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**Statement by Mr. Mohieldin, Mr. Alhosani, Ms. Choueiri, and Ms. Al-Riffai on Fund
Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting
July 14, 2021**

We thank staff for a series of very well written documents and for their hard work culminating in these proposals. We also thank them for their informative Q&A session. It is worthy to note that the suggested reforms to the access limits and blending policies proposed in this paper are estimated to have a modest impact on PRGT finances. Staff also estimate that even under the existing policies, PRGT crisis lending would still reach unprecedented high levels, with credit peaking at around three times the pre-pandemic level. We wish to highlight the following.

Proposed Amendments to the PRGT

On access limits: We support raising the access limits on PRGT resources, especially in light of the uncertainty around the depth of the pandemic and long path to economic recovery. PRGT funding would provide LICs with larger access to low-cost-financing from the Fund and would limit the number of non “blend” LICs that are required to access the GRA. With respect to the proposed increase in the normal access limits, we support the suggested increase in the annual and cumulative access limits to 145/435 percent of quota, respectively. We also concur with staff on the application of these new limits to all the new financing requests as well as to the existing arrangements (except those grandfathered under the Policy Safeguards for High Combined Credit Exposure (PS-HCC) policy). Furthermore, we support extending the temporarily increased PRGT annual access limit to end-December 2021 and agree that it remain applicable to any 12-month period that falls within, or includes, the period from March 22 to December 31, 2021. We support amending the exceptional access criteria which removes hard caps on the access limits for both the annual and the cumulative access criteria. We agree to reassess the criteria at each review, except criterion 3 which determines the blending eligibility based on income thresholds, this would be assessed at the time of the approval of the exceptional access arrangement.

On simplifying the norms: Whilst in pre-pandemic times, the currently differentiated norms were established to encourage the use of the PRGT's scarce resource by countries who used them less, this rationale no longer applies to our current reality. The pandemic has given rise to an elevated financing need for all LICs. We thereby see merit to staff's proposal to simplify the current access norms with one unified requirement set at 145 percent of quota for any three-year Extended Credit Facility (ECF) arrangement.

On safeguards: The Fund has a multilayered and robust framework to mitigate and manage credit risk across its lending operations. We support the proposal to maintain the higher levels of the flow and stock triggers that were introduced in March 2021 until the next review of the LIC facilities. We also support modifying the PRGT Exceptional Access criteria to align them with the PS-HCC Exposure.

Proposed Changes to Blended Access to Financing

On the blending eligibility criteria: Staff propose to reform the blending framework to make it more robust and less complex. For the income criteria, staff are proposing to determine a country's "blend" status based on whether, or not, its GNI per capita exceeds 5 percent above the IDA operational cutoff for a period of two consecutive years and fall out of its "blend" status if its income per capita falls beneath 95 percent of the IDA operational cutoff. *2020 was an exceptional year, a structural break in most countries' income trajectories, to what extent has this affected countries' blend status under the newly proposed 5 percent cut off point?* We support staff's proposed simplification of the role of market access and debt vulnerabilities in the determination of a country's "blend" status, and we welcome staff's consideration of the difficulties that small and micro states currently face in trying to access international markets.

On providing presumed blenders with "all-PRGT" loans: We remain interested in further exploring all possible modalities that would introduce a dual interest rate structure to the PRGT framework so as to provide "all-PRGT" loans to presumed blenders at suitably adjusted rates. This is important since the policy requirements, the repayment periods, and financing costs under the PRGT are more suited for the characteristics and needs of "blending" LICs who typically face protracted BOP needs not well addressed under a mix of GRA and PRGT funds. Staff point out that higher lending volumes from the PRGT would imply a substantial increase in credit outstanding and a decline in the PRGT's reserve coverage ratio, here we would look forward to suggestions on how to address that concern.

PRGT Interest Rate Review

We support staff's proposal to maintain zero interest rates on PRGT lending under the ECF, the Standby Credit Facility (SCF), and the Rapid Credit Facility (RCF) until July 2023. *In the event interest rates rise globally before the scheduled review in July 2023, how is that expected to affect the zero-interest rate assumption?*

Financing Needs and a Funding Strategy for the PRGT

It is reasonable to assume that demand for PRGT resources will remain elevated over the coming years as LICs struggle to contain the impacts of the pandemic and underpin a sustainable recovery. Staff project that total PRGT lending may reach around SDR 21 billion during the pandemic and immediately afterwards. Yet, uncertainties around the pandemic,

the pace of the recovery, and the demand for IMF concessional financing is difficult to precisely predict at this time.

On the proposed funding strategy: We continue to support the proposed two stage funding approach to the PRGT. We agree with staff's proposed suggestions for the first funding stage which would rely on a medium-term mobilization effort aimed at closing the resource gaps created by the pandemic-related lending, all whilst preserving the PRGT's capacity to lend post-crisis.

We welcome the second funding strategy that entails a longer-term solution to the PRGT's self-sustainability status. We look forward to discussing these outcomes at the next *Review of Concessional Financing and Policies* scheduled for 2024/25. We would support a partial "rechanneling" of SDR allocations to facilitate the mobilization of additional PRGT loan resources, leaving room for a voluntary rechanneling of the SDRs towards the "Resilience and Sustainability Fund" which aims to support middle-income countries. We see merit in the suspension of PRGT reimbursement to the GRA through FY26 which would keep the additional resources in the Reserve Account and add to the PRGT's endowment to cover subsidization as well as improve the reserve coverage ratio.

We support the creation of the Subsidy Reserve Account (SRA) and a Deposit and Investment Account (DIA) within the PRGT. Both accounts aim to facilitate bilateral subsidy contributions and reinforce the PRGT's reserve coverage.