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Statement by Mr. Mouminah, Mr. Alkhareif, and Mr. Keshava on Reform of the Policy on Public Debt Limits in IMF-Supported Programs
(Preliminary)
Executive Board Meeting
October 28, 2020

We thank staff for their well-focused paper on the reform of the policy on public debt limits (DLP) in Fund-Supported Programs.

We broadly support the proposed modifications, which build on the 2014 reform of the DLP. We believe that the current review of the DLP, as part of a broader reform to the international debt agenda, is both timely and important especially given the worsening debt positions and growing risks of debt distress in the wake of the global COVID-19 pandemic shock. We see the proposed reforms as well balanced, offering some additional flexibility, accompanied by appropriate safeguards. Indeed, getting the right balance between maintaining a sustainable debt position and creating adequate room for investment is important especially in the context of pressing needs in many LICs. We also take positive note of the close alignment of the proposed revised DLP and the World Bank's new Sustainable Development Finance Policy (SDFP) and appreciate the comparison presented in Supplement 1. In this regard, we underscore the importance of continued close cooperation with the World Bank. We have the following comments on issues for discussion.

Debt Transparency

We generally support the proposals to enhance debt transparency, which will allow more rigorous identification of vulnerabilities and support tailored conditionality. In this regard, we welcome the proposal to pursue a risk-based approach to debt disclosure with an aim to enhance program design. Here, we would like to highlight the importance of an active engagement and adequate two-way dialogue of any "red flags" with debtor countries, which can help understand the reason and ensure better debt management. In this connection, we echo staff's view that the authorities' efforts to enhance debt data disclosure and transparency would need to be supported by appropriate technical assistance.

We agree that enhancing transparency on a country's creditor composition is important for the program design. In this regard, we take note that the revised policy would require that program documents include a table providing a profile of the holders of the country's public debt. *Here, we would like to ask staff how they intend to address confidentiality clauses, should they form a significant portion of a country's outstanding public debt.*

We concur that there is a causal relationship between increasing transparency and lowering borrowing costs, which ultimately would help enhance debt sustainability. In this context, we underline the progress made by the G20 under the Saudi G20 Presidency to improve debt transparency, including through debt data reconciliation process.

Greater Tailoring of Debt Conditionality

We support efforts to align program conditionality with a country's financing mix, including by tailoring conditionality to address country's specific vulnerabilities. *However, given the current circumstances where many countries have lost/not fully regained access to international financial markets and witnessed a substantial decline in foreign investor participation in the domestic bond market, we wonder how staff have considered the impact of these developments.*

Non-Concessional External Borrowing (NCB) Exceptions

We take note of the proposed signal-based approach for accommodating NCB exceptions in high-risk countries to help make the process more transparent and consistent across countries. In particular, balancing support for development efforts with containing debt vulnerabilities is crucial. *In this context, we wonder whether staff has conducted an evaluation of effectiveness of practices in the past implementation of the DLP to accommodate NCB by countries in high risk of debt distress or in debt distress. More specifically, is the inclusion of a project in an existing Public Sector Investment Program or National Development Plan enough to merit NCB project exemption? Staff comments would be appreciated.*

Concessionality

We support the proposal to apply the standard concessionality threshold (35 percent) in all cases as it would simplify the framework and would not undermine the ability to catalyze concessional financing. *Since the high concessionality tool is proposed to be eliminated, we* *wonder how a higher concessionality threshold would still be allowed in certain cases.* We welcome the proposal to expand the flexibility provided by PV limits to a wider set of countries while eliminating distortive threshold effects.

Debt Management Capacity

Given the intention to implement the revised policy in March 2021, we encourage staff to further strengthen their communication with the authorities of debtor countries. This will help better understand their unique needs, which would facilitate targeted technical assistance in implementing the revised DLP. Indeed, as noted in the paper, most LICs still do not meet minimum debt management standards. In this regard, we underline the importance of close coordination with the World Bank and other multilateral organizations to support development of debt management capacity, including in debt recording and monitoring.