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**Statement by Mr. Jin and Ms. Cai on Reform of the Policy on Public Debt Limits in IMF-Supported Programs
(Preliminary)
Executive Board Meeting 20/103
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We welcome the continued discussion on the Fund's debt limit policy (DLP). The evolving debt situation in LICs and the changing global financing landscape underscore a need to reform the debt limit policy in Fund-supported programs. We thank staff for their extensive efforts in promoting DLP reform and find the thrust of the current proposal generally balanced and going in the right direction.

Debt limit policy needs to be both prudent and growth-oriented, and should differentiate between debt issued for productive investment and for non-productive expenses. Balance needs to be struck between containing the accumulation of debt and building up growth capacities. The reform should provide countries with greater flexibility to choose external financing sources according to their development needs, while maintaining long-term debt sustainability. The importance of non-concessional but productive borrowing (productive NCB) should be fully recognized and NCB should not be totally deemed as inherently inferior to concessional borrowing (CB). CB and productive NCB could be complimentary in nature and finance different types of public expenditure. In the current global environment where CB resources are limited, it is crucial to avoid unduly constraining a country's ability to use NCB to finance productive investments. Therefore, the setting of debt conditionality needs to reflect each country's circumstances, including economic development and debt management capacity. It is also important to ensure evenhandedness across the Fund's membership in the design and application of the policy.

We welcome the new policy's general expectation that the capacity of countries to set conditionality on aggregate debt levels (including in PV terms) is adequate, which would allow the use of PV limits for more countries. Enhancing debt transparency should include

both public debt and private debt, and respect the debtor country's right to choose the scope of disclosure based on commercial confidentiality. Excessive data disclosure requirements may affect the financing capacity of borrowing countries. Evenhandedness should be required in dealing with public debt transparency and private debt transparency. A balance should be struck between data transparency and safeguarding development opportunities. Meanwhile, we encourage staff to develop concrete measures to help and provide more targeted technical assistance for the countries that do not have adequate debt monitoring capacity.

On project financing, we are glad to see that a clearer framework is introduced to determine project NCB exceptions. It should be carefully adapted to project-specific situations. If the projects financed by debts are commercially feasible and their own revenue could cover the debt service, an excessively restrictive debt limit policy could have adverse impact on economic growth and development. Besides, some projects need to be implemented in a phased manner and may only be economically and financially viable after their construction is fully completed. If the debt limit policy is imposed when the project is partially completed, it may cause severe losses. We therefore encourage staff to further analyze these issues and ensure that countries qualified for exception could be effectively benefit from it.

We welcome the proposal that the debt limits may be formulated in terms of debt contracted or disbursements made, according to a country's specific situation and data availability. This will provide the much-needed flexibility to reflect the different natures of financing arrangements. For large and long-term project loans, measuring debt on a disbursement basis would be more appropriate to reflect a country's actual debt situation and avoid overestimating the debt burden.

On the definition of concessionality. Currently, the grant element is calculated by formulas based on indicators such as loan interest rate, maturity and grace period, instead of being judged based on the type of loans. It would be an oversimplification to classify all loans that are different from traditional ones as non-concessional. Specifically, first, it is inappropriate to treat all collateralized loans as non-concessional with zero grant element in the new debt limit policy. These loans could still contain grant elements. The conclusion should be case by case. Practical experience indicates that most collateralized loans are for productive purposes and could help borrowing countries reduce borrowing cost and at the same time broaden financing channels. Second, treating blended financing with grants in kind as non-concessional with zero grant element is oversimplified. If the in-kind donation is needed by the recipient country, its preferential nature should be recognized, and its fair value should be reasonably discounted instead of completely ignored.