INTERNATIONAL MONETARY FUND

IMF POLICY PAPER

July 22, 2020

TEMPORARY MODIFICATION TO THE FUND'S ANNUAL ACCESS LIMITS

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 13, 2020 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on June 30, 2020 for the Executive Board's consideration on July 13, 2020.
- **A Staff Supplement**

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR20/267

IMF Executive Board Approves a Temporary Increase in Annual Access Limits to Financial Support

FOR IMMEDIATE RELEASE

Washington, DC – July 21, 2020 On July 13, the Executive Board of the International Monetary Fund (IMF) approved a temporary increase in the annual limits on overall access to resources in the General Resources Account and the Poverty Reduction and Growth Trust. The severe impact of the Covid-19 pandemic on global economic conditions has resulted in an unprecedented number of member countries seeking financial support from the IMF. As of July 13, 2020, 72 countries have already received financial assistance from the IMF's emergency financing instruments since the onset of the pandemic, facilitated by the doubling of annual access limits under these facilities approved by the Executive Board on April 6. Further requests for assistance, the majority of which are likely to be met through the IMF's regular lending instruments, are expected in the months ahead.

IMF lending is subject to an annual limit on the access to resources that a country can obtain from its general resources and a separate annual limit on access under its concessional facilities. Many of the countries that have received financial support from the IMF since the onset of the pandemic have reached, or are approaching, the relevant annual access limits. Requests for financial assistance in excess of these annual limits trigger application of the relevant exceptional access framework, where the request is subject to tighter scrutiny and can be approved only if specified criteria are met.

Given the unique circumstances created by the pandemic, the IMF's Executive Board approved temporary increases in these annual access limits, to remain in effect through April 6, 2021. This will allow member countries to obtain higher levels of financial support during this time period without triggering the application of the exceptional access framework. The existing limits on cumulative access are unaffected by this temporary change.

The Executive Board also approved the temporary suspension of the limit on the number of disbursements under the Rapid Credit Facility (RCF) through April 6, 2021. This allows emergency financing to the IMF's poorest member countries to be provided more frequently over the course of a year, provided that the combined amounts of support provided under the RCF does not exceed the annual limit on access under this facility.

Executive Board Assessment[1]

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

[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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.

INTERNATIONAL MONETARY FUND

June 30, 2020

TEMPORARY MODIFICATION TO THE FUND'S ANNUAL ACCESS LIMITS

EXECUTIVE SUMMARY

Under the Fund's lending policies, requests for Fund financial support in excess of specified thresholds—the normal access limits—are subject to enhanced scrutiny under the Exceptional Access (EA) framework. The thresholds for access over a one-year period—the normal annual access limits (NAALs)—that trigger the application of the EA framework are currently 145 percent of quota for access to GRA resources and 100 percent of quota for access to PRGT resources.

The COVID-19 pandemic has caused a uniquely severe synchronized shock across the global economy, in turn leading numerous member countries to request substantial financial assistance from the Fund. The Executive Board responded to members' needs by increasing the access limits under the Fund's emergency financing instruments by 50 percent of quota for a period of 6 months (until October 5, 2020), subject to a possible extension by the Executive Board.

With many countries having borrowed up to 100 percent of quota under the emergency instruments, these countries now have little, if any, room to borrow additional resources from the Fund during the next 9-12 months without triggering application of the EA framework. Given the intensity of the pandemic shock, with financing needs expected to be large over the first year, and given that triggering the enhanced scrutiny under the EA framework is less useful as these needs reflect the truly exceptional global conjuncture, this paper proposes an increase in the NAALs from 145 to 245 percent of quota for the GRA and from 100 to 150 percent of quota for the PRGT, to remain in place through April 6, 2021. It is proposed that the Executive Board will consider, by end-December 2020, the case for extending these temporary limits for a further period.

With the temporary doubling of annual access limits under the emergency financing instruments to 100 percent of quota on April 6, 2020, the paper also proposes to remove the limit on the number of disbursements under the Rapid Credit Facility (RCF) within a 12-month period—currently only two are allowed—to provide greater flexibility in use of these higher levels of emergency financing while the temporary access increase for emergency financing is in place.

Approved By
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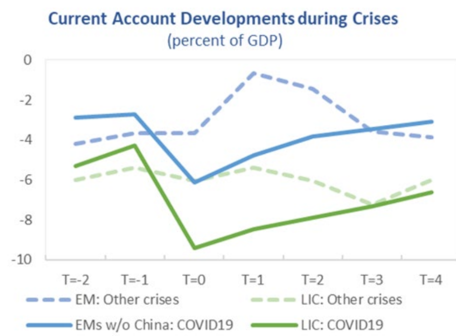
CONTENTS

INTRODUCTION[1]

1. **The COVID-19 pandemic has caused a uniquely severe synchronized shock across the global economy.** The pandemic-triggered shock has created large economic dislocations that exceed those of previous crises, as staff projections of external balances demonstrate (Figure). As a result, more than 100 members have inquired about Fund financial support to help address financing gaps. Staff estimates demand for Fund resources to be markedly frontloaded during 2020 and early 2021 as economies transition from the containment phase to the stabilization and recovery phases.



