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

We thank staff for the informative set of documents and the helpful Q&A session. **We broadly agree with the proposed decisions to temporarily adjust the Fund’s concessional financing toolkit until the next full review.** We welcome the Fund’s ongoing efforts to support LICs in the wake of the pandemic, as well as plans to foment sustained and inclusive recoveries in these countries. However, we believe that access to the concessional financing facilities for member countries should be demand-driven and determined on a case-by-case basis, with adequate safeguards. Increased access limits and norms should be combined with even stronger safeguards regarding debt sustainability and capacity to repay the Fund. We also believe that the Fund’s role should remain primarily catalytic in mobilizing support from the development partners, which may be better positioned to address the financing needs of LICs.

We support the proposed changes to PRGT access limits and norms. We agree with staff, that, given the large projected external financing needs of many LICs over the medium term, there is a strong case for increasing the normal annual and cumulative access limits to 145/435 percent of quota, respectively. We also support the temporary increased PRGT annual access limits to end-December 2021. We see merit in removing the hard caps on the access limits for both annual and cumulative access criteria. However, to limit the costs to the PRGT of these changes, access to borrowing should still be determined based on a case-by-case assessment, and lending norms should follow the balance of payments needs, not the other way round. Given the global character of the current crisis and near-uniform adverse impact on LICs, previous layered approach to access norms might be unnecessarily complex, and simpler proposed approach of the unified access norm set at 145 percent of quota for any three-year ECF arrangement is preferable.

The new proposed rules for blending concessional and non-concessional resources would allow for a more robust and transparent financing framework. The new rules are

designed to avoid confusion and limit countries' excessive shifts from non-blend to blend status and back due to volatility in per capita income levels and international financial markets sentiments.

Proposed changes in the Fund's concessional financing framework call for much stronger safeguards. While we can go along with the proposed procedural safeguards, we note that increasing the high access procedural safeguards -- in the form of higher flow and stock triggers required for the informal Board discussion -- would contribute to the erosion of the Board oversight over the PRGT lending. The stated rationale for the increased triggers is that, given high levels of PRGT credit outstanding due to the pandemic, additional "modest new access" would trigger procedural safeguards for almost any country. While new access might be modest, overall vulnerabilities and levels of concessional financing for a country would not be, and the Board might still benefit from the assessment which is triggered by the high access procedures.

We support the pragmatic two-staged funding strategy for the PRGT. Medium-term fundraising effort would help to finance crisis-related lending, while post-pandemic review would consider long-term solution to the PRGT self-sustainability. We also support the proposed annual reviews of the PRGT lending capacity and credit risks, which would allow for stronger Executive Board oversight during the first stage of the funding strategy. Many modalities of bilateral subsidy contributions are also likely to positively affect the fundraising efforts.

We support the staff's proposal to keep zero interest rates for all PRGT credit outstanding until July 2023. In many advanced economies the current environment of low interest rates is expected to persist, while demographic factors and productivity trends point to likely further decline in neutral interest rates. Therefore, we consider a scenario of global interest rate increase to be relatively unlikely, and risks for the PRGT's financial position from zero interest rates as contained.

We can go along with the creation of a Deposit and Investment Account (DIA) and Subsidy Reserve Account (SRA). The SRA would provide a welcome backstop to manage credit risk, while DIA would allow members to channel SDRs or currencies to generate investment returns which would be used to subsidize PRGT lending. We note, however, that these accounts' main role is to function as a bridge towards the longer-term self-sustained PRGT endowment model, and some duplication of the functions between different accounts in the new PRGT architecture is bound to reflect its transitory character. *It is still not entirely clear, why PRGT would benefit from "second-line backstop" in the form of the SRA instead of strengthening the first-line of existing Subsidy and Reserve accounts. Staff comments are welcome.*