EXECUTIVE BOARD MEETING

SM/20/137
Correction 1

September 8, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Policy Safeguards for Countries Seeking Access to Fund Financial Support that Would Lead to High Levels of Combined GRA–PRGT Exposure**

Board Action:	The attached correction to SM/20/137 (8/17/20) has been provided by the staff:
Evident Ambiguity	**Pages 7 and 8**
Questions:	Mr. Alper, SPR (ext. 35907) Mr. McGrew, SPR (ext. 30475)

cannot be met without giving rise to a combined access to PRGT and GRA resources in amounts exceeding the thresholds that apply as limits in the GRA.

ii. Risks to the sustainability of public debt are adequately contained.[10] This is evidenced by:

a. For members for whom use of the Bank-Fund Debt Sustainability Framework for Low-Income Countries (the "LIC-DSF") is warranted:[11]

- A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. This is generally considered to be met for countries that are assessed under the LIC-DSF to be at low or moderate overall risk of public debt distress[12]; or

- Where the member's public debt is not assessed to be sustainable with high probability[13], combined access above the proposed thresholds will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring[14], restores public debt sustainability with high probability (i.e., to a point where application of the LIC-DSF would yield a rating of low or moderate overall risk of public debt distress) (i) within 36 months from Board approval of the financing request[15] or within the period of a newly approved arrangement (whichever is longer) or (ii) within the remaining period of an arrangement, in cases where the Board approves an augmentation or rephasing request.~~[16]~~ In situations

[10] This criterion applies to public (domestic and external) debt but the analysis of such public debt sustainability will incorporate any relevant contingent liabilities, including those potentially arising from private external indebtedness.

[11] PRGT-eligible countries that have access to IDA resources and all countries that are eligible for IDA grants are expected to use the LIC-DSF template. This is because concessional financing is a key source of external financing in these countries and the present value of debt plays a key role in understanding debt-related vulnerabilities, making the LIC DSF more suitable for analysis than the MAC DSA framework. See Guidance Note on the Bank-Fund Debt Sustainability Framework, December 2017.

[12] The overall risk of public debt distress, determined as one component of the LIC-DSF, may be higher than, but cannot be lower than, the assessed risk of external debt distress: see *Guidance Note on the Bank-Fund Debt Sustainability Framework*, December 2017.

[13] This covers cases where (i) the members' overall risk of public debt distress is assessed to be high or in debt distress; and/or (ii) the member's debt is unsustainable ex ante.

[14] As is the case with all debt restructurings under Fund-supported programs, a debt operation, where it is needed, should ideally be undertaken before the approval of the Fund arrangement. However, there may be circumstances under which more flexibility is warranted, so that the conclusion of the debt operation is contemplated at a later date. Against this background, it would not be necessary to hold up Fund support until there is complete clarity regarding the terms of this financing. The general practice in these matters has been that member countries should complete (or be close to completing) the relevant debt operation by the time of the first review.

[15] The financing request could take the form of a request for a new Fund arrangement or a new outright loan or purchase under the Rapid Credit Facility and/or the Rapid Financing Instrument.

~~[16] In situations where the remaining period under the arrangement is too short to achieve the required strengthening of the debt position, the member can request an extension of the arrangement to provide the requisite time. If the scope for extension is limited, the member could initiate discussions with staff on the case for requesting a new arrangement, with prior cancellation of the ongoing arrangement.~~

where the remaining period under the arrangement is too short to achieve the required strengthening of the debt position, the member can request an extension of the arrangement to provide the requisite time. If the scope for extension is limited, the member could initiate discussions with staff on the case for requesting a new arrangement, with prior cancellation of the ongoing arrangement.

b. For members for whom use of the MAC DSA is warranted: the debt sustainability requirements for providing exceptional access to GRA resources are met.

iii. The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

8. **The specification of the policy safeguard on debt sustainability for high combined credit exposure is intended to be broadly comparable with the corresponding GRA EA criterion**. Recognizing that the differences in the methodology for assessing debt risks between the LIC-DSF and the MAC DSA preclude an exact mapping,[17] staff see the specification proposed above as a pragmatic approach that seeks to balance the different metrics of the two methodologies in a manner that can be easily operationalized.[18]

9. **The proposed safeguards do not include a market access criterion analogous to that in the GRA EA framework.** The majority of PRGT-eligible members do not have significant access to international capital markets, relying more heavily on official sector financial support. In such cases, requiring establishment or resumption of market access within a timeframe and on a scale that would allow the county to meet its obligations to the Fund, or some equivalent test, would represent an unattainable bar and hence would not be appropriate.[19] The requirement that a country achieve sufficient improvement in key debt indicators over the period of the proposed arrangement (or 36 months) to warrant an assessment of low or moderate risk of debt distress provides a reasonable assurance that it will be in a position to repay the Fund when debt payments fall due—much as would resumption of access to private capital markets in countries formerly dependent on such borrowing.

10. **Cases may arise where proposed access levels would constitute EA under the GRA and/or PRGT while also meeting the thresholds for high combined credit exposure safeguards**. This arises partly because PRGT-eligible countries considering Fund support are encouraged to first meet their financing needs through the PRGT facilities (including by tapping EA

[17] For instance, the gray zone scenario is not be applicable to countries using LIC-DSF.

[18] Staff work on more nuanced mappings from risk levels in one framework to the other yielded results that were complicated without providing a demonstrably superior linkage to that proposed here.

[19] For "frontier market" economies that are PRGT-eligible, it would normally be expected that program design would target restoration of access to international capital markets over the medium-term.