Clarification0422.pdf

Topic A: The Regulation and Supervision of Crypto Assets and Currencies (IMFC)

Definition: Crypto Assets and Currencies

Crypto assets and currencies use secure technology to record who owns what, and for making payments. They were designed as a type of electronic cash without an entity that manages the structure, like a central bank or a government. Instead, they use a peer-to-peer system. Today, cryptocurrencies are not frequently used as currency, which is why banks and governments prefer the term "crypto assets". They are held as an investment by users who expect their value to rise and who want to make a profit out of that development. The value of crypto assets can fluctuate extremely unpredictably and unstably.[10]

The European Central Bank defines crypto assets as "a new type of asset recorded in digital form and enabled by the use of cryptography that is not and does not represent a financial claim on, or a liability of, any identifiable entity".[11] This definition lays the focus on the regulatory, economic and business dimensions of this new asset class. The value of crypto assets is only determined by the expectation that other individuals will pay for them in the future.

At the same time, the scarcity and the possibility to determine who owns the units of a crypto asset make the existence of a market with buyers and sellers possible. Cryptographic techniques replace the trusted central party that keeps a record of how many units of the asset have been issued and who held them at any point in time. This distributed ledger technology (DLT), for example blockchain technology, is a database shared among users. Most DLT networks used for crypto assets are unrestricted and have no clear governance, which makes the modification of the content and the functioning of the ledger difficult.[12]

Some common examples include Bitcoin, Litecoin, Ripple, and Ethereum. Over the last years, central banks and financial institutions have become interested in crypto asset transactions. Their market is developing with more investments and numerous kinds of crypto currencies. At the same time, the need for regulation, investor protection, and information has increased.[13]

The overall cryptocurrency market capitalization reached its last peak in November 2021 with 3,048.57 billion U.S. dollars. However, the valorization of crypto assets is known for large instability, which can be seen by the most current capitalization of just under 2,000 billion U.S. dollars.[14] While for some users, the fact that crypto assets are not regulated by a central authority seems appealing, a downside is the big risk of investments. Cryptocurrencies attract investors with rapid investment growth and flexible amounts of investment. On the other hand, the high volatility, big uncertainty about future regulations, and a lack of technical knowledge prevent others from investing.[15]

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[10] https://www.bankofengland.co.uk/knowledgebank/what-are-cryptocurrencies

[11] Crypto-assets: Implications for financial stability, monetary policy, and payments and market infrastructures", Occasional Paper Series, No 223, ECB, Frankfurt am Main, May 2019.

[12] https://www.ecb.europa.eu/pub/economic-bulletin/articles/2019/html/ecb.ebart201905_03~c83aeaa44c.en.html

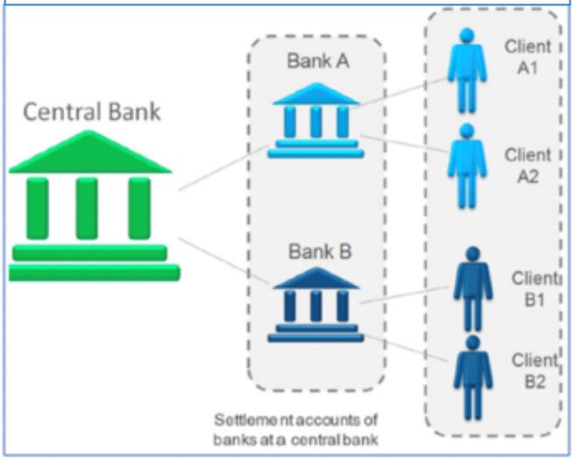
[13] https://gocardless.com/guides/posts/what-are-cryptoassets/

[14] https://www.statista.com/statistics/730876/cryptocurrency-maket-value/

[15] https://www.forbes.com/sites/earlcarr/2021/12/30/cryptocurrency-risk-or-opportunity-the-good-the-bad--the-ugly/?sh=795ac1b674c8

