Executive Board Minutes 20/75-1

July 13, 2020–2:30 p.m.

Temporary Modification to the Fund's Annual Access Limits

Documents: SM/20/100, and Sup. 1, and Sup. 2, and Sup. 2, Rev. 1

Staff: Krueger and Mumssen, FIN; Liu, LEG; Nolan, SPR

Length: 2 hours

ISSUED: July 11, 2022
APPROVAL: July 18, 2022

CEDA OGADA
Secretary

TABLE OF CONTENTS[1]

[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Transparency Policy and Open Archives Policy.

THE CHAIR'S SUMMING UP

Executive Directors welcomed the opportunity to consider proposals to raise the limits on annual access to Fund resources on a temporary basis. They noted that the COVID-19 pandemic had triggered a uniquely severe synchronized shock across the global economy and an ensuing surge in requests for financial support under the Fund's emergency financing instruments. While access limits under these instruments had already been increased temporarily on April 6 as part of the Fund's COVID-19 response, Directors recognized that many countries, in seeking to contain the impact of the pandemic and to lay the basis for economic recovery, would likely need additional financial support from the Fund in the coming year.

Against this background, Directors supported increases in the annual access limits in the General Resources Account (GRA) from 145 to 245 percent of quota, and under the Poverty Reduction and Growth Trust (PRGT) from 100 percent to 150 percent of quota, on a temporary basis through April 6, 2021. They also supported a temporary increase in the exceptional annual access limit under the PRGT by 50 percent of quota to 183.33 percent of quota for the same period. While a few Directors would have preferred more moderate increases, many other Directors would have supported a larger increase in the normal annual access limit under the PRGT, in line with the increase in the limit to access to GRA resources. Directors highlighted the need to secure sufficient subsidy resources to ensure the self-sustainability of the PRGT and looked forward to discussing possible funding options in the upcoming review of concessional financing. Directors also looked forward to the planned discussion of a policy on enhanced safeguards for high-level access to combined GRA and PRGT resources. They took note of the clarifications as to how annual access should be calculated in applying the relevant annual access limits.

Directors agreed to suspend, on a temporary basis, the limit on the number of disbursements under the Rapid Credit Facility (RCF) within a 12-month period through April 6, 2021. They acknowledged that, with the temporary doubling of the limit on annual access to resources under the exogenous shocks window of the RCF, the current limit on the number of disbursements unduly constrains the flexibility with which the RCF could be used to support member countries.

Given prevailing uncertainties, Directors agreed to review the decisions adopted today before the end of 2020, taking account of the initial experience with the use of the higher access limits and of the global economic outlook at that juncture.

Directors acknowledged that possible modifications to the cumulative limits on overall access to the GRA and the PRGT would be considered in a broader discussion of the Fund's risk tolerance in the coming months. Many Directors expressed disappointment that the case for increasing these limits was not proposed for consideration in the current context, while many other Directors opposed or urged caution in considering a change that could weaken important safeguards and pose substantial risks to the Fund. Directors also recognized that these cumulative access limits do not set a ceiling on the amount of financing that a member can obtain from the Fund but rather serve as a trigger for additional scrutiny under the exceptional access framework, with the exception of hard access caps in the PRGT. Directors looked forward to an early discussion of the Fund's precautionary balances.

Directors underscored that access limits are key elements of the Fund's risk management framework, providing an important safeguard to Fund resources and preserving their revolving nature and catalytic role. They noted that, notwithstanding higher access limits to cover the pandemic period, judgment continues to be needed in determining the amount of access in individual arrangements, including in assessing the member's balance of payments need, repayment capacity, and strength of adjustment efforts. Directors stressed the importance of enhanced scrutiny and additional safeguards for exceptional access cases. Although the increased access limits heighten risks to the Fund, many Directors pointed to potential risks from the failure of the Fund to provide adequate financial support to its members.

EXECUTIVE BOARD DECISIONS

The Executive Board took the following decisions:

Temporary Modification to the Fund's Annual Access Limits–
Decision 1: Amendments to the Decision on Access Policy and Limits on Overall Access to the Fund's General Resources, and Exceptional Access Policy

1. Paragraph 2 of Decision No. 14064-(08/18), adopted February 22, 2008, as amended, shall be amended to read as follows:

"2. The overall access by members to the Fund's general resources shall be subject to (i) an annual limit of 145 percent of quota; and (ii) a cumulative limit of 435 percent of quota, net of scheduled repurchases; provided that:

(A) these limits will not apply in cases where a member requests a Flexible Credit Line arrangement or where a member requests a Short-Term Liquidity Line arrangement, although outstanding holdings of a member's currency arising under such arrangements will be taken into account when applying these limits in cases involving requests for access under other Fund facilities; and

(B) during the period from July 13, 2020 to April 6, 2021 (the "Applicable Period"), the annual limit to overall access by members to the Fund's general resources specified in paragraph 2(i) above shall be 245 percent of quota, provided that this limit shall apply to requests for new arrangements or Rapid Financing Instruments and to requests for augmentation or rephasing of access, approved through April 6, 2021 (hereinafter the "Eligible Financing") and provided further that for the computation of the annual access under the above specified "Eligible Financing", the annual access limit of 245 percent of quota shall apply for any 12-month period that includes any part of the "Applicable Period"."

2. The access limits set out in paragraph 2(B) of Decision No. 14064-(08/18), adopted February 22, 2008, as amended, shall be reviewed no later than December 31, 2020. (SM/20/100, 06/30/20)

Decision No. 16845-(20/75), adopted
July 13, 2020

Decision 2: Amendments to the Decision on the PRGT Instrument

1. The Instrument to Establish the Poverty Reduction and Growth Trust ("PRGT Instrument"), Annex to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended, along with its Appendices, shall be amended as follows:

Limit on disbursements under the RCF

The proviso in the last sentence of Section II, Paragraph 1(d)(2), shall be revised to read as follows:

"provided that (A) effective as of April 7, 2021, a member may not receive more than two disbursements under the RCF during any 12-month period and (B) any disbursements between [date of approval of this decision] and April 6, 2021 shall not count towards the limit set forth in (A) above."

Overall amount of access under the PRGT

Section II, Paragraph 2(a) shall be amended to read:

"(a) (A) Except as specified in sub-paragraph (B) below, the overall access of each eligible member to the resources of the Trust under all facilities of the Trust as specified in Section I, Paragraph 1(a) shall be subject to (i) an annual limit of 100 percent of quota; and (ii) a cumulative limit of 300 percent of quota, net of scheduled repayments (hereinafter the "normal annual access limit" and the "normal cumulative access limit", respectively). The Fund may approve access in excess of these limits in cases where the member is experiencing an exceptionally large balance of payments need, has a comparatively strong adjustment program and ability to repay the Fund, does not have sustained past access to international financial markets, and has income at or below the prevailing operational cutoff for assistance from the International Development Association (IDA); provided that access shall in no case exceed (i) a maximum annual limit of 133.33 percent of quota, and (ii) a maximum cumulative limit of 400 percent of quota, net of scheduled repayments (hereinafter the "exceptional annual access limit" and the "exceptional cumulative access limit" respectively). For the purpose of this sub-paragraph, a member is deemed to have sustained past access to international financial markets if, in addition to having income above 80 percent of the IDA operational cutoff, the public debtor has issued or guaranteed external bonds or has received disbursements under external commercial loans contracted or guaranteed by the public debtor, as defined in Executive Board Decision No. 14521-(10/3), as amended, during at least two of the past five years in a cumulative amount equivalent to at least 25 percent of the member's quota.

(B) During the period from [date of Board approval of the decision] to April 6, 2021 (the "Applicable Period"), the normal annual access limit and the exceptional annual access limit specified in sub-paragraph (A) above shall be 150 percent of quota and 183.33 percent of quota respectively provided that these limits shall apply to requests for new arrangements or RCFs and to requests for augmentation or rephasing of access, approved through April 6, 2021 (hereinafter the "Eligible Financing") and provided further that for the computation of the annual access under the above specified "Eligible Financing", the annual access limits of 150 percent of quota and 183.33 percent of quota shall apply for any 12-month period that includes any part of the "Applicable Period"."

2. The access limits set out in Section II, Paragraph 2(a)(B) of the PRGT Instrument, and the limit on RCF disbursements during a 12-month period set out in

Section II, Paragraph 1(d)(2)(A) and (B) of the PRGT Instrument shall be reviewed no later than December 31, 2020.

Decision No. 16846-(20/75), adopted
July 13, 2020

EXECUTIVE BOARD ATTENDANCE[2]

K. Georgieva, Chair

Executive Directors	Alternate Executive Directors
D. Mahlinza (AE)	
M. Raghani (AF)	
S. Chodos (AG)	
N. Ray (AP)	
A. Bevilaqua (BR)	
Z. Jin (CC)	
	P. Moreno (CE)
	A. McKiernan (CO)
R. Kaya (EC)	
A. Buisse (FF)	
R. von Kleist (GR)	
S. Bhalla (IN)	
D. Fanizza (IT)	
T. Tanaka (JA)	
J. Mojarrad (MD)	
H. Beblawi (MI)	
A. De Lannoy (NE)	
M. Poso (NO)	
A. Mozhin (RU)	
M. Mouminah (SA)	
A. Mahasandana (ST)	
P. Inderbinen (SZ)	
S. Riach (UK)	
M. Rosen (US)	

J. Lin, Secretary
O. Vongthieres, Summing Up Officer
A. Bala / D. Al-Jarbou, Board Operations Officers
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: H. Teferra. Asia and Pacific Department: A. Gulde, E. Kvintradze, M. Nozaki. Communications Department: C. Rosenberg. European Central Bank: R. Rueffer. European Department: A. Culiuc, D. McGettigan. Fiscal Affairs Department: A. Hosny.

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[2] For countries in each constituency, please see the Constituency Codes in the annex.

Finance Department: G. Everaert, G. Fernandez, N. Ferreira Souza Sobrinho, T. Krueger, C. Mumssen, M. Spinella, A. Tweedie, O. Unteroberdoerster. Institute for Capacity Development: R. Nord. Independent Evaluation Office: C. Collyns. Legal Department: K. Christopherson Puh, K. Kwak, Y. Liu, I. Luca, G. Rosenberg, R. Weeks-Brown. Middle East and Central Asia Department: A. Arvanitis, N. Porter, Z. Zeidane. Office of Budget and Planning: A. Schimmelpfennig. Office of Risk Management: Q. Chen. Strategy, Policy, and Review Department: J. Andritzky, P. Garcia Martinez, M. Kamel Farid Mohamed Farid, D. Kim, P. Koeva Brooks, V. Kramarenko, H. Lin, W. McGrew, N. Meads, M. Muhleisen, S. Nolan, R. Turk. Western Hemisphere Department: A. Carare. Executive Director: A. Andrianarivelo (AF), L. Levonian (CO), I. Mannathoko (AE), P. Trabinski (SZ). Alternate Executive Director: R. Alkhareif (SA), K. Chikada (JA), M. El Qorchi (MD), F. Fuentes (BR), S. Geadah (MI), A. Guerra (CE), C. Just (EC), W. Nakunyada (AE), R. N'Sonde (AF), O. Odonye (AE), L. Palei (RU), V. Rashkovan (NE), D. Ronicle (UK), P. Rozan (FF), B. Saraiva (BR), J. Sigurgeirsson (NO), F. Sylla (AF), L. Villar (CE), C. White (AP). Senior Advisors to Executive Directors: W. Abdelati (MI), S. Ahmed (MD), M. Choueiri (MI), A. Ekelund (NO), R. Farber (US), M. Gilliot (FF), R. Goyal (IN), L. Johnson (AP), S. Keshava (SA), B. Lischinsky (AG), Y. Liu (CC), Z. Mahyuddin (ST), M. Maidi (AE), Z. Mohammed (BR), R. Morales (AG), C. Quaglierini (IT), T. Sitima-wina (AE), N. Thiruvenkadam (IN), A. Tolstikov (RU), C. Wehrle (SZ), J. Weil (CO). Advisors to Executive Directors: P. Al-Riffai (MI), A. Arevalo Arroyo (CE), S. Belhaj (MD), E. Cartagena Guardado (CE), T. Chrimes (UK), J. Corvalan (AG), J. Essuvi (AE), S. Evjen (NO), D. Fadhel (MI), K. Florestal (BR), J. Garang (AE), J. Hanson (NE), T. Iona (AP), H. Koh (GR), M. Merhi (MI), G. Nadali (MD), A. Nainda (AE), L. Nankunda (AF), K. Nelson (UK), A. Ribeiro Mateus (IT), F. Rivadeneira (BR), M. Shimada (JA), B. Singh (IN), D. Vogel (AG), J. Yoo (AP), J. Al Saud (SA), E. Comolet (FF).

DISCUSSION RECORD[3]

The Chair:

I am very pleased to be in the chair today for a meeting in which we are going to discuss the temporary modification to the Fund's annual access limits. I want to thank all Directors for issuing gray statements and recognize that we have a representative of the European Central Bank also attending this meeting.

The reason I said I am very pleased to be in the chair is because, once again, the Board, and the staff and management, are concentrating on acting in a very agile manner on an issue that is becoming quite pressing from the perspective of serving our membership, and it is being able to align our operational modalities with the exceptional conditions created by this pandemic.

We had a very lively and very good discussion on June 2. At that time, Board gave us a very clear steer on where are the areas of agreement--there are more than one--specifically, on the case for a temporary increase of the annual access limits, both for General Resources Account (GRA) and for Poverty Reduction and Growth Trust (PRGT). Board also gave us an indication of where the views are divided. We reflected on this discussion, and we are now coming back to Board to take a decision where we have unity of purpose and where we are pressed by the needs of the membership to move forward.

What we are more specifically providing to Board for discussion, a decision, is a proposal for a temporary increase in the annual access limits to GRA resources from 145 percent to 245 percent of quota, and in the normal annual access limits (NAAL) for PRGT resources from 100 to 150 percent of quota.

I recognize that many of Directors would have preferred that we lean forward more on PRGT annual access limits, up to 200 percent. It is where we are often faced with the most dramatic constraints imposed by the pandemic on countries meeting the needs of people. At the same time, I recognize that a few would have preferred a smaller increase than proposed, at least until we have the upcoming review of concessional financing to give us a clear picture of what the needs are.

[3] Edited for clarity.

My take from the reflections from the gray statements and from the engagement Board had with staff is that the proposed 50 percentage points is a compromise that gives us space until we have a further consideration of PRGT access limits in the review of concessional financing.

Today, what we are going to do is to take decisions where we have reached that space of consensus. We also will hear from Directors more on the case for increased cumulative access limits, where the Board is much more divided. That is not for a lack of desire to move. It is because of the concerns, which a few of Directors have expressed quite strongly, around risk management of the resources of the Fund, an issue that in prior discussions we all placed high on the agenda for us to make sure that we act prudently and within a collectively well-defined risk tolerance.

