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GRAY/22/1147

April 29, 2022

**Statement by Mr. Huh, Ms. Grant, Ms. Johnson, and Mr. Yoo on Reviews of the Fund's
Sovereign Arrears Policies and Perimeter
(Preliminary)
Executive Board Meeting
May 4, 2022**

We thank staff for the comprehensive paper on the review of the Fund's sovereign arrears policies. The Fund's arrears policies are of particular importance at the current juncture, given rising debt vulnerabilities and growing concerns regarding the possibility of debt restructuring in the aftermath of the COVID-19 pandemic. In this context, we welcome the timely review in consultation with a wide range of stakeholders and broadly support the staff proposals for amendment to the policies. We will make a few comments for emphasis.

We agree that the Fund's Lending into Arrears to Private Creditors (LIA) policies remain broadly appropriate and support the measures to promote debtor-creditor engagement and strengthen debt transparency. The proposed amendments to the principles for assessing "good faith" engagement are believed to contribute to that end by providing clearer guidance on, and simplifying requirements for, the assessment of member's "good faith" efforts to reach an agreement with private creditors.

We also support establishing a formal policy for preemptive restructuring cases building on the current practice, including a timely information sharing with creditors. We agree that the Fund can lend if a credible process for debt restructuring is underway and debt sustainability is likely to be achieved. The member is expected to share relevant information with its creditors along the line of the guiding principles under the LIA policy.

We take note that the Lending into Arrears to Official Bilateral Creditors (LIOA) policy has broadly been effective in most cases. However, we note that a creative application of the LIOA policy was devised in the case of Suriname due to the unwillingness

of certain non-Paris Club official creditors to engage constructively in a debt restructuring or to provide specific and credible financing assurances. We urge staff to take such an unusual application as an exception and avoid a repetition in future cases. We are concerned that the G20 Common Framework has been delayed in effectively treating debt restructuring cases and there are only three cases underway. We hope the Common Framework soon evolves to the level where its status can be considered a new “representative standing forum”.

We support the proposed refinement on the definition and treatment of multilateral creditors in the Fund’s arrears policies. Noting staff’s concern over the possibility of dilution of the value of the Non-Tolerance Policy (NTP) for multilateral claims, it seems appropriate to restrict the NTP in Official Sector Involvement cases to only two classes of IFIs: 1) a small set of IFIs whose mandate or function is closely aligned with the Fund’s mandate to provide financing to help resolve BoP problems and 2) IFIs identified as being outside the scope of debt restructuring by official bilateral creditors community in a specific case. The proposed expansion of the LIOA policy to claims of those IFIs not covered by the NTP will clarify the application of the Fund’s arrears policies in such cases.

We support the proposed amendments and restatements with respect to the perimeter of Direct Bilateral Claims, including in the case of secondary market purchases and a pooled voting mechanism. Although these proposals would clarify the treatment of some types of financing, which are emerging yet untested under the Fund’s arrears policies, we expect a more thorough analysis for the assessment in practice. The determination of whether a public entity’s financial operations form part of budgetary process or is on behalf of member government is subject to staff’s judgement. We encourage staff to closely consult and communicate with concerned creditors and authorities.