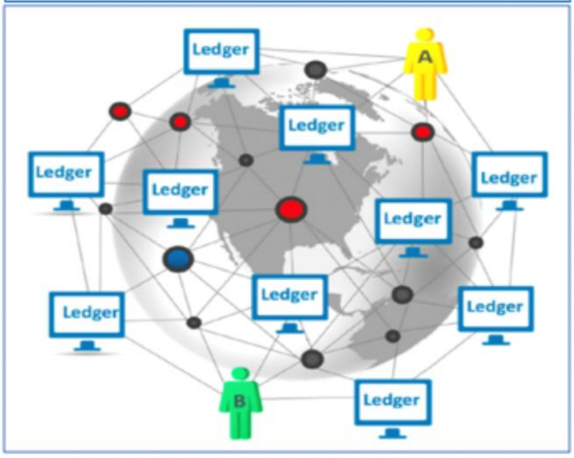
Box 1. Centralized vs Distributed Ledger Systems

Figure 1. Centralized Ledger System



- Institutions such as central banks and private banks maintain own records (ledger) of transactions/positions.
- Central bank / private bank function as intermediaries
- Central bank / private bank validates the recorded information and safeguard against double-spending or counterfeit.

Figure 2. Distributed Ledger System



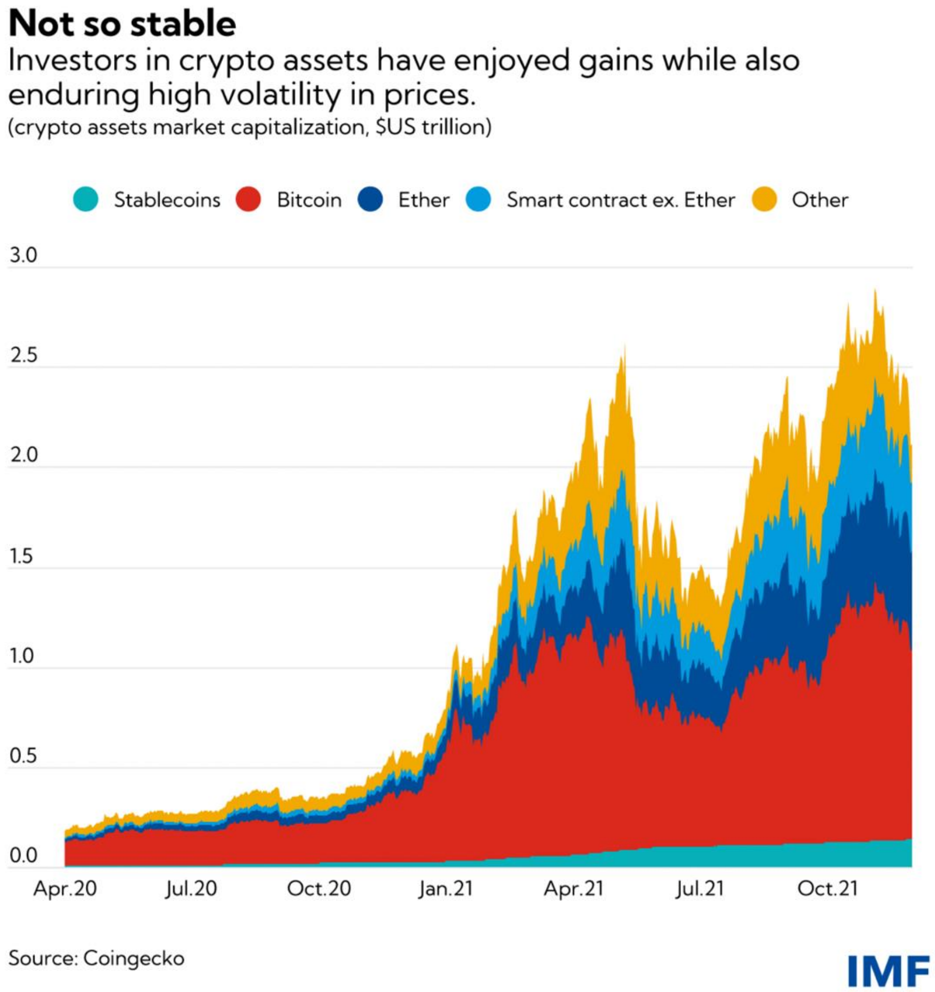
- Distributed ledger is a database consensually shared and synchronized across a network of computer nodes.
- Distributed ledger technology (DLT) facilitates the use of distributed ledger system.
- Transaction records (ledgers) are kept in these nodes and are visible to anyone.
- Peer-to-peer transactions take place without an intermediary such as bank.
- Transactions verified by nodes (miners) for double-spend or counterfeit
- Blockchain is one type of distributed ledger and is the technology underlying Bitcoin.