Sources: WEO, Valencia and Laeven (2018), IMF staff calculations.

2. **In response to the crisis, the Fund has boosted its capacity to provide emergency assistance, with some 70 requests already approved.** The Fund's emergency financing instruments—the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI)—provide urgent financial support without the need to have a full-fledged program in place. On April 6, the Executive Board approved a temporary increase in RCF and RFI access limits from 50 to 100 percent of quota for annual access, and from 100 to 150 percent of quota for cumulative access.[2] By June 25, the Fund had approved 72 requests for emergency financing amounting to SDR 18.5 billion (US$25.5 billion), most of which consisted of RCF and RFI requests.

3. **The scale of emergency assistance provided by the Fund since the onset of the pandemic has been such that many countries have already used much of the annual borrowing space available under the normal access limits.** However, the unique and multilayered crisis causing significant near-term financing needs may require countries to request follow-up UCT-quality programs with substantial access in the first year. As a consequence, many such follow-up programs would trigger application of the Fund's EA framework, given that the combination of emergency financing and initial access during the first 6-9 months of a new arrangement would likely exceed the NAAL.[3] Separately, many countries that obtained Fund financing under arrangements in the months prior to the pandemic would trigger application of the EA framework if they were to request the full amounts of financing available under the Fund's emergency financing instruments.

[1] This topic was discussed at an Informal Board Session (to-Engage) on June 2, 2020; the paper draws on the views expressed by Directors during this discussion.

[2] Specifically, the higher access limits were approved for access under the exogenous shocks window of the RCF and the regular window of the RFI.

[3] The GRA has only one annual and one cumulative access limit. The PRGT has normal access limits (annual and cumulative) and corresponding exceptional access limits. For the purpose of this paper, the terms "normal annual access limit (NAAL)" and "normal cumulative access limit (NCAL)" are used to refer to both the GRA annual and cumulative access limit and the PRGT normal annual and cumulative access limit.

4. **Against the backdrop of a pandemic and associated global recession of historic depth, staff sees a strong case for increasing the NAAL on a temporary basis.** In normal times, access levels in excess of the NAAL typically reflect country-specific challenges that warrant the closer scrutiny of the proposed program provided under the EA framework. In the current circumstances of a uniquely severe synchronized shock, requests for high levels of Fund financial assistance in the 12 months following the onset of the pandemic are more likely to reflect global developments than country-specific factors, as current accounts weaken (see above) and capital flows remain volatile. The current NAAL is consequently less useful at identifying situations where the intensified scrutiny of the EA framework is warranted, instead picking up cases where the driver of requests for high annual access is the truly exceptional global conjuncture. Staff hence proposes a temporary increase of the NAAL to cover the pandemic period.[4]

5. **Staff proposes that consideration of possible changes to the Normal Cumulative Access Limit (NCAL) be undertaken at a later point, drawing on lessons from experience in the coming months.** The level of the cumulative country credit exposure that the Fund is willing to take without triggering the EA framework is a key anchor in the Fund's risk management framework.[5] Reflecting the discussion of access limits in the informal Board session on June 2, 2020, staff is of the view that consideration of any potential increase in the NCAL should be taken up in the context of broader discussions of the Fund's level of risk tolerance. Staff will continue to evaluate the lending toolkit and related policies as the challenges created by the pandemic unfold and will engage with the Executive Board as needed on options to best support member countries throughout the crisis.

ANNUAL ACCESS LIMITS IN THE CONTEXT OF THE COVID-19 PANDEMIC

6. **Access limits are important elements of the Fund's risk management framework.** Access limits seek to balance the need to provide members and financial markets with confidence regarding the scale of possible Fund financing with the need to preserve Fund liquidity and the revolving character of Fund resources (see Box 2 in IMF (2016)). Access limits also seek to support 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. Furthermore, access limits reduce the risk that members become unable to repay the Fund, thereby safeguarding Fund resources. Requests in excess of the normal access limits are subject to additional scrutiny that provides greater confidence that (i) Fund resources will be repaid and (ii) borrowers will not face difficult debt service challenges in situations where they have accumulated a large stock of senior non-restructurable debt. For the Fund's concessional facilities, access limits also seek to ensure the equitable distribution of scarce Poverty Reduction and Growth Trust (PRGT) resources across members.

[4] During the Board discussion on June 2, 2020, some Executive Directors indicated a preference for "carving out" access to the emergency financing instruments from the normal annual and cumulative limits, rather than increase these limits. The limitations of this approach are discussed in Box 3.

[5] The NCAL plays a role that is similar in nature to that of country loan limits in financial institutions.

7. **Normal access limits do not determine or act as a hard limit on the amount of access made available in individual arrangements.** In general, determination of the amount 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 record in using Fund resources. While access limits do not limit how much financing a member can obtain from the Fund, access limits act as a threshold for triggering the application of higher scrutiny under the EA framework, which subjects financing requests to additional substantive and procedural requirements. The appropriateness of normal access limits is regularly reviewed, most recently in 2016 for the General Resource Account (GRA) and in 2019 for the PRGT.