We will continue to discuss this topic of cumulative access limits, should the pressure points on our membership be such that we have to do it because, as many Directors have been flagging, there is a price in terms of high risk of inaction, and there is also price in terms of a high risk of countries facing major problems because of the Fund's inaction.

The Deputy Director of the Strategy, Policy, and Review Department (Mr. Nolan):

As Chair noted, regarding the question of why the PRGT access has not been increased by 100 percent, we will come back to it. For the review of concessional financing, there is an interim engagement with the Board by the end of the month; the issue can be tackled quite quickly. We are dealing today with those issues that are operationally pressing.

On the issue of, when do we discuss the cumulative access limits, it involves a range of complex factors. We need to concentrate and think how and what kind of vehicle is best devised to do so. We will work with the Office of Risk Management (ORM) in the coming weeks to come up with a kind of framework in which we could usefully discuss the various risks that are at play in this context.

A number of Directors in their gray statements underscored the point that the staff should remember that the limits that we are setting or are increasing are simply limits--they are not targets. They are not floors. They are not entitlements--and that, indeed, access in all cases should depend on what I would call the usual suspects: the balance of payments need, the strength of the program, the track record of the country in question, and the capacity to repay the Fund. All I can say to that advice from the Directors is: yes, this is the Fund policy, and this is exactly the policy approach that the staff will follow.

A couple of Directors asked questions about choosing the April 6 deadline rather than an earlier deadline. Given the complex animal that the annual access limit is, I will confuse people more by my answer, rather than elucidate; but I would be delighted to discuss bilaterally. The essence of the issue is that, if we had a much earlier date for closing the window, such as October 6, the end of the six months, that would mean that any program that was not concluded until after October 6 would have access for--certainly through the next six, eight, or nine months of about 45 percent of quota in the GRA. It is clearly too small. And the further out the date is pushed, the larger the access can be--the longer the time period in which programs can be covered, and the longer the period in which access after an Rapid Credit Facility (RCF) is still 145.

One last point: a couple of Directors pointed to the rationale for the RCF increase, removing the limit of two disbursements on the RCF. It is not because we see that there are many shocks occurring at the moment. Rather, there is one big shock. The logic of having more than two possible disbursements on the RCF is: since we have doubled the amount that can be disbursed to 100 percent of quota, we do not want to be forced into a situation where we are required to disburse all of it within two shocks. There are many cases, as Directors have pointed out, where governance concerns, political difficulties, and the strength of commitment to either pandemic control or to economic policies are weak, where it has made much more sense to have smaller disbursements.

The Deputy Director of the Finance Department (Mr. Mumssen):

On the question about the hard cap on exceptional access (EA) under the PRGT, as you know, we are proposing to temporarily increase the normal limit from 100 to 150 for all PRGT borrowing. And if a country meets the exceptional access criteria under the PRGT, it can borrow more from the PRGT before sort of being forced into the GRA.

The question was, how we came up with 183.33, which is not a very even number. The answer is, frankly, it is the same logic of the 50 percent increase. The RCF was increased by 50 percent temporarily. We are increasing the normal annual limit by 50 percent, and we are increasing the hard cap for the annual limit by 50 percent. It is internally consistent; we are not changing the framework in any fundamental sense.

There was a question if such a large increase was needed. I think the rationale here is that the financing implications, while they theoretically could be significant, we do not see a lot of exceptional access in the PRGT. The only cases we recently had were Ethiopia and Somalia. Typically, from a financing point of view, we look more at the big picture of all of the countries borrowing. At this stage, we had strong grounds to say that there was not any room in the PRGT to have sort of the equivalent consistent increase in the hard cap on exceptional access.

For example: think of a country that is very, very, very low income and has a very large financing gap in the short run. If that country were to meet the policy requirements for exceptional access, it would be much better for a very low-income country (LIC) to be able to do this through the PRGT, rather than having to top up through the GRA.

There were a lot of questions around the precise financing implications. We have conducted a thorough analysis. We are coming to the point where we are ready to discuss this soon with the Board. We hope before the summer break, we have a very comprehensive analytical background for the Board to start the initial discussion on the financing picture.

We briefed Board at the end of May, that in the PRGT, there are three different financing constraints. Loan resources, where I think the news has mostly been very good, thanks to the contributions. But, we have the question of a subsidy gap. In fact, for the decision today, there is a subsidy gap, and we will need to find a way to raise subsidy resources. The decision today is proposed with this understanding. But the question is: How much of a subsidy gap do we want to finance? And this comes back to what the Managing Director said. It really depends on what is needed for the Fund to be able to assist the members. We can start the discussion on this in an informal meeting just before the summer.

Mr. Bevilaqua:

At the outset, let me thank Managing Director and staff, for bringing to the Board this long-awaited proposal. We issued a comprehensive joint gray statement jointly with 11 other chairs, in which our views were clearly stated. Let me touch upon a few underlying issues that are key to frame the current discussion.

First, the differences of views is fundamentally based on approaches, rather than principles. No one will doubt that all Executive Directors have in high account both the realm of this institution in assisting member countries and their fiduciary responsibility to safeguard Fund resources. Therefore, Madam Chair, it would not be right to regard it as a debate between a camp that doesn't want to help members against one that doesn't care about putting Fund's resources at risk.

I am sure that all chairs want to support, in a very responsible way, countries' efforts to cope with the ongoing shock. The point here is how to properly calibrate our response to the largest shock to the global economy in the Fund's history. That is exactly why we should look at this exercise as one of adjusting our policies and instruments in a way that is commensurate with the magnitude of this unprecedented shock. Indeed, we have started, this effort, at the outset of the crisis, including by increasing access to our emergency facilities, but now it is the time to improve the effectiveness of our interventions, while continuing to safeguard Fund resources.

As I mentioned before, normal annual and cumulative access limits are not fundamental typical constants or commandments written in stone. Access limits are essentially a balancing act in which the Board ultimately decides how to calibrate policies and instruments to maximize the positive impact of the IMF over time, including by keeping risks at a tolerable level.

Staff showed concrete evidence that annual limits are already binding or may be binding soon as countries seek further support. A clear case was made to increase the normal annual access limit to accommodate the extraordinary demand for emergency financing, as well as members' needs of support in the stabilization and recovery phases of the crisis.

Unfortunately, PRGT funding is also a binding constraint, as noted in Chair's opening remarks; but we trust that the Board will be soon considering proposals to secure funding to bring increases in PRGT limits on par with GRA.

Since the mid-1990s, normal cumulative access limits (NCALs) have by construction been set as a multiple of the annual access limits. Thus, considering a corresponding increase in cumulative access limits should come as a natural and logical consequence of the clear case already made by staff to increase in annual limits. Such a step would not imply relaxing risk management but adjusting the limits coherently to the more complex and challenging circumstances of this unprecedented crisis.

Excessively constraining the Fund's ability to support members in need also brings important risks to the institution. Not only reputational but also financial risks, as it could hamper upper-credit tranche (UCT) level engagement. In fact, curtailing the IMF response short of what is needed may result in greater and presumably riskier demand for resources in the future.

Before concluding, I have a remark on exceptional access. The framework to deal with higher-than-usual demand for Fund resources certainly continues to be very useful. However, these extraordinary circumstances lead us to reassess what should be considered normal and what is genuinely exceptional. Therefore, it would be expected that normal limits adjust to the exceptional times, while truly exceptional requests continue to follow the exceptional access framework.

Even before the crisis, there was a case to review access limits. Indeed, a regular review was already scheduled for the beginning of 2021 or earlier. That would allow revisions in the 2016 limits set at a level below what was needed for emerging market economies to restore 2009 levels. This crisis, like no other, made it an even higher priority.

We eagerly anticipate a thorough staff analysis of normal cumulative access limits and request, again, that it is brought for Board consideration sooner rather than later, hopefully right after the recess.

Mr. De Lannoy:

We issued a gray statement, in which we support the proposed decisions. We agree that an increase in normal annual access limits is warranted, as it enables the Fund to provide UCT-quality programs under normal access after the current round of emergency lending. I would like to make two very brief remarks today.

First, given the nature of the global economic shock and the widespread use of emergency lending, we agree that we need to create some space before the increased scrutiny of the exceptional access framework kicks in. At the same time, we believe that front-loading available financing under normal access must be subject to the application of adequate safeguards. More specifically, we see a need for convincing and comprehensive Debt

Sustainability Analyses (DSAs), appropriate conditionality, and a financing mix that includes a strong contribution from other creditors.

Second, while we agree with the need to increase normal annual access limits for the PRGT, such an increase will, of course, impact the fundraising needs of the PRGT. Therefore, my authorities would have preferred to discuss a strategy to ensure sufficient subsidy resources and adequate reserve coverage before today's discussion, as it would have allowed us to make a better-informed decision today.

Ms. McKiernan:

Just as it was at the informal session, our chair's position is very closely aligned with the staff proposal; I will be quite brief.

First, the issue of potential increases to the normal cumulative access limits certainly elicits some strong views on both sides of the issue in gray statements. Like Mr. von Kleist, we feel that these limits are important for bringing additional scrutiny in cases of higher aggregate exposures. Like our colleague, we have not yet seen a convincing argument for an increase in the net cumulative access limits at this time.

Second is regarding risk. We definitely agree that this is a time for the Fund to take on more risks. Like Mr. Rosen, we agree that we need to clearly understand the risks that we are taking on and to have robust oversight of. In our gray statement, we flag the importance of addressing situations of high combined PRGT and GRA access. We were pleased to see in the responses to questions that that issue is expected to be addressed in August, with the adoption of the new policy safeguards; we look forward to it. But in the interim, there is a gap in the framework, and it seems likely that it will be exacerbated by today's decisions. I do think that that needs to be acknowledged.

Now I will turn to a couple of smaller observations on the staff report.

We fully support the enhanced use of contingency planning. We highlight that this is an integral part of all program requests, not just those with the elevated access levels and a reference on page 9. Also, we agree with staff that the proposed normal access increases would reduce program risks by avoiding the need for up-front adjustments, but we also need to be mindful of how we convey that message going forward around avoiding front-loading adjustments altogether. There may well be instances where it is the only way to finance a program.

Today's decisions are a key component of the Fund's crisis response to date. We are pleased to see the proposed press release, but we did note that the press release did not refer to the April 6, 2021, sunset date. We think that decision might have managed expectations.

Also, given how esoteric the access framework can be applied, and I think Mr. Mumssen and Mr. Nolan's comments helped to highlight part of that, perhaps we could develop some communications materials that help to explain to a more mainstream audience just how impactful the reforms would be for the membership.

Finally, we look forward to picking up the discussion of PRGT access in the context of the forthcoming review of concessional financing.

Mr. Rosen:

We issued a gray statement, in which we agreed with the proposed decisions. We will focus our comments today on the following three issues.

First, we want to echo the point in the gray statement by Ms. Levonian about the need for a discussion on enhanced safeguards for high access blended GRA/PRGT programs. This is an important issue, where there is currently a gap in the framework. We welcome the staff's indication in their responses to technical questions that this discussion will take place in late August.

Second, on keeping normal cumulative access limits unchanged, we note the statement in the report that cumulative access limits are an important safeguard that allows for annual access limits to temporarily increase. We agree with that point. This idea of keeping normal cumulative access limits unchanged is central to our thinking and agreeing to increase annual access limits. We would also reiterate a point from our gray statement, that leaving cumulative access limits unchanged would not prevent countries from accessing a higher level of resources. Indeed, this can happen, but we would invite a higher but necessary level of oversight for cases where more Fund resources are at risk, as Ms. McKiernan just pointed out.

On exceptional access, I would stress that while it may make sense in this time to have more exceptional access programs, given the risk to Fund resources, these programs do need to meet higher standards.

Finally, on the press release, we would welcome some additional specificity of the timeline to make clearer the temporary nature of this change.

Mr. Kaya:

As indicated in our joint gray statement with 11 other Directors, we support the temporary increase in the GRA and PRGT normal annual access limit, as well as a relaxation of the number of RCF disbursements in a year. I will emphasize three points.

First, the current peak in requests for the Fund's financial assistance heightens the risk to the Fund's resources stemming from country-specific factors, and the evolving country-specific risk dynamics need to be taken into account in the provision of financial assistance.

Second, we agree that access to the Fund's arrangements and emergency funding should continue to be guided by the scale of the members' balance of payments needs. While higher access limits per se and the signaling value in giving members confidence that a larger amount of Fund credit is available, realistic, and, through a thorough assessment of debt sustainability, remain crucial also not to undermine the catalytic role of Fund financing.

Third, on the PRGT, raising the annual access limit beyond 150 percent is a desirable step, while raising loan and subsidy resources to ensure the adequacy of PRGT financing. In this regard, we expect the upcoming review of the Fund's concessional financing to deliver a holistic assessment of the demand and supply dynamics of the Fund's concessional resources. Concrete proposals for easing constraints on the Fund's concessional financing will hopefully provide the basis for a consensus to further increase the PRGT access limits.

Mr. Inderbinen:

We issued a gray statement, like everybody else, and we support the temporary increase in the annual access limits. We do so, in particular, to enable a request for UCT programs, with a greater focus on adjustment and reform going forward. Like others, however, we would have preferred a smaller increase on the GRA side. We did not find the staff's written response to Mr. Tanaka's question on the adequacy of a 50 percent increase very convincing.

We would like to restate our strong preference for keeping the cumulative access limits unchanged, given their important role in mitigating credit risk. As Mr. Rosen has reminded us just now, higher access is and remains possible, as long as stronger safeguards and procedures are complied with. Like Mr. von Kleist, Ms. McKiernan in her statement this afternoon, and many others, we do underline the importance of these safeguards under the exceptional access framework.

On the PRGT, we acknowledge that increasing annual access will be more important than on the GRA side to facilitate the transition to UCT arrangements. This follows, of course, from the earlier decisions that we made on temporarily increasing the RCF access. We think this does underline the more general point of the need to take a holistic view when we decide on changes to policies. In the interest of having a more complete picture now, like Mr. Pösö, Mr. De Lannoy just now, and others point out, it would have been better to have today's decision after the review of concessional financing, especially since we already have a funding shortfall in the PRGT, as Mr. Mumssen has reminded us earlier.

On the review of concessional financing, we agree with Mr. Mouminah that the full range of options to secure the self-sustainability of the PRGT should be discussed, as also mentioned by Mr. Kaya earlier. In our view, the options should also include a review of the Fund's blending policy to ensure that concessional resources are, indeed, well targeted to the countries that are the most in need. In our view, this would, for instance, exclude countries that have borrowed quite heavily on the financial markets in the recent past and, thus, have elevated debt levels from accessing PRGT resources only.

