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**Statement by Mr. Peter, Mr. Loszewski, and Mr. Kuth on Changes to the Fund's
Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing
Under Exceptionally High Uncertainty
(Preliminary)
Executive Board Meeting
March 15, 2023**

Enabling upper credit tranche (UCT) financing under exceptionally high uncertainty is a challenge for the Fund and its risk management. We are concerned about the substantial additional financial and operational risks involved. The approach set out in the report would present many challenges in any particular application, raising operational and broader issues.

We support the proposed procedural safeguard. In a context of exceptionally high uncertainty, program design, implementation, and monitoring are very challenging, while securing strong safeguards and assurances and effectively mitigating risks is critical. Early, structured engagement of the Board on these issues is therefore critical.

We agree that a modified program design involving two scenarios could provide confidence that the member's BOP problems can be addressed. Formulating plausible scenarios while avoiding misspecification and moral hazard would require securing the relevant external expertise about factors outside the control of the authorities' economic policies. We also emphasize that the two scenarios need to remain sufficiently separated to give confidence that the program will succeed.

UCT-quality financing under exceptionally high uncertainty requires adapting the Fund's financing assurances policy, as outlined in paragraphs 23-26. We concur with the necessity for creditors and donors to deliver firm commitments upfront for (i) the required flow financing to support the program; (ii) debt flow/stock relief and additional highly concessional financing if necessary to restore the member's debt sustainability within the program period, including in the feasible downside scenario; and (iii) assurances to secure the member's capacity to repay the Fund, including under tail-risk scenarios, while

confirming the Fund's de facto preferred creditor status (PCS). The presence of a credible process to restructure private claims that is likely to deliver an outcome in line with program parameters is another key requirement.

It will be critical to carefully ring-fence the application of the policy so as not to weaken the Fund's safeguards and debt sustainability standards. In particular, creditors and donors would have to provide assurances in explicit recognition of the presence of exceptionally high uncertainty driven by exogenous factors. In addition, we agree that the application of the two-stage approach would require a very high level of confidence in the creditors and donors involved. The assurances would have to be extended by a sufficiently large group of creditors/donors with a sufficient shareholding in the Fund and a very strong track record of cooperation with the Fund in contributing to multilateral debt relief initiatives commensurate with the scale of their collective assurance. In light of the uncertainty and timing inconsistencies, we still see a risk that upfront assurances for debt relief and additional financing may ultimately prove insufficient and/or unfulfilled. More generally, we agree with staff on the distinction between elevated uncertainty due to exogenous factors and elevated uncertainty due to mainly domestic factors.

Preserving the Fund's PCS remains paramount. In particular, explicit recognition of the PCS by donors and creditors is a key requirement.

Careful communication would also be needed to explain the very extraordinary nature of UCT lending under conditions of exceptionally high uncertainty. Such a communication would also help protect the catalytic role of Fund arrangements. Evidently, very limited recourse to such lending would be critical to rendering this communication credible.

On this basis, we can go along with the proposed targeted changes to Fund policies. We note that, even with these policy changes, the path to a UCT-quality program is narrow under conditions of exceptional uncertainty driven by exogenous factors, and that the Fund would be taking on substantial enterprise risks with such a program.