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July 8, 2020

Statement by Mr. von Kleist and Ms. Koh on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

We thank staff for the comprehensive report. Against the backdrop of the specific financing needs of members in light of the exceptional challenges due to the COVID-19 pandemic we can go along with the proposed decisions for a temporary increase of annual access limits.

We welcome that the report explicitly highlights the key role played by access limits as important elements of the Fund's risk management framework, including with regard to supporting the "Fund's catalytic role given that a large build-up of senior non-restructurable debt can adversely affect future access to private capital markets". We fully echo this statement, which we see as a fundamental tenet to guide the Fund's lending strategy and practice also in crisis situations, and call for a return to the current well calibrated system of annual access limits as soon as feasible.

Implementing the Fund's lending policy in this vein should be a priority going forward to preserve the revolving character of Fund resources and its catalytic financing role with a view to effectively support sustainability, recovery and a lasting stabilization in member countries. For this to be successful, it will be important for the Fund to be able to rely on an appropriate mix between financing and adjustment when providing financial support to cover members balance of payments needs, including the involvement of other public and private creditors.

Against this backdrop, we would have preferred a smaller temporary increase of the NAAL. Raising the NAAL by 50% to 195% of quota would also have been more consistent with earlier decisions on temporary financing measures taken in the context of the pandemic. Furthermore, it would have mitigated the additional challenges provided by a bunching of access and corresponding repayments. If the decision is adopted as proposed, we underscore the need to put strong emphasis on risk mitigation by rigorously applying other existing safeguards, as mentioned by staff.

Regarding PRGT access, we understand that staff is proposing an increase in the PRGT NAAL in line with resource availablilty. *Can staff provide a brief update on this issue, i.e. the extent to which the proposed increase is in line with available resources and new commitments under the current PRGT fund raising exercise (and the current fundraising target of SDR 12.5 bn)? Do staff's considerations also envisage increased recourse to blending?*

We note that the increase in access limits is proposed to remain in place for a period of 9 months, i.e. longer than other temporary measures taken previously in response to the Covid-19 pandemic, and that a review to consider a possible extension of the temporary NAAL increase is planned for already before end 2020. *Against this background, we wonder whether extending the temporary NAAL increase well into 2021 may be premature at this point, also given exceptional levels of uncertainty on the economic outlook, as often referred to by staff.*

Normal Cumulative Access Limit (NCAL)

Given that staff intends to still consider changes to the Normal Cumulative Access Limit (NCAL), we reiterate that we have strong reservations against such a proposal, in particular also due to the fundamental aspects of access limits rightly highlighted by staff in the documentation. Staff rightly emphasizes that the NCAL constitutes a "key anchor in the Fund's risk management framework" and an important safeguard by triggering additional scrutiny and procedural requirements under the exceptional access framework (EAF) for higher aggregate exposures. It is therefore key also for the Fund's unique financing mechanism and role in the GFSN. At this time, we do not see a convincing argument for an increase in the NCAL. We also do not concur with the implied higher risk tolerance and note that the actual risk level faced by the Fund has continued to increase markedly in recent months to levels strongly exceeding the tolerated risk level formally accepted by the Board.

Risk outlook

Overall, the paper could have been more explicit on the proposals' effect on the Fund's risk outlook. In our view, the proposals clearly imply an additional increase in already elevated UFR risk levels. *Could staff elaborate further on the staff's assessment that "residual risks to Fund programs and resources would remain", and that "creating space for more upfront disbursements under follow-up UCT-quality programs reduces program risks"?* We look forward to a thorough analysis of UFR risks and their drivers to be taken up in the context of the planned broader discussions of the Fund's level of risk tolerance. *Could staff comment when and in what format this discussion is planned to take place?*

Exceptional access Framework

The EAF provides important mechanisms for enhanced scrutiny and must not be undermined by increases in normal access limits. While we concur with staff that "higher immediate financing needs do not necessarily reflect domestic policy weaknesses" we are less convinced by staff's view that the current exceptional global conjuncture renders the triggering of the enhanced scrutiny of the EAF "less useful". One main purpose of the EAF is the safeguarding of Fund resources against risks from high exposures. Consequently, it could well be argued that there is a higher need for enhanced scrutiny against the backdrop of a "pandemic and associated global recession of historic depth". *Staff's comments would be welcome.*

Similarly, we would ask staff to provide an explanation on why the proposal to raise NAAL for the PRGT to 150% of quota is to be accompanied by a temporary increase in the Exceptional Annual Access Limit (EAAL) above that level to 183.33 percent?

Quality UCT-Programs vs. unconditional RCF/RFI lending

While we can go along with the proposal to remove the limit on the number of disbursements under the RCF within a 12-month period, some concerns remain. The proposal's underlying rationale - the notion that the Covid-19 Pandemic gives a rise to a number of unexpected shocks necessitating multiple disbursements of emergency assistance - seems rather weak. By contrast, the stated rationale for the introduction of the limit - preventing repeated use of the RCF "reflecting the view that UCT-quality program would likely be more appropriate" - appears well applicable already to current circumstances. Incentivizing the use of fully-fledged programms (rather than doing the opposite) would seem pertinent in order to not miss the opportunity for necessary and timely adjustment, including structural adjustment, as economies aim to manage the transition from containment to stabilization and eventual recovery. In this regard, we would also like to point towards the higher negative impact of RCF lending on UFR risks, compared to assistance provided under UCT programs. *A staff comment would be welcome.*

In light of the above and consistent with the stated aim to facilitate "timely resumption of UCT-quality lending", **we would also argue that the increase in the NAAL strengthens the case for returning to the regular RFI/RCF access limits sooner rather than later**. *Staff's comment would be welcome.*