Mr. von Kleist:

We thank the staff for the comprehensive report, which provides a balanced reflection of the informal Board discussion we had a few weeks ago, and we thank them for the responses to our technical questions. Since we also published a quite extensive gray statement, I can be quite short.

We support the staff's proposals on the normal annual access limits, but we would reiterate our strong reservation against a further weakening of essential safeguards in Fund lending through raising the normal cumulative access limits. The NCAL forms an integral part in the Fund's risk management framework. We believe that, especially during times like these, triggering additional scrutiny and procedural requirements under the exceptional access framework for higher aggregate exposures is key to manage risk for borrowers, the lenders and the Fund overall.

We would ask staff to elaborate in more detail on the staff's proposal for contingency planning in the Fund's lending arrangements for a longer pandemic shock. Usually, we have a short time horizon; we would like a few more details there.

In light of the elevated risk levels, we urge staff to schedule the Board meeting on additional safeguards for combined access as soon as possible, preferably before the Board recess. Also, of course, we strongly regret that the meetings on precautionary balances have been postponed because the risk assessment, the precautionary balances, it is all part of one discussion.

Lastly, I do have some reservations about the press release. We are sharing good news. But there is a paragraph in the press release that takes out the good news and makes sort of bad news out of it. At the same time, it is a complex issue, and we would just highlight one.

I am unhappy with the second paragraph which says: "Under the Fund's lending policies, requests, …." I think it is all superfluous. We are not discussing the exceptional access framework today. It is a complex issue. In a certain sense, the second sentence seems to suggest that we are somehow trying to circumvent the exceptional access. I would simply propose to delete most of the second paragraph. We can leave the last sentence, of course. That is very important. And put in the timeline, as suggested by Mr. Rosen. We are diluting our good news with bad news and are taking out a very small portion of the overall complex discussion, which is very hard for outsiders to understand what it is all about.

Mr. Mojarrad:

We have issued a gray statement with 11 other chairs, in which we support the proposed decisions. However, we wish to highlight the following points.

First, by end-July 2020, about 80 members will have benefited from the Fund's emergency financing provided in the wake of the coronavirus outbreak. We expect that the outstanding requests by the remaining 20 or so countries will be met after the Board recess, before a new round of emergency financing starts for countries that may face a second wave of the pandemic. If a few requests remain unmet by October 5, 2020, the current NAAL and the normal cumulative access limit of 100 and 150 percent of quota respectively for both Rapid Financing Instrument (RFI) and RCF should be extended for another six months, until April 2021.

Second, we expect a transition of economies from the containment phase to the stabilization and recovery phases during 2020 and early 2021. While we all hope for a speedy end to the pandemic, we should not exclude and should be prepared for a more intensified and protracted outbreak. We underscore the need to draw on lessons from experience in the coming months and, if warranted, to stand ready to extend the temporary increase in the NAAL beyond April 2021, as well as to consider a commensurate increase in the NCAL, including in the context of discussions of the Fund's level of risk tolerance.

Third, we agree that the temporary NAAL increase and the GRA facilities' timely resumption of upper-credit-tranche-quality lending, given the current circumstances; however, such lending should be front loaded in financing and back loaded in adjustment. Could the staff elaborate on and provide examples of contingency planning as an integral part of all UCT program requests with elevated lending--levels of access?

Fourth, we would have preferred raising the PRGT NAAL to 200 percent of quota. However, we are mindful of the PRGT resource constraints, both loan and subsidy resources, as well as reserve account coverage of lenders' credit exposure, and look forward to initial Board discussions later this month on the review of concessional financing. Could the staff provide an update on the successful efforts thus far to mobilize new PRGT loan resources, as well as indicate an estimated target for additional subsidy resources?

Finally, we see merit in increasing the flexibility in accessing the RCF and favor making the proposed temporary suspension of the current two disbursement rule per year permanent, as is the case with the RFI.

Mr. Ray:

As we issued a gray statement, like all other colleagues, I just wanted to react to a couple of points that have been made by colleagues.

At the outset, I should stress that we support the proposed temporary increases in annual access limits which, very much like Mr. Inderbinen explained, we see as facilitating future UCT programs as we move into the next phases of the crisis. The annual access limits are sort of speed bumps, and it makes sense for them to remain as speed bumps and not become walls. We very much support the proposed decisions.

On the PRGT, at this time, we are comfortable with the temporary increase of 50 percent of quota. There is a conceptual basis for it, but we do very much hope that it is affordable. As this chair has consistently stressed for a very long time, it is important to safeguard the sustainability of the PRGT. This is not just about the loan account, as Mr. Mumssen explained at the beginning of our meeting. We very much look forward to the review of concessional financing, where, like colleagues, we encourage the staff to stretch us with innovative options. It is possible that, coming out of that, we could revisit this matter and look at future decisions.

Turning to the more vexed question of the cumulative access limits, here, we think there is a different story. If I think about the PRGT, I see this mainly as being about equity of access to limited concessional resources. We should tread very carefully.

In the GRA, as colleagues have stressed, this is a critical component of our risk framework, as staff noted in the response to question No. 11. As we are rightly, in my view, taking on more risk, I remain very cautious about weakening our risk framework just as we are doing that. I think we need to keep our safeguards in place on aggregate exposures.

As Mr. Rosen explained in his gray statement and again this afternoon, the GRA cumulative access limit is not a hard constraint; rather, it merely triggers increased oversight and safeguards. Therefore, I find it a bit of a stretch for colleagues to argue that, somehow or other, this constrains our ability to assist members.

Relatedly, when we discussed the Review of Conditionality, this chair supported the idea of more and earlier debt operations, including in cases under normal access. At the moment, we are seeing in real time how hard that actually is to achieve. One thing that the exceptional access framework does is focus the minds on this issue a little bit, and that is a good thing. If we were to do anything in this area, we would need to think about this as a related issue because--like the Chair--we very much think there is going need to be a need for further debt operations, and we see this as something which at least helps prompt the conversation.

Ms. Mahasandana:

We appreciate the ongoing efforts by the Fund to adjust the lending toolkit and the related policies that can best support the specific needs of the members during this unprecedented crisis. We have issued a joint gray statement with 11 other Directors. I have four points for emphasis.

First, we welcome the temporary increase in the normal access limits, which is critical to facilitate our members' access to additional financing when it needs it the most in a timely manner. Given the truly exceptional global conjuncture, it is key to balance the need for the highest scrutiny under the exceptional access framework against members' urgent need to access timely and adequate levels of support from the Fund. For this, we appreciate the staff's hard work to strike the right balance and propose the increase of the normal annual access limit.

Second, we note the importance of taking into consideration the overall sustainability of PRGT financing when reviewing the NAAL for the PRGT. On this, we would have preferred to see more elaboration in the paper on how the staff arrived at the conclusion of 50 percent. We view that it is important for the staff to at least illustrate some sensitivity analysis on how the staff balance the need for higher limits with the PRGT resource availability. A more comprehensive assessment and assumptions on this will be useful for the Board to make an informed decision. We, therefore, look forward to discussing this matter in further detail in the upcoming review of the financing of the Fund's concessional assistance.

Third, we understand that the normal cumulative access limit should consider the broader discussions of the Fund's level of risk tolerance. We appreciate that the staff and management remain flexible to further evaluate this matter. We note that there are 11 non-PRGT countries nearing the NCAL in the supplementary document. How many more countries will reach a similar constraint, given that there are more requests for emergency financing and UCT program financing in the pipeline? In this regard, we would like the staff to provide an in-depth analysis on the financing needs of the members, implications of the NCAL's increase to the Fund's risk tolerance, as well as risk management and appropriate risk mitigation measures. Like Mr. Bevilaqua, we would like to have a Board discussion on this issue sooner, rather than later.

We also wonder whether there has been any case where a country faced specific challenges to meet the EA requirements in a timely manner. For those with urgent balance of payments needs, what is the potential risk to the current financing arrangements if members could not meet the EA requirement in a timely manner? And how would the Fund respond to this?

This leads me to my last point. There will be countries that are reaching their access limit and will need to meet the EA criteria to access higher financing; therefore, we encourage the staff to explore ways to streamline the substantive and procedural requirements under the EA framework temporarily so that we could better support these countries that urgently needs higher financing, without compromising the necessary safeguards to the Fund's resources.

Mr. Tanaka:

We support the proposal and would provide the following comments.

As a general remark, we expect the proposed increase in the annual access limit would help member countries to restore macroeconomic stability, promote structural reforms, and foster a solid inclusive recovery. We reiterate the importance of discussing the access limit issues in the context of the Fund's role in the entire financing structure. The financing needs by the Fund's facilities and the Fund's resource adequacy are essential information for decision making. Going forward, we would like to hear the effects on the Fund's resources from the increase in the annual access limit.

On the GRA, we are encouraged that the access limit increase would give more flexibility for the Fund and the authorities to design UCT programs, as Mr. Ray and Mr. Inderbinen explained. We believe that more borrowing room for countries in the next 12 months does not necessarily mean using the full capacity of the Fund's borrowing; rather, the room could enable the country to finance its balance of payments needs in an efficient and effective manner and, thereby, would contribute to minimizing their borrowing.

On the PRGT, in the context of the relationship between resource adequacy and the access limit increase, as I said, it is encouraging that the loan resource contributions from many partners, including Japan, enable the Fund to bring this proposal, even though it is temporary. This will help member countries through UCT-quality program engagement. However, to maintain the self-sustainability of the PRGT, there remain issues of subsidy resources and the reserve account. Thus, we are looking forward to having further Board discussions on the financing options and on a contingency plan in cases where enough funding would not be secured.

As for the cumulative access, as many other Directors have said, we emphasize that the cumulative access limit does play an important role as a safeguard for the Fund's resources. The exceptional access framework does not limit access to the Fund's resources; rather, it triggers higher scrutiny, as Mr. Rosen said. We, therefore, believe that it is indispensable for the proposal to have concrete evidence for the necessity, as well as a comprehensive assessment from the viewpoint of the Fund's risk management.

Mr. Pösö:

We have discussed the access limits before at the informal meeting, and we also issued a comprehensive gray statement; I will only make three brief points.

First, so far in this crisis, the PRGT lending side is the one that has been the most under pressure. To meet the increased demand for this type of lending, many countries have rapidly stepped forward with providing additional loan resources, including several countries in my constituency. Ensuring that the PRGT is sustainable to enable concessional lending evenhandedly also in the longer term is very important to us. For this reason, we would have preferred a lower increase of the PRGT annual access limit, at least until the concerns related to the reserve coverage ratio and subsidy resources are resolved.

Secondly, our acceptance of the compromise should be seen as part of a package with important safeguards remaining in play. As Mr. Rosen and Mr. Tanaka also emphasized, the cumulative limits are one of these essential safeguards and so is the good governance in using the Fund's financing, which is also an issue we continue to stress.

Furthermore, the Fund's catalytic role--meaning the broad participation from additional lenders--is mentioned repeatedly by the Board. It is difficult to judge how the staff is weighting in these catalytic effects when considering its use related to access. We would welcome the staff's comments.

Lastly, the increase of annual access limits is to be seen as a targeted measure to those borrowers from which the Fund already has a culture and which are now allowed to borrow more in the short term with less scrutiny than normal. Like Mr. Mozhin and Mr. Tolstikov in their gray statement, we consider the higher annual access limits mainly as a relaxation of the Fund's lending standards. Therefore, it is important that the staff continues to focus on the balance of payments need, the capacity to repay the Fund, and the record on using Fund resources when determining lending amounts. I was happy to hear Mr. Nolan's opening remarks in this respect.

The Chair:

Several Executive Directors have made this point, that we are not there to lend willy-nilly. We are there to lend when countries have significant balance of payments needs and they do not have other opportunities; in other words, in our function as a lender of last resort. I just want to acknowledge that, in our thinking, we want to continue very prudently to perform this function, not just to preserve the lending capacity for those who need it but because, when we lend to countries, these are not grants. They do bring a burden on the shoulders of countries, in many cases when they are already faced with a significant burden of debt. Just to be sure that we want to be there for the membership but in a very responsible manner, as our mandate dictates us to be.

Mr. Lischinsky:

We welcome the temporary modification of the Fund's annual access policy framework in the context of the significant increase in financial assistance requests due to the pandemic. We participated in the joint gray statement with 12 chairs; therefore, we would like to share some comments for emphasis and one proposal.

With regard to the GRA, we support a temporary increase of the normal annual access limit to 245 percent of quota, without meeting additional safeguards to allow countries to front load access in these difficult times. In relation to the PRGT, we see merit in a temporary increase of the NAAL to 150 percent; but we support a higher increase of 200 percent of quota and, in line with this, the increase in the normal cumulative access limit and the exceptional annual access limit.

At the same time, we hope that, for the coming meeting on concessional financing, the staff could provide an analysis to allow for increases in both the NCAL and exceptional cumulative access limit, with their related safeguards. In this regard, we propose that all lending to LICs be done through the GRA and not only the blend, and that the PRGT lending capacity be used as a guarantee of the lending by the GRA. With such guarantee and a reserve coverage ratio of 50 percent, lending resources to PRGT-eligible countries could be doubled.

In order to maintain the terms of PRGT loans, the subsidy account and the reserve account of the PRGT should be used to subsidize the interest rate, as it is now. This proposal would solve, to some extent, the problem of guarantees and safeguards and the subsidy problem. For that, it would be needed modifications to GRA access by PRGT countries and to the PRGT trust. We would appreciate the staff's comments.

Finally, we support the proposed decisions, understanding that this represents important steps. We hope to see more progress soon with the Board's consideration of the remaining related issues, a larger increase in PRGT NAAL, the increase in NCAL, and solutions to address the PRGT financing constraints.

Mr. Buissé:

We would like to thank the staff and management for bringing this long-awaited proposal for a temporary modification of the Fund's access limits, which we are glad to see coming to fruition.

As observed in previous meetings, we have seen that countries with ongoing Fund programs that have been penalized due to much-needed funding. As this crisis has shown, though, a lot of work will need to be done to address the demand. We issued a joint gray statement with 11 other chairs; I will make just a few points.

First, we strongly support the temporary modification of the access limit for the GRA, as well as the PRGT, to keep the Fund's capacity adequate to support countries as the crisis unfolds. The temporary modification should enable it to pursue its engagement for emergency financing but would also pave the way for the needed resumption of UCT programs, as discussed during the lending strategy Board. Given the depth of the crisis and the probable long length of time during which needs could emerge, it is critical that the Fund has built in flexibility to accommodate requests when the membership needs it, as the shocks are likely to differ in time and in scale, depending on the country.

Second, we need to work to bring the PRGT annual limit to 200 percent, and we need to keep working on increasing NCALs. As noted in our gray statement, we understand that there are concerns with the sustainability of PRGT financing, in particular, with regard to the subsidy resources. This needs to be addressed as part of the upcoming review of concessional financing. And there is quite a clear direction: to put more money in the PRGT.

