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Joint Statement by Mr. De Lannoy, Ms. Levonian, Mr. Rosen, Mr. von Kleist, Ms. Edwards, Mr. Fragin, Mr. Grohovsky, Mr. Manchev, and Mr. Rankin 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 to close a gap in the Fund's exceptional access structure. As we have stressed, strong access standards not only help safeguard Fund resources, they also increase the likelihood that Fund programs will succeed in helping members overcome balance of payment pressures. The Fund's large-scale financing in response to COVID-19 and heightened debt risks make addressing this policy gap all the more important. **We can support the proposed policy safeguards for cases where combined GRA and PRGT exposure exceeds GRA exceptional access thresholds.** We offer the following comments for emphasis.

The Fund should be cautious about lending exceptionally large amounts, in particular when debt is already at high risk of distress, and particularly without the necessary debt restructuring and debt relief in place to establish future debt sustainability. In this respect, we recall that the previous proposal already included a considerable degree of flexibility – allowing for the return to moderate risk of debt distress within 36 months from Board approval – whereas the new proposal would allow for longer periods for the restoration of debt sustainability. We are of the view that, for high combined access cases, where debt is not deemed to be sustainable with high probability, debt sustainability should be restored within three years or the arrangement period, whichever is earlier. Such an approach -- as staff originally proposed -- would already be a compromise between differing views in the Board and would better safeguard Fund resources. *Staff comments welcome.* We also reiterate our view that debt operations generally be completed by the first review, particularly in high access cases.

PRGT-eligible countries should not seek GRA resources to avoid additional safeguards. Under the proposed approach, countries could potentially be incentivized to borrow up to 300 percent of quota from the PRGT and then an additional 135 percent of quota from the GRA, while avoiding additional scrutiny brought by safeguards. Countries that qualify for PRGT exceptional access should avail themselves of PRGT financing first, given its more concessional nature, even if it comes with additional safeguards. As the policy does not require countries to do this, staff and management must be attentive to this outcome and encourage non-presumed blenders to stay within the PRGT wherever possible. In this context, we also encourage staff to fully account for the higher risks of non-concessional GRA access compared to subsidized PRGT access (thus ceteris paribus requiring a stronger domestic adjustment effort) when giving advice to members on program design and assessing financing requests, especially for non-presumed blenders. This is also important with a view to maintaining the required catalytic effect of Fund lending.

We support inclusion of Criterion 4 and underscore the important role of capacity development. High access programs must have at least “reasonably strong prospect of success”, taking into account both the member’s adjustment plans and capacity. However, we also stress the important role targeted Fund capacity development should play in helping countries improve program prospects.

The proposed policy should be carefully communicated. The new safeguards are not intended to constrain access to resources during a global crisis, but rather to address a technical gap in the Fund’s policy framework. We note that these changes will also help ensure members are able to benefit from Fund resources in an evenhanded manner. We further note that the new safeguards are being introduced following significant increases to GRA and PRGT annual access limits, and alongside efforts to ensure PRGT is fully financed to meet the needs of the membership.

Finally, we underscore that exceptional access – whether through a single window or combined – is meant to be exceptional. The Fund’s role in the international architecture should be catalytic, attracting financing with strong programs, rather than potentially crowding finance out with high access programs. While acknowledging the truly exceptional nature of the current crisis, keeping high access cases appropriately rare will require disciplined implementation from staff, management, and the Executive Board.