Work done by the IMF so far

Regarding the perspective of the International Monetary Fund, the body is urging to reach an agreement between all members in order to deal with the fallout of the emergency of crypto-currencies. The IMF affirms that the crypto assets should be regulated in the same way that fiat money was. However, this cannot be an imposition, but rather a common ground and agreement. As stated by senior financial and capital market experts, “there is an urgent need for cross-border collaboration and cooperation to address the technological, legal, regulatory, and supervisory challenges”.[16]

One of the main concerns that the IMF has, talking about the uncoordinated global regulations, is the fact that crypto assets may lead to losing control over national currencies, and thus, not being able to prevent a run of local banking systems. This can be seen in the following graph, where it can be noted that the stability is being put at risk and, while policymakers may be struggling with the volatility of prices, crypto investors take advantage of the situation.

[16] https://www.smh.com.au/politics/federal/imf-urges-global-regulation-of-cryptocurrencies-20211209-p59g4d.html



In 2021, the Executive Board of the International Monetary Fund (IMF) discussed a paper on "The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate". They reached a consensus regarding the position the IMF should have. In other words, the IMF must be able to act quickly and respond to the rapid changes that the crypto assets and currency are constantly having. The following summarizes the four main points that must be taken into account:

> First, new forms of money must remain trustworthy. They must protect consumers, be safe and anchored in sound legal frameworks, and support financial integrity. Second, domestic economic and financial stability must be protected by carefully designed public-private partnerships, a smooth transition of the role of banks, and fair competition. And digital money should be designed to support climate sustainability and efficient fiscal policy. Third, the international monetary system (IMS) should remain stable and efficient. Digital money must be designed, regulated, and provided so that countries maintain control over monetary policy, financial conditions, capital account openness, and foreign exchange regimes. Payment systems must grow increasingly integrated, not fragmented, and must work for all countries to avoid a digital divide. Moreover, reserve currency configurations and backstops must evolve smoothly.[17]

In this order of ideas, the IMF has not reached a common agreement among the members, but it is on its main agenda. Since the guidelines cannot be imposed, it is a matter of developing an effective regulatory approach to crypto assets between all parties involved.

[17] https://www.imf.org/en/News/Articles/2021/07/28/pr21230-imf-executive-board-discusses-rise-public-private-digital-money-strategy-imf-mandate

Problem, Need for Action

By its very nature, it is difficult to regulate the decentralized cryptocurrency system. Often, the different elements of the cryptocurrency network, from mining to trading, are located in different offshore locations, making their supervision and enforcement by any national agency difficult. Moreover, countries differ considerably in implementation capacity, existing infrastructure, and financial sector development. On a more fundamental level, there is a question of whether the right to issue currency should be reserved as a sovereign right of a nation. There are concerns about destabilizing capital flows through cryptocurrencies due to their high volatility and stretched valuations. There is also a risk to the position of banks if they lose their position as intermediaries of currency.

Discussed below are some of the common issues that have arisen with the growth of cryptocurrency.

Thefts and Scams

For consumers, frauds and thefts of crypto assets have been a major concern. It is estimated that in 2021 alone, assets worth $14 billion were stolen by scammers.[18] Since cryptocurrency traders and users are often not required to follow the know-your-customer (KYC) protocols, people can open wallets anonymously, sometimes even without needing to present valid identification. This makes it even more difficult to trace scammers and recover fraudulent transactions.

However, as technology matures, tools are being developed to enable the tracking of blockchain transactions. Recently, the U.S. Justice Department was able to track and seize Bitcoin worth 2.3 million U.S. dollars, demanded as ransom by anonymous hackers to restore the systems of Colonial Pipeline Co, a U.S.-based company. Without much details available publicly, it is believed that this was done by using a private key to unlock a bitcoin wallet that had received most of the funds.[19] Moreover, recently many licensed exchanges have begun adopting the KYC protocol, though there are no universal guidelines or laws regarding the same.[20]

It is seen that sometimes the whole cryptocurrency tokens can be a scam, with the developers running away with the money invested by customers in their tokens. A recent example is that of the 'Squid', named after the popular TV series "Squid Games". An estimated 3.4 million U.S. dollars was scammed from customers who bought the token for entering the 'play-to-earn' games. Once bought, the customers were disallowed to resell their tokens, effectively freezing their invested money.[21]