8. **Normal access is subject to two types of limits—annual and cumulative.** Annual access is calculated on a gross basis during any rolling 12-month period (Box 1), while cumulative access is the sum of all disbursed and committed Fund financing on a net basis.

- For financing under the GRA, the NAAL is 145 percent of quota and the NCAL is 435 percent of quota, net of scheduled repurchases; there is no hard limit on access provided that the requirements of the EA framework are met.

- For financing under the PRGT, the NAAL is 100 percent of quota and the NCAL is 300 percent of quota; access can exceed these levels when the requirements of the PRGT EA framework are met but is subject to hard caps of 133.33 percent of quota (annual) and 400 percent of quota (cumulative). 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. PRGT access limits influence a country's access to concessional resources, not its aggregate access to Fund resources.[6]

9. **The levels of financial support provided by the Fund since the onset of the pandemic imply that many countries have already used much of the annual borrowing space available to them within the NAALs.** Countries that tapped the full amount of emergency financing have little or no space for financing under an Upper Credit Tranche (UCT)-quality program for the following 12 months without triggering additional scrutiny under the EA framework (Box 2). Separately, many countries that obtained financing under Fund arrangements in the months prior to the pandemic would trigger application of the EA framework if they were to request the full amounts of financing available under the Fund's emergency financing instruments.

[6] Thus, Ethiopia could not access added PRGT resources in April 2020 given the exceptional access to PRGT resources already committed under its 2019 ECF arrangement: it instead obtained 100 percent of quota under the RFI.

Box 1. Calculation of Annual Access Levels

Under both the GRA and the PRGT, application of the annual access limit requires consideration of the member's access to the Fund's resources in any 12-month period. The annual access limit applies to the sum of disbursements/purchases on a gross basis within any 12-month period (e.g., June 15, 2020 to June 14, 2021). The calculation of annual access computes the amount of disbursements/purchases at the availability dates under the phasing provision of the Fund arrangement approved by the Executive Board. This box provides clarifications on the computation of access:

- **For current arrangements**, the availability date—the date specified under the (latest) phasing provision of the arrangement approved by the Executive Board—is used; past scheduled amounts are counted whether they were drawn or not. Arrangements entail exceptional access because they are phased, re-phased and/or augmented beyond the normal access limits.[1]
- **For past (expired or canceled) arrangements**, only actual purchases/disbursements are counted. As with current arrangements, the availability date should be used in the annual access calculation.
- **For past RCF/RFI approvals,** the date of approval of the outright loan/purchase should be used irrespective of whether the approved amount was drawn or not.

The annual access calculation as clarified above applies to access under both the GRA and the PRGT and will be reflected in operational guidance, including the forthcoming revision to the 2017 Handbook of IMF Facilities for Low-Income Countries.[2]

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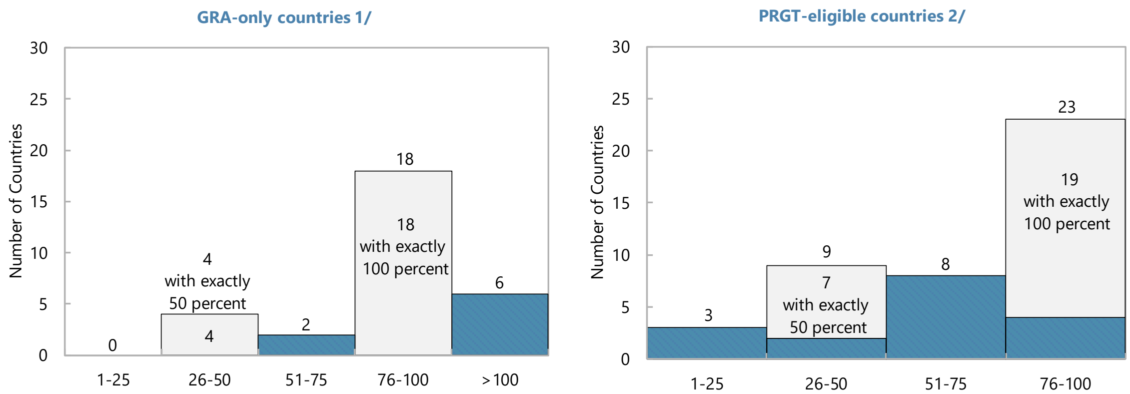
[1] Use of date of the completion of a review or the date when the member makes the purchase could trigger "exceptional access" where delayed and combined reviews lead to a bunching of access or where a member decides to draw on accumulated purchase rights under an arrangement that had been treated as precautionary. Instead, the use of the phasing, which is operationalized through the establishment by the Executive Board of availability dates, is consistent with it being an element of conditionality.

[2] The revision will also include that the availability date (and approval date for emergency assistance outright loans) should be used for the calculation of the access subject to procedural safeguards on high-access requests, which apply uniformly across all concessional facilities.

Box 2. Countries Approaching NAAL

The Fund has provided substantial amounts of assistance to member countries since the onset of the global pandemic. As of June 12, 30 member countries eligible only for GRA support have received new financing commitments since March 1, 2020 (Box Figure, left panel). 43 of the 70 PGRT-eligible countries have received new commitments of Fund financing since March 1, 2020 (Box Figure, right panel).

