EXECUTIVE BOARD MEETING

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Supplement 3

October 22, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Reform of the Policy on Public Debt Limits in IMF-Supported Programs—Draft Press Release**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Wednesday, October 28, 2020**
Publication:	Proposed, with main paper
Questions:	Mr. Beaumont, SPR (ext. 37411) Mr. Shukurov, WHD (ext. 34458) Ms. Daly, SPR (ext. 34032)

PRESS RELEASE

PR[YY/XX]

IMF Executive Board Discusses the Reform of the Policy on Public Debt Limits in Fund-Supported Programs

FOR IMMEDIATE RELEASE

Washington, DC – **October 28, 2020:** The Executive Board of the International Monetary Fund (IMF) discussed a staff paper on "Reform of the Policy on Public Debt Limits in Fund-Supported Programs.

The paper reviews the IMF's policy on the use of quantitative limits on public debt in Fund supported programs (the "debt limits policy") and proposes some modifications. These proposed modifications build on those made in the 2014 review of the debt limits policy.

The current review of the debt limits policy is taking place in a context where a broad trend toward heightened debt vulnerabilities in many countries was exacerbated by the COVID-19 shock. There have also been changes in the credit landscape facing low income countries (LICs), with concessional financing becoming scarcer relative to countries' investment needs and with an increasing number of LICs beginning to access financing from international financial markets.

The review finds that, for countries implementing IMF supported programs, public debt vulnerabilities have been broadly contained, although challenges remain in relation to the application of the debt limits policy. Experience points to a migration off-balance sheet of some debt-related risks and to shortfalls in debt transparency more generally. Among LICs that have recently started accessing international financial markets on a significant scale, the form of debt conditionality that has often been used does not align well with the credit markets in which countries are borrowing. Implementation of the policy on non-concessional borrowing appears to have been tighter than anticipated in several countries, suggesting a need to provide greater clarity on the conditions under which such borrowing should be accommodated. There have also been technical challenges in evaluating the concessionality of some loans.

The paper outlines a set of reform proposals that would provide countries with more flexibility while still adequately containing debt vulnerabilities. In particular, the reforms would: (i) better encourage adequate debt disclosure to the IMF; (ii) allow for greater tailoring of debt conditionality for LICs that have been accessing international financial markets on a significant scale; (iii) remove unwarranted impediments to the broader use of limits in present value terms; (iv) provide more detail on utilizing the policy for accommodating non-concessional borrowing; and (iv) clarify the definition and measurement of concessional debt.

Executive Board Assessment[1]

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[1]At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.