Money laundering

Another challenge for regulators is that the sophisticated and anonymous blockchain network can be used to launder money offshore. In February 2022, the U.S. Justice Department recovered cryptocurrency worth 3.6 billion U.S. dollars that was stolen during the 2016 hack of Bitfinex, a virtual currency exchange.[22] The hackers had breached Bitfinex's systems and initiated more than 2,000 unauthorized transactions, sending the stolen bitcoin to a digital wallet, from which it finally reached their banks via a complex money laundering process. This involved the use of fictitious identities to set up online accounts; computer programs to automate transactions; sending the stolen funds into accounts registered at various virtual currency exchanges

[18] https://time.com/nextadvisor/investing/cryptocurrency/common-crypto-scams/
[19] https://www.reuters.com/business/energy/us-announce-recovery-millions-colonial-pipeline-ransomware-attack-2021-06-07
[20] https://www.ft.com/content/4169ea4b-d6d7-4a2e-bc91-480550c2f539
[21] https://www.bbc.com/news/business-59129466
[22] https://www.justice.gov/opa/pr/two-arrested-alleged-conspiracy-launder-45-billion-stolen-cryptocurrency

and darknet markets; converting the stolen bitcoin to other forms of virtual currency ("chain hopping"), among others. In developing countries with already limited resources, there are concerns of tax evasion facilitated by the use of cryptocurrencies, in order to avoid money trail.

Illicit activities

There is a risk that the anonymity rendered by the blockchain transactions can be used to fund illicit activities. While earlier, this cryptocurrency money could be exchanged for real currency at any cryptocurrency exchange platform, this is increasingly becoming difficult as more and more licensed platforms require KYC and follow strict Anti-Money Laundering (AML) procedures. This has turned the criminals to use marketplaces on the dark web such as Hydra to exchange the cryptocurrency for a variety of objects including vouchers, assets, etc. and even for hard cash by hiring the so-called 'Treasure Men' who specialize in such illicit conversions.[23]

According to an analysis, in 2021 alone, almost 14 billion U.S. dollars in funds were received by illicit entities in the form of cryptocurrency although this still represents less than 1% of the overall cryptocurrency transaction volume.[24] Nevertheless, the transaction trail, though anonymous to a layperson, is still registered on the blockchain and this can be used to retrieve the information about the transaction. Several companies are now coming up which specialize in 'uncovering' the blockchain transactions, such as the New York-based Chainalysis, London-based Elliptic, and US government-backed CipherTrace. It raises a question about what should be the nature of the relationship between these companies and the law enforcement agencies that require their assistance.

Current legal status

At present, the legal status of cryptocurrencies varies vastly across countries.[25] While countries like El Salvador have accepted Bitcoin as legal tender,[26] others like China have completely banned the use of cryptocurrencies in the financial system.[27] El Salvador's adoption of Bitcoin as legal tender drew a sharp reaction from the IMF, which urged it to reverse the decision. The nation's decision has stymied its efforts to secure a loan from the IMF.[28] For most other nations, differing levels of cryptocurrencies use are allowed. For instance, in India, cryptocurrency is regarded as an asset, rather than a currency, and any capital gains are taxed at a high rate.[29]

The IMF has till now taken a calibrated approach to the question of cryptocurrencies.[30] While the advantages of blockchain in decentralized finance are acknowledged, the risks are important to consider.[31] Experts have suggested various options, from mandatory licensing of crypto trading platforms to classifying service providers into investment providers (similar to securities brokers) & payments providers (similar to banks). In the technology framework, "stablecoins" (whose values are pegged to some real currencies like the U.S. dollar and which have redemption guarantees at face value) are seen as less volatile and the risk of volatility could perhaps be reduced by limiting the exposure of financial institutions to crypto investments. Irrespective of

[23] https://www.ft.com/content/4169ea4b-d6d7-4a2e-bc91-480550c2f539
[24] https://www.wsj.com/articles/cryptocurrency-based-crime-hit-a-record-14-billion-in-2021-11641500073
[25] https://complyadvantage.com/insights/cryptocurrency-regulations-around-world/
[26] https://www.reuters.com/technology/pros-cons-el-salvador-first-bitcoin-nation-2021-09-06/
[27] https://www.reuters.com/world/china/china-central-bank-vows-crackdown-cryptocurrency-trading-2021-09-24/
[28] https://www.bloomberg.com/news/articles/2022-01-25/imf-board-urges-el-salvador-to-ditch-bitcoin-as-legal-tender
[29] https://www.atlanticcouncil.org/blogs/southasiasource/india-takes-a-major-step-towards-regulating-crypto/
[30] https://blogs.imf.org/2019/09/19/digital-currencies-the-rise-of-stablecoins/
[31] https://blogs.imf.org/2021/10/01/crypto-boom-poses-new-challenges-to-financial-stability/

what measures should be adopted, these require a coordinated international effort, with agencies like the IMF taking the lead.