However, the order of magnitude of the concerns should be put in comparison with the downside of underwhelming Fund support to countries faced with a crisis. More generally, we think the broader question on the adequate size of the PRGT for the medium term is one of the key aspects of the Fund's action.

On the NCALs, like Mr. Bevilaqua and others, we are a bit surprised by the Secretary's Department (SEC) summing up of the gray statements and Main Themes in Grays. Half the Board voiced its support to work on the NCAL, but the language does not reflect it. I would suggest that it is a mistake, considering the enormous amount of work SEC has to do.

Third, I hear colleagues pointing to possible additional risks that we are taking with these changes. Let me emphasize that access limits are always an upper bound, and it is the assessment of the staff and the Board—and we are together in this--that can ensure that financing needs are addressed adequately, balancing the consideration of volumes and safeguards. The temporary augmentation of limits should give some room to maneuver to staff to engage in discussion with the membership and, in particular, to incentivize a constructive medium-term engagement with the Fund. From this chair's perspective, we do not want to see a country with high financing needs and strong policies be refused the necessary financing.

The Chair:

I very much appreciate the point Mr. Buissé made in such a simple and straightforward manner, especially about the PRGT, that we have to look at the adequacy. We do not need, actually, a huge study to see that we are handicapped and that we need to step up on the subsidy resources if we want to be adequate, vis-à-vis those that are in the toughest spot in the crisis. I am sure this conversation will come very soon.

Mr. Raghani:

We share the views on this important matter with 11 other Directors, as expressed in our joint gray statement. I will, therefore, focus my intervention on a few points for emphasis.

First, Managing Director has highlighted the tensions between demand, availability, and the need to maintain appropriate safeguards on the Fund's resources, which will be a challenge for this institution to assist members in need in such a severe global crisis, without a comprehensive approach to adapting relevant parameters. This includes, notably: the access limits, annual and cumulative; the modality of the emergency instruments; financial resources, both under the GRA and the PRGT; the safeguards; and the blending policy. We view all these elements as intertwined. We are concerned that a piecemeal approach would not meet the challenges at stake. In this connection, we remain not convinced with the rationale for not considering changes to cumulative access limits alongside the annual limits. The increase in annual limits has immediate repercussions, for instance, for countries that have very limited borrowing space, relative to the existing cumulative limits. We look forward to prompt discussions on the cumulative limits and on the Fund's concessional financing. We also hope to discuss the broader financing resources soon, notably, the option of a Special Drawing Rights (SDR) allocation, which carries significant benefits.

Second, on the issue of additionality, given the scale of the shock and the lack of suitability for large policy adjustments, as recognized by the staff, additionality should translate into raising annual access limits in a greater proportion than a temporary increase in RFI/RCF annual limits. We regret that the proposed increase of annual access limits under the PRGT falls short of the increase under the GRA, which further widens the gap in access for PRGT only members.

Finally, while we support the proposed decisions as a step in the right direction, we look forward to revisiting the temporary annual limits under the PRGT in light of the evolution of the crisis. We would also expect bold proposals to augment the PRGT loan and subsidy resources.

Mr. Mahlinza:

We signed a joint gray statement with several other Directors, in which we broadly support the proposed decisions. We would like to reinforce three points made therein.

First, the review of access limits has become increasingly critical in view of the depletion of borrowing space in the context of weakening external positions. We can confirm that many countries, certainly from our constituency, that had obtained program funding prior to the crisis have exhausted their borrowing space. Going forward, therefore, we think an increase in normal annual access limits will be essential to support follow-up UCT-quality programs.

Second, we concur with the staff that the benefits of modifying access limits outweigh the potential risks and would emphasize that the inherent safeguards in Fund programs and enhanced use of contingency planning makes potential risks manageable. Relatedly, we would encourage a concerted effort to mobilize additional subsidy resources to support the self-sustainability of the PRGT and mitigate the impact of higher access on concessional resources. In this respect, we look forward to the forthcoming review of concessional financing.

Third, we continue to believe that the adjustment in annual access limits should move in tandem with normal cumulative access limits. This becomes important to support a sustained recovery in the aftermath of the crisis. That said, the decision to defer the increase to the normal cumulative access limit appears reasonable, given the resource constraints. We therefore look forward to further progress in efforts to address the PRGT resource constraints and continued close monitoring of the situation. We also thank staff for the adjustment of the exceptional access limit's hard cap for PRGT countries. Given the exceptional circumstances, we may just have countries that will find it useful.

Mr. Beblawi:

We co-signed a joint gray statement with 11 Directors, in which we supported the proposal to temporarily increase the normal annual access limits for both the GRA and PRGT in these current extraordinary times. I would like to make three points.

First, with regard to the PRGT, we would have preferred an increase in access limits by the same amount as the GRA but understand the financial constraints. We look forward to discussing the sustainability of PRGT financing in the upcoming review of concessional financing. Like Mr. Mozhin, we are prepared to support an increase in the PRGT access limit by more than 50 percent of quota in case there was more certainty on the funding side.

Second, an adjustment in the normal cumulative access limit should complement the increase in the normal annual access limit. Without this adjustment, the increase in the normal annual access limit would be meaningless for countries that are close to the cumulative limit as a result of the Fund's support and their macroeconomic structural reforms. The summing up of our discussion today needs to clarify and refer to the view of the joint gray statement on the normal cumulative access limits.

Third, we support the temporary removal of the limit on the number of RCF disbursements in a 12-month period and, further, its permanent elimination, a position also expressed by Ms. Levonian.

Mr. Bhalla:

We issued a gray statement, in which we support the proposal for a temporary increase in access limits. At the same time, we argued in the gray statement that emergency financing requires a deeper evaluation as we go forward.

Having taken strong measures and effectively supported members in meeting their emergency financing needs, we believe that the IMF should now assess whether it has reached a stage to gradually shift toward resuming regular lending operations. This can have a strong signaling effect to our members and various stakeholders in the global economy. As this is desirable and unnecessary is revealed by several strands of data.

On the real economy side, high-frequency indicators like the Purchasing Managers' Index (PMI) suggest a strong increase for both manufacturing and services and for most countries. Also, the COVID emergency today is substantially different than what it was even a month ago. To be sure, the number of COVID cases worldwide are going up, but the fraction of deaths is near the levels reached in early March. For the U.S., the fraction of COVID deaths are at a historic low.

The lack of emergency as two months ago can also be seen from the very low increase in members' requests for financial assistance. The number of requests were 104 in mid-May; and two months later, in mid-July, they are likely less than 110. The plateauing trend in the number of requests is an important guide for shifting to normal operations.

Mr. Fanizza:

We issued a joint gray statement with 11 chairs. But let me reiterate something that maybe is not clear from reading the key issues for discussion in the Board, in the summary of gray statements prepared by the staff/Main Themes in Grays.

The 12 chairs expressed a clear indication that they would have preferred an increase in the cumulative access limit now. I was surprised that we did not find a note of that position in the key issues in the Main Themes in Grays. I hope it was just an innocent oversight.

I will state three main points. One concerns the issue of risk taking, of risk management, and that we should not increase the limits because we worry about risk.

Now, we are all for a wise approach, a prudent approach to safeguarding Fund resources; but if I look at the GRA exposure, my reaction immediately is that we should try to give out loans as much as possible to diversify the high concentration risks that we have in the portfolio. Everybody knows what I am talking about. It is a balance, of course. But any risk manager will tell you something like that.

Second, I do not buy this idea that the exceptional access works as a safeguard. It does not. We have the example of the story that led to the exposures that I referred to before. My conviction is that the access policies for it, access above limits helps countries that have little political support in the Board, and that is not fair.

Finally, let me say, I fully agree that the PRGT should be fully sustainable, and we need to make an effort in that direction. Let's be clear that the efforts should go in the direction to broaden the participation to the PRGT to keep G-20 members and, in particular, to the subsidy account.

Mr. Mouminah:

As said in our gray statement, we support the set of decisions in front of us today, while being cognizant of the associated risks and safeguards.

At the end of the day, the issues that we are discussing require us to evaluate a large number of factors, while acknowledging the uncertainty of the situation we face. We, as a Board, all of us agree that we need to be ready to help the membership navigate the unprecedented challenges of this crisis, while ensuring appropriate safeguards for Fund resources. I do not see us disagreeing on that. But we should also be clear that not acting also comes with its own set of risks. As Chair said at the beginning, should the pressure become high, we all can come back and meet again and decide accordingly.

Let me now turn to the cumulative limit.

On the potential increase of the cumulative limit, we are willing to engage in further discussions with an open mind. But like Mr. Rosen, Mr. Jin, Mr. Mozhin, Mr. Ray, Ms. McKiernan, among others, we are not yet convinced about the change to the cumulative access limit. The reason for that is, as mentioned before, that not increasing the cumulative access limit does not restrict access to Fund resources. That is what we need to keep in mind. Resources remain to be available to support members, in line with their balance of payments needs. And higher access to an exceptional access framework means more scrutiny, again, which means more paperwork and more administrative work. My question to staff is: Are there any other impediments that are there to increase the pressure on the remaining cumulative limit or not?

To change the level of scrutiny, we should set a higher bar, as we said before. We think that this remains appropriate to protect both the Fund's resources and its members.

Now, to the PRGT, we will keep an open mind. We would like to hear more from staff before the end of the month.

The last point is on communication. I support Ms. McKiernan that we need to ensure proper communication on the impact of the reforms that we are doing here. Again, we need to build on the narrative that we already have been doing, in supporting the countries during this difficult period. On a holistic approach, the Communications Department (COM) has been doing a great job so far, but this is just a reminder to continue building on that momentum.

Mr. von Kleist mentioned the press release. I see the press release as more of a technical legal language that needs to celebrate more the impact. And a suggestion at the end, a briefing by COM maybe on the communication efforts since the crisis and to prepare a statement with respect to the Annual Meetings.

Mr. Mozhin:

We have issued a comprehensive gray statement. The only thing I would want to do now is to reconfirm that we are supportive of the set of proposals as they stand, as we find them both timely and balanced.

We would be prepared to support a larger increase in the normal access limit to the PRGT resources, but we think this would be premature because of the lack of certainty on the funding side of the PRGT.

Let me also thank Mr. Nolan and Mr. Mumssen for successfully navigating this Board discussion, as well as Managing Director, for introductory remarks. I would be willing to lend my unused time to Mr. Moreno, who will be speaking next.

Mr. Moreno:

We issued a gray statement with the other 11 chairs. We look forward to the discussion on increasing the cumulative limit, a larger annual PRGT limit, and likely extending the temporary adjustments limit. Let me make just three comments, also policy messages to take into account in the communication on this measure.

First, we need to some perspective. This is a decision that is aligned with the Fund's historical actions when facing a new crisis. In a way, this is just business as usual. We have done it, as countries face greater balance of payments needs, in line with the process of globalization. We did it in the '90s. We did it during the global financial crisis, including the cumulative access limit. We are now under a much deeper and truly exogenous crisis, and it is only historically natural that we increase the access.

Second, we would warn against any complacency. This is just another step in the adaptation of the Fund's policies, but we are still deep into the crisis, and there is no clear light at the end of the tunnel. More action will likely be needed. The Fund has responded swiftly, mainly through emergency financing to a large number of countries and precautionary financing, but the lending volume has remained quantitatively low, around 8 percent of our total lending capacity. In other words, our tempo has been presto but not troppo. Hopefully the nature of the crisis will be temporary, but there are many countries that will still require large front-loaded access to Fund financing and a more dynamic understanding of the fiscal space, which will also require increasing the cumulative limit. Naturally, as we move into the upper-credit-tranche-quality programs, carefully tailored conditionality will provide the necessary financing assurances to safeguard the Fund's resources.

Finally, of course, as we move into greater lending, the key challenge will be to ensure enough resources. I think there is a greater margin within the GRA. Down the line, we can increase official borrowing arrangements, if it is needed. And the PRGT will prove more challenging, as Managing Director too shared.

Here, we would like to reiterate that all alternatives should be considered. On SDRs, we welcome the proposal to consider different uses for the existing SDRs, but we would still reiterate our call for a new SDR issuance as the best mechanism to increase liquidity in emerging markets and low-income countries without increasing their debt burden.

Also, on gold, just as a reminder, the Fund has gold holdings of about SDR 3.2 billion, which is valued at a historical cost. While the market value of this gold is about 113 billion, meaning profits from this investment of about 110 billion.

The Chair:

Just to point out two historical developments. Before the global financial crisis, the total lending capacity of the Fund was 250 billion. Today we have already extended lending for just over 250 billion. And just imagine where we would have been if we did not have the wisdom, after the global financial crisis, to recognize the necessity to build up the strength of the IMF.

Similarly, as we deal with this crisis, we have to look into the future and take, in a timely manner, the steps that are necessary to protect the membership.

Obviously, we are fortunate that the very swift action in advanced economies has provided liquidity that reduced the pressure on us. But remember, when we were in March and we did not know whether this access would be there? Our concern of the size of the Fund, whether we had enough for this crisis, was quite high. I agree with Mr. Moreno and everybody who has said, we take an action appropriately, and we always look forward to what might be necessary next.

Ms. Riach:

I very much agree with the others who have said that the proposals that are on the table today are a decent compromise, based on the previous discussion that we had. We signed the joint gray statement with 11 other chairs, and I can align myself with the remarks of Mr. Bevilaqua, who started today's discussion. I just want to comment briefly on two issues.

Firstly, on the annual access limits for PRGT borrowing, we welcome the 50 percent increase, but we would have preferred to have seen an increase of 100 percent in order to support a move to UCT programs for the Fund's most vulnerable members. My understanding is that the fundraising that the Fund has been doing on the PRGT has been going pretty well on the loan resources and possibly may exceed the original target. Like Mr. Buissé, I think there is a very clear answer to how we could further relieve pressure, particularly on the subsidy resources. Like others, I do look forward to the discussion on concessional financing. I hope that it will be possible to return to the issue of the PRGT annual access limit following that discussion.

The second thing I wanted to touch on was on the cumulative access limit. We very much look forward to a further discussion here. Our starting point, like Mr. Bevilaqua, is that the cumulative access limit should be a multiple of the annual access limit. Therefore, it makes sense to increase the two in parallel in these extraordinary circumstances.

On the cumulative access limit for the GRA, like Mr. Ray, we would very much like to see more progress on debt restructuring. We support the finding from the conditionality review that Fund programs are more likely to be successful when debt restructuring is timely and at the right level. But the current circumstances demonstrate that that is extremely difficult to achieve in a number of countries. I do see some truth in Mr. Fanizza's view that political considerations tend to play a part here. I would like to come back to the cumulative access limits, including for the GRA.