Commitments since March 1, 2020
(Percent of quota, as of June 12, 2020)



Sources: IMF staff calculations.
1/ Includes additional GRA resources committed to Ethiopia.
2/ Includes GRA commitments to blend countries. Excludes Somalia which received substantial new financing as part of the HIPC debt relief process.

Determining to what extent NAALs may limit future access depends on the specific circumstances and assumptions. These include the specific timing of future availability dates and the possibility of rephasing or cancelation of existing arrangements.

- **Countries eligible only for financing from the GRA.** Among the 23 RFI approvals as of June 12, 2020, four countries (Ecuador, Gabon, Pakistan, and Jordan) would exceed the NAAL if they had requested 100 percent of quota due to previous drawings. Six out of the eight countries with ongoing EFF arrangements or SBAs (excluding two cases where augmentations have been approved) would exceed the NAAL if requesting 100 percent of quota without canceling the scheduled purchases in the next 12 months. In addition to these cases, all 18 countries that have tapped the full amount of emergency financing have limited space for further financing during the subsequent 12 months without meeting the higher bar of the EA framework.

- **Countries eligible for financing from the PRGT.** All 17 non-blend countries that had financial arrangements in place as of April 6, 2020 (when the RCF access limits were temporarily increased) would have exceed the NAAL had they requested an RCF disbursement of 100 percent of quota, as would two (of 33) non-blend countries that did not have an arrangement in place. Looking ahead, all 12 non-blend countries that have borrowed 100 percent of quota under the RCF in recent months would exceed the NAAL if they requested even a minimal level of Fund financing in the 12 months following their RCF drawing. The 19 blend countries have at least some space for new programs involving PRGT resources, given that they access both PRGT and GRA resources (in a 1:2 mix).

10. **The unique context of the COVID-19 pandemic shock motivates a temporary modification to NAALs.** NAALs are calibrated to amount to one-third of the respective NCALs, which reflects the average duration of Fund arrangements of three years. NAALs reduce the risk that members exhaust their potential access to Fund resources more rapidly than warranted by the size and nature of their BoP needs, while giving confidence to members as to the level of financial support the Fund is normally prepared to provide to support strong programs over a 12-month period; they also discourage an undue bunching of a member's repurchase obligations to the Fund and related risks and financial burdens. Moreover, NAALs encourage members to avoid relying excessively on Fund financing, by drawing on other sources of financing and/or adopt appropriate adjustment measures. However, significant concentration of Fund financing in a 12-month period appears warranted in the unique context of the COVID-19 pandemic. Higher immediate financing needs do not necessarily reflect domestic policy weaknesses but rather a severe synchronized global economic shock that calls for significant frontloading of access without a corresponding frontloaded adjustment. It is therefore reasonable, and consistent with adequate safeguards to Fund resources to allow a higher level of annual access to Fund resources in the immediate wake of the pandemic without triggering the application of the EA Framework.

PROPOSALS

11. **It is proposed that the NAAL for the GRA be temporarily increased from 145 to 245 percent of quota.** This increase would apply both to current arrangements and to all new arrangements and RFI requests (and to augmentations or rephasing of access under existing or new arrangements) approved through April 6, 2021. In terms of its duration, the increase would apply to all 12-month periods that include some part of the period between the date of Board approval and April 6, 2021 (one year after the enhanced access to emergency financing was approved).[7] The proposed increase ensures that countries that have borrowed under the RFI have at least as much borrowing space under new arrangements agreed through April 6, 2021 without meeting the additional scrutiny and procedural requirements under the EA framework as they would have had in the absence of the COVID-19 shock and associated RFI drawing.[8]

12. **On balance, the benefits of the proposed temporary NAAL increase in the GRA outweigh risks.** In staff's view, higher risks associated with the frontloading of access and the corresponding bunching of repayments are offset or partially mitigated by several factors:

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[7] The increase is formulated in this manner to accommodate the rolling nature of the NAAL. The 245 percent annual access limit would apply to any 12-month period that includes any part of the period between the approval date of the temporary increase and April 6, 2021. Thus, different annual access limits (145 and 245 percent of quota) may apply over the course of an arrangement. Requests for new arrangements, for rephasing and augmentation under existing arrangements, or for an RFI approved by the Board after April 6, 2021, would be subject to an NAAL of 145 percent of quota in all cases.

[8] The temporary increase in the NAAL could instead have been calibrated off the temporary *increase* in the annual access limits for the emergency financing facilities (i.e., 50 percent of quota). Consultations with Executive Directors revealed strong support for a temporary increase in the NAAL of 100 percent of quota.

- **The proposed increase facilitates timely resumption of UCT-quality lending while avoiding unwarranted frontloading of adjustment.** Most importantly, creating space for more upfront disbursements under follow-up UCT-quality programs reduces program risks in situations with frontloaded BoP needs where upfront adjustment is not required or recommended. Furthermore, the proposed increase helps avoid incentives for members to cancel or rephase current arrangements for the purpose of freeing up space for RFI purchases.