Questions a Resolution should answer

1. According to each nation's policies, what do you believe are the main aspects that should be taken into account at the moment of creating a regulatory approach to crypto assets?
2. How should the International Monetary Fund manage the different approaches of the members, and thus, how is the Fund going to be able to answer to the quick changes that the crypto assets have?
3. Regarding the possibility of the use of crypto assets for transactions and monetary purposes in the future, should the IMF regulate issues concerning the development of crypto assets to cryptocurrencies?
4. To what extent can and should the IMF work to regulate the crypto assets? How could the IMF implement these without infringing upon the sovereignty of nations?
5. How can a fragmented handling of crypto assets by different countries be avoided and what needs to be done to give guidance to countries uncertain about the right approach to regulation?

Topic B: Debt Relief for the Global South in the light of Covid-19 Economic Hardship (Executive Board)

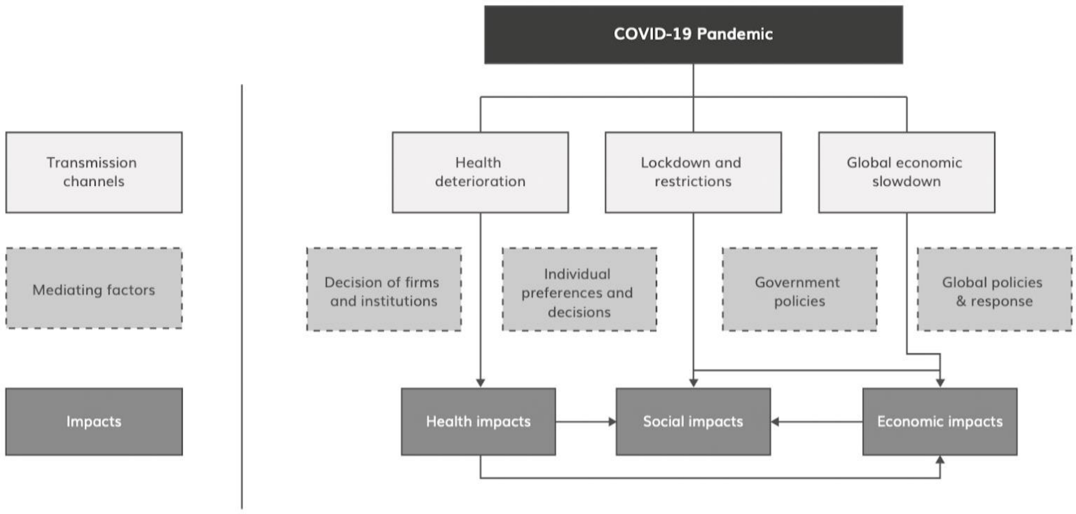
Background

The Covid-19 pandemic can be considered as one of the biggest crises that have affected the world in an outrageous way. According to the Global Health Security, a group of more than 70 countries, international organizations and non-government organizations, and private sector companies, there was not a country around the globe that was prepared for a global pandemic. The pandemic showed a bigger problem, that is inequality among the nations, thus, leaving the developed countries in a better position than those which did not have as many resources, both in the social, economic and medical spheres.

> International Monetary Fund (IMF) projections from June 2020 already estimated that advanced economies would contract by 8% in 2020, and grow by 4.8% in 2021 (2020a). Emerging markets and developing economies will contract by an estimated 3% in 2020, and grow by 5.9% in 2021. Subsequent estimates (by the IMF and World Bank) suggest that advanced and African economies were affected by around 6% in 2020, but developed countries are expected to pick up faster in 2021 and 2022.[32]

However, the crisis did not only affect the economic growth and projections, but all the macroeconomic variables as well, such as the demographics statistics, where it was shown that emerging markets were more likely to have a higher mortality rate, due to lack of health assets.