The cumulative access limit for the PRGT is a particularly pressing issue because the exceptional access rules tend to be more of an absolute constraint for PRGT countries. We see far fewer PRGT programs taking advantage of exceptional access rules. The rules tend to be more of a real constraint there. Given that these are our poorest and most vulnerable countries, it would be good to be able to look at how we could ensure that the Fund is able to provide them with the support that they need.

The Deputy Director of the Strategy, Policy, and Review Department (Mr. Nolan):

Firstly, we note the comments on the messaging and the press release. We will fix it and align it with the Summing Up.

Secondly, we note Mr. Pösö's emphasis on the catalytic role that the Fund should be playing. Indeed, we look at it closely in program design, particularly with lower-income countries. We consistently look at the burden sharing in that context.

We note Mr. Inderbinen's comments and request to consider the issue of blending policy in the review of concessional financing. This will certainly be looked at.

We note Ms. Mahasandana's comments on the number of countries affected by the cumulative access limit. We can build up 10 or 12 examples, but I think that bottom-up look has also to be informed by the top-down look of the general discussion of risk. It will be a part of the next discussion on the cumulative access limit, but there has to be a higher-level discussion of risk tolerance and how we measure it and where we currently are.

A few Directors suggested: Why is there not a permanent change in the RCF limits, rather than a temporary change? The staff have consistently adopted their approach as anything we propose as temporary during the pandemic period. Even whether it should be permanent, is something we can come back to later.

We note Ms. Riach's comment on the importance of the cumulative access limit on the PRGT and that very few countries request or succeed in making such a request. The criteria are extremely tight and are narrowly limited to a small group subset of PRGT countries. The fact that it is not used much is a comment actually on the eligibility criteria, rather than on anything else.

Mr. Bevilaqua and others suggested that the logic of the Fund's approach to the cumulative access limit has been to work out what the annual access limit should be and then multiply it by three. This may have been the case in the past, but it seems a questionable logic and one we need to look at carefully because, surely, it is the core exposure of a financial institution to its clients that is the key issue, not how much one lends in any particular year.

The Deputy Director of the Finance Department (Mr. Mumssen):

I am going to start with the most complicated and sweeping question from Mr. Lischinsky: Why we lend to LICs not entirely via the GRA as a matter of principle and use the trust only to subsidize? We have had the trust fund approach since the ‘80s or earlier.

One thing that I would put on the table, why I think the Board, in the past, has consistently thought that low-income countries are best served through the trust fund is because it allows designing facilities in such a way that they meet low-income countries’ needs. One very specific facility that is essentially our workhorse, the Extended Credit Facility (ECF), does have a different standard than GRA facilities. In particular, we are not required, under ECF facilities, to resolve balance of payments problems within the program period or by the time the repayment starts. This allows us, as the Fund, in very poor countries that have very low institutional capacity to essentially provide repeated support to these low-income countries, which would, in a sense, a priori not be desirable under the GRA. This is one aspect, the special design of our LIC facilities to really try to tailor them to the needs of low-income countries.

On the questions related to resources, as raised by Mr. Mojarrad and others: it was mentioned that the loan resource mobilization campaign is going very well. We are extremely pleased by how the membership has responded, how fast they have responded. We have already overperformed the target of mobilizing SDR 12.5 billion from lenders. Based on the current numbers that we have, we are getting closer to SDR 15 billion, which is a good thing. It is partly the reason for the proposal to decide on the 150 percent annual access because the 15 billion in loan resources would be needed, in fact, to support this increase to 150.

In response to Ms. Mahasandana’s point, we shared, at the end of May, in our PRGT resource briefing, several scenarios of different levels of access increases. To recall, we showed the status quo of 100 percent, then 130, 150, and 200 percent. We have modeled it for high, medium, and low scenarios. For the 150 percent scenario, we needed maybe a bit more loan resources, which was achievable; reserve coverage was essentially okay; and there was a manageable subsidy gap. I will come back to why we think it is manageable under the 150 percent scenario.

We had already shown that if the increase was to 200 percent, this raises a number of additional issues. Firstly, it would require a lot more loan resources. When we come back to the Board for the informal meeting, we will share much more detailed numbers on it. But we would need to raise significantly more loan resources. Now, that is not excluded. That is feasible. In fact, this is perhaps the least complicated constraint, but it would have to go well beyond the 15 billion SDRs.

But then the subsidy needs under a larger increase for the annual access limits are quite significant. Also, we have the problem with a much larger annual increase since we will need to look at reserve account coverage, which would fall below the threshold that we would be comfortable with. We have to think these things through. We can discuss that at the end of the month in our first informal engagement.

Again, we will share with the Board a lot of background information, analytical information, and sketch a few of the issues that can be discussed in terms of how to finance all of this.

I wanted to come back to a question raised by Mr. Tanaka and others, about the self-sustained framework and what it means in terms of contingency measures.

Essentially, the three-pillar strategy for making the PRGT self-sustained envisages that, should we judge that demand would exceed significantly the available resources in the trust for a self-sustained trust, it actually envisages contingency measures and they fall broadly into several buckets. One bucket is straightforward fundraising for subsidy resources. Second bucket would be to utilize in some way the reimbursement that we pay annually to the GRA for the administrative expenses of the PRGT. And then finally--and that would be the most difficult contingency measures--it could involve changes to policies, such as increasing the use of blending, freezing access levels, increasing the interest rate, and so on.

Essentially, there are things we can do when the trust runs out of money. Thinking through innovatively what kind of measures could be taken, given that we certainly do not want to freeze access levels and, instead, are certainly looking for options to provide more financial support to LICs, we will look through a broad range of options for that. Again, the initial discussion we could have offered is hopefully by the end of this month.

The Chair:

From my perspective, there are three things that I am going to follow up on from this meeting, in addition to finalizing our discussion. First, as Ms. Riach indicated, we are going to have a review of concessional financing. I recognize that a few Directors would have preferred this to be hand-in-hand with the conversation we have today, but we will have the first meeting at the end of July.

On balance, we are right to act on annual access limits--that is the issue that we are discussing today--because of the pressure we are already feeling for a few members, to have the comfort that the Fund is there for them.

Second, to have a further discussion on the cumulative access limit, how we balance risks, and how we handle the knowledge we will acquire over the next weeks and months on the impact of the pandemic on the economy with how that combines with the action we will take.

The Chair adjourned the discussion.

ANNEX

- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

GRAY/20/2563

July 8, 2020

Statement by Mr. von Kleist and Ms. Koh on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

We thank staff for the comprehensive report. Against the backdrop of the specific financing needs of members in light of the exceptional challenges due to the COVID-19 pandemic we can go along with the proposed decisions for a temporary increase of annual access limits.

We welcome that the report explicitly highlights the key role played by access limits as important elements of the Fund's risk management framework, including with regard to supporting the "Fund's catalytic role given that a large build-up of senior non-restructurable debt can adversely affect future access to private capital markets". We fully echo this statement, which we see as a fundamental tenet to guide the Fund's lending strategy and practice also in crisis situations, and call for a return to the current well calibrated system of annual access limits as soon as feasible.

Implementing the Fund's lending policy in this vein should be a priority going forward to preserve the revolving character of Fund resources and its catalytic financing role with a view to effectively support sustainability, recovery and a lasting stabilization in member countries. For this to be successful, it will be important for the Fund to be able to rely on an appropriate mix between financing and adjustment when providing financial support to cover members balance of payments needs, including the involvement of other public and private creditors.

Against this backdrop, we would have preferred a smaller temporary increase of the NAAL. Raising the NAAL by 50% to 195% of quota would also have been more consistent with earlier decisions on temporary financing measures taken in the context of the pandemic. Furthermore, it would have mitigated the additional challenges provided by a bunching of access and corresponding repayments. If the decision is adopted as proposed, we underscore the need to put strong emphasis on risk mitigation by rigorously applying other existing safeguards, as mentioned by staff.

Regarding PRGT access, we understand that staff is proposing an increase in the PRGT NAAL in line with resource availablilty. *Can staff provide a brief update on this issue, i.e. the extent to which the proposed increase is in line with available resources and new commitments under the current PRGT fund raising exercise (and the current fundraising target of SDR 12.5 bn)? Do staff's considerations also envisage increased recourse to blending?*

We note that the increase in access limits is proposed to remain in place for a period of 9 months, i.e. longer than other temporary measures taken previously in response to the Covid-19 pandemic, and that a review to consider a possible extension of the temporary NAAL increase is planned for already before end 2020. *Against this background, we wonder whether extending the temporary NAAL increase well into 2021 may be premature at this point, also given exceptional levels of uncertainty on the economic outlook, as often referred to by staff.*

Normal Cumulative Access Limit (NCAL)

Given that staff intends to still consider changes to the Normal Cumulative Access Limit (NCAL), we reiterate that we have strong reservations against such a proposal, in particular also due to the fundamental aspects of access limits rightly highlighted by staff in the documentation. Staff rightly emphasizes that the NCAL constitutes a "key anchor in the Fund's risk management framework" and an important safeguard by triggering additional scrutiny and procedural requirements under the exceptional access framework (EAF) for higher aggregate exposures. It is therefore key also for the Fund's unique financing mechanism and role in the GFSN. At this time, we do not see a convincing argument for an increase in the NCAL. We also do not concur with the implied higher risk tolerance and note that the actual risk level faced by the Fund has continued to increase markedly in recent months to levels strongly exceeding the tolerated risk level formally accepted by the Board.

Risk outlook

Overall, the paper could have been more explicit on the proposals' effect on the Fund's risk outlook. In our view, the proposals clearly imply an additional increase in already elevated UFR risk levels. *Could staff elaborate further on the staff's assessment that "residual risks to Fund programs and resources would remain", and that "creating space for more upfront disbursements under follow-up UCT-quality programs reduces program risks"?* We look forward to a thorough analysis of UFR risks and their drivers to be taken up in the context of the planned broader discussions of the Fund's level of risk tolerance. *Could staff comment when and in what format this discussion is planned to take place?*

Exceptional access Framework

The EAF provides important mechanisms for enhanced scrutiny and must not be undermined by increases in normal access limits. While we concur with staff that “higher immediate financing needs do not necessarily reflect domestic policy weaknesses” we are less convinced by staff’s view that the current exceptional global conjuncture renders the triggering of the enhanced scrutiny of the EAF “less useful”. One main purpose of the EAF is the safeguarding of Fund resources against risks from high exposures. Consequently, it could well be argued that there is a higher need for enhanced scrutiny against the backdrop of a “pandemic and associated global recession of historic depth”. *Staff’s comments would be welcome.*

Similarly, we would ask staff to provide an explanation on why the proposal to raise NAAL for the PRGT to 150% of quota is to be accompanied by a temporary increase in the Exceptional Annual Access Limit (EAAL) above that level to 183.33 percent?

Quality UCT-Programs vs. unconditional RCF/RFI lending

While we can go along with the proposal to remove the limit on the number of disbursements under the RCF within a 12-month period, some concerns remain. The proposal’s underlying rationale - the notion that the Covid-19 Pandemic gives a rise to a number of unexpected shocks necessitating multiple disbursements of emergency assistance - seems rather weak. By contrast, the stated rationale for the introduction of the limit - preventing repeated use of the RCF “reflecting the view that UCT-quality program would likely be more appropriate” - appears well applicable already to current circumstances. Incentivizing the use of fully-fledged programms (rather than doing the opposite) would seem pertinent in order to not miss the opportunity for necessary and timely adjustment, including structural adjustment, as economies aim to manage the transition from containment to stabilization and eventual recovery. In this regard, we would also like to point towards the higher negative impact of RCF lending on UFR risks, compared to assistance provided under UCT programs. *A staff comment would be welcome.*

In light of the above and consistent with the stated aim to facilitate “timely resumption of UCT-quality lending”, **we would also argue that the increase in the NAAL strengthens the case for returning to the regular RFI/RCF access limits sooner rather than later**. *Staff’s comment would be welcome.*

GRAY/20/2564

July 8, 2020

Statement by Mr. Poso, Ms. Ekelund, and Mr. Evjen on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

We thank staff for the proposals to meet the increased financing needs arising from the COVID-19 shock to the global economy. **We accept the proposed temporary changes to the annual access limits in order to provide additional lending space to move from emergency financing to UCT–quality programs.** However, in our view, more moderate increases would have struck a better balance between additional lending with less scrutiny in the short term and containing the resulting risks to Fund resources, including to their revolving and catalytic nature.

Thus, while we are supportive of extraordinary measures in extraordinary times, we remain concerned about the increasing financial risks to the Fund in the context of the current crisis. We want to reiterate the importance of maintaining the IMF's catalytic role and highlight the risks associated with a large build–up of credit to the Fund in individual economies which should be thoroughly considered when assessing requests in excess of normal access limits.

***On increasing annual access limits*:**

We can support a temporary increase of GRA annual access limits to 245 percent applicable until April 6, 2021 but would have preferred a lower increase. As the effects of the pandemic are likely to be felt for a prolonged period, we highlight that this increase in access should be used to support a follow-up of emergency lending with new UCT programs or to allow the continuation of existing programs. Program engagement focusing on fostering policies to support stabilization and recovery will help manage the challenging situation and improve the capacity to repay the Fund. Furthermore, it should alleviate the risks related to the bunching of repayments.

Access levels should continue to be tailored to country needs and characteristics. While the COVID-19 shock is truly global, there are large differences between countries in the size and nature of the shocks, as well as in the overall availability of external funding. Therefore, we emphasize the importance of staff's judgement in program design, notably when assessing financing needs to ensure that Fund's scarce resources are efficiently lent matching the individual country's BOP needs, debt sustainability, adjustment needs, and capacity to repay.

We support integrating contingency planning as part of all UCT-program requests with elevated levels of access to mitigate and prepare for the risks arising from the uncertainty inherent in the current environment.

We can support a temporary increase in PRGT access levels to 150 percent, but would have preferred a more moderate increase, which would have been more prudent taking into account the serious concerns related to the self-sustainability of the PRGT and the expected weaker reserve coverage. In our view, the lower increase would strike a better balance between, on the one hand, providing more concessional resources to meet the upfront financing needs and support the ability to follow-up emergency financing with a UCT program and, on the other hand, the challenges associated with the PRGT financing framework. *The associated increase of the Exceptional Annual Access Limit to 183.3 percent further increases the pressures related to the adequacy of PRGT-resources. Did staff consider suggesting a lower hard EAAL? We would appreciate staff comments on this*. Furthermore, we highlight that access to GRA resources should be explored for PRGT-eligible members requesting financial assistance, subject to the usual blending policy assessments.