- **Important safeguards remain in place.** The NCAL of 435 percent of quota remains in place, providing a different but important safeguard: additional scrutiny and procedural requirements under the EA framework will be triggered if aggregate exposure (including prospective drawings net of scheduled repurchases) exceeds this level. Other safeguards also remain applicable, including requirements for financing assurances, capacity to repay, capacity to implement a UCT-quality program, and debt sustainability.

- **Enhanced use of contingency planning can mitigate residual risks,** such as the possibility of a longer pandemic shock resulting in higher financing needs. Staff envisages that such contingency planning would be an integral part of all UCT program requests with elevated levels of access.

Nevertheless, residual risks to Fund programs and resources would remain, in part reflecting the uncertain length and severity of the shock.

13. **There would be a good case for raising the PRGT NAAL in line with the proposed rise in the GRA NAAL if sufficient PRGT financing resources were available.** Many PRGT-eligible countries face tight constraints on their ability to access PRGT resources for UCT-quality programs without having to meet the PRGT EA criteria (see Box 2);[9] indeed, those countries that have drawn the full 100 percent of quota available under the RCF have no borrowing room within the NAAL for the ensuing 12 months. However, the scope for increasing the PRGT NAAL is constrained by the availability of PRGT resources, both loan and subsidy resources, as well as Reserve Account coverage of lenders' credit exposure. Options for easing these financing constraints will be taken up in the context of the Review of Concessional Financing; initial discussions with the Executive Board on the substance of this review are expected to occur before the Board's August recess.

14. **Given PRGT financing constraints, it is proposed to temporarily increase the NAAL for the PRGT from 100 to 150 percent of quota.** As with the GRA, this increase would apply both to current arrangements and to all new arrangements and RCF requests (and to augmentations or rephasing of access under existing or new arrangements) approved through April 6, 2021. In terms of its duration, the increase would apply to all 12-month periods that include some part of the

[9] Only those countries that do not have sustained past market access and whose income level is at or below the IDA operational cutoff are eligible for EA. Other countries whose financing needs exceed the remaining space available to them under the PRGT NAAL need to request GRA resources.

period between the date of Board approval and April 6, 2021.[10] The proposed increase corresponds to the temporary 50 percent of quota increase in RCF access and provides some additional room to finance access to PRGT resources without meeting the PRGT exceptional access criteria, including full access to emergency finance and additional space for initial disbursements under successor UCT arrangements. The increase in the NAAL would be accompanied by a temporary increase in the Exceptional Annual Access Limit (EAAL) applicable to the PRGT by 50 percent of quota, to 183.33 percent, for the same period.[11]

15. **Risks associated with the temporary increase in normal and exceptional annual access limits under the PRGT are manageable, assuming that the Board supports the mobilization of additional subsidy resources.** The factors offsetting or mitigating higher credit risks associated with frontloading are similar to those described in relation to GRA lending. In the case of the PRGT, there are additional considerations. On the upside, the bunching of repayments is mitigated by somewhat longer repayment and grace periods under PRGT facilities; on the downside, the key risk factor is the impact of higher access on the Fund's concessional resources. While the fast-track mobilization of new PRGT loan resources has been very successful, there will also be a need for new subsidy resources.

16. **It is also proposed to temporarily relax the current rule limiting the number of RCF disbursements—currently no more than two—in a 12-month period.** The limit was introduced to prevent repeated use of RCFs in response to a series of exogenous shocks over a short period, reflecting the view that UCT-quality program would likely be more appropriate in such circumstances.[12] In current circumstances, with the pandemic shock expected to last an extended period and a temporary doubling of the limit on annual access under the RCF to 100 percent of quota, the "two-disbursement rule" limits the flexibility with which access to the RCF can be used over the course of the pandemic, potentially unnecessarily limiting annual access to emergency financing.[13] Application of the rule would be suspended until April 6, 2021.[14]

17. **Finally, staff proposes that the Executive Board considers the case for extending the temporary increases in the NAALs beyond the date proposed in this paper before the end of 2020.** The case for making the temporary suspension of the current limit on the number of RCF disbursements per year permanent would also be taken up at that juncture.

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[10] As with the GRA, the increase is formulated in this manner to accommodate the rolling nature of the NAAL and the EAAL (see footnote 7 above).

[11] The quota thresholds that trigger the high access procedures remain unchanged.

[12] There are no limits on the number of RFI drawings within a 12-month period.

[13] Thus, for a country that has drawn 25 percent of quota under the RCF following the onset of the pandemic, the current framework allows for only one further drawing over the next 12 months, with the amount available capped at 75 percent of quota. There are country circumstances where it be preferable to spread this remaining available access over to two or more drawings.

[14] Any RCF disbursement made between the Board approval of this suspension and April 6, 2021 would not count towards the "two-disbursement" limit after April 6, 2021.

18. **Two decisions are proposed for adoption by the Executive Board.** Decision I would implement the proposed amendments to the Decision on Access Policy and Limits on Overall Access to the Fund's General Resources, and Exceptional Access Policy ("GRA access decision") and Decision II would implement the proposed amendments to the Poverty Reduction and Growth Trust (PRGT) Instrument. Annexes I and II set forth for the convenience of Executive Directors redlined texts that show revisions against the current GRA access decision and the PRGT Instrument, respectively.

