GRAY/10/60

January 8, 2010

Statement by Mr. von Stenglin and Ms. Meyer on Eligibility to Use the Fund's Facilities for Concessional Financing
(Preliminary)
Executive Board Meeting 10/3
January 11, 2010

We welcome the staff's proposal for a framework to determine the eligibility for access to the Fund's concessional resources which will help to clarify and objectivise the Fund's approach in this regard. Prior to commenting on the details of the proposal, we would like to emphasise that the issue of PRGF eligibility or the staff's "premise" of preserving scarce resources for concessional Fund financing should not be understood as if monetary resources held in the GRA could substitute for subsidized PRGF lending. Such an approach would also not be in line with the principle of equal treatment. In fact, graduation needs to be based on country specific economic criteria. Importantly, a graduating country should enjoy sustainable financial capacity that would adequately reduce the risks to the sole use of GRA resources should a temporary balance of payments need arise. At the same time, we agree with the staff that scarce concessional Fund financing should be preserved for low income members with a short-term or protracted balance of payments need in order to assist them in achieving a stable and sustainable macroeconomic position consistent with poverty reduction and debt sustainability.

Having said that, we consider the proposed criteria to be appropriate and support decision A as proposed by the staff. Against the background of the objective that underlying economic factors for a graduation should be of a robust nature, and owing to the structural focus of the PRGF as well as the extended graduation period*, we would be grateful if the staff could clarify its rather strong focus on "short-term" vulnerabilities in its assessment of countries' capacity to graduate*. With regard to the market access criterion, one of the challenges will be to evaluate the effect of the currently abundant global liquidity when assessing the sustainability of access to international financial markets.

We also support decision B on the amended list of PRGT eligible countries. One might observe that the less cautious assessment of the manageability of Pakistan's and Sri Lanka's vulnerabilities appears to be somewhat surprising when compared with the vulnerabilities' assessments of Armenia and Georgia. However, against the background of the staff's proposal for reviewing PRGT eligibility every two years, and given that decisions on entry onto the list of PRGT eligible countries – notwithstanding the general desirability of avoiding a re-entry – could be adopted also in the interim period, we agree with the staff's assessment.