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**Concluding Remarks by the Acting Chairman
Further Considerations Toward a Contingent Credit Line (CCL)—Follow-Up
Executive Board Meeting 99/38
April 5, 1999**

This has been a useful discussion that has helped to clarify views and concerns and has moved us a good distance toward a decision. But we are not at that point yet, and I will summarize the position on the main points that have emerged from the discussion, as a basis for further consideration by you and your authorities and by the staff in the days ahead. I think it is broadly agreed that we should try to come to a conclusion by the time of the Interim Committee meetings or, failing that, narrow the issues sufficiently for Ministerial guidance.

At the outset, I would say that there is very wide support in the Board for the concept of the establishment of a CCL in the Fund. Many Directors have strongly emphasized the preventive aspect of the Fund's operations and the preventive intent and aspects of such a facility. The preventive element must be a key consideration in shaping the Fund's approach to eligibility for a CCL, because of its systemic implications, and we need to take into account concerns about moral hazard and concerns about the potential implications for the use of the Fund's limited resources. At the same time, some Directors cautioned that establishing too restrictive eligibility conditions could undermine incentives to request a CCL and result in the instrument being out of reach for a large number of potential users.

Eligibility

There was an extensive discussion on the criteria for determining eligibility for CCL and on the factors that the Board would take into account in judging whether a member meets the criteria. Directors seemed to be broadly satisfied with three of the four eligibility criteria which were suggested by the staff. Those are that the member should have, first, a positive assessment by the Executive Board, which would be reflected in the last Article IV consultation and would take into account progress toward adherence to relevant internationally accepted standards; second, constructive relations with private creditors and satisfactory progress in limiting external vulnerability through management of its debt profile; and, third, a quantified macroeconomic framework which meets the approval of the Executive Board and which the member would be ready to adjust, as needed, in the event of contagion (perhaps in ways that have been formulated ahead of time in consultation with the Fund).

There was more debate about the eligibility criterion that was proposed that the member's economic policies should be such that it would not be expected to need to use Fund resources. There are at least two issues here. One is the question that was raised most clearly

by Mr. Guzmán-Calafell and by Messrs. Eyzaguirre and Zoccali: is it intended to exclude a country that would not be expected to need to use Fund resources for reasons other than externally-caused disturbances—such as market contagion or, possibly, say, an export shortfall justifying the use of the Compensatory and Contingency Financing Facility (CCFF). On this, the answer is “no.” Exclusion is not intended in this case, and we will try to reformulate the criterion in a way that makes this clearer.

There is a more problematic question which I believe was raised by Mr. Taylor and possibly others: is the criterion intended to exclude a country that is implementing a Fund-supported adjustment program and drawing Fund resources under its arrangement? Here, the staff's view, and I think that of a number of Directors, is “yes,” if the CCL is to convey the clear sign of fundamental soundness that is intended. That is to say, a country in an adjustment program would not be eligible for a CCL, if the adjustment is still under way and the country is still representing a need for exceptional balance of payments financing to support it. It is hard to see how that situation squares with the unambiguous signal the CCL is intended to convey. It is also difficult to see how the Fund would begin to distinguish between members actively drawing under Fund arrangements, unless the other eligibility tests are set so strictly as to disqualify most members a priori. As has been pointed out, the Fund has ample mechanisms to respond to the needs of members that would be excluded from a CCL under this criterion. Some Directors, however, considered that if a member in other ways met the CCL eligibility criteria, it should not be excluded from a CCL because it had a program under a Fund arrangement that is seeking to address ongoing balance of payments needs. We do not have a clear conclusion on this issue, and we will need to return to it.

On a related point, a few Directors suggested that eligibility should be limited to members that are included on the transfer side of the operational budget. These Directors saw advantage in that it would include only members whose balance of payments positions are judged sufficiently strong for their currencies to be used by the Fund at a particular point. However, such an approach could exclude others that might be judged to meet all the other criteria we have discussed, including strong policies and sustainable external positions, and for which a CCL might have the most benefit in a preventive sense. It would also run the risk of overloading decisions on the operational budget, and of exclusion of a member at a time of potential vulnerability to developments elsewhere, despite the maintenance of sound policies.

Regarding the factors that would be taken into account in judging compliance with the other criteria:

Directors are generally satisfied with the approach suggested of taking account of the member's progress in adhering to internationally recognized standards, including the Basle Core Principles, the Special Data Dissemination Standards (SDDS), and, as they are developed, codes of transparency in the areas of fiscal policy and monetary and financial policy; other standards could also be taken into account as they are developed, with care regarding the Fund's own ability to assess adherence. A few Directors suggested that adherence to certain standards should itself be a criterion for a CCL. Most agreed, however,

that in light of the stage of development of the relevant standards, a less demanding approach is appropriate at this stage. This is nonetheless seen by all as an area of major importance, and adherence to, or significant progress toward adhering to, the SDDS and the Basle Core Principles should be expected in judging eligibility for a CCL even at this stage. As standards are developed and experience is gained, the question of requiring adherence to certain standards could be reviewed.

