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Statement by Mr. Chodos, Mr. Lischinsky, and Mr. Morales 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 interesting papers and the online presentation. We support the proposals to reform the Policy on Public Debt Limits in IMF-Supported Programs based on the main lessons from experience, that aims at balancing objectives of debt sustainability and support to public investment. These reforms build on the important changes to the DLP introduced in 2014, and they are consistent with the IMF-WB multi-pronged approach for addressing debt vulnerabilities, focusing on supporting improvements to debt transparency and debt management over time. In particular, we appreciate the proposed flexible policy to take into account new developments regarding countries relying on both concessional financing and recently-earned access to international markets, which would help countries to achieve greater consistency between fiscal objectives and debt management capacity.

The use of PV limits should be the standard in normal circumstances, as they reflect more properly all elements involved in appropriate debt management. Moreover, changes in market conditions will translate more rapidly in changes in present value, with implications for macroeconomic goals. Therefore, it is appropriate that debt-related conditionality is set in PV terms for countries with access to markets. For countries with no significant access to international markets, we note that the requirements for allowing the use of PV limits appear to have been too demanding, and we support the initiative to expand the use of PV limits as this would encourage countries to optimize the terms of borrowing over time, and would contribute to increase awareness among authorities of the implications of fiscal policies on debt sustainability.

We certainly support proposals to enhance debt transparency, including information on broader public sector obligations and on terms and conditions. In fact, most relevant information should be made publicly available, as this would contribute to lower borrowing costs in the long term. We agree that enhancing debt disclosure would improve the design of Fund-supported programs and the specification of debt limits, and therefore we support the staff's proposal to address critical debt disclosure gaps upfront in Fund programs, based on a risk-based approach, and the inclusion of a table on the profile of a country's creditors. At the same time, any consideration of proposals to encourage debt disclosure and transparency gaps to improve IMF-supported programs' design should be discussed in confidence with authorities maintaining appropriate dialogue channels.

Measuring concessionallity has been made complicated by ad-hoc arrangements and the migration of debt-related risks off balance sheet. In this regard, we agree that all hidden costs should be carefully assessed by all parties, including "in-kind" components and non-conventional collateral arrangements, in order to establish the capacity of countries to repay on a firm basis. This is more important in countries lacking access to international markets. In these cases, retaining the zero NCB rule is appropriate for countries with high risk of debt distress, with exceptions to be introduced in cases where discretion could be fully justified on the basis of evenhandedness in treatment, in particular for cases where concessional financing is not available and such exceptions are integral for the country's development program.

Looking ahead, we believe that the role of the Fund and the World Bank in providing assistance to develop debt management capacity would be even more important and of the essence. We appreciate that progress has been made by many low-income countries in recent years especially in organizing and reconciling information, and on making debt management objectives explicit. However, progress has been uneven across countries. As debt increases during the ongoing COVID-19 crisis, with many countries already facing elevated debt levels, maintaining the focus on long-term borrowing goals would be a challenge. In cases where debt management remains weak, well-identified structural conditionality should be introduced, and coordination with other development partners in all cases, in particular the World Bank, will be essential.