Box 3. Carving out Emergency Financing from the Normal Access Limits

Staff considered the case for "carving out" emergency financing from the calculation of annual and/or cumulative access limits. Such a "carve-out" could cover: (i) all financing under the emergency financing instruments during a set period;[1] or (ii) all such financing, coupled with all post-COVID-19 augmentations of access under existing arrangements over the period. The time period is a design choice: one could, for example, choose all outright disbursements under the emergency financing instruments for up to 12 months from the onset of the pandemic.

The approach has intuitive appeal. Specifically, it ensures that all drawings/purchases covered by the exemption (X) would be fully additional in the sense that it would allow the member to borrow up to X beyond the relevant annual and cumulative access limits without requiring application of the EA framework.

However, access to the Fund's resources is determined *not* by the NAAL and NCAL but by the standard considerations regarding balance of payments need, strength of the program, and capacity to repay the Fund, as noted in paragraph 7 above. The emergency financing carved out from the calculation of the NAAL and NCAL—i.e., "additionality"—in effect means only additional space to borrow without triggering the EA framework.

Staff preferred the option of temporarily increasing the NAAL across the board over options favoring specific kinds of financing (e.g., emergency financing) relative to others (e.g., financing under new arrangements). Staff also saw the bias embedded in the carve-out option—favoring financing under the emergency financing instruments (one-off outright drawings with limited conditionality) over borrowing under UCT-quality programs—as particularly problematic. Finally, levels of financing under the emergency financing instruments have varied markedly across members, and would have done so even in the absence of constraints resulting from the NAAL: the carve-out, to the extent that it provided some countries extra borrowing space, favors countries that have drawn more under the RCF/RFI relative to those that have drawn less. By contrast, a temporary increase in the NAAL eases the application of the EA framework on *all* potential users of Fund financing; the proposed increase in the GRA NAAL of 100 percent provides at least as much benefit to *all* borrowers as would a full carve out of all emergency borrowing for one year.

Staff saw fundamental problems with the option of carving out some forms of financing from the normal cumulative access limit—the level of credit exposure at which the EA framework kicks in. To use a simple example, treating financing under the SBA as counting towards country credit exposure limits while treating purchases under the RFI as not counting towards this exposure—when the repayment terms of the two forms of credit are identical—is difficult to defend. The case can be made that the Fund should be comfortable with higher levels of country credit exposure (without triggering the EA framework); this is quite different from arguing that the Fund should be comfortable with higher levels of country credit exposure stemming from emergency financing but not from higher exposure resulting from financing under Fund arrangements.

[1] The carve-out preferred by a number of Executive Directors focused on the provision of emergency financing.

Proposed Decisions

The following decisions, which may be adopted by a majority of the votes cast, are proposed for adoption by the Executive Board:

Decision I. 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 [date of Board approval of the decision] 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.

Decision II. Amendments to 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.

Annex I. Amendments to the Decision on Access Policy and Limits on Overall Access to the Fund's General Resources, and Exceptional Access Policy – Redlined Version

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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 [date of Board approval of the decision] 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".

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Annex II. Instrument to Establish the Poverty Reduction and Growth Trust—Redlined Version

Introductory Section

To help fulfill its purposes, the International Monetary Fund (hereinafter called the "Fund") has adopted this Instrument establishing the Poverty Reduction and Growth Trust (hereinafter called the "Trust"), which shall be administered by the Fund as Trustee (hereinafter called the "Trustee"). The Trust shall be governed by and administered in accordance with the provisions of this instrument.

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Section II. Trust Loans

Paragraph 1. *Eligibility and Conditions for Assistance*

(a) The members on the list annexed to Decision No. 8240-(86/56) SAF, as amended, shall be eligible for assistance from the Trust.

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(d) Assistance under the RCF

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(2) Before approving a disbursement under the RCF, the Trustee shall be satisfied (a) that the member is experiencing an urgent balance of payments need characterized by a financing gap that, if not addressed, would result in an immediate and severe economic disruption; (b) that the member's balance of payments difficulties are not predominantly caused by a withdrawal of financial support by donors; and (c) normally, that the member either (i) has a balance of payments need that is expected to be resolved within one year with no major policy adjustments being necessary, or (ii) lacks capacity to implement an upper credit tranche-quality economic

program owing to its limited policy implementation capacity or the urgent nature of its balance of payments need. If a member has received a disbursement under the RCF within the preceding three years, then any additional disbursements under the RCF may be approved only where the Trustee is satisfied that: (i) the member's balance of payments need was caused primarily by a sudden and exogenous shock, or (ii) the member has established a track record of adequate macroeconomic policies for a period of normally about six-months prior to the request; provided that (A) effective as of April 7, 2021, a member may not ~~in any case~~ 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.

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Paragraph 2. Amount of Assistance

(a) (A) Except as specified in sub-paragraph (B) below, ~~T~~ 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".

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INTERNATIONAL MONETARY FUND

July 8, 2020

TEMPORARY MODIFICATION TO THE FUND'S ANNUAL ACCESS LIMITS—SUPPLEMENTARY INFORMATION

EXECUTIVE SUMMARY

This paper provides additional information as background to the proposal for a temporary modification to the Fund's annual access limits. Section I explains how the normal annual access limits (NAAL) operate in principle and provides two illustrative examples. Section II provides data on the stock of GRA credit outstanding for all countries that are not PRGT-eligible.