Ideally, the decisions on increasing access limits under the PRGT should have been taken after the Review of Concessional Financing. We are concerned of the effects that the unprecedented increase in the use of PRGT resources have on the financing mechanism and reserve adequacy of the trust. Staff sees that the risks associated to this decision are manageable assuming a decision by the Board on mobilizing additional subsidy resources. We note that the prospects of such a resource mobilization are uncertain. For the Board to make a fully informed decision on the access levels for PRGT lending, the discussion and decision on establishing a functioning financing framework for the PRGT should have preceded the one on access limits.

We encourage staff to explore the full range of possible measures to ensure the PRGT remains self-sustainable. We note that the 2012 strategy underpinning the self-sustainability of the PRGT calls for the implementation of certain contingency measures in times of exceptionally high and prolonged demand for PRGT loans. Similarly, active measures to ensure prudent reserve coverage should be considered.

On cumulative access limits

The cumulative access limits constitute an essential element of the Fund's risk management framework and should not be changed for temporary reasons. We note staff's suggestion that consideration of possible changes to the cumulative access limits be undertaken at a later point, drawing on lessons from experience in the coming months and in the context of broader discussions of the Fund's level of risk tolerance. In this context, we also note staff´s assessment that "the benefits (of the proposed NAAL increase) outweigh risks" as part of a package where "important safeguards remain in place" – explicitly mentioning the NCAL of 435 percent of quota. Increasing annual access limits provides temporary flexibility to meet crisis needs, without fundamentally changing the Fund's risk tolerance and role in supporting stabilization and thus also catalysing funding from other sources.

Increasing the cumulative access limits could lead to substantial risks. Increasing concerns of debt sustainability and capacity to repay are already pushing up the Fund's risk profile. Allowing for cumulative access levels to increase without requirements related to debt sustainability and program strength could further increase these risks, compromising the borrower country's path to sustainable growth and debt levels, as well as its ability to repay the Fund.

Thus, we want to highlight that the Exceptional Access (EA) framework has been carefully designed to protect both the borrowing country and the Fund and should be applied always when normal annual or cumulative access limits are breached. The EA framework triggers more scrutiny and additional safeguards which ultimately are set to be in both the borrowing country's and the Fund's best interest.

Significantly increasing the Fund's share as a creditor risks the Fund's catalytic role and it can even lead to a reverse outcome, since increasing the share of super-senior debt would reduce burden sharing in a possible restructuring and thus can prove to be a disincentive for private creditors to lend.

Other considerations

We support temporarily removing the limits of RCF disbursements to two per year for pandemic funding. The shocks originating from the pandemic are likely to differ in time and scale depending on the country. Thus, more flexibility in adjusting financing flows is warranted, also to create the right incentives to seek access only according to actual needs.

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GRAY/20/2565

July 8, 2020

Statement by Mr. Bhalla and Mr. Natarajan on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

1. The economic dislocation arising due to COVID-19 has severely affected the economic stability of many members. In order to manage the financial imbalances, over 100 countries have approached the Fund for financial support and about 70 requests have been approved. After the temporary increase in access limits of two emergency funding toolkits – Rapid Credit Facility (from 50 to 100% of quota) and Rapid Financing Instrument (from 100 to 150% of quota) in April '20, many countries became eligible for emergency financial support.

2. As the crisis continues to unfold, it is expected that many countries may require significant near-term financing needs and seek substantial support. In case the access exceeds the existing limits under Normal Annual Access Limit (NAAL), this would trigger scrutiny under the exceptional access framework. This would require an increase in the NAAL limit from the existing 145 percent to 245 percent for assistance under General Resources Account (GRA) and an increase of 100 to 150 percent of quota for Poverty Reduction and Growth trust (PRGT) countries. We support the present proposal for temporary increase in access limits. We also believe that emergency financing due to COVID requires a broader evaluation as we go forward.

3. This is necessary because an increase in limits for RFI and RCF, and now the proposal to increase the access limits under NAAL, will inevitably lead to substantial additional demand for Fund resources. A comprehensive assessment of the emergency assistance already provided to many member countries could offer many useful lessons regarding their efficacy. *Are there any prudent performance criteria which can be deployed to assess the impact of the emergency support already provided? Staff may comment.*

4. While IMF mentions that quota resources are adequate at present to meet the needs of members, an increase in access limits for GRA (non-concessional) funding would

mean more drawal of IMF quota resources. This might lead to quota resources getting exhausted requiring activation of the New Arrangements to Borrow (NAB) (second line of defence), and later even Bilateral Borrowing Agreements (third line of defence). NAB and BBAs are supplemental resources of the IMF, comprising commitments by members to the IMF. Due to Covid-19 impact, every economy is under considerable strain, and activation of NAB/ BBAs could put emerging market economies like India under pressure. In this context, the Fund should undertake periodic assessment of the resource position, plus outcomes of the emergency Fund assistance already delivered to members. This would assure the Fund membership of proper resource management and utilization.

5. The analysis in Box 2, illustrates the problem of countries which have received support and are likely to be affected by the existing NAAL limits. *Is there any analysis of countries which have not been provided any support till now but are likely to approach the Fund seeking substantial emergency support? Doing a more broad-based and deeper analysis can help the Fund to address this complex situation in a systematic manner.*

6. It is understandable that high levels of immediate financing demand does not necessarily reflect domestic policy weakness but a broader global economic shock. As the report alludes, the Fund should encourage members to avoid excessive reliance on Fund financing. This is important both for mitigation of risk, and prudent preparation for a still uncertain future.

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GRAY/20/2567

July 9, 2020

Statement by Mr. Rosen, Ms. Pollard, and Mr. Grohovsky on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

The Fund's response to the COVID-19 crisis has been robust. Many of the measures taken have been appropriate and timely, including the increase in access and wide-scale provision of emergency financing. As we move out of the immediate crisis phase, the Fund will continue to be called upon to provide large-scale support. We therefore support the proposals for temporary increased annual access limits and a lifting of the cap on RCF disbursements, which should accommodate the recent emergency financing and allow the Fund to continue to support the membership. As we laid out our views in detail at the previous informal meeting, we will limit our comments here to the following issues.

We support the temporary increase of normal annual access limits to 245 percent of quota for the GRA and to 150 percent of quota for the PRGT. These increases should provide flexibility to accommodate the recent provision of emergency financing while allowing countries to transition to UCT programs. Although annual limits will temporarily be higher, we emphasize that Fund staff should continue to calibrate program size based on the balance of payments need and with a goal of catalyzing other financing, and in many cases, programs may not require the full amount of the increased available access. Additionally, we support the lifting of the restriction on the number of RCF disbursements, as we believe this should incentivize a phased approach to disbursements when appropriate.

Our support for an increase in annual access limits, however, is part of a holistic view of the increased risks that the Fund is taking on. In particular, we can support an increase in the normal annual access limits because there is not a corresponding increase in cumulative access limits. By allowing annual access limits to increase while keeping cumulative limits constant, the Fund can support members facing a sizable shock in the short term and accommodate emergency financing while not relaxing the safeguards and increased oversight provided by the exceptional access framework for genuinely large programs. An unchanged normal cumulative access limit does not mean that countries' financing is strictly bound; rather, it implies that borrowing above a certain level requires added oversight and protection for significant Fund exposures. This increased scrutiny is prudent and in line with our fiduciary responsibilities.

Additionally, our support for increased annual access limits further reinforces our view that safeguards must be robust. As a first step, the Fund should begin its shift from emergency financing toward UCT programs, which come with greater oversight through periodic reviews and ex-post conditionality. UCT programs should review the experience with emergency financing and follow up on safeguard commitments. We also emphasize the importance of strong governance safeguards in an environment of increased lending for budget support purposes, as the risks to the Fund's finances and reputation are heightened with more opportunities for funds to be misused. Finally, we reiterate our view that risk management should continue to be strengthened in order to lead to greater oversight and better-informed lending decisions, and look forward to future discussions of the risk-management function in the near future.

GRAY/20/2568

July 9, 2020

Statement by Ms. Levonian, Ms. McKiernan, and Mr. Weil on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

We support the proposed decision and thank staff for their thoughtful paper. Raising the threshold for triggering the exceptional access framework is justified in these exceptional times. Further, by temporarily increasing normal annual access limits (NAAL) for both the GRA and PRGT, the Fund is taking concrete steps to help the membership transition from unconditional emergency financing by making room for UCT-quality program lending, which will support stabilization and recovery efforts. The proposals will also provide members in existing UCT-quality programs the flexibility to adjust access levels as their reform programs adapt to the crisis. We recognize that the proposals could trigger a second wave of 'top-up' requests for unconditional emergency financing from those few members who received less than 100 percent access to emergency facilities initially. In those cases, we would underscore that emergency financing access needs to be underpinned by an actual balance of payments need, and that in certain cases access was limited by reasons other than access limits (e.g., governance concerns). Since we agree with the thrust of staff's proposal, below we have highlighted a few additional considerations and questions.

It would have been preferable to increase PRGT NAAL by the same amount as the GRA, but we understand the constraints involved. Resource constraints and the need to preserve safeguards for lenders to the PRGT make it challenging to increase NAAL beyond 150 percent at this time. We would encourage the issue to be taken up again during the forthcoming Review of Concessional Financing. In particular, if sufficient additional subsidy resources can be secured, there could be scope to increase NAAL at a later date.

The inequitable approach being proposed between the PRGT and GRA makes it paramount to formalize policy safeguards in cases of high levels of combined PRGT-GRA exposures. In paragraph 8, staff states that "Since PRGT-eligible countries can access GRA resources on the same terms as other member countries, PRGT financing, even where it has reached the specified hard caps, can be supplemented with GRA resources where warranted." We agree that such an approach could be helpful in some cases where the PRGT NAAL is binding and a BoP need remains, but it could also lead to cases of very high levels of combined access that are not subject to enhanced safeguards. As such, before encouraging non-blenders to access GRA resources, we would urge staff to formalize the policy safeguards discussed in FO/DIS/20/25. In the interim, we would scrutinize such cases very closely. *When will safeguards for cases of high levels of combined PRGT-GRA exposures be brought forward for formal Board discussion and what guidance is being provided to area departments in the interim?*

We support the temporary suspension of the limit on the number of RCF disbursements and are inclined to support its permanent elimination. It is not clear to us what the policy rationale is for the existing limit of two RCF disbursements in a 12-month period. However, we would emphasize that natural disasters are becoming more severe and more frequent against the backdrop of a global pandemic. Vulnerable members should not be prohibited from accessing RCF disbursements in the unimaginably tragic event that they are struck by more than two qualifying exogenous shocks in a 12-month period. If the underlying policy concern relates to PRGT resource adequacy, we would encourage this issue to be taken up in the context of the forthcoming Review of Concessional Financing.

It would have been helpful to explore the conceptual linkages between the various temporary access decisions taken and contemplated, and their associated timelines. The temporary increase in NAAL is proposed to sunset on April 6, 2021, which staff indicates is the one-year anniversary of the doubling of access for emergency facilities. However, it is unclear why the timing of this prior decision is a relevant consideration, or how the two sets of decisions interact more generally. *Could staff explain how these two sets of temporary crisis-driven access decisions interact from a policy and timeline perspective? What are some of the considerations that the Board might look into when deciding whether to extend each set of measures and are these considerations complementary?*

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GRAY/20/2569

July 9, 2020

Statement by Mr. De Lannoy, Mr. Jost, and Mr. Hanson on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

We support the proposed temporary increase in the GRA and PRGT Normal Annual Access Limits and the temporary increase in the PRGT Exceptional Annual Access Limit.

We agree with staff that the benefits of the proposed decisions, which enable the Fund to resume UCT-quality lending after a round of emergency lending, outweigh their risks.

That said, we stress the importance of appropriate risk mitigation in upcoming programs. Staff rightly notes that a temporary increase in normal annual access limits may result in frontloading of access and bunching of repayments. We therefore expect UCT-quality programs to provide adequate safeguards, including through rigorous analyses of debt sustainability and the capacity to repay the Fund, appropriate conditionality and contingency planning.

At this stage we see no compelling case to change normal cumulative access limits. We agree with staff that normal cumulative access limits are a key anchor in the Fund's risk management framework. Like Mr. von Kleist and Ms. Koh, we stress that Fund financing must maintain its revolving character and catalytical role.

We note that the temporary increase in the PRGT Normal and Exceptional Annual Access Limits worsens the shortfall in PRGT funding. We understand that the required PRGT loan resources are within reach, but higher Annual Access Limits will increase the shortfall in subsidy resources and the pressure on reserve coverage. We would have preferred to start the Review of Concessional Financing before deciding on an increase in PRGT Annual Access Limits. This would have allowed for a discussion on the strategy to ensure sufficient subsidy resources and adequate reserve coverage. Like Mr. Poso, Ms. Ekelund and Mr. Evjen, we note that a smaller increase in the Exceptional Annual Access Limit would result in a smaller pressure on the self-sustaining nature of the PRGT. *Could staff elaborate on why they chose not to propose a smaller increase of the Exceptional Annual Access Limit?*

We support the temporary removal of the limit on the number of RCF disbursements in a 12-month period.

GRAY/20/2570

July 9, 2020

Statement by Mr. Ray, Ms. Johnson, and Mr. Shin on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

We welcome and thank staff for the timely and succinct paper on the temporary modification of the Fund's annual access limits. The scale of this crisis has led to unprecedented and substantial requests for emergency financing. As we move beyond the containment phase, it is appropriate that the Fund continues to reassess the access limits to balance members' financing needs while safeguarding and managing risks for the Fund.

We support the temporary increase to the annual access limit for the GRA from 145 to 245 percent of quota. Approval of a temporary increase will remove any binding constraint for GRA emergency financing during the containment phase and, importantly, will facilitate members' requests for follow-up upper credit tranche programs. We agree with staff's assessment that the benefits of the temporary increase outweigh the risks, particularly considering that failing to provide adequate support to the membership would come with its own substantial risks. We support staff's proposal that the increase should apply to both current and new arrangements, as well as to RFI requests.

Given PRGT financing constraints, we support the temporary increase to the annual access limit for the PRGT from 100 to 150 percent of quota and the temporary increase to the exceptional annual access limit to 183.33 percent. We share staff's concerns regarding the sustainability of the PRGT and look forward to discussing the matter in the upcoming Review of Concessional Financing. We take note that the 50 percent increase corresponds with the temporary increase in RCF access and provides additional room to access PRGT resources without meeting the PRGT exceptional access criteria. We note that, as with the GRA, the temporary increase would apply to both current and new arrangements, as well as to RCF requests (and to augmentations or rephasing of access).

We remain cautious about possible changes to the normal cumulative access limits. The exceptional access framework remains in place to provide access above normal access limits, but ensures appropriate safeguards are in place to manage risks for the Fund. We remain open to further consideration of these issues but consider that there should be a high bar for changing the exceptional access framework.

We support the temporary relaxation in the number of RCF disbursements in a 12-month period and welcome the opportunity to discuss further temporary increases in annual access limits as needed later in 2020. The Fund must demonstrate its agility throughout the pandemic and temporary changes such as these will ensure we can appropriately meet members' needs quickly.

