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May 26, 1999

Concluding Remarks by the Acting Chairman
The Fund's Liquidity Position and Financing Needs—Review
Executive Board Meeting 99/55
May 24, 1999

Directors broadly agreed with the staff's assessment of the Fund's current and prospective liquidity position and financing needs. They noted that the January 1999 quota increase had resulted in a significant improvement in the Fund's liquidity position from the historical low reached late last year, in the wake of sustained crisis-related demand on the Fund's resources. The payments for the quota increase augmented the Fund's usable resources by SDR 46 billion, and allowed the Fund to make early repayment of the borrowing under the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). The Fund's liquidity ratio has recovered to over 90 percent.

Looking ahead, Directors agreed that the recent recovery in the external financial situation of some of the countries affected by the crisis promised an easing of demand for Fund resources from the exceptionally high levels seen during the recent past. A continued moderate improvement of the liquidity position was expected, as sizeable scheduled and expected repurchases, including repurchases under the Supplemental Reserve Facility (SRF), would broadly offset continued relatively strong demand for the remainder of 1999, and for 2000. Nevertheless, global economic prospects and developments in international financial markets remained a source of uncertainty. Moreover, as demonstrated by the experience of the past two years, episodes of further financial strain in the system raised the possibility of large, and potentially simultaneous, calls on Fund resources. Thus, a deterioration in the world economic situation and/or renewed bouts of financial market turbulence could quickly place the Fund's liquidity under pressure. Therefore, the Fund needed to maintain adequate liquidity and avoid complacency about potential developments.

Regarding the newly established Contingent Credit Lines (CCL), views differed on the question of how best to reflect commitments under the CCL in presenting the Fund's liquidity position.

A number of Directors considered that the objectives of prudence and full disclosure would be best served by taking full account of commitments under the CCL, and other precautionary arrangements, in calculating the level of the Fund's uncommitted usable resources. Those Directors emphasized that the Fund's ability to provide the committed financing had to be beyond doubt in order to be fully convincing to markets, as any

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uncertainty about the Fund's capacity to provide the contingent financing when needed could risk undermining the role of the CCL. They also felt that a lower scoring of commitments could give rise to an undue sense of "comfort" with regard to the adequacy of Fund resources, particularly since no allowance would be made for the possibility of future purchases.

A number of other Directors expressed concern that a 100 percent weighting would tend to overestimate the underlying demand for Fund resources, particularly if the CCL proved to be an effective preventive tool and was rarely activated. Within this group, some Directors felt that the CCL might reduce the demands on the use of Fund resources. Some considered that the traditional 50 percent weighting remained appropriate, striking a reasonable balance between the right of a member to draw resources in the event of financial contagion and our expectations that such drawings would be infrequent. Some Directors argued that there should be a differentiation between precautionary and CCL arrangements, or alternative weights.

Given the spectrum of views, and the request by some Directors for further analysis, I would suggest that we retain the present weighting method for precautionary arrangements and the CCL, and return to the issue at the time of the next review of the Fund's liquidity position.