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CONTENTS

HOW ANNUAL ACCESS LIMITS OPERATE: PRINCIPLES AND EXAMPLES

This section explains how the normal annual access limits (NAAL) operate in principle and provides two illustrations for access under the GRA on how the proposed temporary NAAL will be applied in practice. For ease of exposition, the discussion in this section covers only countries that are not PRGT-eligible and hence obtain financing exclusively from the GRA. The principles for annual access to PRGT resources operate in a similar manner in respect of the NAAL and the Exceptional Annual Access Limit.

Application of Current Annual Access Limits:

1. The current NAAL is 145 percent of quota. Application of the NAAL requires consideration of the member's access to GRA resources in any 12-month period on a rolling basis, which involves combinations of forward- and backward-looking elements.[1]

2. Consider a three-year GRA arrangement approved by the Board at date T, with T indicating the day and month of the approval. The phasing of purchases under the arrangement is within the NAAL when access to GRA resources during any twelve-month period from date T+1 day of the previous year through the end of the arrangement does not exceed 145 percent of quota. The specific dates for individual purchases to be used in calculating access are explained in Box 1 of the main paper (SM/20/100).

3. The same principle applies to i) a request for augmentation or rephasing of access under an arrangement or ii) a request for a purchase under the RFI that is approved by the Board at date T.

- The new phasing of purchases under the arrangement is within the NAAL when access to GRA resources during any 12-month period from date T+1 day of the previous year through the end of the existing arrangement does not exceed 145 percent of quota.

- The RFI purchase is within the NAAL when access to GRA resources during any 12-month period from date T+1 of the previous year through date T-1 day of the next year does not exceed 145 percent of quota.

Application of the Proposed Temporary Access Limit Increase:

4. The proposed temporary NAAL would apply to i) requests for new arrangements or RFI approved by the Board between the date of Board approval of the increase of the annual access limits and April 6, 2021 ("*the window*") and ii) requests for augmentation or rephasing of access under arrangements in place as of the date of Board approval of the increase of the annual access limits if approved by the Board during the window.

[1] Please see Box 1 ("Calculation of Annual Access Levels") of *Temporary Modification to the Fund's Annual Access Limits*, SM/20/100 for detailed explanations on how to calculate access limits on a 12-month basis.

5. Consider a three-year GRA arrangement approved by the Board at date T*, falling within the window. The phasing of purchases under the arrangement would be within the NAAL when i) access to GRA resources for any 12-month period that includes at least one day between T* and April 6, 2021 (T* and April 6, 2021 included) does not exceed 245 percent of quota *and* ii) access to GRA resources for any 12-month period beginning on or after April 7, 2021 does not exceed 145 percent of quota.

6. The same principle would apply to i) a request for augmentation/rephasing of access under an arrangement or ii) a request for a purchase under an RFI that that is approved by the Board during the window.

7. In this regard, different annual access limits (145 and 245 percent of quota) may apply during an arrangement, and an arrangement that initially involved normal access may become an exceptional access arrangement later in time if an augmentation or rephasing of access under the arrangement is approved after April 6, 2021, as such augmentation or rephasing would be assessed, for the purposes of the Fund's access policy, against an annual limit on overall access to the GRA of 145 percent of quota.[2]

Examples:

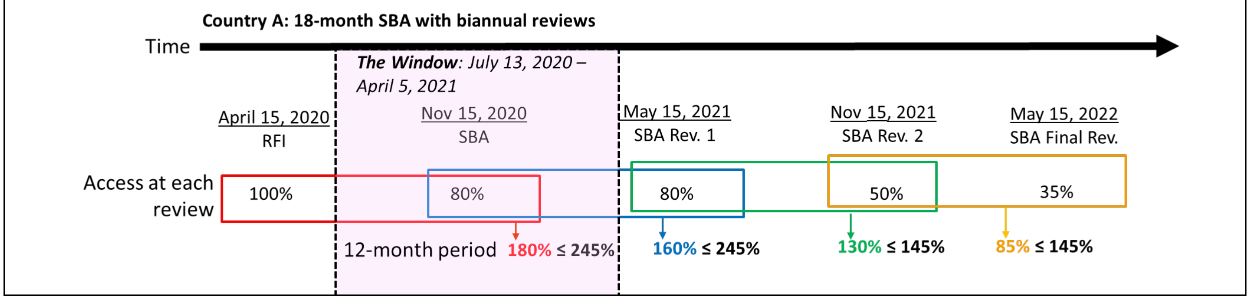
<u>Country A (Figure 1):</u>
A purchase of 100 percent of quota under the RFI was approved on April 15, 2020. An 18-month stand-by arrangement is approved on November 15, 2020, with reviews scheduled every 6 months.[3]

- This new arrangement is approved within the window.
- The NAAL of 245 percent of quota is applied to the 12-month periods that at least partly overlap with the window. Hence, for the first review with availability date of May 15, 2021, two different NAALs are relevant: the NAAL of 245 percent of quota applies to the backward-looking 12-month window that includes the availability date of November 15, 2020, whereas the NAAL of 145 percent applies to the forward-looking 12-month window that includes the availability date of November 15, 2021. A request for rephasing and augmentation at the time of the first review under this arrangement would be subject to a NAAL of 145 percent of quota for *any* 12-month period.
- From the second review, the NAAL of 145 percent of quota is applied to all 12-month periods as all fall outside the window.

