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**Statement by Mr. Peter and Mr. Gindrat on Fund Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting
July 14, 2021**

The proposed reform package to adapt the Fund’s concessional financing framework is largely driven by the response to the Covid-19 pandemic. The surge in PRGT financing has been a hallmark of this particular crisis. We commended the Fund for its rapid and large emergency lending to address the immediate impact of the pandemic as well as debt service relief, which has benefitted the most vulnerable members. While we welcome that a number of members have transitioned, or are transitioning, to a regular Fund arrangement, we emphasize the large uncertainty around the medium-term projections of demand for Fund lending. We note with some concern that Fund lending is expected to cover a significant share of the financing needs of many low-income countries (LICs). This might not only impede the Fund’s catalytic role but also increase the dependence of LICs on the Fund as a senior debt holder, in a context of already high indebtedness.

As the Fund scales up financial support for LICs, it needs to strengthen the financial position of the PRGT. We welcome the outlined funding strategy for the PRGT, which highlights the necessity of mobilizing additional subsidy resources to sustain higher lending volumes. We stress the need for an increase in reserves commensurate with the expanded PRGT lending envelope. Continued participation in the PRGT hinges on credible assurances to bilateral lenders as well as on the Fund’s status as a prudent preferred creditor. In this regard, we welcome that lending safeguards will be enhanced, and we support deeper analysis of debt composition and dynamics in LICs to further refine debt sustainability assessments.

In this vein, we support the close monitoring and annual review of PRGT finances, including on PRGT resource use and progress with fundraising. Such a rolling review process closely involving the Executive Board will allow a continuous assessment and the initiation of further measures if and when needed.

We are in broad agreement with the proposed reforms. We stress that, from a trustee perspective, safeguards that allow the PRGT to sustain its revolving lending remain essential even as the concessional lending framework is adapted.

- We can go along with the proposed changes to the PRGT normal access limits, with the clear expectation of a decline in the normal annual access limit to 145 percent of quota at year-end. This measure will increase flexibility, but we stress that access limits are not targets.
- We strongly support the enhanced financial safeguards, reflecting a case-by-case analysis, and in particular enhanced disclosure and assessments of debt sustainability and capacity to repay. We note that concrete reductions in debt vulnerabilities for members at high risk of or in debt distress will be included as part of core program objectives. We can also support maintaining the flow and stock triggers as procedural safeguards at the present level until the next comprehensive review.
- We agree to the unification of access norms and to revisit them as part of the next comprehensive review.
- We agree to exclude market access as a criterion for PRGT exceptional access. We can also go along with the removal of hard caps. However, we have considerable reservations about removing the explicit requirement that members at high risk of/in debt distress should receive debt relief or undergo a debt restructuring.
- We support aligning the PRGT exceptional access criteria with the policy safeguards applying to requests for high combined access to GRA and PRGT resources as outlined in Annex II.
- We support the proposed changes of the blending rules relating to the relevant income criterion, the relevance of financial market access and debt vulnerabilities, and the funding mix and cap. These changes would make these rules more robust and less complex.

We see no merit in a two-tier system of PRGT interest charges as an alternative approach to blending. Removing the blending requirement would mean no longer applying GRA program requirements for current required blenders. A different program standard would not only alter the sharing of risks between bilateral contributors and the Fund, but it would also weaken the market signaling of IMF support. Furthermore, substantive arguments (i.e. substantially increased PRGT credit exposure and much lower reserve coverage) as well as practical considerations (i.e. necessary design changes to the PRGT) speak against pursuing this option.

We appreciate staff's planning for a range of outcomes on possible funding needs, although we consider the baseline case to be calibrated somewhat on the high side. We understand that current bilateral loan agreements and subsidy resources will be roughly sufficient under the baseline scenario through 2024 (cf. Table 3). Given the large uncertainties about future resource needs, the Board should acknowledge that the magnitudes proposed for additional fundraising reflect best-effort estimates. We consider it likely—and in the case of subsidy resources a near-certainty—that additional funding will sustain the

PRGT for quite some time beyond 2024. A lasting increase in the PRGT's self-sustained capacity to SDR 1.65 billion per year remains a sensible working assumption.

Reflections about longer-term financing of the PRGT must be based on fundamental considerations regarding the future role of concessional financing by the Fund in support of LICs. This might eventually entail considerably expanded PRGT financing. That said, a signaling by staff of a much larger LIC financing role for the Fund over the next decade appears premature at this stage. Such a prospect would also challenge the Fund's catalytic role in its engagement in LICs, its lending safeguards in a program context, and the adequacy of its risk management, among others. We look forward to discussing such a longer-term vision with management in due time.

We can agree to the creation of two new PRGT accounts that will enhance the flexibility in earmarking and in using bilateral donor funding. We are particularly supportive of the possibility of backstopping the reserve account. Assuring an adequate reserve coverage, closer to its historical annual average, needs to be an integral part of a sound approach to risk management and funding.

The illustrative menu of options for possible donor contributions is welcome, highlighting the country-specific circumstances under which any such support will have to be agreed. As a precondition and in support of the upcoming fundraising effort, we agree to increase the PRGT cumulative borrowing limit. We also concur with the suspension of reimbursements of administrative expenses to the GRA through FY 2026, although this will slow down the accumulation of precautionary balances in the GRA.

Lastly, we support the continuation of the zero interest rate for all PRGT facilities until July 2023.