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**Joint Statement by Mr. Palotai, Mr. Pösö, Mr. von Kleist, Mr. Dresse, Mr. O'Brolchain,
Ms. Ekelund, Mr. Harvan, Mr. Voinea, Mr. Weil, and Ms. Koh on Fund Concessional
Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting
July 14, 2021**

We thank staff for further developing the proposal and seeking solutions to how the Fund could best support Low-Income Countries (LICs) facing adversities due to the pandemic. We remain ready to support a sustainable temporary step-up of the Fund's concessional resources targeting the most vulnerable within the mandate of the IMF. As indicated in recent board discussions, we weigh these proposals with the objective of preserving the unique role of the IMF as lender of last resort, as well as the catalytic nature of its activities and awareness that **many PRGT countries are already facing high risks of debt distress**. Against this background, we regret to see that the staff papers fell short of including information on the financing role of other institutions under the proposed approach, such as MDBs, which are better suited to address the needs of LICs for highly concessional and/or grant financing. *We ask staff for further information of how the proposed surge in IMF lending and the projections in Table 3 relate to expected flows of financing from other sources over the medium term, including MDBs, RFAs, and bilateral donors. Can staff explain to what extent the resulting expansion of the Fund's exposure to LICs is consistent with the aim to preserve the Fund's catalytic role, recently affirmed by Directors?*

We wonder whether the contribution to be made by the Fund's catalytic role is being explored and utilized to the best possible extent. Specifically, we fear that staff may not devote sufficient attention to the IMF's potential to mobilize comprehensive grants and concessional financing from development partners and donors by providing a seal of approval in form of realistic, yet ambitious, adjustment programs together with moderate super-senior PRGT financing. We note that, in staff's baseline scenario, PRGT credit outstanding would on average make up 11 percent of government debt in LICs in 2025/26. *How does staff assess the concern that the "seal of approval" character of Fund programs could suffer (and with it the aim to unlock other sources of financing), if access to Fund*

lending is scaled up substantially, while the strength of conditionality cannot be increased commensurately?

The current proposals fall short of credible financing assurances for a sustainable PRGT framework and we continue to believe that a temporary extension of access limits until end-2021, using the time until the Annual Meetings (AMs) to secure preliminary commitments of funding, would have been more prudent. This would have allowed a better-informed decision on the medium-term PRGT access levels and ensured that we do not end up in a situation where we have to choose between lowered access levels (which would mean a first-come-first-served situation) or gold sales. As a minimum, we request an **update to the Board on the status of the fundraising after the AMs and conducting the next review of concessional policies before the Spring Meetings.**

On the potential policy reforms

PRGT Access Policy

Calibration of PRGT access limits needs to strike a careful balance between responding to LICs' increased financing needs while maintaining the Fund's catalytic role with adequate safeguards and financial sustainability of the PRGT framework. We acknowledge that it would not be desirable for many non-blend countries to resort to GRA financing and can therefore **go along with a temporary increase in PRGT access limits as proposed by staff, with the possibility to revise these limits in upcoming reviews if needed.** As this decision is made in the context of a crisis response, and with still unsecured financing, we believe that the temporary higher access limits should include a **sunset clause** fixed at the time of the next full review of concessional financing and policies scheduled in 2024–25. We emphasize that increasing access limits reinforces the need going forward to exercise careful judgement on the appropriate size of access in each individual case.

We have strong doubts about entirely removing the hard caps on PRGT exceptional access. Keeping some level of hard caps helps to ensure the availability of resources to a broader group of PRGT countries. We can discuss calibrating the hard caps in conjunction with the proposed regular reviews, once the PRGT financing framework is sound.