Figure 1. Channels of potential social and economic impact of the COVID-19



Source: Authors adapted from World Bank Group (2014)

In other words, and keeping a focus on the economic aspects, there was a clear disparity among the states, and while the world was slowing down as a whole, there were nations more affected than others. In this order of ideas, many economic activities got weaker, such as tourism, trade in goods and capital flows. For instance, in Africa, tourism accounts for 8.5% of the continent's GDP, thus directly and drastically affecting the continent during the crisis.[33]

[32] https://southernvoice.org/covid-19-in-the-global-south-impacts-and-policy-responses/
[33] https://southernvoice.org/covid-19-in-the-global-south-impacts-and-policy-responses/

Additionally, there is the factor of the informal economy in developing countries, where it is crucial to be able to have free mobility in order to earn money. Thus, when lockdowns took place, the gaps of poverty got even bigger, since many people did not have the possibility of going to work and did not have a stable income. “Lockdowns and other restrictive measures are affecting more than 1.6 billion informal workers worldwide (90% of total employment in low-income countries and 67% in middle-income countries)”.[34] It is expected that around 46 million people will fall into poverty in Latin America, due to Covid-19.

One of the main issues regarding the disparity is the fact that it is now time to continue with the recovering process and the most affected nations are struggling, due to their limitations to respond alone to the fallouts that were caused during the Covid-19 pandemic. In this sense, many countries had to increase their foreign debt, to contain the consequences and damages of the pandemic. That is why it is important to discuss different methods for relieving the debt that was taken as a short-term response.

Work done by the IMF so far

The IMF has responded to the economic crisis that has resulted from the Covid-19 pandemic in a variety of ways. First, emergency financing (without requiring a full-fledged program) has been doubled, and credit has been extended to 90 countries, amounting to over 172 billion U.S. dollars.[35] This emergency financing includes the popular Rapid Credit Facility, under which concessional (i.e., zero interest) loans are given.

The Covid-19 emergency financing is significantly different from the IMF's traditional credit-granting approach that conditions new financing on additional fiscal austerity measures by the borrowing country.[36] This is to ensure that the spending capacity of the nations in crucial sectors like healthcare, is not curtailed. On the contrary, the IMF has encouraged and endorsed increased healthcare spending, especially by the poorest countries with the weakest healthcare infrastructure. Additionally, procedures have been streamlined for accessing the emergency facilities by allowing nations to use indicative targets rather than more binding performance criteria for accessing IMF credit,[37] even without specifying fiscal deficit targets.[38] Moreover, the IMF has allowed nations to borrow up to 100% of their quota through this emergency financing.

For the repayment of existing loans, the IMF has granted debt relief through the Catastrophe Containment and Relief Trust (CCRT) to the most vulnerable member countries. In its most recent tranche, the IMF has extended this relief to the debt owed to it due in the first quarter of 2022.[39] The cumulative debt relief now stands at 965 million U.S. dollars. It may be remembered that the charter of the IMF prohibits it from simply writing off debt,[40] leaving debt relief as the only effective measure at its disposal. Similarly, the IMF has requested the bilateral creditors to suspend debt service payments from the poorest countries. Other, non-monetary forms of assistance that have been extended by the IMF include policy advice and capacity-building assistance.

[34] https://southernvoice.org/covid-19-in-the-global-south-impacts-and-policy-responses/
[35] https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker
[36] https://www.brookings.edu/blog/future-development/2020/10/13/why-the-imf-needs-to-build-on-its-covid-19-record-not-backtrack/
[37] https://www.cgdev.org/publication/what-do-middle-income-countries-want-imf-they-look-recover-pandemic
[38] https://ihsmarkit.com/research-analysis/imf-conditionality-after-the-covid19-pandemic.html
[39] https://www.imf.org/en/News/Articles/2021/12/20/pr21390-imf-executive-board-extends-debt-service-relief-for-25-eligible-ow-income-countries
[40] https://www.imf.org/en/About/FAQ/sovereign-debt

In most IMF-supported programs, the organization is not the only source of financing, drawing funding from the private and official sectors. The active involvement of the IMF reassures other creditors, encouraging them to continue lending. Nevertheless, mobilizing funds always remains a challenge, even with its goodwill, especially since the emergency funding is not linked to specific economic measures to be undertaken by nations.