Directors agreed that a judgment regarding a member's management of its external debt profile would be assisted by the application of "sustainability checks" along the lines listed in the staff paper, with a view to assessing the member's external vulnerability. While it was suggested that specification of threshold values for relevant variables might be useful, most Directors considered that an effort to quantify generally applicable or relevant thresholds would be unproductive and that a judgmental approach is appropriate at this stage. It was noted that the listing of indicators in the staff paper was not intended to be exhaustive and that the indicators could be refined and expanded as experience is gained.

Directors placed particular emphasis on the factors to be taken into account in judging a member's compliance with the criterion regarding its relations with private creditors. While the staff's suggestions were generally seen as reasonable, a few Directors suggested that certain elements—in particular, the establishment of private contingent credit lines—should be made a firm requirement, and some others considered that the checklist of points to be looked at should be more comprehensive. Given the complexity of the issues and the fact that relevant instruments are in many cases yet to be developed and/or are largely untested, most Directors considered that a judgmental approach to assessing overall progress in this area would need to be relied on at this stage. A member should be expected to seek to establish private contingent credit lines or other comparable arrangements, and we should be prepared to learn from the early experience. The checklist will be broadened to include items such as debtor/councils, "country clubs" and other cooperative mechanisms, as suggested by some Directors, and will no doubt be extended as the experience develops. As in the area of standards, as experience is gained and instruments are developed, we could consider whether it would be possible to define more concretely a critical mass of steps that should be expected.

Finally in this area, several Directors expressed interest in the "stress simulations" mentioned in the staff paper. As noted there, these would be intended to determine whether, with the precautions the member has taken to limit its vulnerability and the contingent financing it has organized from the private sector, it could withstand and/or finance a reasonable portion of any financing requirement that might emerge in the context of contagion. This is still to be developed, but it could be a useful complement to the other factors that needed to be taken into account. The information requirements to do this right might well be demanding, and some needed elements are now only under development—for example, short-term debt monitoring, knowledge about put clauses in bond contracts, and, of course, other potential new instruments under discussion. The staff will begin some exploratory work in this area. In sum, on the issue of eligibility criteria, and considering the many factors that need to be taken into account in judging eligibility, Directors agreed that the

Fund would have to form a broad judgment and ensure that a critical mass of factors are in place as conditions for eligibility for a CCL.

Conditionality

Directors generally agreed with the procedures for monitoring and activation as outlined in the staff paper. A few Directors questioned the need for monthly monitoring in the pre-activation phase, but I believe most agree that this is reasonable to facilitate a rapid Fund response in the event of a request for activation, or to trigger consultations in the event serious policy problems arise. Monthly benchmarks would not constitute performance criteria, and the process would not be intended to be intrusive; a steady and timely flow of information to the Fund should normally suffice in the absence of significant problems. At the point of request for activation, the Board would assess the request in terms of the member's performance under its program and the nature of the problem that had arisen. However, several Directors have raised questions about further provisions that the Board could require, as a condition for activation, policy action by member to address its situation. Most Directors considered that post-activation monitoring should resemble that of the SRF.

Access Limit

While some Directors expressed interest in an access limit along the lines discussed in the staff paper—that is, a limit on the initial commitment under a CCL, which could be augmented at the time of activation—most felt that such a limit would not be in keeping with the intent of a CCL. Directors stressed that steps to encourage private sector participation, would help ensure the Fund's catalytic role. A few Directors asked for further work on the implications of a CCL for the Fund's liquidity. Others, however, considered that the preventive aspects of a CCL should, if anything, tend to reduce demands on Fund resources.

Terms

While several Directors could support a somewhat lower surcharge on the CCL than applies on the SRF, most do not. A few Directors suggested that some increase in the SRF surcharge might be considered instead. Several Directors also would be prepared to consider some reduction of the commitment fee, although others expressed the view that at least the standard commitment fee would be warranted for a CCL. Directors may want to look again at this last point.

Although it was not taken up in this meeting, I believe that it has been accepted that CCL repurchase periods will be the same as presently under the SRF. I believe it has also been accepted that the commitment period for a CCL will be one year; that the commitment period can be extended at the time of activation of a CCL; and that an inactivated CCL could be renewed.

Form of CCL

A large majority, but not yet the 85 percent majority needed for such a decision, favors establishment of the CCL as a new facility or as a separate "window" in the SRF. Within this group, a majority favors, or could accept establishment of, the CCL as a separate window in the SRF.

Sunset Clause

Many Directors expressed support for a "sunset clause," under which the decision establishing the CCL would lapse, but with continuation of any existing commitments, unless renewed by the requisite majority. Most Directors commenting on this feature also favored a period of two years for the sunset. Although it was not discussed at this meeting, we should also plan on a review, without an automatic sunset, after a year.

I suggest that we plan to come back to the CCL late next week or possibly early in the week of April 19, on the basis of a draft decision and possibly also a draft commentary that would capture some of the nuances, particularly on factors to be taken into account in determining eligibility, that may be hard to reflect in formal decision language.

