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Statement by Ms. Vongpradhip and Ms. Maung Gyi on Debt Limits in Fund-Supported Programs--Proposed New Guidelines; Review of Some Aspects of the Low-Income Country Debt Sustainability Framework
(Preliminary)
Executive Board Meeting 09/91
August 31, 2009

1. We thank staff for their well-written set of papers . We welcome the discussion to encourage greater flexibility of the Debt Sustainability Framework (DSF) given increasingly diverse economic development and macroeconomic, financing patterns and public financial management capacity in member countries in particular among Low Income Countries (LICs). We also renew our call for evenhandedness of the Debt Sustainability Assessment (DSA) for all memberships since the levels of subjectivity and uncertainty seem significant.

Debt Sustainability Framework

2. We note that the Fund's current framework on debt limits in Fund-supported programs have played an important role in preventing the build-up of unsustainable debts yet entail limited scope of flexibility. Having said that, we are of view that the main objectives of the DSF are appropriate. As many LICs have progressed well in strengthening their macroeconomic management and reducing their debt burden, while official financing becomes available through a broader group of creditors, Fund policies should take into consideration changes in the individual country situations and their external financing patterns.

3. We would like to emphasize that sustainable debt position remains a key to creating an environment for sustainable growth. However, we believe that the strengthening of debt management should go hand in hand with the new architecture of facilities and financing framework of LICs. Regarding the public investment and nexus, we agree that DSAs should report in more detailed analyses based on multi-pronged approach and less time intensive methodologies. *Have staff identified any drawbacks of this approach for DSA?* We also welcome staff focusing more on the efficiency and

quality of public investments and then appropriately assessing the implications of those investments on public debts and economic growth.

4. Regarding the consideration of remittances in the DSF, we believe that flexibility should be exercised in performing DSA. Although remittances are less volatile than official aid flows, foreign direct investment and exports, we are of view that the levels of uncertainty and volatility of remittances can still be high. We therefore suggest that consideration be given on case by case basis according to the level of remittances in term of GDP, at which the Fund could set à priori.

5. We concur with staff to reduce the frequency of the events associated with threshold effects in option 1. We are also supportive of the staff's proposal of keeping the rule and the downward adjustment of the discount rate in the new DSA, as a change in discount rate is not expected to increase significantly the present value of external debt.

6. We agree that excluding SOEs external debt from Public and Publicly Guaranteed (PPG) external debt for SOEs that can borrow without a public guarantee would pose a limited fiscal risk for the government in DSAs. This is important to be consistent with the Fund's new debt limits policy and we suggest that this treatment should also be applied to the more advanced LICs with foreign exchange earning capacity of the country. *Staff's clarification on avoiding the risk rating where debts unduly influence the risk rating would be appreciated.*

Proposed New Guidelines for Debt Limits

7. We see merit in staff's proposal to streamline DSA requirements to meet LICs financing needs and provide donors incentives to provide highly consessional resources over the medium term. We can go along with the proposed new guidelines on Debt Limits in Fund-supported Programs and we welcome the review of some aspects of the LICs' DSA. However, we should bear in mind the additional resource requirements to implement the full DSA.

8. We support the two-step process of the authorities' macroeconomic and public financial management capacity and uniform treatment of LICs. Using the sub-CPIA and PEFA as guideposts for the first step, the sub-CPIA would provide an assessment of a country's policies and institutions for assessing a country's capacity to manage adequately its public resources. However, we note the difference in the reporting frequency of these indicators where the sub-CPIA is measured annually, whereas the PEFA Index is updated every three years. While we recognize that the PEFA Index is used by donor agencies in support of their decision to make aid allocations to LICs, we would suggest that staff explore ways to estimate the index on an annual basis for

comparability with the sub-CPIA. Reliance on these indicators as the first step to measure capacity may be constrained. *With the new approach, howwould donors be reallocated their concessional resources across LICs to address the implication of the ongoing financial crisis.*

9. We note the applicability of the currency of denomination criterion in countries with relatively closed capital accounts. However, we would prefer the use of the residency criterion in the determination of external debt limits for the purposes of uniformity of assessment as well as comparable cross-country assessment and compliance with existing IMF guidelines on definition of external debt. We are of the view that the Fund should encourage members' compliance to this guideline, rather than identify exemption clauses for those members that cannot comply.