GRAY/20/2571

July 9, 2020

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

We welcome the Fund's swift and substantial response to the COVID-19 pandemic to help address financing gaps in numerous member countries. We agree that some additional borrowing space could be useful to allow members to move to UCT-quality programs with increased focus on adjustment and reforms. We nonetheless note that the Fund's engagement is increasingly testing the limits of sound risk management, as also highlighted in the 2020 mid-year risk update. Notwithstanding the unprecedented shock faced by the membership, further adjustments to the lending instruments must reflect these constraints so as not to weaken the Fund's reputation and its credibility as a preferred creditor. We thus call for a cautious approach, especially given the heightened risks created by already elevated debt levels across the membership.

Like Mr. von Kleist and Mr. Poso, we would have preferred a smaller temporary increase in the NAAL for GRA lending. The increase in the NAAL will effectively remove important safeguards related to the EA framework from a potentially large amount of Fund lending and thereby further increase the Fund's risk profile. The EA framework is as necessary as ever to provide the warranted scrutiny in high access cases. This all the more so since RFI payouts are unconditional by design. Staff mentions higher risks to Fund programs and resources associated with the frontloading of access (paragraph 12). These should be important considerations when deciding on an increase in NAALs. *Could staff elaborate on their assessment of the increase in risks to Fund programs and resources?* Furthermore, the size of members' arrangements should not be supply-driven, but should reflect many considerations, including financing needs, debt sustainability and program strength. The focus should be on maximizing the catalytic role of Fund arrangements.

We support the proposed temporary increase in the NAAL by 50 percent of quota for the PRGT. We take note that the size of the increase was calibrated by taking into account the availability of loan and subsidy resources, as well as reserve coverage, and is viewed as manageable by staff. Given the decision taken in April for a temporary increase of access by 50 percent of quota under the RCF, a temporary NAAL increase of the same magnitude ensures additionality of COVID-19-related emergency financing. We also support the corresponding temporary increase in the Exceptional Annual Access Limit (EAAL) by 50 percent of quota. We nonetheless note the continued need to ensure PRGT self-sustainability and look forward to the upcoming Review of Concessional Financing in this regard. In this context, it will also be necessary to review the application of the blending policy.

We see the increase in NAALs for both GRA and PRGT as a strictly temporary crisis-related measure. Although the cut-off date under staff's proposal would be April 2021, we note that countries will de facto benefit from higher access limits until April 2022.

We support the proposal to relax the rule limiting the number of RCF disbursements in a one-year period. We acknowledge that this will provide the flexibility needed in certain cases. We underline the importance of key financial safeguards, namely the access limits and the member's capacity to repay. The Board will need to closely assess these conditions in repeat-RCF requests.

We remain highly skeptical of any potential increase in the Normal Cumulative Access Limits (NCALs). We agree that the level of cumulative exposure permitted outside the EA framework is a key anchor of risk management. Higher NCALs would imply a readiness among the membership to accept an even higher risk profile. It would also presuppose a common understanding on a potential expansion of the Fund's overall lending envelope.