[2] Approval of an RFI after April 6, 2021 in the event the member qualifies for such financing while the arrangement is in place would also trigger application of an annual limit of 145 percent of quota for the purposes of assessing the member's overall GRA access (i.e., under both the arrangement and the RFI).

[3] For simplicity, we assume that no GRA financing was provided during the period between November 16, 2019 and the approval of the RFI purchase on April 15, 2020.

Figure 1. Country A: 18-Month SBA with Biannual Reviews

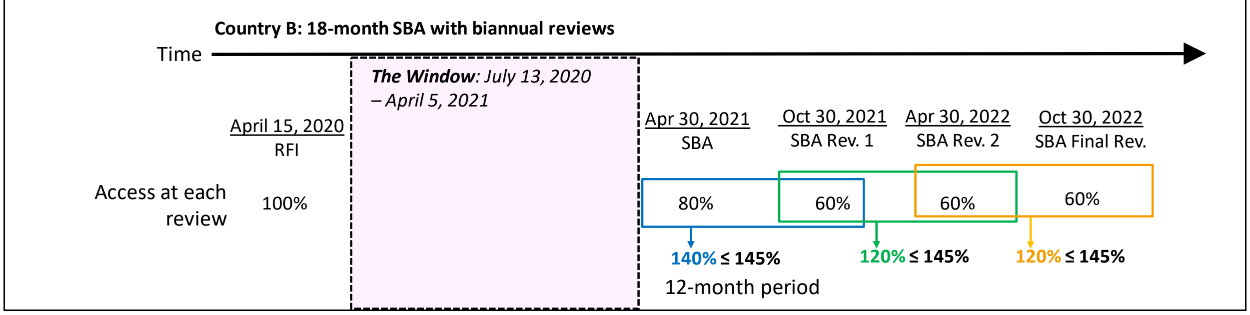


Country B (Figure 2):

A purchase of 100 percent of quota under the RFI was approved on April 15, 2020. An 18-month stand-by arrangement is approved on April 30, 2021, with reviews every 6 months.

- This new arrangement falls outside the window.
- The applicable annual limit on overall access to the GRA that is relevant for this arrangement is 145 percent of quota for any 12-month period. To remain within the normal access, purchases within any 12-month period cannot exceed 145 percent of quota.

Figure 2. Country B: 18-Month SBA with Biannual Reviews

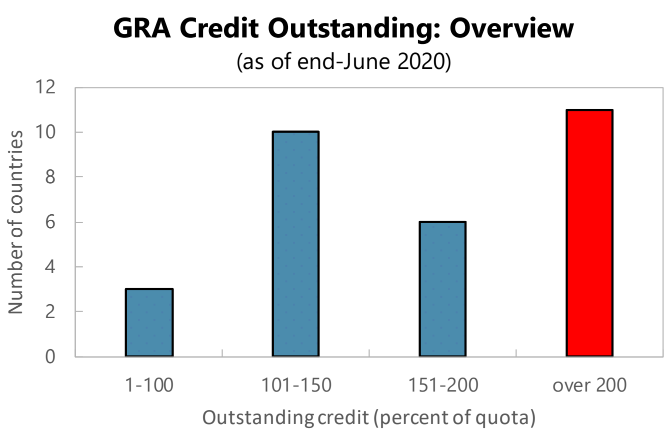


NON-PRGT ELIGIBLE COUNTRIES WITH HIGH LEVELS OF GRA CREDIT OUTSTANDING

This section provides data on the stock of GRA credit outstanding as of end-June 2020 for all countries that are not PRGT-eligible. With the cumulative access limit for the GRA set at 435 percent, this stock of credit determines the amount of additional net borrowing that the country can undertake without triggering the application of the GRA exceptional access framework. Some of this net borrowing space may already be allocated to future purchases under existing arrangements.

The Fund currently has 119 members that are not PRGT-eligible. As end-June 2020, 87 of these countries had no credit outstanding to the GRA while two countries (Argentina and Egypt) had credit outstanding in excess of 435 percent of quota. The distribution of credit outstanding across the remaining 30 members is shown in Figure 3 (left panel). 11 countries had credit outstanding between 200 and 435 percent of quota level, listed in Figure 3 (right panel).

Figure 3. GRA Credit Outstanding to Non-PRGT Eligible Countries



GRA Credit Outstanding: List
(Countries with GRA credit outstanding exceeding 200 percent of quota; as of end-June 2020)

Country	Percent of quota
Ukraine	397
Tunisia	323
Mongolia	317
Albania	292
Pakistan	275
Armenia	247
Morocco	240
Ecuador	236
Gabon	224
Barbados	218
Jamaica	206

Sources: IMF staff calculations.