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**Statement by Mr. Poso and Mr. Evjen on Policy Safeguards for Countries Seeking Access to Fund Financial Support that Would Lead to High Levels of Combined GRA-PRGT Exposure (Preliminary)
Executive Board Meeting
September 9, 2020**

We thank staff for the proposal on updating policy safeguards for access levels leading to high levels of combined GRA and PRGT funding. The PRGT financing landscape has changed fundamentally since the last discussion in February 2020. The on-going COVID-19 shock has significantly increased the need for PRGT financing both in terms of number of countries and access levels. Furthermore, we are likely to see an increase in program requests from countries who are at high risk or in debt distress. Given the current circumstances, we support the initiative to update the safeguards and swiftly address the gap in the Fund's policy safeguards related to exceptional access (EA) in programs funded jointly by GRA and PRGT.

When responding to this increased funding need from the PRGT, we need to balance considerations between ensuring sufficient financing for the members experiencing balance of payment needs and ensuring the long-term self-sustainability of the PRGT. While we understand the crisis has limited the external financing available for LICs, we continue to underline the catalytic role of IMF programs rather than acting as the main provider of funding. An important role for the Fund's programs should be to support a stable macroeconomic framework to enable concessional financing from other sources. Furthermore, we should be mindful of the risk of crowding out funding from donors.

On the financial risks related to high overall access to Fund's resources, how does staff view the relative risks of the GRA vis-à-vis the PRGT? Assuming a situation where a borrower has limited capacity to repay the Fund, how would the credit outstanding under both the GRA and PRGT be treated? Would there be any difference in debt seniority?

Overall, we support staff's proposal for the new policy safeguards on combined access to GRA and PRGT resources. Exceptional access policies are set to guard the Fund's financial

resources and ensure the program country's repayment capacity. Specifically, the safeguards add stricter requirements with respect to debt sustainability, program strength, and the prospect of success.

We can support using the higher GRA EA thresholds in the cases of combined access. However, we note that the proposed policy still allows for PRGT countries to request for high access without any EA safeguard being triggered, e.g. in the case of 300 percent of quota of access from PRGT and 135 percent of quota access from GRA. Especially in the current context, this could push PRGT countries (also non-assumed blenders) towards larger programs and using more GRA resources. On the other hand, we note that the size of any access to the GRA is still based on a thorough staff assessment. *Does staff see this as a possible development and what would be the potential pros and cons?*

We find the proposed new criteria comprehensive and relatively clear-cut, and would like to add the following points for emphasis:

- We can support staff's approach of formulating the specification of the policy safeguard on debt sustainability to be broadly comparable with the corresponding GRA EA criterion. However, we see major risks in lending large amounts to PRGT countries at high risk/in debt distress. These cases should be exceptional and when assessed necessary, the needed re-profiling or restructuring of debt should be encouraged as early as possible in order to moderate the risks related to debt distress.
- We agree with not including a market access criterion of the type of the GRA EA Criterion 3 to the new safeguards for the countries using the LIC-DSF. However, the application for MAC-DSA countries is not clear. *What is the meaning and implication of "For members for whom MAC-DSA is warranted the debt sustainability requirements for providing exceptional access to GRA resources are met"? For example, does this include the requirements defined under Criterion 3?*
- We welcome the elaboration on the specific thresholds that will have to be met in cases where proposed access levels would lead to EA under the GRA and/or PRGT, and the new high combined credit exposure safeguards. Avoiding unnecessary overlaps as well as gaps in the safeguards is important.

We accept the rationale behind not applying the new safeguards to commitments made under arrangements approved prior to the new policy.

Finally, given that this is a new policy and the landscape is fast evolving, we call for a review of the policy e.g. after two years of implementation.