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

We thank staff for the comprehensive report and additional clarifications. Against the backdrop of exceptional challenges to the world economy and member countries we can support the proposed decisions to temporarily increase annual access limits. We note that the circumstances with respect to the GRA and the PRGT access limits are different in several aspects, which justify different approaches.

1. The GRA case

Regarding the use of GRA resources, the increase of the Normal Annual Access Limit (NAAL) to 245 percent of quota does not in fact create additional space to borrow. The access to the IMF financing should be determined primarily by the country's balance of payments needs. If these needs exceed normal limits, the Fund can provide additional resources under the Exceptional Access (EA) framework, which means that the NAAL is just a threshold that can be surpassed on the basis of the EA procedure. *Thus, we do not consider the GRA NAAL increase as creating additional lending space to any country (or at least to any country with broadly sound economic fundamentals), but rather as a relaxation of the Fund's lending conditions.*

In view of the exceptional situation, some relaxation of the Fund's lending procedures could be justified. The EA procedure is more complicated than an ordinary UCT-quality program approval and monitoring. In the present situation the assessment of the borrower's compliance with the four criteria for exceptional access could be more difficult than in the normal times, given the environment of high uncertainty. Moreover, the EA framework requires systematic informal consultations with the Board and ex-post evaluations. Taking

into account the large number of countries where financing needs may exceed the 145 percent annual threshold, the workload on staff and the Board could become elevated. The same is also true for the countries' authorities, as the EA framework requires additional scrutiny and more intensive provision of information to the Fund. Operational considerations, therefore, argue in favor of some temporary "regulatory forbearance".

Having said that, we understand that such "regulatory forbearance" creates additional risks. Higher annual limits may encourage larger borrowing from the Fund and building-up of senior non-restructurable debt that can complicate future return to capital markets. Easier access to Fund resources reduces incentives to obtain financing from other creditors and donors. Also, lesser scrutiny of the standard Board procedures compared with the EA framework could correlate with higher probability of program failure (although this needs to be assessed). Elevated use of Fund resources may also increase the Fund's credit risks.

We consider these risks to be tolerable and moderate. *First*, many countries have already received the RFI loans and further financing could be provided on the basis of the UCT-quality programs that imply appropriate conditionality. *Second*, a potentially higher risk of program failures is mitigated by moderate increase in their size, especially taking into account that the Normal Cumulative Access Limit will remain unchanged (programs with NAALs in the range of 145-245 percent of quota are relatively small compared with the 2008-2012 EA programs, with cumulative access of 900-2150 percent of quota over the three-four years period). *Third*, the proposed measures will be temporary and will last for only about one year, subject to the Board's reassessment. *Finally*, higher risks for the Fund should be weighed against potential risks for the global economy in case of insufficient Fund financing.

Taking into account these considerations, we can support the proposed package for GRA resources, including: a) an increase of the NAAL from 145 percent to 245 percent of quota; b) limiting this increase to programs approved before April 6, 2021; c) maintaining the Normal Cumulative Access Limit unchanged at 435 percent of quota. We also agree that, by end-December 2020, the Board should review these policy changes.

2. PRGT NAALs

We would be prepared to support the increase of the PRGT NAALs by more than 50 percent of quota, in case there was more certainty on the funding side. Unlike the GRA NAAL, which could be exceeded by a large margin, the PRGT annual access constraints are much harder. Even in the exceptional cases they could not be increased by more than 33.3 percent of quota. Many PRGT-eligible countries have already exhausted their normal access limits after using the RCF loans and their further access to Fund resources is constrained.

However, as indicated in the staff report, the availability of concessional resources is more limited than in the GRA case. In view of scarcity of the PRGT resources, ideally, a fully informed decision on the increase in the PRGT NAALs should have been taken after the Review of Concessional Financing, which will be discussed on July 27. *Could staff provide, on a preliminary basis, a summary of conclusions from this report regarding the resource needs and resource constraints?*

The size of the PRGT NAALs increase should be based on the realistic assumptions about future contributions by donors to the PRGT loan and subsidy accounts. Such an increase should not put at risk the self-sustainability model of the PRGT. Therefore, at this stage, we can go along with the conservative approach to the increase in the PRGT NAALs. Should the replenishment of the PRGT resources exceed expectations, we could consider further increase in access limits. As the Board will again discuss access limits in mid-December, the PRGT NAALs could also be re-assessed at that time.