GRAY/20/2564

July 8, 2020

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

We thank staff for the proposals to meet the increased financing needs arising from the COVID-19 shock to the global economy. **We accept the proposed temporary changes to the annual access limits in order to provide additional lending space to move from emergency financing to UCT–quality programs.** However, in our view, more moderate increases would have struck a better balance between additional lending with less scrutiny in the short term and containing the resulting risks to Fund resources, including to their revolving and catalytic nature.

Thus, while we are supportive of extraordinary measures in extraordinary times, we remain concerned about the increasing financial risks to the Fund in the context of the current crisis. We want to reiterate the importance of maintaining the IMF's catalytic role and highlight the risks associated with a large build–up of credit to the Fund in individual economies which should be thoroughly considered when assessing requests in excess of normal access limits.

***On increasing annual access limits*:**

We can support a temporary increase of GRA annual access limits to 245 percent applicable until April 6, 2021 but would have preferred a lower increase. As the effects of the pandemic are likely to be felt for a prolonged period, we highlight that this increase in access should be used to support a follow-up of emergency lending with new UCT programs or to allow the continuation of existing programs. Program engagement focusing on fostering policies to support stabilization and recovery will help manage the challenging

situation and improve the capacity to repay the Fund. Furthermore, it should alleviate the risks related to the bunching of repayments.

Access levels should continue to be tailored to country needs and characteristics. While the COVID-19 shock is truly global, there are large differences between countries in the size and nature of the shocks, as well as in the overall availability of external funding. Therefore, we emphasize the importance of staff's judgement in program design, notably when assessing financing needs to ensure that Fund's scarce resources are efficiently lent matching the individual country's BOP needs, debt sustainability, adjustment needs, and capacity to repay.

We support integrating contingency planning as part of all UCT-program requests with elevated levels of access to mitigate and prepare for the risks arising from the uncertainty inherent in the current environment.

We can support a temporary increase in PRGT access levels to 150 percent, but would have preferred a more moderate increase, which would have been more prudent taking into account the serious concerns related to the self-sustainability of the PRGT and the expected weaker reserve coverage. In our view, the lower increase would strike a better balance between, on the one hand, providing more concessional resources to meet the upfront financing needs and support the ability to follow-up emergency financing with a UCT program and, on the other hand, the challenges associated with the PRGT financing framework. *The associated increase of the Exceptional Annual Access Limit to 183.3 percent further increases the pressures related to the adequacy of PRGT-resources. Did staff consider suggesting a lower hard EAAL? We would appreciate staff comments on this*. Furthermore, we highlight that access to GRA resources should be explored for PRGT-eligible members requesting financial assistance, subject to the usual blending policy assessments.

Ideally, the decisions on increasing access limits under the PRGT should have been taken after the Review of Concessional Financing. We are concerned of the effects that the unprecedented increase in the use of PRGT resources have on the financing mechanism and reserve adequacy of the trust. Staff sees that the risks associated to this decision are manageable assuming a decision by the Board on mobilizing additional subsidy resources. We note that the prospects of such a resource mobilization are uncertain. For the Board to make a fully informed decision on the access levels for PRGT lending, the discussion and decision on establishing a functioning financing framework for the PRGT should have preceded the one on access limits.

We encourage staff to explore the full range of possible measures to ensure the PRGT remains self-sustainable. We note that the 2012 strategy underpinning the self-

sustainability of the PRGT calls for the implementation of certain contingency measures in times of exceptionally high and prolonged demand for PRGT loans. Similarly, active measures to ensure prudent reserve coverage should be considered.

On cumulative access limits

The cumulative access limits constitute an essential element of the Fund's risk management framework and should not be changed for temporary reasons. We note staff's suggestion that consideration of possible changes to the cumulative access limits be undertaken at a later point, drawing on lessons from experience in the coming months and in the context of broader discussions of the Fund's level of risk tolerance. In this context, we also note staff´s assessment that "the benefits (of the proposed NAAL increase) outweigh risks" as part of a package where "important safeguards remain in place" – explicitly mentioning the NCAL of 435 percent of quota. Increasing annual access limits provides temporary flexibility to meet crisis needs, without fundamentally changing the Fund's risk tolerance and role in supporting stabilization and thus also catalysing funding from other sources.

Increasing the cumulative access limits could lead to substantial risks. Increasing concerns of debt sustainability and capacity to repay are already pushing up the Fund's risk profile. Allowing for cumulative access levels to increase without requirements related to debt sustainability and program strength could further increase these risks, compromising the borrower country's path to sustainable growth and debt levels, as well as its ability to repay the Fund.

Thus, we want to highlight that the Exceptional Access (EA) framework has been carefully designed to protect both the borrowing country and the Fund and should be applied always when normal annual or cumulative access limits are breached. The EA framework triggers more scrutiny and additional safeguards which ultimately are set to be in both the borrowing country's and the Fund's best interest.

Significantly increasing the Fund's share as a creditor risks the Fund's catalytic role and it can even lead to a reverse outcome, since increasing the share of super-senior debt would reduce burden sharing in a possible restructuring and thus can prove to be a disincentive for private creditors to lend.

Other considerations

We support temporarily removing the limits of RCF disbursements to two per year for pandemic funding. The shocks originating from the pandemic are likely to differ in time and scale depending on the country. Thus, more flexibility in adjusting financing

flows is warranted, also to create the right incentives to seek access only according to actual needs.