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April 3, 2023

**Statement by Mr. Subramanian, Mr. Hansda, and Mr. Jain on 2023 Review of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts
(Preliminary)
Executive Board Meeting
April 6, 2023**

1. We thank staff for the first annual comprehensive review on resource adequacy of PRGT, RST, and DRTs as requested by the Board. While we broadly agree with the staff assessment, we have the following observations/comments to make:
2. **The COVID-19 pandemic is the worst global crisis since the World War II, with the EMDEs suffering devastating impacts more than the advanced economies.** These effects are also extended into the medium- and long-run horizons. Governments' increased pandemic-related expenditure combined with the drastic fall in tax revenues have increased their fiscal deficits and heightened their debt vulnerabilities, leading to greater liquidity needs. The widening internal financing gap is compounded by the deterioration in the balance-of-payments positions resulting from the decline in exports and disruptions in the global supply chain. **The subsequent conflict in Europe, economic sanctions, high and volatile food and energy prices, persisting supply chain bottlenecks, synchronized monetary tightening, and challenging external financing conditions have rendered the situation worse** left with reduced policy buffers. In

this context, the review under consideration is timely to safeguard the interest of LICs.

3. **PRGT countries, roughly 1/3rd of the IMF membership, account for almost 20% of the world population.** Their share in quota being around 3%, the share in SDR is also similar. At SDR 16,158 million, **PRGT loans are about 17% of the outstanding GRA loans** at end-January 2023.

4. Given the self-sufficient endowment model for PRGT, it's necessary to raise subsidy pledges from contributors, given stronger demand for PRGT loans and higher interest rates. **While it's expedient to have the contribution through the Subsidy Reserve Account (SRA) route as it immediately serves the dual purpose of raising subsidy and reserves, flexibility to the contributors by making available a menu of choices could rope in many.**

5. There's no denying of the fact that the **purported remedial measures to slowdown PRGT lending or raise PRGT interest rates could be counter-productive**, particularly when the LICs are passing through a critical phase. They may be considered for a relook including the proposal to reallocate resources from Subsidy Accounts to the Subsidy Reserve Account as part of the comprehensive review set out for 2024-25.

6. In the interim, as proposed, the focus could be on broad-based fund raising efforts in coming months, especially to address the subsidy resource gap. **Attention may also be devoted to the fact that about SDR 223 million of pledged resources** as of end-2022, including from windfall gold sale profits distributions, **are not yet provided.**

7. Incidentally, we notice that in 2022, PRGT has incurred negative investment returns, which have brought down the balance in RA (ie, Reserve Account) and SRA. **We are curious to know the share of country assets in the investment portfolio of PRGT and the need for further diversification of the portfolio, if any, to raise the rate of return.** We understand that from 2023, the investment strategy of the Fund includes ESG considerations. **We are wondering, if extended**

to PRGT, about the impact it would entail for PRGT investment. Staff may please enlighten us on the foregoing.

8. We are encouraged to note the progress made on the RST fundraising campaign. We urge the remaining contributors to deliver on their pledges and make their contributions effective so that the Fund has a well charted path for financing under RSF. Timely pledges are also essential to avoid enterprise risk for the Fund which may increase due to inadequacy of RST resource base to provide long-term affordable financing to its members eligible under RST.

9. Although the current level of loan resources seems adequate to meet potential demand for RST resources, additional pledges would certainly strengthen Fund's capacity to meet any excess demand that may arise over the medium-term, especially given the climate change related vulnerabilities and financing challenges. Staff's own assessment shows that there is significant potential for additional RSF resources not currently in the pipeline. **Staff may like to comment: (i) whether the Fund intends to approach other potential contributors (other than 35 in the present list) for pledges under RST and (ii) whether staff perceive any merit in attracting more pledges by recognizing the contributions (out of SDR allocations) under the RST as part of contributors' foreign exchange reserves.**

10. As per staff's assessment, RST reserve coverage remains adequate even under several risk scenarios, including scenarios to recognize the considerable uncertainty in financial markets. Therefore, we support staff's proposal to introduce an interest rate cap of 2.25 per cent for Group A countries. In our view, this policy change will address the risks of high debt servicing which may arise due to tighter global financial conditions for countries with low per capita income and inadequate capacity to access international financial markets on a durable and substantial basis.

11. As shown in Table 8, access levels under all RSF arrangements approved so far have exceeded the norm of 75 per cent of quota. We understand that the RST resource base may fall short of potential demand for loans if the maximum level of access continues to be provided under potential RSF requests. However, at the same time, we need to recognize that access level based on the norm of 75 per cent

of quota may not always be adequate for eligible members to design an effective policy response. Nevertheless, in our view, the present policy capping the access at the lower of 150 per cent or SDR 1 billion should continue to serve well. Under these broad contours of the access policy, staff's assessment on access level under the RST should continue to be guided by strength of the reform agenda, financing needs and debt sustainability of borrowing member country. To meet the resource shortfalls in the RST, the Fund may continue to work on the ways to attract more pledges from other potential contributors with strong external sector positions.