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GRAY/20/2990

September 24, 2020

**Statement by Mr. Poso and Ms. Ekelund on Review of Enhanced Access Limits Under
the Rapid Credit Facility and Rapid Financing Instrument
(Preliminary)
Executive Board Meeting
September 28, 2020**

Despite initial signs of economic recovery, the COVID-19 crisis is still on-going, justifying the discussion on extending increased access limits under emergency instruments (the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI)). Overall, we do not see a large-scale need for additional emergency funding going forward. Instead, as the impact of the crisis is likely to be felt for long, **we would strongly recommend countries move from the emergency lending to UCT programs with an appropriate policy package to support recovery and help catalyze additional financing**, when needed.

The recent staff proposal on the Fund's Pandemic Response - Lending Options to Support Members During the Next Stage of the Crisis highlights the drawbacks of extended reliance on emergency financing, such as limited conditionality and safeguards, pointing out that risks to the member's recovery and the Fund's resources would be unacceptably high.

However, the crisis is still unfolding in different countries at different speeds and economic risks remain elevated. Hence, not extending the increase in emergency access could be premature and send the wrong signal. It could also compromise the principle of even-handedness as the intensity of the pandemic is still increasing in some countries with potentially significant needs for emergency funding and with unused access.

Thus, we can accept the proposed extension of increase in access limits for the RFI for a limited time period for countries where emergency funding needs are justified, conditions are met and UCT engagement is not feasible. We highlight the importance of maintaining the qualification criteria and the objective of debt sustainability. Hence, the uptake of emergency funding must not compromise the sustainability of

individual borrower's debt. Furthermore, the possible increase is expected to be reverted to normal at the end of the 6-month period to reflect the transition to UCT-programs.

The situation is more complex for the RCF. The Nordic-Baltic Constituency is a strong supporter of the Fund's concessional funding framework, as demonstrated by our previous and recently increased PRGT-loan commitments, and we acknowledge the huge challenges faced by many PRGT-eligible countries. While we appreciate the rationale for continued higher access for emergency lending for those PRGT countries which have unused access, and can go along with the proposal, we have remaining reservations regarding the proposed extension of the increase in the RCF access limits. We believe that increased flexibility coming from a possible extension should be used sparingly, as;

- we **remain concerned about the self-sustainability of the PRGT**, notably due to the continued lack of subsidy resources and the erosion of the reserve coverage ratio;
- we are in favour **of creating incentives for UCT-program engagement, particularly for PRGT-countries** where the IMF's policy support is of particular importance, given the scale of the underlying macroeconomic challenges; and
- we see that many PRGT countries have **debt vulnerabilities** that are better addressed in a program context.

Ideally, the decision on RCF access limits should have been made in conjunction with the comprehensive discussion on concessional financing, conditional on an agreement on policies that can ensure the self-sustainability of the PRGT.

While we see the high-access procedures as an important safeguard, especially for countries where debt sustainability is a concern, we agree with continuing the suspension of this safeguard for the proposed period to ensure timely and flexible support for urgent needs. At the same time, we highlight **the importance of governance safeguards to ensure that emergency funding is directed to emergency needs.**

We note that 19 countries have requested but not yet received emergency financial support, including 16 first-time requests and three second-time requests. *Could staff comment on what is holding back the process in these 19 cases?* Furthermore, paragraph 17 states that "The extension could also encourage some countries to temporarily delay requests for multi-year arrangements or even cancel ongoing arrangements." *In terms of future demand for emergency funding, could Staff elaborate on the risk of countries opting for an RFI/RCF instead of an UCT program in the context of extending the period of increased access limits?*