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**Joint Statement by Mr. Buisse, Mr. De Lannoy, Mr. Fanizza, Mr. Inderbinen, Ms. Levonian, Mr. Poso, Mr. Ray, Ms. Riach, Mr. Rosen, Mr. Tanaka, and Mr. von Kleist on Reform of the Policy on Public Debt Limits in IMF-Supported Programs  
(Preliminary)  
Executive Board Meeting  
October 28, 2020**

We thank staff for the excellent set of papers and for their helpful outreach to our offices as this Policy has been reviewed over the past year.

**Overall, we support the proposals to reform the Policy on Public Debt Limits (DLP) in Fund Supported Programs.** The papers provide helpful detail on the evolution of debt vulnerabilities over recent years and the lessons learnt from the implementation of the DLP to date. We also note that the 2014 policy has broadly worked well, providing a good starting point from which to evolve the policy. Furthermore, we are satisfied that the justifications for the reform proposals are evidence-based, and that the proposals achieve the five objectives of the review. This includes the critical objective of striking the right balance between flexibility for public investment to support inclusive growth and maintaining adequate safeguards to preserve debt sustainability and effectively address rising debt vulnerabilities.

**In these unprecedented times owing to the COVID-19 crisis, we ask staff to closely monitor the implementation of the reformed DLP to ensure it continues to meet its core objectives.** While we support the proposed transitional arrangements, we would encourage the reformed policy to take effect as soon as possible to support the first wave of COVID-era UCT-quality programs. We also encourage staff to devise an effective outreach strategy to ensure that the reformed policy is properly understood by stakeholders. Finally, we would welcome an update to the Board on the implementation of this policy no later than two years after it becomes effective. We offer the following comments for emphasis.

**We strongly support proposals to improve public debt transparency, which is fundamental to achieving debt sustainability.** Undisclosed debt and unreported borrowing by the broader public sector (SOEs, SPVs, PPPs, etc.) and incomplete disclosure of

borrowing terms and conditions (particularly related to collateralized debt) is a growing problem that needs to be addressed, including within the IMF's Debt Sustainability Framework. A risk-based approach should help mitigate these concerns and help improve program design. We support efforts to increase debt data disclosure to staff and underscore that this information should also be presented to the Executive Board so that Directors can fulfil their fiduciary responsibilities. To the extent possible, we also see merit in making this information publicly available to support broader monitoring and accountability efforts and to support sustainable borrowing and lending practices. *Could staff clarify which information they propose be provided to staff, which information be provided to the Board, and which information be made public?* We continue to see merit in the IMF-WB debt data reconciliation exercise announced in the context of the DSSI. *Could staff provide an update on this exercise?*

**We welcome Annex I which lays out a sample table on creditor composition of public debt.**

We stress that information on a country's creditor composition is needed to assess debt vulnerabilities, as well as to strengthen program design. We also echo staff's finding that increased transparency helps debtor countries, including by lower borrowing costs. For these reasons we very much support enhanced transparency on debt holders' profile in all program documents. We further ask that staff present information on all creditors above a de minimis threshold, not just the largest two creditors by creditor type, and include information on debt service as well as debt stock. We note that there is lack of clarity in defining what is a "commercial" and "official" creditor, and we call for further work on this, including in the context of the upcoming reviews of the lending into arrears' policies. Finally, we believe it is important to identify which claims are subject to "confidentiality clauses," possibly through the inclusion of a special line item that indicates the total amount subject to confidentiality clauses, and for staff to urge countries to avoid non-disclosure requirements in debt contracts. *Staff comments welcome. Could staff also clarify which institutions would be listed under "Other Multilaterals" and which would be listed under "Plurilateral creditors"?*

**We broadly support the proposed reforms covering countries that normally rely on concessional financing.** For countries at moderate risk of debt distress, we welcome the shift towards greater reliance on present value limits. For countries at high risk of debt distress or already in debt distress, we support the proposal to retain the presumed zero limit on non-concessional borrowing. While we support greater clarity on non-concessional borrowing (NCB) exceptions, we call for a cautious approach for granting exceptions and reiterate that further NCB should be limited to those projects that will credibly bring good social and economic return and contribute to reducing overall debt vulnerabilities. Projects included in a National Development Plan or presented as "commercial in nature" may not be sufficient signals, on their own, to warrant an exception. We therefore agree with staff's proposal that when questions arise about the quality of one signal, a second signal be required. Our understanding is that when a credible independent assessment is available and does not show high social and economic return, we would not proceed with the NCB exception. We further agree that program documents should clearly justify NCB exceptions, in accordance with the guidance note. While we appreciate the description of the signal-based approach to determining NCB exceptions, we would welcome greater clarity on how it will be applied in

practice, and how it will strengthen even-handed application of exceptions. *Staff comments are welcome.* We further encourage staff to adopt a risk-based approach, under which large projects seeking special exceptions are subject to greater rigor. For countries that do not normally rely on concessional financing, we encourage staff to remain vigilant of off-balance sheet liabilities that are not adequately addressed by “above-the line” fiscal conditionality.

**We strongly support staff’s proposals to adjust the definition of concessionality.** In particular, blended financing arrangements that include significant amount of “grants in kind”, as well as financing arrangements involving “unrelated collateral” should be treated as non-concessional with a zero-grant element. As staff highlight, these opaque and complex financial arrangements are subject to evaluation difficulties. Moreover, loans secured by unrelated collateral can increase the risk of debt distress and increase market interest rates required on non-collateralized loans. They may also impact countries’ capacity to repay, as well as the Fund’s preferred creditor status. For these reasons, we encourage borrowers and creditors to carefully consider the hidden costs inherent in these financing arrangements.

**We underscore the importance of the IMF, alongside the World Bank and others, in providing adequate support for debt management capacity development where needed.** The paper is clear that the DLP’s success in helping contain debt vulnerabilities relies heavily on countries having adequate debt management capacity, for example in the areas of debt data disclosure and transparency, and debt monitoring and recording. To this end, we strongly endorse continued support for capacity development to strengthen debt management. We also support the application of structural conditionality when significant weaknesses in debt management are identified. The DLP itself is an important tool for incentivizing improvements in debt management capacity. We also call for debt related capacity development to be scaled up and prioritized, and for development partners to effectively coordinate their support in this critical area.

**We strongly encourage staff to collaborate closely with the World Bank to ensure strong complementarity between the DLP and the Bank’s Sustainable Development Finance Policy (SDFP).** The supplementary paper detailing how the two policies fit alongside each other is helpful. While we recognize that there will not be perfect alignment between the two policies, we do see ample opportunity for strong coordination to ensure that the two institutions work together to convey clear, complementary and non-conflicting signals, and to reinforce each other in setting the right incentives for countries. We highlight the specific areas of debt transparency and zero NCB exemptions as two of the most important that require robust coordination. In cases in which the SDFP and DLP prescribe different debt ceilings, we expect this to be transparent and included in staff reports submitted to the Boards of both institutions. *Could staff provide the Board clarity how the IMF and World Bank will address instances of divergence?*

**We underscore debtors and creditors must work together to prevent and resolve unsustainable debt situations.** In this respect, we encourage all official creditors to engage with the Paris Club and to follow responsible and transparent lending practices consistent with IMF debt limits and in line with the *G20 Operational Guidelines on Sustainable Financing*.