GRAY/20/2571

July 9, 2020

Statement by Mr. Inderbinen and Ms. Wehrle on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

We welcome the Fund's swift and substantial response to the COVID-19 pandemic to help address financing gaps in numerous member countries. We agree that some additional borrowing space could be useful to allow members to move to UCT-quality programs with increased focus on adjustment and reforms. We nonetheless note that the Fund's engagement is increasingly testing the limits of sound risk management, as also highlighted in the 2020 mid-year risk update. Notwithstanding the unprecedented shock faced by the membership, further adjustments to the lending instruments must reflect these constraints so as not to weaken the Fund's reputation and its credibility as a preferred creditor. We thus call for a cautious approach, especially given the heightened risks created by already elevated debt levels across the membership.

Like Mr. von Kleist and Mr. Poso, we would have preferred a smaller temporary increase in the NAAL for GRA lending. The increase in the NAAL will effectively remove important safeguards related to the EA framework from a potentially large amount of Fund lending and thereby further increase the Fund's risk profile. The EA framework is as necessary as ever to provide the warranted scrutiny in high access cases. This all the more so since RFI payouts are unconditional by design. Staff mentions higher risks to Fund programs and resources associated with the frontloading of access (paragraph 12). These should be important considerations when deciding on an increase in NAALs. *Could staff elaborate on their assessment of the increase in risks to Fund programs and resources?* Furthermore, the size of members' arrangements should not be supply-driven, but should reflect many considerations, including financing needs, debt sustainability and program strength. The focus should be on maximizing the catalytic role of Fund arrangements.

We support the proposed temporary increase in the NAAL by 50 percent of quota for the PRGT. We take note that the size of the increase was calibrated by taking into account the availability of loan and subsidy resources, as well as reserve coverage, and is viewed as manageable by staff. Given the decision taken in April for a temporary increase of access by 50 percent of quota under the RCF, a temporary NAAL increase of the same magnitude ensures additionality of COVID-19-related emergency financing. We also support the corresponding temporary increase in the Exceptional Annual Access Limit (EAAL) by 50 percent of quota. We nonetheless note the continued need to ensure PRGT self-sustainability and look forward to the upcoming Review of Concessional Financing in this regard. In this context, it will also be necessary to review the application of the blending policy.

We see the increase in NAALs for both GRA and PRGT as a strictly temporary crisis-related measure. Although the cut-off date under staff's proposal would be April 2021, we note that countries will de facto benefit from higher access limits until April 2022.

We support the proposal to relax the rule limiting the number of RCF disbursements in a one-year period. We acknowledge that this will provide the flexibility needed in certain cases. We underline the importance of key financial safeguards, namely the access limits and the member's capacity to repay. The Board will need to closely assess these conditions in repeat-RCF requests.

We remain highly skeptical of any potential increase in the Normal Cumulative Access Limits (NCALs). We agree that the level of cumulative exposure permitted outside the EA framework is a key anchor of risk management. Higher NCALs would imply a readiness among the membership to accept an even higher risk profile. It would also presuppose a common understanding on a potential expansion of the Fund's overall lending envelope.

GRAY/20/2572

July 9, 2020

Statement by Mr. Mouminah, Mr. Alkhareif, and Ms. Preston on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

The COVID-19 pandemic has created a sudden, deep and highly synchronized shock across the global economy. **The unique characteristics of the current crisis makes it imperative that the Fund's lending policies are appropriately tailored to provide well-targeted support to members**. Amending the Fund's normal annual access limits at this time will help the membership navigate the unprecedented challenges of this crisis, especially as we move into the stabilization and recovery phases.

We support the proposals to temporarily increase the normal annual access limits for both the GRA and the PRGT to ensure that the Fund's policies retain the flexibility needed to appropriately respond to the characteristics of the current shock. We also support the removal of the limit on the number of RCF disbursements in a 12-month period to enhance flexibility. Increases to the normal annual access limits will provide more space for financing inside a 12-month window, allowing for a timely resumption of UCT-quality lending. This will support necessary front-loaded access while avoiding unwarranted frontloading of adjustment, in line with the characteristics of the current crisis. It will streamline access to Fund resources, increasing flexibility as to the timing and profile of the Fund's support, while maintaining appropriate safeguards on the overall level of access. It will also allow eligible countries additional access to concessional resources before needing to seek out GRA resources, ensuring we can continue to support the most vulnerable members.

Increases to normal annual access levels are not without risks which should be carefully monitored. Such increases will allow for more front-loading of disbursements potentially weakening conditionality. It also could mean a bunching of repayment obligations to the Fund, potentially impacting a member's capacity to repay. However, helping members respond to a global shock of unprecedented scale can be seen as justifying acceptance of higher risks to Fund resources than is warranted "in normal times" and so on balance these risks are outweighed by the risks to the Fund (actual and reputational), should our support to members be insufficient. In addition, a number of other safeguards, including the normal cumulative access limits and exceptional access framework, remain firmly in place.

Proposals for future modifications to normal cumulative access limits would need to meet a very high bar. The exceptional access framework does not limit access to Fund resources rather it triggers higher scrutiny. This is not only to safeguard Fund resources but also protect the member from borrowing above its own capacity to repay. While we are open to further discussions on the risks and benefits to increasing the cumulative access limits, we would be very reluctant to amend this without good reason. Nonetheless, we encourage staff to carefully monitor the impact on Fund resources of the increase in the normal annual access limits and to identify if there are lessons that could be relevant to the level of the normal cumulative access limits.

We recognize that with the proposed decision to increase the normal annual access limits, there are corresponding implications for PRGT resources. We would have preferred to have a more holistic discussion about access limits and concessional resources – however we realize that we are operating in a highly fluid environment and that there is a premium on taking action. We remain committed to preserving the self-sustainability for the PRGT, ensuring the equitable distribution of scarce PRGT resources and maintaining the Fund's catalytic role. We look forward to considering the full range of options in our upcoming discussion on the *'Review of the Financing of the Fund's Concessional Assistance'* to ensure these principles remain intact.

Lastly, we look forward to reviewing the decision to temporarily increase the normal annual access limits by December 2020, ahead of the April 2021 expiry, to ascertain whether an extension is warranted.

GRAY/20/2573

July 9, 2020

Statement by Mr. Jin and Ms. Liu on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

We thank staff for the informative report. We would like to make the following comments.

The COVID-19 pandemic has dramatically affected the global economy, and many member countries have approached the Fund for substantial emergency financing assistance to address their financing gaps. Given the severity of the current shock and the significant financing needs from the membership, it makes sense to increase Normal Annual Access Limit (NAAL) under the GRA and PRGT on a temporary basis when sufficient resources are secured. We are open to staff's proposal and can go along with the consensus.

We commend the Fund's quick response to the crisis, including by providing emergency financing assistance through RCF and RFI to help member countries. Meanwhile, we see a strong need for safeguarding the Fund's resources. In this regard, access limits are an important element of the Fund's multilayered risk management framework to preserve the Fund's financial position. Recently, the Fund's lending to member countries has increased significantly, which could lead to higher credit risks. Therefore, minimum safeguards should remain in place to protect the Fund's resources. Also, important safeguards, such as additional scrutiny and procedural requirements under the Exceptional Access, requirements for financing assurance, and capacity to repay the Fund should be fully respected.

As for the Normal Cumulative Access Limit (NCAL), we should be more cautious when we consider possible changes. Increasing the NCAL also requires large commitment to resources. Comprehensive review of PRGT financing, sufficient safeguarding, and an emphasis on the catalytic role of the Fund's program are all important elements to take into consideration before we make a decision. We note that the PRGT financing resource remains insufficient even after the recent fundraising. We view that increasing the NCAL would not be helpful to control the Fund's overall risk exposures. Taking into account the safety and adequacy of Fund resources, it is still premature to consider changes to the NCAL at this stage.

The current crisis has once again demonstrated the need to boost the Fund's resources. For this purpose, a general SDR allocation is perhaps the most effective response to the current crisis. The Fund's governance reform should also be advanced. We urge timely discussions and completion of the 16th general review of quotas.

Finally, we support to remove the limit on the number of disbursements under the RCF within a 12-month period to provide greater flexibility in use of these higher levels of emergency financing while the temporary access increase for emergency financing is in place.

GRAY/20/2574

July 9, 2020

Statement by Mr. Tanaka, Mr. Chikada, Mr. Harada, Ms. Mori, and Mr. Shimada on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

We thank staff for the paper. We agree with staff that many membership countries are facing larger financing gaps in the shorter period due to the COVID-19 crisis, which would justify the increase in the annual access limits both of the GRA and PRGT. We expect that the countries would utilize the borrowing space created by the increase in annual limits to shift for the UCT program, which would restore macro-economic stability, promote structural reforms and foster solid inclusive recovery. **We thus agree with the necessity to increase the annual access limits**, and provide the following comments.

As for the GRA, we can support the proposed temporary increase in annual access limits by 100 percent of quota. We acknowledge that the increase by 100 percent of quota would give more flexibility for the Fund and authorities to design UCT program. We urge staff to use this flexibility effectively to restore macro-economic stability as well as promote structural reform. We believe that a more borrowing room of a country in next 12 months does not necessarily mean using its full capacity of the Fund's borrowing, rather, the room could enable the country to finance its BOP needs in an efficient and effective manner and thereby would contribute to minimizing their borrowing. *Staff comments are welcome.*

That said, **we reiterate the importance of discussing the access limit issues in the context of the Fund's role in entire financing structure.** Financing needs by the Fund's facilities and the Fund's resource implication are essential information for decision making. In this context, it is still unclear why the increase by 50 percent of quota could not have met the membership countries' needs. *It would be appreciated if the staff clarify this point.*

We can go along with the proposed temporary increase in annual access limits of the PRGT by 50 percent of quota given the urgency of responding to the COVID-19 pandemic. This provides room for member countries to request follow-up UCT-quality programs in the wake of global economic shock. At the same time, given the risks associated with the PRGT financial constraint including loan and subsidy resources as well as reserve account coverage, the proposed conservative increase compared to the GRA is appropriate at this moment. While the proposal is assuming that the Board supports the mobilization of additional subsidy resources, the fundraising exercising of grant financing is a difficult task. Therefore, we expect leadership by management on it. We are looking forward to having further Board discussions on the financing options and on a contingency plan in case where enough funding would not be secured.

We support the temporary removal of the limit on the number of RCF disbursement. This can provide greater flexibility to adjust financing flows to meet country circumstances during the shock lasting for an extended period. We also encourage staff to use this flexibility to warrant the safeguard to the Fund resources, by putting appropriate prior actions, in case of countries which have severe governance issues.

We welcome that staff's cautious approach for the increase in cumulative access limits. Given that the cumulative access limits play an important role in the Fund's safeguard, we are not convinced of the need to increase the cumulative access limits. We need concrete evidences for it as well as comprehensive assessment from the viewpoint of the Fund's risk management.

Finally, we expect staff to provide lessons from the temporary increase in annual access limits to the board going forward. Such information should include how each member country would benefit from the temporary increase in annual access limit as well as the implication on the Fund resource and risk management, which is indispensable to discuss the necessity to extend these temporary limits for a further period. Looking ahead, we are of the view that, building on these lessons, the access limit policy should be holistically examined given the Fund's catalytic role in the review expected in 2021.

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GRAY/20/2575

July 9, 2020

Statement by Mr. Mozhin and Mr. Tolstikov on Temporary Modification to the Fund's Annual Access Limits
(Preliminary)
Executive Board Meeting
July 13, 2020

We thank staff for the comprehensive report and additional clarifications. Against the backdrop of exceptional challenges to the world economy and member countries we can support the proposed decisions to temporarily increase annual access limits. We note that the circumstances with respect to the GRA and the PRGT access limits are different in several aspects, which justify different approaches.

1. **The GRA case**

Regarding the use of GRA resources, the increase of the Normal Annual Access Limit (NAAL) to 245 percent of quota does not in fact create additional space to borrow. The access to the IMF financing should be determined primarily by the country's balance of payments needs. If these needs exceed normal limits, the Fund can provide additional resources under the Exceptional Access (EA) framework, which means that the NAAL is just a threshold that can be surpassed on the basis of the EA procedure. *Thus, we do not consider the GRA NAAL increase as creating additional lending space to any country (or at least to any country with broadly sound economic fundamentals), but rather as a relaxation of the Fund's lending conditions.*

In view of the exceptional situation, some relaxation of the Fund's lending procedures could be justified. The EA procedure is more complicated than an ordinary UCT-quality program approval and monitoring. In the present situation the assessment of the borrower's compliance with the four criteria for exceptional access could be more difficult than in the normal times, given the environment of high uncertainty. Moreover, the EA framework requires systematic informal consultations with the Board and ex-post evaluations. Taking into account the large number of countries where financing needs may exceed the 145 percent annual threshold, the workload on staff and the Board could become elevated. The same is also true for the countries' authorities, as the EA framework requires additional scrutiny and more intensive provision of information to the Fund. Operational considerations, therefore, argue in favor of some temporary "regulatory forbearance".

Having said that, we understand that such "regulatory forbearance" creates additional risks. Higher annual limits may encourage larger borrowing from the Fund and building-up of senior non-restructurable debt that can complicate future return to capital markets. Easier access to Fund resources reduces incentives to obtain financing from other creditors and donors. Also, lesser scrutiny of the standard Board procedures compared with the EA framework could correlate with higher probability of program failure (although this needs to be assessed). Elevated use of Fund resources may also increase the Fund's credit risks.

We consider these risks to be tolerable and moderate. *First*, many countries have already received the RFI loans and further financing could be provided on the basis of the UCT-quality programs that imply appropriate conditionality. *Second*, a potentially higher risk of program failures is mitigated by moderate increase in their size, especially taking into account that the Normal Cumulative Access Limit will remain unchanged (programs with NAALs in the range of 145-245 percent of quota are relatively small compared with the 2008-2012 EA programs, with cumulative access of 900-2150 percent of quota over the three-four years period). *Third*, the proposed measures will be temporary and will last for only about one year, subject to the Board's reassessment. *Finally,* higher risks for the Fund should be weighed against potential risks for the global economy in case of insufficient Fund financing.

Taking into account these considerations, we can support the proposed package for GRA resources, including: a) an increase of the NAAL from 145 percent to 245 percent of quota; b) limiting this increase to programs approved before April 6, 2021; c) maintaining the Normal Cumulative Access Limit unchanged at 435 percent of quota. We also agree that, by end-December 2020, the Board should review these policy changes.

2. **PRGT NAALs**

We would be prepared to support the increase of the PRGT NAALs by more than 50 percent of quota, in case there was more certainty on the funding side. Unlike the GRA NAAL, which could be exceeded by a large margin, the PRGT annual access constraints are much harder. Even in the exceptional cases they could not be increased by more than 33.3 percent of quota. Many PRGT-eligible countries have already exhausted their normal access limits after using the RCF loans and their further access to Fund resources is constrained.