Problem, Need for Action

After two years with the Covid-19 pandemic, the world keeps experiencing a number of economic hardships that hit economically weaker countries in a particular manner. Covid-19 variants, rising inflation rates and a widening debt and income inequality both between and inside countries can be identified as such. Government spending and monetary policies have to navigate through many uncertainties. “Rising inequality and security challenges are particularly harmful to developing countries”, said David Malpass, President of the World Bank Group. Fragile and conflict-affected economies are expected to have an output of 7.5% below the pre-pandemic trend.[41]

Multilateral collaboration will decide the global economic development of the next few years. If vaccines are not distributed more widely and equitably, the likelihood of an ongoing pandemic and new variants rises, which would harm economic growth and would widen inequality gaps. Furthermore, global cooperation will be crucial to help developing countries fund a sustainable, resilient and inclusive economic transformation. Globally, higher unpredictability of crises, supply bottlenecks, and the incapability to fight climate change result from inaction.

Looking at the within-country income inequality, an increase due to the pandemic is evident, especially in the poorest countries and among lower-income population groups. This goes hand in hand with job and income losses, fewer educational opportunities and less hunger. Global support needs to target vulnerable groups to broaden educational access, health care, and digital infrastructure.[42] Implementation conditions of debt relief measures could target these inequalities.

Already in March 2020, African Finance Ministers met virtually and called for a moratorium on all debt interest payments.[43] The crisis has also led to new countries experiencing a risk of debt distress. Compared to the last umbrella frameworks for the coordination of debt relief, the creditor base today is more fragmented. Many developing countries had to take debt on non-concessional terms from private lenders and non-Paris Club (group of officials from major and mostly western creditor countries) members.

With Covid-related initiatives such as the G20 Debt Service Suspension Initiative (DSSI) ending at the end of 2022, arrears and a reduction in priority expenditures are likely. The DSSI temporarily paused official debt payments to the poorest countries. The G20 Common Framework helped them restructure their debts and deal with insolvency. G20 creditors need to agree to accelerate debt restructurings. Additionally, further indebtedness during the negotiation process needs to be avoided.[44]

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[41] Global Economic Prospects, World Bank Group, January 2022, https://openknowledge.worldbank.org/bitstream/handle/10986/36519/9781464817601.pdf
[42] https://www.imf.org/external/pubs/ft/fandd/2021/06/inequality-and-covid-19-ferreira.htm
[43] https://developingeconomics.org/2020/04/04/debt-moratoria-in-the-global-south-in-the-age-of-coronavirus/
[44] https://blogs.imf.org/2021/12/02/the-g20-common-framework-for-debt-treatments-must-be-stepped-up/

Debt relief needs to be provided faster in order to be effective. At the moment, it takes more than a year. Measures formalizing the implementation process with transparent rules and timelines could help here. Stronger cooperation in strengthening fiscal frameworks is also needed. If debtor countries receiving debt relief would borrow sustainably in the future, creditor's concerns could be alleviated.[45]

Looking at the long-term future, structural issues of the global debt relief system need to be addressed. Most low-income countries spend more resources on servicing their debt (7.8% of GDP) than on health care systems (1.8% of GDP). Also private creditors continue to gain importance as a source of external credit for low-income countries. To not include those actors, notably multilateral organizations, in debt moratoria, would reduce the moratoria's effectiveness. Above all, the well-being and social protection of vulnerable groups in low-income countries must be prioritized.[46]

Questions a Resolution should answer

1. What would you believe should be the main strategy of the International Monetary Fund in regards to debt relief, taking into consideration that many countries have not still recovered economically from the effects of the Covid-19 pandemic and, in many cases, would be still in need of more economic resources?
2. Should the International Monetary Fund create some specific guidelines referring to debt relief in the case of Covid-19? If so, which criteria should be taken into account? (Example: deadlines for payments).
3. How long should the "emergency" measures adopted by the IMF last? Is there scope/need to extend these measures further?
4. Should debt relief only cover public creditor debt or should and can private actors be included?
5. How can the IMF address within-country income inequalities? Should debt relief be connected with stricter implementation conditions?

[45] Global Economic Prospects, World Bank Group, January 2022, https://openknowledge.worldbank.org/bitstream/handle/10986/36519/9781464817601.pdf
[46] https://developingeconomics.org/2020/04/04/debt-moratoria-in-the-global-south-in-the-age-of-coronavirus/

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