We broadly consider the current set of norms as a useful to guide access and manage risks resulting from high outstanding obligations, in particular in the context of repeated arrangements, which can be expected to make up a high share of total new commitments over the medium term. *Given that reducing their exposure to the Fund over time presents a substantial challenge for many LICs, can staff offer a new set of projections on the PRGT subsidy gap and funding needs under a scenario that assumes the plateauing of PRGT credit out-standing over the projection period after reaching peak level?*

Exceptional Access and New Safeguards on Debt Vulnerabilities

We strongly support the added safeguards related to debt sustainability and capacity to repay associated with programs that have access above current access limits and for all programs for countries at higher risk of or in debt distress. We especially appreciate the

requirements for distinct breakdowns of public external debt in order to assess the share of super senior debt and the more thorough analysis of risks associated with repayment. *Could staff clarify how these risks, if noted to be elevated, will be addressed? Will specific guidance be developed to assess the risks related to super senior debt?*

Removing the requirement of debt relief or restructuring for countries at high risk of, or in, debt distress that is seeking EA could reduce important incentives to handle high-yield debt in a timely manner, where necessary. This could also undermine the effectiveness of the G20 Common Framework. *A staff comments would be welcome.*

Blending Rules

We support the proposed simplification of the Fund’s rules for blending. This would improve robustness, clarify the definition of presumed blenders (PB), and mitigate the challenges arising from countries moving in and out of PB status. At the same time, we are concerned about the substantially increased exposure of the GRA to LICs included in the staff projections (SDR 12.2 billion through 2024 under the baseline and up to SDR 24.1 billion under the high case scenario) and that a significant share of this exposure will fall on LICs with high risk of debt distress. *Can staff comment on the assumptions underlying the projections in Table 3 for use of GRA financing, including under the high case scenario? What is the share of GRA commitments that is projected to be directed at LICs with high risk of debt distress over the projection period 2020-2024?* We do not see merit in completing the reform option of “all-PRGT” financing for presumed blenders at this time as this would put significant stress on loan resources and the reserve account.

PRGT interest rate mechanism

We can accept that PRGT interest rates on all facilities will be set at zero through end-July 2023, particularly given the current economic outlook and challenges in LICs. However, without presenting a holistic review of the interest rate mechanism, it is difficult to assess the appropriateness of the current mechanism. In particular, we would have liked to get an overview of the possible subsidy savings from considering marginal changes to the interest rate mechanism. Going forward, the rules-based mechanism should be allowed to function when global interest rates normalize without unnecessary adjustments in order to prevent nonzero interest rates of PRGT financing. It is important to preserve appropriate incentives for the use of finite PRGT resources.

Funding Strategy

The immediate challenge for scaling up PRGT financing is to ensure sufficient resources for the subsidy account and to ensure that the reserve coverage ratio remains firmly above 20 percent, which should be considered as the minimum acceptable level. We would like to highlight that an approach that risks overstating the Fund’s lending capacity should be avoided. We agree that a comprehensive funding strategy, based on a combination of different options, is the preferred way. To boost reserve coverage and support subsidy resources, **we are open to support suspending GRA reimbursements for a limited time based on thorough assessments in the course of the annual reviews as proposed by staff.**

We see merit in providing members with a menu of options to contribute. However, we note that many countries, including some advanced economies, may face institutional and/or legal restrictions specifically related to non-budgetary options. **Voluntary bilateral subsidy contributions from willing donors are a central element of the strategy, that would require a significant increase in voluntary grants to the Fund.** However, as ODA resources are scarce, the implications of a shift of ODA resources from traditional recipients to the IMF need to be carefully and thoroughly considered. At this stage, we cannot commit to participate in the fundraising campaign.

We are open to support the creation of two new PRGT accounts, provided they truly add value to the already existing accounts. In particular, we wonder what the added value is of the “Subsidy Reserve Account”, given that the PRGT already has a separate Subsidy and Reserve Account. *Could staff elaborate? What would concretely be the added value of putting resources in the SRA relative to dividing the same amount of resources among the existing SA and RA? Regarding the Deposit Investment Account, has staff assessed any potential legal constraints concerning this proposal, especially if contributions would come from central banks?*