However, as indicated in the staff report, the availability of concessional resources is more limited than in the GRA case. In view of scarcity of the PRGT resources, ideally, a fully informed decision on the increase in the PRGT NAALs should have been taken after the Review of Concessional Financing, which will be discussed on July 27. *Could staff provide, on a preliminary basis, a summary of conclusions from this report regarding the resource needs and resource constraints?*

The size of the PRGT NAALs increase should be based on the realistic assumptions about future contributions by donors to the PRGT loan and subsidy accounts. Such an increase should not put at risk the self-sustainability model of the PRGT. Therefore, at this stage, we can go along with the conservative approach to the increase in the PRGT NAALs. Should the replenishment of the PRGT resources exceed expectations, we could consider further increase in access limits. As the Board will again discuss access limits in mid-December, the PRGT NAALs could also be re-assessed at that time.

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GRAY/20/2576

July 9, 2020

Joint Statement by Mr. Beblawi, Mr. Bevilaqua, Mr. Buisse, Mr. Chodos, Mr. Fanizza, Mr. Kaya, Ms. Mahasandana, Mr. Mahlinza, Mr. Mojarrad, Mr. Raghani, Ms. Riach, and Mr. Villar on Temporary Modification to the Fund's Annual Access Limits (Preliminary)
Executive Board Meeting
July 13, 2020

We thank staff for the concise report and the Managing Director for bringing to the Board this long-awaited proposal for temporary modification of the Fund's access limits. The nature and the extent of the current crisis require the Fund to take extraordinary measures to fulfil its mission of safeguarding global financial stability and facilitating member's adjustment to shocks. Since the onset of the crisis, there have been clear signs that access limits could become a relevant bottleneck for much needed financial assistance to the membership. The temporary increase in access limits for emergency financing instruments was a crucial step, but its effects remain limited without the corresponding adjustment of normal annual access limits (NAALs) and normal cumulative access limits (NCAL). Indeed, access limits constrain engagement with countries that were already pursuing important structural reforms within program arrangements as well as with those that will require further Fund support beyond emergency financing. As we move from the containment to the stabilization and the recovery phases in our lending strategy, resolving this issue becomes critically important. For that reason, we welcome this opportunity to finally move forward and make progress regarding normal access limits.

We support the proposal to temporarily increase the NAAL for the GRA from 145 to 245 percent of quota to adapt access limits to the membership needs. We share the understanding that the increase should apply to both current and new arrangements, as well as to RFI requests. We are reassured to see that the proposal will release the main binding constraint for the GRA emergency financing made available to members during the initial phase of the crisis without curtailing borrowing space within the year since the onset of the pandemic. We agree with staff's assessment that the benefits of the temporary NAAL increase outweigh the risks, particularly considering that failure to provide the adequate level of support to the membership would come with its own substantial risks.

In the case of PRGT, it is unfortunate that the proposal to temporarily increase the NAAL from 100 to 150 percent of quota lacks the ambition that the exceptional circumstances call for. We take note of staff's concerns regarding the sustainability of

PRGT financing, and we look forward to discussing the matter in the upcoming Review of Concessional Financing. We continue to encourage members to participate in the effort to raise loan and subsidy resources to the PRGT, recognizing that funding constraints will need to be resolved to make increased concessional financing available, consistent with the PRGT's self-sustainability. Still, we remain to be convinced that PRGT resources constraints are effectively binding in the short term. We recall that it is the Board's prerogative to define the level of risk the Fund should take, always taking into account staff's candid and evidence-based advice. In this context, we are disappointed that the option to temporarily increase the NAAL for PRGT to 200 percent of quota was not brought to the Board for consideration, despite some Directors having clearly manifested their preference for that alternative in our previous meeting. That said, we welcome the adjustment in the exceptional annual access limit to 183.33 percent of quota for the PRGT to distinguish it with the new NAAL of 150 percent.

Increasing normal annual access limits is unlikely to be enough to create adequate conditions for a sustained global economic recovery. Box 2 shows that NAAL was already binding for 10 out of 23 approved RFIs, as well as for 19 out of 50 non-blend countries with approved RCF requests. Furthermore, those that had 100 percent of quota in emergency financing face a low limit under the NAAL for additional support. What is still missing in the analysis is how many countries have been or will likely be constrained by cumulative access limits – and on the GRA in particular, the extent to which these countries are likely to struggle to meet the exceptional access criteria. *Could staff provide this information?* Although the proposed temporary increase in NAALs will help alleviate pressing financing needs in the short run, we underscore that a comprehensive strategy to support a sustainable recovery in the aftermath of the crisis will depend on considering corresponding increases in NCALs. As we move away from the containment phase in our lending strategy, creating space for UCT-quality programs will be key. For that reason, we are disappointed that the proposals do not include immediate consideration of cumulative access limits. We hope that PRGT funding constraints will be addressed in due course, and we look forward to a prompt consideration of reviewing the NCALs for both the GRA and PRGT. *Could staff provide a timeline for when discussion of the NCALs will be considered*? Overall, we appreciate staff and management's continued efforts to devise sound financing solutions in these challenging times but feel that the Fund should be moving faster on the issues of temporarily increasing both annual and cumulative limits to meet the extraordinary needs of the membership. In particular, regarding the constraints posed by the limited access to PRGT financing, we stress the importance of bold proposals to scale up both its loan and subsidy resources.

We strongly support the temporary relaxation in the number of RCF disbursements and the extension of the temporary increases in the access limits of emergency facilities. These are the kind of sensible adaptations to our policies that we need to embrace. Since RCFs and RFIs were originally created to tackle small, temporary and localised shocks, adapting these emergency instruments to the unexpected reality of an exogenous shock of global proportions is well warranted. Of course, emergency financing facilities should only be used when they are the best instrument for addressing the issue: as countries move into the stabilization and recovery phase of the crisis, we would expect to see UCT-quality programs becoming the norm.

In conclusion, we can support the proposed decisions, understanding that they represent important steps in our strategy to deal with the current crisis. We expect to see more progress soon with Board consideration of remaining related issues, namely, the commensurate increase in PRGT NAALs, the increase in NCALs, and solutions to address PRGT financing constraints. We also look forward to considering before the end of 2020 the cases for extending the temporary adjustments in the PRGT and GRA normal access limits and for making permanent the suspension of the limit on the number of RCF disbursements per year.

Temporary Modification to the Fund's Annual Access Limits

Responses to Technical Questions Posed by Executive Directors in Advance of EBM/20/75—July 13, 2020

Staff's responses to technical questions are below. Broader policy questions in the areas of PRGT resources, further modifications to the normal access limits, and Fund's risk tolerance and safeguards will be addressed in staff's intervention at the Board meeting.

General

1. ***Is there any analysis of countries which have not been provided any support till now but are likely to approach the Fund seeking substantial emergency support?***

- SPR staff provided the top-down estimate for external financing gaps and demand for Fund resources under an adverse scenario in the recent EM presentation to the Board. Staff will update this estimate to reflect changing environments. In addition, FIN staff has estimated demand scenarios for PRGT-eligible countries using bottom-up approaches that helped provide a deeper understanding of the borrowing spaces created by the higher access limit and their utilization via emergency financing and/or multiyear arrangements.

2. ***It is unclear why the increase by 50 percent of quota could not have met the membership countries' needs. It would be appreciated if the staff clarify this point.***

- Additionality can be interpreted as accommodating the ability to have access up to the maximum amount of RFI/RCF financing (100 percent of quota) or raising access limits in line with the temporary increase in RFI/RCF annual limits (50 percent of quota). To facilitate full additionality of emergency assistance where appropriate resources are available, an increase of 100 percent has been proposed for the GRA.

3. ***Can staff comment on that a more borrowing room of a country in next 12 months does not necessarily mean using its full capacity of the Fund's borrowing, rather, the room could enable the country to finance its BOP needs in an efficient and effective manner and thereby would contribute to minimizing their borrowing.***

- The increase in the NAAL will create space to accommodate greater frontloading of access, while not necessarily implying higher total exposure, as cumulative access limits remain unchanged. In general, determination of access in individual arrangements depends on (i) the scale of the member's actual, potential or prospective BoP need; (ii) the assessment of capacity to repay the Fund, including the strength of policies; and (iii) the amount of the member's outstanding use of Fund credit and its track record in using Fund resources.

PRGT resources

4. ***Can staff provide a brief update on this issue, i.e. the extent to which the proposed increase is in line with available resources and new commitments under the current PRGT fund raising exercise (and the current fundraising target of SDR***

12.5 bn)? Do staff's considerations also envisage increased recourse to blending? Could staff provide, on a preliminary basis, a summary of conclusions from this report regarding the resource needs and resource constraints?

- Staff will respond to these questions during the Board meeting.

Possible extension to temporary limits

5. ***We wonder whether extending the temporary NAAL increase well into 2021 may be premature at this point, also given exceptional levels of uncertainty on the economic outlook, as often referred to by staff.***

- Staff will respond to this question during the Board meeting.

6. ***Could staff explain how these two sets of temporary crisis-driven access decisions interact from a policy and timeline perspective? What are some of the considerations that the Board might look into when deciding whether to extend each set of measures and are these considerations complementary?***

- The duration of the temporary increase in the NAAL is set to provide sufficient time to discuss and prepare a UCT-quality program after the sunset of the temporary increase in the RCF/RFI limits. An extension of the latter for less than 6 months will not provide additional access under the emergency financing instruments for members that have already benefited from them. However, an extension, even for a short period, would help countries that have not yet requested the RCF/RFI address the urgent BoP needs due to the public health crisis. Therefore, the increase in the NAAL would help achieve two goals at the same time: providing enhanced access to countries under the emergency financing instruments and initiating properly phased follow-up UCT-quality programs.

Cumulative access limit

7. ***How many countries have been or will likely be constrained by cumulative access limits – and on the GRA in particular, the extent to which these countries are likely to struggle to meet the exceptional access criteria. Could staff provide this information?***

- The supplement to the Board paper provides the list of countries with outstanding credit to the Fund over 200 percent of quota as of end-June, 2020. The borrowing space under the NCAL is determined by the outstanding credit of a member country, together with scheduled access under existing arrangement and scheduled repurchases. Exceptional access criteria require country-by-country assessment, and in any case, the amount of access would depend on actual or potential balance of payments needs experienced by members at the time they request access from the Fund.

8. ***Could staff provide a timeline for when discussion of the NCALs will be considered?***

- Staff will respond to this question during the Board meeting.

Exceptional access limit

9. ***Similarly, we would ask staff to provide an explanation on why the proposal to raise NAAL for the PRGT to 150% of quota is to be accompanied by a temporary increase in the Exceptional Annual Access Limit above that level to 183.33 percent? The associated increase of the Exceptional Annual Access Limit to 183.3 percent further increases the pressures related to the adequacy of PRGT-resources. Did staff consider suggesting a lower hard EAAL? We would appreciate staff comments on this. Could staff elaborate on why they chose not to propose a smaller increase of the Exceptional Annual Access Limit?***

- The parallel increase in the EAAL (by 50 percent of quota) is needed to allow some additional annual access (33.3 percent of quota) to the PRGT resources for the members that meet exceptional access criteria during the temporary increase in the NAAL. Staff do not expect significant resource implications from the increase in the EAAL.

Quality UCT programs

10. ***Staff comments on the argument that the increase in the NAAL strengthens the case for returning to the regular RFI/RCF access limits sooner rather than later.***

- The increased NAAL may provide several countries with space for additional borrowing under the RCF/RFI. However, the additional borrowing will be relatively small in size, due to the annual limits to the RCF/RFI access, which will leave most member countries with little or no financing room for further access under these instruments. Accordingly, further Fund support would be provided under arrangements supporting members implementation of UCT-quality programs.

Risk and safeguards

11. ***Could staff elaborate on their assessment of the increase in risks to Fund programs and resources? Could staff elaborate further on the staff's assessment that "residual risks to Fund programs and resources would remain", and that "creating space for more upfront disbursements under follow-up UCT-quality programs reduces program risks".***

- The current crisis calls for significant frontloading of access without a corresponding frontloaded adjustment because of the scale of the shock and the undesirability of large policy adjustment. Creating space to accommodate this need would contribute to successful UCT-quality programs. While higher risks associated with frontloading of access (and bunching of repayments) are offset or partially mitigated by strong program design and timely financial support, residual risks would remain. The residual risks can be mitigated further by: (i) contingency planning for a longer pandemic shock that would otherwise boost financing needs; and (ii) the NCAL maintained at the current levels, providing safeguards for aggregate exposure.

12. ***Staff comments on the higher negative impact of RCF lending on UFR risks, compared to assistance provided under UCT programs.***

- Financial support through the RCF during the current pandemic crisis has been provided for members qualifying for this financing and thus where, inter alia, UCT-quality programs are not feasible as the member is unable to implement a UCT-quality program due to its limited policy implementation capacity or the urgent nature of the BoP need. While the RCF provides outright access to the PRGT resources and thus not include ex-post conditionality and reviews, the authorities' commitment to adequate policy undertakings, staff's careful assessment of debt sustainability and repayment capacity, and (parsimonious) use of prior actions help mitigate any negative impact of RCF lending on UFR risks. Further, the access levels in some cases with poor track record, high debt sustainability and governance concerns have been calibrated to be commensurate with perceived risks to the Fund.

13. ***On the Fund's risk tolerance, could staff comment when and in what format this discussion is planned to take place?***

- Staff will respond to this question during the Board meeting.

14. ***Could staff comment on the higher need for enhanced scrutiny against the backdrop of a "pandemic and associated global recession of historic depth"?***

- Staff will respond to this question during the Board meeting.

15. ***Are there any prudent performance criteria which can be deployed to assess the impact of the emergency support already provided? Staff may comment.***

- The authorities that received emergency financing from the Fund during the current crisis committed in their Letter of Intent to direct the additional resources toward spending to mitigate the health, economic, and social impact of the Covid-19 crisis, especially for the most vulnerable. While acknowledging that money if fungible, staff are monitoring aggregate fiscal developments and execution of specific budget expenditure items to assess Covid-19 related fiscal impact and policy responses, including as part of on-going surveillance or program engagement.

16. ***When will safeguards for cases of high levels of combined PRGT-GRA exposures be brought forward for formal Board discussion and what guidance is being provided to area departments in the interim?***

- The formal Board discussion on additional safeguards for combined high access is tentatively scheduled for August 28, 2020. In the interim period, a request which would result in a combined exposure to PRGT and GRA resources in excess of 435 percent of quota is deemed unlikely.

Constituency Codes

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, and República Bolivariana de Venezuela

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States