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Statement by Mr. Tanaka, Mr. Chikada, Mr. Naka, Ms. Kikuchi, and Mr. Shimada 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 concise but informative paper. Due to the COVID-19 crisis, the number of countries borrowing from the Fund as well as the credit outstanding of each country has been increasing. It is also expected to see the further increase in the Fund lending through the shift for UCT-quality programs in stabilization and recovery phases. In this context, **it is essential to enhance Fund's risk management and we acknowledge that the proposed policy safeguards would be one important step** by sealing the *de facto* "loophole", which has been existing between the exceptional access (EA) policies of GRA and PRGT. We are of the view that strengthening the Fund's risk management does not mean taking less risk, rather, it does enable the Fund to take appropriate risk in this difficult era. For the board to conduct its oversight function properly, we welcome that the procedure requirements shown in Annex I would warrant the same level of board involvement as the GRA exceptional cases. **Against these backdrops, we support the proposed policy safeguards for high levels of combined GRA-PRGT exposure**, and give the following comments.

We welcome that the new policy safeguards adopt the same wording as the GRA EA policy, wherever possible, based on the argument of informal board meeting. It would help the membership counties understand the new safeguards correctly and avoid the harmful controversy on the meaning of each criteria.

We note with concern that the standards of criterion 2 which apply to the countries using the "LIC-DSF" would be partially relaxed, compared with the proposal at the

time of the informal board meeting. In the previous draft, when the "LIC-DSF" country's debt is not assessed as "sustainable with high probability" at the time of the program approval to seek the high combined access, the county is required to restore "debt sustainability with high probability" within 36 months. Now, the proposed safeguards could give the country longer grace period, saying within 36 months or the period of a newly approved arrangement (whichever is longer). While we can understand that this change could increase the flexibility for the country with the longer-term fund's program, we have some concern that it could increase the uncertainty over the debt sustainability. We also have to mention to the staff's comment in the informal board meeting that the credibility of DSA would reduce in longer time horizon. We therefore urge staff to carefully arrange the Fund's programs to warrant the debt sustainability, while considering the country's specific circumstances.

As for the countries which meet the criterion 3 of the PRGT EA policy, they should tap the PRGT exceptional access first before seeking GRA resource. Basically, we cannot accept the combined access only to skirt around the PRGT EA policy (e.g. the combination of PRGT 300 % and GRA 135%). It is inappropriate not only from the viewpoint of Fund's resource safeguards but also that of the county's benefits, given such combined access would increase the unnecessary interest burden for the county.

Last but not least, given that the Fund should play a catalytic role, the high combined access programs should be limited to *literally* exceptional cases, even if the countries could meet the criteria of the policy safeguards. Since GRA lending is non-concessional, the countries, especially non-presumed blenders, should seek more concessional financing including grant as much as possible, by fully leveraging the Fund's catalytic role.